

# **SYSTEM SEPARATION**

## **ANNUAL REPORT 2005**

September 1, 2004 – December 31, 2005

**SYSTEMSEPARATION SWEDEN HOLDING AB (PUBL)**

Corp. Reg. no.: 556670-2584

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# SYSTEMSEPARATION SWEDEN HOLDING AB

## ANNUAL GENERAL MEETING

The Annual General Meeting of the company will be held on Thursday June 15, 2006 at 5.30 pm at Spårvagnshallarnas Conference Center, Birger Jarlsgatan 57 A, Stockholm, Sweden.

### Notification and participation

To be entitled to participate in the business of a General Meeting, shareholders must be included in the share register maintained by VPC AB on June 9, 2006 and notify the Company of their intention to attend the Meeting not later than 15:00 on Friday June 9, 2006, under the address SystemSeparation Sweden Holding AB, Annual General Meeting, Kungsängsvägen 10, SE-753 23 Uppsala, or by fax to +46-18-12 00 72 or by e-mail to [info@systemseparation.se](mailto:info@systemseparation.se). Notifications must include the shareholder's name, personal identification number or corporate registration number, address and telephone number, as well as the number of accompanying assistants (not more than two).

Trustees and representatives of legal entities are asked to present documents of authority prior to the Annual General Meeting.

To be entitled to participate in the business of a General Meeting, shareholders whose shares are registered with a trustee through a securities institution or another broker must have these shares temporarily re-registered in their own name in the share register maintained by VPC. Such registration, known as voting rights registration, must be completed by Friday June 9, 2006, which requires that shareholders inform their trustees of this in ample time prior to this date.

### Dividend

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

## PUBLICATION DATES FOR FINANCIAL INFORMATION

SystemSeparation plans to publish financial information for the 2006 fiscal year as follows:

Interim report January – March	May 11, 2006
Interim report January – June	August 10, 2006
Interim report January – September	October 31, 2006
Year-end report for 2006	February 2007
Annual report for 2006	April 2007

SystemSeparation's financial information is available on [www.systemseparation.com](http://www.systemseparation.com).

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## - THE YEAR IN BRIEF -

- Sales of oil additives rose to SEK 20.1 M from SEK 4.5 M in the preceding financial statements
- Consolidated net sales for the period totaled SEK 33.5 M.
- The consolidated loss after tax was SEK 5.5 M.
- Consolidated cash and cash equivalents at the close of the period amounted to SEK 22.9 M.
- SystemSeparation was listed on the AktieTorget exchange in December 2004.
- In connection with the listing, a diversification of ownership was conducted and a new share issue was made that provided the company with SEK 2.3 M after issue expenses.
- SystemSeparation acquired production facilities in Skebobruk in December 2004.
- The previous subsidiary Viatech Systems B was distributed to shareholders and listed on the AktieTorget exchange.
- As a result of a private placement to Vostok Nafta Ltd in April 2005, the company received SEK 14.6 M after issue expenses.
- In December 2005, a rights issue was made to existing shareholders, which provided the company with SEK 23.3 M after issue expenses.

## - PRESIDENT'S MESSAGE -

2005 was a highly significant year for SystemSeparation. The listing of the company on the AktieTorget exchange during December 2004 created the financial conditions to commence the establishment of SystemSeparation's products on the global market. We have positioned ourselves in a number of markets in the oil additives area. We can confirm that our products offer considerable savings for power plants in the form of higher energy utilization, lower maintenance costs and a reduction in environmental impact. Sales to our primary markets – Russia, China and the Middle East – are rising and we will see this growth continuing in the years ahead. During 2005, investments were made in market resources so as to develop our main markets, and these investments are now beginning to show results in the form of a higher number of test runs. Test runs and technical support are prerequisites for establishing long-term deliveries. We are now well prepared for continuing expansion. In addition, discussions and negotiations are in progress with several global distributors of oil additive products as part of efforts to achieve market penetration for our products.

Continuing high oil prices are boosting market growth worldwide for oil additive products. Power plants are seeking to reduce costs by utilizing lower quality oil for combustion and achieve high efficiency in the combustion process, which requires a greater use of oil additive products. In turn, this is leading to greater interest in our innovative products. Overall, these trends offer excellent conditions for sales growth in the years ahead.

In 2005, to ensure our expansion, we conducted a private placement of shares to Vostok Nafta and a rights issue. Combined, these moves contributed more than SEK 40.2 M to the company after issue expenses. These share issues have considerably strengthened the company's balance sheet, and liquidity is very healthy, providing the financial platform for systematically developing operations. Efforts in 2006 will focus on rais-

ing volume and improving margins. We will continue to focus on markets in Russia, China and the Middle East. We have strengthened the organization in these markets in a bid to raise market penetration. To accelerate the development of market positions – along with the company's critical mass – we are considering the acquisition of supplementary operations. Negotiations are currently in progress concerning the possible acquisition of Bycosin, an industry colleague. These negotiations are expected to be completed during the second quarter of 2006.

During 2005, we expanded our technology and development organization. We currently have the technology and development resources required to provide effective technological support for current and future customers. Our development department enhanced production and raw material supplies in 2005, which will steadily lead to higher margins in 2006.

2006 will be an exciting year. We have innovative products that provide unique potential for our current and potential customers. As a relatively new player in the market, we are intensively monitored and watched by the market's major players, which offers both advantages and disadvantages. I am convinced that we will be able to report growth on par with our target for volume growth of 50%.

I would like to express my sincere thanks to shareholders for your support and confidence during the past year.

**Peter Henderson**  
President and CEO

## - SYSTEMSEPARATION'S HISTORY -

SystemSeparation Sweden AB was established in February 2001 by Dr Gunnar Ström. In 1986, Umeå University granted a doctorate to Gunnar Ström in medical science in the special areas of two-phase separation. Experience from this period proved possible to use later in chemical processes to separate oil and water. Using expertise from these processes, Gunnar Ström established Pegasus Separation AB in 1988. Cooperation and a joint venture commenced in 1992 between this company and Alfa-Laval, in which Gunnar Ström acted as research manager. However, during 2000, Alfa-Laval decided to discontinue R&D into chemical separation, which then continued within SystemSeparation Sweden AB, a company established to work further on the exploitation of chemical separation technology. In 2002, development also led to an oil cleaning system for the treatment of industrial roller oil. The system was tested with very positive results, leading to the setting up of Viatech Systems AB in 2004. During 2004, SystemSeparation Sweden Holding AB was also established as the legal Parent Company of SystemSeparation Sweden AB and Viatech Systems AB. SystemSeparation Sweden Holding AB was listed on the AktieTorget exchange on December 10, 2004.

The production rights for Nitor AB's products in Skebobruk were acquired in December 2004.

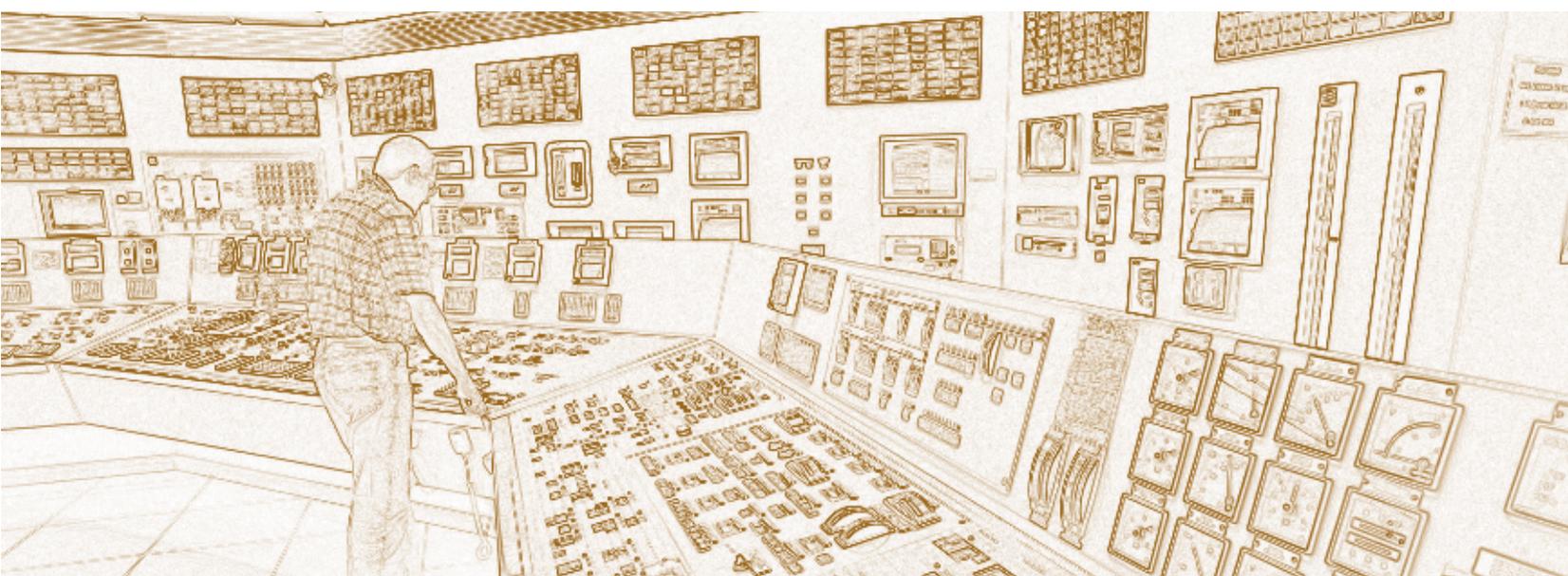
In March 2005, the shares in Viatech System AB were distributed to shareholders in SystemSeparation Sweden Holding AB. The distribution was conducted in

accordance with Lex ASEA rule, which meant that distribution was conducted tax-free for both SystemSeparation Sweden Holding AB and its shareholders. The primary factors underlying the Board's distribution decision were that Viatech Systems AB had only limited synergism with its sister company SystemSeparation Sweden AB; that the distribution facilitated a correct valuation of both SystemSeparation and Viatech Systems; and that Viatech Systems AB was a spin-off with good future potential.

At the end of March 2005, a private share placement was made to Vostok Nafta Investments Ltd. The new share issue provided the company with SEK 14.8 M after issue expenses and was conducted at a share price of SEK 10.5.

During the fourth quarter of 2005, an extraordinary meeting of shareholders approved a rights issue that provided the company with a total of SEK 23.3 M after issue expenses. The share issue was conducted at a share price of SEK 5.

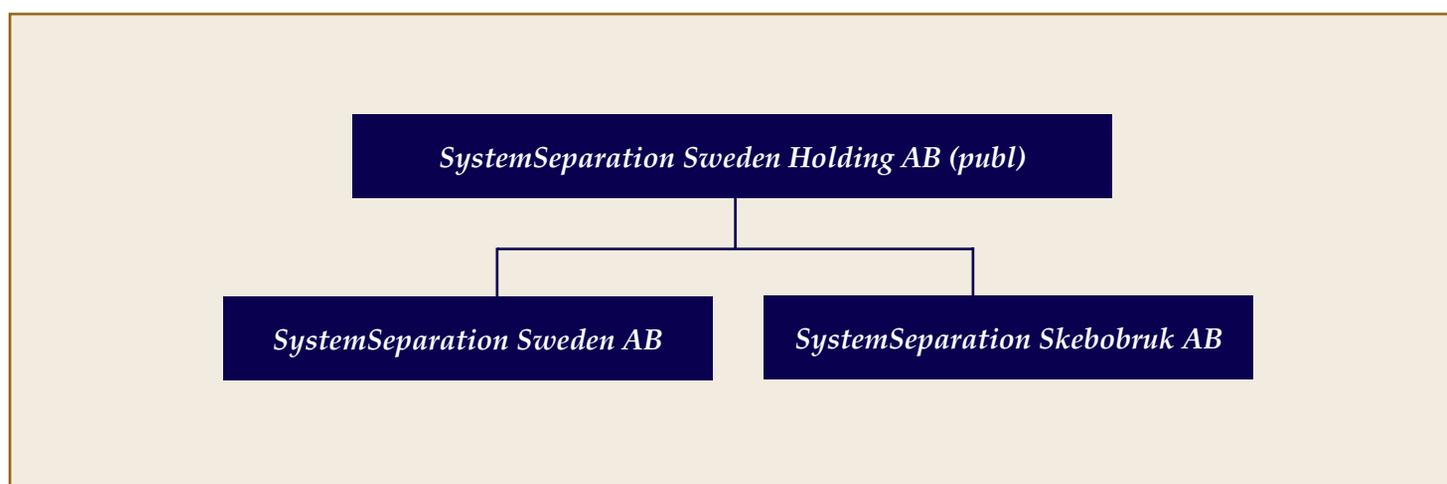
The Group currently consists of SystemSeparation Holdings AB and the two wholly owned subsidiaries SystemSeparation Sweden AB and SystemSeparation Skebobruk AB. All sales and R&D operations are conducted in the two subsidiaries.



## - LEGAL STRUCTURE -

SystemSeparation Sweden Holdings AB (publ), corporate registration number 556670-2584, is the Parent Company of the subsidiary SystemSeparation Sweden AB, corporate registration number 5556446-4914 and the subsidiary SystemSeparation Skebobruk AB, corporate registration number 55667-0948. SystemSeparation Sweden Holding AB is the sole owner of both subsidiaries. All sales, product ownership and product development are conducted in the subsidiaries. The shares in

the previously owned subsidiary Viatech Systems AB were distributed during March 2005 to the shareholders in SystemSeparation Sweden Holding AB. The distribution was conducted in accordance with Lex ASEA rules, which meant that the distribution was implemented without any taxation consequences for SystemSeparation Sweden Holding AB or its shareholders.



## - GROUP HUMAN RESOURCES -

The number of employees in the SystemSeparation Group totaled 17 as of December 31, 2005, compared with three employees on the same date a year earlier. The number of female employees totals 18 percent.

The company plans to work consistently on the recruitment of the requisite expertise for its future development. To date, the company has been successful in recruiting skilled employees.

Longer term, all departments will need to be strengthened in pace with the company's substantial expansion. By having well-conceived processes for employee development and the working environment, the company is expected to continue to be able to attract skilled employees.

### EMPLOYEES PER FUNCTION IN THE GROUP, DECEMBER 31, 2005

Executive management	1
Administration	3
Research and Development	2
Technical support	2
Market	4
<u>Production</u>	<u>5</u>
<b>Total</b>	<b>17</b>

### DISTRIBUTION OF THE GROUP'S WORKFORCE BY AGE

18-29 years	4
30-49 years	10
50-65 years	3

### WORKFORCE DISTRIBUTION BY GENDER

<b>Women</b>	<b>Men</b>
3	14

## - SUBSIDIARIES – SYSTEMSEPARATION SWEDEN AB -

### Group structure

SystemSeparation Sweden AB is a wholly owned subsidiary of SystemSeparation Sweden Holding AB (refer to corporate structure above)

### Business concept

The company's business concept is to develop proprietary patented products in the area of combustion technology, which are designed to reduce environmental impact and enhance efficiency in oil-based power production.

### Business model

The company develops and markets oil additive products for power production customers on the global market via resellers and its own sales organization. The company seeks to quickly establish a reference facility for test assessments in each country/region, thereby creating good potential for prompt sales breakthroughs in new markets. In markets in which the company has made a breakthrough, market activities will be intensified to broaden sales. The company achieves this by establishing sales offices, commencing cooperation with strategically important local players or incorporating sales organizations in the particular markets.

Via SystemSeparation Skebobruk AB – the wholly owned subsidiary of SystemSeparation Sweden Holding AB – the company has its own manufacturing unit for oil additive products. In addition, the company has agreements with additional suppliers of oil additive products.

### Goals

Using its innovative products and technical solutions, the company's goal is to be a world-leading supplier of oil additive products that provide higher energy output, reduced emissions, and higher efficiency in oil-fired gas turbines, steam turbines and diesel power plants.

### Vision

The company's vision is to be at the leading edge of product development in purpose-designed, environmentally friendly and high-performance oil additive products and to be a leading player on the global market for oil additives by 2010.

### Business area

The company sells its proprietarily developed oil additive products to industries pursuing extensive operations in the area of oil-fired gas turbines, steam turbines and diesel power plants. The primary markets are Russia, China and Pakistan.

### Products

The company's oil additive products may be used for all power-generation based on oil-fired sources. Examples of oil-fired sources include gas turbines, steam turbines and diesel power plants. The additives have a range of positive features that may be summarized as follows:

- Higher combustion efficiency
- Increased energy and power output
- Less corrosion
- Reduced maintenance costs for power facilities
- Reduced emissions of environmentally hazardous substances
- Minimal damage by environmentally hazardous substances
- Fewer operational disturbances for power facilities

Experience shows that higher combustion efficiency promptly makes the investment profitable for customers. The additive may be mixed and customized, irrespective of oil quality, to attain the desired output for a specific power plant. The reduction in emissions means that the power plants may sell unutilized emission rights on the international market.

Oil additive products may be categorized as:

#### Power additives

- Anti-corrosive additives
- Combustion catalytic additives
- Dispersant additives

#### Separation additives

- Additives for particle separation
- Additives for water/oil separation

### Customers

SystemSeparation Sweden AB sells oil additive products to customers involved in extensive power production in manufacturing, oil and power industries using oil-fired gas turbines, steam turbines or diesel power plants. The company's customers are currently active in the following countries and regions:

Russia  
Baltic states  
China  
Pakistan  
Sweden

## - SUBSIDIARIES – SYSTEMSEPARATION SWEDEN AB -

SystemSeparation Sweden AB's sales to customers located in Sweden account for 10 percent of global sales. Sales to foreign customers thus total 90 percent. In terms of sales, the major markets are China, Russia and Pakistan.

Since the company's products are unique, extensive test runs are required initially to verify the claimed improvements in results. This sales process requires 6 to 18 months. Subsequently, customers have proved to be very loyal, which is because customer value – in the form of superior overall economy – exceeds the cost of the company's products. Customer contacts are developed from Sweden by means of local agents. Since many of our markets previously lacked any need of energy-saving technologies, high oil prices plus trading in emission rights are creating a major incentive to improve efficiency and reduce environmentally hazardous emissions.

### **Product development**

SystemSeparation Sweden AB conducts continual R&D work in project form through the company's R&D department. This department currently employs two people and is also responsible for the company's cost-reduction projects for products. Product development and initial testing of new additives are performed in-house. As of the first quarter of 2006, SystemSeparation Skebobruk AB's manufacturing unit will conduct test production. Product development is conducted in cooperation with institutes of technology, oil institutions and strategically selected global companies.

Among other activities, the company pursues product development of combustion additives for coal-fired power plants.

### **Production/Suppliers**

Production of the company's proprietary oil additives is conducted primarily by a contracted sub-supplier and through SystemSeparation Holding AB's wholly owned subsidiary SystemSeparation Skebobruk AB. The company is studying the possibility of establishing or acquiring supplementary manufacturing capacity. For more information regarding production/suppliers, refer to the "Subsidiary – SystemSeparation Skebobruk AB" section.

### **Patents and brands**

During 2002, the company applied for a patent for the formula, method and manufacturing process for the production of Protea M-29. Protea-M29 is the first

product of the latest generation of oil additives and has unique combustion technology properties. During 2005, the company applied for a patent to cover parts of the world that the company deems necessary for satisfactory patent protection. The company's strategy is to steadily expand the patent protection of existing products and patent protect all newly developed products whenever possible.

### **Competitors**

The presentation below describes the major competitors.

#### Baker Petrolite U.S.

Baker Petrolite is the world leader in chemical products and innovative technology. The company is part of a larger group with a total of some 24,500 employees. Baker Petrolite is active in ten countries.

#### Bycosin AB, Sweden

This was previously a subsidiary of Octel. The company produces and sells oil additive products from its headquarters in Karlstad, Sweden.

#### Crompton, US

Crompton is one of the largest chemical companies in the US. The company recently merged with Great Lakes Chemical. The new company's name is Chemtura. The company has about 7,300 employees and is active in 20 countries.

#### Octel, U.S.

Octel, a manufacturer and supplier of oil additive products, has some 820 employees and operates in 21 countries.

#### GE Betz, US

GE Betz is part of the GE Water & Process Technologies and is a manufacturer and global supplier of water treatment and oil additive products.

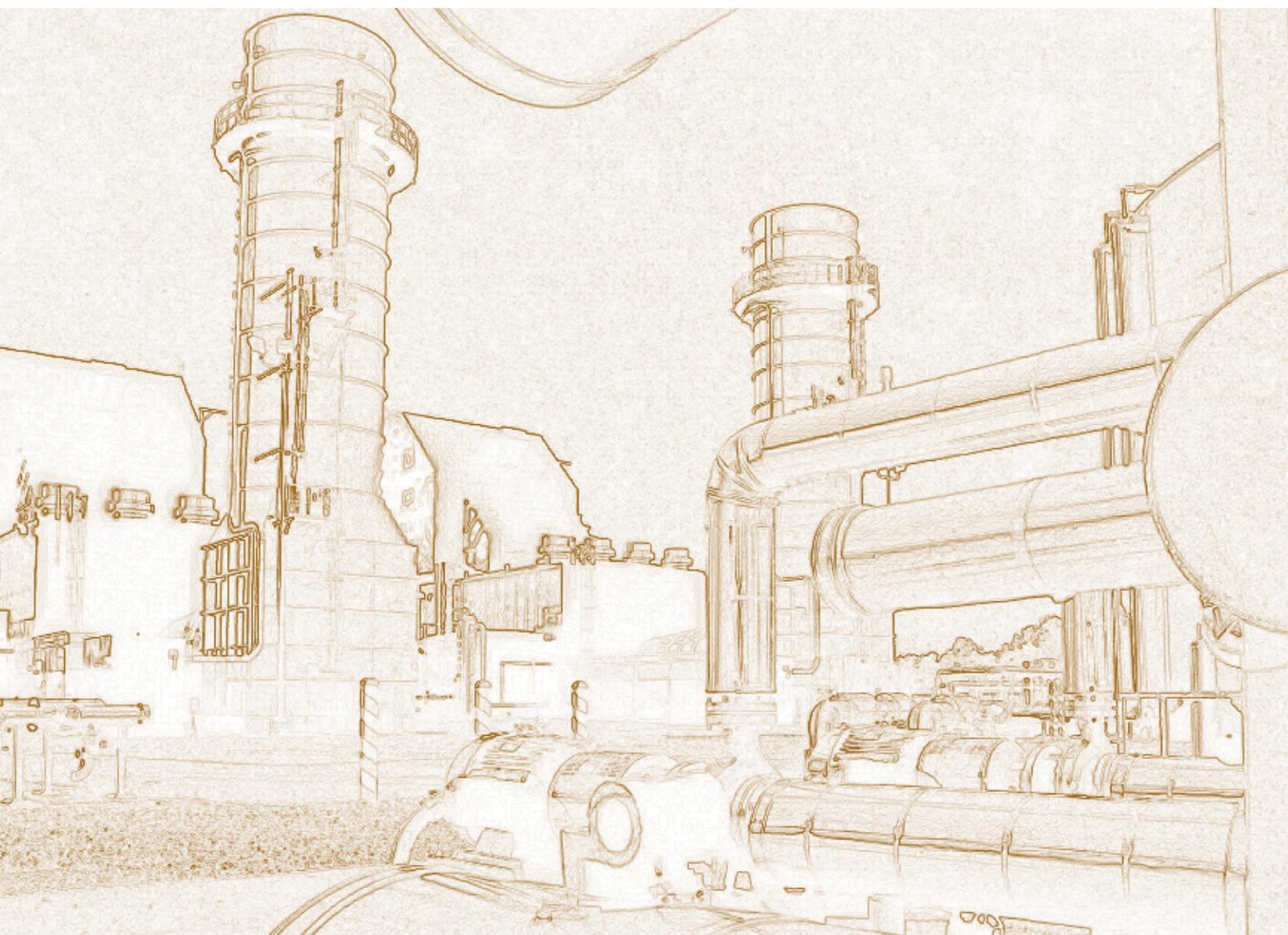
#### Pentol, Switzerland

Pentol S.A. has been active since 1969 and specializes in the production of equipment and chemical products for the power and oil industry. It also manufactures low-cost and technologically more basic products such as slurry products.

Certain competitors have shown an interest in marketing and selling the company's oil additive products under their own brand. Discussions are in progress with a number of these competitors with the objective of ap-

## - SUBSIDIARIES – SYSTEMSEPARATION SWEDEN AB -

pointing one or more of them as resellers of the company's oil additive products.



## INTERVIEW WITH BERNT GUSTAFSSON, COMBUSTION EXPERT AT SYSTEMSEPARATION SWEDEN AB

### Optimized combustion thanks to the M29 anticorrosion additive

“There is no doubt that SystemSeparation has an excellent product,” says Bernt Gustafsson, who, with 28 years’ experiences of the power plant industry behind him, has tested a range of additives. It was only when he encountered SystemSeparation’s M29 anticorrosion additive that he saw something that appealed to him.

Already during the second half of the 1970s, those in charge at the Karskär Energi thermal power plant in Gävle, Sweden, saw the sense in using an additive for burning heavy oils to protect the boiler from corrosion. Over the years, they had tested a number of suppliers, but in autumn 2004, they decided to identify which alternative was best in terms of effectiveness and price. Immediately afterwards, two suppliers were invited for a trial period. There were SystemSeparation and a competitor.

Initially, Karskär Energy conducted a reference test without any additives. Then it used the competitor’s additive for a period, and subsequently SystemSeparation

“Soon we saw a significant improvement in combustion using SystemSeparation’s additive. We discovered something that even SystemSeparation did not quite understand,” says Bernt, who was then the plant’s maintenance manager, and one of those who had initiated the tests.

#### The “Popcorn” effect completes combustion

The word “popcorn” was coined as a name for what happened. It transpired that when the magnesium hydroxide in the M29 anticorrosion additive reaches the flame it explodes and blows the oil drops apart, making combustion more complete.

From SystemSeparation’s founder Gunnar Ström, Bernt Gustafsson received a recommended dosage of M29 based on the vanadium content of the oil.

“What I realized was that this recommended dosage entailed a definite improvement. But I was not satisfied and raised the dosage. This led to an even greater improvement in combustion. In turn, the air surplus in combustion can be reduced, cutting the content of environmentally hazardous NOx. This makes the ad-

ditive environmentally positive, at the same time as it also boosts the financial outcome for the user,” explains Bernt.

When Karskär Energi evaluated price and performance after the test period, SystemSeparation was the better alternative. M 29 has been used at the plant since April 2004.

#### The combustion optimization method is spreading worldwide

Over the years, attempts to protect boilers against corrosion have been the primary reason for plant owners worldwide using additives. The new discovery that M29 generates optimum combustion by requiring a smaller amount of oil is now spreading worldwide. An increasing number of plant owners are discovering that considerable savings are available.

“In Russia, for example, customers are talking a lot more about combustion improvement. Just a few years ago, people focused solely on corrosion,” says Bernt.

The big bonus in the context is the decline in environmental impact offered by M29.

#### Could not resist joining SystemSeparation

After 28 years at Karskär Energi, Bernt decided to leave the plant. A life as a pensioner with time to develop his interests was approaching. However, he soon got an offer he couldn’t refuse. SystemSeparation wanted him as a technical consultant.

“And as a user of M29 I had seen its value and had become so interested in the product that I could not resist joining SystemSeparation.”

So as of the end of 2005, Bernt has supplemented SystemSeparation’s expertise base. Since the focus to date has been on chemical process – the actual invention

## - SUBSIDIARIES – SYSTEMSEPARATION SWEDEN AB -

– Bernt’s contribution will primarily be his lengthy experience in the industry, which boosts SystemSeparation’s credibility when the company visits facilities worldwide. In a nutshell, Bernt talks the same language as plant owners.

### **Assist in optimizing facilities**

For plant owners, Bert Gustafsson can contribute by looking at power plant from a different perspective.

“Our task is to sell the product and then I can assist in optimizing the facility. The additive helps the boiler to burn more efficiently. Then the potential emerges to adjust certain parameters to gain even greater customer value from the additive.”

Bert is convinced that SystemSeparation’s prospects are bright. In view of his insight into the industry and the fact that he has worked as a purchaser, he is familiar with the long process that a power plant undergoes before it is finalized. This, he believes, is why it can take time before SystemSeparation experiences its guaranteed success.

“SystemSeparation undoubtedly has an excellent product.”



## - SUBSIDIARY – SYSTEMSEPARATION SKEBOBRUK AB -

### **Corporate structure**

SystemSeparation Skebobruk AB is a wholly owned subsidiary of SystemSeparation Sweden Holding AB (refer to the corporate structure above).

### **Business concept**

The company's business concept is to manufacture, stock and distribute chemical and biotechnical products for customers on the Nordic market.

### **Business model**

The company offers product development, manufacturing, contract manufacturing, stocking and distribution of industrial products and special niche products for the consumer and industrial markets. The company creates highly competitive solutions by offering each customer an integrated holistic solution customized to meet the unique and specific requirements of each operation.

### **Goal**

Acting alone or in cooperation with business partners, the company shall offer each customer an integrated holistic solution customized to the unique and specific requirements of each operation.

### **Vision**

The company shall be an efficient and flexible production facility for chemical and biotechnical special products for the industrial and consumer markets.

### **Business area**

The company's business area consists of the manufacture and sale of chemical and biotechnology products for customers active in the Nordic market. The company also manufactures SystemSeparation Sweden AB's proprietary oil additive. The company offers contract production, stocking, distribution and product development as well as peripheral services.

### **Products**

The company's products consist of chemical and biotechnology products for industry and consumers. Products are delivered in liquid and powder form. Consumer products are packaged in small bottles or bags with a volume from 0.1 to 10 liters. Industrial products are packaged in large drums, sacks, and containers or are delivered in bulk. A new product range of the company's proprietary brand was launched during the third quarter of 2005. The products are designed primarily for the European industrial market with special defatting products, fuel-filter cleaning chemicals and other special products.

### **Customers**

SystemSeparation Skebobruk AB has some 15 steady customers. Turnover in the customer base is low. The company's largest customer currently accounts for some 65 percent of sales. By means of active market development and a newly recruited market manager, this portion is expected to fall during 2006. Customers are located primarily in Sweden, but the company also has customers in Finland. An expansion in the number of steady customers along with extended manufacture of oil additive products for SystemSeparation Sweden AB is expected to result in increased sales in 2006.

### **Production/Suppliers**

The company's production is conducted at production facilities in Skebobruk, in Sweden. Offices and warehouses are connected directly to the production facilities. The company's products and shipments shall have a high quality and exceed industry norms, legislation, ordinance and agreements. The products are manufactured using an environmental approach, which entails minimum impact on the environment during the product's cycle. The company uses a large number of suppliers of standard goods for its manufacturing operations. Many of these raw materials are available from several suppliers.

### **Patents and brands**

The company has applied for brand protection for its CleanEx product name.

### **Competitors**

The company believes that only one competitor in Sweden focuses on a similar market (Aktiv Kemi AB). Otherwise, there are a number of companies that produce chemical and biotechnology products; although not with the same focus on integrated holistic solutions customers to meet the unique and specific requirements of each operation.

# CONDENSED FINANCIAL STATEMENTS

Amounts in SEK000s

Sep 1, 2004-  
Dec 31, 2005

May 1, 2003-  
Aug 31, 2004

May 1, 2002-  
Apr 30, 2003

May 1, 2001-  
Apr 30, 2002

May 1, 2000-  
Apr 30, 2001

## Condensed income statement

Sales	33 480	4 490	1 867	1 790	353
Operating profit/loss (EBIT)	-5 050	-86	-305	20	153
Profit/loss after financial items	-5 386	36	-320	-1	151
Net profit/loss for the year	-5 531	36	-269	23	57

## Condensed balance sheet

Fixed assets	3 099	1 072	98	159	176
Other current assets (excl. cash and cash equivalents)	17 146	1 091	508	310	298
Cash and cash equivalents	22 890	124	217	44	139
Shareholders' equity	36 371	136	-90	180	157
Untaxed reserves	-	-	-17	34	72
Provisions	129	-	-	-	-
Long-term liabilities	-	309	375	9	-
Current liabilities	6 635	1 841	555	290	385
Balance sheet total	43 135	2 287	823	513	613

## Condensed cash flow statement

Cash flow from operating activities before changes in working capital	-4 848	139	-246	51	140
Cash flow from changes in working capital	-11 470	703	66	-106	186
Cash flow from investing activities	-1 642	-1 059	-14	-49	-188
Cash flow from financing activities	40 726	124	366	9	-
Cash flow for the year	22 766	-93	172	-94	138

## Key data

### Margins

Operating margin,%	Neg	Neg	Neg	1%	43%
Profit margin,%	Neg	1%	Neg	Neg	43%

### Profitability data

Return on capital employed,%	Neg	13%	Neg	11%	93%
Return on shareholders' equity,%	Neg	155%	Neg	13%	45%

Amounts in SEK000s	Sep 1, 2004- Dec 31, 2005	May 1, 2003- Aug 31, 2004	May 1, 2002- Apr 30, 2003	May 1, 2001- Apr 30, 2002	May 1, 2000- Apr 30, 2001
<b>Capital structure</b>					
Adjusted shareholders' equity	36 372	136	-102	204	209
Average shareholders' equity	18 254	23	45	168	128
Debt/equity ratio, %	1%	44%	Neg	5%	0%
Equity/assets ratio, %	84%	6%	Neg	40%	34%
Interest cover ratio, %	Neg	492%	Neg	97%	7 097%
Risk-bearing capital, %	85%	6%	Neg	35%	26%
<b>Employees</b>					
Number of employees at close of period	17	3	3	1	1
Average number of employees during the period	10	3	3	1	1
	<b>2005</b>	<b>2004</b>	<b>2003</b>	<b>2002</b>	<b>2001</b>
<b>Data per share</b>					
Average number of shares for the period	8 991	1 000	1 000	1 000	1 000
Average number of shares for the period after dilution	8 991	1 000	1 000	1 000	1 000
Number shares at close of period	15 009	1 000	1 000	1 000	1 000
Earnings per share, SEK	-0,62	36	-269	23	57
Earnings per share, after dilution, SEK	-0,62	36	-269	23	57
Shareholders' equity per share, SEK	2,4	136	-90	180	157

**Note:** there are no comparative figures for the Parent Company as it was established during 2005. The consolidated financial statements were drawn up in accordance with the reversed acquisition principle. The comparative figures pertain to the subsidiary SystemSeparation Sweden AB.

# THE SHARE AND OWNERSHIP SITUATION

SystemSeparation Sweden Holding AB has been listed on the AktieTorget exchange, an authorized market place under the supervision of Finansinspektionen, the Swedish Financial Supervisory Authority.

## Share capital

As of December 31, 2005, a total of 15,009,393 shares had been issued, including the share issue being registered. The new share issue totaling 5,003,131 shares that was approved and paid up during the fourth quarter of 2005 was registered at the Swedish Companies Office on January 2, 2006. All shares carry equal voting rights and equal rights to the company's assets.

## Shareholders

The number of shareholders in SystemSeparation Sweden Holding AB totaled 988 as of December 30, 2005. The ten largest shareholders controlled 62.32% of the company's shares.

## Shareholder structure

The major shareholders in terms of holding as of December 30, 2005, ahead of the new share issue of 5,003,131 shares, which was registered with the Swedish Companies office on January 2, 2006, were as follows.

<b>Shareholder</b>	<b>Number of shares</b>	<b>Percentage holding</b>
Gunnar Ström	2 192 500	21,91
Vostok Nafta Ltd	1 536 098	15,35
Western Elgajo AB	1 014 250	10,14
Morgan Stanley & Co Intl Ltd	463 000	4,63
AB Johan Hansson	300 000	3,00
Fortis Bank NV	193 000	1,93
Peter Henderson	158 000	1,58
Nordnet Pensionsförsäkring	156 200	1,56
SIS Segaintersettle AG	123 000	1,23
Bertil Josefsson	100 000	1,00
Others	3 770 214	37,68
<b>Total</b>	<b>10 006 262</b>	<b>100,00</b>

\*Information as of December 30, 2005, extracted from the share register kept by VPC AB.

The major shareholders in terms of holding size as of February 28, 2006 after the new share issue of 5,003,131 shares, which was registered with the Swedish Companies office on January 2, 2006, were as follows.

Shareholder	Number of shares	Percentage holding
Vostok Nafta Ltd	2 332 469	15,54
Gunnar Ström	2 192 500	14,61
Alga Styrinvest AB	1 096 250	7,30
Morgan Stanley & Co Intl Ltd	612 000	4,08
Western Elgajo AB	539 288	3,59
AB Johan Hansson	450 000	3,00
Jonsson Consult AB	343 500	2,29
Björn Forsberg	293 325	1,95
Fortis Bank NV	268 500	1,79
Akelius Insurance Public Ltd	260 750	1,74
Others	6 620 811	44,11
<b>Total</b>	<b>15 009 393</b>	<b>100,00</b>

\*Information as of December 30, 2005, extracted from the share register kept by VPC AB.

#### Trend in share capital

Year	Event	Change in number of shares	Change in share capital	Total number of shares	Par value	Total share capital
Oct. 04	Company incorporation	7 540 000	678 600,00	7 540 000	0,09 kr	678 600,00
Dec. 04	New share issue	793 000	71 370,00	8 333 000	0,09 kr	749 970,00
Jan. 05	New share issue	126 164	11 354,76	8 459 164	0,09 kr	761 324,76
March 05	Reduction	0	-169 183,28	8 459 164	0,07 kr	592 141,48
March 05	New share issue	11 000	770,00	8 470 164	0,07 kr	592 911,48
March 05	Share issue	0	169 403,28	8 470 164	0,09 kr	762 314,76
April 05	New share issue	1 536 098	138 248,82	10 006 262	0,09 kr	900 563,58
Dec. 05	New share issue	5 003 131	450 281,79	15 009 393	0,09 kr	1 350 845,37

# BOARD OF DIRECTORS' REPORT

The Board of Directors and the President of SystemSeparation Sweden Holding AB (publ), corporate registration number 556670-2584, with its registered office in Uppsala, hereby submit the annual report and accompanying consolidated financial statements for the fiscal year, September 1, 2004 to December 31, 2005, which is to be adopted by the Annual General Meeting.

## General account of operations

SystemSeparation Sweden Holding AB (publ) is the legal Parent Company in the SystemSeparation Group and has been listed on the AktieTorget exchange since December 2004. Operations are conducted in the Parent Company's two subsidiaries: SystemSeparation Sweden AB and SystemSeparation Skebobruk AB. The business concept is to conduct research, development, production and sale of fuel additives for oil-fired power plants.

## The company's markets

The company's primary markets are currently concentrated around three regions: Russia, and the former soviet states, China and the Middle East, all these markets are major oil consumers in the production of energy and the company believes that there are good growth prospects in these markets.

## Significant events during the reporting period

In autumn 2004, the company applied for a listing on the AktieTorget exchange and was listed there in December 2004. In connection with the listing, a diversification of ownership was conducted that provided the company with SEK 2,257,000 after share issue expenses.

In December 2004, the currently wholly owned subsidiary SystemSeparation Skebobruk AB was acquired. The previous subsidiary Viatech Systems AB was distributed to the shareholders in SystemSeparation Sweden Holding AB in accordance with a resolution of the extraordinary meeting of shareholders in March 2005. Also at this meeting, three new members were elected to the Board of Directors, Göran Brorsson, Christer Lindqvist and Sune Karlsson, while the previous members Björn Forsberg and Bertil Josefsson stepped down from the Board.

During the second quarter of 2005, a private share placement was directed to Vostok Nafta Ltd, which provided the company with SEK 14,626,000 after share issue expenses.

After the end the third quarter of 2005, the company informed the market that previous forecasts for the current period would not be attained, since the company experienced postponements in test runs. In addition,

earnings were affected by a significant increase in market investments in the company's identified primary markets.

During the fourth quarter of 2005, an extraordinary meeting of shareholders approved a rights issue to the company's existing shareholders to ensure the company's continuing expansion. The share issue provided the company with SEK 2,308,000 after share issue expenses. The same meeting also approved the enlargement of the company's board by two members, Magnus Unger and Geoffrey Richards, while the previous member Henric Wiklund stepped down from the Board of Directors. During the year, the company intensified its market activities in its three main markets.

## Sales and earnings

Sales for the entire period totaled SEK 33,480,000 and the loss after tax was SEK 5,531,000. Sales for the Group's main products, oil additives, amounted to SEK 20,131,000 compared with SEK 4,490,000 for the preceding fiscal year.

The Group's production company reported sales of 14,771.000 for the period.

## Investments and R&D

Investments and R&D during the period were made in new laboratory test production equipment. In line with the expansion of the organization, investments were made in IT infrastructure. Development costs were reported in the balance sheet when it appeared likely that the future economic benefits that could derive from the assets will accrue to the company.

## Financial position

Following the completion of new share issues, the Group's financial position remains favorable and cash and cash equivalents at year-end totaled SEK 22,890,000. The Group's cash flow from ongoing operations during the period was a negative SEK 16,318,000.

## Employees

The number of employees increased by 14 during the year and totaled 17 at the close of the year, of whom 3 were women.

## Significant events after the end of the period

During the first quarter of 2006, the company signed a Letter of Intent to acquire its industry colleague Bycosin.

Effective April 21, 2006, the company's President, Alexander Richards, resigned at his own request. The Board of Directors has temporarily appointed Peter Hender-

son as President to lead the company until a permanent CEO is appointed.

### Outlook

The Group is experiencing increased interest from its customers and thus significant sales increases are expected in all the cultivated markets in 2006.

### Environmental impact

The Group's products as such have no negative impact on the environment but are used in an industry that impacts on the environment. It has been established that the company's products add to the efficiency of the combustion process, leading to lower emissions of environmentally impacting substances. The Group conducts intensive R&D as part of efforts to add further to the combustion process, thereby contributing to reducing emissions of environmentally impacting substances from the Group's customers.

### Parent Company

The Parent Company's sales for the entire fiscal period totaled SEK 50,000, which was due entirely to intra-Group operations. The Parent Company's operating loss was SEK 53,000.

During the fiscal year, the Parent Company provided a shareholder contribution of SEK 10 M to the subsidiary SystemSeparation Sweden AB to cover losses, at the same time as the Parent Company impaired the value of the subsidiary's shares by a corresponding amount.

### Shareholders

The number of shareholders in SystemSeparation Sweden Holding AB totaled 988 as of December 30, 2005. The ten largest shareholders controlled 62.32% of the company's shares.

### Board activities

During the entire fiscal year, the Board of Directors held 16 meetings at which minutes were kept. In connection with the meetings, the Board of Directors received written and oral information concerning the company's progress from the President and management, and on the basis of this information it made decisions on all significant issues for the company. In addition to ongoing issues, and the budget, special attention was devoted to the company's expansion. Apart from the Board meetings, the President reports continuously on the company's progress.

### Transition to International Financial Reporting Standard (IFRS)

As of 2006, the SystemSeparation Group prepares its consolidated financial statements in accordance with

IFRS. The transition to IFRS is reported in accordance with IFRS 1 "First-time Adoption of International Financial Reporting Standards," according to which the transition date is September 1, 2004. IFRS 1 prescribes that the year of comparison, 2004/2005, should be reported in accordance with IFRS and that the new principles are to be applied retroactively. The changes in the accounting principles entailed by this transition plus the transition effects on the consolidated income statement and balance sheet are presented in the following.

SystemSeparation Group's preparations for the transition to IFRS are progressing as planned. The most important change for the Group compared with the current situation is that planned amortization of goodwill will cease and will be replaced by continual testing for any impairment requirements. Following such testing in connection with the closing accounts, it was concluded that no impairment was necessary.

### Proposed disposition of earnings

The following accumulated loss (in SEK ) is at the disposal of the Annual General Meeting

SEK	
Earnings brought forward	1 290 000
Net loss for the year	-10 530 849
<b>Total</b>	<b>-9 240 849</b>

The Board of Directors proposes that the accumulated loss be disposed of as follows:

To be carried forward to a new account:

SEK -9 240 849

The results for the company and Group operations and the financial position at the end of the fiscal year are shown in the subsequent income statement and balance sheets, changes in shareholders' equity and cash flow statement with accompanying supplementary information and notes.

# INCOME STATEMENT

Amounts in SEK000s	Note	Group Sept. 1, 2004- Dec. 31, 2005	Group May 1, 2003- Aug 31, 2004	Parent Company Sept 1, 2004- Dec 31, 2005
<b>Operating income</b>				
Net sales	1	33 480	4 490	50
Change in inventories		50	-	-
Capitalized work for own account		917	989	-
Other operating income	2	422	25	-
<b>Total operating income</b>		<b>34 869</b>	<b>5 504</b>	<b>50</b>
<b>Operating expenses</b>				
Raw materials and consumables		-17 486	-2 466	-
Other external costs	3,4	-14 410	-1 904	-300
Personnel costs	5	-7 338	-1 116	-7
Depreciation/amortization of tangible and intangible assets	6	-406	-103	-
Other operating expenses		-279	-	-
<b>Total operating expenses</b>		<b>39 919</b>	<b>-5 589</b>	<b>-307</b>
<b>Operating profit/loss</b>		<b>-5 050</b>	<b>-85</b>	<b>-257</b>
<b>Result from financial items</b>				
Result from shares in Group companies	7	-	-	-10 000
Other interest income and similar profit/loss items	8	42	130	24
Interest expense and similar profit/ loss items	9	-378	-9	-298
<b>Profit/loss after financial items</b>		<b>-5 386</b>	<b>36</b>	<b>-10 531</b>
Taxes	10	-145	-	-
<b>Net profit/loss for the period</b>		<b>-5 531</b>	<b>0</b>	<b>-10 531</b>
<b>Earnings per share</b>		<b>-0,62</b>	<b>36</b>	
<b>Earnings per share after full dilution</b>		<b>-0,62</b>	<b>36</b>	
<b>Average number of shares, 000s</b>		<b>8 991</b>	<b>1</b>	
<b>Average number of shares after full dilution, 000s</b>		<b>8 991</b>	<b>1</b>	
<b>Number of shares at close of period, 000s</b>		<b>15 009</b>	<b>1</b>	

Note that there are no comparative figures for the legal Parent Company, as this was established in 2005. The consolidated financial statements were prepared in line with the reverse acquisition principle.

# BALANCE SHEET

Amounts in SEK000s	Note	Group Dec. 31, 2005	Group Aug 31, 2004	Parent Company Dec. 31, 2005
<b>ASSETS</b>				
<b>Fixed assets</b>				
<u>Intangible fixed assets</u>				
Capitalized expenses	11	1 727	901	-
Goodwill	12	920	-	-
		<b>2 647</b>	<b>901</b>	<b>0</b>
<u>Tangible fixed assets</u>				
Equipment, tools, fixtures and fittings	13	452	66	-
		<b>452</b>	<b>66</b>	<b>0</b>
<u>Financial fixed assets</u>				
Shares in Group companies	14	-	100	1 893
Other long-term receivables		-	5	-
		<b>0</b>	<b>105</b>	<b>1 893</b>
<b>Total fixed assets</b>		<b>3 099</b>	<b>1 072</b>	<b>1 893</b>
<b>Current assets, consumables, etc.</b>				
<u>Inventories and consumables</u>				
Raw materials and consumables	15	5 484	387	-
		<b>5 484</b>	<b>387</b>	<b>0</b>
<u>Current receivables</u>				
Accounts receivable	16	4 722	258	-
Receivables at Group companies	17	-	329	11 633
Other receivables	18	6 497	92	258
Prepaid expenses and accrued income	19	443	25	17
		<b>11 662</b>	<b>704</b>	<b>11 908</b>
Cash and cash equivalents	20	22 890	124	20 990
<b>Total current assets</b>		<b>40 036</b>	<b>1 215</b>	<b>32 898</b>
<b>TOTAL ASSETS</b>		<b>43 135</b>	<b>2 287</b>	<b>34 791</b>

Note that there are no comparative figures for the legal Parent Company, as this was established in 2005. The consolidated financial statements were prepared in line with the reverse acquisition principle.

# BALANCE SHEET

Amounts in SEK000s	Note	Group Dec. 31, 2005	Group Aug 31, 2004	Parent Company Dec. 31, 2005
<b>SHAREHOLDERS' EQUITY AND LIABILITIES</b>				
<b>Shareholders' equity</b>				
Share capital		901	100	901
Restricted reserves		18 151	-	17 821
Share issue in progress		23 308	-	23 308
Capitalized profit or loss		-458	-	1 290
Net profit/loss for the year		-5 531	36	-10 531
<b>Total shareholders' equity</b>		<b>36 371</b>	<b>136</b>	<b>32 789</b>
<b>Provisions</b>				
Provisions for taxes	21	129	-	-
		<b>129</b>	<b>0</b>	<b>0</b>
<b>Long-term liabilities</b>				
Other liabilities to credit institutions		-	250	-
Other long-term liabilities	22	-	59	-
		<b>0</b>	<b>309</b>	<b>0</b>
<b>Current liabilities</b>				
Accounts payable		4 324	887	1 952
Other liabilities		603	758	-
Accrued expenses and prepaid income	23	1 708	197	50
		<b>6 635</b>	<b>1 842</b>	<b>2 002</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>43 135</b>	<b>2 287</b>	<b>34 791</b>
<b>Memorandum items</b>				
Assets pledged	24	2 600	-	50
Contingent liabilities	25	1 500	-	-

Note that there are no comparative figures for the legal Parent Company, as this was established in 2005. The consolidated financial statements were prepared in line with the reverse acquisition principle.

## CHANGE IN SHAREHOLDERS EQUITY

Change in shareholders' equity in SystemSeparation Holding AB (publ)

Amounts in SEK000s	Share capital	Restricted reserves	Unrestricted reserves	Profit/loss for the year	Total equity
Company established, Nov. 2004	679	-	-	-	679
New issue, Dec. 2004	71	2 185	-	-	2 257
New issue, Jan. 2005	11	989	-	-	1 000
Reduction, distribution of subsidiary	-169	-	-	-	-169
New issue, March 2005	1	190	-	-	191
Bonus issue, March 2005	169	-169	-	-	-
New issue, April 2005	138	14 626	-	-	14 764
New issue, December 2005	-	23 308	-	-	23 308
Group contribution received, Dec. 2005	-	-	1 290	-	1 290
Profit/loss for the year	-	-	-	-10 531	-10 531
<b>Shareholders' equity, Dec. 31, 2005</b>	<b>901</b>	<b>41 129</b>	<b>1 290</b>	<b>-10 531</b>	<b>32 789</b>

Change in shareholders' equity in SystemSeparation Group

Amounts in SEK000s	Share capital	Restricted reserves	Unrestricted reserves	Profit/loss for the year	Total equity
Opening balance	100	-	36	-	136
New issue, Nov. 2004	579	-	-	-	579
Acquisition adjustment, reversed acquisition	-	-	-164	-	-164
New issue, Dec. 2004	71	2 185	-	-	2 257
New issue, Jan. 2005	11	989	-	-	1 000
Reduction, distribution of subsidiary	-169	-	-	-	-169
New issue, March 2005	1	190	-	-	191
Bonus issue, March 2005	169	-169	-	-	-
New issue, April 2005	138	14 626	-	-	14 764
New issue, December 2005	-	23 308	-	-	23 308
Transfer between unrestricted and restricted equity	-	330	-330	-	-
Profit/loss for the year	-	-	-	-5 531	-5 531
<b>Shareholders' equity, Dec. 31, 2005</b>	<b>901</b>	<b>41 459</b>	<b>-458</b>	<b>-5 531</b>	<b>36 371</b>

# CASH FLOW STATEMENT

Amounts in SEK000s	Note	Group Dec. 31, 2005	Group Aug 31, 2004	Parent Company Dec. 31, 2005
<b>Cash flow from operating activities</b>				
Profit/loss after net financial items		-5 386	36	-10 531
<i>Adjustments for:</i>				
Depreciation of fixed assets	6	406	103	-
Other		148	-	-
Tax paid		-16	-	-
<b>Cash flow from operating activities before changes in working capital</b>		<b>-4 848</b>	<b>103</b>	<b>-10 531</b>
<b>Cash flow from changes in working capital</b>				
Increased/decrease in inventories		-5 097	-387	-
Increase/decrease in receivables		-10 959	-195	-11 908
Increase/decrease in current liabilities		4 586	1 285	2 003
<b>Cash flow from operating activities</b>		<b>-16 318</b>	<b>842</b>	<b>-20 436</b>
<b>Investing operations</b>				
Acquisition of subsidiaries	26	-250	-100	-250
Acquisition of intangible fixed assets	11	-917	-900	-
Acquisition of tangible fixed assets	13	-470	-54	-
Acquisition of financial fixed assets		-5	-	-
Acquisition of financial assets		-	-5	-
<b>Cash flow from investing activities</b>		<b>-1 642</b>	<b>-1 059</b>	<b>-250</b>
<b>Financing activities</b>				
New share issue		40 829	-	40 387
Loans raised		-	125	-
Amortization of debt	21	-103	-191	-
Group contribution/received/granted		-	190	-1 290
<b>Cash flow from financing activities</b>		<b>40 726</b>	<b>124</b>	<b>41 677</b>
<b>CASH FLOW FOR THE YEAR</b>		<b>22 766</b>	<b>-93</b>	<b>20 990</b>
Cash and cash equivalents at beginning of period		124	217	-
<b>Cash and cash equivalents at close of period</b>		<b>22 890</b>	<b>124</b>	<b>20 990</b>

Note that there are no comparative figures for the legal Parent Company, as this was established in 2005. The consolidated financial statements were prepared in line with the reverse acquisition principle.

# ACCOUNTING PRINCIPLES

## General accounting principles

The accounting principles comply with the Annual Accounts Act and recommendations RR 1 to RR 29 of the Financial Accounting Standards Council. From January 1, 2006, accounting has been adjusted to IFRS. For more information on the transition to and effects of this, reference is made to a separate paragraph in the Board of Directors' report.

## Group situation

The company is the legal Parent Company of SystemSeparation Sweden AB, corp. reg. no: 5556446-4914, with its registered office in Uppsala, Sweden, and SystemSeparation Skebobruk AB, corp. reg. no: 55667-0948, with its registered office in Norrtälje, Sweden

## Consolidated accounting

The consolidated accounting has been drawn up in accordance with recommendation RR 1:00 of the Swedish Financial Accounting Standards Council.

## The consolidation method

The consolidated financial statements were drawn up in accordance with the purchase method, which entails that an acquisition of a subsidiary is viewed as a transaction by means of which the Parent Company indirectly acquires the subsidiary's assets and takes over its liabilities. As of the acquisition date, the consolidated financial statements include the acquired company's income and expenses, identifiable assets and liabilities as well as any goodwill or negative goodwill arising. The acquisition of SystemSeparation Sweden AB has been classified as a reverse acquisition in line with recommendation RR 1:00, Point 22a. The content of this is that the legal subsidiary in the consolidated accounting is viewed as the acquiring company. During the preceding fiscal year, no consolidated financial statements were drawn up because the companies' balance sheets were too small and the subsidiary (Viatech Systems AB) pursued only limited operations.

## Information on closely related parties

Companies and individuals are viewed as being closely related if they can exert decisive or significant influence over any of the companies within the Group in their financial or operational decisions in respect of operations. The notes to the balance sheets and income statements quantify transactions with closely related parties.

## Income recognition

The sale of goods is recognized as income when delivery to customers is completed and the risk associated with the good is transferred to the buyer. Income related to services is reported when the service has been provided. Intra-Group sales are eliminated in the con-

solidated financial statements.

## Valuation and translation principles

Receivables are reported in the amounts expected to be received. Other assets, provisions and liabilities are valued at the acquisition value, unless otherwise stated. The distribution of income and expenses is done in accordance with generally acceptable accounting standards.

## Reporting currency

The reporting currency is the Swedish krona (SEK). All amounts are reported in SEK 000s unless otherwise stated.

## Classification

Fixed assets, long-term liabilities and provisions consist essentially of amounts expected to be recovered or paid after more than twelve months from the closing date. Current assets and liabilities consist essentially of amounts expected to be recovered or paid within twelve months from the closing date.

## Inventories

Inventories are valued on the basis of the lower of market or acquisition cost in accordance with the FIFO method. This means that inventories are reported at the lower of acquisition value and fair value.

## Intangible fixed assets

In line with recommendation RR 15, development costs are valued at their direct costs, including a reasonable share of indirect costs. Development work is reported in the balance sheet if it is likely that future financial benefits attributed to the asset will accrue to the company and that the asset's acquisition value can be calculated in a reliable manner. Straight-line depreciation methods are used for all types of intangible assets. An annual assessment is made of the asset's carrying value in relation to the asset's calculated recoverable value. If the carrying value exceeds the recoverable value, a corresponding impairment is applied.

## Tangible fixed assets

Tangible fixed assets are reported at their acquisition value, less depreciation.

Additional charges increase the asset's carrying value only when the expense is expected to generate future financial benefits and the expenses can be measured in a reliable manner.

Expenses for repairs and maintenance are reported as costs.

Tangible fixed assets are depreciated systematically over the anticipated service life of the asset. Straight-line depreciation methods are used for all types of tangible assets.

The following depreciation period are applied:

Machinery and other technical facilities	5 years
Equipment, tools and fixtures	3 -5 years

#### **Cash flow statement**

The cash flow statement is drawn up in line with the indirect method. The reported cash flow encompasses only transactions involving incoming and outgoing payments.

#### **Income tax**

Total tax consists of current tax and deferred tax. Taxes are reported in the income statement, except when the underlying transaction is reported directly against shareholders' equity, in connection with which the accompanying tax effect is reported in shareholders' equity.

Current tax is tax that is to be paid or received in the particular year. This includes adjustments of current tax attributable to previous periods.

Deferred tax is tax that is calculated according to the balance sheet method based on temporary differences between the carrying values of assets and liabilities and their values for tax purposes. The amounts are based on how the temporary differences are expected to offset each other and using the application of the tax rates and tax rules that have been decided or announced as of the closing date.

Reported amounts for untaxed reserves include deferred tax liabilities. Deferred tax assets for deductible temporary differences and loss carry-forwards are reported only when it is likely that these will result in lower tax payments in the future.

# NOTES TO THE INCOME STATEMENT AND BALANCE SHEET

## Note 1 SEGMENT REPORTING

The Group's risks and opportunities are affected primarily by differences among the products and services produced. The primary segment consists of the Oil Additives and Production operating areas. The secondary segment consists of the geographic areas Sweden and the Nordic region, and the Rest of the World.

Amounts in SEK000s	Oil Additives	Production
<b>Income</b>		
Externally invoiced	18 879	14 771
Internally invoiced	1 253	-
Operating costs	-26 741	-12 749
<b>Operating profit</b>	<b>-6 609</b>	<b>2 022</b>
Fixed assets	2 572	57
Current assets	15 238	3 533
<b>Total assets</b>	<b>17 810</b>	<b>3 590</b>
Shareholders' equity	4 119	106
Liabilities	13 691	3 484
<b>Total shareholders' equity and liabilities</b>	<b>17 810</b>	<b>3 590</b>

## Note 2 OTHER OPERATING INCOME

	Group 2005	Group 2004	Parent Company 2005
Commission income	-	25	-
Innovation loan written off	125	-	-
Realized exchange rate gain	297	-	-
<b>Total</b>	<b>422</b>	<b>25</b>	<b>0</b>

## Note 3 FEES AND COST COMPENSATION

	Group 2005	Group 2004	Parent Company 2005
<i>Ernst &amp; Young AB</i>			
Auditing fees	210	25	73
Other assignments	79	12	-
<b>Total</b>	<b>289</b>	<b>37</b>	<b>73</b>

#### Note 4 TRANSACTIONS WITH CLOSELY RELATED PARTIES

Up to December 31, 2005, Board members Christer Lindquist and Geoffrey Richards received remuneration for operational activities on behalf of the company in a total amount of SEK 1,015,508 and SEK 300,000, including taxes and social security expenses. The legal firm Carler, in which the Board member Mats Olofson is active, invoiced for SEK 325,000 for legal fees during 2005.

#### Note 5 EMPLOYEES AND PERSONNEL COSTS

	Group 2005	Group 2004	Parent Company 2005
<b>Wages/salaries, other remuneration and social security charges</b>			
<u>Wages/salaries and other remuneration</u>			
Board and President	728	532	-
Other employees	3 913	291	-
<b>Total</b>	<b>4 641</b>	<b>823</b>	<b>0</b>
<u>Social security charges pursuant to law and agreements</u>			
Pension costs, Board and CEO	95	-	-
Pension costs, other employees	748	83	-
Social security charges	1 569	219	-
<b>Average number of employees (restated in terms of full-time positions)</b>			
Men	14	3	-
Women	3	-	-
<b>Total</b>	<b>17</b>	<b>3</b>	<b>0</b>

	2005		2004	
Gender distribution in the Group's executive management, December 31	Total	Of whom woman	Total	Of whom woman
	7	-	5	-
	5	-	2	-
<b>Total</b>	<b>12</b>	<b>0</b>	<b>7</b>	<b>0</b>

#### Sickness absence in the Group

Since the Parent Company has fewer than 10 employees, statistics relating to absenteeism are not reported.

#### Share-based remuneration

The Group does not have any share-based remuneration programs.

### Remuneration to senior executives

The Board Chairman and members did not receive remuneration during the fiscal year.

Remuneration to the CEO and other senior executives consists of salary, other remuneration and benefits as well as pension provisions.

Alexander Richards was appointed CEO as of June 8, 2005. Remuneration is paid from September 1, 2005 in the amount of SEK 960,000 annually. In addition, the CEO may receive a maximum annual bonus corresponding to three months' salary. No bonus was earned in 2005. Alexander Richards' employment was terminated as of April 30, 2006.

The previous CEO, Gunnar Ström, who stepped down to work with research and development of the company's products, received remuneration of SEK 320,000 through December 31, 2005. No bonus was earned for 2005.

### Pensions

The pension expense is made up of pension premiums that represent a fixed percentage of the qualifying salary for pension purposes. The qualifying salary is the basic salary. The pension plan may be viewed as a defined-contribution plan in accordance with RR 29.

Severance pay is included in the qualifying salary for pension purposes.

### Vacations

The CEO and other senior executives are entitled to 30 days vacation each year.

### Notice of termination and severance pay

Between the company and the CEO, a notice period of 6 months applies if the company terminates employment and 6 months is the CEO terminates employment. Other senior executives have a mutual notice period of 3 to 6 months.

### Note 6 AMORTIZATION/DEPRECIATION OF INTANGIBLE AND TANGIBLE FIXED ASSETS

Amortization/depreciation of intangible and tangible fixed assets is based on the historical acquisition value and estimated service life for various types of fixed assets. The residual values are deemed to be insignificant and was not taken into account when the depreciable amount was determined. No changes in the service life were made in 2005 or 2004. For assets acquired during the year, depreciation/amortization is calculated from the acquisition date.

Amortization/depreciation is applied linearly using the following service lives

Equipment	5 years
R&D	5 years
Goodwill	5 years
Computer equipment	3 years

Depreciation according to plan	85
Amortization of intangible assets according to plan	91
Amortization of Group goodwill according to plan	230
<b>Total depreciation/amortization</b>	<b>406</b>

**Note 7 RESULT FROM SHARES IN GROUP COMPANIES**

	Group 2005	Group 2004	Parent Company 2005
Impairment of shares in Group companies	-	-	10 000
<b>Total</b>	<b>0</b>	<b>0</b>	<b>10 000</b>

During the fiscal year, the Parent Company provided SEK 10 million as a shareholder contribution to the subsidiary SystemSeparation Sweden AB to cover losses, while the Parent Company impaired the value of subsidiary shares by a corresponding amount.

**Note 8 INTEREST INCOME AND SIMILAR PROFIT/LOSS ITEMS**

	Group 2005	Group 2004	Parent Company 2005
<i>Interest income is reported as it is earned</i>			
Other interest income	42	3	25
Exchange rate gains	-	128	-
<b>Total</b>	<b>42</b>	<b>131</b>	<b>25</b>

**Note 9 INTEREST EXPENSES AND SIMILAR PROFIT/LOSS ITEMS**

	Group 2005	Group 2004	Parent Company 2005
<i>Interest expenses is reported as it arises</i>			
Other interest income	76	2	-
Other financial expense	302	-	299
Exchange rate gains	-	7	-
<b>Total</b>	<b>378</b>	<b>9</b>	<b>299</b>

**Note 10 TAX ON PROFIT/LOSS FOR THE YEAR**

	Group 2005	Group 2004	Parent Company 2005
<b>Reported profit/loss before tax</b>	<b>-5 386</b>	<b>36</b>	<b>-10 531</b>
Tax pursuant to a nominal tax rate of 28%	1 508	-10	2 949
Tax effect from deductible non-expensed items	886	-	886
Tax effect of non-deductible items	-56	-	-2 801
Tax effect of loss-carry forwards	-	10	-
Tax effect of Group contribution	-	-	-362
Tax effect of tax receivables that have not been assigned a value	-2 322	-	-672
<b>Tax on reported profit/loss</b>	<b>16</b>	<b>0</b>	<b>0</b>
Tax effect of temporary differences	129	-	-
<b>Total tax</b>	<b>145</b>	<b>0</b>	<b>0</b>

**Note 11 CAPITALIZED EXPENSES FOR R&D**

	Group 2005	Group 2004	Parent Company 2005
Accumulated acquisition values	901	-	-
- Capitalization during the year	917	901	-
<b>Closing accumulated acquisition values</b>	<b>1 818</b>	<b>901</b>	<b>0</b>
Accumulated depreciation according to plan:			
- Depreciation according to plan for the year	-91	-	-
<b>Closing accumulated depreciation according to plan</b>	<b>-91</b>	<b>0</b>	<b>0</b>
<b>Carrying value at year-end</b>	<b>1 727</b>	<b>901</b>	<b>0</b>

## Note 12 GOODWILL

	Group 2005	Group 2004	Parent Company 2005
Acquisition value for the year	1 150	-	-
<b>Closing accumulated acquisition value</b>	<b>1 150</b>	<b>0</b>	<b>0</b>
Acquisition value for the year according to plan	-230	-	-
<b>Closing accumulated depreciation according to plan</b>	<b>-230</b>	<b>0</b>	<b>0</b>
<b>Carrying value at year-end</b>	<b>920</b>	<b>0</b>	<b>0</b>

## Note 13 EQUIPMENT, TOOLS AND FIXTURES

	Group 2005	Group 2004	Parent Company 2005
- Opening balance	304	250	-
- New acquisitions	471	54	-
- Scrapped during the year	-185	-	-
<b>Closing accumulated acquisition values</b>	<b>590</b>	<b>304</b>	<b>0</b>
- Opening balance	-238	-152	-
- Depreciation according to plan	-85	-86	-
- Reversal of depreciation/scrapping	185	-	-
<b>Closing accumulated depreciation according to plan</b>	<b>-138</b>	<b>-238</b>	<b>0</b>
<b>Carrying value at year-end</b>	<b>452</b>	<b>66</b>	<b>0</b>

## Note 14 SHARES IN GROUP COMPANIES

	Group 2005	Group 2004	Parent Company 2005
Accumulated acquisition values:			
- Purchases	-	100	1 893
<b>Total</b>	<b>0</b>	<b>100</b>	<b>1 893</b>

### Specification of the Parent Company's holdings of shares in Group companies

Pertains to the share of capital, which is equal to the portion of voting rights for the total number of shares.

Subsidiary/Org./ Address	Number of shares	%	Book value
SystemSeparation Sweden AB, 5556446-4914, Uppsala	1 190	100	643
SystemSeparation Skebobruk AB, 556667-0948, Norrtälje	1 000	100	1 250
<b>Total book value</b>			<b>1 893</b>

### Note 15 INVENTORIES

Inventories are valued at the lower of acquisition value in accordance with the first in, first out method and the net sales value. The net sales value corresponds to the estimated sales price with deductions for estimated costs required to complete the sale. No standard impairment of inventory value has been done.

	Group 2005	Group 2004	Parent Company 2005
Raw materials	2 589	-	-
Finished goods and goods for sale	2 895	387	-
<b>Total</b>	<b>5 484</b>	<b>387</b>	<b>0</b>

### Note 16 ACCOUNTS RECEIVABLE

The amount for accounts receivable includes a receivable pertaining to the Russian market amounting to SEK 878,000 which was invoiced in April 2005. This receivable is expected to be received in full during 2006.

### Note 17 RECEIVABLES FROM GROUP COMPANIES

	Group 2005	Group 2004	Parent Company 2005
Receivable, Viatech Systems AB	-	329	-
Receivable, SystemSeparation Skebobruk AB	-	-	1 290
Receivable, SystemSeparation Sweden, AB	-	-	10 343
<b>Total</b>	<b>0</b>	<b>329</b>	<b>11 633</b>

Note that during 2004 Viatech Systems AB was a subsidiary of SystemSeparation Sweden AB.

**Note 18 OTHER RECEIVABLES**

	Group 2005	Group 2004	Parent Company 2005
Tax receivable	36	37	-
VAT receivable	608	42	258
Advance commission to agents	5 692	-	-
Other current receivables	161	13	-
<b>Total</b>	<b>6 497</b>	<b>92</b>	<b>258</b>

**Note 19 PREPAID EXPENSES AND ACCRUED INCOME**

	Group 2005	Group 2004	Parent Company 2005
Other prepaid expenses	393	25	17
Other accrued income	50	-	-
<b>Total</b>	<b>443</b>	<b>25</b>	<b>17</b>

**Note 20 CASH AND BANK**

Cash and cash equivalents at par value on the closing date	Group 2005	Group 2004	Parent Company 2005
SEK	22 880	124	20 990
EUR	4	-	-
USD	6	-	-
<b>Total</b>	<b>22 890</b>	<b>124</b>	<b>20 990</b>

**Note 21 PROVISIONS**

	Group 2005	Group 2004	Parent Company 2005
<i>Deferred tax liabilities</i>			
Untaxed reserves	129	-	-
<b>Total</b>	<b>129</b>	<b>0</b>	<b>0</b>

**Note 22 Other long-term liabilities**

	Group 2005	Group 2004	Parent Company 2005
Innovation loan, Almi Företagspartner	-	250	-
Other long-term liabilities	-	59	-
<b>Total</b>	<b>0</b>	<b>309</b>	<b>0</b>

**Note 23 ACCRUED EXPENSES AND PREPAID INCOME**

	Group 2005	Group 2004	Parent Company 2005
Vacation pay liability	608	-	-
Special payroll tax	170	-	-
Other accrued expenses	930	197	50
<b>Total</b>	<b>1 708</b>	<b>197</b>	<b>50</b>

**Note 24 PLEDGED ASSETS**

	Group 2005	Group 2004	Parent Company 2005
Chattel mortgages	2 550	-	-
Blocked accounts	50	-	50
<b>Total</b>	<b>2 600</b>	<b>0</b>	<b>50</b>

Chattel mortgages pertain to security for unutilized overdraft facilities in the subsidiary SystemSeparation Sweden AB.

**Note 25 CONTINGENT LIABILITIES**

	Group 2005	Group 2004	Parent Company 2005
Guarantees	1 500	-	-
<b>Total</b>	<b>1 500</b>	<b>0</b>	<b>0</b>

SystemSeparation Sweden AB has an unlimited guarantee liability for the commitments of SystemSeparation Skebobruk AB, corp. reg. No.: 55667-0948, to Föreningsparbanken.

**Note 26 CASH FLOW**

	Group 2005	Group 2004	Parent Company 2005
Acquisition of SystemSeparation Skebobruk AB, 55667-0948.	250	-	250
Acquisition of Viatch Systems AB, 556658-0196	-	100	-
<b>Total</b>	<b>250</b>	<b>100</b>	<b>250</b>

## Note 27 RISKS

### Financing

Responsibility for the Group's financing lies currently with the Board. The subsidiaries finance their operations through the Parent Company, and no independent financial decisions are made by the subsidiaries, since such decisions are made at the Group level.

### Currency risk

The Group's policy is to currently hedge at least 50% of orders with a value exceeding SEK 500,000 denominated in foreign currency.

### Credit risk

The Group normally sells on terms of net 30 days in the European market. Otherwise, the Group seeks to deliver against letters of credit when this is practical. Normally, the payment times range from 30 to 90 days.

### Netting of financial assets and financial liabilities

Financial assets and financial liabilities have not been netted.

### Business-related risks

Extensive investment and product development by a competitor may result in risks in the form of declining market shares.

The company plans to expand sharply within a short period. This may result in risks in the form of organizational problems, that a future capital requirement may arise or that the company may be damaged by losing key people or employees.

# DEFINITIONS

## Margins

### Operating margin

Operating margin after depreciation and impairment, as a percentage of invoiced sales for the year.

### Profit margin

Earnings after net financial items as a percentage of invoiced sales for the year

## Return measures

### Return on capital employed

Earnings after net financial items plus financial expenses as a percentage of average capital employed.

### Return on shareholders' equity

Net earnings, according to the income statement, as a percent of average shareholders' equity.

## Capital structure

### Adjusted shareholders' equity

Shareholders' equity, including 72 percent of untaxed reserves.

### Average shareholders' equity

Opening plus closing shareholders' equity, divided by two.

### Debt/equity ratio

Interest-bearing liabilities divided by shareholders' equity.

### Equity/assets ratio

Shareholders' equity as a percentage of the balance sheet total.

### Interest coverage ratio

Earnings after net financial items plus financial expense, divided by financial expense.

### Percentage of risk-bearing capital

Total of shareholders' equity and deferred tax liability, divided by the balance sheet total.

## Data per share

### Earnings per share

Net earnings in relation to average number of shares outstanding during the year.

### Earnings per share after full dilution

Net earnings in relation to the average of the outstanding shares during the year, plus shares that may arise through options and convertibles.

### Earnings per share

Shareholders' equity in relation to the total number of shares as of the closing date.

# BOARD OF DIRECTORS' AFFIRMATION

**The Board of Directors hereby affirms that, to our knowledge:**

The Annual Report has been drawn up in accordance with generally accepted accounting standards.

That the information complies with the actual circumstances.

That nothing of material significance has been omitted that could influence the image of the company as conveyed in the Annual Report.

**Uppsala May 11, 2006**

**Göran Brorsson**  
Chairman

**Sune Karlsson**

**Christer Lindqvist**

**Geoffrey Richards**

**Magnus Unger**

**Mats Olofson**

**Gunnar Ström**

**Per Henderson**  
Acting President and CEO

**My auditor's statement was submitted on May 15, 2006**

**Alexander Hagberg**  
Authorized Public Accountant

# AUDITOR'S REPORT

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## To the Annual General Meeting of the shareholders of SystemSeparation Sweden Holding AB

Corp. Reg. No: 556670-2584

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I have audited the annual accounts, the consolidated accounts, the accounting records and the administration of the Board of Directors and the President of SystemSeparation Sweden Holding AB for the fiscal year November 10, 2004 to December 31, 2005. These accounts and the administration of the company and the application of the Annual Accounts Act in the preparation of the annual accounts and the consolidated accounts are the responsibility of the Board of Directors and the President. My responsibility is to express an opinion on the annual accounts, the consolidated accounts and the administration based on my audit.

The audit was conducted in accordance with generally accepted auditing standards in Sweden. Those standards require that I planned and performed the audit to obtain reasonable but not absolute assurance that the annual accounts and the consolidated accounts are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and other information in the accounts. An audit also includes assessing the accounting principles used and their application by the Board of Directors and the President and significant estimates made by the Board of Directors and the President when preparing the annual accounts and the consolidated accounts as well as evaluating the overall presentation of information in the annual accounts and the consolidated accounts. As a basis for my opinion concerning discharge from liability, I examined significant decisions, actions taken and circumstances of the company in order to be able to determine the liability, if any, to the company of any Board member or the President. I also examined whether any Board member or the President has, in any other way, acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association. I believe that my audit provides a reasonable basis for my opinion set out below.

The annual accounts and the consolidated accounts have been prepared in accordance with the Annual Accounts Act and, thereby, give a true and fair view of the company's and the Group's financial position and results of operations in accordance with generally accepted accounting principles in Sweden. The Board of Directors' report is consistent with the other parts of the annual accounts and the consolidated accounts.

I recommend to the Annual General Meeting of shareholders that the income statements and balance sheets of the Parent Company and the Group be adopted, that the loss in the Parent Company be dealt with in accordance with the proposal in the Board of Directors' report and that the members of the Board of Directors and the President be discharged from liability for the fiscal year.

Stockholm, May 15, 2006

Alexander Hagberg  
Authorized Public Accountant

## BOARD OF DIRECTORS

### **Göran Brorsson** - Chairman of the Board.

Born: 1952.

President and CEO AB Westergyllen.

Member of the Board since 2005.

Previously active in Sonesson Group and AssiDomän as the CEO in subsidiaries and President and Member of the executive management group.

Other Board appointments: Member of the Board of AB Westergyllen. Chairman of the Board of AB Westergyllen's subsidiaries.

### **Mats Olofson** - Member.

Born: 1932.

Lawyer

Member of the Board since 2004.

Partner in the Carler legal firm since 1981.

Corporate lawyer at Facit AB, secretary of the AB Electrolux Board. Corporate lawyer and head of the legal department at AB Electrolux, 1973-1981.

Other Board appointments: Member of the Board of Sharp Electrics Nordic AB and Crouzet AB.

### **Dr. Gunnar Ström** - Member.

Born: 1953.

R&D Manager.

Member of the Board since 2004.

Doctor of Medical Science, Umeå University 1986.

Active at Alfa Laval 1992 – 2000, in charge of chemical separation. Founder of SystemSeparation Sweden AB, Pegasus Lab AB, Pegasus Separation AB, Pegasus Industries and Pegasus Labor GmbH.

Other Board appointments: Member of the Board of Viatch Systems AB.

### **Sune Karlsson** – Member.

Born: 1946.

Executive Chairman of the Board Haldex AB.

Member of the Board since 2005.

Active for several years in ASEA and ABB. Previously member of ABB Group management with global responsibility for the Transmission and Distribution segment.

Other Board appointments: Chairman of the Board in Haldex AB and Eldon Group AB.

### **Christer Lindqvist** - Member.

Born: 1956.

Management consultant.

Member of the Board since 2005.

Rock engineer, Royal Institute of Technology, Stockholm, 1981. Previously active as Vice-President STC Interfinans AB, Vice-President and President in several ABB subsidiaries, Industrial Manager at AB Traction.

Other Board appointments: Member of the Board of Viatch Systems and Gripsholms Vårdshus.

### **Magnus Unger** - Member.

Born: 1942.

Active Board work.

Member of the Board since 2005.

Business Administration Graduate, Stockholm School of Economics, 1967.

Export Manager Semper AB, President SCA/Mölnlycke Group Netherlands and Belgium. President Atlas Copco Belgium, Zaire. President of business area MCT (Mining and Construction, Vice-President Atlas Copco Group.

Other Board appointments: Chairman of the Board of the Odin Group, Mimer International Invest AB, CalKonsult AB. Member of the Board of PayNova AB and Lundin Petroleum AB.

### **Geoffrey Richards** - Member.

Born: 1944.

Chemist.

Member of the Board since 2005.

Consultant in issues involving the chemical industry. Development Manager, United Paper Mill Chemical Division, Finland, Group Manager Refinery Process, Nalco Chemical Company, U.S., Development & Research Manager, Byosin AB, Consultant for Hoechst/Clariant. No other Board appointments.

# SENIOR EXECUTIVES AND AUDITOR

## Senior executives

### Peter Henderson

Born: 1962.

Acting President and CEO

Employed at SystemSeparation since 2006.

Shareholding: 539,288 shares (via companies).

### Magnus Dahlin

Born: 1973.

CFO.

Employed at SystemSeparation since 2004.

Shareholding: 59,126 shares (privately and via companies).

### Jens Sjöström

Born: 1975.

CEO SystemSeparation Skebobruk AB.

Employed at SystemSeparation since 2004.

Shareholding: 0.

### Björn Forsberg

Born: 1970.

Technical Manager.

Employed at SystemSeparation since 2001.

Shareholding: 293,352 shares.

### Gunnar Ström

Born: 1953.

R&D Manager.

Employed at SystemSeparation since 2001.

Shareholding: 2,192,500 shares.

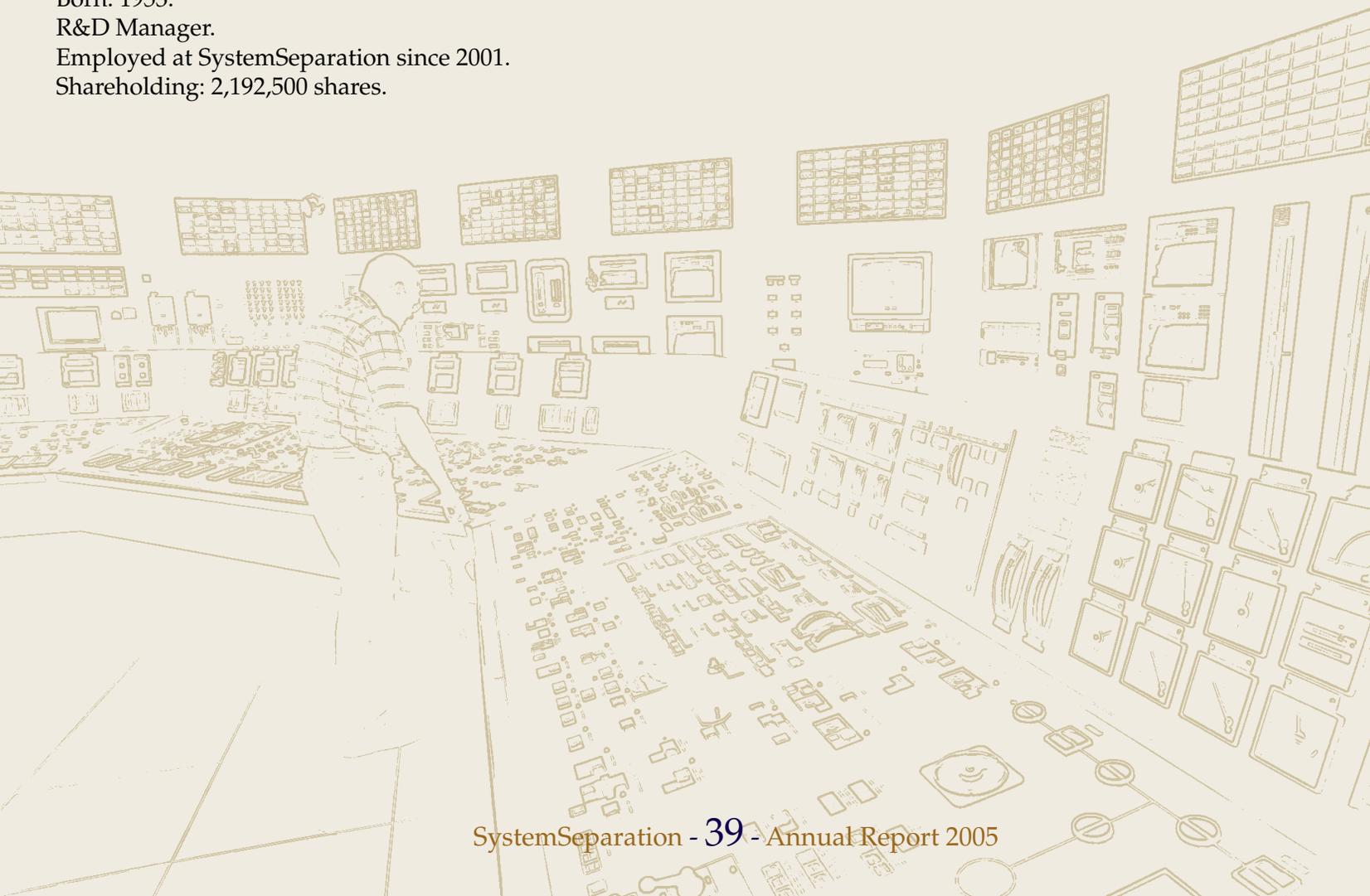
## Auditor

### Alexander Hagberg

Born: 1958.

Authorized public accountant, Ernst & Young AB.

Auditor for SystemSeparation since 2004.



# SYSTEM SEPARATION

## SYSTEMSEPARATION SWEDEN HOLDING AB (PUBL)

Kungsängsvägen 10  
753 23 Uppsala

Phone: +46 (0)18 14 00 81  
Fax: +46 (0)18 12 00 72

E-mail: [info@systemseparation.com](mailto:info@systemseparation.com)  
Website: [www.systemseparation.com](http://www.systemseparation.com)

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