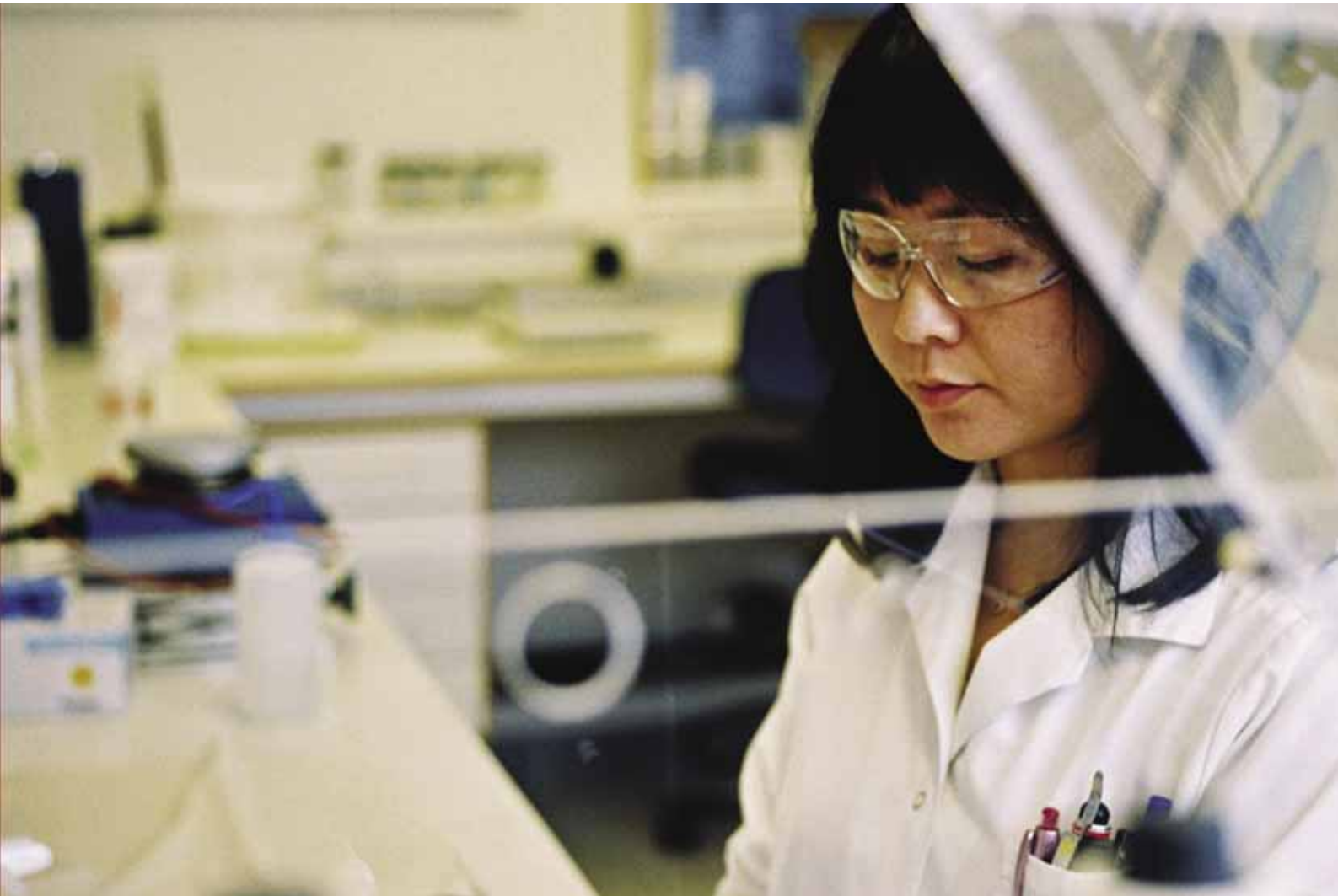


# Sydsvenska Kemi AB (publ) Year-end Report 2004



# Sydsvenska Kemi AB (publ)

Corp. Reg. 556602-2769. Parent company of Perstorp

## Year-end Report 2004

*Sydsvenska Kemi AB is the Parent Company of international chemicals group, Perstorp. Perstorp holds leading positions within specialty chemicals and materials technology markets, with customers primarily in the paint, plastic-processing and automotive industries. The Group has slightly more than 2,000 employees in eight countries in Europe, North America and Asia. Sales in 2004 amounted to SEK 6.5 billion.*

*Sydsvenska Kemi is 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 registered on Stockholmsbörsen.*

- 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%.
- 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.
- 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 profit 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).
- Decisions were made regarding major investments aimed at satisfying increasing demand for new organic acids, polyols and several other specialty chemicals products.

### Key figures in summary

SEK m unless otherwise stated	Quarter 4 2004	Quarter 3 2004	Quarter 4 2003	Quarter 1-4 2004 2003	
Net sales	1,613	1,649	1,293	6,532	5,741
Operating earnings before depreciation <sup>*)</sup>	278	260	164	1 101	922
% of net sales	17.2	15.8	12.7	16.9	16.1
Operating earnings <sup>**)</sup>	112	113	23	494	343
% net sales	6.9	6.9	1.8	7.6	6.0
Net earnings	37	4	65	71	39
Cash flow from continuing operations	232	201	215	755	754
% of net sales	14.4	12.2	16.6	11.6	13.1

<sup>\*)</sup> Operating earnings during prior quarters of 2004 were charged with costs totaling SEK 74 m resulting from rationalization programs.

<sup>\*\*)</sup> In addition to the rationalization costs, operating earnings during the fourth quarter of 2004 were charged with costs of SEK 22 m for the write-down of fixed assets.

# The Group

## 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.

## Outlook

During recent years, Perstorp's favorable development has demonstrated the strength of the Group's strategic orientation. A series of actions have been taken to increase efficiency and enhance market positions. The long-term objective for the operating margin before depreciation is 20%.

During 2005, a weak US dollar is expected have negative effects on earnings and the operating margin, compared with the preceding year, since the contract hedge rates are at a lower level and the major portion of the anticipated flows is hedged.

During 2005, substantial investments will be made in increasing the production capacity for several products, at the same time as productivity programs will continue to be implemented. The outlook for the global economy during 2005 appears promising and in view of the actions taken, the Group is well equipped to satisfy an increase in demand.

## 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 specialty chemicals operations in South Korea. The price effect amounted to 6% and the currency effect was a negative 4%.

Comments on the trends for the two business sectors Specialty Chemicals and Materials Technology are presented in separate sections later in this report.

**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).

### Net sales by business sector

SEK m	Quarter 4		Quarter 1-4	
	2004	2003	2004	2003
Specialty Chemicals	1,392	1,072	5,544	4,724
Materials Technology	235	237	1,032	1,042
Other operations, incl. eliminations	-14	-16	-44	-25
<b>The Group</b>	<b>1,613</b>	<b>1,293</b>	<b>6,532</b>	<b>5,741</b>

### Operating earnings before depreciation, by business sector

SEK m	Quarter 4		Quarter 1-4	
	2004	2003	2004	2003
Specialty Chemicals	258	129	1 034	769
Materials Technology	15	14	85	81
Other operations	5	21	-18	72
<b>The Group</b>	<b>278</b>	<b>164</b>	<b>1 101</b>	<b>922</b>

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 a net inflow of USD, and which simultaneously led to a decrease in Other operating revenues, SEK 60 m (140), in which the effect of hedging contracts is reported.

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

**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**, 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** amounted to SEK 186 m (4).

**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 surplus value 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 carry-forwards in an amount of SEK 115 m.

Income statement, Group	Quarter 4		Quarter 1-4	
	2004	2003	2004	2003
SEK m				
Net sales	1,613	1,293	6,532	5,741
Cost of goods sold	-1,306	-1,130	-5,206	-4,713
<b>Gross earnings</b>	<b>307</b>	<b>163</b>	<b>1,326</b>	<b>1,028</b>
Sales, administration and R&D cost	-136	-135	-580	-648
Other operating revenues and expenses	1	53	-12	211
Amortization of intangible fixed assets	-60	-62	-241	-248
Result from participations in associated companies	0	4	1	0
<b>Operating earnings (EBIT)</b>	<b>112</b>	<b>23</b>	<b>494</b>	<b>343</b>
Financial revenues and expenses	-79	-85	-318	-342
Write-down/reversal of write-down of financial holdings (Pergo)	-	24	-9	3
Capital gain on divestment of Pergo shares	19	-	19	-
<b>Earnings before taxes</b>	<b>52</b>	<b>-38</b>	<b>186</b>	<b>4</b>
Taxes	-12	100	-108	29
Minority share in net profit	-3	3	-7	6
<b>Net earnings</b>	<b>37</b>	<b>65</b>	<b>71</b>	<b>39</b>
<b>Operating earnings before depreciation and amortization (EBITDA)</b>	<b>278</b>	<b>164</b>	<b>1,101</b>	<b>922</b>

Consolidated Balance Sheet, Group	Dec 31, 2004	Dec 31, 2003
SEK m		
Intangible fixed assets	3,795	4,120
Tangible fixed assets	2,929	3,138
Financial fixed assets	149	360
Inventories	751	680
Current operating receivables	1,313	1,064
Current financial receivables	0	1
Cash and Bank	35	30
<b>Total assets</b>	<b>8,972</b>	<b>9,393</b>
Total shareholders' equity	3,135	3,129
Minority interests	22	11
Provisions	856	944
Debenture loan	1,559	1,367
Other long-term liabilities	1,889	2,332
Short-term operating liabilities	1,330	1,135
Short-term financial liabilities	181	475
<b>Total shareholders' equity and liabilities</b>	<b>8,972</b>	<b>9,393</b>
<b>Working capital</b>	<b>746</b>	<b>623</b>
<b>Net debt</b>	<b>3,765</b>	<b>4,217</b>
<b>Capital employed</b>	<b>6,964</b>	<b>7,390</b>

## Financial position

**Capital employed** decreased by SEK 426 m during the year. Factors contributing to the reduction in capital employed 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, due to the strong sales trend and thus an increase in accounts receivable.

**The debt/equity ratio** on December 31 was 1.2, which was lower than at the beginning of the year (1.3).

**The equity/assets ratio** was 35% at year-end (year-end 2003: 33).

## Shareholders' equity

The Financial Accounting Standards Council's recommendation RR 29/IAS 19, Employee Benefits, has been applied since January 1, 2004. Actuarial calculations of defined-benefit pension plans in Group companies have been conducted. Introduction of RR 29/IAS 19 within the Group has resulted in pension obligations increasing by SEK 52 m, which led to a positive tax effect of SEK 18 m. The non-recurring effect, an expense of SEK 34 m, was reported directly against opening shareholders' equity in 2004. The negative effects derive mainly from pension plans

in the US. With regard to the ITP multi-employer pension plans that are funded by premiums paid to Alecta, it is not possible to estimate the size of investment assets in relation to obligations, because Alecta is currently unable to provide the information required for such reporting. Alecta's collective solvency rate at the end of 2004 was 128%.

## Cash flow

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 facility 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 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, Group

SEK m	Share capital	Restricted reserves	Unrestricted reserves	Profit/loss for the period	Total
Opening shareholders' equity, Jan. 1 2004 according to adopted balance sheet	300	12	2,778	39	3,129
Effect of changed accounting principles (RR 29/IAS 19)	-	-	-34	-	-34
<b>Opening shareholders' equity at Jan 1, 2004, adjust. for new accounting principles</b>	<b>300</b>	<b>12</b>	<b>2,744</b>	<b>39</b>	<b>3,095</b>
Translation difference:					
Change during the year	-	-	-89	-	-89
Less effect of currency hedging during the year	-	-	80	-	80
Tax effect of currency hedging during the year	-	-	-22	-	-22
Reversal of profit in preceding year	-	-	39	-39	0
Profit for the year	-	-	-	71	71
<b>Closing shareholders' equity, Dec 31, 2004</b>	<b>300</b>	<b>12</b>	<b>2,752</b>	<b>71</b>	<b>3,135</b>

### Consolidated Cash Flow Statement, Group

SEK m	Quarter 4		Quarter 1-4	
	2004	2003	2004	2003
<i>Operating activities</i>				
Operating earnings	112	23	494	343
Adjustment items:				
Depreciation/amortization	166	141	607	579
Other items	-20	-14	20	-46
Interest received	1	2	2	6
Interest paid	-38	-50	-132	-178
Paid income tax	1	7	-55	-57
<b>Cash flow from operating activities before change in working capital</b>	<b>222</b>	<b>109</b>	<b>936</b>	<b>647</b>
<i>Change in working capital</i>				
Increase (-) Decrease (+) in inventories	-107	-25	-88	-17
Increase (-) Decrease (+) in current receivables	64	55	-276	111
Increase (+) Decrease (-) in current liabilities	53	76	183	13
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>	<b>232</b>	<b>215</b>	<b>755</b>	<b>754</b>
<i>Investing activities</i>				
Acquisition of net assets of subsidiaries	-14	-18	-41	-71
Acquisition of tangible and intangible fixed assets	-57	-95	-201	-331
Sale of net assets of subsidiaries	-	-	-	20
Sale of financial fixed assets	19	-	134	-
Sale of tangible fixed assets	1	2	3	7
Change in financial receivables	5	1	-10	49
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>	<b>-46</b>	<b>-110</b>	<b>-115</b>	<b>-326</b>
<i>Financing activities</i>				
Amounts paid in by minority shareholders	-	-	7	12
Change in credit utilization	-283	-183	-715	-541
Realized currency gain from hedging instruments	85	77	75	107
<b>CASH FLOW FROM FINANCIAL ACTIVITIES</b>	<b>-198</b>	<b>-106</b>	<b>-633</b>	<b>-422</b>
<b>CHANGE IN LIQUID FUNDS, INCL. SHORT-TERM INVESTMENTS</b>	<b>-12</b>	<b>-1</b>	<b>7</b>	<b>6</b>
<b>Liquid assets of January 1, incl. short-term investments</b>	<b>49</b>	<b>31</b>	<b>30</b>	<b>27</b>
Translation difference in liquid assets	-2	0	-2	-3
<b>LIQUID FUNDS, END OF PERIOD</b>	<b>35</b>	<b>30</b>	<b>35</b>	<b>30</b>

## Collateral pledged

Property mortgages of SEK 565 m and chattel mortgages of SEK 1,135 m have been pledged as collateral for the Group's bank loans. Shares in the Group's major companies have also been pledged.

## Contingent liabilities

Third-party guarantees amounted to SEK 14 m at year-end.

## Developments during the fourth quarter

**Net sales** during the fourth quarter were considerably higher than in the year-earlier period and amounted to SEK 1,613 m (1,293). The 25% increase was attributable to a continued favorable volume trend and a substantially higher price level, driven by the trend in raw-material prices combined with balanced demand. Sales during the fourth quarter of 2003 were adversely affected by a scheduled major maintenance stoppage within Oxo operations.

Compared with the third quarter, sales were 2% lower. Volumes are also normally stronger during the third quarter than during the fourth quarter.

**Operating earnings** before depreciation and write-downs for the fourth quarter amounted to SEK 278 m. This was higher than both the third quarter (260) and the year-earlier period (164). The rise compared with the year-earlier period was mainly attributable to healthy volume growth, an increase in internal efficiency within production and other functions and high capacity utilization during 2004. These factors offset the adverse impact of the weaker USD, including the fact that the Group's hedging measures were substantially more beneficial during the fourth quarter of 2003 than at the end of 2004.

**Net financial items** for the fourth quarter, excluding effects related to the Pergo holding, amounted to an expense of SEK 79 m, compared with an expense of SEK 82 m for the immediately preceding quarter.



# Specialty Chemicals business sector

## Key figures

SEK m	Quarter 4		Quarter 1-4	
	2004	2003	2004	2003
Net sales	1,392	1,072	5,544	4,724
Operating earnings before depreciation <sup>*)</sup>	258	129	1,034	769
% of net sales	19	12	19	16
Investments <sup>**)</sup>	41	73	152	330
Working capital	624	484	624	484

<sup>\*)</sup> Rationalization costs in an amount of SEK 42 m were charged against Specialty Chemicals' earnings for Q1 2004.

<sup>\*\*)</sup> Investments during Q2 2003 included an amount of SEK 68 m for the jointly owned Korean company Hansol.

Specialty Chemicals focuses on specialty chemicals for industrial customers, primarily in the chemical, paint and plastic-processing industries, but also in the construction, automotive and engineering industries. The operations are based on comprehensive knowledge of aldehyde chemistry in particular, as well as related areas, and in-depth expertise in specific process technologies and application areas.

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

The business sector's volumes increased sharply, compared with the preceding year. Volumes strengthened mainly for basic polyols and specialty products, but also for formalin plants and catalysts, as well as other products.

The price of crude oil continued to rise throughout virtually the entire year, resulting in sharply higher prices for many strategic raw materials. Given the strong level of demand, Specialty Chemicals was able, with a slight time lag, to offset the increased raw-material costs through price increases for the majority of its own products.

Additional rationalization measures during the year resulted in far-reaching integration of the specialty chemicals operations in Perstorp and Stenungsund.

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

Net sales amounted to SEK 5,544 m (4,724), an increase of 17% compared with the preceding year. Exchange-rate effects resulting from a weaker USD had a negative impact of 4% on sales. Volumes increased by 14%, while selling prices rose by 7%.

Operating earnings before depreciation and write-downs rose to SEK 1,034 m (769), and the operating margin before depreciation thereby improved to 19% (16). Earnings for 2004 included nonrecurring costs of SEK 42 m related to the rationalization program. The improved operating margin was attributable to high capacity utilization and reduced expenses following the implementation of rationalization measures.

Demand for *basic polyols* remained strong, and the new operations established by Perstorp in 2003 through joint ventures in South Korea and Japan developed favorably and contributed to a strong position in the growing Asian market.

Sales of *specialty polyols* continued to increase sharply, as a result of the strong economic conditions combined with growing interest in environmentally compatible products.

A general increase in demand for board and various chemical products stimulated investments in new capacity for formalin

production, which enhanced Perstorp's sales of *formalin plants*. As a result, orders were booked for three new formalin plants for customers in China, Saudi Arabia and France, in addition to the rebuilding of three plants to customers in Europe and South America. Demand for *formalin catalysts* was particularly strong as a result of increased production at many formalin plants owned by Perstorp customers in all parts of the world.

Perstorp's *oxo alcohols* and *plasticizers* are sold mainly in Europe, where they noted strong demand during the year despite the region's generally weaker economic growth, compared with Asia and the US. The margins on oxo alcohols were down, however, due to rising prices for the raw material propylene and certain overcapacity in the market.

Demand was strong for the business sector's *organic acids* and capacity utilization was high. Particularly strong demand was noted for Perstorp's agricultural chemicals, such as formic acid and propionic acid, mainly as a result of increased requirements for healthier animal husbandry within the EU and a pending ban on antibiotics used as additives in animal feed.

In view of the fact that the market for the business sector's acids is expected to remain strong during the next few years, a decision has been made to build new plants for the production of 2-EHA (hexanoic acid), formic acid and propionic acid.

In Stenungsund, capacity for the production of hexanoic acid will be increased from 50,000 to 80,000 tons per year, while capacity for the production of propionic acid will be increased to 70,000 tons per year.

Capacity for formic acid production in Perstorp will rise from 25,000 to 40,000 tons per year, at the same time as the Neo plant will be expanded, which among other consequences will increase capacity by 8,000 tons per year. In Perstorp, the capacity of the biofuel-based steam boiler will also be expanded.

In both Perstorp and Toledo, USA, capacity for the production of TMP and specialty polyols will be increased.

The cost of these expansionary projects, which are being implemented as of 2004/2005 and are scheduled for completion in 2005/2006, has been estimated at SEK 600 m.

Perstorp AB and Silver Lining Finance SA, a Luxembourg based privately owned investment company, have made a preliminary agreement where Perstorp acquires Franklin Holding BV with subsidiaries. Franklin, with base in the Netherlands, is active in feed additives based on organic acids. Franklin is a medium sized company with a wide distribution network and its strength in the specialty segments with 40 own employees. Operations consist mainly of feed additives based on organic acids.

# Materials Technology business sector

## Key figures

SEK m	Quarter 4		Quarter 1-4	
	2004	2003	2004	2003
Net sales	235	237	1,032	1,042
Operating earnings before depreciation	15	14	85	81
% of net sales	6	6	8	8
Investments	10	12	39	51
Working capital	165	157	165	157

The Materials Technology business sector focuses on advanced materials for industrial customers, with particular emphasis on fiber-reinforced polymers for demanding applications mainly in the automotive, aerospace, aviation and construction industries. The materials are characterized by a combination of low weight and high performance, and they are being used increasingly to replace metals in various application areas.

Demand for the business sector's products during the year was favorable in several markets.

Net sales amounted to SEK 1,032 m, which was 1% lower than sales during the preceding year (1,042). Negative effects of the weaker US dollar on sales amounted to 4%, which were offset by slightly higher volumes and prices.

Operating earnings before depreciation amounted to SEK 85 m (81), corresponding to a margin of 8% (8). Slightly higher volumes were offset by negative exchange-rate effects. Earnings in both 2004 and 2003 were charged with costs for rationalization measures in the business sector's Compounds operations.

Demand for *Moldable Composites* products for the electrical and electronic industries was favorable, while overall demand from the automotive industry was unchanged during the year.

The development and launch of new thermosetting materi-

als continued. The Belgian subsidiary Vyncolit received its first order for the new material Vyntec™, a carbon-fiber-reinforced phenolic composite for demanding applications, primarily in vehicles, but also in components for the aerospace, aviation and other industries.

Within *Advanced Composites*, order bookings for products such as carbon fiber-reinforced composite materials for the aerospace and aviation industries strengthened further during the year.

The US subsidiary YLA noted great success in the development of new products for high-temperature systems for the aerospace and aviation industries. The company is striving to further strengthen its expertise in this area and is seeking complementary technologies and company acquisitions.

*Compounds* enjoyed favorable demand in both Europe and the US. Market prices remained weak, however, due to fierce competition, and the business unit was unable to offset the rising raw-material prices.

Successful tests were conducted on the anti-bacterial aminoplastic Polygiene® both in Europe and China, and the first orders for this material were booked.

The business sector continued its project aimed at establishing *Moldable Composites* products in China, and a sales office was established in Hong Kong during the year.



## Employees

The average number of Group employees during the year was 2,091 (2,184), distributed geographically as follows: Sweden 51%, other EU countries 21%, the US 15% and Asia 13%.

The actual number of employees at year-end was 2,034 (2,185). The decrease compared with the preceding year was primarily a consequence of the rationalization programs that have been implemented. The number of full-time positions within Perstorp Specialty Chemicals in particular and in general administration and service declined by about 150. In conjunction with an organizational change in Engineering Materials, the workforce was reduced by about 10 employees.

## Significant events after year-end

A decision was made to build a new plant in Stenungsund for the production of propionic acid. The plant will have a capacity of 70,000 tons annually and is expected to begin operations in 2006.

## Change in accounting principles during the year

During 2004, Sydsvenska Kemi applied the Swedish Financial Accounting Standards Council's recommendations that had become applicable up to January 1, 2004. 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/IAS 19, the new valuation of pension obligations led to an increase in liabilities by SEK 52 m which, after a deduction of SEK 18 m for taxes, directly impacted shareholders' equity. The application of RR 29/IAS 19 also means that the requirements for reporting pension provisions and costs have increased, which will affect the disclosures in the Annual Report for 2004.

## Future changes in accounting principles – IFRS adaptation

In compliance with EU requirements for publicly listed companies, Sydsvenska Kemi will adopt 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, which have gradually approached the international principles, 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 following new principles that took effect on 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 are applied

within the Group companies and to prepare the companies for the changes required within the framework of IFRS. After a review of the companies' and Group's financial accounting and reporting, conducted in consultation with financial managers and auditors, the following conclusions have been drawn:

- 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 Restatements of the Income Statement and Balance Sheet for 2004 are reported in 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.

- With the introduction of IFRS 3, goodwill that arose before 2004 can be redistributed to other intangible assets, such as patents, trademarks, customer relations, etc. No such adjustment of goodwill 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 will be applied as of January 1, 2005, whereby reporting 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. Certain improvements need to be made in the subsidiaries' and the Group's documentation of the reporting and follow-up of currency hedging activities, as specified in IAS 39, Financial Instruments.

- 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 assets will be valued at acquisition cost less depreciation.

## Dividend

The Board of Directors proposes that no dividend be paid for the fiscal year.

## Annual Report for 2004 and interim reports in 2005

The Annual Report will be published in Swedish and English in mid-March 2005. It will be available on the Group's [www.sydsvenskakemi.se](http://www.sydsvenskakemi.se) website and can also be ordered from the Company.

The preliminary dates for the publication of interim reports during 2005 are as follows: May 10, July 25 and October 28.

Perstorp, February 18, 2005

Lennart Holm  
President and Chief Executive Officer

*The report has not been examined by Sydsvenska Kemi's auditors.*

## Key figures

### The Group

SEK m unless otherwise stated	Quarter 4		Quarter 1-4	
	2004	2003	2004	2003
Net sales	1,613	1,293	6,532	5 741
Operating earnings before depreciation and write-downs	278	164	1 101	922
Operating earnings	112	23	494	343
Operating margin before depreciation, %	17.2	12.7	16.9	16.1
Operating margin, %	6.9	1.8	7.6	6.0
Investments	56	94	201	410
of which acquisitions	-	-	-	68
excl. acquisitions	56	94	201	342
Depreciation/amortization <sup>1)</sup>	166	141	607	579
Working capital, end of period	746	623	746	623
Working capital, average	867	733	857	855
Turnover rate, working capital	7.4	7.1	7.6	6.7
Cash flow from continuing operations	232	215	755	754
Cash flow as % of net sales	14.4	16.6	11.6	13.1
Capital employed, end of period	6,964	7,390	6,964	7,390
Capital employed, average for the period	7,166	7,455	7,353	7,674
Return on capital employed, %	6.4	1.3	6.8	4.5
Net debt, end of period	3,765	4,217	3,765	4,217
Debt/equity ratio	1.2	1.3	1.2	1.3
Equity/assets ratio	35	33	35	33
Return on shareholders' equity, %	4.7	8.4	2.3	1.3
Number of full-time employees, end of period	2,034	2,185	2,034	2,185

<sup>1)</sup> Write-downs of SEK 22 m were posted during the fourth quarter of 2004 and of SEK 4 m during the fourth quarter of 2003.

# Information by quarter

## Consolidated income statement, Group

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

## Net sales by business sector

SEK m	2003				2004			
	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Quarter 1	Quarter 2	Quarter 3	Quarter 4
Specialty Chemicals	1,240	1,220	1,192	1,072	1,336	1,405	1,411	1,392
Materials Technology	295	276	234	237	278	269	250	235
Other operations incl. eliminations	-3	-5	-1	-16	-9	-9	-12	-14
<b>The Group</b>	<b>1,532</b>	<b>1,491</b>	<b>1,425</b>	<b>1,293</b>	<b>1,605</b>	<b>1,665</b>	<b>1,649</b>	<b>1,613</b>

## Operating earnings before depreciation and amortization, by business sector

SEK m	2003				2004			
	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Quarter 1	Quarter 2	Quarter 3	Quarter 4
Specialty Chemicals <sup>1)</sup>	219	230	191	129	244	292	240	258
Materials Technology	36	25	6	14	32	31	7	15
Other operations <sup>1)</sup>	15	6	30	21	-42	6	13	5
<b>The Group</b>	<b>270</b>	<b>261</b>	<b>227</b>	<b>164</b>	<b>234</b>	<b>329</b>	<b>260</b>	<b>278</b>

<sup>1)</sup> During Q1 2004, nonrecurring costs of SEK 42 m for the rationalization program were charged against Specialty Chemicals' earnings and of SEK 25 m against Other operations.



**Sydsvenska Kemi AB (publ), SE-284 80 Perstorp**

Phone +46 435 380 00 Fax +46 435 381 00

e-mail [perstorp@perstorp.com](mailto:perstorp@perstorp.com) Internet [www.sydsvenskakemi.se](http://www.sydsvenskakemi.se)

**Perstorp AB, SE-284 80 Perstorp**

Phone +46 435 380 00 Fax +46 435 381 00

e-mail [perstorp@perstorp.com](mailto:perstorp@perstorp.com) Internet [www.perstorp.com](http://www.perstorp.com)