PERSTORP UK LTD

Financial Statements for the year ended 31 December 2011

Company Registered Number: 2715398

THURSDAY
A1ICKG0H
A13 27/09/2012 #67
COMPANIES HOUSE

PERSTORP UK LTD

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2011

The directors present their report and the audited financial statements of the company for the year ended 31 December 2011

PRINCIPAL ACTIVITIES

The principal activity of the company is the manufacture and selling of chemicals and polymers The company also acts in the capacity of an agent to Perstorp group companies

REVIEW OF THE BUSINESS AND FUTURE DEVELOPMENTS

The caprolactone production platform was developed in the 1980s, first producing monomers Since then the product range has increased with polycaprolactones and thermoplastic caprolactones being produced in many different varieties In many cases, customers have co-operated in development and today Perstorp UK Ltd is the world-leader in every part of the process Caprolactones in different forms are present in applications such as adhesives, paints and lacquers as well as polyurethane elastomers such as shoe soles and vehicle components

The caprolactones business was acquired from the Belgium chemical group Solvay in January 2008, and the capacity was substantially expanded in 2011

MISSION, VISION, VALUES AND STRATEGY

Perstorp UK Ltd has adopted and conforms with the mission, vision, values and strategy of the Perstorp group Perstorp's mission is to provide sustainable solutions through innovative chemistry to the market segments that we serve Our vision is to contribute to a better, more sustainable world through innovative chemical solutions

The core values of Perstorp are focused innovation, reliability and responsibility Innovation means developing new products or finding new areas of use for existing products, developing new processes or optimising existing ones The innovation process aims to meet unfilled needs that exist in the market place and focuses on making products and processes better, cheaper, faster and with less environmental impact

The value of reliability involves making continuous improvement a part of the daily routine for every employee and Perstorp a reliable partner Perstorp seeks long-term relationships with its customers and believes that an open and honest dialogue is an important part of this

Responsibility is one of Perstorp's core values permeating through all activities This has many aspects and includes taking responsibility for staff and providing good working conditions and development opportunities for everyone, being a good employer in the local community and working for sustainable development in terms of the environment

Since 2004, the Perstorp group has participated in and supported the UN initiative Global Compact The compact sets ten principles covering human rights, the environment, working conditions and anti-corruption Perstorp develops its working practices year-on-year in line with this initiative, such as the Code of Conduct which was drawn up at the end of 2008

Perstorp's Code of Conduct covers four areas – Business Principles, Products and Environment, Working Conditions and Human Rights Particular attention is paid to rules on competition law within the EU, as there is a lot of work going on in cooperation with competitors in the framework of the REACH legislation on chemicals

Perstorp UK Ltd is the market leader in the caprolactones market and the company is seeking to expand by greater innovation and focused sales and marketing efforts in order to utilise the additional production capacity that has become available in 2011

TRADING RESULTS AND DIVIDEND

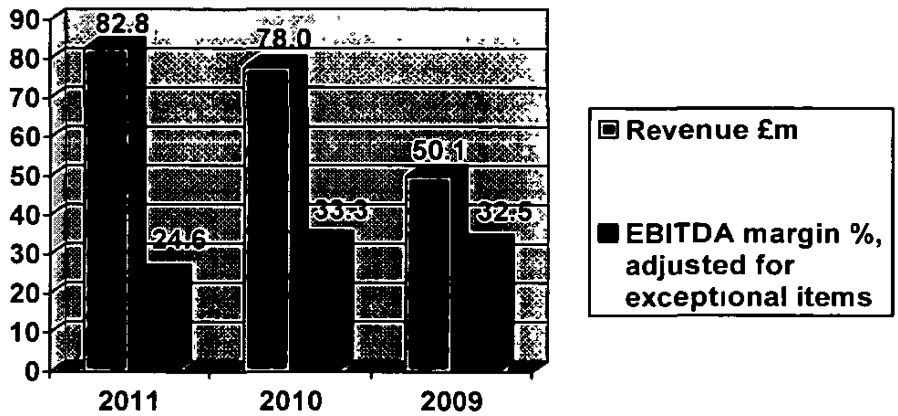
The operating profit for the year was £10,691,000 (2010 £16,900,000) and the net cash inflow for the year was £4,349,000 (2010 £3,710,000) The balance sheet has net assets of £34,525,000 (2010 £30,971,000)

The directors do not recommend payment of a dividend for the year (2010 £nil)

PERSTORP UK LTD

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2011 (CONTINUED)

KEY FIGURES DEVELOPMENT



EBITDA is the Earnings figure before the deduction of interest, tax, depreciation and amortisation The EBITDA margin is calculated as EBITDA, adjusted for exceptional items, as a percentage of Revenue

DEVELOPMENT OF EMPLOYEES

The company has a detailed process that closely analyses the future expertise requirements while ensuring that a workplace is created where the employees can thrive and deploy their talent The first stage of the process is to attract and recruit The company works on recruiting the best talents available based upon a strategic skills requirement The second stage is to review and retain, the company evaluates the profiles for managers and other functions and compares them with future skills requirements The skills gap – both for the individual and the company – is closed with the help of a business-driven development process

In the third phase the company ensures that all individuals have a development plan that derives from their desires and the company's requirements Training, mentorship and coaching is carried out to close the gap The fourth phase is redeploy and reward The company makes sure that there is a natural next step for the individual in line with the planned development and company's requirements

In the process, individual competencies, ambitions and abilities are gathered together early on so that development can be planned over a longer period and the company will seek to ensure that there is always a replacement ready for all key positions

PRINCIPAL RISKS AND UNCERTAINTIES

Access to raw materials The company has several raw materials that are key in the production process To safeguard supplies of raw materials the company has a purchasing policy that requires that supplies of critical raw materials are made by several suppliers where possible or that long-term agreements are entered into if this is not possible

Production disruptions Disruptions on the production plant may lead to a loss of earnings in the short-term if the company cannot deliver agreed volumes to customers and in the long-term if this leads to alternative products taking over for the same application Regular technical risk inspections are performed in order to minimise these risks Suitable insurance is in place in the event of disruptions

More details about risk management (including financial risk management) appear in note 3 to the accounts

DIRECTORS

The directors who have held office during the period from 1 January 2011 to the date of signing this report

A Lundin
M Olausson
J Sallén (resigned 31 December 2011)
D Turner
E Sohlberg (appointed 16 May 2012)
E Walter (appointed 13 August 2012)

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ANNUAL REPORT AND FINANCIAL STATEMENTS

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year Under that law the directors have prepared the financial statements in accordance with International Financial Reporting Standards (IFRSs) as approved by the European Union Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and accounting estimates that are reasonable and prudent,
- state whether applicable International Financial Reporting Standards (IFRSs) as approved by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006 They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

QUALIFYING THIRD PARTY AND PENSION SCHEME INDEMNITY PROVISIONS

At the time this report is approved, no qualifying third party indemnity provisions or qualifying pension scheme indemnity provisions are in place for the benefit of one or more of the directors At no time during the year were any such provisions in force for the benefit of one or more persons who were then directors

EMPLOYEES

The number of employees at the end of the year was 86 (2010 82) This total comprised 74 males and 12 females all of whom were employed in the UK

THE ENVIRONMENT

The company works proactively to develop and improve its products and processes and has targets for safety, health and the environment Environmental targets focus on use of energy and water

The production of the company affects the environment through emissions in air and water and through the generation of waste and noise The company follows national and local requirements relating to the environment The company also ensures that it complies with the REACH registration requirements for the chemical industry

The Perstorp group produces a sustainability report with the consolidated financial statements The consolidated financial statements of the group are available to the public and may be obtained from Perstorp Holding AB, Perstorp S-284 80, Sweden or from the group website www perstorp com

CREDITOR PAYMENT POLICY

The company does not follow a universal code which deals specifically with payments to suppliers but, where appropriate, the company's practice is to

a) agree the terms at the start of business with the supplier,
b) ensure that those suppliers are made aware of the terms of payment, and
c) pay in accordance with its contractual and other legal obligations

Trade creditors at 31 December 2011 were equivalent to 53 days (2010 54 days) of purchases (including capital expenditure) during the year ended on that date

DISCLOSURE OF INFORMATION TO AUDITORS

Each of the persons who is a director at the date of approval of this report confirms that

- so far as each director is aware, there is no relevant audit information of which the company's auditors are unaware, and
- each director has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the company's auditors are aware of that information

This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006

ON BEHALF OF THE BOARD

Elin Sohlberg
Managing Director
21 September 2012

Company Registered Number 2715398

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF PERSTORP UK LTD

We have audited the financial statements of Perstorp UK Ltd for the year ended 31 December 2011 which comprise the Income statement, Statement of comprehensive income, Balance sheet, Statement of changes in equity, Cash flow statement and the related notes The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union

Respective responsibilities of directors and auditors
As explained more fully in the statement of Directors' responsibilities set out on page 3, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing

Scope of the audit of the financial statements
An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error This includes an assessment of whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements In addition, we read all the financial and non-financial information in the Directors' Report to identify material inconsistencies with the audited financial statements If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report

Opinion on financial statements
In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2011 and of its profit and cash flows for the year then ended,
- have been properly prepared in accordance with IFRSs as adopted by the European Union, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006
In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit

PricewaterhouseCoopers LLP
Martin Heath (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Manchester
21 September 2012

PERSTORP UK LTD

Income statement
for the year ended 31 December

Continuing operations	Note	2011 £'000	2010 £'000
Revenue	4	**82,831**	78,016
Cost of sales		**(50,732)**	(41,944)
Gross profit		**32,099**	36,072
Distribution costs			
Excluding exceptional items		**(17,928)**	(17,099)
Exceptional items	9	-	(137)
Distribution costs including exceptional items		**(17,928)**	(17,236)
Administration expenses		**(3,534)**	(2,484)
Other income	6	**54**	548
Operating profit		**10,691**	16,900
Finance income	7	**421**	805
Finance costs	8	**(6,335)**	(6,034)
Profit before income tax	5	**4,777**	11,671
Income tax expense	10	**(1,223)**	(3,044)
Profit for the year attributable to the owners of the parent		**3,554**	8,627

Statement of comprehensive income
for the year ended 31 December

	2011 £'000	2010 £'000
Profit for the year	**3,554**	8,627
Total comprehensive income for the year attributable to the owners of the parent	**3,554**	8,627

The annexed notes form part of these financial statements

Balance sheet as at 31 December

	Note	2011 £'000	2010 £'000
Assets			
Non-current assets			
Property, plant, and equipment	11	**73,469**	67,724
Goodwill	12	**26,186**	26,186
Customer relations	12	**16,329**	18,684
Non-compete agreement	12	**7,704**	11,402
REACH costs	12	**151**	-
Deferred income tax assets	13	**5,724**	5,000
Total non-current assets		**129,563**	128,996
Current assets			
Inventories	14	**6,304**	2,527
Trade and other receivables	15	**12,819**	14,075
Cash and cash equivalents	25	**9,326**	5,151
Total current assets		**28,449**	21,753
Liabilities			
Current liabilities			
Trade and other payables	16	**(12,490)**	(15,678)
Current income tax liabilities		**-**	(142)
Borrowings	17	**(34,034)**	(23,271)
Total current liabilities		**(46,524)**	(39,091)
Net current liabilities		**(18,075)**	(17,338)
Non-current liabilities			
Borrowings	17	**(69,722)**	(75,393)
Deferred income tax liabilities	13	**(7,241)**	(5,294)
Total non-current liabilities		**(76,963)**	(80,687)
Net assets		**34,525**	30,971
Equity attributable to owners of the parent			
Ordinary shares	18	**29,702**	29,702
Retained earnings		**4,823**	1,269
Total equity		**34,525**	30,971

The financial statements on pages 6 to 25 were authorised for issue by the board of directors on 21 September 2012 and were signed on its behalf

Elin Sohlberg
Managing Director
Perstorp UK Ltd

Company Registered Number 2715398

The annexed notes on pages 9 to 25 form part of these financial statements

Statement of changes in equity

	Share capital £'000	(Accumulated deficit) / retained earnings £'000	Total equity £'000
At 1 January 2010	29,702	(7,358)	22,344
Profit for the financial year	-	8,627	8,627
At 31 December 2010	29,702	1,269	30,971
Profit for the financial year	-	3,554	3,554
At 31 December 2011	**29,702**	**4,823**	**34,525**

Cash flow statement

for the year ended 31 December

	Note	2011 £'000	2010 £'000
Cash flows from operating activities			
Cash generated from operations	24	**14,999**	28,246
Interest paid		**(4,143)**	(4,223)
Interest received		**26**	98
Income tax paid		**(142)**	-
Net cash generated from operating activities		**10,740**	24,121
Cash flows from investing activities			
Purchase of property, plant and equipment		**(10,346)**	(25,163)
Proceeds from the sale of property, plant and equipment		**-**	14
Net cash used in investing activities		**(10,346)**	(25,149)
Cash flows from financing activities			
Proceeds from loan borrowings net of capitalised borrowing costs		**6,846**	8,000
Repayments of loan borrowings		**(2,891)**	(3,262)
Net cash generated from financing activities		**3,955**	4,738
Net increase in cash and cash equivalents		**4,349**	3,710
Cash and cash equivalents at beginning of the year		**5,151**	1,680
Exchange losses on cash and cash equivalents		**(174)**	(239)
Cash and cash equivalents at end of the year	25	**9,326**	5,151

NOTES TO THE ACCOUNTS - 31 DECEMBER 2011

Perstorp UK Ltd is a limited liability company, incorporated in the United Kingdom and registered in England and Wales The company's registered address is Baronet Road, Warrington, Cheshire WA4 6HA

1 Statement of accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out below These policies have been consistently applied to all the years presented, unless otherwise stated

1 1 Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and International Financial Reporting Interpretation Committee (IFRIC) interpretations as approved by the European Union, and the Companies Act 2006 applicable to companies reporting under IFRS The financial statements have been prepared on the going concern basis under the historical cost convention

The preparation of financial statements in conformity with IFRSs requires the use of a number of important accounting estimates It also requires management to exercise its judgement in the process of applying the company's accounting policies The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 2

Standards (IAS / IFRS), changes and interpretations (IFRIC) now in effect that are applicable for the 2011 financial year and are applied by the company

1 2 Segment reporting

To a great extent, the specialty chemicals operations are integrated both horizontally and vertically Virtually all products sold to customers at this level are far removed from the end customers in the form of automakers, coatings producers and so forth The same product can often be used for a wide spectrum of different applications Accordingly there is no natural reason to divide the specialty chemicals operations into different segments

At present there is no formal requirement for companies whose stocks are not subject to general trading to follow IFRS/IAS This factor, together with the lack of a natural basis for dividing segments in accordance with IFRS 8 means that the company has chosen to exclude this information

1 3 Intangible assets

Goodwill comprises the amount by which the acquisition value exceeds the fair value at the date of acquisition of the identifiable net assets acquired Goodwill is reported as an intangible asset Goodwill is tested annually in order to identify impairment requirements Impairment of goodwill is not recovered

A fair value for customer relations has been established in connection with the acquisition of the Solvay Caprolactones business in January 2008

A fair value for the non-compete agreement has been established in connection with the acquisition of the Solvay Caprolactones business in January 2008

The costs of the REACH registration of the company's products have been identified as an intangible asset and capitalised accordingly (see note 12)

Intangible assets (excluding goodwill) are reported at their acquisition value less accumulated amortisation The acquisition value is linearly amortised in order to divide the cost over the life span of the intangible asset which have been determined to be

Customer relations	9-11 years
Non-compete agreement	6 years
REACH costs	20 years

Assets with an indeterminate useful life, such as goodwill, are not depreciated or amortised but are subject to annual testing of impairment requirements Assets with a determined useful life are assessed for a reduction in value whenever events or changes in conditions indicate that the book value may not be recoverable Impairment is recognised in the amount by which the asset's book value exceeds its recoverable value and it will be immediately reported as a cost Impairment is never recovered for goodwill

NOTES TO THE ACCOUNTS - 31 DECEMBER 2011 (CONTINUED)

1 4 Property, plant and equipment

Property, plant and equipment is reported at cost less accumulated depreciation The cost includes expenses that are directly attributable to the acquisition of the asset Additional costs are added to the asset's reported value or are reported as a separate asset, depending upon which is appropriate, but only if it is probable that the future economic benefits associated with the asset accrue to the company and the cost can be measured reliably All other forms of expenses for repair and maintenance are reported as costs in the income statement during the period they arise

Borrowing costs attributable to acquisitions of fixed assets that take a significant amount of time to complete are capitalised for any such acquisitions that have commenced since 1 January 2009

Straight line depreciation is applied based on the asset's acquisition value and estimated useful life The following depreciation periods are used

Buildings	20-50 years
Plant and equipment	5-40 years
Land is not depreciated	

The residual value and useful life of assets are reviewed and adjusted if appropriate at each balance sheet date Assets are impairment tested when external or internal circumstances dictate such impairment testing, and are adjusted as necessary An asset's book value is immediately impaired to its recoverable amount if the asset's book value exceeds its estimated recoverable amount

Gains and losses on divestment are determined by comparing the sales proceeds and the book value and are reported in the income statement under the headings of other operating income or other operating expenses

1 5 Inventories

Raw materials, supplies and goods purchased for resale are valued at purchase cost Finished goods are valued at the cost of production The cost of production comprises the direct cost of materials, direct manufacturing expenses, appropriate allocations of material and manufacturing overheads, and an appropriate share of the depreciation and write-downs of assets used for production It includes the share of expenses for company pension plans and discretionary employee benefits that are attributable to production Administrative costs are included where they are attributable to production Inventories are valued using the weighted-average cost method Costs and overheads allocated are based on normal operating activity

If the purchase or production cost is higher than the net realisable value, inventories are written down to net realisable value Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses

1 6 Taxation

Reported taxes in the income statement include current tax, adjustment of prior year current tax and changes in deferred tax The calculation of tax and the assessment of all current and deferred tax liabilities and receivables are made in accordance with the UK tax regulations and tax rates that have been decided or that with a great deal of certainty will be determined and apply when the tax is to be paid

Deferred income tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit and is accounted for using the balance sheet liability method Deferred tax assets are only reported when it is probable that future taxable profit will be available against which the temporary differences can be utilised

1 7 Foreign currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates ("the functional currency") The financial statements are presented in Sterling (£'000s) which is the company's functional and presentation currency

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement

NOTES TO THE ACCOUNTS - 31 DECEMBER 2011 (CONTINUED)

1 7 Foreign currency (continued)

Changes in the fair value of monetary securities denominated in foreign currency classified as available for sale are analysed between translation differences resulting from changes in the amortised cost of the security, and other changes in the carrying amount of the security Translation differences are recognised in profit or loss, and other changes in carrying amount are recognised in equity Translation differences on non-monetary financial assets and liabilities are reported as part of the fair value gain or loss

1 8 Revenue recognition

Revenue from the sales of goods is reported in accordance with sales terms and thereby in the period when all significant risks and benefits attributable to the goods are transferred to the purchaser in accordance with the sales agreement

Reported revenue is the fair value of what has been received or will be received for sold goods and services within the company's business with deductions for VAT, discounts and returns Revenue per category is reported as follows

- Sales of goods are reported upon delivery to the customer in accordance with sales terms and thereby in the period when all significant risks and benefits attributable to the goods are transferred to the purchaser in accordance with the agreement,

- Commissions due from related parties and sales of services to related parties are recognised on an accruals basis in accordance with the substance of the relevant agreements, and

- Interest income is recognised as revenue distributed over the contract term using the effective interest method

1 9 Leased assets

Assets held under finance leases where substantially all the benefits and risks of ownership are transferred to the company, are capitalised as property, plant and equipment in the balance sheet and are depreciated over the useful economic life of the asset or the term of the lease, which ever is shorter The interest element of the rental obligations is charged to the profit and loss account over the period of the lease and represents a constant proportion of the balance of capital repayments outstanding

Rentals in respect of operating leases, under which substantially all the benefits and risks of ownership remain with the lessors, are charged to the profit and loss account on a straight line basis over the period of the lease

1 10 Pension costs

The company has defined-contribution pension plans The characteristic of a defined-contribution pension plan is that the company pays a fixed contribution to a separate legal entity After the premium is paid the company has no other legal or informal obligations to pay additional amounts Therefore there are no provisions or contingent liabilities in the balance sheet for the pension plans

1 11 Remuneration for redundancy

Remuneration is paid for redundancy when an employee's employment is terminated before normal retirement or when the employee accepts voluntary redundancy The company reports severance pay when a formal plan is presented or an offer is made and an obligation or legal undertaking is created

1 12 Trade receivables

Trade receivables are reported at fair value Trade receivables are normally reported at their original fair value when the effect of discounting is considered to be marginal When an assessment is made by the company that a receivable will not be paid then a provision is made The size of the provision is calculated as the difference between the asset's reported value and the estimated future cash flows The effect of a reported loss and possible recovery amount of previously written down receivables is returned to the income statement

1 13 Trade payables

Trade payables are reported at fair value

1 14 Borrowings

Borrowings are reported at fair value, net of transactions costs Borrowing expenses are reported in the income statement based upon the period to which they relate, including borrowing costs Borrowings are classified as interest-bearing long-term or short-term liabilities in the balance sheets depending upon the due date Borrowing costs are not capitalised

1 15 Share capital

Ordinary share capital is treated as equity Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction from the proceeds

1 16 Fair value estimation

Fair value is defined as the amount for which an asset could be exchanged or a liability settled between knowledgeable willing parties in an arm's length transaction Due to the specialised nature of the property plant and equipment of the company there is no means of ascertaining a market value for these assets and therefore the fair value as at the date of purchase of the business has been calculated on a depreciated replacement cost basis When a financial instrument is traded on active markets the fair value of that financial instrument is based on listed market prices on the closing date of the financial statements The current external borrowings of the company are not subject to organised trading and therefore an objective market assessment is not possible

1 17 Cash and cash equivalents

Cash and cash equivalents include cash and bank balances and other short-term investments maturing within three months and that can easily be converted into cash

1 18 Exceptional items

Exceptional items are material items that derive from events or transactions that fall outside of the ordinary activities of the company Materiality is determined by the size or incidence of the item Exceptional items are disclosed separately in the income statement

2 Significant estimates and judgements made for accounting purposes

To an extent, the financial statements are based on estimates and judgements about the future trend In turn, these judgements are based on historical experience and different assumptions that are considered to be reasonable in current circumstances Reported values may have another actual outcome if other assumptions are made or circumstances change

The following particular areas can be distinguished where estimates and judgements are of importance to the amounts entered in the financial statements and changes can have a significant effect on the company's earnings and financial position

Impairment testing of goodwill Impairment testing is currently performed annually through analysis of the recovery value for the company which is viewed in whole as one cash-generating unit The calculation is based on an estimate of future cash flow, in accordance with financial five-year plans that have been approved by management A number of important assumptions are used in this analysis and they are disclosed in note 12

Market value of assets acquired The company performed a fair value calculation of the property, plant and equipment that were acquired with the purchase of the activities of the Solvay Caprolactones business The valuation was performed on a depreciated replacement cost basis as is appropriate for the chemicals industry and the valuation contained a number of estimates and judgements regarding the current replacement cost of the plant and equipment and the remaining useful life of that plant and equipment

Valuation of tax-loss carry-forwards The valuation of tax-loss carry-forwards in the company is based on an assessment that it will be possible to utilise these carry-forwards in the foreseeable future based upon the future anticipated earnings capability

The financial statements of the company are based on the going-concern principle, which is also reflected in how any environmental liabilities are assessed The company complies with decisions by public authorities and conducts measures both proactively to prevent environmental damage and reactively in the event that environmental disturbances occur

NOTES TO THE ACCOUNTS - 31 DECEMBER 2011 (CONTINUED)

3 Risk Management

3 1 Financial Risk

The company faces a number of financial risk factors, currency risk, financing risk, liquidity risk, interest rate risk and counter-party risk The financial risks for the company are managed within a group-wide financial risk framework

3 1 1 Currency risk

The currency risk is the risk that the company's earnings and net assets will be adversely affected by fluctuations in exchange rates Within the Perstorp group currency risk is managed on a group-wide basis and the group manages its currency risk by concentrating borrowing to the USD and EUR currencies as these are the two significant currencies for flows of earnings for the group

Sensitivity of 2012 forecast operating profit to 1% increase in the strength of Sterling	Loss of Operating profit £'000
USD cash flows	210
EUR cash flows	363

3 1 2 Financing risk

The financing risk is the risk that the re-financing of loans will be impeded or become costly The financing of the company falls within the Perstorp group financing facility The Perstorp group's main financing consists of senior loans that have been guaranteed by Svenska Handelsbanken, Nordea, DNB and HSH Nordbank and also second liens and mezzanine facilities that were syndicated to over 20 financiers in 2006 These loan agreements have terms of seven to eight years and stipulate financial covenants pertaining to the fulfilment of key indicators in terms of net debt in relation to EBITDA, and EBITDA in relation to interest payments During 2011 new capital was added into the group from the parent company in Luxembourg, Financiere Foret S A R L

During 2010 the company has increased borrowings from related parties within the group to partly finance the capital spend on the project to double the capacity for caprolactone production The remainder of the capital spend was financed by net inflows from trading by the company during the year

3 1 3 Liquidity risk

Liquidity risk is managed by checking that the company has sufficient liquid funds as part of the group's agreed credit facilities Both company and group management closely monitor liquidity forecasts The table below analyses the financial instruments of the company by the time remaining from the balance sheet date up to the agreed due date

Maturity analysis for financial instruments	0-1 yrs £'000	1-2 yrs £'000	2-5yrs £'000
Bank borrowings	6,969	70,143	-
Borrowings from related parties	28,597	-	-
Trade payables	8,821	-	-

3 1 4 Interest rate risk

The interest rate risk is the risk that an increase in market interest rates will have an adverse impact on earnings The table below shows the sensitivity of earnings to an increase in the interest rate

Sensitivity to 1% increase in the interest rate	Additional Interest cost £'000
Interest payable on loans denominated in USD	492
Interest payable on loans denominated in EUR	346
Interest payable on loans denominated in GBP	202

3 1 5 Counterparty risk

Counterparty risk relates to the credit risk that might arise when a counterparty cannot fulfil its commitments and thus causes a financial loss to the company The company has a set credit control policy, the main purpose of which is to prevent credit risks and minimise bad debt losses The credit policy sets a framework for how to approve credit, who has responsibility and how deliveries may be approved in the event of a limit being exceeded or of a customer having credit that falls due for payment Internal guidelines also include procedures for monitoring outstanding receivables before and after the maturity date depending upon materiality and the individual customer's risk profile

3 2 Operational risk

3 2 1 Access to raw materials

To secure delivery of raw materials and spread the risks the company operates a purchasing policy which requires that procurement of the most critical raw materials is made from several suppliers where possible Procurement is secured through long-term delivery agreements The company operates in the global chemicals market with suppliers who meet the highest environmental and safety requirements, but as far as possible the company aims to minimise transport by buying in local markets

3 2 2 Production disruptions

Disruptions in the company's plants can result in a loss of income, in the short term because the company cannot deliver expected volumes to customers and in the long term because it may lead to alternative products being used for the same application Regular technical inspections are made of equipment to reduce the risk of a disruption and regular maintenance programmes are performed to reduce the risk of equipment deteriorating beyond use Through the group function the company ensures that it has comprehensive insurance coverage in case of an unforeseen event

3 3 Capital risk management

The company's objectives when managing capital are to safeguard the company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital In order to maintain or adjust the capital structure, the company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt

NOTES TO THE ACCOUNTS - 31 DECEMBER 2011 (CONTINUED)

4 Revenue and costs

Sales divided by type	2011 £'000	2010 £'000
Net external sales of goods	**55,236**	52,617
Sales of goods to related parties	**27,595**	25,399
Total revenue	**82,831**	78,016

Costs divided by type	2011 £'000	2010 £'000
Raw materials, goods for sale, energy, transport and packaging costs	**46,661**	38,937
Other external costs	**16,861**	15,109
Employee benefits (note 19)	**5,027**	4,579
Depreciation	**3,606**	2,902
Exceptional items (note 9)	**39**	137
Total costs	**72,194**	61,664

5 Profit before income tax

	2011 £'000	2010 £'000
Profit before income tax is stated after charging		
Depreciation of owned property plant and equipment	**3,606**	2,902
Staff costs (note 19)	**5,027**	4,579
Amortisation of intangible assets (included within distribution costs, note 12)	**6,055**	6,053
Auditors' remuneration for audit services – UK	**30**	33
Operating lease rentals		
Land and buildings	**146**	146
Plant and machinery	**53**	40

The Auditor received remuneration for taxation services during 2010 which was borne by the parent company, Perstorp AB No remuneration was paid to the Auditor during 2011 for non audit services

6 Other income

	2011 £'000	2010 £'000
Foreign exchange gains on operational transactions	**54**	486
Commissions receivable from related parties	**-**	62
	54	548

7 Finance income

	2011 £'000	2010 £'000
Gains on translation of foreign currency denominated loans	**395**	707
Bank interest receivable	**26**	22
Refund of bank commission payable on foreign exchange contracts	**-**	76
	421	805

NOTES TO THE ACCOUNTS - 31 DECEMBER 2011 (CONTINUED)

8 Finance costs

	2011 £'000	2010 £'000
Interest on bank borrowings	(3,438)	(3,551)
Interest on loans from related parties	(1,240)	(712)
Losses on translation of foreign currency bank balances	-	(239)
Amortisation of capitalised financing costs	(1,532)	(1,532)
Commission payable on foreign exchange contracts and deferral fees	(122)	-
Other interest payable	(3)	-
	(6,335)	(6,034)

9 Exceptional items

	2011 £'000	2010 £'000
Exceptional items included in the income statement are		
Restructuring costs (included within distribution costs)	-	(77)
Costs arising from cessation of agency agreement (included within distribution costs)	-	(60)
	-	(137)

10 Income tax expense

Analysis of charge for the year all relating to continuing operations	2011 £'000	2010 £'000
Current tax		
Current tax on profits for the year	-	-
	-	-
Deferred income tax (note 13)		
Current year	1,242	3,124
Prior year adjustment	3	(69)
Change in Corporation tax applicable to deferred tax	(22)	(11)
Income tax expense	1,223	3,044

The tax assessed for the period is lower than the standard rate of corporation tax in the UK (26 5%) (2010 28%) The differences are explained below

	2011 £'000	2010 £'000
Profit before income tax	4,777	11,671
Profit multiplied by standard rate of corporation tax in the UK of 26 5% (2010 28%)	1,266	3,268
Effects of		
Non-deductible expenses	5	6
Capital expenditure deferred for capital allowances	45	-
Capital allowances claimed in respect of additions in previous period	-	(150)
Adjustment in respect of prior periods	3	(69)
Difference between the tax rate in the period and the year end deferred tax rate	(96)	(11)
Tax charge	1,223	3,044

PERSTORP UK LTD

NOTES TO THE ACCOUNTS - 31 DECEMBER 2011 (CONTINUED)

11 Property, plant and equipment

	Land £'000	Buildings £'000	Plant and equipment £'000	Total £'000
Cost At 1 January 2011	1,187	2,500	72,809	76,496
Additions	-	-	9,351	9,351
At 31 December 2011	**1,187**	**2,500**	**82,160**	**85,847**
Accumulated depreciation At 1 January 2011	-	607	8,165	8,772
Charge for the year	-	205	3,401	3,606
At 31 December 2011	-	**812**	**11,566**	**12,378**
Net book value **At 31 December 2011**	**1,187**	**1,688**	**70,594**	**73,469**
At 1 January 2011	1,187	1,893	64,644	67,724

The cost of fixed assets above includes assets held under finance leases (within plant and equipment) amounting to £Nil (2010 £Nil)

No borrowing costs have been capitalised on additions in 2011 and 2010

Depreciation has been charged in the income statement as follows

	2011 £'000	2010 £'000
Cost of goods sold	**3,606**	2,092
	3,606	2,902

NOTES TO THE ACCOUNTS - 31 DECEMBER 2011 (CONTINUED)

12 Intangible assets

	Goodwill £'000	Customer relations £'000	Non-compete agreement £'000	REACH £'000	Total £'000
Cost At 1 January 2011	26,186	25,551	22,189	-	73,926
Additions	-	-	-	153	153
At 31 December 2011	**26,186**	**25,551**	**22,189**	**153**	**74,079**
Accumulated amortisation At 1 January 2011	-	6,867	10,787	-	17,654
Charge for the year	-	2,355	3,698	2	6,055
At 31 December 2011	**-**	**9,222**	**14,485**	**2**	**23,709**
Net book value **At 31 December 2011**	**26,186**	**16,329**	**7,704**	**151**	**50,370**
At 1 January 2011	26,186	18,684	11,402	-	56,272

The cost of amortisation of Intangible assets for the year of £6,055,000 (2010 £6,053,000) has been included within selling and distribution costs in the income statement

Following the acquisition of the Solvay Caprolactones business in January 2008, a fair value was established for both the customer relations of the Capolactones business and a non-compete agreement with the Solvay group Both of these intangible assets are amortised on a straight-line basis over a period of 9-11 years for customer relations and 6 years for the non-compete agreement

During the year the company has capitalised costs of £153,000 directly related to the REACH registration of the company's products REACH stands for Registration Evaluation Authorization and Restriction of Chemicals All substances that are used within the EU must be registered and evaluated from toxicological and eco- toxicological standpoints The costs are being amortised over a 20 year period which has been decided taking into account the technological and commercial life cycles of the chemical substance and the related products of the company

Management considers that the company as a whole should be regarded as a cash-generating unit as it has only one manufacturing site and produces only one category of product, caprolactones This is consistent with the group financial statements which view caprolactones as one cash-generating unit

The recoverable amount for the cash-generating unit has been established on the basis of a calculation of value in use The calculation is based on an estimate of future cash flow, in accordance with financial five-year plans that have been approved by management Cash flows beyond this five-year period are extrapolated using an estimated growth rate of 2% The discount interest rate used for the calculation is 10 5% after tax The sensitivity analysis did not produce an impairment requirement

13 Deferred income tax assets and liabilities

Recognised deferred tax assets and liabilities	Assets		Liabilities	
	2011 £'000	2010 £'000	**2011 £'000**	2010 £'000
Property plant and equipment	-	-	**(6,193)**	(4,445)
Intangibles	-	-	**(1,048)**	(849)
Losses	**5,724**	5,000		-
	5,724	5,000	**(7,241)**	(5,294)

PERSTORP UK LTD

NOTES TO THE ACCOUNTS - 31 DECEMBER 2011 (CONTINUED)

13 **Deferred income tax assets and liabilities** (continued)

Movement in deferred tax during the year	1 January 2011 £'000	Recognised in income £'000	31December 2011 £'000
Property plant and equipment	(4,445)	(1,748)	(6,193)
Intangibles	(849)	(199)	(1,048)
Losses	5,000	724	5,724
	(294)	**(1,223)**	**(1,517)**

Movement in deferred tax during the previous year	1 January 2010 £'000	Recognised in income £'000	31December 2010 £'000
Property plant and equipment	(2,139)	(2,306)	(4,445)
Intangibles	(588)	(261)	(849)
Losses	5,477	(477)	5,000
	2,750	**(3,044)**	**(294)**

The value of unutilised tax loss carryforwards is capitalised where it is expected that the carryforwards will be utilised in the foreseeable future due to taxable profits being earned

14 **Inventories**

	2011 £'000	2010 £'000
Raw materials and consumables	**2,199**	1,317
Finished goods and goods for resale	**4,688**	1,659
Less provision for impairment of inventories	**(583)**	(449)
At 31 December	**6,304**	2,527

The amount of inventories included in cost of sales amounted to £39,435,000 (2010 £29,564,000)

The movement on the inventory impairment reserve during the year impacts upon the earnings for the year in the income statement

15 **Trade and other receivables**

	2011 £'000	2010 £'000
Trade receivables	**7,235**	8,017
Less provision for impairment of trade receivables	**(117)**	(111)
Trade receivables – net	**7,118**	7,906
Prepayments	**91**	101
Receivables from related parties (note 22)	**5,016**	5,026
Other receivables	**594**	1,042
At 31 December	**12,819**	14,075

15 **Trade and other receivables** (continued)

Analysis of trade receivables	**2011 £'000**	2010 £'000
Not due receivables	**6,517**	7,400
Due receivables		
1-10 days	**475**	125
11-30 days	**224**	212
31-60 days	**11**	265
61-90 days	**-**	3
91-180 days	**-**	5
Over 180 days	**8**	7
Total trade receivables	**7,235**	8,017

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above The company does not hold any collateral as security

The fair values of trade and other receivables do not differ from the values shown above

16 **Trade and other payables**

	2011 £'000	2010 £'000
Trade payables	**8,821**	10,997
Amounts due to related parties (note 22)	**2,149**	2,372
Other tax and social security	**127**	131
Accrued expenses	**1,393**	2,178
At 31 December	**12,490**	15,678

The fair values of trade and other payables do not differ from the values shown above

17 **Borrowings**

	2011 £'000	2010 £'000
Current borrowings		
Bank borrowings	**6,969**	2,895
Capitalised financing costs	**(1,532)**	(1,532)
Borrowings from related parties	**28,597**	21,908
Balance as at 31 December	**34,034**	23,271
Non-current borrowings		
Bank borrowings	**70,143**	77,346
Capitalised financing costs	**(421)**	(1,953)
Balance as at 31 December	**69,722**	75,393
Total borrowings	**103,756**	98,664

The bank loans comprise secured loans that are included within the senior loan facility that has been made available to the Perstorp group These loan agreements include quarterly key indicators linked to cash flow in relation to interest payments and amortisation, net debt in relation to EBITDA and EBITDA in relation to interest payments

NOTES TO THE ACCOUNTS - 31 DECEMBER 2011 (CONTINUED)

17 **Borrowings** (continued)

The total assets of the company have been pledged as security for the loans in addition to other pledged assets within the group

In connection with the acquisition of the caprolactones business from Solvay the existing loan facilities of the group were re-negotiated and increased The costs incurred in relation to the re-financing have been capitalised and are being written off on a straight line basis over the length of the loans

There have been no defaults during the year of principal, interest or redemption terms of the loans payable

Maturity structure of non-current borrowings	**2011 £'000**	2010 £'000
Between 1-2 years	**70,143**	77,346
Balance as at 31 December	**70,143**	77,346

Currency composition and interest rates of borrowings	Amount in currency '000s	Sterling equivalent £'000	Effective interest rate (%)
Bank borrowings			
Loans denominated in USD	77,275	50,109	4 00%
Loans denominated in EUR	32,232	27,003	5 05%
		77,112	
Borrowings from related parties			
Loan denominated in EUR owed to ultimate parent company	10 000	8,378	4 79%
Loan denominated in GBP owed to ultimate parent company	20,219	20,219	4 73%
		28,597	

The loans of the company are arranged within the group facility on market terms For external loans, interest terms are based on official market rates plus an interest margin As these loans are not subject to any organised trading it is not possible to make an objective market assessment of their fair value

18 **Ordinary shares**

	2011		2010	
	Number '000	**£'000**	Number '000	£'000
Authorised				
Ordinary shares of £1 each	**10**	**10**	10	10
Ordinary A shares of € 1 each	**40,000**	**29,692**	40,000	29,692
		29,702		29,702
Allotted, called up and fully paid				
Ordinary shares of £1 each	**10**	**10**	10	10
Ordinary A shares of € 1 each	**40,000**	**29,692**	40,000	29,692
		29,702		29,702

The ordinary A €1 shares have the same rights and are subject to the same restrictions as the ordinary £1 shares and they rank pari passu in all respects

NOTES TO THE ACCOUNTS - 31 DECEMBER 2011 (CONTINUED)

19 Employee costs and directors' remuneration

	2011 £'000	2010 £'000
Staff costs (including directors' remuneration) for the company during the year were as follows		
Wages and salaries	**3,957**	3,595
Social security costs	**457**	378
Other pension costs (note 20)	**613**	606
	5,027	4,579

Average monthly number of people (including executive directors) employed by the company during the year	2011 number	2010 number
Administration	**27**	25
Manual	**58**	54
	85	79

Key management compensation

Key management includes directors (executive and non-executive) The compensation paid (or payable) for employee services is shown below

	2011 £'000	2010 £'000
Aggregate emoluments	**524**	455
Company contributions to money purchase pension scheme	**17**	30
	541	485

Retirement benefits are accruing under the money purchase pension scheme in respect of qualifying services for one director (2010 one)

The compensation paid (or payable) for employee services to the highest paid director is shown below

	2011 £'000	2010 £'000
Aggregate emoluments	**283**	200
Company contributions to money purchase pension scheme	**-**	-
	283	200

20 Pension commitments

The net pension cost is allocated within the income statement as follows

	2011 £'000	2010 £'000
Cost of goods sold	**434**	409
Selling and marketing costs	**157**	184
Administration costs	**22**	13
	613	606

21 Operating leases

The company has lease agreements in respect of properties, vehicles, and plant and equipment, for which the payments extend over a number of years as detailed below

The future aggregate minimum lease payments under non-cancellable operating leases are as follows

	2011		2010	
	Land and buildings £'000	**Vehicles, plant and equipment £'000**	Land and buildings £'000	Vehicles, plant and equipment £'000
Within one year	**159**	**49**	110	28
Within two to five years	**476**	**36**	440	41
After five years	**110**	**-**	220	-
	745	**85**	770	69

22 Related party transactions

The largest group of which Perstorp UK Limited is a member is that headed by Perstorp Holding AB which is 100% owned by Luxembourg based Financiere Foret S A R L

Within the framework of an incentive programme, group executives, managers and key employees have the opportunity to become shareholders in the parent company Financiere Foret S A R L Shares and options relating to the programme are priced on normal commercial terms and this does not constitute a share-based remuneration scheme This programme has been extended to some managers and key employees within the company

Remuneration to the company's board of directors is reported in note 19

Goods are sold on terms that would be available to third parties Commissions were receivable on specified UK sales made by a fellow subsidiary, however, this agreement ended during 2010 Sales of services are made on a cost plus basis for sales, marketing and administration services

Goods are purchased from related parties on terms that would be available to third parties Royalties are incurred on patents and trademarks owned by the immediate holding company and they are charged at a market rate Services are purchased from related parties on a cost plus basis Management, sales, marketing, legal, technical and administration services are purchased

Loan borrowings from related parties are detailed in note 17

The following balances were held with related parties at the end of the year

	2011 £'000	2010 £'000
Receivables from related parties		
Fellow subsidiary company	**4,997**	5,014
Immediate parent company	**19**	12
	5,016	5,026
Payables to related parties		
Fellow subsidiary company	**173**	451
Immediate parent company	**1,738**	1,798
Ultimate parent company	**238**	123
	2,149	2,372

22 **Related party transactions (continued)**

The following transactions were carried out with related parties during the year

	2011 £'000	2010 £'000
Sales of goods		
Fellow subsidiary company	**27,595**	25,399
	27,613	25,399
Commissions receivable		
Fellow subsidiary company	**-**	62
	-	62
Sales of services		
Fellow subsidiary company	**167**	144
Immediate parent company	**161**	118
	328	262

	2011 £'000	2010 £'000
Purchase of goods		
Fellow subsidiary company	**1,223**	966
	1,223	966
Purchase of services		
Fellow subsidiary company	**1,719**	1,821
Immediate parent company	**3,436**	3,104
Ultimate parent company	**329**	104
	5,484	5,029
Royalties payable		
Immediate parent company	**6,779**	6,239
	6,779	6,239
Interest payable		
Ultimate parent company	**1,240**	712
	1,240	712

23 **Ultimate holding company**

The company is a wholly owned subsidiary undertaking of Perstorp AB, incorporated in Sweden The largest and smallest group of which Perstorp UK Limited is a member is that headed by Perstorp Holding AB, incorporated in Sweden Perstorp Holding AB is controlled by the French private equity firm, PAI Partners, which owns close to 100% of the shares in Luxembourg based Financiere Foret S A R L, which in turn owns 100% of the shares in Perstorp Holding AB PAI Partners, which is an unincorporated partnership, is considered by the directors to be the ultimate controlling company

The consolidated financial statements of the group are available to the public and may be obtained from Perstorp Holding AB, Perstorp S-284 80, Sweden or from the group website www perstorp com

NOTES TO THE ACCOUNTS - 31 DECEMBER 2011 (CONTINUED)

24 Reconciliation of profit to net cash flow from operations

	2011 £'000	2010 £'000
Profit for the year before tax	**4,777**	11,671
Adjustments for		
Depreciation	**3,606**	2,902
Amortisation of intangible assets	**6,055**	6,053
(Increase) / decrease in inventories	**(3,777)**	1,145
Decrease / (increase) in trade and other receivables	**1,256**	(2,290)
(Decrease) / increase in trade and other payables	**(2,852)**	3,536
Interest income	**(421)**	(805)
Interest expense	**6,355**	6,034
Cash generated from operations	**14,999**	28,246

25 Cash and cash equivalents

	2011 £'000	2010 £'000
Deposit accounts	**9,326**	5,151
Total cash and cash equivalents	**9,326**	5,151