

Perstorp Holding AB

Interim report 1 January - 31 March 2010



Perstorp Holding AB

Corporate reg. no. 556667-4205. Parent company for Perstorp

Perstorp is an international specialty chemicals group with leading positions in selected niches. The Group has around 2,200 employees and manufacturing companies in eleven countries in Europe, North America and Asia. The Perstorp Group was acquired at the end of 2005 by Perstorp Holding AB, which is controlled by PAI partners, a private equity company.

Interim report 1 January - 31 March 2010

- ➔ Strong global recovery following the financial turbulence, not least in Asia, South America and the Middle East. Oxo products, caprolactones and other specialty chemical products are particularly in demand.
- ➔ Net sales rose by 21% to SEK 3,607 million (corresponding period last year SEK 2,976 m) despite a weaker EUR. Volumes rose by 30%.
- ➔ The operating profit before depreciation and amortization recovered dramatically and amounted to SEK 430 (118) m. Most of the increase in operating profit is due to extra volumes, but also margin improvements due to the price turbulence which affected the period of comparison.
- ➔ Cost levels have remained the same, despite the increased volumes, and cost-cutting initiatives continued in purchasing.
- ➔ Formox sold its first turbocharged formalin plant over the period, which considerably cuts energy consumption. Perstorp will also soon launch the world's first renewable Penta – Voxtar™.

Key figures in summary					
SEK m unless otherwise stated	Quarter 1 2010	Quarter 4 2009	Quarter 1 2009	Latest 12 months	Full year 2009
Net sales	3,607	3,054	2,976	13,173	12,542
Operating earnings before depreciation (EBITDA)	430	231	118	1,298	986
% of net sales	11.9	7.6	4.0	9.9	7.9
EBITDA adjusted for non-recurring items ¹⁾	435	308	124	1,411	1,100
% of net sales	12.1	10.1	4.2	10.7	8.8
Operating earnings (EBIT)	186	-69	-146	62	-270
% of net sales	5.2	-2.3	-4.9	0.5	-2.2
Net earnings/loss	-175	52	-391	-568	-784
Cash flow from current activities	199	46	249	210	260
% of net sales	5.5	1.5	8.4	1.6	2.1

¹⁾ One-off items are mainly attributable to costs incurred by acquisition projects not yet completed and for redundancies and restructuring.

President's comments

” The first three months of 2010 can be summarized in positive terms, with major volume growth for most of our products, while retaining low cost levels, giving us a very good start to the year.



Martin Lundin,
President and CEO

Strong recovery & good demand

The global recovery following last year's financial turbulence is now being clearly seen, although there are regional differences. In Asia, South America and the Middle East demand is once again strong, while the rate of recovery in North America and Europe is stable, but somewhat slower.

Demand in the first quarter has been especially good for our oxo products and specialty polyols. Demand has also risen steadily for our caprolactones during the first three months. This trend is expected to continue and Perstorp's current capacity increase for caprolactones will meet the market's growing need when the new plant goes into operation in 2011.

Perstorp's business for formalin technology and catalysts, Formox, sold its first turbocharged plant, significantly cutting energy consumption – a feature customers are demanding more and more.

Continued focus on Asia & other growth regions

Our investments in Asia, accentuated last year when we formed the organizational unit Region Asia, are continuing at full pace. Export volumes improved in the first quarter and our ambition of boosting production of HDI derivatives in Asia is expected to be further cemented in the second half of the year, when a decision shall be made about the location.

We also have an active attitude for other growth regions – like the Middle East, India and South America. Improved resources for our sales and marketing functions facilitate extra customer activity.

Initiatives that equip Perstorp for the future

Shareholders' contributions and renegotiated banking terms strengthened our financial position at the end of last year and contributed to the positive start seen in 2010. The prioritized initiatives carried out last year, focusing on improving efficiency, customer focus and cost-cutting measures, which will equip Perstorp for the future, are beginning to bear fruit. Costs have been cut by around SEK

300 m annually and we've also succeeded in reducing purchasing costs by more than SEK 150 m annually – an initiative that will continue this year.

Technical leadership & focus on selected market segments

The strategy we decided on last year forms the basis of a business plan to cover the next three years. One of Perstorp's success factors is having technical leadership in terms of manufacturing platforms and that we lead the field in the market segments we've chosen to invest in. We're continuing with the initiative of working out detailed strategies for these market segments.

Continuous improvements & REACH

The business system for continuous improvements that we started implementing in 2009, Perstorp Performance System, is now on its way out to other parts of the organization. A concrete example that the new working method is paying off is that we achieved high accessibility at our important plant in Stenungsund during the winter and during the entire first quarter.

We're also already seeing that we'll have completed the extensive registration of our products in time, within the framework of the European chemical legislation REACH.

Living the vision

Finally, I'd like to say that the outlook the rest of 2010 is positive. There are many interesting, exciting activities underway that will further strengthen our positions. For example we will shortly be launching the world's first renewable Penta – Voxtar™ – which is excellent proof that we're living the vision of contributing to a better and more sustainable society through innovative chemical solutions!

Perstorp, May, 2010

Martin Lundin
President and CEO

Market & economic conditions

Practically all market segments that Perstorp is focusing on had a positive development in the first quarter. Volume growth has been very strong, not least for Perstorp's export volumes to Asia.

A clear recovery has been seen in all geographic regions, although at different rates. The trend is positive throughout Europe, including southern Europe, which in the past has been more problematic due to the overheated construction industry. The financial downturn was relatively small in Eastern Europe which is now reporting strong demand. Recovery in the US was much stronger than predicted and is now reporting good demand. Development remains strong in Asia, South America and the Middle East, with growth in certain segments described as exceptional.

Demand during the first quarter was particularly good for Perstorp's oxo products, specialty polyols, caprolactones and HDI. The TDI market stabilized following last year's downturn, both in volumes and in price.

The feed and food segment was not affected by the global downturn last year and Perstorp recorded a strong first quarter for products like ensiling agents and feed additives.

Perstorp's BioFuels business recorded a positive first quarter with a successful introduction of the high-grade version of RME (rapeseed methyl ester), called Verdis Polaris™.

All of Perstorp's raw materials saw a rising price trend in the first

quarter. The increases were between 10% and 30%. The base for most raw materials, crude oil, fell initially from just over USD 80 to around USD 70 a barrel, but towards the end of the quarter recovered the entire fall. Most of the oil-based raw materials have however gone up by more than the increase in crude oil motivates. Propylene, for example, which is Perstorp's biggest raw material in terms of monetary volume, reached a 10-year high during the quarter. The reasons are a combination of increased demand, stockpiling and production problems among many raw material suppliers during the quarter. Another important raw material for Perstorp, methanol-based natural gas, showed a more stable trend with contract prices up by a modest 5%.

Growth during the quarter has generally meant shorter contract prices for both raw materials and Perstorp's own products. In turn Perstorp has introduced price increases on a number of products to compensate for the upturn in raw material prices.

Currencies saw a weaker EUR against the SEK and USD during the quarter. Compared to the same period last year the difference between the average SEK/EUR rate is 10%. A major part of the flows in 2009 was however hedged, meaning that currency effects were limited to around SEK -35 m on the operating profit over the past quarter compared to the same period in 2009.



Financial overview

Income statement, Group				
SEK m	Quarter 1		Latest 12 months	Full year 2009
	2010	2009		
Net sales	3,607	2,976	13,173	12,542
Cost of goods sold	-3,144	-2,801	-11,558	-11,215
Gross earnings	463	175	1,615	1,327
Sales, administration and R&D costs	-273	-290	-1,076	-1,093
Other operating income and expenses ¹⁾	-	-25	-235	-260
Write-down of assets	-3	-5	-239	-241
Income from participations in associated companies	-1	-1	-3	-3
Operating earnings (EBIT)	186	-146	62	-270
Exchange-rate differences on net debt	-77	-28	17	66
Extraordinary financial items ²⁾	-	-	313	313
Other financial income and expenses	-355	-385	-1,368	-1,398
Earnings/loss before tax	-246	-559	-976	-1,289
Tax	71	168	408	505
Net earnings/loss (including minority interest)	-175	-391	-568	-784
Operating earnings before depreciation (EBITDA)	430	118	1,298	986
EBITDA adjusted for non-recurring items	435	124	1,411	1,100

¹⁾ Other operating income and expenses primarily includes exchange-rate effects on operational net receivables and non-recurring income and costs.

²⁾ Refers to capital gain related to the Group's financing.

Net sales

Net sales climbed 21% during the first quarter to SEK 3,607 m (corresponding period last year SEK 2,976 m). The volume increase was a full 30%, while the stronger SEK, mainly against the EUR, had a negative impact on sales of 11%. Prices rose by 2%.

Demand was strong, as described in Market & economic conditions. Some competitors were at the same time hit by production problems, creating a short market for some products. Meanwhile, Perstorp saw a winter and first quarter without any production problems to speak of, which has benefitted availability and margins.

Earnings

Operating earnings before depreciation and amortization (EBITDA) reached SEK 430 (118) m for the period. One-off items were not significant. The strong growth is mainly due to volumes recovering overall. Margins also had a very positive trend compared to the first quarter last year, due to the entire industry being affected

by a drop in raw material prices causing write-down of stock around year-end 2008. Despite the extremely good earnings trend, currency effects were negative overall as a result of much of the Group's marginal contributions originating in countries using EUR. The EUR was significantly weaker than the corresponding period last year. The currency effect was around SEK -35 m. The cost-cutting scheme provided positive effects on earnings last year and the Group now succeeded in keeping fixed costs at the same level despite higher volumes.

Earnings after depreciation and amortization (EBIT) were SEK 186 (-146) m for the first quarter. Amortization fell somewhat. Net financial items amounted to SEK -432 (-413) m, but were hit by negative currency effects, mainly this year. Adjusted for currency effects, net financial items fell from SEK -385 m to SEK -355 m. This is mainly due to debts being cut by around SEK 2 billion over the past year. The net loss for the year was SEK 175 (loss 391) m.

Financial position

Working capital rose by 6% during the quarter to SEK 1,490 m, despite currency fluctuations contributing to lower capital. It's mainly trade receivables that have risen due to the strong sales growth.

Net debt excluding the owner's loan has fallen by around SEK 300 m since the start of the year to SEK 11,204 m. Some of the reduction is due to positive cash flow and some to currency effects. Compared to a year ago the net debt has fallen by almost SEK 2.3 billion, of which around half was made possible through a shareholders' equity contribution and the remainder, principally due to currency changes.

Between February and April 2010 Perstorp has made some more interest hedges in the form of swaps. This means around 60% of the external loans are now hedged until 2012, after which time the share of hedged loans will gradually decrease.

Shareholders' equity fell from SEK 1,172 m at the start of the year to SEK 974 m at the end of the first quarter of 2010, which is directly linked to the negative comprehensive income.

Balance sheet, Group			
SEK m	March 31, 2010	Dec 31, 2009	March 31, 2009
Intangible fixed assets	7,469	7,829	8,721
Tangible fixed assets	6,484	6,742	7,399
Financial fixed assets	1,225	1,277	1,077
Inventories	1,438	1,478	1,556
Other current assets	2,731	2,459	2,623
Cash & cash equivalents, incl. short-term investments	605	516	293
Assets	19,952	20,301	21,669
Shareholders' equity (incl. minority interest)	974	1,172	-101
Loan from Parent company	2,919	2,899	3,115
Other long-term liabilities	12,737	12,927	14,674
Current liabilities	3,322	3,303	3,981
Shareholders' equity and liabilities	19,952	20,301	21,669
Working capital	1,490	1,406	1,260
Net debt	14,123	14,412	16,577
Net debt excl. owner loan	11,204	11,513	13,462
Capital employed	15,346	15,689	16,517

Shareholders' equity, Group, 2010			
SEK m	Equity excl. minority interest	Minority interest	Total shareholders' equity
Opening balance, January 1, 2010	1,154	18	1,172
Comprehensive results for the period	-199	1	-198
Closing balance, March 31, 2010	955	19	974

Shareholders' equity, Group, 2009			
SEK m	Equity excl. minority interest	Minority interest	Total shareholders' equity
Opening balance, January 1, 2009	-80	42	-38
Comprehensive results for the period	-402	-4	-406
Shareholders' contribution	343	-	343
Closing balance, March 31, 2009	-139	38	-101

Comprehensive income report, Group, including minority				
SEK m	Quarter 1		Latest 12 months	Full year 2009
	2010	2009		
Earnings/loss for the year	-175	-391	-568	-784
Other comprehensive results				
Translation effects	-165	86	-468	-217
Hedging of net investments	170	-12	367	185
Market valuation of interest swaps	34	-64	122	24
Market valuation of forward contracts	-13	-61	188	140
Tax relating to other comprehensive results	-49	36	-178	-92
Other comprehensive results net after tax	-23	-15	31	40
Comprehensive results for the year	-198	-406	-537	-744
Comprehensive results attributable to:				
Parent company's shareholders	-199	-402	-526	-729
Minority interests	1	-4	-11	-15



Cash flow

Cash flow from operations was SEK 199 (249) m. Cash flow before changes in working capital was significantly higher than the same period last year, while working capital at the start of 2010 rose as a result of the strong sales growth and thereby the resulting build up of trade receivables.

Investments were moderate during the first quarter of 2010, SEK 75 (117) m. Investments over the remaining quarters of the year are expected to rise in conjunction with the major maintenance shut-down at the French facilities, while capacity increases for caprolactones are entering a more intensive phase.

Utilized credits fell by SEK 22 m, while liquid funds rose.

Current assets, including liquid funds and guarantee facilities, amounted to SEK 1,343 (1,224) m at the end of the quarter.

Cash flow analysis, Group				
SEK m	Quarter 1		Latest	Full year
	2010	2009	12 months	2009
<i>Operating activities</i>				
Operating earnings	186	-145	61	-270
Adjustment items:				
Depreciation and write-down	244	263	1,237	1,256
Other	9	3	13	7
Interest received	12	1	14	3
Interest paid	-176	-338	-822	-984
Income tax paid	-3	-18	-22	-37
Cash flow from operating activities before change in working capital	272	-234	481	-25
<i>Changes in working capital</i>				
Increase (-) Decrease (+) in inventories	22	302	13	293
Increase (-) Decrease (+) in current receivables	-328	270	-424	174
Increase (+) Decrease (-) in current liabilities	233	-89	140	-182
Cash flow from operating activities	199	249	210	260
<i>Investing activities</i>				
Acquisition of net assets, subsidiaries	-	-19	41	22
Acquisition of shares in associated companies	-	-	-19	-19
Acquisition of minority interest	-	-	-9	-9
Acquisition of tangible and intangible fixed assets	-75	-117	-540	-582
Sale of net assets, subsidiaries	-	-	-	-
Sale of tangible and intangible fixed assets	-	-	34	34
Change in financial assets, external	-	-1	3	2
Cash flow from investing activities	-75	-137	-490	-552
<i>Financing activities</i>				
Shareholders' contribution	-	573	1,248	1,821
Change in credit utilization	-22	-682	-629	-1,289
Cash flow from financing activities	-22	-109	619	532
Change in liquid funds, incl. short-term investments	102	3	339	240
Liquid funds opening balance, incl. short-term investments	516	286	293	286
Translation difference in liquid funds	-13	4	-27	-10
Liquid funds, end of period	605	293	605	516

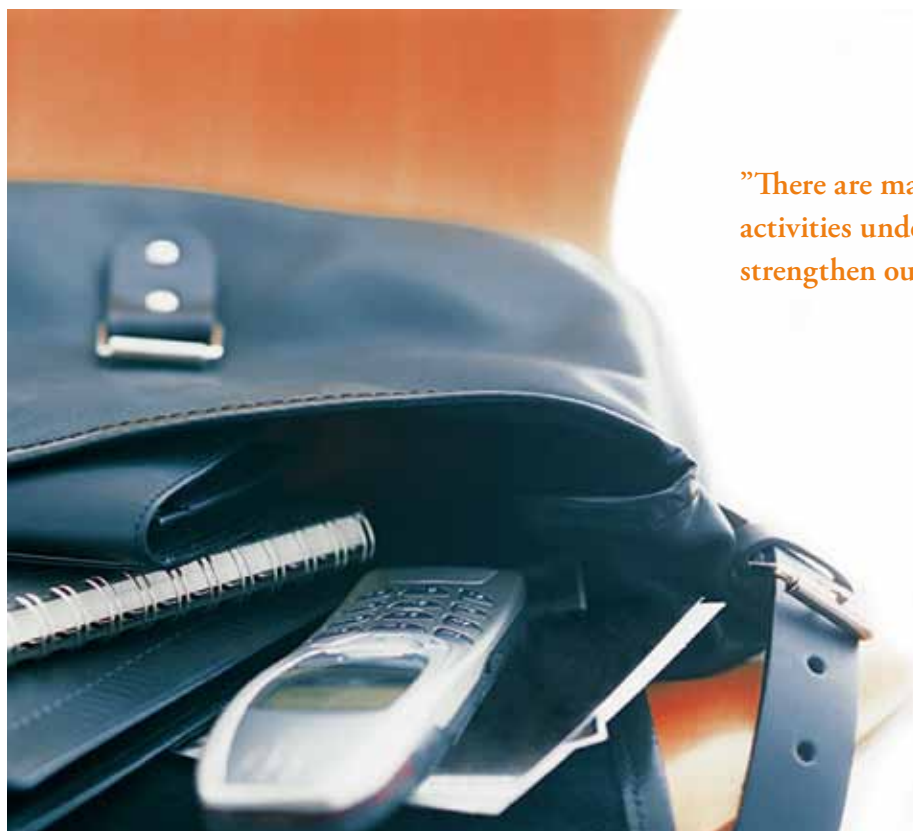
Key figures, Group

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% of net sales	12.1	4.2	10.7	8.8
Operating earnings (EBIT)	186	-146	62	-270
Net earnings/loss	-175	-391	-568	-784
Investments excluding acquisitions	75	117	569	611
Acquisitions ¹⁾	-	13	-59	-46
Depreciation and write-downs ²⁾	244	264	1,236	1,256
Working capital, end of period	1,490	1,260	1,490	1,406
Working capital, average	1,475	1,591	1,446	1,493
Turnover rate, working capital	9.8	7.5	9.1	8.4
Cash flow from operating activities	199	249	210	260
Cash flow as % of net sales	5.5	8.4	1.6	2.1
Capital employed, end of period	15,346	16,517	15,346	15,689
Capital employed, average	15,557	16,990	15,722	16,099
Return on capital employed, %	5.1	-3.4	0.5	-1.7
Net debt, incl. pensions, excl. owner Company loan ³⁾	11,204	13,462	11,204	11,513
Debt/equity ratio, %, excl. owner Company loan ³⁾	2.9	4.5	2.9	2.8
Equity/assets ratio, %, incl. owner Company loan, % ³⁾	19.5	13.9	19.5	20.1
Return on shareholders' equity, %, incl. owner Company loan, % ³⁾	-17.6	-44.3	-12.9	-19.1
Number of full-time employees, end of period	2,167	2,567	2,167	2,154

¹⁾ The purchase price for Coating Additives was set in 2009, meaning a downward adjustment of the acquisition price.

²⁾ Write-downs were carried out in 2009 at SEK 241 m.

³⁾ The owner company loan, meaning the loan from the Luxembourg-based Parent company Financière Forêt S.à.r.l., is subordinated to the senior credits, second lien and mezzanine loans. The interest on this loan is capitalized. In the calculation of the return on shareholders' equity, interest from the owners' loan has been excluded, net after tax.



”There are many interesting, exciting activities underway that will further strengthen our positions.”



Other

Employees

The number of employees in the Group at the end of the period was 2,167, meaning an increase of 13 since the start of the year. There were 400 more employees in the same period last year. The main reason for the drop in employee numbers is the mothballing of two of Perstorp's production facilities, in Chile and India, in 2009.

Transactions with related parties

A decision was made in the first quarter for a loan from the Luxembourg-based parent company Financière Forêt S.à.r.l., amounting to SEK 1 billion to be converted to shareholders' equity. Interest amounts to 10% and is capitalized. The conversion will take place in the second quarter and will improve financial net going forward.

Accounting & valuation principles

The consolidated accounts for Perstorp Holding AB were prepared in accordance with international Financial Reporting Standards and the annual Accounts Act. This means that the same accounting principles and calculation methods have been used as in the annual accounts for 2009. The most important accounting principles for the Group and parent company respectively appear in Note 2 of the 2009 Annual Report. With regards to IFRS 8 – Operating Segments – the Group has chosen not to apply this as there is no formal requirement because the shares are not traded publically.

Financial information

Perstorp's financial information comprises interim reports, end of year financial statement, annual report and a sustainability report. The reports are available in Swedish and English on the Group's website, where it is also possible to order printed versions.

Perstorp, May 18, 2010



Martin Lundin
President and CEO

This report was not reviewed by Perstorp's auditors.



Your Winning Formula

The Perstorp Group, a trusted world leader in specialty chemicals, places focused innovation at your fingertips. Our culture of performance builds on over 125 years of experience and represents a complete chain of solutions in organic chemistry, process technology and application development.

Matched to your business needs, our versatile intermediates enhance the quality, performance and profitability of your products and processes. Present in the aerospace, marine, coatings, chemicals, plastics, engineering and construction industries, they can also be found in automotive, agricultural, food, packaging, textile, paper and electronics applications.

Our chemistry is backed by reliable business practices and a global commitment to responsiveness and flexibility. Capacity and delivery security are ensured through strategic production plants in Asia, Europe and North America, as well as sales offices in all major markets. Likewise, we combine product and application assistance with the very best in technical support.

As we look to the future, we strive for the development of safer products and sustainable processes that reduce environmental impact. This principle of innovation and responsibility applies not only to our own business, but also to our work with yours. In fulfilling it, we partner with you to create a winning formula that benefits your business – as well as the people it serves.

Discover your winning formula at www.perstorp.com