



EMEA Chemical Industry: on the Mend?

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Director, Chemicals





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Fitch's Chemical Coverage

Anatomy of a Super-Cyclical Downturn

Rating Challenges and Approach

EMEA Chemicals Landscape in 2010

Credit Outlook

Conclusion



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Fitch's Chemicals Coverage

Issuer Name	Country	LT IDR	Outlook/RW
Monsanto Company	USA	A+	Stable
Saudi Basic Industries Corporation	Saudi Arabia	A+	Stable
BASF SE	Germany	A+	Negative
E.I. duPont de Nemours and Company	USA	A	Negative
Royal DSM NV	Netherlands	A-	Negative
Solvay SA	Belgium	A-	RWN
Akzo Nobel N.V.	Netherlands	BBB+	Stable
Lanxess AG	Germany	BBB	Stable
Lubrizol Corporation	USA	BBB	Stable
Eastman Chemical Company	USA	BBB	Stable
Mosaic Company (The)	USA	BBB	Stable
Dow Chemical Company	USA	BBB	Negative
RPM International Inc.	USA	BBB-	Stable
Union Carbide Corporation	USA	BBB-	Negative

Blue text: EMEA Chemicals

Source: Fitch



Fitch's Chemicals Coverage

Issuer Name	Country	LT IDR	Outlook/RW
JSC Sibur Holding	Russian Federation	BB	Stable
Terra Industries Inc.	USA	BB	RWE
OJSC EuroChem Mineral and Chemical Co.	Russian Federation	BB	Negative
Petkim Petrokimya Holdings A.S.	Turkey	BB-	Negative
Rhodia SA	France	BB-	Negative
NOVA Chemicals Corporation	USA	B+	Stable
JSC Acron	Russian Federation	B+	Negative
Nalco Co.	USA	B	Stable
Cognis GmbH	Germany	B	Negative
Rockwood Specialties Group, Inc.	USA	B	Negative
OAO Nizhnekamskneftekhim	Russian Federation	B	RWN
JohnsonDiversey	USA	B-	Positive
OJSC Concern Stirol	Ukraine	B-	Negative
Kronos International Inc. (Valhi, Inc.Unit)	USA	CCC	Negative
OJSC Kazanorgsintez	Russian Federation	RD	--

Blue text: EMEA Chemicals

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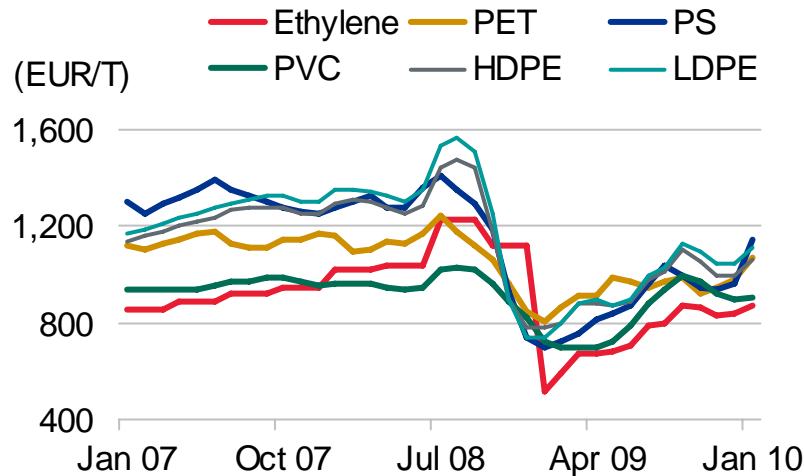
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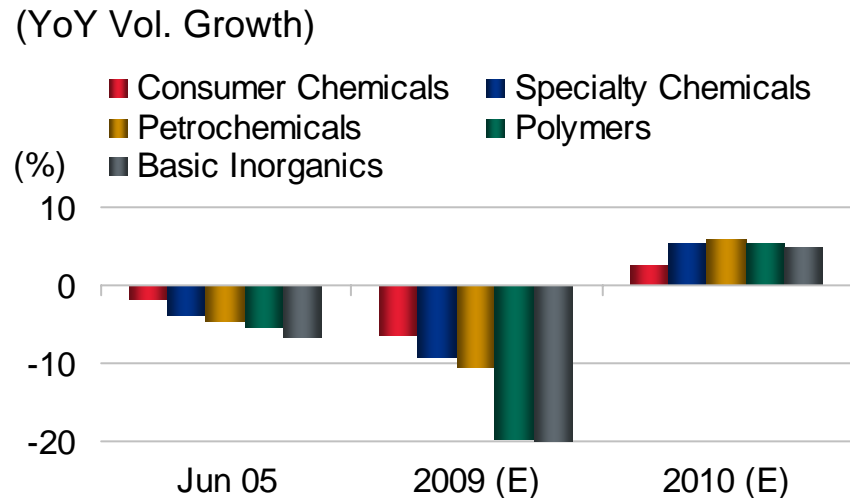
Backdrop

- > Global economic downturn
- > Unprecedented customer de-stocking in Q408-Q209 and slump in demand
- > Sharp price erosion for commodity chemicals in Q408-Q109
- > Production cutbacks and capacity reductions across the industry

Price Trends



EU Chemicals Production

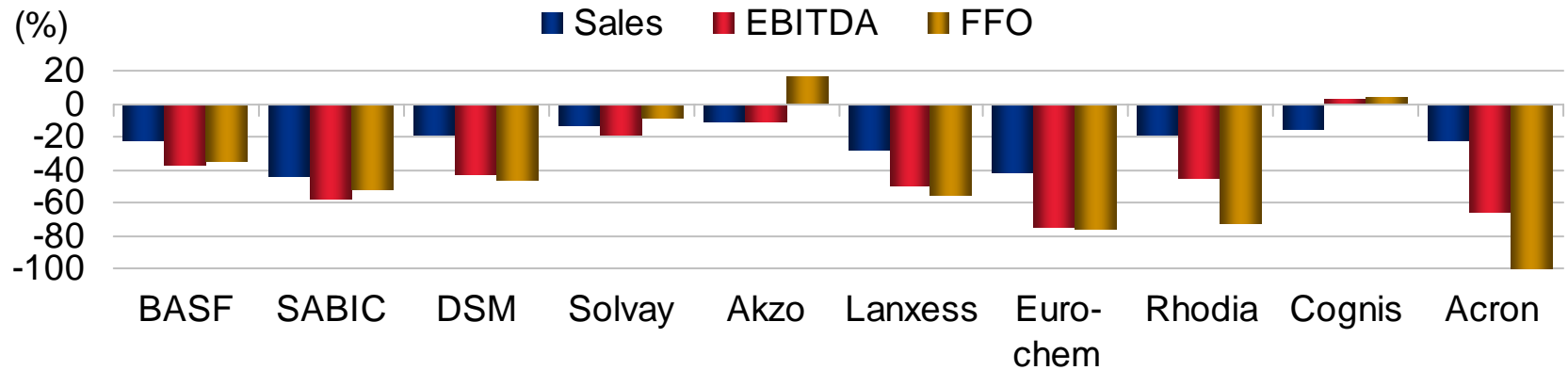


Source: Cefic (November 2009); CMAI

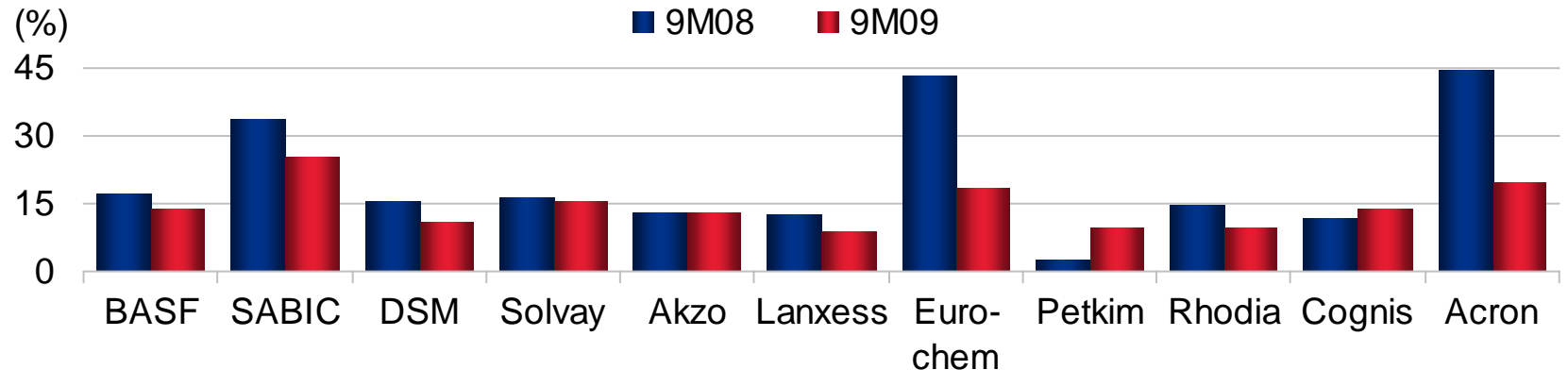


Impact on Selected EMEA Issuers' Performance

YoY Variations in 9M09



EBITDA Margin Progression



Source: Company Reports, Fitch



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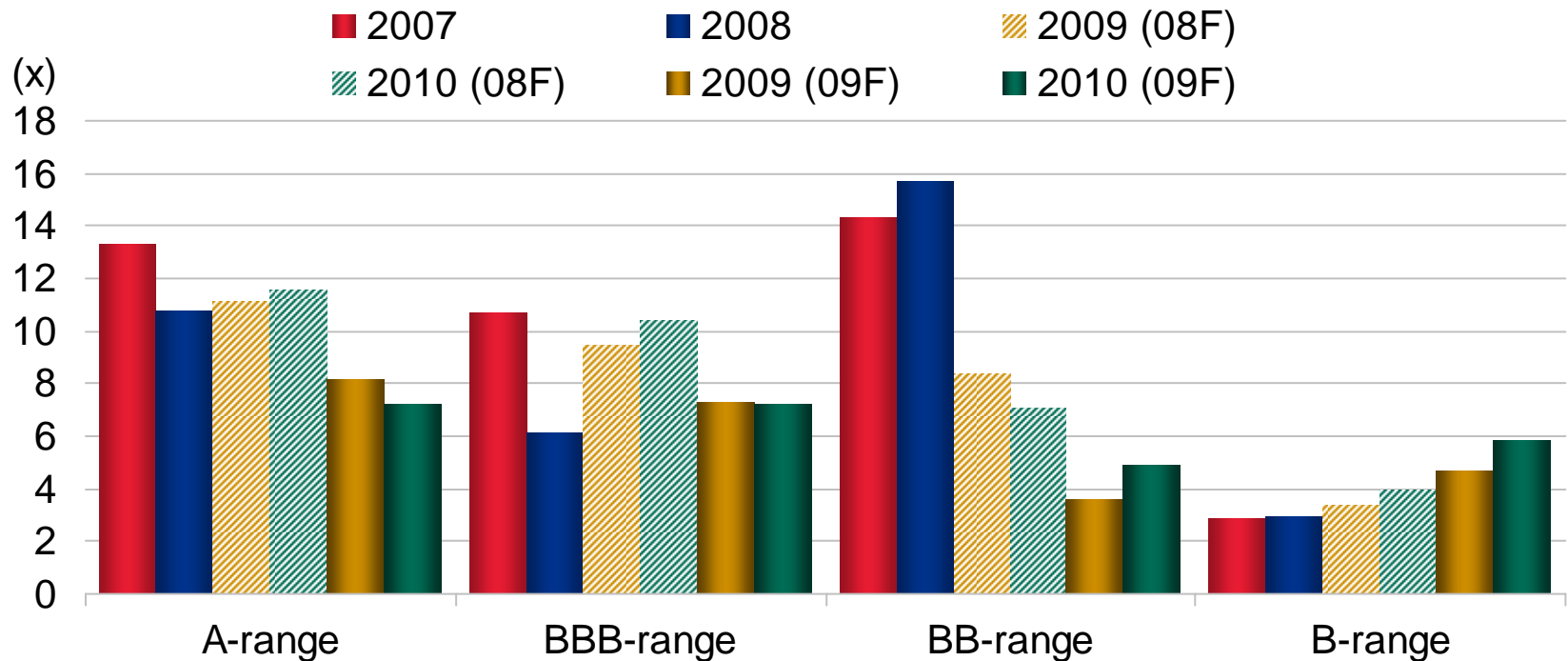
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Impact on EMEA Chemicals' Selected Credit Metrics

FFO/Gross Interest Expense Coverage Progression (Average Fitch EMEA Chemicals^a)

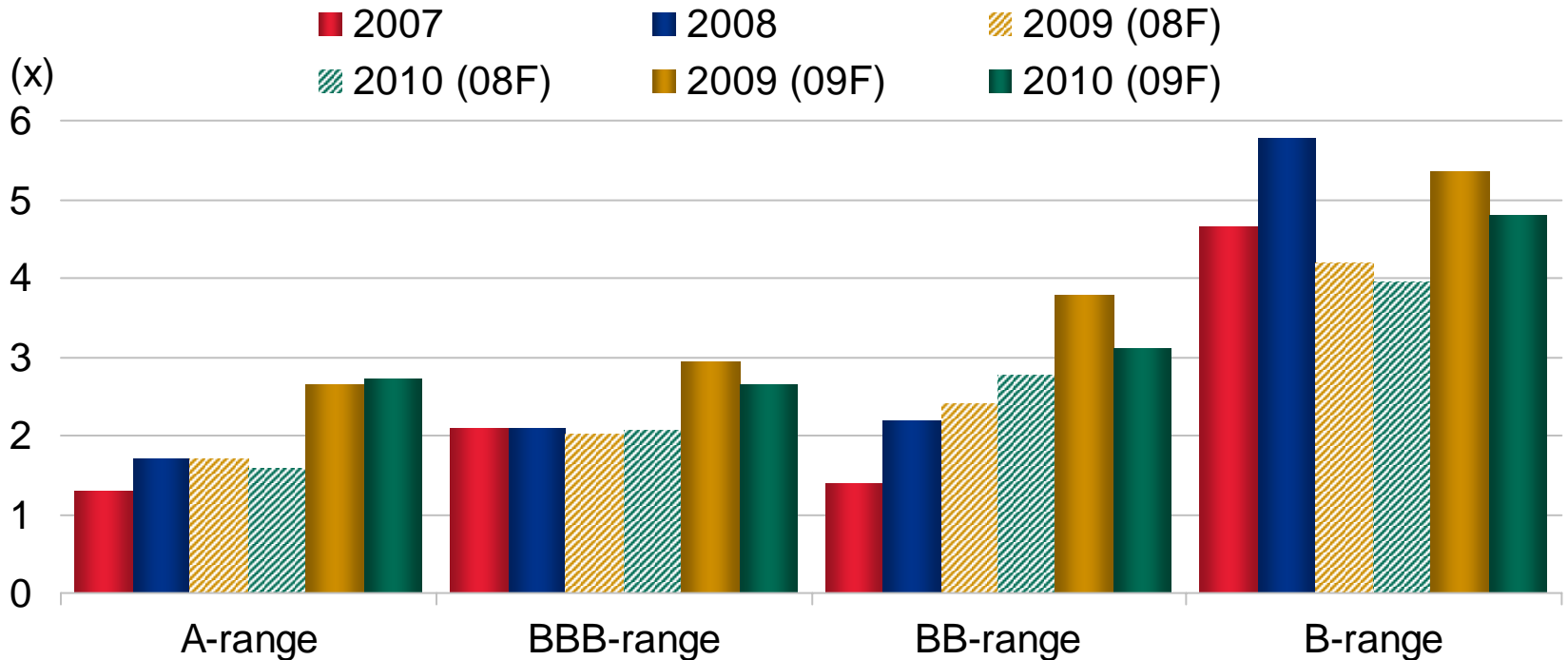


^a Excluding Stirol, Petkim
Source: Company reports, Fitch



Impact on EMEA Chemicals' Selected Credit Metrics

Total Adjusted Debt/EBITDAR (Average Fitch EMEA Chemicals^a)

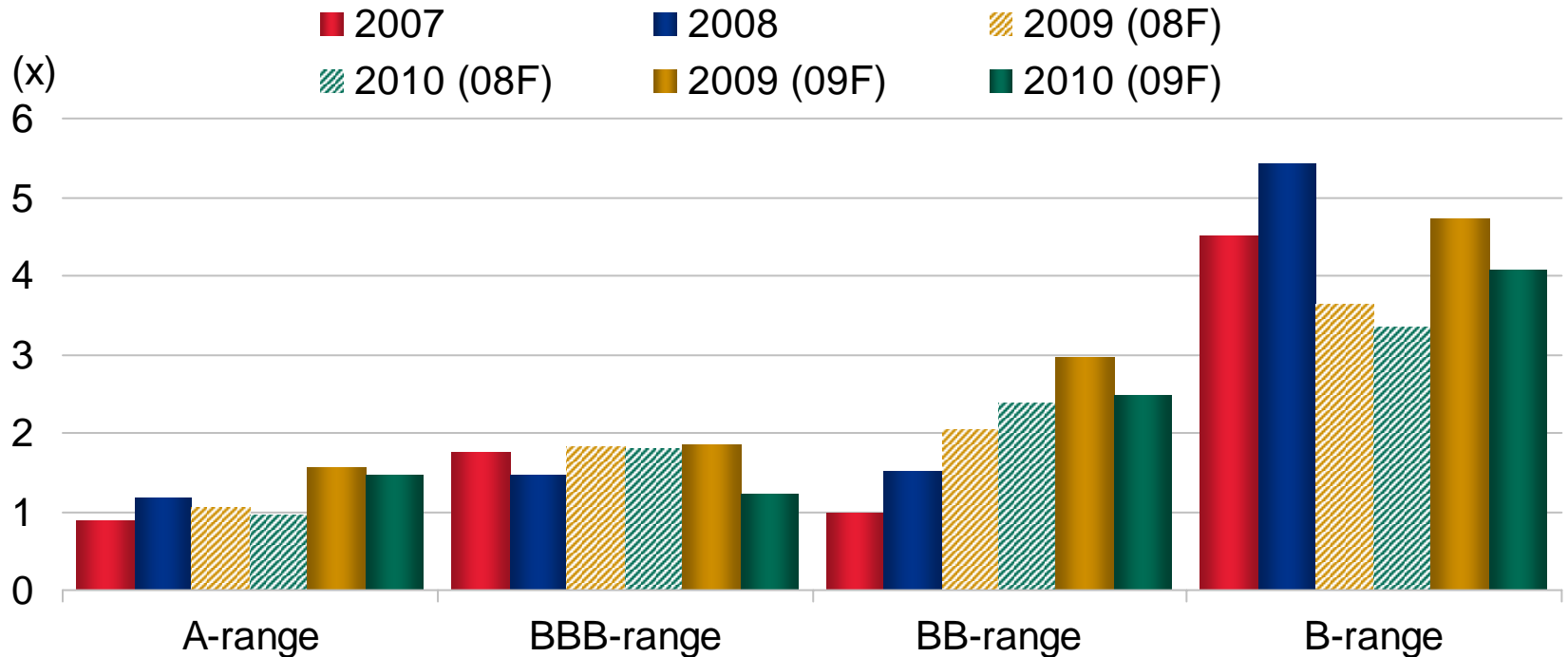


^a Petkim and Stirol excluded in all years. Sovay excluded from 2010 (09F) net adj. debt/EBITDA avg.
Source: Company reports, Fitch



Impact on EMEA Chemicals' Selected Credit Metrics

Net Adjusted Debt/EBITDAR (Average Fitch EMEA Chemicals^a)

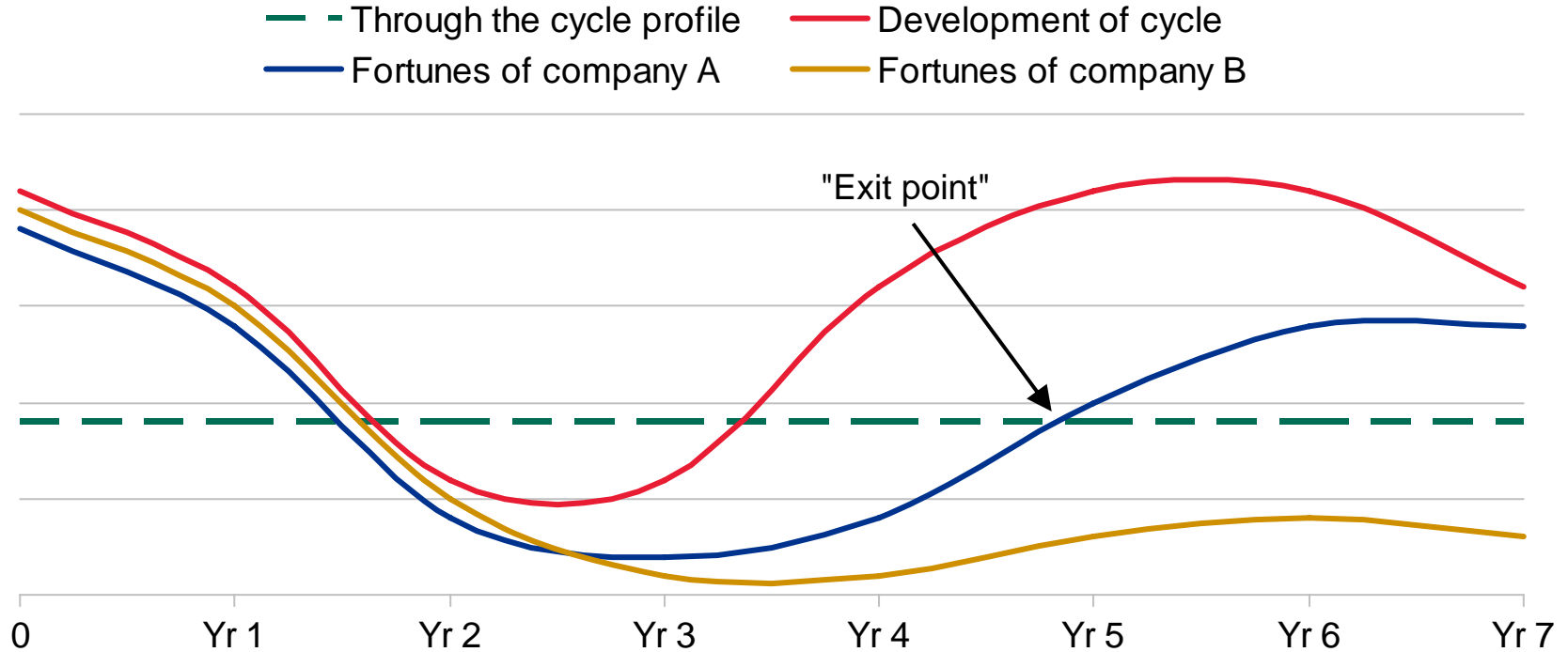


^a Petkim and Stirol excluded in all years. Sovay excluded from 2010 (09F) net adj. debt/EBITDA avg.
Source: Company reports, Fitch



Focus on Issuers' Exit Profile

Impact of Recession Illustrative curves



Source: Fitch



Factors which Determined Fortunes in 2009

Positive

> Financial Profile

- Cash preservation measures supporting positive free cash flow
- Demonstrated access to capital markets
- Debt maturity profile skewed to long-term
- Conservative financial policies

> Business Profile

- Leading market positions
- Strong cost position/low operating leverage
- Access to competitively priced feedstock
- Presence in high-growth markets
- Flexibility and speed of cost base adjustments
- Management track record

Negative

> Financial Profile

- Aggressive financial policies/investment strategy at cycle peak
- Liquidity and refinancing issues
- Lower rebased ongoing cash flow expectations
- New debt assumed to offset cash flow shortfalls during recession

> Business Profile

- High exposure to commodity chemicals/feedstock volatility
- Loss of market share due to uncompetitive cost position/high operating leverage
- Concentration of supply/production assets



Rating Challenges and Rating Approach

Rating Action in EMEA Chemicals Universe in Q408-Q409

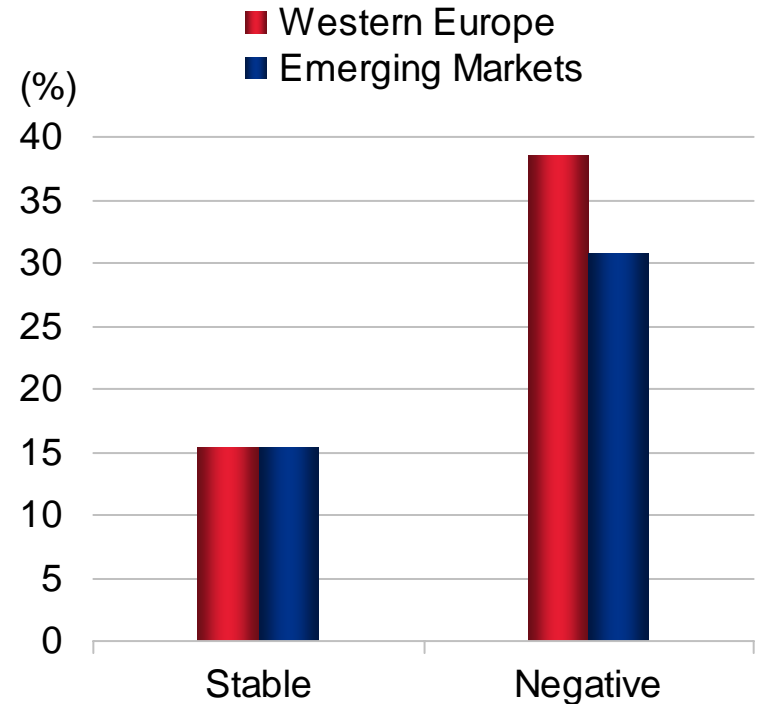
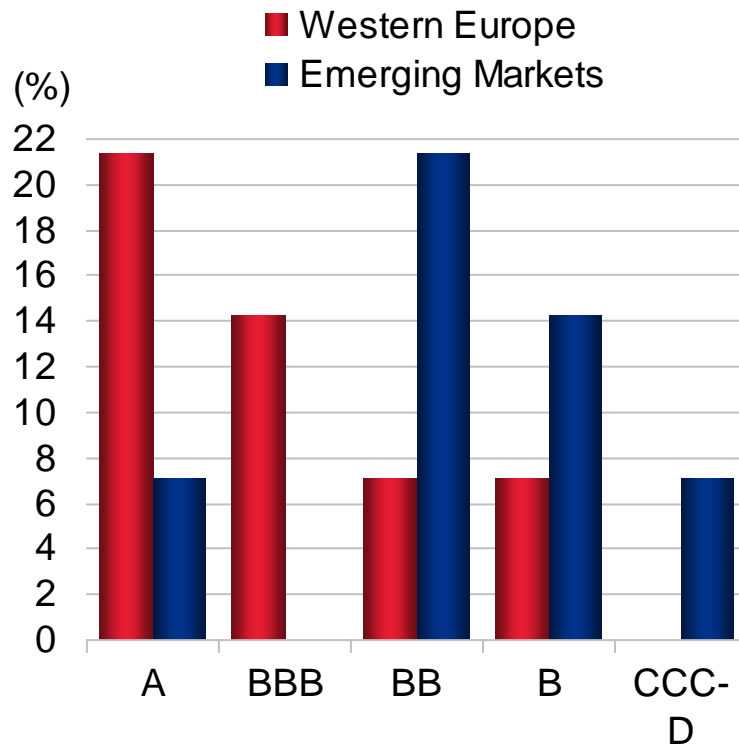
Issuer name	Country	Rating action	Current LT IDR	Outlook/ RW
Saudi Basic Industries Corporation	Saudi Arabia	► Affirmation	A+	Stable
BASF SE	Germany	▼ Downgrade	A+	Negative
Royal DSM NV	Netherlands	▼ Outlook revision	A-	Negative
Solvay SA	Belgium	▼ Downgrade	A-	RWN
Akzo Nobel N.V.	Netherlands	▼ Downgrade	BBB+	Stable
Lanxess AG	Germany	► Affirmation	BBB	Stable
OJSC EuroChem Mineral & Chemical Co.	Russian	▼ Outlook revision	BB	Negative
JSC Sibur Holding	Russian	▲ RWN resolved	BB	Stable
Petkim Petrokimya Holdings A.S.	Turkey	▼ Outlook revision	BB-	Negative
Rhodia SA	France	▼ Outlook revision	BB-	Negative
Cognis GmbH	Germany	▼ Outlook revision	B	Negative
OAO Nizhnekamskneftekhim	Russian	▼ Downgrade	B	RWN
OJSC Concern Stirol	Ukraine	▼ Outlook revision	B-	Negative
OJSC Kazanorgsintez	Russian	▼ Multiple downgrades	RD	--
Lyondell Basell	Netherlands	▼ Multiple downgrades	WD	--

Source: Fitch



Rating Outlook and Distribution of EMEA Chemicals

EMEA Rated Universe Measured on LC IDR at year-end 2009



Source: Fitch



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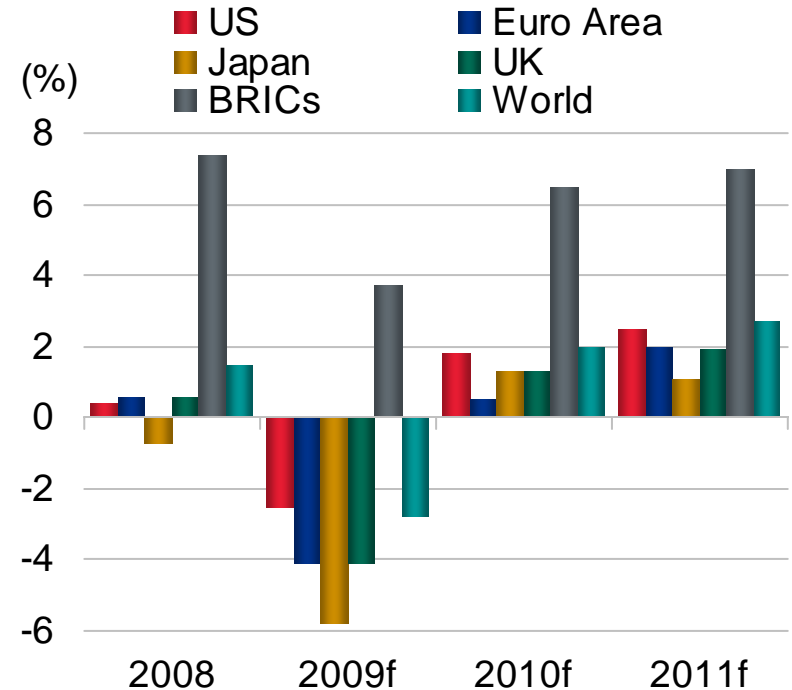
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The Good News: Improving Macroeconomic Context

- > Positive growth momentum from Asia and LatAm, and stabilising trends in Europe and the US
- > Gradual recovery expected in key end-markets
- > Demand and prices are picking up, albeit from record low levels

GDP Growth Forecasts

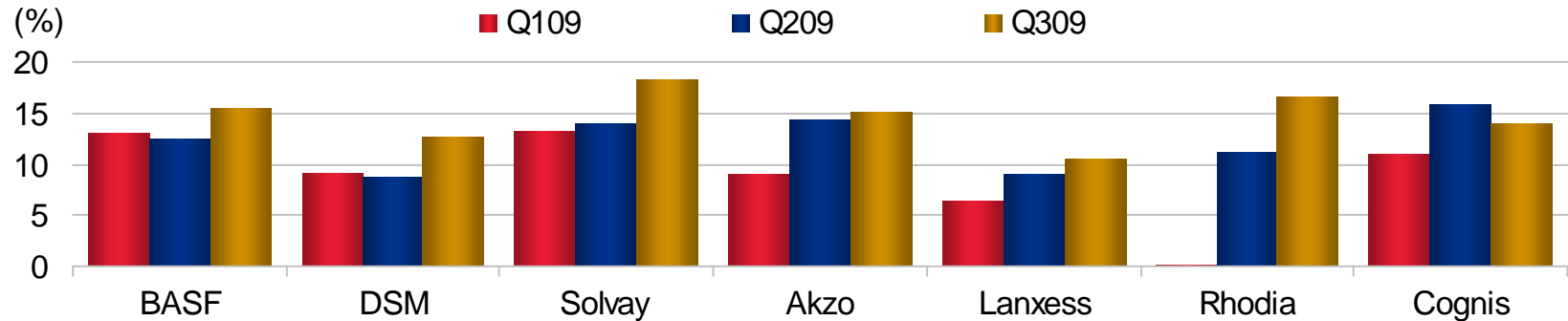


Source: Fitch Global Economic Outlook (Oct 09)

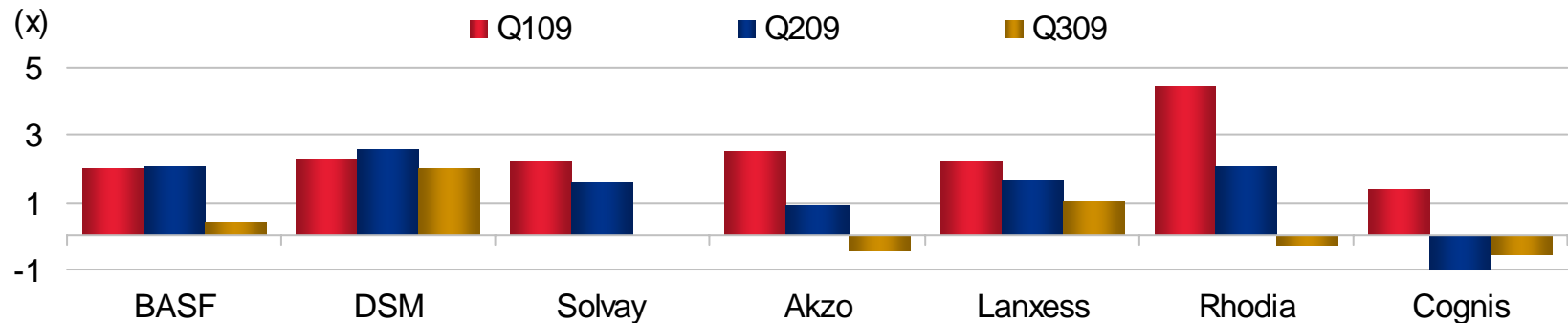


The Good News: Performance Strengthening Sequentially

EBITDA Margin QoQ Trends^a



Degree of Operating Leverage



^a Western European Issuers

Source: Company Reports, Fitch



The Good News: Cost-Saving Measures Ongoing

Issuer	Description	Cumulative Cost-savings Target	Timeline
BASF	<ul style="list-style-type: none"> > 500 cost and structure rationalisation projects > 20 plants/sites divestments/closures 	>EUR1.0bn	2008-2011
DSM	<ul style="list-style-type: none"> > 1,250 headcount reduction > Purchasing/efficiency improvement measures 	EUR125m	2009-2010
Akzo	<ul style="list-style-type: none"> > Reduction in overhead costs / salary freezes > Capacity rationalisation 	>200m (excl. ICI synergies)	2008-2011
Solvay ^a	<ul style="list-style-type: none"> > Selective site closures/disposal > Strict cost control / 1,200 headcount reduction 	~EUR140m reduction yoy achieved in 9M09	2009
Lanxess	<ul style="list-style-type: none"> > Salary cuts / Reductions in G&A > Production rationalisation 	EUR360m	2009-2012
Rhodia	<ul style="list-style-type: none"> > Footprint optimisation / Raw material synergies > Productivity improvements in support functions 	EUR150m	2009-2011
Cognis	<ul style="list-style-type: none"> > Cost optimisation measures 	EUR70m	2009

^a excluding Pharma

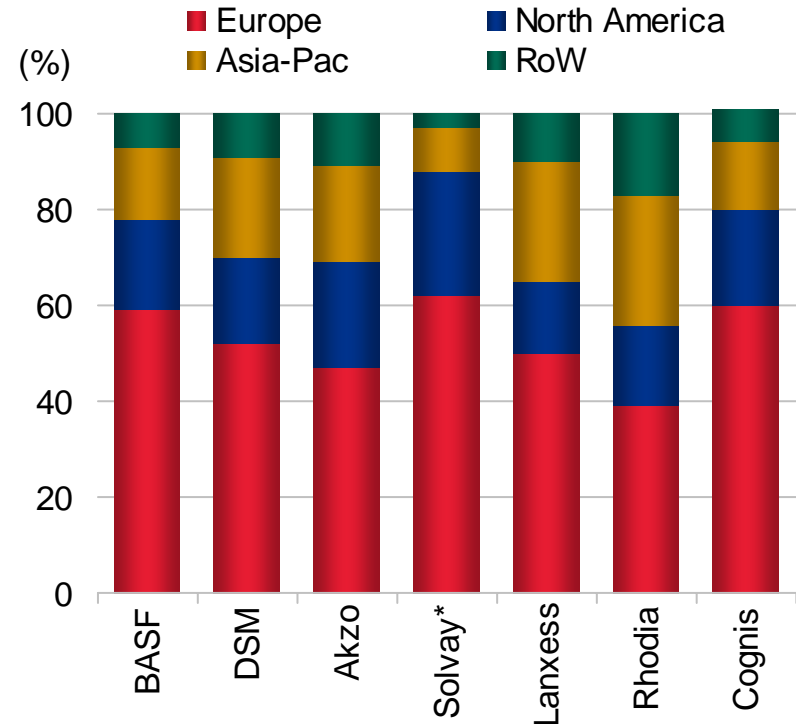
Source: Company Reports, Fitch



Challenges and Uncertainties: Regional Recovery not Simultaneous

- > Entry into the downturn was simultaneous; recovery is regional
- > Ongoing concerns regarding unemployment, consumer spending and lending restrictions

Sales by Region (2008)



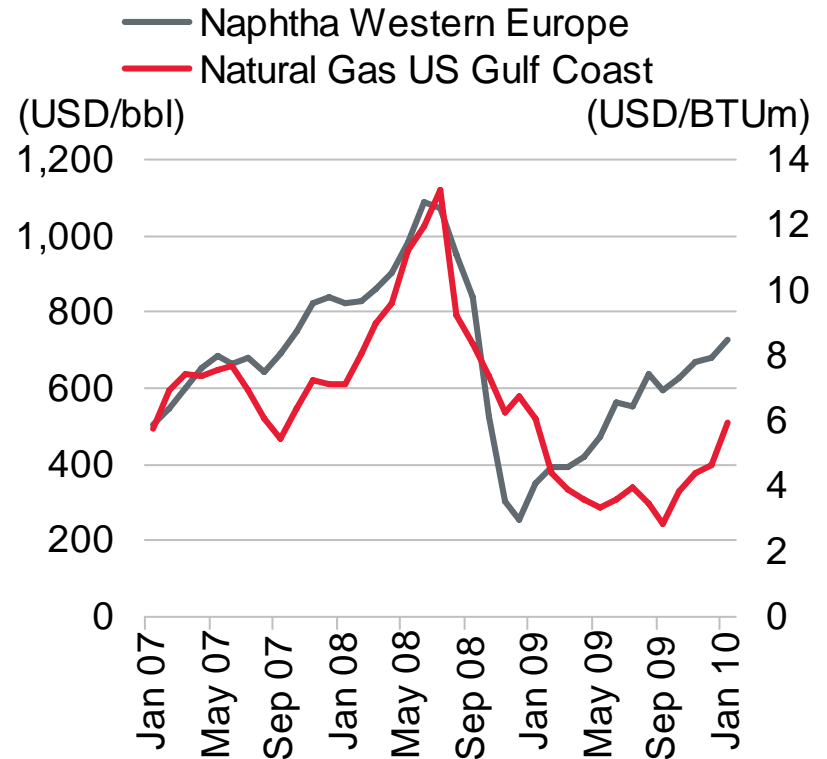
Source: Company reports, Fitch



Challenges and Uncertainties: Feedstock Volatility

- > Increasing oil and natural gas prices
- > European feedstock primarily naphtha base – currently not competitive versus US companies
- > Ability to push through price increases highly dependent on sustained demand growth

Feedstock Prices Rising

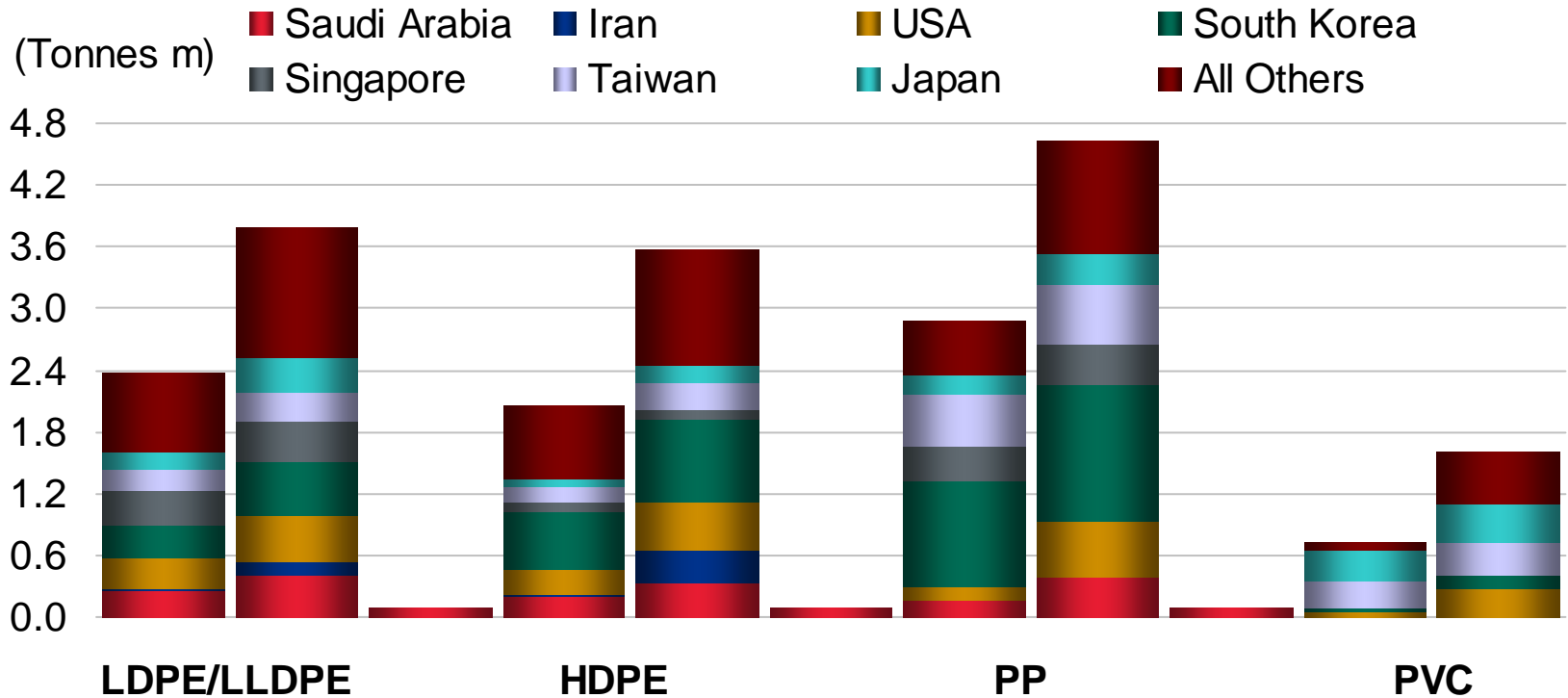


Source: CMAI



Challenges and Uncertainties: Sustainability of China Effect

Growth in China Polymers and Plastic Imports – Nov 08/ Nov09



Source: CMAI, Fitch



Challenges and Uncertainties: Sustainability of China Effect

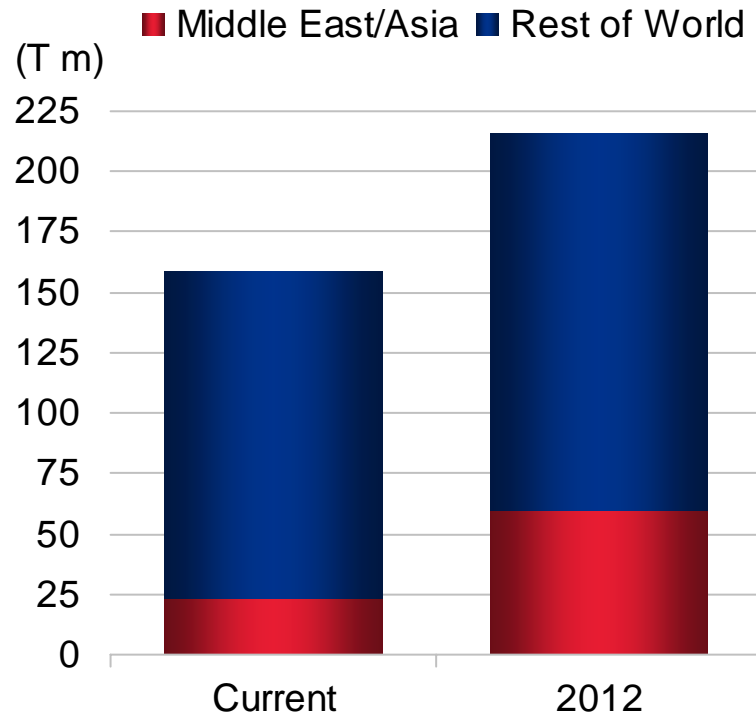
Uncertainties:

- > Demand versus underlying consumption
- > Phasing-out of incentives
- > Tightening of monetary and lending policies
- > Build-up of new production capacity in the country

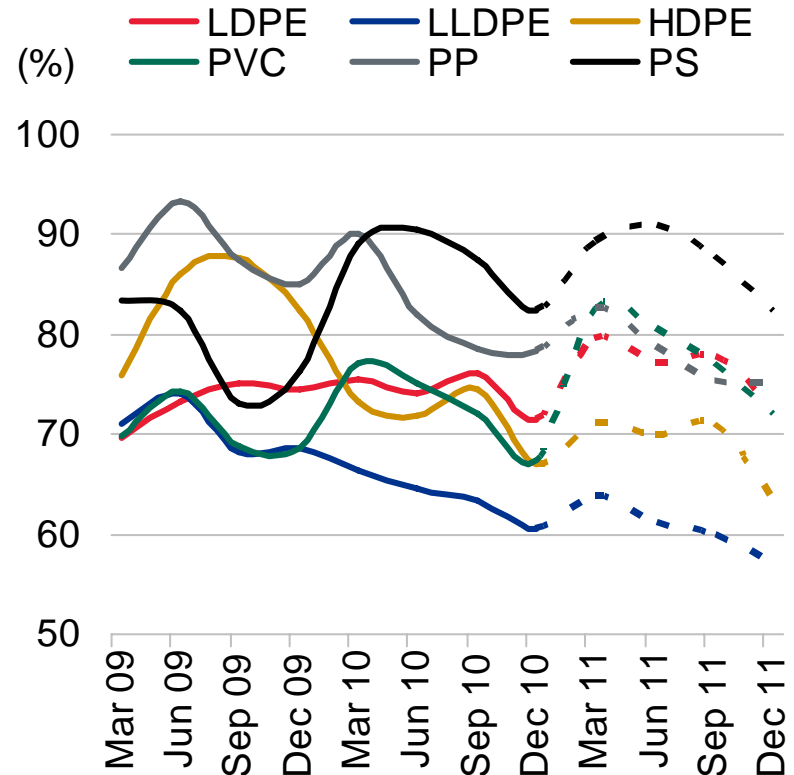


Challenges and Uncertainties: Middle-Eastern Petrochemicals Capacity Ramping up

Ethylene Capacities



Western Europe Operating Rates



Source: ICIS, CMAI



Opportunities/Trends

- > M&A
- > “Green” chemistry
- > Investments in Asia
- > Alliances and partnerships in low-cost regions



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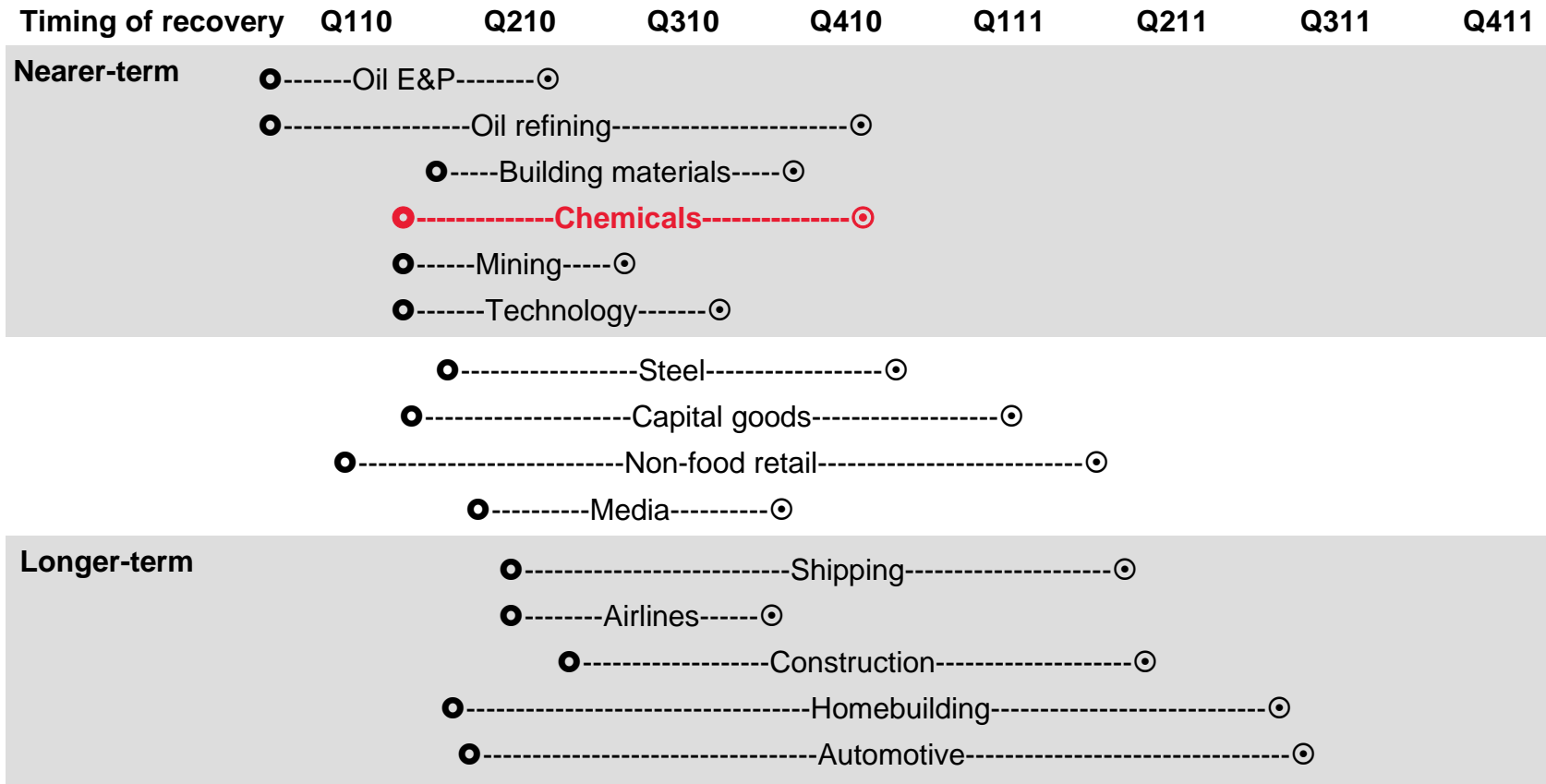
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EMEA Timeline for Estimated Stabilisation of Credit Ratings versus Stabilisation of Company Fortunes





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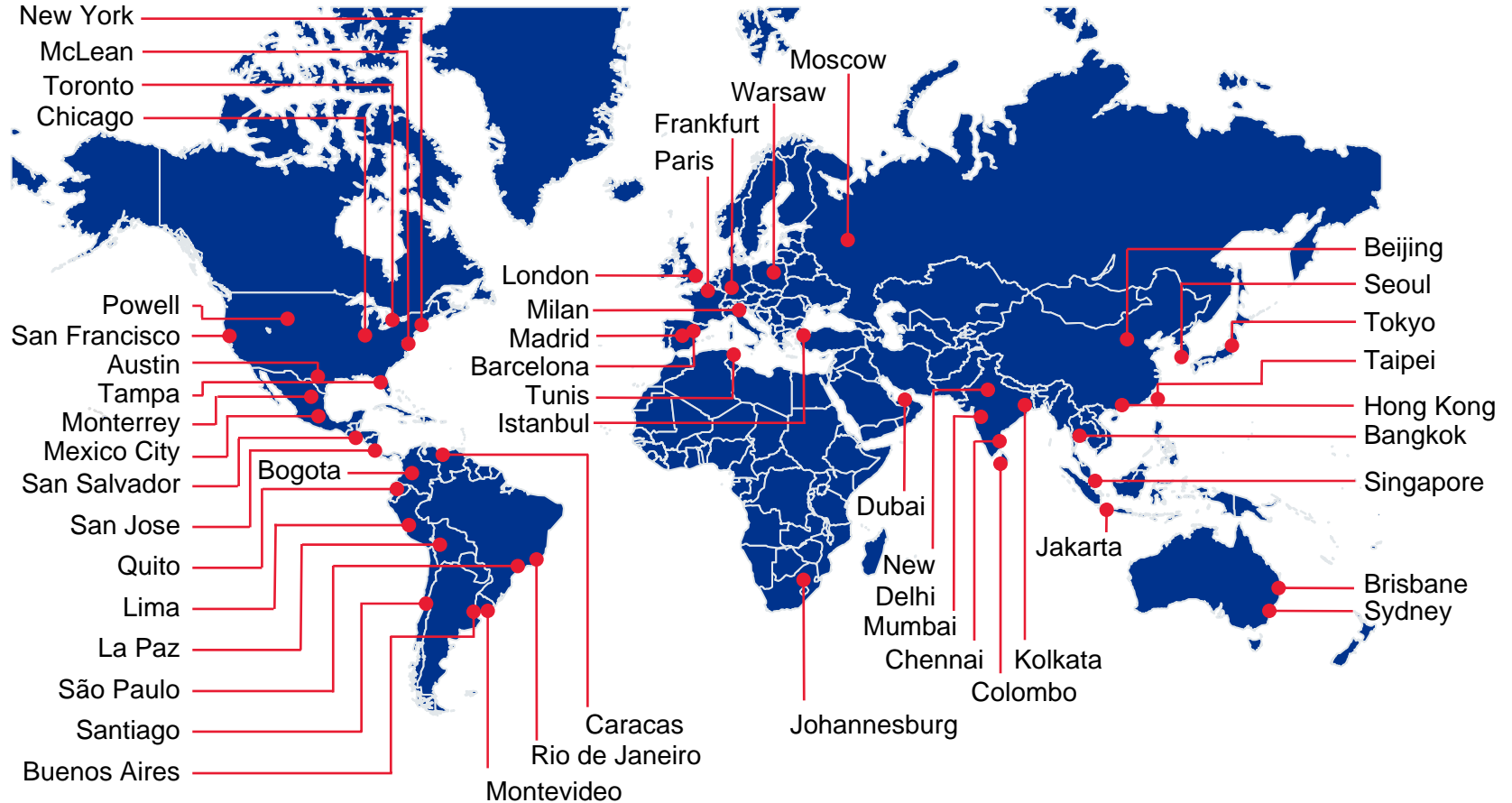


Outlook for 2010

- > Pressure abating, but risk remains
- > Volatility in feedstock costs will continue to present a challenge for the sector
- > Western European petrochemicals vulnerable to new low-cost capacity
- > Headroom under current ratings expected to gradually improve in 2010
- > Negative rating pressure likely to reflect liquidity issues or inability to minimise cash burn, until a solid improvement materialises in demand and margin expansion
- > Scope for large M&A transactions remains limited under current ratings
- > Increased gearing of strategies towards growth in Asia/partnerships in low-cost regions



Global Presence





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