

Perstorp Holding AB Annual Report 2005



The Winning Formulas concept reflects Perstorp's corporate culture and the strong customer focus needed to develop the Group's global competitiveness.

Leading global player

Perstorp's vision is to be recognized as a global leader in providing solutions for customers through resource-efficient and environmentally sustainable use of selected niches of organic chemistry and polymer chemistry.

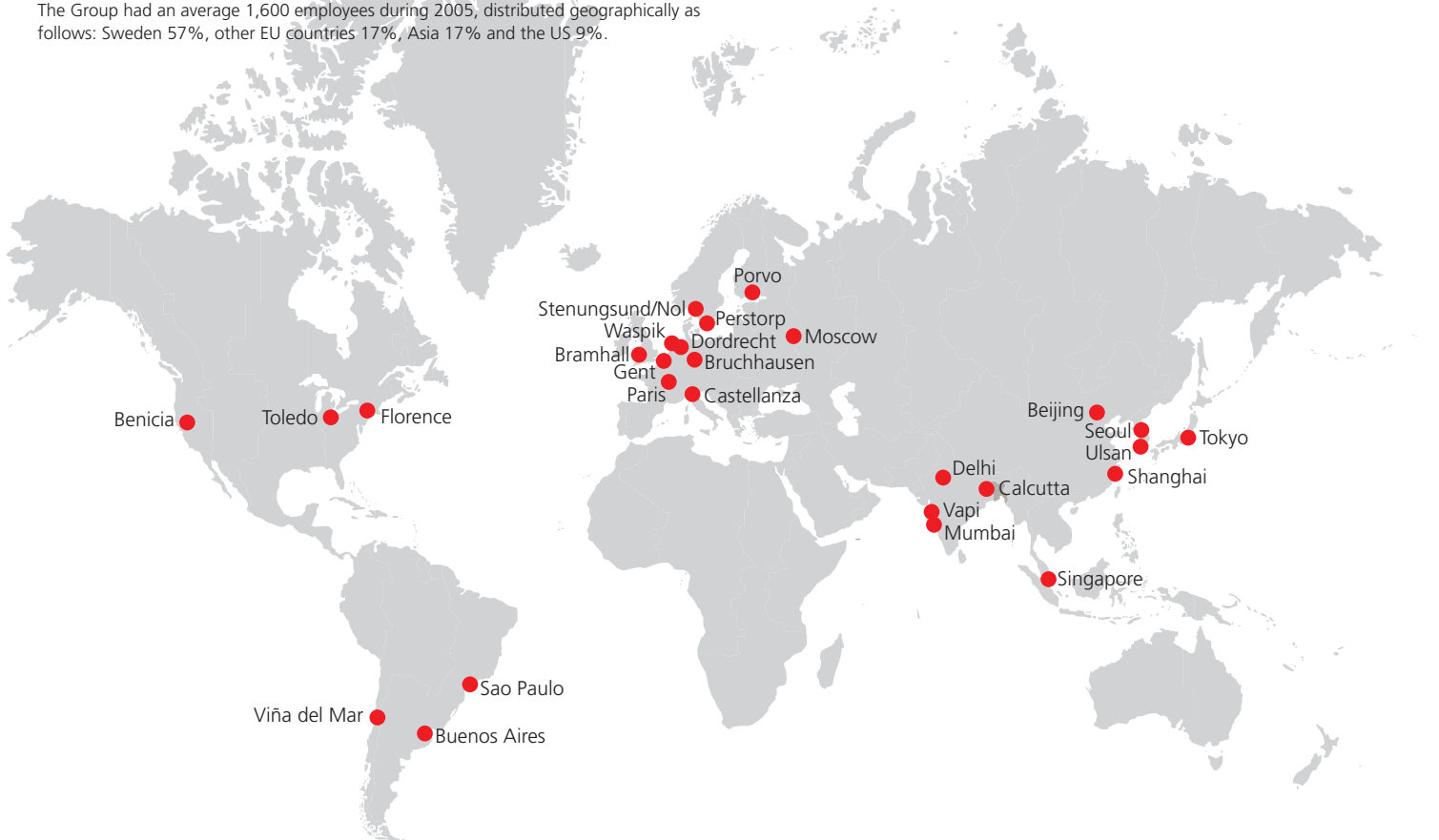
PAI partners new owner of Perstorp Group

Perstorp is an international specialty chemicals group with leading positions in selected niches. The Group was acquired at the end of 2005 by Perstorp Holding AB, which is controlled by PAI partners, a French private equity company. After the acquisition, Perstorp Holding AB settled Sydsvenska Kemi's debenture loan, which was registered on the Stockholm Stock Exchange.

Winning

Production in eight countries and 1,600 employees

Perstorp has production companies in eight countries in Europe, North America and Asia. The Group had an average 1,600 employees during 2005, distributed geographically as follows: Sweden 57%, other EU countries 17%, Asia 17% and the US 9%.





WINNING FORMULAS
SINCE 1881

The company was founded 125 years ago

Perstorp was founded in 1881 in the town with the same name. Then as now, the operations were characterized by diversified chemistry know-how and a quest to find new solutions to customer problems and needs. Today, 125 years later, Perstorp focuses on selected segments of the specialty chemicals market, and the Group's products are sold to customers in all parts of the world.

Formulas

Focus on specialty chemicals

The Perstorp Group is the world leader in several sectors of the specialty chemicals market for a large number of different industries and application areas. Our products are used in the aerospace, shipping, coatings, chemicals, plastic, civil engineering and construction industries. They are also used in automotive, agricultural, food, packaging, textiles, paper and electronics applications.

Winning Formulas is a symbol of quality for everything we do – and a promise to our customers



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*Cover:
Rapeseed is the raw material for Perstorp's planned production of environmentally compatible motor fuel. A new plant will be built within the framework of the Group's comprehensive investment program.*

Perstorp Holding AB

Corp. Reg. 556667-4205

Parent Company of the international chemicals group Perstorp

Perstorp is an international specialty chemicals group with leading positions in selected niches. The Group was acquired at year-end 2005 by Perstorp Holding AB, which is controlled by the French private equity company PAI partners.





Highlights

Formation of the Group

➔ Takeover of Perstorp Group through acquisition of Sydsvenska Kemi AB (publ)

Perstorp Holding AB, which is controlled by the French private equity company PAI partners, has acquired Sydsvenska Kemi AB (publ) from Industri Kapital. The acquisition took effect at the end of December 2005 after receipt of the necessary approval from the public authorities.

➔ Financing arranged

The acquisition of Sydsvenska Kemi AB was financed through a combination of shareholders' equity and borrowed capital. Borrowed funds consist of senior loans, second lien and mezzanine loans. The senior loans have been guaranteed by Svenska Handelsbanken, Nordea and HSH Nordbank. The second lien and mezzanine facilities have been guaranteed primarily by Deutsche Bank, Goldman Sachs and HSH Nordbank. After year-end, the second lien and mezzanine loans were successfully syndicated to about 10 financiers.

➔ New Group structure

A new Group structure has been effective since year-end 2005, whereby Perstorp Holding AB owns the operations of the Perstorp Group through wholly owned holding companies in Sweden, Germany and the Netherlands.

➔ Subordinated loan in Sydsvenska Kemi AB (publ) settled

After fiscal year-end, Sydsvenska Kemi AB settled its 2001/2011 subordinated loan, and trading in the debentures has been discontinued on the Stockholm Stock Exchange.

Pro forma financial development ¹⁾

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

The year was characterized by sharp increases in raw material prices, which created demand uncertainty. Price levels increased by an average of 9% during the year. Volumes declined by 3%, mainly for basic products and formalin projects. Currency effects had a favorable impact of 2%.

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

The sharply increased raw material prices led to lower margins for some products, which were offset by greater efficiency generated by the rationalization programs implemented during 2004 and earlier. Earnings for the year were impacted favorably by the dissolution of acquisition balance sheet reserves, SEK 49 m, while the comparative period was charged with rationalization costs totaling SEK 67 m.

➔ Comprehensive investments in capacity to meet stronger demand

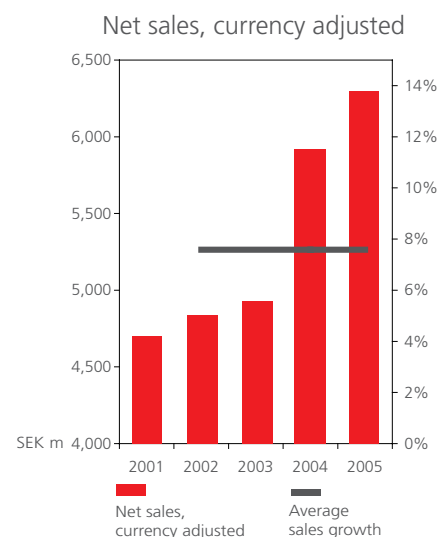
The Perstorp Group completed and launched comprehensive investments during 2005 to increase production of several specialty chemicals products. A decision has also been made to invest in the production of potassium formate and rapeseed methyl esters (RME). As a result of the investments, the new Perstorp Group is well equipped to meet anticipated growing demand for existing and new specialty chemicals products.

¹⁾ The Perstorp Group pro forma reflects the Group operations that PAI partners acquired at the end of 2005, meaning excluding the operations within Perstorp Compounds and Moldable Composites (Vyncolit) that were divested by Sydsvenska Kemi AB during the year. The acquired operation, Franklin, is included in full in the pro forma figures for both 2005 and 2004.

of 2005

Key figures, pro forma

SEK m unless otherwise stated	Full year 2005	Full year 2004
Net sales	6,299	5,849
Operating earnings before depreciation (EBITDA)	1,156	1,040
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	-
excluding acquisitions	594	165
Depreciation and impairments	331	347
Working capital, year-end	745	602
Working capital, average	764	746
Turnover rate, working capital, times/year	8.2	7.8
Number of full-time employees, year-end	1,592	1,592
Legal Group		
Capital employed, year-end	10,906	n/a
Net debt incl. pensions, year-end	9,625	n/a
Net debt incl. pensions, excl. owner loan	8,021	n/a
Equity/assets ratio, incl. owner loan, %	16	n/a



Statement by President and CEO

From Perstorp's viewpoint, 2005 was another eventful year. The Group's focus on specialty chemicals has now been completed. We also acquired a company in the feed additives sector and implemented several large investment projects to broaden the product offering and increase our production capacity. Perstorp has also decided to concentrate on a highly interesting product – biofuel. An important event for the future also occurred at year-end, when Perstorp was taken over by a new owner.

Our diversified activities were conducted in a demanding business climate, characterized by record-high and fluctuating raw material prices and a declining market during the second half of the year. Despite these conditions, sales by comparable units increased by nearly 8% to SEK 6.3 billion and EBITDA rose to SEK 1,156 m, compared with SEK 1,040 m in the preceding year.

Strategy and focus

The Perstorp Group today is a streamlined specialty chemicals group focused on selected niches of organic chemistry. The final step in our focus on specialty chemicals was taken during the year through the divestment of most segments of the former Material Technology Division. The remaining segment, Advanced Composites, has been brought closer to our specialty chemicals operations, where it is expected to generate growth and added value by providing a platform for greater concentration on specialty resins used in composite materials for the aerospace industries.

The Group's main market is the coatings industry in a broad

perspective and plastics processing supplemented by other end-markets that strengthen overall operations.

Perstorp is celebrating its 125th anniversary during 2006. In the global arena, we are perhaps stronger than ever today and the market leader in most of the segments where we operate.

The Group's strategy and focus remain unchanged, and our three main principles are:

- ➔ Growth through active development of the product portfolio.
- ➔ Competitiveness through operational excellence and continuous improvements.
- ➔ Performance-based culture.

The goal in our current business plan is clear: focus on continued profitable growth. We shall grow twice as fast as the markets we serve and, in parallel, profitability measured as EBITDA shall remain high, expressed as a percentage of sales.

Performance during the year

Operations in 2005 were generally characterized by favorable demand in our markets, particularly during the first half of the year. During the latter part of 2005, strong fluctuations in raw material prices created turbulence and widespread uncertainty in the marketplace, which led to increased

Lennart Holm,
President and CEO



caution and lower inventories at customer sites. During the same period, Perstorp was able to gradually increase the prices for most products as part of efforts to defend our margins.

Conditions were particularly difficult in North America, where record-high natural gas prices impacted on profitability for the American chemicals industry.

The market for Perstorp's products in Asia is growing rapidly. Growth in China is still mainly attributable to products sold in large volumes. We have also noted that competition from domestic players is increasing. High-value specialty products account for a substantial share of Perstorp's growth in Japan, Korea and Taiwan. In Europe, structural changes in the market for oxo products took place during the year, a factor that is expected to have favorable effects on the Group already in 2006.

To further strengthen the highly integrated portfolio of specialty chemicals products, Franklin Holding BV of the Netherlands was acquired during the year. The acquired operations provide new products and markets as well as opportunities to extend the value chain in the high-growth segment comprising feed chemicals.

The acquisition of all outstanding shares in Perstorp Aegis Chemicals marks the beginning of an aggressive move in India, a rapidly growing market where we have a strong platform based on our presence over the course of many years.

The Group's work on continuous improvements continued to contribute favorably to Perstorp's competitiveness and profitability. We are also proud to announce that Perstorp's operations in Sweden were named one of Sweden's ten best workplaces in an evaluation initiated by Alecta.

New products and increased capacity

For the past several years, Perstorp has concentrated on efforts to develop and renew its technologies and products in order to create greater value for the Group and our customers. It should also be noted that an increasing number of new products were launched successfully during the year. We also strengthened our focus on technical support and marketing, including the establishment of another office in China.

Intensive efforts during the year were conducted through substantial investments in new capacity, particularly in Sweden where several new plants are under construction or start-up. Other major investments now in progress will eliminate the lack of capacity that is inhibiting our sales. A decision was made in the autumn of 2005 to build a plant for the production of diesel biofuel (RME), a product that we believe has major potential.

At the site in Perstorp, a large-scale investment project cur-

rently under way is focusing on proprietary energy production based on biofuel, with the aim of reducing emissions of carbon dioxide and the Group's dependence on increasingly expensive oil. With the Perstorp site as an example, opportunities to use a greater percentage of biofuels will also be evaluated at other Group units.

PAI partners new Group owner


Industri Kapital, Perstorp's former owner, initiated procedures in the spring of 2005 to sell the Group and, on December 22, 2005, the French-based private equity company PAI partners took over as the new owner. For Perstorp, the change in ownership means a stronger focus on growth, both organic and through acquisitions. Our business opportunities have been expanded by the financial strength of the Group's new owner.

Outlook for 2006

The market outlook for 2006 is promising and, combined with the start-up of several new and much-needed production plants during the year, we expect to create a solid platform for operations during the years ahead. In parallel, we also see challenges in the form of continued high raw-material prices. A key factor will be ensuring that our new plants begin operations on schedule and within our budget framework.

Our aggressive investments in development and renewal and providing application support to our customers will continue. We will focus even more intently on the logistics chain to further reduce lead-times and improve quality, and continue to develop the skills and expertise of our employees.

For a technology-driven company such as Perstorp, sustained success must be based on skilled and committed employees. One reason for my optimistic outlook as we move forward is the fact that Perstorp has employees who are extremely skilled and highly motivated. Perstorp's personnel deserve a great deal of respect, not only for their work efforts, but also for their ability to adapt to the continuous changes they deal with in a globalized business world characterized by intensive competition. To become even more effective, we have chosen to use the slogan "Winning Formulas" – an expression not only of our future confidence but also a means to focus on customers – to categorize our mode of operations.



Lennart Holm
President and CEO



Group presentation

Acquisition of Sydsvenska Kemi AB (publ)

On December 22, 2005, Perstorp Holding AB acquired Sydsvenska Kemi AB (publ), the parent company of Perstorp since 2001. Perstorp's business operations will continue virtually unchanged under the new ownership structure.

As a result of the change in control over Sydsvenska Kemi AB, the company's 2001/2011 subordinated loan fell due for payment and was settled after fiscal year-end.

Financing

The acquisition of Sydsvenska Kemi AB was financed through a combination of equity and borrowed capital. The borrowed funds consist of three main types of financing: senior loans, second lien and mezzanine loans. The senior loans were guaranteed by Svenska Handelsbanken, Nordea and HSH Nordbank. The second lien and mezzanine loans were guaranteed primarily by Deutsche Bank, Goldman Sachs and HSH Nordbank.

Perstorp's background

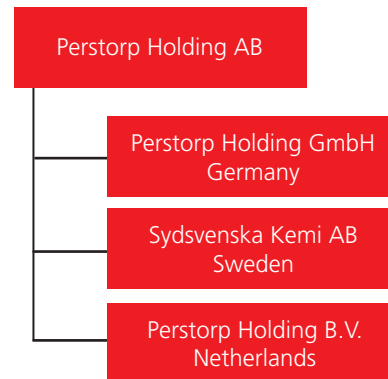
Perstorp started its business operations in 1881 in the town with the same name. Throughout its 125-year history, the company has operated in the chemicals industry, but during earlier years also in other business areas, for which chemistry know-how was a major competitive and expertise factor (see pages 31-34).

Perstorp AB was listed on the Stockholm Stock Exchange in 1970 and, following a period of strong diversification, successive streamlining of the operations was initiated during the 1990s. In 2001, the Group was acquired by the Industri Kapital 2000 fund, and the company's shares were delisted. Over the past five years, the company has focused intently on expansive niche segments of specialty chemicals, the operations have been developed further and profitability has grown stronger.

As mentioned above, PAI partners, a private equity company based in France, acquired Perstorp from Industri Kapital in December 2005.

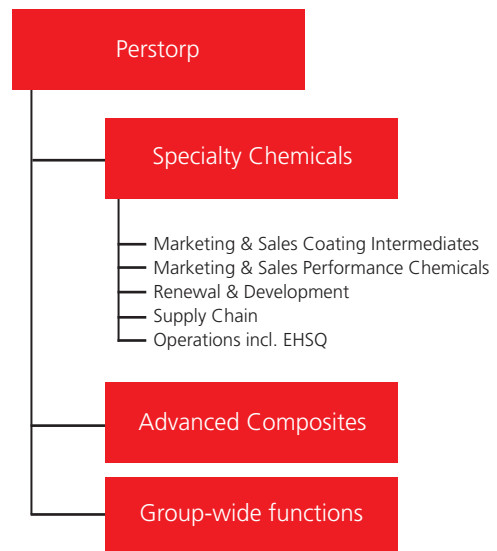
New legal structure

After the ownership change, Perstorp has a new legal structure.



Operating structure

The Group consists of two business sectors: Specialty Chemicals, which accounts for 98% of consolidated net sales, and Advanced Composites for 2%. In addition, there are Group-wide functions.



The biofuel energy production plant in Perstorp has been rebuilt to comply with new combustion directives.

Pro forma business development in 2005

To provide a presentation of historical development, the pro forma consolidated income statements for 2005 and 2004 are presented and described below.

The pro forma financial accounts do not include the operations of Materials Technology that were divested by Perstorp in 2005. The operations of Franklin (annual sales about SEK 180 m), which were acquired in April 2005, have been included in the pro forma accounts as if the acquisition was made in the beginning of 2004. Transaction costs related to the acquisition of the SSK group are not included in the pro forma results.

Net sales

Net sales amounted to SEK 6,299 m (preceding year: SEK 5,849 m), an increase of 8%. Exchange-rate changes accounted for 2% of the increase. Price levels were substantially higher than the preceding year, up 9%, while volumes were marginally weaker, down 3%.

Raw material prices rose sharply during the past year; the price of crude oil doubled, leading to significant price increases for primary raw materials such as propylene and ethylene, as well as energy raw materials. In parallel, demand for the Group's products was strong. The decline in volumes was due to lower sales of formalin-license projects, stockpiling in the refinement chain toward the end of 2004 and the Group's decision to temporarily implement a margin-based strategy instead of a volume strategy for certain base products.

Consolidated income statement, pro forma

SEK m	2005	2004
Net sales	6,299	5,849
Cost of goods sold ¹⁾	-5,066	-4,655
Gross earnings	1,233	1,194
Selling, administration and R&D costs ¹⁾	-529	-477
Other operating income and expense ^{2) 3)}	125	-5
Amortization of intangible assets	-5	-2
Earnings from shares in associated companies	1	1
Operating earnings (EBIT) ^{2) 3)}	825	711
Operating earnings before depreciation and impairment (EBITDA) ²⁾	1,156	1,040

¹⁾ Comparisons impeded by reclassifications of various fixed costs.

²⁾ Earnings were affected by dissolution of acquisition balance sheet reserves amounting to income of SEK 49 m in 2005 and rationalization costs SEK 67 m in 2004.

³⁾ Impairment losses on fixed assets in 2004 totaled SEK 22 m.

Earnings

Operating earnings before depreciation rose to SEK 1,156 (1,040), including the dissolution of acquisition balance sheet reserves amounting to SEK 49 m. Charges for rationalization measures during the preceding year totaled SEK 67 m. These items are reported with currency effects under "Other operating income and expense."

Overall, currency effects were close to zero. The Group was able to pass the increase in raw material prices further along the value chain, but with negative margin effects. The negative volume effect was offset by a favorable product mix. The rationalization programs that were implemented during 2004 and earlier created efficiency gains and compensated for the somewhat lower margins.

Depreciation amounted to SEK 331 m (307).

Investments

To meet the growing demand, Perstorp decided during the year to make comprehensive investments both in existing and new products. Investments during the year, excluding acquisitions, amounted to SEK 594 m.

Investments are presented in greater detail under "Operations".

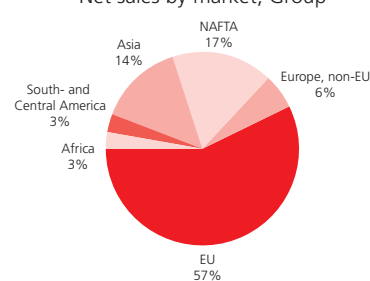
Acquisitions

Perstorp Franklin BV, the Netherlands, and its subsidiaries are included in the Group from April 1, 2005. For accounting purposes, however, all Franklin operations are included pro forma in the 2004 and 2005 financial accounts. The acquired operations, which strengthen Perstorp's position in the market for feed chemicals, reported sales of SEK 182 m in 2005 and earnings before depreciation totaling SEK 25 m.

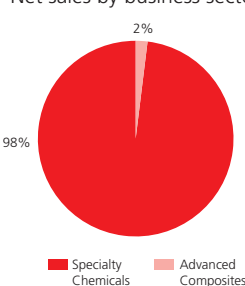
Perstorp has acquired the remaining 30% of the shares in Perstorp Aegis Chemicals Pvt Ltd from the Indian partner Aegis Logistics Ltd. Accordingly, effective June 1, this company is a wholly owned subsidiary, and its name has been changed to Perstorp India Chemicals Pvt Ltd. The Group's ownership share in YLA has been increased to 82%.

Perstorp has taken over legal responsibility for the R&D center at Kilpilahti Park in Porvoo, Finland, which the Group previously leased from Dynea.

Net sales by market, Group



Net sales by business sector





Our vision is to be recognized as a global leader in providing solutions for customers through resource-efficient and environmentally sustainable use of selected niches of organic chemistry and polymer chemistry

Specialty Chemicals

Most of Perstorp's specialty chemicals are intermediate products used in the production operations of other industrial companies, primarily in the chemicals, coating and plastic-processing industries, as well as construction, automotive and engineering industries.

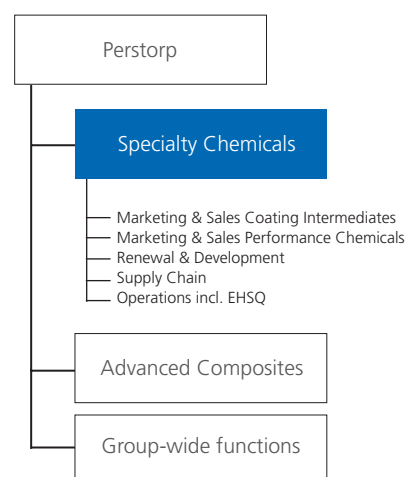
Nearly two-thirds of sales are booked in the chemicals industry, with the coatings industry via the resin industry as the largest single user. Other application areas include the agricultural, food and other industrial sectors.

The main products and application areas are:

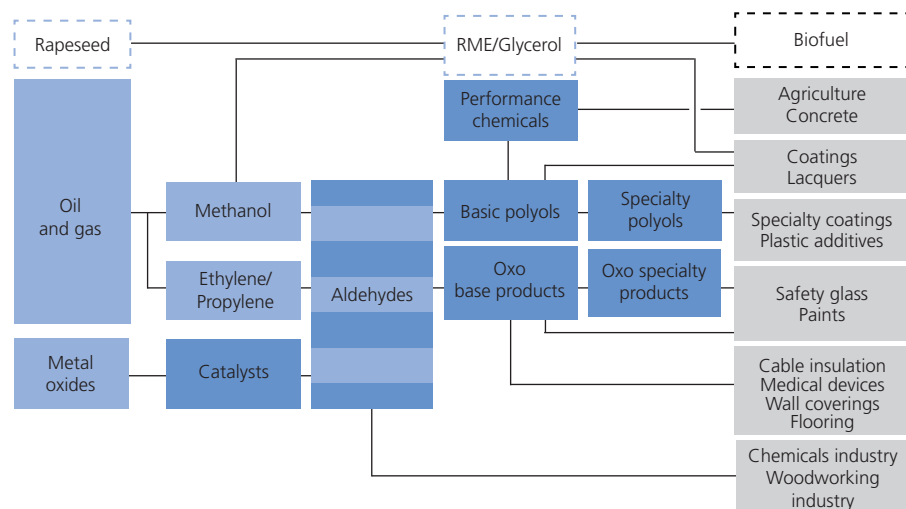
- ➔ Basic and specialty polyols
- ➔ Formalin technology (production plants and catalysts for formalin production)
- ➔ Organic acids
- ➔ Oxo alcohols and plasticizers
- ➔ Feed acids and other agricultural chemicals (Food & Feed)

The largest product groups are basic and specialty polyols and oxo alcohols and plasticizers, which account for more than 70% of sales.

Approximately two-thirds of raw materials are based on crude oil or natural gas, and the largest single raw materials are propylene and methanol. Most production is



Specialty Chemicals value chain



supported by effective, environmentally compatible processes that are developed within the Group. Several key raw materials for proprietary production, with special emphasis on aldehydes such as formaldehyde, butyraldehyde and propionic aldehyde, are produced internally, which contributes strongly to the Group's competitiveness and opportunities to develop new products.

Perstorp is one of the world's leading suppliers in several of its selected market segments.

Competitors are generally units of large international chemical companies, such as BASF, Celanese, Eastman, Dow Chemicals and LG Chemicals, or specialized producers focused on regional operations. Competitive conditions vary substantially between different types of products and applications.

Perstorp's operations are conducted within the framework of overall, global functions comprising Marketing & Sales, Operations, Supply Chain and Renewal & Development.

Charmor™ is a polyol used in fire-resistant paints to protect human life and property in the event of fire.



We have chosen three core values to govern our behavior:

- ➔ Focused innovation
- ➔ Reliability
- ➔ Responsibility

Marketing & Sales

Perstorp is one of the world's leading suppliers in several of its selected market segments. Most of the products are sold in all parts of the world, with the largest markets being in Europe and the US and with a growing percentage of sales in Asia.

Increased environmental and safety awareness is driving demand for new products, which Perstorp is providing through active R&D focused on environmentally compatible products. In addition, Perstorp is now conducting an investment program designed to increase its production capacity for several products, in parallel with continued focus on the Group's productivity program.

Trends during 2005 for each of the Group's seven main product and market areas are presented below.

Basic polyols

Coatings and lacquer systems are the largest application areas for Specialty Chemicals' polyols (polyalcohols). The polyols are used in the production of resins and to control properties of the end products, with regard to surface structure, impact resistance and adhesiveness, for example. Other important application areas for polyols are in the form of intermediates in the production of liquid adhesives, plastic additives, lubricants and other chemical products.

Perstorp is a leading global supplier of several types of polyols and stands alone among its competitors as the only company that produces polyols on three continents. The business sector's production units are situated in Sweden, the Netherlands, Italy, Germany, the US and India, and in South Korea (joint venture, Perstorp 51%).

Perstorp's largest polyols in terms of volume are called basic polyols; products for more specific applications are called specialty polyols (see below).

The range of basic polyols includes Penta (pentaerythritol), TMP (trimethylolpropane), Neo (neopentyl glycol) and film-forming chemicals (main product is NX 795).

Demand for basic polyols remained strong during the year, particularly in Asia, but also in the US and Europe. The new operations established in 2003 through joint ventures in South Korea and Japan performed favorably and contributed to a strong position in the growing Asian market.

Supported by the strong demand, Perstorp was able to offset rising raw material prices during the year through higher prices for its own products. Volumes increased and capacity utilization was high, or very high, for all polyols. The company continued to improve its production efficiency and remove production bottlenecks through new construction to increase capacity.

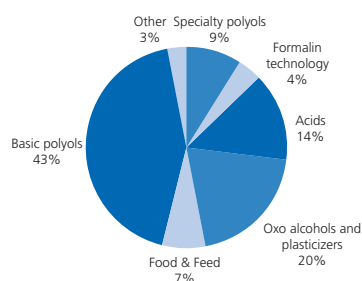
NX 795, a product used as a film-forming additive in the production of water-based paints, was classified during the year as non-VOC in accordance with new European environmental demands, meaning free of volatile hydrocarbons. The classification provides a competitive edge in relation to several other types of products used in lacquers and coatings for decorative surfaces.

Specialty polyols

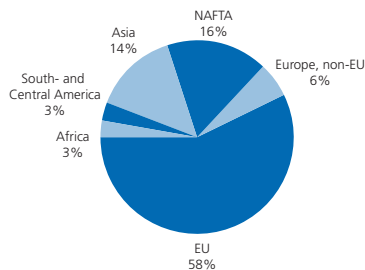
Demand is increasing constantly for new environmentally compatible, cost-effective coating systems that offer attractive technical properties. Such properties can be achieved through applications of specialty polyols, such as water-based or UV-hardening coating systems. These sophisticated coatings and lacquer systems are used for electronic products such as mobile phones and TVs, but also in the furniture and automotive industries to achieve high-grade glossy surfaces.

Synthetic lubricants comprise another large and growing application area for specialty polyols, particularly for compressors

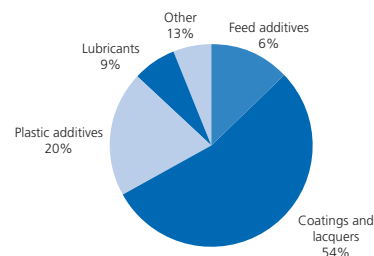
Net sales by product area



Net sales by market



Net sales by industry



in CFC-free cooling systems for air conditioners, refrigerators, freezers and similar products.

Given the growing demand, Perstorp has focused for several years on efforts to develop and launch new types of specialty polyols to strengthen its leading position in the market for polyols and achieve continued growth. Its efforts have been successful, and various specialty polyols account for a growing proportion of Perstorp's polyol sales.

Sales volumes for most specialty polyols continued to increase during the year. Demand was driven by favorable economic conditions and growing interest in environmentally compatible products. Demand in Asia is also contributing to business growth.

Formalin plants and catalysts

Perstorp is a leading global supplier of plants and catalysts for formalin production. Its position is based on the effective formalin process the company has developed and markets under the Perstorp Formox brand.

Formalin is an important raw material used mainly by the board industry to produce adhesives for particleboard panel and by the chemicals industry to produce various types of plastics. Perstorp designs and sells complete formalin production plants and the catalysts used in plants built in accordance with the company's technology, as well as plants based on competing processes.

Nearly half of global growth in formalin production capacity over the past 10 years has been attributable to plants supplied by Perstorp. The company also accounts for two-thirds of total global sales of oxide catalysts used in the production of formalin. Customers include the world's largest manufacturers of chemicals, resins and board in more than 40 countries.

The general improvement in economic conditions has generated increased demand for board and various chemical products, which has stimulated investments in new formalin production capacity, particularly in China and Russia. In this favorable market climate, Perstorp defended and developed its leading position through sales of new plants to customers in China, Russia and France in 2005, and expansion orders for two plants from customers in Europe and South America.

As a result of increased production at many formalin plants throughout the world that use Perstorp's products, demand for formalin catalysts was particularly strong. Perstorp accepts used catalysts from its customers for recovery and recycling of the active substance molybdenum in new catalysts, thereby creating significant environmental benefits.

Perstorp is now conducting development projects focused on new formalin catalysts that are expected to increase productivity and reduce energy consumption in the formalin process. Other development work is concentrated on catalysts for other types of oxidation processes.

Boltorn™ helps to provide slalom boots with a better fit and greater comfort.

BEPD is a specialty polyol used in protective coatings on cans and other containers.



Organic acids

The range of specialty chemicals offered by Perstorp Specialty Chemicals includes several organic acids for different applications. The Group is a large-scale producer of hexanoic acid, propionic acid and formic acid. Hexanoic and propionic acids are produced in Stenungsund, and formic acid is produced in Perstorp.

Hexanoic acid is used as an additive in safety glass, a rapidly growing application area. High-strength safety glass has been used for several years to produce windshields for motor vehicles and, as a result of more stringent safety demands, is now also being used increasingly in the side windows of motor vehicles and glass for display windows, doors, building facades and other applications. Hexanoic acid is also used as an additive in corrosion inhibitors, meaning as a rust-protection agent in antifreeze, for example.

Propionic acid and formic acid are used as raw materials in the manufacture of various products, primarily in the agricultural sector and leather industry. The acids are refined both within the Group (see Food & Feed) and by external customers, mainly in Europe.

Demand for the business sector's acids was favorable during the year and capacity utilization was high. Given the current expectations of continued strong market growth, investments in new capacity for the production of acids were made during the year. A new formic acid plant was placed on line in Perstorp, and construction was started on a new hexanoic acid plant scheduled for start-up during the spring of 2006.

Food & Feed products

The agricultural and food industries represent a growing application area for many of Perstorp's products. In line with the Group's strategy to focus on specialized markets with healthy growth potential, Perstorp intensified its efforts in this area during the year.

Perstorp's offering consists of antibacterial feed additives, silage agents used to preserve green feed and different acid composites in the field of grain preservation. All products are based on the refinement of formic and propionic acid or other Perstorp products such as calcium formates, sodium formates and sodium propionates. The propionic and formic acid-based products manufactured by Perstorp are bactericidal and, when used to replace antibiotics in animal feed, can reduce risks for the spread of salmonella, E-coli and other bacteria, and prevent the build-up of toxic fungi, or mycotoxins.

The strong growth in demand for Perstorp's agricultural chemicals continued during the year, mainly as a result of stricter EU requirements regarding animal husbandry. The EU's new Feed Hygiene Regulation, which took effect on January 1, 2006, imposes stricter demands on feed quality and animal husbandry and bans the use of antibiotic additives in animal feed.

Franklin Holding BV, the Netherlands, and its subsidiaries, were incorporated in the Group on April 1, 2005. With sales of about SEK 180 m in 2005 and 30 employees, the operations strengthen Perstorp's market position and complement the offer-

Agricultural chemicals from Perstorp replace antibiotics in animal feed, contributing to improved animal husbandry and higher food quality.



ing with a number of feed additives based on organic acids.

A decision was also made during the year to invest in the production of potassium formate at the Group's existing plants in Perstorp and Gent, Belgium. Perstorp has already established a world-leading position in the formate market with its production of sodium and calcium formates. Supported by the new investments, Perstorp will be able to achieve a prominent position in the market for potassium formate, which has grown strongly during recent years. The market is expected to show continued strong growth based on the environmental and economic advantages offered by potassium formates in application areas such as oil-drilling and deicing.

Oxo alcohols and plasticizers

Perstorp is one of Europe's largest and most diversified producers of synthetic alcohols, or oxo alcohols. Chemically, the products derive from the same aldehyde bases that provide intermediates for the Group's range of polyols.

Oxo alcohols have a wide range of application areas in a number of industrial segments. The fastest growing application is water-based paint systems, which are showing strong growth, due to environmental considerations. In addition to these application areas, the products are also included in biodegradable lubricants, and used as fuel additives for greater combustion efficiency in diesel engines.

Large quantities of plasticizers for PVC plastics are produced in Stenungsund. Production focuses strongly on medical grades of DEHP. Medical equipment that contains DEHP as a component in disposable products used for blood transfusions and dialysis form the primary application area. Other applications include resilient floor coverings for wet rooms, electrical cable insulation and other areas.

Oxo alcohols and plasticizers are sold mainly in the European market, where strong demand was noted during the year despite generally weaker economic growth in Europe, compared with Asia and the US. Margins on oxo alcohols declined due to rising prices for the raw material propylene and some overcapacity in the market. Capacity utilization was high during the year at all Group plants, however.

Renewable motor fuel

Perstorp believes the market for renewable fuel for motor vehicles has significant potential and, in November 2005, the Group entered into a partnership with Preem Petroleum AB, Sweden's largest oil company, as part of efforts to increase sales of renewable fuels in Sweden. Within the framework of the partnership agreement, Perstorp will build a plant for the production of rapeseed methyl ester (RME), with an initial annual capacity of about 60,000 cubic meters and with the potential for rapid expansion to keep up with growing market demand. Under the terms of the agreement, Perstorp is responsible for production and Preem will assume responsibility for sales and distribution.

Rapeseed methyl ester (RME) is a refined rapeseed product used as a renewable component to mix with diesel fuel, or as a completely independent fuel product. Full-scale production is expected to start in early 2007, and the goal is to gradually cover Sweden's demand for RME as a 5-percent mix in diesel fuel.



Rapeseed will be used as the raw material for Perstorp's planned production of environmentally sustainable fuel for motor vehicles.

Operations

Perstorp produces specialty chemicals at ten sites in eight countries. The largest sites are situated in Perstorp and Stenungsund in Sweden, Bruchhausen in Germany and Toledo, Ohio, in the US. Since most sites include several specialized plants, the total number of production plants exceeds 40. Including energy production, technical service and maintenance, the Operations function has approximately 1,200 employees.

High capacity utilization

Perstorp's capacity utilization was relatively high during the year, particularly at the unit in Stenungsund, but was affected by a number of planned production stoppages and a standstill in polyol production in the US.

Combined with the effects of the comprehensive efficiency-enhancement measures implemented during the preceding year, capacity utilization contributed favorably to earnings.

The comprehensive investments completed or started during the year created a new platform for efforts designed to optimize the company's production and processes, and a new strategy for continued improvements was developed. The strategy includes a large number of measurable goals in eight main areas, such as environment, productivity and skills development, to be achieved over a three-year period through year-end 2007.

Comprehensive investments

To meet the growing demand, Perstorp approved comprehensive investments in existing and new products in 2005, several of which will be completed in 2006. Accordingly, investments during the year, excluding acquisitions, amounted to SEK 594 m.

Perstorp's current investments pertain mainly to the following plants, most of which are based on proprietary technologies:

- ➔ Operations were started at a new formic acid plant in Perstorp, increasing capacity from 25,000 to 40,000 tons annually.
- ➔ The plants for production of TMP and Neo polyols in Perstorp were expanded and the remaining stages will be put into operation during the first half of 2006. Production of TMP in Toledo, Ohio, was also expanded. A plant for production of di-penta is now under construction at the site in Vapi, India, and is scheduled for deployment in early 2006.
- ➔ Biofuel-based energy production in Perstorp has been re-modeled to meet new combustion directives and support the utilization of various biofuels to increase access to energy resources at competitive prices. Furthermore, a boiler designed



A new formic acid plant in Perstorp was completed during 2005.

to destroy liquid waste is scheduled for completion during the summer of 2006.

- ➔ Initial expansion of the basic production of aldehydes was placed in operation in Stenungsund. A second phase will be implemented during the third quarter of 2006. Production capacity for butanol and certain intermediates was also increased. A new propionic acid production plant with a capacity of 50,000 tons annually is now under construction in Stenungsund and expected to be placed on line during the spring of 2006. This project will also free up capacity in the existing acid plant, enabling the Group to increase its production of hexanoic acid from 50,000 to 80,000 tons annually.
- ➔ A decision was made to invest in the production of potassium formate at the Group's production units in Perstorp and Gent, Belgium. The investments will enable Perstorp to produce 55,000 tons of potassium formate annually through conversions at two existing plants. According to present plans, production in Gent will begin during the first quarter of 2006 and in Perstorp during the summer of 2006.
- ➔ A decision was made to start production of the specialty polyol DMBA (di-methylolbutanoic acid), which is used to produce environmentally compatible, water-based coatings and lacquers.
- ➔ Within the framework of a partnership agreement with Preem Petroleum AB, Perstorp will construct a plant for the production of rapeseed methyl ester (RME) in Stenungsund, with manufacture scheduled to start in early 2007.

In addition to these investments, a number of smaller expansion investments will be made at the Perstorp plants in Germany, Italy, Belgium, the US and India.

A special section on pages 29-30 contains comments on the Group's work involving the environment, safety and health.



Agneta Wiberg, Director of Manufacturing,
Perstorp Polyols Inc., Toledo, Ohio, USA



One of Perstorp's core values is 'Responsibility,' which is intended to extend throughout all of the company's relations. Assumption of responsibility for the company's work processes is an important element.

Agneta Wiberg is Director of Manufacturing at Perstorp Polyols Inc. in Toledo, Ohio, in the US.

"As a director, I feel first and foremost a very large responsibility for our employees, and their ability to work in a safe environment. But we also have a major responsibility in terms of ensuring that our products and processes minimize risks for our customers and the environment."

Perstorp Polyols is a member of the American Chemistry Council's Responsible Care program. Perstorp's plants in Toledo were also among the first in the American chemicals industry to receive certification in accordance with RC-14001, an extension of ISO-14001, which includes all aspects of Responsible Care. The certification means the company meets stringent quality, safety and environmental demands controlling the entire operations and including everything from process and product safety to environmental protection and contacts with neighboring communities and public authorities.

"All employees have a responsibility for our operations. For example, our shift workers work without supervision by foremen, which means that all employees must accept personal responsibility for their work, for safety considerations and for the environment," Agneta explains.

Renewal & Development

Perstorp increased its investments in innovation during the year, and the Group's research and development expenditures exceeded SEK 80 m, or slightly more than 1% of net sales.

Increased investments

Perstorp has taken over legal responsibility for the R&D center at Kilpilahti in Porvoo, Finland, which the Group had previously leased from the Dynea Group. The acquisition of the center, which has 25 employees, strengthens Perstorp's potential to conduct customer-focused research and development work. Kilpilahti is the largest petrochemical center in the Nordic region, where a number of major chemical corporations conduct R&D activities. As a result, the center has a well-developed infrastructure, high-tech equipment and excellent opportunities for cooperation and exchanges of knowledge.

A new research laboratory has been completed at the Group's R&D center in Perstorp as part of efforts to increase efficiency and facilitate the integration of know-how in different segments of the development work.

In Vapi, India, the Group has started construction of a third

R&D center to complement the sites in Perstorp and Kilpilahti. The expansion of laboratory facilities in Vapi has been started, and a manager for the activities has been recruited.

Innovation process

The Renewal & Development unit has overall responsibility for the Group's renewal and development activities. Research and development projects are conducted in close cooperation with the Group's marketing and production organizations.

The structured innovation process introduced in early 2001 has stimulated the inflow of ideas and created an increase in the number of development projects. During 2005, this resulted in more product launches, and the number of patent applications increased by 11, compared with a 4 increase in the preceding year.

Focused innovation

Perstorp's core competencies lie within selected niches of organic chemistry and polymer chemistry. A key element is the Group's know-how in aldehyde chemistry-based products, processes and



Focused innovation is one of Perstorp's three core values and deals with the development of technologies, products, process and applications. It also entails efforts to find new ways to approach the customer's problems and needs, and continuously develop the Group's mode of operations to achieve greater efficiency and favorable earnings.

"By focused innovation, we mean the achievement of something new that has a financial value for Perstorp and our customers," explains Dr. Stefan Lundmark. "Our innovation process is based on systematic work and close cooperation with the Group's different areas of business activity. It is critical for us to reduce the time from concept to market launch."

"We receive an average of one idea every day from the organization, which we then continue to pursue. It is important that our approach is based on efforts to develop and add greater value to new ideas, so that they are not abandoned too quickly. With our well-structured and strategically founded innovation process, we are able to focus on efforts designed to gradually and systematically reduce the degree of uncertainty related to a concept or a project until the point at which we can make a well-motivated decision in each individual case."

All employees are able to contribute by submitting proposals via the intranet. The innovation organization also works continuously on internal innovation and brainstorming meetings, contacts with external researchers and so forth.



Stefan Lundmark, Senior R&D Associate, Perstorp

applications. The innovation work is focused on development of new chemical solutions that create value for the customer and for Perstorp. Projects are generally focused on the development of products or processes that offer significant environmental, health and safety advantages and favorable correlations between price and performance. The work is characterized by Perstorp's ambition to develop solutions that meet customer needs, instead of focusing on individual products.

Several projects were conducted during the year in the area of environmentally compatible coating systems. The projects focused on products that can be used to produce powder paints, UV-hardening paints and solvent-free or low-solvent coating

systems (water-based coatings and what are known as "high solids").

Continuous development work is conducted in areas related to the company's central production processes and new process concepts both for existing and new products. Technological and process development focuses on efforts to optimize proprietary raw materials (aldehydes) and the value of aldehyde-based products manufactured and marketed by the Group.

The development of formalin catalysts that will support increased efficiency and lower energy consumption continued during the year.

Supply Chain

Reliability is one of Perstorp's core values. It includes a quest to offer customers reliable solutions that are delivered with extremely high precision. The Group's global supply chain management function is responsible for procurements of raw materials and supplies and the distribution of finished goods. Important missions also include ensuring that customers receive good service and reliable deliveries, while optimizing the Group's total costs for raw material supplies.

The Group's customer service was concentrated during 2005 in a small number of locations. This enables Perstorp to offer every customer a single contact person for all products in the entire chain from order booking to delivery, while also creating greater potential for continuous training of proprietary personnel.

Estimated costs for a chemicals company's goods supply, excluding raw material costs and investments in warehousing facilities, are generally in the range of 15% of sales, which provides significant potential for efficiency improvements. Within the framework of the Group's continuous productivity work, various projects are conducted to reduce total costs for procurements and the handling of certain types of goods, and substantial savings were achieved during the year.



In brief, the core value of reliability means that Perstorp shall offer reliable solutions delivered with high precision.

"To be recognized as a reliable supplier is extremely important to us. It involves daily contact with our customers, and we try to learn as much as possible about their needs and expectations," explains Patricia Lima Borge, manager of Customer Service in Perstorp; she also has a special responsibility for several customers in South and Central America and the West Indies.

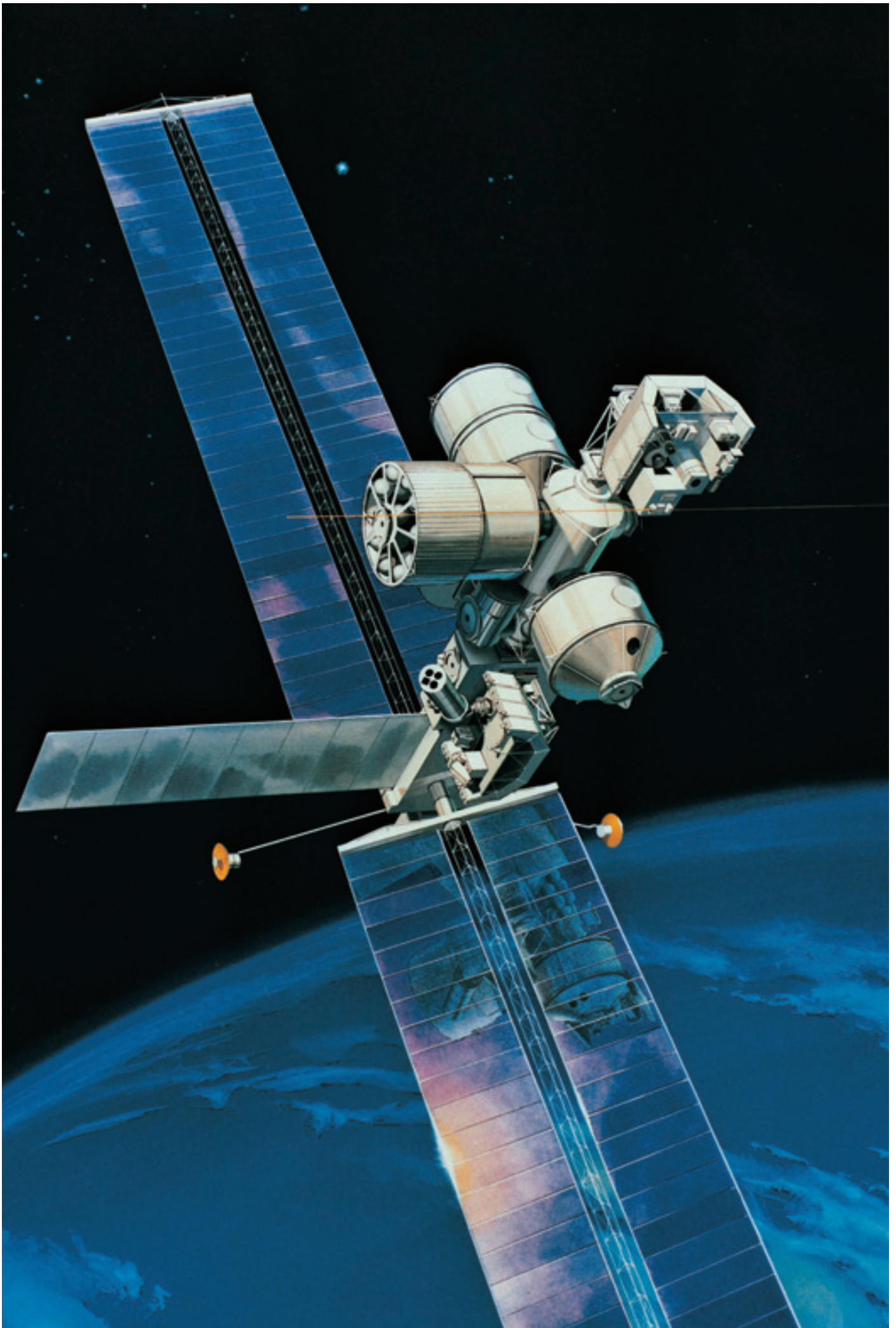
"In the end, we only sell what we can promise to deliver within the specified time and cost parameters. It's a proactive operation, whereby we constantly strive to find the best way to meet every individual customer's needs."

Customer satisfaction is monitored regularly by an external survey company.

"We recently received last year's results, which show one of the very best results among all companies surveyed in various industrial sectors. As a specialty chemicals company, we are proud that our service standards are compared with the large international hotel chains and other dedicated service companies."



Patricia Lima Borge,
Head of Customer Service, Perstorp



Advanced Composites

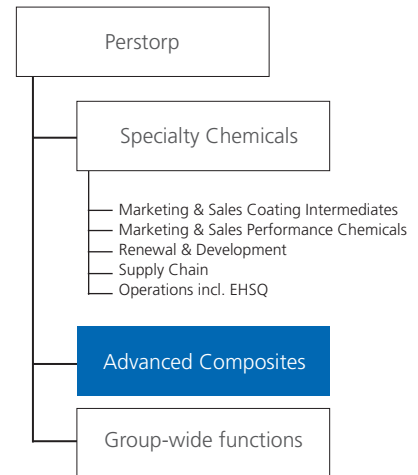
The need for strong lightweight materials is increasing throughout the entire transport sector due to rising fuel costs. Particularly high demands are placed by the aerospace industries, which require extremely advanced materials that combine low weight and high performance.

With many years of experience in composite materials and components, Perstorp is a leading supplier in small niche sectors of the market for aerospace applications, which is based mainly in the US. YLA, an Advanced Composites company, manufactures materials for high-temperature systems related to the propulsion of aircraft and carrier rockets, while the subsidiary CCS produces sophisticated, precision-molded components for the aerospace industries, with particular emphasis on satellite structures.

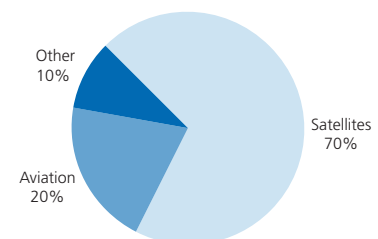
The two American companies compete with a limited number of manufacturers such as Hexcel and Cytec, both located in the US, and to a lesser degree with specialized manufacturers of aluminum structures for the aerospace industries.

YLA and CCS conduct extensive development of new products in close cooperation with the overall R&D function of Specialty Chemicals. The link to the Group's specialty chemicals expertise creates opportunities for YLA to develop better and less expensive materials and enables CCS to develop applications that offer cost advantages resulting from the molding of components.

The favorable trend of order bookings for carbon-fiber-reinforced composite materials for the aerospace industries was further strengthened during the year. Perstorp has a large project portfolio comprising new products and applications, which is expected to contribute to favorable, long-term sales growth. The Group plans to further strengthen its competencies in the product area and seek complementary technology and company acquisitions.



Sales per application area



Brad Pletcher, President, YLA Inc., USA

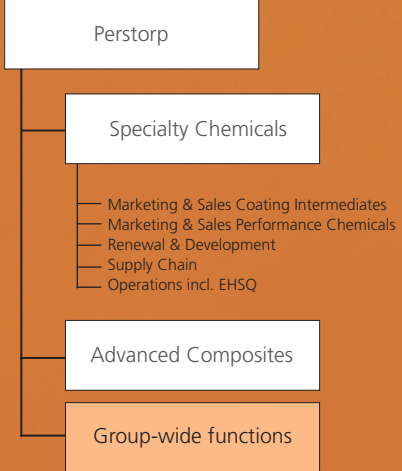
Strong position in satellite industry

Advanced Composites has established a strong position as a satellite industry supplier through its development of sophisticated composite materials. Perstorp's companies in this segment have participated in the development of high-tech materials for virtually all leading suppliers and subcontractors serving the satellite industry, including Boeing, Lockheed Martin, Alcatel, General Electric, BAE and EADS. For these customers, materials from Advanced Composites mean low production costs and high durability, combined with minimum weight, which are critical factors that enable satellites to perform their sophisticated missions.

"Staying abreast of our industry's rapid growth is an important challenge for us. We focus, therefore, on developing our ability to manufacture large volumes without compromising our flexibility and awareness of customer needs for advanced technical service. Among other factors, this calls for efforts to strengthen process control and logistics, so we can react quickly to customer preferences and deliver products that offer the highest possible value. This approach enables us to take part in the development of the next generation of systems and products."

"Developing our production process and products will be a key task in the next few years. Until now, the satellite market has focused mainly on product performance. As the commercial satellite industry becomes more firmly established, demands for cost-effectiveness, shorter lead-times and quality will also increase. That is why we are concentrating on increasing efficiency throughout the entire value chain, utilizing the Group's skills and expertise in the supply chain and production techniques, as well as in chemistry in general," says Brad Pletcher, President of YLA Inc.

Group-wide functions



HR & Communications

Perstorp has developed a progressive, performance-based corporate culture in recent years. Perstorp's employees are of vital importance to the Group's success, and the HR & Communications function participates through well-developed processes for personnel leadership and development, and a structured work method that includes focused campaigns in areas where improvements are needed most.

The Group had 1,592 employees at year-end 2005. The workforce was distributed geographically as follows: Sweden 57%, other EU countries 17%, Asia 17% and the US 9%.

Sickness absence was generally low throughout the Group, below 3%, including long-term absence.

Training and other activities

A large number of continuous training programs were conducted during the year, and a program for lifetime and career development planning was started. Combined with a new policy for job rotation, the program provides opportunities to try different assignments within the Group for a maximum period of 12 months while retaining employment in the original job assignment.

All HR policies in the Group have been cataloged electronically in Perstorp's quality management system, and a harmonization has taken place between the Swedish operations.

In the field of communications, a decision was made to build an operations portal, a third-generation intranet, to enhance the effectiveness of all employees who work with computers.

Perstorp has entered a program of cooperation with SOS Children's Villages and decided to serve as main sponsor for the Nanchang children's village in China through a total investment of SEK 3 m over a three-year period. The investment is motivated by China's growing importance as an export market for Perstorp and the Group's willingness to support development in the region.

Perstorp High School, the secondary school owned and operated by the company, was named the best secondary technical school in southern Sweden by Teknikföretagen, an association of technical engineering companies.

Perstorp was also named one of Sweden's ten best companies in the "Sweden's best workplaces" survey conducted by Alecta, in which factors such as the company's work on leadership, citizenship, work environment conditions and profitability were appraised.

For additional information, reference is made to the HR Report to be published in the spring of 2006 at www.perstorp.com.



Perstorp has entered a program of cooperation with SOS Children's Villages and is the main sponsor of Nanchang Children's Village in China.

Finance & IT

Finance

In early 2005, activities within Financial Control were characterized by the transition to IFRS, International Financial Reporting Standards. The divestment of Vyncolit operations followed by the acquisition of Franklin Holding placed high demands on financial reporting early in the year, through the application of IFRS 3 and 5.

For the Corporate Finance and Financial Control teams, the year was characterized by a process approved by the owners, whereby the Sydsvenska Kemi Group was sold to PAI partners, a private equity company based in France. The process, which started in the second quarter with the seller's due diligence, was completed according to plan in the fourth quarter.

The sale of Sydsvenska Kemi was followed by a change in the legal structure, with new holding companies in Germany and the Netherlands, intended to create a more favorable tax position.

The ownership shift was also followed by total refinancing, which led to the repayment in January 2006 of Sydsvenska Kemi AB's SYSK1 debenture loan. Perstorp Holding AB's current financing is presented in greater detail in the Board of Directors' Report on page 38.

IT

A large number of projects and activities were conducted during the year. Major Group-wide projects included a thorough upgrade of the operations portal and increased concentration on integrated production and administrative systems.

Substantial resources were also used to detach divested operations and gradually integrate the operations of acquired units.

Continuous activities included efforts involving application and technology consolidation, investments in maintaining high IT security and the further training of personnel.

The tempo is high, but cooperation at HelpDesk creates job satisfaction and good service.



Environment, health & safety

Perstorp has a long tradition of proactive work related to environmental, health and safety issues. The activities are conducted to achieve sustainable development.

Environmental permits

In Sweden, the Group conducts more than 20 activities that require permits in Perstorp, Stenungsund and Nol. These plants have valid permits for the production of polyalcohols, formalin, acids and alcohols.

During 2005, the Environmental Court in Växjö, Sweden, granted new permits for increased production of trimethylolpropane at the complex in Perstorp. Applications were also submitted for expansion of a steam boiler at the Perstorp unit's steam power station and permission to use Biomal, an animal fuel. During 2006, the company expects to submit additional applications for permits to the Environmental Court in Växjö, including an application to increase ditrimethylolpropane production in Perstorp.

A previous ruling by the Environmental Court concerning the neopentyl glycol (Neo) plant in Perstorp was resolved in favor of the company during the year by the Environmental Appeals Court/Svea Court of Appeal, following an appeal regarding transport conditions.

The unit in Stenungsund has initiated proceedings before the

Environmental Court at Vänersborg District Court for permission to build a plant for production for 200,000 tons per year of biofuel to be mixed with diesel oil. The blend involves the use of a chemically modified vegetable oil, which will be the main raw material for the RME (Rapeseed Methyl Ester) product. Fossil carbon dioxide emissions can be reduced by blending RME in diesel fuel for the transport sector.

The Group has production units in eight countries. Several units outside Sweden have received new permits during recent years for various changes in their operations, including the units in Germany, Belgium, the US and India. Some of them plan to apply for additional permits in 2006.

The Group has applied for and been granted emission rights for carbon dioxide for 2005-2007. The assessment is that the allotment meets the Group's needs.

Environmental impact

The Group's production operations affect the exterior environment mainly through emissions into the air and waterways and in the form of waste and noise generation. The Group's environmen-



Responsibility shows that we care about the consequences of our behavior, both as individuals and as a company

tal report contains more detailed information about Perstorp's environmental impact. The report also presents environmental investments during the year.

A new formic acid line was placed in operation at the Perstorp site in 2005, replacing an old formic acid plant. The new line will provide environmental improvements related to production of formic acid.

A soil remediation project is being conducted at the Neo plant in Perstorp, where finished products have contaminated some sections of the soil under the plant. The project, which is expected to continue for some time, is being conducted in cooperation with supervisory authorities.

An existing sludge landfill at the Stenungsund complex was excavated during the year and removed from the premises for destruction. The landfill had been used since 1980, when the operations were started, and dewatered sludge from the company's biological treatment plant had been deposited at the site. During the first quarter of 2006, the area will be covered with soil. A total of 4,800 tons of sludge were excavated from the site and sent for combustion. Leachate water from the area, which is analyzed regularly, is now diverted to the company's treatment plant.

Discussions have been under way for several years concerning liability for historical soil contamination at a property formerly owned by Perstorp in Bankeryd, Sweden. The Environmental Court ruled in the company's favor in a judgment announced in 2004. However, the County Administrative Board filed an appeal with the Environmental Appeals Court, which ruled in the county's favor in 2005. Under the new ruling, Perstorp has

been ordered to conduct a soil analysis at the property and report its findings to the County Administrative Board in 2006.

The unit in India completed a small soil remediation project during 2005. At the unit in Toledo, Ohio, in the US, several small projects are now in progress concerning groundwater purification.

Environmental liability

Perstorp's financial reporting is based on the "going concern principle," which is also reflected in appraisals of possible environmental liabilities.

The Group complies with decisions issued by public authorities and implements measures both proactively to prevent environmental effects and reactively in the event of environmental disturbances.

Miscellaneous

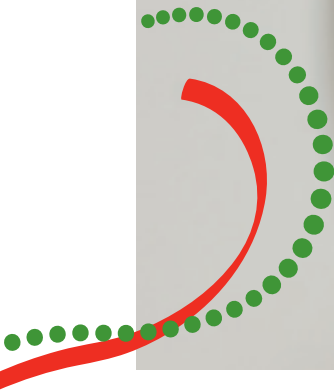
Most of the Group's production units are certified in accordance with ISO 14001. Perstorp also has a Group-wide management system for Environment, Health and Safety (EHS). For more detailed information about the Group's work involving safety, health and the environment, reference is made to Perstorp's Environmental Report for 2005, which will be available in the spring of 2006 on the Group's website, www.perstorp.com.

In conjunction with Industri Kapital's preparations prior to the divestment of the Perstorp Group, independent environmental appraisals were conducted at all Group sites. The analyses did not lead to any significant new environmental observations.



125 years

of winning formulas



Formulas for 125 years of success

Perstorp AB started its operations in 1881 and the company soon became a pioneer in several areas with links to chemistry. Through determined efforts focused on continuous renewal, Perstorp has grown from a local manufacturer to a global specialty chemicals group with leading positions in selected niche segments. Today, in 2006, Perstorp can summarize its development with the slogan “winning formulas” – formulas for success – for 125 years!

The platform for the company that was founded before the petrochemical industry’s emergence was the beechwood forests that surrounded the village of Perstorp in northern Skåne. However, much more than access to raw materials was needed to start an industrial enterprise such as Perstorp. It also required a bold entrepreneur able to recognize the needs of the market.

This entrepreneur was Wilhelm Wendt, who started the company in 1881 and named it Stensmölle Tekniska Fabriks AB. Using beechwood from his father Carl Wendt’s forests outside Perstorp, the young engineer started producing simple chemical products with methods he had learned during study trips in Germany and France. The first products were acetic acid and charcoal. Supported by the strong success of acetic acid for household applications, the company was renamed Skånska Ättikfabriken in 1888.



1884 The carbonization plant has been supplemented with a processing plant for purification and concentration of acetic acid

Start of formalin production

With beechwood again providing the raw material, the company also started to produce methanol, the chemical designation for wood alcohol. In 1907, the company learned to refine methanol and produce formalin, a versatile chemical still produced by Perstorp and used as a raw material for many of its products. Today, however, natural gas has replaced wood as the raw material for methanol, and Perstorp purchases its requirements for methanol on the global market. The company has also developed an effective, market-leading formalin process that is licensed to companies in all parts of the world.

Over the years, the company developed a broad product portfolio based on formalin chemistry and related technologies. This led to a pioneering role in the plastics sector and in 1918 Perstorp became the first manufacturer of plastic products in Scandinavia. The person in charge of this development was Innanendra Das Gupta, a chemical engineer from India whom Wilhelm Wendt had recruited from Berlin. Das Gupta successfully developed Isolit, a thermoplastic compound, without infringing on the many patents that protected Bakelite, a competing product. The first plastic products from Skånska Ättikfabriken were handles for electric knife switches, and production increased rapidly as the electrification of Swedish communities created a growing need

1881

The company is founded in Perstorp, with production of acetic acid and wood alcohol

1907

Formalin production is started, creating the base for a long line of products

1918

Perstorp becomes the first plastics production company in Scandinavia

1923

Laminate production begins, initially for industrial applications and later also for decorative laminate

1950

Perstorp starts production of thermoplastic products

1951

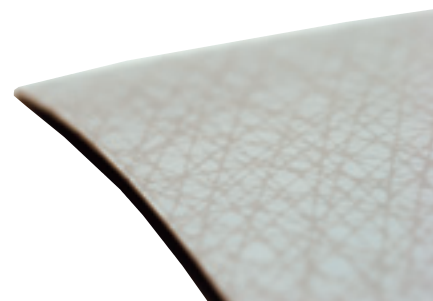
Perstorp high pressures laminate is launched and becomes a huge success in many countries



1854-1924 Wilhelm Wendt, Perstorp AB's founder and manager for more than 40 years

1940-1960

Major development investments in polyols for coatings and lacquers





for this moldable, insulating material.

The lacquer that was developed later formed the foundation for production of laminates, which Perstorp soon started producing in two basic versions – industrial-grade laminate and decorative laminate. Industrial-grade laminate was used primarily in the radio industry, while decorative laminates were used to produce tabletops and related products that became widely appreciated for their durability and resistance qualities.

Success for Perstorp high-pressure laminate

After World War II, sales of the new Perstorp decorative laminate skyrocketed. Sweden was building its welfare state – several hundred thousand apartments with kitchens and bathrooms were furnished with the practical, new laminate from Perstorp. Virvarr, a laminate pattern designed by Sigvard Bernadotte, a young Swedish designer, was a huge success. And on the Continent, comprehensive reconstruction of war-torn Europe had started, creating a large export market for the company.

Economic growth during the post-war years and the success of Perstorp laminates contributed to highly favorable growth for the company. The production plants in Perstorp were expanded sharply, and the village of Perstorp was energized to the point that plans were initiated to apply for a city charter. The first production operations outside Sweden were established in 1955, when Perstorp started producing laminates in Sao Paulo, Brazil.

Investments in chemicals

Through determined and long-term development efforts that started in the early 1940s, the foundation was laid for the company's modern specialty chemicals through investments in polyalcohols (polyols), which are resins used mainly to produce

coatings and lacquers. Even before the end of WW II, a small plant was built for the production of pentaerythritol, which was used primarily to replace glycerol in alkyd production in the coating industry. The project proved to be difficult and costly, but the company decided to continue. The commercial breakthrough occurred during the 1950s and in 1955 production was expanded to include another polyol, trimethylolpropane, which also focused on the coating industry. The polyols gradually generated very significant success for Perstorp, and today they comprise the Group's largest product group.

Production in those days also included many other chemicals-based products, such as lacquers and resins as well as thermoset and thermoplastic products. Perstorp also invested in the new thermoplastics and, within a few years, became the largest plastics company in Scandinavia, with approximately 10,000 products in the offering.

Stock market listing

Perstorp faced a number of major challenges as the 1960s drew to a close. The company had a solid technological foundation and a corporate culture based on entrepreneurship. However, financial muscle was needed for the Group's continued expansion, and a management that could shift into a higher gear for the future. As a result, the owners decided to list the company's shares on the stock exchange and recruit a president from outside the Wendt family circle, although the family would retain its dominating influence over the company.

The company had changed its name a few years earlier to Perstorp AB and, in 1970, a new era started with this Perstorp AB as a listed company on the Stockholm Stock Exchange. At that time, the new stock exchange company had production only in Sweden and the far-away Brazil.

International expansion was started in order to develop strong positions in the areas considered to be the most attractive – chemicals, plastics and laminates. In rapid succession, companies were acquired during the 1970s in the UK, Austria and the US. Polyol production was started in Toledo, Ohio in

1970

Perstorp AB is listed on the Stockholm Stock Exchange and starts to expand rapidly

1977

Polyol production is started in the US and later in other countries in Europe and Asia

1984

The world's first laminate flooring is produced and leads to rapid growth for the Pergo® brand



1991

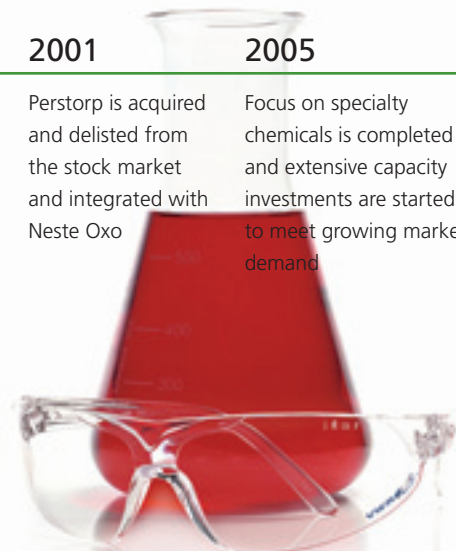
Streamlining of Group operations is started, later leading to the creation of two independent stock market companies – Perbio Science AB (1999) and Pergo AB (2001)

2001

Perstorp is acquired and delisted from the stock market and integrated with Neste Oxo

2005

Focus on specialty chemicals is completed and extensive capacity investments are started to meet growing market demand



1974-1990

Strong diversification and globalization lead to operations in new areas of activity, such as plastic additives, analytical systems and noise abatement



started to gain momentum in the 1990s, it became more difficult for Perstorp to manage its operations in so many areas of business, particularly in the face of growing consolidation among customers and competing companies.

Streamlining towards specialty chemicals

During the 1990s, efforts were started to concentrate the Group's operations in fewer business areas, and several areas of activities were divested, including industrial-grade laminates, automotive components, plastic-based materials-handling systems and others.

Specialty chemicals operations together with the still strongly expansive Pergo flooring material emerged as the most interesting areas of business focus for Perstorp. Substantial investments were made in both business areas. Pergo established operations in the US, where it quickly became a well-known brand. Perstorp Specialty Chemicals, which was now a globally active company and the world's largest supplier of several polyols, initiated aggressive investments in Asia. The focus of these two areas led to the stock market spin-off in 1999 of the Group's biotech operations under the name Perbio Science AB.

After several years of dramatic sales growth, Pergo started to encounter tough competition from companies with different production techniques, and the Group had arrived at another crossroads, not unlike the juncture that led to Perstorp's stock market listing 30 years earlier. The decision by the Board this time, after a period of turbulence between the owners, was to list Pergo AB on the stock exchange separately and to sell the remaining group, with its strong focus on chemicals, to the private equity capital company Industri Kapital.

This took place in 2001 and Industri Kapital, which had already acquired Neste Oxo in Stenungsund, incorporated these operations in the Perstorp Group. By combining the two companies, a group was formed with a strong technological base and long value chains. The new structure provided more effective production and created opportunities for more comprehensive research and development work. In the marketplace, the merger provided greater resources to work in close cooperation with customers in all parts of the world.

The specialty chemicals company Perstorp has grown rapidly during recent years and embarked on some of the largest investment projects in the company's history. The operations involving compounds were also divested. There is strong confidence in the future both within and outside the company and, in conjunction with its 125th anniversary, Perstorp was acquired by the French private equity company PAI partners. With the support of PAI partners for Perstorp's growth strategy and the comprehensive investments in R&D and production, the specialty chemicals company is well prepared for its continued creation of "winning formulas" for the global markets of the 2000s.

1977. Pernovo, a special business development company, was established to provide the Group with new business activities to complement the more mature products in its portfolio.

It should also be noted that during the 1960s development of a Swedish petrochemicals center started in Stenungsund, in Bohuslän. A cracker plant started operations in 1963, and a number of chemical companies started operations in the area around the plant. They included an oxo-production plant, which became an important supplier to Perstorp AB and – some years later – a part of the Group.

Increased diversification

During the 1980s, Perstorp entered a period of strong expansion. Through active development work combined with international investments, Perstorp grew both in terms of products and geographically. A large number of companies were acquired in several additional countries, and Perstorp's shares were introduced on the London Exchange in 1983 and the Paris Bourse in 1989.

New specialty chemicals products were developed and new generations of industrial-grade laminates were produced for applications in the electronics industry. The decorative laminates spawned a completely new product, Pergo, laminate flooring that would grow into a global product within only a few years. As if this wasn't enough, the business development company Pernovo achieved breakthroughs in areas that included plastic additives, noise abatement and analytical systems. The operations were highly diversified but held together by the connection of every product to origins in Perstorp's many years of comprehensive knowledge in chemicals and chemistry and, in many cases, common raw materials produced internally.

Initially, the Group was able to manage its growing portfolio and capture leading positions in many markets. However, when the customs barriers in Europe were removed and globalization

Risk management

Geographical markets

A large part of the Group's operational and financial risks is associated with the geographical markets in which Perstorp conducts its business operations. Perstorp has production units in eight countries in Europe, North America and Asia. Within Specialty Chemicals, production is mainly conducted at three plants in Sweden and in Germany, the United States and India. There are smaller manufacturing units in Italy, Belgium, the Netherlands and South Korea. Advanced Composites has production operations in the US. Also see map on page 2.

Sweden accounted for nearly 70% of the Group's operating capital excluding goodwill (Table A) before the fair value adjustments that shall be conducted in conjunction with the acquisition of Sydsvenska Kemi. However, customers in Sweden accounted for only 6% of the Group's pro forma total net sales (Table B). Slightly more than 50% of sales are delivered to customers in EU countries, where Germany and the United Kingdom are the largest individual markets. Customers in NAFTA accounted for 17% of net sales and customers in Asia – mainly India, China, Korea and Hong Kong – for 14%. This means that deliveries from the producing units in Sweden to customers in Europe, the US and Asia are considerable. On the purchasing side, most raw materials are paid for in EUR. Accordingly, USD is the Group's most highly exposed currency. More detailed information is presented in the "Currency risk" section.

Operational risks

With regard to operational risk evaluations, the principal factors can be summarized in the areas comprising raw material supplies and raw material prices and competitiveness. The term competitiveness includes several aspects – efficient production and logistics processes, customer focus, environmental responsibility, innovative ability, and other considerations, as well as external effects in the form of legislation in the chemicals sector and restructuring among competitors and suppliers.

Raw material supplies

Two-thirds of the Group's raw materials are crude oil or natural gas derivatives.

Propylene, methanol and acetaldehyde are the main materials purchased from external suppliers. In the next stage, the Group produces several important intermediate materials internally, particularly aldehydes, which in turn contributes strongly to the Group's competitiveness. A Group policy for external raw material supplies stipulates that, whenever possible, Perstorp should use more than one supplier for each of its principal raw materials. However, most raw-material supplies, including supplies of natural gas and propylene, for the Swedish plant in Stenungsund, are delivered via pipelines by sole supplier. This eliminates storage costs and minimizes freight costs, but also creates a risk in terms of raw material supplies. The risk is managed through terminal agreements with supplier, a solution that, in turn, provides access to many other suppliers. For certain other core raw materials, Group companies enter long-term agreements to secure their raw material supplies.

Raw material prices, combined with the supply-and-demand balance, are important for the Group's profitability. When demand is strong, there is greater potential to pass increased costs along the value chain, and vice versa. In retrospect, the critical factor has not been high or low raw material prices for oil and natural gas. However, fluctuating raw material prices often create turbulence in the marketplace and, in turn, uncertainty with regard to demand in various sectors. The 2005 fiscal year was characterized by sharp fluctuations in raw material prices. The price of crude oil, for example, doubled compared with the preceding year. Prices declined temporarily shortly before the third quarter, which was soon followed by strong turbulence in the methanol and energy markets in North America. Opportunities are available to secure quarterly contract prices, which

A. Operating capital, excl. goodwill, per market *)

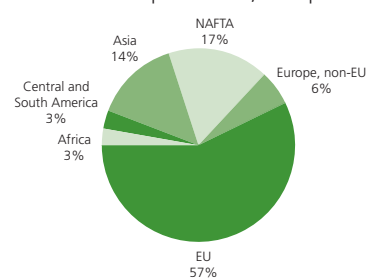
SEK m	2005	%
Sweden	2,548	67
Other EU (mainly DE, NL, IT)	706	18
US	432	11
South Korea	95	3
Other countries	50	1
Total	3,831	100

*) Operating capital based on acquired book values from Sydsvenska Kemi Group.

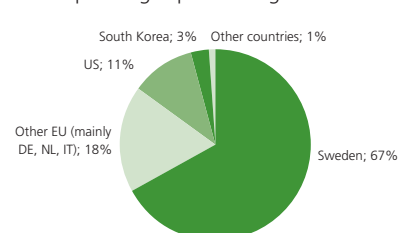
B. Net sales pro forma per market 2005

SEK m	2005	%
Sweden	404	6
United Kingdom	848	13
Germany	567	9
Belgium	353	5
France	289	5
Other EU	1,115	18
Europe, non-EU	363	6
US	1,058	17
Other NAFTA	36	1
Asia	876	14
Africa	188	3
South- and Central America	179	3
Oceania incl. Australia	23	0
Total	6,299	100

Net sales per market, Group



Operating capital excl. goodwill



provide greater price stability over the short term. Opportunities to fix prices over longer periods are available only in the electricity market.

Competitiveness

Structural changes are occurring continuously in the chemicals industry – not least because of growing competition from countries in Asia with lower price levels and capital costs, ample access to low-wage labor and less stringent environmental demands. Establishing a presence in the Asian market is important. Perstorp has maintained a strong presence in Asia for several years. Penta production in India is now being increased to include certain specialty products and expanded R&D activities, TMP production has started up in South Korea and sales offices have been opened in several other Asian countries, most recently a new marketing office in Shanghai. Additional investments in the Asian market are evaluated continuously.

To maintain its competitiveness, the Group constantly strives for greater *resource efficiency* – the *nEverest* activities have been conducted for the past several years to increase productivity within all functions, and a major rationalization program was completed in 2004. These are examples of strong measures implemented by the Group during recent years. It is also extremely important to be represented in all key markets, as Perstorp is, with the capability to deliver the solutions customers want – with a high degree of service and reliability.

The emergence of new *substitute products* for the same application areas that Perstorp provides, is a constant risk but, naturally, an opportunity as well. During recent years, structural investments have been made in R&D, where a focused innovation process will create greater understanding for the value chain and functionality preferred by customers for end products. The driving force for innovations is to generate value for the customer and for Perstorp. A new process has been introduced to shorten the time from original concept to commercialization. A large part of Group R&D resources is devoted to finding new application areas for existing products to extend their lifecycles and increase their value.

In order to be competitive in the chemicals industry, it is essential to accept responsibility for the environment, employees, customers, suppliers and other stakeholders. The *Global EHSQ* corporate function coordinates efforts involving the environment, health, safety

and quality, while local coordinators have been appointed in all local units. The Group has a joint management system to facilitate the dissemination of information concerning risks, incidents and preventive measures. In addition to ISO certification, Perstorp has taken the initiative to create a global EHS standard for the work environment, safety and emergency relief work. Internal audits are conducted to ensure compliance with these standards. At the beginning of 2007, the EU's controversial chemicals legislation, *REACH* (Registration, Evaluation and Authorization of Chemical Products), is expected to take effect. REACH will subject the classification of chemicals and their properties to more stringent demands. The Group has started an internal project to make necessary preparations for compliance with the new regulations. Perstorp is also engaged in the European Chemical Industry Council (CEFIC) as part of efforts to influence the new regulations, thereby making it possible to work within and ensuring competition-neutral enforcement of these applications, thus also ensuring that the law covers products imported into the EU from non-member countries.

Insurance against risks related to property, liability, business interruptions, cargo, travel and crime is managed within Perstorp by *Corporate Finance* (CF), in cooperation with local companies. CF procures, develops and manages the Group's global insurance programs and is responsible for ensuring that the Group has adequate insurance coverage and for supporting Group companies in their efforts to minimize risks. To reduce the risk of business interruptions, regular technical risk inspections are performed at production units. Through global insurance programs with various international insurers, the Group receives the price benefits that should accrue to large-scale purchasers.

Financial risks

The Group has a finance policy that specifies which financial risks the Group is prepared to take, together with guidelines governing the management of these risks. Corporate Finance has global responsibility within Perstorp for the Group's financial activities. Accordingly, CF is responsible for ensuring that necessary specialist competencies exist in this area and for coordination of the Group's external borrowing. CF has been assigned the task of optimizing flexibility and other loan conditions for borrowing, and support-



ing the various Group companies in finance matters. CF serves as the Group's internal bank with respect to capital supply, the Group account system, netting and currency hedging. CF does not have a risk mandate of its own.

Currency risk

The Group has significant payment flows, earnings and net assets in foreign currencies, primarily USD and EUR.

A large part of transaction flows denominated in EUR is offset by payments in EUR for the Group's raw material procurements. However, the Group has substantial net inflows in USD. The group intends to manage its USD and EUR exposure through denomination of part of its indebtedness in these currencies.

Table C shows the Group's flows in foreign currency. The net exposure is concentrated to export companies in Sweden. Perstorp has a large proportion of its production units in Sweden, while customers in Sweden account for only a small percentage of sales. Sales to customers in other EU countries are much more substantial, and are invoiced mainly in EUR. A large percentage of raw material and energy procurements are also purchased in EUR. Net exposure to USD is attributable to large volumes of products exported from Swedish units to customers in the US and Asia, and to Group companies in the US, while procurements in USD (to units outside the US) are extremely limited.

As shown in Table C, flow exposure amounts to approximately SEK 1.9 billion, of which about SEK 1.1 billion is attributable to USD. Accordingly, a 1% appreciation of SEK would have a negative consolidation effect of about SEK 19 m on the Group's EBITDA. If SEK were to appreciate by 1%, the translation effect on the consolidation of foreign subsidiaries to SEK would be an expense of about SEK 4 m.

Financing risk

Financing risk is the risk that difficulties may arise in refinancing of maturing loans or the risk that such refinancing will be costly. Net debt is specified in the Table D below. Most of the Group's financing consists of senior loans guaranteed by Svenska Handelsbanken, Nordea and HSH Nordbank, as well as second lien and mezzanine facilities guaranteed by Deutsche Bank, Goldman Sachs and HSH

C. Estimated flow exposure 2006

	Flows in foreign currency		Net	Equivalent in SEK m
	Inflows	Outflows		
USD/SEK	150	-30	120	956
USD/EUR	20	0	20	159
EUR/SEK	330	-275	55	516
GBP/SEK	18	-6	12	162
JPY	1,596	-96	1,500	102
Total				1,895

Nordbank. The latter were syndicated to about 10 financiers in the beginning of 2006. In addition, Sydsvenska Kemi's debenture loan was settled in January 2006. The loan agreements extend over 7 or 8 years. At year-end 2005, the loans had still not been assigned a final currency or fixed interest terms. The financing was finalized at the beginning of 2006.

The loan agreements include financial covenants comprising key ratios with respect to cash flow in relation to interest payments and debt repayment, net debt in relation to EBITDA and EBITDA in relation to interest payments.

Interest-rate risk

Interest-rate risk is the risk for negative effects on earnings caused by increased market interest rates.

"Interest rate hedging will be implemented in order to fix the interest rates for at least 50% of the bank loans, for a period of 3 years from December 2005."

On December 31, 2005, the average fixed-interest duration was only 46 days. The reason for this was that the financing was not finalized. The currency composition of the net debt is also of significance to the Group's average interest rate.

"Since the Group has substantial net assets denominated mainly in EUR, but also in USD, a large percentage of lending will be raised in these currencies when financing is completed."

Fixed interest duration, interest levels and currency distribution at year-end are shown in Table E.

D. Specification of net debt

	Group December 31, 2005
Senior credits	5,125
Second lien	600
Mezzanine	440
Capitalized costs for arranging loans	-364
Debenture loan (settled January 2006)	1,957
Other financial liabilities excl. owner loan	446
Financial debt excl. Parent Company loan and pension liabilities	8,204
Interest-bearing pension liability, net	173
Loan from Parent Company (see Note 27)	1,604
Total interest-bearing liabilities	9,981
Cash and cash equivalents	-470
Other interest-bearing receivables	-250
Interest-bearing assets	-720
Reversal of costs for arranging loans	364
Net debt incl. pensions	9,625

E. Composition of Group financial liabilities and interest rates, by currency

	Local currency	SEK m	Effective interest rate at year-end, %	Duration, days
SEK excl. debenture loan	6,494	6,494	4.5	52
SEK debenture loan	1,957	1,957	12.0	23
EUR	9	81	7.2	322
USD	4	31	5.8	2
Other currencies		5	3.8	57
Total		8,568	6.2	46
Capitalized costs for arranging loans		-364		
Financial liabilities, excl. Parent Company loans and pension liabilities		8,204		

Report of the Board of Directors

Perstorp Holding AB

Corp. Reg. No: 556667-4205

The Group's formation

The company was formed on September 2, 2004, under the name Guldkålen D 536 AB, which was subsequently renamed Skog Holding AB and, in 2006, was renamed Perstorp Holding AB. On December 22, 2005, the company acquired Sydsvenska Kemi AB (publ), the Parent Company of Perstorp, after receiving the necessary permission for public authorities. Prior to the acquisition, Sydsvenska Kemi sold the German and parts of the Dutch operations to two newly formed holding companies that are owned by Perstorp Holding AB. Under the new ownership, Perstorp's business operations continue to be conducted virtually as before. The Perstorp Group is an international specialty chemicals group that is active in selected niches of the organic chemicals and polymer chemicals markets.

As a result of the change in the control over Sydsvenska Kemi, the terms and conditions for Sydsvenska Kemi AB's 2001/2011 subordinated loan were no longer being fulfilled, whereby the issuing institution, E. Öhman J:or Fondkommission AB, declared that the loan had fallen due for repayment. The final date for trading in debentures was January 11, 2006 and the record date for payment was January 16, 2006. The loan was repaid on January 23, 2006 at a price of 54.36% of the nominal amount.

Perstorp Holding AB is controlled by PAI partners, a French private equity company. PAI partners has offices in Paris, London, Madrid and Milan, and controls funds managing total capital exceeding EUR 7 billion.

Financing

The acquisition of Sydsvenska Kemi AB was financed through a combination of shareholders' equity and borrowed capital. The borrowed funds consist of three types of financing: senior loans, second lien and mezzanine loans. The senior loans have been guaranteed by Svenska Handelsbanken, Nordea and HSH Nordbank. The second lien and mezzanine facilities have been guaranteed by Deutsche Bank, Goldman Sachs and HSH Nordbank.

New legal structure

Since the ownership change, Perstorp has had a new legal structure, whereby Perstorp Holding AB became the Parent Company of the 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.

Accounts

Net sales and earnings

From a legal standpoint, the Group did not arise until the end of 2005. Accordingly, the Group had no net sales during the year and reported a net loss of SEK 9 m, corresponding primarily to interest expense and tax in the Parent Company.

Financial position

Since the Group did not arise until the end of 2005, it has not been possible to complete a statement of acquisition value.

The tangible fixed assets that are reported, which amount to SEK 2,999 m, correspond to the carrying value of the acquired group.

Intangible assets amounted to SEK 6,262 m, of which goodwill accounted for SEK 6,175 m. A fair valuation of assets and liabilities will be conducted during 2006, whereby the goodwill will decrease.

At year-end, net indebtedness incl. pensions amounted to SEK 9,625 m, including loans of SEK 1,604 m from the owner PAI partners. The equity/assets ratio, including loans from the owner, was 16%.

Cash flow

The cash flow reported for 2005 reflects the acquisition of the Sydsvenska Kemi group and the financing that has been raised. Cash and cash equivalents amounted to SEK 470 m at year-end.

Future development

The market outlook for 2006 is promising. This factor, in combination with the deployment of the newly invested production plants during the year, will create a solid base for future growth. At the same time, there are challenges in the form of fluctuating raw material prices and exchange rates.

Environment

The Group has production units in eight countries. In Sweden, the Group conducts about 20 operations that require permits within such companies as Perstorp Specialty Chemicals AB and Perstorp Oxo AB, which have current permits for the production of e.g. polyalcohols, formalin, formic acid and other acids

and alcohols. Units that require permits account for most of the Group's operations in Sweden. Each unit is legally obliged to submit annual environmental reports, which have to be approved by the supervisory authorities.

Research and development

Perstorp expanded its innovation investments during the year. The Group's pro forma research and development costs amounted to SEK 80 m. Perstorp's core competencies lie within selected niches of the organic chemicals and polymer chemicals markets. Knowledge of products, processes and applications based on aldehyde chemistry is of vital importance to the Group.

Corporate governance

General Shareholder Meetings

One Extraordinary General Meeting was held in 2005. At an Extraordinary General Meeting following fiscal year-end, Dominique Mégret, Bertrand Meunier, Fabrice Fouletier and Lennart Holm were elected Members of the Board and Gaëlle d'Engremont was elected a deputy member. The Board also includes members representing the employees.

Board of Directors

According to the Articles of Association, the Board of Directors should consist of one to five members with a maximum of five deputies, who are elected at the Annual General Meeting for the period extending until the close of the following Annual General Meeting. If the Board has only one to two members, at least one deputy has to be elected. The Members of the Board are nominated by the company's principal owner, apart from the members representing the employees.

The Members of the Board are presented on page 56.

The Board's work is governed by working procedures that are reviewed and approved annually by the Board. The working procedures also govern the distribution of responsibilities between the Board of Directors and the President.

During 2006, four scheduled meetings are planned and, if necessary, additional meetings will be convened.

During 2005, two Board meetings and the statutory meeting were held.

The Board meetings and General Shareholder Meetings held in 2005 mainly addressed the formation of the company and the takeover, and the relating financing, of Sydsvenska Kemi AB.

Since the Annual General Meeting was not held during the year, no resolutions have yet been made regarding director fees.

Working committee

For preparing matters ahead of Board meetings, the Board of Directors has established a working committee consisting of the President and Chief Executive Officer and two representatives of the owner. There will be seven scheduled meetings of the working committee during 2006.

Audit

Authorized Public Accountant Michael Bengtsson, PriceWaterhouseCoopers, was elected auditor of the company at the General Shareholder Meeting held on November 22, 2005.

The Board strives for a close relationship with the company's auditor in order to obtain information about relevant matters pertaining to the accounting, administration, and management of the company's assets and, where required, also the company's upkeep in general. The auditor will be invited to Board meetings at least once annually and on other occasions when needed.

President and Chief Executive Officer and Group management

The President and Chief Executive Officer manages the company's operations within the framework established by the Board in its working procedures, which includes responsibility for ensuring that the Board is informed continuously about the company's business operations and for providing it with relevant decision-making documentation for Board meetings. He directs the work of Group management and, in consultation with Group management, makes decisions.

Policy documents

Perstorp has adopted policies that provide guidelines for both the Group's operations and its employees. Comments on the company's environmental policy are provided on page 29, and the finance policy is presented under Risk management on pages 36-37.

Significant events following fiscal year-end

As stated above, the subsidiary Sydsvenska Kemi AB's 2001/2011 subordinated loan has been settled and trading in the debentures on the Stockholm Stock Exchange has ceased.

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

In addition, Perstorp AB and Oxiquim S.A. of Chile have decided to enter into production cooperation, whereby as of March 1, 2006 Perstorp will assume responsibility for production and assets at the plant in Viña del Mar, Chile, and will introduce new technology.

This plant, which has 75 employees, manufactures Formaldehyde, Penta, di-Penta and Sodium formate. The products are sold primarily in the Latin American market and to certain international key customers. Both of the companies will continue to market their products under existing product names.

Accounts

Income statements ¹⁾

SEK m	Note	Group 2005	Parent Company 2005
Administrative costs		-1	-1
Operating loss		-1	-1
<i>Financial items:</i>			
Financial income	19	3	3
Financial expenses	19	-14	-14
Loss before tax		-12	-12
Income taxes	20	3	3
Net loss for the year		-9	-9
Of which, attributable to minorities		0	0

¹⁾ Extended fiscal year, from September 2, 2004 to December 31, 2005. The Group was formed only at the end of 2005.

Definition of key figures

Margin ratios

Operating margin

Operating earnings after depreciation as a percentage of net sales.

Operating margin before depreciation

Operating earnings before depreciation as a percentage of net sales.

Capital ratios

Average capital

Based on all monthly balances during the year.

Capital employed

Total assets less interest-free liabilities.

Net debt

Interest-bearing liabilities, including provision for pensions, less financial interest-bearing receivables. Activated costs for arranging financing are excluded from Net debt.

Financial ratios

Debt/equity ratio

Net borrowing in relation to shareholders' equity, incl. minority interest.

Equity ratio

Shareholders' equity and minority interest in relation to total assets.

Return ratios

Return on capital employed

Operating earnings plus interest income as a percentage of average capital employed during the year.

Return on equity

Net earnings as a percentage of average shareholders' equity during the year.

Balance sheets

SEK m	Note	Group Dec 31, 2005	Parent Company Dec 31, 2005
ASSETS			
Fixed assets			
Intangible fixed assets ¹⁾	7	6,262	-
Tangible fixed assets	6	2,999	-
Financial fixed assets			
Deferred tax asset	20	276	3
Shares in Group companies	13	-	6,141
Participations in associated companies	9	2	-
Long-term receivables, Group companies		-	807
Pension assets	19, 21	1	-
Endowment insurance, direct pension	19, 21	64	-
Other interest-bearing, long-term receivables	15, 19	35	-
Interest-free, long-term receivables	15	15	-
Total financial fixed assets		393	6,951
Current assets			
Inventories	16	778	-
Accounts receivable	14	996	-
Operating receivables from associated companies		42	-
Tax receivables		21	-
Other operating receivables	14	244	2
Financial receivables from Group companies		-	1
Other current financial receivables	19	215	-
Total current assets		2,296	3
Cash and cash equivalents	17, 19	470	412
TOTAL ASSETS		12,420	7,366
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity			
Share capital ²⁾		0	0
Other capital contributions		457	-
Retained earnings		-	457
Net loss for the year		-9	-9
Shareholders' equity, excluding minority interests		448	448
Minority interests	11	46	-
Total shareholders' equity, including minority interests		494	448
Long-term liabilities			
Deferred tax liability	20	451	-
Direct pension	19, 21	64	-
Pension liability, others	19, 21	174	-
Loans from Parent Company		1,604	1,604
Long-term interest-bearing liabilities	19	7,811	5,058
Other liabilities, provisions	22	60	-
Total long-term liabilities		10,164	6,662
Current liabilities			
Accounts payable	18	745	-
Tax liabilities		46	-
Other operating liabilities	18	570	-
Accrued interest expense, interest-free		8	7
Financial liabilities to related companies	19	249	249
Other financial liabilities	19	144	-
Total current liabilities		1,762	256
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		12,420	7,366
Contingent liabilities	24		2,489
Assets pledged	25		6,141

¹⁾ Certain judgment matters remain until the purchase consideration and the financing costs for the acquisition of the SSK Group can be finalized. The acquisition analysis is presented in Note 26.

²⁾ 1,000 shares with a par value of SEK 100.

Cash flow statements

Cash flow statement ¹⁾

SEK m

	2005	
	Group	Parent Company
<i>Operating activities</i>		
Operating loss	-1	-1
Cash flow from operating activities before changes in working capital	-1	-1
<i>Changes in working capital</i>		
Increase (-)/decrease (+) in current receivables	-5	-2
Increase (+)/decrease (-) in current liabilities	12	0
Cash flow from operating activities	6	-3
<i>Investing activities</i>		
Acquisition of shares in subsidiaries	-	-6,141
Acquisition of net assets in subsidiaries ²⁾	-5,869	-
Change in financial receivables, subsidiaries	-	-808
Cash flow from investing activities	-5,869	-6,949
<i>Financing activities</i>		
New share issue/shareholder contribution	457	457
New loans raised, external	5,448	5,058
Amortization of debt, external	-1,421	-
New loans raised from Parent Company	1,600	1,600
Current expenditure, related companies	249	249
Cash flow from financing activities	6,333	7,364
Change in cash and cash equivalents, including short-term investments	470	412
Cash and cash equivalents in the opening balance, incl. short-term investments	-	-
Translation difference in cash and cash equivalents	-	-
Cash and cash equivalents on December 31	470	412

¹⁾ Extended fiscal year, from September 2, 2004 to December 31, 2005. The Group was formed only at the end of 2005.

²⁾ See Note 26.

Shareholders' equity, Group

SEK m	Share capital	Other capital contributions	Net loss for the period	Total shareholders' equity, excl. minority interest	Minority interest	Total shareholders' equity
Opening balance, September 2, 2004 ¹⁾	-	-	-	-	-	-
Shareholder contribution	0.1	457	-	457	-	457
Acquired minority interest	-	-	-	-	46	46
Net loss for the year	-	-	-9	-9	-	-9
Closing balance, December 31, 2005	0	457	-9	448	46	494

¹⁾ The Parent Company has an extended fiscal year, from September 2, 2004 to December 31, 2005.

Shareholders' equity, Parent Company

SEK m	Share capital	Retained earnings	Net loss for the period	Total shareholders' equity
Opening balance, September 2, 2004 ¹⁾	-	-	-	-
Shareholder contribution	0,1	457	-	457
Net loss for the year	-	-	-9	-9
Closing balance, December 31, 2005	0	457	-9	448

¹⁾ Extended fiscal year, from September 2, 2004 to December 31, 2005.

Notes

Note 1 General information

Perstorp Holding AB and its subsidiaries (jointly designated the Group) operate in the field of specialty chemicals for customers who are mainly active in the chemicals, paints/coatings and plastic processing industry. The Group has manufacturing units in eight countries in Europe, North America and Asia.

The Group was formed at the end of 2005 in connection with PAI partners' acquisition of the Sydsvenska Kemi Group from Industri Kapital. The pro forma consolidated income statement for 2005 and 2004, adjusted for divested operations, is presented at the beginning of the annual report.

The Parent Company is a limited liability company that is registered and has its Head Office in Sweden.

Note 2 Summary of major accounting principles

The major accounting principles applied in the preparation of these consolidated accounts are stated below. Since the Group did not arise until December 22, 2005, there is no comparative period for balance-sheet items. The income statement only comprises events that occurred in the Parent Company.

The Parent Company's accounts have been prepared in accordance with the Annual Accounts Act (AAA) and RR 32:05 for legal entities.

Note 2.1 Basis for preparing the accounts

The consolidated accounts for Perstorp Holding AB have been prepared in accordance with the International Financial Reporting Standards (IFRS) approved by the EU and with the Swedish Financial Accounting Standards Council's recommendation RR 30 and AAA. The consolidated accounts have been prepared in accordance with the acquisition value method, apart from matters applying to financial assets and liabilities that are fair valued via the income statement.

Preparing financial reports in accordance with IFRS requires the use of a number of important accounting estimates. In addition, management must make certain judgements when applying the company's accounting principles. The areas subject to a high degree of judgement and that are complex, or those areas in which assumptions or estimates have been made that are of material importance to the consolidated accounts, are presented in Note 4.

The following IFRS are of relevance to the Group's operations:

IAS 1	Presentation of financial reports
IAS 2	Inventories
IAS 8	Accounting principles, changes in estimates and errors
IAS 10	Events after the balance-sheet date
IAS 11	Construction contracts
IAS 12	Income taxes
IAS 16	Tangible fixed assets
IAS 18	Revenues
IAS 19	Employee benefits
IAS 21	Effect of changes in exchange rates
IAS 23	Borrowing costs
IAS 24	Related-party disclosures
IAS 27	Consolidated and separate financial statements
IAS 28	Investments in associates
IAS 31	Interest in joint ventures
IAS 32	Financial instruments: disclosure and presentation
IAS 36	Impairment of assets
IAS 38	Intangible assets
IAS 39	Financial instruments: recognition and measurement
IFRS 3	Business combinations

Since the Group arose at the end of 2005, nothing but IFRS standards have ever been applied. The acquired Sydsvenska Kemi Group had applied IFRS since January 2005.

Note 2.2 Consolidated accounting

Subsidiaries are all companies in which the Group has the right to devise financial and operating strategies in a manner normally associated with a shareholding amounting to more than half of voting rights. Subsidiaries are included in the consolidated accounts from the date on which the Group gains this decisive influence. Subsidiaries are excluded from the consolidated accounts from the date on which the decisive influence ceases.

The purchase accounting method is used for the reporting of the Group's acquisitions of subsidiaries. The cost of an acquisition comprises the fair value of assets transferred in payment, issued equity instruments and liabilities arising or assumed on the date of transfer, plus costs directly attributable to the acquisition. Acquired assets, assumed liabilities and contingent liabilities from an acquisition are initially valued at the fair value on the date of acquisition, regardless of the extent of any minority interest. The surplus, which consists of the difference between the acquisition value and the fair value of the Group's share of identifiable acquired net assets, including intangible assets, is reported as goodwill. If the acquisition cost is less than the fair value of the acquired subsidiary's net assets, the difference is reported directly in the income statement.

Intra-Group transactions, balance sheet items and unrealized gains on transactions between Group companies have been eliminated. Unrealized losses are also eliminated, unless the transaction is evidence of the need for impairment of the transferred asset.

The accounting principles for subsidiaries have been changed, where necessary, to guarantee the consistent application of Group principles.

Associated companies are companies over which the Group exercises a controlling influence, which generally applies to shareholdings corresponding to 20 to 50% of the voting rights. Holdings in associated companies are accounted for using the equity method and are initially valued at acquisition value, including any goodwill identified on acquisition.

Joint ventures are reported in accordance with the equity method.

The Group's share of associated company earnings after tax is reported in the Group's operating earnings. Accumulated changes following the acquisition are reported as changes in the carrying amount of the holding. When the Group's share of an associated company's losses amounts to or exceeds its holding in the associated company, including any unsecured receivables, the Group does not report further losses unless it has assumed obligations or made payments on behalf of the associated company.

Unrealized gains on transactions between the Group and its associated companies are eliminated in relation to the Group's holding in the associated company.

At the end of 2005, there was one associated company in the Group, which was jointly owned with Koei Chemical Company (Japan) and accounts for marketing and sales of specialty chemicals products, primarily in the Japanese market.

Note 2.3 Currency translation

a) Functional currency and reporting currency

Items included in the financial reports of the various Group units are valued in the currency used in the economic environment in which each company mainly operates (functional currency).

In the consolidated accounts, SEK is used, which is the Parent Company's functional and reporting currency.

b) Transactions and balance sheet items

Transactions in foreign currencies are translated into the functional currency according to the exchange rates applicable on the transaction date. Exchange-

rate gains and losses arising through the payment of such transactions and on the translation of monetary assets and liabilities in foreign currencies at the exchange rate applicable on the closing date are reported in the income statement under "Other income and expenses." The exception is where transactions represent hedges meeting the requirements for hedge accounting of cash flows or net investments, where gains and losses are reported against shareholders' equity.

c) Group companies

The earnings and financial position of all Group companies (of which none uses a high-inflation currency) that use a functional currency other than the reporting currency are translated into the Group's reporting currency in accordance with the following:

- i) assets and liabilities for each balance sheet are translated at the exchange rate applying on the balance-sheet date
- ii) revenues and expenses for each income statement are translated at the average exchange rate, and
- iii) all exchange-rate differences that arise are reported as a separate item in shareholders' equity.

On consolidation, exchange-rate differences arising as a consequence of the translation of net investments in foreign operations, borrowing and other currency instruments identified as hedges for such investments are allocated to shareholders' equity. On the divestment of foreign operations, such exchange-rate differences are reported in the income statement as part of the capital gain/loss.

Goodwill and adjustments of fair value arising from the acquisition of foreign operations are treated as assets and liabilities associated with such operations and are translated at the exchange rate applying on the balance-sheet date.

Note 2.4 Tangible fixed assets

Tangible fixed assets are reported at their acquisition value less accumulated depreciation according to plan. 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
Land improvements	10-35 years
Machinery and equipment	10-30 years
Computers, tools and cars	max 5 years

Land and construction in progress are not depreciated. Interest on capital borrowed to finance investments in assets is not included in the acquisition value.

Additional expenses are added to the asset's carrying amount or reported as a separate asset, depending on what is appropriate, only when it is probable that the future economic benefits associated with the asset will accrue to the Group and it is possible to measure the acquisition value in a reliable manner. All other forms of repair and maintenance are reported as costs in the income statement during the period they arise.

The residual value and useful life of assets are impairment tested regularly or when external or internal circumstances dictate such impairment testing, and are adjusted as necessary. An asset's carrying amount is immediately impaired to its recoverable amount if the asset's carrying amount exceeds its estimated recoverable amount.

The increase in the carrying amount that arises from the revaluation of buildings and land is credited to a fair value reserve within shareholders' equity. Decreases that offset previous increases of the same asset are debited from the fair value reserve. All other decreases are included in the income statement. Each year, the difference between depreciation based on the asset's revalued carrying amount and depreciation based on the historical acquisition value is transferred from the fair value reserve to retained earnings.

Gains and losses on divestment are determined by comparing the sales proceeds and the carrying amount and are reported in the income statement.

Note 2.5 Intangible assets

a) Goodwill comprises the amount by which the acquisition value exceeds the fair value of the Group's share of the identifiable net assets of the acquired subsidiary/associated company at the date of acquisition. Goodwill on the acquisition of Group companies is reported as an intangible asset. On the acquisition of associated companies, goodwill is included in the holding in the associated company.

Goodwill is tested annually in order to identify impairment requirements and is reported at acquisition value less accumulated impairments. No impairment tests were performed at the end of 2005, because Sydsvenska Kemi was acquired just a few days before the end of the year.

Goodwill is divided among cash-generating units when conducting tests to identify possible impairment requirements. The allocation of acquisition value will be conducted during 2006.

b) Trademarks and licenses are reported at acquisition value. They have a limited useful life, a maximum of 20 years, and are reported at acquisition value less accumulated amortization. Amortization is applied straight line.

c) Research and development costs are charged as an expense when they arise, while expenses relating to the development of new products/processes are capitalized as intangible assets when they fulfill the following criteria: the expenses must be identifiable and it must be highly probable that the asset will generate future financial benefits for the Group. Other expenses for development projects are expensed as they arise. Costs that have previously been expensed may not subsequently be reported as assets. The amortization of capitalized development costs starts when the product starts to be produced commercially or the process starts to be used for commercial production. The amortization period must not exceed five years.

d) Software: Acquired software licenses are capitalized on the basis of the costs that have arisen for acquiring and deploying the software.

Costs for the development and maintenance of software are normally expensed when they arise. If the particular software is controlled by the Group and will probably generate economic benefits that exceed the costs for more than one year, the software is reported as an intangible asset. Personnel expenses for software development and a reasonable portion of attributable indirect costs are included.

Costs for software development are reported as an asset that is amortized over its estimated useful life, which may not exceed three years.

Note 2.6 Impairment

Assets with an indeterminate useful life are not depreciated/amortized 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 carrying amount may not be recoverable. Impairment is recognized in the amount by which the asset's carrying amount exceeds its recoverable value. In assessing the need for impairment, assets are grouped into cash-generating units.

Note 2.7 Inventories

Inventories are reported at the lower of acquisition value and net realizable value. The acquisition value is determined on the basis of the first-in first-out (FIFO) principle. The acquisition value of finished products and work in progress consists of raw materials, direct payroll expenses, other direct costs and attributable indirect manufacturing costs (based on normal manufacturing capacity). Borrowing costs are not included. The net realizable value is the estimated selling price based on continuing operations, less applicable variable selling costs.

Note 2.8 Accounts receivable

Accounts receivable are initially reported at fair value. A provision for value depletion is posted when the assessment is that the Group will not receive all amounts due in accordance with the original terms and conditions for past-due receivables.

Note 2.9 Cash and cash equivalents

Cash and cash equivalents include cash and bank balances and other short-term investments maturing within three months, including overdraft facilities.

Note 2.10 Income taxes

Reported income taxes include current tax, adjustment of prior-year current tax, changes in deferred tax and shares in the tax of associated companies. Tax receivables and tax liabilities are valued in accordance with the tax regulations and tax rates that have been decided or that with a great degree of certainty will be determined.

Deferred tax is calculated in accordance with the balance sheet method on the basis of all material temporary differences between the carrying amounts and taxable values of assets and liabilities. Deferred tax assets pertaining to unutilized tax loss carryforwards are only reported when it is likely that it will be possible to realize the loss carryforwards within the foreseeable future. The tax is calculated on the basis of the current tax rates applicable in the countries concerned.

Note 2.11 Employee benefits

The Group has both defined-contribution and defined-benefit pension plans. The pension plans are normally financed through payments to insurance companies or funds managed by asset managers in accordance with periodical actuarial calculations.

Pension commitments regarded as defined-benefit plans must be valued taking into account such considerations as estimated future pay increases and inflation. In the transition to IAS 19 among Group companies in 2004, actuarial gains and losses were set at zero, as a result of the opening liability being established at the present value of the obligation at the date of transition and, similarly, any related plan assets have been fair valued.

Actuarial calculations of defined-benefit pension plans are performed at the end of each year. Pension costs pertaining to these plans are calculated in accordance with the Projected Unit Credit Method, which allocates costs over the employees' anticipated working life. Actuarial gains and losses outside what is known as the 10% corridor are allocated over the remaining anticipated term of employment for those employees who are part of the various plans. With the help of a discount rate, pension commitments are valued at the present value of the future anticipated payments. The discount rate corresponds to the interest on first-class corporate bonds or treasury bills with a remaining term that corresponds to the commitments concerned. The weighted discount rate used by the Group amounts to 4.9%. In the consolidated balance sheet, the pension commitments for the funded plans are reported net, after a deduction for the fund assets for the plan. In cases where a net asset arises, this is reported as a financial interest-bearing receivable. The pension commitments are included in the calculation of net debt.

The Group's payments for defined-contribution pension plans are reported as a cost during the period when the employee performed the services to which the contributions pertain.

Short-term payments to employees are reported as a cost during the period when the employee performed services in return for the particular contributions.

Note 2.12 Provisions

Provisions are reported when the Group has an existing legal or informal obligation as a result of the occurrence of an event for which it is probable that an outflow of resources will be required to settle the obligation and for which the amount can be reasonably estimated.

Note 2.13 Revenue recognition

Reported net sales consist of the total invoiced value of products delivered or services rendered, less direct discounts and VAT. Revenues from the sales of goods are reported when the risk for the good is transferred to the purchaser.

The exchange rate applying on the transaction date is used for reporting sales in a currency other than the company's local currency.

Sales revenues and earnings from sales of formalin plants are reported in accordance with IAS 11, Construction Contracts, which means that income and costs are recognized in line with the completion of an assignment on the balance-sheet date. In cases where it is probable that the total cost of the assignment will exceed the total contract income, the surplus amount is reported immediately as a cost. The degree of completion is established on the basis of the assignment costs incurred on the balance-sheet date as a percentage of the estimated total assignment costs for each individual assignment. Costs incurred during the year that pertain to future work are not included in assignment costs incurred when establishing the degree of completion. These are reported as inventories.

Note 2.14 Leasing

Costs attributable to leasing contracts under which the Group is the lessee are normally reported straight line over the term of the contract. If the financial risks and benefits associated with ownership of the leased item are, to all intents and purposes, transferred to the lessee, this is classified as financial leasing. In such cases, the leased object is entered as a fixed asset in the balance sheet, which corresponds on the liability side as an obligation to pay

future leasing charges. The related costs are reported as depreciation and interest expense respectively.

Most of the Group's leasing contracts pertain to cars and computers, which have been reported as operational leasing. The value of such leases has been adjudged to be intangible. Payments made during the leasing period are expensed in the income statement straight line over the leasing period.

Note 2.15 Borrowing costs

The main principle has been applied for the reporting of borrowing costs, which means that the borrowing costs are charged against earnings for the period to which they pertain, regardless of how the borrowed funds have been used. There is an exception from this rule, the costs for arranging the loan financing of PAI partners' acquisition of the Perstorp Group. These costs are amortized over the average term of the loans.

Note 2.16 Effects from future accounting principles

At the closing of the books on December 31 2005, the following standards and interpretations have been published but have not yet become effective:

Standard / interpretation	
IAS 1	Amendment – Capital disclosure
IAS 19	Amendment - Gains and losses, Group plans and disclosures
IAS 21	Amendment – Net investment in a foreign operation
IAS 39	Amendment – Cash flow hedge accounting
IAS 39	Amendment – The fair value option
IAS 39 and IFRS 4 Amendment	– Financial Guarantee contracts
IFRS 7	Financial instruments: Disclosures
IFRIC 4	Determining whether an arrangement contains a lease
IFRIC 5	Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds
IFRIC 7	Applying the restatement approach under IAS 29 Financial reporting in hyperinflationary economies
IFRIC 8	Scope of IFRS 2
IFRIC 9	Reassessment of embedded derivatives

No major impact on the group accounts is expected because of these future accounting principles. In the Annual report of 2006 the disclosures will have to be expanded, e.g. regarding Pension plans.

Note 3 Risk management

Note 3.1 Financial risk factors

The Group's finance policy stipulates the division of responsibility for financial operations. The policy also governs the financial risks the Group is prepared to take and stipulates guidelines for how the risks should be managed. Corporate Finance has global responsibility for the Group's financial risks.

Borrowing is reported initially at fair value and is subsequently reported at accrued acquisition value, with any difference between the amount received and the repayment amount reported in the income statement distributed over the loan term applying the effective interest-rate method.

a) Currency risk

The currency risk is the risk that the Group's earnings and net assets will be adversely affected by fluctuations in exchange rates. As described under the Risk Management section (pages 35-37), the Group has significant flows of earnings and net assets in foreign currency, primarily in USD and EUR. A large portion of the transaction flows in EUR are offset by the fact that EUR accounts for most of the Group's raw material payments. However, the Group has considerable net receipts in USD. The group intends to manage its USD and EUR exposure through denomination of part of its indebtedness in EUR and USD.

Operating capital, excl. goodwill, per market *)

SEK m	2005	%
Sweden	2,548	67
Rest of EU (mainly DE, NL, IT)	706	18
US	432	11
South Korea	95	3
Other countries	50	1
Total	3,831	100

*) Operating capital based on the carrying value of the assets taken over from the Sydsvenska Kemi Group.

Estimated flow exposure 2006

	Flows in foreign currency		Equivalent in SEK m	
	Incoming flows	Outgoing flows	Net	
USD/SEK	150	-30	120	956
USD/EUR	20	0	20	159
EUR/SEK	330	-275	55	516
GBP/SEK	18	-6	12	162
JPY	1,596	-96	1,500	102
Total				1,895

b) Financing risk

The financing risk is that a refinancing of loans will be impeded or will become costly. The Group's main financing consists of senior loans that have been guaranteed by Svenska Handelsbanken, Nordea and HSH Nordbank and second lien and mezzanine facilities that have been guaranteed by Deutsche Bank, Goldman Sachs and HSH Nordbank. The latter loans were successfully syndicated to about 10 financiers at the beginning of 2006. These loan agreements have terms of seven to eight years and stipulate financial covenants pertaining to the fulfillment of key figures in terms of cash flow in relation to interest payments and debt repayment, net debt in relation to EBITDA and EBITDA in relation to interest payments.

c) Interest-rate risk

The interest-rate risk is the risk that an increase in market interest rates will have an adverse impact on earnings. Interest rate hedging will be implemented in order to fix the interest rates for at least 50% of the bank loans, for a period of 3 years from December 2005.

On December 31, 2005, the average fixed-interest duration was only 46 days. The reason for this was that the financing had not been finalized. See table in Note 19.

Not 3.2 Operational risk factors

Raw material prices - Two thirds of the Group's raw materials are based on crude oil or natural gas, which prices have been fluctuating a lot recently. The Group's ability to pass on price increases to the customers depend on the supply and demand situation. For several raw materials, quarterly contracts with the supplier are creating a short term price stability.

Competitiveness - The Group's ability to compete in terms of price, quality, environment and service is strengthened through strong presence on all important geographical markets; efficiency programs in order to maintain the relative resource efficiency; research and development activities; and consciousness when it comes to safety, health and environment.

Note 4 Significant estimates and judgements made for accounting purposes

To a certain extent, the financial statements are based on estimates and judgements about the future trend. In turn, these judgements are based

Note 6 Tangible fixed assets

The Group was not formed until the end of 2005. The carrying amounts have been taken over from the Sydsvenska Kemi Group. An analysis of acquisition value will be performed during 2006.

The Parent Company has no tangible fixed assets.

Group	Buildings, land and land improvements	Plants and machinery	Equipment, tools fixtures and fittings	Work in progress incl. advance payments	Total
SEK m					
	2005	2005	2005	2005	2005
Opening balance	-	-	-	-	-
Acquisition of subsidiaries	1,028	4,435	333	422	6,218
Closing balance	1,028	4,435	333	422	6,218
<i>Accumulated depreciation according to plan</i>					
Opening balance	-	-	-	-	-
Acquisition of subsidiaries	-413	-2,632	-174	-	-3,219
Closing balance	-413	2,632	-174	0	-3,219
Closing book value	615	1,803	159	422	2,999

on historical experience. Three particular areas can be distinguished where estimates and judgements are of importance to the amounts entered in the accounts.

a) Impairment testing of goodwill: Since the Group was not formed until the end of 2005, the acquisition balance sheet has yet to be established. During 2006, an analysis of acquisition values will be conducted and the fair value of, for example, fixed assets, trademarks, technology and customer relations will be assessed. At year-end, the carrying amounts used in the Sydsvenska Kemi Group were retained and the entire surplus value is reported as goodwill. At the end of 2005, a fair valuation of the Group was in fact performed, since the acquisition was only implemented a few days prior to this date. In the future, impairment testing will be conducted annually.

b) Valuation of tax-loss carryforwards: The valuation of tax-loss carryforwards in a company is based on an assessment that it will be possible to utilize these carryforwards in the foreseeable future. Tax-loss carryforwards have been assigned values in, primarily, the Group's Swedish and German subsidiaries.

c) Perstorp's financial accounts are based on "the going-concern principle", which is also reflected in how any environmental liabilities are assessed. The Group complies with decisions by public authorities and conducts measures both proactively to prevent environmental impact and reactively in the event that environmental disturbances arise.

In connection with Industri Kapital's preparations to divest the Perstorp Group, independent environmental assessments were performed of all the sites. These inquiries did not result in any new material environmental observations.

Note 5 Segment information

Initially, there are no formal requirements for a group whose shares are not subject to public trading to disclose information about segments.

As stated in the description of operations, specialty chemicals operations account for 98% of the Group's sales. To a very great extent, the specialty chemicals operations are integrated both horizontally, since the same product can often be manufactured in several units/countries, and vertically, by being intermediates in the next product. Virtually all products are sold to customers that 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 applications. Accordingly, there is no natural reason to divide the specialty chemicals operations into different segments.

The operations that are outside of the specialty chemicals operations, Advanced Composites, do not qualify as a separate segment due to their small size.

Sales and operating capital per geographical market are presented in the Risk Management section.

Tax assessment value, Swedish Group companies

	Tax assessment value Dec 31, 2005	Book value Dec 31, 2005
Group		
Buildings, including building fittings	513	590
Land and land improvements	104	46
Total	617	636

Note 7 Intangible fixed assets

The Group was not formed until the end of 2005. The carrying amounts for all intangible assets, apart from goodwill, have been taken over from the acquired Sydsvenska Kemi Group. An analysis of acquisition value will be performed during 2006.

The Parent Company has no intangible fixed assets.

Group	Goodwill ¹⁾	Know-how, trademarks and similar rights	Development costs	Advance payments for intangible assets	Total
SEK m	2005	2005	2005	2005	2005
<i>Acquisition value</i>					
Opening balance	-	-	-	-	-
Acquisition of subsidiaries	6,175	124	12	1	6,312
Closing balance	6,175	124	12	1	6,312
<i>Accumulated amortization according to plan</i>					
Opening balance	-	-	-	-	-
Acquisition of subsidiaries	-	-44	-6	-	-50
Closing balance	0	-44	-6	0	-50
Closing book value	6,175	80	6	1	6,262

¹⁾ The goodwill calculation is presented in Note 26.

Note 8 Leasing

Operational leasing mainly comprises computer equipment and cars.

Operational leasing agreements	Group 2005
Future minimum leasing fees	
Due:	
2006	13
2007-2010	11
2011-	0
Total	24

Financial leasing agreements	Group 2005
Future minimum leasing fees	
Due:	
2006	1
2007-2010	3
2011-	0
Total	4
Included in tangible fixed assets	4

Note 9 Participations in associated companies/joint ventures

The carrying amounts below pertain to the holding in Perstorp Koei, Japan, in which the Perstorp Group owns 40% and the remaining portion is owned by Koei Chemical Company (Japan).

	Share of capital/ voting rights	Groups' share of shareholders' equity	Book value, Group
Koei-Perstorp Company Ltd, Japan	40/40	2	2
Total		2	2

Note 10 Earnings from associated companies/joint ventures

Since the Group was not formed until the end of 2005, no earnings from associated companies are reported for the year.

Note 11 Minority share

At year-end, there were minority shares in two companies, the specialty chemicals company Hansol-Perstorp Co. Ltd in South Korea and the Advanced Composites company YLA Inc. in California, USA.

	Group Dec 31, 2005
Hansol-Perstorp Company Ltd, South Korea	44
Yla Inc., USA	2
Total	46

Note 12 Minority share in net profit for the year

Since the Group was not formed until the end of 2005, no minority share in net profit is reported for the year.

Note 13 Parent Company shares in Group companies

Direct holdings in Group companies	Corp. Reg. number	Registered Head Office	Holding %	Book value, SEK m
Sydsvenska Kemi AB	556602-2769	Perstorp	100	5,858
Perstorp Holding BV	34089250	Amsterdam	100	173
Perstorp Holding GmbH	HSB 159569	Arnsberg	100	110
				6,141

Note 14 Accounts receivable and other operating receivables

There is an overall credit policy within the Perstorp Group whose main objective is to prevent bad debts and to optimize capital accumulation. The credit policy stipulates frameworks and guidelines for granting and monitoring credit. For example, the credit policy stipulates that no additional deliveries may be made to customers with past-due receivables. Intensive work is conducted continuously to ensure that accounts receivable are paid on time. For countries where the credit risk is regarded as higher than normal, advance payment, credit insurance or bank guarantees are required.

	Group Dec 31, 2005	Parent Company Dec 31, 2005
Accounts receivable, gross	1,015	-
Bad debt provision	-19	-
Accounts receivable, net	996	-
Other operating receivables		
Value added tax	134	-
Deferred income, Formox project (see table below)	25	-
Prepaid insurance premiums	8	-
Receivable from suppliers	4	-
Other prepaid costs and deferred income	49	2
Other	24	-
Total other operating receivables	244	2

	Group Dec 31, 2005
Deferred income, Formox project	
Deferred costs plus profit mark-up	35
Advance payment from customer	-10
Total deferred income	25

Note 15 Other long-term receivables

	Group Dec 31, 2005	Parent Company Dec 31, 2005
Interest-bearing long-term receivables		
Promissory note loan	30	-
Other receivables	5	-
Total	35	-
Interest-free long-term receivables		
Other receivables	15	-
Total	15	-

Note 16 Inventories

	Group Dec 31, 2005
Raw materials and consumables	242
Products in progress	42
Finished goods and goods for resale	500
Work in progress on behalf of others	0
Impairment reserve	-6
Total	778

The Parent Company had no inventories at the end of 2005.

Note 17 Cash and cash equivalents

	Group Dec 31, 2005	Parent Company Dec 31, 2005
Deposit account	316	300
Overdraft facility	150	112
Cash	4	-
Total	470	412

The deposit account in the Parent Company consists of blocked bank deposits relating to the adjustment of the purchase consideration to Industri Kapital.

Note 18 Accounts payable and other operating liabilities

	Group Dec 31, 2005
Accounts payable	745
Other operating liabilities	
Accrued wages, salaries and social security costs	194
Advance payments	17
Other accrued costs and deferred revenues	264
VAT	27
Payroll tax	16
Other	52
Total	570

The Parent Company had no current liabilities at the end of 2005.

Note 19 Borrowing and financial income and expense

Specification net debt

	Group Dec 31, 2005	Parent Company Dec 31, 2005
Senior loans	5,125	4,361
Second lien	600	600
Mezzanine loans	440	440
Capitalized costs for arranging loans ¹⁾	-364	-343
Subordinated debenture loan (repaid in January 2006) ²⁾	1,957	-
Other financial liabilities, excluding loans from parent company	446	249
Financial liabilities, excl. Parent Company loans and pension liabilities	8,204	5,307
Interest-bearing pension liabilities, net	173	-
Loan from Parent Company	1,604	1,604
Total interest-bearing liabilities	9,981	6,911
Cash and cash equivalents ³⁾	-470	-412
Inter-company financial receivables	-	-808
Other interest-bearing receivables, long and short-term	-250	-
Interest-bearing assets	-720	-1,220
Reversal of costs for arranging loans	364	343
Net debt incl. pensions	9,625	6,034

1) The capitalized costs pertain to the loan financing of Perstorp Holding AB's acquisition of the subgroups in Germany, Sweden and the Netherlands and all of these subgroups' acquisitions of subsidiaries. The capitalized costs will be amortized over the duration of the loans, which is seven to eight years.

2) The subordinated debenture loan is reported at fair value, including the cost of premature settlement.

3) SEK 300 m consists of blocked bank deposits relating to the adjustment of the purchase consideration to Industri Kapital.

The fair value of borrowing corresponds to the book value.

Borrowing includes secured loans (bank loans and other borrowing against collateral) of SEK 534 m pertaining to buildings and land and SEK 1,135 m pertaining to chattel mortgages. In addition, shares in the Group's larger companies have been pledged.

Maturity structure

	Group Dec 31, 2005	Parent Company Dec 31, 2005
Subordinated debenture loan settled in Jan 2006 ¹⁾	1,957	-
Between one and two years	910	361
Between two and five years	1,334	1,083
More than five years	3,974	3,957
Capitalized costs for arranging loans	-364	-343
Long-term borrowing, excluding Parent Company loans and pension liability	7,811	5,058
Short-term borrowing, 0-1 year	393	249
Financial liabilities, excl. Parent Company loans and pension liabilities	8,204	5,307

1) There were committed long-term lines of credit at the end of 2005.

Currency composition and interest rates

	Local currency	SEK m	Effective interest on balance-sheet date, %	Duration, days
SEK, excl. subordinated debenture loan	6,494	6,494	4.5	52
SEK subordinated debenture loan	1,957	1,957	12.0	23
EUR	9	81	7.2	322
USD	4	31	5.8	2
Other currencies		5	3.8	57
Total		8,568	6.2	46
Capitalized costs for arranging loans		-364		
Financial liabilities, excl. Parent Com- pany loans and pension liabilities		8,204		

At the end of 2005, the financing was yet to be finalized – for example, the subordinated debenture loan was replaced during January 2006 by other long-term credits in various currencies.

Interest rate hedging will be implemented in order to fix the interest rates for at least 50% of the bank loans, for a period of 3 years from December 2005.

Unutilized credits

The Group's unutilized credit limits at year-end totaled SEK 475 m.

Financial expense

The financial net expenses for 2005, an amount of SEK 11 m, pertained solely to the Parent Company, since the Group was not formed until the end of 2005.

Note 20 Tax

Since the Group was not formed until the end of 2005, only small tax charges are reported, attributable to the Parent Company.

Deferred tax assets or deferred tax liabilities arise if there are temporary differences between the taxable values of assets and liabilities. At the end of 2005, the Group had the following deferred tax assets and deferred tax liabilities.

	Group Dec 31, 2005	Parent Company Dec 31, 2005
Deferred tax liabilities		
Untaxed reserves	269	-
Tangible fixed assets	149	-
Other receivables	33	-
Total	451	-
Deferred tax assets		
Tangible fixed assets	-	-
Tax loss carryforwards	231	3
Provisions	45	-
Total	276	3

Tax loss carryforwards

The value of unutilized loss carryforwards is capitalized in cases where it is highly probable that the carryforwards will be utilized in the foreseeable future. In addition, there are unutilized loss carryforwards totaling SEK 278 m and temporary differences totaling SEK 110 m that have not been assigned any value, since it is considered that these will not be utilized in the foreseeable future.

The temporary differences in Italy may be utilized within a five-year period and those in India within seven years.

Note 21 Pension obligations and costs

Since the Group was not formed until the end of 2005, only the pension obligations existing at the end of the year are reported.

There were no defined-benefit pension obligations with the Parent Company at the end of 2005.

Defined-contribution pension plans

There are defined-contribution pension plans, whereby the company is aware with certainty of the future costs, in virtually all the countries in which the Group is active. In the Swedish units, these mainly consist of state pension contributions and negotiated pensions for blue-collar workers. In the United States, such plans are called 401K and in Germany they are called Staatliche Rente and Pensionskasse, etc. These contributions are paid via premiums and are thus not posted as provisions in the balance sheet.

Most of the Group's Swedish companies have secured their obligations for old-age and family pensions via pension insurance with Alecta. In accordance with a statement issued by the Emerging Issues Task Force of the Swedish Financial Accounting Standards Council, URA 42, this is a defined-benefit plan that covers several employers. For fiscal year 2005, the companies did not have access to information that would enable them to report these plans as defined-benefit obligations. Accordingly, the ITP pension plans that are secured through insurance with Alecta are reported as defined-contribution plans. At year-end 2005, Alecta's surplus in the form of its collective funding ratio amounted to 128.5%. The collective funding ratio equals the market value of Alecta's assets, in percentage of the insurance obligations as computed in accordance with Alecta's actuarial calculation assumptions; this does not comply with IFRS.

Defined-benefit pension plans

There are defined-benefit pension plans in most of the countries in which the Group is active. These pension plans are posted as provisions in the balance sheet. In those cases (the US) where the fees have been funded, any surplus is reported as a long-term receivable.

The main provisions for defined-benefit pension plans pertain to the Pension Registration Institute (PRI), Pensionszulage (Germany), Trattamento fine rapporto (Italy), pension plans for employees in certain currently divested units and specific pension insurance plans for senior executives in various countries.

In Table A, the defined-benefit pension obligations are specified, divided into funded and unfunded pension plans.

A. Provision for pensions, funded/unfunded pension plans

	Dec 31, 2005
	Group
Funded pension plans	
Defined-benefit obligations	251
Fair value of plan assets	-218
Net value	33
Non-reported actuarial gains and losses ¹⁾	-21
Non-reported costs regarding prior-year service	-
Provisions for pensions, funded pension plans, net	12
Unfunded pension plans	
Defined-benefit obligations ²⁾	196
Non-reported actuarial gains and losses ¹⁾	-36
Non-reported costs regarding prior-year service	1
Provisions for pensions, not funded pension plans	161
Total provision for pensions, net	173

¹⁾ The carrying amounts for the Sydsvenska Kemi Group's pension obligations have been applied at the end of 2005. The calculation of acquisition values will be established during 2006.

²⁾ Of which, the PRI pension liability accounts for SEK 76 m.

What are known as direct pensions are reported on the asset and liability side in an amount of SEK 64 m. This is not included in the above amounts and is reported separately in the balance sheet. The receivable and liability develop at the same pace. The asset is an endowment insurance. Payroll tax is reported as other provisions.

B. Key actuarial assumptions

	2005
	Group
Discount rate, %	4.9
Future salary increases, %	3.6
Anticipated return on plan assets, %	7.4
Anticipated average remaining employment term, years	15

During 2006, payments for pension obligations are estimated at SEK 9 m.

Note 22 Other liabilities, provisions

At the end of 2005, the Group's provisions amounted to SEK 60 m. This pertained mainly to previously divested operations, and partly to uncertainty associated with pension obligations and taxes.

No reliable estimation could be made as to when these contingent payments will actually be made.

Note 23 Employees and wages, salaries and other remuneration

The average number of employees and personnel costs pertain to the Perstorp pro forma, including units acquired during the year, as of the beginning of the year. Wages, salaries and other remuneration, as well as social security costs, do not include remuneration paid in connection with the sale to PAI partners, known as transaction bonuses. Accordingly, the wages, salaries and other remuneration reported below are in line with the income statement reported for Perstorp, pro forma.

Average number of employees

Country	2005	
	Total number of employees	of whom, men
Sweden		
Parent Company *)	-	-
Subsidiaries	910	645
Belgium	35	28
Brazil	6	4
Finland	25	12
France	6	4
India	231	224
Italy	37	29
Japan	2	1
Netherlands	29	19
Singapore	4	2
United Kingdom	7	5
South Korea	29	26
Germany	132	116
United States	148	124
Total	1,601	1,239

*) The Parent Company had no employees at the end of 2005.

Wages, salaries and other remuneration

	2005	
	Total	Of which for Board members/President
Parent Company	-	-
Subsidiaries	594	14
Total	594	14

Social security costs

	2005	
	Social security costs	of which, pension costs
Parent Company	-	-
Subsidiaries	272	144
Total	272	144

Of which, pension costs for the Board of Directors and President of the Parent Company

Wages, salaries and other remuneration

	2005	
	Board members and President	Other employees
Sweden	10	368
Belgium	0	16
Brazil	0	2
Finland	1	9
France	0	5
India	0	8
Italy	0	13
Japan	0	0
Netherlands	0	9
Singapore	1	1
United Kingdoms	1	3
South Korea	0	10
Germany	0	65
United States	3	69
Total	16	578

Remuneration to senior executives

Board of Directors

Annual fee for Chairman of the Board ¹⁾	KSEK	0
Annual fee for each Board member elected by the Annual General Meeting ^{1) 2)}	KSEK	0

President/Chief Executive Officer

Salary paid 2005	KSEK	3,824
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The President's fixed salary for 2005 amounted to KSEK 2,879, plus a variable salary increment in the form of a bonus corresponding to a maximum of 50% of his fixed salary. The bonus target for 2005 was based on quantitative criteria.

The salary total of KSEK 3,824 above includes a bonus of KSEK 945 paid during the year. Earnings were also charged with bonuses of KSEK 1,112 to be paid in 2006.

As of 2006, the President qualifies for a bonus corresponding to 100% of his fixed salary.

As of age 65 and in accordance with the stipulations of Sweden's ITP plan, the *President* will receive a pension from Alecta and SPP that will also cover salary portions exceeding 30 base amounts. According to a special undertaking, both the President and the Company are entitled, once the President has reached the age of 60, to terminate the employment agreement. On the President's account, pension insurance premiums amounting to 10% of the President's annual salary up to age 50 are to be paid. Between age 51 and 60, the premium will be 15%.

The period of employment-termination notice is one year if notice is served by the Company and six months if it is served by the President. If the Company terminates the President's employment, the President will also receive severance pay corresponding to 12 monthly salaries. If organizational changes or other changes initiated by the owners results in significant limitations on the President's responsibility or authority, the President is entitled under certain circumstances to terminate his employment and be subject to the same employment termination terms as those that would have applied if the Company had terminated his employment.

Other members of Group Management are covered by a bonus system that could result in a maximum payment of 35% of their basic salary and by an agreement regarding pension insurance schemes, the aim of which is to enable the executives concerned to retire at age 60. The period of employment-termination notice for other members of Group Management is six months. If the Company terminates the employment of a member of Group Management, the sum total of salary during the period of notice, severance pay and corresponding benefits will be paid for 12 up to a maximum of 18 months.

For the CEO and other members of Group Management, the amounts specified above also exclude remuneration paid as a result of the sale of operations to PAI partners, what are known as transaction bonuses.

¹⁾ Not yet established.

²⁾ Pertain only to persons who are not company employees.

Note 24 Contingent liabilities

	Group Dec 31, 2005	Parent Company Dec 31, 2005
Guarantees	99	-
Guarantees and other contingent liabilities for subsidiaries	-	2,489
Total	99	2,489

These contingent liabilities are not expected to result in any material liabilities.

Note 25 Assets pledged

	Liabilities	Pension liabilities, other	Group Dec 31, 2005	Parent Company Dec 31, 2005
Property mortgages	534	-	534	-
Chattel mortgages	1,135	-	1,135	-
Shares in subsidiaries	6,141	-	6,141	6,141
Endowment insurances	-	65	65	-
Total	7,810	65	7,875	6,141

Note 26 Company acquisition

The Perstorp Group was formed on December 22, 2005 when Perstorp Holding AB, which is controlled by the French private equity company PAI partners, acquired 100% of Sydsvenska Kemi AB. This acquisition was preceded by Sydsvenska Kemi AB divesting the German and parts of the Dutch operations to two newly formed companies controlled by Perstorp Holding AB. The reporting of this acquisition has only been established on a provisional basis since the acquisition took place very close to year end. The final determination and allocation of asset values will occur during 2006.

Sydsvenska Kemi AB

Preliminary acquisition analysis

SEK m	
<i>Purchase consideration and estimation of goodwill</i> ¹⁾	
Purchase consideration	5,807
Transaction costs	62
Total acquisition costs	5,869
Acquired net assets ¹⁾	306
Goodwill ¹⁾	6,175

Acquired net assets	Book value	Fair value adjustments ¹⁾	Fair value
Intangible assets	87	-	87
Tangible fixed assets	2,999	-	2,999
Financial fixed assets	390	-	390
Inventories	778	-	778
Operating receivables	1,301	-	1,301
Current financial assets	215	-	215
Cash and bank balances	-	-	-
Assets	5,770		5,770
Minority interest	46	-	46
Subordinated debenture loan	1,957	-	1,957
Other long-term liabilities	2,572	-	2,572
Operating liabilities	1,357	-	1,357
Current financial liabilities	144	-	144
Liabilities and minority interest	6,076		6,076
Total net assets	-306		-306

¹⁾ The allocation of acquisition values will be finalized during 2006. Certain judgement matters remain before the purchase consideration for the SSK Group can be determined. In addition, the Sydsvenska Kemi Group's carrying amounts for assets and liabilities have been applied. For example, tangible fixed assets have not been revalued and new intangible fixed assets have not yet been identified. Other long-term liabilities include pension provisions that do not include the actuarial losses that arose during 2005 as a result of a lower discount rate.

If the Sydsvenska Kemi Group had been acquired already at the beginning of 2005, it net sales, including operations divested during the year, would have totaled SEK 6.6 billion. Operating profit before depreciation would have totaled SEK 1,064 m.

Note 27 Business relations with related companies

Perstorp Holding AB is controlled by the French private equity company PAI partners, which owns 100% of the shares in Luxembourg-based Financière Forêt S.À.R.L., which in turn owns 100% of the shares in Perstorp Holding AB.

PAI partners concluded an agreement concerning the acquisition of the shares in Sydsvenska Kemi AB. This agreement was transferred free of charge to Perstorp Holding AB.

Perstorp Holding AB had a loan from the Parent Company corresponding to SEK 1,604 m at year-end. The loan is subject to normal market terms and conditions. The term of the loan is ten years, which is extended automatically for up to five periods each of ten years, assuming that neither of the parties terminates the agreement. The interest rate is 10%, which is capitalized. The loan is subordinate to the senior loans, second lien and mezzanine loans.

The receivables and liabilities in relation to associated companies are reported separately in the balance sheet.

Remuneration to senior executives is reported in Note 23.

Note 28 Significant events following fiscal year-end

Following the balance-sheet date, the subsidiary Sydsvenska Kemi AB's 2001/2011 subordinated loan has been settled and trading in the debentures on the Stockholm Stock Exchange has ceased.

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

Perstorp AB and Oxiquim S.A. have decided to enter into production cooperation at Oxiquim's plant in Chile, whereby as of March 1, 2006, Perstorp will assume responsibility for production and assets at the Chilean plant. The operations to be taken over currently have annual sales of USD 25 m. A preliminary acquisition analysis has been prepared.

Oxiquim S.A., Chile

Preliminary acquisition analysis, SEK m

Purchase consideration	
Purchase consideration	46
Acquired assets, fair value	-46
Goodwill	0

Acquired net assets	Book value	Fair adjustments	Fair value
Tangible fixed assets	46		46
Total assets	46		46
Total liabilities	0		0
Total net assets	46	0	46

Note 29 Sickness absence

Sickness absence below for the period January-December 2005 is reported pro forma for the Group.

Sickness absence as a percentage of ordinary working time, %

	2005	
	Group	Swedish operations
Total	2.5	2.5
Uninterrupted sickness absence of 60 days or more	*)	1.2
<i>Sickness absence by gender</i>		
Men	*)	2.0
Women	*)	3.7
<i>Sickness absence by age</i>		
29 years or younger	*)	1.8
Between 30 and 49 years	*)	2.4
50 years or older	*)	3.0

*) There are no confirmed figures for foreign units pertaining to the distribution among long-term and short-term sickness absence, sickness absence by gender and age distribution.

Swedish operations pertain to all Group companies in Sweden. The Parent Company had no employees at year-end.

Note 30 Proportion of women who are members of company boards or management

	2005		
	Total	of whom women	%
Board members	90	2	2
Other senior executives	96	20	21

The Board members category comprises ordinary members of the boards of all companies within the Group. The same person may be counted several times if he or she is a member of the board of more than one company.

The Other senior executives category comprises the Group's executive management team, management teams within each business sector, the management teams of major subsidiaries and the president of all other companies within the Group.

Note 31 Auditors' fees and compensation for costs

The fees and cost remuneration pertain to the period January-December 2005 for the pro forma Group. The costs do not include acquisition-related assignments.

	Group
	2005
<i>Öhrlings PriceWaterhouseCoopers:</i>	
Audit assignments	6
Other accounting firms	2
<i>Audit assignments</i>	-
Other	1
Total	9

Audit costs in the Parent Company totaled SEK 0.5 m.

Note 32 Currency exchange rates

Currency	Year-end exchange rate		Average exchange rate	
	Dec 31, 2005	Dec 31, 2004	2005	2004
EUR	9.430	9.007	9.281	9.126
USD	7.952	6.613	7.469	7.349
GBP	13.733	12.710	13.571	13.453
SGD	4.785	4.040	4.485	4.346
JPY	0.068	0.064	0.068	0.068
INR	0.176	0.151	0.169	0.162
KRW	0.008	0.006	0.008	0.006

Proposed treatment of the unappropriated earnings

The Board of Directors and President propose that the funds available for distribution by the Annual General Meeting, as shown in the Parent Company's balance sheet, namely:

Retained earnings	SEK	456,774,086
Net loss for the year	SEK	-8,534,370
	SEK	448,239,716

be distributed as follows:

To be retained in the business	SEK	448,239,716
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Perstorp, April 4, 2006

Dominique Mégret Bertrand Meunier Fabrice Fouletier

Lennart Holm Anitha Hermansson Klas Ingstorp Ronny Nilsson

Auditors' Report

To the Annual General Meeting of Perstorp Holding AB

Org. nr 556667-4205

We have audited the annual report, the consolidated financial statements, the accounts and the administration of the Board of Directors and the President of Perstorp Holding AB for the fiscal year extending from September 2, 2004 to December 31, 2005. The Board of Directors and the President are responsible for these accounts and the administration of the company, and for ensuring that the Annual Accounts Act is applied when the annual accounts are compiled, and that the International Financial Reporting Standards (IFRS) adopted by the EU and the Annual Accounts Act are applied for compiling the consolidated accounts. Our responsibility is to express an opinion on the annual accounts, consolidated accounts and the administration based on our audit.

We conducted our audit in accordance with Generally Accepted Auditing Standards in Sweden. Those standards require that we plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and their application by the Board of Directors and the President, evaluating the material estimates made by the Board of Directors and President when compiling the annual report and the consolidated financial statements, and evaluating the overall presentation of information in the annual report and consolidated financial statements. We examined significant decisions, actions taken and circumstances of the company in order to be able to determine the possible liability to the company of any Board member or the President or whether they have in some other way acted in contravention of the Compa-

nies Act, the Annual Accounts Act or the Articles of Association. We believe that our audit provides a reasonable basis for our opinion set out below.

The annual accounts have been prepared in accordance with the Annual Accounts Act and consequently provide a true and fair picture of the company's earnings and financial position in accordance with Generally Accepted Auditing Standards in Sweden. The consolidated financial statements have been compiled in accordance with the International Financial Reporting Standards adopted by the EU and with the Annual Accounts Act and provide a true and fair picture of the Group's earnings and financial position. The Report of the Board of Directors is compatible with the other parts of the annual report and consolidated financial statements.

We recommend that the Annual General Meeting adopt the income statements and balance sheets of the Parent company and the Group, that the loss in the Parent Company be dealt with in accordance with the proposal in the Report of the Board of Directors, and that the members of the Board and the President be discharged from liability for the fiscal year.

Perstorp, April 4, 2006

Öhrlings PricewaterhouseCoopers AB

Michael Bengtsson

Authorized Public Accountant

Board of Directors and auditor



Dominique Mégret
Chairman of the Board
 Born in 1947.
 Deputy Head, PAI partners.
 Member of the Board since 2006.
 Other Board assignments:
 Member of the Board of Chr. Hansen (Dk), Elis (Fr), Evialis (Fr), Vivarte (Fr), Yoplait (Fr), United Biscuits (UK), Saur (Fr) and Saeco (It).



Bertrand Meunier
 Born in 1956.
 Senior Partner, PAI partners and Director of Financière Forêt S.À.R.L.
 Member of the Board since 2006.
 Other Board assignments:
 Member of the Board of Elis (Fr), Provimi (Fr/Nl), United Biscuits (UK), Yoplait (Fr), Saeco (It), Saur (Fr), Vivarte (Fr), Coin (It) and Chr. Hansen (Dk).



Fabrice Fouletier
 Born in 1975.
 Investment Director, PAI partners and Director of Financière Forêt S.À.R.L.
 Member of the Board since 2006.



Lennart Holm
 Born in 1960.
 President and Chief Executive Officer of Perstorp Holding AB, Sydsvenska Kemi AB and Perstorp AB.
 Member of the Board since 2006.
 Active in the Group since 2001.



Anitha Hermansson
 Born in 1953.
 Log. Adm. Manager.
 Member of the Board since 2006.
 Appointed by the Boards of PTK in Perstorp and Stenungsund.



Klas Ingstorp
 Born in 1971.
 Production Manager SPPO/Catalyst.
 Member of the Board since 2006.
 Appointed by the Boards of PTK of Perstorp and Stenungsund.



Ronny Nilsson
 Born in 1969.
 Process operator.
 Member of the Board since 2006.
 Appointed by the Boards of Industrifacket at Perstorp and Stenungsund.

Deputies:

Gaëlle d'Engremont
 Anders Magnusson, deputy for the union representative of PTK
 Annika Folkesson, deputy for the union representative of PTK
 Ronny Sahlberg, deputy for the union representative of Industrifacket



Michael Bengtsson
 Born in 1959.
 Authorized Public Accountant.
 Öhrlings PricewaterhouseCoopers.
 Other major revision assignments:
 Sweco AB, Glocalnet AB, Onoff AB, K G Knutsson AB and MacGREGOR International AB.

Group management



Lennart Holm
Born in 1960.
President and Chief Executive Officer of Perstorp Holding AB.
Active in the Group since 2001.



Claes Gard
Born in 1953.
Executive Vice President.
CFO.
Active in the Group since 2001.



Lennart Hagelqvist
Born in 1958.
Executive Vice President Operations.
Active in the Group since 2004.



Lars Peter Lindfors
Born in 1964.
Executive Vice President
Renewal & Development.
Active in the Group since 1989.



Martin Lundin
Born in 1968.
Executive Vice President Corporate
HR & Communications. Active in the
Group since 2001.
Martin Lundin will vacate his position
during the second quarter of 2006.



Mats Persson
Born in 1963.
Executive Vice President Supply Chain.
Active in the Group since 1992.



Inge Pettersson
Born in 1947.
Deputy CEO.
Executive Vice President
Marketing & Sales Performance Chemicals.
Active in the Group since 1980.



Bengt Sallmén
Born in 1951.
Executive Vice President Marketing &
Sales, Coating Intermediates.
Active in the Group since 1976.

Corporate functions

Corporate Finance
Corporate HR & Communications
Corporate IT
Corporate Environment, Health and Safety
Group Financial Control

Gunnar Modalen
Martin Lundin
Susanna Frennemo
Jan Petersson
Anita Haak

Glossary

Acidifiers

Acid mixes and simple or complex acid derivatives/ salts. Used as additives in power feed, drinking water, etc., mainly as a preservative in feed and pH reducer, as well as an easily accessible source of calcium (calcium formate) in gastro/intestinal canals

Aldehyde

Generic term for chemical substances that contain the aldehyde group (C=O). Used as a raw material in the chemical industry.

Basic polyols

See polyols.

Board

Layers of particleboard.

Catalyst

An active substance in a chemical process that is not actually consumed.

Composite

Material or product comprising several different components, such as fiber reinforced plastic, designed to provide specific product properties.

Formalin (formaldehyde)

Aqueous solution of formaldehyde that is used as a basic component in the chemical industry, primarily in production of plastics and glues.

DEHP (diethylhexyl phthalate)

Plasticizer for PVC plastics.

Formic acid

An organic acid used to preserve green feed and other substances.

Monomer

The chemical from which a polymer (plastic) is produced. A polymer is a large molecule based on the repetition of small molecules (monomers).

Neopentyl glycol (Neo)

A divalent polyol used mainly for the production of polyesters for powder and other environmentally compatible paints.

Octane acid (diethyl hexanoic acid)

Organic acid with eight carbon atoms.

Oxo alcohols

Generic term for synthetically produced multivalent alcohols. The products mainly comprise the raw material base for plasticizers and paint resins, for example.

Pentaerythritol (Penta)

A quadrivalent polyol used in the production of alkyd paints, explosives and synthetic lubricants, etc.

Plasticizers

Substance that is added to plastics in order to provide the desired rigidity to the material.

Polyol (polyalcohol)

A polyfunctional alcohol.

Propionic acid

Organic acid used for such applications as preserving green feed and grain.

Propionates

Salts made of propionic acid. Used mainly as a preservative in feed and food.

Resin

The part of plastics and paints that binds fillers, pigments, etc., to give products such characteristic properties as gloss, strength and chemical resistance.

Silage

Additive used for the preservation of green feed.

Sodium formate

A product extracted during the production of polyols and used, for example, as a raw material for formic acid.

Specialty polyol

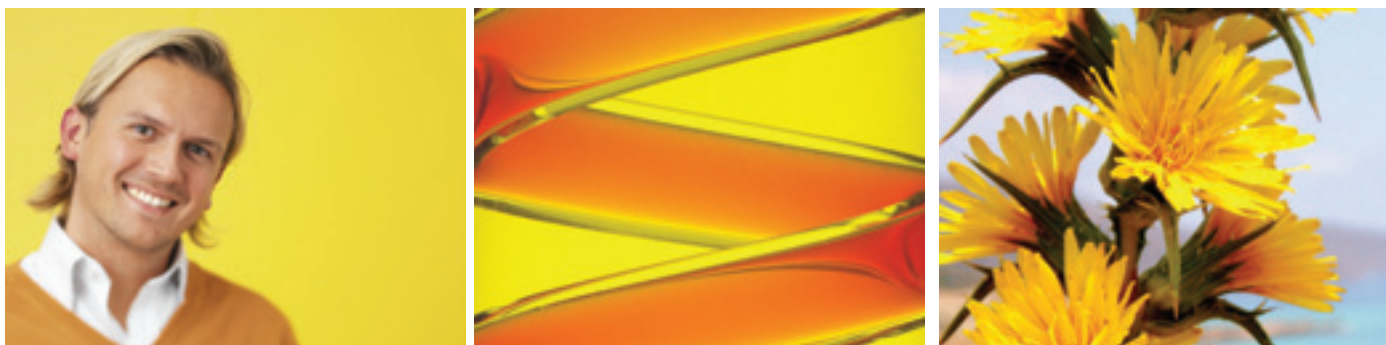
Polyols that also contain other functional groups, such as acids.

Thermoset

Plastic that receives its final chemical structure at the molding stage, which includes tempering.

Trimethylolpropane (TMP)

A trivalent polyol for the production of alkyd paints, polyurethane, polyester, etc.



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 applications.

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 Asia, Europe, North and South America 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.