

### **Objectives and strategy**

2009 was an eventful year for Skamol A/S, and the company is stronger and more focused at the end of the year than at the beginning.

Skamol's business is based on the production of high-temperature insulation materials based on Moler, Vermiculite and Calcium Silicate. In addition, Skamol produces and sells a number of other high-temperature products, including to some extent trade products.

Skamol works on the basis of an overall strategy to ensure growth within high temperature insulation, especially the primary aluminium industry, cement and steel production as well as the supply of insulation materials to fireplaces and stoves. In addition, Skamol continues to secure a role on a number of markets as a supplier of high temperature insulation materials within the diversity of applications which Skamol products offer.

Driven by goals to optimize and adjust the overall business in order to increase the profitability of Skamol's focus areas, a number of changes were implemented in 2009, the most significant being the closure and sale of business areas and acquisitions of new business.

According to Skamol's focused strategy the business area for fire doors and marine panels was sold. Assets and activities in NCM Core A/S were sold as per 15th February. Instead, Skamol has chosen to act as supplier of materials for fire doors and marine panels.

Skamol also decided to sell the French subsidiary, Piral S.A. Partly as a result of the financial/economical crisis, which affected the order situation of the company considerably, partly due to the fact that the company for several years was not profitable for Skamol. Production stopped in 2<sup>nd</sup> quarter and buildings and assets were subsequently sold.

End of 2009, Skamol implemented the acquisition of assets in the company Diatomite Kombinat in Russia. The company is primarily supplier of high temperature insulation products to the Russian aluminium industry. The products are based on diatomaceous earth - the technical word for Moler. The acquisition gives Skamol a strong position on the Russian aluminium market and strengthens its position globally. Through the acquisition Skamol shows that it aims to be the leading provider of high temperature insulation products to the aluminium industry.

As a necessary basis for implementing Skamol's growth and profitability strategy, major investments were made in 2009 to relocate the production of

vermiculite from the factory at Skarrehage to modern facilities in Rødding.

The strategy will create organic growth the coming years, and Skamol will continue to pursue appropriate acquisition targets within its business areas.

### **Market development and sales**

Skamol's turnover in 2009 was 242 million DKK against 259 million DKK in 2008. The turnover did not meet the expectations for the year.

In early 2009 several business areas serviced by Skamol were affected by the financial crisis, which later became a real economic crisis.

Skamol's largest business, the aluminium industry (ALU), has experienced structural growth for many years.

In 2009 major customers in the aluminium industry, including automotive and construction industries were severely affected by the financial / economic crisis, which caused declining demand. This resulted in increased stocks and lower prices of aluminium on the world commodity exchanges.

Skamol sales declined by 13% compared to 2008 due to the fact that many Aluminium producers reduced their production and postponed new investment projects. The decline in sales was limited only due to ongoing projects.

The same tendencies were seen on the other markets within high temperature industries (HTI), where the number of new projects has also been reduced due to the economic crisis. Total turnover in HTI decreased by 17% compared to 2008.

2009 was good for Skamol's business segment for the insulation of fire chambers in fireplaces and stoves (DHA). Despite a low activity level in new constructions, a growth of 6% was achieved compared with 2008. This reflects an increased market share and the fact that many consumers in Europe chose to invest in fireplaces and stoves as a result of a.o. the uncertainty of future energy prices.

### **Production and Product Development**

Skamol's production was affected by the economic crisis in 2009 primarily at two plants. At the Brick plant it was necessary to reduce production capacity significantly, by shutting down kiln capacity and introducing work distribution.

Similarly, it was necessary to reduce capacity at the calcium silicate plant and work distribution systems were introduced to adjust costs to the market situation.

At the Vermiculite plant the existing capacity has been fully utilized during the year and weekend shifts were sometimes necessary to meet customer requirements. The plant underwent many changes in 2009, as the production was relocated from Skarrebage on Mors to Rødding in Salling. The relocation allows more efficient and automated vermiculite production, while capacity at the new plant will be greatly increased. Operations of the new plant started in the course of 2009, with too high unit costs and too low capacity utilization.

Total investments in 2009, including acquisitions, amounted to more than 100 million DKK.

Prices of major raw materials were relatively stable in 2009. However, due to increased prices in previous years, prices are still high and falling price level was not seen until end of the year.

### **Environment**

Skamol complies with Polaris Equity's Corporate Social Responsibility (CSR) policy.

Skamol's environmental impacts are seen mainly in connection with the emission of substances, consumption of energy, mining of Moler and material waste.

Installations for reduction of environmental impacts in the form of dust filtration and sludge treatment plants are found as integral parts of the production. In principle, as much filtered material as possible is reused, whereas waste that cannot be reused is disposed in controlled landfills. Moler is disposed on own approved disposal site.

Through process development Skamol now reuses Moler dust to a greater extent than it was possible before. At the same time Skamol ensures disposal of Moler dust through distribution agreement.

Tax changes regarding the deposit of waste materials have caused Skamol to work on solutions for the disposal of different types of waste and Skamol has achieved satisfactory solutions with suppliers in these areas.

In connection with the relocation of the Vermiculite plant a much higher proportion of scrap vermiculite will be recovered than was possible at Skarrebage and a greater proportion of energy from the drying process will be recycled. Excess heat will be sold for district heating.

Mining of Moler takes place on Fur and pit areas are continuously re-established according to plans prepared in cooperation with local authorities.

### **Financial risks**

The accumulated interest-bearing net debt amounted to 106 million DKK at end 2009, an increase of 4 million DKK compared to end 2008. The increase is a result of a working capital project, which has released accumulated liquidity of approx. 50 million DKK. Additionally, the owners have invested over 33 million DKK, whereas total investments amounted to 107 million DKK.

The company follows a Board approved financial policy, which operates with a low risk profile, so that exchange rate and credit risks only occur based on commercial conditions.

As an international company Skamol is exposed to risks related to currency transactions in connection with the purchase and sale of goods and services. It is Skamol's policy to conduct identification of currency risks on current transactions in order to ensure that the exchange rates used in the budget may be realized to the extent possible. Skamol's main currencies are EUR, USD and Roubles. The total value of currency contracts at exchange rates applicable at balance date is 0.3 million DKK.

The costs of Skamol's Russian subsidiary are primarily in Roubles, whereas sales are ca. 50% in Roubles and 50% in EUR and USD, which means that Skamol's total earnings are neutral to fluctuations in the exchange rate of the Rouble.

It is the company's policy to optimize the loan portfolio through ongoing adjustments as well as to minimize fluctuations in interest rates by entering swap agreements, etc.

### **Result, balance and cash flow**

*Figures in brackets are 2008 figures.*

The turnover decreased in 2009 to 242.4 million DKK (259.4 million DKK), while EBITDA was 22.6 million DKK (17.6 million DKK) corresponding to 9.3% (7%) of turnover. Depreciation was 13.7 million DKK (16.5 million DKK). As a result, EBIT was 7.8 million DKK (1.4 million DKK). The result before tax was 4.1 million DKK (-4.1 million DKK).

Regarding the remuneration of Management and Board of Directors, see financial statement note 2.

The accounts are extraordinarily affected by costs of closing down the production plant in France, including termination compensation to employees and costs of closing stocks and assets. The accounts are also affected by provisions for costs in connection with a lawsuit in France brought by former employees as a result of the factory closing.

The total balance increased by 73 million DKK to 312 million DKK (238 million DKK). The increase is mainly due to investments in fixed assets and acquisitions of business. In return, the capital tied up in the company's working capital has been decreasing due to reduced stocks and arrears from customers.

The company has financed increased investments through capital loans from the majority shareholder, Polaris Private Equity, at total of 28 million DKK, of total deposit of 73 million DKK in Skamol Holding, and leasing debts.

Cash flows from operating activities were 69.0 million DKK (11.4 million DKK). After money flows from investment activities 107.1 million DKK (52.4 million DKK) and financing activities, including long-term loans of 53.4 million DKK and contributions from owners and minority stake holders of 33.6 million DKK the positive change in cash flow totals 48.9 million DKK (22 million DKK).

#### **Outlook for 2010**

Skamol still anticipates that the main industries serviced will be affected by the economic crisis. Therefore, it is foreseen that the parent company will show a modest decline in turnover in 2010. For the whole company, the turnover is expected to increase compared to 2009, as a result of the acquired Russian activity.

Due to the historically large investment program, the main focus of activities in 2010 will be consolidation and optimization of Skamol's business. Main priorities will be to obtain the full rationales and savings at the vermiculite plant in Rødding, and to integrate the new plant in Russia. Furthermore, a large number of internal procedures and business processes will be revised in order to further streamline and rationalize the company.

Skamol therefore expects an increase in EBIT for 2010 compared to 2009, and a positive cash flow from operations.