

# Sydsvenska Kemi AB (publ) Annual Report 2004

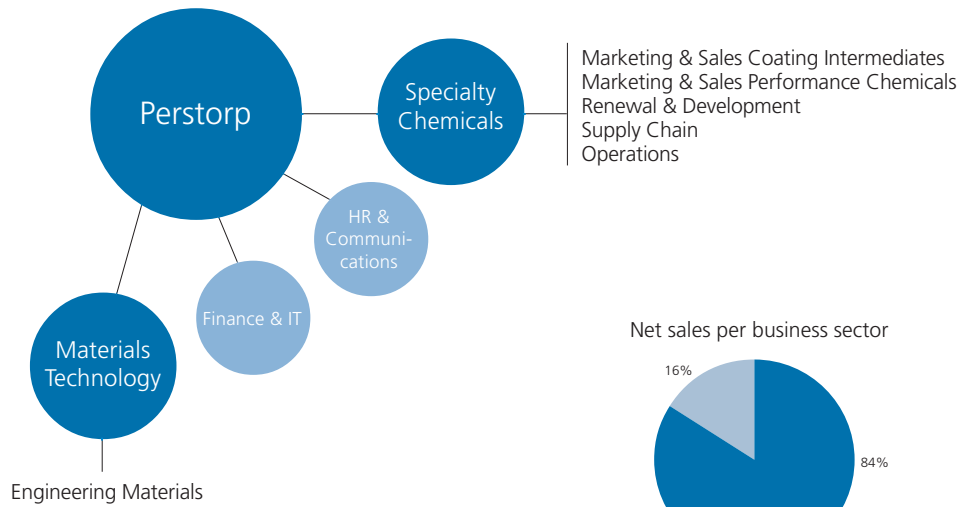


## A world-class specialty chemicals company

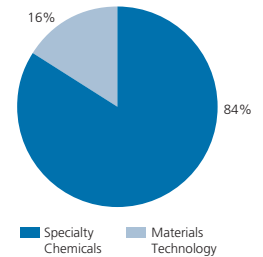
Perstorp's vision is to be the recognized global leader in realizing solutions for business clients based on the resource efficient and environmentally sustainable use of selected niches within organic and polymer chemistry.

### New function-divided organization

As of 2004, Perstorp's chemical operations are conducted within a function-based organization. The purpose is to utilize Group-wide resources more efficiently and to increase the focus on activities that generate value for customers. Efforts to simplify the Group's corporate structure have also been initiated, including the integration of internal service companies into the chemicals operations.



Net sales per business sector



# Perstorp

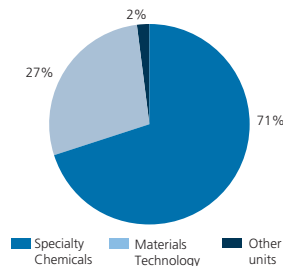
### Soon 125 years!

Perstorp was founded in 1881, at the location in Sweden with the same name. It was based on chemistry and operations have always been characterized by active development. Since the 1960s, there have been major investments in new products and new technologies. Today, Perstorp focuses exclusively on selected segments of the specialty chemicals and materials technology markets and sells its products to customers throughout the world.

### Perstorp's units in the world

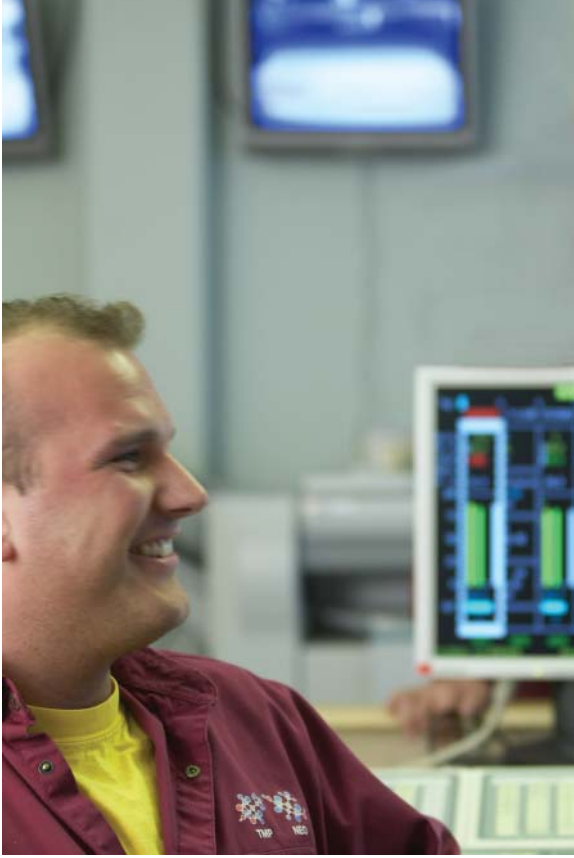


Employees per business sector

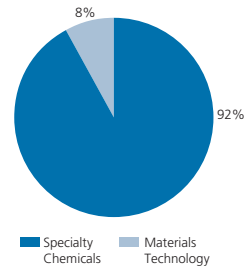


### Production in eight countries and 2,100 employees

Perstorp has manufacturing operations in eight countries in Europe, North America and Asia. The Group had an average of 2,091 employees during 2004, distributed as follows geographically: Sweden 51%, other EU countries 21%, the United States 15% and Asia 13%.



Operating earnings before depreciation



## Sydsvenska Kemi AB is the Parent Company

Since 2001, the company has been controlled by Industri Kapital 2000 Fund. Industri Kapital is one of Europe's leading private equity companies. Part of the payment for the acquisition of Perstorp in 2001 consisted of a subordinated debenture loan that is registered on Stockholmsbörsen. Sydsvenska Kemi AB (publ) is the Parent Company of the Perstorp Group.

## Composites replace metals

The composite materials manufactured by Perstorp combine considerable strength with low weight. As a result, they are increasingly replacing metals in advanced applications, such as in cars, aircraft and satellites. Other key characteristics of composites are that they are easily moldable and have electrical insulation properties.

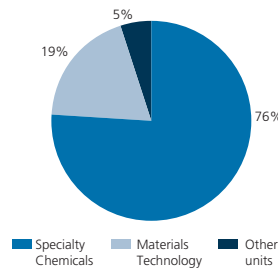


# in brief

## Leading positions

Perstorp has leading positions in its segments of the specialty chemicals and materials technology markets. The principal products are basic and specialty polyols, acids, plasticizers and alcohols, as well as formalin plants and catalysts. Customers are mainly active in the coatings industry, the plastic-processing industry and the automotive industry. Perstorp is also a leading manufacturer of advanced composite materials used in automotive and electrical industries and in the aviation and avionic industries.

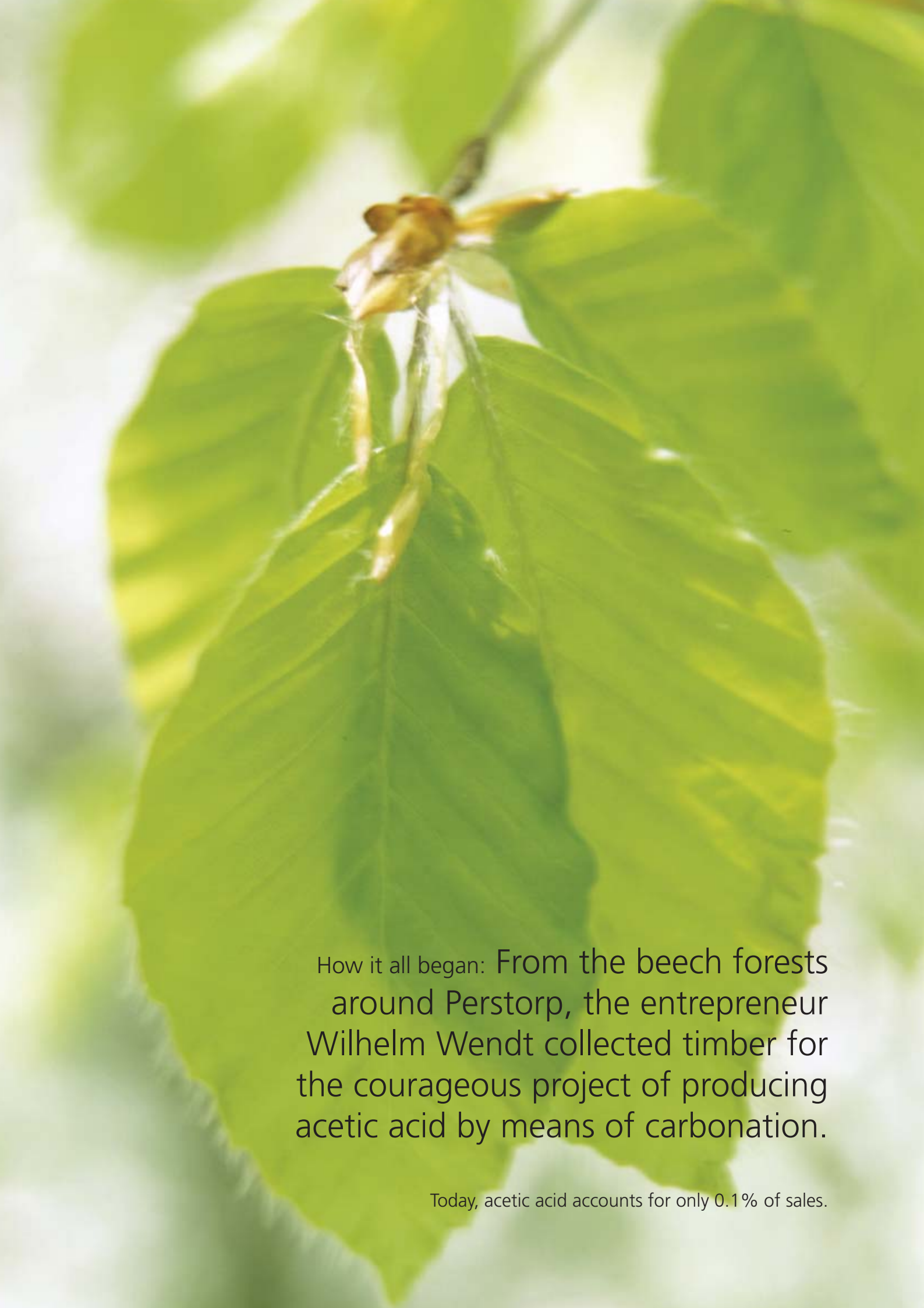
Investments per business sector



## Two kilograms in each car

Polyols manufactured by Perstorp account for 5-10% of the contents of a can of paint and more than 2 kilograms of the weight of a normal car. Polyols are used mainly in the production of resins for coatings and lacquers and help to give these products desirable characteristics, such as adhesiveness, surface structure and resilience.





How it all began: From the beech forests around Perstorp, the entrepreneur Wilhelm Wendt collected timber for the courageous project of producing acetic acid by means of carbonation.

Today, acetic acid accounts for only 0.1% of sales.

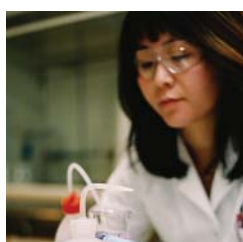
## Contents

3	Perstorp in brief
6	Highlights of 2004
8	Statement by the CEO
10	Specialty Chemicals
13	Marketing & Sales
18	Operations
19	Supply Chain
20	Renewal & Development
21	Materials Technology
25	HR & Communications
26	Finance & IT
27	Environment, health and safety
28	Corporate Governance
29	Debenture loan
29	Significant events following year-end
30	Risk management
34	Financial accounts
34	Income statements
36	Balance sheets
37	Cash flow statements
38	Shareholders' equity
40	Accounting principles and definitions
42	Notes
51	Proposed distribution of earnings and Audit Report
52	Board of Directors and Auditors
54	Corporate Management
56	Glossary



Statement  
by the CEO

8



Specialty  
Chemicals

10



Materials  
Technology

21

# Highlights of 2004

## Financial development

- The year was characterized by continued positive economic conditions, resulting in favorable demand for most of the Group's products.
- Net sales increased by 14% to SEK 6,532 m (preceding year: 5,741). Adjusted for exchange-rate changes, the increase was 18%.
- Operating earnings before depreciation increased to SEK 1,101 m (922), as a result of higher volumes, better capacity utilization and an increase in internal efficiency. Accordingly, the operating margin improved, despite the negative effects of rising raw-material prices and a weaker US dollar, and despite nonrecurring costs of SEK 74 m.
- Net earnings increased to SEK 71 m (39).
- Cash flow from continuing operations was at the same level as in the preceding year at SEK 755 m (754).

## Key figures 2004

SEK m unless otherwise stated	2004	2003	2002 <sup>2)</sup>
Net sales	6,532	5,741	5,998
Operating earnings before depreciation (EBITDA)	1,101	922	1,121
Operating earnings (EBIT) <sup>1)</sup>	494	343	536
Operating margin before depreciation, %	16.9	16.1	18.7
Operating margin, %	7.6	6.0	8.9
Investments	201	410	564
of which, acquisitions	-	68	374
Investments excl. acquisitions	201	342	190
Depreciation/amortization <sup>1)</sup>	607	579	585
Cash flow from continuing operations	755	754	770
Cash flow, % of net sales	11.6	13.1	12.8
Working capital, end of year	746	623	774
Turnover rate, working capital, times/year	7.6	6.7	7.7
Capital employed, end of year	6,964	7,390	7,797
Return of capital employed, %	6.8	4.5	6.7
Net debt, end of year	3,765	4,217	4,514
Debt/equity ratio, times	1.2	1.3	1.4
Equity/assets ratio, %	35	33	32
Return on shareholders' equity, %	2.3	1.3	1.1
Number of full-time employees, end of year	2,034	2,185	2,196

1) Write-downs of SEK 22 m for 2004 and of SEK 4 m for 2003 were charged against EBIT but have been reversed when calculating EBITDA.

2) Construction Chemicals is included up to its divestment in September 2002, since this unit is not considered a separate business area. The Moldable Composites operations acquired from Rogers Corp. are included as of November 2002.

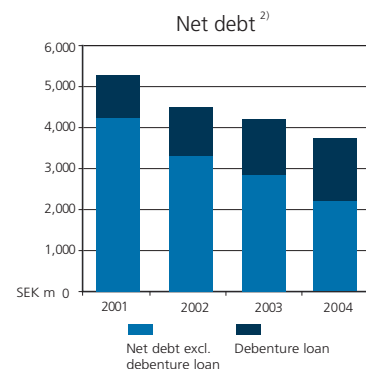
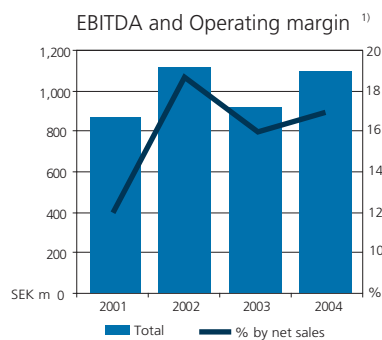
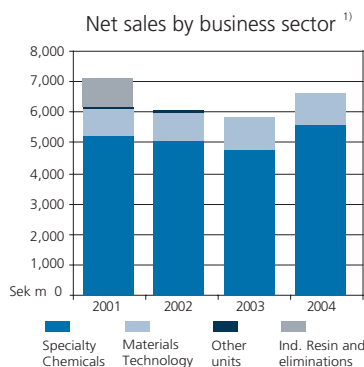
# Tough materials for tough applications



Perstorp participated in the world's largest plastics fair in Germany – the K2004. Perstorp Compounds, Vyncolit and YLA demonstrated their innovations and products under the Group-wide slogan of "Tough materials for tough application."

## Significant events

- A new organization was introduced in order to increase customer orientation and improve internal efficiency. As part of this process, the number of positions was reduced by 160.
- Decisions were made regarding major investments aimed at satisfying increasing demand for organic acids, polyols and several other specialty chemical products.
- All of the shares in Pergo AB (publ) were divested.
- Preliminary agreement reached regarding the acquisition of Franklin Holding BV, whose operations consist mainly of feed additives based on organic acids.



1) Construction Chemicals (within Other units) is included up to its divestment in September 2002. The Moldable Composites-operations (within Materials Technology) acquired from Rogers Corp. are included as of November 2002.

2) At end of year in question.



Statement by President and  
Chief Executive Officer Lennart Holm

# Customer-focused, resource-efficient!

After three and a half years of intensive restructuring, Perstorp has made significant progress towards the goal of becoming a focused specialty chemicals company – the goal that we established in cooperation with our owners when the Group was acquired and delisted from Stockholmbörsen in 2001. Since then, we have implemented a number of structural changes and measures to increase operational efficiency. We have succeeded in efforts to increase sales and margins in our selected priority areas, focused and developed the product portfolio and strengthened our presence in the global market. The Group is stronger today than it has been for many years, and the potential for continued favorable development is great.

## Performance during the year

Conditions during the past year were different from preceding years as a result of stronger economic growth and, in turn, higher demand for Group products. For the first time in several years, we operated at full capacity utilization in many of our plants. Perstorp noted particularly strong demand in Asia and North America, while in Europe the market was more cautious. Like many other industrial sectors, we see rapid growth in China that offers both threats and opportunities, and we continued to increase our resources in the region during the year.

Another significant factor during the past year was the high price of oil and natural gas, which are of critical importance to our operations since most of our value chains are based on these two raw materials. Equally significant was the increasingly stronger SEK in relation to USD, since most of our products are sold or priced in USD.

It is clear that most companies in the petrochemical industry - our suppliers - will report highly successful results for the year, since the high prices for oil and natural gas have been passed down into the value chain. In parallel, many producers of intermediate chemical products, namely Perstorp and our customers, found it difficult to secure our required margins despite a strong increase in demand. The North American chemicals industry has benefited greatly from the weaker USD

in relation to European currencies, partly at our expense. Although our margins in 2004 did not reach Group targets, we are satisfied with the results given the conditions outlined above.

The earnings improvements we achieved were primarily attributable to increased volumes and higher operating efficiency. Our operations today comprise the areas of specialty chemicals and materials technology. Specialty chemicals operations showed favorable development during 2004 in terms of both sales and profitability. Materials technology had a tough year, with largely unchanged sales and profitability, due mainly to weaker sales to the European automotive and manufacturing industries, combined with high costs for raw materials, meaning weaker growth and pressure on margins.

One of our fundamental values is to "earn the right to invest and grow". We have been extremely cautious with investments for the past few years, and maintained that caution in 2004. During the autumn, however, we decided to implement several large, growth-oriented investments with highly promising profitability potential. During 2005, we will build and begin operations at a new formic acid plant in Perstorp, expand our capacity for aldehydes and acids in Stenungsund, increase production capacity for Neo and TMP in Perstorp and expand our energy production.



We were pleased to conduct new product launches during the year on a broader scale than previously. Our focused efforts over just a few years have enabled us to increase the percentage of new products in our total sales. Strengthened by our success, we plan to gradually increase our investments this year in product, application and process development.

Increased consumer demands for quality and environmental compatibility are the primary driving force behind our growth. We see business opportunities in the fact that, as part of a globalized world, we must find new forms of sustainable development. During 2004, we joined the Global Compact initiative sponsored by the UN.

### Strategy for success

Perstorp's strategic direction is based on a framework comprising a clear vision, well-identified core competencies and three fundamental strategic principles that provide guidance in our everyday operations.

- Our vision is to be the recognized global leader in realizing solutions for business clients based on the resource efficient and environmentally sustainable use of selected niches within organic and polymer chemistry.
- Perstorp is and will strive to remain a technology-driven company with core competencies comprising a unique understanding of relevant applications and production technology within aldehyde and thermoset chemistry and related areas of chemistry in the subordinate value chain.

Our goals and action plans are based on three fundamental strategic principles:

- Superior value and growth based on a strong product portfolio (*Customer Back*).
- Operational efficiency and competitiveness through continuous improvements (*nEverest*).
- Performance culture based on common values and actions (*Forward*).

We focus on a few financial objectives that should be achieved without the need for additional capital contributions and whose fulfillment should be considered over a business cycle:

- Twice as high sales growth as the sector as a whole.
- Profit margin of 20% (EBITDA).

We also evaluate our efforts through recurring surveys of employee and customer opinions and, in 2004, verified favorable development trends in several key areas.

### New customer-focused organization

The new function-based organization we introduced in the summer of 2004 will be an essential component in the realization of

our plans. We reduced the number of legal entities and eliminated 160 jobs in Sweden. The new organization has gained widespread acceptance in our operations, and the cutbacks were implemented in constructive cooperation with all the parties affected by the changes.

Accordingly, we have created good potential for customer-focused and resource-efficient operations. Our goal is to eliminate processes that do not create value and concentrate our work efforts on continuous improvements in raw-material supply, purchasing, production, logistics and customer service, as well as product and market development.

### Continued development

In just a few years, Perstorp has taken several major steps towards its goal of becoming a specialized chemicals group that offers value-creating, environmentally compatible products and solutions and has competitive production plants and processes. Our success is based on committed and skilled employees and active cooperation with our customers.

Our positive development during recent years has shown that Perstorp's strategic direction is viable. Several actions have been taken to increase operational efficiency and strengthen the Group's market positions.

A weaker USD is expected to have negative effects on earnings and profit margins again in 2005, compared with the preceding year, since currency-hedging exchange rates are at a lower level and most parts of the anticipated flows are currency hedged.

Substantial investments during 2005 will focus on increasing production capacity for several products, in parallel with the continued pursuit of productivity programs. The outlook for the global economy in 2005 is promising and, based on measures that have already been implemented, the Group is well equipped to meet an increase in demand.

The Group's success is directly proportional to the commitment and skills that we are able to develop in our employees. The long-term growth of the company requires that we who work in the Perstorp Group, and the company as a whole, are able to develop and adapt to changing conditions. We are proud of our company and will continue to do whatever is needed to succeed.



Lennart Holm  
President and Chief Executive Officer

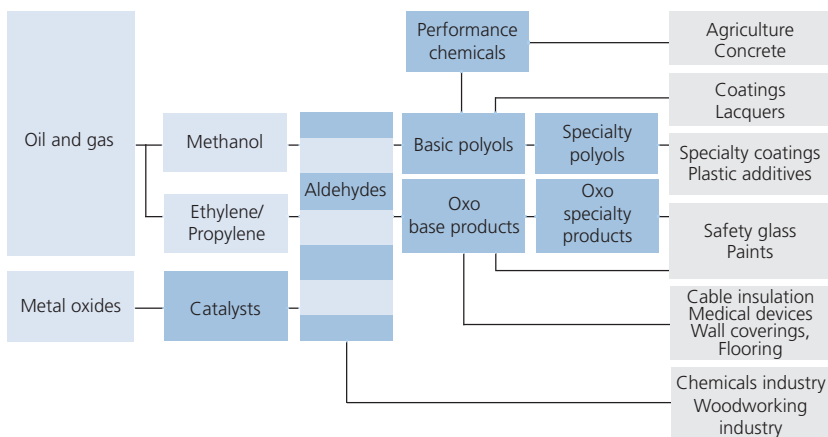
# Specialty Chemicals



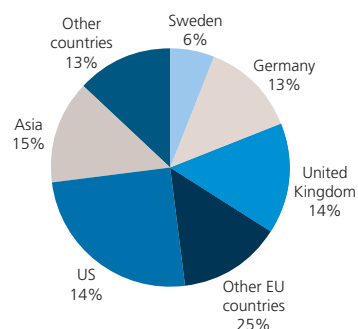
In-depth expertise in  
specific process technologies  
and application areas

Specialty Chemicals works with specialized chemical products in markets in all parts of the world. Customers consist primarily of companies in the coatings and plastic-processing industries, but also in construction, automotive, engineering and other industrial sectors. The operations are based on comprehensive know-how focused mainly on aldehyde chemistry and related areas, and in-depth expertise in specific process technologies and application areas.

### Specialty Chemicals value chain



Net sales by geographical market



The Specialty Chemicals business sector has annual sales of slightly more than SEK 5.5 billion and 1,447 employees. Production units are situated in eight countries – Belgium, Germany, India, Italy, the Netherlands, South Korea, Sweden and the US.

Perstorp is one of the world's leading suppliers in several of its selected market segments. Accordingly, the business sector is one of the world's largest suppliers of different types of polyols and organic acids, as well as plants and catalysts for the production of formalin. Most of the products are sold in all parts of the world, with the largest markets being Europe and the US, plus a growing percentage of sales in Asia.

Increased environmental and safety concerns are driving demand for new products, which Perstorp meets through active R&D focused on environmentally-compatible products.

The operations are conducted within the framework of overall, global functions comprising Marketing & Sales, Operations, Supply Chain and Renewal & Development.

### Products and markets

Most of Perstorp's specialty chemicals are intermediate products used in the production operations of other industrial companies, primarily in the chemicals, coating and plastic-processing industries, as well as construction, automotive and engineering industries. Nearly two-thirds of sales are booked in the chemicals industry, with the coating industry, via the resin industry, as the largest single user. Other application areas include the agricultural and food industries.

The main products and application areas are:

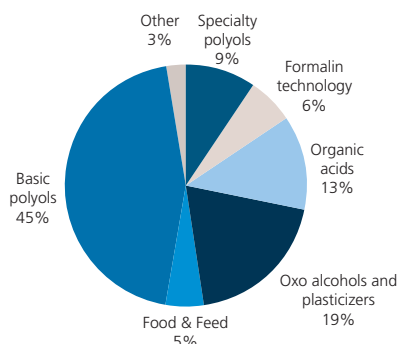
- Basic polyols
- Specialty polyols
- Formalin technology (formalin production plants and catalysts)
- Organic acids
- Oxo alcohols and plasticizers
- Food and feed products (acidifiers and other agricultural chemicals).

### Specialty Chemicals

SEK m	2004	2003 <sup>*)</sup>
Net sales	5,544	4,724
of which, internal sales	70	58
Gross earnings	1,103	789
Operating earnings before depreciation and amortization (EBITDA)	1,034	769
Operating earnings before goodwill amortization (EBITA)	738	503
Operating earnings (EBIT)	528	287
Investments (excl. acquisitions)	152	262
Working capital	624	484
Operating capital, excl. goodwill	2,808	2,830
Operating capital	6,139	6,409
Gross earnings, % of sales	20	17
EBITDA, % of sales	19	16
EBITA, % of sales	13	11
EBIT, % of sales	10	6
Working capital, average	706	691
Turnover rate, working capital, times	7.9	6.8
Return on operating capital excl. goodwill, %	25	17
Return on operating capital, %	8	4
Number of employees, end of year	1,447	1,583

<sup>\*)</sup> As a result of the reorganization conducted during 2004, energy production and service functions were integrated with Perstorp Specialty Chemicals. Comparative figures for 2003 have been recalculated.

External net sales by product area



The largest product groups are basic and specialty polyols and oxo alcohols and plasticizers, which jointly account for about 75% of sales. The different product areas and trends during the year in each area are presented on pages 13-16.

Approximately two-thirds of raw materials are based on crude oil or natural gas, and the largest single raw materials are propylene and methanol. Most production is supported by effective, environmentally compatible processes that are based on unique, proprietary technologies. Several key raw materials for proprietary production, with special emphasis on aldehydes such as formaldehyde, butyraldehyde and propionic aldehyde, are produced internally, which contributes strongly to the Group's competitiveness and opportunities to develop new products.

The business sector's competitors are generally units of large international chemical companies, such as BASF, Celanese, Eastman, Dow Chemicals and LG Chemicals, or specialized producers focused on regional operations. Competitive conditions vary substantially between different types of products and applications.

## Performance during the year

Operations during the year were characterized by strong demand for most products, as a result of improved global economic conditions. The improvement was most notable in Asia and the US, with strong growth in China as the main driving force. A gradual improvement in economic conditions was also noted in Europe.

The business sector's volumes increased sharply compared with preceding years. Particularly stronger volumes were reported for basic polyols and specialty products, but also for formalin plants, catalysts and certain other products.

A favorable balance between supply and demand prevailed in the chemicals industry, and capacity utilization was high during the year. Actions taken by Perstorp in the preceding year within the framework of *nEverest*, the Group's productivity program, generated favorable effects on earnings.

Continued rationalization during 2004 led to far-reaching integration of the specialty chemicals operations in Perstorp and Stenungsund, and a reduction in the number of employees, particularly in the Swedish sectors of operations.

The price of crude oil continued to rise during the year, leading to sharply increased prices for several of the business sector's raw materials. Given the strong market demand, Specialty Chemicals was able to offset the higher raw-material prices by increasing its own product prices, following a certain time lag.

The depreciation of the USD had negative effects on sales and earnings, expressed in SEK.

A process of consolidation has been under way in the chemicals industry for the past several years among business sector suppliers, customers and competitors. The growing demand in Asia, and China in particular, has led to increased capacity investments in that region, contributing to continued consolidation of the industry, with special emphasis on basic chemicals, as well as comprehensive rationalization programs.

Net sales amounted to SEK 5,544 m (4,724), an increase of 17% compared with the preceding year. Sales were affected negatively by currency effects of 4%, as a result of the weaker USD. Volumes increased by 14% and prices rose by 7%.

Operating earnings before depreciation and write-downs increased to SEK 1,034 m (769). Accordingly, the operating margin before depreciation improved to 19% (16). Earnings for 2004 include nonrecurring items totaling SEK 42 m for the rationalization program. The improved operating margin was attributable to high capacity utilization and reduced costs as a result of rationalization measures implemented during the year.

## Outlook

Demand for specialty chemicals that are environmentally compatible, cost effective and offer new technological properties is increasing. Perstorp Specialty Chemicals strives to increase sales of existing products through continued globalization and applications development.

By continuing to focus on new products, the business sector plans to gradually increase its percentage of specialty products and achieve sustained growth and healthy profitability.

# Marketing & Sales

The new organization includes a global Marketing & Sales function. Its activities are divided into a marketing unit for basic and specialty polyols and another unit for other specialty chemicals products.

Trends during 2004 for each of Specialty Chemicals' six main product and application areas are presented below.

## Basic polyols

Coating and lacquer systems are the largest application areas for Specialty Chemicals' polyols (polyalcohols). The polyols are used in the production of resins and to control properties of the end products, with regard to surface structure, impact resistance and adhesiveness, for example. Other important application areas for polyols are in the form of intermediates in the production of liquid adhesives, plastic additives, lubricants and other chemicals products.

Perstorp is a leading global supplier of several types of polyols and produces polyols on three continents.

Perstorp's largest polyols in terms of volume are called basic polyols, while products for more specific applications are called specialty polyols.

The basic polyols offering includes Penta (pentaerythritol), TMP (trimethylolpropane), Neo (neopentylglycol) and film-forming chemicals (main product is NX 795).

Demand for basic polyols remained strong during the year, particularly in Asia, but also in the US and Europe. The new operations established in 2003 through joint ventures in South Korea and Japan performed favorably and contributed to a strong position in the growing Asian market.

Volumes increased and capacity utilization was high, or very high, for all polyols. The company continued to improve its production efficiency and to remove production bottlenecks to increase capacity.



Jimmy Yap, Marketing & Sales, Singapore.

”

The Asian market for Perstorp's chemicals products is growing rapidly. The region consists of many different countries, and China, with its population of 1.3 billion people, is the main target for Perstorp's sales of specialty chemicals in Asia.

*"The Chinese market is growing rapidly and becoming the world's largest market for polyols. Several of our international key customers are establishing advanced production operations in China, which underlines the market's growing importance for us," explains Jimmy Yap, President of Perstorp Chemicals Asia Pte Ltd in Singapore.*

Most of the polyols that Perstorp delivers to customers in Asia are produced at the Group's plants in Europe and the US. The jointly owned companies that Perstorp has established in India, South Korea and Japan during recent years have helped to strengthen our market positions and enabled the Group to deliver products directly from production plants in the region.

*"Perstorp has sold polyols in the Chinese market for 16 years, and we have developed a highly functional distribution network with well-qualified agents that maintain inventories of our products in key industrial centers throughout the country. We will continue to strengthen our positions through efforts to broaden the product offering within specialty chemicals and, eventually, will establish proprietary production operations in the country," says Jimmy Yap.*



During 2004, the product NX 795 was classified as being free of volatile hydrocarbons, in accordance with new European environmental demands. The classification provides a competitive advantage in relation to several other types of products used in lacquers and coatings for decorative surfaces.

## Specialty polyols

Demand for new environmentally compatible, cost-effective

coating systems that offer attractive technological properties is increasing rapidly. Such properties can be achieved through applications of specialty polyols, such as water-based or UV-hardening coating systems. These sophisticated coating and lacquer systems are used for electronics products such as mobile telephones and display screens, but also by the furniture and automotive industries to achieve high-grade surface finish qualities.

Another large and growing application area for specialty polyols lies in synthetic lubricants, with special emphasis on compressors in CFC-free cooling systems for air conditioners, refrigerators, freezers and similar products.

Given the growing demand, Perstorp has focused for the past several years on efforts to develop and launch new types of specialty polyols to strengthen its leading position in the market for polyols and achieve continued growth.

Sales volumes during the year increased sharply for all specialty polyols. Demand was driven by favorable economic conditions and the growing interest in environmentally compatible products. Demand in Asia is also contributing to business growth.

The US Food and Drug Administration (FDA) granted approval in 2004 for utilization of the specialty polyol BEPD in direct contact with food products. The approval creates a new application area for this product in coating systems for interior surfaces of cans and containers for food products. An application for corresponding approval will be filed within the EU.

## Formalin plants - and catalysts

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

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

Formalin is an important raw material used by the board industry to produce adhesives for particleboard panel and by the chemicals industry to produce various types of plastics.

The general improvement in economic conditions has created strong demand in these industries, stimulating investments in new formalin production capacity. In this favorable market climate, the business sector has defended its leading position. Accordingly, Perstorp booked orders for three formalin plants from customers in China, Saudi Arabia and France in 2004, and expansion orders for three plants from customers in Europe and South America.

As a result of increased production at formalin plants throughout the world that use Perstorp's products, demand for formalin catalysts was particularly strong. Perstorp accepts used

catalysts from customers for recovery and recycling of the active substance molybdenum in new catalyst, another practical example of the company's environmental philosophy.

Perstorp is now conducting development projects focused on new formalin catalysts that are expected to increase productivity and reduce energy consumption in the formalin process. Other development work is concentrated on catalysts for other types of oxidation processes.

During 2004, the substance formaldehyde was assigned a more stringent classification by the International Agency for Research on Cancer (IARC), a scientific advisory body of the World Health Organization. The classification was changed from Group 2A, "probable carcinogen to humans," to Class 1, "carcinogen to humans." Formalin is a commonly used industrial chemical and is also found in its natural form in the environment. The substance is produced and used as a raw material within Perstorp. The new classification has attracted increased attention to the substance. From the work-environment perspective, measured values related to formalin within the Group are clearly lower than the statutory limits.

## Organic acids

The range of specialty chemicals offered by Perstorp Specialty Chemicals includes several organic acids for different applications. The Group is a large-scale producer of 2-ethyl hexanoic acid (hexanoic acid), propionic acid and formic acid. Hexanoic and propionic acids are produced in Stenungsund, while formic acid is produced in Perstorp.

Hexanoic acid is used as an additive in safety glass, which is a rapidly growing application area. High-strength safety glass has been used for several years to produce windshields for motor vehicles and, as a result of more stringent safety demands, is now being used increasingly in the side windows of motor vehicles and in glass for display windows, doors, buildings facades and other applications. Hexanoic acid is also used as an additive in corrosion inhibitors, meaning as a rust-protection agent in antifreeze, for example.

Propionic acid and formic acid are used as raw materials in the manufacture of various products, primarily in the agricultural sector and leather industry. The acids are refined both within the Group (see Food & Feed next page) and by external customers, mainly in Europe.

Demand for the business sector's acids was favorable during the year and capacity utilization was high. Given the current expectations of continued strong market growth during the next

few years, a decision was made to build new plants for the production of acids at the sites in Stenungsund and Perstorp.

## Food & Feed products

The agricultural and food industries represent a growing application area for many of Perstorp's products. In line with the Group's strategy to focus on specialized markets with good growth potential, Perstorp intensified its efforts in this area during the year.

Perstorp's offering consists of antibacterial feed additives, silage agents used to preserve green feed and different acid composites in the field of grain preservation. In addition to formic and propionic acid, other products in various areas of application include calcium formates, sodium formates and sodium propionates.

Demand for agricultural chemicals increased strongly during the year, mainly as a result of future EU requirements regarding animal husbandry. The most important driver is the pending ban on antibiotics in animal feed, which takes effect on January 1, 2006.

An additional stimulus for demand is the EU's new Feed Hygiene Regulation, which will also take effect in January 2006 and impose stricter demands on feed quality and animal husbandry.

Intensified marketing and new product launches also contributed to the increase in Perstorp sales. Sales of calcium formates, which are produced at the Group's plant in Bruchhausen, Germany, were taken over from the former distributing agent, effective January 1, 2004. The take-over had positive effects on both sales and margins. Furthermore, sodium propionate was introduced as a complementary product in this market. Efforts to market these products were successful and helped strengthen Perstorp's position in the food and feed market during the year.

Perstorp AB and Silver Lining Finance SA signed a preliminary agreement in December 2004 whereby Perstorp will acquire Franklin Holding BV, the Netherlands, and its subsidiaries, to further strengthen Perstorp's market position and complement its offering of more specialized products. The company has annual sales of about SEK 160 m and 40 employees. The operations consist mainly of feed additives based on organic acids.

## Oxo alcohols and plasticizers

Perstorp is one of Europe's largest and most diversified producers of synthetic alcohols, or oxo alcohols. The products are chemically based on the same aldehyde bases that provide inter-

mediates for the Group's range of polyols used in the coating industry.

Oxo alcohols have a wide range of application areas in a number of industrial segments. The fastest growing application is water-based paint systems that, due to environmental considerations, are showing strong growth. In addition to these application areas, the products are also included in biodegradable lubricants, and as fuel additives for greater combustion efficiency in diesel engines.

Plasticizers for PVC plastics are produced in Stenungsund. Production is focused strongly on medical grades of DEHP (diethyl hexyl phthalate). Other application areas include plastic floor coverings for wet rooms and electrical cable insulation.

The products are sold mainly in the European market, where favorable demand was noted during the year despite generally weaker economic growth in Europe and the loss of market shares to Asia and the US. Margins on oxo alcohols declined due to rising prices for the raw material propylene and certain overcapacity in the market. Capacity utilization was high during the year at all Group plants, however.



A close-up photograph of a laboratory experiment. A clear glass beaker on the left contains a vibrant red liquid. A pipette is positioned above the beaker, dispensing a pinkish-red liquid into it. The pipette's tip is just above the surface of the red liquid. The background is softly blurred, showing other laboratory glassware, including a beaker with blue markings and a glass dish. The overall lighting is bright and clean, typical of a laboratory environment.

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

# Operations

Perstorp produces specialty chemicals at ten sites in eight countries. The largest sites are in Perstorp and Stenungsund in Sweden, Bruchhausen in Germany and Toledo, Ohio, in the US. Since most sites include several specialized plants, the total number of production plants exceeds 40. Including energy production, technical service and maintenance, the Operations function has approximately 1,200 employees.

## Stronger synergies

During the year, production resources were concentrated in a new function, Operations, with global responsibility for Specialty Chemicals' production operations. The function also includes units for technical coordination and EHSQ work. Production responsibility was previously divided among the business sector's different business areas, with technical service and maintenance managed through separate companies or units.

The change was intended to strengthen synergies and cooperation within and between the production units, and to achieve a sharper focus and increased responsibility for questions concerning productivity, quality, the environment and safety.

In this context, extensive integration work was implemented in the specialty chemicals operations in Perstorp and Stenungsund, and the internal service companies and units have been integrated in the new function. This has led to comprehensive rationalization of the operations and workforce reductions at both sites.

The Group's *nEverest* efficiency-enhancement program also continued within the business sector and minor rationalization changes were made at all production units around the world. The program will continue in 2005 within the framework of the new organization, in accordance with an action plan with concrete activities for the year. In these endeavors, Operations will be responsible for development and dissemination to all units of knowledge and methods in areas such as process, production and maintenance techniques, automation and work methods.

## Investments in new capacity

Capacity utilization during the year was high, or very high, at almost all plants. To meet the growing demand, investments in new production plants have been approved, and continued work will be conducted to increase capacity in existing plants.

The business sector's investments during the year, excluding acquisitions, amounted to SEK 152 m (262).

A major project aimed at using natural gas to replace fuel oil as the raw material was completed in Stenungsund, which sharply reduced emissions from the plant into the air and waterways, among other environmental advantages. Since natural gas contains virtually no sulfur, the sulfur-treatment plants have been decommissioned.

Minor investments were also made during the year to improve logistics at the plant in Ghent, Belgium and to increase pro-



Lars Lind, Operations, Site Stenungsund.

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Major investments are currently in progress at the plants in Stenungsund to meet growing demand. Continuous efforts are also being made to further increase productivity at the plants.

*"Our acids met continued strong demand and capacity utilization was extremely high, particularly during the second half of the year. We have made substantial investments to increase productivity and in December, for example, we set a production record for hexanoic acid," says Lars Lind, manager of the integrated operations in Stenungsund and Nol.*

Given the market's growing demand, a decision was made to sharply increase production of different acids during 2005-2006. Another major investment was completed during the year, when the operations were converted to natural gas as the raw material in synthetic gas production. The conversion has led to increased production efficiency and reduced environmental impact.

*"The entire conversion has functioned extremely well, and the investment has exceeded our expectations," says Lars Lind.*

Eva Walter,  
Operations, Site Perstorp.



duction capacity for propionates in Castellanza, Italy.

Since the market for the business sector's acids is expected to show continued strong growth during the next few years, a decision was made to build new plants for the production of 2-EHA (hexanoic acid), formic acid and propionic acid.

Capacity for the production of hexanoic acid in Stenungsund will be increased from 50,000 to 80,000 tons annually, while capacity for propionic acid will be increased to 70,000 tons annually.

Formic acid capacity in Perstorp will be increased from 25,000 to 40,000 tons annually, and the Neo plant will also be expanded, increasing its capacity by 8,000 tons annually. In parallel, the bio-based boiler capacity in Perstorp will also be increased.

Production capacity for TMP and specialty products will be increased both in Perstorp and in Toledo, Ohio, in the US.

Estimated costs for the expansion projects outlined above total SEK 600 m and will be implemented during the period from 2004 to 2006.

Activities related to the environment, health and safety are presented in a separate section on page 27.



To produce effectively and safely and always deliver products that meet customer specifications are fundamental demands on Perstorp's production units.

*"We made strong improvements in our productivity during the year through high utilization of site facilities. All chemicals production, production of supplies and maintenance work conducted here at the site in Perstorp has been concentrated in a Group-wide organization. This has led to new work methods and a reduction in the number of employees," explains Eva Walter, manager of Specialty Chemicals' production in Perstorp, which employs 280 persons.*

*"Although we strive constantly to become more effective, we must also be reliable. By that I mean we cannot compromise on employee safety, our environment, quality or delivery reliability. Therefore, the introduction of new technologies and new work methods that benefit the environment and safety are important elements in our efforts to implement change. We also focus on the development of skills offered by our employees so that everybody is able to actively participate in the continuous improvements we achieve in everything we do."*

# Supply Chain

Operating as a reliable and service-oriented supplier is an important part of Perstorp's endeavor to become a world-class specialty chemicals company that creates value for customers. During 2004, a global supply chain management function was therefore established to ensure that customers receive good service and maximum delivery reliability, while optimizing the Group's total costs for raw-material supplies.

The new function is responsible for the business sector's procurements of raw materials and supplies, overall production planning and the distribution of finished goods. Responsibility for customer service has been transferred to the function in order to create greater efficiency and better service, from order bookings to delivery. Work has been started to concentrate customer service to a few locations. From these locations, every

customer will be offered a single contact person responsible for all products in the entire chain from order booking to delivery.

Estimated costs for a chemicals company's goods supply, excluding raw material costs and investments in warehousing facilities, are generally in the range of 15% of sales, which provides significant potential for efficiency improvements. Various projects are already in progress within the framework of changes implemented in the *nEverest* program to reduce total procurement costs, defined as the organization's total cost for purchasing and handling a certain type of goods. A special method has been developed for this purpose and procurements have been divided into different categories managed by a lead buyer. The measures generated substantial savings during the year.



# Renewal & Development

Specialty Chemicals accounts for most of the Group's research and development costs, which amounted to SEK 80 m (88) in 2004, or 1.2% of consolidated net sales.

## New function

Renewal & Development has overall responsibility for Specialty Chemicals products, applications, process and catalysts development, technologies and intellectual rights. Its responsibilities were expanded during the year to include management and coordination of the Group's strategic development and innovation processes.

Research and development projects are conducted in close cooperation with Specialty Chemicals' marketing and production units. The function also participates in specific projects within Engineering Materials that require special, chemical skills. About 90 persons are employed at development centers in Sweden and Finland.

## Environmental advantages and performance

The ultimate objective of all Specialty Chemicals R&D projects is to develop products or processes that offer significant environmental, health and safety advantages and favorable correlations between price and performance. The work is characterized by Perstorp's ambition to develop solutions that meet customer needs, instead of focusing on individual products.

Several projects were conducted during 2004 in the area of environmentally compatible coating systems. The projects focused on products that can be used to manufacture powder paints, UV-hardening paints and solvent-free or low-solvent coating systems.

Safety is the lodestar for the ongoing development of new types of flame-retardant agents for building paints, while health considerations control the development of agricultural chemicals that can be used to replace antibiotics in animal feed.

Continuous development work is conducted in areas related to the company's central production processes and new process concepts both for existing and new products. Technological and process development focuses on efforts to optimize production. Formalin catalysts that will facilitate an increased yield and lower energy consumption are also under development.

Increased Renewal & Development investments are planned in 2005 to further develop the product offering and production processes.



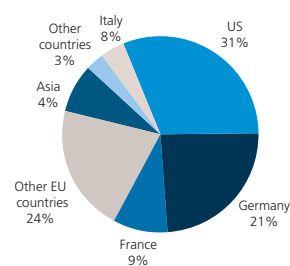


## Materials Technology

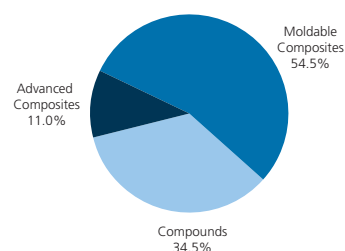
SEK m	2004	2003
Net sales	1,032	1,042
of which, internal sales	-	-
Gross earnings	191	190
Operating earnings before depreciation and amortization (EBITDA)	85	81
Operating earnings before goodwill amortization (EBITA)	38	35
Operating earnings (EBIT) *)	9	3
Investments (excl. acquisitions)	39	51
Working capital	165	157
Operating capital, excl. goodwill	497	510
Operating capital *)	937	1,030
Gross earnings, % of sales	19	18
EBITDA, % of sales	8	8
EBITA, % of sales	4	3
EBIT, % of sales	1	0
Working capital, average	176	197
Turnover rate, working capital, times/year	5.9	5.3
Return on operating capital excl. goodwill, %	7	6
Return on operating capital, %	1	0
Number of employees, end of year	549	553

\*) Goodwill for Materials Technology was changed compared with what was stated in the Annual Report of 2003 due to adjustments in the model for distribution of acquired balance sheet goodwill among cash-generating units.

Net sales by geographical market



Net sales by business unit



The Group's Materials Technology operations focus on advanced materials for industrial customers. The operations are based on fiber-reinforced polymers for demanding applications, mainly in the electronics, automotive, aerospace and aviation industries, and the construction industry. The products are characterized by a combination of low weight and high performance, as a result of which they are being used increasingly to replace metals in various application areas.

Perstorp's objective for Materials Technology operations is to become a leading manufacturer of fiber-reinforced, polymer materials for demanding applications, through product and applications development combined with acquisitions.

The products are based on the Group's core technologies in thermoset chemistry and fiber-reinforced composite materials. The technologies are developed continuously for new applications and to meet increased demands for productivity, quality and environmental compatibility.

The operations are conducted by the Engineering Materials business area and comprise three business units, Moldable Composites, Advanced Composites and Compounds.

The business area's customers are situated primarily in Europe and the US, but since growth is increasing in Asia, the focus on this market is also being sharpened.

### Moldable Composites

Moldable Composites, which mainly concentrates on the automotive industry, has a large global market share for engineering phenolics, which consist mainly of fiberglass-reinforced phenolic molding compounds. As in the case of Vyntec™, a new product, the materials are based on carbon-fiber-reinforced phenolic composites. The business unit also works with products based on epoxy, diallyl phthalate polyester (DAP) and silicone compounds.

The operations are managed by Vyncolit N.V. and Vyncolit Inc., subsidiaries with production facilities in Belgium and the US, respectively.

Moldable Composites' products are characterized by low weight and high performance, and are used to replace metals in, for example, water pumps, drive wheels and various other applications under the car hood. Growth is driven by the automotive industry's quest for cost-effective solutions and lighter, more fuel-efficient vehicles, which has created a need for components made of lightweight materials. The business unit competes mainly with suppliers of various metals used in automotive and electronic applications, and competing companies are based in Europe, the US and Asia.

### Advanced Composites

Advanced Composites comprises the subsidiaries YLA and CCS, both based in the US, whose operations focus mainly on the aerospace and aviation industries. The business unit is a leading supplier in small niche sectors of this predominantly US-based market. The companies' positions are particularly strong for satellite structures based on carbon-fiber-reinforced composite materials.

Reflecting the same trend noted in the automotive industry, the aerospace and aviation industries are characterized by a growing need for new materials that offer low weight and high

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Polymer systems that can withstand high temperatures are the main area of research and development at the US subsidiary YLA. The activities focus on developing new materials that can be used to replace titanium in particular and thus reduce the weight in satellite structures and other aerospace and aviation applications. The materials are generally stronger than the metals they are used to replace and offer the capacity to withstand long-term exposure to temperatures of 200-300°C.

*"We conduct development work in the areas between fundamental materials science and aerospace and aviation applications, sectors in which we apply new chemical research findings from the laboratory environment to sophisticated customer production processes. Our challenge is to expand and increase the number of viable applications for these advanced polymers by modifying their mechanical and physical properties and, whenever necessary, creating the processes our customers need to use them," explains Susan Robitaille, manager of new product development, which supports YLA's business development.*



Susan M Robitaille, R&D,  
YLA Inc., USA.

During 2004, YLA started a successful, in-depth program of cooperation with Specialty Chemicals' R&D function, which has developed specially adapted syntheses and conducted basic chemical analyses of various materials. This background information will support further development of material properties and increase the efficiency of production processes.

*"Our customers are placing increasingly high demands on the properties of our raw materials, particularly for applications in satellite structures, but also in high-temperature systems. A large part of our R&D therefore focuses on efforts to increase our opportunities to deliver high and consistent quality that satisfies increasingly stringent tolerance requirements."*

performance, which is driving demand in Advanced Composites markets. YLA competes with a limited number of large manufacturers such as Hexcel and Cytec, both located in the US, and to a lesser degree with specialized manufacturers of aluminum structures for the aerospace and aviation industries.

## Compounds

Perstorp is a leading supplier of Compounds in the market for amino-based thermosets in North America and Europe. Characterized by high strength, heat resistance and electrical insulation properties, the products are used primarily for electrical and interior-fitting products. The company also produces materials with antibacterial properties for sanitary goods and interior fittings. Production units are situated in Sweden, Italy and the US.

The market for conventional, amino-based thermosets shows low growth, while overall growth is stronger for new, more specialized products. In the market for Compounds, Perstorp competes with other manufacturers of amino-based thermosets and, through the introduction of injection-moldable products, to a growing extent with manufacturers of thermoplastics. Competing companies are found in Europe, the US and Asia.

## Performance during the year

Demand for the business area's products was acceptable during the year in most markets.

Sales amounted to SEK 1,032 m, a decline of 1% compared with the preceding year, however. Sales were impacted negatively by a 4% depreciation of the USD, which was offset by slightly higher volumes and prices.

Operating earnings before depreciation totaled SEK 85 m (81), corresponding to a margin of 8% (8). Earnings in both 2003 and 2004 were impacted negatively by costs for the rationalization program within Compounds operations.

Demand for Moldable Composites' products for the electrical and electronics industries was favorable, while overall demand was unchanged in the automotive industry.

Within Advanced Composites, order bookings for carbon-fiber-reinforced composite materials for the aerospace and aviation industries grew stronger during the year.

In terms of volume, Compounds noted favorable demand in Europe and the US. Market prices remained weak, however, as a result of strong competition, and the business area was unable to offset the rising prices of raw materials.

## Significant events

The development and launch of new thermoset materials continued during the year.

The Belgian subsidiary Vyncolit booked its first order for the new material Vyntec™, a carbon-fiber-reinforced phenolic composite for advanced applications, primarily in motor vehicles but also in components for the aerospace and aviation industries,

among others. The material offers better performance at a lower price, compared with many other sophisticated and extremely expensive composites, and can also be injection-molded.

Successful tests were conducted on the antibacterial amino plastic Polygiene®, both in Europe and China, and initial orders for the material have been booked. Polygiene® is intended primarily for applications in environments with high demands on hygiene, such as hospitals, hotels, restaurants and public environments.

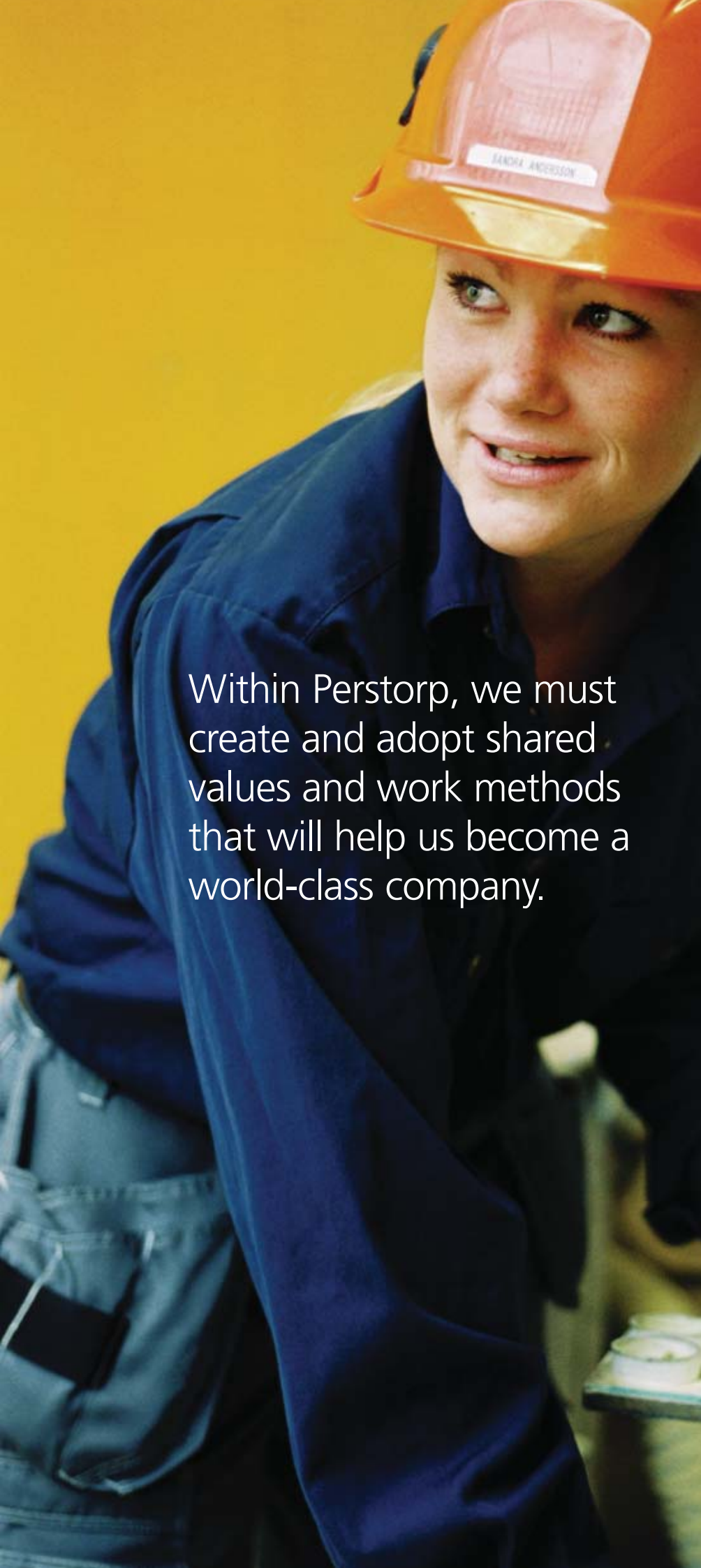
YLA has noted considerable success in efforts to develop new products for high-temperature systems used in the aerospace and aviation industries. The company is striving to further strengthen its expertise in this area and is seeking complementary technical and company acquisitions.

The business area's project for the establishment of Moldable Composites products in China continued during the year and a sales office was opened in Hong Kong.

To further strengthen competitiveness, the implementation of our proprietary quality system based on 6-Sigma continued. The system has already been introduced in Vyncolit's operations, and implementation has now been started within Advanced Composites.

## Outlook

The business area's goal, through product and applications development combined with acquisitions, is to become a leading manufacturer characterized by strong growth and healthy profitability. Profitability today is unsatisfactory, but the comprehensive project portfolio in the form of new products and applications is expected to contribute to favorable, long-term growth, particularly in the automotive, aerospace and aviation industries.



Within Perstorp, we must create and adopt shared values and work methods that will help us become a world-class company.



# HR & Communications

Perstorp is cultivating a corporate culture that enables individuals and groups to realize their full potential and to perform at the peak of their capabilities. This *performance culture* promotes the establishment of ambitious goals, actively involves and communicates with the employees in matters related to their achievements and encourages high-performing individuals and teams.

## Positive work climate

A survey was conducted during the year among employees throughout the entire Group. This *people satisfaction* study showed improvements in the working climate, compared with a corresponding survey in 2002.

The survey measures employee opinions of Group values and the psychosocial working climate and work environment. It showed a generally favorable job satisfaction rating among the employees and positive development trends in several areas. Results of the survey provide a platform for continued improvements in the company's work environment.

## More effective organization

The average number of employees in the Group during 2004 was 2,091 (2,184). The workforce was distributed geographically as follows: Sweden 51%, other EU countries 21%, the US 15% and Asia 13%. The actual number of employees at year-end 2004 was 2,034 (2,185).

The decline in the number of Group employees was due mainly to the new organization that was introduced during the year, which was intended to increase customer-focus and improve internal operating efficiency. New modes of operation were introduced in several areas, which increased integration between operations in different locations and different countries.

The number of full-time jobs in Specialty Chemicals, in particular, and general administration and service was reduced by about 150, of which most positions were full-time jobs, but also included some part-time jobs and consultants. In conjunction with organizational changes in Engineering Materials, about 10 jobs were eliminated.

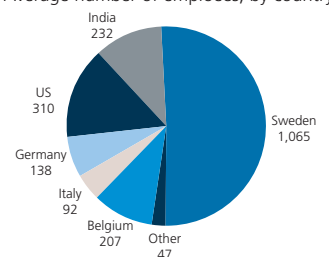
## Education and training

Development programs for Perstorp employees are managed systematically and supported by the Group's PMD process (People Management and Development).

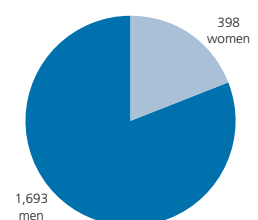
*Forward*, the Group's leadership program, was completed during the year. Four groups comprising a total of 120 persons participated in four training modules. Three of the modules addressed different aspects of the Group's corporate culture, strategies and value-creating processes. The ambition is to secure tomorrow's leadership and workforce supply, and continuously develop the skills of the Group's personnel so that they match the market's needs. A fourth module related to the effects



Average number of employees, by country



Distribution women/men



of globalization was conducted in China and Japan. The basis for this and other development programs has been the results of 360° surveys that monitor development of the Group's senior officers.

The Group's international training program for management personnel certification continued, with the aim of gradually including all managers and foremen throughout the entire organization.

In addition, HR Plus, an administrative system used to docu-

ment career plans, career-development talks and individual bonus programs was introduced throughout the Group.

The introduction of a mentor program and a career and lifetime development program was included among other activities.

Additional information about the Perstorp Group's work in the field of human resources and skills development will be presented in the HR Report to be published in the spring at [www.perstorp.com](http://www.perstorp.com).

## Finance & IT

### Finance

Several major projects were conducted in the area of financial reporting and financing issues during 2004. In conjunction with the introduction of the new function-oriented organization, a more clearly defined distinction was made between the concepts of legal reporting and business control. The clarification was well in line with increased external demands on both international financial accounting principles and internal control processes.

Effective January 1, 2005, the Group will comply with IFRS, International Financial Reporting Standards. A project in progress since 2003 in cooperation with Group companies and auditors has been conducted to ensure the Group's readiness to comply with the international principles and to consider any changes or adjustments that may be required. The most important questions for the Group have been currency hedging reporting, provisions for pensions and tangible and intangible fixed assets.

Internal control has been improved via the review that was conducted of all Group companies in consultation with the auditors. Shortcomings that were identified are being corrected in stages.

Sydsvenska Kemi AB's senior credits with Svenska Handelsbanken were renegotiated during 2004. The new agreement has created improved terms of lending, expanded credit parameters and increased financial flexibility.

### IT

Group-wide activities within information technology are designed to provide maximum benefits by supporting the business processes and optimizing IT costs. Efforts to standardize and centralize the Group's IT functions are key elements in this work.

One of the major IT projects conducted during the year was the introduction of a new CRM (Customer Relationship Management) system, which is intended to enhance the efficiency of information flows in Marketing & Sales. The project focused mainly on customer relationships and contacts. Two important ERP projects were also completed during the year, providing greater integration of different subsidiary business systems within the respective Business segments.

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*"Making financial accounting and reporting in different countries more uniform and informative is a good idea," says Anita Haak, manager of the Group's financial reporting and project manager for the IFRS compliance.*

*"Within Perstorp, we have chosen to have our companies report in accordance with IFRS in the Group reporting system. This places considerable demands on the companies' finance departments, however, which will have to differentiate between IFRS reporting and reporting in accordance with local accounting principles, in parallel with preparations of statutory reports."*



# Environment, health and safety

Perstorp has a long tradition of proactive work related to environmental, health and safety issues. The activities are conducted to achieve sustainable development.



## Environmental permits

The Group has production units in eight countries. In Sweden, the Group conducts more than 20 activities in Perstorp, Stenungsund and Nol that require permits. These plants have valid permits for the production of polyols, formalin, acids and alcohols.

During 2004, the Environmental Court in Växjö, Sweden, granted new permits for increased production of neopentyl glycol and allyl ethers at the complex in Perstorp. The Environmental Court is now addressing an application for a permit to increase production of trimethylol propane in Perstorp, and a new permit Court ruling is expected during 2005. A few permit rulings by the Environmental Court concerning increased production of formalin and pentaerythritol in Perstorp were decided by the Environmental Appeals Court/Svea Court of Appeal after an appeal was filed regarding transport conditions and other considerations. During 2005, the company expects to submit additional applications for permits to the Environmental Court in Växjö.

The units in Germany, Belgium, the US and Italy received new permits during the year for various changes in their operations. Some of them plan to apply for additional permits in 2005.

Most of the Group's production units are certified in accordance with ISO 14001.

The Group applied for and was granted emission rights for carbon dioxide for 2005-2007. The assessment is that the allotment will match Group needs.

## Environmental impact

The Group's production operations mainly impact on the exterior environment through emissions into the air and waterways and in the form of waste and noise generation. The Group's environmental report contains more detailed information about Perstorp's environmental impact. The report also presents environmental investments during the year.

The Group's unit in Stenungsund replaced fuel oil with natural gas as the raw material in synthetic gas production operations in 2004. The change creates several environmental advantages, with particular emphasis on reduced emissions into the air and waterways. Since natural gas contains virtually no sulfur,

nitrogen or heavy metals, the unit was able shut down its plants for sulfur treatment and nitrogen reduction.

A soil remediation project is now in progress at the Neo plant in Perstorp, where finished products have contaminated some sections of the soil under the plant. The project is expected to continue for some time.

Discussions have also been conducted for several years concerning liability for historical soil contamination at a property formerly owned by Perstorp in Bankeryd, Sweden. The Environmental Court ruled in the company's favor in a judgment announced in the summer of 2004. However, the County Administrative Board has filed an appeal with the Environmental Appeals Court, which is expected to resolve the issue in 2005.

A minor soil remediation project now in progress in India will continue during 2005.

## Environmental liability

Perstorp's financial reporting is based on the "going concern principle," which is also reflected in appraisals of eventual environmental liabilities.

The Group complies with decisions issued by public authorities and implements measures both proactively to prevent environmental effects and reactively in the event of environmental disturbances.

During the year, the question of environmental liability for the Group's main plants in Perstorp was evaluated. The evaluation did not lead to any changes in the financial reporting with regard to environmental considerations.

## EHS work

Perstorp has a Group-wide management system for Environment, Health and Safety (EHS). Within the framework for this system, most EHS activities are conducted by the individual units within the Group. A special EHS coordinator leads the local activities, and global activities are coordinated by the corporate Global EHSQ function.

For more detailed information about the Group's work involving safety, health and the environment, reference is made to Perstorp's Environmental Report for 2004, which will be available in the spring of 2005 on the Group's website, [www.perstorp.com](http://www.perstorp.com).

# Corporate Governance

## Annual General Meeting

At the Annual General Meeting, shareholders make decisions on issues stipulated by the Swedish Companies Act and Sydsvenska Kemi AB's articles of association.

The 2004 Annual General Meeting resolved, among other decisions, that the Board of Directors shall comprise eight members and one deputy. Furthermore, seven members and one deputy were reelected and Claes de Neergaard was elected as a new member to replace Fredrik Arp, who declined reelection.

## Board of Directors

According to the articles of association, the Board shall consist of three to nine members, with a maximum of three deputies, elected for one year at a time. Board members are proposed by the company's principal owners, in addition to three members and three deputies proposed by employee organizations. The members of the Board are presented on pages 52-53.

Operational procedures are established annually to regulate the work performed by the Board of Directors. The authority of the President and CEO is regulated in a separate instruction.

In addition to the statutory meeting, the Board normally meets six times per year and whenever the situation may otherwise require additional meetings.

During 2004, the Board held 12 meetings, including the statutory meeting, and six ordinary meetings. Work performed by the Board was dominated by questions concerning the Group's strategic direction and refinancing and investments in new production units. Industri Kapital, the principal owner, commissioned an evaluation of the Board's work and members during 2004, as part of a larger evaluation of its portfolio companies.

Remuneration to Board members is presented in Note 27, on page 49.

## Remuneration Committee

A remuneration committee is appointed within the Board of Directors for a term of one year at a time. The committee addresses questions concerning the company's remuneration program, the company's management-supply programs and development of key personnel. Remuneration questions include proposals for the Board's approval concerning salary and terms of employment for the President and decisions concerning salary and terms of employment of the personnel who report directly to the President. The committee conducted an evaluation of the Group's management supply program during the year.

During the period through the 2005 Annual General Meeting, the committee consists of Hans Larsson, Chairman, Thomas Ramsay and Gunnar Palme.

Remuneration to senior executives is presented in Note 27 on page 49.

## Audit

The Board of Directors is responsible for supervision and control of important questions concerning the company's financial accounts, reporting procedures, management of the company's assets and, whenever necessary, the company's general management. In this regard, the Board maintains close contact with the company's auditors, and the auditors submit reports at a minimum of two Board meetings during the year. The Board is considering a proposal to establish an audit committee in 2005.

External auditors are appointed by the Annual General Meeting for a period of four years, based on proposals by the Board. Authorized Public Accountants Michael Bengtsson and Ulf Pernvi of Öhrlings PricewaterhouseCoopers have been assigned audit responsibility for the period up to the 2006 Annual General Meeting. In addition to the customary audit, Öhrlings PricewaterhouseCoopers was commissioned on a consultancy basis during 2004 to assist in the management of the internal control work and in preparations for the company's switch to financial accounting in accordance with IFRS.

## President and Group Management

The President manages the business operations within the framework of guidelines established by the Board of Directors. He prepares all necessary information and decision-making documentation prior to Board meetings, presents the issues and justifies proposed decisions. The President manages the work performed by Group Management and makes decisions in consultation with other members of the management team.

## Internal control projects

The Group conducted a comprehensive project during the year to achieve further improvements in internal control procedures. Two-stage reviews were conducted of all companies during 2003 and 2004. During 2004, the companies successively corrected shortcomings identified in the first stage, and the second stage provides a platform for measures to be implemented during 2005. Experience gained thus far indicates a need to increase focus on internal control procedures and, during 2005, management will work in cooperation with the auditors to formulate a method for continuous and systematic follow-up.

## Policy documents

Perstorp has a number of policies that provide guidelines for the Group's operations and its employees. Comments on the company's environmental policy are presented in the environmental section on page 27, and the financial policy under Risk management on pages 32-33.

# Debenture loan

A portion of the purchase consideration paid to Perstorp shareholders in connection with the acquisition of Perstorp in the summer of 2001 took the form of a subordinated debenture loan issued by Sydsvenska Kemi AB. This loan is registered on Stockholmsbörsen (SOX) under the SYSK 1 designation.

The debenture loan is a zero-coupon instrument for which no interest will be paid before maturity, which will be on June 9, 2011. A debenture loan is a subordinated instrument, which means that, in the event of bankruptcy, repayment of the loan has a lower priority than the payment claims of other creditors and guarantors.

Units in the debenture loan are called debentures. Repayment of the loan will be made at the nominal value of the debentures, which is SEK 51. There are a total of 71,127,266 debentures. The

nominal value of the loan on maturity in June 2011 will be SEK 3,627 m. The loan amount at the end of 2004 was SEK 1,559 m.

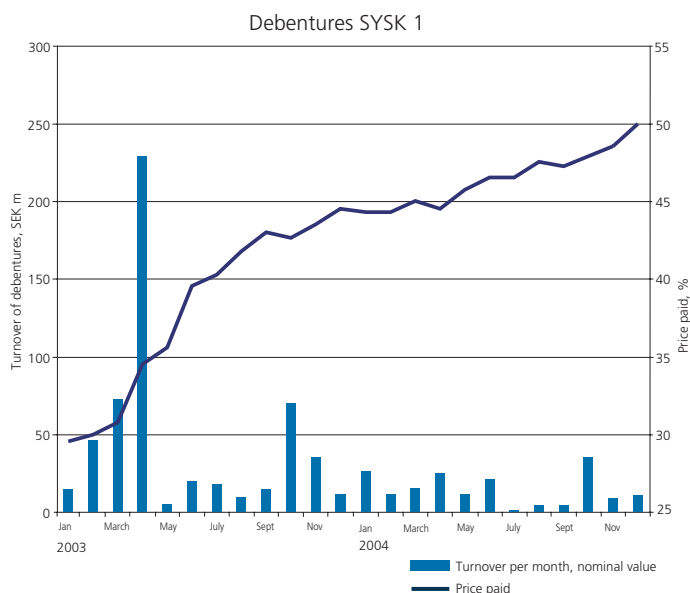
On Stockholmsbörsen, debentures are priced as a percentage of the nominal value at which the loan will be repaid. The lowest price paid in 2004 was 43.8% in January and the highest price was 50.0% in December. The price at the end of December 2004 was 50.0%, which corresponds to an annual return of slightly more than 11.4%, assuming that the loan is redeemed on maturity. The main factors determining the market's pricing of the debentures are the term remaining until maturity, the general interest-rate climate and the risk premium assigned to Sydsvenska Kemi's ability to generate future profits and cash flow. Not all trading in the debentures is registered on Stockholmsbörsen. The trading in debentures that was registered on Stockholmsbörsen during 2004 corresponded to a total nominal value of SEK 175 m, divided among 455 completed transactions. The nominal value refers to the amount in which the debenture loan will be repaid in June 2011.

On condition that the loans from Svenska Handelsbanken, or other loans that replace these loans, have been repaid in full, the creditors and Sydsvenska Kemi each have the independent right to demand premature redemption of the debenture loan if Industri Kapital no longer owns or controls (through ownership or agreements) more than 50% of the shares or voting rights in Sydsvenska Kemi, or if Sydsvenska Kemi shares are accepted for listing on Stockholmsbörsen or another stock exchange or listing system.

On condition that the loans mentioned above have been repaid, Sydsvenska Kemi is also entitled to demand premature redemption of the debenture loan on a quarterly basis beginning on September 30, 2004.

In the event of premature redemption, a discount rate of 12% will be used to compute the amount to be repaid. If the debenture loan had been redeemed at December 31, 2004, this would have resulted in a financial expense of approximately SEK 200 m.

For comprehensive information about the debenture loan, see the stock exchange prospectus dated April 2, 2001.



## Significant events following fiscal year-end

A decision has been made regarding the construction of a plant in Stenungsund for the production of propionic acid. The plant will have annual capacity of 70,000 tons and is scheduled to be placed on stream during 2006.



# Risk management

The Group's currency-hedging policy entails that exchange-rate fluctuations impact upon the Group's payment flows and earnings following a certain time lag – a period that can be used to adapt the Group to the new market conditions.

## Geographical markets

A large part of the Group's operational and financial risks is associated with the geographical markets in which Perstorp conducts business operations. Perstorp has production units in eight countries in Europe, North America and Asia. Within Specialty Chemicals, production is mainly conducted at three plants in Sweden and in Germany, the United States and India. There are smaller manufacturing units in Italy, Belgium, the Netherlands and South Korea. Within Materials Technology, production is mainly conducted at units in Sweden, Belgium, Italy and the US. Also see map on pages 3-4.

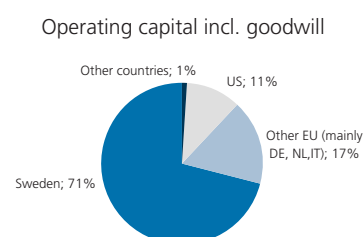
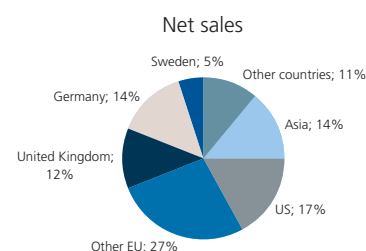
The majority of Group operating capital (Table A) is concentrated in Sweden, which accounts for slightly more than 70% including goodwill, otherwise 60%. Of the Group's total net sales (Table B), however, customers in Sweden account for only 5%. Just over 50% of sales are delivered to customers in the EU, where Germany and the United Kingdom are the largest individual markets. Customers in North America account for 17% of net sales and customers in Asia – mainly India, China, Korea and Hong Kong – account for 14%. This means that deliveries from the producing units in Sweden to customers in Europe, the US and Asia are considerable.

On the purchasing side, prices for most raw materials are denominated in EUR. In terms of flow exposure, EUR is also the Group's most highly exposed currency, followed by USD. More detailed information is presented in the "Currency risk" section.

## Operational risks

A number of factors that can be influenced to greater or lesser extents are highly significant for the Group's earnings and financial position.

*Business conditions* in the various market segments served by the Group and the global economic climate in general, of course, are of vital importance to the Group's business growth. *Structural changes* are also occurring in the market – not least because of increased competition from Asian countries with lower price levels and capital costs, ample access to low-wage labor and less stringent environmental requirements. In fact, the emergence of *new players* in the market has become a key competitive risk.



A. Operating capital and investments per market

SEK m	Operating capital incl. goodwill		Operating capital excl. goodwill		Investments excl. acquisitions	
	2004	2003	2004	2003	2004	2003
Sweden	5,325	5,380	2,329	2,175	118	227
Other EU countries (mainly DE, NL, IT)	1,251	1,462	834	1,008	52	52
US	827	980	469	540	21	38
Other countries	69	60	69	60	10	25
	<b>7,472</b>	<b>7,882</b>	<b>3,701</b>	<b>3,783</b>	<b>201</b>	<b>342</b>

B. Net sales per market

SEK m	2004	2003
Sweden	343	380
Germany	913	883
United Kingdom	805	706
Other EU	1,732	1,479
US	1,096	971
Other NAFTA countries	62	48
Asia	884	665
Other countries	697	609
	<b>6,532</b>	<b>5,741</b>

To deal with changes in economic and market conditions, it is important for the Group to strive constantly for greater resource efficiency and thus increased competitiveness – the *nEverest* activities and rationalization program in 2004 are examples of strong measures implemented by the Group during recent years. It is also extremely useful to be represented in all key markets, as Perstorp is, with the capability to deliver the solutions customers want with a high degree of service.

Establishing a presence for the company in the Asian market is important. Under present market conditions, however, Asian competitors do not have any specific competitive advantages in terms of raw material supplies and, moreover, the specialty chemicals operations are not labor intensive. Through its investment in penta production in India some years ago, and with sales offices in several Asian countries, the Group already has an important presence in Asia. Additional investments in the Asian market are considered on a continuous basis.

The emergence of new products that could serve as *substitutes* in Perstorp's application areas is a constant risk, not least in the chemical sector. Accordingly, one of the Group's strategic objectives is to continuously develop its product range and ensure that new value-generating products are developed as other, more mature items approach a phase of decline. A large part of the Group's research and development resources is devoted to finding new application areas for existing products in order to extend their lifecycle and thus increase their value.

*Raw material supplies* are governed by a Group policy stipulating that, whenever possible, Perstorp should use more than one supplier for each of its principal raw materials. However, most raw materials for the Swedish plant in Stenungsund are delivered via pipelines from a sole supplier. This eliminates storage costs and minimizes freight costs, but also creates a risk in terms of raw-material supply. The risk is managed through terminal agreements with suppliers, a solution that, in turn, provides access to many other suppliers. For certain other core raw materials, Group companies enter long-term agreements to secure their raw material supplies.

The EU's pending new chemicals legislation, REACH (Registration, Evaluation and Authorization of Chemicals), will subject chemicals groups to new demands in terms of their ability to prove that their products are not associated with health risks. It is important for the Group to assume an active role in this process and be able to influence the new regulations, thereby making it possible to work within and ensuring competition-neutral enforcement of these applications, and thus also making sure the law covers products imported into EU from non-member countries. Perstorp is engaged in the European Chemical Industry Council (CEFIC). The Group is also making preparations to comply with the requirements of the pending legislation.

The Global EHSQ corporate function coordinates efforts involving the *environment, health and safety*, while local EHS coordinators have been appointed in all local units. The Group has a joint management system to facilitate the dissemination of information concerning risks, incidents and preventive measures.

Perstorp's management of *credit risks* is governed by a general credit policy whose two primary objectives are to prevent credit losses and optimize capital utilization. The credit policy stipulates limits and procedures for the approval and monitoring of credit.

Insurance against risks related to *property, liability, business interruptions, cargo and crime* is managed within Perstorp by Corporate Risk Management (CRM), in cooperation with local companies. CRM procures, develops and manages the Group's global insurance programs and is responsible for ensuring that the Group has adequate insurance coverage and for supporting Group companies in their efforts to minimize risks. To reduce the risk of business interruptions, regular technical risk inspections are performed at production units. Through global insurance programs with various international insurers, the Group receives the price benefits that should accrue to large-scale purchasers.



## Financial risks

The Group has a finance policy that stipulates how responsibility for financial activities is divided. The policy also specifies the financial risks the Group is prepared to take, together with guidelines governing the management of these risks.

Corporate Finance (CF) has global responsibility within Pers-torp for the Group's financial activities. Accordingly, CF is responsible for ensuring that necessary specialist competencies exist in this area and for coordination of the Group's external borrowing and currency hedging. CF has been assigned the task of optimizing borrowing in terms of flexibility and loan terms, and supporting the various Group companies in finance matters. CF serves as the Group's internal bank with respect to capital supply, the Group account system, netting and currency hedging. CF does not have a risk mandate of its own. According to the finance policy, Group companies must conduct all their currency transactions via CF.

Financial risks may be divided as follows:

- **Financing risk**  
The risk that maturing loans cannot be refinanced.
- **Interest-rate risk**  
The effect of changes in market interest rates on the Group's net interest items.
- **Currency risk**  
The impact of changes in foreign exchange rates on the Group's earnings and net assets.

## Financing risk

As shown in Table C, a substantial part of the Group's net debt consists of a debenture loan that is listed on Stockholmsbörsen. The loan is described in detail on page 29. The increase of SEK 192 m in the debenture loan's principal amount during 2004 was attributable to capitalized interest.

Almost all of the Group's other borrowing is arranged through Svenska Handelsbanken. The loan agreements concluded with Svenska Handelsbanken by Sydsvenska Kemi AB and several subsidiaries include financial covenants that the Group has to fulfill on a quarterly basis. Formulations of the key ratios were changed in conjunction with re-negotiation of

the senior credits during 2004, and now comprise the following:

- Operating earnings in relation to net interest expense
- Net debt (net debt excl. the debenture loan) in relation to operating earnings before depreciation
- Cash flow in relation to interest payments and amortization
- Risk bearing capital (equity+minority interest+bank loan)/ assets, ratio

At the end of 2004, unutilized lines of credit amounted to SEK 2,100 m.

## Interest-rate risk

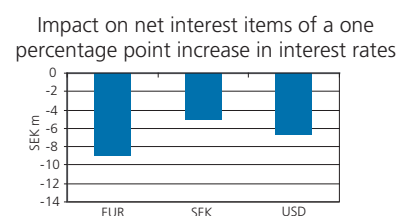
The finance policy stipulates that the average fixed interest term within the Group shall be short, normally about 90 days, subject to a minimum of 30 and a maximum of 360 days. This applies to all interest-bearing assets and liabilities, including off balance sheet instruments, such as currency swaps. At the end of 2004, the average period of fixed interest for financial liabilities excluding the debenture loan was 110 days. The currency composition of net debt is also of significance to the Group's average interest rate. Periods of fixed interest, interest rates and the distribution by currency are presented in Table D. The most exposed currency in terms of borrowing is EUR.

The effect on net interest items of a one-percentage point increase in interest rates for various borrowing currencies is shown in the diagram below. Overall, a general increase of one percentage point in all borrowing currencies would increase the Group's annual interest expense by SEK 21 m.

## Currency risk

Since the Perstorp Group has considerable payment flows, earnings and net assets in foreign currencies, exchange-rate changes have an

impact on both Group earnings and capital. The Group has chosen a form of active management of currency risks related both to transactions and to net assets in different currencies.



### C. Net debt, interest-bearing

SEK m	Dec 31, 2004	Dec 31, 2003
Svenska Handelsbanken	1,921	2,631
Other bank loans	71	65
Rogers Corp, financing of acquisitions	43	63
Hansol, financing of acquisitions	34	48
<b>Financial liabilities, excl. debenture loan</b>	<b>2,069</b>	<b>2,807</b>
Debenture loan, publicly traded	1,559	1,367
<b>Financial liabilities</b>	<b>3,628</b>	<b>4,174</b>
Interest-bearing pension liabilities *)	175	78
Liquid assets	-35	-30
Other interest-bearing receivables	-3	-5
<b>Net debt</b>	<b>3,765</b>	<b>4,217</b>

\*) The introduction of RR 29 (IAS19), Employee Benefits, has affected the classification and valuation of the pension liability.

### D. Composition of financial liabilities by currency, December 31, 2004

SEK m	Loans	Swaps	Total	Interest rate, %	Duration
EUR	1,435	-557	<b>878</b>	3.4	71
SEK	546	-20	<b>526</b>	3.6	99
USD	54	596	<b>650</b>	3.4	167
GBP	3	-14	<b>-11</b>	3.8	20
Other	31	-5	<b>26</b>		42
<b>Financial liabilities, excl. debenture loan</b>	<b>2,069</b>	<b>0</b>	<b>2,069</b>	<b>3.4</b>	<b>110</b>
Debenture loan	1,559	0	1,559	14.1	*)
<b>Financial liabilities</b>	<b>3,628</b>	<b>0</b>	<b>3,628</b>	<b>8.0</b>	<b>n/a</b>

\*) The debenture loan matures in June, 2011.



## Flow exposure

The Group's finance policy stipulates that within a timeframe of up to 12 months, 75-90% of anticipated flows in foreign currencies are to be hedged using currency forward contracts. Of the flows anticipated over a period of 12-24 months, 25-75% are to be hedged. During 2004, however, the Group's Board of Directors issued a directive regarding a certain increase in the percentage of currency-hedged flows in USD. Contracted flows – mainly for sales of formalin plants – are hedged 100%. In relation to external banks, Perstorp AB is the counterparty in all currency-hedging contracts. The Group companies' historical flows of foreign currencies are monitored quarterly, at the same time as rolling 24-month forecasts of their flows in foreign currencies and currency hedging are reviewed and supplemented/adjusted.

The Group's currency-hedging policy entails that exchange-rate fluctuations impact upon the Group's payment flows and earnings following a certain time lag – a period that can be used to adapt the Group to the new market conditions.

During 2005, the total net exposure, expressed as the sum total of the absolute counter-values for net inflows in each foreign currency, is estimated to amount to approximately SEK 1.9 billion (exchange rates at the end of 2004); see Table E. Exporting companies in Sweden account for virtually all of the net exposure. The Group's most exposed currency by far is EUR, with a net inflow corresponding to SEK 735 m, the result of a total inflow of SEK 2.6 billion and a total outflow of slightly more than SEK 1.8 billion. As stated under Geographical Markets above, Perstorp has a large percentage of its production units in Sweden, while sales to customers in Sweden amount to only 5%. Sales to customers in other EU countries are much more substantial, and are invoiced mainly in EUR. At the same time, a large percentage of raw material and energy procurements are also priced in EUR. Net exposure to USD corresponds to a net inflow of SEK 767 m, consisting of inflows totaling SEK 880 m and only a minor outflow. The Swedish units export large volumes to customers in the US and Asia, and to Group companies in the US.

For forward contracts maturing in 2005 that were not assigned a value in 2004 in either the income statement or

shareholders' equity, there was a positive difference of SEK 89 m, of which USD accounted for SEK 65 m, between the current value and the value based on the contract rate at the end of 2004. For forward contracts with expiration dates in 2006, the difference was also positive and amounted to SEK 81 m. Effective January 1, 2005, the Group will apply hedge accounting in accordance with IFRS, whereby these values, less deductions for tax, will be reported directly into shareholders' equity.

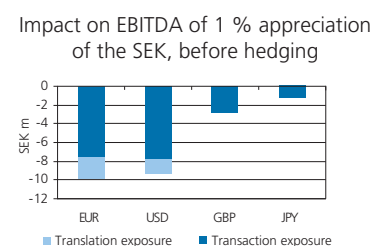
## Translation exposure

Translation of the year-end financial accounts of Group companies to SEK is conducted in accordance with the current method, whereby income-statement items are translated at average exchange rates during the fiscal year. A one-percentage-point appreciation of SEK has a negative consolidation effect of SEK 4 m on the Group's EBITDA (also see diagram below) and a corresponding negative effect of SEK 24 m on net sales.

If no hedging transactions were conducted, a one-percentage point appreciation of SEK in relation to all of the other currencies would have a negative combined flow and translation effect of SEK 23 m on consolidated profit before depreciation/amortization (EBITDA). The corresponding negative effect on net sales is SEK 57 m.

The foreign subsidiaries' assets minus their liabilities constitute a net investment in foreign currency that becomes exposed to translation effects in connection with exchange-rate movements. Perstorp has decided to hedge the major portions of this exposure by raising loans, mainly in EUR and USD, in order to protect the Group's shareholders' equity in SEK.

Table F shows the Group's net assets in foreign currencies, the portion that has been hedged and the value of exposed net assets.



### E. Transaction exposure and currency hedging

	Flows in 2005				Flows in 2006			
	Counter-value in SEK m Estimated exposure	Forward contracts	Percentage hedged	Average forward exchange rate	Counter-value in SEK m Estimated exposure	Forward contracts	Percentage hedged	Average forward exchange rate
EUR	735	668	91%	9.22	679	385	57%	9.07
USD	767	751	98%	7.41	780	755	97%	7.15
GBP	260	234	90%	12.81	258	144	56%	12.68
JPY	128	109	85%	0.07	143	71	50%	0.07
NOK	6	4	73%	1.10	6	2	25%	1.09
<b>Total</b>	<b>1,896</b>	<b>1,766</b>	<b>93%</b>		<b>1,866</b>	<b>1,357</b>	<b>73%</b>	

### F. Translation exposure of net assets

SEK m	Net asset in foreign currency, before hedging	Hedged amount before tax	Exposed net assets
EUR	1,717	-1,621	96
USD	668	-622	46
KRW	23		23
GBP	10		10
JPY	2		2
SGD	1		1
INR	-33		-33
<b>Total</b>	<b>2,388</b>	<b>-2,243</b>	<b>145</b>

# Financial accounts

## Income Statements

SEK m	Note	Group		Parent Company	
		2004	2003	2004	2003
<b>Net sales</b>		<b>6,532</b>	<b>5,741</b>	<b>38</b>	<b>38</b>
Cost of sold goods	2	-5,206	-4,713	-	-
<b>Gross earnings</b>		<b>1,326</b>	<b>1,028</b>	<b>38</b>	<b>38</b>
Selling expenses	2	-243	-241	-	-
Administrative expenses	2	-257	-319	-65	-63
Research and development costs	2	-80	-88	-	-
Other operating income and expenses <sup>1)</sup>	3	-12	211	-5	1
Amortization of intangible assets	2	-241	-248	-	-
Result from participations in associated companies	4	1	0	-	-
<b>Operating earnings (EBIT)</b>		<b>494</b>	<b>343</b>	<b>-32</b>	<b>-24</b>
<i>Financial items</i>					
Group contributions received		-	-	327	327
Interest income and similar items	6	3	11	34	1
Interest expenses and similar items	7	-321	-353	-329	-304
Write-down/reversal of write-down of financial holdings (Pergo)		-9	3	-9	3
Capital gain on divestment of Pergo shares		19	-	19	-
<b>Earnings before taxes</b>		<b>186</b>	<b>4</b>	<b>10</b>	<b>3</b>
Taxes	8	-108	29	0	0
Minority share in net earnings	9	-7	6	-	-
<b>Net earnings for the year</b>		<b>71</b>	<b>39</b>	<b>10</b>	<b>3</b>

### Group - Condensed income statement, 2000-2004

SEK m	2004	2003	2002	2001 <sup>2) 3)</sup>	2000 <sup>2) 3)</sup>
<b>Net sales</b>	<b>6,532</b>	<b>5,741</b>	<b>5,998</b>	<b>7,068</b>	<b>6,923</b>
Cost of sold goods	-5,206	-4,713	-4,561	-5,822	-5,641
<b>Gross earnings</b>	<b>1,326</b>	<b>1,028</b>	<b>1,437</b>	<b>1,246</b>	<b>1,282</b>
Selling, R&D and administrative expenses	-580	-648	-671	-828	-790
Other operating income and expenses <sup>1)</sup>	-11	211	25	62	59
Amortization of intangible assets	-241	-248	-255	-259	-252
<b>Operating earnings (EBIT) <sup>1)</sup></b>	<b>494</b>	<b>343</b>	<b>536</b>	<b>221</b>	<b>299</b>
% of net sales	7.5	6.0	8.9	3.1	4.3
Financial income and expenses	-318	-342	-384		
Write-down/reversal of write-down of financial holdings (Pergo)	-9	3	26		
Capital gain on divestment of Pergo shares	19				
<b>Earnings before taxes</b>	<b>186</b>	<b>4</b>	<b>178</b>		
Taxes	-108	29	-142		
Minority share in net earnings	-7	6	1		
<b>Net earnings for the year</b>	<b>71</b>	<b>39</b>	<b>37</b>		
<b>Operating earnings before depreciation and amortization (EBITDA)</b>	<b>1,101</b>	<b>922</b>	<b>1,121</b>	<b>845</b>	<b>904</b>
% of net sales	16.9	16.1	18.7	12.0	13.1

1) Consolidated earnings in 2004 were charged with SEK 74 m for from rationalization programs and SEK 22 m for the write-down of fixed assets.

2) The figures for 2000 and 2001 are pro forma, because the Sydsvenska Kemi Group was not formed until June 2001.

3) The figures for 2000 and 2001 include the subsequently divested Industrial Resin operations, which accounted for sales of approximately SEK 1,000 m in those years and for EBITDA of SEK 51 m for 2000 and of SEK 73 m for 2001, as well as annual depreciation of approximately SEK 40 m.

### Market and economic conditions

The fiscal year was characterized by strong demand for the majority of the Group's products as a result of an improvement in global economic conditions. The economic upturn, which primarily affected Asia and the US, was driven largely by the strong economic trend in China. The business climate in Europe has shown a gradual improvement.

Group sales increased sharply compared with the preceding year. Volumes of basic polyols and specialty products strengthened primarily, but rises were also noted for formalin plants and catalysts, among other products.

There was a favorable balance between supply and demand in the chemicals industry, and capacity utilization was high during the year. For Perstorp, this meant that the measures implemented during 2003 within the framework of the *nEverest* productivity program had a positive effect on the Group's earnings performance. Among other consequences, the rationalization measures implemented in 2004 resulted in far-reaching integration of specialty chemicals operations in Perstorp and Stenungsund and workforce cutbacks, particularly among Swedish operations.

The price of crude oil continued to increase throughout the fiscal year, resulting in sharp price hikes for several of the Group's raw materials. In view of the favorable demand, Perstorp was able to offset, following a certain time lag, the rise in crude oil prices through price increases for most of its own products.

The weakening of the USD had a negative effect on sales and earnings expressed in SEK. The negative effect of exchange-rate changes on consolidated net sales compared with the preceding year was estimated at SEK 220 m. The negative effect on earnings was estimated at SEK 150 m, not least because the hedging rates for the USD in 2003 were significantly more favorable than in 2004.

### Review of sales and earnings

Net sales amounted to SEK 6,532 m during the fiscal year (2003: 5,741), corresponding to an increase of 14%. Higher demand for most specialty chemicals products resulted in an increase in volumes totaling 11%, with an additional 1% attributable to the acquisition of jointly owned special chemicals operations in South Korea. The price effect amounted to 6% and the currency effect was a negative 4%.

As described in the Risk Management section, most of the Group's flows in various currencies are hedged for a period of 12 months ahead and a slightly smaller portion of flows for a period of 13-24 months ahead. However, the Group's Board of Directors issued a directive in 2004 regarding a targeted increase in the portion of currency-hedged flows in USD. The accounting principle applied for revenues and costs in currencies other than the local one entails that the exchange rate applying on the transaction date be used for reporting sales revenues and costs for sold products. The exchange-rate differences that arise as a result of the currency-hedged flows flowing in at an exchange rate other than the rate applying on the transaction date and because the surplus portion, which therefore has not been hedged, flows in at the exchange rate applying on the payment date (alternatively, the year-end rate if a receivable/liability has not been settled), is reported in the income statement among Other income and expenses.

The Parent Company's sales mainly consist of internal onward invoicing of Group-wide costs.

### Operating earnings (EBIT)

Operating earnings before depreciation and write-downs increased to SEK 1,101 m (922). As a result, the operating margin improved to 16.9% (16.1).

The major portion of the growth in earnings was attributable to increased sales volumes and improved productivity. This was offset by the depreciation of the USD in relation to the SEK, which had a negative impact on the gross margin because the Group has net inflows of USD, which simultaneously led to a decrease to SEK 61 m (140) in Other operating income, in which the effect of hedging contracts is reported.

Other operating income and expenses also included nonrecurring costs of SEK 74 m for rationalization programs implemented during the year. The rationalization measures are expected to result in annual cost savings of slightly more than SEK 90 m, a portion of which was already achieved during 2004. Earnings during the fourth quarter of 2003 were affected positively by a reversal of SEK 34 m of reserves relating to previous divestments and by SEK 13 m from the sale of a property.

In conjunction with the reorganization, certain fixed costs were reclassified in the income statement, from mainly administrative costs to so-called

fixed production costs. This primarily applies to Group-wide costs arising in the production units. The accumulated costs arising in the third quarter of 2004 follow the new organization, while costs for preceding periods have not been recalculated.

The Parent Company's operating earnings mainly consist of charges for Group management and staff services.

### Depreciation

Depreciation amounted to SEK 585 m (575). Write-downs amounting to SEK 22 m were posted during the fourth quarter of 2004, which were mainly attributable to those parts of the formic acid plant in Perstorp that are no longer expected to be used when the new formic acid plant is completed during the second half of 2005.

### Net financial items

Net financial items, excluding the write-down of financial holdings, amounted to an expense of SEK 318 m (expense: 342), of which capitalized interest on the debenture loan accounted for SEK 192 m (169). Other interest expense decreased as a result of reduced borrowing and lower interest rates. The Pergo holding was divested during the fourth quarter and resulted in a capital gain of SEK 19 m. Earlier during 2004, the holding had been written down by SEK 9 m in line with the share-price trend.

### Earnings before taxes

Earnings before taxes amounted to SEK 186 m (4).

### Tax

Tax costs during the year totaled SEK 108 m (revenue: 29). The main reason for the high tax cost in relation to earnings after net financial items is that amortization of consolidated goodwill is not tax-deductible. The tax for 2004 was affected favorably by adjustments totaling SEK 36 m of prior-year taxation. The tax for 2003 was affected positively by the valuation of previously non-capitalized tax loss carryforwards in an amount of SEK 116 m.

### Minority share in net earnings

The minority share in net earnings pertains to the minority shareholders' share in the results of YLA Inc. and Hansol-Perstorp Co. Ltd.

## Income Statement by quarter

SEK m	2004					2003				
	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Full year	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Full year
<b>Net sales</b>	<b>1,605</b>	<b>1,665</b>	<b>1,649</b>	<b>1,613</b>	<b>6,532</b>	<b>1,532</b>	<b>1,491</b>	<b>1,425</b>	<b>1,293</b>	<b>5,741</b>
Cost of sold goods	-1,271	-1,282	-1,347	-1,306	-5,206	-1,210	-1,173	-1,200	-1,130	-4,713
<b>Gross earnings</b>	<b>334</b>	<b>383</b>	<b>302</b>	<b>307</b>	<b>1,326</b>	<b>322</b>	<b>318</b>	<b>225</b>	<b>163</b>	<b>1,028</b>
Selling, R&D and administrative expenses	-170	-157	-117	-136	-580	-175	-175	-163	-135	-648
Other operating income and expenses	-15	14	-12	1	-12	38	36	84	53	211
Amortization of intangible assets	-60	-61	-60	-60	-241	-63	-63	-60	-62	-248
Result from participations in associated companies	1	0	0	0	1	-1	0	-3	4	0
<b>Operating earnings (EBIT)</b>	<b>90</b>	<b>179</b>	<b>113</b>	<b>112</b>	<b>494</b>	<b>121</b>	<b>116</b>	<b>83</b>	<b>23</b>	<b>343</b>
Financial income and expense	-79	-78	-82	-79	-318	-91	-84	-82	-85	-342
Write-down/reversal of write-down of financial holdings (Pergo)	-8	-1	-	-	-9	-29	-18	26	24	3
Capital gain on divestment of Pergo shares				19	19					
<b>Earnings before taxes</b>	<b>3</b>	<b>100</b>	<b>31</b>	<b>52</b>	<b>186</b>	<b>1</b>	<b>14</b>	<b>27</b>	<b>-38</b>	<b>4</b>
Taxes	-20	-51	-25	-12	-108	-15	-25	-31	100	29
Minority share in net earnings	-1	-1	-2	-3	-7	0	0	3	3	6
<b>Net earnings</b>	<b>-18</b>	<b>48</b>	<b>4</b>	<b>37</b>	<b>71</b>	<b>-14</b>	<b>-11</b>	<b>-1</b>	<b>65</b>	<b>39</b>
<b>Operating earnings before depreciation and amortization (EBITDA)</b>	<b>234</b>	<b>329</b>	<b>260</b>	<b>278</b>	<b>1,101</b>	<b>270</b>	<b>261</b>	<b>227</b>	<b>164</b>	<b>922</b>

# Balance Sheets

SEK m	Note	Group		Parent Company	
		Dec 31, 2004	Dec 31, 2003	Dec 31, 2004	Dec 31, 2003
<b>ASSETS</b>					
<b>Fixed assets</b>					
Intangible fixed assets	10	3,795	4,120	-	-
Tangible fixed assets	11	2,929	3,138	-	-
<b>Financial fixed assets</b>					
Deferred tax asset	8	96	167	-	-
Participations in Group companies	12	-	-	6,868	6,865
Participations in associated companies	13	2	2	-	-
Other shares and participations	14	-	123	-	123
Long-term receivables, Group companies		-	-	-	-
Pension assets	20	3	20	-	-
Other long-term receivables	15	48	48	32	30
<b>Total financial fixed assets</b>		<b>149</b>	<b>360</b>	<b>6,900</b>	<b>7,018</b>
<b>Inventories</b>	16	<b>751</b>	<b>680</b>	-	-
<b>Current receivables</b>					
Accounts receivable	17	1,062	854	-	-
Operating receivables from Group companies		-	-	2	2
Current fin. receivables from Group companies		-	-	1,139	1,146
Other current receivables	18	251	211	2	-
<b>Total current receivables</b>		<b>1,313</b>	<b>1,065</b>	<b>1,143</b>	<b>1,148</b>
<b>Cash and Bank</b>		<b>35</b>	<b>30</b>	-	-
<b>TOTAL ASSETS</b>		<b>8,972</b>	<b>9,393</b>	<b>8,043</b>	<b>8,166</b>
<b>SHAREHOLDERS' EQUITY AND LIABILITIES</b>					
<b>Shareholders' equity</b>					
Restricted shareholders' equity:					
Share capital		300	300	300	300
Restricted reserves		12	12	12	12
<b>Total restricted shareholders' equity</b>		<b>312</b>	<b>312</b>	<b>312</b>	<b>312</b>
Unrestricted shareholders' equity:					
Unrestricted reserves		2,752	2,778	3,195	3,193
Net earnings for the year		71	39	10	3
<b>Total unrestricted shareholders' equity</b>		<b>2,823</b>	<b>2,817</b>	<b>3,205</b>	<b>3,196</b>
<b>Total shareholders' equity</b>		<b>3,135</b>	<b>3,129</b>	<b>3,517</b>	<b>3,508</b>
<b>Minority interests</b>	19	<b>22</b>	<b>11</b>	-	-
<b>Provisions</b>					
Deferred tax provisions	8	482	517	-	-
Pension provisions, PRI	20	74	62	-	-
Pension provisions, others	20	105	102	-	-
Other provisions	21	195	263	-	-
<b>Total provisions</b>		<b>856</b>	<b>944</b>	-	-
<b>Long-term liabilities</b>					
Debenture loan	23	1,559	1,367	1,559	1,367
Long-term liabilities to Group companies		-	-	150	149
Other long-term liabilities	22	1,889	2,332	1,811	2,155
<b>Total long-term liabilities</b>		<b>3,448</b>	<b>3,699</b>	<b>3,520</b>	<b>3,671</b>
<b>Current operating liabilities</b>					
Accounts payable		668	601	1	1
Current operating liab. to Group companies		-	-	-	1
Other current operating liabilities	24	662	534	17	7
<b>Total current operating liabilities</b>		<b>1,330</b>	<b>1,135</b>	<b>18</b>	<b>9</b>
<b>Current financial liabilities</b>					
Current financial liab. to Group companies		-	-	888	578
Other current financial liabilities	22	181	475	100	400
<b>Total current financial liabilities</b>		<b>181</b>	<b>475</b>	<b>988</b>	<b>978</b>
<b>TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES</b>		<b>8,972</b>	<b>9,393</b>	<b>8,043</b>	<b>8,166</b>
Assets pledged	25	8,189	8,207	6,868	6,865
Contingent liabilities	26	14	29	125	312

## Fixed assets

Goodwill that arose in the consolidated accounts in connection with the Sydsvenska Kemi Group's formation in June 2001 accounts for most of the intangible fixed assets. This goodwill, like the goodwill that arose on the acquisition of Moldable Composites operations in 2002, pertains to strategic acquisitions and is amortized over 20 years.

In 2004, investments in fixed assets amounted to SEK 201 m, as described in greater detail in the Operations section. Depreciation of tangible fixed assets amounted to SEK 338 m and amortization amounted to SEK 247 m. At the end of 2004, parts of the formic acid plant that are no longer expected to be used when the new formic acid plant is completed during the second half of 2005 were written down by SEK 22 m.

## Financial fixed assets

Deferred tax assets pertain mainly to tax loss carryforwards in Germany. Other long-term receivables include capitalized costs for raising the loans to finance acquisitions.

## Current receivables

Accounts receivables rose compared with 2003, as a result of the strong sales.

## Shareholders' equity

The change in shareholders' equity is reported under a separate heading in the Financial accounts.

## Provisions

Other provisions pertain to a portion of the supplementary purchase consideration for the acquisition of Moldable Composites operations, the amount of which depends on the earnings trend for these operations. Provisions at a Group level have also been posted to cover previous divestments of operations. Provisions have also been posted to cover guarantee risks.

## Financial liabilities

The Group's borrowing and net indebtedness are described in greater detail in the Risk management section.

## Current liabilities

In addition to accounts payable, current liabilities mainly consist of personnel-related liabilities, advance payments from customers and value added tax.

## Capital employed

Capital employed, meaning total assets less interest-free liabilities, decreased by SEK 426 m during the year to SEK 6,964 m. Factors contributing to the reduction included the divestment of the holding in Pergo AB (publ), new investments that were lower than depreciation and the weaker USD. This was counteracted by higher working capital.

## Working capital

Working capital, defined as current receivables less current operating liabilities, rose by SEK 123 m during the year to SEK 746 m, from the historically low level reported at year-end 2003. As apparent from the cash flow statement, the real increase in operating capital, if mainly exchange-rate effects are taken into account, was SEK 180 m. The increase was due to the higher sales in 2004 compared with the preceding year.

# Cash Flow Statements

SEK m	Group		Parent Company	
	2004	2003	2004	2003
<i>Operating activities</i>				
Operating profit	494	343	-32	-24
Adjustment items:				
Depreciation/amortization	607	575	-	-
Other items <sup>1)</sup>	20	-42	-	-1
Interest received	2	6	27	1
Interest paid	-132	-178	-127	-125
Group contributions received	-	-	327	493
Paid income tax	-55	-57	0	0
Cash flow from operating activities before changes in working activities	936	647	195	344
<i>Changes in working capital</i>				
Increase (-)/decrease (+) in inventories	-88	-17	-	-
Increase (-)/decreas (+) in current receivables	-276	111	-2	-
Increase (+)/decreas (-) in current liabilities	183	13	7	-5
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>	<b>755</b>	<b>754</b>	<b>200</b>	<b>339</b>
<i>Investing activities</i>				
Acquisition of net assets of subsidiaries <sup>2)</sup>	-41	-71	-	-
Acquisition of shares in Group companies	-	-	-3	-
Acquisition of tangible and intangible fixed assets	-201	-331	-	-
Lending to Group companies	-	-	-	-818
Sale of net assets of subsidiaries	-	20	-	-
Sale of financial fixed assets	134	-	134	-
Sale of tangible fixed assets	3	7	-	-
Change in financial receivables	-10	49	-12	-
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>	<b>-115</b>	<b>-326</b>	<b>119</b>	<b>-818</b>
<i>Financing activities</i>				
Payment from minority shareholders	7	12	-	-
New loan raised, Group companies	-	-	311	-
New loan raised, external	-	-	2,186	1,410
Amortization of debt, Group companies	-	-	-	-551
Amortization of debt, external	-	-	-2,816	-380
Change in utilization of credits, Group	-715	-541	-	-
Realized gain/loss on hedging instruments, pertaining in net assets in foreign currencies	75	107	-	-
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>	<b>-633</b>	<b>-422</b>	<b>-319</b>	<b>479</b>
<b>CHANGE IN LIQUID FUNDS, INCLUDING SHORT-TERM INVESTMENTS</b>				
Liquid funds on January 1, incl. short-term investments	30	27	0	0
Translation difference in liquid funds	-2	-3	0	0
<b>LIQUID FUNDS ON DECEMBER 31</b>	<b>35</b>	<b>30</b>	<b>0</b>	<b>0</b>

1) Pertains mainly to changes in provisions.

2) The value of 2003 consists of SEK 44 m pertaining to supplementary purchase consideration and amortization to Rogers Corp. due to the acquisition of Moldable Composites operations and of SEK 27 m to an installment payment to the purchase of fixed assets for the associated company Hansol-Perstorp Co Ltd. The value of SEK -41 m in 2004 refers to supplementary purchase consideration and amortization to Rogers Corp.

Cash flow from **continuing operations** was SEK 755 m (754). Earnings of SEK 1,101 m before depreciation and write-downs included costs of SEK 74 m for the rationalization program, of which two thirds had affected cash flow by year-end. The remaining provisions were reversed under Other items. During the 2004, Other items were affected by the payment of a bank guarantee in an amount of SEK 32 m. Working capital rose by SEK 181 m, due to strong sales and thus higher net receivables. Inventories also increased, from a relatively low level in 2003.

Cash flow from **investing activities** was a negative SEK 115 m (neg: 326), of which the divestment of the Pergo holding resulted in a receipt of SEK 134 m. Investments in fixed assets amounted to SEK 201 m (331), with the largest individual project involving the introduction of natural gas to replace oil as a raw material at the plant in Stenungsund, which was completed during the first half of 2004. Cash flow from investing activities also includes the supplementary purchase consideration for the acquisition in 2002 of Moldable Composites' operations in the United States.

**Cash flow from financing activities** includes the realized exchange-rate gains/losses on the financial instruments used to hedge net assets in foreign currency, which contributed SEK 75 m to cash flow during the year, as a result of the declining USD exchange rate. As a result of the strong cash flow, the Group was able to reduce utilization of its credit facilities by SEK 715 m during the year. Liquid assets amounted to SEK 35 m at year-end (year-end 2003: 30).

The renegotiation of Sydsvenska Kemi AB's senior credits with Svenska Handelsbanken was completed during 2004. Among other consequences, this resulted in improved loan terms, expanded credit limits and increased borrowing flexibility. Unutilized lines of credit increased to slightly more than SEK 2,100 m, compared with SEK 1,100 m at the beginning of the year.

## Shareholders' equity 2004

Group SEK m	Share capital	Restricted reserves	Unrestricted reserves	Net earnings for the year	Total
Shareholders' equity, Dec 31, 2003, according to adopted balance sheet	300	12	2,778	39	3,129
Effect of changed accounting principles RR 29 (IAS 19)	-	-	-34	-	-34
Opening shareholders' equity at Jan 1, 2004, adjusted for new accounting principles	300	12	2,744	39	3,095
Translation difference:					
-change during the year	-	-	-89	-	-89
-less effect of hedging measures during the year <sup>2)</sup>	-	-	80	-	80
-tax effect of hedging measures during the year	-	-	-22	-	-22
Reversal of net earnings for preceding year	-	-	39	-39	-
Translation between unrestricted and restricted shareholders' equity	-	1	-1	-	-
Net earnings for the year	-	-	-	71	71
Shareholders' equity, December 31, 2004	300	13	2,751	71	3,135

Parent Company SEK m	Share capital	Statutory reserves	Unrestricted reserves	Net earnings for the year	Total
Shareholders' equity, December 31, 2003	300	12	3,193	3	3,508
Reversal of net earnings for preceding year	-	-	3	-3	-
Allocation to statutory reserves	-	1	-1	-	-
Rounding off	-	-	-1	-	-1
Net earnings for the year	-	-	-	10	10
Shareholders' equity, December 31, 2004	300	13	3,194	10	3,517

There are 30,000,000 shares with a par value of SEK 10 each.

1) Gross of minus SEK 52 m, tax of SEK 18 m.

2) The accumulated translation difference at the end of 2004 was a negative SEK 323 m.

## Shareholders' equity 2003

Group SEK m	Share capital	Restricted reserves	Unrestricted reserves	Net earnings for the year	Total
Shareholders' equity, December 31, 2002	300	-	2,836	37	3,173
Translation difference:					
-change during the year	-	-	-160	-	-160
-less effect of hedging measures during the year	-	-	107	-	107
-tax effect of hedging measures during the year	-	-	-30	-	-30
Reversal of net earnings for preceding year	-	-	37	-37	-
Translation between unrestricted and restricted shareholders' equity	-	12	-12	-	-
Net earnings for the year	-	-	-	39	39
Shareholders' equity, December 31, 2003	300	12	2,778	39	3,129

Parent Company SEK m	Share capital	Statutory reserves	Unrestricted reserves	Net earnings for the year	Total
Shareholders' equity, December 31, 2002	300	-	3,086	119	3,505
Reversal of net earnings for preceding year	-	-	119	-119	-
Allocation to statutory reserves	-	12	-12	-	-
Net earnings for the year	-	-	-	3	3
Shareholders' equity, December 31, 2003	300	12	3,193	3	3,508

There are 30,000,000 shares with a par value of SEK 10 each.



One of our challenges:  
To promote initiative,  
team spirit and  
cooperation among  
different parts of the  
company.

# Accounting principles and definitions

Amounts in SEK millions (SEK m), unless otherwise stated.

The Annual Report has been prepared in accordance with generally acceptable accounting practices in Sweden, which means that Sydsvenska Kemi complies with the Swedish Financial Accounting Standards Council's recommendations and statements and the Annual Accounts Act. During 2003 and 2004, a program was conducted aimed at aligning the Group's financial reporting with International Financial Reporting Standards (IFRS). The Group will apply IFRS as of January 1, 2005. The anticipated effects of this adaptation are described below.

## Change in accounting principles during the year

During the fiscal year, the Financial Accounting Standards Council's recommendations that had become applicable up to January 1, 2004 were applied. Of the recommendations that became effective in 2004, RR 29 (IAS 19), Employee Benefits, had the greatest impact on the Group's financial accounting and reporting. The pension plans of all Group companies were studied. Actuarial calculations were made as of year-end 2003 and 2004 for all companies that offer defined-benefit plans. On the effective date for the introduction of RR 29, the new valuation of pension obligations increased liabilities by SEK 52 m which, after a deduction of SEK 18 m for taxes, directly affected shareholders' equity. The application of RR 29 also means that the requirements for reporting pension provisions and costs have increased, which has affected the contents of the notes to the Annual Report.

## Principles for consolidation

The consolidated accounts have been prepared in accordance with the purchase method, whereby the shareholders' equity of subsidiaries at the date of acquisition is eliminated completely. Accordingly, the Group's shareholders' equity includes only that portion of equity in subsidiaries that was added after the date of acquisition. Assets, provisions and liabilities in acquired companies are entered in the consolidated accounts at market value. If the acquisition value of shares in subsidiaries in the consolidated accounts exceeds the value of the subsidiaries' net assets entered in the acquisition balance sheet, the difference is reported as consolidated goodwill.

Earnings in companies that were acquired/divested during a fiscal year are only included in the consolidated income statement for that portion of the year in which the companies concerned belonged to the Group, or up to the date of divestment, respectively.

The consolidated accounts include the Parent Company Sydsvenska Kemi AB and those companies in which the Parent Company directly or indirectly holds shares carrying more than 50% of the voting rights for all shares, or has the sole controlling interest for some other reason. Shareholdings in other companies that correspond to between 20% and 50% of the share capital and which are long-term holdings are reported as associated companies in accordance with the equity method. Accordingly, the participations are reported at acquisition value at the date of acquisition, which is adjusted by the Group's share of the change in the associated company's net assets. However, the book value of an associated company can never be negative in the consolidated accounts. Participations in the associated companies' results after taxes are reported in the Group's operating earnings.

Operations over which Sydsvenska Kemi and one or more co-owners exercise joint control are classified as joint ventures. There was one such company at the end of 2004, which was owned jointly with Koei Chemical Company (Japan) and which markets and sells specialty chemical products mainly in the Japanese market. Joint ventures are reported in the consolidated accounts in accordance with the equity method.

## Recognition of revenues

Reported net sales are defined as the total invoiced value of products delivered and services rendered, less direct discounts and value added tax. Revenues from sales of products are reported when the risk associated with the products is transferred to the purchaser.

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

Sales revenues and earnings from sales of formalin plants are reported in accordance with RR10, Contracts and Similar Assignments, which entails that revenues and costs are reported in the income statement in relation to the assignment's completion rate at year-end. If it is estimated that total assignment costs will exceed total revenues from the contract, the excess amount is expensed immediately.

## Translation of accounts of foreign subsidiaries

Since all of the foreign subsidiaries within Sydsvenska Kemi, apart from a Belgian branch of Perstorp Oxo Belgium AB, are regarded as independent companies, their accounts are translated to SEK using the current method. According to this method, all income-statement items are translated at average exchange rates for the year and all balance-sheet items are translated at year-end exchange rates. The accounts of the Belgian branch, which is regarded as an integrated part of foreign operations, are translated in accordance with the monetary method. According to this method, monetary assets and liabilities in foreign currency are translated at year-end exchange rates, while non-monetary assets and liabilities are translated at exchange rates applying on the date of acquisition.

Any changes in Group equity caused by the use of different closing exchange rates between years are entered directly in equity. To a large extent, net assets in foreign subsidiaries are hedged. Exchange-rate differences resulting from hedging are reported after tax against translation differences in these subsidiaries' shareholders' equity.

## Transactions in foreign currency

Transactions in foreign currency, meaning a currency other than the Group's own currency, are booked at the exchange rate prevailing on the transaction date. In the financial statements, receivables and liabilities in foreign currency are valued at the year-end exchange rate. In cases where the value of accounts receivable and accounts payable has been hedged through forward contracts, the forward rate is used when valuing the underlying receivable or liability. The exchange-rate differences resulting from this in commercial operations, meaning those that affect sales and purchases, are reported under "Other income and expenses" within the "Operating earnings" item. Exchange-rate differences pertaining to financing operations are included in net financial items.

## Definitions of key figures

### Margin ratios

#### *Operating margin*

Operating earnings after depreciation as a percentage of net sales.

#### *Operating margin before depreciation*

Operating earnings before depreciation as a percentage of net sales.

### Capital ratios

#### *Average capital*

Based on all monthly balances during the year.

#### *Working capital*

Current receivables less current operating liabilities.

#### *Operating capital*

Working capital plus fixed assets.

#### *Capital employed*

Total assets less interest-free liabilities.

#### *Net debt*

Interest-bearing liabilities less financial interest-bearing receivables. Including pension liabilities.

### Financial ratios

#### *Debt/equity ratio*

Net borrowing in relation to shareholders' equity, incl. minority interest.

#### *Equity ratio*

Shareholders' equity and minority interest in relation to total assets.

### Return ratios

#### *Return on capital employed*

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

#### *Return on equity*

Net earnings as a percentage of average shareholders' equity during the year.



## Tangible fixed assets

Tangible fixed assets are entered at their acquisition value less accumulated depreciation according to plan. Write-downs are posted in the event of a lasting decrease in value. RR 17 Write-downs is applied, which means that if there is an indication that an asset's value has declined, an impairment test is performed to determine the asset's recoverable value. If the book value exceeds the recoverable value, a write-down to recoverable value is posted.

Depreciation according to plan is applied straight line, based on the acquisition value of the assets and their estimated useful life. The following depreciation periods are used:

Buildings	20-50 years
Land improvements	10-35 years
Machinery and equipment	10-30 years
Computers, molds and vehicles	max 5 years

Land and construction in progress are not depreciated.

Interest on the capital borrowed to finance investments in an asset is not included in the acquisition value.

## Intangible fixed assets

Goodwill arises when the acquisition cost of a subsidiary or associated company exceeds the Group's share in the fair value of the acquired company's net assets. Goodwill is amortized straight line over a period of 5-20 years. The amortization period for long-term strategic holdings is 20 years. Sydsvenska Kemi AB's acquisition of the Perstorp and Oxo groups are strategic holdings that provide Sydsvenska Kemi with world-leading positions within a number of segments of the specialty chemicals and materials technology markets. The acquisition of Moldable Composites operations within Materials Technology is also a strategic holding, since this provides the Group with a new, important platform in North America for the material developed for the European automotive industry.

RR 15 Intangible Assets is applied for the reporting of *research and development costs*, which means that research costs are expensed directly as they arise, while costs for the development of new products/processes are, under certain conditions, capitalized as intangible assets. The pre-conditions are that the costs must be identifiable and the probability that they will generate economic benefits in the future must be high. Other costs for development projects are expensed as they arise. Costs previously expensed cannot be reported as assets in subsequent periods. The amortization of capitalized development costs commences when the product is placed in commercial production or the process starts to be used for commercial production. The amortization period may not exceed five years.

*Costs for software* – acquisition, development and maintenance – are normally expensed as they arise. Costs for major software products that are expected to result in economic benefits for an extended period and which have an expected life of at least three years are reported as intangible fixed assets and amortized straight line over a period of 3-5 years.

*Other intangible fixed assets*, such as the external acquisition of trademarks, distribution rights, patent and licenses are capitalized and amortized straight line over a period of 3-7 years. Corresponding internally developed intangible fixed assets are expensed as they arise.

## Leasing

Costs attributable to leasing contracts under which Sydsvenska Kemi is the lessee are normally reported straight line over the contractual period. In cases where, in all essential respects, leasing contracts result in the Group as the lessee enjoying the economic benefits and carrying the economic risks associated with the leased asset, the item is reported as financial leasing. Such leasing is entered as a fixed asset in the balance sheet, which on the liability side is matched by an obligation to pay future leasing charges. In this context, the costs are reported as depreciation and interest expense.

## Inventories

Inventories are valued at the lower of acquisition value and fair value. The acquisition value is calculated in accordance with the "first in, first out" principle.

## Receivables

Receivables are entered in the amount expected to be received after individual assessment.

## Employee Benefits

In 2004, Sydsvenska Kemi adopted RR 29 Employee Benefits. As a result, pension obligations regarded as defined-benefit schemes are valued by taking into account such factors as estimated future pay increases and inflation. In connection with the transition to RR 29, actuarial gains and losses were set at zero, due to the opening debt being established as the

present value of the obligation at the time of the transition and similarly any associated plan assets were valued at their fair value.

Actuarial calculations of the defined-benefit pension plans have been performed as at the end of 2003 and 2004, respectively. Pension costs pertaining to these plans are calculated in accordance with the so-called Project Unit Credit method, which entails that the costs are distributed over the employees' anticipated working life. Actuarial gains and losses outside the so-called 10-percent corridor are allocated over the remaining estimated employment period for those people covered by the various plans. Pension obligations are valued with the help of a discount rate at the present value of future anticipated disbursements. The discount rate corresponds to the interest on first-class corporate bonds or government bonds with a remaining maturity corresponding to the particular assumptions. The weighted discount rate that was used within the Group amounts to 5.6%. For funded obligations, the net pension obligation, after a deduction for plan assets, is reported in the consolidated balance sheet. If a net asset arises, this is reported as a financial interest-bearing receivable. Pension obligations are reported under the heading Provisions and are included in the calculation of net indebtedness.

The Group's disbursements for defined-contribution plans are reported as a cost during the period when the employees performed the service to which the fee pertained.

Short-term payments to employees are reported as a cost when an employee has performed services in exchange for these payments.

## Provisions apart from pension obligations

Provisions are reported when Sydsvenska Kemi has a commitment – legal or informal – as a result of an incident that has occurred, when it is probable that an outflow of resources will be required to settle the commitment and when it is possible to reliably estimate the amount. The largest individual item that Sydsvenska Kemi reports as a provision is the supplementary purchase consideration pertaining to the acquisition of operations from Rogers Corp. in 2002. The amount of the supplementary purchase consideration is contingent upon the acquired operation's future earnings trend.

## Income taxes

Reported income taxes comprise current tax, adjustments of prior year current tax, changes in deferred tax, and participations in the tax of associated companies. The valuation of tax liabilities and receivables is conducted in accordance with the tax rules and tax rates that have been decided or have been announced and, with the greatest probability, will be enforced.

Deferred tax on temporary differences between the book and taxable value of assets and liabilities is calculated in accordance with the balance sheet method. Deferred tax assets attributable to unutilized tax-loss carryforwards are only reported if the probability that the carryforwards will be utilized within the foreseeable future is regarded as high. The tax is estimated on the basis of the current tax rate in the countries concerned.

With respect to the tax loss carryforward in Germany, amounting to EUR 17 m, we concluded, in consultation with our tax advisers, that it would be possible to fully utilize the carryforwards. However, German tax legislation governing loss carryforwards is difficult to interpret. No new information came to light during 2004 and the carryforwards have yet to undergo a tax audit.

## Loan costs

The main principle is applied for the reporting of loan costs, meaning that the loan costs are charged against earnings for the period to which they pertain, regardless of how the borrowed funds were used. However, there is one exception to this rule, namely the costs for arranging the loans raised to finance Sydsvenska Kemi's acquisition of the Perstorp and Oxo groups. These costs are being amortized over the average term of the loans.

## Future changes in accounting principles – IFRS adaptation

In compliance with EU requirements for publicly listed companies, Sydsvenska Kemi adopts the International Financial Reporting Standards (IFRS), effective January 1, 2005. As the Group already complied with the recommendations of the Swedish Financial Accounting Standards Council, and has gradually approached the international principles through compliance with these recommendations, the transition to IFRS will not give rise to any major effects on the Group's financial accounts and reporting, with the exception of the new principles that following the introduction of IFRS will be applied as of January 1, 2005: IAS 39, Financial Instruments, and IFRS 3, Business Combinations.

During 2004, the Group conducted a project designed to clarify and document the accounting principles that apply within Group companies

and to prepare these principles for the changes required within the framework of IFRS. After a review of the companies' and Group's financial accounting and reporting, the following conclusions have been made:

- The introduction of IFRS 3, Business Combinations, means that goodwill will no longer be amortized as of January 1, 2005, which also applies to the comparative figures for 2004. Instead, so-called impairment tests will be conducted. Amortization of goodwill amounted to SEK 239 m in 2004, which will therefore be reversed when the comparative figures for 2004 are recalculated in connection with the publication of the interim report for the first quarter of 2005. Impairment tests of the underlying values as of year-end 2003 and 2004 have been conducted and did not necessitate any amortization of the goodwill.
- The introduction of IFRS 3 permits a recalculation of consolidated acquisition calculations. No such recalculation will be made within Sydsvenska Kemi.
- Currency hedging is applied within Sydsvenska Kemi, both in terms of flows and equity in foreign currencies. Hedge accounting according to IFRS will be applied as of January 1, 2005, whereby valuations directly against

equity will be made of the currency hedging contracts for which underlying receivables/liabilities have not been entered in the accounts. Disclosures concerning these values have already been presented in the Group's annual reports for prior years. At the close of 2004, unrealized currency hedging differences amounted to a gain of SEK 122 m after tax which, accordingly, is not valued in the consolidated balance sheet for 2004.

- Several other choices must also be made in conjunction with the transition to and compliance with IFRS, the most important of which are:
  - The Group will continue to value tangible fixed assets at acquisition cost less depreciation.
  - Actuarial results in pension liabilities outside the so-called corridor will be entered in the income statement in accordance with the average remaining working time for employees included in the plan.
  - Borrowing costs will continue to be expensed when they arise and not capitalized with the invested object.
  - Intangible fixed assets will be valued at acquisition cost.
  - The accumulated translation difference in the net assets of foreign subsidiaries will be set at zero.

# Notes

## 1 Segment reporting

**Primary segments** - the Perstorp Specialty Chemicals and Materials Technology business sectors - are presented on pages 10-24. "Other" consists of the Parent Company, including finance operations, and the Group's real estate company. Market pricing is applied for the inter-company sale of products and services.

SEK m	2004			
	Specialty Chemicals	Materials Technology	Other and eliminations	Total Group
Net sales	5,544	1,032	-44	6,532
of which, internal sales	70	-	-70	-
Gross earnings	1,103	191	32	1,326
Operating earnings before depreciation and amortization (EBITDA)	1,034	85	-18	1,101
Operating earnings before goodwill amortization (EBITA)	738	38	-43	733
Operating earnings (EBIT)	528	9	-43	494
Investments	152	39	10	201
Working capital, end of year	624	165	-43	746
Operating capital excl. goodwill, end of year	2,808	497	396	3,701
Operating capital, end of year	6,139	937	396	7,472
Number of employees, end of year	1,447	549	38	2,034

**The secondary segments** – markets – are described in the Risk management section on page 30.

## 2 Depreciation/amortization of tangible and intangible fixed assets

	Group	
	2004	2003
<i>Depreciation/amortization according to plan by type of asset</i>		
Machinery and equipment	300	287
Buildings and land improvement	38	40
Goodwill and other intangible assets	247	248
<b>Total</b>	<b>585</b>	<b>575</b>
<i>Depreciation/amortization according to plan by function</i>		
Production	331	313
Sales	2	2
Administration	8	10
Research and development	2	2
Goodwill and other intangible assets	242	248
<b>Total</b>	<b>585</b>	<b>575</b>

The Parent Company had no fixed assets at year-end 2004.

Depreciation/amortization is based on the acquisition value of assets and on their estimated useful life as described in the Accounting Principles section.

## 3 Other operating incomes and expenses

	Group		Parent Company	
	2004	2003	2004	2003
Operations-related exchange-rate differences	61	140	-	-
Costs for rationalization program	-74	-	-	-
Write-down of fixed assets	-22	-	-	-
Reversal of reserves for prior-year divestments	-	34	-	-
Capital gain on sale of property	-	13	-	-
Insurance compensation	-	9	-	-
Other	23	15	-5	1
<b>Total</b>	<b>-12</b>	<b>211</b>	<b>-5</b>	<b>1</b>

## 4 Results from participations in associated companies

At the end of 2004, Sydsvenska Kemi had an associated company that had been owned jointly with Koei Chemical Company since June 2003. Sydsvenska Kemi's interest is 40%. The company is reported in accordance with the equity method.

Sydsvenska Kemi's share in the company's profits during 2004 was less than SEK 1 m. (0).

## 5 Leasing agreements

### Operational leasing agreements

	Group	
	2004	2003
Future minimum leasing fees		
Due:		
2005	11	12
2006-2009	12	7
2010-	0	0
<b>Total</b>	<b>23</b>	<b>31</b>

### Leasing costs during the year

	2004	2003
Minimum leasing fees	11	12
Variable costs	3	1
<b>Total</b>	<b>14</b>	<b>13</b>

The Parent Company leases computers of a non-material value.

The above fees pertain to leasing agreements entered into at December 31, 2004, including leases for properties. Operational leasing mainly comprises computers and cars.

### Financial leasing agreements

	Group	
	2004	2003
Future minimum leasing fees		
Due:		
2005	0	1
2006-2009	0	0
2010-	0	0
<b>Total</b>	<b>0</b>	<b>1</b>

## 8 Tax

Group's tax costs	Group		Parent Company	
	2004	2003	2004	2003
Current tax	-103	-39	-	-
Deferred tax on net earnings for the year	-41	-52	0	0
Tax attributable to prior years	36	120	-	-
<b>Total tax reported in income statement</b>	<b>-108</b>	<b>29</b>	<b>0</b>	<b>0</b>

### Effective tax rate

In Sweden, the corporate tax rate was 28% in 2003. After taking into account non-tax-deductible costs and non-taxable revenues, as well as losses in companies where carryforwards have not been assigned any value, the effective tax rate for the Group, based on earnings after net financial items, was 31%, because tax rates in mainly Belgium, the US and Germany are higher than the Swedish rate. The reasons for the difference between the estimated local tax rate for Sweden and the effective tax rate are described below.

Group's tax costs	Group		Parent Company	
	2004	2003	2004	2003
<b>Earnings before taxes</b>	<b>186</b>	<b>4</b>	<b>10</b>	<b>3</b>
Tax computed in accordance with Swedish tax rate	-52	-1	-3	-1
Difference between nominal tax rate in Sweden and average tax rate in the Group	-13	-9	-	-
Non-capitalized tax in loss carryforwards	-18	-26	-	-
Adjustment for taxes in prior years	36	4	-	-
Valuation of previously non-valued tax loss carryforwards	-	116	-	-
Adjustment for changed tax asset	7	-	-	-
<b>Non-taxable income</b>	<b>8</b>	<b>12</b>	<b>5</b>	<b>1</b>
<b>Non-tax-deductible costs:</b>				
Goodwill amortization attributable to acquisition of Perstorp and Neste Oxo Groups	-63	-63	-	-
Other non-tax-deductible costs	-13	-4	-2	-
<b>Tax reported in income statement</b>	<b>-108</b>	<b>29</b>	<b>0</b>	<b>0</b>

## 6 Interest income and similar items

	Group		Parent Company	
	2004	2003	2004	2003
Interest income	2	7	-	1
Interest income, subsidiaries	-	-	28	-
Exchange-rate gains	1	4	6	-
<b>Total</b>	<b>3</b>	<b>11</b>	<b>34</b>	<b>1</b>

## 7 Interest expenses and similar items

	Group		Parent Company	
	2004	2003	2004	2003
Interest expense <sup>*)</sup>	-308	-330	-293	-260
Interest expense, subsidiaries	-	-	-25	-32
Amortization of capitalized costs for raising financing	-9	-9	-9	-9
Other financial expenses	-4	-14	-2	-3
<b>Total</b>	<b>-321</b>	<b>-353</b>	<b>-329</b>	<b>-304</b>

<sup>\*)</sup> Payroll costs for employees of Treasury operations are included in an amount of SEK 5 m. (5).

### Tax loss carryforwards

As stated in the accounting and valuation principles, the value of unutilized loss carryforwards is capitalized in cases where it is highly probable that the carryforwards will be utilized in the foreseeable future. In addition, there are unutilized loss carryforwards totaling SEK 276 m (316) and temporary differences totaling SEK 133 m (146) that have not been assigned any value, since it is considered that these will not be utilized in the foreseeable future.

Temporary differences arise in cases where the reported value of assets or liabilities differs from the value for tax purposes. The temporary differences in the Group resulted in a deferred tax asset or a deferred tax liability with respect to the following items:

Deferred tax liabilities	Group	
	2004	2003
Untaxed reserves	294	320
Tangible fixed assets	188	197
<b>Total</b>	<b>482</b>	<b>517</b>

Deferred tax assets	Group	
	2004	2003
Tangible fixed assets	-	10
Intangible fixed assets	9	3
Tax losses	37	119
Provisions	50	35
<b>Total</b>	<b>96</b>	<b>167</b>

The Parent Company had no deferred tax assets or liabilities at the end of 2004.

## 9 Minority share in net earnings for the year

	Group	
	2004	2003
YLA Inc, USA	-2	5
Hansol-Perstorp Co. Ltd, South Korea	-5	1
Perstorp Aegis Chemicals Ltd, India	0	0
<b>Total</b>	<b>-7</b>	<b>6</b>

## 10 Intangible fixed assets

Group	Goodwill		Knowhow, trademarks and similar rights		Development costs		Total	
	2004	2003	2004	2003	2004	2003	2004	2003
<i>Acquisition value</i>								
Opening balance	4,781	4,879	23	7	6	5	4,810	4,891
Capital expenditures *)	-	13	1	19	7	1	8	33
Sales / scrappage **)	-45	-	0	-	-	-	-45	0
Reclassifications	-24	-	25	-	-	-	1	0
Translation effects	-46	-111	0	-3	-	-	-46	-114
Closing balance	4,666	4,781	49	23	13	6	4,728	4,810
<i>Accumulated depreciation according to plan</i>								
Opening balance	-682	-440	-6	-5	-2	-2	-690	-447
Depreciation	-239	-246	-7	-2	-1	-	-247	-248
Reclassifications	12	-	-16	-	-	-	-4	0
Translation effects	7	4	1	1	-	-	8	5
Closing balance	-902	-682	-28	-6	-3	-2	-933	-690
<b>Residual value according to plan, at Dec 31</b>	<b>3,764</b>	<b>4,099</b>	<b>21</b>	<b>17</b>	<b>10</b>	<b>4</b>	<b>3,795</b>	<b>4,120</b>

Most of the Group's goodwill is amortized over 20 years. The Parent Company has no intangible fixed assets.

\*) Goodwill in Vyncolit Inc was increased by SEK 11 m in 2003 following an adjustment of the acquisition balance sheet pertaining to the acquisition of Moldable Composites operations in 2002.

\*\*) A new calculation of the estimated supplementary purchase consideration for Moldable Composites operations has been made, which has reduced goodwill and provisions by SEK 45 m.

## 11 Tangible fixed assets

Group	Buildings, land and land improvements		Plants and machinery		Equipment, tools fixtures and fittings		Work in progress incl. advance payments		Total	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
<i>Acquisition value</i>										
Opening balance	1,079	1,081	4,443	4,328	308	295	181	149	6,011	5,853
Capital expenditures	10	24	62	152	8	28	113	106	193	310
Acquisition of subsidiaries	-	15	-	53	-	-	-	-	-	68
Sales/scrappage	-1	-3	-28	-9	-11	-13	1	-	-39	-25
Reclassifications	4	1	164	56	6	1	-177	-72	-3	-14
Translation effects	-11	-39	-65	-137	-3	-3	-1	-2	-80	-181
Closing balance	1,081	1,079	4,576	4,443	308	308	117	181	6,082	6,011
<i>Accumulated depreciation according to plan</i>										
Opening balance	-383	-354	-2,348	-2,156	-139	-123	-	-	-2,870	-2,633
Depreciation	-38	-40	-274	-258	-26	-29	-	-	-338	-327
Sales/scrappage	1	1	26	7	9	10	-	-	36	18
Reclassifications	4	-	6	-1	-4	1	-	-	6	0
Translation effects	4	10	33	60	1	2	-	-	38	72
Closing balance	-412	-383	-2,557	-2,348	-159	-139	-	-	-3,128	-2,870
<i>Write-downs</i>										
Opening balance	-	-	-3	-	-	-	-	-	-3	-
Write-downs during the year	-	-	-22	-3	-	-	-	-	-22	-3
Closing balance	-	-	-25	-3	-	-	-	-	-25	-3
<b>Residual value acc. to plan, at Dec 31</b>	<b>669</b>	<b>696</b>	<b>1,994</b>	<b>2,092</b>	<b>149</b>	<b>169</b>	<b>181</b>	<b>181</b>	<b>2,929</b>	<b>3,138</b>

The Parent Company has no tangible fixed assets.

### Tax assessment value, Swedish Group companies

Group	Tax assessment value		Book value	
	Dec 31, 2004	Dec 31, 2003	Dec 31, 2004	Dec 31, 2003
Buildings, including building fittings	481	529	438	450
Land and land improvements	70	36	49	45
<b>Total</b>	<b>551</b>	<b>565</b>	<b>487</b>	<b>495</b>

## 12 Parent Company shares in Group companies

Direct holdings in Group companies	Corp. Reg. number	Registered Head Office	Holding %	Number of shares	Book value
Perstorp AB	556024-6513	Perstorp	100	71,589,720	6,456
Perstorp Oxo Holding AB	556579-4327	Stenungsund	100	1,000	412
<b>Closing book value, December 31, 2004</b>				<b>6,868</b>	
			2004	2003	
Opening book value			6,865	6,866	
Reversal of provisions			3	-	
Redemption of remaining minority-held shares			-	-	
<b>Closing book value</b>			<b>6,868</b>	<b>6,865</b>	

## 13 Participations in associated companies

	Share of capital/voting rights	Group's share of share-holders' equity	Book value, Group
Koei-Perstorp Company Ltd, Japan	40/40	2	2
<b>Total</b>		<b>2</b>	<b>2</b>
		2004	2003
Opening book value		2	0
Acquisition of associated company share in Koei-Perstorp Company Ltd		-	2
<b>Closing balance</b>		<b>2</b>	<b>2</b>

## 14 Other shares and participations

	Corp. Reg. number	Share of capital/ voting rights	Book value, Dec 31, 2004	
			Group	Parent Company
Pergo AB	556563-2600	0%	0	0
			Group	Parent Company
<i>Acquisition value</i>				
Opening balance			306	306
Disposals during the year			-306	-306
Closing balance			0	0
<i>Write-downs</i>				
Opening balance			-183	-183
Write-down during the year			-9	-9
Disposals during the year			192	192
Closing balance			0	0
<b>Closing book value, Dec 31, 2004</b>			<b>0</b>	<b>0</b>

The capital gain for accounting purposes amounted to SEK 19 m, which is reported within net financial items.

## 15 Other long-term receivables

	Group		Parent Company	
	2004	2003	2004	2003
Capitalized costs for raising bank financing	32	29	32	29
Other receivables	16	19	-	1
<b>Total</b>	<b>48</b>	<b>48</b>	<b>32</b>	<b>30</b>
<i>Of which, interest-bearing receivables</i>	3	4	-	-
	Group		Parent Company	
	2004	2003	2004	2003
Opening balance	48	64	30	38
Costs for arranging refinancing	12	-	12	-
Amortization of costs for raising bank financing	-9	-9	-9	-9
Revaluation of loan receivable	-1	-7	-1	1
Other	-2	-	-	-
<b>Closing balance, December 31, 2004</b>	<b>48</b>	<b>48</b>	<b>32</b>	<b>30</b>

The capitalized costs pertain to the loan financing of Sydsvenska Kemi's acquisition of the Perstorp and Oxo groups in 2001. In connection with the refinancing in 2004, the remaining residual value and the additional costs for arranging refinancing in 2004 were allocated on the basis of an amortization plan based on the average maturity of most of the loan agreements, which means until December 2011.

## 16 Inventories

	Group	
	Dec 31, 2004	Dec 31, 2003
Raw materials and supplies	198	192
Products in progress	62	35
Finished and semi-finished goods	482	428
Work in progress on behalf of others	0	0
Advance payments from suppliers	9	25
<b>Total</b>	<b>751</b>	<b>680</b>
<i>of which, entered at net sales value</i>	1	-

The Parent Company had no inventories at the end of 2004.

## 17 Accounts receivable

	Group	
	Dec 31, 2004	Dec 31, 2003
Not due for payment	852	674
Due:		
0-10 days	104	98
11-30 days	54	54
31-60 days	34	22
61-90 days	11	7
> 90 days	35	27
Total before provisions	1 090	882
Provisions for uncertain accounts receivable	-28	-28
<b>Total</b>	<b>1 062</b>	<b>854</b>

The Sydsvenska Kemi Group applies a Group-wide credit policy, whose two main aims are to prevent credit losses and to optimize capital utilization. The credit policy stipulates limits and procedures for the granting and monitoring of credit, including the suspension of deliveries to customers with past-due credit. Intense work is conducted on a continuous basis to ensure that accounts receivable are paid in time. With respect to countries/customers where the credit risk is assumed to be higher than normal, the Group demands advance payment, credit insurance or bank guarantees.

The Parent Company had no accounts receivable at the end of 2004.

## 18 Other current receivables

	Group	
	Dec 31, 2004	Dec 31, 2003
Prepaid insurance premiums	5	6
Other prepaid expenses and accrued income	43	41
Value added tax	131	79
Tax receivables	23	27
Associated company receivables	32	22
Current financial receivables	0	2
Other receivables	17	34
<b>Total</b>	<b>251</b>	<b>211</b>
<i>of which, interest-bearing receivables</i>	0	1

The Parent Company had other current receivables of SEK 2 m at the end of 2004.

## 19 Minority interests

	Group	
	Dec 31, 2004	Dec 31, 2003
Hansol-Perstorp Co. Ltd, South Korea	22	11
YLA Inc. USA	0	0
<b>Total</b>	<b>22</b>	<b>11</b>

## 20 Pension costs and Provisions for pensions

At the beginning of 2004, Sydsvenska Kemi adopted RR 29 (IAS 19), Employee Benefits. There are a number of a defined-benefit and defined-contribution pension plans with the Group. Actuarial calculations of the defined-benefit plans were conducted at the end of 2003 to enable the reporting of - in accordance with RR 29 - the difference in the valuation of pension obligations between local calculations and the IFRS calculations, directly against shareholders' equity. This effect is shown in Table D below.

### Defined-contribution pension plans

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

The total cost of defined-contribution pension plans is shown in Table A below. Most of the Group's Swedish companies have secured their obligations for old-age and family pensions via pension insurance with Alecta. In accordance with a statement issued by the Emerging Issues Task Force of the Swedish Financial Accounting Standards Council, URA 42, this is a defined-benefit plan that covers several employers. For fiscal year 2004, the companies did not have access to information that would enable them to report these plans as defined-benefit obligations. Accordingly, the ITP pension plans that are secured through insurance with Alecta are reported as defined-contribution plans. As shown in the table below, contributions for pension insurance covered by Alecta amounted to SEK 38 m during the year. At year-end 2004, Alecta's surplus in the form of its collective funding ratio amounted to 128%. 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, which does not comply with RR 29.

### A. Pension costs, defined-contribution plans

	2004	
	Group	Parent Company
National pension plans	57	1
Other defined-contribution plans	32	-
ITP, insured through Alecta	38	5
<b>Total, pension costs defined-contribution plans</b>	<b>127</b>	<b>6</b>

### Defined-benefit pension plans

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

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

The key actuarial assumptions, weighted in accordance with the closing value of each particular pension obligation/plan asset, are specified in Table B.

### B. Key actuarial assumptions

	2004
	Group
Discount rate, %	5.6
Future salary increases, %	3.3
Anticipated return on plan assets	7.4
Anticipated average remaining employment term, year	12

In Table C, the defined-benefit pension obligations are specified, divided into funded pensions and unfunded pensions.

### C. Provision for pensions, funded/unfunded pensions

	2004
	Group
<b>Funded pensions</b>	
Defined-benefit obligations	268
Fair value of plan assets	-168
Net value	100
Non-reported actuarial gains and losses	0
Non-reported costs regarding prior-year service	0
<b>Provisions for pensions, funded pensions, net</b>	<b>100</b>
<b>Unfunded pensions</b>	
Defined-benefit obligations	78
Non-reported actuarial gains and losses	-2
Non-reported costs regarding prior-year service	-
<b>Provisions for pensions, not funded pensions</b>	<b>76</b>
<b>Total provision for pensions, net</b>	<b>176</b>

In accordance with the transitional regulations for the introduction of RR 29, the net value of provisions for pensions at January 1, 2004 has been established as the present value of the obligation less the fair value of plan assets with which the obligation is to be settled. The differences that thus arose compared with the amount reported net at the end of 2003 has been reported directly against shareholders' equity.

Table D below shows the development of the net value of provisions for pensions as of the end of 2003 until the end of 2004, and in Table E pension costs for defined-benefit plans are specified.

### D. Pension provisions, development during the year

	2004
	Group
Pension provisions net, according to balance sheet at Dec 31, 2003	144
Reclassification resulting from review of pension provisions	-27
<b>Closing balance, Dec 31, 2003 after reclassification</b>	<b>117</b>
Effect of changed accounting principle (RR 29)	52
<b>Opening balance, Pension provisions net, adjusted in accordance with RR 29</b>	<b>169</b>
Pension cost during the year	19
Disbursements during the year	-12
Effect of units divested/acquired during the year	-
Translation differences	-
<b>Closing balance, Pension provisions net</b>	

### E. Pension costs, defined-benefit plans

	2004
	Group
Costs pertaining to current-year service	13
Costs pertaining to prior-year service	0
Anticipated return on plan assets *)	-13
Interest expense on obligation *)	19
Amortization of actuarial gains/losses	0
Losses/gains on reductions and settlements	-
<b>Total pension costs, defined-benefit plans</b>	<b>19</b>
Actual return on plan assets	17

\*) The net is reported as interest expense.

## 21 Other provisions

	Group	
	Dec 31, 2004	Dec 31, 2003
Estimated supplementary purchase consideration, acquisition of Moldable Composites operations	41	115
Remaining other provisions	154	148
<b>Total</b>	<b>195</b>	<b>263</b>
	2004	2003
Opening balance	263	404
Write-down of supplementary purchase consideration, Moldable Composites	-45	-
Supplementary purchase consideration paid, Moldable Composites	-27	-27
Translation effect of supplementary purchase consideration, Moldable Composites	-2	-26
Reclassification of items in acquisition balance sheet vs. fixed assets	-	-14
Bank guarantee paid for associated company, Indonesia	-	-30
Reclassifications between provisions, pension liabilities and working capital	12	-
Other utilized provisions with an impact on liquidity	-6	-4
Reversal of provisions with no impact on liquidity in cases where the risk is no longer considered to prevail	-	-40
<b>Closing balance</b>	<b>195</b>	<b>263</b>

The Parent Company had no other provisions at the end of 2004.

The supplementary purchase consideration pertaining to the acquisition of Moldable Composites operations depends on the future profit trend of these operations. The maximum provision was posted in 2002 and the difference between the total purchase consideration and the net assets has been booked as goodwill. During 2004, the purchase consideration was recalculated and written down by SEK 45 m, which affected goodwill by a corresponding amount. The purchase consideration is being paid out over five years, starting on the date of acquisition in November 2002.

Remaining other provisions, in the closing balance for 2004 pertain mainly to previous investments, in part due to uncertainty regarding pension obligations and taxes.

## 22 Financial liabilities and risk management

A more detailed description of the Group financial risk management is presented in a separate section on pages 30-33. A division of financial risks into financing, interest rate and currency risks is presented below.

### Financing risk

With the exception of the debenture loan that is listed on Stockholmsbörsen, most of the Group's borrowing is arranged through Svenska Handelsbanken. The Group's interest-bearing net debt is specified in the table below.

Interest-bearing net debt, Group

	Dec 31, 2004	Dec 31, 2003
Svenska Handelsbanken	1,921	2,631
Other bank loans	71	65
Rogers Corp, financing of acquisition	43	63
Hansol, financing of acquisition	34	48
<b>Financial liabilities, excl. debenture loan</b>	<b>2,069</b>	<b>2,807</b>
Debenture loan, publicly traded	1,559	1,367
<b>Financial liabilities</b>	<b>3,628</b>	<b>4,174</b>
Interest-bearing pension liabilities	175	78
Liquid assets	-35	-30
Other interest-bearing receivables	-3	-5
<b>Net debt</b>	<b>3,765</b>	<b>4,217</b>

The Parent Company's external borrowing is arranged through Svenska Handelsbanken.

At the end of 2004, unutilized lines of credit amounted to SEK 2,100 m.

### Financial liabilities, maturity structure

SEK m	2004	2003
< 12 months	181	475
1-2 year	133	433
2-3 year	121	267
3-4 year	105	25
>4 year	1 529	1 607
<b>Financial liabilities, excl. debenture loan</b>	<b>2,069</b>	<b>2,807</b>

### Interest-rate risk

The finance policy stipulates that the fixed interest term within the Group shall be short, subject to a minimum of 30 and a maximum of 360 days. It is the period of fixed interest that determines the time lag between changes in interest rates and their impact on the Group's net interest expense. At the end of 2004, the average period of fixed interest for financial liabilities excluding the debenture loan was 110 days. The currency composition of the net debt is also of significance to the Group's average interest rate. Periods of fixed interest, interest rates and the distribution by currency are presented in the table below. EUR is the most exposed currency from the viewpoint of borrowing.

Composition of financial liabilities by currency, December 31, 2004

	Loans	Swaps	Total	Interest rate, %	Duration, days
EUR	1,435	-557	878	3,4	71
SEK	546	-20	526	3,6	99
USD	54	596	650	3,4	167
GBP	3	-14	-11	3,8	20
Other	31	-5	26		42
<b>Financial liabilities excl. debenture loan</b>	<b>2,069</b>	<b>0</b>	<b>2,069</b>	<b>3,4</b>	<b>110</b>
Debenture loan	1,559	0	1,559	14,1	*)
<b>Financial liabilities</b>	<b>3,628</b>	<b>0</b>	<b>3,628</b>	<b>8,0</b>	<b>n/a</b>

\*) The debenture loan matures in June, 2011.

Overall, a general increase of one percentage point in all borrowing currencies would increase the Group's annual interest expense by SEK 21 m, with borrowing in EUR subject to the greatest exposure to changes in interest rates.

### Currency risk

The Sydsvenska Kemi Group has considerable payment flows, earnings and net assets in foreign currencies. The Group has decided to manage its currency risks in the following manner:

#### Transaction exposure

The Group's finance policy stipulates that within a timeframe of up to 12 months, 75-90% of anticipated flows in foreign currencies are to be hedged using currency forward contracts. Of the flows anticipated over a period of 12-24 months, 25-75% are to be hedged. However, the Group's Board of Directors issued a directive in 2004 regarding a targeted increase in the portion of currency-hedged flows in USD. Contracted flow - mainly for sales of formalin plants - are hedged 100%. The transaction exposure and currency hedges for 2005 and 2006 are presented in the table below.

### Transaction exposure and currency hedging

	Flows in 2005				Flows in 2006			
	Counter-values in SEK		Percentage hedged	Average forward exchange rate	Counter-values in SEK		Percentage hedged	Average forward exchange rate
	Estimated exposure	Forward contracts			Estimated exposure	Forward contracts		
EUR	735	668	91%	9.22	679	385	57%	9.07
USD	767	751	98%	7.41	780	755	97%	7.15
GBP	260	234	90%	12.81	258	144	56%	12.68
JPY	128	109	85%	0.07	143	71	50%	0.07
NOK	6	4	73%	1.10	6	2	25%	1.09
<b>Total</b>	<b>1,896</b>	<b>1,766</b>	<b>93%</b>		<b>1,866</b>	<b>1,357</b>	<b>73%</b>	

At the end of 2004, the difference between the forward contracts' fair value and the value based on the forward rate for contracts maturing in 2005 and which were not assigned a value in 2004, neither in the income statement nor in shareholders' equity, was a positive SEK 89 m, of which USD accounted for SEK 65 m. For forward contracts maturing during 2006, the difference was also positive in an amount of SEK 81 m. In accordance with IFRS, hedge accounting will be applied as of January 1, 2005, whereby these values, less tax, will be reported directly against shareholders' equity.

Most of the exchange-rate gains reported within "Other income and expense", which amounted to SEK 61 m (140), pertained to the difference between the exchange rate on the transaction date and the forward rate for hedged flows. A smaller portion pertained to exchange-rate differences between the exchange rate on the transaction date and the exchange rate on the payment date, or alternatively the year-end exchange rate for net flows that were not hedged.

#### Translation exposure

Translation of the companies' financial accounts to SEK is conducted in accordance with the current method, which means that income-statement items are translated at average exchange rates during the fiscal year. A one percentage point appreciation of SEK has a negative consolidation effect of SEK 4 m on the Group's EBITDA and a corresponding negative effect of SEK 24 m on net sales.

If no hedging transactions were conducted, a one percentage point appreciation of SEK in relation to all of the other currencies would have a negative combined flow and translation effect of SEK 23 m on consolidated profit before depreciation/amortization (EBITDA). The corresponding negative effect on net sales is SEK 57 m.

The foreign subsidiaries' assets minus their liabilities constitute a net investment in foreign currency that becomes exposed to translation effects in connection with exchange-rate movements. Perstorp has decided to hedge a major portion of this exposure by raising loans, mainly in EUR and USD, in order to protect the Group's shareholders' equity in SEK.

The table below shows the Group's net assets in foreign currencies, the proportion of these assets that has been hedged and the value of the exposed net assets.

#### Translation exposure of net assets, December 31, 2004

	Net assets in foreign currency before hedging	Hedged amount before tax	Exposed net assets
EUR	1,717	-1,621	96
USD	668	-622	46
KRW	23		23
GBP	10		10
JPY	2		2
SGD	1		1
INR	-33		-33
<b>Total</b>	<b>2,388</b>	<b>-2,243</b>	<b>145</b>

## 23 Debenture loan

The debenture loan is a zero-coupon instrument with a maturity of nearly 10 years, from June 2001 to June 2011. The increase of SEK 192 m during 2004 was due entirely to capitalized interest.

The nominal value to be repaid on maturity has been discounted to present value based on an interest rate of 14.05%. Also refer to description on page 29.

## 24 Other current operating liabilities

	Group		Parent Company	
	Dec 31, 2004	Dec 31, 2003	Dec 31, 2004	Dec 31, 2003
Accrued salaries and social security costs	217	172	8	4
Accrued commissions	10	26	-	-
Other accrued expenses and prepaid income	273	147	9	2
Value added and personnel taxes	40	38	-	1
Tax liabilities	57	49	-	-
Advances from customers	11	64	-	-
Other liabilities	54	38	-	-
<b>Total</b>	<b>662</b>	<b>534</b>	<b>17</b>	<b>7</b>

## 25 Assets pledged

	Liabilities to credit institutions	Other interest-bearing liabilities	Pension liabilities	Group		Parent Company	
				Dec 31, 2004	Dec 31, 2003	Dec 31, 2004	Dec 31, 2003
Property mortgages	471	94		565	580	-	-
Chattel mortgages	1,135			1,135	1,135	-	-
Shares in subsidiaries	6,486			6,486	6,486	6,868	6,865
Endowment insurances			3	3	6	-	-
<b>Total</b>	<b>8,092</b>	<b>94</b>	<b>3</b>	<b>8,189</b>	<b>8,207</b>	<b>6,868</b>	<b>6,865</b>

## 26 Contingent liabilities

	Group		Parent Company	
	Dec 31, 2004	Dec 31, 2003	Dec 31, 2004	Dec 31, 2003
Guarantees	14	29	-	-
Guarantees and other contingent liabilities for subsidiaries	-	-	125	312
<b>Total</b>	<b>14</b>	<b>29</b>	<b>125</b>	<b>312</b>

Since the Group posts provisions for ongoing disputes based on the estimated risk exposure, no contingent liabilities are entered for such disputes.



## 27 Employees and wages, salaries and other remuneration

### Average number of employees

Country	2004		2003	
	Total number of employees	Of whom men	Total number of employees	Of whom men
Sweden				
Parent Company	5	5	5	5
Subsidiaries	1,060	767	1,128	820
Belgium	207	185	212	189
France	7	5	11	6
India	232	225	241	233
Italy	92	80	99	87
Japan	2	1	2	1
Netherlands	1	1	2	2
Singapore	4	2	4	2
United Kingdom	5	3	8	6
South Korea	28	25	15	14
Germany	138	123	145	128
United States	310	271	312	275
<b>Total</b>	<b>2,091</b>	<b>1,693</b>	<b>2,184</b>	<b>1,768</b>

### Wages, salaries and other remuneration

	2004		2003	
	Total	Of which, for Board members/ President	Total	Of which, for Board members/ President
Parent Company	10	5	9	5
Subsidiaries	743	14	761	18
<b>Total</b>	<b>753</b>	<b>19</b>	<b>770</b>	<b>23</b>

### Social security costs

	2004		2003	
	Social security costs	Of which pension costs	Social security costs	Of which pension costs
Parent Company	8	6	8	4
Subsidiaries	331	138	332	133
<b>Total</b>	<b>339</b>	<b>144</b>	<b>340</b>	<b>137</b>

Of which, pensions costs for Board members and President of Parent Company

1 1

### Wages, salaries and other remuneration

	2004		2003	
	Board members/ President	Other employees	Board members/ President	Other employees
Sweden	11	393	17	415
Belgium	-	85	-	83
France	-	6	-	7
India	-	6	-	6
Italy	-	28	-	28
Japan	-	1	-	1
Netherlands	-	0	-	3
Singapore	1	1	1	1
United Kingdom	1	3	-	3
South Korea	-	7	-	4
Germany	-	69	-	60
United States	6	135	5	136
<b>Total</b>	<b>19</b>	<b>734</b>	<b>23</b>	<b>747</b>

### Remuneration to senior executives

#### Board of Directors

Annual fee for Chairman of the Board	KSEK	375
Annual fee for Deputy Chairman	KSEK	225
Annual fee for each Board members elected by the Annual General Meeting *)	KSEK	150
Annual fee for deputy Board member elected by the Annual General Meeting *)	KSEK	75
Annual fee for each member of the Remuneration Committee*)	KSEK	25

#### President/Chief Executive Officer

Salary paid 2004	KSEK	2,646
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The President's fixed salary for 2004 amounted to SEK 2,566,000, plus a variable salary increment in the form of a bonus corresponding to a maximum of 35%, as of 2005 50%, of his fixed salary. The bonus target for 2004 was based on quantitative criteria.

The salary total of SEK 2,566,000 above includes a bonus of SEK 80,000 paid during the year. Earnings were also charged with bonuses of SEK 841,000 to be paid in 2005.

As of age 65 and in accordance with the stipulations of Sweden's ITP plan, the President will receive a pension from Alecta and SPP that will also cover salary portions exceeding 30 base amounts. According to a special undertaking, both the President and the Company are entitled, once the President has reached the age of 60, to terminate the employment agreement. On the President's account, pension insurance premiums amounting to 10% of the President's annual salary up to age 50 are to be paid. For 2004, however, insurance premiums paid amounted to only 3% of the President's annual salary, while the President received the remaining 7% as an increase in his annual salary. Between age 51 and 60, the premium will be 15%.

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

Other members of Group Management are covered by a bonus system that could result in a maximum payment of 30 or 35%, as of 2005 35%, of their basic salary and by an agreement regarding pension insurance schemes, the aim of which is to enable the executives concerned to retire at age 60. The period of employment-termination notice for other members of Group Management is six months. If the Company terminates the employment of a member of Group Management, the sum total of salary during the period of notice, severance pay and corresponding benefits will be paid for 12 up to a maximum of 18 months.

\*) Pertain only to persons who are not company employees.

## 28 Sickness absence

Total sickness absence as a percentage of ordinary working time, %.

	2004	
	Group	Swedish operations
Total	2.2	3.4
Uninterrupted sickness absence of 60 days or more	*)	2.1
<b>Sickness absence by gender</b>		
Men	*)	3.2
Women	*)	3.9
<b>Sickness absence by age</b>		
29 years or younger	*)	1.8
Between 30 and 49 years	*)	2.8
50 years or older	*)	5.5

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

Swedish operations includes all Group companies in Sweden. Since the Parent Company has only four employees, it is not reported separately.

## 29 Proportion of women who are members of company boards or management

	2004			2003		
	Total	of whom women	%	Total	of whom women	%
Board members	133	2	2	160	5	3
Other senior executives	114	18	16	159	14	9

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

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

## 30 Auditors' fees and compensation for costs

	Group		Parent Company	
	2004	2003	2004	2003
Öhrlings PriceWaterhouseCoopers:				
Audit assignments	6	4	}	}
Other assignments	2	3		
Ernst&Young:				
Audit assignments	-	1	-	-
<b>Other</b>	<b>8</b>	<b>8</b>	<b>3</b>	<b>2</b>

## 31 Business relations with closely related companies

During the year, the Group had business relations with companies within the Dynea group, which is also controlled by Industri Kapital funds. The transactions consisted of purchases of liquid additives and R&D services totaling SEK 48 m (40) and sales of various specialty chemicals totaling SEK 75 m (24). All transactions of goods were undertaken on normal market terms while the pricing of services was cost based.

## 32 Joint ownership program for senior executives

In 2002, within the framework of an incentive program, Industri Kapital 2000 Fund offered senior executives in the Sydsvenska Kemi Group the opportunity to become joint owners of Sydsvenska Kemi AB. Slightly more than 50 executives accepted the offer and have acquired shares corresponding to 0.56% of the share capital, as well as associated options. Pricing of the shares and options is conducted on normal market terms.

## 33 Currency exchange rates

Currency	Year-end exchange rate		Average exchange rate	
	Dec 31, 2004	Dec 31, 2003	2004	2003
EUR	9.0070	9.0940	9.1263	9.1252
USD	6.6130	7.2750	7.3493	8.0864
GBP	12.7100	12.9130	13.4533	13.1957
SGD	4.0400	4.2750	4.3464	4.6391
JPY	0.0638	0.0680	0.0680	0.0698
INR	0.1512	0.1596	0.1618	0.1735
KRW	0.0064	0.0061	0.0065	0.0068

# Proposed distribution of earnings

Unrestricted shareholders' equity, as shown in the consolidated balance sheet, amounts to SEK 2,823 m. An allocation of SEK 1 m to restricted reserves is proposed.

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

Retained earnings	SEK	3,195,313,440
Net earnings for the year	SEK	9,800,119
	SEK	<b>3,205,113,559</b>

*be distributed as follows:*

To be allocated to legal reserves	SEK	1,000,000
<b>To be retained in the business</b>	SEK	<b>3,204,113,559</b>

## Perstorp, February 18, 2005

Hans Larsson  
Chairman

Björn Savén  
Deputy chairman

Stig Gustavson

Anitha Hermansson

Klas Ingstorp

Claes de Neergaard

Ronny Nilsson

Gunnar Palme

Thomas Ramsay

Michael Rosenlew

Lennart Holm  
President

# Audit Report

## To the Annual General Meeting of the shareholders of Sydsvenska Kemi AB (publ)

Corporate registration number: 556602-2769

We have audited the annual report, the consolidated financial statements, the accounts and the administration of the Board of Directors and the President of Sydsvenska Kemi AB (publ) for the 2004 financial year. The Board of Directors and the President are responsible for these accounts and the administration of the Company, and for ensuring that the Annual Accounts Act is applied when the annual report and the consolidated financial statements are compiled. Our responsibility is to express an opinion on the financial statements and the administration based on our audit.

We conducted our audit in accordance with Generally Accepted Auditing Standards in Sweden. Those standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and their application by the Board of Directors and the President, evaluating the material estimations made by the Board of Directors and President when compiling the annual report and the consolidated financial statements, and evaluating the overall presentation of information in the annual report and consolidated financial statements. We examined significant decisions, actions taken and circumstances of the Company in order to be able to determine the possible liability to the Company of any Board member or the President or whether they have in some other way acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association. We believe that our audit provides a reasonable basis for our opinion set out below.

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

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

## Stockholm, February 28, 2005

Michael Bengtsson  
Authorized Public Accountant

Ulf Pernvi  
Authorized Public Accountant

# Board of Directors and Auditors



**Hans Larsson (1)**  
**Chairman**  
 Born 1942.  
 Chairman since 2001.  
 Other Board assignments: Chairman of Nobia AB, Biolight International AB and Carema AB. Deputy Chairman of Svenska Handelsbanken AB. Board member of Holmen AB and Pergo AB.



**Björn Savén (2)**  
**Deputy Chairman**  
 Born 1950.  
 President, Industri Kapital AB.  
 Board member since 2002.  
 Other Board assignments: Chairman of KCI Konecranes Abp. Deputy Chairman of Alfa Laval AB, Dynea Oy and German-Swedish Chamber of Commerce. Member of Gardena AG, Finnish-Swedish Chamber of Commerce and IVA.



**Stig Gustavson (3)**  
 Born 1945.  
 President and Chief Executive Officer, KCI Konecranes Abp.  
 Board member since 2001.  
 Other Board assignments: Chairman of Mercantile AB, Dynea Oy, Handelsbanken's Regional Bank in Finland and Arcada Foundation and Eitel Networks. Delegation Chairman of Tampere Technical University. Member of the management council of pension insurance company Varma. Board member of Helvar-Merca AB, KCI Konecranes Abp, the Confederation of Finnish Engineering Industries.



**Gunnar Palme (4)**  
 Born 1954.  
 Board member since 2002.  
 Other Board assignments: Chairman of Finn Power Oy, Bewator AB and the Association of Young Corporate Enterprise in Södermanland County. Board Member of Bergviks Skog AB.



**Michael Rosenlew (5)**  
 Born 1959.  
 Executive Vice President, Industri Kapital AB.  
 Board member since 2001.  
 Other Board assignments: Board member of Gardena AG, Citylink AB, CPS Color Group Oy, Dynea Oy, Elektrokoppar Holding AB, Consolis Oy, Eitel Networks and Nordiska Husmanufaktur AB.



**Claes de Neergaard (6)**  
 Born 1949.  
 President of the Industrial Fund Foundation.  
 Board member since 2004.  
 Other Board assignments: Chairman of the Third AP Fund. Board Member of Emerging Africa Infrastructure Fund, Access Capital Partners S.A., Malmöhus Invest and AB Småföretagsinvest.



**Thomas Ramsay (7)**  
 Born 1969.  
 Director of Industri Kapital AB.  
 Board member since 2003.  
 Other Board assignments: Board member of CPS Color Group Oy and Dynea Oy.



8



9



10



11



12



13

**Lennart Holm (8)**  
 Born 1960.  
 President and Chief Executive Officer of Sydsvenska Kemi AB and Perstorp AB. Board member since 2002.  
 Active in the Company since 2001.

**Anitha Hermansson (9)**  
 Born 1953.  
 Customer Service Manager. Board member since 2001.  
 Appointed by the union boards for Swedish Federation of Salaried Employees in Industries and Service in Perstorp and Stenungsund.

**Klas Ingstorp (10)**  
 Born 1971.  
 Production Manager SPPO/Catalyst. Board member since 2001.  
 Appointed by the union boards for Swedish Federation of Salaried Employees in Industries and Service in Perstorp and Stenungsund.

**Deputy Board Members:**

Helena Stjernholm  
 Anders Magnusson deputy for the union representative for Swedish Federation of Salaried Employees in Industries and Service  
 Annika Folkesson deputy for the union representative for Swedish Federation of Salaried Employees in Industries and Service  
 Håkan Olzon deputy for the union representative for the Industrial Workers' Union

**Ronny Nilsson (11)**  
 Born 1969.  
 Process operator. Board member since 2002.  
 Appointed by Industrial Workers' Union in Perstorp and Stenungsund.

**Michael Bengtsson (12)**  
 Born 1959.  
 Authorized Public Accountant, Öhrlings PricewaterhouseCoopers. Other major audit assignments: Sweco AB, Glocalnet AB, Onoff AB, K G Knutsson AB and MacGregor International AB.

**Ulf Pernvi (13)**  
 Born 1949.  
 Authorized Public Accountant, Öhrlings PricewaterhouseCoopers. Other major audit assignments: Sydkraft AB, Besam AB, Indutrade AB, Rexam AB and Gambro Lundia AB.

# Group Management



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

**Mats Persson**  
Born 1963.  
Executive Vice President Supply Chain.  
Active in the Company since 1992.

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

**Lennart Holm**  
Born 1960.  
President and Chief Executive Officer of  
Sydsvenska Kemi AB and Perstorp AB.  
Active in the Company since 2001.

**Anders Lundin**  
Born 1960.  
Executive Vice President Materials Technology.  
Active in the Company since 1982.



**Bengt Sallmén**

Born 1951.  
Executive Vice President Marketing  
& Sales Coating Intermediates.  
Active in the Company since 1976.

**Claes Gard**

Born 1953.  
Executive Vice President.  
Chief Financial Officer.  
Active in the Company since  
2001.

**Inge Pettersson**

Born 1947.  
Executive Vice President  
Marketing & Sales Performance Chemicals.  
Chief Operating Officer.  
Active in the Company since 1980.

**Martin Lundin**

Born 1968.  
Executive Vice President Corporate  
HR & Communications.  
Active in the Company since 2001.

## Corporate functions

Corporate Finance  
Corporate HR & Communications  
Corporate IT  
Corporate Safety, Health and Environment  
Group Financial Control

Gunnar Modalen  
Martin Lundin  
Susanna Frennemo  
Jan Petersson  
Anita Haak

# Glossary

## Acidifiers

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

## Aldehyde

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

## Amino plastic

A thermoset plastic based on a melamine and/or urea formaldehyde resin, normally with a cellulose filler.

## Basic polyols

See polyols.

## Board

Layers of particleboard.

## Catalyst

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

## Composite

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

## Compounds

See thermoset.

## DAP (DiAllylPhtalat)

Diallyl phthalate-based polyester thermoset is a highly heat-resistant plastic with excellent temperature and electrical properties. Used mainly in the electronics industry.

## Epoxy

Heat-resistant viscous thermoset with good electrical properties. Often contains reinforcement in the form of glass or carbon fiber. Used mainly in the aviation and electronics industry.

## Formalin (formaldehyde)

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

## Formic acid

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

## Monomer

The chemical from which a polymer (plastic) is produced. A polymer is a large molecule based on the repetition of small molecules (monomers).

## Neopentyl glycol (Neo)

A divalent polyol used mainly for the production of polyesters for powder and other environmentally compatible paints.

## Oxo alcohols

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

## Pentaerythritol (Penta)

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

## Plasticizers

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

## Polyol (polyalcohol)

A polyfunctional alcohol.

## Propionic acid

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

## Phenolic plastic

Heat-resistant thermoset plastic produced from phenol and formaldehyde resin. Used in heat and electrical insulation products and components in engineering industries.

## Resin

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

## Silage

Additive used for the preservation of green feed.

## Silicon material

Usually an elastomer or a thermoset material. In Perstorp's case, a thermoset. A material with excellent temperature and dimensional stability that is used for electrical applications where exceptional properties are required.

## Sodium formate

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

## Specialty polyol

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

## Thermoset

Plastic that receives its final chemical structure at the molding stage, which includes tempering.

## Trimethylolpropane (TMP)

A trivalent polyol for the production of alkyd paints, polyurethane, polyester, etc.

### Preliminary calendar for financial reporting in 2005

Interim Report, January-March  
May 10, 2005

Interim Report, January-June  
July 25, 2005

Interim Report, January-September  
October 28, 2005

Year-end Report, January-December  
February, 2006

Annual Report,  
March, 2006

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