

Chemical Industry Strategy

E&NR Summit KSA – May 2015

The SAP logo is positioned in the bottom left corner of the slide. It consists of the letters 'SAP' in a white, bold, sans-serif font, set against a blue rectangular background. The background of the entire slide is a photograph of a chemical refinery, showing several tall, cylindrical distillation columns connected by a complex network of pipes and metal walkways. The sky is a clear, bright blue.



Industry Trends and Strategy

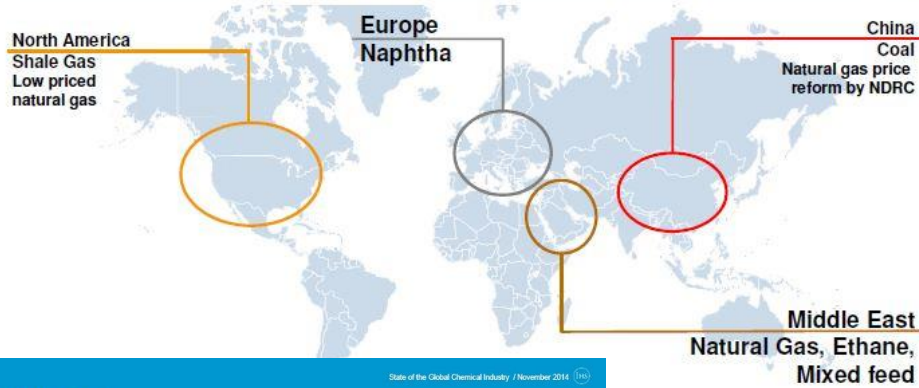
Basic Chemicals / Petrochemicals / Regions



Cheap oil will slow investment

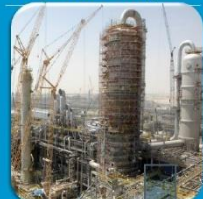
Natural gas- and ethane-based petrochemical producers in the United States and coal-based producers in China have achieved generous margins for several years, but the recent collapse in crude oil prices has transformed the market outlook in 2015 and beyond. Prices and margins will decline more than previously expected in the short term, and the pace of capital investment may slow. As supply tightens, however, margins will recover, and in 2020 or so, the market will return to its original trajectory. "In North America, US natural gas and ethane [will] remain stranded and highly advantaged in the long term as oil prices cycle," says Dewey Johnson, v.p./petrochemicals and feedstocks at IHS Chemical. The same is true of China's stranded inland coal, he adds.

Raw materials landscape is diversifying based on regional differences



Middle East Strategic Trends

Key Takeaways



- Middle East producers still highly competitive although lighter feedstock constraints expected to offer new challenges going forward
- Emergence of North America as low cost region and coal to chemicals industry
 - Not a direct threat to Middle East producers competitiveness – competition for partners
 - Creates a more challenging environment for high cost producers
 - Catalyst for portfolio and strategy realignment
- The winners will be those who proactively realign their strategies and global footprint

Three Regions with Different Markets all Focus on 'Advantaged' Capacity



- Monetize shale resources
- Leverage to exports but service manufacturing renaissance
- CAPEX substantive concern
- Slowing investments, feed diversification
- Downstream market development
- Leverage resources for job creation
- Strong domestic investment focused on import substitution
- High-growth market
- Monetize 'stranded' coal

SAP chemical strategy



Rapidly position for **globalization and growth**

Safely optimize **asset performance and utilization**

Sustainably drive **product innovation and integrity**

Globally manage **complex and volatile supply chains**

Proactively manage **knowledge and talent**

Profitably drive **customer-centric sales and service**



Audience and Solutions

Key Solution Areas for Chemicals



Regulatory compliance

Value prop – Single enterprise-wide real-time solution for EHS management, finance, and GRC.

Approach – Integrated suite of compliance across all compliance domains (financials, EHS management, and global trade) via the cloud or on premise

Chemical company in a box

Value prop – 100+ preconfigured chemical scenarios delivered with one contract, one partner, and one package hosted

Approach – SAP HANA platform fully deployed with optional extension landscapes, subscription model, rapid deployments

SAP Cloud for Customer solution

Value prop – Helping customers attract, retain, and grow profitably with quick deployment, low-risk cloud application; SAP Cloud portfolio

Approach – SAP Cloud for Sales, SAP Cloud for Social Engagement, SAP Cloud for Marketing, and SAP Cloud for Service solutions, portal

Integrated business planning

Value prop – Managing supply chain transformations across global networks with integrated data models and intuitive UI

Approach – Embedded SAP HANA with SAP Jam social software platform collaboration using enterprise performance management (EPM) client for Microsoft Excel; available both in the cloud and on-premise

SAP Simple Finance solution

Value prop – Efficiency in financial accounting and planning; new user efficiency and dynamic planning; enable the real-time enterprise

Approach – Key scenarios: month-end close, central journal, process oversight, working capital management, integrated financial plan

SuccessFactors solutions

Value prop – Managing people globally with state-of-the-art suite for human capital management (HCM); leader in Gartner Magic Quadrant and Forrester Wave

Approach – Target installed-base, net-new, and dormant accounts; use sales plays – employee central, recruiting, workforce analytics

SAP HANA platform

Value prop – Real-time insight delivered across the enterprise; reduced total cost of ownership (TCO) by having a single platform for all applications

Approach – Drive solutions based on SAP HANA, use installed-base success stories

SAP HANA Enterprise Cloud service

Value prop – Power of real time with simplicity of the cloud; accelerated deployment of SAP HANA projects; global coverage with local data centers

Approach – Highlight regional data centers; position in every conversation about SAP HANA; use SAP HANA sales plays and new subscription pricing

Ariba – procurement

Value prop – Better source-to-pay processes and enhanced collaboration with suppliers by adopting leading cloud-based business network

Approach – Highlight successes in chemicals; position for both indirect and direct procurement scenarios; build relationships with chief procurement officers

Key Solution Areas for Chemicals



Network



Applications



Platform

Industry-specific solution

Industry-flavored solution

Hybris solutions

Value prop – Drive an integrated customer experience across web, mobile, call center and stores using the leading omni-commerce platform.

Approach – Target both install base and net new; leverage 2014 sales momentum and top ratings by analysts.

Product innovation

Value prop – Integrated solution offering across R&D, manufacturing, operations, asset management, and sustainability to achieve the highest business performance

Approach – Integrated processes, customer-focused design and dynamic global networks; analytics powered by SAP HANA (smarter and faster)

Manufacturing

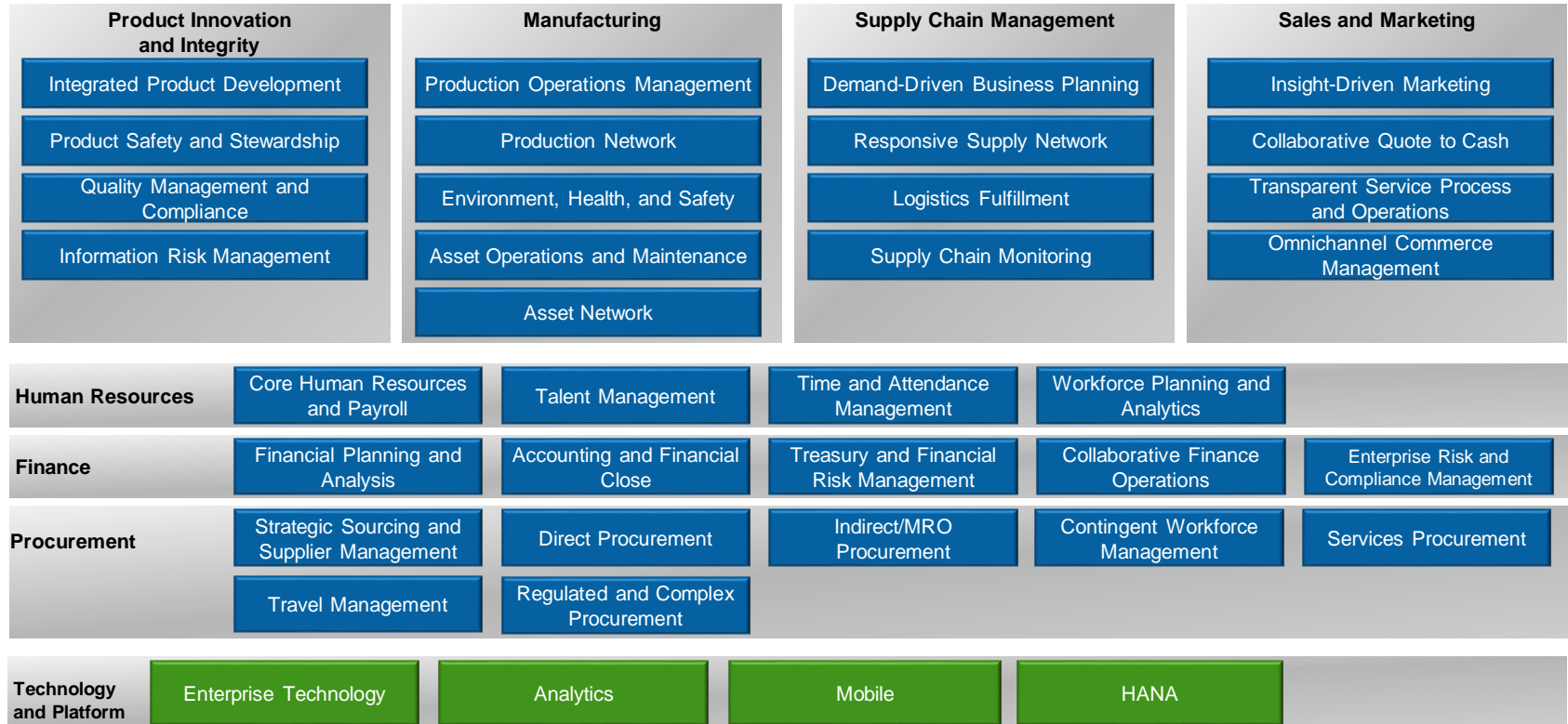


Value prop – Optimization of asset performance and use by synchronizing processes, enabling data-driven decisions, and proactively managing risk and safety

Approach – Target installed-base, net-new, and dormant accounts; use sales plays – overall equipment effectiveness, condition-based maintenance

Value map 2015 for chemicals

Driving performance and growth in chemicals



Best Run Chemical Company - Concept

Where did this start?

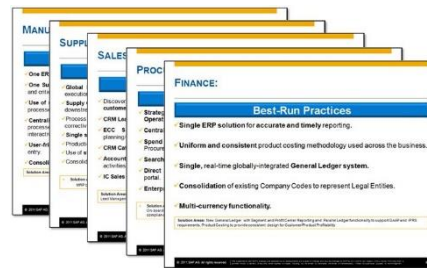
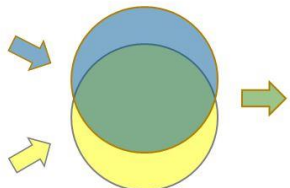
- An answer to the question:

What have SAP's Best Run Chemical customers done?

- A single slide to facilitate solution discussions:



Peer Group Selection



Best Run Chemical Company Profiles

- 8 headquartered in US
- 3 headquartered in Europe
- Revenues ranged from \$6.4B to \$95.6B
- 4 companies had revenues under \$10B
- 2 companies had revenues \$50B or over
- Average revenues per employee ranged from \$380,000 to \$1,100,000
- Wide range of chemical sub-segments represented:
 - Specialty chemicals
 - Agricultural chemicals
 - Bulk chemicals
 - Industrial gases



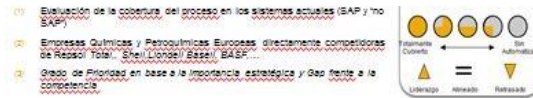
Best Run Chemical Company KPI's Considered

- Days Sales Outstanding (DSO)
- Days Sales of Inventory (DSI)
- Days Payable Outstanding (DPO)
- Chem. Sales (\$M) 2010 & Change from 2009
- 2010 Total Sales & Change from 2009
- Chemicals Sales as % of Tot Sales
- Chem. Oper. Profits (\$ M) & Change from 2009
- Chem. Profits as % of Tot Oper. Profit
- Chem. Oper. Profit Margin
- Identifiable Chem. Assets (\$ M)
- Chem. Assets as % of Tot. Assets
- Return on Chem. Assets

Source: Forbes Finance, Chemical Week "Billion Dollar Club" metrics, C&EN Global Top 50, and company 10K's

Best Run Chemical Company – Workshop Results

Process Analysis



Process	Evaluación ¹	Position vs Competence ²	Industry Leadership	Opportunities ³
<u>Demand & Supply Planning</u>		<		Work in the development of an integrated solution enabling short terms adjustment
<u>Manufacturing</u>		≡		Minor Improvements due to process integration
<u>Asset Operations & Maintenance</u>		>		Tactical improvements: Mobility and.....
<u>Procurement</u>		=		3 rd Party Integration
<u>Sales & Marketing</u>		<		Pricing & Buying Patterns. Integration with Customers
<u>Storage & Inventory Management</u>		=		Warehouse efficiency
<u>Product Development</u>		=		Tactical Improvements
<u>Logistics and Transportation</u>		=		Integration with Transportation Companies. Automation of transport access and movements with in Sites
<u>Environment, Health & Safety</u>		≡		Spread of best practices among



Thank you!