

**BASF**

**The Chemical Company**

**„Challenges in chemistry”**



**Dr. Michael Hepp**

Managing Director  
BASF Polska

# Overview



**1. Changes on the chemical market**

**2. Impact of the world crisis**

**3. Political challenges**



**1. Changes on the chemical market**

**2. Impact of the world crisis**

**3. Political challenges**

# 10 biggest chemical companies by sales

Significant changes over the last decade

1998  2008

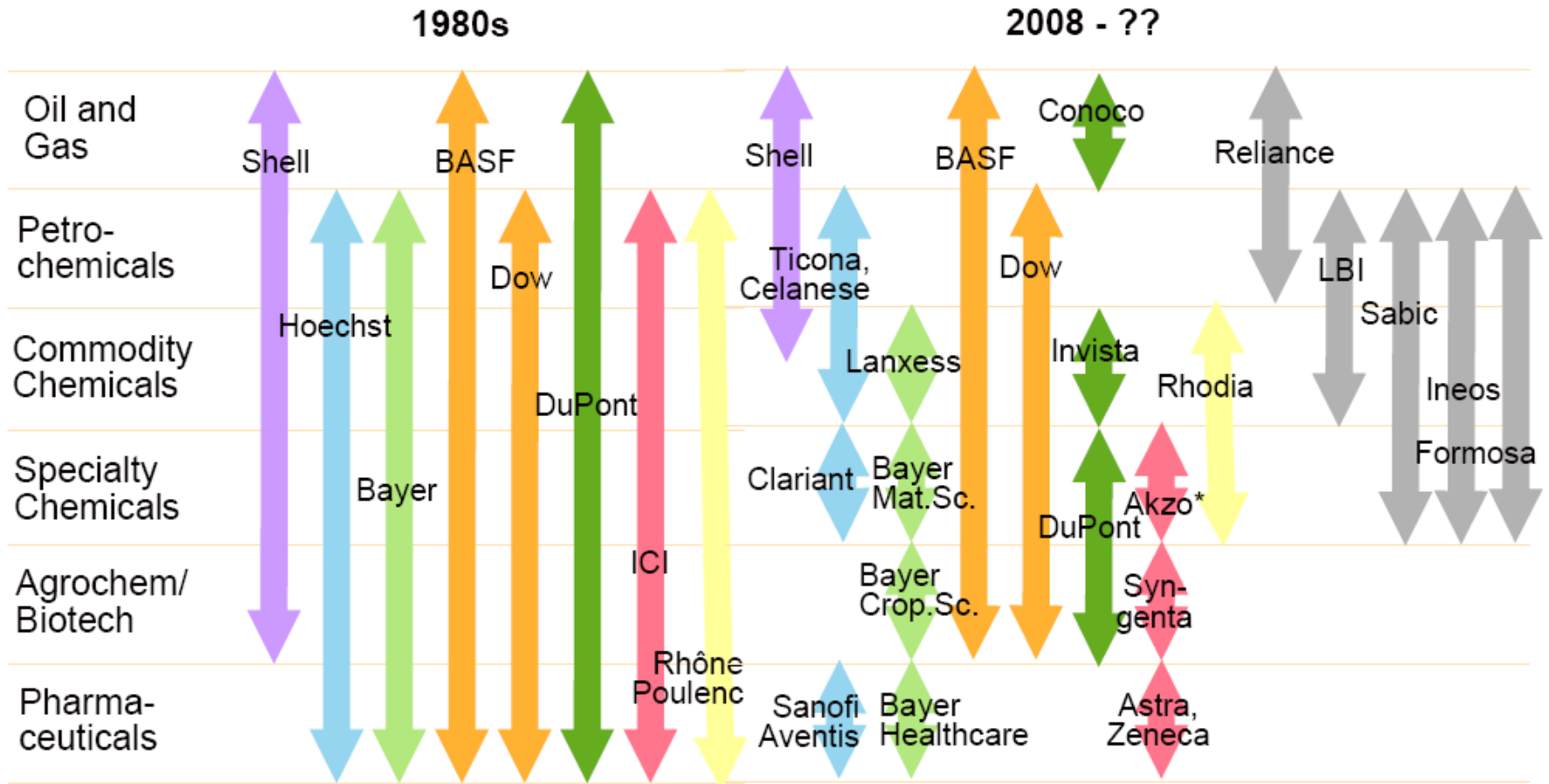
	COMPANY	SALES \$ Bn
1	Bayer	32,9
2	<b>BASF</b>	32,4
3	Hoechst	26,2
4	DuPont	24,8
5	Dow Chemical	18,4
6	Rhone-Poulenc	15,5
7	ICI	15,4
8	Elf Group	14,8
9	Akzo Nobel	14,6
10	Mitsubishi Chemical	12,9

	COMPANY	SALES \$ Bn
1	<b>BASF</b>	87,8
2	Dow Chemical	57,5
3	LyondellBasell	50,7
4	Shell	49,1
5	INEOS	41,0
6	SABIC	40,2
7	Sinopec	35,4
8	DuPont	30,5
9	Mitsubishi Chemical	29,9
10	Total	28,4

Source: ICIS (Chemical industry news and intelligence)

# Competitive landscape

Significantly changing industry structure

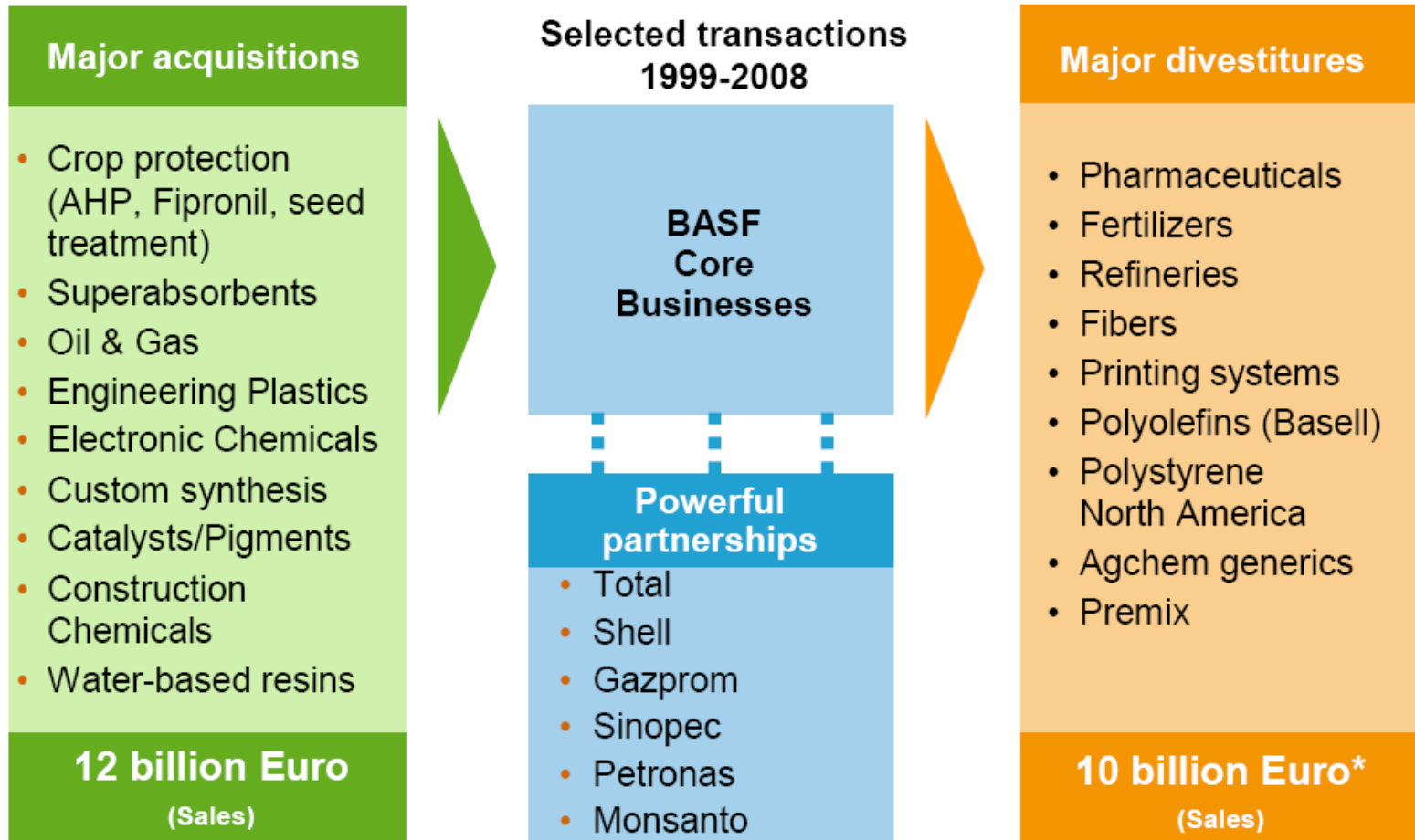


\*(inkl. ICI)

Today, many companies are focused on one step of the value chain, many new players

# Active portfolio management

## Towards higher returns and reduced cyclicality



\* Including non-consolidated sales from BASELL



**1. Changes on the chemical market**

**2. Impact of the world crisis**

**3. Political challenges**

# World crisis

## BASF assumptions and business development



### BASF basic assumptions for 2009

- Global gross domestic product (-2,5%)
- Global industrial production (-9%)
- Global chemical production excluding pharma (-6%)

### BASF business development Q3 2009

- Sales: **€12,8 billion** (-19% to Q3 08) (+ 2,4% to Q2 09)
- EBIT before special items: **€1,25 billion** (-20% to Q3 08) (+ 9,5% to Q2 09)
- Figures exceed the consensus analysts' estimates
- Improvement of earnings reflects operational strength
- Integration of CIBA proceeding faster than expected
- Impulse for growth coming from Asia, esp. China and South America

# World crisis

## BASF measures

- ❑ **Reduction of capacity worldwide**  
Temporary shut-down of one cracker (Germany), closing of two styrenics plants (Germany, Spain)...
- ❑ **Consolidation of production base**  
Closing of Feluy (Belgium), selling São José dos Sampos (Brazil)...
- ❑ **Synergies from integration of acquisitions**  
Ciba integration: expected annual synergies of at least €400 million
- ❑ **Implementation of short-time work**  
5,200 BASF employees at 19 sites in Europe affected
- ❑ **Strict management of inventories and accounts receivable**  
Cash flow increase by €1 billion to €3,6 billion in first half of 2009
- ❑ **Restructuring and efficiency programs**  
Goal: Increase earnings by more than €1 billion per year as of 2012

# World crisis

## Preparing for future growth

### ❑ **Investments**

Chinese government approved the feasibility study of BASF and SINOPEC for expansion of the production site in Nanjing (\$1.4 billion, 10 plants)

### ❑ **Research and Development**

R&D expenditures at the same level as in 2008 (€ 1,3 billion)



**1. Changes on the chemical market**

**2. Impact of the world crisis**

**3. Political challenges**

# Political challenges

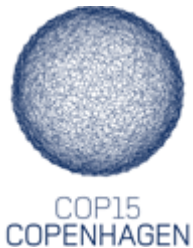
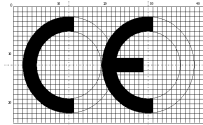
## Growing number of regulations

### □ Pressure from the EU

- REACH, „Eco-Design” and „Eco-Label”
- International climate policy, carbon tax and Emission Trading System (carbon leakage possibility, Copenhagen UN Climate Change Conference)
- Nanotechnology
- Biotechnology and Genetically Modified Organism (GMO)

### □ Chemical business has to be **proactive**

- Stronger involvement through CEFIC, ICCA, GBE, PlasticsEurope and local chemical organizations as well as employers organizations in the EU
- Expertise and knowledge support for EU politicians and NGO's
- Increase public appreciation for chemistry (2011 – International Year of Chemistry, centenary of Marie Curie Skłodowska's Nobel Prize)



Amflora

# Political challenges

## Transparent communication

- REACH → BASF average costs of **€50 million per year** until completion of the implementation in 2018.
- BLACKLISTS → Increasing trend towards **product discrimination** (hazard- versus risk-based approach)
- ETS/CARBON TAX → Avoid **Carbon Leakage** – exemptions for “exposed sectors” (chemical sector) in CO2 tax system. A global agreement with fair burden sharing needed.
- BIOTECHNOLOGY → Authorization of genetically modified crops should be based on **scientific evidence**.
- NANOTECHNOLOGY → **No special role for nanomaterials:** Nanomaterials are chemicals covered by existing regulations.

**UNITARY POSITION OF INDUSTRY TOWARDS REGULATIONS NEEDED !**

**CREATION OF ACCEPTANCE FOR NEW TECHNOLOGIES NEEDED !**



The Chemical Company