crédito y caución
Atradius Group

market monitor

Focus on chemicals/pharmaceuticals performance and outlook

June 2013

In this issue…

Introduction	A delicate balancing act	3
China	A growth market with some pitfalls to avoid	4
Germany	Better results expected in 2013	8
Italy	Exports drive improvements expected in 2013	11
Spain	Chemicals turnover to grow again in 2013	14
United States	Chemicals: helped by rebound in automotive and construction	17
Snapshots	Market performance at a glance	20
The Netherlands	Performing better than most other Dutch industries	20
Russia	Pharmaceuticals: high growth rates will continue	21
Switzerland	Strong rebound of exports in 2012	22
Overview chart	Industries performance per country	23
Industry performance	Changes since May 2013	24

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

Excellent Good Fair Poor Bleak

A delicate balancing act

While they are often mentioned in the same breath, chemicals and pharmaceuticals are very different animals, each with its own set of problems and success stories. And within each of these industries, fortunes can depend on a wide range of factors: from the cost of essential raw materials to the state of the end-buyers' sectors and the balance between export and domestic sales.

In the United States, for example, the chemicals industry is facing falling demand, linked as it is to slowing markets in Europe and Asia, and struggling manufacturing sectors in the US itself. As chemicals are vital in many manufacturing processes, the sector is vulnerable to the highs and lows of the economy as a whole. Fortunately, in the US at least, improvements in construction, vehicle manufacture and aerospace are tipping the chemical industry in the right direction. That differs markedly from the situation in Italy, where the continuing dip in construction activity and the automotive industry is naturally hurting chemicals companies that are reliant on those industries.

Both the chemicals and pharmaceuticals sectors in Germany remain relatively strong. But they too have their own set of issues: the volatility of global oil prices influencing the profits of chemicals companies, and government regulations imposing price controls on domestic sales of pharmaceuticals.

In Spain the chemicals industry is showing positive signs, because of its commanding share of export markets. In stark contrast, its pharmaceuticals sector, despite its reputation as a leading light in productivity and research & development, is feeling the effects of cuts in public pharmaceutical spending.

Even in China – still a major market for pharmaceuticals and one that is expected to grow by 18% this year – the industry is not without its problems, as 'over-the-counter' medicines face growing price competition while at the same time the government seeks to reduce healthcare expenditure.

In this Market Monitor, we also look at the differing fortunes of these industries in the Netherlands, Switzerland and Russia.

China
A growth market with some pitfalls to avoid

Petrochemicals and basic inorganics/polymers

In 2012 the overall value of Chinese petrochemicals output grew 12.9%, to CNY 10.86 trillion, but this was not enough to avoid a decline in profits due to decreased demand: the effects of the economic stimulus package of 2008-2010 had led to a surge in production and excessive purchasing, resulting in massive inventories. At the same time industrial activity decreased, as GDP grew by only 7.8% - the slowest rate of growth since 1999 - with profitability estimated to have declined by as much as 10% last year. While output growth in the Chinese petrochemicals market will be sustained, profits will continue to be squeezed by a combination of rising input costs, weakening downstream markets and surplus capacity.

Last year primary plastics output grew 11.2% - to 52.23 million tonnes - and production of plastic products rose 9.4% - to 59.91 million tonnes. The production of rubber, fibres and plastics decreased year-on-year: production of synthetic resins down 2.3% to 13.3 million tonnes, synthetic fibres down 3.5% to 1.3 million tonnes, and synthetic rubber down 5.5% to 936,000 tonnes. In contrast, fertilizer manufacturing climbed strongly in 2012, with production jumping 35% year-on-year, to 1.1 million tonnes.

The future risk factors for the petrochemicals industry are high oil prices, trade liberalisation, bottlenecks in resources and a requirement for sustainable development. Higher oil prices have already hit the profits of refiners, as China's energy supply regulations have restricted them from passing on higher prices to customers. The petrochemicals sector could find itself having to compete with other industries for feedstock and, if prices are high, margins could be further eroded.

China is currently building a considerable number of petrochemicals production facilities along the value chain, which are likely to contribute to a rise in production capacity over coming years. However, besides some notable mega-projects, these include many small-scale operations which may never see the light of day because of government concerns about environmental damage from certain projects located along major rivers. Following the political leadership change in late 2012, the administration seems to be more sensitive to environmental concerns, with some projects and plants at risk of closure, particularly in the coal-to-olefins segment.

Major planned investments between 2012 and 2017 will see ethylene and polymer production capacity increase dramatically. There have been concerns that the industry is growing too fast and it is already lagging behind in terms of efficiency and cost competitiveness. Sinopec's president, Wang Tianpu, has stated that overcapacity is a concern and could affect industry profitability, while access to resources remains a challenge. The company is now seeking overseas cooperation to access advanced resources.

Consumer chemicals

The overall value of consumer chemicals output reached CNY 345 billion in 2012. Profits increased 17.4% to CNY 34 billion.

Speciality chemicals

Asia will continue to lead growth in the global speciality chemicals market and China is strategically targeted as the largest market in the region. In 2012 China accounted for 19% of the global market share (US$ 92 billion by value), behind the two mature markets of North America (25%) and Western Europe (21%). Over the next five years the global speciality chemicals market is expected to record a compound annual growth rate of 3.7%, while for China an average annual increase of 8.4% is forecast.

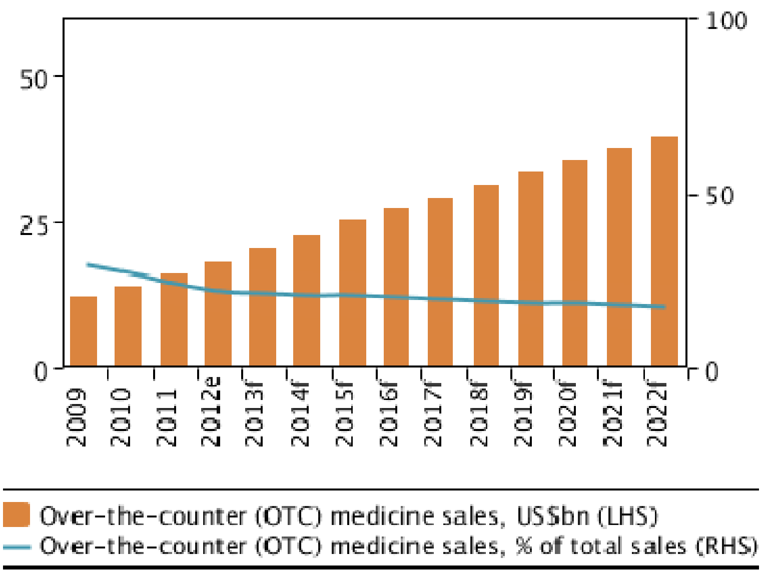
Pharmaceuticals & healthcare

In general, China remains the key emerging market for multinational pharmaceutical firms, with double-digit rates of sales growth. The Chinese market for pharmaceuticals is expected to grow 18% year-on-year in 2013, to CNY 608.6 billion (US$ 97.1 billion). Healthcare will grow almost 20%, to CNY 2854.2 billion (US$ 452.5 billion). Due to the strengthening relationship between economic growth and greater spending on medical services, we expect pharmaceuticals expenditure in China to continue to show high growth rates in the coming years. We also expect both domestic and foreign businesses to continue to benefit from the country's growing commitment to healthcare. However, the country still has very low per capita spending on medicines - just US$ 60.65 in 2012 - while pharmaceutical expenditure contributes only 1% to GDP.

Business Monitor International (BMI) expects China's over-the-counter (OTC) medicine market to increase 14.4% in 2013, to CNY 131.0 billion (US$ 20.9 billion). It expects that in the period 2012 to 2017 the compound annual growth rate (CAGR) for China's OTC sector will be 8.1% compared to 10.3% for generic drugs and 15.3% for patented pharmaceuticals.

OTC Drug Expenditure Forecast

2009-2022



Source: BMI

However, there are also some downside risks, such as the government's continued calls for greater affordability, which could result in price pressures. The government is presently using a basket of pricing reforms, including preventing hospitals from drug profiteering and tendering systems that favour cheap pharmaceuticals. While the measures reflect the authorities' intention to reduce healthcare and pharmaceutical expenditures, this would lower drug revenues for businesses. If implemented effectively, the changes would certainly be opposed by the pharmaceutical industry, which is already contending with price cuts and the difficult reimbursement regime. In the Chinese OTC medicine market, competition will become increasingly fierce as all major global players seek to penetrate one of the most attractive segments. The inevitable price wars and marketing campaigns will be compounded by government austerity measures. Moreover, huge differences between regional markets will punish those who have no local knowledge.

Nevertheless, if China's compliance with international regulatory standards improves, we expect innovative medicines to increasingly penetrate the market. These pharmaceuticals can generate higher prices compared to generic drugs and will increase growth projections.

Caution is needed with smaller businesses

Overall, the equity strength of Chinese chemicals/pharmaceuticals businesses is still relatively good, as the major players are large corporations (usually with a state-owned background) or large joint-ventures with multinationals. Compared to those in other industries like steel and textiles, chemicals companies in general appear to have better solvency and liquidity. However, small privately-owned chemicals producers, with a low value-added contribution, often suffer from squeezed profitability and overcapacity in some segments, leading to solvency and liquidity problems. The same goes for small privately-owned chemicals traders.

On average, payments in the Chinese chemicals/pharmaceuticals industry take between 60 and 120 days. Payment behaviour has been stable in recent months, with no increase in late payments, and we do not expect any change to this pattern in the coming months.

Our underwriting view of the Chinese chemicals sector remains neutral and we assess buyers on a case-by-case basis. In general, the credit risks associated with buyers that have a strong background (state-owned or with a parent company that is a key player) are always lower than for small privately-owned businesses. Therefore, our underwriting stance on smaller private businesses (both producers and traders/distributors) in the basic chemicals sector is relatively restrictive because of their slim margins and the fierce competition caused by low barriers to entry. Moreover, many small-scale Chinese petrochemicals firms are burdened by poor efficiency and little opportunity to derive economies of scale.

In view of the strong growth rates and high profitability in the pharmaceuticals sector, our underwriting stance is more open than it is for the chemicals industry. However, for many small privately-owned pharmaceutical distributors we maintain a stricter strategy because of limited transparency of information and a lack of insight into buyers´ real strength. Indeed, because of that limited transparency, especially in the case of privately-owned companies, the financial information that we obtain from public sources via information agencies often does not reflect the businesses´ real financial strength. Therefore, obtaining internal accounts is vital if we are to accurately assess their creditworthiness. The most recent (half-year to one-year) trading records are also helpful as an indication of a buyer's payment behaviour and to justify a realistic trading level for our insured customers. If we cannot agree a credit application in full, we always explain why the lesser approved amount is recommended as the maximum safe level of credit to afford the buyer.

Chinese chemicals sector

STRENGTHS	WEAKNESSES
Strong domestic demand, led by rapid growth in personal consumption and consistently high rates of fixed investment, has ensured rapid growth in the sector	Chinese firms lack investment in R&D and rely primarily on imported technology
Vast Chinese textile sector will remain a major consumer of petrochemicals	Profit margins remain slim for some producers due to inefficient production systems, as well as a lack of reliable, easy-to-source feedstock
New technology is being introduced, mainly through joint venture (JV) mega-projects	Refiners are suffering heavy losses, raising questions about their ability to fund new capacity
Growing international portfolio focused on acquiring producing upstream assets	Structural weaknesses, including heavy reliance on imported feedstock and overcapacity in some segments

Chinese pharmaceuticals sector

STRENGTHS	WEAKNESSES
Among the top five drug markets in the world in terms of overall size. Rapid generic drug sector growth	Complex and heavily biased drug pricing and reimbursement policy by the government, favouring local drug producers
Large pool of highly skilled, low-cost scientists and general labour	Overcapacity of cheap, basic drug production and a general focus on lower-cost pharmaceuticals
Rising per capita drug expenditure on the back of strong economic growth	Highly fragmented market
Patented drug sector growth boosted by rising demand for hi-tech treatments	Government failure to implement fully internationally compliant patent law. Lax enforcement of domestic patent laws

Germany
Better results expected in 2013

According to the German chemicals association VCI, chemicals/pharmaceuticals production decreased 2.5% year-on-year in 2012, while turnover rose 1.4%, to EUR 186.8 billion. Domestic sales decreased 1.4% (to EUR 74 billion), while exports turnover rose 3.5%, to EUR 112.8 billion. After a modest rebound in the last quarter of 2012, in Q1 of 2013 production fell 0.7%, while turnover rose 0.5%, due mainly to price increases. By volume, orders have fallen slightly, but are stable on a price level.

Indicators: overall year 2012

Changes against 2011	in %	in billion €
Production:	- 2,5	-
Chemicals excl. Pharma	- 2,6	-
Producer prices:	+ 2,2	-
No of employed:	+ 1,3 (now 434.300)	-
Sales:	+ 1,4	186,8
Domestic	- 1,6	74,0
Foreign	+ 3,5	112,8
Investment (estimate by VCI)	+ 5,0	6,6
R&D expenditure (corporate plans)	+ 5,0	9,5

Source: VCI

Generally, German chemicals and pharmaceuticals businesses have strong equity, solvency and liquidity. Profit margins in the chemicals sector are stable overall, but are still influenced by global oil prices. This can of course work in the industry's favour, and a 25% drop in global naphtha prices over the past two months has returned healthy margins to naphtha-fed crackers globally. Profit margins in the pharmaceuticals sector are still satisfactory, but continue to shrink in the domestic market due to health regulations introduced in 2010, including a rise in the compulsory discount to be granted by the pharmaceuticals industry for statutory health insurance, and a freeze on drug prices that mainly affects the drug retail subsector. Globally, German pharmaceuticals will continue to profit from increased healthcare spending in emerging markets like Brazil and China, thanks to its traditionally strong international position. However, this year the pharmaceuticals sector will be affected by the expiry of patent protection for several drugs, leading to lower turnover and profits. According to IMS Health, drugs with a worldwide turnover of US$ 135 billion will lose their patent rights by the end of 2013: a record proportion of a worldwide market valued at US$ 800 billion.

In 2013 production is expected to grow 1.5% year-on-year (1% excluding pharmaceuticals), while sales are expected to increase 2% (see chart below).

VCI forecast for the overall year 2013

Indicator	Chemicals incl. pharma Change in % against 2012	Chemicals excl. pharma Change in % against 2012
Production:	+ 1,5	+ 1,0
Producer prices:	+ 0,5	+ 1,0
Sales:	+ 2,0	+ 2,0

Source: VCI

Fewer insolvencies in 2013

The German chemicals and pharmaceuticals sector's payment behaviour has always been better than average with no notable payment delays - even at the height of the 2008/2009 economic crisis. In our experience, on average, payments are made within 45 days – even fewer for domestic payments – as most chemicals and pharmaceutical products are exported to destinations with longer payment terms than the domestic market. We have seen no change in payment behaviour in the last six months or any increase in notifications of non-payment. We expect this pattern to continue in the coming months and to be accompanied by fewer insolvencies in the sector. Both chemicals and pharmaceuticals have a lower insolvency rate than other German industries and, indeed, after a 6% year-on-year decrease in 2012 we expect German business insolvencies to decrease further this year, by 4%.

Our underwriting stance for this sector remains generally relaxed, with normal external monitoring and buyer reviews. However, we give additional attention to buyers that depend on more critical sectors, such as automotive and photovoltaic: the latter affected by several insolvencies and restructuring because of reduced public subsidies and strong competition from China.

German chemicals sector

STRENGTHS	WEAKNESSES
The motor for innovation/high R&D investments	Dependency on oil and energy prices
Advanced restructuring and concentration processes	High dependency on global economy due to high export rate
Strong market position/ large number of highly specialised businesses	Growing competition, especially from Asia (China)

German pharmaceuticals sector

STRENGTHS	WEAKNESSES
Long established companies with international focus	Patent expiries
Stable economic development in Germany	Heavily influenced by external factors (state interventions) such as compulsory discounts and price freezing
High barriers to market entry	

Italy

Exports drive the improvements expected in 2013

In 2012 the Italian chemicals industry registered estimated production worth EUR 52.3 billion, according to the Italian chemicals association Federchimica. Despite diminishing demand in Europe, Italy's chemicals exports performed well: increasing 2.2% year-on-year in value in the first ten months of the year. Demand from markets outside the EU grew 7.5%, offsetting the moderate decrease in demand from Europe (down 1%). In 2013 global demand for chemicals will grow more than 3% following growth of just 1.1% in 2012. As a consequence, Italian chemicals exports are expected to strengthen significantly (+4.4% in value and +2.4 % in volume). However, domestic demand will remain rather subdued.

Chemical industry in Italy – main figures

	2012 billions of euro	% change 2013	% change in volume 2012	% change in volume 2013
Domestic demand	61,7	1.3	-5.5	0.4
Import	34,9	2.7	-5.0	1.7
Export	25,5	4.4	-1.5	2.4
Production	52,3	1.9	-4.0	0.6

Companies	3.000
Workers	114.000
Share of graduates workers on total	18%
R&D expenditure / added value	6%
Environmental, Health & Safety expenditure/ turnover	2%

Note : R&D expenditure, last available year 2010
Health, Safety & Environmental expenditure, last available year 2011

Source: Federchimica

The industry is affected by high costs of raw materials which, in spite of decreasing demand, remain stable at their 2011 peaks. This compounds the difficulties that Italian chemicals businesses have - of passing on higher prices to their clients - and thus leads to tighter margins. At the same time, energy costs in Italy are among the highest in the Eurozone (30% above average). Energy costs rose 14% last year and another 2.8% in Q1 of 2013. However, the cost of oil and gas is expected to remain more stable this year.

Within the sector, there are significant differences in company performance, depending on the subsector and degree of reliance on the domestic market. In general, strongly export-oriented companies will enjoy better demand.

Petrochemicals represent 14% of Italy's total chemicals production. The refinery business registered a 6.5% year-on-year decrease in demand in the first nine months of 2012. Demand for fuel, diesel and gasoline decreased in 2012, with higher taxes leading to price rises (60% in the case of fuel and 56% for diesel).

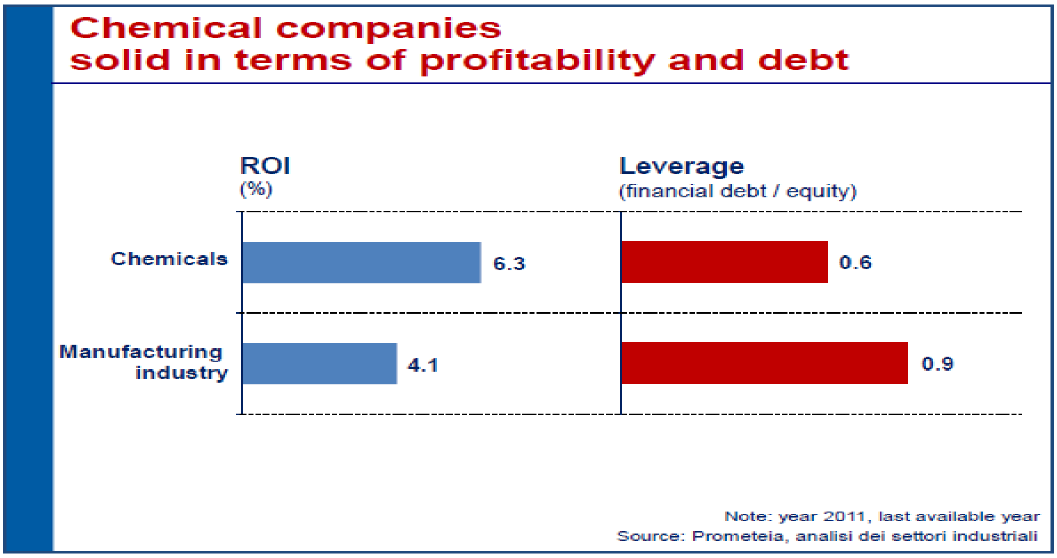
Basic inorganics (28% of production): this segment consists of industrial gases, fertilizers, plastic, synthetic rubber and man-made fibres. In 2012, production of basic inorganics fell 3-4%, due to lower domestic demand, and production in the industrial gas subsector decreased 2%. However in 2013 a 2%-3% increase is expected, thanks to higher exports. The chlorine-alkali segment suffered from lower domestic and foreign demand while the sulphuric acid segment saw a positive trend in exports (mainly to Latin America but also Greece and Turkey) as competitors´ plants in the Mediterranean region closed. The plastic and synthetic rubber segment saw a 9% drop in demand and the forecast for 2013 remains downbeat. Man-made fibres also registered a decrease in demand last year, but this will level off in 2013 with a rebound expected in 2014.

Consumer chemicals (19% of production): this segment consists of soap & detergents and perfumes & cosmetics. After growth of 4% in 2011, production in the cosmetics segment grew only 0.5% last year. However, while domestic demand continues to fall, export rose 5% in 2012 and as much as 7% in Q1 of 2013.

Speciality chemicals (38% of production): crop protection, pharmaceuticals, fine chemicals and varnishes & inks. In 2012 turnover of crop protection registered a 3.1% decrease in value and 6.3% drop in volume due to the reduction of agricultural land. In the fine chemicals segment, the trend remains negative, mainly because producer prices are still too high and what demand there is comes mainly from the (weak) domestic market.

Pharmaceuticals (6% of production): This is a segment of speciality chemicals (see above) which, even in a difficult environment, maintained positive results in 2012. The volumes sold and the overall profitability were essentially in line with previous year. Exports were the main growth driver in 2012 and will probably continue to be so in 2013.

In general, the Italian chemicals sectors still perform better in terms of return on investment (RoI) and leverage ratios than the average manufacturing industry (see chart below).



According to information source Cerved, the average payment term in 2012 was 76.8 days in the chemicals and pharmaceutical sectors and 69.5 days in the fuel and energy industries. The average payment delay is 10 days in the chemicals and 22 days in the fuel and energy sectors. This means that the percentage of companies paying on time is 30.7% in the chemicals sector and 51.2% in the fuel and energy sectors. The outlook for 2013 is stable and we do not expect a large increase in non-payments in the chemicals/pharmaceuticals sector. In fact, compared to other Italian industries, this sector has the lowest proportion of protested bills.

Insolvency figures remain below Italian average

Exports are the most important driver for growth and will remain so in 2013, while domestic demand for chemicals from those Italian industries which are currently struggling, such as construction, furniture, textiles and leather, will be much lower. As was the case in 2012, this will continue to damage those chemicals businesses that rely heavily on those struggling sectors. The same is true for private consumption: consumer chemicals subsectors, such as soaps and detergents, will again face lower household spending, which is forecast to decrease 2.3% after a 2.4% fall in 2012. In contrast, the energy and pharmaceuticals subsectors will perform better than the sector average, thanks mainly to inelastic market demand. In addition, pharmaceuticals have high market entry barriers for new players, which will require major investment if they are to be profitable.

In the second half of 2012 we saw a slight increase in the number of insolvencies in the chemicals/pharmaceuticals sector. However, the sector's insolvency rate is still below the Italian average, as borne out by our claims experience. Overall, we expect Italian business insolvencies to increase 10% year-on-year following a 15% rise in 2012. Generally, our underwriting approach to the Italian chemicals/pharmaceuticals sector remains relaxed: especially for pharmaceuticals, because of its better payment history.

We continue to monitor the chemicals sector closely, anticipating possible defaults and identifying the better performing subsectors. Subsectors and businesses dependent on construction, construction material, automotive, consumer durables, furniture, textiles and leather require particular attention. To assess a company's creditworthiness we look for the following: the most updated financial accounts, including interim accounts; the age of the company; its capacity for absorbing decreasing sales and margins, through self-funding and/or a healthy financial structure, and for absorbing raw material increases by passing them on; and its pattern of payments. On those occasions when we have to be restrictive in our underwriting decisions, we will always explain our stance fully to our customers to help them plan their sales strategy.

Italian chemicals/pharmaceuticals sector

STRENGTHS	WEAKNESSES
Buyers' good financial structure	The sector is highly competitive
This sector ranks 3rd in Europe and 8th in the world	Shortage of raw materials High energy costs
Many chemicals companies are export oriented	Difficulties in passing on increased raw materials prices to final consumers

Spain

Chemicals turnover to grow again in 2013

According to FEIQE (Business Federation of the Spanish Chemical Industry), with turnover exceeding EUR 55 billion a year, the chemicals sector contributed 11.5% to Spanish GDP last year. In addition, this is the second largest exporting industry, with half of its turnover generated in foreign markets. Since 2000, turnover in the Spanish chemicals industry has grown 59% and exports 153%, while the share of export sales rose from 32.8% to 52.2%.

After a slight drop in turnover of 1% in 2012, FEIQUE expects sales to grow 3.4 % in 2013: to EUR 57 billion. Again, growth opportunities will be mainly in foreign markets. The high degree of internationalisation in the Spanish chemicals industry and its ability to access foreign markets will boost exports by 5.2%: in line with increased global demand. However, despite this positive outlook, the current pressure on margins will continue as a result of high prices for raw materials and foreign competition. Furthermore, not all production plants are adequately equipped for international markets.

Spanish pharmaceuticals still troubled

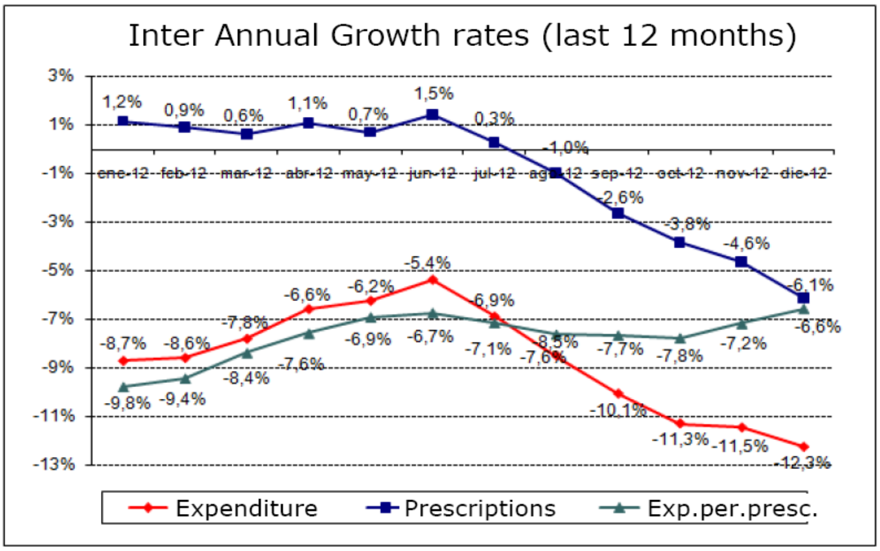
According to FARMAINDUSTRIA (the Spanish pharmaceuticals trade association), the pharmaceuticals industry has the highest productivity of all Spanish manufacturing industries, is highly competitive internationally and leads Spanish industry in its investment in research and development (its R&D comprising 20% of the whole industrial sector). However, currently the sector faces a challenging domestic market because of the strained economic situation, with austerity measures cutting into health care spending. The Spanish government's efforts to reduce the deficit, coupled with regional government budget cuts, have radically transformed the Spanish pharmaceuticals market. According to the Ministry of Health, Social Services and Equality, in December 2012 alone public pharmaceutical expenditure fell 19.8% year-on-year, as a consequence of the declining number of prescriptions (-18.6%), and a decrease in the average cost of prescriptions (-1.5%).

Public Pharmaceutical Expenditure (pharmacies)

	December 2012	December 2011	% var. 2012/11
Exp. (€ Mill.) *	712,4	888,0	-19,78%
Prescrip. (Millions)	66,4	81,6	-18,57%
Av. Exp. per. prescription (€) *	10,73	10,89	-1,48%

* Retail price (VAT included)

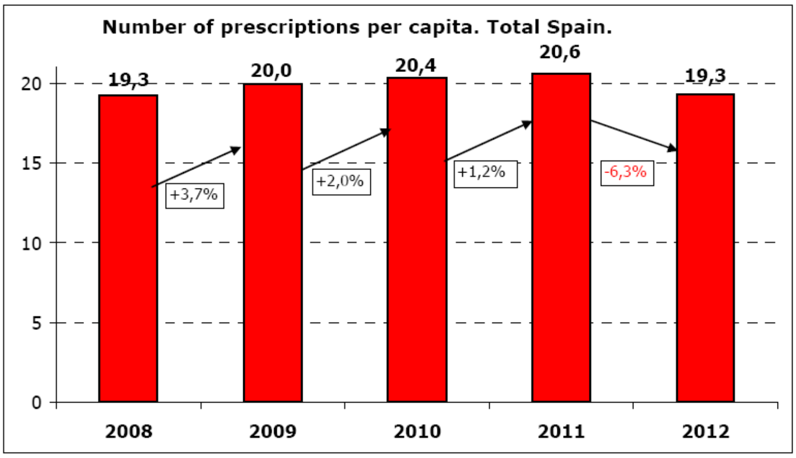
Source: Farmaindustria



Source: Farmaindustria

With a 12.3% drop in expenditure, 2012 was the third consecutive year in which public pharmaceutical expenditure fell – and the contraction was larger than those in 2010 (-2.4%) and 2011 (-8.8%). Public pharmaceutical expenditure in Spain has now reached its lowest level for 10 years and further drops are expected for at least the next 3 years.

The number of prescriptions issued decreased 6.1% in 2012 (the biggest drop for the last decade) while average expenditure per prescription fell by 6.6%. The drop in the number of prescriptions was even more pronounced when measured in per capita terms (see chart below). With an average expenditure of EUR 10.69 per prescription, this ended 2012 at its lowest level since 1998.



Source: Minister of Health. Statistics Institute. Population at 1 January each year.

According to FARMAINDUSTRIA estimates, at the end of 2013 public spending on drugs will be around EUR 8.6 billion: similar to or lower than 10 years ago.

Pharmaceuticals affected by late payment by public bodies

On average, payments in the Spanish chemicals industry take around 60 days. Since more than half of Spanish companies in all industries take more than 75 days to pay, this demonstrates that payment behaviour in the chemicals industry is better than the average. However, the pharmaceuticals sector is affected by severe payment delays by public bodies as well as by the National Health Service's efforts to rationalise medicine consumption.

We did see an increase in notifications of non-payment and subsequent credit insurance claims in the second half of 2012, due particularly to difficulties in two sectors: pharmaceutical products & fuel.

Apart from those two sectors, the claims trend in the chemicals industry was better than the Spanish industry average. Because of its high degree of internationalisation, the chemicals industry is not as exposed to the problematic domestic market, and therefore our underwriting approach to the sector is quite relaxed. However, we are naturally more cautious on poorly rated buyers and those that cannot provide up-to-date financial information or trading experience. Even in the case of the most troubled sectors - pharmaceuticals and fuel - we make every effort to optimize our exposure, seeking the most recent financial information, and good interim figures, that will enable us to maintain or even increase approved credit limits.

Spanish chemicals/pharmaceuticals sector

STRENGTHS	WEAKNESSES
High degree of internationalisation	Strong dependence on oil and raw material price fluctuations
Large investment in research, development and innovation (R + D)	Competition mainly from BRIC countries
Modern and well structured industry with several profitable subsectors	Low level of financing support of these businesses
Product diversification	A potential deterioration of accessibility to the new drugs

United States

Chemicals: helped by rebound in automotive and construction

The US chemicals sector continues to face lower demand. A slowdown in Europe and Asia, and a manufacturing slowdown in some key end markets in the US, such as electronics and solar energy, are contributing factors. However, this is partially offset by gains in construction, light vehicles, and the aerospace market. Chemicals are involved in 96% of manufactured goods, making the manufacturing industry the biggest consumer of chemical products – but also leaving the industry highly exposed to the broader economy and manufacturing activity. US economic growth is forecast to slow to 1.9% year-on-year in 2013 after 2.2% in 2012, while manufacturing production will increase 3.1% this year after 3.4% growth in 2012.

According to the American Chemistry Council (ACC), national chemicals output increased 1.5% in 2012: down from 2.1% in 2011. The ACC estimates that output will increase only slightly: 1.9% in 2013 and 2.3% in 2014. Exports of chemicals are expected to rise 4.7% in 2013, up from 1.8% in 2012, and 6.6% in 2014. So far this year, chemicals production has continued to grow in low single digits, up 1.2% in February. The US chemical sector experienced positive gains in all its geographic regions apart from the Mid-Atlantic and West Coast regions (see chart below).

U.S. Chemical Production Regional Index, Percentage Change (Seasonally adjusted, 3-month moving average)

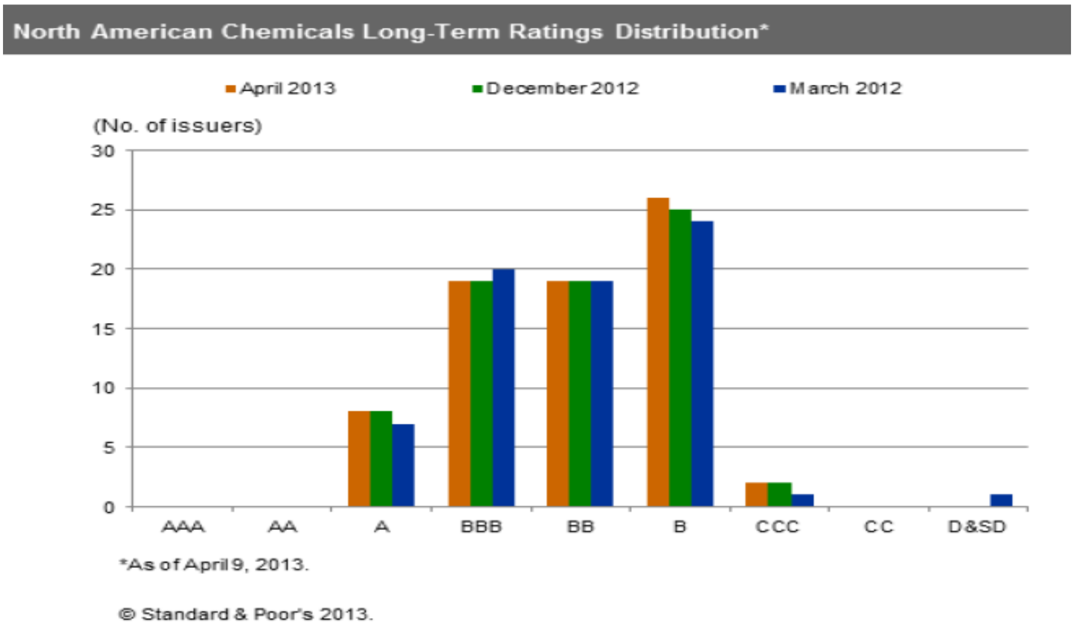
	Current Month	*Prior Month*	*Year/Year*	*Year-to-Date*
	Feb 13/ Jan 13	Jan 13/ Dec 12	Feb 13/ Feb 12	YTD 13/ YTD 12
Gulf Coast	0.5%	0.8%	2.8%	3.0%
Midwest	0.8%	0.8%	0.5%	0.5%
Ohio Valley	0.4%	0.9%	4.1%	4.6%
Mid-Atlantic	0.8%	0.7%	-0.3%	-0.5%
Southeast	0.6%	0.7%	0.6%	0.7%
Northeast	0.7%	0.7%	0.3%	0.2%
West Coast	0.9%	0.7%	-1.0%	-1.3%
U.S. Total	**0.6%**	**0.8%**	**1.2%**	**1.3%**

Source: American Chemistry Council

Some of the key end-markets for chemical products, such as agriculture, construction, and automotive, have shown or are still showing an upward trend. Agriculture in the US has been booming in recent years, driven by record-high commodity prices and tight supply. Farm income rose 15% year-on-year in 2012, to US$ 127.6 billion, according to the U.S. Agriculture Department. However, due to the high costs and anticipated lower prices of corn, wheat, and soybeans over the coming months, farm income is expected to fall by one third next year, to US$ 96.9 billion. Housing appears to be in a sustained recovery following its deep depression, with one million new housing starts in April 2013: the highest level of new housing construction on a rolling twelve month basis since 2008. The automotive industry is in the midst of an even stronger recovery, with all three of the major US auto makers gaining market share in the first quarter of 2013 for the first time in 20 years, and each exceeding sales forecasts by reaching levels not seen since 2007.

Capital spending is expected to increase throughout the chemicals industry over the next few years, following US$ 38.1 billion of domestic chemical investments in 2012: up 15.5% year-on-year. Top global chemicals manufacturers are expected to invest more than US$ 40 billion in new facility expansion and to restart suspended North American facilities. This increase in capital investments is partly related to the expansion of shale gas which, according to the US government Energy Information Administration, is expected to generate 46% of the country's natural gas supply by 2035. The US is estimated to have 862 trillion cubic feet of recoverable resources in shale gas: second only to China's 1,275 trillion cubic feet.

The credit quality of the US chemicals companies should remain generally stable in 2013, with the modest pick up in emerging markets, such as China and Latin America, partially offset by further deterioration in the growth outlook for Europe, particularly for companies with significant exposure to weaker economies within the region. Overall, foreign markets are not likely to support additional demand growth. The availability of low-cost natural gas, a key input for many chemicals companies, should lead to favourable performance for petrochemicals and downstream sectors. The industry as a whole benefits from lower operating costs resulting from cost restructuring, generally high cash balances, and improved debt maturities profiles compared to a few years ago. 85% of companies rated within the US chemicals sector have stable outlooks from Standard & Poor's with a median rating of 'BB'.



Source: Standard and Poor's

Mergers and acquisitions (M&A) offer chemicals companies another means to shore up growth when volumes and pricing remain relatively weak. In the US, increased M&A activity in the chemicals sector is expected with the recovery of the construction market in 2013. Paint, coatings, adhesives, sealants, and additives businesses all experience upswings in M&A activity in 2012.

Fewer payment delays

On average, payments in the chemicals industry take between 30 and 90 days, and payment delays and claim activity have decreased continuously since 2008 - a particularly bad year for the industry. While we expect fairly steady performance, the sector is cyclical and heavily tied to the overall health and strength of the US economy and manufacturing sector. Therefore, any deterioration in those factors could lead to increased payment delays. Insolvencies have declined in the last couple of years, but remain higher than before the 2008 recession. Assuming a continuing upward trajectory in the housing and automotive industries, payments and the number of insolvencies should also continue to improve. Indeed, we expect US business insolvencies to continue to decrease in 2013 (-6% year-on-year), although at a slower rate than in 2011 (-15%) and in 2012 (-16%).

Our underwriting approach to this sector is generally positive, in view of the credit quality of the industry leaders and their ability to withstand global recessions thanks to their large cash balances and strong balance sheets. As the sector is highly fragmented, we scrutinise single subsector trends and end-markets. Access to financial information is difficult, but is essential when considering large deals. We continue to review distressed risks on a quarterly or bi-annual basis and use both third party credit agency information and confidential credit sources to support our assessment of the appropriate level of cover. We continue to meet with and have conference calls with industry experts and decision makers as a way to maximize the cover that we can offer.

US chemicals/pharmaceuticals sector

STRENGTHS	WEAKNESSES
Credit quality of the industry leaders	Continued weakness in Europe and slowing growth in Asia which is driving lower volumes for the industry as a whole
Mergers and acquisitions as a tool to grow in the current economic environment	Lower growth in the US manufacturing sector
Corporate profits and capital investments are rising and production is showing continued single digit gains	Difficult end markets such as electronics and solar which can cause consolidated earnings to fluctuate
Relatively stable energy prices, a key input for the sector	Weaker GDP and job growth which is slowing the industry's recovery

The Netherlands

Performing better than most other Dutch industries

The chemicals industry in the Netherlands forms part of one of the strongest chemical clusters in the world: the interconnected Antwerp-Rotterdam-Rhine-Ruhr Area (ARRRA). While the population of the Netherlands is a mere 0.2% of the global total, the Dutch chemicals industry accounts for 2% of global output. Basic chemistry (such as petrochemicals, fertilizers and polymers) accounts for over 80% of total production. In particular, the strong clusters in Rotterdam and Limburg have ensured that basic chemicals production has increased 40% over the past ten years. In view of the importance of chemicals/pharmaceuticals, the new government has named the industry one of the national growth sectors.

According to the Dutch Chemicals Association, in 2012 Dutch chemicals production increased by 5% year-on-year, while European chemicals output shrank 2%. However, 2013 will be a difficult year, as economists forecast that production will shrink 3% and only level off in 2014.

As an indication of this, both production and sales of chemicals decreased year-on-year in Q1 of 2013. Sales fell by 7%, due mainly to lower foreign demand: a worse result than the average 3% drop for Dutch industries as a whole. Production fell 10% after four consecutive quarters in which it increased. That was not as bad as the result for the whole of the Dutch industry sector, which has seen production decrease throughout the last three quarters of 2012 and again in Q1 of 2013. Business expectations in the chemicals sector are also less pessimistic than for the whole Dutch industry segment. 9% of chemical companies expect production to decrease this year, while 71% estimate that production will remain at the same level. 80% believe that turnover and selling prices will hardly increase. The Dutch, and indeed the European, chemicals sector will face more difficult years ahead with lower margins, limited revenue growth and continuing restructuring. Smaller, non-clustered plants with relatively high purchase and disposal costs will be most vulnerable. However, there are also some positive developments. Oil prices are expected to remain lower than in the past while competitiveness of the European chemicals clusters is expected to improve.

We have seen no increase in payment delays in the Dutch chemicals/pharmaceuticals sector over the past six months, nor do we expect any change in the coming months. The same is true for insolvencies, which are below the average for Dutch industry. Despite the current economic troubles and difficult years ahead for the chemicals sector, we see no reason at present to tighten our underwriting policy for the chemicals/pharmaceuticals sector. We monitor developments by seeking the most recent financial information from buyers and asking our customers to notify us of their trading experience, orders on hand and outstanding payments.

Russia

Pharmaceuticals: high growth rates will continue

The Russian pharmaceuticals market has recorded quite strong growth rates during the last few years. According to Ernst & Young, market value (measured in retail prices including VAT) exceeded EUR 20 billion in 2011. Market growth (in value terms) is estimated to have been 12% in 2011 and 8-10% in 2012, driven mostly by inflation. The market is expected to continue its expansion in 2013-2014 at least at the same pace. In accordance with the Strategy for the Long-Term Economic Development, the volume of state healthcare expenditure will increase over the next 8 years: to 5.5% of GDP by 2020.

The Russian pharmaceuticals market consists mainly of retailers (pharmacies) while wholesale distributors also play a significant role. Because the country is so vast, there are various types of distributors, including national, regional, and specialist. Since the government's introduction of medicine price regulation in 2010, most distributors have seen their margins decrease significantly. However, most of the leading players have been able to overcome this – after a quite difficult 2011, the results in 2012 were generally positive with large and medium-sized pharmaceutical distributors achieving higher sales and profitability. Overall, profit margins, equity strength and liquidity are now generally improving.

The pharmaceuticals market is defined by long payment terms from suppliers to distributors. The average credit period offered to the largest wholesalers can exceed 120 days, while medium sized distributors can expect 60-90 days payment terms. In 2012 we saw improving payment discipline in all market segments, with no major overdue payments reported to us.

However, even the leading distributors are selective in how they pay their suppliers: tending to delay payments to small and medium-sized manufacturers. Tellingly, suppliers protected by credit insurance have more chance of being paid on time.

In 2013-2014 we expect a continuation of the positive developments in the Russian pharmaceuticals market, with high growth rates. The main risks relate to market consolidation and increasing competition: weaker players may find it difficult to compete with the market leaders and may be absorbed through mergers and takeovers.

We ensure that we are always on top of developments in the sector, through regular updates from our customers and their buyers, and meetings with all the major players. Equipped with the most recent financial results on leading companies in the industry, we can provide a fast and high quality service to our existing and potential pharmaceuticals-related customers.

Switzerland

Strong rebound of exports in 2012

The Swiss chemicals and pharmaceuticals industry is focused mainly on live science products, which account for more than 75% of the product portfolio. In 2011 the sector experienced weaker demand from the EU and the appreciation of the Swiss franc, both proving stumbling blocks for an export-driven industry that accounts for nearly 40% of total Swiss exports. The chemicals sector suffered from pressure on prices and strong competition. However, according to Credit Suisse, sales of chemicals and pharmaceuticals rebounded in 2012, thanks largely to a stabilisation of the exchange rate. According to the Swiss industry association scienceindustries, exports of chemicals, pharmaceuticals and biotech products increased 5.8% year-on-year in 2012. Pharmaceuticals exports, which account for 81% of total chemicals/pharmaceuticals exports, increased 6.7%. Exports of organic chemical products and pesticides rose by more than 9%, while dyes and pigments recorded a 15.3% decrease. Although chemicals/pharmaceuticals exports to the EU decreased 0.4%, strong growth was recorded for exports to the US (19.5%), China (26.3%) and Brazil (10.6%).

Short-term prospects for 2013 are for modest growth in the chemicals sector, in line with global growth. Pharmaceuticals will continue to profit from growing overseas demand, but also continue to feel increasing price pressure.

Payment behaviour in the chemicals and pharmaceuticals sectors has always been better than average for Swiss industries. We have seen very few notifications of non-payment and claims in this industry which, compared to other industries, also shows a very low insolvency rate. Because of the overall stable performance and financial health of chemicals and pharmaceuticals companies, we do not expect any notable increase in payment delays or business failures in the coming months. Overall we expect Swiss business insolvencies to decrease 2% year-on-year in 2013 after a 3% increase in 2012.

In light of these facts and the positive developments in the chemicals and pharmaceuticals segment, we maintain our relaxed underwriting stance across all subsectors. Our main underwriting criterion, as always in Switzerland, is sight of audited accounts.

Acerca de Crédito y Caución

Crédito y Caución es el operador líder del seguro de crédito interior y a la exportación en España desde su fundación, en 1929. Con una cuota de mercado del 54%, lleva más de 80 años contribuyendo al crecimiento de las empresas, protegiéndolas de los riesgos de impago asociados a sus ventas a crédito de bienes y servicios. Desde 2008, es el operador del Grupo Atradius en España, Portugal y Brasil.

El Grupo Atradius es un operador global del seguro de crédito presente en 45 países. Con una cuota de mercado de aproximadamente el 31% del mercado mundial del seguro de crédito, tiene acceso a la información de crédito en más de 100 millones de empresas en todo el mundo y toma cerca de 20.000 decisiones diarias de límites de crédito comercial. El operador global consolida su actividad dentro del Grupo Catalana Occidente.

Crédito y Caución
Paseo de la Castellana, 4
28046 Madrid
Spain

www.creditoycaucion.es