COMPANY PROFILE

BASF SE

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TABLE OF CONTENTS

COMPANY OVERVIEW

BASF (or 'the company') is one of the largest chemical companies in the world. Its product portfolio includes chemicals, plastics, functional solutions, performance products, agricultural solutions, and crude oil. The company operates in Europe, the Americas, Asia Pacific, Africa and the Middle East. It is headquartered in Ludwigshafen, Germany, and employed 113,292 people as on December 31, 2014.

The company recorded revenues of E74,326 million (approximately $98,779.3 million) during the financial year ended December 2014 (FY2014), an increase of 0.5% over FY2013. The operating profit of the company was E7,626 million (approximately $10,135 million) in FY2014, an increase of 6.5% over FY2013. The net profit of the company was E5,155 million (approximately $6,851 million) in FY2014, an increase of 7.6% over FY2013.

KEY FACTS

Head Office	BASF SE Carl-Bosch-Strasse 38 67056 Ludwigshafen DEU
Phone	49 621 60 0
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Web Address	http://www.basf.com
Revenue / turnover (EUR Mn)	74,326.0
Financial Year End	December
Employees	113,292
Frankfurt Ticker	BAS

SWOT ANALYSIS

BASF (or 'the company') is one of the largest chemical companies in the world. The company's product portfolio includes chemicals, plastics, functional solutions, performance products, agricultural solutions, and crude oil. The company has become 'partner of choice' by its impressive record of deal making. However, implementation of new regulations, such as REACH, could increase the operating expense of the company, affecting its profitability.

Strengths	**Weaknesses**
Impressive record of deal making has made BASF 'partner of choice' 'Verbund' concept providing BASF with cost advantages and energy savings	Litigations may affect brand image
Opportunities	**Threats**
Strengthening chemicals business in Asia Pacific region could drive BASF's further growth Expansion of Nord Stream pipeline Building a broad portfolio of functional materials and components	Stringent REACH regulations Risks related to oil and natural gas exploration and production activities

Strengths

Impressive record of deal making has made BASF 'partner of choice'

Striking deals for partnerships and collaborations with strong partners is a major strength of BASF. The company also maintains long-term relationships with other large players in the global chemical industry.

BASF and the Dow Chemical Company (Dow), one of the largest chemical companies in the US, have been partners in many projects over the years. In 2003, Dow and BASF began their joint process research program to develop and commercialize the hydrogen peroxide to propylene oxide (HPPO) technology. This joint venture (JV), known as BASF Dow HPPO Production, allowed the two companies to combine their innovation strengths and thereby commercialize the technology more rapidly than would have been possible by either partner alone. Subsequently, during 2009, BASF and Dow began production in the world's largest commercial-scale propylene oxide (PO) plant and the first based on the innovative HPPO technology. This HPPO complex, with a capacity of

300,000 metric tons PO per year located at BASF's site in Antwerp, Belgium, provides economies of scale, reduction of wastewater, and lower energy usage.

BASF, through its petrochemical JV with China Petroleum & Chemical Corporation (Sinopec), has become one of the largest foreign investors in China, a major emerging market. BASF-YPC, BASF's 50-50 JV with Sinopec, was formed in 2000 for a joint construction of an integrated petrochemical site in Nanjing, China. In 2010, both companies further expanded their joint chemical site. During the tenth anniversary of their collaboration, BASF and Sinopec further extended their collaboration to executive new projects for the expansion of the C3 and C4 value chains for approximately $1 billion. In early 2012, BASF and Sinopec inaugurated the $1.4 billion second phase (including expansions of existing plants and construction of new facilities) of their integrated petrochemical site in Nanjing.

BASF has partnership with Sumitomo Metal Mining in N.E. Chemcat Corporation, a developer and producer of catalysts used in fields such as energy, automotive, petrochemical, fine chemical, pharmaceutical, and environmental protection, in Japan.

Partner of choice for major players provides BASF with a platform to build its businesses on its partners' strength to reach new territories and markets.

'Verbund' concept providing BASF with cost advantages and energy savings

'Verbund', meaning 'linked' or 'integrated' to the optimal level, is central to BASF's operating structure. It is BASF's innovative approach to vertical integration. BASF has been known for making the most of its integrated approach to manufacturing, research and its overall management philosophy. This philosophy, together with the maximum integration of infrastructure, processes, energy and waste management, represents more than simple integration. It represents entire interlocking value chains, from chemical building blocks produced primarily for BASF use to cyclically resilient specialty and fine chemicals that offer higher returns.

At Verbund sites, BASF uses byproducts of chemical reactions, which might otherwise have to be disposed of, as raw materials for other processes. For instance, many chemical processes release heat energy, which BASF converts into steam and uses it to drive other processes within a Verbund site. By reusing byproducts and residual materials, and using energy and other raw materials efficiently, BASF derives cost advantages and energy savings. At the end of 2014, BASF had six Verbund sites. Verbund concept makes an important contribution to energy efficiency by linking BASF's production and energy demand. Waste heat from production processes is captured to be used as energy in other production plants. This process helps BASF save more than 17.9 million megawatt-hours (MWh) per year, which corresponds to annual savings in carbon dioxide emissions of 3.6 million metric tons.

Weaknesses

Litigations may affect brand image

BASF and its subsidiaries have been involved in several litigations. For instance, in 2013, the International Court of Arbitration (ICC) notified Wintershall Energia Argentina (WIAR, a subsidiary of Wintershall Group) of the commencement of an arbitration proceeding against WIAR (along with Total Austral and Pan American Energy) by Metrogas, Chile. The defendants, as sellers, concluded a natural gas supply contract with Metrogas in 1997. In the arbitration process, Metrogas claimed damages as a result of insufficient gas deliveries. The value of the claim amounted to E180 million (approximately $239 million), of which WIAR would have to bear 37.5%.

Furthermore, BASF and its affiliated companies are defendants in or parties to a variety of judicial, arbitrational or regulatory proceedings. This includes a civil case for damages brought in the southern District of New York against BASF Metals, based in London, England, by a US jewelry business in November 2014, and two lawsuits with identical allegations brought in the same court in January 2015 and February 2015. BASF Metals and three other defendants are accused of improper conduct concerning the calculation of the market prices of palladium and platinum.

Such litigations against BASF may have a negative impact on its brand image.

Opportunities

Strengthening chemicals business in Asia Pacific region could drive BASF's further growth

In the recent past, BASF has taken several initiatives to strengthen its chemicals business in Asia Pacific region particularly in China. For instance, in August 2015, the company inaugurated its new resin and electrocoat plant at the Shanghai Chemical Industry Park (SCIP) in Shanghai. This new plant would further strengthen BASF’s local manufacturing footprint in Asia Pacific. As part of its Asia Pacific strategy, BASF aims to produce locally 75% of what it sells in Asia Pacific. This plant, together with the automotive coatings plant BASF opened in 2014, provides the capacity it needs to support its customers’ needs. Also, in August 2015, BASF started its first production of diphenylmethane diisocyanate (MDI) at its wholly-owned site in Chongqing, China. MDI is an important component for polyurethanes, a plastics material that contributes towards improved insulation, provides lighter materials for cars, and helps save energy in buildings. BASF’s MDI production would support these key industries in China’s western areas.

In June 2015, BASF launched its world-scale chemical catalysts production facility at the company’s existing site in the Shanghai Chemical Industry Park in Caojing, Shanghai, China. The launch of manufacturing activities at the Caojing plant is planned by BASF for the fourth quarter of 2016. The new plant, BASF’s first process catalysts manufacturing facility in Asia Pacific, would produce base metal catalysts, custom catalysts and adsorbents to meet growing Chinese and Asian market demand. These catalysts are used in the production of fatty alcohols, sulfuric acid and butanediol and for the removal of impurities from olefins.

Expansion of Nord Stream pipeline

BASF and Gazprom, a Russia-based extractor of natural gas, have been cooperating for more than 20 years on the construction of pipelines to ensure secure supplies of Russian gas to Europe. To further strengthen this important infrastructure project, in July 2015, BASF and Gazprom signed a Memorandum of Understanding (MoU) to expand Nord Stream pipeline. This expansion of the Nord Stream pipeline would consist of two additional pipelines that could transport up to 55 billion additional cubic meters of Russian natural gas directly to Germany. In addition to Gazprom, E.ON, OMV and Shell declared their intention to participate in the construction of the two additional lines of the Nord Stream pipeline.

The first two lines of Nord Stream, in which Wintershall, a BASF Subsidiary, has a 15.5% stake; have been operational since 2012. The Russian natural gas arrives at the mainland in Lubmin/Germany on the Baltic Sea coast and is transported from there through the two connecting pipelines OPAL (Ostsee-Pipeline-Anbindungs-Leitung – Baltic Sea Pipeline Link) and NEL (Nordeuropaische Erdgasleitung – North European Gas Pipeline) to customers in Western and Central Europe.

As stated by BASF, the existing pipelines already make a vital contribution to strengthening supply security and meeting long-term demand for natural gas import in Germany and Europe. The European Union's import requirements are expected to rise further, since the gap between the production and consumption of natural gas continues to grow. As per the industry sources, annually, the European gas production would fall by about 2%, while consumption would rise by 0.6%.

Thus, expansion of Nord Stream pipeline would help BASF in meeting rising demand for gas across the whole of Europe, providing a direct link from the Russian gas deposits to the European markets.

Building a broad portfolio of functional materials and components

BASF is building up a broad portfolio of battery materials technology, supporting its objective of becoming the leading provider of functional materials and components to serve cell and battery manufacturers worldwide. For instance, in February 2015, BASF and Toda Kogyo (Toda), one of the industry leaders in the development and manufacture of cathode materials for lithium-ion batteries (LiBs), formally established 'BASF TODA Battery Materials' with the closing of their joint venture agreement announced in October 2014. The new company, in which BASF would have 66% share and Toda would have 34% share, would provide cathode active materials (CAM) for lithium-ion batteries in Japan. The JV would conduct research and development, production, marketing and sales for a range of cathode materials, particularly nickel cobalt aluminum oxide, lithium manganese oxide, and nickel cobalt manganese in Japan. These materials are used in LiBs for the automotive, consumer electronics and stationary storage markets. This JV would help BASF in expanding its presence in the global battery materials market.

BASF has also been working towards strengthening its mobile catalysts emissions business. For instance, in Sroda Slaska, Poland, BASF opened its largest European production plant for mobile emissions catalysts in 2014. This would enable BASF to better accommodate the rising demand

from Euro 6/VI, the stricter exhaust gas regulations for trucks and passenger cars in Europe. In October 2014, BASF inaugurated its expanded mobile emissions catalysts manufacturing operation in Shanghai, China, further strengthening its regional presence and its position as a leading supplier to the automotive industry. Catalysts technologies such as the three-way catalyst, diesel oxidation catalyst, and the advanced selective catalytic reduction technology system for heavy duty diesel applications would be locally manufactured in Shanghai.

Recently, in August 2015, BASF Chemcat (Thailand) announced that it would be investing to expand its regional production capacity and enhance its local manufacturing capabilities for mobile emissions catalysts in Rayong, Thailand. The company is planning to construct a new facility to replace its existing plant in Rayong, providing increased operating space and upgraded manufacturing capabilities comparable to BASF's other automotive catalysts manufacturing sites around the world. Upon completion of the expansion project in the second quarter of 2017, the new site would house a total of four production lines for both light duty and motorcycle emissions catalysts, helping customers meet increasingly stringent regional emissions regulations.

Threats

Stringent REACH regulations

BASF must comply with a variety of regulatory controls on the testing, manufacturing, and marketing of its products. The European Union (EU) has passed the legislation on chemicals to govern the registration, evaluation, and authorization of chemicals (REACH).The legislation, which was adopted in December 2006, came into force in the relevant EU member states in June 2007. REACH aims to protect European citizens and the environment from exposure to hazardous chemicals. Under this regulation, the producers and importers of chemicals are required to register them formally for an evaluation of their health and safety impacts. The regulation could require producers and importers to replace hazardous chemicals with those less harmful.

During the pre-registration phase, which ended on December 01, 2008, BASF submitted more than 40,000 pre-registrations for several thousand substances. In the first registration phase, all large-volume substances of more than 1,000 tons, environmentally dangerous substances and substances with carcinogenic, mutagenic or reprotoxic effects (CMR substances), were registered. The company started working on the second registration phase of REACH in 2012 and was completed in May 2013. In the second phase, BASF registered a total of 1,222 substances with the European Chemicals Agency (ECHA) in the first and second registration phases.

The company has involved itself in numerous EU projects to support the implementation of REACH. By the end of the final transition period in the year 2018, BASF is expecting a total of approximately 3,500 registrations. Further, BASF expects REACH implementation expenses to be between E500 million (approximately $664 million) and E550 million (approximately $730 million) by 2018.

Implementation of new regulations, such as REACH, increases the operating cost of the company, which in turn could impact its profitability.

Risks related to oil and natural gas exploration and production activities

BASF's exploration and production operations are subject to inherent hazards and risks such as fires, natural disasters, explosions, geological formations with abnormal pressures, blowouts during well drilling, collapses of wellbore casing or other tubulars, pipeline ruptures, spills, and other hazards and risks. These events could cause a loss of hydrocarbons, environmental pollution, claims for personal injury, death, property damage or business interruption, or governmental investigations, recommendations, claims, fines or penalties.

Further, such events could result in administrative proceedings from regulatory authorities for environmental damage caused by the spill, which could result in huge penalties. Therefore, such hazards and risks could have a material adverse effect on the company's business operations, financial condition, and cash flows.