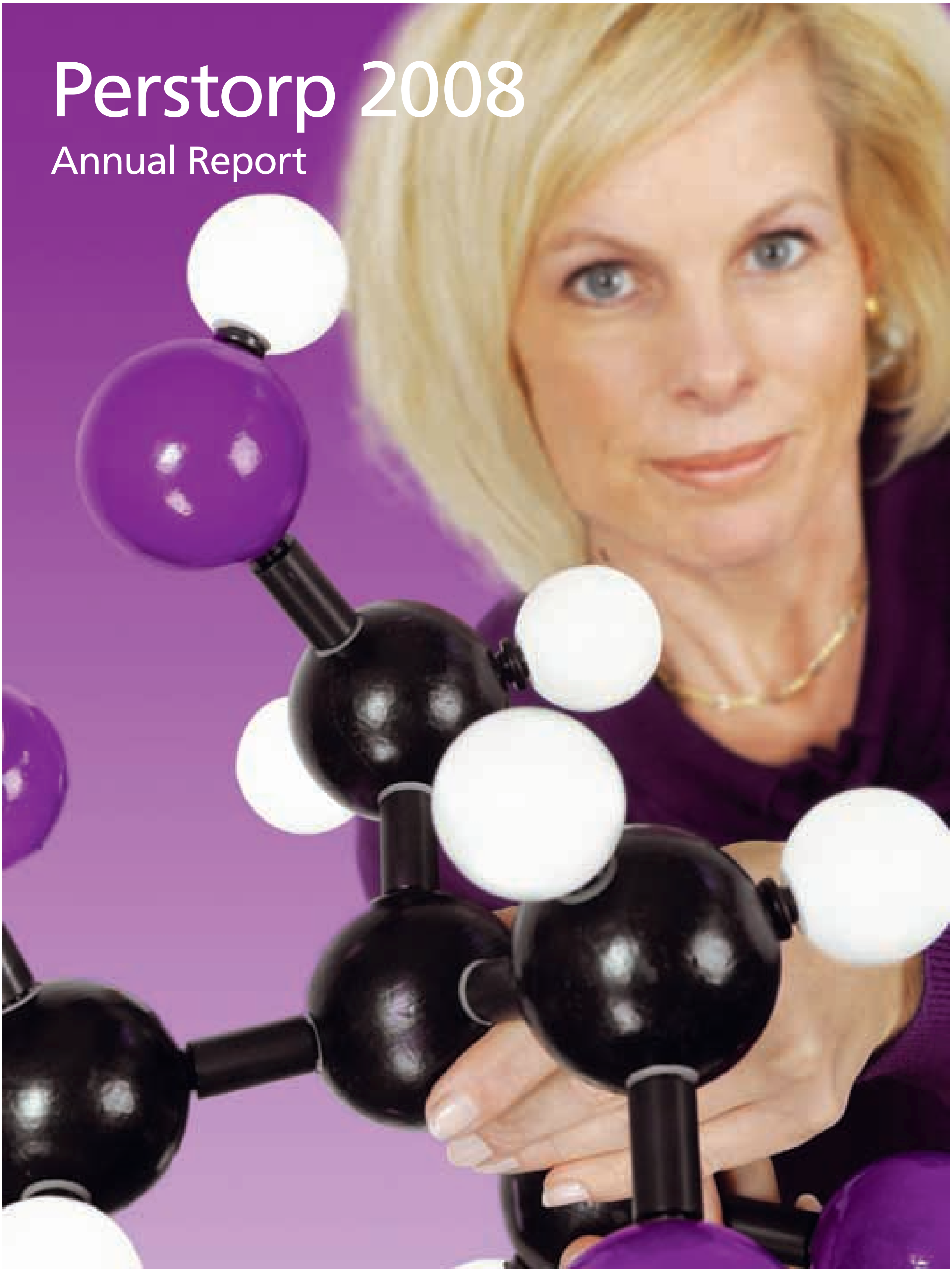
Perstorp 2008

Annual Report



Perstorp
WINNING FORMULAS

Contents

Perstorp in a minute

Originally a small family business in the south of Sweden, Perstorp has developed over the years into a specialty chemicals Group that is a world leader in several product areas with production in 12 countries and over 20 sales offices.

The chemicals Perstorp produces are added to other products often used in daily life at home, work or leisure.

We usually say that we make other products 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 and windscreens in cars.

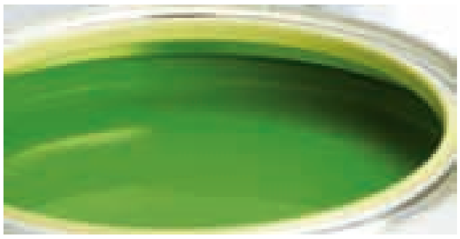
Perstorp is active in several specific segments of the market for specialty chemical products. The biggest markets are in Europe and the US, but a growing portion of sales is in Asia.

Customers are active in the following industries: auto, engineering, coatings, chemicals, plastics, construction, agriculture, food, packaging, textiles, paper, electronics etc.

The Group, which has sales of around SEK 15 billion on an annual basis, has around 2,700 employees and its head office in Perstorp, Sweden. Perstorp is controlled by PAI partners, a leading private equity company.

Core competence
The Perstorp Group has a strong technology base and a long processing chain in selected areas of specialty chemicals. Core competences focus on selected niches of organic chemistry, process chemistry and polymer chemistry. The heart of the business is shared knowledge of products, processes and applications based on aldehyde chemistry, polyol chemistry, hydro formulation and formalin technology.

Innovative Perstorp
Focused innovation is a core value of Perstorp and what would Perstorp be without curiosity? Perstorp manages its production in effective and eco-adapted processes, which have largely been developed within the Group. Raw materials are refined in processes before being put to good use in different end applications. The common factor for all of them is the constant desire to help customers improve through better technical performance, customized solutions and better environmental impact.



Global organization for growth
Perstorp can be described as a relatively small chemicals company, but one which is just as global as its competitors. Production takes place at 14 sites in 12 countries and there are sales offices at around 20 different locations throughout the world. In 2008 Perstorp implemented organizational changes that will make it easier to integrate new businesses and handle its swift expansion.

Summary 2008

Strong demand and rising prices for most products with a downturn towards the end of the year due to the global slowdown and customers' running down their inventories.

Net sales climbed by 42% to reach SEK 12,227 m (8,583) notably driven by acquisitions. Adjusted for acquisitions, net sales rose by 14%.

The operating profit before depreciation and amortization (EBITDA) strengthened and amounted to SEK 1,670 m (1,365). Adjusted for one-off items, the profit was SEK 1,723 m (1,406), including acquisitions.

Cash flow from operations was SEK 604 m (550).

A global action plan was implemented to counter the economic downturn.

A leading caprolactones business was acquired and a decision was made to invest in a doubling of capacity for these products.

The acquired parts of the specialty chemicals business within Rhodia Organics and Lyondell Chimie TDI SCA strengthen the Group's market positions and introduce new products.

Production start for TMP and Neo on the important Chinese market.

A new Group organization was implemented in order to further develop the business.

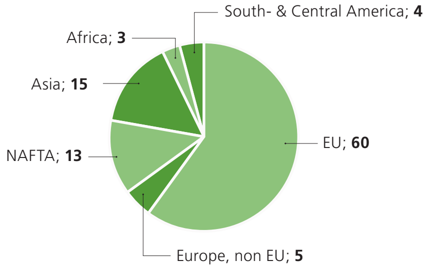
Key figures in summary

SEK m unless otherwise stated	2008	2007
Net sales	12,227	8,583
Operating earnings before depreciation and amortization (EBITDA)	1,670	1,365
EBITDA adjusted for non-recurring items	1,723	1,406
Operating earnings (EBIT) [1]	653	803
Acquistions	4,373	811
Other investments	590	535
Working capital, average	1,469	981
Turnover rate, working capital, times	8,3	8,8
Cash flow from operating activities	604	550
Cash flow as % of net sales	4.9	6.4
Capital employed, average	13,568	9,999
Return on capital employed, %	4.9	8.1
Net debt, exclusive Parent Company loan [2]	13,453	8,170
Debt/equity ratio, exclusive Parent Company loan [2]	4.5	3.7
Equity/assets ratio, inclusive Parent Company loan, % [2]	13.7	14.7
Return on shareholders´ equity inclusive Parent Company loan, % [2]	-23.1	-6.3
Number of full-time employees, average	2,716	1,871

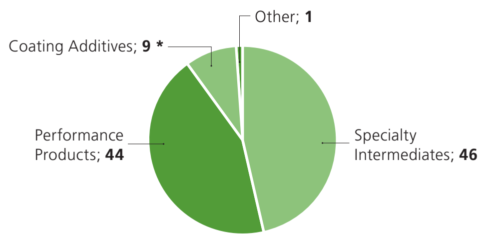
[1] Impairments totaling SEK 241 m were posted in the fourth quarter.

[2] Parent Company loan, meaning the loan from Luxembourg-based Financière Forêt S.À.R.L, which is subordinated to senior loans, second liens and mezzanine facilities. The interest on this loan is capitalized.

Net sales per geographic market, %



Net sales per business area, %



* Applies for four months only – September-December 2008.

A year characterized by growth

Strong growth characterized 2008. Never before in Perstorp's 128-year history have we seen anything like it. I am very proud of the fact that it was made possible by the enthusiasm and commitment of my colleagues.

Organic & acquired growth

Looking back on 2008 I can state that it has been a very eventful year for Perstorp. Whereas many in our industry will probably remember the turbulence in the global economy I choose to recall that ten months of the year were quite exceptional with strong growth – both organic and acquired – exactly as we planned.

The organic growth was not only due to having very good demand for our products for most of the year which meant that we could increase volumes. It was also due to our success in compensating for the strong rise in raw material prices in the first half of the year. Pricing has been a major challenge but we did well in a turbulent climate. That shows our customers appreciate our products.

Our acquired growth was also considerable. We have four new production sites in our Group and we have increased our labor force by around 1,000 people. These acquisitions have almost doubled our annual sales.

Key events

There's no doubt that it was a busy year. In China we quickly started production of TMP, with good results, at the plant we acquired in 2007 as part of a majority-owned joint venture. We have also acquired a plant for production of Neo. This gives us a good platform on the important Chinese market.

In January Perstorp acquired Solvay Group's world-leading caprolactones production plant in Warrington, England. The business is doing very well and we have already started a project that aims to double capacity by 2011.

In September we completed the biggest acquisition ever in Perstorp's history when we took over Rhodia Organics and Lyondell Chimies' isocyanate business with its production sites at Pont-de-Claix, France, and Freeport, Texas, USA. This acquisition alone increased our sales and operating profit by a full 30% on an annual basis.

These acquisitions have completed and strengthened our product portfolio in the coatings industry among others, which is fully in line with our strategy to move from being a supplier to being a strategically important partner for our customers.

Group-wide initiative

In addition to new products, company acquisitions have given us new, highly competent personnel. It is my belief that everyone has something to learn and something to teach. With regard to our new acquisitions it is especially their exceptionally good work on safety that has inspired the rest of us in the Group.

Safety is a very important subject. We have initiated a Group-wide project called Take Care aimed at making all of us more aware about where and when risks occur, and how we can eliminate them through our behavior. Since our staff handle high temperatures, high pressure and partly hazardous raw materials, our focus on safety is a way of showing respect to them. Additional proof of this is the fact that our entire safety organization reports directly to me.

During the year we have also reorganized – changing from being a functional organization to being an organization based on three business areas. As we grow and become more complex it becomes more important to distribute decision-making as far as we can throughout our organization. Then we can capture opportunities quicker and tackle problems the minute they arise. Our new organization also makes it easier to integrate future acquisitions.

Action plan

As early as the autumn, when we realized that the end of the year would be tough because of

> The first key driving force was to grow larger overall. That has been replaced with the desire to be more important for each customer.

the economic downturn, we sat down and produced an action plan aimed at adapting our costs to the current situation. First and foremost we have delayed investment, but we were also forced to adapt the pace of production and reduce the number of employees.

It's a sad business to announce redundancies, but our action plan received vital support from our staff and trade union partners. The Perstorp organization was united. It makes me proud to see the personal commitment that Perstorp people give to our company, new and old, in fair weather and in foul.

It was also unpleasant that we were forced to slowdown our planned and very exciting Valex investment at Stenungsund. We hope that 2009 will see the market become transparent once again so that it will be easier to plan future investments.

Outlook

After two weak months at the end of 2008 we face a tough start to 2009. We are entering a period that will have fewer acquisitions. Our main task will be to manage what we have and make sure we don't suffer serious damage in a period of reduced economic activity. We must also prepare for better times. Perstorp aims to be fastest out of the starting blocks when the business cycle starts picking up again.

The economic downturn gives us an opportunity to focus on a number of product areas, customers, geographic areas and technologies. Now we can look at ourselves with a critical eye and revise our procedures and resources so that we can become more efficient at every stage – in product development, production, sales, distribution – i.e. all of our processes.

A very important assignment in 2009 therefore is to work on continuous improvement. We put great value in curiosity and innovation, but there is a danger that small improvements become hidden behind giant investments. We must make more of these small improvements! We have therefore set up a Group initiative and already seen several pilot projects succeed. We will also continue to focus on our safety program, Take Care.

In the longer term

In last year's annual report I described the three strategies we have since followed: securing competitiveness, optimizing production and exploiting opportunities for growth.

These strategies have been successful, but as we enter the next phase of growth – and after all the turbulence we will continue growing – we will require even greater focus.

We are a small player in an industry dominated by giants, although we are big in our chosen niches. Our strength is that we are flexible and can move fast. That's how we will stay a winner!

Perstorp March 2009

Bo Dankis
President and CEO

Economic development & key events

Perstorp expanded in 2008. Net sales climbed by fully 42%, of which 28 percentage points were from acquisitions, and 14 percentage points from organic growth. However, due to the economic slowdown in the final months of the year, organic volume growth was a modest 2%.

Net sales

Net sales climbed by 42% to reach SEK 12,227 m (SEK 8,583 m in 2007), of which 28 percentage points were from acquisitions. Organic sales growth was 14%, of which 10 percentage points were due to price increases and 2 to higher volumes.

Exchange rates were highly turbulent during the year. The US dollar weakened during the first half of the year, followed by a sharp rise at the end of the year, which was matched by the euro. For the full year, exchange rates had a positive effect of 2% on sales development.

The acquired businesses comprise PIA in Singapore (isophthalic acid), which was consolidated from December 2007, TMP and Neo in China and caprolactones in the UK, all of which were included from the start of 2008, and Coating Additives in France and the US, which was acquired in September.

Bio products was the product area with the largest volume growth, mainly because a plant for producing RME biofuel was started up at Stenungsund, Sweden, in the middle of 2007.

Earnings

The operating profit before depreciation and amortization (EBITDA) increased to SEK 1,670 m (1,365), mainly due to the expansion of the Group. One-off items affecting comparisons amounted to SEK -53 m (-41), of which SEK 116 m was a capital gain from the divestment of the composites business in Q1 and SEK -122 m was for restructuring costs. Other one-off items included acquisition costs for projects not yet completed. Adjusted for these non-recurring incomes and expenses, the operating profit was SEK 1,723 m (1,406). Comparable earnings include special items that affected gross earnings in 2008 in the form of inventory write-downs and inefficient production in the final months of the year. These items amount to around SEK 100 m.

Organic growth was a moderate 2% due to the

Income statement

SEK m	Group 2008 [1]	Group 2007 [1]
Net sales	**12,227**	**8,583**
Cost of goods sold	-10,538	-7,074
Gross earnings	**1,689**	**1,509**
Sales and marketing costs	-524	-363
Administrative costs	-333	-254
Research and development costs	-95	-92
Other operating income and expenses [2]	-80	5
Income from participations in associated companies	-4	-2
Operating earnings (EBIT)	**653**	**803**
Net financial items	-1,541	-884
Earnings/loss before tax	**-888**	**-81**
Tax	261	-47
Net loss for the year	**-627**	**-128**
of which, attributable to minorities	-11	0

[1] Acquired activities in PIA were consolidated from December 2007, caprolactones from February 2008 and Coating Additives from September 2008.

[2] Other operating income and expenses are mainly including exchange rate effects of operative net receivables and one-off costs and income. Concerning the latter there is a write-down of tangible and intangible assets of SEK 241 million and restructuring costs of SEK 122 million. These items have mainly affected Q4 2008. For the same quarter there were major positive exchange rate effects from revaluing operative net receivables.

Did you know…

Within two years, Perstorp's sales have climbed from SEK 7 billion to around the double.

economic slowdown at the end of the year. Meanwhile price effects were positive for several products during the year, despite the significant rise in raw material prices.

For Perstorp excluding acquisitions, exchange rate effects were a positive SEK 140 m. There was large variation in the earnings performance of the acquired businesses. Caprolactones was favored by strong demand and capacity shortages, which boosted earnings.

PIA experienced a tougher year with increased costs for raw materials combined with price pressure. This led to an impairment of fixed assets, which affected operating profit after depreciation and amortization by around USD 30 m. Coating Additives was hit by the effects of the economic downturn on both volumes and margins in the later part of the year. The net loss after depreciation, net financial items and tax was SEK 627 m (loss128).

New organization

Perstorp implemented a Group-wide reorganization during the year, moving from a function-based organization to one based on three Business Groups. The organization is presented on pages 20-31. Three corporate support staffs were also formed (see pages 16-17).

Savings program

As a reaction to weaker demand, the Group introduced a major savings program globally at the end of the year. As a result, the Group's R&D Center in Sköldvik, Porvoo, Finland, was shut down and R&D activities were concentrated at Perstorp.

Employees

At the end of the year the total number of employees was 2,716 (1,871). The increase was mainly due to acquisitions. As part of the Group's action plan 89 employees were made redundant in Sweden and a further 28 abroad.

Research collaboration

During the year Perstorp was awarded SEK 35 m by Vinnova, Sweden's research authority to finance two long-term research projects focused on producing chemicals based on renewable raw materials. Perstorp will collaborate with Lund University and industrial partners in these projects, which will last five years.

REACH directive

The EU's new chemicals directive, REACH, came into effect in 2008. Perstorp has complied with the requirement that all chemical substances shall be pre-registered. The next phase is to assess the impact of the products in detail, and to complete a final registration. In its simplest terms, REACH means that a company producing or importing a chemical in or into the EU has the responsibility to control and document the risks associated with the chemical.

Transactions with related parties

Perstorp Holding AB has a loan from its Parent Company, Luxemburg-based Financière Forêt S.À.R.L., which amounted to SEK 3,038 m (2,362) at the end of the year. Interest amounting to 10% has been capitalized. The loan is subordinate to the senior credits, second lien and mezzanine loans. The loan from the Parent Company has been increased, while shareholders have also contributed additional capital.

Accounting and valuation principles

The consolidated accounts of Perstorp Holding AB are prepared in accordance with International Financial Reporting Standards, RFR 1.2, and the Swedish annual accounts act. The most important accounting principles in accordance with IFRS are presented in Note 2 on page 51. The Parent Company reports in accordance with the Swedish annual accounts act and the Swedish Financial Reporting Board's RFR 2.2 Reporting by legal entities.

Financial information

Perstorp's financial information includes its half-year report, end-of-year financial statement, annual report and sustainability report. Reports are published in Swedish and English.

A changing market

Uncertainty is the word that best describes the world economy in 2008. But despite the financial crisis, economic downturn and fluctuating raw material prices, Perstorp can look back on a decent year.

Shaky global economy

In the first half of the year the world economy was characterized by good demand on most markets. In the US, however, there were the first early signs of the coming economic downturn, especially in areas connected with the construction and auto sectors. In Sweden, it was noted after the summer that sales had not kicked in as expected.

The economic downturn accelerated by the financial crisis that began in the US and then spread across the world, first to Asia, then southern Europe and finally northern Europe. Suddenly everything seemed to grind to a halt, consumers started hesitating and when banks stopped lending, both small and large investments were put on hold. The market least affected during the year was South America, where only a small decline was noted.

Broad customer base reduces recession sensitivity

Perstorp's products can be found in paints, coatings, leather, textiles, animal feed and food. There are many, varied application areas, which means that the Group is less sensitive to business cycle fluctuations compared to many of its competitors.

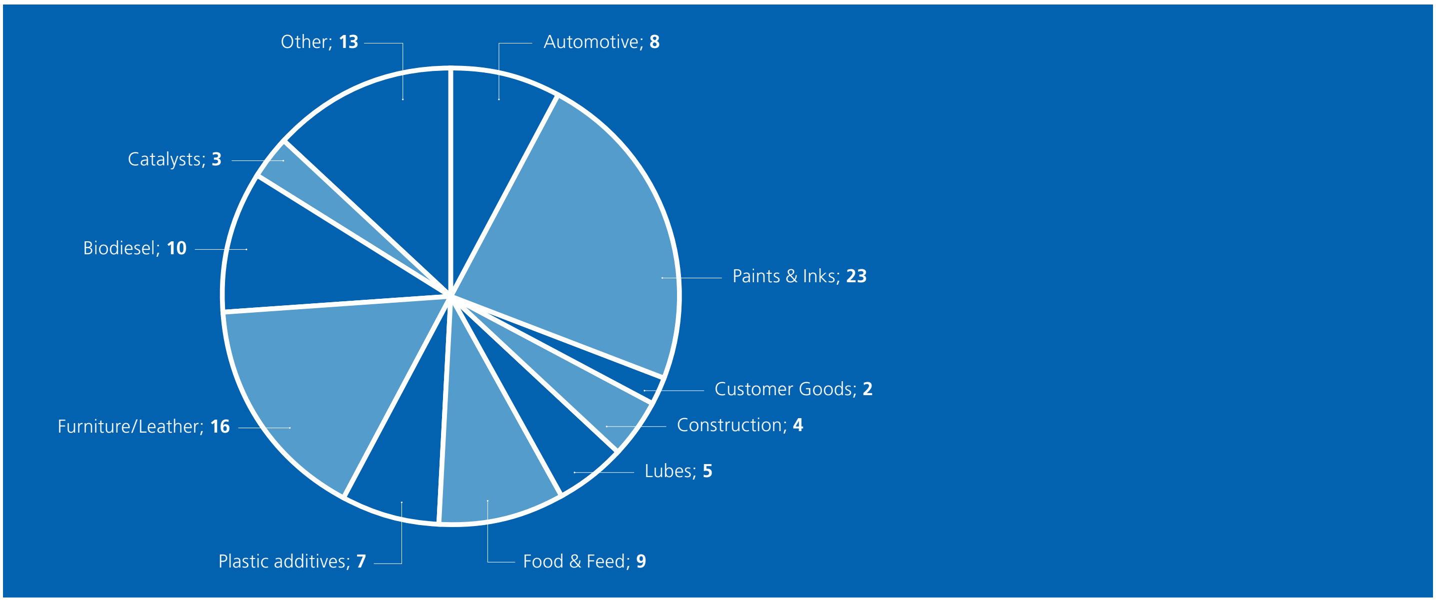
For the first three quarters of the year Perstorp reported strong earnings. Growth, both in terms of volumes and prices, was considerable. October was still a good month, even though a slowdown was noted, but November and December saw a very sharp slide. Many customers closed down over Christmas and the New Year, and to meet reduced demand Perstorp chose to reduce production of certain products.

Reasonable demand for specialty products

Perstorp has a number of specialty products in its portfolio. Most of them experienced a reasonable level of demand during the year.

This includes caprolactones, used in a variety of consumer and industrial applications. Formic acid, used in animal feed additives, sodium formate, used to de-ice runways and specialty polyols that can help minimize the use of environ-

Perstorp´s sales within different end-markets



> We should now capitalize on our new, broader product portfolio to take market shares in our major markets.
>
> DAVID WOLF,
> Executive Vice President, Group Sales & Marketing

mentally hazardous products. To mention a few.

Raw material prices & currencies

During the first half of the year prices of raw materials and energy rose sharply. Perstorp managed to compensate for price rises in a positive way and thus maintained good margins. In the same period the US dollar was very weak, however, which was a worry for European exporters.

In the second half of the year raw material prices fell as strongly as they had risen. Oil prices, for example, sank to one third of the summer top mark. As a result many customers chose to delay purchases hoping that prices would fall even further, which meant that the downturn at the end of the year was very sharp. Currencies did an about turn – the dollar rose in relation to European currencies, benefiting European exports.

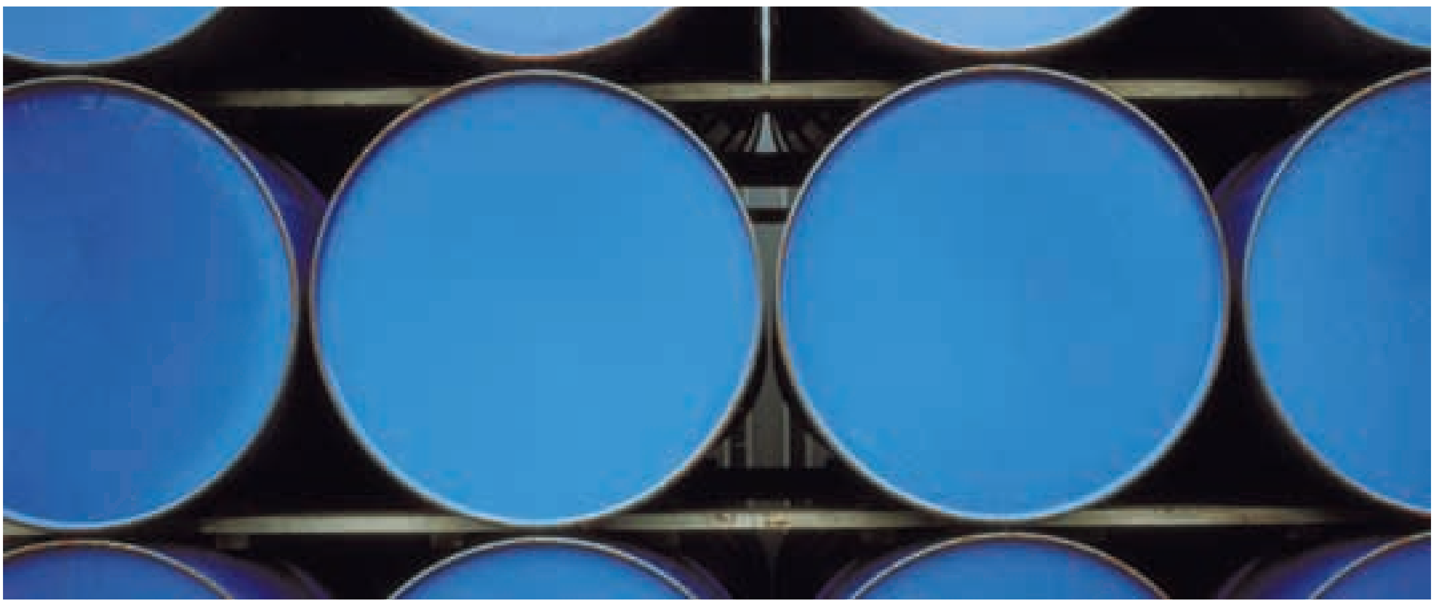
Raw material prices have now stabilized and risen slightly, which is a good sign. Energy prices fell, which is an advantage for an energy-intensive operation such as Perstorp's.

Outlook for 2009

As 2008 became 2009, many of Perstorp's customers still had full warehouses, which kept order intake low also in the first months of the year. Development in the first half of 2009 will be slow but there is optimism for the second half of 2009.

The US, which was the first country to be hit by financial crisis and economic downturn, should probably be the first to recover, followed by Asia. Southern Europe is expected to experience lower demand during the year, as will Northern Europe, which felt the downturn last.

Perstorp, however, made excellent acquisitions in 2008. The new products complement the portfolio exceptionally well, and Perstorp now has a much stronger offering to the market. The company has advanced its position from being an important supplier to being a strategically important partner, with will hopefully lead to bigger market shares among its bigger customers. A basic strategy for Sales & Marketing in 2009 is to capitalize on the new broader product portfolio, leading to growth in market shares in Perstorp´s major markets.

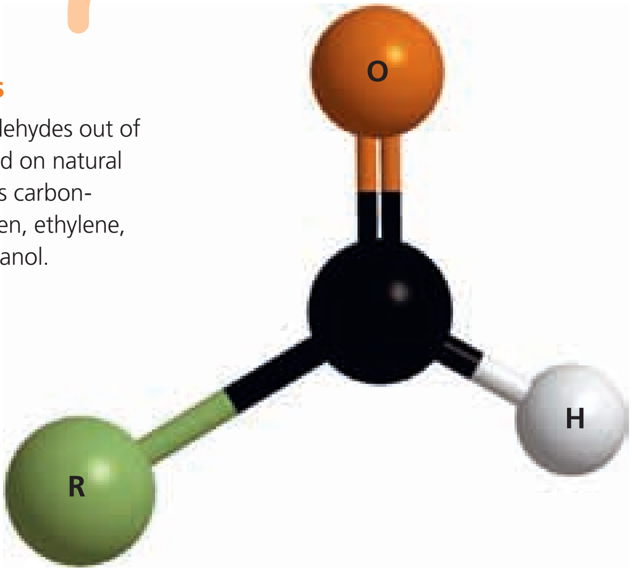


It all starts with carbon, hydrogen & oxygen

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

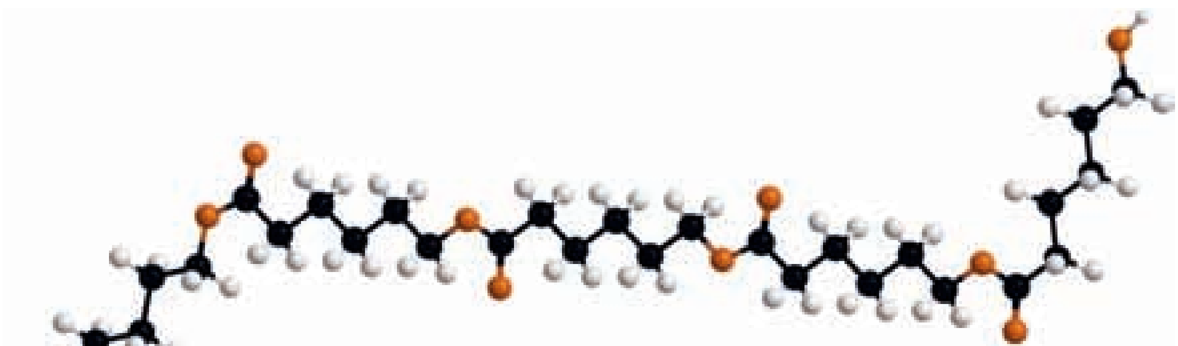
Raw materials

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



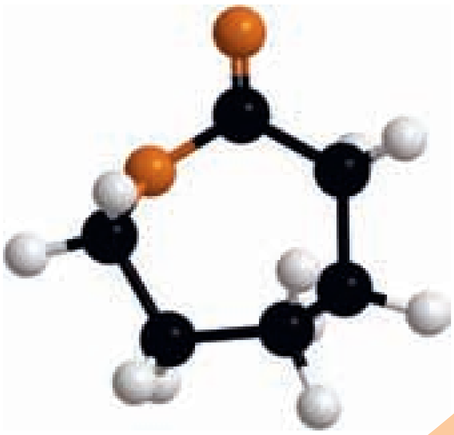
Aldehydes

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 chains. Here you can see how a monocaprolactone is polymerized. The longest poly-aprolactone produced by Perstorp comprises 700 monocaprolactones in a row.

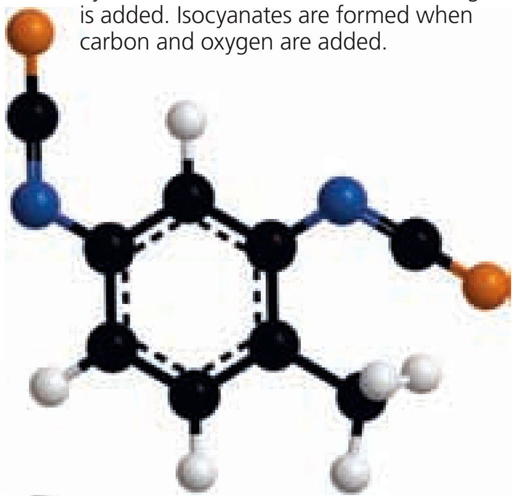


Caprolactones

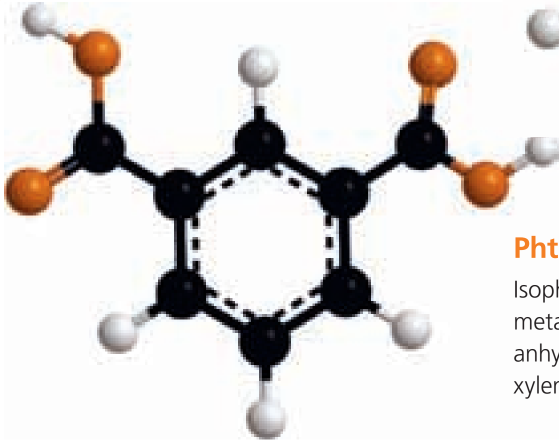
Some raw materials are oxidized immediately. Caprolactones are formed through the oxidization of cyclohexanone.

Isocyanates

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



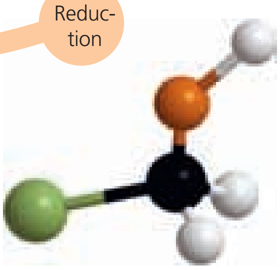
Oxidi-
zation



Phthalic acid

Isophthalic acid is formed when meta-xylene is oxidized. Phthalic anhydride is formed when ortho-xylene is oxidized.

Reduc-
tion



Alcohols

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

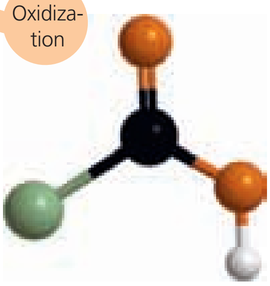
You can see that there are now more hydrogen atoms in the molecule.

Com-
bine

Plasticizers

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

Oxidiza-
tion



Acids

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

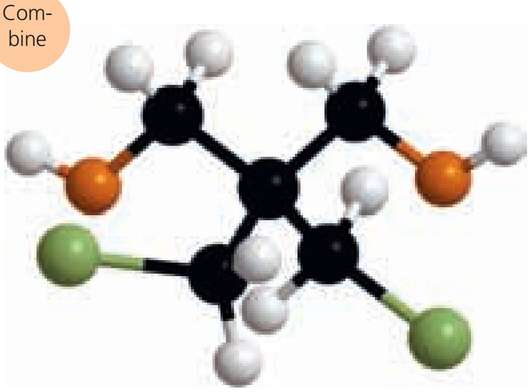
After oxidization there are now more oxygen atoms in the molecule.

Refine

Specialty polyols

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

Com-
bine



Polyols

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

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

An anonymous world improver

Perstorp doesn't make paint, but it makes paint durable. Doesn't make plastic, but makes sure plastic doesn't crack. Doesn't make food, but makes sure food lasts. When you work with molecules, it's hard to get noticed. But the Perstorp Group still makes its mark.

Core competencies

The Perstorp Group has a strong technology base and a long processing chain in selected areas of specialty chemicals. Core competences focus on selected niches of organic chemistry, process chemistry and polymer chemistry. The heart of the business is shared knowledge of products, processes and applications based on aldehyde chemistry, polyol chemistry, hydro formulation and formalin technology.

Raw materials

Around 75% of the Group's raw materials are crude oil or natural gas derivatives, consisting mainly of propylene, methanol and acetaldehydes. For production of biodiesel the most important raw material is rapeseed oil. Key supporting chemicals include sulphuric acid, sodium hydroxide and ammonia. These products are purchased on international markets or produced internally.

Several key raw materials for proprietary production, with particular emphasis on aldehydes such as formaldehyde, butyraldehyde and propionic aldehyde, are also produced internally.

Production

Perstorp manages its production in effective and eco-adapted processes, which have largely been developed within the Group. Raw materials are refined in processes before being put to good use in end applications in industries such as the auto, engineering, coatings, chemicals, plastics, construction, agriculture, food, packaging, textiles, paper or electronics industry. To name just a few.

Research & development

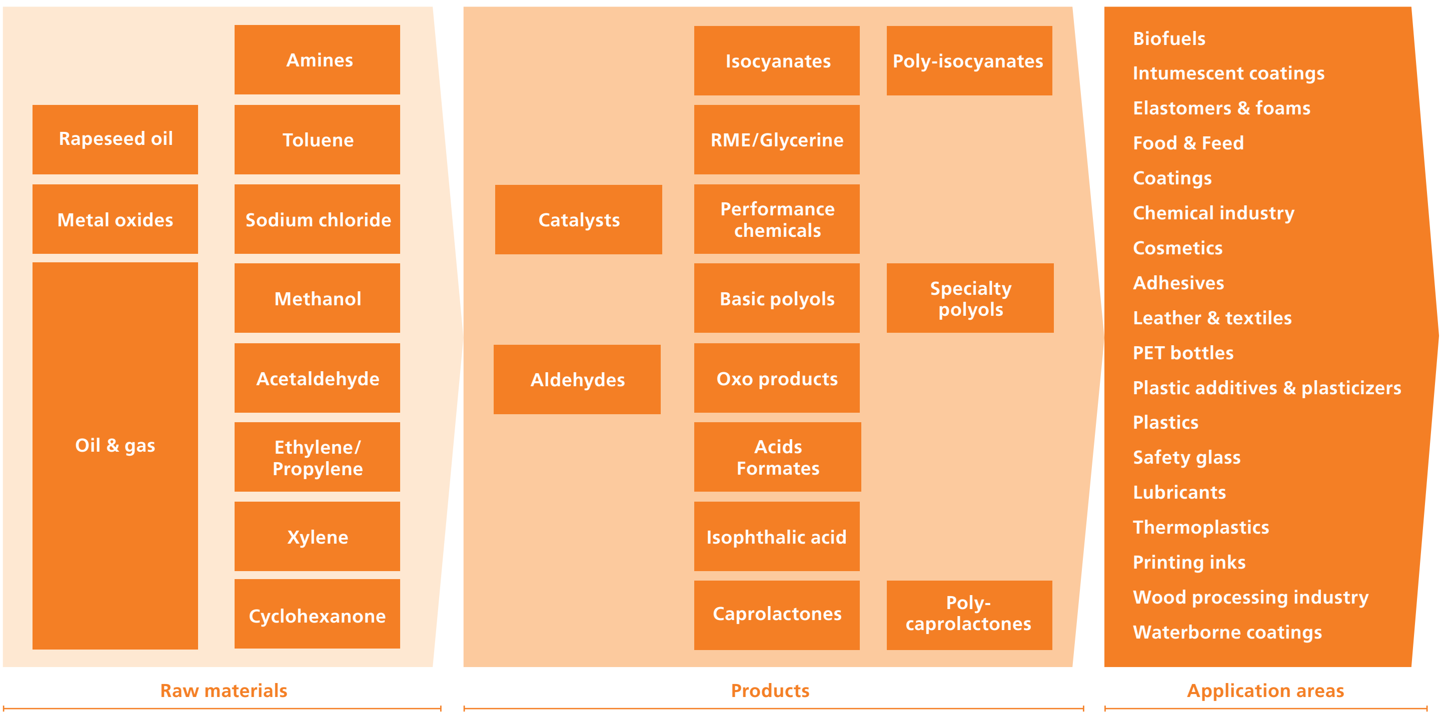
What would Perstorp be without curiosity and persistence? Focused innovation is a core value of the Group, and it's certainly a good description of what happens in the laboratory. The aim is to constantly stay one step ahead.

Within applications this means continually helping customers to improve their business, by offering enhanced technological performance, customized properties and better environmental characteristics. For example, more eco-friendly paints that last longer.

With regard to the company's own processes, the focus is on improving their efficiency even further and reducing their environmental impact.

The Group has a clear ambition to focus on eco-adapted products and systems – this is an area that is developing fast.

Perstorp's value chain



Did you know…

Good news if you don't like watching paint dry… paint dries faster now, thanks to Perstorp's molecules.

Perstorp & the paint can

Many of Perstorp's products are sold to companies active in the coating industry. During the year Perstorp strengthened its offer to these customers with caprolactones and isocyanates. Perstorp can now influence most of the contents of a can of paint – and thereby its characteristics.

The example below shows a high quality car coating, a double-component polyurethane coating. The coating comprises a **resin, cross-link binders, pigment and additives, as well as solvent or water**, depending on the system.

Resin

TMP, Neo, isophthalic acid and caprolactones give the resin various characteristics. For example, they can provide greater fluidity, so that the resin mix better with the solvent.

Crosslink binders

Poly-isocyanates are used as crosslink binders in polyurethane coatings. They help the coating dry quicker, which is important in industrial processes.

Pigment

TMP treats the surface of the pigment so that it can mix in more easily with the resin.

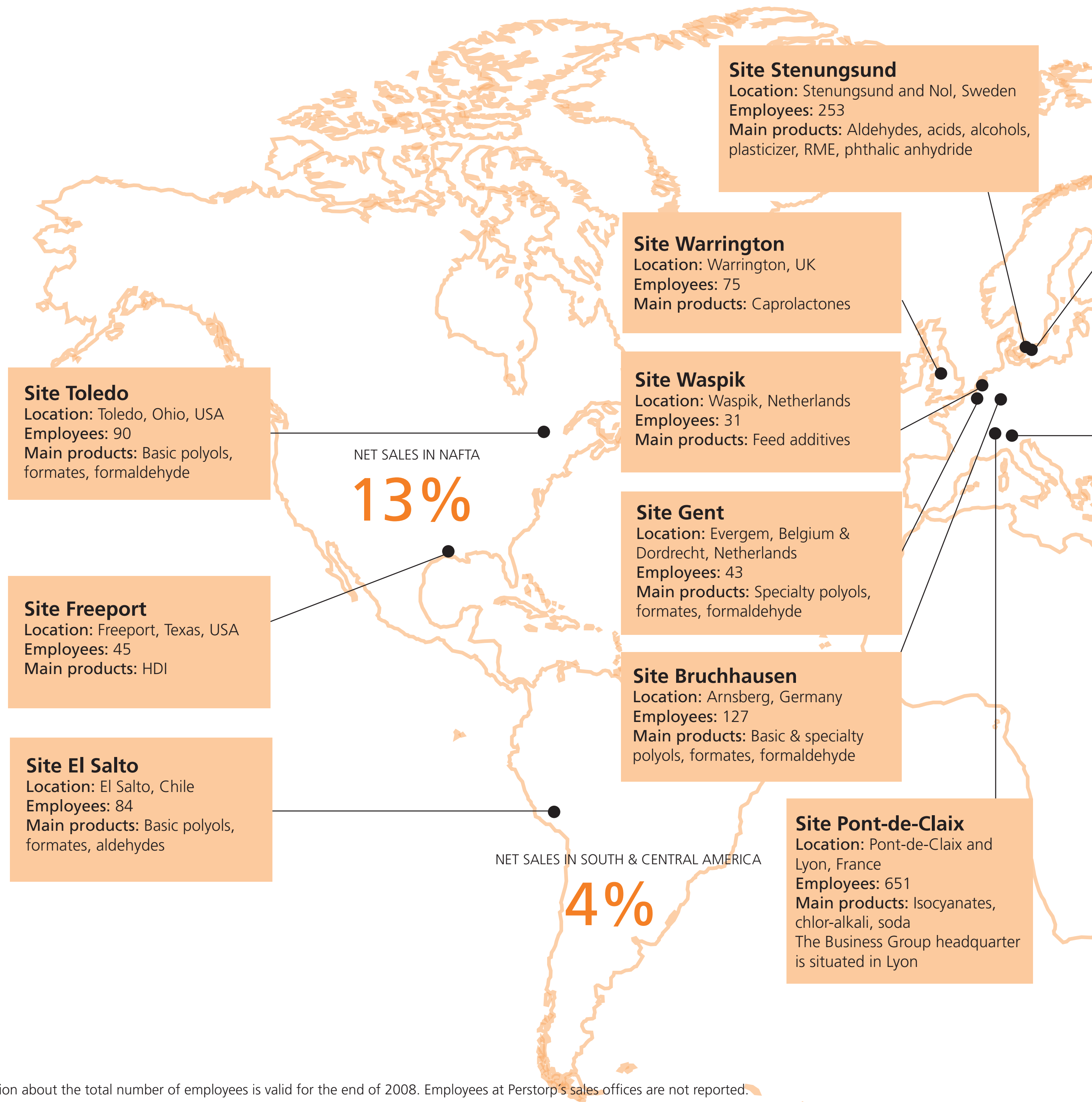
Additive

The coating is given special characteristics with additives – specialty polyols – so it is easier to apply, and is more resistant to damage or dirt.

Solvent/water

Perstorp supplies products for water-based or solvent-based coating systems. Using Perstorp's products the amount of solvent in the coating can be reduced without compromising performance. The coating can also be water-based.

Perstorp in the world



Site Stenungsund
Location: Stenungsund and Nol, Sweden
Employees: 253
Main products: Aldehydes, acids, alcohols, plasticizer, RME, phthalic anhydride

Site Warrington
Location: Warrington, UK
Employees: 75
Main products: Caprolactones

Site Toledo
Location: Toledo, Ohio, USA
Employees: 90
Main products: Basic polyols, formates, formaldehyde

Site Waspik
Location: Waspik, Netherlands
Employees: 31
Main products: Feed additives

Site Gent
Location: Evergem, Belgium & Dordrecht, Netherlands
Employees: 43
Main products: Specialty polyols, formates, formaldehyde

Site Freeport
Location: Freeport, Texas, USA
Employees: 45
Main products: HDI

Site Bruchhausen
Location: Arnsberg, Germany
Employees: 127
Main products: Basic & specialty polyols, formates, formaldehyde

Site El Salto
Location: El Salto, Chile
Employees: 84
Main products: Basic polyols, formates, aldehydes

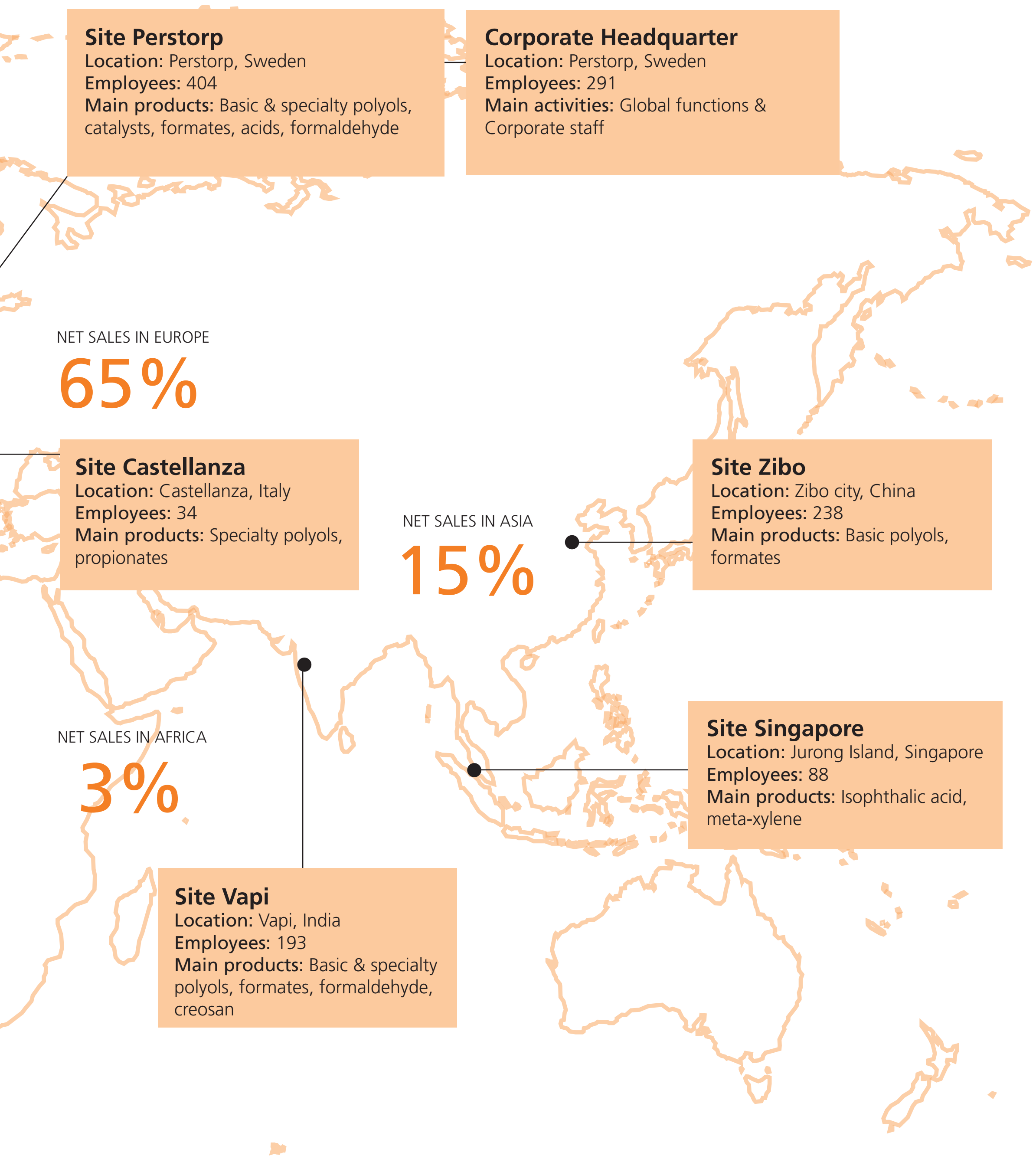
Site Pont-de-Claix
Location: Pont-de-Claix and Lyon, France
Employees: 651
Main products: Isocyanates, chlor-alkali, soda
The Business Group headquarter is situated in Lyon

Information about the total number of employees is valid for the end of 2008. Employees at Perstorp´s sales offices are not reported.

Perstorp is a leading supplier of advanced chemical products. In their everyday lives, people all around the world meet Perstorp's products in a wide range of applications, in their home, on the road, at work or during their leisure time.

The President and corporate staff of the Perstorp Group are based at the company's head quarter in Perstorp, in the south of Sweden. Operations are conducted in three business groups: Specialty Intermediates, Performance Products and Coating Additives.

The Group has around 2,700 employees and annual sales of around SEK 15 billion. Production takes place in 12 countries in Europe, North and South America and Asia. The Group has been controlled since 2005 by PAI partners, a leading European private equity company.



Perstorp's immediate customers are active in a wide variety of industries, such as the coating, plastics, auto and food sectors, as well as the construction and engineering sectors. This means that Perstorp adds valuable properties and environmental benefits to products manufactured for many applications used by large numbers of consumers.

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

Perstorp works with continuous innovation to create greater value for its customers and aims to be at the forefront of development of eco-adapted products and systems.

Global organization for fast growth

Perstorp is relatively small in the chemicals industry, but it operates at the same global level as its competitors. To improve the way it handles growth, which has been one of the Group's three strategies for several years, a new organization was introduced in 2008.

Vision & strategy

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

In recent years the company has focused on three strategies: to secure competitiveness, optimize production and capture growth opportunities. This work has been successful, but ahead of the next stage of the Group's development, the next phase of growth, a further refinement of these strategies is required.

A global business

Perstorp can be described as a relatively small chemicals company but one that is just as global as its competitors. Production takes place in 12 countries and there are sales offices in around 20 locations.

During the year the average number of employees was 2,296 (1,785), an increase that is explained by the acquisitions of Solvay's caprolactones activities and parts of the specialty chemicals operations within Rhodia Organics and Lyondell Chimie. The geographic distribution of the average number of employees was: Sweden 42%, other EU countries 24%, Asia 25% and North and South America 9%.

New organization

During the year Perstorp performed a general organization change aimed at making it easier to integrate the acquired businesses and to improve management of fast growth.

Business Groups

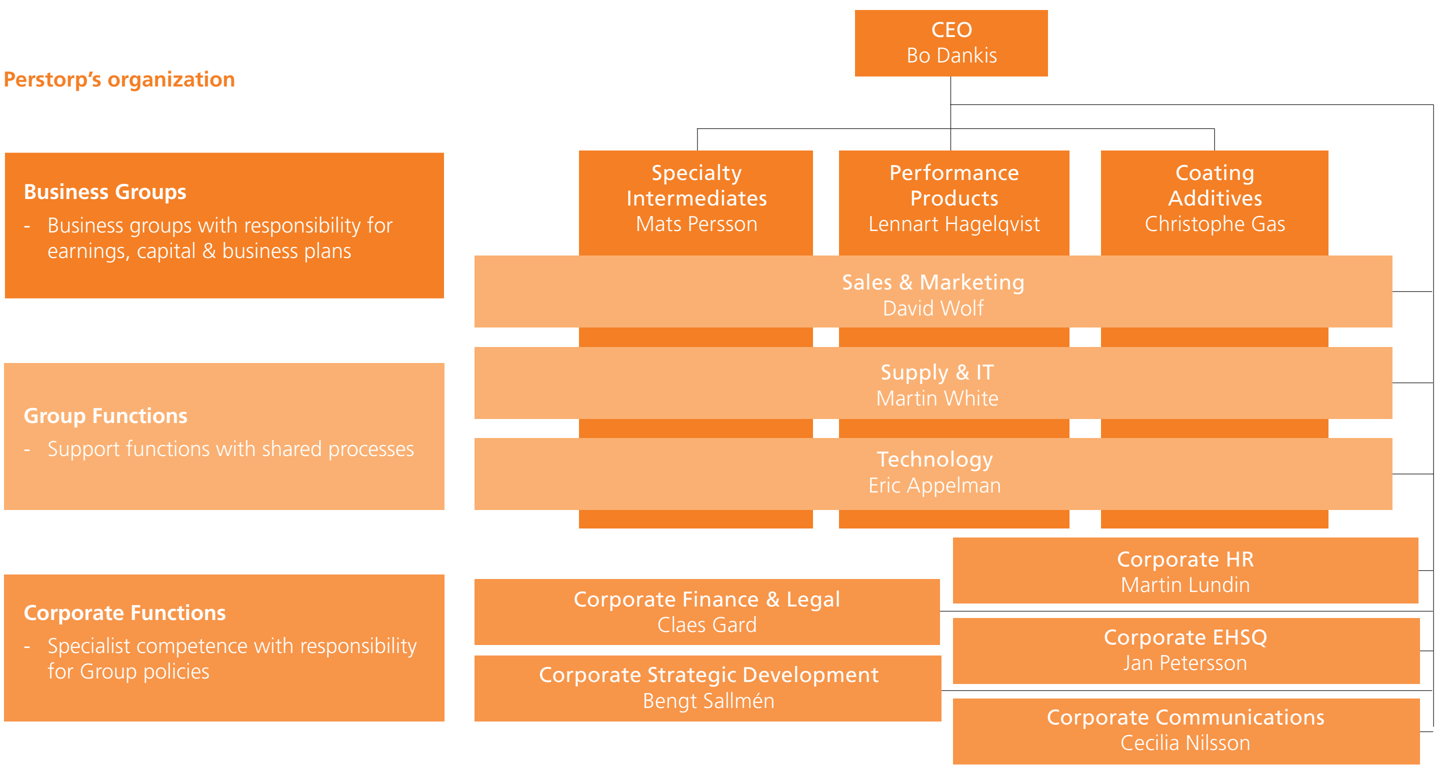
Three Business Groups, comprising both production and business units, have been formed. They have responsibility for earnings and capital. This has meant that decision-making has been delegated further out into the organization, among other things. The Business Groups are Specialty Intermediates, Performance Products and Coating Additives.

See pages 20-31 for a more detailed description of the activities of each Business Group.

Specialty Intermediates

The Specialty Intermediates Business Group,

Perstorp's organization



> Perstorp works with three strategies: to secure competitiveness, optimize production and capture growth opportunities.

led by Mats Persson, comprises the following products: basic and specialty polyols, isophthalic acid (PIA), formaldehyde and formalin technology. Production takes place at 9 production sites in as many countries.

Performance Products

Performance Products, led by Lennart Hagelqvist, comprises the following products: oxo alcohols and plasticizers, bio products, feed additives and caprolactones. Production takes place at three sites in three countries.

Coating Additives

The third Business Group, Coating Additives, comprises the newly acquired operations for TDI, HDI and HDI derivatives. The Business Group is led by Christophe Gas, and production takes place in France and the US.

Group Functions

Three Group Functions have been formed to support the Business Groups: Sales & Marketing, Supply & IT and Technology.

Sales & Marketing

By merging the sales and marketing departments into one Group Function, Perstorp retains a strong customer focus while giving its three Business Groups the opportunity to exploit the benefits of being active on a global market. Sales & Marketing is led by David Wolf and has more than 20 sales units in almost as many countries. In addition there are agents in over 60 sites around the world. During the year, Regional Sales Managers were appointed in Dubai and the Netherlands. Sales & Marketing includes the Market Development unit that manages technical service and market communications.

Supply & IT

The Supply & IT Group Function, led by Martin White, has responsibility for global purchasing, customer service and all IT issues.

The purchasing function implements and develops the Group's purchasing strategy and processes. A major focus is placed on reducing the Group's overall costs for purchasing and managing individual items.

Customer Service has responsibility for daily contacts with Perstorp's customers and the function is divided in the three geographical regions Europe, Asia and America.

The IT department supports business processes so that the greatest benefit is achieved while optimizing IT costs. During 2008 a large portion of IT resources was focused on the integration of the newly acquired companies.

Technology

Resources for process and application development, and other technological development, were gathered in the Technology Group Function. This function can be described as a global competence centre with responsibility for the development of ideas up to a new application or product. The new organization means that the Technology Group Function works closely with the Business Groups and thus with customer requirements.

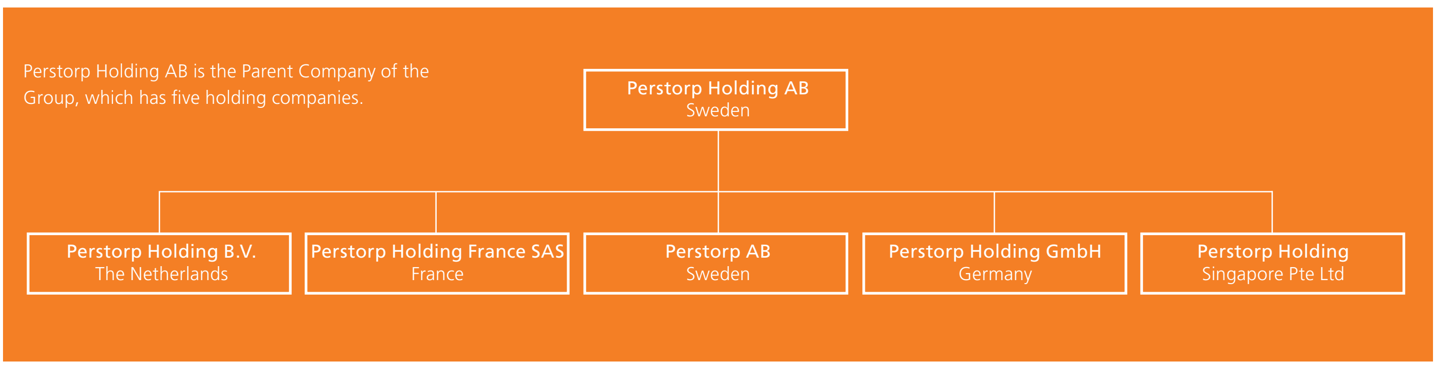
The activity employs around 170 people, most of whom are located in Sweden, with a smaller staff in Lyon, France. Eric Appelman heads Technology.

Corporate Functions

A number of Corporate Functions also support operations. These are Communications, EHSQ, Finance & Legal, Human Resources and Strategic Development. They provide specialist competence in their field and have responsibility for, among other matters, implementation of Group policies.

In Q2 2009 Johan Malmqvist will take over as Chief Financial Officer and Mikael Gedin will be the new Executive Vice President Corporate Human Resources.

Perstorp Group structure



Innovations for growth

At the Group Technology function, R&D, process design and process optimization are carried out alongside each other to develop new, improved products and processes. This makes Perstorp better equipped to deliver innovation.

Eco advances driving development

Eric Appelman, head of Group Technology, reports on new products launched in 2008:

"We strengthened our portfolio for eco-friendly polyurethane coatings with two new launches – Oxymer® and Ymer™ – which complement very neatly products from our acquisitions in France and the UK, which are also directed at the polyurethane segment. We also launched two products for the alkyd paint segment – Boltorn® W3000 and Dilutor – both of which help to reduce the environmental impact of paint. These ingredients for environmentally friendly coatings enable our customers to comply with the stricter environmental regulation coming into effect in 2010."

In 2008 the work continued to further improve the quality of biodiesel based on rapeseed oil. As a consequence Perstorp now offers the best quality in the market, especially suitable for the demanding environment of Scandinavian wintertime.

In general, performance during the year showed how development is driven by a desire to reduce environmental impact and switch to more eco-friendly technologies.

World class process optimization

In 2008 Perstorp focused strongly on process optimization.

"Perstorp holds world-leading expertise in the area of process control; advanced mathematical methods are used to optimize complicated processes. Last year these skills were deployed to improve the performance of the newly acquired plants in Singapore and Warrington, increasing production, quality and cost-effectiveness. This illustrates nicely how Perstorp's core competencies allow for the creation of value from acquisitions,"says Eric Appelman.

Perstorp has started co-operating with two universities in Sweden, one in Grenoble, France, and one in Manchester, UK, in order to continually develop expertise in these areas.

Continued focus on growth

The pursuit of growth opportunities will continue in 2009.

"Perstorp is the one of the world's largest producer of specialty polyols. Some of these chemicals see explosive growth in demand driven by the increased will to minimize the environmental impact in many different application areas. These products are and will be an engine of growth for the future. Perstorp is responding by investing aggressively in increasing the availability of these products, by optimization of processes. We will also work to discover new application areas for caprolactones as we have decided to double our production. And we will look to renew our range of low-viscosity isocyanates," explains Eric Appelman.

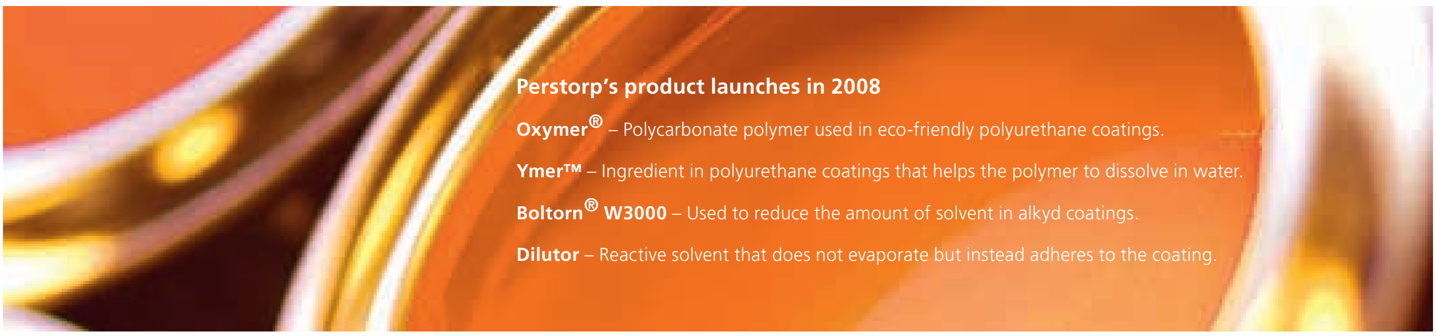
Towards renewable raw materials

In the longer perspective, Eric Appelman expects the focus in development to be upon replacing oil-based raw materials with renewable ones. A large number of research projects are already taking place in this area.

"We are highly dependent on raw materials, so it is important to stay one step ahead. Perstorp started its business by making chemical products of wood 128 years ago. I believe future competitive position of the chemical industry in Scandinavia will partly depend on the use of abundantly available renewable raw materials. Wood is one such raw material. That would mean Perstorp would return to its roots!"

Continually finding new application areas for the large, mature products is also important, as is continually finding new ways to produce them.

"We have to keep our tentacles out all the time to catch new requirements among our customers that we can meet. And then we must meet them," he concludes.



Perstorp's product launches in 2008

Oxymer® – Polycarbonate polymer used in eco-friendly polyurethane coatings.

Ymer™ – Ingredient in polyurethane coatings that helps the polymer to dissolve in water.

Boltorn® W3000 – Used to reduce the amount of solvent in alkyd coatings.

Dilutor – Reactive solvent that does not evaporate but instead adheres to the coating.

Continuously finding new application areas for the large, mature products is also important, as is finding new ways to produce them.

Anders Broberg, Production Planner at Site Stenungsund in Sweden.

Specialty Intermediates

During the year the Specialty Intermediates Business Group experienced good demand for specialty polyols and formalin technology, and despite a downturn in the final months of the year, 2008 as a whole can be described as a good year.

PRODUCTS

Basic polyols, acids & formates
Specialty polyols
Formaldehyde & formalin technology

KEY EVENTS

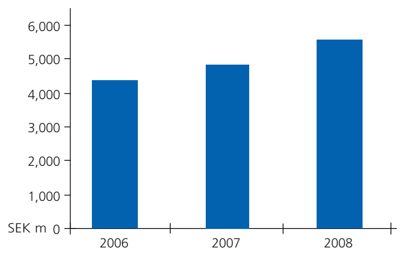
Start-up of TMP production in China
Acquisition of Neo plant in China
Closure of TMP plant in Korea

MARKET POSITIONS

World leader in Penta & TMP basic polyols
World no. 3 among Neo producers
World leader in most specialty polyols
World leader in formalin technology & catalysts

SHARE OF TOTAL GROUP SALES IN 2008

46%



Did you know…

Perstorp´s products make other products better, safer and more eco-friendly. They are used by millions of people all over the world.

Overall, the Business Group reported a good 2008. Extremely strong demand, which at the start of the year saw Perstorp's plants operating flat out, meant that 2008 as a whole was good, despite the deterioration at the end of the year.

Products & markets

Following a good start to the year, the Business Group started to feel the effects of a slowdown in China after the summer, which spread to Europe. In November and December it was clear that demand had come to a shuddering halt. Several products suffered from being used in the construction and auto industries, which were hardest hit by the downturn.

Basic polyols, the larger volume products, are used mainly in the production of resins for the coatings industry. Among these polyols, Penta was the stand-out performer, both in good times and bad.

Isophthalic acid had a generally tough year due to temporary surplus global capacity, which combined with high raw material prices pressed margins for this product.

Demand remained good throughout the year for specialty polyols, which have lower volumes and higher margins. Two new products for water-borne coating systems were launched – Ymer™ and Oxymer® – in line with the strategy to offer a broader product portfolio to customers.

During the year Formox completed seven formalin plants and received orders for six new ones. Sales of catalysts were good for the first ten months, but slowed down towards the end of the year.

Key events during the year

During the year the Business Group established a business in the important Chinese market as part of a joint venture, Shandong Fufeng Perstorp Chemical Co Ltd. The TMP plant in Zibo has been started up quickly and with good results, while a Neo plant with annual capacity of 20,000 tons has been acquired in Shandong province. The TMP plant in Korea was closed due to global overcapacity.

The integration of the PIA plant in Singapore has progressed well and production was optimized during the year. The plant has a strategically useful location for the Asian market.

During the year a lot of effort was focused on the EU's new chemicals directive, REACH, which affects the entire Group. Perstorp has pre-registered a large number of products and shall now assess in detail the risks and impacts of these products in a final registration.

Looking back it is clear that the past year was highly volatile. A big fall in raw material prices and reduced demand meant a depreciation of inventory value at the end of the year. The downturn in the final months forced production cutbacks. Some plants closed down completely in December.

Continued development

The Business Group expects to see a weak first quarter of 2009, but with some signs of recovery. During the second and third quarters demand is expected to rise. Since products go to closely linked value chains, they are expected to recover at the same pace.

Work aimed at meeting the fast growth in demand for specialty polyols is a high priority for the Business Group and several projects are currently under way.

Perstorp will continue its market introduction of potassium formate ahead of the start-up of a new plant in May 2009. The Neo plant in Perstorp is being adapted so it can switch between production of sodium formate and potassium formate as by-products. This investment project – called PoFo – is important as potassium formate has a higher value on the market.

Thanks to strong sales in 2008, the Formox activity will have good coverage for its engineers throughout 2009.

Resin intermediates

Main products: Penta, TMP, Neo, isophthalic acid, formates

Main application areas: Coating systems, liquid adhesives, plastic additives, lubricants, PET bottles

Specialty polyols

Main products: Micronized polyols, Di-Penta, Di-TMP, BEPD, Bis-MPA, Allyl ether, Alkoxylates, Boltorn

Main application areas: Waterborne coating systems, PVC stabilizers, expanding intumescent coatings, cosmetics, UV-curing coatings & printing inks, elastomers & foams

Formox

Main products: Formalin technology, formaldehyde, catalysts

Main application areas: Chemicals industry, wood processing industry.

The **Resin intermediates** product group includes basic polyols, acids and formates. Production takes place in Sweden, Germany, USA, Chile, India, Singapore and China.

Basic polyols are used primarily to produce resins for coating systems. Polyols add various properties to the end product, such as smoother surface structure, better impact resistance or improved adhesiveness, while they can also be used to reduce the amount of solvent used in the coating.

Among other applications, Perstorp's **isophthalic acid** is used as a raw material to produce advanced coating systems and plastic for PET bottles.

Formates are used in the de-icing agents sprayed on airport runways. They are also an ingredient of washing agents, help to thicken lubricants used in oil drilling and are used by the leather industry.

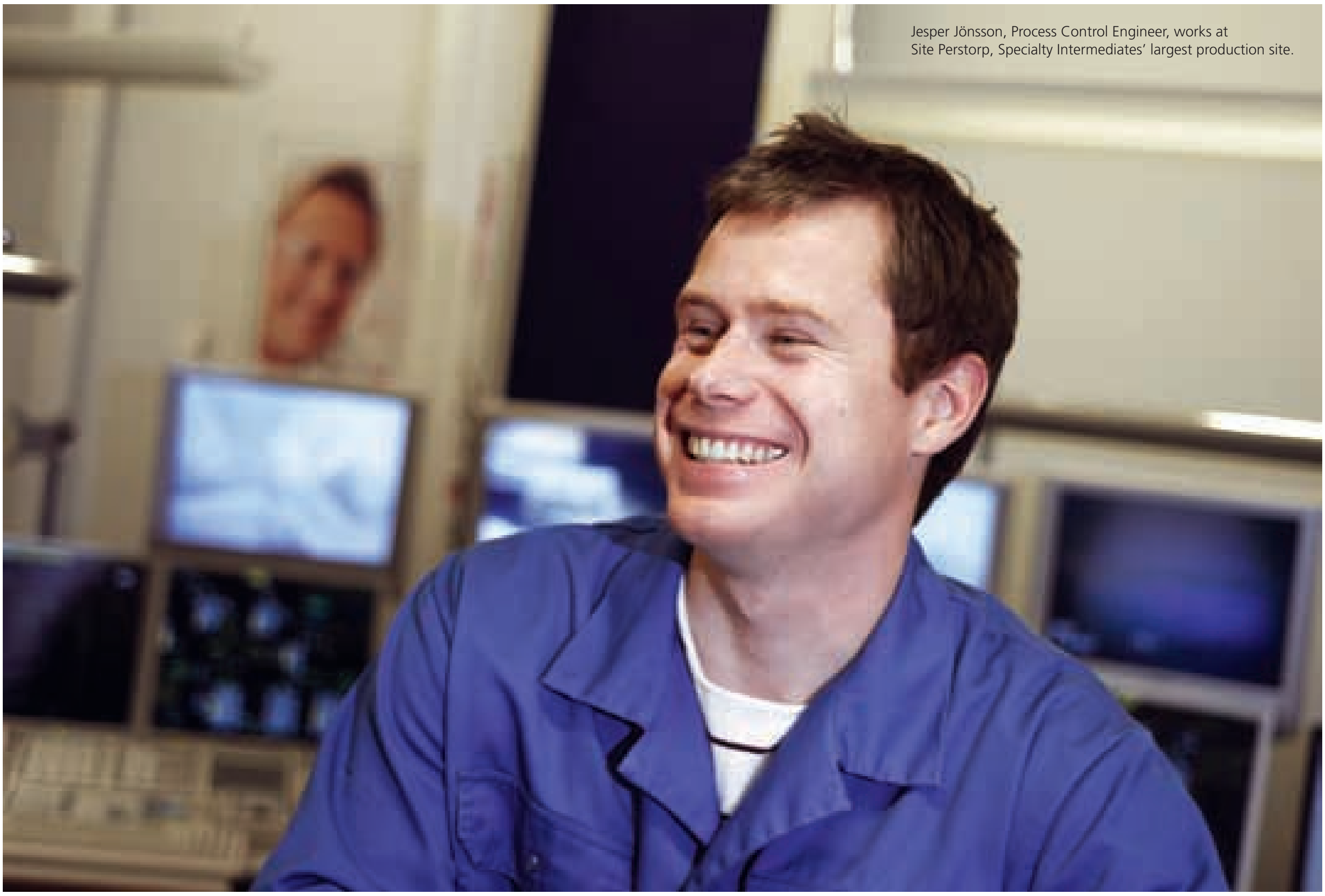
Specialty polyols are used in advanced coating systems for electronics products, cars and furniture. They are produced in Sweden, Germany, Belgium, Italy, Chile, USA and India.

Specialty polyols give special characteristics to powder coatings, UV-curing coatings, intumescent coatings, waterborne coatings and high solids. Other important application areas are synthetic lubricants for CVC-free cooling systems and PVC stabilizers.

Using these molecules, drinking water pipes can be manufactured without the need for lead, or window frames can be made of a plastic that will not lose its white color and turn yellow. Mobile phones can be put in the same pocket as a bunch of keys without the risk of the screens being scratched, and many other coatings can be produced in a more eco-friendly way without compromising on their properties.

Formalin acts as a base in many chemical processes but is also used in the wood processing industry – for example, as a resin in chipboard. Perstorp produces formalin at a number of its production units.

Formox is a world leader in **formalin technology & catalysts**. They design, develop and supply formalin plants and sell the catalysts used in the process. Around half of the global growth in capacity over the past ten years has come from plants supplied by Formox.



Jesper Jönsson, Process Control Engineer, works at Site Perstorp, Specialty Intermediates' largest production site.

Site Perstorp, where it once all started

This was where it all started, 128 years ago. In the middle of the forest, next to a stream called Ybbarpsån in Perstorp. Today there are 10 production lines here, four boilers, a water treatment plant, a wastewater treatment, grey wagtails and redstarts nesting. Come on a visit to Specialty Intermediates' largest production plant, Site Perstorp.

JOSEFIN BOUCHT

I can see nothing but trees, but I know I'm in the right place. The fox crossing the road is used to traffic. It sits beside the road and looks absent-mindedly at me. Then I see the buildings I was expecting – tanks, containers, pipes, more pipes, more containers and the occasional chimney. Site Manager **Håkan Kihlberg** meets me at the gate and hands over a helmet.

"How many km of piping? Hard to say. A lot!"

Our first stop is the formalin plant. Formalin is an important ingredient in many processes and here it is made for internal use and for other companies operating on this site.

"We're building a catalytic combustion unit here in order to treat emissions," explains Håkan.

Then we look at the steam boilers. They are powered almost exclusively by renewable raw materials – chipped forest waste, waste wood, peat and liquid waste. Oil is burned only as a final resort.

"The steam boilers have a positive impact outside the site, too. Some of the steam is sold to other factories, while steam from the chimneys, which is not hot enough to be re-used in the process, is used for district heating for the local community.

Around 250 people work with production at Site Perstorp. Operators in the control room control the process 24 hours a day.

I see packing, loading and unloading. There are trucks, tankers and trains coming in and out. Strangely it feels almost deserted.

"Our operators can manage most activities from the control room, but of course they have to get outside, too, to check everything is working properly," explains Håkan.

Of all the plants on the site the Neo plant has the biggest capacity and now it is being rebuilt in order to be capable of switching between sodium formate and potassium formate as a by-product. This is the largest investment right now.

In addition to raw materials and energy, the production processes require water. It comes from the Ybbarpsån stream and the surrounding lakes, some of which were originally dams dug by monks in the 12th century. The water is treated, used in the process and then treated again before being pumped back into the stream. The water quality is so good that the otherwise highly demanding and rare grey wagtail has chosen this area as a breeding ground.

"We have a responsibility to ensure that the flow into the stream is 300 liters, or about one and half bathtubs, per second," says Håkan.

When I ask about the past year Håkan says that nearly all plants at Site Perstorp were operating flat out for most of 2008.

"We were very busy. We broke production record after record as we chased higher volumes. Demand was enormous. Unfortunately we were forced to cut the pace of production at the end of the year.

Despite the busy activity, active awareness of safety was kept up at all times. The Group-wide Take Care project – which focuses on behavior-based safety – was carried out with good results.

"We trained safety coaches who made 470 observations of workplaces to identify risks. Now we have to maintain this way of thinking. Safety isn't a self-playing piano."

A project is also taking place aimed at improving maintenance and operational reliability. The framework has been set and the procedures established. Work will continue in 2009.

"In parallel with this we will work on continuous improvements, inspired by successful pilot projects in 2008," says Håkan, who then tells me about the new individual salary system that has been introduced to increase motivation and job satisfaction.

"The system is based on greater openness about how we set salaries and what the criteria are for salary levels," he explains.

When demand fell dramatically at the end of 2008 a reorganization was carried out and around 30 employees were made redundant. The number of employees was further reduced when caretaking and healthcare services were put out to contract.

"Nearly all plants at Site Perstorp were working flat out for most of 2008.

HÅKAN KIHLBERG, Site Manager

Performance Products

The Performance Products Business Group focuses on the European market. All of the Business Group's units reported strong results, culminating in a sales record in October. One of the reasons was the new acquisition of the caprolactones business in the UK, which has been very busy.

PRODUCTS

Oxo alcohols & plasticizers
Feed additives
Acids
Biofuel
Caprolactones

KEY EVENTS

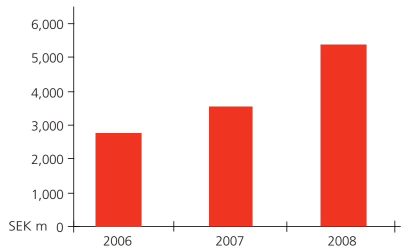
Acquisition of Solvay's caprolactones business in Warrington, UK
New market: 100% RME (biodiesel)
Production disruptions in Stenungsund

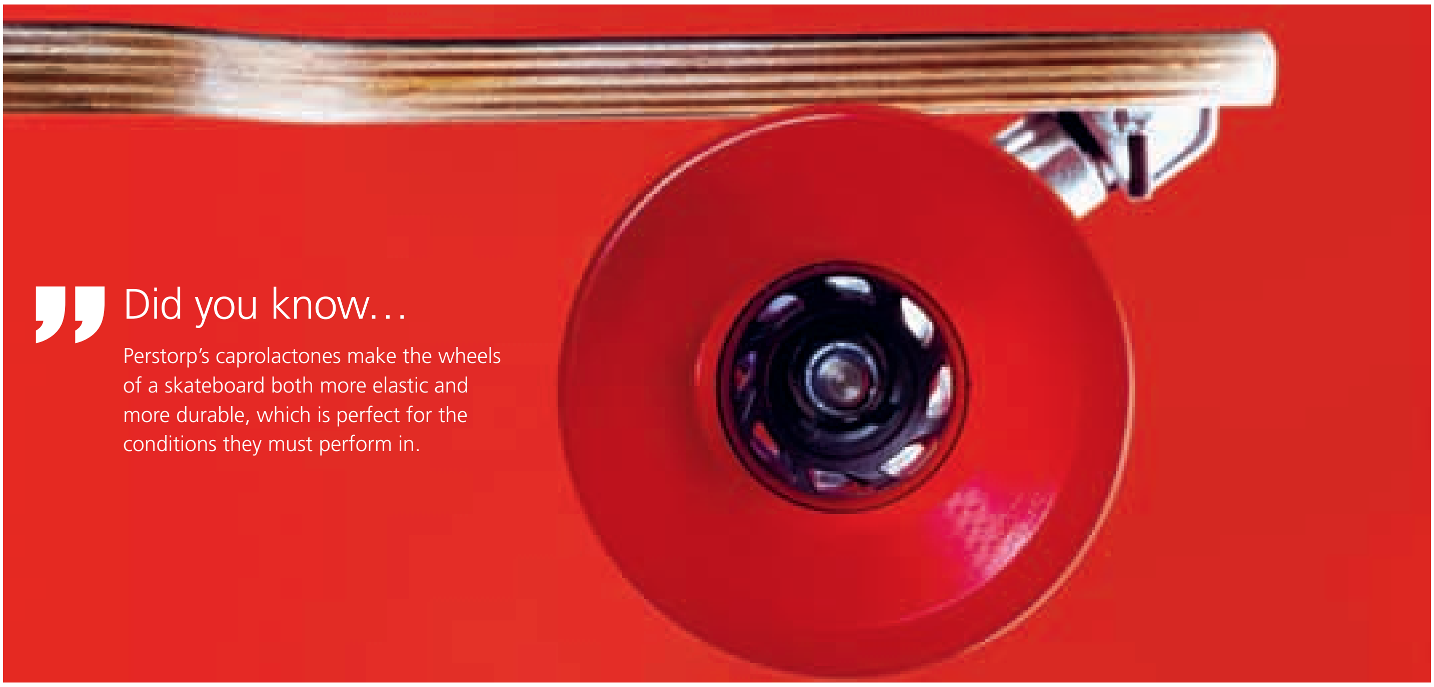
MARKET POSITIONS

World leader in caprolactones
Largest in Scandinavia in RME
Leading player in oxo products
World leader in 2-Ethylhexanoic acid

SHARE OF TOTAL GROUP SALES IN 2008

44%





Did you know…

Perstorp's caprolactones make the wheels of a skateboard both more elastic and more durable, which is perfect for the conditions they must perform in.

A record year. Budget targets met and exceeded, despite disruptions to production at the start of the year and faltering demand at the end. The newly acquired plant in Warrington, England, proved to be a star performer.

Products & markets

The Performance Products Business Group has responsibility for the following products groups: oxo products, bio products, performance additives and caprolactones. Customers are mainly active on European markets, except for caprolactones, for which Asia and North America are significant markets as well.

All of the Business Group's units reported good results during the year, which culminated in a monthly sales record in October. The reason was strong business conditions for the products on offer and also the fact that the new acquisition – the plant in Warrington, England, that produces caprolactones – exceeded its budget target.

Performance additives products were stable during the year. In Europe, demand for Perstorp's feed additives is driven by the EU's tightened demands for feed quality and animal management, for example, the prohibition against antibiotics in animal feed.

Perstorp BioProducts, which sells biofuel on the Swedish market, also had a good year thanks to the high quality of products and the fact that several local authorities and transport firms are choosing to cut their environmental impact by using renewable fuels.

Oxo products experienced a more volatile year. Demand was very good for two quarters, but began faltering in Q3. Plasticizers used for PVC were the first to note a downturn after the summer.

Key events during the year

The year started in a problematic way when the Stenungsund plant was disrupted by production problems in January.

In February, as previously mentioned, Perstorp acquired Solvay Group's caprolactones business in Warrington, UK, which has 65 employees and reported sales of EUR 80 m in 2007. The integration has proceeded well and during the year the company succeeded in optimizing the process in order to produce additional volumes. Caprolactones, which complement and strengthen the Group's portfolio in the polyurethane coatings segment, are used in applications such as liquid adhesives, shoes, medi-technical aids and car components.

Against the background of the economic downturn a decision has been made to cut back work on the planned investment in production of plasticizers at Stenungsund, the so-called Valex project. The launch of this project will be reviewed in late 2009 or early 2010.

During the year Perstorp BioProducts made a successful entrance into the market for 100% RME, the biodiesel made from rapeseed oil. The company also succeeded in raising the quality of the biodiesel so that it can be mixed with normal diesel during the winter. Overall this meant that the company has a market leading position in Scandinavia.

Continued development

The Business Group is active in many segments that have been hit hard by the economic downturn. It will therefore be a major challenge to deliver strong results in 2009.

Oxo products are expected to report low volumes over the coming year, but with stable profitability thanks to lower raw material prices and a greater share of exports to Asia. Many of the products are used in application areas affected by the recession, with the exception of 2-Ethylhexanol, used as fuel-additives in diesel engines.

Performance additives' products are mainly sold to the agricultural industry, which is less sensitive to business cycle fluctuations, and sales are therefore also expected to be relatively stable in 2009. Work is underway on continually improving existing products and developing new concepts.

Bio products are also expected to sell well. Today, most biodiesel is sold for mixing with normal diesel. Now that Sweden's neighbor, Denmark, from where most rapeseed oil is imported, has decided to mix diesel with 5% RME from January 1, 2010, new business opportunities are emerging. A project is currently taking place within Perstorp Bioproducts to develop bio-based raw materials for the chemicals industry.

In Warrington the company is investing in a new plant that will double capacity for production of caprolactones by 2010. Process optimization of the existing plant is also taking place. To secure buyers for the new tonnage, product development is taking place to find new application areas for these highly versatile products.

Oxo products

Main products: n-Butanol, 2-Ethylhexanol, DOP (Dioctyl phtalate), PA (Phthalic Anhydride), 2-Ethylhexanoic acid

Main application areas: Synthetic lubricants, diesel additives, waterborne coatings, plastic additives, plasticizers, chemicals industry, wood-processing industry, construction and automotive industry

Bio products

Main products: RME, glycerine

Main application areas: Biofuel, coatings, chemical products

Performance additives

Main products: ProPhorce®, ProSid®, ProMyr®, ProFare®, ProTain®, acetic acid, propionic acid

Main application areas: Acidifiers & anti-bacteria feed additives, mould preventers, adsorbent of mould poison & immunity stimulants, silage additives for green feed, tanning industry, conserving agents in bake-off bread.

Caprolactones

Main products: Capa® Monomer, Capa® Polyols, Capa® Thermoplastics

Main application areas: Coatings, polyurethane material, reinforcement for shoes, adhesives

Oxo products are produced at Perstorp's plant in Stenungsund, Sweden.

Oxo alcohols have a broad range of usage including waterborne coating systems, biologically degradable lubricants and fuel additives that improve the combustion efficiency of diesel engines.

Plasticizers are added to PVC to make products softer and easier to form. For example they are used in single-use medical products, plastic mats, electrical cables and a large number of other soft plastic products.

Perstorp's **acids** are used to make protective glass and synthetic lubricants, among other products.

Stenungsund, on the west coast of Sweden, is the location for Perstorp's plant that produces **bio products**. It is one of the most modern and efficient in Europe. The plant produces **RME** – biodiesel made from rapeseed oil – and glycerine. Development projects are also focusing on other renewable fuels and raw materials.

Most of the biodiesel is sold to be mixed in normal diesel sold on the Scandinavian market, but a growing portion is being sold as 100% renewable fuel to bus companies, local authorities and transport firms.

Glycerine is a raw material for medicines, cosmetics and food. It is also used in the chemicals industry.

At its plant in Waspik, the Netherlands, and at several other plants throughout the world, Perstorp manufactures **feed additives, silage additives and various acid mixes**. These products are produced primarily for the farming sector but also for the food industry and as a pH regulator in the tanning industry.

Additives are used instead of antibiotics to prevent the spread of salmonella, E-coli and other bacteria. They are used to prevent the spread of mould and maintain good quality of animal feed, for example by protecting fats and vitamins with antioxidants.

Caprolactones are produced at Perstorp's plant in Warrington, UK, and are used in a wide variety of applications.

A large proportion is used as the raw material for advanced coating systems for cars, aircraft and ships – such as polyurethane systems – but they are also used in foam plastics, adhesives and medi-technical aids for radiation treatment. Your shoes are less likely to rub against your toes thanks to a protective covering made of caprolactones. Thanks to its low melting point, Capa® Thermoplastic can be used in orthopedic aids – such as a molded plastic support shaped exactly to fit the user.

"In a space measuring 70 x 30 x 30 meters there are 20 km of pipes, 80 km of cables and seven reactors. This is the monomer plant in Warrington. The new one will house the same amount of equipment but in less space.

Andy Wallace, operator at Site Warrington, monitors the processes of the monomer plant. Here together with Gary Keenan.

Among the pipes & containers at Site Warrington

Alongside the two existing plants, a third is going up. The Caprolex project at Warrington will double capacity within two years. There seems to be no limit to what caprolactones can be used for. Here's a chance to get better acquainted with Site Warrington, a production unit within the Performance Products Business Group.

JOSEFIN BOUCHT

Nigel Lamping shows us around.

"Our raw materials are hydrogen peroxide, which Solvay produces next door to us, and cyclohexanone. We produce caprolactones as a monomer in our large plant. Some of it is sold as monomer, but we polymerize most of it – which increases its value."

In the control room at the monomer plant, operator **Andy Wallace** monitors the processes on the screens in front of him. The level of automation is high and the process continuous, so Andy is the only operator working on this shift in the plant. On the same shift there are two operators in the polymer plant, a lab analyst and a shift supervisor.

"It takes up to a year to train an operator," explains Nigel. Andy joined the company as a mechanic 23 years ago and has advanced since then.

Staff turnover is low. Nigel has been an employee for over 20 years himself. Today there are over 60 people working at the plant.

We are going to climb up into the net of pipes and containers that form the monomer plant. From the top floor, 25 meters up we have a view over the Manchester Ship Canal on the one side, on which freight ships sail past regularly. On the other side across the fields we can see the River Mersey, where cooling water from the plant is eventually discharged.

Nigel shows us containers that look like giant laboratory glass bowls. Apparently they are among the largest in the world.

"They are made of glass because the contents are corrosive," he explains.

With confident small steps Nigel runs down the steps as he talks. He talks about the reactors and the five wells that have been dug to draw water. About how important it is not to store explosives on the site. About how the processes work and what happens with the surplus chemicals. He ducks below the angular beams and displays not the slightest concern about heights. As some others do.

On our tour round the three plants we see various processes. We view distillation, mixing, digesting, grinding. I see liquids, stiff sludges and small hard pellets and I am fascinated about how all of this is the start of something as tangible as an inline skate wheel or as intangible as scratch resistance in paint.

We pass the large hole that will eventually become the new plant. The foundations are ready. By May the entire ground section will be complete. The equipment will be installed in August and then sometime in 2010, production will start up.

"As part of the Caprolex project extensive preparations are being made for the major capacity increase; the control system is being replaced, complementary equipment is being installed in the existing plant while the organization and working methods are being developed," explains Site Manager **Josefina Sallén Åkesson**.

In the lab I meet **Suzanne Howarth**. Her work assignments include producing customized samples for customers. Has she noticed any differences since Perstorp took over the business?

"Absolutely! In a smaller company it feels like what we do is more significant."

Suzanne is in full agreement with Perstorp's values. Focused innovation is a good description of her job. Taking responsibility and being a reliable partner are a familiar part of everyday routines.

Site Manager Josefina Sallén Åkesson agrees that staff are used to taking responsibility. She believes this will help them meet the challenges of 2009. The hard part will be switching focus from operating flat out in 2008 to being smart and cost-effective in 2009.

"Last year we worked incredibly hard to produce as much as we could. Now we have to think differently."

In addition to starting up the Caprolex project, staff succeeded with process optimization measures at the existing plants which lifted production from 440 tons to 470 tons a week.

Capacity is now being adapted to match market conditions. Capacity will increase, but now at a different rate. In 2009 the focus will be on cutting costs and finding efficient, more flexible working methods.

"It won't be easy, because our staff are already highly efficient," admits Josefina.

" Now we have to switch focus from operating flat out, to being smart and cost-effective.

JOSEFINA SALLÉN ÅKESSON, Site Manager

Coating Additives

The business was acquired by Perstorp in September 2008, an acquisition that was the major focus for the year. Integration became the key word. Earnings largely followed global trends – a very good first six months followed by a significant downturn in the final months of the year.

PRODUCTS

TDI
HDI
Chlor-Alkali

KEY EVENTS

Acquisition by Perstorp from Rhodia Organics & Lyondell Chimie TDI SCA on September 1, 2008

MARKET POSITIONS

TDI – second in Europe, fifth in the world

HDI – second in the world

SHARE OF TOTAL GROUP SALES IN 2008

9%

(applies for four months only – September-December 2008)

Did you know…

One of Perstorp's largest products – TDI – is used in mattresses and car seats. Considering how long you spend sleeping or driving, Perstorp has a large impact on your comfort.

For the Coating Additives Business Group, 2008 was mainly about being acquired by the Perstorp Group. A lot of time and energy was spent on integrating the business within Perstorp and building up a fully standalone and integrated organization ready to meet customer's expectations.

Products & markets

Business Group Coating Additives has responsibility for the isocyanates, on one hand TDI, on the other hand HDI, its derivatives and Chlor-Alkali upstream co-products. The business area was acquired by Perstorp from Rhodia Organics and Lyondell Chimie TDI SCA on September 1, 2008. One effect of the acquisition is that the marketing of TDI and HDI is now gathered within the same organization.

TDI – a major raw-material for polyurethane foam and also used in coatings and adhesives – experienced high demand during the first part of the year. An excellent first quarter was followed by a weaker second quarter and a reasonable third. Due to the global financial crisis and consequently very depressed demand in November and December, the Business Group saw a major downturn by the end of the year. Over the full year Coating Additives maintained its market shares and sustained good price levels.

HDI – a key ingredient used in polyurethane coatings and adhesives – experienced very good development in the first two quarters of 2008, especially in Europe, with much better results than in the same period of the preceding two years. The downturn was first noted in the third quarter and things got much worse in the final quarter. In the US, HDI had a generally slow year due to a crisis in the coating sector. The situation was much brighter in Asia, however, where Perstorp is a minor but fast growing player.

Chlor-Alkali, with co-production of chlorine and caustic soda, is primarily for captive use. Caustic soda, with regional leadership in France and south of Europe and that is used as key chemical intermediate in all types of industries, has experienced very good demand during three quarters. The fourth quarter of the year showed lower levels due to decreased isocyanate production.

Key events during the year

The most important assignments for the Business Group during the year was to be integrated into the Perstorp Group and to build a standalone organization, getting to know the Perstorp organization involving people from other parts of the Group and getting staff to feel enthusiast and committed for a new start.

For HDI Perstorp has managed to retain the market postion as the world number two. For TDI and its raffinates Perstorp is still one of the top 3 leaders in Europe, Middle-East and Africa.

Product developers have focused on reducing environmental impact for applications with solutions for solvent-less or solvent-free coatings. Easaqua™ for water-based coating systems is one example.

At the Pont-de-Claix plant the Allobroges project was completed with the implementation of a new diaphragm technology for the chlorine electrolysis plant, one of the best available technologies being mercury-free that produces better results than the former inherited diaphragm technology.

Continued development

The Business Group expects to see a year of uncertainty. There is no transparency in the downstream markets such as the automotive industry which makes it hard to predict how demand will develop.

Perstorp expects to see an improvement for HDI during the year. For example, the car repair market is expected to develop well as the new car market weakens. It is expected that the raw material prices will be stable or declining.

Demand for TDI is expected to be lower with differences between regions and applications due to the uncertainties in the automotive, furniture and mattress sectors.

The full integration of the Coating Additives will allow the Business Group to take profit of synergies in three key areas – sales, business development and Research & Development.

Safety for humans and the environment has always been a priority. After a year when the acquisition by Perstorp was the main issue, work aimed at increasing awareness of behavior-based safety will be intensified among staff and managers at every level.

During the year a lot of energy will be channelled into revising purchasing procedures to find synergies within the Group – in order to keep costs down.

Isocyanates

Main products: TDI, HDI and upstream co-products in Chlor-Alkali

Key application areas: Polyurethane foam, polyurethane coating systems for industrial applications

"In this currently uncertain business environment, we are prioritizing flexibility and a proactive approach towards customers – we must be able to quickly meet customer requirements concerning products, as well as all other aspects of delivery.

CHRISTOPHE GAS,
Executive Vice President, Coating Additives

The Coating Additives Business Group has two production plants. Isocyanates TDI, HDI and chlor-alkali are produced at Pont-de-Claix, France. Aliphatic isocyanates are processed for the North and South American markets at Freeport, Texas, USA.

TDI is an important ingredient in the production of polyurethane foam. Many customers are found in the bedding furniture and automotive industries, it is also used as an insulation material in the building industry and to protect products during transport. A small part of the TDI produced is used in polyurethane paints and adhesives.

HDI is a key raw-material for polyurethane coatings and adhesives. HDI is chosen for coatings where there are high demands for strong resistance, light weight and stability when used outdoors. Using Perstorp's products, coating systems can have low levels of solvents, or no solvent at all, without compromising performance.

Chlor-Alkali has two main co-products – Chlorine primarily for captive use to produce isocyanates and to serve external customers in the chemical industry, and Caustic Soda with regional leadership in France and south of Europe as a key chemical intermediate in all types of industries.

At the Pont-de-Claix site, which is surrounded by the Alps, HDI, TDI and chlor-alkali are produced.

Site Pont-de-Claix – with the Alps as a backdrop

It starts in the car park. We have to park the car with the front outwards, so we can drive away quickly if anything happens. Safety has highest priority and no detail is considered too small. Join us at the Coating Additives production site at Pont-de-Claix in France.

JOSEFIN BOUCHT

The site has a beautiful location in a valley surrounded by snow-covered Alps. The valley is home to a chemicals plant the size of 200 football pitches, and to around 10,000 people. A little further away lies Grenoble, with its 400,000 inhabitants.

At the plant, which was built in 1916 in the midst of the First World War, there are 550 employees, making it the largest production site within the Perstorp Group. They produce TDI, HDI and chlor-alkali, the latter mainly used in internal production.

"Both staff and managers are enthusiastic about joining Perstorp. Now at last we have plans for development," says Site Manager **Pascal Lecroq**, when I ask how it feels to have a new owner. "Right now we are adjusting production to meet market demands, but as soon as things turn around we have many ideas we want to realize."

Wearing protective clothing and a helmet, with a gas mask hanging around our waists and mobile phones switched off to avoid the tiny explosion risk they represent, we start our guided tour. There is absolutely no compromising on safety here. We pass massive water containers, the site's own fire station and rows and rows of safety showers before we stop at a giant pile of salt.

"The process really begins at the Hauterives salt mines. Salt water is pumped 82 km from there along pipes," explains our guide, **Adèle Wudtavee**. "From the purified salt we make chlorine, which is an important ingredient in the production of isocyanates."

We move on to one of the large round, bubble-like buildings – 40 m high and 22 m in diameter. Adèle explains that isocyanates are made inside in a process that places great demands on safety. The factory floor is built on a base constructed to withstand earthquakes much larger than any previously measured. There are twin walls of plating. If anything happens nothing can leak.

"Safety is our highest priority," says Adèle Wudtavee.

But safety is just as dependent on human behavior as on the best equipment, and every employee at the plant understands this. Following procedures 99% of the time is not sufficient. It has to be 100% at all times.

Earlier in the day Pascal Lecroq talked about the 20 million euros that were invested in 2008 in environmental and safety measures for the plant's processes.

"All the time we try to reduce emissions and improve the operating reliability of the processes.

"When it comes to safety, I have responsibility for everyone who works here," says Pascal. "One of our most important projects in 2009 will be to continue working on behavior-based safety, and to develop even better routines for our contractors, to avoid exposing them to risks. We will also initiate projects to further increase safety at our units for production of caustic soda and nitric acid. In addition we will carry out projects to improve the competence of staff working with high voltages.

This is continuous improvements, and not just within the plant – the processes produce chemicals that continually contribute to improved environmental characteristics in many other products. The world is a slightly better place when paints – even the most durable outdoor coatings – can be made without the need for solvents.

> Both staff and managers are very enthusiastic about joining the Perstorp Group.
>
> PASCAL LECROQ, Site Manager

Perstorp's unique formula for success

Focused innovation, reliability and responsibility. However you mix those three together, the result is always a winning formula. Perstorp's winning formula.

It's easy to understand, easy to take in and – for Perstorp – easy to find examples. When Perstorp follows its core values, the stories of the employees are a vital ingredient. If you can find relevant examples in your everyday life – and pass them on to others – then you have understood what core values mean in practice.

Working proactively with core values means taking advantage of, and reinforcing, the qualities that customers appreciate and consider to be Perstorp's strengths. Core values provide important guidelines for employees within the company. They permeate all communication and you can see them in action in the decisions that we take and the way we treat our customers, our colleagues and our community.

In recent years Perstorp has employed many new people, so work on core values is vital. Using a welcome package, mobile exhibitions and web-based training, a new recruit gets a first feeling about what a winning formula stands for, and what Perstorp stands for. In the following examples we hope that you, too, will understand about our values.

An innovative approach

Focused innovation is about knowing where the wind is blowing and always being one step ahead. But it also means keeping your feet on solid ground. Alongside the development of new products and processes, Perstorp gives large consideration to creating value from its by-products. For example, there is the glycerine used in fuel additives, potassium formate used to increase density when drilling for oil, and Di-Penta, which can replace eco-hazardous substances in a wealth of applications. All of these products have a very high value today.

Sometimes focused innovation means solving small everyday problems and perhaps finding unusual solutions. Like when Perstorp needed to simplify handling of product samples, often thick liquids that were difficult to move from one container to another. A cutback plastic injector solved that problem smartly and simply.

A reliable partner

If you want to create long-term relations with customers, reliability is a key ingredient. Customers must be able to trust that products are on site when they need them in their production. In order to continually improve delivery reliability, a project is being carried out called Shipped as Promised – in order to measure, analyze and eliminate non-conformance. And the results so far have been very positive.

A new leadtime tool is also helping staff to keep their promises to each other and to customers.

But small details are also important – checklists used when taking orders secure logistics down to the tiniest parameter. Nothing gets forgotten.

Responsibility for people & for the environment

The fact that nearly all of Perstorp's R&D budget is used to develop solutions that have better environmental characteristics than existing ones, says a great deal about the responsibility that Perstorp takes. But it's also a question of doing more than is legally required – having a minimum level that is a little higher than what the law demands. The new site in China, for example, follows exactly the same high standards as plants in Sweden.

Naturally, it also means trying a bit harder when necessary. Like the time a customer in Belgium discovered late one Friday evening that they needed more catalysts to keep production flowing. That's when our staff in Sweden showed they could be flexible. They managed to complete a delivery by the following Saturday morning, a mere 16 hours later.

We care about our customers, colleagues and our company.

We keep our promises.

We are creative problem solvers.

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

Focused innovation

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

Reliability

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

Responsibility

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

Perstorp operates on the global chemicals market with suppliers who meet the highest environmental and safety requirements.

Rickard Karlsson, Core Specialist Technology at Site Stenungsund in Sweden.

Risk management

Due to the turbulence on the financial markets, both for raw material prices and underlying demand, risk management has become more important than ever. Ways of managing risk have been decisive for the economic development of the business. Hedging or not – of exchange rates, interest rates and raw material prices – and the choice of loan currency, has a large impact on the income statement and balance sheet, depending on the strategy chosen.

Access to raw materials
Most, 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 the chlorine and lye produced at Perstorp's plant in Pont-de-Claix in France. Many of the Group's products are both sold externally and further processed internally.

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

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

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

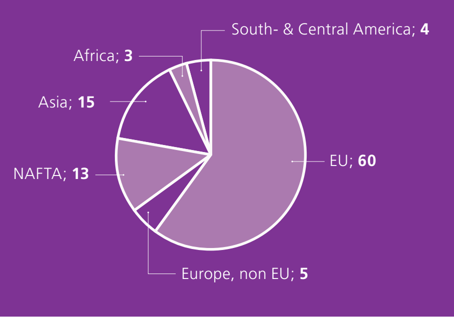
Opportunities for hedging raw material prices are assessed continually. To make this a possible alternative, Group policy requires a very strong correlation between the raw material price and the Group's own selling price. At the end of the year no raw material prices were hedged. In the historic perspective, the Group has – not least in 2008 – been very successful in passing on increases in raw material prices along the customer chain.

On the electricity market there is the possibility to secure prices for longer periods. In accordance with Group policy, electricity usage in Sweden is hedged over the coming six months at a range of 70-100% of expected usage and thereafter – for a maximum of three years – on a falling scale. From the seventh quarter the range is 0-40%. At the end of 2008 the market assessment of future electricity contracts had a negative effect on shareholders' equity of SEK -13 m after tax, due to the fact that electricity prices had been falling.

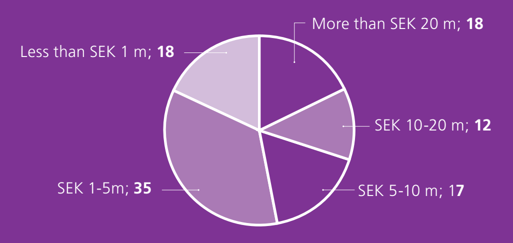
> Several raw materials that are essential for production are produced internally, including some of the energy requirement, which strongly contributes to the Group's competitiveness and opportunities to develop new products.

Customer sensitivity
The Perstorp Group has a wide range of products in its portfolio and sells them in a wide area of applications. Customer concentration is therefore not high and there is no significant dependence on a small number of customers.

Net sales per geographical market, %



Accounts receivable divided by balance per customer, %



As of the end of December 2008 the Group had accounts receivable from over 2,000 customers. The segment with outstanding balances per customer exceeding SEK 20 m is restricted to 8 individual entities. The segment of individual receivables amounting to less than SEK 1 m represents around 82% of all customers included in the list.

With regard to customer sensitivity from a geographic perspective, there is a majority of customers on the market within the EU and the rest of Europe. Since 65% of the Group's net sales are also attributable to this area, there is also balance between the number of customers and the distribution of sales.

Production disruptions

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

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

Market communication

> In uncertain times, trust among suppliers, customers, financial partners and owners is more important than ever before.

Perstorp has a high ambition to be a reliable partner and to maintain long-term trust on the market. This involves being open with partners and, among other things, publishing essential information and financial reports. Perstorp provides more information than is legally required for a company that is not listed on the stock market.

Currency effects

Most of the Group's production operations are conducted in France, Sweden, the UK, Germany, the US and Singapore. Of the Group's net sales in 2008 (Coating Additives included for final four months), customers in the EU accounted for around 60%, with Sweden as the largest single market, closely followed by Germany and the UK. France will become an important market from 2009 following the acquisition. Sweden became a more significant market for the Group in 2009 as production of RME in Stenungsund reached full capacity – the plant was completed in the summer of 2007. The main deliveries are made to Preem in Lysekil, Sweden.

Customers within NAFTA account for 13% of sales, and the proportion of customers in Asia is 15%.

Substantial deliveries from the production units in Sweden, France and the UK are made to customers in other European countries, the US and Asia. Most sales are invoiced in USD and EUR. In terms of procurements, most payments are denominated in EUR. As a result, USD is the Group's most highly exposed currency.

Accordingly, Group sales and earnings are impacted by fluctuations in the strength of SEK in relation to other currencies. 2008 was a highly turbulent year for exchange rates. It started with the dollar weakening from an already weak level, to around SEK 6 in the middle of the year. It then recovered and when the dollar reached SEK 7 the Board decided on a new currency hedging strategy. As a result, around half of the Swedish units' net inflows of USD and EUR are hedged during 2009.

In addition to these partial hedges, currency fluctuations are managed through loans raised in the Group's most highly exposed currencies, EUR and USD, so that debt also changes when the strength of SEK varies. Loans in foreign currencies also reduce earnings exposure, as interest payments are also made in EUR and USD.

The relation between financial liabilities and earnings before depreciation is one of the key financial indicators in terms of banking and affects interest levels. It is therefore extra important that there is good balance in currency exposure. Exposure for the main currencies is presented in table B. The Group has a large part of its loans in EUR (table E), which became specially notable around the end of the year when EUR strengthened significantly, which resulted in an increase in the net finacial debt at the same time as inwards payment flows decreased due to lower orders and hedged flows.

Large parts of the Group's tangible fixed assets and working capital are concentrated in Sweden, while large parts of surplus value in the form on intangible assets, which have arisen due to acquisition value calculations, are attributable to EUR and USD, and to some extent to GBP. The distribution of operating capital is therefore almost half in EUR, a quarter in SEK and the rest in USD and GBP (table C).

As mentioned above, large amounts of financial liabilities are in USD and EUR. As a result the exposed net assets in different currencies are reduced. Exposure of shareholders' equity is presented in table D.

Financing & interest rates

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

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

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

The **financing risk** is the risk that difficulties may arise in the refinancing of maturing loans, or that such refinancing will be costly. Net debt is specified in Table F. Most of the Group's financing consists of senior credits guaranteed by Svenska Handelsbanken, Nordea, DnB NOR and HSH Norbank, as well as second lien and mezzanine facilities syndicated to a number of financiers.

The loan agreements extend over 7 or 8 years. There is also a Parent Company loan from Luxembourg-based Financière Forêt S.À.R.L., which extends over 10 years and for which the 10%-interest is being capitalized.

The loan agreements include financial covenants comprising key ratios with respect to cash flow in relation to interest payments and debt repayment, net debt in relation to EBITDA and EBITDA in relation to interest payments. During the year the Group raised new capital both from its external financers and from the Parent Company. During 2008, the Group met the terms of its financial covenants.

Interest risk is the risk for negative effects on earnings caused by increased market interest rates.

> Interest-rate hedging was applied for most (60%) of bank loans. This meant that the fixed interest term was an average of 332 days at the end of 2008.

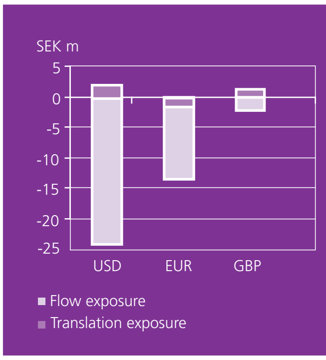
In accordance with the Group's financial policy and bank agreements, an interest rate hedge is used for most of the bank loans. Interest-rate hedging had a positive impact on Group earnings during 2008, but generated a negative equity effect amounting to SEK 163 m after tax, as a result of the market valuation of the interest-rate contract for the remaining period. This was because market interest rates fell at the end of the year.

Fixed interest duration, interest-rate levels and interest sensitivity at year-end are shown in Table E.

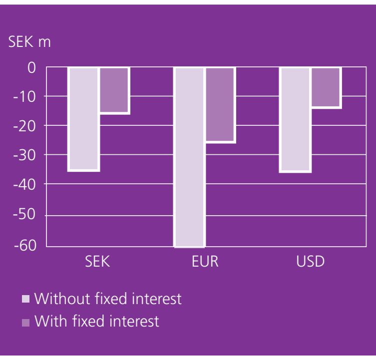
Management of **liquidity risk** is about ensuring that the Group has sufficient liquid funds and current investments as well as enough financing through agreed credit facilities. Perstorp´s senior executives follow ongoing forecasts of Group liquidity very closely, including unutilized loan commitments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

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

Impact on EBITDA of 1% stronger SEK



Sensitivity to 1% increase in interest rates



A. Sales per market, SEK m

	2008	%
Sweden	1,536	13
United Kingdom	1,315	11
Germany	1,207	10
Belgium	539	4
Netherlands	569	5
France	647	5
Other EU	1,388	11
Europe, non EU	629	5
USA	1,414	12
Other NAFTA	208	2
China	431	4
India	311	3
Other Asia	1,141	9
Africa	353	3
South- & Central America	481	4
Oceania incl. Australia	58	0
Total	**12,227**	**100**

B. Flows & translation exposure per foreign currency, forecast for 2009

	Net sales	Operating costs	EBITDA	Financial payments	Net	Translated to SEK m [1]
USD	660	-380	280	-25	255	1,980
EUR	1,030	-890	140	-60	80	875
GBP	40	-30	10	-	10	120
JPY	1,800	-220	1,580	-	1,580	90
Total						**3,065**

[1] At year-end exchange rates.

C. Operating capital per currency at end of 2008, SEK m

	Working capital	Tangible fixed assets	Intangible fixed assets	Total operating capital
SEK	742	3,325	373	4,440
EUR	725	2,498	4,909	8,132
USD	300	892	2,219	3,411
GBP	0	433	1,013	1,446
INR	-78	95	0	17
CNY	11	132	30	173
Other currencies	5	1	1	7
Total	**1,705**	**7,376**	**8,545**	**17,626**

D. Net assets per currency, before & after loans in foreign currency, end of 2008, SEK m

	Net assets before loans in foreign currency	Loans in foreign currency, in Swedish companies	Loans in other currency than local currency, in foreign businesses	Exposed net assets
EUR	3,327	-3,825	971	473
USD	669	-	-1,157	-488
GBP	371	-	1,077	1,448
SEK	-4,577	3,825	-891	-1,643
Other currencies	131	-	-	131
Total	**-79**	**0**	**0**	**-79**

E. Currency, interest rates and duration for the financial debt

	Loan [1] per currency, SEK m	Effective interest rate at year-end, %	Duration, days, before interest hedging	Actual interest period, days
SEK	3,744	5.1	45	332
EUR	6,152	10.8	34	327
USD	3,619	5.3	74	344
Other currencies	89	5.5	118	127
Total December 31, 2008	**13,604**	**7.7**	**48**	**332**

[1] Excluding Parent Company loan and pension liability.

F. Specification of net debt, SEK m

	December 31, 2008
Senior credits	9,264
Second lien	704
Mezzanine	3,122
Revolver	155
Other financial liabilities excl. owner loan	359
Financial debt excl. Parent Company loan & pension liabilities	**13,604**
Interest-bearing pension liability, net	412
Loan from Parent Company	3,038
Total interest-bearing liabilities	**17,054**
Cash & cash equivalents	-286
Other interest-bearing receivables, long & short term	-277
Interest-bearing assets	**-563**
Net debt incl. pensions	**16,491**

Lisette Witmarker, Controller Assistant and
Sven Carlsson, Financial Manager at Site Perstorp.

Corporate Governance

General Meeting

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

The Annual General Meeting was held on 27 May 2008, at which the annual report for 2007 was adopted together with the proposal for distribution of profits. All affected individual were granted freedom from liability. At the meeting, Lennart Holm, Bo Dankis, Fabrice Fouletier, Bertrand Meunier and Colm O´Sullivan were elected ordinary members of the Board up to the next AGM. The four first-named were re-elected, while Colm O'Sullivan (previously a deputy) replaced Dominique Mégret. Gaëlle d'Engremont (re-election) and Julio Varela were elected as deputies.

There were no Extra General Meetings in 2008. However, after the end of the financial year an extra General Meeting was held and Ragnar Hellenius was voted onto the Board, replacing Colm O'Sullivan who is moving on to another assignment within PAI partners.

Board of Directors & its work

According to the Articles of Association, the Board of Directors shall consist of one to five members, with not more than five deputies. Members of the Board are nominated by the company's principal owner, with the exception of members who represent the employees. Excluding the employee representatives, the Board comprises the aforementioned persons. A full presentation of Board members can be found on pages 74-75.

The responsibilities of the Board are regulated by the Swedish Companies Act, which states that the Board has overall responsibility for the organization and administration of current matters. This work includes continual assessment and follow-up of the financial situation of the Group and the Parent Company. Work conducted by the Board of Directors is regulated by the Board's working procedures, which are examined and approved by the Board once a year. These procedures outline the assignments of the Board and which decisions must be taken at Board level. The working procedures also regulate the division of responsibility between the Board, its committees and the President. The division of responsibilities among Board members does not extend beyond certain special assignments for the chairman.

During 2008, five scheduled Board meetings were held, as well as one statutory meeting and three extra meetings. The number of meetings exceeded the number prescribed in the articles of association. On average, attendance at Board meetings for ordinary Board members has been 80%. Claes Gard, the Group's CFO, has attended in his position as secretary. Minutes are kept at all meetings. Other employees have also attended meetings, either to make presentations or give specialist information prior to key decisions.

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

The following points are addressed at each Board meeting: Status report from the President; Financial position and outlook; Investment decision for projects worth more than SEK 15 m; Status of acquisition/divestment projects; Financial structure issues; Structural and organizational issues; Other important matters. In addition to these fixed points, a number of main subjects are addressed during the year, for example: preparation and establishment of targets; key policies and strategic guidelines; follow-up of internal controls, assessment of significant procedures; establishment of budget; and adoption of financial statement and annual report. The three extra Board meetings in 2008 were held to address strategic matters concerning acquisitions and divestments as well as organizational changes.

Another element of the Board's work is to monitor the work of the President and assess whether he fulfils his legal and contracted duties. The working procedures of the Board also include a special assessment program that must be followed concerning the workings of the Board and its decision-making processes. The purpose is to secure good quality and thus promote good corporate governance.

Working Committee

The Working Committee prepares issues for decisions at Board meetings. The Working Committee has appointed two subcommittees, the Audit Committee and the Remuneration Committee. The composition of the Working Committee is prescribed in the Board's working procedures. The committee consisted of the following members: Bo Dankis, Bertrand Meunier, Fabrice Fouletier and Lennart Holm. During 2008, the working committee met six times. Minutes are held of all meetings.

Audit Committee

The Audit Committee's focus is on securing the quality of the company's and Group's financial reporting and the committee is therefore also close to the development of control instruments for internal control. An important activity is to follow up and assess the external audit. In 2008 the audit committee consisted of the following members: Fabrice Fouletier and Colm O'Sullivan, Board deputy Julio Varela and Group CFO Claes Gard. During 2008, the committee held one ordinary meeting at which the auditors participated. Minutes were taken at the meeting.

Remuneration Committee

The task of this committee is to establish principles for remuneration and other employment terms for the President and senior executives. The committee also prepares the terms for global incentive schemes and makes an assessment of the schemes. The committee has no decision-making powers, and it is the Board of Directors that takes the ultimate decisions in these matters. In 2008 the remuneration committee consisted of three members: Board members Bo Dankis, Lennart Holm and Bertrand Meunier. The committee held two ordinary meetings during the year. The meetings are minuted.

President & Group Management

The President of Perstorp Holding AB, and of the Perstorp Group, is Bo Dankis. His duties are to manage the ongoing administration of the company in line with the Board's guidelines and instructions. The President's responsibilities are regulated by the Board's working procedures, which are reviewed and approved by the Board of Directors once annually. It is the President's responsibility to continuously provide the Board of Directors with information concerning the company's business activities as well as relevant documentation for the Board's decisions.

The President leads and has responsibility for the work conducted by Group Management. This team focus on Group-wide activities. During the year the team comprised Bo Dankis, Lennart Hagelqvist, Mats Persson, Bengt Sallmén, Claes Gard, David Wolf, Martin White, Susanne Jacobsson, Eric Appelman (from 4 February 2008), Jan Petersson (from 12 January 2008) and Christophe Gas (from 1 September 2008). These individuals represent the various Business Groups and functions within the Group. For more details about Group Management, see pages 16-17. The team usually meets once a month and minutes are kept of all meetings.

In addition to having the support of the Group Management team, the President also receives monthly reports directly from each Business Group manager. The various departments are presented on pages 20-31.

External auditors

Auditing firm PricewaterhouseCoopers has been appointed auditors of the company with Michael Bengtsson and Ulf Pernvi being the lead auditors. The Board's and Group Management's aim is to have a close relationship with the auditors, to the extent that they shall be kept well informed about relevant issues concerning the accounts, reporting procedures and management of the company's/Group's assets. There is therefore a continuous dialogue with the auditors and they participate in at least one Board meeting per year. The auditors receive the minutes of Board meetings, documents relating to Board decisions, and the monthly financial reports for the Group.

During the year PricewaterhouseCoopers performed assignments relating to the audit but in addition to regular auditing work. On all of those occasions the Group has emphasized that the additional services shall not compromise the independence of the audit, which has also been carefully examined by PricewaterhouseCoopers.

Internal control

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

The Group's organization is adapted to meet the requirements for good internal control and working methods are characterized by organizational transparency with a clear division of responsibility. The re-organization carried out in 2008 further strengthens possibilities in this regard and in addition there was pro-active work to achieve good integration of the businesses acquired by Perstorp during the year. It is important that the Group's global values and rules are also reflected in the new units. This includes compliance with the Group's financial reporting manual, which together with the business systems are important control instruments that enable reliable consolidation and financial reporting. Group reports are produced once a month following well-established procedures, and the outcome is always presented in a report which includes extensive analysis. Work on the year-end accounts involves a number of people at Group, department and company level, and the summarized results are reported back continually to management functions and the Board.

During 2008 a department for internal controls continued to implement a project that involved an extensive internal assessment. As with the previous year, the operational subsidiaries were subject to the assessment along with a number of holding companies. The purpose is to identify key control points for the various departments, analyze procedures, follow development in relation to previous activity and thus ensure that internal controls are at a good level and will remain so. The assessment has been complemented with a partly expanded verification operation by the company's auditors for certain areas. In relation to this, special follow-up has been carried out from the central level within the Group. Work aimed at securing good internal control is a constantly ongoing process and during the autumn of 2008 the staff charged with this activity received new resources. In future the self-assessment project will continue together with a proactive and verification program for securing the Group's capability in this area.

Report of the Board of Directors

Group & its operations

Perstorp Holding AB and its international sub-groups operate in the specialty chemicals industry with leading positions in selected niches. At the end of 2008 the Group had around 2,700 employee and production companies in twelve countries spread across Europe, North and South America and Asia. The market for the Group's products is global, with a focus on Europe.

Ownership

Perstorp Holding AB, controlled by the private equity firm, PAI partners, acquired Sydsvenska Kemi AB (publ.) from Industri Kapital on December 22, 2005. Perstorp Holding AB is the Parent Company of five sub-groups and is 100% owner of the following holding companies: Perstorp AB, Perstorp Holding GmbH, Perstorp Holding B.V., Perstorp Holding Singapore Pte Ltd and Perstorp Holding France SAS. The latter named company was acquired during the year, in connection with the acquisition of the business in France.

The past year

The global economy in the first six months of 2008 was characterized by good growth, which for Perstorp resulted in good demand and rising prices for most products. Price increases were also part of Perstorp's options for defending margins for most products despite rising prices for raw materials and energy. During the summer there was a weakening in demand in the US, among other regions, and in October a major global slowdown was noted in several areas. The economic situation resulted in dramatic reductions in prices for raw materials and energy, and significant inventory reductions in different stages of the value chain, which contributed to a rapid weakening of demand, with depressed prices and margins across nearly all of the portfolio. To meet these new conditions, production capacity was adapted at the end of the year and an action plan was initiated, which meant among other matters that several plants closed temporarily or ran at reduced capacity. In addition, planned investments have been delayed and the number of employees was reduced.

Earnings & financial position

Even if the final months of the year did not progress as planned, the Group's net sales in 2008 still rose by 42% to reach SEK 12,227 m (8,583). Of this sales increase, net acquired businesses accounted for 28%. Organic sales growth was thus 14%, of which around 10% was price increases and 2% volume growth.

Operating earnings before depreciation and amortization increased to SEK 1,670 m (1,365), mainly due to the Group's expansion. Items affecting comparison amounted to SEK -53 m (-41), of which SEK 116 m was attributable to capital gains from the divestment of the composites business in Q1 and SEK -122 m was attributable to restructuring costs at the end of the year. Adjusted for non-recurring income and expenses the operating profit was SEK 1,723 m (1,406). This includes special items such as inventory write downs and inefficiency in production in the final months of the year. These costs amount to around SEK 100 m.

The net loss after depreciation, net financial items and taxes was SEK 627 m (loss 128).

The balance sheet total at the end of December 2008 was SEK 21,911 m (14,873). It increased considerably during the year as a result of the acquisition of new businesses. The main change in the balance sheet is attributable to the Group's fixed assets and financial liabilities. Net debt increased as a relatively large portion of the Group's borrowings are in EUR, which strengthened against SEK in an unfavorable way in terms of debt. Translated in to SEK, the currency effect on net debt was around SEK 1.5 billion. On the closing date net borrowings amounted to SEK 16,491 m (10,532). Of the change during the year, SEK 676 m is attributable to increased shareholder loans and the rest to external financing.

Working capital amounted to SEK 1,705 m (986) at the end of the year. The increase was due to company acquisitions and the weakness of SEK. Working capital minus acquisitions and currency effects fell during the year. Shareholders' equity progressed favorably, despite the net loss. This was mainly due to a shareholders' contribution amounting to SEK 787 m and positive currency effects. The Group fulfilled its financial covenants during the year, see notes 3 and 21.

Cash flow

Cash flow from operations during 2008 was SEK 604 m (550). Working capital expanded by SEK 281 m (133), with more than 100% due to acquired businesses deliberately having low working capital at the acquisition date, mainly in terms of inventories, which have been built up thereafter.

Cash flow from investing activities was SEK -4.839 (-1.196). The acquisitions of Lonza Singapore (PIA), Caprolactones in the UK, and Coating Additives in France, are included in this amount at SEK 4,390 m. The divestment of the composites business meant a positive flow of SEK 170 m. Investment in fixed assets amounted to SEK 590 m (531), of which the largest individual project was the pre-project for a plant producing valeraldehyde and various derivatives.

Cash flow from financing activities amounted to SEK 4,031 m (669). As described above this was partly comprised of new credits in connection with acquisitions, partly to shareholder contributions and partly increased loans from the Parent Company.

Company acquisitions/divestments

At the start of 2008 production of basic polyol TMP started at the site in Shandong province, China, which Perstorp has owned since 2007 via a joint venture. At the start of the year Perstorp completed the acquisition of an additional production site in the same province, which consolidates the Group's leading position in polyols. This was achieved by the joint venture in China acquiring a business for production of basic polyol Neo (estimated annual sales: SEK 300 m). In conjunction with the acquisition, Perstorp increased its participating interest in the joint venture company to from 51% to 58.5%

In addition to the positioning in China, Perstorp has begun a major commitment in the growing market for caprolactones, where the Group sees considerable opportunities for growth and new applications. This has been implemented through the acquisition on 1 February 2008 of the caprolactones business in Warrington, UK, of Solvay, the chemicals and pharmaceuticals group (sales in 2007: around EUR 80 m). The business is a market leader in its field and focuses on global markets with high growth and strong profitability. During the year demand strengthened and capacity shortages meant that earnings progressed positively.

As a further part of the Group's expansion, a major specialty chemicals business was acquired in September from Rhodia Organics and Lyondell Chimie TDI SCA. The activity is a world-leading producer and supplier of specialty chemicals products TDI, HDI and HDI derivatives, with production plants in Pont-de-Claix, France, and Freeport, Texas, USA. At the time of acquisition annual sales were around EUR 500 m. The acquisition complements Perstorp's product range and gives the Group a very strong product portfolio, especially in the coatings industry. The acquisition also provides synergies in both development and production as well as sales, through a shared customer base. At the end of the year the Business Groups' volumes and margins were however affected by the impact of the global downturn.

In line with the strategy of focusing and extending core activities in specialty chemicals Perstorp has sold its composites business, YLA Inc. and its subsidiary CCS Composites LLC. These businesses had annual sales of around USD 24 m.

Investments

Due to strong demand for caprolactones and its derivatives, Perstorp has decided, following the acquisition of Solvay Group's caprolactones business, to utilize its unique technical competence and double production capacity and thereby strengthen the Group's leading position. The aim is also to extend co-operation with key customers and develop new application areas. Increased capacity is expected to be available in 2010. Some expansion has already been completed during the year in the form of improvements to existing equipment.

As a result of the economic downturn a decision has been made to cut back work on the investment project for new capacity at the Stenungsund production unit for valeric aldehyde and its derivatives. The project is expected to continue in late 2009 or early 2010.

New organization

During the year the Group reorganized from being a functional organization into an organization based on three Business Groups: Specialty Intermediates, Performance Products and Coating Additives. The change is a way of managing the growth of the Group and also provide an efficient structure for integrating acquired units and future acquisitions. The changes also involved the formation of three Group staffs: Sales & Marketing, Supply & IT, and Technology.

Employees

The number of employee at the end of the year was 2,716 (1,871). The increase was due to company acquisitions in France, the UK and China.

Savings program

As a reaction to weaker demand, the Group introduced a major savings program globally at the end of the year. This includes delays to planned investments, temporary reductions in production at several plants, and the reduction in the number of employees, as well as other cost-reducing measures. Consequently, 89 employees in Sweden and 28 employees abroad were made redundant. The Group's R&D Center in Finland, was shut down and R&D activities were concentrated at Perstorp.

Environment

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

Perstorp works proactively to develop and improve its products and processes. The Group has global targets for safety, health and the environment. Environmental targets focus on use of energy and water. Read more about these issues in the separate Sustainability report.

Important events following fiscal year-end

After the end of the 2008 fiscal year Perstorp has appointed a new CFO, Johan Malmqvist, to replace Claes Gard, who leaves the Group at his own request. Johan Malmqvist joins the Group from the post of CFO at Duni AB, a company listed on the OMX Nordic Exchange Stockholm. He takes up the post of CFO in May, 2009.

Michael Gedin has been appointed Executive Vice President Human Resources in May, 2009. Michael Gedin has worked for ABB, the engineering group, since 1999. His most recent post was that of Vice President Human Resources and Operations excellence for the ABB Automation Products division. He replaces Martin Lundin who was acting Executive Vice President Human Resources. Martin Lundin is appointed Deputy CEO.

Perstorp has initiated a project to improve efficiency and cut costs for Group purchases. The project is global and covers all areas of Perstorp's organization.

Outlook

After a weak ending to 2008, Perstorp expects that the start of 2009 will also be characterized by weak demand. As a result, fewer acquisitions are likely in 2009 compared with 2008 and instead the focus will be on governance and continuous improvements within the business.

Demand for caprolactones was strong in 2008 while there was also a shortage on the market. This led to positive earnings trends for these products.

Financial accounts

Key figures, Group

SEK m unless otherwise stated	2006	2007	2008
Net sales	7,273	8,583	12,227
Operating earnings before depreciation (EBITDA)	1,091	1,365	1,670
EBITDA excluding non-recurring items	1,097	1,406	1,723
Net earnings (EBIT)	566	803	653
Net earnings	-153	-128	-627
Acquisitions	59	811	4.373
Other investments	476	535	590
Working capital, average	853	981	1.469
Turnover rate, working capital, times	8.5	8.8	8.3
Cash flow from operating activities	591	550	604
Cash flow as % of net sales	8.1	6.4	4.9
Capital employed, average	10,018	9,999	13,568
Return on capital employed, %	5.7	8.1	4.9
Net debt, excl. Parent Company loan, end of period [1)]	7,434	8,170	13,453
Debt/equity ratio, %, excl. Parent Company loan [1)]	3.9	3.7	4.5
Equity ratio, %, incl. Parent Company loan [1)]	14.2	14.7	13.7
Return on equity, %, incl. Parent Company loan [1)]	-7.7	-6.3	-23.1
Number of full-time employees, end of period	1,693	1,871	2,716

[1)] Owner loans, i.e. loans from the Luxembourg-based Parent Company Financière Forêt S.À.R.L, are subordinated to the senior credits, second lien and mezzanine loans. The interest on these loans is capitalized.

Definition of key figures

Capital ratios

Average capital
Based on monthly balances during the year.

Capital employed
Total assets less interest-free liabilities.

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

Financial ratios

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

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

Return ratios

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

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

Income Statements

SEK m	Note	Group		Parent Company	
		2008 [1)]	2007 [2)]	2008	2007
Net sales	9	**12,227**	**8,583**	**51**	**45**
Costs of goods sold	6, 7, 8, 20	-10,538	-7,074		
Gross earnings		**1,689**	**1,509**	**51**	**45**
Selling and marketing costs	6, 7, 8	-524	-363	-3	-
Administrative costs	7, 8, 34	-333	-254	-97	-94
Research and development costs	7, 8	-95	-92	-	-
Other operating income and expenses	6, 7, 11	-80	5	-11	-2
Result from participations in associated companies	12	-4	-2	-	-
Operating earnings/loss (EBIT)	10, 23, 26	**653**	**803**	**-60**	**-51**
Financial items:					
Group contribution		-	-	1,649	974
Dividends, Group companies [3)]		-	-	-1,045	-1
Net financial items	21	-1,541	-884	-1,588	-930
Earnings/loss before tax		**-888**	**-81**	**-1,044**	**-8**
Income taxes	22	261	-47	-1	-
Net earnings/loss for the year		**-627**	**-128**	**-1,045**	**-8**
of which, attributable to minorities	14	-11	-	-	-

[1)] The acquired Coating Additives business is included from September 2008 and the caprolactone business in England is included for 11 months.

[2)] The acquired company, Lonza Singapore Pte Ltd is included from December 2007.

[3)] Comprises dividends from Group companies of SEK 459 m (301) and write down of shares in subsidiaries of SEK 1,504 m (302). See note 17.

Balance sheets

SEK m	Note	Group [1]		Parent Company	
		Dec. 31, 2008	Dec. 31, 2007	Dec. 31, 2008	Dec. 31, 2007
ASSETS					
Fixed assets					
Intangible fixed assets	6	8,545	6,006	-	-
Tangible fixed assets	7	7,376	5,066	-	-
Financial fixed assets					
Deferred tax assets	22	837	292	-	-
Shares in Group companies	17	-	-	7,877	9,286
Participations in associated companies	13	0	0	-	-
Long-term receivables, Group companies	21	-	-	806	366
Direct pension, endowment insurance	23	59	69	48	57
Other interest-bearing, long-term receivables	16, 21	8	88	-	-
Interest-free, long-term receivables	16	24	23	-	-
Total		928	472	8,731	9,709
Total fixed assets		**16,849**	**11,544**	**8,731**	**9,709**
Current assets					
Inventories	20	1,827	1,090	-	-
Accounts receivable	18	2,132	1,496	-	-
Operating receivables, Group companies		-	-	68	4
Operating receivables, associated companies		51	36	-	-
Tax receivables		41	15	-	-
Other operating receivables	18	456	245	6	3
Financial receivables, Parent Company	21	220	-	220	-
Financial receivables, Group companies	21	-	-	5,614	992
Other current financial receivables	21	49	-	49	-
Total		4,776	2,882	5,957	999
Cash and cash equivalents	19, 21	286	447	69	130
Total current assets		**5,062**	**3,329**	**6,026**	**1,129**
TOTAL ASSETS		**21,911**	**14,873**	**14,757**	**10,838**
SHAREHOLDERS´ EQUITY AND LIABILITIES					
Shareholders' equity					
Share capital (1,000 shares, par value of SEK 100 each)		0	0	0	0
Other capital contributions		1,244	457	-	-
Reserves		-418	-364	-	-
Retained earnings		-290	-162	1,232	453
Net earnings/loss for the year		-616	-128	-1,045	-8
Shareholders' equity, excluding minority interests		**-80**	**-197**	**187**	**445**
Minority interests	15	42	29	-	-
Total shareholders' equity, including minority interests		**-38**	**-168**	**187**	**445**
Long-term liabilities					
Deferred tax liabilities	22	2,101	2,030	-	-
Direct pension	23	59	69	48	57
Pension liability, others	21, 23	412	249	-	-
Long-term liabilities, Parent Company	21	3,038	2,362	3,038	2,362
Long-term interest-bearing liabilities [2]	21	11,712	7,830	5,718	5,921
Long-term liabilities, associated companies	21	-	3	-	-
Other liabilities, provisions	24	93	47	14	14
Total long-term liabilities		**17,415**	**12,590**	**8,818**	**8,354**
Current liabilities					
Accounts payable	25	1,506	1,111	11	5
Tax liabilities		18	33	1	1
Other operating liabilities, Group companies		-	-	1	2
Other operating liabilities	25	1,357	751	39	25
Accrued interest expense, interest-free		284	210	215	187
Financial liabilities, Group companies	21	-	-	5,199	1,642
Financial liabilities, related companies	21	-	93	-	73
Other financial liabilities	21	1,369	253	286	104
Total current liabilities		**4,534**	**2,451**	**5,752**	**2,039**
TOTAL SHAREHOLDERS´ EQUITY AND LIABILITIES		**21,911**	**14,873**	**14,757**	**10,838**
Contingent liabilities	27	219	-	7,839	541
Assets pledged	28	13,706	11,367	7,925	9,182

[1] The acquired businesses, Coating Additives and Caprolactones, are included in the Group for the first time in 2008. The acquired company, Lonza Singapore Pte Ltd is included from December 2007.

[2] The amount includes capitalized administration costs for loan financing in connection with Perstorp Holding AB's acquisition of sub-groups in Germany, Sweden and the Netherlands. During 2008 capitalized administration costs for loan financing have also been added within the Group mainly due to acquisitions in France and Singapore. The total capitalized amounts at year-end were SEK 523 m for the Group (277) and SEK 183 m (226) for the Parent Company.

Cash flow statements

SEK m	Group		Parent Company	
	2008	2007	2008	2007
Operating activities				
Operating earnings	653	803	-60	-51
Adjustments:				
Depreciation, amortization and write-down	1,017	562	-	-
Capital gain, reversal	-116	-	-	-
Other	202	-14	-	-
Interest received	11	8	108	49
Interest paid	-794	-622	-613	-643
Dividends received from Group companies	-	-	458	301
Group contribution	-	-	976	594
Realized exchange rate profit/loss	-	-	-176	-
Income tax paid	-89	-54	-1	-
Cash flow from operating activities before change in working capital	884	683	692	250
Change in working capital				
Increase (-) Decrease (+) in inventories	-81	-156	-	-
Increase (-) Decrease (+) in current receivables	-609	-126	-67	1
Increase (+) Decrease (-) in current liabilities	410	149	19	14
Cash flow from operating activities	**604**	**550**	**644**	**265**
Investing activities				
Acquisition of net assets, subsidiaries	-4,390	-715	-	-2
Cash and cash equivalents, acquired companies	15	39	-	-
Shareholders´ contribution, internal	-	-	-95	-478
Acquisition of tangible and intangible fixed assets	-590	-531	-	-
Sale of net assets, subsidiaries	170	6	-	-
Change in financial receivables, external	-44	5	-	-
Change in financial receivables, subsidiaries	-	-	-535	-
Cash flow from investing activities	**-4,839**	**-1,196**	**-630**	**-480**
Financing activities				
Payments from minority owners	21	-	-	-
Shareholders´ contribution	568	-	568	-
Settled loan receivable from Group company	-	-	-	142
New loans, external [1]	3,879	-	377	-
Amortization of loan, external	-	-	-1,116	-
Amortization of loan due to divestment	-36	-	-	-
New loans raised from Group companies	-	-	323	31
New loans raised from Parent Company	285	189	285	189
Change in credit utilization	-590	497	-	-
Amortization of liabilities, Group companies	-	-	-442	-
Short-term payment, related companies	-96	-17	-70	-17
Cash flow from financing activities	**4,031**	**669**	**-75**	**345**
Change in cash and cash equivalents, incl. short-term investments	-204	23	-61	130
Cash and cash equivalents in the opening balance, incl. short-term investments	447	425	130	-
Translation difference in cash and cash equivalents	43	-1	-	-
Cash and cash equivalents, end of period	**286**	**447**	**69**	**130**

[1] Arrangement fees have been netted of by 315 (18) SEK m.

Shareholders' equity 2007, Group

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

Shareholders' equity 2008, Group

SEK m	Share capital	Other capital contributions	Translation reserves	Hedge reserves	Retained earnings	Net earnings/loss for the year	Total shareholders' equity excl. minority interest	Minority interest	Total shareholders' equity
Opening balance, January 1, 2008	**0**	**457**	**-414**	**50**	**-162**	**-128**	**-197**	**29**	**-168**
Transfer of preceding year´s results	-	-	-	-	-128	128	-	-	-
Shareholders' contribution/Capital contribution	-	787		-	-	-	787	21	808
Translation differences:									-
change during the period	-	-	566	-	-	-	566	10	576
less effect of hedging during the period	-	-	-473	-	-	-	-473	-	-473
tax effect of hedging during the period	-	-	133	-	-	-	133	-	133
Fair valuation of interest swaps:									
change during the period	-	-	-	-222	-	-	-222	-	-222
tax effect on change during the period	-	-	-	59	-	-	59	-	59
Fair valuation of forward contracts:									
change during the period [1]	-	-	-	-159			-159	-	-159
tax effect on change during the period	-	-	-	42			42	-	42
Acquired minority interest	-	-	-	-	-	-	-	-7	-7
Net earnings/loss for the year	-	-	-	-	-	-616	-616	-11	-627
Closing balance, December 31, 2008	**0**	**1.244**	**-188**	**-230**	**-290**	**-616**	**-80**	**42**	**-38**

[1] Whereof electricity contracts -35 (18) SEK m.

Group statement on the effects of reported income & expense in shareholders' equity

SEK m	2008	2007
Income and expenses reported in shareholders' equity		
Translation difference in shareholders' equity	566	6
Hedging of net investments	-340	-39
Cash flow hedging	-280	8
Total direct in shareholders' equity	**-54**	**-25**
Net earnings/loss for the year	**-616**	**-128**
Total reported income and expenses for the year	**-670**	**-153**

Shareholders' equity 2007, Parent Company

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

[1] Perstorp Holding AB merged with Sydsvenska Kemi AB in 2007.

Shareholders' equity 2008, Parent Company

SEK m	Share capital	Retained earnings	Net earnings/ loss for the year	Total shareholders´ equity
Opening balance, January 1, 2008	**0**	**453**	**-8**	**445**
Transfer of preceding year´s results	-	-8	8	-
Shareholders' contribution	-	787	-	787
Net earnings/loss for the year	-	-	-1,045	-1,045
Closing balance, December 31, 2008	**0**	**1,232**	**-1,045**	**187**

Johanna Mörée is a process engineer at Site Perstorp in Sweden.
Her main focus area is production development within water treatment.

Notes

1 General information

Perstorp Holding AB and its subsidiaries (jointly designated the Group) produce and sell specialty chemicals. During the year the Group has expanded, primarily through strategic acquisitions. As a result the Group now has 14 (13) manufacturing units in 12 (12) countries in Europe, North and South America and Asia. These geographic areas also comprise the Group's main markets for sales, with the main focus in Europe.

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

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

The Board approved this report for publication on March 23 2009.

2 Summary of major accounting principles

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

2.1 Basis for preparing the accounts

The Group
The consolidated accounts for Perstorp Holding AB have been prepared in accordance with the Annual Accounts Act, the Swedish Financial Reporting Board's recommendation concerning Supplementary Accounting Rules for Groups (RFR 1.2) and International Financial Reporting Standards (IFRS) approved by the European Commission. (IFRS has been applied by the Group since 2005.) The consolidated accounts have been prepared in accordance with the acquisition value method, apart from matters applying to financial assets held for sale and financial assets and liabilities (including derivative instruments) that are fair valued via the income statement.

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

Standards (IAS/IFRS), changes and interpretations (IFRIC) now in effect and applicable for the 2008 financial year:

IAS 39/IFRS 7 – "Reclassification of financial instruments"
Change concerning the possibility of reclassifying financial assets held for trading. The Group has deliberately chosen to report in accordance with earlier classification.

IFRIC 11 – "IFRS 2 – Group and Treasury share transactions"
No effect on the Group's financial reporting.

IFRIC 14 – "IAS 19 - The limit on a defined benefit asset, minimum funding requirements and their interaction"
No effect on the Group's financial reporting as the existing balance structure means the issue is not relevant.

For standards, changes and interpretations of existing standards not yet in effect, see chapter 2.15. The Group has decided not to apply any of these changes in advance.

Parent Company
The Parent Company's financial reports are produced in accordance with the Annual Accounts Act and recommendations from the Swedish Financial Reporting Board concerning Reporting for legal entities (RFR 2.2). The starting point for RFR 2.2 is that the Parent Company shall implement all of the EU-approved standards and interpretations as far as possible within the framework of the Annual Accounts Act, the Swedish law safeguarding pension commitments and with consideration for the relationship between accounting and taxation. The main differences between the Group and Parent Company's accounting principles are as follows:

Subsidiaries
Shares in subsidiaries are reported using the acquisition value method. Impairment tests of reported balance sheet values are carried out in accordance with note 2.9. Dividends from subsidiaries are reported in the income statements to the extent that profit is earned after the date of acquisition.

Group contributions & shareholders´ contributions
In accordance with the Swedish Financial Reporting Board (UFR2 – Group contributions and shareholders´ contributions), the Parent Company account for received Group contributions from subsidiaries as dividends and reports them in the income statement. Shareholders´ contributions are reported directly under the shareholders' equity of the receiver and are capitalized under the "Shares in Group companies" of the provider to the extent that impairment is not required.

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

Pensions
The Parent Company reports pension commitments in accordance with the Swedish law safeguarding pension commitments. Adjustments are made to the accounts at Group level in accordance with IFRS/IAS19.

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

2.2 Consolidated accounting

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

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

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

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

Associated companies
Associated companies are companies over which the Group has a significant but not exercises a controlling influence, which generally applies to shareholdings corresponding to 20 to 50% of the voting rights.

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

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

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

Joint ventures
Joint ventures refer to a relationship founded on an agreement in which two or more partners operate an economic activity together and have a joint deciding influence over the activity. Holdings in joint ventures are reported using the equity method, as with holdings in associated companies. Classification of profit shares are also reported in the same way as with associated companies as a result of business focus. Accounting principles for joint ventures have been changed in places to guarantee the consistent and appropriate application of Group principles.

Minority shares
The share of net assets belonging to the minority interest is reported as a separate item in consolidated shareholders' equity. In the consolidated income statement the minority share is included in reported earnings. Transactions with minority parties are reported in the same way as with third parties. Divestment of minority shares results in profit or loss, which is reported in the income statement. Acquisition of minority shares may create goodwill if the acquisition value exceeds the value of the acquired net assets.

2.3 Currency translation

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

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

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

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

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

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

2.4 Revenue recognition
Reported revenue is the fair value of what has been received or will be received for sold goods and services within the Group's ongoing business with deductions for VAT, discounts, returns and eliminations of intra Group transactions. Revenue per category is reported as follows:

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

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

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

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

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

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

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

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

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

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

Trademarks, patents and licenses that have a determinable period of utilization are assessed individually and depreciated linearly based on this, normally over 5-30 years. Assets with unlimited utilization periods are not normally subject to depreciation. For the Group, assets with an indeterminate lifelength within this category refer to the Perstorp and Formox trademarks, which in connection with the allocation of acquisition values in 2006, were judged to have an unlimited life, based on the company's 125 year history and the continuous renewal process. Annual testing of possible impairment requirements is performed for assets in this category.

Technological know-how was identified as a balance sheet item in connection with the allocation of acquisition values in 2006 and its acquisition value has linear amortization to divide the costs over the assessed utilization period of 30 years. Testing of possible impairment requirements is performed annually.

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

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

Software Acquired software licenses are capitalized on the basis of the costs that have arisen for acquiring and deploying the software. Costs for the development and maintenance of software are normally expensed when they arise. If the particular software is unique, controlled by the Group and will probably generate economic benefits that exceed the costs for more than one year, the software is reported as an intangible asset. Personnel expenses for software development and a reasonable portion of attributable indirect costs are included. Costs for capitalized software licenses and software development are amortized over their estimated useful life, which may not exceed three years. All capitalized assets in this category are subject to an annual test concerning utilization period and impairment requirement.

2.7 Tangible fixed assets

Tangible fixed assets are reported at their acquisition value less accumulated depreciation according to plan and in certain cases less impairment. The acquisition value includes expenses that can be directly attributable to the acquisition of an asset (but not interest on capital borrowed to finance the investment). Additional expenses are added to the asset's reported value or reported as a separate asset, depending on which is appropriate, but only if it is probable that the future economic benefits associated with the asset accrue to the Group and the asset's acquisition value can be measured reliably. Reported value for replaced parts is deducted from capitalized value. All other forms of expenses for repairs and maintenance are reported as costs in the income statement during the period they arise.

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

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

Land and construction in progress are not depreciated.

The residual value and useful life of assets are impairment tested regularly or when external or internal circumstances dictate such impairment testing, and are adjusted as necessary. An asset's book value is immediately impaired to its recoverable amount if the asset's book value exceeds its estimated recoverable amount. See chapter 2.9.

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

2.8 Leasing

The Group is party to leasing agreements whereby the Group as leaseholder to all extents and purposes profits from the economic benefits relating to the leased object while also bearing the economic risks. These agreements are recognized as financial leasing. At the start of the leasing period the leasing object is reported as a fixed asset in the balance sheet at the lower of the fair value and the current value of the contracted minimum leasing fees. On the liability side, the estimated value of the commitment is offset against future cash flow based upon the leasing agreement. A division is made between short-term and long-term borrowing depending on the due date for payment. Upon settlement the paid sum is divided between amortization of debt and the financial costs. The interest part of the financial cost is reported in the income statement over the leasing period, so that each period includes an amount that corresponds to a fixed interest rate for the reported debt during the period. Capitalized fixed assets in financial leasing agreements are depreciated according to the same principles used for other assets.

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

2.9 Impairment

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

2.10 Financial instruments

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

Financial instruments assessed at fair value via the income statement

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

Loans & accounts receivable

Loans and accounts receivable are reported at fair value. Accounts receivable are normally reported at their original fair value when the effect of discounting is considered to be marginal. When an assessment is made by the Group that a receivable will not be paid, and there is objective evidence for this, a provision is made. The size of the provision is calculated as the difference between the asset's reported value and estimated future cash flows. The effect of a reported loss and possible recovery amount of previously written down receivables amount is returned in the income statement.

Cash & cash equivalents

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

Borrowings

Borrowings are reported at fair value, net after transaction costs. Borrowing expenses are reported in the income statement based on the period to which they relate, including periodized activated borrowing costs. Borrowings are classified as interest-bearing long-term or short-term liabilities in the balance sheets depending on the due date.

Borrowings are reported as short-term liabilities to the extent that the Group does not have a unconditional right to defer payment of the liabilities for at least 12 months after the closing date. Remaining borrowings are reported analogously as long-term liabilities.

Accounts payable

Accounts payable are reported at fair value.

2.11 Inventories

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

2.12 Employee benefits

Pensions

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

In connection with the allocation 2006 of acquisition value, actuarial gains and losses were set at zero, as a result of the opening liability being established at the present value of the obligation at the date of transition and, similarly, any related plan assets have been fair valued.

Actuarial calculations of defined-benefit pension plans are performed annually. Pension costs pertaining to these plans are calculated in accordance with the Projected Unit Credit Method, which allocates costs over the employees' anticipated working life. Actuarial gains and losses outside what is known as the 10% corridor are allocated over the remaining anticipated term of employment for those employees who are part of the various plans. With the help of a discount rate, pension commitments are valued at the present value of the future anticipated payments. The discount rate corresponds to the interest on first-class corporate bonds or treasury bills with a remaining term that corresponds to the commitments concerned. The liability that arises is adjusted for unrecognized actuarial profit and loss, and for unreported costs for service in previous years. In the consolidated balance sheet, the pension commitments for the fund plans are reported net, after a deduction for the fair value of fund assets for the plan. In cases where a net asset arises, this is reported as a financial interest-bearing receivable, although this has not occurred in the past two years. Instead the entire commitment is carried as a liability and included in the calculation of net debt.

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

Remuneration for redundancy

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

Other remuneration & bonus plans

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

2.13 Provisions

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

2.14 Derivative financial instruments & hedge measures

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

- Cash flow hedges in the form of interest swaps, currency forward contracts and electricity forward contracts, in order to hedge interest rates, currencies and electricity prices. (Cash flow hedging of net flows in foreign currency was adopted as a new policy in the fall of 2008.)
- Equity hedge – loans in foreign currency, for hedging of net investments

When the transactions take place, the Group documents the relationship between the hedge instrument and the hedged item, as well as the Group's targets for risk management and the strategy for the hedge. The Group also documents its assessment of the efficiency of the hedge instrument, both when entering the hedge and continually during the duration of the hedge. Changes in the hedge reserve in shareholders' equity are presented in the equity table on page 48. All of the fair value of the derivative used as the hedge instrument is classified as a fixed asset or long-term liability when the hedged item's remaining maturity is greater than 12 months, and as a current asset or short-term liability when the hedged item's remaining maturity is less than 12 months.

Cash flow hedging

The effective part of the change in fair value of a derivative instrument that is identified as cash flow hedging and that meets the conditions for hedge accounting, is reported in shareholders' equity. At the end of the year this effect amounted to SEK -230 m (50) with a maturity within 12 months. This amount is divided between SEK -126 m (37) in interest swaps, SEK -13 m (13) in electricity forward contracts and SEK -91 m (0) in currency hedges. The profit or loss attributable to the ineffective part is reported immediately in the income statement. Accumulated amounts in shareholders' equity are returned to the income statement in the periods when the hedged item affects earnings (e.g. when the forecast event that is hedged takes place). The profit or loss attributable to the effective part of the interest swap that hedges loans with variable interest is reported in net financial items in the income statement.

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

Hedging of net investments

Hedging of net investments in foreign businesses is reported in a similar way to cash flow hedging. The share of profit or loss in a hedge instrument assessed as an efficient hedge is reported in equity. The profit or loss attributable to the ineffective part is reported immediately in the income statement. The part of the Group's borrowings in foreign currency identified for hedge accounting amounts to EUR 295 m (250) and USD 0 m (127). The currency results for translating these sums amounted to SEK -326 m (15) at the end of 2008 and is reported in Translation reserves in shareholders' equity.

Accumulated profit and loss in shareholders' equity is reported in the income statement when foreign businesses are sold, wholly or partly. The sale of YLA/CCS Composites meant a return of translation differences of SEK 3 m and accumulated hedge value of SEK -2 m. The net effect in the income statement was therefore SEK 1 m.

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

2.15 Effects of future accounting principles

Standard (IAS/IFRS), changes and interpretations (IFRIC) coming into effect after 2008 and supported by the EU:

When the consolidated financial statements of December 31, 2008 were being compiled, the following standards, changes and interpretations had been announced and will be compulsory for Group's whose financial year starts on 1 January 2009 or later. None of them have been implemented in advance.

- IAS 1 Presentation of Financial statements has been revised and the changed standard states that changes in shareholders' equity (income and expense items) excluding owner transactions, shall be reported separately and instead be presented as a Statement of Comprehensive Income. The Statement of Comprehensive Income can either be reported in an associated statement, based on the current format, or two separate statements may be presented: an income statement and a Statement of Comprehensive Income. Changes to the standard also mean that if a new accounting principle is applied retroactively, a restatement is made in financial reports for previous periods, or a reclassification of comparable information is performed, it shall be presented in a restated opening balance sheet for the period of comparison. This is in addition to currently valid requirements for reported balance sheets at the end of the current period or previous period. The Group will implement these changes from 1 January 2009.
- IAS 23 Borrowing costs. The standard has been changed and options have now been ended for activation or non-activation of borrowing costs directly related to purchases, construction or production of an asset that takes a considerable time to complete. From 1 January 2009 borrowing costs shall be included in an asset's acquisition value and be activated. If this principle had been applied in 2008 it would have meant that borrowing costs applied on SEK 200 m of capitalized assets would have been added. The effect on future years is highly dependent on the investment pace in completed projects and cannot be quantified in an equitable way at present.
- IAS 32 Financial instruments: Classification and IAS 1 Presentation of financial reports – ("Puttable financial instruments and obligations arising on liquidation"). At present the changes are not expected to have any effect on the accounts.
- IFRS 1 First-time adoption of IFRS and IAS 27 Consolidated and separate financial statements (with consequences for IAS 18, IAS 21 and IAS 36). For Perstorp the change will mainly affect the company's reporting of dividends from subsidiaries. This transfer of value shall now be fully reported as income, even for dividends attributed as reserves generated prior to acquisition.
- IFRS 2 Share-based payment. This is not relevant for the Group as there are no schemes involving share-based remuneration.
- IFRS 8 Operating segments (replaces IAS 14). This new standard is based on segment reporting from an internal management perspective. In its external reporting the Group shall submit information per segment, just as the chief operating decision maker regularly makes an assessment in the business. The new standard will be implemented from 2009 and the introduction is not expected to have a material impact on the Group.
- IFRIC 13 Customer loyalty programmes. This is not relevant for Perstorp as the Group has no such schemes.

Standards that have been changed as part of IASB's annual improvement project (valid from January 1, 2009, unless otherwise stated) and considered relevant for the Group:

- IFRS 5 Non-current assets held for sale and discontinued operations (applies from 1 July 2009). The change means that all of a subsidiary's assets and liabilities shall be classified as being held for sale if a decision has been made concerning a partial divestment, which means that the decisive influence over the subsidiary will be lost. The Group expects to apply this principle from January 1, 2010.

- **IAS 19 Employee benefits.** In addition to changed definitions and clarifications concerning long-term and short-term classification of benefits for employee, the changes are principally as follows: An adjustment in a plan that changes to which extent promises of benefits are affected by future salary increases is considered a reduction. However, a change in benefits related to service in earlier periods gives cause for a negative cost for that service in earlier periods if it leads to a reduction of the defined-benefit commitment's current value. This is not expected to affect the Group's financial reporting in a material way.
- **IAS 23 Borrowing costs.** Changes to the standard mean that interest costs to the extent that they are included in borrowing costs are calculated using the effective interest method as defined in IAS 39. The Group will apply this when activating borrowing costs from 2009.
- **IAS 27 Consolidated and separate financial statements.** The change means that when a holding in a subsidiary (reported in accordance with IAS 39) is classified as an asset held for sale in accordance with IFRS 5, IAS 39 shall continue to be applied. This does not apply for the Group based on current circumstances.
- **IAS 28 Investments in associates and IAS 31 Interest in joint ventures** (with consequences for IAS 32 and IFRS 7). The changes mean that a holding in an associated company or joint venture (reported in accordance with IAS 39) only needs to report using information requirements in accordance with IAS 28 or IAS 31 in addition to information submitted in accordance with IAS 32 and IFRS 7. IAS 28 has been changed additionally in that a holding in an associated company is treated as an individual asset with regard to a possible impairment test and any impairment is not divided among specific assets. Returned impairment is reported in accordance with IAS 36 to the extent that the returned amount of the holding increases. This has no material effect for Perstorp.
- **IAS 36 Impairment of assets.** The fair value minus the sales cost is calculated on the basis of discounted cash flow, so information is presented about the estimated utilization value. The Group expects to implement this change going forward.
- **IAS 38 Intangible assets.** One of the changes here is the formulation that there is seldom or never convincing support for a depreciation method that produces a longer depreciation period than the line method. This does not affect the Group since all intangible assets (excluding goodwill) are written off linearly.
- **IAS 39 Financial instruments: recognition and measurement** The change states that it is permitted to move an activity in and out of the category "assessed at fair value via the income statement" in the event that a derivative used for cash flow hedging or net investment hedging starts or ceases to fulfil the requirements for hedge accounting. The change also explains that hedge accounting for the Group may only comprise instruments that involve an external party. In individual companies, however, hedge transactions between Group companies may still fulfil the conditions for hedge accounting and they shall therefore be reported in accordance with this is in the separate financial reports for the individual companies in question. The changes are not considered to have any material impact for the Group.

Standard (IAS/IFRS), changes and interpretations (IFRIC) that are expected, but have not yet been adopted by the EU:

- **IFRS 3 Business combinations** (revision expected to come into effect from July 1, 2009). Company acquisitions shall in future continue to be reported using the acquisition method, but with changes. Among other matters, the purchase amount at the time of acquisition shall be reported at fair value and ensuing conditional purchase payments shall be classified normally as liabilities/provisions. These liabilities are then re-evaluated as necessary via the income statement and do not therefore retroactively affect the acquisition value of the asset. The reason is that the re-evaluation is not considered to be related to the acquisition, but instead represents a changed situation after the acquisition. Minority interests in the acquired business may be valued optionally for each acquisition either at fair value or at the minority shareholders' proportional share of the acquired activity's net assets. Furthermore, all transaction costs shall be reported in the income statement directly as they are no longer considered to represent a value in the acquired unit. The Group expects to apply the revised standard from January 1, 2010.
- **IAS 27 Consolidated and separate financial statements** (change expected to be valid from July 1, 2009). The changes mean that all transactions with shareholders, including minority shareholders, are reported in shareholders' equity on the condition that the transaction does not change the decisive influence. In the event of a partial divestment where the decisive influence ends, the remaining part that is owned shall be re-assessed at fair value at the date when decisive influence ceases to apply as agreed. The re-assessment impacts solely on the income statement. Furthermore, previously owned shares shall be re-assessed at fair value in the income statements in the event of successive acquisitions. The Group expects to apply the revised standard from January 1, 2010.
- **IFRIC 12 –"Service concession arrangements".** No effect on the Group's financial reporting.
- **IFRIC 15 Agreements for construction of real estate** (expected to apply from January 1, 2009). This is not relevant for the Group based on its current business.
- **IFRIC 16 Hedges of a net investment in a foreign operation** (expected to apply from October 1, 2009). The interpretation is directed at treatment of hedging of net investment. The consideration is that hedges of net investments refer to the difference in functional currency and that hedge instruments can be used by any company within the Group. This is not expected to have an significant influence on the Group's financial reporting.
- **IFRIC 17 Distributions of non-cash assets to owners** (expected to apply to financial year starting July 1, 2009, or later) The statement indicates that a liability concerning distribution in kind shall be reported at fair value at the time when there is a commitment towards a shareholder and thereafter at the time of each interim report. At the settlement date assets that have been distributed in kind shall be re-assessed at fair value in the income statement. The Group expects to apply IFRIC 17 from January 1, 2010.

3 Risk management

Not 3.1 Financial risk factors

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

Currency risk

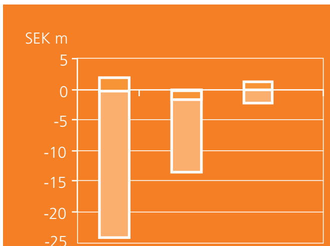
The currency risk is the risk that the Group's earnings and net assets will be adversely affected by fluctuations in exchange rates. The Group has considerable flows of earnings and net assets in foreign currency, primarily in USD and EUR.

The Group manages a part of its exposure by concentrating borrowing to USD and EUR; see table D in Note 21. Approximately half of the net flow in the Swedish companies are hedge items due to USD and EUR.

Financing risk

The financing risk is the risk that the refinancing of loans will be impeded or will become costly. The Group's main financing consists of senior loans that have been guaranteed by Svenska Handelsbanken, Nordea, DnB NOR and HSH Nordbank and second liens and mezzanine facilities that were syndicated to a number of financiers in 2006. These loan agreements have terms of seven to eight years and stipulate financial covenants pertaining to the fulfillment of key figures in terms of cash flow in relation

Effect on EBITDA of 1% stronger SEK



Flow & translation exposure per currency, forecast for 2008

	Net sales	Operating costs	EBITDA	Financial payments	Net	Translated to SEK m [1]
USD	660	-380	280	-25	255	1,980
EUR	1,030	-890	140	-60	80	875
GBP	40	-30	10		10	120
JPY	1,800	-220	1,580		1,580	90
Total						**3,065**

[1] At year-end exchange rates.

to interest payments and amortization, net debt in relation to EBITDA and EBITDA in relation to interest payments. During 2008 new capital was added both from external financiers and from the Parent Company. Perstorp managed its Finacial Covenants in 2008. There is also a ten-year Parent Company loan from Luxembourg-based Financière Forêt S.À.R.L. for which the 10-percentage interest rate is being capitalized.

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

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

Interest-rate risk
The interest-rate risk is the risk that an increase in market interest rates will have an adverse impact on earnings. Interest-rate hedging is applied to fix interest rates for slightly more than half of the bank loans in accordance with the financial policy. On December 31, 2008, the average fixed-interest maturity was 332 days. See Table D in Note 21. Sensitivity to interest rate changes are shown in the diagram below.

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

A Group-wide credit policy is applied within the Perstorp Group, which all Group companies are obliged to follow, the main purpose of which is to prevent credit risks, minimize bad debt losses and optimize capital maturities in ways beneficial for the Group. Among other things the credit policy sets a framework for how to approve credit, who has responsibility and how deliveries may be approved in the event of a limit being exceeded or of a customer having credit that falls due for payment. Internal guidelines also include procedures for monitoring outstanding receivables before and after the maturity date depending on materiality and the individual customer's risk profile. In practice this is continually an intensive activity, especially considering current global financial uncertainties. The Group strengthened its organization for management of these matters during the year.

The Group's outstanding customer receivables on the closing date amounted to SEK 2,132 m (1,496). This significant increase mainly reflects to strategic acquisitions made during the year (see further, note 30) and higher price levels. The amounts reported are those that are expected to be repaid by customers based on an individual assessment of outstanding receivables and thereby including a reservation for expected/stated customer losses amounting to SEK 29 m (35).

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

The Group's sales and thus also its accounts receivable are divided among a large number of customers spread across a wide geographic area. Naturally, this limits the concentration of credit risk exposure. The diagrams presented on next page show how outstanding receivables are distributed.

The following should be considered regarding the division of customers based on amounts due to the Group on the closing date: the segment with amounts due exceeding SEK 20 m refers to 8 individual customers, the segment between SEK 10-20 m refers to 22 individual customers, and thereafter the number of customers increases successively. The category of customer owing the Group less than SEK 1 m on the closing date corresponds to 82% of all counter parties.

Credit quality for receivables

SEK m	2008
Accounts receivable neither due nor reserved	1.627
Accounts receivable due, but not reserved:	
1-10 days	229
11-30 days	173
31-60 days	65
61-90 days	20
91-180 days	9
181 days or more	2
Accounts receivable linked to reservation	36
Total	**2.161**

On the closing date the Group had credit insurance, letters of credit or other pledged securities amounting to SEK 73 m. Of these, SEK 25 m is attributable to receivables that have fallen due for payment. Of receivables that have fallen due and which are associated with a limited credit risk due to pledged securities, SEK 4 m are over 30 days due.

Not 3.2 Operational risk factors

Access to raw materials
Most (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 the chlorine and lye produced at Perstorp's plant in Pont-de-Claix. Many of the Group's products are both sold externally and further processed internally.

To secure delivery of raw materials and spread the risks, the Group's purchasing policy requires that procurement of the most critical raw materials is made from several suppliers, where possible. Procurement is secured through long-term delivery agreements. Perstorp is active on the global chemicals market with suppliers who meet ambitious environmental and safety demands. The Group aims at minimizing transports as far as possible by using local markets.

Raw material supplies to Perstorp's Stenungsund site – the largest site in terms of volumes in Sweden – are based on pipelines direct from supplier production sites nearby. This eliminates storage costs and minimizes freight costs while it does however present the risk of being linked closely with these suppliers. Perstorp manages this risk through forward contracts that provides the right to use the supplier's infrastructure to receive supplies from another producer.

Financial debt and derivative instruments specified per due dates

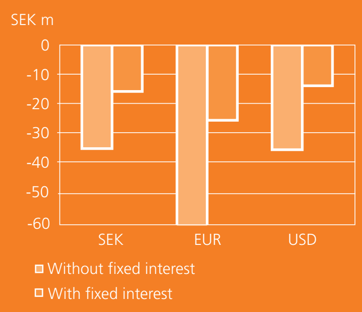
As of Dec. 31, 2008 [1]		0-1 yrs	1-2 yrs	2-5 yrs	>5 yrs
Bank loans [2]	Amortization	-1,369	-686	-11,523	-26
	Interest [1]	-1,005	-839	-1.936	0
Derivative instruments	Interest swaps	-222			
	Electricity contracts	-159			
Accounts payable and other liabilities		-2,748			

1) Parent Company loans are excluded from the table as this interest is capitalized. Repayment of Parent Company loan including interest is expected to take place in connection with a change in owner. The amount is dependent on the time of this ownership change.

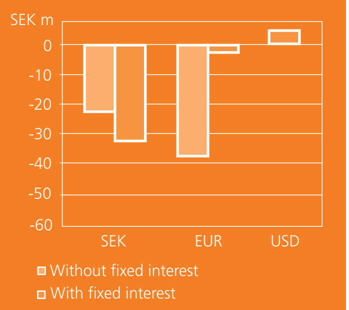
2) The interest charged corresponds to interest rates on the closing date, Libor 90 days. Currency rates correspond to levels at the end of 2008.

Sensitivity to 1% increase in interest rates

Group



Parent Company



Interest rate analysis does only include external loans.

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

Opportunities for hedging raw material prices are assessed continually. To make this a possible alternative, Group policy requires a very strong correlation between the raw material price and the Group's own selling price. At the end of the year no raw material prices were hedged. In the historic perspective, the Group has – not least in 2008 – been very successful in passing on increases in raw material prices along the customer chain.

On the electricity market there is the possibility to secure prices for longer periods. In accordance with Group policy, electricity usage in Sweden is hedged over the coming six months at a range of 70-100% of expected usage and thereafter – for a maximum of three years – on a falling scale. From the seventh quarter the range is 0-40%. At the end of 2008 the market assessment of future electricity contracts had a negative effect on shareholders' equity of SEK 13 m after tax, due to the fact that electricity prices had been falling lately.

Production disruptions

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

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

4 Significant estimates & judgments made for accounting purpose

To a certain extent, the financial statements are based on estimates and judgments about the future trend. In turn, these judgments are based on historical experience and different assumptions that are considered to be reasonable in current circumstances. Reported values may have another actual outcome if other assumptions are made or circumstances change.

The following particular areas can be distinguished where estimates and judgments are of importance to the amounts entered in the accounts and changes can have a significant effect on the Group's earnings and financial position.

Impairment testing of goodwill and trademarks: As explained under Note 2.9, impairment testing is currently performed annually through analysis of individual assets'/cash-generating units' recovery value. A number of important estimates are made during this analysis, see note 6.

Valuation of tax-loss carryforwards: The valuation of tax-loss carryforwards in a company is based on an assessment that it will be possible to utilize these carryforwards in the foreseeable future. Assessments are based on, among other matters, an assumption about future business opportunities and earnings capability. The outcome is often dependent on tax rules that are current or likely to come into effect. Tax-loss carryforwards have been assigned values in, primarily, the Group's subsidiaries in Sweden, UK and Singapore. For booked values see Note 22.

Pension benefits: The current value of the Group's future pension commitments regarding defined-benefit pension plans are based on a number of assumptions in connection with the actuarial estimate. Changes in these assumptions may affect the reported value of the pension commitment. For further details, see chapter 2.12 and note 23.

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

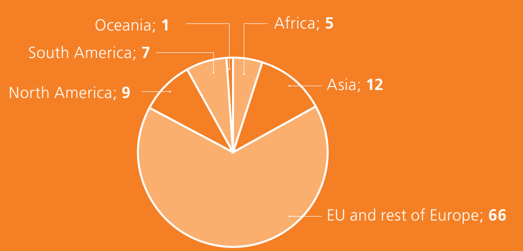
5 Segment information

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

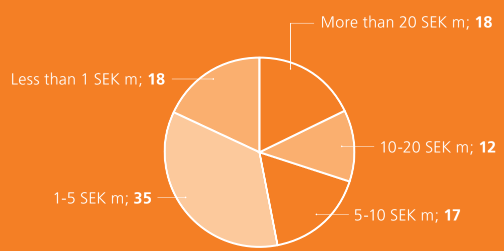
At present there is no formal requirement for companies whose stocks are not subject to general trading to follow IFRS/IAS. This factor, together with the lack of a natural basis for dividing segments in accordance with IAS 14 (see description above), means that the Group has chosen to exclude this information. The aim however is to report segment information in accordance with IFRS 8 Operating segments. The starting point for the new standard is to report based on the parameters and segments that exist in the internal reporting and to follow how chief operating decision maker assess and control the business. This reporting method is considered to provide a fairer picture based on the Group's perspective and situation.

Sales and operating capital per geographical market are presented in the Risk Management section on pages 38.

Concentration risk of accounts receivable divided by geographic region, %



Concentration risk of accounts receivable divided by amount owed by customer, %



6 Intangible fixed assets

Group	Goodwill		Trademarks		Patent, licenses and similar rights		Know-how		Customer relations		Development costs		Other [1]		Total	
SEK m	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
Acquisition value																
Opening balance	2,275	2,261	1,282	1,270	32	13	1,266	1,255	1,401	1,251	5	3	16	11	6,277	6,064
Investments		-	-	-	2	-	-	-	-	-	15	1	1	-	18	1
Acquisition of subsidiaries [2]	563	15	186	-	627	18	-	-	317	138	-	-	335	6	2,028	177
Divestments and disposal	-35	-	-	-	-	-	-	-	-	-	-1	-	-2	-	-38	-
Acquisition adjustments	-	-20	-	-	-	-	-	-	-	-	-	-	-	-	-	-20
Reclassifications	-	-	-	-	6	-	-	-	-137	-	6	1	1	-	-124	1
Translation effects	348	19	197	12	64	1	191	11	166	12	2	-	-7	-1	961	54
Closing balance	**3,151**	**2,275**	**1,665**	**1,282**	**731**	**32**	**1,457**	**1,266**	**1,747**	**1,401**	**27**	**5**	**344**	**16**	**9,122**	**6,277**
Accumulated depreciation according to plan																
Opening balance	-	-	-3	-1	-7	-3	-97	-48	-158	-78	-3	-2	-3	-1	-271	-133
Depreciation	-	-	-10	-1	-24	-3	-48	-48	-105	-77	-1	-1	-43	-1	-231	-131
Divestments and disposal	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Reclassifications	-2	-	-	-	-	-	-	-	-	-	-	-	-	-	-2	-
Translation effects	-	-	-1	-1	-3	-1	-21	-1	-33	-3	-	-	3	-1	-55	-7
Closing balance	**-2**	**-**	**-14**	**-3**	**-34**	**-7**	**-166**	**-97**	**-296**	**-158**	**-4**	**-3**	**-43**	**-3**	**-559**	**-271**
Write-downs																
Opening balance	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Write-downs during the year	-3	-	-	-	-8	-	-6	-	-	-	-	-	-	-	-17	-
Translation effects	-	-	-	-	-1	-	-	-	-	-	-	-	-	-	-1	-
Closing balance	**-3**	**-**	**-**	**-**	**-9**	**-**	**-6**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-18**	**-**
Closing book value	**3,146**	**2,275**	**1,651**	**1,279**	**688**	**25**	**1,285**	**1,169**	**1,451**	**1,243**	**23**	**2**	**301**	**13**	**8,545**	**6,006**

1) Other intangible assets refer to rental rights, advance payments pertaining to intangible assets and non-complete agreements in connection with acquisitions.

2) Acquisition of subsidiaries during 2008 refers to the acquisition of the Caprolactones business and of Coating Additives. The acquisition analysis for Coating Additives is not yet concluded, but will be during 2009.

Depreciation amounting to SEK 66 m (52) is included in cost of goods sold, and SEK 165 m (79) in selling costs. Depreciation also includes leasing costs of SEK 1 m (1) in the form of rental rights connected to the acquisition value of Chilean operations. Write-downs are included in Other operating expenses.

Know-how and customer relations are depreciated linearly. The remaining average useful life is 23 (24) years and 13 (15) years respectively. Non-compete agreement acquired in 2008 will be depreciated straight line over 6 years. For more details regarding the accounting principles of intangible fixed assets, see note 2.6.

The bank loans are secured by patents at a value of SEK 514 (0) m.

Impairment testing of assets that are not amortized – Goodwill and the trademarks from acquisition analysis
Goodwill and the trademarks assigned a value in connection with the acquisition allocation required following the acquisition of the Group at the end of 2005 (Perstorp and Formox) have been adjudged to have an unlimited life. The values have been allocated to the Group's cash generating units and among various currencies. Goodwill and trademarks for the caprolactones business and Coating Additives were introduced for the first time in 2008. The business sectors comprise Specialty Chemicals, Formox, Caprolactones, PIA and Coating Additives. A summary of the allocation per currency and cash-generating unit, for goodwill and trademarks, is presented below.

SEK m	Goodwill	Trademarks	Total
EUR	1,779	970	2,749
USD	959	448	1,407
GBP	385	56	441
SEK	4	177	181
CNY	19	-	19
Total	**3,146**	**1,651**	**4,797**

SEK m	Goodwill	Trademarks	Total
Specialty Chemicals	2,322	1,359	3,681
Formox	280	113	393
Caprolactones business	287	169	456
PIA	-	-	-
Coating Additives	257	10	267
Total	**3,146**	**1,651**	**4,797**

Recoverable amounts for a cash-generating unit are established on the basis of calculations of value in use. These calculations are based on estimates of future cash flow, in accordance with financial five-year plans that have been approved by management. Cash flows beyond this five-year period are extrapolated using an estimated growth rate of 2%. The discount interest rate amounts to 10% after tax.

Impairment testing performed at the end of 2008 resulted in impairment of assets at the PIA activity in Singapore, which had an effect of USD 1 m on intangible assets and USD 32 m on tangible assets. The main reason for the impairment is increasing raw material prices and price pressure in the market for the unit's products.

7 Tangible fixed assets [1]

Group	Land		Buildings, land improvements		Plant and machinery		Equipment, tools, fixtures and fittings		Work in progress incl. advance payments [3]		Total	
SEK m	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
Acquisition value												
Opening balance	183	182	801	716	4,345	3.230	264	233	332	309	5,925	4,670
Investments [2]	-	-	20	-	151	7	7	4	394	519	572	530
Acquisition of subsidiaries	17	-	181	28	1.692	554	1	3	137	53	2.028	638
Divestments and disposal	-	-	-3	-1	-14	-15	-1	-1	-12	-	-30	-17
Reclassifications	8	-5	52	43	346	509	5	10	-345	-552	66	5
Translation effects	14	6	69	15	496	60	34	15	29	3	642	99
Closing balance	**222**	**183**	**1,120**	**801**	**7,016**	**4,345**	**310**	**264**	**535**	**332**	**9,203**	**5,925**
Accumulated write-downs according to plan												
Opening balance	-1	-	-98	-41	-664	-292	-71	-30	-	-	-834	-363
Depreciation	-	-1	-58	-44	-453	-324	-33	-33	-	-	-544	-402
Divestments and disposal	-	-	5	-	5	10	-	1	-	-	10	11
Reclassifications	-	-	1	-6	-3	-	-	-	-	-	-2	-6
Translation effects	-	-	-10	-7	-131	-58	-19	-9	-	-	-160	-74
Closing balance	**-1**	**-1**	**-160**	**-98**	**-1,246**	**-664**	**-123**	**-71**	**-**	**-**	**-1,530**	**-834**
Write-downs												
Opening balance	-4	-	-3	-	-18	-	-	-	-	-	-25	-
Write-downs during the year	-3	-4	-9	-3	-198	-18	-	-	-	-	-210	-25
Reclassifications	-	-	-5	-	-23	-	-	-	-	-	-28	-
Translation effects	1	-	-1	-	-34	-	-	-	-	-	-34	-
Closing balance	**-6**	**-4**	**-18**	**-3**	**-273**	**-18**	**-**	**-**	**-**	**-**	**-297**	**-25**
Closing book value	**215**	**178**	**942**	**700**	**5,497**	**3,663**	**187**	**193**	**535**	**332**	**7,376**	**5,066**

[1] The Group's tangible fixed assets were assessed in 2006 in connection with an acquisition analysis. The assessment was based on replacement cost, remaining life and the difference in operating costs between newly acquired plants and existing ones. The re-assessment, after deductions for deferred tax, were credited to Other reserves under Shareholders' equity. In 2008, added tangible assets attributable primarily to the caprolactones business and Coating Additives.

[2] Borrowing costs due to investments have not been capitalized during 2008 and 2007.

[3] Work in progress includes the project of Valex to an amount of SEK 181 m.

Depreciation amounting to SEK 519 m (386) is included in cost of goods sold, SEK 2 m (2) in selling costs, SEK 4 m (4) in R&D costs and SEK 19 m (9) in administrative costs. This amount includes leasing costs amounting to SEK 60 m (9), mainly pertaining to fixed assets in the acquired operation in Coating Additives and in Chile, as well as steam boilers. Write-downs are included in Other operating expenses. Buildings and land with a value of SEK 2.753 m (1,137) are used as collateral for bank loans.

Tax assessment value, Swedish Group companies		
SEK m	Tax assessment value December 31, 2008	Book value December 31, 2008
Buildings, including building fittings	526	742
Land and land improvements	78	77
Total	**604**	**819**

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

8 Leasing

Financial leasing agreements, SEK m	Group	
Future minimum leasing fees	**2008**	**2007**
Due:		
Year 1	17	8
Year 2-5	30	17
Year 6-	-	6
Total	**47**	**31**

The financial leasing agreements that exist are primarily for plant and machinery and other technical equipment. Future payment commitments for these contracts are as above (no part is variable).

Operational leasing agreements, SEK m		
Future minimum leasing fees	**2008**	**2007**
Due:		
Year 1	113	46
Year 2-5	382	116
Year 6-	102	83
Total	**597**	**245**

Operational leasing agreements mainly refer to the recent acquisitions in France and Singapore.

Operational leasing costs during the period	2008	2007
Minimum leasing fees	47	24
Variable charges	24	2
Total	**71**	**26**

9 Net sales

SEK m	Group	
Net sales by type of income	**2008**	**2007**
Goods	11,919	8,367
Services	105	36
Contract (reported according to level of completion)	203	180
Total	**12,227**	**8,583**

	Group	
Net sales by geographic region	**2008**	**2007**
EU and rest of Europe	7,829	5,423
North and South America	2,104	1,649
Asia	1,883	1,237
Africa	353	242
Oceania	58	32
Total	**12,227**	**8,583**

The Parent Company did not account for any external net sales in 2008 or 2007.

10 Type of cost

SEK m	Group	
Costs divided by type	**2008**	**2007**
Raw materials, goods for sale, energy, transport and packaging costs	-7,896	-5,141
Other external costs	-1,563	-1,111
Employee benefits (note 26)	-1,256	-998
Depreciation (note 6, 7)	-775	-533
Other operating income & expenses (note 11)	-80	5
Earnings from participations in associated companies (note 12)	-4	-2
Total	**-11,574**	**-7,780**

11 Other operating income & expenses

SEK m	Group		Parent Company	
	2008	**2007**	**2008**	**2007**
Insurance compensations	4	63	-	-
Operations-related exchange-rate differences	172	-10	2	-
Restructuring costs	-122	-13	-8	-2
Capital gain on divestment of Group company	116	-	-	-
Write-downs, disposal (note 6, 7)	-241	-29	-	-
Other	-9	-6	-5	-
Total	**-80**	**5**	**-11**	**-2**

12 Earnings from participations in associated companies/ joint ventures

SEK m	2008	2007
Koei-Perstorp Company Ltd, Japan	-1	-
Polygiene AB, Sweden	-3	-2
Total	**-4**	**-2**

The companies´ sales amounted to a total of SEK 504 m (409) in 2008 and the loss after tax was SEK -9 m (-5).

13 Participations in associated companies/joint ventures

SEK m	Share of capital/ voting rights, %	Group's share of sharehol-ders' equity	Book value, Group Dec. 31, 2008
Koei-Perstorp Company Ltd, Japan	40/40	4	-
Polygiene AB, Sweden	30/32	1	-
Total		**5**	**0**

	2008	2007
Opening book value	-	1
Earnings from participations in associated companies	-4	-2
Acquisition of/new share issue in associated companies	3	1
Translation difference	1	-
Closing book value	**0**	**0**

The assets of associated companies amounted to SEK 312 m (172) at the end of 2008 and liabilities amounted to SEK 300 m (163).

14 Minority share in net profit/loss for the year

SEK m	2008	2007
Shandong Fufeng Perstorp Chemicals Co., Ltd, China	-11	0
Total	**-11**	**0**

15 Minority shares

SEK m	Dec. 31, 2008	Dec. 31, 2007
Shandong Fufeng Perstorp Chemicals Co., Ltd, China	42	29
Total	**42**	**29**

SEK m	2008	2007
Opening book value	29	-
Acquisitions	-	29
Translation effects	10	-
Profit/loss during the period	-11	0
Capital contribution from minority owner	21	-
Acquisition of minority share	-7	-
Closing book value	**42**	**29**

In 2007 Perstorp entered a joint venture in China and the agreement now gives the Group an ownership share of 58.5% (51.0) of Shandong Fufeng Perstorp Chemicals Co., Ltd.

16 Other long-term receivables

	Group	
SEK m	**Dec. 31, 20008**	**Dec. 31, 2007**
Interest-bearing long-term receivables		
Promissory note receivable	-	30
Market valuation of interest-rate contracts	-	52
Other receivables	8	6
Total	**8**	**88**
Interest-free long-term receivables		
Electricity certificates	5	4
Market value of electricity hedge contracts	-	5
Other receivables	19	14
Total	**24**	**23**

During 2008 the promissory note has been written down.

17 Parent Company shares in Group companies

Direct holdings in Group companies	Corp. Reg. number	Registered head office	Holding, % Dec. 31, 2008	Holding,% Dec. 31, 2007	2008 Book value	2007 Book value
Perstorp AB	556024-6513	Sweden	100	100	7,203	8,416
Perstorp Quimica do Brasil Ltda	NIRE 35.218.522.982	Brazil				
Perstorp SA	RUT 76.448.840-7	Chile				
Perstorp OY	1882513-1	Finland				
Perstorp Sales France	442650768 R.C.S. Nanterre	France				
Perstorp SpA	171 467	Italy				
Perstorp Japan Co Ltd	0199-01-053962	Japan				
Perstorp (Beijing) International Trading Co. Ltd	11000041 028488	China				
Shandong Fufeng Perstorp Chemical Co. Ltd	QIHELUZIZONGZIDI002012	China				
Perstorp Engineering Materials (Holland) B.V.	27197493	Netherlands				
Perstorp Construction Chemicals Ltda	09033	Portugal				
Perstorp Chemicals Asia Pte Ltd	199905508W	Singapore				
Perstorp UK Ltd	02715398	UK				
AB Klosters Fabriker	556005-3489	Sweden				
Formox AB**	556760-4235	Sweden				
Pernovo-Perstorp New Business Development AB	556016-0946	Sweden				
Perstorp BioProducts AB	556728-5779	Sweden				
Perstorp Butenderivat AB**	556762-4563	Sweden				
Perstorp Fastighets AB	556571-3798	Sweden				
Perstorp Oxo AB	556041-0895	Sweden				
Perstorp Oxo Belgium AB	556579-4244	Sweden				
Perstorp Specialty Chemicals AB	556247-6290	Sweden				
Perstorp Holding (U.S.) Inc.**	26-3020217, Delaware	USA				
Perstorp Coatings Inc.**	26-3020193, Delaware	USA				
Perstorp Polyols Inc.	34-1386676, Delaware	USA				
Perstorp Holding GmbH	HRB 7465, Arnsberg	Germany	100	100	307	307
PCL Grundstückverwaltung GmbH	HRB 1997, Neustadt	Germany				
Perstorp Chemicals GmbH	HRB 1900, Arnsberg	Germany				
Perstorp Service GmbH	HRB 6542, Arnsberg	Germany				
Perstorp Holding B.V.	34089250	Netherlands	100	100	272	272
Perstorp Specialty Chemicals BV	23091252	Netherlands				
Perstorp Specialty Chemicals Holding BV	23092336	Netherlands				
Perstorp Waspik BV	18116759	Netherlands				
Perstorp Chemicals India Private Ltd	04-32032	India				
Franklin Feed Additives SA	A62968368	Spain				
Perstorp Chemicals Korea Co. Ltd	230111-0095660	South Korea				
Perstorp Holding Singapore Pte Ltd	200719657R	Singapore	100	100	0	291
Perstorp Singapore Pte Ltd	199607827W	Singapore				
PLS Holding Pte Ltd	200717627E	Singapore				
Perstorp Holding France SAS**	504867300 R.C.S., Lyon	France	100	-	95	-
Chloralp SAS**	411129612 R.C.S., Grenoble	France				
Perstorp TDI France SAS**	504868183 R.C.S., Lyon	France				
Perstorp France**	444187884 R.C.S., Paris	France				
Total					**7,877**	**9,286**

All companies are wholly-owned by the Group with exception of Shandong Fufeng Perstorp Chemical Co. Ltd. The Group´s participating interest in this Chinese company is 58,5 (51,0)%. During 2008 companies marked with ** have been added to the Group. Further, the previous owned companies YLA, CCS Composites and Financière Daunou have been sold, for more information see note 30.

SEK m	2008	2007
Opening book value	9,286	6,073
Acquisitions	95	3
Eliminated subsidiary at merger (Sydsvenska Kemi AB)	-	-5.691
New subsidiary at merger (Perstorp AB)	-	8.416
Shareholder contribution, unconditional	-	485
Write-down	-1,504	-
Closing book value	**7,877**	**9,286**

18 Accounts receivable & other operating receivables

SEK m	Group Dec. 31, 2008	Dec. 31, 2007
Accounts receivable, gross	2,161	1,531
Provision for bad debts	-29	-35
Accounts receivable, net	**2,132**	**1,496**
Other operating receivables		
Value added tax	263	89
Emission rights	78	0
Receivables from suppliers	20	4
Market value of electricity hedge contracts	-	13
Other current receivables	23	32
Deferred income, Formox project (see table below)	3	15
Prepaid insurance premiums	5	5
Other prepaid costs and deferred income	64	87
Total other operating receivables	**456**	**245**

The Parent Company had other operating receivables totaling SEK 6 m (3).

Deferred income, Formox project	Dec. 31, 2008	Dec. 31, 2007
Deferred costs plus profit mark-up	174	67
Advance payments from customers	-171	-52
Total deferred income Formox project	**3**	**15**

Analysis of accounts receivable	Dec. 31, 2008	Dec. 31, 2007
Not due receivable	1,628	1,260
Due receivable:		
1-10 days	229	157
11-30 days	175	58
31-60 days	67	7
61-90 days	21	4
91-180 days	10	22
181 days or more	31	23
Accounts receivable, gross	**2,161**	**1,531**
Provision for bad receivables	-29	-35
Accounts receivable, net	**2,132**	**1,496**
Proportion of accounts receivable due	24.7 %	17.7 %
Proportion of accounts due over 60 days	2.9 %	3.2 %
Reservation in relation to total accounts receivable	1.3 %	2.3 %

For more details of the credit risk in outstanding receivables, see the section on Counterparty risk in note 3.

Provision for bad receivables	2008	2007
Allocation, opening balance	-35	-14
Recovered predicted customer losses	3	1
Established customer losses	9	3
Provision for predicted customer losses	-6	-25
Allocations at year-end	**-29**	**-35**

19 Cash & cash equivalents

SEK m	Group Dec. 31, 2008	Group Dec. 31, 2007	Parent Company Dec. 31, 2008	Parent Company Dec. 31, 2007
Deposit account	24	156	-	130
Overdraft facility	261	291	69	-
Cash	1	-	-	-
Total	**286**	**447**	**69**	**130**

The deposit account in the Parent Company at the end of 2007 consisted of blocked bank deposits in expectation of new financing with regard to a business acquisition.

20 Inventories

SEK m	Group Dec. 31, 2008	Dec. 31, 2007
Raw material and consumables	596	357
Products in progress	40	57
Finished goods and goods for resale	1,192	678
Work in progress on behalf of others	10	8
Advance payment to suppliers	44	-
Impairment reserve	-55	-10
Total	**1,827**	**1,090**

	2008	2007
Impairment reserve, opening balance	-10	-1
Acquisitions and divestments (note 30)	-28	-
Provision utilized during the year	2	-
Allocation for the year	-14	-9
Translation effects	-5	-
Impairment reserve, closing balance	**-55**	**-10**

Of the total value of inventories, SEK 388 m (10) is assessed at net realizable value. During the assessment of net selling price impairment that affects earnings has arisen (Cost of goods sold) amounting to SEK 77 m (0). The net value of the year's allocations/provisions utilized during the year affects earnings for the year.

Bank loans are secured with inventories (in Singapore) worth SEK 0 m (84).

21 Borrowings and financial expenses

A. Specification net debt

SEK m	Group		Parent Company	
	Dec. 31, 2008	Dec. 31, 2007	Dec. 31, 2008	Dec. 31, 2007
Senior loans	9,264	4,585	2,200	3,384
Second lien	704	610	704	610
Mezzanine	3,122	2,257	3,122	2,257
Revolver	155	211	155	-
Term loan, Singapore	-	453	-	-
Inter-company financial liabilities	-	-	5,200	1,642
Other financial liabilities, excluding loans from Parent Company [1]	359	340	5	73
Financial liabilities, excl. Parent Company loans and pension liabilities	**13,604**	**8,456**	**11,386**	**7,966**
Interest-bearing pension liabilities, net	412	249	-	-
Loan from Parent Company	3,038	2,362	3,038	2,362
Total interest-bearing liabilities	**17,054**	**11,067**	**14,424**	**10,328**
Cash and cash equivalents	-286	-447	-69	-130
Inter-company financial receivables	-	-	-6,420	-1,358
Other interest-bearing receivables, long and short-term	-277	-88	-269	-
Interest-bearing assets	**-563**	**-535**	**-6,758**	**-1,488**
Net debt incl. pension liabilities	**16,491**	**10,532**	**7,666**	**8,840**

[1] Of which, long-term financial leasing liabilities accounted for SEK 30 (22) m and current leasing liabilities for SEK 17 (9) m.

The Net debt includes secured loans (bank loans and other borrowing against collateral) of SEK 2.753 (1.137) m pertaining to buildings and land, SEK 1.724 (1.173) m pertaining to chattel mortgages and SEK 514 (0) m pertaining to patents. Shares in the Group's larger companies have also been pledged. For pledged assets, see note 28.

B. Maturity structure

SEK m	Group		Parent Company	
	Dec. 31, 2008	Dec. 31, 2007	Dec. 31, 2008	Dec. 31, 2007
Between 1 or 2 years	686	424	430	277
Between 2 and 3 years	853	611	561	525
Between 3 and 4 years	6,312	1,725	561	1,638
Between 4 and 5 years	1,238	2,674	1,228	1,449
More than 5 years	3,146	2,676	3,120	2,258
Long-term borrowing, excl. Parent Company loans and pension libabilities	**12,235**	**8,110**	**5,900**	**6,147**
Short-term borrowing, 0-1 year	1,369	346	286	177
Inter-company financial liabilities	-	-	5,200	1,642
Financial liabilities, excl. Parent Company loans and pension liabilities	**13,604**	**8,456**	**11,386**	**7,966**

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

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

C. Currency composition, interest rates & duration	Local currency	SEK m	Effective rate on balance sheet date, %	Duration, days before interest hedging	Actual duration, days
SEK	3,744	3,744	5.1	45	332
EUR	563	6,152	10.8	34	327
USD	467	3,619	5.3	74	344
Other currencies		89	5.5	118	127
Financial liabilities, excl. Parent Company loans and pension liabilities		**13,604**	**7.7**	**48**	**332**

In accordance with the Group's finance policy, interest rate hedging is applied in order to fix the interest rates for at least half of the bank loans. Approximately 60% of interest rates were hedged at the end of the year for an average period of around two years. Accordingly, the actual period of fixed interest is 332 days. Market valuation of the interest rate hedging contracts had a negative impact of SEK 163 m after tax on the Group's shareholders' equity.

In addition to these loans, loans from the Parent Company in Luxembourg amount to SEK 3,038 m. They have a duration of 10 years, but are extended automatically during up to five periods of 10 years assuming that none of the parties concerned terminate the agreement. The interest rate amounts to 10%.

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

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

SEK m	Net assets per currency, before loans in foreign currency	Loans in foreign currency, Swedish companies	Loans in other currency than local currency, in foreign companies	Exposed net assets
EUR	3,327	-3,825	971	473
USD	669	-	-1,157	-488
GBP	371	-	1,077	1,448
SEK	-4,577	3,825	-891	-1,643
Other currencies	131	-	-	131
Total	**-79**	**-**	**-**	**-79**

E. Unutilized credits

The Group's available credit limits at year-end, in addition to those available in the form of cash and cash equivalents, amounted to SEK 663 m (389).

F. Financial income and costs	Group		Parent Company	
SEK m	2008	2007	2008	2007
Interest income	8	6	1	2
Interest income, Group companies	-	-	121	56
Other financial income	4	1	-	-
Total financial income	**12**	**7**	**122**	**58**
Bank loans	-980	-684	-668	-598
Loans from Parent Company	-253	-199	-253	-199
Allocation of borrowing costs	-115	-48	-42	-42
Pension costs, interest	-7	-5	-	-
Currency gains & losses from financing measures, net	-216	26	-670	-78
Interest income and costs from interest swaps	58	28	12	28
Interest costs, Group companies	-	-	-98	-94
Write down of financial receivable	-31	-	-	-
Other financial costs	-9	-9	9	-5
Total financial costs	**-1,553**	**-891**	**-1,710**	**-988**
Net financial items	**-1,541**	**-884**	**-1,588**	**-930**

G. Market valuation of financial instruments

The Group arranges its loans on market terms. For external loans, interest terms are based on underlying official market rates plus an interest margin. When these loans are not subject to organized trading, an objective market assessment is not possible.

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

22 Current and deferred income taxes

A. Income taxes in the income statement

SEK m	Group 2008	Group 2007	Parent Company 2008	Parent Company 2007
Current tax	-52	-70	-1	-
Deferred tax	313	23	-	-
Total	**261**	**-47**	**-1**	**-**

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

Tax cost	Group 2008	Group 2007	Parent Company 2008	Parent Company 2007
Pretax earnings	-888	-81	-1,044	-8
Tax computed on basis of national tax rates applying in each particular country	248	26	292	2
Adjustment for different tax rates in different countries [1]	-16	-18	-	-
Non-taxable revenues	67	21	129	84
Non-tax-deductible costs	-86	-43	-422	-86
Adjustment due to changed tax regulations	82	-19	-	-
Adjustment due to new judgements	24	-3	-	-
Tax loss carryforwards for which no deferred tax asset has been recognized	-53	-12	-	-
Tax cost not related to current year's profit/loss and other tax expenses	-5	-	-	-
Tax cost	**261**	**-47**	**-1**	**0**

1) The effective tax rate is adjudged to be 30 (32)%. The fact that earnings at certain tax rates are mixed with losses at other tax rates distorts the impression provided by the effective tax rate above.

B. Deferred income tax, net – change

SEK m	Group 2008	Group 2007
Opening balance, net tax liability	1,738	1,658
Acquisitions	2	108
Exchange-rate differences	201	7
Reclassification vs fixed assets	-130	-
Tax recognized in the income statement (table A)	-313	-23
Tax recognized in shareholders' equity	-234	-12
Closing balance net deferred tax liability	**1,264**	**1,738**

C. Deferred tax assets, specification

SEK m	Group Dec. 31, 2008	Group Dec. 31, 2007
Intangible fixed assets	131	6
Loss carryforwards	568	237
Provisions	56	49
Other liabilities	82	-
Total	**837**	**292**

D. Deferred tax liability, specification

SEK m	Group Dec. 31, 2008	Group Dec. 31, 2007
Tangible fixed assets	973	935
Intangible fixed assets	1,130	1,076
Other receivables	-2	19
Total	**2,101**	**2,030**

E. Tax loss carryforwards

The value of unutilized tax loss carryforwards is capitalized in cases where it is expected that the carryforwards will be utilized in the foreseeable future. In addition, there are unutilized tax loss carryforwards totaling SEK 619 m (164) and temporary differences totaling SEK 41 m (88) that have not been assigned any value, since it is considered that these will not be utilized in the foreseeable future. The unutilized tax loss carryforwards relate primarily to Italy, Singapore and Korea. In Italy and Korea the carryforwards may be utilized within a five-year period, while in Singapore there is no time limit.

The deferred tax assets related to unutilized tax loss carryforward mainly refers to Sweden, UK and Singapore. These can be used against deferred tax liabilities.

23 Pension obligations & costs

The Group has both defined-contribution and defined-benefit pension plans. During the year costs for these plans had an accumulative effect on earnings of SEK 223 m (163), of which SEK 203 m (147) is attributable to defined-contribution plans and SEK 20 m (16) to defined-benefit plans. In the accumulated pension cost is expenses attributable to restructuring included by SEK 45 m (0). The net pension cost (excluding restructuring expenses) amounting to SEK 178 m (163) is allocated within the income statement as follows:

	2008	2007
Cost of goods sold	99	83
Selling and marketing costs	25	25
Administrative costs	33	36
Research and development costs	14	14
Net financial items	7	5
Total	**178**	**163**

Defined-contribution pension plans

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

Pension costs, defined-contribution plans SEK m	2008	2007
State pensions plans	74	62
Other defined-contribution pension plans	67	36
ITP, insured through Alecta	62	49
Total pension costs, defined-contribution plans	**203**	**147**

Most of the Group's Swedish companies have secured their obligations for old-age and family pensions via pension insurance with Alecta. In accordance with a statement by the Swedish Financial Accounting Standards Council, UFR3, this is a defined-benefit plan that covers several employers. For the 2008 and 2007 financial years the Group did not have access to information that enabled it to report this plan as a defined-benefit pension plan, so it is therefore reported as a defined-contribution pension plan. The surplus at Alecta may be divided between the plan provider or the insured. At year-end 2008, Alecta's surplus in the form of its collective funding ratio amounted to 112% (152). The collective funding ratio equals the market value of Alecta's assets, in percentage of the insurance obligations as computed in accordance with Alecta's actuarial calculation assumptions; this does not comply with IAS 19.

Defined-benefit pension plans

There are defined-benefit pension plans in most of the countries in which the Group is active. The main provisions for defined-benefit pension plans pertain to the Pension Registration Institute (PRI, Sweden), Indemnités de Fin de Carrière (IFC, France), Pensionszulage (Germany), pension plans for employees in certain currently divested units and specific pension insurance plans for senior executives in various countries. The provisions for pensions accounted in the balance sheet at year end due to defined benefit plans is presented below with a deviation between unfunded and funded/partly funded plans.

Provisions for pensions, defined benefit plans SEK m	Dec. 31, 2008	Dec. 31, 2007	Dec. 31, 2006	Dec. 31, 2005
Unfunded pension plans				
Defined-benefit obligations	350	187	193	196
Unrealized actuarial gains and losses	19	24	8	-35
Salary taxes	9	9	9	-
Total unfunded pension plans	**378**	**220**	**210**	**161**
Funded or partly funded pension plans				
Defined-benefit obligations	277	220	217	251
Fair value of plan assets	-184	-202	-205	-218
Net value	93	18	12	33
Unrealized actuarial gains and losses	-59	11	17	-21
Total funded or partly funded pension plans	**34**	**29**	**29**	**12**
Net liability concerning defined-benefit pension plans	**412**	**249**	**239**	**173**
Commitments are divided as follows by region:				
Sweden	146	141	136	96
Other EU	234	80	75	65
USA	29	25	26	9
Other countries	3	3	2	3

The plan assets presented here relate primarily to Group companies in the US, 93% (96), of which 53% (65) are invested in stocks and 47% (35) in bonds as interest-bearing securities. The expected return is assumed to be 9.0% (9.0) and 5.8% (4.7) respectively, which is based on historic returns. The actual return on plan assets in 2008 was SEK -47 m (14).

In addition to the above, so-called direct pensions are included under assets and liabilities at SEK 59 m (69). The assets and liabilities are reported separately at gross amounts. Healthcare insurance is not included in pension commitments.

Provision for pensions net, changes during the year SEK m	2008	2007
Opening balance	249	239
Pension costs during the year	20	16
Acquisitions and divestments (note 30)	126	-
Disbursements during the year	-17	-7
Translation effects	34	1
Closing balance, provision for pensions, net	**412**	**249**

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

Pensions cost, defined-benefit plans SEK m	2008	2007
Costs for current year service	13	11
Expected return on plan assets	-15	-15
Interest expense	22	20
Total pension costs, defined-benefit plans	**20**	**16**

The changes during the year due to commitments, plan assets and unrealized actuarial gains and losses are as follows:

SEK m	2008 Defined-benefit plans, unfunded	2008 Defined-benefit plans, funded or partly funded	2008 Plan assets	2007 Defined-benefit plans, unfunded	2007 Defined-benefit plans, funded or partly funded	2007 Plan assets
Opening balance	**187**	**220**	**-202**	**192**	**218**	**-206**
Costs for current year service	8	5	-	6	5	-
Expected return on plan assets	-	-	-15	-	-	-15
Interest expense	9	13	-	8	12	-
Acquisition and divestments (note 30)	126	-	-	-	-	-
Fees from employer	-	-	-5	-	-	-1
Disbursement	-13	-7	8	-6	-8	8
Actuarial profit/loss	7	1	61	-16	5	-
Translation effects	26	45	-31	3	-12	12
Closing balance	**350**	**277**	**-184**	**187**	**220**	**-202**

	2008 Unrealized actuarial earnings, unfunded	2008 Unrealized actuarial earnings for funded or partly funded plans	2007 Unrealized actuarial earnings, unfunded	2007 Unrealized actuarial earnings for funded or partly funded plans
Opening balance	**24**	**11**	**8**	**17**
Changed assumptions for outstanding commitments	-7	-1	9	-5
Changed assumptions for outstanding commitments based on experience	-	-	7	-
Difference between expected and actual return on plan assets	-	-61	-	-
Amortization	-	-	-	-
Translation effects	2	-8	-	-1
Closing balance	**19**	**-59**	**24**	**11**

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

Key actuarial assumptions	2008	2007
Discount rate, %	5.4	5.1
Future salary increases, %	3.3	3.6
Anticipated return on plan assets, %	7.7	7.4
Anticipated average remaining employment term, year	14.8	15.0

Parent Company

The Parent Company reports a pension expense of SEK 17 m (16), which is solely based on defined-contribution plans as there were no benefit-based pension plans at the end of the two most recent financial years. For classification reasons, the entire amount is reported as administration costs in the income statement. It should also be noted that SEK 2 m (0) of the cost is attributable to restructuring.

24 Other liabilities, provisions

SEK m	Group Dec. 31, 2008	Group Dec. 31, 2007	Parent Company Dec. 31, 2008	Parent Company Dec. 31, 2007
Special salary tax, pension commitments	15	17	12	14
Pension obligations, interest-free	17	17	-	-
Market value, hedge contracts [1]	38	-	-	-
Provision for previously divested operations	12	11	-	-
Other provisions	11	2	2	-
Other liabilities, provisions	**93**	**47**	**14**	**14**

[1] Of which SEK 11 m (0) relates to electricity hedge contracts.

25 Accounts payable & other operating liabilities

SEK m	Group Dec. 31, 2008	Group Dec. 31, 2007	Parent Company Dec. 31, 2008	Parent Company Dec. 31, 2007
Accounts payable	**1,506**	**1,111**	**11**	**5**
Other operating liabilities				
Value added tax	201	10	-	-
Advance payments	231	75	-	-
Payroll tax	18	16	1	1
Other operating liabilities	178	74	-	-
Accrued wages, salaries and social security costs	314	253	27	23
Market value, hedge contracts	103	-	-	-
Allocation for restructuring costs	72	-	7	-
Other accrued costs and prepaid income	240	323	4	1
Total	**1,357**	**751**	**39**	**25**

26 Employees & wages, salaries & other remuneration

Average number of employees	2008		2007	
Country	Total employees	of which men	Total employees	of which men
Sweden				
Parent Company	25	15	9	8
Subsidiaries	942	637	927	644
Belgium	42	33	43	34
Finland	25	14	25	13
France	222	184	6	4
Italy	34	26	34	26
Netherlands	34	24	30	21
Spain	2	2	-	-
UK	69	62	6	4
Germany	126	113	132	116
Total EU	**1,521**	**1,110**	**1,212**	**870**
Brazil	6	4	6	4
Chile	84	70	79	74
USA	115	97	156	138
Total North & South America	**205**	**171**	**241**	**216**
India	207	200	220	212
Japan	6	4	3	2
China	242	183	70	47
Singapore	98	75	12	7
South Korea	17	13	27	23
Total Asia	**570**	**475**	**332**	**291**
Total average no. of employees	**2,296**	**1,756**	**1,785**	**1,377**
of which men, %		**76.5**		**77.1**

Remuneration to employees

	Group		Parent Company [1]	
SEK m	2008	2007	2008	2007
Salaries and other remuneration	901	701	39	34
Pension – defined-contribution (note 23)	203	147	17	16
Pension – defined-benefit (note 23)	20	16	-	-
Social fees	203	134	6	8
Total	**1,327**	**998**	**62**	**58**

[1] The costs are presented in accordance with IFRS.

In 2008 costs of SEK 71 m (0) are attributable to efficiency-improving measures and the implementation of long-term savings.

Of reported pension costs, SEK 5 m (6) are for the Board, CEO and former CEO of the Parent Company. Only a small part of the amount is for defined-benefit pension plans. The costs for the Parent Company are presented above.

Wages, salaries and other remuneration, by country

SEK m	2008		2007	
	Board and CEO	Other employees	Board and CEO	Other employees
Sweden				
Parent Company	12	27	14	20
Subsidiaries	3	448	2	410
Belgium	0	21	0	20
Finland	1	19	1	11
France	0	95	0	4
Italy	0	15	0	14
Netherlands	0	15	0	11
Spain	0	1	0	0
UK	2	33	2	2
Germany	0	70	0	69
Total EU	**18**	**744**	**19**	**561**
Brazil	0	3	0	2
Chile	0	14	0	13
USA	0	57	2	73
Total North- & South America	**0**	**74**	**2**	**88**
India	1	9	0	10
Japan	0	6	0	3
China	0	7	0	3
Singapore	4	33	0	5
South Korea	1	4	1	9
Total Asia	**6**	**59**	**1**	**30**
Total	**24**	**877**	**22**	**679**

Remuneration to the Group's Board of Directors and Management, 2008

SEK K	Salary	Bonus and other remuneration	Pension costs [1]	Board fee	Total
Chairman of the Board	2,520	2,302	1,537	-	6,359
Other Members of the Board	-	-	-	-	-
President	3,895	2,815	3,258	-	9,968
Other members of Group management	14,933	5,822	8,272	-	29,027
Total	**21,348**	**10,939**	**13,067**	**-**	**45,354**

[1] All pension cost are for defined-contribution plan.

The reported payments pertain to the remuneration expensed for the 2008 fiscal year, certain portions of which will be paid in 2009.

The Chairman of the Board is employed by the company, which is reflected in the above salary, bonus and pension costs. In addition to the remuneration presented above, the chairman of the Board has also invoiced SEK 600 K (0) from an own company due to executed board commitment.

Other members of Group Management comprised 10 (8) persons during the year; the position of EVP Coating Additives was introduced in connection with the acquisition from Rhodia Organics and Lyondell Chimie. During 2008, other members of Group Management exchanged bonus payments of SEK 671 K (207) for pensions. The total amount of salaries, bonus, remuneration and pension cost due to "other members of Group Management" include SEK 5,043 K (0) of restructuring costs.

Principles

Members of the Board receive director fees in accordance with resolutions passed at the Annual General Meeting. Employee representatives do not receive director fees. For 2008, director fees were not paid to Members of the Board.

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

Pension & employment termination

An occupational pension has been taken out for the President corresponding to 56.3% (57.9) of his basic salary. According to a special undertaking, the employment contract can be terminated by both the company and the President as of age 60. The period of employment-termination notice is one year if notice is served by the Company and six months if it is served by the President. If the Company terminates the President's employment, the President will also receive severance pay corresponding to 12 monthly salaries. If organizational changes or other changes initiated by the owners results in significant limitations on the President's responsibility or authority, the President is entitled under certain circumstances to terminate his employment and be subject to the same employment termination terms as those that would have applied if the Company had terminated his employment.

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

27 Contingent liabilities

	Group		Parent Company	
SEK m	Dec. 31, 2008	Dec. 31, 2007	Dec. 31, 2008	Dec. 31, 2007
Guarantees	219	-	219	-
Guarantees and other contingent liabilities for subsidiaries	-	-	7.620	541
Total	**219**	**0**	**7.839**	**541**

These contingent liabilities are not expected to result in any material liabilities. The increase in the Parent Company's contingent obligations was mainly due to increased loan liabilities during the year.

28 Assets pledged

SEK m	Group		Parent Company	
	Dec. 31, 2008	Dec. 31, 2007	Dec. 31, 2008	Dec. 31, 2007
Property mortgages	2,753	1,137	-	-
Chattel mortgages	1,724	1,173	-	-
Shares in subsidiaries	6,834	8,381	7,877	8,995
Liquid funds	77	231	-	130
Investments, receivables and inventory	2,259	376	-	-
Endowment insurances	59	69	48	57
Total	**13,706**	**11,367**	**7,925**	**9,182**

Endowment insurance relates to pension commitments, see note 23.

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29 Future undertakings

At the end of the year the Group had no tangible commitments that had not yet been included in the accounts.

30 Acquistions & divestments

Acquisition of caprolactone activities from Solvay UK on January 31, 2008

Final acquisition analysis, EUR m

Purchase price	187
Transaction costs	4
Total acquisition cost	**191**
Acquired net assets	-157
Goodwill	**34**

	Book value	Market value adjustments	Market value
Trademarks	-	19	19
Technology	-	19	19
Customer relations	-	34	34
Other intangible assets	-	30	30
Tangible fixed assets	26	23	49
Inventories	6	-	6
Total assets	**32**	**125**	**157**
Aquired net assets	**32**	**125**	**157**

Company acquisition on November 17, 2007 Lonza Singapore Pte Ltd

Final acquisition analysis, USD m

Purchase price	122
Transaction costs	1
Total acquisition cost	**123**
Acquired net assets	-123
Goodwill	**0**

	Book value	Market value adjustments	Market value
Licences	3	1	4
Tangible fixed assets	92	7	99
Deferred tax receivable	-	14	14
Inventories	12	3	15
Other current assets	24	-	24
Total assets	**131**	**25**	**156**
Deferred tax liability	13	2	15
Other short-term liabilities	18	-	18
Total liabilities	**31**	**2**	**33**
Acquired net assets	**100**	**23**	**123**

Acquisition of activities within Rhodia Organics & Lyondell Chimie September 1, 2008

Preliminary acquisition analysis, SEK m

Preliminary purchase price	2,467
Transaction costs	52
Total preliminary acquisition cost [1]	**2,519**
Acquired net assets	-2,494
Goodwill	**25**

	Book value	Market value adjustments	Market value
Intangible fixed assets	702	-	702
Tangible fixed assets	1,644	-81	1,563
Financial fixed assets	13	-	13
Inventories	453	14	467
Operating receivables	9	-	9
Cash	15	-	15
Total assets	**2,836**	**-67**	**2,769**
Deferred tax liability	3	-	3
Other short-term liabilities	124	-	124
Operating liabilities	108	-	108
Financial liabilities	40	-	40
Total liabilities	**275**	**-**	**275**
Acquired net assets	**2,561**	**-67**	**2,494**

[1] The purchase price has not been finalized.

All of the acquired units are 100% fully owned. Most part of the acquisitions were asset deals. The Group does therefore not have sufficient grounds to give an accurate representation of earnings pro forma for the full year.

During the year two companies were sold, YLA and CCS Composites in the US. The selling price was USD 32 m, which resulted in a net capital gain of SEK 116 m. At the time of the sale liquid funds in the company amounted to SEK 1 m, which was settled against the liabilities taken over by the buyer. The transaction resulted in positive cash flow for Perstorp amounting to SEK 170 m. Annual sales for the divested business amounted to USD 24 m.

31 Business transactions with related parties

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

Within the framework of an incentive program, PAI partners offered senior Group executives an opportunity to become shareholders in the Parent Company Financière Forêt S.À.R.L. and a total of around 150 manager and others key personnel participate, with contributions amounting to around EUR 4 million. Shares and options were priced on normal commercial terms. There is an on-going process to widen the incentive program, to include Senior Executives in the newly acquired businesses.

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

Perstorp Holding AB has a loan from the Parent Company corresponding to SEK 3,038 m at year-end. The loan is subject to normal market terms and conditions. The term of the loan is ten years, which is extended automatically for up to five periods each of ten years, assuming that neither of the parties terminates the agreement. The interest rate is 10%, which is capitalized. The loan is subordinate to the senior loans, second lien and mezzanine loans.

During 2008 Perstorp Holding AB received shareholders´contribution amounting to SEK 787 m (0), where SEK 220 m was accounted for as receivables by balance sheet date. The amount has been settled by the Parent Company by end of February 2009.

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

Remuneration to the Group´s Board of Directors and Management is reported in Note 26.

32 Sickness absence

Sickness absence as a percentage of ordinary working time, %	2008		2007	
	Group	Swedish operations	Group	Swedish operations
Total	**2.4**	**2.6**	**2.4**	**2.4**
Uninterrupted sickness absence of 60 days or more	*)	1.1	*)	1.2
Sickness absence by gender				
Men	*)	1.9	*)	2.1
Women	*)	2.6	*)	2.9
Sickness absence by age				
-29	*)	1.7	*)	2.3
30-49	*)	1.9	*)	2.5
50-	*)	2.7	*)	2.1

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

33 Proportion of women who are members of company boards & management

	2008			2007		
	Total	Of whom women	%	Total	Of whom women	%
Board members	130	7	5	119	4	3
Other Senior Executives	125	31	25	131	32	24

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

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

34 Auditors' fees

	Group		Parent Company	
	2008	2007	2008	2007
PricewaterhouseCoopers:				
Audit assignments	10	5	2	1
Other	4	1	1	-
Other auditing firms:				
Audit assignments	-	-	-	-

Audit assignments comprise verification of the annual report and accounts and the administration of the Board and President, other assignments that are required to be performed by the company's auditors and advice or other support arising from observations made during verification or performance of other duties. All other work is referred to as 'Other' and mainly refers to consultation on accounting activities. The cost in 2008 were affected to a high degree by acquisition activities.

35 Currency exchange rates

Currency	Year-end exchange rates		Average exchange rates	
	Dec. 31, 2008	Dec. 31, 2007	2008	2007
BRL	3.249	3.680	3.613	3.475
CNY	1.130	0.890	0.948	0.888
EUR	10.936	9.474	9.614	9.252
GBP	11.248	12.905	12.086	13.526
INR	0.160	0.164	0.151	0.164
JPY	0.086	0.057	0.064	0.057
KRW	0.006	0.007	0.006	0.007
SGD	5.375	4.470	4.644	4.485
USD	7.753	6.468	6.590	6.761

Proposed treatment of unappropriated earnings

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

Retained earnings	**SEK**	**1.232.057.407**
Net loss for the year	**SEK**	**-1.044.863.383**
	SEK	**187.194.024**

be distributed as follows:

To be retained in the business	**SEK**	**187.194.024**

Perstorp, March 23, 2009

Lennart Holm
Chairman

Ragnar Hellenius

Bo Dankis
President

Klas Ingstorp

Fabrice Fouletier

Ronny Nilsson

Bertrand Meunier

Stanley Haag

Our audit report was submitted March 23, 2009.

Michael Bengtsson
Authorized Public Accountant
Lead auditor

Ulf Pernvi
Authorized Public Accountant

Auditors´ report

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

We have audited the annual report, the consolidated financial statements, the accounts and the administration of the Board of Directors and the President of Perstorp Holding AB for the 2008 fiscal year. The Company's official annual report is included in the printed version of this document on pages 42-77. The Board of Directors and the President are responsible for these accounts and the administration of the company, and for ensuring that the Annual Accounts Act is applied when the annual accounts are compiled, and that the International Financial Reporting Standards (IFRS) adopted by the EU and the Annual Accounts Act are applied for compiling the consolidated accounts. Our responsibility is to express an opinion on the annual accounts, consolidated accounts and the administration based on our audit.

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

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

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

Perstorp, March 23, 2009
PricewaterhouseCoopers AB

Michael Bengtsson
Authorized Public Accountant
Lead auditor

Ulf Pernvi
Authorized Public Accountant

Board of Directors & Auditors

Elected by the Annual General Meeting

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

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

Fabrice Fouletier (right)
Born 1975
Principal, PAI partners and Director of Financière Forêt S.À.R.L.
Board member since 2006.

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

Other Board Assignments:
Member of the Board of Chr. Hansen (DK), Saeco, Gruppo Coin (IT), Kaufman & Broad, Spie, Yoplait (FR), Monier, Xella (D), PAI Europe III General partner, PAI Europe IV General partner, PAI Europe V General partner, PAI Syndication GP (GG), PAI partners (ES) and PAI Europe IV UK, United Biscuits (UK).

Ragnar Hellenius (right)
Born 1967
Principal, PAI partners
Board member since 2009.

Bo Dankis
Born 1954
President and Chief Executive Officer, Perstorp Holding AB.
Board member since 2006.

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

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 (left)
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 (left)
Born 1959
Authorized Public Accountant – PricewaterhouseCoopers.

Other major auditing assignments:
Morphic Technologies AB, Onoff AB, Haldex AB and Enea AB.

Ulf Pernvi
Born 1949
Authorized Public Accountant – PricewaterhouseCoopers.

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

Deputies

Julio Varela, Investment Officer, PAI partners
Gaëlle d'Engremont, Investment Director, 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

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

Martin Lundin (right)
Born 1968
Deputy CEO and
Executive Vice President – Corporate Human Resources.
Active in the Group since 2008.

Lennart Hagelqvist
Born 1958
Executive Vice President – Performance Products.
Active in the Group since 2004.

Mats Persson (right)
Born 1963
Executive Vice President – Specialty Intermediates.
Active in the Group since 1992.

Christophe Gas
Born 1960
Executive Vice President – Coating Additives.
Active in the Group since 2008.

Bengt Sallmén (right)
Born 1951
Executive Vice President – Corporate Strategic Development.
Active in the Group since 1976.

Corporate functions

Communications
Cecilia Nilsson

Finance
Gunnar Modalen

Financial Control
Anita Haak

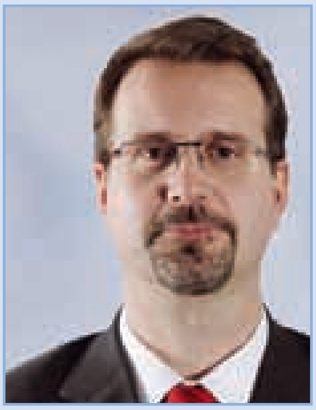
IT
Susanna Frennemo

Jan Petersson
Born 1948
Director Corporate EHSQ.
Active in the Group since 1973.

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

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

David Wolf (left)
Born 1956
Executive Vice President – Group Sales & Marketing.
Active in the Group since 1982.



Martin White
Born 1965
Executive Vice President – Supply & IT.
Active in the Group since 2007.

Johan Malmqvist (left)
Born 1975
Executive Vice President –
Chief Financial Officer.
Active in the Group from May 2009.

Mikael Gedin
Born 1969
Executive Vice President –
Corporate Human Resources.
Active in the Group from May 2009.

In the mines of French Hauterives the salt that is a key raw material in the Perstorp isocyanate production is extracted.

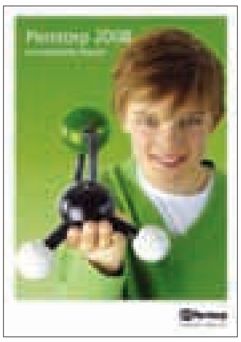
Do you want to know more?

www.perstorp.com
Our Annual Report, financial statement, interim reports and sustainability report are published in Swedish and English and can be downloaded from our website.

The Annual Report may also be ordered from:
bodil.samevik@perstorp.com

Corporate Communications

Cecilia Nilsson
Communications Manager
0435-372 50
cecilia.nilsson@perstorp.com



Perstorp´s reports for 2008

Perstorp publishes a special report on environmental sustainability, in connection with the annual report, in both Swedish and English. The report describes the work of the Group in relation to the environment, safety and health, including corporate social responsibility and work on human resources.

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Your Winning Formula

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

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

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

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

WINNING FORMULAS