

# Perstorp Holding AB

Year-end report January 1 – December 31, 2005

{focused innovation}



# Perstorp Holding AB

Reg. No 556667-4205. Parent company of Perstorp

## Year-end report January 1 – December 31, 2005

Perstorp is an international specialty chemicals group with leading positions in selected niches. At the end of 2005, the Group was acquired by Perstorp Holding AB, which is controlled by PAI partners, a European private equity fund.

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

More information is available on our [www.perstorp.com](http://www.perstorp.com) website.

## The Group's formation

- **Takeover of the Perstorp Group through the acquisition of Sydsvenska Kemi AB (publ)**  
Perstorp Holding AB, which is controlled by PAI partners, a French private equity fund, has acquired Sydsvenska Kemi AB (publ) from Industri Kapital. The acquisition became effective at the end of December 2005, following the receipt of the requisite approvals from public authorities.
- **Financing arranged**  
The acquisition of Sydsvenska Kemi AB (publ) was financed through a combination of equity and borrowed capital. The borrowed funds consist of senior loans, second lien and mezzanine loans. The senior loans have been secured by Svenska Handelsbanken, Nordea and HSH Nordbank. The second lien and mezzanine facilities were mainly secured by Deutsche Bank and Goldman Sachs. Following year-end, the second lien and mezzanine loan were successfully syndicated to about ten financiers.
- **New Group structure**  
A new Group structure became effective at the end of 2005, whereby Perstorp Holding AB owns the operations conducted by the Perstorp Group through wholly owned holding companies in Sweden, Germany and the Netherlands.
- **Debentures in Sydsvenska Kemi AB (publ) repaid**  
Following fiscal year-end, Sydsvenska Kemi AB repaid the 2001/2011 debenture loan and trading in the debentures on Stockholm Stock Exchange ceased.

# Trend in 2005, pro forma <sup>1)</sup>

- Pro forma net sales rose 8% to SEK 6,299 m (5,849)

The fiscal year was characterized by sharp increases in raw-material prices. In turn, this led to uncertainty with respect to demand. Price levels rose by an average of 9% during the year. Volumes declined by 3%, mainly with respect to basic products and formalin projects. The exchange-rate effect was positive, 2%.

- Pro forma operating earnings before depreciation amounted to SEK 1,156 m (1,040)

The reversal of acquisition balance sheet reserves had a favorable impact of SEK 49 m on earnings, while rationalization costs of SEK 67 m were charged against earnings in 2004. For certain products, the sharply higher raw-material prices led to reduced margins, which was offset by the increased efficiency resulting from the rationalization programs in 2004 and prior years.

- Extensive capacity-enhancing investments to meet increased demand

During 2005, the Perstorp Group implemented or initiated extensive investments aimed at increasing the manufacturing capacity for several specialty chemicals products. Decisions were also made to invest in the manufacture of potassium formate and fatty acids methyl esters. As a result of the investments, the Perstorp Group is well equipped to meet anticipated growing demand for existing and new specialty chemicals products.

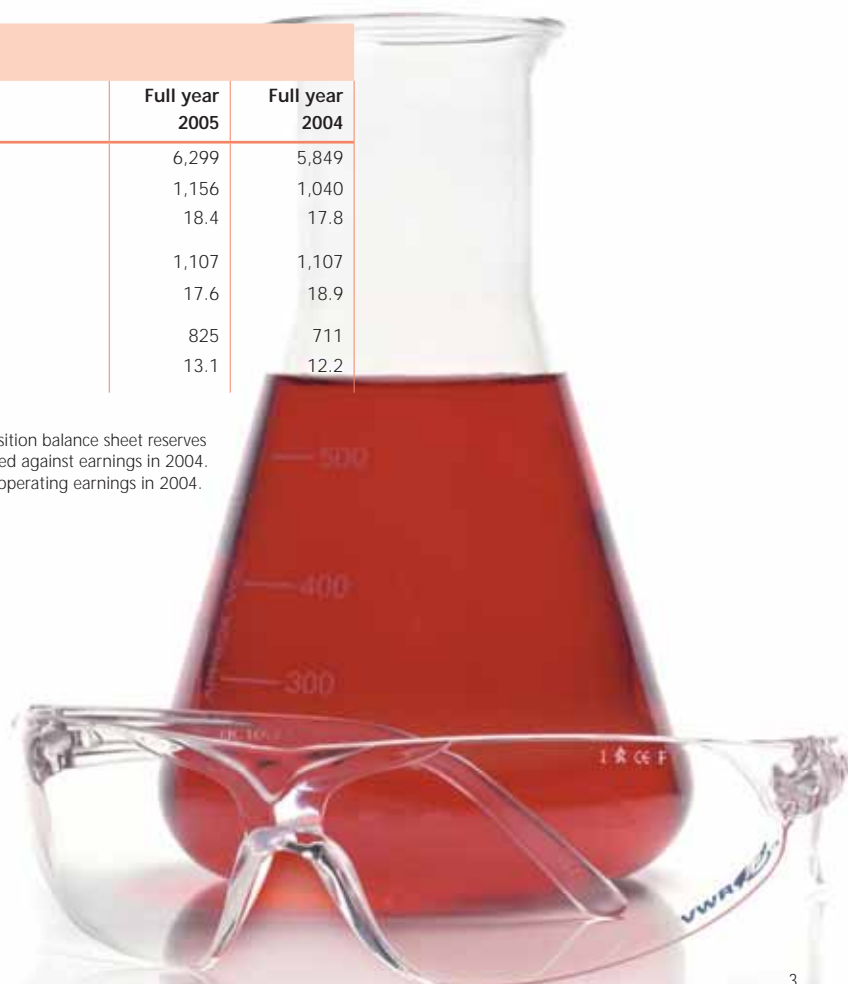
<sup>1)</sup> The Perstorp Group pro forma consists of the Group that PAI partners acquired at the end of 2005; that is excluding the operations conducted within Perstorp Compounds and Moldable Composites (Vyncolit), which were divested during the year. Franklin, an acquired operation, is included in full in the pro forma figures for both 2005 and 2004.

## Key figures in summary

SEK m unless otherwise stated	Full year 2005	Full year 2004
Net sales	6,299	5,849
Operating earnings before depreciation (EBITDA) <sup>1)</sup>	1,156	1,040
% of net sales	18.4	17.8
EBITDA adjusted for non-recurring items	1,107	1,107
% of net sales	17.6	18.9
Operating earnings (EBIT) <sup>1) 2)</sup>	825	711
% of net sales	13.1	12.2

<sup>1)</sup> Operating earnings were favorably affected by the reversal of acquisition balance sheet reserves of SEK 49 m in 2005. Rationalization costs of SEK 67 m were charged against earnings in 2004.

<sup>2)</sup> Write-down of fixed assets totaling SEK 22 m was charged against operating earnings in 2004.



# The Group's formation

Perstorp Holding AB was formed at the end of 2005 and on December 22, 2005 it acquired Sydsvenska Kemi AB (publ), the Parent Company of Perstorp since 2001. Under the new ownership, Perstorp's business operations essentially continue as before. Perstorp is an international specialty-chemicals group that operates in selected organic chemistry and polymer chemistry niches.

As a result of the change in control over Sydsvenska Kemi AB, that company's 2001/2011 debenture loan matured for repayment and payment was settled following fiscal year-end.

The acquisition of Sydsvenska Kemi AB was financed through a combination of equity and borrowed capital. The

borrowed funds consisted of three types of financing: senior loans, second lien and mezzanine facilities. The senior loans were secured by Svenska Handelsbanken, Nordea and HSH Nordbank. The second lien and mezzanine facilities were secured by Deutsche Bank, Goldman Sachs and HSH Nordbank.

After the ownership change, Perstorp's legal structure was changed. As a result, Perstorp Holding AB became the Parent Company of three holding companies: Sydsvenska Kemi AB, Perstorp Holding GmbH and Perstorp Holding B.V. In turn, Sydsvenska Kemi AB is the Parent Company of Perstorp AB.

## Market and economic conditions

The fiscal year was characterized by healthy demand, particularly during the first half. The most favorable trends were noted in South America and parts of Asia.

The prices of oil and natural gas rose additionally during the fiscal year and the price of several of the Group's raw materials, such as ethylene and propylene, were much higher than in 2004. Due to the increase in raw-material prices, Perstorp gradually implemented price increases for most of its products during the year without being able to fully offset the cost increases, which resulted in a slight decrease in overall margins.

Growth varied for Perstorp's different specialty chemicals products. The favorable trend for organic acids continued, against a backdrop of growth within such application areas as safety glass and growing demand for feed chemicals ahead of the ban on feed antibiotics that became effective in the EU on January 1, 2006. This resulted in a strong demand trend for, particularly, propionic acid. Sales of the Group's polyols were relatively stable during the year. Demand for Perstorp's catalysts was also relatively unchanged, although there were fewer deliveries of formalin plants compared with the high

level noted in 2004. On the whole, the Group's volumes were lower than in the preceding year.

Capacity utilization within Perstorp was relatively high during the year. Combined with the effects of the preceding year's comprehensive efficiency measures this contributed positively to earnings.

Compared with 2004, net sales were not significantly affected by exchange-rate effects, since the USD and EUR have appreciated in the last months of the year. Exchange-rate effects on earnings were also very limited.

## Earnings overview, pro forma

In order to illustrate the historical trend, pro forma consolidated income statements for 2005 and 2004 are reported and commented on below.

The pro forma accounts do not include the Materials Technology operations divested by Perstorp in 2005. The ope-

rations within Franklin (annual sales of approximately SEK 180 m) have been included in the pro forma figures as if the acquisition occurred at the beginning of 2004.

## Income statement, the Group, pro forma

SEK m	Full year 2005	Full year 2004
<b>Net sales</b>	<b>6,299</b>	<b>5,849</b>
Cost of sold goods	-5,066	-4,655
<b>Gross earnings</b>	<b>1,233</b>	<b>1,194</b>
Sales, administration and R&D costs	-529	-477
Other operating income and expenses <sup>1) 2)</sup>	125	-5
Amortization of intangible fixed assets	-5	-2
Income from participations in associated companies	1	1
<b>Operating earnings (EBIT) <sup>1) 2)</sup></b>	<b>825</b>	<b>711</b>
<b>Earnings before depreciation and amortization (EBITDA) <sup>1)</sup></b>	<b>1,156</b>	<b>1,040</b>

<sup>1)</sup> Operating earnings were favorably affected by the reversal of acquisition balance sheet reserves of SEK 49 m in 2005. Rationalization costs of SEK 67 m were charged against earnings in 2004.

<sup>2)</sup> Write-down of fixed assets totaling SEK 22 m was charged against operating earnings in 2004.

### Net sales

Net sales amounted to SEK 6,299 m (2004: 5,849), an increase of 8%. Exchange-rate changes accounted for 2%. Price levels were significantly higher than in 2004, +9%, while volumes were somewhat weaker, -3%.

During the past year, raw-material prices increased sharply. A doubling of crude oil prices, for example, resulted in considerable increases in the price of key raw materials, such as propylene and ethylene, as well as energy raw materials. At the same time, demand for the Group's products was favorable. The reason why volumes still declined was attributable to lower sales of formalin license projects, stockpiling in the processing chain towards the end of 2004 and the fact that the Group is pursuing a margin-based rather than a volume-based strategy for certain basic products.

### Earnings

Operating earnings before depreciation increased to SEK 1,156 m (1,040). This includes a reversal of acquisition balance sheet reserves of SEK 49 m. The preceding year included costs of SEK 67 m for rationalization programs. These items are reported together with exchange-rate effects under Other operating revenues and costs.

Accordingly, the comparable earnings were at the same level as in 2004 at SEK 1,107 m (1,107), while the comparable operating margin declined to 17.6% (18.9). The exchange-rate effect was virtually zero. The Group was able to pass virtually all of the increases in raw-material costs further along the processing chain, although with a slightly negative impact on the margin. The negative volume effect was generally offset by a more favorable product mix. The rationalization programs implemented in 2004 and prior years generated efficiency gains that offset the slightly lower margins.

Depreciation amounted to SEK 331 m (307).

### Investments

In order to meet increasing demand, Perstorp made decisions during the year concerning extensive investments in both ex-

isting and new products. Investments during the year, excluding company acquisitions, totaled SEK 594 m.

Perstorp's current investments pertain mainly to the following plants, which are predominantly based on in-house technology:

- In Perstorp, a new formic acid plant was put into operation in the fourth quarter, increasing capacity from 25,000 to 40,000 tons per year.
- Plants in Perstorp for the production of TMP and NEO polyols were expanded, with the first phases put into operation during the fourth quarter of 2005 and the remaining phases coming on line during the first half of 2006. Production of TMP at the US plant in Toledo, Ohio, was also expanded during the year. At the plant in Vapi, India, a facility for the production of di-Penta is being built and will be placed on stream during early 2006.
- In Perstorp, biofuel-based energy production was rebuilt to meet the new incineration directives that became effective at the beginning of 2006 and to enable the use of other inexpensive bio-fuels and thus gain access to competitively priced energy. An additional steam boiler intended for the destruction of liquid waste is expected to be completed by summer 2006.
- In Stenungsund, an initial increase in basic production of aldehydes was put into operation during the fourth quarter. The second stage will be implemented during the third quarter of 2006. At the same time, capacity for butanol and certain intermediaries was increased to ensure that the increased capacity for aldehydes can be utilized.
- In Stenungsund, construction commenced of a new plant for propionic acid, with annual capacity for 50,000 tons that is expected to be put into operation during spring 2006. This

rebuilding will also release capacity in the existing acid plant, to ensure that production of 2-EHA (hexanoic acid) can be increased from 50,000 to 80,000 tons annually.

- A decision was taken to invest in the production of potassium formate at the Group's production units in Perstorp and in Gent, Belgium. This investment will enhance Perstorp's world leadership in the formate market and enable annual production of 55,000 tons of potassium formate through the conversion of two existing plants. Production is scheduled to begin at the plant in Gent during the first quarter of 2006 and in Perstorp during summer 2006.
- A decision was made to commence production of the specialty polyol DMBA (di-methylolbutanoic acid), which

## Company acquisitions

Perstorp Franklin BV of the Netherlands and its subsidiaries have been consolidated in the Group since April 1, 2005. In the pro forma accounts for 2004 and 2005, however, the Franklin operations have been included in full. These operations strengthen Perstorp's position in the market for feed chemicals and reported annual sales of SEK 182 m and earnings before depreciation of SEK 25 m in 2005.

Perstorp has acquired the remaining 30% of the shares

is used for the production of environment-friendly, water-based paints and coatings, such as polyurethane dispersions for floor coatings.

- Within the framework of a cooperation agreement with Preem Petroleum AB, Perstorp is to build a plant for the production of Fatty Acids Methyl Esters (FAME) in Stenungsund, with production scheduled to commence in spring 2007. Fatty Acids Methyl Esters are used in renewable fuels.

In addition, there are a number of smaller expansionary investments in progress for plants in Germany, Italy, Belgium, the US and India.

# The Group

The new Perstorp Group was formed on December 22, 2005. The reporting of Perstorp Holding AB's acquisition of Sydsvenska Kemi AB (publ) at year-end could only be established provisionally. The definitive establishment and allocation of acquisition value will occur within 12 months of the date of acquisition.

## Consolidated balance sheet, total Group

SEK m	December 31, 2005
Intangible fixed assets	6,262
Tangible fixed assets	2,999
Financial fixed assets	757
Inventories	778
Current operating receivables	1,303
Current financial assets	215
Cash and bank balances	470
<b>Assets</b>	<b>12,784</b>
Shareholders' equity, incl. minority interest	494
Debenture loan and loans from owners	3,561
Other long-term liabilities	7,016
Current operating liabilities	1,369
Current financial liabilities	344
<b>Shareholders' equity and liabilities</b>	<b>12,784</b>
<b>Working capital</b>	<b>745</b>
<b>Net debt</b>	<b>9,625</b>
<b>Capital employed</b>	<b>10,906</b>

in Perstorp Aegis Chemicals Pvt Ltd from its Indian partner Aegis Logistics Ltd. As of June 1, 2005, the company is thus a wholly owned subsidiary, and its name has been changed to Perstorp India Chemicals Pvt Ltd. The shareholding in YLA was increased to 82%.

Perstorp has assumed legal responsibility for the research and development center at the Kilpilahti industrial area in Porvoo, Finland, which the Group previously leased from Dynea.

## Preliminary Purchase price allocation, Sydsvenska Kemi

SEK m	
<i>Purchase consideration and goodwill</i> <sup>1)</sup>	
Purchase consideration	5,807
Transaction related expenses	62
<b>Total purchase consideration</b>	<b>5,869</b>
Net assets acquired <sup>1)</sup>	306
<b>Goodwill</b> <sup>1)</sup>	<b>6,175</b>

## Assets acquired and liabilities assumed

	Book value	Fair value adjustments <sup>1)</sup>	Fair value
Intangible assets	87		87
Tangible fixed assets	2,999		2,999
Financial fixed assets	390		390
Inventory	778		778
Current operating receivables	1,301		1,301
Current financial assets	215		215
Cash and bank balances	0		0
<b>Total assets</b>	<b>5,770</b>		<b>5,770</b>
Minority	46		46
Debenture loan	1,957		1,957
Other long term liabilities	2,572		2,572
Current operating liabilities	1,357		1,357
Current financial liabilities	144		144
<b>Total liabilities and minority</b>	<b>6,076</b>		<b>6,076</b>
<b>Net assets acquired</b>	<b>-306</b>		<b>-306</b>

<sup>1)</sup> The final Purchase price allocation will be performed during 2006.

## Shareholders' equity, total Group

SEK m	Share capital	Profit/loss for the period	Total equity, before minority interest	Minority interest	Total equity, incl. minority interest
<b>Opening shareholders' equity, October 1, 2004 <sup>1)</sup></b>	<b>0,1</b>		<b>0</b>		<b>0</b>
Shareholders' contribution	457		457		457
Acquired minority				46	46
Profit/loss for the year		-9	-9		-9
<b>Closing shareholders' equity, December 31, 2005</b>	<b>457</b>	<b>-9</b>	<b>448</b>	<b>46</b>	<b>494</b>

<sup>1)</sup> The Parent Company has extended the fiscal year from October 1, 2004 to December 31, 2005.

# Key figures

## Key figures

SEK m unless otherwise stated	Full year 2005	Full year 2004
<b>Pro forma</b>		
Net sales	6,299	5,849
Operating earnings before depreciation (EBITDA)	1,156	1,040
EBITDA excl. non recurring items	1,107	1,107
Operating earnings (EBIT)	825	693
Operating margin before depreciation, %	18.4	17.8
Operating margin, %	13.1	11.8
Investments	778	165
of which acquisitions	184	0
excluding acquisitions	594	165
Depreciation/amortization	331	347
Working capital, end of period	745	602
Working capital, average	764	746
Turn over rate, working capital	8.2	7.8
Number of full-time employees, end of period	1,592	1,592
<b>Legal Group</b>		
Capital employed, end of period	10,906	n/a
Net debt, end of period	9,625	n/a
Net debt, excl. shareholder loan	8,021	n/a
Equity/assets ratio, %	4	n/a
Equity/assets ratio, incl. shareholder loan, %	16	n/a

# The Parent Company

## Income statement <sup>1)</sup>

SEK m unless otherwise stated	Full year 2005
Administration costs	-1
<b>Operating earnings/loss (EBIT)</b>	<b>-1</b>
Financial net	-11
<b>Profit/loss before taxes</b>	<b>-12</b>
Taxes	3
<b>Profit/loss for the year</b>	<b>-9</b>

## Shareholders' equity

SEK m	Share capital	Profit/loss for the period	Total, shareholders' equity
<b>Opening shareholders' equity, October 1, 2004 <sup>1)</sup></b>	<b>0.1</b>		<b>0</b>
Shareholders' contribution	457		457
Profit/loss for the year		-9	-9
<b>Closing shareholders' equity, December 31, 2005</b>	<b>457</b>	<b>-9</b>	<b>448</b>

<sup>1)</sup> The Parent Company has extended the fiscal year from October 1, 2004 to December 31, 2005.

<sup>1)</sup> The Parent Company has extended the fiscal year from October 1, 2004 to December 31, 2005.

## Balance sheet

SEK m	December 31, 2005
Shares in subsidiaries	6,141
Long-term internal financial receivables	807
Long-term external financial receivables	343
Deferred tax asset	3
<b>Long-term financial assets</b>	<b>7,294</b>
Current internal financial receivables	1
Current operating receivables	2
Cash and Bank	412
<b>Total assets</b>	<b>7,709</b>
Shareholders' equity	448
Shareholder loan	1,604
Other long-term liabilities	5,401
Short-term operating liabilities	7
Financial liabilities to related parties	249
<b>Equity and liabilities</b>	<b>7,709</b>
Working capital	2
Net debt	6,034
Capital employed	7,702

## Cash flow statement <sup>1)</sup>

SEK m	2005
<i>Operating activities</i>	
Operating earnings	-1
Cash flow from operating activities before change in working capital	-1
<u>Change in working capital</u>	
Increase (-) Decrease (+) inventories	-2
Increase (+) Decrease (-) in current receivables	0
<b>Cash flow from operating activities</b>	<b>-3</b>
<i>Investing activities</i>	
Acquisition of subsidiaries	-6,141
Change in financial receivables, subsidiaries	-808
Change in financial receivables, external	-343
<b>Cash flow from investing activities</b>	<b>-7,292</b>
<i>Financing activities</i>	
Shareholder contribution	457
New loan raised, external	5,401
New loan raised, related parties	1,600
Short-term liability, related parties	249
<b>Cash flow from financing activities</b>	<b>7,707</b>
<b>Change in liquid funds, incl. short-term investments</b>	<b>412</b>
Liquid assets opening balance, incl. short-term investments	0
Translation difference in liquid assets	-
<b>Liquid funds, end of period</b>	<b>412</b>

<sup>1)</sup> The Parent Company has extended the fiscal year from October 1, 2004 to December 31, 2005.

# Other

## Accounting and valuation principles

The consolidated accounts of Perstorp Holding AB have been prepared in accordance with International Financial Reporting Standards (IFRS). Perstorp Holding AB, which is controlled by PAI partners, a French private equity fund, has acquired Sydsvenska Kemi AB (publ) from Industri Kapital. The acquisition became effective at the end of 2005, following the receipt of the requisite approvals from public authorities. The reporting of the acquisition of operations at year-end could only be established provisionally. The definitive establishment and allocation of acquisition value will occur before the end of 2006.

## Employees

The Group had 1,592 employees at the end of the fiscal year. Geographically, 57% of the employees were located in Sweden, 17% in other European countries, 17% in Asia and 9% in the United States.

## Significant events following fiscal year-end

Following fiscal year-end, Sydsvenska Kemi AB repaid the 2001/2011 debenture loan and trading in the debentures on Stockholm Stock Exchange ceased.

Following year-end, the second lien and mezzanine loan were successfully syndicated to about ten financiers.

Perstorp, March 9, 2006

**Lennart Holm**

President and Chief Executive Officer

*The report has not been examined by Perstorp's auditors.*





## Perstorp 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 application areas.

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 Europe, North America and Asia 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.