# Perstorp 2011

## Annual & Social Responsibility Report

Perstorp

WINNING FORMULAS

# Facts about Perstorp

## ▪ GLOBAL

From being a small Swedish family business Perstorp has grown into a world leading specialty chemicals Group with more than 1,500 employees and manufacturing units in ten countries in Asia, Europe and North America. Sales in 2011 amounted to SEK 11,297 m. The Perstorp Group is controlled by the French private equity fund PAI partners since 2005.

## ▪ EVERYWHERE

The specialty chemicals Perstorp produces are added to a wide range of products used everyday at home, work or leisure. Customers are in the coatings, plastic processing and automotive industries – as well as construction and engineering, the agricultural sector and many more. Good products are made even better by providing certain planned and desired characteristics.

## ▪ SOLUTION PROVIDER

Perstorp is a differentiated specialty chemicals company with a unique position on the market. This is possible through an offer of everything from key chemical building blocks to semi-specialty chemicals and pure specialty products that together with a solution providing approach add maximum value for Perstorp's customers.

## ▪ SUSTAINABLE

Perstorp believes in improving everyday life – making it safer, more convenient, more fun, and more environmentally sound for millions of people all over the world. This is achieved through innovative chemistry which maximizes performance and minimizes environmental impact at the same time. Over 80% of the Group's R&D work is focused on developing more efficient and environmentally sound products and processes. Perstorp is systematically mapping the carbon footprints and lifecycle impact of the main products.

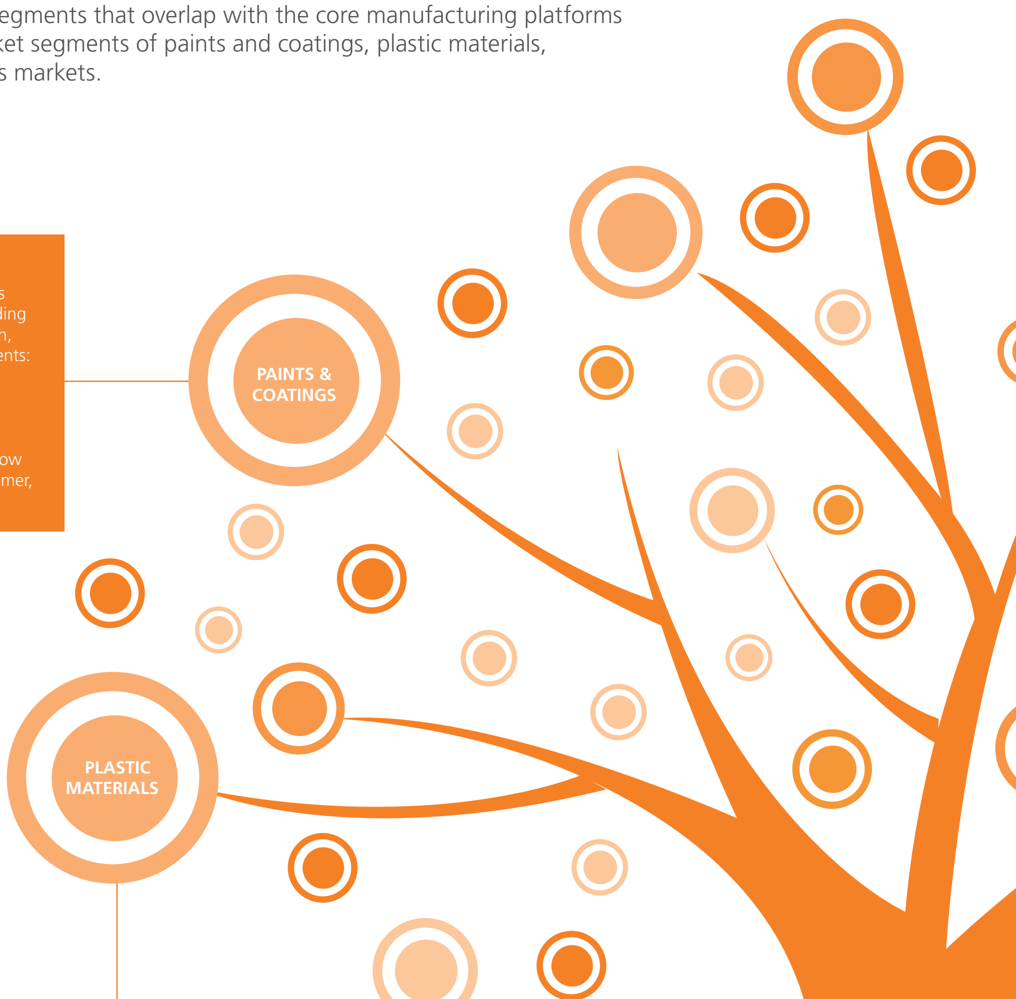
**CONTENT**

# Sustainable solutions through innovative chemicals

# Sharp at both ends

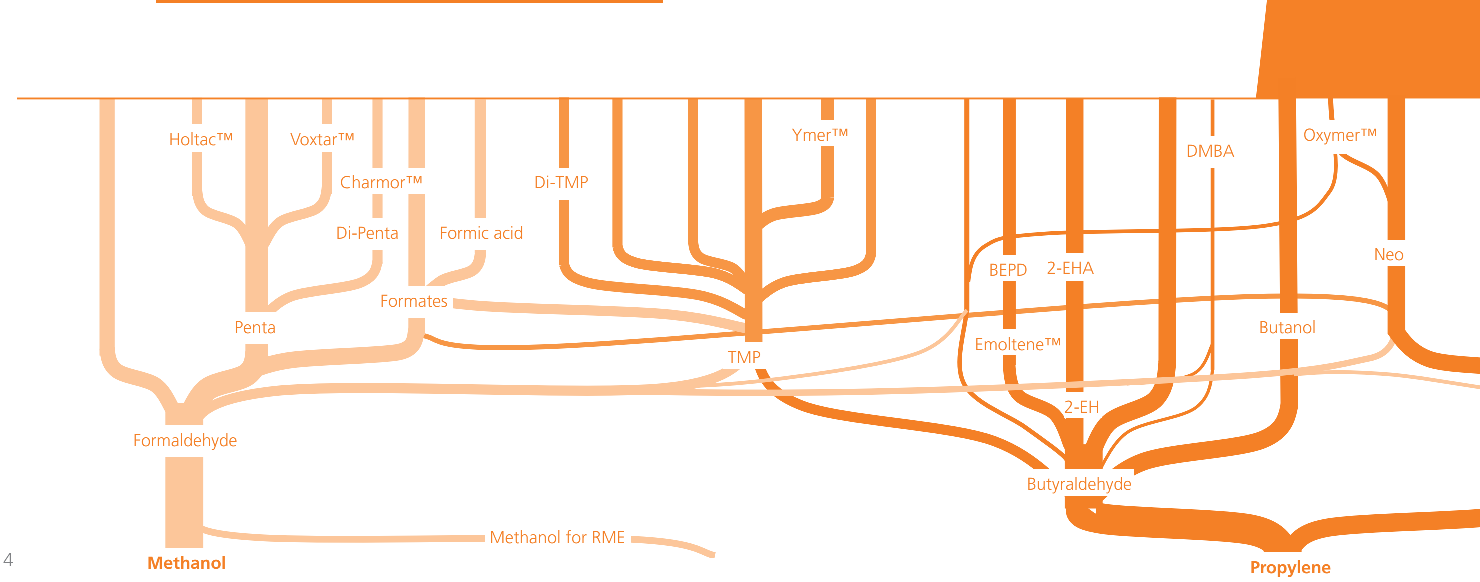
## Market segments in focus

Perstorp has clear strategies for the market segments that overlap with the core manufacturing platforms and expertise. Now, focus is on the five market segments of paints and coatings, plastic materials, feed and food, formalin technology and fuels markets.



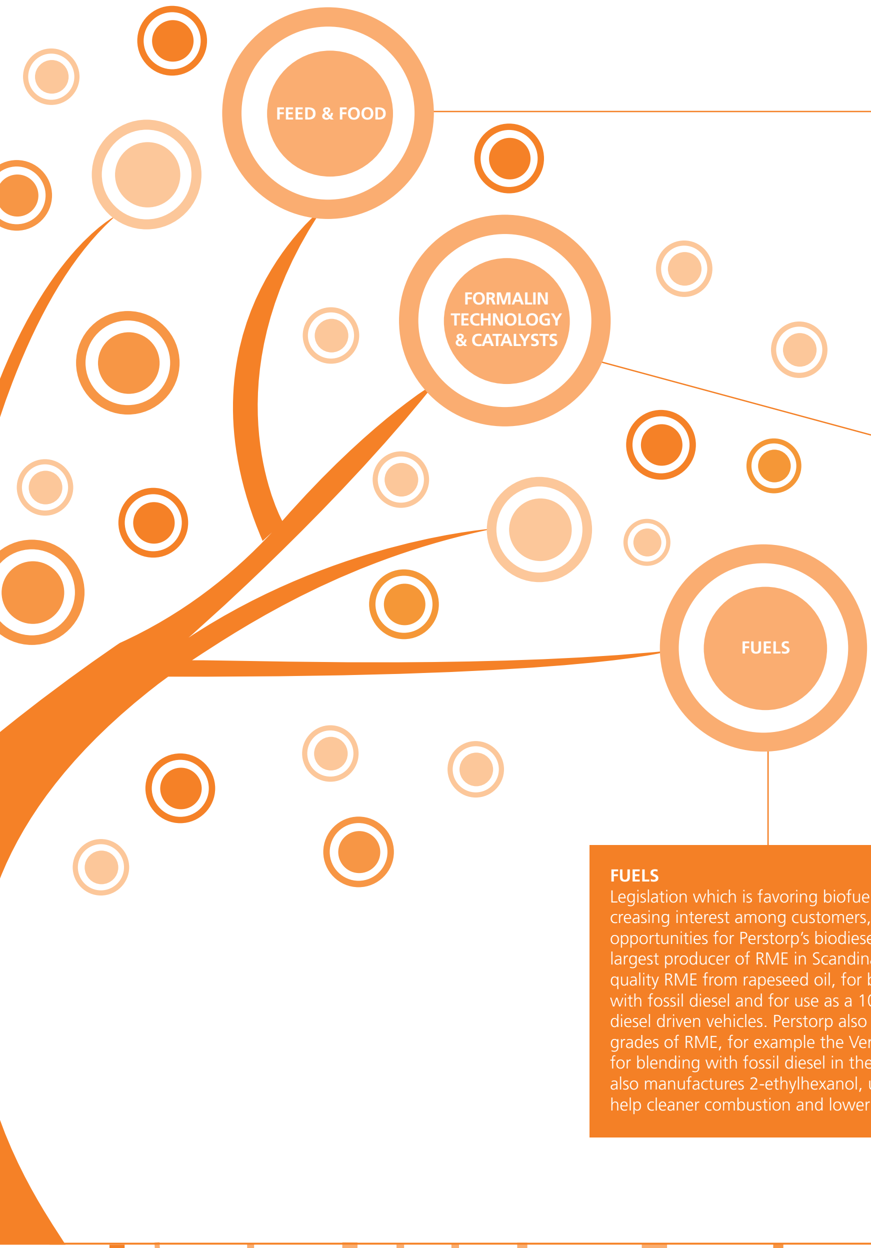

**PAINTS & COATINGS**
As a key solution supplier for the global paints and coatings market, Perstorp´s offer covers everything from critical building blocks to high value specialties. For Perstorp´s future growth, focus is specifically on a number of high-growth sub-segments: water-borne polyurethane dispersions, UV curing resins and resins for low solvent coatings systems and the rapidly expanding uses to coat trains, aeroplanes and plastic parts. Working in partnership with participants throughout the entire value chain, Perstorp enables coatings systems with low environmental impact and high performance to meet customer, end-user and regulatory demands.

**PLASTIC MATERIALS**
Plastic materials is a diverse segment covering Perstorp´s products for many types of plastics and composites. The products for foams and elastomers enhance the performance of many everyday items such as furniture, automotives and shoes providing better comfort, esthetics and durability. Perstorp´s plastic additives and plasticizers enhance and customize the properties of plastic end products, for example to make hard materials softer, soft materials more stable and brittle materials more durable. Perstorp is well positioned in this segment with strong concepts in environmentally preferred solutions and in safety driven end usages.



## Operational leadership is the target

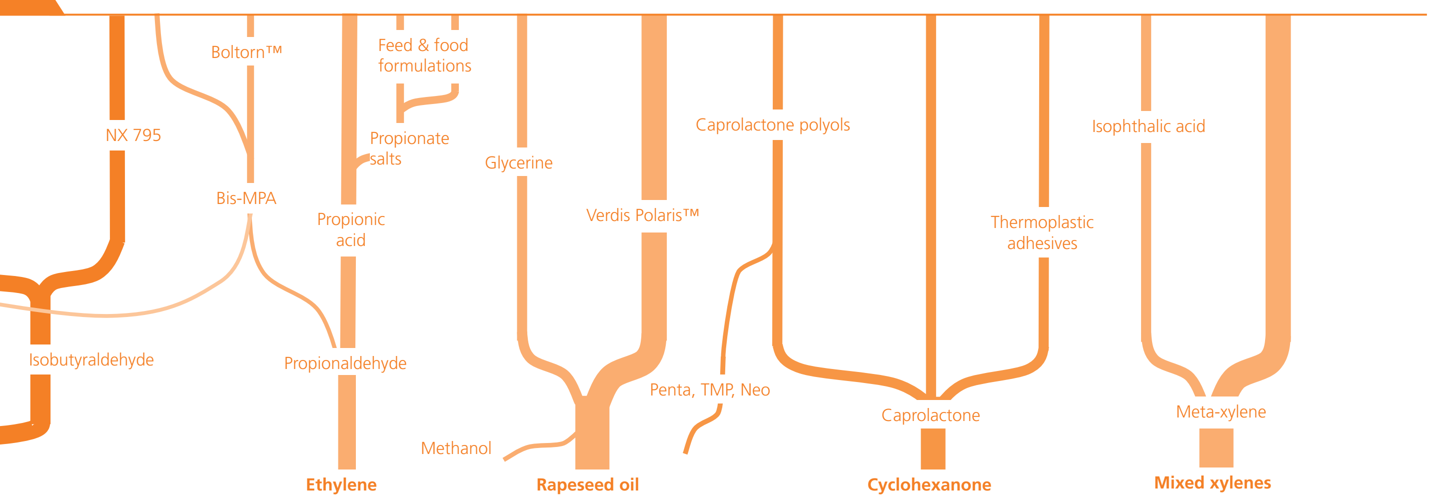
Perstorp works with five different manufacturing platforms: oxo products, polyalcohols, isophthalic acid, caprolactones and RME (Rapeseed Methyl Ester). Perstorp´s uniqueness stems from having such complex, developed production trees; this complexity leads to competitive advantages regarding cost, flexibility and new product development.




**FEED & FOOD**
Improving nutrient content, inhibiting mould growth, antibacterial treatment and aiding digestion are just a few of the benefits of the feed additives, ensilage agents and preservatives that Perstorp manufactures from formic acid and propionic acid. Together they boost the productivity and quality of meat, milk and egg production – since long in Europe but now also in emerging markets.

**FORMALIN TECHNOLOGY & CATALYSTS**
Perstorp's world-leading Formox business supports customers with a unique long-term partnership model, covering the design and supply of formalin plants, the development and supply of catalysts and the offer of active technical support for all Formox customers. This enables cost-efficient production of high-strength formalin with high consistency, for significant advantages in all downstream applications, including boards and insulation for the construction industry, plastic and foam components for the automotive industry and stretch fibers for the textile industry.

**FUELS**
Legislation which is favoring biofuels, as well as the increasing interest among customers, provides good growth opportunities for Perstorp's biodiesel (RME). Perstorp is the largest producer of RME in Scandinavia producing high quality RME from rapeseed oil, for blending with up to 7% with fossil diesel and for use as a 100% renewable fuel for diesel driven vehicles. Perstorp also produces superior quality grades of RME, for example the Verdis Polaris™ is suitable for blending with fossil diesel in the Nordic climate. Perstorp also manufactures 2-ethylhexanol, used in fuel additives to help cleaner combustion and lower particle emissions.



# A year in review

## KEY FIGURES IN SUMMARY

| | 2011 | 2010 |
|---|---|---|
| Net sales | 11,297 | 10,600 |
| Operating earnings before depreciation (EBITDA) | 1,517 | 1,581 |
| EBITDA adjusted for non-recurring items | 1,497 | 1,668 |
| % of net sales | 13.4 | 14.9 |
| Working capital, average | 1,380 | 1,203 |
| Turnover rate, working capital | 8.2 | 8.8 |
| Cash flow from operating activities | 1,060 | 1,136 |
| Investments excl. acquisitions | 384 | 501 |
| Capital employed, average [1)] | 14,057 | 15,238 |
| Net debt, incl. pensions, excl. Parent Company loan, end of the year [1)] | 10,355 | 10,515 |

[1)] Including discontinued operations.

## Q1

A strong market growth led to accelerated demand and short supplies for several of Perstorp's products in the first quarter. The unrest in North Africa and the Middle East led to hikes in raw material prices. It was decided to increase the Group's capacity for 2-EHA in Asia.

## Q2

The demand situation was softer in the second quarter of the year as a result of the European debt crisis, the slowdown of the Chinese economy and cutbacks in the US. A decision was made to restart the investment in a new production plant for Valeraldehyde and its derivatives 2-PH and DPHP.

## Q3

Despite the good volume trend in the first half of the year inventory levels across the value chain was kept low since the last economic downturn. The pending debt crisis in Europe coupled with slower growth in the US and Asia reflected the softer demand that was evident to Perstorp by the end of the third quarter.

## Q4

Although the year started off well with a strong volume trend, the last quarter of the year was impacted by lower sales and margins by the end of the year. Perstorp and Thailand's largest chemical producer PTT Global Chemical signed an agreement to form a joint venture for the manufacturing and sales of isocyanates.

## IMPORTANT EVENTS

Sales rose by 7% to SEK 11,297 m (10,600), despite a negative currency effect of -8%. Although the volume increase for the Group was moderate, certain products such as Penta and Formox achieved much higher growth levels. Prices rose by 14% to compensate for the rise in raw material costs.

Operating earnings before depreciation and amortization were SEK 1,497 m (1,668) adjusted for items affecting comparability. The strengthening Swedish krona led to a negative currency effect of SEK -170 m from the translation and transaction flows over the year. Fixed costs have been kept below last year's levels following a sharp discipline on spending and a positive consolidation effect from the strong Swedish krona.

Perstorp and Thailand's largest chemical producer PTT Global Chemical signed by the end of 2011 an agreement to form a joint venture dedicated to the manufacturing and sales of aromatic (TDI) and aliphatic (IPDI, HDI & derivates) isocyanates; serving the polyurethane industry.

Several strategic investments continued their progression during the year: the completion of the capacity expansion for caprolactones, the purchased US Penta business from Ashland Inc., the restart of investment in a new production plant for Valeraldehyde and its derivatives 2-PH and DPHP, and an expansion of the Group's Neo production with a new plant in China.

## PERSTORP'S ORGANIZATION

CEO
Martin Lundin

Specialty Intermediates
Deputy CEO Mats Persson

Performance Products
Anders Lundin

Finance, IT & Legal
Johan Malmqvist

Sales & Customer Service
Mikael Gedin

HR & Communications
Joan Pennington*

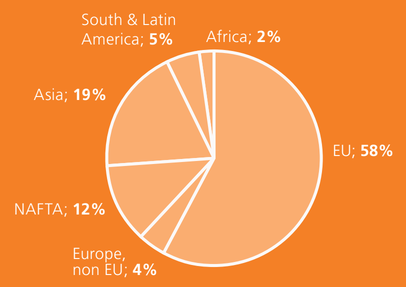
Innovation, Strategy & Market Development
Eric Appelman

EHSQ
Pascal Beaupère**

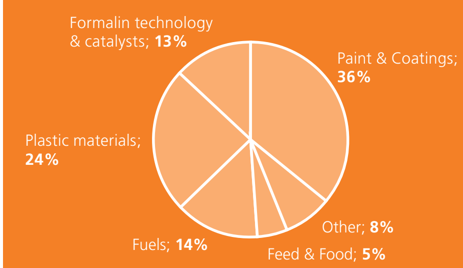
Supply Chain
Mikael Ekblad**

*As of 1 September, 2012. **Not represented in Perstorp Management Team, reporting to Deputy CEO Mats Persson.

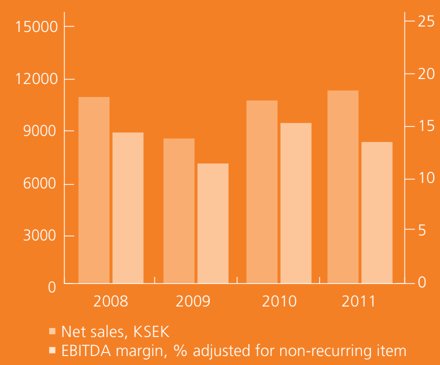
### NET SALES PER GEOGRAPHIC MARKET (continuing operations)



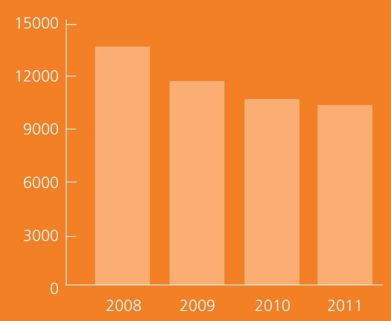

### EXTERNAL SALES PER MARKET SEGMENTS (continuing operations)




### NET SALES & EBITDA MARGIN* (continuing operations)




### NET DEBT EXCL. SHAREHOLDER LOANS*




* In 2008 major acquisitions were done, in caprolactones and isocyanates.

# CEO MARTIN LUNDIN´S COMMENTS

“

We entered the year with a confident market sentiment and Perstorp can now look back on a year characterized by swift changing global dynamics and a market in constant flux. Our business model with multiple growth drivers and market leadership in several product areas allow us to remain versatile and at the forefront of industry demands.

During the past year, the world has again witnessed a number of dramatic events as the winds of the Arab Spring gained speed, the Eurozone’s troubles intensified without resolution, and the earthquake and tsunami brought havoc to Japan. Politics, economic realities and natural disasters rendered extraordinary uncertainty within our industry, as reflected in the rising raw material prices, foreign exchange rates and overall declining levels of public confidence and general demand.

Looking ahead into 2012, we see another year filled with unpredictable scenarios that are likely to offer both challenges and opportunities. The dynamics of the global market’s playing field will be affected by the major elections facing many leading nations, the unrest and political instability in Middle Eastern economies and the continual swell of the Asian growth economies.

At Perstorp, we are relentless in our attention to the constant shifting global paradigms and we remain committed to maintaining our agility as we press further toward internationalizing our business model. We are well equipped to meet the challenges of the future, including those presented by fluctuating market demands and new legislative requirements.

## THE YEAR IN HIGHLIGHT

I am proud to announce that in 2011, Perstorp drew near to its 2015 target of being amongst the top three leading players in 85% of our businesses. An in-depth study revealed that we are within 5% of attaining our goal.

Overall, the year’s performance reflected the pulse of the global market climate, offering stronger results in the first half.

The sales and subsequently the earnings before depreciation and write-down (EBITDA) were strongly affected by negative currency effects when compared against 2010.

The greatest highlight of the year is the forming of an exciting joint venture between the Perstorp business group Coating Additives and the major Asian industry player PTT Global Chemical. This unique cooperation, 51% PTTGC and 49% Perstorp, strengthens our cost competitiveness in the worldwide polyurethane market and reassures the acceleration of our Asian manufacturing footprint.

**Key results for the year include:**

- A 7% rise in Group Sales at for continuing operations SEK 11,297 m;
- EBITDA for continuing operations amounting to SEK 1,517 million;
- Working capital ending the year at 9.6% of sales;
- Generation of a healthy cash flow from operating activities at SEK 1,054 million;
- Fixed costs kept below last year's levels; and
- Accelerated growth for the Penta, Specialty polyols and Formox portfolios.

Significant achievements in the year that helped propel Perstorp's forward development include:

- An announced joint venture between our Coating Additives business group and major Asian industry player PTT Global Chemical;
- The successful initiation of our new caprolactone plant based in Warrington, UK;
- The strategic decisions to construct a new Valeraldehyde production plant in Sweden and a new Neo plant in China;

## SPOTLIGHT ON EMERGING MARKETS

Given our tight focus on internationalizing our business composition, we are poised to capitalize on the increasingly fast-growing demand witnessed in our select growth markets of South & Latin America and Asia. The year's solid performance in South & Latin America surpassed expectations and confirms our strategic presence. Given the positive movements within these markets, Perstorp will continue to actively pursue the expansion of its regional strongholds.

## FROM THE INSIDE

In maintaining our position at the forefront of the industry, Perstorp continues to strive for excellence and is committed to accountability if those standards are not met. I am happy to say that this was reflected throughout the year with record-setting figures. An externally administered survey recorded our highest-ever grades in customer satisfaction.

And, as we continued the rollout of Perstorp Performance System, PPS, the company achieved a significant improvement in its lost time accident (LTA) rate.

## FIT FOR THE FUTURE

Our journey toward creating a world-class specialty chemical company with a sustained foothold in our select markets is well underway. We are well aligned with our mission as we work toward developing chemical innovations that ultimately improve people's lives while safeguarding the environment.

We look forward to sharing another exciting year with you.

## PERSTORP & RESPONSIBILITY

Perstorp is participating in the UN Global Compact since 2004, supporting the initiative and its 10 principles on human rights, the environment, the working environment and anticorruption. UN Global Compact took part in the development of ISO 26000, and its 10 principles all fall within the remit of the standard. With the introduction of ISO 26000, the UN Global Compact's 10 principles are expected to be incorporated in the Perstorp Group's global management system.

Perstorp's responsible way of working is clarified in print in the Group's Code of Conduct, which is distributed to all employees. It covers the four areas of Business Principles, Products & Environment, Working Conditions and Human Rights. Particular attention is given to rules on competition law within the EU, because of the ongoing work in co-operation with Perstorp competitors within the framework of the REACH legislation on chemicals.

Perstorp, June 2012

Martin Lundin
President and CEO

# STRATEGY FOR THE FUTURE

# The guiding star of Perstorp

Perstorp operates on a market that is both diverse and changing. Therefore it is imperative to have a clearly stated long-term goal, and a guiding star leading all employees in the same direction. Perstorp's mission, vision and values together make up this guiding star.

## PERSTORP'S MISSION IS

to provide sustainable solutions through innovative chemistry to the selected market segments we serve. By 2015 we will be amongst the three leading players in 85% of our businesses.

## PERSTORP'S VISION IS

to contribute to a better, more sustainable world through innovative chemical solutions.

## PERSTORP'S CORE VALUES ARE

- Focused Innovation
- Reliability
- Responsibility

> Our commitment to our strategic direction is clear and we remain focused in driving Perstorp's progress across our chosen market segments.

## PERSTORP'S STRATEGY FOR THE FUTURE

Perstorp can be described as a differentiated chemical company, meaning in practice that we have an unique position on the market, through a combination of our offer of everything from key chemical building blocks to semi-specialty chemicals and also pure specialty products that together with our solution providing approach add maximum value for our customers.

## STRATEGIES

To invest in market niches where Perstorp is or can become leader, have a competitive advantage and can achieve attractive economic returns.

To expand the specialty part of the portfolio, by greater innovation and focused sales & marketing efforts.

To differentiate the semi-specialty part of the portfolio through distinct quality grades, tailored packaging & distribution and finding new applications.

To ensure the solid market positioning and manufacturing excellence of building block chemicals, so they can continue being produced at the best possible quantity and yield to support the growth of our differentiated specialty products.

To maintain a balanced portfolio of products to limit the dependence on any one end market.

To be at the forefront in the conversion to renewable raw material and the development of effective and environmentally sound production processes in order to provide sustainable solutions to our customers.

# Growth markets

With a strong focus on an international business composition Perstorp is working to capitalize on the increasingly fast-growing demand witnessed in the select growth markets of Asia and South & Latin America.

The world is changing rapidly right now, and a changing world means great opportunities for anyone who is prepared. For the past few years, Perstorp's focus has been on Asia and, lately, South & Latin America – two important growth markets where urbanization is increasing, general living standards are rising and business is booming.

## ASIA – FULL OF CHALLENGES & OPPORTUNITIES

The demand in the Asian region continues to cover a broad range of end-applications, and Perstorp's previous years' initiatives to strengthen logistics with new warehouses in several countries and also strengthen sales and marketing with a new Customer Service Center in Shanghai are paying off.

India has been standing out positively in the region during 2011, both in terms of sales – which exceeded expectations – and in terms of Perstorp's internal development. A new Managing Director, a new application laboratory in Mumbai, and well-established processes creates the foundation for further growth.

To further broaden the customer base, a common theme across the region was to actively find new customers and applications. Despite the challenges presented by Mother Nature in Southeast Asia Perstorp achieved positive growth figures in 2011. The earthquake that hit Japan in March was not only a humanitarian disaster but also affected the Japanese economy immensely as many industries, the region's power supply and its infrastructure fell apart. The flooding in Bangkok, which happened shortly after, slowed down recovery as many of the automotive industry's subcontractors are based there.

The approach also proved very successful as almost all Asian countries were affected by the stricter monetary policies and the resulting credit restrictions in China. This affected domestic consumption and the European crisis affected exports. Perstorp's efforts finding new business opportunities during this turbulent time will cater for an even better future. One example certainly worth highlighting is home electronics – a new, growing sector for Perstorp's technically advanced caprolactones.

## SOUTH & LATIN AMERICA – THE GROWTH CONTINUES

In 2011, Perstorp's growth in South & Latin America far exceeded local GDP with an increase of 14% compared to 2010.

During the year, Perstorp made the planned investments to further improve customer service, supply chain and market development in the region – for example by establishing a centralized sales & marketing organization, with customer service personnel fluent in the local languages.

> “Perstorp's efforts finding new business opportunities will cater for a positive development in Asia.

In 2011, Perstorp's growth in South & Latin America far exceeded local GDP and Perstorp's own predictions with an increase of **14%**

Customer appreciation of Perstorp's long-term commitment, business knowledge and sense of quality, is demonstrated by greater market presence in many of our key products.

Despite a reduction in economic activity at the end of the year, consumers, industrial people – and Perstorp – remain optimistic. Huge investments are planned by government and local players in infrastructure and oil exploration, and the growth of the automotive industry and consumers' increasing environmental awareness also continue to present lucrative business opportunities. The construction industry is also expanding again, due to lower interest rates.

The outlook for 2012 is positive. Perstorp predicts sales to grow 10-12%, which is equivalent to 2-3 times GDP.

“ The world is changing rapidly right now, and a changing world means great opportunities for anyone who is prepared. For the past few years, Perstorp's focus has been on Asia and, lately, South & Latin America – two important growth markets.

# Sustainability – a matter of course

Sustainability is a concept that pervades through everything Perstorp does. It is found in the mission, the vision, the values – and the very many large and small decisions people take every day.

## Sustainable solutions through innovative chemicals

Perstorp's vision is to contribute to a better, more sustainable world through innovative chemical solutions. We know that everything we do and how we do it has a direct impact on our planet. In honoring our commitment to sustainability, Perstorp combines the power and creativity of science to deliver cutting-edge solutions that satisfy customer needs, answer to society's environmental demands and offer continuous economic success.

When talking about sustainability in business, we are often talking about environmental work. In Perstorp's case, an important part of the business concept is to produce sustainable products, to increase use of renewable resources, and to develop as effective and environmentally friendly processes as possible.

However, the sustainability concept is larger than this. It is founded on three important aspects – environment, society and economy. It's about taking care of the environment, of society around it, and the people employed – without neglecting the economic objectives.

### NEW STANDARDS FOR SOCIAL RESPONSIBILITY

In 2011 Perstorp began the process of implementing ISO 26000, a guiding standard based on social responsibility. At the moment, a preliminary study is underway to investigate which parts of the voluntary standards are important to Perstorp, and where new procedures and working methods are needed to ensure that the guidelines can actually be followed.

In addition to the overall basic principle of socially responsible behavior, within ISO 26000 there are seven specific core areas to work on, namely:

- Organizational governance
- Human rights
- Labour practices
- The environment
- Fair operating practices
- Consumer issues
- Community involvement and development

### PERSTORP'S ECOLOGICAL FOOTPRINT

One of Perstorp's stated goals is to maintain its competitive edge within sustainable products and systems. In 2011, Perstorp undertook extensive efforts to work out the carbon footprint (CFP) of the largest products – from cradle to grave.

The values attached to the products – given as a number of kilograms of carbon dioxide equivalents – are very low compared to other products on the market, and provide a useful basis when customers calculate their products' environmental impact.

In order to further facilitate this, Perstorp also developed a tool that allows customers to calculate the impact of different modes of transport from Perstorp production sites to the customer.

The methods Perstorp uses for Life Cycle Analyses follow the standards ISO 14040 and ISO 14044, and the standard for a product's carbon footprint follow the standard ISO 14067. Each product's value is unique, specific to the production unit, and has an expiration date. For the value to be valid, it has to be certified by an external party. Perstorp has chosen to work with the SP Technical Research Institute of Sweden and also Det Norske Veritas.

A full lifecycle analysis has also been conducted for five major products. It takes into account, in addition to the greenhouse effect, the acidification of forests and streams.

For Voxtar™, Perstorp's renewable Penta, archaeological dating has also been conducted, to show that its raw materials are completely renewable.

## RENEWABLE RAW MATERIALS

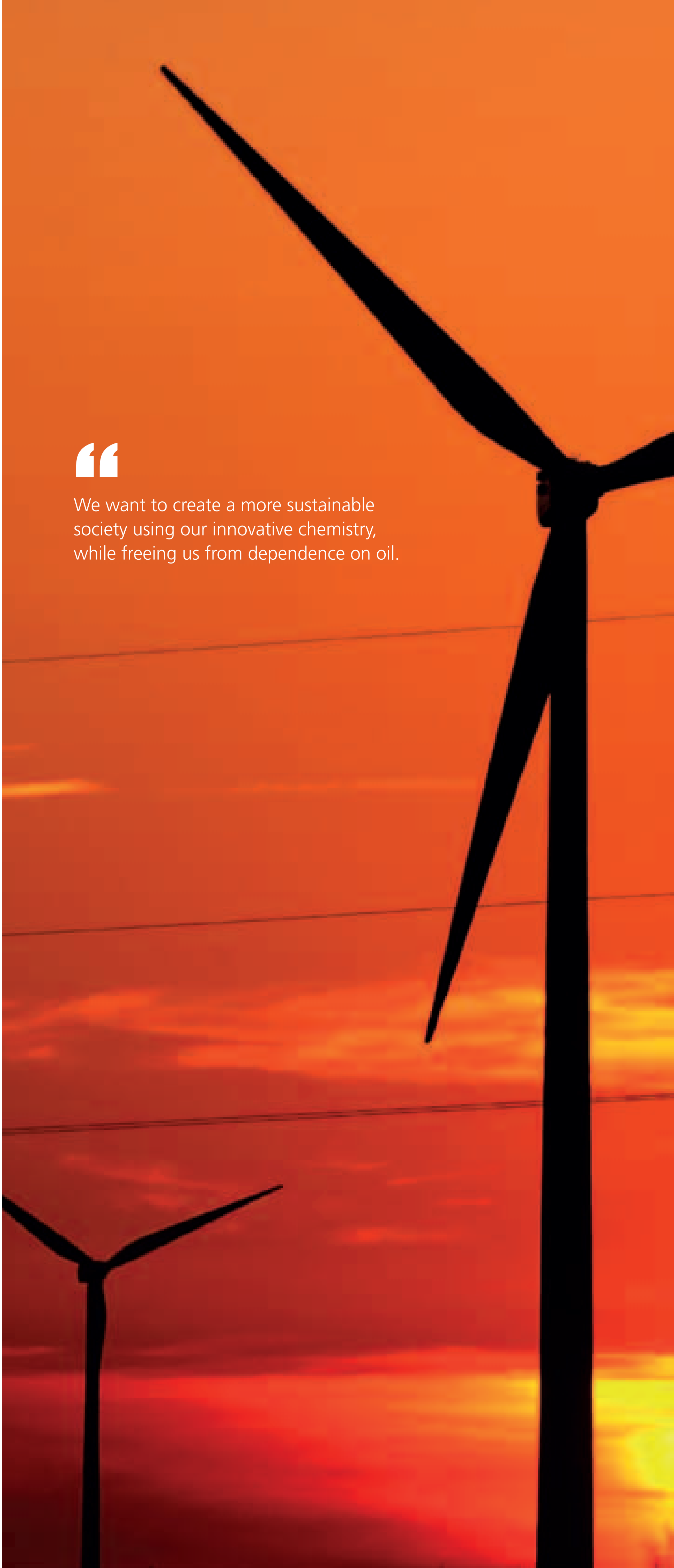
An important part of sustainability is about a long-term move away from oil dependence, and finding new sustainable solutions in terms of both raw materials and processes.

For Perstorp, Voxtar™ is a good example of a successful replacement of fossil raw materials with renewable ones in the existing process, without having to make major infrastructure changes.

Perstorp is participating in a number of consortia working to develop effective methods of industrial biotechnology.

"Sustainable development is development that meets the needs of the present, without compromising the ability of future generations to meet their own needs."

The Bruntland Commission of the United Nations, March 20, 1987



# Perstorp Performance System paying off

In 2009, Perstorp started a program aimed at adopting a hands on way of achieving continuous improvements at its site operations. The vision for the program is to implement this methodology throughout the Group.

## CONTINUOUS IMPROVEMENTS IN OPERATIONS

The Perstorp Performance System – PPS – was launched at the Group´s two Swedish production sites in 2009. At the same time, plans were put in place for implementing the program at all Perstorp production units over a five-year period. In 2011, the results achieved at the four sites currently using PPS proved so impressive that a formal decision to drastically expand the program and include all functions throughout the organization was taken.

## FOCUSED ON SAFETY

PPS is not entirely different from other well-known performance systems such as Lean Manufacturing or Six Sigma. However, since safety is such a major factor at every Perstorp production site, safety serves as the very foundation for the entire PPS program. Standing on this foundation are nine pillars representing key aspects operations where Perstorp aims to achieve continuous improvements intended to result in not only improved performance, but also in improved safety.

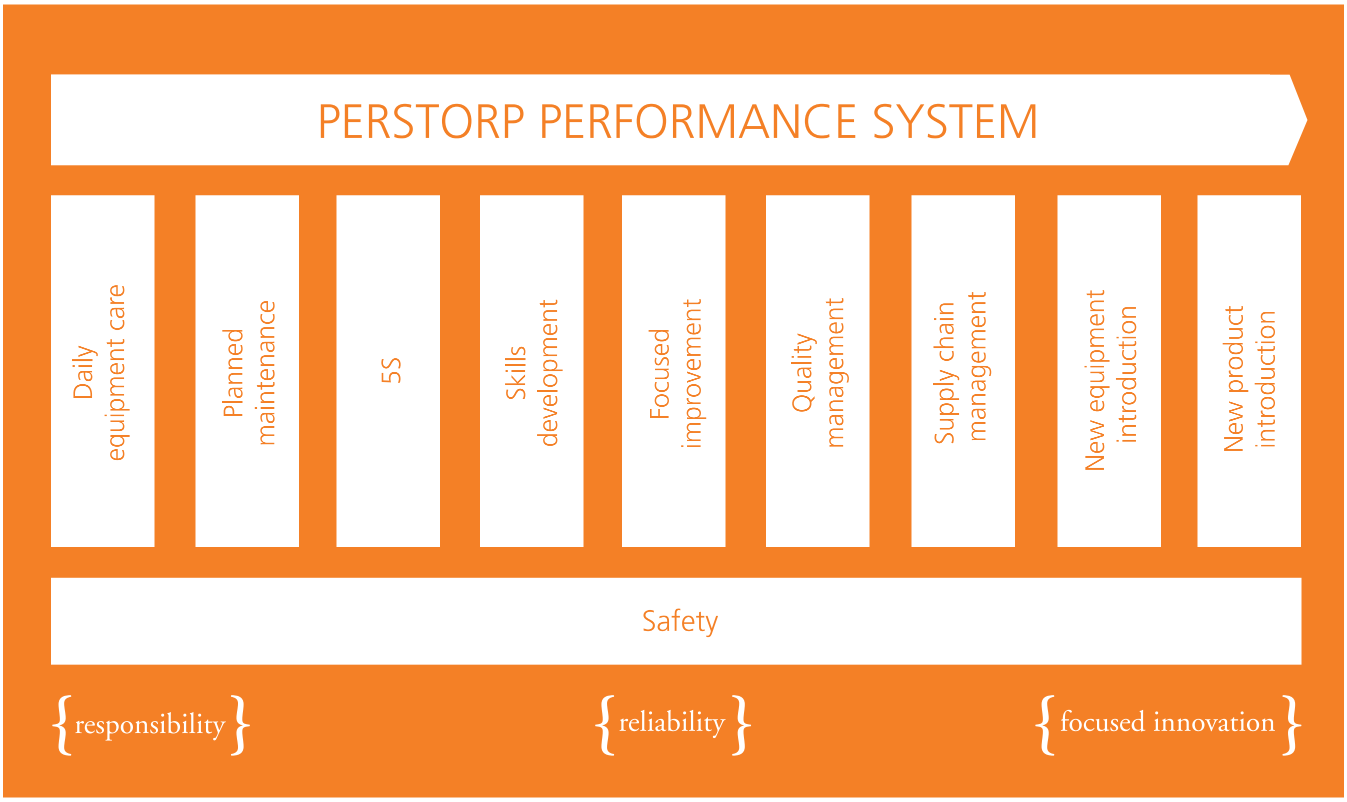
By promoting the idea of reducing defects, breakdowns, waste, etc. to as close to zero as possible, the PPS approach leads to reduced costs, increased customer satisfaction and a cleaner, safer and more satisfying working environment. It involves day-to-day management systematically identifying the root causes of issues that affect performance, as a way to achieve and sustain operational excellence.

## BETTER RESULTS THAN EXPECTED

While PPS provides the necessary methodology and tools, it is the on-site staff who determine the outcome. Thanks to the enthusiasm and determination of everyone involved from all levels, PPS has produced very positive results with scores exceeding targets at all four sites where the program is now in use.

Other indications that significant improvements are being made have been seen in KPIs used to monitor quality, customer satisfaction and workplace safety. For example, the CCR (Customer Complaint Rate) dropped from 12.95 complaints per 1,000 deliveries in 2010 to 10.6 in 2011 – an improvement of 18%. OTIF

Melany Dieterle
Manager Logistics Administration




(On Time In Full), which measures how successful the company is at delivering the right volume at the right time and with the right quality, rose by nearly 2% from 95.9% in 2010 to 97.8% in 2011. And the LTAR (Lost Time Accident Rate) dropped by 19% in 2011 compared to 2010 as a result of a strong focus on safety as part of PPS.

### A ROADMAP FOR GOING MUCH FURTHER

According to its original plans, Perstorp will launch PPS at its production sites in Gent and Warrington in 2012, and in Singapore, Castellanza and Waspik in 2013.

More importantly, however, Perstorp's Board of Directors approved a proposal at the end of 2011 to broaden the scope of PPS to extend far beyond site operations. This decision is highly significant as it calls for the PPS methodology and toolbox to be adapted for use in all other functions within the organization including sales, business, finance, innovation and purchasing.

A roadmap to steer the long-term project has already been drawn up and includes benchmarking the new areas, recruiting new PPS staff with experience from Lean Manufacturing or similar performance systems, training people within the organization to be PPS practitioners as well as creating a whole new set of tools for each function. The new vision is for PPS to provide a harmonized way of working in all aspects of the company and to shape a new, harmonized company culture across all boundaries.

### PPS sites today

Perstorp and Stenungsund, both in Sweden, since 2009.

Bruchhausen in Germany and Toledo in the US since end of 2010.

### Planned PPS launches

2012: Gent in Belgium and Warrington in the U.K.

2013: Singapore, Castellanza in Italy and Waspik in the Netherlands.

# MARKET SEGMENTS

**Long-lasting**
Perstorp´s Ymer™ is essential in hair products to ensure a long-lasting hairstyle.

## Market segments in focus

Perstorp has clear strategies for the market segments that overlap with the core manufacturing platforms and expertise. Focus is on the five market segments of paints and coatings, plastic materials, feed and food, formalin technology and fuels markets.

**Cool colors**
Perstorp´s Neo is essential for durable, high-quality powder and liquid coatings used in industrial applications.

PAINTS & COATINGS

# Committed to continually developing

Paints & coatings represent Perstorp's largest segment, making up more than a third of the Group's total business. Through a strong commitment to continually developing, Perstorp provides innovative products and sustainable solutions to manufacturers of plastic coatings, transportation coatings and coating resins.

Perstorp's customers in the paints and coatings segment operate within numerous industrial sectors ranging from automotive to mass transit, packaging materials to consumer electronics, and construction to aerospace. With a focus on major technologies like UV curing, waterborne polyurethane dispersions and low solvent coatings systems, Perstorp offers essential building blocks and cross-linkers, and develops specialized solutions that provide benefits in several stages of the value chain. Extensive research and development is devoted to creating renewable alternatives to traditional solutions, and to finding ways to help customers meet regulations and other demands for reduced VOCs.

### PLAYING A LEADING ROLE

A segment-wide focus on sustainable solutions through innovative chemistry offers clear benefits to customers working with paints and coatings. In Europe and in other parts of the world, players in the paints and coatings industry are showing an ever-increasing interest in one or more aspects of sustainability. In some cases it's about increasing the durability of the end product in order to extend longevity; for example, in exterior stains and paints. In others it's a matter of environmental concerns such as reducing a product's carbon footprint or using less solvents.

Perstorp strives to lead the way in developing sustainable solutions to support efforts like these. This determination was demonstrated at the European Coatings Show in Nuremberg in March, 2011. Introduced in 2010 as the world's first renewable pentaerythritol platform, Voxtar™ generated considerable attention at the show from both customers and journalists. Voxtar™ is a prime example of Perstorp's belief in developing renewable alternatives to traditional products without sacrificing performance or quality.

### UNDERSTANDING NEEDS AT SEVERAL LEVELS ADDS VALUE

Working with Perstorp means working with a knowledgeable partner capable of producing and testing end products at the Group's R&D lab. The idea behind this is to evaluate the effects along the entire value chain in order to gain better understanding of the needs of customers and their customers. This enables Perstorp to provide solutions that can enhance the process at several levels. Being able to have discussions at a higher level demonstrates Perstorp's expertise and desire to help, bringing more

### MAJOR INDUSTRIES SERVED

- Automotive
- Railway
- Aerospace
- Construction
- Mobile phones, tablets, flat screens

### PERSTORP'S LATEST INNOVATIONS FOR PAINTS & COATINGS

**For manufacturers of high-solid alkyd paints and alkyd emulsion paints:**

Voxtar™ – the world's first renewable pentaerythritol platform offering up to 75% reduction in carbon footprint compared to petroleum-based latex paints.

**For manufacturers of UV hardcoats:**

Boltorn™ P501 – for simplified application and dramatically reduced need for reactive diluents or solvents.

**For manufacturers of waterborne PU coatings:**

Easaqua™ X L 600 – developed to meet the highest demands for humidity resistance combined with easy mixing.

value to the customer than a typical buyer-supplier relationship. In many cases, Perstorp also offers logistics solutions to meet individual customer specifications.

## GOOD GROWTH IN 2011

Europe is responsible for around half of Perstorp's business in the paints and coatings segment, so economic stability in the region naturally has a significant impact on the segment's overall results. Despite the European market's more cautious performance in 2011, Perstorp's paints and coatings segment achieved good growth of 10%.

2011 also featured plenty of good news surrounding new products. In addition to the overwhelming response to Voxtar™ at the European Coatings Show, other highlights of 2011 include the launch of Easaqua™ X L 600 and Boltorn™ P501. Easaqua™ X L 600 gives makers of waterborne PU coatings the advantage of higher moisture resistance coupled with widely appreciated benefits of easy dispersibility, fast drying, low environmental impact and broad compatibility. Boltorn™ P501, introduced at China Coat in November, offers manufacturers of UV hardcoats simplified application and a dramatically reduced need for reactive diluents or solvents.

## IMPACT ON THE MARKET

The automotive industry is the single biggest consumer of Perstorp's products for this segment, so developments in the auto industry are obvious market drivers. Here, just as with the aerospace and mass transit industries, an increasing demand for products that provide a high performance combined with low environmental impact, plays in Perstorp's favour. Similarly, investments in new construction projects tend to play an important role, especially where the choice of materials is influenced by environmental advantages such as less solvents and reduced VOCs.

The consumption of food and fast moving consumer goods can also be considered a driving factor. Not only are Perstorp's products used to make printing ink for packaging materials, but also for manufacturing scratch-resistant screens for smartphones, tablets and other flat screens. Today's increasing use of display technology, coupled with the trend towards bigger and bigger screens, have a definite impact on this segment.

## MORE CAPROLACTONES IN 2012

With Perstorp's commitment to continually developing innovative products for the paints and coatings segment, the ambition is to launch additional products for the segment in 2012. Greater focus on high-end products involving caprolactones is very likely now that Perstorp has doubled its caprolactone capacity at the production site in Warrington, UK. New Capa™ grades are in sight, and there is a strong ambition to explore the large potential for Capa™ in the paints and coatings segment by introducing new products by the end of 2012, developed for specific sub-segments such as UV curing.

## SUB-SEGMENTS

Perstorp has identified and works with a number of strategic sub-segments within the market segment of Paints & Coatings:

Acrylic monomers
Alkyd & polyester resins
Can, coil & wire
Construction
Decorative
Fire protection
General industry
Leather finishing
Liquid polyesters
Marine & protective
Mass transit industries
OEM & cars
Paint additives
Paint driers
Plastic
Polyurethane dispersions
PU resins & cross linkers
Refinish
Rosin esters
Solvents
Solvents
UV curable resins & monomers
Wood

**36%** of Perstorp´s sales derives from the market segment of Paints & Coatings.

## PERSTORP PRODUCTS WITHIN THE PAINTS & COATINGS SEGMENT

Penta
Di-Penta
Voxtar™
TMP
NEO
Capa™
Bis-MPA
Ymer™
NX 795
Boltorn™ P501


Perstorp's customers in the paints & coatings segment operate within numerous industrial sectors ranging from automotive to mass transit, packaging materials to consumer electronics, and construction to aerospace.

**Fire resistent**

Perstorp´s Charmor™ range protects people and property from fire when used in intumescent systems in public spaces.

PLASTIC MATERIALS

# Helping customers make key transitions

The plastic materials segment serves a highly diversified market and is the second largest market segment for Perstorp. Around 25% of the Group's business brings benefits to a wide variety of industries and uses. Major trends, such as the shift away from the most dominant plasticizer over the last 30 years, create opportunities for innovative alternatives developed by Perstorp.

Plastics are used in most of the items we come in contact with every day. Different materials from Perstorp provide different functions and benefits depending on how, and to what end, they are to be used. Manufacturers of foams for the furniture and mattress industries, for example, use various polyols and performance enhancers from Perstorp to deliver the right level of quality and comfort to their customers. Customers in the PVC industry depend on Perstorp's plasticizers and additives to achieve the desired mechanical properties, long lifetime, flexibility and feel, depending on whether the end product is flooring, rigid pipes or automotive interiors. Elastomers provide the right elasticity and quality for premium end products, while various plastic additives offer ecological and safety benefits through biodegradable plastics and plastics that are free of halogen or lead.

### LIVING UP TO EXPECTATIONS IN 2011

The plastic materials segment continued its good overall growth rate in 2011, delivering according to plan and living up to expectations. Noteworthy developments during the year included considerable customer interest in Charmor™ PP100 and Holtac™, a doubling of the caprolactone capacity at the Group's manufacturing unit in Warrington, UK, and the phasing out of DEHP (DOP) in favor of Perstorp's new plasticizer, Emoltene™ 100. Both Charmor™ and Emoltene™ saw very good growth, and sales of Emoltene™ more than doubled over the year compared to 2010.

### INCREASING NUMBERS & GROWING CONCERNS DRIVE MARKET

With plastics penetrating such a wide variety of industries and applications, the biggest market driver overall is greater demand due to population growth, generally in combination with rising living standards. In the end, more people with the means to buy more cars, more packaged food and more consumer goods means more plastics. Greater wealth also leads to increased consumption of high-end goods, which require specialty chemicals such as caprolactones to ensure premium quality of the end product.

Of course, these factors in turn drive the demand for initiatives that ensure responsible use of the earth's resources, protection of the environment and consumer safety. The European chemical regulation, REACH, is one such example, which pushes for the phasing out of low molecular weight phthalates in

### MAJOR INDUSTRIES SERVED

- Furnitures
- Automotive
- PVC
- Footwear

### PRODUCTS FOR PLASTIC MATERIALS THAT MAKE A DIFFERENCE

**Emoltene™ 100** – for manufacturers transitioning from DOP.

**Capa™** – for superior elastomers when making high performance products.

**Charmor™ PP100** – for halogen-free flame retardant systems.

**Holtac™** – for PVC manufacturers phasing out lead-based stabilizers.

### MORE PERSTORP PRODUCTS WITHIN THE PLASTIC MATERIALS SEGMENT

Penta
Di-Penta
2-EHA
PIA

Europe. This also affects toymakers and other manufacturers elsewhere, whose goods are exported to the European market. Another example is the implementation of increasingly rigorous fire regulations in some markets that places higher demands on the use and characteristics of flame-retardant plastics.

### PLASTICIZERS – MAKING THE SWITCH FROM DEHP

One of the most widely felt trends today is the phasing out of DOP. Perstorp is helping customers make the switch to alternative plasticizers with products like Emoltene™ 100. This phthalate ester plasticizer based on 2-PH is a C10 alcohol that provides comparable technical performance to DEHP but with a profile that completely meets the demanding European regulations and customer expectations. Manufacturers of roofing materials, tarpaulins, cables and similar outdoor applications also benefit from the improved weather resistance and UV stability that Emoltene™ 100 provides.

Perstorp is investing in its production facility in Stenungsund with the ambition of becoming one of the top manufacturers of plasticizers in Europe. Other alternatives to DEHP for additional applications are being developed, including a 100% phthalate-free plasticizer currently undergoing market tests aimed at meeting future demands for non-phthalate plasticizers. This product will give customers a versatile and robust alternative and make Perstorp an even more important supplier.

### ELASTOMERS – WHERE CAPROLACTONES SHINE

Customers working with cast elastomers, reaction injection molding and thermoplastic polyurethanes appreciate Perstorp's high quality polyols, chain extenders and cross linkers. Many are also discovering the exceptional qualities of caprolactone polyols made from Perstorp's Capa™ monomer. Capa™ polyols are highly versatile and deliver top performance in applications requiring materials that are both durable and elastic, e.g. printer rollers, mining screens, bumpers, advanced sports shoes, etc.

Durability, UV resistance, low viscosity, fast cycle times as well as excellent flexibility and consistency, are among the many benefits that Capa™ provides. Perstorp is the world's largest producer of caprolactones and, after opening a second production stream in 2011, the company can actively increase penetration in the highly attractive elastomers sub-segment.

### PLASTIC ADDITIVES – REMOVING LEAD & HALOGEN

Plastic additives is an area where recent developments from Perstorp have caught the attention of lots of existing and potential customers. Interest in two additives launched at the end of 2010, Holtac™ and Charmor™ PP100, grew immensely in 2011. Holtac™ is a stabilizer in calcium zinc heat stabilizer systems for PVC that enables lead-based stabilizers to be replaced without compromising performance. European manufacturers of stabilizers have agreed to completely phase out lead by 2015, and more and more manufacturers around the world are following their initiative.

## ■ SUB-SEGMENTS

Perstorp has identified a number of strategic sub-segments within the market segment of plastic materials:

PET
Polymer additives
Polyurethane foam
Thermoplastic polyurethane & Elastomers
Unsaturated polyester

> “Plastics are used in most of the items we come in contact with every day. Different materials from Perstorp provide different functions and benefits depending on how, and to what end, they are to be used.

Charmor™ PP100 was developed to help manufacturers to meet market demands for better environmental profile flame-retardant systems for plastics requested by major producers of consumer products in the electrical, electronic and transport sectors. Charmor™ PP100 makes it possible to produce halogen-free intumescent systems that meet demands for non-flammability, lower smoke release, non-dripping plastic and non-toxic fumes.

## NEW LONG-TERM STRATEGIC PARTNERSHIP

Perstorp signed a new strategic partnership agreement at the end of 2011 for the distribution of a new generation of thermoplastic polyesters in Europe. These materials represent an exciting addition to the plastic materials segment, and the partnership will enable Perstorp to develop the market for durable, high heat-resistant, transparent co-polyesters to meet demands for safer and superior plastics in applications such as packaging, bottles and small appliances. The products will be market under the Akestra™ brand and is based on core Perstorp chemistry.

## NEW OPPORTUNITIES IN 2012

The significantly increased supply of Capa™ represents a major opportunity for Perstorp to aggressively go after new market shares in 2012. Greater market penetration for caprolactone derivatives in areas such as elastomers and biodegradable plastics is also planned for 2012. Perstorp will also continue to support all customers who are still using DEHP to switch to Emoltene™ 100, or other derivatives, as a step towards meeting stricter regulations and other market pressures.

> “The plastic materials segment continued its good overall growth rate in 2011, delivering according to plan.

**24%** of Perstorp´s sales derives from the market segment of Plastic materials.

**Pioneers**

Perstorp´s traditional Vinegar helps make pickles delicious – the product has been in Perstorp's product range for more than 130 years.

FEED & FOOD

# Increasingly important, yet very down-to-earth

The Feed & Food segment is as down-to-earth as it gets at Perstorp. The fundamental need to produce enough healthy food to sustain an ever-expanding population drives research and development – while an unpredictable Mother Nature has her say in the making or breaking of a harvest.

Perstorp has been producing feed additives for nearly 50 years and today these consist of both organic acids and formulated products used to make safer and better feed for livestock. Based primarily on formic and propionic acids, Perstorp's wide range of acidifiers, enzymes, antioxidants and other additives help preserve nutritional value, inhibit the growth of mold, Salmonella, E. coli and other harmful microorganisms, improve the quality of silage and increase productivity. A minor portion of the production is used in the food industry as preservatives for bread and other baked goods.

### BENEFITS FOR BOTH CUSTOMERS & CATTLE

Perstorp is one of the world's largest producers of formates; compounds that play an important role in developing products to improve productivity as well animal health. This makes it possible to maintain a strong cost position that benefits customers in this segment. Furthermore, by staying close to customers and employing highly skilled staff, Perstorp can develop innovative products that meet customers' individual needs.

### FUNDAMENTAL DRIVERS & NEW CHALLENGES

As the population continues to grow, and with more and more people enjoying a higher standard of living, meat consumption is rising. At the same time, greater competition over basic resources such as land and water has created a new challenge in the agricultural sector. This makes it increasingly vital to find ways of improving productivity to get the most out of existing resources. Also, greater focus on food safety, and on fighting Salmonella and other potential harmful substances, influence the demand for high quality feeds that are contaminant-free.

### FLUCTUATING RESULTS, BUT POSITIVE OUTLOOK FOR NEW PRODUCTS

After a phenomenal 2009 for Perstorp's Feed & Food segment, followed by a very good 2010, 2011 was not that remarkable. A sizeable imbalance between North America and Europe in the price of raw materials, especially ethylene, led to falling margins and volumes for Perstorp's feed additives made from propionic acid. In addition, a lot of wet weather in some areas and drought in others has resulted in two consecutive years with a 10% fall in grain production in Europe compared to the previous year.

On the positive side, Perstorp's introduction of sodium formate to the feed market in 2011 was very encouraging and at least two new products for grain and crop preservation will be launched in 2012. With FAO* forecasts pointing to significant agricultural growth in large markets, Perstorp will continue to invest in developing new formulated products based on its own raw materials, while underpinning sales efforts to create geographical expansion.

**5%** of Perstorp´s sales derives from the market segment of Feed & Food.

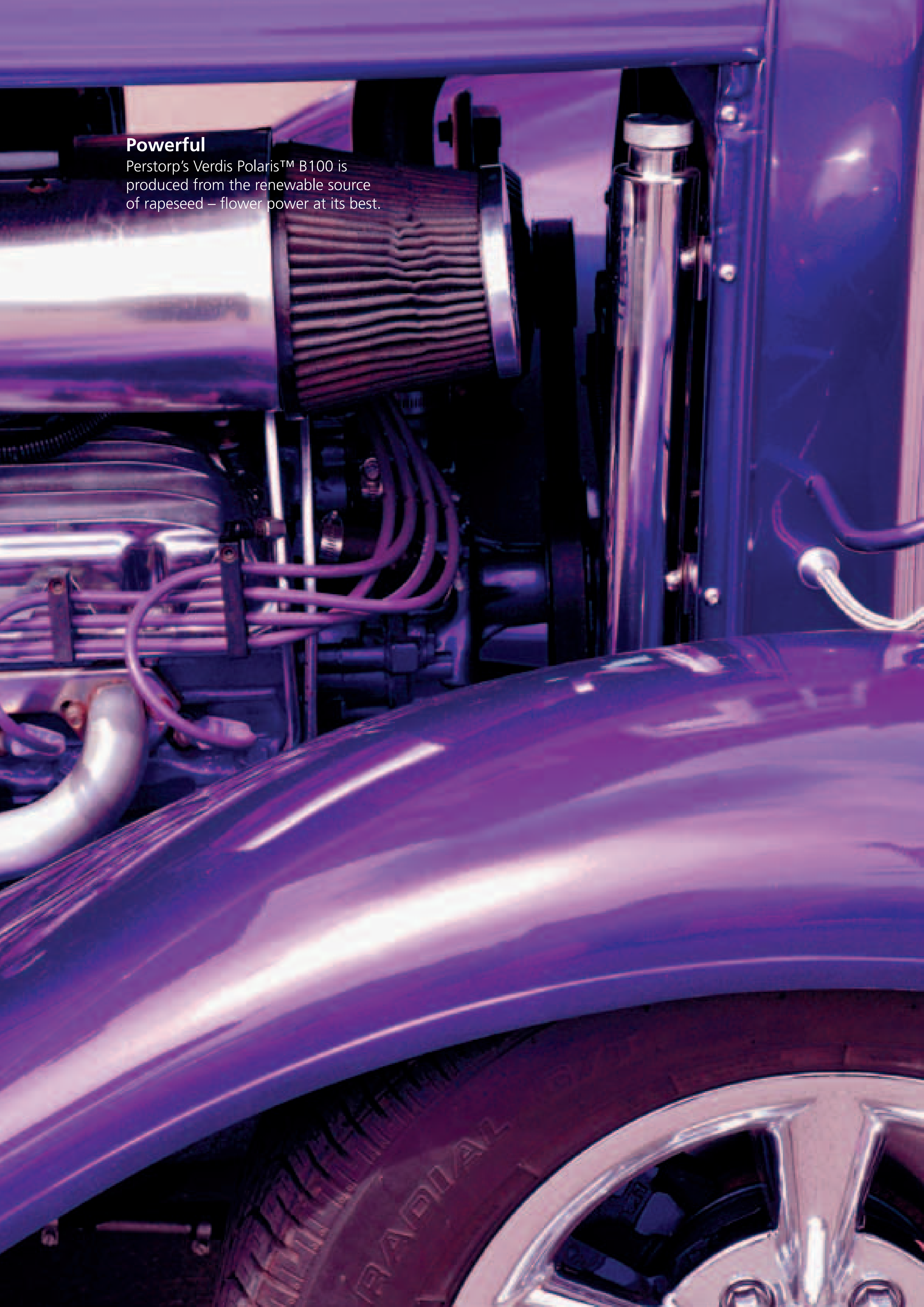
### PERSTORP PRODUCTS WITHIN THE FEED & FOOD SEGMENT

ProSid™
ProPhorce™
ProMyr™
ProFare™
ProTain™
Profina™

### FORECAST AGRICULTURAL GROWTH 2010-2019

| | |
|---|---|
| Brazil | 40% |
| Ukraine | 29% |
| Russia | 26% |
| China | 26% |

* Source: FAO Food and Agriculture Organization of the United Nations.



## Powerful

Perstorp's Verdis Polaris™ B100 is produced from the renewable source of rapeseed – flower power at its best.

FORMALIN TECHNOLOGY & CATALYSTS
FUELS

# Small, successful – and steadily growing

They are not Perstorp's largest segments in terms of volume or sales figures, but they are all very successful in their respective fields – growing steadily despite economic fluctuations. Within these respective niche segments Perstorp offers products with spearhead performance and highest quality.

## FORMALIN TECHNOLOGY & CATALYSTS

### A RECORD YEAR FOR FORMOX

Formox is Perstorp's business developing and selling technology and catalysts for the production of formalin, a highly important chemical building block used in manufacturing a very broad spectrum of products. The formalin business is divided into two sub-segments – wood and chemical. The first involves resins for construction materials and various types of board such as plywood, particleboard, oriented strand board (OSB), medium-density fiber-board (MDF) and compressed hardboard. The chemical segment uses formalin as a building block to produce other chemicals used in making end products for the textile, automotive and electronics industries, as well as insulation for the building sector.

2011 was an extraordinary year for Formox – one that ended with record sales. The company received orders for a total of eleven new plants from customers in China, India and the Middle East. Together, these represent two million tons per year in new capacity for 37% formalin, equaling 5% of global consumption. Six new projects were started in China alone during 2011.

As formalin is used in so many applications in everyone's everyday life, whether building a new home, buying new furniture or a new car, getting new clothing, the factors driving demand are plenty. Another important factor is continued development of the domestic Chinese market. Sustainability initiatives aimed at using a greater percentage of board products in place of wood is another. A third is the greater use of energy-saving insulation in the construction industry.

Formox strives to develop the most cost-efficient solutions for customers, not only through competitively priced plant technology, but also through high plant performance. This is achieved by combining catalysts, loading plans and continuous technical support. A new Catalyst Activity Profile (CAP) was launched in 2011 that delivers improved performance and reduced operational costs. The next generation CAP, which focuses on greater capacity, will be launched in spring 2012.

Emerging markets, including China, will continue to play an important role over the coming years. Formox's intention is to follow the growth of formalin on these markets by continuing to have a significant presence, and by breaking new ground where possible.

## FUELS

### MAKING A DIFFERENCE

With its modern biodiesel plant in Stenungsund, Sweden, Perstorp is the largest supplier of renewable fuels made from rapeseed oil to the Scandinavian market. Rapeseed methyl ester (RME) helps to significantly reduce greenhouse gas emissions when blended with petrodiesel, and when used as a 100 % biofuel – B100 – in buses and trucks.

Biodiesel made from rapeseed oil is more suited for colder climates than biodiesel made from other vegetable oils. Perstorp produces both low blend RME as well as a top-quality biodiesel for use as a pure fuel – Verdis Polaris™ B100 – developed for the demanding Scandinavian winter. An added benefit of this production is the all-natural co-product, glycerine, which is highly appreciated by customers as a eco-friendly ingredient in paints and other products.

The climate change concerns resulting in government regulations, quota systems and tax incentives for reducing $CO_2$ emissions in Europe are the main drivers for biofuels. In Sweden, a tax exemption system is in place, which was further enacted with new legislation in 2011 requiring commercial users and manufacturers of biofuels to verify sustainability in the entire production chain. The EU's Renewable Energy Directive (RED) requires that at least 10% of all fuels in the transportation sector be derived from renewable sources by 2020. In line with this, public transport authorities in Scandinavia are now setting ambitious targets for biofuels use towards the operators bidding for contracts.

Many cities and companies in the region see it as increasingly important to show what environmental initiatives they are taking, meaning great business opportunities for Perstorp. The city of Stockholm has begun using Perstorp's biodiesel in many districts and a major Swedish brewery now uses Perstorp RME for its distribution fleet. Perstorp's own transport fleet uses biodiesel between Perstorp and Stenungsund.

As a result of these factors, the demand for Perstorp's Verdis Polaris™ B100 biodiesel and the glycerine profitability rose sharply in 2011, and the outlook for 2012 and beyond is very good. Perstorp will intensify focus on its high-end segment in 2012 by launching three Verdis Polaris™ grades, including one for heating public buildings in remote areas.

# SOCIAL RESPONSIBILITY REPORT

# Responsible business

Responsibility is one of Perstorp's core values, and it permeates everything the company does. In 2011 a feasibility study started for introducing ISO standard 26000 for Social Responsibility.

## UN GLOBAL COMPACT

Since 2004, Perstorp has participated in and supported the UN initiative Global Compact and its 10 principles on human rights, the environment, the working environment and anti-corruption. The UN Global Compact took part in developing ISO 26000, and its 10 principles all fall within the remit of the standard. With the introduction of ISO 26000 and its seven topics of organizational governance, human rights, labour practices, the environment, fair operating principles, consumer issues and community involvement and development, the UN Global Compact's 10 principles are expected to be incorporated into the Perstorp Group's global management system.

## CODE OF CONDUCT

Perstorp's Code of Conduct covers four areas – Business Principles, Products & Environment, Working Conditions and Human Rights. Particular attention is paid to rules on competition law within the EU, as there is a lot of work going on in cooperation with competitors in the framework of the REACH legislation on chemicals.

### PERSTORP'S POLICIES

In addition to the Code of Conduct, the Perstorp Group has a policy on the environment, health and safety, and a policy for human resources. These basic policies are published on www.perstorp.com.

### MANAGEMENT SYSTEM

Perstorp's management system is digitalized and available through the Group's intranet, describing both global and local processes and the organization of the head office, sales offices and production units. A part of this management system is an internal standard for work on safety, health and the environment based on international standards for working environment management (OHSHAS 18001) and environment management (14001), and general guidelines for process safety and fire protection.

Management has required that the management system must be certified according to international standards for quality management systems (ISO 9001) and the environment (ISO 14001). Twelve out of thirteen production units have attained the ISO 9001 standard and the plant in Zibo is expected to do so during 2012. Nine out of thirteen production units are certified according to ISO 14001 – the plants in Freeport, Warrington, Waspik and Zibo are expected to do so during 2013.

### ACCOUNTING PRINCIPLES & GRI INDEX

The data on work environments, health and safety for the calendar year 2011, has been collected via the Group's comprehensive databases. This consists of data reported to the authorities and data used in the company's internal checks. Units acquired or sold during 2011 are not included in the overall environmental results. This annual report is the basis for how Perstorp assesses the fulfilment of Global Reporting Initiative (GRI) indicators. Currently Perstorp applies Level C and has chosen not to conduct external auditing for 2011.

### AWARDS

The plant in Singapore received an award for its security from the Singapore Chemical Industry Council.

### PRODUCTION PERMITS

Several units, including Castellanza, Warrington, Stenungsund, Pont-de-Claix and Freeport, received new licenses or had existing licenses renewed in 2011. In 2012, new licenses are expected to be granted for wastewater treatment, formalin production and waste storage at the Perstorp site, and at the Gent site for the manufacture of new products.

## ▪ IMPORTANT EVENTS

A new caprolactones plant has been completed at Site Warrington where relative energy and water usage is expected to be reduced.

New flue gas cleaning equipment has been installed at the Perstorp site with reduced emissions and energy use as a result.

The waste water treatment plant at the Stenungsund site has been expanded and supplemented with nitrogen and phosphorus reduction.

Several environmental projects have been undertaken at the Pont-de-Claix site, aimed at reducing water and air emissions.

Extensive risk analyses were carried out at Site Pont-de-Claix between 2009 and 2011 under the French PPRT law, to highlight risks to surrounding buildings. Following the completion of these and together with local authorities, an investment program for 2012-2016 has been approved to reduce the potential impact.

A new global recruitment policy has been introduced. Among other things, all posts shall be advertised internally.

A new tool has been developed to evaluate the desirable behavior of managers and employees.

A new 360-degree manager evaluation model is being tested in parts of the Group.

Alternative career paths have been finalized for specialists and started for project managers.

# The environment

Perstorp's objective for 2011 was to reduce both emissions and the environmental footprint compared with 2010.

# Working to reduce impact

## TARGET FULFILMENT

Four key indicators have been selected to monitor how Perstorp has succeeded in its objective:

- Consumption of water per ton of product
- Energy consumption per ton of product
- Emissions of fossil-related $CO_2$ per ton of product
- Amount of pollution (COD) in wastewater per ton of product

The relative change between 2011 and 2010 is calculated for each site separately and as a total within the Perstorp Group.

In absolute terms, consumption and emissions have increased due to increased production volume. In relative terms, the amount of pollution in wastewater prior to treatment has increased, while the other indicators show unchanged emissions and environmental footprint. The target for 2011 has therefore not been achieved.

## RESOURCES MANAGEMENT

### ENERGY

- Total energy use: 3,624 (3,485) GWh
- Direct energy use: 1,536 (1,516) GWh
- Total energy use per ton: 0.72 (0.72) MWh per ton

The Perstorp production site produced 602 (654) GWh of energy, of which 228 (241) GWh – 38 (37)% – consisted of energy from renewable fuels.

Perstorp's Swedish production units have supplied district heating to their respective municipalities in 2011, as well as steam to other companies within Perstorp Industrial Park at the Perstorp site. A total of 218 (254) GWh has been supplied.

Of the Group's self-produced electricity and steam 13 (14)% comes from renewable fuel. Of externally-produced energy 7 (7)% comes from renewable sources.

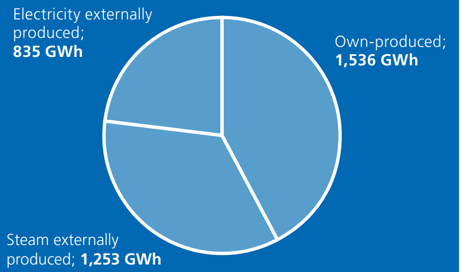
In relative terms, the sites at Castellanza, Freeport, Gent, Perstorp and Zibo have succeeded in reducing energy consumption. The Group's relative energy consumption per ton of product is unchanged from the previous year.

### RAW MATERIALS & AUXILIARY CHEMICALS

- Total consumption of raw materials: 3,840 (3,994) kton

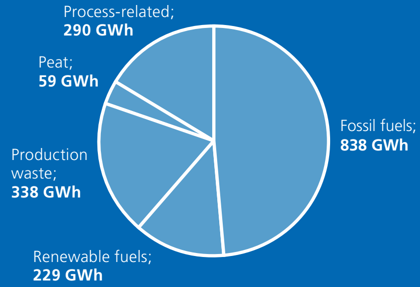
Perstorp uses a large number of substances as chemical raw materials in its processes – for example, methanol, propylene, natural gas, sodium chloride, nitric acid and toluene. These are refined into products, some of which – such as formaldehyde, butyraldehyde and toluenediisocyanate – constitute important ingredients in Perstorp's further processing chain. The Group seeks to deliver as much as possible in bulk in order to reduce the amount of packaging material.

### ENERGY USE 2011



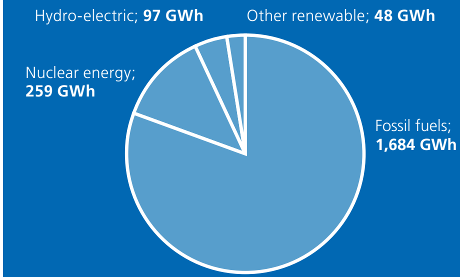

TOTAL 3,624 GWh

### OWN-PRODUCED ENERGY BY TYPE




TOTAL 1,754 GWh

### PURCHASED ENERGY PER SOURCE




TOTAL 2,098 GWh

38%

of the energy produced at the Group´s production site in Perstorp consist of renewable fuels.

WATER

- Total water consumption: 73.5 (71) $Mm^3$

Of total consumption, 44 (42) $Mm^3$ was surface water, 27 (28) $Mm^3$ groundwater, 1.0 (0.9) $Mm^3$ municipal supply and 0.6 (0.5) $Mm^3$ supply from external sources. Of the total volume, about 66 $Mm^3$ was used as cooling water, of which 47 (46) $Mm^3$ was at the production site in Pont-de-Claix.

## IMPACT & EMISSIONS

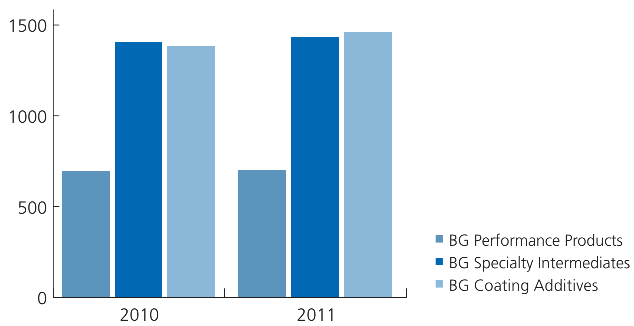
THE ENVIRONMENTAL IMPACT OF PRODUCTS – THE ECOLOGICAL FOOTPRINT

A life cycle assessment (LCA) provides an overall picture of how large total environmental impact during a product's life cycle is – from raw material extraction, through manufacturing processes, transport and use, until it reaches the waste management process. Carbon footprint (CFP) is based on a complete LCA, though only emissions affecting climate are detailed. These are weighted according to how powerful the greenhouse gases are and then converted to their $CO_2$ equivalents.

This applies primarily to three gases – carbon dioxide, methane and nitrous oxide.

Life cycle analysis and CFP values can be used in many ways. Firstly, for external communication – customers need them to be able to work out and publish their own CFP values. In addition to this, CFP is an important tool for internal improvement work. By finding out which part of the chain has the greatest environmental impact, you can better target your environmental efforts and create an effective environmental management system.

TOTAL USE OF ENERGY PER BUSINESS GROUP, GWH




LIFE CYCLE ANALYSIS – CRADLE TO GATE

In 2011, Perstorp, together with the Technical Research Institute of Sweden (SP), calculated the CFP of every product – from cradle to factory gate. The values, which are unique and site-specific, are consistently very low compared to similar products on the market. The methodology used by Perstorp follows the standards applicable to LCA (ISO 14040 and ISO 14044), and the standard that applies to a product's CFP (ISO 14067).

COMPLETE LIFE CYCLE ANALYSIS

A full life-cycle analysis has been conducted for five major products. It takes into account, in addition to the greenhouse effect, the acidification of forests and streams.

ARCHAEOLOGICAL DATING

For the renewable Penta, Voxtar™, archaeological dating has also been carried out by the Department of Geology at Lund University, to show that the raw materials are renewable.

PROCESS CLIMATE IMPACT

- Total $CO_2$ emissions: 820 (806) kton
- Direct $CO_2$ emissions: 398 (408) kton
- $CO_2$ from renewable fuels: 89 (88) kton
- Other greenhouse gases ($N_2O$, CFCs): <20 kton $CO_2$ equivalent

A significant part of Perstorp's climate impact is caused by direct emissions of carbon dioxide from burning fossil fuels, and indirectly through the consumption of purchased electricity and steam.

EMISSIONS OF OZONE-DEPLETING SUBSTANCES

The total quantity of ozone-depleting substances used was 15.7 (15.6) tons. The leakage rate in 2011 was approximately 2.2 (6.8) tons, or 14 (44)% of the quantity used.

## AIR EMISSIONS

- VOC: 361 (329) tons
- Sulphur dioxide: 148 (151) tons
- Nitrogen oxides: 383 (315) tons

Perstorp's emissions of volatile hydrocarbons are process-related and represent both an actual and a relative increase. The emissions mainly comprise toluene, dimethyl ether, methanol, formic acid, and other organic hydrocarbons.

Perstorp's emissions of sulphur dioxide and nitrogen oxides come primarily from the Group's power plants.

## WASTE

- Total waste: 73 (85) kton
- Hazardous waste: 58 (63) kton
- Non-hazardous waste: 15 (22) kton
- Total amount of waste per ton of product: 14.5 (17.4) kg/ton

The reduction compared with 2010 was due to certain types of waste specifically generated in 2010 not occurring in 2011.

Certain waste is recycled internally for energy recovery within the Perstorp Group, for example, 7,380 (8,630) tons of return methanol at the Perstorp site, 15,670 (17 350) tons of reaction mother lye at Bruchhausen and 7,068 (7,719) tons of isocyanates at Pont-de-Claix. By recycling them as an energy source, the need for fossil fuels is reduced.

## WATERBORNE POLLUTANTS

- COD before treatment: 11,600 (8,830) tons

Perstorp's discharges of waterborne pollutants have increased in 2011. At the sites in Singapore, Perstorp, Stenungsund and Zibo, emissions are purified in special wastewater treatment areas. The sites at Perstorp and Castellanza have reduced waterborne pollutants while other units have increased their emissions. The sites at Perstorp, Pont- de-Claix, Singapore, and Toledo are the biggest emitters of waterborne pollutants within the Perstorp Group.

## ENVIRONMENTAL ACCIDENTS

Environmental accidents are unplanned and sudden events that give rise to emissions affecting the environment outside the plant area. In 2011 there were 3 (4) such incidents. Two of these incidents caused abnormally high emissions of hydrocarbons into the atmosphere and the third event caused a discharge of waste water with an elevated pH directly into the environment.

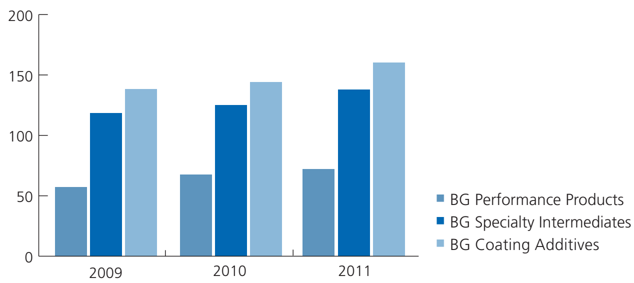
## LAND

No major land pollution occurred during 2011.

## TRANSPORT

As part of efforts to reduce climate impact, the Perstorp Group places high demands on engine and fuel types when arranging external transport. The use of questionnaires ensures the environmental performance of carriers.

## TOTAL EMISSIONS OF VOLATILE ORGANIC COMPOUNDS PER BUSINESS GROUP, TONS




In Stenungsund a new harbour pier is under construction, which will lead to significantly shorter waiting times for ships arriving. Furthermore, as a producer of RME (rapeseed methyl ester), Perstorp is working towards using this biofuel in its trucking.

Road transport is used to deliver the raw material methanol to the site in Perstorp, equivalent to 527,000 ton-km. In 2011, an experiment started using RME for these journeys, which will reduce $C0_2$ emissions on the journeys by about 60%. To make it even easier for customers, Perstorp offers a tool to calculate the environmental impact of different modes of transport, from the factory gate to the customer.

## GREEN IT

The Group's data center energy consumption has been reduced steadily thanks to heavy server virtualization. Now a point has been reached when virtualization opportunities are limited and the energy consumption is leveling out. However, during the same period the capacity has been substantially increased by offering near triple the storage and server capacities over the last three years.

Three further areas of improvement have been identified:

- The introduction of new tools for communication is offering a smoother experience in phone and video conferencing. The utilization of such tools has increased dramatically during 2011, hence potentially indicating a reduced need for national and international travelling.
- The renewal of the local networks in Perstorp is expected to generate an annual energy saving of between 25% and 50% compared to the existing systems.
- The third area of improvement includes a Global view on PC power management where measurements will help identify the potential in smarter ways of managing the energy consumption of Perstorp's standard PC clients.

# Costs of EHS work

## ENVIRONMENTAL & WORKING ENVIRONMENT COSTS

In 2011, the Group's environmental and working environment-related costs amounted to SEK 191 (151.2) million, corresponding to 1 (1.3)% of Group sales.

Costs for waste disposal amounted to SEK 83.1 (54) million. During the year, the Group spent approximately SEK 41.8 (36.2) million on wastewater treatment and around SEK 56.4 (55.5) million on environmental administration.

These administrative costs include costs for environmental staff, maintenance of environmental management systems and external consultancy.

## ENVIRONMENTAL LIABILITIES

Perstorp's economic reporting is based on the "going concern" principle, which is reflected in how environmental liabilities are reported. The Group follows verdicts handed down by the authorities while acting proactively to prevent environmental impacts and reactively in the event of an environmental disturbance.

## INVESTMENTS IN ENVIRONMENT, HEALTH & SAFETY

Total investments in the environment, health and safety amounted to SEK 103 million in 2011 (115.3). This amounts to 17.4 (14.3)% of the Group's total investments.

The most extensive investments during the year have been the installation of new flue gas cleaning at the Perstorp site's steam power plant, expanded wastewater at the plant in Stenungsund and process changes at the site in Pont-de-Claix to reduce wastewater pollution.

### ENVIRONMENTAL ACCIDENTS

| | Result | | | Target |
|---|---|---|---|---|
| | 2009 | 2010 | 2011 | 2012 |
| Number of environmental accidents | 4 | 4 | 3 | 0 |

### INVESTMENTS IN ENVIRONMENT, HEALTH & SAFETY

| SEK m unless otherwise stated | 2011 | 2010 |
|---|---|---|
| Safety and fire protection | 34.5 | 39.0 |
| Working environment | 4.5 | 29.9 |
| External environment | 64.0 | 46.4 |
| **Total investments** | **103.0** | **115.3** |
| % of Perstorp's total investments | 17.4 | 14.3 |

### ENVIRONMENTAL COSTS

| SEK m unless otherwise stated | 2011 | 2010 |
|---|---|---|
| Wastewater | 41.8 | 36.2 |
| Hazardous waste | 77.0 | 47.3 |
| Other waste | 6.1 | 6.7 |
| Soil decontamination | 0 | 0.4 |
| Administration | 56.4 | 55.5 |
| Fees to authorities | 9.7 | 5.1 |
| **Total costs** | **191.0** | **151.2** |
| % of net sales | 1.3 | 1.0 |

**Crystal clear**
Perstorp´s PIA adds clarity and performance to recyclable PET bottles over and over again.

## Human resources & Safety

Dedicated employees who are happy, healthy and feel that they are developing in their professional roles – that's what it takes for Perstorp to continue to deliver top-notch innovations and value to its customers in the future.

# The most important molecules

Employees are without doubt the most important molecules within the Winning Formulas concept, based on the core values of focused innovation, reliability and responsibility. This work takes place in the confines of the four HR processes – Attract & Recruit, Review & Retain, Learn & Develop, and Redeploy & Reward.

### LABOUR PRACTICES

To create the best conditions for safe, efficient work practices, Perstorp is methodically going ahead with the rollout of the Perstorp Performance System (PPS), which includes areas such as Safety, Scheduled Maintenance, Consumer Protection, Focused Improvement, Skills and 5S. The method is extremely clear and permeates daily operations.

The sites in Perstorp and Stenungsund, who were the first to implement PPS, have now reached what is called "replication mode", when the working methods in the pilot area are copied to other areas.

During 2011, rollout continued at the sites in Pont-de-Claix, Bruchhausen and Toledo, and preparations have been made to start work at Gent, Freeport and Warrington in 2012.

### EMPLOYMENT & EMPLOYMENT RELATIONSHIPS

For an innovative Group like Perstorp it is vital to find skilled people who are hungry to develop. Therefore, in many communities the Group works with local universities and colleges. Perstorp also runs an own chemical-technical college.

Perstorp has been formulating a new global recruitment policy in 2011, which means, among other things, that all vacancies must be advertised internally, so that everyone has the opportunity to apply – no matter where in the Group they work. This is consistent with the policy of diversity and equality, based on everyone having the opportunity to develop within their job. Perstorp is convinced that diversity in the workplace – in terms of age, gender, nationality and educational background – creates a more creative, productive and pleasant working climate.

This Group-wide effort is based on the principles of the UN Global Compact. The work is more structured in those countries where there are laws to follow – like the U.S. with its diversity laws and Sweden and Germany with their equality laws – but all production sites follow the Group's policy.

It is also vital that new employees are inducted in a similar way, regardless of where in the group they are starting. Therefore, a project for global orientation training has been started.

Perstorp continued work on its People Management & Development process (PMD) during 2011. The process is based on employees having a stake in their own development. At the annual performance appraisal things are discussed partly from the employer's perspective – what the expectations are and what skills are needed – as well as the employee's desires – how do I develop and what do I need to improve to reach my goals?

Something new this year is that the tool to clarify desired behavior is now complete. Using it, the manager and employee can talk in a more objective way about what is required by a Perstorp employee, and the behavior that supports the core values.

### CONDITIONS OF WORK & SOCIAL PROTECTION

As one of the core values implies, the Perstorp Group is very keen to act responsibly. This is especially important when, like Perstorp, you operate in many different parts of the world.

The Code Of Conduct – which applies to all employees – ensures that everyone is aware of what is involved in achieving high standards within business practices, products and the environment, working conditions and human rights.

There were no cases of discrimination, child labour or forced labour in 2011. Nor were there any cases of corruption.

During 2011, Perstorp focused on further improving leadership within the organization in various ways. In addition to local initiatives in the various sites, a so-called "360-degree" evaluation of managers began in parts of the Group, which has initially affected about half of the employees. This evaluation is based on managers themselves evaluating their leadership skills. Subsequently, the manager's manager does the same, as well as certain colleagues and subordinates. The results are discussed in individual feedback conversations. This form of evaluation started in 2011, and will continue in 2012.

“ For an innovative Group like Perstorp it is vital to find skilled people keen on developing.

## ■ PERSTORP´S PROCESSES FOR HUMAN RESOURCES

### ATTRACT & RECRUIT

The first process is about recruiting the best talent and inducting them in a similar way. In 2011, Perstorp:

- Developed a new recruitment policy
- Commenced preliminary work on global orientation training
- Worked further on employee branding to attract the right skills

### REVIEW & RETAIN

In the second process, the profiles of different functions are evaluated and compared to future skills needs in order to close the skills gap. In 2011, Perstorp:

- Began 360-degree manager evaluation
- Further developed the People Management & Development process

### LEARN & DEVELOP

In the third process, individual development plans are produced, based on the individual's desires and business needs. In 2011, Perstorp:

- Further developed the Talent Management model with an evaluation of 'top potentials'
- Developed alternative career paths for specialists and project managers

### REDEPLOY & REWARD

The fourth process is the natural next step for individuals who comply with their Development Plan. In 2011, Perstorp:

- Relocated 4 'top potentials' and 14 'high potentials'

Jonas Petersson
Electrician at the Groups production unit in Perstorp

## HEALTH & SAFETY AT WORK

### SAFETY OBJECTIVES 2011

- LTAR[1)] <2
- Establish a process for the grading and monitoring of process safety events.

## TARGET FULFILMENT

### WORKPLACE ACCIDENTS

The number of accidents resulting in absence was 13 (16). Perstorp therefore did not reach the LTAR target – for 2011 the figure was 3.4 (4.2). The proportion of chemical accidents increased compared to previous years. Most accidents occurred at the Perstorp and Point-de-Claix sites. The target for 2012 is an LTAR of less than 2.

| | Result | | | Target |
|---|---|---|---|---|
| | **2009** | **2010** | **2011** | **2012** |
| LTAR [1)] | 3.5 | 4.2 | 3.4 | <2 |

1) LTAR = number of accidents causing more than one day of sick leave – per million hours worked

### PROCESS FOR GRADING & MONITORING OF PROCESS SAFETY EVENTS

During the year, the Perstorp Group introduced procedures for the assessing and monitoring of process safety events. A process safety event is an accident (an unplanned or uncontrolled event) resulting in a discharge of materials or energy from primary processing equipment.

Accidents falling into this category are graded according to 12 different aspects to determine the severity of the accident. The most serious accident in this category was a fire in a warehouse. During 2011, 184 process safety incidents were assessed. This work has resulted in greater communication and awareness of process safety. Analyses of past events have resulted in a number of technical projects being initiated.

### INTERNAL REPORTING OF ACCIDENTS, INCIDENTS & RISKS

The Perstorp Group is striving for greater openness about incidents, as a high reporting rate is important for injury prevention. The purpose of reporting is to learn from what has happened in order to carry out corrective and preventive action. Every employee can update the Group accidents, incidents and risks

database. In 2011, 241 (229) accidents, 665 (614) incidents and 684 (605) risks were reported.

The causes of accidents are often divided into technical failures and human error. The Perstorp Group is running two programs, each one focusing on one of these causal components. One is focused on behavior-based safety and the other is based on process safety.

### BEHAVIOR-BASED SAFETY

All sites focus on continually on reducing accidents. Several sites are running programs on behavior-based safety, with the aim of improving personal safety. As part of the program Take Care, which the sites in Bruchhausen, Perstorp, Stenungsund and Toledo are working on, 3,982 (3,106) safety observations were made. The Singapore site is working with a program called STOP and the Freeport site is running a program called RADAR (Responsible Attitudes Drive Away Risk). By the end of 2011 it was 3,413 days since the last LTA accident occurred at the site in Freeport, which was the best result within the Perstorp Group.

### SAFETY FOUNDATIONS WITHIN THE PERSTORP PERFORMANCE SYSTEM (PPS)

The basis of the Perstorp Performance System (read more on page 18 in this report) is safety. Work on this foundation has created awareness among all employees so that safety work can progress. The goal is to minimize risks in the workplace. As a result of PPS, more employees in various problem areas are involved in safety work such as Take Care, improved accident investigations, personal protective equipment, risk analyses, amongst other things. PPS, and it's safety foundation, is being introduced with help from external resources. The safety process is driven and owned by the company's production associates and supported from the very top. Communication is more direct and there is a greater willingness to take on issues that arise.

### CHEMICAL PROCESSING

New chemicals are risk-assessed and registered in internal databases. The new labelling system CLP/GHS has been introduced for raw materials and products at every site. The requirements according to REACH with regard to the handling of documented exposure scenarios started to be introduced during 2011.

### TRAINING IN THE ENVIRONMENT, HEALTH & SAFETY

Training in 2011 comprised 22,755 (22,687) hours for 4,045 (3,415) participants.

### HEALTH

For employees to feel good and healthy, to strengthen the community and to possibly reduce absenteeism, it is important that all employees at Perstorp have access to fitness activities. For example, at the production site in Perstorp there is a gym, group fitness classes and a gymnasium where you can take part in spinning and ball sports. A new thing for 2011 has been the local sports club Perstorp AB IF.

### OCCUPATIONAL HEALTHCARE

External providers run occupational health services for Perstorp, meaning that different sites have different offers. In addition to vaccinations, age checks and work-related health checks, great emphasis is placed on preventative work, like ergonomics and stress management. In order to help people on sick leave back to work, rapid rehabilitation measures are offered, appropriate to the individual's needs.

## HUMAN DEVELOPMENT & TRAINING IN THE WORKPLACE

Perstorp's strategy for development and employee training is directly linked to the Group's business strategy. As it is audited annually, this ensures that skills and organizational development are genuinely in line with business needs.

Business processes are the basis for People Management & Development, a part of which is Talent Management. The model aims to find – and evaluate – the best managerial talent, but also to offer alternative career paths for those who do not choose management. In 2011, 18 'Top and High potentials' found new positions.

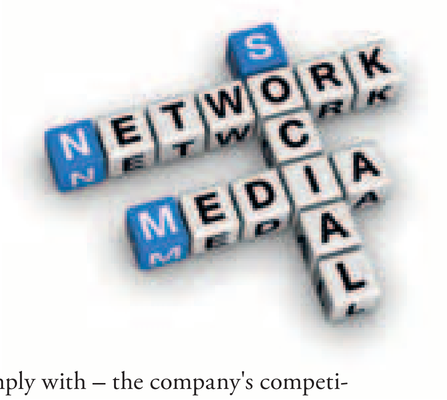
Alternative career paths involve specialists and project managers. For specialists, negotiations with the unions about the career path were completed in 2011, while they are continuing into next year for project managers.

Site Perstorp invested heavily in 2011 to offer much more extensive training for summer workers than in previous years. The initiative – which has the aim of improving safety – better prepares temporary workers for their tasks and the risks that may occur.

> “Employees are without doubt the most important molecules within the Winning Formulas concept, based on the core values of focused innovation, reliability and responsibility.

# Key relations & Society

Perstorp strives to establish long-term relations and considers that an open and hones dialogue forms the right foundation.




# Building strong netwoks

## CUSTOMERS

Perstorp is working on:

- Customer focus, with the aim of achieving long-term relationships with our customers: recognizing customer needs and requirements, through dialogue and challenges delivering products and services in a way that increases customer satisfaction.
- Continually improving our work processes, which are the foundations of our ability to satisfy customers today and in the future.

Continuous monitoring of delivery accuracy and a developed system for handling customer complaints are important elements of this. Each year, a comprehensive measurement of customer satisfaction is also carried out, providing feedback and input into our future work.

## PRODUCT SAFETY

Corporate EHSQ monitors new rules for product safety on behalf of the entire Group, in order to achieve global compliance. The work from 2010 regarding the EU REACH regulations (Registration, Evaluation, Authorization of Chemicals) has been followed up with an update of safety data sheets and hazard labels in 2011. Updated safety data sheets have been distributed to our customers. Work has begun on the registration of substances in the range of 100-1000 tons per year by 2013, and will involve the registration of around 20 substances.

## SUPPLIERS

When it comes to suppliers, a long-term relationship is important to Perstorp. In order to be considered, Perstorp requires its suppliers to share its views on the environment, health and safety. Perstorp's Code of Conduct is the basis of how new suppliers are evaluated.

## TRADE ASSOCIATIONS

Perstorp is engaged in a number of professional organizations at national and international level, including the Swedish Plastics & Chemicals Federation and CEFIC at an EU level.

## COMPETITORS

Perstorp's Code of Conduct states that all functions and staff should be aware of – and comply with – the company's competition policy, which covers legal requirements and the company's own code of ethics in the field. Amongst other things, this means that Perstorp will be a strong but fair competitor.

## SCHOOLS & UNIVERSITIES

Collaborations with schools and universities play an important role in Perstorp's long-term recruitment. Therefore certain production units co-operate with nearby universities. The plant in Perstorp also runs its own chemical-technical college, with a chemical technology program.

## SOCIAL DIALOGUE

### INFORMING THE PUBLIC

Open and honest communication is essential for a responsible corporate citizen like Perstorp. The Group makes environmental information available to the public in their reports, in brochures, via the mass media and the internet. Some units inform the public at a local level, with brochures or letters.

### OPEN DAYS & VISITING

Each unit regularly receives visits from various stakeholders, including universities, colleges, politicians, companies and associations. For the Year of Chemistry in 2011, our plants in Perstorp, Stenungsund and Pont-de-Claix organized open days at their facilities, for employees' families and local residents.

### COMPLAINTS

Questions and complaints from the public are received and acted upon in accordance with management procedures. In 2011, plants received the following complaints: Stenungsund regarding foam from the cooling towers, Nol regarding noise, Bruchhausen regarding noise and Castellanza regarding odours.

### AUTHORITIES

Each unit has regular contacts with local authorities regarding environmental and safety issues, mainly to do with operating permits. In accordance with current legislation, Perstorp produces environmental reports, safety reports and risk assessment reports for the authorities.

## ENVIRONMENTAL DATA

| | | RESOURCE EFFICIENCY | | | EMISSIONS TO AIR | | | | | | | WASTE | WATER-BORNE EMISSIONS |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Plant | Year | Consumed raw materials kton/year | Total energy use GWh/year | Indirect energy use GWh/year | Fossil $CO_2$ kton/year | VOC ton/year | $SO_2$ ton/year | Nitrogen oxide ton/year | CFC kg/year | HCFC kg/year | HFC kg/year | Waste kton/year | COD before purification ton/year [3] |
| Group | 2010 | 3,994 | 3,485 | 1,968 | 721 | 329 | 151 | 315 | 0 | 576 | 6,184 | 85 | 8,829 |
| | 2011 | 3,836 | 3,624 | 2,087 | 731 | 361 | 148 | 383 | 0 | 2,045 | 155 | 73 | 11,604 |
| **SPECIALTY INTERMEDIATES** | | | | | | | | | | | | | |
| Perstorp (incl. Catalysts plant) [1] | 2010 | 544 | 634 | 119 | 84 | 68 | 8 | 65 | 0 | 0 | 19 | 21 | 2,422 |
| | 2011 | 518 | 613 | 139 | 72 | 78 | 8 | 54 | 0 | 0 | 62 | 18 | 1,512 |
| Bruchhausen [2] | 2010 | 108 | 257 | 7 | 57 | 3 | 2 | 27 | 0 | 0 | 83 | 18 | 0 |
| | 2011 | 110 | 304 | 9 | 65 | 5 | 1 | 29 | 0 | 0 | 54 | 16 | 0 |
| Castellanza [2] | 2010 | 7 | 25 | 25 | 6 | 1 | 0 | 0 | 0 | 0 | 0 | 6 | 1,044 |
| | 2011 | 9 | 23 | 23 | 5 | 1 | - | 0 | 0 | 0 | 0 | 1 | 714 |
| Gent [2] | 2010 | 23 | 24 | 5 | 5 | 2 | 0 | 3 | 0 | 31 | 0 | 6 | 1 |
| | 2011 | 27 | 26 | 5 | 5 | 2 | 0 | 3 | 0 | 10 | 0 | 7 | 1 |
| Singapore [1] | 2010 | 43 | 199 | 110 | 66 | 35 | 141 | 78 | 0 | 0 | 0 | 1 | 1,319 |
| | 2011 | 43 | 205 | 117 | 67 | 35 | 139 | 143 | 0 | 0 | 0 | 2 | 1,828 |
| Toledo [2] | 2010 | 167 | 219 | 43 | 29 | 16 | 0 | 20 | 0 | 18 | 0 | 1 | 3,250 |
| | 2011 | 176 | 232 | 44 | 31 | 16 | 0 | 22 | 0 | 21 | 0 | 1 | 6,600 |
| Vapi [2] | 2010 | 0 | 1 | 0 | 0 | 2 | 0 | 0 | | 0 | 0 | 0 | 2 |
| | 2011 | 1 | 2 | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 8 |
| Zibo [1] | 2010 | 33 | 51 | 51 | 2 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 109 |
| | 2011 | 34 | 45 | 45 | 2 | 0 | - | - | 0 | 0 | 0 | 0 | 103 |
| **COATING ADDITIVES** | | | | | | | | | | | | | |
| Freeport | 2010 | 18 | 44 | 11 | 9 | 5 | 0 | 7 | 0 | 57 | 552 | 1 | 5 |
| | 2011 | 20 | 43 | 11 | 9 | 7 | 0 | 6 | 0 | 118 | 39 | 1 | 4 |
| Pont-de-Claix [3] | 2010 | 2,040 | 1,354 | 1,354 | 307 | 139 | 0 | 38 | 0 | 470 | 5,430 | 20 | 369 |
| | 2011 | 1,953 | 1,428 | 1,428 | 324 | 152 | 0 | 48 | 0 | 1,896 | 0 | 17 | 423 |
| **PERFORMANCE PRODUCTS** | | | | | | | | | | | | | |
| Stenungsund [1] [5] | 2010 | 960 | 523 | 90 | 126 | 53 | 0 | 77 | 0 | 0 | 19 | 8 | 170 |
| | 2011 | 890 | 524 | 86 | 118 | 56 | 0 | 77 | 0 | 0 | 0 | 7 | 228 |
| Warrington [2] | 2010 | 30 | 153 | 153 | 31 | 1 | 0 | 0 | 0 | 0 | 81 | 3 | 138 |
| | 2011 | 34 | 180 | 180 | 36 | 3 | 0 | 0 | 0 | 0 | 0 | 3 | 183 |
| Waspik [2] | 2010 | 21 | 1 | 1 | 0 | 4 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| | 2011 | 22 | 1 | 1 | 0 | 4 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |

Environmental data is for the year's wholly-owned units

A dash (–) represent unavailable data

1) Waste water – industrial treatment plant

2) Waste water – municipal treatment

3) Waste water – neutralization

4) Normal level of purification is over 90%

5) Including the plant at Nol

# OTHER

# Risk management principles

The objective of the Perstorp Group's risk management process is to work systematically and proactively in identifying, evaluating and managing risks as early as possible in order to achieve short-term operational and long-term strategic goals.


Perstorp has a documented risk management process that ensures that the Group's risk landscape is routinely reviewed. There are a number of policies and frameworks that regulate the risks and compliance audits are frequently carried out in appropriate governing forums.

As part of the risk management process, Perstorp has categorized the identified risks into the areas of strategic, operational and financial. Strategic risks are those that could have a negative impact or pose as a threat against the Group's ability to develop in line with previously set strategies covering up to a five year timeframe. These risks are reviewed during the strategic planning process and are related to unfavorable mid- to long-term development of the industry paradigms, competitive landscape and regulatory environment.

The operational risks are related to the Group's core business functions – that the facilities can produce and that there are customers to buy the products. These include risks that may have a direct impact on the Group's daily business operations up to a one-year time horizon. Financial risks address exposure within the Group's financial operations associated with areas such as liquidity, currency, interest rate, credit and legal, the majority of which are regulated through the finance policy which provides guidelines to Perstorp's Treasury department for dealing with financial risks.

## STRATEGIC RISK MANAGEMENT

### BUSINESS DEVELOPMENT

Business development risk is the risk of unexpected negative variances related to major investments, acquisitions or disposal of assets. To minimize this risk, Perstorp has a well-defined strategy for how the company will develop, as well as processes and routines that safeguard that investments follow this strategy and meet the given criteria.

### INDUSTRY RISK

Industry risk is defined as the risk of a paradigm shift in the industry stemming from a change in technology or competitive environment that has a potential negative impact on the Group. Perstorp has developed a market segmentation approach which analyses and monitors the different dynamics of our products' end applications taking into account mega trends and potential structural changes in the industry. This information is incorporated into the strategic planning process in order to safeguard Perstorp's sustainable development.

### REGULATORY & ENVIRONMENT

There is a risk that a change in laws or regulations made by a government or a regulatory body could increase the costs of operating a business, reduce the attractiveness of investment and/or change the competitive landscape. Major efforts have been carried out by Perstorp in connection with EU's REACH chemicals safety legislation as well as the legislation being introduced concerning Classification Labeling and Packaging (CLP). Perstorp also works proactively with the environment, health and safety by continuously developing production units in accordance with best available technology.

## OPERATIONAL RISK MANAGEMENT

### AVAILABILITY & PRICING OF RAW MATERIALS

There is a risk of volatility in raw material prices and a lack of availability of raw materials leading to decreased margins and production disturbances. In order to safeguard supplies of raw materials and spread risks, the Group's purchasing policy requires the supplies of critical raw materials to be made by several suppliers where possible, alternatively signing long-term agreements where this is not possible.

The price of crude oil and natural gas, which the majority of the Group's raw materials are based upon, fluctuate constantly. To provide stability in the shorter perspective, Perstorp purchases raw material using pricing formulas based on quarterly or monthly prices on each market where the raw material is used, with discounts and special terms negotiated. Opportunities for hedging raw materials prices are assessed continuously.

### MARKET RISK

Perstorp has a wide range of products aimed at a number of different market segments. There is inherently a risk of negative changes to end markets and customers or major changes in the supply/demand balance in terms of production capacity causing prices to fall. Due to the Group's broad customer base it is resilient to demand reductions in certain segments. In addition, Perstorp closely monitors risk of production capacity rising on the market and takes it into consideration when planning for its own capacity.

### PRODUCTION DISRUPTION

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. Process and plant safety indicators in combination with regular technical inspections performed at production sites are monitored in order to minimize these risks. Suitable insurance is in place in the event of disruptions.

### CORPORATE GOVERNANCE (COMPLIANCE RISK)

Corporate governance risk is the risk of decisions being taken on the wrong grounds or based on inaccurate information. Perstorp has a well-defined governance model and a number of policies carefully monitored through internal controls. In addition, the concept of internal control is fundamental to Perstorp and involves the Group's capability of implementing an effective system for control and follow up of the company's activities. The operational subsidiaries, along with a number of holding companies, are routinely subject to extensive internal assessments, which involve ensuring compliance with external legislation/regulation and internal guidelines/control documents in areas such as financial reporting, fraud, information security and authorizations. This is supplemented by a Code of Conduct where regular training is conducted throughout the Group.

## FINANCIAL RISK MANAGEMENT

### 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. Currency risk is defined partly as translation exposure – risk of a reduction in value when converting the Group's assets and profits denominated in foreign currencies due to changes in exchange rates, and partly as transaction exposure – risk of the value of the Group's commercial and financial flows being adversely affected by exchange rate fluctuations. Perstorp's finance policy regulates the financial risks the Group is prepared to take, and provides guidelines for management of these risks.

> "Perstorp has a documented risk management process that ensures that the Group's risk landscape is routinely reviewed. There are a number of policies and frameworks that regulate the risks and compliance audits are frequently carried out in appropriate governing forums.

### INTEREST-RATE RISK

Interest-rate risk is the risk of a negative impact on the results due to a rise in market interest rates. The Group's financial policy stipulates interest hedging for most of the bank loans to mitigate this risk.

### FINANCING & LIQUIDITY RISK

Financing risk is the risk that new financing of due loans is difficult or too costly. Most of the Group's financing consists of senior credits from Svenska Handelsbanken, Nordea, DNB and HSH Nordbank, as well as second lien and mezzanine facilities syndicated to a number of financiers. There are covenant ratios connected to the bank loans.

Management of liquidity risk is about ensuring sufficient liquid funds to cover current investments and the effect of unexpected losses through agreed credit facilities. Perstorp's senior executives follow regular forecasts of Group liquidity very closely, including unutilized loan commitments and liquid funds.

### COUNTERPARTY RISK

Counterparty risk is the risk of a counterparty failing to meet its obligations in accordance with agreed terms. The Perstorp Group has a comprehensive credit policy whose 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 risks.

### LEGAL RISK

Legal risk is the risk of a negative impact on the Group's result or reputation arising from litigation, arbitration, disputes, claims or participation in legal proceedings. The legal policy provides the framework and procedures for handling potential disputes.

**Weather-proof**

Perstorp´s BEPD gives great outdoor properties such as weatherability, gloss retention and water resistance in marine environments.

# Corporate governance report

The Perstorp Group's core values of focused innovation, reliability and responsibility are also central to corporate governance. Corporate governance includes the continual process of controlling and improving decision-making and business strategies, defining clear areas of responsibility and identifying and evaluating opportunities and risks for the Group. The overall aim is to maintain and develop order so that the business is controlled reliably and we are well equipped to face the development challenges and changes of the future. Corporate governance within the Perstorp Group is performed through the Annual General Meeting, the Board of directors and the President in accordance with the Swedish Companies Act and the Swedish code of corporate governance. The Group does not have a formal requirement to follow the Swedish code of corporate governance.

## GENERAL MEETING

The General Meeting is the forum where shareholders make decisions about the urgent matters facing Perstorp Holding AB and its subgroups. The Annual General Meeting was held on 19 May 2011, at which the annual report for the 2010 financial year was adopted together with the proposal for distribution of profits. The Board of Directors was re-elected at the meeting.

## BOARD OF DIRECTORS

The Board of Directors consists of seven members and two deputies, all nominated and elected by the company owners. The individuals re-elected to the Board at the 2011 Annual General Meeting were Lennart Holm, Fabrice Fouletier, Karin Markides, Michel Paris, Ragnar Hellenius, Martin Lundin and Claes Gard.

Carl Settergren and Gaëlle d'Engremont were re-elected as deputy members. In addition to the aforementioned individuals the Board also includes employee representatives.

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

During 2011, nine scheduled Board meetings were held, as well as the statutory first convening meeting and two extra meetings. Minutes are kept at all meetings. On average, attendance at Board meetings for ordinary Board members has been 98%. Other employees have also attended meetings, either to make presentations or give specialist information prior to key decisions.

Every month the Board receives a written report presenting and analyzing the development of the Group and the earnings and financial position. Preparatory materials are sent to Board members before each Board meeting. The President is also in continuous contact with the Chairman of the Board.

The following points are addressed at each Board meeting: EHSQ report, status report from the President; Financial position and outlook; Investment decision for projects worth more than SEK 15 m; Decisions on changes in Group structure; Other important matters. In addition to these fixed points, a number of main subjects such as the budget are addressed during the year. The extra Board meetings during the year were held to address forecasts for the business, plans for the Group, refinancing, financial structure and organizational management changes.

## TECHNICAL COMMITTEE

There is a Technical Committee which shall advice and assist the Board in questions of major technical importance to the Group.

This committee consisted of seven members in 2011: Karin Markides, Eric Appelman, Tomas Andersson, Göran Axelsson, Håkan Björnberg, Bo Häggman and Stefan Lundmark. During the year this committee held one meeting.

## AUDIT COMMITTEE

The Board is served by an Audit Committee which focuses on securing the quality of the Group's financial reporting and risk management and the committee is therefore also close to the development of control instruments for internal control. An important activity is to follow up and assess the external audit. The committee does not have decision-making rights. Decisions shall be made by the Board. In 2011 the Audit Committee consisted of the following members: Fabrice Fouletier, Michel Paris and Claes Gard, plus CFO Johan Malmqvist. During the year the committee held five ordinary meetings. Minutes were taken at all meetings.

## REMUNERATION COMMITTEE

The Board is also served by a Remuneration Committee. The task of this committee is to establish principles for remuneration and other employment terms for the President and senior executives. The committee also prepares the terms for global incentive schemes and makes an assessment of the schemes. The committee has no decision-making powers, it is the Board of Directors that takes the ultimate decisions in these matters. In 2011 the Remuneration Committee consisted of Board members Lennart Holm, Fabrice Fouletier, the Group's President Martin Lundin and of EVP HR & Communication Mikael Gedin. The committee held one ordinary meeting during the year which was minuted.

## PRESIDENT & EXECUTIVE MANAGEMENT TEAM

The President of the Group, Martin Lundin, is also elected by the Board as the CEO of the parent company. He exercises the ongoing control of the Group. The three Business Group managers report to him along with the global head of Innovation, head of the Asia region and the heads of the finance, human resources & communication and strategic planning & legal departments.

The President manages the business in accordance with the instructions concerning the division of responsibilities between the Board and President adopted by the Board. The work of the President and Board is assessed annually.

## EXTERNAL AUDITORS

Perstorp's auditors are elected by the Annual General Meeting for a four-year period. The current period started in 2010 and runs to 2014. Auditing firm PricewaterhouseCoopers AB (PwC) has been appointed auditors of the company with Michael Bengtsson being the lead auditor. The Board's and Group Management's aim is to have a close relationship with the auditors, to the extent that they shall be kept well informed about relevant issues concerning the accounts, reporting procedures and management of the company's/Group's assets. There is therefore a continuous dialogue with the auditors and they participate in at least one Board meeting per year. The auditors receive the minutes of Board meetings, documents relating to Board decisions, and the monthly financial reports for the Group. During the year PwC performed assignments relating to the audit but in addition to regular auditing work. On all of those occasions the Group has emphasized that the additional services shall not compromise the independence of the audit, which has also been carefully examined by PricewaterhouseCoopers.

## INTERNAL CONTROL

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

The Group's financial reporting manual, together with the business systems, are important control instruments that enable reliable consolidation and financial reporting. Group reports are produced once a month following well-established procedures, and the outcome is always presented in a report which includes extensive analysis. Work on the year-end accounts involves a number of people at Group, department and company level, and the summarized results are reported back continually to management functions and the Board.

Each year for a number of years the Group has performed an extensive self-assessment of internal controls. All of the subsidiaries were assessed in 2011. The purpose is to identify key control points for the various departments, analyze procedures, follow development in relation to previous activity and thus ensure that internal controls are at a good level and will remain so. The assessment has been complemented with a partly expanded verification operation by the company's auditors for certain areas. In relation to this, special follow-up has been carried out from the central level within the Group. Work aimed at securing good internal control is a constantly ongoing process.

# Board of Directors

## ELECTED BY THE ANNUAL GENERAL MEETING

### Lennart Holm

Chairman of the Board, Perstorp Holding AB.
Board member since 2006.
Active in the Group since 2001.
Born 1960.

OTHER BOARD ASSIGNMENTS
Lunds Tekniska Högskola, Kemiteknik, Hempel A/S (DK), Lahega Kemi, Nexam Chemical, Vida AB, Chamber Tech AB, Croviva AB and SOS Barnbyar.

### Martin Lundin

President and CEO Perstorp Holding AB.
Board member since 2009.
First joined the Group in 1995.
Born 1968.

### Fabrice Fouletier

Partner, PAI partners.
Board member since 2006.
Born 1975.

OTHER BOARD ASSIGNMENTS
MEP S.à r.l., MEP II S.à r.l, Eva Capital BV, Lisa Capital Coöperatief UA, Door Investment SA, Gaillon Blocker S.à r.l, Financière Forêt S.à r.l and Ponant S.à r.l.

### Karin Markides

Professor
President and CEO of Chalmers University of Technology
Board member since 2010.
Born 1951.

OTHER BOARD ASSIGNMENTS
Chair of CESAER, AGS and UNITECH
Board member of the SP Technical Research Institute of Sweden.
Member of the RIKEN Advisory Council, Royal Swedish Academy of Sciences (KVA).

### Claes Gard

Former CFO Perstorp Group.
Board member since 2009.
Active in the Group since 2001.
Born 1953.

### Ragnar Hellenius

Principal, PAI partners.
Board member since 2009.
Born 1967.

### Michel Paris

Chief Investment Officer, PAI partners.
Board member since January 2010.
Born 1957.

OTHER BOARD ASSIGNMENTS

Atos Origin SA, Grupo Cortefiel, Hunkemöller, Swissport, The Nuance Group, Kiloutou SA and Xella International GmbH.

## DIRECTLY ELECTED REPRESENTATIVES

### Ronny Nilsson

Process Operator
Board member since 2006.
Appointed by the Boards of IF Metall of Perstorp and Stenungsund.
Born 1969.

### Anders Magnusson

R&D Engineer
Board member since 2010.
Appointed by the Boards of PTK of Perstorp and Stenungsund.
Born 1969.

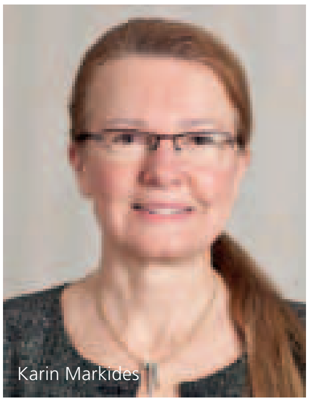
### Oleg Pajalic

Senior Specialist
Board member since 2011.
Appointed by the Boards of PTK of Perstorp and Stenungsund.
Born 1964.


Lennart Holm


Martin Lundin


Fabrice Fouletier


Karin Markides


Claes Gard


Michel Paris


Ragnar Hellenius

## AUDITORS

### Michael Bengtsson

Authorized Public Accountant – PricewaterhouseCoopers.
Born 1959.

OTHER AUDIT ASSIGNMENTS
Carnegie Investment bank, Onoff AB, Haldex AB and Enea AB.

### Mats Åkerlund

Authorized Public Accountant – PricewaterhouseCoopers.
Born 1971.

OTHER AUDIT ASSIGNMENTS
E.ON, Öresundsbro Konsortiet, Getinge and Nordic Aktiv Property Fund (NAPF).


Ronny Nilsson


Anders Magnusson


Oleg Pajalic

## DEPUTIES

Gaëlle d'Engremont – Investment Director, PAI partners
Carl Settergren – Investment Director, PAI partners
Per-Olov Hornling – Deputy trade union representative, PTK
Per Lindquist – Deputy trade union representative, PTK
Gunilla Nordberg – Deputy trade union representative, IF Metall

# Group management team

## Martin Lundin

President and Chief Executive Officer
Perstorp Holding AB.
First joined the Group in 1995.
Born 1968.

## Anders Lundin

Executive Vice President – Performance Products.
First joined the Group in 1982.
Born 1960.

## Johan Malmqvist

Chief Financial Officer and
Executive Vice President – Finance, IT & Legal.
Active in the Group since 2009.
Born 1975.

## Mats Persson

Deputy Chief Executive Officer and
Executive Vice President –
Specialty Intermediates.
Active in the Group since 1992.
Born 1963.

## Eric Appelman

Executive Vice President – Innovation,
Strategy & Market Development.
Active in the Group since 2008.
Born 1964.

## Mikael Gedin

Executive Vice President –
Sales & Customer Service.
Active in the Group since 2009.
Born 1969.


Martin Lundin


Mats Persson


Anders Lundin


Eric Appelman


Johan Malmqvist


Mikael Gedin

## CORPORATE FUNCTIONS

Jacob Andersson, Group Accounting
Pascal Beaupère, EHSQ & PPS
Mikael Ekblad, Supply Chain
Susanna Frennemo, IT
Anders Gahnström, Legal
Arvid Liepe, Corporate Finance
Ulf Lindh, Compensation & Benefits
Andreas Lindqvist, Group Controlling
Cecilia Nilsson, Communications
Coenraad Schaap, Customer Service

# REPORT OF THE BOARD OF DIRECTORS

# The Group´s year-end accounts

## Market & economic conditions

The year started with strong demand for Perstorp's products but the financial turbulence in both Europe and the US had a dampening effect on demand in the latter part of the year.

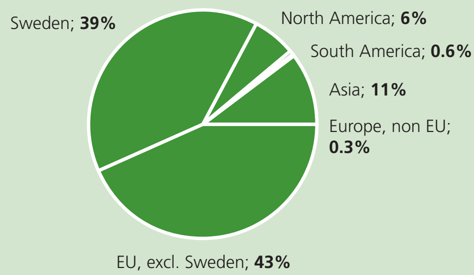
The first half of the year showed strong demand across nearly all product lines. Demand slowed down in Q3 following the financial turbulence in the Eurozone and deficit issues in the US.

The unrest in financial markets in Southern Europe had a significantly dampening effect on demand across Europe in Q4. Customers were very cautious following the bad experiences of 2009's financial crisis in the US. Destocking ran down inventories of both finished goods and raw materials to low levels towards the end of the year. Europe was most negatively affected while Asian and North and South American demand was less impacted.

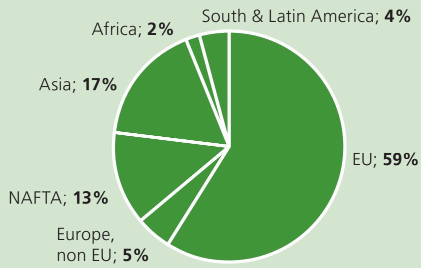
The prices of most of Perstorp's key raw materials rose sharply in the first half of the year on the back of healthy demand from most regions, coupled with some uncertainties about supplies. The conflicts in the Middle East and Africa, which started in late 2010 and flourished at the beginning of 2011, lead to a spike in prices. Brent Crude Oil prices have been relatively stable since Q2 at USD 105-115 per barrel, with only a few exceptions. The markets became more bearish and volatile in Q3 putting pressure on prices from buyers, but Perstorp was able to keep its margins relatively stable. This pressure lasted throughout the remainder of the year but was not that prominent in Q4 as customers held back on their order volumes. Demand fell significantly, and inventory management became a priority. However, in mid-December the first signs of a turn were seen as prices and demand picked up, starting in Asia and later followed in the US.

The Perstorp Group is exposed to fluctuations in the Euro and US dollar exchange rates, since both net inflows and loans are primarily in those currencies. Both currencies had an average rate in 2011 that was substantially lower than the previous year. The dollar was down 10% and the Euro down 5%. This contributed to a substantial negative currency effect of almost SEK -170 million on the operating profit compared with last year.

GEOGRAPHIC DISTRIBUTION OF EMPLOYEES




NET SALES PER GEOGRAPHIC MARKET



# Net sales & earnings

## INCOME STATEMENT

| SEK m | Note | 2011 | 2010 |
|---|---|---|---|
| **Net sales** | **9** | **11,297** | **10,600** |
| Cost of goods sold | 6, 7, 8, 20 | –9,687 | –8,802 |
| **Gross earnings** | | **1,610** | **1,798** |
| Selling and marketing costs | 6, 7, 8 | –472 | –502 |
| Administrative costs | 6, 7, 8, 33 | –217 | –232 |
| Research and development costs | 6, 7, 8 | –80 | –76 |
| Other operating income and expenses [1] | 11 | –255 | –366 |
| Result from participations in associated companies | 12 | –2 | –3 |
| **Operating earnings/loss (EBIT)** | **10, 22, 26** | **584** | **619** |
| Net financial items | 21 | –999 | –994 |
| **Earnings/loss before tax** | | **–415** | **–375** |
| Tax | 23 | 10 | 59 |
| **Net earnings/loss for the year** | | **–405** | **–316** |
| *Discontinued operation* | | | |
| Net sales | | 3,902 | 3,961 |
| Operating earnings/loss (EBIT) [2] | | –761 | –298 |
| Operating earnings before tax | | –971 | –605 |
| Tax | | –337 | –35 |
| **Net earnings/loss for the year** | | **–1,308** | **–640** |
| *Group total* | | | |
| Net sales | | 15,199 | 14,561 |
| Operating earnings/loss (EBIT) [1] [2] | | –177 | 321 |
| Operating earnings before tax | | –1,386 | –980 |
| Tax | | –327 | 24 |
| **Net earnings/loss for the year** | | **–1,713** | **–956** |
| of which, attributable to non controlling interest | 14 | 2 | 3 |
| **Operating earnings before depreciation (EBITDA)** | | **1,544** | **1,649** |
| **EBITDA adjusted for non-recurring items** | | **1,524** | **1,745** |

[1] Includes SEK 289 (254) m in write-down.

[2] Includes SEK 527 (106) m in write-down.

## NET SALES

The Perstorp Group's net sales increased by 4% to SEK 15,199 m during the year compared with SEK 14,561 m in 2010. Volume growth was higher during the first half of the year following positive market conditions for most products.

While certain products such as Penta, Formox and HDI maintained either above or close to double-digit growth throughout the year, the softening of demand that started towards the end of Q3 and continued until year end was felt across most parts of the portfolio leading to a full year volume increase of only 1% over last year. The weak sales development in Western Europe was to some extent compensated by the higher growth in the emerging regions such as Asia and especially South & Latin America. In response to the higher raw material and energy costs, the selling prices were increased with 10%. The largest price increases were seen in Oxo products as well as in the biofuel business. On the other hand there was a negative consolidation effect of –7% on sales from the strong Swedish krona against the EUR and USD, which is more difficult to compensate for.

## EARNINGS

Operating earnings before depreciation and amortization (EBITDA) were SEK 1,544 m for the full year (1,649). Adjusted for items affecting comparability, earnings amounted to SEK 1,524 m (1,745). Despite higher sales gross earnings was hampered by poor price development for the TDI business and negative currency effects. The negative currency effect is a result of translation and transaction flows being denominated in EUR and USD, which have weakened throughout the year towards the Swedish krona. Fixed costs remain under control and are lower than last year in part due to efficiency measures at the French operations and a general cautiousness regarding spending.

**Operating earnings before interest and taxes (EBIT)** were SEK -177 m (321). Exceptional write down of certain assets related primarily to the Coating Additives business group is included.

**Earnings before tax** amounted to SEK –1,386 m (-980). Aside from the negative impact on EBIT from lower earnings and higher levels of depreciation, there is an improvement due to a reduction in interest expenses following lower effective interest rates. In addition, an amount of SEK 1 billion of the parent company's loan was converted into equity at the end of the second quarter last year, which we are now seeing the full effect of.

**The net loss** was SEK –1,713 m (–956). Also related to the asset impairments, a larger amount of deferred tax assets were written down in the period. In addition, a more restrictive approach continues to be applied to the build-up of further loss deductions.


$ 83,623,131
$ 83,623,131
rnings
$ 67,228,166
Dividends
41%
13,946,511
$ 6,504,606
1,960,477
7,736,223
5,825,769
$ 35,973,586
$ 31,254,580
$ 3,599,566
$ 27,655,014
Shares


# Financial position

Working capital amounted to SEK 1,481 m at year end compared to SEK 1,526 m at the end of 2010. There was a decrease during the last quarter coming from a high level at the end of the third quarter, driven primarily by a reduction in accounts receivables and lower levels of inventory.

This positive operating cash flow coupled with a conversion of the parent company loan into equity of SEK 1.3 billion led to a decrease in net borrowings which amounted to SEK 11.2 billion at year end. Currency translation from the strengthening of the Swedish krona, as most net borrowings are in Euros and US dollars, also contributed to the reduction versus last year.

Shareholders' equity at the end of the year was SEK 978 m. Despite the conversion of a portion of the parent company loan, the equity was SEK 344 m less compared to the start of the year, reflecting the impact from the negative change in comprehensive result for the period.

## BALANCE SHEET

| SEK m | Note | Dec. 31, 2011 | Dec. 31, 2010 |
|---|---|---|---|
| ASSETS | | | |
| Fixed assets | | | |
| Tangible fixed assets | 6 | 4,349 | 6,305 |
| Intangible fixed assets | 7 | 6,173 | 6,744 |
| Financial fixed assets | | | |
| Deferred tax assets | 23 | 414 | 793 |
| Participations in associated companies | 13 | 44 | 1 |
| Other, minor holdings in companies | | – | 64 |
| Long-term receivable, associated companies | | – | 17 |
| Direct pension, endowment insurance | 22 | 81 | 73 |
| Other interest-bearing, long-term receivables | 16, 21 | 1 | 2 |
| Other interest-free, long-term receivables | 16 | 34 | 31 |
| **Total financial fixed assets** | | **574** | **981** |
| **Total fixed assets** | | **11,096** | **14,030** |
| Current assets | | | |
| Inventories | 20 | 1,185 | 1,511 |
| Accounts receivable | 18 | 1,409 | 2,124 |
| Operating receivables, associated companies | | 35 | 41 |
| Tax receivables | | 42 | 34 |
| Other operating receivables | 18 | 199 | 388 |
| Other current financial receivables | 21 | 9 | 8 |
| **Total** | | **2,879** | **4,106** |
| Current investment | | – | 3 |
| Cash & cash equivalents | 19, 21 | 453 | 395 |
| Assets held for sale | 32 | 2,787 | – |
| **Total current assets** | | **6,119** | **4,504** |
| **Total assets** | | **17,215** | **18,534** |
| SHAREHOLDERS’ EQUITY & LIABILITIES | | | |
| Shareholders’ equity | | | |
| Share capital (1,000 shares, par value of SEK 100 each) | | 0 | 0 |
| Other capital contributions | | 5,652 | 4,276 |
| Reserves | | –351 | –341 |
| Retained earnings | | –2,633 | –1,674 |
| Net earnings/loss for the year | | –1,714 | –959 |
| **Sum** | | **954** | **1,302** |
| Non controlling interests | 15 | 24 | 20 |
| **Total equity** | | **978** | **1,322** |
| Long-term liabilities | | | |
| Deferred tax liabilities | 23 | 1,381 | 1,505 |
| Direct pension | 22 | 83 | 74 |
| Pension liability, others | 21, 22 | 376 | 379 |
| Long-term liabilities, Parent Company | 21 | 870 | 2,018 |
| Long-term interest-bearing liabilities [1] | 21 | 9,335 | 9,415 |
| Other liabilities, provisions | 24 | 112 | 88 |
| **Total long-term liabilities** | | **12,157** | **13,479** |
| Current liabilities | | | |
| Accounts payable | 25 | 836 | 1,390 |
| Tax liabilities | | 18 | 22 |
| Other operating liabilities | 25 | 951 | 1,147 |
| Accrued interest expense | | 559 | 343 |
| Other financial liabilities | 21 | 942 | 831 |
| Liabilities held for sale | 32 | 774 | – |
| **Total current liabilities** | | **4,080** | **3,733** |
| **Total shareholders´ equity & liabilities** | | **17,215** | **18,534** |
| Contingent liabilities | 27 | 179 | 180 |
| Assets pledged | 28 | 13,838 | 12,361 |

[1] The amount includes expenses for loan financing in connection with Perstorp Holding AB’s acquisition of sub-groups in Germany, Sweden and the Netherlands. The amount was SEK -165 (-315) m.

# Comprehensive earnings & shareholders´ equity

## COMPREHENSIVE EARNINGS REPORT, INCL. NON CONTROLLING INTEREST

| SEK m | 2011 | 2010 |
|---|---|---|
| **Earnings/loss for the year** | **–1,713** | **–956** |
| Other comprehensive results | | |
| Translation effects | 5 | –252 |
| Hedging of net investments | – | 266 |
| Market valuation of interest swaps | 34 | 108 |
| Market valuation of forward contracts | -50 | 31 |
| Tax relating to other comprehensive results | 4 | –116 |
| **Other comprehensive earnings net after tax** | **-7** | **37** |
| **Comprehensive earnings for the year** | **–1,720** | **–919** |
| Comprehensive earnings attributable to: | | |
| Parent Company's shareholders | –1,724 | –921 |
| Non controlling interest | 4 | 2 |

## SHAREHOLDERS' EQUITY 2011

| SEK m | Share capital | Other capital contributions | Translation reserves | Hedge reserves | Retained earnings | Net earnings/loss for the year | Sum | Non controlling interest | Total shareholders' equity |
|---|---|---|---|---|---|---|---|---|---|
| **Opening balance, January 1, 2011** | **0** | **4,276** | **–334** | **–7** | **–1,674** | **–959** | **1,302** | **20** | **1,322** |
| Transfer of preceding year's results | – | – | – | – | –959 | 959 | 0 | – | 0 |
| Shareholders' contribution/Capital contribution | – | 1,376 | – | – | – | – | 1,376 | – | 1,376 |
| Net earnings/loss for the year | – | – | 2 | –12 | – | –1,714 | –1,724 | 4 | –1,720 |
| **Closing balance, December 31, 2011** | **0** | **5,652** | **–332** [1] | **–19** | **–2,633** | **–1,714** | **954** | **24** | **978** |

[1] Including SEK 100 m related to assets held for sale. For further information, refer to note 32.

## SHAREHOLDERS' EQUITY 2010

| SEK m | Share capital | Other capital contributions | Translation reserves | Hedge reserves | Retained earnings | Net earnings/loss for the year | Sum | Non controlling interest | Total shareholders' equity |
|---|---|---|---|---|---|---|---|---|---|
| **Opening balance, January 1, 2010** | **0** | **3,207** | **–266** | **–109** | **–906** | **–772** | **1,154** | **18** | **1,172** |
| Transfer of preceding year's results | – | – | – | – | –772 | 772 | 0 | – | 0 |
| Shareholders' contribution/Capital contribution | – | 1,069 | – | – | – | – | 1,069 | – | 1,069 |
| Net earnings/loss for the year | – | – | –68 | 102 | 4 | –959 | –921 | 2 | –919 |
| **Closing balance, December 31, 2010** | **0** | **4,276** | **–334** | **–7** | **–1,674** | **–959** | **1,302** | **20** | **1,322** |

# Cash flow

Cash flow from operating activities was SEK 1,054 (814) m for the full year 2011. The improvement compared to previous year is a result of lower interest payments but also a decrease in working capital. The inventory level continued to come down as expected during the last quarter from the buildup experienced during the year, which was a result of increased sales with higher price levels as well as some scheduled maintenance shutdowns. Accounts receivable were lower following the weak sales development in December whereas the level of accounts payables remained relatively unchanged.

Cash flow from investment activities amounted to SEK -610 (-965) m. The main capital expenditures over the year have been related to the finalization of the capacity expansion for the caprolactones, as well as the purchase of assets from Ashland Inc. The associated company PetroPort Holding AB provided SEK 25 m in shareholders', contribution for the investment in a new jetty at Stenungsund. During Q2 a smaller asset in Finland was divested for around SEK 10 m.

The Group's available funds, including liquid funds and letter of credit facilities, amounted to SEK 1,064 m at the end of the period and the strong operating cash flow development due primarily to a tight management of working capital.

## CASH FLOW STATEMENT

| SEK m | 2011 | 2010 |
|---|---|---|
| **Operating activities** | | |
| Operating earnings | –177 | 321 |
| Adjustments: | | |
| Depreciation and write-down | 1,721 | 1,328 |
| Other | 27 | 70 |
| Interest received | 3 | 2 |
| Interest paid | –520 | –673 |
| Income tax paid | –68 | –23 |
| **Cash flow from operating activities before change in working capital** | **986** | **1,025** |
| **Change in working capital** | | |
| Increase (-) Decrease (+) in inventories | –101 | –118 |
| Increase (-) Decrease (+) in current receivables | 153 | –304 |
| Increase (+) Decrease (-) in current liabilities | 16 | 211 |
| **Cash flow from operating activities [1]** | **1,054** | **814** |
| **Investing activities** | | |
| Acquisition of net assets, subsidiaries | – | –83 |
| Acquisition of shares in associated companies | –26 | – |
| Acquisition of minor holdings in companies | – | -69 |
| Acquisition of tangible and intangible fixed assets | –592 | –806 |
| Sale of tangible and intangible fixed assets | 10 | – |
| Change in financial receivables, external | –2 | -7 |
| **Cash flow from investing activities [1]** | **–610** | **–965** |
| **Financing activities** | | |
| Shareholders' contribution | 38 | 69 |
| Change in credit utilization | –423 | –15 |
| **Cash flow from financing activities [1]** | **–385** | **54** |
| **Change in cash & cash equivalents, incl. short-term investments** | **59** | **–97** |
| Cash and cash equivalents in the opening balance, incl. short-term investments | 395 | 516 |
| Translation difference in cash and cash equivalents | – | –24 |
| **Cash & cash equivalents, end of period** | **454** | **395** |

1) Of which discontinued operation

| | 2011 | 2010 |
|---|---|---|
| Cash flow from operating activities | –6 | –322 |
| Cash flow from investing activities | –148 | –403 |
| Cash flow from financing activities | 263 | 748 |
| **Change in cash & cash equivalents, incl. short-term investments** | **109** | **23** |

# The Parent Company year-end accounts

## INCOME STATEMENT

| SEK m | Note | 2011 | 2010 |
|---|---|---|---|
| **Net sales** | | **60** | **47** |
| **Gross earnings** | | **60** | **47** |
| Sales and marketing costs | | –10 | -7 |
| Administration costs | 33 | –113 | –114 |
| Other operating income and expenses | 11 | –26 | –10 |
| **Operating earnings (EBIT)** | 22, 26 | **–89** | **–84** |
| Group contribution received | | 629 | 357 |
| Earnings from participations in Group companies [1] | | –1,447 | –1,298 |
| Net financial items | 21 | –689 | –217 |
| **Earnings/loss before tax** | | **–1,596** | **–1,242** |
| Tax | 23 | 36 | –17 |
| **Net earnings/loss for the year** [2] | | **–1,560** | **–1,259** |

[1] Comprises of write-down of shares in and financial receivables versus subsidiaries of SEK -1,447 (–1,298) m.
[2] Comprehensive income equals Net earnings/loss for the year.

## BALANCE SHEET

| SEK m | Note | Dec. 31, 2011 | Dec. 31, 2010 |
|---|---|---|---|
| **ASSETS** | | | |
| Fixed assets | | | |
| Intangible assets | 7 | 1 | – |
| Financial fixed assets | | | |
| Deferred tax assets | 23 | 36 | – |
| Shares in Group companies | 17 | 7,808 | 7,783 |
| Long-term receivables, Group companies | 21 | 346 | 349 |
| Direct pension, endowment insurance | 22 | 68 | 60 |
| **Total financial fixed assets** | | **8,258** | **8,192** |
| **Total fixed assets** | | **8,259** | **8,192** |
| Current assets | | | |
| Operating receivables, Group companies | | 10 | 12 |
| Tax receivables | | 12 | 5 |
| Other operating receivables | 18 | 18 | 35 |
| Financial receivables, Group companies | 21 | 3,194 | 4,105 |
| Other current financial receivables | 21 | 9 | 8 |
| **Total** | | **3,243** | **4,165** |
| Cash and cash equivalents | 19, 21 | 312 | 113 |
| **Total current assets** | | **3,555** | **4,278** |
| **Total assets** | | **11,814** | **12,470** |
| **SHAREHOLDERS' EQUITY & LIABILITIES** | | | |
| Shareholders' equity | | | |
| Share capital (1,000 shares, par value of SEK 100 each) | | 0 | 0 |
| Retained earnings | | 3,618 | 3,237 |
| Net earnings/loss for the year | | –1,560 | –1,259 |
| **Total shareholders' equity** | | **2,058** | **1,978** |
| Long-term liabilities | | | |
| Direct pension | 22 | 68 | 60 |
| Long-term liabilities, Parent Company | 21 | 870 | 2,018 |
| Long-term interest-bearing liabilities [1] | 21 | 4,179 | 4,560 |
| Other liabilities, provisions | 24 | 17 | 15 |
| **Total long-term liabilities** | | **5,134** | **6,653** |
| Current liabilities | | | |
| Accounts payable | 25 | 13 | 8 |
| Tax liabilities | | 3 | 4 |
| Other operating liabilities, Group companies | | 2 | 3 |
| Other operating liabilities | 25 | 200 | 33 |
| Accrued interest expense, interest-free | | 373 | 320 |
| Financial liabilities, Group companies | 21 | 3,419 | 2,958 |
| Other financial liabilities | 21 | 612 | 513 |
| **Total current liabilities** | | **4,622** | **3,839** |
| **Total shareholders´ equity & liabilities** | | **11,814** | **12,470** |
| Contingent liabilities | 27 | 6,238 | 6,270 |
| Assets pledged | 28 | 7,876 | 7,842 |

[1] The amount includes expenses for loan financing in connection with Perstorp Holding AB's acquisition of sub-groups in Germany, Sweden and the Netherlands. The amount was SEK -67 (-129) m.

## CASH FLOW STATEMENT

| SEK m | 2011 | 2010 |
|---|---|---|
| **Operating activities** | | |
| Operating earnings | –89 | -84 |
| Interest received | 238 | 267 |
| Interest paid | –265 | –415 |
| Group contribution received | 323 | 576 |
| Realized exchange rate profit/loss | 1 | –17 |
| Income tax, paid | –2 | – |
| Adjustment, change in provisions | 2 | 2 |
| **Cash flow from operating activities before change in working capital** | **208** | **329** |
| **Changes in working capital** | | |
| Increase (-) Decrease (+) in current receivables | 15 | 41 |
| Increase (+) Decrease (-) in current liabilities | 10 | 6 |
| **Cash flow from operating activities** | **233** | **377** |
| **Investing activities** | | |
| Change in internal financial receivables | –508 | –238 |
| Acquisition of intangible assets | –1 | – |
| **Cash flow from investing activities** | **–509** | **–238** |
| **Financing activities** | | |
| Shareholder contribution from Parent Company | 38 | 69 |
| New loans, external | – | 47 |
| Amortization of loans, external | –323 | –174 |
| New loans, Group companies | 760 | – |
| Amortization of loans, Group companies | – | –201 |
| **Cash flow from financing activities** | **475** | **–259** |
| **Change in liquid funds, incl. short-term investments** | **199** | **–121** |
| Liquid funds opening balance, incl. short-term investments | 113 | 234 |
| **Liquid funds, end of period** | **312** | **113** |

## SHAREHOLDERS' EQUITY 2011

| SEK m | Share capital | Retained earnings | Net earnings/ loss for the year | Total shareholders' equity |
|---|---|---|---|---|
| **Opening balance shareholders' equity, January 1, 2011** | **0** | **3,237** | **–1,259** | **1,978** |
| Transfer of preceding year's results | – | –1,259 | 1,259 | – |
| Shareholders' contribution | – | 1,376 | – | 1,376 |
| Results from merger [1] | – | 264 | – | 264 |
| Net earnings/loss for the year | – | – | –1,560 | –1,560 |
| **Closing balance shareholders' equity, December 31, 2011** | **0** | **3,618** | **–1,560** | **2,058** |

[1] The subsidiary, Pernovo New Business Development Ltd, was merged in 2011. Assets and liabilities taken over at the time of the merger consisted of financial fixed assets worth SEK 127 m and liabilities worth SEK 127 m. Merger gains relating to legal restructuring where the acquisition of its own market-quoted promissory notes have been offset in Perstorp Holding AB.

## SHAREHOLDERS' EQUITY 2010

| SEK m | Share capital | Retained earnings | Net earnings/ loss for the year | Total shareholders' equity |
|---|---|---|---|---|
| **Opening balance shareholders' equity, January 1, 2010** | **0** | **2,150** | **18** | **2,168** |
| Transfer of preceding year's results | – | 18 | –18 | 0 |
| Shareholders' contribution | – | 1,069 | – | 1,069 |
| Net earnings/loss for the year | – | – | –1,259 | –1,259 |
| **Closing balance shareholders' equity, December 31, 2010** | **0** | **3,237** | **–1,259** | **1,978** |

# Other

## EMPLOYEES

At year-end, the Group's headcount was 2,243, an increase of 2% since the start of the year.

## THE PERSTORP BOARD

At the Annual General Meeting held on 19 May 2011, the Board of Directors was re-elected. The Board of Directors consists of Chairman Lennart Holm, Fabrice Fouletier, Karin Markides, Michel Paris, Ragnar Hellenius, Claes Gard and Perstorp CEO Martin Lundin. Carl Settergren and Gaëlle d'Engremont were re-elected as deputy members. As employee representatives Ronny Nilsson, for IF Metall, and Anders Magnusson, for PTK, were re-elected. Oleg Pajalic, representing PTK, was new to the Board.

## THE ENVIRONMENT

The production within Perstorp Group affects the external environment through emissions in air and water, and through the generation of waste and noise. From a global perspective, the most important environmental factors are the consumption of raw materials, energy and non renewable resources; emissions of greenhouse gases and volatile organic substances; and consumption of and contamination of the water. In the development of new and already existing plants, Perstorp Group pays extra attention to these factors.

Each unit within the Group submits an annual environment report to be approved by the inspection authorities. The Group has production in eleven countries. The major production sites in the Group are situated in Sweden and France. A proactive environmental work has been performed locally for many years.

At the site in Perstorp, Sweden a national project regarding soil contamination has been initiated, aiming at a classification of industry land into different categories (MIFO). In Perstorp Industrial park the classification has been done and some parts of the land shall need to be restored during the years to come.

The most extensive investments during the year have been the installation of new flue gas cleaning at the Perstorp site's steam power plant, expanded wastewater treatment at the plant in Stenungsund and process changes at the site in Pont-de-Claix to reduce wastewater pollution.

Extensive risk analyses were carried out at Site Pont-de-Claix between 2009 and 2011 under the French PPRT law, to highlight risks to surrounding buildings. Following the completion of these and together with local authorities, an investment program for 2012-2016 has been approved to reduce the potential impact on the surrounding area.

The work from 2010 regarding the EU REACH regulations (Registration, Evaluation and Authorization of Chemicals) has been followed up with an update of safety data sheets and hazard labels in 2011. Updated safety data sheets have been distributed to our customers. Work has begun on the registration of substances in the range of 100-1000 tons per year by 2013, and will involve the registration of around 20 substances.

## INNOVATION

Group function Innovation combines Research and Development, Market Development, Technical Sales and Service and Intellectual Property Management. In 2011, market development lead the way in aligning and focusing  product allocation, key account management, technical service, market communication, R&D and recruitment on selected fast-growing market segments. It was once again possible to achieve this growth in strong synergy with Perstorp's core manufacturing platforms, which clearly still offer a very strong basis for permanent rejuvenation though product derivatization.

For the strategic growth market Food & Feed, Perstorp completed the development of a novel formulation to preserve food and feed during silage as well as the development of butyric acid formulations to increase animal growth and health while reducing the controversial usage of antibiotics. Both developments in food and feed strongly build on, and support Perstorp's oxo platform, while reducing the dependency on the volatile market for propionic acid.

During 2011 strong growth was seen in the segments of resins for radiation curing coatings and polyurethane dispersions for waterborne coatings as well as for the two niche segments for formulated paints: plastic coatings and coatings for aero space and railway industries.

The growth segments of low solvent and waterborne coatings as well as polymer additives showed mixed results during 2011. Group Function Innovation further developed its capabilities in emerging markets during 2011. In the strategic growth market for plasticizers technical sales helped to further grow the Emoltene™ 100 high-molecular weight phthalate. In addition, R&D, together with customers, confirmed the suitability of Perstorp's novel non-phthalate Emoltene™ 545 PVC plasticizer for all known application domains. This product will be launched in 2012 and provides strong support for Perstorp's oxo platform.

The new position of Market Development Director Asia was created to drive growth of Perstorp's technically differentiated products in Asia, new customer support laboratories were opened in Mumbai and Shanghai and new Field Market Development Managers were hired in India and China.

## KEY EVENTS AFTER THE END OF THE FINANCIAL YEAR

On the 31st of May 2012, Perstorp and Thailand's largest chemical producer PTT Global Chemical completed the formation of a joint venture dedicated to the manufacturing and sales of aromatic (TDI) and aliphatic (IPDI, HDI and derivatives) isocyanates. PTT Global Chemical (PTTGC) holds 51% of the joint venture and Perstorp 49%.

In addition, Perstorp's senior lenders have granted a two-year extension of the company's existing loan agreements.

# Notes

## NOTES



## DEFINITIONS

### 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.

## NOTE 1. GENERAL INFORMATION

Perstorp Holding AB and its subsidiaries (jointly designated the Group) produce and sell specialty chemicals. At the end of the report period the Group had 13 (13) manufacturing units in 11 (11) countries in Europe, North America and Asia. These geographic areas comprise the Group's main markets for sales, with the main focus in Europe.

The Group was formed at the end of 2005 when the private equity company, PAI partners, became the owner through Perstorp Holding AB. Since this time PAI partners has controlled the Group through Luxembourg-based Financière Forêt S.à r.l., corp. reg. no. R.C.S. Luxembourg: B 111 888, which owns 100% of Perstorp Holding AB. The acquisition balance sheet for the Group was completed as of 2006.

The Parent Company is a limited liability company that is registered and has its Head Office in Perstorp, Sweden. The address to the head office is 284 80 Perstorp, Sweden.

The Board approved this report for publication on June 7, 2012.

## NOTE 2. SUMMARY OF MAJOR ACCOUNTING PRINCIPLES

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

### 2.1 BASIS FOR PREPARING THE ACCOUNTS

#### Group

The consolidated accounts for Perstorp Holding AB have been prepared in accordance with the Annual Accounts Act, the Swedish Financial Reporting Board's recommendation concerning Supplementary Accounting Rules for Groups (RFR 1) and International Financial Reporting Standards (IFRS) and IFRIC interpretations as approved by the European Commission. (IFRS has been applied by the Group since 2005). The consolidated accounts have been prepared in accordance with the acquisition value method, apart from matters applying to financial assets held for sale and financial assets and liabilities (including derivative instruments) that are fair valued via the income statement.

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

None of the IFRS or IFRIC interpretations that became obligatory for the first time for financial years starting January 1, 2011 have had any significant impact on the Group.

#### Parent Company

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

**Subsidiaries**

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

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

**Group contribution & shareholders' contribution**

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

**Financial instruments**

The Parent Company does not report financial instruments in accordance with IAS 39. Financial instruments are used by the company to hedge interest rate risks and are held until the maturity date. Against this background, interest rate swap contracts, forward contracts and currency swaps are not reported at fair value in the Parent Company's balance sheet and income statement.

**Pensions**

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

**Leasing**

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

### 2.2 CONSOLIDATED ACCOUNTING

#### Subsidiaries

Subsidiaries are all companies in which the Group has 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 group uses the acquisition method. The cost of an acquisition of a subsidiary compromise the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the group.

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

The surplus, which consists of the difference between the acquisition value and the fair value of the Group's share of identifiable acquired assets, liabilities and contingent liabilities, is reported as goodwill. If the acquisition cost is less than the fair value of the acquired subsidiary's net assets, the difference is reported directly in the income statement.

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

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

When the group seizes to have control of a subsidiary it recognizes any investment retained in the former subsidiary at its fair value at the date when control is lost. The change in the carrying amount is recognized in income statement. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognized in other comprehensive income in respect of that subsidiary are accounted for as if the group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognized in other comprehensive income are reclassified to income statement.

#### Associated companies

Associated companies are companies over which the Group exercises a controlling influence, which generally applies to shareholdings corresponding to 20 to 50% of the voting rights.

Holdings in associated companies are accounted for using the equity method and are initially valued at acquisition value, including any goodwill identified on acquisition. The Group's share of associated company earnings arising after acquisition is reported after tax in the Group's operating earnings. Classification in the income statement is the consequence of the company conducting operations in line with the rest of the Group. Accumulated changes following the acquisition are reported as changes in the book value of the holding. When the Group's share of an associated company's losses amounts to or exceeds its holding in the associated company, including any unsecured receivables, the Group does not report further losses unless it has assumed obligations or made payments on behalf of the associated company.

Unrealized gains on transactions between the Group and its associated companies are eliminated in relation to the Group's holding in the associated company. Unrealized losses are also eliminated, unless the transaction is evidence of there being an impairment requirement for the transferred asset.

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

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

### Joint ventures
Joint ventures refer to a relationship founded on an agreement in which two or more partners operate an economic activity together and have a joint deciding influence over the activity. Holdings in joint ventures are reported using the equity method, as with holdings in associated companies. Classification of profit shares are also reported in the same way as with associated companies as a result of business focus. Accounting principles for joint ventures have been changed in places to guarantee the consistent and appropriate application of Group principles. When the Group seizes to have joint control it shall account for the investment in accordance with IAS 39 from that date, provided the associated does not become a subsidiary. On the loss of the joint control the investment is measured at it´s fair value. The change in the carrying amount is recognized in income statement.

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

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

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

## 2.3 CURRENCY TRANSLATION
### Functional currency & reporting currency
Items included in the financial reports of the various Group units are valued in the currency used in the economic environment in which each company mainly operates (functional currency). In the consolidated accounts, SEK is used, which is the Parent Company's functional currency and the Group's reporting currency.

### Transactions & balance sheet items
Transactions in foreign currencies are translated into the functional currency according to the exchange rates applicable on the transaction date or the date when the items are re-assessed. Exchange-rate gains and losses arising through the payment of such transactions and on the translation of monetary assets and liabilities in foreign currencies at the exchange rate applicable on the closing date are reported in the income statement under "Other income and expenses" when the underlying receivable/liability is operational; otherwise in net financial items. The exception is where transactions represent hedges meeting the requirements for hedge accounting of cash flows or net investments, where gains and losses are reported in other comprehensive income in the consolidated statement of comprehensive income.

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

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

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

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

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

Revenue per category is reported as follows:

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

### Sales of services & contractor assignment
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.

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

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

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

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

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

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

## 2.6 INTANGIBLE FIXED ASSETS

Goodwill comprises the amount by which the acquisition value exceeds the fair value of the Group's share of the identifiable net assets of the acquired subsidiary at the date of acquisition. Goodwill on the acquisition of Group companies is reported as an intangible asset.

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

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

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

For the Group, assets with an indeterminate lifelength within this category refer to the Perstorp and Formox trademarks, which in connection with the allocation of acquisition values in 2006, were judged to 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 for assets in this category.

Technological know-how was identified as a balance sheet item in connection with the allocation of acquisition values in 2006 and its acquisition value has linear depreciation to divide the costs over the assessed utilisation period of 30 years. At the acquisition of Coating Additives in 2008, part of the value was identified as being technological know-how. This is depreciated over 15 years. Testing of possible impairment requirements is performed annually.

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

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

Software: Acquired software licenses are capitalized on the basis of the costs that have arisen for acquiring and deploying the software. Costs for the development and maintenance of software are normally expensed when they arise. If the particular software is unique, controlled by the Group and will probably generate economic benefits that exceed the costs for more than one year, the software is reported as an intangible asset. Personnel expenses for software development and a reasonable portion of attributable indirect costs are included.

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

## 2.7 TANGIBLE FIXED ASSETS

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

From 2009 this also includes borrowing costs attributable to acquisitions of fixed assets that take a significant amount of time to complete for use (these were previously charged directly). Additional expenses are added to the asset's reported value or reported as a separate asset, depending on which is appropriate, but only if it is probable that the future economic benefits associated with the asset accrue to the Group and the asset's acquisition value can be measured reliably. Reported value for replaced parts is deducted from capitalized value. All other forms of expenses for repairs and maintenance are reported as costs in the income statement during the period they arise.

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

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

Land and construction in progress are not depreciated.

The residual value and useful life of assets are impairment tested regularly or when external or internal circumstances dictate such impairment testing, and are adjusted as necessary. An asset's book value is immediately impaired to its recoverable amount if the asset's book value exceeds its estimated recoverable amount. See chapter 2.10.

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

## 2.8 LEASING

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

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

Some of the Group's leasing contracts pertain to vehicles and computers, which have been reported as operational leasing. In addition, there is operational leasing of pipelines and storage facilities at the unit in Singapore and of steam production and other facilities at the site in Pont-de-Claix, France. Payments made during the leasing period are carried in the income statement linearly over the leasing period.

## 2.9 FINANCIAL INSTRUMENTS

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

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

### Financial instruments assessed at fair value via the income statement

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

### Loans & accounts receivable

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

### Cash & cash equivalents

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

### Borrowings

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

### Accounts payable

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

## 2.10 IMPAIRMENT

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

A test for an impairment requirement is performed for financial assets at the end of the report period. Impairment is performed as soon as there is objective evidence that events have taken place which indicate that estimated future cash flows from an asset will be lower than the reported balance sheet total. The impairment amount is calculated as the difference between the asset's reported value and assessed future cash flow (current value is calculated for instruments classified as fixed assets). If there are observable market prices for the instrument, the impairment calculation is based on this fair value. In connection with the test an assessment is also made if events have occurred, and objective evidence is available, which mean that a previously carried out impairment shall be returned fully or partly.

## 2.11 INVENTORIES

Inventories are reported on the closing date at the lower of acquisition value and net realizable value. The acquisition value is determined using a method mainly based on weighted average prices. The acquisition value of finished products and work in progress consists of raw materials, direct payroll expenses, other direct costs and attributable indirect manufacturing costs (based on normal manufacturing capacity). Borrowing costs are not included; there are no inventories for which IAS 23 is applicable. The net realizable value is the estimated selling price based on continuing operations, less applicable variable selling costs.

## 2.12 EMPLOYEE BENEFITS

### Pensions

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

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 liability that arises is adjusted for reported actuarial profit and loss, and for unreported costs for service in previous years. In the consolidated balance sheet, the pension commitments for the funded plans are reported net, after a deduction for the fund assets for the plan. In cases where a net asset arises, this is reported as a financial interest-bearing receivable. The entire commitment is carried as a liability and included in the calculation of net debt.

The Group's payments for defined-contribution pension plans are reported as a staff cost during the period when the employee performed the services to which the contributions pertain. For defined-contribution plans, the interest effect and return on plan assets attributable to the plan are reported in net financial items, while other costs are included in operating profit.

### Remuneration for redundancy

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

### Other remuneration & bonus plans

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

## 2.13 PROVISIONS

Provisions are reported when the Group has an existing legal or informal obligation as a result of the occurrence of an event for which it is probable that an outflow of resources will be required to settle the obligation and for which the amount can be reasonably estimated. Provisions for restructuring are primarily reported for severance pay and other costs affecting cash flow that arise in connection with restructuring of the Group's activities.

## 2.14 DERIVATIVE FINANCIAL INSTRUMENTS & HEDGE MEASURES

Derivative instruments are reported in the balance sheet on the contract date and are assessed at fair value, both initially and upon ensuing assessments. The method for reporting the profit and loss that arises at re-assessment depends on whether the derivative is identified as a hedge instrument, and – if such is the case – the character of the hedge item. The Group uses the following hedge instruments:

- Cash flow hedges in the form of interest swaps and electricity forward contracts, in order to hedge interest rates, currencies and electricity prices. For further details see section 3, Risk Management.

When the transactions take place, the Group documents the relationship between the hedge instrument and the hedged item, as well as the Group's targets for risk management and the strategy for the hedge. The Group also documents its assessment of the efficiency of the hedge instrument, both when entering the hedge and continually during the duration of the hedge. Changes in the hedge reserve in shareholders' equity are presented in the equity table. All of the fair value of the derivative used as the hedge instrument is classified as a fixed asset or long-term liability when the hedged item's remaining maturity is greater than 12 months, and as a current asset or short-term liability when the hedged item's remaining maturity is less than 12 months.

### Cash flow hedging

The effective part of the change in fair value of a derivative instrument that is identified as cash flow hedging and that meets the conditions for hedge accounting, is reported in comprehensive income. At the end of the year this effect amounted to SEK -21 (-7) m with a maturity within 12 months. This amount is divided between SEK -4 (-28) m in interest swaps, SEK -16 (21) m in electricity forward contracts. The profit or loss attributable to the ineffective part is reported immediately in the income statement. Accumulated amounts in shareholders' equity are returned to the income statement in the periods when the hedged item affects earnings (e.g. when the forecast event that is hedged takes place). The profit or loss attributable to the effective part of the interest swap that hedges loans with variable interest is reported in net financial items in the income statement.

When a hedge instrument falls due, is sold or when the hedge no longer meets the criteria for hedge accounting and accumulated profits or losses relating to the hedge are in equity, the profits/losses remain in equity and are capitalized at the same time that the forecast transactions are finally reported in the income statement. When a forecast transaction is no longer expected to occur, the accumulated profit or loss reported in equity is transferred immediately to the income statement.

### Hedging of net investments

Hedging of net investments in foreign businesses is reported in a similar way to cash flow hedging. The share of profit or loss in a hedge instrument assessed as an efficient hedge is reported in other comprehensive income. The profit or loss attributable to the ineffective part is reported immediately in the income statement. Since the equity hedge seized to exist during 2010 the accumulated currency results for translating these sums amounted to SEK -2 (-2) m at the end of 2011.

### Derivatives assessed at fair value via the income statement; currency swaps

Changes in fair value for currency swaps are reported immediately in net financial items in the income statement. The primary purpose of currency swap contracts is to hedge the treasury's currency risk exposure in different currencies. The contracts have therefore been classified in different portfolios depending on which category of currency exposure will be hedged. In general, the categories cover the treasury's intra-Group borrowings and loans in different currencies with determined maturities as well as the daily borrowings and loans in currency accounts at various banks. The maturities vary, up to three months. Currency accounts are hedged with one-month maturities.

## 2.15 NEW & AMENDED IFRS STANDARDS & IFRIC INTERPRETATIONS

New standards, amendments and interpretations of existing standards that have not yet come into effect and which were not implemented in advance by the Group:

**IAS 19 "Employee benefits"** was amended in June 2011. The amendment means that the Group will stop using the corridor method and will instead report all actuarial profit and loss in other comprehensive income as it arises. Costs for service in previous years will be reported immediately. Interest costs and expected return on plan assets will be replaced with net interest calculated using the discount rate, and based on the net surplus or net deficit in the defined-benefit plan. The Group intends to apply the changed standard for the financial year starting January 1, 2013 and has not yet assessed the effects.

**IFRS 9 "Financial instruments"** concerns classification, assessment and reporting of financial liabilities and assets. IFRS 9 was published in November 2009 for financial assets and in October 2010 for financial liabilities, and replaces the sections of IAS 39 relating to the classification and assessment of financial instruments. IFRS 9 states that financial assets shall be classified in two different categories; assessment at fair value or assessment at accrued acquisition value. Classification is established at the first reporting opportunity based on the company's business model and the characteristic properties of agreed cash flows. For financial liabilities there are no major changes compared with IAS 39. The largest change concerns liabilities identified at fair value. For these liabilities, the part of the change in fair value attributable to the company's own credit risk shall be reported in other comprehensive income instead of income unless this causes an accounting mismatch. At the latest, the Group intends to apply the new standard for the financial year starting January 1, 2015 and has not yet assessed the effects.

**IFRS 10 "Consolidated financial statements"** is based on already existing principles as it identifies control as the determining factor for establishing whether a business shall be included in the consolidated accounts. The standard provides further guidance when establishing the existence of control when this is hard to assess. The Group intends to apply IFRS 10 for the financial year starting January 1, 2013 and has not yet assessed the full effect on the financial reports.

**IFRS 12 "Disclosures of interests in other entities"** covers disclosure requirements for subsidiaries, joint ventures, associated companies and structured entities that have not been consolidated. The Group has not yet assessed the full effect of IFRS 12 on financial reporting. The Group intends to apply IFRS 12 for the financial year starting January 1, 2012 and has not yet assessed the full effects on the financial reports.

**IFRS 13 "Fair value measurement".** The intention is that assessment of fair value shall be more consistent and less complicated by providing a more precise definition and joint source in IFRS for assessments of fair value and associated disclosures. The requirements does not extend the application areas for application of fair value but provides guidance for how it should be used where other IFRS already require or permit assessments of fair value. The Group has not yet assessed the full effects of IFRS 13 on the financial reports but intends to apply the new standard for the financial year starting January 1, 2013.

None of the other IFRS or IFRIC interpretations not yet in force are expected to have any significant effect on the Group.

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

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

# NOTE 3. RISK MANAGEMENT

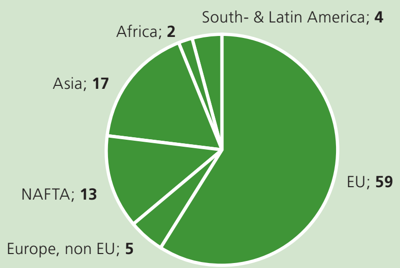
## 3.1 FINANCIAL RISK FACTORS

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.

### Currency risk

The currency risk is the risk that the Group's earnings and net assets will be adversely affected by fluctuations in exchange rates. The Group has considerable flows, earnings and assets in foreign currency, primarily in EUR and USD. As the accompanying diagram shows, a major proportion of sales is made in Europe, of which only 10% in Sweden. In principle, all invoicing is in EUR or USD, which is also the case for purchases of raw materials. However, a large portion of costs is in SEK, as a result of one third of the Group's employees being based at plants in Sweden.

### NET SALES PER GEOGRAPHIC MARKET, %




The predicted transaction and consolidation exposure was not hedged at the end of 2011.

The Group handles some of its exposure by borrowing in USD and EUR. This means that net inward flows of EUR and USD are reduced, as a result of interest payments.

### EXPOSURE PER CURRENCY, FORECAST FOR 2012 1)

| | Net sales | Operating costs | EBITDA | Financial payments | Net | Translated to SEK m2) |
|---|---|---|---|---|---|---|
| USD | 683 | –527 | 156 | –24 | 132 | 860 |
| EUR | 1,000 | –775 | 225 | –14 | 211 | 1,906 |
| GBP | 35 | –40 | –5 | | –5 | –52 |
| **Total** | | | | | | **2,714** |

1) excluding discontinued operations
2) rate on closing day

At the end of 2011 there was positive exposure in SEK concerning net assets per currency. This is because a large part of the intangible assets that existed when PAI partners acquired Perstorp was in SEK and in GBP due to the acquisition of the caprolactones business not being financed through loans in GBP, see below. Exposure of net assets in EUR and USD are correspondingly negative because the Group has raised loans in both those currencies to a greater extent than that which corresponds to assets.

### Net assets per currency, before & after loans in foreign currency

| SEK m | Net assets per currency, before loans in foreign currency | Loans in foreign currency, Swedish companies | Non-local currency loans in foreign companies | Exposed net assets |
|---|---|---|---|---|
| EUR | 246 | -3,615 | 986 | -2,383 |
| USD | –865 | – | -918 | -1,783 |
| GBP | 390 | – | 823 | 1,213 |
| SEK | 1,062 | 3,615 | -891 | 3,786 |
| Other currencies | 121 | – | – | 121 |
| **Total** | **954** | **0** | **0** | **954** |

### 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, DNB and HSH Nordbank, and second liens and mezzanine facilities that were syndicated to over 20 financiers in 2006. These loan agreements have terms of seven to eight years and stipulate financial covenants pertaining to the fulfillment of key indicators in terms of net debt in relation to EBITDA, and EBITDA in relation to interest payments. During the year new capital was added (SEK 38 m) from the Parent Company in Luxembourg, Financière Forêt S.à r.l., and additionally a shareholder loan conversion of SEK 1,338 m into equity took place. The shareholder loan carries a 10 percentage interest which is being capitalized.

| | Group | |
|---|---|---|
| | **Dec. 31, 2011** | **Dec. 31, 2010** |
| Senior loans | 6,964 | 7,253 |
| Second lien | 611 | 579 |
| Mezzanine loans | 2,598 | 2,385 |
| Revolver | 1 | 66 |
| Other financial liabilities, excluding loans from Parent Company | 267 | 277 |
| **Financial liabilities, excl. Parent Company loans & pension liabilities** | **10,441** | **10,560** |
| Interest-bearing pension liabilities, net | 379 | 380 |
| Loan from Parent Company | 870 | 2,018 |
| **Total interest-bearing liabilities** | **11,690** | **12,958** |
| Cash and cash equivalents | –453 | –395 |
| Other interest-bearing receivables, long and short-term | –12 | –30 |
| **Interest-bearing assets** | **–465** | **–425** |
| **Net debt including pension liabilities** | **11,225** | **12,533** |

### 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.

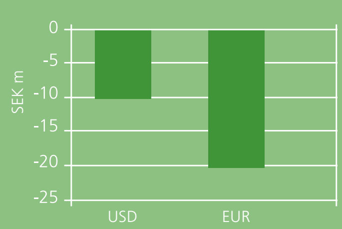
The table below shows the Group's financial liabilities and derivative instruments that constitute financial liabilities, distributed across the time remaining after the closing date up to the agreed due date. The amounts shown are agreed, undiscounted cash flows.

### LIABILITIES, INTEREST RATES & FINANCIAL INSTRUMENTS, PER DUE DATE

| As of 31 december 2012 | | 0–1 years | 1–2 years | 2–5 years | >5 years |
|---|---|---|---|---|---|
| **Bank loans** | Amortization | -942 | -9,457 | -19 | -23 |
| | Interest* | -428 | -149 | | |
| **Derivative instruments** | Interest swaps | -28 | | | |
| | Currency swaps | –5 | | | |
| **Accounts payable & other liabilities** | | -2,508 | | | |

*The numbers relate to the current financing situation, with loans falling due 2012 and 2013. A two-year extension of senior credits was agreed at the start of 2012.

### EFFECT ON EBITDA OF 1% STRONGER SEK



### 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 in accordance with the financial policy. On December 31, 2011, the average fixed-interest maturity was 159 days. The table below shows interest levels, fixed periods and sensitivity per currency. Sensitivity to interest rate changes is also shown in the diagram below. Interest hedges considerably reduced the interest rate risk, with a total of SEK -31 m per year for a 1% rise in interest, from a level of SEK -104 m if no hedges had been made.

| | Local currency | SEK m | Effective rate balance sheet date, % | Duration, days before interest hedging | Actual duration, days |
|---|---|---|---|---|---|
| SEK | 2,779 | 2,779 | 6.1 | 65 | 215 |
| EUR | 513 | 4,585 | 9.7 | 36 | 83 |
| USD | 434 | 3,007 | 4.2 | 46 | 221 |
| Other currencies | | 69 | 6.6 | 187 | 187 |
| **Total** * | | **10,441** | **7.2** | **47** | **159** |

* Financial liability excluding shareholder loans and pension debt.

### Counterparty risk/customer sensitivity

Counterparty risk relates to the credit risk that may arise when a counterparty cannot fulfil its commitments and thus causes a financial loss to the Group.

A Group-wide credit policy is applied within the Perstorp Group, which all Group companies are obliged to follow, the main purpose of which is to establish standard procedures in order to efficiently prevent credit losses, minimize customer losses and optimize capital maturities in ways beneficial for the Group. Among other things, the credit policy sets a framework for approving credit, who has responsibility and how deliveries may be approved in the event of a limit being exceeded or of a customer having credit that falls due for payment. Internal guidelines also include procedures for monitoring outstanding receivables before and after the maturity date depending on materiality and the individual customer's risk profile. In practice this is continually an intensive activity.

The Group's outstanding customer receivables on the closing date amounted to SEK 1,931 (1,969) m including assets held for sale. The amount is on the same level as 2010. The amounts reported are those that are expected to be repaid by customers based on an individual assessment of outstanding receivables and thereby including a reservation for expected/stated customer losses amounting to SEK 22 (21) m.

To highlight the credit quality of receivables that have either fallen due for payment or have been written down, a maturity analysis is presented below (see note 18 for a maturity analysis of all accounts receivable). The book value of accounts receivable is equal to the fair value since the effect of discounting is not considered to be material. It should also be noted that it is not uncommon for a receivables to be settled shortly after the due date, which affects the maturity interval by 1–10 days.

| **Time analysis on accounts receivables** | **Dec. 31, 2011** | **Dec. 31, 2010** |
|---|---|---|
| Accounts receivable neither due nor reserved | 1,754 | 1,871 |
| Accounts receivable due, but not reserved: | | |
| 1–10 days | 127 | 151 |
| 11–30 days | 42 | 37 |
| 31–60 days | 8 | 14 |
| 61–90 days | –2 | 3 |
| 91–180 days | –1 | 9 |
| 180 days or more | 3 | 7 |
| Accounts receivable linked to reservation | 22 | 53 |
| **Gross total** | **1,953** | **2,145** |
| Reservation | –22 | –21 |
| **Net total** | **1,931** | **2,124** |
| Assets held for sale | –522 | – |
| **Total** | **1,409** | **2,124** |

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

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

The segment with amounts due exceeding SEK 20 m refers to 4 (9) individual customers, the segment between SEK 10-20 m refers to 15 (20) individual customers. The category of customer owing the Group less than SEK 1 m on the closing date corresponds to around 81 (82)% of all counter parties.

On the closing date the Group had credit insurance, letters of credit or other pledged securities amounting to SEK 77 (108) m. Of these, SEK 1 (4) m is attributable to receivables that have fallen due for payment. Of receivables that have fallen due and which are associated with a limited credit risk due to pledged securities, SEK 0 (0) m are over 30 days due.

## 3.2 OPERATIONAL RISK FACTORS

### Access to raw materials

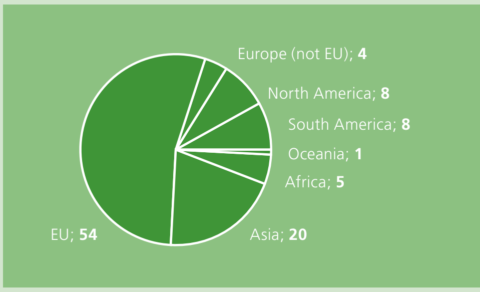
Most of the Group's raw materials (75-80%) are based on oil or natural gas. For production of biodiesel the most important raw material is rapeseed oil, while rock salt (NaCl) is a key material in the production of the chlorine and lye produced at Perstorp's plant in Pont-de-Claix in France. Many of the Group's products are both sold externally and further processed internally.

To safeguard supplies of raw materials and spread risks, the Group's purchasing policy requires that supplies of critical raw materials are made by several suppliers where possible. Supplies are secured through long-term delivery agreements. Perstorp operates on the global chemicals market with suppliers who meet the highest environmental and safety requirements, but as far as possible Perstorp aims to minimize transport by buying on local markets.

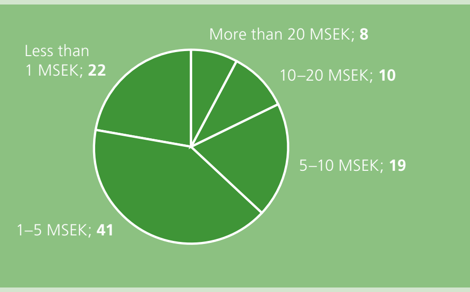
Supplies of raw materials to Perstorp's site in Stenungsund – the largest site in Sweden in terms of volumes – are primarily made via pipelines direct from nearby producers. This eliminates storage costs and minimizes freight costs although it does entail a risk of being closely tied to these suppliers. Perstorp manages this risk through a terminal agreement that gives Perstorp the right to use the supplier's infrastructure for raw materials supplied by other producers.

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

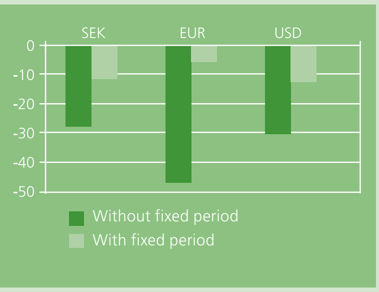
**A. CONCENTRATION RISK OF ACCOUNTS RECEIVABLE DIVIDED BY GEOGRAPHIC REGION, %**




**B. CONCENTRATION RISK OF ACCOUNTS RECEIVABLE BASED ON SIZE OF CUSTOMER , %**




**C. GROUP SENSITIVITY FOR 1% INCREASE IN INTEREST RATE**



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

On the electricity market there is the possibility to secure prices for longer periods. In accordance with Group policy, electricity usage in Sweden is hedged over the coming six months at a range of 80-100% of expected usage and thereafter – for a maximum of three years – on a falling scale. From the seventh quarter the range is 0-50%. At the end of 2011 the market assessment of future electricity contracts had a negative effect on shareholders' equity of SEK 16 (-21) m after tax.

### 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 case of unforeseen events, the Group has complete insurance coverage while also supporting work aimed at minimizing risks. Through a global insurance program involving different international insurance companies the Group can exploit its size for competitive advantages.

## 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 and different assumptions that are considered to be reasonable in current circumstances. Reported values may have another actual outcome if other assumptions are made or circumstances change. The following particular areas can be distinguished where estimates and judgments are of importance to the amounts entered in the accounts and differences can have a significant effect on the Group's earnings and financial position.

Impairment testing of goodwill and trademarks: In accordance with the accounting principle described in point 2.10, impairment testing is currently performed annually through analysis of individual assets'/cash-generating units' recovery value. A number of important estimates are made during this analysis, see note 7.

Valuation of tax-loss carry-forwards: The valuation of tax-loss carry-forwards is based on an assessment that it will be possible to utilize these carry-forwards in the foreseeable future. Assessments are based on, among other matters, an assumption about future business opportunities and earnings capability. The outcome is often dependent on tax rules that are current or likely to come into effect. Tax-loss carry-forwards have been assigned values in, primarily, the Group's companies in Singapore, Sweden and the UK. For booked values see Note 23.

Pension benefits: The current value of the Group's future pension commitments regarding defined-benefit pension plans is based on a number of assumptions in connection with the actuarial estimate. Changes in these assumptions may affect the reported value of the pension commitment. For further details, see chapter 2.12 and note 22.

Perstorp's financial accounts are based on the going-concern principle, which is also reflected in how any environmental liabilities are assessed. At the start of 2012 negotiations with the company's senior lenders were concluded concerning a two-year extension of the company's existing senior credits, see note 21. The Group's ongoing activities are also reflected in how any possible environmental damage is assessed. The Group complies with decisions by public authorities and conducts measures both proactively to prevent environmental impact and reactively in the event that environmental disturbances arise. 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

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. Therefore, there is not always a natural basis for dividing specialty chemicals business into different segments.

At present there is no formal requirement for companies whose stocks are not subject to general trading to follow IFRS/IAS. This factor, together with the lack of a natural basis for dividing segments in accordance with IFRS 8, means that the Group has chosen to exclude this information.

Sales per geographical market are presented in Note 3, Risk Management.

Operating capital per currency was as follows:

### Operating capital per currency at end of 2011

| SEK m | Working capital | Tangible fixed assets | Intangible fixed assets | Shares in assoc. companies | Total operating capital |
|---|---|---|---|---|---|
| SEK | –64 | 2,704 | 4,292 | 41 | 7,101 |
| EUR | 701 | 1,635 | 1,105 | – | 3,442 |
| USD | 653 | 258 | 582 | – | 1,493 |
| GBP | 100 | 784 | 538 | – | 1,422 |
| INR | –71 | 49 | 0 | – | –22 |
| CNY | –14 | 79 | 53 | – | 118 |
| Other currencies | 48 | 2 | 0 | 3 | 52 |
| **Total** | **1,481** | **5,511** | **6,570** | **44** | **13,606** |

## NOTE 6. TANGIBLE FIXED ASSETS [1)]

| Group | Land | | Buildings, land improvements | | Plant & machinery | | Equipment, tools, fixtures & fittings | | Work in progress incl. advance payments [3)] | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| SEK m | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 |
| Acquisition value | | | | | | | | | | | | |
| Opening balance | 195 | 214 | 1,033 | 1,098 | 7,080 | 6,942 | 279 | 296 | 654 | 470 | 9,241 | 9,020 |
| Investments [2)] | 1 | – | 2 | 2 | 36 | 347 | 6 | 2 | 468 | 419 | 513 | 770 |
| Divestments and disposals | – | – | –12 | – | –86 | –11 | –4 | –5 | –2 | – | –104 | –16 |
| Reclassifications | – | –1 | 2 | –8 | 556 | 238 | 11 | 14 | –644 | –191 | –75 | 52 |
| Translation effects | –3 | –18 | 6 | –59 | 106 | –436 | 9 | –28 | –6 | –44 | 112 | –585 |
| Assets held for sale | –2 | – | –156 | – | –1,686 | – | –1 | – | –253 | – | –2,098 | – |
| **Closing balance** | **191** | **195** | **876** | **1,033** | **6,006** | **7,080** | **300** | **279** | **217** | **654** | **7,589** | **9,241** |
| Accumulated depreciation according to plan | | | | | | | | | | | | |
| Opening balance | 0 | –1 | –251 | –214 | -2,117 | –1,611 | –149 | –133 | 0 | 0 | –2,517 | –1,959 |
| Depreciation | – | – | –61 | –54 | –566 | –612 | –30 | –38 | – | – | –657 | –704 |
| Divestments and disposals | – | – | 2 | 2 | 40 | 9 | 4 | 5 | – | – | 46 | 16 |
| Reclassifications | – | 1 | –4 | – | 62 | –50 | – | – | – | – | 58 | –49 |
| Translation effects | – | – | –5 | 15 | –93 | 147 | –9 | 17 | – | – | –108 | 179 |
| Assets held for sale | – | – | 46 | – | 537 | – | 1 | – | – | – | 584 | – |
| **Closing balance** | **0** | **0** | **–273** | **–251** | **–2,137** | **–2,117** | **–183** | **–149** | 0 | 0 | **–2,594** | **–2,517** |
| Write-downs | | | | | | | | | | | | |
| Opening balance | –6 | –6 | –19 | –18 | –384 | –287 | –7 | –7 | –3 | –1 | –419 | –319 |
| Reversal of previous year | – | – | 1 | – | – | – | – | – | – | – | 1 | – |
| Write-downs during the year | – | – | – 5 | –3 | –567 | –119 | –1 | – | –11 | –2 | –584 | –124 |
| Divestments and disposals | – | – | – | 1 | – | 1 | – | – | – | – | 0 | 2 |
| Reclassifications | – | – | – | – | 5 | –1 | – | – | – | – | 5 | –1 |
| Translation effects | 1 | – | 1 | 1 | –4 | 22 | –1 | – | 1 | – | –1 | 23 |
| Assets held for sale | – | – | – | – | 352 | – | – | – | – | – | 352 | 0 |
| **Closing balance** | **–5** | **–6** | **–22** | **–19** | **–598** | **–384** | **–9** | **–7** | **–13** | **–3** | **–647** | **–419** |
| **Closing book value** | **186** | **189** | **580** | **763** | **3,271** | **4,579** | **108** | **123** | **204** | **651** | **4,349** | **6,305** |

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

2) No borrowing costs due to investments have been capitalized during 2011 and 2010.

3) Work in progress mainly refers to investment in the company's business in France.

Depreciation amounting to SEK 635 (662) m is included in cost of goods sold, SEK 2 (9) m in selling costs, SEK 16 (26) m in R&D costs and SEK 4 (7) m in administrative costs. This amount includes leasing costs amounting to SEK 15 (9) m, mainly pertaining to intangible assets (ERP system) in Coating Additives.

Impairment and the result effects of scrapping are included in Other operating expenses.

Buildings and land with a value of SEK 2,468 (2,447) m are used as collateral for bank loans.

## NOTE 7. INTANGIBLE FIXED ASSETS

| Group | Goodwill | | Trademarks | | Patents, licenses & similar rights | | Know–how | | Customer relations | | Development costs | | Reach | | Other 1) | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| SEK m | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 |
| Acquisition value | | | | | | | | | | | | | | | | | | |
| Opening balance | 2,565 | 2,789 | 1,499 | 1,618 | 663 | 730 | 1,289 | 1,405 | 1,620 | 1,766 | 75 | 62 | 27 | 8 | 273 | 300 | 8,011 | 8,678 |
| Investments 2) | 22 | 34 | – | – | – | – | 6 | – | 29 | – | 17 | 11 | – | 19 | 21 | 9 | 95 | 73 |
| Divestments and disposals | – | –2 | – | – | – | – | – | –1 | – | – | – | – | – | – | – | – | – | –3 |
| Reclassifications | – | – | – | – | – | – | – | – | – | – | – | 10 | – | – | –11 | –12 | –11 | –2 |
| Translation effects | 8 | –256 | – | –119 | –3 | –67 | 1 | –115 | 8 | –146 | – | –8 | 1 | – | 6 | –24 | 21 | –735 |
| Assets held for sale | –26 | – | –38 | – | –416 | – | –27 | – | –83 | – | –82 | – | – | – | –9 | – | –681 | – |
| **Closing balance** | **2,569** | **2,565** | **1,461** | **1,499** | **244** | **663** | **1,269** | **1,289** | **1,574** | **1,620** | **10** | **75** | **28** | **27** | **280** | **273** | **7,435** | **8,011** |
| Accumulated depreciation according to plan | | | | | | | | | | | | | | | | | | |
| Opening balance | 0 | 0 | –32 | –23 | –106 | –80 | –235 | –210 | –488 | –413 | –23 | –5 | 0 | 0 | –125 | –87 | –1,009 | –818 |
| Depreciation | – | – | –9 | –10 | –49 | –35 | –43 | –45 | –86 | –114 | –21 | –18 | –1 | – | –39 | –42 | –248 | –264 |
| Reclassifications | – | – | – | – | –1 | – | – | – | – | – | – | – | – | – | 6 | – | 5 | – |
| Translation effects | – | – | – | 1 | – | 9 | –1 | 20 | –2 | 39 | 1 | – | – | – | –3 | 4 | –5 | 73 |
| Assets held for sale | – | – | – | – | 92 | – | 6 | – | 42 | – | 34 | – | – | – | – | – | 174 | – |
| **Closing balance** | **0** | **0** | **–41** | **–32** | **–64** | **–106** | **–273** | **–235** | **–534** | **–488** | **–9** | **–23** | **–1** | **–** | **–161** | **–125** | **–1,083** | **–1,009** |
| Write–downs | | | | | | | | | | | | | | | | | | |
| Opening balance | –3 | –3 | 0 | 0 | –123 | –16 | –6 | –6 | –120 | 0 | 0 | 0 | 0 | 0 | –6 | –6 | –258 | –31 |
| Write–downs during the year | –14 | –2 | – | – | –13 | –115 | –4 | – | – | –120 | – | – | – | – | – | – | –31 | –237 |
| Divestments and disposals | – | 2 | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | 2 |
| Translation effects | – | – | – | – | – | 8 | – | – | – | – | – | – | – | – | – | – | – | 8 |
| Assets held for sale | 14 | | – | – | 96 | – | – | – | – | – | – | – | – | – | – | – | 110 | 0 |
| **Closing balance** | **–3** | **–3** | **0** | **0** | **–40** | **–123** | **–10** | **–6** | **–120** | **–120** | **0** | **0** | **0** | **0** | **–6** | **–6** | **–179** | **–258** |
| **Closing book value** | **2,566** | **2,562** | **1,420** | **1,467** | **140** | **434** | **986** | **1,048** | **920** | **1,012** | **1** | **52** | **27** | **27** | **113** | **142** | **6,173** | **6,744** |

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

2) Please see Note 35 for further information.

Depreciation costs of SEK 58 (85) m are included in costs of sold goods, SEK 131 (166) m in sales costs, SEK 38 (0) m in R&D and SEK 21 (13) m in administrative costs.

Impairment is included in the Other operating costs item.

Know-how and customer relations are depreciated linearly. The remaining average life length is 23 (24) and 11 (12) years respectively. Non-compete agreements acquired in 2008 are depreciated linearly over 6 years. For further details concerning accounting principles for intangible assets, see note 2.6.

The bank loans are secured by patents at a value of EUR 47 (47) m.

**Impairment testing**
The cash-generating units comprise Specialty Chemicals, Formox, Caprolactones, PIA and Coating Additives.

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%. The discount interest rate amounts to 10.5% after tax.

This resulted in impairment during the year amounting to SEK 767 (360) m for goodwill and tangible fixed assets including discontinued operations.

**Assets not depreciated – goodwill & trademarks from acquisition**
Goodwill and the trademarks assigned a value in connection with the acquisition allocation following the acquisition of the Group at the end of 2005 (Perstorp and Formox) have been adjudged to have an unlimited life. Goodwill and trademarks for the acquired caprolactones business and Coating Additives were added in 2008. A summary of the allocation per cash-generating unit, for goodwill and trademarks, is presented below.

| SEK m | Goodwill | Trademarks | Total |
|---|---|---|---|
| Specialty Chemicals | 2,046 | 1,179 | 3,225 |
| Formox | 241 | 97 | 338 |
| Caprolactones business | 280 | 144 | 424 |
| PIA | – | – | – |
| **Continuing operations** | **2,566** | **1,420** | **3,986** |
| Assets held for sale | 12 | 38 | 50 |
| **Total** | **2,578** | **1,458** | **4,036** |

### Parent company

| | Other 1) | |
|---|---|---|
| | 2011 | 2010 |
| Acquisition value | | |
| Opening balance | – | – |
| Acquisitions | 1 | – |
| **Closing balance** | **1** | **–** |

1) Other intangible assets consist of advance payment of intangible assets.

## NOTE 8. LEASING

The operational leasing agreements that exist are attributable to activities in Singapore.

Future payment commitments for these contracts are as follows:

Operational leasing agreements

| | Group | |
|---|---|---|
| **Future minimum leasing fees** | **2011** | **2010** |
| Due: | | |
| Year 1 | 56 | 32 |
| Year 2–5 | 128 | 68 |
| Year 6– | 43 | 32 |
| **Total** | **227** | **132** |

| **Operational leasing costs during the period** | **2011** | **2010** |
|---|---|---|
| Minimum leasing fees | 62 | 27 |
| Variable charges | 4 | 35 |
| **Total** | **66** | **62** |

## NOTE 9. NET SALES

| SEK m | Group | |
|---|---|---|
| **Net sales by type of income** | **2011** | **2010** |
| Goods | 11,118 | 10,443 |
| Services | 41 | 41 |
| Contracts (reported according to level of completion) | 138 | 116 |
| **Continuing operations** | **11,297** | **10,600** |
| Discontinued operations | 3,902 | 3,961 |
| **Total** | **15,199** | **14,561** |

| | Group | |
|---|---|---|
| **Net sales by geographic region** | **2011** | **2010** |
| EU and rest of Europe | 7,018 | 6,667 |
| North and South America | 1,881 | 1,650 |
| Asia | 2,105 | 2,002 |
| Africa | 234 | 226 |
| Oceania | 59 | 55 |
| **Continuing operations** | **11,297** | **10,600** |
| Discontinued operations | 3,902 | 3,961 |
| **Total** | **15,199** | **14,561** |

The Parent Company did not report any net external sales in 2011 or 2010.

## NOTE 10. BREAKDOWN OF COSTS

| SEK m | Group | |
|---|---|---|
| **Costs divided by type** | **2011** | **2010** |
| Raw materials, goods for sale, energy, transport and packaging costs | –8,039 | –7,168 |
| Other external costs | –701 | –699 |
| Employee benefits (note 26), excl. restructuring costs | –1,073 | –1,036 |
| Depreciation (note 6, 7) | –643 | –709 |
| Other operating income & expenses (note 11) | –255 | –366 |
| Earnings from participations in associated companies | –2 | –3 |
| **Continuing operations** | **–10,713** | **–9,981** |
| Discontinued operations | –4,663 | –4,259 |
| **Total** | **–15,376** | **–14,240** |

## NOTE 11. OTHER OPERATING INCOME & COSTS

| | Group | | Parent Company | |
|---|---|---|---|---|
| SEK m | **2011** | **2010** | **2011** | **2010** |
| Insurance remuneration | 4 | 0 | 0 | 0 |
| Operations-related exchange-rate differences | –3 | –88 | 0 | 0 |
| Restructuring costs | 59 | –82 | – | –10 |
| Write-downs, disposal (note 6, 7) | –289 | –254 | – | – |
| Other | –26 | 58 | –26 | – |
| **Continuing operations** | **–255** | **–366** | **–26** | **–10** |
| Discontinued operations | –474 | –91 | – | – |
| **Total** | **–729** | **–457** | **–26** | **–10** |

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

| SEK m | 2011 | 2010 |
|---|---|---|
| PetroPort Holding AB, Sweden | 0 | 0 |
| Koei-Perstorp Company Ltd, Japan | 0 | 0 |
| Polygiene AB, Sweden | –2 | –3 |
| **Total** | **–2** | **–3** |

The companies' sales amounted to a total of SEK 419 (459) m in 2011 and the loss after tax was SEK –5 (–8) m.

## NOTE 13. PARTICIPATIONS IN ASSOCIATED COMPANIES & JOINT VENTURES

| | Share of capital/ voting rights, % | Group's share of shareholders' equity | Book value, Group |
|---|---|---|---|
| PetroPort Holding AB, Sweden | 50/50 | 43 | 43 |
| Koei-Perstorp Company Ltd, Japan | 40/40 | 3 | 1 |
| Polygiene AB, Sweden | 35/35 | 0 | 0 |
| **Total** | | **46** | **44** |

| | 2011 | 2010 |
|---|---|---|
| Opening book value | 1 | 20 |
| Earnings from participations | –2 | –3 |
| Acquisition of/new share issue in associated companies | 44 | 2 |
| Divestment of associated company | – | –19 |
| Translation difference | 1 | 1 |
| **Closing book value** | **44** | **1** |

The assets of associated companies amounted to SEK 437 (271) m at the end of 2011 and liabilities amounted to SEK 343 (263) m.

## NOTE 14. NON CONTROLLING INTERESTS´ SHARE IN NET PROFIT/LOSS FOR THE YEAR

| SEK m | 2011 | 2010 |
|---|---|---|
| Shandong Fufeng Perstorp Chemicals Co. Ltd, China | 2 | 3 |
| **Total** | **2** | **3** |

## NOTE 15. NON CONTROLLING INTERESTS

| SEK m | Book value Dec. 31, 2011 | Book value Dec. 31, 2010 |
|---|---|---|
| Shandong Fufeng Perstorp Chemicals Co., Ltd, China | 24 | 20 |
| **Total** | **24** | **20** |

| SEK m | 2011 | 2010 |
|---|---|---|
| Opening book value | 20 | 18 |
| Translation effects | 2 | –1 |
| Change in the period | 2 | 3 |
| **Closing book value** | **24** | **20** |

In 2007 Perstorp entered a joint venture in China and the agreement now gives the Group an ownership share of 68.3 (68.3) % of Shandong Fufeng Perstorp Chemicals Co., Ltd.

## NOTE 16. OTHER LONG-TERM RECEIVABLES

| | Group | |
|---|---|---|
| SEK m | **Dec 31, 2011** | **Dec. 31, 2010** |
| **Interest-bearing long-term receivables** | | |
| Other receivables | 1 | 2 |
| **Total** | **1** | **2** |
| **Interest-free long-term receivables** | | |
| Market value of electricity hedge contracts | 0 | 7 |
| Other receivables | 34 | 24 |
| **Total** | **34** | **31** |

## NOTE 17. PARENT COMPANY SHARES IN GROUP COMPANIES

| Direct holdings in Group companies | Corp. Reg. number | Registered head office | 2011 Holding, % | 2010 Holding, % | 2011 Book value | 2010 Book value |
|---|---|---|---|---|---|---|
| **Perstorp AB** | **556024-6513** | **Perstorp, Sweden** | **100** | **100** | **7,203** | **7,203** |
| Perstorp Quimica do Brasil Ltda | NIRE 35.218.522.982 | Brazil | | | | |
| Perstorp SA [1] | RUT 76.448.840-7 | Chile | | | | |
| Perstorp OY [2] | 1882513-1 | Finland | | | | |
| Perstorp Sales France | 442650768 R.C.S. Nanterre | France | | | | |
| Perstorp SpA | 171 467 | Italy | | | | |
| Perstorp Japan Co Ltd | 0199-01-053962 | Japan | | | | |
| Perstorp (Beijing) International Trading Co. Ltd | 11000041 028488 | China | | | | |
| Perstorp (Shanghai) Chemical Trading Co.,Ltd | 310000400587711 | China | | | | |
| Shandong Fufeng Perstorp Chemical Co. Ltd | 782323786 | China | | | | |
| Perstorp Chemicals Asia PTE Ltd | 199905508W | Singapore | | | | |
| Perstorp Iberica SL [3] | B65592503 | Spain | | | | |
| Perstorp UK Ltd | 02715398 | UK | | | | |
| AB Klosters Fabriker | 556005-3489 | Sweden | | | | |
| Formox AB | 556760-4235 | Sweden | | | | |
| Perstorp BioProducts AB | 556728-5779 | Sweden | | | | |
| Perstorp Butenderivat AB | 556762-4563 | Sweden | | | | |
| Perstorp Fastighets AB | 556571-3798 | Sweden | | | | |
| Perstorp Oxo AB | 556041-0895 | Sweden | | | | |
| Perstorp Oxo Belgium AB | 556579-4244 | Sweden | | | | |
| Perstorp Specialty Chemicals AB | 556247-6290 | Sweden | | | | |
| Perstorp Holding (U.S.) Inc. | 26-3020217, Delaware | USA | | | | |
| Perstorp Coatings Inc. | 26-3020193, Delaware | USA | | | | |
| Perstorp Polyols Inc. | 34-1386676, Delaware | USA | | | | |
| **Perstorp Holding GmbH** | **HRB 7465, Arnsberg** | **Arnsberg, Germany** | **100** | **100** | **307** | **307** |
| Perstorp Chemicals GmbH | HRB 1900, Arnsberg | Germany | | | | |
| Perstorp Service GmbH | HRB 6542, Arnsberg | Germany | | | | |
| **Perstorp Holding B.V.** | **34089250** | **s-Hertogenbosch, Netherlands** | **100** | **100** | **220** | **272** |
| Perstorp Specialty Chemicals BV | 23091252 | Netherlands | | | | |
| Perstorp Specialty Chemicals Holding BV | 23092336 | Netherlands | | | | |
| Perstorp Waspik BV | 18116759 | Netherlands | | | | |
| Perstorp Chemicals India Private Ltd | 04-32032 | India | | | | |
| Franklin Feed Additives SA | A62968368 | Spain | | | | |
| Perstorp Chemicals Korea Co. Ltd | 230111-0095660 | South Korea | | | | |
| **Perstorp Holding Singapore PTE Ltd** | **200719657R** | **Singapore** | **100** | **100** | **0** | **0** |
| Perstorp Singapore PTE Ltd | 199607827W | Singapore | | | | |
| PLS Holding PTE Ltd | 200717627E | Singapore | | | | |
| **Perstorp Holding France SAS** | **504867300 R.C.S. Lyon** | **Lyon, France** | **100** | **100** | **78** | **0** |
| Chloralp | 411129612 R.C.S. Grenoble | France | | | | |
| Perstorp TDI France SAS | 504868183 R.C.S. Lyon | France | | | | |
| Perstorp France | 444187884 R.C.S. Paris | France | | | | |
| Pernovo-Perstorp New Business Development AB [4] | 556016-0946 | Sweden | 100 | 100 | – | 1 |
| **Total book value in Parent Company** | | | | | **7,808** | **7,783** |

[1] This company is being liquidated.
[2] On September 19, 2011 the company reached a decision to apply for voluntary liquidation. This application was registered with the authorities on September 28, 2011.
[3] New company formed in 2011.
[4] The company was merged to become Perstorp Holding AB in 2011.

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

| SEK m | 2011 | 2010 |
|---|---|---|
| Opening book value | 7,783 | 7,878 |
| New issue of shares in Group companies | 1,661 | 393 |
| Merger of Group company | –1 | – |
| Write-down | –1,635 | -488 |
| **Closing book value** | **7,808** | **7,783** |

## NOTE 18. ACCOUNTS RECEIVABLE & OTHER OPERATING RECEIVABLES

| | Group | |
|---|---|---|
| SEK m | Dec. 31, 2011 | Dec. 31, 2010 |
| Accounts receivable, gross | 1,420 | 2,145 |
| Bad debt provision | –11 | –21 |
| **Accounts receivable, net** | **1,409** | **2,124** |
| Other operating receivables | | |
| Value added tax | 80 | 174 |
| Emissions credits | 43 | 66 |
| Receivables from suppliers | 8 | 8 |
| Market value of electricity hedge contracts | 0 | 23 |
| Other current receivables | 22 | 36 |
| Deferred income, Formox project (see table below) | 9 | 2 |
| Prepaid insurance premiums | 14 | 3 |
| Other prepaid costs and deferred income | 23 | 76 |
| **Total other operating receivables** | **199** | **388** |

The Parent Company had other operating receivables totalling SEK 18 (35) m, and accounts receivable amounting to SEK 0 (1) m.

| Deferred income, Formox project | Dec. 31, 2011 | Dec. 31, 2010 |
|---|---|---|
| Deferred costs plus profit mark-up | 92 | 43 |
| Advance payments from customers | –83 | –41 |
| **Total deferred income Formox project** | **9** | **2** |

| Analysis of accounts receivable | Dec. 31, 2011 | Dec. 31, 2010 |
|---|---|---|
| Not due | 1,264 | 1,871 |
| Due: | | |
| 1–10 days | 112 | 170 |
| 11–30 days | 32 | 48 |
| 31–60 days | 7 | 22 |
| 61–90 days | –2 | 12 |
| 91–180 days | –2 | 18 |
| 181 days or more | 9 | 4 |
| **Accounts receivable, gross** | **1,420** | **2,145** |
| Reservation for bad debts | –11 | –21 |
| **Accounts receivable, net** | **1,409** | **2,124** |
| Proportion of accounts receivable due | 11.0% | 12.8 % |
| Proportion of accounts due over 60 days | 0.4% | 1.6 % |
| Reservation in relation to total accounts receivable | 0.8% | 1.0 % |

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

| Allocation for bad debts | 2011 | 2010 |
|---|---|---|
| Allocation, opening balance | –21 | –34 |
| Recovered predicted customer losses | 1 | 4 |
| Established customer losses | 3 | 24 |
| Reservation for predicted customer losses | –5 | –13 |
| Assets held for sale | 11 | – |
| Exchange rate effects and other | 0 | –2 |
| **Allocations at year-end** | **–11** | **–21** |

## NOTE 19. CASH & CASH EQUIVALENTS

| | Group | | Parent Company | |
|---|---|---|---|---|
| SEK m | Dec. 31, 2011 | Dec. 31, 2010 | Dec. 31, 2011 | Dec. 31, 2010 |
| Deposit account | 52 | 85 | 46 | 77 |
| Overdraft facility | 401 | 310 | 266 | 36 |
| Cash | 0 | 0 | – | – |
| **Total** | **453** | **395** | **312** | **113** |

## NOTE 20. INVENTORIES

| | Group | |
|---|---|---|
| SEK m | Dec. 31, 2011 | Dec. 31, 2010 |
| Raw material and consumables | 353 | 469 |
| Products in progress | 20 | 27 |
| Finished goods and goods for resale | 801 | 1,055 |
| Work in progress on behalf of others | 0 | –3 |
| Advance payment to suppliers | 24 | 9 |
| Impairment reserve | –13 | –46 |
| **Total** | **1,185** | **1,511** |

| | 2011 | 2010 |
|---|---|---|
| Impairment reserve, opening balance | 46 | 52 |
| Provision utilized during the year | –2 | –2 |
| Allocation for the year | 3 | 2 |
| Translation effects | –1 | –6 |
| Asset held for sales | –32 | – |
| **Impairment reserve, closing balance** | **14** | **46** |

Of the total value of inventories, SEK 84 (11) m is assessed at net sales value. During the assessment of net sales price, impairment that affects earnings has arisen (Cost of sold goods) amounting to SEK 10 (0) m. The net value of the year's allocations/provisions utilized during the year affects earnings for the year.

## NOTE 21. BORROWINGS & FINANCIAL COSTS

### A. Specification net debt

| | Group | | Parent Company | |
|---|---|---|---|---|
| SEK m | Dec. 31, 2011 | Dec. 31, 2010 | Dec. 31, 2011 | Dec. 31, 2010 |
| Senior loans | 6,964 | 7,253 | 1,548 | 1,795 |
| Second lien | 611 | 579 | 611 | 579 |
| Mezzanine loans | 2,598 | 2,385 | 2,598 | 2,744 |
| Revolver | 1 | 66 | 1 | 66 |
| Inter-company financial liabilities | – | – | 3,419 | 2,958 |
| Other financial liabilities, excluding loans from Parent Company [1] | 267 | 277 | 100 | 18 |
| **Financial liabilities, excl. shareholder loans and pension liabilities** | **10,441** | **10,560** | **8,277** | **8,160** |
| Interest-bearing pension liabilities, net | 379 | 380 | – | – |
| Loan from Parent Company | 870 | 2,018 | 870 | 2,018 |
| **Total interest-bearing debt** | **11,690** | **12,958** | **9,147** | **10,178** |
| Cash and cash equivalents | –453 | –395 | –312 | –113 |
| Inter-company financial receivables | – | – | –3,540 | –4,454 |
| Other interest-bearing receivables, long and short-term | –12 | –30 | –9 | –8 |
| **Interest-bearing assets** | **–465** | **–425** | **–3,861** | **–4,575** |
| **Net debt including pension liabilities** | **11,225** | **12,533** | **5,286** | **5,603** |

[1] Of which, long-term leasing liabilities for SEK 8 (23) m and short-term leasing liabilities for SEK 19 (3) m.

The Net debt includes secured loans (bank loans and other borrowing against collateral) of SEK 2,468 (2,447) m pertaining to buildings and land, SEK 411 (423) m relating to patents and SEK 1,379 (1,372) m pertaining to chattel mortgages. Shares in the Group's larger companies have been pledged. See note 28 for pledged securities.

### B. Maturity structure

| | Group | | Parent Company | |
|---|---|---|---|---|
| SEK m | Dec. 31, 2011 | Dec. 31, 2010 | Dec. 31, 2011 | Dec. 31, 2010 |
| Between 1 and 2 years | 9,457 | 7,268 | 4,246 | 1,945 |
| Between 2 and 3 years | 7 | 2,428 | – | 2,744 |
| Between 3 and 4 years | 6 | 7 | – | – |
| Between 4 and 5 years | 6 | 20 | – | – |
| More than 5 years | 23 | 6 | – | – |
| **Long-term borrowing, excl. shareholder loans & pension liabilities** | **9,499** | **9,729** | **4,246** | **4,689** |
| Short-term borrowing, 0–1 year | 942 | 831 | 612 | 513 |
| Inter-company financial liabilities | – | – | 3,419 | 2,958 |
| **Financial liabilities, excl. shareholder loans & pension liabilities** | **10,441** | **10,560** | **8,277** | **8,160** |

These loan agreements include quarterly key indicators linked to net debt in relation to EBITDA, EBITDA in relation to interest payments, and the level of investments and available credit facilities. The level of net debt compared with EBITDA is also of importance for the interest level in certain loans.

A two-year extension of senior credits was agreed at the start of 2012.

### C. Currency composition, interest rates & duration

| | Local currency | SEK m | Effective interest on balance sheet date, % | Duration days before interest hedging | Actual duration days |
|---|---|---|---|---|---|
| SEK | 2,779 | 2,779 | 6.1 | 65 | 215 |
| EUR | 513 | 4,585 | 9.7 | 36 | 83 |
| USD | 434 | 3,007 | 4.2 | 46 | 221 |
| Other currencies | | 69 | 6.2 | 187 | 187 |
| **Financial liabilities, excl. shareholder loans & pension liabilities** | | **10,441** | **7.2** | **47** | **159** |

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. 67% of the interests were hedged at the end of the year for an average period of around ten months. Accordingly, the actual period of fixed interest is 159 days. At the end of 2011, market valuation of the interest rate hedging contracts had a negative impact of SEK 4 (28) m after tax on the Group's shareholders' equity. In addition to these loans, loans from the Parent Company in Luxembourg amount to SEK 870 m, which have a duration of up to 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%.

At the end of 2011 there was positive exposure in SEK concerning net assets per currency. This is because a large part of the intangible assets that existed when PAI partners acquired Perstorp was in SEK and in GBP due to the acquisition of the caprolactones business not being financed through loans in GBP, see below. Exposure of net assets in EUR and USD are negative because the Group has raised loans in both those currencies to a greater extent than that which corresponds to assets.

### D. Net assets per currency, before & after loans in foreign currency

| SEK m | Net assets per currency, before loans in foreign currency | Loans in foreign currency, Swedish companies | Non-local currency loans in foreign companies | Exposed net assets |
|---|---|---|---|---|
| EUR | 246 | –3,615 | 986 | –2,383 |
| USD | –865 | – | –918 | –1,783 |
| GBP | 390 | – | 823 | 1,213 |
| SEK | 1,062 | 3,615 | –891 | 3,786 |
| Other currencies | 121 | – | – | 121 |
| **Total** | **954** | **–** | **–** | **954** |

### 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, totalled SEK 634 (598) m.

### F. Financial income & costs

| | Group | | Parent Company | |
|---|---|---|---|---|
| SEK m | 2011 | 2010 | 2011 | 2010 |
| Interest income | 3 | 2 | 3 | 0 |
| Interest income, Group companies | – | – | 240 | 269 |
| **Total financial income** | **3** | **2** | **243** | **269** |
| Bank loans | –684 | –554 | –620 | –458 |
| Loans from Parent Company | –195 | –228 | –195 | –228 |
| Periodized borrowing costs | –91 | –88 | –62 | –58 |
| Pension costs, interest | –9 | –9 | – | – |
| Currency gains and losses from financing measures, net | 33 | 86 | 32 | 484 |
| Interest income and costs from interest swaps | –40 | –172 | –40 | –172 |
| Interest costs, Group companies | – | – | –33 | –25 |
| Write down of financial receivable | 6 | 6 | – | – |
| Other financial costs | –22 | –37 | –14 | –29 |
| **Financial costs** | **–1,002** | **–996** | **–932** | **–486** |
| **Net financial items** | **–999** | **–994** | **–689** | **–217** |
| Discontinued operations | –210 | –307 | – | – |
| **Total financial costs** | **–1,212** | **–1,303** | **–932** | **–486** |
| **Total** | **–1,209** | **–1,301** | **–689** | **–217** |

### G. Market valuation 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.

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 provisions, of accounts receivable and accounts payable are judged to correspond to fair value, as these items are short term.

## NOTE 22. PENSION OBLIGATIONS & COSTS

The Group has both defined-contribution and defined-benefit pension plans. During the year costs for these plans had an accumulative effect on earnings of SEK 206 (202) m, of which SEK 173 (169) m is attributable to defined-contribution plans and SEK 33 (33) m to defined-benefit plans. Pension costs attributable to restructuring of SEK 11 (3) m are included in the accumulated amount. The distribution of costs in the income statement are as follows:

### A. Pension costs the income statement

| SEK m | 2011 | 2010 |
|---|---|---|
| Cost of sold goods | 93 | 97 |
| Sales and marketing overheads | 36 | 34 |
| Administrative costs | 38 | 41 |
| Research and development costs | 13 | 12 |
| Non comparable items | 11 | 3 |
| Net financial items | 15 | 15 |
| **Total** [1] | **206** | **202** |
| [1] Of which discontinued operations | 11 | 13 |

### Defined-contribution pension plans

There are defined-contribution pension plans in most of the countries in which the Group is active. In the Swedish units, these mainly consist of state pension contributions and negotiated pensions for blue-collar workers. In the United States, such plans are called 401K and in Germany they are called Staatliche Rente and Pensionskasse, etc. The costs that are capitalized during the year attributable to defined-contribution pensions plans can be classified as follows:

### B. Pension costs, defined contribution plans

| SEK m | 2011 | 2010 |
|---|---|---|
| State pension plans | 61 | 62 |
| Other defined-contribution pension plans | 64 | 56 |
| ITP, insured through Alecta | 48 | 51 |
| **Total, pension costs, defined-contribution plans** [1] | **173** | **169** |
| [1] Of which discontinued operations | 1 | 1 |

Most of the Group's Swedish companies have secured their obligations for old-age and family pensions via pension insurance with Alecta. In accordance with a statement by the Swedish Financial Accounting Standards Council, UFR3, this is a defined-benefit plan that covers several employers. For the 2011 and 2010 financial years the Group did not have access to information that enabled it to report this plan as a defined-benefit pension plan, so it is therefore reported as a defined-contribution pension plan. The surplus at Alecta may be divided between the plan provider or the insured. At year-end 2011, Alecta's surplus in the form of its collective funding ratio amounted to 113 (146)%. The collective funding ratio equals the market value of Alecta's assets, in percentage of the insurance obligations as computed in accordance with Alecta's actuarial calculation assumptions; this does not comply with IAS 19.

### Defined-benefit pension plans

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

### C. Provisions for pensions, defined benefit plans

| SEK m | Dec. 31, 2011 | Dec. 31, 2010 | Dec. 31, 2009 | Dec. 31, 2008 | Dec. 31, 2007 |
|---|---|---|---|---|---|
| **Unfunded pension plans** | | | | | |
| Defined-benefit obligations | 362 | 342 | 365 | 350 | 187 |
| Unrecognized actuarial gains and losses | –11 | 4 | 11 | 19 | 24 |
| Unrecognized costs for past service | –7 | –3 | –3 | – | – |
| Salary taxes | 6 | 8 | 9 | 9 | 9 |
| **Total unfunded pension plans** | **350** | **351** | **382** | **378** | **220** |
| **Funded or partly funded pension plans** | | | | | |
| Defined-benefit obligations | 367 | 282 | 275 | 277 | 220 |
| Fair value of plan assets | –222 | –222 | –206 | –184 | –202 |
| **Net value** | **145** | **60** | **69** | **93** | **18** |
| Unrecognized actuarial gains and losses | –116 | –31 | –37 | –59 | 11 |
| **Total funded or partly funded pension plans** | **29** | **29** | **32** | **34** | **29** |
| **Net liability concerning defined-benefit pension plans** | **379** | **380** | **414** | **412** | **249** |

| Commitments are divided as follows by region: | Dec. 31, 2011 | Dec. 31, 2010 | Dec. 31, 2009 | Dec. 31, 2008 | Dec. 31, 2007 |
|---|---|---|---|---|---|
| Sweden | 151 | 149 | 151 | 146 | 141 |
| France | 118 | 122 | 140 | 140 | – |
| Other EU | 83 | 82 | 90 | 94 | 80 |
| USA | 24 | 25 | 28 | 29 | 25 |
| Other countries | 3 | 2 | 5 | 3 | 3 |
| **Net liability concerning defined-benefit pension plans** | **379** | **380** | **414** | **412** | **249** |

The plan assets presented here relate primarily to Group companies in the US, 94 (95)%, of which 66 (63)% are invested in stocks and 34 (37)% in bonds as interest-bearing securities. The expected return is assumed to be 9.0 (9.0)% and 4.6 (5.0)% respectively, which is based on historic returns. The actual return on plan assets in 2011 was SEK –4 (29) m.

In addition to the above, so-called direct pensions are included under assets and liabilities at SEK 83 (74) m. The asset is capital insurance, with assets and liabilities reported separately at gross amounts. Healthcare insurance is not included in pension commitments.

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

### D. Changes during the year in commitments, plan assets, unrealized actuarial gains & losses & past service costs

| SEK m | 2011<br>Defined-benefit plans, unfunded plans | 2011<br>Defined-benefit plans, funded or partly funded | 2011<br>Plan assets | 2010<br>Defined-benefit plans, unfunded plans | 2010<br>Defined-benefit plans, funded or partly funded | 2010<br>Plan assets |
|---|---|---|---|---|---|---|
| **Opening balance** | **342** | **282** | **–222** | **365** | **275** | **–206** |
| Costs for current year service | 9 | 9 | –15 | 12 | 7 | – |
| Expected return on plan assets | – | – | – | – | – | –15 |
| Interest expense | 14 | 15 | – | 13 | 16 | – |
| Fees from employer | – | – | –10 | – | – | –10 |
| Disbursement | –22 | –8 | 8 | –20 | –9 | 9 |
| Actuarial profit/loss | 14 | 60 | 20 | 12 | 11 | –14 |
| Past service costs | – | – | – | – | – | – |
| Translation effects | 5 | 9 | –3 | –40 | –18 | 14 |
| **Closing balance** | **362** | **367** | **–222** | **342** | **282** | **–222** |

| | 2011<br>Unrecognized actuarial earnings, unfunded plans | 2011<br>Unrecognized actuarial earnings for funded or partly funded plans | 2010<br>Unrecognized actuarial earnings, unfunded plans | 2010<br>Unrecognized actuarial earnings for funded or partly funded plans |
|---|---|---|---|---|
| **Opening balance** | **4** | **–31** | **11** | **–37** |
| Changed assumptions for outstanding commitments | –2 | –60 | –20 | –11 |
| Changed assumptions for outstanding commitments based on experience | –1 | – | 12 | – |
| Difference between expected and actual return on plan assets | –12 | –20 | – | 15 |
| Amortization | – | – | 1 | – |
| Translation effects | – | –5 | – | 2 |
| **Closing balance** | **–11** | **–116** | **4** | **–31** |

| | 2011<br>Unrecognized past service costs unfunded plans | 2010<br>Unrecognized past service costs unfunded plans |
|---|---|---|
| **Opening balance** | **–3** | **–3** |
| Changed assumptions for outstanding commitments | –4 | – |
| **Closing balance** | **–7** | **–3** |

### E. Net pension provisions, changes during the year

| SEK m | 2011 | 2010 |
|---|---|---|
| Opening balance | 380 | 415 |
| Pension costs during the year | 33 | 33 |
| Sales and divestments | – | – |
| Disbursements during the year | –30 | –29 |
| Translation effects | –4 | –39 |
| **Closing balance, provision for pensions, net** | **379** | **380** |

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

### F. Pensions cost, defined-benefit plans

| SEK m | 2011 | 2010 |
|---|---|---|
| Costs for current year service | 18 | 19 |
| Expected return on plan assets | –15 | –15 |
| Amortization of actuarial profit/loss | 1 | 0 |
| Interest expense | 29 | 29 |
| **Total pension costs, defined-benefit plans** | **33** | **33** |

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

### G. Key actuarial assumptions

| | 2011 | 2010 |
|---|---|---|
| Discount rate, % | 4.7 | 4.7 |
| Future salary increases, % | 3.1 | 3.1 |
| Anticipated return on plan assets, % | 7.3 | 7.3 |
| Anticipated average remaining employment term, year | 14.8 | 14.8 |

### H. Parent Company

The parent company reports a pension expense of SEK 30 (24) m, which is solely based on defined-contribution plans as there were no benefit-based pension plans at the end of the two most recent financial years. For classification reasons, the entire amount is reported as administration costs in the income statement, with the exception of SEK 11 (3) m of the cost attributable to restructuring which is included in Other income and expenses.

## NOTE 23. CURRENT & DEFERRED INCOME TAXES

### A. Income taxes in the income statement

| | Group | | Parent Company | |
|---|---|---|---|---|
| SEK m | 2011 | 2010 | 2011 | 2010 |
| Current tax | –60 | –45 | – | –3 |
| Deferred tax | –267 | 69 | 36 | –14 |
| **Total** [1] | **–327** | **24** | **36** | **–17** |
| [1] Of which discontinued operations | –337 | –35 | | |

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

| **Tax cost** | Group | | Parent Company | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| Pretax earnings | –1,386 | –980 | –1,596 | –1, 242 |
| Tax computed on basis of national tax rates applying in each particular country | 319 | 285 | 420 | 326 |
| Adjustment for different tax rates in different countries [1] | – | – | – | – |
| Non-taxable revenues | 13 | 126 | 1 | – |
| Non-tax-deductible costs | –224 | –218 | –385 | –343 |
| Adjustment due to changed tax regulations | –1 | 81 | – | – |
| Adjustment due to new judgments | –1 | –8 | – | – |
| Tax loss carry-forwards for which no deferred tax asset has been recognized | –145 | –235 | – | – |
| Tax cost not related to current year's profit/loss and other tax expenses | –288 | –8 | – | – |
| **Tax cost** | **–327** | **23** | **36** | **–17** |

[1] The effective tax rate for 2011 is judged to be 23 (29)%.

### B. Deferred income tax, net change

| | Group | | Parent Company | |
|---|---|---|---|---|
| SEK m | 2011 | 2010 | 2011 | 2010 |
| Opening balance, net deferred tax liability | 712 | 705 | 0 | 14 |
| Exchange-rate differences | 4 | –40 | – | – |
| Tax recognized in the income statement (table A) | 267 | –69 | 36 | –14 |
| Tax recognized in shareholders' equity | –4 | 116 | – | – |
| Assets / liabilities held for sale | –12 | | – | |
| **Closing balance** | **967** | **712** | **36** | **0** |

### C. Deferred tax liability, specification

| | Group | | Parent Company | |
|---|---|---|---|---|
| SEK m | Dec. 31, 2011 | Dec. 31, 2010 | Dec. 31, 2011 | Dec. 31, 2010 |
| Tangible fixed assets | 666 | 750 | – | – |
| Intangible fixed assets | 750 | 760 | – | – |
| Other receivables | –19 | –5 | – | – |
| Assets/liabilities held for sale | –16 | – | – | – |
| **Total** | **1,381** | **1,505** | **–** | **–** |

### D. Deferred tax assets, specification

| | Group | | Parent Company | |
|---|---|---|---|---|
| SEK m | Dec. 31, 2011 | Dec. 31, 2010 | Dec. 31, 2011 | Dec. 31, 2010 |
| Intangible fixed assets | 86 | 128 | – | – |
| Loss carry-forwards | 237 | 482 | 36 | – |
| Provisions | 39 | 126 | – | – |
| Forward contracts | 7 | 10 | – | – |
| Other liabilities | 49 | 47 | – | – |
| Assets/liabilities held for sale | –4 | – | – | – |
| **Total** | **414** | **793** | **36** | **–** |

### E. Tax loss carry-forwards, remaining business

The value of unutilized tax loss carry-forwards is capitalized in cases where it is expected that the carry-forwards will be utilized in the foreseeable future. In addition, there are unutilized tax loss carry-forwards totalling SEK 991 (976) m that have not been assigned any value, since it is considered that these will not be utilized in the foreseeable future.

Deferred tax assets relate tax loss carry-forwards mainly in Singapore, Sweden and the UK. To some extent these may be matched against deferred tax liabilities.

## NOTE 24. OTHER LIABILITIES, PROVISIONS

| | Group | | Parent Company | |
|---|---|---|---|---|
| SEK m | Dec. 31, 2011 | Dec. 31, 2010 | Dec. 31, 2011 | Dec. 31, 2010 |
| Special salary tax, pension commitments | 20 | 18 | 17 | 15 |
| Pension obligations, interest-free | 12 | 14 | – | – |
| Market value, hedge contracts [1] | 7 | 0 | – | – |
| Provision for environmental measures | 38 | 32 | – | – |
| Other provisions | 35 | 24 | – | – |
| **Other liabilities, provisions** | **112** | **88** | **17** | **15** |

[1] SEK 7 (0) m is attributable to forward contracts.

## NOTE 25. ACCOUNTS PAYABLE & OTHER OPERATING LIABILITIES

| | Group | | Parent Company | |
|---|---|---|---|---|
| SEK m | Dec. 31, 2011 | Dec. 31, 2010 | Dec. 31, 2011 | Dec. 31, 2010 |
| **Accounts payable** | **836** | **1,390** | **13** | **8** |
| Other operating liabilities | | | | |
| Value added tax | 29 | 63 | – | – |
| Advance payments | 115 | 72 | – | – |
| Payroll tax | 16 | 24 | 1 | 1 |
| Other operating liabilities | 125 | 132 | – | – |
| Accrued wages, salaries and social security costs | 193 | 250 | 15 | 20 |
| Market value of forward contracts | 15 | 0 | – | – |
| Allocation for restructuring costs | 45 | 119 | – | 5 |
| Other accrued costs and prepaid income | 413 | 487 | 184 | 7 |
| **Total other liabilities** | **951** | **1,147** | **200** | **33** |

## NOTE 26. EMPLOYEES & WAGES, SALARIES & OTHER REMUNERATION

### Average number of employees

| Country | 2011 Total employees | 2011 of which men | 2010 Total employees | 2010 of which men |
|---|---|---|---|---|
| Sweden | | | | |
| Parent company | 37 | 21 | 37 | 20 |
| Subsidiaries | 832 | 582 | 807 | 571 |
| Belgium | 44 | 35 | 39 | 30 |
| Finland | 0 | 0 | 2 | 1 |
| France | 642 | 507 | 630 | 519 |
| Italy | 35 | 26 | 33 | 25 |
| The Netherlands | 34 | 25 | 32 | 23 |
| Spain | 4 | 2 | 2 | 2 |
| Poland | 1 | – | 1 | – |
| The UK | 86 | 74 | 79 | 69 |
| Germany | 123 | 112 | 122 | 110 |
| **Total EU** | **1,838** | **1,384** | **1,784** | **1,370** |
| Turkey | 2 | – | 1 | – |
| Russia | 5 | 1 | 6 | 2 |
| **Total non-EU Europe** | **7** | **1** | **7** | **2** |
| Brazil | 11 | 6 | 8 | 5 |
| Argentina | 1 | 1 | 1 | 1 |
| Chile | 1 | 1 | 7 | 5 |
| USA | 143 | 118 | 135 | 113 |
| **Total North & South America** | **156** | **126** | **151** | **124** |
| India | 30 | 25 | 28 | 23 |
| Japan | 5 | 3 | 5 | 3 |
| China | 99 | 58 | 95 | 57 |
| Singapore | 89 | 66 | 92 | 68 |
| Dubai | 2 | - | 2 | – |
| South Korea | 6 | 3 | 7 | 4 |
| **Total Asia** | **231** | **155** | **229** | **155** |
| **Total average no. of employees** | **2,232** | **1,666** | **2,171** | **1,651** |
| Of which discontinued operations | 662 | 531 | 669 | 552 |
| Proportion of men, % | | 74.6 | | 76.0 |

### Wages, salaries & other remuneration, by country

| SEK m | 2011 Board and CEO | 2011 Other employees | 2010 Board and CEO | 2010 Other employees |
|---|---|---|---|---|
| Sweden | | | | |
| Parent company | 6 | 26 | 9 | 32 |
| Subsidiaries | 9 | 402 | 9 | 392 |
| Belgium | 0 | 22 | 0 | 21 |
| Finland | 0 | 0 | 0 | 0 |
| France | 0 | 298 | 0 | 286 |
| Italy | 0 | 15 | 0 | 16 |
| The Netherlands | 0 | 19 | 0 | 14 |
| Spain | 0 | 2 | 0 | 2 |
| Poland | 0 | 1 | 0 | 1 |
| UK | 5 | 36 | 5 | 34 |
| Germany | 0 | 69 | 0 | 70 |
| **Total EU** | **20** | **890** | **23** | **868** |
| Turkey | 0 | 1 | 0 | 1 |
| Russia | 0 | 3 | 0 | 3 |
| **Total non-EU Europe** | **0** | **4** | **0** | **4** |
| Brazil | 0 | 6 | 0 | 4 |
| Argentina | 0 | 2 | 0 | 1 |
| Chile | 0 | 0 | 0 | 2 |
| USA | 0 | 75 | 0 | 77 |
| **Total North & South America** | **0** | **83** | **0** | **84** |
| India | 1 | 3 | 1 | 5 |
| Japan | 0 | 4 | 0 | 3 |
| China | 0 | 9 | 0 | 9 |
| Singapore | 6 | 32 | 7 | 34 |
| Dubai | 0 | 2 | 0 | 1 |
| South Korea | 1 | 1 | 1 | 2 |
| **Total Asia** | **8** | **51** | **9** | **54** |
| **Total** | **28** | **1,028** | **32** | **1,010** |

### Remuneration to employees

| SEK m | Group 2011 | Group 2010 | Parent Company [1] 2011 | Parent Company [1] 2010 |
|---|---|---|---|---|
| Salaries and other remuneration | 1,057 | 1,042 | 32 | 41 |
| Pension – defined-contribution (note 22) | 173 | 169 | 30 | 24 |
| Pension – defined-benefit (note 22) | 33 | 33 | 0 | 0 |
| Social fees | 284 | 290 | 6 | 8 |
| **Total** | **1,547** | **1,534** | **68** | **73** |
| *Of which discontinued operations* | | | | |
| Salaries and other remuneration | 319 | 310 | – | – |
| Pension – defined-contribution (note 22) | 3 | 2 | – | – |
| Pension – defined-benefit (note 22) | 10 | 12 | – | – |
| Social fees | 142 | 152 | – | – |
| **Total** | **474** | **476** | **–** | **–** |

[1] Cost reported in accordance with IFRS.

In 2011 costs of SEK 1 (22) m are attributable to efficiency-improving measures and the implementation of long-term savings. Of reported pension costs, SEK 10 (5) m are for the Board and the CEO of the parent company. Only a small part of the amount is for defined-benefit pension plans. The costs for the parent company are presented in the table below:

### Remuneration to the Group's Board of Directors & management

| KSEK | Board fee | Salary | Bonus & other remuneration | Pension costs [1] | Total |
|---|---|---|---|---|---|
| Chairman of the Board | | 503 | – | 928 | 1,431 |
| Other Members of the Board | 518 | 350 | – | 40 | 908 |
| President | | 3,426 | 1,076 | 8,807 | 13,309 |
| Vice President | | 2,418 | 224 | 751 | 3,393 |
| Other members of Group management | | 14,007 | 3,987 | 16,171 | 34,165 |
| **Total** | **518** | **20,704** | **5,287** | **26,697** | **53,206** |

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

The reported payments pertain to the remuneration expensed for the 2011 fiscal year, certain portions of which will be paid for the first time in 2012.

The Chairman of the Board has invoiced for consultancy fees of KSEK 300 (300).

The President performed a salary bonus exchange of SEK 5.1 m, which was paid in for future pension. In addition a provision for future salary tax of SEK 1.2 m was also made. The Vice President performed a salary bonus exchange of SEK 1.7 m, which was paid in for future pension. In addition a provision for future salary tax of SEK 0.4 m was also made.

Other members of Group management comprised 7 (7) persons during the year. During 2011, other members of Group Management exchanged bonus payments of SEK 4.7 m for pensions. In addition a provision for future salary tax of SEK 1.1 m was also made. In the above table this item is included in the column for pension costs.

**Principles**
Members of the Board receive director fees in accordance with resolutions passed at the Annual General Meeting. Employee representatives do not receive director fees.

Remuneration to the President and other members of Group management comprises basic salary, variable remuneration, company car and pensions.

The President is also entitled to a bonus corresponding to a maximum of 100% (100) of his fixed salary. Other members of Group management are covered by a bonus system that provides a maximum of 35% (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, in addition to the traditional Swedish ITP pension, has been taken out for the President corresponding to 15% of his basic salary. In addition, a more beneficial ITP pension plan has been signed with premiums equivalent to 5% of basic salary in the range of 20-30 times the basic insurance amount and 15% of basic salary above 30 times the basic insurance amount.

According to a special undertaking, the employment contract can be terminated by both the company and the President as of age 60. The period of employment-termination notice is 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 sum total of salary during the period of notice, severance pay and corresponding benefits will be paid for 12 months to a maximum of 18 months.

## NOTE 27. CONTINGENT LIABILITIES

| | Group | | Parent Company | |
|---|---|---|---|---|
| SEK m | Dec. 31, 2011 | Dec. 31, 2010 | Dec. 31, 2011 | Dec. 31, 2010 |
| Guarantees | 179 | 180 | 179 | 180 |
| Guarantees and other contingent liabilities for subsidiaries | – | – | 6,059 | 6,090 |
| **Total** | **179** | **180** | **6,238** | **6,270** |

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

## NOTE 28. ASSETS PLEDGED

| | Group | | Parent Company | |
|---|---|---|---|---|
| SEK m | Dec. 31, 2011 | Dec. 31, 2010 | Dec. 31, 2011 | Dec. 31, 2010 |
| Property mortgages | 2,468 | 2,447 | – | – |
| Chattel mortgages | 1,379 | 1,372 | – | – |
| Patents/technology | 411 | 423 | – | – |
| Shares in subsidiaries | 7,508 | 6,313 | 7,808 | 7,782 |
| Liquid funds | 63 | 15 | – | – |
| Investments, receivables, inventories | 1,928 | 1,718 | – | – |
| Endowment insurances | 81 | 73 | 68 | 60 |
| **Total** | **13,838** | **12,361** | **7,876** | **7,842** |

Endowment insurance relates to pension commitments, see note 22.

## NOTE 29. FUTURE UNDERTAKINGS

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

## NOTE 30. TRANSACTIONS WITH RELATED PARTIES

Perstorp Holding AB is controlled by the private equity company PAI partners, which owns close to 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.

Within the framework of an incentive program, PAI partners offered senior Group executives an opportunity to become shareholders in the Parent Company Financière Forêt S.à r.l. and a total of around 180 manager and others key personnel participate, with contributions amounting to around EUR 5 million. Shares and options were priced on normal commercial terms.

Perstorp Holding AB has a loan from the Parent Company corresponding to SEK 870 (2,018) 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.

During 2011 Perstorp Holding AB received shareholders' contribution amounting to SEK 1,376 (1,069) m, whereof SEK 1,338 (1,000) m has been converted from loans to equity.

PetroPort AB was formed in 2009. Perstorp has a 50% stake in this company, but not a controlling influence. In 2011, SEK 25 (17.5) m was contributed. PetroPort AB has responsibility for the construction of the harbor in Stenungsund, which began in 2010. During the year, PetroPort AB signed a financing agreement. The loan is not guaranteed by Perstorp. There is a commitment from Perstorp to finance the project/company if budgeted costs are exceeded. Perstorp Oxo AB will reach an agreement concerning use of the harbor. The operational commitments that will then arise will be guaranteed by Perstorp Holding AB.

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 26.

## NOTE 31. PROPORTION OF BOARD MEMBERS & SENIOR EXECUTIVES WHO ARE WOMEN

| | 2011 | | | 2010 | | |
|---|---|---|---|---|---|---|
| | Total | of whom, women | % | Total | of whom, women | % |
| Board members | 155 | 16 | 10 | 162 | 14 | 9 |
| Other senior executives | 151 | 36 | 24 | 153 | 35 | 23 |

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

The Other senior executives category comprises the Group's executive management team, management teams within each business area and department, and the management teams of the major companies.

## NOTE 32. ASSETS & LIABILITIES HELD FOR SALE

On the 31st of May 2012, Perstorp and Thailand's largest chemical producer PTT Global Chemical completed the formation of a joint venture dedicated to the manufacturing and sales of aromatic (TDI) and aliphatic (IPDI, HDI and derivatives) isocyanates. PTT Global Chemical (PTTGC) holds 51% of the joint venture and Perstorp 49% which includes certain exit rights. In accordance with IFRS 5, Non-current Assets Held for Sale and Discontinued Operations, 100% of the assets and liabilities held for sale and discontinued operations are reported below.

| SEK m | 2011 | 2010 |
|---|---|---|
| **Assets held for sale** | | |
| Intangible fixed assets | 397 | – |
| Tangible fixed assets | 1,163 | – |
| Other minor company holdings | 63 | – |
| Deferred tax asset | 4 | – |
| Inventories | 439 | – |
| Accounts receivable | 522 | – |
| Other operating receivables | 199 | – |
| **Total** | **2,787** | **–** |
| **Liabilities held for sale** | | |
| Deferred tax liability | 16 | – |
| Accounts payable | 502 | – |
| Other operating liabilities | 256 | – |
| **Total** | **774** | **–** |
| **Discontinued operations** | | |
| Net sales | 3,902 | 3,961 |
| Operating earnings/loss (EBIT) [1] | –761 | –298 |
| Operating earnings before tax | –971 | –605 |
| Tax | –337 | –35 |
| **Net earnings/loss for the year** [2] | **–1,308** | **–640** |

[1] Includes SEK 527 (106) m in write-down.
[2] Translation differences recognized in other comprehensive income amounts to SEK 11 (73) m.

## NOTE 33. AUDITORS' FEES

| | Group | | Parent Company | |
|---|---|---|---|---|
| SEK m | 2011 | 2010 | 2011 | 2010 |
| **PricewaterhouseCoopers:** | | | | |
| Audit assignments | 8 | 9 | 2 | 2 |
| Tax consultancy | 1 | 2 | 1 | 2 |
| Other | 2 | 2 | 2 | 2 |
| **Total** [1] | **11** | **13** | **5** | **6** |
| [1] Of which discontinued operations | 2 | 2 | | |
| **Other auditing firms** | | | | |
| Audit assignments | 1 | 1 | 0 | 0 |
| Other | 2 | – | 1 | – |
| **Sum** | **3** | **1** | **1** | **0** |
| [1] Of which discontinued operations | 2 | 2 | | |

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

## NOTE 34. CURRENCY EXCHANGE RATES

| Currency | Year-end exchange rates Dec. 31, 2011 | Dec. 31, 2010 | Average exchange rates 2011 | 2010 |
|---|---|---|---|---|
| BRL | 3.711 | 4.056 | 3.885 | 4.092 |
| CNY | 1.100 | 1.030 | 1.006 | 1.065 |
| EUR | 8.945 | 9.002 | 9.034 | 9.550 |
| GBP | 10.677 | 10.548 | 10.412 | 11.132 |
| INR | 0.130 | 0.152 | 0.140 | 0.157 |
| JPY | 0.089 | 0.083 | 0.082 | 0.082 |
| KRW | 0.006 | 0.006 | 0.006 | 0.006 |
| SGD | 5.323 | 5.260 | 5.167 | 5.285 |
| USD | 6.923 | 6.803 | 6.497 | 7.208 |

## NOTE 35. ACQUISITION

During the first quarter Perstorp, through its subsidiary Perstorp Polyols Inc., acquired the Penta business, related technology and certain assets from Hercules Inc., a subsidiary of specialty chemicals company Ashland Inc. The transaction is fully in line with the companies' strategies going forward. The goodwill arising from the acquisition is attributable to non-separable client relationships and synergies in the North American market and is expected to be deductible for income tax purposes.

| SEK m | 2011 |
|---|---|
| Machinery & Equipment | 3 |
| Technology | 3 |
| Customer relations | 29 |
| Know-how | 4 |
| Goodwill | 22 |
| **Total purchase price** | **61** |

## Complete

Perstorp offers a complete palette of essential and specialty components for producing high performance and low impact polyurethane dispersions.

# Proposed treatment of unappropriated earnings

| | SEK |
|---|---|
| The Board of Directors and President propose that the funds available for distribution by the Annual General Meeting, as shown in the Parent Company´s balance sheet, namely: | |
| Retained earnings | 3,618,053,588 |
| Net loss for the year | -1,559,927,749 |
| **be distributed as follows:** | |
| To be retained in the business | 2,058,125,839 |

Perstorp, June 29, 2012

Lennart Holm
Chairman

Martin Lundin
President & Chief Executive Officer

Fabrice Fouletier

Michel Paris

Claes Gard

Karin Markides

Ragnar Hellenius

Ronny Nilsson
(elected by employees)

Oleg Pajalic
(elected by employees)

Anders Magnusson
(elected by employees)

Our audit report was submitted June 29, 2012
PricewaterhouseCoopers AB

Michael Bengtsson
Authorized Public Accountant
*Lead auditor*

Mats Åkerlund
Authorized Public Accountant

# Auditors´ report

To the annual general meeting of the shareholders
of Perstorp Holding AB. Corp. Reg. No. 556667-4205.

## REPORT ON THE ANNUAL ACCOUNTS AND CONSOLIDATED ACCOUNTS

We have audited the annual accounts and consolidated accounts of Perstorp Holding AB for the year 2011. The annual accounts and consolidated accounts of the company are included in the printed version of this document on pages 54–91.

## RESPONSIBILITIES OF THE BOARD OF DIRECTORS AND THE MANAGING DIRECTOR FOR THE ANNUAL ACCOUNTS AND CONSOLIDATED ACCOUNTS

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

## AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these annual accounts and consolidated accounts based on our audit. We conducted our audit in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the annual accounts and consolidated accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual accounts and consolidated accounts. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the annual accounts and consolidated accounts, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation and fair presentation of the annual accounts and consolidated accounts in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors and the Managing Director, as well as evaluating the overall presentation of the annual accounts and consolidated accounts.

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

## OPINIONS

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the parent company as of 31 December 2011 and of its financial performance and its cash flows for the year then ended in accordance with the Annual Accounts Act, and the consolidated accounts have been prepared in accordance with the Annual Accounts

Act and present fairly, in all material respects, the financial position of the group as of 31 December 2011 and of their financial performance and cash flows in accordance with International Financial Reporting Standards, as adopted by the EU, and the Annual Accounts Act. The statutory administration report is consistent with the other parts of the annual accounts and consolidated accounts.

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

## REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In addition to our audit of the annual accounts and consolidated accounts, we have examined the proposed appropriations of the company's profit or loss and the administration of the Board of Directors and the Managing Director of Perstorp Holding AB for the year 2011.

### RESPONSIBILITIES OF THE BOARD OF DIRECTORS AND THE MANAGING DIRECTOR

The Board of Directors is responsible for the proposal for appropriations of the company's profit or loss, and the Board of Directors and the Managing Director are responsible for administration under the Companies Act.

### AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion with reasonable assurance on the proposed appropriations of the company's profit or loss and on the administration based on our audit. We conducted the audit in accordance with generally accepted auditing standards in Sweden.

As a basis for our opinion on the Board of Directors' proposed appropriations of the company's profit or loss, we examined whether the proposal is in accordance with the Companies Act.

As a basis for our opinion concerning discharge from liability, in addition to our audit of the annual accounts and consolidated accounts, we examined significant decisions, actions taken and circumstances of the company in order to determine whether any member of the Board of Directors or the Managing Director is liable to the company. We also examined whether any member of the Board of Directors or the Managing Director has, in any other way, acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association.

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

### OPINIONS

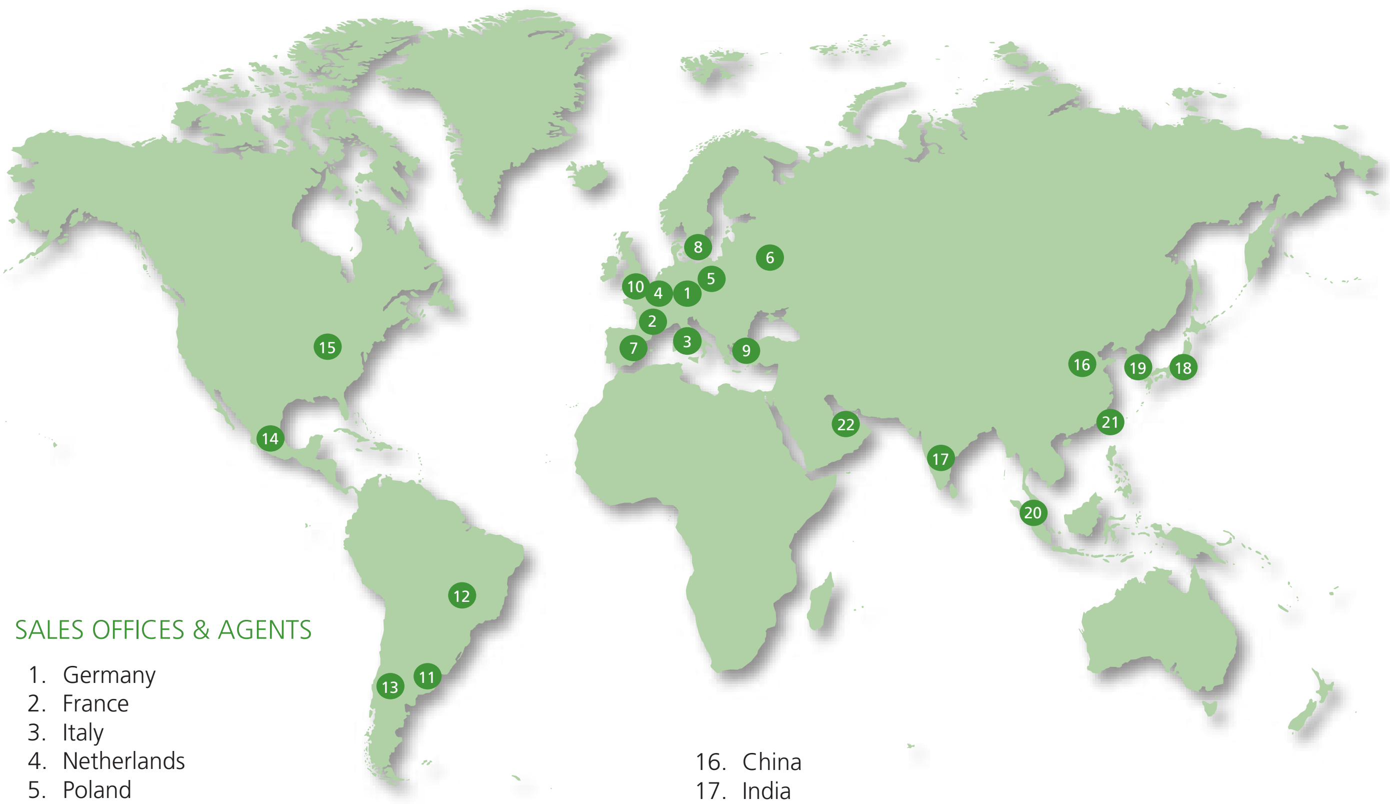
We recommend to the annual meeting of shareholders that the profit be appropriated in accordance with the proposal in the statutory administration report and that the members of the Board of Directors and the Managing Director be discharged from liability for the financial year.

Malmö, June 29, 2012
PricewaterhouseCoopers AB

Michael Bengtsson
Authorized Public Accountant
*Lead auditor*

Mats Åkerlund
Authorized Public Accountant

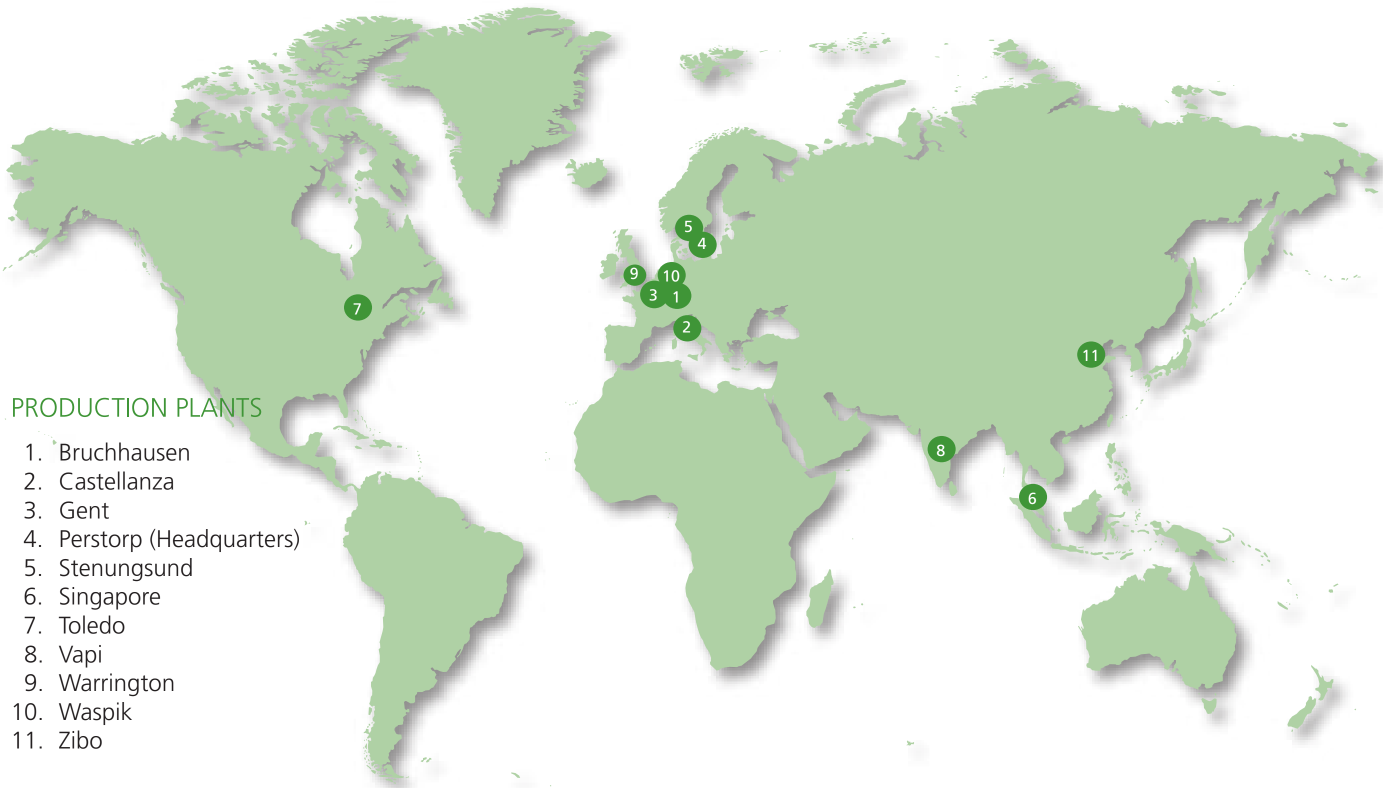
In line with our vision we supply products  that – in one way or another – contribute to a more sustainable world.



## SALES OFFICES & AGENTS

1. Germany
2. France
3. Italy
4. Netherlands
5. Poland
6. Russia
7. Spain
8. Sweden
9. Turkey
10. United Kingdom
11. Argentina
12. Brazil
13. Chile
14. Mexico
15. USA
16. China
17. India
18. Japan
19. Korea
20. Singapore
21. Taiwan
22. United Arab Emirates

Plus 50 agents covering over 60 locations worldwide.



## PRODUCTION PLANTS

1. Bruchhausen
2. Castellanza
3. Gent
4. Perstorp (Headquarters)
5. Stenungsund
6. Singapore
7. Toledo
8. Vapi
9. Warrington
10. Waspik
11. Zibo

Text: Karen Malmqvist - MAQ-Vest, Josefin Boucht and Charles Hodgdon - Symbal and Perstorp Holding AB
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Perstorp
WINNING FORMULAS

# Your Winning Formula

The Perstorp Group, a trusted world leader in specialty chemicals, places focused innovation at your fingertips. Our culture of performance builds on more than 130 years of experience and represents a complete chain of solutions in organic chemistry, process technology and application development.

Matched to your business needs, our versatile intermediates enhance the quality, performance and profitability of your products and processes. Present in the aerospace, marine, coatings, chemicals, plastics, engineering and construction industries, they can also be found in automotive, agricultural, food, packaging, textile, paper and electronics applications.

Our chemistry is backed by reliable business practices and a global commitment to responsiveness and flexibility. Capacity and delivery security are ensured through strategic production plants in Asia, Europe and North America, as well as sales offices in all major markets. Likewise, we combine product and application assistance with the very best in technical support.

As we look to the future, we strive for the development of safer products and sustainable processes that reduce environmental impact. This principle of innovation and responsibility applies not only to our own business, but also to our work with yours. In fulfilling it, we partner with you to create a winning formula that benefits your business – as well as the people it serves.

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