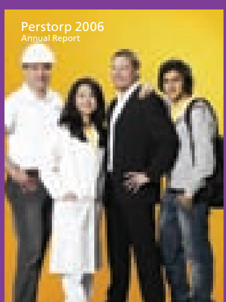
Perstorp 2006

Annual Report

Perstorp

WINNING FORMULAS

Contents



Perstorp reports in 2006

In conjunction with the publication of the Annual Report, Perstorp will publish a special Sustainability Report in Swedish and in English that describes the Group's safety, health and environment efforts, and provides an account of employees and social responsibility. It will be available on the www.perstorp.com website, where a printed version can also be ordered.

Perstorp Holding AB

Corp. Reg. No. 556667-4205

Parent Company of the international specialty chemicals group Perstorp.

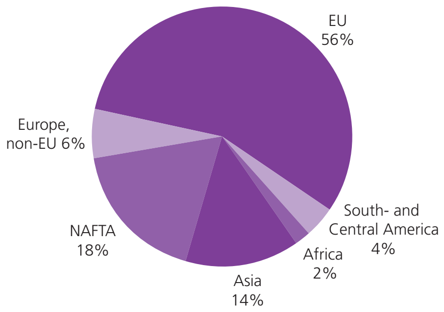
Perstorp is an international specialty chemicals group with leading positions in selected niches. The Group has around 1,700 employees and manufacturing operations in ten countries on four continents. Sales in 2006 totaled SEK 7.3 billion.

The Group was acquired at the end of 2005 by Perstorp Holding AB, which is controlled by the French private equity company PAI partners.

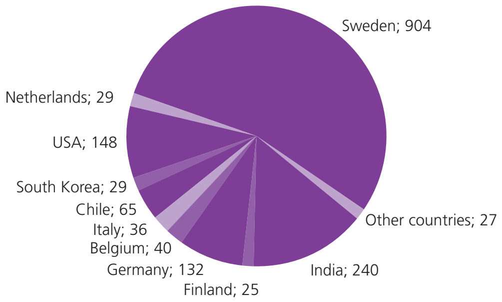
Perstorp in brief

The Perstorp Group is the global leader in several sectors of the specialty chemicals market. Today, we have a performance-focused culture developed through our long history and extensive chemistry expertise. The culture and knowledge base enable the Group to produce winning formulas for a wide variety of industries and application areas.

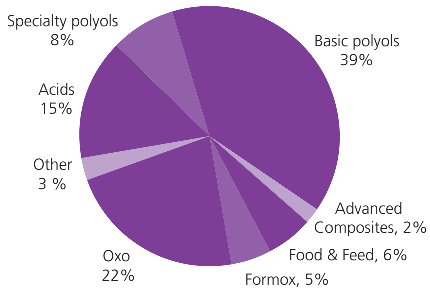
Net sales per geographical market

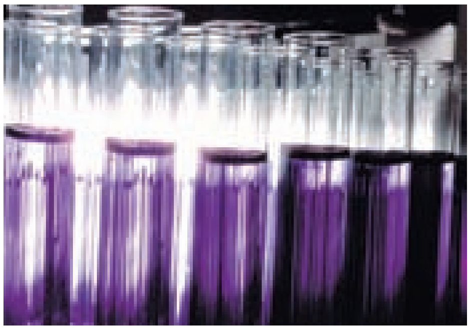


Employees per country



External net sales per product area





Leading global player

Perstorp is the leader in specific segments of the global market for specialty chemical products. The Group is the largest producer of the Penta and TMP polyols and several specialty polyols and organic acids. Perstorp is also the leading supplier of plants and catalysts for the production of formalin.

Most of the Group's products are sold throughout the world, with Europe and the US as the largest single markets, and a growing percentage of sales in Asia. Customers are found mainly in the paint and coatings, plastic-processing and automotive industries, but also within construction and engineering industries, as well as other segments.

Production in 10 countries

Perstorp has production units in 10 countries in Europe, North and South America and Asia. During 2006, production was started in Chile, and the Group plans to start production operations in China in 2007. The largest production plants are situated in Perstorp and Stenungsund, in Sweden, Bruchhausen, in Germany, and Toledo, Ohio, in the US.

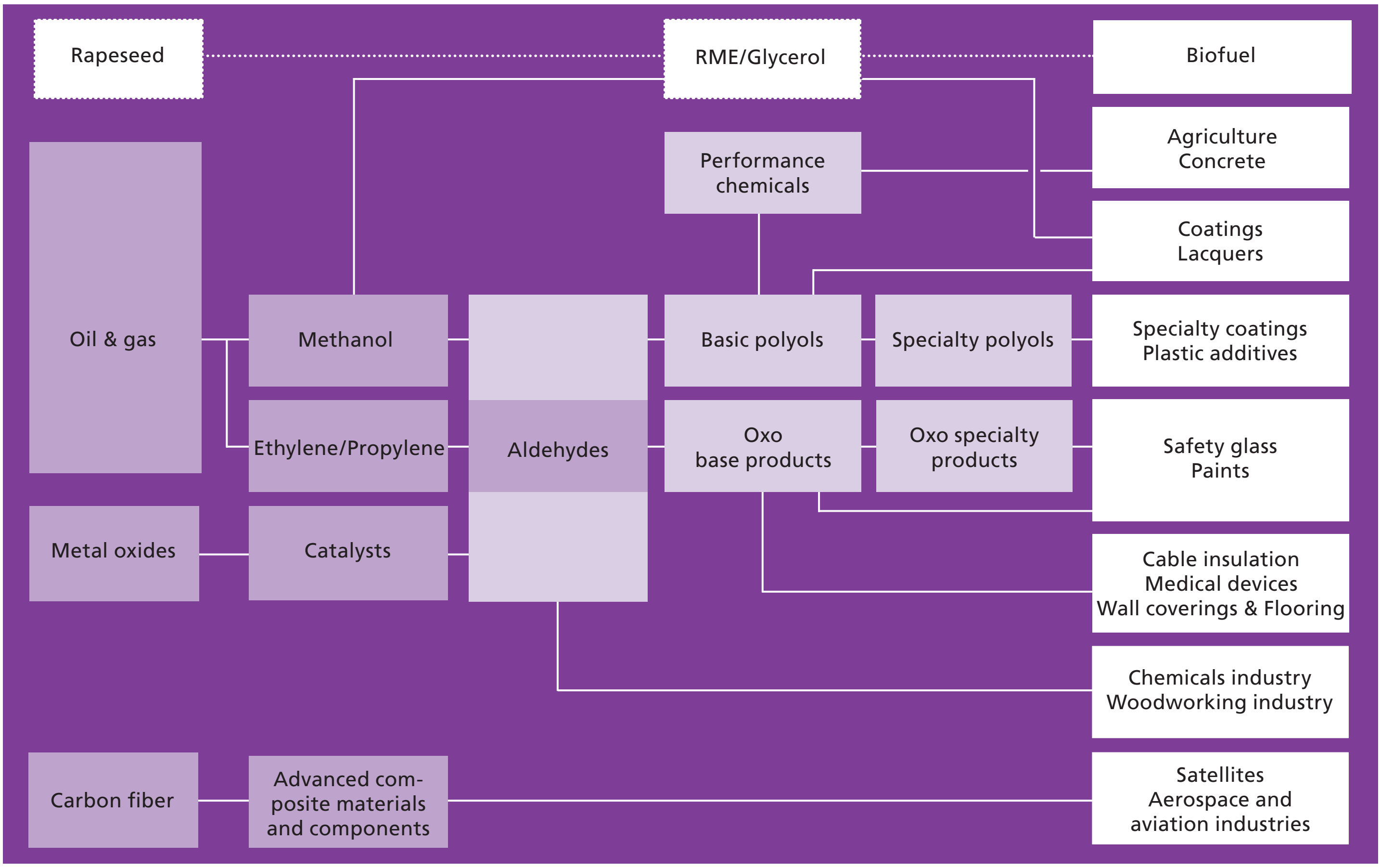
The Group has around 1,700 employees and the head office is situated in Perstorp.

Innovations create values

The foundation of Perstorp's operations is a comprehensive knowledge in organic chemistry, particularly aldehyde chemistry. The Group's innovative work is intended to generate value, primarily through the development of products, processes and applications that offer distinct environment-health-safety advantages and are characterized by a favorable correlation between price and performance.

The Group has three Research & Development Centers in Sweden, Finland and India. A US subsidiary also has development and production activities focused on sophisticated composite materials and components for the aerospace industries.

Perstorp´s value chain



Sustainable development

To achieve sustainable development, Perstorp works on continuous improvements in the environment, health and safety of the Group's processes and products. A pronounced goal of development work is to maintain a cutting-edge position in the rapid changes taking place today within environmentally compatible products and systems.

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

Founded 125 years ago

Perstorp was founded in 1881 in the town with the same name. Throughout its history of more than 125 years, the company has always been active in the chemicals industry, but also worked in other areas.

Perstorp AB was listed on the stock exchange in 1970 and a gradual concentration of Group operations was started during the 1990s. In 2001, the Group was acquired by the Industri Kapital 2000 fund, and the company was delisted. Since then, operations have been focused in the specialty chemicals sector. In December 2005, Perstorp was acquired by PAI partners.

Our new owner – PAI partners

PAI partners, a French private equity company, has controlled Perstorp since December 2005.

PAI partners is a leading European private equity company that controls or serves as advisor for funds with combined total equity exceeding EUR 7 billion. PAI partners offers financial and strategic support for the development and value growth of its portfolio companies.

Focus on profitable growth

The Perstorp Group has an interesting position as we approach the future. We are the world leader in several products areas and, given our innovative capabilities, we will gradually strengthen our positions even more. We also have a good reputation and a not-insignificant combination of knowledge and determination to make money.

The Group focuses intently on growth – both organic and acquired. Internationally competitive production and a distinct responsibility for our core products are the cornerstones of the action programs and plans that will generate value growth for Perstorp in the coming years.

Perstorp will develop in a moving market. In our strategic overview, we see a number of trends with strong effects on our business.

- Continued high raw material prices and energy costs.
- Greater interest in controlling longer value chains between raw materials and end-consumers.
- Consolidation and focus – our competitors will be large corporations with a stronger focus on their core operations.
- Growing interest in sustainable development and environmental issues in all parts of society.
- New demands for diversification and specially adapted products from the customers of our customer.

My conclusion, and ours, is that Perstorp has considerable future business opportunities on our doorstep.

Focus on success

PAI partners, Perstorp's owner since year-end 2005, has the financial strength and a declared ambition to develop Perstorp into a strong and leading specialty chemicals group.

I will work close to the business to contribute and support greater operating efficiency and a stronger focus on the customer perspective within Perstorp. I also hope to benefit from and leverage my experience from international companies to strengthen Perstorp's marketing and sales activities. I view Human Resources as a key area of activity. In the future, Perstorp should continue to retain, develop and, whenever needed, recruit the best personnel within our areas of operation.

Our goals are ambitious. Disregarding acquisitions, we have set the target level for annual business growth at 10%, with an annual earnings improvement of a full 15%, for the four-year period ahead.

Market organization strengthened

Continued efforts to build strong customer relations, regardless of where in the world we operate, will comprise one requirement for the achievement of our goals. Accordingly, our market organization, which is now divided into the functions Business and Sales, is being strengthened continuously, most recently with increased resources to analyze and follow up our business activities.

Mats Persson and David Wolf, the respective vice presidents of these two market functions, are both members of Group Management. David was recruited from our North American operations, which will contribute to the globalization of both our sales organization and management staff.

Another new unit, Strategic Development, was established during the year under the management by Bengt Sallmén to work on acquisitions. Examples of many interesting growth and development areas include biofuel, fuel additives and animal feed additives. The unit has cultivated a number of different acquisition projects. One result is the agreement to enter into a joint venture for the production of specialty chemical products in China.

Tailwinds & headwinds

The global economy was characterized by highly favorable development during the year. Demand was strong for most Perstorp products in the US throughout most of the year and improvement was also noted in Europe. In Asia, new capacity resulted in stronger competition within certain product areas.



During the year, the entire chemicals industry was affected by rapidly rising prices for raw materials and energy, which exerted pressure on margins. A decline in USD exchange rates was another factor. With the exception of methanol, raw material prices stabilized toward year-end and, at the same time, our own price increases gradually generated results and contributed to stronger margins, particularly during the fourth quarter.

Despite lower margins and negative currency effects, the Group's EBITDA, after adjustments for nonrecurring items, was in the same range as the preceding year.

Perstorp's capacity utilization was high during 2006, but some decline was noted for certain products due to planned production stoppages and disruptions in production operations. However, substantial expansion measures were implemented during the year, which have already improved capacity, and these will continue during 2007.

Investments in expanding capacity

We are pursuing an ambitious investment program to meet increased demand.

The largest investment of the year entailed the ongoing expansion of a plant in Stenungsund, Sweden, for the production of rapeseed methyl ester (RME) for use in renewable fuel, which is expected to begin operations during the second quarter of 2007.

We foresee increased demand for organic acids used as additives in safety glass to meet increased requirements, as well as other applications. Since more stringent hygiene requirements in the agriculture and food sectors are also driving demand for our products, we have invested in a new high-capacity propionic acid production plant in Stenungsund. A new formic acid plant was also placed in operation in Perstorp during the year. We also completed a large number of other projects to increase capacity, including the polyol production plants in Perstorp and in Vapi, India.

To limit our energy costs in the future, we have also worked successfully on cost-cutting investments in biofuel-based energy production at the Perstorp unit.

More initiatives in Asia

Markets in Asia, particularly China, continue to show high growth and are generating greater interest for the Group's future expansion. It is also important for Perstorp to have a presence in regions where many of our customers are concentrating their investments.

An important step for Perstorp's investments in Asia is a joint venture established in China in early 2007. Perstorp owns 51% of the new company in Zibo City, in Shandong province, which will be the largest producer of TMP in China. Production will also include other specialty chemical products.

Our third R&D Center was established during the year at the Group's site in Vapi, India. The new facility will meet specific needs in India and other Asian markets.

Outlook

In view of the general economic trends and our many completed and ongoing investments, I look forward with confidence to 2007.

I anticipate continued favorable demand in Perstorp's markets, while continuing our efforts to strengthen the Group's international sales organization. I am proud to lead a company with world-class employees and innovative skills. Given these factors – combined with capacity expansions, the establishment of production operations in China and the start of RME sales, as well as other new products – I anticipate favorable business development for the Group during 2007.

Perstorp, February 2007

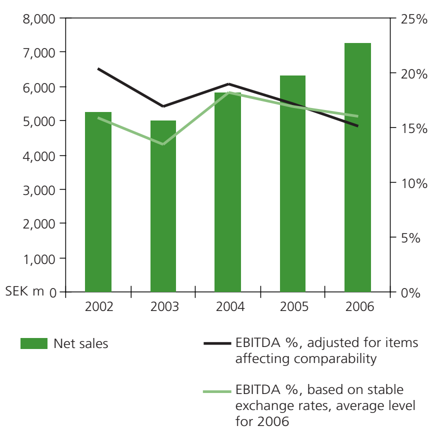
Bo Dankis,
President and CEO




Highlights of 2006

- Strong demand but sharp increases in prices of raw materials and energy, and negative exchange-rate impact.
- Net sales increased by 15% to SEK 7,273 m (6,299) [1].
- Operating earnings before depreciation and impairment losses, EBITDA, amounted to SEK 1,091 m (1,156). Adjusted for nonrecurring items, EBITDA increased to SEK 1,097 m (1,079).
- Cash flow from operating activities amounted to SEK 591 m.
- Start of manufacturing in South America through the takeover of Oxiquim's polyols operations in Chile.
- Extensive capacity-enhancing investments have been implemented and are in progress to meet increased demand for several of the Group's products.
- Bo Dankis appointed new President and Lennart Holm appointed new Chairman of the Board.
- Following the close of the fiscal year, a contract was signed to establish the Group's first production plant in China, within the framework of a joint venture.

Net sales & EBITDA



Year in figures

SEK m unless otherwise stated	Full year 2006	Full year [1) 2)] 2005
Net sales	7,273	6,299
Operating earnings before depreciation (EBITDA)	1,091	1,156
EBITDA excl. non-recurring items	1,097	1,079
Operating earnings (EBIT)	566	663
Operating margin before depreciation, %	15.0	18.4
Operating margin, %	7.8	10.5
Investments	535	778
of which acquisitions	59	184
excluding acquisitions	476	594
Depreciation [3]	525	493
Working capital, end of period	714	743
Working capital, average	853	764
Turnover rate, working capital	8.5	8.2
Cash flow from operating activities	591	n/a
Cash flow as % of net sales	8.1	n/a
Capital employed, end of period	9,631	10,618
Capital employed, average	10,018	n/a
Return on capital employed, %	5.7	n/a
Net debt, incl. pensions, end of period	9,386	9,702
Net debt, incl. pensions, excl. Parent Company loan [4]	7,434	8,098
Debt/equity ratio, excl. Parent Company loan [4]	3.9	3.9
Equity/assets ratio, %, incl. Parent Company loan [4]	14.2	14.8
Return on shareholders´ equity, %, incl. Parent Company loan [4]	-7.7	n/a
Number of full-time employees, average	1,675	1,601

1) Pro forma comparison figures apply to the Group that PAI partners acquired at the end of 2005. The Franklin operation, which was acquired in 2005, is fully included in the pro forma amounts for 2005.

2) The consolidated balance sheet at year-end 2005 has been restated in view of the establishment of the acquisition balance sheet, in accordance with IFRS 3.

3) Impairments totaling SEK 18 m were posted in 2005.

4) Shareholder loan, meaning the loan from Luxembourg-based Financière Forêt S.À.R.L., which is subordinate to senior loans, second liens and mezzanine facilities. The interest on this loan is capitalized.

Financial overview

On December 22, 2005, Perstorp Holding AB, which is controlled by the French private equity company PAI partners, purchased Sydsvenska Kemi AB (publ) from Industri Kapital. The financial performance during the year is compared with the pro forma consolidated income statement for 2005. Financial items and tax have not been calculated pro forma for the period prior to the acquisition. Comments on financial items during the year and tax, as well as the balance sheet and cash flow, are presented in the Board of Directors' Report.

Net sales

Strong net sales were reported in 2006, at the same time as price levels increased. This resulted in a 15% increase in sales to SEK 7,273 m (pro forma preceding year: 6,299).

Organic volume growth was 4%, while acquisitions/divestments contributed an additional 2%, mainly attributable to the start-up of polyol production in Chile. Volume growth was inhibited by production issues in the Group's own plants in Stenungsund, Sweden, and Bruchhausen, Germany. Price increases accounted for 9%, as a result of very sharp hikes in prices for oil and natural gas based products, and for energy. Average exchange rates for the USD and EUR in 2006 were the same as in the preceding year.

Operating earnings

Operating earnings before depreciation (EBITDA) decreased to SEK 1,091 m (pro forma 1,156). In 2005, earnings were positively influenced by nonrecurring items, SEK 77 m, primarily in the form of a reversal of acquisition balance sheet reserves, compensation for delays from suppliers relating to the preceding year and pension adjustments. During 2006, there was a negative impact of SEK 6 m from nonrecurring items, primarily pertaining to insurance compensation for fixed assets due to damage, which was offset by acquisition project costs. Comparable earnings amounted to SEK 1,097 m (1,079).

EBITDA was strengthened by volume growth and cost reductions but were negatively influenced by sharp raw-material price increases and by one-off production disruptions at the Group's own plants. Earnings were also influenced by a negative exchange-rate effect due to the weakening USD, while the preceding year benefited from a strong USD. All in all, the exchange-rate effect was negative by about SEK 80 m. Depreciation and impairment losses amounted to SEK 525 m (493), of which SEK 18 m in impairment losses attributable to value depletion due to damage in 2006. Depreciation increased by SEK 167 m (167) in conjunction with allocation of acquisition value for tangible and intangible fixed assets. As a result of restatement of the Group's pro forma income statement, EBIT amounted to SEK 566 m (663).

Income statement, Group

SEK m	Full year 2006	Full year 2005
Net sales	**7,273**	**6,299**
Costs of sold goods	-6,105	-5,158
Gross earnings	**1,168**	**1,141**
Costs of sales, administration and R&D	-618	-604
Other operating income and expenses [1]	15	125
Income from shares in associated companies	1	1
Operating earnings (EBIT)	**566**	**663**
Exchange-rate differences on net debt	104	
Other financial income and expenses	-819	
Earnings/loss before tax	**-149**	
Income taxes	-4	
Net earnings/loss (incl. minority interest) [2]	**-153**	
Operating earnings before depreciation (EBITDA)	**1,091**	**1,156**
EBITDA adjusted for non-recurring items	**1,097**	**1,079**

[1] Other operating revenues and expenses mainly include exchange-rate effects relating to operating net receivables, as well as costs and revenues of nonrecurring nature.

[2] Financial items and taxes for the period prior to the acquisition (Dec 2005) have not been calculated on a pro forma basis.

Investments

To meet the growing demand, Perstorp during the year made comprehensive investments both in existing and new products. Investments during the year, excluding acquisitions, amounted to SEK 476 m.

- A plant is under construction for the manufacture of rape methyl ester (RME) for renewable fuel in Stenungsund. The plant, which was the largest investment during the year, is scheduled to become operational during the second quarter of 2007. Fully built, its annual capacity will be 160,000 tons.
- A new propionic acid plant was completed in Stenungsund, with an annual capacity of 50,000 tons. The investment also released capacity in the current acid plant, which resulted in an increase in the production of octane acid (2-ethyl hexanoic acid) from 50,000 to 80,000 tons annually.
- In Perstorp, a new formic acid plant commenced operations, which increased capacity from 25,000 to 35,000 tons annually.
- The manufacture of creosan was moved to Vapi, India, where also a plant for the manufacture of Di-Penta is being prepared for start-up.
- Extension of plants for the manufacture of polyols TMP and Neo was implemented in Perstorp.
- Investments were made in biofuel-based energy production at the plant in Perstorp for the use of Biomal, which is based on offal as energy raw materials.

Company acquisitions

Perstorp has commenced production in South America within the framework of a production partnership with Oxiquim S.A. of Chile. On March 1, 2006, Perstorp assumed responsibility for production and assets at the plant in Viña del Mar, Chile, and subsequently introduced new technology. At the plant Penta, Di-Penta and sodium formate are manufactured.

On March 31, Perstorp acquired the remaining 49% of the shares in Hansol Perstorp Co. Ltd., from Hansol Chemicals Co. Ltd., Korea. The company manufactures and markets polyols and other specialty chemicals in the Asian market. Perstorp also acquired the remaining shares in the subsidiary YLA, which manufactures advanced composite material for primarily the aerospace industry.

Following fiscal year-end, Perstorp entered into a joint venture with Shandong Fufeng Chemical Co. Ltd., which operates a modern production plant for TMP in the Shandong province of China. Perstorp acquired a 51% interest. The plant will be the largest producer of TMP in China and will also manufacture other specialty chemicals products.

Research & development

Perstorp's core competencies are in selected niches of organic chemistry and process and polymer chemistry. Knowledge of products, processes and applications based on aldehyde chemistry is of vital importance to the Group.

During the year, several projects pertaining to environmentally compatible coating systems were pursued, involving products that can be used in the production of powder paints, UV-hardening paints, water-based paints and what are known as "high solids."

Perstorp's research and development costs during the year amounted to SEK 85 m. Development work resulted in a number of product launches and in 25 patents applications/patent prophylaxes being submitted during the year.

Strategy & market trends

Strategy & goals

Perstorp´s vision

Perstorp's vision is to be the recognized global leader in realizing solutions for business clients based on the resource-efficient and environmentally sustainable use of selected niches within organic and polymer chemistry.

Financial goals

The financial goals are:

- Sales growth of 10% annually
- Earnings growth of 15% annually, expressed as EBITDA

Perstorp´s strategy

- *Secure competitiveness* for our key products through efforts to serve our key customers and defend/strengthen our technological leadership.
- *Optimize the production structure* through continued high accessibility and reliability, which mainly entails safeguarding our access to raw materials and a conscious selection of global regions that are suitable for the production of the various products in our offering, based on such parameters as cost efficiency and availability.
- *Capture growth opportunities* – focused innovation and market development in order to achieve high organic growth and strategic acquisitions aimed at further increasing volumes, geographical presence and technologies, and creating opportunities to grow within new, complementary areas of business activity.

Market forces & trends

Key factors during 2006

The global economic trend was highly favorable during the year, with growth in virtually all major markets. As a result, capacity utilization was extremely high in most industrial segments, particularly in the chemicals industry.

For Perstorp's products, demand was strong throughout most of the year in the US and improved in Europe, while new capacity in Asia led to increased competition in some product areas. Particularly strong development was noted for the basic polyols Penta and Neo, specialty polyols, oxo alcohols and acids, and products in the formalin segment; the Group booked orders for nine formalin plants during 2006, and catalyst sales were bolstered by high capacity utilization in the chemicals industry.

In parallel with the strong economic trend, prices rose rapidly for various raw materials, which led to very sharp cost increases for oil and natural gas-based products for Perstorp in particular and the chemicals industry in general. Energy prices also rose sharply, leading to further upward pressure on raw material prices and higher production costs. The rate of price increases was especially high during the first half of the year. With the exception of methanol, a stabilization was noted in raw material prices toward year-end.

Trends

Perstorp has noted a number of key trends that are expected to have significant effects on the Group's markets in the future. Accordingly, appropriate actions are being taken in the strategic planning and management of operating activities.

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

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

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

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

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

Management of operational risks & opportunities

Access to raw materials

About two-thirds of the Group's raw materials are crude oil or natural gas derivatives, consisting mainly of propylene, methanol and acetaldehydes purchased from external suppliers. In the international market, the products are traded within the framework of delivery contracts, and on the spot market. A Group policy for external raw material supplies stipulates that, whenever possible, Perstorp should use more than one supplier for each of its principal raw materials. However, most raw material supplies, including supplies of natural gas and propylene for the Swedish plant in Stenungsund, are delivered via pipelines by sole supplier. This eliminates storage costs and minimizes freight costs, but also creates a risk in terms of raw material supplies. The risk is managed through terminal agreements with suppliers, which in turn creates access to a variety of suppliers. For certain other core raw materials, Group companies enter into long-term delivery agreements to secure their raw material supplies.

Fluctuating raw material prices create turbulence in the marketplace and, in turn, uncertainty with regard to demand in certain sectors. Perstorp concludes quarterly contract-price agreements for most core raw materials, which provides greater price stability over the short term. Opportunities to fix prices over longer periods are available only in the electricity market.

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

Structural changes – greater integration & business consolidation

Perstorp is one of the world's leading suppliers in several of its selected market segments, including Penta and TMP as well as several specialty polyols and organic acids. Perstorp is also the leading supplier of plants and catalysts for the production of formalin.

The chemicals industry has been characterized by consolidation among customers and competitors for the past several years. A globalization trend has also been noted, with increased consumption and production of specialty chemicals in Asia, particularly in China.

It is essential for Perstorp to be represented in all key markets, and to offer solutions preferred by customers in these markets, supported by a high degree of service and reliability. Own presence in the Asian market is considered important in view of the market's strong growth. Perstorp has maintained a significant presence in Asia for a number of years – with production units in India, South Korea and, recently, through part ownership in a strategically important TMP plant in China, the R&D Center in India and sales offices in many Asian countries.

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

Restructuring will continue and Perstorp is well-equipped to assume an active role in the process of change, particularly with the support provided by the Group's owner, PAI partners, which has the financial strength and a declared ambition to develop Perstorp into a strong and leading specialty chemicals corporation.

Sustainable development

To be competitive in the chemicals industry, it is essential for companies to assume responsibility for the environment, employees, customers, suppliers and other business and social interests. Global EHSQ is the Group function that coordinates activities related to the environment, health, safety and quality. The Group has a joint management system that simplifies the dissemination of information about risks, incidents and preventive measures. In addition to ISO certification, the Group has also taken the initiative to create a global EHS standard for the work environment, safety and emergency procedures. Internal audits are conducted regularly to ensure compliance with these standards.

At the end of 2006, the EU adopted the chemicals directive REACH, which takes effect on June 1, 2007. REACH, Registration, Evaluation, Authorization of Chemicals, represents a comprehensive extension of EU regulations governing the chemicals sector. Clearly defined responsibility is assigned to the chemicals industry with regard to presentations of data related to chemical substances, the need to conduct risk evaluations and proposed actions to manage these risks. The responsibility is assigned mainly to manufacturers and importers. The chemicals industry will be obliged to register about 30,000 substances before year 2016, and submit risk evaluations of about one-third of the substances. Special permits will be required to use chemicals with certain hazardous properties. The legislation also introduces demands that require consideration for safer alternatives during tests of hazardous chemicals. If the alternatives are economically and technically feasible, the hazardous substances will have to be replaced.

Perstorp is working actively to satisfy the requirements that will result from the forthcoming provisions. This work is being conducted in a dialog with customers and suppliers, and includes a charting of the products´ application areas.

Increased focus on environmental and safety considerations are driving the development of new products, which Perstorp is meeting through active research and development work.

There is also a global Group function that ensures full insurance coverage for the Group and supports the company's efforts to minimize risks. Technical inspections of production units are conducted regularly to reduce the risk of disruptions in production operations. Global insurance programs with different international insurance companies provide the Group with the price advantages that accrue to major customer.

Need for more differentiated products

The emergence of new, substitute products for the same application areas is presenting both risks and opportunities. Within the Group function Renewal & Development, structured efforts have been made during recent years to support a focused innovation process that will create greater understanding of the value chain, and the functionality preferred by customers in the end products. The driving force for the Group's innovations is the need to generate added value, both for the customer and Perstorp. A large part of Group R&D resources is devoted to finding new application areas for existing products that will extend their lifecycles and increase their value.

Winning Formulas

To reflect the corporate culture and strong customer focus needed to develop the Group's global competitiveness, Perstorp has developed the Winning Formulas concept and established three core values: focused innovation, reliability and responsibility.

Winning Formulas and the core values are used in the market to illustrate the Group's performance-oriented corporate culture and attract greater interest in Perstorp as a business partner. Within the company, the goal is to make the core values a natural part of the decision-making process and that always working with the customers in focus will represent a challenge for all employees.

Focused innovation

Focused innovation facilitates a distinct customer focus at all levels of the company. Focused innovation means that Perstorp assigns a value to skillful development of work, responsibility and processes that provide mutual benefits for customers and the company. It never means innovation for the sake of innovation, but rather innovation aimed at finding the best value-creating solution. Perstorp focuses on niche sectors of the chemical industry, in which the company has the potential to become a world leader and drive development around well-defined customer and environmental requirements. This means the company's technologies and innovations are focused on areas where Perstorp can achieve and maintain a distinct competitive edge.

"Perstorp's vision is to be the recognized global leader in realizing solutions for business clients based on the resource-efficient and environmentally sustainable use of selected niches within organic and polymer chemistry."

Reliability

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

Responsibility

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

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Products & applications

Perstorp is a global leader in specific segments of the market for specialty chemical products. Operations are divided into seven business units. During 2007, operations will also be started in renewable fuel additives.

Basic polyols

Coatings and lacquer systems are the main application area for Perstorp's basic polyols Penta (pentaerythritol), TMP (trimethylolpropane), Neo (neopentyl glycol). The polyols are used in the production of resins and to control the properties of end products with regard to surface structure, impact resistance and adhesiveness, for example. Other important application areas for polyols are in the form of intermediates used in the production of liquid adhesives, plastic additives, lubricants and other chemical products.

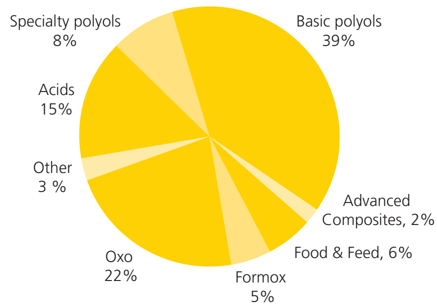
Perstorp is the leading global supplier of Penta and TMP and the third largest producer of Neo. The Group is among its competitors the only company that produces polyols on four continents, with production units situated in Chile, Germany, India, Italy, South Korea, Sweden and the US.

Market conditions were varied during the year for Perstorp's different polyols. Demand for neopentyl glycol was strong, driven by the growing utilization of environmentally compatible powder paints in the industrial sector.

Perstorp continued to increase its presence in various regions of the world market during 2006. Production of Penta was started in Chile, in cooperation with the Chilean company Oxiquim S.A. The products are sold primarily in the Latin American market and to certain international key customers. The plants for production of TMP and Neo in Perstorp were also expanded.

After fiscal year-end, an agreement was reached concerning the production of TMP in China within the framework of a joint venture.

External net sales by product area



Specialty polyols

The need for sophisticated and environmentally compatible coating systems is growing for various electronics products such as mobile telephones and TVs, and also in the automotive and furniture industries. This trend is driving demand for existing and new specialty polyols that offer specific technical properties for advanced coating systems. Synthetic lubricants comprise another large and growing application area for specialty polyols, particularly for CFC-free cooling systems in air conditioners, refrigerators and freezers and similar products.

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

Perstorp's specialty polyols continued to show favorable growth during the year. Particularly strong growth was noted for the product known as micronized penta, which is marketed under the Charmor™ brand. The product is used in fire-resistant paints, an application area characterized by strong growth as a result of increased demands for fire safety in steel structures.

Oxo alcohols & plasticizers

Perstorp is one of Europe's largest and most diversified manufacturers of synthetically produced alcohols, or oxo alcohols. Chemically, the products derive from the same aldehyde bases used to produce the Group's range of polyols.

Oxo alcohols have a wide range of application areas, including the production of water-based paint systems and biodegradable lubricants, as well as fuel additives for greater combustion efficiency in diesel engines.

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

Structural changes in the industry during recent years have reduced capacity and created a favorable balance between supply and demand. Although the changes resulted in stronger demand for Perstorp products during 2006, production problems in the Group's own plants during the year had negative effects on capacity utilization and production output.

Organic acids & formate

Perstorp is a large-scale producer of organic acids for different applications. The main products are hexanoic acid (2-ethyl hexanoic acid), propionic acid and formic acid. The Group also produces formate for external customers and as a raw material for the inhouse production of formic acid. Hexanoic and propionic acids are produced in Stenungsund, while formate and formic acid are produced in Perstorp.

Hexanoic acid is used as an additive in safety glass, a rapidly growing application area created by more stringent safety demands for windshields and side windows in motor vehicles, as well as glass for display windows, doors, building facades and other applications. Hexanoic acid is also used as an additive in corrosion inhibitors, meaning as a rust-protection agent in antifreeze, for example. Propionic acid and formic acid are used as raw materials in the manufacture of various products, primarily in the agricultural and leather industries. The acids are refined both within the Group (Food & Feed) and by external customers, mainly in Europe. In the external market, formate is used in products such as liquid detergents, deicing agents at airports and concrete additives for low-temperature castings.

Perstorp noted favorable demand both for acids and formate during the year, partly a result of increased use of propionic and formic acids as feed additives following the EU's introduction of more stringent requirements on food quality and animal husbandry. Demand for hexanoic acid was strong, driven by its increased use in the application areas comprising safety glass and lubricants for refrigerator compressors. Sales of formate and propionic acid were supported by a decline in the number of suppliers in the market and shutdowns of several production plants.

Growth for organic acids is expected to remain strong and, as a result, capacity was expanded during the year.

Perstorp products are found everywhere. They support practical functions and provide valuable properties in products that we all use, whether on the road or in the office, at home or in our leisure time. They include important properties in coating systems and plastics, but also the quality of food products and pure environment advantages.

Perstorp on the road

Di-TMP → durable weather resistant coating

Neo → high performance powder coated rims

2-EHA → shatterproof windshield

TMP → hardwearing car interior elements

Di-Penta → scratch resistant GPS screen

TMPME → antifoam for diesel making tank filling easier

RME vehicle fuel → environmentally friendly transportation

2-EH → diesel with higher cetane level

Boltorn® H311 → comfortable seats

Bis-MPA → smooth finish on leather & textile seating

Penta mono → PVC protective child's safety seat

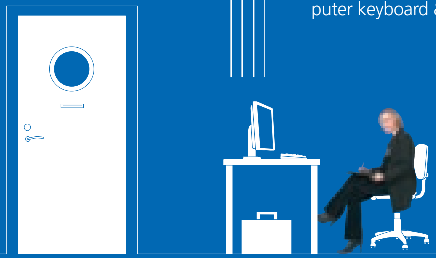
Perstorp at the office

Di-Penta → scratch resistant computer & mobile phone screens

TMP → electronics in phones & office equipment

TMPDE → protective direct gloss coating on wood furniture

Polyol 4800 → PVC computer keyboard & mouse



Sodium Sulphate → crystal clear windows with no air bubbles

Penta tech → PVC window & door frames

Boltorn® W3000 → high impact printing

DMBA → durable flooring finishes

Charmor® → fire protection for people & property

Sodium Formate → treated leather for stylish briefcase

Perstorp in the home

BEPD → durable appliance surfaces

Profina™ → natural freshness in breads & cheeses

Neo → attractive soft drink & food packaging

Promyr® → higher quality milk

Bis-MPA → durable wood floor finishes

Penta → paints for door & window trim

NX 795 & NX 800 → environmentally friendly indoor & outdoor paint

APE → shampoo & cosmetics with perfect consistency

Alkoxylates → glossy magazines

Boltorn® P500 → comfortable compression molded seating

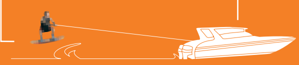
Perstorp on the weekend

Peraflex® 244 → waterproof PVC tent

BEPD → reinforced safety helmet for mountain climbing

Neo → speedboat with a protective gelcoat

Oxymer® → water & weather resistant wakeboard



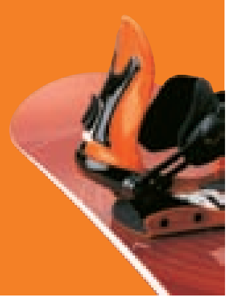
Alkoxylate 3990 → performance inline skate wheels

Alkoxylates → resilient sports shoes

TMP → durable golf balls

Sodium Formate → books & maps on high quality bleached paper

TMPDE → direct gloss coating on wood instruments



Formalin plants & catalysts

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

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

Favorable global economic trends during the year resulted in high capacity utilization at many of the world's formalin plants that are Perstorp's customers and, in turn, healthy demand for the company's catalysts. The economic upswing has created demand for new capacity, particularly in China and Russia, and Perstorp sold nine new formalin plants during the year, compared with three during 2005.

Food & Feed products

Food & Feed within the agricultural and food industries represents a growing application area. Perstorp's offering consists of antibacterial feed additives, silage agents used to preserve green feed and products for grain preservation. All products are based on the refinement of formic acid and propionic acid or other Perstorp products such as calcium formate, sodium formate and sodium propionate.

Sales of Perstorp's products in this area remained strong during the year. Various specialized feed acids and a new generation of the silage agents Promyr were successfully launched in the market.

Advanced Composites

Perstorp is a leading supplier of composite materials and components in small niche sectors of the market for aerospace and aviation applications, which is based mainly in the US. These markets drive demand for advanced materials that combine high durability and lowest possible weight.

YLA, the Group's US subsidiary, manufactures materials for high-temperature systems related to the propulsion of aircraft and carrier rockets, while CCS, another subsidiary, produces sophisticated, precision-molded components for the aviation and aerospace industries, particularly satellite structures. In these segments, Perstorp competes with a limited number of manufacturers such as Hexcel and Cytec, both based in the US, and to a lesser degree with specialized manufacturers of aluminum structures for the aerospace and aviation industries.

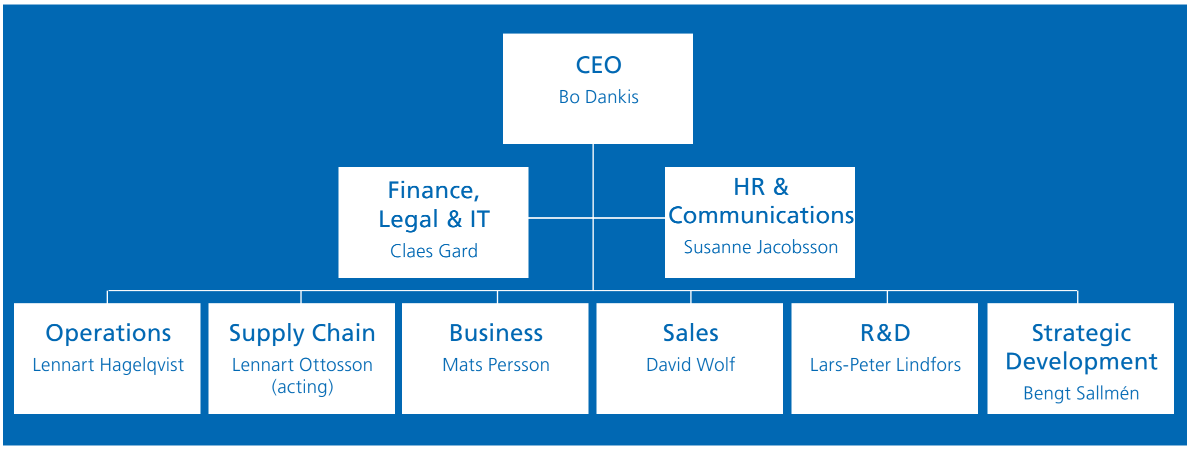
YLA and CCS conduct extensive development of new products and, in cooperation with Perstorp's overall development functions within specialty chemicals, create opportunities to develop better materials, as well as cost advantages in the production of precision-molded components. The favorable trend of order bookings for carbon-fiber-reinforced composite materials for the aerospace industry was further strengthened during the year. Perstorp has a large project portfolio comprising new products and applications, which is expected to contribute to favorable sustainable sales growth.

Renewable fuel additives

Perstorp believes the market for renewable fuel for motor vehicles has significant potential and has launched a major initiative focused on the production of rapeseed methyl ester (RME). RME is a refined product based on European rapeseed and used as a renewable component in diesel fuel, or as a completely independent fuel product. Up to about 2% of RME is added, but it is fully feasible to use diesel fuel with as much as a 5% mix, or higher, without any adaptations to the engine.

Perstorp's program of investments is being conducted in partnership with Preem Petroleum AB, Sweden's largest oil company. Perstorp will be responsible for production and Preem for sales and distribution. Perstorp will also sell RME to other customers. Perstorp is now building an RME-production plant in Stenungsund, where production is expected to start during the second quarter of 2007. A decision was also made during the year to expand the plant's capacity from the originally planned 100,000 to 160,000 tons annually. Accordingly, annual sales of renewable motor fuel will exceed SEK 1 billion.

Organization



Perstorp´s business units

- Basic polyols
- Specialty polyols
- Oxo
- Acids
- Formox
- Food & Feed
- Advanced Composites

Perstorp's activities are organized in a number of Group-wide functions with both strategic and operational responsibility. During the fiscal year, a new function for Strategic Development was formed to support the Group's organic growth in new areas and to work on strategic acquisitions in new and existing areas of business activity. Effective January 1, 2007, the market and sales organization is divided into two functions, Business and Sales, as part of efforts to strengthen the Group's focus on customers and support a stronger focus on customer-related issues within Group management.

The average number of Group employees during 2006 was 1,675 (1,601). The workforce was distributed geographically as follows: Sweden 54%, other EU countries 16%, Asia 17% and North and South America 13%.

Operations
The Operations function has overall and operational responsibility for Perstorp's production plants and energy production, including production investments. The function is also responsible for Perstorp's work on environmental, safety and health issues, which is presented in greater detail in the Group's separate Sustainability Report for 2006.

Perstorp has production operations at 12 plants in 10 countries. Since most of the units usually include several specialized plants, the total number of production plants exceeds 40. The largest units are situated in Perstorp and Stenungsund, in Sweden, and Bruchhausen, in Germany, and Toledo, Ohio, in the US. Including energy production, technical service and maintenance, Operations has approximately 1,200 employees.

Supply Chain
The Supply Chain function is responsible for procurements, raw materials and supplies, as well as logistics for the distribution of Group products. The function is also responsible for customer service, and its principal mission includes ensuring that customers have access to good service and reliable deliveries, in addition to optimizing total costs for raw material supplies.

Perstorp's customer service is concentrated to a few sites, which enables the Group to offer every customer a single contact person for all products throughout the entire chain, from order booking to delivery.

Business
The new Business function is responsible for the Group's overall business activities and coordination of the business units. The business units have overall responsibility for the financial results and long-term development within each business area. As illustrated above, Perstorp is organized in seven different business units, based on products and applications.

The yachting industry is currently booming and marine gel coat producers are facing surging demands for higher performance and lower maintenance marine gel coats. To support the industry, Perstorp is introducing Butyl Ethyl Propanediol (BEPD).

The function also includes three units for business development, market communication and business control. Business development focuses mainly on business development projects within or closely related to existing areas of activity. Market communication develops the company's communications concerning products and applications.

Sales

The Sales function is responsible for sales operations in all markets. Perstorp has more than 20 sales offices in nearly as many countries, and agents in more than 60 other locations in all parts of the world.

An office was opened in Shanghai, China, during the year to improve the Group's ability to provide technical and commercial service to customers in China.

A fundamental requirement for the achievement of Perstorp's goal of profitable growth is to meet and, preferably, surpass customer expectations. The global Sales function will be strengthened further through the organizational changes introduced at year-end 2006. Activities that have been assigned high priority include increased customer contacts, faster processing of customer opinions and preferences concerning Perstorp's products and deliveries, and a revitalization of the key accounts concept.

Renewal & Development

The function for Renewal & Development has overall responsibility for Group activities within renewal and development. Research and development projects are conducted in close cooperation with the Group's marketing and production organizations within the framework of a well-structured innovation process. The activities are conducted at three R&D Centers and have a total of nearly 100 employees.

The Group's third R&D center, at the site in Vapi, India, was deployed during 2006. The other two R&D centers are situated in Perstorp and Kilpilahti in Porvoo, Finland. In addition to the activities at these units, development work focused on composite materials and products is conducted by the Advanced Composites unit in Benicia, California, in close cooperation with the R&D Center in Perstorp.

Strategic Development

The Strategic Development function was formed during 2006 to strengthen the Group's growth. The function focuses on company acquisitions in existing and new areas of business activity, and with business development projects outside existing areas of activity.

Business development projects are now being conducted in the segment comprising fuel additives, such as biofuels.

During 2006, the function worked intensely on various acquisition projects. As a result of these efforts, Perstorp reached an agreement after year-end to enter into a joint venture for the production of specialty chemical products in China. A number of other acquisition projects are under active cultivation in close cooperation with the Group's owner, PAI partners.

Finance, Legal & IT

Finance is responsible for the financial accounting and reporting, corporate governance, borrowing, financial policy, the internal bank and insurance.

Group-wide activities within information technology are designed to support the business processes, with the goal of achieving the greatest possible value and, in parallel, optimizing IT costs.

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

HR & Communications

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

For additional information about activities related to human resources and social responsibility, reference is made to the Group's separate Sustainability Report for 2006.

Financial risk management

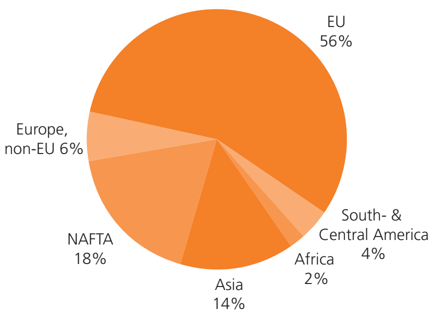
Perstorp is a global group with a substantial share of sales outside Sweden and most of its assets denominated in currencies other than Swedish krona (SEK). It should also be noted that the debt/equity ratio is relatively high, which is normal for a company under private equity ownership. Overall, this means that management and control of financial risks is an extremely important process in the Perstorp Group. These issues are regulated by a policy established by the Board of Directors.

Currency effects

Most of the Group's *production operations* are conducted at three plants in Sweden and in Germany, the US and India. Of the Group's *net sales* (Table A), customers in the EU account for slightly more than half, with Germany and the UK as the largest single markets. Only 6% of sales are attributable to customers in Sweden. Customers within NAFTA account for 18% of sales, and customers in Asia for 14%. Accordingly, substantial deliveries from the production units in Sweden are made to customers in other European countries, the US and Asia. Most sales are invoiced in USD and EUR. In terms of procurements, most payments are denominated in EUR. As a result, USD is the Group's most highly exposed currency (Table B).

With regard to *exposed capital*, large parts of the Group's tangible fixed assets and working capital are concentrated in Sweden. For allocations of the Group's surplus value in conjunction with the acquisition of Perstorp by PAI partners, due consideration was taken for the fact that large proportions of Group revenues are derived from EUR and USD-based markets. This has impacted the currency distribution of intangible assets (Table C).

Net sales per geographical market



A. Net sales per market

SEK m	2006	%
Sweden	472	6
United Kingdom	947	13
Germany	605	8
Belgium	397	5
France	307	4
Other EU	1,323	18
Europe, non-EU	401	6
NAFTA	1,308	18
Asia	1,033	14
Africa	177	2
South- and Central America	280	4
Oceania incl. Australia	23	0
Total	7,273	100

B. Operating flow per currency, 2006

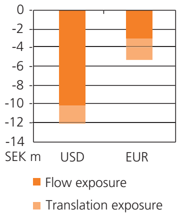
	Flows in foreign currency			Translated
	Inflows	Outflows	Net	to SEK m [1]
USD to SEK	155	-24	131	900
USD to EUR	19	-1	18	124
EUR to SEK	357	-321	36	326
GBP to SEK	21	-13	8	108
GBP to EUR	2	-1	1	13
JPY to SEK	2,390	-254	2,136	123
Total				1,594

[1] At year-end exchange rate

C. Operating capital per currency, end of 2006

SEK m	Working capital	Tangible fixed assets	Intangible fixed assets	Total operating capital
SEK	330	3,133	24	3,487
EUR	219	688	3,705	4,612
USD	144	371	1,884	2,399
GBP	0	0	311	311
INR	3	82	0	85
KRW	12	31	8	51
Other currencies	6	2	-1	7
Total	714	4,307	5,931	10,952

Impact on EBITDA of 1 % stronger SEK



Accordingly, Group sales and earnings are impacted by fluctuations in the strength of SEK in relation to other currencies. The greatest impact is the effect on earnings caused by changes relative to USD. Perstorp has chosen not to hedge its flows in foreign currency. Currency fluctuations are managed instead through loans raised in the Group's most highly exposed currencies, EUR and USD, so that debt also changes when the strength of SEK varies. The exposed *net assets*, or shareholders' equity per currency, are shown in Table D.

Financing & interest rates

Perstorp has a finance policy that regulates which financial risks the Group is prepared to take, and guidelines for management of these risks. Corporate Finance (CF) assumes global responsibility for Perstorp's financial activities, provides necessary specialist expertise in the area and for coordination of the Group's external borrowing. CF also operates as the Group's internal bank with regard to capital supply and the Group account system.

The *financing risk* is the risk that difficulties may arise in the refinancing of maturing loans, or that such refinancing will be costly. Net debt is specified in Table E.

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

SEK m	Net assets before loans in foreign currency	Loans in foreign currency by Swedish companies	Liquidity swaps	Exposed net assets
EUR	2,326	-3,041	210	-505
USD	1,573	-879	213	907
GBP	270	-	-	270
SEK	-4,327	3,920	-452	-859
Other currencies	114	-	29	143
Total	**-44**	**0**	**0**	**-44**

E. Specification of net debt

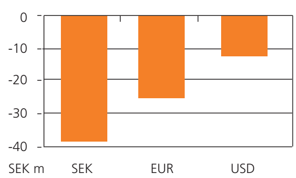
SEK m	Group December 31, 2006
Senior credits	4,704
Second lien	582
Mezzanine	2,093
Capitalized costs for arranging loans	-304
Other financial liabilities excl. owner loan	341
Financial debt excl. Parent Company loan and pension liabilities	**7,416**
Interest-bearing pension liability, net	239
Loan from Parent Company	1,952
Total interest-bearing liabilities	**9,607**
Cash and cash equivalents	-425
Other interest-bearing receivables	-100
Interest-bearing assets	**-525**
Reversal of capitalized costs for arranging loans	304
Net debt incl. pensions	**9,386**

Most of the Group's financing consists of senior credits guaranteed by Svenska Handelsbanken, Nordea and HSH Nordbank, as well as second lien and mezzanine facilities syndicated in 2006 to about 10 financiers. The loan agreements extend over 7 or 8 years. There is also a Parent Company loan from Luxembourg-based Financière Fort S.À.R.L., which extends over 10 years and for which the 10%-interest is being capitalized.

The loan agreements include financial covenants comprising key ratios with respect to cash flow in relation to interest payments and debt repayment, net debt in relation to EBITDA and EBITDA in relation to interest payments. During 2006, the Group met these covenants.

Interest risk is the risk for negative effects on earnings caused by increased market interest rates. For most of the bank loans, interest-rate hedging is implemented for a period of three years from December 2005. As a result, the average fixed-interest duration is as high as 478 days, excluding the Parent Company loan, which extends over 10 years from year-end 2005. Interest-rate hedging had a favorable impact on Group earnings during 2006, and also generated a favorable equity effect amounting to SEK 42 m after tax, as a result of the market valuation of the interest-rate contracts for the remaining two years.

Sensitivity to 1% increase in interest rates, without fixed interest



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

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

	Financial debt *) per currency	Effective interest rate at year-end	Duration, days, before interest hedging	Duration, days
SEK	3,774	4.8	31	487
EUR	2,465	11.7	59	464
USD	1,193	7.3	88	482
Other currencies	-16	7.0	53	53
Total	**7,416**	**7.5**	**49**	**478**

*) Excluding Parent Company loan and pension liability.

Loans in EUR and USD are raised by the Swedish companies to match net assets in the respective main currencies, in accordance with the Group's finance policy.

In accordance with the Group's finance policy, interest hedging is implemented to establish fixed interest rates for at least half of the bank loans for a period of three years from December 2005.

Report of the Board of Directors

Perstorp Holding AB
Corp. Reg. No. 556667-4205

Group & its operations

Perstorp focuses on several specific segments of the market for specialty chemicals products. Most of the products are sold worldwide, with Europe and the US as the Group's largest markets, and Asia accounting for a growing share of sales. The customers are mainly active in the coatings, plastic-processing and automotive industries, and also in the construction and engineering industries, among others.

The Group has manufacturing companies in ten countries in Europe, North and South America, and Asia. Perstorp has around 1,700 employees and its Head Office is in Perstorp, Sweden.

The company was formed on September 2, 2004, under the name Guldskålen D 536 AB, was subsequently renamed Skog Holding AB and in 2006 its name was changed to Perstorp Holding AB. On December 22, 2005, the company purchased Sydsvenska Kemi AB (publ.) from Industri Kapital. In early 2006, Sydsvenska Kemi AB (publ.) repaid its 2001/2011 debenture loan and the Stockholm Stock Exchange terminated trading in the related debentures. At the beginning of the year, the second lien and mezzanine loans were syndicated to about ten financiers as part of the financing of the acquisition.

Perstorp Holding AB is controlled by the French private equity company PAI partners, which has offices in Paris, London, Madrid and Milan and controls funds that manage assets with a value exceeding EUR 7 billion.

Legal structure

Following the acquisition, Perstorp gained a new legal structure, which entails that Perstorp Holding AB is the Parent Company of three holding companies:

- Sydsvenska Kemi AB
- Perstorp Holding GmbH
- Perstorp Holding B.V.

Net sales & results

The trend during the year, as reported below, is shown essentially without comparative figures for the preceding year, because the legal Group did not arise until the end of 2005. There were no net sales for 2005 and the loss reported for the year corresponded primarily to interest expense and tax in the Parent Company.

Net sales amounted to SEK 7,273 m, as a result of healthy demand and rising prices. Price increases accounted for 9% of the sales increase. Acquisitions/divestments had a marginal net impact on sales, while volume growth was impeded by production disruptions in the Group´s plants at Stenungsund, Sweden, and Bruchhausen, Germany. The average exchange rates for the USD and EUR during the year were on the same level as in the preceding year.

Operating earnings before depreciation amounted to SEK 1,091 m. During 2006, there was a negative impact of SEK 6 m from nonrecurring items, primarily pertaining to insurance compensation for fixed assets due to damage, SEK 24 m, which was offset by acquisition project costs.

Earnings benefited from volume growth and cost restrictions but were negatively influenced by sharp raw-material price increases and production disruptions at the Group's own plants. Earnings were also influenced by a negative exchange-rate effect due to the weakening USD.

Depreciation and write-down totaled SEK 525 m, of which write-down amounting to SEK 18 m were attributable to value depletion due to damage in 2006.

Net interest expense amounted to SEK 715 m, including a positive exchange-rate effect of SEK 104 m arising from the translation of primarily the Swedish Parent Company EUR-denominated loans. The average interest rate was 7.5%, excluding loans from the Parent Company.

Income taxes totaled SEK 4 m, despite the loss reported for the year, due mainly to non-deductible costs and to losses generated by companies in which loss carryforwards are not assigned a value for income tax purposes.

Accordingly, the net loss for the year amounted to SEK 153 m.

Financial position

The final acquisition balance sheet arising from Perstorp Holding AB's acquisition of the Sydsvenska Kemi Group on December 22, 2005 was established and the closing balance sheet for 2005 was restated. This mainly affected tangible and intangible fixed assets and deferred tax.

Working capital decreased by SEK 28 m during the year, which was due entirely to exchange-rate effects.

Net debt decreased during the year by SEK 316 m, partly due to exchange-rate effects and partly due to the positive cash flow after investments, as described below.

Shareholders' equity declined by SEK 538 m during the year to a negative equity of SEK 44 m at the close of 2006. This resulted partly from the net loss of SEK 153 m reported for the year, but mainly from negative effects from the translation of net assets in foreign currencies. The Group will have less exposure to net assets in the future. The EUR-denominated loans had not been raised at the beginning of 2006, which meant that the Group had major EUR-denominated net assets during a period when the EUR depreciated.

Cash flow

Cash flow from operating activities during the year amounted to SEK 591 m (no pro forma figures exist for 2005). Net interest payments amounted to EUR 373 m. Part of the interest payments that affected earnings were capitalized and certain interest expenses do not become due until early 2007. Income tax payments totaled SEK 113 m, of which almost half pertained to earnings prior to 2006. Working capital rose during the year by SEK 35 m, adjusted for exchange-rate effects. Inventories increased during the year, primarily due to the increase in raw-material prices. This was offset by the increase in accounts payable.

Cash flow from investing activities was a negative SEK 332 m; mainly investments in fixed assets. Investments, divestments and acquisitions are described in separate sections below.

Acquisition costs of SEK 115 m were paid during the year.

In total, this resulted in cash flow of SEK 144 m. Since cash and cash equivalent also decreased by SEK 250 m, credit utilization was reduced by a total of SEK 393 m during the year. There were unutilized credit limits amounting to SEK 488 m at the end of the year, in addition to the Group's cash and cash equivalents.

Investments & company acquisitions

In order to meet increasing demand during the year, extensive investments were implemented in both existing and new specialty chemical products. Investments during the year, excluding company acquisitions, totaled SEK 476 m. The largest investment pertained to a plant for the manufacture of renewable fuel, rape methyl ester (RME), which is under construction in Stenungsund

A new propionic acid plant was completed in Stenungsund, and in Perstorp a new formic acid plant was deployed. The manufacture of creosan was moved to Vapi, India, where a plant for the manufacture of Di-Penta also is being prepared for start-up.

Extension of plants for the manufacture of polyols TMP and Neo was implemented in Perstorp, where also investments were made in biofuel-based energy production, for the use of Biomal, which is based on offal as energy raw materials.

Production of Penta, Di-Penta and sodium formate has commenced in South America within the framework of a production partnership with Oxiquim S.A. in Chile. On March 1, 2006, Perstorp assumed responsibility for production and assets at the plant in Viña del Mar, Chile, which has 78 employees.

On March 31, Perstorp acquired the remaining 49% of the shares in Hansol Perstorp Co. Ltd., from Hansol Chemicals Co. Ltd., Korea, which subsequently changed name to Perstorp Chemicals Korea Co. Ltd. Perstorp also acquired additional land from Hansol Chemicals for future expansion of the operation in Korea. Perstorp also acquired the remaining shares in the subsidiary YLA, which manufactures advanced composite material for primarily the aerospace industry.

During May, Perstorp divested the remaining part of the company's production of concrete admixtures (Peramin). The business was valuated at the sales price in the acquisition balance of 2005.

Outlook

For 2007, Perstorp expects demand to remain buoyant in the Group´s various markets. As a result of this factor, combined with capacity increases and the start-up of production of the new product RME (rape methyl ester) during the second quarter, the future trend for the Group is expected to be favorable.

Environment

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

Events following fiscal year-end

In January 2007, within the framework of a joint venture with Shandong Fufeng Chemical Co. Ltd., Perstorp acquired 51% of Zibo Fufeng Tongsheng Chemical Co. Ltd., which operates a modern production plant for TMP in Qilu Chemical Industrial Park in Zibo City in the Shandong province. The plant has a production capacity of 15,000 tons per year, which means that the joint venture operation will represent the largest producer of TMP in China. The acquisition is conditional upon permits being issued by local authorities in China.

The Board has decided to merge the subsidiary Sydsvenska Kemi AB with Perstorp Holding AB during 2007. The merger plan has been established.

Corporate Governance

Annual General Meeting

In addition to the Annual General Meeting on June 16, 2006, four Extraordinary General Meetings were held during the year.

At an Extraordinary General Meeting on February 1, Dominique Mégret and Lennart Holm were elected new members of the Board. Gaëlle d'Engremont resigned as ordinary Board member but was elected as deputy member.

At the Annual General Meeting, Dominique Mégret, Lennart Holm, Bertrand Meunier and Fabrice Fouletier were re-elected ordinary members of the Board, and Gaëlle d'Engremont was elected deputy member. PriceWaterhouseCoopers was elected auditors for the period 2006-2009.

At an Extraordinary General Meeting on September 20, Bo Dankis was elected ordinary Board member, and Lennart Holm was elected Chairman of the Board. Dominique Mégret will continue to serve as a member of the Board.

The other two Extraordinary General Meetings addressed various issues concerning decisions required in conjunction with the company's registration with the Swedish Companies Registration Office and the assumption of contractual rights/obligation in conjunction with the acquisition of Sydsvenska Kemi AB from its only shareholder.

Board of Directors

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

The members of the Board are presented on page 54.

Work conducted by the Board of Directors is regulated by the Board's working procedures, which are examined and approved by the Board once annually. The working procedures also regulate the division of responsibility between the Board and the President.

During 2006, five scheduled Board meetings were held, as well as two statutory meetings and one special meeting.

Working Committee

The Working Committee prepares issues for presentation at Board meetings. During 2006, the Working Committee met seven times and consisted of the following members: Lennart Holm, Bo Dankis, Bertrand Meunier and Fabrice Fouletier. The Working Committee has appointed two subcommittees:

Audit Committee

The Audit Committee focuses on audit issues and consists of the following members: Fabrice Fouletier, Gaëlle d'Engremont and Claes Gard. During 2006, the committee held three meetings. The auditor has to be invited to at least one meeting of the Board of Directors per year, and otherwise whenever considered necessary.

Remuneration Committee

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

President & Group Management

Lennart Holm held the position of President until September 30. He was succeeded by Bo Dankis on October 1.

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

Accounts

Income statements					
SEK m	Note	Group		Parent Company	
		2006	2005[1)]	2006	2005[1)]
Net sales		7,273	-	36	-
Costs of sold goods		-6,105	-	-	-
Gross earnings		1,168	-	36	-
Selling and marketing costs	6,7	-320	-	-	-
Administrative costs	6,7	-213	-1	-56	-1
Research and development costs	6,7	-85	-	-	-
Other operating income and expenses	9	15	-	-	-
Result from participations in associated companies	11	1	-	-	-
Operating earnings/loss (EBIT)		566	-1	-20	-1
Financial items:					
Group contribution		-	-	396	-
Financial income	20	113	3	309	3
Financial expenses	20	-828	-14	-674	-14
Earnings/loss before tax		-149	-12	11	-12
Income taxes	21	-4	3	-3	3
Net earnings/loss for the year		-153	-9	8	-9
Of which, attributable to minorities	13	0	0	-	-

1) Extended fiscal year, from September 2, 2004 to December 31, 2005. The Group was not formed until the end of 2005.

Definition of key figures

Margin ratios

Operating margin
Operating earnings after depreciation as a percentage of net sales.

Operating margin before depreciation
Operating earnings before depreciation as a percentage of net sales.

Capital ratios

Average capital
Based on monthly balances during the year.

Capital employed
Total asssets less interest-free liabilities.

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

Financial ratios

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

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

Return ratios

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

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

Balance sheets

SEK m	Note	Group [1) 2)]		Parent Company [2)]	
		Dec 31, 2006	Dec 31, 2005	Dec 31, 2006	Dec 31, 2005
ASSETS					
Fixed assets					
Intangible fixed assets	7	5,931	6,501	-	-
Tangible fixed assets	6	4,307	4,294	-	-
Financial fixed assets					
Deferred tax assets	21	297	304	-	3
Shares in Group companies	14	-	-	6,073	6,141
Participations in associated companies	10	1	0	-	-
Long-term receivables, Group companies		-	-	912	807
Pension assets	20, 22	1	1	-	-
Endowment insurance, direct pension	20, 22	67	64	-	-
Other interest-bearing, long-term receivables	16, 20	94	36	-	-
Interest-free, long-term receivables	16	17	199	-	-
Total financial fixed assets		**477**	**604**	**6,985**	**6,951**
Current assets					
Inventories	17	833	778	-	-
Accounts receivable	15	1,185	996	-	-
Operating receivables from associated companies		35	40	-	-
Operating receivables from Group companies		-	-	4	-
Tax receivables		17	21	-	-
Other operating receivables	15	240	245	3	2
Financial receivables from Group companies		-	-	446	1
Other current financial receivables	20	6	11	-	-
Total current assets		**2,316**	**2,091**	**453**	**3**
Cash and cash equivalents	18, 20	**425**	**674**	**-**	**412**
TOTAL ASSETS		**13,456**	**14,164**	**7,438**	**7,366**
SHAREHOLDERS´ EQUITY AND LIABILITIES					
Shareholders´ equity					
Share capital [3)]		0	0	0	0
Other capital contributions		457	457	-	-
Reserves		-339	-	-	-
Retained earnings		-9	-	448	457
Net earnings/loss for the year		-153	-9	8	-9
Shareholders´ equity, excluding minority interests		**-44**	**448**	**456**	**448**
Minority interests	12	0	46	-	-
Total shareholders´ equity, including minority interests		**-44**	**494**	**456**	**448**
Long-term liabilities					
Deferred tax liabilities	21	1,955	2,121	-	-
Direct pension	20, 22	67	64	-	-
Pension liability, others	20, 22	240	237	-	-
Loans from Parent Company	20	1,952	1,604	1,952	1,604
Long-term interest-bearing liabilities	20	6,718	7,814	3,738	5,058
Other liabilities, provisions	23	53	54	-	-
Total long-term liabilities		**10,985**	**11,894**	**5,690**	**6,662**
Current liabilities					
Accounts payable	19	947	745	4	-
Tax liabilities		20	46	0	-
Other operating liabilities	19	631	572	12	-
Accrued interest expense, interest-free		219	8	169	7
Financial liabilities to related companies	20	122	261	86	249
Financial liabilities to Group companies		-	-	591	-
Other financial liabilities	20	576	144	430	-
Total current liabilities		**2,515**	**1,776**	**1,292**	**256**
TOTAL SHAREHOLDERS´ EQUITY AND LIABILITIES		**13,456**	**14,164**	**7,438**	**7,366**
Contingent liabilities	25	22	99	3,022	2,489
Assets pledged	26	7,315	7,875	6,073	6,141

1) The consolidated balance sheet at year-end 2005 has been restated in view of the establishment of the acquisition balance sheet, in accordance with IFRS 3.
2) The Parent Company's accounts have been prepared in accordance with the Annual Accounts Act and the Swedish Accounting Standards Board's general recommendations.
2) 1,000 shares with a par value of SEK 100 each.

Cash flow statements [1]

SEK m	Group		Parent Company	
	2006	2005[1]	2006	2005[1]
Operating activities				
Operating earnings	566	-1	-20	-1
Adjustments:				
Depreciation [2]	525	-	-	-
Other	21	-	-	-
Interest received	4	-	64	-
Interest paid	-377	-	-297	-
Income tax paid	-113	-	-	-
Cash flow from operating activities before change in working capital	626	-1	-253	-1
Change in working capital				
Increase (-) /decrease (+) in inventories	-84	-	-	-
Increase (-) /decrease (+) in current receivables	-202	-5	-5	-2
Increase (+) /decrease (-) in current liabilities	251	12	16	-
Cash flow from operating activities	**591**	**6**	**-242**	**-3**
Investing activities				
Acquisition of shares in subsidiaries	-	-	-	-6,141
Acquisition of net assets in subsidiaries	-37	-5,869	-2	-
Adjustment of purchase price	154	-	154	-
Acquisition of tangible and intangible fixed assets	-476	-	-	-
Sale of net assets, subsidiaries	31	-	-	-
Change in financial receivables, external	-4	-	-	-
Change in financial receivables, subsidiaries	-	-	-95	-808
Cash flow from investing activities	**-332**	**-5,869**	**57**	**6,949**
Financing activities				
New share issue/shareholder contribution	-	457	-	457
New loans raised, external	-	5,652	-	5,058
Amortization of debt, external	-	-1,421	-	-
New loan raised from subsidiaries	-	-	450	-
New loan raised from Parent Company	188	1,600	188	1,600
Change in credit utilization	-581	-	-756	-
Change in short-term liability, related companies	-115	249	-109	249
Cash flow from financing activities	**-508**	**6,537**	**-227**	**7,364**
Change in cash and cash equivalents, incl. short-term investments	**-249**	**674**	**-412**	**412**
Cash and cash equivalents in the opening balance, incl. short-term investments	674	-	412	0
Translation difference in cash and cash equivalents	0	-	-	-
Cash and cash equivalents, end of period, incl. short-term investments	**425**	**674**	**0**	**412**

[1] The Parent Company had an extended fiscal year in 2005, from September 2, 2004 to December 31, 2005. The Group was not formed until the end of December, 2005.
[2] Includes SEK 18 m for impairment of fixed assets in 2006 due to damage.

Shareholders´ equity 2005

Shareholders´ equity, Group

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

[1] The Parent Company had an extended fiscal year, from September 2, 2004 to December 31, 2005.

Shareholders´ equity, Parent Company

SEK m	Share capital	Retained earnings	Net earnings/ loss for the period	Total shareholders´ equity, excl. minority interest	Minority interest	Total shareholders´ equity
Opening balance, September 2, 2004 [1]	-	-	-	-	-	-
Shareholder contribution	0.1	457	-	457	-	457
Net earnings/loss for the year	-	-	-9	-9	-	-9
Closing balance, December 31, 2005	**0**	**457**	**-9**	**448**	**-**	**448**

[1] The Parent Company had an extended fiscal year, from September 2, 2004 to December 31, 2005.

Shareholders´ equity 2006

Shareholders´ equity, Group

SEK m	Share capital	Other capital contributions	Reserves	Retained earnings	Net earnings/ loss for the period	Shareholders´ equity excl. minority interest	Minority interest	Total shareholders´ equity
Opening balance, January 1, 2006	**0**	**457**	**-**	**-**	**-9**	**448**	**46**	**494**
Transfer of preceding year´s results	-	-	-	-9	9	-	-	-
Translation differences:								
change during the period	-	-	-435	-	-	-435	-	-435
less effect of hedging during the period	-	-	75	-	-	75	-	75
tax effect of hedging during the period	-	-	-21	-	-	-21	-	-21
Fair valuation o interest swap:								
change during the period	-	-	58	-	-	58	-	58
tax effect on change during the period	-	-	-16	-	-	-16	-	-16
Acquired minority interest	-	-	-	-	-	-	-46	-46
Net earnings/loss for the year	-	-	-	-	-153	-153	-	-153
Closing balance, December 31, 2006	**0**	**457**	**-339**	**-9**	**-153**	**-44**	**0**	**-44**

Shareholders´ equity, Parent Company

SEK m	Share capital	Retained earnings	Net earnings/loss for the period	Total shareholders´ equity excl. minority interest	Minority interest	Total shareholders´ equity
Opening balance, January 1, 2006	**0**	**457**	**-9**	**448**	**-**	**448**
Transfer of preceding year´s results	-	-9	9	-	-	-
Net earnings/loss for the year	-	-	8	8	-	8
Closing balance, December 31, 2006	**0**	**448**	**8**	**456**	**-**	**456**

Notes

Note 1 General information

Perstorp Holding AB and its subsidiaries (jointly designated the Group) operate in the field of specialty chemicals for companies who are mainly active in the chemicals, paints/coatings and plastic processing industry. The Group has manufacturing units in 10 countries in Europe, North and South America and Asia.

The Parent Company was formed at the end of 2005 in connection with PAI partners' acquisition, through the company Perstorp Holding AB, of the Sydsvenska Kemi Group from Industri Kapital. The pro forma consolidated income statement for 2005 is presented at the Earnings overview, page 10.

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

Note 2 Summary of major accounting principles

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

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

Note 2.1 Basis for preparing the accounts

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

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

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

IAS 1	Presentation of financial reports
IAS 2	Inventories
IAS 7	Cash flow
IAS 8	Accounting principles, changes in estimates and errors
IAS 10	Events after the balance-sheet date
IAS 11	Construction contracts
IAS 12	Income taxes
IAS 16	Tangible fixed assets
IAS 17	Leasing
IAS 18	Revenues
IAS 19	Employee benefits
IAS 21	Effect of changes in exchange rates
IAS 23	Borrowing costs
IAS 24	Related-party disclosures
IAS 27	Consolidated and separate financial statements
IAS 28	Investments in associates
IAS 31	Interest in joint ventures
IAS 32	Financial instruments: disclosure and presentation
IAS 36	Impairment of assets
IAS 38	Intangible assets
IAS 39	Financial instruments: recognition and measurement
IFRS 3	Business combinations

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

Note 2.2 Consolidated accounting

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

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

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

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

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

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

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

At the end of 2006, there was one associated company in the Group, which was jointly owned with Koei Chemical Company (Japan) and accounts for marketing and sales of specialty chemicals products, primarily in the Japanese market.

Note 2.3 Currency translation

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

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

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

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

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

ii) income and expenses for each income statement are translated at the average exchange rate, and
iii) all exchange-rate differences that arise are reported as a separate item in shareholders' equity.

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

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

Note 2.4 Tangible fixed assets

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

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

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

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

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

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

Note 2.5 Intangible assets

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

Goodwill is tested annually in order to identify impairment requirements and is reported at acquisition value less accumulated impairments. Impairment tests performed at the end of 2006 did not reveal any impairment requirements.

When conducting tests to identify possible impairment requirements, goodwill is divided among cash-generating units. The allocation of acquisition value pertaining to the acquisition of Sydsvenska Kemi, December 2005, was completed in 2006.

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

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

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

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

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

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

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

Note 2.6 Impairment

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

Note 2.7 Inventories

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

Note 2.8 Accounts receivable

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

Note 2.9 Cash & cash equivalents

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

Note 2.10 Income taxes

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

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

Note 2.11 Employee benefits

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

Pension commitments regarded as defined-benefit plans must be valued taking into account such considerations as estimated future pay increases and inflation. In connection with the allocation 2006 of acquisition value, actuarial gains and losses were set at zero, as a result of the opening liability being established at the present value of the obligation at the date of transition and, similarly, any related plan assets have been fair valued.

Actuarial calculations of defined-benefit pension plans are performed at the end of each year. Pension costs pertaining to these plans are calculated in accordance with the Projected Unit Credit Method, which allocates costs over the employees' anticipated working life. Actuarial gains and losses outside what is known as the 10% corridor are allocated over the remaining anticipated term of employment for those employees who are part of the various plans. With the help of a discount rate, pension commitments are valued at the present value of the future anticipated payments. The discount rate corresponds to the interest on first-class corporate bonds or treasury bills with a remaining term that corresponds to the commitments concerned. The weighted discount rate used by the Group amounts to 5%. In the consolidated balance sheet, the pension commitments for the fund plans are reported net, after a deduction for the fund assets for the plan. In cases where a net asset arises, this is reported as a financial interest-bearing receivable. The pension commitments are included in the calculation of net debt.

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

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

Note 2.12 Provisions

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

Note 2.13 Revenue recognition

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

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

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

Note 2.14 Leasing

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

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

Note 2.15 Borrowing costs

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

Note 2.16 Effects from future accounting principles

When the consolidated financial statements of December 31, 2006 were being compiled, the following standards and interpretations had yet to become effective:

Standard / interpretation	
IAS 1	Supplement – Presentation of financial reports
IFRS 7	Financial instruments: Disclosure
IFRS 8	Operating segments
IFRIC 7	Restatement approach in connection with the transition till high-inflation reporting
IFRIC 8	Scope of IFRS 2
IFRIC 9	Reassessment of imbedded derivatives
IFRIC 10	Interim Financial Reporting and Impairment
IFRIC 11	Group and Treasury Share Transactions
IFRIC 12	Service Concession Arrangements

These forthcoming accounting principles are not expected to have a material impact on the Group's earnings and financial position. However, additional supplementary disclosures may be required in certain cases, primarily IAS 1 and IFRS 7. IFRS 7 will entail the requirement of disclosures mainly concerning hedge accounting and the classification of financial instruments.

Note 3 Risk management

Note 3.1 Financial risk factors

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

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

a) Currency risk
The currency risk is the risk that the Group's earnings and net assets will be adversely affected by fluctuations in exchange rates. As described under the Risk Management section (pages 27-29), the Group has considerable flows of earnings and net assets in foreign currency, primarily in USD and EUR. A large portion of the transaction flows in EUR is offset by the fact that EUR accounts for most of the Group's raw material payments. However, the Group has considerable net receipts in USD. The Group manages a part of its exposure by concentrating borrowing to USD and EUR; see table in Note 20, page 46.

Operating flows per currency, 2006

SEK m	Local currency Inflows	Outflows	Net	Translated in SEK m [1]
USD to SEK	155	-24	131	900
USD to EUR	19	-1	18	124
EUR to SEK	357	-321	36	326
GBP to SEK	21	-13	8	108
GBP to EUR	2	-1	1	13
JPY to SEK	2,390	-254	2,136	123
Total				**1,594**

[1] At year-end exchange rates.

Operating capital per currency, end of 2006

SEK m	Working capital	Tangible fixed assets	Intangible fixed assets	Total operating capital
SEK	330	3,133	24	3,487
EUR	219	688	3,705	4,612
USD	144	371	1,884	2,399
GBP	0	0	311	311
INR	3	82	0	85
KRW	12	31	8	51
Other currencies	6	2	-1	7
Total	**714**	**4,307**	**5,931**	**10,952**

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

c) Interest-rate risk
The interest-rate risk is the risk that an increase in market interest rates will have an adverse impact on earnings. Interest-rate hedging is applied to fix interest rates for slightly more than half of the bank loans for a period of three years starting on December 31, 2005. On December 31, 2006, the average fixed-interest maturity was 478 days. See table in Note 20, page 46.

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

Note 3.2 Operational risk factors

Raw materials prices – Approximately two thirds of the Group's raw materials are based on crude oil or natural gas, the prices of which occasionally fluctuate sharply. The Group's potential to pass on price increase further along the processing chain depends on the demand balance. For several of the core raw materials, prices are fixed quarterly through agreements with supplier.

Competitiveness – The Group's ability to compete with other companies in terms of price, quality, environmental and service parameters is strengthened through geographic presence in all important markets, recurring rationalization programs to maintain the company's relative resource efficiency and research and development initiatives, as well as active work in the fields of environment and safety factors.

Note 4 Significant estimates & judgements made for accounting purpose

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

a) Impairment testing of goodwill and trademarks: During 2006, an analysis of acquisition values was conducted and, for example, fixed assets, trademarks, technology and customer relations were allocated market values. As explained under Note 2.5, impairment testing is currently performed annually.

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

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

In connection with Industri Kapital's preparations to divest the Perstorp Group in 2005, independent environmental assessments were performed of all the sites. These inquiries did not result in any material environmental observations.

Not 5 Segment information

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

Specialty chemicals operations account for 98% of the Group's sales. To a very great extent, the specialty chemicals operations are integrated both horizontally, since the same product can often be manufactured in several units/countries, and vertically, by being intermediates in the next product. Virtually all products are sold to customers that at this level are far removed from the end customers in the form of automakers, coatings producers and so forth. The same product can often be used for a wide spectrum of applications. Accordingly, there is no natural reason to divide the specialty chemicals operations into different segments. In the internal follow-up of operations, Specialty Chemicals is divided into a number of business units, in certain cases with considerable inter-company sales.

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

Sales and operating capital per geographical market are presented in the Financial Risk Management section, page 27.

Note 6 Tangible fixed assets

Group	Land		Buildings, land improvements		Plants and machinery		Equipment, tools fixtures and fittings		Work in progress incl. advance payments		Total	
SEK m	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
Acquisition value	196	-	649	-	2,808	-	219	-	422	-	4,294	-
Accumulated depreciation	-	-	-	-	-	-	-	-	-	-	-	-
Opening book value	**196**	**-**	**649**	**-**	**2,808**	**-**	**219**	**-**	**422**	**-**	**4,294**	**-**
Exchange-rate differences	-9	-	-14	-	-69	-	-5	-	-3	-	-100	-
Reclassifications	-3	-	23	-	474	-	18	-	-512	-	0	-
Acquisition of subsidiaries	-	196	-	649	33	2,808	-	219	-	422	33	4,294
Other investments	-	-	59	-	9	-	2	-	402	-	472	-
Divestments and scrappage	-2	-	-	-	-19	-	-	-	-	-	-21	-
Depreciation	-	-	-42	-	-298	-	-31	-	-	-	-371	-
Book value, December 31	**182**	**196**	**675**	**649**	**2,938**	**2,808**	**203**	**219**	**309**	**422**	**4,307**	**4,294**
Acquisition value	182	196	716	649	3,230	2,808	233	219	309	422	4,670	4,294
Accumulated depreciation	-	-	-41	-	-292	-	-30	-	-	-	-363	-
Closing book value	**182**	**196**	**675**	**649**	**2,938**	**2,808**	**203**	**219**	**309**	**422**	**4,307**	**4,294**

Depreciation amounting to SEK 357 m is included in cost of goods sold, SEK 4 m in selling costs, SEK 1 m in R&D costs and SEK 9 m in administrative costs. This amount includes leasing costs amounting to SEK 5 m, mainly pertaining to fixed assets in the acquired operation in Chile, as well as steam boilers.

Buildings and land with a value of SEK 530 m (534) are used as collateral for bank loans.

The Parent Company has no tangible fixed assets.

Tax assesment value, Swedish Group companies

SEK m	Tax assessment value Dec 31, 2006	Book value Dec 31, 2006
Buildings, including building fittings	518	830
Land and land improvements	74	52
Total	**592**	**882**

Note 7 Intangible fixed assets

Group	Goodwill		Trademarks		Patents, licenses and similar rights		Know-how		Customer relations		Other [1]		Total	
SEK m	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
Acquisition value	2,420	-	1,375	-	12	-	1,345	-	1,345	-	4	-	6,501	-
Accumulated depreciation	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Opening book value	**2,420**	-	**1,375**	-	**12**	-	**1,345**	-	**1,345**	-	**4**	-	**6,501**	-
Exchange-rate differences	-173	-	-97	-	-	-	-94	-	-93	-	-2	-	-459	-
Reclassifications	-1	-	-4	-	1	-	6	-	-1	-	-2	-	-1	-
Acquisition of subsidiaries	15	2,420	-	1,375	-	12	-	1,345	-	1,345	12	4	27	6,501
Other investments	-	-	-	-	-	-	-	-	-	-	3	-	3	-
Divestments and scrappage	-	-	-4	-	-	-	-1	-	-	-	-	-	-5	-
Depreciation	-	-	-1	-	-3	-	-49	-	-78	-	-4	-	-135	-
Book value, December 31	**2,261**	**2,420**	**1,269**	**1,375**	**10**	**12**	**1,207**	**1,345**	**1,173**	**1,345**	**11**	**4**	**5,931**	**6,501**
Acquisition value	2,261	2,420	1,270	1,375	13	12	1,255	1,345	1,251	1,345	14	4	6,064	6,501
Accumulated depreciation	-	-	-1	-	-3	-	-48	-	-78	-	-3	-	-133	-
Closing book value	**2,261**	**2,420**	**1,269**	**1,375**	**10**	**12**	**1,207**	**1,345**	**1,173**	**1,345**	**11**	**4**	**5,931**	**6,501**

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

Depreciation amounting to SEK 55 m is included in cost of goods sold, SEK 78 m in selling costs and SEK 2 m R&D costs. Depreciation also includes leasing costs of SEK 1 m in the form of rental rights connected to the acquisition value of Chilean operations.

The Parent Company had no intangible fixed assets.

Impairment testing of assets that are not amortized
Goodwill and the trademarks assigned a value in connection with the acquisition allocation required following the acquisition of the Group at the end of 2005 (Perstorp and Formox) have been adjudged to have an unlimited life. The values have been allocated to the Group's cash-generating units and among various currencies. The business sectors comprise Specialty Chemicals, Advanced Composites and Formox. A summary of the allocation per currency of the assets that are not amortizable is presented below. 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 2.5%. The discount interest rate amounts to 9.5% after tax. Impairment testing performed at the end of 2006 did not give rise to any action.

SEK m	Goodwill	Trademarks	Total
EUR	1,417	796	2,213
USD	726	398	1,124
GBP	118	67	185
Total	**2,261**	**1,261**	**3,522**

Note 8 Leasing

Operational leasing agreements, SEK m	Group	
Future minimum leasing fees	**2006**	**2005**
Due:		
Year 1	16	13
Year 2-5	17	11
Year 6-	0	0
Total	**33**	**24**

Financial leasing agreements, SEK m		
Future minimum leasing fees	**2006**	**2005**
Due:		
Year 1	8	1
Year 2-5	22	3
Year 6-	7	0
Total	**37**	**4**

Operational leasing costs during the period	**2006**	**2005**
Minimum leasing fees	22	-
Variable charges	0	-
Total	**22**	-

Note 9 Other operating income & costs

SEK m	Group	
	2006	**2005**
Insurance compensations	78	-
Operations-related exchange-rate differences	-71	-
Impairment/scrappage	-18	-
Other	26	-
Total	**15**	-

The Parent Company had no other operating income and costs.

Note 10 Participations in associated companies/joint ventures

SEK m	Share of capital/ voting rights	Groups´ share of shareholders´ equity	Book value, Group Dec 31, 2006
Koei-Perstorp Company Ltd, Japan	40/40	2	1
Polygiene	35/35	0	0
Total		**2**	**1**

	2006	**2005**
Opening book value	0	-
Earnings from participations in associated companies	1	-
Acquisition of partcipation in associated companies	-	0
Closing book value	**1**	**0**

Note 11 Result from associated companies/joint ventures

SEK m	2006	2005
Koei-Perstorp Company Ltd	1	-
Total	1	-

Note 12 Minority share

SEK m	Book value Dec 31, 2006
CCS Composites LLP	0
Total	0

SEK m	2006	2005
Opening book value	46	-
Acquisition of the Group	-	46
Profit/loss during the period	-	-
Acquisition of minority share	-46	-
Closing book value	0	46

During 2006, the Group acquired minority shares in YLA Inc. and Hansol-Perstorp Co. Ltd.

Note 13 Minority share in net profit for the year

SEK m	2006	2005
CCS Composites LLP	0	0
Total	0	0

Note 14 Parent Company shares in Group companies

Direct holdings in Group companies	Corp. Reg. number	Registrated Head Office	Holding %	Book value, SEK m Dec 31, 2006
Sydsvenska Kemi AB	556602-2769	Perstorp	100	5,691
Perstorp Holding BV	34089250	Amsterdam	100	272
Perstorp Holding GmbH	HSB 159569	Arnsberg	100	110
Total				6,073

SEK m	2006	2005
Opening book value	6,141	-
Acquisition of the Group	-	6,141
Capitalization of acquisition costs	2	-
Shareholder contribution, unconditional	100	-
Adjustment of purchase price	-154	-
Reversal of provision	-16	-
Closing book value	6,073	6,141

Note 15 Accounts receivable & other operating receivables

	Group	
SEK m	Dec 31, 2006	Dec 31, 2005
Accounts receivable, gross	1,199	1,015
Bad debt provision	-14	-19
Accounts receivable, net	**1,185**	**996**
Other operating receivables		
Value added tax	113	134
Deferred income, Formox project (see table below)	6	25
Prepaid insurance premiums	5	8
Receivables from suppliers	0	4
Other prepaid costs and deferred income	41	49
Other	75	25
Total other operating receivables	**240**	**245**

The item called Other includes a receivable of SEK 35 m from an insurance company. The Parent Company had other operating receivables totaling SEK 3 m (2).

	Group	
	Dec 31, 2006	Dec 31, 2005
Deferred income, Formox project		
Deferred costs plus profit mark-up	47	35
Advance payments from customers	-41	-10
Total deferred income	6	25

Note 16 Other long-term receivables

	Group	
SEK m	Dec 31, 2006	Dec 31, 2005
Interest-bearing long-term receivables		
Promissory note loan	30	30
Market valuation of interest-rate contracts	58	-
Other receivables	6	6
Total	94	36

Interest-free long-term receivables		
Receivables related to acquisition purchase price and sale of operation	-	183
Other receivables	17	16
Total	17	199

The Parent Company had no other long-term receivables.

Note 17 Inventories

	Group	
SEK m	Dec 31, 2006	Dec 31, 2005
Raw material and consumables	272	242
Products in progress	33	42
Finished goods and goods for resale	522	500
Work in progress on behalf of others	7	-
Impairment reserve	-1	-6
Total	833	778
Of which, valued at net realizable value	12	0

	2006	2005
Impairment reserve, opening balance	-6	-
Acquisition of the Group	-	-6
Provision utilized during the year	5	-
Impairment reserve, closing balance	-1	-6

Note 18 Cash & cash equivalents

SEK m	Group		Parent Company	
	Dec 31, 2006	Dec 31, 2005	Dec 31, 2006	Dec 31, 2005
Short-term investments	-	204	-	-
Deposit account	40	316	0	300
Overdraft facility	381	150	0	112
Cash	4	4	0	0
Total	**425**	**674**	**0**	**412**

The deposit account in the Parent Company at the end of 2005 consisted of blocked bank deposits for the deduction of the purchase consideration to be paid to Industri Kapital.

Note 19 Accounts payable & other operating liabilities

SEK m	Group		Parent Company	
	Dec 31, 2006	Dec 31, 2005	Dec 31, 2006	Dec 31, 2005
Accounts payable	947	745	4	-
Other operating liabilities				
Accrued wages, salaries and social security costs	183	194	8	-
Advance payments	56	17	-	-
Other accrued costs and prepaid income	321	264	2	-
VAT	20	27	1	-
Payroll tax	15	16	-	-
Other	36	54	1	-
Total	**631**	**572**	**12**	-

Note 20 Borrowing & financial income & expense

A. Specification net debt

SEK m	Group		Parent Company	
	Dec 31, 2006	Dec 31, 2005	Dec 31, 2006	Dec 31, 2005
Senior loans	4,704	5,125	1,760	4,361
Second lien	582	600	582	600
Mezzanine loans	2,093	440	2,093	440
Capitalized costs for arranging loans [1]	-304	-364	-269	-343
Subordinated debenture loan (repaid in January 2006)	-	1,957	-	-
Inter-company financial liabilities	-	-	591	-
Other financial liabilities, excluding loans from Parent Company [2]	341	461	88	249
Financial liabilities, excl. Parent Company loans and pension liabilities	**7,416**	**8,219**	**4,845**	**5,307**
Interest-bearing pension liabilities, net	239	236	-	
Loan from Parent Company	1,952	1,604	1,952	1,604
Total interest-bearing liabilities	**9,607**	**10,059**	**6,797**	**6,911**
Cash and cash equivalents	-425	-674	0	-412
Inter-company financial receivables	-	-	-1,359	-808
Other interest-bearing receivables, long and short-term	-100	-47	-	-
Interest-bearing assets	**-525**	**-721**	**-1,359**	**-1,220**
Reversal of capitalized costs for arranging loans	304	364	269	343
Net debt incl. pensions	**9,386**	**9,702**	**5,707**	**6,034**

[1] Capitalized costs for raising loans pertains to the loan financing required for Perstorp Holding AB's acquisition of subgroups in Germany, Sweden and the Netherlands, and these subgroups' simultaneous acquisition of subsidiaries. The capitalized costs will be amortized during the term of the loan agreements, meaning over a period of 7-8 years from the end of 2005.
[2] Of which, current financial leasing liabilities accounted for SEK 8 m and long-term leasing liabilities for SEK 29 m.

The Net debt includes secured loans (bank loans and other borrowing against collateral) of SEK 530 m (534) pertaining to buildings and land and SEK 1,135 m (1,135) pertaining to chattel mortgages. Shares in the Group's larger companies have been pledged.

B. Maturity structure	Group		Parent Company	
SEK m	Dec 31, 2006	Dec 31, 2005	Dec 31, 2006	Dec 31, 2005
Subordinated debenture loan settled in January 2006 [1]	-	1,957	-	-
Between 1 or 2 years	496	910	430	361
Between 2 and 5 years	1,075	1,334	1,040	1,083
More than 5 years	5,451	3,977	2,537	3,957
Capitalized costs for arranging loans	-304	-364	-269	-343
Long-term borrowing, excl. Parent Company loans and pension liabilities	6,718	7,814	3,738	5,058
Short-term borrowing, 0-1 year	698	405	516	249
Inter-company financial liabilities	-	-	591	
Financial liabilities, excl. Parent Company loans and pension liabilities	7,416	8,219	4,845	5,307

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

To a certain extent, the amortization plan will be affected by the size of expansionary investments. The amounts specified in the table represent the maximum level.

These loan agreements include quarterly financial covenants pertaining to the fulfillment of key figures in terms of cash flow in relation to interest payments and amortization, net debt in relation to EBITDA and EBITDA in relation to interest payments. The Group fulfilled these covenants in 2006.

C. Currency composition and interest rates	Local currency	SEK m	Swaps	Net	Effective interest on balance-sheet date, %	Duration, days, before interest hedging	Duration, days
SEK	3,322	3,322	452	3,774	4.8	31	487
EUR	296	2,675	-210	2,465	11.7	59	464
USD	205	1,406	-213	1,193	7.3	88	482
Other currencies		13	-29	-16	7.0	53	53
Financial liabilities, excl. Parent Company loans and pension liabilities		7,416	0	7,416	7.5	49	478

In accordance with the Group's finance policy, interest rate hedging is applied in order to fix the interest rates for at least half of the bank loans for a period of three years starting in December 2005. Accordingly, the actual period of fixed interest is 478 days. Market valuation of the interest rate hedging contracts had a positive impact of SEK 42 m on the Group's shareholders' equity.

In addition to these loans, loans from the Parent Company in Luxembourg amount to SEK 1,952 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%.

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

D. Net assets per currency, before and after loans in foreign currency				
SEK m	Net assets per currency, before loans in foreign currency	Loans in foreign currency, Swedish companies	Liquidity swaps	Exposed net assets
EUR	2,326	-3,041	210	-505
USD	1,573	-879	213	907
GBP	270	-	-	270
SEK	-4,327	3,920	-452	-859
Other currencies	114	-	29	143
Total	-44	0	0	-44

E. Unutilized credits

The Group's available credit limits at year-end, in addition to those available in the form of cash and cash equivalents, totaled SEK 488 m (134).

F. Financial income	Group		Parent Company	
SEK m	2006	2005	2006	2005
Interest income	5	3	1	3
Interest income, Group companies	-	-	93	-
Exchange-rate gains, net	104	-	215	-
Other financial income	4	-	0	-
Total	113	3	309	3

G. Financial expenses	Group		Parent Company	
SEK m	2006	2005 [1]	2006	2005 [1]
Bank loans	-764	-12	-618	-12
Pension costs, interest portion	-5	-	-	-
Interest swaps: hedging of fair value	-	-	-	-
Depreciation of activated borrowing costs	-48	-	-42	-
Interest expense, Group companies	-	-	-5	-
Other financial expenses	-11	-2	-9	-2
Total	-828	-14	-674	-14

[1] The financial expenses for 2005 pertained only to the Parent Company, since the Group was not formed until the end of 2005.

Note 21 Income taxes

A. Income taxes in the income statement	Group		Parent Company	
SEK m	2006	2005	2006	2005
Current tax	-92	-	-	-
Deferred tax	88	3	-3	3
Total	-4	3	-3	3

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

Tax cost	Group		Parent Company	
	2006	2005	2006	2005
Pretax earnings	-149	-12	12	-12
Tax computed on basis of national tax rates applying in each particular country	48	3	-3	3
Adjustment for different tax rates in different countries [1]	-21	-	-	-
Non-taxable revenues	11	-	-	-
Non-tax-deductible costs	-18	-	-	-
Adjustment due to changed tax regulations/new judgements	-12	-	-	-
Tax loss carryforwards for which no deferred tax asset has been recognized	-12	-	-	-
Tax cost	-4	3	-3	3

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

B. Deferred income tax, net – change	Group		Parent Company	
SEK m	2006	2005	2006	2005
Opening balance, net tax liability	1,817	-	-3	-
Acquisition of the Group		1,817		
Exchange-rate differences	-108	-	-	-
Tax recognized in the income statement	-88	-	3	-3
Tax recognized in the balance sheet	37	-	-	-
Closing balance (net tax liability)	1,658	1,817	0	-3

C. Deferred tax liability, specification	Group		Parent Company	
SEK m	Dec 31, 2006	Dec 31, 2005	Dec 31, 2006	Dec 31, 2005
Tangible fixed assets	856	-	-	-
Intangible fixed assets	1,095	-	-	-
Other receivables	4	-	-	-
Total [1]	1,955	2,121	-	-

D. Deferred tax assets, specification	Group		Parent Company	
SEK m	Dec 31, 2006	Dec 31, 2005	Dec 31, 2006	Dec 31, 2005
Intangible fixed assets	13	2)	-	-
Tangible fixed assets	10	2)	-	-
Loss carryforwards	243	2)	-	3
Provisions	31	2)	-	-
Total [1]	297	304	-	3

1) The distribution of deferred tax assets and liabilities in accordance with the restated balance sheet for year-end 2005 is not available.
2) Information not available.

E. Tax loss carryforwards
The value of unutilized tax loss carryforwards is capitalized in cases where it is expected that the carryforwards will be utilized in the foreseeable future. In addition, there are unutilized tax loss carryforwards totaling SEK 216 m and temporary differences totaling SEK 43 m that have not been assigned any value, since it is considered that these will not be utilized in the foreseeable future.

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

Note 22 Pension obligations & costs

Since the Group was not formed until the end of 2005, only the closing balance of the pension obligations are reported for 2005. In connection with the establishment of the acquisition balance sheet in 2006, the actuarial gains and losses that existed at the end of 2005 were set at zero.

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

Most of the Group's Swedish companies have secured their obligations for old-age and family pensions via pension insurance with Alecta. In accordance with a statement issued by the Emerging Issues Task Force of the Swedish Financial Accounting Standards Council, URA 42, this is a defined-benefit plan that covers several employers. For fiscal year 2006, the companies did not have access to information that would enable them to report these plans as defined-benefit obligations. Accordingly, the ITP pension plans that are secured through insurance with Alecta are reported as defined-contribution plans. At year-end 2006, Alecta's surplus in the form of its collective funding ratio amounted to 143.1%. The collective funding ratio equals the market value of Alecta's assets, in percentage of the insurance obligations as computed in accordance with Alecta's actuarial calculation assumptions; this does not comply with IFRS.

A. Provision for pensions, defined contribution plans, SEK m				
	Group		Parent Company	
SEK m	2006	2005	2006	2005
State pension plans	55	-	2	-
Other defined-contribution pension plans	27	-	2	-
ITP, insured through Alecta	50	-	5	-
Total	132	-	9	-

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

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

There were no defined-benefit pension obligations in the Parent Company at the end of 2006.

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

B. Key actuarial assumptions	Group	
	2006	2005
Discount rate, %	5.0	4.9
Future salary increases, %	3.7	3.6
Anticipated return on plan assets, %	7.4	7.4
Anticipated average remaining employment term, year	14.2	15.0

The plan assets mainly exist in one of the companies in the US (96% of the Group's plan assets). Of these, 60% is invested in shares and 40% in bonds. The expected return on plan assets has been assumed to be 9% and 5.3%, respectively.

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

C. Provision for pensions, defined benfit plans	Group	
SEK m	Dec 31, 2006	Dec 31, 2005
Funded pension plans		
Defined-benefit obligations	217	251
Fair value of plan assets	-205	-218
Net value	12	33
Unrecognized actuarial gains and losses	17	-
Unrecognized costs regarding prior-year service	-	-
Provision for pensions, funded pension plans, net	29	33
Unfunded pension plans		
Defined-benefit obligations	193	195
Unrecognized actuarial gains and losses	8	-
Salary taxes	9	7
Unrecognized costs regarding prior-year service	-	1
Provision for pensions, unfunded pension plans	210	203
Total provision for pensions, net	239	236

What are known as direct pensions are reported on the asset and liability side in an amount of SEK 67 m. This is not included in the above amounts and is reported separately in the balance sheet. The asset is an endowment insurance.

D. Provision for pensions net, changes during the year	Group	
SEK m	2006	2005
Opening balance, provision for pensions	236	-
Acquisition of Group	-	236
Pension costs during the year	18	-
Disbursements during the year	-9	-
Effect of divested/acquired units during the year	-	-
Translation differences	-6	-
Closing balance, provision for pensions, net	239	236

E. Pension costs, defined-benefit plans	Group	
SEK m	2006	2005
Costs for current year service	13	-
Costs for prior year service	0	-
Expected return on plan assets [1]	20	-
Interest expense for obligations [1]	-15	-
Amortization of actuarial gains and losses	0	-
Gains/losses on reduction and regulation	-	-
Total	18	-

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

During 2007, payments for pension obligations are estimated at SEK 3 m.

Note 23 Other liabilities, provisions

	Group	
SEK m	2006	2005
Special salary tax, pension commitments	16	16
Pension obligations, interest-free	20	21
Provision for previously divested operations	11	11
Other provisions	6	6
Other liabilities, provisions	53	54

The Parent Company had no provisions.

Note 24 Employees & wages, salaries & other remuneration

The average number of employees and personnel costs for 2005 pertain to Perstorp pro forma, in accordance with the reported income statement.

A. Average number of employees

Land	2006		2005	
	Total number of employees	of whom, men	Total number of employees	of whom, men
Sweden				
Parent Company [1]	9	8	-	-
Subsidiaries	895	618	910	645
Belgium	40	32	35	28
Brazil	6	4	6	4
Chile	65	61	-	-
Finland	25	13	25	12
France	5	3	6	4
India	240	233	231	224
Italy	36	28	37	29
Japan	3	2	2	1
China	3	2	-	-
Netherlands	29	20	29	19
Singapore	4	1	4	2
United Kingdom	6	4	7	5
South Korea	29	26	29	26
Germany	132	116	132	116
United States	148	130	148	124
Total	1,675	1,301	1,601	1,239

B. Wages, salaries and other remuneration

SEK m	2006		2005	
	Total	Of whom for Board members/ President	Total	Of whom for Board members/ President
Parent Company	15	4	-	-
Subsidiaries	584	11	594	14
Total	599	15	594	14

C. Social security costs

SEK m	2006		2005	
	Social security costs	of which, pension costs	Social security costs	of which, pension costs
Parent Company	11	8	-	-
Subsidiaries	267	143	272	144
Total	278	151	272	144
Of which, pension costs for the Board of Directors, President and former President of the Parent Company		2		-

D. Wages, salaries and other remuneration, by country

	2006		2005	
	Board members and President	Other employees	Board members and President	Other employees
Sweden	5	363	10	368
Belgium	0	13	0	16
Brazil	0	2	0	2
Chile	0	11	-	-
Finland	1	11	1	9
France	0	6	0	5
India	0	9	0	8
Italy	0	13	0	13
Japan	0	3	0	0
China	0	0	-	-
Netherlands	0	10	0	9
Singapore	0	2	1	1
United Kingdom [1]	4	2	1	3
South Korea	1	9	0	10
Germany	0	63	0	65
United States	4	67	3	69
Total	15	584	16	578

1) Includes severance pay.

E. Remuneration to the Group's Board of Directors and management

SEK t	Salary	Bonus payments and other remuneration	Total salary and other remuneration	Pensions	Severance pay	Total
Chairman of the Board	814	180	994	288	-	1,282
Other Members of the Board	-	-	-	-	-	-
Deputy Members of the Board	-	-	-	-	-	-
President	826	180	1,006	596	-	1,602
Other members of Group management	7,989	1,166	9,155	4,504	-	13,659
Vice President	1,837	187	2,024	618	-	2,642
Former Vice President	2,171	152	2,323	696	-	3,019
Total	13,637	1,865	15,502	6,702	-	22,204

The reported payments pertain to the remuneration expensed for the 2006 fiscal year, certain portions of which will not be paid until 2007.

There was a change of President on October 1, 2006; remuneration to the departing and newly appointed Presidents is reported separately in the table. On the same date, the departing President took office as Chairman of the Board. He is employed by the company, which is reflected in the above salary, bonus and pension costs.

Other members of Group management comprised nearly six persons during the year; the position of HR and Communications director was vacant during a minor part of the year. During 2006, other members of Group Management exchanged bonus payments of SEK 501 k for pensions.

Principles
Members of the Board receive director fees in accordance with resolutions passed at the Annual General Meeting. Employee representatives do not receive director fees. For 2006, director fees were not paid to Members of the Board.

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

Pension and employment termination
An occupational pension has been taken out for the President corresponding to 57.9% of his basic salary. According to a special undertaking, the employment contract can be terminated by both the company and the President as of age 60.

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

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

Note 25 Contingent liabilities

SEK m	Group		Parent Company	
	Dec 31, 2006	Dec 31, 2005	Dec 31, 2006	Dec 31, 2005
Guarantees	22	99	-	-
Guarantees and other contingent liabilities for subsidiaries	-	-	3,022	2,489
Total	**22**	**99**	**3,022**	**2,489**

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

Note 26 Assets pledged

SEK m	Group Dec 31, 2006			Group	Parent Company	
	Liabilities	Pension liabilities, other	Total	Dec 31, 2005	Dec 31, 2006	Dec 31, 2005
Property mortgages	530	-	530	534	-	-
Chattel mortgages	1,145	-	1,145	1,135	-	-
Shares in subsidiaries	5,573	-	5,573	6,141	6,073	6,141
Endowment insurances	-	67	67	65	-	-
Total	7,248	67	7,315	7,875	6,073	6,141

Note 27 Company acquisition
Sydsvenska Kemi AB

SEK m	
Purchase price	5,653
Transaction costs	75
Total acquisition costs	5,728
Acquired net assets	-3,308
Goodwill	**2,420**

SEK m	Book value	Fair adjustments	Fair value
Trademarks	87	1,305	1,392
Technology, know-how	-	1,345	1,345
Customer relations/contracts	-	1,344	1,344
Tangible fixed assets	2,999	1,295	4,294
Financial fixed assets	605	56	661
Inventories	778	-	778
Current liabilities	1,301	-1	1,300
Assets	**5,770**	**5,344**	**11,114**
Minority interest	46	-	46
Deferred tax liabilities	451	1,670	2,121
Other long-term liabilities	4,078	60	4,138
Current liabilities	1,501	-	1,501
Liabilities	**6,076**	**1,730**	**7,806**
Net assets	**-306**	**3,614**	**3,308**

The Perstorp Group was formed on December 22, 2005 when Perstorp Holding AB, which is controlled by the French private equity company PAI partners, acquired 100% of Sydsvenska Kemi AB. This purchase consideration was definitively established and acquisition values were allocated during 2006, and the closing balance sheet for 2005 has been restated.

Acquired assets
Operations in Chile and minority interests in Hansol and YLA

SEK m	
Purchase price	106
Financial debt to seller	-69
Effect on cash flow of the Group	37
Purchase price	106
Acquired net assets	-91
Goodwill	**15**

SEK m	Book value	Fair value
Intangible fixed assets	12	12
Tangible fixed assets	33	33
Inventories	18	18
Other current receivables	25	25
Assets	**88**	**88**
Minority interest	-46	-46
Current liabilities	43	43
Equity and liabilities	**-3**	**-3**
Net assets	**91**	**91**

Note 28 Business relations with related parties

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

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

Perstorp Holding AB had a loan from the Parent Company corresponding to SEK 1,952 m at year-end. The loan is subject to normal market terms and conditions. The term of the loan is ten years, which is extended automatically for up to five periods each of ten years, assuming that neither of the parties terminates the agreement. The interest rate is 10%, which is capitalized. The loan is subordinate to the senior loans, second lien and mezzanine loans.

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

Remuneration to the Group´s Board of Directors and management is reported in Note 24.

Within the framework of an incentive program, PAI partners has offered senior Group executives an opportunity to become shareholders in the Parent Company Financière Forêt S.À.R.L. and a total of 153 executives have accepted the offer. The process extended throughout 2006 and the acquisition of shares starts in early 2007. Shares and options were priced on normal commercial terms.

Note 29 Significant events following fiscal year-end

Following fiscal year-end, Perstorp signed a contract signifying that, for the first time, the Group will be establishing manufacturing in China and thereby have the opportunity to further strengthen its presence in the Chinese market and contacts with customers in China. Accordingly, in January 2007, within the framework of a joint venture with Shandong Fugeng Chemical Co. Ltd., Perstorp acquired 51% of Zibo Fufeng Tongsheng Chemical Co. Ltd., which operates a modern production plant for TMP in Qilu Chemical Industrial Park in Zibo City in the Shandong province. The plant has a production capacity of 15,000 tons per year, which means that the joint venture operation will represent the largest producer of TMP in China. The acquisition is conditional upon permits being issued by local authorities in China.

Acquired assets

Zibo Fufeng Tongsheng Chemical Co., Ltd.

Purchase price	33
Acquired net assets	-33
Goodwill	**0**

SEK m	Book value	Fair value
Tangible fixed assets	64	64
Assets	**64**	**64**
Minority interests	31	31
Liabilities	**31**	**31**
Net assets	**33**	**33**

Note 30 Sickness absence

Sickness absence as a percentage of ordinary working time, %

	2006		2005	
	Group	Swedish operations	Group	Swedish operations
Total	2.4	2.6	2.5	2.5
Uninterrupted sickness absence of 60 days or more	*)	1.2	*)	1.2
Sickness absence by gender				
Men	*)	2.2	*)	2.0
Women	*)	3.3	*)	3.7
Sickness absence by age				
29 years or younger	*)	1.3	*)	1.8
Between 30 and 49 years	*)	2.1	*)	2.4
50 years or older	*)	3.9	*)	3.0

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

Swedish operations pertain to all Group companies. The Parent Company had no sickness absence in 2006.

Note 31 Proportion of women who are members of company boards & management

	2006			2005		
	Total	of whom women	%	Total	of whom women	%
Board members	95	2	2	90	2	2
Other senior executives	95	20	21	96	20	21

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

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

Note 32 Auditors´ fees

	Group		Parent Company	
	2006	2005	2006	2005
Öhrlings PricewaterhouseCoopers:				
Audit assignments	4	6	0	0
Other	3	2	2	-
Other accocunting firms				
Audit assignments	0	0	-	-

Audit costs in the Parent Company in 2006 totaled SEK 0.4 m (0.5). The costs for 2005 are pro forma for the Group.

Note 33 Currency exchange rates

Currency	Year-end exchange rates		Average exchange rates	
	Dec 31, 2006	Dec 31, 2005	2006	2005
EUR	9.050	9.430	9.254	9.281
USD	6.872	7.952	7.376	7.469
GBP	13.487	13.733	13.571	13.571
SGD	4.485	4.785	4.641	4.485
JPY	0.058	0.068	0.063	0.068
INR	0.155	0.176	0.163	0.169
KRW	0.007	0.008	0.080	0.008

Proposed treatment of unappropriated earnings

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

Retained earnings	SEK	448.239.716
Net profit for the year	SEK	8.205.457
	SEK	456.445.173

be distributed as follows:

To be retained in the business	SEK	456.445.173

Perstorp February 26, 2007

Lennart Holm	Dominique Mégret	Bertrand Meunier
Fabrice Fouletier	Bo Dankis	Klas Ingstorp
Ronny Nilsson	Anitha Hermansson	

The Auditors´ Report has been signed February 26, 2007.

PricewaterhouseCoopers AB

Michael Bengtsson Authorized Public Accountant Main responsible	Ulf Pernvi Authorized Public Accountant

Auditors´ Report

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

I have audited the annual report, the consolidated financial statements, the accounts and the administration of the Board of Directors and the President of Perstorp Holding AB for the 2006 fiscal year. (The Company's official annual report is included in the printed version of this document on pages 30-52). The Board of Directors and the President are responsible for these accounts and the administration of the company, and for ensuring that the Annual Accounts Act is applied when the annual accounts are compiled, and that the International Financial Reporting Standards (IFRS) adopted by the EU and the Annual Accounts Act are applied for compiling the consolidated accounts. My responsibility is to express an opinion on the annual accounts, consolidated accounts and the administration based on my audit.

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

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

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

Perstorp, February 26, 2007

PricewaterhouseCoopers AB

Michael Bengtsson
Authorized Public Accountant
Main responsible

Ulf Pernvi
Authorized Public Accountant

Board of Directors & auditors

Lennart Holm
Born in 1960.
Chairman of the Board of Perstorp Holding AB.
Member of the Board since 2006.
Active in the Group since 2001.
Other Board assignments: Lunds Tekniska Universitet, kemiteknik Hempel A/S (Dk).

Dominique Mégret
Born in 1947.
Chief Executive Officer, PAI partners.
Member of the Board since 2006.
Other Board assignments: Member of the Board of Chr. Hansen (Dk), Elis (Fr), Vivarte (Fr), Yoplait (Fr), Saur (Fr), Spie (Fr) and Saeco (It).

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

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

Bo Dankis
Born in 1954.
President and Chief Executive Officer, Perstorp Holding AB.
Other Board assignments:
Member of the Board Gunnebo AB and Mandator AB. Chairman of the Board of Gadelius K.K., Tokyo, and Ekeby Invest AB.

Deputies:
Gaëlle d'Engremont, Investment Director, PAI partners
Anders Magnusson, deputy for the union representative of PTK
Annika Folkesson, deputy for the union representative of PTK
Ronny Sahlberg, deputy for the union representative of IF Metall

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

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

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

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

Ulf Pernvi
Born 1949.
Authorized Public Accountant.
Öhrlings PricewaterhouseCoopers.
Other major revision assignments:
E.ON Sverige, Rexam and Gambro Lundia.

Group management

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

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

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

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

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

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

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

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

Lennart Ottosson
Acting Executive Vice President Supply Chain

Inge Pettersson
Senior Advisor to CEO and Executive Vice President

Corporate functions

Compensation & Benefit	Ulf Lindh
Corporate Communications	Cecilia Nilsson
Corporate Finance	Gunnar Modalen
Corporate IT	Susanna Frennemo
Global Environment, Health, Safety & Quality	Jan Petersson
Group Financial Control	Anita Haak

Perstorp Everywhere

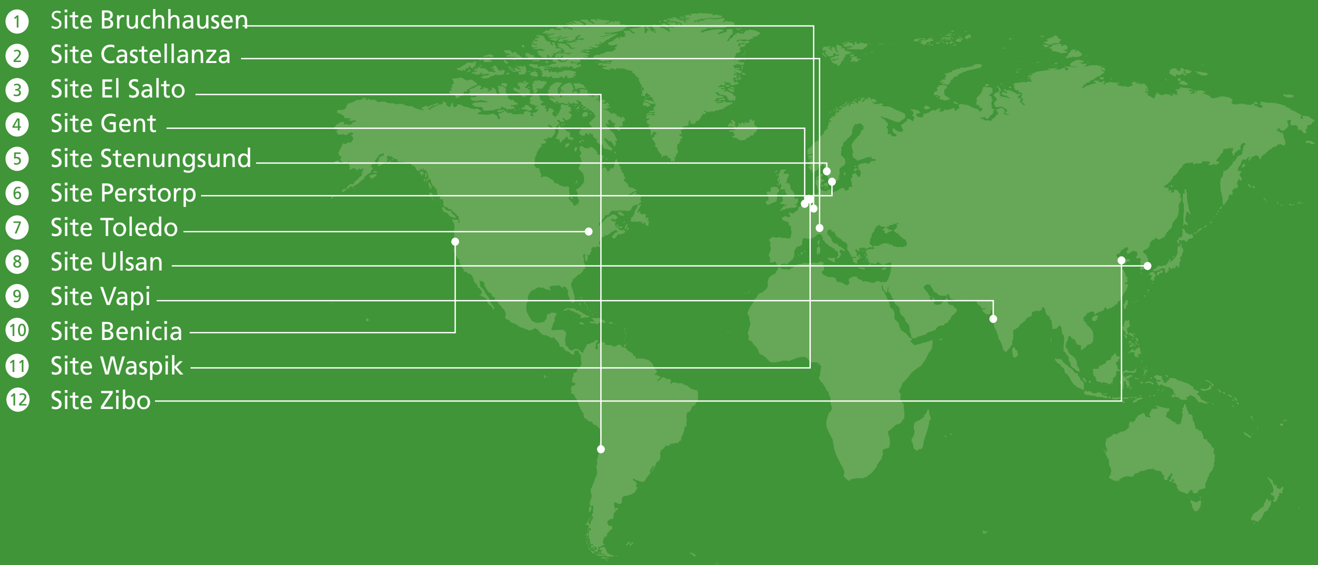
Sales offices & agents around the world

Over 20 sales offices around the world
brings customer service closer and support local partnership.

We also have 50 agents covering over 60 locations worldwide
to provide a superior global network and extend our reach into the markets we serve.

Twelve production sites worldwide

Our twelve production sites worldwide give us the resources and global network for short lead times and local support and service.



1 Site Bruchhausen
Location: Arnsberg, Germany
Main products: Basic & specialty polyols, formate, formaldehyde

2 Site Castellanza
Location: Castellanza, Italy
Main products: Specialty polyols, propionates

3 Site El Salto
Location: El Salto, Chile
Main products: Basic polyols, formate, aldehydes

4 Site Gent
Location: Evergem, Belgium & Dordrecht, Holland
Main products: Specialty polyols, formates, formaldehyde

5 Site Stenungsund
Location: Stenungsund & Nol, Sweden
Main products: Aldehydes, acids, alcohols, plasticizers, RME (production start during 2007), phtalic anhydride

6 Site Perstorp
Location: Perstorp, Sweden
Main products: Basic & specialty polyols, catalysts, formates, acids, formaldehyde

7 Site Toledo
Location: Toledo, Ohio, USA
Main products: Basic polyols, formate, formaldehyde

8 Site Ulsan
Location: Ulsan, South Korea
Main products: Basic polyols, formate

9 Site Vapi
Location: Vapi, India
Main products: Basic & specialty polyols, formate, formaldehyde, creosan

10 Site Benicia
Location: Benicia, USA
Main products: Advanced composites materials

11 Site Waspik
Location: Waspik, Netherlands
Main products: Feed additives

12 Site Zibo
Acquisition in the beginning of 2007
Location: Zibo City, China
Main products: Basic polyols, formate
(production start during 2007)

Leadership & global network of renewal & development

Our Corporate Headquarters and R&D sites support our focused innovation, reliable solutions and responsible delivery.

Corporate Headquarters

Main activities: Business, EHSQ, Financials, HR & Communication, IT, Strategic development, Supply chain, Technology

HQ Location: Perstorp, Sweden

Renewal & development sites

Main activities: Application development, Industrial chemistry, Innovation, Intellectual property, Process and Catalyst concepts, Technical and Analytical support

1 Location: Vapi, India

2 Location: Porvoo, Finland

3 Location: Perstorp, Sweden

4 Location: Benicia, USA

Glossary

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

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

Basic polyols
See polyols.

Biomal
Animal by-product (incinerated in steam boilers at Site Perstorp since spring 2006).

Board
Layers of particleboard.

Calcium formate
Product with several applications; the two main ones are as acidifiers and a calcium source for animal feed, and as a chemical additive for tile adhesives.

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

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

Creosan
Perstorp's trademark for beech wood creosote, a pharmaceutical raw material distilled from wood tar.

DEHP (diethylhexyl phthalate)
Plasticizer for PVC plastics.

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

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

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

Octane acid (diethyl hexanoic acid)
Organic acid with eight carbon atoms.

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

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

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

Polyol (polyalcohol)
A polyfunctional alcohol.

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

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

Rape methyl ester (RME, also called rape diesel)
Additive in diesel based on rape oil.

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

Silage
Additive used for the preservation of green feed.

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

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

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

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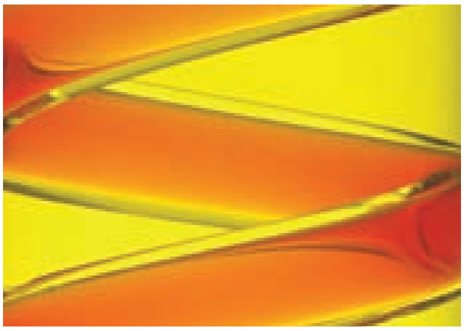


Your Winning Formula

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

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

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

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

Perstorp
WINNING FORMULAS