

Statements Regarding the Course of Business 2008

The cooling-off in the economy as a whole, which accelerated during the year, significantly impacted our sales business. Combined with the tougher pressure on margins, this led to a lower result than in the prior year.

Western European domestic economic activity fell off sharply during the course of the year. Particular declines in economic activity were recorded in Spain, the UK, Italy and also in Germany, where economic output has already shrunk in the last three quarters. The up-and-coming national economies in Russia, India and China continued their growth course, though with lower rates of increase than in the past.

Growth in the US continued to fall as a result of the financial crisis that has been triggered there. As well as business activity in the construction industry, which once again suffered a sharp decline, the automotive industry was also finally heavily affected.

Sales activity among Western European PVC manufacturers, which was still strong at the beginning of the year, tapered off noticeably as the year progressed. This led to falling growth rates in Western Europe. While the markets in Eastern Europe and Russia remained important export regions for Western European PVC producers, the export business to the US fell further due to the dampened economic growth and the poor EUR/USD currency relationship.

Finished goods inventories stagnated at high levels, caused by poor PVC business in the fourth quarter in conjunction with continued brisk demand for caustic soda.

Costs for crude-oil-dependent raw materials, metallic materials and energies, which again skyrocketed in quarters 1 to 3, generated burdens. Sharp increases in raw material and energy cost until summer could only be passed on following a time delay - and not in full - through sales prices. From early autumn there was a rapid decline in prices throughout the entire crude oil chain. This resulted in an intensive stock reduction in the entire value chain and more acute pressure on margins for PVC products.

The sales situation developed satisfactorily overall for caustic soda, which is marketed as a by-product of chlorine production. Supply-side bottlenecks occurred with caustic soda as a result of the weak demand for PVC. Although prices for caustic soda rose, it was not possible to pass on fully the renewed sharp increases in oligopolistic electricity prices.

The Group generated turnover of EUR 846 million during the reporting year (Turnover 2007: EUR 816 million). Around 47 % of sales were generated in Germany; the export quota is thus 53 %. Sales growth was substantially influenced by the takeover of the paste business from INEOS in the middle of 2007.

During business year 2008, Vinnolit Group performed investments (excluding financial assets) of EUR 73 million. This investment activity was characterized in particular by a major investment project: the expansion and conversion of the chlorine plants to modern, less energy-intensive and more environmentally-friendly membrane technology. Expansion of the company's chlorine capacity was successfully commenced in November 2008. Startup of the whole conversion will take place in mid-2009.

The course of business in the individual business lines appeared as follows:

Business Line Monomere

This unit's main job is the marketing of sodium hydroxide (caustic soda), which is obtained as a by-product during the production of chlorine, as well as secondary chlorine products such as EDC and VCM. It also distributes tin tetrachloride, which is used, among other things, as a preliminary product for PVC thermostabilizers.

Due to major damage in the summer of the reporting year, some of the electrolysis capacity could not be operated for a time or could only be operated at a reduced load. Only a small portion of the lost production volume was compensated by purchases on the preliminary product side. Force majeure was declared for sodium hydroxide. Thanks to the strong demand coupled with a decline in supply, the price for sodium hydroxide increased. However, this was not enough to compensate for the increased energy costs.

Business Line Thermoplaste

The main sales segments for the Thermoplaste business line are the PVC markets for films, profiles, pipes and cables in Europe. During the reporting year, the market volume for thermoplastic PVC in Western Europe was lower than the one of the prior year. This trend was consistently noted regionally and segmentally. Spain, the UK and hard-film applications brought up the rear.

The business line slightly expanded its market position in the Western Europe sales area. Sales increases were achieved in Germany, while falls were suffered in Italy. The profile sector continued to enjoy positive growth; rigid films tended to be weaker. Disproportionate sales falls were suffered in the fourth quarter, which were attributable to the inventory management in the chain, and which as a consequence led to massive production cuts.

Price pressure became more acute as the year went on, which inevitably impacted margins.

Business Line Paste und Extender

The main area of activity of the Paste and Extender business line are the PVC market segments of floorings, wallpaper and all kinds of coatings. In 2008, global demand for PVC products for paste processing was unable to build on to the success of prior years. There was a decline in growth in Europe and in exports to the US sales market. The CIS region continued to grow, though at lower levels, and was therefore unable to compensate for the sales losses in the remaining regions. The flooring industry and coating applications increased slightly; the remaining paste applications recorded negative growth rates.

Business in the Paste and Extender business line grew in line with the market, though in terms of sales it was characterised by the takeover of the paste business of the INEOS firm. Of note are the above-average sales increases in Eastern Europe, Russia and the Ukraine. In the fourth quarter distinct sales shortfalls in all market segments led to marked production cuts. There was little upward price tolerance, which meant that the prices obtained could not fully cover the increased raw materials costs.

In Vinnolit Group an average of 1,465 people was employed during the year, almost unchanged on the prior year.