

# Perstorp Holding AB (Publ.)

Year-end report 1 January - 31 December 2012



# Year-end report 1 January - 31 December 2012

Perstorp Holding AB (Publ.), 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 1,600 employees and manufacturing companies in Europe, North America and Asia. The Perstorp Group was acquired at the end of 2005 by Perstorp Holding AB, which is controlled by the French private equity company PAI partners.

## Important events, January – December 2012

- ➔ Full year sales for the Perstorp Group's continuing operations, amounted to SEK 10,528 m, slightly lower than in 2011. Operating earnings before depreciation and amortization (EBITDA) relating to continuing operations were SEK 1,401 m (1,484). Excluding items affecting comparability, the corresponding figure was SEK 1,311 m (1,519).
- ➔ At the end of May 2012, Perstorp and Thailand's largest chemical producer, PTT Global Chemical, finalized a joint venture, dedicated to the manufacturing and sales of aromatic and aliphatic isocyanates, serving the polyurethane industry. Perstorp owns 49% of the joint venture, which comprises the business activities previously conducted by the business group Coating Additives. The financial results for these activities from January to May 2012, are accounted for as discontinued operations.
- ➔ In November, Perstorp successfully completed an issue of senior secured and second lien notes to refinance its existing senior debt in full and partly refinance its mezzanine debt facilities. The notes are listed on the Luxembourg Stock Exchange as of November 15, 2012.
- ➔ In December, Perstorp's Board of Directors decided to transfer Perstorp's Singapore legal units (isophthalic acid operations) to Financière Forêt S.á r.l., parent company to the Perstorp Group, as a consequence of the recent refinancing process. The financial results for this operation are consequently from January to December 2012, reported within discontinued operations.
- ➔ Strategic investment projects are progressing according to plan, most notably the investment in a new production plant in Sweden for valeraldehyde and its derivatives 2-PH and DPHP, and an expansion of the Group's Neo production with a new plant in China, with the latter expected to start up in Q2 2013.

## Key figures in summary (continuing operations)

SEK m unless otherwise stated	Quarter 4 2012	Quarter 3 2012	Quarter 4 2011	Full year 2012	Full year 2011
Net sales	2,386	2,524	2,452	10,528	10,641
Operating earnings before depreciation (EBITDA)	201	318	224	1,401	1,484
% of net sales	8.4	12.6	9.1	13.3	13.9
EBITDA excluding non-recurring items <sup>1)</sup>	196	293	240	1,311	1,519
% of net sales	8.2	11.6	9.8	12.5	14.3
Operating earnings (EBIT)	47	155	55	763	816
% of net sales	2.0	6.1	2.2	7.3	7.7
Net earnings/loss	-165	48	-67	62	-137
Cash flow from operating activities	271	164	543	692	1,132
% of net sales	11.4	6.5	22.1	6.6	10.6

<sup>1)</sup> Non recurring items are mainly attributable to property divestment and restructuring costs.

# President comments

“As the global economic environment deteriorated throughout the year, Perstorp took bold moves to capture new growth and safeguard its leadership position in the market while ensuring stability across production, securing sustainable technical platforms and leveraging on our operational excellence.”



Martin Lundin,  
President and CEO

## Action within

Two key initiatives were fully realized in the fourth quarter, dual efforts that seek to advance Perstorp's global reach while securing a strengthened financial structure. Our newly internationalized architecture is now complete and facilitates quick, local action to harness anticipated opportunities for new growth in our select market regions.

In addition, I am proud to announce that Perstorp successfully completed a partial refinancing, issuing three tranches of notes and raising USD 1,089 million equivalent of gross proceeds. This ensures a long-term capital structure for the next five years, enabling us to focus on organic growth possibilities while delivering on our strategic business plan.

## Quarter in review

Despite the globe's macro economic headwind, Perstorp prevailed with a solid performance. Perstorp's net sales amounted to SEK 10,528 million with an EBITDA of SEK 1,401 million; both figures depict results slightly lower than last year's performance at this time.

A year-on-year comparison displays a mild 1% decrease in volumes, an inherent side-effect from our scheduled shutdown in Stenungsund.

Several of Perstorp's product portfolios performed better than last year, most notably our Formox, Caprolactones and Feed Additives businesses.

In addition, most of the products sold into Perstorp's strategic growth segments, such as radcure resins, polyurethane dispersions and PU elastomers, posted double-digit growth. Our feedblends and products related to synthetic lubricants also demonstrated healthy progression.

## Project progress

Our continued investments in the new Neo plant in China as well as the Valerox project in Sweden exemplify Perstorp's commitment to future growth despite current adverse market conditions.

The inauguration of the Neo plant is slated to occur during the first half of 2013, a highly anticipated event that will enable us to continue our focus on Perstorp's strategic growth areas. The Valerox project, with new plasticizers and acids, has progressed according to plan, with a 2015 on-stream expectation. This project is Perstorp's single largest investment in recent times.

## Safety and service

Perstorp takes pride in its relentless emphasis on safety and customer service, two aspects that are well installed in our corporate values and acknowledged by our customers.

We continue to maintain our impressive safety track record as our Lost Time Accident Rate (LTAR) reached a new historical best. In addition, our On-Time In-Full (OTIF) deliveries scored a 98% rate, another impressive and record-breaking figure for Perstorp that demonstrates our active commitment to our customers. This in turn helped harness a record-low customer complaint rate.

## Onwards

As Perstorp moves into 2013 our agile business model remains strong and fit for purpose. We are convinced that the strategic journey we initiated a few years ago is steadily steering us into the product areas, market positions and performance targets we aim to capitalize on moving forward.

Perstorp, February 2013

A handwritten signature in black ink, appearing to read 'Martin Lundin', written over a light blue horizontal line.

Martin Lundin  
President and CEO

# Market and economic conditions

The economic environment for the chemical industry was sound for Q1 of 2012 with most companies, including Perstorp, reporting healthy volumes. A welcome change to the dismal finish of 2011. Customers restocking their inventories after the year-end and some pre-buying in anticipation of price increases led to volumes well above anticipated levels and kept the momentum even though the uncertainties of the financial situation especially in Southern Europe was a bit of a wet blanket towards the end of the period.

Q2 is usually strong for many product lines (construction as well as feed and food related), but due to subdued market confidence caused by the lackluster situation in Southern Europe and the perceived slowdown in Asia and the BRIC economies, volumes did not live up to expectations.

During Q3 there was a slowdown but relatively decent levels were maintained. Throughout Q4 the market held its breath in anticipation of the fiscal cliff in the US, amongst other factors. With this being resolved, at least for the short term, reported improvements in Europe and some signals of stronger demand in Asia, customer outlooks have improved significantly and this should carry over into 2013.

Regarding raw materials, crude oil and associated commodities rose sharply in the beginning of the year. Brent crude peaked at USD 125 per barrel. Prices were expected to rise even further due to the sanctions on Iranian oil and petrochemicals. This did not materialize as OPEC and especially Saudi Arabia compensated for the loss. Oil prices fell to USD 90 in July and then rose to USD 110, which then held steady for the rest of the year.

The Iranian sanctions were more significant for methanol. Iranian methanol found new paths to Asia creating an imbalance between the regions but this difference is expected to fade out over time.

The Perstorp Group is exposed to movements in the Euro and US dollar exchange rates, since both inflows and loans primarily exist in those currencies. For the period January to December 2012, the US dollar averaged 4% higher whereas the Euro was 4% lower vs. the Swedish krona, compared to the same period last year.



# Financial overview

## Net sales

The Perstorp Group's net sales for continuing operations amounted to SEK 10,528 m in 2012, compared to SEK 10,641 m in 2011.

Volumes were slightly lower compared to last year and the volume effect on sales was -1%. After a strong start to the year, global uncertainty affected market demand in the second half of the year. Volumes were lower for product lines Penta & Formates and Oxo, while most other products managed to reach the same level as last year. A weak sales performance in Western Europe was to some extent compensated by stronger sales in Asia and North America. A planned shutdown at Perstorp's Oxo facility in Stenungsund (due every third year) was carried out during the autumn, which negatively affected product availability. The shutdown was for approximately 30 days.

The appreciation of the Swedish krona versus the Euro led to negative currency effects on sales of -1%.

## Earnings

Operating earnings before depreciation and amortization (EBITDA) for continuing operations reached SEK 1,401 m (1,484) in 2012. Excluding items affecting comparability, earnings amounted to SEK 1,311 m (1,519). The result includes negative currency effects of approximately SEK 80 m relating to both translational and transactional effects from flows in USD and Euro. The decline in earnings compared to last year has, besides lower volumes, also been driven by margin pressure related to high, fluctuating feedstock prices.

Non-comparable items included in the results relate primarily to profit from a land sale in India.

Operating earnings before interest and taxes (EBIT) were SEK 763 m (816). Depreciation was on the same level as last year. Earnings before tax amounted to SEK -83 m (-148). Net financial items have been positively affected by currency effects when revaluing financial liabilities in foreign currencies. Excluding currency effects, financial income and expenses increased slightly against last year.

Net earnings were SEK 62 m, compared to a loss of SEK 137 m last year.

Income statement, Group				
SEK m	Quarter 4		Full year	
	2012	2011	2012	2011
<i>Continuing operations</i>				
<b>Net sales</b>	<b>2,386</b>	<b>2,452</b>	<b>10,528</b>	<b>10,641</b>
Cost of goods sold	-2,163	-2,162	-9,102	-9,006
<b>Gross earnings</b>	<b>223</b>	<b>290</b>	<b>1,426</b>	<b>1,635</b>
Selling, administration and R&D costs	-212	-188	-814	-757
Other operating income and expenses <sup>1)</sup>	31	-42	148	-11
Write-down of assets	3	-5	0	-49
Result from participations in associated companies	2	0	3	-2
<b>Operating earnings (EBIT)</b>	<b>47</b>	<b>55</b>	<b>763</b>	<b>816</b>
Exchange-rate effects on net debt	-35	124	276	33
Other financial income and expenses	-358	-242	-1,052	-997
Result from participations in associated companies	-45	-	-70	-
<b>Earnings/loss before tax</b>	<b>-391</b>	<b>-63</b>	<b>-83</b>	<b>-148</b>
Tax	226	-4	145	11
<b>Net earnings/loss</b>	<b>-165</b>	<b>-67</b>	<b>62</b>	<b>-137</b>
<i>Discontinued operation</i>				
Net sales	170	1,050	2,306	4,559
Operating earnings (EBIT)	500	-381	311	-992
Earnings/loss before tax	481	-462	123	-1,238
Tax	0	5	-6	-338
<b>Net earnings/loss</b>	<b>481</b>	<b>-457</b>	<b>117</b>	<b>-1,576</b>
<i>Group, total</i>				
<b>Net sales</b>	<b>2,556</b>	<b>3,501</b>	<b>12,834</b>	<b>15,199</b>
<b>Operating earnings (EBIT)</b>	<b>547</b>	<b>-326</b>	<b>1,074</b>	<b>-177</b>
<b>Earnings/loss before tax</b>	<b>90</b>	<b>-525</b>	<b>40</b>	<b>-1,386</b>
<b>Tax</b>	<b>226</b>	<b>2</b>	<b>139</b>	<b>-327</b>
<b>Net earnings/loss</b>	<b>317</b>	<b>-523</b>	<b>179</b>	<b>-1,713</b>

Continuing operations				
<b>Operating earnings before depreciation (EBITDA)</b>	<b>201</b>	<b>224</b>	<b>1,401</b>	<b>1,484</b>
<b>EBITDA excluding non-recurring items</b>	<b>196</b>	<b>240</b>	<b>1,311</b>	<b>1,519</b>

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

Comprehensive income report, Group				
SEK m	Quarter 4		Full year	
	2012	2011	2012	2011
<b>Earnings/loss for the period</b>	<b>317</b>	<b>-523</b>	<b>179</b>	<b>-1,713</b>
<b>Other comprehensive results</b>				
Translation effects	5	-48	-4	5
Translation effects sold subsidiaries	0	0	-99	0
Market valuation of interest swaps	5	6	5	34
Market valuation of forward contracts	3	-25	-4	-50
Tax relating to other comprehensive results	-3	5	-1	4
<b>Other comprehensive results net after tax</b>	<b>10</b>	<b>-62</b>	<b>-103</b>	<b>-7</b>
<b>Comprehensive results after tax</b>	<b>327</b>	<b>-585</b>	<b>76</b>	<b>-1,720</b>
<b>Comprehensive results attributable to:</b>				
Parent company's shareholder	328	-586	73	-1,724
Non controlling interest	-1	1	3	4

# Financial position

Working capital fell during Q4, which follows the normal seasonal pattern. Compared to the same period last year, the working capital for continuing operations was somewhat higher at the end of the year, mainly related to inventory value. Working capital for the total Group at the end of 2012 amounted to SEK 1,224 m, compared to SEK 1,481 m at year-end 2011.

The divestment of the Coating Additives business, as well as a shareholder's contribution during Q2, has strengthened the financial position. Consequently, the net debt excluding parent company loans, fell during the year from SEK 10,355 m to SEK 9,111 m.

Shareholders' equity at the end of the year was SEK 1,370 m. This is SEK 392 m higher compared to the start of the year, reflecting the change in comprehensive results for the period as well as the equity injections amounting to SEK 316 m.

The figures for the same period last year include the Coating Additives business affecting comparability. This business was divested at the end of May 2012 and is accounted for as assets/liabilities held for sale as per the end of December 2011 (included in 2011's figures).

Perstorp successfully completed an issue of senior secured and second lien notes in Q4, to refinance its existing senior debt in full and partly refinance its mezzanine debt facilities. EUR 270 million and USD 380 million of senior secured notes, as well as USD 370 million of second lien notes have been raised. The notes are listed on the Luxembourg Stock Exchange as of November 15, 2012. The notes will mature in 2017 and the maturity of the remaining mezzanine facilities has also been extended to 2017. In connection with the refinancing, Perstorp's owners, PAI partners, have supported the financial position of the Group via a contribution amounting to EUR 45 million.



Balance sheet, Group		
SEK m	Dec 31, 2012	Dec 31, 2011
Tangible fixed assets	4,281	4,349
Intangible fixed assets	5,943	6,173
Financial assets	397	530
Participation in associated companies	981	44
Inventories	1,375	1,185
Other current assets	1,724	1,694
Cash & cash equivalents, incl. short-term investments	678	453
Assets held for sale	430	2,787
<b>Assets</b>	<b>15,809</b>	<b>17,215</b>
Shareholders' equity	1,370	978
Loan from Parent Company	1,271	870
Other long-term liabilities	10,651	11,287
Current liabilities	2,343	3,306
Liabilities held for sale	174	774
<b>Shareholders' equity and liabilities</b>	<b>15,809</b>	<b>17,215</b>
Working capital	1,224	1,481
Net debt	10,382	11,225
Net debt excl. Parent company owner loan	9,111	10,355
Capital employed	12,242	12,584

Shareholders' equity, Group, 2012			
SEK m	Shareholders' equity excl. non controlling interest	Non controlling interest	Total shareholders' equity
<b>Opening balance, January 1, 2012</b>	<b>954</b>	<b>24</b>	<b>978</b>
Comprehensive results for the period	73	3	76
Shareholders' contribution	299	17	316
<b>Closing balance, Dec 31, 2012</b>	<b>1,326</b>	<b>44</b>	<b>1,370</b>

Shareholders' equity, Group, 2011			
SEK m	Shareholders' equity excl. non controlling interest	Non controlling interest	Total shareholders' equity
<b>Opening balance, January 1, 2011</b>	<b>1,302</b>	<b>20</b>	<b>1,322</b>
Comprehensive results for the period	-1,724	4	-1,720
Shareholders contribution	38	-	38
Conversion of parent company loans	1,338	-	1,338
<b>Closing balance, Dec 31, 2011</b>	<b>954</b>	<b>24</b>	<b>978</b>



# Cash flow

Cash flow from operating activities for continuing operations was SEK 692 m (1,132) for full-year 2012. The lower cash flow from operating activities is due to a combination of lower earnings, higher interest payments and an increase in working capital.

Cash flow from investment activities amounted to SEK 580 m (-610). This significant increase reflects the sale of assets for both the divestment of 51% of the shares in the Coating Additives business in Q2, and the land sale in India in Q1. The main capital expenditure over the period is related to keeping investments running, the new Neo plant in China and the new valeraldehyde and

derivatives plant in Sweden. In addition, there was a shareholder's contribution of SEK 299 m during the period.

Liquid funds increased by SEK 240 m over the period and the use of credit facilities declined by SEK 1,151 m. The main portion of the proceeds from the asset disposals to PTT Global Chemical was used for amortizing senior loans.

The Group's available funds, including liquid funds and letter of credit facilities, were SEK 975 m at the end of the period, compared with SEK 1,064 m at year-end 2011.

Cash flow analysis, Group				
SEK m	Quarter 4		Full year	
	2012	2011	2012	2011
<i>Operating activities</i>				
Operating earnings	547	-326	1,074	-177
Adjustment items:				
Depreciation and write-down	-352	517	287	1,721
Other	3	54	-171	27
Interest received	4	1	5	3
Interest paid	-107	-115	-592	-520
Income tax paid	-8	-35	-52	-68
<b>Cash flow from operating activities before change in working capital</b>	<b>87</b>	<b>96</b>	<b>551</b>	<b>986</b>
<i>Changes in working capital</i>				
Increase (-) Decrease (+) in inventories	-190	92	-388	-101
Increase (-) Decrease (+) in current receivables	81	389	-296	153
Increase (+) Decrease (-) in current liabilities	400	55	300	16
<b>Cash flow from operating activities</b>	<b>378</b>	<b>632</b>	<b>167</b>	<b>1,054</b>
<i>Investing activities</i>				
Acquisition of shares in associated companies	-	-	-1	-26
Acquisition of tangible and intangible fixed assets	-237	-204	-575	-592
Sale of interest in subsidiary to non-controlling interest	-	-	1,046	-
Sale of tangible and intangible fixed assets	-	0	117	10
Change in financial assets, external	-7	-3	-7	-2
<b>Cash flow from investing activities</b>	<b>-244</b>	<b>-207</b>	<b>580</b>	<b>-610</b>
<i>Financing activities</i>				
Shareholders' contribution	-	38	299	38
Change in loan from Parent Company	345	-	345	-
Change in credit utilization	26	-155	-1,151	-423
<b>Cash flow from financing activities</b>	<b>371</b>	<b>-117</b>	<b>-507</b>	<b>-385</b>
<b>Change in liquid funds, incl. short-term investments</b>	<b>505</b>	<b>308</b>	<b>240</b>	<b>59</b>
Liquid fund opening balance, incl. short-term investments	181	143	454	395
Translation difference in liquid funds	-1	3	-9	0
<b>Liquid funds, end of period</b>	<b>685</b>	<b>454</b>	<b>685</b>	<b>454</b>

## Whereof discontinued operation

Cash flow from operating activities	107	89	-525	-78
Cash flow from investing activities	-2	-74	-65	-164
Cash flow from financing activities	-47	23	357	400
<b>Change in liquid funds, incl. short-term investments</b>	<b>58</b>	<b>38</b>	<b>-233</b>	<b>158</b>

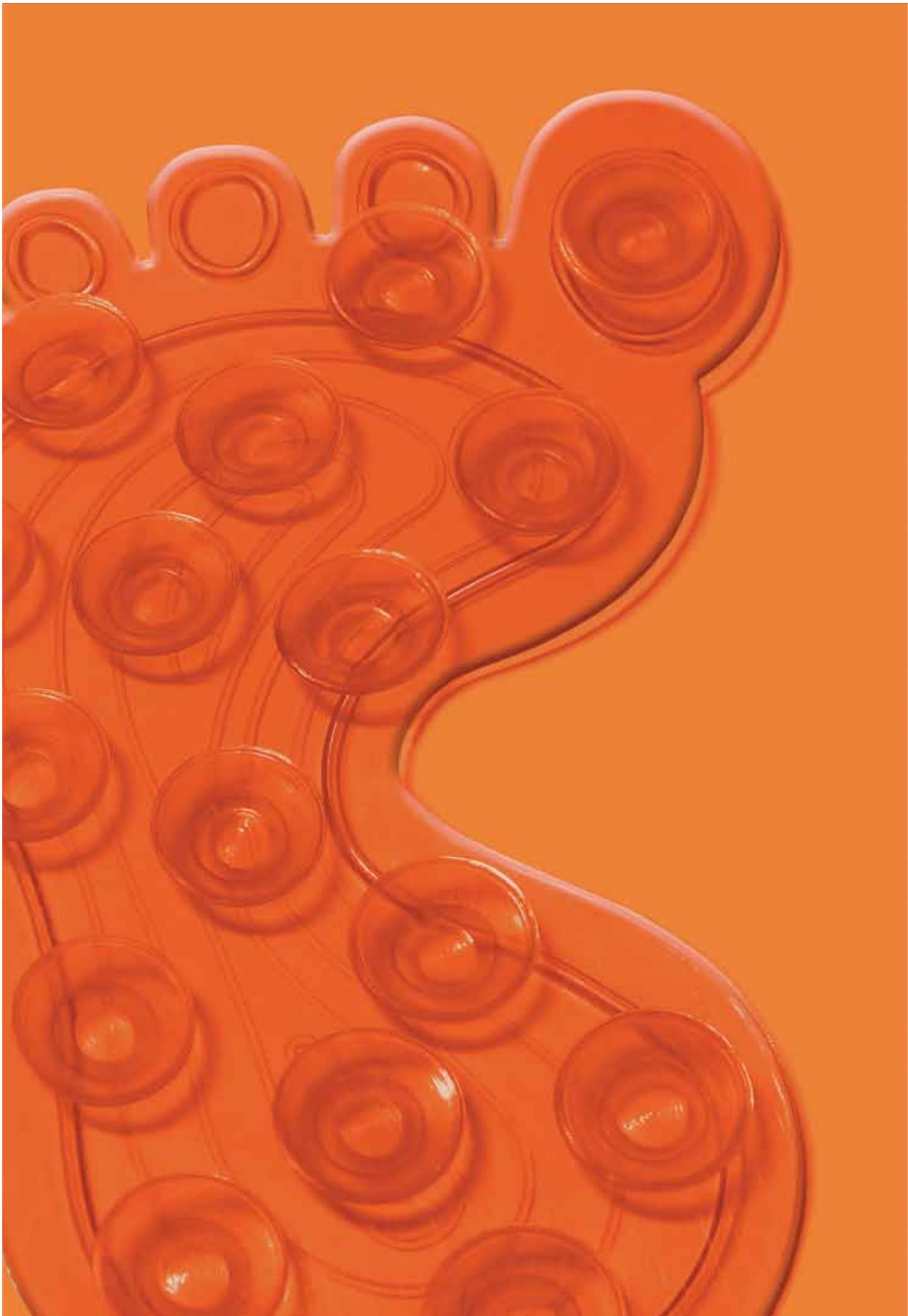
# Segment information

	Full year	
	2012	2011
<b>Net sales</b>		
Specialty Intermediates	7,180	7,317
Performance Products	3,421	3,414
Eliminations	-73	-90
<b>Total Continuing operations</b>	<b>10,528</b>	<b>10,641</b>
<b>EBITDA</b>		
Specialty Intermediates	871	1,091
Performance Products	388	449
Other/Eliminations	142 <sup>1)</sup>	-56
<b>Total Continuing operations</b>	<b>1,401</b>	<b>1,484</b>

<sup>1)</sup> Other/eliminations is mainly attributable to sale of land in India.

The group is domiciled in Sweden. The result of its revenue from external customers in Sweden is 14% (14%), and the total of revenue from external customers from other countries is 86% (86%).

No sales above 10% derived from a single external customer.



# Other

## Accounting & valuation principles

The consolidated financial statements for Perstorp Holding AB have been prepared in accordance with IAS 34, Interim Financial Reporting, and the Annual Accounts Act. The same accounting principles and calculation methods used in the interim reports were used in the annual accounts for 2011. The accounting principles of the Group and parent company are stated in Note 2 of the 2011 annual report. Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the CEO who makes strategic decisions. The agreed revision of IAS 19, Employee Benefits, applies from January 1, 2013 with a retroactive effect during 2012. This recalculation of comparative information for 2012 is accounted for as an adjustment of the opening equity taking into account tax effects. The unrecognized balance sheet items at December 31, 2012 totaled approximately SEK 143 m, with a net impact of SEK 92 m in equity.

## Segment Information

Perstorp's operations are divided into two business groups, Specialty Intermediates and Performance Products. Each business group is divided further into business units that are identified by the key chemical products produced. The Specialty Intermediates business group comprises Oxo, Penta & Formates, TMP & Neo and Formox business units, which have similar economic characteristics, chemical elements, distribution methods and customers and is centered on aldehyde production trees. The Performance Products business group comprises Caprolactones & SPPO, Performance Additives, PIA and BioProducts business units, which share fewer economic, production or customer-related characteristics. However, to facilitate and streamline overall business administration, these business units are managed as the collective Performance Products business group.

## Employees

The number of FTE (full time equivalents) in the continuing operations at the end of the period was 1,547, which is 45 more than at year-end 2011.

## Transactions with related parties

Perstorp's owner, PAI partners, have, via Financiere Foret S.a r.l., made a shareholder contribution during Q2 of EUR 34 million. In connection with the refinancing PAI partners have also, via Financiere Foret S.a r.l., supported the Group's financial position with a parent company loan amounting to EUR 45 million. The loan was SEK 1,271 m at the end of December. The annual interest rate is 10% and capitalized.

## Joint venture

On May 31, 2012, Perstorp and Thailand's largest chemical producer PTT Global Chemical, completed the formation of a joint venture, named Vencorex, dedicated to the manufacturing and sales of aromatic (TDI) and aliphatic (IPDI, HDI and derivatives) isocyanates. PTT Global Chemical (PTTGC) holds 51% of the joint venture and Perstorp 49%.

## Changes in Perstorp's Board

During Q4, Perstorp's Chairman of the Board, Lennart Holm, decided to leave his position with the Perstorp Group due to an increasing number of other assignments. He has been replaced by Fabrice Fouletier, PAI partners. New board members are Carl Settergren and Bertrand Monier.

## Risk and uncertainty

Perstorp is exposed to a number of risks and uncertainty factors, which are reviewed in the Annual Report for 2011.

## Important events after reporting period

No major events have occurred since the balance sheet date and up to the publication of this report.

## Financial information

Perstorp's financial information comprises interim reports and an annual & social responsibility report. The complete annual report is available in English and can be ordered in print format. It is also posted on the Group's website at [www.perstorp.com](http://www.perstorp.com).

Perstorp, February 2013



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. 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)