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ROMANIAN CHEMICALS INDUSTRY - ONE OF THE ECONOMY'S DRIVING FORCES

As one of the largest and most dynamic industries in the world, with a total sales volume of 2,744 BEUR in 2011 (with 11.6% more than in 2012), chemicals industry confirms its position as one of the main engines of economic recovery.

Nationally, this industry indicates an upward trend, but also warns us on some potential risks

Despite the continuous reduction of its share in this market vs. the Asian region, the EU chemicals industry still holds a market share of over 20% of the total, succeeding in 2011 539 BEUR total sales and generating 1.19 million jobs in over 60,000 companies¹.

In Romania, this sector is not just one with great tradition and impact on the national economy, but also one with a special economic evolution of the last few years.

According to the latest financial statements published by the Ministry of Finance at the end of 2011, in the chemicals² industry 4,598 companies were considered active, which generated a total turnover of 47.4 BEUR and 89,696 jobs.

Analyzing the financial situation for these companies, we noticed that the chemicals sector is facing a number of issues which may jeopardize its relative stability (in terms of number of companies and employees) and the trend of the economic recovery (turnover up to 24%) registered at the end of 2011.

Potential imbalances within the companies' financial statements of the chemicals industry

22% of the 4,598 companies were no longer active in April 2013; their number and size being higher than the ones newly started in 2008-2011. This negative dynamic can bring losses of nearly 2 BRON in turnover and the disappearance of more than 1,900 jobs.

Increased solvency problems of these companies, compared to the previous year may occur due to the maintenance of net losses, the increase of the indebtedness rate (+7.5%) and the decrease of the capitalization rate (-20%).

¹According to the data published by CEFIC (European Chemical Industry Council) and Eurostat

²Represented by the following NACE divisions: 19, 20, 21, 22

Failure to recovery in terms of profitability is evidenced by:

- Two of the four divisions of this business sector generated net losses for the entire period of 2008 - 2011;
- Extremely low percentage (22%) of the companies that fail to return profitable after their losses in the previous year;
- Grouping firms into two categories "usual losers" and "usual winners".

Unfortunately, chemicals companies are not too concerned about an effective credit risk management, thus, only 2 of 10 companies show a decreased insolvency risk, 3.5 - medium risk, and the remaining 4 companies - high to very high risk.

Another imbalance can be developed because of the high dependence of the most important and experienced economic players on the market that have significant shares of the sector's assets and decisively influence the sectoral financial indicators.

Naturally, the possibility of such imbalances in the financial situation will not remain without consequences regarding the chemicals' economic perspectives.

The payment discipline of the chemicals companies can register deficits

How companies pay their financial obligations compel us to closely notice their payment³ behavior assessment.

Thus:

- 26% of the chemicals companies that registered unpaid debts to the state budget within December 31st, 2012. The debt's value showed a significant increase of 86% compared to the end of last year.
- Thus, it results a trend contrary to that of the national economy, where we noticed a clear decrease regarding the indebtedness level due to intensified efforts for revenues collection.
- The analysis of the payment incidents based on information from representative companies individually analyzed by Coface Romania in the last year shows that the average retention amount of the chemicals companies is 3 times higher than the average amount for all the firms verified by Coface within CIP.
- Equally alarming is the evolution of the payment incidents in the sector in 2006 - 2012, which shows that the number of incidents aggregated for 2011 and 2012 is higher than the total number of retention amounts for the previous 5 years, 3 times more for 2012 than the pre-crisis period (2006 - 2008).

³ Based on the analysis of the unpaid debts to the state budget and the CIP's payment incidents



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These trends degrade the favorable position of the newly opened insolvencies of the sector during previous years, and the deterioration of the payment behavior, alongside the increasing of commercial disputes show that there are prerequisites to increase the number of insolvencies in the future.

Based on the individual assessment for a total of 774 companies in 2012, with a share of 87% in total turnover, we noticed that only 36% of the chemicals companies show a decreased insolvency risk, the rest being classified in the following risk classes: medium risk (56%) or high risk (8%).

"The chemicals industry represents a driving force of the Romanian economy in the coming years. Attracting foreign direct investments, domestic or international, can transform this sector into a flourishing one, taking into account the global trend growth of 12%. Obviously that nowadays the sector shows some risks, so that almost 45% of chemicals active companies have an increased insolvency risk, but it is more important to focus on the opportunities and solutions we can find to re-launch the Romanian economy.", said Constantin Coman, Country Manager, Coface Romania.

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About Coface

The Coface Group, a worldwide leader in credit insurance, offers companies around the globe solutions to protect them against the risk of financial default of their clients, both on the domestic market and for export. In 2012, the Group posted a consolidated turnover of 1.6 BEUR. 4,400 staff in 66 countries provides a local service worldwide. Each quarter, Coface publishes its assessments of country risk for 158 countries, based on its unique knowledge of companies' payment behavior and on the expertise of its 350 underwriters located close to clients and their debtors.

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