Report of the Board of Directors

Perstorp Annual Report 2017

One molecule can change everything

Perstorp believes in improving everyday life – making it safer, more convenient, more fun and more environmentally sound for millions of people all over the world. As a trusted world industrial leader, our innovations provide essential properties for products used every day at home and work. You'll find us everywhere from your car and mobile phone to towering wind turbines and the local dairy farm. Simply put, we work to make good products even better.

Perstorp's focused innovation builds on more than 135 years of experience, representing a complete chain of solutions in organic chemistry, process technology and application development. Manufacturing is based in Asia, Europe and North America, with sales and support in all major markets. The Perstorp Group is controlled by funds managed and advised by the European private equity company PAI partners.

For more information, visit perstorp.com

Perstorp

Perstorp

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It is that magic formula of performance and caring embraced by strong leadership that will secure profitable growth.

Jan Secher
President and CEO

PERSTORP HOLDING AB (PUBL.), CORPORATE REG. NO. 556667-4205
PARENT COMPANY FOR PERSTORP

Year in review

Key Events – 2017 in brief

1. DIVESTED PRODUCTION SITE IN GENT, BELGIUM

In March 2017, Perstorp announced the divestment of our additives business, based at our facility in Gent, Belgium, (Perstorp Oxo Belgium AB) to Synthomer plc. Perstorp Belgium manufactured a range of performance additives to a global customer base across a number of end markets including paints, coatings and plastics. The sale of Perstorp Belgium was a natural step in our strategy of focusing on growing our core technology platforms.

2. A NEW MOLECULE SERVING THE FEED MARKET

The global need to reduce the usage of antibiotics in animal husbandry fuels the search for alternatives. In May 2017 at the ESPN symposium in Spain, Perstorp launched ProPhorce™ Valerins, the first new organic acid to be introduced in decades, which has shown promising results in order to further improve animal gut health and performance.

3. LAUNCHED FLAGSHIP STORE AT ALIBABA'S 1688.COM

In May 2017, Perstorp was the first company within our industry to launch a flagship store on Alibaba's domestic B2B platform, 1688.com. The platform has more than 200 billion transactions yearly, and reaches all of China with 250-300 million visits per day.

To understand the potential of this platform, we decided to start small and focus on our offering of building blocks for the Coatings and Resins industry, and especially for low-VOC solutions, since we know the demand for these products is strong in China.

4. ACQUIRED A PRODUCTION PLANT IN VERCELLI, ITALY

In July 2017, Perstorp acquired Polialcoli S.r.l. from Polioli SPA. The business consisted of Neo, TMP and TMPDE as well as the associated Formate businesses located at the Vercelli site in Italy. Included in the transaction were also technology, know-how and equipment.

The transaction was fully in line with the strategy to further strengthen our position in the Polyols market. TMP and Neo are both key products in our Polyol portfolio, which is a core business within Perstorp.

5. USING WASTE LIQUID AS RAW MATERIAL

During 2017, we made investments for increased sustainability in our Penta plant in Toledo, which allows us to purify and utilize the waste liquid from the Penta production and re-use it as a raw material. Instead of ending up for disposal, the waste stream has found a new purpose. With the added investment, we are decreasing the amount of chemicals sent to the sewer by 65%. Our intention is to even further increase that percentage in the near future.

6. AMBITION LEVEL – FINITE MATERIAL NEUTRAL

Perstorp's new Ambition Level for sustainability - to become Finite Material Neutral – was communicated externally for the first time at China Coat in Shanghai in November.

Finite materials are resources that either cannot be created or produced, once the original stores are depleted, or those that are used up at a greater rate than nature can replenish. For Perstorp to become Finite Material Neutral would mean switching to alternative resources that are abundant and/or renewable, or to close the loops in order to recycle or reuse those that are finite.

7. FIRST ISCC CERTIFIED AND RENEWABLE POLYOLS

During 2017, Perstorp announced that all three essential polyols – Penta, TMP and Neo – now available in renewable and part-renewable options. With these products, we are supporting circular economy and the shift towards raw material derived from renewable and waste sources. For example, instead of using fossil-derived natural gas as a raw material for Evyron™ and Neeture™ we are using locally produced biogas from waste. Evyron™ and Neeture™ reduces the carbon footprint by 40-60%. All our pro-environment polyols – Evyron™, Neeture™, Voxtar™ – are certified by third-party ISCC (International Sustainability & Carbon Certification) and come with a Proof of Sustainability, which confirms our customers' contribution to sustainable sourcing according to a mass balance system.

8. RE-FINANCING

Due to a successful last year, Perstorp has successfully refinanced its floating rate notes amounting to EUR 250 m. This transaction will reduce our overall interest expense and improve our cash flow. It's an important milestone and signal that the capital markets acknowledge our recent strong financial performance. With a reduced interest expense, we as a company will have a greater operational flexibility going forward.

9. RENEWABLE ELECTRICITY

As a chemical company, Perstorp consumes a significant amount of electricity in our production processes. With this in mind, we made a decision in 2017 to only use renewable electricity in all our Swedish production plants. This means a vast majority of all our European production will be run by hydropower. Hydropower is derived from the energy of falling or fast-running water. This shift is an important step in reducing our environmental impact as well as supporting sustainable electricity production. It's a clear step towards our ambition to become Finite Material Neutral.

Organization

President & CEO
Jan Secher

Finance, Legal & IT
Magnus Heimburg

Innovation
Marie Grönborg

Regions & Group Management
Mikael Gedin

Business Area Specialties & Solutions
Marie Grönborg

Business Area Advanced Chemicals & Derivatives
Gorm Jensen

Business Area BioProducts
Jan Secher

Supply Chain
Wolfgang Laures

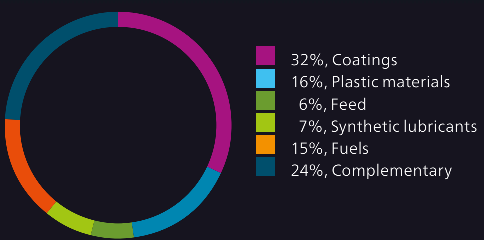
Operations
Magnus Lannér

Key figures in summary, continuing operations

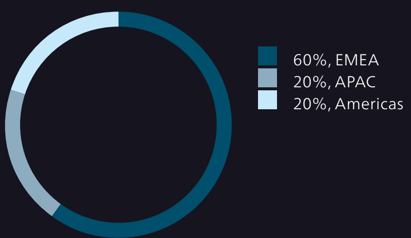
SEK m unless otherwise stated	Full year 2017	2016
Net sales	13,592	11,075
Operating earnings before depreciations (EBITDA)	2,096	1,716
% of net sales	15.4	15.5
EBITDA excluding non-recurring items	2,133	1,781
% of net sales	15.7	16.1
Operating earnings (EBIT)	1,369	1,129
% of net sales	10.1	10.2
Free cash flow	1,275	1,300
Net debt excluding parent company loan and pension liabilities	12,056	12,964

Other key figures	2017	2016
Available funds	1,220	983
Net debt	12,496	13,424
Net debt excluding parent company loan and pensions liabilities	12,056	12,964
Leverage	5.7x	7.0x

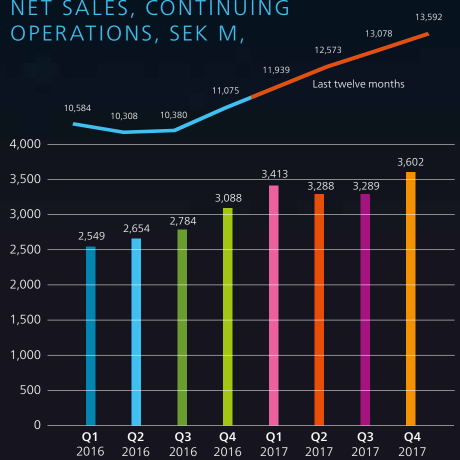
NET SALES BY MARKET SEGMENTS, LAST TWELVE MONTHS



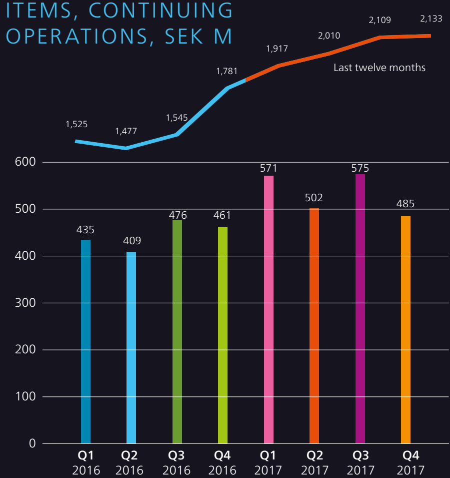
NET SALES BY GEOGRAPHY, LAST TWELVE MONTHS



NET SALES, CONTINUING OPERATIONS, SEK M,



EBITDA EXCL. NON-RECURRING ITEMS, CONTINUING OPERATIONS, SEK M



President´s comments

We move into 2018 with the momentum of a record-setting year behind us. With an increased focus on leadership, we certainly opened the door to new potential in 2017 – achieving an all-time high result (EBITDA). Together we have created a more efficient and profitable company, better serving our customers' needs, and clearly becoming more outside-in driven compared to four years ago. With this as our springboard, we have promising plans and clearly defined drivers for our growth going forward.

A record year

2017 saw us reaching an extraordinary milestone: 2,133 m SEK in EBITDA, a 20% growth compared to the previous year. We also had above-average, organic, volume-based sales growth of 10% and continued solid generation of cash flow. Altogether, placing Perstorp strong at both the top and bottom lines.

We conducted a successful refinancing of our balance sheet in November, giving us a substantially lower interest rate on the floating rate notes. Given our strong financial performance, with continued profitable growth, our ambition is to receive a more favorable corporate credit rating in the coming year.

Sound markets with solid demand

2017 showed overall solid demand and harmony between the markets in Americas, Europe and Asia. Despite geopolitical uncertainty, pure economic facts indicate the regions found equilibrium within their different situations. The supply/demand balance was tight over the year for some products; however, we saw a stabilization in the last quarter. Increasing raw material prices put continued focus on proactive pricing, enabling us to defend and build margins.

> To be able to follow our strategy and reach our new targets in the coming years, we need to continue to seek the full potential in ourselves.

If it matters, make it better

Focused innovation is one of our core values and we saw a number of exciting results last year from our innovation capabilities. I'd especially like to mention the following initiatives:

- Launch of the world's first portfolio of pro-environment polyols: Voxtar™ (partly renewable Penta), Evyron™ (partly renewable TMP) and Neeture™ (partly renewable Neo)
- Significant steps forward in formulating our non-phthalate plasticizer Pevalen™ in close collaboration with customers
- Partnership with 3D4Makers to develop a new-generation filament enabling applications previously unobtainable with other 3D printing materials
- Synthetic Lubricant developments to measure exact fire and pour points, two very important aspects for our customers
- Major Feed & Food innovations enabling exciting new products in 2017 and the years to come

Care 365

The foundation for all our strategy and tactics is our core beliefs, vision and values as a company. We put significant focus into evolving these during 2017 and translating them into concrete initiatives. One important example is our Care 365 program: putting health and safety first in everything we do, every day, 365 days a year. It is integral to living our values to "Do right" (Responsibility), "Keep the promise" (Reliability) and "If it matters, make it better" (Focused innovation).

Our performance in 2017 took a slightly positive direction with 20% fewer accidents and incidents than the previous year, bearing in mind this is a somewhat lagging indicator. I am very pleased to see the enthusiasm and engagement for Care 365 throughout our organization. We know it's not about statistics – although these are our best way to tangibly see improvement.

It's about life. It's the people, the activities, the careers, the ambitions, and the daily joys that matter. Every little effort can make a huge difference. We took bold first steps in 2017, and more will come.

Digital transformation

After extensive work within a cross-functional Digital Transformation Team, Perstorp now has an envisioned digital future, with a full picture developed for how digital transformation can enable us to work smarter and use our existing systems and processes more efficiently. During 2017 we identified our first couple of concrete projects and ideas within Operations and Supply Chain where we will run pilot projects in 2018. We also took the decision to start the implementation of a new CRM system which will enable us to work in new ways both internally as well as with our customers.

We've also become an Associated Member of Combient – a joint venture between large Swedish and Finnish companies in traditional industries – where the key question is how to secure competitiveness by being at the forefront of digitization.

A beacon for our sustainability ambition

Perstorp as we look to lead change towards chemistry that advances everyday life for the better. 2017 was the year we took a clear and progressive stand by defining our ambition to become "Finite Material Neutral". In short, we should reach a state of operation where we do not take more out of Mother Nature than we give back. This is a highly ambitious and significant level of ambition, and I encourage you to read more about our concrete milestones and action plans in our Sustainability Report

Fueling new records

Continuous Profitable Growth is our headline moving forward, we have set ambitious and challenging goals for ourselves including outgrowing the market and reaching a new sustainable earnings level.

Yet beyond hard numbers, we've set clear targets for further developing our caring culture, and I am convinced this is the fuel for our success. We've identified four drivers for future profitable growth: Care 365, Customer centricity, Product and market leadership and Leverage integrated platforms. Leadership in how we encourage our people and work together cross functionally will be key to further achievements. It boils down to this: we are building one strong culture comprising both the hard financial performance and the softer value that fuels growth. That symbiosis between performance and caring is the magic formula we're after.

Now let's begin

To become even better as leaders in the ever-changing environment we are operating in, we have embarked on a development journey as an organization. We call it Leading Change. From record-high EBITDA to groundbreaking innovation and so much more, our people have achieved the extraordinary during the past year. However, to be able to follow our strategy and reach our new targets in the coming years, we need to continue to seek the full potential in ourselves. Leadership and continuous development of our leaders will be the key to make a step change going forward.

I am very proud to lead this company, and it would be easy to lean back now and be satisfied. But it is in our DNA to always look for improvements, to take things to the next level, saying: "Wow, we did it! What more can we do?" Whether in business development, innovation, customer service or safety, we take what we've learned and use it to drive that next competitive edge – for ourselves and our customers. Again and again.

The end. Now let's begin.

Malmö, April 2018

Jan Secher

President and CEO

Risk management

The objective of the Perstorp Group's risk management process is to proactively identify, evaluate and manage risks as early as possible in order to achieve both operational and strategic goals.

Perstorp has categorized risks into the areas of strategic, operational and financial.

During the year, Perstorp has initiated work to further develop the process around risk management. The objective has been to improve the overall risk assessment where risks will be assessed out of three criteria:

Strategic risks

- Business development and industry
- Opportunity
- Regulatory & compliance

Strategic risks are those that could have a negative impact or threat the Group's ability to develop in line with previously set strategies covering up to a five year timeframe.

Operational risks

- Raw material supply
- Market
- Production disruption
- Corporate governance

The operational risks are those that may have a direct impact on the Group's daily business up to a one year time horizon.

Financial risks

- Currency
- Interest rate
- Funding & liquidity
- Counterparty
- Legal

Financial risks address exposure within the Group's financial operations.

During the year, Perstorp has initiated work to further develop the process around risk management. The objective has been to improve the overall risk assessment where risks will be assessed out of three criteria:

- The impact on different dimensions of Perstorp's goals in case the event that triggers the risk occurs.
- The impact dimensions are:
  - Environment & Safety, Financial Operations, Reputation, Compliance, Customers and Market share.
- The likelihood of the risk (with this impact) occurring within the strategic planning period
- The effectiveness of the risk Responses is qualitatively assessed

RISKS	EXPOSURE	ACTIVITY
STRATEGIC RISKS		
Business development and industry	Negative variances related to investments acquisitions or divestments and/or changes in technology or competitive environment	Perstorp's strategic processes and routines safeguard that strategies are followed and investment criteria are met
Opportunity	The company would miss opportunities and trends in the market as a result of failing to identity or capture them in the market at the right time	Perstorp´s Innovation function has a solid process in place to pick up trends and needs in the market at an early stage through a broad interface and network and bring them to the strategic process for proper resource allocation
Regulatory & compliance	Increased operational cost and/or changes in competitive landscape due to changes in laws and regulations Risks of individuals not complying with regulations and/or the Group's Code of Conduct.	Perstorp has routines and process to proactively develop best practice production, meeting regulatory environmental and occupational health and safety requirements. Employees are made aware of legal requirements and our Code of Conduct, through information and training.
OPERATIONAL RISKS		
Raw material	Eroded margins and/or production disturbance related to volatility in pricing and/or availability of critical raw material	Perstorp's purchasing policy requires multiple supplies of critical raw materials alternatively to sign long-term agreements. Hedging options is assessed continuously
Market	Perstorp has a wide range of products aimed at different market segments, and is thereby exposed to changes in supply/demand	Perstorp's broad customer base makes the Group more resilient to demand reductions. In addition, Perstorp follows the supply/demand changes in the market as key indicators for own capacity planning
Production disruption	There are various risks that could lead to major interruptions, such as technical issues, fires, environmental accidents and other accidents with serious personal injuries as a consequence. Disturbances and interruptions at Perstorp's plants may result in loss of earnings if deliveries are delayed.	The Group has business contingency plans in place. Furthermore, as part of the Care 365 program, all Perstorp sites work systematically with safety issues, occupational safety issues and environmental issues to prevent any accidents.
Corporate governance (compliance risk)	The risk of decisions being taken on the wrong grounds or based on inaccurate information	Perstorp's governance model and policies safeguards compliance with external and internal rules and regulations
FINANCIAL RISKS		
Currency	Currency risk is divided in; • translation exposure – risk related to the conversion of the Group's assets and profits, and • transaction exposure – risk related to the value of the Group's cash flow	Perstorp's finance policy defines acceptable currency risk and sets guidelines and hedging methods for the management of these risks
Interest rate	Interest-rate risk is the risk of a negative impact on the results due to a rise in market interest rates	Perstorp's finance policy defines acceptable interest rate risk and sets guidelines and hedging methods for the management of these risk
Funding & liquidity	Funding risk is the risk that the Group will not have access to sufficient funding, or that the funding or re-financing of existing loans becomes difficult or too costly	Perstorp's major funding consists of bonds, listed on the Channel Islands Securities Exchange, syndicated mezzanine facilities and a revolving credit facility provided by core banks. Perstorp also follows development of available funds through regular cash flow forecasts. Available funds at the end of 2017 were 1,220 MSEK
Counterparty	Counterparty risk is the risk of counter-parties failing to meet obligations in accordance with agreed terms	Perstorp has a comprehensive credit policy aiming to prevent credit losses and optimize tied-up capital
Legal	Legal risk is the risk of a negative impact on the Group's result or reputation arising from litigation, arbitration, disputes, claims or participation in legal proceedings	Perstorp's legal policy provides the framework and procedures for handling potential disputes

Corporate governance report

The Perstorp Group's core values of focused innovation, reliability and responsibility are also central to corporate governance. Corporate governance includes the continual process of controlling and improving decision-making and business strategies, defining clear areas of responsibility and identifying and evaluating opportunities and risks for the Group. The overall aim is to maintain and develop order so that the business is controlled reliably and we are well equipped to face the development challenges and changes of the future.

Corporate governance within the Perstorp Group is performed through the Annual General Meeting, the Board of directors and the President in accordance with the Swedish Companies Act. The Group does not have a formal requirement to follow the Swedish code of corporate governance.

General meeting

The General Meeting is the forum where shareholders make certain decisions about Perstorp Holding AB and its subgroup subsidiaries. The Annual General Meeting was held on May 9th 2017, at which the annual report for the 2016 financial year was adopted together with the proposal for distribution of profits. The Board of Directors was re-elected at the meeting.

Board of directors

As of the end of 2017, the Board of Directors consists of seven members, all nominated and elected by the company owners. The individuals re-elected to the Board at the 2017 Annual General Meeting are Tore Bertilsson, Fabrice Fouletier, Jan Secher, Karin Markides, Brendan Cummins, Ragnar Hellenius and Claes Gard. In addition to the aforementioned individuals, the Board also includes three employee representatives.

The Board's responsibilities are regulated by the Swedish Companies Act and the formal working procedures, which are approved by the Board once per year. These procedures outline the Board's assignments and which decisions must be taken at Board level. The working procedures also regulate the division of responsibility between the Board, its committees and the President. The Chairman leads the Board's work. The division of responsibilities among Board members does not extend beyond certain special assignments for the Chairman.

During 2017, eight scheduled Board meetings were held, as well as one statutory convening meeting and four extra board meetings. Minutes were kept at all meetings. On average, attendance at Board meetings for ordinary Board members was 99%. Other employees also attended meetings, either to make presentations or give specialist information prior to key decisions. Every month the Board received a written report presenting and analyzing the development of the Group and the earnings and financial position. Preparatory materials were sent to Board members before each Board meeting. The President was also in continuous contact with the Chairman of the Board. The following points were addressed at each Board meeting:

- Responsible Care report, status report from the President
- Financial position and outlook
- Investment decision for projects worth more than SEK 15 m

Other important matters:

In addition to these fixed agenda items, several main subjects such as the budget, forecasts, refinancing and financial structure were addressed during the year. The extra Board meetings during the year were held to address the proposed divestment of Site Gent in Belgium and refinancing and financial structure.

Audit committee

The Board is served by an Audit Committee, which focuses on securing the quality of the Group's financial reporting and risk management, and the committee is therefore also close to the development of control instruments for internal control. An important activity is to follow up and assess the external audit. The committee does not have decision-making rights. Decisions shall be made by the Board.

At the end of 2017, the Audit Committee consisted of the following members: Fabrice Fouletier, Claes Gard, Ragnar Hellenius and Tore Bertilsson. During the year, the committee held six ordinary meetings and one extra meeting. The extra meeting was held to address the refinancing and financial structure. Minutes were taken at all meetings.

Remuneration committee

The Board is also served by a Remuneration Committee. This committee's task is to propose principles for remuneration and other employment terms for the President and senior executives. The committee also prepares the terms for global incentive schemes and makes an assessment of the schemes. The committee has certain decision-making powers.

At the end of 2017, the Remuneration Committee consisted of Board members Tore Bertilsson, Brendan Cummins, Fabrice Fouletier and Ragnar Hellenius. The committee held two ordinary meetings during the year, at which minutes were taken.

President & executive leadership team

The President of the Group, Jan Secher, is also elected by the Board as the CEO of the parent company. He exercises ongoing control of the Group. The EVPs of the Business Areas Advanced Chemicals & Derivatives and Specialties & Solutions report to him along with the EVP Supply chain, EVP Operations, EVP Regions & Group Management, EVP Finance, Legal & IT and EVP Innovation. The President manages the business in accordance with the instructions concerning the division of responsibilities between the Board and President adopted by the Board. The work of the President and Board is assessed annually.

External auditors

Perstorp's auditor is elected for a term of office of one year. Auditing firm PricewaterhouseCoopers AB (PwC) is the appointed auditor of the company with Michael Bengtsson being the lead auditor. The Board's and Group Management's aim is to have a close relationship with the auditors, to the extent that they shall be kept well informed about relevant issues concerning the accounts, reporting procedures and management of the company's/Group's assets.

There is, therefore, a continuous dialogue with the auditors and they participate in at least one Board meeting per year. The auditors receive the minutes of Board meetings, documents relating to Board decisions, and the monthly financial reports for the Group.

During 2017, PwC performed assignments relating to the audit in addition to regular auditing work. On all those occasions, the Group emphasized that the additional services should not compromise the independence of the audit, which was also been carefully examined by PricewaterhouseCoopers.

Internal control

For Perstorp, the concept of internal control is fundamental and involves the Group's capability of implementing an effective system for control and follow-up of the company's activities. It also involves ensuring that rules are followed, both with regard to external legislation/regulation and internal guidelines/control documents. An important part of the practical work on internal controls, furthermore, is to identify risks and ensure that they are managed efficiently. The purpose is to minimize risk exposure as far as possible in selected areas while also ensuring the opportunities are exploited as desired. The Group's organization is adapted to meet the requirements for good internal control and working methods are characterized by organizational transparency with a clear division of responsibility.

The Group's financial reporting manual, together with the business systems, are important control instruments that enable reliable consolidation and financial reporting. Group reports are produced once per month following well-established procedures, and the outcome is always presented in a report that includes extensive analysis. Work on the year-end accounts involves a number of people at Group, department and company level, and the summarized results are reported back continually to management functions and the Board. For several years, the Group has performed an extensive annual self-assessment of internal controls, with the majority of the subsidiaries assessed in 2017. The purpose is to identify key control points for the various departments, analyze procedures, follow development in relation to previous activity and thus ensure that internal controls are at a good level and remain so. The implementation of a new ERP system in several of our companies in Sweden has led to improved capabilities for performing and ensuring good internal control. The assessment has been complemented with a partly expanded verification operation by the company's auditors for certain areas. In relation to this, special follow-up and site visits has been carried out from the central level within the Group. Work aimed at securing good internal control is a constantly ongoing process.

Board of directors

Elected by the annual general meeting

TORE BERTILSSON
Member and Chairman of the Board of Directors since 2015. Born 1951.

OTHER BOARD ASSIGNMENTS
Chairman of the Board of Directors of Semcon AB, Försäkringsbolaget PRI. Pensionsgaranti and AB Ludvig Svensson. Member of the Board of Directors of INGKA Holding BV, JCE Group AB, Ovako Group AB, Salinity AB and Ågrenska AB.

JAN SECHER
President and CEO Perstorp Holding AB, Executive Vice President Business Area BioProducts. CEO and member of the Board of Directors since 2013. Born 1957.

OTHER BOARD ASSIGNMENTS
Member of the Board of Directors of Elekta AB, IKEM and CEFIC (The European Chemical Industry Council). Chairman of the Board of Directors of Peak Management AG.

FABRICE FOULETIER
Partner, PAI partners. Member of the Board of Directors since 2006. Born 1975.

OTHER BOARD ASSIGNMENTS
Partner at PAI Partners SAS. Member of the Board of Directors of MEP S.à.r.l, MEP II S.à.r.l, AS Adventure Group, Castellano, Euromedia Group, and Masaria Investments.

KARIN MARKIDES
Member of the Board of Directors since 2010. Born 1951.

OTHER BOARD ASSIGNMENTS
Professor, Chairman of the Board of Directors of the Scientific Council for Sustainable Development at the Swedish Government. Member of the Board of Directors of the Swedish Knowledge Foundation.

CLAES GARD
Member of the Board of Directors since 2009. Born 1953.

OTHER BOARD ASSIGNMENTS
Member of the Board of Directors of FTX-ventilation AB and Vasatorps Golf AB.

RAGNAR HELLENIUS
Partner, PAI partners. Head of the Nordic team. Member of the Board of Directors since 2009. Born 1967.

OTHER BOARD ASSIGNMENTS
Chairman of the Board of Directors Starid Holding 3 AB and Lary 1-4 AB. Member of the Board of Directors PAI Partners SAS and ADB Safegate.

BRENDAN CUMMINS
Member of the Board of Directors since 2015. Born 1951.

OTHER BOARD ASSIGNMENTS
Member of the Board of Directors, Audit Committee and Chair of the Governance and Nominations Committee of Ashland Inc., Member of the Board of Directors, Audit Committee and Chair of the Remuneration Committee of Nanoco PLC, Member of the Board of Directors of Tom Murphy Car Sales Ltd and Gailtar Ltd., Member of Board of Directors and Chair of the Audit and Finance Committee of Respond Support CLG

Directly elected representatives

ANDERS MAGNUSSON
Technical Market Development Manager and Chairman of the Swedish PVC Forum. Member of the Board of Directors since 2010. Appointed by the Boards of PTK of Perstorp and Stenungsund. Born 1969.

PER-OLOV HORNLING
Strategic Purchaser
Member of the Board of Directors since 2017. Appointed by the Boards and PTK of Perstorp and Stenungsund. Born 1960.

JOAKIM HANSSON
Process Operator and Chairman of IF Metall
Member of the Board of Directors since 2015. Appointed by the Boards of IF Metall Perstorp and Stenungsund. Born 1983.

Auditors

MICHAEL BENGTSSON
Authorized Public Accountant – PricewaterhouseCoopers.
Born 1959.

OTHER AUDIT ASSIGNMENTS
Bonnier, Bure, Indutrade and SWECO.

MATS ÅKERLUND
Authorized Public Accountant – PricewaterhouseCoopers.
Born 1971.

OTHER AUDIT ASSIGNMENT
Viktoria Park, Copenhagen Malmö Port, Flint Group, ESS and Catena.

Deputies
Jesper Fahlén – Deputy trade union representative, PTK
Gerry Ackert – Deputy trade union representative, IF Metall

TORE BERTILSSON

JAN SECHER

FABRICE FOULETIER

KARIN MARKIDES

CLAES GARD

RAGNAR HELLENIUS

BRENDAN CUMMINS

ANDERS MAGNUSSON

PER-OLOV HORNLING

JOAKIM HANSSON

Executive leadership team

JAN SECHER
President and Chief Executive Officer – Perstorp Holding AB
Executive Vice President – BioProducts
Active in the Group since 2013.
Born 1957.

MARIE GRÖNBORG
Executive Vice President – Business Area Specialties & Solutions and Innovation
Active in the Group since 1994.
Born 1970.

WOLFGANG LAURES
Executive Vice President – Supply Chain
Active in the Group since 2014.
Born 1969.

MIKAEL GEDIN
Executive Vice President – Regions & Group Management
Active in the Group since 2009.
Born 1969.

GORM JENSEN
Executive Vice President – Business Area Advanced Chemicals & Derivatives
Active in the Group since 2014.

MAGNUS LANNÉR
Executive Vice President – Operations
Active in the Group since 2008.
Born 1969.

MAGNUS HEIMBURG
Chief Financial Officer and
Executive Vice President – Finance, Legal & IT
Active in the Group since 2014.
Born 1967.

JAN SECHER

MAGNUS HEIMBURG

MARIE GRÖNBORG

GORM JENSEN

MAGNUS LANNÉR

MIKAEL GEDIN

WOLFGANG LAURES

Net sales & earnings

CONSOLIDATED INCOME STATEMENT

SEK m	Note	2017	2016
Continuing operations			
Net sales	**5, 9**	**13,592**	**11,075**
Cost of goods sold	6, 7, 8, 21	–11,048	–9,084
Gross earnings		**2,544**	**1,991**
Selling and marketing costs	6, 7, 8	–495	–469
Administrative costs	6, 7, 8, 33	–327	–285
Research and development costs	6, 7, 8	–96	–87
Other operating income and expenses	10, 11	–261	–24
Result from participations in associated companies	12	4	3
Operating earnings/loss (EBIT)	**5, 10, 23, 27**	**1,369**	**1,129**
Net financial items	22	–1,454	–2,348
Group contribution		–	85
Earnings/loss before tax		**–85**	**–1,134**
Tax	24	–10	2
Net earnings/loss for the year		**–95**	**–1,132**
Discontinued operation	36		
Net sales		0	230
Operating earnings/loss (EBIT)		604	77
Earnings/loss before tax		604	0
Tax		–	0
Net earnings/loss for the year		**604**	**0**
Group total			
Net sales		13,592	11,305
Operating earnings/loss (EBIT)		1,973	1,206
Earnings/loss before tax		520	–1,134
Tax		–10	2
Net earnings/loss for the year		**510**	**–1,132**
of which, attributable to non controlling interest	15	65	19
Earnings/loss per share, SEK		10.19	–22.64
Continuing operations			
Operating earnings before depreciation (EBITDA)		**2,096**	**1,716**
EBITDA adjusted for non-recurring items		**2,133**	**1,781**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

SEK m	Note	2017	2016
Net result for the period		**510**	**–1,132**
Other comprehensive income:			
Items that will not be reclassified to profit and loss			
Re-measurements of defined benefit plan	23	–5	–36
Items that may be subsequently reclassified to profit or loss			
Currency translation effects		109	–77
Other comprehensive income net after tax		**104**	**–113**
Total comprehensive income for the year		**614**	**–1,245**
Attributable to:			
Owners of the parent		553	–1,266
Non controlling interests	16	61	21
Total		**614**	**–1,245**

For continuing operations net sales amounted to SEK 13,592 m during the period January to December 2017, an increase of SEK 2,517 or 23% compared to the same period last year. Volumes increased by 10% compared to the same period last year primarily resulting from the stronger volumes in the first and fourth quarter. Organic volume based sales growth was 10%.

Sales prices were 11% higher than last year following both improved pricing and raw material prices. Average FX-rates for the period were higher than 2016, which resulted in positive FX effects on sales of 1%.

EBITDA excluding non-recurring items, amounted to SEK 2,133 m (1,781), corresponding to an EBITDA margin of 15.7% (16.1). The increase in earnings vs last year of SEK 352 m was attributable to higher volumes and strengthened unit margins.

Depreciation and amortization amounted to SEK 727 m (587) including an impairment of approximately SEK 160 m in the third quarter, related to business area BioProducts. EBIT amounted to SEK 1,369 m (1,129) during the period. Net financial expenses, including exchange rate effects on net debt, amounted to SEK –1,454 m in 2017, compared to SEK –2,348 m for the same period 2016. The decrease is primarily due to more favorable FX-effects on net debt which amounts to SEK 226 m (–649) for 2017. Tax amounted to SEK –10 m (2) and net result amounted to SEK –95 m (–1,132).

In the end of Q1 2017 Perstorp divested its facility in Gent Belgium, Perstorp Belgium (Perstorp Oxo Belgium AB) to Synthomer (Synthomer plc). The divestment is in line with Perstorp's strategy to focus on and expand its core chemicals activities. The capital gain amounts to SEK 604 m and is reported as discontinued operations. Historical financial statement has been restated and is also treated as discontinued operations.

Financial position

Perstorps financial accounts are based on the going concern principle. The management and the Board of Directors consequently monitoring the going concern. This principle includes a number of estimates and judgments about the future, please see note 4 for further information. The company performs an annual impairment test for goodwill as well as shares in group companies. Assumptions are based on the business plan with a discount interest rate of 11 % and a terminal growth rate of 2 %.

At the end of the fourth quarter Perstorp Holding AB (publ.) refinanced the floating rate senior secured notes and increased the amount from EUR 200 m to EUR 250 m, with lower interest rate. In addition the Company also partly redeemed the fixed senior secured notes with EUR 57 m and USD 55 m.

The loan agreements includes covenants which are tested quarterly. These covenants have not been breached.

Free cash flow

Free Cash flow amounted to SEK 1,275 m (1,300) for the period. Improved earnings was partly off set by higher capital expenditures and increased working capital. Cash flow from investment activities, excluding divestment and earn-out, amounted to SEK –651 m (–547) during the period. Utilization of the factoring program at December 31, 2017 amounted to EUR 114 m (100).

Available funds & net debt

The Group's available funds, liquid funds and unutilized credit facilities, were SEK 1,220 m at the end 2017, compared with SEK 983 m at the end of 2016. Net debt excluding parent company loan and pension liabilities decreased by SEK 908 m during the year. The decrease was mainly related to the divestment of Perstorp Oxo Belgium AB, the earn-out from the sale of part of the shares in Vencorex and a stronger SEK against the EUR. Leverage was 5.7x at the end of 2017 compared to 7.0x at the end of 2016.

Equity

At the end of December 2017 equity for the parent company, Perstorp Holding AB, amounts to SEK 817 m (1,595). Consolidated equity, including non controlling interest, for the Perstorp Group amounts to SEK –2,383 m (–2,991).

CONSOLIDATED BALANCE SHEET

SEK m	Note	Dec. 31, 2017	Dec. 31, 2016
ASSETS			
Non current assets			
Tangible fixed assets	6	4,981	5,006
Intangible fixed assets	7	4,835	4,915
Deferred tax assets	24	207	196
Participations in associated companies	13	68	64
Other participations	14	247	475
Direct pension, endowment insurance		114	109
Other interest-bearing, long-term receivables	17,22	0	0
Other interest-free, long term receivables	17	7	8
Total non current assets		**10,459**	**10,773**
Current assets			
Inventories	21	1,434	1,370
Accounts receivable	19	1,004	760
Operating receivables, associated companies		0	0
Tax receivable		36	29
Other operating receivables	19	256	273
Other current financial receivables	22	0	6
Cash & cash equivalents	20	621	434
Total current assets		**3,351**	**2,872**
Total assets		**13,810**	**13,645**
EQUITY & LIABILITIES			
Shareholders' equity			
Share capital (50,000,000 shares, par value of SEK 0.01 each)		0	0
Other capital contributions		6,584	6,584
Reserves		–547	–659
Retained earnings		–8,564	–9,005
Equity attributable to owners of the parent		**–2,527**	**–3,080**
Non controlling interests	16	144	89
Total equity		**–2,383**	**–2,991**
Non current liabilities			
Deferred tax liabilities	24	783	833
Direct pension	23	141	134
Pensions liability, others	22,23	418	441
Long term liabilities, Parent Company	22, 31	22	20
Long-term interest-bearing liabilities [1)]	22	12,363	12,769
Other liabilities, provisions	25	68	96
Total non current liabilities		**13,795**	**14,293**
Current liabilities			
Accounts payable	26	1,074	996
Tax liabilities		60	59
Other operating liabilities	26	1,094	913
Accrued interest expense		143	172
Other financial liabilities	22	27	203
Total current liabilities		**2,398**	**2,343**
Total equity and liabilities		**13,810**	**13,645**

[1)] The amount includes expenses for loan financing in connection with Perstorp Holding AB's refinancing and amounts to SEK –287 (–432) m.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

SEK m	Share capital	Other capital contributions	Other reserves	Retained earnings	Total	Non controlling interest	Total equity
	Equity attributable to owners of the Parent Company						
Opening balance, January 1, 2016	**0**	**6,584**	**–580**	**–7,818**	**–1,814**	**68**	**–1,746**
Net Result for the period	–	–	–	–1 151	–1 151	19	–1,132
Other comprehensive income	–	–	–79	–36	–115	2	–113
Closing balance, December 31, 2016	**0**	**6,584**	**–659**	**–9,005**	**–3,080**	**89**	**–2,991**
Opening balance, January 1, 2017	**0**	**6,584**	**–659**	**–9,005**	**–3,080**	**89**	**–2,991**
Net Result for the period	–	–	–	446	446	64	510
Other comprehensive income	–	–	112	–5	107	–3	104
Transaction with owners, recognised directly in equity	–	–	–	–	–	–6	–6
Closing balance, December 31, 2017	**0**	**6,584**	**–547**	**–8,564**	**–2,527**	**144**	**–2,383**

Dividend to shareholders' is limited, subject to customary restrictions under debt agreements.

CONSOLIDATED CASH FLOW STATEMENT

SEK m	Note	2017	2016
Operating activities			
Operating earnings		1,369	1,129
Adjustments:			
Depreciation and write-down		727	587
Other		–27	41
Operating activities in discontinued operations		–	84
Interest received and other financial items		6	6
Interest paid and other financial items		–1,320	–1,414
Income tax paid		–102	–23
Cash flow from operating activities before change in working capital		**653**	**410**
Change in working capital			
Increase (–) Decrease (+) in inventories		–151	–112
Increase (–) Decrease (+) in current receivables [1]		–290	–161
Increase (+) Decrease (–) in current liabilities		234	339
Change in working capital in discontinued operations		–	–8
Cash flow from operating activities		**446**	**468**
Investing activities			
Acquisition of net assets, subsidiaries		–105	–
Investment in other participations		–	–23
Acquisition of tangible and intangible fixed assets		–546	–547
Sale of net assets, subsidiaries		722	–
Sales of shares in other participations		290	–
Change in financial assets, external		–	–
Discontinuing operations		–	–6
Cash flow from investing activities		**361**	**–576**
Financing activities			
Dividend paid to non-controlling interests in subsidiaries		–6	–
New loans external		2,484	11,581
Amortization of loans, external		–3,012	–11,436
Change in credit utilization [2]		–80	–357
Cash flow from financing activities		**–614**	**–212**
Change in cash & liquid funds, incl short-term investments		**193**	**–320**
Cash and cash equivalents in the operning balance, incl. short-term investments		434	742
Translation difference in cash and cash equivalents		–6	12
Cash & liquid funds, end of period	**20**	**621**	**434**

[1] Including trade receivables financing program
[2] Including payment of bank fees, SEK 13 (355) m relating to refinancing

The Parent Company year-end accounts

INCOME STATEMENT PARENT COMPANY

SEK m	Note	2017	2016
Net sales		**59**	**52**
Gross earnings		**59**	**52**
Administration costs		–181	–147
Other operating income and expenses	11	–15	–21
Operating earnings (EBIT)	23, 27	**–137**	**–116**
Group contribution recieved		182	–
Earnings from participations in Group companies [1]		16	1,832
Net financial items	22	–839	–1,532
Earnings /loss before tax		**–778**	**–184**
Tax	24	0	0
Net earnings/loss for the year [2]		**–778**	**184**

[1] Comprises of dividend from subsidiaries of SEK 0 (1,832) m and reversal of previous years write down of shares in subsidiaries of SEK 16 (0) m.
[2] Comprehensive income equals Net earnings/loss for the year.

BALANCE SHEET, PARENT COMPANY

SEK m	Note	Dec. 31, 2017	Dec. 31, 2016
ASSETS			
Non current assets			
Tangible fixed assets	6	2	4
Intangible fixed assets	7	2	4
Shares in group companies	18	7,731	7,715
Long-term receivables, Group companies	22	6,822	–
Other participations	14	247	475
Direct pension, endowment insurance		108	102
Other non current assets		–	1
Total non-current assets		**14,912**	**8,301**
Current assets			
Operating receivables, Group companies		12	11
Tax receivables		3	2
Other operating receivables	19	8	1 400
Financial receivables, Group companies	22	586	5,788
Other current financial receivables		0	4
Total		**609**	**7,205**
Cash and cash equivalents	20	0	63
Total current assets		**609**	**7,268**
Total assets		**15,521**	**15,569**
EQUITY AND LIABILITIES			
Shareholders' equity			
Share capital (50.000.000 shares, par value of SEK 0,01 each)		0	0
Retained earnings		1,595	1,411
Net earnings/loss for the year		–778	184
Total shareholders´equity		**817**	**1,595**
Non current liabilities			
Direct pension		134	126
Long-term liabilities, Parent company	22	22	20
Long-term interest bearing liabilities [1)]	22	12,163	12,668
Other liabilities, provisions	25	–	1
Total non current liabilities		**12,319**	**12,815**
Current liabilities			
Accounts payable	26	21	82
Other operating liabilities, Group companies		1	2
Other operating liabilities	26	69	69
Accrued interest expense		142	169
Financial liabilities, Group companies	22	2,152	705
Other financial liabilities	22	–	132
Total current liabilities		**2,385**	**1,159**
Total equity and liabilities		**15,521**	**15,569**

[1)] The amount includes expenses for loan financing in connection with Perstorp Holding AB´s refinancing of senior debt. The amount was SEK –287 (–432) m.

CASH FLOW STATEMENT PARENT COMPANY

SEK m	2017	2016
Operating activities		
Operating earnings	–137	–116
Interest received and other financial items	664	630
Interest paid and other financial items	–1,294	–1,413
Dividend from group company	–	528
Group contribution received	–	350
Income tax, paid	–	1
Adjustment, depreciation	3	3
Adjustment, change in provisions	1	2
Cash flow from operating activities before change in working capital	**–763**	**–15**
Change in working capital		
Increase (–) Decrease (+) in current receivables	2	12
Increase (+) Decrease (–) in current liabilities	–63	–31
Cash flow from operating activities	**–824**	**–34**
Investing activities		
Shareholder contribution	–	–23
Sale of financial fixed assets	290	–
Changes in financial receivables, group companies	1,145	345
Acquisition of tangible assets	0	–
Acquisition of intangible assets	–	–1
Cash flow from investing activities	**1,435**	**321**
Financing activities		
New loans external	2,484	11,481
Amortization of loans, external	–3,012	–11,436
Change in credit utlization [1]	–146	– 355
Cash flow from financing activities	**–674**	**–310**
Change in liquid funds, incl. short-term investments	–63	–23
Liquid funds opening balance, incl. short term investments	63	86
Liquid funds, end of period	**0**	**63**

[1] Includes payment of bank fees SEK 13 (355) m relating to refinancing.

SHAREHOLDERS' EQUITY PARENT COMPANY

SEK m	Share capital	Retained earnings	Net earnings/loss for the year	Total shareholder's equity
Opening balance shareholders' equity, January 1, 2016	**0**	**962**	**449**	**1,411**
Transfer of preceding year's results	–	449	–449	0
Net earnings/loss for the year	–	–	184	184
Closing balance shareholders' equity, December 31, 2016	**0**	**1,411**	**184**	**1,595**
Opening balance shareholders´equity, January 1, 2017	**0**	**1,411**	**184**	**1,595**
Transfer of preceding year´s results	–	184	–184	0
Net earnings/loss for the year	–	–	–778	–778
Closing balance shareholders´equity, December 31, 2017	**0**	**1,595**	**–778**	**817**

Other

Employees

The number of FTE (full time equivalents) for continuing operations, at the end of 2017 was 1,555, which is 90 more than at year-end 2016.

The Perstorp Board

At the end of 2017, the Board of Directors consists of seven members, all nominated and elected by the company owners. The individuals re-elected to the Board at the 2017 Annual General Meeting were Tore Bertilsson, Fabrice Fouletier, Jan Secher, Karin Markides, Brendan Cummins, Ragnar Hellenius and Claes Gard. In addition to the aforementioned individuals, the Board also includes three employee representatives.

Sustainability

Perstorp is a group of companies that develop, manufacture and sell specialty chemicals. As such, our environmental, social and economic impacts arise mostly from our production facilities and the downstream markets into which our products are applied. Our impacts on the wellbeing and economic prosperity of our own employees, associated partners and the communities in which we operate are also significant factors in measuring our success as a corporate steward. In this report, we explore Perstorp's impacts in detail, consolidated from the eleven production sites (operating in nine countries) which were owned in part or in total by Perstorp during 2017.

Fundamentally, as a chemical company, Perstorp recognizes that we need a Sustainability strategy. During 2015 and 2016, a high-level analysis was undertaken by a crossfunctional team, to determine what dimensions of sustainability are most material to our stakeholders. The output of that group was a strong set of links between our vision as a 21st-century company, the markets we aspire to serve and the United Nations Global Compact's Sustainable Development Goals (SDGs). In 2017 we committed to become "Finite Material Neutral" as the ambition level. With this guidance, we know that we must push ourselves and our value chains into the circular economy by using more "wastes" as fuels and raw materials, while developing the renewable resources needed to support our present and future platforms. As the only constant is the promise of change, we must continually review our priorities and make certain that we are on the right path. The Perstorp Group's sustainability report, in accordance with the requirements of the Swedish Annual Accounts Act, is available on the Perstorp Group website, www.perstorp.com

Innovation

Our focus on innovation was accelerated during 2017 with market-driven innovation segments added and by exploring new business opportunities based on our sustainability research. Furthermore, our ambitious Feed and Food agenda relies on innovation as one of its cornerstones.

We are passionate about producing market-leading innovation based on actual market and customer needs, as well as longterm trends. Ten years ago, we focused on meeting the demand created by the coating & resin market. Over past few years, we added plastic materials (including bioplastics, PVC plasticizers and polyurethane elastomer) and Feed to our list of focused applications where we have the capacity for producing leadingedge innovation. During 2017 we decided to invest in Synthetic lubricants and Adhesives, due to the excellent market opportunities we see leveraging Perstorp's technologies for these applications.

The Synthetic lubricants market has developed into one of Perstorp's most interesting segments. Supported by our broad product range, it promises significant growth. After a thorough investigation, we decided to start investing in innovation to meet new demand from this market. Within the coming two years, we expect to generate several new concepts and products.

Adhesives is an application with technical synergies with both coatings and plastics. Perstorp's star project in this application is a bio-based and food-safe hotmelt adhesive, developed in collaboration with Corbion. With this adhesive, we have already created a lot of market opportunities. With further more opportunities to accelerate profitable growth, by building upon our existing know-how with focused innovation resources, it was decided in 2017 to add Adhesives as one of our core Innovation segments.

Megatrends are driving the demand for our organic acid-based solutions for animal health and performance, and improved feed preservation. The market is looking for new solutions, where our research and development will play a significant role. In 2017, Perstorp pioneered the introduction of valerins for animal performance and health. The first product to address necrotic enteritis was launched in May. Several new products and concept on short-chain fatty, acid-based product are under development and will address specific animal health issues.

Our new products for TMR (Total Mixed Rations) were also launched during 2017, meeting the demand from integrated dairy farms to preserve the feed they produce themselves. TMR is highly nutritious and is easily exposed to mold and bacteria. If not preserved this can destroy the feed value in less than 24 hours, especially during the warm season. High growth is expected for TMR driven by trends towards bigger dairy farms. Perstorp's solutions for this has been met with great interest and the market expectations going forward are favorable. In coating & resins and in plastics, our 2017 focus was in supporting key customers and recently launched products through pro-active customer development. New development in differentiated polyols for resins and polyurethane elastomers is forthcoming and will strengthen our specialty profile in these markets. Perstorp technology is used in several 3D-printing applications. To accelerate our presence, Perstorp has teamed up with the specialty 3D printing filament producer 3D4makers and launched Facilan™, a new generation of products that enables applications previously unobtainable with other 3D printing materials.

Our commitment to research for sustainable alternatives continues. With consortia project, such as STEPS and Cat2bio, we assess how our technology can be made more sustainable and how we can use our application knowledge to develop potential markets for new technologies.

Notes

Definitions

CAPITAL RATIOS

AVERAGE CAPITAL
Based on monthly balances during the year.

CAPITAL EMPLOYED
Total assets less interest-free liabilities.

EBITDA
Represents the Group's operating earnings (or loss) (EBIT) before depreciation and amortization.EBITDA (adjusted for non-recurring items) Represents reported EBITDA as adjusted to exclude restructuring costs, capital gains/losses on divestment of companies and disposal of fixed assets and other non-recurring income and cost.

EBIT
Calculated as the Group's reported operating earnings (loss).

FREE CASH FLOW
Calculated as EBITDA (excluding non-recurring items) less change in working capital excluding exchange rate effects and provisions and investments.

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

LEVERAGE
Net debt excluding parent company loan
and pension liabilities/EBITDA excluding non-recurring items.

Notes

NOTE 1. GENERAL INFORMATION

Perstorp is an international specialty chemicals group and a global leader in high growth niches. The Group has around 1,600 employees and manufacturing facilities in Europe, North America and Asia. The Perstorp Group is controlled by the European private equity company PAI Partners.

The Group was formed at the end of 2005. PAI partners control the Group through Luxembourg-based Financière Forêt S.à r.l., corp. reg. no. R.C.S. Luxembourg: B 111,888, which owns 100 % of Perstorp Holding AB. The acquisition balance sheet for the Group was completed as of 2006. The Parent Company is a limited liability company that is registered and has its Head Office in Malmö, Sweden. The address to the head office is Neptunigatan 1, 201 25 Malmö, Sweden.

The Board approved this report for publication on April 19, 2018.

The Consolidated Income Statement and Balance Sheet and the parent company's Income Statement and Balance Sheet will be subject to adoption at the Annual General Meeting (AGM) on May 16, 2018.

NOTE 2. SUMMARY OF MAJOR ACCOUNTING PRINCIPLES

The principal accounting principles applied in the preparation of these consolidated accounts are stated below. The principles are unchanged compared with all years of comparison unless otherwise stated.

2.1 BASIS OF PREPARATIONS

Group

The consolidated accounts for Perstorp Holding AB have been prepared in accordance with the Annual Accounts Act, the Swedish Financial Reporting Board's recommendation concerning Supplementary Accounting Rules for Group´s (RFR 1) and International Financial Reporting Standards (IFRS) and IFRIC interpretations as approved by the European Commission. (IFRS has been applied by the Group since 2005). The consolidated accounts have been prepared in accordance with the acquisition value method, apart from matters applying to financial assets held for sale and financial assets and liabilities (including derivative instruments) 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 judgments when applying the company's accounting principles. The areas subject to a high degree of judgment 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.

Parent Company

The Parent Company's financial reports are produced in accordance with the Annual Accounts Act and recommendations from the Swedish Financial Reporting Board concerning Reporting for legal entities (RFR 2). The starting point for RFR 2 is that the Parent Company shall implement all of the EU-approved standards and interpretations as far as possible within the framework of the Annual Accounts Act, the Swedish law safeguarding pension commitments and with consideration for the relationship between accounting and taxation. The main differences between the Group's and Parent Company's accounting principles are as follows:

Subsidiaries

Shares in subsidiaries are reported at the time of acquisition at acquisition value/fair value. This value remains until impairment is carried out. Impairment tests of reported balance sheet values are carried out in accordance with chapter 2.10.

The change in IFRS 3 regarding transaction cost shall not apply for the Parent Company´s financial reporting. Transaction cost shall be accounted for as part of the acquisition value and is therefore capitalized under the "Group company holdings". Furthermore, because the Parent Company does not report financial instrument in accordance with IAS 39 they shall not account for a contingent consideration at fair value, as stated in IFRS 3. Instead the Parent Company account for a contingent consideration as part of the acquisition value only if it is likely that the consideration will be paid. The contingent consideration is accounted as a liabilities/provision and any future re-evaluation is accounted for as a change in acquisition value under the "Group company holdings".

Group contribution & shareholders' contribution

In accordance with the Swedish Financial Reporting Board RFR 2, the Parent Company reports received Group contributions from subsidiaries as dividends and reports them in the income statement. Shareholder contributions are reported directly under the shareholders' equity of the receiver and are capitalized under the "Group company holdings" of the provider to the extent that impairment is not required.

Pensions

The Parent Company reports pension commitments in accordance with the Swedish law safeguarding pension commitments. Adjustments are made to the accounts at Group level in accordance with IAS 19.

Leasing

For the Parent Company, all leasing agreements are reported according to the rules for operational leasing.

2.2 CONSOLIDATED ACCOUNTING

Subsidiaries

Subsidiaries are all companies in which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. 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 Group uses the acquisition method. The cost of an acquisition of a subsidiary compromises the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group.

The cost of an acquisition includes the fair value of any asset or liability resulting from a contingent consideration arrangement. The contingent consideration is normally accounted for as a liabilities/provision and a re-evaluation is accounted for in income statement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognizes any non controlling interest in the acquirer's either at fair value or at the non-controlling interest's proportionate share of the acquirer's net assets.

The surplus, which consists of the difference between the acquisition value and the fair value of the Group's share of identifiable acquired assets, liabilities and contingent liabilities, 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.

All intra-Group transactions, balance sheet items and unrealized gains and losses on transactions between Group companies are eliminated in the consolidated accounts.

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

When the Group ceases to have control of a subsidiary it recognizes any investment retained in the former subsidiary at its fair value at the date when control is lost. The change in the carrying amount is recognized in income statement.

The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognized in other comprehensive income in respect of that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognized in other comprehensive income are reclassified to income statement.

Associated companies

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. The Group's share of associated company earnings arising after acquisition is reported after tax in the Group's operating earnings. Classification in the income statement is the consequence of the company conducting operations in line with the rest of the Group. Accumulated changes following the acquisition are reported as changes in the book value 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. Unrealized losses are also eliminated, unless the transaction is evidence of there being an impairment requirement for the transferred asset.

The accounting principles for associated companies have been changed in places to guarantee the consistent and appropriate application of Group principles.

When the Group ceases to have a controlling influence over an associate it shall account for the investment in accordance with IAS 39 from that date, provided the associated does not become a subsidiary. On the loss of the controlling influence the investment is measured at it´s fair value. The change in the carrying amount is recognized in income statement.

Joint arrangements

Investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. Perstorp has assessed the nature of its joint arrangements and determined them to be joint ventures. Joint ventures are accounted for using the equity method. Under the equity method of accounting, interests in joint ventures are initially recognised at cost and adjusted thereafter to recognise the group's share of the post-acquisition profits or losses and movements in other comprehensive income.

When the group's share of losses in a joint venture equals or exceeds its interests in the joint ventures (which includes any long-term interests that, in substance, form part of the group's net investment in the joint ventures), the group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint ventures. Unrealised gains on transactions between the group and its joint ventures are eliminated to the extent of the group's interest in the joint ventures. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Other participations

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified as non-current asset if expected to be settled beyond 12 months, otherwise they are classified as current assets.

Non-controlling interest

The share of net assets belonging to the non-controlling interest is reported as a separate item in consolidated shareholders' equity. In the consolidated income statement the non-controlling interest is included in reported earnings.

The Group treats transactions with non-controlling interests as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

Saleable financial assets

Saleable financial assets are non-derivative assets where the assets are identified as saleable or not classified in any other category. They are reported as noncurrent assets if management doesn't intend to dispose of the asset within 12 months after the end of the reporting period. Acquisitions of saleable financial assets are valued on the trade date at the acquisition value. Changes to the fair value of securities are classified as saleable financial assets and reported in other comprehensive income. Investments with no listed market price on an active market and whose fair value cannot be reliably ascertained must be valued at the acquisition cost.

2.3 CURRENCY TRANSLATION

Functional currency & 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 currency and the Group's reporting currency.

Transactions & balance sheet items

Transactions in foreign currencies are translated into the functional currency according to the exchange rates applicable on the transaction date or the date when the items are re-assessed. 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" when the underlying receivable/liability is operational; otherwise in net financial items. 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 in other comprehensive income in the consolidated statement of comprehensive income.

Group companies

The earnings and financial position of all Group companies are established in each company's functional currency (none of which is classified as a high-inflation currency). In the consolidated accounts these amounts are then translated into the Group's reporting currency (SEK) in accordance with the following:

- assets and liabilities for each balance sheet are translated at the exchange rate applying on the balance-sheet date
- income and costs for each income statement are translated at the average exchange rate for each year, and
- all exchange-rate differences that arise are reported as a separate item in consolidated shareholders' equity in the consolidated statement of comprehensive income.

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 in the consolidated statement of comprehensive income. On the divestment of foreign operations, accumulated exchange-rate differences in the income statement are reported under shareholders' equity in the consolidated statement of comprehensive income 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.

2.4 REVENUE RECOGNITION

Reported revenue is the fair value of what has been received or will be received for sold goods and services within the Group's ongoing business with deductions for VAT, discounts, returns and eliminations of intra Group transactions.

Revenue per category is reported as follows:

Sales of goods

Revenues from the sales of goods are reported upon delivery to the customer in accordance with sales terms and thereby in the period when all significant risks and benefits attributable to the goods are transferred to the purchaser in accordance with an agreement.

Interest income

Interest income is recognized as revenue distributed over the contract term using the effective interest method.

Received dividends

Dividends are reported as revenue when the right to receive the dividend is judged to be certain.

2.5 INCOME TAXES

Reported income taxes in the income statement include current tax, adjustment of prior-year current tax and changes in deferred tax. Tax is reported directly in shareholders' equity if the tax is attributable to transactions that are reported directly in shareholders' equity.

Calculation of income tax and assessment of all current and deferred tax liabilities and receivables are made in accordance with each Group company's national tax regulations and tax rates that have been decided or that with a great degree of certainty will be determined and apply when the tax is to be paid. It can be added that the Group management team regularly assesses claims made in tax assessments concerning situations where applicable tax rules are subject to interpretation. When interpretations change and when it is considered to be appropriate, allocations are adjusted to the amount that will probably be paid to the tax authority.

Deferred tax is calculated in accordance with the balance sheet method on the basis of all material temporary differences between the book values and taxable values of assets and liabilities. Deferred tax assets pertaining to unutilized tax loss carry-forwards are only reported when it is likely that it will be possible to realize the loss carry-forwards within the foreseeable future.

Deferred tax assets/liabilities are offset when there is a legal right to offset the asset or liability in question and when deferred tax assets/liabilities relate to taxes debited by the same tax authority. In this context there shall also be an intention to settle the item through a new payment.

2.6 INTANGIBLE FIXED ASSETS

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 at the date of acquisition. Goodwill on the acquisition of Group companies is reported as an intangible asset.

Goodwill is tested annually in order to identify impairment requirements. When conducting tests to identify possible impairment requirements, goodwill is divided among cash-generating units and each unit is tested individually. The reported value of goodwill comprises therefore the acquisition value less accumulated impairments. Impairment of goodwill is not recovered.

Trademarks, patents and licenses that apply to separately acquired assets from external parties are reported initially at acquisition value. Trademarks, patents and licenses acquired through acquisition of a business are reported initially at their fair value on the day of acquisition.

Trademarks, patents and licences that have a determinable period of utilization are assessed individually and depreciated linearly based on this, normally over 5–30 years. Assets with unlimited utilization periods are not normally subject to depreciation.

For the Group, assets with an indeterminate life length within this category refer to the Perstorp, which in connection with the allocation of acquisition values in 2006, were judged to have an unlimited life, based on the company's 135 year history and the continuous renewal process. Annual testing of possible impairment requirements is performed for assets in this category.

Technological know-how was identified as a balance sheet item in connection with the allocation of acquisition values in 2006 and its acquisition value has linear depreciation to divide the costs over the assessed utilization period of 30 years. Testing of possible impairment requirements is performed annually.

Customer relations: In connection with the allocation of acquisition values in 2006, a value was identified that reflects the future value generation related to core customers. A value for intangible assets was established relating to customer relations in connection with the acquisition of the UK business in 2008. The acquisition value has linear depreciation in order to divide the cost over the lifespan of the relations which is expected to be 30 years and 10 years respectively. Annual testing of impairment requirements is performed through the analysis of future value generation in respect of sales to core customers, adjusted for the values already recognized in the form of trademarks and technological know-how.

Research costs are expensed directly when they arise, while expenses relating to the development of new products/processes are capitalized as intangible assets if they fulfill the following criteria: the expenses must be identifiable in a reliable way, the management team intends to complete production of the asset and use/ sell it, there must be external preconditions for using/selling the asset, and it must be highly probable that the asset will generate future financial benefits. Unless all criteria are met, the cost is reported directly. Costs that have previously been expensed may not subsequently be reported as assets. The amortization of capitalized development costs is linear and 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. Tests are performed annually to see if there is an impairment requirement.

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 unique, 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 capitalized software licenses and software development are amortized over their estimated useful life, which may not exceed three years. All capitalized assets in this category are subject to an annual test concerning utilization period and impairment requirement.

2.7 TANGIBLE FIXED ASSETS

Tangible fixed assets are reported at their acquisition value less accumulated depreciation according to plan and in certain cases less impairment. The acquisition value includes expenses that can be directly attributable to the acquisition of an asset.

This also includes borrowing costs attributable to acquisitions of fixed assets that take a significant amount of time to complete for use (these were previously charged directly). Additional expenses are added to the asset's reported value or reported as a separate asset, depending on which is appropriate, but only if it is probable that the future economic benefits associated with the asset accrue to the Group and the asset's acquisition value can be measured reliably. Reported value for replaced parts is deducted from capitalized value. All other forms of expenses for repairs and maintenance are reported as costs in the income statement during the period they arise.

Straight-line depreciation is applied based on the asset's acquisition value and estimated useful life. When the assets' depreciable amount is established the residual value of the asset is also considered as appropriate. 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.

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 book value is immediately impaired to its recoverable amount if the asset's book value exceeds its estimated recoverable amount. See chapter 2.10.

Gains and losses on divestment are determined by comparing the sales proceeds and the book value and are reported in the income statement under the heading Other operating income and expenses.

2.8 LEASING

The Group is party to leasing agreements whereby the Group as leaseholder to all extents and purposes profits from the economic benefits relating to the leased object while also bearing the economic risks. These agreements are recognized as financial leasing. At the start of the leasing period the leasing object is reported as a fixed asset in the balance sheet at the lower of the fair value and the current value of the contracted minimum leasing fees. On the liability side, the estimated value of the commitment is offset against future cash flow based upon the leasing agreement.

A division is made between short-term and long-term borrowing depending on the due date for payment. Upon settlement the paid sum is divided between amortization of debt and the financial costs. The interest part of the financial cost is reported in the income statement over the leasing period, so that each period includes an amount that corresponds to a fixed interest rate for the reported debt during the period. Capitalized fixed assets in financial leasing agreements are depreciated according to the same principles used for other assets.

Some of the Group's leasing contracts pertain to vehicles and computers, which have been reported as operational leasing.

2.9 FINANCIAL INSTRUMENTS

In its balance sheet, the Group reports financial instruments that comprise loans, other financial receivables, accounts receivable, liquid funds, borrowings, accounts payable and derivatives. Instruments are included in the accounts at the time when the Group becomes a party to them in accordance with contracted terms. In the same way the instrument is removed when the asset and its benefits/risks are no longer attributable to the Group, nor controlled by it, or when an undertaking is completed or ended in any other way. Assessment is initially made at fair value and thereafter at fair value or accrued acquisition value depending on the classification of the instrument. An assessment of the need for impairment is made frequently, see 2.10.

Financial instruments are offset and reported at net value in the balance sheets only when there is a legal right to offset between the amounts and there is an intention to settle the amounts with a net sum, or alternatively to realize the asset and settle the liability at the same time.

Financial instruments assessed at fair value via the income statement

This category includes financial assets/liabilities held for trading plus derivative instruments not identified as hedge instruments. Assessment at fair value via the income statement occurs at both the time of acquisition and at regular assessments thereafter.

Loans & accounts receivable

Loans and accounts receivable are reported initially at fair value. Thereafter, loans are reported at accrued acquisition value using the effective interest method. Accounts receivable are normally reported at their original fair value when the effect of discounting is considered to be marginal. When an assessment is made by the Group that a receivable will not be paid, and there is objective evidence for this, a reservation is made. See further under point 2.10.

Cash & cash equivalents

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

Borrowings

Borrowings are reported initially at fair value, net after transaction costs. Other borrowing expenses are also reported in the income statement based on the period to which they relate including borrowing costs attributed over a period. For classification reasons, borrowings are reported as short-term liabilities to the extent that the Group does not have a unconditional right to defer payment of the liabilities for at least 12 months after the closing date. Other borrowings are reported analogously as long-term liabilities.

Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Accounts payable

Accounts payable are undertakings to pay for goods/services acquired in the ongoing business and are reported at fair value.

2.10 IMPAIRMENT

Tangible and intangible assets with an indeterminate useful life are not depreciated/ amortized but are subject to annual testing of impairment requirements. Tangible and intangible assets with a determined useful life are assessed for a reduction in value whenever events or changes in conditions indicate that the book value may not be recoverable. Impairment is recognized in the amount by which the asset's or cash-generating unit's book value exceeds its recoverable value, which in the current situation means the higher of the utilization value or fair value with deductions for sales costs. In connection with the test an assessment is made as to whether there has been a change in the recovered value for an individual asset/cash-generating unit and if the previous impairment can be recovered fully or partly. Impairment is never recovered for goodwill.

A test for an impairment requirement is performed for financial assets at the end of the report period. Impairment is performed as soon as there is objective evidence that events have taken place which indicate that estimated future cash flows from an asset will be lower than the reported balance sheet total.

The impairment amount is calculated as the difference between the asset's reported value and assessed future cash flow (current value is calculated for instruments classified as fixed assets). If there are observable market prices for the instrument, the impairment calculation is based on this fair value. In connection with the test an assessment is also made if events have occurred, and objective evidence is available, which mean that a previously carried out impairment shall be returned fully or partly.

2.11 INVENTORIES

Inventories are reported on the closing date at the lower of acquisition value and net realizable value. The acquisition value is determined using a method mainly based on weighted average prices. 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; there are no inventories for which IAS 23 is applicable. The net realizable value is the estimated selling price based on continuing operations, less applicable variable selling costs.

2.12 EMPLOYEE BENEFITS

Pensions

The Group has both defined-contribution and defined-benefit pension plans. The characteristic of a defined-contribution pension plan is that the Group pays a fixed contribution to a separate legal entity. After the premium is paid the Group has no legal or informal obligations to pay additional fees if the counter party does not have sufficient assets to pay benefits to employee relating to the employee's service in earlier years. There are therefore no provisions in the consolidated balance sheet or among contingent liabilities for this category of pension. Defined-benefit pension plans are not determined by contributions; they are instead a commitment for the Group and are thus balanced as a provision. The commitment comprises an amount for the pension benefit an employee shall receive upon retirement, which is assessed with reference to age, years of service, future salary increase and inflation. The pension plans are normally financed through payments to insurance companies or funds managed by asset managers in accordance with periodical actuarial calculations.

The liability recognized in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligation. In countries where there is no deep market in such bonds, the market rates on government bonds are used.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise. 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. For defined-contribution plans, the interest effect and return on plan assets attributable to the plan are reported in net financial items, while other costs are included in operating profit.

Remuneration for redundancy

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

Other remuneration & bonus plans

Other short-term remuneration to employee is reported as a cost when an employee has performed a service in exchange for remuneration. Reservations for bonuses are reported continually as a liability and cost in accordance with predicted outcome and the economic impact of the agreement.

2.13 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. Provisions for restructuring are primarily reported for severance pay and other costs affecting cash flow that arise in connection with restructuring of the Group's activities.

2.14 DERIVATIVE FINANCIAL INSTRUMENTS

Derivative instruments are assessed at fair value and are reported in the balance sheet on the contract date. The Group uses currency forwards and swaps to hedge intra-Group borrowings in different currencies. No interest-rate swaps are currently used. Changes in fair value are directly reported as financial items in the income statement since Perstorp is not applying the exception rules on hedge accounting.

2.15 NON-CURRENT ASSETS (OR DISPOSAL GROUPS) HELD FOR SALE

Non-current assets (or disposal groups) are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell.

2.16 NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2017, and have not been applied in preparing this consolidated financial statement. None of these is expected to have a significant effect on the consolidated financial statements of the Group, except the following set out below:

IFRS 9 'Financial instruments' concerns the classification, valuation and reporting of financial assets and liabilities. The full version of IFRS 9 was published in July 2014. It replaces the parts of IAS 39 that concern the classification and valuation of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The standard shall be applied for the financial year beginning 1 January 2018.

IFRS 15, 'Revenue from contracts with customers' deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. The standard is effective for annual periods beginning on or after 1 January 2018.

Analyses of potential effects regarding the implementation of IFRS 9 – Financial Instruments and IFRS 15 – Revenue from Contracts with Customers have been performed at both the Group and Subsidiary level. The analyses show that the new standards will not have any material impact on the Group's financial statements other than increased disclosure requirements. At the first application, the forward looking method will be applied.

IFRS 16 "Lease" a new leasing standard which will replace IAS 17. The standard demands that assets and liabilities attributable to all leasing agreements, with some exceptions, are reported in the balance sheet. This reporting is based on the approach that the lessee has a right to use an asset during a specific period and, at the same time, an obligation to pay for this right. The reporting for the lessor will essentially be unchanged. The standard is applicable for financial years starting on 1 January 2019 or later. The Group has not yet evaluated the full effect.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Group.

NOTE 3. RISK MANAGEMENT

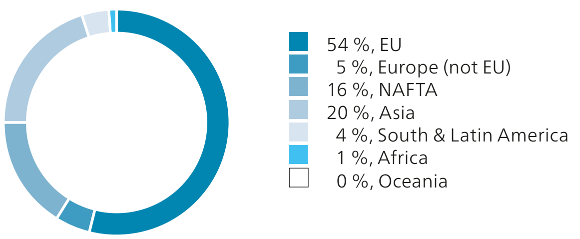
3.1 FINANCIAL RISK FACTORS

The Groups treasury policy governs the financial risks the Group is prepared to take and sets guidelines for how these risks should be managed. Corporate Finance has global responsibility for the Group's financing activities.

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. The Group has considerable flows, earnings and assets in foreign currency, primarily in EUR and USD. Both sales and raw material purchase is primarily USD or EUR based, whereas a large portion of costs is in SEK, mainly as a result of the fact that more than half of the Group's employees are based at Swedish sites.

NET SALES PER GEOGRAPHIC MARKET, %



The Group's currency transaction exposure for 2017 is to some extent naturally hedged through the interest payments on the EUR and USD denominated bonds.

SWAPS

MSEK	Market value	Nominal amount
Internal lending		
EUR	0	0
USD	0	0
Other	–1	–91
Liquidity purposes		
EUR	–4	614
USD	–1	67
Other	–2	196

EXPOSURE PER CURRENCY, FORECAST FOR 2018[1)]

	Net sales	Operating costs	EBITDA	Financial payments	Net	Translated to SEK m[2)]
USD	632	–457	175	–65	110	906
EUR	683	–462	221	–56	165	1,625

[1)] forward-looking statements are not guarantees of future performance
[2)] currency rate on closing day

Liquidity risk

The liquidity risk is monitored through rolling cash flow forecasts which gives early warning signals and enables correspondingly early corrective measures to safeguard that the Group has sufficient liquid assets and unutilized credit facilities to meet current payments.

NET ASSETS PER CURRENCY, BEFORE & AFTER LOANS IN FOREIGN CURRENCY

SEK m	Net assets per currency, before loans in foreign currency	Loans in foreign currency, Swedish companies	Exposed net assets
EUR	447	–7,264	–6,817
USD	–844	–5,185	–6,029
GBP	322	–	322
SEK	–2,958	12,449	9,491
Other currencies	506	–	506
Total	**–2,527**	**0**	**–2,527**

At the end of 2017 there was positive exposure in SEK concerning net assets per currency. This is because a large part of the intangible assets that existed when PAI partners acquired Perstorp was in SEK and in GBP due to the acquisition of the caprolactones business not being financed through loans in GBP. Exposure of net assets in EUR and USD are correspondingly negative because the Group has raised loans in both those currencies to a greater extent than that which corresponds to assets. The translation affect if SEK is changing by 1% against the USD/EUR, will be approximately SEK 125 million and affect the financial net.

LIABILITIES, INTEREST RATES & FINANCIAL INSTRUMENTS, PER DUE DATE

The table below shows the market value of the Group's financial liabilities and derivative instruments with their due dates. The amounts shown are the agreed, undiscounted amounts.

As of 31 December 2017	0–1 years	1–2 years	2–5 years	> 5 years
Borrowings				
Amortization (incl. Future PIK-interest)	–27	–	–13,345	–
Interest	–1,203	–1,222	–2,515	–
Derivative instruments				
Interest swaps	–	–	–	–
Currency swaps outgoing	–877	–	–	–
Currency swaps ingoing	91	–	–	–
Currency swaps net amount	–786	–	–	–
Accounts Payable & Other Liabilities	–2,071	–	–	–

Financing risk

Financing risk refers to the risk that refinancing of due loans becomes more difficult or expensive. The Group's principal financing consists of corporate bonds listed on the Channel Islands Securities Exchange since November 2016, a mezzanine facility and a Revolving Credit Facility. At the end of the fourth quarter Perstorp Holding AB (publ.) refinanced the floating rate senior secured notes and increased the amount from EUR 200 million to EUR 250 million, with lower interest rate.

In addition the Company also partly redeemed the fixed senior secured notes with EUR 57 million and USD 55 million. The maturity structure of this financing is presented in note 22b. Loan agreements are linked to Financial Covenants that include key indicators for net debt in relation to EBITDA and EBITDA in relation to interest payments. The interest on parent company loans is 10% p.a. and will be capitalized next year.

INTEREST-RATE RISK

Interest risk refers to the risk of a negative impact on earnings due to a rise in market interest rates. Note 22, table C, shows the interest rate and fixed period per currency as per December 31, 2017. Main part of the external financing, 59%, is issued to a fixed interest rate. The remaining part is issued with a floor interest rate that is higher than the current EUR base rate level. The current market situation with negative EUR base rates therefore gives a low sensitivity to changes in interest rates.

COUNTERPARTY RISK/CUSTOMER SENSITIVITY

Counterparty risk relates to the credit risk that may arise when a counterpart cannot fulfil its commitments and thus causes a financial loss to the Group. Limits for financial counterparts are regulated in the Group's treasury policy and stipulates that bilateral credit facilities shall be provided by financial institutions with a minimum A3 rating from Moody's or A- from Standard & Poor's which is regularly monitored. For financial counterparts, the exposure at year-end, defined here as unrealized gains for short term currency swaps amounts to zero.

In addition there is a group credit policy. The purpose of this policy is to establish standard procedures to minimize credit losses. The credit policy sets a framework for approving credit, defines who has responsibility and how deliveries may be approved in the event of limits being exceeded or customers having overdue payments. Internal guidelines also include procedures for monitoring outstanding receivables before and after the maturity date depending on materiality and the individual customer's risk profile.

The Group's outstanding customer receivables on the closing date amounted to SEK 1,004 (760) m. The increase is mainly due to increased Sales. The amounts reported are those that are expected to be repaid by customers based on an individual assessment of outstanding receivables and thereby including a reserve for expected/stated customer losses amounting to SEK 9 (15) m. Accounts receivable that are overdue are closely monitored in order to not increase the exposure. If a bilateral agreement cannot be reached with the customer it is sent for external credit collection and as a last step also to court. The latter processes tend to take long time and therefore the Group applies a prudent policy when to write off a receivable.

To highlight the credit quality of receivables that has either fallen due for payment or have been written down, a maturity analysis is presented below (see note 19 for a maturity analysis of all accounts receivable). The book value of accounts receivable is equal to the fair value since the effect of discounting is not material. It should also be noted that it is not uncommon for a receivable to be settled shortly after the due date, which affects the maturity interval by 1–10 days.

Time analysis on accounts receivable	Dec 31, 2017	Dec 31, 2016
Accounts receivable neither due nor reserved	908	740
Accounts receivable due, but not reserved		
1–10 days	87	35
11–30 days	13	–5
31–60 days	6	–1
61–90 days	–2	–2
91–180 days	2	–2
180 days or more	–10	–5
Accounts receivable linked to reservation	9	15
Gross total	**1,013**	**775**
Reservations	–9	–15
Net total	**1,004**	**760**

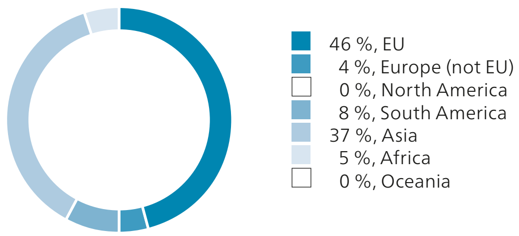
The Group's sales and thus also its accounts receivable are divided among a large number of customers spread across a wide geographic area. This limits the concentration of credit risk exposure. See diagram below.

The distribution of customers based on the size of accounts receivable at the end of the period is presented in diagram below.

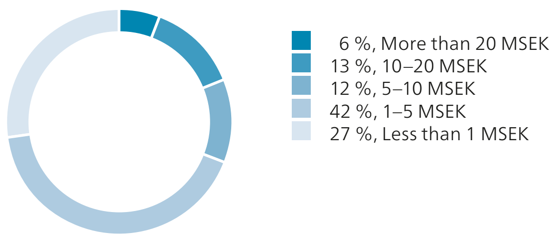
The segment with amounts exceeding SEK 20 m refers to 1 (2) individual customers, the segment between SEK 10-20 m refers to 13 (4) individual customers. The category of customers owing the Group less than SEK 1 m on the closing date corresponds to around 83 (84)% of all counter parties.

On the closing date the Group had credit insurance, letters of credit or other pledged securities amounting to SEK 14 (24) m. Of these, SEK 0 (0) m is attributable to receivables that have fallen due for payment. Of receivables that have fallen due and which are associated with a limited credit risk due to pledged securities, SEK 0 (0) m are over 30 days due.

CONCENTRATION RISK OF ACCOUNTS RECEIVABLE DIVIDED BY GEOGRAPHIC REGION, %



CONCENTRATION RISK OF ACCOUNTS RECEIVABLE BASED ON SIZE OF CUSTOMER, %



3.2 OPERATIONAL RISK FACTOR

Access to raw materials

Most of the Group's raw materials (70-75%) are based on oil or natural gas. For production of biodiesel the most important raw material is rapeseed oil. Many of the Group's products are both sold externally and further processed internally.

To safeguard supplies of raw materials and spread risks, the Group's purchasing policy requires that supplies of critical raw materials are made by more than one suppliers where possible. Supplies are secured through long-term delivery agreements.

Perstorp operates on the global chemicals market with suppliers who meet the highest environmental and safety requirements, but as far as possible Perstorp also aims to minimize transport by buying on local markets.

Supplies of raw materials to Perstorp's site in Stenungsund – the largest site in Sweden in terms of volumes – is primarily done via pipelines directly from nearby producers, a setup which eliminates storage costs and minimizes freight costs but also entail a risk of being closely tied to these suppliers. Perstorp manages this risk through a terminal agreement that gives Perstorp the right to use the supplier's infrastructure for raw materials supplied by other producers.

The prices of crude oil and natural gas fluctuate constantly. To provide stability in the shorter perspective, Perstorp purchases raw materials using pricing formulas based on quarterly or monthly prices on each market where the raw material is used.

Opportunities for hedging raw material prices are assessed continually. To make this a possible alternative, Group policy requires a very strong correlation between the raw material price and the Group's own selling price. At end of 2017 almost no raw material prices were hedged. In the historic perspective, the Group has been very successful in passing on increases in raw material prices along the customer chain.

On the electricity market there is a possibility to secure prices for longer periods. Perstorp closely monitor the need of electricity. In accordance with the Group's policy the electricity usage in Sweden is secured up to four years in a range of 0-75%. This is done by a preferred supplier that owns and sell a physical product with a mix of secured and spot to Perstorp.

PRODUCTION DISRUPTIONS

Disruptions at Perstorp's plants may lead to a loss of earnings in the short term if the Group cannot deliver agreed volumes to customers and in the long term if this leads to alternative products taking over for the same application. Regular technical inspections are performed at production sites to minimize these risks.

Perstorp has a global function whose job is to ensure that, in case of unforeseen events, the Group has complete insurance coverage while also supporting work aimed at minimizing risks. Through a global insurance program involving different international insurance companies the Group can capitalize for competitive advantage in insurance terms and cost.

NOTE 4. SIGNIFICANT ESTIMATES & JUDGMENTS MADE FOR ACCOUNTING PURPOSE

Perstorp's financial accounts are based on the going-concern principle. To a certain extent, the financial statements are based on estimates and judgments about the future trend. In turn, these judgments are based on historical experience and different assumptions that are considered to be reasonable in current circumstances. Reported values may have another actual outcome if other assumptions are made or circumstances change. The following particular areas can be distinguished where estimates and judgments are of importance to the amounts entered in the accounts and differences can have a significant effect on the Group's earnings and financial position.

Impairment testing of goodwill and trademarks: In accordance with the accounting principle described in point 2.10, impairment testing is currently performed annually through analysis of individual assets'/cash-generating units' recovery value. The Group tests goodwill for any impairment on an annual basis or whenever events or objective circumstances indicate that the fair value of acquisition-related goodwill may have decreased. To determine whether the value of goodwill has decreased, the cash-generating unit to which the goodwill is attributable must be valued and this is done by discounting the future cash flow. In applying this method, the Company relies on several factors, such as profit/ loss, business plans, financial forecasts and market data, see note 7.

Valuation of shares in subsidiaries: Impairment testing is performed annually through analysis of the value of shares in subsidiaries, in each owning companies, taken into account discounted future cash flow based on the latest business plan. For further details, see note 7.

Other participations: In accordance with the accounting principle other participations is valued at fair value. To determine the fair value the Company relies on several factors, such as profit/loss, business plans, financial forecasts and market data. For further details, see note 14.

Valuation of tax-loss carry-forwards: The valuation of tax-loss carry-forwards is based on an assessment that it will be possible to utilize these carry-forwards in the foreseeable future. Assessments are based on, among other matters, an assumption about future business opportunities and earnings capability. The outcome is often dependent on tax rules that are current or likely to come into effect. Tax-loss carry-forwards have been assigned values in, primarily, the Group's companies in US, Holland, Germany and UK. For booked values see Note 24.

Pension benefits: The current value of the Group's future pension commitments regarding defined-benefit pension plans is based on a number of assumptions in connection with the actuarial estimate. Changes in these assumptions may affect the reported value of the pension commitment. For further details, see chapter 2.12 and note 23.

Available funds: The future estimated available fund includes a number of estimates and judgments based on the long term business plan. Perstorp is constantly monitoring the available funds to secure that available funds are on a satisfied level for the coming periods.

Environmental liabilities: The Group's ongoing activities are reflected in how any possible environmental damage is 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.

NOTE 5. SEGMENT INFORMATION

Perstorp report its financial performance based on the three reportable segments Specialties & Solutions, Advanced Chemicals & Derivatives and BioProducts.

Each business group is divided further into business units that are identified by the key chemical products produced. Advanced Chemicals & Derivaties consists of the business units Penta, Oxo, TMP & Neo, Formates. Specialties & Solutions consists of the business units Caprolactones, Feed & Food and Specialty Polyols. BioProducts consists of the business unit BioProducts.

SEK m	2017	2016
Net Sales		
Specialties & Solutions	3,204	2,617
Advanced Chemicals & Derivatives	8,623	6,890
BioProducts	1,563	1,377
Internal sales		
Specialties & Solutions	–9	–5
Advanced Chemicals & Derivatives	–81	–147
Other/eliminations	292	343
Continuing operations	**13,592**	**11,075**
Discontinuing operations	–	358
Eliminations	–	–128
Total Group	**13,592**	**11,305**
EBITDA		
Specialties & Solutions	725	672
Advanced Chemicals & Derivatives	1,520	1,103
BioProducts	–19	50
Other/eliminations	–130	–109
Continuing operations	**2,096**	**1,716**
Discontinuing operations	604	84
Total Group	**2,701**	**1,800**
Non allocated items		
Depreciation, Amortization and write down	–728	–594
Operating earnings (EBIT)	**1,973**	**1,206**
Financial income and expenses	–1,453	–2,340
Earnings/loss before tax	**520**	**–1,134**
Tax	–10	2
Net result	**510**	**–1 132**
EBITDA excluding non-recurring items		
Specialties & Solutions	726	677
Advanced Chemicals & Derivatives	1,525	1,108
BioProducts	–19	51
Other/eliminations	–99	–55
Continuing operations	**2,133**	**1,781**
Discontinuing operations	–	84
Total Group	**2,133**	**1,865**

The group is domiciled in Sweden. The result of its revenue from external customers in Sweden is 12% (15%), and the total of revenue from external customers from other countries is 88 % (85%).

No single external customer accounted for more than 10% of our sales.

ASSETS AND LIABILITIES BY OPERATING SEGMENT, TOTAL GROUP

	Advanced Chemicals & Derivaties		Specialties & Solution		BioProducts		Other		Total Group	
	2017	2016	**2017**	2016	**2017**	2016	**2017**	2016	**2017**	2016
Goodwill	1,521	1,539	501	495	–	–	–	–	2,022	2,034
Other intangible assets	2,403	2,414	409	462	–	6	–	–	2,813	2,882
Tangible assets	3,685	3,520	798	851	18	184	480	451	4,981	5,006
Shares in associated comp	68	64	0	–	–	–	–	–	68	64
Working capital, net	352	354	104	61	80	57	11	28	546	500
Deferred tax liabilities	–666	–580	–74	–64	–	–	–	–	–740	–645
Operating Capital	**7,363**	**7,310**	**1,738**	**1,805**	**98**	**247**	**490**	**479**	**9,690**	**9,841**

NOTE 6. TANGIBLE FIXED ASSETS [1)]

Group	Land		Buildings & land improvments		Plant & machinery		Equipment, tools, fixtures & fittings		Work in progress incl. advance payments		Total	
SEK m	**2017**	2016	**2017**	2016	**2017**	2016	**2017**	2016	**2017**	2016	**2017**	2016
Acquisition value												
Opening balance	195	190	1,422	1,312	7,302	7,084	333	299	462	574	9,714	9,459
Investments	–	–	12	–	29	15	1	2	474	446	516	463
Acquisition of subsidiary	–	–	12	–	100	–	–	–	–	–	112	0
Divestments of subsidiary	–12	–	–27	–	16	–	–6	–	–	–	–29	0
Divestments and disposals	–	–	–	–	–39	–60	–6	–3	–6	–	–51	–63
Reclassifications	1	–	38	109	477	358	6	32	–522	–569	0	–70
Translation effects	2	5	–4	1	–52	–95	7	3	–9	11	–56	–75
Closing balance	**186**	**195**	**1,453**	**1,422**	**7,833**	**7,302**	**335**	**333**	**399**	**462**	**10,206**	**9 714**
Accumulated depreciation according to plan												
Opening balance	0	0	–527	–476	–3,859	–3,684	–261	–247	0	0	–4,647	–4,407
Depreciation	–	–	–54	–55	–355	–353	–11	–13	–	–	–420	–421
Divestments of subsidiary	–	–	21	–	–38	–	–	–	–	–	–17	0
Divestments and disposals	–	–	–	–	38	47	12	2	–	–	50	49
Reclassifications	–	–	–	–	–	68	1	–	–	–	1	68
Translation effects	0	0	1	4	25	63	–6	–3	–	–	20	64
Closing balance	**0**	**0**	**–559**	**–527**	**–4,189**	**–3,859**	**–265**	**–261**	**0**	**0**	**–5,013**	**–4,647**
Write-downs												
Opening balance	–7	–7	–5	–5	–47	–44	1	–1	–3	–2	–61	–59
Write-downs during the year	–	–	–14	–	–134	–	–2	–	–1	–	–151	0
Divestments of subsidiary	–	–	–	–	1	–	–	–	–	–	1	–
Divestments and disposals	–	–	–	–	–	–	–	1	–	–	0	1
Reclassifications	–	–	–	–	–	–	–1	–	–	–	–1	0
Translation effects	0	–	0	–	0	–3	–	1	–	–1	0	–3
Closing balance	**–7**	**–7**	**–19**	**–5**	**–180**	**–47**	**–2**	**1**	**–4**	**–3**	**–212**	**–61**
Closing book value	**179**	**188**	**875**	**890**	**3,464**	**3,396**	**68**	**73**	**395**	**459**	**4,981**	**5,006**

[1)] The Group's tangible fixed assets were assessed in 2006 in connection with an acquisition analysis. The assessment was based on replacement cost, remaining life and the difference in operating costs between newly acquired plants and existing ones. The re-assessment, after deductions for deferred tax, was credited to Other reserves under Shareholders' equity.

Depreciation per function	**2017**	2016
Cost of goods sold	414	409
Selling Cost	1	1
Administration	2	3
R & D	3	2
Continuing operations	**420**	**415**
Discontinuing operations	–	6
Total group	**420**	**421**

Impairment and the result effects of scrapping are included in Other operating expenses. Buildings and land with a value of SEK 1,487 (1,492) m are used as collateral for bank loans.

Parent company	**Tangible fixed assets**	
	2017	2016
Opening balance	4	5
Investments	0	–
Depreciation	–2	–1
Closing balance	**2**	**4**

NOTE 7. INTANGIBLE FIXED ASSETS

Group	Goodwill		Trademarks		Patents, licenses & similar rights		Know–how		Customer relations		Development costs		Reach		Other 1)		Total	
SEK m	**2017**	2016	**2017**	2016	**2017**	2016	**2017**	2016	**2017**	2016	**2017**	2016	**2017**	2016	**2017**	2016	**2017**	2016
Acquisition value																		
Opening balance	2,496	2,454	1,363	1,363	207	207	1,216	1,213	1,500	1,509	220	155	63	56	306	327	7,371	7,284
Investments	–	–	–	–	–	–	–	–	–	–	–	4	7	7	23	66	30	77
Acquisition of subsidiary	2	–	–	–	–	–	–	–	74	–	–	–	3	–	–	–	79	0
Divestment of subsidiary	–	–	–	–	–	–	–	–	–	–	–3	–	–9	–	–3	–	–15	0
Reclassifications	–	–	–	–	–	–	–	–	–	–	12	61	–	0	–12	–61	0	0
Translation effects	–14	42	0	0	0	0	0	3	–20	–9	0	0	1	0	–2	–26	–35	10
Closing balance	**2,484**	**2,496**	**1,363**	**1,363**	**207**	**207**	**1,216**	**1,216**	**1,554**	**1,500**	**229**	**220**	**65**	**63**	**312**	**306**	**7,430**	**7,371**
Accumulated depreciation according to plan																		
Opening balance	0	0	–85	–76	–126	–112	–461	–420	–862	–801	–48	–27	–12	–9	–255	–280	–1 849	–1 725
Depreciation	–	–	–9	–9	–13	–14	–39	–39	–58	–77	–25	–21	–3	–3	–1	–1	–148	–164
Divestment of subsidiary	–	–	–	–	–	–	–	–	–	–	–	–	1	–	3	–	4	0
Divestments and disposals	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	0	0
Reclassifications	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	0	0
Translation effects	–	–	–	–	–	–	0	–2	9	16	0	–	–	–	1	26	10	40
Closing balance	**0**	**0**	**–94**	**–85**	**–139**	**–126**	**–500**	**–461**	**–911**	**–862**	**–73**	**–48**	**–14**	**–12**	**–252**	**–255**	**–1,983**	**–1,849**
Write-downs																		
Opening balance	–462	–462	0	0	0	0	–13	–12	–130	–120	0	0	0	0	–2	–2	–607	–596
Write-downs during the year	–	–	–	–	–4	–	–	–	–	–10	–3	–	–1	–	–	–	–8	–10
Divestments and disposals	–	–	–	–	–	–	–	–	–	–	3	–	–	–	–	–	3	0
Reclassification	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	0	0
Translation effects	–	–	–	–	–	–	0	–1	–	–	–	–	–	–	–	–	0	–1
Closing balance	**–462**	**–462**	**0**	**0**	**–4**	**0**	**–13**	**–13**	**–130**	**–130**	**0**	**0**	**–1**	**0**	**–2**	**–2**	**–612**	**–607**
Closing book value	**2,022**	**2,034**	**1,269**	**1,278**	**64**	**81**	**703**	**742**	**513**	**508**	**156**	**172**	**50**	**51**	**58**	**49**	**4,835**	**4,915**

1) Other intangible assets refer to tenancy rights, development costs, advance payments for intangible assets and non-compete agreements in connection with acquisitions.

Depreciation per function	2017	2016
Cost of goods sold	52	50
Selling Cost	83	101
R & D	0	1
Administration	13	11
Total Group	**148**	**163**
Discontinuing operations	0	1
Total group	**148**	**164**

Know-how and customer relations are depreciated linearly. The remaining average life length is 18 (19) and 13 (15) years respectively. For further details concerning accounting principles for intangible assets, see note 2.6.

Impairment testing

Goodwill and other assets are tested for impairment annually or more frequently if there are indications of a decline in value. This testing is based on defined cash-generating units (CGU) and comprise of Polyols, Oxo, Caprolactones, Food & Feed, Bio Products and other business.

Allocation of Goodwill & Operating capital to the CGU's have been performed based on relative values and original PPA. The recoverable amount has been determined on the basis of calculations of value in use. These calculations are based on internal budget and strategic plan over the next five years. The assessments by management are based on both historical experience and current information relating to the market trend. Following the forecast period, the cash flows were extrapolated using an assumed rate of growth of 2% (2). When calculating the present value of future cash flows, a weighted average cost of capital (WACC) of 11% (11.0) after tax was applied to all business areas. The financial development for the Business Area Bioproducts continue to be challenging and during the third quarter a write-down was made amounting to approximately SEK 160 m.

The write down has no impact on the other Business Areas or the Group's cash flow for 2017.

A sensitivity analysis shows that an increase in the WACC with 0.5% to 11.5% after tax, wouldn't lead to a need for impairment for any of the cash-generating units.

Assets not depreciated – goodwill & trademarks from acquisition

Goodwill and the trademarks assigned a value in connection with the acquisition allocation following the acquisition of the Group at the end of 2005 (Perstorp) have been adjudged to have an unlimited life. Goodwill and trademarks for the acquired caprolactones business were added in 2008. A summary of the allocation per cash-generating unit, for goodwill and trademarks, is presented below

2017 (SEK m)	Goodwill	Trademarks	Total
Polyols	662	495	1 157
Oxo	858	567	1 425
Caprolactones business	291	91	382
Food & Feed	211	116	327
Totalt	**2,022**	**1,269**	**3,291**

2016 (SEK m)	Goodwill	Trademarks	Total
Polyols	718	495	1 213
Oxo	821	568	1 389
Caprolactones business	293	99	392
Food & Feed	202	116	318
Totalt	**2,034**	**1,278**	**3,312**

Parent company

	Other	
Acquisition value	**2017**	2016
Opening balance	4	5
Investments	–	1
Depreciation	–2	–2
Closing balance	**2**	**4**

NOTE 8. LEASING

SEK m

Financial leasing agreements

	Group	
Future minimum leasing fees	**2017**	**2016**
Due:		
Year 1	0	0
Year 2–5	0	0
Year 6–	0	0
Total	**0**	**0**

Operational leasing agreements:

The operational leasing agreements that exist are attributable to activities in Sweden. Future payment commitments for these contracts are as follows:

	Group	
Future minimum leasing fees	**2017**	**2016**
Due:		
Year 1	26	32
Year 2–5	41	44
Year 6–	4	2
Total	**71**	**78**

Operational leasing costs during the period	**2017**	**2016**
Minimum leasing fees	40	41
Variable charges	2	3
Total	**42**	**44**

NOTE 9. NET SALES

SEK m	Group	
Net sales by type of income	**2017**	**2016**
Goods	13,519	11,035
Services	73	40
Total continuing operations	**13,592**	**11,075**
Discontinued operations	0	230
Total	**13,592**	**11,305**

	Group	
Net sales by geographic region	**2017**	**2016**
EU and rest of Europe	7,997	6,558
North and South America	2,702	2,320
Asia	2,682	2,019
Africa	182	151
Oceania	29	27
Total continuing operations	**13,592**	**11,075**
Discontinued operations	0	230
Total	**13,592**	**11,305**

The Parent Company did not report any net external sales in 2017 or 2016.

NOTE 10. BREAKDOWN OF COSTS

SEK m	Group	
Costs divided by type	**2017**	**2016**
Raw materials, goods for sale, energy, transport and packaging costs	–9,254	–7,452
Other external costs	–731	–697
Employee remunerations (note 27) excl.restructuring costs	–1,413	–1,198
Depreciation (note 6 and 7)	–568	–578
Other operating income & expenses (note 11)	–261	–24
Earnings from participations in associated companies	4	3
Total	**–12,223**	**–9,946**
Discontinued operations	604	–153
Total	**–11,619**	**–10,099**

NOTE 11. OTHER OPERATING INCOME & COSTS

	Group		Parent Company	
SEK m	**2017**	**2016**	**2017**	**2016**
Insurance remuneration	0	2	–	–
Operations-related exchange rate differences	–54	33	–	1
Restructuring costs	–14	–24	–1	0
Write downs,disposal (note 6,7)	–159	–10	–	–
Other	–35	–25	–14	–22
Total continuing operations	**–261**	**–24**	**–15**	**–21**
Discontinued operations	604	–13	–	–
Total	**343**	**–37**	**–15**	**–21**

NOTE 12. EARNINGS FROM PARTICIPATIONS IN ASSOCIATED COMPANIES & JOINT VENTURES

SEK m	**2017**	**2016**
PetroPort Holding AB, Sweden	4	3
Total	**4**	**3**

The companies´sales amounted to a total of SEK 78 (74) m in 2017 and earnings after tax was SEK 8 (6) m.

NOTE 13. PARTICIPATIONS IN ASSOCIATED COMPANIES & JOINT VENTURES

SEK m	Share of capital/ voting rights, %	Group's share of shareholders' equity	Book value, Group
PetroPort Holding AB, Sweden	50/50	68	68
Total		68	68

SEK m	2017	2016
Opening book value	64	61
Earnings from participations	4	3
Closing book value	**68**	**64**

The assets of associated companies amounted to SEK 279 (281) m at the end of 2017 and liabilities amounted to SEK 142 (153) m.

NOTE 14. OTHER PARTICIPATIONS

SEK m	Book value Dec. 31, 2017	Book value Dec. 31, 2016
Opening book value	475	430
New shares issue	–	23
Sale of shares	–239	–
Translation difference	11	22
Closing book value	**247**	**475**

Other participations consists of shareholding in Vencorex Holding France SAS and Perstorp´share at the end of the year is 9 (15) %

During the end of Q2 2017 the earn-out from the divestment of Perstorps 34% shares in Vencorex in 2014, was settled. The earn-out amounted to approximately EUR 30 m. At the same time, Perstop's ownership in Vencorex Holdings SAS was reduced from 15 % to 9%.

NOTE 15. NON CONTROLLING INTERESTS' SHARE IN NET PROFIT/LOSS FOR THE YEAR

MSEK	2017	2016
Shandong Fufeng Perstorp Chemicals Co., Ltd, China	65	19
Total	**65**	**19**

NOTE 16. NON CONTROLLING INTERESTS

SEK m	Book value Dec. 31, 2017	Book value Dec. 31, 2016
Shandong Fufeng Perstorp Chemicals Co., Ltd, China	144	89
Total	**144**	**89**

SEK m	2017	2016
Opening book value	89	68
Translation effects	–4	2
Change in the period	65	19
Dividend	–6	–
Closing book value	**144**	**89**

Perstorp´s share in Shandong Fufeng Perstorp Chemicals Co.,Ltd at the end of the year is 68.3 (68.3) %

NOTE 17. OTHER LONG-TERM RECEIVABLES

SEK m	Dec 31, 2017	Dec 31, 2016
Interest-bearing long-term receivables		
Other receivables	0	0
Total	**0**	**0**
Interest-free long-term receivables		
Other receivables	7	8
Total	**7**	**8**

NOTE 18. PARENT COMPANY SHARES IN GROUP COMPANIES

Direct holdings in Group companies	Corp. Reg. number	Registered head office	2017 Holding, %	2016 Holding, %	2017 Book value	2016 Book value
Perstorp Financial Services AB	**556762-4563**	**Perstorp, Sweden**	**100**	**100**	**7,712**	**7,712**
Perstorp AB	556024-6513	Perstorp, Sweden				
Perstorp Services AB	559036-9574	Perstorp, Sweden				
Perstorp Quimica do Brasil Ltda	NIRE 35.218.522.982	Brazil				
Perstorp SA [1]	RUT 76.448.840-7	Chile				
Perstorp Sales France	442650768 R.C.S. Nanterre	France				
Perstorp SpA	171 467	Italy				
Perstorp Japan Co Ltd	9-0100-0105-3962	Japan				
Perstorp (Shanghai) Chemical Trading Co.,Ltd	91310000681008322R	China				
Shandong Fufeng Perstorp Chemical Co. Ltd	782323786	China				
Perstorp Chemicals Asia PTE Ltd	199905508W	Singapore				
Perstorp Iberica SL	B65592503	Spain				
Perstorp UK Ltd	02715398	UK				
Perstorp BioProducts AB	556728-5779	Sweden				
Perstorp BioProducts AS	815643062	Norway				
Perstorp Fastighets AB	556571-3798	Sweden				
Perstorp Oxo AB	556041-0895	Sweden				
Perstorp Oxo Belgium AB [2]	556579-4244	Sweden				
Perstorp Specialty Chemicals AB	556247-6290	Sweden				
Perstorp Holding (U.S.) Inc.	26-3020217, Delaware	USA				
Perstorp Polyols Inc.	34-1386676, Delaware	USA				
Perstorp Industries India Private Ltd [3]	U24299MH2017FTC294152	India				
Perstorp Polialcoli S.r.l.[3]	04188090163	Italy				
Driveadd GmbH [3]	HRB 148860, Hamburg	Germany				
Perstorp Holding B.V.	34089250	s-Hertogenbosch, Netherlands				
Perstorp Specialty Chemicals BV	23091252	Netherlands				
Perstorp Specialty Chemicals Holding BV	23092336	Netherlands				
Perstorp Waspik BV	18116759	Netherlands				
Perstorp Chemicals India Private Ltd	04-32032	India				
Perstorp Holding GmbH	**HRB 7465, Arnsberg**	**Arnsberg, Germany**	**6%**	**6%**	**19**	**3**
Perstorp Chemicals GmbH	HRB 1900, Arnsberg	Germany				
Perstorp Service GmbH	HRB 6542, Arnsberg	Germany				
Total book value in Parent Company			**–**	**–**	**7,731**	**7,715**

[1] Company is liquidated.
[2] Company was sold during 2017.
[3] Company was acquired during 2017.

All companies are wholly-owned by the Group except for Shandong Fufeng Perstorp Chemical Co. Ltd, for which the ownership is 68.3 (68,3) %.

SEK m	2017	2016
Opening book value	7,715	7,715
Reversal write down shares in group companies	16	–
Closing book value	**7,731**	**7,715**

NOTE 19. ACCOUNTS RECEIVABLE & OTHER OPERATING RECEIVABLES

	Group	
SEK m	**Dec. 31, 2017**	**Dec. 31, 2016**
Accounts receivable, gross	1,013	775
Bad debt provision	–9	–15
Accounts receivable, net	**1,004**	**760**
Other operating receivables		
Value added tax	51	55
Emissions credits	25	19
Receivables from suppliers	20	20
Other current receivables	23	15
Prepaid insurance premiums	4	5
Other prepaid costs and deferred income	133	159
Total other operating receivables	**256**	**273**

The parent company other recievables totaling SEK 7 (14) m, and accounts receivables amounting to SEK 0 (1).

Analysis of accounts receivable	**Dec.31, 2017**	**Dec.31, 2016**
Not due	908	742
Due:		
1-10 days	87	35
11-30 days	13	–5
31-60 days	7	0
61-90 days	–1	–1
91-180 days	2	–1
180 days or more	–3	5
Accounts receivable, gross	**1,013**	**775**
Reservation for bad debts	–9	–15
Accounts receivable, net	**1,004**	**760**
Proportion of accounts receivable due	10,4%	4,3%
Proportion of accounts receivable due over 60 days	–0.2%	0.4%
Reservation in relation to total accounts receivable	0.9%	1.9%

For more details about the credit risk in outstanding receivable, see the section on Counterparty risk in note 3.1.

During the second quarter 2017, Perstorp prolonged the off-balance, non recourse, long-term trade receivables program. Trade receivables, for which substantially all risks and rewards have been transferred are de-recognized and are excluded from the reported figures.

Allocation for bad debts	**2017**	**2016**
Allocation, opening balance	–15	–13
Recovered predicted customer losses	1	1
Established customer losses	3	1
Reservation for predicted customer losses	0	–3
Exchange rate effects and other	2	–1
Allocations at year-end	**–9**	**–15**

NOTE 20. CASH & CASH EQUIVALENTS

	Group		Parent Company	
SEK m	**Dec. 31, 2017**	**Dec. 31, 2016**	**Dec. 31, 2017**	**Dec. 31, 2016**
Unrestricted cash	457	228	–	–
Restricted cash [1]	164	206	0	63
Total	**621**	**434**	**0**	**63**

[1] Cash in Perstorp accounts in countries where international movement of funds are restricted and cash held in escrowed accounts as collateral for different business activities.

NOTE 21. INVENTORIES

	Group	
SEK m	**Dec. 31, 2017**	**Dec. 31, 2016**
Raw material and consumables	448	411
Products in progress	21	26
Finished goods and goods for resale	969	931
Work in progress on behalf of others	1	1
Advance payment to suppliers	10	8
Impairment reserve	–15	–7
Total	**1,434**	**1,370**

	2017	**2016**
Impairment reserve opening balance	7	14
Provision utilized during the year	–	–7
Allocation for the year	8	0
Translation effects	0	0
Impairment reserve closing balance	**15**	**7**

Of the total value of inventories, SEK 22 (22) m is assesed at net sales value. During the assessment of net sales price, impairment that affects earnings has arisen (Cost of goods sold) amounting to SEK 2 (3) m. The net value of the year´s allocations/provisions utilized during the year affects earnings for the year.

NOTE 22. BORROWINGS & FINANCIAL COSTS

A. SPECIFICATION NET DEBT

	Group		Parent Company	
SEK m	Dec. 31, 2017	Dec. 31, 2016	Dec. 31, 2017	Dec. 31, 2016
Senior secured notes/loans	6,519	7,142	6,519	7,142
Second lien secured notes/loans [1]	3,458	3,821	3,458	3,821
Mezzanine loans	2,641	2,477	2,641	2,477
Revolver	200	100	0	0
Inter-company financial liabilities	0	0	1,851	705
Other financial liabilities, excluding loans from Parent Company [1]	–141	–137	–168	–208
Financial liabilities, excl. Shareholder loans and pension liabilities	**12,677**	**13,403**	**14,301**	**13,937**
Interest-bearing pension liabilities, net	418	441	0	0
Loan from Parent Company	22	20	22	20
Total interest-bearing debt	**13,117**	**13,864**	**14,323**	**13,957**
Cash and cash equivalents	–621	–434	0	–63
Inter-company financial receivables	0	0	–7,107	–7,177
Other interest-bearing receivables, long- and short-term	0	–6	–	–
Interest-bearing assets	**–621**	**–440**	**–7,107**	**–7,240**
Net debt including pension liabilities and shareholder loan	**12,496**	**13,424**	**7,216**	**6,717**

[1] Second Lien recorded at a discount at the time of listing. The difference between the issue price and par value amounts to –83 (–112) million by the closing date

The Net debt includes secured loans (secured notes and other borrowing against collateral). See note 29 for further information.

B. MATURITY STRUCTURE

	Group		Parent Company	
SEK m	Dec. 31, 2017	Dec. 31, 2016	Dec. 31, 2017	Dec. 31, 2016
Between 1 and 2 years	–	–	–	–
Between 2 and 3 years	–	–	–	–
Between 3 and 4 years	10,188	–	9,988	–
Between 4 and 5 years	2,462	13,200	2,462	13,100
More than 5 years	–	–	–	–
Long-term borrowing, excl. Shareholder loans & pension liabilities	**12,650**	**13,200**	**12,450**	**13,100**
Short-term borrowing, 0-1 year	27	203	–	132
Inter-company financial liabilities	–	–	1,851	705
Financial liabilities, excl. Shareholder loans & pension liabilities	**12,677**	**13,403**	**14,301**	**13,937**

At the end of the fourth quarter Perstorp Holding AB (publ.) refinanced the floating rate senior secured notes and increased the amount to EUR 250 million with lower interest rate. In addition the Company also partly redeemed the fixed senior secured notes with EUR 57 million and USD 55 million. The related financing agreements include quarterly covenants linked to net debt in relation to EBITDA and EBITDA in relation to interest payments. These covenants have not been breached.

C. CURRENCY COMPOSITION, INTEREST RATES & DURATION

	Local currency	SEK m	Average interest rate on balance sheet date, %	Actual duration days
SEK	200	200	3.8%	1,186
EUR	738	7,268	8.9%	1,490
USD	630	5,188	10.1%	1,337
Other currencies	–	21	5.3%	90
Financial liabilities, excl. shareholder loans & pension liabilities		**12,677**	**9.3%**	

At the end of the year 59% of the loans had a fixed rate of interest. In addition to the above loans, there is loan from parent company in Luxemburg, see note 31. There was no hedge contracts at the end of 2017.

D. UNUTILIZED CREDITS

Available funds at the end of the year amount to SEK 1,220 m (983) where the Group's available credit limits amounts to SEK 763 m (755).

E. FINANCIAL INCOME & COSTS

	Group		Parent Company	
SEK m	2017	2016	2017	2016
Interest income	6	5	0	0
Interest income, Group companies	–	–	681	643
Total financial income	**6**	**5**	**681**	**643**
Notes and loans	–1,377	–1,482	–1,356	–1,475
Loans from Parent Company	–2	–20	–2	–20
Periodised borrowing costs	–175	–106	–175	–106
Pension costs, interest	–9	–12	–	–
Currency gains and losses from financing measures, net	226	–649	118	–474
Interest costs, group companies	–	–	–85	–94
Trade receivables financing cost	–75	–59	–	–
Other financial costs	–48	–25	–20	–6
Total financial costs	**–1,460**	**–2,353**	**–1,520**	**–2,175**
Net financial items continuing operations	**–1,454**	**–2,348**	**–839**	**–1,532**
Discontinued operations	–	8	–	**–**
Total	**–1,454**	**–2,340**	**–839**	**–1,532**

F. MARKET VALUATION OF FINANCIAL INSTRUMENTS

Interest terms for around 59% of the external loans are based on fixed rates that apply throughout the loan period.

For the remaining 41% of external loans, interest terms are based on an underlying official market rate plus an interest margin.

The market value for financial instruments was calculated using the rates on the closing date. All outstanding financial derivative instruments were held for hedging purposes. All recognized derivatives are classified under level 2 of the value hierarchy.

The reported amount, after possible impairment, for accounts receivable and accounts payable, is expected to correspond to the fair value because these are current items.

Internal loans are subject to customary restrictions under debt agreements.

NOTE 23. PENSION OBLIGATION & COSTS

The group has both defined contribution and defined-benefit pension plans. During the year costs for these plans, excluding discontinuing operations had an accumulative effect on earnings of SEK 265 (207) m, of which SEK 228 (194) is attributable to defined-contribution plans ans SEK 37 (13) m to defined-benefit plans. Pension costs attributable to restructuring of SEK 4 (2) are included in the accumulated amount. The distribution of costs in the income statement are as follows:

A. PENSION COSTS IN THE INCOME STATEMENT

SEK m	2017	2016
Cost of sold goods	128	111
Sales and marketing overheads	53	35
Administrative costs	57	51
Research and development costs	14	12
Non comparable items	4	–13
Net financial items	9	11
Total – continuing operations	**265**	**207**
Discontinued operations	–	2
Total Group	**265**	**209**

Defined-contribution pension plans

There are defined-contribution pension plans in most of 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. The costs that are capitalized during the year attributable to defined-contribution pensions plans can be classified as follows:

B. PENSION COSTS, DEFINED CONTRIBUTION PLANS

SEK m	2017	2016
State pension plans	86	72
Other defined-contribution pension plans	68	65
ITP, insured through Alecta	74	57
Total – continuing operations	**228**	**194**
Discontinued operations	0	0
Total – continuing operations	**228**	**194**

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 by the Swedish Financial Accounting Standards Council, UFR3, this is a defined-benefit plan that covers several employers. For the 2017 and 2016 financial years the Group did not have access to information that enabled it to report this plan as a defined-benefit pension plan, so it is therefore reported as a defined-contribution pension plan. The surplus at Alecta may be divided between the plan provider or the insured. At year-end 2017, Alecta's surplus in the form of its collective funding ratio amounted to 159% (149). 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 IAS 19.

Defined-benefit pension plans

There are defined-benefit pension plans in most of the companies and countries in which the Group is active. The main provisions for defined benefit pension plans pertain to the Pension Registration Institute (PRI) and Pensionszulage (Germany), pension plans for employees in certain currently divested units and specific pension insurance plans for senior executives in various countries. In the table below, the defined-benefit pension obligations are specified, divided into funded and unfunded pension plans.

C. PROVISIONS FOR PENSIONS, DEFINED BENEFIT PLANS

SEK m	Dec. 31, 2017	Dec. 31, 2016
Unfunded pension plans		
Defined-benefit obligations	152	160
Total – Continuing operations	**152**	**160**
Funded or partly funded pension plans		
Defined-benefit obligations	623	586
Salary taxes	18	13
Fair value of plan assets	–375	–343
Total – Continuing operations	**266**	**256**
Discontinuing operations	–	25
Total Group	**266**	**281**
Net Value	**418**	**441**

Commitments are divided as follows by region:	Dec. 31, 2017	Dec. 31, 2016
Sweden	231	203
Germany	140	146
Other EU	25	6
USA	20	58
Other countries	2	3
Discontinuing operations	–	25
Net liability concerning defined-benefit pension plans	**418**	**441**

The plan assets presented here relate primarily to Group companies in the US, 99 (96)%, of which 53 (31)% are invested in debt securities, 35 (56)% equity securities and 12 (13)% in other. The expected return is assumed to be 4.0 (7.5)% ,which is based on historic returns. The actual return on plan assets in 2017 was SEK 33 (24) m.

In addition to the above, so-called direct pensions are included under assets and liabilities at SEK 161 (134) m including salary tax. The asset is capital insurance, with assets and liabilities reported separately at gross amounts. Health-care insurance is not included in pension commitments.

Development during the year for the Group's commitments, plan assets and unrecognized actuarial profit/loss is presented below:

D. CHANGES DURING THE YEAR IN COMMITMENTS, PLAN ASSETS, UNREALIZED ACTUARIAL GAINS & LOSSES & PAST SERVICE COSTS

	2017			2016		
SEK m	Defined-benefit plans, unfunded plans	Defined-benefit plans, funded or partly funded	Plan assets	Defined-benefit plans, unfunded plans	Defined-benefit plans, funded or partly funded	Plan assets
Opening balance	**160**	**641**	**–360**	**136**	**639**	**–366**
Costs for current year service	4	24	–	3	15	–
Expected return on plan assets	–	–	–33	–	–	–23
Interest expense	3	20	–13	3	25	–
Settlement payments	–	0	–	–	–90	77
Fees from employer	–	–6	–31	–	–5	–33
Disbursement	–8	–24	11	–6	–15	15
Actuarial profit/loss	–11	41	0	18	35	–
Past service costs	–	–	–	–	–	–
Acquisition	–	20	–	–	–	–
Divestment	–	–42	17	–	–	–
Translation effects	4	–33	34	6	37	–30
Closing balance	**152**	**641**	**–375**	**160**	**641**	**–360**

E. NET PENSION PROVISIONS, CHANGES DURING THE YEAR

SEK m	2017	2016
Opening balance	441	409
Pension costs during the year	37	15
Disbursements during the year	–56	–47
Gains/losses from change in assumptions	3	49
Acquisition	20	–
Divestment	–25	–
Translation effects	–2	15
Closing balance, provision for pensions, net	**418**	**441**

Amounts reported in the income statement are as follows concerning defined benefit pension plans:

F. PENSION COSTS, DEFINED-BENEFIT PLANS

SEK m	2017	2016
Costs for current year service	28	17
Expected return on plan assets	–	0
Interest expense	9	12
Gains/losses on a curtailment or settlement	–	–14
Total pension costs, defined-benefit plans	**37**	**15**

The principal actuarial assumptions, weighted in accordance with closing amounts for the various pension obligation/plan assetss, are specified in the table below:

G. KEY ACTUARIAL ASSUMPTIONS

	2017	2016
Discount rate, %	2.3	2.4
Future salary increases, %	2.1	2.4
Anticipated return on plan assets, %	3.8	3.9
Anticipated average remaining employment term, year	14.8	16.1

H. PARENT COMPANY

The parent company reports a pension expense of SEK 27 (22) m, which is solely based on defined-contribution plans as there were no benefit-based pension plans at the end of the two most recent financial years. For classification reasons, the entire amount is reported as administration costs in the income statement, with the exception of SEK –– (0) m of the cost attributable to restructuring which is included in Other income and expenses

NOTE 24. CURRENT & DEFERRED INCOME TAXES

A. INCOME TAXES IN THE INCOME STATEMENT

	Group		Parent Company	
SEK m	2017	2016	2017	2016
Current tax	–106	–9	–	–
Deferred tax	96	11	–	–
Total Group	**–10**	**2**	**–**	**–**

The tax on pretax earnings differs as follows from the theoretical amount that would have arisen from applying a weighted average tax rate for the earnings in the consolidated companies:

Tax cost	Group		Parent Company	
	2017	2016	2017	2016
Pretax earnings	**520**	**–1,134**	**–778**	**184**
Tax computed on basis of national tax rates applying in each particular country	–102	230	171	–40
Non-taxable revenues	110	29	19	403
Non-tax-deductible costs	–66	–50	–16	–23
Re-measurement of deferred tax	46	14	–	–
Tax loss carry-forwards for which no deferred tax asset has been recognized	–34	–220	–174	–340
Tax cost not related to current year’s profit/loss	–2	0	–	–
Impact of change in tax rate on deferred tax	38	–	–	–
Other tax expenses	0	–1	–	–
Tax cost	**–10**	**2**	**0**	**0**

The effective tax rate for 2017 is estimated to be 22% (20).

B. DEFERRED INCOME TAX, NET CHANGE

	Group		Parent Company	
SEK m	2017	2016	2017	2016
Opening balance, net deferred tax liability	637	651	–	–
Divestment	9	–	–	–
Acqusition	33	–	–	–
Exchange-rate differences	–8	10	–	–
Tax recognized in the income statement (table A)	–96	–11	–	–
Tax recognized in shareholders' equity	1	–13	–	–
Closing balance	**576**	**637**	**–**	**–**

C. DEFERRED TAX ASSETS, SPECIFICATION

	Group		Parent Company	
SEK m	Dec. 31, 2017	Dec. 31, 2016	Dec. 31, 2017	Dec. 31, 2016
Loss carry-forward	127	93	–	–
Provisions	55	75	–	–
Other receivables	25	28	–	–
Total	**207**	**196**	**–**	**–**

D. DEFERRED TAX LIABILITY, SPECIFICATION

	Group		Parent Company	
SEK m	Dec. 31, 2017	Dec. 31, 2016	Dec. 31, 2017	Dec. 31, 2016
Tangible fixed assets	211	220	–	–
Intangible fixed assets	554	559	–	–
Other receivable	18	54	–	–
Total	**783**	**833**	**0**	**0**

E. TAX LOSS CARRY-FORWARDS

The value of unutilized tax loss carry-forwards is capitalized in cases where it is expected that the carry-forwards will be utilized in the foreseeable future. In addition, there are unutilized tax loss carry-forwards totaling SEK 3,453 (3,468) m that have not been assigned any value, since it is considered that these will not be utilized in the foreseable future.

NOTE 25. OTHER LIABILITIES, PROVISIONS

	Group		Parent Company	
SEK m	Dec. 31, 2017	Dec. 31, 2016	Dec. 31, 2017	Dec. 31, 2016
Pensions obligations, interest-free	0	0	–	–
Market value, hedge contracts [1)]	–	–	–	–
Provision for environmental measures	30	30	–	–
Provision for divested operations	0	17	–	–
Other provisons	38	49	–	1
Other liabilities, provisions	**68**	**96**	**–**	**1**

NOTE 26. ACCOUNTS PAYABLE & OTHER OPERATING LIABILITIES

	Group		Parent Company	
SEK m	Dec. 31, 2017	Dec. 31, 2016	Dec. 31, 2017	Dec. 31, 2016
Accounts payable	**1,074**	**996**	**21**	**82**
Other operating liabilities				
Value added tax	34	8	–	–
Advance payments	3	10	0	0
Payroll tax	25	22	2	2
Other operating liabilities	189	109	5	3
Accrued wages, salaries and social security costs	314	205	48	23
Allocation for restructuring costs	12	20	–	–
Other accrued costs and prepaid income	517	539	14	41
Total	**1,094**	**913**	**69**	**69**

NOTE 27. EMPLOYEES & WAGES, SALARIES & OTHER REMUNERATION

AVERAGE NUMBER OF EMPLOYEES

	2017		2016	
Country	Total employees	of which men	Total employees	of which men
Sweden				
Parent company	30	16	30	17
Subsidiaries	824	533	827	548
Belgium	1	1	41	34
France	2	2	2	0
Italy	103	91	28	21
The Netherlands	44	35	43	35
Spain	3	2	4	2
Poland	2	1	2	1
UK	83	75	83	75
Slovakia	1	1	–	–
Germany	120	107	118	105
Total EU	**1,213**	**864**	**1,178**	**838**
Turkey	3	0	3	0
Norway	16	16	13	13
Russia	3	1	3	1
Total non-EU Europe	**22**	**17**	**19**	**14**
Brazil	9	4	9	4
Argentina	1	1	1	1
USA	120	100	116	94
Total North & South America	**130**	**105**	**126**	**99**
India	21	15	21	16
Japan	9	3	7	2
China	141	99	138	95
Singapore	6	1	5	1
Dubai	2	0	3	1
Taiwan	0	0	2	1
South Korea	5	2	6	3
Total Asia	**184**	**120**	**182**	**119**
Total average no. of employees	**1,549**	**1,106**	**1,505**	**1,070**
of which discontinued operations	**0**	**0**	**40**	**0**
Proportion of men, %		71.4		71.1

WAGES, SALARIES & OTHER REMUNERATION, BY COUNTRY

	2017		2016	
SEK m	Board and CEO	Other employees	Board and CEO	Other employees
Sweden				
Parent company	34	37	18	29
Subsidiaries	5	521	5	455
Belgium	–	2	–	24
France	–	2	–	2
Italy	–	26	–	14
The Netherlands	–	29	–	28
Spain	–	2	–	4
Poland	–	2	–	2
UK	3	47	3	44
Germany	–	86	–	72
Total EU	**42**	**754**	**26**	**674**
Turkey	–	2	–	2
Norway	–	12	–	9
Russia	–	1	–	1
Total non-EU Europe	–	**15**	–	**12**
Brazil	–	4	–	3
Argentina	–	1	–	2
USA	–	100	–	78
Total North & South America	**–**	**105**	–	**83**
India	2	4	1	3
Japan	–	5	–	5
China	–	26	–	27
Singapore	–	4	–	4
Dubai	–	2	–	2
South Korea	–	2	1	2
Total Asia	**2**	**43**	**2**	**43**
Total	**44**	**917**	**28**	**812**
of which discontinued operations	0	0	0	23

REMUNERATION TO EMPLOYEES

	Group		Parent Company [1]	
SEK m	**2017**	**2016**	**2017**	**2016**
Salaries and other remuneration	961	840	71	47
Pension – defined contribution (note 23)	228	194	27	22
Pension – defined-benefit (note 23)	38	15	0	0
Social fees	186	179	15	10
Total	**1,413**	**1,228**	**113**	**79**

[1] Cost reported in accordance with IFRS.

REMUNERATION TO THE GROUP'S BOARD OF DIRECTORS & MANAGEMENT

SEK thousands	Board fee	Salary	Bonus & other remuneration	Pension costs [1]	Total
Chairman of the Board	1,093	–	–	–	1,093
Other Members of the Board	460	1,690	–	182	2,332
President	–	7,975	18,662	7,813	34,450
Other members of Group management	–	17,513	12,065	9,138	38,716
Total	**1,553**	**27,178**	**30,727**	**17,133**	**76,591**

[1] All pension costs refer to defined-contribution plans.

Other members of group management comprised of 6 (7) persons during the year.

Principles

Members of the Board receive director fees in accordance with resolutions passed at the Annual General Meeting. Employee representatives do not receive director fees. Remuneration to the President and other members of Group management comprises basic salary, variable remuneration, company car and pensions.

The President is also entitled to a bonus corresponding to a maximum of 150% of his fixed salary. Other members of Group management are covered by a bonus system that provides a maximum of 50% of their basic salary. The variable remuneration includes also a multiplier of 1.5 and is based on the Group's earnings trend and cash flow.

Pension & employment termination

A defined contribution (DC) pension plan, in addition to the traditional Swedish ITP pension, has been taken out for the President corresponding to 15% of his basic salary. In addition, a more beneficial ITP pension plan has been signed with premiums equivalent to 10% of basic salary in the range of 20-30 times the basic insurance amount and 25% of basic salary above 30 times the basic insurance amount.

According to a special undertaking, the employment contract can be terminated by both the company and the President as of age 60. The period of employment termination notice is eighteen months 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 eighteen 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 an agreement regarding DC pension plan, 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 twelve months.

NOTE 28. CONTINGENT LIABILITIES

	Group		Parent Company	
SEK m	Dec 31, 2017	Dec 31, 2016	Dec 31, 2017	Dec 31, 2016
Guarantees	200	320	200	320
Guarantees and other contingent liabilities for subsidiaries	28	210	363	441
Total	**228**	**530**	**563**	**761**

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

NOTE 29. ASSETS PLEDGED

	Group		Parent Company	
SEK m	Dec. 31, 2017	Dec. 31, 2016	Dec. 31, 2017	Dec. 31, 2016
Property mortgages	1,487	1,492	–	–
Chattel mortgages	1,431	1,220	–	–
Shares in subsidiaries	3,874 [1)]	4,108 [1)]	7,731	7,715
Other participations	247	475	247	475
Liquid funds	0	63	0	63
Internal financial assets (loan)	–	–	6,822	5,787
Investments, receivables, inventories	503	482	–	–
Endowment insurances	111	105	108	102
Total	**7,653**	**7,945**	**14,908**	**14,142**

1) Net assets for Perstorp Financial Services AB, including it´s subsidiaries

For shares in subsidiaries see also note 18. Endowment insurance relates to pension commitments, see note 23.

NOTE 30. FUTURE UNDERTAKINGS

At the end of the year the Group had no material undertakings that had not been included in the accounts.

NOTE 31. TRANSACTIONS WITH RELATED PARTIES

Perstorp Holding AB is 100 % owned by the Luxembourg-based Financière Forêt S.à r.l., which is controlled by the private equity company PAI partners.

Within the framework of an incentive program, PAI partners offered senior Group executives an opportunity to become shareholders in the Parent Company Financière Forêt S.à r.l. and a total of around 120 manager and others key personnel participate, with contributions amounting to around EUR 5 million. Shares and options were priced on normal commercial terms.

Perstorp Holding AB has an amount borrowed from the Parent Company corresponding to SEK 22 (20) 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 secured notes, second lien and mezzanine loans.

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

Remuneration to the Group's Board of Directors and Management is reported in Note 27.

NOTE 32. PROPORTION OF BOARD MEMBERS & SENIOR EXECUTIVES WHO ARE WOMEN

	2017			2016		
	Total	of whom, women	%	Total	of whom, women	%
Board members	120	9	8%	99	8	8%
Other senior executives	114	31	27%	123	26	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 area and department, and the management teams of the major companies.

NOTE 33. AUDITORS' FEES

SEK m	Group 2017	Group 2016	Parent Company 2017	Parent Company 2016
PricewaterhouseCoopers				
Audit assignments	6	6	2	2
Tax consultancy	0	1	–	–
Other	3	11	2	9
Total	**9**	**18**	**4**	**11**
Other auditing firms				
Audit assignments	1	1	–	–
Tax consultancy	1	–	–	–
Other	14	3	13	1
Sum	**16**	**4**	**13**	**1**

Audit assignments comprise verification of the annual report and accounts and the administration of the Board and President, other assignments that are required to be performed by the company´s auditors and advice or other support arising from observations made during verification or performance of other duties. All other work is referred to as "Other" and mainly refers to consultations.

NOTE 34. CURRENCY EXCHANGE RATES

Currency	Year-end exchange rates Dec. 31, 2017	Year-end exchange rates Dec. 31, 2016	Average exchange rates Dec. 31, 2017	Average exchange rates Dec. 31, 2016
BRL	2.485	2.795	2.679	2.476
CNY	1.264	1.309	1.263	1.288
EUR	9.850	9.567	9.633	9.470
GBP	11.105	11.179	10.990	11.566
INR	0.129	0.134	0.131	0.127
JPY	0.073	0.078	0.076	0.079
KRW	0.008	0.008	0.007	0.007
NOK	1.001	1.054	1.033	1.020
SGD	6.156	6.287	6.181	6.200
USD	8.232	9.097	8.538	8.561

NOTE 35. ACQUISITION

At the end of the third quarter, Perstorp acquired 100% of the shares in Perstorp Polialcoli S.r.l. from Polioli SPA. The business consist of Neo, TMP and TMPDE as well as the associated Formate businesses located at the Vercelli site in Italy. The operational result due to the acquisition is included in the consolidated accounts from October 2017. The acquisition is in line with Perstorp's strategy to maintain its leading market position.

Prelliminary purchase price allocation SEK m	Market Value
Intangible asset	62
Targible assets	113
Other Current assets	7
Deferred tax liabilities	–28
Post-employ benefits	–20
Current liabilities	–5
Total	**129**

NOTE 36. DIVESTMENT

In the end of Q1 2017 Perstorp divested its facility in Gent Belgium, Perstorp Belgium (Perstorp Oxo Belgium AB) to Synthomer (Synthomer plc). The total consideration for the sale is €78 million (subject to certain adjustments). The divestment is in line with Perstorp's strategy to focus on and expand its core chemicals activities. The capital gain amounts to SEK 604 m and is reported as discontinuing operations.

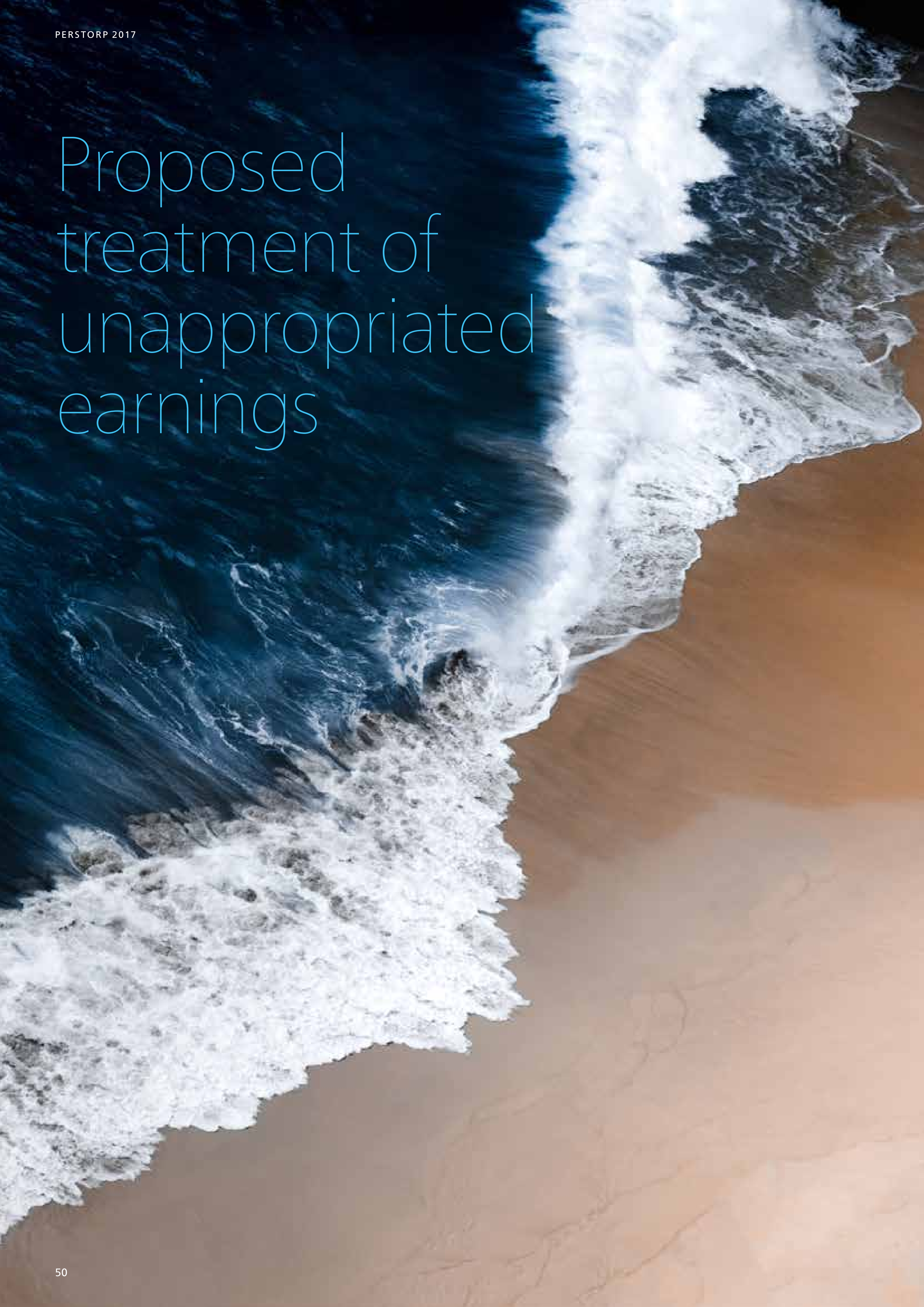
SEK m	2017	2016
Discontinued operations		
Net sales	0	230
Operating earnings	604	77
Operating earnings before tax	604	0[1)]
Tax	0	0
Net earnings/loss for the year	**604**	**0**

[1)] Including group contribution transferred to continuing operations of SEK 85 m.

NOTE 37. KEY EVENTS AFTER THE END OF THE FINANCIAL YEAR

No major events have occurred since the balance sheet date and up to the publication of this report.

Proposed treatment of unappropriated earnings



	SEK
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	1,594,661,489
Net result for the year	– 777,688,128
be distributed as follows:	
To be retained in the business	816,973,361

Perstorp, April 17, 2018

Tore Bertilsson
Chairman

Jan Secher
President & Chief Executive Officer

Fabrice Fouletier

Brendan Cummins

Claes Gard

Karin Markides

Ragnar Hellenius

Gerry Ackert
(elected by employees)

Per-Olov Hornling
(elected by employees)

Anders Magnusson
(elected by employees)

Our audit report was submitted April 18, 2018

PricewaterhouseCoopers AB

Michael Bengtsson
Authorized Public Accountant
Lead auditor

Mats Åkerlund
Authorized Public Accountant

Auditor's report

Report on the annual accounts and consolidated accounts

Opinions

We have audited the annual accounts and consolidated accounts of Perstorp Holding AB for the year 2017. The annual accounts and consolidated accounts of the company are included on pages 1-5, 8-9, 16-51 in this document.

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of parent company as of 31 December 2017 and its financial performance and cash flow for the year then ended in accordance with the Annual Accounts Act. The consolidated accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the group as of 31 December 2017 and their financial performance and cash flow for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and the Annual Accounts Act. The statutory administration report is consistent with the other parts of the annual accounts and consolidated accounts.

We therefore recommend that the general meeting of shareholders adopts the income statement and balance sheet for the parent company and the group.

Basis for Opinions

We conducted our audit in accordance with International Standards on Auditing (ISA) and generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

Other Information than the annual accounts and consolidated accounts

This document also contains information other than the annual accounts and the consolidated accounts and is found on the pages 6-7, 10-15. The Board of Directors and the Managing Director are responsible for the other information.

Our opinion on the annual accounts and consolidated accounts does not cover this other information and we do not express any form of assurance conclusion regarding this other information.

In connection with our audit of the annual accounts and consolidated accounts, our responsibility is to read the information identified above and consider whether the information is materially inconsistent with the annual accounts and consolidated accounts. In this procedure we also take into account our knowledge otherwise obtained in the audit and assess whether the information otherwise appears to be materially misstated.

If we, based on the work performed concerning this information, conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors and the Managing Director

The Board of Directors and the Managing Director are responsible for the preparation of the annual accounts and consolidated accounts and that they give a fair presentation in accordance with the Annual Accounts Act and, concerning the consolidated accounts, in accordance with IFRS as adopted by the EU. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of annual accounts and consolidated accounts that are free from material misstatement, whether due to fraud or error.

In preparing the annual accounts and consolidated accounts, The Board of Directors and the Managing Director are responsible for the assessment of the company's and the group's ability to continue as a going concern. They disclose, as applicable, matters related to going concern and using the

going concern basis of accounting. The going concern basis of accounting is however not applied if the Board of Directors and the Managing Director intends to liquidate the company, to cease operations, or has no realistic alternative but to do so.

Auditor's responsibility

Our objectives are to obtain reasonable assurance about whether the annual accounts and consolidated accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and generally accepted auditing standards in Sweden will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual accounts and consolidated accounts.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the annual accounts and consolidated accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of the company's internal control relevant to our audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors and the Managing Director.
- Conclude on the appropriateness of the Board of Directors' and the Managing Director's use of the going concern basis of accounting in preparing the annual accounts and consolidated accounts. We also draw a conclusion, based on the audit evidence obtained, as to whether any material uncertainty exists related to events or conditions that may cast significant doubt on the company's and the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the annual accounts and consolidated accounts or, if such disclosures are inadequate, to modify our opinion about the annual accounts and consolidated accounts. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause a company and a group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the annual accounts and consolidated accounts, including the disclosures, and whether the annual accounts and consolidated accounts represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated accounts. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our opinions.

We must inform the Board of Directors of, among other matters, the planned scope and timing of the audit. We must also inform of significant audit findings during our audit, including any significant deficiencies in internal control that we identified.

Report on other legal and regulatory requirements

Opinions

In addition to our audit of the annual accounts and consolidated accounts, we have also audited the administration of the Board of Directors and the Managing Director of Perstorp Holding AB for the year 2017 and the proposed appropriations of the company's profit or loss.

We recommend to the general meeting of shareholders that the profit be appropriated in accordance with the proposal in the statutory administration report and that the members of the Board of Directors and the Managing Director be discharged from liability for the financial year.

Basis for Opinions

We conducted the audit in accordance with generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

Responsibilities of the Board of Directors and the Managing Director

The Board of Directors is responsible for the proposal for appropriations of the company's profit or loss. At the proposal of a dividend, this includes an assessment of whether the dividend is justifiable considering the requirements which the company's and the group's type of operations, size and risks place on the size of the parent company's and the group's equity, consolidation requirements, liquidity and position in general.

The Board of Directors is responsible for the company's organization and the administration of the company's affairs. This includes among other things continuous assessment of the company's and the group's financial situation and ensuring that the company's organization is designed so that the accounting, management of assets and the company's financial affairs otherwise are controlled in a reassuring manner. The Managing Director shall manage the ongoing administration according to the Board of Directors' guidelines and instructions and among other matters take measures that are necessary to fulfill the company's accounting in accordance with law and handle the management of assets in a reassuring manner.

Auditor's responsibility

Our objective concerning the audit of the administration, and thereby our opinion about discharge from liability, is to obtain audit evidence to assess with a reasonable degree of assurance whether any member of the Board of Directors or the Managing Director in any material respect:

- has undertaken any action or been guilty of any omission which can give rise to liability to the company, or
- in any other way has acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association.

Our objective concerning the audit of the proposed appropriations of the company's profit or loss, and thereby our opinion about this, is to assess with reasonable degree of assurance whether the proposal is in accordance with the Companies Act.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with generally accepted auditing standards in Sweden will always detect actions or omissions that can give rise to liability to the company, or that the proposed appropriations of the company's profit or loss are not in accordance with the Companies Act.

As part of an audit in accordance with generally accepted auditing standards in Sweden, we exercise professional judgment and maintain professional skepticism throughout the audit. The examination of the administration and the proposed appropriations of the company's profit or loss is based primarily on the audit of the accounts. Additional audit procedures performed are based on our professional judgment with starting point in risk and materiality. This means that we focus the examination on such actions, areas and relationships that are material for the operations and where deviations and violations would have particular importance for the company's situation. Our examine and test decisions undertaken, support for decisions, actions taken and other circumstances that are relevant to our opinion concerning discharge from liability. As a basis for our opinion on the Board of Directors' proposed appropriations of the company's profit or loss we examined the Board of Directors' reasoned statement and a selection of supporting evidence in order to be able to assess whether the proposal is in accordance with the Companies Act.

Malmö, April 18, 2018

PricewaterhouseCoopers AB

MICHAEL BENGTSSON
Authorized Public Accountant

MATS ÅKERLUND
Authorized Public Accountant