

Creating the elements of success



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PERSTORP'S ANNUAL REPORT 2009



Part 1
Business & Strategy

Part 2
Report of the
Board of Directors
& Sustainability Report

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Resilient performance in a tough market

2009 was a tough year, but many successful initiatives and efforts have prepared us as a Group for the upturn in the business cycle we see coming.

Mission, vision, values & strategy

The central underpinning component of Perstorp's strategy is to achieve a superior return for our shareholders whilst contributing to a more sustainable world through our ability to innovate in chemistry.

The core values

Perstorp's three core values – focused innovation, reliability and responsibility – permeate the entire business and all activities carried out. In practice, this means being innovative with the aim of finding the best value-added solution, keeping promises and taking responsibility and care for both people and the environment.

Perstorp in brief

PERSTORP HAS EXISTED FOR OVER 125 YEARS

Originally a small family business in Skåne, Sweden, Perstorp is now a world leader in many product areas with production in 11 countries, over 20 sales offices and more than 60 agents around the world.

PERSTORP MAKES GOOD PRODUCTS EVEN BETTER

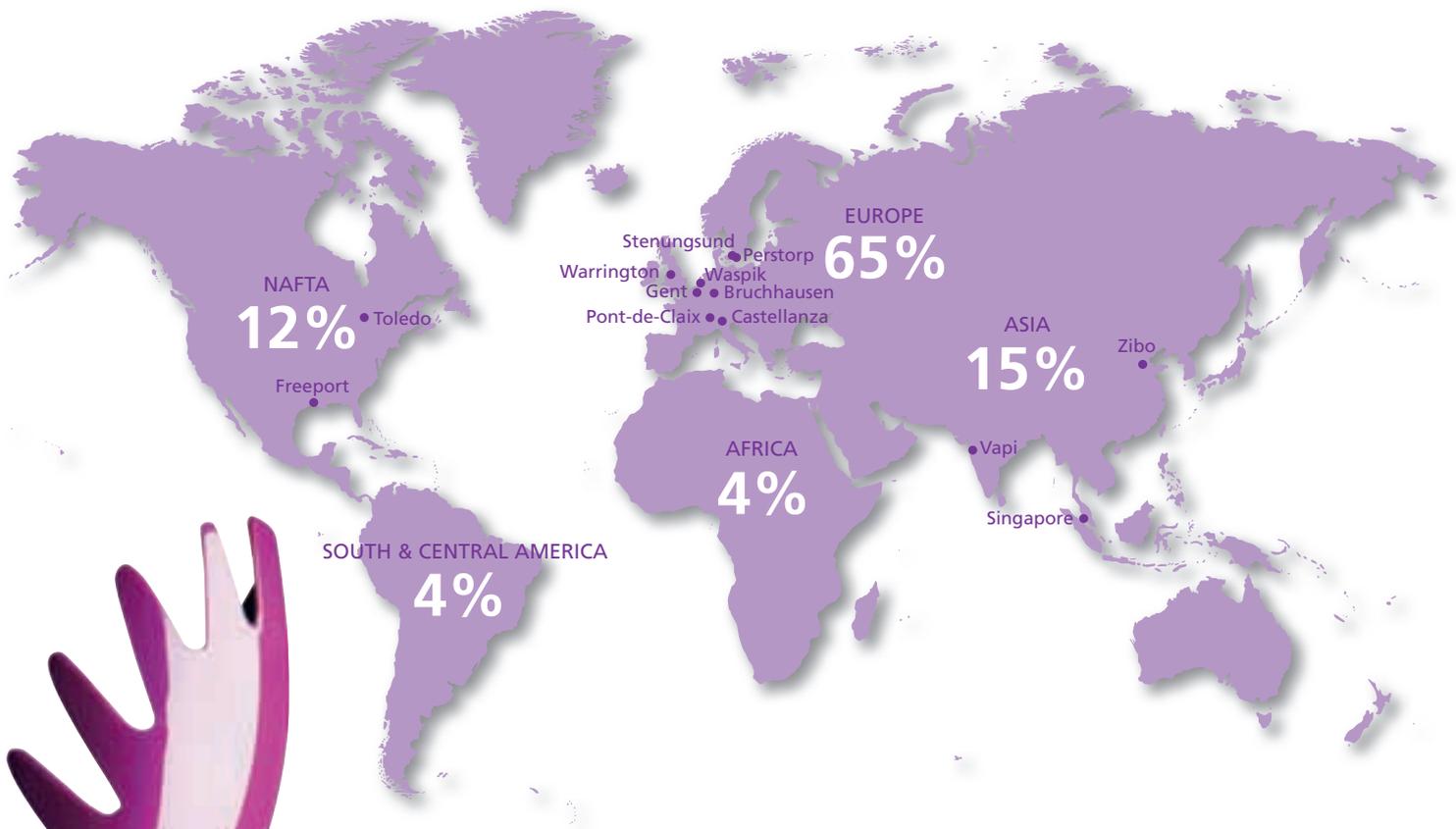
The chemicals Perstorp produces are added to a wide range of products used in daily life at home, work or leisure.

We usually say that we make good products even better, which is not an idle boast. Our products are used to provide certain planned and desired characteristics.

One good example is the organic acid we produce that is used to make protective glass for car windscreens, high buildings and solar panels.

A world-leading player

NET SALES PER REGION & THE PERSTORP PRODUCTION PLANTS



PERSTORP EVERYWHERE

Customers are in the coatings, plastic processing and automotive industries – as well as construction and engineering, the agricultural sector and many more.

FROM RAW MATERIALS TO END PRODUCT

The foundation of the Group's activities is considerable expertise in organic chemistry, particularly aldehydes. We are among the largest global producers of Penta and TMP polyols, several specialty polyols, and organic acids and with a highly integrated production tree. Perstorp is also the leading supplier of facilities and catalysts for formalin production.

RENEWABLE PRODUCTS

Renewable automotive fuel is a significant growth area. Perstorp produces rapeseed methyl ester (RME), which is used as a diesel fuel additive or as a fuel in its own right.

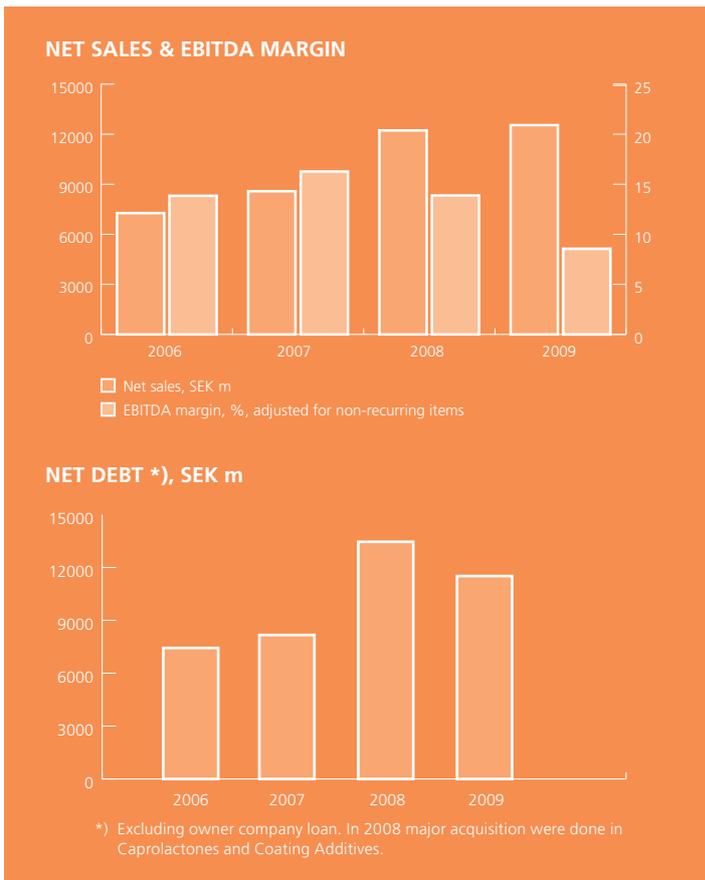


2009

Important events

- 1** To reduce the impact of the financial crisis, a savings program and improved efficiency were introduced, reducing the headcount by 20% and costs by a significant amount.
- 2** A new business plan was developed for Perstorp's strategic alignment.
- 3** A new organization was introduced to promote rapid decision-making and better proximity to customers.
- 4** A new organizational unit, Region Asia, was set up to meet growth in Asia. Additionally, ambitions were expressed to start producing HDI derivatives in China by 2012.
- 5** A new plant for producing potassium formate went into operation at the production unit in Perstorp.
- 6** Perstorp reached an agreement with its banks in the fourth quarter, which increased the Group's flexibility. Moreover, 2009 concluded with a shareholders' contribution, giving Perstorp a significantly stronger balance sheet.

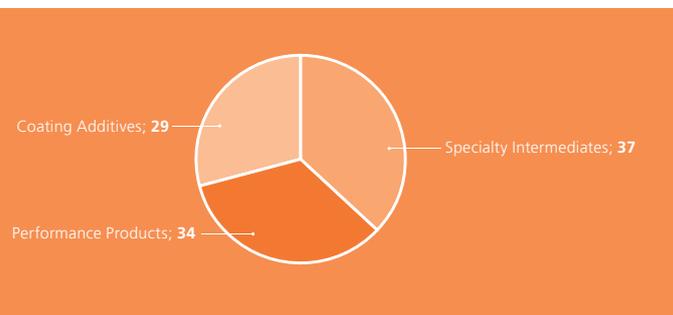
Key figures development



NET SALES PER GEOGRAPHIC MARKET, %



EXTERNAL SALES PER BUSINESS GROUP, %





PAINTS & COATINGS

The global paints and coatings market offers highly attractive dynamics of strong growth and an attractive market structure. From the critical building blocks to the highly valued specialized chemicals – Perstorp is a key solution provider in all the technologies in the paint and coatings segment working in partnership with participants throughout the entire value chain. Perstorp plays a crucial role on the global market for environmentally-adapted paint systems.



FOAMS & ELASTOMERS

Perstorp's products used in foams and elastomer materials play a critical role in enhancing the performance of many every day items such as furniture or shoe soles. Perstorp manufactures TDI, which is a key raw ingredient of polyurethane foam, and is world leader in manufacturing caprolactones, which is a special ingredient used to make hard elastic material, such as wheels, more hard wearing, UV-resistant and less viscous.



SYNTHETIC LUBRICANTS

Aircraft engines with temperatures of over 1000°C and long-lasting environmentally-adapted refrigeration units require high-performance, high quality synthetic lubricants. The increasing demand for such lubricants is based on their ability to offer longer service intervals, less energy consumption and greater environmental capability. Perstorp has a strategically important position in this segment as a supplier of key intermediates used in synthetic lubricant manufacturing.



ADHESIVES

Adhesives play a vital function in many end-market applications. Perstorp provides a range of solutions to customers in this area such as 2-ethylhexanol for acrylic adhesives, caprolactone polyols for polyurethane adhesives, thermoplastic caprolactones for hot-melt adhesives and pentaerythritol as an adhesive additive. These products are essential to achieve the bonding and laminating characteristics for a great number of products – from shoes and fabrics to food packaging.



PLASTIC ADDITIVES & PLASTICIZERS

Plastics, of all shapes, play an important role as components in high end-markets such as automotive and medical applications. Sustainable concerns are seeing manufacturers switch to plastics due to weight and performance considerations. Plastic additives and plasticizers are needed to give such plastics the enhanced properties required. That's where Perstorp's products such as octanoic acid used in safety glass films, various PVC plasticizers and some specialty polyols are critical in achieving this goal!



FEED & FOOD

The trend towards longer life animal feed and the changing legislation regarding feed quality and animal husbandry continues to provide numerous opportunities for Perstorp. Improving nutrient content, inhibiting mould growth, antibacterial treatment and aid digestion are just a few of the benefits of feed additives, ensilage agents and preservatives that Perstorp Performance Additives manufactures from formic acid and propionic acid. Together they boost the productivity and quality of meat, milk and egg production.



FORMALIN TECHNOLOGY & CATALYSTS

Perstorp is through its business Formox recognized as a world leader in the provision of technology used to manufacture formalin. Formalin is used as a key ingredient in many applications, including other chemicals, adhesives, chipboard and paper. Formox offers customers a unique partnership model encompassing the complete design of formalin plants and the on-going provision of catalysts and servicing used in the manufacturing process. These elements provide a very stable business for Perstorp in this segment.



FUELS

Increased legislation regarding more sustainable fuels provides good growth opportunities. Perstorp is a key regional participant in this niche market and produces biodiesel – RME – from rapeseed oil for mixing in low concentration with fossil diesel and as a 100% renewable fuel. Perstorp also provides a superior grade of RME, Verdis Polaris™, suitable for the Nordic climate. In addition, Perstorp manufactures 2-ethylhexanol, used in fuel additives to help cleaner combustion and lower particle emissions.

Resilient performance in a tough market

I think we all agree that the past year presented exceptional business challenges, striking industries in most every corner of the globe. As I consider Perstorp's performance in 2009, I see that we have proven to be dynamic, flexible and disciplined solution providers. I am proud of the company's ability to strategically navigate the turbulent market conditions with both unrelenting determination and decisive action. As a result, we stand tall in 2010 and are poised to maximize our growth and development in the current economic upswing.

Successful initiative

During 2009, we succeeded in maintaining a high, consistent margin percentage despite the year's severe fluctuations in market demand and raw materials. The de-stocking activities at the start of 2009 led to significant reductions in demand for much of our product portfolio. As a result, we increased our previously announced savings measures and identified five key initiatives that were successfully implemented. These include:

- ➔ developing a savings program that reduces costs by about SEK 300 m per year;
- ➔ reducing procurement costs by more than SEK 150 m per year, despite continuing our purchase of a significant amount of raw materials;
- ➔ achieving one of the lowest levels of sustainable working capital within our chemical sector peers;
- ➔ reorganizing our operations to advance overall efficiency and to improve our position to better serve customers; and
- ➔ successfully integrating our new Coating Additives business group.

Once the de-stocking process ran its course, the market began to return to more normal conditions, even if at a lower level than preceding the economic crisis. Our positive margin performance reflects the adaptiveness of our manufacturing platforms, the swift but calculated decision-making of our management team and the resilience of Perstorp's selected market niches.

Focus on Asia

Asia continues to be a highly attractive growth region for Perstorp. In many of our end markets, we expect consumption to grow faster than the local GDP growth rate due to an increase in consumer demand and wealth. Asia recovered early from the financial crisis and thus we expect the budget growths in 2010 to be about 17%, thereby taking market share.

To improve our efficiency in the region, we centralized our Asian sales and distribution operations by creating a new, standalone unit – Region Asia. We will continue to invest in selected products from the region that we believe will offer attractive returns and growth opportunities.

New mission, vision & strategy

We have also created a new strategic vision to guide our operations through 2012. This plan includes a new company mission as well as improved clarification of our technical platforms and a forecast that identifies our priority market segments. We will continue to serve as a solution provider to those market niches in which we already own a competitive advantage, where attractive returns are possible and where we are, or can become, a market leader.

In line with this new vision and strategy, our business falls into three categories: specialties, semi-specialties and building blocks, each one contributing to maximize the potential of our full product tree. Read more about this further in the report, page 9.

As we continue to evolve, it is important to recognize and protect the core aspects that steadily support Perstorp's success. One of our fundamental strengths is our in-depth knowledge of the complex product trees in which we operate. Side-streams of these product trees often become profitable co-products and thus we will continue to embrace the complexity that has given us a competitive advantage.

Market segment strategies

We aim to finalize our initiative to develop strategies for each of our chosen market segments during the second quarter of this year. We will invest heavily as we follow our customers into the market niches that demonstrate the most growth and profitability, and where we have already established significant expertise and technical platforms to compete well. We prefer to distinguish ourselves as specialists in certain segments rather than generalists that scratch the surface in all areas.

Developments at our manufacturing facilities

We have also reviewed our technical platforms and their accompanying strategic challenges and opportunities. We continually analyze these platforms – are there any cross-fertilization benefits, are there possible partnerships that can provide increased value? Each platform is regularly reviewed to examine our competitive strengths and to identify macro-trends that require our attention or investment.

Despite 2009's challenging market conditions, we continued to invest selectively in capacity expansion and new product development.

“ I’m very pleased that we’ve succeeded in keeping a high, consistent margin percentage throughout the year, despite the dramatic fluctuations on the market for raw materials and demand. ”



- ➔ Last summer at Perstorp we successfully launched a new potassium formate plant. The product can be used when drilling for oil or de-icing at airports and has already sold well.
- ➔ At Bruchhausen, we began production of synthetic calcium formate, which is used in tile adhesives and feed additives. We’ve developed a process that allows us to produce this product without needing to produce Pentaerythritol, which gives a distinct flexibility advantage.
- ➔ We continue to expand our caprolactone facility at Warrington, which will have doubled its capacity by 2011.
- ➔ We aim to begin manufacturing HDI derivatives in China no later than 2012.

As we consistently assess our facilities against a set of clear financial criteria, we decided to mothball two facilities: El Salto, Chile and Vapi, India.

Together, these actions will positively contribute towards the company’s overall growth in the short and medium term and will help in sustaining Perstorp’s competitive advantage.

Production improvements

To strengthen our production performance, we will focus on the utilization ratio of our facilities and overall productivity. We have introduced an extensive system, known as the Perstorp Performance System, to monitor our operating performance across the Group. This system will create the conditions reducing unplanned down-time as well as increasing job satisfaction, safety and product quality.

New organization

We also introduced a wide spectrum of changes throughout the organization during the course of the year. I take pride that as an increasingly global company, we are able to maintain close internal communications across the regions and maintain our premium on effective decision-making.

As we continually strive to seek improved business practices and swift action, we’ve channeled more of the decision-making abilities to our

local production sites and realigned our sales organization to bring them closer to our customers.

Renewed commitment from our financial backers

During the fourth quarter, our financiers demonstrated their strong belief and continued commitment to Perstorp and its renewed strategy. Our owners and lenders agreed upon a revised capital structure that will enable the Group to accelerate its growth as the economic recovery gathers speed. As a part of this structure, our owners injected additional equity into the company and our lenders agreed to provide greater financial flexibility. The Group now has an improved position to surmount the current economic climate and continue to invest strategically in its operations.

Sustainable development

Continuous improvements related to our environmental initiatives are equally important. We are tireless in our efforts to improve our carbon footprint. The chemical industry is progressing – the general public is increasingly positive towards and demanding more “green” products; politicians are introducing legislation and other measures that support responsible and sustainable development; and new technologies are continually being developed. This marks a significant opportunity for Perstorp and our already established reputation for innovation and sustainable product development.

The strategic and operational steps the company took in the past year paved the way for Perstorp to stand at the forefront of the economic recovery and to optimize our competitive position in our chosen market niches. We continue to reap the positive impact of 2009’s cost-savings initiatives and have strengthened our position on the back for the Group’s new vision and strategy. Our expectations are high for 2010 and performance thus far has already ignited a strong momentum! I look forward to another exciting year.

Perstorp, April 2010

Martin Lundin
President and CEO

MISSION, VISION, VALUES & STRATEGY

PERSTORP'S MISSION IS

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

PERSTORP'S VISION IS

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

PERSTORP'S CORE VALUES ARE

- Focused Innovation
- Reliability
- Responsibility

The clear mission of Perstorp which leads to further objectives. It answers the question "why are we here?".

A clear, higher vision for Perstorp.

Perstorp's core values should permeate every action and be a natural part of the business.



PERSTORP'S STRATEGY FOR THE FUTURE

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

"A new mission, vision and strategy coupled with our three core values are the framework for Perstorp's path into the future."

- ➔ To invest in market niches where we are or can become leader, have a competitive advantage and can achieve attractive economic returns
- ➔ To expand the specialty part of our portfolio, by greater innovation and focused sales & marketing efforts
- ➔ To differentiate the semi-specialty part of the portfolio through distinct quality grades, tailored packaging and distribution and finding new applications
- ➔ To ensure the solid market positioning and manufacturing platform excellence of our building block chemicals, so they can continue being produced at the best possible quantity and yield to support the growth of our differentiated specialty products
- ➔ To maintain our balanced portfolio of products to limit our dependence on any one end market

To be successful with the strategy requires leadership within Perstorp's production platforms and leadership in the niche market segments chosen as focus areas.

Operational
leadership
in our
**manufacturing
platforms**

Market
leadership
in
**selected
niche segments**

Perstorp's manufacturing platforms

POLYOLS

In the 1950s Perstorp began producing polyalcohols, (polyols), thanks to an own technology. The first of these products was Penta, but the production process developed quickly, so other products soon appeared, such as TMP, Neo and many different special polyols. These products are largely sold to the paint and lacquer markets, but adhesives and synthetic lubricants are other growing sectors. Perstorp is the world-leader for many of these products, which are produced in China, Italy, Sweden, Germany and the USA.

OXO PRODUCTS

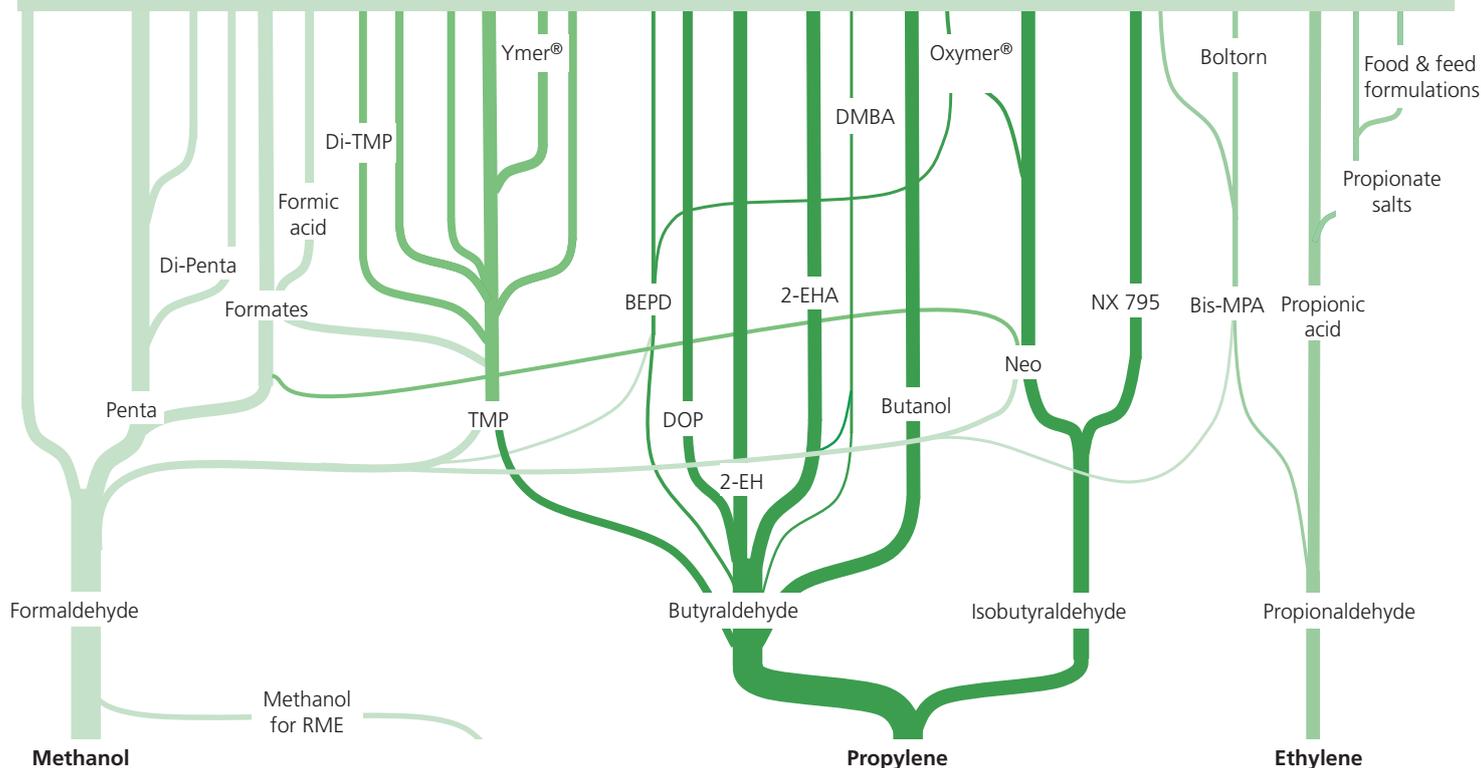
Investment was made in oxo technology in the 1980s, the motivation being the huge growth in plastic applications. Since then the technology has been adapted and specialized to meet market demand. Perstorp is the world-leader in products such as 2-EHA. The main application areas for products manufactured with oxo technology are water-based paints, cetane enhancers for diesel, adhesives and plasticizers. Perstorp has oxo production plants in Belgium and Sweden.

Today, Perstorp works with six different manufacturing platforms: oxo products, polyols, isocyanates, isophthalic acid, caprolactones and RME. The objective is to remain a leader or attain leadership in these manufacturing platforms. In assessing the leadership position Perstorp consider a number of questions:

- ➔ Cost leadership?
- ➔ Technical leadership?
- ➔ What synergies are there between the different manufacturing platforms?
- ➔ What synergies are there between the different market areas Perstorp focuses on?
- ➔ How can products be differentiated and adapted to facilitate Perstorp's solution provider approach?
- ➔ Availability of raw materials?

Within several of these manufacturing platforms, there are natural co-products in production. Thanks to focused marketing efforts, these are today products in their own right, with a high market value.

Perstorp's uniqueness stems from having such complex, developed production trees; this complexity leads to competitive advantages with respect to cost, flexibility and new product development.



RME

Today, Perstorp is Scandinavia's largest manufacturer of rapeseed methyl ester, RME, all manufactured at a production plant in Sweden. It started operating in 2007 and consequently RME is Perstorp's newest production platform. Customers mainly include oil companies, who use Perstorp RME to mix with their diesel, but bus and transport companies also use 100% RME as a fuel.

CAPROLACTONES

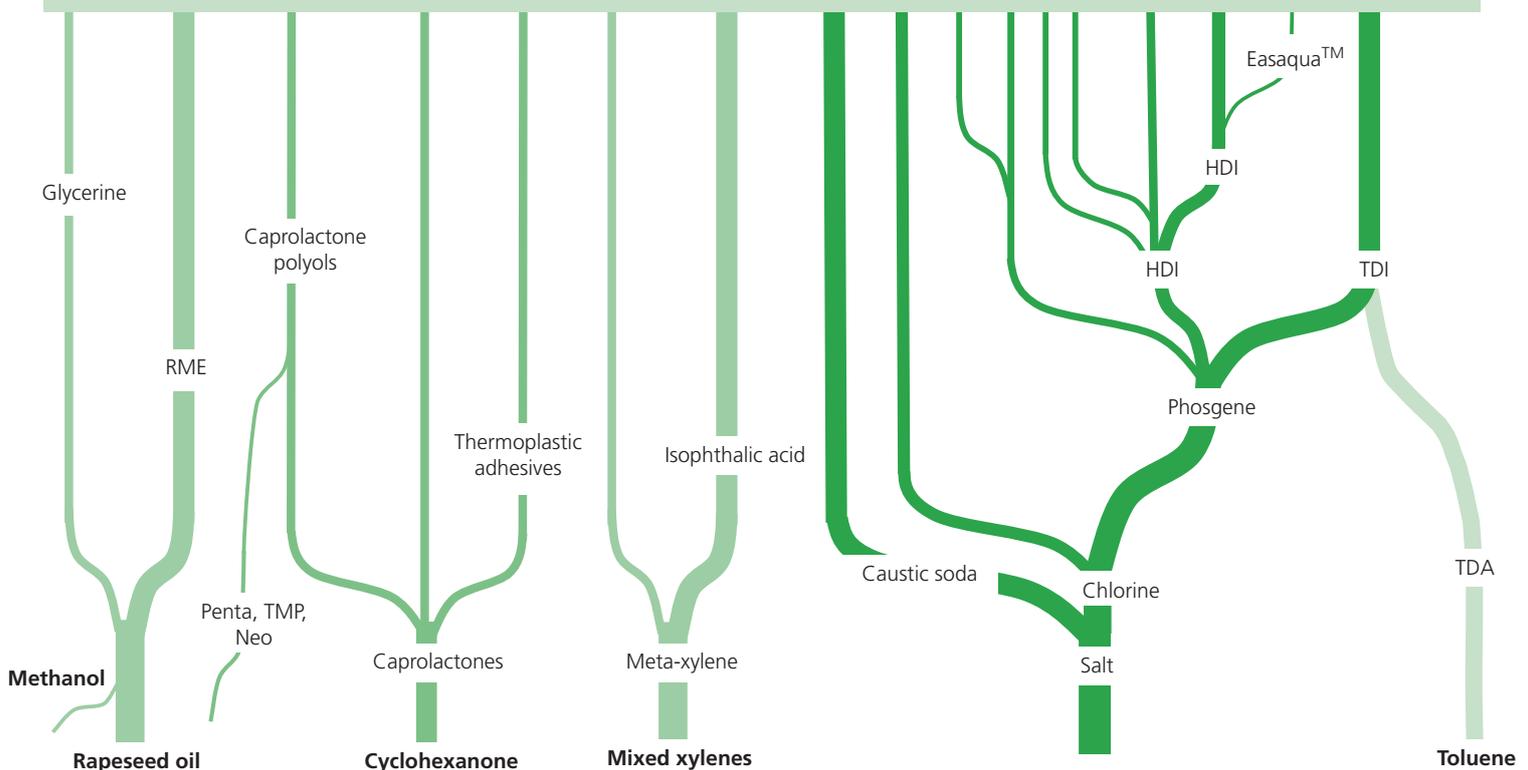
The caprolactones production platform was developed in the 1980s – first producing monomers. Since then, the product range has increased, with polycaprolactones and thermoplastic caprolactones – in many different varieties. In many cases, customers have cooperated in development, and today Perstorp is the world-leader in every part of the process. They are produced in the United Kingdom. Caprolactones, in different forms, are present in applications such as adhesives, paints and lacquers, as well as in polyurethane elastomers such as shoe soles and vehicle components.

ISOPHTHALIC ACID

Perstorp developed its own – relatively new – process for the production of isophthalic acid – it was seen for the first time in the late 1990s. Perstorp is a world-leader in the production of isophthalic acid – this is manufactured in Singapore, in the company's biggest manufacturing plant in Asia, where a large proportion of the customers are also based. Isophthalic acid is mainly used as a raw material in the manufacture of PET bottles and increasingly in polyester for powder coatings.

ISOCYANATES

The technology for the production of isocyanates was developed in the 1960s. The first product was TDI, to be followed ten years later by HDI. Since then, many derivatives have been added to the product portfolio, to meet market demand. Perstorp is well-positioned in the isocyanates market with its upstream and downstream integrated business model. Typical applications for Perstorp's isocyanates include water-based paint systems, industrial paints and foam for mattresses. Perstorp produces isocyanates in France and the USA.



Rapid response time & global presence

Some of Perstorp's main strengths are its global presence and rapid response times during global changes. To allow decisions to be made more quickly a lot of decision-making power is out in the business area organization. Sales, logistic and distribution in Asia are run by the newly formed Region Asia unit.

A global company

Perstorp is a global chemicals Group that thanks to its size has a great deal of flexibility and a rapid response time during global changes. Production takes place at thirteen sites in eleven countries around the world and with sales offices established at over 20 different locations. In other parts of the world Perstorp is represented by agents.

Employee numbers fell throughout the Group in 2009 by around 20%, to around 2,200 individuals, partly due to the redundancies in conjunction with the reorganization, and partly due to two of Perstorp's facilities being mothballed, one in Chile and one in India. The average number of employees last year was 2,408 (2,296).

Business group organization for decision-making

Perstorp consists of a business group organization and comprises three Business Groups, covering production and business units. The business areas are responsible for the operational results and each respective Business Group's strategy, which includes decision-making being moved out into the organization, in order to be more reactive to meet customer's needs.

The Business Groups are: Specialty Intermediates, Performance Products and Coating Additives.

Specialty Intermediates

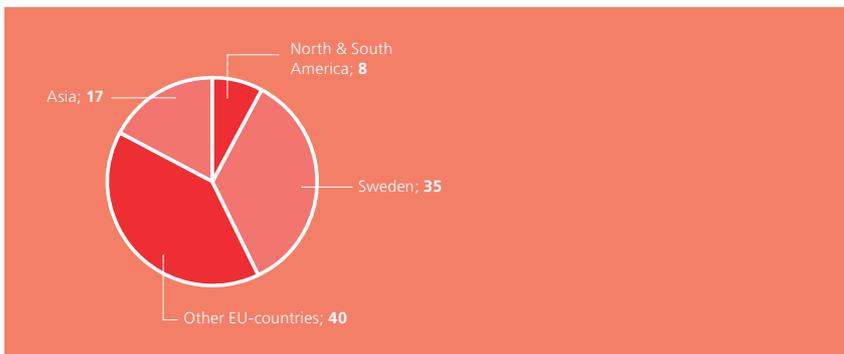
The Specialty Intermediates business group, managed by Mats Persson, includes basic and specialty polyols, isophthalic acid (PIA) plus formaldehyde and formalin technology. Manufacturing takes place at seven production units in as many countries.

Performance Products

Performance Products, managed by Anders Lundin, includes oxo alcohols and plasticizers, bio products, feed additives and caprolactones. Manufacturing takes place at three production units in three countries.

One of Perstorp's main strengths is that we're a global Group with a rapid response time when things change around us. To further promote rapid decision-making Perstorp moved more of the power to make decisions to the production sites and changed the sales organization to get closer to the customers. A new organizational unit was formed in July, Region Asia, creating more focus on the growth opportunities present in that region.

GEOGRAPHIC DISTRIBUTION OF EMPLOYEES, %



PERSTORP'S ORGANIZATION



Coating Additives

The third business group, Coating Additives, manufactures TDI, HDI and HDI derivatives. Lennart Hagelqvist is the business group manager and production takes place in France and the US.

Region Asia

Region Asia has been formed to strengthen Perstorp’s presence on the crucial Asian market and manage the growth taking place in the region. Region Asia is responsible for sales, distribution and logistics as well as aiding the three business groups in implementing their respective strategy for the region. Martin White is responsible for Region Asia. Read more about Perstorp’s investments in Asia on pages 40-41.

Innovation

Innovation is the Group function that supports all business groups with R&D resources as well as marketing and product development. The customers’ perspective is crucial for this global skills centre, which is responsible for the entire development process, from idea to new application, product or process.

The functional unit has a headcount of around 80 located mainly in France and Sweden. Eric Appelman is responsible for Innovation.

Read more about Perstorp’s innovations on pages 34-35.

Corporate Functions

There are a number of corporate functions to support the business: Corporate EHSQ (Jan Peterson), HR & Communications (Mikael Gedin), Finance & IT (Johan Malmqvist), Strategic Development & Legal (Bengt Sallmén). Each of these functions plays a key role in crafting the group’s way forward, as well as creating group synergies and upholding excellence and alignment with group policies.

“Production is run at thirteen sites in eleven countries while sales offices are found at over 20 different locations. In other parts of the world Perstorp is represented by agents.”



PERSTORP'S
market segments

Perstorp has chosen a number of market segments as its focus areas where strategies are developed to achieve success.



Perstorp – the critical ingredient in paint

The highly attractive paints and coatings markets are Perstorp's largest end markets. Irrespective of what's being coated – house, car or a new mobile phone, Perstorp is a key solution provider.

The paints and coatings industry offers highly attractive market dynamics of strong growth, low cyclicality and attractive market structure. These markets are split into three sub segments – decorative paints, industrial paints and automotive coatings.

Perstorp is a leader in selling a range of technologically advanced products into all of the three paints and coatings segments. Perstorp's product range extends from essential building blocks and semi-specialties – such as butanol, Penta, isocyanates, TMP, Neo and isophthlic acid – to highly specialized products such as Di-Penta, HDI and caprolactones. Perstorp's products are essential to the existence, performance and specific properties of coating products.

How Perstorp's products help

Extremely hard-wearing surfaces and better UV-resistance are just two examples of the special properties that specialty chemicals, in this case caprolactones, can provide. Ships' decks for example, where containers are loaded and unloaded, need both. Polyisocyanates help polyurethane paints to dry more quickly, which is important in industrial processes. Products like Di-Penta, Ymer® and Bis-MPA allow paint manufacturers to use fewer solvents but still retain the excellent properties of the paints. Fewer solvents are not only good for the person applying the paints but also reduce the amount of smog and pollutants in the air.

Less paint used in 2009

Demand was weak throughout the segment in the first quarter 2009, mainly due to the widely publicized weak performance of the automotive industry. Decorative paints were also affected, while paints developed for marine applications fared better because shipping companies were extremely busy with existing orders.

The situation changed in April and there was a marked increase in demand – the de-stocking effect was over – and improvements were seen month on month.

Outlook for 2010

Despite there being some way to go until a normal year's level is reached, the situation for the future looks positive and Perstorp is expecting increases in the region of 10% on last year's levels.

Demand is already good in Asia and South America. Africa and the Middle East are also doing well, while Western Europe and the US are showing slower signs of recovery.

New legislation comes into effect in Europe this year that limits the level of solvents in decorative paints. Overall this will affect the balance of Perstorp's products sold to the industry. In general, Perstorp is well positioned for the change.

Over the long-term

Owing to Perstorp's broad technology base the Group is not overly reliant in one product area.

Perstorp is a strategically important supplier to many customers, bringing with it a large degree of responsibility and an ability to predict and meet customers' future needs. Perstorp is therefore investing major resources in product and market development in this segment.

As wealth increases populations generally consume more paints and coatings. Consequently, Perstorp is confident that high growth, developing regions will remain attractive markets for Perstorp's products in the future. More developed regions will deliver more stable, but nonetheless, attractive growth.

Sustainability is a powerful driving force. Demand for more environmentally-adapted coatings is increasing, Perstorp is at the forefront of developments in new sustainable products. In 2010 Perstorp will launch a completely renewable Penta which will complement existing products for eco-friendly paints such as Ymer® and Bis-MPA.

FACTS

PERSTORP'S PRODUCTS ARE
ABSOLUTELY INDISPENSABLE
FOR ENVIRONMENTALLY-ADAPTED
PAINT SYSTEMS

50%

IMAGINE...

... a touch-screen for a mobile phone. It needs to be extremely durable and scratch-resistant and soft to the touch.

... a ship's deck. It needs to be extremely durable and stand up to exposure to the sun, wind and salt water.

... an airplane. It needs to be more UV-resistant than anything else.

Together the products in this segment make up around 50% of Perstorp's sales.



MARKET POSITIONS

- No 1 Penta
- No 1 Di-Penta
- No 1 TMP
- No 1 Bis-MPA
- No 1 Monomers for UV cured coatings
- No 1 Caprolactones
- No 1 Ymer® (only producer in the world)
- No 2 NX 795
- No 2 HDI
- No 3 Neo



When elasticity & comfort are important

This segment includes hard and soft elastic materials that play a critical role in enhancing the performance of many everyday items such as mattresses, seats, wheels and soles. And as in many other cases, Perstorp's solution provider approach combines key ingredients with niche specialty products.

TDI is key ingredient of the polyurethane foam industry. The biggest market for the product, and a very large market for Perstorp as a whole, is soft polyurethane foam for mattresses and furniture. Some TDI goes into making moulded foam such as that used in car seats.

Caprolactone polyols are used as a soft segment component of polyurethane elastomers, i.e. hard but elastic materials used for sports shoe soles and various components in cars, such as suspension components and gaskets. Caprolactone polyols are specialty products, used in applications that have specific highly demanding requirements.

The benefits of Perstorp's products

A significant part of Perstorp's caprolactone production goes into making polyurethane elastomers, which in turn are divided into thermoplastic elastomers, which can be melted and shaped, and cast elastomers, which are thermoset and therefore cannot be melted after being cast.

Caprolactone polyols affect the elasticity and viscosity of materials, making them more durable, more chemical- and UV-resistant. Caprolactone polyols are used in a wide variety of products, such as shock absorbing soft foams in mobile telephones, mining screens that need to withstand incredible stress conditions, rollers that feed paper in printers and many, many more.

That the material becomes less viscous by using caprolactones is something that customers highly value when manufacturing thermoplastic elastomers, because it cuts cycle times, resulting in increased capacity.

2009 followed the business climate

Overall, the segment followed the global business climate in 2009 but the impact of the recession was greater for caprolactone polyols than in most markets.

Demand for caprolactone polyols was lower, driven mainly by the exceptional circumstances in the automotive industry, which is the final destination for many products. The shortfall was first seen in the first quarter, with a gradual improvement seen throughout the rest of the year.

TDI was impacted in the first quarter and then recovered by year-end, with sales around 10% lower than a normal year. Price reductions, that started in autumn 2008 and reached a low in April, coupled with high raw material prices, impacted margins in the first and second quarter. To address this situation the company succeeded in optimizing its production costs and maximizing production of the raw material TDA.

Roughly a third of sales in this area go to the Middle East and Africa. This has provided TDI with a key component of stability.

Extra demand in 2010

The future looks bright for the segment with demand for TDI and caprolactones steadily increasing.

The major challenge over the year will be to produce more than 2009, despite the plant at Pont-de-Claix in France being closed for maintenance for 5-8 weeks.

The attractiveness of the caprolactones market has led to investments to double capacity. The capacity increase will be in three phases, of which the third will be achieved at the end of 2011.

Caprolactone polyols are still a small part of all the polyester polyols, which gives Perstorp the opportunity to grow fast in this segment.

Over the long-term

The new caprolactone volumes are targeted towards the attractive elastomer segment. Significant opportunities have already been identified for the increased supply.

Perstorp is well advanced in applying its solution provider approach to its new TDI activities. Customers have been highly receptive to this distinct approach, where Perstorp is a sustainable and competitive supplier but able to develop solutions in partnership with the customer. In addition, Perstorp believes that there are numerous special applications in the segment that it can exploit.

FACTS



MARKET POSITIONS

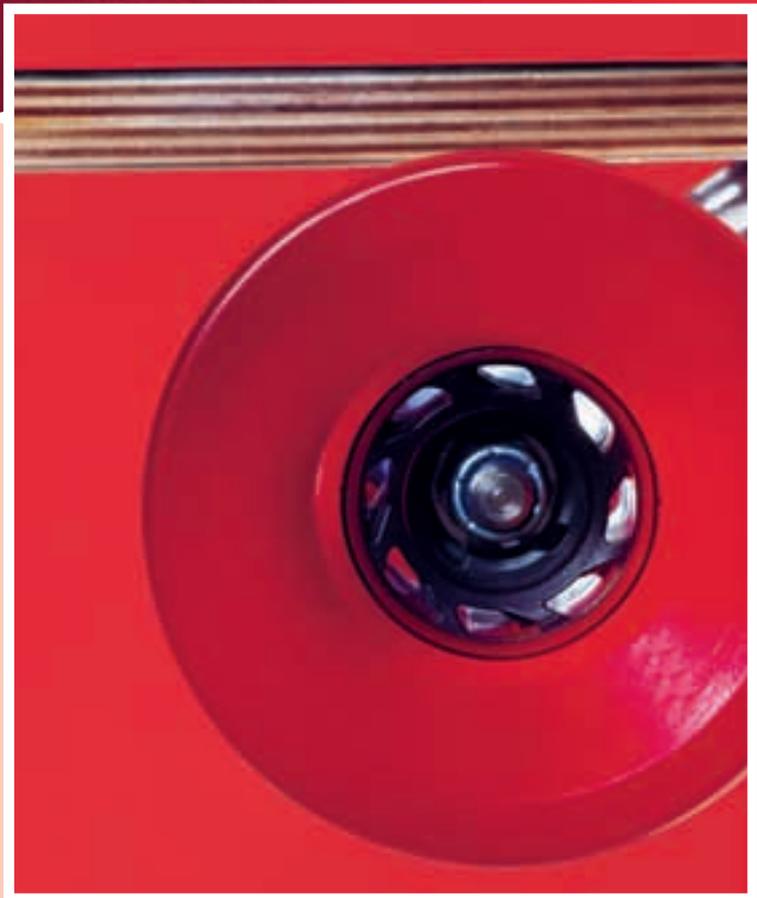
No 1 in Caprolactones

No 2 in TDI in Europe, No 5 in the world

Did you know that...

...wheels exposed to major stress, such as rollercoaster wheels, get very hot. Caprolactone polyols help reduce this build up of heat.

Elastic material exposed to sunlight becomes yellow and more brittle with time. Caprolactones allow it to remain elastic and keep its color longer.



An end to creaking machinery

The percentage of synthetic lubricants used today is increasing rapidly. There are numerous applications for synthetic lubricants and Perstorp is at the forefront in identifying new areas of applications working in partnership with customers.

Aircraft engines, refrigeration units and automobiles are the most significant applications for Perstorp in the synthetic lubricant sector. Perstorp has an emerging share of the market in other applications – hydraulics and metal-working – where mineral oil-based lubricants traditionally have been used.

The market for aero engine lubricants is stable with high barriers to entry due to the comprehensive testing required for customers to switch products. In the refrigeration units market, where regulations for air conditioning units come fully into force in 2010, requiring the use of freon-free refrigerants that do not damage the ozone layer. Perstorp is well suited to deliver according to the requirements for the new refrigerants.

Strategically, Perstorp is a critical supplier of these two types of product, particularly in the case of Penta, Di-Penta and other polyols. The automotive industry is a less important market for Perstorp.

Advantages of synthetic lubricants

The demands on lubricants nowadays are increasing – engines are becoming hotter and longer-lasting, with longer gaps between

services. Aero engines operate in such tough conditions – with high safety standards – that synthetic oils are the only suitable choice.

The demands of refrigeration units are not as exacting, but they still have to work without problems for at least ten years, which makes stability vital.

The advantages of synthetic lubricants are that they last longer, are more sustainable, wear machines out less and are more environmentally-friendly than mineral oils as they are biodegradable.

Slight downturn in 2009

Synthetic lubricants were affected by the general downturn in 2009 due to exceptional circumstances in the business areas and markets. The first quarter showed a fall in demand compared to other years, with a recovery in quarters 2 and 3.

Future prospects

Perstorp took the opportunity of the weak environment to strengthen its position in the sector over 2009, and this positive trend is continuing. A key area of growth for the segment is where customers are expanding into Asia, building new factories and entering new markets,

all of which have a favourable effect on the volume Perstorp is selling. It is leading to much-increased volumes in the market.

Despite the economic crisis and climate-change debate, people are continuing to fly. The aviation industry will remain a key mode of transportation in the future with a growth rate of 4% annually for the next twenty years.

Perstorp also anticipates a sharp growth in the refrigerated unit market, thanks to its strategically important involvement with environmentally-friendly solutions, alongside a significant increase in demand in Asia.

The synthetic lubricant market is showing healthy growth and is also taking market share from mineral oil-based lubricants. Outside the major applications mentioned above, there are many smaller specialist applications, where lubricants are customized according to their purpose. An increase in general awareness of sustainability issues is also a contributing factor to synthetic lubricants being an attractive growth area for Perstorp.

FACTS

MARKET POSITIONS

No 1 Penta
No 1 Di-Penta
No 1 TMP
No 1 2-ethylhexanoic acid
No 3 Neo

GO GREEN!

A good lubricant = a more effective engine
= less fuel = lower CO₂ emissions.

Did you know that...

...an Aero engine can reach temperatures of over 1000°C. This is why the highest-quality lubricants are necessary.

Aero engines:

Refrigeration units:

Penta, TMP and Di-Penta
Penta, TMP, Neo, Di-Penta,
and 2-ethylhexanoic acid



Esters for lubricants are produced when an alcohol reacts with an acid. As Perstorp manufactures both alcohols and acids, this is an extremely logical market for the company.

Fewer screws, more glues

Adhesives is a rapidly expanding segment with significant potential for Perstorp to grow in. Growth is mainly driven due to different kinds of bonding agents replacing various kinds of screws and seen in an increasing number of applications.

The adhesive segment is wide-ranging, with a collection of applications that in one way or another have “sticky” characteristics.

Perstorp sells 2-ethylhexanol for acrylic adhesives, caprolactone polyols for polyurethane adhesives, thermo-plastic caprolactones for hot-melt adhesives and pentaerythritol as an adhesive additive. 2-ethylhexanol is a main ingredient of acrylate adhesives, where Perstorp is positioned at the beginning of the value chain, while caprolactones are specialty products aimed at demanding applications that require the specific performance characteristics that caprolactones offer. Pentaerythritol is sold to manufacturers of additives that give adhesives a sticky quality.

The shoe industry is a major application for Perstorp's thermoplastic caprolactones, where they are used to manufacture heel counters and toe puffs in high performance footwear. Polyurethane adhesive applications are found in the textile industry, where bonding agents are used to laminate textiles, and the food industry, where polyurethanes are used to make adhesives for flexible packaging such as premium cat food containers and juice cartons. Bags for

potato chips are another application where the product is used. Layers of material are used and then glued together – without the bag becoming stiff.

Advantages of Perstorp's caprolactones

Flexibility and high bond strength are properties that caprolactones provide. Furthermore, the low viscosity of polycaprolactones enables the fabrication of adhesives with lower solvent usage, making them more environmentally friendly.

The segment during 2009

The adhesive segment was equally affected by the global economic crisis, with the exception of the shoe segment, which was not affected as much. Demand in that segment remained stable and followed the curve of an average year, if at a slightly lower level, while the rest of the adhesive segment showed a weak first quarter, gradually stabilizing and improving over the year.

Greater market shares in 2010

Demand for products is increasing in all segments and Perstorp is expecting 2010 growth to be greater than the recovery as a result of market shares gains the company is achieving from

other technologies, including the shoe segment, where thermoplastic caprolactones have a small but rapidly growing share. Over the year, Perstorp will spend a lot of time researching new market niches.

Long-term

The adhesive segment is expanding so rapidly partly due to industry's willingness to streamline its processes. By gluing instead of screwing or sewing, companies can fix things without costly mechanical production stages.

Because most raw materials in the adhesive segment are already defined, it's Perstorp's job to find applications that demand certain special properties that they don't already have.

Apart from many applications where caprolactones can provide benefits, Oxymer® also have the potential of finding their market. Oxymer® have extremely good adhesive properties, high melt temperature and are moisture-resistant, which are good, for example, in food packaging that needs to withstand the high temperatures of microwave ovens.

FACTS

OVER THE YEAR, PERSTORP
WILL SPEND A LOT OF TIME
RESEARCHING NEW MARKET
POTENTIAL FOR ADHESIVES

Did you know that...

...the adhesive segment is widespread with many different niche applications? One example is wine corks that are now often made from bits of cork glued together.



By gluing together layers of leather, shoes become sturdy while other parts remain soft and pliable.

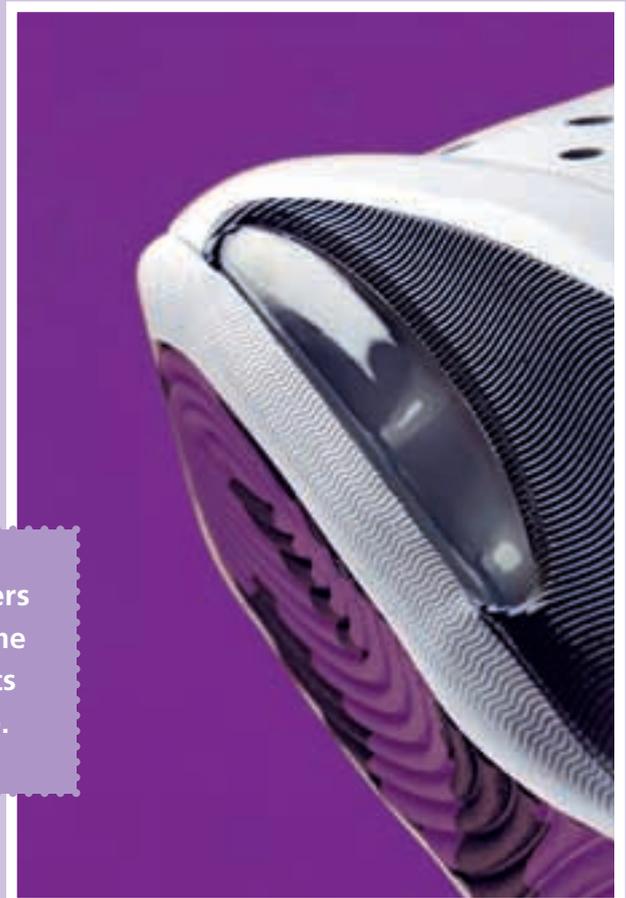
MARKET POSITIONS

No 1 Caprolactones

No 1 2-ethylhexanol

No 1 Pentaerythritol

Caprolactones, 2-ethylhexanol, pentaerythritol and a few isocyanates – most of Pers-torp's product families are represented in different parts of the value chain.



Perstorp gives plastic the right qualities

Plastic has an incredibly varied amount of uses, and Perstorp is involved in most of them. It has expertise in, amongst others, making hard materials softer, soft materials more stable, or brittle materials more durable.

Plastic additives and plasticizers represent a large sector, one in which Perstorp has a strong heritage – it is one of the specific uses for which the plant in Stenungsund was built.

Advantages of Perstorp's products

Plastic is everywhere in our daily lives, in everything from cables and leads to oilcloths and blood donation bags. PVC on its own is a hard material, so plasticizers are needed to make softer plastic. The PVC plasticizer currently manufactured by Perstorp is called DOP (dioctyl phthalate).

A rapidly expanding market is in PVB plasticizers, which are used in the plastic film present in safety glass. The demand for this has been dictated by new rules in the construction industry, which dictate that, above a certain height, safety glass must be used. Another strong area of growth is in alternative energy sources, as the costly technology in solar cells requires protection using safety glass. Around half of the octanoic acid manufactured by Perstorp are used in this sector.

The third area is PVC stabilizers, previously made from lead compounds. These have now been substituted with more environmentally-friendly stabilizers, such as calcium and zinc. An important factor in this change is that Di-Penta is required for them to work effectively.

The segment in 2009

Both the automotive and construction industries were severely affected by the financial crisis, and since these sectors use a lot of plastic, Perstorp also felt the shockwaves. Although at year-end sales were at a lower level than in the previous year the business has seen demand increase substantially in the early part of 2010.

New solutions in 2009

Perstorp has devoted a considerable amount of time to developing new high quality products that gives superior performance to lead-free stabilizers. In 2009 we started selling these, and sales are expected to grow in 2010.

At the same time, intensive work is continuing in several areas to develop alternative plasticizers.

Perstorp is a very active player in this field with products such as DPHP, which could substitute DOP in both the automotive and construction industries. Perstorp is also increasingly focusing on developing a cost-effective, phthalate-free plasticizer based on existing product lines. This could also be used for medical purposes.

Future prospects

Within the plastic additives and plasticizers sector, substantial growth is expected in safety glass and lead-free stabilizers.

FACTS



GO GREEN!

New plasticizers and lead-free stabilizers – Perstorp is playing an active part in developing new, more environmentally-friendly products.

Did you know that...

...as much of 30% of soft plastic can consist of plasticizers?

PERSTORP'S POSITION IN THE VALUE CHAIN



PVB – Perstorp sells raw materials to plasticizer manufacturers.

PVC stabilizers – Perstorp sells raw materials to PVC stabilizer manufacturers.

PVC – Perstorp manufactures the plasticizer, which it sells to plastic converters.

MARKET POSITIONS

No 1 Penta
No 1 Di-Penta
No 1 2-ethylhexanoic acid

Better feed better food

It's obvious really – the better the feed that animals eat the more healthy they are leading to enhanced products for the consumer. Perstorp's feed additives perform a vital role in keeping bacteria and mould away from the feed while being full of nutrients, resulting in more effective and healthy meat, milk and egg production.

Perstorp manufactures formic acid and propionic acid, from which products are made with more specific properties – such as preservatives for feed and cereals and silage additives. A smaller amount of calcium and sodium propionate products are food additives and used as a preservative in bread.

Europe represents a key geographical market for Perstorp Performance Additives. In addition Perstorp experiences strong interest from markets in South East Asia and India where Perstorp has strong positions and where growth opportunities are significant.

Benefits of Perstorp's feed additives

Better, safer silage of coarse feed, mainly fed to milk herds, can be achieved using ensiling agents. As a result of nutrients not being broken down and remain in the feed, milk production and milk quality are enhanced. The preservative protects the nutrients in the cereal from being broken down by mould and fungal attack and thereby inhibits mould poisons from forming. The pH levels drop when acids are added to feed and this acidity inhibits bacterial growth

and helps the pigs' naturally acidic intestines to remain so, which is good for the animals. This acidic environment inhibits harmful bacteria from growing and causing illness.

It's been illegal to use antibiotics for growth-promoting purposes in animal feed in Europe since 2006. The ban on antibiotics also applies to imported meat, which has led to some countries outside Europe also changing to antibiotic-free animal production. Various combinations of organic acids are normally used to replace antibiotics in feed. This in turn has led to Perstorp's products being increasingly in demand, both inside and outside the EU.

2009 showed improved margins

Demand for the food industry was robust during the general financial crisis and stable during the year. The business was able to enhance its performance over 2009.

Outlook for 2010

Perstorp expects to see growth in this business area in 2010. Grain preservatives with organic acids will continue to take market share from

the competing method, drying, which is becoming increasingly expensive as energy prices go up.

During the coming year, Perstorp will launch new products, reinforce its sales teams and focus on expanding its presence in new regions.

Over the long term

As prosperity improves and populations increase globally, so does the need for sound, effective food production. The sector has shown good growth from an historical perspective and that growth is expected to continue. Meat consumption is expected to rise by 2-3% annually and demand for feed additives increase at a greater percentage in certain products.

FACTS

Did you know that...

...chicken production in India is expected to grow by more than 10% annually in the coming years.



No **3** in acid-based feed additives in Europe

80% of all silage additives sold in Sweden come from Perstorp

Pork and poultry are the main target groups for Perstorp's products in the feed segment. There are around 153 million pigs and almost 500 million chickens in Europe.

80%

Formox reinforces its world-leading position

2009 was a good year for Formox – Perstorp's formalin technology and catalyst business – one of the best years ever. And Formox is continuing to lead the way.

.....

Formalin is a key raw material used in many applications, including in the chemical industry, woodworking industry, in adhesives and bonding agents.

Formox offers customers a unique partnership model, encompassing the design and development of complete formalin plants, and on-going provision of catalysts used in the manufacturing process. Over the fifty years that the technology has existed, Formox has delivered 120 plants globally and the catalysts are supplied to even more customers.

The advantages of Formox technology

Formalin is produced by oxidizing methanol over a catalyst. The technical benefits of the Formox process include being able to produce concentrated formalin, with a low methanol content, that's stable and of the highest quality. The Formox process is also characterized by high levels of accessibility and minimal environmental impact. Furthermore, the Formox process produces high levels of steam, for which Formox can also provide technical solutions for customers for using the steam to generate energy.

There are also financial benefits of choosing the Formox process – the total cost of investment, operation and maintenance is lower providing the company with a competitive advantage over other technologies.

2009 was an unusual year

Five plants were put into operation over the year – two in China, one in Russia, one in Slovenia and one in Taiwan. There are also further major projects that run into 2010 – in China, Brazil, the Middle East, India and Germany. Formox is responsible for designing the plants, buying the equipment and advising during the plants' construction and start-up.

Outlook for 2010

The improvement in the global economy in 2010 has led to formalin plants producing more and has resulted in increased demand for catalysts. The need for new formalin capacity is also expected to grow. Formox is therefore expecting increased sales of plants.

Thanks to a recent partnership in China – which gives them the right to sell and supply plants (Cathox) based on Formox's oxide pro-

cess – catalyst sales are expected to rise further over the long-term in this key area of geographic growth.

News

Formox will launch new plant sizes with a new design in 2010.

In recent years catalyst and charging profile development has led to extending a catalyst's life by 10%. Because this is one of the most important parameters for customers there are also development projects underway aimed at extending this life expectancy even further.

Formox will also seek to develop its capability in the adhesive plant segment. The adhesive factory in Brazil that the company worked with in 2009 will start producing in 2010. This will provide an excellent reference for other projects in this area.

FACTS



“Formox will supply the first turbocharged plant in 2010 – our patented solution that reduces the need for energy in formalin plants by a quarter.”

A total of **120** plants have been built in 35 countries.

The new plants Formox started up in 2009 can together produce 450,000 tons a year.

Formox celebrated its 50th birthday last year. The first Formox plant built in Perstorp back in 1959 still produces formalin for Perstorp's own use.

35 countries

A golden opportunity for green fuels

In the future, we will have to use more sustainable modes of transport, make more efficient vehicles and choose greener fuel. Perstorp's production of biodiesel made from rapeseed oil, and fuel additives, which allow for cleaner combustion, provide innovative products in this key area of growth.

Diesel is becoming more popular every year. It is a fossil fuel, but currently in Sweden it consists of 5% biodiesel, to make it more environmentally-friendly. Fuel additives – for example cetane enhancers – are also used to achieve cleaner combustion with lower carbon emissions. Growth in this end-market is being driven by national and international regulation and increasing consumer awareness of sustainability issues.

Perstorp is a key manufacturer of biodiesel – rapeseed methyl ester (RME) – in Stenungsund, to sell to the Scandinavian market. The customers are oil companies, who add RME to their diesel, as well as hauliers and bus companies, who use 100% RME. Some of the 2-Ethylhexanol which is also manufactured in Stenungsund, is sold to fuel additive manufacturers.

The advantages of Perstorp's RME

Perstorp BioProducts is currently Scandinavia's largest manufacturer of RME. The advantage of Perstorp's RME, amongst others, is its extremely high quality. During the year the premium product Verdis Polaris™ was launched, which works so well in cold temperatures that oil companies choose to add RME all year round even in the far north where this has previously been impossible.

There are also many advantages for hauliers and

bus companies. The transition to more environmentally-friendly fuels is simple when existing vehicles can be used, and fuel costs drop at the same time.

A successful 2009

Perstorp BioProducts succeeded in finding new customers during the year, among oil companies, hauliers and bus companies with 2009 being the best year in the history of the company. The high level of sales and good profitability bode well for 2010.

The market for cetane improvers is also growing, due to more motorists using diesel, and these products were delivered in large volumes.

Prospects for 2010

Perstorp BioProducts is looking forward to a successful 2010. There is a growing interest in the market, and Perstorp is projecting an increase in sales.

For example, an increase in the proportion of RME in diesel is planned in Sweden – up to 7% – which would increase demand at a stroke by 40%.

The longer term

The fuel industry is in the middle of an exciting transformation, as traditional vehicle fuels are increasingly being supplemented by more

renewable alternatives. The future lies in a combination of several technologies, for example, in future we will see synthetic diesel, ethanol from forest materials, biogas, fuel cells, electric cars and other technologies.

The demand for bio-based chemical products is also increasing in sectors where oil and gas currently dominate. Perstorp's extensive experience in this area is a demonstration of its ability to create new products for new market applications and many interesting development projects are currently underway:

- ➔ A process is developed to produce butanol from bio-based materials.
- ➔ In developing the technology which would allow biogas to produce synthetic gases which can then be further refined to make oxo alcohols and polyols. This is also interesting from a fuel perspective, as synthesized gas, by extension, can produce hydrogen gas, methanol or synthetic diesel.

Using current techniques, Perstorp is preparing to produce butyraldehyde from ethanol, and is investigating how a mixture of ethanol and ethylene could provide a foundation for plastics and chemicals.

FACTS

SIX ADVANTAGES OF BIODIESEL

- Low CO₂ emissions
- An economical alternative to fossil diesel
- High product quality
- Low sulphur content
- Biologically degradable
- Reduces dependence on oil

SUSTAINABLE TRANSPORT

In today's situation, due to cultivation capacity, we could sustainably replace around 10% of all European diesel with biodiesel made from vegetable oils. If we halved our fuel consumption, this proportion would be able to increase to 20%. It is important for society to work towards developing the market for existing environmentally-friendly fuels (e.g. RME), to discover more such fuels, and also to save energy.

GO GREEN!

During the year, a filling station for biodiesel was opened in Perstorp. Internal – and external – transport can now be made greener.

160,000 tons per year:

The facility at Stenungsund is the biggest – and most modern – in the world. The factory produces one of the highest quality products on the market, Verdis Polaris™, which oil companies have sufficient confidence in using even in the far north of Sweden.

Perstorp's biodiesel is 63% more environmentally-friendly than fossil-based diesel, according to a life-cycle analysis produced by Lund University in Sweden.

63%



PERSTORP'S *core values*



Perstorp works actively with three core values – focused innovation, reliability and responsibility – which permeate all activities.

Open-minded & far-reaching

Without a sense of curiosity about the future, Perstorp would never have lasted 128 years. The ability to find and respond to new market needs, and make the most out of every ounce of raw material and minute of plant capacity, is crucial in an ever-changing world.

.....



NEW AREAS OF USE

Market needs change, but factories remain. Perstorp has an excellent track record for product innovation and revitalization, creating new markets where previously did not exist any. Illustrations of areas where new applications are being developed are caprolactones and pentaerythritol. For caprolactones it is an opportunity to utilize additional capacity whilst for pentaerythritol it is about initially complementing and eventually replacing traditional demand for the product from solvent based paints.



NEW PROCESSES

Perstorp is firmly grounded on a number of production platforms where the company acts as one of the market leaders, and Perstorp will not settle for less. Adding another platform is a major exercise which Perstorp is not afraid of, if it helps serve its core markets better. One of the initiatives underway involves producing butanol from renewable raw materials in a microbiological process, which is an entirely new area of technology for Perstorp.

Perstorp's innovation process begins with two key questions:

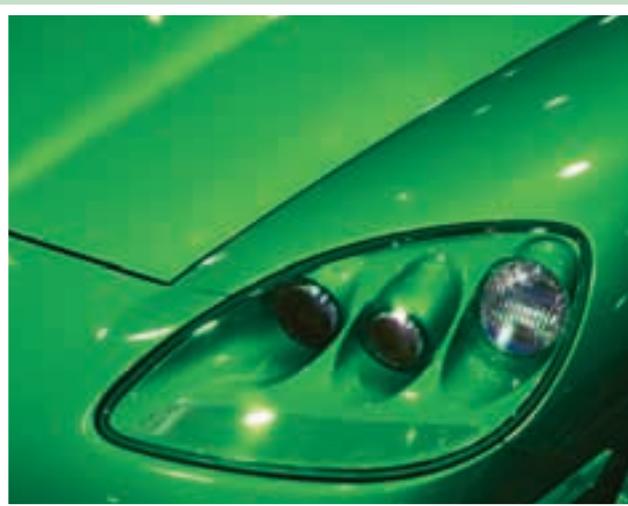
- What unfulfilled needs exist in the market place and how can we serve those needs from our production platforms?
- How can we make products and processes better: cheaper, faster, and with less environmental impact?

Innovation means developing new products or finding new areas of use for existing products, developing new processes or optimizing existing ones.



NEW PRODUCTS

New product development is often driven by environmental issues, such as when harmful substances are banned. Perstorp is currently focusing on developing new plasticizers for PVC, for example, to substitute DOP, dioctylphthalate. A completely renewable Penta will be launched in 2010 which will complement for eco-friendly products such as Ymer® and Bis-MPA.



IMPROVED PROCESSES

Perstorp's process engineers have often proven that a continuous flow of small changes can provide huge benefits. A good example is the manufacture of toluene di-isocyanate, TDI, a high-volume product where cost competitiveness is essential. Major progress is being made to reduce waste and to streamline operations. There is an increasing global demand for the high-value associated product hexamethylene di-isocyanate, HDI. Major progress is being made in this area to eliminate bottlenecks so installations can produce and deliver more.

Attention to detail

If you're good – and happy with it – the competition will soon overtake you. Therefore Perstorp is now introducing a new group-wide business system – Perstorp Performance System – making continuous improvement a part of the daily routine for every employee and Perstorp a reliable partner.

The system is built on the principles from Lean Production amongst others, but has been adapted to Perstorp's business and corporate culture. It consists of ten parts like pillars that prop up the whole:

- ➔ Safety
- ➔ Skills Development
- ➔ Daily Equipment Care
- ➔ Planned Maintenance
- ➔ Focused Improvement
- ➔ Quality Management
- ➔ Supply Chain Management
- ➔ New Equipment Introduction
- ➔ New Product Introduction
- ➔ 5 S (separate, sort, systemize, standardize and sustain)

Each pillar has a manager and a team that has developed concrete methods and measures. In addition, teams collaborate with each other and learn from each other's experiences.

All improvements count

The general question all the pillars ask is: "What is required for Perstorp to maintain and strengthen its competitiveness?" The answer varies however, and is about improving everyday routines and creating a climate where problems can be solved at their root, so that the same problem doesn't reappear.

This means, among others, finding and eliminating risks of accidents happening, organizing efficient work-places, minimizing fluctuations to ensure consistent quality throughout the supply chain, working long-term with daily supervision and maintenance to avoid emergency repairs and interruptions, ensuring that all employees have the right skills and work using the same methods – the list is long.

All improvements are valuable – major results can be achieved with many minor improvements – and employees are encouraged to always think, "How can I do this better?"

Today Sweden, tomorrow the world

Working with the Perstorp Performance System started in August at the production units in Perstorp and Stenungsund and will gradually be introduced throughout the Group. Bruchhausen, Pont-de-Claix and Toledo will start in 2010.

Overall, one can say that PPS aims at involving every employee in the improvement efforts, thus creating the conditions for increased job satisfaction, safety and product quality. But most important is that customers will feel the result – that Perstorp is and will remain a reliable partner.

Satisfied customers are the most important

Perstorp seeks long-term relationships with its customers and believes that an open and honest dialogue is an important part of this. In order to monitor and improve customer-experienced service, Perstorp carries out a number of different measurements annually.

Every year a survey is sent to 300-400 customers. The answers result in a 'satisfied customer' index, which in 2009 was 3.99 on a five-point scale. Good as this may be, Perstorp is aiming even higher for 2010.

Right amount on the right day

OTIF – On time in full – is actually two separate measurements where Perstorp measures if the delivery goes off exactly on the date confirmed to the customer, and if it is the right volume.

That the delivery is not too early is as important as not being late, since many customers have low stocks and carefully planned production.

With regard to volumes, Perstorp has zero tolerance for deviations in packaged products. The result for the whole Perstorp Group in 2009 was 95.7%. The goal for 2010 is 97%

Perstorp's own surveys are strict and measure from when goods are

ALL IMPROVEMENTS ARE VALUABLE AND
EMPLOYEES ARE ENCOURAGED TO ALWAYS
THINK, "HOW CAN I DO THIS BETTER?"

shipped from the factory. In order to compare with the customer's experience, Perstorp also measures when the deliveries actually arrive, and the result shows that the customer experience is well in line with Perstorp's figures.

All complaints are taken seriously

Many companies are happy to measure complaints by the ones customers send in writing. Perstorp chooses to record all complaints,

even those they receive, for example, by telephone, in order to follow them up and improve more responsibly.

Measurement – Customer Complaints Rate (CCR) – carried out differently since 2009, measures the number of complaints per thousand orders, which is more accurate than the previous method used. All types of complaints are recorded. The result for 2009 was 12.45. The goal for 2010 is 11.00.



QUICK COMPLAINT HANDLING

To also improve how quickly complaints are resolved, Perstorp measures the time between the complaint being recorded and the matter being resolved. The average time in 2009 was 31 days.



REGULAR REVIEWS

Every quarter, Perstorp's senior management goes through the OTIF and CCR results for each production unit, and on each occasion two of these present their improvements and action plans for future work. This way ensures that the focus is on the right details – because details are important if the whole company is to be world class.

Heart in the right place

One of Perstorp's core values is taking responsibility and is seen, not least, by the company's view of sustainability, which is now a natural part of the daily business and future development.

The work is expressed in many different ways: replacing substances, such as freon in air-conditioning equipment – providing products made from renewable raw materials, and reducing products' carbon footprint.

For Perstorp its carbon footprint is measured in the level of greenhouse gas emissions when producing a kilogram of material, which can be cut by minimizing emissions from processes and transport.

But over the long term it's also a matter of how much emissions build up throughout the product's lifecycle, or how Perstorp can affect the user phase. If a paint, for example, is made more durable then we won't need to paint as often. If an industrial paint can dry a little quicker then it will save a lot of energy. If the paint is made from renewable raw materials then it'll stop using CO₂ as soon as it's applied. There are many examples.



VOXTAR™ – A GREEN PENTA

In its efforts to minimize greenhouse gases, Perstorp will launch a new product in 2010 – Voxtar™ – which is a renewable Pentaerythritol (Penta).

The Penta made in Sweden today is already largely based on renewable ethanol, but under the Voxtar™ name customers can rest assured that it's a 100% renewable product.

PERSTORP'S CODE OF CONDUCT...

...builds on the company's three core values and has been drawn up in accordance with OECD's guidelines for multinational companies and the chemical industry's Responsible Care program, as well as in accordance with the guidelines described in the International Labor Organization (ILO) convention. Perstorp supports the UN's Global Compact and its ten principles.

“At the production facility in Perstorp, energy is produced from renewable material, which positively affects the carbon footprint of all the products produced. The waste heat is turned into district heating for the entire municipality, which is a bonus.”



BIOBUTANOL

There are two parallel studies underway to produce butanol from bio-based raw materials. One is a microbial process together with a biotech company and the other is a thermo-chemical process. The idea is to offer a green alternative to the paints and coatings industry, for which Perstorp produces 100,000 tons of butanol every year. Another possible area of use is to mix bio-butanol in petrol in small amounts. As a fuel additive bio-butanol would have many benefits – it's more energy-efficient than ethanol, more can be mixed without needing to adapt engines and it's less explosive. In 2010, Perstorp will decide on which method is best suited for full-scale production.



CODE OF CONDUCT

Perstorp's Code of Conduct has been drawn up to support the principles that govern the company's relationships with employees, business partners and other interested parties. It applies to all companies in the Group, the Board of directors, management group and all employees. Perstorp also encourages suppliers, distributors and other business partners, with which Perstorp has close working relationships, to act according to these principles.

The code should be seen as a support and tool in day-to-day work and help Perstorp live up to its three core values of focused innovation, reliability and taking responsibility.

UN GLOBAL COMPACT

The Perstorp Group has been an active participant in the UN Global Compact since the spring, 2004. The compact sets ten principles covering human rights, the environment, working conditions and anti-corruption.

Perstorp develops its working practices year-on-year in line with this initiative – a recent example is the new Code of Conduct drawn up at the end of 2008. Perstorp also participates in the chemical industry's Responsible Care program.



Full focus on ASIA



CENTRE OF EVENTS

Everyone agrees that Asia is a strong growth region. Perstorp's Board therefore decided in July to strengthen its local presence by forming a new organizational unit – Region Asia.

Perstorp is investing in resources, both for market development and technical sales, while streamlining sales channels, distribution and logistics in the region, including new warehousing points in China and Malaysia.

A lot of effort was made in 2009 to analyze the regional market, recruit people and introduce the Group's complete range at the China Coat trade fair in November, where a number of major contracts were signed with local customers.





STRONG BELIEF IN THE FUTURE

The Group has set ambitious growth targets for Asia both for 2010 and in the long-term.

Over the long-term Perstorp is planning for more production units in Asia. In November it was reported that there is an intention to start production of aliphatic isocyanates in China in 2012. The Neo production facility sold this year in Yongliu, China, will be replaced by a new facility in Zibo. Until the new facility goes into operation, a minor investment will be made to allow the existing unit at Zibo to convert Neo into liquid form, which the Chinese customers prefer.

“An improving living standard pushes growth. 53% more cars were sold in China in 2009 compared to the year before.”

THE BIRTH OF ELECTRONICS

Screens, e-books, touch screens, blu-ray discs, circuit boards and solar panels. The electronics industry, which is already huge and expanding almost to the point of bursting, is very important in Asia, but has been almost non-existent in Europe. Perstorp intends to invest heavily to enhance its understanding of thermoplastics and the electronics industry in 2010.

Developing people & the company

Perstorp's HR department developed a new detailed process in 2009 that closely analyses the company's future expertise requirements, while ensuring that a workplace is created where the employees can thrive and deploy their talent.

The process – which is the same throughout the Group – starts with an HR strategy for the years to come, which in turn starts with the Group's business strategy.

Individual competencies, ambitions and abilities are gathered together early on so that development can be planned over a longer period. Perstorp then know as well that there is always a replacement ready for all key positions. If an employee wants to make a career there are three ways of doing it – as a manager with employee responsibility, as a project manager and as an expert. Or choose to develop and be better at what he or she already does.

The process can also identify what qualities a manager at Perstorp should have, and the tools for evaluating if that's the case.

There are many advantages with the model. It is Groupwide, it eliminates unnecessary training and provides a clear overview of the skills that exist and the skills required. For the individual it provides an overall view, a clear direction and an understanding of how to contribute to the company's success and development.

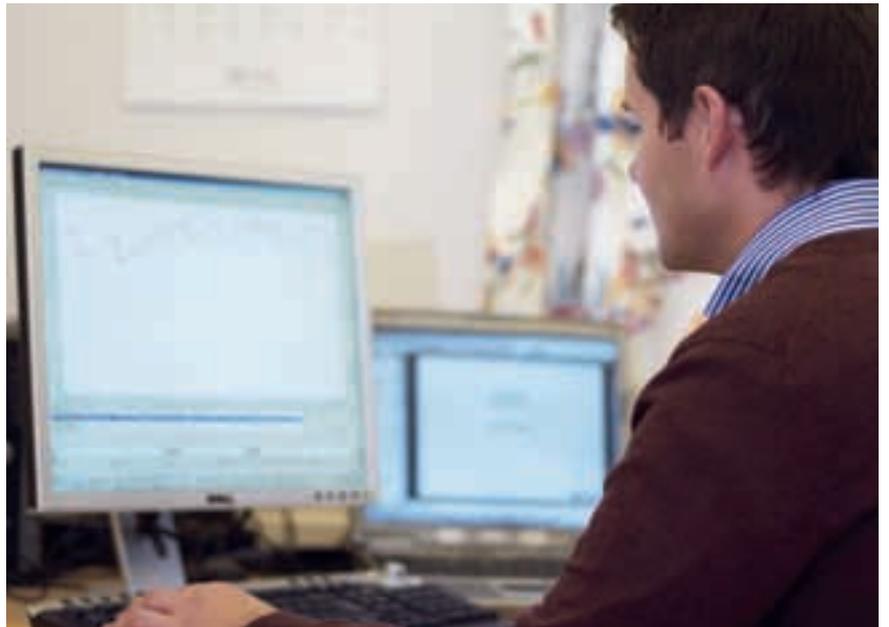
“Perstorp is a relatively small company, but still global, and the corporate culture is very developed. This means that individuals are spotlighted early on for exciting job opportunities...”

ATTRACT & RECRUIT

In the first phase Perstorp works on recruiting the best talents globally – based on a strategic skills requirement and introducing them in a similar way.

REVIEW & RETAIN

In the second phase the company evaluates the profiles for managers and other functions and compares them with future skills requirements. The skills gap – both the individual's and the organization's – is closed with the help of a business-driven development process.



LEARN & DEVELOP

In the third phase Perstorp ensures that all individuals have a development plan that derives from their desires and the company's requirements. Training, mentorship and coaching is carried out to fill the gap.

REDEPLOY & REWARD

In the fourth phase Perstorp makes sure that there is a natural next step for the individual, in line with the planned development and company's requirements. The process starts all over again the following year, but at a new level.

Financial summary

PAST 4 YEARS

- ➔ Pronounced strategy for profitable growth, via acquisitions and expansion in existing plants.
- ➔ Strong focus on capital optimization and organization efficiency.
- ➔ The economic downturn, starting in the final quarter of 2008, represents a temporary dip in the curve.
- ➔ The Group ended 2009 with a stronger balance sheet, prepared for the next phase of growth.
- ➔ Renegotiated loan agreements, including new bank covenants.

Group history

Perstorp started business in the 1880s. The current Parent Company, Perstorp Holding AB, acquired the Perstorp Group at the end of 2005. The current Group's history begins therefore at that time. Perstorp Holding AB is controlled by PAI partners, a leading private equity company.

Strategy for growth

Over the past four years the Group has implemented a strategy based on profitable growth, both through acquisitions and expansion of existing plants. The Perstorp Group, like all other global businesses, was hit hard by the economic downturn that began in the second half of 2008.

The following acquisitions were made during the period:

- A joint venture was started in China in early 2007. TMP production started one year later. Through the joint venture a Neo plant was acquired at the start of 2008, with sales of around SEK 300 m.
- Activities within Purified Isophthalic Acids (PIA) in Singapore were acquired from Lonza AG at the end of 2007. On takeover, the PIA unit had annual sales of around SEK 800 m.
- The caprolactones business area, which has production in the UK, was acquired from the Belgian group Solvay in January 2008. This business also had annual sales of around SEK 800 m.
- In September 2008 the Coating Additives business was acquired from Rhodia Organics and Lyondell Chimie TDI SCA. Annual sales for this business area were around SEK 4 billion. Production mainly takes place in France but also at a plant in the US.

Other major expansion projects in the period 2006-2009 included a plant for production of Rapeseed Methyl Ester (RME) for renewable fuels, that was opened in Stenungsund

KEY FIGURES, GROUP

SEK m unless otherwise stated	2006	2007	2008	2009
Net sales	7,273	8,583	12,227	12,542
Operating earnings before depreciation (EBITDA)	1,091	1,365	1,670	986
EBITDA adjusted for non-recurring items	1,097	1,406	1,723	1,100
% of net sales	15.1	16.4	14.1	8.8
Working capital, average	853	981	1,469	1,493
Turnover rate, working capital	8.5	8.8	8.3	8.4
Cash flow from operating activities	591	550	604	260
Investments excl. acquisitions	476	535	590	611
Acquisitions ¹⁾	59	811	4,373	-46
Net debt, excl. owner company loan ²⁾	7,434	8,170	13,453	11,513
Equity/assets ratio, %, incl. company loan ²⁾	14.2	14.7	13.7	20.1
Employees, average	1,675	1,785	2,296	2,408
Sales per employee, KSEK	4,342	4,808	5,325	5,208

¹⁾ In 2009 there was an adjustment of the Coating Additives purchase price.

²⁾ The owner company loan, meaning the loan from the Luxembourgbased Parent Company Financière Forêt S.à.r.l., is subordinated to the senior credits, second lien and mezzanine loans. These loans are considered as shareholders' equity in these key figures.

in June 2007 and which has annual sales of around SEK 1 billion. A propionic acid plant was also started in Stenungsund in 2007 along with a formic acid plant in Perstorp. During 2009, investment was completed in a plant for production of potassium formate in Perstorp. A current project is the expansion of production capacity for caprolactones that will be completed by 2011. Perstorp is also running another development project, with the product launch for the new plasticizer DPHP planned for 2010 and, following this, production of Valeraldehyde amongst other products. During the period a long series of capacity expansions has taken place, along with investments to reduce energy costs and further improve safety and environmental impact.

2009 IN SHORT

- ➔ Sales increased during the year, as a consequence of acquisitions. Excluding the acquisitions, the volume growth was negative by 8% and total sales decreased by 18%, due to falling raw material prices.
- ➔ Cost savings and efficiency improvements were implemented, resulting in one-off costs and write-downs of around SEK 340 m in the year.
- ➔ The cost savings and improved efficiency lead to lower costs of around SEK 450 m annually.
- ➔ The net debt decreased by SEK 2 billion.

Market & economic conditions

Development by geographic region was highly varied in 2009. The US went into recession quickly, but its recovery began ahead of other regions. South America's resurgence was very swift. Southern Europe proved more problematic, mainly due to an overheated construction sector in countries such as Spain and Italy. In northern Europe we saw a steady recovery from the weak start to the year. Asia was hit hard in the first months of 2009 but the world's most dynamic market revived positively during the second half of the year.

During the year all the players in the value chain worked with much shorter lead times – at times customers had just a few days' intermediates in stock – and pricing for many raw materials went from quarterly to monthly. In general, price fluctuations were considerable in 2009. Lower demand, partly due to stock cutbacks in the customer chain, led in parallel to a loss of volume of around 25% during the first quarter. Starting in the second quarter volumes recovered gradually and for the year as a whole Perstorp's pro forma volume performance amounted to a fall of 8% compared with the previous year.

Income statement

Net sales

Net sales climbed 3% during the year to reach SEK 12,542 m. Acquired businesses accounted for 21% of this increase, meaning that organic growth was negative at -18%. Volumes fell by 8%, mainly in the first quarter when the downturn was a full 25%, not least due to stock reductions by customers. During the remainder of the year volumes recovered gradually. Production disruptions at Perstorp's operation in France, and at one of the Stenungsund plant's suppliers, impacted negatively on volumes in the fourth quarter. Sale prices fell by 17% over the year, mainly due to falling raw material prices. The Swedish krona weakened against the USD and EUR, which meant sales were 7% higher when converted into SEK.

Earnings

Operating earnings before depreciation and amortization reached SEK 986 m in 2009, compared with SEK 1,670 m in 2008. If items affecting comparison are excluded, operating earnings were SEK 1,100 m

INCOME STATEMENT, GROUP

SEK m	Full year	
	2009	2008
Net sales	12,542	12,227
Cost of sold goods	-11,215	-10,538
Gross earnings	1,327	1,689
Sales, administration and R&D costs	-1,093	-952
Other operating income and expenses ¹⁾	-260	161
Write-downs	-241	-241
Result from participation in associated companies	-3	-4
Operating earnings/loss (EBIT)	-270	653
Financial net	-1,019	-1,541
Earnings/loss before tax	-1,289	-888
Income taxes	505	261
Net earnings/loss (including minority interests)	-784	-627
Operating earnings before depreciation and amortization (EBITDA)	986	1,670
EBITDA adjusted for items affecting comparability	1,100	1,723

¹⁾ Includes currency effects on operational net receivables. In 2008 there was a capital gain from the sale of a business, SEK 116 m.

compared with SEK 1,723 in 2008. Earnings for the period were also affected negatively by around SEK 80 m by the significant falls in raw material prices at the end of 2008, which meant that inventories were written down to the net realizable value and these products therefore had a margin of zero when sold at the start of the year. Items affecting comparison primarily comprise rationalization measures, and the figure for 2008 included a capital gain of SEK 116 m for the sale of a business.

The lower comparable earnings figure is principally due to the fall in volumes. The Group managed to maintain profit margins, despite great turbulence on the raw materials front. An important factor here was the determination shown in the cost-cutting program focused on procurements in addition to raw materials.

Personnel cut-backs and improved efficiency meant that around 550 people left the Group during the year, partly in connection with two of the Group's production units, in India and Chile, being moth-balled. Costs were reduced this way by SEK 300 m.

Both the USD and EUR strengthened against the SEK, which benefited sales and margins, as the majority of the Group's operating cash flow is in these currencies. However, most of the flows for the year were hedged, which explains how the overall EBITDA currency effect was negative by around SEK 100 m.

Earnings for the acquired business in Coatings Additives for the year were much lower than expected. In the first quarter there was strong price pressure on TDI. During the second quarter the price trend changed and so did the earnings curve, and remained on an upwards course in the third quarter. However, production disruptions in the final quarter meant that earnings dipped down again temporarily as volumes and efficiency fell.

Operating earnings (EBIT) were SEK -270 m in 2009 (653). Write-downs totaled SEK 241 (241) m in the year, mainly related to the Valex project. The project has taken on a new technical direction and scope, with scheduled product launch of DPHP and with a plan for production of Valeraldehyde/2-PH. Plant values in Chile, India and China have also been written down in connection with the production efficiency program. The 2008 write-down mainly relates to the plant in Singapore. Depreciation rose compared with the previous year, from SEK 776 m to SEK 1,015 m, as a consequence of the acquired business and establishing its plants' market values and remaining life-lengths.

Net earnings

Net financial items were SEK -1,019 m in 2009, compared with SEK -1,541 m for the period of comparison. There was a capital gain in 2009 relating to the Group's financing (309 m). Financial currency differences were positive in 2009 but negative in the year of comparison. Comparable net financial items, excluding currency effects and capital gains, were SEK -1,394 m for 2009 and SEK -1,294 m the previous year. The acquisition of the Coating Additives business contributed to higher borrowings starting from September 2008 and higher interest costs as a result. In 2009 Perstorp's owner made a shareholder contribution of SEK 1.6 billion, most of which was injected at the end of the year, and also converted SEK 372 m from a shareholder loan into shareholders' equity. This had a favourable effect on net financial items.

The net loss for the year was SEK 784 m (loss 627).

Balance sheet

All items in the balance sheet were affected by the strengthening of the SEK during 2009. The SEK-EUR moved from 10.94 to 10.35 and the SEK-USD from 7.75 to 7.21. Large parts of the Group's assets and liabilities are denominated in these two currencies. Of the operating capital around half is in EUR, with large parts being in USD and GBP. Working capital fell by around SEK 300 m during the year and the turnover rate further improved. Both inventory and overdue receivables were reduced. Perstorp's working capital level is among the best in the industry.

Net debt excluding the owner's loan decreased during the year by almost SEK 2 billion. This was made possible through a shareholders' equity contribution of around SEK 1.6 billion. Some mezzanine receivables were bought back, reducing the debt by a further SEK 300 m. Favourable currency effects amounted to around SEK 500 m.

An agreement was reached in the fourth quarter with the banks concerning the loan documentation, including new bank covenants. The Group's principal financing comprises senior credits provided by Svenska Handelsbanken, Nordea, DnB NOR and HSH Nordbank as well as second lien and mezzanine facilities syndicated to around 20 financing institutions in 2006.

BALANCE SHEET, GROUP

SEK m	Dec. 31, 2009	Dec. 31, 2008
Intangible assets	7,829	8,545
Tangible fixed asset	6,742	7,376
Financial assets	1,277	928
Inventories	1,478	1,827
Other current assets	2,459	2,949
Liquid assets incl. current investments	516	286
Assets	20,301	21,911
Shareholders' equity (incl. minority interests)	1,172	-38
Parent Company loans	2,899	3,038
Other long-term liabilities	12,927	14,377
Current liabilities	3,303	4,534
Shareholders' equity & liabilities	20,301	21,911
Working capital	1,406	1,705
Net debt	14,412	16,491
Net debt excl. owners loan	11,513	13,453
Capital employed	15,689	16,551

Cash flow

Cash flow from operations was SEK 260 (604) m in 2009. An optimization of working capital, mainly in the form of reduced stock levels lies behind the positive cash flow. Interest payments and tax were at around the same level as earnings before depreciation.

Investments in fixed assets were SEK 582 (590) m. The major investment projects during the year were for the expansion of caprolactone capacity in the UK, new boilers for the Stenungsund plant and the completion of the potassium formate plant in Perstorp, as well as a large number of maintenance investments within Coating Additives, and also the implementation of the SAP business system for this area.

On the financing front, the Parent Company made a major shareholders' contribution, which significantly improved the Group's flexibility.

Available funds, including liquid funds and letter of credit facilities, amounted to SEK 1,224 m at year-end.

CASH FLOW STATEMENT, GROUP

SEK m	Full year	
	2009	2008
<i>Operating activities</i>		
Operating earnings	-270	653
Adjustment items:		
Depreciation and impairment	1,256	1,017
Capital gain, reversal	-	-116
Other	7	202
Interest received	3	12
Interest paid	-984	-794
Income tax paid	-37	-89
Cash flow from operating activities before change in working capital	-25	885
<i>Changes in working capital</i>		
Increase (-) Decrease (+) in inventories	293	-81
Increase (-) Decrease (+) in current receivables	174	-615
Increase (+) Decrease (-) in current liabilities	-182	415
Cash flow from operating activities	260	604
<i>Investing activities</i>		
Acquisition of net assets, subsidiaries	22	-4,390
Liquid funds in acquired companies	-	15
Acquisition of shares in associated companies	-19	-
Acquisition of minority interest	-9	-
Acquisition of tangible and intangible fixed assets	-582	-590
Sale of net assets, subsidiaries	-	170
Sale of tangible and intangible fixed assets	34	-
Change in financial assets, external	2	-44
Cash flow from investing activities	-552	-4,839
<i>Financing activities</i>		
Payment from minority shareholders	-	21
New loan, external	-	3,879
Shareholders' contribution	1,821	568
Amortization of loan due to sale of subsidiaries	-	-36
New loan from Parent Company	-	285
Change in credit utilization	-1,289	-590
Short-term liability, related companies	-	-96
Cash flow from financing activities	532	4,031
Change in liquid funds, incl. short-term investments	240	-204
Liquid funds opening balance, incl. short-term investments	286	447
Translation difference in liquid funds	-10	43
Liquid funds, end of period	516	286

Risk management

OPERATIONAL RISKS

Access to raw materials
Changes on the market
Production disruptions

Operational risk management deals with making sure the Group's core business works – that the facilities can produce and that there are customers to buy the products.

FINANCIAL RISKS

Currency effects
Interest effects
Financing & liquidity
Counterparty risks

Financial risk management deals with ensuring the Group's finances are sound and minimizing the impact of a turbulent economic climate.

STRATEGIC RISKS

Business development
Corporate governance

Strategic risk management deals with ensuring that the Group develops in line with previously set strategies and that decisions are made on the right grounds.

"During this turbulent year we've succeeded in the art of reducing the number of bad debts and avoiding losing customers."

More details about 2009's Risk management appear in Note 3 in part 2 of the Annual Report.

OPERATIONAL RISK MANAGEMENT

Access to raw materials

Around 75-80% of the Group's raw materials are based on oil or natural gas. For production of biodiesel the most important raw material is rapeseed oil, while rock salt (NaCl) is a key material in the production of chlorine and lye produced at Pont-de-Claix in France.

To safeguard supplies of raw materials and spread risks, the Group's purchasing policy requires that supplies of critical raw materials are made by several suppliers where possible, alternatively signing long-term agreements where this is not possible.

Changes on the market

Perstorp has a wide range of products aimed at a number of different market segments. The Group is therefore resilient to demand reductions in a certain segment. In addition, the Group has a broad customer base.

There is also the risk of production capacity rising on the market, causing prices to fall. Perstorp monitors this situation closely and takes it into consideration when planning for its own capacity.

Production disruptions

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

FINANCIAL RISK MANAGEMENT

Currency effects

Because a large part of Perstorp's financial flows are in USD and EUR the Group is prone to transaction risks, i.e. that fluctuations in the exchange rate affect these flows negatively. The greatest exposure for Perstorp is against the EUR, as around 2/3 of sales are to Eurozone countries.

The assets and profits the Group has in foreign companies are converted to SEK in the annual accounts. There are also therefore translation risks, i.e. that the results are negatively affected by the currency situation.

Perstorp's finance policy regulates the financial risks the Group is prepared to take, and guidelines for management of these risks.

Interest effects

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

Financing & liquidity

Financing risk is the risk that new financing of overdue loans is made more difficult or too costly.

Most of the Group's financing consists of senior credits guaranteed by Svenska Handelsbanken, Nordea, DnB NOR and HSH Nordbank, as well as second lien and mezzanine facilities syndicated to a number of financiers. The loan agreements extend over three to four years.

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

Counterparty risk

Counterparty risk is the risk for credit losses. The Perstorp Group has a comprehensive credit policy whose aim is to prevent credit losses and optimize tied-up capital. The credit policy sets the framework and procedures for approval and monitoring of credit.

STRATEGIC RISK MANAGEMENT

Business development

There are always risks of bad investments in connection with acquisitions, sales or other major investments. To minimize this risk, Perstorp has a well-defined strategy for how the company will develop and processes and routines that safeguard that investments follow this strategy and meet the given criteria.

Corporate governance

Corporate governance risk is the risk of decisions being taken on the wrong grounds or based on inaccurate information. Perstorp has a well-defined governance model, presented further on page 54 in part 2 of the Annual Report 2009 and a number of policies carefully monitored through internal controls.

Board of Directors & Auditors

Elected by the Annual General Meeting



Bo Dankis

Born 1954

Chairman of the Board, Perstorp Holding AB.

Board member since 2006.

Active in the Group since 2006.

Other Board Assignments: Board member in Gunnebo AB. Chairman of the board in Exportrådet and Gadelius K.K., Tokyo.



Lennart Holm

Born 1960

Deputy Chairman of the Board, Perstorp Holding AB.

Partner, PAI partners

Board member since 2006.

Active in the Group since 2001.

Other Board Assignments: Lunds Tekniska Högskola, Kemiteknik, Hempel A/S (DK), Industrifonden, Lahega Kemi, Nexam Chemical, SOS Barnbyar and member of council of Sydsvenska Handelskammaren.



Martin Lundin

Born 1968

President and CEO Perstorp Holding AB.

Board member since 2009.

First joined the Group in 1995.



Fabrice Fouletier

Born 1975

Partner, PAI partners.

Board member since 2006.

Other Board Assignments: SODIMA, YOPLAIT France, YOPLAIT Marques International, YOPLAIT SAS, CDO SOL and Financière Forêt S.à.r.l.



Claes Gard

Born 1953

Former CFO Perstorp Group.

Board member since 2009.

Active in the Group since 2001.



Michel Paris

Born 1957

Chairman of Investment Committee,

PAI partners.

Board member since January 2010.

Other Board Assignments: Gruppo Coin SpA, Cortefiel SA, Kwik Fit Limited, Atos Origin SA, Kaufman & Broad SA., Spie SA and Xella International GmbH.



Ragnar Hellenius

Born 1967

Principal, PAI partners

Board member since 2009.

Other Board Assignments: Polygiene AB.

Directly elected representatives



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



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



Stanley Haag
Born 1954
Supervisor
Board member since 2009.
Appointed by the Boards of PTK of Perstorp and Stenungsund.

Auditors



Michael Bengtsson
Born 1959
Authorized Public Accountant –
PricewaterhouseCoopers

Other major auditing assignments:
Carnegie Investment bank, Onoff AB,
Haldex AB and Enea AB.



Mats Åkerlund
Born 1971
Authorized Public Accountant –
PricewaterhouseCoopers

Other major auditing assignments:
E.ON, Öresundsbro Konsortiet, Getinge,
Nordic Aktiv Property Fund (NAPF).

Deputies

Julio Varela, Investment Officer, PAI partners

Gaëlle d'Engremont, Principal, PAI partners

Anders Magnusson, deputy trade union representative, PTK

Anders Broberg, deputy trade union representative, PTK

Gunilla Dristig Nordberg, deputy trade union representative, IF Metall

Group management team



Martin Lundin

Born 1968

President and Chief Executive Officer
Perstorp Holding AB.

First joined the Group in 1995.



Mats Persson

Born 1963

Deputy Chief Executive Officer and
Executive Vice President –
Specialty Intermediates.

Active in the Group since 1992.



Lennart Hagelqvist

Born 1958

Executive Vice President – Coating Additives.

Active in the Group since 2004.

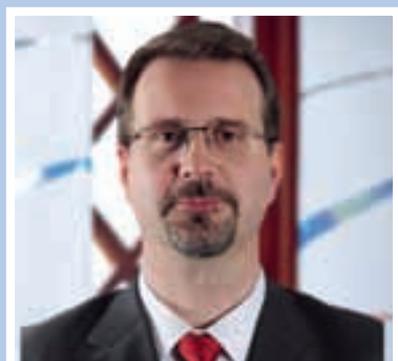


Anders Lundin

Born 1960

Executive Vice President – Performance Products.

First joined the Group in 1982.

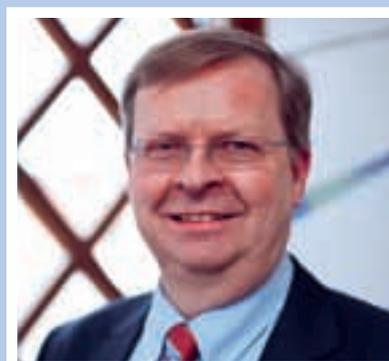


Martin White

Born 1965

Executive Vice President – Region Asia.

Active in the Group since 2007.



Bengt Sallmén

Born 1951

Executive Vice President –
Strategic Development & Legal.

Active in the Group since 1976.



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



Mikael Gedin
Born 1969
Executive Vice President –
Human Resources & Communications.
Active in the Group since May 2009.



Eric Appelman
Born 1964
Executive Vice President – Innovation.
Active in the Group since 2008.

Corporate functions

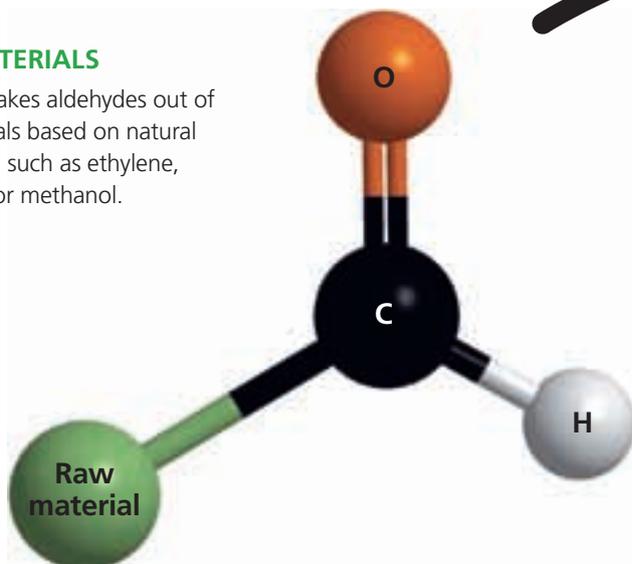
Susanna Frennemo, IT
Anders Gahnström, Legal
Anita Haak, Financial & Business Control
Arvid Liepe, Corporate Finance
Ulf Lindh, Compensation & Benefit
Cecilia Nilsson, Communications
Jan Petersson, EHSQ

It all starts with carbon & hydrogen

Molecules are both very small and very complicated. But for Perstorp, it all starts relatively simply, either with two hydrogen atoms, one carbon atom and one oxygen atom or with one hydrocarbon and one hydrogen atom, one carbon atom and an oxygen atom. Come on a much-simplified journey through this tiny, tiny world.

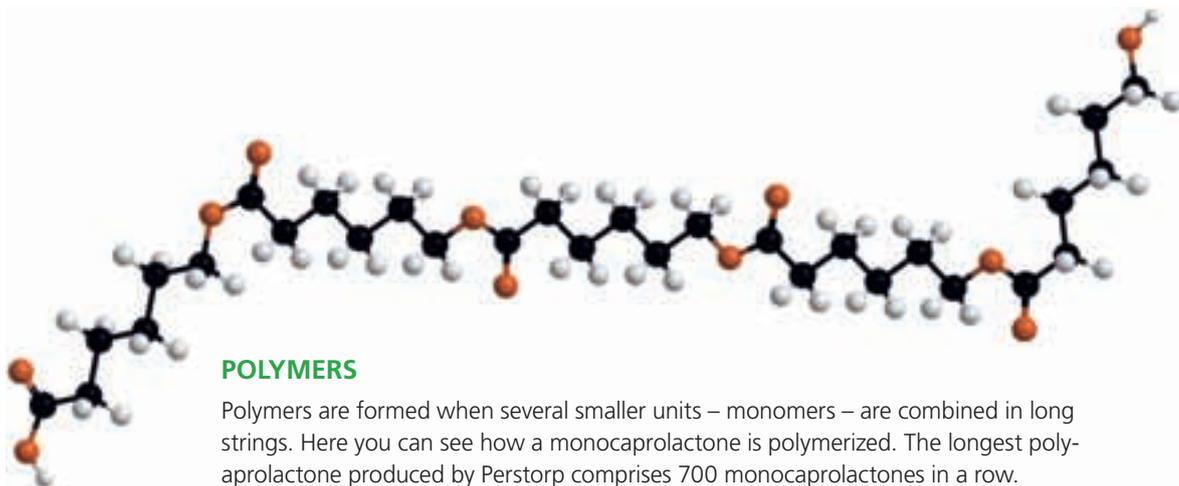
RAW MATERIALS

Perstorp makes aldehydes out of raw materials based on natural gas and oil, such as ethylene, propylene or methanol.



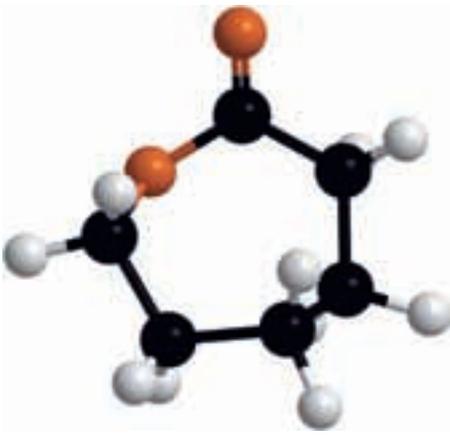
ALDEHYDES

Aldehydes are the base for many of Perstorp's products. They are refined in three basic processes.



POLYMERS

Polymers are formed when several smaller units – monomers – are combined in long strings. Here you can see how a monocaprolactone is polymerized. The longest poly-caprolactone produced by Perstorp comprises 700 monocaprolactones in a row.



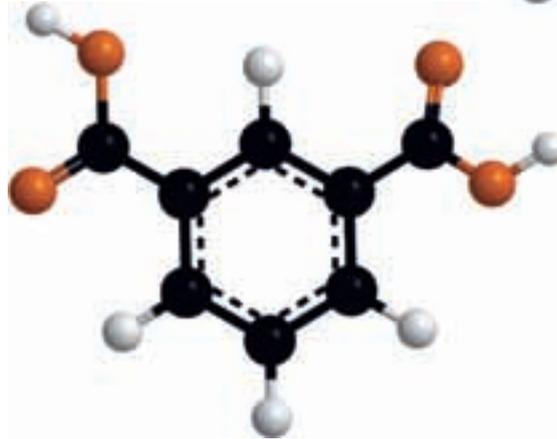
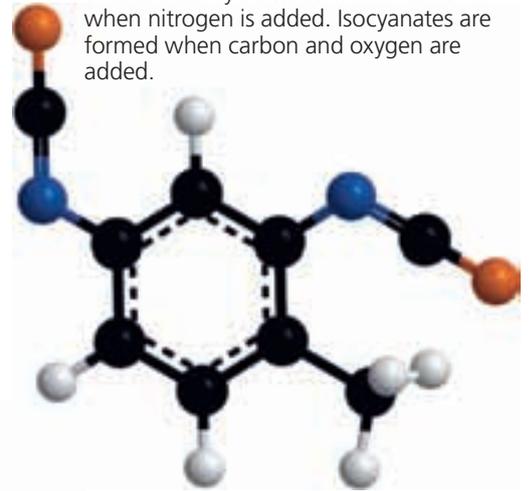
CAPROLACTONES

Some raw materials are oxidized immediately, before the aldehyde stage. Caprolactones are formed through the oxidation of cyclohexanone, which comes from benzene.

Oxidization

ISOCYANATES

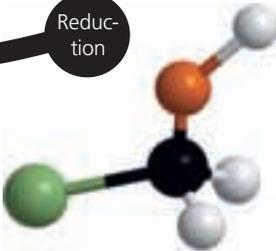
We begin with an aliphatic or aromatic unsaturated hydrocarbon. Amines form when nitrogen is added. Isocyanates are formed when carbon and oxygen are added.



ISOPHTHALIC ACID

Isophthalic acid is formed when meta-xylene is oxidized, prior to the aldehyde stage. Phthalic anhydride is formed when ortho-xylene is oxidized.

Reduction



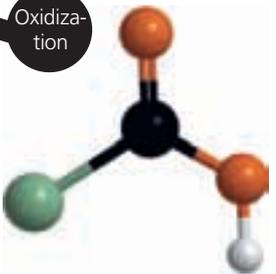
ALCOHOLS

During reduction – added hydrogen – alcohols are formed such as butanol, propanol or 2-Ethylhexanol.

You can see that there are now more hydrogen atoms in the molecule.

Combine

Oxidization



ACIDS

When oxygen is added – oxidization – to the aldehyde, acids are formed such as propionic acid or 2-Ethylhexanoic acid.

After oxidization there are now more oxygen atoms in the molecule.

PLASTICIZERS

There is an infinite combination of molecules. For example, plasticizers can be formed by combining alcohols with phthalic anhydride.

Combine

SPECIALTY POLYOLS

Polyols can be processed into specialty polyols, each of which can have their own customized properties.

Refine



POLYOLS

When various aldehydes are combined, polyalcohols are formed, such as TMP or Neo, depending on the raw material.

All polyalcohols have the same neopentyl structure – one carbon bound to four other carbons.



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