crédito y caución
Atradius Group

market monitor

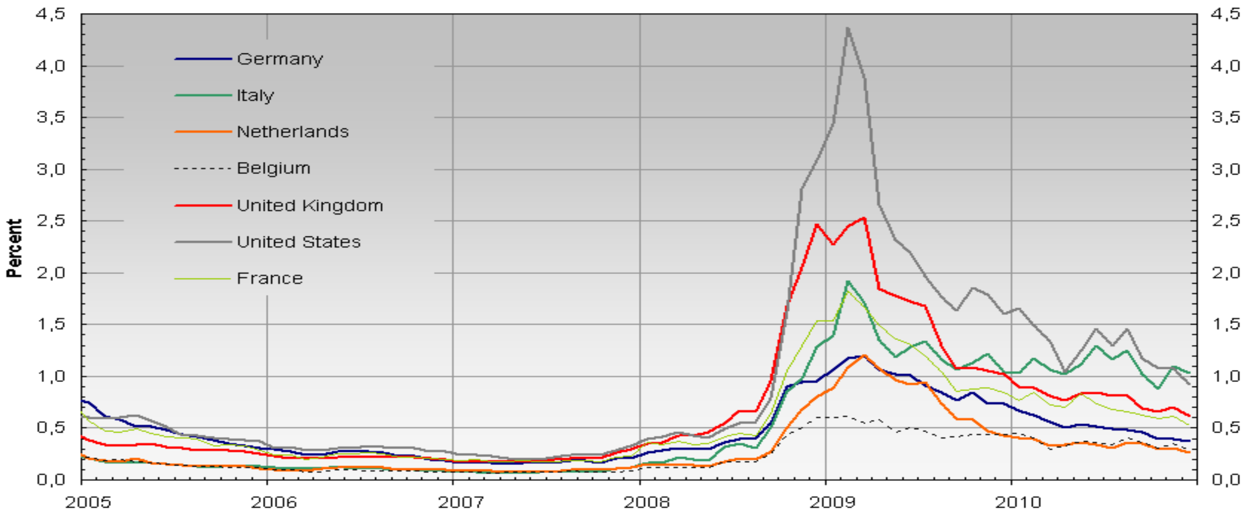
Chemicals and pharmaceuticals sector spotlights: France, Germany, Switzerland, Sweden, and Mexico

February 2011

Expected default in Western Europe and USA

One of the most important factors that any business needs to know is the trend in insolvencies in their markets. The following Expected Default Frequency (EDF) chart is based on listed companies in the markets referred to, and the likelihood of default across all sectors within the next year. In this context, default is defined as a failure to make a scheduled payment, or the initiation of bankruptcy proceedings. Probability of default is calculated from three factors: market value of a company's assets, its volatility and its current capital structure. As a guide, the probability of one firm in a hundred defaulting on payment is shown as 1%.

Median EDF evolution by country



Source: KMV Credit Monitor and Atradius Economic Research

After of the volatility evident in November, December's EDF for listed companies returned to the overall decreasing trend that we have seen in earlier months. EDFs in all the economies monitored decreased: most notably in the US (down 11 basis points) and France and the UK (both down 8 basis points). Even Italy, whose EDF development has been, and continues to be, volatile, recorded a drop of 8 basis points, but, in context, its median EDF level is still considerably higher than it was in October 2010. Italy apart, for all the other countries surveyed, the median EDFs fell to their lowest level for more than two years, with that for the US dropping below 100 basis points for the first time since September 2008.

On the following pages, we indicate the general outlook for each sector featured using these 'weather' symbols:


Excellent


Good


Fair

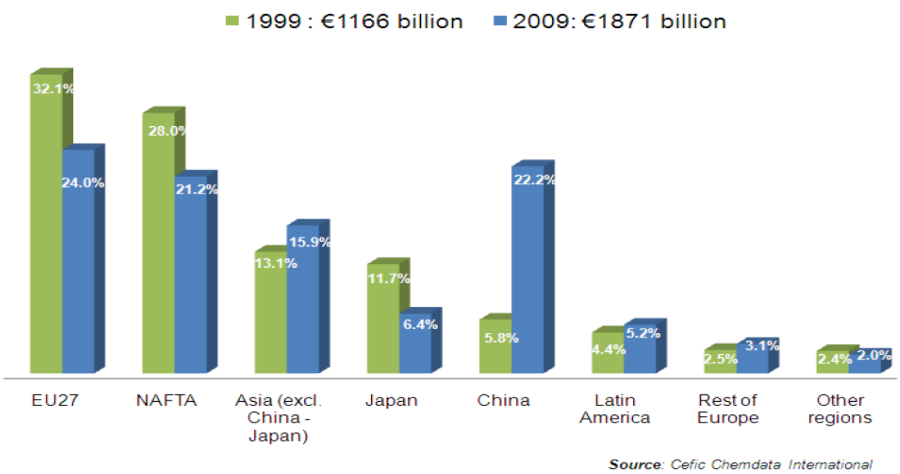

Gloomy


Bleak

A double-edged future: opportunity and uncertainty

The recovery of the global **chemicals industry** in 2010 was nothing short of breathtaking, with double-digit growth rates in all major regions. According to the European Chemical Industry Council Cefic, EU chemicals sector production grew 10% year-on-year in 2010, thanks to a rebound of main buyer industries, with overseas demand the main driver of growth. European and US chemicals companies also profited from the economic upswing in emerging markets - especially China - with its consequent growing demand for chemicals (see chart below).

World chemical sales by region



While growth is expected to stay high in Asia and strong in the US, chemicals production in the EU will moderate to about 2.5%, as economic growth in many European countries remains subdued because of fiscal tightening and the expiry of governmental stimulus measures. There is also uncertainty about the future development of important buyer industries such as automotive and construction, while oil price increases and currency volatilities are also a major concern, and international competition will no doubt intensify. But increasing demand from South America and Asia looks set to continue in 2011, partially offsetting potential stagnant demand from developed countries.

Compared to other industries, chemicals businesses are generally in a good shape in terms of their liquidity and solvency. This is reflected in below-average insolvency rates. The same goes for **pharmaceuticals**: one of the few industries to weather the 2008/2009 economic crisis relatively well. IMS Health expects the value of the global pharmaceuticals market to grow 5%-7% to US$ 880 billion this year, after a robust 5% increase in 2010. However, the future of this sector is double-edged. On the one hand, growth in Europe will be in the range of 1% to 3%, as fiscal consolidation will include making major savings in national healthcare systems, and this will clearly cut into businesses´ profits. At the same time, the industry faces the impact of some major patent expiries. However, as in the case of chemicals, growth is driven by the major emerging economies, whose pharmaceuticals market, according to IMS Health, is expected to grow by between 15% and 17% this year, to US$ 170-180 billion. In contrast to Western Europe and the US, these countries are increasing their public spend on healthcare, with China's market alone set to grow more than 25%. Emerging markets provide real business opportunities for the pharmaceuticals industry, coupled with the increasing risks of growing competition from local businesses. Therefore, the process of consolidation and cost-cutting will continue.

France: chemicals

Chemicals rebound strongly in 2010

The French chemicals industry, with its 900 businesses and 175,000 employees, accounts for about 4.5% of global chemicals sales. According to the French Chemicals Association UIC, chemicals sales in France dropped nearly 20% and production 9.7%, in 2009, due mainly to falling demand from buyers in the crisis-hit construction and automotive sectors, with inorganic chemicals (-21.2%), basic chemicals (-10.8%) and organic chemicals (-8.7%) suffering most.

However, in late 2009 the industry began to recover, thanks to the restocking of inventories and a rebound of the automotive sector (strongly supported by car scrappage schemes); the packaging, food and consumer products industries; and dynamic trends in agriculture. Buoyant export demand (accounting for 60% of the French chemicals industry's turnover) was also an important factor in this recovery, especially from emerging markets: according to UCI, in

Q1 of 2010 the value of chemicals exports to Asia alone increased 34%, helped by a weaker Euro.
So, in 2010, the French chemicals sector regained strength, with robust year-on-year increases in production (up 12.7%), turnover (11.2%) and exports (16%) in the period from January to September, and this benefited all subsectors (see chart below). Production levels for basic chemicals (inorganic products, petrochemicals and plastics) made good progress, leading in turn to improvements for sectors further downstream within the chemical industry.

However, growth slowed in the third quarter of 2010, with both continued subdued demand from the construction industry and the expiry of stimulus measures in the automotive industry, reflected in reduced production in the speciality chemicals subsector. Lower household consumption affected the soaps and household products subsector (see chart below). In Q3, orders increased 2% on the previous quarter but decreased 1.6% on the previous month in October. For 2010 as a whole, UCI expects an overall production increase of 9.8% for the chemicals sector.

% CHANGE IN PRODUCTION VOLUME figures adjusted for work days and seasonal variation	3Q 2010/ 2Q 2010	3Q 2010/ 3Q 2009	2010/2009
Inorganic chemicals	6.5%	5.9%	13.2%
Organic chemicals	0.1%	2.1%	6.9%
Speciality chemicals	-3.6%	1.2%	6.3%
Soaps, Perfumes and Household Products	-0.6%	18.7%	20.3%
CHEMICALS INDUSTRY ex. fibres	**-0.8%**	**9.0%**	**12.7%**

Source : Insee (French National Institute for Statistics and Economic Studies)

France: chemicals

Improved insolvency outlook - but risks remain

French chemicals companies´ profit margins improved throughout 2010, ending the year in satisfactory condition. The sector is generally characterised by a high level of liquidity and access to funding, and the general solvency and liquidity situation improved throughout the course of 2010. In our experience, on average payments in the industry take 60 days, including those from abroad. As the recovery gathered momentum in 2010, we noted a decrease in payment delays and do not expect any deterioration in the coming months. Compared to other industries, the French chemicals industry shows a very low insolvency rate across all subsectors. Since the first half of 2009 we have received a consistently low level of credit insurance claims, and expect an improvement in the payment default rate in the next six months, if there is no major deterioration in buyer markets and the price volatility of commodities remains manageable.

For next year, the UIC and European Chemical Industry Council (Cefic) both expect production volumes to grow more modestly, by 2.4% (see chart below), as demand from the automotive industry has slowed and, since Q3 of 2010, the effects of restocking have dwindled.

Annual % change in volume	2009	Estimate[1] 2010	Forecast[1] 2011
Basic chemicals	-10.8	7.5	2.4
Inorganic chemicals	-21.2	9.2	2.2
Organic chemicals	-8.7	7.1	2.5
Speciality chemicals	-14.4	5.7	2.7
Soaps, Perfumes and Household Products	-5.9	14.7	4.0
Chemical Industry in France	-9.7	9.8	2.4

Sources: forecasts from UIC and CEFIC[1].

Exports should continue dynamic. Based on the upward trend in 2010 and the relatively good forecasts, our underwriting approach remains generally positive for this sector. With commodity prices currently rising, we are closely monitoring chemical companies´ capacity to cope with increasing price pressure and to ensure an adequate and constant supply of basic chemical products: both of which are potential pitfalls that could negatively affect solvency and liquidity, especially for small and medium-sized companies. Other potential downside risks for the industry would be a stronger Euro hampering foreign sales and a severe deterioration in the automotive and the construction sectors.

French chemicals sector

Strengths	Weaknesses
• Excellent knowledge/leadership position in some key product areas • World class players on basic chemicals • Financial flexibility • Integrated industry in France	• Structural dependency on exports • Threat to competiveness due to Euro exchange rate • Threat from emerging markets competition

Blossoming exports but a difficult domestic market

In contrast to the chemicals sector, the French pharmaceuticals industry felt less impact from the downturn. According to Crédit Lyonnais, turnover actually increased 5.4% in 2009, driven mainly by external demand (+9.4%). According to Leem, the French Pharmaceutical Companies Association, overall turnover in 2009 reached Euro 50 billion (Euro 27 billion domestic and Euro 23 billion abroad). The UIC reported a 15.5% year-on-year increase in production for the period from January to September 2010 (see chart below), while turnover increased 2.7%, driven mainly by external demand. Pharmaceuticals order books at the end of October were stable compared to September but, quarter-on-quarter, decreased by 3.4% in Q3 of 2010.

% CHANGE IN PRODUCTION VOLUME figures adjusted for work days and seasonal variation	3Q 2010/ 2Q 2010	3Q 2010/ 3Q 2009	2010/2009
Chemicals industry ex. fibres	-0.8%	9.0%	12.7%
Basic pharmaceutical Products	4.0%	-11.6%	-10.1%
Pharmaceutical industry	1.2%	15.6%	15.5%
Chemicals + Pharma	0.3%	12.6%	14.2%

Source: Insee

While exports of pharmaceuticals products have flourished, pressures on health insurance expenses have led to a generally lower growth rate in the French drug market - of around 2% - since the reform of the French health insurance system in 2004, compared to around 5% growth before then. As international players, pharmaceuticals producers have been able to cope with this while, in contrast, domestic wholesalers and pharmacies have been severely affected by the reform, with governmental directives to reduce drug consumption and decreased consumer spending due to the economic crisis both leading to fewer orders. But, as the French market is highly regulated, both retailers and wholesalers are still protected from foreign (especially European) competition.

In terms of profit margins, equity strength and solvency, pharmaceuticals producers have managed to maintain their high margins by cost reduction measures (i.e. downsizing) and have thus recorded an above average financial profile together with strong solvency and liquidity.

In contrast, pharmacies´ profit margins have suffered from an increase in their overheads (rent, insurance, salaries) while revenues have remained constant (with average turnovers of only Euro 1.5 million). According to consulting and business services firm Fiducial, average earnings before interest, taxes, depreciation, and amortization (EBITDA) reached 10.2% of revenues in 2010, compared to 12.9% in 2003, and in 2009 28% of pharmacies recorded an EBITDA lower than 8%. Lower margins, stagnating revenues, increasing costs and high gearing mean solvency and liquidity problems for the weaker players in this subsector, with an increasing number of pharmacies having difficulties paying their debts.

Pressure on pharmacies and drug retailers will increase

In our experience, on average, payments in the industry are made within 35 days. We have seen no deterioration in either payment behaviour or the notifications of non-payment in 2010, and do not expect any change in the coming months. Compared to other industries, the French pharmaceuticals industry shows quite a low insolvency rate. However, in 2009 we saw insolvencies increase by more than 50% in the wholesale and 10% the pharmacy subsectors – albeit from a historically low level. After continuing their upward trend in 2010, we expect business failures to increase further in 2011, especially in the pharmacy subsector.

Overall, the French pharmaceuticals industry is facing several challenges: difficulties for states in financing National Insurance systems; a worldwide decrease in average drug prices; a lower return on investment in research & development due to stricter homologation (i.e. certification of compliance with regulatory standards); and stronger competition from generic products.

For pharmaceuticals producers and laboratories alike, revenues are not growing at the same rate as in the early 2000s. But, thanks to restructuring programmes, operating margins have stayed above 10%. As these companies trade globally, revenues will increase thanks to new products and new markets. However, the French pharmaceuticals sector has to catch up with international competition in terms of market share in emerging markets: with the exception of Sanofi, French pharmaceuticals companies export mostly to Europe or North America. Therefore, revenues from emerging markets are still low, though they will increase gradually.

To compensate for forthcoming patent expiries, measures have been taken over recent years to find new and alternative sources of revenue, with investment to capitalise on the expansion of the generics markets and to acquire biotechnology companies, and the marketing of new patents.

Domestically, French pharmaceuticals sales will continue to be hampered by cuts in the health sector. For the next five years, pharmacies' turnover growth will remain under pressure, and they will have to adapt to the challenges of severe controls over social and health expenses, development of generics, increased competition and lower margins. There is currently one pharmacy for every 2,700 people in France, compared to one for every 4,000, on average, across Europe, as a result of which weaker players will disappear in the coming years. Despite complaints from European partners, pharmacies, wholesalers and retailers are still profiting from the highly regulated and protected French health sector. But we expect the industry to gradually open up to European neighbours and competitors, a development that threatens the current business model of wholesalers ("répartiteurs") and pharmacies.

France: pharmaceuticals

Consequently, the mid-and long term outlook is rather negative for wholesalers and pharmacies, while producers/laboratories can count on their know-how to maintain their margins.

Pharmaceutical producers/laboratories

Strengths	Weaknesses
• Recognised Know-how • Sound financial situation • Good margins	• Low presence in emerging markets • Lack of investment in biotechnology in France

Pharmaceutical wholesalers

Strengths	Weaknesses
• Protected by the state • Low competition from abroad • Large companies on average • Integrated industry in France	• Small compared to European competition • Low margins and stagnating revenues • New sources of revenues need to be found

Pharmacies

Strengths	Weaknesses
• Protected by the state	• Too many players • Dispensary costs too high compared with margins • Further cuts in the health sector to come

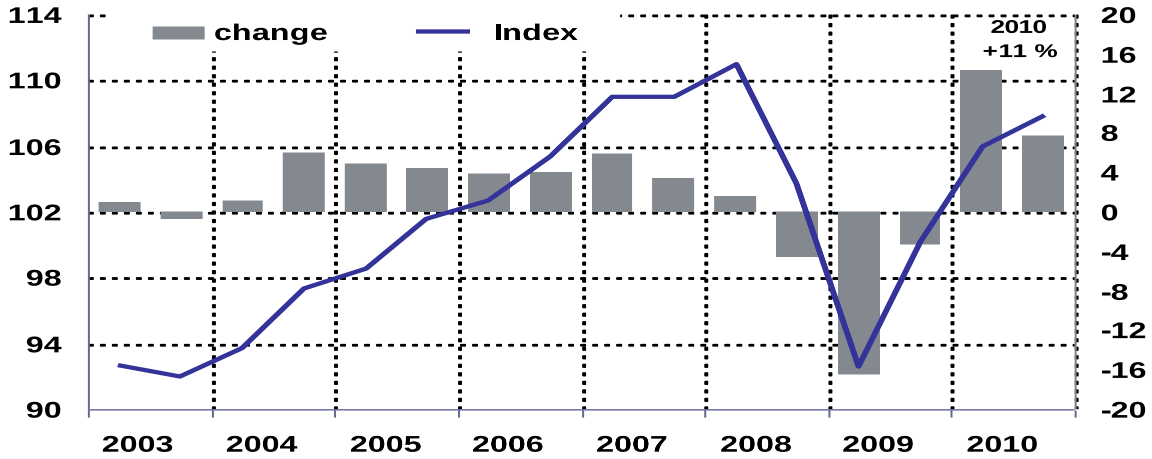
German chemicals rebound outstrips the European average

The German chemicals/pharmaceuticals sector is the fourth largest in the world, with a global market share of 6.3% in 2009. The main production areas are fine and speciality chemicals, and pharmaceuticals, both of which have a 24% share of production value, followed by plastics & polymer-related products and organic basic chemicals, each with a 16% share. Around 60% of products are delivered within the industry, while 23% are supplied to other industries such as automotive, construction and packaging.

Like the overall domestic economy, Germany's chemical sector saw a breathtaking recovery in 2010, mainly in the first half of the year (see chart below), as demand from main buyer sectors increased.

Germany: chemicals production*

(2005=100, seasonally adjusted)



*including pharmaceuticals

Source: German Statistical Office, VCI

According to Cefic (The European Chemical Industry Council), the German chemicals industry's (excluding pharmaceuticals) output increased 18.9% year-on-year during the first ten months of 2010 – compared to an EU average of 11.3%. Moreover, the German Chemicals Association VCI has reported that chemicals and pharmaceuticals production increased 11% year-on-year last year, with domestic sales up 14% (to Euro 71 billion) and exports up 20% (to Euro 99.6 billion): the latter a clear sign that the German chemicals/pharmaceuticals sector has profited from the global recovery of industrial production. Imports of chemicals/pharmaceuticals products rose 16.5% to Euro 100.8 billion.

Subsectors that had suffered the steepest declines in 2009 recorded the highest growth rates, e.g. polymers (+22.5%), inorganic basic chemicals (+20%), fine and speciality chemicals (+15%) and petrochemicals (+14.5%). After stalling in

2009, investments in plans and buildings increased slightly - by 5% - as chemicals/pharmaceuticals companies remain cautious about future prospects.

The pharmaceuticals sector's recovery was more modest, but this must be seen in the context of its very high growth rates in the years before the crisis. The VCI expects a year-on-year production increase of 0.5% in 2010. Turnover and orders also increased, albeit on a lower level than in earlier years, with the main stimulus coming from export business. In contrast to many other chemicals subsectors, production of pharmaceuticals actually exceeded pre-crisis levels at the end of 2010.

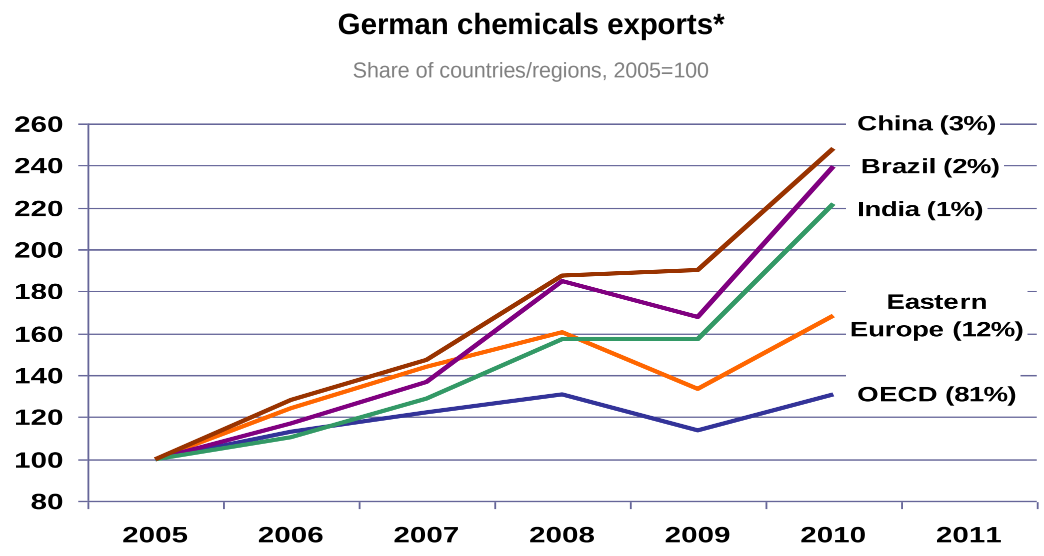
No payment delays - even during the crisis

The German chemicals and pharmaceuticals sector's payment morale has always been better than average with no notable payment delays - even at the height of the economic crisis - and this has continued into 2010. We have seen no change in payment behaviour in the last six months or any increase in notifications of non-payment, and expect this to continue in the coming months. In our experience, on average, payments are made within 45 days – even less for domestic payments – as the majority of chemicals and pharmaceutical products are exported to destinations with longer terms than the domestic market.

Both chemicals and pharmaceuticals businesses are generally characterised by strong equity, solvency and liquidity. It is no surprise, therefore, that, compared to other industries, both sectors have a low insolvency rate across all subsectors. We do not expect any change to this in the coming 12 months.

A bright outlook

After the extraordinary recovery in the first half of 2010, the growth dynamics of the German chemicals industry began to slow down in the third quarter, as global growth cooled and stimulus packages expired, affecting buyers of chemical products. In 2011, the VCI expects German chemicals production to increase 2.5% and turnover to rise 4%, thus returning to more normal growth rates. While domestic demand is relatively robust, due to the strong performance of the German economy, export growth is limited by the subdued economic performance in the Eurozone, the German chemical sector's main export destination, for which it commands a 60% share. However, the industry is profiting more than many of its foreign competitors from sharply increasing exports to the main emerging markets (see chart overleaf).



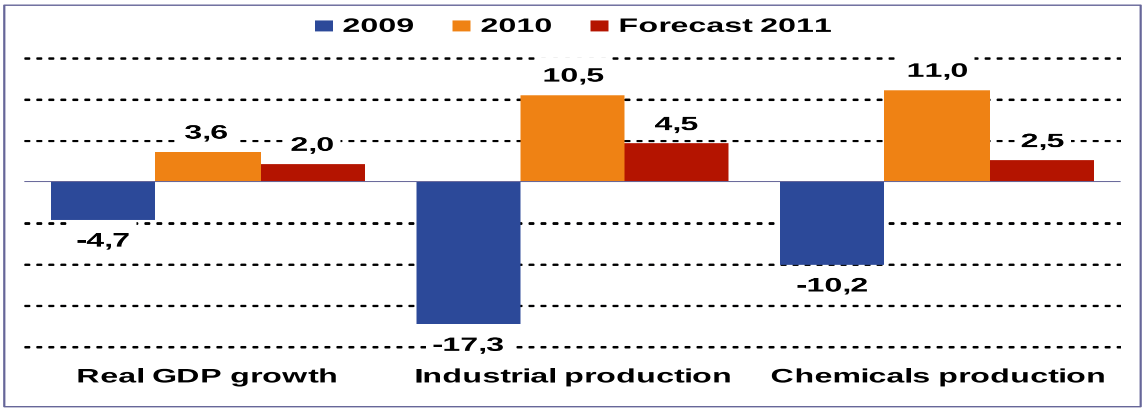
*including pharmaceuticals

Source: German Statistical Office, VCI

We expect the profit margins of businesses in most subsectors to remain stable. However, rising oil prices may put pressure on smaller producers of standardised plastic items, as they would have difficulty in passing on price increases. At the same time, we are more specifically evaluating the mineral oil subsector, as wholesalers in this subsector are generally characterised by low equity ratios and profit margins, as well as high turnover, compared to their equity and fixed assets. As the value of receivables in this subsector is generally quite high, bad debts are likely to jeopardise businesses´ financial health. In addition, we expect the demand for mineral oil to continue to decrease as new technologies make heating systems and car engines fuel consumption more efficient.

Domestically, the pharmaceutical sector will face a rather difficult year. The German government has approved several regulatory changes in the health system - including an increased compulsory discount to be given by the pharmaceuticals industry to statutory health insurance, a freeze on drug prices, and other discount regulations - with the aim of saving between Euro 1.7 and 2 billion a year in the health system. This will lead to lower turnover and profit margins, especially in the drug retail subsector. However, the industry expects operating profitability to increase 6% and net profitability to rise 13% as a result of the benefits of cost saving programmes and mergers initiated during the last two years. Moreover, the German pharmaceuticals sector will continue to profit from increased healthcare spending in emerging markets, thanks to its traditionally strong international position.

Germany: chemicals/pharmaceuticals



Source: German Statistical Office, VCI

In both chemicals and pharmaceuticals, pressure to consolidate will continue, for instance with the takeover of smaller companies to create efficiencies of scale, cost saving and larger market share. Both German industries have essentially profited from the 2008/2009 crisis, as it triggered a process of optimisation of costs and processes (helped by the short-time work scheme) which, for the medium-term future, has made businesses more competitive nationally and, even more so, internationally: an important factor in countering growing competition from Asia and the Middle East.

German chemicals sector

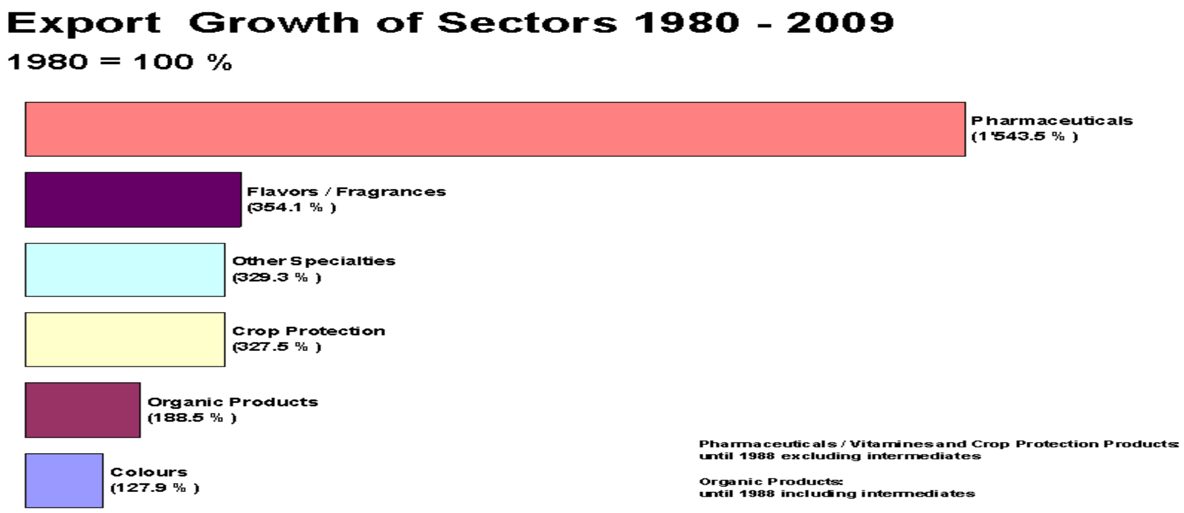
Strengths	Weaknesses
• The motor for innovations/high R&D investments • Restructuring and concentration processes are well advanced • Strong market position/ large number of highly specialised businesses	• Dependency on oil and energy prices • High dependency on global economy due to high export rate • Growing competition, especially from Asia (China)

German pharmaceuticals sector

Strengths	Weaknesses
• Long established companies with international focus • High barriers to market entry	• Patent expiries • Heavily influenced by external factors (state interventions) such as compulsory discounts and price freezing

Pharmaceuticals sustained by export performance

The Swiss chemicals and pharmaceuticals industry is focused mainly on live science products, which account for more than 75% of the product portfolio. On average, Swiss companies in this sector are internationally highly competitive, due to a leading global position in R&D and high labour productivity. The industry is highly dependent on exports, with chemicals and pharmaceuticals accounting for nearly 40% of total Swiss exports, while Switzerland's share of global chemicals/pharmaceuticals exports amounts to 4% - a considerable proportion when taking into account the size of the country. Within the sector, pharmaceuticals accounted for 79.5% of all exports in the first half of 2010.

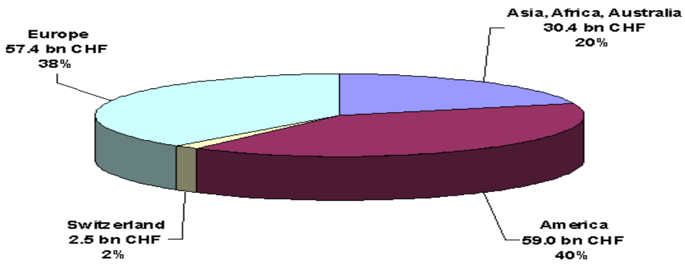


Source: SGCI Chemie Pharma Schweiz

While the Swiss chemicals sector was severely hit by the economic crisis (especially subsectors delivering to the automotive, textile and electronics industry), pharmaceuticals were less affected. In fact, according to Credit Suisse, exports of pharmaceutical products were not hit at all by the crisis and actually increased 7.7% in 2010 compared to (pre-crisis) 2008 figures. At the end of 2009, exports of other chemical goods, such as plastics and paints & coatings, also picked up again, contributing to the sector's recovery. However, in Q3 of 2010, chemicals and pharmaceuticals performed less well than in earlier months, and most chemicals subsectors recorded decreasing production figures, according to Credit Suisse, with the exception of paints & coatings, which profited from robust building activity. Pharmaceuticals' turnover has dropped 2.5% compared to Q3 of 2009, as domestic drug prices decrease and the Swiss healthcare market stagnates. However, this is compensated for by the good export performance.

Switzerland: chemicals/pharmaceuticals

World-wide sales
"top ten" Swiss chemical and pharmaceutical companies
Total 2009: 149.3 bn CHF



Source: SGCI Chemie Pharma Schweiz

Compared to other Swiss industries, the chemicals and pharmaceuticals sector's payment behaviour has always been better than average and shown a comparatively good payment morale. After a slight deterioration in the first half of 2010, payment delays decreased again in the last six months. We have seen very few notifications of non-payment and claims in this industry which, compared to other industries, also shows a low insolvency rate. Due to the overall stable performance and financial health of chemicals and pharmaceuticals companies, we do not expect any remarkable increase in payment delays or business failures in the coming months.

Some future challenges

Despite the comprehensive recovery last year, challenges remain for both chemicals and pharmaceuticals. For chemicals companies, 2011 economic performance at home and abroad is uncertain. Therefore, cost-cutting and process optimisation remain an issue for businesses. This year lower growth than last year is expected, as demand from the EU and the US will probably decrease and a strong Swiss Franc may hamper export performance. The strong Swiss pharmaceuticals sector sees growth opportunities in the increasing spend for healthcare in emerging markets (according to the Swiss industry association, exports to the BRIC markets increased 22% year-on-year in H1 of 2010). However, pressures on profit in the domestic market and Europe will remain, due to major patent expiries and budgetary limits on healthcare spending. Overall, Credit Suisse expects the chemicals and pharmaceutical industry's production to increase between 2% and 5% this year, with turnover growth levelling off compared to last year.

Swiss chemicals/pharmaceuticals sector

Strengths	Weaknesses
• No payment problems • Low insolvency figures	• Drug prices under pressure • Lower growth rates in the future

Sweden: chemicals

Overseas demand drove 2010 chemicals recovery

The Swedish chemicals industry is a strong and expanding sector, accounting for around 10% of total industrial production in the country. Large investments are made annually to maximize capacity and meet sensitive environmental targets. The major end-users of industrial chemicals are timber companies, pulp and paper mills, plastic packaging manufacturers, and medicine manufacturers.

In Sweden, chemicals production is concentrated on 50 plants belonging to some 20 main companies clustered either in the far south of the country or in the Gothenburg and Stockholm areas. An important segment of the basic chemicals industry, including inorganic chemicals, fertilizers, and petrochemicals, has been almost entirely acquired by Norwegian and Finnish companies. As a consequence of the rapid globalisation of the industry in the 1990s, most chemicals companies in Sweden are today partially or entirely foreign owned.

While there is considerable domestic production of inorganic chemicals (including acids, chlorates, ammonium nitrates, mineral-oil and wood-based chemicals), most organic chemicals are imported or manufactured locally by foreign subsidiaries.

In 2010, there was strong year-on-year production growth in basic inorganics, petrochemicals, and polymers. Other chemicals subsectors that had been less affected by the crisis – namely consumer and speciality chemicals – have been recovering at a more modest rate during 2010. Overseas demand has been the main driver of a rapid recovery in chemicals output, and an increasing number of companies are saying that production capacity is large and expanding. Growth in orders remained strong in Q4 of 2010 from both the domestic and export markets. Solvency and liquidity indicators have remained satisfactory and stable, while total shareholders' equity during the period increased slightly.

A slight increase in insolvencies

In general, payment behaviour in the chemicals sector is good, with payment delays remaining unchanged in the last six months. We have experienced a drop in notifications of non-payments in that period, and do not expect any notable increase in payment delays in the coming months. Compared to other industries, the chemicals sector has a low insolvency rate. However, we expect a slight increase in insolvencies in the industry in the coming six months: with 0.5% of businesses failing. In the chemicals sector generally, large established buyers in primary production are strong, while many smaller secondary manufacturers are feeling the effects of increased raw material, energy, and transportation costs. We have recently noticed increasing difficulties in the plastic packaging and rubber manufactures segments, with the latter suffering from a 65% price increase of rubber at the end of 2010. Plastic makers are also vulnerable to changing raw material costs as a result of high oil prices. Some contracts include hardship clauses, but the large carmakers (a major market for plastic) are tough negotiators. Both segments have difficulty in passing price increases on to consumers.

Sweden: chemicals

We are keeping a close eye on those parts of the industry that are most affected by the volatility of oil prices and high raw material costs. High oil prices tend to hit downstream chemicals producers much harder than the petrochemicals companies that turn oil into polyolefins, elastomers and aromatics: the building blocks for the rest of the industry.

However, in general, the industry remains optimistic for continued strong order growth from both the domestic and export markets in 2011. Sales volumes are forecast to increase in the short term, and sales prices are expected to rise sharply, with adequate production volume in the forthcoming six months. Chemicals output levels forecast for the end of 2011 are, however, expected to remain well below their 2007 peak levels. Swedish chemical companies will recalibrate their business objectives and make tougher strategic choices as critical end markets have begun to recover. The gradual rebound in the automotive, construction, electronics, and pharmaceutical markets are potential bright spots for the chemicals sector.

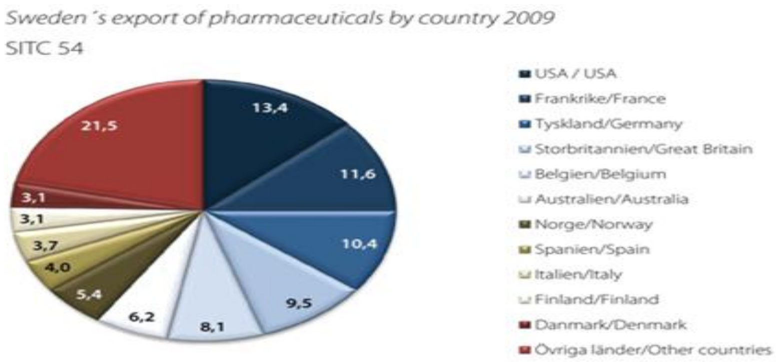
Swedish chemicals sector

Strengths	Weaknesses
• Large investments • General good solvency and liquidity • Increasing production capacity	• Mounting problems for plastics and rubber subsectors due to rising oil price • Dependence on export markets

Sweden: pharmaceuticals

Large orders from abroad

The Swedish pharmaceutical industry has grown rapidly during the past two decades, establishing itself as one of Sweden's most important growth industries. In 2010 it employed about 19,000 people, with more than 80% of its sales going abroad: constituting 4.5% of Sweden's overall exports. The sector has undergone extensive restructuring in the form of mergers, with the result that two large multinationals - AstraZeneca and Pharmacia Corporation - now dominate it. According to industry sources, production volume increased during 2010, while production capacity and sales prices remained unchanged. Domestic orders held steady while export demand increased steeply. Total order stocks were satisfactory and sufficient for 12 production weeks. The competition situation was unchanged with good profitability and an acceptable level of solvency and equity ratios.



Source: Statistics Sweden

Some problems in the domestic market for pharmacies

In general, payment behaviour in the pharmaceuticals sector is good, with payment delays remaining unchanged in the last six months. We have experienced a drop in notifications of non-payments in that period, and do not expect any notable increase in payment delays in the coming months. Compared to other industries, the sector has a low insolvency rate. However, as with chemicals, we expect a slight increase in insolvencies in pharmaceuticals in 2011. The consequences of the deregulation of the Swedish pharmacies market in 2009 could create some problems in the future, as many are private equity owned and competition will become fiercer. Another challenge for Swedish companies is to find a new generation of products to counteract the effect of forthcoming patent expiries on their portfolio of drugs. Overall, pharmaceuticals production will decrease slightly in 2011, but will still maintain its solid performance.

Swedish pharmaceuticals sector

Strengths	Weaknesses
• Good profitability • Generally good solvency and liquidity • Increasing production capacity	• Deregulation of Swedish pharmacies market • Patent expiries

Mexico: chemicals

US recovery has helped the chemicals sector

Mexico's overall chemicals sector production decreased 4.3% year-on-year in the period from January to September 2010. This was caused mainly by a decline in the oil and energy subsector: i.e. in Q3 of 2010 the production levels of Mexico's state-owned oil company, Petróleos Mexicanos (Pemex), reached just 2,584 thousand barrels a day - the lowest level since 1990. However, other chemical sectors, such as basic inorganics, plastics, speciality and consumer chemicals, performed better in 2010, and we have seen an improvement in the turnover, profit margins, liquidity and solvency of many companies, resulting from increased demand from the US for Mexican chemicals and products containing those chemicals, and an appreciation of the Mexican Peso against the US$ and the Euro. The recovery of the Mexican automotive industry, as a consequence of the US automotive rebound, has increased demand for plastic injectors and other plastic and industrial resins, with the plastics industry's output up 2.25% year-on-year in the period from January to September 2010.

On average, payments in the chemicals industry take between 60 and 90 days. Late payments have decreased further in the last six months, as, after peaking in 2009, delays and defaults gradually improved throughout 2010. The default ratios in the chemicals sector are, on average, on par with other Mexican industries. We have experienced a decrease in notified non-payments in the last couple of months, and, in terms of insurance claims received, buyer insolvency accounts for just 2%, while 98% are due to protracted default.

Mixed outlook for chemicals subsectors

We expect domestic and external demand for chemicals to increase further in 2011, due to the US recovery, and this will positively influence the growth of the Mexican economy. Our outlook for pigments and dyes, and adhesives and fibres, is also positive, based on their growth in 2010.

According to the National Plastics Industries Association (ANIPAC), the plastics subsector will grow 9% in 2011, with investments worth US$ 1,800 million. We assess the future performance of resins, synthetic rubber, plastics and rubber subsectors to be favourable.

However, we are cautious about the plastic bags subsector, because of the latest application of the so-called 'Solid Waste Management' legislation in Mexico City, with companies in that subsector badly hit by the many campaigns to reduce or eliminate the use of plastic bags. As an example, plastic bags are no longer provided free in shops, restaurants and food 'take aways'. Since 2008 this subsector has shrunk 12%. We still maintain a negative outlook on the fertilizers subsector, due to the high volatility of raw material prices, an inconsistent growth pattern during 2010, and its dependency on external factors such as the weather etc.

Currency exchange rates remain an issue, as many Mexican chemical companies purchase raw materials in foreign currency but sell their products in local currency, as a result of which exchange rate volatilities may have severe effects on their liquidity and solvability. The same goes for Mexican exporters to the US, which would be negatively affected by a continued appreciation of the Peso against the US$. We are therefore maintaining a cautious stance, especially on chemicals wholesalers who transact largely in foreign currency. Chemicals wholesalers in general have limited capital and a high leverage profile and accounted for a major share of the claims that we received in this sector in 2009 and 2010. In contrast, we assess well established and experienced buyers in the market, with substantial equity and strong market position, to be extremely viable, as they not only purchase their products in foreign currency but are also able to negotiate their sales in foreign currency, therefore avoiding any foreign exchange risk.

Overall, the hope is that this sector, which performed so well before the 2008/9 economic turmoil, will make a full recovery in 2011. If that were to happen, we would be able to change our outlook for the chemical industry from 'neutral' to 'positive'.

When selling to chemical companies in Mexico – especially from another country, we would always strongly recommend that our customers use promissory notes (Pagaré). These greatly improve our ability to recover debts quickly and efficiently in case of protracted default. Pagarés are easy and free to obtain, and provide real benefits, especially if guaranteed by the owner of the company or parent company.

Mexican chemicals sector

Strengths	Weaknesses
• Performance will be closely linked to US economy • Dynamic sector • Larger local buyers (e.g. PEMEX) are supported by the government	• Performance may be considerably affected by a possible relapse in the US economy • High volatility of raw material prices • High dependence on foreign exchange

Major changes in health system and competitive landscape…

The Mexican pharmaceuticals sector is the 10th largest worldwide and the third largest in the Americas, behind the USA and Brazil. It has an approximate market value of Euro 9,940 million, representing 1.3% of Mexico's GDP. The industry recorded modest growth of 2% in 2010, and growth of 2.35% in local currency is expected in 2011, but these margins are drastically smaller than the 2008-2009 growth of 9.8%, due partly to an increasing consolidation of generic and 'over-the-counter' (OTC) companies. Pharmaceuticals sales in Mexico are driven by the cheaper generic and OTC drugs, which push down the margins of companies that focus on patented products. As a result, most pharmaceuticals groups are beginning to sell other consumables and health care products to compensate for a possible downturn in sales and reduced profits margins.

This development is also the result of health system reforms. In view of Mexico's need to control the rising financial burden of the provision of public healthcare, which is partly linked to the high cost of patented drugs, the government has launched several initiatives to increase competition among pharmaceutical companies to lower drug prices. Mexico's Federal Commission for Sanitary Vigilance has reformed some laws to facilitate imports of medicine at a lower cost, in an attempt to lower public health costs and improve access to medicines for the wider population. These reforms include lowering import taxes and a review of articles 168 and 170 of the pharmaceuticals legislation (Reglamento de Insumos para la Salud) which has recently lifted the requirement for pharmaceuticals firms to be formally based in Mexico in order to operate in the country.

The pharmaceuticals sector has lower default ratios than other industries. Payments in this sector take, on average, between 90 and 120 days, and there was no deterioration in payment behaviour, even during the economic crisis. We do not foresee any increase in payment delays, defaults or insolvencies for the pharmaceuticals sector in the coming six months.

…but a benign outlook

Our outlook for pharmaceuticals therefore remains positive, due to low claims and consistent, if slower, growth in this sector. In the long term, we expect this gradual growth in demand to continue because of Mexico's ageing population, but we do not expect demand from abroad for Mexican pharmaceuticals products to grow, as these products can be bought cheaper from producers in other emerging markets. In fact, as a result of the latest decrease in pharmaceuticals import taxes, Mexico is increasingly looking to source cheaper drugs from countries like India, China or Cuba. Moreover, public and private institutions are no longer limited to buying medicines from the seven multinational drug makers with manufacturing operations in the country.

While major patent pharmaceutical groups in Mexico are gradually being affected by the competition of generic and OTC emerging industries, we expect that the full effects will materialise only in the mid to long term. Pharmaceuticals companies focusing on patented drugs are strongly capitalized members of major international groups, and thus maintain a solid position in the market. On the global issue of increased patent expiries for important drugs, in the coming two years we foresee only minor consequences for Mexican companies, as this has already been taken into account in sales pricing, and new products have been developed to counter the decrease in revenues due to loss of patents.

We believe that highly consolidated companies with high equity ratios are best suited to manage a reduction of operating margins resulting from the increasing competition in this sector. At the same time, we are paying closer attention to small wholesalers that work with the government on public bids, as they usually have low equity investments and poor cash flow, and therefore cannot afford slow government payments. As with chemicals (and all other sectors), for sales to Mexico we would always recommend the use of promissory notes - Pagarés.

Mexican pharmaceuticals sector

Strengths	Weaknesses
• Well established buyers with strong capitalization levels and often part of strong international groups • Constant and gradual higher demand resulting from an ageing Mexican population • Consistently low default ratios	• Consolidation of generic and OTC markets • New legal amendments promoted by government that will increase competitiveness between Mexican and international companies • Low profit margins as a result of generic, OTC and new international players in the domestic market

About Crédito y Caución

The insurance company Crédito y Caución has been contributing for almost 80 years to the growth of companies, protecting them from the non-payment risks associated to credit sales of goods and services. With more than 70 offices, Crédito y Caución holds a market share of nearly 60% in Spain and 33% in Portugal, being therefore leader in its sector in the Iberian Market. In addition, the Company has expanded its direct activity to Brazil. Crédito y Caución is the representative in this three markets of the Atradius Group, which provides credit insurance, surety and collections services in 42 countries.

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