

Press release
2014-12-22

Business update by the Chairman of the Board

Short-term disappointment but unshaken confidence in the future!

In recent weeks I have received many questions from concerned shareholders in Nexam Chemical, the theme has consistently been the same. When will the first major order come and why is it taking time? The management of Nexam Chemical has previously announced that it expected the company to start commercial deliveries in 2014, which has not materialized yet. Moreover, in mid-November we announced a change of CEO, where Per Palmqvist Morin after more than 5 years as CEO will step into a consulting role as of year-end while Anders Spetz will start as the new CEO. The other day the company published a press release which announced that the exclusivity agreement with the German company BASF will not be extended. All in all this has created a concern among many shareholders who wish to receive more information.

Through this update, I want to give an overall picture of where Nexam Chemical stands at this very moment, a couple of days before Christmas 2014.

The conclusions first:

- (1) The company earlier this year announced that it expected the first commercial deliveries on a larger scale before the turn of the year 2014/15. Nexam has not managed to accomplish this and we are definitely not satisfied with the outcome. Of course there are a number of underlying causes, but it does not change the fact.
- (2) With a new, highly experienced and commercially oriented CEO in place – as an addition to the existing team – the focus will now shift from R&D to commercial sales and revenues.
- (3) The founders, Board of Directors and management team have an unshaken confidence in the company, its employees, the chemistry, the products, and the market potential. We will succeed!

Nexam Chemical is an Innovation Company

When assessing the company it is important to remember that Nexam is an innovation company that is launching new products and solutions in a mature market. We have developed and continue to develop products and applications that have the potential to give plastics and other polymers completely new properties. The goal is to create better, more efficient and environmentally sustainable solutions within a number of application areas. The market is very large, as is well known, and Nexam can offer a number of powerful tools in form of its products and solutions.

Chemistry, however, is a complex science and development work does not always follow a straight line. In our work, technological breakthroughs and accomplishments are mixed with setbacks where one has to go back and redo. We have learned a tremendous amount over the past year, but must also acknowledge that it has taken longer than expected to scale up and adapt some of the product applications.

Moreover, many of the application areas we focus on are relatively mature volume markets with long value chains where there is an inherent inertia in the systems. The consequences of incorrect decisions on the materials side can be devastating, which results in a significant amount of caution. Many of the companies Nexam is working with are big companies with multiple parallel agendas. Even though we and our partners see our offer as exciting with great potential, it is not always the case that our partners can give us immediate priority.

We were justifiably optimistic earlier this year, but now have to conclude that some of our key projects have taken longer time than expected. With that said, we are confident that we over time will succeed in most of our projects.

Developments during the fourth Quarter

The purpose of the quarterly reports published by the company is to provide a description of what we are working on and with what results. Since our last quarterly report summarizing progress through the third quarter, several events of a significant nature have happened.

On the **Commercial side** the company now has begun to receive repeat orders for products for applications in the field of **Polyimides** (the NEXIMID portfolio). The volumes are still small, but customers are indicating that during 2015 they will increase purchasing as the products containing Nexam's crosslinkers are established in the market. The Polyimide segment is not a huge market for Nexam in the near term, but is nonetheless an important indicator. It is with these applications we worked the longest time, and now we have several customers that include our products in their formulations. This clearly shows that our chemistry works and creates value. In addition, discussions are ongoing with several new potential customers in both Asia and the US.

In the area of **Nylons** the work that has been conducted with BASF on Nylon 66, as already announced, has not resulted in commercial volumes in 2014. The exclusivity agreement that was signed in February 2014, gave BASF an exclusive right for a period of up to 27 months, subject certain purchase commitments. If agreed purchase commitments were not met during the first 15 months, which will be the case, then the exclusivity would expire. The parties have therefore agreed that the exclusivity agreement wouldn't be renewed after May 2015. This does not mean that the work with BASF's Nylon 66 modified with crosslinkers from Nexam will stop. We expect to evaluate products in components for the automotive and electrical industries during the first half of 2015.

Exclusivity agreements are always duplicitous. The obvious advantage may be that you get a partner that really puts time and resources into the project, but the downside is that it limits you to only work with one company. In the case of Nylon 66, which is a material produced and used by many companies, Nexam has had strong requests from several companies who wish to initiate collaborations that includes the company's crosslinkers. This has not been possible as long as the exclusivity agreement with BASF was in place. As Nexam and BASF now have agreed not to renew the exclusivity agreement, Nexam can initiate collaborations with other parties. Initial discussions have already taken place and these will result in concrete activities at the beginning of next year.

In parallel, application development continues with other types of Nylons, such as Nylon 6 and Nylon 11/12, together with other large potential customers. Work is progressing well with promising results especially for two large companies. This could well result in commercial volumes in the coming year.

Another polymer area, which we have great hopes for, is Polyesters, especially for **PET** and **PET-foam**. Here Nexam has its second exclusivity agreement, with the German company Armacell and concerning PET-foam. Also here our opinion earlier this year was that this collaboration would result in commercial volumes in 2014, which demonstrably not has happened. Yet another disappointment one might think, while in this case there is a very specific reason. Armacell has during the autumn of 2014 introduced so-called rPET (recycled "green PET") as input material in its manufacturing of PET-foam, instead of virgin PET based on Fossil raw materials. The results from a shift of input material has exceeded expectations, which has resulted in that Armacell is accelerating the switch from virgin PET to "green PET" as input material. This transformation was originally intended to be done over several years. Armacell was about to introduce Nexam's products on a larger scale in production based on virgin PET, but decided not to make additional changes to their formulations while "green PET" was introduced on a large scale. The result is unfortunately that the expected introduction of Nexam crosslinkers in Armacell's PET-foam didn't materialize in 2014.

With a new input material in the form of recycled "green PET" the dynamics in both the chemistry and the manufacturing process have changed, which means that large parts of the work done by Armacell to formulate products containing Nexam's cross-linker has to be redone. Work has begun and the next step is to perform tests in pilot scale. In parallel, a more in-depth development work is ongoing between the parties around recycled PET. This project is sponsored by the EU within the framework of EUREKA / Eurostars.

Nexam and Armacell have agreed on an extension of the existing exclusivity agreement, taking into account the delay of approximately one year that now has arisen. This is assessed by both parties as a favorable action as the cooperation between Armacell and Nexam is working very well. In all likelihood Nexam will begin with commercial deliveries of product to Armacell during 2015.

With respect to applications with **PE (polyethylene)**, some exciting full-scale tests by pipe manufacturers will be done in the first part of 2015. With the help of Nexam crosslinkers the objective is to develop a manufacturing process that produces plastic pipes with "low sag". In this way, one would be able to produce pipes with larger diameters while maintaining production speed.

Furthermore several **new product launches** are underway, such as NEXAMITE PBO which currently is being tested by several potential customers. We expect that this work will produce results in the form of commercial deliveries in 2015. During 2015 additional NEXAMITE products will be introduced to the market. In addition to this, a completely new product that exhibits very exciting properties is under development. The product is however not ready yet for market launch.

During the past quarter Nexam also presented an **organizational strengthening** through the recruitment of **Anders Spetz** as the new CEO. He starts at the turn of the year 2014/15. Anders has a chemistry background and a large amount of expertise and knowledge from the plastics and polymer industry. In addition, he is an experienced CEO with strong **commercial skills and drive**. The team will also be strengthened with a new marketing officer, and the recruitment process is currently under way, conducted by Anders Spetz. The initiative for this change comes from the company's founders and the Board of Directors, who all agree that it is now time to take a clear step into the commercialization phase. Until today Nexam has meritoriously been headed by a group of talented scientists and entrepreneurs, but now there is a need for a more industrial management team to

take a big step forward. The company's founders will all continue to be actively involved in the company, but in somewhat new roles, and they also remain as large shareholders.

Financials

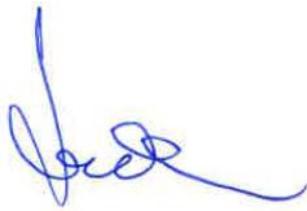
The company keeps to its budgeted cost level but lags in terms of revenues for 2014. At the **end of 2014 it is estimated that the company will have liquid assets / cash amounting to more than SEK 60 million**. Without giving any forecast for 2015 it is expected that sales of product and thus revenues will increase while costs only increase marginally, to be around SEK 3.5-4 million per month. The financial situation can thus be considered as stable.

Summary words

For me, Nexam is an extremely exciting business with a unique potential. Rome was not built in a year, it takes time to establish new technology-intensive businesses but once there your position is very strong. In hindsight it can be concluded that we were too optimistic regarding the development in 2014, but with that said, it should be borne in mind that it only takes one or a couple of large customers for Nexam Chemical to turn into a profitable operation. It is my conviction that we will get there. I hope that this update has given some guidance to what can be expected of Nexam Chemical in the coming couple of years.

Merry Christmas and a Happy New Year!

From all of us in Nexam Chemical

A handwritten signature in blue ink, appearing to read 'Lennart Holm', with a stylized flourish at the end.

Lennart Holm
Chairman of the Board
Nexam Chemical AB