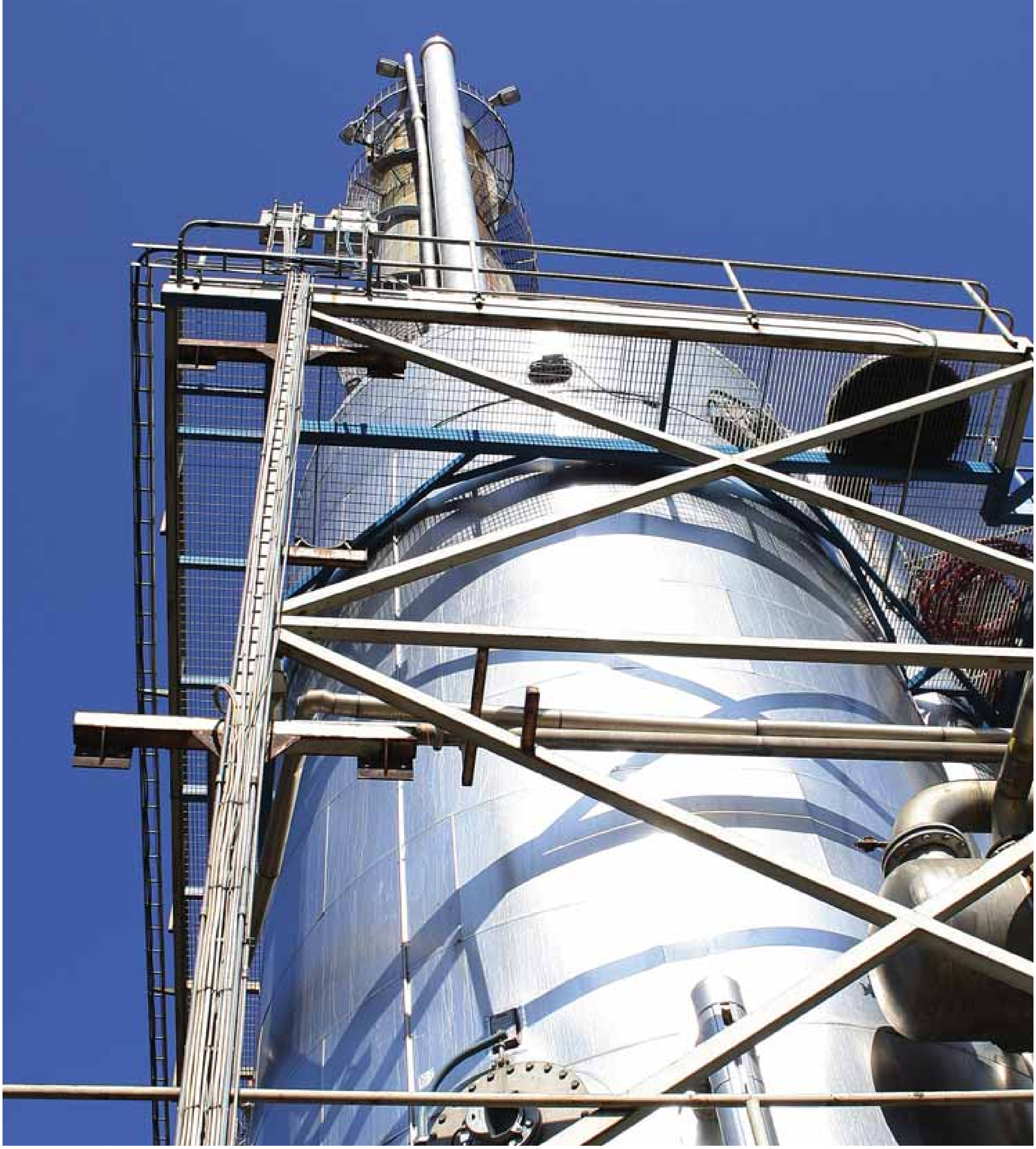
Perstorp Holding AB

Interim report January 1 - June 30, 2007



Perstorp
WINNING FORMULAS

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. At the end of 2005, the Group was acquired by PAI partners, a French private equity company. The Group has nearly 1,800 employees and manufacturing companies in 11 countries in Europe, North and South America and Asia.

Interim report January 1 - June 30, 2007

- Strong demand and high capacity utilization at the Perstorp plants.
- Sales increased by 14% to SEK 4,074 m (3,576) as a result of price and volume increases.
- Improved operating profit before depreciation and amortization (EBITDA) to SEK 679 m (509) as a result of volume increases and a strengthening of margins.
- Cash flow from operations declined and was negative in an amount of SEK 100 m (215) due to an increase in working capital and higher interest payments.
- Production of RME began in Scandinavia's largest plant for renewable fuels.
- Decision was taken on the Group's largest-ever investment for manufacturing of a new type of environmentally compatible plasticizer for PVC and other products.
- Contracts signed for joint venture in China and partnership agreement in Saudi Arabia, for the manufacture of polyols, strengthen the Group's global positions.

Key figures in summary					
SEK m unless otherwise stated	Quarter 2 2007	Quarter 1 2007	Quarter 2 2006	Quarter 1-2 2007	Quarter 1-2 2006
Net sales	2,129	1,945	1,822	4,074	3,576
Operating earnings before depreciation (EBITDA)	363	316	260	679	509
% of net sales	17.1	16.2	14.3	16.7	14.2
EBITDA adjusted for non-recurring items [1]	367	329	264	696	519
% of net sales	17.2	16.9	14.5	17.1	14.5
Operating earnings (EBIT)	231	186	134	417	258
% of net sales	10.9	9.6	7.4	10.2	7.2
Net earnings/loss	2	-13	5	-11	-78
Cash flow from operating activities	119	-219	130	-100	215
% of net sales	5.6	-11.3	7.1	-2.5	6.0

[1] Non-recurring items refer primarily to costs for M&A projects that were not completed.

President's comments

Bo Dankis, President and CEO

The first six months of the year were favorable for Perstorp. We benefited from the strong global economy, which resulted in greater volumes and thus high capacity utilization. Several capacity expansions were taken into operation, primarily in aldehyde and propionic acid plants, which contributed to meeting the increase in demand. The integration of the Penta plant in South America acquired in 2006 was also very positive.

Investments in growth, in both existing and new areas in which the Group's core expertise creates a competitive advantage, are one of the cornerstones on which Perstorp's business plan is based. At the end of the quarter, a plant was completed for production of the new product rape methyl ester (RME) for renewable vehicle fuels. As a further step in the development of products with a clear environmental profile, decision was taken to build a plant for production of an environmentally compatible plasticizer for PVC based on a proprietary process. The investment, which is in the order of SEK 1.6 billion, has attracted considerable attention.

The Group has also allocated substantial resources for company acquisitions and other partnerships. A joint venture agreement was entered in China at the beginning of the year, for the production of TMP. Perstorp's ownership share is 51%. Perstorp also entered a partnership agreement in Saudi Arabia for Penta production, which strengthens the Group's leading position in the global market and its presence in the Middle East. The Group has a high capacity for implementing additional acquisitions, assuming that they are on favorable terms for us.

As part of the Winning Formulas concept, which expresses the Group's core values of innovation, reliability and responsibility, Perstorp intensified its efforts during the period and also increased its investments in preventative safety measures.

Looking ahead, I see continued high demand in Perstorp's markets during the current year. In combination with the start of production for the new product RME, I expect this to result in positive growth for the Group also for the rest of the year.

Perstorp, July 2007

Bo Dankis
President and CEO

Market & economic conditions

The global economy showed very positive development during the first six months of 2007. This resulted in favorable demand for chemical products and high capacity utilization in the chemicals industry.

For Perstorp, markets in Europe developed very favorably as a result of the generally improved economic conditions. In North America, weaker demand was noted during the first quarter, which was followed by recovery, however. Markets in Asia continued to show strong demand during the entire period.

The trend was particularly favorable for Perstorp's base polyols, oxoalcohols and acids, as well as in the formalin product area, where the Group received five orders for formalin plants during the period and catalyst sales benefited from the high capacity utilization in the chemicals industry. The Group's capacity utilization during the period was high for most products.

The fiscal year began with a record-high price for methanol, one of the Group's primary raw materials, although the price fell dramatically during the second quarter. Prices of other major raw materials, such as propylene and ethylene also increased relatively sharply during the period and are at historically very high levels.

Energy prices remain high. During the reporting period, the US dollar was weaker than during the first half of 2006, which had a negative effect on the Group's earnings compared with the preceding year.

Financial overview

Income statement, Group						
SEK m	Quarter 2		Quarter 1-2		Latest	Full year
	2007	2006	2007	2006	12 months	2006
Net sales	2,129	1,822	4,074	3,576	7,771	7,273
Cost of sold goods	-1,693	-1,518	-3,333	-2,989	-6,449	-6,105
Gross earnings	436	304	741	587	1,322	1,168
Sales, administration and R&D costs	-182	-149	-353	-299	-672	-618
Other operating income and expenses [1)]	-23	-21	30	-30	75	15
Income from participations in associated companies	0	0	-1	0	0	1
Operating earnings (EBIT)	231	134	417	258	725	566
Exchange-rate differences on net debt	-1	78	12	32	84	104
Other financial income and expenses	-226	-205	-445	-406	-858	-819
Earnings/loss before tax	4	7	-16	-116	-49	-149
Tax	-2	-2	5	38	-37	-4
Net earnings/loss (incl. minority interest)	2	5	-11	-78	-86	-153
Operating earnings before depreciation (EBITDA)	363	260	679	509	1,261	1,091
EBITDA adjusted for non-recurring items	367	264	696	519	1,274	1,097

[1)] Other operating income and expenses primarily includes exchange-rate effects on operational net receivables and non-recurring income and costs. It also includes estimated insurance compensation for margin shortfall in conjunction with damage, primarily in the fourth quarter of 2006 and the first quarter of 2007.

Net sales

As a consequence of rising prices and favorable demand, net sales increased during the period by 14% to SEK 4,074 m (SEK 3,576 m during the corresponding period of the preceding year). Of the sales increase, price increases accounted for 12%, while organic volume growth amounted to 5%, due to stronger demand for most products, particularly acids, oxoalcohols and base polyols, as well as formalin plants and catalysts. The underlying volume growth was 8% when adjusted for the production shortfall in the german company emanating from the accident that occured during the autumn of last year. Exchange-rate effects resulted in a sales deviation of -4%. The net effect of acquisitions and divestments was +1%.

Earnings

Operating earnings before depreciation increased to SEK 679 m (509) as a result of higher volumes and strengthened margins. The operating margin thus rose to 17.1% (14.3). Increased capacity utilization had a positive effect on earnings. The margin also rose during the six-month period as the price increases implemented by the Group to offset increased raw materials costs took effect, while the methanol price declined toward the end of the period. Earnings for the corresponding period in the preceding year were negatively affected by production disturbances at the plants in Stenungsund.

Adjusted for non-recurring items, primarily costs for M&A projects that were not completed, operating earnings amounted to SEK 696 m (519). The comparable earnings were thus strengthened by volume growth, high capacity utilization and price increases to offset increased costs for raw materials. Exchange-rate effects on earnings were negative in an amount of SEK 40 m, primarily due to the weaker USD.

Net debt increased during the period as a result of high investments and a build-up of working capital, which in turn meant that interest expenses increased, compared with the corresponding period in 2006.

A net loss of SEK 11 m (loss: 78) was reported after depreciation, financial items and taxes.

Financial position

Balance sheet, total Group		
SEK m	June 30, 2007	Dec. 31, 2006
Goodwill	2,309	2,261
Other intangible fixed assets	3,659	3,670
Tangible fixed assets	4,470	4,307
Financial fixed assets	590	477
Inventories	880	833
Other current assets	1,754	1,483
Cash and cash equivalents, incl. short-term investments	332	425
Assets	13,994	13,456
Shareholders´ equity (incl. minority interest)	15	-44
Loan from Parent Company	2,057	1,952
Other long-term liabilities	9,614	9,033
Current liabilities	2,308	2,515
Shareholders´ equity and liabilities	13,994	13,456
Working capital	1,114	714
Net debt	10,017	9,386
Capital employed	10,263	9,631

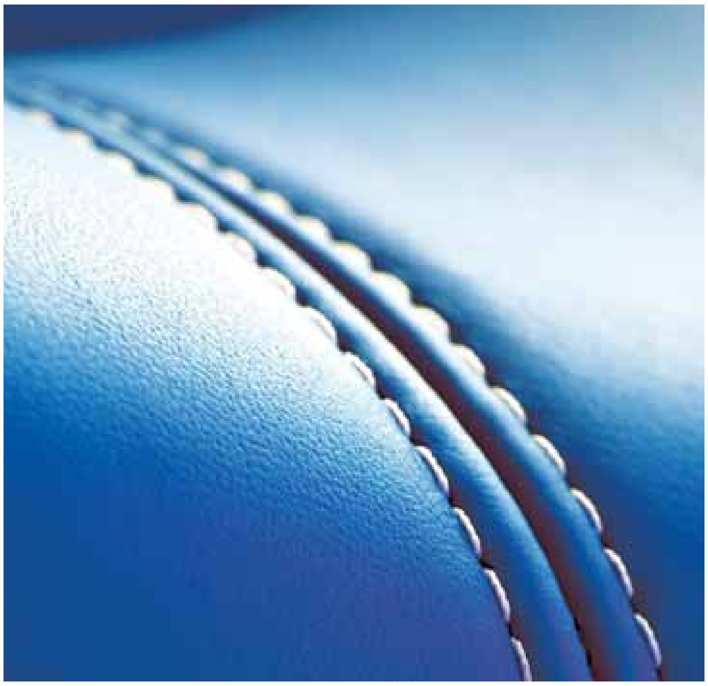
Shareholders´ equity, total Group			
SEK m	Shareholders´ equity excl. min. interest	Minority interest	Total share-holders´ equity
Closing balance, December 31, 2006	-44	0	-44
Translation difference:			
change for the period	61	-	61
less effect of currency hedges	-47	-	-47
tax effect of period´s currency hedges	13	-	13
Market valuation of interest swaps, after tax	12	-	12
Acquisition [1]	-	31	31
Net loss for the period	-11	-	-11
Closing balance, June 30, 2007	-16	31	15

[1] Minority share in joint venture in China.

Net assets and net debt increased during the first six months, in part as a result of expansion investments and partnership agreements, but also due to a build-up of working capital. This was in part related to the addition of new capacity and the strong increase in sales and in part due to operating liabilities being at an unusually high level at the beginning of the year.

The exchange-rate change from January 1 to June 30 was very marginal against USD, while EUR was strengthened somewhat. This latter change also had an unfavorable effect on net debt.

Shareholders' equity showed a positive trend during the period despite the reported net loss. This was due to the fact that a large portion of the Group's net assets are in EUR and USD and that EUR in particular was strengthened.



Cash flow & investments

Cash flow statement, total Group						
SEK m	Quarter 2		Quarter 1-2		Latest	Full year
	2007	2006	2007	2006	12 months	2006
Operating activities						
Operating earnings	231	134	417	258	725	566
Adjustment items:						
Depreciation	131	126	261	251	535	525
Other	11	-8	-3	4	14	21
Interest reveived	0	0	5	4	5	4
Interest paid	-61	-14	-334	-75	-636	-377
Income tax paid	-20	-35	-41	-71	-83	-113
Cash flow from operating activities before change in working capital	292	203	305	371	560	626
Changes in working capital						
Increase (-) Decrease (+) in inventories	-37	-28	-41	-1	-124	-84
Increase (-) Decrease (+) in current receivables	-96	-77	-248	-221	-229	-202
Increase (+) Decrease (-) in current liabilities	-40	32	-116	66	69	251
Cash flow from operating activities	119	130	-100	215	276	591
Investing activities						
Acquisition of net assets, subsidiaries	0	-18	-59	-37	-59	-37
Acquisition of tangible and intangible fixed assets	-129	-98	-281	-234	-523	-476
Sale of net assets, subsidiaries	-	28	-	28	3	31
Adjustment of purchase price	-	-	-	35	119	154
Change in financial assets	5	8	4	6	-6	-4
Cash flow from investing activities	-124	-80	-336	-202	-466	-332
Financing activities						
New loans raised from Parent Company	-	-	-	-	188	188
Short-term liability, related companies	-2	-60	-17	-89	-43	-115
Change in credit utilization	48	-104	359	-355	133	-581
Cash flow from financing activities	46	-164	342	-444	278	-508
Change in liquid funds, incl. short-term investments	41	-114	-94	-431	88	-249
Liquid funds opening balance, incl. short-term investments	292	357	425	674	247	674
Translation difference in liquid funds	-1	4	1	4	-3	0
Liquid funds, end of period	332	247	332	247	332	425

Cash flow

Cash flow from operations during the first six months was negative in an amount of SEK 100 m (215). The reasons for the negative cash flow were large interest payments that were made during the first quarter and the build-up of working capital during the entire reporting period. As noted above, the latter factor was related to the high sales and price levels in existing product areas, the addition of the new product area for renewable vehicle fuels and unusually high operating liabilities at the beginning of the year.

Cash flow from investing activities was negative in an amount of SEK 336 m (neg: 202), which was primarily attributable to investments in fixed tangible assets amounting to SEK 281 m (234) and acquisitions totaling SEK 59 m (37). The largest single investment project in both 2006 and 2007 was the plant for rape methyl ester (RME).

Investments, acquisitions & agreements

Investments

To meet the growing demand for several of the Group's products and to begin production of a number of new products, extensive investments were implemented, initiated and approved during the period.

During the latter part of the period, a plant for the production of rape methyl ester was taken into operation in Stenungsund. The plant has an annual capacity of 160,000 tons with the ability to further expand capacity. The first deliveries to the largest customer, the business partner Preem, took place in June and were used for bio-diesel fuel.

Decision was taken to construct a plant in Stenungsund for production of valeric aldehyde, which is a new product for the Group, and its derivates 2-PH alcohol, valeric acid and a new plasticizer, DPHP. Butane, which is the raw material for the process, is also new for Perstorp. The plant is expected to be fully completed by 2011 and have an annual production capacity of 150,000 tons. The cost of the investment is estimated at SEK 1,600 m, making it the Group's largest-ever investment. Production of valeric acid is primarily intended for the application area synthetic lubricants, while 2-PH will primarily be used in the production of DPHP. DPHP is a new, cost-effective and environmentally adapted plasticizer for PVC plastics. The investment is in line with the EU's environmental directives for plasticizers.

During the period, a decision was made regarding capacity investments in, for example, the production of Neo in Perstorp and butanol in Stenungsund, aimed at strengthening the Group's market positions for these products.

Acquisitions & agreements

At the beginning of the year, Perstorp signed a joint venture contract for establishing production in China and thus gaining an opportunity to further strengthen its presence in this important market. The contract gives Perstorp a 51% ownership share of Shandong Fufeng Perstorp Chemicals Co. Ltd., which has a modern production plant for tri-methyl propane (TMP) in Qilu Chemical Industrial Park in Zibo City in the Shandong province. The plant will have an annual production capacity of 15,000 tons.

Perstorp also entered a partnership agreement with the Saudi Arabian company Chemanol, previously known as Saudi Formaldehyde Chemical Co. Ltd. (SFCCL) relating to the production of Penta. Within the framework of this agreement, Perstorp will build a plant for the production of Penta in Al-Jubail, Saudi Arabia, based on Perstorp's technology. Chemanol will be responsible for production, while Perstorp will handle marketing of the product via its established marketing channels. The partnership strengthens Perstorp's global positions in the polyol area, as well as its presence in the regional market. Production is scheduled to begin in the latter half of 2008.

The remaining shares in US company CCS Composites, based in Benicia, California and active in composite materials, were acquired during the period. Perstorp previously owned 60% of the company.

Acquired assets
Shandong Fufeng Perstorp Chemicals Co., Ltd & CCS Composites LLC

SEK m	
Purchase price	48
Financial debt to seller	-23
Effect on cash flow of the group	25
Purchase price	48
Acquired net assets	-33
Goodwill	15

	Book value	Market value
Tangible fixed assets	68	68
Inventory	1	1
Other current receivables	10	10
Total assets	79	79
Minority interests	31	31
Accounts payable	3	3
Other short-term liabilities	12	12
Total liabilities	46	46
Net assets	33	33

Key figures, Group						
SEK m unless otherwise stated	Quarter 2		Quarter 1-2		Latest	Full year
	2007	2006 [2]	2007	2006 [2]	12 months	2006
Net sales	2,129	1,822	4,074	3,576	7,771	7,273
Operating earnings before depreciation (EBITDA)	363	260	679	509	1,261	1,091
EBITDA excl. non-recurring items	367	264	696	519	1,274	1,097
Operating earnings (EBIT)	231	134	417	258	725	566
Operating margin before depreciation, %	17.1	14.3	16.7	14.2	16.2	15.0
Operating margin, %	10.9	7.4	10.2	7.2	9.3	7.8
Investments	126	91	329	293	571	535
of which acquisitions	-4	0	48	44	63	59
excluding acquisitions	130	91	281	249	508	476
Depreciation	132	126	262	251	536	525
Working capital, end of period	1,114	864	1,114	864	1,114	714
Working capital, average	1,004	855	935	848	912	853
Turnover rate, working capital	8.5	8.5	8.7	8.4	8.5	8.5
Cash flow from operating activities	119	130	-100	215	276	591
Cash flow as % of net sales	5.6	7.1	-2.5	6.0	3.6	8.1
Capital employed, end of period	10,263	9,871	10,263	9,871	10,263	9,631
Capital employed, average	10,055	9,980	9,914	10,188	9,890	10,018
Return on capital employed, %	9.2	5.4	8.5	5.1	7.4	5.7
Net debt, incl. pensions, end of period	10,018	9,736	10,018	9,736	10,018	9,386
Net debt, incl. pensions, excl. Parent Company [1]	7,961	7,958	7,961	7,958	7,961	7,434
Debt/equity ratio, %, excl. Parent Company loan [1]	3.8	4.2	3.8	4.2	3.8	3.9
Equity/assets ratio, %, incl. Parent Company loan [1]	14.8	14.0	14.8	14.0	14.8	14.2
Return on shareholders´ equity, %, incl. Parent Company loan [1]	0.4	1.0	-1.1	-7.8	-4.3	-7.7
Number of full-time employees, end of period	1,800	1,663	1,800	1,663	1,800	1,693

1) Owner loans, meaning the loan from the Luxembourg-based Parent Company Financière Forêt S.A.R.L., are subordinated to the senior credits, second lien and mezzanine loans. The interest on this loan is capitalized.

2) Income statement and balance sheet items were changed retroactively in conjunction with the completion of the purchase price allocation performed at the end of 2006.

Income statement by quarter, total Group								
SEK m	2005		2006				2007	
	Quarter 3	Quarter 4	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Quarter 1	Quarter 2
Net sales	1,570	1,538	1,754	1,822	1,897	1,800	1,945	2,129
Costs of sold goods	-1,269	-1,292	-1,471	-1,518	-1,602	-1,514	-1,640	-1,693
Gross earnings	301	246	283	304	295	286	305	436
Sales, administration and R&D costs	-137	-165	-150	-149	-142	-177	-171	-182
Other operating income and expenses [1]	-7	6	-9	-21	2	43	53	-23
Income from participations in associated companies	0	1	0	0	0	1	-1	0
Operating earnings (EBIT)	157	88	124	134	155	153	186	231
Exchange-rate differences, net debt			-46	78	-13	85	13	-1
Financial income and expenses			-201	-205	-207	-206	-219	-226
Earnings/loss before taxes			-123	7	-65	32	-20	4
Taxes			40	-2	21	-63	7	-2
Net earnings/loss (incl. minority interest)			-83	5	-44	-31	-13	2
Operating earnings before depreciation (EBITDA)	281	213	249	260	279	303	316	363
EBITDA adjusted for non-recurring items	274	209	255	264	285	293	329	367

1) Other operating income and expenses primarily includes exchange-rate effects on operative net receivables and non-recurring income and costs. This also includes estimated insurance compensation for margin losses in conjunction with damage, primarily in the fourth quarter of 2006 and the first quarter of 2007.

Parent Company

Income statement, Parent Company				
SEK m	Quarter 1-2 2007	2006	Latest 12 months	Full year 2006
Net sales, Group companies	30	28	38	36
Costs of sold goods	-	-	-	-
Gross earnings	30	28	38	36
Sales, administration and R&D costs	-50	-36	-70	-56
Other operating income and expenses	-1	0	-1	0
Operating earnings (EBIT)	-21	-8	-33	-20
Group contribution	-2	0	394	396
Financial income and expenses, Group companies	31	47	72	88
Financial income and expenses, external	-351	-325	-694	-668
Exchange-rate differences, net debt	-60	82	73	215
Earnings/loss before tax	-403	-204	-188	11
Tax	113	57	53	-3
Net earnings/loss	-290	-147	-135	8

Balance sheet, Parent Company		
SEK m	June 30, 2007	Dec. 31, 2006
Shares in Group companies	6,075	6,073
Long-term receivables, Group companies	948	912
Other financial fixed assets	113	0
Short-term receivables, Group companies	208	450
Other current receivables	1	3
Assets	7,345	7,438
Shareholders´ equity (incl. minority interest)	166	456
Loans from Parent Company	2,057	1,952
Other long-term liabilities	3,881	3,738
Financial liabilities to related parties	71	86
Current liabilities, Group companies	594	591
Other current liabilities	576	615
Equity and liabilities	7,345	7,438

Shareholders´ equity, Parent Company	
SEK m	Total
Closing balance, December 31, 2006	456
Net earnings/loss for the period	-290
Closing balance, June 30, 2007	166

Cash flow statement, Parent company				
SEK m	Quarter 1-2 2007	2006	Latest 12 months	Full year 2006
Operating activities				
Operating earnings	-21	-8	-33	-20
Interest received	21	10	75	64
Interest paid	-230	-56	-471	-297
Group contribution	394	-	394	-
Cash flow from operating activities before change in working capital	164	-54	-35	-253
Changes in working capital				
Increase (-) Decrease (+) in current receivables	0	-6	1	-5
Increase (+) Decrease (-) in current liabilities	3	12	7	16
Cash flow from operating activities	167	-48	-27	-242
Investing activities				
Acquisition of shares, subsidiaries	-	-	-2	-2
Acquisition of net assets, subsidiaries	-	34	-34	-
Adjustment of purchase price	-	-	154	154
Change in internal financial receivables	-151	-94	-152	-95
Cash flow from investing activities	-151	-60	-34	57
Financing activities				
Shareholder contribution, internal	-	-100	100	-
New loans from subsidiaries	-	60	390	450
New loans from Parent company	-	91	97	188
Short-term liability, related companies	-16	-89	-36	-109
Change in credit utilization	-	-266	-490	-756
Cash flow from financing activities	-16	-304	61	-227
Change in liquid funds, incl. short-term investments	0	-412	0	-412
Liquid assets opening balance, incl. short-term investments	0	412	0	412
Translation difference in liquid funds	-	-	-	-
Liquid assets, end of period	0	0	0	0

Other

Organization & employees

The number of employees was 1,800 persons (1,693 at year end) on the closing date. The increase was primarily attributable to acquisition of operations in China with 80 persons but also to new recruitment related to increased activity in existing and new product areas.

Martin White, who comes most recently from a position as Head of Supply within the Brio Group, succeeds Mats Persson as manager of the Supply Chain function and will also become a member of Group management. Mats Persson is responsible for the new Business function since the beginning of the year.

Annual General Meeting

At the Annual General Meeting, Bo Dankis, Lennart Holm, Fabrice Fouletier, Dominique Mégret and Bertrand Meunier were re-elected as ordinary members of the Board of Directors. Gaëlle d'Engremont was re-elected and Colm O'Sullivan was newly elected as deputy members. Lennart Holm was re-appointed as Chairman.

The trade unions at Perstorp Holding AB have informed the company that Anitha Hermansson, Klas Ingstorp and Ronny Nilsson have been re-appointed as employee representatives on the Board of Directors with Anders Magnusson, Annika Folkesson and Ronny Sahlberg as deputies.

Transactions with related parties

Perstorp Holding AB has a loan from the Luxemburg-based Parent Company Financière Forêt S.A.R.L., which amounted to SEK 2,057 m on the closing date. Interest amounts to 10% and is capitalized. The loan is subordinated to the senior credit, second lien and mezzanine loans.

Accounting & valuation principles

The consolidated accounts for Perstorp Holding AB were prepared in accordance with International Financial Reporting Standards and this report follows IAS 34 Interim Financial Reporting. The most important accounting principles according to IFRS are described in Note 2 of the 2006 Annual Report. The Parent Company reports according to the Annual Accounts Act and Recommendation RR32 Reporting of Legal Entities issued by the Swedish Financial Standards Council.

Financial information

In addition to this interim report, Perstorp will issue financial information relating to the 2007 fiscal year in the form of a year-end report in February 2008 and an annual report and a sustainability report in April 2008. The reports will be available in Swedish and English on the Group's web site, where it will also be possible to order printed versions.

Perstorp, July 24, 2007

Bo Dankis
President and CEO

This report was not reviewed by Perstorp's auditors.



Your Winning Formula

The Perstorp Group is the world leader in several sectors of the specialty chemicals market. Few chemical companies in the world can rival its 125 years of success. Today we have a rich performance culture distilled from our long history and extensive knowledge in the chemical industry. That culture and knowledge base enables us to produce Winning Formulas for a wide variety of industries and applications.

Our products are used in the aerospace, marine, coatings, chemicals, plastics, engineering and construction industries. They can also be found in automotive, agricultural feed, food, packaging, textile, paper and electronics applications.

Our production plants are strategically located in Asia, Europe and North and South America and are supplemented by sales offices in all major markets. We can offer you a speedy regional support and a flexible attitude to suit your business needs.

If you want a chemical partner who can offer you focused innovation to enhance your product or application, which is delivered reliably and responsibly look no further. We have a winning formula waiting for you.

www.perstorp.com

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