

# Perstorp Holding AB HR Report 2005

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

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The objective of the HR Report 2005 is to report on work involving human resources within the Perstorp Group during 2005. The HR Report complements the Group's Annual Report and Environmental Report.

# This is the Perstorp Group

Perstorp, an international specialty chemicals group with leading positions in selected niches, has a vision for developing solutions for its customers through resource-efficient and environmentally sustainable use of chemistry.

Most of Perstorp's specialty chemicals are intermediate products used in industrial production in the chemicals, coatings and plastic processing industries, as well as in the construction, automotive and engineering industries. The chemicals industry accounts for nearly two-thirds of sales, with the coatings industry via the resin industry as the largest single user. Other application areas include the agricultural, food and other industrial sectors.

Production is largely based on efficient, environmentally compatible processes developed within the Group. Several raw materials essential to the company's own production are manufactured internally, which greatly strengthens the Perstorp's competitiveness and its ability to develop new products.

To meet increasing demand, Perstorp took decision during 2005 on extensive investments in both established and new products, as well as strategically important acquisitions.

Perstorp has production units in Belgium, Chile, German, India, Italy, Korea, Netherlands, Sweden and the US. Research and development units are located in Finland, India and Sweden. The Group has sales offices in most important markets.

## History

Perstorp started its business operations in 1881 in the town with the same name. Throughout its 125-year history, the company has operated in the chemicals industry, but during earlier years also in

other business areas, for which chemistry know-how was a major competitive and expertise factor.

Perstorp AB was listed on the Stockholm Stock Exchange in 1970 and, following a period of strong diversification, successive streamlining of the operations was initiated during the 1990s. In 2001, the Group was acquired by the Industri Kapital 2000 Fund, and the company's shares were de-listed. Over the past five years, the company has focused intensively on expansive niche segments of the specialty chemicals market, while operations have been further enhanced and profitability strengthened.

At the end of 2005, the Group was acquired by Perstorp Holding AB, which is controlled by the French private equity company PAI partners. Under the new owners, Perstorp's business operations continue virtually unchanged.

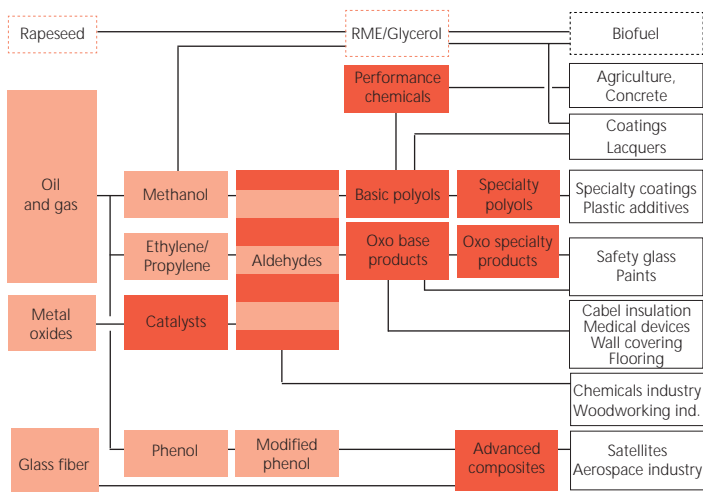
## Pro forma financial performance <sup>1)</sup>

- ➔ Pro forma net sales rose 8% to SEK 6,299 m (5,849)
- ➔ Pro forma operating earnings before depreciation amounted to SEK 1,156 m (1,040)
- ➔ Comprehensive investments in capacity to meet stronger demand

The Perstorp Group completed and launched comprehensive investments during 2005 to increase production of several specialty chemicals products. A decision was also made to invest in the production of potassium formate and rapeseed methyl esters (RME).

<sup>1)</sup> The Perstorp Group pro forma reflects the Group operations that PAI partners acquired at the end of 2005, meaning excluding the operations within Perstorp Compounds and Moldable Composites (Vyncolit) that were divested by Sydsvenska Kemi AB during the year. The acquired operation, Franklin, is included in full in the pro forma figures for both 2005 and 2004.

## Value chain



## Focus on people

I don't know how many times I have heard the expression "putting people first" in various contexts, but it certainly is a lot. In most organizations and companies, there is an awareness of the crucial role employees play in generating efficiency and results. Despite this, it is striking how many organizations and companies still do not work proactively on HR issues within their operations. We at Perstorp are far from perfect, but I can promise that we take these issues very seriously and work proactively to achieve continuous improvement. As Perstorp employees, we are the Group's principal resource, and our ability and willingness to work in an efficient and coordinated manner is crucial for both results and development. For the company, the most important task is to create the right prerequisites for employees in the organization.

Perstorp is driven by a few simple principles, one of which is to build and ensure a performance-oriented culture. Through systematic efforts, we have gradually become better at utilizing the inherent capacity and strength possessed by individuals and teams. Essential for success are such issues as expertise and motivation, as well as the ability to work as a team towards jointly established goals. We live in a world of global competition, in which many of our competitors have ostensibly better prerequisites than ourselves in the form of inexpensive raw materials or labor. Nonetheless, I would claim that Perstorp has not only succeeded in defending, but also strengthening its positions in the global market in recent years, providing proof that we work efficiently and deliver high performance. However, we cannot be content with our achievements to date. The world is changing rapidly, and we must move forward. We must not become set in our old ways. We must dare to test new approaches, while simultaneously learning from our history. Perstorp celebrates its 125th anniversary as a business this year, which is proof that we have succeeded up until now.



## Change of owner and investment for the future

The 2005 fiscal year, particularly the latter part, was characterized by the fact that Perstorp was about to change owners. This was in itself a project that took considerable time and effort on the part of many people in the organization, which was one reason why no major training programs were implemented in the Group, since there was a risk that they would not receive sufficient priority. On the other hand, a number of activities were started that we believe will be significant over the long term for the Group's continued success:

- Project Orange, our new company portal that was quickly formally named Compass and which is intended to provide employees with an even more efficient tool for communication, collaboration and project management.

- Skills supply, a project that took our already established Personnel and Management Development (PMD) process one step further.

With PAI partners, the new owners since the end of 2005, a new period in the company's development begins. The focus over the coming years, apart from securing our current positions and profitability, will be on growth through expansion both in existing businesses and through acquisitions and building new businesses that will always be based on our core expertise. How well we succeed will depend entirely on how we manage



to ensure continued commitment and development in the organization. The challenge will be to exceed our own ability by adding new knowledge and capacity and performing more and new tasks without letting costs get out of control, thus weakening our competitiveness. Proactive HR work on such issues as skills development, delegation of responsibility and management by objectives, job rotation, recruitment of qualified employees and integration of acquired units around the world will be crucial for our continued development. The customer must always come first, and that is why I am especially pleased that we were able to recruit Susanne Jacobsson as new HR manager for the Group. She has extensive experience of marketing and sales, as well as strategic work and work on HR issues. This experience will be very valuable as we now continue to improve on the solid foundation that was created during the years that Martin Lundin worked as HR manager. Many thanks to Martin and all the employees within the Perstorp Group for a fantastic job and welcome to Susanne and all other new employees on their way in. It will be exciting to see how well we succeed in creating our future.

Perstorp, June 2006

**Lennart Holm**

President and CEO

- Winning Manager: 2006 was planned to be the "Manager Year" with a clear focus on management and leadership development at all levels of the organization. The Winning Manager concept was developed during 2005 to provide a clearer picture of the level that management skill should attain within the Perstorp Group.

The key ratios for HR are positive on the whole, with a few exceptions. Career development talks, which are held twice a year, are well implemented in the Group and appear to have taken root in our culture, which is gratifying. Figures for sickness absence are at acceptable levels, and although we see a modest increase, this is probably not a trend. The key ratio "Women in leading positions" also increased a few percentage points, which was positive. Naturally, it should be even higher, not least at the highest levels in the organization, but the trend has been pointing in the right direction in recent years. One area for improvement is to make a more serious effort to establish individual development plans for the Group's employees and not simply leave this up to the individual. Caring about our own personnel's professional development is not one of our strengths, since we as managers often have more pressing business to attend to. Of course, positive exceptions can be found here too.

This is the last HR report that I will sign, since I am leaving the Group after several fantastic years. I am happy to hand over the reins to Susanne Jacobsson who will improve both the function itself and the report.

Shanghai, June 2006

**Martin Lundin**

# Important events in 2005

**Perstorp High School receives award for Technology Program of the Year**  
The Perstorp Group's independent school, Perstorp High School, received the award for Technology Program of the Year for secondary schools in Southern Sweden and received SEK 200,000 to be used for the school's activities.

**Third R&D center established in Vapi**  
During 2005, the Perstorp's third R&D center was established at the Group's plant in Vapi, India.

**Top ranking in Sweden's best workplace competition**  
Perstorp was ranked one of Sweden's best workplaces in 2005 in a competition organized by the Alecta pension fund.

**New sales office in Shanghai**  
To increase its presence in the growing Chinese market, Perstorp opened a new sales office in Shanghai, China.

**Launch of Winning Formulas**  
During the autumn of 2005, the Winning Formulas concept was introduced with the objective of increasing customer focus and creating a uniform image of Perstorp both internally and externally.

**New policy for equality and diversity**  
In autumn 2005, a new policy was adopted in the Swedish units for the Group's work on equality and diversity.

**PAI partners new owners of the Perstorp Group**  
At the end of 2005, the sale of Sydsvenska Kemi, the parent company of the Perstorp Group, to the French private equity company PAI partners was completed.



# Perstorp's strategy

The Perstorp Group's strategy is based on a combination of strategic principles, core values and behaviors that are required to realize our goals and vision. This is the foundation for our business.

## Winning Formulas

No society or organization can function effectively unless it is based on a number of basic values and behaviors. That is also the case for Perstorp. In recent years, we have based our strategy and behavior on three strategic principles that form the foundation of our business:

- ➔ Creating value and growth through active development of the product portfolio
- ➔ Operational efficiency through continuous improvement
- ➔ Performance-oriented culture

These strategic principles make it clear what Perstorp must achieve to remain successful. They are also a gauge for measuring our efficiency and they help us to focus on planned activities. By applying the strategic principles, we create added value for both customers and the company.

During 2005, the Winning Formulas concept was launched with the objective of increasing focus on the customer. This concept combines the strategic principles in the form of three core values (see below) and seven behaviors (see page 13) and provides a framework for our organization and the way we work. Winning Formulas expresses Perstorp's business culture and the strong customer focus that is required to enhance the Group's global competitiveness. The concept is a sign of quality in everything we do and a promise to our customers. Keeping this promise and being able to deliver Winning Formulas to our customers requires commitment to focused innovation. In addition, Perstorp must be a reliable partner that takes responsibility for processes and its own behavior in order to foster customer loyalty.

## Core values

We have identified three core values that guide our behavior:

- ➔ Focused innovation
- ➔ Reliability
- ➔ Responsibility

These three core values are intended to clearly communicate what we stand for not only to ourselves but also to the market. The core values must be a natural part of decision processes in all contexts and integral in employees' daily work as a complement to Perstorp's seven behaviors. The core values are presented below.

## Focused innovation

Perstorp's core value of focused innovation shows a clear orientation and emphasizes our leadership in selected industries and application areas. It defines the high quality demands that we must live up to, while expressing what we stand for and how our company should be perceived. Focused innovation is about having a purpose for every idea or innovation and that innovation must create commercial value in our customers' applications.

Focused innovation indicates that Perstorp is specialized in specific niches. However, the phrase must be seen in its broadest meaning and not just as a promise of being specialized in innovative chemical solutions. It is just as much about being innovative in daily work and in our thinking to be better able to help customers and colleagues and in working smarter to become even more efficient.

Focused innovation is applied in everything we do to improve the company's operational excellence and performance-oriented culture.

There are many examples of the Group's work on focused innovation not only within R&D, but also in other operations. During 2005, a new type of packaging was introduced for the penta product, for example. By using only one type of sack, storage costs were reduced, and handling was simplified, thus creating added value for the customer.

## Reliability

Reliability is Perstorp's second core value. By emphasizing reliability, we show not only that we place high demands upon ourselves, but also how we want the company to be perceived. Reliability aptly summarizes our own attitude and what we know customers appreciate about Perstorp.

Perstorp has a long and successful history, and the core value re-

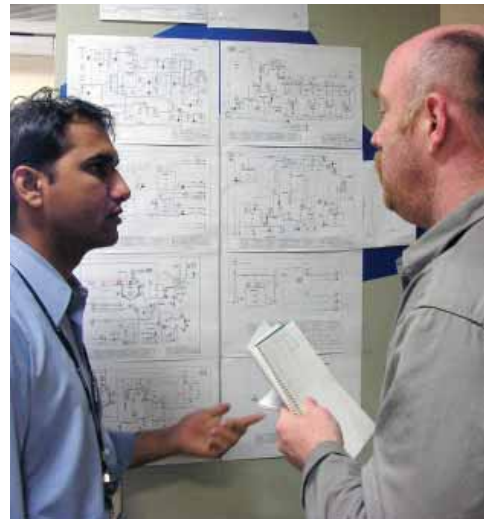
liability has played a significant role over the years. It can be regarded as a guarantee that we deliver what we promise. We keep our promises globally by offering reliable solutions and processes with low risk and high delivery precision. Our reliability has been accumulated by always being credible and proactive in everything we do. Being proactive means that we listen to customers and regularly check that our processes and logistics function optimally. In that way, we can retain customer loyalty.

Being reliable means that we must keep our promises at all times. Employees, customers and owners are all equally important for us in building long-term trust and business relations. Customers, for example, must be able to rely on delivery of the right product with the right quality at the right time.

## Responsibility

The core values of focused innovation, reliability and responsibility define the high quality demands that we want to live up to, while expressing what we represent and how we want our company to be perceived. Responsibility means that we care about what happens and how we act. We show this by acting sensibly and in a manner that instills confidence and trust. We take environmental concerns seriously and care about safety in our applications and work processes. Responsibility also means providing safe products and taking personal responsibility and initiatives when required.

Responsibility expresses our proactive and responsive approach in all relations, meaning that we care about our customers, our colleagues and the environment in which they work. We take our responsibility seriously when it comes to ensuring that our products and processes are safe and that they minimize risks for our customers, our employees and the environment. Concrete examples of how Perstorp takes responsibility include humanitarian sponsorship, our own EHS (Environment, Health and Safety) standard for work environment and other matters and offering fitness programs to employees. Read more under the heading Work environment and social responsibility on page 17.



We have chosen three core values to govern our behavior:

- ➔ Focused innovation
- ➔ Reliability
- ➔ Responsibility

# The people within Perstorp

To be able to compete in a world of accelerating change, it is of the utmost importance that we have people in the company who have the right prerequisites and attitudes and are given an opportunity to develop.

## Employees, management and Board of Directors

The number of employees in the Perstorp Group was 1,592 at the end of 2005. Geographically, they were distributed as follows: Sweden 57%, EU countries 17%, Asia 17% and US 9%.

*Group management in 2005 consisted of:*

Lennart Holm, President and CEO

Lennart Hagelqvist (Operations)

Mats Persson (Supply Chain)

Bengt Sallmén (Marketing & Sales Coating Intermediates)

Inge Pettersson (Marketing & Sales Performance Chemicals)

Claes Gard (Financials & IT)

Martin Lundin (HR & Communications)

The Perstorp Board of Directors changed during 2005 due to the change in ownership.

*At the end of 2005, a new Board of Directors was appointed consisting of:*

Dominique Mégret (PAI partners)

Bertrand Meunier (PAI partners)

Fabrice Fouletier (PAI partners)

Lennart Holm (President and CEO of Perstorp)

Anitha Hermansson (representing the Swedish Federation of Salaries Employees in Industry)

Klas Ingstorp (representing the Swedish Federation of Salaries Employees in Industry)

Ronny Nilsson (representing the Industrial Workers Union)

## People Satisfaction attitude survey

The Perstorp Group regularly conducts an attitude survey called People Satisfaction. The objective is to listen to what employees have to say about their work situation, obtain material for internal improvement measures and provide a recurring tool for measuring improvements. The most recent survey was conducted in 2004, and the next is planned for 2007.

The survey consists of two parts: the company's behaviors and the work environment. In the most recent survey, it was found that the two behaviors "Leading change" and "Decentralized leadership" were ranked the highest. "Candid and direct feedback" was ranked lowest. As part of improvement work in this area, considerable emphasis is placed on giving and receiving feedback in the regular goal and career development talks that are conducted according to Perstorp's process for personnel management and development, as described below.

An evaluation of the attitude survey for 2004 showed that the structure used to date based on uniformity and implementation over a short period of time was time consuming and difficult to work to. A different structure will be used for the 2007 survey.

## Global development process

It is of the utmost importance that employees in the Perstorp Group have the right capabilities and the right opportunities for development. In this manner, the company can also grow and increase its competitiveness. Work involving the Group's employees is characterized by a systematic and long-term approach and participation and conducted within the framework of the Group's PMD (People Management Development) process. The PMD process consists of four different steps:

- ➔ Annual evaluation and establishment of goals – talks at the beginning of the year intended to evaluate the past year and set goals for the coming year
- ➔ Personnel and leadership survey – People Satisfaction attitude surveys conducted every second year with the objective of achieving improvement and development

- Mid-year evaluation – talks at mid-year intended to establish an individual development plan for each employee and to follow up goals established at the beginning of the year
- Personnel planning – assessing future requirements based on the company's strategy and aided by development plans.

Evaluation and goal-establishment talks help to increase the employee's participation in his or her own development and the definition of goals, which also increases clarity. During 2005, 81% of all employees had at least one evaluation talk with their immediate supervisor.

One goal is that there should be individual development plans for all employees. During 2005, such plans were established for 53% of all employees.

## Skills development

Within the framework of the Perstorp Group's offer of skills development for employees, the company works on standardized training for introduction programs, requirements-specified courses and regular functional training. Customized courses are conducted with various Group units based on training requirements. Diploma and certification programs are also offered.

Skills development also means that apart from traditional training, other forms for development are also offered, such as e-learning, study circles and seminars.

Employees in such units as Perstorp Stenungsund and Ulsan in Korea have participated in interactive instruction in English, for example.

Mentorship is an important part of a learning organization, and a mentor program has been offered at the Group's Swedish units since 2004. During 2005, 24 employees began a mentorship program.

Skills development strengthens the employee and the company



During 2005, training was provided in the following areas in the Group's various production units and in research and development units:

	Belgium	Finland	India	Italy	Korea	Sweden (Ste)	Sweden (Ptp)	Germany	US
Business systems (Prism, Cramis, etc.)			x	x		x	x	x	x
Work environment	x	x	x	x	x	x	x	x	x
Labor law, laws and contracts		x				x	x	x	
Coaching						x	x	x	
Data training, administration		x					x	x	
Operation and maintenance	x		x	x	x	x	x	x	x
Leadership		x				x	x	x	
Management systems (ISO)			x			x	x	x	
EHS	x	x	x	x	x	x	x	x	x
Accounting							x		
Electrical safety			x			x	x		
Language, general					x		x		
Language, function-oriented					x	x	x	x	
Energy usage			x				x		
Mentor programs						x	x		
PPE			x			x	x	x	x
Organic chemistry, mixed		x	x				x		
Presentation techniques							x		x
Product Management							x		
Project management		x					x		
Process chemistry		x	x			x	x	x	x
Process equipment						x	x		x
Safety training					x		x	x	

Training in the area of environment, health and safety (EHS) totalled 21,700 hours in 2005.

### Skills analysis

Skills analysis is a central part of the competence supply process and important for being able to raise competence supply to a strategic level. This is a process for continuously ensuring that the right skills are available in the organization to achieve its goals. Conducting a skills analysis makes it possible to plan for the right competence supply as part of business and operational planning. The starting point for skills analysis is a clear and common perception of the goals and activities for operations.

In the spring of 2005, a project group was created to conduct a pilot project for a skills analysis in the Technology department within the Operations function. One result of the pilot project was the development of a methods manual that, in its final form, will be usable as an aid in conducting skills analyses. A similar project was conducted in Gent, Belgium during 2005.

To simplify and structure the implementation of skills analysis, a number of steps should be followed. The process is divided into two main parts – preparation and execution. Preparation is essential for skills analysis, and management and/or supervisors must

be aware that their commitment is required and that it will take time. In a longer time frame, the entire analysis is performed every fourth year. The years in between consist of continuous follow-ups as part of the PMD process.

### Job rotation

During 2005, job rotation was introduced to offer employees new opportunities for skills development. This type of skills development produces double benefits, since the employee who changes jobs gains new experience and learns new skills, while the receiving organization gains through a new individual contributing experience. When the rotation period ends, the receiving organization also gets back an employee with experience from another environment.

In total, 41 persons participated in job rotation during 2005. There were two general types of rotation. The most common was rotation within the same production unit, with 29 persons participating in such rotation. The other type of rotation entails a change of production unit. During 2005, 12 Group employees took the opportunity to participate in external job rotation.

In addition to the job rotation described here, which is of longer duration or indefinite, shorter job rotation also takes place. During

2005, a process operator from the production plant in Bruchhausen worked for three weeks at the production plant in Toledo. During the summer, the roles were reversed. An operator from the US worked several weeks in Germany. During the autumn, two operators from the production plant in Toledo in the US were in Perstorp for job rotation. During two weeks, they learned about Perstorp's production methods and were also able to share their experience with the Swedes. Several employees from the Group's production unit in Vapi, India, have spent up to a few months in Perstorp, Sweden, in order to share experience and transfer knowledge. Two production managers from Ulsan, Korea, visited Toledo in the US and Perstorp, Sweden, to study TMP technology at these two facilities. All initiatives were very rewarding for both the home and the guest organizations.

### Life and career development

Since the start in 2002, 67 persons have participated in the program for life and career development that Perstorp conducts under its own auspices. During 2005, 22 employees participated in the program.

Life and career development is intended to find a balance in life between the different components of work, leisure, relationships and health. The current situation is the starting point, and the perspective is quality of life. The program addresses such issues as what individuals do in life and in their careers, values, and things they want to keep and things they want to change.



### Winning Managers

Employees are vital for achieving the Group's goals and for being able to achieve increased customer focus. With the right guidance and support from managers, the chances of success are increased. The Winning Managers concept was therefore introduced in 2005. This concept is supported by several initiatives focusing on training, feedback and communication. A policy, plus a definition of what a Perstorp manager should represent, were introduced, which are both based on the core values and behaviors included in the Winning Formulas concept.

Persons at management level within Perstorp have the following responsibilities and obligations:

Responsibility	Obligation
Make Perstorp's goals, strategies and core values understandable.	"I pledge to communicate Perstorp's general goals, strategies and core values and to make sure that all employees understand their meaning."
Have long and short-term plans for the department that are in line with Perstorp's strategy.	"I pledge to create long and short-term strategies for my department and to break down the general goals to department and individual goals."
Produce results by working together with employees.	"I pledge to make sure that employees understand how their work contributes to achieving the general goals and to constantly seek feedback as to how we can achieve better results and increase cooperation."
Create an atmosphere in which employees feel allied with Perstorp and our core values.	"I pledge to create development opportunities for employees by setting the direction for the department and its business."
Stimulate employee development.	"I pledge to conduct individual discussions (PMD) to establish and follow up goals and work performance and to delegate responsibility and authority where possible."
Continuously improve the department and its business.	"I pledge to continuously follow up the department's goals, to deliver results and growth, to continuously improve processes and activities and to encourage new ideas."
Act as a model and lead the department in accordance with Perstorp's rules, values and policies.	"I pledge to learn the meaning of Perstorp's rules, values and policies and to act in accordance with them."

## Leadership development

### Diploma leadership program

Period	Program	Location	Participants
May, start	Group 6 and 7, Swedish	Sweden	23
Nov, end	Group 5, Swedish	Sweden	12
Total in 2005 (number in parentheses is for 2004 and 2003)			35 (33; 30)

### Mentorship program

Period	Program	Location	Participants
June, end	Group 1	Sweden	24
Sep, start	Group 2	Sweden	24
Total in 2005 (number in parentheses is for 2004)			48 (11)



## Average number of employees in 2005

Country	Total employees	Of whom men
Sweden	-	-
Parent company *)	-	-
Subsidiaries	910	645
Belgium	35	28
Brazil	6	4
Finland	25	12
France	6	4
India	231	224
Italy	37	29
Japan	2	1
Netherlands	29	19
Singapore	4	2
UK	7	5
South Korea	29	26
Germany	132	116
US	148	124
<b>Total</b>	<b>1,601</b>	<b>1,239</b>

\*) Number of women on Boards of Directors and in executive management in 2005.

## Number of women on Boards of Directors and in executive management in 2005

	2004			2005		
	Total	of whom women	%	Total	of whom women	%
Board members	133	2	2	90	2	2
Other senior executives	114	18	16	96	20	21

Board members refers to ordinary members of the Board in all Group companies. The same person may be counted several times if he or she is a member of several boards.

Other senior executives include Group management, the management group in each business area, the management group in each Group company and the President in all other companies within the Group.

## Basic education, % of all employees

	2004	2005
Compulsory education	18	22
Upper secondary education	56	50
University	28	28

## Employee turnover in 2005

Average employee turnover 3.5%

Since employee turnover was not reported in 2004, a comparison is not possible.

# Perstorp's organization

The Perstorp Group is organized in two business areas, Specialty Chemicals and Advanced Composites, which are supported by Group functions.

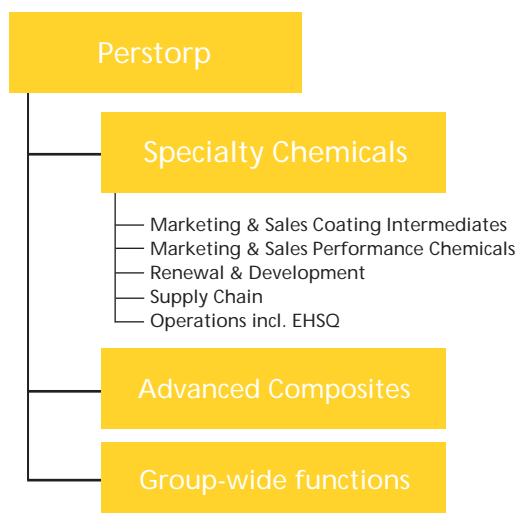
## Organizational structure

The Perstorp Group consists of two business areas, Specialty Chemicals, which accounts for 98% of Perstorp's net sales, and Advanced Composites, which accounts for the remaining 2%. Specialty Chemicals operations are conducted in a function-oriented organization consisting of Operations, Supply Chain, Marketing & Sales and R&D. In addition to these functions, there are corporate functions for Financials & IT and HR & Communications.

## Acquisitions and sale

During 2005, Perstorp implemented a number of strategically important changes in the Group's composition. On April 1, 2005, the Dutch company Perstorp Franklin BV was acquired to strengthen Perstorp's position in the market for feed chemicals. The remaining shares in the Group's Indian operations were acquired on June 1, 2005, after which the name was changed to Perstorp India Chemicals Pvt Ltd. Ownership in the subsidiary YLA, which represented Perstorp's operations in the area of Advanced Composites, was increased to 82%. As part of the Group's focus on research and development, Perstorp took over legal responsibility for the R&D center located in Porvoo, Finland, which was previously leased from Dynea.

Through a management buy-out, Perstorp sold its operations in materials technology, comprising Perstorp Compounds with its subsidiary Raytor Holdings AB. This sale was a part of the strategy to focus on specialty chemicals.



## Organizational changes

In the Group's Italian production plant, Site Castellanza, a new managing director was appointed in early 2005 when the former president retired. A new managing director was also appointed in the Group's production plant in Vapi, India, during autumn 2005.

## Shared business culture

During recent years, a shared business culture has been developed within the Perstorp Group, one that is characterized by a progressive and performance-oriented attitude. This business culture is based on shared values (see page 6) and behaviors and has its roots in leadership based on values demonstrating an awareness of the importance of communication and the benefits of a shared business culture. The shared business culture is an important part of becoming an attractive company for customers.

The Perstorp Group's seven behaviors:

- ➔ Earn the right to invest and grow  
means not spending more money than we can afford and only on activities that support future growth.
- ➔ Decentralized leadership and initiatives  
means that decisions should be delegated wherever possible.
- ➔ Transparency in targets and results  
means that important information must be shared with others to make the shared goals clear and provide important feedback in work processes.
- ➔ Collaboration and team spirit  
means helping each other when we can.
- ➔ Candid and direct feedback  
means giving praise when someone does a good job and having the courage to provide constructive criticism when performance is not up to par.
- ➔ Care and support  
means trying to understand the work and private life of co-workers and trying to support them when needed.
- ➔ Leading change  
means becoming accustomed to a state of continuous change and leading change.

### Top ranking in Sweden's best workplace

In 2005, Perstorp participated in the Sweden's Best Workplace competition arranged by the Alecta pension fund and was nominated as one of the ten companies for the final. The evaluation was based on questionnaires regarding job satisfaction, leadership and focus on results that employees in Perstorp's Swedish units answered. An examination was also conducted in which independent examiners visited the companies nominated to the final round. In total, some 50 employees were interviewed in Perstorp and Stenungsund.

In Alecta's assessment, Perstorp was ranked at level four of Alecta's five levels for the award Sweden's Best Workplace. Characteristic for level four is that work environment activities are evaluated and improved, and that management follows up and initiates improvements. Most employees are involved in work to evaluate and improve work methods, and the results were positive, stable and comprehensive with high relevance. There are examples of improved profitability linked to work environment activities, and the organization is a model for many other organizations.

### Communication

Communication is considered an important management tool within the Perstorp Group and must therefore be an integral part of operations. All communication must be based on four basic principles:

- ➔ Active  
Providing a correct and current picture of the Perstorp Group. As far as possible, communication should be proactive and initiated by Perstorp.
- ➔ Open  
Communication work must be characterized by openness that provides scope for both positive and negative events.
- ➔ Correct  
To ensure that recipients have confidence in Perstorp, communication must be correct and adapted to the recipient.
- ➔ Comprehensive  
All communication should be characterized by a comprehensive approach and coordination with other parties for the Group's best.

### Network-based communication and sharing of knowledge

During 2005, a project was started that is intended to create a virtual portal for sharing information and knowledge. An integration of the Group's intranet and management systems will take place in a tool that has been named Compass. The goal is to lay the foundation for more efficient work methods. The portal is expected to be launched for Group employees in June 2006.

Initiatives were also taken in external communication during 2006. See page 16.



# Perstorp's relations

The Perstorp Group strives for sound and long-term relations with the market and all stakeholders, including owners, customers, suppliers and society at large.

## Owners

Perstorp's owner as of December 22, 2005, PAI partners, has an established strategy for its investments: investments are made in medium-size and large companies that are market leaders in their respective segments and that have a strong management team.

PAI partners believe in the Perstorp Group's management means that it does not strive to become involved in daily operations, but rather seeks a transparent dialog through which ideas and strategic advice can be transmitted. The goal for PAI partners is that Perstorp shall be a successful and profitable company, and by actively participating in strategic work, the owner hopes to support Group management in its efforts to achieve these goals.

## Customers

The Perstorp Group's customer relations shall be characterized by the three core values of focused innovation, reliability and responsibility. These core values are essential for Perstorp's ability to deliver Winning Formulas to customers according to the concept that was introduced during 2005 (see page 6) and for building the long-term relations towards which the Group strives. The basic aim of Winning Formulas is increased customer focus.

There are many good examples of focused innovation in customer relations. The development of the dendritic polymer Boltorn P500 is one such example of where customer and market requirements for a UV-hardened product with both flexibility and strength drove development. The product was introduced on the market at the end of 2005.



Perstorp also strives to be a reliable partner that takes responsibility for processes and its own actions to instill customer loyalty. One of many examples is the Group-wide EHS (environment, health and safety) standard that was introduced in the mid-1990s. The goal is that all units within the Perstorp Group will meet the internal requirements by the end of 2007.

Perstorp works constantly on its external communication, and the Group's communications via the Web were enhanced during 2005. A measure of the number of visitors to the [www.perstorp.com](http://www.perstorp.com) website during May 2005 showed that about 500 persons visited the site every day. Two new websites for specific products, [www.prosid.com](http://www.prosid.com) and [www.perstorpattika.com](http://www.perstorpattika.com), were launched during 2005.

## Suppliers

The Perstorp Group works to build long-term relations with its suppliers. For this to succeed, it is necessary that suppliers share Perstorp's views on the environment, health and safety, which are all vital elements for the Group. Before Perstorp approves a new supplier, the supplier must answer a questionnaire on environment and safety issues. Perstorp also requests to review the supplier's environment policy and permission to conduct an environmental audit. This is part of the overall evaluation that takes place before a new supplier is approved.

Suppliers of raw materials and packaging are subjected to an annual review of quality, delivery precision, packaging and documentation. Suppliers of major raw materials to Perstorp's various production plants are normally companies with which Perstorp has a long-term relation and where there are no problems with the environment or safety.

## Schools and universities

As part of Perstorp's long-term recruitment work, the Group runs its own high school in Perstorp. The school offers a three-year program in chemical technology with a focus on chemical processes. Ten weeks of practical training provide students with insight into working life. Two of these ten weeks are in units outside Sweden.

During 2005, the Perstorp High School was named Technical Program of the Year for Southern Sweden and awarded a prize of SEK 200,000 to be used for the school's activities.

Perstorp also works with primary schools and other secondary schools in its vicinity to be able to demonstrate the chemicals indus-

try as a possible future workplace. This includes study visits, practical training and projects in the schools. At the Group's production plan in Stenungsund, collaboration has been established with a local senior high school through which students studying process technology are offered a one-year training period at Perstorp. The production unit in Toledo in the US sponsors an annual chemistry summer camp at a nearby university, and also did so in 2005.

The units in Bruchhausen in German, Porvoo in Finland, Castellanza in Italy and Vapi in India, as well as in Perstorp, apply continuous exchange programs with various universities. These exchange programs include both thesis work, the exchange of experience and support for research projects.

## Society

As a company in the chemicals manufacturing industry, Perstorp strives for good relations with the people residing in its vicinity, authorities and the media. Good communication with these stakeholders is of the utmost importance and must take place in accordance with the Group's four basic principles for communication: active, open, correct and comprehensive (see page 14). Letters, information brochures, Open House and press showing are examples of activities for building good relations.

Read more about the Perstorp Group's stakeholders in the 2005 Environment Report, which is available at [www.perstorp.com](http://www.perstorp.com).



# Work environment and our social responsibility

The position as an international specialty chemicals group entails responsibility for both our own employees and the environment as a whole. Perstorp works actively to take this responsibility.

## Fitness programs

Within the Perstorp Group, organizational efficiency, sound leadership and a sound psychosocial, as well as physical, work environment are considered central for employee health and job satisfaction. Through the People Satisfaction attitude survey (see page 8) and the goal and development talks in the PMD process (see page 8), the company obtains an indication of employees' physical and mental health.

The Perstorp Group conducts various types of fitness activities through which we take responsibility for employees' health. These activities are organized differently in different units around the world. At the research and development center in Porvoo, Finland, the company pays for part of employee training activities, while at the production unit in Vapi, India, there is a Perstorp Health Club that is intended to improve both the social community and the physical and mental health of Perstorp employees. Fitness activities at the unit in Stenungsund focus on the entire individual, meaning that fitness programs encompass exercise, diet, mental health and safety work. At the production unit in Perstorp, a variety of indoor and outdoor fitness activities are offered.

## Company healthcare

Access to good company healthcare is important in ensuring a sound work environment for all employees. The main objectives for company healthcare within Perstorp are to prevent illness and to be a resource for health-promoting activities. At the unit in Perstorp, the company has its own healthcare clinic, while the units in Gent in Belgium, Vapi in India, Porvoo in Finland, Stenungsund in Sweden and Toledo in the US have contracts with external suppliers that include health checkups. At the units in Bruchhausen in Germany, and Castellanza, Italy, there are contracts with doctors who visit the plants regularly.

## Sickness absence

For 2005, the Perstorp Group as a whole reported slightly higher sickness absence, compared with 2004, while the Swedish units reported a decline. Work is constantly in progress to achieve a reduction in sickness absence, in part through offers of fitness activities, distinct shared behaviors, attitude surveys and goal and development talks, as well as facilitating early contact with health-care services.

### Sickness absence 2005

The sickness absence reported below comprises pro forma figures for the Group for the period from January to December 2005.

*Sickness absence as a proportion of ordinary working time, %*

	Group	2004 Swedish units	2005 Swedish units
Total	2.5	3.4	2.5
Consecutive sickness absence of 60 days or more	*)	2.1	1.2
<i>Distribution by gender</i>			
Men	*)	3.2	2.0
Women	*)	3.9	3.7
<i>Distribution by age</i>			
-29	*)	1.8	1.8
30-49	*)	2.8	2.4
50-	*)	5.5	3.0

\*) There are no reliable figures for the long-term and short-term absence, or distribution by gender or age, of foreign units.

The Swedish units comprise all of the Group's subsidiaries in Sweden. The Parent Company had no employees at year-end.

## Substance abuse eliminated – employee retained

Perstorp is an employer that prioritizes health, safety, the environment, responsibility and quality. Such a company must be free from abuse of alcohol, narcotics and other drugs. During 2005, an alcohol and drug policy was introduced for all Swedish units. The policy also includes special rules for the production units in Perstorp and Stenungsund.

The goal of the policy is a drug-free workplace where efforts to combat abuse of alcohol and narcotics are important for promoting safety, employee health and improved quality of work. Early detection of substance abuse increases the chances of helping the individual. For initiatives to help an employee with such problems, the ambition is to eliminate the substance abuse and retain the employee. This means the ambition is to help the employee return to a life without abuse.

Obligatory training was conducted with all employees at the production units in Perstorp and Stenungsund during 2005, with the objective of increasing knowledge of the abuse of alcohol and narcotics. Managers received additional in-depth training.

In conjunction with the introduction of the alcohol and drug policy, the company and trade union organizations reached an

agreement on random drug tests for employees. Each year, 25% of all employees will be tested after random selection. All new employees undergo alcohol and drug testing.

## Safety

Units within the Perstorp Group work regularly on technical safety inspections and risk analyses to identify risks for employees' health and safety. In addition, employees are trained regularly. Work conducted in recent years has produced results, as evidenced by a reduced number of workplace accidents resulting in at least one day's sickness absence. More information on this subject can be found in the Perstorp Group's 2005 Environmental Report available at [www.perstorp.com](http://www.perstorp.com).

Total LTAR			
	2005	2004	2003
LTAR	5.9	5.9	9.9

Total LTAR = Lost Time Accident Rate (frequency of work-related accidents) per million working hours  
Comparative figures for 2003 and 2004 are adapted to the current organization.

A sound psychosocial and physical work environment is prioritized



## Equality and diversity

The Perstorp Group's work to promote equality and diversity strives to ensure that all employee experiences are utilized so that the business develops in a positive manner. In this work, the experience and abilities of minority groups are also utilized. A policy for work on equality and diversity was introduced in 2005. The objectives of this work to increase equality and diversity are:

- ➔ More equal gender distribution for a better work climate
- ➔ All jobs available to all
- ➔ Treating each other with respect
- ➔ Active parenthood and active work
- ➔ Training and skills development
- ➔ Equal salary for equal work

Each year, the Perstorp Group will formulate a plan for work on equality and diversity. During 2005, plans were formulated for the unit in Gent, Belgium, and the Swedish units in Perstorp and Stenungsund.

## Global Compact

Since the spring of 2004, the Perstorp Group has been an active participant in the UN initiative Global Compact that was started by UN Secretary General Kofi Annan in 1999. The initiative consists of ten principles in the areas of human rights, working conditions, environment and anti-corruption. One example of a concrete measure within the framework of the Global Compact is the Perstorp Group's support for the right of co-determination for employees through their ability to join trade unions.

## Code of Conduct

The Perstorp Group's Code of Conduct specifies the business principles that should permeate operations. The Code of Conduct is based on the Global Compact.

The Perstorp Group's Code of Conduct:

- ➔ We respect the individual and stand for fairness, honesty, openness and trust. We encourage networking, participation and individual initiative.
- ➔ It is our responsibility to offer safe and healthy conditions and to prohibit all forms of harassment.
- ➔ We constantly strive to reduce the environmental impact in accordance with our commitment to sustainable development.
- ➔ We create long-term value for customers, shareholders, employees and society and realize that sustainable profitability is crucial for success.
- ➔ We are a strong but fair competitor and always compete in compliance with prevailing laws and never participate in illegal industry collusion.
- ➔ All business transactions are booked in accordance with the company's accounting principles and local legislation. We do not allow bribes in any form. All employees are expected to avoid situations where their personal interests may come into conflict with the company's interests.

## SOS Children's Villages

For Perstorp, humanitarian aid is a natural way to accept responsibility for development in the countries in which we manufacture or to which we export. The Group's Indian operations provide continuous support to SOS Children's Villages in Pune, India. This support is provided so that the children will be provided with food, healthcare and an opportunity to go to school. In a similar manner, Perstorp works with the SOS Children's Village in the Chinese city of Nanchang, where Perstorp is the main sponsor. The contribution totals SEK 3 m over a three-year period and means in practice that the 89 children who live in 12 houses in the village have a home, a family and an education.



**SOS-CHILDREN'S VILLAGES**



## 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, 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.