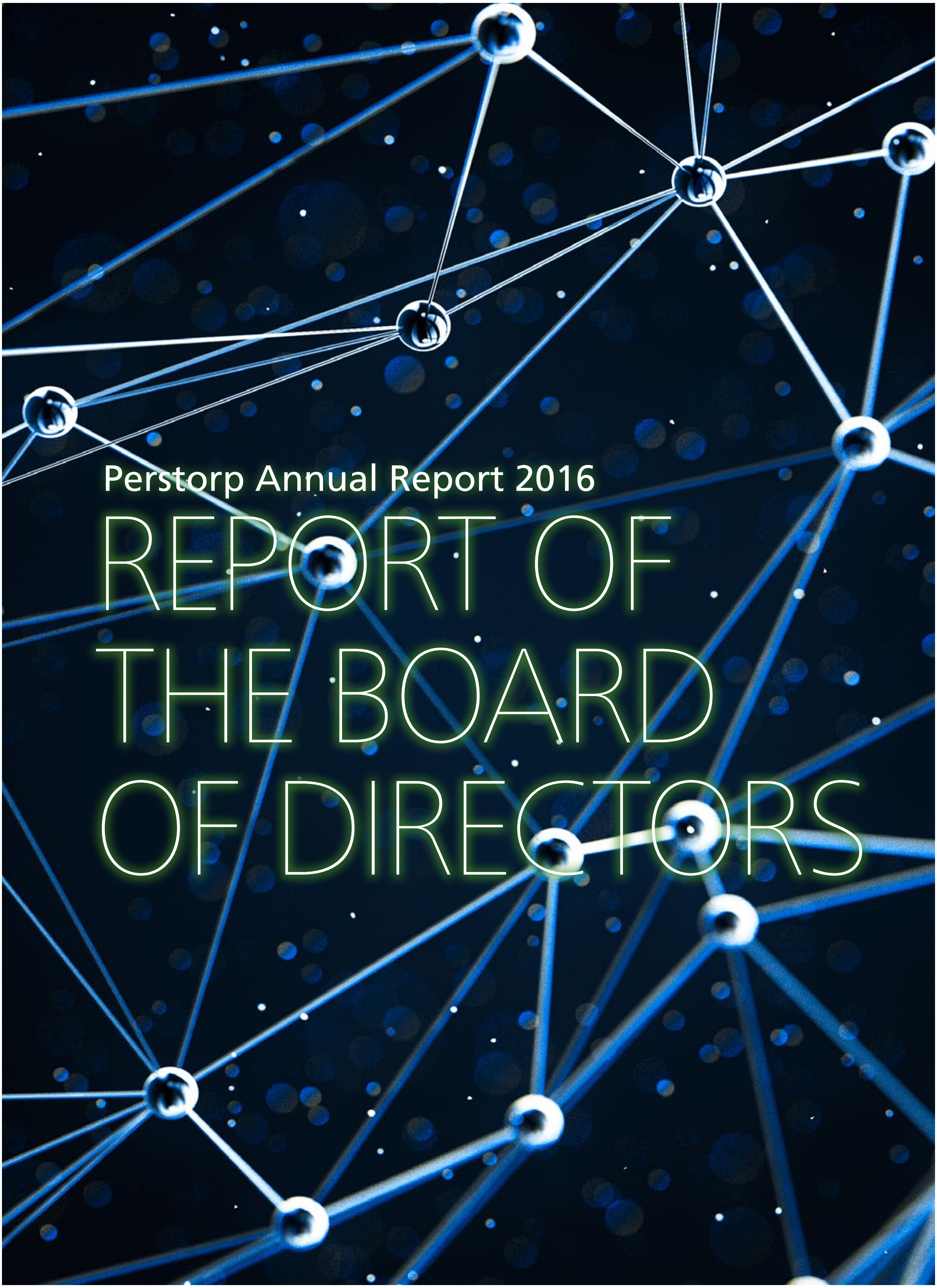
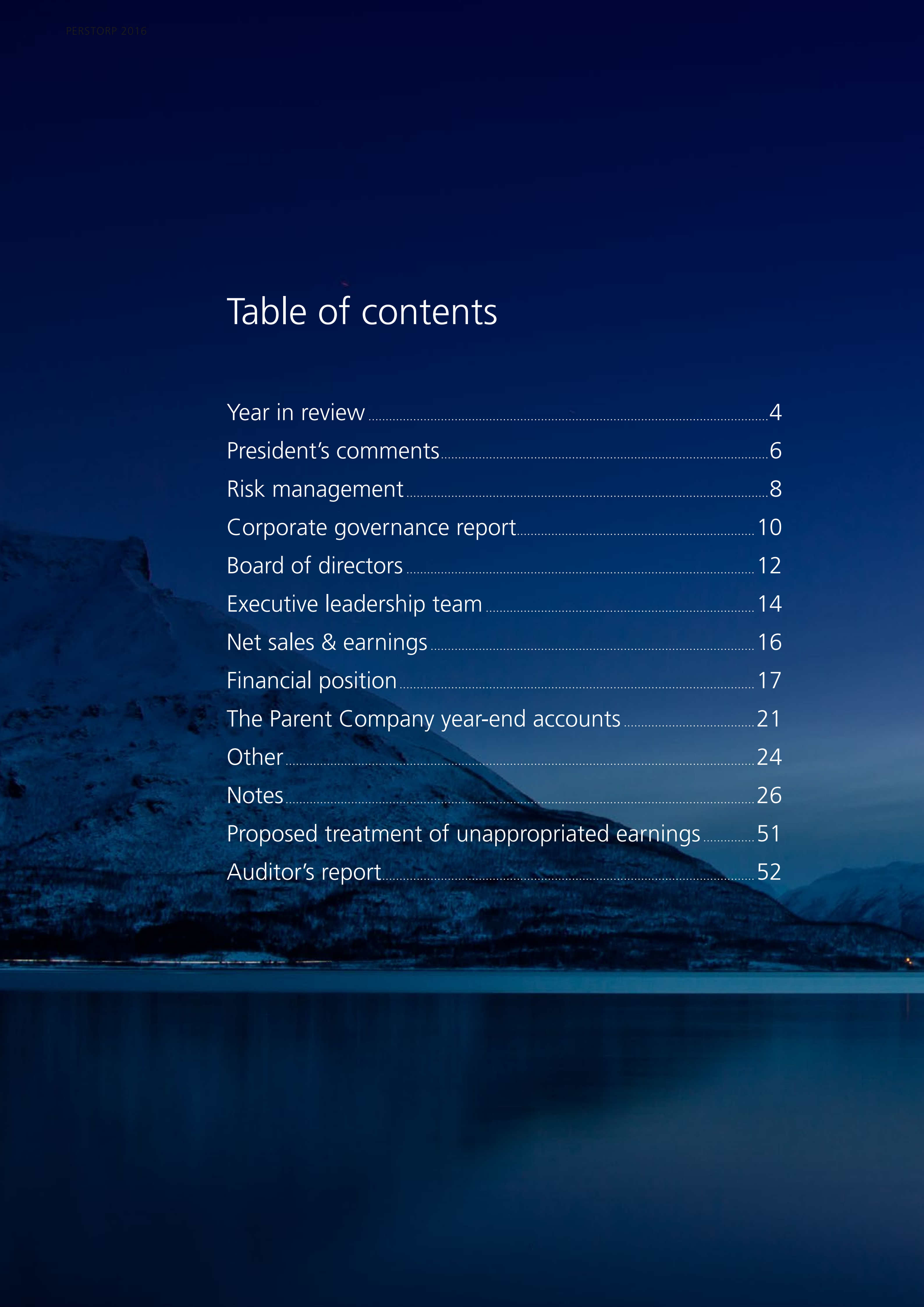
Perstorp Annual Report 2016

# REPORT OF THE BOARD OF DIRECTORS



Perstorp



# Table of contents

"If there is one phrase that signifies this new wave we're navigating now, it's Leadership for Full Potential."

*Jan Secher, President and CEO*

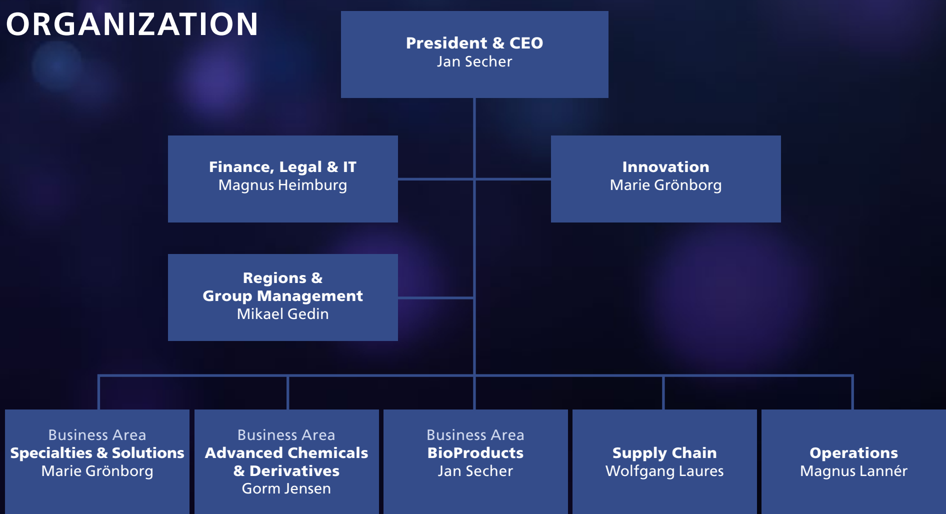
PERSTORP HOLDING AB (PUBL.), CORPORATE REG. NO. 556667-4205
PARENT COMPANY FOR PERSTORP

# Year in review

## KEY FIGURES IN SUMMARY

| | Full year | |
|---|---|---|
| SEK m unless otherwise stated | 2016 | 2015 |
| Net sales | 11,305 | 11,149 |
| Operating earnings before depreciations (EBITDA) | 1,800 | 1,653 |
| % of net sales | 15.9 | 14.8 |
| EBITDA excluding non-recurring items | 1,865 | 1,667 |
| % of net sales | 16.5 | 15.0 |
| Operating earnings (EBIT) | 1,206 | 971 |
| % of net sales | 10.7 | 8.7 |
| Free cash flow | 1,370 | 1,127 |
| Net debt excluding parent company loan and pension liabilities | 12,964 | 11,196 |

## ORGANIZATION



## IMPORTANT EVENTS 2016

Net sales amounted to SEK 11,305 m during the period January to December 2016, an increase of SEK 156 m or 1 % compared to the same period last year. Volumes increased 11 % compared to the same period last year.

Operating earnings before depreciation and amortization (EBITDA) were SEK 1,800 m (1,653). Excluding non-recurring items, the corresponding figure was SEK 1,865 m (1,667), an increase of almost 12 %.

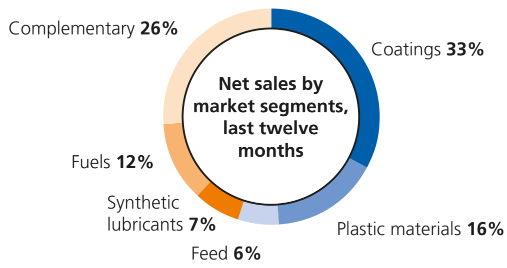
The strategic investment project Valerox, a new production plant for Oxo products in Stenungsund, Sweden, now has a second reactor up and running. This reactor will be used primarily for additional production of valeric acid and 2-PH, which means we now have a facility in place that can address new application areas such as synthetic lubricants and the pharmaceutical industry.

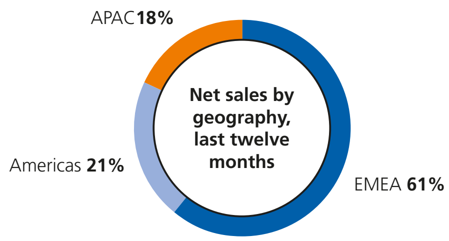
Last year, Perstorp acquired a biodiesel plant in Fredrikstad, Norway. This year the production is fully up and running and has supported growth in the Norwegian market for biofuel and also enabled a step into the non-mobile segment.

2016 was a year of several production records; TMP at site Perstorp where the team already in end of November managed to beat the old yearly volume record, several 7-day-production-records have been achieved at the DPHP plant in Stenungsund and site Zibo delivered a new yearly TMP production record.

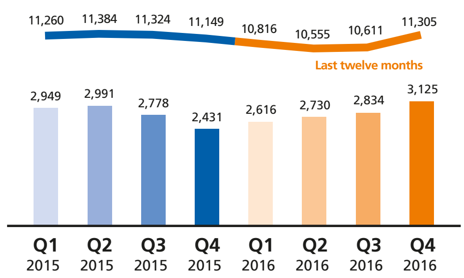
On November 17th, Perstorp successfully closed the refinancing process and secured a renewed long term capital structure, which is a sound basis to continue developing the business and further strengthen the market position in the coming years.

The transformation of Perstorp from a Good to a GREAT company is mid-term, and having made substantial investments, it is now time to harvest the benefits of those and enter a period of consolidation and delivery.

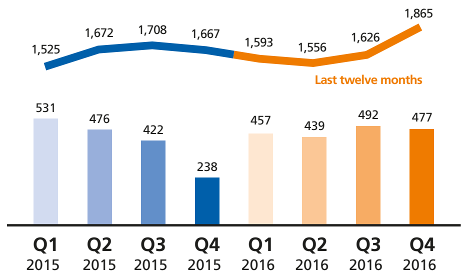



Net sales, SEKm




EBITDA excl. non-recurring items, SEKm




| Other key figures | 2016 | 2015 |
|---|---|---|
| Available funds | 983 | 934 |
| Net debt | 13,424 | 11,609 |
| Net debt excluding parent company loan and pensions liabilities | 12,964 | 11,196 |

# President's comments

*Four years ago, we began an ambitious transformation of Perstorp towards becoming a truly GREAT company. We've differentiated in how we go to market, making big changes in synchronizing our operative model from production to market reality. 2016 brought us another significant step forward in that journey. We clearly showed improved results from all our dedicated work.*

*Yet more than that, 2016 marked our full shift past the mid-way point. A year when we began moving our focus from tools, processes, and what we call the production apparatus to developing our future leadership model. If there is one phrase that signifies this new wave we're navigating now, it's Leadership for Full Potential.*

## LEADERSHIP FOR FULL POTENTIAL

The energy building in the organization for driving Perstorp forward is tangible. We started already in early March with our annual top-management meeting, where we discussed our needs and natural next steps. We worked meticulously on this during the year, and in the fourth quarter, 90 of our top managers and select talents went through an energizing development program. Empowering our people for full potential is a key characteristic of who we are as a company moving forward. It's about developing resilience. If we're only rigged for one type of situation, changes in the world around us could collapse everything. By diversifying and equipping resilient leaders, we're much less affected by external factors. With an empowered leadership, our foundation holds.

## FOCUSED INNOVATION

Central to reaching full potential is one of our three core values: Focused Innovation. We made great progress in many of the products we've taken from development to market. One that stands as a role model is in our Feed area: ProPhorce™ SR. Launched a little more than a year ago, we've seen high volume growth. Other highlights include:

- 11 new patent families filed, a record for Perstorp in one year – a sign of the high quality in our innovation and the solidity of the pipeline we've developed over several years
- signed largest innovation cooperation with an external partner ever, developing renewable-based adhesives using Capa™ lactides together with Corbion in The Netherlands
- new record in externally financed development work: 80 million SEK

"We are positioned for sustainable momentum. And for resilience. Ready to ride out any waves and stay on top."

Our leadership development is also a significant element of our Focused Innovation. For us, it's not just a matter of literal molecule development, but also development of every molecule of talent within our company. Because when it comes to making things better, every individual makes a difference.

## SOLID FINANCIAL PROGRESS

In terms of financial results, we're proud to have achieved an 11% volume-based sales growth. We also saw healthy development on our bottom line, adding 200 million SEK to our EBITDA result to reach 1.865 million SEK. This 16% EBITDA margin is a strong benchmark in our industry. The successful refinancing of our balance sheet also gives us a five-year runway of stable financing.

## SOUND MARKETS

2016 showed overall harmony in terms of our market situation between the Americas, Europe and Asia. Despite geopolitical uncertainty, pure economic facts indicate the regions have found an equilibrium within their different situations. Demand is solid, with no one industry or region sticking out to form an unhealthy dependency for us. We did have some troubled areas in early 2016 with supply/demand balance, putting pressure on pricing. However, we saw strong momentum towards the second half. Raw material prices are increasing, which was not unexpected. We have completed the hard work to establish trending and pricing tools, and it's now up to us to use them to build further resilience.

## DIFFERENTIATING SUCCESS

We have been purposefully moving away from a one-size-fits-all to a more differentiated way of going to market to meet customer needs. 2016 proved we are becoming better and better at serving our customers and their needs, understanding the true value we can bring with a more application-oriented solution when they need it and where it's justified. We're providing enhanced service, carefully measured in terms of on-time-in-full delivery, how we handle complaints and the complaint rate, etc.

## SETTING THE PRODUCTION BAR HIGH

We put increasingly high expectations on availability from our plants in 2016 and will continue to do so going forward. A lot of our focus over the previous couple of years was on the Oxo platform, in particular Stenungsund. Last year we started to shift our investment focus more over to the polyol side, expanding both our Penta and TMP capacity.

## SAFETY STEP-UP

As we increase expectations, we must ensure that safety is the priority. Our performance in 2016 saw our KPIs going in the wrong direction. That is alarming and is something we are addressing with a clear safety step-up plan. Most incidents are human at their root so we're working on attention and action – starting with myself and the Perstorp leadership team, and taking responsibility for following through with an aim at reaching 100% of our tough safety targets for 2017. We are putting processes in place to make safety the instinctive, everyday habit in all actions. We've already implemented regular safety walks with an aim to see and act immediately.

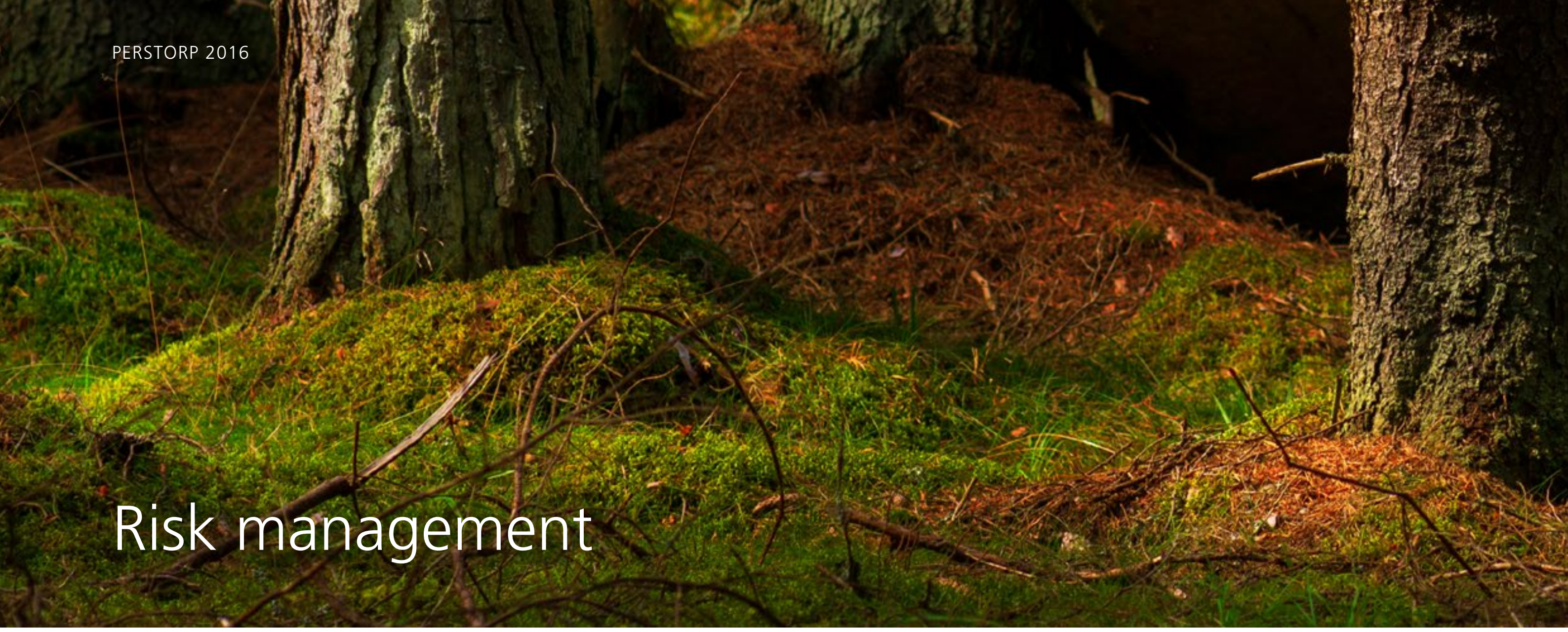
With safety hinging in large part on behavior, our focus on Leadership for Full Potential will deliver essential positive effects in this area as well. I'm confident the momentum we have in the organization, and specifically in our operations, will lead to results. I will not take my eye off this ball, to ensure we provide a safe working environment for our employees, contractors and all who interact with Perstorp.

## FORWARD MOMENTUM FOR 2017

Momentum is building in our organization from many angles. There's solid demand for our products in the market. Energy is clearly also building among our people here in Perstorp as we focus on empowering their full potential. Each person is capable of extraordinary things, and I'm excited to see how much they will achieve. Last but absolutely not least, there's the building awareness and eagerness to change our safety record to become something we can be as equally proud of as the many other things we have achieved so far. Altogether, we are positioned for sustainable momentum. And for resilience. Ready to ride out any waves and stay on top.

MALMÖ, MARCH 2017

Jan Secher
President and CEO



# Risk management

The objective of the Perstorp Group's risk management process is to proactively identify, evaluate and manage risks as early as possible in order to achieve both operational and strategic goals.

Perstorp has categorized risks into the areas of strategic, operational and financial.

## STRATEGIC RISKS

- Business development and industry
- Opportunity
- Regulatory & environment

Strategic risks are those that could have a negative impact or threat the Group's ability to develop in line with previously set strategies covering up to a five year timeframe.

## OPERATIONAL RISKS

- Raw material supply
- Market
- Production disruption
- Corporate governance

The operational risks are those that may have a direct impact on the Group's daily business up to a one-year time horizon.

## FINANCIAL RISKS

- Currency
- Interest rate
- Funding & liquidity
- Counterparty
- Legal

Financial risks address exposure within the Group's financial operations.

During the year, Perstorp has initiated work to further develop the process around risk management. The objective has been to improve the overall risk assessment where risks will be assessed out of three criteria:

- **The impact** on different dimensions of Perstorp's goals in case the event that triggers the risk occurs. The impact dimensions are: Environment & Safety, Financial Operations, Reputation, Compliance, Customers and Market share.
- **The likelihood** of the risk (with this impact) occurring within the strategic planning period
- **The effectiveness** of the risk responses is qualitatively assessed

| Risks | Exposure | Activity |
|---|---|---|
| **STRATEGIC RISKS** | | |
| **Business development and industry** | Negative variances related to investments, acquisitions or divestments and/or changes in technology or competitive environment | Perstorp's strategic processes and routines safeguard that strategies are followed and investment criterias are met |
| **Opportunity** | The company would miss opportunities and trends in the market as a result of failing to identity or capture them in the market at the right time | Perstorp´s Innovation function has a solid process in place to pick up trends and needs in the market at an early stage through a broad interface and network and bring them to the strategic process for proper resource allocation |
| **Regulatory & environment** | Increased operational cost and/or changes in competitive landscape due to changes in laws and regulations | Perstorp has routines and processes to proactively develop best practice production, whilst safeguarding compliance with environment, health and safety legislation |
| **OPERATIONAL RISKS** | | |
| **Raw material** | Eroded margins and/or production disturbance related to volatility in pricing and/or availability of critical raw material | Perstorp's purchasing policy requirers multiple supplies of critical raw materials alternatively to sign long-term agreements. Hedging options is assessed continuously |
| **Market** | Perstorp has a wide range of products aimed at different market segments, and is thereby exposed to changes in supply/demand | Perstorp's broad customer base makes the Group more resilient to demand reductions. In addition, Perstorp follows the supply/demand changes in the market as key indicators for own capacity planning |
| **Production disruption** | Disruptions at Perstorp's plants may lead to loss of earnings if the Group cannot deliver as agreed to customers, and/or if this leads to substitution from other products | Perstorp's process and plant safety indicators and the development of business recovery plans makes the Group more resilient to this risk |
| **Corporate governance (compliance risk)** | The risk of decisions being taken on the wrong grounds or based on inaccurate information | Perstorp's governance model and policies safeguards compliance with external and internal rules and regulations |
| **FINANCIAL RISKS** | | |
| **Currency** | Currency risk is divided in;<br>• translation exposure – risk related to the conversion of the Group's assets and profits, and<br>• transaction exposure – risk related to the value of the Group's cash flow | Perstorp's finance policy defines acceptable currency risk and sets guidelines and hedging methods for the management of these risks |
| **Interest rate** | Interest-rate risk is the risk of a negative impact on the results due to a rise in market interest rates | Perstorp's finance policy defines acceptable interest rate risk and sets guidelines and hedging methods for the management of these risks |
| **Funding & liquidity** | Funding risk is the risk that the Group will not have access to sufficient funding, or that the funding or re-financing of existing loans becomes difficult or too costly | Perstorp's major funding consists of bonds, listed on the Channel Islands Securities Exchange, syndicated mezzanine facilities and a revolving credit facility provided by core banks. Perstorp also follows development of available funds through regular cash flow forecasts. Available funds at the end of 2016 were 983 MSEK |
| **Counterparty** | Counterparty risk is the risk of counter-parties failing to meet obligations in accordance with agreed terms | Perstorp has a comprehensive credit policy aiming to prevent credit losses and optimize tied-up capital |
| **Legal** | Legal risk is the risk of a negative impact on the Group's result or reputation arising from litigation, arbitration, disputes, claims or participation in legal proceedings | Perstorp's legal policy provides the framework and procedures for handling potential disputes |

# Corporate governance report

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

## GENERAL MEETING

The General Meeting is the forum where shareholders make certain decisions about Perstorp Holding AB and its subgroups subsidiaries. The Annual General Meeting was held on 12 May 2016, at which the annual report for the 2015 financial year was adopted together with the proposal for distribution of profits. The Board of Directors was re-elected at the meeting.

## BOARD OF DIRECTORS

At the end of 2016, the Board of Directors consists of seven members, all nominated and elected by the company owners. The individuals re-elected to the Board at the 2016 Annual General Meeting were Tore Bertilsson, Fabrice Fouletier, Jan Secher, Karin Markides, Brendan Cummins, Ragnar Hellenius and Claes Gard. In addition to the aforementioned individuals the Board also includes three employee representatives.

The responsibilities of the Board are regulated by the Swedish Companies Act and the formal working procedures, which are approved by the Board once a year. These procedures outline the assignments of the Board and which decisions must be taken at Board level. The working procedures also regulate the division of responsibility between the Board, its committees and the President. The work of the Board is led by the Chairman. The division of responsibilities among Board members does not extend beyond certain special assignments for the Chairman. During 2016, nine scheduled Board meetings were held, as well as one statutory convening meeting and three extra board meetings. Minutes are kept at all meetings. On average, attendance at Board meetings for ordinary Board members has been 99 %. Other employees have also attended meetings, either to make presentations or give specialist information prior to key decisions. Every month the Board receives a written report presenting and analyzing the development of the Group and the earnings and financial position. Preparatory materials are sent to Board members before each Board meeting. The President is also in continuous contact with the Chairman of the Board. The following points are addressed at each Board meeting:

– Responsible Care report, status report from the President;
– Financial position and outlook;
– Investment decision for projects worth more than SEK 15 m;

### Other important matters:

In addition to these fixed agenda items, a number of main subjects such as the budget, forecasts, refinancing and financial structure has been addressed during the year. The extra Board meetings during the year were held to address refinancing and financial structure.

## AUDIT COMMITTEE

The Board is served by an Audit Committee which focuses on securing the quality of the Group's financial reporting and risk management and the committee is therefore also close to the development of control instruments for internal control. An important activity is to follow up and assess the external audit. The committee does not have decision-making rights. Decisions shall be made by the Board. In the end of 2016 the Audit Committee consisted of the following members: Fabrice Fouletier, Claes Gard, Ragnar Hellenius and Tore Bertilsson. During the year the committee held six ordinary meetings. Minutes were taken at all meetings.

## REMUNERATION COMMITTEE

The Board is also served by a Remuneration Committee. The task of this committee is to propose 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 certain decision-making powers. In the end of 2016 the Remuneration Committee consisted of Board members Tore Bertilsson, Brendan Cummins, Fabrice Fouletier and Ragnar Hellenius. The committee held two ordinary meetings during the year which were minuted.

## PRESIDENT & EXECUTIVE LEADERSHIP TEAM

The President of the Group, Jan Secher, is also elected by the Board as the CEO of the parent company. He exercises the ongoing control of the Group. The EVP of the Business Area's Advanced Chemicals & Derivatives and Specialties & Solutions report to him along with the EVP Supply chain, EVP Operations, EVP Regions & Group Management, EVP Finance, Legal & IT and EVP Innovation. The President manages the business in accordance with the instructions concerning the division of responsibilities between the Board and President adopted by the Board. The work of the President and Board is assessed annually.

## EXTERNAL AUDITORS

Perstorp's auditors has been elected by the Annual General Meeting for a four-year period. With effect from 2017, the company's auditors will be elected for a term of office of one year. Auditing firm PricewaterhouseCoopers AB (PwC) has been appointed auditors of the company with Michael Bengtsson being the lead auditor. The Board's and Group Management's aim is to have a close relationship with the auditors, to the extent that they shall be kept well informed about relevant issues concerning the accounts, reporting procedures and management of the company's/Group's assets. There is therefore a continuous dialogue with the auditors and they participate in at least one Board meeting per year. The auditors receive the minutes of Board meetings, documents relating to Board decisions, and the monthly financial reports for the Group. During the year PwC performed assignments relating to the audit in addition to regular auditing work. On all of those occasions the Group has emphasized that the additional services shall not compromise the independence of the audit, which has also been carefully examined by PricewaterhouseCoopers.

## INTERNAL CONTROL

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

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

For a number of years the Group has each year performed an extensive self-assessment of internal controls. The majority of the subsidiaries were assessed in 2016. 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 implementation of a new ERP system in several of our companies in Sweden led to improved capabilities for performing and ensuring good internal control. The assessment has been complemented with a partly expanded verification operation by the company's auditors for certain areas. In relation to this, special follow-up has been carried out from the central level within the Group. Work aimed at securing good internal control is a constantly ongoing process.

# Board of directors

## ELECTED BY THE ANNUAL GENERAL MEETING

### Tore Bertilsson

Member and Chairman of the Board of Directors since 2015. Born 1951.

OTHER BOARD ASSIGNMENTS
Chairman of the Board of Directors of Semcon AB, Försäkringsbolaget PRI Pensionsgaranti and AB Ludvig Svensson. Member of the Board of Directors of Intrum Justitia AB, INGKA Holding BV, Gunnebo AB, JCE Group AB and Ågrenska AB.

### Jan Secher

President and CEO Perstorp Holding AB, Executive Vice President Business Area BioProducts. CEO and member of the Board of Directors since 2013. Born 1957.

OTHER BOARD ASSIGNMENTS
Member of the Board of Directors of Elekta AB, and CEFIC (The European Chemical Industry Council). Chairman of the Board of Directors of Peak Management AG.

### Fabrice Fouletier

Partner, PAI partners.
Member of the Board of Directors since 2006. Born 1975.

OTHER BOARD ASSIGNMENTS
Partner at PAI Partners SAS. Member of the Board of Directors of MEP S.à.r.l, MEP II S.à.r.l, AS Adventure Group, Euromedia Group, Hunkemöller Group and IPH Group.

### Karin Markides

Member of the Board of Directors since 2010. Born 1951.

OTHER BOARD ASSIGNMENTS
Professor, Chairman of the Board of Directors of the Scientific Council for Sustainable Development at the Swedish Government. Member of the Board of Directors of the Swedish Knowledge Foundation.

### Claes Gard

Member of the Board of Directors since 2009. Born 1953.

OTHER BOARD ASSIGNMENTS
Member of the Board of Directors of FTX-ventilation AB and Vasatorps Golf AB.

### Ragnar Hellenius

Partner, PAI partners. Head of the Nordic team.
Member of the Board of Directors since 2009. Born 1967.

OTHER BOARD ASSIGNMENTS
Chairman of the Board of Directors Starid Holding 3 AB and Lary 1-4 AB.
Member of the Board of Directors PAI Partners SAS and ADB Safegate.

### Brendan Cummins

Member of the Board of Directors since 2015. Born 1951.

OTHER BOARD ASSIGNMENTS
Chairman of the Board of Directors of Viking Triangle Trust Co. Ltd.
Member of the Board of Directors of Ashland Inc., Nanoco PLC, Tom Murphy Car Sales Ltd and Gailtar Ltd. Chairman of The Audit Committee of Waterford City and County Audit Committee.

## DIRECTLY ELECTED REPRESENTATIVES

### Anders Magnusson

Market Development Manager and Chairman of the Swedish PVC Forum
Member of the Board of Directors since 2010. Appointed by the Boards of PTK of Perstorp and Stenungsund. Born 1969.

### Oleg Pajalic

Vice President Process Innovation
Member of the Board of Directors since 2011, deputy board member 2010–2011. Appointed by the Boards of PTK of Perstorp and Stenungsund. Born 1964.

### Joakim Hansson

Process Operator and Chairman of IF Metall
Member of the Board of Directors since 2015. Appointed by the Boards of IF Metall Perstorp and Stenungsund. Born 1983.

## AUDITORS

### Michael Bengtsson

Authorized Public Accountant – PricewaterhouseCoopers.
Born 1959.

OTHER AUDIT ASSIGNMENTS
Bonnier, Bure, Indutrade and SWECO.

### Mats Åkerlund

Authorized Public Accountant – PricewaterhouseCoopers.
Born 1971.

OTHER AUDIT ASSIGNMENTS
Viktoria Park, Copenhagen Malmö Port, Flint Group, ESS and Nordic Aktiv Property Fund (NAPF).

## DEPUTIES

**Per-Olov Hornling** – Deputy trade union representative, PTK
**Per Lindquist** – Deputy trade union representative, PTK
**Gunilla Dristig Nordberg** – Deputy trade union representative, IF Metall


TORE BERTILSSON


JAN SECHER


FABRICE FOULETIER


KARIN MARKIDES


CLAES GARD


RAGNAR HELLENIUS


BRENDAN CUMMINS


ANDERS MAGNUSSON


OLEG PAJALIC


JOAKIM HANSSON

# Executive leadership team

### Jan Secher
President and Chief Executive Officer –
Perstorp Holding AB
Executive Vice President – BioProducts
Active in the Group since 2013.
Born 1957.

### Gorm Jensen
Executive Vice President –
Business Area Advanced Chemicals & Derivatives
Active in the Group since 2014.
Born 1962.

### Marie Grönborg
Executive Vice President –
Business Area Specialties & Solutions
and Innovation
Active in the Group since 1994.
Born 1970.

### Magnus Lannér
Executive Vice President – Operations
Active in the Group since 2008.
Born 1969.

### Wolfgang Laures
Executive Vice President – Supply Chain
Active in the Group since 2014.
Born 1969.

### Magnus Heimburg
Chief Financial Officer and
Executive Vice President – Finance, Legal & IT
Active in the Group since 2014.
Born 1967.

### Mikael Gedin
Executive Vice President –
Regions & Group Management
Active in the Group since 2009.
Born 1969.


JAN SECHER


MAGNUS HEIMBURG


MARIE GRÖNBORG


GORM JENSEN


MAGNUS LANNÉR


MIKAEL GEDIN


WOLFGANG LAURES

# Net sales & earnings

## CONSOLIDATED INCOME STATEMENT

| SEK m | Note | 2016 | 2015 |
|---|---|---|---|
| **Net sales** | **9** | **11,305** | **11,149** |
| Cost of goods sold | 6, 7, 8, 21 | –9,220 | –9,464 |
| **Gross earnings** | | **2,085** | **1,685** |
| Selling and marketing costs | 6, 7, 8 | –471 | –464 |
| Administrative costs | 6, 7, 8, 33 | –287 | –283 |
| Research and development costs | 6, 7, 8 | –87 | –78 |
| Other operating income and expenses | 10, 11 | –37 | 104 |
| Result from participations in associated companies | 12 | 3 | 7 |
| **Operating earnings/loss (EBIT)** | **10, 23, 27** | **1,206** | **971** |
| Net financial items | 22 | –2,340 | –1,623 |
| **Earnings/loss before tax** | | **–1,134** | **–652** |
| Tax | 24 | 2 | –8 |
| **Net earnings/loss for the year** | | **–1,132** | **–660** |
| of which, attributable to non controlling interest | 15 | 19 | 5 |
| Earnings/loss per share, SEK | | –22.64 | –13.20 |
| **Operating earnings before depreciation (EBITDA)** | | **1,800** | **1,653** |
| **EBITDA adjusted for non-recurring items** | | **1,865** | **1,667** |

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| SEK m | Note | 2016 | 2015 |
|---|---|---|---|
| **Net result for the period** | | **–1,132** | **–660** |
| **Other comprehensive income:** | | | |
| Items that will not be reclassified to profit and loss | | | |
| Re-measurements of defined benefit plan | 23 | –36 | 22 |
| Items that may be subsequently reclassified to profit or loss | | | |
| Currency translation effects | | –77 | –64 |
| Market valuation of forward contracts | | – | 6 |
| **Other comprehensive income net after tax** | | **–113** | **–36** |
| **Total comprehensive income for the year** | | **–1,245** | **–696** |
| **Attributable to:** | | | |
| Owners of the parent | | –1,266 | –702 |
| Non controlling interests | 16 | 21 | 6 |
| **Total** | | **–1,245** | **–696** |

Net sales amounted to SEK 11,305 m during the period January to December 2016, an increase of SEK 156 m or 1% compared to the same period last year. Volumes increased 11% compared to the same period last year following a stronger third and fourth quarter related to higher sales in all main regions. The third and fourth quarter in 2015 was affected by the triennial scheduled maintenance shutdown. Organic volume-based sales growth was 10% in the year. Sales prices were 10% lower than last year, primarily attributable to the lower raw material prices. The SEK was on average slightly weaker against the USD and the EUR than in 2015, which resulted in a small positive FX-effects on sales, 1%.

EBITDA excluding non-recurring items, amounted to SEK 1,865 m (1,667), corresponding to an EBITDA margin of 16.5% (15.0). EBITDA adjusted for non-recurring items increased 12% compared to 2015. The increase of SEK 198 m was primarily attributable to higher volumes in most businesses but also positive FX effects partly offset by price pressure in specific product lines, mainly in the first half of 2016.

EBIT amounted to SEK 1,206 m (971) during the period. Depreciation amounted to SEK 584 m compared to SEK 682 m for the corresponding period 2015. The decrease in depreciation can primarily be attributable to the change in depreciation period of tangible assets, since this change was implemented during Q3, 2015.

Net financial expenses, including exchange rate effects on net debt, amounted to SEK –2,340 in 2016, compared to SEK –1,623 m for 2015. The increase is primarily due to less favorable FX-effects on net debt which amounts to SEK –641 m (–80) for 2016.

Tax amounted to SEK 2 m (–8) for the full year 2016 and net result amounted to SEK –1,132 m (–660).

# Financial position

Perstorps financial accounts are based on the going-concern principle. The management and the Board of Directors consequently monitoring the going concern. This principle includes a number of estimates and judgments about the future, please see note 4 for further information. The company performs an annual impairment test for goodwill as well as shares in group companies. Assumptions are based on the business plan with a discount interest rate of 11 % and a terminal growth rate of 2 %. No impairment has been identified.

In November Perstorp refinanced its existing senior secured notes, second lien notes and its outstanding mezzanine loans due 2017. In addition the company entered into a new senior secured revolving credit facility of up to SEK 1,000 million. The new facility replaced the existing revolving credit facility of SEK 550 million.

The loan agreements include quarterly key indicators (covenants). These key indicators have not been breached.

### FREE CASH FLOW

Free Cash flow amounted to SEK 1,370 m (1,127) for the period. The improvement can be explained by higher earnings and lower investments. Cash flow from investment activities, excluding investment in other participations, amounted to SEK –553 m (–660) during the year. At the end of December 2016, around EUR 100 m (89) of the longterm trade receivables program was utilized and has reduced account receivables.

### AVAILABLE FUNDS & NET DEBT

The Group's available funds, liquid funds and unutilized credit facilities, were SEK 983 m at the end of the period, compared with SEK 934 m at the end of 2015. Net debt increased by SEK 1 821 m during the period. The increase was related to a combination a weaker SEK against EUR and USD as well as the refinancing. The higher net debt was somewhat counterbalanced by higher earnings. Leverage was 7.0x at the end of 2016 compared to 6.7x at the end of 2015.

### EQUITY

At the end of December 2016 equity for the parent company, Perstorp Holding AB, amounts to SEK 1,595 m (1,411). Consolidated equity for the Perstorp Group amounts to SEK –2,991 m (–1,746).

# CONSOLIDATED BALANCE SHEET

| SEK m | Note | Dec 31, 2016 | Dec 31, 2015 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non current assets** | | | |
| Tangible fixed assets | 6 | 5,006 | 4,993 |
| Intangible fixed assets | 7 | 4,915 | 4,963 |
| Deferred tax assets | 24 | 196 | 180 |
| Participations in associated companies | 13 | 64 | 61 |
| Other participations | 14 | 475 | 430 |
| Direct pension, endowment insurance | | 109 | 102 |
| Other interest-bearing, long-term receivables | 17, 22 | 0 | 1 |
| Other interest-free, long term receivables | 17 | 8 | 18 |
| **Total non current assets** | | **10,773** | **10,748** |
| **Current assets** | | | |
| Inventories | 21 | 1,370 | 1,215 |
| Accounts receivable | 19 | 760 | 563 |
| Operating receivables, associated companies | | 0 | 0 |
| Tax receivable | | 29 | 46 |
| Other operating receivables | 19 | 273 | 277 |
| Other current financial receivables | 22 | 6 | 9 |
| Cash & cash equivalents | 20 | 434 | 742 |
| **Total current assets** | | **2,872** | **2,852** |
| **Total assets** | | **13,645** | **13,600** |
| **EQUITY & LIABILITIES** | | | |
| **Shareholders' equity** | | | |
| Share capital (50,000,000 shares, par value of SEK 0.01 each) | | 0 | 0 |
| Other capital contributions | | 6,584 | 6,584 |
| Reserves | | –659 | –580 |
| Retained earnings | | –9,005 | –7,818 |
| **Equity attributable to owners of the parent** | | **–3,080** | **–1,814** |
| Non controlling interests | 16 | 89 | 68 |
| **Total equity** | | **–2,991** | **–1,746** |
| **Non current liabilities** | | | |
| Deferred tax liabilities | 24 | 833 | 832 |
| Direct pension | 23 | 134 | 127 |
| Pensions liability, others | 22, 23 | 441 | 409 |
| Long term liabilities, Parent Company | 22 | 20 | 5 |
| Long-term interest-bearing liabilities [1)] | 22 | 12,769 | 11,768 |
| Other liabilities, provisions | 25 | 96 | 91 |
| **Total non current liabilities** | | **14,293** | **13,232** |
| **Current liabilities** | | | |
| Accounts payable | 26 | 996 | 670 |
| Tax liabilities | | 59 | 62 |
| Other operating liabilities | 26 | 913 | 783 |
| Accrued interest expense | | 172 | 515 |
| Other financial liabilities | 22 | 203 | 84 |
| **Total current liabilities** | | **2,343** | **2,114** |
| **Total equity and liabilities** | | **13,645** | **13,600** |

[1)] The amount includes expenses for loan financing in connection with Perstorp Holding AB's refinancing and amounts to SEK –432 (–95) m.

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| SEK m | Share capital | Other capital contributions | Other reserves | Retained earnings | Total | Non controlling interest | Total equity |
|---|---|---|---|---|---|---|---|
| | EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT COMPANY | | | | | | |
| **Opening balance, January 1, 2015** | **0** | **6,584** | **–521** | **–7,175** | **–1,112** | **62** | **–1,050** |
| Net Result for the period | – | – | – | –665 | –665 | 5 | –660 |
| Other comprehensive income | – | – | –59 | 22 | –37 | 1 | –36 |
| **Closing balance, December 31, 2015** | **0** | **6,584** | **–580** | **–7,818** | **–1,814** | **68** | **–1,746** |
| **Opening balance, January 1, 2016** | **0** | **6,584** | **–580** | **–7,818** | **–1,814** | **68** | **–1,746** |
| Net Result for the period | – | – | – | –1,151 | –1,151 | 19 | –1,132 |
| Other comprehensive income | – | – | –79 | –36 | –115 | 2 | –113 |
| **Closing balance, December 31, 2016** | **0** | **6,584** | **–659** | **–9,005** | **–3,080** | **89** | **–2,991** |

Dividend to shareholders' is limited, subject to customary restrictions under debt agreements.

## CONSOLIDATED CASH FLOW STATEMENT

| SEK m | Note | 2016 | 2015 |
|---|---|---|---|
| **Operating activities** | | | |
| Operating earnings | | 1,206 | 971 |
| Adjustments: | | | |
| Depreciation and write-down | | 594 | 682 |
| Other | | 41 | –84 |
| Interest received | | 6 | 6 |
| Interest paid | | –1,414 | –1,196 |
| Income tax paid | | –23 | –18 |
| **Cash flow from operating activities before change in working capital** | | **410** | **361** |
| **Change in working capital** | | | |
| Increase (–) Decrease (+) in inventories | | –114 | 0 |
| Increase (–) Decrease (+) in current receivables [1] | | –168 | 363 |
| Increase (+) Decrease (–) in current liabilities | | 340 | –243 |
| **Cash flow from operating activities** | | **468** | **481** |
| **Investing activities** | | | |
| Investment in other participations | | –23 | –89 |
| Acquisition of tangible and intangible fixed assets | | –553 | –659 |
| Sale of shares in non-controlling interests | | – | 17 |
| Change in financial assets, external | | – | –1 |
| **Cash flow from investing activities** | | **–576** | **–732** |
| **Financing activities** | | | |
| New loans external | | 11,581 | – |
| Amortization of loans, external | | –11,436 | – |
| Change in credit utilization [2] | | –357 | –26 |
| **Cash flow from financing activities** | | **–212** | **–26** |
| **Change in cash & liquid funds, incl short-term investments** | | **–320** | **–277** |
| Cash and cash equivalents in the operning balance, incl. short-term investments | | 742 | 1,019 |
| Translation difference in cash and cash equivalents | | 12 | 0 |
| **Cash & liquid funds, end of period** | **20** | **434** | **742** |

[1] Including trade receivables financing program
[2] Including payment of bank fees, SEK 355 (–) m relating to refinancing

# The Parent Company year-end accounts

## INCOME STATEMENT PARENT COMPANY

| SEK m | Note | 2016 | 2015 |
|---|---|---|---|
| **Net sales** | | **52** | **51** |
| **Gross earnings** | | **52** | **51** |
| Sales and marketing costs | | 0 | –4 |
| Administration costs | | –147 | –158 |
| Other operating income and expenses | 11 | –21 | –20 |
| **Operating earnings (EBIT)** | 23, 27 | **–116** | **–131** |
| Group contribution recieved | | – | 350 |
| Earnings from participations in Group companies [1] | | 1,832 | 1,218 |
| Net financial items | 22 | –1,532 | –987 |
| **Earnings /loss before tax** | | **184** | **450** |
| Tax | 24 | 0 | –1 |
| **Net earnings/loss for the year [2]** | | **184** | **449** |

[1] Comprises of dividend from subsidiaries of SEK 1,832 (450) m and reversal of previous years write down of shares in subsidiaries of SEK 0 (768) m.
[2] Comprehensive income equals Net earnings/loss for the year.

# BALANCE SHEET, PARENT COMPANY

| SEK m | Note | Dec. 31, 2016 | Dec. 31, 2015 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non current assets** | | | |
| Tangible fixed assets | 6 | 4 | 5 |
| Intangible fixed assets | 7 | 4 | 5 |
| Shares in group companies | 18 | 7,715 | 7,715 |
| Long-term receivables, group companies | 22 | – | 5,452 |
| Other participations | 14 | 475 | 430 |
| Direct pension, endowment insurance | | 102 | 96 |
| Other non-current assets | | 1 | 5 |
| **Total non-current assets** | | **8,301** | **13,708** |
| **Current assets** | | | |
| Operating receivables, group companies | | 11 | 14 |
| Tax receivables | | 2 | 12 |
| Other operating receivables | 19 | 1,400 | 20 |
| Financial receivables, group companies | 22 | 5,788 | 423 |
| Other current financial receivables | | 4 | 4 |
| **Total** | | **7,205** | **473** |
| Cash & cash equivalents | 20 | 63 | 86 |
| **Total current assets** | | **7,268** | **559** |
| **Total assets** | | **15,569** | **14,267** |
| **EQUITY AND LIABILITIES** | | | |
| **Shareholders' equity** | | | |
| Share capital (50,000,000 shares, par value of SEK 0.01 each) | | 0 | 0 |
| Retained earnings | | 1,411 | 962 |
| Net earnings/loss for the year | | 184 | 449 |
| **Total shareholders' equity** | | **1,595** | **1,411** |
| **Non current liabilities** | | | |
| Direct pension | | 126 | 119 |
| Long-term liabilities, parent company | 22 | 20 | 5 |
| Long-term interest bearing liabilities [1] | 22 | 12,668 | 11,766 |
| Other liabilities, provisions | 25 | 1 | – |
| **Total non current liabilities** | | **12,815** | **11,890** |
| **Current liabilities** | | | |
| Accounts payable | 26 | 82 | 17 |
| Other operating liabilities, Group companies | | 2 | 1 |
| Other operating liabilities | 26 | 69 | 76 |
| Accrued interest expense | | 169 | 512 |
| Financial liabilities, Group companies | 22 | 705 | 360 |
| Other financial liabilities | 22 | 132 | – |
| **Total current liabilities** | | **1,159** | **966** |
| **Total equity and liabilities** | | **15,569** | **14,267** |

[1] The amount includes expenses for loan financing in connection with Perstorp Holding AB's refinancing and amounts to SEK –432 (–95) m.

## CASH FLOW STATEMENT PARENT COMPANY

| SEK m | 2016 | 2015 |
|---|---|---|
| **Operating activities** | | |
| Operating earnings | –116 | –131 |
| Interest received | 630 | 588 |
| Interest paid | –1,413 | –1,182 |
| Dividend from group company | 528 | 450 |
| Group contribution received | 350 | 1,210 |
| Realized exchange rate profit/loss | 0 | 0 |
| Income tax, paid | 1 | –1 |
| Adjustment, depreciation | 3 | 2 |
| Adjustment, change in provisions | 2 | 2 |
| **Cash flow from operating activities before change in working capital** | **–15** | **938** |
| **Change in working capital** | | |
| Increase (–) Decrease (+) in current receivables | 12 | –17 |
| Increase (+) Decrease (–) in current liabilities | –31 | 26 |
| **Cash flow from operating activities** | **–34** | **947** |
| **Investing activities** | | |
| Shareholder contribution | –23 | –89 |
| Changes in financial receivables, group companies | 345 | –950 |
| Acquisition of tangible assets | – | 0 |
| Acquisition of intangible assets | –1 | –1 |
| **Cash flow from investing activities** | **321** | **–1,040** |
| **Financing activities** | | |
| New loans external [1] | 11,126 | – |
| Amortization of loans, external | –11,436 | – |
| **Cash flow from financing activities** | **–310** | **–** |
| **Change in liquid funds, incl. short-term investments** | **–23** | **–93** |
| Liquid funds opening balance, incl. short term investments | 86 | 179 |
| **Liquid funds, end of period** | **63** | **86** |

[1] Includes new loans external of SEK 11,481 m less payment of bank fees SEK 355 m.

## SHAREHOLDERS' EQUITY 2016, PARENT COMPANY

| SEK m | Share capital | Retained earnings | Net earnings/loss for the year | Total shareholder's equity |
|---|---|---|---|---|
| **Opening balance shareholders' equity, January 1, 2016** | **0** | **962** | **449** | **1,411** |
| Transfer of preceding year's results | – | 449 | –449 | 0 |
| Net earnings/loss for the year | – | – | 184 | 184 |
| **Closing balance shareholders' equity, December 31, 2016** | **0** | **1,411** | **184** | **1,595** |

## SHAREHOLDERS' EQUITY 2015, PARENT COMPANY

| SEK m | Share capital | Retained earnings | Net earnings/loss for the year | Total shareholder's equity |
|---|---|---|---|---|
| **Opening balance shareholders' equity, January 1, 2015** | **0** | **1,631** | **–669** | **962** |
| Transfer of preceding year's results | – | –669 | 669 | 0 |
| Shareholders´contribution | – | 0 | – | 0 |
| Net earnings/loss for the year | – | – | 449 | 449 |
| **Closing balance shareholders' equity, December 31, 2015** | **0** | **962** | **449** | **1,411** |

# Other

### EMPLOYEES

The number of FTE (full time equivalents) at the end of the period was 1,505, which is 26 more than at year-end 2015.

### THE PERSTORP BOARD

At the end of 2016, the Board of Directors consists of seven members, all nominated and elected by the company owners. The individuals re-elected to the Board at the 2016 Annual General Meeting, held on May 12 2016, were Tore Bertilsson, Fabrice Fouletier, Jan Secher, Karin Markides, Brendan Cummins, Ragnar Hellenius and Claes Gard. In addition to the aforementioned individuals the Board also includes three employee representatives.

### SUSTAINABILITY

Perstorp is a group of companies that develop, manufacture and sell specialty chemicals. As such, our environmental, social and economic impacts arise mostly from our production facilities and the downstream markets into which our products are applied. Our impacts on the wellbeing and economic prosperity of our own employees, associated partners and the communities in which we operate are also significant factors in measuring our success as a corporate steward. In this report, we explore Perstorp's impacts in detail, consolidated from the eleven production sites (operating in nine countries) which were owned in part or in total by Perstorp during 2016.

Fundamentally, Perstorp recognizes that we need a Sustainability strategy in order to remain relevant. During 2015 and 2016, a high-level analysis was undertaken by a cross-functional team, to determine what dimensions of sustainability are most material to our stakeholders. The output of that group was a strong set of links between our vision as a 21st-century company, the markets we aspire to serve and the United Nations Global Compact's *Sustainable Development Goals* (SDGs). With this roadmap, we know that we must push ourselves and our value chains into the circular economy by using more "wastes" as fuels and raw materials, while developing the renewable resources needed to support our present and future platforms. As the only constant is the promise of change, we must continually review our priorities and make certain that we are on the right path.

## INNOVATION

The focused Innovation continued during 2016 with selected efforts to commercialize new products driven by major market needs and transformations in society. More sustainable new solutions from Perstorp is the common trend why customers are turning to these products.

Akestra is an alternative to polystyrene in rigid packaging and to polycarbonate is other plastic applications. There are concerns with both polystyrene and with Bisphenol A in polycarbonate. Customers are substituting these driven by end-user demand on safer and more sustainable plastics. Akestra is an excellent option to meet this and in 2016 it got the full European food approval enable customers to move from interest to start introducing it.

The strong growth and development of the feed additives as an alternative to antibiotics is supported by a focused research and development portfolio. External research with world leading external partners continued. Historically it was focused on poultry, but 2016 research also for pigs started. A science breakthrough for pigs will more than double the addressable market. Last year's development will also enable Perstorp to put valerins on the market as the first company in the world. This new product range gives highly interesting health benefits to poultry.

Very strong development in the new products from the new oxo-platform, Valerox. Both Pevalen and valeric acid more than doubled in sales. A major Innovation effort is done to support business in promotion and customer qualifications of plasticizers. Emoltene 100 is positioned towards high performance applications, like cables and roofing, and Pevalen focus on close to consumer applications, where there is a strong preference for new non-phthalate products. Valeric acid is a door opener for Innovation in synthetic lubricants.

For decades the adhesives industry has formulated hot melt adhesive products based on conventional fossil-oil based ingredients. With these ingredients, adhesive formulators have formulated thousands of hot melts serving a wide variety of customer needs and requirements. During 2016 Perstorp and Corbion introduced CAPA-PURALACT, a fully compostable product that is more than 80 % biobased which enables adhesive manufacturers to meet a growing customer demand for safe, high performance and more sustainable products. A global leader in adhesives signed a joint development agreement with us in order to drive a faster implementation of this truly breakthrough technology. In 2017 we expect new products on the market and we have strong growth expectations the following years.

An innovation program started to support our deicing business. The target is to address the challenges existing formulations are facing and over time offer better and differentiated products.

# Notes

## DEFINITIONS

### CAPITAL RATIOS

**Average capital**
Based on monthly balances during the year.

**Capital employed**
Total assets less interest-free liabilities.

**EBITDA**
Represents the Group's operating earnings (or loss) (EBIT) before depreciation and amortization.

**EBITDA (adjusted for non-recurring items)**
Represents reported EBITDA as adjusted to exclude restructuring costs, capital gains/losses on divestment of companies and disposal of fixed assets and other non-recurring income and cost.

**EBIT**
Calculated as the Group's reported operating earnings (loss).

**Free cash flow**
Calculated as EBITDA (excluding non-recurring items) less change in working capital excluding exchange rate effects and provisions and investments.

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

**Leverage**
Net debt excluding parent company loan and pension liabilities/EBITDA excluding non-recurring items.

## NOTES

## NOTE 1. GENERAL INFORMATION

Perstorp is an international specialty chemicals group and a global leader in high growth niches. The Group has around 1,500 employees and manufacturing facilities in Europe, North America and Asia. The Perstorp Group is controlled by the European private equity company PAI Partners.

The Group was formed at the end of 2005. PAI partners control the Group through Luxembourg-based Financière Forêt S.à r.l., corp. reg. no. R.C.S. Luxembourg: B 111,888, which owns 100 % of Perstorp Holding AB. The acquisition balance sheet for the Group was completed as of 2006. The Parent Company is a limited liability company that is registered and has its Head Office in Malmö, Sweden. The address to the head office is Neptunigatan 1, 201 25 Malmö, Sweden.

The Board approved this report for publication on March 31, 2017.

The Consolidated Income Statement and Balance Sheet and the parent company's Income Statement and Balance Sheet will be subject to adoption at the Annual General Meeting (AGM) on May 9, 2017.

## NOTE 2. SUMMARY OF MAJOR ACCOUNTING PRINCIPLES

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

### 2.1 BASIS OF PREPARATIONS

**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 Group´s (RFR 1) and International Financial Reporting Standards (IFRS) and IFRIC interpretations as approved by the European Commission. (IFRS has been applied by the Group since 2005). The consolidated accounts have been prepared in accordance with the acquisition value method, apart from matters applying to financial assets held for sale and financial assets and liabilities (including derivative instruments) that are fair valued via the income statement.

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

**Parent Company**

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

**Subsidiaries**

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

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

**Group contribution & shareholders' contribution**

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

**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 IAS 19.

**Leasing**

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

### 2.2 CONSOLIDATED ACCOUNTING

**Subsidiaries**

Subsidiaries are all companies in which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are included in the consolidated accounts from the date on which the Group gains this decisive influence. Subsidiaries are excluded from the consolidated accounts from the date on which the decisive influence ceases. The Group uses the acquisition method. The cost of an acquisition of a subsidiary compromises the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group.

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

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

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

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

When the Group ceases to have control of a subsidiary it recognizes any investment retained in the former subsidiary at its fair value at the date when control is lost. The change in the carrying amount is recognized in income statement.

The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognized in other comprehensive income in respect of that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognized in other comprehensive income are reclassified to income statement.

**Associated companies**

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

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

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

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

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

**Joint arrangements**

Investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. Perstorp has assessed the nature of its joint arrangements and determined them to be joint ventures. Joint ventures are accounted for using the equity method. Under the equity method of accounting, interests in joint ventures are initially recognised at cost and adjusted thereafter to recognise the group's share of the post-acquisition profits or losses and movements in other comprehensive income.

When the group's share of losses in a joint venture equals or exceeds its interests in the joint ventures (which includes any long-term interests that, in substance, form part of the group's net investment in the joint ventures), the group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint ventures. Unrealised gains on transactions between the group and its joint ventures are eliminated to the extent of the group's interest in the joint ventures. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

**Other participations**

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified as non-current asset if expected to be settled beyond 12 months, otherwise they are classified as current assets.

**Non-controlling interest**

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

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

**Saleable financial assets**

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

## 2.3 CURRENCY TRANSLATION

**Functional currency & reporting currency**

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

**Transactions & balance sheet items**

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

**Group companies**

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

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

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

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

## 2.4 REVENUE RECOGNITION

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

**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 that are reported directly in shareholders' equity.

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

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

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

## 2.6 INTANGIBLE FIXED ASSETS

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

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

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

Trademarks, patents and licences that have a determinable period of 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 life length within this category refer to the Perstorp, which in connection with the allocation of acquisition values in 2006, were judged to have an unlimited life, based on the company's 135 year history and the continuous renewal process. Annual testing of possible impairment requirements is performed for assets in this category.

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

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

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

Costs for capitalized software 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.

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

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

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

Land and construction in progress are not depreciated.

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

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

## 2.8 LEASING

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

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

Some of the Group's leasing contracts pertain to vehicles and computers, which have been reported as operational leasing.

## 2.9 FINANCIAL INSTRUMENTS

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

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

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

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

#### Loans & accounts receivable

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

#### Cash & cash equivalents

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

#### Borrowings

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

#### Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

#### Accounts payable

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

### 2.10 IMPAIRMENT

Tangible and intangible assets with an indeterminate useful life are not depreciated/ amortized but are subject to annual testing of impairment requirements. Tangible and intangible assets with a determined useful life are assessed for a reduction in value whenever events or changes in conditions indicate that the book value may not be recoverable. Impairment is recognized in the amount by which the asset's or cash-generating unit's book value exceeds its recoverable value, which in the current situation means the higher of the 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.

A test for an impairment requirement is performed for financial assets at the end of the report period. Impairment is performed as soon as there is objective evidence that events have taken place which indicate that estimated future cash flows from an asset will be lower than the reported balance sheet total.

The impairment amount is calculated as the difference between the asset's reported value and assessed future cash flow (current value is calculated for instruments classified as fixed assets). If there are observable market prices for the instrument, the impairment calculation is based on this fair value. In connection with the test an assessment is also made if events have occurred, and objective evidence is available, which mean that a previously carried out impairment shall be returned fully or partly.

### 2.11 INVENTORIES

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

### 2.12 EMPLOYEE BENEFITS

#### Pensions

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

The liability recognized in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligation. In countries where there is no deep market in such bonds, the market rates on government bonds are used.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise. The Group's payments for defined-contribution pension plans are reported as a cost during the period when the employee performed the services to which the contributions pertain. For defined-contribution plans, the interest effect and return on plan assets attributable to the plan are reported in net financial items, while other costs are included in operating profit.

#### Remuneration for redundancy

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

#### Other remuneration & bonus plans

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

### 2.13 PROVISIONS

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

### 2.14 DERIVATIVE FINANCIAL INSTRUMENTS

Derivative instruments are assessed at fair value and are reported in the balance sheet on the contract date. The Group uses currency forwards and swaps to hedge intra-Group borrowings in different currencies. No interest-rate swaps are currently used. Changes in fair value are directly reported as financial items in the income statement since Perstorp is not applying the exception rules on hedge accounting.

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

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

### 2.16 NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2016, and have not been applied in preparing this consolidated financial statement. None of these is expected to have a significant effect on the consolidated financial statements of the Group, except the following set out below:

IFRS 9 'Financial instruments' concerns the classification, valuation and reporting of financial assets and liabilities. The full version of IFRS 9 was published in July 2014. It replaces the parts of IAS 39 that concern the classification and valuation of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The standard must be applied for the financial year beginning 1 January 2018. Earlier application is permitted. The Group has not yet evaluated the full effect of the introduction of the standard.

IFRS 15, 'Revenue from contracts with customers' deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 'Revenue' and IAS 11 'Construction contracts' and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2018 and earlier application is permitted. The Group has not yet evaluated the full effect of the introduction of the standard.

In January 2016, IASB issued a new lease standard that will replace IAS 17 Leases and the related interpretations IFRIC 4, SIC-15 and SIC-27. The standard requires assets and liabilities arising from all leases, with some exceptions, to be recognized on the balance sheet. This model reflects that, at the start of a lease, the lessee obtains the right to use an asset for a period of time and has an obligation to pay for that right. The accounting for lessors will in all material aspects be unchanged. The standard is effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted. EU has not yet adopted the standard. The Group has not yet evaluated the full effect of the introduction of the standard.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Group.

## NOTE 3. RISK MANAGEMENT

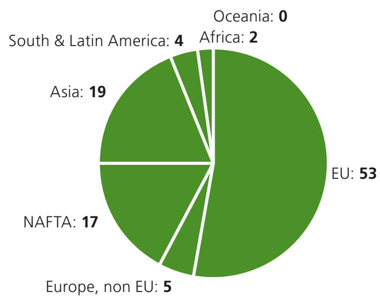
### 3.1 FINANCIAL RISK FACTORS

The Groups treasury policy governs the financial risks the Group is prepared to take and sets guidelines for how these risks should be managed. Corporate Finance has global responsibility for the Group's financing activities.

#### CURRENCY RISK

The currency risk is the risk that the Group's earnings and net assets will be adversely affected by fluctuations in exchange rates. The Group has considerable flows, earnings and assets in foreign currency, primarily in EUR and USD. Both sales and raw material purchase is primarily USD or EUR based, whereas a large portion of costs is in SEK, mainly as a result of the fact that more than half of the Group's employees are based at Swedish sites.

#### NET SALES PER GEOGRAPHIC MARKET, %




The Group's currency transaction exposure for 2016 is to some extent naturally hedged through the interest payments on the EUR and USD denominated bonds.

#### SWAPS

| MSEK | Market value | Nominal amount |
|---|---|---|
| *Internal lending* | | |
| EUR | 0 | 0 |
| USD | 0 | 0 |
| Other | 5 | –44 |
| *Liquidity purposes* | | |
| EUR | 0 | 182 |
| USD | 0 | 136 |
| Other | 0 | 95 |

#### EXPOSURE PER CURRENCY, FORECAST FOR 2017[1]

| | Net sales | Operating costs | EBITDA | Financial payments | Net | Translated to SEK m[2] |
|---|---|---|---|---|---|---|
| USD | 547 | –349 | 198 | –69 | 129 | 1,174 |
| EUR | 601 | –410 | 191 | –81 | 110 | 1,052 |

[1] forward-looking statements are not guarantees of future performance
[2] currency rate on closing day

#### LIQUIDITY RISK

The liquidity risk is monitored through rolling cash flow forecasts which gives early warning signals and enables correspondingly early corrective measures to safeguard that the Group has sufficient liquid assets and unutilized credit facilities to meet current payments.

#### NET ASSETS PER CURRENCY, BEFORE & AFTER LOANS IN FOREIGN CURRENCY

| SEK m | Net assets per currency, before loans in foreign currency | Loans in foreign currency, Swedish companies | Exposed net assets |
|---|---|---|---|
| EUR | 127 | –7,023 | –6,896 |
| USD | –992 | –6,210 | –7,202 |
| GBP | 167 | – | 167 |
| SEK | –2,810 | 13,233 | 10,423 |
| Other currencies | 429 | – | 429 |
| **Total** | **–3,079** | **0** | **–3,079** |

At the end of 2016 there was positive exposure in SEK concerning net assets per currency. This is because a large part of the intangible assets that existed when PAI partners acquired Perstorp was in SEK and in GBP due to the acquisition of the caprolactones business not being financed through loans in GBP. Exposure of net assets in EUR and USD are correspondingly negative because the Group has raised loans in both those currencies to a greater extent than that which corresponds to assets. The translation affect if SEK is changing by 1 % against the USD/EUR, will be approximately SEK 134 million and affect the financial net.

The table below shows the market value of the Group's financial liabilities and derivative instruments with their due dates. The amounts shown are the agreed, undiscounted amounts.

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

| As of 31 December 2016 | 0–1 years | 1–2 years | 2–5 years |
|---|---|---|---|
| **Borrowings** | | | |
| Amortization (incl. Future PIK-interest) | 202 | | 14,674 |
| Interest | –1,350 | –1,381 | –5,470 |
| **Derivative instruments** | | | |
| Interest swaps | – | – | – |
| Currency swaps outgoing | –413 | – | – |
| Currency swaps ingoing | 44 | – | – |
| Currency swaps net amount | –369 | – | – |
| Accounts Payable & Other Liabilities | –1,898 | – | – |

#### FINANCING RISK

Financing risk refers to the risk that refinancing of due loans becomes more difficult or expensive. The Group was successfully refinanced in November 2016 and where its principal financing consists of corporate bonds listed on the Channel Islands Securities Exchange, a mezzanine facility syndicated with over 20 financiers, and a Revolving Credit Facility. The maturity structure of this financing is presented in note 22b. Loan agreements are linked to Financial Covenants that include key indicators for net debt in relation to EBITDA and EBITDA in relation to interest payments. The interest on parent company loans is 10 % p.a. and will be capitalized.

### INTEREST-RATE RISK

Interest risk refers to the risk of a negative impact on earnings due to a rise in market interest rates. Note 22, table C, shows the interest rate and fixed period per currency as per December 31, 2016. Main part of the external financing, 66 %, is issued to a fixed interest rate. The remaining part is issued with a floor interest rate that is higher than the current EUR base rate level. The current market situation with negative EUR base rates therefore gives a low sensitivity to changes in interest rates.

### COUNTERPARTY RISK/CUSTOMER SENSITIVITY

Counterparty risk relates to the credit risk that may arise when a counterpart cannot fulfil its commitments and thus causes a financial loss to the Group. Limits for financial counterparts are regulated in the Group's treasury policy and stipulates that bilateral credit facilities shall be provided by financial institutions with a minimum A3 rating from Moody's or A- from Standard & Poor's which is regularly monitored. For financial counterparts, the exposure at year-end amounts to SEK 5,6 million which relates to unrealized gains for short term currency swaps. In addition there is a group credit policy. The purpose of this policy is to establish standard procedures to minimize credit losses. The credit policy sets a framework for approving credit, defines who has responsibility and how deliveries may be approved in the event of limits being exceeded or customers having overdue payments. 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.

The Group's outstanding customer receivables on the closing date amounted to SEK 760 (563) m. The increase is mainly due to increased Sales. 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 reserve for expected/stated customer losses amounting to SEK 15 (13) m. Accounts receivable that are overdue are closely monitored in order to not increase the exposure. If a bilateral agreement cannot be reached with the customer it is sent for external credit collection and as a last step also to court. The latter processes tend to take long time and therefore the Group applies a prudent policy when to write off a receivable.

To highlight the credit quality of receivables that has either fallen due for payment or have been written down, a maturity analysis is presented below (see note 19 for a maturity analysis of all accounts receivable). The book value of accounts receivable is equal to the fair value since the effect of discounting is not material. It should also be noted that it is not uncommon for a receivable to be settled shortly after the due date, which affects the maturity interval by 1–10 days.

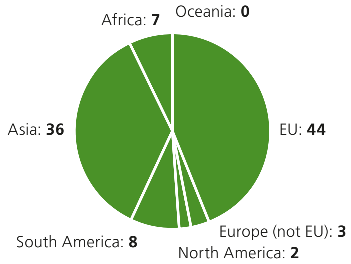
| Time analysis on accounts receivable | Dec 31, 2016 | Dec 31, 2015 |
|---|---|---|
| Accounts receivable neither due nor reserved | 740 | 525 |
| Accounts receivable due, but not reserved: | | |
| 1–10 days | 35 | 29 |
| 11–30 days | –5 | 3 |
| 31–60 days | –1 | 9 |
| 61–90 days | –2 | 1 |
| 91–180 days | –2 | –2 |
| 180 days or more | –5 | –2 |
| Accounts receivable linked to reservation | 15 | 13 |
| **Gross total** | **775** | **576** |
| Reservations | –15 | –13 |
| **Net total** | **760** | **563** |

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

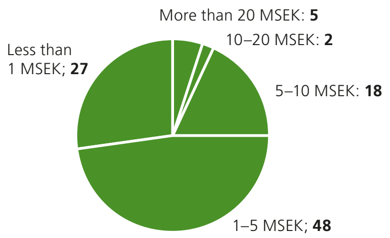
The distribution of customers based on the size of accounts receivable at the end of the period is presented in diagram below. The segment with amounts exceeding SEK 20 m refers to 2 (0) individual customers, the segment between SEK 10–20 m refers to 4 (3) individual customers. The category of customers owing the Group less than SEK 1 m on the closing date corresponds to around 84 (89)% of all counter parties.

On the closing date the Group had credit insurance, letters of credit or other pledged securities amounting to SEK 24 (2) m. Of these, SEK 0 (0) m is attributable to receivables that have fallen due for payment. Of receivables that have fallen due and which are associated with a limited credit risk due to pledged securities, SEK 0 (0) m are over 30 days due.

### CONCENTRATION RISK OF ACCOUNTS RECEIVABLE DIVIDED BY GEOGRAPHIC REGION, %




### CONCENTRATION RISK OF ACCOUNTS RECEIVABLE BASED ON SIZE OF CUSTOMER, %




## 3.2 OPERATIONAL RISK FACTOR

### ACCESS TO RAW MATERIALS

Most of the Group's raw materials (70–75 %) are based on oil or natural gas. For production of biodiesel the most important raw material is rapeseed oil. 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 more than one 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 also 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 – is primarily done via pipelines directly from nearby Producers, a setup which eliminates storage costs and minimizes freight costs but also entail a risk of being closely tied to these suppliers. Perstorp manages this risk through a terminal agreement that gives Perstorp the right to use the supplier's infrastructure for raw materials supplied by other producers.

The prices 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.

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 2016 almost no raw material prices were hedged. In the historic perspective, the Group has been very successful in passing on increases in raw material prices along the customer chain.

On the electricity market there is a possibility to secure prices for longer periods. Perstorp closely monitor the need of electricity. In accordance with the Group's policy the electricity usage in Sweden is secured up to four years in a range of 0–75 %. This is done by a preferred supplier that's owns and sell a physical product with a mix of secured and spot, to Perstorp

### 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 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 capitalize for competitive advantage in insurance terms and cost.

## NOTE 4. SIGNIFICANT ESTIMATES & JUDGMENTS MADE FOR ACCOUNTING PURPOSE

Perstorp's financial accounts are based on the going-concern principle. To a certain extent, the financial statements are based on estimates and judgments about the future trend. In turn, these judgments are based on historical experience and different assumptions that are considered to be reasonable in current circumstances. Reported values may have another actual outcome if other assumptions are made or circumstances change. The following particular areas can be distinguished where estimates and judgments are of importance to the amounts entered in the accounts and differences can have a significant effect on the Group's earnings and financial position.

**Impairment testing of goodwill and trademarks:** In accordance with the accounting principle described in point 2.10, impairment testing is currently performed annually through analysis of individual assets'/cash-generating units' recovery value. The Group tests goodwill for any impairment on an annual basis or whenever events or objective circumstances indicate that the fair value of acquisition-related goodwill may have decreased. To determine whether the value of goodwill has decreased, the cash-generating unit to which the goodwill is attributable must be valued and this is done by discounting the future cash flow. In applying this method, the Company relies on several factors, such as profit/ loss, business plans, financial forecasts and market data, see note 7.

**Valuation of shares in subsidiaries:** Impairment testing is performed annually through analysis of the value of shares in subsidiaries, in each owning companies, taken into account discounted future cash flow based on the latest business plan. For further details, see note 7.

**Other participations:** In accordance with the accounting principle other participations is valued at fair value. To determine the fair value the Company relies on several factors, such as profit/loss, business plans, financial forecasts and market data. For further details, see note 14.

**Valuation of tax-loss carry-forwards:** The valuation of tax-loss carry-forwards is based on an assessment that it will be possible to utilize these carry-forwards in the foreseeable future. Assessments are based on, among other matters, an assumption about future business opportunities and earnings capability. The outcome is often dependent on tax rules that are current or likely to come into effect. Tax-loss carry-forwards have been assigned values in, primarily, the Group's companies in Germany and UK. For booked values see Note 24.

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

**Available funds:** The future estimated available fund includes a number of estimates and judgments based on the long term business plan. Perstorp is constantly monitoring the available funds to secure that available funds are on a satisfied level for the coming periods.

**Environmental liabilities:** The Group's ongoing activities are reflected in how any possible environmental damage is assessed. The Group complies with decisions by public authorities and conducts measures both proactively to prevent environmental impact and reactively in the event that environmental disturbances arise.

## NOTE 5. SEGMENT INFORMATION

Perstorp report its financial performance based on the three reportable segments Specialties & Solutions, Advanced Chemicals & Derivatives and BioProducts.

Each business group is divided further into business units that are identified by the key chemical products produced. Advanced Chemicals & Derivaties consists of the business units Penta, Oxo, TMP & Neo, Formates. Specialties & Solutions consists of the business units Caprolactones, Feed & Food and Specialty Polyols. BioProducts consists of the business unit BioProducts.

| SEK m | 2016 | 2015 |
|---|---|---|
| **Net Sales** | | |
| Specialties & Solutions | 2,618 | 2,376 |
| Advanced Chemicals & Derivatives | 7,120 | 7,276 |
| BioProducts | 1,377 | 1,279 |
| *Internal sales* | | |
| Specialties & Solutions | –5 | –4 |
| Advanced Chemicals & Derivatives | –64 | –47 |
| Other/eliminations | 259 | 269 |
| **Total Group** | **11,305** | **11,149** |
| | | |
| **EBITDA** | | |
| Specialties & Solutions | 672 | 524 |
| Advanced Chemicals & Derivatives | 1,201 | 1,141 |
| BioProducts | 50 | 16 |
| Other/eliminations | –123 | –28 |
| **Total Group** | **1,800** | **1,653** |
| *Non allocated items* | | |
| Depreciation, Amortization and write down | –594 | –682 |
| **Operating earnings (EBIT)** | **1,206** | **971** |
| Financial income and expenses | –2,340 | –1,623 |
| **Earnings/loss before tax** | **–1,134** | **–652** |
| Tax | 2 | –8 |
| **Net result** | **–1,132** | **–660** |
| | | |
| **EBITDA excluding non-recurring items** | | |
| Specialties & Solutions | 678 | 524 |
| Advanced Chemicals & Derivatives | 1,206 | 1,141 |
| BioProducts | 51 | 16 |
| Other/eliminations | –70 | –14 |
| **Total Group** | **1,865** | **1,667** |

The group is domiciled in Sweden. The result of its revenue from external customers in Sweden is 15 % (16 %), and the total of revenue from external customers from other countries is 85 % (84 %).

No single external customer accounted for more than 10 % of our sales.

## ASSETS AND LIABILITIES BY OPERATING SEGMENT

| | Advanced Chemicals & Derivaties | | Specialties & Solution | | BioFuels | | Other | | Total Group | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **2016** | 2015 | **2016** | 2015 | **2016** | 2015 | **2016** | 2015 | **2016** | 2015 |
| Goodwill | 1,539 | 1,471 | 495 | 521 | – | – | – | – | 2,034 | 1,992 |
| Other intangible assets | 2,414 | 2,423 | 462 | 511 | 6 | 37 | – | – | 2,882 | 2,971 |
| Tangible assets | 3,520 | 3,341 | 851 | 1,002 | 184 | 192 | 451 | 459 | 5,006 | 4,993 |
| Shares in associated comp | 64 | 61 | – | – | – | – | – | – | 64 | 61 |
| Working capital, net | 354 | 493 | 61 | 106 | 57 | 20 | 28 | – | 500 | 619 |
| Deferred tax liabilities | –580 | –581 | –64 | –78 | | –6 | | –1 | –645 | –667 |
| **Operating Capital** | **7,310** | **7,205** | **1,805** | **2,065** | **247** | **242** | **479** | **458** | **9,841** | **9,969** |

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

| Group | Land | | Buildings & land improvments | | Plant & machinery | | Equipment, tools, fixtures & fittings | | Work in progress incl. advance payments | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| SEK m | **2016** | 2015 | **2016** | 2015 | **2016** | 2015 | **2016** | 2015 | **2016** | 2015 | **2016** | 2015 |
| **Acquisition value** | | | | | | | | | | | | |
| Opening balance | 190 | 194 | 1,312 | 1,057 | 7,084 | 6,111 | 299 | 308 | 574 | 1,213 | 9,459 | 8,883 |
| Investments | – | – | – | 3 | 15 | 22 | 2 | 2 | 446 | 565 | 463 | 592 |
| Divestments and disposals | – | – | – | –1 | –60 | –10 | –3 | –3 | – | – | –63 | –14 |
| Reclassifications | – | – | 109 | 256 | 358 | 956 | 32 | 2 | –569 | –1,204 | –70 | 10 |
| Translation effects | 5 | –4 | 1 | –3 | –95 | 5 | 3 | –10 | 11 | – | –75 | –12 |
| **Closing balance** | **195** | **190** | **1,422** | **1,312** | **7,302** | **7,084** | **333** | **299** | **462** | **574** | **9,714** | **9,459** |
| **Accumulated depreciation according to plan** | | | | | | | | | | | | |
| Opening balance | 0 | 0 | –476 | –423 | –3,684 | –3,244 | –247 | –246 | 0 | 0 | –4,407 | –3,913 |
| Depreciation | – | – | –55 | –58 | –353 | –457 | –13 | –13 | – | – | –421 | –528 |
| Divestments and disposals | – | – | – | 1 | 47 | 9 | 2 | 3 | – | – | 49 | 13 |
| Reclassifications | – | – | – | – | 68 | –7 | – | – | – | – | 68 | –7 |
| Translation effects | 0 | 0 | 4 | 4 | 63 | 15 | –3 | 9 | – | – | 64 | 28 |
| **Closing balance** | **0** | **0** | **–527** | **–476** | **–3,859** | **–3,684** | **–261** | **–247** | **0** | **0** | **–4,647** | **–4,407** |
| **Write-downs** | | | | | | | | | | | | |
| Opening balance | –7 | –7 | –5 | –5 | –44 | –52 | –1 | –1 | –2 | –2 | –59 | –67 |
| Reversal of previous year | – | – | – | – | – | 9 | – | – | – | – | 0 | 9 |
| Write-downs during the year | – | – | – | – | 0 | – | 0 | – | – | – | 0 | 0 |
| Divestments and disposals | – | – | – | – | – | – | 1 | – | – | – | 1 | 0 |
| Reclassifications | – | – | – | – | – | – | – | – | – | – | 0 | 0 |
| Translation effects | 0 | | 0 | – | –3 | –1 | 1 | – | –1 | – | –3 | –1 |
| **Closing balance** | **–7** | **–7** | **–5** | **–5** | **–47** | **–44** | **1** | **–1** | **–3** | **–2** | **–61** | **–59** |
| **Closing book value** | **188** | **183** | **890** | **831** | **3,396** | **3,356** | **73** | **51** | **459** | **572** | **5,006** | **4,993** |

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

| Depreciation per function | 2016 | 2015 |
|---|---|---|
| Cost of goods sold | 415 | 523 |
| Selling Cost | 1 | 1 |
| Administration | 3 | 2 |
| R & D | 2 | 2 |
| **Total group** | **421** | **528** |

Impairment and the result effects of scrapping are included in Other operating expenses.
Buildings and land with a value of SEK 1,492 (1,608) m are used as collateral for bank loans.

## NOTE 7. INTANGIBLE FIXED ASSETS

| Group | Goodwill | | Trademarks | | Patents, licenses & similar rights | | Know–how | | Customer relations | | Development costs | | Reach | | Other [1] | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| SEK m | **2016** | 2015 | **2016** | 2015 | **2016** | 2015 | **2016** | 2015 | **2016** | 2015 | **2016** | 2015 | **2016** | 2015 | **2016** | 2015 | **2016** | 2015 |
| **Acquisition value** | | | | | | | | | | | | | | | | | | |
| Opening balance | 2,454 | 2,459 | 1,363 | 1,363 | 207 | 207 | 1,213 | 1,214 | 1,509 | 1,444 | 155 | 30 | 56 | 47 | 327 | 392 | 7,284 | 7,156 |
| Investments | – | – | – | – | – | – | – | – | – | 48 | 4 | – | 7 | 7 | 66 | 61 | 77 | 116 |
| Divestments and disposals | – | – | – | – | – | – | – | – | – | – | – | – | – | –1 | – | – | 0 | –1 |
| Reclassifications | – | – | – | – | – | – | – | – | – | – | 61 | 125 | 0 | 3 | –61 | –131 | 0 | –3 |
| Translation effects | 42 | –5 | 0 | 0 | 0 | 0 | 3 | –1 | –9 | 17 | 0 | – | 0 | – | –26 | 5 | 10 | 16 |
| **Closing balance** | **2,496** | **2,454** | **1,363** | **1,363** | **207** | **207** | **1,216** | **1,213** | **1,500** | **1,509** | **220** | **155** | **63** | **56** | **306** | **327** | **7,371** | **7,284** |
| **Accumulated depreciation according to plan** | | | | | | | | | | | | | | | | | | |
| Opening balance | 0 | 0 | –76 | –67 | –112 | –99 | –420 | –382 | –801 | –719 | –27 | –16 | –9 | –6 | –280 | –274 | –1,725 | –1,563 |
| Depreciation | – | – | –9 | –9 | –14 | –14 | –39 | –39 | –77 | –77 | –21 | –11 | –3 | –3 | –1 | –1 | –164 | –154 |
| Divestments and disposals | – | – | – | – | – | – | – | – | – | – | – | – | – | 1 | – | – | 0 | 1 |
| Reclassifications | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | 0 | 0 |
| Translation effects | | | 0 | 0 | 0 | 1 | –2 | 1 | 16 | –5 | 0 | 0 | 0 | –1 | 26 | –5 | 40 | –9 |
| **Closing balance** | **0** | **0** | **–85** | **–76** | **–126** | **–112** | **–461** | **–420** | **–862** | **–801** | **–48** | **–27** | **–12** | **–9** | **–255** | **–280** | **–1,849** | **–1,725** |
| **Write-downs** | | | | | | | | | | | | | | | | | | |
| Opening balance | –462 | –462 | 0 | 0 | 0 | 0 | –12 | –12 | –120 | –120 | 0 | 0 | 0 | 0 | –2 | –2 | –596 | –596 |
| Write-downs during the year | – | – | – | – | – | – | – | – | –10 | – | – | – | – | – | – | – | –10 | – |
| Reclassifications | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | 0 | 0 |
| Translation effects | – | – | – | – | – | – | –1 | – | – | – | – | – | – | – | – | – | –1 | 0 |
| **Closing balance** | **–462** | **–462** | **0** | **0** | **0** | **0** | **–13** | **–12** | **–130** | **–120** | **0** | **0** | **0** | **0** | **–2** | **–2** | **–607** | **–596** |
| **Closing book value** | **2,034** | **1,992** | **1,278** | **1,287** | **81** | **95** | **742** | **781** | **508** | **588** | **172** | **128** | **51** | **47** | **49** | **45** | **4,915** | **4,963** |

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

| Depreciation per function | 2016 | 2015 |
|---|---|---|
| Cost of goods sold | 50 | 48 |
| Selling Cost | 102 | 100 |
| R&D | 1 | 0 |
| Administration | 11 | 6 |
| **Total Group** | **164** | **154** |

Know-how and customer relations are depreciated linearly. The remaining average life length is 19 (20) and 15 (15) years respectively. For further details concerning accounting principles for intangible assets, see note 2.6.

**Impairment testing**
Goodwill and other assets are tested for impairment annually or more frequently if there are indications of a decline in value. This testing is based on defined cash-generating units (CGU) and comprise of Polyols, Oxo, Caprolactones, Food & Feed, Bio Products and other business.

Allocation of Goodwill & Operating capital to the CGU's have been performed based on relative values and original PPA. The recoverable amount has been determined on the basis of calculations of value in use. These calculations are based on internal budget and strategic plan over the next five years. The assessments of management are based on both historical experience and current information relating to the market trend. Following the forecast period, the cash flows were extrapolated using an assumed rate of growth of 2 % (2). When calculating the present value of future cash flows, a weighted average cost of capital (WACC) of 11.0 % (11.0) after tax was applied to all business areas.

The calculations indicated no need for impairment in any of the CGU's.

A sensitivity analysis shows that an increase in the WACC with 1 % to 12.0 % after tax, wouldn't lead to a need for impairment for any of the cash-generating units.

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

| **2016** (SEK m) | Goodwill | Trademarks | Total |
|---|---|---|---|
| Polyols | 718 | 495 | 1 213 |
| Oxo | 821 | 568 | 1 389 |
| Caprolactones business | 293 | 99 | 392 |
| Food & Feed | 202 | 116 | 318 |
| **Total** | **2 034** | **1 278** | **3 312** |

| **2015** (SEK m) | Goodwill | Trademarks | Total |
|---|---|---|---|
| Polyols | 667 | 495 | 1,162 |
| Oxo | 804 | 568 | 1,372 |
| Caprolactones business | 324 | 108 | 432 |
| Food & Feed | 197 | 116 | 313 |
| **Total** | **1,992** | **1,287** | **3,279** |

**Parent company**

| | Other | |
|---|---|---|
| **Acquisition value** | **2016** | **2015** |
| **Opening balance** | 5 | 5 |
| Investments | 1 | 1 |
| Depreciation | –2 | –1 |
| **Closing balance** | **4** | **5** |

## NOTE 8. LEASING

SEK m

**Financial leasing agreements**

| Future minimum leasing fees | Group 2016 | Group 2015 |
|---|---|---|
| Due: | | |
| Year 1 | 0 | 0 |
| Year 2–5 | 0 | 1 |
| Year 6– | 0 | 0 |
| **Total** | **0** | **1** |

**Operational leasing agreements:**

The operational leasing agreements that exist are attributable to activities in Sweden. Future payment commitments for these contracts are as follows:

| Future minimum leasing fees | Group 2016 | Group 2015 |
|---|---|---|
| Due: | | |
| Year 1 | 32 | 25 |
| Year 2–5 | 44 | 36 |
| Year 6– | 2 | 1 |
| **Total** | **78** | **62** |

| Operational leasing costs during the period | 2016 | 2015 |
|---|---|---|
| Minimum leasing fees | 41 | 39 |
| Variable charges | 3 | 2 |
| **Total** | **44** | **41** |

## NOTE 9. NET SALES

| SEK m<br>Net sales by type of income | Group 2016 | Group 2015 |
|---|---|---|
| Goods | 11,265 | 11,105 |
| Services | 40 | 44 |
| **Total** | **11,305** | **11,149** |

| Net sales by geographic region | Group 2016 | Group 2015 |
|---|---|---|
| EU and rest of Europe | 6,627 | 6,744 |
| North and South America | 2,339 | 2,386 |
| Asia | 2,103 | 1,753 |
| Africa | 202 | 235 |
| Oceania | 34 | 31 |
| **Total** | **11,305** | **11,149** |

The Parent Company did not report any net external sales in 2016 or 2015.

## NOTE 10. BREAKDOWN OF COSTS

| SEK m<br>Costs divided by type | Group 2016 | Group 2015 |
|---|---|---|
| Raw materials, goods for sale, energy, transport and packaging costs | –7,535 | –7,685 |
| Other external costs | –718 | –646 |
| Employee remunerations (note 27) excl. restructuring costs | –1,228 | –1,276 |
| Depreciation (note 6 and 7) | –584 | –682 |
| Other operating income & expenses (note 11) | –37 | 104 |
| Earnings from participations in associated companies | 3 | 7 |
| **Total** | **–10,099** | **–10,178** |

## NOTE 11. OTHER OPERATING INCOME & COSTS

| | Group | | Parent Company | |
|---|---|---|---|---|
| SEK m | 2016 | 2015 | 2016 | 2015 |
| Insurance remuneration | 2 | 12 | – | – |
| Operations-related exchange rate differences | 35 | 43 | 1 | – |
| Restructuring costs | –24 | 1 | 0 | 0 |
| Write downs, disposal (note 6,7) | –10 | 0 | – | – |
| Other | –40 | 48 | –22 | –20 |
| **Total** | **–37** | **104** | **–21** | **–20** |

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

| SEK m | 2016 | 2015 |
|---|---|---|
| PetroPort Holding AB, Sweden | 3 | 6 |
| Polygiene AB, Sverige [1] | – | 1 |
| **Total** | **3** | **7** |

[1] In May 2015 Perstorp sold its shares in Polygiene AB

The companies' sales amounted to a total of SEK 74 (89) m in 2016 and earnings after tax was SEK 6 (14) m.

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

| SEK m | Share of capital/ voting rights, % | Group's share of shareholders' equity | Book value, Group |
|---|---|---|---|
| PetroPort Holding AB, Sweden | 50/50 | 64 | 64 |
| **Total** | | **64** | **64** |

| SEK m | 2016 | 2015 |
|---|---|---|
| Opening book value | 61 | 56 |
| Earnings from participations | 3 | 7 |
| Sale of shares in associated companies | – | –2 |
| **Closing book value** | **64** | **61** |

The assets of associated companies amounted to SEK 281 (294) m at the end of 2016 and liabilities amounted to SEK 153 (173) m.

## NOTE 14. OTHER PARTICIPATIONS

| SEK m | Book value Dec. 31, 2016 | Book value Dec. 31, 2015 |
|---|---|---|
| Opening book value | 430 | 358 |
| New shares issue | 23 | 89 |
| Translation difference | 22 | –17 |
| **Closing book value** | **475** | 430 |

Other participations consists of shareholding in Vencorex Holding France SAS and Perstorp´share at the end of the year is 15 (15) %

In August 2014 Perstorp reduced its ownership in Vencorex Holding France SAS to 15 %. Perstorp has a put option to sell the remaining 15 % and PTTGC NL has obtained a call option to buy the remaining 15 % holding in Vencorex.

## NOTE 15. NON CONTROLLING INTERESTS' SHARE IN NET PROFIT/LOSS FOR THE YEAR

| SEK m | 2016 | 2015 |
|---|---|---|
| Shandong Fufeng Perstorp Chemicals Co., Ltd, China | 19 | 5 |
| **Total** | **19** | **5** |

## NOTE 16. NON CONTROLLING INTERESTS

| SEK m | Book value Dec. 31, 2016 | Book value Dec. 31, 2015 |
|---|---|---|
| Shandong Fufeng Perstorp Chemicals Co., Ltd, China | 89 | 68 |
| **Total** | **89** | **68** |

| SEK m | 2016 | 2015 |
|---|---|---|
| Opening book value | 68 | 62 |
| Translation effects | 2 | 1 |
| Change in the period | 19 | 5 |
| **Closing book value** | **89** | **68** |

Perstorp's share in Shandong Fufeng Perstorp Chemicals Co.,Ltd at the end of the year is 68.3 (68.3) %

## NOTE 17. OTHER LONG-TERM RECEIVABLES

| SEK m | Dec 31, 2016 | Dec 31, 2015 |
|---|---|---|
| **Interest-bearing long-term receivables** | | |
| Other receivables | 0 | 1 |
| **Total** | **0** | **1** |
| **Interest-free long-term receivables** | | |
| Other receivables | 8 | 18 |
| **Total** | **8** | **18** |

## NOTE 18. PARENT COMPANY SHARES IN GROUP COMPANIES

| Direct holdings in Group companies | Corp. Reg. number | Registered head office | 2016 Holding, % | 2015 Holding, % | 2016 Book value | 2015 Book value |
|---|---|---|---|---|---|---|
| **Perstorp Financial Services AB** | **556762-4563** | **Perstorp, Sweden** | **100** | **100** | **7,712** | **7,712** |
| Perstorp Services AB | 559036-9574 | Perstorp, Sweden | | | | |
| Perstorp AB | 556024-6513 | Perstorp, Sweden | | | | |
| Perstorp Quimica do Brasil Ltda | NIRE 35.218.522.982 | Brazil | | | | |
| Perstorp SA [1] | RUT 76.448.840-7 | Chile | | | | |
| Perstorp Sales France | 442650768 R.C.S. Nanterre | France | | | | |
| Perstorp SpA | 171467 | Italy | | | | |
| Perstorp Japan Co., Ltd | 9-0100-0105-3962 | Japan | | | | |
| Perstorp (Shanghai) Chemical Trading Co. Ltd | 91310000681008322R | China | | | | |
| Shandong Fufeng Perstorp Chemical Co. Ltd | 782323786 | China | | | | |
| Perstorp Chemicals Asia PTE Ltd | 199905508W | Singapore | | | | |
| Perstorp Iberica SL | B65592503 | Spain | | | | |
| Perstorp UK Ltd | 02715398 | UK | | | | |
| Perstorp BioProducts AB | 556728-5779 | Sweden | | | | |
| Perstorp BioProducts AS | 815643062 | Norway | | | | |
| 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 Polyols Inc. | 34-1386676, Delaware | USA | | | | |
| Perstorp Holding B.V. | 34089250 | s-Hertogenbosch, Netherlands | | | | |
| 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 [2] | A62968368 | Spain | | | | |
| Perstorp Chemicals Korea Co. Ltd | 230111-0095660 | South Korea | | | | |
| **Perstorp Holding GmbH** | **HRB 7465, Arnsberg** | **Arnsberg, Germany** | **6** | **6** | **3** | **3** |
| Perstorp Chemicals GmbH | HRB 1900, Arnsberg | Germany | | | | |
| Perstorp Service GmbH | HRB 6542, Arnsberg | Germany | | | | |
| **Total book value in Parent Company** | | | **–** | **–** | **7,715** | **7,715** |

[1] Company is under liquidation.
[2] Company was liquidated during 2015.

All companies are wholly-owned by the Group except for Shandong Fufeng Perstorp Chemical Co. Ltd, for which the ownership is 68.3 (68,3) %.

| SEK m | 2016 | 2015 |
|---|---|---|
| Opening book value | 7,715 | 6,947 |
| Reversal of write down, shares in group companies | – | 768 |
| **Closing book value** | **7,715** | **7,715** |

## NOTE 19. ACCOUNTS RECEIVABLE & OTHER OPERATING RECEIVABLES

| | Group | |
|---|---|---|
| SEK m | Dec. 31, 2016 | Dec. 31, 2015 |
| Accounts receivable, gross | 775 | 576 |
| Bad debt provision | –15 | –13 |
| **Accounts receivable, net** | **760** | **563** |
| **Other operating receivables** | | |
| Value added tax | 55 | 78 |
| Emissions credits | 19 | 14 |
| Receivables from suppliers | 20 | 16 |
| Other current receivables | 15 | 7 |
| Prepaid insurance premiums | 5 | 21 |
| Other prepaid costs and deferred income | 159 | 141 |
| **Total other operating receivables** | **273** | **277** |

The parent company other recievables totaling SEK 14 (20) m, and accounts receivables amounting to SEK 1 (0).

| Analysis of accounts receivable | Dec. 31, 2016 | Dec. 31, 2015 |
|---|---|---|
| Not due | 742 | 525 |
| **Due:** | | |
| 1–10 days | 35 | 29 |
| 11–30 days | –5 | 4 |
| 31–60 days | 0 | 10 |
| 61–90 days | –1 | 1 |
| 91–180 days | –1 | –2 |
| 181 days or more | 5 | 9 |
| **Accounts receivable, gross** | **775** | **576** |
| Reservation for bad debts | –15 | –13 |
| **Accounts receivable, net** | **760** | **563** |
| Proportion of accounts receivable due | 4.3 % | 8.9 % |
| Proportion of accounts receivable due over 60 days | 0.4 % | 1.4 % |
| Reservation in relation to total accounts receivable | 1.9 % | 2.3 % |

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

During the second quarter 2014, Perstorp implemented an off-balance, non-recourse, long-term trade receivables program. Trade receivables, for which substantially all risks and rewards have been transferred are de-recognized and excluded from the reported figures. This program was expanded during first six months of 2015, to also include legal entities in US, Germany and UK.

| Allocation for bad debts | 2016 | 2015 |
|---|---|---|
| Allocation, opening balance | –13 | –14 |
| Recovered predicted customer losses | 1 | 1 |
| Established customer losses | 1 | 2 |
| Reservation for predicted customer losses | –3 | –3 |
| Exchange rate effects and other | –1 | 1 |
| **Allocations at year-end** | **–15** | **–13** |

## NOTE 20. CASH & CASH EQUIVALENTS

| | Group | | Parent Company | |
|---|---|---|---|---|
| SEK m | Dec 31, 2016 | Dec 31, 2015 | Dec 31, 2016 | Dec 31, 2015 |
| Unrestricted cash | 228 | 514 | – | – |
| Restricted cash [1)] | 206 | 228 | 63 | 86 |
| **Total** | **434** | **742** | **63** | **86** |

[1)] Cash in Perstorp accounts in countries where international movement of funds are restricted and cash held in escrowed accounts as collateral for different business activities.

## NOTE 21. INVENTORIES

| | Group | |
|---|---|---|
| SEK m | Dec. 31, 2016 | Dec. 31, 2015 |
| Raw material and consumables | 411 | 374 |
| Products in progress | 26 | 24 |
| Finished goods and goods for resale | 931 | 825 |
| Work in progress on behalf of others | 1 | 1 |
| Advance payment to suppliers | 8 | 5 |
| Impairment reserve | –7 | –14 |
| **Total** | **1,370** | **1,215** |

| | 2016 | 2015 |
|---|---|---|
| Impairment reserve opening balance | 14 | 24 |
| Provision utilized during the year | –7 | –12 |
| Allocation for the year | 0 | 2 |
| Translation effects | 0 | 0 |
| **Impairment reserve closing balance** | **7** | **14** |

Of the total value of inventories, SEK 22 (47) m is assesed at net sales value. During the assessment of net sales price, impairment that affects earnings has arisen (Cost of goods sold) amounting to SEK 3 (8) m. The net value of the year's allocations/provisions utilized during the year affects earnings for the year.

## NOTE 22. BORROWINGS & FINANCIAL COSTS

### A. Specification net debt

| SEK m | Group Dec. 31, 2016 | Group Dec. 31, 2015 | Parent Company Dec. 31, 2016 | Parent Company Dec. 31, 2015 |
|---|---|---|---|---|
| Senior secured notes | 7,142 | 5,640 | 7,142 | 5,640 |
| Second lien notes [1] | 3,821 | 3,090 | 3,821 | 3,090 |
| Mezzanine | 2,477 | 3,167 | 2,477 | 3,167 |
| Revolving Credit Facility | 100 | 0 | 0 | 0 |
| Inter-company financial liabilities | – | – | 705 | 360 |
| Other financial liabilities, excluding loans from Parent Company [1] | –137 | 49 | –208 | –37 |
| **Financial liabilities, excl. shareholder loans and pension liabilities** | **13,403** | **11,946** | **13,937** | **12,220** |
| Interest-bearing pension liabilities, net | 441 | 409 | 0 | 0 |
| Loan from Parent Company | 20 | 5 | 20 | 5 |
| **Total interest-bearing debt** | **13,864** | **12,360** | **13,957** | **12,225** |
| Cash and cash equivalents | –434 | –742 | –63 | –86 |
| Inter-company financial receivables | – | – | –7,177 | –5,875 |
| Other interest-bearing receivables, long- and short-term | –6 | –9 | – | – |
| **Interest-bearing assets** | **–440** | **–751** | **–7,240** | **–5,961** |
| **Net debt including pension liabilities and shareholder loan** | **13,424** | **11,609** | **6,717** | **6,264** |

[1] Second Lien recorded at a discount at the time of listing. The difference between the issue price and par value amounts to –112 million by the closing date and recognized over the vesting period. This item is included in other financial liabilities.

The Net debt includes secured loans (secured notes and other borrowing against collateral). See note 29 for further information.

### B. Maturity structure

| SEK m | Group Dec. 31, 2016 | Group Dec. 31, 2015 | Parent Company Dec. 31, 2016 | Parent Company Dec. 31, 2015 |
|---|---|---|---|---|
| Between 1 and 2 years | – | 11,862 | – | 11,860 |
| Between 2 and 3 years | – | – | – | – |
| Between 3 and 4 years | – | – | – | – |
| Between 4 and 5 years | 13,200 | – | 13,100 | – |
| More than 5 years | – | – | – | – |
| **Long-term borrowing, excl. shareholder loans & pension liabilities** | **13,200** | **11,862** | **13,100** | **11,860** |
| Short-term borrowing, 0–1 year | 203 | 84 | 132 | – |
| Inter-company financial liabilities | – | – | 705 | 360 |
| **Financial liabilities, excl. shareholder loans & pension liabilities** | **13,403** | **11,946** | **13,937** | **12,220** |

Perstorp successfully completed an issue of senior secured and second lien notes in the end of 2016, to refinance its existing senior debt in full and partly refinance its mezzanine loans. EUR 485 million and USD 275 million of senior secured notes, as well as USD 420 million of second lien notes where raised. The notes are listed on the Channel Islands Securities Exchange as of January 4, 2017. The notes will mature in 2021 and the maturity of the refinanced mezzanine loans has been extended to 2021.

The related financing agreements include quarterly key indicators (covenants). These key indicators has not been breached

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

| | Local currency | SEK m | Average interest rate on balance sheet date, % | Actual duration days |
|---|---|---|---|---|
| SEK | 100 | 100 | 4.0 % | 1,551 |
| EUR | 735 | 7,034 | 9.9 % | 1,642 |
| USD | 683 | 6,211 | 10.0 % | 1,551 |
| Other currencies | – | 58 | 3.9 % | 268 |
| **Financial liabilities, excl. shareholder loans & pension liabilities** | | **13,403** | **9.9 %** | |

At the end of the year 66 % of the loans had a fixed rate of interest. In addition to the above loans, there is loan from parent company in Luxemburg, see note 31. There was no hedge contracts at the end of 2016.

**D. Unutilized credits**

Available funds at the end of the year amount to SEK 983 m (934) where the Group's available credit limits amounts to SEK 755 (419) m.

**E. Financial income & costs**

| | Group | | Parent Company | |
|---|---|---|---|---|
| SEK m | **2016** | **2015** | **2016** | **2015** |
| Interest income | 5 | 6 | 0 | 0 |
| Interest income, Group companies | – | – | 643 | 590 |
| **Total financial income** | **5** | **6** | **643** | **590** |
| Notes and loans | –1,482 | –1,340 | –1,475 | –1,333 |
| Loans from Parent Company | –20 | 0 | –20 | 0 |
| Periodized borrowing costs | –106 | –65 | –106 | –65 |
| Pension costs, interest | –12 | –12 | – | – |
| Currency gains and losses from financing measures, net | –641 | –80 | –474 | –32 |
| Interest costs, Group companies | – | – | –94 | –87 |
| Write down financial claim [1] | – | –7 | – | –2 |
| Amounts capitalised on qualifying assets | – | 0 | – | – |
| Trade receivables financing cost | –59 | –58 | – | – |
| Other financial costs | –25 | –67 | –6 | –58 |
| **Total financial costs** | **–2,345** | **–1,629** | **–2,175** | **–1,577** |
| **Total** | **–2,340** | **–1,623** | **–1,532** | **–987** |

[1] Relates to divested unit.

**F. Market valuation of financial instruments**

Interest terms for around 66 % of the external loans are based on fixed rates that apply throughout the loan period.

For the remaining 34 % of external loans, interest terms are based on an underlying official market rate plus an interest margin.

The market value for financial instruments was calculated using the rates on the closing date. All outstanding financial derivative instruments were held for hedging purposes. All recognized derivatives are classified under level 2 of the value hierarchy.

The reported amount, after possible impairment for accounts receivable and accounts payable, is expected to correspond to the fair value because these are current items.

Internal loans are subject to customary restrictions under debt agreements.

## NOTE 23. PENSION OBLIGATION & COSTS

The group has both defined contribution and defined-benefit pension plans. During the year costs for these plans, excluding discontinuing operations had an accumulative effect on earnings of SEK 209 (225) m, of which SEK 194 (194) is attributable to defined-contribution plans ans SEK 15 (31) m to defined-benefit plans. Pension costs attributable to restructuring of SEK 2 (0) are included in the accumulated amount. The distribution of costs in the income statement are as follows:

### A. PENSION COSTS IN THE INCOME STATEMENT

| SEK m | **2016** | **2015** |
|---|---|---|
| Cost of sold goods | 113 | 108 |
| Sales and marketing overheads | 35 | 40 |
| Administrative costs | 51 | 54 |
| Research and development costs | 12 | 12 |
| Non comparable items | –13 | 0 |
| Net financial items | 11 | 11 |
| **Total** | **209** | **225** |

### DEFINED-CONTRIBUTION PENSION PLANS

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

### B. PENSION COSTS, DEFINED CONTRIBUTION PLANS

| SEK m | 2016 | 2015 |
|---|---|---|
| State pension plans | 72 | 76 |
| Other defined-contribution pension plans | 65 | 65 |
| ITP, insured through Alecta | 57 | 53 |
| **Total, Continuing operations** | **194** | **194** |

Most of the Group's Swedish companies have secured their obligations for retirees 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-bene.t plan that covers several employers. For the 2016 and 2015 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 2016, Alecta's surplus in the form of its collective funding ratio amounted to 149 (153)%. The collective funding ratio equals the market value of Alecta's assets, in percentage of the insurance obligations as computed in accordance with Alecta's actuarial calculation assumptions; this does not comply with IAS 19.

### DEFINED-BENEFIT PENSION PLANS

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

### C. PROVISIONS FOR PENSIONS, DEFINED BENEFIT PLANS

| SEK m | Dec. 31, 2016 | Dec. 31, 2015 |
|---|---|---|
| **Unfunded pension plans** | | |
| Defined-benefit obligations | 160 | 136 |
| **Total** | **160** | **136** |
| **Funded or partly funded pension plans** | | |
| Defined-benefit obligations | 628 | 631 |
| Salary taxes | 13 | 8 |
| Fair value of plan assets | –360 | –366 |
| **Total** | **281** | **273** |
| **Net Value** | **441** | **409** |

| Commitments are divided as follows by region: | Dec. 31, 2016 | Dec. 31, 2015 |
|---|---|---|
| Sweden | 203 | 173 |
| Germany | 146 | 121 |
| Other EU | 31 | 17 |
| USA | 58 | 94 |
| Other countries | 3 | 4 |
| **Net liability concerning defined-benefit pension plans** | **441** | **409** |

The plan assets presented here relate primarily to Group companies in the US, 96 (96)%, of which 71 (74)% are invested in stocks and 29 (26)% in bonds as interest-bearing securities. The expected return is assumed to be 7.5 (7.0)%, which is based on historic returns. The actual return on plan assets, including interest, in 2016 was SEK 24 (0) m.

In addition to the above, so-called direct pensions are included under assets and liabilities at SEK 134 (127) m including salary tax. Assets and liabilities are reported separately at gross amounts. Healthcare insurance is not included in pension commitments.

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

### D. CHANGES DURING THE YEAR IN COMMITMENTS, PLAN ASSETS, UNREALIZED ACTUARIAL GAINS & LOSSES & PAST SERVICE COSTS

| | 2016 | | | 2015 | | |
|---|---|---|---|---|---|---|
| SEK m | Defined-benefit plans, unfunded plans | Defined-benefit plans, funded or partly funded | Plan assets | Defined-benefit plans, unfunded plans | Defined-benefit plans, funded or partly funded | Plan assets |
| **Opening balance** | **136** | **639** | **–366** | **132** | **653** | **–334** |
| Costs for current year service | 3 | 15 | – | 3 | 15 | – |
| Expected return on plan assets | – | – | –23 | – | – | – |
| Interest expense | 3 | 25 | – | 3 | 22 | – |
| Settlement payments | – | –90 | 77 | – | – | – |
| Fees from employer | – | –5 | –33 | – | – | –32 |
| Disbursement | –6 | –15 | 15 | – | –33 | 21 |
| Actuarial profit/loss | 18 | 35 | – | 2 | –26 | – |
| Past service costs | – | – | – | – | – | – |
| Translation effects | 6 | 37 | –30 | –4 | 8 | –21 |
| **Closing balance** | **160** | **641** | **–360** | **136** | **639** | **–366** |

### E. NET PENSION PROVISIONS, CHANGES DURING THE YEAR

| SEK m | 2016 | 2015 |
|---|---|---|
| Opening balance | 409 | 451 |
| Pension costs during the year | 15 | 31 |
| Disbursements during the year | –47 | –43 |
| Gains/losses from change in demographic assumptions | – | – |
| Gains/losses from change in financial assumptions | 49 | –30 |
| Experience gains/losses | – | – |
| Change in asset ceiling | – | – |
| Other | – | –1 |
| Translation effects | 15 | 1 |
| **Closing balance, provision for pensions, net** | **441** | **409** |

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

### F. PENSION COSTS, DEFINED-BENEFIT PLANS

| SEK m | 2016 | 2015 |
|---|---|---|
| Costs for current year service | 17 | 19 |
| Expected return on plan assets | 0 | 0 |
| Interest expense | 12 | 12 |
| Gains/losses on a curtailment or settlement | –14 | – |
| **Total pension costs, defined-benefit plans** | **15** | **31** |

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

### G. KEY ACTUARIAL ASSUMPTIONS

| | 2016 | 2015 |
|---|---|---|
| Discount rate, % | 2,4 | 3,2 |
| Future salary increases, % | 2,4 | 2,7 |
| Anticipated return on plan assets, % | 3,9 | 4,1 |
| Anticipated average remaining employment term, year | 16,1 | 17,0 |

### H. PARENT COMPANY

The parent company reports a pension expense of SEK 22 (27) m, which is solely based on defined-contribution plans as there were no benefit-based pension plans at the end of the two most recent financial years. For classification reasons, the entire amount is reported as administration costs in the income statement, with the exception of SEK – (0) m of the cost attributable to restructuring which is included in Other income and expenses.

## NOTE 24. CURRENT & DEFERRED INCOME TAXES

### A. Income taxes in the income statement

| | Group | | Parent Company | |
|---|---|---|---|---|
| SEK m | 2016 | 2015 | 2016 | 2015 |
| Current tax | –9 | –22 | 0 | 1 |
| Deferred tax | 11 | 14 | – | – |
| **Total Group** | **2** | **–8** | **0** | **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 | | Parent Company | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| **Pretax earnings** | **–1,134** | **–652** | **184** | **–450** |
| Tax computed on basis of national tax rates applying in each particular country | 230 | 143 | –40 | –99 |
| Non-taxable revenues | 29 | 44 | 403 | 268 |
| Non-tax-deductible costs | –50 | –83 | –23 | –6 |
| Re-measurement of deferred tax | 14 | 0 | – | – |
| Tax loss carry-forwards for which no deferred tax asset has been recognized | –220 | –112 | –340 | –163 |
| Tax cost not related to current year's profit/loss | 0 | 3 | – | –1 |
| Other tax expenses | –1 | –3 | – | – |
| **Tax cost** | **2** | **–8** | **0** | **–1** |

The effective tax rate for 2016 is judged to be 20 % (23).

### B. DEFERRED INCOME TAX, NET CHANGE

| SEK m | Group 2016 | Group 2015 | Parent Company 2016 | Parent Company 2015 |
|---|---|---|---|---|
| Opening balance, net deferred tax liability | 651 | 657 | – | – |
| Exchange-rate differences | 10 | – | – | – |
| Tax recognized in the income statement (table A) | –11 | –15 | – | – |
| Tax recognized in shareholders' equity | –13 | 9 | – | – |
| **Closing balance** | **637** | **651** | **–** | **–** |

### C. DEFERRED TAX ASSETS, SPECIFICATION

| SEK m | Group Dec. 31, 2016 | Group Dec. 31, 2015 | Parent Company Dec. 31, 2016 | Parent Company Dec. 31, 2015 |
|---|---|---|---|---|
| Loss carry-forward | 93 | 88 | – | – |
| Provisions | 75 | 70 | – | – |
| Other receivables | 28 | 22 | – | – |
| **Total** | **196** | **180** | **–** | **–** |

### D. DEFERRED TAX LIABILITY, SPECIFICATION

| SEK m | Group Dec. 31, 2016 | Group Dec. 31, 2015 | Parent Company Dec. 31, 2016 | Parent Company Dec. 31, 2015 |
|---|---|---|---|---|
| Tangible fixed assets | 220 | 250 | – | – |
| Intangible fixed assets | 559 | 575 | – | – |
| Other receivable | 54 | 7 | – | – |
| **Total** | **833** | **832** | **–** | **–** |

### E. TAX LOSS CARRY-FORWARDS

The value of unutilized tax loss carry-forwards is capitalized in cases where it is expected that the carry-forwards will be utilized in the foreseeable future. In addition, there are unutilized tax loss carry-forwards totaling SEK 3,468 (2,705) m that have not been assigned any value, since it is considered that these will not be utilized in the foreseeable future. Deferred tax assets on tax losses carry-forwards mainly relates to Germany and the UK.

## NOTE 25. OTHER LIABILITIES, PROVISIONS

| SEK m | Group Dec. 31, 2016 | Group Dec. 31, 2015 | Parent Company Dec. 31, 2016 | Parent Company Dec. 31, 2015 |
|---|---|---|---|---|
| Pension obligations, interest-free | 0 | 0 | – | – |
| Provision for environmental measures | 30 | 30 | – | – |
| Provision for divested operations | 17 | 20 | – | – |
| Other provisions | 49 | 41 | 1 | – |
| **Other liabilities, provisions** | **96** | **91** | **1** | **–** |

## NOTE 26. ACCOUNTS PAYABLE & OTHER OPERATING LIABILITIES

| SEK m | Group Dec. 31, 2016 | Group Dec. 31, 2015 | Parent Company Dec. 31, 2016 | Parent Company Dec. 31, 2015 |
|---|---|---|---|---|
| **Accounts payable** | **996** | **670** | **82** | **17** |
| **Other operating liabilities** | | | | |
| Value added tax | 8 | 13 | – | – |
| Advance payments | 10 | 4 | 0 | 0 |
| Payroll tax | 22 | 23 | 2 | 2 |
| Other operating liabilities | 109 | 96 | 3 | 0 |
| Accrued wages, salaries and social security costs | 205 | 260 | 23 | 33 |
| Allocation for restructuring costs | 20 | 6 | – | – |
| Other accrued costs and prepaid income | 539 | 381 | 41 | 41 |
| **Total** | **913** | **783** | **69** | **76** |

## NOTE 27. EMPLOYEES & WAGES, SALARIES & OTHER REMUNERATION

### AVERAGE NUMBER OF EMPLOYEES

| | 2016 | | 2015 | |
|---|---|---|---|---|
| Country | Total employees | of which men | Total employees | of which men |
| Sweden | | | | |
| Parent company | 30 | 17 | 30 | 15 |
| Subsidiaries | 827 | 548 | 815 | 543 |
| Belgium | 41 | 34 | 40 | 33 |
| France | 2 | – | 3 | 2 |
| Italy | 28 | 21 | 28 | 21 |
| The Netherlands | 43 | 35 | 43 | 35 |
| Spain | 4 | 2 | 4 | 2 |
| Poland | 2 | 1 | 1 | 0 |
| UK | 83 | 75 | 86 | 75 |
| Germany | 118 | 105 | 116 | 104 |
| **Total EU** | **1,178** | **838** | **1,166** | **830** |
| Turkey | 3 | – | 3 | – |
| Norway | 13 | 13 | 1 | 1 |
| Russia | 3 | 1 | 3 | 1 |
| **Total non-EU Europe** | **19** | **14** | **7** | **2** |
| Brazil | 9 | 4 | 9 | 4 |
| Argentina | 1 | 1 | 1 | 1 |
| USA | 116 | 94 | 115 | 97 |
| **Total North & South America** | **126** | **99** | **125** | **102** |
| India | 21 | 16 | 21 | 17 |
| Japan | 7 | 2 | 7 | 3 |
| China | 138 | 95 | 137 | 93 |
| Singapore | 5 | 1 | 5 | – |
| Dubai | 3 | 1 | 2 | – |
| Taiwan | 2 | 1 | 1 | – |
| South Korea | 6 | 3 | 6 | 3 |
| **Total Asia** | **182** | **119** | **179** | **116** |
| **Total average no. of employees** | **1,505** | **1,070** | **1,477** | **1,050** |
| Proportion of men, % | | 71.1 | | 71.1 |

### WAGES, SALARIES & OTHER REMUNERATION, BY COUNTRY

| | 2016 | | 2015 | |
|---|---|---|---|---|
| SEK m | Board and CEO | Other employees | Board and CEO | Other employees |
| Sweden | | | | |
| Parent company | 18 | 29 | 21 | 33 |
| Subsidiaries | 5 | 455 | 4 | 482 |
| Belgium | – | 24 | – | 24 |
| France | – | 2 | – | 3 |
| Italy | – | 14 | – | 14 |
| The Netherlands | – | 28 | – | 31 |
| Spain | – | 4 | – | 2 |
| Poland | – | 2 | – | 2 |
| UK | 3 | 44 | 2 | 52 |
| Germany | – | 72 | – | 75 |
| **Total EU** | **26** | **674** | **27** | **718** |
| Turkey | – | 2 | – | 2 |
| Norway | – | 9 | – | – |
| Russia | – | 1 | – | 2 |
| **Total non-EU Europe** | **–** | **12** | **–** | **4** |
| Brazil | – | 3 | – | 5 |
| Argentina | – | 2 | – | 1 |
| USA | – | 78 | – | 83 |
| **Total North & South America** | **–** | **83** | **–** | **89** |
| India | 1 | 3 | 1 | 3 |
| Japan | – | 5 | – | 5 |
| China | – | 27 | – | 24 |
| Singapore | – | 4 | – | 3 |
| Dubai | – | 2 | – | 2 |
| South Korea | 1 | 2 | 1 | 2 |
| **Total Asia** | **2** | **43** | **2** | **39** |
| **Total** | **28** | **812** | **29** | **850** |

### REMUNERATION TO EMPLOYEES

| | Group | | Parent Company [1] | |
|---|---|---|---|---|
| SEK m | 2016 | 2015 | 2016 | 2015 |
| Salaries and other remuneration | 840 | 880 | 47 | 54 |
| Pension – defined-contribution (note 23) | 194 | 194 | 22 | 27 |
| Pension – defined-benefit (note 23) | 15 | 31 | – | – |
| Social fees | 179 | 171 | 10 | 11 |
| **Total** | **1 228** | **1 276** | **79** | **92** |

[1] Cost reported in accordance with IFRS.

## REMUNERATION TO THE GROUP'S BOARD OF DIRECTORS & MANAGEMENT

| SEK thousands | Board fee | Salary | Bonus & other remuneration | Pension costs [1] | Total |
|---|---|---|---|---|---|
| Chairman of the Board | 1,248 | – | – | – | 1,248 |
| Other Members of the Board | 460 | 1,690 | – | 192 | 2,342 |
| President | – | 7,656 | 7,418 | 6,354 | 21,428 |
| Other members of Group management | – | 20,540 | 8,054 | 7,908 | 36,502 |
| **Total** | **1,708 [2]** | **29,886** | **15,472** | **14,454** | **61,520** |

[1] All pension costs refer to defined-contribution plans.
[2] Including emplyee contribution amounting to kSEK 408.

Other members of group management comprised of 7 (8) persons during the year.

**Principles**
Members of the Board receive director fees in accordance with resolutions passed at the Annual General Meeting. Employee representatives do not receive director fees. Remuneration to the President and other members of Group management comprises basic salary, variable remuneration, company car and pensions.

The President is also entitled to a bonus corresponding to a maximum of 150 % of his fixed salary. Other members of Group management are covered by a a bonus system that provides a maximum of 50 % (50) 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**
A defined contribution (DC) pension plan, in addition to the traditional Swedish ITP pension, has been taken out for the President corresponding to 15 % of his basic salary. In addition, a more beneficial ITP pension plan has been signed with premiums equivalent to 10 % of basic salary in the range of 20–30 times the basic insurance amount and 25 % of basic salary above 30 times the basic insurance amount.

According to a special undertaking, the employment contract can be terminated by both the company and the President as of age 60. The period of employment termination notice is 18 months 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 18 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 defined contribution pension plan, the aim of which is to enable the executives concerned to retire at age 60. The period of employment-termination notice for other members of Group Management is six months. If the company terminates the employment of a member of Group Management, the sum total of salary during the period of notice, severance pay and corresponding benefits will be paid for 12 months.

## NOTE 28. CONTINGENT LIABILITIES

| | Group | | Parent Company | |
|---|---|---|---|---|
| SEK m | Dec. 31, 2016 | Dec. 31, 2015 | Dec. 31, 2016 | Dec. 31, 2015 |
| Guarantees | 320 | 297 | 320 | 297 |
| Guarantees and other contingent liabilities for subsidiaries | 210 | 175 | 441 | 323 |
| **Total** | **530** | **472** | **761** | **620** |

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

## NOTE 29. ASSETS PLEDGED

| | Group | | Parent Company | |
|---|---|---|---|---|
| SEK m | Dec. 31, 2016 | Dec. 31, 2015 | Dec. 31, 2016 | Dec. 31, 2015 |
| Property mortgages | 1,492 | 1,608 | – | – |
| Chattel mortgages | 1,220 | 743 | – | – |
| Shares in subsidiaries | 4,108 | 4,415 | 7,715 | 7,715 |
| Other participations | 475 | 430 | 475 | 430 |
| Endowement insurances | 105 | 101 | 102 | 95 |
| Liquid funds | 63 | 63 | 63 | 63 |
| Internal financial assets (loans) | – | – | 5,787 | 5,452 |
| Investments, receivables, inventories | 482 | 557 | – | – |
| **Total** | **7,945** | **7,917** | **14,142** | **13,755** |

## NOTE 30. FUTURE UNDERTAKINGS

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

## NOTE 31. TRANSACTIONS WITH RELATED PARTIES

Perstorp Holding AB is 100 % owned by  the Luxembourg-based Financière Forêt S.à r.l., which is controlled by the private equity company PAI partners.

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 120 manager and others key personnel participate, with contributions amounting to around EUR 5 million. Shares and options were priced on normal commercial terms.

Perstorp Holding AB has an amount borrowed from the Parent Company corresponding to SEK 20 (5) 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 secured notes, second lien and mezzanine loans.

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

Remuneration to the Group's Board of Directors and Management is reported in Note 27.

## NOTE 32. PROPORTION OF BOARD MEMBERS & SENIOR EXECUTIVES WHO ARE WOMEN

| | 2016 | | | 2015 | | |
|---|---|---|---|---|---|---|
| | Total | of whom, women | % | Total | of whom, women | % |
| Board members | 99 | 8 | 8 | 108 | 8 | 7 |
| Other senior executives | 123 | 26 | 21 | 130 | 29 | 22 |

The Board members category comprises ordinary members of the boards of all companies within the Group. The same person may be counted several times if he or she is a member of the board of more than one company. The Other senior executives category comprises the Group's executive management team, management teams within each business area and department, and the management teams of the major companies.

## NOTE 33. AUDITORS' FEES

| | Group | | Parent Company | |
|---|---|---|---|---|
| SEK m | 2016 | 2015 | 2016 | 2015 |
| **PricewaterhouseCoopers** | | | | |
| Audit assignments | 6 | 6 | 2 | 2 |
| Tax consultancy | 1 | 1 | – | – |
| Other | 11 | 9 | 9 | 9 |
| **Total** | **18** | **16** | **11** | **11** |
| **Other auditing firms** | | | | |
| Audit assignments | 1 | 1 | – | – |
| Other | 3 | 3 | 1 | 1 |
| **Sum** | **4** | **4** | **1** | **1** |

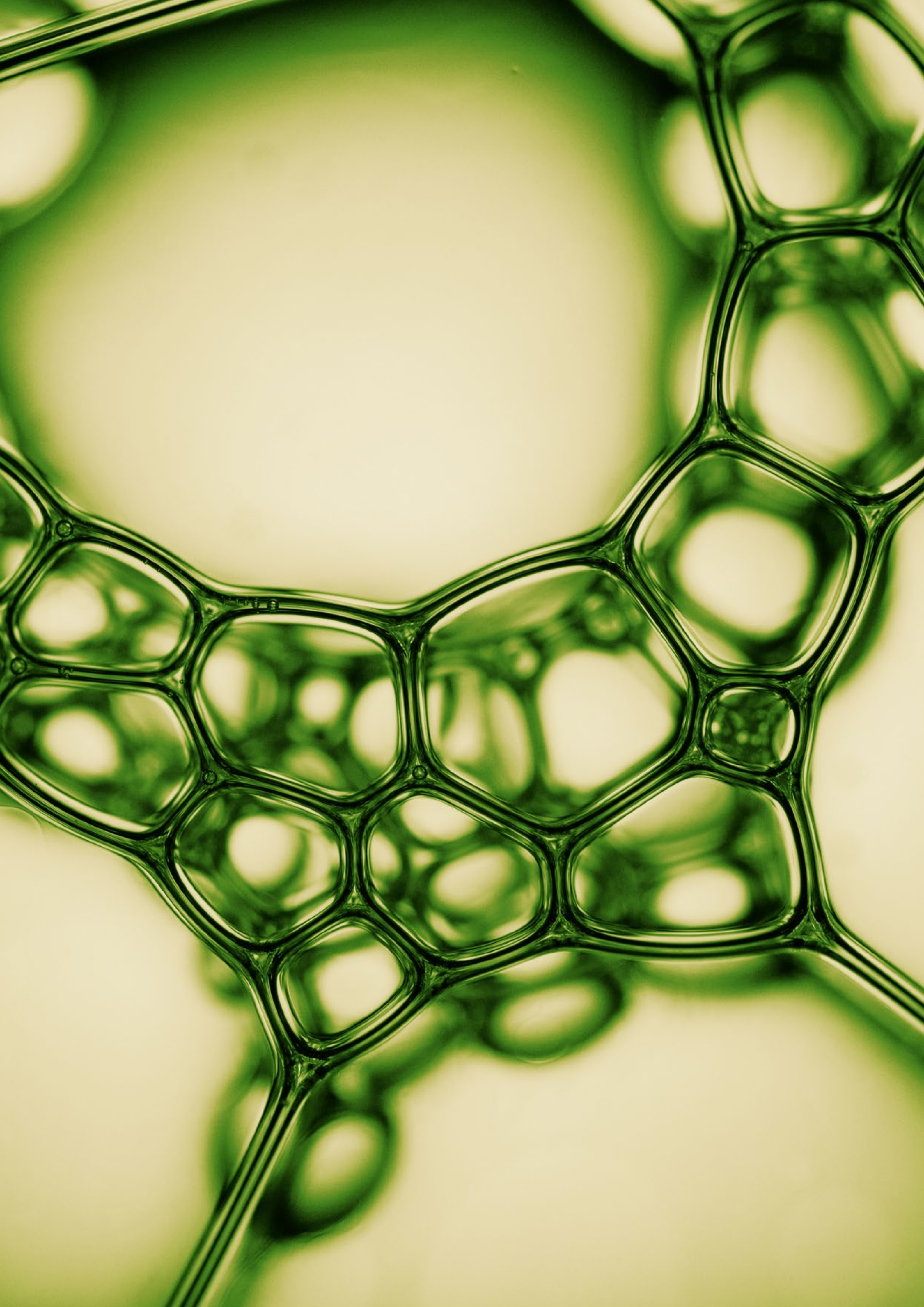
Audit assignments comprise verification of the annual report and accounts and the administration of the Board and President, other assignments that are required to be performed by the company´s auditors and advice or other support arising from observations made during verification or performance of other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

## NOTE 34. CURRENCY EXCHANGE RATES

| Currency | Year-end exchange rates | | Average exchange rates | |
|---|---|---|---|---|
| | Dec. 31, 2016 | Dec. 31, 2015 | 2016 | 2015 |
| BRL | 2.795 | 2.160 | 2.476 | 2.569 |
| CNY | 1.309 | 1.287 | 1.288 | 1.342 |
| EUR | 9.567 | 9.135 | 9.470 | 9.356 |
| GBP | 11.179 | 12.378 | 11.566 | 12.896 |
| INR | 0.134 | 0.126 | 0.127 | 0.132 |
| JPY | 0.078 | 0.069 | 0.079 | 0.070 |
| KRW | 0.008 | 0.007 | 0.007 | 0.007 |
| NOK | 1.054 | 0.956 | 1.020 | 1.046 |
| SGD | 6.287 | 5.908 | 6.200 | 6.134 |
| USD | 9.097 | 8.352 | 8.561 | 8.435 |

## NOTE 35. KEY EVENTS AFTER THE END OF THE FINANCIAL YEAR

On the 6th of March 2017 Perstorp divested the additives activities primarily serving the paints and coatings industry produced at its facility in Gent Belgium, Perstorp Belgium (Perstorp Oxo Belgium AB) to Synthomer (Synthomer plc). The total consideration for the sale is €78 million (subject to certain adjustments). The divestment is in line with Perstorp's strategy to focus on and expand its core chemicals activities. No other major events have occurred since the balance sheet date and up to the publication of this report.



# Proposed treatment of unappropriated earnings

| | SEK |
|---|---|
| The Board of Directors and President propose that the funds available for distribution by the Annual General Meeting, as shown in the Parent Company´s balance sheet, namely: | |
| Retained earnings | 1,410,757,282 |
| Net result for the year | 183,904,207 |
| **be distributed as follows:** | |
| To be retained in the business | 1,594,661,489 |

Perstorp, March 30, 2017

Tore Bertilsson
Chairman

Jan Secher
President & Chief Executive Officer

Fabrice Fouletier

Brendan Cummins

Claes Gard

Karin Markides

Ragnar Hellenius

Joakim Hansson
(elected by employees)

Oleg Pajalic
(elected by employees)

Anders Magnusson
(elected by employees)

Our audit report was submitted March 31, 2017
PricewaterhouseCoopers AB

Michael Bengtsson
Authorized Public Accountant
*Lead auditor*

Mats Åkerlund
Authorized Public Accountant

# Auditor's report

To the general meeting of the shareholders of Perstorp Holding AB,
corporate identity number 556667-4205

## REPORT ON THE ANNUAL ACCOUNTS AND CONSOLIDATED ACCOUNTS

### OPINIONS

We have audited the annual accounts and consolidated accounts of Perstorp Holding AB for the year 2016. The annual accounts and consolidated accounts of the company are included on pages 1–51 in this document.

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of parent company as of 31 December 2016 and its financial performance and cash flow for the year then ended in accordance with the Annual Accounts Act. The consolidated accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the group as of 31 December 2016 and their financial performance and cash flow for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and the Annual Accounts Act. The statutory administration report is consistent with the other parts of the annual accounts and consolidated accounts.

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

### BASIS FOR OPINIONS

We conducted our audit in accordance with International Standards on Auditing (ISA) and generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

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

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

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

In preparing the annual accounts and consolidated accounts, The Board of Directors and the Managing Director are responsible for the assessment of the company's and the group's ability to continue as a going concern. They disclose, as applicable, matters related to going concern and using the going concern basis of accounting. The going concern basis of accounting is however not applied if the Board of Directors and the Managing Director intends to liquidate the company, to cease operations, or has no realistic alternative but to do so.

### AUDITOR'S RESPONSIBILITY

Our objectives are to obtain reasonable assurance about whether the annual accounts and consolidated accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and generally accepted auditing standards in Sweden will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual accounts and consolidated accounts.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the annual accounts and consolidated accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of the company's internal control relevant to our audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors and the Managing Director.
- Conclude on the appropriateness of the Board of Directors' and the Managing Director's use of the going concern basis of accounting in preparing the annual accounts and consolidated accounts. We also draw a conclusion, based on the audit evidence obtained, as to whether any material uncertainty exists related to events or conditions that may cast significant doubt on the company's and the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the annual accounts and consolidated accounts or, if such disclosures are inadequate, to modify our opinion about the annual accounts and consolidated accounts. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause a company and a group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the annual accounts and consolidated accounts, including the disclosures, and whether the annual accounts and consolidated accounts represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated accounts. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our opinions.

We must inform the Board of Directors of, among other matters, the planned scope and timing of the audit. We must also inform of significant audit findings during our audit, including any significant deficiencies in internal control that we identified.

## REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

### OPINIONS

In addition to our audit of the annual accounts and consolidated accounts, we have also audited the administration of the Board of Directors and the Managing Director of Perstorp Holding AB for the year 2016 and the proposed appropriations of the company's profit or loss.

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

### BASIS FOR OPINIONS

We conducted the audit in accordance with generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

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

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

The Board of Directors is responsible for the proposal for appropriations of the company's profit or loss. At the proposal of a dividend, this includes an assessment of whether the dividend is justifiable considering the requirements which the company's and the group's type of operations, size and risks place on the size of the parent company's and the group's equity, consolidation requirements, liquidity and position in general.

The Board of Directors is responsible for the company's organization and the administration of the company's affairs. This includes among other things continuous assessment of the company's and the group's financial situation and ensuring that the company's organization is designed so that the accounting, management of assets and the company's financial affairs otherwise are controlled in a reassuring manner. The Managing Director shall manage the ongoing administration according to the Board of Directors' guidelines and instructions and among other matters take measures that are necessary to fulfill the company's accounting in accordance with law and handle the management of assets in a reassuring manner.

### AUDITOR'S RESPONSIBILITY

Our objective concerning the audit of the administration, and thereby our opinion about discharge from liability, is to obtain audit evidence to assess with a reasonable degree of assurance whether any member of the Board of Directors or the Managing Director in any material respect:

- has undertaken any action or been guilty of any omission which can give rise to liability to the company, or
- in any other way has acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association.

Our objective concerning the audit of the proposed appropriations of the company's profit or loss, and thereby our opinion about this, is to assess with reasonable degree of assurance whether the proposal is in accordance with the Companies Act.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with generally accepted auditing standards in Sweden will always detect actions or omissions that can give rise to liability to the company, or that the proposed appropriations of the company's profit or loss are not in accordance with the Companies Act.

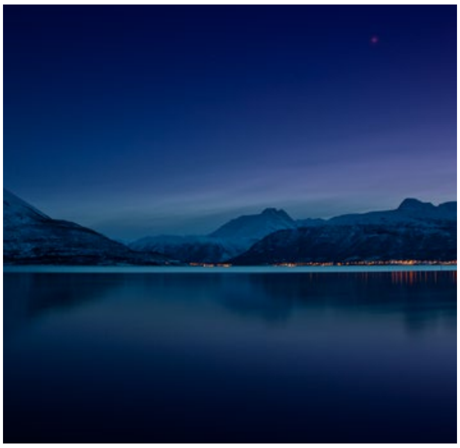
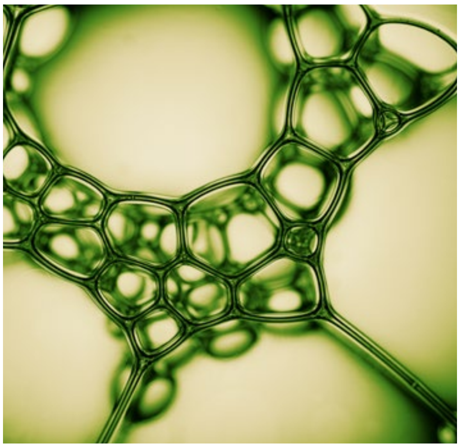
As part of an audit in accordance with generally accepted auditing standards in Sweden, we exercise professional judgment and maintain professional scepticism throughout the audit. The examination of the administration and the proposed appropriations of the company's profit or loss is based primarily on the audit of the accounts. Additional audit procedures performed are based on our professional judgment with starting point in risk and materiality. This means that we focus the examination on such actions, areas and relationships that are material for the operations and where deviations and violations would have particular importance for the company's situation.

We examine and test decisions undertaken, support for decisions, actions taken and other circumstances that are relevant to our opinion concerning discharge from liability. As a basis for our opinion on the Board of Directors' proposed appropriations of the company's profit or loss we examined the Board of Directors' reasoned statement and a selection of supporting evidence in order to be able to assess whether the proposal is in accordance with the Companies Act.

Malmö, March 31, 2017
PricewaterhouseCoopers AB

Michael Bengtsson
Authorized Public Accountant

Mats Åkerlund
Authorized Public Accountant

# Discover Your Winning Formula

Perstorp believes in improving everyday life – making it safer, more convenient, more fun and more environmentally sound for millions of people all over the world. As a trusted world industrial leader, our innovations provide essential properties for products used every day at home and work. You'll find us everywhere from your car and mobile phone to towering wind turbines and the local dairy farm. Simply put, we work to make good products even better.

Perstorp's focused innovation builds on more than 135 years of experience, representing a complete chain of solutions in organic chemistry, process technology and application development. Manufacturing is based in Asia, Europe and North America, with sales and support in all major markets. The Perstorp Group is controlled by funds managed and advised by the European private equity company PAI partners.