Financial Report 2001



Adding value through growth and innovation

BASF

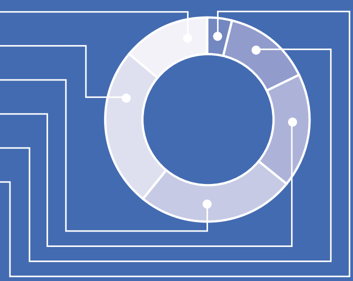
Overview of key financial data

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

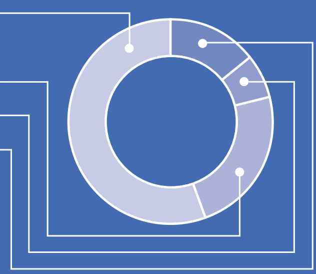
Sales by segment
Million €

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%

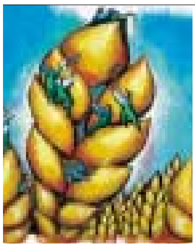


This report went to press on February 27, 2002 and was published on March 14, 2002.

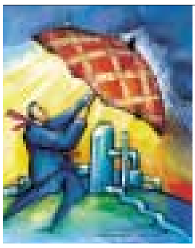
Chemicals – the heart of our Verbund
In the Chemicals segment, we primarily manufacture organic and inorganic basic chemicals and intermediates. In doing so, we make optimal use of the synergy potential of our Verbund. Our goal is to achieve cost leadership. Integrated production sites, new processes 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.

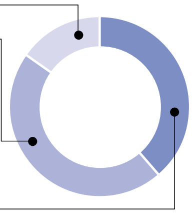
Segments

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

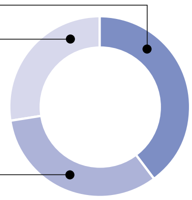
Sales by division
Million €

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



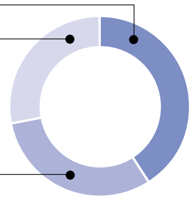
	2001	2000	Change in %
Sales	8,185	11,030	−25.8
Income from operations			
before special items	180	801	−77.5
Income from operations	(2)	902	−100.2

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



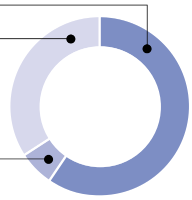
	2001	2000	Change in %
Sales	8,154	8,418	−3.1
Income from operations			
before special items	397	618	−35.8
Income from operations	99	586	−83.1

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)	

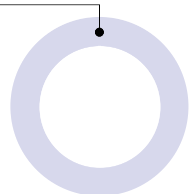
Agricultural Products	3,478	59.7%
Fine Chemicals	1,984	34.1%
Pharmaceuticals (until March 2001)	364	6.2%



	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.

Contents

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%.

February BASF-YPC 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℠ 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 customer 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 annual 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% to approximately €32 billion, income from operations before special items declined 32.6% to €2,293 million. Nevertheless, we accomplished a lot in a very difficult environment. BASF shares outperformed the DAX 30 and EURO STOXX℠ 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.

Yours sincerely,

Jürgen Strube

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

Our goal

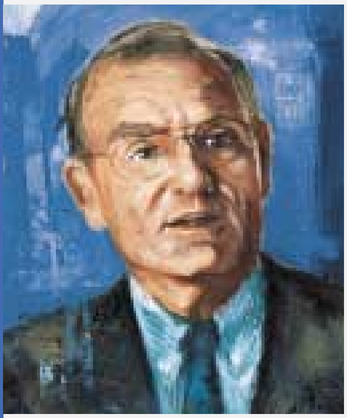
To add value through growth and innovation

"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.

As of March 1, 2002

"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."

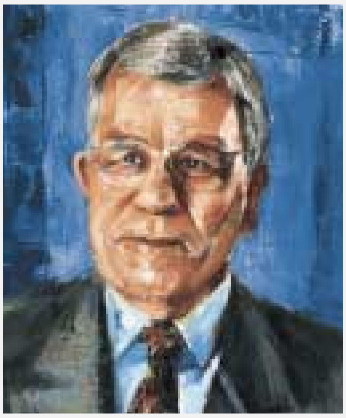
Dr. Jürgen Hambrecht, 55,
chemist, with BASF for 26 years.
Responsible for Petrochemicals; Inorganics; Intermediates; Research & Engineering Chemicals; BASF Schwarzheide GmbH; BASF Antwerpen.

"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.

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

Adding Value through Growth and Innovation

1. Strategy and Measures for Adding Value

- **Core activities provide the foundation for a highly profitable product portfolio**
- **BASF's Verbund is a leader in terms of efficiency and technology**
- **We create added value through customized system solutions**
- **We invest in growth markets**
- **We rely on the diverse talents of our employees**

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.**

2. Further Development of BASF's Organization: Fit for the Future

- **Better customer orientation, faster decision-making processes and clearly assigned responsibilities**
- **Global and regional business units oversee business operations**
- **National organizations pooled in regional structures**
- **Operating divisions to focus on strategic management**

With its Fit for the Future project, the BASF Group prepared its organization in 2001 for future challenges. The goal of this initiative is to promote faster decision-making processes and clearly assigned responsibilities.

A total of 48 business units, predominantly organized along industry lines, now run business operations. They are responsible for all daily operations, from production to marketing and sales, and all their processes are customer-oriented. Ten of our business units have global responsibility and 38 have a regional focus.

The new organization is achieving significant advantages with respect to efficiency, especially in Europe, where the business units for each industry are establishing uniform structures across national boundaries and centralizing their internal handling processes in customer centers and service centers. In place of the local companies that previously dominated the regions, there are now regional business centers that provide the business units with customized service. We are utilizing European integration to organize our business along European rather than national lines. From 2003 onward, we expect these and other organizational changes to generate annual savings of about €400 million.

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

In the future, the 12 operating divisions – each of which bears bottom line responsibility and manages several business units – will focus on strategic issues. The Fit for the Future project reduced their number from 16 to 12. The regional divisions have been reorganized and reduced in number from 11 to eight. Regional divisions contribute to the strategic dialogue between the Board of Executive Directors and the operating divisions, offer competitive services and infrastructure, and support synergies between the business units.

The management of the Group is supported by three corporate divisions and four corporate departments. In addition, the competence centers Research; Logistics & Information Services; Human Resources; Environment, Safety & Energy; Purchasing; and Corporate Engineering set global standards.

3. Management of the BASF Group

- **We aim to achieve a premium above our cost of capital**
- **Every business unit assessed on the basis of its EBIT**
- **Individual bonuses to be based in large part on EBIT**

We measure our performance and our corporate decision-making against the return required by our investors – our cost of capital. We strive to earn a premium above this cost of capital. The average return currently demanded on capital invested in the BASF Group is 12% before taxes, which is equivalent to income from operations before interest and taxes (EBIT) of €3.3 billion on operating assets of €28 billion.

To manage our business activities, we have established 12 operating divisions, each responsible for the strategic leadership of its own businesses. Leadership of day-to-day operations lies with the 48 regional and global business units – profit centers that are responsible for their own bottom lines.

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

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

BASF Shares

- **BASF shares outperform DAX 30 and EURO STOXX^{SM} 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% in value in 2001. By comparison, the DAX 30 index lost 19.8% and the EURO STOXX 50 index fell 19.1%.

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 Depositary 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% 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% of BASF's share capital is held by institutional investors – for example by banks and investment companies – whereas the remaining 28% are held by private investors. German shareholders hold 65% 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.

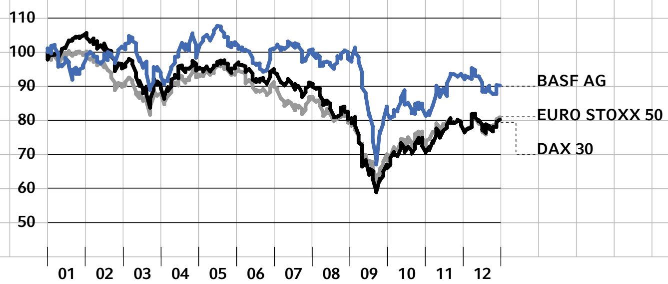
Industry leader in the Dow Jones Sustainability World Index
BASF is rated number one chemical company in the Dow Jones Sustainability World Index. This index consists of companies that conduct their business in accordance with the principles of Sustainable Development. The rating paid tribute to the 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 81 ff.

Key BASF share data	2001	2000
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[1]	9.72	2.02
Earnings per share in accordance with U.S. GAAP[1]	9.45	2.37
Cash provided by operating activities[1]	3.85	4.88
Stockholders' equity as of December 31	30.05	23.55
Dividend	1.30	1.30 + 0.70[2]
Dividend yield (%)	3.1	4.2
Securities code number	515 100	
Ticker symbol[3]	BAS	

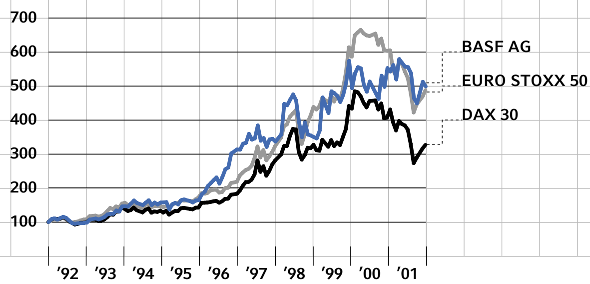
Key data for the BASF ADR[4]		
Year-end share price ($)	37.91	44.44
High ($)	46.73	44.44
Low ($)	28.80	34.00
CUSIP	055262505	
Ticker symbol	BF	

[1] These data were calculated on the basis of the weighted number of shares.
[2] Special dividend
[3] On German stock exchanges including XETRA
[4] American Depositary Receipt; New York Stock Exchange

Change in value of an investment in BASF shares in 2001
(with dividend reinvested; indexed)



Change in value of an investment in BASF shares in 1992–2001
(with dividend reinvested; indexed)



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

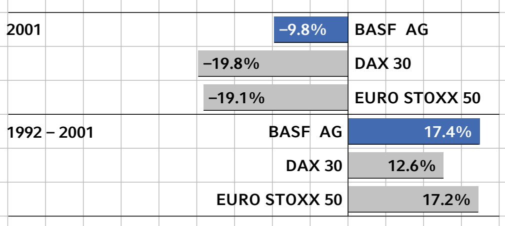
Share buy-back programs continue

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% 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% of issued shares.

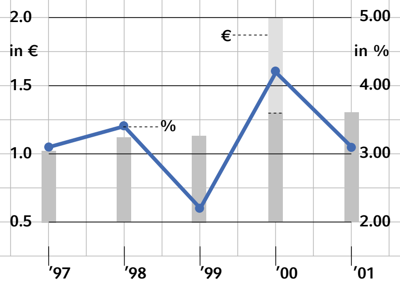
Attractive share programs for employees

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

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



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



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 79 ff.).

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. If you are interested in receiving further information on BASF by e-mail, you can subscribe to our newsletter here.

Management's Analysis

Economic Environment in 2001

1. Global Economic Trends in Review

The **global economy** weakened significantly during 2001. The economic slowdown in the United States, which had been the driving force for the global economy in recent years, spread to the rest of the world more quickly and noticeably than in the past. For the first time since 1980, there was a simultaneous downturn in the large economic regions of North America, Japan and Europe, as well as in those Latin American and Southeast Asian developing countries that are strongly affected by trends in the U.S. economy. This global economic downturn intensified through the end of the year as a consequence of the terror attacks of September 11.

In the **United States,** economic growth came to a standstill toward the middle of the year. The greatest source of downward pressure was the abrupt end to the long investment boom, especially in the IT sector. The U.S. economy slipped into recession in the second half of the year. The downward trend came not only in the manufacturing sector, but in the service sector as well. Average real gross domestic product rose only 1.1% in 2001.

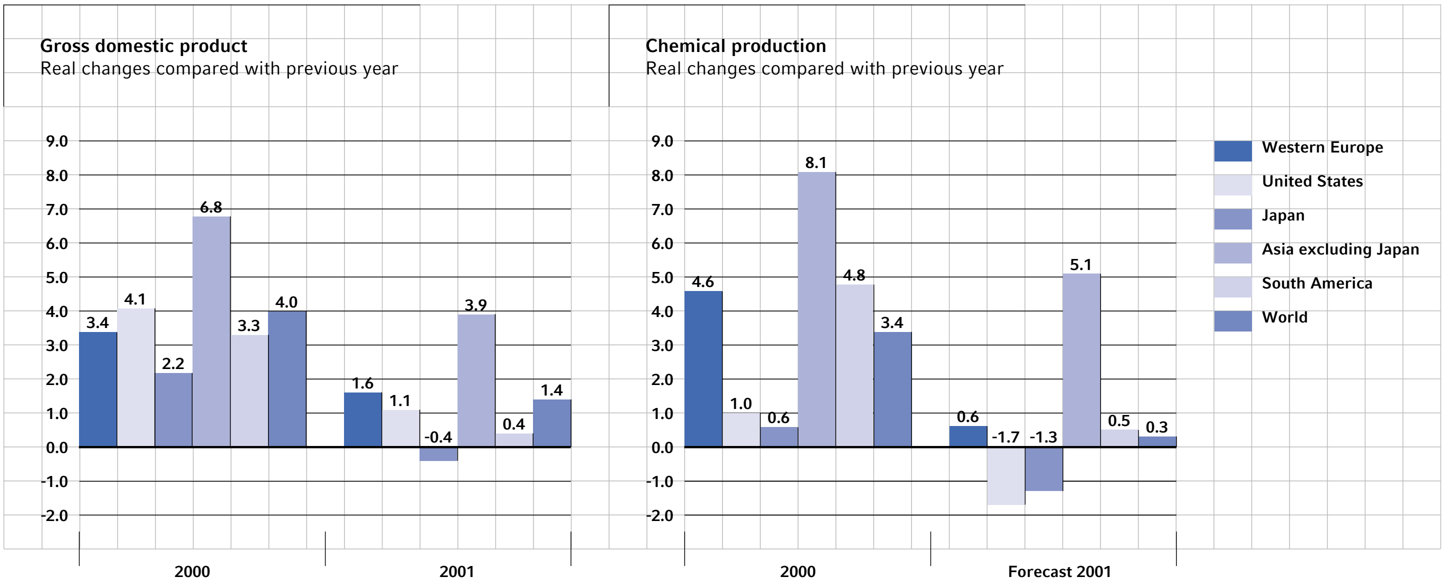
Western Europe was affected by the downturn in the global economy more severely than had been at first expected. Economic growth weakened steadily and stagnated in the fourth quarter. Exports also declined sharply, triggered by the weakness of the U.S. economy. The deterioration in the global economy and declining capacity utilization significantly dampened investment confidence. Average real gross domestic product rose only 1.6% for the year, compared to 3.4% in 2000.

In **Germany,** economic growth had already come to a standstill during the spring, and, in the second half of the year, total economic production actually decreased slightly. Thus, the economy grew only 0.6% on average for the year, as compared to 3.0% in 2000.

In **Japan,** the economy again retreated into recession in the spring. The manufacturing sector suffered an especially sharp decline, as production dropped dramatically during the summer months. In the second half of the year, the economic downturn intensified due to increased consumer restraint. Average annual real gross domestic product decreased 0.4%.

Due to their high share of intraregional exports and important IT sectors, the majority of **countries in Asia** were likewise caught in this recessionary spiral.

In **South America,** sharply falling economic activity was influenced by economic and political turbulence in Argentina and the weakness of Brazil's domestic market.



2. Trends in the Chemical Industry*

Global chemical production weakened markedly in 2001. Chemical production in the United States and Japan and in a few Asian countries contracted at the end of the year. Average worldwide chemical production for 2001 was thus unchanged, after growing by 3.4% in the previous year.

As a result of a dramatic decline in sales volumes, chemical production decreased by 1.7% in the **United States.** This decrease was intensified by a drop in export sales volumes, due to exchange-rate-driven competitive disadvantages and the weak global economy.

The chemical business also weakened in **Western Europe.** Production had been in decline since the beginning of 2001, but not nearly as severely as in the United States. Due to high levels at the beginning of the year, the European chemical industry managed to achieve only modest growth of 0.6% – compared with dynamic growth of 4.6% in 2000.

Asian countries (excluding Japan) were unable to maintain the growth pace of the previous year. The recession in a number of countries reduced growth in the chemical industry to 5.1%. Favorably, China's chemical sector remained very healthy, growing 9.5%.

In **Japan,** chemical production slid into recessionary territory, with an average 1.3% decline for the year. This was due to a drop in domestic demand, particularly in the second half of the year.

The chemical industry weakened considerably in **South America,** parallel to the overall deterioration in the region's economic situation.

* Data in the text include the pharmaceuticals industry

The high **oil and chemical raw material prices** prevailing at the end of 2000 could not be maintained in the face of dwindling demand. On a year-on-year basis, from 4th quarter 2000 to 4th quarter 2001, oil and naphtha prices fell by 35%, but, due to intense competition and the weakening economy, it was difficult to capitalize on these falling prices to improve margins. Selling prices for chemical products fell by roughly the same amount as oil and raw material prices.

3. Production Trends in Key Customer Industries

The weakness in the global economy has had a noticeable impact on the chemical sector's most important customer industries worldwide.

A downward trend began in the **automotive industry** last year, as worldwide automobile production fell 2%. In Western Europe, 16.6 million passenger vehicles were produced, a negligible increase over the previous year. In the United States, demand for automobiles declined in 2001 after a strong upturn in 1999 and 2000. In the NAFTA region, automobile production fell by just under 12% to 11.2 million units.

After very strong increase in production in 2000, the **electrical and electronics industry** lost much of its momentum last year. This was due to the drop in demand for IT products and the decline in sales volume of electronic components. Thus, production of electrical and electronics equipment in Western Europe rose only 2% in 2001. In the United States, production in these sectors also deteriorated as the year progressed.

After posting strong production gains in 2000, the strongly cyclical **paper industry** was on a downturn again last year. Paper production declined 2.5% in Western Europe, due to decreasing domestic demand and falling exports. In the United States, the fall-off in paper production that began in 2000 accelerated, and average paper production in 2001 declined 5%.

In the **textile industry,** structural changes continued during the year under review. Textile production continued to fall in industrialized countries, while increasing once again in the developing countries of South America and Asia. In Western Europe, textile production declined 2%, due to weak demand for clothing and domestic textiles. In the United States, the downward trend that has been persisting since 1995 became even more pronounced. As domestic demand fell and import pressures from Asian competitors continued, average American textile production dropped by 13% in 2001.

Customer sectors served by BASF's products

Operations	Chemicals	Construction	Nutrition	Health	Textiles/leather	Automotive	Sports/leisure	Packaging	Agriculture	Electrical/ electronics	Energy
Chemicals	Very important		Important	Important	Important	Important				Important	
Plastics & Fibers	Important	Very important			Important	Very important	Important	Very important		Very important	
Performance Products	Important	Very important			Very important	Very important		Important		Important	
Agricultural Products & Nutrition			Very important	Important					Very important		
Oil & Gas											Very important

Production growth in the **construction industry** was also depressed by worsened economic conditions. In Western Europe, growth was reduced to just 1%, primarily due to the cyclical downturn in housing starts. In the United States, construction activity proved to be quite resilient. Total construction volume increased an average 1.8% in 2001.

The **agricultural industry** came under pressure in 2001. In Europe, agricultural production was impaired by foot-and-mouth disease and BSE as well as by long periods of rain in the spring. Production declined 1.8%, which had a negative impact on sales volumes for crop protection products. In North America, the long winter delayed the planting of rice and soybeans especially. Overall, production contracted by 2.4%. In addition, low prices for corn, soybeans and cereals reduced farmers' profits. This resulted in a loss of business for manufacturers of crop protection products.

Supply relationships within the **chemical industry** are important. Severe weakness in the chemical business led to losses in the areas of basic organic and inorganic chemicals. In the United States, production of basic chemicals fell by about 10 %.

BASF Group Business Review and Analysis

1. 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 a varying extent. 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 significant negative effect on earnings.

Sales

In 2001, sales decreased €3,446 million, or 9.6%, 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% 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	As % 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	% Change from previous 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
Earnings per share	9.72	2.02	381.2
Earnings 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

Sales and earnings by quarter

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

2000 Million €	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	2000
Sales	8,470	8,969	9,196	9,311	35,946
Income from operations before special items	923	882	765	830	3,400
Income from operations (EBIT)	967	891	466	746	3,070
Financial result	(35)	63	(144)	(126)	(242)
Extraordinary income	–	–	–	–	–
Income before taxes and minority interests	932	954	322	619	2,827
Net income	464	448	101	227	1,240
Earnings per share (€)	0.75	0.73	0.17	0.37	2.02

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 product lines in the Coatings division.

Portfolio changes led to a decline in sales of €2,966 million, or 8.3%. These changes 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 crop protection business of American Home Products Corp. (AHP) 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 to sales, or 0.9%. 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.

Gross profit

Gross profit declined by 18.7%, or €2,379 million, in 2001, to €10,312 million. As a percentage of sales, gross profit fell from 35.3% to 31.7%. This reflects the continued pressure on selling prices as well as raw material costs that did not decline until the second half of the year.

Income from operations

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

Last year, income from operations included €330 million in special items, consisting of €590 million in special charges and €260 million in special income. The special charges are related to the integration of the crop protection business of AHP, restructuring measures in the Pharmaceuticals division and compensation payments to purchasers of vitamins. Special income was related to various divestitures, primarily the transfer of our polyolefins operations to the Basell joint venture. Special income of €133 million, chiefly from the sale of securities, is included in the financial result.

	1st Quarter		2nd Quarter		3rd Quarter		4th Quarter		Year	
Million €	2001	2000	2001	2000	2001	2000	2001	2000	2001	2000
Special items										
– in income from operations	(173)	44	(447)	9	(14)	(299)	(442)	(84)	(1,076)	(330)
– in financial result	–	–	–	99	(5)	18	(68)	16	(73)	133
Total	**(173)**	**44**	**(447)**	**108**	**(19)**	**(281)**	**(510)**	**(68)**	**(1,149)**	**(197)**

Income from ordinary operations/income before taxes

In 2001, income from ordinary operations decreased €2,218 million, or 78.5%, to €609 million. This decline was primarily due to special items. Excluding the effect of special items, income from ordinary operations was €1,758 million. This represents a decline of €1,266 million, or 42%, compared with the previous year, and is a reflection of the weak economic environment. The effect of this decline on income from operations and on the financial result was €1,107 million and €159 million, respectively.

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 relate to the sale of participations which we were able to dispose of as tax-exempt divestitures.

Extraordinary income consists of:

	Million €
Extraordinary gains	8,794
Extraordinary expenses	2,673
	6,121

The extraordinary gains include proceeds from the sale of the pharmaceuticals business and additional compensation for the net liquidity and net assets transferred on the basis of the balance sheet at transfer.

The expense items include the book values of the pharmaceuticals business, as well as provisions for warranties assumed and risks retained from the pharmaceuticals business.

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%, more than in the previous year.

Net income/earnings per share

We achieved net income of €5,858 million. This consists of extraordinary income of €5,976 million net of the related taxes and a loss of €118 million in income from current operations.

The effective tax rate on income from ordinary operations was 125%, compared with 55% in the previous year. The high level of taxes is due to non-deductible foreign taxes on oil producing operations and the non-deductible fines imposed by the E. U. Commission related to the violation of antitrust laws in the vitamins business, which were assumed to be non-deductible special charges. The effective tax rate was reduced by a valuation adjustment for deferred taxes. Based upon the draft Standard No. 10 from the German Accounting Standards Committee (GASC) on accounting for deferred taxes, we also recorded deferred tax assets for tax loss carryforwards, to the extent realization of this potential for tax reduction through future earnings is foreseeable. These adjustments resulted in a reduction in tax expense of €220 million. The capitalization of deferred tax assets for tax loss carryforwards from previous years resulted in income of €51 million, which is shown separately on the balance sheet.

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

Net income in accordance with U.S. GAAP was €5,692 million. This comprises:
- a loss of €238 million from continuing business, or a loss of €0.39 per share;
- earnings from discontinued operations (including gain from disposal) of €5,893 million, or €9.78 per share; and
- the cumulative effect of €38 million, or €0.06 per share, resulting from the first use of SFAS 133 as of January 1, 2001.

(See Note 4 to the Consolidated Financial Statements for further information.)

Returns

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

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. 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.

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

2. Balance Sheet Structure

- Total assets 4.4% lower
- Financial indebtedness significantly reduced
- Equity ratio 47.5% after share buy-back

Assets	2001 Million €	2001 %	2000 %
Intangible assets	3,943	10.7	11.8
Tangible assets	14,190	38.5	35.4
Financial assets	3,360	9.1	9.3
Fixed assets	**21,493**	**58.3**	**56.5**
Inventories	5,007	13.6	13.5
Accounts receivable, trade	5,875	15.9	15.7
Miscellaneous receivables	2,384	6.5	8.7
Deferred taxes	1,373	3.7	3.3
Liquid funds	743	2.0	2.3
Current assets	**15,382**	**41.7**	**43.5**
Total assets	**36,875**	**100.0**	**100.0**

Stockholders' equity and liabilities	2001 Million €	2001 %	2000 %
Paid-in capital	4,408	12.0	11.2
Retained earnings	12,222	33.1	23.0
Currency translation adjustments	532	1.4	1.7
Minority interests	360	1.0	1.2
Stockholders' equity	**17,522**	**47.5**	**37.1**
Long-term provisions	6,809	18.5	16.1
Long-term financial indebtedness	1,926	5.2	4.7
Other long-term liabilities	1,220	3.3	2.7
Total long-term liabilities	**9,955**	**27.0**	**23.5**
Short-term financial indebtedness	909	2.5	15.8
Accounts payable, trade	2,467	6.7	7.4
Other short-term liabilities and provisions			
Total short term liabilities	**6,022**	**16.3**	**16.3**
Total liabilities	**9,398**	**25.5**	**39.4**
Stockholders' equity and liabilities	**19,353**	**52.5**	**62.9**
Total stockholders' equity and liabilities	**36,875**	**100.0**	**100.0**

BASF's **total assets** decreased 4.4%, or €1.7 billion, to €36.9 billion, primarily due to the sale of the pharmaceuticals business.

Fixed assets decreased €276 million, or 1.3%, to €21.5 billion. Their share of total assets was 58.3%, compared with 56.5% in 2000.

Fixed assets is comprised of

• Intangible assets	18.3%
• Tangible assets	66.0%
• Financial assets	15.7%

Tangible assets are divided among the regions as follows:

	Gross %		Net %	
	2001	2000	2001	2000
Europe	62.7	64.3	46.7	47.9
thereof Germany	46.5	47.9	32.6	34.1
North America (NAFTA)	25.0	24.5	31.6	34.1
South America	3.4	4.1	3.6	4.2
Asia, Pacific Area, Africa	8.9	7.1	18.1	13.8

The most significant **capital expenditures** are discussed under "Liquidity and Capital Resources" on page 56 ff.

Capital expenditure coverage (depreciation as a percent of capital expenditures) was 76% for tangible assets (2000: 62%).

Inventories were reduced by €205 million to €5,007 million. Their share of total assets increased slightly to 13.6% from 13.5% in 2000.

The inventories are located in the following regions:

	2001 %	2000 %
Europe	49.0	47.8
thereof Germany	32.3	29.3
North America (NAFTA)	34.5	35.6
South America	5.8	6.6
Asia, Pacific Area, Africa	10.7	10.0

Trade accounts receivable declined slightly. This was also the result of lower selling prices for our products. Trade accounts receivable as a proportion of total assets increased to 15.9% from 15.7% in 2000.

The regional breakdown of trade accounts receivable is as follows:

	2001 %	2000 %
Europe	56.4	52.7
thereof Germany	30.6	23.3
North America (NAFTA)	15.3	17.8
South America	15.4	16.7
Asia, Pacific Area, Africa	12.9	12.8

Current assets as a percentage of total assets was 41.7%, compared to 43.5% in 2000.

The BASF Group's **net debt** was €4,930 million lower than in 2000:

Million €	2001	2000
Liquid funds	743	870
Financial indebtedness	2,835	7,892
Net debt	2,092	7,022

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

The **equity ratio** increased to 47.5% (2000: 37.1%) 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%.

Long-term liabilities rose from €896 million to €9,955 million. Long-term liabilities as a share of stockholders' equity and liabilities increased to 27.0% from 23.5% in 2000. Approximately 68% of long-term liabilities are in provisions, primarily pension provisions. Long-term financial indebtedness was €1,926 million compared with €1,812 million 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% from 39.4% in 2000. Approximately 26% of short-term liabilities are trade accounts payable.

Asset and liquidity ratios

Horizontal balance sheet ratios:			2001	2000
Fixet asset coverage (%)	=	Stockholders' equity / Fixed assets	82	66
Asset coverage I (%)	=	Stockholders' equity + long-term liabilities / Fixed assets	128	107
Asset coverage II (%)	=	Stockholders' equity + long-term liabilities / Fixed assets + inventories	104	87

Liquidity ratios:			2001	2000
Liquidity I (%)	=	Short-term receivables + cash and cash equivalents / Short-term liabilities + proposed dividend	92	64
Liquidity II (%)	=	Current assets / Short-term liabilities + proposed dividend	141	95
Static debt level	=	Total liabilities / Stockholders' equity	1.10	1.70
Dynamic debt level (years)	=	Total liabilities – (short-term liabilities + cash and cash equivalents) / Cash provided by operating activities	4.01	4.33

3. Results of Operations by Segment

Segment overview*

Million €	Sales		Income from operations (EBIT)		Income from operations before special items	
	2001	2000	2001	2000	2001	2000
Chemicals	4,494	4,504	362	640	425	645
Plastics & Fibers	8,185	11,030	(2)	902	180	801
Performance Products	8,154	8,418	99	586	397	618
Agricultural Products &						
Nutrition	5,826	6,693	(162)	(205)	274	248
Thereof Agricultural Products	3,478	2,428	18	(443)	200	(102)
Fine Chemicals	1,984	1,739	(210)	(5)	73	45
Pharmaceuticals	364	2,526	30	243	1	305
Oil & Gas	4,516	3,957	1,308	1,310	1,308	1,266
Other**	1,325	1,344	(388)	(163)	(291)	(178)
	32,500	**35,946**	**1,217**	**3,070**	**2,293**	**3,400**

Million €	Income from operations before interest, taxes, depreciation and amortization (EBITDA)		Capital expenditures***		Assets	
	2001	2000	2001	2000	2001	2000
Chemicals	819	1,095	929	774	4,847	4,232
Plastics & Fibers	677	1,594	891	633	6,344	6,086
Performance Products	760	1,140	418	1,332	6,048	6,266
Agricultural Products &						
Nutrition	553	640	349	3,464	7,865	10,203
thereof Agricultural Products	514	(31)	130	3,260	6,377	6,607
Fine Chemicals	(19)	154	199	83	1,488	1,368
Pharmaceuticals	58	517	20	121	–	2,228
Oil & Gas	1,610	1,582	229	267	3,149	3,540
Other**	(277)	(65)	497	461	8,622	8,230
	4,142	**5,986**	**3,313**	**6,931**	**36,875**	**38,557**

* Data for the previous year restated to reflect organizational changes

** "Other" includes sales and earnings of the Fertilizers business as well as expenditures, earnings and assets not allocated to the segments.

*** Capital expenditures in tangible and intangible assets, including acquisitions

Sales	1st Quarter		2nd Quarter		3rd Quarter		4th Quarter	
Million €	**2001**	2000	**2001**	2000	**2001**	2000	**2001**	2000
Chemicals	1,122	993	1,163	1,135	1,114	1,153	1,095	1,223
Plastics & Fibers	2,154	2,745	2,159	2,971	1,944	2,977	1,928	2,337
Performance Products	2,087	1,995	2,112	2,135	1,993	2,173	1,962	2,115
Agricultural Products & Nutrition	2,088	1,503	1,523	1,720	1,059	1,645	1,156	1,825
thereof Agricultural Products	1,232	542	1,038	734	530	544	678	608
Fine Chemicals	492	424	485	414	529	442	478	459
Pharmaceuticals	364	537	–	572	–	659	–	758
Oil & Gas	1,443	854	981	760	921	946	1,171	1,397
Other*	395	380	391	248	168	302	371	414
	9,289	**8,470**	**8,329**	**8,969**	**7,199**	**9,196**	**7,683**	**9,311**

Income from operations (EBIT)	1st Quarter		2nd Quarter		3rd Quarter		4th Quarter	
Million €	**2001**	2000	**2001**	2000	**2001**	2000	**2001**	2000
Chemicals	101	151	104	199	119	146	38	144
Plastics & Fibers	75	266	62	222	14	253	(153)	161
Performance Products	107	189	(54)	154	87	138	(41)	107
Agricultural Products & Nutrition	224	150	151	151	(121)	(433)	(416)	(75)
thereof Agricultural Products	209	103	126	120	(148)	(491)	(169)	(175)
Fine Chemicals	(15)	26	25	1	27	(38)	(247)	4
Pharmaceuticals	30	21	–	30	–	96	–	96
Oil & Gas	376	240	378	247	331	378	223	445
Other*	(94)	(29)	(337)	(82)	(116)	(16)	159	(36)
	789	**967**	**304**	**891**	**314**	**466**	**(190)**	**746**

Income from operations before special items	1st Quarter		2nd Quarter		3rd Quarter		4th Quarter	
Million €	**2001**	2000	**2001**	2000	**2001**	2000	**2001**	2000
Chemicals	109	151	121	199	119	146	76	149
Plastics & Fibers	93	223	70	229	15	171	2	178
Performance Products	125	190	127	155	97	136	48	139
Agricultural Products & Nutrition	299	152	165	135	(114)	(26)	(76)	(15)
thereof Agricultural Products	285	103	133	114	(144)	(185)	(74)	(134)
Fine Chemicals	13	28	32	2	30	7	(2)	6
Pharmaceuticals	1	21	–	19	–	152	–	113
Oil & Gas	376	240	378	247	331	357	223	422
Other*	(40)	(33)	(110)	(83)	(120)	(19)	(21)	(43)
	962	**923**	**751**	**882**	**328**	**765**	**252**	**830**

* "Other" includes sales and earnings of the Fertilizers business as well as expenditures, earnings and assets not allocated to the segments.

Chemicals

- **Sales at previous year's level**
- **Earnings burdened by high raw material costs and by a downward trend in the economy**
- **Positive trend in the Inorganics division**
- **Verbund strengthened by cracker project in Port Arthur, Texas, and integrated site in Kuantan, Malaysia**

The Chemicals segment comprises the Inorganics, Petrochemicals and Intermediates divisions. On July 1, 2001, the former Specialty Chemicals division was dissolved, and its glycols and alkylene oxides (for example, ethylene oxide and propylene oxide) product lines were transferred to the Petrochemicals division. All other Specialty Chemicals operations were transferred to the Performance Chemicals division. Polyurethane intermediates – primarily aniline – were transferred from the Intermediates division to the Polyurethanes division of the Plastics & Fibers segment.

Segment data

Million €	2001	2000	% Change from previous year
Sales to third parties	4,494	4,504	–0.2
Intersegmental transfers	2,452	2,408	1.8
Sales incl. intersegmental transfers	6,946	6,912	0.5
Income from operations (EBIT)	362	640	–43.4
Income from operations before interest, taxes, depreciation and amortization (EBITDA)	819	1,095	–25.2
Special items	(63)	(5)	.
Operating margin (%)	8.1	14.2	
Assets	4,847	4,232	14.5
Return on operational assets (%)*	8.0	16.8	
Research and development expenses	109	112	–2.7
Capital expenditures in tangible and intangible assets	929	774	20.0

* Based on average of assets

In the Chemicals segment, sales to third parties decreased in 2001 to €4,494 million from €4,504 million in 2000. Growth in sales volumes in inorganic specialties and price increases in the Intermediates and Inorganics divisions were unable to offset completely a decline in sales in the Petrochemicals division. Additional sales contributions came from the oxo alcohols/plasticizers complex at the new BASF Verbund site in Kuantan, Malaysia, as well as from new plants and capacity expansion programs such as trimethylolpropane in Ludwigshafen, Germany; hexanediol in Freeport, Texas; and ethylene oxide in Geismar, Louisiana.

Intersegmental transfers increased 1.8% in 2001 from €2,408 million in 2000 to €2,452 million.

In 2001, income from operations decreased 43.4% to €362 million compared with €640 million in 2000. Both high raw material costs in the first half of 2001, most notably for naphtha, and the drop in the economy in the second half of the year – which led to reduced demand in almost all customer segments – had a major impact on income from operations. The Petrochemicals division came under particularly strong price and margin pressure, especially for products with excess capacity, such as plasticizers and solvents. Startup costs for new plants in Port Arthur, Texas; Geismar, Louisiana; and in Kuantan, Malaysia, created additional burdens on earnings.

Special items related primarily to the closure of a plant in the Petrochemicals division at the site in Tarragona, Spain; restructuring of an acetylene plant in Geismar, Louisiana; and integration into the Intermediates and Petrochemicals divisions of the site acquired in Feluy, Belgium.

Through its capital expenditures, BASF strives for a globally balanced position. To this end, BASF is strengthening its operations in Europe, optimizing its Verbund structures in North America and establishing new Verbund sites in Asia. In 2001, we strengthened core product groups – butanediol and its derivatives, and phthalic anhydride – by acquiring the SISAS Group's chemical site in Feluy, Belgium. Through capital expenditures and acquisitions, the Chemicals segment's assets increased 14.5% in 2001 to €4,847 million from €4,232 million in 2000.

Assuming the global economy begins to recover in 2002, BASF expects sales and earnings in the Chemicals segment to improve.

Inorganics

In the Inorganics division, sales to third parties in 2001 rose 8.1% to €677 million, from €626 million in 2000. This sales growth was due to both higher prices and higher volumes. We increased sales and volumes over the previous year, above all in profitable inorganic specialties and electronic grade chemicals.

In 2001, income from operations improved, although economic conditions in important customer segments gradually deteriorated during the second half of the year. By year end, the recession in the semiconductor industry had led to a severe decline in demand for electronic grade chemicals. In the construction and woodworking industries, economic weakness intensified competition in the glues and impregnating resins product lines.

In 2001, we achieved high capacity utilization rates in our plants for large-volume inorganic products, which we produce primarily for captive use within the BASF Group (e. g., sulfuric acid, nitric acid, and the electrolysis products chlorine and sodium hydroxide). Through economies of scale, we can supply the Verbund cost-effectively. Products from the Inorganics division form an important foundation for most of BASF's value-adding chains.

In addition to large-volume inorganic products, our product range includes innovative specialties such as heterogeneous catalysts, electronic grade chemicals and powder injection molding technology. We are continuing to expand these profitable areas of our business. Last year we increased capacity for hydroxylamine free base – a substance that is indispensable in the production of microchips – from 4,000 metric tons per year to 7,000 metric tons per year. And we intensified our research efforts in the field of catalysts with the goal of securing or achieving technology and performance leadership. Here, we are focusing on catalysts with high growth rates.

In 2002, we expect income from operations to be lower as a result of continuing economic weakness in glues and impregnating resins as well as increasingly lower market prices for basic inorganic chemicals.

Petrochemicals
In the Petrochemicals division, sales to third parties in 2001 declined to €2,079 million, or 3.7% lower than in 2000. In 2000, strong volume demand and the rising price of naphtha led to significant price increases for cracker products and, as a result, to a steady increase in sales. However, in the course of 2001, this trend began to reverse as the economy began to slow down and raw material prices declined. First-time contributions to sales came from new plants that went into operation in 2001: the oxo alcohols/plasticizers complex in Kuantan, Malaysia, and the steam cracker in Port Arthur, Texas. At the same time, unprofitable plants in Tarragona, Spain were closed.

Earnings in 2001 were unsatisfactory. After a strong start in the first quarter, cracker margins fell sharply in the second quarter. In addition, earnings were burdened by startup costs for the new plant in Kuantan, Malaysia, as well as by startup costs for the steam cracker in Port Arthur, Texas, which increased as the year progressed. The plasticizers and solvents product lines continue to suffer from excess capacity and, as a result, from strong price and margin pressures. In alkylene oxides and glycols, exceptionally high gas prices at the beginning of 2001 had an adverse effect on earnings in the United States. In Europe, we benefited from a high utilization rate and expanded our ethylene oxide plant in Antwerp, Belgium, during the fourth quarter, making it the largest and most efficient in Europe.

In 2001, capital expenditures were lower than in the previous year. In the first quarter of 2002, construction is scheduled to be completed on a propylene plant that we are building with our partner SONATRACH in Tarragona, Spain. Another major project is the construction of a steam cracker at the Verbund site in Nanjing, China, where groundbreaking took place in September 2001.

With our new plants in Kuantan, Malaysia, and Port Arthur, Texas, we have laid the foundation for higher sales and earnings in the years to come. However, this expectation is based on the assumption that the global business and economic climate will improve in the course of 2002, allowing us to operate our world-scale plants most efficiently and to achieve optimal capacity utilization rates.

Intermediates

In the Intermediates division, sales to third parties in 2001 increased 1.0% to €1,738 million from €1,720 million in 2000. This growth was achieved through higher sales prices for our products and the startup of new production capacities. Deteriorating economic conditions reduced sales volumes – especially in the second half of the year – and low utilization rates resulted in higher unit costs.

Income from operations was lower in 2001 than in 2000, as raw material costs remained high, especially in the first half of the year. Earnings were also burdened by the integration of the site in Feluy, Belgium, acquired at mid-year, and startup costs for new plants (trimethylolpropane and dimethylhexanediol in Ludwigshafen, Germany; 1,6-hexanediol in Freeport, Texas; optically active amines in Geismar, Louisiana).

Not accounting for the acquisition in Feluy, Belgium, our capital expenditures of €347 million were at the same level as last year. In 2001, we also focused on expanding our production plants in Ludwigshafen, Germany; Geismar, Louisiana; and Ulsan, Korea.

For 2002, we expect lower average raw material costs and substantially lower special charges. We therefore anticipate earnings to be higher than in 2001, despite only a moderate increase in sales.

Plastics & Fibers

- **Weak demand in important customer segments results in declines in sales from ongoing business**
- **Polyurethanes performs well**
- **Styrenics and Performance Polymers unsatisfactory**
- **Earnings burdened by special measures to restructure production**

The Plastics & Fibers segment comprises the Styrenics, Performance Polymers and Polyurethanes divisions. On July 1, 2001, the former operating divisions Engineering Plastics and Fiber Products were combined into the Performance Polymers division. Polyurethane intermediates – primarily aniline – were transferred to the Polyurethanes division from the Intermediates division. Also included in the segment data through the end of September 2000 is the polyolefins business, which is now part of the non-consolidated joint venture Basell.

Segment data

Million €	2001	2000	% Change from previous year
Sales to third parties	8,185	11,030	–25.8
Intersegmental transfers	406	510	–20.4
Sales incl. intersegmental transfers	8,591	11,540	–25.6
Income from operations (EBIT)	(2)	902	.
Income from operations before interest, taxes, depreciation and amortization (EBITDA)	677	1,594	–57.5
Special items	(182)	101	.
Operating margin (%)	**	8.2	
Assets	6,344	6,086	4.2
Return on operational assets (%)*	**	13.9	
Research and development expenses	146	172	–15.1
Capital expenditures in tangible and intangible assets	891	633	40.8

* Based on average of assets
** Negative

Sales to third parties in 2001 dropped 25.8% to €8,185 million from €11,030 million in 2000.

On the basis of ongoing business, i.e., excluding polyolefins, sales decreased 8.6% from €8,951 million in 2000 to €8,182 million in 2001. Sales declined in all three divisions, but to the greatest extent in the Performance Polymers division. Weakening demand and the resulting decline in sales volumes resulted in a 2.5% reduction in sales. Falling prices contributed to a 5.2% decrease in sales, while changes in exchange rates contributed to a 0.4% decline in sales.

The Polyurethanes division made the greatest positive contribution to the segment's income from operations, which declined €904 million and recorded a loss of €2 million. This decrease in earnings was primarily due to reduced demand, strong margin pressures and new plant startups, in particular in North America.

Special charges totaling €182 million also contributed to the decline in earnings. These related primarily to the planned closure of plants in North America (NAFTA) and Europe in the Styrenics and Peformance Polymers divisions; a write-down for a styrenics plant; and the planned closure of an obsolete toluene diisocyanate (TDI) plant in the Polyurethanes division in Geismar, Louisiana, which will be replaced by a new plant.

For 2002, we expect sales and earnings to increase, under the assumption that the economy gains momentum in the second half of the year. We expect the restructuring of production in the NAFTA region to begin contributing to this development. Overall, positive effects from the global restructuring of our production are expected to be reflected in earnings from 2003 onward.

Styrenics

In the Styrenics division, sales to third parties in 2001 declined 7.1% to €3,267 million from €3,517 million in 2000. Despite a difficult economic climate, sales volumes climbed 5%, but selling prices and therefore margins came under pressure. Thus, price effects contributed 12% to the decline in sales.

Income from operations did not develop satisfactorily in 2001. Business operations in the NAFTA region did not meet our expectations. Special restructuring measures in the NAFTA region and Europe burdened income from operations. The Styrenics division's specialty products once again proved to be cyclically resilient.

In mid-2001, the division acquired a styrene plant in Korea. In addition, we invested in an EPS plant in Brazil and in a production plant for specialized foams in Italy. Expansion of production capacity for ethyl benzene in Antwerp, Belgium, was completed at the end of 2001.

In 2002, the new ethyl benzene and styrene plant in Ludwigshafen, Germany, is expected to start operations and improve the efficiency of the value-adding chain.

BASF expects significant sales momentum and earnings improvements in the division's operations only if there is a broad-based upturn in the economy in 2002.

Performance Polymers

In the Performance Polymers division, sales to third parties in 2001 fell 15.4% to €2,241 million from €2,648 million in 2000. Weak demand in Asia affected fiber intermediates in particular. Engineering plastics, on the other hand, performed well in a difficult market environment.

The decline in sales was due to an 11% reduction in sales volumes. In addition, pressure on product prices increased steadily, while raw material costs could not be reduced to the same extent. Price effects accounted for a 5% decline in sales.

Income from operations fell sharply, partially due to low capacity utilization rates. In 2001, the division was also burdened by special items related to various restructuring measures.

As of the beginning of 2002, there are no indications that the earnings situation in the Performance Polymers division will improve in the short term.

Polyurethanes

In 2001, sales to third parties in the Polyurethanes division were €2,677 million, or 4.3% below the 2000 level of €2,798 million.

Sales volumes declined 3% in a difficult economic environment. Price effects accounted for a 1% decline in sales. The first full year of operation for the MDI II plant (diphenylmethane diisocyanate) in Geismar, Louisiana, and the development of additional distribution channels through the purchase of system houses in the United States and in Turkey helped to stabilize sales.

Despite a decline compared with 2000, income from operations before special items in the Polyurethanes division was once again satisfactory. Higher raw material costs, especially for benzene, toluene and propylene, could only be passed on to customers in higher prices for our products to a limited extent. The easing in raw material costs that started in the second half of the year was partially offset by price reductions demanded by the market.

The largest capital expenditures in the Polyurethanes division were for a new TDI (toluene diisocyanate) plant in Geismar, Louisiana, and for the construction of an SM/PO (styrene monomer/propylene oxide) plant in Singapore as part of the ELLBA Eastern Private Ltd. joint venture with Shell. Both plants are scheduled to go on stream in 2002.

For 2002, we expect the division's sales and earnings to be comparable with 2001 levels.

Performance Products

- **Sales levels maintained**
- **Decline in earnings, particularly in North America and Europe**
- **New organization places greater emphasis on customer segments**
- **Focus on innovative customer solutions**

The former Colorants & Finishing Products segment was renamed Performance Products, which now consists of the Performance Chemicals, Coatings and Functional Polymers divisions. Functional Polymers is the new name for the former Dispersions division. The Colorants division and the Specialty Chemicals division were merged to form the Performance Chemicals division. The polyvinylpyrrolidone (PVP) product line for technical applications was transferred to the Functional Polymers division from the Fine Chemicals Division. The textile dye business, which was transferred to the joint venture DyStar, is included in the previous year's figures through the end of the third quarter of 2000.

Segment data

Million €	2001	2000	% Change from previous year
Sales to third parties	8,154	8,418	–3.1
Intersegmental transfers	322	314	2.5
Sales incl. intersegmental transfers	8,476	8,732	–2.9
Income from operations (EBIT)	99	586	–83.1
Income from operations before interest, taxes, depreciation and amortization (EBITDA)	760	1,140	–33.3
Special items	(298)	(32)	.
Operating margin (%)	1.2	7.0	
Assets	6,048	6,266	–3.5
Return on operational assets (%)*	1.6	10.4	
Research and development expenses	197	198	–0.5
Capital expenditures in tangible and intangible assets	418	1,332	–68.6

* Based on average of assets

In terms of ongoing business, i.e., excluding the textile dye business, sales to third parties in the Performance Products segment increased 0.3% in 2001 to €8,126 million, from €8,105 million in 2000. The increase in sales from ongoing business was due to additions to the scope of consolidation. Sales volumes and prices declined slightly. In the Coatings division, sales to third parties increased by 4.0% compared with 2000, to €2,287 million. Sales from ongoing business in the Performance Chemicals division were €3,317 million, compared with €3,395 million in 2000. In the Functional Polymers division, sales were €2,522 million, remaining approximately at the previous year's level.

Income from operations fell 83.1%, from €586 million in 2000 to €99 million in 2001. The continued weak economic environment in North America and Europe and the resulting decline in demand had a negative impact on earnings in all of the segment's divisions in 2001.

In many divisions, reduced demand led to increased price and margin pressures, which intensified during the first half of the year due to very high raw material costs. Special items of €298 million burdened earnings, above all in the Functional Polymers and Performance Chemicals divisions. These relate primarily to the planned closure of the sites in Birkenhead, United Kingdom, and Arnhem, the Netherlands, as well as to the closure of various production plants in North America and Italy.

Assets in the segment declined slightly in 2001, from €6,266 million in 2000 to €6,048 million.

For 2002, BASF expects a significant improvement in income from operations in the Performance Products segment as a result of the structural and cost reduction measures it has introduced, and under the assumption that there is renewed growth in demand. The segment is positioned efficiently thanks to its new organization and increased industry focus, achieved by grouping activities along regional and global product lines.

Performance Chemicals
In terms of ongoing business, i.e., excluding the textile dye business, sales to third parties in the Performance Chemicals division declined 2.3% in 2001 to €3,317 million, compared with €3,395 million in 2000.

Despite this decline, sales of products for the printing and mineral oil industries increased. This was offset, however, by a weaker economy, which also affected the other businesses in the Performance Chemicals division. The 9.8% decline in sales is primarily due to structural changes, in particular relating to the transfer of the textile dye business, which reduced sales by 7%. Price and currency effects both reduced sales by 1% each.

Due to weak demand and ongoing intense competition in North America and Europe, income from operations was below last year's good level. Earnings were also burdened by special items.

For 2002, we expect only moderate sales growth in the Performance Chemicals division in a still difficult economic environment. By focusing on the division's most important customer industries and streamlining its product range, we have laid important groundwork that will enable us to succeed in this challenging environment.

Coatings
In the Coatings division, sales to third parties in 2001 rose 4.0%, to €2,287 million from €2,198 million in 2000. The Europe and Asia regions contributed in particular to this increase. Sales volumes remained at last year's level, as declines in automotive coatings were offset by increases in industrial coatings and decorative paints. Unfavorable currency effects were responsible for a sales decline of 3%, with the devaluation of the Brazilian real particularly affecting sales. Selling prices rose slightly overall, but price concessions for industrial coatings were necessary in some cases. We are currently developing this business into the Coatings division's third key product line, next to automotive OEM and automotive refinish coatings.

The joint venture with NOF Corp. in Japan, entered into in October 2000 and consolidated since 2001, also contributed to the growth in sales.

Income from operations was below last year's high level, due in particular to a slowdown in the automotive industry in the NAFTA region. Despite intensive marketing efforts, earnings in industrial coatings are not yet in line with expectations.

In 2002, we expect an increase in sales in the Coatings division, and are building on innovative technologies and strengthening our systems supplier business to achieve this. We believe that we can increase the division's income from operations since we expect to continue improving on our cost structures and take full advantage of the remaining potential synergies from acquisitions.

Functional Polymers

In the Functional Polymers division, sales to third parties in 2001 were €2,522 million, remaining at approximately the previous year's level of €2,512 million. Due to the slowdown in the global economy, which began in the second quarter, it was not possible to achieve the strong volume growth we had sought.

Prices declined slightly due to lower raw material costs – which had to be passed on to customers – and to increasing pressure from competitors.

The division was able to expand its sales volumes in Asia, but lost sizable volumes in the NAFTA region. The global trend in sales volumes for paper chemicals and superabsorbents was favorable.

Income from operations was well below the level in 2000, in particular due to higher special charges. These charges related primarily to the destruction in an explosion of the division's superabsorbents plant in Birkenhead, United Kingdom, and to provisions for the planned closure of the site in Arnhem, the Netherlands, and of an acrylic acid plant and the Polymin plant in Freeport, Texas.

In Asia, a plant for the manufacture of dispersions went into operation in Shanghai, China. In South America, the division took a first step toward supplying this important market from local production with a butyl acrylate plant in Guaratinguetá, Brazil. In Ludwigshafen, Germany, a production plant for the innovative paper chemical polyvinylamine started operations. And in Antwerp, Belgium, the division completed a world-scale plant for the manufacture of superabsorbents.

Business will remain challenging in the months ahead. Recovery in the division's customer industries and improved results are not expected until the second half of 2002. We therefore expect sales in the Functional Polymers division to remain at last year's level and earnings to improve.

Agricultural Products & Nutrition

- **Sales climb 31% (excluding pharmaceuticals)**
- **Slight improvement in income from operations**
- **Significant increase in earnings before special items in Agricultural Products and Fine Chemicals**
- **Successful integration of the crop protection business of American Home Products Corp. (AHP) provides cost synergies of more than €125 million in the first year**
- **Special charges from pre-1999 antitrust violations in the vitamins business**

The former Health & Nutrition segment has been renamed Agricultural Products & Nutrition. The polyvinylpyrrolidone (PVP) product line for technical applications was transferred from the Fine Chemicals division to the Functional Polymers division. The pharmaceuticals business, which has been sold, is included in the segment data through the end of February 2001.

Segment data

Million €	2001	2000	% Change from previous year
Sales to third parties	5,826	6,693	–13.0
Intersegmental transfers	62	83	–25.3
Sales incl. intersegmental transfers	5,888	6,776	–13.1
Income from operations (EBIT)	(162)	(205)	.
Income from operations before interest, taxes, depreciation and amortization (EBITDA)	553	640	–13.6
Special items	(436)	(453)	.
Operating margin (%)	**	**	
Assets	7,865	10,203	–22.9
Return on operational assets (%)*	**	**	
Research and development expenses	497	821	–39.5
Capital expenditures in tangible and intangible assets	349	3,464	–89.9

* Based on average of assets
** Negative

In the Agricultural Products & Nutrition segment, sales to third parties from ongoing business, i.e., excluding pharmaceuticals, totaled €5,462 million in 2001, compared with €4,167 million in 2000. This increase related primarily to the acquisition in mid-2000 of the crop protection business of AHP, which in 2001 contributed sales for the entire year. Sales in the Fine Chemicals division increased from €1,739 million to €1,984 million. Sales in the segment were burdened by negative price effects of 2.3% and currency effects of 1.3%.

Income from operations improved slightly. As in 2000, we incurred a loss due to the high level of special charges. In the Agricultural Products division, savings achieved as a result of the integration of AHP's crop protection business were offset by a decline in earnings in South America.

Special items of €436 million burdened segment earnings. These related in particular to provisions for unexpectedly high fines imposed by the E.U. Commission for antitrust violations in the vitamins business; BASF has appealed against the level of these fines. Additional charges in the Fine Chemicals division related to the planned closure of unprofitable plants in North America (NAFTA). Special charges in the Agricultural Products division related to the use of inventory stepped-up to higher market values in connection with the AHP acquisition, as well as to the closure of a research site in North America (NAFTA) and additional restructuring.

The segment's assets fell by €2,338 million to €7,865 million, due primarily to the sale of the pharmaceuticals business. This was offset to some extent by the acquisition of the vitamins business of Takeda Chemical Industries Ltd., Japan, in the Fine Chemicals division.

In 2002, we expect sales and earnings to improve compared with 2001 in both the Agricultural Products division and the Fine Chemicals division.

Agricultural Products

Division data

Million €	2001	2000	% Change from previous year
Sales to third parties	3,478	2,428	43.2
Intersegmental transfers	30	34	–11.8
Sales incl. intersegmental transfers	3,508	2,462	42.5
Income from operations (EBIT)	18	(443)	.
Income from operations before interest, taxes, depreciation and amortization (EBITDA)	514	(31)	.
Special items	(182)	(341)	.
Operating margin (%)	0.5	**	
Assets	6,377	6,607	–3.5
Return on operational assets (%)*	0.3	**	
Research and development expenses	345	275	25.5
Capital expenditures in tangible and intangible assets	130	3,260	–96.0

* Based on average of assets
** Negative

Sales in the Agricultural Products division in 2001 were €3,478 million, compared with €2,428 million in 2000. This increase of €1,050 million, or 43.2%, was due primarily to the acquisition of the crop protection business of American Home Products Corp. (AHP).

Sales increased in all regions; the division expanded its market position in particular in North America and Europe, where sales were up 64.1% and 43.4%, respectively. Due to the uncertain economic situation in South America, we took a cautious approach in the market to reduce credit risk. This resulted in an increase of only 6.1% in sales to €543 million.

In 2001, income from operations in the Agricultural Products division was €18 million, compared with a loss of €443 million in 2000; this represented an improvement of €461 million over the previous year. Special items reduced earnings by €182 million.

The division's assets declined in 2001 to a total of €6,377 million from €6,607 million in 2000. Additions to tangible assets came from smaller continuous optimization measures; from investments in the F 500™ production plant in Schwarzheide, Germany; from the construction start of a new research building in Limburgerhof, Germany; and from the conversion of a production plant in Brazil.

Due to the integration of AHP's crop protection business, expenses for research and development rose 25.5% to €345 million, which represented 10% of sales. Research and development activities are concentrated in Ludwigshafen and Limburgerhof, Germany, and at the Research Triangle Park (RTP) in Raleigh, North Carolina. The Princeton research center in New Jersey will cease activities in mid-2002.

Following the integration of AHP's crop protection business, we expect to achieve annual cost savings of at least €250 million as of 2002. More than half of this amount was already achieved in 2001. Assuming successful market launch of new products and full utilization of potential synergies, we expect a further increase in sales and earnings in the Agricultural Products division in 2002.

Fine Chemicals

Division data

Million €	2001	2000	% Change from previous year
Sales to third parties	1,984	1,739	14.1
Intersegmental transfers	29	44	–34.1
Sales incl. intersegmental transfers	2,013	1,783	12.9
Income from operations (EBIT)	(210)	(5)	.
Income from operations before interest, taxes, depreciation and amortization (EBITDA)	(19)	154	.
Special items	(283)	(50)	.
Operating margin (%)	**	**	
Assets	1,488	1,368	8.8
Return on operational assets (%)*	**	**	
Research and development expenses	78	78	0.0
Capital expenditures in tangible and tangible assets	199	83	139.8

* Based on average of assets
** Negative

In the Fine Chemicals division, sales to third parties in 2001 increased 14.1%, to €1,984 million from €1,739 million in 2000. The division increased sales volumes by 5%. Structural changes, in particular the purchase of the vitamins business of Takeda Chemical Industries Ltd., contributed 11% to the increase in sales. On a comparable basis, sales in the Fine Chemicals division were 4.8% above the previous year's level due to an increase in sales volumes. However, the increase in sales was offset by negative currency effects of 1% and a 1% decline in prices. Some vitamins are still under price pressure, but lysine prices have improved. Particularly good growth was experienced in pharmaceutical active ingredients, cosmetic raw materials, carotenoids, and enzymes for animal nutrition.

In 2001, we recorded a loss of €210 million in income from operations in the Fine Chemicals division compared with a loss of €5 million in 2000. The loss is due to a high level of special charges; excluding these charges, earnings would have increased compared with the previous year.

In the Fine Chemicals division, assets increased in 2001 by 8.8% to €1,488 million from €1,368 million in 2000. Besides the purchase of Takeda's vitamins business, additions to fixed assets related primarily to the expansion of plants for vitamin E, carotenoids, Lysmeral® and other flavors and fragrances, as well as to the construction of a new plant for the manufacture of UV absorbers.

For 2002, we expect the division to maintain its overall positive trend with regard to sales and earnings.

Pharmaceuticals

Effective January 1, 2001, the generics business was sold to Biochemie GmbH, a subsidiary of Novartis.

On March 2, 2001, after approval by the U.S. Federal Trade Commission and the E.U. Commission, BASF sold its pharmaceuticals business to Abbott Laboratories Inc. of Abbott Park, Illinois. The gain on the sale in 2001 is shown as extraordinary income in Note 9 to the Consolidated Financial Statements. Additional information can be found under Notes 3 and 5.

The figures for 2001 therefore reflect only the first two months of operations, whereas the full 12 months are included in 2000.

Oil & Gas

- Further substantial increase in sales
- Earnings maintained at last year's high level
- Increased earnings from natural gas trading
- Crude oil and natural gas production up 13%
- Important groundwork laid for development of new oil and gas deposits

Segment data

Million €	2001	2000	% Change from previous year
Sales to third parties	4,516	3,957	14.1
Intersegmental transfers	413	320	29.1
Sales incl. intersegmental transfers	4,929	4,277	15.2
Income from operations (EBIT)	1,308	1,310	–0.2
Income from operations before interest, taxes, depreciation and amortization (EBITDA)	1,610	1,582	1.8
Special items	–	44	
Operating margin (%)	29.0	33.1	
Assets	3,149	3,540	–11.0
Return on operational assets (%)*	39.1	40,0	
Research and development expenses	95	50	90.0
Capital expenditures in tangible and intangible assets	229	267	–14.2

* Based on average of assets

In the Oil & Gas segment, sales to third parties in 2001 rose 14.1% to €4,516 million from €3,957 million in 2000. This increase is due to positive price (8.3%) and currency (1.3%) effects as well as increased sales volumes (4.5%). Important contributions to this result were made by the natural gas trading operations of BASF's subsidiary WINGAS, which increased its sales to third parties 30.5% to €2,251 million in 2001, compared with €1,725 million in 2000. Higher natural gas prices were a major factor contributing to this increase. Developments in crude oil prices are reflected in sales only after a period of delay. Therefore, sales in the first half of 2001 were still positively affected by the high crude oil prices that prevailed in the second half of 2000. Due to lower demand, natural gas sales volumes were 214 billion kilowatt-hours, or 3% below the previous year's level.

In its exploration and production activities, the Oil & Gas segment increased sales in 2001 by 1.5% to €2,254 million, compared with €2,221 million in 2000. This was possible even though the average price for U.K. Brent quality crude oil was $4 per barrel lower than in 2000, falling to $24 per barrel in 2001. The resulting negative impact from this price decrease was more than offset by a 13% increase in crude oil and natural gas production to 93 million barrels of oil equivalent.

Intersegmental transfers rose in 2001 to €413 million from €320 million in 2000, mainly due to higher gas prices.

At €1,308 million, income from operations in the Oil & Gas segment reached the same high level in 2001 as in 2000. Income from operations is before income taxes on oil-producing operations in North Africa and the Middle East, which are recorded as income tax expenses. See Note 10 to the Consolidated Financial Statements.

Assets in the Oil & Gas segment decreased 11% in 2001 to €3,149 million from €3,540 million in 2000. Additions to tangible assets related primarily to development projects for exploration and production activities in Germany, North Africa and Argentina. Compared with the previous year, expenditures on exploration activities were more than double at €156 million. By using the latest technologies and focusing on particularly promising regions, we achieve a competitive international position with regard to finding costs.

There are no visible signs of near-term improvement in the weak economic environment. BASF therefore expects average crude oil prices to decline further in 2002 compared with 2001. However, we believe that the negative effects on sales and earnings will be offset to some extent by an expansion in business activities.

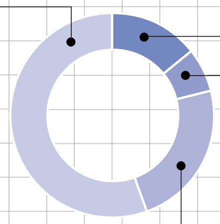
4. Regional Report

Regions (location of company)	Sales			Income from operations (EBIT)			Income from operations before special items		
Million €	2001	2000	Change in %	2001	2000	Change in %	2001	2000	Change in %
Europe	19,399	22,203	–12.6	1,926	2,577	–25.2	2,535	2,662	–4.8
thereof Germany	13,417	14,457	–7.2	1,347	1,864	–27.7	1,725	1,796	–4.0
North America (NAFTA)	7,772	8,441	–7.9	(678)	99	–784.8	(247)	252	–198.0
South America	1,842	2,127	–13.4	(3)	233	–101.3	11	266	–95.9
Asia, Pacific Area, Africa	3,487	3,175	9.8	(28)	161	–117.4	(6)	220	–102.7
	32,500	**35,946**	**–9.6**	**1,217**	**3,070**	**–60.4**	**2,293**	**3,400**	**–32.6**

The weak economic environment was reflected in sales and earnings in all regions.

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%



Europe

Sales in Europe totaled €17,984 million in 2001, which was €2,119 million, or 10.5% lower than in 2000. In terms of ongoing business, i.e., excluding pharmaceuticals, polyolefins, textile dyes and industrial fibers in particular, sales were €17,689 million compared with €16,936 million in 2000. The Chemicals segment performed well. Operations in the Plastics & Fibers segment were characterized by declining demand and strong price pressures. The economic downturn in important customer industries had an adverse effect on the operations of the Performance Products segment. In the Agricultural Products division, which was strengthened through an acquisition in 2000, sales increased significantly. Sales in all customer industries in the Fine Chemicals division also rose, in particular due to the acquisition of the vitamins business of Takeda Chemical Industries Ltd.

Earnings were burdened by a high level of special items. These included restructuring expenses relating to the closure of sites and the decommissioning of plants, charges relating to the reorganization of our marketing and sales organization as well as provisions for fines imposed for violations of antitrust laws in the vitamins business.

At €1,926 million, income from operations was €651 million lower than in 2000. Earnings in the Oil & Gas segment, which are primarily generated in Europe, remained at the previous year's level and reduced the decline in earnings in the region.

The most important capital expenditures in the region are described under "Liquidity and Capital Resources" on page 56 ff.

North America (NAFTA)

In the North America (NAFTA) region, reported sales in 2001 declined 9.1% to €7,654 million from €8,419 million in 2000. In terms of ongoing business, the region achieved sales of €7,508 million, or 2.6% above the 2000 level. However, the Chemicals, Plastics & Fibers and Performance Products segments were affected by the significant slowdown in the U.S. economy. Declining selling prices due to surplus capacity in some markets, to higher competition from imports from other regions, as well as to lower volume demand in some product areas had a negative impact on operations in these segments. Sales in the Agricultural Products division rose 64.1% to €1,260 million. The acquisition made in 2000 contributed significantly to this result.

In the Chemicals and Plastics & Fibers segments, earnings from ongoing business suffered from falling margins caused by higher raw material and energy costs, in particular in the first half of the year. Earnings were also burdened by costs for new plant startups, which are not included in special items. The Performance Products division was adversely affected by lower demand in the U.S. automotive industry.

Income was burdened by high special items of €431 million. These related primarily to measures for site closures, decommissioning of production plants and research facilities, and restructuring of production plants. Additional charges related to provisions for litigation risks and to the use of inventory stepped-up to higher market values in connection with the acquisition in mid-2000 of the crop protection business of American Home Products Corp. (AHP). These charges, and the difficult economic environment, resulted in a heavy loss.

The most important capital expenditures in the region are described under "Liquidity and Capital Resources" on page 56 ff.

South America

In 2001, local currency sales in the South America region increased significantly. However, currency translation effects resulted in a 12.5% decline to €2,188 million, from €2,500 million in 2000. Sales from ongoing business were €2,177 million, compared with €2,319 million in 2000. Business operations were adversely affected by the weakened global economy, the crisis in Argentina as well as by currency translation losses in the Brazilian real against the U. S. dollar and the euro. Higher sales in the Chemicals and in the Agricultural Products & Nutrition segments were due to the acquisition of the crop protection business from AHP in mid-2000. The Oil & Gas segment also increased sales slightly.

In 2001, we made a loss of €3 million in income from operations. Special charges of €14 million for site closures, for substantial expenses relating to the lifting of the Argentine peso-U. S. dollar parity, and for currency translation losses due to the lower valuation of the Brazilian real – and therewith a decline in margins – all contributed to the dramatic drop in earnings.

The most important capital expenditures in the region are described under "Liquidity and Capital Resources" on page 56 ff.

Asia, Pacific Area, Africa

Sales in the Asia, Pacific Area, Africa region declined 5.1% to €4,674 million from €4,924 million in 2000. Sales from ongoing business were €4,617 million in 2001 and €4,439 million in 2000. This increase is due to additions to the scope of consolidation.

Compared with income from operations in 2000 of €161 million, in 2001 we recorded a loss of €28 million due to a decline in the contribution to earnings made by the Chemicals, Plastics & Fibers and Performance Products segments. Special charges of €22 million were incurred for restructuring measures and special write-downs. In addition, earnings were burdened by startup costs for the Verbund site in Kuantan, Malaysia.

The most important capital expenditures in the region are described under "Liquidity and Capital Resources" on page 56 ff.

5. Liquidity and Capital Resources

Statements of Cash Flows

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)
Cash provided by operating activities	**2,319**	**2,992**
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)
Cash provided by investing activities	**4,120**	**(8,830)**
Proceeds from capital increases	(1,124)	(604)
Changes in financial indebtedness	(4,293)	6,660
Dividends	(1,266)	(748)
Cash used in/from financing activities	**(6,683)**	**5,308**
Net changes in cash and cash equivalents	(244)	(530)
Initial cash and cash equivalents and other changes	604	1,036
Cash and cash equivalents	**360**	**506**
Other changes in current assets	383	364
Liquid funds	**743**	**870**

* Excluding extraordinary income

Cash provided by operating activities

Cash provided by operating activities totaled €2,319 million, which was 22% less than in 2000. This decline was due primarily to 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., Japan;
- 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. On a regional basis, capital expenditures and acquisitions were as follows:

	2001 in %	2000 in %
Europe	47	39
North America (NAFTA)	23	47
South America	4	6
Asia, Pacific Area, Africa	26	8

In the **Chemicals segment,** capital expenditures and acquisitions rose 20% to €929 million in 2001 compared with €774 million in 2000. Major projects included:

Europe
- A plant for the production of propylene (propane dehydrogenation) in Tarragona, Spain.
- Expansion of production capacities for PolyTHF® in Ludwigshafen, Germany.
- Construction of a new plant for optically active amines in Ludwigshafen, Germany.
- Capacity expansion for glyoxal in Ludwigshafen, Germany.
- Optimization of production of ethylene oxide and glycol in Antwerp, Belgium.

North and South America
- Completion of a steam cracker in a joint venture with TotalFinaElf S.A. in Port Arthur, Texas.
- Plants for hexanediol/caprolactone in Freeport, Texas.
- Capacity expansion for ethylene oxide and glycols in Geismar, Louisiana.
- A plant for S-methoxyisopropylamine in Geismar, Louisiana.
- A plant for neopentylglycol in Freeport, Texas.

Asia
Expansion of the new Verbund site in Kuantan, Malaysia:
- Plants for oxo C_4 alcohols, phthalic anhydride and plasticizers.
- A syngas plant.
- A plant for the manufacture of butanediol.

In the **Plastics & Fibers segment,** capital expenditures and acquisitions totaled €891 million. This corresponds to an increase of 41% compared with 2000. The largest projects were as follows:

Europe
- Expansion of production for ethyl benzene in Antwerp, Belgium.
- Replacement of plants for the manufacture of ethyl benzene/styrene in Ludwigshafen, Germany.
- Expansion and construction of a new plant for Styrolux® in Antwerp, Belgium.
- Capacity expansion for MDI (diphenylmethane diisocyanate) production in Antwerp, Belgium.
- Continued modernization of production and compounding plants for nylon 6 in Ludwigshafen, Germany.
- Construction of Styrodur® C plants in Bibbiano, Italy, and Tudela, Spain.
- Expansion of Ultrason® production in Ludwigshafen, Germany.

North and South America
- Replacement of a plant for the production of TDI (toluene diisocyanate) in Geismar, Louisiana.
- Expansion of EPS (expandable polystyrene) production in Guaratinguetá, Brazil.

Asia
- Construction of a new plant for propylene oxide and styrene in Singapore in the ELLBA Eastern Private Ltd. joint venture with Shell.
- Construction of a new plant for TDI (toluene diisocyanate) in Yeosu, Korea.

In the **Performance Products segment,** capital expenditures and acquisitions declined 69% in 2001 to €418 million from €1,332 million in 2000. Major investment projects concluded or initiated were as follows:

Europe
- Construction of a new plant for the manufacture of superabsorbents in Antwerp, Belgium.
- Completion of the production plant for the manufacture of vinyl formamide and polyvinylamine in Ludwigshafen, Germany.
- Construction of a new plant for dispersions in Hamina, Finland.

In the **Agricultural Products & Nutrition segment,** BASF spent €349 million on capital expenditures and acquisitions in 2001. This was €3,115 million less than in 2000, the year in which the crop protection business of American Home Products Corp. (AHP) was acquired.

In the Agricultural Products division, capital expenditures totaled €130 million in 2001. In addition to the completion of a new plant for the fungicide active ingredient F 500™ in Schwarzheide, Germany, and the conversion of a production plant for the production of crop protection active ingredients in Guaratinguetá, Brazil, several replacement and optimization projects were undertaken at various sites.

In the Fine Chemicals division, BASF invested €199 million in capital expenditures in 2001 compared with €83 million in 2000. The most important investment projects included expansions of plants for vitamin E, carotenoids, Lysmeral® and other flavors and fragrances, as well as the construction of a new plant for the manufacture of UV absorbers.

In the **Oil & Gas segment,** we invested €229 million compared with €267 million in 2000. The majority of these investments were made in exploration and production.

Capital expenditures on **financial assets and securities** amounted to €741 million, which was €99 million less than in 2000. These expenditures included in particular:
- Capital expenditures totaling €200 million for BASF Future Business GmbH and BASF Venture Capital GmbH, as well as
- additions to other participations, securities and loans.

Expenditures for additions to financial assets and securities were offset by a cash inflow of €629 million 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, and was denominated in the following currencies:

	2001 in %	2000 in %
Euros	48.9	25.4
U.S. dollars	28.3	62.2
Renminbi	5.5	2.8
Other currencies	17.3	9.6

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% corporation tax.

In 2001, BASF spent €1.3 billion to buy back 30.8 million shares, or 5% of share capital, at an average price of €42.22 per share (see also page 18, “BASF Shares”).

Liquid funds

Cash and cash equivalents decreased by €146 million. Marketable securities increased €19 million to €383 million. Total liquid funds decreased to €743 million in 2001 from €870 million in 2000. Their share of total assets was 2.0% in 2001, compared with 2.3% in 2000.

Commitments for investments

In 2002, BASF is planning capital expenditures of €2.2 billion. Major projects by segment include:

Chemicals
- Construction of a C_4 complex in connection with the new steam cracker in Port Arthur, Texas.
- Construction of a steam cracker at the planned Verbund site in Nanjing, China.
- Capacity expansion for ethylene oxide in Ludwigshafen, Germany.
- Modernization of a chloralkali electrolysis plant in Ludwigshafen, Germany by conversion to a membrane process.

Plastics & Fibers
- Plant for Styrolux in Altamira, Mexico.
- Plant for Basotect® in Schwarzheide, Germany.
- Reconstruction and expansion of a nylon 6 production plant in Ludwigshafen, Germany.
- Expansion of a Cellasto® production plant in Lemförde, Germany.

Performance Products
- Plants for acrylic acid and acrylates at the planned Verbund site in Nanjing, China.
- Plant for methanesulfonic acid in Ludwigshafen, Germany.
- Plant for nonionic surfactants in Geismar, Louisiana.

Agricultural Products & Nutrition
- Capacity expansion for vitamin E and precursors in Ludwigshafen, Germany.
- Plant for the production of vitamin B_2 in Gunsan, Korea.
- Construction of a new crop protection research facility in Limburgerhof, Germany.

Oil & Gas
- Optimizing and expanding hydrocarbon production in North Africa.
- Increasing crude oil production in the northern German Mittelplate field.
- Developing the Carina and Aries offshore natural gas fields in Argentina.
- Developing new natural gas reserves in the Dutch North Sea.

6. Portfolio Management

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

Between 1992 and 2001, we divested businesses representing sales of approximately €11 billion. During the same period, we acquired innovative businesses with a high potential for growth and with sales valued at approximately €9.5 billion. We have placed businesses such as textile dyes and polyolefins in joint ventures where we and our partners see greater opportunities for future growth, in particular through economies of scale.

Acquisitions

In our acquisitions we focus strategically on:
- the expansion of profitable, innovative and cyclically resilient businesses;
- the optimization of our value-adding chains; and
- the goal of being among the top three suppliers in important product groups.

The following examples from recent years illustrate our acquisition strategy:

With the acquisition of the superabsorbents operations of Clariant in 1998, we established ourselves as an important superabsorbents supplier. The subsequent acquisition of the superabsorbents business of Chemdal in 2000 improved our technology position in this business and ensured our market leadership in superabsorbents. Thanks to this forward integration, we have been able to extend our important acrylic acid value-adding chain into a significant growth sector.

In 2000, we took over the coil coatings business – the coating of coiled steel and aluminum – of Rohm and Haas Co. We are now ranked number two worldwide in this market, which is expected to grow by more than 10% per year.

To extend our research activities in the area of starch modification, we acquired the U.S. biotechnology company ExSeed Genetics LLC in December 2000. The acquisition puts us in a leading position in the development of nutritionally enhanced traits in corn for animal feeds.

Through the acquisition of the vitamins business of Takeda Chemical Industries Ltd. in 2001 and the crop protection business of American Home Products Corp. (AHP) in 2000, we strengthened core operations in which we believe we have long-term competitive advantages. In these innovative businesses, we can continue to expand our strong position through our innovative research and development activities.

In 2001, we strengthened our position in the European market for important intermediates such as butanediol and its derivatives through the acquisition of the activities of the Italian SISAS Group in Feluy, Belgium.

Divestitures

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

We sold our pharmaceuticals business in 2001. Given the continuing consolidation in the pharmaceuticals industry, our business was too small to be competitive in the long term. Its potential can be more profitably realized by a large pharmaceuticals company with synergies in marketing and sales.

Our subsidiary Wintershall concentrates on the exploration and production of oil and gas and on natural gas trading. For this reason we sold our stake in Aral AG as well as our refinery and natural gas distribution operations in 1999.

The fertilizer business no longer met our growth and earnings expectations. We therefore disposed of marketing and sales activities and sold the business in 1999 to K+S Aktiengesellschaft (K+S). We continue to manufacture agricultural fertilizers – which are integrated in our Verbund – for K+S.

Strategic alliances

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

For example, we operate a world-scale production plant jointly with General Electric at our site in Schwarzheide, Germany, for the manufacture of PBT (polybutylene terephthalate), a specialty active ingredient in our important butanediol value-adding chain. The plant utilizes the latest technology and ensures us an excellent cost position.

The polyolefins businesses of Shell and BASF were merged in the 50-50 joint venture Basell, thus combining the strengths of two major players in this market. The Basell joint venture was established in 2000 and is expected to become world leader in polypropylene and number four in the world in polyethylene.

A strategic partnership with Shell in the operation of PO/SM plants illustrates the backward integration of our polyurethane value-adding chain in PO (propylene oxide) and also offers us an additional internal supply of SM (styrene monomer). This alliance, which has been operating a production plant in Moerdijk, the Netherlands, since 1999, allows us to benefit from Shell's leading technology and backward integration. A second PO/SM plant is currently under construction in Singapore and is scheduled to go on stream in 2002.

Together with our partner TotalFinaElf (40%), we built the largest liquids steam cracker in the world in Port Arthur, Texas. This cracker will supply petrochemical feedstocks for our North American Verbund sites in Geismar, Louisiana, and Freeport, Texas. It started operations in December 2001.

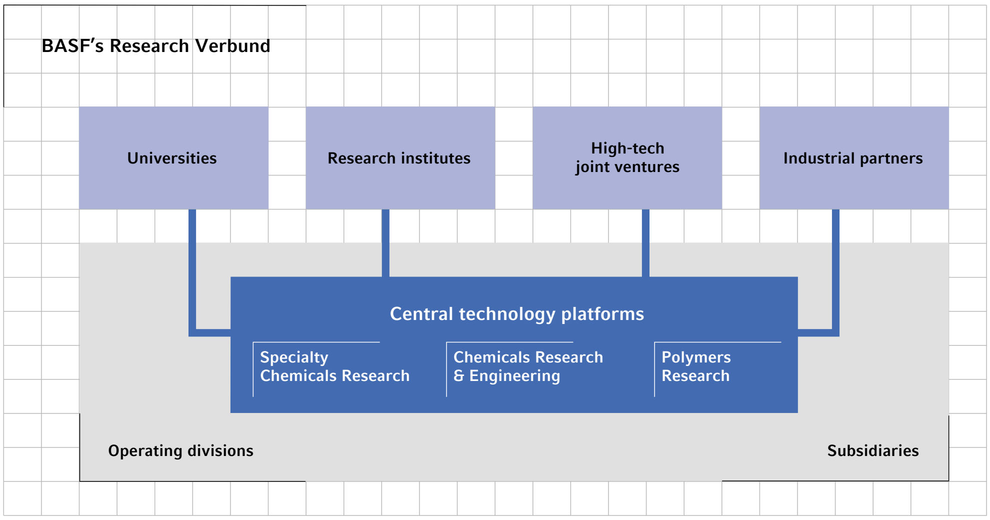
In Caojing, China, we are planning a production joint venture for MDI (diphenylmethane diisocyanate) with Huntsman International and Chinese partners and are planning to build a TDI plant with Chinese partners. Here, too, the combined approach enables us to build a world-scale plant that will generate cost advantages for us in developing the Chinese market for polyurethane components.

Research and Development

- **BASF's Research Verbund number one in chemical patents**
- **Higher R&D expenditures on the basis of ongoing business**
- **New products with high sales and earnings potential**
- **Creative system solutions for our customers**
- **Pioneering research platform for plant biotechnology**

Innovation in BASF's Research Verbund

Research and development (R&D) at BASF means finding solutions to the challenges of the future. The scientific excellence of our employees and the current and future needs of the market are the most important drivers for BASF's value-creating innovations. Our Research Verbund is made up of three central technology platforms in Ludwigshafen, research and development units in Group companies, R&D subsidiaries such as BASF Plant Science, and approximately 800 cooperations with leading universities, research institutes and industrial partners. Worldwide, as in the previous year, over 8,000 employees work in research and development (excluding pharmaceuticals). This means that the BASF Research Verbund has one of the largest research networks for chemistry and process engineering in the world. Between 1996 and 2001 alone, BASF applied for over 5,500 chemical patents, which makes us number one in the world among chemical companies.



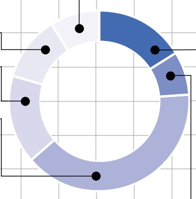
Higher R&D expenses in terms of ongoing business

In 2001, BASF invested €1,173 million in research and development compared with €1,058 million – excluding Pharmaceuticals – in 2000. Thus, R&D expenses in terms of ongoing business increased 10.9% compared with the previous year.

In 2001, approximately 8.7% of our research costs were for the Chemicals segment, 11.7% for Plastics & Fibers and 15.8% for Performance Products. With 39.9%, the largest share was for the Agricultural Products & Nutrition segment. Last year, 82% of research and development expenses were incurred in Germany; in other regions, the figure was much lower: 13% in North America, 3% in European countries other than Germany and 2% in South America and Asia.

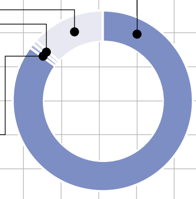
R&D expenses in 2001
By segment, million €

Chemicals	109	8.7%
Plastics & Fibers	146	11.7%
Performance Products	197	15.8%
Agricultural Products & Nutrition	497	39.9%
Oil & Gas	95	7.6%
Other	203	16.3%



R&D expenses in 2001
By region, million €

Europe	1,063	85.2%
thereof Germany	1,019	81.7%
North America (NAFTA)	163	13.1%
South America	13	1.0%
Asia, Pacific Area, Africa	8	0.6%



Our innovation strategy: new processes, new products, new markets
Our innovations improve products and services – not just those of BASF, but also those of our customers and their customers, right down to the end user. Approximately 59% of research costs were for new or improved products and 41% were for processes or methods.

Through process innovations, we optimize our production processes and thus assure cost leadership. If cost advantages can be gained, for example, through alternative, less expensive raw materials, we develop new processes and adapt our production to them. The final product remains the same.

Through product innovations we lay the foundation for profitable growth. On the one hand, we develop new chemical structures such as new active ingredients for crop protection products. Counting new market introductions, our well-stocked product pipeline has 14 projects, including several new active ingredients. Together with the CLEARFIELD® Production System, we anticipate an annual peak sales potential of about €2 billion. On the other hand, we also use familiar chemistry in new applications. Both approaches open up additional market opportunities for us.

We identify current and future market needs continuously in close partnership with our customers. Our goal is to find new ways to solve problems by drawing on the inexhaustible innovation potential of chemistry.

Strengthening the Verbund and extending our value-adding chains
For example, the research strategy in our Chemicals segment focuses on both goals – products and production processes. We develop new basic products and intermediates based on the value-adding chains of our Production Verbund. Examples of this include optically active intermediates for pharmaceuticals and crop protection products, a new generation of plasticizers with improved properties for PVC applications and high-performance catalysts for fuel cells. At the same time, we research and implement new, optimized processes to improve our cost structures in production. Examples of the latter include the new processes for manufacturing hexanediol/caprolactone and trimethylolpropane – important intermediates for the manufacture of coatings and plastics.

Designing creative system solutions for our customers

We improve our value-adding chains and long-term customer relations with creative system solutions that offer our customers added value. An example from the Performance Products segment is Xfast™, our newest generation of pigments. Xfast is an intelligent, user-friendly solution – developed in close collaboration with our customers. Compared with traditional pigments, Xfast pigments no longer require extensive processing. As a result, the coloring of water-based coatings will become as easy as making instant coffee – saving our customers time and money. We are now working on transferring this principle to automotive and industrial coatings as well. The newly-developed plastic Ultradur® B 4400 makes us one of the first global manufacturers to develop a flame-retardant PBT (polybutylene terephthalate) that is free from halogens and antimony. With this innovation in engineering plastics, we meet the requirements that our customers – especially those in the electrical and electronics industries – place on high-value materials.

Developing chemistry's diverse potential

We are making use of the diverse opportunities offered by modern biotechnology to increase and sustain the value of BASF. To do this, we are focusing our activities on biocatalysis and plant biotechnology. We use biotechnology to further develop our broad competence in chemistry and to open up new areas of business for BASF.

This motto becomes especially tangible in biocatalysis, because here we are using microorganisms, or enzymes isolated from microorganisms, to manufacture chemical products. In addition to vitamin B_2, we are already producing a vitamin C precursor and the amino acid lysine through a fermentation process. This by no means exhausts the potential of biocatalysis. We are currently researching additional processes for the production of fine chemicals. Because biological systems are highly efficient, biocatalysis can also make a valuable contribution to Sustainable Development.

Wheat varieties that can withstand longer periods of drought or cold, or plants with higher levels of healthy fatty acids to prevent heart and circulatory diseases – these are the visions we have for plant biotechnology. And this is why have spent the last three years building a research platform – BASF Plant Science GmbH – which brings together all of the elements essential for success in this area. We are breaking new ground and pursuing new ways to collaborate, ranging from cooperations and spin-offs with leading researchers and institutes (e.g., Metanomics, SunGene and DNALandmarks), to the acquisition of technologies or interesting biotech companies such as ExSeed Genetics LLC in the United States. In this way, we aim to become a leader in plant biotechnology. We plan to bring the first products to market in just a few years.

So that we can continue to grow profitably in the future, we want to develop new technologies and areas of business beyond our current fields of operations even more quickly and effectively. To do this, we founded a new business unit, BASF Future Business GmbH, in April 2001. The key to its success will be innovations and system solutions that are relevant to or based on chemistry and that promise above-average rates of growth over the medium and long term.

Procurement, Production and Distribution

- Our strength: worldwide coordination of procurement
- Steering committee directs the global and regional purchasing organization
- Better collaboration with internal customers, technical units and suppliers
- Closer networking of purchasing and research operations reduces raw material costs, resulting in more competitive prices
- Optimization in technical goods and services procurement saves €160 million in 2001 and 2002

1. Procurement

New structure

Raw materials, technical goods, services for plant construction and maintenance – in 2001 the entire purchasing spectrum covered approximately 500,000 items and involved a purchasing volume of €13 billion. Our goal is to achieve lasting competitive advantages for BASF through our purchasing strength. This strength comes from worldwide coordination of procurement between global and regional procurement teams. We optimize our IT systems to systematically exploit our potentials for synergy and bulk purchasing in the marketplace. Support for our employees in the global purchasing organization, with its highly-motivated team of experts, is vital to the success of our purchasing activities.

In recognition of the increasing integration of markets, we have placed our worldwide purchasing operations in a competence center as part of our reorganization – see "Further Development of BASF's Organization: Fit for the Future" on page 13 ff. Heads of purchasing from all the important regions are represented on a steering committee that determines the global strategic focus of purchasing activities. Each of the regional purchasing organizations in Asia, Europe, NAFTA and South America reports to this steering committee and coordinates its own local procurement unit.

Taskforces for technical goods and raw materials were established to further improve the collaboration between internal customers and technical units. Thanks to improved coordination and implementation of procurement strategies, these organizational changes enable us to gain advantages in our most important markets, and to create significant advantages in product lifecycles through standardization.

The Procurement Verbund initiative, which links us with our suppliers in a process aimed at optimizing procurement, was introduced for global purchasing in 2001, and will be strengthened in 2002. This process will optimize the entire supply chain in tandem with suppliers. In this way, we expect to realize additional synergies, achieve significant savings and make a significant contribution to BASF's corporate success.

Raw materials purchasing

The most important raw materials used in production at our Verbund sites are petrochemical feedstocks such as naphtha and LPG (liquefied petroleum gas). They serve as feedstocks for the steam crackers we operate in Ludwigshafen, Germany; Antwerp, Belgium; and, as of 2001, in Port Arthur, Texas. We also purchase several thousand other raw materials that are as diverse as ammonia, precious metals and sugar.

We are intensively seeking to achieve closer networking of purchasing and research operations within BASF. We help research and production in the business units with regard to procurement alternatives at the earliest stage of product development, because this is where a large part of future product costs is determined.

Technical goods and services procurement

Our global and regional teams are continually improving the coordination of technical product groups. Long-term strategies for the standardization of goods and services, developed through close coordination with colleagues from the technology and maintenance areas, accelerate the grouping of our worldwide needs. As well as creating purchasing advantages, this also brings lasting savings in maintenance and service expenses for entire product lifecycles. Additionally, we develop and implement successful modular and system delivery concepts in appropriate product segments. As planned, these efforts generated €92 million in savings in 2001.

E-commerce

We utilize e-commerce to make procurement processes efficient. Last year we were largely successful in integrating the electronic marketplaces in which we have a stake – cc-chemplorer for technical goods and Elemica, the marketplace for chemicals that is still being developed – into our ERP (Enterprise Resource Planning) systems. This is having a positive impact on process times and process quality. We will continue to increase our use of electronically-supported procurement processes in the future.

2. Products and Production Sites

To optimize BASF's value-adding chains, we have restructured our operating divisions based on a thorough review of our processes. Accordingly, products are assigned to our divisions as follows:

Chemicals

Inorganics

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

Petrochemicals

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

Intermediates

Amines, diols, carboxylic acids, dyestuff and fiber intermediates and precursors for fine chemicals such as ChiPros™.

Plastics & Fibers

Styrenics

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

Performance Polymers

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

Polyurethanes

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

Performance Products

Performance Chemicals

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

Coatings

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

Functional Polymers

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

Agricultural Products & Nutrition

Agricultural Products

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

Fine Chemicals

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

Oil & Gas

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

- Exploration and production of crude oil and natural gas;
- crude oil and natural gas trading, and
- the leasing of natural gas transportation and transport capacity.

Sites

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

At the heart of BASF's integration strategy are its Verbund production sites. The following is a list of these sites including the number of production plants.

Verbund site	Production plants
Ludwigshafen, Germany	245
Antwerp, Belgium	58
Geismar, Louisiana	10
Freeport, Texas	20

We are currently building additional Verbund sites in Kuantan, Malaysia, with our joint venture partner PETRONAS and in Nanjing, China, with our joint venture partner SINOPEC.

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

Site overview

Region/country	Site	Operating division
France	Clermont de l'Oise	Coatings
		Performance Chemicals
	Genay	Agricultural Products
	Gravelines	Agricultural Products
	Mitry-Mory	Polyurethanes
Italy	Bibbiano	Styrenics
	Burago	Coatings
	Caronno Pertusella	Performance Chemicals
	Cesano Maderno	Performance Chemicals
	Cinisello Balsamo	Performance Chemicals
	Villanova d'Asti	Polyurethanes
	Zingonia	Polyurethanes
The Netherlands	Moerdijk	Polyurethanes
Spain	Guadalajara	Coatings
	Hospitalet	Performance Chemicals
	Rubí	Polyurethanes
	Tarragona	Petrochemicals
		Styrenics
		Performance Polymers
		Performance Chemicals
		Functional Polymers
		Fine Chemicals
		Agricultural Products
	Tudela[2]	Styrenics
Turkey	Gebze	Functional Polymers
		Performance Chemicals
United Kingdom	Alfreton	Polyurethanes
	Ashbourne	Fine Chemicals
	Cramlington	Fine Chemicals
		Performance Chemicals
	Seal Sands	Performance Polymers
	Slinfold	Performance Chemicals

Site overview

Region/country	Site	Operating division
NORTH AMERICA		
Canada	Arnprior, Ontario	Performance Polymers
	Windsor, Ontario	Coatings
Mexico	Altamira	Styrenics
		Performance Chemicals
		Functional Polymers
	Lerma	Polyurethanes
		Performance Chemicals
	Tultitlán	Coatings
United States	Aberdeen, Mississippi	Functional Polymers
	Anderson, South Carolina	Performance Polymers
	Beaumont, Texas	Agricultural Products
	Charlotte, North Carolina	Performance Chemicals
	Chattanooga, Tennessee	Functional Polymers
	Clemson, South Carolina	Performance Polymers
		Polyurethanes
	Freeport, Texas[1]	Petrochemicals
		Intermediates
		Performance Polymers
		Functional Polymers
	Geismar, Louisiana[1]	Petrochemicals
		Intermediates
		Polyurethanes
		Performance Chemicals
		Fine Chemicals
	Hannibal, Missouri	Agricultural Products
	Huntington, West Virginia	Performance Chemicals
	Joliet, Illinois	Styrenics
	Monaca, Pennsylvania	Functional Polymers
	Morganton, North Carolina	Coatings
	Port Arthur, Texas[2]	Petrochemicals
	Portsmouth, Virginia	Functional Polymers
	South Brunswick, New Jersey	Styrenics
	Sparks, Georgia	Agricultural Products
	Whitestone, South Carolina	Performance Chemicals
		Fine Chemicals
	Wyandotte, Michigan	Styrenics
		Polyurethanes
		Performance Polymers
		Fine Chemicals

Site overview

Region/country	Site	Operating division
SOUTH AMERICA		
Argentina	General Lagos Rosario	Styrenics
		Performance Chemicals
		Functional Polymers
	Tortuguitas	Coatings
Brazil	Camaçari	Intermediates
		Petrochemicals
	Guaratinguetá	Styrenics
		Performance Chemicals
		Functional Polymers
		Agricultural Products
		Fine Chemicals
	Paulinia	Agricultural Products
	Resende	Agricultural Products
	São Bernardo do Campo	Coatings
	São José dos Campos	Styrenics
Chile	Concon	Inorganics
		Styrenics
		Functional Polymers
		Performance Chemicals
	Santiago	Styrenics

Site overview		
Region/country	**Site**	**Operating division**
ASIA PACIFIC		
China	Caojing[3,4]	Intermediates
	Nanjing[4]	Styrenics
	Nanjing[1,2,4]	Petrochemicals
		Intermediates
		Functional Polymers
	Shanghai[4]	Performance Chemicals
		Performance Polymers
		Functional Polymers
	Shenyang[4]	Fine Chemicals
India	Daheij	Styrenics
	Mangalore	Performance Chemicals
		Functional Polymers
	Thane	Styrenics
		Performance Chemicals
		Agricultural Products
Indonesia	Jakarta, Cengkareng	Functional Polymers
		Performance Chemicals
		Fine Chemicals
Japan	Shinshiro	Polyurethanes
	Totsuka	Coatings
	Yokkaichi	Intermediates
		Polyurethanes
		Performance Chemicals
		Functional Polymers
		Fine Chemicals
Korea	Gunsan	Fine Chemicals
	Ulsan	Intermediates
		Styrenics
		Polyurethanes
	Yeosu	Polyurethanes
Malaysia	Kuantan[1,2,4]	Intermediates
		Functional Polymers
		Petrochemicals
	Pasir Gudang[4]	Styrenics
		Performance Polymers
		Performance Chemicals
	Shah Alam[4]	Polyurethanes
		Performance Chemicals

[1] Verbund site
[2] Under construction
[3] Planned
[4] Plant is owned by BASF, land is leased

3. Marketing and Sales

Our operating divisions organize their marketing and sales activities to meet the demands of the markets they serve. Our reorganization has aligned these activities even more closely with the units responsible for business operations – the business units – to make regional marketing efforts even more responsive to local business requirements.

The business units within the **Chemicals** segment generally sell their products in large containers directly to customers, i. e., without involving intermediaries. This involves transporting products in bulk by rail, road and water. Many of the segment's products are commodities, so its marketing expenses are low in comparison with those of other segments.

The products of the **Plastics & Fibers** segment not only include commodities, but also specialty goods or products tailored to a specific customer. Commodities are usually distributed in large quantities with rather low marketing expenses. For specialty and customized products, marketing costs are higher, depending on the application. These products, which tend to be offered in smaller quantities, justify the higher expenses, because they can be sold at higher margins.

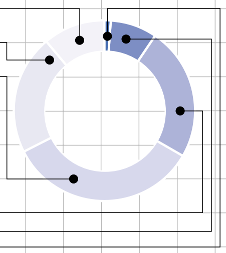
The **Performance Products** segment is characterized by a large number of customized products and delivery quantities. What matters to customers are a product's technical features and its performance. That means sales involves a high service component and thus incurs higher marketing expenses. We maintain technical application facilities in our customers' most important regions.

The **Agricultural Products** division offers a broad spectrum of products in which innovation, product quality and service are the determining factors. Our sales team supports farmers with commercial and technical advice in selecting and applying our products. Sales activities are multilevel and serve both wholesalers and retailers.

In the **Fine Chemicals** division, our specialty products are distributed through a widespread marketing and sales system within our sales regions. This assures a high degree of customer orientation and competency in the animal and human nutrition, cosmetics, aroma chemicals and pharmaceuticals industries.

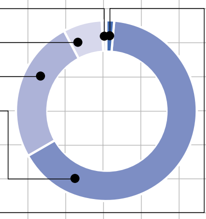
General selling expenses
Million €

Chemicals	569
Plastics & Fibers	1,092
Performance Products	1,761
Agricultural Products & Nutrition	1,226
Oil & Gas	430
Other	66



Sales promotion and product advertising costs
Million €

Chemicals	1
Plastics & Fibers	10
Performance Products	36
Agricultural Products & Nutrition	93
Oil & Gas	2



In the **Oil & Gas** segment, natural gas from Russia and from production sites in the North Sea is sold primarily to German wholesalers through our subsidiaries WINGAS GmbH and Wintershall Erdgas Handelshaus GmbH. We also offer customers transport and storage services. The oil extracted is transported via a system of pipelines, and delivery is normally accepted by our customers at the port of loading. Due to the type of customers and product characteristics, marketing expenses are low.

Compared with 2000, selling expenses, which include not only costs for marketing and advertising but also general selling expenses, declined €643 million, or 11%, to €5,144 million in 2001. Of this amount, approximately €142* million in 2001 was spent on sales promotions and product advertising, compared with €110** million in 2000. The charts above show selling expenses and the cost of sales promotions and product advertising for each segment. Interdivisional and corporate advertising costs were €22* million in 2001, compared with €19 million in 2000.

* Figures based on projections made in October 2001
** Excluding the pharmaceuticals business

Employees

- **Attracting and retaining the best talent**
- **International perspectives and diverse challenges**
- **"Agreement 2003" for socially responsible structural change**
- **Investing in training and continuing education**
- **"plus" program – sharing in the company's success – expanded in 2002**

The BASF Group can be successful in the long run only if it has qualified and motivated employees. As one of the leading chemical companies in the world, we recruit capable employees worldwide. To attract and retain the best talent, we create a working environment in which our employees can perform at their best to make our company successful.

Number of employees

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

Employees by region	2001	% in 2001	% in 2000
Europe	63,339	68.4	66.7
thereof Germany	50,939	55.0	52.6
North America (NAFTA)	14,531	15.7	16.8
South America	5,749	6.2	6.7
Asia, Pacific Area, Africa	8,926	9.7	9.8
Total	**92,545**		

At the end of 2001, BASF employed a workforce of 92,545 including those with limited-term contracts. This constitutes a decline of 10,728 or 10.4% compared with the end of 2000. The sale of our pharmaceuticals business and changes to the scope of consolidation reduced the number of employees by 8,620. In addition, the workforce was reduced by a further 2,108 employees.

In 2001, the number of employees at BASF Aktiengesellschaft, including those with limited-term contracts, declined by 1,763 to 39,354. We recruited 1,788 employees from outside the company. At the end of 2001, 2,523 young people were being trained at the company.

"Agreement 2003" for the Ludwigshafen site was signed by site management and employee representatives and is in effect through the end of 2003. This agreement ensures that job reductions made necessary by structural changes are achieved in a socially responsible way. Incentives for voluntary redundancy, such as short-term contracts for those approaching retirement (6,085 contracts were signed as of December 31, 2001), incentive measures for part-time work, training programs and increased internal job market flexibility will all help to reduce the workforce without forced layoffs, and yet simultaneously permit the hiring of new employees.

Trends in personnel costs

Personnel costs declined by €568 million to €6,028 million, but the decline is only slight if changes to the scope of consolidation and divestitures are accounted for. Personnel costs can be broken down as follows:

Personnel costs Million €	2001	Change in %
Wages and salaries	4,858	–8.5
Social security contributions and expenses for pensions and		
assistance	1,170	–9.2
thereof for pension benefits	372	–7.2
Total	**6,028**	**–8.6**

Close cooperation with labor unions and employees' representatives

The working relationship between management at BASF Group companies and employees' representatives is based on the principles of trust, mutual respect and open dialogue, as is explicitly stated in our corporate Values. Our cooperation is based on internationally recognized labor standards and oriented toward the customs of countries in which we operate.

Investing in training and continuing education

As an innovative company, we encourage our employees to take a positive approach to learning. In 2001, in Germany alone, we invested €30.9 million on training for 69,947 employees. In 2001, we invested approximately €77.6 million on apprentices in Germany. At the end of the year, there were 3,026 apprentices at Group companies in Germany – some 6.5% fewer than in 2000.

Sharing in the company's success

In 2001, about 30% of all employees at BASF Aktiengesellschaft and BASF companies in Germany took advantage of the "plus" program launched in 1999, and invested part of their annual bonus in BASF shares. For every 10 shares an employee purchases, the company awards up to five additional shares during a 10-year period. A number of BASF companies in other European countries, BASF Corporation in the United States and BASF in Mexico also offered their employees shares in 2001. Expansion of the program in 2002 to additional Group companies is being considered.

The "plus" program is being expanded for employees of BASF Aktiengesellschaft in 2002: For the first 10 shares purchased each year, they will receive up to 10 additional shares from the company at no cost. Additionally, all permanent employees will receive a one-time award of five free shares (lock-up period 10 years). The company plans to extend the program step-by-step beyond BASF Aktiengesellschaft.

Employees at BASF Aktiengesellschaft also participate in the company's success through the company's voluntary bonus program, which is based on BASF's return on assets.

Since April 1999, around 1,200 senior executives in the BASF Group have been able to participate in a stock option program, which links their compensation to the long-term performance of our shares. In 2001, approximately 75% of those eligible worldwide participated and invested 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.

Sustainable Development

- **Vision 2010 lays down economic, environmental and social values**
- **Sustainable Development integrated in day-to-day activities**
- **Eggert Voscherau heads Sustainability Council**
- **BASF ranked industry leader in the Dow Jones Sustainability World Index**
- **Environmental protection measures strengthened**

1. Sustainable Development as a Management Responsibility

Last year, BASF established a Sustainability Council of seven division presidents headed by Board member and Industrial Relations Director Eggert Voscherau. The key task of this body is to anchor the principle of Sustainable Development even more firmly in the company and develop strategies for its implementation.

To implement sustainability strategies, the Sustainability Council has an international steering committee at its disposal, whose members reflect the range and diversity of the BASF Group and the significance of the topic: Ten senior executives from various regions and disciplines plan and oversee strategy implementation. The integration of the three key areas of sustainability – economy, ecology and society – and the worldwide harmonization of all measures play a central role.

Several project teams made up of employees from operating units liaise with and report to the steering committee. Their tasks include drawing up quantifiable indicators, developing and monitoring environmental and social standards, and expanding our sustainability reporting. Project team members remain in their operating units, which guarantees that all measures undertaken are geared to BASF's day-to-day business. This is how we create realistic guidelines for a targeted way forward that is tailored to conditions at BASF's sites.

The recently established Sustainability Center in BASF's Corporate Department Communications is the central coordinating body between the Sustainability Council, the international steering committee, the project teams, operating units and sites. Along with coordinating the various in-house projects and teams, the Sustainability Center is also responsible for external coordination, for example with environmental groups. In this way, we maintain contacts with industry associations and initiatives such as the U.N.'s Global Compact.

In 2001, BASF's shares were included in all leading sustainability indexes and the company is rated industry leader in the Dow Jones Sustainability World Index. These successes are in recognition of our commitment to Sustainable Development.

This commitment is also reflected in our reporting: In our reports Environment, Safety, Health and Social Responsibility and in our Annual Report, we give a detailed account of the environmental, social and economic aspects of our activities.

2. Environmental Dimension

BASF has set itself the goal of continuously reducing the impact of its products on mankind and the environment during their production, storage, transportation, sale, use and disposal.

As a multinational company, BASF is subject to numerous national and local environmental laws and regulations that are becoming increasingly strict. These laws and regulations govern, among other things, the handling, manufacture, transport and disposal of materials as well as the discharge of pollutants into the environment, practices and procedures applicable to construction and operation of sites, and the restoration and preservation of natural resources. In Germany alone, some 3,000 laws regarding the environment, safety and health affect BASF's operations.

BASF's operating costs for environmental protection totaled approximately €765 million in 2001. These costs are recurring or one-time costs associated with sites or measures that are incurred in the avoidance, reduction or elimination of deleterious effects on the environment. They include the costs of centralized disposal sites, such as wastewater treatment plants, as well as decentralized sites, such as residue incinerators. They also comprise different levies such as effluent levies, water levies, costs for disposal services by third parties, monitoring, analysis and surveillance carried out by mobile and stationary measuring as well as research and development costs for reducing the incidence of residues. BASF also spent approximately €176 million in 2001 on capital expenditures for new and improved pollution control units and equipment.

BASF also incurs costs to remediate the impact of the current and prior disposal or release of chemicals or petroleum substances or waste, both at its own sites and at third-party sites to which BASF has sent waste for disposal. Worldwide, BASF had established provisions of €309 million for anticipated investigation and clean-up costs at such sites as of December 31, 2001, and €269 million as of December 31, 2000.

BASF has established and continues to establish provisions for expected environmental remediation liabilities. BASF does not establish provisions for potential, but not confirmed, soil contamination at sites which are still under operation unless otherwise required by law. Generally, investigations into potential contamination and subsequent cleanup are only required when a site is closed and the existing production facilities dismantled. BASF cannot at this time accurately determine the ultimate potential liability for investigation and cleanup at sites which are still in operation. Taking into account BASF's experience to date regarding environmental matters and facts currently known, BASF believes that capital expenditures and remedial actions necessary to comply with existing laws and conditions governing environmental protection will not have a material effect on BASF's consolidated financial condition or results of operations.

In recent years, the operations of all chemical companies have become subject to increasingly stringent and complex legislation and regulations related to occupational safety and health, product registration and environmental protection. It is therefore feasible that future changes in laws or regulations might require BASF to install additional controls for certain of its emission sources, to undertake changes in its manufacturing processes or to investigate possible soil or groundwater contamination and remediate proven contamination at sites where such cleanup is not currently required.

3. Social Dimension

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

In essence, the social dimension of Sustainable Development involves achieving a good relationship with employees and neighboring communities and working fairly with customers and suppliers.

We consider our employees to be a key to our success. Our pay and benefits are based on local market conditions and on individual as well as company performance. We promote skills and training and have an open attitude toward flexible working hours and modern forms of work. Information on numbers of employees and on training can be found on page 78 ff.

We want our sites to become part of the community. We want to be accepted as a Good Corporate Citizen and as a reliable partner that acts responsibly and is an attractive employer. With our economic activities and our sponsorship of specific humanitarian, social and cultural events, we contribute to the positive development of society.

We firmly reject all forms of forced and compulsory labor and child labor. We respect human rights and do not accept any form of discrimination.

We treat our competitors, suppliers and customers fairly. We respect the laws and good business practices of the countries in which we operate. BASF does not tolerate any violations. We have clearly defined the limits of our business activities: We do not supply any products for the purpose of producing illegal substances or chemical weapons and we are not involved in manipulating the human genome.

We communicate in an open and objective manner. We take the opinions of others seriously and encourage a constructive dialogue. Basic communication requirements that are valid worldwide ensure openness and transparency at all production sites. Our understanding of openness also means that we inform our neighbors quickly, honestly and comprehensively about possible danger in the event of a plant malfunction. Our goal is to increase society's trust in what we do, since this is an important precondition for our success.

Organization of the BASF Group

1. Corporate Governance

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

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

In accordance with statutory regulations, the Board of Executive Directors reports to the Supervisory Board regularly, comprehensively and in a timely manner on all material matters concerning the company with regard to strategic planning, business development, risk issues and risk management, 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 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 and, in accordance with the German Codetermination Act, is composed in equal numbers of shareholder representatives as elected by the Annual Meeting and employee representatives. Supervisory Board resolutions require a simple majority. In the event 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.

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.

In order to guarantee a high standard of corporate governance, we have published Vision 2010, Values and Principles of BASF Group, and the Code of Conduct/Compliance Program. These lay down our business principles and guidelines for the conduct for all activities within BASF Group, and are binding for all employees of BASF Group. The Code of Conduct sets out the conduct we expect from BASF employees – based on the principle of integrity. Key areas include observing all (in particular, antitrust and competition legislation, sanctions and export controls – including those on chemical weapons –, labor laws and legislation relating to plant safety), bans on insider dealing, providing or receiving bribes from business partners or state officials, and treating BASF's assets responsibly. Compliance is monitored on a regular basis by our Corporate Audit department. Vision 2010, Values and Principles of BASF Group is available on our homepage at www.basf.de/en/corporate/overview.

2. BASF Group Risk Management System

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

Risk management organization and processes
BASF's risk management is based on three interrelated systems that are continually updated to adapt to changing operating conditions:

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

Internal monitoring system:
The Group's Corporate Audit department – which reports to the Board of Executive Directors – is active throughout BASF Aktiengesellschaft and the BASF Group. The Corporate Audit department checks:
– adherence to directives, guidelines, approval limits and fair trade regulations;
– asset security and the attainment of an appropriate rate of return on invested capital;
– organization and processes for their efficiency, effectiveness and propriety;
– the functionality and reliability of the risk management system; and
– the reliability of reporting under it.

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

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

Responsibilities of the corporate division Finance include management of the structure of the BASF Group companies' stockholders' equity, safeguarding the Group's creditworthiness by aggregating the credit risks of member companies, assuring adequate financing capacity in the Group, and supporting the Board of Executive Directors and the operating divisions in decision-making regarding the optimization of the portfolio through acquisitions and divestitures. BASF Aktiengesellschaft handles hedging of financial risks on a centralized basis through the selective use of financial derivatives. Centralized execution and controlling, combined with up-to-date reporting, guarantees efficient risk management, particularly in this sensitive area.

The major responsibility of the corporate division Planning & Controlling for risk controlling at the Group level is to ensure that risk management communications are in place and that continued development of risk management takes place in all operative units, corporate divisions and functional divisions worldwide. Other important measures include coordinating Group-wide identification of all risks significant to BASF, systematically evaluating them according to uniform standards, and aggregating them in a risk portfolio. The overall risk situation of the BASF Group is then determined on the basis of this information.

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

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

Early warning system:
Our early warning system is intended to ensure that, on a continuous basis, risks and dangers – in particular those that could pose a threat to the company's existence – are identified in good time, and that the responsible decision-makers are informed so that countermeasures can be taken. This early warning system identifies typical risk areas for BASF that are monitored continuously or on an ad hoc basis with the help of key data and indicators. Our early identification system BASIKS (BASF Information and Communication System) enables all relevant changes in industry and society that are communicated through the press and other media to be identified and monitored by employees who are specialists in their fields.

Risk analysis and evaluation
Risks are quantified and categorized according to the probability of their occurrence and the level of loss to be expected. The individual operative units measure the loss potential of the risks identified in terms of the effect on sales and income from operations of a given division. Risk management and reduction measures are specified and updated continuously. Consequently, the remaining operative risks can be identified more clearly so that we can capitalize on the opportunities associated with these risks.

3. Corporate Legal Structure and Branch Office Report

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

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

The BASF Group Consolidated Financial Statements include BASF Aktiengesellschaft, 142 fully consolidated subsidiaries and 11 joint ventures conducted jointly with partners that are consolidated on a proportional basis. In addition, four major associated companies, in which we have a 20 to 50% interest, as well as 24 affiliated companies are reported in the financial result using the equity method (see Note 1 to the Consolidated Financial Statements for further information on the scope of consolidation). In this way, we account for 98% of BASF's sales and earnings.

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

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

	Stockholders' equity Million €	Net income Million €	Employees
BASF Corporation* , Mount Olive, New Jersey	3,096.8	(596.8)	13,974
BASF Antwerpen N.V., Antwerp, Belgium	1,351.7	39.5	3,665
Wintershall AG, Kassel, Germany	1,733.4	**	1,176
BASF Coatings AG, Münster-Hiltrup, Germany	316.3	16.4	2,515
Elastogran GmbH*, Lemförde, Germany	174.3	132.6	1,384
BASF Schwarzheide GmbH, Schwarzheide, Germany	209.1	**	2,210
BASF Española S.A., Tarragona, Spain	214.1	3.6	1,073
BASF S.A.*, São Bernardo do Campo, Brazil	372.7	(115.3)	4,267

* Including consolidated participations

** Profit and loss transfer agreement

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

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

4. Management and Supervisory Boards

Board of Executive Directors

Until December 31, 2001, BASF's Board of Executive Directors consisted of eight members in 2001. Since January 1, 2002, An additional member, Klaus Peter Löbbe, joined the Board with effect from January 1, 2002. He was appointed by the Supervisory Board on December 14, 2001. The Chairman of the Board of Executive Directors is Dr. Jürgen F. Strube; Max Dietrich Kley is the Deputy Chairman.

The following table lists the members of the Board of Executive Directors, their responsibilities, the year in which they were first appointed to the Board, the year in which their term expires and their memberships on statutorily constituted Supervisory Boards and similar controlling bodies of German and non-German companies.

Dr. Jürgen F. Strube, Chairman

Responsibilities:	Legal; Taxes & Insurance; Planning & Controlling; Executive Management and Development; Corporate Communication
First appointed:	1985 (Chairman since 1990)
Term expires:	2003
Memberships:	Supervisory board memberships (not including internal memberships)
	Allianz Lebensversicherungs-AG (Supervisory Board member)
	Bertelsmann AG (Supervisory Board member)
	Bayerische Motoren Werke Aktiengesellschaft (Supervisory Board member)
	Commerzbank AG (Supervisory Board member)
	Hapag-Lloyd AG (Supervisory Board member)
	Hochtief AG (Supervisory Board member)
	Linde AG (Supervisory Board member)

Max Dietrich Kley, Deputy Chairman

Responsibilities:	Finance; Oil & Gas; Raw Materials Purchasing; Eastern Europe, Africa, West Asia; Investor Relations; Corporate Audit
First appointed:	1990
Term expires:	2003
Memberships:	Supervisory board memberships (not including internal memberships)
	Bayerische Hypo- und Vereinsbank AG (Supervisory Board member)
	Gerling-Konzern Speziale Kreditversicherungs-Aktiengesellschaft (Supervisory Board member)
	RWE Plus AG (Supervisory Board member)
	Comparable German and non-German controlling bodies
	Basell N.V. (Supervisory Board Deputy Chairman)
	Landesbank Rheinland-Pfalz (Administrative Council member)
	Siberian-Urals Oil and Gas Chemical Co. (SIBUR) (Supervisory Board member)
	Internal memberships as defined in Section 100 (2) of the German Stock Corporation Act
	BASF Coatings AG (Supervisory Board chairman)
	Wintershall AG (Supervisory Board chairman)

Helmut Becks

Responsibilities:	Corporate Engineering; Asia
First appointed:	1996
Term expires:	2006
Memberships:	Supervisory board memberships (not including internal memberships)
	Hannoversche Lebensversicherung a.G. (Supervisory Board member)

Dr. John Feldmann

Responsibilities:	Styrenics; Performance Polymers; Polyurethanes; Polymer Research
First appointed:	2000
Term expires:	2004
Memberships:	Comparable German and non-German controlling bodies
	Basell N. V. (Supervisory Board member)
	Internal memberships as defined in Section 100 (2) of the German Stock Corporation Act
	Wintershall AG (Supervisory Board member)

Dr. Jürgen Hambrecht

Responsibilities: Petrochemicals; Inorganics; Intermediates; Research & Engineering Chemicals; BASF Schwarzheide; BASF Antwerpen

First appointed: 1997

Term expires: 2007

Memberships: Supervisory board memberships (not including internal memberships)

- Bilfinger Berger AG (Supervisory Board member)

Comparable German and non-German controlling bodies

- Basell N.V. (Supervisory Board member)

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

- BASF Antwerpen N.V. (Administrative Council Chairman)
- BASF Schwarzheide GmbH (Supervisory Board Chairman)
- Wintershall AG (Supervisory Board member)

Klaus Peter Löbbe

Responsibilities: Coatings; North America (NAFTA)

First appointed: 2002 (start of term)

Term expires: 2006

Memberships: Internal memberships as defined in Paragraph 100, Section 2 of the German Stock Corporation Act

- BASF Coatings S.A., Guadalajara, Spain
- BASF Coatings S.A., Clermont-Ferrand, France

Dr. Stefan Marcinowski

Responsibilities: Research Executive Director; Functional Polymers; Performance Chemicals; South America; University Relations & Research Planning

First appointed: 1997

Term expires: 2007

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

- BASF Coatings AG (Supervisory Board member)

Peter Oakley

Responsibilities: Agricultural Products; Fine Chemicals; Specialty Chemicals Research; BASF Plant Science

First appointed: 1998

Term expires: 2003

Eggert Voscherau

Responsibilities: Industrial Relations Director; Logistics & Information Services; Human Resources; Environment, Safety & Energy; BASF Aktiengesellschaft Works Engineering; Occupational Medicine & Health Protection; Europe

First appointed: 1996

Term expires: 2006

Memberships: Supervisory board memberships (not including internal memberships)

- Dresdner Bank Lateinamerika AG (Supervisory Board member)

HDI Haftpflichtverband der Deutschen Industrie Versicherungsverein auf Gegenseitigkeit (German Industry Liability Association) (Supervisory Board member)

Supervisory Board

With the exception of Arthur L. Kelly, all current shareholder representatives on the Supervisory Board were elected by shareholders at BASF Aktiengesellschaft's Annual Meeting on May 19, 1998. Kelly was appointed by the district court of Ludwigshafen, Germany, on December 7, 2000 as a replacement for Dr. Marcus Bierich. The employee representatives were also elected in 1998 in accordance with the German Codetermination Act. As a deviation from this process, Robert Oswald was appointed by the district court of Ludwigshafen effective October 1, 2000 as a replacement for Günter Klein. The current term of all members of the Supervisory Board expires at the end of the Annual Meeting in 2003.

The following table lists the members of the Supervisory Board, their principal occupation and their memberships on statutorily constituted Supervisory Boards and similar controlling bodies of German and non-German companies.

Professor Dr. Ing. E.h., Dipl.-Ing. Berthold Leibinger, Ditzingen
Chairman
Managing Director of TRUMPF GmbH + Co. KG
Supervisory board memberships (not including internal memberships)
- Deutsche Bank AG (Supervisory Board member)

Comparable German and non-German controlling bodies
- HSBC Trinkaus & Burkhardt KGaA (Administrative Council member)

Volker Obenauer, Ludwigshafen am Rhein
Deputy Chairman
Chairman of the works council of BASF Group

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

Etienne Graf Davignon, Brussels
President of Société Générale de Belgique
Comparable German and non-German controlling bodies
- ACCOR S. A. (Administrative Council Deputy Chairman)
- ARBED S. A. (Administrative Council Deputy Chairman)
- COMPAGNIE INTERNATIONALE DES WAGONS-LITS ET DU TOURISME S.A. (Administrative Council Chairman)
- FORTIS AG (Administrative Council Deputy Chairman)
- SIBEKA S.A. (Administrative Council Deputy Chairman)
- Suez-Lyonnaise des Eaux S.A. (Supervisory Board member)
- TotalFinaElf S.A. (Administrative Council Deputy Chairman)
- TRACTEBEL S.A. (Administrative Council Deputy Chairman)
- UNION MINIERE S.A. (Administrative Council Deputy Chairman)

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

Dr. jur. Tessen von Heydebreck, Frankfurt (Main)
Member of the Board of Executive Directors of Deutsche Bank AG
Supervisory board memberships (not including internal memberships)
- BVV Versicherungsverein des Bankgewerbes a. G. (Supervisory Board member)
- Dürr AG (Supervisory Board member)
- Gruner + Jahr AG (Supervisory Board member)
- Nestlé Deutschland AG (Supervisory Board member)

Comparable German and non-German controlling bodies
- Deutsche Ausgleichsbank (Administrative Council member)
- EFG Eurobank S.A., Athens (Supervisory Board member)

Internal memberships as defined in Section 100 (2) of the German Stock Corporation Act
- Deutsche Bank 24 AG (Supervisory Board member)
- Deutsche Bank 000, Moscow (Supervisory Board Chairman)
- Deutsche Bank Polska S.A. (Supervisory Board Chairman)
- Deutsche Bank Rt., Hungary (Supervisory Board Chairman)
- Deutsche Bank Suisse S.A. (Administrative Council member)
- DWS Investment GmbH (Supervisory Board member)
- Versicherungsholding der Deutschen Bank AG (Supervisory Board Chairman)

Dr. rer. nat. Wolfgang Jentzsch, Mannheim

Arthur L. Kelly, Chicago
Chief Executive Officer of KEL Enterprises L.P.
Supervisory board memberships (not including internal memberships)
- Bayerische Motoren Werke Aktiengesellschaft (Supervisory Board member)

Comparable German and non-German controlling bodies
- Deere & Co. (member of the Board of Directors)
- HSBC Trinkaus & Burkhardt KGaA (Administrative Council member)
- Northern Trust Corp. (member of the Board of Directors)
- Snap-on Inc. (member of the Board of Directors)

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

Ulrich Küppers, Ludwigshafen am Rhein
Manager of the Ludwigshafen branch of the Mining, Chemical and Energy Industries Union
(Industriegewerkschaft Bergbau, Chemie, Energie)
Supervisory board memberships (not including internal memberships)
- Güterverkehrszentrum Entwicklungsgesellschaft Ludwigshafen am Rhein mbH (Supervisory Board member)
- Rhein-Haardtbahn GmbH (Supervisory Board member)
- Technische Werke Ludwigshafen AG (Supervisory Board member)
- Verkehrsbetriebe Ludwigshafen GmbH (Supervisory Board member)

Konrad Manteuffel, Bensheim
Member of the works council of the Ludwigshafen site of BASF Aktiengesellschaft
Supervisory board memberships (not including internal memberships)
- BASF Pensionskasse VVaG (Supervisory Board Deputy Chairman)

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

Robert Oswald, Altrip
Chairman of the works council of the Ludwigshafen site of BASF Aktiengesellschaft

Ellen Schneider, Wallenhorst
Chairwoman of the joint works council of Elastogran GmbH

Dr. Ing. Hermann Scholl, Stuttgart
Managing Director of Robert Bosch GmbH
Supervisory board memberships (not including internal memberships)
- Allianz AG (Supervisory Board member)

Internal memberships as defined in Section 100 (2) of the German Stock Corporation Act
- Robert Bosch Internationale Beteiligungen AG, Zurich (Administrative Council member)

Dr. jur. Henning Schulte-Noelle, Munich
Chairman of the Board of Executive Directors of Allianz AG
Supervisory board memberships (not including internal memberships)
- E.ON AG (Supervisory Board member)
- Linde AG (Supervisory Board Deputy Chairman)
- Münchener Rückversicherungsgesellschaft AG (Supervisory Board Deputy Chairman)
- Siemens AG (Supervisory Board member)
- ThyssenKrupp AG (Supervisory Board member)

Comparable German and non-German controlling bodies
- Assurances Générales de France (Administrative Council Vice President)
- Riunione Adriatica di Sicurtà (Administrative Council Vice President)

Internal memberships as defined in Section 100 (2) of the German Stock Corporation Act
- Allianz Versicherungs-AG (Supervisory Board Chairman)
- Allianz Lebensversicherungs-AG (Supervisory Board Chairman)
- Dresdner Bank AG (Supervisory Board Chairman)

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

Jürgen Walter, Neustadt am Rübenberge
Member of the Central Board of Executive Directors of the Mining, Chemical and Energy Industries Union (Industriegewerkschaft Bergbau, Chemie, Energie)
- Supervisory board memberships (not including internal memberships)
- BASF Schwarzheide GmbH (Supervisory Board Deputy Chairman)
- Henkel KGaA (Supervisory Board member)
- Ruhrfestspiele GmbH (Supervisory Board member)
- RWE-Umwelt AG (Supervisory Board member)
- Trienekens AG (Supervisory Board member)

Helmut Werner, Stuttgart
Managing Director of Helmut Werner GmbH
Supervisory board memberships (not including internal memberships)
- Ernst & Young Deutsche Allgemeine Treuhand AG Wirtschaftsprüfungsgesellschaft (Supervisory Board Deputy Chairman)
- F-LOG GmbH (Supervisory Board Chairman)
- Gerling-Konzern Versicherungsbeteiligungs AG (Supervisory Board member)
- mg technologies ag (Supervisory Board Chairman)

Comparable German and non-German controlling bodies
- Aktiebolaget SKF (Supervisory Board member)
- Alcatel S.A., Paris (Supervisory Board member)

Gerhard Zibell, Gau-Odernheim
Regional manager of the Mining, Chemical and Energy Industries Union (Industriegewerkschaft Bergbau, Chemie, Energie) Rhineland-Palatinate/Saarland region
Supervisory board memberships (not including internal memberships)
- RAG Saarberg AG (Supervisory Board Deputy Chairman)
- Villeroy & Boch AG (Supervisory Board member)

Compensation of directors and officers

For the year ended December 31, 2001, the aggregate amount of compensation paid to the members of the Board of Executive Directors was €9.3 million. Of this amount, €3.9 was accounted for by fixed annual payments and €5.4 million by variable performance related bonuses. The main criterion used to determine the size of performance related bonuses is the return on assets, which corresponds to income from ordinary operations plus interest expenses, as a percentage of average assets. Additionally, in 2001, the members of the Board of Executive Directors were granted 137,060 stock options with a market value of €35.91 per option (effective date: April 27, 2001), or €4.9 million in total (see also Notes 12 and 27 to the Consolidated Financial Statements).

The compensation of the Supervisory Board is defined in the Articles of Association of BASF Aktiengesellschaft. Pursuant thereto, each member of the Supervisory Board is reimbursed for the past year for out-of-pocket expenses and for value added tax to be paid with regard to the Board membership. In addition, he or she receives a fixed annual payment of €5,000 and a variable performance-related bonus amounting to €1,750 for each percentage point that aggregate dividends paid to shareholders in a given year exceed 4% of BASF Aktiengesellschaft's share capital. For the year ended December 31, 2001, this will be 47 percentage points on the basis of the proposal for appropriation of profit that will be submitted to the Annual Meeting on April 30, 2002. The chairman of the Supervisory Board receives a payment of twice and the deputy chairman a payment of 1.5 times this amount. For the year ended December 31, 2001, the total compensation paid to members of the Supervisory Board amounted to €2.0 million.

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

No member of the Board of Executive Directors or the Supervisory Board owns shares in BASF Aktiengesellschaft that account 1% or more of the share capital.

Future Development

1. Risk Management Report

Overall risk

Significant risks to the BASF Group are outlined in a risk portfolio. At the present time and in the foreseeable future there are no individual risks that pose a threat to the company's existence. Nor do the aggregate risks threaten the ongoing existence of the BASF Group. Our auditors examine the functioning and effectiveness of our risk management system (see page 85 ff., "BASF Group Risk Management System"), as well as its development and integration into business processes. The system is also subject to examination by our independent auditors and in continuous internal audits.

Rating agencies categorize our credit quality as follows:

	Short term	Long term
Moody's	P-1	Aa3
Standard & Poor's	A1+	AA-

BASF enjoys Standard & Poor's and Moody's best short-term ratings. Its very good long-term rating (Aa3, AA-) reflects the company's financial strength. Both rating agencies confirmed BASF's rating category in 2001, describing both the short and long-term outlook as "unchanged."

Economic risk

Continued weak demand for chemical products in the United States, as well as ongoing economic weakness in Europe and Asia would have an adverse effect on both sales and earnings in many of BASF's fields of operation, especially in basic inorganic chemicals, petrochemicals, intermediates and plastics. Less severe effects would, however, likely be felt in products for the agricultural, nutrition and cosmetics industries and in natural gas trading.

Industry and regulatory risks

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

Financial risks

Our business operations are exposed to foreign currency, interest rate and commodity price risks, which are hedged in accordance with a strategy that is determined centrally and uses derivative instruments such as forward exchange contracts, currency options, interest rate and currency swaps or combined instruments. Hedging is used only to offset already existing underlying transactions arising from the operating business, cash investments and financing. The leverage effect that can be achieved with derivatives is deliberately not used. See Note 28 to the Consolidated Financial Statements for complete information regarding the face value and market values of financial instruments. Concentrating financial risks centrally enables risks to be spread across the various companies of the Group and facilitates efficient supervision. In addition, the principle of separation of functions can be effectively implemented in a centralized manner. Both the risks arising from changes in exchange rates and interest rates and the derivative transactions entered into to hedge these risks are monitored constantly, as are market movements in derivative instruments used as substitutes for original financial instruments. Credit risks are also present, in that the counterparty may not be able to perform its contract obligations. This risk of default is limited by engaging in such transactions only with top-rated financial institutions and by adhering to fixed limits.

Supply risks

Availability of raw materials, energy, precursors and intermediates presents a not insignificant risk for BASF, which is intensified by substantial price fluctuations, especially for commodities. To control these price and supply risks, we use long-term supply contracts, as well as optimized procedures for the purchase of additional quantities of raw materials on the spot market. Purchase agreements for the most strategically important raw materials are negotiated and concluded centrally for the BASF Group. (For more information, see page 67 ff., “Procurement, Production and Distribution.”) Individual business units constantly monitor changes in their relevant supply markets and take action to minimize their risks accordingly. If our raw material costs rise in spite of these measures, it is not always possible to readily pass the full effect of these increases on in the prices for our products, and this can have a negative impact on earnings. As part of our research and development efforts, we are working on new technologies that will address risks relating to the availability of basic raw materials in a timely manner. For example, LPG (liquefied petroleum gas), an inevitable by-product of natural gas processing, could become an attractive raw material for our value-adding chains.

Market risks

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

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

Sales volumes for our crop protection products are affected by the seasonal nature of the market – with sales being concentrated in the first half of the year – and by the weather. Demand for crop protection products is further influenced by the agricultural policies of governments and multinational organizations. The typically long periods allowed for payment in this industry can lead to losses from receivables during local or regional economic crises. The increased marketing and sale of products in combination with genetically-modified seeds could have an adverse effect on the development of our business, especially given that prices for agricultural produce are declining generally, making prices for crop protection products a more significant competitive factor for our customers. We are responding with innovative products and solutions that create value for our customers.

Risks arising from acquisitions and investment decisions
Decisions regarding acquisitions and investments in large-scale projects represent a particularly challenging set of risks, since there are always uncertainties underlying such decisions. The preparation and follow-up involved with such decisions are based on specified responsibility parameters and on approval procedures that bring together the technical knowledge of all relevant units in various committees.

There are certain risks involved in planning the time schedule for investment projects to assure a trouble-free interlinking of each of the stages in the process. These risks can be addressed through specific risk-reduction measures such as joint ventures, detailed contracts relating to specific projects and progress reports, through which projects can be reviewed on an ongoing basis.

Other risks

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

Prospective candidates for technical and management positions:
We are increasingly competing with other companies for highly qualified technical and management personnel. Our employees' performance is essential to the growth and development of the BASF Group. To maintain and increase their motivation, we promote entrepreneurship within the organization. To do this we offer them attractive assignments, a

variety of international development perspectives, a broad spectrum of advanced training and continuing education opportunities, performance-based compensation and progressive benefits. Part of this compensation is a broad-based program that allows employees to share in the company's assets. We have also put in place a sophisticated stock option plan for senior executives in the BASF Group. Of the 1,200 employees who are eligible, over three-quarters already take part.

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

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

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

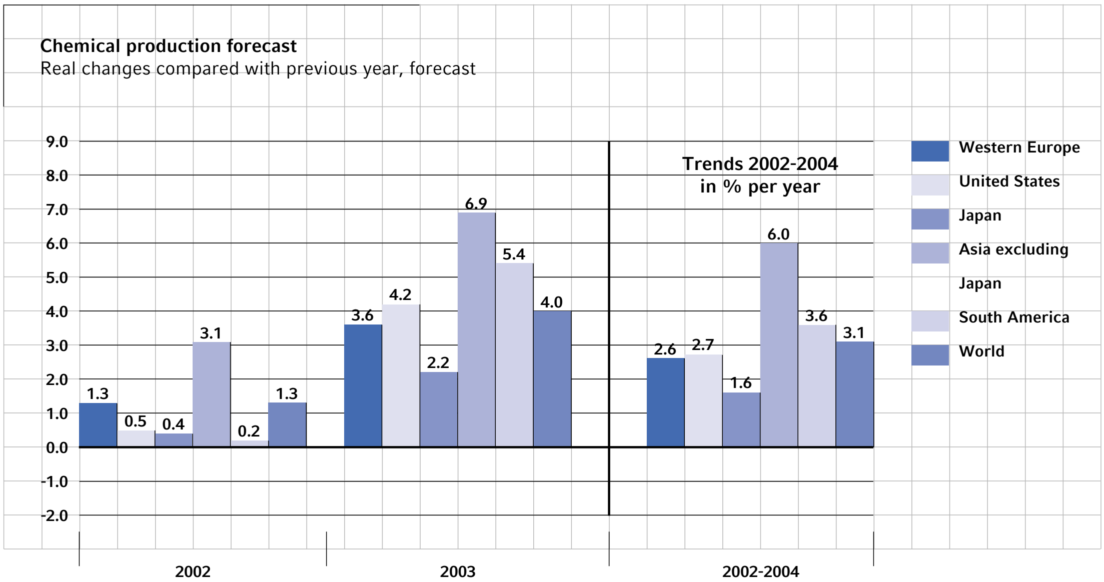
2. Forecast

We have based our business planning on the following scenario:

Economic trends
Our forecasts are based on the assumption that the struggle against terrorism will not lead to a greater military-political escalation, and that no serious disruptions will affect the oil markets. We anticipate an average oil price of $17/barrel in 2002. Based on these assumptions, we expect the global economy to turn around in the second half of 2002 and grow moderately. The global recovery process should accelerate during 2003.

A decisive factor in overcoming the slowdown in the global economy is a substantial improvement in the economy of the **United States**. The restraining effect of the inventory cycle is gradually receding and the impact of expansive monetary and fiscal policies is being felt. Real gross domestic product (GDP) is expected to grow by 1.5% in 2002. Growth in real GDP is expected to rise in 2003. We anticipate an annual growth rate of 2.7% in gross domestic product in the medium term.

Early signs indicate that the weak economic environment in **Western Europe** will continue into the first half of 2002. However, we expect to see a marked increase in economic activity during the second half of the year. However, due to its low level at the beginning of the year, the real gross domestic product is likely to rise at only about the same rate as in 2001,



or 1.5% on average. The brisker pace of economic activity, low real interest rates and a positive trend in the inventory cycle should all contribute to further improvement in economic growth in 2003. We estimate the medium-term growth rate at 2.3% per year.

In **Japan,** the recession is not expected to be overcome in 2002. Restructuring in the corporate and banking sectors and consolidation of public finances will take several years.

Economic activity in most countries in **Southeast Asia** will not likely pick up again until the second half of 2002. Exports will be the primary drivers of growth. We anticipate GDP growth rates of over 6% in 2003, as domestic demand rises and the economic recovery gains strength.

Most of the countries in **South America** will find themselves on a moderate growth path again in the course of 2003. In view of its serious problems, however, we do not expect Argentina's economy to experience any recovery in 2003. In the coming years we do expect more favorable economic conditions and continuing capital inflows leading to opportunities for steady strong growth in South America. Overall, we forecast South America's medium-term GDP growth rate at 2.3% per year.

Trends in the chemical industry

We believe that global chemical production will bottom out in the first quarter of 2002. We expect that the chemical industry, as in the past, will be among the first to participate in the global economic recovery. Renewed activity in the chemical industry will be stimulated first by economic recovery in the United States.

We anticipate that in the **United States,** chemical production will rise starting in the middle of the year, partly in response to the pick-up in economic activity, and also due to positive trends in the inventory cycle. We expect that average chemical production in 2002 will increase by only 0.5%. In 2003 and 2004, the upward trend is forecast to continue at a rapid pace. After a strong 4.2% increase in production in 2003, volume growth will likely level off gradually in the following years. In the medium term, chemical production should expand at an average annual rate of 2.7% from 2002 onward.

Chemical production in **Western Europe** is likewise expected not to gain momentum until the second half of 2002. Impetus will come first from exports, which will be stimulated by an upturn in the economy. For 2002, we are assuming only a slight production gain of 1.3% on average. Production growth should rise to 3.6% in 2003. For the medium term we forecast average annual volume growth of 2.6%.

In **Japan,** no perceptible economic recovery is likely to take place until 2003. The primary stimulus for growth will come from exports. Chemical production is expected to increase in 2002 by only 0.4%; in 2003 we expect a moderate 2.2% rise in production growth. In the medium term, however, Japanese chemical production is only likely to experience an average annual increase of 1.6%.

Chemical production will likely remain depressed during the first half of 2002 in most of the countries of **Southeast Asia,** due to pronounced weakness in exports. A noticeable growth in volumes is expected for the second half of the year, as global economic conditions improve. In 2003/2004 we therefore expect to see a dramatic upturn in the chemical business in the region. In the medium term we anticipate chemical production to grow by 6% per year.

In view of the unstable situation in **South America,** we expect only a limited recovery in the chemical sector during the second half of 2002. A widespread upturn with stronger growth is not anticipated until 2003.

Since the pace of recovery in industrialized countries has been slow, global chemical production is forecast to grow at only a weak 1.3% in 2002. In 2003, production growth should rise to just over 4%. In the medium term, we expect worldwide chemical production to expand at an average annual rate of 3.1%.

Sales forecast

For 2002, we anticipate sales to remain at the level of the previous year, since we only expect our business to pick up slightly in the second half of the year. Experience has shown that our business picks up quickly when there is an upturn in the economy. With a recovery expected in 2003, we anticipate our sales will significantly outpace growth in the market.

We have based our planning for 2002 on an average oil price of $17/barrel. Based on this assumption, sales in our Oil & Gas segment will be considerably lower than in 2001.

In all our other segments, however, we expect sales to climb. While growth is likely to be moderate in the Plastics & Fibers, Performance Products and Agricultural Products & Nutrition segments, we anticipate a significant increase in sales in the Chemicals segment despite the fact that 2002 will remain difficult. In particular, the start-up (at the end of 2001) of our steam cracker in Port Arthur, Texas, which we built with our partner TotalFinaElf, will positively influence this segment.

Earnings forecast

The earnings situation in 2001 was burdened by significant special items. The restructuring measures we have introduced and the plant and site closures provide the basis for the increase in income from operations that we expect. An upturn in economic activity is also expected to contribute to this increase. See page 34 ff. for further information on sales and earnings expectations in the segments and operating divisions.

Although the decrease in oil prices forecast for 2002 will reduce the cost of raw materials for our chemicals activities, we expect a decline in income from operations in the Oil & Gas segment.

Capital expenditures forecast

For 2002, we are planning capital expenditures of €2.2 billion. On a regional basis, this amount is expected to be allocated as follows: Europe 49%; North America (NAFTA) 18%; South America 6%; and Asia, Pacific Area, Africa 27%. See page 60 for further details.

Employees

BASF's employees are a key strategic factor contributing to our success. BASF is aware that the sustainable success of the BASF Group, which is rooted in innovation, can only be achieved through highly qualified, dedicated employees. To attract and retain such employees, we are pursuing the following efforts in 2002:

- Intensifying international recruiting activities and focusing on top international universities with target populations appropriate to BASF.
- Further developing training and continuing education programs and tools to strengthen and expand the qualifications of employees worldwide. This effort includes the use of innovative instruments such as e-learning, which gives our employees the opportunity for flexible, self-paced training. Another important element is the creation of a Marketing and Sales Academy to strengthen the customer and market-orientation of the new European marketing organization.
- Further developing the customer orientation of the international human resources organization in support of business activities in the new regional business units and in the Group companies.

Human resources management at BASF also enhances the efficiency of job performance by ensuring that business processes in Human Resources have the necessary IT support. We will continue our consistent personnel expense management efforts, which includes expanding performance and results-based compensation.

Research and development

Based on our customers' current and future requirements, our research and development activities will constantly renew BASF's products and processes. We use new technologies such as biotechnology to further develop our broad competence in chemistry and to open up new business areas for BASF.

With the goal of continued profitable growth, we want to be even more swift and effective in opening up new business areas and new technologies beyond our existing fields of operation. To this end we founded a new unit, BASF Future Business GmbH, in April 2001. Keys to the success of these efforts will be innovations and system solutions that are relevant to or based on chemistry and are capable of producing above-average growth rates in the medium and long term.

Procurement

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

E-commerce

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

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

In the future, strategic partnerships will also figure prominently in our e-commerce strategy. These partnerships include the following:

Elemica

This is a neutral electronic marketplace for the purchase and sale of chemicals; transactions have been possible since June 2001.

Omnexus.com

Omnexus, in which BASF participates, was started in 2000 as the world's largest e-market for products and services for injection molding applications in the plastics processing industry. This marketplace now has 20 suppliers and 15,000 registered users worldwide. The goals are to rapidly expand both the supplier base and the customer base and to continually improve the functionalities and services.

cc-chemplorer
With more than 1.6 million products, about 200 suppliers and more than 400,000 transactions executed, cc-chemplorer has one of the highest transaction volumes in the world. Europe-wide expansion of the trading platform outside of German-speaking countries is being planned. We use cc-chemplorer to procure technical goods and services.

ChemConnect
ChemConnect operates an electronic marketplace, the World Chemical Exchange, which includes such services as electronic auctions for procurement and sales. We use ChemConnect to purchase chemical raw materials, primarily through spot purchasing.

Environmental issues
For many years, the activities of every chemical company have been subject to increasingly strict and more complex laws and regulations in the areas of environment, safety and health. It is therefore possible that BASF might have to install additional controls for certain emission sources or modify its production processes because of future changes in these laws. Additionally, inspections for possible soil or groundwater contamination and remediation of any contamination found may be necessary at sites where this had not been previously required. The BASF environment management system serves to ensure that we meet these requirements and adhere to the standards of Sustainable Development.

Changes to the Board of Executive Directors
The Supervisory Board of BASF Aktiengesellschaft appointed Klaus Peter Löbbe to the Board of Executive Directors of BASF Aktiengesellschaft with effect from January 1, 2002. The Board of Executive Directors approved the following changes in responsibilities: As of March 1, 2002, Klaus Peter Löbbe assumes responsibility for the newly created Ressort IX, based in Mount Olive, New Jersey. The Coatings division as well as the region North America (NAFTA) will belong to this Ressort. Ressort VII, headed by Peter Oakley, will relocate its headquarters to Ludwigshafen, Germany as of April 1, 2002. Oakley will remain responsible for the Agricultural Products & Nutrition segment (which comprises the Agricultural Products and Fine Chemicals divisions), Specialty Chemicals Research as well as BASF Plant Science GmbH (see page 88 "Management and Supervisory Boards").

3. Supplementary Report

No significant adverse events have occurred between the balance sheet date of December 31, 2001 and the time of publication of the report on February 27, 2002.

The devaluation of the Argentine peso has already been reflected in the Group Consolidated Financial Statements. Should economic conditions in Argentina deteriorate further, any impact on the BASF Group will be reflected in the 2002 financial statements.

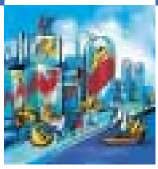
Consolidated Financial Statements

Statement by the Board of Executive Directors

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

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

Max Dietrich Kley
Deputy Chairman of the
Board of Executive Directors



Report of Independent Auditors

We have audited the Consolidated Financial Statements prepared by BASF Aktiengesellschaft as well as the Management's Analysis of BASF Aktiengesellschaft and BASF Group for the business year from January 1 to December 31, 2001. The Board of Executive Directors of BASF Aktiengesellschaft is responsible for preparing the Consolidated Financial Statements and Management's Analysis in accordance with German commercial law. It is our task, on the basis of the audit we have carried out, to give an assessment of the Consolidated Financial Statements and Management's Analysis.

Pursuant to Section 317 of the German Commercial Code, we have audited the Consolidated Financial Statements of BASF Group in accordance with the generally accepted standard of auditing laid down by the German Institute of Auditors. According to these principles, the audit is to be planned and carried out in such a way that inaccuracies and violations are recognized with reasonable certainty that could have a major effect on the view of the net assets, financial position and results of operations conveyed by the Consolidated Financial Statements – taking into consideration generally accepted accounting principles – and Management's Analysis. The determination of the action for this audit takes into account knowledge of the business and BASF's economic and legal environment as well as expectations of possible errors. In the audit, the effectiveness of the internal checking system and proof of the details provided in the Consolidated Financial Statements and Management's Analysis are assessed predominantly on the basis of spot checks. The audit encompasses an assessment of the financial statements of the companies in the Consolidated Financial Statements, a definition of the scope of consolidation, a review of the accounting and consolidation principles employed, the main judgements maid by the Board of Executive Directors, and an appreciation of the overall presentation of the Consolidated Financial Statements and Management's Analysis. In our opinion, we believe that our audit provides a reasonable basis for our assessment.

Our audit has not given rise to any reservations. It is our opinion that these Consolidated Financial Statements, taking into consideration generally accepted accounting principles, convey a true and fair view of the net assets, financial position and results of operations of BASF Group. Management's Analysis of BASF Aktiengesellschaft and BASF Group conveys in all an accurate presentation of the situation of BASF and accurately shows the risks to future development.

Frankfurt, March 1, 2002

Deloitte & Touche GmbH
Wirtschaftsprüfungsgesellschaft

Professor Dr. Emmerich	**Bukowski**
Wirtschaftsprüfer	Wirtschaftsprüfer

BASF Group Consolidated Statements of Income

Consolidated Statements of Income
Year ended December 31

Million €	Explanations in Note	2001	2000
Sales		32,768.0	36,205.1
– Natural gas taxes		268.4	259.4
Sales, net of natural gas taxes	(5)	**32,499.6**	**35,945.7**
Cost of sales		22,187.8	23,255.1
Gross profit on sales		**10,311.8**	**12,690.6**
Selling expenses		5,143.6	5,786.5
General and administrative expenses		659.3	772.0
Research and development expenses		1,247.1	1,525.8
Other operating income	(6)	881.5	1,415.3
Other operating expenses	(7)	2,926.4	2,951.9
Income from operations		**1,216.9**	**3,069.7**
Expense/income from financial assets		(209.3)	(31.0)
Write-downs of, and losses from, retirement of financial assets			
as well as securities held as current assets		22.7	6.8
Interest result		(376.2)	(204.5)
Financial result	(8)	**(608.2)**	**(242.3)**
Income from ordinary activities		**608.7**	**2,827.4**
Extraordinary income	(9)	6,120.8	
Income before taxes and minority interests		**6,729.5**	**2,827.4**
Effect of the change in accounting principles for deferred taxes	(2)	50.6	
Income taxes	(10)	954.5	1,545.0
Income before minority interests		**5,825.6**	**1,282.4**
Minority interests	(11)	(32.6)	42.6
Net income		**5,858.2**	**1,239.8**
Earnings per share (€)		**9.72**	**2.02**

Consolidated Balance Sheets at December 31

Assets Million €	Explanations in Note	2001	2000
Intangible assets	(13)	3,942.7	4,538.2
Property, plant and equipment	(14)	14,189.8	13,640.6
Financial assets	(15)	3,360.7	3,589.7
Fixed assets		**21,493.2**	**21,768.5**
Inventories	(16)	5,006.8	5,211.6
Accounts receivable, trade		5,875.5	6,067.6
Receivables from affiliated companies		631.9	916.9
Miscellaneous receivables and other assets		1,531.7	2,142.2
Receivables and other assets	(17)	**8,039.1**	**9,126.7**
Marketable securities	(18)	382.9	364.1
Cash and cash equivalents		359.9	505.5
Liquid funds		**742.8**	**869.6**
Current assets		**13,788.7**	**15,207.9**
Deferred taxes	(10)	**1,372.5**	**1,270.5**
Prepaid expenses	(19)	**220.6**	**310.3**
Total assets		**36,875.0**	**38,557.2**

Stockholders' equity and liabilities	Explanations in Note	2001	2000
Subscribed capital	(20)	1,493.5	1,554.9
Capital surplus	(20)	2,913.9	2,745.7
Retained earnings	(21)	12,222.4	8,851.1
Currency translation adjustment		532.3	661.8
Minority interests	(22)	359.7	481.3
Stockholders' equity		**17,521.8**	**14,294.8**
Provisions for pensions and similar obligations	(23)	3,952.7	4,228.3
Provisions for taxes		618.7	778.4
Other provisions	(24)	5,569.6	4,536.8
Provisions		**10,141.0**	**9,543.5**
Bonds and other liabilities to capital market	(25)	1,592.5	6,230.5
Liabilities to credit institutions	(25)	1,242.5	1,661.4
Accounts payable, trade		2,467.0	2,848.1
Liabilities to affiliated companies		572.6	391.8
Miscellaneous liabilities	(25)	2,986.2	3,190.1
Liabilities		**8,860.8**	**14,321.9**
Deferred income		**351.4**	**397.0**
Total stockholders' equity and liabilities		**36,875.0**	**38,557.2**

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

Million €	Number of subscribed shares outstanding	Subscribed capital	Capital surplus	Retained earnings	Currency translation adjustment	Minority interests	Total stockholders' equity
As of January 1, 2001	**607,399,370**	**1,554.9**	**2,745.7**	**8,851.1**	**661.8**	**481.3**	**14,294.8**
Issuance of new shares from conditional capital through the exercise of warrants attached to the 1986/2001 3% U.S. Dollar Option Bond of BASF Finance Europe N.V.	6,777,000	17.4	89.4				106.8
Share buy-back and cancellation of own shares including own shares intended to be cancelled	(30,775,000)	(78.8)	78.8	(1,299.5)			(1,299.5)
Dividends paid				(1,214.1)		(52.2)*	(1,266.3)
Net income				5,858.2		(32.6)	5,825.6
(Decrease)/increase of foreign currency translation adjustments					(129.5)		(129.5)
Capital injection by minority interests						68.8	68.8
Changes in scope of consolidation and other changes				26.7		(105.6)	(78.9)
As of December 31, 2001	**583,401,370**	**1,493.5**	**2,913.9**	**12,222.4**	**532.3**	**359.7**	**17,521.8**
As of January 1, 2000	**620,984,640**	**1,589.7**	**2,675.2**	**9,001.7**	**549.3**	**329.3**	**14,145.2**
Issuance of new shares from conditional capital through the exercise of warrants attached to the 1986/2001 3% U.S. Dollar Option Bond of BASF Finance Europe N.V.	2,271,230	5.8	29.9				35.7
Share buy-back and cancellation of own shares	(15,856,500)	(40.6)	40.6	(699.8)			(699.8)
Dividends paid				(694.7)		(52.8)*	(747.5)
Net income				1,239.8		42.6	1,282.4
(Decrease)/increase of foreign currency translation adjustments					112.5	(5.3)	107.2
Capital injection by minority interests						59.5	59.5
Changes in scope of consolidation and other changes				4.1		108.0	112.1
As of December 31, 2000	**607,399,370**	**1,554.9**	**2,745.7**	**8,851.1**	**661.8**	**481.3**	**14,294.8**

* Profit and loss transfers to minority interests

Consolidated Statements of Cash Flows*
Year ended December 31

Million €	2001	2000
Net income (excluding extraordinary income)	(117.6)	1,239.8
Depreciation of fixed assets	2,933.1	2,928.9
Changes in long-term provisions and other non-cash items	352.9	343.8
(Gains) losses from disposal of fixed assets	(74.0)	(373.2)
Changes in inventories	100.3	(676.0)
Changes in receivables	(216.8)	(1,088.4)
Changes in other operating assets and liabilities	(659.2)	617.0
Cash provided by operating activities	**2,318.7**	**2,991.9**
Additions to tangible and intangible fixed assets	(2,810.6)	(2,905.9)
Additions to financial assets and securities	(740.5)	(839.6)
Payments related to acquisitions	(461.3)	(6,117.2)
Proceeds from divestitures	7,503.4	304.9
Proceeds from the disposal of fixed assets and securities	628.6	727.8
Cash used in investing activities	**4,119.6**	**(8,830.0)**
Proceeds from capital increases	175.5	95.3
Share repurchase	(1,299.4)	(699.8)
Proceeds from the addition of financial indebtedness	1,779.5	11,238.9
Repayment of financial indebtedness	(6,071.9)	(4,579.4)
Dividends paid		
to shareholders of BASF Aktiengesellschaft	(1,214.1)	(694.7)
to minority shareholders	(52.2)	(52.8)
Cash used in financing activities	**(6,682.6)**	**5,307.5**
Net change in cash and cash equivalents	**(244.3)**	**(530.6)**
Effects on cash and cash equivalents		
from foreign exchange rates	3.7	27.4
from changes in scope of consolidation	95.0	18.5
Cash and cash equivalents as of beginning of year	**505.5**	**990.2**
Cash and cash equivalents as of end of year	**359.9**	**505.5**
Marketable securities	382.9	364.1
Liquid funds as shown on the balance sheet	**742.8**	**869.6**

* The statements of cash flows are discussed detailed in Management's Analysis "Liquidity and Capital Resources" on page 56 ff.

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

Notes to the BASF Group Consolidated Financial Statements

1. Summary of accounting policies

(a) Basis of presentation

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

(b) Scope of consolidation

The Consolidated Financial Statements include BASF Aktiengesellschaft, the parent company, and all material subsidiaries in which BASF Aktiengesellschaft directly or indirectly exercises a majority of the voting rights or which are otherwise controlled by BASF Aktiengesellschaft (collectively, the "Company"). Furthermore, material 50% joint ventures are included on a proportional consolidation basis, with the exception of the joint venture Basell N. V. of BASF and Shell, which is accounted for using the equity-method. Basell N. V. largely operates independently and is not included in the planning and approval processes of BASF. Subsidiaries and joint ventures whose impact on the net worth, financial position and results of the Company is individually and in the aggregate immaterial, are excluded from the scope of consolidation.

	2001	2000
Consolidated companies as of January 1	170	150
thereof proportional consolidation	6	16
First-time consolidations	27	41
thereof proportional consolidation	5	–
Deconsolidations	43	21
thereof proportional consolidation	–	10
Consolidated as of December 31	154	170
thereof proportional consolidation	11	6

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

	2001	2000
Affiliated companies	24	22
Joint ventures	1	3
Other associated companies	3	3
	28	28

Major changes to the scope of consolidation, other than those relating to corporate structure, relate to the following:

2001:
First-time consolidations comprise:
- BASF SONATRACH Propanchem S. A., Tarragona, Spain, (BASF's share: 51%, SONATRACH: 49%), which constructs plants for propylene production.
- ELLBA Eastern Private Ltd., Singapore, our joint venture with Shell to produce styrene and propylene oxide.
- BASF-YPC Company Ltd., Nanjing, China, our joint venture with SINOPEC to setup a petrochemical Verbund site in Nanjing, China.
- BASF NOF Coatings Company Ltd., Tokyo, Japan, our joint venture with NOF, Tokyo, Japan, for the production and marketing of coatings, especially for the Japanese market.
- BASF Styrenics Private Ltd., Mumbai, India, a producer of polystyrene, which was acquired at the end of 2000.
- Another 22 subsidiaries, previously not consolidated, located in Turkey, Japan, China, Russia, Poland, Norway, Finland and other countries.

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

2000:
First-time consolidations comprise:
- BASF Coatings Ltd., Deeside, United Kingdom, a coil coatings manufacturer, acquired from Norsk Hydro in 1999.
- BASF PETRONAS Chemicals Sdn. Bhd. (BASF's share: 60%, PETRONAS' share: 40%) and BASF Services (Malaysia) Sdn. Bhd., Petaling Jaya, Malaysia, which operate the Verbund site in Kuantan, Malaysia.
- 22 subsidiaries from the crop protection business of American Home Products Corp. (AHP) acquired in the middle of 2000; the major part of this business was directly acquired through asset purchases by consolidated subsidiaries of BASF.
- Another 16 subsidiaries previously not consolidated.

Deconsolidations comprise primarily:
- The divestiture of Wintershall (U. K.) Limited and Wintershall Exploration (U. K.) Limited, London, United Kingdom.
- 14 companies of the Targor Group and the Elenac Group, due to the contribution of the polyolefins business to the joint venture Basell N.V.

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

	2001		2000	
	Million €	%	Million €	%
Fixed assets	(522.6)	(2.4)	5,140.7	32.0
thereof property, plant and equipment	155.4	1.1	633.5	5.1
Inventories and receivables	(1,105.4)	(6.9)	1,357.5	10.9
Liquid funds	(261.0)	(30.0)	4.6	0.3
Assets	**(1,889.0)**	**(4.9)**	**6,502.8**	**21.7**
Stockholders' equity	5,690.6	39.8	343.3	2.4
Financial liabilities	(5,654.2)	(71.6)	5,855.6	452.4
Other liabilities	(1,925.4)	(11.8)	303.9	2.1
Stockholders' equity and liabilities	**(1,889.0)**	**(4.9)**	**6,502.8**	**21.7**
Sales	(2,649)	(7.4)	(702)	(2.4)
thereof:				
acquisitions	1,486		1,056	
divestitures	(4,452)		(1,919)	
changes in scope of consolidation	317		161	

Proportional consolidation

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

Balance sheet

Million €	2001	2000
Fixed assets	851.0	283.4
Current assets	679.0	408.2
Total assets	**1,530.0**	**691.6**
Stockholders' equity	459.4	71.8
Provisions	179.4	109.2
Liabilities	891.2	510.6
Total liabilities and stockholders' equity	**1,530.0**	**691.6**

Statement of income

Million €	2001	2000
Sales	1,809.4	2,732.3
Income from operations	82.9	164.5
Net income	81.5	137.7

Cash flow information

Million €	2001	2000
Cash provided by operating activities	180.9	68.7
Cash used in investing activities	(382.5)	(13.9)
Cash used in (provided by) financing activities	168.0	(50.5)
Net change in cash and cash equivalents	(33.6)	5.8

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

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

Balance sheet

Million €	2001	2000
Fixed assets	5,900.1	6,014.8
Current assets	2,607.2	3,222.5
Total assets	**8,507.3**	**9,237.3**
Stockholders' equity	3,800.6	4,038.6
Provisions	865.4	1,027.4
Liabilities	3,841.3	4,171.3
Total liabilities and stockholders' equity	**8,507.3**	**9,237.3**
BASF's investment	1,799.6	1,917.8

Statement of income

Million €	2001	2000
Sales	7,708.0	2,820.0
Income from operations	(222.7)	(101.7)
Net income	(218.1)	(135.9)
BASF's share of net income	(108.2)	(59.9)

Goodwill was €165.1 million for Basell N. V. and €25.3 million for the DyStar Group at the initial application of the equity method in 2000.

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

(c) Summary of significant accounting policies

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

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

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

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

Revenue recognition: Revenues from product sales and the performance of services are recognized upon shipment to customers or performance of services. Provisions for discounts, sales returns, rebates to customers, estimated future warranty obligations and other claims are provided for in the same period the related sales are recorded. Revenues on long-term natural gas contracts are recognized when the gas is delivered. The terms of such contracts do not fix price.

Intangible assets: Intangible assets are valued at acquisition cost less scheduled straight-line amortization. The weighted average amortization period for the intangible assets is 11 years for 2001 and eight years for 2000 based on the following expected useful lives:

	Years
Goodwill	5–20
Product rights and licenses	3–10
Marketing, supply and similar rights	4–20
Know-how and patents	5–15
Concessions, explorations rights and similar rights	3–25
Software	2–5
Other rights and values	5–25

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

Property, plant and equipment: Property, plant and equipment are stated at acquisition or production cost less scheduled depreciation over their estimated useful lives. Low-value assets are fully depreciated in the year of acquisition and are shown as retirements. Movable depreciable fixed assets that are functionally integrated are treated as a single asset item. The cost of self-constructed plants includes direct costs and an appropriate proportion of the production overhead, but excludes financing costs for the period of construction. Fixed assets, including natural gas pipelines, are depreciated using the straight-line method. Movable fixed assets put into operation before 2001 are mostly depreciated by the declining balance method, with a change to straight-line depreciation if this results in higher depreciation rates (see Note 2).

The weighted average periods of depreciation are as follows for 2001 and 2000:

	2001	2000
Building and structural installations	23 years	22 years
Industrial plant and machinery	10 years	9 years
Long-distance natural gas pipelines	25 years	25 years
Working and office equipment and other facilities	10 years	8 years

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

The Company follows the successful efforts method of accounting for its oil and gas operations. Under this method, costs of successful and uncompleted oil and gas drilling operations are capitalized as tangible assets. Successful drillings are depreciated under the unit-of-production basis. Successful drillings of German operations that began production prior to 2001 are depreciated under the declining balance method over the estimated useful lives of eight years (for drilling in old fields) and 15 years. Geophysical expenditures, including exploratory and dry-hole costs, are charged against income.

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

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

Inventories: Inventories are carried at the lower of acquisition or production costs or market values, as appropriate. These lower values are the replacement costs of raw materials and factory supplies and merchandise and, in the case of work in process and finished products, the expected sales proceeds less costs to be incurred prior to sale. Production costs include, in addition to direct costs, an appropriate allocation of production overhead using normal utilization rates of the production plants. Financing costs are not included.

Construction-in-progress relates mainly to plants under construction for third parties. Expected profits are not recognized until the final or partial billing of a project; expected losses are recognized by write-downs to the lower attributable values.

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

Securities: Securities held as fixed assets, as well as marketable securities, are valued individually at cost or at lower quoted or market values.

Deferred tax assets: Deferred tax assets are recorded for taxable temporary differences between the valuation of assets and liabilities in the financial statements of the consolidated companies and the carrying amounts for tax purposes. Beginning in the year 2001, deferred taxes have been recorded for tax loss carryforwards (see Note 2). For companies located in Germany, a 38% tax rate is applied. For other companies the tax rates applicable in the individual countries are used. If expected future earnings of a company make it seem more likely than not that the tax benefits will not be realized, appropriate valuation allowances are made.

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

Tax provisions are recognized for income taxes and other taxes in the amount necessary to meet the expected payment obligations, less any prepayments that have been made. Provisions for deferred taxes are recognized for a net liability from taxable temporary differences between the valuation of assets and liabilities in the financial statements of the consolidated companies and the carrying amounts for tax purposes, using the tax rates applicable in the individual countries.

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

Environmental expenditures that relate to an existing condition caused by past operations and prescribed by current legal requirements that do not have future economic benefit are expensed. When environmental assessments or clean-ups are probable, the costs can be reasonably estimated and no future economic benefit is expected, liabilities for these expenditures are recorded on an undiscounted basis. Provisions for required recultivation associated with oil and gas operations, especially the filling of wells and clearance of oil-fields, or the operation of landfill sites are built up in installments over their expected service lives. In addition, provisions are accrued in installments for regular shutdowns within prescribed intervals of certain large-scale plants as required by technical surveillance authorities.

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

Provisions for long-service and anniversary bonuses are actuarially calculated using an interest rate predominantly of 5.5%. For short-time working programs for those employees nearing retirement, the present value of promised top-up payments are set aside in full and the wage and salary payments due during the passive phase of agreements are accrued through installments, discounted at an interest rate of 5.5%.

Provisions are recorded for the expected costs of short-time working contracts that are anticipated to be contracted during the term of the collective bargaining agreements, taking into consideration the ceilings provided in the collective agreements.

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

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

Translation of foreign currency financial statements: The translation of foreign currency financial statements conforms with Statement of Financial Accounting Standard (SFAS) No. 52, “Foreign Currency Translation.” The local currency is the functional currency of BASF subsidiaries and joint ventures in North America, Japan, Korea, China, Brazil, Singapore, and for oil and gas operations in Argentina. Balance sheet items are translated to euros at year-end rates except equity accounts at historical rates. Expenses and income are translated at quarterly average rates and accumulated for the year. The effects of rate changes are shown as “currency translation adjustment” and reported as a separate component of equity.

Where the euro is the functional currency, non-monetary assets and liabilities carried at historical values are translated using historical rates. Monetary assets and liabilities (and any non-monetary assets and liabilities carried at fair value) are translated using the year-end rates, and expenses and income are converted at quarterly average rates cumulated to year-end figures, except for those items derived from balance sheet items converted at historical rates, which are also translated at historical rates. Foreign exchange gains or losses resulting from the remeasurement process are included in other operating expenses or income.

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

Use of estimates in financial statement preparation: The preparation of financial statements in conformity with GAAP requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. In the preparation of these Consolidated Financial Statements, estimates and assumptions have been made by management concerning the selection of useful lives of property, plant and equipment and intangible assets, the measurement of provisions, the carrying value of investments, and other similar evaluations of assets and obligations.

2. Change in accounting principles

Additions of movable assets to property, plant and equipment since January 1, 2001 are depreciated using the straight-line method, which is considered to better reflect the development of values of chemical plants. Movable assets of property, plant and equipment already in use before the end of 2000 continue to be depreciated by the declining balance method. Successful drillings in the oil and gas operations added in 2001 are depreciated under the unit-of-production method. Successful drillings of German operations that began production prior to 2001 continue to be depreciated under the declining balance method.

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

Beginning in 2001, deferred tax assets for tax loss carryforwards are recorded if the expected future earnings of a company make it seem more likely than not that the tax benefit will be realized. This accounting treatment, mandatory under U.S. GAAP, is allowed in Germany based on the recently issued Standard No. 10 of the German Accounting Standards Board.

Deferred tax assets for tax loss carryforwards arising in 2001 reduced income tax expenses and correspondingly increased net income by €219.7 million, or €0.37 per share.

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

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

3. Discontinued operations

On March 2, 2001, BASF's pharmaceuticals business was sold on the basis of agreement dated December 14, 2000 to Abbott Laboratories Inc., Abbott Park, Illinois. Net sales and income of the pharmaceuticals business are included in the financial statements of the BASF Group as well as in the data of the former segment Health & Nutrition (now called Agricultural Products & Nutrition) for 1999, 2000 and for the period ended March 1, 2001.

The pharmaceuticals business is considered a discontinued operation under U.S. GAAP and would therefore not be included in the results from continuing operations for the years 1999 through 2001. The effect on the Consolidated Financial Statements would be as follows:

Income statement

Million €	2001	2000
Sales	364	2,526
Income from operations	30	243
Income before taxes	31	260
Net income/income from discontinued operations	19	156

The effect on net income from discontinued operations has been determined using a 40% income tax rate.

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

4. Reconciliation to U.S. GAAP

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

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

Reconciliation of net income to U.S. GAAP

Million €	Note	2001	2000
Net income as reported in the Consolidated Financial Statements of income under German GAAP		5,858.2	1,239.8
Adjustments required to conform with U.S. GAAP			
Capitalization of interest	**(a)**	50.7	53.7
Capitalization of software developed for internal use	**(b)**	64.1	51.0
Valuation of pension funds	**(c)**	81.7	118.9
Accounting for derivatives at fair value and valuation of long-term foreign currency items	**(d)**	(74.3)	69.4
Valuation of securities	**(e)**	(4.5)	.
U.S. GAAP adjustments relating to companies accounted for under the equity method	**(f)**	(30.3)	8.3
Other adjustments	**(g)**	(6.8)	(9.0)
Deferred taxes and recognition of tax credit	**(h)**	(252.0)	(73.7)
Minority interests	**(i)**	5.6	(4.8)
Net income in accordance with U.S. GAAP		**5,692.4**	**1,453.6**
thereof:			
Income (loss) from continuing operations		(238.2)	1,302.1
Income from discontinued operations including gain from disposal		5,892.6	151.5
Cumulative effect of implementing SFAS No. 133		38.0	
Basic earnings per share in accordance with U.S. GAAP (€)		**9.45**	**2.37**
(Loss) income from continuing operations per share (€)		(0.39)	2.13
Income from discontinued operations including gain from disposal (€)		9.78	0.24
Cumulative effect of implementing SFAS No. 133 (€)		0.06	
Diluted earnings per share in accordance with U.S. GAAP (€)		9.45	2.35

Earnings per share

The calculation of earnings per common share is based on the weighted-average number of common shares outstanding during the applicable period. The calculation of diluted earnings per common share reflects the effect of all dilutive potential common shares that were outstanding during the respective period. For computing diluted earnings per share, interest expense on convertible bonds, net of taxes, has been added to net income.

Options related to the BASF stock option program (BOP) for senior management (see Note 27) for which the exercise hurdles were met have not been included in the computation of diluted earnings per share because they would have had an anti-dilutive effect.

The determination of shares outstanding is as follows:

	2001	2000
Weighted average shares outstanding	602,586,176	612,806,123
Effect of dilutive securities		8,774,899
Incremental shares from assumed conversion of	–	
convertible bonds	602,586,176	621,581,022

Reconciliation of stockholder's equity to U.S. GAAP

Million €	Note	2001	2000
Stockholders' equity as reported in the Consolidated Balance Sheets			
under German GAAP		17,521.8	14,294.8
Minority interests		(359.7)	(481.3)
Stockholders' equity excluding minority interests		17,162.1	13,813.5
Adjustments required to conform with U.S. GAAP			
Capitalization of interest	**(a)**	566.5	517.9
Capitalization of software developed for internal use	**(b)**	165.2	101.1
Valuation of pension funds	**(c)**	860.9	795.1
Accounting for derivatives at fair value and valuation of long-term			
foreign currency items	**(d)**	37.6	102.7
Valuation of securities	**(e)**	363.3	254.3
U.S. GAAP adjustments relating to companies accounted for under			
the equity method	**(f)**	126.0	156.3
Other adjustments	**(g)**	116.5	69.2
Deferred taxes and recognition of tax credit	**(h)**	(841.3)	(557.4)
Minority interests	**(i)**	(18.6)	(23.8)
Stockholders' equity in accordance with U.S. GAAP		**18,538.2**	**15,228.9**

(a) Capitalization of interest: For U.S. GAAP purposes, the Company capitalizes interest on borrowings during the active construction period of major capital projects. Capitalized interest is added to the cost of the underlying assets and is amortized over the useful lives of the asset. The capitalization of interest relating to capital projects is not permissible under German GAAP.

In calculating capitalized interest, the Company has made assumptions with respect to the capitalization rate and the average amount of accumulated expenditures. The Company's subsidiaries generally use the entity specific weighted average borrowing rate as the capitalization rate.

(b) Capitalization of software developed for internal use: Certain costs incurred for computer software developed or obtained for the Company's internal use are to be capitalized beginning in 1999 (Statement of Position (SOP) 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use") and amortized over the expected useful life of the software. Such costs have been expensed in these financial statements because the capitalization of self-developed intangible assets is not permissible under German GAAP.

(c) Valuation of pension funds: Pension benefits under Company pension schemes are partly funded in a legally independent fund “BASF Pensionskasse VVaG” (“BASF Pensionskasse”). The companies’ contribution to the BASF Pensionskasse is included in expenses for pensions and assistance.

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

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

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

Million €	2001	2000
Plan assets as of December 31,	3,886.4	4,137.3
Projected benefit obligation as of December 31,	3,294.3	3,213.4
Funded status	592.1	923.9
Unrecognized actuarial losses (gains)	59.8	(327.2)
Prepaid pension asset	651.9	596.7

The valuation of certain pension plans of foreign subsidiaries, according to SFAS No. 87 also resulted in prepaid pension assets (Note 23), included in the reconciliation to U.S. GAAP. After consideration of unrecognized actuarial gains and losses, €209.0 million in 2001 and €198.4 million in 2000 were included in the reconciliation to U.S. GAAP.

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

At the beginning of 2001, the transition of SFAS No. 133 increased income before taxes by €66.8 million consisting of €(127.2) million negative fair values of derivative contracts and €194.0 million foreign exchange gains on the underlying transactions. The cumulative effect on net income was €38.0 million.

Under German GAAP, long-term receivables and liabilities denominated in a foreign currency are converted into euros at the exchange rates of the date when the transactions took place or the lower exchange rates at the end of the year for receivables and the higher exchange rates for liabilities. U.S. GAAP requires conversion at the exchange rate at the end of the year. Furthermore, hedge accounting is applied in these financial statements to a larger extent than allowed by SFAS No. 133. Positive fair values of derivative contracts for which hedge accounting is not applicable are deferred until settlement or termination of the derivative contract.

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

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

(g) Other adjustments: This caption includes the reversal of maintenance provisions, the reclassification of the provision for stock compensation, and other items. German GAAP requires companies to accrue as of the end of the year for the expected costs of omitted maintenance procedures expected to take place within the first three months of the following year. Such costs would be expensed as incurred under U.S. GAAP. The amounts included in the reconciliation of net income related to the maintenance provision were €(5.6) million in 2001 and €(1.4) million in 2000, and in the reconciliation of stockholders' equity were €27.3 million in 2001 and €32.9 million in 2000. For purposes of reconciliation to U.S. GAAP, the recording of stock compensation expense results in a credit to stockholders' equity rather than a balance sheet provision.

(h) Deferred taxes: The adjustments required to conform with U.S. GAAP would result in taxable temporary differences between the valuation of assets and liabilities in the Consolidated Financial Statements and the carrying amount for tax purposes. Resulting adjustments for deferred taxes primarily relate to the aforementioned U.S. GAAP reconciling items. Additionally, this amount also includes deferred tax liabilities related to the currency translation adjustment and, until December 31, 2000, deferred tax assets for tax loss carryforwards of €75.6 million. Beginning in 2001, deferred tax assets for tax loss carryforwards are recorded in the financial statements (see Note 2).

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

According to U.S. GAAP, such tax credits are to be recognized as a reduction of income tax expenses in the period in which the tax credits will be recognized for tax purposes. This leads to a deferral of the recognition of the reduction of taxes of €126.4 million in 2002.

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

Consolidation of majority-owned subsidiaries: U.S. GAAP requires the consolidation of all majority-owned subsidiaries. Under German GAAP, the Company does not consolidate certain subsidiaries because their combined effect on financial position, results of operations and cash flows is not material. The effect of non-consolidated subsidiaries for 2001, 2000 and 1999, on total assets, total liabilities, stockholders' equity, net sales and net income was less than 3%.

New U.S. GAAP accounting standards not yet adopted

In June 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 141, "Business Combinations" and SFAS No. 142 "Goodwill and other intangible Assets," to be adopted for fiscal years beginning after December 15, 2001. The Company has prepared for the adoption of these statements in its Consolidated Financial Statements for the fiscal year 2002.

Also in June 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations," which has to be adopted for the first time for the fiscal year 2003. In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," which has to be adopted for the fiscal year 2002.

Reporting of comprehensive income

Comprehensive income in accordance with SFAS No. 130, "Reporting Comprehensive Income," includes the impact of revenues, gains, expenses and losses that are not included in net income under U.S. GAAP.

Million €	2001	2000
Net income in accordance with U.S. GAAP	**5,692.4**	**1,453.6**
Foreign currency translation adjustments	(116.0)	113.2
Unrealized holding gains on securities	113.5	158.3
Deferred taxes	(37.5)	89.8
Other comprehensive income (loss), net of tax	**(40.0)**	**361.3**
Comprehensive income, net of tax	**5,652.4**	**1,814.9**

Million €	2001	2000
Stockholders' equity according to U.S. GAAP		
before accumulated other comprehensive income	**17,754.4**	**14,401.3**
Foreign currency translation adjustments	560.2	682.4
Unrealized holding gains on securities	368.6	255.1
Deferred taxes	(145.0)	(109.9)
Accumulated other comprehensive income	**783.8**	**827.6**
Total stockholders' equity according to U.S.		
GAAP including comprehensive income	**18,538.2**	**15,228.9**

5. Segment reporting

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

The Company conducts its worldwide operations through 12 operating divisions, which have been aggregated into five business segments based on the nature of the products and production processes, the type of customers, the channels of distribution and the nature of the regulatory environment. The business segments are reportable segments except for the business segment Agricultural Products & Nutrition, which is treated as two reportable segments, disclosing separately Agricultural Products and Fine Chemicals. The divested Pharmaceuticals division was formerly included as a third reportable segment in the business segment Health & Nutrition.

The business segment Chemicals contains the operating divisions Inorganics, Petrochemicals and Intermediates. The former operating division of Specialty Chemicals was dissolved as of July 1, 2001 and the strategic business units of glycols, alkylene oxides as well as ethylene and propylene oxides have been transferred to the Petrochemicals operating division. The other activities of the Specialty Chemicals operating division have been allocated to the operating division of Performance Products.

The business segment Plastics & Fibers includes the operating divisions Styrenics, Performance Polymers and Polyurethanes. The former operating divisions of Engineering Plastics and Fiber Products were merged as of July 1, 2001 to create the Performance Polymers operating division. Up to September 2000, the polyolefins business was included in the business segment's figures. This business was transferred to the associated company Basell, which is not consolidated.

The business segment Colorants & Finishing Products has been renamed Performance Products. It consists of the operating divisions Performance Chemicals, Coatings and Functional Polymers. The former operating divisions Dispersions, Colorants as well as some parts of Specialty Chemicals have been combined to form the operating division Performance Chemicals. Up to September 2000, the figures of the operating division include the textile dye business of the former Colorants operating division. This business has been transferred to the non-consolidated associated company DyStar.

The business segment Health & Nutrition was renamed Agricultural Products & Nutrition. Figures for the divested pharmaceuticals business are included in the segment's figures through February 2001.

Besides these changes, certain strategic business units have been reassigned to other operating divisions in order to better reflect the Company's value-adding-chains. Segment reporting data for prior years have been restated to reflect these organizational changes.

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

Business activities not allocated to any operating division are shown as “Other” and comprise the sale of feedstock, remaining Fertilizers activities, engineering and other services as well as rental income. The income from operations recorded as “Other” includes mainly costs of exploratory research of €202 million in 2001 (2000: €168 million).

Transfers between the reportable segments are generally valued at market-based prices and the revenues generated by these transfers are shown in the table below as “Intersegmental transfers.”

Segments

2001 Million €	Chemicals	Plastics & Fibers	Colorants & Finishing Products	Agricultural Products & Nutrition: Subtotal	Thereof: Agricultural Products	Thereof: Fine Chemicals	Thereof: Pharmaceuticals	Oil & Gas	Other	Total
Net sales	4,494	8,185	8,154	5,826	3,478	1,984	364	4,516	1,325	32,500
Change (%)	(0.2)	(25.8)	(3.1)	(13.0)	43.2	14.1	(85.6)	14.1	(1.4)	(9.6)
Intersegmental transfers	2,452	406	322	62	30	29	5	413	477	4,132
Sales including intersegmental transfers	**6,946**	**8,591**	**8,476**	**5,888**	**3,508**	**2,013**	**369**	**4,929**	**1,802**	**36,632**
Income from operations	362	(2)	99	(162)	18	(210)	30	1,308	(388)	1,217
Change (%)	(43.4)	.	(83.1)	21.0	.	.	(87.7)	(0.2)	(138.0)	(60.4)
Assets	4,847	6,344	6,048	7,865	6,377	1,488	–	3,149	8,622	36,875
Return on operational assets (%)	8.0	.	1.6	.	0.3	.	.	39.1	.	3,9
Research and development expense	109	146	197	497	345	78	74	95	203	1,247
Additions to tangible and intangible fixed assets	929	891	418	349	130	199	20	229	497	3,313
Depreciation of tangible and intangible fixed assets	457	679	661	715	496	191	28	302	111	2,925

* Until the end of February 2001

2000 Million €	Chemicals	Plastics & Fibers	Colorants & Finishing Products	Agricultural Products & Nutrition: Subtotal	Thereof: Agricultural Products	Thereof: Fine Chemicals	Thereof: Pharmaceuticals	Oil & Gas	Other	Total
Net sales	4,504	11,030	8,418	6,693	2,428	1,739	2,526	3,957	1,344	35,946
Change (%)	36.9	27.8	11.5	20.0	39.1	6.3	15.0	29.7	(2.2)	22.0
Intersegmental transfers	2,408	510	314	83	34	44	36	320	264	3,899
Sales including intersegmental transfers	**6,912**	**11,540**	**8,732**	**6,776**	**2,462**	**1,783**	**2,562**	**4,277**	**1,608**	**39,845**
Income from operations	640	902	586	(205)	(443)	(5)	243	1,310	(163)	3,070
Change (%)	1.7	37.5	(17.2)	65.4	.	99.4	.	76.8	(22.6)	52.8
Assets	4,232	6,086	6,266	10,203	6,607	1,368	2,228	3,540	8,230	38,557
Return on operational assets (%)	16.8	13.9	10.4	.	.	.	11.8	40.0	.	10.8
Research and development expense	112	172	198	821	275	78	468	50	173	1,526
Additions to tangible and intangible fixed assets	774	633	1,332	3,464	3,260	83	121	267	461	6,931
Depreciation of tangible and intangible fixed assets	455	692	554	845	412	159	274	272	98	2,916

Regions

Million €	Europe	Thereof Germany	North America (NAFTA)	South America	Asia, Pacific Area, Africa	Total
Location of customers						
Sales	17,984	7,212	7,654	2,188	4,674	32,500
Change (%)	(10.5)	(8.7)	(9,1)	(12.5)	(5.1)	(9.6)
Share (%)	55	22	24	7	14	100
Location of companies						
Sales	19,399	13,417	7,772	1,842	3,487	32,500
Sales including interregional						
transfers	21,652	–	8,440	1,927	3,770	35,789
Income from operations	1,926	1,347	(678)	(3)	(28)	1,217
Additions to tangible and intangible						
fixed assets	1,539	933	759	144	871	3,313
Assets	19,296	13,318	10,616	2,201	4,762	36,875

Million €	Europe	Thereof Germany	North America (NAFTA)	South America	Asia, Pacific Area, Africa	Total
Location of customers						
Sales	20,103	7,897	8,419	2,500	4,924	35,946
Change (%)	18.3	13.9	24.3	35.7	27.5	22.0
Share (%)	56	22	23	7	14	100
Location of companies						
Sales	22,203	14,457	8,441	2,127	3,175	35,946
Sales including interregional						
transfers	24,444	–	8,929	2,232	3,532	39,137
Income from operations	2,577	1,864	99	233	161	3,070
Additions to tangible and intangible						
fixed assets	2,674	1,298	3,294	431	532	6,931
Assets	20,612	13,836	11,364	2,479	4,102	38,557

6. Other operating income

Million €	2001	2000
Release and adjustment of provisions	164.4	239.5
Income from miscellaneous revenue-generating activities	115.9	128.4
Gains from foreign currency transactions and conversion	252.6	499.5
Gains from disposal of assets	91.7	251.3
Other	256.9	296.6
	881.5	**1,415.3**

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

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

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

Gains from the disposal of assets in 2001 were especially related to the sale of the generics business of the Pharmaceuticals operating division to Novartis. Gains in 2000 arose primarily from the sale of the Novolen® polypropylene technology of Targor GmbH and the Kraton® polymer business of Elenac GmbH.

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

7. Other operating expenses

Million €	2001	2000
Integration measures, reorganization and shutdowns	1,006.6	792.7
Environmental protection and safety measures, costs of demolition of fixed assets and costs related to the preparation of capital expenditure projects	260.8	271.2
Losses from foreign currency transactions and conversion	315.2	650.2
Costs from miscellaneous revenue-generating activities	245.3	116.6
Goodwill amortization	252.0	353.2
Losses from disposal of assets	30.8	68.6
Other	815.7	699.4
	2,926.4	**2,951.9**

Integration measures, reorganization and shutdowns in 2001 arose primarily for the planned shutdown of sites and plants that do not fit with our strategic and economic requirements. Sites in North America (NAFTA), South America, the United Kingdom, the Netherlands, Germany, Australia and other countries will be shut down. Additionally 1,000 European employees will be made redundant as a consequence of the reorganization of the marketing structures. The related costs total €747.4 million.

In 2000, charges of €344.2 million related in particular to the integration of the crop protection business of AHP, which was acquired in 2000. They comprise severance payments resulting from workforce reductions, the write-off of research in process included in goodwill, and, additional charges resulting from the sale of inventory whose base had been stepped-up as part of the purchase price allocation. Further expenses were related to the restructuring of the Pharmaceuticals division.

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

Other include in 2001 additional provisions of €200 million for the fine imposed by the E. U. Commission related to the antitrust procedure against several vitamins producers. Further charges relate to provisions for expected losses on accounts receivable in Argentina, waiving the peg of the Argentine peso to the U.S. dollar, as well as scrapping of inventories and other various items.

In 2000 expenses for litigations and claims relate primarily to sanctions and compensation payments associated with the vitamins antitrust proceedings in the United States and various other countries.

8. Financial result

Million €	2001	2000
Income from participating interests and similar income	49.3	66.6
thereof from affiliated companies	14.3	18.7
Income from profit transfer agreements	4.2	14.0
Losses from loss transfer agreements	11.0	15.7
(Losses)/income from companies accounted for under the equity method	(251.8)	(95.9)
Net income from financial assets	**(209.3)**	**(31.0)**
Write-down of, and losses from, retirement of financial assets as well as securities held as current assets	**22.7**	**6.8**
Income from other securities and financial assets	13.7	106.5
thereof from affiliated companies	1.3	1.1
Other interest, income from sale of marketable securities and similar income	157.0	256.2
thereof from affiliated companies	18.7	21.6
Interest and similar expenses	546.9	567.2
thereof to affiliated companies	12.8	9.0
Interest result	**(376.2)**	**(204.5)**
Financial result	**(608.2)**	**(242.3)**

Amortization of goodwill of companies accounted for under the equity method totaling €54.6 million in 2001 (2000: €24.5 million) as well as income from the release of negative goodwill of €2.0 million in 2001 (2000: €2.0 million) are included in (losses)/income from companies accounted for under the equity method.

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

In 2000, other interest, income from the sale of marketable securities and similar income includes gains from the sale of securities and swaps of €129 million.

9. Extraordinary income

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

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

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

The extraordinary income is charged with €145.0 million income taxes.

10. Income taxes

Million €	2001	2000
German corporation tax	449.1	477.0
German trade income tax	104.9	143.8
Foreign income tax	242.7	467.2
Income taxes on oil-producing operations		
non-compensable with German corporation tax	487.1	462.2
Refunds/loss carry back	(32.7)	(77.5)
Current taxes	**1,251.1**	**1,472.7**
Deferred taxes	(296.6)	72.3
Income taxes	**954.5**	**1,545.0**
Other taxes	174.6	168.8
Tax expense	**1,129.1**	**1,713.8**

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

The regional breakdown of income before taxes was as follows:

Million €	2001	2000
Germany	970.1	1,736.4
Foreign	(361.4)	1,091.0
	608.7	**2,827.4**

In 2001, a federal German corporation tax of 25% plus a 5.5% solidarity surcharge will be levied on corporate income. This tax charge is final because the imputation system has been terminated. In 2000 and 1999, retained corporate income in Germany was subject to a federal corporation income tax of 40%. Additionally, a solidarity surcharge of 5.5% was levied on the federal German corporation tax. Upon distribution of a dividend, the federal German corporation tax rate was reduced to 30%.

German trade income tax, which varies depending on the municipality where the industrial activities take place, is levied at a weighted average rate of 16.2%. This tax is deductible for federal corporation tax purposes.

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

For German companies, deferred taxes are calculated using a tax rate of 38%. For foreign companies, deferred taxes are calculated using the tax rates applicable in the individual foreign countries. Such rates averaged 34% in 2001 and 28% in 2000.

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

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

	2001		2000	
	Million €	%	Million €	%
German corporation tax (excluding extraordinary income in 2001)	152.2	25.0	1,131.0	40.0
Credit for dividend distribution	(126.4)	(20.7)	(260.3)	(9.2)
German trade income tax net of corporation tax	11.5	1.9	86.3	3.1
Solidarity surcharge	26.2	4.3	37.4	1.3
Foreign tax-rate differential	34.3	5.6	(82.1)	(2.9)
Non-taxable income	(72.9)	(12.0)	(72.3)	(2.6)
Non-deductible expenses, including amortization of goodwill	242.0	39.8	237.6	8.4
(Loss)/Income from companies accounted for under				
the equity method	63.0	10.3	38.4	1.4
Utilization of tax-loss carryforwards and refund of taxes	(32.7)	(5.4)	(143.4)	(5.1)
Income taxes on oil-producing operations				
non-compensable with German corporation tax	487.2	80.0	462.2	16.3
Other	25.2	4.2	110.2	3.9
Income taxes/effective tax rate	**809.6**	**133.0**	**1,545.0**	**54.6**
Cumulative effect of capitalization of deferred tax assets				
for tax loss carry forwards of prior years	(50.6)	(8.3)		
Income taxes, including the cumulative effect of the change				
in accounting for deferred taxes on tax loss carry forwards	759.0	124.7		

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

Deferred tax assets

Million €	2001	2000
Intangible assets	(27.3)	103.0
Property, plant and equipment	(225.5)	(316.9)
Financial assets	1.6	(0.2)
Inventories and accounts receivable	158.2	37.7
Loss carryforwards	422.6	–
Provisions for pensions and similar obligations	295.5	375.3
Other provisions and liabilities	503.7	563.2
Securities and others	243.7	508.4
Total	**1,372.5**	**1,270.5**
thereof short-term	571.2	463.8

Deferred tax liabilities

Million €	2001	2000
Property, plant and equipment	218.8	244.3
Other	57.6	125.1
Total	**276.4**	**369.4**
thereof short-term	31.0	105.7

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

German tax losses may generally be carried forward indefinitely.

Foreign loss carryforwards have varying expiration periods and are subject to limitations with regard to offsetting against future taxable income. Deferred tax liabilities have not been provided for withholding taxes or additional corporate income taxes due in Germany in the absence of double taxation treaties for unremitted earnings of foreign subsidiaries or affiliated companies or investments accounted for under the equity method.

Reconciliation of deferred tax assets/liabilities to U.S. GAAP

Under U.S.GAAP, deferred tax liabilities would increase, or deferred tax assets decrease by €841.3 million in 2001 (2000: €633.1 million) due to adjustment of the following balance sheet items as shown in the reconciliation to U.S.GAAP:

Million €	2001	2000
Property, plant and equipment	209.3	192.8
Financial assets and marketable securities	179.7	141.6
Prepaid pension expense	316.4	292.2
Other	135.9	6.5
	841.3	**633.1**

11. Minority Interests

Million €	2001	2000
Minority interest in profits	91.7	76.3
Minority interest in losses	124.3	33.7
	(32.6)	**42.6**

Minority interests in profits relate to the Group companies engaged in trading of natural gas. Minority interests in losses relate mainly to BASF PETRONAS Chemicals Sdn. Bhd., Malaysia, as well as the operator of the steam cracker at Port Arthur, Texas, and Yangzi-BASF Styrenics Company Ltd., China.

In 2000, minority interests in profits related furthermore to Knoll Pharmaceuticals Ltd., India, and Yangzi-BASF Styrenics Company Ltd., China.

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

12. Other information

Personnel costs

Million €	2001	2000
Wages and salaries	4,857.8	5,306.8
Social security contributions and expenses for pensions		
and assistance	1,170.2	1,288.7
thereof for pensions	372.2	401.0
	6,028.0	**6,595.5**

The short-time contracts for German employees nearing retirement led to a reduction of pension liabilities because payments associated with the period between retirement and entry into the government pension program are no longer an obligation of the Company.

German Group companies incurred costs for employees’ representatives to comply with statutory regulations of €9.9 million in 2001 (2000: €10.4 million).

Average number of employees

	Fully consolidated companies		Proportionally consolidated companies	
	2001	2000	2001	2000
BASF Group				
Europe	64,068	70,770	258	2,592
thereof Germany	51,368	55,546	20	2,178
North America (NAFTA)	15,007	16,546	684	734
South America	6,088	7,002	–	–
Asia, Pacific Area, Africa	8,660	9,773	900	60
Total	**93,823**	**104,091**	**1,842**	**3,386**
thereof with trainee contracts	2,868	3,066	7	110
thereof with limited-term contracts	2,320	3,113	85	59

The above number of employees of proportionally consolidated companies are given in full; if they are taken into account at 50%, the average number of personnel for the Company is 94,744 in 2001 and 105,784 in 2000.

Compensation of the Board of Executive Directors and Supervisory Board

Million €	2001	2000
Supervisory Board emoluments	2.0	2.0
Board of Executive Directors emoluments	9.3	8.5
Pension for former members of the Board of Executive Directors and their surviving dependents	4.8	5.9
Pension provisions for former member of the Board of Executive Directors and their surviving dependents	57.3	56.8
Loans to the Board of Executive Directors and the Supervisory Board	–	–
Contingent liabilities for the benefit of the Board of Executive Directors and the Supervisory Board	–	–

Under the BASF stock option program, the members of the Board of Executive Directors were granted 137,060 option rights in 2001. These options rights entitle such directors to purchase, if the exercise hurdles are met, a maximum of 274,120 shares from the option rights of 2001. Together with the 166,616 option rights granted in 1999 and the 126,228 option rights granted in 2000, members of the Board of Executive Directors, including retired members, hold in total 429,904 option rights entitling them to buy up to 859,808 BASF shares. Additional personnel costs related to the issuance of these options totaled €4.2 million in 2001, thereof €1.6 million for option rights issued in 2001 and €2.6 million for option rights issued in 1999 and 2000. These option rights are accrued as personnel costs over the lock-up period. See Note 27 for further information.

The members of the Board of Executive Directors and the Supervisory Board as well as their membership on other supervisory boards are shown on pages 88 to 94.

Additional information on statements of cash flows

Cash generated from operating activities was derived after interest payments of €428.9 million in 2001 and €472.2 million in 2000. Income taxes paid totaled €528.2 million in 2001 and €839.0 million in 2000.

Cash generated from operating activities was increased from the sale of accounts receivable by €192.7 million in 2001 and €779.5 million in 2000.

Information about affiliated companies

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

13. Intangible assets

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

* Including licenses in such rights and values

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

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

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

Developments in 2000 Million €	Patents, licenses, trademarks and similar rights*	Goodwill	Advance payments	**Total**
Acquisition costs				
Balance as of January 1, 2000	2,589.9	1,357.7	7.8	3,955.4
Change in scope of consolidation	(8.4)	25.7	(0.1)	17.2
Additions	840.9	2,434.5	24.8	3,300.2
Disposals	212.5	105.5	1.8	319.8
Transfers, including exchange rate changes	37.6	(293.3)	(2.9)	(258.6)
Balance as of December 31, 2000	3,247.5	3,419.1	27.8	6,694.4
Accumulated amortization				
Balance as of January 1, 2000	1,199.3	608.0	1.3	1,808.6
Change in scope of consolidation	(2.9)	0.8	–	(2.1)
Additions	317.5	353.2	0.2	670.9
Disposals	165.7	104.3	0.2	270.2
Transfers, including exchange rate changes	16.2	(67.2)	–	(51.0)
Balance as of December 31, 2000	1,364.4	790.5	1.3	2,156.2
Net book value as of December 31, 2000	**1,883.1**	**2,628.6**	**26.5**	**4,538.2**

* Including licenses in such rights and values

Write-downs in 2000 include the portion of goodwill from the acquisition of AHP's crop protection business related to research in progress (€87.5 million).

14. Property, plant and equipment

Developments in 2001 Million €	Land, land rights and buildings including buildings on land owned by others	Machinery and technical equipment	Miscellanoeus equipment and fixtures	Advance payments and construction in progress	Total
Acquisition costs					
Balance as of January 1, 2001	6,736.9	26,688.0	3,441.8	2,728.8	39,595.5
Change in scope of consolidation	215.1	132.3	29.6	176.8	553.8
Additions	158.8	781.5	130.6	1,966.2	3,037.1
Disposals	591.7	837.5	687.6	157.9	2,274.7
Transfers, including exchange rate changes	186.9	1,803.8	8.1	(1,832.5)	166.3
Balance as of December 31, 2001	6,706.0	28,568.1	2,922.5	2,881.4	41,078.0
Accumulated depreciation					
Balance as of January 1, 2001	3,828.9	19,435.4	2,687.9	2.7	25,954.9
Change in scope of consolidation	90.7	73.3	19.4	–	183.4
Additions	241.8	1,792.6	247.0	26.1	2,307.5
Disposals	318.1	666.7	546.5	25.3	1,556.6
Transfers, including exchange rate changes	5.6	58.1	(64.6)	(0.1)	(1.0)
Balance as of December 31, 2001	3,848.9	20,692.7	2,343.2	3.4	26,888.2
Net book value as of December 31, 2001	**2,857.1**	**7,875.4**	**579.3**	**2,878.0**	**14,189.8**

Impairment losses in 2001 of €179.3 million relate to a superabsorbents plant in Birkenhead, United Kingdom, which was heavily damaged in an explosion as well as to a site in Arnhem, the Netherlands, and various sites in North America whose closure has been decided as a consequence of their unsatisfactory earnings potentials.

Developments in 2000 Million €	Land, land rights and buildings including buildings on land owned by others	Machinery and technical equipment	Miscellanoeus equipment and fixtures	Advance payments and construction in progress	**Total**
Acquisition costs					
Balance as of January 1, 2000	6,704.7	25,952.7	3,326.0	2,276.9	38,260.3
Change in scope of consolidation	54.1	(39.5)	5.7	316.3	336.6
Additions	226.5	922.5	230.1	2,251.5	3,630.6
Disposals	292.1	615.8	336.4	10.4	1,254.7
Transfers, including exchange rate changes	43.7	468.1	216.4	(2,105.5)	(1,377.3)
Balance as of December 31, 2000	6,736.9	26,688.0	3,441.8	2,728.8	39,595.5
Accumulated depreciation					
Balance as of January 1, 2000	3,839.4	19,333.2	2,668.7	2.7	25,844.0
Change in scope of consolidation	1.8	(29.4)	1.9	–	(25.7)
Additions	245.9	1,665.4	333.0	1.0	2,245.3
Disposals	165.9	534.2	326.1	0.4	1,026.6
Transfers, including exchange rate changes	(92.3)	(999.6)	10.4	(0.6)	(1,082.1)
Balance as of December 31, 2000	3,828.9	19,435.4	2,687.9	2.7	25,954.9
Net book value as of December 31, 2000	**2,908.0**	**7,252.6**	**753.9**	**2,726.1**	**13,640.6**

Impairment losses of €27.1 million were recorded in 2000 in particular by Hokuriku Seiyaku Ltd., Japan, for non-operating land and building due to a major decrease of market values.

15. Financial assets

Developments in 2001 Participations and securities held as fixed assets Million €	Shares in affiliated companies	Shares in associated companies	Shares in participating interests	Securities held as fixed assets	Participations and securities held as fixed assets (subtotal)
Acquisition costs					
Balance as of January 1, 2001	678.4	2,127.4	220.7	39.3	3,065.8
Change in scope of consolidation	(326.0)	(51.8)	–	–	(377.8)
Additions	345.1	77.7	9.6	2.6	435.0
Disposals	85.8	40.1	1.8	21.3	149.0
Transfers, including exchange rate changes	(6.6)	(242.5)	4.2	6.6	(238.3)
Balance as of December 31, 2001	605.1	1,870.7	232.7	27.2	2,735.7
Accumulated depreciation					
Balance as of January 1, 2001	20.7	1.0	1.4	1.7	24.8
Change in scope of consolidation	(0.9)	–	–	–	(0.9)
Additions	19.7	–	–	0.2	19.9
Disposals	3.1	–	–	0.1	3.2
Transfers, including exchange rate changes	(4.6)	–	–	(0.1)	(4.7)
Balance as of December 31, 2001	31.8	1.0	1.4	1.7	35.9
Net book value as of December 31, 2001	**573.3**	**1,869.7**	**231.3**	**25.5**	**2,699.8**

Developments in 2001 Loans and other investments Million €	Loans to affiliated companies	Loans to associated companies and participating interests	Other loans and investments	Loans and other investments (subtotal)	Total financial assets
Acquisition costs					
Balance as of January 1, 2001	25.1	349.8	178.3	553.2	3,619.0
Change in scope of consolidation	(13.6)	(60.0)	0.8	(72.8)	(450.6)
Additions	100.8	173.5	30.4	304.7	739.7
Disposals	5.3	102.0	27.9	135.2	284.2
Transfers, including exchange rate changes	12.7	(2.2)	4.8	15.3	(223.0)
Balance as of December 31, 2001	119.7	359.1	186.4	665.2	3,400.9
Accumulated depreciation					
Balance as of January 1, 2001	0.2	–	4.3	4.5	29.3
Change in scope of consolidation	–	–	–	–	(0.9)
Additions	–	–	0.7	0.7	20.6
Disposals	–	–	1.7	1.7	4.9
Transfers, including exchange rate changes	–	0.8	–	0.8	(3.9)
Balance as of December 31, 2001	0.2	0.8	3.3	4.3	40.2
Net book value as of December 31, 2001	**119.5**	**358.3**	**183.1**	**660.9**	**3,360.7**

In 2001, additions to "Shares in affiliated companies" resulted from a capital increase at BASF Future Business GmbH of €200 million intended to develop new business areas. Changes in the scope of consolidation resulted from the inclusion of the joint ventures BASF NOF Coatings Company Ltd., Japan; BASF SONATRACH Propanchem S. A., Spain; ELLBA Eastern Private Ltd., Singapore; and BASF-YPC Company, China, in the scope of consolidation.

Developments in 2000 Participations and securities held as fixed assets Million €	Shares in affiliated companies	Shares in associated companies	Shares in participating interests	Securities held as fixed assets	Participations and securities held as fixed assets (subtotal)
Acquisition costs					
Balance as of January 1, 2000	910.8	151.0	192.9	31.2	1,285.9
Change in scope of consolidation	(252.6)	(6.8)	–	–	(259.4)
Additions	128.3	1,289.3	10.4	8.9	1,436.9
Disposals	0.8	31.8	–	8.2	40.8
Transfers, including exchange rate changes	(107.3)	725.7	17.4	7.4	643.2
Balance as of December 31, 2000	678.4	2,127.4	220.7	39.3	3,065.8
Accumulated depreciation					
Balance as of January 1, 2000	13.6	17.6	12.0	2.1	45.3
Change in scope of consolidation	(1.2)	23.0	–	–	21.8
Additions	3.2	–	0.3	0.8	4.3
Disposals	0.5	16.7	–	1.2	18.4
Transfers, including exchange rate changes	5.6	(22.9)	(10.9)	–	(28.2)
Balance as of December 31, 2000	20.7	1.0	1.4	1.7	24.8
Net book value as of December 31, 2000	**657.7**	**2,126.4**	**219.3**	**37.6**	**3,041.0**

Developments in 2000 Loans and other investments Million €	Loans to affiliated companies	Loans to associ-ated companies and participating interests	Other loans and investments	Loans and other investments (subtotal	Total financial assets
Acquisition costs					
Balance as of January 1, 2000	22.7	85.2	162.7	270.6	1,556.5
Change in scope of consolidation	0.8	49.9	–	50.7	(208.7)
Additions	14.8	228.6	25.9	269.3	1,706.2
Disposals	13.2	11.4	18.7	43.3	84.1
Transfers, including exchange rate changes	–	(2.5)	8.4	5.9	649.1
Balance as of December 31, 2000	25.1	349.8	178.3	553.2	3,619.0
Accumulated depreciation					
Balance as of January 1, 2000	0.2	–	4.4	4.6	49.9
Change in scope of consolidation	–	–	–	–	21.8
Additions	–	–	0.8	0.8	5.1
Disposals	–	–	0.7	0.7	19.1
Transfers, including exchange rate changes	–	–	(0.2)	(0.2)	(28.4)
Balance as of December 31, 2000	0.2	–	4.3	4.5	29.3
Net book value as of December 31, 2000	**24.9**	**349.8**	**174.0**	**548.7**	**3,589.7**

In 2000, additions and transfers of “Shares in associated companies” were caused by the contribution of the polyolefins businesses of Elenac and Targor into the joint venture Basell N.V. and the contribution of BASF’s textile dye business into the joint venture DyStar. These joint ventures are accounted for according to the equity method. Changes in scope of consolidation of “Shares in affiliated companies” relate to the consolidation of BASF PETRONAS Chemicals Sdn. Bhd. Additions to “Shares in affiliated companies” relate to BASF SONATRACH Propanchem S.A., Spain, and BASF Styrenics Holding Company including its subsidiary (formerly Pushpa Polymers Private Ltd., Mumbai, India).

Other financial assets

The book and market values of available-for-sale “Securities held as fixed assets” and “Shares in participating interests” is summarized below:

	2001			2000		
Million €	Book values	Market values	Unrealized gains	Book values	Market values	Unrealized gains
Fixed-term interest bearing securities	1.5	1.5	–	22.5	22.5	–
Mutual funds	6.2	6.2	–			
Other shareholdings and securities	249.1	366.1	117.0	234.4	322.1	87.7
	256.8	**373.8**	**117.0**	**256.9**	**344.6**	**87.7**

The disposal of available-for-sale securities generated neither proceeds nor gains in 2001. In 2000, the disposal of available-for-sale securities led to proceeds of €7.0 million and a gain of €0.1 million.

16. Inventories

Million €	2001	2000
Raw materials and factory supplies	1,176.1	1,196.0
Work-in-process, finished goods and merchandise	3,759.9	3,991.5
Construction in progress	56.2	9.7
Advance payments	14.6	14.4
	5,006.8	**5,211.6**

“Work-in-process” and “finished goods and merchandise” are combined into one item due to the production conditions in the chemical industry.

The acquisition or production cost of raw materials, work in process, finished goods and merchandise is mainly determined by the last-in-first-out (LIFO) method. Factory supplies are carried predominantly at average cost. Inventories of €3,130.2 million or 63% of total inventories in 2001 and €3,225.9 million or 62% of total inventories in 2000 are valued according to the LIFO method. The difference between the carrying value determined according to the LIFO method and higher average cost is €72 million in 2001 and €255 million in 2000.

17. Receivables and other assets

Million €	2001		2000	
		Thereof non-current		Thereof non-current
Accounts receivable, trade	5,875.5	16.7	6,067.6	24.7
Receivables from affiliated companies	631.9	0.6	916.9	2.5
Receivables from associated companies and other participating interests	248.4	–	319.9	–
Other assets	1,283.3	183.4	1,822.3	159.1
Miscellaneous receivables and other assets	1,531.7	183.4	2,142.2	159.1
	8,039.1	**200.7**	**9,126.7**	**186.3**

Composition of other assets

Million €	2001	2000
Tax refund claims	457.5	616.0
Loans and interest receivables	116.5	103.7
Receivables from commission sales	0.8	3.5
Receivables from the sale of non-trade assets	17.9	90.1
Employee receivables	43.1	44.2
Rents and deposits	48.6	41.4
Insurance claims	25.2	25.3
Other	573.7	898.1
	1,283.3	**1,822.3**

Prepaid expenses accounted for €131.1 million in 2001 and €15.1 million in 2000. In particular, “other” includes in 2000 accruals from financial derivatives of €266.5 million.

Valuation allowances for doubtful accounts

Million €	Balance as of January 1, 2001	Affecting income: Additions	Affecting income: Releases	Not affecting income: Additions	Not affecting income: Releases	Balance as of December 31, 2001
Accounts receivable, trade	404.1	228.7	108.4	78.1	110.6	491.9
Miscellaneous receivables and other assets	81.6	9.7	20.7	2.5	5.7	67.4
	485.7	**238.4**	**129.1**	**80.6**	**116.3**	**559.3**

Million €	Balance as of January 1, 2000	Affecting income: Additions	Affecting income: Releases	Not affecting income: Additions	Not affecting income: Releases	Balance as of December 31, 2000
Accounts receivable, trade	368.2	108.3	146.3	95.3	21.4	404.1
Miscellaneous receivables and other assets	74.1	27.6	6.1	12.9	26.9	81.6
	442.3	**135.9**	**152.4**	**108.2**	**48.3**	**485.7**

Additions and releases not affecting income relate primarily to changes in scope of consolidation, to translation adjustments and write-offs of receivables previously provided for. Valuation allowances for trade accounts receivable include probable losses associated with the political and economic conditions in certain countries, disallowing or postponing the remittance of foreign exchange to the creditors.

18. Marketable securities

Million €	2001 Book values	2001 Market values	2001 Unrealized gains	2000 Book values	2000 Market values	2000 Unrealized gains
Fixed-term interest bearing securities	12.7	12.7	–	14.3	14.3	–
Shares	369.6	615.9	246.3	317.2	567.0	249.8
Mutual funds	–	–	–	22.0	25.4	3.4
Other securities	0.6	0.6		10.6	11.7	1.1
	382.9	**629.2**	**246.3**	**364.1**	**618.4**	**254.3**

The disposal of available-for-sale securities generated neither proceeds nor gains in 2001. In 2000, the disposal of available-for-sale securities led to proceeds of €480.6 million. The gains realized from these sales were €118.1 million in 2000.

Maturities of fixed-term securities

Million €	2001 Book values	2001 Market values	2000 Book values	2000 Market values
Less than 1 year	5.1	5.1	1.9	1.9
Between 1 and 5 years	7.6	7.6	12.4	12.4
	12.7	**12.7**	**14.3**	**14.3**

19. Prepaid expenses

	2001		2000	
Million €		Thereof non-current		Thereof non-current
Discounts	6.2	4.4	9.9	6.2
Miscellaneous	214.4	53.8	300.4	125.3
	220.6	**58.2**	**310.3**	**131.5**

"Discounts," which relate to the 5.75% Euro Bond 2000/2005 of BASF Aktiengesellschaft, are capitalized and amortized as interest expense over the term of the underlying obligations. The remaining discount of the 3% U.S. Dollar Option Bond 1986/2001 of BASF Finance Europe N.V. has been fully amortized in 2001.

20. Capital and reserves

	Conditional capital		Authorized capital	
	2001	2000	2001	2000
January 1	158.3	164.1	500.0	500.0
Cancellation of option rights for option bonds to be issued until April 1, 2001	(102.4)			
Authorization through the Annual Meeting on April 26, 2001, for the issuance of new shares to fulfill the exercising of warrants related to option bonds, which may be issued until April 1, 2006	384.0			
Authorization through the Annual Meeting on April 26, 2001, for the issuance of new shares under the BASF Stock Option Program BOP 2001/2005, resp. 1999/2000	38.4			
Limitation of the issuance of new shares to be issued under the BASF Stock Option Program BOP 1999/2000 to the 3,923,344 warrants issued until April 25, 2001, according to the resolution at the Annual Meeting at April 26, 2001	(28.4)			
Issuance of new shares from the conditional capital through the exercise of warrants attached to the 1996/2001 3% U.S. Dollar Option Bond of BASF Finance Europe N.V.	(17.4)	(5.8)		
Cancellation of warrants from the Option Bond 1996/2001	(0.1)	–		
December 31	**432.4**	158.3	**500.0**	500.0

Subscribed capital

	Outstanding shares	Subscribed capital	Capital reserve
Outstanding shares as of December 31, 2001	588,201,370	1,505.8	2,901.6
Repurchased shares intended to be cancelled	4,800,000	(12.3)	12.3
Outstanding shares as disclosed in the financial statements	583,401,370	1,493.5	2,913.9

A total of 30,775,000 shares were acquired in 2001, of which 25,975,000 shares were cancelled in 2001. The Board of Executive Directors decided in 2001 to cancel the remaining 4,800,000 shares, which was not formally completed as of December 31, 2001. The subscribed capital is shown net of these shares.

Share repurchase

The Board of Executive Directors received approval at the Annual Meeting on April 26, 2001, to repurchase BASF's shares to a maximum amount of 10% of subscribed capital until October 1, 2002. The shares shall be purchased on the stock exchange or through a public purchase offer addressed to all shareholders. If BASF shares are purchased on a stock exchange, the price paid for the shares may not be higher than the highest market price on the buying day and it may not be lower than 25% of that market price. In the case of a public purchase offer, the price offered by BASF may be a maximum of 25% higher than the highest market price on the third trading day prior to the publishing of the public purchase offer.

This authorization supersedes the validity of the prior authorizations to repurchase BASF shares. The Board of Executive Directors is authorized to cancel repurchased shares without further shareholder approval. A sale of repurchased BASF shares requires the respective authorization through the Annual Meeting unless the shares are utilized to serve warrants from the BASF Stock Option Program BOP 1999/2000 and BOP 2001/2005. Furthermore, repurchased shares may be sold to participants in the Stock Option Program 2001/2005, to fulfill the participants' investment requirements in BASF shares according to the clauses of the Stock Option Program in order to meet conditions for the granting of options.

Based on the respective authorizations, a total of 30,775,000 shares, or 5% of the issued shares have been acquired in 2001. The average purchase price was €42.22 per share. Of these shares a total of 25,975,000 shares were cancelled by December 31, 2001. The remaining 4,800,000 own shares of BASF Aktiengesellschaft were acquired for the purpose of cancellation. Therefore, the subscribed capital is shown net of these own shares at December 31, 2001. During 2000, BASF purchased and cancelled a total of 15,856,500 shares, or 2.6% of issued shares, at an average price of €44.13 per share.

Conditional capital

The Annual Meeting on April 26, 2001, authorized the Board of Executive Directors to make an additional conditional increase in the subscribed capital of up to €384.0 million to fulfill the exercising of warrants related to option bonds which may be issued until April 1, 2006. Conditional capital of up to €38.4 million is reserved to fulfill stock options granted under the BASF Stock Option Program BOP 2001/2005 to the members of the Board of Executive Directors and other senior executives of BASF and its subsidiaries; up to €10.0 million conditional capital is reserved to fulfill stock options from the Stock Option Program 1999/2000. An amount of less than €0.1 million is reserved to meet compensation claims of former shareholders of Wintershall.

Authorized capital

At the Annual Meeting of April 29, 1999, shareholders authorized the Board of Executive Directors, with the approval of the Supervisory Board, to increase subscribed capital by issuing new shares in an amount of up to €500.0 million against cash or contribution in kind through May 1, 2004. The Board of Executive Directors is empowered to decide on the exclusion of shareholders' subscription rights for these new shares.

Capital surplus

Capital surplus includes premiums from the issuance of shares, the fair value of warrants attached to option bonds and negative goodwill from the capital consolidation resulting from acquisitions of subsidiaries against issue of BASF shares at par value.

21. Retained earnings

Million €	2001	2000
Legal reserves	206.6	240.2
Other retained earnings and profit retained	12,015.8	8,610.9
thereof proposed dividend	758.4	1,214.1
Total	**12,222.4**	**8,851.1**
Proposed dividend per share	1.30	2.00

The changes in scope of consolidation decreased the legal reserves by €49.9 million in 2001 and by €0.7 million in 2000. Transfers from "other retained earnings and profit retained" increased legal reserves by €16.3 million in 2001 and by €7.1 million in 2000.

22. Minority interests

Company	**Partner**	Equity stake %	2001 Million €	Equity stake %	2000 Million €
WINGAS GmbH,	Gazprom Group,				
Kassel, Germany	Moscow, Russia	35.0	84.9	35.0	87.2
Hokuriku Seiyaku Co. Ltd.,	Publicly traded shares				
Katsuyama-Shi, Fukui, Japan		Sold	–	33.3	125.0
Yangzi-BASF Styrenics Co. Ltd.,	Yangzi Petrochem. Corp.,				
Nanjing, China	Nanjing, China	40.0	61.4	40.0	62.3
Knoll Pharmaceuticals Ltd.,	Publicly traded shares				
Mumbai, India		Sold	–	49.0	14.8
BASF India Ltd.,	Publicly traded shares				
Mumbai, India		47.31	20.1	50.0	18.0
BASF PETRONAS Chemicals Sdn. Bhd.,	PETRONAS (Petroliam				
Petaling Jaya, Malaysia	Nasional Bhd.),				
	Kuala Lumpur, Malaysia	40.0	126.5	40.0	160.6
BASF SONATRACH PropanChem S.A.,	SONATRACH, Algiers				
Tarragona, Spain	Algeria	49.0	39.3		
BASF FINA Petrochemicals Ltd.,	TotalFinaElf,				
Port Arthur, Texas	Paris, France	40.0	17.2		
Others			10.3		13.4
			359.7		**481.3**

23. Provisions for pensions and similar obligations

In addition to governmental pension schemes, most employees are entitled to Company pension benefits resulting from defined contribution and defined benefit plans. Benefits generally depend on years of service, contribution or compensation and consider the legal, fiscal and economic conditions of the countries where companies are located.

The pension plans for BASF Aktiengesellschaft and other German subsidiaries include a funded plan, BASF Pensionskasse, which is financed by equal contributions of employees and the Company and the returns on its assets.

For German Group subsidiaries, additional Company pension commitments are financed primarily by pension provisions. In the case of non-German subsidiaries, pension entitlements are covered in some cases by pension provisions, but mainly by external insurance companies or pension funds.

The valuation according to the "projected unit credit method" as defined by SFAS No. 87 is based on the following average rates:

	2001 %	2000 %
Interest rate	6.5	6.4
Projected increase of wages and salaries	3.3	3.5
Projected pension increase	1.1	1.4
Expected return on plan assets	8.9	8.6

Development of the projected benefit obligation

Million €	2001	2000
Projected benefit obligation as of January 1	6,285.8	6,198.3
Service cost	133.3	155.4
Interest cost	379.3	390.2
Benefits paid	(435.7)	(394.9)
Participants' contributions	3.2	3.7
Change in actuarial assumptions	(66.8)	(75.4)
Settlements and other changes	(419.0)	(91.7)
Exchange rate changes	99.8	100.2
Projected benefit obligation as of December 31	**5,979.9**	**6,285.8**

Development of the plan assets

Million €	2001	2000
Plan assets as of January 1	2,731.0	2,834.5
Actual return on plan assets	(177.5)	61.8
Employer contributions	23.2	72.2
Participants' contributions	3.2	3.7
Benefits paid	(199.4)	(179.0)
Exchange rate changes	95.9	115.0
Other changes	(33.2)	(177.2)
Plan assets as of December 31	2.443.2	2,731.0
Pre-financing of foreign plans	(213.6)	(201.8)
Plan assets as of December 31 excluding pre-financing	**2,229.6**	**2,529.2**

The valuation of the pension fund assets of foreign pension funds under SFAS No. 87 showed the pre-financing shown above.

The **funded status, excluding pre-financing,** is as follows:

Million €	2001	2000
Projected benefit obligation as of December 31	5,979.9	6,285.8
less pension fund assets as of December 31, excluding		
pre-financing	2,229.6	2,529.2
Funded status	3,750.3	3,756.6
Unrecognized amounts	(150.3)	132,9
Provisions for pensions	3,600.0	3,889.5
Provisions for similar obligations	352.7	338.8
Provisions for pensions and similar obligations	3,952.7	4,228.3

Similar obligations refer to commitments by BASF's North American Group companies to provide for the costs of medical and life insurance benefits for employees and eligible dependents after retirement. They are based upon an actuarial valuation, considering the future cost trend and a discount rate of 7.5%.

Composition of the net periodic pension cost

Million €	2001	2000
Service cost	133.3	155.4
Interest cost	379.3	390.2
Expected return on plan assets	(233.5)	(203.4)
Amortization of prior service cost	10.0	9.2
Other amortization amounts	(0.1)	
Settlement gains	(32.1)	(52.7)
Expenses for defined benefit plans	256.9	298.7
Expenses for defined contribution plans	81.9	75.6
Expenses for similar obligations	33.4	26.7
Net periodic pension cost	372.2	401.0

24. Other provisions

Million €	2001	Thereof current	2000	Thereof current
Oil and gas production	368.3	–	367.7	–
Environmental protection and remediation costs	309.1	146.5	269.0	133.3
Personnel costs	1,247.0	836.2	1,297.2	856.0
Sales and purchase risks	841.1	833.9	788.4	776.0
Integration, shutdown and restructuring costs	421.4	359.4	285.0	250.5
Legal, damage claims, guarantees and related commitments	1,873.0	426.2	829.5	191.4
Maintenance and repair costs	91.0	26.8	120.3	81.6
Outstanding billings from suppliers	87.1	87.1	132.0	132.0
Other	331.6	242.5	447.7	398.5
	5,569.6	**2,958.6**	**4,536.8**	**2,819.3**

Oil and gas production: Accrued costs for filling of wells and the removal of production equipment after the end of production are accumulated by installments during the expected production period.

Environmental protection and remediation costs: Expected costs for rehabilitating contaminated sites, water protection, recultivating landfills, removal of environmental pollution at existing production or warehouse equipment and other measures.

Personnel costs: The personnel cost provision includes obligations to grant long-time service bonuses and anniversary payments, vacation pay, variable compensation including related social security contributions and other accruals as well as provisions for early retirement and short-working programs for employees nearing retirement. Most German BASF companies have various programs that entitle employees who are at least 55 years old to reduce their working hours to 50% for up to six years. Under such arrangements, employees generally work full time during the first half of the transition period and leave the Company at the start of the second period. Employees receive a minimum 85% of their net salary throughout the transition period.

Sales and purchase risks: The sales and purchase risks provision includes warranties, product liability, customer rebates, payment discounts and other price reductions, sales commissions and provisions for expected losses on committed purchases or similar obligations.

Integration, shutdown and restructuring costs: Such provisions include severance payments to employees as well as specific site shutdown or restructuring costs, including the costs for demolition and similar measures. The movement in shutdown and restructuring provisions is as follows:

2001 Million €	**Amount accrued as of January 1, 2001**	Amount paid in 2001	Other changes 2001	**Amount accrued as of December 31, 2001**
Severance	193.3	49.6	93.6	237.3
Plant closure and demolition	61.3	50.4	110.1	121.0
Other	30.4	9.6	42.3	63.1
	285.0	**109.6**	**246.0**	**421.4**

2000 Million €	Amount accrued as of January 1, 2000	Amount paid in 2000	Other changes 2000	Amount accrued as of December 31, 2000
Severance	111.3	144.7	226.7	193.3
Plant closure and demolition	52.6	14.5	23.2	61.3
Other	17.0	65.7	79.1	30.4
	180.9	**224.9**	**329.0**	**285.0**

In 2001, provisions for severance payments had to be set up for the planned shutdown of numerous plants and production sites located predominantly in North America (NAFTA), South America, the United Kingdom, the Netherlands and Italy. Further charges arose from the restructuring of the Company's sales and marketing organization.

In 2000, provisions for severance costs for employees resulted from the integration of the crop protection business acquired from American Home Products Corp. (AHP) and from the workforce reduction in the Pharmaceutical segments. Provisions of €403.7 million were accrued for these measures, thereof €243 million for severance cost of employees of the acquired crop protection business of AHP without a charge to profits.

Legal, damage claims, guarantees and related commitments: Provisions are recorded for the expected cost of outstanding litigation and claims of third parties, including regulatory authorities, other guarantees and warrantees for trust proceedings. The significant proceedings are described in Note 26.

Additions in 2001 relate to guarantees granted and risks retained in connection with the sale of the pharmaceutical business. An additional €200 million resulted from the fine imposed by the E.U. Commission for violations of anti-trust laws relating to the sale of vitamin products. The provisions set up hitherto were insufficient due to the unexpectedly high fine. In addition, claims for damages by customers for vitamins from a class action lawsuit settled in 2000 that were previously reported as liabilities have been switched to provisions because numerous large customers have elected to opt out of the settlement.

Maintenance and repair costs: Provision for maintenance and repair costs covers omitted maintenance procedures as of the end of the year that are expected to be incurred within the first three months of the following year and certain provisions for the overhauling of large-scale plants within prescribed intervals.

25. Liabilities

Financial liabilities

Million €	2001	2000
5.75 % Euro Bond 2000/2005 of BASF Aktiengesellschaft	1,250.0	1,250.0
3% U.S. Dollar Option Bond 1986/2001 of BASF Finance Europe N.V.		
repaid in 2001	–	247.8
Other bonds	311.9	277.4
Comercial paper	30.6	4,455.3
Bonds and other liabilities to the capital market	1,592.5	6,230.5
Liabilities to credit institutions	1,242.5	1,661.4
	2,835.0	**7,891.9**

Financial liabilities are denominated predominantly in the following currencies and have the following average interest rates for short-term liabilities:

Million €	2001	2000	2001	2000
U.S. dollar	803.1	4,906.4	5.9%	7.2%
Euros	1,385.5	2,000.9	4.3%	4.6%
Chinese renminbi	156.8	223.5	5.2%	5.7%
Other	489.6	761.1	9.4%	11.6%
	2,835.0	**7,891.9**	Ø 7.3%	Ø 8%

Financial liabilities have the following maturities as of December 31, 2001:

	Million €
2002	909.4
2003	184.0
2004	55.4
2005	1,305.6
2006	57.4
2007 and thereafter	323.2
	2,835.0

The 5.75% Euro Bond 2000/2005 of BASF Aktiengesellschaft was issued in July 2000 in the amount of €1,250 million. The Bond is listed on the Frankfurt Stock Exchange and the Stuttgart Stock Exchange.

The 3% U.S. Dollar Option Bond 1986/2001 of BASF Finance Europe N.V. was repaid on April 9, 2001.

Liabilities to credit institutions

Liabilities to credit institutions relate to a large number of different credit institutions in various countries. Liabilities to credit institutions denominated in Chinese renminbi result from the local financing of Chinese joint ventures.

At the end of 2001, the Company had committed and unused credit lines of €2,800 million with variable interest rates. In addition, the Company had €410 million uncommitted credit lines free of charges.

Miscellaneous liabilities

Million €	2001	Thereof current	2000	Thereof current
Advances received on account of orders	105.9	103.9	48.5	41.1
Liabilities on bills	24.3	24.3	59.7	59.7
Liabilities to companies in which participations are held	297.3	293.6	330.2	329.8
Tax liabilities	281.5	281.2	451.3	450.1
Liabilities relating to social security	152.4	152.4	157.3	157.3
Non-trade liabilities to joint venture partners	466.4	16.1	481.6	27.4
Other miscellaneous liabilities	1,658.4	1,141.7	1,661.5	1,399.0
	2,986.2	**2,013.2**	**3,190.1**	**2,464.4**

Maturities of liabilities

	2001		2000	
Million €	Current	Over 5 years	Current	Over 5 years
Bonds and other liabilities to the capital market	15.5	310.5	4,670.2	259.4
Liabilities to credit institutions	893.9	77.4	1,409.8	38.6
Accounts payable, trade	2,451.7	11.3	2,828.9	5.4
Liabilities to affiliated companies	510.0	–	318.4	–
Advances received on account of orders	103.9	–	41.1	–
Liabilities on bills	24.3	–	59.7	–
Liabilities to companies in which participations are held	293.6	–	329.8	–
Other miscellaneous liabilities	1,591.4	496.4	2,033.9	548.7
	5,884.3	**895.6**	**11,691.8**	**852.1**

Secured liabilities

Million €	2001	2000
Liabilities to credit institutions	9.4	31.4
Micellaneous liabilities	1.0	1.9
	10.4	**33.3**

The above liabilities are collateralized by mortgages, land charges or securities. In addition, covenants were given with regard to adherence to certain balance sheet ratios.

Contingent liabilities

Million €	2001	2000
Bills of exchange	60.4	93.2
thereof to affiliated companies	0.6	2.7
Guarantees	282.6	285.5
Warranties	48.4	48.6
Granting collateral on behalf of third-party liabilities	15.6	8.7
	407.0	**436.0**

Other financial obligations

Million €	2001	2000
Remaining cost of construction in progress	2,982.4	3,966.3
thereof purchase commitment	466.4	512.6
Commitments from long-term rental and leasing contracts	926.1	1,173.0
Repurchase commitments	193.2	781.9
Capital contribution and loan commitments	2.5	635.7
	4,104.2	**6,556.9**

Repurchase commitments are related to accounts receivables.

In 2000, BASF had payment commitments for equity contributions and loans to BASF-YPC Company Ltd., which was not yet included in consolidation. BASF-YPC Company Ltd. is building the Verbund site in Nanjing, China, together with BASF's partner SINOPEC.

Obligations from rental and lease contracts are due as follows:

	Million €
2002	225.3
2003	160.0
2004	125.4
2005	105.8
2006	84.0
2007 and thereafter	225.6
	926.1

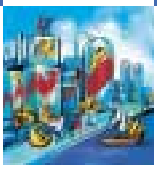
Purchase commitments for raw materials and natural gas from long-term contracts
The Company has entered into long-term purchase contracts for natural gas, the vast majority of which are coupled with long-term supply contracts to customers. In addition, the Company purchases raw materials globally, both on the basis of long-term contracts and in spot markets. In general, such commitments are at prices that are regularly adjusted to market conditions. The fixed and determinable portions of long-term purchase contracts with a remaining term of more than one year as of December 31, 2001, are as follows:

	Million €
2002	6,618.0
2003	3,541.0
2004	2,313.0
2005	1,860.0
2006	1,723.0
2007 and thereafter	10,807.0
	26,862.0

26. Litigation and claims

In the context of its ordinary business operations, BASF is a defendant in class action lawsuits brought before United States courts and individual actions before labor courts and civil courts or comparable institutions in Germany and abroad. Significant proceedings are discussed below.

Antitrust claims relating to vitamins
In 1999 and in 2000, BASF Aktiengesellschaft as well as BASF Australia Ltd. entered into agreements with the United States Department of Justice and the Canadian Competition Bureau and the Australian Department of Justice by which BASF Aktiengesellschaft and BASF Australia Ltd. agreed to plead guilty to certain violations of antitrust laws relating to the sale of vitamin products in the respective countries. The relevant courts accepted the guilty pleas and the recommended fines of $225 million, C$19 million and A$7.5 million. On November 21, 2001, the European Commission imposed a fine of €296.2 million against BASF Aktiengesellschaft. BASF has appealed against this decision.



Proceedings are still running in Mexico, Brazil and Australia (relating only to vitamin C).

BASF has agreed to settle the class action lawsuits with plaintiffs that purchased products directly from vitamin manufacturers. Terms of the settlement agreement call for seven vitamin manufacturers to contribute $1.17 billion. The Company's share of this settlement is $287 million. The United States district court for the District of Columbia granted final approval of the proposed settlement on March 28, 2000. Because numerous large customers have elected to opt out of the proposed settlement, BASF Aktiengesellschaft's share has been reduced to $90 million including fees of plaintiffs attorneys. Individual settlements with a series of such customers have been concluded. The payments for these settlements are within the range indicated above.

State court actions on behalf of indirect purchasers are proceeding separately in approximately 28 states. BASF has agreed to settle state class action law suits in 24 states. Terms of the settlement agreements call for six vitamin manufacturers to contribute up to $396 million, subject to approval of the settlements in various state courts. If the settlements are finally approved, BASF Aktiengesellschaft will be obligated to pay up to $97 million of the total amount. All settlements have been granted preliminary approval. Further claims for damages have been filed in Canada, New Zealand and in Australia.

The Company has established provision for the costs that it can currently anticipate in excess of the amounts agreed upon and paid. BASF does not believe that the additional charges relating to unsettled vitamin antitrust proceedings will have a substantial impact on the profitability of the Company.

Synthroid® related claims

This proceeding concerned class action lawsuits against Knoll Pharmaceutical Company (KPC) of BASF's Pharmaceutical business, discontinued in 2001. The lawsuits challenged Knoll's delaying the publication of a study comparing Synthroid® to certain branded and generic products. Final approval of a proposed settlement of 1997 was not granted. Knoll subsequently negotiated a new proposed settlement with consumers and third-party payors providing for a payment of $25.5 million in addition to the $98 million paid into escrow in late 1997 (plus the accrued interest thereon). The United States District Court of Chicago granted final approval of the new proposed settlement on August 4, 2000. A number of appeals have been filed. On August 31, 2001, the United States Court of Appeals granted final confirmation of the settlement. However, the district court needs to determine attorneys' fees and costs before the payment is made.

Additional proceedings

In 2001, class action lawsuits against BASF Aktiengesellschaft and some of its affiliates were filed at United States courts. It was alleged that sales of automotive refinish coatings had violated antitrust laws. BASF considers these allegations to be unfounded and will consequently file for dismissal of the lawsuits.

27. Stock-based compensation

BASF stock option program (BOP)

The Annual Meeting of April 26, 2001, approved the modified BASF stock option program for senior executives of the Company worldwide. For information on the increase of conditional capital, see Note 20. Approximately 1,200 senior executives, including the Board of Executive Directors, are authorized to participate in this program. To participate in the stock option program, each participant must make an individual investment in BASF shares in the amount of 10% to 30% of his or her individual variable compensation. The number shares to be applied for through the BOP program is determined by the defined amount of the variable compensation and the weighted average market price quotation for BASF shares, which was €47.87 on April 27, 2001. The options of the Stock Option Program 2001 can be exercised between July 1, 2003 and the 15th day after the Annual Meeting in 2009.

For each BASF share of the individual investment, a participant receives four options, each of which entitles a holder to purchase a maximum of two BASF shares (Share A and Share B) at a price lower than the market price if, on the exercise date of the option, the exercise hurdles described below have been exceeded. Options to purchase Share A may be exercised if the market price of BASF shares exceeds 30% of the market price at the grant date of the options. The exercise price of Share A will be the market price at the exercise date less the share price increase since granting the option (this reduction is limited to 100% of the grant price). Options to purchase Share B may be exercised if the cumulative percentage performance of BASF shares exceeds the percentage performance of the Dow Jones Global Chemicals Total Return Index (DJ Chemicals). The exercise price of Share B will be the market price at the exercise date of the option minus twice the percentage outperformance of BASF shares compared to the DJ Chemicals index. Each option right may only be exercised if the performance targets are achieved and may only be exercised once, meaning that if only one performance target is met and that option is exercised, the other option right expires. The option can be exercised within one month after the target is met. The maximum gain for a participant from the BOP program is limited to 10 times the original individual investment.

The BOP 1999 and BOP 2000 stock option programs were structured in a similar way to the BOP 2001 program. The options granted may be exercised between the day after the Annual Meetings in 2002 and 2003 and the 15th day after the Annual Meetings in 2005 and 2006, respectively. The benchmark index to determine the value of the option on Share B is the Dow Jones EURO STOXX^{SM} Total Return Index (EURO STOXX). To participate in the BOP program, each participant must make an individual investment in BASF shares in the amount of 10% to 30% of his or her individual variable compensation. The invested amount is used to purchase BASF shares at the market price of the first business day after the Annual Meeting, which was €47.80 on April 28, 2000 for the BOP 2000 stock option program and €41.60 on April 30, 1999 for the BOP 1999 stock option program.

Details on the fair value and the number of options issued are described below. The fair value of BOP 2001 is calculated based on the full-term structure of interest rates given by deposit and swap rates, as quoted April 27, 2001. For BOP 2000 a risk-free interest rate of 5.39% is used.

	BASF incentive share program	
	2001	2000
Fair value at grant date	€35.91	€29.59
Parameter used:[1]		
Dividend (yield) of BASF shares	€1.30 p. a.	2.59%
Volatility of BASF shares	30%	30%
Volatility of index[2]	20%	20%
Correlation BASF quotation : Index[2]	50%	60%

1 Assuming a continuous exercise of the options during the exercise period of six years for options of 2001 and three years for options of 2000

2 2001: DJ Chemicals, 2000: EURO STOXX

	2001	2000
Number of options outstanding as of January 1	2,057,003	1,172,728
Number of options granted	1,133,204	917,016
Number of options lapsed[1]	97,475	32,741
Number of options outstanding as of December 31	3,092,732	2,057,003

1 Option rights lapse if the option holders no longer work for BASF or have sold part of their BOP shares

Total compensation cost for the stock option programs is determined by valuing the number of outstanding options with the fair value of the options at the grant date. This total compensation cost will be recognized by a charge to income over the period in which the related employees' services are rendered (2001: two years, 2000: three years). Compensation cost of €30.2 million was recorded in 2001 and €15.9 million in 2000.

BASF "plus" incentive share program

In 1999, BASF started an incentive share program called "plus" for all eligible employees except the senior executives entitled to participate in the BOP. Currently, employees of German and of various European and Mexican subsidiaries are entitled to participate in the program. Each participant must make an individual investment in BASF shares from his or her variable compensation. For each 10 BASF shares purchased in the program, a participant receives one BASF share at no cost after one, three, five, seven and 10 years of holding the BASF shares. The right to receive free BASF shares expires if a participant sells the individual investment in BASF shares, if the participant stops working for the Company or one year after retirement.

Details on the incentive share program are described below.

	2001	2000
Number of shares held as individual investment as of January 1	745,840	220,840
Number of shares added to the individual investment	434,800	544,730
Number of subscription rights lapsed	49,960	19,730
Number of shares held as individual investment as of December 31	1,130,680	745,840

The Company provides for the value of the free shares over the period until the shares are to be issued based on the year-end price of BASF shares. Compensation cost of €4.4 million was recorded in 2001 and €2.7 million in 2000.

28. Financial instruments and derivative instruments

Derivative instruments

The Company is exposed to foreign currency, interest rate and commodity risks during the normal course of business. In cases where the Company intends to hedge against these risks, derivatives are used, including forward exchange contracts, currency options, interest rate/currency swaps or combined instruments or commodity derivatives. In addition, derivative instruments are used to replace transactions in original financial instruments, such as shares or fixed-interest securities. Derivative instruments are only used if they have a corresponding underlying position or planned transaction arising from the operating business, cash investments and financing. The leverage effect that can be achieved with derivatives is deliberately not used. The derivative instruments held by the Company are not held for the purpose of speculation.

Where derivatives have a positive market value, the Company is exposed to credit risks in the event of non-performance of their counterparts. The credit risk is minimized by exclusively trading contracts with major creditworthy financial institutions.

To ensure efficient risk management, market risks are centralized at BASF Aktiengesellschaft, except when certain subsidiaries have been authorized to close derivative contracts under the principles mentioned above. The Company has developed and implemented internal guidelines based on the principles of separation of functions for completion and execution of derivative instruments.

The risks arising from changes in exchange rates and interest rates as a result of the underlying transactions and the derivative transactions concluded to secure them are monitored constantly. The same is effective for the derivative instruments, which are used to replace transactions in original financial instruments. For this purpose, market quotations or computer or mathematical models are used to determine the current market values not only of the underlying transactions but also of the derivative transactions and these are compared with each other.

Foreign exchange and interest rate risk management

Foreign currency derivatives are primarily aimed at hedging the exchange rate risk against U.S. dollar, the Canadian dollar, the Australian dollar, the British pound, the Swiss franc, the Japanese yen and the Singapore dollar.

Interest derivatives or combined interest/currency derivatives were concluded to hedge loans granted to group companies. In the case of interest swaps or combined instruments, the difference between interest paid and interest received is deferred and is reflected in the interest result. As far as other derivatives are concerned, index swaps were used to create synthetic share investments with a guarantee of the capital invested.

Fair value of financial instruments

The fair value of a financial instrument is the price at which the instrument could be exchanged between willing parties. Fair value amounts are estimated by the Company management based on available market information and appropriate valuation techniques. These estimates do not necessarily reflect the amount that could be realized or would be paid in the current market.

Book and estimated fair values of financial instruments, for which it is practicable to estimate the fair value, were as follows:

	December 31, 2001		December 31, 2000	
Million €	Book value	Fair value	Book value	Fair value
Assets				
Financial assets (see Note 15)	3,360.7	3,477.7	3,589.7	3,677.4
Accounts receivable, trade and other assets	8,039.1	8,057.7	9,126.7	9,133.3
Marketable securities (see Note 18)	382.9	629.2	364.1	618.4
Cash and cash equivalents	359.9	359.9	505.5	505.5
Liabilities				
Financial liabilities	2,835.0	2,876.7	7,891.9	7,918.1
Accounts payable, trade and other liabilities	6,025.8	6,038.9	6,430.0	6,429.3

Accounts receivable and other assets, accounts payable and other liabilities: For trade accounts receivable, liquid funds and other assets, trade accounts payable and other liabilities, the book value approximates the fair value. For non-current amounts, the difference between book value and fair value represents primarily unrecognized gains from foreign currency balances.

The fair value of financial assets and marketable securities represents market values from securities exchanges at the balance sheet date. The market value of financial liabilities represents a valuation of bonds at inter-bank rates.

Breakdown of derivative financial instruments

	Nominal amounts December 31		Fair value December 31	
Million €	**2001**	**2000**	**2001**	**2000**
Forward exchange contracts	5,051.6	10,630.0	(125.5)	(17.8)
Currency options	153.4	4,220.9	1.5	66.1
Foreign currency derivatives	5,205.0	14,850.9	(124.0)	48.3
Interest rate swaps	15.1	36.0	(0.4)	0.1
Interest rate/cross currency swaps	3,081.1	2,977.2	(590.9)	(367.9)
Interest rate derivatives	3,096.2	3,013.2	(591.3)	(367.8)
Commodity derivatives and other derivatives	33.4	25.6	4.8	10.1

The nominal values are the totals of the purchases and sales of the particular derivatives on a gross basis. The fair market values correspond to the difference between the cost and resale value, which is determined from market quotations or by the use of option pricing models or, in the case of unlisted contracts, the termination amount in the event of premature cancellation. Offsetting changes in the valuation of the underlying transactions are not taken into account.

Provisions for probable losses from fluctuations of foreign exchange rates, interest rates or prices amounted to €11.1 million in 2001 and €47.4 million for 2000. All changes of the fair value of financial instruments and derivative contracts had been recognized as required by U.S. GAAP and the impact on net income and stockholders' equity in accordance with U.S. GAAP is disclosed in Note 4.

Interest rate and cross currency swaps are related to internal financing of Group companies worldwide. Commodity derivatives are used to hedge raw material prices, e.g., for naphtha.

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 Löbbe as a member of the Board of Executive Directors with effect from January 1, 2002; Löbbe 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.

Glossary

Agricultural Products
The Agricultural Products division develops and produces products to protect crops from weeds, fungal attack and insect pests.

barrel
Traditional measuring unit from the early days of the oil industry, when oil was transported exclusively in barrels. A barrel is the standard unit of volume used in the oil industry. One barrel corresponds to approximately 159 liters.

biotechnology
A process in which living cells or enzymes are used to produce active ingredients.

Brent
A blend of North Sea crude oils, used as the international benchmark for crude oil prices.

CLEARFIELD® Production System
A combination of BASF herbicides and seeds that are tolerant to those herbicides.

Coatings
The Coatings division produces and markets automotive OEM and refinish coatings, industrial coatings and decorative paints.

Fine Chemicals
In the Fine Chemicals division we develop, produce and market high-value products for human and animal nutrition and for the cosmetics and pharmaceutical industries. Our primary products are vitamins, pharmaceutical active ingredients, polymers for drugs and cosmetics, carotenoids, aromatic chemicals, UV filters, the amino acid lysine and enzymes for animal nutrition.

Functional Polymers
The Functional Polymers division is the global market leader in acrylic acid and superabsorbents and is a leading producer of functional polymers for the adhesives, construction, carpeting and paper industries. The division operates production facilities in all important regions of the world, consistently taking advantage of the BASF Verbund and expanding its global presence.

Inorganics
The wide range of products in the Inorganics division includes not only important raw materials such as ammonia, sulfuric acid, nitric acid and the electrolysis products chlorine and sodium hydroxide, but also such innovative specialties as electronic grade chemicals, heterogeneous catalysts, impregnating resins and powder injection molding technologies.

Intermediates
The Intermediates division produces amines, diols and polyalcohols, as well as carboxylic acids and specialties for variety of chemical syntheses; 20% of the division's sales volumes are for captive use within BASF.

Liquefied Petroleum Gas (LPG)
Liquefied natural gases, such as propane, butane and propane-butane blends, which are used in the heating market, as an alternative raw material for cracker operations and for other chemical processes.

NAFTA region
Free trade zone between the United States, Canada and Mexico; established in the North American Free Trade Agreement. This economic region is one of the BASF's five business regions.

naphtha
As the chief raw material in steam crackers, naphtha is a clear liquid crude petroleum produced as a by-product during the manufacture of petroleum products in a crude oil refinery. Heavy naphtha is the basic ingredient in motor fuel production, and light naphtha is the most important cracker raw material worldwide.

oil equivalent
Unit used to standardize volumes of liquid and gaseous hydrocarbons with regard to their energy content.

Performance Chemicals
The Performance Chemicals division includes the business areas Coatings, Plastics & Specialties; Printing Industry; Automotive & Oil Industry, Detergents & Formulators; Textiles; and Leather. In all six business areas, we supply high-performance specialties worldwide that add value for our customers directly without further chemical processing.

Performance Polymers
The Performance Polymers division produces nylon 6 and 6,6, used for materials and fiber applications, as well as their monomers (e.g., caprolactam and AH salt). Polyacetal, polybutylene terephtalate, polyethersulfone and polysulfone complete the product range in specialized plastics for injection molding and extrusion applications.

Petrochemicals
The Petrochemicals division operates world-scale facilities to supply the Verbund sites with petrochemical feedstocks such as ethylene and propylene, as well as with technical gases such as hydrogen and oxygen. In later processing stages, products in the BASF plasticizers and solvents value-adding chains are produced, as are alkylene oxides and glycols. Typical examples are butanol, phthalic anhydride and ethylene oxide, which are processed primarily within the BASF Verbund.

Pharma Solutions
A product area that comprises active ingredients, excipents, and, increasingly, contract manufacturing for the pharmaceutical industry.

plant biotechnology
Technology that uses living microorganisms to improve plant characteristics, for example, by modifying cell properties or developing genetically modified plants.

Polyurethanes
The Polyurethanes division is one of the world's leading manufacturers in the polyurethane (PUR) industry. The product line comprises the entire spectrum of basic PUR products, from PUR systems to PUR specialties.

Return on assets before income taxes and interest expenses
This describes the returns we make on the average assets employed during the year:

$$\frac{\text{Income from ordinary operations + interest expenses}}{\text{Average assets*}} \times 100$$

$$\text{*}\frac{\text{(Balance sheet total start of year + year end)}}{2}$$

Return on operational assets
The return on operational assets describes the returns made by an individual segment on its allocated assets:

$$\frac{\text{Income from operations of a segment}}{\text{Average operational assets*}} \times 100$$

$$\text{*}\frac{\text{(Start of year total + year-end total)}}{2}$$

Return on sales
The return on sales describes the returns we make from our operations as a percentage of sales:

$$\frac{\text{Income from operations}}{\text{Sales}} \times 100$$

special items
Special items are one-off charges or income that have a significant effect on the earnings of a segment or the entire BASF Group. In particular, special items include payments arising from restructuring measures such as severance payments, costs associated with the closure of production plants or for the remediation of soil contamination. Other special items might involve profits or losses from the divestiture of business units, product groups or other significant business activities, unscheduled write-downs due to long-term value impairments on fixed assets, costs of integrating newly acquired business units including the one-time effect from the sale of inventories taken over as part of an acquisition and revalued on the basis of their market value as well as significant charges arising from litigation and claims for damages, for example from antitrust proceedings that do not come under the category of normal risks from warranty obligations.

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

Styrenics
This operating division produces and distributes styrene and styrenics worldwide. The production of the primary product styrene is primarily for captive use (backward integration). Styrenics are used in many fields, including the construction, packaging, automotive, electric and leisure industries.

superabsorbents
Superabsorbents can absorb several times their own weight in liquid and retain it even under pressure.

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

Verbund
The Verbund – a German word meaning integrated – 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.

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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
Fixed assets	**9,639**	**10,374**	**9,496**	**10,095**	**11,607**	**12,705**	**14,546**	**16,070**	**21,769**	**21,493**
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
Receivables	**4,508**	**4,314**	**4,574**	**4,731**	**5,055**	**6,064**	**5,873**	**7,178**	**9,437**	**8,259**
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
Current assets	**10,288**	**10,261**	**10,884**	**11,397**	**10,746**	**11,831**	**12,156**	**13,939**	**16,788**	**15,382**
Assets	**19,927**	**20,635**	**20,380**	**21,492**	**22,353**	**24,536**	**26,702**	**30,009**	**38,557**	**36,875**

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
Stockholders' equity	**7,456**	**7,641**	**8,140**	**9,166**	**10,476**	**12,031**	**13,250**	**14,145**	**14,295**	**17,522**
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
Provisions	**7,043**	**7,161**	**7,160**	**7,391**	**7,443**	**7,287**	**7,746**	**8,638**	**9,543**	**10,141**
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
Liabilities	**5,428**	**5,833**	**5,080**	**4,935**	**4,434**	**5,218**	**5,706**	**7,226**	**14,719**	**9,212**
Total liabilities	**12,471**	**12,994**	**12,240**	**12,326**	**11,877**	**12,505**	**13,452**	**15,864**	**24,262**	**19,353**
thereof long-term	6,581	6,424	6,235	6,614	6,223	6,094	6,898	7,529	9,059	9,955
Stockholders' equity and liabilities	**19,927**	**20,635**	**20,380**	**21,492**	**22,353**	**24,536**	**26,702**	**30,009**	**38,557**	**36,875**

Sales and earnings	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
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
Personnel costs	**5,712**	**5,507**	**5,313**	**5,531**	**5,637**	**5,790**	**6,010**	**6,180**	**6,596**	**6,028**
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[2]
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[1]	
Number of shares (in thousands)	570,390	584,502	609,766	609,766	618,052	622,063	623,794	620,985	607,399	583,401

[1] Special dividend of stockholders' equity charged with 45% corporation tax

[2] Including extraordinary income

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Key data BASF Group

2001

BASF

Key data BASF Group 2001

Sales (million €)	
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

Earnings (million €)	
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

Other key data	
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

Key BASF share data (€)	
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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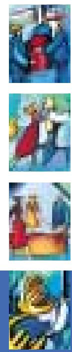

Key data BASF Group
2001

BASF

Yes,
please send me further information.

Publisher:
BASF Aktiengesellschaft
Corporate Department Communications
67056 Ludwigshafen
Germany

Design: Charles Barker GmbH, Frankfurt (Main), Germany
Illustrations: Katrin Assmann, Essen, Germany

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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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