

Perstorp Holding AB

Interim report 1 January - 30 September 2011



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Perstorp Holding AB – Corp. 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 11 countries in Europe, North America and Asia. The Perstorp Group is controlled by the French private equity company PAI partners.

Important events, January – September 2011

- ➔ The first half of the year showed a good volume trend across the product portfolio. Inventory levels across the industry, however, have been kept low throughout the value chain since the last economic downturn. The pending sovereign debt crisis in Europe coupled with slower growth in the US and Asia, therefore reflects a softening in underlying demand, which was evident for Perstorp towards the end of Q3.
- ➔ The Perstorp Group's sales rose by 6% to SEK 11,698 (11,033) m, despite a negative currency effect of 10% from the strengthening Swedish krona. Volume growth was 4%, driven primarily by products such as Oxo, HDI, bio-fuels and Penta. Prices rose by 12% to compensate for the increase in raw material costs.
- ➔ Operating earnings before depreciation and amortization were SEK 1,372 (1,293) m adjusted for items affecting comparability. The strengthening Swedish krona led to a negative currency impact of SEK -175 m from the translation effect and transaction flows over the period. Fixed costs have been kept below last year's levels, partly due to a positive consolidation effect from the strong Swedish krona, but also from efficiency improvements at the French operations.
- ➔ The acquired Penta business of Ashland Inc., the US specialty chemicals company, is now integrated into the Perstorp Group, resulting in increased Penta volume and synergy effects.
- ➔ Several strategic investments have been decided upon in the first nine months: capacity expansion for HDI-derivatives and 2-EHA in Europe and Asia, the restart of investment in a new production plant for Valeraldehyde and its derivatives 2-PH and DPHP, and an expansion of the Group's Neo production with a new plant in China.

Key figures in summary

SEK m unless otherwise stated	Quarter 3 2011	Quarter 2 2011	Quarter 3 2010	Quarter 1-3	
				2011	2010
Net sales	3,796	3,955	3,605	11,698	11,033
Operating earnings before depreciation (EBITDA)	443	511	350	1,353	1,277
% of net sales	11.7	12.9	9.7	11.6	11.6
EBITDA adjusted for non-recurring items ¹⁾	456	505	358	1,372	1,293
% of net sales	12.0	12.8	9.9	11.7	11.7
Operating earnings (EBIT)	214	282	114	678	552
% of net sales	5.6	7.1	3.2	5.8	5.0
Net earnings/loss	-186	-83	-135	-346	-499
Cash flow from operating activities	320	164	187	422	522
% of net sales	8.4	4.1	5.2	3.6	4.7

¹⁾ Non recurring items are mainly attributable to redundancy and restructuring costs.

President's comments

” While Perstorp has felt the effects of the current turbulent world economy with a softening in demand and ever-shorter lead times, our business model and strategic market positions remain firm.



Martin Lundin,
President and CEO

Performance review

Perstorp's third quarter results reflect both the seasonality of the industry and a gradual softening of volumes with sustained low inventory levels throughout the value chain.

During the period, Perstorp net sales amounted to 11,698 million SEK, establishing a 6 percent increase when compared with sales during the same period last year.

Despite the precariousness of the world's financial markets, Perstorp persists in its ability to maintain healthy margins and a lean cost structure. As a proactive measure, Perstorp has enforced a tighter cost regime throughout the Group and works diligently toward reducing working capital.

Our product portfolio, underpinned by the success of our Oxo, Caprolactone and HDI businesses, continues to perform at expectations. In addition, Formox is expected to deliver a record number of formaldehyde plant sales by year-end.

Perstorp in motion

I am proud to announce that our highly anticipated caprolactone capacity expansion is on-stream at our Warrington plant. The second Capa™-stream was inaugurated with flawless execution – on budget, on time and on specification. Perstorp is now poised to leverage on its position as the world's largest producer of these specialty chemicals and we expect the new expansion to contribute with significant revenues in 2012.

In addition, as we increase our market stronghold, Perstorp has jointly invested in the construction of a Neo plant in China with new capacity expected to come on-stream late next year. We have also opened a new customer support lab in Mumbai to better serve our clients in Asia and Africa.

Since its initiation two years ago, Perstorp's Performance Systems, PPS, has shown its ability to deliver tangible results in the forms of better production yields and higher availability.

Through a global lens

In general, we see a geographically divergent growth climate unfolding through the end of the year. While we expect to see some developed markets, such as North America, gain traction, Perstorp anticipates Europe's sovereign debt concerns to perpetuate the regional slowdown, most notably in southern Europe.

On the other hand, the quick growing economies, such as Brazil, China and India, continue to present attractive market conditions. To keep pace, Perstorp's expanding presence allows us to strengthen our ambitions and further carve out our niche as a high-end specialty chemical company.

Final remarks

After the strong global economic rebound in 2010, the winds have changed after mid-year and visibility has thus decreased. Once again we need to both efficiently and effectively navigate an unpredictable market climate.

Perstorp's investments to drive growth, bundled with our actions to further enhance our specialty niche and our commitment to fiscal responsibility, build a platform of strength. With these strengths we will continue to mitigate any volatile external conditions and capitalize on areas of greatest opportunity.

Most importantly, Perstorp's collective fundamentals that create a strong business model remain in tact and reinforce our strategic trajectory.

Perstorp, October 2011

Martin Lundin
President and CEO

Market & economic conditions

After a first half of the year showing strong demand the uncertainty in the financial markets is starting to affect volumes.

The first half of the year demonstrated strong demand across nearly all our product lines, while Q3 showed slower demand as customers became more cautious triggered by deficit issues in the US and financial turbulence in the Euro zone. Also contributing to the slightly softer demand was the opinion, shared by many buyers, that raw materials have peaked and consequently orders and purchases were delayed where possible.

Raw material prices have moved steadily upwards since the second half of 2010, but the trend was broken during Q3. Oil prices have traded in relatively narrow band since the middle of the second quarter: around USD 115 ± 10 per barrel for Brent oil and this continued throughout Q3.

Regarding pricing, the strong demand during the first half-year enabled Perstorp to move prices upwards. In Q3, Perstorp saw pressure from buyers but have been relatively successful in keeping margins stable. Pricing will remain a challenge in the coming quarter, especially if demand softens further and turbulence remains in the financial markets.

The conflicts in the Middle East and Africa, which started in late 2010 and flourished at the beginning of 2011, created a lot of uncertainty with the supply of crude oil and crude oil-based products. Demand was strong globally and prices spiked as a consequence.

Market sentiment became more bearish and volatile in the middle of Q3. The threat of a second global credit crunch has created uncertainty on the demand side. The recovery in Japan, after the earthquake and tsunami, and expected soft landing in China and other parts of Asia, are expected to partially offset the weakness in Europe.

The Perstorp Group is exposed to movements in the Euro and US dollar exchange rates, since both net inflows and loans are primarily in those currencies. During the first three quarters of the year both currencies averaged substantially lower than last year. The dollar is down 13% and the Euro down 7% versus the Swedish krona. This has contributed to a substantial negative currency effect on the operating profit of almost SEK -175 m when compared with last year.



Financial overview

Income statement, Group						
SEK m	Quarter 3		Quarter 1-3		Latest 12 months	Full year 2010
	2011	2010	2011	2010		
Net sales	3,796	3,605	11,698	11,033	15,226	14,561
Cost of goods sold	-3,375	-3,115	-10,231	-9,589	-13,294	-12,652
Gross earnings	421	490	1,467	1,444	1,932	1,909
Selling, administration and R&D costs	-263	-280	-819	-842	-1,105	-1,128
Other operating income and expenses ¹⁾	67	-95	42	-45	-10	-97
Write-down of assets	-9	0	-10	-3	-367	-360
Income from participations in associated companies	-2	-1	-2	-2	-3	-3
Operating earnings (EBIT)	214	114	678	552	447	321
Exchange-rate effects on net debt	-68	42	-80	-48	10	42
Other financial income and expenses	-320	-321	-931	-1,052	-1,222	-1,343
Earnings/loss before tax	-174	-165	-333	-548	-765	-980
Tax	-12	30	-13	49	-38	24
Net earnings/loss	-186	-135	-346	-499	-803	-956
Operating earnings before depreciation (EBITDA)	443	350	1,353	1,277	1,725	1,649
EBITDA adjusted for non-recurring items	456	358	1,372	1,293	1,824	1,745

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

Net sales

The Perstorp Group's net sales rose by 6% to SEK 11,698 m during the first nine months of 2011 compared with SEK 11,033 m in the corresponding period 2010.

Volumes grew by 4% over last year, driven primarily by a good underlying demand during the first half of 2011. The acquisition of the Ashland Inc. Penta business at the beginning of the year has also contributed to additional Penta volumes, while a softening in demand was seen for several products towards the end of Q3. Certain business areas, however, such as Oxo, HDI and Caprolactones, have demonstrated a steadfast performance throughout the year. In order to mitigate the rise in raw material costs, Perstorp has increased sales prices by 12%, showing the company's ability to protect its margins. On the other hand, the strong Swedish krona against the EUR and USD has had a negative consolidation effect of 10% on sales, which is more difficult to compensate for.

Earnings

Operating earnings before depreciation and amortization (EBITDA) were SEK 1,353 (1,277) m for the first nine months. Adjusted for items affecting comparability, earnings amounted to SEK 1,372 (1,293) m. The improvement versus last year has been driven primarily by a combination of positive volumes and price developments in products such as HDI, PIA and Formox. The two main factors which have hampered the financial performance in 2011 are the TDI business and negative currency effects.

The TDI business continues to struggle with an unbalanced supply position putting pressure on pricing leading to lower performance. The negative currency effect is a result of the translation impact and transaction flows being denominated in EUR and USD, which have weakened throughout the year towards the Swedish krona. Fixed costs remain under control and are lower than last year in part due to efficiency measures at the French operations and a general cautiousness regarding spending.

Operating earnings before interest and taxes (EBIT) were SEK 678 (552) m. Depreciation was lower than the same time last year, mainly due to currency effects.

Earnings before tax amounted to SEK -333 (-548) m. The improvement is mainly due to higher sales but also reduction in interest expenses following lower effective interest rates. In addition, an amount of SEK 1 billion of the parent company's loan was converted into equity at the end of the second quarter last year, which we are now seeing the full effect of.

Net financial items have been negatively impacted by the currency effects when revaluating financial liabilities in foreign currencies, despite the favourable translation effect from interest expenses in foreign currencies.

The net loss was SEK -346 (-499) m. A more restrictive approach continues to be applied to the build-up of further loss deductions.

Financial position

Working capital continues to be at higher levels than last year, driven primarily by an increase in inventories and accounts receivables, as a consequence of both higher sales volumes and sales prices. This has led to an increase in net borrowing. Inventory levels are expected to come down before the year-end following the completion of some planned maintenance shut-downs during both Q3 and Q4. Along with some accrued interest,

the net debt excluding parent company loans has increased by SEK 262 m compared to the same period last year.

Shareholders' equity at the end of September was SEK 1,031 m. This is SEK 291 m less compared to the start of the year, reflecting the change in comprehensive results for the period, with no other equity changes taking place.

Balance sheet, Group			
SEK m	Sept 30, 2011	Dec 31, 2010	Sept 30, 2010
Tangible fixed assets	6,200	6,305	6,355
Intangible fixed assets	6,681	6,744	7,000
Financial fixed assets	1,129	981	1,336
Inventories	1,737	1,511	1,399
Other current assets	2,860	2,595	2,663
Cash & cash equivalents, incl. short-term investments	143	398	436
Assets	18,750	18,534	19,189
Shareholders' equity	1,031	1,322	1,704
Loan from parent company	2,194	2,018	1,988
Other long-term liabilities	11,776	11,461	12,025
Current liabilities	3,749	3,733	3,472
Shareholders' equity and liabilities	18,750	18,534	19,189
Working capital	2,059	1,526	1,551
Net debt	13,160	12,533	12,692
Net debt excl. parent owner loan	10,966	10,515	10,704
Capital employed	14,209	14,038	14,578

Shareholders' equity, Group, 2011			
SEK m	Shareholders' equity excl. non controlling interest	Non controlling interest	Total shareholders' equity
Opening balance, January 1, 2011	1,302	20	1,322
Comprehensive results for the period	-294	3	-291
Closing balance, Sept 30, 2011	1,008	23	1,031

Shareholders' equity, Group, 2010			
SEK m	Shareholders' equity excl. non controlling interest	Non controlling interest	Total shareholders' equity
Opening balance, January 1, 2010	1,154	18	1,172
Comprehensive results for the period	-539	2	-537
Shareholders' contribution	69	-	69
Conversion of parent company loans	1,000	-	1,000
Closing balance, Sept 30, 2010	1,684	20	1,704



Cash flow

Cash flow analysis, Group						
SEK m	Quarter 3		Quarter 1-3		Latest	Full year
	2011	2010	2011	2010	12 months	2010
<i>Operating activities</i>						
Operating earnings	214	114	678	552	447	321
Adjustment items:						
Depreciation and write-down	229	236	675	725	1,278	1,328
Other	-33	20	-27	43	-	70
Interest received	-	-	2	2	2	2
Interest paid	-162	-198	-405	-568	-510	-673
Income tax paid	-6	-3	-33	-11	-45	-23
Cash flow from operating activities before change in working capital	242	169	890	743	1,172	1,025
<i>Changes in working capital</i>						
Increase (-) Decrease (+) in inventories	99	-48	-193	-8	-303	-118
Increase (-) Decrease (+) in current receivables	106	114	-236	-404	-136	-304
Increase (+) Decrease (-) in current liabilities	-127	-48	-39	191	-19	211
Cash flow from operating activities	320	187	422	522	714	814
<i>Investing activities</i>						
Acquisition of net assets, subsidiaries	-	-	-	-83	-	-83
Acquisition of shares in associated companies	-1	-	-26	-	-26	-
Acquisition of minor holdings in companies	-	-	-	-69	-	-69
Acquisition of tangible and intangible fixed assets	-126	-211	-388	-546	-648	-806
Sale of tangible and intangible fixed assets	-	-	10	-	10	-
Change in financial assets, external	-	-2	1	-1	-5	-7
Cash flow from investing activities	-127	-213	-403	-699	-669	-965
<i>Financing activities</i>						
Shareholders' contribution	-	-	-	69	-	69
Change in credit utilization	-222	72	-268	53	-336	-15
Cash flow from financing activities	-222	72	-268	122	-336	54
Change in liquid funds, incl. short-term investments	-29	46	-249	-55	-291	-97
Liquid funds opening balance, incl. short-term investments	168	409	395	516	436	516
Translation difference in liquid funds	4	-19	-3	-25	-2	-24
Liquid funds, end of period	143	436	143	436	143	395

Cash flow from operating activities was SEK 422 (522) m for the first nine months of 2011. Although operating earnings improved and paid interest was lower, cash flow from operating activities was SEK 100 m lower compared to the same period last year. The main explanation to this was the buildup of inventory during Q2, as a result of increased sales with higher price levels as well as some scheduled maintenance shutdowns. The inventory levels have come down during Q3 and are expected to be reduced further before year-end.

Cash flow from investment activities amounted to SEK -403 (-699) m. The main capital expenditures over the year have been the finalization of the capacity expansion for caprolactones, as well as the purchase of assets from Ashland Inc. The associated company

PetroPort Holding AB provided SEK 25 m in shareholders' contributions for the investment in a new jetty at Stenungsund. During Q2 a smaller asset in Finland was divested for around SEK 10 m.

Due to the build up of working capital and the investment activity level, the use of credit facilities thereby increased by SEK 268 m. Subsequently, liquid funds fell by about SEK 250 m.

The Group's available funds, including liquid funds and letter of credit facilities, amounted to SEK 676 m at the end of the period following an amortization to the banks of around SEK 330 m, compared with SEK 931 m at year-end 2010.

Key figures, Group

SEK m unless otherwise stated	Quarter 3		Quarter 1-3		Latest 12 months	Full year 2010
	2011	2010	2011	2010		
Net sales	3,796	3,605	11,698	11,033	15,226	14,561
Operating earnings before depreciation (EBITDA)	443	350	1,353	1,277	1,725	1,649
EBITDA adjusted for non-recurring items	456	358	1,372	1,293	1,824	1,745
% of net sales	12.0	9.9	11.7	11.7	12.0	12.0
Operating earnings (EBIT)	214	114	678	552	447	321
Net earnings/loss	-186	-135	-346	-499	-803	-956
Investments excluding acquisitions	129	209	403	545	664	806
Acquisitions	-	-	-	104	-	104
Depreciation and write-downs	229	236	675	725	1,278	1,328
Working capital, end of period	2,059	1,551	2,059	1,551	2,059	1,526
Working capital, average	2,141	1,704	1,980	1,642	1,923	1,661
Turnover rate, working capital	7.1	8.5	7.9	9.0	7.9	8.8
Cash flow from operating activities	320	187	422	522	714	814
Cash flow as % of net sales	8.4	5.2	3.6	4.7	4.7	5.6
Capital employed, average	14,261	15,124	14,216	15,423	14,351	15,238
Return on capital employed, %	6.0	3.0	6.4	4.8	3.1	2.1
Net debt, incl. pensions, excl. parent company loan ¹⁾	10,966	10,704	10,966	10,704	10,966	10,515
Debt/equity ratio, excl. parent company loan, % ¹⁾	3.4	2.9	3.4	2.9	3.4	3.1
Equity/assets ratio, incl. parent company loan, % ¹⁾	17.2	19.2	17.2	19.2	17.2	18.0
Return on shareholders' equity, incl. parent company loan, % ¹⁾	-17.8	-10.7	-9.2	-12.4	-19.1	-20.5
Number of full-time employees, end of period	2,230	2,194	2,230	2,194	2,230	2,190

¹⁾ The parent 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

The Perstorp Group's headcount at the end of the period was 2,230, which is 40 more than at year-end.

Transactions with related parties

The loan from the Luxembourg-based parent company Financière Forêt S.à r.l. amounted to SEK 2,194 m at the end of September. The annual interest rate is 10% and capitalized.

Changes to legal organization

During Q3, Perstorp established a new sales company in Spain called Perstorp Iberica S.L. to support the market on the Iberian Peninsula and sharpen the focus in the region.

Accounting & valuation principles

The consolidated financial statements for Perstorp Holding AB have been prepared in accordance with International Financial Reporting Standards and the Annual Accounts Act. This means that the same accounting principles and calculation methods used in the interim reports were used in the annual accounts for 2010. The principle accounting policies of the Group and parent company are stated in Note 2 of the 2010 annual report.

With regard to IFRS 8 – Operating Segments – the Group has chosen not to apply this in its interim reporting as there is no formal requirement because the shares are not traded publically.

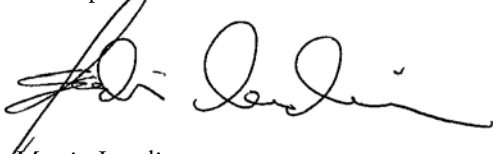
As a consequence of the financial performance in certain business areas of the Group, Perstorp anticipates some valuation adjustments to occur during Q4.

Financial information

Perstorp's financial information comprises interim reports, an end-of-year financial statement, an annual report and sustainability report. The complete annual report is available in English and can be ordered in print format, as well as posted on the Group's website at www.perstorp.com.

The Board of Directors' report is available in Swedish from the same website.

Perstorp, October 25, 2011



Martin Lundin
President and CEO

The report has not been 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 130 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. This is how we enable you to meet market demands for safer, lighter, more durable and environmentally sound end-products – for the aerospace, marine, coatings, chemicals, plastics, engineering, and construction industries, as well as 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. Consistent high quality, 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 smarter and safer products and sustainable processes that reduce environmental impact and create real value in new chemical applications. This principle of proactive 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