

# Perstorp Holding AB

Interim report 1 January - 30 June 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 French private equity company.

## Interim report 1 January - 30 June 2010

- ➔ Strong global recovery at the start of the year continued into the second quarter, with almost all markets and product segments reporting very favourable volume trends.
- ➔ Net sales rose by 19% to SEK 7,428 million (corresponding period last year SEK 6,268 m), despite negative currency effects of 12%. Volumes rose 21% and prices 10%, partly driven by rising raw material prices.
- ➔ The operating earnings before depreciation and write-down developed very positively and amounted to SEK 927 million (432 m). This is mainly due to extra volumes while keeping costs under control.
- ➔ Evolution in market segmentation and in innovative solutions continues. Perstorp sold its first turbo charger formalin plant over the period, and successfully launched the world's first renewable Penta. Later this year the company plans to introduce a new specialty polyol, customized for the PVC segment.

### Key figures in summary

SEK m unless otherwise stated	Quarter 2 2010	Quarter 1 2010	Quarter 2 2009	Quarter 1-2	
				2010	2009
Net sales	3,821	3,607	3,292	7,428	6,268
Operating earnings before depreciation (EBITDA)	497	430	314	927	432
% of net sales	13.0	11.9	9.5	12.5	6.9
EBITDA adjusted for non-recurring items <sup>1)</sup>	500	435	338	935	462
% of net sales	13.1	12.1	10.3	12.6	7.4
Operating earnings (EBIT)	252	186	15	438	-131
% of net sales	6.6	5.2	0.5	5.9	-2.1
Net earnings/loss	-189	-175	-129	-364	-520
Cash flow from operating activities	136	199	-181	335	68
% of net sales	3.6	5.5	-5.5	4.5	1.1

<sup>1)</sup> Non recurring items are primarily costs for rationalisation programs.

# President's comments

” Perstorp's healthy development both in sales and results continued during this year's second quarter. Demand for the main part of the product portfolio has been strong or very strong. At the same time, our long term efforts to improve efficiency and availability in our production plants have contributed to record production at several plants.

Martin Lundin,  
President and CEO



## Positive first half year

Perstorp developed very positively through the first half of 2010. Both quarters attained strong sales and EBITDA performance, especially in Asia, where our newly formed organizational unit Region Asia continues to strengthen our presence in the market.

During the second quarter, demand remained high for most of Perstorp's key products, especially our specialty polyols portfolio, HDI derivatives, TMP, NEO, 2-EHA and our caprolactone business. The rise in customer demand for the latter will be responded to by a significant capacity expansion by Perstorp in 2011.

Formox, Perstorp's formalin technology and catalyst business, continues to gain momentum. Product growth is in line with expectations with two important plant project sales already achieved, at the same time as there are several interesting projects in the pipeline.

## Several production records

While product demand swelled in the second quarter, Perstorp maintained its focus on improving production efficiency. The combination of the two, equated to record-setting production numbers in several facilities, including China, Sweden, UK and Belgium.

Perstorp also successfully completed its largest ever planned maintenance shutdown during the second quarter, at its facilities in France. This shutdown together with strong sales contributed – as expected – to an increase in working capital. At mid-year however, with fixed costs under control and improved earnings, available unused funds amounted to comfortable levels.

## Continued focus on market segmentation & new offerings

Last autumn Perstorp committed to evolve further as a market leader not only by product but also within a few carefully selected market segments. Having done a rigorous screening, Polyurethane dispersions, food & feed and adhesives provide some examples where we seek to extend our offerings in the future. Speaking of new offerings, we plan to launch a new specialty polyol tailored for the PVC market later this year.

In line with our vision to contribute to a more sustainable society, I am proud to announce that Perstorp launched the world's first renewable Penta, Voxtar™, during the second quarter! We have also started using a new production line for calcium formate at our facility in Germany.

## Positive trend expected to continue

The positive trajectory emerging thus far in 2010 thrusts the company into a promising outlook for the rest of the year, with many interesting new projects ahead, adding to the excitement. I look forward to building upon our results as the Perstorp group drives forward.

Perstorp, July 2010

Martin Lundin,  
President and CEO

# Market & economic conditions

During the first quarter, there was a strong global recovery, following the financial turbulence in 2009. The strong growth in demand continued throughout the second quarter, as seasonal factors kicked in.

Demand has strengthened a lot for Perstorp's products compared to the low levels seen especially during the first quarter last year, and particularly for specialty polyols, HDI, caprolactones, the polyol TMP and the oxo products. The TDI market has stabilized. The period's results in France were impacted by a planned major maintenance shutdown, which was finalized at the end of June and has proceeded according to plan.

Euro turbulence and its underlying causes in the form of debt crises and cost reduction programs created a degree of nervousness on the main European markets, due to fears of a new downward trend. This contributed to shorter lead times for orders and pricing. Demand remained good, though, also in the second quarter. Eastern Europe saw the very positive growth trend continue.

Demand was relatively strong in the US, despite a lackluster housing and automotive market and awareness that the financial turmoil in Euro countries might affect exports negatively. South America remains a strong market, particularly Brazil.

The solid growth continued in Asia, primarily as a result of the high level domestic demand. The gradual revaluation of the Yuan by the Chinese, which began in late June, will have favourable impact on exports to China in future, even though – in the short run – the

chinese economy seems to be entering a period of less strong growth.

Perstorp has seen an upward price trend for raw materials in the first half year – mainly in the first quarter. The main raw material for the Group, propylene, continued to increase during the second quarter, from an already record high level. The increase is mainly explained by the rise in demand coupled with production problems at several suppliers. Crude oil prices fell however in the second quarter and ended under the level seen at year-end.

The Perstorp Group is highly exposed to movements in the EUR and USD exchange rates, since both net inflows and loans are primarily in those currencies. During the first half of the year, both currencies averaged about 10% down on the SEK compared with the same period last year, thus negatively impacting sales and profitability. However, in the comparison period, the main part of the flows were currency hedged at lower levels than the market rates. The weakening of the EUR in the first quarter this year continued in the second quarter, while the USD strengthened. At the end of June the USD was almost at exactly the same level against the SEK as one year previously, while the EUR was 12% down for the same period. This had a positive affect on the company's debt.



# Financial overview

Income statement, Group						
SEK m	Quarter 2		Quarter 1-2		Latest 12 months	Full year 2009
	2010	2009	2010	2009		
<b>Net sales</b>	<b>3,821</b>	<b>3,292</b>	<b>7,428</b>	<b>6,268</b>	<b>13,702</b>	<b>12,542</b>
Cost of goods sold	-3,330	-2,839	-6,474	-5,640	-12,049	-11,215
<b>Gross earnings</b>	<b>491</b>	<b>453</b>	<b>954</b>	<b>628</b>	<b>1,653</b>	<b>1,327</b>
Selling, administration and R&D costs	-289	-288	-562	-578	-1,077	-1,093
Other operating income and expenses <sup>1)</sup>	50	-113	50	-138	-72	-260
Write-down of assets	0	-36	-3	-41	-203	-241
Income from participations in associated companies	0	-1	-1	-2	-2	-3
<b>Operating earnings (EBIT)</b>	<b>252</b>	<b>15</b>	<b>438</b>	<b>-131</b>	<b>299</b>	<b>-270</b>
Exchange-rate differences on net debt	-13	163	-90	135	-159	66
Extraordinary financial items <sup>2)</sup>	0	0	0	0	309	309
Other financial income and expenses	-376	-362	-731	-747	-1,378	-1,394
<b>Earnings/loss before tax</b>	<b>-137</b>	<b>-184</b>	<b>-383</b>	<b>-743</b>	<b>-929</b>	<b>-1,289</b>
Tax	-52	55	19	223	301	505
<b>Net earnings/loss (including minority interest)</b>	<b>-189</b>	<b>-129</b>	<b>-364</b>	<b>-520</b>	<b>-628</b>	<b>-784</b>
<b>Operating earnings before depreciation (EBITDA)</b>	<b>497</b>	<b>314</b>	<b>927</b>	<b>432</b>	<b>1,481</b>	<b>986</b>
<b>EBITDA adjusted for non-recurring items</b>	<b>500</b>	<b>338</b>	<b>935</b>	<b>462</b>	<b>1,573</b>	<b>1,100</b>

<sup>1)</sup> Other operating income and expenses primarily includes exchange-rate effects on operational net receivables and non-recurring income and costs. The first half year 2009 comprises major negative effects from currency hedged operational flows. This year, the strengthening USD has led to income from revaluation of net operational receivables.

<sup>2)</sup> Refers to capital gain related to the Group's financing.

## Net sales

The Perstorp Group's net sales climbed 19% during the first half of 2010 compared with the same period last year, to SEK 7,428 million (6,268 m). This growth is mainly attributable to volume increases of 21%, but also a 10% increase in prices, while currency effects were negative at 12% as a result of the weaker EUR and USD.

As mentioned in the description of market development, demand has remained strong during the second quarter and most products in Perstorp's portfolio have contributed to the volume growth. The strongest growth was seen by TMP and caprolactones. The biggest price increases were seen in oxo products, driven by a very strong price trend for the key raw material propylene and an advantageous market situation. The price trend for TDI has been favorable as a result of a more stable market.

## Earnings

**Operating earnings before depreciation and write-down (EBITDA)** reached SEK 927 million for the first six months of the year, compared with SEK 432 million for the same period last year, which was affected by the financial crisis. One-off items amounted to SEK -8 million (-30 m). The volume increase also explains the majority of the improved earnings. Access and thereby efficiency is much improved at our production facilities. In France, on the other hand, the second quarter was characterized by a major planned maintenance shut-down, which affected earnings negatively.

Following the cost reduction program implemented last year and earlier, the number of employees and fixed costs are now stable, the latter with the exception of the maintenance stoppage and selective expansions for growth.

The currency effect on earnings was slightly positive, at around SEK 50 million, compared with the first half of 2009, despite the weaker EUR and USD. This is due to large amounts of flow last year being currency hedged at lower levels than the actual market rates.

**Operating earnings before interest and taxes (EBIT)** were SEK 438 million (-131 m). Depreciation and write-downs amounted to SEK 489 million (563 m), where the comparative period was affected by the write-down of fixed assets.

**Earnings before tax** amounted to SEK -383 million (-743). Currency effects negatively affected net financial items this year, while the same period last year saw positive currency effects. Excluding currency effects net financial items improved somewhat, due to significantly lower borrowings, counteracted by higher interest rates.

**The net loss** was SEK 364 million, compared with a loss of SEK 520 million for the same period last year. A cautious approach has been applied relating to tax losses carried forward, built up during the period.

# Financial position

Working capital rose during the first half of the year to SEK 1,702 million (1,406 m at year-end). It's mainly trade receivables that have risen due to the strong sales growth. Overall stock levels have fallen somewhat, which is related to the maintenance shut-down, but this has partly been counteracted by necessary stockpiling since the start of the year for other products, mainly for polyols.

Net debt excluding the owner's loan has fallen by SEK 38 million since year-end, and by almost SEK 1.9 billion since the same period last year. Of the latter difference, SEK 1.3 billion comes from a shareholders' contribution, while the remaining drop is mainly due to the weaker EUR against the SEK. The total net debt including the owner's loan benefitted from the conversion of loans to shareholders' equity.

During the first half of 2010 Perstorp expanded its interest hedging, in the form of interest swaps. This means that around 60% of the external loans are hedged until 2012, after which time the share of hedged loans gradually falls.

Shareholders' equity received a dramatic boost during the period, from SEK 1.2 billion to around SEK 1.9 billion. This is mainly due to the conversion of the owners' loan of SEK 1 billion.

Balance sheet, Group			
SEK m	June 30, 2010	Dec 31, 2009	June 30, 2009
Intangible fixed assets	7,561	7,829	8,513
Tangible fixed assets	6,584	6,742	7,213
Financial fixed assets	1,313	1,277	1,127
Inventories	1,432	1,478	1,410
Other current assets	3,014	2,459	2,808
Cash & cash equivalents, incl. short-term investments	409	516	186
<b>Assets</b>	<b>20,313</b>	<b>20,301</b>	<b>21,257</b>
Shareholders' equity (incl. minority interest)	1,931	1,172	246
Loan from Parent company	1,970	2,899	2,804
Other long-term liabilities	12,767	12,927	14,315
Current liabilities	3,645	3,303	3,892
<b>Shareholders' equity and liabilities</b>	<b>20,313</b>	<b>20,301</b>	<b>21,257</b>
Working capital	1,702	1,406	1,449
Net debt	13,445	14,412	16,155
Net debt excl. owner loan	11,475	11,513	13,351
Capital employed	15,466	15,689	16,280

Shareholders' equity, Group, 2010			
SEK m	Equity excl. minority interest	Minority interest	Total shareholders' equity
<b>Opening balance, January 1, 2010</b>	<b>1,154</b>	<b>18</b>	<b>1,172</b>
Comprehensive results for the period	-314	4	-310
Shareholders' contribution	69	-	69
Conversion of parent company loans	1,000	-	1,000
<b>Closing balance, June 30, 2010</b>	<b>1,909</b>	<b>22</b>	<b>1,931</b>

Shareholders' equity, Group, 2009			
SEK m	Equity excl. minority interest	Minority interest	Total shareholders' equity
<b>Opening balance, January 1, 2009</b>	<b>-80</b>	<b>42</b>	<b>-38</b>
Comprehensive results for the period	-421	-9	-430
Shareholders' contribution	714	-	714
<b>Closing balance, June 30, 2009</b>	<b>213</b>	<b>33</b>	<b>246</b>

Comprehensive income report, Group, including minority						
SEK m	Quarter 2		Quarter 1-2		Latest 12 mth	Full year 2009
	2010	2009	2010	2009		
<b>Earnings/loss for the year</b>	<b>-189</b>	<b>-129</b>	<b>-364</b>	<b>-520</b>	<b>-628</b>	<b>-784</b>
<b>Other comprehensive results</b>						
Translation effects	23	-48	-142	36	-395	-217
Hedging of net investments	67	37	237	25	397	185
Market valuation of interest swaps	-5	42	29	-22	75	24
Market valuation of forward contracts	13	131	0	69	71	140
Tax relating to other comprehensive results	-21	-54	-70	-18	-144	-92
<b>Other comprehensive results net after tax</b>	<b>77</b>	<b>108</b>	<b>54</b>	<b>90</b>	<b>4</b>	<b>40</b>
<b>Comprehensive results after tax</b>	<b>-112</b>	<b>-21</b>	<b>-310</b>	<b>-430</b>	<b>-624</b>	<b>-744</b>
<b>Comprehensive results attributable to:</b>						
Parent company's shareholders	-115	-21	-314	-421	-622	-729
Minority interests	3	0	4	-9	-2	-15



# Cash flow

Cash flow from operations was SEK 335 million for the first half of the year (68 m). The improvement is due to the positive earnings trend and lower interest payments. The increase in working capital has however contributed to an outflow. Capital was freed up in the corresponding period last year when stock levels fell dramatically from a high level at year-end.

Investment activity was greater during the second quarter 2010 than at the start of the year, and outflow for the first half of the year as a whole was SEK 486 million (256 m). The single biggest project is the extension of caprolactone capacity at the plant in Manchester, England. The maintenance stoppage at the French facilities also contributed to more investments. Shares in the energy consortium Exeltium were acquired during the period, giving the French facilities guaranteed direct access to energy. The acquisition of subsidiary assets, SEK -83 million, represents the additional and final purchase price respectively for previously acquired business activities.

Financing saw a cash injection of SEK 69 million in the form of shareholders' contributions.

Available unused credit facilities, including liquid funds and letter of credit facilities, amounted to SEK 953 million at the end of June (SEK 1,224 million at the end of the year).

Cash flow analysis, Group						
SEK m	Quarter 2		Quarter 1-2		Latest 12 month	Full year 2009
	2010	2009	2010	2009		
<i>Operating activities</i>						
Operating earnings	252	15	438	-131	299	-270
Adjustment items:						
Depreciation and write-down	245	299	489	563	1.182	1.256
Other	14	-29	23	-26	56	7
Interest received	-	1	2	2	3	3
Interest paid	-204	-252	-370	-590	-764	-984
Income tax paid	-5	-10	-8	-28	-17	-37
Cash flow from operating activities before change in working capital	302	24	574	-210	759	-25
<i>Changes in working capital</i>						
Increase (-) Decrease (+) in inventories	18	115	40	417	-84	293
Increase (-) Decrease (+) in current receivables	-190	-279	-518	-9	-335	174
Increase (+) Decrease (-) in current liabilities	6	-41	239	-130	187	-182
<b>Cash flow from operating activities</b>	<b>136</b>	<b>-181</b>	<b>335</b>	<b>68</b>	<b>527</b>	<b>260</b>
<i>Investing activities</i>						
Acquisition of net assets, subsidiaries	-83	-	-83	-19	-42	22
Acquisition of shares in associated companies	-	-	-	-	-19	-19
Acquisition of minor holdings in companies	-69	-	-69	-	-69	-
Acquisition of minority interest	-	-	-	-	-9	-9
Acquisition of tangible and intangible fixed assets	-260	-121	-335	-238	-679	-582
Sale of tangible and intangible fixed assets	-	-	-	-	34	34
Change in financial assets, external	1	2	1	1	2	2
<b>Cash flow from investing activities</b>	<b>-411</b>	<b>-119</b>	<b>-486</b>	<b>-256</b>	<b>-782</b>	<b>-552</b>
<i>Financing activities</i>						
Shareholders' contribution	69	-	69	573	1.317	1.821
Change in credit utilization	3	202	-19	-480	-828	-1.289
<b>Cash flow from financing activities</b>	<b>72</b>	<b>-202</b>	<b>50</b>	<b>93</b>	<b>489</b>	<b>532</b>
<b>Change in liquid funds, incl. short-term investments</b>	<b>-203</b>	<b>-98</b>	<b>-101</b>	<b>-95</b>	<b>234</b>	<b>240</b>
Liquid funds opening balance, incl. short-term investments	605	293	516	286	186	286
Translation difference in liquid funds	7	-9	-6	-5	-11	-10
<b>Liquid funds, end of period</b>	<b>409</b>	<b>186</b>	<b>409</b>	<b>186</b>	<b>409</b>	<b>516</b>

## Key figures, Group

SEK m unless otherwise stated	Quarter 2		Quarters 1-2		Latest 12 months	Full year 2009
	2010	2009	2010	2009		
Net sales	3,821	3,292	7,428	6,268	13,702	12,542
Operating earnings before depreciation (EBITDA)	497	314	927	432	1,481	986
EBITDA adjusted for non-recurring items	500	338	935	462	1,573	1,100
% of net sales	13.1	10.3	12.6	7.4	11.5	8.8
Operating earnings (EBIT)	252	15	438	-131	299	-270
Net earnings/loss	-189	-129	-364	-520	-628	-784
Investments excluding acquisitions	213	121	288	238	661	611
Acquisitions <sup>1)</sup>	152	-	152	13	93	-46
Depreciation and write-downs <sup>2)</sup>	245	299	489	563	1,182	1,256
Working capital, end of period	1,702	1,449	1,702	1,449	1,702	1,406
Working capital, average	1,723	1,388	1,615	1,523	1,546	1,493
Turnover rate, working capital	8.9	9.5	9.2	8.2	8.9	8.4
Cash flow from operating activities	136	-181	335	68	527	260
Cash flow as % of net sales	3.6	-5.5	4.5	1.1	3.8	2.1
Capital employed, average	15,580	16,317	15,600	16,673	15,567	16,099
Return on capital employed, %	6.2	0.4	5.6	-1.5	1.9	-1.7
Net debt, incl. pensions, excl. owner company loan <sup>3)</sup>	11,475	13,351	11,475	13,351	11,475	11,513
Debt/equity ratio, %, excl. owner company loan <sup>3)</sup>	2.9	4.4	2.9	4.4	2.9	2.8
Equity/assets ratio, %, incl. owner company loan, % <sup>3)</sup>	19.2	14.3	19.2	14.3	19.2	20.1
Return on shareholders' equity, %, incl. owner company loan, % <sup>3)</sup>	-13.9	-10.5	-13.1	-27.6	-12.2	-19.1
Number of full-time employees, end of period	2,164	2,498	2,164	2,498	2,164	2,154

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

<sup>2)</sup> Write-downs were carried out in 2009 at SEK 241 m.

<sup>3)</sup> 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.





# Other

## Employees

At the end of the period the Group had 2,164 employees, an increase of 10 persons since the start of the year. On the same date last year the Group had 2,498 employees.

## Transactions with related parties

At the end of the second quarter a loan from the parent company, Luxemburg-based Financière Forêt S.à.r.l., amounting to SEK 1 billion, was converted into shareholders' equity. The interest on the parent company loan was 10% and has been capitalised.

## Changes to Perstorp's board

At the annual general meeting of Perstorp Holding AB, on May 18, 2010, Bo Dankis stepped down as chairman and left the board of directors. Lennart Holm has been appointed the new chairman. Lennart Holm was previously vice chairman and was previously also CEO of the Perstorp Group.

New to the board is Karin Markides, president and CEO of the Chalmers Group and president of Chalmers University of Technology. Karin Markides will also be chairman of the recently established Technical Committee of Perstorp Holding AB's board.

Other changes to Perstorp Holding AB's board include Michel Paris replacing Bertrand Meunier as a board member, and Carl Settergren replacing Julio Varela, as a deputy board member. PwC AB, with Michael Bengtsson as lead auditor, were re-elected as auditors.

Klas Ingstorp and Stanley Haag have left the posts of employee representatives and were replaced by Anders Broberg and Anders Magnusson.

## Shares acquired to secure energy supplies

The Perstorp Group has acquired shares in Exeltium, corresponding to an ownership share of around 4%. Exeltium is a consortium of 28 electricity-intensive companies who collaborate to secure direct access to energy. The company buys energy from EDF on long-term contracts. Perstorp's involvement is through Perstorp France, which has become a part-owner in Exeltium and thus secured between 21 and 30 MW of electricity per year for the Pont-de-Claix production plants.

## Accounting & evaluation principles

The consolidated accounts of Perstorp Holding AB are produced in accordance with International Financial Reporting Standards and the Swedish annual accounts act. This means that the same accounting principles and calculation methods were used as for the end-of-year accounts for 2009. The key accounting principles for the Group and parent company are presented in Note 2 of the annual report for 2009.

The Group has chosen not to implement IFRS 8 – Operating segments, since there is not formal requirement to do so because the company's shares are not subject to public trading.

## Financial information

Perstorp's financial information includes interim reports, an annual financial statement, annual report and sustainability report. These reports are available in English and Swedish on the Group's website, [www.perstorp.com](http://www.perstorp.com), where printed copies may also be ordered.

Perstorp, 23 July 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](http://www.perstorp.com)