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PANEL CONGIUNTURALE FEDERCHIMICA

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Short term outlook for chemical industry in Italy

Opportunities of growth in foreign markets for Italy

Despite some recent signs of slowdown, global economy will continue to grow at a good pace thanks to the strong growth of emerging Countries and also thanks to the positive trend of many developed Countries (for example Germany).

For Italy the recovery continues albeit at a slow rate, with an important stimulus coming from foreign demand.

Domestic demand will remain weak in the second part of 2011 and in 2012, in a context characterized by less loose economic policies. The necessity to put order into public accounts is more and more evident and consequently fiscal policy will not be able to boost economy. In addition, monetary policy will try to curb possible inflation expectations.

Despite some slowdown in global growth and a weak dollar, foreign demand will continue to be the most important driver for growth, sustaining Italian export.

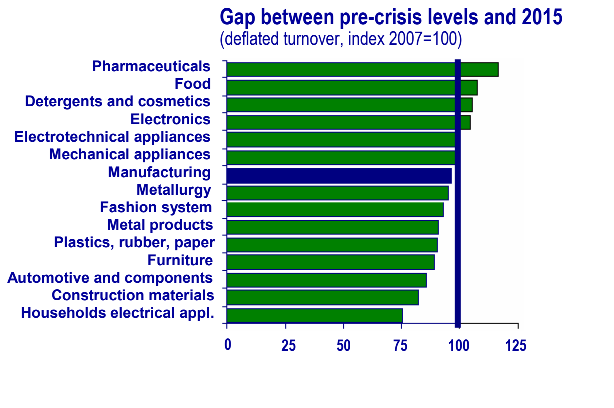
In this context, the best opportunities are especially for sectors and companies which are more oriented to foreign markets.

Macroeconomic Outlook

(real change %, if not indicated otherwise)	2010	2011	2012
World GDP	5.1	4.2	4.3
World Trade	**15.7**	**7.7**	**7.7**
Italy			
GDP	1.2	0.9	0.9
Exports	8.9	5.6	4.9
Imports	10.3	6.1	4.9
Households expenditure	1.0	1.0	0.9
Inflation	1.5	2.8	1.6
Unemployment rate (%)	8.4	8.2	8.5

Source: Prometeia

Industrial sectors: gap from pre-crisis levels



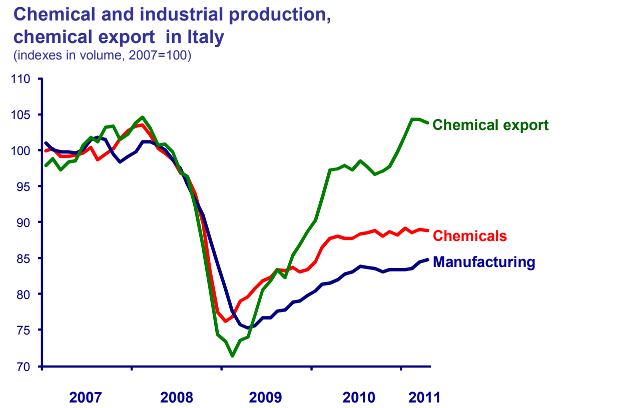
Source: Estimation on Prometeia

Moderate but continuing growth for Italian chemical industry

At global level chemical industry has already overcome pre-crisis levels (+8% in respect to 2008) and it will continue to grow in 2011 (+5.1%). Also European chemical industry continues its recovery and it is expected to grow by +4.5% in 2011.

As regards Italy, after closing 2010 with a significant growth (+8% in volume), which brought the value of production to 52.6 billions of euro, chemical industry is facing a less dynamic 2011.

Italian chemical production: a more moderate growth rate



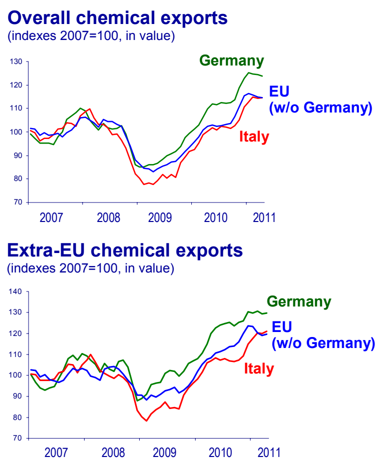
Source: Federchimica estimation on Istat

2011 is characterized by strong pressures on raw materials costs. The first part of the year confirmed concerns about the strong and widespread increases of raw materials costs - both synthetic and natural - with prices almost always above the peaks of 2008.

The profitability of Italian chemical companies - especially those which are downstream of the value chain - is under pressure since it is more difficult for them to transfer entirely the increasing costs of raw materials on final sales prices.

In the first half of 2011 Italian chemical production continued to grow (+2-3% compared to the same period of 2010), sustained especially by foreign demand, which will still remain the fundamental driver for Italian chemical companies in 2011.
The recovery of export started in 2010 (+26.3% in value) and the growth observed in the first part of 2011 (+18.7% in value, +9.2% in volume in May) confirmed the capacity of chemical industry in exploiting the opportunities offered by foreign markets.

Chemical export as fundamental driver



% change of exports
(in value compared to previous year)

	2010	Jan-apr 2011
Germany	39.0	20.8
France	26.1	25.5
Spain	23.9	12.2
USA	26.5	10.5
Turkey	32.3	36.8
UK	18.1	14.8
Belgium	18.2	13.1
Netherlands	34.4	18.3
Poland	24.1	24.5
Switzerland	13.8	14.5
Greece	5.7	0.7
China	20.7	23.3
Austria	23.6	19.3
Romania	30.0	41.3
Russia	25.4	17.5
EU	**26.8**	**19.6**
Extra-EU	**25.4**	**16.3**
Total exports	**26.3**	**18.4**

Note: Countries ordered by relevance for Italian chemical exports

Source: Eurostat, Istat

The performance of chemical exports is positive in absolute terms (since the 2007 peak has been overcome) and especially in comparison to the performance of other industrial sectors.
Italian situation is positive also in the European context: the performance of Italian chemical export is in line with the European average (excluding Germany).

When it comes to the domestic market, the effects of the 2008 crisis can be seen also in sectors more related to final consumption (e.g. in detergents), while domestic demand of sectors of Made in Italy such as textile, furniture and leather industry is still very weak.

The demand coming from construction seems to have finally reached the turning point after bottoming out, also thanks to the increasing use of chemical products in this sector.

Forecasts for 2011:
growth will be especially sustained by foreign demand

Anyway there are many chemical companies, strongly oriented towards foreign Countries or already internationalised, which have re-established pre-crisis levels of activity and have returned on a growth path.

As regards innovation, the crisis did not block research activities on the average of companies. For chemical companies innovation becomes more and more necessary in order to free themselves from commodities, whose production shows a more considerable raw materials cost incidence and more difficulties in transferring the increasing costs downwards.

Forecasts for the chemical industry in Italy

(billions of euro)	2010	(% real change) 2010	2011
Domestic demand	62.1	+6.9	+2.0
Import	32.1	+16.0	+4.7
Export	22.6	+23.0	+5.8
Production	52.6	+8.0	+2.0

Notes: excluding pharmaceuticals

Source: Federchimica

Italian chemical production is expected to grow around 2.0%, following up some slowdown in the second half of 2011. Growth will be sustained especially by exports (+5.8% in volume), while domestic demand will show only a limited growth (+2.0%).