Sydsvenska Kemi AB (publ)
Annual Report 2003

Perstorp

Contents

Sydsvenska Kemi AB (publ)

Parent Company of international chemicals group Perstorp

Corporate Registration Number: 556602-2769

Perstorp holds leading positions in markets for specialty chemical and engineering materials products, mainly for customers in the paint, plastic-processing and automotive industries. The Group has approximately 2,200 employees and manufacturing units in eight countries in Europe, North America and Asia. Sales in 2003 totaled SEK 5.7 billion.

Sydsvenska Kemi is controlled by Industri Kapital 2000 Fund. Industri Kapital is one of Europe's leading private equity companies. Part of the payment for the acquisition of Perstorp consisted of a subordinated debenture loan that is registered on Stockholmsbörsen.

1881 The Company is founded in Perstorp, Sweden. The first two products are acetic acid and charcoal.

1907 Production of formalin commences. In 1917, Perstorp becomes Scandinavia's first plastic-processing company and operations are gradually expanded to include such products as surface materials.

1965 Major offensive is launched in polyols segment, in the form of new products and technology.

1970 Perstorp shares are listed on Stockholmsbörsen and a long period of growth, internationalization and diversification commences. Leading positions are gradually attained in the chemicals industry, primarily within formalin technology, polyols and thermosets.

2001 Perstorp is acquired by Industri Kapital, via Sydsvenska Kemi AB, and integrated with Neste Oxo. Operations are streamlined and sights are set on remaining a world-class chemicals company.

Highlights of 2003

- Net sales declined 4% to SEK 5,741 m. Adjusted for exchange-rate changes, this corresponded to a 3% increase. Although sales volumes dropped 4%, this was offset by higher price levels.

- Operating earnings before depreciation amounted to SEK 922 m (2002: SEK 1,121 m), with most of the downturn due to the weakening of the US dollar and reduced demand for basic products.

- Net earnings amounted to SEK 39 m (37), following a revaluation of tax loss carryforwards that had a favorable impact of SEK 115 m on tax costs for the year.

- Cash flow from continuing operations was in line with the preceding year, despite the lower earnings, at SEK 754 m (770).

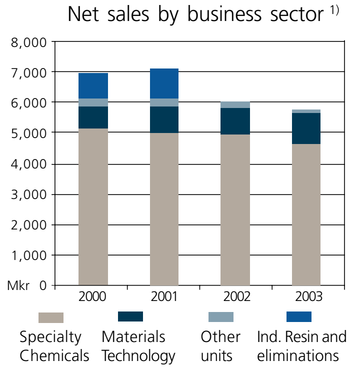
- Five orders for formalin plants and four capacity-expansion orders were received from customers in Europe, China and South America.

- Establishment of joint ventures in South Korea and Japan enhanced positions in specialty chemicals markets in Asia.

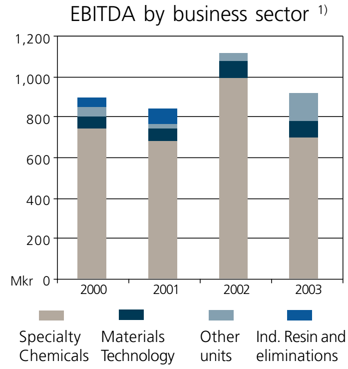
Key ratios for the Group

SEK m, unless otherwise stated	2003	2002 [1)]
Net sales	5,741	5,998
Operating earnings before depreciation (EBITDA)[2)]	922	1,121
Operating earnings (EBIT)	343	536
Earnings before tax	4	178
Net earnings	39	37
Operating margin before depreciation, %	16.1	18.7
Operating margin, %	6.0	8.9
Investments	410	564
of which, acquisitions	68	374
Investments excl. acquisitions	342	190
Depreciation/amortization	575	585
Cash flow from continuing operations	754	770
Cash flow, % of net sales	13.1	12.8
Working capital, end of year	623	774
Working capital, average during the year	855	782
Rate of turnover, working capital, times/year	6.7	7.7
Capital employed, end of year	7,390	7,797
Capital employed, average during the year	7,674	8,305
Return on capital employed, %	4.5	6.7
Net debt, end of year	4,217	4,514
Debt/equity ratio, times	1.34	1.42
Equity/assets ratio, %	33	32
Return on shareholders' equity, %	1.3	1.1
Number of full-time employees, end of year	2,185	2,196
Number of full-time employees, average	2,184	2,118

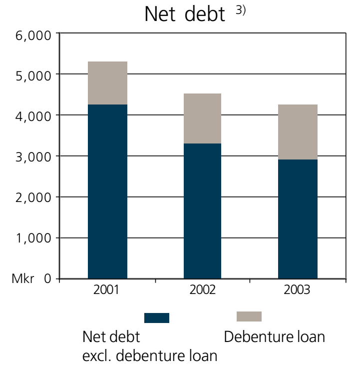
Net sales by business sector [1)]



EBITDA by business sector [1)]



Net debt [3)]



1) Construction Chemicals (within Other units) is included up to its divestment in September 2002. The Molding Composite operations acquired from Rogers Corp. are included as of November 2002.
2) Earnings have been adjusted for depreciation, amortization and write-downs. Write-downs of SEK 4 m were posted in the fourth quarter of 2003.
3) At end of year in question.

Statement by the CEO

Efforts to develop Perstorp into a world-class specialty chemicals group continued during 2003. We built on initiatives from previous years and broadened our internal efficiency-improvement program *(nEverest)* from its former focus on production to include the Group's methods for sales and purchases of goods and services.

In relation to the competition, we were definitely successful during the year in advancing our positions in the increasingly important growth markets in Asia. This was achieved through continued investments in our existing operations in India combined with the establishment of joint-venture companies for production and sales of specialty chemicals in South Korea and Japan. In addition, a new coordination office was opened in China to manage our growing operations in that country. Moreover, several new products were launched successfully during the year.

Success criteria

Growth requires continuous efforts to generate change. To ensure that we continue to develop favorably, we have to accept and successfully manage three challenges:

- *Product portfolio:* Further development of our strong product portfolio in order to add value for our customers and secure healthy business growth. Our resources must be focused on selected segments where we have a technology and market edge that creates favorable potential for growth. Our goal is to work closely with key customers and develop a deep understanding of the value chains in which we choose to conduct our business activities. Our determined actions in this context are called *Customer Back*.
- *Business excellence:* In a world subject to global competition, it is essential that we take the lead in terms of cost-effective production and supply. We strive to utilize our global production facilities optimally, to invest wisely and reduce our total costs continuously without jeopardizing our high quality. This must be achieved through determined work on all types of costs – both fixed and variable costs and capital expenses. The method we employ, *nEverest,* was developed in-house.
- *Performance-focused culture:* It is a well-known fact that no organization is stronger than the people who work in it. Regardless of the strength of our product portfolio and the operating efficiency of our production plants, no success can be achieved without the participation of our personnel. We establish ambitious goals for ourselves as individuals and as teams, and we work hard to achieve them. We engage in career-development dialogs and invest in skills-

"Perstorp is already a leading global player in several core areas and we intend not only to defend these positions but also to continue to grow. We are focusing our efforts on the development of new, effective and environmentally compatible production processes, customized products and applications offering increasing amounts of added value and environmental benefits."

Lennart Holm

development training programs. We work actively on shared values and our code of conduct. We measure the results against key ratios, conduct continuous internal and external comparisons and encourage open, clear and honest internal communications concerning both performance and attitudes. Put briefly, we work actively on our corporate culture, efforts that are represented by the term *Forward*.

Performance during the year

As the internal operating-efficiency improvements and other changes begin to yield effects, we also focused increasingly during 2003 on the company's business environment.

The Group has strengthened its sales organization to sharpen the focus on specific customers and applications. We also continued to increase Group investments in research and development in focused growth areas, as part of long-term efforts to strengthen our product portfolio and further increase our degree of specialization.

While the world at large and our markets in particular were marked by a weak global economy and widespread uncertainty over future international trends, we continued with our proactive programs during the fiscal year. Factors such as the war in Iraq, high oil and gas prices, the SARS epidemic in Asia and declining US dollar exchange rates impacted negatively on economic growth in our key markets.

For the Group, these trends led to lower sales volumes, compared with the preceding year. This was particularly evident in sales of the Group's basic products, while the trend for several leading-edge products such as specialty polyols, acids and certain composite materials remained positive. Orders for formalin technology and production plants increased sharply compared with the preceding year.

A major scheduled maintenance and rebuilding shutdown at our plant in Stenungsund, Sweden, and problems that arose in conjunction with the subsequent restart had a total negative effect of just over SEK 50 m on earnings for the year, compared with 2002.

Our change-oriented projects yielded favorable effects during 2003 in the form of reduced working capital, investment requirements and costs. Due to the lower sales volumes resulting from the weak economic growth, however, capacity utilization declined, which means that most of the positive effects on earnings will not be achieved until capacity utilization increases again.

Continued development

Although the decline during 2003 was caused mainly by external factors, we are obviously not satisfied with the Group's results. On the contrary, it strengthens our resolve to continue to pursue our program of change with undiminished force.

In addition to the continuous process of change, we initiated efforts during 2003 to selectively reduce Group costs. For example, we reduced the workforce within Compounds, which encountered lower demand during the year.

Our plans for 2004 are to focus even more strongly on internal efficiency by conducting reviews of our work processes. This will be combined with a strong ambition to allocate an increasing percentage of resources to activities that create a clear value for our customers. We intend to retain our restrictive approach to investments and other expenditures, but this does not mean that we will lower our requirements in terms of quality, availability, environmental considerations and safety.

Looking at the world around us, I expect 2004 to be another challenging year. Although I can see some signs that the economy and, in turn, demand are starting to pick up, major structural changes are also taking place in our business environment. The fact that the USD remains relatively weak will impair our competitiveness, mainly in relation to American companies, since most of our production is concentrated in Europe.

The Chinese market continues to grow strongly, and Perstorp strengthened its positions there during the past year. We have noted a sharply increased interest in China for Perstorp Formox's world-leading formalin technology. Our new joint-venture companies in South Korea and Japan have already established considerable momentum and contributed to stronger market positions in several Asian markets. At the same time, the rapid growth in China is creating increased competition. European and American customers and competitors are transferring production to China, and Chinese manufacturers of basic chemicals are rapidly expanding their capacities. I cannot rule out the possibility of Perstorp also establishing production operations in China within the next few years.

Our fundamental strategy remains unchanged, and Perstorp has good potential to grow within its market niches. Perstorp is already a leading global player in several core areas and we intend not only to defend these positions but also to continue to grow. We are focusing our efforts on the development of new, effective and environmentally compatible production processes, customized products and applications offering increasing amounts of added value and environmental benefits. We strive to work closely with our customers in order to strengthen their ability to compete and grow.

In many respects, Perstorp is a new Group with a rejuvenated spirit. The ability of our employees to continuously take the initiative and spearhead change will be a critical success factor. I look forward to yet another year when we join forces to further strengthen our Group and its ability to meet the demands and requirements of our customers.

Lennart Holm
President and CEO

The Perstorp Group

Sydsvenska Kemi AB (publ) acquired the Perstorp and Neste Oxo chemical groups in June 2001. The acquired groups have been integrated in the Group and Sydsvenska Kemi's business operations have operated under the Perstorp name since the beginning of 2002.

In its new format, Perstorp is a group with a strong technological platform and long value-adding chains in selected segments of specialty chemicals and materials technology markets. The integration process has created more effective production operations and intensified research and development activities. In the marketplace, the merger has increased the resources available for cooperating closely with first-class customers in all parts of the world.

Leading positions

Perstorp's current focus is on selected niches of specialty chemicals and materials technology markets, which is where the Group has excellent potential to achieve and maintain leading positions and sustained growth.

Perstorp holds leading global market positions for several of the Group's specialty chemical products and chemical intermediates, primarily for customers in the coatings and plastic-processing industries and in markets for leading-edge composite materials and thermosets. The Group is also a leader in formalin technology, among other market areas.

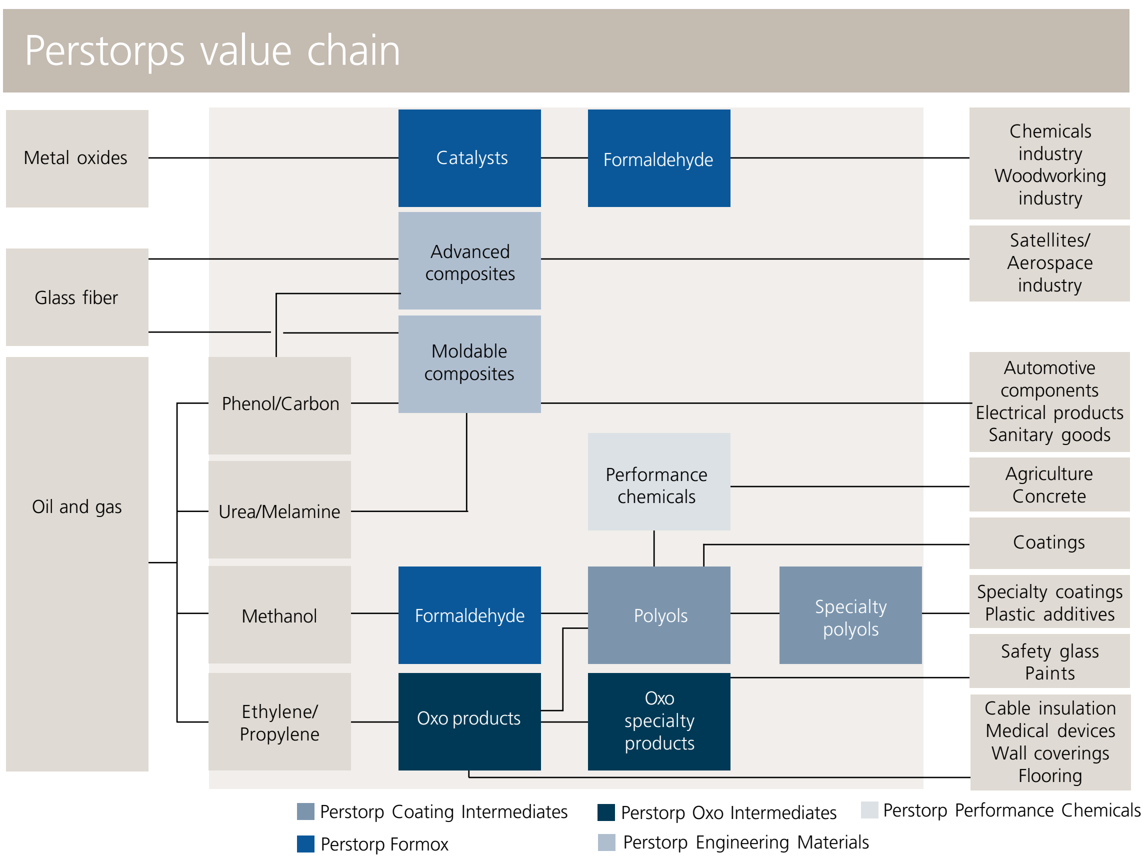
Perstorp's value chain and important application areas are shown in the illustration below and are described in greater detail on the following pages of this report.

Business sectors

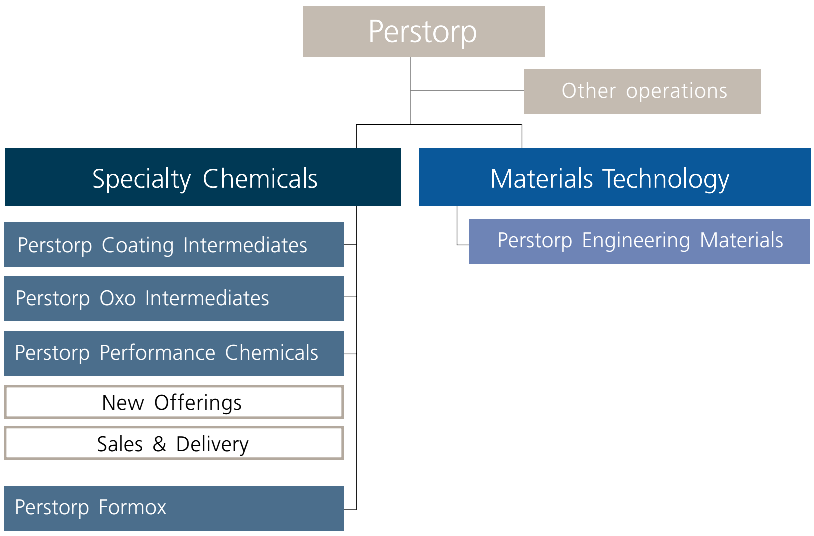
Since 2003, the Group has been organized in two business sectors, Specialty Chemicals and Materials Technology. The business sectors are described on pages 10-19.

Specialty Chemicals

The Specialty Chemicals business sector focuses on specialty chemical products primarily for industrial customers. The business sector consists of four business areas: Perstorp Coating Intermediates, Perstorp Oxo Intermediates, Perstorp Performance



Organizational chart



Chemicals and Perstorp Formox. The business areas engage in close cooperation and, with the exception of Perstorp Formox, have shared processes for sales, and for research, technology and development.

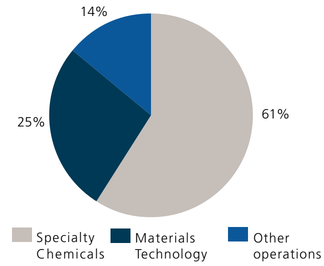
Materials Technology

Materials Technology is the business sector that focuses on advanced materials for industrial customers. Operations are conducted through the Engineering Materials business area.

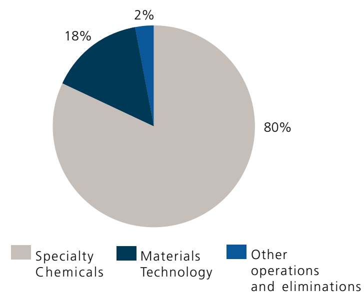
Other operations

The Group also includes a number of service companies, primarily ITOC AB, Perstorp Fastighets AB, Skånsk Industripartner AB and Perstorp Support AB, which mainly operate in the areas of industrial service and maintenance, property services, energy production, administration and IT. They are reported together with Group Management and Group Staff functions under the ”Other operations” heading. The pricing of internal sales of goods and services is based on market conditions.

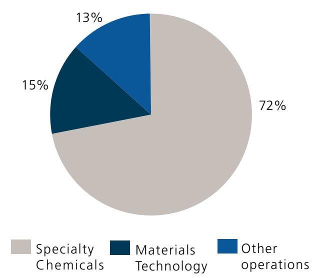
Employees at year-end



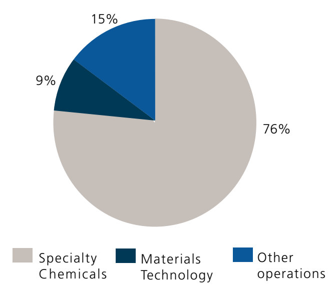
Net sales



Investments (excl. acquisitions)



Operating earnings before depreciation



Key figures per business sector

SEK m, unless otherwise stated	2003 Specialty Chemicals	Materials Technology	Other operations and eliminations	Total, Group
Net sales	4,610	1,042	89	5,741
of which, internal sales	42	-	-42	-
Gross earnings	721	190	117	1,028
Operating earnings before depreciation and amortization (EBITDA)	705	81	136*)	922
Operating earnings before goodwill amortization (EBITA)	451	35	105*)	591
Operating earnings (EBIT)	247	-9	105*)	343
Investments (excl. acquisitions)	246	51	45	342
Working capital, end of year	494	157	-28	623
Operating capital, excl. goodwill, end of year	2,672	510	601	3,783
Operating capital, end of year	6,056	1,225	601	7,882
Gross earnings, % of sales	16	18	**)	18
EBITDA, % of sales	15	8	**)	16
EBITA, % of sales	10	3	**)	10
EBIT, % of sales	5	-1	**)	6
Working capital, average	689	197	-31	855
Turnover rate, working capital, times/year	6.7	5.3	**)	6.7
Return on operating capital excl. goodwill, %	16	6	18	15
Return on operating capital, %	4	-1	18	4
Number of employees, end of year	1,324	553	308	2,185

*) Results for other units and eliminations include SEK 34 m for a change in provisions mainly related to prior year divestments, and SEK 13 m for a capital gain on the sale of a property.

**) Not applicable

Specialty Chemicals

The Specialty Chemicals business sector focuses on specialty chemical products primarily for industrial customers. The operations are based on Perstorp's rock-solid know-how, mainly in aldehyde chemistry and related areas. The Group's know-how is supplemented by many years of in-depth expertise in specific process technologies and application areas.

Specialty Chemicals is organized in four business areas: Perstorp Coating Intermediates, Perstorp Oxo Intermediates, Perstorp Performance Chemicals and Perstorp Formox. The business areas engage in close cooperation and, with the exception of Perstorp Formox, have shared processes for research and development, and sales.

Production operations are conducted in eight countries on three continents. About two-thirds of the business sector's raw materials are based on crude oil or natural gas, and the largest single raw materials are propylene and methanol.

Markets

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

A process of consolidation has been under way in the chemicals industry for several years, both among Group customers and competitors. The market is also characterized by globalization and increased investments in Asia, primarily in China.

Perstorp is one of the world's leading suppliers in several of its selected market segments, and the Group has strong market positions. Most products are sold throughout the world, with Europe and the US comprising the largest markets.

The leading companies in the business sector's markets are usually units within large international chemical groups – in addition to Perstorp, for example, BASF, Celanese, Eastman, Dow Chemicals and LG Chemicals. Other competitors include specialized producers with a regional focus. Competitive conditions vary substantially between different types of products and applications.

Performance during the year

The weak economic conditions during 2003 and general uncertainty over the war in Iraq resulted in lower demand for a number of Specialty Chemicals' basic products, while sales of several specialty products continued to increase. The overall effect was a slight decline in volumes within the business sector, compared with the preceding year.

Net sales amounted to SEK 4,610 m (4,906), a decline of 6%. Volumes for the year also decreased by 6%, while sales prices rose 7% and currency changes had a negative impact of 7%.

Raw-material prices fluctuated sharply, but increased for the year as a whole. The weaker USD, continued weak demand and relatively low capacity utilization led to an overall decline in operating earnings, and the operating margin before depreciation fell to 15% (20).

Weaker demand for basic products reduced sales volumes and margins, mainly for Perstorp Oxo Intermediates but also, to some extent, for Perstorp Coating Intermediates. Perstorp Oxo Intermediates' sales and earnings were also affected by limited access to products during the latter part of the year, when a scheduled production stoppage resulted in a greater-than-expected loss of production. Sales of specialty polyols and other specialty products remained favorable during 2003, however.

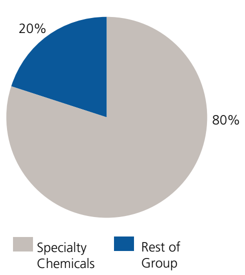
Outlook

The need for specialty chemicals that are environmentally compatible, cost effective and offer specific technical properties is increasing. Specialty Chemicals strives to increase sales of existing products through continued globalization and applications development. By continuing to focus on new products, the business area plans to gradually increase its percentage of specialty products and achieve strong growth and increase profitability.

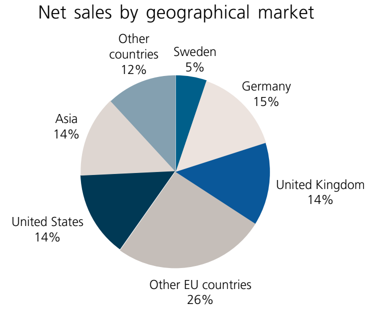
Specialty Chemicals

SEK m	2003	2002
Net sales	4,610	4,906
of which, internal sales	42	64
Gross earnings	721	1 122
Operating earnings before depreciation and amortization (EBITDA)	705	1 003
Operating earnings before goodwill amortization (EBITA)	451	745
Operating earnings (EBIT)	247	530
Investments (excl. acquisitions)	246	118
Working capital	494	610
Operating capital, excl. goodwill	2,672	2,812
Operating capital	6,056	6,443
Gross earnings, % of sales	16	23
EBITDA, % of sales	15	20
EBITA, % of sales	10	15
EBIT, % of sales	5	11
Working capital, average	689	637
Turnover rate, working capital, times	6.7	7.7
Return on operating capital excl. goodwill, %	16	25
Return on operating capital, %	4	8
Number of employees, end of year	1,324	1,300

Share of net sales



Net sales by geographical market



Perstorp Coating Intermediates is a global leader in the manufacture of several types of polyols, polyol acids and other intermediates, primarily for the coating industry.

Bengt Sallmén | Business Area Manager

Perstorp Coating Intermediates

Perstorp Coating Intermediates is a global leader in the manufacture of several types of polyols, polyol acids and other intermediates, primarily for the coating industry. In addition to coatings systems, the products are used in liquid adhesives, plastic additives, lubricants and several other chemical products.

The largest-selling products are the basic polyols Penta, TMP and Neo. Specialty polyols for more specific applications account for a growing percentage of sales.

Market

Perstorp Coating Intermediates markets its products globally and, with production units in Sweden, Italy, Germany, the US, India and South Korea, is the only player that produces polyols on three continents.

The business area's strategy is to consolidate and strengthen its leading market position in the basic polyols segment, while maintaining a high growth rate within specialty polyols.

Performance during the year

Weak economic conditions during the year and general uncertainty over the war in Iraq resulted in lower demand for basic polyols, while sales of specialty polyols continued to increase. Overall, the business area's volumes were marginally higher than in the preceding year. Higher raw-material prices and the declining USD exchange rate, however, had a negative impact on the business area's margins, compared with 2002.

Significant events

Perstorp Coating Intermediates strengthened its presence in Asian markets during 2003. A joint venture (Perstorp 51%) was established with Hansol Chemience Co Ltd, South Korea, for the production and marketing of the South Korean company's polyol products in the Asian market and Perstorp's specialty chemical products in South Korea. The business area also established a joint venture (Perstorp 40%) with Koei Chemical Company, Japan, to strengthen sales of Perstorp's specialty chemical products, primarily in the Japanese market.

Selective capacity expansion projects were implemented to meet the growing demand for specialty polyols and further investments are planned for 2004.

Several research and development projects are under way, focused mainly on new specialty polyols, and the business area is also open to the possibility of acquisitions within complementary product areas.

Outlook

Key goals for the business area include increased, stable profitability and organic growth as well as growth through acquisitions. Integration of the new unit in South Korea will be completed during 2004, and continued expansion in Asia will be assigned high priority. Other important objectives include continued productivity improvements and increased sales of specialty products through active marketing and the launch of new products.

Perstorp Oxo Intermediates manufactures aldehydes, alcohols and acids for further processing in the coatings and plastic-processing industries.

Lars Lind | Business Area Manager

Perstorp Oxo Intermediates

Perstorp Oxo Intermediates manufactures aldehydes, alcohols and acids for further processing in the coatings and plastic-processing industries. The business area uses advanced technologies and conducts product development on a proprietary basis. Production includes both basic and specialty products, with the largest-selling products consisting of monomers for paint resins and solvents, plasticizers for vinyl and safety glass and agricultural chemicals such as propionic acid.

Most production operations are concentrated in Stenungsund, Sweden, but there are also two smaller plants in Sweden and Belgium.

Market

Perstorp Oxo Intermediates is one of the world's three leading suppliers of several products and the largest supplier of raw materials for plasticizers used in safety glass. Through capacity expansion projects and targeted investments in new specialized products, the business area has achieved strong growth over the years. Basic products continue to be important, but specialty products now account for about 50% of total volume sales and show higher growth and profitability.

A strategy has been developed for the Chinese market based on several products believed to satisfy growing, long-term demand in this market.

Performance during the year

Net sales declined during the year due to weak demand caused by the war in Iraq and limited access to products during the latter part of the year, when a scheduled production shutdown resulted in a greater-than-expected loss of production. Continued favorable growth was noted, however, for several specialty products. The business area's margins were under pressure from relatively high raw-material prices and effects of the weaker USD.

Significant events

Several new products were launched during the year and their market reception was favorable. Development also continued on several new products scheduled for launch in 2004, including lubricating acids used in the animal feed industry. Two new plasticizers were also developed and are now being tested by different customers.

A major project designed to introduce natural gas as a raw material to replace fuel oil at the production plant in Stenungsund was virtually completed during the year. The conversion to natural gas during 2004 will reduce costs and create positive environmental effects.

After the close of the fiscal year, negotiations under Sweden's Worker Codetermination Act were initiated regarding increased integration of the operations in Stenungsund and Nol.

Outlook

The focus on new, more specialized products will continue through product launches and investments in increased production capacity. Among other projects, production capacity at the plant in Gent for Paraflex®, the new range of special plasticizers, will be increased. To meet the growing demand for propionic acid, planning is now in progress to build a new plant in Stenungsund with an annual capacity of 50,000 tons. Investments will also be made to prolong intervals between required maintenance shutdowns in the future.

Perstorp Performance Chemicals

Perstorp Performance Chemicals markets performance chemicals for application areas in several industrial sectors.

Paul Österberg | Business Area Manager

Perstorp Performance Chemicals markets performance chemicals for application areas in several industrial sectors. The offering ranges from specific products manufactured by the business area to products arising from production operations of other Group business areas, which Perstorp Performance Chemicals upgrades and markets. The latter product group includes sodium formate, for which Perstorp is the world's largest manufacturer.

The business area has three business units and production facilities in several countries. *Formates* consist of formic acid, sodium formate and sodium sulfate sold to customers primarily in the leather and textile industry.

Food & Feed products consist of animal-feed additives, silage agents, acetic acid and Creosan, with most sales invoiced in the agricultural and food industries.

Concrete Admixtures, such as calcium formate, are used in the construction industry to improve the flow properties of concrete, which is also of importance to, for example, strength, form and production speed.

Market

The weak economic conditions led to lower capacity utilization and thus reduced production of such products as sodium formates. This decreased supply and increased market prices.

For products in the Food & Feed area, the general trend toward healthier animal husbandry and higher quality food products generated continued growth. Business growth during the year was further strengthened by higher demand for antibacterial and environmentally compatible silage agents and animal-feed additives, an effect of the pending EU ban on antibiotics in animal feed.

The construction industry remained weak, which had an adverse impact on demand for concrete additives.

Performance during the year

Several of the business area's products noted increased sales and favorable price levels. Due to the limited supply of sodium formates in particular, however, the business area as a whole could show only a marginal increase in sales. Nevertheless, a combination of continued favorable demand for most products and limited market supply resulted in improved margins.

Significant events

The business area continued to strengthen its positions in the feed sector. A new product, sodium propionate, was launched during the year to supplement the range of animal-feed additives. In addition, the marketing organization was strengthened and, beginning in 2004, the business area will take over the marketing of calcium formate, feed grade – a major product group within the feed sector – from an external distributor.

Outlook

Perstorp Performance Chemicals will continue its development of products and application areas. Activities during 2004 will focus on efforts to strengthen investments in the feed product area and to improve the profitability of concrete admixture operations.

Business processes

John Ekström
Business Process Manager
Sales & Delivery
(Global excl. NAFTA)

David Wolf
Business Process Manager
Sales & Delivery (NAFTA)

Lars-Peter Lindfors
Business Process Manager
New Offerings

Specialty Chemicals' business areas have similar technologies, products and markets. To capitalize on synergy potential, three of the business units share business processes for sales operations and research, technology and development. The other two business areas in the Group also engage in certain cooperation involving these processes.

Sales & Delivery

The joint sales organization for Perstorp Coating Intermediates, Perstorp Performance Chemicals and Perstorp Oxo Intermediates accounts for planning, sales, deliveries and customer service, while each business area is responsible for its own strategies, pricing and business priorities. This structure facilitates a harmonization of customer-oriented activities and creates the potential for efficient sales operations in all markets.

During the year, the Group launched *nEverest*, an improvement program designed to further enhance internal efficiency. The program's principal goals are to conduct various measures to increase the service offered to customers and optimize delivery logistics. For example, a concept was launched during the year whereby Perstorp assumes responsibility for inventory management of products delivered to selected customers.

Market communications have also been developed to focus more sharply on application areas, rather than individual products, thereby providing better exposure for the Group's overall competencies and product range. The new sales material has been received favorably by the Group's customers.

To capitalize on synergy potential, three of the business areas share business processes for sales operations and research, technology and development.

New Offerings

The three business areas also share a common process for Research, Technology and Development. The RTD organization is active mainly in three areas: product and applications development, process efficiency and new technologies, and intellectual property, including patent and information retrieval. The organization comprises 70 employees at development centers in Sweden and Finland. The other two business areas, Perstorp Formox and Perstorp Engineering Materials, each conduct their own R&D activities, but cooperate with the RTD organization and utilize its resources for specific projects.

The Perstorp Group has many years of experience in conducting leading-edge work aimed at innovation and the development of new high-performance products with a pro-environmental profile. In line with the ongoing *Customer Back* program of change, which is intended to increase market orientation in selected areas, development work during the year was focused more sharply on the product requirements and demands of end-customers.

Development work is conducted in close cooperation with the business areas, production units and sales organizations concerned. The following development areas were in focus during the year:

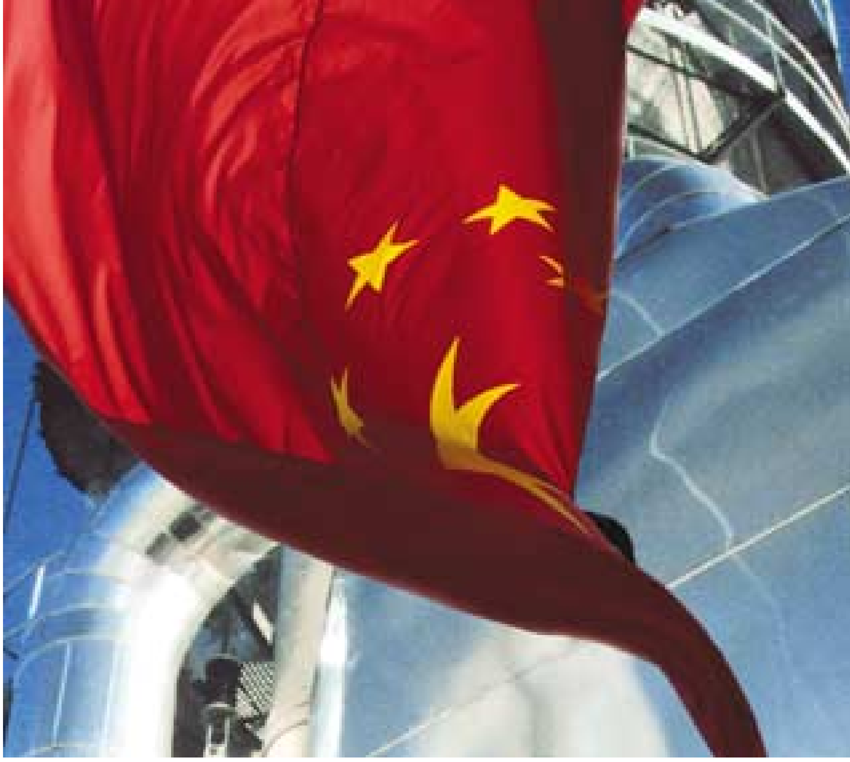
- Specialty products in the polyol segment offering environmental and technological advantages for applications in the coating and resin industries. Typical applications include powder paints and UV-hardening paints as well as solvent-free, water-based coating systems.
- Carboxyl acids and their derivatives. Typical applications include the production of film for safety glass and products used as substitutes for antibiotics in animal feed.

The emphasis within process technology is on developing more effective production processes, which generally also generate environmental improvements. Efficiency improvements include better raw-material utilization, more effective by-product recovery and less energy-intensive processes.

The Group's total R&D expenditures in 2003 amounted to SEK 88 m (71), equal to 1.5% of net sales. There are plans for another increase in development investments during 2004, aimed at even clearer differentiation and renewal of the Group's product offering, while facilitating continued efficiency enhancements in the production processes.

Perstorp Formox is the global leader in formalin technologies. With seven production plants in operation or under construction in China, Perstorp Formox has already taken the lead among suppliers of oxide technology for the production of formalin in this important and growing market.

Claes Lundström | Business Area Manager



Perstorp Formox

The operations of Perstorp Formox are based on its comprehensive expertise in formalin and catalyst technologies and its effective formalin production process. The business area has developed several types of catalysts for the production of formalin and purification of industrial process gases and solvent emissions. In addition, the business area designs and sells formalin production plants and produces formalin used as a raw material for other chemical products within the Group.

Market

Perstorp Formox is the global leader in formalin technology, with substantial market shares and customers that include the world's largest manufacturers of chemicals, resins and board. Nearly half of global growth in formalin production capacity over the past 10 years is attributable to production plants supplied by Perstorp Formox. The business area also accounts for a major share of total global sales of oxide catalysts used in the production of formalin.

Performance during the year

External sales were marginally lower than in the preceding year. Fewer formalin production plants were delivered during 2003 as a result of only one new plant contract being signed during 2002. Demand for catalysts was slightly weaker than in 2002, due to weak economic conditions and, consequently, lower capacity utilization by Perstorp Formox customers. Despite the weak market conditions, however, the business area further strengthened its market shares for both catalysts and formalin plants.

Demand for formalin plants based on Perstorp Formox technology increased sharply during 2003, particularly in Asia. Agreements were signed for five new plants in China and Russia, in addition to contracts for capacity expansion projects at four plants in Europe, China and South America. The combined order value of the projects is approximately SEK 220 m.

External sales of formalin developed favorably, while internal sales declined as a result of lower polyol production volumes, among other reasons.

Significant events

The business area strengthened its positions in China and Russia during the year. To enhance marketing efforts in China, Perstorp Formox opened an office in Beijing, while marketing in Russia is supported by the Group's branch office in Moscow. Other interesting markets targeted for further penetration include countries in South America, Eastern Europe and Southeast Asia.

Efforts were continued during the year to develop an even more effective formalin process, and the market launch of new efficiency enhancements has started. Development of new catalysts also continued during the year.

Outlook

Perstorp Formox's strategy, based on continuous development of its know-how and customer service offering, is to consolidate its position as a global leader in selected market segments. A key goal is to expand within the catalyst product area by developing and introducing catalysts for associated application areas.

Materials Technology

Materials Technology is the Group's business sector that focuses on sophisticated materials for industrial customers. Operations are based on the Group's core competencies in thermoset chemistry and fiber-reinforced resins. This know-how is developed continuously for new applications, mainly in the automotive, aerospace and construction industries.

As a result of continuous product and applications development, the Materials Technology business sector aims to remain a leading manufacturer in selected market segments offering strong growth and healthy profitability.

The operations of the Engineering Materials business area are conducted by three business units:

Moldable Composites, which concentrates on the automotive industry and commands a major share of the global market for engineering phenolics (fiberglass-reinforced phenolic molding compounds). The business unit's products also include epoxy, DAP and silicone compounds. The operations are managed by Vyncolit, a subsidiary with production facilities in Belgium and the US.

Advanced Composites comprises YLA, an American subsidiary whose operations are mainly targeted at the aerospace industry and which is the technological and market leader in the segment for satellite structures based on carbon-fiber-reinforced composite materials. The business unit accounts for a considerable share of sales in this growing US-based market.

Perstorp is the world leader in *Compounds,* accounting for about one third of the market for amino-based thermosets in North America and Europe. Characterized by high strength and heat resistance, these products are used primarily for electrical and interior-design products. Production units are situated in Sweden, Italy and the US.

Materials Technology

SEK m	**2003**	**2002** *)
Net sales	1,042	902
of which, internal sales	-	-
Gross earnings	190	161
Operating earnings before depreciation and amortization (EBITDA)	81	80
Operating earnings before goodwill amortization (EBITA)	35	44
Operating earnings (EBIT)	-9	4
Investments (excl. acquisitions)	51	49
Working capital	157	207
Operating capital, excl. goodwill	510	595
Operating capital	1,225	1,403
Gross earnings, % of sales	18	18
EBITDA, % of sales	8	9
EBITA, % of sales	3	5
EBIT, % of sales	-1	0
Working capital, average	197	176
Turnover rate, working capital, times/year	5.3	5.1
Return on operating capital excl. goodwill, %	6	10
Return on operating capital, %	-1	0
Number of employees, end of year	553	595

*) The Moldable Composites operations that were acquired from Rogers Corp. are included as of November 2002.

Market

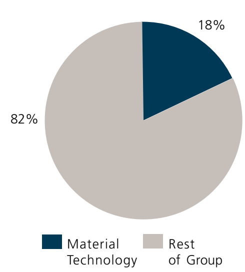
Materials Technology's customers are situated mainly in Europe and the US, but increasing growth is being noted in Asia, and the business sector is now sharpening its focus on this market.

Moldable Composites' products are characterized by low weight and high performance, and are used to replace metals in water pumps, drive wheels and various other applications under the car hood. Growth is driven by the automotive industry's quest for lightweight and more fuel-efficient vehicles, which has created a need for components made of lightweight materials. The business unit competes mainly with suppliers of various metals used in automotive and electronic applications, and competing companies are located in Europe, the US and Asia.

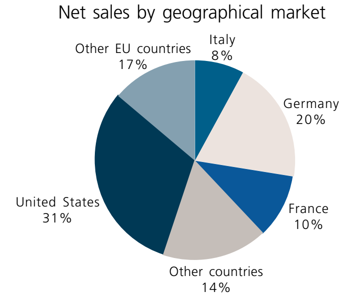
Like the automotive industry, the aerospace and aviation industries are looking for new materials characterized by low weight and high performance, which is driving demand in markets for *Advanced Composites.* The subsidiary YLA competes with a limited number of prepreg manufacturers such as Hexcel and Cytex, both US companies, and to some extent with specialized producers of aluminum structures for the aerospace industry.

Overall growth in *Compounds'* new application areas for thermoset chemistry is favorable, while growth for conventional, amino-based thermoset compounds is low. The business unit competes with other manufacturers of amino-based thermosets and, through the introduction of injection-moldable products, to a growing extent with manufacturers of thermoplastics. Competing companies are found in Europe, the US and Asia.

Share of net sales



Net sales by geographical market



Anders Lundin | Business Area Manager

Performance during the year

Demand for the business area's products was in line with the preceding year. Strong sales of materials to the automotive industry during the first half of 2003 were offset by lower demand in other segments, due to weak conditions in the construction and telecom industries.

Net sales increased 16% during 2003, compared with the preceding year. The acquisition of the US moldable composite operations in November 2002 added 20 percentage points to sales. The sales volume excluding acquisitions was unchanged. Exchange-rate effects had a negative impact of 5% due to weaker trends for EUR and USD. Price changes had a positive impact of 1%. The business area's operating margin before depreciation was 8% (9). Acquired operations contributed to the increase in earnings, although this was offset mainly by negative currency effects and costs for redundancies in the Compounds units in Sweden and Italy, which resulted from overcapacity related mainly to the European market.

Significant events

Several new thermoset materials were introduced during the year, including Amitec™, an injection-moldable amino plastic that enables more effective production of electrical components. Concern regarding infectious diseases such as SARS has created a growing demand for Polygiene®, a patent-pending material introduced in 2002. This antibacterial amino plastic can be used to manufacture toilet seats, electric power points and packaging materials used mainly in environments with meticulous demands for hygiene, such as hospitals, hotels and restaurants.

In Detroit, Michigan, USA, a technology center was established for applications development in close cooperation with the automotive industry. Perstorp also signed an important agreement for deliveries of compounds to LeGrand Europe, one of the largest European suppliers of electrical components.

The business area also advanced its positions during 2003 by qualifying as a supplier of additional applications for the aerospace industry.

Outlook

The business area's goal, through product and applications development combined with acquisitions, is to become a leading manufacturer that combines strong growth and healthy profitability. Its comprehensive project portfolio of new products and applications is expected to contribute to favorable, long-term sales growth, particularly in the automotive and aerospace industries.

Employees

Development of an open and result-oriented corporate culture is an important part of Perstorp's quest to become a world-class company.

The goal is to develop a corporate culture characterized by the ability to establish and achieve ambitious objectives in all parts of the organization, provide a continuous flow of financial information based on key ratios and encourage, in a well-defined manner, high performance among individuals and teams. The organization is developed systematically with support from the Group's process for management and personal development, PMD (People Management and Development), which continuously addresses employee issues related to the planning process.

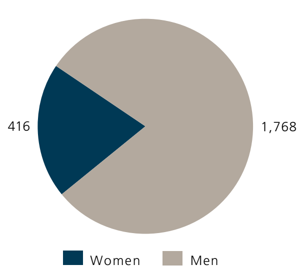
The average number of employees in the Group during 2003 was 2,184. The workforce was distributed geographically as follows: Sweden 52%, other EU countries 22%, the US 14% and Asia 12%.

The actual number of employees at year-end 2003 was 2,185 (2,196). The decline was mainly due to attrition and rationalization measures within Compounds in Perstorp and Italy. At the same time, 27 new employees were added through Hansol Perstorp Co. Ltd, the joint venture company in South Korea.

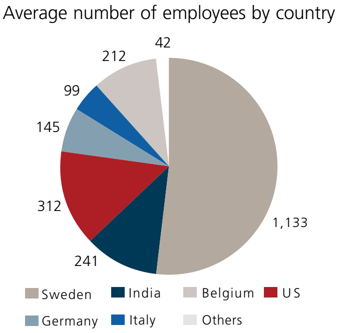
Corporate Human Resources took a large number of new initiatives during the year to develop management personnel and other employees:

- The follow-up of a "360°-survey" was conducted among the Group's senior managers. Compared with the results of the 2002 poll, the survey showed significant improvements, particularly in areas related to management's ability in terms of decentralized decision-making and open and straightforward feedback.
- The previous training for a "manager driver's license" was developed into an international, certified development program for management personnel, with course modules spread over an 18-month period.

Distribution women/men



Average number of employees by country



Martin Lundin
Director
Human Resources
& Communications

- A new idea-generation system linked to the bonus system was developed and is being introduced in the Group.
- A web-based PC system was developed to enhance efficiency in the handling of salary and personnel data and to facilitate increased utilization of personnel-related key ratios. The new system will be introduced gradually during 2004.
- An individual salary and wage system – based on the company's values – was developed for the Swedish units to facilitate management's distribution of individual salary components.
- The majority of employees in Sweden attended internal training courses to improve their knowledge of the PMD process. Beginning in 2004, similar reviews will be conducted in the international units of the organization.

Other measures included refinement of the Introductory Process for new employees, the formulation of a policy for issues involving competition law and a training course to enable managers to provide life and career counseling to employees. A study of the role played by process operators in the future work organization was conducted, and another study was started on external reporting of health figures.

In October 2003, the Swedish units took part in the Chemistry Day, an event arranged by the Swedish chemicals industry to increase the general public's knowledge of, and confidence in, the nation's chemicals industry and companies. Open-House programs in Perstorp, Stenungsund and Nol attracted about 2,500 visitors. Perstorp High School, with its special focus on industrial technology programs, is managed by the company and attracted continued attention during the year as a model for other independent schools.

The Group plans to conduct comprehensive work-environment studies on a regular basis, and a new study will be performed during 2004. Internal communications during 2004 related to the company's values will focus particularly on questions concerning the ability to prioritize job assignments and the importance of meeting agreed delivery times, both internally and externally.

Further information about the Perstorp Group's work in the field of human resources and skills development is presented in the Group's HR Report on www.perstorp.com.

Environment, health and safety

The Perstorp Group has a long tradition of working on environmental, health and safety issues, and activities aimed at achieving sustainable development are continuing.

Environmental permits

The Group has production units in eight countries. In Sweden, the Group conducts more than 20 activities that require permits and, for example, Perstorp Specialty Chemicals AB, Perstorp Formox AB and Perstorp Oxo AB have valid permits for the production of polyols, formalin, formic acid and other acids and alcohols. Most of the of Group's operations in Sweden require such permits. Each unit has a legal requirement to submit annual environmental reports for approval by the pertinent supervisory authority.

During 2003, the Environmental Court in Växjö, Sweden, granted new permits for increased production of formalin and pentaerythritol at the complex in Perstorp. The Environmental Court is now addressing an application for a permit to increase production of neopentyl glycol at the complex in Perstorp, and the Court's ruling on the permit application is expected during 2004. A few permit rulings by the Environmental Court in Växjö concerning increased production of formic acid and the establishment of a new production plant for Boltorn® at the complex in Perstorp were decided by the Environmental Appeals Court/Svea Court of Appeal after an appeal was filed by a private individual. The appeal concerning the formic acid plant was rejected. In the other case, the Environmental Board ordered the County Administrative Board, which is the supervisory authority, to conduct additional testing.

The same private individual has also appealed the company's permit rulings for formalin and pentaerythritol. The National Environmental Protection Board has also filed appeals against the two rulings, but only to the part that pertains to terms and conditions for transports. The Perstorp Group has also appealed the transport terms that were handed down in these two judgments.

The unit in Stenungsund received a new permit from the Environmental Board in Vänersborg, Sweden, to use natural gas instead of heavy heating oil (EO 5) as a raw material in the production of synthetic gas, increased production of aldehydes, carboxyl acids, hydrated products and new types of esters based on carboxyl acids and other alcohols.

During 2004, additional applications for increased production are expected to be submitted to the Environmental Board in Växjö, including permits for Perstorp Specialty Chemicals, Perstorp Support AB and Perstorp Formox AB.

The units in Bruchhausen (Germany), Gent (Belgium) and Manchester (USA) received permits during 2003 for minor changes in their operations. These units and the unit in Vapi (India) are also expected to receive additional permits during 2004 for minor changes in their operations.

Most of the Group's production units are certified in accordance with ISO 14001. The unit in Vapi, among others, was certified during 2003.

Environmental impact

The impact of Group production operations on the exterior environment is mainly through emissions into the air and waterways and in the form of waste and noise generation. The Group's environmental report contains more detailed information about Perstorp's environmental impact. The report also presents environmental investments during the year. These included a cooling dam that was built downstream from the wastewater treatment plant at the complex in Perstorp to reduce the temperature of outgoing, treated process water. The cooling

dam also makes it possible to further reduce organic substances and nutrient salts, in addition to other environmental improvements.

A major project was continued during the year at the Group's unit in Stenungsund to replace fuel oil with natural gas as the raw material in synthetic gas production operations. The project is scheduled for completion during the second quarter. The introduction of natural gas will generate several environmental advantages, with particular emphasis on reduced emissions into the air and waterways. Since natural gas contains virtually no sulfur, nitrogen or heavy metals, the plants for sulfur treatment and nitrogen reduction can be shut down. Other environmental advantages include sharply reduced soot deposits, substantially cleaner sludge from the wastewater treatment plant and the elimination of marine transports of fuel oil to Stenungsund.

A minor decontamination project is now in progress at the neopentyl-glycol plant in Perstorp, where finished products have contaminated the groundwater. The project is expected to continue for some time. Discussions were also conducted during 2003 concerning liability for historical soil contamination at two former properties in Bankeryd, Sweden, that have been sold. In one case, the County Administrative Board has issued an order, subject to fines, to conduct a comprehensive soil analysis. Since the company has already decontaminated the property, and was granted approval for decontamination by the County Administrative Board, the company has filed an appeal against the order with the Environmental Court. In the other case, an agreement has been reached with the Municipality of Jönköping.

A minor soil decontamination project now in progress at the unit in Vapi (India) will be continued during 2004. In cooperation with the former owner, a soil analysis is being conducted at the unit in Gent, Belgium (Vyncolit N.V.), concerning historical phenol contaminants.

Health and safety

The Group has a joint management system for Environment, Health and Safety (EHS). Within the framework for this system, most EHS activities are conducted by the individual units within the Group. A special EHS coordinator leads the local activities, and global activities are coordinated by the Corporate EHS function.

A common platform for work with environmental considerations, health issues, accident reporting and risk management is now being developed. During 2003, an existing database for reports of accidents and risks was upgraded to provide access to all Group units, simplify the dissemination of information about risks, events and measures and to facilitate follow-up actions with regard to implemented measures.

At year-end 2003, the Group established a Code of Conduct for EHS activities. The Group has also endorsed Global Impact, an initiative by the United Nations to create global support for nine main principles focused on human rights, work conditions and the environment.

In Perstorp, physical fitness programs have been started as a result of a coordination of external resources with the internal company health service.

To prioritize the Group's injury prevention activities, a general risk identification procedure has been conducted in most Group units. All remaining asbestos deposits in insulation materials and buildings have also been identified, and a program to replace them has been approved.

For more detailed information about the Perstorp Group's work with safety, health and the environment, reference is made to the Environmental Report for 2003, which will be available in the spring of 2004 on the Group's website (www.perstorp.com).

Process of change and business development

Perstorp is implementing an active and systematic process of change to cement its position as a world-class specialty chemicals group. The work is conducted within the framework of a Group-wide program called *nEverest*, which is Perstorp's system for development and implementation of productivity improvements. An important objective of the program is to create a widespread commitment among Group employees to the importance of working with continuous improvements.

A large number of projects are conducted within three main areas comprising production, sales and purchasing. Other projects are focused on increasing Perstorp's understanding of customer demands and requirements. The projects are coordinated to achieve efficiency improvements in the entire chain, from purchasing through production and sales to the Group's customers and their applications of Perstorp's products and services.

Purchasing

The productivity projects within purchasing were started during 2003 after tests of the project methods showed good results during the initial pilot projects. The goal is to reduce the Group's purchasing expenses by as much as 5% within two years. Work in the early stages was concentrated on areas believed to offer the greatest improvement potential, and larger projects include special focus on areas related to specific raw materials, waste material flows, information technology and transports.

Production

Efforts to implement changes within production proceeded according to plan during 2003. The projects have generated positive effects in the form of reduced working capital and lower investment requirements. Due to economic trends, however, capacity utilization has declined and, consequently, most effects of the improvements will not be achieved until capacity utilization increases again.

Several of the new projects that will be conducted during 2004 are intended to capitalize on Perstorp's chemistry and process know-how in order to achieve technical and financial improvements in the Group's production processes.

Sales

Measures within sales activities have consisted mainly of the implementation of new methods used to gauge profitability per customer as well as training programs to increase understanding throughout the organization of the parameters that customers value most.

Peter Karsberg
Director Business Review & Improvement Team

Susanna Frennemo
Head of Corporate IT

BRI Team

To manage, support and monitor the process of change, a new function was created in 2003 directly under corporate management.

The new function, Business Review and Improvement (BRI), consists of five project managers. Their task is to participate in Group-wide efforts to support the management of priority business improvements and strategic projects and to provide support for the implementation of projects designed to introduce change throughout the entire organization. Another task is to develop systematic and effective processes and tools for continuous improvement work in the Group.

Information technology, IT

Activities in the IT area are designed to support the Group's business processes and optimize productivity.

Ongoing efforts are also in progress to standardize applications and equipment to create a central, cost-effective IT organization.

A large number of IT projects were conducted during the past year, as exemplified by the following five projects:

- IT personnel from other Perstorp units were transferred to the central operating unit, Perstorp IT Operations Center (ITOC), which is responsible for the operation of Group-wide systems.
- A global e-mail system, standardized PCs and server environments have been introduced in the Group. The capacity of the Group's global communications network was also increased.
- Two projects designed to reduce the number of ERP (Enterprise Resource Planning) systems in the Group were started. During the first half of 2004, the units in Perstorp

Oxo AB and Vyncolit N.A. Inc will receive upgraded applications software that is now being standardized within the respective business areas.

- A new payroll and personnel administrative system was placed in operation in the Swedish units at year-end 2003.
- A global portal solution was developed for the Group's management and quality assurance system. The system will be placed in operation during the first quarter of 2004.

In conjunction with the annual update of the Group's IT strategy model, special importance was placed on clarifying the distribution of responsibilities between ITOC, application owners and IT users.

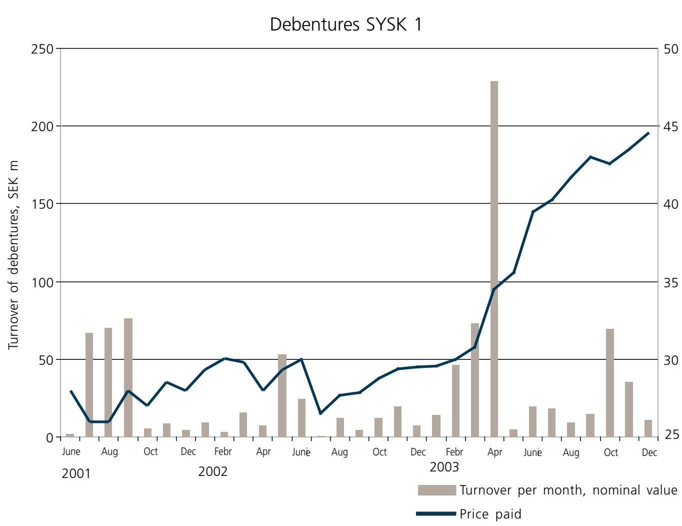
Debenture loan

A portion of the purchase consideration paid to Perstorp shareholders in connection with the acquisition of Perstorp in the summer of 2001 took the form of a subordinated debenture loan issued by Sydsvenska Kemi AB. This loan is registered on Stockholmsbörsen (SOX) under the SYSK 1 designation.

The debenture loan is a zero-coupon instrument for which no interest will be paid before maturity, which will be on June 9, 2011. A debenture loan is a subordinated instrument, which means that, in the event of bankruptcy, repayment of the loan has a lower priority than the payment claims of other creditors and guarantors.

Units in the debenture loan are called debentures. Repayment of the loan will be made at the nominal value of the debentures, which is SEK 51. There are a total of 71,127,266 debentures. The nominal value of the loan on maturity in June 2011 will be SEK 3,627 m. The loan amount at the end of 2003 was SEK 1,367 m.

On Stockholmsbörsen, debentures are priced as a percentage of the nominal value at which the loan will be repaid. The lowest price paid in 2003 was 29.0% in January and the highest price was 44.5% in December. The price at the end of December 2003 was 44.5%, which corresponds to an annual return of slightly more than 11.5%, assuming that the loan is redeemed on maturity. The main factors determining the market's pricing of the debentures are the term remaining until maturity, the general interest-rate climate and the risk premium assigned to Sydsvenska Kemi's ability to generate future profits and cash flow. Not all trading in the debentures is registered on Stockholmsbörsen. The trading in debentures that was registered on Stockholmsbörsen during 2003 corresponded to a total nominal value of SEK 544 m, divided among 464 completed transactions. The nominal value refers to the amount in which the debenture loan will be repaid in June 2011.



On condition that the loans from Svenska Handelsbanken, or other loans that replace these loans, have been repaid in full, the creditors and Sydsvenska Kemi each have the independent right to demand premature redemption of the debenture loan. A prerequisite for this is that Industri Kapital no longer owns or controls (through ownership or agreements) more than 50% of the shares or voting rights in Sydsvenska Kemi, or that Sydsvenska Kemi shares are accepted for listing on Stockholmsbörsen or another stock exchange or listing system.

On condition that the loans mentioned above have been repaid, Sydsvenska Kemi is also entitled to demand premature redemption of the debenture loan on a quarterly basis beginning on September 30, 2004.

In the event of premature redemption, a discount rate of 12% will be used to compute the amount to be repaid.

For comprehensive information about the debenture loan, see the stock exchange prospectus dated April 2, 2001.

Significant effects following year-end

Joint venture in Indonesia terminated

Perstorp Engineering Materials has sold its shareholding in PT Perstorp Bumi Raya, an associated company based in Indonesia, and has thus terminated its joint venture with Kurnia Jaya Raya (Bumi Raya Utama Group).

The intention is that Perstorp will instead supply Asian markets through its own units in Europe and the US, while simultaneously increasing the focus on more advanced materials.

Perstorp Engineering Materials will continue to be represented in Asia through a new regional office in Jakarta.

Efficiency-enhancement program at Nol

In response to weak demand for DEHP plasticizers, Perstorp Oxo has initiated negotiations under Sweden's Worker Codetermination Act regarding a workforce reduction at its plant in Nol, which manufactures a key raw material for DEHP products. An organizational change will result in increased integration of the Nol and Stenungsund plants. About ten employees in Nol are being offered employment at Stenungsund, while approximately ten will be served redundancy notices.

Risk management

This section contains a description of the operational and financial risks to which Perstorp is exposed and how the Group has elected to manage these risks. Since a large part of risk management – not least financial risk management – is determined by the geographical markets in which the Group is active, this section starts with a description of where external customers are mainly located and where the Group's largest assets, in the form of operating capital, are found.

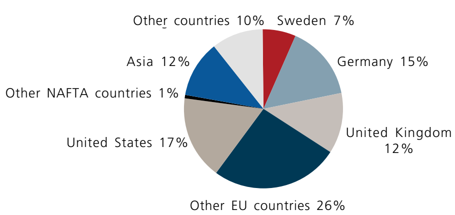
Geographical markets

Perstorp has production units in eight countries in Europe, North America and Asia. Within Specialty Chemicals, production is mainly conducted at three plants in Sweden and in Germany, the United States and India. There are smaller manufacturing units in Italy, Belgium, the Netherlands and South Korea. Within Materials Technology, production is mainly conducted at units in Sweden, Belgium, Italy and the US. Also see map on page 49.

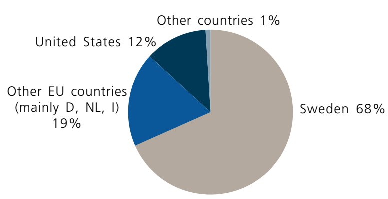
About 60% of the Group's total sales are delivered to customers in the EU, where Germany and the United Kingdom are the largest individual markets. Customers in North America account for nearly 20% of net sales and Asian customers for slightly more than 10%.

Operating capital consists of working capital and tangible and intangible assets. Since consolidated goodwill accounts for a relatively large share of operating capital, also information on operating capital excluding goodwill is presented in the table below. Working capital consists of current interest-free operating receivables and inventories, less current interest-free operating liabilities. As shown in the table below, Swedish units account for nearly 60% of operating capital excluding goodwill, followed by other EU units (mainly in Germany) at slightly more than 25% and the US at 15%. The largest investments during 2003 were made in Sweden, mainly in the natural gas project at Specialty Chemicals' Oxo plant in Stenungsund and capacity and efficiency enhancements within both of the business sectors.

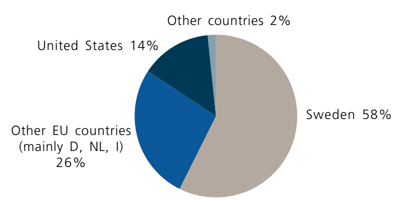
Net sales per market



Operating capital including goodwill



Operating capital excluding goodwill



Net sales per market

Mkr	2003	2002
Sweden	380	580
Germany	883	883
United Kingdom	706	705
Other EU countries	1,479	1,493
United States	971	959
Other NAFTA countries	48	50
Asia	665	628
Other countries	609	700
	5,741	**5,998**

Operating capital and investments per market

	Operating capital incl. goodwill		**Operating capital excl. goodwill**		**Investments excl. acquisitions**	
SEK m	**2003**	**2002**	**2003**	**2002**	**2003**	**2002**
Sweden	5,380	5,624	2,175	2,257	227	70
Other EU countries (mainly D, NL, I)	1,456	1,514	1,002	1,024	52	61
United States	980	1,295	540	713	38	54
Other countries	66	5	66	5	25	5
	7,882	**8,438**	**3,783**	**3,999**	**342**	**190**

Operational risks

Naturally, changes in *business conditions* in the various market segments served by the Group – mainly coating, automotive and plastic-processing industries – and *global macroeconomic developments* in general are of vital importance to the Group's earnings and financial position. In addition, the Group could be affected in various ways by a number of specific risks, of which the following have been identified as the most important: Large individual customers (credit risk and sensitivity to volume) and suppliers (raw materials supply), product substitutes, new competitors, new chemicals legislation and property, liability and business-interruption risks.

The Group's *credit risks* are governed by a general credit policy established within Perstorp that has two main purposes – preventing credit losses and optimizing capital utilization. The credit policy stipulates limits and procedures for the approval and monitoring of credit.

A few customers account for *large shares of sales volumes* for certain Group products, such as basic polyols. In a world characterized by strong global competition and increasingly transparent prices between the various markets, it is of vital importance that the Group maintains a presence in the markets and is able to optimally utilize its production apparatus and other resources. This is how we ensure a competitive cost structure and can offer a high standard of service to our main customers.

The supply of *raw materials* is governed by a Group policy that stipulates that, when the possibility exists, Perstorp should normally use more than one supplier for each of its principal raw materials. However, most of the raw materials for the Swedish plant in Stenungsund are supplied via pipelines from sole suppliers. Although this eliminates storage costs and minimizes transport costs, it simultaneously exposes raw materials supply to a risk, since a production problem affecting the supplier could have immediate effects on the recipient. This risk is managed via what are known as terminal agreements with suppliers, a solution that in turn provides access to many other suppliers. For certain other core raw materials, Group companies sign long-term supply agreements in order to secure supply.

The launch of *new products that could serve as substitutes* in Perstorp's application areas is a constant risk, not least in the chemical sector. Accordingly, one of the Group's strategic objectives is to continuously develop its product range and ensure that new value-generating products are developed as other more mature products approach a phase of decline. A large part of the Group's research and development resources is devoted to finding new application areas for existing products in order to extend their lifecycle and thus increase their value.

Recently, the chemicals sector in Europe and the US has encountered *increased competition from Asian countries,* where price and capital cost levels are usually lower and access to cheap labor is abundant. Since this is a business risk that is expected to become increasingly serious, it is of the utmost importance that the Group reviews its own costs, to ensure a continuous increase in efficiency and competitiveness.

The EU's new *chemicals legislation,* REACH (Registration, Evaluation and Authorization of Chemicals), will subject chemicals groups to new demands in terms of their ability to prove that their products are not associated with health risks. In this area, Perstorp aims to occupy an advanced position by cooperating with the European Chemical Industry Council (CEFIC), since it is important to be able to influence such developments as the application of the new rules on goods exported to the European Union from non-EU countries. Preparations are also under way within the Group to ensure that we will comply with the forthcoming legislation.

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

Financial risks

Perstorp has established a finance policy stipulating how responsibility for financial activities is divided within the Group. The policy also specifies the financial risks that the Group is prepared to take, together with guidelines governing the management of these risks.

Corporate Finance (CF), which is located within the Group company Perstorp Treasury AB, has global responsibility within Perstorp for the Group's financial activities. Accordingly, CF is responsible for ensuring that the necessary specialist competencies exist in this area and for the coordination of the Group's external borrowing and currency hedging. CF has been assigned the task of optimizing borrowing in terms of flexibility and loan terms, while providing the various Group companies with support in finance matters. CF functions as the Group's internal bank with respect to capital supply, cash management, netting and currency hedging. CF does not have a risk mandate of its own. According to the finance policy, Group companies must conduct all their currency transactions via CF.

Financial risks may be divided as follows:

- **Financing risk**
  The risk that maturing loans cannot be refinanced.
- **Interest-rate risk**
  The effect of changes in market interest rates on the Group's net interest items.
- **Currency risk**
  The impact of changes in foreign exchange rates on the Group's earnings and net assets.

Financing risk

The components in the Group's interest-bearing net debt are specified in the table below. Net debt consists in part of a debenture loan that is listed on Stockholmsbörsen and which is described in detail on page 24. The increase of SEK 169 m in the debenture loan's principal amount during 2003 was attributable entirely to capitalized interest.

Net debt, interest-bearing

SEK m	Dec. 31, 2003	Dec. 31, 2002
Svenska Handelsbanken	2,631	3,159
Other bank loans	65	92
Rogers Corporation, financing of acquisition	63	96
Hansol, financing of acquisition	48	-
Financial liabilities, excl. debenture loan	**2 807**	**3 347**
Debenture loan, publicly traded	1,367	1,198
Financial liabilities	**4,174**	**4,545**
Interest-bearing pension liabilities	78	76
Liquid assets	-30	-27
Other interest-bearing receivables	-5	-80
Net debt	**4,217**	**4,514**

Most of the Group's other borrowing is arranged through Svenska Handelsbanken. The loan agreements that Sydsvenska Kemi AB and several subsidiaries have concluded with Svenska Handelsbanken include financial covenants that the Group has to fulfill on a quarterly basis. These covenants pertain to:

- Operating earnings before depreciation in relation to net interest expense
- Net debt (excl. the debenture loan) in relation to operating earnings before depreciation
- Cash flow in relation to interest payments and amortization
- Equity/assets ratio

If these covenants are not fulfilled, the loans have to be renegotiated, which occurred prior to 2004, as it did ahead of the two preceding years.

At the end of 2003, unutilized lines of credit amounted to SEK 1,100 m.

Interest-rate risk

The finance policy stipulates that the fixed interest term within the Group shall be short, normally about 90 days, subject to a minimum of 30 and a maximum of 360 days. This applies to all interest-bearing assets and liabilities, including off balance sheet instruments, such as currency swaps. It is the period of fixed interest that determines the time lag between changes in interest rates and their impact on the Group's net interest expense. At the end of 2003, the average period of fixed interest for financial liabilities excluding the debenture loan was 113 days. The currency composition of net debt is also of significance to the Group's average interest rate. Periods of fixed interest, interest rates and the distribution by currency are presented in the table below. EUR is the most exposed currency from the viewpoint of borrowing.

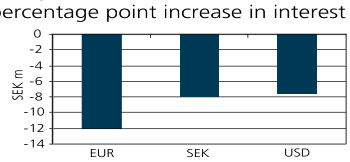
Composition of financial liabilities by currency, December 31, 2003

SEK m	Loans	Swaps	Total	Interest rate, %	Duration days
EUR	1,449	-247	**1,202**	3.8	84
SEK	1,245	-415	**830**	4.6	94
USD	79	674	**753**	3.5	177
Other	34	-12	**22**		
Financial liabilities, excl. debenture loan	**2,807**	**0**	**2,807**	**3.9**	**113**
Debenture loan	1,367	0	1,367	14.1	*)
Financial liabilities	**4,174**	**0**	**4,174**	**7.2**	**n/a**

*) The debenture loan matures in June 2011.

The diagram below shows the effect on net interest items of a one percentage point increase in interest rates in various borrowing currencies. Overall, a general increase of one percentage point in all borrowing currencies would increase the Group's annual interest expense by SEK 28 m.

Impact on net interest items of a one percentage point increase in interest rates



Currency risk

Since the Perstorp Group has considerable flows of currency, earnings and net assets in foreign currencies, exchange-rate changes have an impact on both Group earnings and capital. The Group has decided to manage its currency risks in the manner described below.

Transaction exposure

The Group's finance policy stipulates that within a timeframe of up to 12 months, 75-90% of anticipated flows in foreign currencies are to be hedged using currency forward contracts. Of the flows anticipated over a period of 12-24 months, 25-75% are to be hedged. Contracted flows – mainly for sales of formalin plants – are hedged 100%. Within the framework of the corporate policy, each Group company, in consultation with CF, decides the extent to which hedging shall be undertaken and, when doing so, conducts its forward contract transactions vis-à-vis the internal bank within Perstorp Treasury AB. In relation to external banks, Perstorp Treasury AB is the counterparty in all currency-hedging contracts. Historical flows in foreign currencies are followed up on a quarterly basis by the Group companies, when they simultaneously review and supplement/adjust their rolling 24-month forecasts of flows in foreign currencies and also their currency hedging.

During 2004, the total net exposure, expressed as the sum total of the absolute counter-values for net inflows in each foreign currency, is estimated to amount to approximately SEK 1,735 m (exchange rates at the end of 2003); see table below. Exporting companies in Sweden account for virtually all of the net exposure. The Group's most exposed currency by far is EUR, with a net inflow corresponding to SEK 750 m, the result of a total inflow of SEK 2,570 m and a total outflow of SEK 1,820. As apparent from the description presented above under the Geographical Markets heading, a large part of Perstorp's operating capital (and production units) is located in Sweden, while the proportion of sales in Sweden is relatively limited (7%). Sales to customers in other EU countries are much larger, and these are mainly invoiced in EUR. At the same time, a large portion of purchases of raw materials and energy is priced in EUR. Net exposure to USD corresponds to a net inflow of SEK 662 m, the result of an inflow of SEK 850 m and an outflow of SEK 188 m. The inflow mainly derives from exports from Swedish units to customers in the US and Asia and to Group companies in the US. Another exposed currency is pound sterling (GBP), mainly resulting from exports from Sweden to the United Kingdom. As a result of the Group's increased involvement in Japan, via the associated company Koei-Perstorp Company Ltd, exposure to JPY is expected to increase from a low level during 2003.

For forward contracts maturing in 2004 and which were not assigned a value in 2003 in either the income statement or shareholders' equity, there was a positive difference of SEK 66 m, of which USD accounted for SEK 50 m, between the fair value and the value based on the forward contract rate. For forward contracts with expiration dates during 2005, the difference was also positive in an amount of SEK 18 m.

The operations-related exchange rate differences of SEK 140 m (30) reported within Other operational revenues and expenses in the income statement, mainly pertained to the difference between the exchange rate at the date of transaction and the forward rate for hedged flows. A smaller portion pertained to exchange-rate differences between the exchange rate on the transaction date and the exchange rate on the payment date, or alternatively the year-end exchange rate, for net flows that were not hedged.

The Group's hedging policy entails that exchange-rate changes are to impact on the Group's payment flows and earnings following a time lag – a period that can be used to adapt the Group to the new market conditions.

Transaction exposure and currency hedging

	Flows in 2004				Flows in 2005			
	Expo-sure	Counter-value in SEK m Forward contracts	Percentage hedged	Average forward exchange rate	Expo-sure	Counter value in SEK m Forward contracts	Percentage hedged	Average forward exchange rate
EUR	750	676	90%	9.28	683	327	48%	9.36
USD	662	500	76%	8.61	661	165	25%	7.66
GBP	233	190	82%	13.52	237	85	36%	12.55
JPY	86	68	79%	0.07	135	41	30%	0.07
NOK	4	3	75%	1.15	4	1	25%	1.14
Total	**1,735**	**1,437**	83%		**1,720**	**619**	36%	

Translation exposure

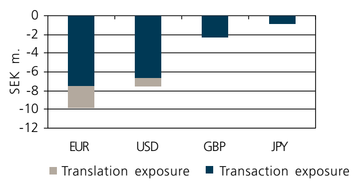
The Group's *earnings* in SEK are also affected by the fact that the income statements of foreign Group companies are consolidated at different exchange rates at different times. Translation of the companies' financial accounts to SEK is conducted in accordance with the current method, which means that income-statement items are translated at average exchange rates during the fiscal year. A one percentage point appreciation of SEK has a negative consolidation effect of SEK 3 m on the Group's EBITDA (also see diagram below) and a corresponding negative effect of SEK 25 m on net sales.

If no hedging transactions were conducted, a one percentage point appreciation of SEK in relation to all of the other currencies would have a negative combined *transaction and translation effect* of SEK 20 m on consolidated earnings before depreciation/amortization (EBITDA). The corresponding negative effect on net sales is SEK 57 m.

The foreign subsidiaries' *assets* minus their liabilities constitute a net investment in foreign currency that becomes exposed to translation effects in connection with exchange-rate movements. Perstorp has decided to hedge a major portion of this exposure by raising loans, mainly in EUR and USD, in order to protect the Group's shareholders' equity in SEK.

The table below shows the Group's net assets in foreign currencies, the proportion which has been hedged and the value of the exposed net assets.

Impact on EBITDA of 1% appreciation of SEK, before hedging



Translation exposure of net assets

SEK m	Net assets in foreign currency, before hedging	Hedged amount before tax	Exposed net assets
EUR	1,325	-1,163	162
USD	689	-675	14
KRW	22		22
GBP	8		8
JPY	3		3
SGD	1		1
INR	-29		-29
Total	**2,019**	**-1,838**	**181**

Financial accounts

Income Statements

SEK m	Note	Group 2003	Group 2002	Parent Company 2003	Parent Company 2002
Net sales		**5,741**	**5,998**	**38**	**11**
Cost of goods sold	1	-4,713	-4,561	-	-
Gross earnings		**1,028**	**1,437**	**38**	**11**
Selling expenses	1	-241	-235		
Administrative expenses	1	-319	-365	-63	-38
Research and development costs	1	-88	-71		
Other operating revenues and expenses	2	211	25	1	-1
Amortization of intangible assets	1	-248	-255	-	-
Result from participations in associated companies	3	0	0	-	-
Operating earnings (EBIT)		**343**	**536**	**-24**	**-28**
Financial items:					
Interest income and similar items	5	11	27	1	2
Interest expense and similar items	6	-353	-411	-304	-338
Write-down/reversal of write-down of financial holdings (Pergo)		3	26	3	26
Group contributions received				327	493
Earnings before taxes		**4**	**178**	**3**	**155**
Taxes	7	29	-142	0	-36
Minority share in net profit	8	6	1	-	-
Net earnings for the year		**39**	**37**	**3**	**119**

Group - Condensed income statement, 2000-2003

SEK m	2000 1)	2001 1)	2002	2003
Net sales	**6,923**	**7,068**	**5,998**	**5,741**
Cost of goods sold	-5,641	-5,822	-4,561	-4,713
Gross earnings	**1,282**	**1,246**	**1,437**	**1,028**
Selling, R&D and administrative expenses	-790	-828	-671	-648
Other operating revenues and expenses	59	62	25	211
Amortization of intangible assets	-252	-259	-255	-248
Operating earnings (EBIT)	**299**	**221**	**536**	**343**
% of net sales	4.3%	3.1%	8.9%	6.0%
Financial income and expense			-384	-342
Write-down/reversal of write-down of financial holdings (Pergo)			26	3
Earnings before taxes			**178**	**4**
Taxes			-142	29
Minority share in net profit			1	6
Net earnings for the year			**37**	**39**
Operating earnings before depreciation and amortization (EBITDA)	**904**	**845**	**1,121**	**922**
% of net sales	13.1%	12.0%	18.7%	16.1%

1) The figures for 2000 and 2001 are pro forma, because the Sydsvenska Kemi Group was not formed until June 2001.
The figures for 2000 and 2001 include the subsequently divested Industrial Resin operations, which accounted for sales of approximately SEK 1,000 m in those years and for EBITDA of SEK 51 m for 2000 and of SEK 73 m for 2001, as well as annual depreciation of approximately SEK 40 m.

Market and economic conditions in 2003

Global economic development was weak during the year, resulting in reduced demand for several Group products. During the first half of the year, general uncertainty resulting from the war in Iraq had an adverse impact. During the second half of the year, economic conditions in Europe remained weak, while demand increased in China and several other Asian countries.

Sharp price fluctuations were noted for several of the Group's raw materials, with the overall result being a price increase. Raw materials account for approximately 60% of the Group's total purchases of goods, including energy and transport costs. The increased raw-material prices had an adverse impact on margins compared with 2002.

Exchange rates for the US dollar declined sharply to a level that was much lower than in the preceding year.

Accordingly, consolidated earnings were adversely affected by lower sales volumes, the weaker US dollar and higher raw-material prices. Although most of the Group's net inflow in foreign currencies is hedged, exchange-rate changes had an adverse impact of approximately SEK 120 m on operating earnings, compared with 2002. This was mainly because parts of flows in foreign currencies were not hedged and because currency-hedging rates were lower in 2003 compared with 2002.

Net sales

Net sales amounted to SEK 5,741 m (5,998). In relation to the preceding year, this represents a decrease of 4%. The Group's overall sales volume was 4% lower than in the preceding year. The downturn derived mainly from the Group's basic products, while sales of several specialty products continued to rise. One percentage point of the lost volume was offset by the net effect of acquisitions and divestments (divestment of Construction Chemicals, in 2002, and acquisition of Moldable Composites operations). Higher price levels had a favorable effect of 6% on sales, which was offset by negative effects of 7% due to the appreciation of the Swedish krona, primarily against the US dollar. Accordingly, it is estimated that exchange-rate changes had an adverse impact of more than SEK 400 m on the Group's net sales, mainly deriving from sales from Swedish units to customers in the United States, Asia and the United Kingdom, as well as from translation effects upon consolidation.

As described in the Risk Management section, most of the Group's flows in various foreign currencies are hedged for periods of 12 months in advance and a somewhat smaller portion of flows for a period of 13-24 months. The accounting principle applied for revenues and costs in a currency other than the local one entails using the exchange rate on the transaction date for reporting sales and the cost of goods sold. The exchange-rate differences that arise because the hedged currency flows arrive at an exchange rate that differs from the exchange rate on the transaction date and because the surplus portion, meaning the amount that is not hedged, arrives at the exchange rate on the payment date (alternatively, the year-end exchange rate in the case of receivables/ liabilities that have not been settled), are reported as Other revenues and expenses in the income statement.

The Parent Company's sales consist mainly of internal invoicing of costs for global insurance premiums.

Operating earnings (EBIT)

Operating earnings amounted to SEK 343 m (536). Accordingly, the operating margin of 6.0% was lower than the 8.9% reported in the preceding year. The main reasons for the lower earnings were exchange-rate effects, reduced volumes and pressure on margins due to higher raw-material prices. In addition, Oxo operations underwent an extensive scheduled maintenance shutdown during the fourth quarter. In total, it is estimated that the maintenance costs and the effects of the production shutdown, in the form of limited supply of products, had an adverse impact of nearly SEK 50 m on consolidated earnings. The net effect of acquired and divested units was positive. As described above, Other operating revenues and expenses mainly include exchange-rate differences, which amounted to SEK 140 m (30) and derived mainly from hedging activities and a capital gain of SEK 13 m on the sale of a property plus positive changes of SEK 34 m in provisions related to prior year divestments.

The Parent Company's EBIT consists mainly of costs for Group management and staff services.

Depreciation and amortization

Depreciation and amortization amounted to SEK 575 m (585). Write-downs of SEK 4 m were posted, which are included in Other operating revenues and expenses and are reversed when calculating EBITDA.

Net financial items

Net financial items, excluding reversed write-downs of financial holdings, amounted to an expense of SEK 342 m (expense: 384), of which capitalized interest on the debenture loan accounted for SEK 169 m (148). Other interest expense decreased as a result of reduced borrowing and lower interest rates, with the latter factor partly due to an increased proportion of borrowing in EUR and USD. Following a market valuation of the Pergo AB shareholding at the end of 2003, a previous write-down was reversed by SEK 3 m (reversal: 26).

Earnings before taxes

Earnings before taxes amounted to SEK 4 m (178).

Taxes

A revaluation of tax loss carryforwards in Germany, which had not been assigned a value in the 2002 accounts due to proposed implementation of restrictions on their utilization, had a favorable impact of SEK 115 m on tax costs for the year. As a result of the latest decision (December 2003) regarding the utilization of tax loss carryforwards in Germany, we have concluded, in consultation with our tax advisers, that it will be possible to fully utilize the carryforwards. Adjusted for this revaluation, tax costs for the year amounted to SEK 86 m (142). The main reason for the Group's high tax cost in relation to earnings after net financial items is that amortization of consolidated goodwill is not tax-deductible.

Minority share in net profit

The minority share in net profit pertains to the minority shareholders' share in the loss of YLA Inc, a company in which Sydsvenska Kemi has a 73.5% interest and where inventory write-downs were posted in 2003.

Income statement by quarter

SEK m	2003 Q 1	2003 Q 2	2003 Q 3	2003 Q 4	2003 Full year	2002 Q 1	2002 Q 2	2002 Q 3	2002 Q 4	2002 Full year
Net sales	**1,532**	**1,491**	**1,425**	**1,293**	**5,741**	**1,453**	**1,629**	**1,505**	**1,411**	**5,998**
Cost of goods sold	-1,210	-1,173	-1,200	-1,130	-4,713	-1,098	-1,195	-1,163	-1,105	-4,561
Gross earnings	**322**	**318**	**225**	**163**	**1 028**	**355**	**434**	**342**	**306**	**1,437**
Selling, R&D and administrative expenses	-175	-175	-163	-135	-648	-174	-180	-167	-150	-671
Other operating revenues and expenses	38	36	84	53	211	-1	-12	44	-6	25
Amortization of intangible assets	-63	-63	-60	-62	-248	-64	-63	-64	-64	-255
Result from participations in associated companies	-1	0	-3	4	0	0	0	0	0	0
Operating earnings (EBIT)	**121**	**116**	**83**	**23**	**343**	**116**	**179**	**155**	**86**	**536**
Financial income and expense	-91	-84	-82	-85	-342	-98	-96	-108	-82	-384
Write-down/reversal of write-down of financial holdings (Pergo)	-29	-18	26	24	3	-	-	-	26	26
Earnings/loss before taxes	**1**	**14**	**27**	**-38**	**4**	**18**	**83**	**47**	**30**	**178**
Taxes	-15	-25	-31	100	29	-26	-47	-35	-34	-142
Minority share in net profit for the year	0	0	3	3	6	0	-1	0	2	1
Net earnings/loss	**-14**	**-11**	**-1**	**65**	**39**	**-8**	**35**	**12**	**-2**	**37**
Operating earnings before depreciation and amortization (EBITDA)	**270**	**261**	**227**	**164**	**922**	**264**	**327**	**302**	**228**	**1,121**

Balance Sheets

SEK m	Note	Group Dec 31, 2003	Group Dec 31, 2002	Parent Company Dec 31, 2003	Parent Company Dec 31, 2002
ASSETS					
Fixed assets					
Intangible fixed assets	9	4,120	4,444	-	-
Tangible fixed assets	10	3,138	3,220	-	-
Financial fixed assets					
Deferred tax asset	7	167	60	-	-
Participations in Group companies	11	-	-	6,865	6,866
Participations in associated companies	12	2	0	-	-
Other shares and participations	13	123	120	123	120
Long-term receivables from Group companies		-	-	-	2
Other long-term receivables	14	68	102	30	38
Total financial fixed assets		**360**	**282**	**7,018**	**7,026**
Inventories	15	**680**	**694**	**-**	**-**
Current receivables					
Accounts receivable	16	854	980	-	-
Operating receivables from Group companies		-	-	2	-
Current fin. receivables from Group companies		-	-	1,146	493
Other current receivables	17	211	303	-	1
Total current receivables		**1,065**	**1,283**	**1,148**	**494**
Cash and Bank		**30**	**27**	**-**	**-**
TOTAL ASSETS		**9,393**	**9,950**	**8,166**	**7,520**
SHAREHOLDERS' EQUITY AND LIABILITIES					
Shareholders' equity					
Restricted shareholders' equity					
Share capital		300	300	300	300
Restricted reserves		12	-	12	-
Total restricted shareholders' equity		**312**	**300**	**312**	**300**
Unrestricted shareholders' equity					
Unrestricted reserves		2,778	2,836	3,193	3,086
Net profit for the year		39	37	3	119
Total unrestricted shareholders' equity		**2,817**	**2,873**	**3,196**	**3,205**
Total shareholders' equity		**3,129**	**3,173**	**3,508**	**3,505**
Minority interests	18	**11**	**3**	**-**	**-**
Provisions					
Deferred tax provisions	7	517	464	-	-
Pension provisions, PRI		62	58	-	-
Pension provisions, others		102	115	-	-
Other provisions	19	263	404	-	-
Total provisions		**944**	**1,041**	**-**	**-**
Long-term liabilities					
Debenture loan	21	1,367	1,198	1,367	1,198
Long-term liabilities to Group companies		-	-	149	150
Other long-term liabilities	20	2,332	2,890	2,155	1,145
Total long-term liabilities		**3,699**	**4,088**	**3,671**	**2,493**
Current operating liabilities					
Accounts payable		601	611	1	2
Current operating liab. to Group companies		-	-	1	2
Other current operating liabilities	22	534	577	7	10
Total current operating liabilities		**1,135**	**1,188**	**9**	**14**
Current financial liabilities					
Current financial liab. to Group companies		-	-	578	1,128
Other current financial liabilities	20	475	457	400	380
Total current financial liabilities		**475**	**457**	**978**	**1,508**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**9,393**	**9,950**	**8,166**	**7,520**
Pledged assets	23	8,207	8,236	6,865	6,866
Contingent liabilities	24	29	272	312	794

Fixed assets

Goodwill that arose in the consolidated accounts in connection with the Sydsvenska Kemi Group's formation in June 2001 accounts for most of, or SEK 3,910 m. of the intangible assets. This goodwill, like the goodwill that arose on the acquisition of Moldable Composites operations in 2002, pertains to strategic acquisitions and is amortized over 20 years. Impairment tests are conducted to ascertain whether the book value of goodwill is defensible.

Investments in fixed assets amounted to SEK 378 m in 2003, with the largest individual projects involving the introduction of natural gas to replace crude oil at the plant in Stenungsund, acquisitions of fixed assets for the Hansol-Perstorp Co. Ltd joint venture and capacity and efficiency enhancement within both Perstorp Specialty Chemicals and Perstorp Materials Technology. Depreciation of tangible fixed assets amounted to SEK 327 m.

Financial fixed assets

Deferred tax assets pertain mainly to tax loss carryforwards in Germany and Sweden. Other long-term receivables include capitalized costs for raising the loans to finance Sydsvenska Kemi´s acquisition of the Perstorp and Oxo Groups.

Accounts receivable

Accounts receivable were unusually low at year-end 2003, as a result of relatively low net sales during the fourth quarter and the weak USD.

Shareholders' equity

Changes in shareholders' equity are specified under a separate heading in the Financial Accounts section.

Provisions

Other provisions largely pertain to supplementary purchase considerations for the acquisition of Moldable Composites operations in 2002, the amount of which depends on the earnings trend for these operations. A provision has been posted for the maximum possible purchase consideration. Provisions pertaining to prior divestments of operations have also been posted at Group level.

Financial liabilities

The Group's borrowing and net debt are described in detail in the Risk Management section.

Operating liabilities

In addition to accounts payable, operating liabilities mainly comprise personnel-related liabilities, prepayments from customers and value added taxes.

Capital employed

Capital employed, defined as total assets less interest-free liabilities, decreased by SEK 407 m to SEK 7,390 m during the year, due in part to the Swedish krona's appreciation in relation to mainly the US dollar and Euro. Working capital in local currencies declined by slightly more than SEK 100 m during the year. Investments during the year were lower than depreciation by a net amount of SEK 165 m.

Working capital

Working capital, defined as operating receivables less operating liabilities, decreased by SEK 151 m to SEK 623 m during the year, which is a historically very low level. The reasons were that accounts receivable at year-end were low, while the weak USD reduced working capital on translation to SEK. Compared with the end of 2002, overall exchange-rate changes had a negative effect of slightly more than SEK 40 m on working capital. Favorable orders for formalin projects within Perstorp Formox resulted in an increase in customer prepayments compared with 2002, which also reduced tied-up working capital.

Cash Flow Statements

SEK m	Group 2003	Group 2002	Parent Company 2003	Parent Company 2002
Operating activities				
Operating profit	343	536	-24	-28
Adjustment items:				
Depreciation/amortization	575	585	-	-
Other[1]	-42	-59	-	-1
Interest received	6	20	-	2
Interest paid	-178	-234	-125	-181
Group contributions received	-	-	493	-
Paid income tax	-57	-13	0	0
Cash flow from operating activities before changes in working capital	647	835	344	-208
Changes in working capital				
Increase (-)/decrease (+) in inventories	-17	-47	-	-
Increase (-)/decrease (+) in current receivables	111	-80	-	-
Increase (+)/decrease (-) in current liabilities	13	62	-5	-3
CASH FLOW FROM OPERATING ACTIVITIES	**754**	**770**	**339**	**-211**
Investing activities				
Acquisition of net assets of subsidiaries	-71[2]	-96	-	-
Acquisition of shares in Group companies	-	-	-	-25
Acquisition of financial fixed assets	-	-56	-	-56
Acquisition of tangible and intangible fixed assets	-331	-181	-	-
Lending to Group companies	-	-	-818	-
Sale of net assets of subsidiaries	20[3]	331	-	-
Sale of financial fixed assets	-	196	-	-
Sale of tangible fixed assets	7	11	-	-
Change in financial receivables	49	2	-	-
CASH FLOW FROM INVESTING ACTIVITIES	**-326**	**207**	**-818**	**-81**
Financial activities				
Payment from minority shareholders	12	3	-	-
New loans raised, Group companies	-	-	-	698
New loans raised, external	-	-	1,410	-
Amortization of debt, Group companies	-	-	-551	-
Amortization of debt, external	-	-	-380	-475
Change in utilization of credits, Group	-541	-1,049	-	-
Realized gain/loss on hedging instruments, pertaining to fixed assets in foreign currencies	107	-	-	-
CASH FLOW FROM FINANCIAL ACTIVITIES	**-422**	**-1,046**	**479**	**223**
CHANGE IN LIQUID FUNDS, INCLUDING SHORT-TERM INVESTMENTS	**6**	**-69**	**0**	**-69**
Liquid funds on January 1, incl. short-term investments	27	96	0	69
Translation difference in liquid funds	-3	0	-	-
LIQUID FUNDS ON DECEMBER 31	**30**	**27**	**0**	**0**

1) Pertains mainly to changes in provisions.

2) Consists of SEK 44 m pertaining to supplementary purchase consideration and amortization to Rogers Corporation due to the acquisition of Moldable Composites operations and of SEK 27 m to an installment payment for the purchase of fixed assets for the associated company Hansol-Perstorp Co Ltd.

3) Final payment from purchaser of Construction Chemicals, an operation that was sold in 2002.

Cash flow from **operating activities** amounted to SEK 754 m (770). Earnings of SEK 922 m before depreciation and write-downs were countered mainly by interest payments and taxes, plus payment of a bank guarantee for the Group's associated company in Indonesia (reported under Other). Working capital was reduced by SEK 107 m during the year, due mainly to a decrease in accounts receivable.

Cash flow from **investing activities** was negative in an amount of SEK 326 m (positive: 207). Investments in fixed assets amounted to SEK 331 m (181). The largest individual investment was in a project aimed at using natural gas to replace crude oil at the plant in Stenungsund. Investments in environmental and safety enhancements were also implemented within Perstorp Specialty Chemicals and Perstorp Materials Technology. A supplementary purchase consideration and amortization pertaining to the acquisition of Moldable Composites operations in 2002 and the purchase of fixed assets for the Hansol- Perstorp Co. Ltd joint venture in Korea are reported under Acquisition of net assets of subsidiaries. This was offset by total payments of SEK 65 m for outstanding receivables pertaining to divested operations. In 2002, cash flow from investing operations included cash flow generated from the divestments of resin operations and the shareholding in Perstorp Clariant AB.

Utilization of the Group's **credit facilities** was reduced by SEK 541 m during the year. Available lines of credit were reduced by SEK 380 m, in accordance with the amortization schedule. At the end of the year, unutilized lines of credit amounted to SEK 1,100 m.

Shareholders´ equity 2003

Group SEK m	**Share capital**	**Restricted reserves**	**Unrestricted reserves**	**Net earnings for the year**	**Total**
Shareholders' equity, December 31, 2002	300	-	2,836	37	3,173
Translation difference					
-change during the year	-	-	-160	-	-160
-less effect of hedging measures during the year	-	-	107	-	107
-tax effect of hedging measures during the year	-	-	-30	-	-30
Reversal of net profit for preceding year	-	-	37	-37	-
Transfers between unrestricted and restricted shareholders' equity	-	12	-12	-	-
Net earnings for the year	-	-	-	39	39
Shareholders' equity, December 31, 2003	300	12	2,778	39	3,129

Parent Company SEK m	**Share capital**	**Statutory reserve**	**Unrestricted reserves**	**Net earnings for the year**	**Total**
Shareholders' equity, December 31, 2002	300	-	3,086	119	3,505
Reversal of net profit for preceding year	-	-	119	-119	-
Allocation to statutory reserves	-	12	-12	-	-
Net earnings for the year	-	-	-	3	3
Shareholders' equity, December 31, 2003	300	12	3,193	3	3,508

There are 30,000,000 shares with a par value of SEK 10 each.

Shareholders´ equity 2002

Group SEK m	**Share capital**	**Restricted reserves**	**Unrestricted reserves**	**Net earnings for the year**	**Total**
Shareholders' equity, December 31, 2001	300	41	3,390	-345	3,386
Translation difference:	-				
-change during the year	-	-	-282	-	-282
-less effect of hedging measures during the year	-	-	61	-	61
-tax effect of hedging measures during the year	-	-	-17	-	-17
-reversal of translation differences, divested companies	-	-	-12	-	-12
Reversal of net loss for preceding year	-	-	-345	345	-
Transfers between unrestricted and restricted shareholders' equity	-	-41	41	-	-
Net earnings for the year	-	-	-	37	37
Shareholders' equity, December 31, 2002	300	-	2,836	37	3,173

Parent Company SEK m	**Share capital**	**Statutory reserve**	**Unrestricted reserves**	**Net earnings for the year**	**Total**
Shareholders' equity, December 31, 2001	300	-	3,390	-304	3,386
Reversal of net loss for preceding year	-	-	-304	304	-
Net earnings for the year	-	-	-	119	119
Shareholders' equity, December 31, 2002	300	-	3,086	119	3,505

There are 30,000,000 shares with a par value of SEK 10 each.

Accounting principles and definitions

Amounts in SEK millions (SEK m), unless otherwise stated.

Definitions of key data

Margin ratios

Operating margin

Operating earnings after depreciation as a percentage of net sales.

Operating margin before depreciation

Operating earnings before depreciation as a percentage of net sales.

Capital ratios

Average capital

Based on all monthly balances during the year.

Working capital

Operating receivables less operating liabilities.

Operating capital

Working capital plus fixed assets.

Capital employed

Total assets less interest-free liabilities.

Net debt

Interest-bearing liabilities less financial interest-bearing receivables.

Financial ratios

Debt/equity ratio

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

Equity ratio

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

Return ratios

Return on capital employed

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

Return on equity

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

The Financial statement have been prepared in accordance with generally accepted accounting principles in Sweden, which means that Sydsvenska Kemi complies with the Swedish Financial Accounting Standards Council's recommendations and statements and the Annual Accounts Act. During 2003, a program was conducted aimed at aligning the Group's financial reporting with International Financial Reporting Standards (IFRS). Perstorp intends to comply with IFRS as of January 1, 2005 at the latest.

Change in accounting principles during the year

During the financial year, the Financial Accounting Standards Council recommendations that had become applicable up to January 1, 2003 were applied. The new recommendations that became effective on January 1, 2003 did not affect earnings for 2003 or any prior year. On the other hand, the contents and structure of the 2003 Annual Report were affected by the introduction of RR22 Presentation of Financial statements, RR25 Segment reporting and RR27 Financial statements: Disclosure and presentation, mainly in that the information provided has been expanded in terms of risk management and primary and secondary segments.

Principles for consolidation

The consolidated accounts have been prepared in accordance with the purchase method, whereby the shareholders' equity of subsidiaries at the date of acquisition is eliminated completely. Accordingly, the Group's shareholders' equity includes only the portion of equity in subsidiaries that was added after the date of acquisition. Assets, provisions and liabilities in acquired companies were entered in the consolidated accounts at market value. If the acquisition value of shares in subsidiaries in the consolidated accounts exceeds the value of the subsidiaries' net assets entered in the acquisition balance sheet, the difference is recorded as goodwill arising on consolidation.

Earnings in companies that were acquired/divested during a financial year are only included in the consolidated income statement for that portion of the year in which the companies concerned belonged to the Group, or up to the date of divestment, respectively.

The consolidated accounts include the Parent Company Sydsvenska Kemi AB and the companies in which the Parent Company directly or indirectly holds shares carrying more than 50% of the voting rights for all shares, or has the sole controlling interest for some other reason. Shareholdings in other companies that correspond to between 20% and 50% of the share capital and which are long-term investments are recorded as associated companies and thereby consolidated in accordance with the equity method. Accordingly, the participations are reported at acquisition value at the date of acquisition, which is adjusted by the Group's share of the change in the associated company's net assets. However, the book value of an associated company can never be negative in the consolidated accounts. Participations in the associated companies' results after financial items are reported in the Group's operating earnings. Participations in the taxes of associated companies are reported in the Group's tax costs.

Operations over which Sydsvenska Kemi and one or more co-owners exercise joint control are classified as joint ventures. Apart from the holding in PT Perstorp Bumi Raya, Indonesia, which was divested subsequent to the year-end, there was one such company at the end of 2003, which was owned jointly with Koei Chemical Company (Japan) and which markets and sells specialty chemical products mainly in the Japanese market. Joint ventures are consolidated in accordance with the equity method.

Revenue recognition

Net sales include the total invoiced value of products delivered and services rendered, less direct discounts and value added tax. Revenues from sales of products are recorded when the risks associated with the products are transferred to the buyer.

The exchange rate prevailing on the transaction date is used for translating sales in currencies other than the company's reporting currency.

Sales revenues and earnings from sales of formalin plants are reported in accordance with RR10, Contracts and Similar Assignments, which entails that revenues and costs are reported in the income statement as a percentage of completion. If total contract costs are expected to exceed total contract revenues, the excess amount is expensed immediately.

Translation of foreign subsidiary accounts

Since all of the foreign subsidiaries within Sydsvenska Kemi, apart from a Belgian branch of Perstorp Oxo Belgium AB, are classified as independent companies, their accounts are translated to SEK using the current method. According to this method, all income-statement items are translated at average exchange rates for the year and all balance-sheet items are translated at year-end exchange rates. The accounts of the Belgian branch, which is regarded as an integrated part of foreign operations, are translated using the monetary method. According to this method, monetary assets and liabilities in foreign currency are translated at year-end exchange rates, while non-monetary assets and liabilities are translated at exchange rates applying on the acquisition date.

Any changes in Group equity caused by the use of different closing exchange rates between years are entered directly in equity. To a large extent, net assets in foreign subsidiaries are hedged. Exchange-rate differences resulting from hedging are reported after tax against translation differences in these subsidiaries' shareholders' equity.

Transactions in foreign currency

Transactions in foreign currency, meaning a currency other than the company's reporting currency, are recorded at the exchange rate prevailing on the transaction date. Receivables and liabilities in foreign currency are valued at the year-end exchange rate. In cases where the value of accounts receivable and accounts payable has been hedged through forward contracts, the forward rate is used when valuing the underlying receivable or liability. The exchange-rate differences resulting from this in commercial operations, meaning those that affect sales and purchases, are reported under Other revenues and expenses within Operating earnings. Exchange-rate differences pertaining to financing operations are included in net financial items.

Tangible fixed assets

Tangible fixed assets are recorded at their acquisition cost less accumulated depreciation according to plan. Write-downs are recorded in case of a permanent diminution in value. RR 17 Write-downs is applied, which means that if there is an indication that an asset's value has declined, an impairment test is performed to determine the assets' recoverable amount. If the book amount exceeds the recoverable amount, a write-down to recoverable amount is recorded.

Depreciation according to plan is on a straight line basis, based on the acquisition cost of the assets and their estimated useful life. The following depreciation periods are used:

Buildings	20-50 years
Land improvements	10-35 years
Machinery and equipment	10-30 years
Computers, molds and vehicles	max 5 years

Land and construction in progress are not depreciated.

Interest on the capital borrowed to finance investments in an asset is not included in the acquisition value.

Intangible fixed assets

Goodwill arises when the acquisition cost of a subsidiary or associated company exceeds the Group's share in the fair value of the acquired company's net assets. Goodwill is amortized on a straight line basis over a period of 5-20 years. The estimated useful life for long-term strategic investments is 20 years. Sydsvenska Kemi AB's acquisition of the Perstorp and Oxo groups are strategic holdings that provide Sydsvenska Kemi with world-leading positions within a number of specialty chemicals and materials technology segments. The acquisition of Moldable Composites operations within Materials Technology is also a strategic holding, since this provides the Group with a new, important platform in North America for the material developed for the European automotive industry.

RR 15 Intangible Assets is applied for reporting research and development costs, which means that research costs are expensed directly as they arise, while costs for the development of new products/processes are, under certain conditions, capitalized as intangible assets. The preconditions are that the costs must be identifiable and the probability that they will generate economic benefits in the future must be high. Other costs for development projects are expensed as they arise. Costs previously expensed cannot be capitalized in subsequent periods. The amortization of capitalized development costs commences when the product is placed in commercial production or the process starts to be used for commercial production. The amortization period may not exceed five years.

Costs for software – acquisition, development and maintenance – are normally expensed as they arise. Costs for major software products that are expected to result in economic benefits for an extended period and which have an expected useful life of at least three years are recorded as intangible fixed assets and amortized on a straight line basis over a period of 3-5 years.

Other intangible assets, such as acquired trademarks, distribution rights, patents and licenses are capitalized and amortized on a straight line basis over a period of 3-7 years.

Corresponding internally developed intangible assets are expensed as they arise.

Leasing

Costs attributable to leasing contracts under which Sydsvenska Kemi is the lessee are normally expensed straight line over the contractual period. In cases where, in all essential respects, leasing contracts result in the Group as the lessee enjoying the economic benefits and carrying the economic risks associated with the leased asset, the items classify as financial leases. Such leases are recorded as fixed assets in the balance sheet, which is matched by obligations to pay future lease charges. In this context, the costs are reported as depreciation and interest expense.

Inventories

Inventories are valued at the lower of cost and net realizable value. Cost is calculated in accordance with the First in, First out principle.

Receivables

Receivables are recorded in the amount expected to be received after individual assessment.

Employee benefits

During 2003, studies were made of the Group's pension plans in preparation for the introduction of RR 29 Employee Benefits as of January 1, 2004. Most Group companies only have defined-contribution pension plans but some of the pension plans of the subsidiaries in the United States, Germany, Belgium and Sweden are defined-benefit plans. As in prior years, pension obligations in the 2003 accounts were valued in accordance with local regulations in each particular country. The premiums for defined-benefit plans vary in accordance with the legal, fiscal and economic conditions pertaining in the country concerned. The size of the benefit is based on such criteria as the number of years of service and salary level.

Provisions

Provisions are recorded when Sydsvenska Kemi has a commitment – legal or informal – as a result of past events that have occurred, when it is probable that an outflow of resources will be required to settle the commitment and when it is possible to reliably estimate the amount. The largest individual item that Sydsvenska Kemi reports as a provision is the supplementary purchase consideration pertaining to the acquisition of operations from Rogers Corp. in 2002. The amount of the supplementary purchase consideration is contingent upon the acquired operation's future earnings trend.

Income taxes

Reported income taxes comprise current tax, adjustments of prior year current tax, changes in deferred tax, and participations in the tax of associated companies. The valuation of tax liabilities and receivables is conducted in accordance with the tax rules and tax rates that have been decided or have been announced and, with the greatest probability, will be enforced.

Deferred tax is calculated in accordance with the balance sheet method on all significant temporary differences between book value and tax base of assets and liabilities. Deferred tax assets attributable to unused tax losses are only recorded if the probability that the tax losses will be utilized within the foreseeable future is regarded as high. Tax is calculated based on the current tax rate in the countries.

In the 2003 accounts, tax losses in Germany have been entered at their full value, being slightly more than EUR 17 m. In the preceding year's accounts, the tax losses were only assigned a value that corresponded to the portion that had been utilized up to 2002, due to proposed changes in German tax legislation that were to have resulted in restrictions on their utilization in the future. These changes were not implemented in 2003. As a result of the decision now taken (December 2003) regarding the utilization of tax losses in Germany, we have concluded, in consultation with our tax advisers, that it will be possible to fully use the tax losses. The revised valuation had a positive effect of EUR 12.5 m, corresponding to SEK 115 m, on earnings in 2003.

However, the German tax legislation governing tax losses is, in all respects, difficult to interpret. The latest tax audit pertained to the 1994-1997 tax years, when the company operated at a loss. Accordingly, the tax losses have yet to undergo a tax audit.

Borrowing costs

The benchmark treatment is applied for the reporting of borrowing costs, meaning that the borrowing costs are expensed in the period to which they pertain, regardless of how the borrowed funds were used. However, there is one exception to this rule, namely the costs for arranging the loans raised to finance Sydsvenska Kemi's acquisition of the Perstorp and Oxo groups. These costs, which amount to SEK 48 m, are being amortized over the average term of the loans, being nearly six years from June 2001.

Forthcoming changes in accounting principles

Application of RR 29 Employee Benefits will result in a significant change in the Group's accounting principles during 2004. Sydsvenska Kemi has made considerable progress in efforts to chart the various pension solutions existing within the Group and to conduct actuarial calculations of Defined benefit plans in accordance with RR 29 /IAS 19. The Group's current assessment is that pension obligations will increase by approximately SEK 40 m, which will have a favorable effect of SEK 15 m on tax costs. Accordingly, introduction of IAS 19 is expected to have a nonrecurring negative impact of approximately SEK 25 m. In accordance with RR 5 Reporting of Changes in Accounting Principles, this amount will be reported directly against opening shareholders' equity in 2004. The negative effects derive mainly from pension plans in the US and Germany. With respect to the ITP pension plans that are funded through premiums paid to Alecta, it is not possible to estimate the size of investment assets in relation to obligations, because Alecta is currently unable to provide the information required for such reporting.

Notes

The Group's primary segments – business sectors – are described on pages 8-19 in the Report of the Board of Directors. The secondary segments – markets – are described in the Risk Management section on page 25.

1 Depreciation/amortization of tangible and intangible fixed assets

	Group 2003	Group 2002
Depreciation/amortization according to plan by type of asset		
Machinery and equipment	287	290
Buildings and land improvement	40	40
Goodwill and other intangible assets	248	255
Total	**575**	**585**
Depreciation/amortization according to plan by function		
Production	313	318
Sales	2	3
Administration	10	7
Research and development	2	2
Goodwill and other intangible assets	248	255
Total	**575**	**585**

The Parent Company had no fixed assets at year-end 2003.

Depreciation/amortization is based on the acquisition value of assets and on their estimated useful life as described in the Accounting Principles section.

2 Other operating revenues and expenses

	Group 2003	Group 2002	Parent Company 2003	Parent Company 2002
Operations-related exchange-rate differences [1]	140	31	-	-
Reversal of reserves for prior-year divestments	34	-	-	-
Capital gain on sale of property	13	-	-	-
Insurance compensation	9	8	-	-
Capital gain on sale of land	-	5	-	-
Revaluation of pension asset in US	-	-27	-	-
Other	15	8	1	-1
Total	**211**	**25**	**1**	**-1**

[1] Also see Risk Management section.

3 Results from participations in associated companies

At the end of 2003, Sydsvenska Kemi had an associated company that had been owned jointly with Koei Chemical Company since June 2003. Sydsvenska Kemi's interest is 40%. The company is reported in accordance with the equity method.

Sydsvenska Kemi's share in the company's profits during the second half of 2003 was less than SEK 1 m.

4 Leasing agreements

Operational leasing agreements

Future minimum leasing fees	Group 2003	Group 2002
Due:		
2004	12	7
2005-2008	19	15
2009-	0	0
Total	**31**	**22**

Leasing costs during the year		
Minimum leasing fees	12	4
Variable costs	1	2
Total	**13**	**6**

The Parent Company leases computers of a non-material value.

The above fees pertain to leasing agreements entered into at December 31, 2003, including leases for properties. Operational leasing mainly comprises computers and cars.

Financial leasing agreements

Future minimum leasing fees	Koncernen 2003
Due:	
2004	1
2005-2008	1
2009+	0
Total	**2**
Included in tangible fixed assets	1

5 Interest income and similar items

	Group 2003	Group 2002	Parent Company 2003	Parent Company 2002
Interest income	7	20	1	2
Exchange-rate gains	4	7	-	-
Total	**11**	**27**	**1**	**2**

6 Interest expense and similar items

	Group 2003	Group 2002	Parent Company 2003	Parent Company 2002
Interest expense	-330	-387	-260	-268
Interest expense, subsidiaries			-32	-57
Amortization of capitalized costs for raising financing	-9	-10	-9	-10
Other financial expenses	-14	-14	-3	-3
Total	**-353**	**-411**	**-304**	**-338**

7 Tax

Group's tax costs	Group 2003	Group 2002	Parent Company 2003	Parent Company 2002
Current tax	-39	-50	-	-
Deferred tax on net profit for the year	-52	-86	0	-36
Tax attributable to prior years	120	-6	-	-
Total tax reported in income statement	**29**	**-142**	**0**	**-36**

Effective tax rate

In Sweden, the corporate tax rate was 28% in 2003. After taking into account non-tax-deductible costs and nontaxable revenues, as well as losses in companies where carryforwards have not been assigned any value, the effective tax rate for the Group, based on earnings after net financial items, was 33%, because tax rates in mainly Belgium, the US and Germany are higher than the Swedish rate. The reasons for the difference between the estimated local tax rate for Sweden and the effective tax rate are described below.

Group´s tax costs	Group 2003	Group 2002	Parent Company 2003	Parent Company 2002
Earnings before taxes	**4**	**178**	**3**	**155**
Tax computed in accordance with Swedish tax rate	-1	-50	-1	-43
Difference between nominal tax rate in Sweden and effective tax rate in the Group	-9	-5	-	-
Tax cost pertaining to divested subsidiaries	-	-12	-	-
Non-capitalized tax in loss carryforwards	-26	-21	-	-
Adjustment for taxes in prior years	-3	4	-	-
Valuation of previously non-valued tax loss carryforwards	116	105	-	-
Reversal of tax reserve in the US	7	-	-	-
Write-down of deferred tax asset		-115	-	-
Non-taxable income				
Reversal of write-down of Pergo shareholding	1	7	1	7
Other non-taxable income	11	13	-	-
Non-tax-deductible costs:				
Goodwill amortization attributable to acquisition of Perstorp and Neste Oxo Groups	-63	-66	-	-
Other non-tax-deductible costs	-4	-2	-	-
Tax reported in income statement	**29**	**-142**	**0**	**-36**

Tax losses

As stated in the accounting and valuation principles, the value of unused tax losses is capitalized in cases where it is highly probable that the unused tax losses will be used within a ten-year period. In addition, there are unused tax losses totaling SEK 316 m (265) and temporary differences totaling SEK 146 m (157) that have not been assigned any value.

Temporary differences arise in cases where the reported value of assets or liabilities differs from the value for tax purposes.

The temporary differences in the Group resulted in a deferred tax asset or a deferred tax liability with respect to the following items:

Deferred tax liabilities	Group 2003	Group 2002
Untaxed reserves	320	243
Tangible fixed assets	197	210
Other	-	11
Total	**517**	**464**

Deferred tax assets	Group 2003	Group 2002
Tangible fixed assets	13	8
Tax losses	119	4
Provisions	35	48
Total	**167**	**60**

The Parent Company had no deferred tax assets or liabilities at the end of 2003.

8 Minority share in net profit for the year

	Group 2003	Group 2002
YLA Inc, USA	5	-2
Hansol-Perstorp Co. Ltd, South Korea	1	-
Perstorp Aegis Chemicals Ltd, India	0	3
Total	**6**	**1**

Due to the write-down of Perstorp Aegis Chemicals Ltd's fixed assets in the acquisition balance sheet prepared in connection with the acquisition of the Perstorp Group in 2001, the minority share in this company has been neutralized in the consolidated accounts. For this reason, capital contributions of SEK 3 m from the minority shareholder in 2002 have been booked as revenues.

9 Intangible fixed assets

Group

	Goodwill **2003**	Goodwill 2002	Knowhow, trademarks and similar rights **2003**	Knowhow, trademarks and similar rights 2002	Total **2003**	Total 2002
Acquisition value						
Opening balance	4,879	4,859	12	43	4,891	4,902
Acquisition of subsidiaries	-	151	-	-	-	151
Capital expenditures *)	13	-	20	-	33	-
Sale of subsidiaries	-	-	-	-24	-	-24
Reclassifications (in relation to tangible fixed assets)	-	-	-	-7	-	-7
Sales/scrappage	-	-10	-	-	-	-10
Translation effects	-111	-121	-3	-	-114	-121
Closing balance	4,781	4,879	29	12	4,810	4,891
Accumulated depreciation according to plan						
Opening balance	-440	-199	-7	-18	-447	-217
Depreciation	-246	-254	-2	-1	-248	-255
Sale of subsidiaries	-	-	-	12	-	12
Sales/scrappage	-	9	-	-	-	9
Translation effects	4	4	1	-	5	4
Closing balance	-682	-440	-8	-7	-690	-447
Residual value according to plan at Dec 31	**4,099**	**4,439**	**21**	**5**	**4,120**	**4,444**

*) Goodwill in Vyncolit Inc was increased by SEK 11 m following an adjustment of the acquisition balance sheet pertaining to the acquisition of Moldable Composites operations in 2002.

Most of the Group's goodwill is amortized over 20 years. The Parent Company has no intangible fixed assets.

10 Tangible fixed assets

Group	Buildings, land and land improvements 2003	2002	Plant and machinery 2003	2002	Equipment, tools fixtures and fittings 2003	2002	Work in progress incl. advance payments 2003	2002	Total 2003	2002
Acquisition value										
Opening balance	1,081	1,177	4,328	4,413	295	380	149	150	5,853	6,120
Capital expenditures	24	16	152	56	28	5	106	113	310	190
Acquisition of subsidiaries	15	38	53	96	-	3	-	2	68	139
Sales/scrappage	-3	-7	-9	-45	-13	-4	-	-	-25	-56
Sale of subsidiaries	-	-113	-	-159	-	-89	-	-19	0	-380
Change in relation to acquisition balance sheet	-	-	-	30	-	-	-	-	0	30
Reclassifications *)	1	-	56	86	1	10	-72	-89	-14	7
Translation effects	-39	-30	-137	-149	-3	-10	-2	-8	-181	-197
Closing balance	1,079	1,081	4,443	4,328	308	295	181	149	6,011	5,853
Accumulated depreciation according to plan										
Opening balance	-354	-372	-2,156	-2,075	-123	-138	-	-	-2,633	-2,585
Depreciation	-40	-40	-258	-261	-29	-29	-	-	-327	-330
Sales/scrappage	1	1	7	40	10	3	-	-	18	44
Sale of subsidiaries	-	60	-	109	-	43	-	-	0	212
Change in relation to acquisition balance sheet	-	-14	-	-32	-	-	-	-	0	-46
Reclassifications	-	-	-1	4	1	-4	-	-	0	0
Translation effects	10	11	60	59	2	2			72	72
Closing balance	-383	-354	-2,348	-2,156	-139	-123	-	-	-2,870	-2,633
Write-downs										
Opening balance	-	-	-	-	-	-	-	-	-	-
Write-downs during the year	-	-	-3	-	-	-	-	-	-3	-
Closing balance	-	-	-3	-	-	-	-	-	-3	-
Residual value acc. to plan, at Dec 31	**696**	**727**	**2,092**	**2,172**	**169**	**172**	**181**	**149**	**3,138**	**3,220**

*) Reclassifications between Other provisions and Tangible fixed assets in 2003, pertain to items in the acquisition balance sheet.

The Parent Company has no tangible fixed assets.

Tax assessment value, Swedish Group companies

Group	Tax assessment value Dec 31, 2003	Dec 31, 2002	Book value Dec 31, 2003	Dec 31,2002
Buildings, including building fittings	529	492	450	359
Land and land improvements	36	66	45	41
Total	**565**	**558**	**495**	**400**

11 Parent Company shares in Group companies

Direct holdings in Group companies	Corp. Reg. number	Registered Head Office	Holding %	Number of shares	Book value
Perstorp AB	556024-6513	Perstorp	100	71,589,720	6,453
Perstorp Oxo Holding AB	556579-4327	Stenungsund	100	1,000	412
Closing book value, December 31, 2003					**6,865**

	2003	2002
Opening book value	6,866	6,841
Reversal of provisions	-1	-
Redemption of remaining minority-held shares	-	25
Closing book value	**6,865**	**6,866**

12 Participations in associated companies

	Share of capital/ voting rights	Group´s share of share-holders´equity	Book value, Group
Koei-Perstorp Company Ltd, Japan	40/40	2	2
PT Perstorp Bumi Raya, Indonesia	50/50	0	0
Total		**2**	**2**

After the close of the fiscal year, the holding in PT Perstorp Bumi Raya, Indonesia, was sold.

	2003	2002
Opening book value	0	166
Acquisition of associated company share in Koei-Perstorp Company Ltd	2	-
Divestment of holding in Perstorp Clariant AB	-	-164
Write-down of holding in PT Perstorp Bumi Raya	-	-2
Closing balance	**2**	**0**

13 Other shares and participations

	Corp. Reg. number	Share of capital/ voting rights	Book value, Dec 31, 2003 Group	Parent Company
Pergo AB	556563-2600	14,3%	123	123

	Group	Parent Company
Acquisition value		
Opening balance	306	306
Closing balance	306	306
Write-downs		
Opening balance	-186	-186
Reversal of write-down	3	3
Closing balance	-183	-183
Closing book value, Dec 31, 2003	**123**	**123**

The book value of the shares, SEK 123 m, corresponds to the year-end market value.

14 Other long-term receivables

	Dec 31,2003		Dec 31, 2002	
	Group	Parent Company	Group	Parent Company
Capitalized costs for raising bank financing	29	29	38	38
Endowment insurance	12	-	14	-
Surplus value of pensions	9	-	25	-
Other receivables	18	1	25	-
Total	**68**	**30**	**102**	**38**
Of which, interest-bearing receivables	*4*	-	*11*	-

	2003		2002	
	Group	Parent Company	Group	Parent Company
Opening balance	102	38	134	49
Amortization of costs for raising bank financing	-9	-9	-10	-10
Repayment of endowment insurance	-2	-	-21	-
Revaluation of loan receivable	-7	1	26	-
Change in surplus value of pensions	-16	-	-27	-1
Closing balance, December 31, 2003	**68**	**30**	**102**	**38**

The capitalized costs for raising bank financing pertain to borrowing for financing Sydsvenska Kemi's acquisition of the Perstorp and Oxo groups. These costs are amortized during the average maturity periods for the loans, which is nearly six years from June 2001.

15 Inventories

	Group	
	Dec 31, 2003	Dec 31, 2002
Raw materials and supplies	192	207
Products in progress	35	30
Finished and semi-finished goods	428	448
Work in progress on behalf of others	0	7
Advance payments from suppliers	25	2
Total	**680**	**694**

The Parent Company had no inventories at the end of 2003.

16 Accounts receivable

	Group	
	Dec 31, 2003	Dec 31, 2002
Not due for payment	674	742
Due:		
0-10 days	98	112
11-30 days	54	66
31-60 days	22	40
61-90 days	7	10
> 90 days	27	28
Total before provisions	882	998
Provisions for uncertain accounts receivable	-28	-18
Total	**854**	**980**

The Sydsvenska Kemi Group applies a Group-wide credit policy, whose two main aims are to prevent credit losses and to optimize capital utilization. The credit policy stipulates limits and procedures for the granting and monitoring of credit, including the suspension of deliveries to customers with past-due credit. Intense work is conducted on a continuous basis to ensure that accounts receivable are paid in time. With respect to countries/customers where the credit risk is assumed to be higher than normal, the Group demands advance payment, credit insurance or bank guarantees.

The Parent Company had no accounts receivable at the end of 2003.

17 Other current receivables

	Group	
	Dec 31, 2003	Dec 31, 2002
Prepaid insurance premiums	6	5
Other prepaid expenses and accrued income	41	62
Value added tax	79	106
Tax receivables	27	31
Associated company receivables	22	-
Current financial receivables	2	71
Other receivables	34	28
Total	**211**	**303**
Of which, interest-bearing receivables	*1*	*69*

18 Minority interests

	Group	
	Dec 31, 2003	Dec 31, 2002
Hansol-Perstorp Co. Ltd, South Korea	11	-
YLA Inc. USA	0	3
Total	**11**	**3**

19 Other provisions

	Group	
	Dec 31, 2003	Dec 31, 2002
Estimated supplementary purchase consideration, acquisition of Moldable Composites operations	115	168
Remaining other provisions	148	236
Total	**263**	**404**

	2003	2002
Opening balance	404	261
Provision for supplementary purchase consideration, Moldable Composites	-	168
Supplementary purchase consideration paid, Moldable Composites	-27	-
Translation effect of supplementary purchase consideration, Moldable Composites	-26	-
Reclassification of items in acquisition balance sheet vs. fixed assets	-14	-
Bank guarantee paid for associated company, Indonesia	-30	-
Other utilized provisions with an impact on liquidity	-4	-25
Reversal of provisions with no impact on liquidity in cases where the risk is no longer considered to prevail	-40	-
Closing balance	**263**	**404**

The Parent Company had no other provisions at the end of 2003.

The supplementary purchase consideration pertaining to the acquisition of Moldable Composites operations depends on the future profit trend of these operations. The maximum provision was posted in 2002 and the difference between the total purchase consideration and the net assets has been booked as goodwill. Payments are made over a five-year period that commenced on the date of acquisition in November 2002. The payment made in 2003 was in line with the original calculation.

Remaining other provisions, in the closing balance for 2003 pertain mainly to previous divestments, in part due to uncertainty regarding pension obligations and taxes.

20 Financial liabilities and risk management

A more detailed description of the Group's financial risk management is presented in a separate section on pages 25-29. A division of financial risks into financing, interest rate and currency risks is presented below.

Financing risk
With the exception of the debenture loan that is listed on Stockholmsbörsen, most of the Group's borrowing is arranged through Svenska Handelsbanken. The Group's interest-bearing net debt is specified in the above table.

The loan agreements that Sydsvenska Kemi AB and several subsidiaries have concluded with Svenska Handelsbanken include financial covenants that the Group has to fulfill on a quarterly basis. These covenants pertain to operating earnings before depreciation in relation to net interest expense, net debt (excl. the debenture loan) in relation to operating earnings before depreciation and cash flow in relation to interest payments and amortization, as well as the equity/assets ratio. If these covenants are not fulfilled, the loans will have to be renegotiated, which occurred prior to 2004, as it did in the two preceding years.

At the end of 2003, unutilized lines of credit amounted to SEK 1,100 m.

Interest-bearing net debt, Group

	Dec 31, 2003	Dec 31, 2002
Svenska Handelsbanken	2,631	3,159
Other bank loans	65	92
Rogers Corporation, financing of acquisition	63	96
Hansol, financing of acquisition	48	-
Financial liabilities, excl. debenture loan	**2,807**	**3,347**
Debenture loan, publicly traded	1,367	1,198
Financial liabilities	**4,174**	**4,545**
Interest-bearing pension liabilities	78	76
Liquid assets	-30	-27
Other interest-bearing receivables	-5	-80
Net debt	**4,217**	**4,514**

The Parent Company's external borrowing is arranged through Svenska Handelsbanken.

Financial liabilities, maturity structure, December 31, 2003

	Dec 31, 2003	
	Group	Parent Company
2004	475	400
2005	433	400
2006	267	245
2007	25	-
2008-	1,607	1,510
Financial liabilities, excl. debenture loan	**2,807**	**2,555**

Interest-rate risk
The finance policy stipulates that the fixed interest term within the Group shall be short, subject to a minimum of 30 and a maximum of 360 days. This applies to all interest-bearing assets and liabilities, including off balance sheet instruments, such as currency swaps. It is the period of fixed interest that determines the time lag between changes in interest rates and their impact on the Group's net interest expense. At the end of 2003, the average period of fixed interest for financial liabilities excluding the debenture loan was 113 days. The currency composition of the net debt is also of significance to the Group's average interest rate. Periods of fixed interest, interest rates and the distribution by currency are presented in the table below. EUR is the most exposed currency from the viewpoint of borrowing.

Composition of financial liabilities by currency, December 31, 2003

	Loans	**Swaps**	**Total**	**Interest rate, %**	**Duration, days**
EUR	1,449	-247	**1,202**	3.8	84
SEK	1,245	-415	**830**	4.6	94
USD	79	674	**753**	3.5	177
Other	34	-12	**22**		
Financial liabilities, excl. debenture loan	**2,807**	**0**	**2,807**	**3.9**	**113**
Debenture loan	1,367	0	1,367	14.1	*)
Financial liabilities	**4,174**	**0**	**4,174**	**7.2**	**n/a**

*) The debenture loan matures in June 2011.

Overall, a general increase of one percentage point in all borrowing currencies would increase the Group's annual interest expense by SEK 28 m, with borrowing in EUR subject to the greatest exposure to changes in interest rates.

Currency risk
The Sydsvenska Kemi Group has considerable flows of currency, earnings and net assets in foreign currencies. The Group has decided to manage its currency risks in the following manner:

Transaction exposure
The Group's finance policy stipulates that within a timeframe of up to 12 months, 75-90% of anticipated flows in foreign currencies are to be hedged using currency forward contracts. Of the flows anticipated over a period of 12-24 months, 25-75% are to be hedged. Contracted flows – mainly for sales of formalin plants – are hedged 100%. The transaction exposure and currency hedges for 2004 and 2005 are presented in the table below.

Transaction exposure and currency hedging

	Flows in 2004				Flows in 2005			
	Counter-value in SEK m		Percen-tage hedged	Average forward exchange rate	Counter-value in SEK m		Percen-tage hedged	Average forward exchange rate
	Expo-sure	Forward contracts			Expo-sure	Forward contracts		
EUR	750	676	90%	9.28	683	327	48%	9.36
USD	662	500	76%	8.61	661	165	25%	7.66
GBP	233	190	82%	13,52	237	85	36%	12.55
JPY	86	68	79%	0.07	135	41	30%	0.07
NOK	4	3	75%	1.15	4	1	25%	1.14
Total	**1,735**	**1,437**	83%		**1,720**	**619**	36%	

For forward contracts maturing during 2004 and which were not assigned a value in 2003 in either the income statement or shareholders' equity, there was a positive difference of SEK 66 m, of which USD accounted for SEK 50 m, at the end of 2003 between fair value and the value based on the forward contract rate. For forward contracts maturing during 2005, the difference was also positive in an amount of SEK 18 m.

The operations-related exchange rate differences of SEK 140 m (30) reported within Other operational revenues and expenses in the income statement, mainly pertained to the difference between the exchange rate at the date of transaction and the forward rate for hedged flows. A smaller portion pertained to exchange-rate differences between the exchange rate on the transaction date and the exchange rate on the payment date, or alternatively the year-end exchange rate, for net flows that were not hedged.

Translation exposure

Translation of the companies' financial accounts to SEK is conducted in accordance with the current method, which means that income-statement items are translated at average exchange rates during the fiscal year. A one percentage point appreciation of SEK has a negative consolidation effect of SEK 3 m on the Group's EBITDA and a corresponding negative effect of SEK 25 m on net sales.

If no hedging transactions were conducted, a one percentage point appreciation of SEK in relation to all of the other currencies would have a negative combined flow and translation effect of SEK 20 m on consolidated profit before depreciation/amortization (EBITDA). The corresponding negative effect on net sales is SEK 57 m.

The foreign subsidiaries' assets minus their liabilities constitute a net investment in foreign currency that becomes exposed to translation effects in connection with exchange-rate movements. Perstorp has decided to hedge a major portion of this exposure by raising loans, mainly in EUR and USD, in order to protect the Group's shareholders' equity in SEK.

The table below shows the Group's net assets in foreign currencies, the proportion of these assets that has been hedged and the value of the exposed net assets.

Translation exposure of net assets

	Net assets in foreign currency before hedging	Hedged amount before tax	Exposed net assets
EUR	1,325	-1,163	162
USD	689	-675	14
KRW	22		22
GBP	8		8
JPY	3		3
SGD	1		1
INR	-29		-29
Total	**2,019**	**-1,838**	**181**

21 Debenture loan

The debenture loan is a zero-coupon instrument with a maturity of nearly 10 years, from June 2001 to June 2011. The increase of SEK 169 m during 2003 was due entirely to capitalized interest.

The nominal value to be repaid on maturity has been discounted to present value based on an interest rate of 14.05%. Also refer to description on page 24.

22 Other current operating liabilities

	Group		Parent Company	
	Dec 31, 2003	Dec 31, 2002	Dec 31, 2003	Dec 31, 2002
Accrued salaries and social security costs	172	164	4	7
Accrued commissions	26	31	-	-
Other accrued expenses and prepaid income	147	189	2	2
Value added and personnel taxes	38	57	1	1
Tax liabilities	49	81	-	-
Advances from customers	64	22	-	-
Other liabilities	38	33	-	-
Total	**534**	**577**	**7**	**10**

23 Assets pledged

	Liabilities to credit-institutions	Other interest-bearing liabilities	Pension-liabilities	Group		Parent Company	
				Dec 31, 2003	Dec 31, 2002	Dec 31, 2003	Dec 31, 2002
Property mortgages	471	109	-	580	501	-	-
Chattel mortgages	1,135	-	-	1,135	1,192	-	-
Shares in subsidiaries	6,486	-	-	6,486	6,534	6,865	6,866
Endowment insurances	-	-	6	6	9	-	-
Total	**8,092**	**109**	**6**	**8,207**	**8,236**	**6,865**	**6,866**

24 Contingent liabilities

	Group		Parent Company	
	Dec 31, 2003	Dec 31, 2002	Dec 31, 2003	Dec 31, 2002
Guarantees	29	97	-	77
Guarantees and other contingent liabilities for subsidiaries	-	-	312	717
Tax on amount deferred	-	175	-	-
Total	**29**	**272**	**312**	**794**

25 Employees and wages, salaries and other remuneration

Average number of employees

	2003		2002	
Country	Total number of employees	Of whom men	Total number of employees	Of whom men
Sweden				
Parent Company	5	5	5	5
Subsidiaries	1,128	820	1,155	838
Belgium	212	189	218	194
France	11	6	4	3
Germany	145	128	140	122
India	241	233	246	239
Italy	99	87	107	95
Japan	2	1	2	1
Netherlands	2	2	-	-
Norway	-	-	4	3
Poland	-	-	9	7
Singapore	4	2	4	2
South Korea	15	14	-	-
Spain	-	-	6	3
United Kingdom	8	6	8	6
United States	312	275	210	177
Total	**2,184**	**1,768**	**2,118**	**1,695**

Wages, salaries and other remuneration

	2003		2002	
	Total	Of which, for Board members/ President	Total	Of which, for Board members/ President
Parent Company	9	5	14	7
Subsidiaries	761	18	683	18
Total	**770**	**23**	**697**	**25**

Social security costs

	2003		2002	
	Social security costs	Of which pension costs	Social security costs	Of which pension costs
Parent Company	8	4	8	3
Subsidiaries	332	94	289	88
Total	**340**	**98**	**297**	**91**
Of which, pensions costs for Board members and President of Parent Company		1		1

Wages, salaries and other remuneration

	2003		2002	
	Board members/ President	Other employees	Board members/ President	Other employees
Sweden	17	415	17	388
Belgium	-	83	2	68
France	-	7	-	2
Germany	-	60	-	58
India	-	6	-	6
Italy	-	28	-	29
Japan	-	1	-	2
Netherlands	-	3	-	-
Norway	-	-	-	3
Poland	-	-	-	2
Singapore	1	1	1	1
South Korea	-	4	-	-
Spain	-	-	-	3
United Kingdom	-	3	-	4
United States	5	136	5	106
Total	**23**	**747**	**25**	**672**

Remuneration to senior executives

Board of Directors

Annual fee for Chairman of the Board	KSEK	375
Annual fee for Deputy Chairman	KSEK	225
Annual fee for each Board member elected by the Annual General Meeting *)	KSEK	150
Annual fee for each member of the Remuneration Committee *)	KSEK	25

Chief Executive Officer/President

Salary paid, 2003	KSEK	3,875

The President's fixed salary for 2003 amounted to SEK 2,466,000. He is also entitled to a variable salary increment in the form of a bonus corresponding to a maximum of 35% of his fixed salary. The bonus target for 2003 comprised a combination of quantitative and qualitative criteria.

In addition to the variable salary increment, designated bonus above, the President received an extra bonus during 2002 and 2003 for the implementation of *nEverest,* the Group's improvement program.

The salary total of SEK 3,875,000 above includes paid bonuses of SEK 1,420,000. Earnings were also charged with bonuses of SEK 253,000 to be paid in 2004.

As of age 65 and in accordance with the stipulations of Sweden's ITP plan, the President will receive a pension from Alecta and SPP that will also cover salary portions exceeding 30 base amounts. According to a special undertaking, both the President and the Company are entitled, once the President has reached the age of 60, to terminate the employment agreement. On the President's account, pension insurance premiums amounting to 10% of the President's annual salary up to age 50 are to be paid. For 2003, however, insurance premiums paid amounted to only 3% of the President's annual salary, while the President received the remaining 7% as an increase in his annual salary. Between age 51 and 60, the premium will be 15%.

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

Other members of Group Management are covered by a bonus system that could result in a maximum payment of 30 or 35% of their basic salary and by an agreement regarding pension insurance schemes, the aim of which is to enable the executives concerned to retire at age 60. The period of employment-termination notice for other members of Group Management is six months. If the Company terminates the employment of a member of Group Management, the sum total of salary during the period of notice, severance pay and corresponding benefits will be paid for 12 up to a maximum of 18 months.

*) Pertains only to persons who are not company employees.

26 Proportion of women who are members of company boards or management

	2003		
	Total	of whom women	%
Board members	160	5	3%
Other senior executives	159	14	9%

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

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

27 Auditors´ fees and compensation for costs

	Group		Parent Company	
	2003	2002	2003	2002
Öhrlings PriceWaterhouseCoopers:				
Audit assignments	4	4	} 2	} 1
Other assignments	3	2		
Ernst&Young:				
Audit assignments	1	1	-	-
Other assignments	0	1	-	-
Total	**8**	**8**	**2**	**1**

28 Business relations with closely related companies

During the year, the Group had business relations with companies within the Dynea group, which is also controlled by Industri Kapital funds. The transactions consisted of purchases of formalin and resins totaling SEK 40 m (36) and sales of various specialty chemicals totaling SEK 24 m (19). All product transactions were undertaken on normal market terms while the pricing of services was cost based.

29 Board meetings during the year

The Board of Directors of Sydsvenska Kemi AB held 12 meetings during 2003. During the year, Thomas Ramsay was elected new member and Helena Stjernholm new deputy member of the Board. The Board and auditors met during the year. The Board has decided not to form an audit committee. Instead, significant auditing matters will be addressed by the entire Board. A remuneration committee was formed during 2002.

30 Joint ownership program for senior executives

In 2002, within the framework of an incentive program, Industri Kapital 2000 Fund offered senior executives in the Sydsvenska Kemi Group the opportunity to become joint owners of Sydsvenska Kemi AB. Slightly more than 50 executives accepted the offer and have acquired shares corresponding to 0.56% of the share capital, as well as associated options. Pricing of the shares and options is conducted on normal market terms.

31 Currency exchange rates

	Year-end exchange rate		Average exchange rate	
Currency	Dec 31, 2003	Dec 31, 2002	2003	2002
EUR	9.0940	9.1930	9.1252	9.1615
USD	7.2750	8.8250	8.0864	9.7268
GBP	12.9130	14.1480	13.1957	14.5782
SGD	4.2750	5.0900	4.6391	5.4284
JPY	0.0680	0.0740	0.0698	0.0776
INR	0.1596	0.1840	0.1735	0.2001
KRW	0.0061	-	0.0068	-

Proposed distribution of profits

Unrestricted shareholders' equity, as shown in the consolidated balance sheet, amounts to SEK 2,817 m. An allocation of SEK 0.3 m to restricted reserves is proposed.

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

Retained earnings	SEK	3,192,686,233
Net profit for the year	SEK	2,927,207
	SEK	3,195,613,440

be distributed as follows:

To be allocated to legal reserves	SEK	300,000
To be retained in the business	SEK	3,195,313,440

Perstorp, March 8, 2004.

Hans Larsson
Chairman

Björn Savén
Deputy chairman

Fredrik Arp

Stig Gustavson

Anitha Hermansson

Klas Ingstorp

Ronny Nilsson

Gunnar Palme

Thomas Ramsay

Michael Rosenlew

Lennart Holm
President

Our audit report was submitted on March 8, 2004.

Michael Bengtsson
Authorized Public Accountant

Ulf Pernvi
Authorized Public Accountant

Audit Report

To the Annual General Meeting of the shareholders of Sydsvenska Kemi AB (publ)
Corporate registration number: 556602-2769

We have audited the annual accounts, the consolidated accounts, the accounting records and the administration of the Board of Directors and the President of Sydsvenska Kemi AB (publ) for the January 1, 2003 – December 31, 2003 financial year. These accounts and the administration of the Company are the responsibility of the Board of Directors and the President. Our responsibility is to express an opinion on the annual accounts, the consolidated accounts and the administration based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in Sweden. Those standards require that we plan and perform the audit to obtain reasonable assurance that the annual accounts and the consolidated accounts are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the accounts.

An audit also includes assessing the accounting principles used and their application by the Board of Directors and the President, as well as evaluating the overall presentation of information in the annual accounts and the consolidated accounts. As a basis for our opinion concerning discharge from liability, we examined significant decisions, actions taken and circumstances of the Company in order to be able to determine the liability, if any, to the Company of any Board member or the President. We also examined whether any Board member or the President has, in any other way, acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association. We believe that our audit provides a reasonable basis for our opinion set out below.

The annual accounts and the consolidated accounts have been prepared in accordance with the Annual Accounts Act and thereby give a true and fair picture of the Company's and the Group's financial position and results in accordance with generally accepted accounting principles in Sweden.

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

Stockholm March 8, 2004.

Michael Bengtsson
Authorized Public Accountant

Ulf Pernvi
Authorized Public Accountant

Board of Directors and Auditors

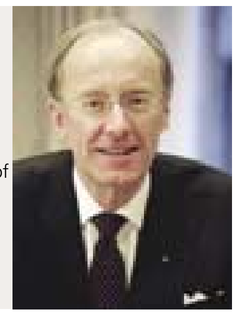
Hans Larsson, Chairman of the Board
Born 1942.
Chairman since 2001.
Other Board assignments: Chairman of Nobia AB, Biolight International AB and Carema AB. Deputy chairman of Svenska Handelsbanken AB. Board member of Holmen AB and Pergo AB.

Björn Savén, Deputy Chairman
Born 1950.
President, Industri Kapital AB.
Board member since 2002.
Other Board assignments: Chairman of KCI Konecranes Abp. Deputy Chairman of Alfa Laval AB, Dynea International Oyi and the German-Swedish Chamber of Commerce. Board member of Gardena AG, the Finnish-Swedish Chamber of Commerce and the Swedish Academy of Engineering Sciences.

Fredrik Arp
Born 1953.
President and Chief Executive Officer of Trelleborg AB.
Board member since 2001.
Other Board assignments: Board member of Trelleborg AB and Getinge AB.

Michael Rosenlew
Born 1959.
Executive Vice President, Industri Kapital AB. Board member since 2001. Other Board assignments: Board member of Gardena AG, CityLink AB, CPS Color Group Oy, Dynea Oy, Elektrokoppar Holding AB and Consolis Oy.

Stig Gustavson
Born 1945.
President and Chief Executive Officer, KCI Konecranes Abp. Board member since 2001. Other Board assignments: Chairman of Mercantile AB, Dynea Oy, Handelsbanken's Regional Bank in Finland and the Arcada Foundation. Delegation Chairman of Tampere Technical University. Member of the management council of pension insurance company Varma. Board member of Helvar-Merca AB, KCI Konecranes Abp, the Confederation of Finnish Engineering Industries and TT (Finland).



Gunnar Palme
Born 1954.
Board member since 2002. Other Board assignments: Chairman of SMT Tricept AB, Finn Power Oy, Bewator AB and the Association of Young Corporate Enterprise in the County of Södermanland.

Lennart Holm
Born 1960.
President and Chief Executive Officer of Sydsvenska Kemi AB and Perstorp AB. Board member since 2002. Active in the Company since 2001. Previously employed in Perstorp AB in 2000.

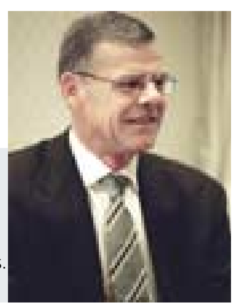
Thomas Ramsay
Born 1969.
Director of Industri Kapital AB.
Board member since 2003. Other Board assignments: Board member of CPS Color Group Oy and Dynea Oy.

Anitha Hermansson
Born 1953.
Global Customer Service Manager. Board member since 2001. Appointed by the union boards for Swedish Federation of Salaried Employees in Industries and Service in Perstorp and Stenungsund.

Klas Ingstorp
Born 1971.
Plant Manager SPPO.
Board member since 2001. Appointed by the union boards for the Swedish Federation of Salaried Employees in Industries and Service in Perstorp and Stenungsund.

Ronny Nilsson
Born 1969.
Process operator.
Board member since 2002. Appointed by Industrial Workers´ Union at Perstorp AB.

Ulf Pernvi
Born 1949.
Authorized Public Accountant.
Öhrlings PricewaterhouseCoopers.



Michael Bengtsson
Born 1959.
Authorized public Accountant.
Öhrlings PricewaterhouseCoopers.

Group Management

Lennart Holm
Born 1960.
President and Chief Executive Officer of Sydsvenska Kemi AB and Perstorp AB.
Active in the Company since 2001.
Previously employed in the Company in 2000.

Inge Pettersson
Born 1947.
Chief Operating Officer.
Active in the Company since 2001. Active in Perstorp (earlier Neste Oxo) since 1980.

Claes Gard
Born 1953.
Chief Financial Officer.
Active in the Company since 2001.

Corporate functions

Business Review & Improvement Team	Peter Karsberg
Corporate Finance	Gunnar Modalen
Corporate HR & Communications	Martin Lundin
Corporate IT	Susanna Frennemo
Corporate Safety, Health and Environment	Jan Petersson
Group Financial Control	Anita Haak

Perstorp in the world

Glossary

Amino plastic
A thermoset plastic based on a melamine and/or urea formaldehyde resin, normally with a cellulose filler.

Basic polyols
See polyols.

Board
Layers of particleboard.

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

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

Compound
See thermoset.

DAP (diallyl phthalate)
Diallyl phthalate-based polyester thermoset is a highly heat-resistant plastic with excellent temperature and electrical properties. Used mainly in the electronics industry.

Epoxy
Heat-resistant viscous thermoset with good electrical properties. Often contains reinforcement in the form of glass or carbon fiber. Used mainly in the aviation and electronics industry.

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

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

Molding compound
Thermosetting raw material that, after molding, provides products with good mechanical and electrical properties.

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

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

Phenolic plastic
Heat-resistant thermoset plastic produced from phenol and formaldehyde resin. Used in heat and electrical insulation products and components in engineering industries.

Polyol (polyalcohol)
A polyfunctional alcohol.

Prepreg
Intermediate comprising resin and reinforcing fiber used for the manufacture of composite products.

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

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

Silage
Additive used for the preservation of green feed.

Silicon material
Usually an elastomer or a thermoset material. In Perstorp's case, a thermoset. A material with excellent temperature and dimensional stability that is used for electrical applications where exceptional properties are required.

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

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

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

Thermoplastic
Plastic that softens when heated and solidifies when cooled.

Trimethylolpropane (TMP)
A trivalent polyol for the production of alkyd paints, polyurethane, polyester, etc.

Preliminary calendar for financial reporting in 2004

Interim Report, January-March	May 7, 2004
Interim Report, January-June	July 23, 2004
Interim Report, January-September	November 1, 2004
Year-end Report, January-December	February 16, 2005
Annual Report	March 2005

Financial reports can be ordered from:

Perstorp AB
Berit Petersson
SE-284 80 Perstorp

Tel +46 435 382 62
Fax +46 435 348 33
berit.petersson@perstorp.com

Financial information is published on www.sydsvenskakemi.se and www.perstorp.com

Production: Rahmberg Relation AB and Perstorp AB. **Graphic design:** Bodil Samevik, Perstorp AB. **Photography**: Ulla Alderin, Helsingborg, among others.
Print: Ljungbergs Tryckeri, Klippan. **Translation:** The Bugli Company.

Perstorp AB, SE-284 80 Perstorp
Phone +46 435 380 00 Fax +46 435 381 00
e-mail perstorp@perstorp.com Internet www.perstorp.com

Sydsvenska Kemi AB, SE-284 80 Perstorp
Phone +46 435 380 00 Fax +46 435 381 00
e-mail perstorp@perstorp.com Internet www.sydsvenskakemi.se