Perstorp 2007

Annual Report

Perstorp

WINNING FORMULAS

Perstorp's unique molecules

Molecules are at the heart of Perstorp's business. But the most important ones are the billions of molecules that organize themselves every morning into over two thousand very important people – the Perstorp staff who creates winning formulas for the Group´s customers and the world in general.

Perstorp's unique molecules are its key strengths and core values: focused innovation, reliability and responsibility. These core values in combination are present throughout Perstorp's working methods and solutions, helping to create Winning Formulas.

Focused innovation

Focused innovation means that Perstorp places value in developing working methods, responsibility and processes that provide mutual benefits for customers and the company. It never means innovation for the sake of innovation, but rather innovation aimed at finding the best value-creating solution. Perstorp focuses on niche sectors of the chemicals industry, in which the company has the potential to become a world leader and drive development around well-defined customer and environmental requirements.

Reliability

Perstorp emphasizes the importance of keeping its promises to customers. This entails continuously striving to ensure that processes and performance standards meet customer expectations. It means that Perstorp offers reliable low-risk solutions delivered with high precision. Delivering what we promise, both as individuals and as a group, is critical for Perstorp's success and builds customer confidence and loyalty.

Responsibility

Perstorp offers environmentally sustainable products, services and solutions that meet all customer requirements. Perstorp provides secure processes and works with distinct safety awareness. Our employees are well trained and qualified for their assignments, prepared to accept responsibility and to solve emerging questions whenever required. Perstorp is an organization that cares about its customers, employees, society and the environment.

Winning Formulas shows clearly what the Perstorp Group stands for.

Contents

Perstorp's reports for 2007

Perstorp publishes a special report on environmental sustainability, in connection with the annual report, in both Swedish and English. This report describes the work of the Group in relation to the environment, safety and health, including corporate social responsibility and work on human resources. The report is available at www.perstorp.com and a printed version may also be ordered.

Welcome to Perstorp's world

Perstorp is a leading supplier of advanced specialty chemical products. People all around the world meet Perstorp's products in their everyday life in a variety of applications – in their homes, on the road, at work or during leisure time.

Perstorp's direct customers are active in a wide range of industries producing paint, plastics, autos, food, construction materials and engineering products. Perstorp provides valuable properties and environmental benefits for products produced in a large number of industries and used by many different consumers.

Perstorp has established leading positions in selected segments of the specialty chemicals market in Europe and other large regions. The base for activities is extensive know how in organic chemistry, especially aldehyde chemistry.

Perstorp focuses on continuous innovation to create added value for customers, and the Group aims to be at the leading edge of development within eco-adapted products and systems.

Perstorp has production sites in 12 countries in Europe, North and South America and in Asia. The Group has around 2,000 employees and a head office in Perstorp, Sweden where the company was founded 125 years ago. Since 2005 the Group has been controlled by PAI partners, a leading European private equity company.

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Form and creative ideas: Injectum B2B Marketing and Perstorp AB
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In the home

At home you meet Perstorp in eco-adapted paints both inside and outside, and on other surfaces such as flooring and white goods. Other Perstorp products contribute to longer life for bread and cheese or to make packaging for other foods.

In the office

Scratch-resistant computer screens and keyboards and electronics inside PCs are just some of the application areas where Perstorp contributes its knowledge and products. Other applications include protective coatings for office furniture and durable floor surfaces. The office building can be fireproofed using Perstorp's products.

In your car

Coatings, shatter-free windscreens and robust interior components are just some examples of Perstorp's products. A growing application area is bio-based fuel which benefits the environment.

On the farm

Perstorp helps farmers look after their animals and achieve better quality food. This for example includes additives for animal feed that makes animals healthier and products that improve the quality of milk.

In your free time

You can enjoy exercise more with shoes that cushion against hard surfaces, tents that keep out the rain and reinforced helmets that protect you when you climb a mountain. Together with weather-resistant wake-boards, high-performance wheels for inlines and durable golf balls, these are examples of products that receive valuable properties through special chemicals supplied by Perstorp. Finally, quake your thirst with water from a PET bottle made using Perstorp's products.

Perstorp everywhere

Thirteen production sites in twelve countries

1. Bruchhausen
2. Castellanza
3. El Salto
4. Gent
5. Perstorp
6. Singapore
7. Stenungsund
8. Toledo
9. Ulsan
10. Vapi
11. Warrington
12. Waspik
13. Zibo


Anna Wilhelmsson, process engineer at Perstorp's production plant in Stenungsund.

PERSTORP HOLDING AB
PARENT COMPANY OF THE INTERNATIONAL SPECIALTY CHEMICALS GROUP PERSTORP
ORG. NR 556667-4205

2007 in brief

During the year Perstorp noted strong demand for nearly all of its products. This contributed to an increase in sales and a positive earnings trend.

- Net sales rose by 18% to SEK 8,583 m (7,273) as a result of strong demand, price rises and the start-up of a new plant for rapeseed methyl ester.
- The operating profit before depreciation and amortization (EBITDA), adjusted for non-recurring items, climbed to SEK 1,406 m (1,097) due to volume increases and higher price levels. Profits improved despite the falling US dollar and high prices for energy and raw materials.
- Cash flow from operations amounted to SEK 550 m (591). Interest payments were higher than in the previous year.
- A strategic decision was taken about the Group's largest-ever investment for manufacturing valeric aldehyde and its derivatives, including a type of environmentally compatible plasticizer for PVC.
- The Group's product range and growth were boosted by a large acquisition of activities within Purified Isophthalic Acid (PIA) and – following the end of the financial year – the acquisition of a leading business within caprolactones.
- A subsidiary, Perstorp BioProducts AB, was formed to strengthen the Group's focus on products based on re-newable raw materials. Production started at Scandinavia's largest plant for renewable vehicle fuel, and a business active in trading and processing wood oils was acquired.
- After the end of the financial year Perstorp sold its business within composite materials.
- The Group's leading positions on the important Chinese market were strengthened through a joint venture and acquisition of polyol production facilities.
- Pro forma[1)] Group sales in 2007 amounted to around SEK 10 billion. In 2008 the Group is expected to continue reporting good growth on the back of good demand and increased capacity.

[1)] Including sales in acquired companies and excluding business to be sold.

Key figures in summary

SEK m unless otherwise stated	2007	2006
Net sales	8,583	7,273
Operating earnings before depreciation and amortization (EBITDA)	1,365	1,091
% of net sales	15,9	15,0
EBITDA adjusted for non-recurring items [1)]	1,406	1,097
% of net sales	16.4	15.1
Operating earnings (EBIT)	803	566
% of net sales	9.4	7.8
Net earnings/loss	-128	-153
Cash flow from operating activities	550	591
% of net sales	6.4	8.1

[1)] Non-recurring items refer primarily to costs for M&A projects that were not completed.

Strong development and major investments in growth

For Perstorp, 2007 was both a successful business year and a year marked by significant investment in the future. The Group delivered in line with its plans and exceeded targets for growth and profitability. Meanwhile, we made major investments in production capacity, new products and company acquisitions, which will have a large impact on the future development of the Group.

Strategy for growth

My main assignment as President is to ensure that Perstorp creates value through high and profitable growth. In my view the conditions for achieving this are very favorable: Perstorp has broad knowledge of the chemicals industry and strong positions on global markets that have been established over many years. We have also identified growth opportunities within existing and new areas, not least due to goal-oriented investment in eco-adapted products and systems.

To realize these opportunities we have established three primary strategies:

- We will secure competitiveness for our key products in order to maintain our strength on the market. We will achieve this by, among other things, continually developing partnerships with our key customers and strengthening our technological leadership. We will also work on product differentiation, brand building and other measures that bolster Perstorp's market positions.

- We shall optimize our production structure so that we can maintain high accessibility for customers and be a reliable supplier. Above all this entails safeguarding our access to raw materials and creating the best possible conditions for our production in terms of cost-efficiency, availability and safety.

- It is essential that we exploit opportunities for growth on existing markets, but also in new areas. Our organic growth will be strengthened through proactive efforts within focused innovation and market development. We will also participate in structural changes in our markets and acquire interesting businesses. Acquisitions shall contribute to boosting organic growth in established areas and in new areas that can mean additional volumes, an expanded geographical presence and/or new technologies.

Greater customer satisfaction

I personally put great emphasis on making sure that Perstorp focuses on customer satisfaction and that we continually develop our ability to do good business. Consequently, the head of our Group Sales function joined our senior management team in 2007. We have strengthened our global sales organization by, among other initiatives, by appointing regional sales managers for eastern Europe and the Middle East. We have also intensified co-operation with key customers and involved more staff in contacts with customers.

Against the background of a changing raw materials market we are also investing this year in developing the ability of our organization to handle swift price fluctuations.

Based on my experience of working in Japan I have initiated a structured customer complaints resolution process, which means that together with representatives for central functions and all our production units I look at all complaints once a quarter and check how they have been handled so that we can improve customer satisfaction across the board.

Strong development

As I stated at the start, Perstorp reported strong development in 2007. The Group has been very busy and we have been helped by a strong international business cycle with buoyant demand and rising prices for many of our products. A number of capacity expansions came on stream for Perstorp, foremost among them the expansion of the aldehyde and propionic acid plants, which were expanded to meet rising demand.

Furthermore, our plant for production of rapeseed methyl ester (RME) for renewable vehicle fuel was started up.

Our strong performance meant that net sales climbed by 18% to reach SEK 8,583 m and EBITDA adjusted for non-recurring items improved to reach SEK 1,406 m (1,097) due to higher volumes and higher prices. Earnings improved despite the falling US dollar and high prices for raw materials and energy.

Major investments

To strengthen organic growth we have decided to build a plant for producing a new type of environmentally compatible plasticizer for PVC and other products based on a proprietary process (Valex project). This is one of the largest investments ever undertaken by the Group and it will create a platform from which we can deliver considerable volumes to the plastics sector in future.

We have also completed several company acquisitions and started various partnership projects that will mean that Perstorp can advance its positions in both new and existing business.

- We acquired a leading supplier of PIA (Purified Isophthalic Acid), which adds interesting specialist chemical products for both existing and new customers as well as boosting our presence in Asia.

- We started a joint venture in China and acquired a plant that makes us the largest producer of the specialty chemical TMP (Trimethylolpropane) in China. After the end of the financial year we bolstered this investment by acquiring a production plant for Neo (Neopentyl glycol). This means we are now halfway to achieving our goal of sales worth SEK 1 billion on the Chinese market by 2010.

- We have identified bio-based chemicals as an important area of growth and during the year we formed a subsidiary, Perstorp BioProducts AB in order to highlight our efforts in this area. We have moved business within RME focused on renewable fuel into this subsidiary. During the year we also acquired a business active in retailing and processing wood oils.

- After the end of the financial year the Group completed the acquisition of the caprolactones business belonging to Solvay, the chemicals and pharmaceuticals Group. This is a highly interesting acquisition for Perstorp. The products are aimed at expanding application areas and we are now planning to double production capacity in order to strengthen their leading positions and meet growing demand.

Outlook

The main priority for Perstorp in 2008 is to continue delivering growth and earnings according to plan. It will be very important to integrate acquired companies and handle the major investment projects that we have started, not least our Valex project and the planned expansion of the caprolactones activity.

Perstorp expects the good demand on the Group's markets to continue during the current year. This combined with new capacity, new products and strategic company acquisitions mean that I expect to see positive development for the Group during the current year.

Perstorp, March 2008

Bo Dankis
President and CEO

Year in review

Perstorp made excellent progress during the year while carrying out company acquisitions. Additional acquisitions have been carried out in 2008 and the composite business has been sold. Including sales for acquired companies and excluding sold activities, Group sales for 2007 totaled around SEK 10 billion.

Net sales

Net sales rose during the year by 18% to SEK 8,583 m (SEK 7,273 m in 2006). Of the sales increase, organic volume growth accounted for 11%, due to stronger demand for most products and the start-up of production of rapeseed methyl ester (RME) at the Stenungsund plant in the summer. Other products recording significant volume growth included acids as well as formalin plants and catalysts.

The business acquired in Singapore was consolidated at the end of November, which is why sales growth from the acquisition was only 1 per cent. The acquisition of the business in China will impact on sales and earnings from the start of 2008.

Price increases accounted for 9% of sales growth. The main factor here was higher raw material prices, particularly for methanol, whose price fluctuated significantly during the year. Price rises were especially high for basic polyols and oxo products, where the market for several products was very strong. Exchange rate effects resulted in a negative sales deviation of 3% due to the weakening US dollar.

Earnings

Operating earnings before depreciation and amortization increased to SEK 1,365 m (1,091) as a result of higher volumes and price levels. The operating margin rose to 15.9% (15.0). Increased capacity utilization had a positive effect on earnings. Adjusted for non-recurring items, primarily costs for M&A projects that were not completed, operating earnings amounted to SEK 1,406 m (1,097). Exchange rate effects on earnings were negative at around SEK 50 m, primarily due to the weaker USD.

Net debt increased during the year as a result of high investments and rising working capital, the latter due to both higher prices and the expansion of the business. Interest costs consequently climbed to SEK 909 m (819) after adjustments for currency effects.

The net loss after depreciation, net financial items and taxes was SEK 128 m (loss 153).

Investments

Major investments were carried out or started during the year to meet growing demand and start production of new products for the Group.

During the first half of 2007 Perstorp completed the construction of Scandinavia's largest unit for production of RME for renewable vehicle fuel and began delivering products from the plant. The plant will have an annual capacity of 160,000 tons when fully expanded. The Stenungsund plant also produces glycerine.

A strategic decision has been taken to construct a plant in Stenungsund for producing valeric aldehyde, which is a new product for the Group, and its derivatives 2-PH alcohol, valeric acid and a new plasticizer, DPHP.

Butene, which is the raw material for the process, is also new for Perstorp. The project started in 2007.

The plant is expected to be fully completed by 2011 and have an annual production capacity of

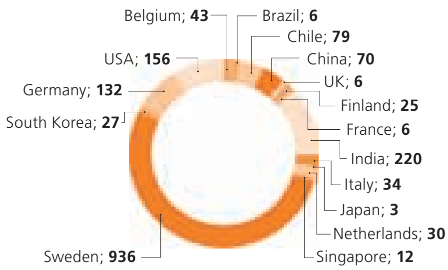
Income statement, Group

SEK m	2007	2006
Net sales	**8,583**	**7,273**
Cost of goods sold	-7,074	-6,105
Gross earnings	**1,509**	**1,168**
Sales, administration and R&D costs	-709	-618
Other operating income and expenses [1)]	5	15
Income from participations in associated companies	-2	1
Operating earnings (EBIT)	**803**	**566**
Exchange rate differences on net debt	25	104
Other financial income and expenses	-909	-819
Earnings/loss before tax	**-81**	**-149**
Tax	-47	-4
Net loss (incl. minority interest)	**-128**	**-153**

Operating earnings before depreciation (EBITDA)	**1,365**	**1,091**
EBITDA adjusted for non-recurring items	**1,406**	**1,097**

[1)] Other operating income and expenses primarily includes exchange rate effects on operational net receivables and non-recurring income and costs. It also includes insurance compensation for margin shortfall in conjunction with damage.

Average number of full-time employees per country



150,000 tons. The cost of the investment is estimated at SEK 1.5-2.0 billion, making it the Group's largest-ever investment. Production of valeric acid is primarily intended for the application area of synthetic lubricants, while 2-PH will primarily be used in the production of DPHP.

During the year, a decision was made regarding capacity investments in, for example, the production of Neo in Perstorp and butanol in Stenungsund.

Company acquisitions

At the beginning of the year, Perstorp established production in China by forming a joint venture and signing a contract for establishing production in China and thus gaining an opportunity to further strengthen its presence in this important market. The contract gives Perstorp a 51% ownership share of Shandong Fufeng Perstorp Chemicals Co. Ltd., which has a modern production plant for trimethylpropane (TMP) in Qilu Chemical Industrial Park, Zibo City, in the Shandong province. The plant will have an annual production capacity of 15,000 tons. Start-up is planned for early 2008.

Through the joint venture in China Perstorp acquired at the start of 2008 a plant for Neo production also located in the Linzi district of Zibo City. The plant is China's second largest Neo producer, with annual capacity of 20,000 tons and around 150 employees. The plant is expected to achieve sales of around SEK 300 m in 2008.

In line with the ambition to grow within bio-based chemicals and fuel components, Perstorp acquired Talloil AB's business activities within retail and processing of wood oils, which are used as a replacement for carbon heating oils.

At the end of 2007 Perstorp acquired a plant for the production of PIA (Purified Isophthalic Acid) in Singapore from Lonza AG. This was achieved through the Group taking over 100% of the shares in Lonza Singapore Pte Ltd. The acquired company is a leading supplier of PIA, an important raw material for the production of advanced coating systems, unsaturated polyester resin and plastic for PET bottles. The business had sales of USD 135 m in 2007 and the company has around 90 employees.

The acquisition was financed through a combination of owner capital and borrowed capital. Loan facilities were supplied by The Hong Kong and Shanghai Banking Corporation Limited.

The Perstorp Group has begun a major commitment in the growing market for caprolactones, where the Group sees considerable opportunities for growth and new applications.

In January 2008 Perstorp acquired Solvay Caprolactones, the caprolactones business of Solvay, the chemicals and pharmaceuticals group. This business had sales of around EUR 80 m in 2007.

The acquired business is a market leader in its field and operates with a high level of profitability on global markets with strong growth. Production is based in Warrington, UK, and the company has 65 employees.

Divestments

After the end of 2007 Perstorp reached agreement to sell its business within composites, YLA Inc. and its subsidiary, CCS Composites LLC, to TenCate Advanced Composites USA Inc. This sale is in line with the Group's strategy to focus and extend its core business in specialty chemicals. The business had sales of around USD 24 m.

To provide a more complete picture, a summary of Group results pro forma for 2007 and 2006 is presented below. The figures include all of the acquired companies from the start of 2007 and exclude the divested companies.

As the table shows, the Perstorp Group performed very strongly in 2007. Sales and earnings for the acquired businesses were also very strong. In the caprolactones sector in 2007 there was a shortage of capacity, which meant that volume and price trends were favorable. In the PIA sector demand soared, mainly for the PET bottle segment.

Pro forma income statement [1) 2)]

SEK m	2007	2006
Net sales	**10,042**	**8,394**
Cost of goods sold	-8,136	-7,119
Gross earnings	**1,906**	**1,275**
Sales, administration and R&D costs	-776	-683
Other operating income and expenses	5	6
Income from participations in associated companies	-2	1
Operating earnings (EBIT)	**1,133**	**599**
Operating earnings before depreciation (EBITDA)	**1,852**	**1,286**
EBITDA adjusted for non-recurring items	**1,894**	**1,299**

1) The acquired businesses within PIA and caprolactones have been calculated as though they were a full part of the Perstorp Group in 2007 and 2006. The composites business, which was sold after the end of the financial year, is excluded in both years.

2) Includes depreciation based on preliminary acquisition value calculations.

Overview of the Group

Perstorp's global activities are organized in a number of Group-wide functions that have both strategic and operational responsibility within their field. One of these functions, Business, includes eight business units that have their own responsibility for profits and long-term development within specific product and application areas.

The average number of Group employees during 2007 was 1,785 (1,675). The workforce was distributed geographically as follows: Sweden 50%, other EU countries 15%, Asia 22% and North and South America 13%.

Operations

The Operations function has overall and operational responsibility for Perstorp's production plants and energy production, including investments. The function is also responsible for Perstorp's work on environmental, safety and health issues, which is presented in greater detail in the Group's separate Sustainability Report.

Perstorp has production units at 13 sites in 12 countries. The largest units are situated in Perstorp and Stenungsund, in Sweden, Bruchhausen, in Germany, and Toledo, Ohio, in the US. In total there are around 50 specialized plants. Including energy production, technical service and maintenance, Operations has approximately 1,500 employees.

During the year key assignments included managing the Group's comprehensive investment in new products, primarily rapeseed methyl ester (RME), and in increased capacity for production of aldehydes and propionic acid. A lot of work was focused on integrating units acquired in the UK and Singapore.

Supply Chain

The Supply Chain function has global responsibility for procurements, planning, customer service, logistics and ERP (Enterprise Resource Planning).

Procurement function are responsible for managing and developing the Group's procurement strategy and processes. Each procurement category has a global commercial lead buyer and within the framework for the Group's ongoing productivity work various projects have been set up aimed at reducing costs for buying and handling individual items.

Planning function have responsibility for global planning of capacity at Perstorp's production sites. Their responsibility includes securing optimum availability of Perstorp's products, and responsibility for the Group's capital tied-up in stock.

Customer service is responsible for daily contacts with Perstorp's customers and customer service centers in 13 countries. This enables the Group to offer every customer a single contact person for all products throughout the entire chain, from order booking to delivery.

Logistics function are responsible for the collected logistics and distribution activities of the Group. Key assignments include securing good delivery service and reliable transport for customers while ensuring that total costs for supplies are optimized.

The ERP function take responsibility for maintenance and development of the Group's global ERP system, which among other things contains system support for Perstorp's global order, warehouse and invoicing processes.

During the year Supply Chain has focused primarily on improving the efficiency of the Group's distribution chains, further increasing customer service in general and service to key customers in particular, and continuing to implement global tools and processes for capacity planning and credit checks.

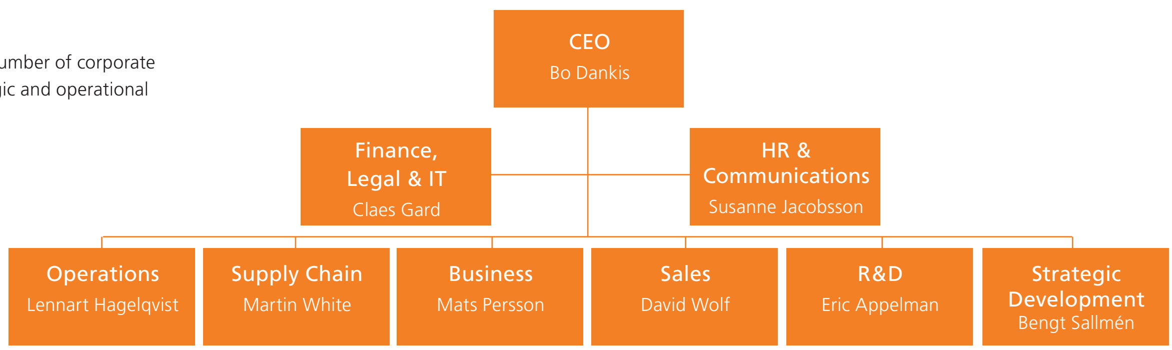
Business

The Business function is responsible for the Group's overall business activities and coordination of the business units. The business units have overall responsibility for the financial results and long-term development within each business area.

The function also includes three units for business development, market communication and business control. Business development focuses mainly on business development projects within

Perstorp organization

Activities are organized into a number of corporate functions that have both strategic and operational responsibility.



or closely related to existing areas of activity. Market communication develops the company's communications concerning products and applications.

During the year each business unit has analyzed its activities and identified prioritized areas to safeguard long-term profitable growth for the Group. The function has also developed better processes and models for pricing strategies globally.

Sales

The Sales function is responsible for sales operations in all markets. Perstorp has more than 20 sales offices in nearly as many countries, and agents in more than 60 other locations in all parts of the world. To further increase close proximity to customers in eastern Europe a Regional Sales Manager was located in Warsaw, Poland, during 2007. A decision has also been taken to locate a Regional sales Manager in the Middle East in 2008.

The sales organization has made progress in co-operation and information flows across boundaries have improved. Work with key customers for the Group has been reinforced and responsibility spread among more staff. Important assignments in 2008 will include continued focus on customer satisfaction, integrating new products from acquired businesses and increasing market shares.

Renewal & Development

The Renewal & Development function has overall responsibility for Group activities within renewal and development. Research and development projects are conducted in close cooperation with the Group's marketing and production organizations within the framework of a well-structured innovation process. Each year around 400 new ideas are assessed, of which 20-25 result in development projects. Over the course of the year the team work on 30-35 projects of different size.

Activities involve around 100 employees at the R&D Centers in Perstorp, Sköldvik in Borgå, Finland, and Vapi, India. R&D costs during the year amounted to SEK 92 m. Development projects have resulted in a number of product launches and 25 patent and rights applications were filed during the year.

Strategic Development

The role of the Strategic Development function is to strengthen the Group's growth. The function focuses on company acquisitions in existing and new areas of business activity, and with business development projects outside existing areas of activity. During the year responsibility for business development within biofuel was transferred to the newly formed Perstorp BioProducts AB.

In 2007 the function worked intensively on various partnership and acquisition projects. This resulted in Perstorp forming a joint venture for production of basic polyols in China. The Group also acquired a production unit for PIA in Singapore from Lonza AG, Talloil AB's activities within trading and processing of wood oils, and after the end of the year, the caprolactones business of Solvay, a chemicals and pharmaceutical group.

Finance, Legal & IT

Finance is responsible for the financial accounting and reporting, corporate governance, internal controls, borrowing, financial policy, the internal bank and insurance. Group-wide activities within information technology are designed to support the business processes, with the goal of achieving the greatest possible value and, in parallel, optimizing IT costs.

The legal operations were strengthened during 2007 through recruitment of an additional lawyer to coordinate and address legal issues and support the Group's strategic development.

HR & Communications

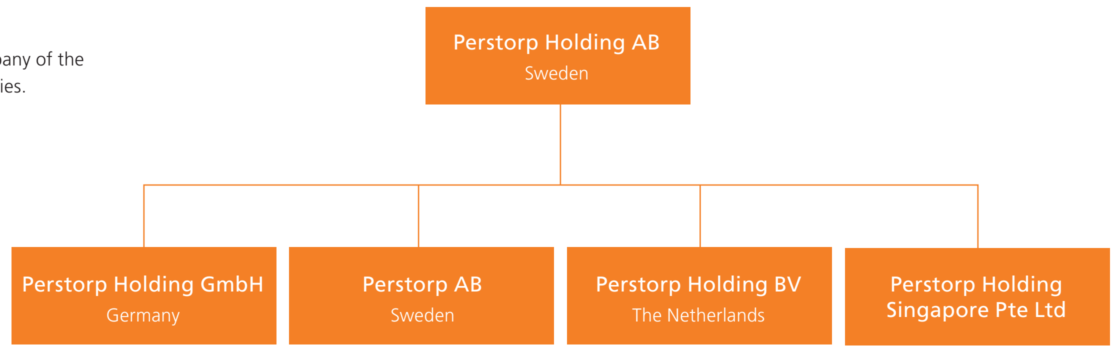
Perstorp has developed a progressive, performance-based corporate culture. The Human Resources & Communications function participates through well-developed processes for personnel leadership, personnel development, internal communication and brand building.

Perstorp's personnel are well educated and highly motivated. The HR & Communications function help to attract and develop personnel who seek a challenging job and who share Perstorp's corporate values of responsibility, reliability and focused innovation.

In 2007 a Brand Manager was appointed to boost Perstorp's brand on the labor market, to local residents near our sites and the market in general. Internal communication was strengthened in order to give personnel at all levels and in all countries the same opportunities to participate in Perstorp's challenges and development. For additional information about activities related to human resources and social responsibility, reference is made to the Group's separate Sustainability Report.

Perstorp Group structure

Perstorp Holding AB is the parent company of the Group, which has four holding companies.



Market development

The global economy in 2007 was characterized by favorable business conditions with growth reported in nearly all major markets. Perstorp's products met strong demand in general with rising prices, while raw material and energy prices continued to soar from an already high level.

Leading market positions

Most of Perstorp's products are sold all over the world. The largest markets are Europe (total 58%), followed by Asia (20%) and NAFTA (14%). Perstorp has leading positions within several product and application areas on global markets and is a leader in Europe and other major regions. The Group is the world's largest producer of basic polyols, Penta and TMP as well as several specialty polyols, organic acids and caprolactones. Perstorp is also the leading supplier of plants and catalysts for production of formalin.

Competition varies between different types of products and applications.

Markets in 2007

The global economy during the year was characterized by favorable business conditions with growth reported in nearly all major markets. This resulted in high capacity utilization in several sectors, not least the chemicals industry.

For Perstorp, demand during most of the year was strong in the US and improved in Europe, while the emergence of extra capacity in Asia meant sharper competition in certain product areas. The trend was particularly favorable for basic polyols, Penta and Neo, oxo alcohols and acids, as well as in the formalin product area, both for plants and catalysts.

The year was also marked by rising prices of many raw materials, which for Perstorp and the chemicals industry in general meant significantly higher costs for oil-based and natural gas-based products. Methanol prices also fluctuated considerably during the year. Added to this were the rises in energy prices, which further drove up raw material prices and increased production costs.

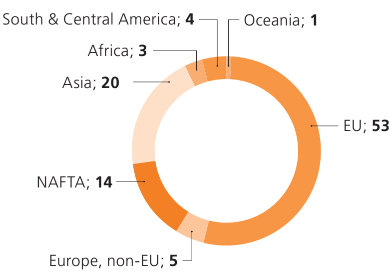
Towards the end of the year raw material prices stabilized, with the exception of methanol. The falling US dollar meant negative currency effects of around SEK 50 million compared with the previous year.

Development for individual product and application areas is reported on pages 12-25.

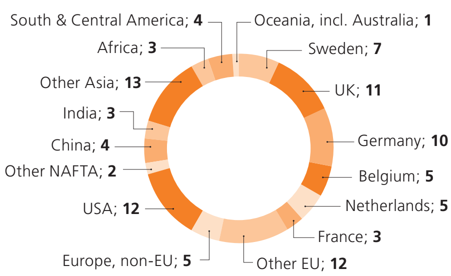
Outlook

Perstorp expects to see continued good demand on the Group's markets in 2008. This demand, combined with new capacity, new products and strategic acquisitions, is expected to contribute to continued positive growth for the Group.

Sales per region, pro forma, %



Net sales per market, pro forma, %



Major investments are underway at the Group's plant in Stenungsund, where process engineers Anna Wilhelmsson and Hampus Carlsson work. During the year production of RME started and a decision was taken concerning the Group's biggest ever investment, a plant for production of valeric aldehyde and derivatives.

Products & applications

The Perstorp Group has a strong base of technology and long processing chain in selected areas of specialty chemicals. The Group focuses on continuous innovation to create added value for customers and is at the leading edge within the development of eco-adapted products and systems.

Core competencies

Perstorp's core competencies are in selected niches of organic chemistry and process and polymer chemistry. Knowledge of products, processes and applications based on aldehyde chemistry, polyol chemistry, hydro formulation and formalin technology is of vital importance for the Group's business and development

Raw materials & production

Around 75% of the Group's raw materials are crude oil or natural gas derivatives, consisting mainly of propylene, methanol and acetaldehydes. Key supporting chemicals include sulphuric acid, sodium hydroxide and ammonia. These products are purchased on international markets via fixed delivery contracts and on spot markets.

Production is supported by effective, environmentally compatible processes mainly developed within the Group.

Several key raw materials for proprietary production, with particular emphasis on aldehydes such as formaldehyde, butyraldehyde and propionic aldehyde, are produced internally, which contributes strongly to the Group's competitiveness and opportunities to develop new products.

Perstorp's products are aimed at a large number of applications in the auto, engineering, paint, chemicals, plastics and construction industries. They are also used in farming, food, packaging, textile, paper and electronics applications. The largest product areas are basic and specialty polyols, oxo alcohols and plasticizers, and organic acids.

During the year and afterwards the product range has been expanded through acquisitions to include two further important products, PIA (Purified Isophtalic Acid) and caprolactones.

Development for the various products and applications in 2007 is presented on pages 12-25. The new activities acquired after the end of the year are described on pages 26-27.

Environment, health & safety

To achieve sustainable development, Perstorp works on continuous improvements in the environment, health and safety of the Group's processes and products.

The Group works in affiliation with Responsible Care program and UN Global Compact. Most production units are certified in accordance with ISO 14001, which means the operations meet stringent demands in terms of environment-health-safety.

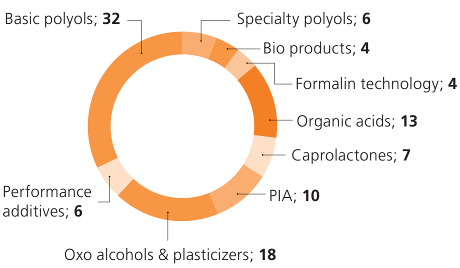
In 2007 the REACH directive (Registration, Evaluation, Authorization of Chemicals) came into effect within the EU. This directive places clear responsibility on the industry to produce data about chemical substances, to make risk assessments and propose measures for managing risks. Chemicals with certain hazardous properties may not be used without a permit. Legislation will demand that safer alternatives shall be considered when using dangerous chemicals. If the alternative is economically and technically appropriate, the dangerous chemical shall not be used. Perstorp works actively and in dialogue with customers and suppliers to meet new demands, including a survey of application areas for the products.

Research & development

Within the framework of a focused innovation process, Perstorp works to increase knowledge about the chains of value for products and customer requirements concerning end products. The driving force for innovation is to create value both for the customer and for Perstorp. A large part of the Group's research and development resources are devoted to finding new application areas for existing products in order to extend their life cycle and thereby boost their value.

Within R&D the Group has expressed an ambition to be at the leading edge of the swift changes within eco-adapted products and systems.

External net sales per product area, pro forma, %



Product & application areas

Basic polyols
Specialty polyols
Oxo alcohols & plasticizers
Organic acids & formates
Formalin technology & catalysts
Performance additives
Bio products

New business areas

PIA (Purified Isophtalic Acid)
Caprolactones

Perstorp's value chain, and key areas of use for products are presented in the illustration and explained in detail on pages 12-27.

Raw materials

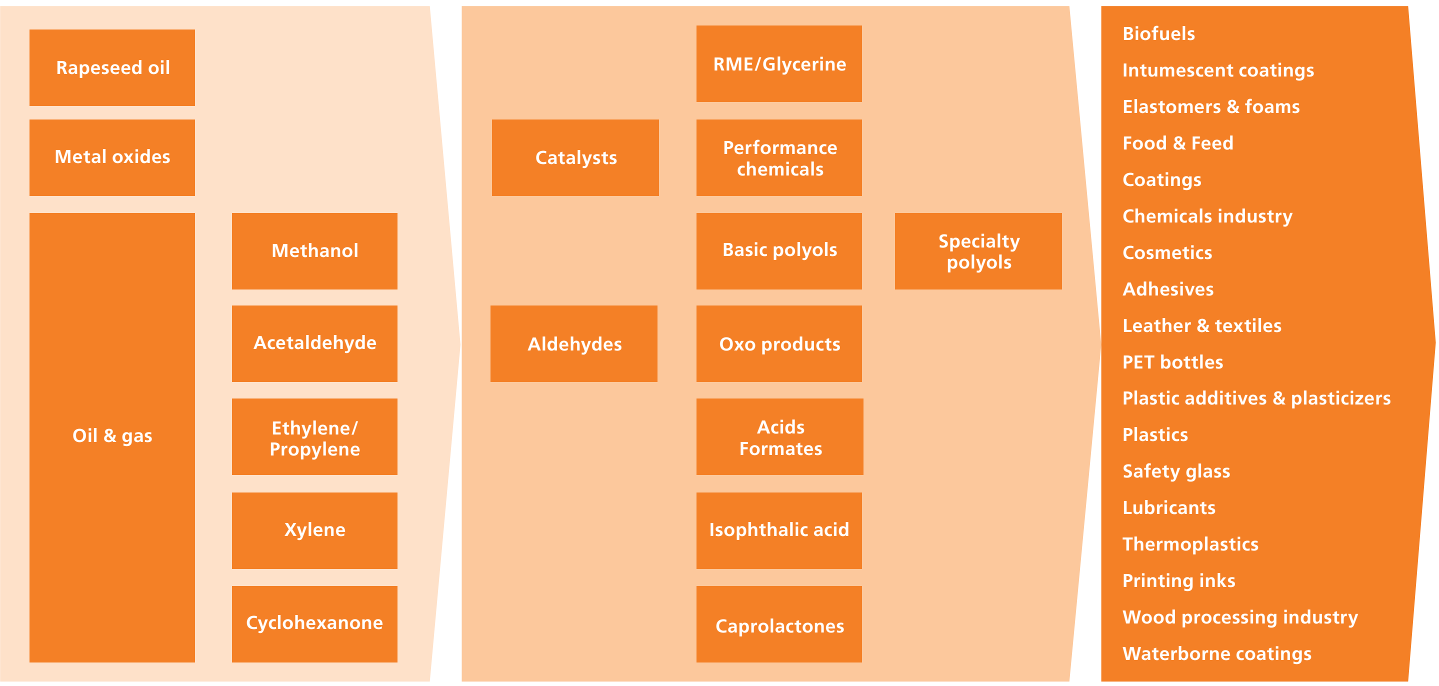
Around 75% of Perstorp's raw materials are based on oil or natural gas.

Products

The chemicals produced by Perstorp are used in some cases as raw materials internally or they are sold to other companies which produce intermediates for industry or products to end-users.

Application areas

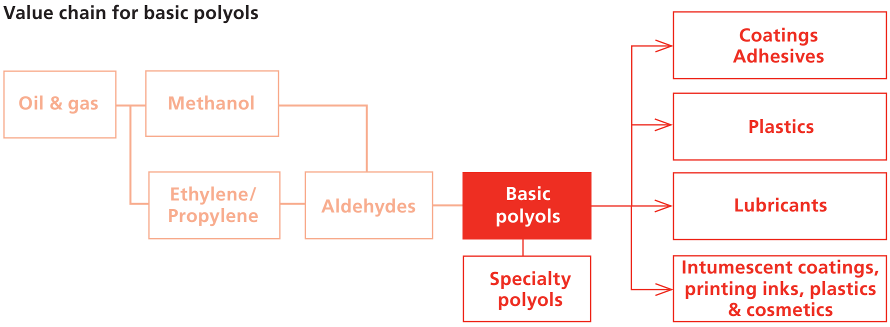
Perstorp's products finally end up in a wide range of applications, such as car coatings, household paint, animal feed and plastics.



Basic polyols

Coating systems are the main application areas for basic polyols. In a normal tin of paint, 5-10% originates in products from the Perstorp Group.

Value chain for basic polyols



Perstorp is the leading supplier on the world market for Penta and TMP, and the third largest supplier of Neo. These basic polyols are used primarily to make coating systems. During the year the Group formed a joint venture and acquired a business in China, as well as forming a partnership for production of Penta in Saudi Arabia.

Products

Perstorp's basic polyols are mainly used in the production of resins for coating systems. The polyols are used in these applications to control the properties of end products with regard to surface structure, impact resistance and adhesiveness, for example. Other important application areas for polyols are in the form of intermediates used in the production of liquid adhesives, plastic additives, lubricants and other chemical products.

Perstorp is the leading global supplier of Penta (Pentaerythritol) and TMP (Trimethylolpropane), and the third largest producer of Neo (Neopentyl glycol).

The Group is among its competitors the only company that produces polyols on four continents with its production units in Chile, India, Sweden, South Korea, Germany and the US. In addition, the Group started a joint venture during 2007 and made an acquisition in China at the start of 2008.

Markets

The market for basic polyols developed positively during the year. The trend towards increased use of eco-adapted powder coatings within industry has continued to drive demand for Neo. The market for Penta has shown a good balance between supply and demand, with good progress for Perstorp's products. TMP also experienced good demand amid growing competition especially from producers in Asia.

Key events

During the year, Perstorp formed a joint venture with Shandong Fufeng Perstorp Chemicals Co. Ltd. in China, which meant the Group established production of polyols in China. Within the framework of the agreement, Perstorp acquired 51% of Zibo Fufeng Tongsheng Chemical Co. Ltd, which has built a modern production plant for TMP in Qilu Chemical Industrial Park in Zibo City in Shandong province. The plant has production capacity of 15,000 tons per year, which means that the joint venture is the largest producer of TMP in China.

The Group has also entered into partnership with Chemanol of Saudi Arabia, concerning Penta. Within the framework for the partnership Chemanol will build a plant for production of Penta in Al-Jubail, Saudi Arabia, based on Perstorp's technology. Chemanol will take responsibility for production and Perstorp responsibility for international marketing of products from the plant. Production is estimated to start in the second half of 2008 at the earliest and the business will strengthen Perstorp's market positions, especially in Asia.

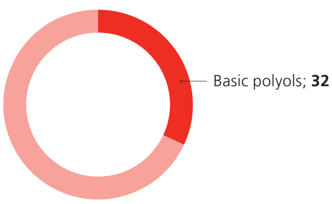
At the start of 2008, Perstorp acquired, through the joint venture started earlier in 2007, another business in the Chinese province of Shandong. Perstorp acquired an activity for production of Neo from Chinese polyol producer Zibo Linzi Yongliu Chemical Industry Stock Co. Ltd. The plant is in the Linzi district of Zibo City, where Perstorp already operates a TMP production plant. In connection with the acquisition Perstorp raised its stake in the joint venture to 58.5%.

The plant is China's second largest producer of Neo with a capacity of 20,000 tons per year and around 150 employees. Sales for the business are expected to reach around SEK 300 m in 2008. The acquisition reinforces Perstorp's position as a leading supplier of polyols and is a natural step for the investment started during the year in China. Perstorp is planning some eco-related smaller investments in the Neo plant.

Future development

Co-operation in China and Saudi Arabia strengthens Perstorp's global positions in the polyol area as well as its presence on regional markets. In China, where Perstorp has been making sales for the past 20 years, both production plants established during the year will contribute to providing better opportunities for continued expansion and also enable Perstorp to offer existing customers a high level of service.

Share of the Group's external net sales, %



Main products

Penta (Pentaerythritol)
TMP (Trimethylolpropane)
Neo (Neopentyl glycol)

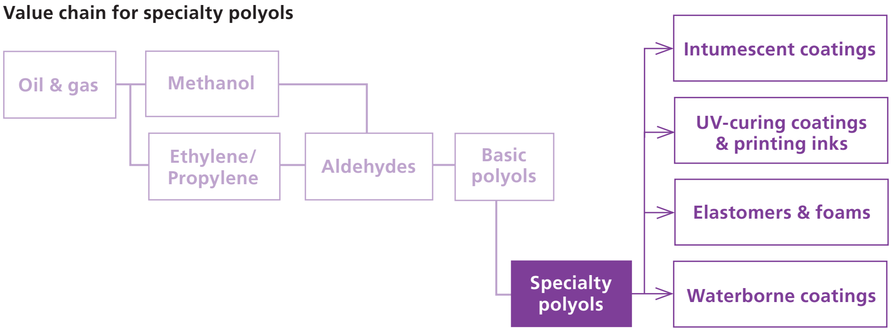
Main applications

Coating systems
Liquid adhesives
Plastic additives
Lubricants

Specialty polyols

Specialty polyols are used to provide specific properties for paints, plastics and other material. They help make household surfaces, for example, both attractive and durable.

Value chain for specialty polyols



Perstorp has successfully developed a series of specialty polyols with specific technical properties. These products are meeting a growing need for eco-adapted systems in a range of application areas including mobile phones, autos as well as CFC-free fridges and freezers.

Products

The need for sophisticated and environmentally compatible coating systems is growing for various electronics products such as mobile telephones and TVs, and also in the automotive and furniture industries. This trend is driving demand for existing and new specialty polyols that offer specific technical properties for advanced coating systems.

Synthetic lubricants comprise another large and growing application area for specialty polyols, particularly for CFC-free cooling systems in air conditioners, refrigerators and freezers and similar products.

Given the growing demand, Perstorp has focused for several years on efforts to develop and launch new types of specialty polyols. The focus is on eco-adapted products that can be used to make powder coatings, UV-curing coatings, waterborne coating and so-called high solids. A number of new products and applications were launched within these areas during the year.

Markets

Good demand for Perstorp's specialty polyols continued during 2007. Development was specially strong for so-called micronized Penta and Di-Penta.

Micronized Penta, under the brand name of Charmor™ is used in intumescent coatings and is meeting increased demands due to stricter requirements for fire safety in steel constructions. Micronized Penta also meets increased demand as a component in a new generation of eco-friendly PVC stabilizers.

Di-Penta is characterized by high heat-stability and good fluidity properties. It is used to produce UV-curing coatings and in several other applications.

Key events

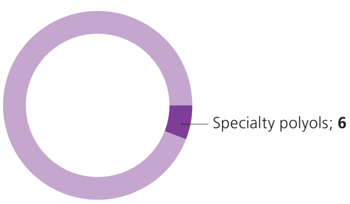
Many new sophisticated products are being developed in Japan, making the country an interesting and growing market for Perstorp's specialty polyols. There is specially good growth potential within UV-curing systems and other eco-adapted systems where Perstorp has a broad product portfolio. Increased use of plastics by the electronics industry means that demand for Di-Penta is growing within applications that reduce sensitivity for scratches on the casing of mobile phones, GPS navigators and other electronic items.

During the year Perstorp decided to further strengthen its organization in Japan. The aim is to grow further on this interesting market and be involved in development of new products with significant market potential.

Future development

Perstorp expects the fast development within specialty polyols to continue, driven by heightened demand and by new applications.

Share of the Group's external net sales, %



Main products

Micronized polyols
Di-Penta
Di-TMP
BEPD
Bis-MPA
Allyl Ether
Alkoxylates
Boltorn

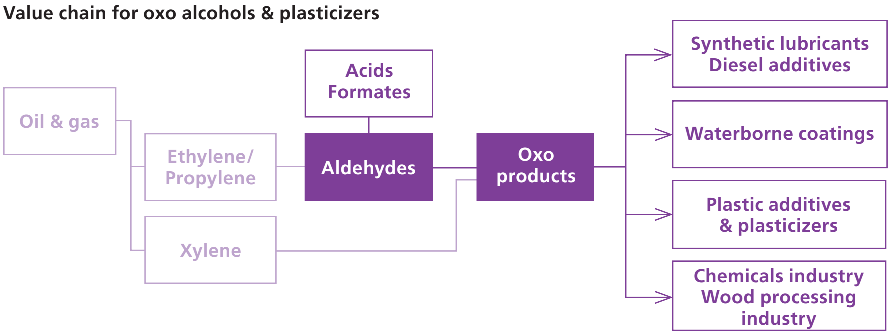
Main applications

PVC stabilizers
Expanding intumescent coatings
Cosmetics
UV-curing coatings & printing inks
Waterborne industrial & consumer coatings
Elastomers & foams

Oxo alcohols & plasticizers

Oxo alcohols from Perstorp are used in the production of plastic additives. Demand is driven by increased interest in eco-adapted products.

Value chain for oxo alcohols & plasticizers



Perstorp is one of Europe's largest producers of oxo alcohols, which are used for, among other products, the production of waterborne coating systems and biodegradable lubricants. The Group also produces plasticizers for PVC plastics and during the year decided to make a major investment in production of valeric aldehyde and a series of other products, including a new type of plasticizer with clear environmental benefits.

Products

Perstorp produces several types of synthetically produced alcohols, or oxo alcohols, which are based on the same aldehyde bases used to produce the Group's range of polyols. Oxo alcohols have a wide range of application areas, including the production of waterborne coating systems and biodegradable lubricants, as well as fuel additives for greater combustion efficiency in diesel engines.

Large quantities of plasticizers for PVC (Poly vinyl chloride) plastics are produced in Stenungsund, with production focused strongly on medical grades of DEHP (diethyl hexyl phthalate). Medical equipment featuring DEHP-based disposable products, used for blood transfusions and dialysis, for example, comprise the primary application area. Other applications include resilient floor coverings for wet rooms, electrical cable insulation and other areas.

Markets

Perstorp is one of Europe's largest and most differentiated producers of synthetically produced alcohols.

Structural changes in the industry during recent years have reduced capacity and created a favorable balance between supply and demand. For a leading supplier such as Perstorp this has meant positive trends and increased demand.

Key events

A decision has been taken regarding a major investment in production of valeric aldehyde and a long series of new products at the Group's site in Stenungsund, Sweden. Production start is planned for 2011 and capacity will be 150,000 tons per year. The investment is the largest ever at Perstorp and is expected to cost between SEK 1.5-2.0 billion.

In addition to valeric aldehyde the plant will produce a new and cost-effective plasticizer for PVC plastic, DPHP (Di-propyl-heptyl-phtalate), which meets the new requirements of the EU's environmental directive.

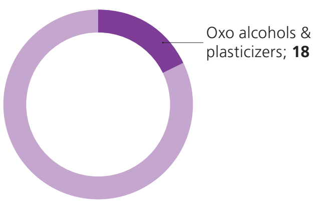
Valeric acid and the 2-PH (2-propyl heptanol) alcohol will also be produced, which are mainly used in synthetic lubricant applications and for production of the DPHP plasticizer respectively.

Comprehensive development work has started in connection with the Valeric aldehyde investment. Key components of this work include product and application development concerning DPHP and several additional products.

Future development

Perstorp expects the good development of oxo alcohols and plasticizers to continue. Growth is expected to accelerate as the new plant comes into use and new products are introduced on the market. Not least DPHP is expected to see strong demand within applications such as electrical cables, plastic flooring and car interior features, which are expected to grow by 5% over the year.

Share of the Group's external net sales, %



Main products

n-Butanol
2-Ethylhexanol
DOP (Dioctyl phtalate)
PA (Phthalic Anhydride)

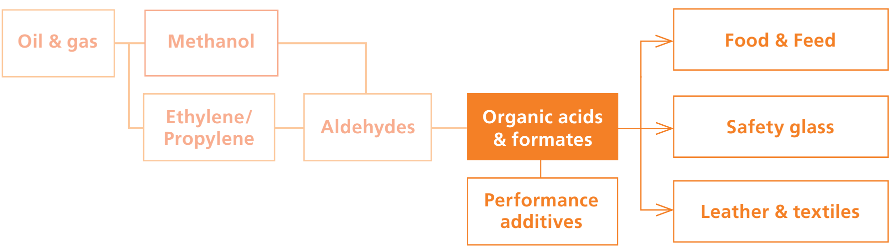
Main applications

Synthetic lubricants
Diesel additives
Waterborne coatings
Plastic additives
Plasticizers
Chemicals industry
Wood processing industry

Organic acids & formates

Safety glass is a growing application area for Perstorp's organic acids. A major area is windshields and side windows for cars while use in facades, display windows and doors is growing fast.

Value chain for organic acids & formates



Perstorp is a large producer of organic acids and formates supplied to markets with strong growth. Products are delivered to both external customers and internally within the Group as a raw material for a series of applications in industry and agriculture. During the year the range was extended to also include potassium formate.

Products

Perstorp is a large-scale producer of organic acids and formate for different applications in industry and agriculture. Organic acids comprise 2-Ethylhexanoic acid, propionic acid and formic acid.

Propionic acid and formic acid are used as raw material for the Group's own products, mainly used in the agriculture sector (see Performance additives on page 22)

Perstorp is a leading global producer of sodium formate and began producing potassium formate during the year.

2-Ethylhexanoic acid and propionic acids are produced in Stenungsund in Sweden, while formic acid is produced in Perstorp. Formates are produced at several sites.

Markets

Perstorp noted favorable demand both for acids and formate during the year, partly a result of increased use of propionic and formic acids as feed additives by external customers and as a raw material for the Group's own products, mainly for use within agriculture.

Following the completion of capacity expansions, the Group was able to deliver higher volumes of propionic acid and formic acid for use in feed additives both to external customers and internally.

Demand for 2-Ethylhexanoic acid was strong in the building and auto sectors. Other growing application areas are in oils for refrigerator compressors and as an additive in corrosion inhibitors, i.e. anti-rusting agents found in cooling glycol for example.

Use of formate also grew during the year. Falling demand for liquid detergent applications was more than offset by increased use of formate in de-icing agents at airports, during oil extraction and in concrete additives for low-temperature castings.

Key events

During the year a new factory for propionic acid was taken into operation in Stenungsund, which also meant that capacity for production of 2-Ethylhexanoic acid increased.

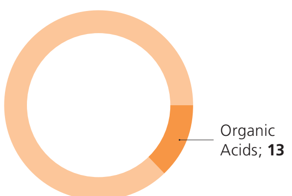
The Group also began production of potassium formate, which is used for increasing productivity in oil drilling and as a de-icing agent. Demand for these products continued to develop positively.

Future development

Demand is expected to remain strong in 2008 from the building industry, the farming sector and several other market segments.

Use of formate is expected to continue growing within the oil drilling industry and as a de-icing agent. As a result, a decision was taken after the end of the year to make a significant investment in capacity for production of potassium formate at the Perstorp plant.

Share of the Group's external net sales, %



Main products

- 2-Ethylhexanoic Acid
- Propionic Acid
- Formic Acid
- Sodium Formate

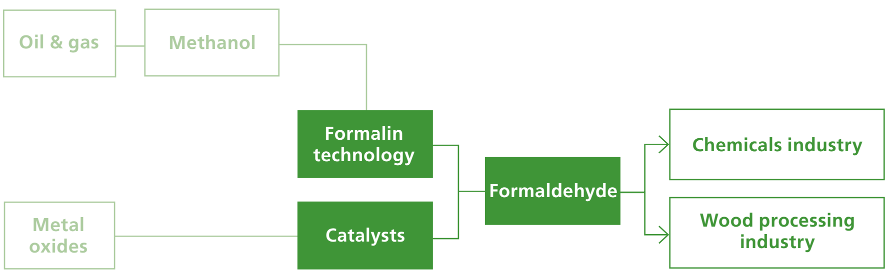
Main applications

- Safety glass
- Coatings
- Cooling agents
- Synthetic lubricants
- Oil drilling
- De-icers
- Leather & textile treatment
- Liquid detergents
- Feed additives

Formalin technology & catalysts

Perstorp Formox has now delivered over 100 formalin plants and is by far the world's largest supplier of formalin technology.

Value chain for formalin technology & catalysts



Perstorp is a world-leading supplier of plants and catalysts for formalin production. Its position is based on the effective formalin process the company has developed and markets under the well-established Perstorp Formox brand. In 2007 for the second year in a row, Perstorp Formox sold formalin plants with a joint production capacity of over one million tons per year.

Products

Perstorp Formox focuses on design, development and delivery of complete plants for formalin production and of the catalyst used in the production process. Customers include the world's largest chemicals, resin and board producers in more than 40 countries.

Nearly half of the global growth in formalin production capacity over the past 10 years has been attributable to plants supplied by Perstorp Formox. The company also accounts for two-thirds of total global sales of oxide catalysts used in the production of formalin.

Perstorp Formox supports its customers proactively and long-term to ensure the best possible production economics by optimizing formalin production in terms of productivity, quality and environmental burden. Customers are offered the opportunity to sell back used catalyst material, which means recycling of raw materials and safe handling of waste products which also contributes to a better economical efficiency.

Major development work is focused on this area using studies of new and alternative catalyst systems.

Markets

The strong world economy has meant continued demand for new capacity and Perstorp Formox sold eight fomralin plants to customers in Europe and Asia during the year This means that for the second year in a row Perstorp Formox sold formalin plants with a joint production capacity of over one million tons per year.

Strong global demand resulted in high capacity utilization at many of the world's formalin plants that use Perstorp Formox plants for their production. In combination with several new plants starting up during the year this led to increased demand for the company's catalysts.

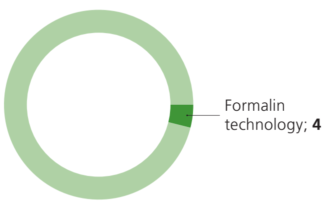
Key events

Perstorp Formox received its largest ever single order during the year for a project involving two formalin plants. The customer already operates two other formalin plants based on Perstorp Formox technology.

Future development

Development in 2007 reinforced an already strong position on the world market, and business is expected to grow organically due to rising demand for formalin from different industries. The growing number of plants based on Perstorp Formox technology is also contributing to a long-term increase in sales of the company's formalin catalysts.

Share of the Group's external net sales, %



Main products

Formalin technology
Formalin catalysts
Waste-gas catalysts

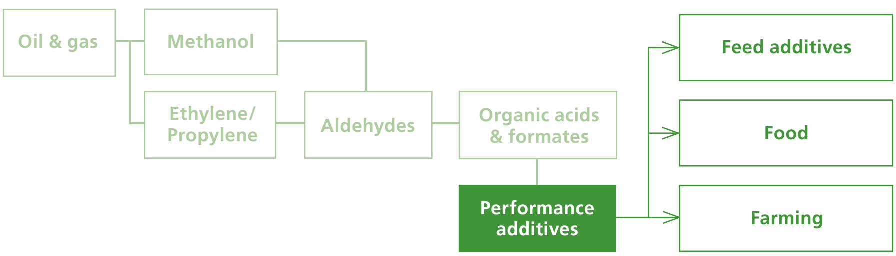
Main applications – formaldehyde

Chemicals industry
Wood processing industry

Performance additives

The farming and food processing sectors are growing markets for Perstorp. Development is driven by growing demands for food quality and animal husbandry.

Value chain for performance additives



Farming and the food sector are growing application areas for the Group. Development is driven by increased demands for food quality and animal husbandry. To strengthen its positions in this area during the year, Perstorp renewed its marketing concept with an increased focus on brand building.

The business unit that accounts for Perstorp's applications for the farming and food sectors was re-organized during the year and received a new name, Performance Additives (previously Food&Feed).

Products

Perstorp's range comprises primarily feed additives, silage additives used to preserve green feed and various acid mixes for grain preservation. An important application area for feed additives is as a replacement for antibiotics in animal feed in order to reduce the risks of salmonella, E-coli and other bacteria and to prevent the formation of mould poisons, mycotoxins in the feed.

Most products are based on the refinement of formic acid and propionic acid or other Perstorp products such as calcium formate, sodium formate and sodium propionate.

Markets

In the long term, demand for Perstorp's feed additives is driven by stricter demands for animal husbandry within the EU. A key factor is the EU's new Feed Hygiene Regulation of 2006, which means tougher requirements concerning food quality and animal husbandry and a ban on antibiotics added to feed.

Sales trends for all products remained good during the year and the business unit strengthened its positions on European markets.

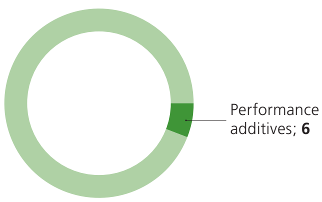
Key events

To strengthen market positions the business unit's product and service offers were co-ordinated during the year in new brand groups with a shared marketing concept. The range is now based on five main application areas and brands. Work also entailed a complete integration of the previously acquired business, Franklin B.V. of the Netherlands, which mainly produces and markets specialist feed additives based on organic acids. In connection with this change the legal entity in the Netherlands changed name to Perstorp Waspik B.V.

Future development

Markets within the farming and food sectors are expected to grow fast in future. Perstorp is also maintaining its focus on growth through product development and intensified marketing.

Share of the Group's external net sales, %



Main products

ProPhorce®
ProSid®
ProMyr®
ProFare®
ProTain®

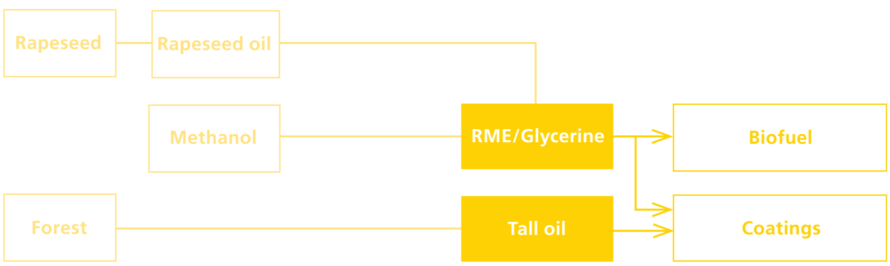
Main applications

Acidifier & anti-bacteria additives
Mould preventers, adsorbent of mould poison & immunity stimulants
Silage additives for green feed
Enzymes
Antioxidant for protection of fats & vitamins in feed

Bio products

Perstorp has begun a major new venture within biofuel. During the year production started of rapeseed methyl ester (RME) for use in renewable fuels.

Value chain for bio products



The market for renewable fuels is growing fast and is expected to mean rising demand for advanced suppliers of bio-based chemicals. During the year Perstorp entered this market first and foremost with production of rapeseed methyl ester (RME).

As part of its intensified efforts within biofuel, Perstorp brought together production and development of bio-based chemicals and fuel components during the year in a new subsidiary, Perstorp BioProducts AB.

Products

The Group's new venture within RME has been transferred to Perstorp BioProducts. RME is used as a renewable component of diesel ("biodiesel") and as a fuel by itself.

During the first half of 2007 Perstorp completed the construction of Scandinavia's largest unit for production of RME, at its production site in Stenungsund, and began supplying products from it. When fully built the plant will have annual capacity of 160,000 tons.

The Stenungsund plant also produces glycerine, a bio-based product used in medicines, cosmetics and food, but also in chemical products.

Markets

Renewable fuel is expected to show strong growth in future, especially in Europe. The market is expected to increasingly demand advanced chemical and process knowledge and production of considerable volumes of biofuel and its components, which make this area an interesting long-term investment for the Group.

The market for RME since production start-up in 2007 has been weaker than expected. Despite this, Perstorp has performed well thanks to efficient production and strong integration in the value chain. However, assessments of the long-term potential of the market remain positive and gradual improvements in demand are expected in 2008.

Glycerine experienced good demand and in a short time Perstorp has established itself as an interesting supplier on the international market, especially in the more sophisticated segments.

Key events

Perstorp started supplying RME to oil company Preem Petroleum and other customers during the spring.

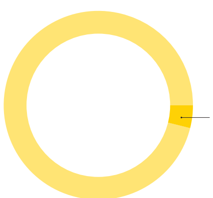
In line with the ambition to grow within bio-based chemicals and fuel components, Perstorp acquired Talloil AB's business activities within retail and processing of wood oils, which are used as a replacement for carbon heating oils. Perstorp thereby adds another product area to its biofuel business.

During the year Perstorp started several development projects within bio-based chemicals and fuel components.

Future development

The Group is considered to have good opportunities to develop in this new area by combining skills in established activities with proactive development work in new products based on renewable raw materials.

Share of the Group's external net sales, %



Main products

RME
Tall oil
Glycerine

Main applications

Biofuels
Coatings
Chemical products

New business areas

Perstorp aims to grow both organically and through acquisitions and strategic alliances. During and after the past financial year the Group carried out two major company acquisitions in new growth areas for the Group. The acquired businesses will form the basis for two new areas: Purified Isophthalic Acid (PIA) and caprolactones. Both areas are characterized by high growth and will now be the focus of intensive efforts.

Acquisition within PIA

Perstorp has acquired a plant for production of PIA (Purified Isophthalic Acid) in Singapore. PIA is an important raw material for the production of advanced coating systems, unsaturated polyester resins and plastics for PET bottles. The business involves interesting products for both new and existing customers while enlarging Perstorp's presence in Asia.

The acquisition was completed at the end of 2007 when Perstorp took over 100% of the shares in Lonza Singapore Pte Ltd from Lonza AG.

The business, which had sales of USD 135 m in 2007 and around 90 employees, will be included in the Basic polyols business unit.

Major investment in caprolactones

Perstorp has begun a significant investment in the growth market for caprolactones, where the Group sees extensive opportunities for growth and new applications. In October 2007 an agree- ment was signed with chemicals and pharmaceuticals group Solvay to acquire Solvay Caprolactones, which had annual sales of around EUR 80 m in 2007. The takeover was finalized in January 2008 following approval by the EU Commission.

The acquired business is a market leader in its field and operates with high profitability on global markets with strong growth. Production is based in Warrington, the UK, and the company has around 65 employees.

The caprolactones' products, which Perstorp will market under the Capa® brand, comprise a large number of caprolactones, which are used in coating systems, polyurethanes, binding agents and thermoplastics. Examples of applications include coating for aircraft, elastomers and reinforcement for shoes and advanced liquid adhesives. Other applications are under development.

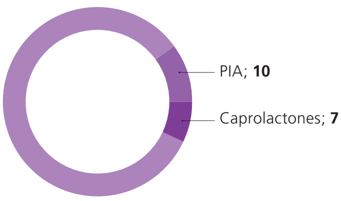
The products are aimed at largely the same applications as Perstorp's polyols and offer interesting synergy opportunities, which makes the acquisition an important extension of the Group's offer on the market. The activity will form a new business unit, Caprolactones.

Perstorp expects the swift pace of development to continue in this area and the Group is planning to double production capacity for caprolactones and its derivatives. The aim is also to establish partnerships with key customers and develop new application areas.

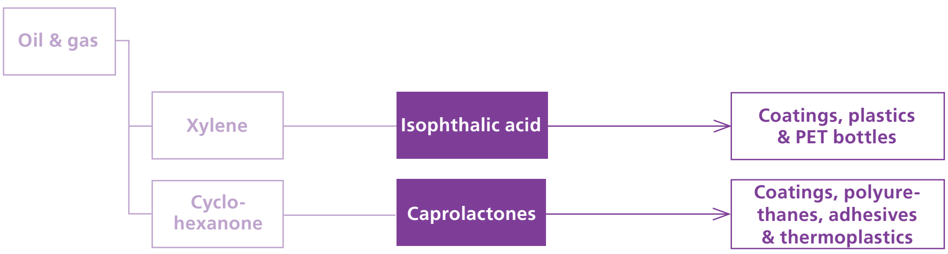
The acquisition within PIA is interesting in many ways for Perstorp, explains Mats Olofsson, head of Business Unit Basic Polyols:

"The products complement our range of polyols, which makes us even more interesting for existing customers. This applies mainly in the area of powder coatings. PIA is also used to improve the physical properties in materials used for PET bottles. Both of these areas are growing fast and we aim to develop both businesses and lift these products even higher. The acquisition also strengthens Perstorp's position in Asia, where the Group is now growing fast."

Share of the Group's external net sales, %



Value chain for isophthalic acid & caprolactones



Perstorp sees great potential in caprolactones, says Mårten Olausson, head of Business Unit Caprolactones:

"The acquired business is a world leader and complements Perstorp's products in an excellent way. We can now go further in the chain of value for our basic polyols and we can provide more products aimed at the same customers as for our specialty polyols. Furthermore, we see good opportunities for developing new products and applications through cross-fertilization of caprolactones with other Perstorp products.

The market for caprolactones is expected to continue growing fast. This quite simply is a golden opportunity for Perstorp to acquire an exciting business, increase capacity significantly and strengthen a position that is already world-leading."

Caprolactones is a new area for Perstorp. A large application area for caprolactones is reinforcement components that help shoes to retain their shape despite constant wear.

Main application areas for PIA

Coatings
Plastics
PET bottles

Main applications for Capa®

Coatings
Reinforcement for shoes
Adhesives

Strategic focus

The Perstorp Group is a world leader in several segments of the specialty chemicals market. With a performance-based corporate culture and extensive knowledge of chemicals the Group produces winning formulas for a wide variety of industries and application areas. Perstorp aims to be at the forefront of the swift development within eco-adapted products and systems.

Perstorp's vision

Perstorp's vision is for the Group to be the recognized global leader in creating resource-efficient and environmentally sustainable solutions for customers. Activities are carried out in selected niches within organic and polymer chemistry.

Financial goals

The Group's financial goals are to achieve sales growth of 10% annually and earnings growth of 15% annually, expressed as EBITDA.

Global trends

Perstorp serves customers in a wide variety of industries across the globe, which places large demands of monitoring global trends and strategic planning. Perstorp has noted a number of key trends that are expected to have significant effects on the Group's markets in the future. Accordingly, appropriate actions are being taken in the strategic planning and management of operating activities.

These trends can be summarized as follows:

High & fluctuating prices for raw materials

Ongoing growth in the global economy indicates that access to raw materials may become more limited in the future. Consequently, prices during the foreseeable future are expected to remain high and become more volatile than previously.

Longer, more integrated chains of value

The value chains from raw material to end product are becoming longer, which is creating the need for greater integration both forward and backward. The aim is not to get caught between strong raw material suppliers and price pressured end-product manufacturers. Longer value chains generate increased price flexibility and create better conditions for strong cash flows.

Stronger, more specialized firms

Consolidation among customers and suppliers is increasing, which is leading to the establishment of large, more specialized players. The geographic location of business operations will be controlled to a greater extent by cost considerations and other competitive advantages.

Increased environmental awareness

Awareness of the environment and the need for sustainable development is expected to increase among politicians and the general public, subjecting the chemicals industry to ever greater demands. However, this will also create new and growing markets for environmentally compatible processes, products and services.

Increased product differentiation

Increased segmentation of customers and markets will boost demand for more differentiated products. Large groups of new customers will bring new values and new needs. This, in turn, will lead to shorter product lifecycles and place greater demands on product and applications development.

Perstorp's strategy

To achieve its vision, Perstorp has formulated three main strategies to develop business:

Secure competitiveness

Perstorp will secure competitiveness for its key products by caring for key customers and defending and strengthening its technological leadership.

Optimizing production apparatus

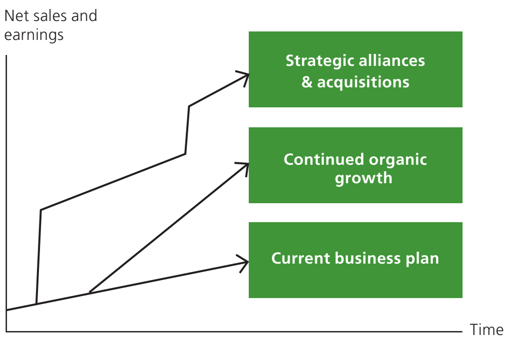
Perstorp will optimize the production structure through continued high accessibility and reliability, which mainly entails safeguarding our access to raw materials and a conscious selection of global regions that are suitable for the production of Group products, based on such parameters as cost efficiency and availability.

Capture growth opportunities

Perstorp will capture growth opportunities on its markets. Through focused innovation and market development the Group will achieve high organic growth. Strategic acquisitions will be aimed at further increasing volumes, geographical presence and technologies, and creating opportunities to grow within new, complementary areas of business activity.

Three steps to high growth

Perstorp aims to achieve high growth by expanding in accordance with the business plans in existing areas and by exploiting new opportunities for organic growth. In addition to organic growth, acquisitions and strategic alliances will bring increased volumes, more geographic markets and new technologies.



Risk management

Perstorp is a global Group, with a significant portion of sales outside Sweden and most of its assets in currencies other than SEK. The debt level is relatively high meanwhile, which is normal for a company under private equity ownership. In terms of risk assessment the most important factors can be summarized in the areas of raw material supplies and prices, as well as currency management and financial policy.

Access to raw materials

As previously mentioned, around 75% of the Group's raw materials are crude oil or natural gas derivatives, consisting mainly of propylene, methanol and acetaldehydes. Rapeseed oil is now another important raw material for Perstorp. A Group policy for external raw material supplies stipulates that, whenever possible, Perstorp should use more than one supplier for each of its principal raw materials.

Most raw material supplies for the Swedish plant in Stenungsund, are delivered via pipelines by a single supplier. This eliminates storage costs and minimizes freight costs, but also creates a risk in terms of raw material supplies. The risk is managed through terminal agreements with suppliers, which in turn creates access to a variety of suppliers. For certain other core raw materials, Perstorp enters into long-term delivery agreements to secure their raw material supplies.

Fluctuating raw material prices create turbulence in the marketplace and, in turn, uncertainty with regard to demand in certain sectors. Perstorp concludes quarterly or monthly contract-price agreements with discounts and special terms for most core raw materials, which provides greater price stability over the short term.

Opportunities to fix prices over longer periods are available only in the electricity market. In accordance with Group policy electricity supplies in Sweden are hedged: for the coming six months in a range between 70 and 100% of expected consumption and thereafter – for up to a maximum of three years – on a falling scale. From the seventh quarter the range is between 0 and 40%. At the end of 2007 this meant that the market value of future electricity contracts had a positive effect on equity of SEK 13 m after tax.

Several key raw materials for proprietary production, including energy, are produced internally, which contributes strongly to the Group's competitiveness and opportunities to develop new products.

Customer sensitivity

Perstorp has a broad product range and extensive geographical coverage for its customer base. There is thus no specific dependence on one single large customers. The Group's ten largest customers account for 25% of total net sales. Around 800 customers make purchases in excess of SEK 1 m each.

Production disruptions

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

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

Currency effects

Most of the Group's production operations are conducted in Sweden and in Germany, the US and from 2008 in Singapore and the UK. Of the Group's net sales (Table A, pro forma including new business within caprolactones and PIA), customers in the EU account for around 50%, with Germany and the UK as the largest single markets. Only 7% of sales are attributable to customers in Sweden. Customers within NAFTA account for 14% of sales, and the proportion of customers in Asia has risen to 20%.

Accordingly, substantial deliveries from the production units in Sweden are made to customers in other European countries, the US and Asia. Most sales are invoiced in USD and EUR. In terms of procurements, most payments are denominated in EUR. As a result, USD is the Group's most highly exposed currency. Through the addition of the caprolactones business and growth within Perstorp BioProducts, where sales and much of the purchasing is in EUR, exposure in this currency will increase.

Accordingly, Group sales and earnings are impacted by fluctuations in the strength of SEK in relation to other currencies. Perstorp has chosen not to hedge its flows in foreign currency. Currency fluctuations are managed instead through loans raised in the Group's most highly exposed currencies, EUR and USD, so that debt also changes when the strength of SEK varies. The relation between financial liabilities and earnings before depreciation is also one of the key financial indicators in terms of banking and affects interest levels. Loans in foreign currency reduce earnings exposure, because interest payments are also made in EUR and USD.

Exposure for the main currencies is presented in table B.

With regard to exposed capital, large parts of the Group's tangible fixed assets and working capital are concentrated in Sweden. For allocations of the Group's surplus value in conjunction with the acquisition by Perstorp Holding AB of the Sydsvenska Kemi Group, due consideration was taken for the fact that large proportions of Group revenues are derived from EUR and USD-based markets. This has impacted the currency distribution of intangible assets. Following these allocations the proportion of operating capital in EUR is 40%, in SEK 31%, USD 25% and other currencies, 4%. See table C, which shows the situation at the end of 2007, before the acquisition of the caprolactones business, which will mean further exposure in GBP.

As mentioned above, large amounts of financial liabilities are in USD and EUR. As a result the exposed net assets in different currencies are reduced. Exposure of shareholders' equity is presented in table D. This also reflects the situation at the end of 2007, before the acquisition of the caprolactones business. This acquisition was financed to a large extent via loans in EUR, and some loans in USD. In addition there are also intangible assets in the form of patents, brands, customer relations, etc, which in all likelihood will be attributable mainly to future earnings in EUR.

Financing & interest rates

Perstorp has a finance policy that regulates which financial risks the Group is prepared to take, and guidelines for management of these risks. These risks are primarily financing risk, interest rate risk, liquidity risk and counterparty risk, in addition to the currency risk described above.

Corporate Finance assumes global responsibility for Perstorp's financial activities, provides necessary specialist expertise in the area and for coordination of the Group's external borrowing. The department also operate as the Group's internal bank with regard to capital supply and the Group account system.

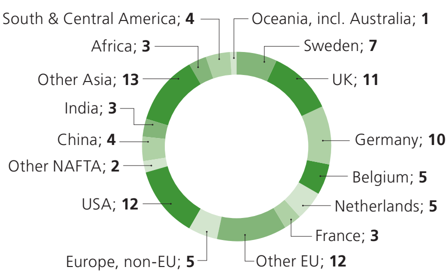
The Group's policy is that the internal bank of Perstorp AB shall have no positions in foreign currency that are not hedged. This is managed by converting foreign currency via swap contracts into SEK, among other measures.

The *financing risk* is the risk that difficulties may arise in the refinancing of maturing loans, or that such refinancing will be costly. Net debt is specified in Table E. Most of the Group's financing consists of senior credits guaranteed by Svenska Handelsbanken, Nordea and HSH Nordbank, as well as second lien and mezzanine facilities syndicated in 2006 to around 10 financiers. The loan agreements extend over 7 or 8 years. There is also a Parent Company loan from Luxembourg-based Financière Forêt S.À.R.L., which extends over 10 years and for which the 10%-interest is being capitalized.

The loan agreements include financial covenants comprising key ratios with respect to cash flow in relation to interest payments a debt repayment, net debt in relation to EBITDA and EBITDA in relation to interest payments. During 2007, the Group met the terms of these covenants.

Interest risk is the risk for negative effects on earnings caused by increased market interest rates. For most of the bank loans, inter-rate hedging is implemented for a period of three years from December 2005. As a result, the average fixed-interest duration is 236 days, excluding the Parent Company loan, which extends over 10 years from year-end 2005.

Net sales per market, pro forma, %



Interest-rate hedging had a favorable impact on Group earnings during 2007, and also generated a favorable equity effect amounting to SEK 37 m after tax, as a result of the market valuation of the interest-rate contract for the remaining period.

Fixed interest duration and interest-rate levels at year-end are shown in Table F.

In connection with the acquisition of the caprolactones business at the start of 2008, existing loan facilities, including senior and mezzanine loans, were converted and extended with an additional senior creditor, DnB NOR. The maturity structure has thereby been adjusted but the final due dates for the facilities are unchanged. The loan from the Group's shareholders has also been extended.

Management of *liquidity risk* is about ensuring that the Group has sufficient liquid funds and current investments as well as enough financing through agreed credit facilities. Senior executives follow ongoing forecasts of Group liquidity very closely, including unutilized loan commitments and liquid funds, on the basis of expected cash flow.

The Perstorp Group has a corporate policy concerning *counterparty risk*. The main aim is to prevent credit losses and optimize tied-up capital. The credit policy sets the framework and procedures for approval and monitoring of credit. The policy states that additional supplies to customers who have payments due shall be approved by a superior manager. Work aimed at ensuring that customers pay on time is rigorous and continuous. Advance payment, credit insurance or bank guarantees are used in countries where credit risk is considered to be high.

A. Sales per market [1)]

SEK m	2007	%
Sweden	722	7
United Kingdom	1,112	11
Germany	1,023	10
Belgium	540	5
Netherlands	547	6
France	319	3
Other EU	1,169	12
Europe, non-EU	464	5
USA	1,207	12
Other NAFTA	199	2
China	426	4
India	350	3
Other Asia	1,186	12
Africa	267	3
South and Central America	450	4
Oceania incl. Australia	61	1
Total	**10,042**	**100**

1) Pro forma 2007

B. Flows & translation exposure per currency, forecast 2008

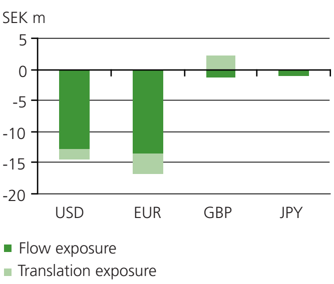
	Net sales	Operating capital	EBITDA	Financial payments	Net	Translated to SEK m [1)]
USD	577	-353	224	-21	203	1,310
EUR	781	-605	176	-44	132	1,250
GBP	26	-34	-8	-	-8	-100
JPY	2,500	-580	1,920	-	1,920	110
Total						**2,570**

1) Translated at rates on closing day.

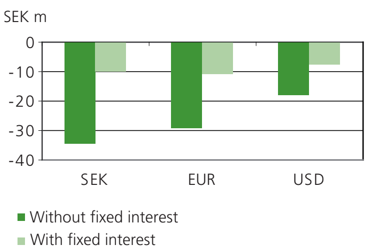
C. Operating capital per currency at end of 2007

SEK m	Working capital	Tangible fixed assets	Intangible fixed assets	Total operating capital
SEK	478	3,266	9	3,753
EUR	303	687	3,778	4,768
USD	200	915	1,909	3,024
GBP	7	0	293	300
INR	-6	99	0	93
CNY	-13	94	10	91
KRW	13	3	8	24
Other currencies	4	2	0	6
Total	**986**	**5,066**	**6,007**	**12,059**

Impact on EBITDA of 1% stronger SEK



Sensitivity to 1% increase in interest rates



D. Net assets per currency, before & after loans in foreign currency, end of 2007

SEK m	Net assets before loans in foreign currency	Loans in foreign currency, in Swedish companies	Liquidity swaps	Exposed net assets
EUR	2,581	-3,496	150	-765
USD	1,543	-823	298	1,018
GBP	253	-	-	253
SEK	-4,706	4,319	-467	-854
Other currencies	132	-	19	151
Total	**-197**	**0**	**0**	**-197**

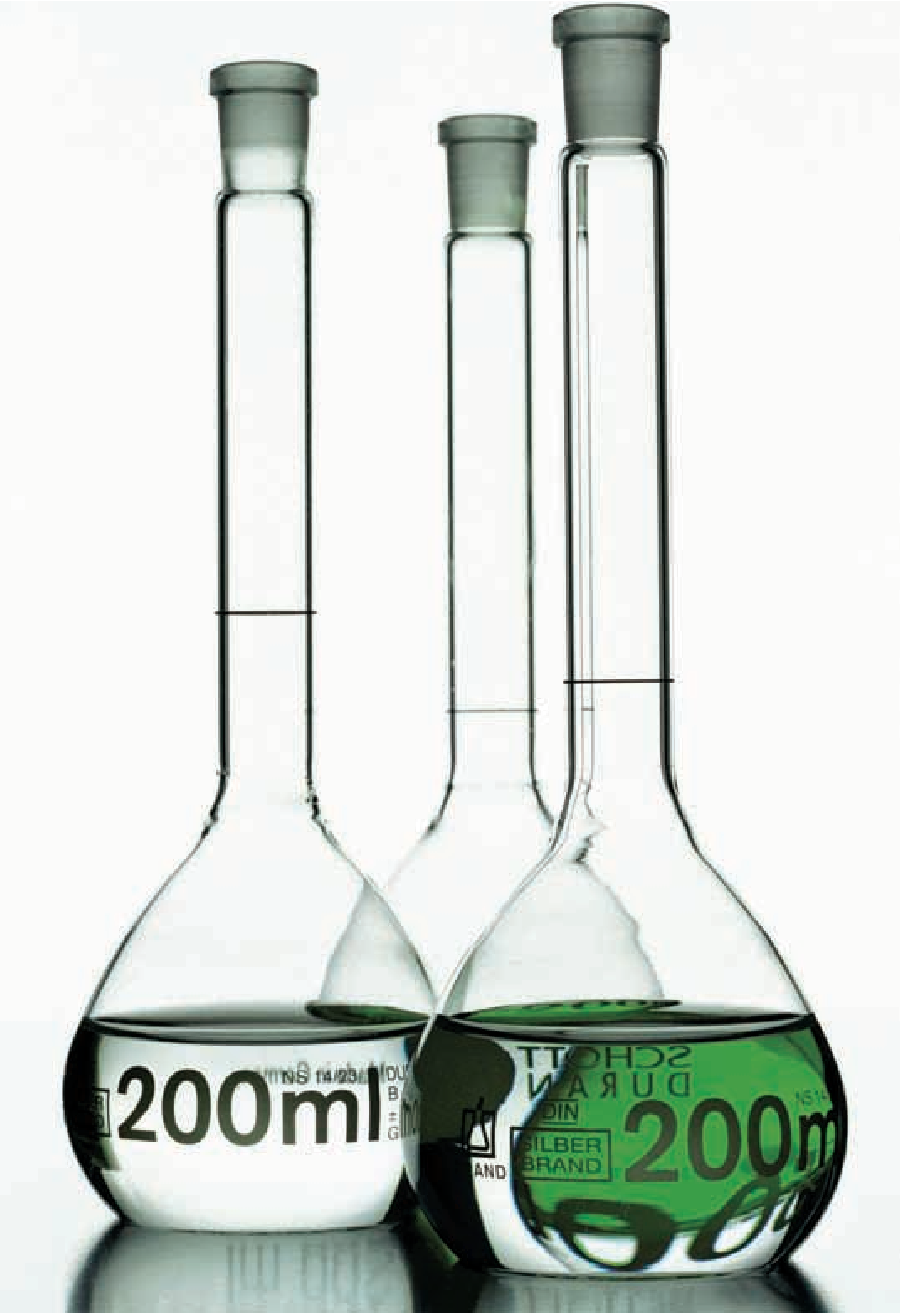
E. Specification of net debt

SEK m	December 31, 2007
Senior credits	4,585
Second lien	610
Mezzanine	2,257
Revolver	211
Term loan, Singapore	453
Capitalized costs for arranging loans	-276
Other financial liabilities excl. owner loan	340
Financial debt excl. Parent Company loan and pension liabilities	**8,180**
Interest-bearing pension liability, net	249
Loan from Parent Company	2,362
Total interest-bearing liabilities	**10,791**
Cash and cash equivalents	-447
Other interest-bearing receivables, long and short term	-88
Interest-bearing assets	**-535**
Reversal of capitalized costs for arranging loans	276
Net debt incl. pensions	**10,532**

F. Composition of financial debt & interest rates, by currency

	Loan[1] per currency, SEK m	Effective interest rate at year-end, %	Duration, days, before interest hedging	Actual interest period, days
SEK	3,456	6.6	137	254
EUR	2,913	12.6	23	229
USD	1,800	7.1	82	209
Other currencies	11	7.2	35	35
Total December 31, 2007	**8,180**	**8.7**	**88**	**236**

[1] Excluding Parent Company loan and pension liability.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Report of the Board of Directors

Group & its operations
Perstorp focuses on several specific segments of the market for specialty chemicals products. Most of the products are sold worldwide, with the largest markets in Europe (58% of total), followed by Asia (20%) and NAFTA (14%). The Group has manufacturing companies in 12 countries in Europe, North and South America, and Asia. The average number of employees in the Group during 2007 was 1,785.

Ownership & legal structure
Perstorp Holding AB, controlled by French private equity firm, PAI partners, acquired Sydsvenska Kemi AB (publ.) from Industri Kapital on December 22, 2005. Perstorp Holding AB is the parent company of four holding companies: Perstorp AB, Perstorp Holding GmbH, Perstorp Holding B.V. and Perstorp Holding Singapore Pte Ltd.

During the year Perstorp transferred production and development of bio-based chemicals and fuel components to a new subsidiary, Perstorp BioProducts AB.

Markets & economy
The global economy in 2007 was characterized by favorable business conditions with growth reported in nearly all major markets. This resulted in high capacity utilization in several sectors, not least the chemicals industry.

For Perstorp, demand during most of the year was strong in the US and improved in Europe, while the emergence of extra capacity in Asia meant sharper competition in certain product areas. The trend was particularly favorable for basic polyols, Penta and Neo, oxoalcohols and acids, as well as in the formalin product area, both for plants and catalysts.

The year was also marked by rising prices of many raw materials, which for Perstorp and the chemicals industry in general meant significantly higher costs for oil-based and natural gas-based products. Methanol prices also fluctuated considerably during the year. Added to this were the rises in energy prices, which further drove up raw material prices and increased production costs.

Net sales
Net sales rose during the year by 18% to SEK 8,583 m (SEK 7,273 m in 2006). Of the sales increase, organic volume growth accounted for 11%, due to stronger demand for most products and the start-up of production of rapeseed methyl ester (RME) at the Stenungsund plant in the summer. Other products recording significant volume growth included acids as well as formalin plants and catalysts.

The business acquired in Singapore was consolidated at the end of November, which is why sales growth from the acquisition was only 1 per cent. The acquisition of the business in China will impact on sales and earnings from the start of 2008. Price increases accounted for 9% of sales growth. The main factor here was higher raw material prices, particularly for methanol, whose price fluctuated significantly during the year. Price rises were especially high for basic polyols and oxo products, where the market for several products was very strong.

Exchange rate effects resulted in a negative sales deviation of 3% due to the weakening US dollar.

Earnings
Operating earnings before depreciation and amortization increased to SEK 1,365 m (1,091) as a result of higher volumes and price levels. The operating margin rose to 15.9% (15.0). Increased capacity utilization had a positive effect on earnings.

Adjusted for non-recurring items, primarily costs for M&A projects that were not completed, operating earnings amounted to SEK 1,406 m (1,097). Exchange rate effcts on earnings were negative at around SEK 50 m, primarily due to the weaker USD. Net debt increased during the year as a result of high investments and rising working capital, the latter due to both higher prices and the expansion of the business. Interest costs consequently climbed to SEK 918 m (828) after adjustments for currency effects.

The net loss after depreciation, net financial items and taxes was SEK 128 m (loss 153).

Financial position
Net assets and net debt increased during the year in part as a result of expansion investments and partnership agreements, but also due to price rises which affected working capital. The business acquired in Singapore towards the end of the year mainly affected tangible fixed assets and financial borrowings. The allocation of acquired value will be established during the present year. The effects of currencies on the balance sheet varied: there was a 6% fall in the value of USD but a 5% rise in EUR in 2007. The strengthening of EUR is unfavorable for net debt since a relatively large amount of Group borrowing is in EUR.

Working capital rose from SEK 714 m to SEK 986 m during the year, of which around one third relates to the acquisition in Singapore and the rest to growth, higher prices and unusually high operating liabilities at the start of the year.

Shareholders' equity showed a negative trend during the period due to the net loss and currency effects.

Cash flow
Cash flow from operations during 2007 was SEK 550 m (591). The operating profit was significantly higher than last year, but cash flow fell due to increased interest payments. Operating capital built up due to volume growth, expansion of the product range (RME) and price rises.

Cash flow from investing activities was negative, SEK 1,253 m (-332). The acquisition of the business in Singapore is included in this cash flow at an amount of SEK 662 m. Correspondingly, the acquisition of a share in the company in China is included, at an amount of SEK 34 m.

Investment in fixed assets totaled SEK 531 m (476), of which the largest single project was the plant for rapeseed methyl ester (RME).

Cash flow from financing activities shows that loans from the Parent Company increased by SEK 189 m, in connection with the acquisition in Singapore. Utilization of bank credit increased, also mainly due to the Singapore acquisition, which was completed via separate bank financing.

Investments

Major investments were carried out or started during the year to meet growing demand and start production of new products for the Group. During the first half of 2007 Perstorp completed the construction of Scandinavia's largest unit for production of RME for renewable auto fuel and began delivering products from the plant. A decision has been taken to construct a plant in Stenungsund for producing valeric aldehyde, which is a new product for the Group, and its derivates 2-PH alcohol, valeric acid and a new plasticizer, DPHP. The cost of the investment is estimated at SEK 1.5-2.0 billion, making it the Group's largest-ever investment.

During the year, a decision was made regarding capacity investments in, for example, the production of Neo in Perstorp and butanol in Stenungsund, aimed at strengthening the Group's market positions for these products.

Acquisitions & agreements

At the beginning of the year, Perstorp established production in China by forming a joint venture and signing a contract for establishing production in China and thus gaining an opportunity to further strengthen its presence in this important market. The contract gives Perstorp a 51% ownership share of Shandong Fufeng Perstorp Chemicals Co. Ltd., which has a modern production plant for trimethylpropane (TMP) in Zibo City, in the Shandong province. The plant will have an annual production capacity of 15,000 tons. Start-up is planned for early 2008.

In line with the ambition to expand within bio-based chemicals and fuel components, Perstorp acquired Talloil AB's business activities within retail and processing of wood oils, which are used as a replacement for carbon heating oils.

At the end of 2007 Perstorp acquired a plant for the production of PIA (Purified Isophthalic Acid) in Singapore from Lonza AG. This was achieved through the Group taking over 100% of the shares in Lonza Singapore Pte Ltd. The acquired company is a leading supplier of PIA, an important raw material for the production of advanced coating systems, unsaturated polyester resins and plastics for PET bottles. The business had sales of USD 135 m in 2007 and the company has around 90 employees. The acquisition was financed through a combination of owner capital and borrowed capital. Loan facilities were supplied by The Hong Kong and Shanghai Banking Corporation Limited.

Future development

Perstorp expects to see continued good demand on the Group's markets in 2008. This demand, combined with new capacity, new products and strategic acquisitions, is expected to contribute to continued positive growth for the Group.

Environment

The Group has production units in 12 countries. In Sweden, the Group conducts about 20 operations that require permits within such companies as Perstorp Specialty Chemicals AB and Perstorp Oxo AB, which have current permits for the production of products including polyalcohols, formalin, formic acid and other acids and alcohols. Units that require permits account for most of the Group's operations in Sweden. Each unit is legally obliged to submit annual environmental reports, which have to be approved by the supervisory authorities.

Employees

The average number of employees during the year was 1,785 (1,675). The increase is explained mainly by completed company acquisitions and organic growth within new and existing product areas.

Important events following fiscal year-end

The Perstorp Group has begun a major commitment in the growing market for caprolactones, where the Group sees considerable opportunities for growth and new applications. This has been implemented by signing an agreement to acquire Solvay Caprolactones, the caprolactones business of Solvay, the chemicals and pharmaceuticals group. This business had sales of EUR 80 m in 2007 and around 65 employees. Production takes place in Warrington, UK. After the acquisition, Perstorp plans to double production capacity for caprolactones and its derivatives in order to reinforce the business's leading position and meet rising demand. The EU Commission approved the deal in January 2008 and the business was taken over on February 1, 2008.

The acquisition of the Solvay Caprolactones business was financed through a combination of owner capital and borrowed capital. This has meant that existing senior loans and mezzanine loans have been increased. DnB NOR has joined the group of senior creditors.

After the end of the 2007 financial year Perstorp has also completed the acquisition of an additional production site in the Chinese province of Shandong, which consolidates the Group's leading position in polyols. This was achieved by the previously established joint venture in China acquiring a business for production of basic polyol Neo. The plant is expected to achieve sales of around SEK 300 m in 2008. In conjunction with the acquisition, Perstorp increased its participating interest in the joint venture company to 58.5%

After the end of 2007 Perstorp also reached agreement to sell its business within composites, YLA Inc. and its subsidiary, CCS Composites LLC, to TenCate Advanced Composites USA Inc. This sale is in line with the Group's strategy to focus and extend its core business in specialty chemicals. The business had sales of around USD 24 million.

Corporate Governance

Annual General Meeting

The Annual General Meeting is Perstorp's highest decision-making body. The Meeting elects the company's Board of Directors and auditors, adopts the annual accounts and grants freedom from liability to the Board and President.

At the Annual General Meeting in 2007, Lennart Holm, Dominique Mégret, Bertrand Meunier, Bo Dankis and Fabrice Fouletier were re-elected ordinary members of the Board, and Gaëlle d'Engremont was re-elected deputy member and Colm O'Sullivan elected new deputy member. There were no Extra General Meetings.

Board of Directors

According to the Articles of Association, the Board of Directors shall consist of one to five members, with not more than five deputies. Members of the Board are nominated by the company's principal owner, with the exception of members who represent the employees, who are elected by the trade unions.

The members of the Board are presented on pages 62-63.

Work conducted by the Board of Directors is regulated by the Board's working procedures, which are examined and approved by the Board once annually. The working procedures also regulate the division of responsibility between the Board and the President. Claes Gard, Perstorp's CFO, is the secretary at Board meetings. For important decision points, company staff participate either as experts or to make presentations.

Work of the Board

During 2007, six scheduled Board meetings were held, as well as one statutory meeting and six extra meetings. Minutes are kept at all meetings.

Every month the Board receives a written report on Perstorp's earnings and financial position. The President is also in continual contact with the Chairman of the Board.

The work of the Board is regulated by working procedures for the Board, which are adopted once a year after a review by the Board. An assessment of Board performance is a part of these procedures.

The following points are addressed at each Board meeting:

- Situation report from the President
- Financial report, review of reports sent to Board members
- Investment decision for projects worth more than SEK 15 m
- Status of acquisition projects
- Financial statement for year-end and first 6 months
- Structural and organizational matters
- Other important matters

In addition to these fixed points, a number of main subjects are addressed during the year, for example:

- Review and approval of budget for next year
- Internal controls, a key area about which the Board receives a continuous flow of information

The company started business in 1881 as a strategic supplier in the forest industry in Skåne, southern Sweden. For a long time the company's name was Skånska Ättikfabriken AB. Over the past 127 years the business has developed into its current form as a specialty chemicals company with strong positions on global markets.

Working Committee
The working committee prepares issues for presentation at Board meetings. During 2007, the working committee met three times. Minutes are held of all meetings. The committee consisted of the following members: Bo Dankis, Bertrand Meunier, Fabrice Fouletier and Lennart Holm. The Working Committee has appointed two subcommittees, the Audit Committee and the Remuneration Committee

Audit Committee
The audit committee consists of the following members: Fabrice Fouletier, Gaëlle d'Engremont, Colm O'Sullivan and Claes Gard. During 2007, the committee held one ordinary meeting and one extra meeting. The auditors participated in the ordinary meeting.

Remuneration Committee
The remuneration committee consists of four members: Bo Dankis, Lennart Holm, Bertrand Meunier and Dominique Mégret. The committee held two ordinary meetings during the year.

President & Group Management
Bo Dankis was President during the year.

The President's responsibilities are regulated by the Board's working procedures, which are reviewed and approved by the Board of Directors once annually. It is the President's responsibility to continuously provide the Board of Directors with information concerning the company's business activities as well as relevant documentation for the Board's decisions. The President leads the work conducted by Group Management.

Heads of the corporate functions report to the President. These functions are: Operations, Supply Chain, Business, Sales, Renewal & Development, Strategic Development, Finance, Legal & IT, and HR & Communications.

During the year Group Management has comprised: Bo Dankis, Claes Gard, Susanne Jacobsson, Bengt Sallmén, David Wolf, Lennart Hagelqvist, Mats Persson and Martin White; the latter from September 1, 2007. Up to 10 June 2007 Lars Peter Lindfors was a member of Group Management. Alf Gunnarsson was a deputy for Lars Peter Lindfors from May 1 prior to the appointment of a successor to Lindfors. After the end of the financial year on February 4, Eric Appelman took over responsibility as head of the company's R&D activities.

Group Management is presented on pages 64-65.

External auditors
Michael Bengtsson and Ulf Pernvi, authorized public accountants working for Öhrlings PricewaterhouseCoopers have been appointed auditors of the company. Perstorp is in continuous dialogue with the auditors and the auditors participate at Board meetings in accordance with Board procedures. The auditors receive documents relating to Board decisions and the minutes of Board meetings. Öhrlings PricewaterhouseCoopers are involved in work within internal control.

Internal control
The Perstorp Group's working methods are characterized by transparency in the organization and clear delegation of responsibility. In addition to laws and external rules which the company observes in its financial reporting there is an Economic Reporting Manual applied by all Group companies together with a system that ensures good internal control within financial reporting.

Consolidated financial reports including extensive analysis are produced once a month within the Group and functions. Financial functions, who have responsibility for accounting, reports and analysis are at Group, functional and company level.

In addition to the statutory audit and annual report, for both parent company and subsidiaries, the auditors perform each year in connection with the hard close in the larger units a review of how the company is organized and the routines that are implemented.

The Group carried out a major internal review project in 2007, in all operational companies, in order to identify key control points for the various staffs; to analyze routines and in some cases improve them, and to ensure that internal control remains at a good level. This project will be incorporated in the Group's work processes in the form of an annual assessment and follow-up of checkpoints.

Communication with markets
Perstorp's aim is to maintain a high level of quality of the company's financial information. This information shall be transparent and correct in order to maintain trust in the company over the long term.

Earnings and financial position are reported twice a year in the form of a financial statement and annual report, which are printed and distributed to all employees and other interested parties, even though the company is controlled by a private equity firm and is therefore not listed on the Stockholm stock exchange or any other market. All company acquisitions and divestments are announced via press releases. Financial information is available on the company's website, www.perstorp.com. Press releases and reports are loaded onto the website immediately they are published.

Financial accounts

Key figures, Group

SEK m unless otherwise stated	2005 [1]	2006	2007
Net sales	6,299	7,273	8,583
Operating earnings before depreciation (EBITDA)	1,156	1,091	1,365
EBITDA excluding non-recurring items	1,079	1,097	1,406
Operating earnings (EBIT)	663	566	803
Net earnings/loss	n.a	-153	-128
Working capital, average	764	853	981
Turnover rate, working capital, times	8.2	8.5	8.8
Cash flow from operating activities	n.a	591	550
Investments excluding acquisitions	594	476	535
Acquisitions	184	59	811
Capital employed, average	n.a	10,018	9,999
Return on capital employed, %	n.a	5.7	8.1
Net debt, excl. Parent Company loan [2]	n.a	7,434	8,170
Debt/equity ratio excl. Parent Company loan [2]	n.a	3.9	3.7
Equity/assets ratio, incl. Parent Company loan [2]	n.a	14.2	14.7
Return on shareholders' equity, incl. Parent Company loan [2]	n.a	-7.7	-6.3

1) Perstorp Holding AB acquired Sydsvenska Kemi Group at the end of 2005. The figures shown relate to the Perstorp Group pro forma, excluding the disposed units Perstorp Compounds and Moldable Composites, but including the acquired business Franklin.

2) Shareholder loan, meaning the loan from Luxembourg-based Financière Forêt S.À.R.L., which is subordinate to senior loans, second liens and mezzanine facilities. In these figures the Parent Company loan is considered as shareholders' equity.

Income statements

SEK m	Note	Group		Parent Company	
		2007 [1]	2006	2007 [2]	2006
Net sales	9	**8,583**	**7,273**	**45**	**36**
Cost of goods sold		-7,074	-6,105		-
Gross earnings		**1,509**	**1,168**	**45**	**36**
Selling and marketing costs	6, 7	-363	-320	-	-
Administrative costs	6, 7	-254	-213	-94	-56
Research and development costs	6, 7	-92	-85	-	-
Other operating income and expenses	10	5	15	-2	-
Result from participations in associated companies	12	-2	1	-	-
Operating earnings/loss (EBIT)		**803**	**566**	**-51**	**-20**
Financial items:					
Group contribution		-	-	974	396
Dividends, Group companies [3]		-	-	-1	-
Net financial items	21	-884	-715	-930	-365
Earnings/loss before tax		**-81**	**-149**	**-8**	**11**
Income taxes	22	-47	-4	0	-3
Net earnings/loss for the year		**-128**	**-153**	**-8**	**8**
Of which, attributable to minorities	14	0	0	-	-

1) The acquired company, Lonza Singapore Pte Ltd is included from December 2007.

2) Perstorp Holding AB merged with Sydsvenska Kemi AB in 2007.

3) Comprises dividends from Group companies of SEK 301 m and write down of shares in subsidiaries of SEK 302 m.

Definition of key figures

Capital ratios

Average capital
Based on monthly balances during the year.

Capital employed
Total assets less interest-free liabilities.

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

Financial ratios

Debt/equity ratio
Net borrowings in relation to shareholders´ equity, incl. minority interest.

Equity ratio
Shareholders´ equity and minority interest in relation to total assets.

Return ratios

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

Return on equity
Net earnings as a percentage of average shareholders´ equity during the year.

Balance sheets

SEK m	Note	Group [1]		Parent Company [2]	
		Dec. 31, 2007	Dec. 31, 2006	Dec. 31, 2007	Dec. 31, 2006
ASSETS					
Fixed assets					
Intangible fixed assets	6	6,006	5,931	-	-
Tangible fixed assets	7	5,066	4,307	-	-
Financial fixed assets					
Deferred tax assets	22	292	297	-	-
Shares in Group companies	15	-	-	9,286	6,073
Participations in associated companies	11	0	1	-	-
Long-term receivables, Group companies		-	-	366	912
Pension assets	21, 23	-	1	-	-
Endowment insurance, direct pension	23	69	67	57	-
Other interest-bearing, long-term receivables	17, 21	88	94	-	-
Interest-free, long-term receivables	17	23	17	-	-
Total financial fixed assets		**472**	**477**	**9,709**	**6,985**
Current assets					
Inventories	18	1,090	833	-	-
Accounts receivable	16	1,496	1,185	-	-
Operating receivables from associated companies		36	35	-	-
Operating receivables from Group companies		-	-	4	4
Tax receivables		15	17	-	-
Other operating receivables	16	245	240	3	3
Financial receivables from Group companies		-	-	992	446
Other current financial receivables		0	6	-	-
Total current assets		**2,882**	**2,316**	**999**	**453**
Cash and cash equivalents	19	**447**	**425**	**130**	**-**
TOTAL ASSETS		**14,873**	**13,456**	**10,838**	**7,438**
SHAREHOLDERS´ EQUITY AND LIABILITIES					
Shareholders´ equity					
Share capital [3]		0	0	0	0
Other capital contributions		457	457	-	-
Reserves		-364	-339	-	-
Retained earnings		-162	-9	453	448
Net earnings/loss for the year		-128	-153	-8	8
Shareholders´ equity, excluding minority interests		**-197**	**-44**	**445**	**456**
Minority interests	13	29	0	-	-
Total shareholders´ equity, including minority interests		**-168**	**-44**	**445**	**456**
Long-term liabilities					
Deferred tax liabilities	22	2,030	1,955	-	-
Direct pension	21, 23	69	67	57	-
Pension liability, others	21, 23	249	240	-	-
Loans from Parent Company	21	2,362	1,952	2,362	1,952
Long-term interest-bearing liabilities	21	7,830	6,718	5,921	3,738
Long-term liabilities to associated companies	21	3	-	-	-
Other liabilities, provisions	24	47	53	14	-
Total long-term liabilities		**12,590**	**10,985**	**8,354**	**5,690**
Current liabilities					
Accounts payable	20	1,111	947	5	4
Tax liabilities		33	20	1	0
Other operating liabilities	20	751	631	25	12
Other operating liabilities, Group companies		-	-	2	-
Accrued interest expense, interest-free		210	219	187	169
Financial liabilities to related companies	21	93	122	73	86
Financial liabilities to Group companies		-	-	1,642	591
Other financial liabilities	21	253	576	104	430
Total current liabilities		**2,451**	**2,515**	**2,039**	**1,292**
TOTAL SHAREHOLDERS´ EQUITY AND LIABILITIES		**14,873**	**13,456**	**10,838**	**7,438**
Contingent liabilities	26	-	22	541	3,022
Assets pledged	27	11,367	7,315	9,182	6,073

1) The acquired company, Lonza Singapore Pte Ltd is included from December 2007.
2) Perstorp Holding AB merged with Sydsvenska Kemi AB in 2007.
3) 1,000 shares with a par value of SEK 100 each.

Cash flow statements

SEK m	Group		Parent Company	
	2007	**2006**	**2007**	**2006**
Operating activities				
Operating earnings	803	566	-51	-20
Adjustments:				
Depreciation and amortization	562	525	-	-
Other	-14	21	-	-
Interest received	8	4	49	64
Interest paid	-622	-377	-643	-297
Dividends received from Group companies	-	-	301	-
Group contribution	-	-	594	-
Income tax paid	-54	-113	-	-
Cash flow from operating activities before change in working capital	683	626	250	-253
Change in working capital				
Increase (-) /decrease (+) in inventories	-156	-84	-	-
Increase (-) /decrease (+) in current receivables	-126	-202	1	-5
Increase (+) /decrease (-) in current liabilities	149	251	14	16
Cash flow from operating activities	**550**	**591**	**265**	**-242**
Investing activities				
Acquisition of net assets in subsidiaries	-733	-37	-2	-2
Cash and cash equivalents in acquired companies	39	-	-	-
Adjustment of purchase price	-	154	-	154
Shareholder contribution, internal	-	-	-478	-
Acquisition of tangible and intangible fixed assets	-531	-476	-	-
Sale of net assets, subsidiaries	6	31	-	-
Change in financial receivables, external	5	-4	-	-
Change in financial receivables, subsidiaries	-	-	-	-95
Cash flow from investing activities	**-1,214**	**-332**	**-480**	**57**
Financing activities				
Settled loan receivable from subsidiaries	-	-	142	-
New loans raised from subsidiaries	-	-	31	450
New loans raised from Parent Company	189	188	189	188
Change in credit utilization	515	-581	-	-756
Short-term payment, related party	-17	-115	-17	-109
Cash flow from financing activities	**687**	**-508**	**345**	**-227**
Change in cash and cash equivalents, incl. short-term investments	23	-249	130	-412
Cash and cash equivalents in the opening balance, incl. short-term investments	425	674	0	412
Translation difference in cash and cash equivalents	-1	0	-	-
Cash and cash equivalents, end of period	**447**	**425**	**130**	**0**

Shareholders´ equity 2006, Group

SEK m	Share capital	Other capital contributions	Translation reserves	Hedge reserves	Retained earnings	Net earnings/ loss for the period	Shareholders´ equity excl. minority interest	Minority interest	Total shareholders´ equity
Opening balance, January 1, 2006	**0**	**457**	**0**	**0**	**0**	**-9**	**448**	**46**	**494**
Transfer of preceding year's results	-	-	-	-	-9	9	0	-	0
Translation differences:									0
change during the period	-	-	-435	-	-	-	-435	-	-435
less effect of hedging during the period	-	-	75	-	-	-	75	-	75
tax effect of hedging during the period	-	-	-21	-	-	-	-21	-	-21
Fair valuation of interest swap:									0
change during the period	-	-	-	58	-	-	58	-	58
tax effect on change during the period	-	-	-	-16	-	-	-16	-	-16
Acquired minority interest	0	-	-	-	-	-	0	-46	-46
Net earnings/loss for the year	-	-	-	-	-	-153	-153	-	-153
Closing balance, December 31, 2006	**0**	**457**	**-381**	**42**	**-9**	**-153**	**-44**	**0**	**-44**

Shareholders´ equity 2007, Group

SEK m	Share capital	Other capital contributions	Translation reserves	Hedge reserves	Retained earnings	Net earnings/ loss for the period	Shareholders´ equity excl. minority interest	Minority interest	Total shareholders´ equity
Opening balance, January 1, 2007	**0**	**457**	**-381**	**42**	**-9**	**-153**	**-44**	**0**	**-44**
Transfer of preceding year´s results	-	-	-	-	-153	153	0	-	0
Translation differences:									
change during the period	-	-	6	-	-	-	6	-	6
less effect of hedging during the period	-	-	-54	-	-	-	-54	-	-54
tax effect of hedging during the period	-	-	15	-	-	-	15	-	15
Fair valuation of interest swap:									
change during the period	-	-	-	-7	-	-	-7	-	-7
tax effect on change during the period	-	-	-	2	-	-	2	-	2
Fair valuation of forward contracts:									
change during the period	-	-	-	18	-	-	18	-	18
tax effect on change during the period	-	-	-	-5	-	-	-5	-	-5
Acquired minority interest	-	-	-	-	-	-	0	29	29
Net earnings/loss for the year	-	-	-	-	-	-128	-128	-	-128
Closing balance, December 31, 2007	**0**	**457**	**-414**	**50**	**-162**	**-128**	**-197**	**29**	**-168**

Group statement of reported income & expenses

SEK m	2007	2006
Income and expenses reported in shareholders' equity		
Translation difference in shareholders' equity	6	-435
Hedging of net investments	-39	54
Cash flow hedging	8	42
Total directly in shareholders' equity	**-25**	**-339**
Net earnings/loss for the year	**-128**	**-153**
Total reported income and expenses for the year	**-153**	**-492**

Shareholders´ equity 2006, Parent Company					
SEK m	Share capital	Other contributed capital	Retained earnings	Net earnings/ loss for the period	Total shareholders´ equity
Opening balance, January 1, 2006	**0**	**0**	**457**	**-9**	**448**
Transfer of preceding year´s results	-	-	-9	9	0
Net earnings/loss for the year	-	-	-	8	8
Closing balance, December 31, 2006	**0**	**0**	**448**	**8**	**456**

Shareholders´ equity 2007, Parent Company					
SEK m	Share capital	Other contributed capital	Retained earnings	Net earnings/ loss for the period	Total shareholders´ equity
Opening balance, January 1, 2007	**0**	**0**	**448**	**8**	**456**
Transfer of preceding year's results	0	-	8	-8	0
Merger difference	-	-	-3	-	-3
Net earnings/loss for the year	-	-	-	-8	-8
Closing balance, December 31, 2007	**0**	**0**	**453**	**-8**	**445**

Notes

Note 1 General information

Perstorp Holding AB and its subsidiaries (jointly designated the Group) operate in the field of specialty chemicals for companies who are mainly active in the chemicals, paints/coatings and plastic processing industry. The Group has manufacturing units in 12 countries in Europe, North and South America and Asia.

The Group was formed at the end of 2005 in connection with PAI partners' acquisition, through the company Perstorp Holding AB, of the Sydsvenska Kemi Group from Industri Kapital.

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

Note 2 Summary of major accounting principles

The principal accounting principles applied in the preparation of these consolidated accounts are stated below.

The Parent Company's accounts have been prepared in accordance with the Annual Accounts Act (AAA) and RR 32:06 for legal entities. In accordance with a proposal issued by the Financial Accounting Standards Council's Emerging Issues Task Force, Group contributions are recognized as dividends from Group companies and reported in the income statement. In the Parent Company, financial instruments are valued at the lower of acquisition and fair value.

Note 2.1 Basis for preparing the accounts

The consolidated accounts for Perstorp Holding AB have been prepared in accordance with the International Financial Reporting Standards (IFRS) approved by the European Commission and with the Swedish Financial Accounting Standards Council's recommendation RR 30 and the Annual Accounts Act (AAA). The consolidated accounts have been prepared in accordance with the acquisition value method, apart from matters applying to financial assets and liabilities that are fair valued via the income statement. During 2006, the acquisition balance sheet was established and, accordingly, assets and liabilities were market valued, which mainly affected tangible and intangible fixed assets, and deferred tax.

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

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

IAS 1	Presentation of financial reports
IAS 2	Inventories
IAS 7	Cash flow
IAS 8	Accounting principles, changes in estimates and errors
IAS 10	Events after the balance-sheet date
IAS 11	Construction contracts
IAS 12	Income taxes
IAS 16	Tangible fixed assets
IAS 17	Leasing
IAS 18	Revenues
IAS 19	Employee benefits
IAS 21	Effect of changes in exchange rates
IAS 23	Borrowing costs
IAS 24	Related-party disclosures
IAS 27	Consolidated and separate financial statements
IAS 28	Investments in associates
IAS 31	Interest in joint ventures
IAS 36	Impairment of assets
IAS 37	Provisions, Contingent Liabilities. and Contingent Assets
IAS 38	Intangible assets
IAS 39	Financial instruments: recognition and measurement
IFRS 3	Business combinations
IFRS 7	Financial instruments, disclosures

Since the Group arose at the end of 2005, standards other than IFRS have never been applied. The acquired Sydsvenska Kemi Group had applied IFRS since January 2005.

Note 2.2 Consolidated accounting

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

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

Intra-Group transactions, balance sheet items and unrealized gains on transactions between Group companies have been eliminated. Unrealized losses are also eliminated, unless the transaction is evidence of the need for impairment of the transferred asset. The accounting principles for subsidiaries have been changed, where necessary, to guarantee the consistent application of Group principles.

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

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

At the end of 2007, there was an associated company in the Group, jointly owned with Koei Chemical Company (Japan) and accounting for marketing and sales of specialty chemicals products, primarily in the Japanese market. There is also a minor associated company, Polygiene AB.

Note 2.3 Currency translation

a) Functional currency and reporting currency

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

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

b) Transactions and balance sheet items

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

c) Group companies

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

i) assets and liabilities for each balance sheet are translated at the exchange rate applying on the balance-sheet date

ii) income and expenses for each income statement are translated at the average exchange rate, and

iii) all exchange-rate differences that arise are reported as a separate item in shareholders' equity.

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

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

Note 2.4 Tangible fixed assets
Tangible fixed assets are reported at their acquisition value less accumulated depreciation. Straight-line depreciation is applied based on the asset's acquisition value and estimated useful life. The following depreciation periods are used:

Buildings	20-50 years
Land improvements	10-35 years
Machinery and equipment	10-30 years
Computers, tools and cars	max. 5 years

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

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

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

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

Note 2.5 Intangible assets
a) Goodwill comprises the amount by which the acquisition value exceeds the fair value of the Group's share of the identifiable net assets of the acquired subsidiary/associated company at the date of acquisition. Goodwill on the acquisition of Group companies is reported as an intangible asset. On the acquisition of associated companies, goodwill is included in the holding in the associated company.

Goodwill is tested annually in order to identify impairment requirements and is reported at acquisition value less accumulated impairments. Impairment tests performed at the end of 2007 did not reveal any impairment requirements.

When conducting tests to identify possible impairment requirements, goodwill is divided among cash-generating units.

b) Trademarks and licenses are reported at acquisition value. The useful life of these assets is assessed on an individual basis. It is estimated that the Perstorp and Formox trademarks, which were addressed in connection with the allocation of acquisition values, have an unlimited life, based on the company´s 125 year history and the continuous renewal process. Annual testing of possible impairment requirements is performed through the analysis of future value generation in respect of trademark sensitive products.

c) Technological know-how was identified as a balance sheet item in connection with the allocation of acquisition values in 2006 and is amortized over 30 years. Testing of possible impairment requirements is performed through the analysis of future value generation in respect of the products related to proprietary technology that existed on the date of acquisition.

d) Customer relations/Customer contracts: In connection with the allocation of acquisition values, a value was identified that reflects the future value generation related to core customers. The value is amortized over 30 years. Annual testing of impairment requirements is performed through the analysis of future value generation in respect of sales to core customers, adjusted for the values already recognized in the form of trademarks and technological know-how.

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

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

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

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

Note 2.6 Impairment
Assets with an indeterminate useful life are not depreciated/amortized but are subject to annual testing of impairment requirements. Assets with a determined useful life are assessed for a reduction in value whenever events or changes in conditions indicate that the book value may not be recoverable. Impairment is recognized in the amount by which the asset's book value exceeds its recoverable value. In assessing the need for impairment, assets are grouped into cash-generating units.

The estimated utilization value is based on the estimated future cash flow based on financial five-year plans approved by senior management. Key assumptions in these five-year plans are the rate of growth and margin development as well as currency and interest rates. Sales growth is estimated at 6% over the coming five years, and margins are expected to improve slightly. Exchange rates are expected to remain the same as in 2007 and the discount interest rate is set at 9.8% after tax. The general growth factor is set at 2%.

Note 2.7 Inventories
Inventories are reported at the lower of acquisition value and net realizable value. The acquisition value is determined on the basis of average prices. The acquisition value of finished products and work in progress consists of raw materials, direct payroll expenses, other direct costs and attributable indirect manufacturing costs (based on normal manufacturing capacity). Borrowing costs are not included. The net realizable value is the estimated selling price based on continuing operations, less applicable variable selling costs.

Not 2.8 Accounts receivable
Accounts receivable are initially reported at fair value. A provision for value depletion is posted when the assessment is that the Group will not receive all amounts due in accordance with the original terms and conditions for past-due receivables.

Note 2.9 Cash & cash equivalents
Cash and cash equivalents include cash and bank balances and other short-term investments maturing within three months and that can easily be converted into cash.

Note 2.10 Derivative financial instruments & hedge measures
Derivatives are reported on the balance sheet on the date a derivative contract is entered into, and are measured at fair value both initially and at subsequent remeasurements. The method of recognizing the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The hedge instruments the Group applies are the following:

- Cash flow hedges in the form of interest swaps and electricity forward contracts, to hedge interest and electricity price risks respectively
- Equity hedge – loan in foreign currency, for hedging of net investments

The Group notes at the inception of the transaction, the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of the effectiveness of the hedging instrument. Changes in the hedging reserve in shareholders´ equity are shown in the table showing shareholders' equity. All of the fair value of a derivative used as a hedging instrument is classified as a fixed asset or long-term liability when the hedged item's remaining period is longer than 12 months, and as a current asset or short-term liability when the hedged item's remaining period is less than 12 months.

a) Cash flow hedge
The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognized in equity. At the end of the year this effect was SEK 37 m (2006: 42 m), and falls due within 12 months. The gain or loss relating to the ineffective portion is recognized immediately in the income statement. Amounts accumulated in equity are recycled in the income statement in the periods when the hedged item will affect profit or loss (for example when the forecast sale that is hedged takes place). The profit or loss attributable to the effective part of the interest swap that hedges borrowings with variable interest is reported under "Financial expenses".

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity, and is recognized when the forecast transaction is ultimately recognized in the income statement. When a forecasted transaction is no longer expected to take place, the accumulated gain or loss that was reported in equity is immediately transferred to the income statement.

b) Net investment hedge
Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognized in equity; the gain or loss relating to the ineffective portion is recognized immediately in the income statement. The part of the Group's borrowings in foreign currency identified for hedge accounting amounts to EUR 250 m and USD 127 m. Exchange rate profit for translation of these amounted at the end of 2007 to SEK 15 m (54 m) and is reported under Translation reserves in shareholders' equity.

Gains and losses accumulated in equity are included in the income statement when the foreign operation is disposed of fully or partly.

c) Derivatives assessed at fair value via the income statement; currency swaps
Changes in fair value of currency swaps are reported immediately in net financial items in the income statement. The primary purpose of the currency swap contract is to hedge the internal bank's currency risk exposure in various currencies. The contract has therefore been classified in different portfolios depending on which category of currency exposure is to be hedged. In general the categories cover the internal bank's intra-Group borrowings and loans in various currencies with fixed terms as well as daily borrowings and loans in currency accounts at various banks. Periods vary up to 3 months. Currency accounts are swapped at monthly intervals.

Note 2.11 Income taxes

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

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

Note 2.12 Employee benefits

The Group has both defined-contribution and defined-benefit pension plans. The pension plans are normally financed through payments to insurance companies or funds managed by asset managers in accordance with periodical actuarial calculations. Pension commitments regarded as defined-benefit plans must be valued taking into account such considerations as estimated future pay increases and inflation. In connection with the allocation 2006 of acquisition value, actuarial gains and losses were set at zero, as a result of the opening liability being established at the present value of the obligation at the date of transition and, similarly, any related plan assets have been fair valued.

Actuarial calculations of defined-benefit pension plans are performed at the end of each year. Pension costs pertaining to these plans are calculated in accordance with the Projected Unit Credit Method, which allocates costs over the employees' anticipated working life. Actuarial gains and losses outside what is known as the 10% corridor are allocated over the remaining anticipated term of employment for those employees who are part of the various plans. With the help of a discount rate, pension commitments are valued at the present value of the future anticipated payments. The discount rate corresponds to the interest on first-class corporate bonds or treasury bills with a remaining term that corresponds to the commitments concerned. The weighted discount rate used by the Group amounts to 5.1%. In the consolidated balance sheet, the pension commitments for the fund plans are reported net, after a deduction for the fund assets for the plan. In cases where a net asset arises, this is reported as a financial interest-bearing receivable. The pension commitments are included in the calculation of net debt.

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

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

Note 2.13 Provisions

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

Note 2.14 Revenue recognition

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

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

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

Note 2.15 Leasing

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

Some of the Group's leasing contracts pertain to vehicles and computers, which have been reported as operational leasing. The value of such leases has been adjudged to be non-material. In addition to cars and computers there is operational leasing of, among other items, pipelines and storage facilities at the unit in Singapore. Payments made during the leasing period are carried in the income statement linearly over the leasing period.

Note 2.16 Borrowing costs & borrowings

The main principle has been applied for the reporting of borrowing costs, which means that the borrowing costs are charged against earnings for the period to which they pertain, regardless of how the borrowed funds have been used.

Borrowings are reported initially at fair value. Borrowings are later reported at accrued acquisition value and any difference between the received amount and the repayment amount is reported in the income statement distributed over the borrowing period using the effective interest method.

Not 2.17 Effects of future accounting principles

When the consolidated financial statements of December 31, 2007 were being compiled, the following standards and interpretations had been announced but were yet to become effective:

Standard / interpretation	
IFRIC 7	Restatement approach in connection with the transition to high-inflation reporting
IFRIC 9	Reassessment of imbedded derivatives
IFRIC 11	Group and Treasury Share Transactions
IFRIC 12	Service Concession Arrangements
IFRIC 13	Customer loyalty programs
IFRS 2	Share-based payment (amended)
IFRS 3	Business combinations (amended)
IFRS 4	Insurance contracts
IFRS 8	Operating segments
IAS 1	Supplement – Presentation of financial reports (amended)
IAS 23	Borrowing costs (amended)
IAS 27	Consolidated and separate financial reports (amended)

These forthcoming accounting principles are not expected to have a material impact on the Group's earnings and financial position. However, changes to IAS 23 will affect the Group's financial costs.

Note 3 Risk management

Not 3.1 Financial risk factors

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

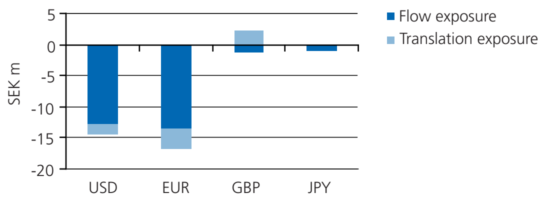
a) Currency risk
The currency risk is the risk that the Group's earnings and net assets will be adversely affected by fluctuations in exchange rates. The Group has considerable flows of earnings and net assets in foreign currency, primarily in USD and EUR.

Flow & translation exposure per currency, forecast for 2008

	Net sales	Operating costs	EBITDA	Financial payments	Net	Translated to SEK m [1]
USD	577	-353	224	-21	203	1,310
EUR	781	-605	176	-44	132	1,250
GBP	26	-34	-8		-8	-100
JPY	2,500	-580	1,920		1,920	110
Total						**2,570**

[1] At year-end exchange rates.

Effect on EBITDA of 1% stronger SEK



The Group manages a part of its exposure by concentrating borrowing to USD and EUR; see table D in Note 21.

b) Financing risk
The financing risk is the risk that the refinancing of loans will be impeded or will become costly. The Group's main financing consists of senior loans that have been guaranteed by Svenska Handelsbanken, Nordea and HSH Nordbank and second liens and mezzanine facilities that were syndicated to about 10 financiers at the beginning of 2006. These loan agreements have terms of seven to eight years and stipulate financial covenants pertaining to the fulfillment of key figures in terms of cash flow in relation to interest payments and amortization, net debt in relation to EBITDA and EBITDA in relation to interest payments. There is also a ten-year parent company loan from Luxembourg-based Financière Forêt S.À.R.L. for which the 10-year interest rate is being capitalized.

In connection with a major acquisition in early 2008, that of the caprolactones business of the Solvay Group, existing loan facilities – both senior and mezzanine – were re-negotiated and expanded. The maturity structure was adjusted slightly but the final due dates for the facilities are unchanged. In addition, the loan from the Group share-holders has been increased.

c) Liquidity risk
Liquidity risk is managed by checking that the Group has sufficient liquid funds and short-term investments as well as sufficient financing through agreed credit facilities. Management monitors forecasts of Group liquidity closely. The forecasts comprise unutilized promises of loans and liquidity on the basis of estimated cash flow.

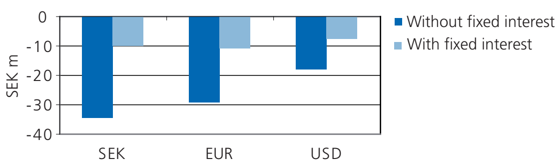
The table below shows the Group's financial liabilities and derivative instruments that constitute financial liabilities, distributed across the time remaining after the closing date up to the agreed due date. The amounts shown are agreed, undiscounted cash flows.

As of Dec. 31, 2007 [1]		0-1 yrs	1-2 yrs	2-5 yrs	>5 yrs
Bank loans [2]	Amortization	-346	-424	-5,010	-2,676
	Interest [1]	-755	-750	-2,091	-530
Derivative instruments	Interest swaps	52			
	Forward electricity contracts	18			
Accounts payable and other liabilities		-2,007			

1) Parent Company loans are excluded from the table as this interest is capitalized. Repayment of Parent Company loan including interest is expected to take place in connection with a change in owner. The amount is dependent on the time of this ownership change.
2) The interest charged corresponds to interest rates on the closing date, Libor 90 days. Currency rates correspond to levels at the end of 2007.

d) Interest-rate risk
The interest-rate risk is the risk that an increase in market interest rates will have an adverse impact on earnings. Interest-rate hedging is applied to fix interest rates for slightly more than half of the bank loans for a period of three years starting on December 31, 2005. On December 31, 2007, the average fixed-interest maturity was 236 days. See Table D in Note 21. Sensitivity to interest rate changes are shown in the following diagram:

Sensitivity to 1% increase in interest rates



e) Counterparty risk
A Group-wide credit policy is applied within the Perstorp Group, the main purpose of which is to prevent credit losses and optimize capital maturities. The credit policy establishes limits and procedures for granting and monitoring credits. For example, the credit policy states that further deliveries to customers with past-due credits may be completed only upon specific approval. Intensive work is conducted continuously to ensure that accounts receivable are paid on time. For countries where the credit risk is regarded as higher than normal, advance payment, credit insurance or bank guarantees are required.

Note 3.2 Operational risk factors

Access to raw materials
Approximately 75% of the Group's raw materials are based on crude oil or natural gas; primarily propylene, methanol and acetaldehyde. Rapeseed oil has now also become an important additive. The Group has a policy for external supplies of raw materials that states that the Group, wherever possible, shall use more than one supplier for each of the important raw materials. Most of the raw material supplies to the Swedish plant in Stenungsund comes via pipelines from a single supplier. This eliminates storage costs and minimizes freight costs while it also entails some risk. This risk is managed through terminal agreements with the supplier whereby Perstorp can use its supplier's terminal to receive products from another producer. For certain other main raw materials the Group signs long-term delivery agreements to secure supplies. On the electricity market it is possible to fix prices for longer periods. In accordance with Group policy, Swedish consumption of electricity is hedged; for the coming six months in range between 70 and 100% of forecast consumption, and after that – for a maximum of 3 years – on a falling scale. From the 7th quarter the range is between 0 and 40%.

Customer sensitivity
The Perstorp Group has a broad product portfolio and wide geographic spread within its customer base. There is thus no specific dependency on any one customer. The Group's 10 largest customers account for around 25% of net sales. Around 800 customers make purchases in excess of SEK 1 m each.

Production disruptions
Disruptions in Perstorp's own plants can result in loss of income, in the short term because the Group cannot deliver expected volumes to customers, and in the long term because it may lead to alternative products being used for the same application. Regular technical inspections are made of equipment to reduce the risk of a disruption.

Perstorp has a global function to ensure that, in the event of an unforeseen event, the Group has comprehensive insurance coverage, while also supporting work aimed at minimizing risks. Through its global insurance schemes with various international insurers the Group gains benefits as a large customer.

Note 4 Significant estimates & judgments made for accounting purpose

To a certain extent, the financial statements are based on estimates and judgments about the future trend. In turn, these judgments are based on historical experience. Three particular areas can be distinguished where estimates and judgments are of importance to the amounts entered in the accounts.

a) Impairment testing of goodwill and trademarks: As explained under Note 2.5, impairment testing is performed annually through analysis of utilization value. Book values are presented in Notes 6 and 7.

b) Valuation of tax-loss carryforwards: The valuation of tax-loss carryforwards in a company is based on an assessment that it will be possible to utilize these carryforwards in the foreseeable future. Tax-loss carryforwards have been assigned values in, primarily, the Group's Swedish and German subsidiaries. For book values see Note 22.

c) Perstorp's financial accounts are based on the going-concern principle, which is also reflected in how any environmental liabilities are assessed. The Group complies with decisions by public authorities and conducts measures both proactively to prevent environmental impact and reactively in the event that environmental disturbances arise. In connection with Industri Kapital's preparations to divest the Perstorp Group in 2005, independent environmental assessments were performed of all the sites. These inquiries did not result in any material environmental observations.

Note 5 Segment information

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

To a very great extent, the specialty chemicals operations are integrated both horizontally, since the same product can often be manufactured in several units/countries, and vertically, by being intermediates in the next product. Virtually all products are sold to customers that at this level are far removed from the end customers in the form of automakers, coatings producers and so forth. The same product can often be used for a wide spectrum of applications. Accordingly, there is no natural reason to divide the specialty chemicals operations into different segments. In the internal follow-up of operations, Specialty Chemicals is divided into a number of business units, in certain cases with considerable inter-company sales.

Sales and operating capital per geographical market are presented in the Risk Management section on pages 29-32.

Note 6 Intangible fixed assets

Group	Goodwill		Trademarks		Patents, licenses and similar rights		Know-how		Customer		Other 1)		Total	
SEK m	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
Acquisition value	2,261	2,420	1,270	1,375	13	12	1,255	1,345	1,251	1,345	14	4	6,064	6,501
Accumulated depreciation	-	-	-1	-	-3	-	-48	-	-78	-	-3	-	-133	-
Opening book value	**2,261**	**2,420**	**1,269**	**1,375**	**10**	**12**	**1,207**	**1,345**	**1,173**	**1,345**	**11**	**4**	**5,931**	**6,501**
Exchange-rate differences	19	-173	11	-97	-	-	10	-94	9	-93	-2	-2	47	-459
Reclassifications	-	-1	-	-4	-	1	-	6	-	-1	1	-2	1	-1
Acquisition of subsidiaries 2)	15	15	-	-	18	-	-	-	138	-	6	12	177	27
Other investments	-	-	-	-	-	-	-	-	-	-	1	3	1	3
Acquisition adjustments	-20	-	-	-	-	-	-	-	-	-	-	-	-20	-
Divestments and scrappage	-	-	-	-4	-	-	-	-1	-	-	-	-	0	-5
Depreciation	-	-	-1	-1	-3	-3	-48	-49	-77	-78	-2	-4	-131	-135
Book value, December 31	**2,275**	**2,261**	**1,279**	**1,269**	**25**	**10**	**1,169**	**1,207**	**1,243**	**1,173**	**15**	**11**	**6,006**	**5,931**
Acquisition value	2,275	2,261	1,282	1,270	32	13	1,266	1,255	1,401	1,251	21	14	6,277	6,064
Accumulated depreciation	-	-	-3	-1	-7	-3	-97	-48	-158	-78	-6	-3	-271	-133
Closing book value	**2,275**	**2,261**	**1,279**	**1,269**	**25**	**10**	**1,169**	**1,207**	**1,243**	**1,173**	**15**	**11**	**6,006**	**5,931**

1) Other intangible assets refer to rental rights, development costs and advance payments pertaining to intangible assets.

2) Acquisition of subsidiaries refers to the acquisition of Lonza Singapore Pte Ltd and of the assets of Shandong Fufeng Perstorp Chemicals Co Ltd. The acquisition analysis of the Singapore business is not yet concluded, but will be concluded at the start of 2008.

Depreciation amounting to SEK 52 m is included in cost of goods sold, SEK 79 m in selling costs. Depreciation also includes leasing costs of SEK 1 m in the form of rental rights connected to the acquisition value of Chilean operations. Know-how and customer relations have a linear depreciation. The remaining average life length is 24 years and 15 years respectively.

Impairment testing of assets that are not amortized – Goodwill and the trademarks from acquisition analysis
Goodwill and the trademarks assigned a value in connection with the acquisition allocation required following the acquisition of the Group at the end of 2005 (Perstorp and Formox) have been adjudged to have an unlimited life. The values have been allocated to the Group's cash-generating units and among various currencies. The business sectors comprise Specialty Chemicals, Advanced Composites and Perstorp Formox. Advanced Composites was disposed after year-end, at a net gain. A summary of the allocation per currency of the assets that are not amortizable is presented below.

SEK m	Goodwill	Trademarks	Total
EUR	1,466	832	2,298
USD	693	374	1,067
GBP	113	64	177
SEK	3	9	-
Total	**2,275**	**1,279**	**3,554**

SEK m	Goodwill	Trademarks	Total
Specialty Chemicals	1,997	1,180	3,177
Perstorp Formox	243	99	342
Advanced Composites	35	0	35
Total	**2,275**	**1,279**	**3,554**

Recoverable amounts for a cash-generating unit are established on the basis of calculations of value in use. These calculations are based on estimates of future cash flow, in accordance with financial five-year plans that have been approved by management. Cash flows beyond this five-year period are extrapolated using an estimated growth rate of 2.0%. The discount interest rate amounts to 9.8% after tax.

Impairment testing performed at the end of 2007 did not give rise to any action.

Note 7 Tangible fixed assets 1)

Group	Land		Buildings, land improvements		Plants and machinery		Equipment, tools fixtures and fittings		Work in progress incl. advance payments		Total	
SEK m	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
Acquisition value	182	196	716	649	3,230	2,808	233	219	309	422	4,670	4,294
Accumulated depreciation	0	-	-41	-	-292	-	-30	-	-	-	-363	-
Opening book value	**182**	**196**	**675**	**649**	**2,938**	**2,808**	**203**	**219**	**309**	**422**	**4,307**	**4,294**
Exchange-rate differences	5	-9	7	-14	3	-69	6	-5	2	-3	23	-100
Reclassifications	-	-3	37	23	508	474	10	18	-551	-512	-1	0
Acquisition of subsidiaries 2)	-5	-	28	-	554	33	3	-	53	-	638	33
Other investments	-	-	0	59	7	9	4	2	519	402	530	472
Divestments and scrappage	-	-2	-	-	-5	-19	-	-	-	-	-5	-21
Write downs	-4	-	-3	-	-18	-	-	-	-	-	-25	-
Depreciation	-	-	-44	-42	-324	-298	-33	-31	-	-	-401	-371
Book value, December 31	**178**	**182**	**700**	**675**	**3,663**	**2,938**	**193**	**203**	**332**	**309**	**5,066**	**4,307**
Acquisition value	183	182	801	716	4,345	3,230	264	233	332	309	5,925	4,670
Accumulated depreciation	-1	-	-98	-41	-664	-292	-71	-30	-	-	-834	-363
Accumulated write downs 3)	-4	-	-3	-	-18	-	-	-	-	-	-25	-
Closing book value	**178**	**182**	**700**	**675**	**3,663**	**2,938**	**193**	**203**	**332**	**309**	**5,066**	**4,307**

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

2) Acquisition of subsidiaries refers to the acquisition of Lonza Singapore Pte Ltd and of the assets of Shandong Fufeng Perstorp Chemicals Co Ltd. The acquisition analysis of the Singapore business will be concluded in 2008.

3) Write downs are reported under Other income and costs.

Depreciation amounting to SEK 386 m is included in cost of goods sold, SEK 2 m in selling costs, SEK 4 m in R&D costs and SEK 9 m in administrative costs. This amount includes leasing costs amounting to SEK 9 m, mainly pertaining to fixed assets in the acquired operation in Chile, as well as steam boilers.

Buildings and land with a value of SEK 1,137 m (530) are used as collateral for bank loans.

Tax assesment value, Swedish Group companies		
SEK m	Tax assessment value Dec 31, 2007	Book value Dec 31, 2007
Buildings, including building fittings	496	825
Land and land improvements	75	52
Total	**571**	**877**

Note 8 Leasing

Operational leasing agreements, SEK m	Group	
Future minimum leasing fees	**2007**	**2006**
Due:		
Year 1	46	16
Year 2-5	116	17
Year 6-	83	0
Total	**245**	**33**

Operational leasing agreements refer to primarily cars, computers and pipelines, land and storage facilities in Singapore.

Financial leasing agreements, SEK m		
Future minimum leasing fees	**2007**	**2006**
Due:		
Year 1	8	8
Year 2-5	17	22
Year 6-	6	7
Total	**31**	**37**

Financial leasing agreements refer primarily to machinery and other technical equip-ment.

Operational leasing costs during the period	2007	2006
Minimum leasing fees	24	22
Variable charges	2	0
Total	**26**	**22**

Note 9 Net sales by type of revenue

SEK m	Group	
	2007	**2006**
Goods	8,367	7,063
Services	36	40
Contract (reported according to level of completion)	180	170
Total	**8,583**	**7,273**

Note 10 Other operating income & expenses

SEK m	Group		Parent Company	
	2007	**2006**	**2007**	**2006**
Insurance compensations	63	78	-	-
Operations-related exchange-rate differences	-10	-71	-	-
Impairment/scrappage	-29	-18	-	-
Other	-19	26	-2	-
Total	**5**	**15**	**-2**	**-**

Note 11 Participations in associated companies/joint ventures

SEK m	Share of capital/ voting rights	Groups´ share of shareholders´ equity	Book value, Group Dec 31, 2007
Koei-Perstorp Company Ltd, Japan	40/40	2	0
Polygiene	32/32	0	0
Total		**2**	**0**

	2007	2006
Opening book value	1	0
Earnings from participations in associated companies	-2	1
Acquisition of partcipation in associated companies	1	-
Closing book value	**0**	**1**

At the end of 2007 assets for the associated companies amounted in total to SEK 172 m.

Note 12 Earnings from participations in associated companies/ joint ventures

SEK m	2007	2006
Polygiene AB	-2	0
Koei-Perstorp Company Ltd	0	1
Total	**-2**	**1**

At the end of 2007 net sales for the associated companies amounted in total to SEK 409 m.

Note 13 Minority interests

SEK m	Book value Dec 31, 2007
Shandong Fufeng Perstorp Chemicals Co., Ltd	29
Total	**29**

SEK m	2007	2006
Opening book value	0	46
Acquisition of the Group	29	-
Profit/loss during the period	-	-
Acquisition of minority share	-	-46
Closing book value	**29**	**0**

During 2007 Perstorp acquired minority interests in CCS Composites LLC. Perstorp has entered into a joint venture in China and the agreement gives Perstorp an ownership share of 51% in Shandong Fufeng Perstorp Chemicals Co., Ltd.

Note 14 Minority share in net profit for the year

SEK m	2007	2006
Shandong Fufeng Perstorp Chemicals Co., Ltd	0	-
Total	**0**	**0**

Note 15 Parent Company shares in Group companies

Direct holdings in Group companies	Corp. Reg. number	Registered Head Office	Holding %	Book value, SEK m Dec 31, 2007
Perstorp AB	556024-6513	Perstorp	100	8,416
Perstorp Holding GmbH	HRB 7465	Arnsberg	100	307
Perstorp Holding B.V.	34089250	s-Hertogenbosch	100	272
Perstorp Holding Singapore Pte Ltd	20719657R	Singapore	100	291
Total				**9,286**

SEK m	2007	2006
Opening book value	6,073	6,141
Acquisition of the Group	3	-
Eliminated subsidiary at merger (Sydsvenska Kemi AB)	-5,691	-
New subsidiary at merger (Perstorp AB)	8,416	2
Capitalization of acquisition costs	0	-
Shareholder contribution, unconditional	485	100
Adjustment of purchase price	0	-154
Reversal of provision	0	-16
Closing book value	**9,286**	**6,073**

Note 16 Accounts receivable & other operating receivables

	Group	
SEK m	Dec 31, 2007	Dec 31, 2006
Accounts receivable, gross	1,531	1,199
Bad debt provision	-35	-14
Accounts receivable, net	**1,496**	**1,185**
Other operating receivables		
Value added tax	89	113
Deferred income, Perstorp Formox project (see table below)	15	6
Market value of electricity hedge contracts	13	-
Prepaid insurance premiums	5	5
Receivables from suppliers	4	0
Other prepaid costs and deferred income	87	41
Other	32	75
Total other operating receivables	**245**	**240**

The Parent Company had other operating receivables totaling SEK 3 m (3). For 2006, the item called Other includes a receivable of SEK 35 m from an insurance company.

Deferred income, Perstorp Formox project		
Deferred costs plus profit mark-up	67	47
Advance payments from customers	-52	-41
Total deferred income Perstorp Formox project	**15**	**6**

Provisions for bad debts	2007	2006
Provisions, opening balance	14	11
Established customer losses	-4	-1
Reservation for predicted customer losses	25	5
Exchange rate effects	0	0
Other	0	-1
Provisions at year-end	**35**	**14**

Analysis of accounts receivable 2007	Gross	Allocation	Net
Not due	1,260	-	1,260
< 30 days	215	-2	213
30-90 days	11	-1	10
91-180 days	22	-16	6
> 180 days	23	-16	7
Total	**1,531**	**-35**	**1,496**

Analysis of accounts receivable 2006	Gross	Allocation	Net
Not due	949	-	949
< 30 days	207	-3	204
30-90 days	31	0	31
> 90 days	12	-11	1
Total	**1,199**	**-14**	**1,185**

Note 17 Other long-term receivables

	Group	
SEK m	Dec 31, 2007	Dec 31, 2006
Interest-bearing long-term receivables		
Reverse receivable	30	30
Market valuation of interest-rate contract	52	58
Other receivables	6	6
Total	**88**	**94**
interest-free long-term receivables		
Electricity certificates	4	3
Market value of electricity hedge contracts	5	-
Other receivables	14	14
Total	**23**	**17**

The Parent Company had no other long-term receivables.

Note 18 Inventories

	Group	
SEK m	Dec 31, 2007	Dec 31, 2006
Raw material and consumables	357	272
Products in progress	57	33
Finished goods and goods for resale	678	522
Work in progress on behalf of others	8	7
Impairment reserve	-10	-1
Total	**1,090**	**833**

	2007	2006
Impairment reserve, opening balance	-1	-6
Provision utilized during the year	0	5
Allocation for the year	-9	0
Impairment reserve, closing balance	**-10**	**-1**

The Parent Company had no inventories. The bank loan is secured with stocks (in Singapore) amounting to SEK 84 m.

Note 19 Cash & cash equivalents

	Group		Parent Company	
SEK m	Dec 31, 2007	Dec 31, 2006	Dec 31, 2007	Dec 31, 2006
Short-term investments	-	-	-	-
Deposit account	156	40	130	0
Overdraft facility	291	381	0	0
Cash	0	4	0	0
Total	**447**	**425**	**130**	**0**

The deposit account in the Parent Company at the end of 2007 consisted of blocked bank deposits in expectation of new financing with regard to the caprolactones business. These funds should be amortized as of December 31, 2007 in accordance with the agreement.

Note 20 Accounts payable & other operating liabilities

SEK m	Group Dec 31, 2007	Group Dec 31, 2006	Parent Company Dec 31, 2007	Parent Company Dec 31, 2006
Accounts payable	**1,111**	**947**	**5**	**4**
Other operating liabilities				
Accrued wages, salaries and social security costs	253	183	23	8
Advance payments	75	56	-	-
Other accrued costs and prepaid income	323	321	1	2
VAT	10	20	-	1
Payroll tax	16	15	1	-
Other	74	36	-	1
Total	**751**	**631**	**25**	**12**

Note 21 Borrowing and financial income & costs

A. Specification net debt SEK m	Group Dec 31, 2007	Group Dec 31, 2006	Parent Company Dec 31, 2007	Parent Company Dec 31, 2006
Senior loans	4,585	4,704	3,384	1,760
Second lien	610	582	610	582
Mezzanine	2,257	2,093	2,257	2,093
Revolver	211	-	-	-
Term loan, Singapore	453	-	-	-
Capitalized costs for arranging loans [1]	-276	-304	-226	-269
Inter-company financial liabilities	-	-	1,642	591
Other financial liabilities, excluding loans from Parent Company [2]	340	341	73	88
Financial liabilities, excl. Parent Company loans and pension liabilities	**8,180**	**7,416**	**7,740**	**4,845**
Interest-bearing pension liabilities, net	249	239	-	-
Loan from Parent Company	2,362	1,952	2,362	1,952
Total interest-bearing liabilities	**10,791**	**9,607**	**10,102**	**6,797**
Cash and cash equivalents	-447	-425	-130	0
Inter-company financial receivables	-	-	-1,358	-1,359
Other interest-bearing receivables, long and short-term	-88	-100	-	-
Interest-bearing assets	**-535**	**-525**	**-1,488**	**-1,359**
Reversal of capitalized costs for arranging loans	276	304	226	269
Net debt incl. pensions	**10,532**	**9,386**	**8,840**	**5,707**

1) Capitalized costs for raising loans pertains to the loan financing required for Perstorp Holding AB's acquisition of subgroups in Germany, Sweden and the Netherlands, and these subgroups' simultaneous acquisition of subsidiaries. The capitalized costs will be amortized during the term of the loan agreements, meaning over a period of 7-8 years from the end of 2005. In 2007 there were additional borrowing costs relating to the acquisition in Singapore.

2) Of which, current financial leasing liabilities accounted for SEK 9 m and long-term leasing liabilities for SEK 22 m.

The Net debt includes secured loans (bank loans and other borrowing against collateral) of SEK 1,137 m pertaining to buildings and land and SEK 1,173 m pertaining to chattel mortgages. Shares in the Group's larger companies have been pledged.

B. Maturity structure SEK m	Group Dec 31, 2007	Group Dec 31, 2006	Parent Company Dec 31, 2007	Parent Company Dec 31, 2006
Between 1 or 2 years	424	496	277	430
Between 2 and 3 years	611	445	525	430
Between 3 and 4 years	1,725	470	1,638	460
Between 4 and 5 years	2,674	160	1,449	150
More than 5 years	2,676	5,451	2,258	2,537
Capitalized costs for arranging loans	-276	-304	-226	-269
Long-term borrowing, excl. Parent Company loans and pension liabilities	**7,834**	**6,718**	**5,921**	**3,738**
Short-term borrowing, 0-1 year	346	698	177	516
Inter-company financial liabilities	-	-	1,642	591
Financial liabilities, excl. Parent Company loans and pension liabilities	**8,180**	**7,416**	**7,740**	**4,845**

These loan agreements include quarterly key indicators linked to cash flow in relation to interest payments and amortization, net debt in relation to EBITDA and EBITDA in relation to interest payments. The Group fulfilled these indicators in 2007. The level of net debt compared with EBITDA is also significant for the interest level in certain loans.

In connection with the major acquisition of the caprolactones activities of the Solvay Group in early 2008, existing loan facilities, including senior and mezzanine facilities, were re-negotiated and increased. The maturity structure was adjusted slightly but the final due dates for the facilities are unchanged. In addition, the loan from the Group shareholders has been increased.

C. Currency composition and interest rates	Local currency	SEK m	Swaps	Net	Effective interest on balance-sheet date, %	Duration, days, before interest hedging	Duration, days
SEK	3,456	3,456	467	3,923	6.6	137	254
EUR	307	2,913	-150	2,763	12.6	23	229
USD	278	1,800	-298	1,502	7.1	82	209
Other currencies		11	-19	-8	7.2	35	-
Financial liabilities, excl. Parent Company loans and pension liabilities		**8,180**	**0**	**8,180**	**8.7**	**88**	**236**

In accordance with the Group's finance policy, interest rate hedging is applied in order to fix the interest rates for at least half of the bank loans for a period of three years starting in December 2005. Accordingly, the actual period of fixed interest is 236 days. Market valuation of the interest rate hedging contracts had a positive impact of SEK 37 m on the Group's shareholders' equity.

In addition to these loans, loans from the Parent Company in Luxembourg amount to SEK 2,362 m, which have a duration of 10 years, but which are extended automatically during up to five periods assuming that none of the parties concerned terminate the agreement. The interest rate amounts to 10%.

The Group's finance policy also stipulates that the currency distribution of borrowing must match the various main currencies in which the net assets are denominated. EUR and USD loans are raised by the Swedish companies for this purpose. See Table D.

D. Net assets per currency, before and after loans in foreign currency				
SEK m	Net assets per currency, before loans in foreign currency	Loans in foreign currency, Swedish companies	Liquidity swaps	Exposed net assets
EUR	2,581	-3,496	150	-765
USD	1,543	-823	298	1,018
GBP	253	-	-	253
SEK	-4,706	4,319	-467	-854
Other currencies	132	-	19	151
Total	**-197**	**0**	**0**	**-197**

E. Unutilized credits

The Group's available credit limits at year-end, in addition to those available in the form of cash and cash equivalents, totaled SEK 389 m (488).

F. Financial income & costs	Group		Parent Company	
SEK m	**2007**	**2006**	**2007**	**2006**
Interest income	6	5	2	1
Interest income, Group companies	-	-	56	93
Other financial income	1	4	-	-
Total financial income	**7**	**9**	**58**	**94**
Bank loans	-684	-578	-598	-432
Loans from Parent Company	-199	-176	-199	-176
Allocation of borrowing costs	-48	-48	-42	-42
Pension costs, interest	-5	-5	-	-
Currency gains & losses from financing measures, net	26	104	-78	215
Interest income and costs from interest swaps	28	-10	28	-10
Interest costs, Group companies	-	-	-94	-5
Other financial costs	-9	-11	-5	-9
Total financial costs	**-891**	**-724**	**-988**	**-459**
Net financial items	**-884**	**-715**	**-930**	**-365**

G. Market value of financial instruments

The Group arranges its loans on market terms. For external loans, interest terms are based on underlying official market rates plus an interest margin. When these loans are not subject to organized trading, an objective market assessment is not possible. Considering the re-financing that took place in 2008 in connection with the acquisition of the caprolactones business it can be stated that the Group's interest margins have risen slightly. The rise in the market value of Group loans that this would cause is however countered to a large extent by the positive effect of the interest hedging contracts the Group has entered into.

The fair value of financial instruments traded on active markets is based on listed market prices on the closing date. Assessment techniques, such as calculation of discounted cash flows, are used to establish fair value for remaining financial instruments. The fair value of interest swaps is calculated as the present value of assessed future cash flows. The fair value of electricity hedge contracts are established through the use of listed rates for electricity contracts on the closing date. The reported value, after depreciation, of accounts receivable and accounts payable are judged to correspond to fair value, as these items are short term.

Note 22 Income taxes & deferred taxes

A. Income taxes in the income statement

SEK m	Group 2007	Group 2006	Parent Company 2007	Parent Company 2006
Current tax	-70	-92	0	-
Deferred tax	23	88	-	-3
Total	**-47**	**-4**	**0**	**-3**

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

Tax cost	Group 2007	Group 2006	Parent Company 2007	Parent Company 2006
Pretax earnings	-81	-149	-8	12
Tax computed on basis of national tax rates applying in each particular country	26	48	2	-3
Adjustment for different tax rates in different countries [1]	-18	-21	-	-
Non-taxable revenues	21	11	84	-
Non-tax-deductible costs	-43	-18	-86	-
Adjustment due to changed tax regulations/new judgments	-22	-12	-	-
Tax loss carryforwards for which no deferred tax asset has been recognized	-12	-12	-	-
Tax cost	**-47**	**-4**	**0**	**-3**

[1] The effective tax rate is adjudged to be 32%. The fact that earnings at certain tax rates are mixed with losses at other tax rates – with a total relatively low earnings base – distorts the impression provided by the effective tax rate above.

B. Deferred income tax, net – change SEK m	Group 2007	Group 2006	Parent Company 2007	Parent Company 2006
Opening balance, net tax liability	1,658	1,817	0	-3
Acquisition	108	-	-	-
Exchange-rate differences	7	-108	-	-
Tax recognized in the income statement (table A)	-23	-88	-	3
Tax recognized in shareholders' equity	-12	37	-	-
Closing balance (net tax liability)	**1,738**	**1,658**	**0**	**0**

C. Deferred tax liability, specification

SEK m	Group Dec 31, 2007	Group Dec 31, 2006	Parent Company Dec 31, 2007	Parent Company Dec 31, 2006
Tangible fixed assets	935	856	-	-
Intangible fixed assets	1,076	1,095	-	-
Other receivables	19	4	-	-
Total	**2,030**	**1,955**	**-**	**-**

D. Deferred tax asset, specification

SEK m	Group Dec 31, 2007	Group Dec 31, 2006	Parent Company Dec 31, 2007	Parent Company Dec 31, 2006
Intangible fixed assets	6	13	-	-
Tangible fixed assets	-	10	-	-
Loss carryforwards	237	243	-	-
Provisions	49	31	-	-
Total	**292**	**297**	**-**	**-**

E. Tax loss carryforwards

The value of unutilized tax loss carryforwards is capitalized in cases where it is expected that the carryforwards will be utilized in the foreseeable future. In addition, there are unutilized tax loss carryforwards totaling SEK 164 m and temporary differences totaling SEK 88 m that have not been assigned any value, since it is considered that these will not be utilized in the foreseeable future. These refer mainly to Italy and India. Temporary differences in Italy may be utilized within a five-year period and in India within seven years.

Note 23 Pension obligations & costs

Defined-contribution pension plans

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

Most of the Group's Swedish companies have secured their obligations for old-age and family pensions via pension insurance with Alecta. In accordance with a statement issued by the Emerging Issues Task Force of the Swedish Financial Accounting Standards Council, URA 42, this is a defined-benefit plan that covers several employers. At year-end 2007, Alecta's surplus in the form of its collective funding ratio amounted to 152%. The collective funding ratio equals the market value of Alecta's assets, in percentage of the insurance obligations as computed in accordance with Alecta's actuarial calculation assumptions; this does not comply with IFRS.

A. Provision for pensions, defined-contribution plans

	Group		Parent Company	
SEK m	2007	2006	2007	2006
State pension plans	62	55	2	2
Other defined-contribution pension plans	36	27	2	2
ITP, insured through Alecta	49	50	5	5
Total, pension costs, defined-contribution plans	**147**	**132**	**9**	**9**

Defined-benefit pension plans

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

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

There were no defined-benefit pension obligations in the Parent Company at the end of 2007.

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

B. Key actuarial assumptions

	Group	
	2007	2006
Discount rate, %	5.1	5.0
Future salary increases, %	3.6	3.7
Anticipated return on plan assets, %	7.4	7.4
Anticipated average remaining employment term, year	15.0	14.2

The plan assets mainly exist in one of the companies in the US (96% of the Group's plan assets). Of these, 65% is invested on the stock market and 35% in bonds. The expected return on plan assets has been assumed to be 9% and 4.7%, respectively.

Healthcare insurance is not included in pension commitments.

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

C. Provision for pensions, defined benefit plans

SEK m	Group Dec 31, 2007	Dec 31, 2006	Dec 31, 2005
Funded pension plans			
Defined-benefit obligations	220	217	251
Fair value of plan assets	-202	-205	-218
Net value	18	12	33
Unrecognized actuarial gains and losses	11	17	-21
Unrecognized costs regarding prior-year service	-	-	-
Provision for pensions, funded pension plans, net	**29**	**29**	**12**
Unfunded pension plans			
Defined-benefit obligations	187	193	196
Unrecognized actuarial gains and losses	24	8	-36
Salary taxes	9	9	-
Unrecognized costs regarding prior-year service	-	-	1
Provision for pensions, unfunded pension plans	**220**	**210**	**161**
Total provision for pensions, net	**249**	**239**	**173**

So-called Direct pensions are included under assets and liabilities at SEK 69 m. This is not included in the amount above and is reported separately on the balance sheet. The asset is capital insurance.

D. Provision for pensions net, changes during the year

SEK m	Group 2007	2006
Opening balance, provision for pensions	239	-
Acquisition of Group	-	236
Pension costs during the year	16	18
Disbursements during the year	-8	-9
Translation differences	2	-6
Closing balance, provision for pensions, net	**249**	**239**

E. Pension costs, defined-benefit plans

SEK m	Group 2007	2006
Costs for current year service	11	13
Costs for prior year service	0	0
Expected return on plan assets [1]	-15	-15
Interest expense for obligations [1]	20	20
Amortization of actuarial gains and losses	0	0
Total	**16**	**18**

[1] The net amount is recognized in financial expense.

During 2008, payments for pension obligations are estimated at SEK 2 m.

Note 24 Other liabilities, provisions

SEK m	Group Dec 31, 2007	Group Dec 31, 2006	Parent Company Dec 31, 2007	Parent Company Dec 31, 2006
Special salary tax, pension commitments	17	16	14	-
Pension obligations, interest-free	17	20	-	-
Provision for previously divested operations	11	11	-	-
Other provisions	2	6	-	-
Other liabilities, provisions	**47**	**53**	**14**	**0**

Note 25 Employees & wages, salaries & other remuneration

Average number of employees

Country	2007 Total number of employees	2007 of whom, men	2006 Total number of employees	2006 of whom, men
Sweden				
Parent Company	9	8	9	8
Subsidiaries	927	644	895	618
Belgium	43	34	40	32
Brazil	6	4	6	4
Chile	79	74	65	61
Finland	25	13	25	13
France	6	4	5	3
India	220	212	240	233
Italy	34	26	36	28
Japan	3	2	3	2
China	70	47	3	2
Netherlands	30	21	29	20
Singapore	12	7	4	1
United Kingdom	6	4	6	4
South Korea	27	23	29	26
Germany	132	116	132	116
USA	156	138	148	130
Total	**1,785**	**1,377**	**1,675**	**1,301**

Wages, salaries and other remuneration

SEK m	2007 Total	2007 Of which for Board members/ President	2006 Total	2006 Of which for Board members/ President
Parent Company	34	14	15	4
Subsidiaries	667	8	584	11
Total	**701**	**22**	**599**	**15**

Wages, salaries and other remuneration, by country

SEK m	2007		2006	
	Board members and President	Other employees	Board members and President	Other employees
Sweden	16	430	5	363
Belgium	0	20	0	13
Brazil	0	2	0	2
Chile	0	13	-	11
Finland	1	11	1	11
France	0	4	0	6
India	0	10	0	9
Italy	0	14	0	13
Japan	0	3	0	3
China	0	3	-	0
Netherlands	0	11	0	10
Singapore	0	5	0	2
United Kingdom	2	2	4	2
South Korea	1	9	1	9
Germany	0	69	0	63
USA	2	73	4	67
Total	**22**	**679**	**15**	**584**

Social security costs

SEK m	2007		2006	
	Social security costs	of which, pension costs	Social security costs	of which, pension costs
Parent Company	23	16	11	8
Subsidiaries	274	147	267	143
Total	**297**	**163**	**278**	**151**
Of which, pension costs for the Board of Directors, President and former President of the Parent Company		6		2

Remuneration to the Group's Board of Directors and management, 2007

SEK 000	Salary	Bonus payments and other remuneration	Pension costs [1]	Board fee	Total
Chairman of the Board	2,939	4,042	1,994	-	8,975
Other Members of the Board	-	-	-	-	-
President	3,617	3,161	3,545	-	10,323
Vice President	151	14	57	-	222
Other members of Group management	14,330	3,959	7,148	-	25,437
Total	**21,037**	**11,176**	**12,744**	**-**	**44,957**

[1] All pension costs are for defined-contribution plans.

The reported payments pertain to the remuneration expensed for the 2007 fiscal year, certain portions of which will be paid in 2008, and remuneration for fiscal year 2006 in the event that accruals were too low.

The Chairman of the Board is employed by the company, which is reflected in the above salary, bonus and pension costs. He also has an employment agreement with rules concerning dismissal that corresponds to the terms for the President.

Other members of Group management comprised 8 persons during the year; the positions of R&D and Supply Chain director was vacant during part of the year. During 2007, other members of Group Management exchanged bonus payments of SEK 207,000 for pensions.

Principles

Members of the Board receive director fees in accordance with resolutions passed at the Annual General Meeting. Employee representatives do not receive director fees. For 2007, director fees were not paid to Members of the Board.

Remuneration to the President and other members of Group management comprises basic salary, variable remuneration, company car and pensions. The President is also entitled to a bonus corresponding to a maximum of 100% of his basic salary. Other members of Group management are covered by a bonus system that provides a maximum of 35% of their basic salary. The variable remuneration is based partly on the Group's earnings trend and cash flow and partly on the fulfillment of various function-based targets by each individual.

Pension & employment termination

An occupational pension has been taken out for the President corresponding to 57.9% of his basic salary. According to a special undertaking, the employment contract can be terminated by both the company and the President as of age 60. The period of employment-termination notice is one year if notice is served by the Company and six months if it is served by the President. If the Company terminates the President's employment, the President will also receive severance pay corresponding to 12 monthly salaries. If organizational changes or other changes initiated by the owners results in significant limitations on the President's responsibility or authority, the President is entitled under certain circumstances to terminate his employment and be subject to the same employment termination terms as those that would have applied if the Company had terminated his employment.

Other members of Group Management are covered by 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 total of salary during the period of notice, severance pay and corresponding benefits will be paid for up to 12 months.

Note 26 Contingent liabilities

SEK m	Group		Parent Company	
	Dec 31, 2007	Dec 31, 2006	Dec 31, 2007	Dec 31, 2006
Guarantees	-	22	-	-
Guarantees and other contingent liabilities for subsidiaries	-	-	541	3,022
Total	**-**	**22**	**541**	**3,022**

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

Note 27 Assets pledged

SEK m	Group Dec 31, 2007			Group	Parent Company	
	Liabilities	Pension liabilities, other	Total	Dec 31, 2006	Dec 31, 2007	Dec 31, 2006
Property mortgages	1,137	-	1,137	530	-	-
Chattel mortgages	1,173	-	1,173	1,145	-	-
Shares in subsidiaries	8,381	-	8,381	5,573	8,995	6,073
Liquid funds	231	-	231	-	130	-
Investments and receivables	376	-	376	-	-	-
Endowment insurances	-	69	69	67	57	-
Total	**11,298**	**69**	**11,367**	**7,315**	**9,182**	**6,073**

Note 28 Company acquisition as of 17 November 2007
Lonza Singapore Pte Ltd

Preliminary acquisition analysis, SEK m	
Purchase price	749
Transaction costs	13
Total acquisition costs	**762**
Acquired net assets	-762
Goodwill	0
Acquisition cost	762
Financial liability to seller	-100
Effect on consolidated cash flow	**662**

Acquired assets and liabilities	Book value	Market value adjustments	Market value
Intangible fixed assets	17	132	149
Tangible fixed assets	587	-	587
Inventories	79	17	96
Other current assets	156	-1	155
Assets	**839**	**148**	**987**
Tax liabilities	81	27	108
Other short-term operating liabilities	117	-	117
Total liabilities	**198**	**27**	**225**
Acquired net assets	**641**	**121**	**762**

The Group's operating earnings before depreciation were affected by SEK 10 m from the acquisition of Lonza Singapore Pte Ltd, during 2007, after adjustments for market valuation of stocks.

Note 29 Future undertakings

The principal undertakings entered into by the Group at the end of 2007, but which were not yet reported in the accounts, are the acquisition of the caprolactones business from the Solvay Group and the expansion of NEO production in China. Both of these undertakings are described in greater detail in Note 31.

Acquired assets as of 5 March 2007
Shandong Fufeng Perstorp Chemicals Co., Ltd

SEK m	
Purchase price	33
Transaction costs	1
Total acquisition costs	**34**
Acquired net assets	-34
Goodwill	**0**

	Book value	Market value adjustments	Market value
Intangible fixed assets	6	3	9
Tangible fixed assets	50	-	50
Current assets	1	-	1
Cash and bank accounts	39	-	39
Assets	**96**	**3**	**99**
Operating liabilities	35		35
Liabilities	**35**	**0**	**35**
Net assets	**61**	**3**	**64**
Minority interests	-30	-	-30
Acquired net assets	**31**	**3**	**34**

Operating earnings in 2007 were not affected by the acquisition in China as this business did not start up until 2008.

Note 30 Business relations with related parties

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

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

Perstorp Holding AB has a loan from the Parent Company corresponding to SEK 2,362 m at year-end. The loan is subject to normal market terms and conditions. The term of the loan is ten years, which is extended automatically for up to five periods each of ten years, assuming that neither of the parties terminates the agreement. The interest rate is 10%, which is capitalized. The loan is subordinate to the senior loans, second lien and mezzanine loans.

The receivables and liabilities in relation to associated companies are reported in the balance sheet. Remuneration to the Group´s Board of Directors and management is reported in Note 25.

In addition to the loan there is a financial liability to PAI partners concerning transaction costs amounting to SEK 93 m, which is not subject to interest.

Within the framework of an incentive program, PAI partners has offered senior Group executives an opportunity to become shareholders in the Parent Company Financière Forêt S.À.R.L. and a total of around 150 manager and others key personnel have accepted the offer, with contributions amounting to around EUR 4 million. Shares and options were priced on normal commercial terms.

Note 31 Important events following fiscal year-end

The Perstorp Group has begun a major commitment in the growing market for caprolactones, where the Group sees considerable opportunities for growth and new applications. This has been implemented by signing an agreement to acquire the caprolactones business of Solvay, a chemicals and pharmaceuticals group. This business had sales of EUR 80 m in 2007 and around 65 employees. Production takes place in Warrington, UK. The EU Commission approved the deal in January 2008 and the business will be taken over February 1.

After the end of 2007 Perstorp has also completed the acquisition of an additional production plant in the Chinese province of Shandong, which consolidates the Group's leading position in polyols. This was achieved by the previously established joint venture in China acquiring a business for production of basic polyol Neo. The plant is located in the Linzi district of Zibo City, where Perstorp already has a TMP production plant. The seller was Chinese polyol manufacturer Zibo Linzi Yongliu Chemical Industry Stock Co., Ltd, and the take-over was completed in early 2008. The plant is expected to achieve sales of around SEK 300 m in 2008. In conjunction with the acquisition, Perstorp increased its participating interest in the joint venture company to 58.5%.

After the end of 2007 Perstorp also reached agreement to sell its business within composites, YLA Inc. and its subsidiary, CCS Composites LLC, to TenCate Advanced Composites USA Inc. This sale is in line with the Group's strategy to focus and extend its core business in specialty chemicals. The business had sales of around USD 24 million. The consideration is USD 32 million.

Acquisition of caprolactones business from Solvay UK Ltd as of January 31, 2008, preliminary acquisition analysis

EUR m	
Purchase price	187
Transaction costs	4
Total acquisition costs	**191**
Acquired net assets	-95
Goodwill	**96**

Acquired assets and liabilities	Book value	Market value adjustments	Market value
Intangible fixed assets	-	40	40
Tangible fixed assets	26	23	49
Inventories	6	-	6
Assets	**32**	**63**	**95**
Acquired net assets	**32**	**63**	**95**

Note 32 Pro forma income statement [1)]

SEK m	2007	2006
Net sales	**10,042**	**8,394**
Costs of sold goods	-8,136	-7,119
Gross earnings	**1,906**	**1,275**
Sales, administration and R&D costs	-776	-683
Other operating income and expenses	5	6
Income from participations in associated companies	-2	1
Operating earnings (EBIT)	**1,133**	**599**
Operating earnings before depreciation (EBITDA)	**1,852**	**1,286**
EBITDA adjusted for non-recurring items	**1,894**	**1,299**

1) Includes depreciation based on preliminary calculations of acquired value.

Activities in the acquired businesses of PIA and Caprolactone have been included as if they were fully part of the Perstorp Group for both 2007 and 2006. The composite activities, divested after year-end, have been excluded from both years.

Note 33 Sickness absence

Sickness absence as a percentage of ordinary working time, %	2007		2006	
	Group	Swedish operations	Group	Swedish operations
Total	**2.4**	**2.4**	**2.4**	**2.6**
Uninterrupted sickness absence of 60 days or more	*)	1.2	*)	1.2
Sickness absence by gender				
Men	*)	2.1	*)	2.2
Women	*)	2.9	*)	3.3
Sickness absence by age				
29 years or younger	*)	2.3	*)	1.3
Between 30-49	*)	2.5	*)	2.1
50 years or older	*)	2.1	*)	3.9

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

The Parent Company had no sickness absence in 2007. The Parent Company had 9 employees at the end of 2007.

Note 34 Proportion of women who are members of company boards & management

	2007			2006		
	Total	of whom women	%	Total	of whom women	%
Board members	119	4	3	95	2	2
Other senior executives	131	32	24	95	20	21

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

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

Note 35 Auditors´ fees

	Group		Parent Company	
	2007	2006	2007	2006
Öhrlings PricewaterhouseCoopers:				
Audit assignments	5	4	1	0
Other	1	3	0	2
Other accounting firms:				
Audit assignments	0	0	-	-

Audit costs in the Parent Company in 2007 totaled SEK 0.8 m (0.4).

Note 36 Currency exchange rates

Currency	Year-end exchange rates		Average exchange rates	
	Dec 31, 2007	Dec 31, 2006	2007	2006
BRL	3.680	3.219	3.475	3.392
CNY	0.890	0.880	0.888	0.923
EUR	9.474	9.050	9.252	9.254
GBP	12.905	13,487	13.526	13.571
INR	0.164	0.155	0.164	0.163
JPY	0.057	0.058	0.057	0.063
KRW	0.007	0.007	0.007	0.008
SGD	4.470	4.485	4.485	4.641
USD	6.468	6.872	6.761	7.376

Proposed treatment of unappropriated earnings

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

Retained earnings	SEK	452.988.518
Net loss for the year	SEK	-7.508.111
	SEK	445.480.407

be distributed as follows:

To be retained in the business	SEK	445.480.407

Perstorp, March 14, 2008

Lennart Holm
Chairman

Bo Dankis
President

Dominique Mégret

Klas Ingstorp

Bertrand Meunier

Ronny Nilsson

Fabrice Fouletier

Anitha Hermansson

Auditors´ report

To the Annual General Meeting of Perstorp Holding AB
Corp. Reg. No. 556667-4205

We have audited the annual report, the consolidated financial statements, the accounts and the administration of the Board of Directors and the President of Perstorp Holding AB for the 2007 fiscal year. The Company's official annual report is included in the printed version of this document on pages 34-65. The Board of Directors and the President are responsible for these accounts and the administration of the company, and for ensuring that the Annual Accounts Act is applied when the annual accounts are compiled, and that the International Financial Reporting Standards (IFRS) adopted by the EU and the Annual Accounts Act are applied for compiling the consolidated accounts. Our responsibility is to express an opinion on the annual accounts, consolidated accounts and the administration based on our audit.

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

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

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

Perstorp, March 14, 2008
PricewaterhouseCoopers AB

Michael Bengtsson
Authorized Public Accountant
Lead auditor

Ulf Pernvi
Authorized Public Accountant

Board of Directors & Auditors

Elected by the Annual General Meeting

Lennart Holm
Born in 1960
Chairman of the Board of Perstorp Holding AB
Partner, PAI partners
Member of the Board since 2006.
Active in the Group since 2001.

Other Board assignments:
Lunds Tekniska Högskola, Kemiteknik, Hempel A/S (Dk), Industrifonden, Vatus AB, SOS Barnbyar and member of council of Sydsvenska Handelskammaren.

Dominique Mégret
Born in 1947
Chief Executive Officer, PAI partners
Member of the Board since 2006.

Other Board assignments:
Member of the Board of Chr. Hansen (Dk), Kwik Fit (UK), Coin (It), Saeco (It), Yoplait (Fr), Spie (Fr) and Kaufman & Broad (Fr).

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

Directly elected representatives

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

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

Klas Ingstorp
Born in 1971
Process Manager Polyols Global Technology
Member of the Board since 2006.
Appointed by the Boards of PTK of Perstorp and Stenungsund.

Deputies:

Colm O'Sullivan, Principal, PAI partners
Gaëlle d'Engremont, Investment Director, PAI partners
Anders Magnusson, deputy for the union representative of PTK
Anders Broberg, deputy for the union representative of PTK
Gunilla Nordberg, deputy for the union representative of IF Metall

Elected by the Annual General Meeting

Bertrand Meunier
Born in 1956
Senior Partner, PAI partners and
Director of Financière Forêt S.À.R.L.
Member of the Board since 2006.

Other Board assignments:
Member of the Board of United Biscuits (UK), Yoplait (Fr), Saeco (It), Coin (It), Chr. Hansen (Dk), Kaufman & Broad (Fr), Spie (Fr) and Monier (D).

Bo Dankis
Born in 1954
President and Chief Executive Officer, Perstorp Holding AB.
Member of the Board since 2006.

Other Board assignments:
Member of the Board Gunnebo AB and Exportrådet (Swedish Trade Council). Chairman of the Board of Gadelius K.K., Tokyo.

Auditors

Michael Bengtsson
Born in 1959
Authorized Public Accountant
Öhrlings PricewaterhouseCoopers

Other major revision assignments:
Sweco AB, Onoff AB, Haldex AB and Enea AB.

Ulf Pernvi
Born 1949
Authorized Public Accountant
Öhrlings PricewaterhouseCoopers

Other major revision assignments:
E.ON Sverige, Rexam and Gambro Lundia.

Group management team

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

Eric Appelman
Born 1964
Executive Vice President
Renewal & Development.
Active in the Group since 2008.

Bengt Sallmén
Born 1951
Executive Vice President
Strategic Development.
Active in the Group since 1976.

Martin White
Born 1965
Executive Vice President
Supply Chain
Active in the Group since 2007.

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

Group functions

Corporate Communications
Cecilia Nilsson

Corporate Finance
Gunnar Modalen

Corporate IT
Susanna Frennemo

Financial Control
Anita Haak

Global Environment, Health, Safety & Quality
Jan Petersson

Bo Dankis
Born in 1954
President and Chief Executive Officer.
Active in the Group since 2006.

Claes Gard
Born in 1953
Executive Vice President.
Chief Financial Officer.
Active in the Group since 2001.

Susanne Jacobsson
Born in 1957
Executive Vice President
Corporate HR & Communications.
Active in the Group since 2006.

David Wolf
Born 1956
Executive Vice President Sales.
Active in the Group since 1982.

Your Winning Formula

The Perstorp Group is the world leader in several sectors of the specialty chemicals market. Few chemical companies in the world can rival its 125 years of success. Today we have a rich performance culture distilled from our long history and extensive knowledge in the chemical industry. That culture and knowledge base enables us to produce Winning Formulas for a wide variety of industries and applications.

Our products are used in the aerospace, marine, coatings, chemicals, plastics, engineering and construction industries. They can also be found in automotive, agricultural feed, food, packaging, textile, paper and electronics applications.

Our production plants are strategically located in Asia, Europe and North and South America and are supplemented by sales offices in all major markets. We can offer you a speedy regional support and a flexible attitude to suit your business needs.

If you want a chemical partner who can offer you focused innovation to enhance your product or application, which is delivered reliably and responsibly look no further. We have a winning formula waiting for you.

Perstorp
WINNING FORMULAS