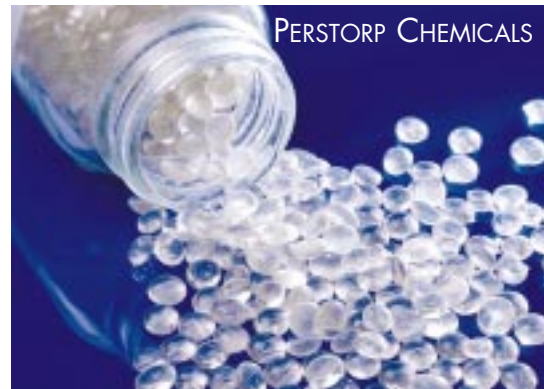


ANNUAL REPORT 1997/98

PERSTORP'S DIVISIONS

DIVISIONS



Perstorp Chemicals is a leading global producer of specialized chemical products for industrial customers. The division includes the operations of the Specialty Chemicals, Chemitec and Construction Chemicals business units. For many years, the division has had the highest level of profitability within the Group and maintained strong positions in the global market. The development of new products and geographic expansion are important components in the strategy established for polyols, formalin technology, thermosets, resins, composites and construction chemicals.

STRENGTHS

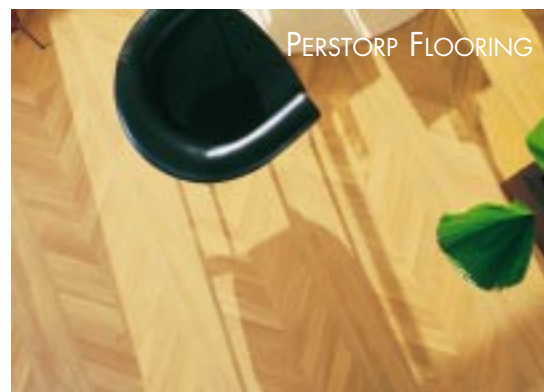
- Leading market positions in important areas
- Efficient and modern process technology
- Global production and sales
- Close cooperation with key customers

OPERATIONS 1997/98

- Continued favorable earnings
- Capacity expansion in all areas
- Joint venture concerning special chemicals in India
- Production start for Boltorn™ dendritic polymers
- Structural transaction in phenolic resins and divestments within Chemitec
- Major agreement with DuPont regarding formalin

OBJECTIVES

- Strengthen globalization efforts and position as a global leader
- Increase rate of growth
- Strengthen focus on special chemical products with high customer value by increasing innovation
- Increase efficiency and productivity
- Play an active role in the structural transformation of the chemicals industry by acquiring, or cooperating with, companies based on similar technologies or that focus on the same type of customers



Perstorp Flooring is a world-leading producer of laminate flooring for residences and institutional environments. The bulk of sales are in Europe and the U.S., where the Pergo® brand holds a strong position, and to a lesser degree, products are sold in parts of Asia and South America. The laminate flooring concept was developed by the Group and is based on Perstorp's many years of experience with chemicals and surfaces. Since its launch, laminate flooring has rapidly attained a not insignificant share of the flooring market on both sides of the Atlantic.

- Pergo® – the laminate flooring market's strongest brand
- Trend in the international flooring markets towards solid and environmentally compliant flooring
- Strong technological base and broad market expertise
- Efficient production with high levels of production capacity in both Europe and the U.S.
- Established distribution in some thirty countries in Europe, North and South America and Asia

- Earnings reduced by lower growth rate, combined with higher costs
- Strategy reviewed and comprehensive action program initiated to strengthen growth and profitability
- New management, based in London
- Capacity expansion in the U.S. completed
- Letter of intent with Hornitex Werke, Germany, regarding cooperation in the area of direct laminate flooring

- Global leadership for laminate flooring
- Extend the product range by strengthening Pergo® in the high-quality flooring market, while also introducing complementary products
- Intensify product development to become the industry leader in innovativeness
- Intensify cooperation with the leading distributors in the market
- Increase efficiency throughout the value chain by, for example, improving distribution, boosting capacity utilization and increasing cooperation with external customers



Perstorp Surface Materials is one of the world's leading manufacturers of paper-based decorative surfaces. The division produces a quality range of decorative laminates, decorative foils and printed paper and is being developed into a surface materials company that can deliver complete surface solutions within well-defined areas of application. The division's customers mainly operate within the furniture and construction-related industries in Europe, South and North America and Asia.

- Strong positions in several markets in Europe, Asia and South America
- Leading position in design development with both international product programs and design solutions tailored to customer needs
- Global presence through production in Europe, Asia and South America
- Wholly owned printshops for decorative paper for use in all paper-based surface materials

- Improvement in profits and unchanged sales despite decline in Asia
- Continued weak construction market in general, but positive trend in the Nordic countries and parts of Central Europe
- Positive effect of restructuring and rationalization measures
- Launch of foils in Brazil – acquisition of foil operations in Brazil after the end of the fiscal year
- Renewed product program and continued launch of international design range
- Initiation of investment program for production in China

- Develop and offer complete surface solutions using decorative surface materials as part of well-defined applications for the construction and furniture industries
- Expand in growth markets in Asia, South America and North America
- Play an active part in structural change to become a leading player in the global decorative surfaces market



Perstorp Life Science operates in the fields of biotechnology and medical devices – two areas characterized by strong growth and intensive research and development. The division is a leading supplier of media and instruments for process optimization in biopharmaceutical production, as well as biochemicals, reagents and methods to increase speed and safety in the area of biotechnology research. The division holds strong positions in the area of medical technology, particularly regarding aids and implants for ear-nose-throat treatment. Perstorp's Board of Directors proposes that Perstorp Life Science be listed on the stock exchange and be spun off to Perstorp shareholders in autumn 1999.

- Strong strategic positions in the rapidly growing biotechnology industry
- Leading supplier in well-defined niches
- Several well-protected technologies
- High level of innovation and close cooperation with leading pharmaceuticals companies
- Established companies and trademarks

- Rapid organic growth and increased profitability for all operations
- Acquisition of molecular biology products and production facilities
- Purchase of serum production and technology for the handling of sterile fluids for cell cultivation
- Acquisition of chemical luminescence technology
- Purchase of a complementary product line in the field of medical technology

- Investment in research and development and strategic acquisitions to further strengthen positions as a leading supplier in selected segments
- Launch of new products, for example, in the area of gynecology
- Greater geographic spread

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THE PERSTORP GROUP

Perstorp is a shareholder-oriented, global group that focuses on growth, profitability and new business opportunities. It is a world leader in segments of the markets for specialty chemicals, biochemicals, laminate flooring and other surface materials. The Group has annual sales of about SEK 11 billion, with 6,000 employees. Perstorp shares are listed on the Stockholm and London stock exchanges.

EXTENDED FISCAL YEAR

To enable the switch to calendar-year accounting, as of 1999, the 1997/98 fiscal year was extended by four months to cover the period from September 1, 1997 through December 31, 1998. Accordingly, the annual report covers a period of 16 months. In all essential respects, however, comments on operations focus on the 1998 calendar year in relation to the 1997 calendar year, years that are also reported on a pro forma basis.

SUMMARY 1997/98

- Earnings before taxes amounted to SEK 804 m (16 months), which corresponds to SEK 553 m for the 1998 calendar year (1997 pro forma: 610).
- Sales in existing operations rose by 3%.
- Favorable earnings from Perstorp Chemicals despite weaker conditions in chemical sector.
- Increased earnings from Perstorp Life Science and Perstorp Surface Materials.
- Favorable performance by Perstorp Flooring in U.S., but weaker trend in Europe resulted in lower earnings. Comprehensive action program under way.
- Sale of Perstorp Plastic Systems and other units.
- Group's productivity program maintains high tempo.
- Incorporation of divisions and introduction of new management model to create added value.
- Board proposes a cash dividend of SEK 4.00 (2.75) per share plus the flotation and spin-off to shareholders of Perstorp Life Science.
- Application for reregistration of Perstorp shares on Stockholm Stock Exchange's A List.

Group	Calendar year		Fiscal year	
	1998	1997	1997/98	1996/97
Net sales, SEK m	10,742	11,308	14,418	11,152
Pretax earnings, SEK m	553	610	804	508
Return on total capital, %	8	9	9	8
Return on shareholders equity, %	8	10	9	8
Equity ratio, %	53	47	53	46
Interest-coverage ratio, times	5.1	3.9	4.9	3.4
Investments, SEK m	927	815	1,149	885
Number of employees (annual average)	-	-	6,747	7,499
of which, in Sweden	-	-	2,531	2,592
Key figures, shares				
Dividend, total payment, SEK m	-	-	197	179
SEK/ share	-	-	4,00 ¹¹	2,75
Dividend per share, after full conversion, SEK	4.65	5.43	6.86	4.47
Share price, year-end (B shares), SEK	74	142	74	141
Dividend yield, %	-	-	4	2
P/E ratio, times	15.9	26.1	-	31.5

¹¹ Proposed by Board of Directors

The entire industrial sector is currently undergoing rapid change. Markets are becoming increasingly global, companies are merging and entire industries are being reshaped.

In Perstorp's areas of operation, the chemicals industry continues to undergo

PRESIDENT'S COMMENTS

consolidation and globalization. High growth for laminate flooring and other resilient flooring materials is swiftly changing the structure of the flooring market. A fragmented surface materials industry, particularly in Europe, is expected to lead to the formation of new corporate groupings. Biotechnology is evolving into an industry of the future with major potential.

These trends are opening up new opportunities for Perstorp, whose operations command prominent positions in markets worldwide.

“The purpose of Perstorp's streamlining is to enhance its profitability and thus boost the Group's value to shareholders.”

Proposal to spin off Perstorp Life Science to shareholders

Perstorp Life Science is active in the expanding biotechnology sector. As a result of operations that have generated favorable earnings and sales trends for a number of years, the image of Perstorp Life Science as a successful company in an attractive industry has been strengthened.

Perstorp AB's Board of Directors proposes that Perstorp Life Science be listed separately and spun off to shareholders, to enable them to participate directly in future value growth and to facilitate the more rapid release of the potential that exists. A prerequisite for this is that Sweden's "Lex Asea" act can be applied, thus allowing the operations to be transferred to shareholders in a favorable manner from a tax perspective.

Focus on chemicals and surfaces after two years of restructuring

The stock market listing of Perstorp Life Science may be viewed as another step in the streamlining of the Group, which began during the 1996/97 fiscal year. In little more than two years, we have divested four of our seven divisions – including Perstorp Plastic Systems in 1998 – as well as various minor operations.

The spin-off of Perstorp Life Science will mean that Perstorp will focus solely on the core business of chemicals and surfaces. Consequently, we will have virtually halved our revenues in a relatively short period, at the same time as divestments have considerably strengthened the balance sheet. The equity ratio is now 53%,

compared with the corporate objective of 35%, and we have substantial financial resources to acquire complementary companies. Naturally, it is also possible to strengthen operations by participating in various alliances or jointly owned ventures, whose strength is based on cooperation with other companies in the industry concerned.

During the fiscal year, we evaluated various courses of action in terms of corporate acquisitions and strategic alliances, and also completed a number of acquisitions, restructuring transactions and joint ventures. We did not finalize the larger acquisitions we had considered, since, among other reasons, our evaluations showed that they were associated with major environmental risks. In view of the downturn in business conditions in the chemical sector and expectations of lower corporate price tags, the fact that we did not implement the company acquisitions may well prove beneficial.

*President and Chief Executive Officer
Åke Fredriksson*



“The spin-off of Perstorp Life Science will mean that Perstorp will focus solely on the core business of chemicals and surfaces.”

Earnings did not meet expectations

The purpose of Perstorp's streamlining is to enhance its profitability and thus boost the Group's value to shareholders. However, the short-term earnings trend has not matched our own expectations or those of the capital market.

The dip in earnings is primarily attributable to Perstorp Flooring, whose European growth declined as a result of stiffer competition, while the business trend in the U.S. remained buoyant. The reason for the sharp fall in the division's earnings was that the adjustment of current expenses and development costs to the lower-than-anticipated growth rate could not be implemented sufficiently rapidly.

The decrease in Group earnings was exacerbated during the final months of the year by the sharp downturn in economic conditions that hit several markets during November-December 1998. Several major customers in the building materials sector and international paint manufacturers active in the chemicals industry, ran down their inventories. A number of companies in the latter group also temporarily suspended production. As a supplier of input materials, Perstorp is positioned early in the business cycle and this factor, combined with the short order backlogs that are a feature of operations, impacted rapidly on our sales volumes.

Perstorp Surface Materials' earnings have strengthened but still remain unsatisfactory. The rationalization and restructuring programs will thus continue unabated. As noted above, Perstorp Life Science reported another year of favorable earnings and sales increases. Perstorp Chemicals' earnings remained high despite the slowdown during the final months of the year.

Forceful action program will bolster the Flooring division

Perstorp invented laminate flooring and – following many years of forceful expansion – is still the largest manufacturer, with the strong brand Pergo®. The indications are that laminate flooring will remain a fast-growth segment of the consumer floor market, at the same time as it has substantial potential in the institutional sector. As a result, we remain firmly confident in Perstorp Flooring's long-term potential.

In response to the changes in market conditions during 1998, we conducted an in-depth analysis of our operations, laid down a new strategy and commenced an extensive program of changes. We also appointed a new management team for Perstorp Flooring.

Current key requirements are to intensify product development, broaden the technology platform and supplement the product range. This involves a further strengthening of our market position in high-quality flooring, while introducing so-called direct laminate flooring in other market segments. After year-end, we signed a preliminary cooperation agreement with a German company involving this expanding segment of the laminate flooring market, which is expected to provide increased growth and superior positioning.

Other important aspects of the new strategy include boosting efficiency throughout the processing chain – from our supply of carrier materials to the distribution of finished products – and enhancing cooperation with external suppliers and customers. On the cost side, Perstorp Flooring has adopted measures to trim the workforce by some 200 people during the first half of 1999.

Accelerated expansion in sight for Chemicals

Perstorp Chemicals has reported the highest earnings within the Group for a number of years and has continuously strengthened its market positions. Factors underlying the strength of the division include efficient process technology, production plants in key markets and close cooperation with a wide range of key customers.

Our objective for Perstorp Chemicals is to further strengthen its globalization and focus on specialty chemicals with a high value for customers. Perstorp intends to participate actively in the restructuring of its areas of the chemicals industry, by acquiring other companies or cooperating with companies using similar technology or focusing on the same types of customers.

Continued rationalization and restructuring in surfaces sector

During 1998, Perstorp Surface Materials continued to rationalize its operations and renew its product program. Following fiscal year-end, the division broadened

its product range through a complementary acquisition. Sales of foils, notably to the furniture industry, are increasing in several markets and the division's design expertise has gained added status as a competitive tool.

We intend to continue strengthening the division's position by participating actively in the sector's restructuring in order to create a leading player in the global market for decorative surfaces.

Additional programs to create added value

In the dynamic business climate I noted by way of introduction, I believe that the Perstorp Group can create maximum value by giving each division the opportunity to develop in accordance with the potential inherent in its particular industry.

Consequently, we intend to organize our four divisions into separate subgroups. This will give our operations greater potential to develop within their industries and make them better prepared to implement swift, strategic restructuring measures. The creation of separate corporate entities will strengthen the control of profitability in terms of both earnings and capital. Financial accounting will become more transparent, facilitating external understanding of operations and valuations of the Group.

It is expected that the costs incurred by the creation of separate corporate entities will be comfortably offset by the increased shareholder value generated by, for example, the spin-off of Perstorp Life Science.

In line with this new approach, Perstorp will be responsible for active industrial control and work at executive management level will concentrate on matters of strategic importance for operations. This will entail ensuring that they have sustainable strategies and favorable conditions for innovation and growth, as well as access to skilled managers. Another crucial task will be to participate in creating effective organizations and working methods. Moreover, corporate functions will be downsized and division management strengthened.

“I expect conditions in the Group's main markets to remain weak, at least during the first half of the current fiscal year.”

Weak business conditions require aggressive measures

In the short term, I expect conditions in the Group's main markets to remain weak, at least during the first half of the current fiscal year.

In addition, consolidated earnings for 1999 will be adversely affected by the costs of the incorporation process and the spin-off of Perstorp Life Science. From the shareholders' viewpoint, however, these costs are expected to be comfortably offset by the increased value resulting from, for example, the spin-off of Perstorp Life Science.

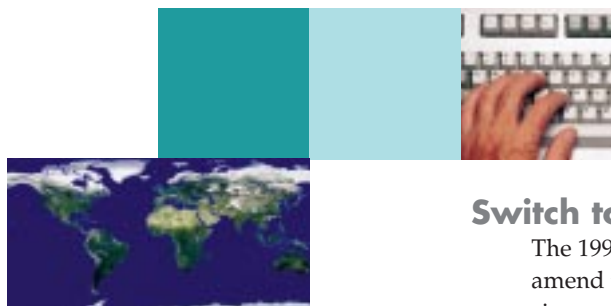
We are pursuing aggressive measures in all divisions to enhance their profitability. The P500 productivity program launched earlier by the Group continued to reduce costs during the fiscal year and the target of attaining annual savings of at least SEK 500 m will be realized during 2000.

Positive effects of Perstorp Flooring's comprehensive action program can be expected as of the second half of 1999, but it is not expected to gain a full impact until 2000.

Over the past five years, growth in current Group operations, excluding Perstorp Life Science, has averaged 12%, primarily through organic growth. The creation of new products with higher added value is a key objective in long-term development work. Efforts in this area include the development of unique specialty chemicals, laminate flooring products with new properties and more comprehensive system solutions for surface materials. I estimate that the operations as a whole will be able to attain the corporate growth objective of at least 15%, including acquisitions, in the next five-year period.

Perstorp's chemicals and surfaces operations are favorably positioned to participate in the structural transformation of their industries. The improved capacity to act that will result from the establishment of separate subgroups will enable us to function with greater foresight and flexibility in our efforts to create added value for shareholders. As a result, I am convinced that the Group will be able to aggressively develop the potential inherent in its selected areas of operations.


Åke Fredriksson



Switch to calendar-year accounting

The 1998 Annual General Meeting approved the Board of Directors' motion to amend the fiscal year to align it with the calendar year. In practice, the decision resulted in the 1997/98 fiscal year being extended by four months to cover the period from September 1, 1997 through December 31, 1998 and in calendar-year accounting becoming effective on January 1, 1999, from which time quarterly reporting was also introduced.

REPORT OF THE BOARD OF DIRECTORS

Perstorp AB's organization number 556024-6513

Markets and external conditions

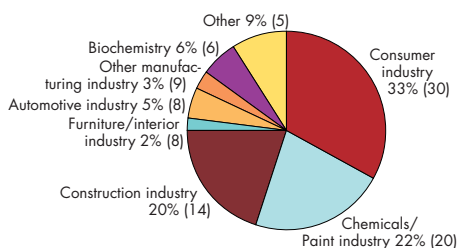
Perstorp AB functions as an active industrial owner of focused divisions whose operations involve applications of chemicals and surfaces. These are based on the Group's expertise in the field of chemicals, combined with other technologies and skills.

In general, the Group's products are aimed at well-defined markets, mainly in the chemicals and paints industry, the engineering industry, the flooring sector, construction and furniture industries, and the pharmaceuticals industry (see diagram). They are used primarily as quality input materials in the production processes of other industrial companies. One of the exceptions is Perstorp Flooring's laminate flooring, which is a finished product that is mainly marketed in the consumer market.

A substantial portion of sales takes place within the framework of close, long-term customer relations with other industrial companies and – in the consumer sector – with major distributors. The order backlog for these products is, however, generally rather short.

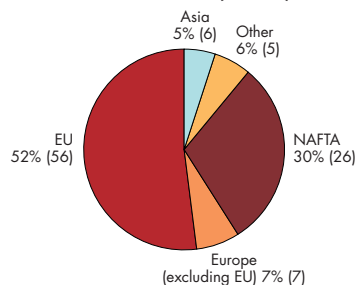
Geographically, customers are mainly located in the major industrialized countries and net sales were distributed as follows in 1998: 59% in Europe (1997: 63), 30% in the North American Free Trade Area, NAFTA, (26) and 11% in other markets (11). A comparison of these years shows some impact from divestments and acquisitions. In a longer perspective, however, the company's sales have mainly increased in the U.S. and – apart from 1998 – also in Asia. The countries of the European Union, EU, accounted for 52% (56) of net sales, of which 8 percentage points were attributable to Sweden.

Sales by customer category 1998 (1997)



Perstorp's customers are primarily industrial companies active in various sectors. The consumer market accounts for one third of sales.

Sales by market 1998 (1997)



North America, particularly the U.S., accounts for an increasing proportion of Perstorp's sales.

High market shares

For several products, the Group is one of the leading global producers. These products include various types of polyols, which are mainly used for the production of resins for paints and lacquers, and entire plants and catalysts for formalin production. These products are marketed globally. In addition, the company is a leading producer of laminate flooring, which is a product developed by Perstorp and launched in several geographic markets, primarily in Europe and the U.S. The Life Science area has many specialized products, which hold strong positions in the international biotechnology market.

Several of the Group's other products hold leading market positions, particularly in Europe. These include amino molding compounds, phenolic-based resins, composites, decorative laminate and foils.

Different competitors

Conducting operations that are aimed at different areas of application means that market and competitive conditions vary considerably from operation to operation. The Group has only limited contact with the same competitors in more than one division.

In the chemicals area, competition derives mainly from major companies, operating in entire continents or globally.

The European market for laminate flooring, laminate and foils is fragmented, with several producers who mainly operate nationally. The U.S. market, on the other hand, is well-structured with a few large companies. Few manufacturers are active in several continents.

Within the Life Science market, suppliers to the biotechnology industry constitute a young sector that is mainly concentrated in the U.S. This sector consists primarily of small and medium-sized companies, and new start-up companies are being formed at a rapid rate.

The Group is an active participant in the process of structural change under way in several sectors, as part of a trend towards fewer, larger and more global suppliers.

Weaker demand at the end of 1998

During most of the fiscal year, economic conditions and market demand were favorable in both Europe and the U.S. However, the economic trend in Asia resulted in lower demand from this market and also had a negative impact on conditions in the international economy.

Accordingly, the Group was increasingly affected by weaker demand in Europe during the autumn. This had negative effects on volumes and prices in Perstorp's construction and chemical-related areas of operation and rapidly impacted on earnings during the latter months of the fiscal year, since the Group generally works with short order backlogs.

The weaker conditions were particularly noticeable in the European market for laminate flooring, in which the Group encountered increased competition, especially in Germany. In the U.S., the business trend for flooring remained favorable.

The Life Science division has not been affected by the general economic decline. The division strengthened its position in the biotechnology market through the acquisition of Amersham Pharmacia Biotech's plant in Milwaukee, Wisconsin, U.S., in December.

Falling prices for chemical raw materials

The most important raw materials are particleboard, paper and such base chemicals as methanol, phenol, melamine and various aldehydes. Raw-material purchases account for approximately half of production costs. In terms of value, particleboard and paper are the most important items, each accounting for 15% of total raw-material purchases.

The prices of particleboards remained largely stable, while the prices for paper increased, due to an imbalance between supply and demand, particularly in the case of decorative paper.

Although petrochemical-based products form the foundation for the production of most chemical raw materials, there is no direct link with the price of oil and natural gas. Instead, the prices of chemical raw materials are mainly determined by supply and demand at the respective level of production.

The economic slump in Asia and Russia during 1998 meant that the supply of base chemicals exceeded the demand, which squeezed prices, particularly for methanol and phenol.

Trend for important currencies

There were relatively heavy fluctuations in the value of the Swedish krona during the year and the currency was worth approximately 8% less at the end of the fiscal year than at the beginning (measured as a change in the TCW index, a trade-weighted index calculated by the International Monetary Fund, IMF). After the end of the fiscal year, there was a marked appreciation in the Swedish krona.

The interest rates for the Group's most important borrowing currencies were stable until autumn 1998, when they began to fall generally. Lower interest rates have not yet had any significant impact on the Group's borrowing costs.



The economic recession in Asia and Russia during 1998 resulted in lower prices for chemical raw materials, particularly methanol and phenol.

Positive effects of euro introduction

The Group's euro preparations during the fiscal year were conducted in the form of projects within the business units, as well as on a country-by-country basis within operational companies. The project groups within the business units mainly studied strategic matters, while the country-based projects addressed administrative implications of the introduction of the euro.

The introduction of the euro has largely had favorable effects, mainly by reducing currency risks and generating opportunities for more efficient liquidity management. The Group is well adapted to the changes caused by the new currency.

New management model

Perstorp AB has introduced a new management model, whereby the Company is to function as an active industrial owner of focused divisions whose operations involve applications of chemicals and surfaces. Each operation is to be developed on the basis of the industrial logic prevailing in the sector concerned.

New division organization

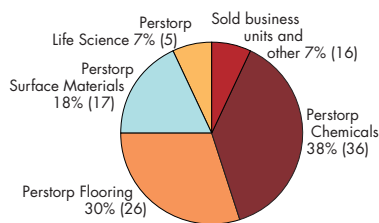
Following the divestment of Perstorp Plastic Systems, a new division organization was implemented during the fiscal year. Since September 1, 1998, operations have thus been conducted in four divisions – Perstorp Chemicals, Perstorp Flooring, Perstorp Surface Materials and Perstorp Life Science.

Perstorp Flooring and Perstorp Surface Materials previously formed a single division, Perstorp Surfaces. Perstorp Life Science comprises those biotechnology and medical device companies previously operated by the Group's business development company, Pernovo. Perstorp Chemicals is essentially unchanged.

Information on the divisions' markets, growth and profit margin are presented in the table below. Division trends are described in more detail on pages 20-33.

Division	Growth/yr 1993-98	Profit margin 1998	Market	Estimated long-term market growth/yr
Perstorp Chemicals	10%	12%	Paints/resins/ engineering industry	>GDP
Perstorp Flooring	30%	4%	Laminate flooring	>20%
Perstorp Surface Materials	1%	2%	Construction/ furniture industries	>GDP
Perstorp Life Science	12%	12%	Biochemicals	>10%
Total	13%	6%		

Divisions' shares of sales 1998 (1997)



Following the streamlining process of recent years Perstorp Group consists of four divisions.

Incorporation of the Group's divisions

The Group's four divisions are to be incorporated. This will increase their capacity to develop within their sectors and provide them with the capability to rapidly implement strategic structural changes. The incorporation process will also clarify the division of responsibility within the Group and strengthen the control of earnings and capital, while facilitating internal and external analysis and comparison.

The conversion of the divisions into corporate entities is expected to be implemented in stages during 1999 and be completed during early 2000. Earnings for the current fiscal year will be charged with the costs of the incorporation program, which are estimated at about SEK 200 m, of which income taxes will account for SEK 140 m. Costs and taxes related to the proposed spin-off of Perstorp Life Science (see below) account for nearly SEK 100 m of this amount. However, the shareholder value generated by the incorporation program, through such measures as the spin-off of Perstorp Life Science, which is to be transferred to current shareholders in a manner that is beneficial in terms of taxation, are expected to far exceed the costs involved.

Concentration of Group operations

During the fiscal year, Perstorp continued to concentrate operations on the application areas of chemicals and surfaces. As part of this process, the Group

divested Perstorp Plastic Systems, a minority share in the former Perstorp Components business area and the remaining sections of its pharmaceuticals operations.

Proposal to spin off Perstorp Life Science to shareholders

Perstorp Life Science is active in the expansive biotechnology area and combines favorable profitability with high growth. During 1998, the division continued to achieve rapid sales growth. It is estimated that the operations have excellent prospects for continued profitable growth, both organically and through complementary strategic company acquisitions.

To enable shareholders to benefit directly from future value growth in Perstorp's life science operations and in the sector as a whole, while also facilitating the more rapid release of existing potential, Perstorp AB's Board of Directors proposes that Perstorp Life Science be spun off to shareholders and listed on the stock exchange, on condition that this can be effected by applying Sweden's "Lex Asea" law, whereby it will not result in immediate tax consequences in Sweden for Perstorp AB's shareholders.

The intention is to convert the Life Science operations into a corporate group in conjunction with the incorporation of the Group's other divisions and to provide the company with a strong balance sheet, thus creating favorable conditions for the continued development of the company. It is estimated that it will be possible to complete the preparations for a listing on the Stockholm Stock Exchange during autumn 1999, following which the spin-off to Perstorp AB's shareholders can be effected.

Additional information regarding the spin-off and flotation will be issued to shareholders along with the notice to attend the Annual General Meeting, and through separate listing particulars, which will be prepared in conjunction with the flotation.

Divestment of Perstorp Plastic Systems

Perstorp Plastic Systems, which is active in plastic-based systems mainly for materials handling applications in the manufacturing and distribution industries, was sold effective July 31, 1998. These operations lacked significant synergies with Perstorp's core chemicals and surfaces operations and were considered to have better development potential outside the Group.

Investeringstonden Industri Kapital acquired a majority shareholding in a new company, Perstorp Plastic Systems Holding AB, which consists of the operations in the former division, while Perstorp AB retained a 30% interest in the company. The owners intend to further develop the company with a view to a stock-market introduction within a period of three to five years.

The shares in Perstorp Plastic Systems Holding AB are reported as a financial investment in the balance sheet.

As a result of the sale, Perstorp has released capital in a net amount of slightly more than SEK 1 billion. The sale itself had no effect on Perstorp's earnings.

Due to a change in accounting principles, Perstorp Plastic Systems' earnings are included in the income statement for the period up to the date of sale.

Sale of minority interest

During the preceding fiscal year, Perstorp sold, in various stages, the operations of the former Perstorp Components business area to the American company, Collins & Aikman Corporation. In this context, the two parties formed a joint company, Collins & Aikman Holding AB, for which Collins & Aikman has management responsibility, to operate a small section of the former business area. In December 1997, Collins & Aikman decided to exercise its option to acquire Perstorp's 49.9% minority interest in the company.

Divestments of pharmaceutical operations

Of the operations that were conducted by Pernovo in its former structure, the remaining products in the wound-care program were sold during 1998 to the UK company Smith & Nephew Ltd. and to Stiefel Laboratories Inc. of the U.S. The only pharmaceutical products that still remain in the Group are a few patents



The objectives of the P500 program are to achieve annual productivity gains of at least SEK 500 m. Slightly more than half of the targeted gains had been realized by the end of the fiscal year.

and trademarks, as well as some subcontract assignments. In addition, Contronic Development AB, the remaining part of the Perstorp Analytical business area, was sold to the U.S. company Danaher Corporation in August 1998. These divestments generated capital gains of SEK 61 m and SEK 19 m, respectively.

Productivity program for increased profitability and competitiveness

The Group continues to implement its previously introduced P500 productivity program, which is aimed at successively increasing profitability and competitiveness. The objective is to generate annual productivity increases corresponding to at least SEK 500 m from the year 2000 onwards and slightly more than half of this amount had been achieved by the end of the fiscal year. These savings were largely utilized in efforts to counter increased competition and price pressure in several markets.

During the current fiscal year, further cost savings are planned, including the more efficient use of capital, a downsizing of corporate functions and their adaptation to the new management model.

A comprehensive action program, described in the division section below, has been initiated within Perstorp Flooring. This is aimed at developing operations, making them more efficient and extending the product range to boost Perstorp's position as a market leader in laminate flooring. A new division president was appointed and a new organization implemented.

Corporate Governance

During the 16-month fiscal year, the Perstorp AB Board of Directors held ten meetings, including seven during 1998, in addition to the statutory meeting. During the autumn, the Board prepared a program of working procedures including instructions regarding divisions of responsibilities and financial reporting, which will act as a complement to the Swedish Companies Act and the Articles of Association.

The Board of Directors' working procedures

Directly after the Annual General Meeting, the Board of Directors will hold a statutory meeting in accordance with a fixed agenda. In addition to the statutory meeting, the Board will normally hold six meetings per calendar year. At the final scheduled meeting during a calendar year, a new program is to be agreed for the following year. In addition to the scheduled meetings, extraordinary meetings may be held as necessary. The time and place of these meetings are decided by the Chairman of the Board in consultation with the CEO.

Division of duties between the Board and the CEO

In addition to supervising the CEO to ensure that he fulfills his duties, the Board's responsibilities are to ascertain that the Company's organization is in keeping with its established objectives and to agree on objectives, important policies and strategic plans for the Company and the Group.

The CEO must present matters of an important nature to the Board for decisions, including acquisitions, major investments, divestments, policy for the management of financial issues, placement of collateral, disputes and insurance matters. In addition, the CEO must make available the required information/documentation prior to Board meetings, and fulfill his role of presenting reports and providing well-founded proposals for decisions. The CEO also bears responsibility for ensuring a continuous flow of information to the Board concerning the Company's and the Group's operations in accordance with agreed principles contained in the working procedures. In addition, the CEO must ensure that the Company observes its obligations regarding information and other matters resulting from the Company's contracts with the Stockholm Stock Exchange and the London Stock Exchange.

Responsibilities of the Chairman

The Chairman of the Board has the following Board duties:

- To monitor the Company's and the Group's development in consultation with the CEO

Corporate Governance

The question of how a company should be controlled (Corporate Governance) has been a core element of the legal discussion about stock market companies in recent years. This has resulted in reports which have received a great deal of international attention, including the British Cadbury Report.

Against this background, new rules for the organization and control of limited liability companies are implemented in the Swedish Companies Act, which came into force on January 1, 1999.

- To ensure that the members of the Board receive the information needed to be able to monitor the development of the Company and the Group
- To consult the CEO concerning strategic matters
- To chair Board meetings and ensure that the meetings are prepared
- To ensure that the matters addressed by the Board do not contravene the disqualification provisions of the Companies Act

Committees

The Board will appoint a remuneration committee, consisting of the Chairman of the Board and three other Board members. The committee shall prepare proposals for the distribution of Board fees. In addition, it will establish the salary and other forms of remuneration, including pension, to be paid to the CEO, as well as salary and remuneration principles for other senior executives. A review of the employment conditions and privileges of senior executives is to be conducted on a continuous basis and reported to the Board.

The Chairman shall take the initiative to convene meetings of the nomination committee, whose task will be to nominate Board members, deputies and auditors to the Annual General Meeting. The nomination committee shall consist of the Chairman and at least two shareholder representatives.

Reporting by the auditors to the Board

One of the Company's auditors shall be present at Board meetings as soon as this is needed for assessment of the Company's position, as well as at least once a year, when the annual audit report is addressed and, if necessary, when the Board approves and signs the annual report.

Financial objectives

Financial objectives

	Corporate objective	Result 10-year average	Result 5-year average	Result 1997	Result 1998
Turnover rate					
- total capital, multiple/year	1.30	1.28	1.31	1.21	1.21
- working capital, multiple/year	5.00	5.59	5.26	4.76	4.18
Profit margin, %	10.0	7.4	6.8	7.2	6.4
Profitability					
- return on total capital, %	10-13	10	9	9	8
- return on equity, %	13-18	11	11	10	8
- return on capital employed, %	15-20	13	13	12	10
Equity ratio, %	35	45	45	47	53
Interest-coverage ratio, multiple	4.0	3.8	4.5	3.9	5.1
Self-financing of investments, %	100	85	85	102	70

An economic model consisting of financial correlations has been applied to complement Perstorp's overall strategy. This model stipulates objectives for profitability, profit margins, capital resources and financing. The table above presents the objectives, the average results achieved over the past five and ten years, respectively, and the results for the 1997 and 1998 calendar years.

Outcome in 1998

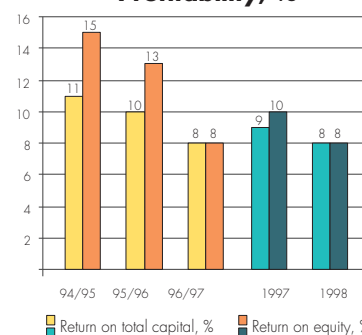
The lower earnings led to a deterioration in all key figures, with the exception of the equity and interest-coverage ratios. A stronger financial position, resulting from divestments, has created the scope for future expansion, although the short-term consequence is a lower return on equity. The aim of the Group's ongoing process of change and productivity program is to raise profitability to the level of the established long-term objectives, thus making the Perstorp share an attractive investment.

Return requirements

The Group's financial objectives are long-term targets, to be attained on average over a business cycle.

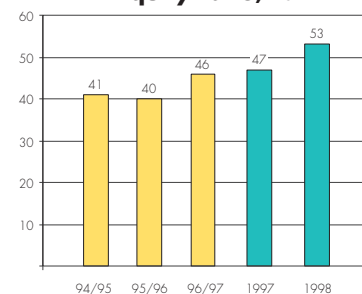
In Sweden, inflation and interest rates continued to decrease during the fis-

Profitability, %



Profitability declined due to a lower profit margin.

Equity ratio, %



The equity ratio was boosted by a number of divestments.

cal year. At the end of the fiscal year, the interest rate on a risk-free investment in, for example, ten-year treasury bills was approximately 4.2%. Together with a risk premium of 4% and a beta value of 0.8, this means that the required return on equity is 7.4%. The return on equity attained by the Group was 8%.

Profitable growth

The Group's ambition is to operate as an active industrial owner and to direct resources and capital to areas that have the greatest potential for creating value in the long term. To achieve this, efforts are being made to develop the financial objectives so that they include objectives for cash flow.

Condensed income statement

Consolidated Income statement

SEK m	Calendar year		Change	Fiscal year	
	1998	1997		1997/98 ¹⁾	1996/97
Net sales	10,742	11,308	-566	14,418	11,152
Costs of goods sold	-7,559	-8,061	502	-10,190	-7,927
Gross earnings	3,183	3,247	-64	4,228	3,225
Sales costs	-1,348	-1,387	39	-1,810	-1,394
Administration costs	-938	-900	-38	-1,250	-880
Research and development costs	-275	-232	-43	-332	-254
Items that affect comparability	-7	-13	6	60	-68
Other operating revenues and expenses	14	32	-18	41	-4
Result from participations in associated companies	21	13	8	24	13
Operating earnings	650	760	-110	961	638
Interest income and similar items	38	58	-20	50	79
Interest expenses and similar items	-135	-208	73	-207	-209
Earnings before taxes	553	610	-57	804	508
Taxes	-229	-216	-13	-317	-180
Minority share	11	-1	12	9	-7
Earnings after taxes	335	393	-58	496	321

¹⁾ 16 months

Net sales

Net sales by division

SEK m	Calendar year		Change %	Fiscal year	
	1998	1997		1997/98 ¹⁾	1996/97
Perstorp Chemicals	4,124	4,117	0	5,475	4,013
Perstorp Flooring	3,267	2,909	12	4,280	2,657
Perstorp Surface Materials	1,921	1,947	-1	2,534	1,966
Perstorp Life Science	706	549	29	891	500
Other items, including eliminations	-150	56	-	-145	92
Subtotal	9,868	9,578	3	13,035	9,228
Divested business units	874	1,730	-	1,383	1,924
Group	10,742	11,308	-5	14,418	11,152

¹⁾ 16 months

Fiscal year 1997/98, 16 months

The Group's net sales amounted to SEK 14,418 m for the 16-month 1997/98 fiscal year, compared with SEK 11,152 m for the preceding fiscal year (12 months).

Calendar year 1998

Net sales amounted to SEK 10,742 m (11,308) for the 1998 calendar year. For comparable units, earnings increased by 3%. The volume increase was 3%, while price and currency changes offset each other.

The Perstorp Life Science and Perstorp Flooring divisions reported increased net sales of 29% and 12% respectively, during the year, while the net sales of Perstorp Chemicals and Perstorp Surface Materials remained largely unchanged.

The strong increase in sales within Perstorp Life Science was mainly attributable to organic growth and to a lesser extent to acquisitions.

Perstorp Flooring's sales continued to increase during the fiscal year,



Perstorp Flooring's sales continued to increase during the year, especially in the U.S.

particularly in the U.S., while developments in Europe and Asia were weak. Despite a noticeable decline in demand at the end of 1998, Perstorp Chemicals' sales remained unchanged.

Perstorp Surface Materials' sales declined somewhat since the sales downturn in Asia was not fully compensated by increases in other markets.

North America achieved the biggest sales increase

The EU is still the Perstorp Group's largest market area, but its importance is declining in favor of the North American market.

Sales in Asia declined as a result of the financial crisis there, while sales increased in South and Central America. Other market areas experienced minor changes.

Net sales by market area

SEK m	Calendar year		Change %	Fiscal year	
	1998	1997		1997/98 ¹⁾	1996/97
EU	5,464	6,281	-13	7,541	6,271
Rest of Europe	773	828	-7	1,074	786
NAFTA	3,294	2,901	14	4,246	2,817
Asia	504	700	-28	708	706
South and Central America	613	486	26	728	464
Other markets	94	112	-16	121	108
Total	10,742	11,308	-5	14,418	11,152

¹⁾ 16 months

Operating earnings

Fiscal year 1997/98, 16 months

The Group's operating earnings amounted to SEK 961 m for the 16-month 1997/98 fiscal year (1996/97: 638).

Calendar year 1998

Operating earnings by division

SEK m	Calendar year		Change	Fiscal year	
	1998	1997		1997/98 ¹⁾	1996/97
Perstorp Chemicals	494	506	-12	675	467
Perstorp Flooring	117	265	-148	172	262
Perstorp Surface Materials	41	10	31	61	1
Perstorp Life Science	86	58	28	100	57
Other items, including eliminations	-154	-129	-25	-185	-111
Subtotal	584	710	-126	823	676
Result of divestments	38	185	-147	113	114
Divested business units	28	-135	163	25	-152
Group	650	760	-110	961	638

¹⁾ 16 months

Lower earnings attributable to Perstorp Flooring

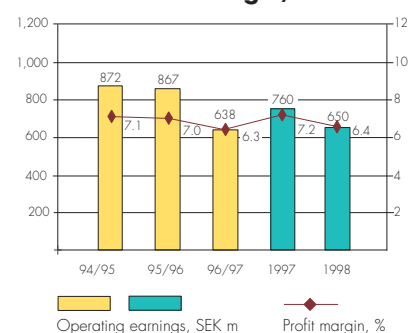
Operating earnings totaled SEK 650 m, which was SEK 110 m less than the preceding calendar year. The profit margin was reduced from 7.2% to 6.4%. After adjustments for earnings in divested operations and gains from divestments, operating earnings amounted to SEK 584 m (710), a decline of SEK 126 m. The fall in earnings was mainly attributable to Perstorp Flooring's European operations.

The strong decline in Perstorp Flooring's earnings was mainly a result of the division's costs being too high and not adapted to the lower rate of growth during the year. Several measures are now being implemented to reduce costs.

Perstorp Life Science increased its operating earnings by SEK 28 m as a result of a substantial increase in sales.

The operating earnings for Perstorp Surface Materials increased to SEK 41 m (10), despite the negative impact of the reduction in volume in Asia and lower demand in Europe during the latter part of the calendar year. The improvement was attributable to the continuation of the preceding year's extensive

Operating earnings, SEK m Profit margin, %



The lower operating earnings and profit margin were mainly attributable to Perstorp Flooring.

restructuring and rationalization efforts, which had a positive effect on earnings.

Perstorp Chemicals reported strong operating earnings, despite a strong downturn in the demand for specialty chemicals during the last few months of the calendar year.

Items affecting comparability include the earnings from the divestment of operations and the restructuring costs for both current operations and divested operations.

The decline in Asia had a direct negative effect of SEK 75 m on operating earnings. In addition, an indirect effect was experienced in Europe and North America in the form of reduced demand and price pressure, particularly for Perstorp Chemicals.

Earnings were also charged with costs of approximately SEK 60 m for the Group's year 2000 compliance measures.

Earnings from associated companies were attributable to Perstorp Clariant AB (formerly Hoechst-Perstorp AB).

Effects of divested units

Net sales by divested business units amounted to SEK 874 m, while operating earnings totaled SEK 28 m. Gains from the divestments amounted to SEK 38 m. The sale of Perstorp Plastic Systems did not itself affect earnings.

Consolidated income statement 1998

SEK m	Sold business units	Gains from divestments	Remaining Operations	Total
Net sales	874		9,868	10,742
Costs of goods sold	-689		-6,870	-7,559
Gross earnings	185		2,998	3,183
Sales, administration and R&D costs	-148		-2,413	-2,561
Items that affect comparability	-3	38	-42	-7
Other operating revenues and expenses	-6		20	14
Result from participations in associated companies	0		21	21
Operating earnings	28	38	584	650
Net financial items	-6		-91	-97
Earnings before taxes	22	38	493	553

Financial items

Net financial items

SEK m	Calendar year		Change	Fiscal year	
	1998	1997		1997/98 ¹⁾	1996/97
Interest income and similar items	43	58	-15	50	79
Interest expense	-134	-141	7	-182	-157
Exchange-rate losses	-6	-67	61	-25	-52
Net financial items	-97	-150	53	-157	-130

¹⁾ 16 months

Fiscal year 1997/98, 16 months

The Group's net financial expense amounted to SEK 157 m for the 16-month 1997/98 fiscal year (1996/97: expense 130).

Calendar year 1998

Net financial expense amounted to SEK 97 m (expense: 150). The improvement was chiefly attributable to the fact that 1997 earnings were affected by losses resulting from currency unrest in Southeast Asia. Interest expense decreased somewhat as a result of a reduction in average net debt from SEK 2,906 m to SEK 2,486 m. Interest rates were also marginally higher.

The interest coverage ratio multiple was 5.1 (3.9).

Taxes

Fiscal year 1997/98, 16 months

The Group's tax costs for the 16-month 1997/98 fiscal year amounted to SEK 317 m (1996/97: 180). The distribution between taxes paid and deferred tax, as well as an explanation of the Group's tax costs, is shown in Note 10.

Calendar year 1998

Tax costs amounted to SEK 229 m (216), corresponding to a tax rate of 41% (35). The increase was mainly due to nondeductible costs, reserves and capital losses, and to negative consequences in certain countries resulting from the changed fiscal year.

The distribution between taxes paid and deferred tax was SEK 172 m (178) and SEK 57 m (38), respectively.

Cash flow analysis

Condensed cash flow analysis

SEK m	Calendar year		Change	Fiscal year	
	1998	1997		1997/98 ¹⁾	1996/97
Operating earnings	650	760	-110	961	638
Depreciation	521	544	-23	705	533
Change in working capital	-147	-789	642	-408	-278
Current investments in fixed assets	-456	-378	-78	-535	-433
Operating cash flow	568	137	431	723	460
Tax related to operating earnings	-208	-243	35	-308	-204
Free cash flow	360	-106	466	415	256
Adjustment of tax, financial items and other items	5	26	-21	34	5
Cash flow from operations	365	-80	445	449	261
Strategic investments in fixed assets and company acquisitions	-471	-437	-34	-614	-452
Divestments	474	241	233	474	736
Cash flow before dividend	368	-276	644	309	545
Dividend to shareholders	-197	-179	-18	-197	-179
Net cash flow	171	-455	626	112	366
Net debt at the beginning of the year	-2,178	-1,842		-2,118	-3,039
Net debt at year-end	-1,623	-2,178		-1,623	-2,118

¹⁾ 16 months

Fiscal year 1997/98, 16 months

Free cash flow totaled SEK 415 m for the 1997/98 fiscal year, which comprised 16 months, compared with SEK 256 m for the preceding fiscal year (12 months). Cash flow from operations during the fiscal year amounted to SEK 449 m (261).

Calendar year 1998

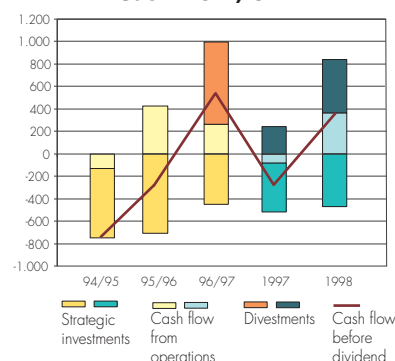
Free cash flow amounted to SEK 360 m (neg: 106). The improvement was chiefly attributable to the fact that working capital, excluding tax, increased by only SEK 147 m (789). Current investments in fixed assets increased from SEK 378 m to SEK 456 m.

Cash flow from operations totaled SEK 365 m (neg: 80).

Strategic investments in fixed assets and company acquisitions amounted to SEK 471 m (437). Major investments included several plants within Perstorp Specialty Chemicals, and Perstorp Life Science's acquisition of fixed assets.

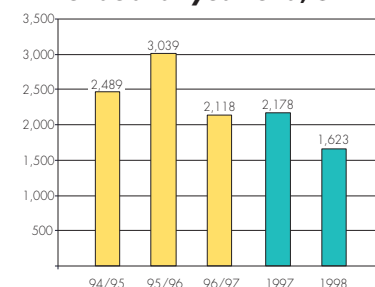
Net debt decreased during the year and amounted to SEK 1,623 m (2,178) at year-end. The decrease was mainly due to the divestment of Perstorp Plastic Systems.

Cash flow, SEK m



There was an increase in cash flow, before dividend payments, mainly as a result of a lower growth rate for working capital.

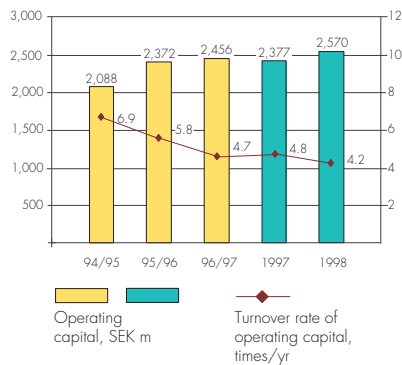
Net debt at year-end, SEK m



The decrease in net debt was due primarily to the divestment of Perstorp Plastic Systems.

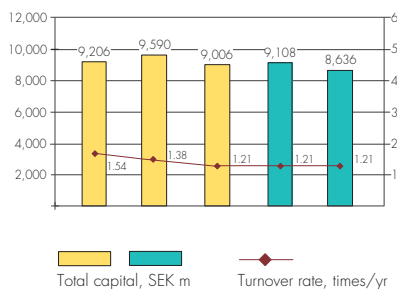
Financial position

Operating capital, SEK m
Turnover rate, times



The increase in working capital was the result of Perstorp Flooring's and Perstorp Life Science's expansion.

Total capital, SEK m
Turnover rate, times



The main reason for the decrease in total capital was the divestment of Perstorp Plastic Systems.

Capital employed, by currency

Dec 31, 1998	
SEK	2,284
GBP	418
ITL	212
FRF	132
FIM	51
USD	2,164
DEM	372
BEF	186
ESP	172
Other	216
Total	6,207

Consolidated balance sheet

SEK m	Dec 31, 1998	Dec 31, 1997	Aug 31, 1997
Long-term operating assets	4,087	4,198	4,158
Long-term financial assets	314	131	191
Inventories	1,909	1,833	1,728
Current operating receivables	2,126	2,746	2,754
Current financial assets	200	200	175
Total assets	8,636	9,108	9,006
Shareholders' equity	4,528	4,265	4,085
Minority interests	56	61	72
Provisions	845	797	795
Long-term financial liabilities	407	477	456
Current operating liabilities	1,539	1,936	2,026
Current financial liabilities	1,261	1,572	1,572
Total liabilities and shareholders' equity	8,636	9,108	9,006

Fiscal year 1997/98, 16 months

The Group's total assets declined by SEK 370 m and amounted to SEK 8,636 m (9,006) at the end of the fiscal year. The reasons for the decline are described below under the the heading Calendar year 1998.

Calendar year 1998

The Group's total assets decreased by SEK 472 m compared with December 31, 1997 and amounted to SEK 8,636 m (9,108) at the end of the calendar year.

The sale of Perstorp Plastic Systems reduced total assets by approximately SEK 1.4 billion. The reduction was offset by an increase in working capital in the Group's remaining operations, exchange-rate changes and the fact that investments in fixed assets exceeded depreciation by SEK 400 m. In addition, the increase in financial assets amounted to SEK 183 m, mainly related to minority shares in Perstorp Plastic Systems Holding AB and Novopan A/S. The equity ratio increased to 53%, compared with 47% at the beginning of the year.

The return on total capital decreased by one percentage point to 8%, due to a lower profit margin. The capital turnover rate remained unchanged.

The Group's long-term operating assets include intangible assets in an amount of SEK 82 m, of which goodwill accounts for SEK 48 m.

Net debt, which is defined as financial liabilities less financial assets, decreased by SEK 555 m, mainly due to the sale of Perstorp Plastic Systems. Self-financing of investments amounted to 70%.

The Group's shareholders' equity increased by SEK 263 m to SEK 4,528 m (4,265).

Group inventories rose by SEK 76 m to SEK 1,909 m. The increase was mainly attributable to the acquisition of inventory assets in Amersham Pharmacia Biotech, in Milwaukee, U.S., and to changes in exchange rates.

Investments

Group investments during 1998 amounted to SEK 927 m (1997: 815). Strategic investments, meaning those that significantly increase the capacity and productivity of the various divisions, accounted for approximately 50% (SEK 471 m) of the total.

Several plants within Perstorp Specialty Chemicals, such as a new TMPDE plant in Perstorp, as well as the acquisition of fixed assets from Amersham Pharmacia Biotech, were the most notable investments during the year. Other significant measures were productivity and expansionary investments in flooring operations and the production of composite materials.

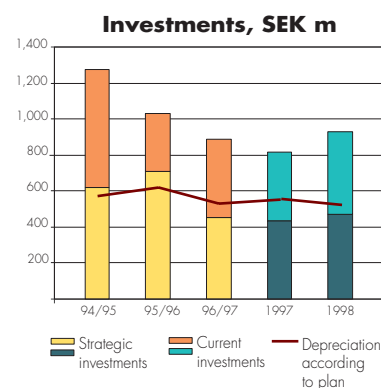
The associated company Perstorp Clariant AB (formerly Hoechst-Perstorp AB), which produces water-borne dispersions mainly for the paint, adhesives, textile and paper industry, has decided to invest approximately SEK 200 m to double capacity for its production of pressure polymers and for a new techno-

logy center in Perstorp. The investment will be financed independently by Perstorp Clariant AB, which is one of the world's few producers of pressure polymers. The increased capacity will substantially boost the company's competitiveness. Perstorp Clariant AB is owned equally by Perstorp AB and the Clariant Group, following the latter company's acquisition of the Hoechst Group's specialty chemicals operations in 1997.

Investments by division

SEK m	Calendar year		Change	Fiscal year	
	1998	1997		1997/98 ¹⁾	1996/97
Perstorp Chemicals	388	261	127	484	271
Perstorp Flooring	173	201	-28	222	219
Perstorp Surface Materials	115	55	60	130	49
Perstorp Life Science	79	48	31	113	18
Other	104	31	73	86	67
Subtotal	859	596	263	1,035	624
Divested business units	68	219	-151	114	261
Group	927	815	112	1,149	885

¹⁾ 16 months



For comparable units, investments rose, due mainly to expenditures within Perstorp Chemicals.

Management of financial risks

The Perstorp Group is exposed to various types of financial risks due to its geographic spread and international operations. These risks are managed according to a policy approved by the Board of Directors. Risk management is aimed at identifying, quantifying and reducing – or eliminating – risks.

Corporate Finance has overall responsibility for the Group's financial matters. Follow-up and control are carried out on a continuous basis in each company and at Group level. Note 23 contains a description of the way in which the Perstorp Group manages its financial risks.

Perstorp Treasury AB

Most of the Perstorp Group's financial transactions are conducted via Perstorp's internal bank, Perstorp Treasury AB.

Centralization and coordination are used to achieve substantial economies of scale in the terms received for financial transactions, liquidity management and financing. Perstorp Treasury AB develops, procures and manages the Group's cash pools and offers cash management advice to subsidiaries.

Within the framework of established risk limits, Perstorp Treasury AB performs a certain amount of trade in currency and interest-rate instruments. During the year, this trade yielded a positive result.



Notable major investments during the year included several plants within Perstorp Specialty Chemicals, such as a new TMPDE plant in Perstorp, Sweden.



Remel™, Perstorp's fiber-glass reinforced melamine plastic, was launched successfully within such sectors as telecommunications, white goods and transport, as well as in the construction industry, where pattern-adapted Remel™ moldings are included in Perstorp's flooring range.

Average number of employees

	1997/98	1996/97
Sweden	37%	35%
Other EU-countries	30%	37%
USA	18%	15%
Other regions	15%	13%

Research and development

Pernovo

As of September 1, 1998, Pernovo, the Perstorp Group's business development company, adopts a new approach. Pernovo's new role is to seek, acquire and develop chemical and materials technology operations with links to the Group's divisions. The company shall also stimulate organic growth within the Group. Pernovo, situated adjacent to the IDEON research village in Lund, Sweden, coordinates and develops the Group's contacts with the research community and supports the Group's core competencies.

Pernovo currently has no operating units. The intention is that in a few years time, Pernovo will have acquired companies deemed to have growth potential and the capacity to contribute new expertise and new products in areas adjacent to the divisions' operations. The efficiency and value appreciation in Pernovo's operations will be measured in accordance with the principles applied for assessing growth companies in the venture capital segment.

Innovation

R&D costs in the Group as a whole during 1998 amounted to SEK 275 m (1997: 232), which corresponds to nearly 3% of net sales. Due to the different conditions prevailing in the various sectors, R&D activity varies from division to division. Notable current projects include Boltorn™ and Remel™, two technology platforms within specialty chemicals and construction plastics, respectively. Since Perstorp aims to attain leading positions within its selected niches, investments in innovation in these areas will be increased to a level that exceeds the sector average.

During the year, Perstorp developed a Group-wide framework for innovation and renewal. Pernovo was assigned a role as a promoter of innovative processes within the divisions.

Personnel

During the 16-month fiscal year, the average number of employees in the Group was 6,747 (7,499). The geographic distribution of employees was as the table shows.

The actual number of employees at the end of the fiscal year was 6,102. For equivalent and comparable units, the ongoing rationalization program has resulted in implemented or planned workforce reductions of approximately 300 employees.

Information on wages, salaries and other remuneration is provided in Note 28.

Year 2000

In cooperation with IBM, Perstorp is conducting a comprehensive project to adapt the Group's administrative and embedded systems in preparation for the shift into the Year 2000. The project, named P2K, is adhering to the time schedule and all significant systems are expected to be adjusted in ample time before the New Millennium.

An extensive total risk assessment program was initiated towards the end of 1998. The program involves work to analyze and, where necessary, implement measures to eliminate the internal and external risks that may remain when all systems have been made Y2K compliant, to the extent that this is possible and feasible within the framework of the current project.

The Group's costs for Y2K measures are estimated at approximately SEK 100 m, with external input accounting for about SEK 85 m. Of the total, some SEK 60 m will be charged against income for 1998.

Detailed information about how the work is conducted and progressing is presented, and updated continuously, on the Group's Internet web site (www.perstorp.com).

Dividend

The Board of Directors proposes a cash dividend of SEK 4.00 (2.75) per share, and that the operations of Perstorp Life Science be distributed to shareholders and listed on the Stockholm Stock Exchange. The increased cash dividend is attributable to the extended fiscal year. The Board of Directors' proposal regarding the distribution of unappropriated profits is presented on page 56.

Share listing

Perstorp's shares have been registered on the O List of the Stockholm Stock Exchange since September 4, 1997. Following fiscal year-end, Perstorp AB's Board of Directors decided to request the reregistration of the Company's shares on the Stockholm Stock Exchange's A List, which is expected to have a favorable effect on share trading.

At the request of Perstorp AB, the Paris Stock Exchange deregistered Perstorp B-shares as of February 20, 1998. Perstorp's reason for this measure was the fact that most trading in its shares currently occurs on the Stockholm and London stock exchanges.

Additional information on the Perstorp share is provided on pages 61-63.

Options for senior executives

Following a decision by Perstorp AB's Board of Directors, 215,000 synthetic options were issued. The options, which were issued in blocks of between 2,000 and 30,000, were acquired by a total of 22 senior executives, and by a Perstorp subsidiary.

The options program is intended to further strengthen the commitment of the executives concerned to Perstorp's future growth. The exercise price on the expiration date of December 15, 2000, will be SEK 165. SEK 13.50 was paid for each option. The share price at the time the terms were established was SEK 138.50. The terms comply with a valuation statement prepared on a commercial basis by Handelsbanken Markets.



The Group's Internet web site (www.perstorp.com) contains financial information and press releases, as well as facts about research and development, personnel and Y2K work.



Perstorp Chemicals is intensifying its efforts to manufacture more refined specialty chemical products.



Perstorp Chemicals produces specialized chemical products for industrial customers and comprises the Specialty Chemicals, Chemitec and Construction Chemicals business units.

Several of Perstorp's chemical products have enjoyed high profitability and strong global market positions for many years. New products and geographic expansion are important elements in the strategy for polyols, formalin chemicals, thermosets, resins, composites and construction chemicals. For

PERSTORP CHEMICALS

most of the fiscal year, the division benefited from strong demand, particularly in the U.S. and Europe. Gradually, a decline in demand in Asia, with resultant overcapacity, had a negative effect on volumes and prices for chemical products in the global market. During the last two months of the year, a noticeable decline occurred when several major customers reduced their inventories and, in certain cases, closed their plants during the holiday season. During January 1999, these plants have been restarted and demand has improved somewhat.

Main competitors in global specialty chemicals market*

BASF	Germany
Bayer	Germany
Celanese	US
Degussa	Germany
Eastman	US
Koei Chemicals	Japan
Lee Chang Yung	Taiwan

* alphabetical order

Continued favorable operating earnings

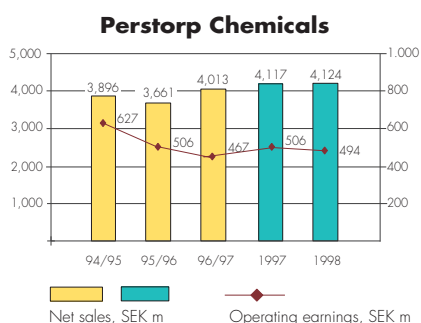
Despite the decline in Asia and the weak end to the year, operating earnings for 1998 amounted to SEK 494 m, which is largely unchanged compared with 1997 (506). Most of the division's earnings are attributable to the Specialty Chemicals business unit. Net sales amounted to SEK 4,124 m, largely unchanged compared with the preceding year (4,117).

Structural change with fewer and larger players

The global structural change towards fewer, larger and more specialized players in the chemicals industry continues. Perstorp Chemicals is an active participant in this process and is further focusing and strengthening its market positions. At the same time, strategic investments are being made in cooperation with global key customers.

An extensive productivity program has been successfully implemented and there has been an intensification of investments in research and development, as well as the production of more advanced products. Products such as special polyols, composites, concrete admixtures and industrial surfaces are currently experiencing growth rates of 10–20% and are expected to account for an increasing share of total operations.

The division works with high levels of capacity utilization for several products and extensive capacity expansion occurred in virtually all areas.



Specialty Chemicals

The Specialty Chemicals business unit is a global leader within the market segment for polyols and formalin production.

Perstorp's polyol production is performed using technologically advanced and, in some cases, patented processes with formalin produced by the company as the main raw material. The Group has a high market share in several segments and faces different main competitors – global chemical companies, as well as small players – in its various product areas.

Polyols produce chemical or physical properties in paint and lacquer systems, hotmelt adhesives, plastics additives, lubricants and other applications. Demand is on the increase, mainly from the manufacturers of resins for paint,

Perstorp Chemicals

SEK m (unless otherwise stated)	1998 12 mos	1997 12 mos	1997/98 16 mos	1996/97 12 mos
Net sales	4,124	4,117	5,475	4,013
Operating earnings	494	506	675	467
Operating margin, %	12,0	12,3	12,3	11,6
Operating capital, average	2,213	2,020	2,158	1,971
Return on operating capital, %	22,3	25,0	23,5	23,7
Depreciation	197	189	262	179
Investments	388	261	484	271
Number of employees at period end	1,810	1,534	1,810	1,644



Perstorp polyols are used in demanding paint systems, such as the printing of bank notes. Thirteen billion euro notes will be printed in the next few years, in which a combination of at least two different printing techniques will be used for security reasons.

while end-users are to be found, for example, in the construction, automotive and printing industries. Special polyols have the fastest growth rate and this is mainly generated by considerable growth in the demand for environmentally compliant applications.

Perstorp's formalin technology comprises both production through the Group's own oxide process and the supply of complete plants, particularly to producers in the board and chemicals industries, as well as catalysts for formalin production. Almost half of the capacity growth in the world during the 1990s is based on Perstorp technology and the Group holds two-thirds of the total oxide-catalyst sales.

Favorable sales despite decline at year-end

The total demand for polyols was favorable, but economic developments in Asia had a negative impact on volumes and prices in the global market, particularly during the last months of the year. Sales of catalysts for the production of formalin showed continued strong growth and Perstorp's leading global position for formalin chemicals was strengthened. In 1998, sales amounted to SEK 2,347 m, largely unchanged compared with 1997 (2,372).

Geographic expansion and investment in more refined products

In cooperation with a local partner, the division began the manufacture of special chemical products in India and is thus unique in the polyol market, since it has production in three continents. These operations are being conducted by a jointly owned company (Perstorp 51%), which is consolidated within the Perstorp Group from September 1, 1998. The main product is pentaerythritol and the production facilities previously operated by the partner company are now being rebuilt and expanded to comply with Perstorp's technology. The operations have slightly more than 300 employees.

The world's first full-scale production of dendritic polymers has commenced in Perstorp. Potential areas of application for the new product Boltorn™ are in the automotive and plastics industries, as well as in the production of paint and lacquers, where the amount of solvent used can be reduced considerably. A number of customers are performing tests within interesting areas of application and the decision has been taken to build a new plant, with construction starting in the year 2000. A plant for the production of various special polyols has been built in Perstorp. This plant makes the Group the world's largest producer of the main product, TMPDE, which has applications in such products as advanced lacquer systems for the furniture and building industries.

Perstorp to build the world's largest formalin plant

Perstorp Chemicals has signed an agreement with DuPont de Nemours (Nederland) B.V. for long-term supplies of formalin from a new plant, which Perstorp is to build and own on DuPont's site in Dordrecht, the Netherlands. The plant, which will be the largest of its kind in the world, involves an investment of SEK 200 m and is scheduled to begin operating in the year 2000.

During the fiscal year, Perstorp sold four complete formalin plants in Europe and Southeast Asia.

Main competitors in global market for composites*

Durez (ccidental)	US
Rogers	US
Sumitomo	Japan

Main competitors in global market for amino molding compounds*

AICAR	Spain
BIP	UK
Borden / PMC	US
Carmel / AC	US
Chemiplastica	Italy

Main competitors in European market for phenolic resins*

Bakelite	Germany
Borden	UK
Neste	Finland
Occidental	Belgium

* alphabetical order

Chemitec

The Group's expertise in thermoset chemistry is concentrated in the Chemitec business unit. Thermosets are heat-stable, strong and electrically insulating and are used in demanding applications.

The business unit is a world leader and has a share of approximately 15% of the market for amino molding compounds for the production of such products as electrical components and sanitation products. The unit is also Europe's second largest producer of phenolic molding compounds for industrial applications and holds slightly more than one-fourth of the market. Manufacturing and sales of resins also take place in South America, with customers found mainly in the automotive, construction, foundry and engineering sectors.

In addition, Chemitec includes the Group's operations for composite technology – fiber-reinforced plastics which combine light weight with high performance and are increasingly replacing metals in such areas as the automotive, aerospace and sports industries. In the area of fiberglass-reinforced phenolic molding com-

pounds, the Belgian subsidiary Vyncolit is the largest in Europe and accounts for approximately one-fifth of the world market.

Continued intense competition and pressure on margins

In total, demand declined somewhat compared with the preceding year, with a certain increase for resins and fiberglass-reinforced phenolic molding compounds and continued stiff competition and pressure on margins in most product areas. Chemitec defended its market position and total sales in 1998 were SEK 1,517 m (1,670). Earnings were adversely affected by the divestment of the business within National Plastics Corporation, Port Gibson, Mississippi, U.S., which produces household goods in melamine plastic, and R-Cubed Composites Inc., West Jordan, Utah, U.S., which produces composite constructions. Combined, these companies have sales of approximately SEK 140 m.

Exchange of product areas and breakthrough in composites

During the year, Perstorp signed an agreement with the German company Raschig GmbH regarding an exchange of product areas. This means that the Group strengthens its global positions for phenolic molding compounds for industrial applications. At the same time, the German company acquired Perstorp's operations in the area of phenolic molding compounds with production in Bezons, France. The product areas have sales of SEK 70 m and SEK 130 m per year, respectively, and Perstorp maintains a minority holding in the latter company, which is reported in the balance sheet as a long-term investment.

Vyncolit's fiberglass-reinforced phenolic molding compounds have made a major breakthrough in the brake-piston application area, particularly for cars. The product, which was successfully launched by one of the world's leading car manufacturers, attracted great interest in the industry and is judged as having considerable potential for the future.

Construction Chemicals

The Construction Chemicals business unit produces concrete admixtures and seamless thermoset-based industrial flooring and walls. Operations focus mainly on the construction industry, primarily in Europe and Asia, and demand is driven by a global increase in infrastructure investments and by increasingly stringent hygiene and environmental regulations, especially in the food, electronics and pharmaceuticals industries.

The business unit is Europe's second largest supplier of concrete admixtures, with a particularly strong position in northern Europe. The unit also sells its products in the Middle East, South America and Asia.

The market for seamless industrial flooring consists of various types of competing solutions, sold by a few global and many local players. Perstorp is one of the three leading producers of epoxy-based flooring and wall coverings in Europe, with a particularly strong position in Scandinavia, parts of Eastern Europe, Portugal and China.

Increased sales and stronger market positions

There was favorable demand for Construction Chemicals' products. Volume growth for concrete admixtures was considerable, especially during the first half of the fiscal year, and the division's market positions in Europe were strengthened. During the second half of the fiscal year, a new product concept was launched for industrial surfaces, Peran® Systems, resulting in a strong increase in order bookings and projects for global companies such as Coca-Cola, Ericsson and Astra. Sales for 1998 rose by 17% and amounted to SEK 286 m (244).

Extensive deliveries and prestigious orders

There were extensive supplies of concrete admixtures for the Öresund Link during the year. A new shrink-reducing concrete admixture was successfully launched and a series of interesting development projects are under way in cooperation with various market players.

In China, the business unit received prestigious orders for seamless industrial flooring for Carlsberg's new brewery outside Shanghai and for Beijing's international airport.

European production of industrial flooring has been concentrated in Perstorp, while the plants in Aycliffe, England, and in Vadstena, Sweden, have been closed.



One of the world's leading automakers has replaced traditional brake pistons of metal with brake pistons made of a fiber-glass reinforced phenolic molding compound from Vyncolit.



Perstorp's sales of seamless industrial surfaces are increasing sharply, particularly in the electronic, food and pharmaceuticals industries, as a result of escalating hygienic and environmental demands.



Perstorp Flooring is the world leader in laminate flooring for residential and institutional environments.



Perstorp Flooring is the world leader in the market for laminate flooring for residential and institutional environments. The concept was developed by the Group and is based on Perstorp's many years of experience of chemicals and surfaces. Perstorp launched laminate flooring in Europe in the mid-1980s and in the U.S. in 1994, and today the Group's best-known brand, Pergo®, is marketed in most European countries and in North America, as well as to a lesser extent in South America and Asia.

PERSTORP FLOORING

The basis for laminate flooring is decorative laminate that is glued to a woodfiber carrier and is cut into floorboards. The design of the floor is defined by the decorative paper, which is printed in various patterns, and the floor's robustness is to a large extent dependent on the laminate's properties. Laminate flooring has conquered a not inconsiderable segment of the flooring market on both sides of the Atlantic and these successes are mainly attributable to the flooring's excellent surface properties and the broad range of designs.

Main competitors in European laminate flooring market*

Kaindl	Germany/Austria
Unilin	Belgium
Witex	Germany

Main competitors in US laminate flooring market*

Armstrong	US
Formica	US
Wilsonart	US

* alphabetical order

Vital differences between principal markets

There are vital differences between the principal markets in Europe and the U.S. regarding such factors as competition, distribution channels and quality requirements. In Europe, the total flooring market has declined since the beginning of the 1990s, but environmentally sound materials such as wood and laminate flooring have taken market share at the expense of wall-to-wall carpeting and PVC-based flooring. Both the market and the distribution structure are largely national in character and sales to consumers are made by specialist retailers and increasingly by home centers.

Laminate flooring has captured approximately 5% of the total flooring market in Europe and the division's main competition comes from a number of board manufacturers, who have developed a qualitatively simpler and less expensive product. Gradually, overcapacity has emerged at the production level, prices have come under pressure and volume growth has increasingly shifted to the low-price segment of the market.

In the U.S., wall-to-wall carpeting accounts for two-thirds of the steadily growing flooring market, but the trend is increasingly towards more environmentally friendly products, as in Europe. The growth rate has been strong since Perstorp introduced laminate flooring with Pergo® in 1994 and this category currently accounts for slightly more than 1% of flooring sales in the U.S.

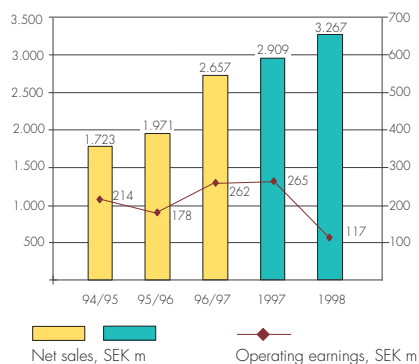
Following rapid successes, Perstorp now has successors in the market, which is currently dominated by a small number of large laminate and flooring manufacturers. Important competitive factors are brand, quality and product development.

Pergo® holds a dominant position in the market for laminate flooring. Distribution is mainly channeled through large purchasing groups and so-called home centers and Perstorp cooperates with the five largest, which account for the majority of all flooring sales in the U.S.

Increased sales but lower earnings

The division's sales continued to increase, especially in the U.S., while developments in Europe and Asia were

Perstorp Flooring



Perstorp Flooring

SEK m (unless otherwise stated)	1998 12 mos	1997 12 mos	1997/98 16 mos	1996/97 12 mos
Net sales	3,267	2,909	4,280	2,657
Operating earnings	117	265	172	262
Operating margin, %	3,6	9,1	4,0	9,9
Operating capital, average	1,756	1,499	1,732	1,319
Return on operating capital, %	6,7	17,7	7,4	19,9
Depreciation	108	96	143	88
Investments	173	201	222	219
Number of employees at period end	1,284	1,241	1,284	1,192



The broad range of designs combined with favorable surface properties are the key factors underlying the success of laminate flooring in flooring markets on both sides of the Atlantic.

weak. In Europe, this is a result of successively increasing competition, particularly in Germany, and generally lower demand for flooring, especially in the latter part of the year. In 1998, sales amounted to SEK 3,267 m (1997: 2,909), an increase of SEK 358 m. Earnings declined significantly from SEK 265 m in 1997 to SEK 117 m in 1998. This decline was mainly a result of the division's costs being too high and not adapted to the lower rate of growth during the year. Several measures are now being implemented to reduce costs, such as reducing the workforce by about 200 people.

Capacity in U.S. doubled and introductions in new markets

During the year, the second phase of the division's American production unit in Raleigh, North Carolina, was completed and production capacity was doubled. As a result of uncertainty in several Asian markets, the division decided to delay the construction of a planned flooring plant in China.

An agreement was reached with the Indian Jatia group on the formation of a joint company (Perstorp holding 50%, with management responsibility) for the marketing of laminate flooring in India. The implementation of the agreement is subject to the issue of the necessary permit from the authorities. During the year, Pergo® was introduced in Brazil and Eastern Europe.

Investment in new flooring for the American contracts market

A cooperation agreement was signed between the division and DuPont Flooring Systems, providing Perstorp with exclusive access to the largest network of flooring contractors in the U.S. contracts market. At the same time, DuPont receives exclusive rights to market a patented brand of laminate flooring, which was developed specially for demanding institutional environments, such as restaurants and stores.

Perstorp Flooring is intensifying its product development and has introduced a patent pending joining system which, among other qualities, makes it even easier to lay Pergo® flooring.



Acquisition of shareholding in particle board supplier

In order to strengthen access to carrier materials and be able to conduct development projects in this field, Perstorp Flooring acquired 9.6% of the shares in Novopan A/S, which is one of the suppliers of materials for Pergo® laminate flooring. In the preceding fiscal year, the company had sales totalling DKK 425 m. It has two production plants in Denmark. The purchase price amounted to SEK 33 m.

Strategy review and comprehensive action program

To strengthen long-term growth and profitability in the Flooring division, the division's strategy was reviewed during 1998 and a comprehensive program was introduced to develop operations, make them more efficient and extend the product range. The following are the main aims of the program:

- *Extend the range* by strengthening the Pergo® brand name in the market for high-quality flooring and at the same time introducing complementary products under private labels in other market segments
- *Intensify product development* to become the leader of new development in the industry
- *Extend cooperation* with the market's leading distributors using key account management
- *Increase efficiency in the entire processing chain* by, for example, improving distribution, increasing capacity utilization and increasing cooperation with external distributors.

A new division president was appointed and the division's management team located in London, reflecting the operations' international nature. A new organization was also implemented.

In line with the action program, 145 employees in the production sector in Perstorp and Trelleborg were given redundancy notices. The related costs were charged against 1998 earnings. Further measures to reduce costs were initiated after the end of the fiscal year.

Broadened product range

A new range, Pergo® 99, was launched after the end of the fiscal year at international flooring trade fairs in Europe and the U.S. This reflects an extension of the range and higher quality, which is intended to strengthen Perstorp Flooring's position as the leading manufacturer of laminate flooring.

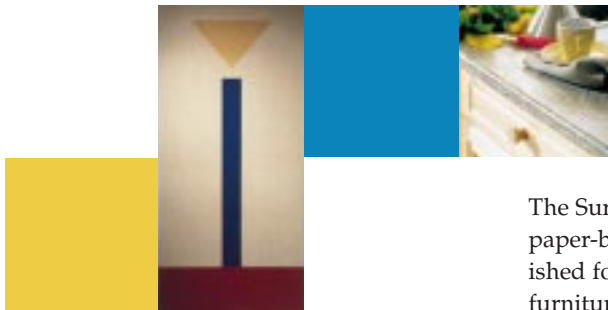
In addition, Perstorp Flooring and Hornitex Werke, the market leader for wood paneling in Germany, signed a letter of intent concerning cooperation in development, production and distribution of direct laminate flooring. The intention is to create a complete processing chain, from raw materials to the market, which will broaden Perstorp's range and contribute to growth.



A completely new range, Pergo® 99, which offers new patterns and superior product quality, was launched after the end of the fiscal year.



Perstorp Surface Materials is one of the world's leading manufacturers of decorative surfaces.



The Surface Materials division is one of the world's leading producers of paper-based decorative surfaces based on high-pressure laminates and finished foils. The division mainly supplies customers in the construction and furniture-related industries. The division markets a quality range of decorative laminates and decorative foils, as well as printed paper.

PERSTORP SURFACE MATERIALS

Main competitors in global market for decorative laminates*

Abet	Italy
Formica	US
Polyrey	France
Wilsonart	US

Main competitors in global market for finished foils*

Bausch	Germany
Chiyoda	Japan
Masa-Decor	Germany
Letron	Germany
Linneman	Germany

* alphabetical order

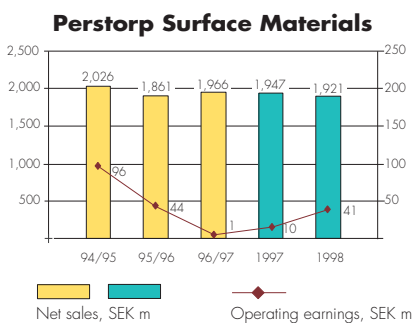
Decorative laminates consist of several layers of paper, which are impregnated with various resins and pressed together under high pressure into a highly wear-resistant composite material. The foils consist of thin, impregnated decorative paper, which has usually received some sort of surface treatment. For all types of paper-based decorative surface material, it is the printed decorative paper in combination with the surface structure that gives the unique design of the finished surface.

The printed decorative paper is developed at Surface Material's design center in Bürstadt, Germany. In addition to producing decorative laminates and foils, the division supplies decorative paper for the Group's production of laminate flooring and for external customers' production of such articles as low-pressure laminate.

Applications in the construction and furniture industries

Thin decorative laminates and finished foils are glued onto a carrier, usually made of wood fiber, and are mainly used in the construction and furniture industries. Examples of applications are kitchen, office and home furniture, as well as shopfitting and hospital interiors. High-pressure laminate fulfills very stringent surface requirements particularly on wear and impact, whilst finished foils have a lower level of surface tolerance.

Thicker grades of laminate, or compact laminate, are applied without a carrier and are used for such purposes as exteriors for facades and balconies, whose surfaces are subject to particularly stringent requirements in terms of durability.



European success but decline in Asia

The European market for building-related products was generally weak during the fiscal year, but showed positive trends in certain regions, with particularly favorable sales trends in the Nordic region and some parts of continental Europe. Towards the end of the year, demand declined, especially in the UK, and in certain parts of Central Europe, while competition intensified.

The rapid pace of development experienced in Asia during the past decade was considerably weakened by the decline in the region's economies in autumn 1997 and spring 1998. Some stabilization has subsequently been noted.

Perstorp Surface Materials

SEK m (unless otherwise stated)	1998 12 mos	1997 12 mos	1997/98 16 mos	1996/97 12 mos
Net sales	1,921	1,947	2,534	1,966
Operating earnings	41	10	61	1
Operating margin, %	2,1	0,5	2,4	0,1
Operating capital, average	915	966	913	962
Return on operating capital, %	4,5	1,0	5,0	0,1
Depreciation	74	71	97	71
Investments	115	55	130	49
Number of employees at period end	1,520	1,647	1,520	1,806

Improved operating earnings

The division's sales were affected considerably by the economic downswing in Asia. It was not possible to fully compensate the decline, despite positive sales trends in the Nordic region, in particular, parts of Continental Europe and in Brazil. Net sales in 1998 were largely unchanged compared with 1997 and amounted to SEK 1,921 m (1,947).

The extensive restructuring and



In Bangkok, Thailand, Perstorp Surface Materials is delivering a broad spectrum of surface materials solutions to 23 stations in BTS, the city's new public transport system.

In demanding institutional environments, high-pressure laminate satisfies rigorous demands for sound design and resilience to external impact and wear.



rationalization efforts begun during the preceding fiscal year continued, generating positive effects. The division's operating earnings increased, accordingly, to SEK 41 m (10).

Strong position in European markets

The European market for paper-based decorative surfaces is highly fragmented and consequently exposed to strong competition. Surface Materials markets its products throughout Europe and has secured a very strong position in a number of markets. Growth is driven by the development of applications and total demand for decorative surface materials is increasing at a rate of close to 4% per year. However, there are considerable differences between the various application areas. Competition from alternative surfaces is fierce, particularly from melamine-faced particle boards.

Huge potential in Asia and South America

The markets in Asia and South America have huge potential and, for several years, the division has established a position in Asia through its production plant in Thailand. Investments are now also being made in a production plant in China.

In South America, the division holds a very strong position in the laminate market in Brazil and highly successful efforts were made in the foils segment during the fiscal year. This made an extra contribution to the generally positive development of the division's products in Brazil.

Development towards a more complete surface materials company

Perstorp Surface Materials is evolving from a producer of laminate and foils into a surface materials company that can provide total surface solutions within well-defined application areas. The global trend in the market is towards fewer and larger players and Perstorp intends to advance the division's position by participating actively in this process of structural change with the aim of creating a leading global player in the decorative surfaces market. In line with this aim, the division is strengthening its product range and evaluating various possibilities for strategic acquisitions and alliances.

Number of employees reduced by 200

Rationalization and restructuring efforts in the division continued during the fiscal year. Small operations were eliminated and the workforce was reduced by around 200 employees, while production volumes were maintained.

Unique design is a success factor

Success continued for Creastyle, Perstorp Surface Materials' highly acclaimed product program for laminates for building-related applications. Creastyle was launched during the 1996/97 fiscal year and has enhanced the division's strong position in design for these segments. The successful product program approach has continued in 1998 with the launch of international design ranges for the kitchen, office and home furniture applications.

Acquisition in Brazil after the end of the fiscal year

After the end of the fiscal year, the division strengthened its position in decorative surface materials by acquiring Metalurgica Albrãs Ltdas' decorative paper and finished foils business. Production is located in São Paulo, Brazil. These operations are expected to generate sales of approximately SEK 60 m in 1999, initially employing 25 people.



Perstorp Life Science focuses its operations on innovative products in the areas of biotechnology and medical devices – two areas that are characterized by strong growth, intensive research and development, as well as relatively limited sensitivity to changes in economic conditions.

The division is a leading supplier and has strong market positions in several selected product segments.

The division's biotechnology applications concentrate mainly on the expand-

PERSTORP LIFE SCIENCE

ing pharmaceuticals industry, where there is rapid growth in the number of pharmaceutical projects with a biotechnological focus. The transition from the various development phases to commercial operations is, however, determined by the long approval and trial times, which in many cases can be up to a decade.

The research-intensive pharmaceutical industry is under structural change, with companies becoming larger and more specialized. New start-up companies are being formed, many of which are eventually acquired by larger players. Outside the pharmaceuticals industry, a rapid development towards biotechnology applications is also occurring within parts of the medical device segment.

In the medical device segment, there is increasing demand for permanent methods of treatment as alternatives to long-term medication. The rate of growth is to a large extent dependent on developments in various health insurance systems.

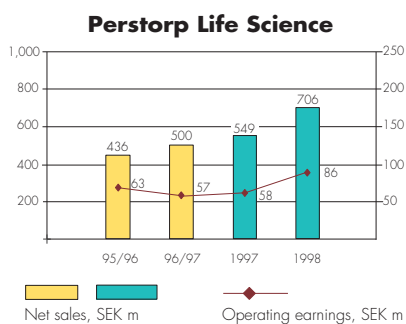
Main competitors in life science market*

BioWhittaker, Inc	US
Life Technologies, Inc	US
Sigma Aldrich Chem. Corp.	US

* alphabetical order

Increased sales and considerably improved earnings

Demand for the division's products was favorable and was not affected by the crisis in Asia or economic changes. All operations increased their sales and reported improved earnings. Net sales for the calendar year 1998 totaled SEK 706 m (1997: 549), an increase of 29%. The division's earnings increased considerably to SEK 86 m (58).



Division manufactures products with high level of innovation

Perstorp Life Science comprises the biotechnology company Pierce Chemical Company and HyClone Laboratories, as well as the medical device company Atos Medical. All of these were previously included in the business development company, Pernovo.

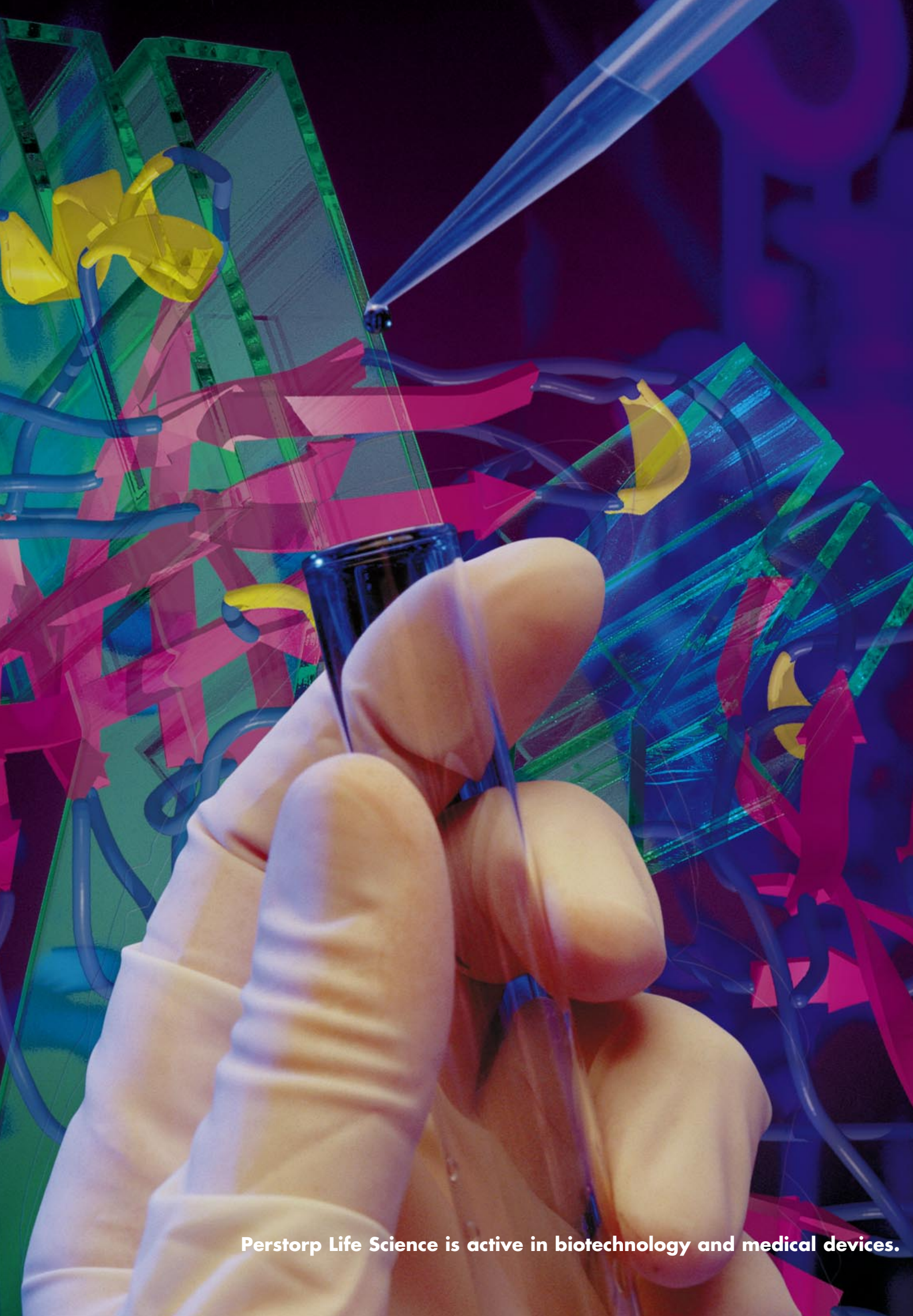
Pierce produces organic and biochemical reagents, more than 2,500 different analysis and separation products with a high level of innovation and extremely short lead times. The majority of products from Pierce are currently aimed at research and development laboratories, while HyClone,

which produces high-quality serums, protein-free media and systems for the handling of sterile liquids for cell cultivation, is to a greater extent involved in the industrial market.

Atos Medical's operations concentrate on polymeric products for treatment in the field of ENT. Its main products are voice-rehabilitation implants and heat-moisture exchange filters for people who have had surgery for cancer of the larynx.

Perstorp Life Science

SEK m (unless otherwise stated)	1998 12 mos	1997 12 mos	1997/98 16 mos	1996/97 12 mos
Net sales	706	549	891	500
Operating earnings	86	58	100	57
Operating margin, %	12.2	10.6	11.2	11.4
Operating capital, average	565	465	543	434
Return on operating capital, %	15.2	12.5	13.8	13.1
Depreciation	28	22	35	21
Investments	79	48	113	18
Number of employees at period end	688	549	688	489



Perstorp Life Science is active in biotechnology and medical devices.

Strong market positions

Both HyClone and Atos Medical hold very strong market positions and have few competitors in their areas of operation. Pierce is active in a market that has a multitude of competitors and alternative techniques, and which is also characterized by such other factors as a high degree of innovation and extremely close customer contact. All of these, as well as the high level of quality, play a crucial role in the company's success.

The division's manufacturing operations are required to have authorization for all essential matters and these are adapted to rigorous hygiene and quality requirements from both government authorities and the industry.

Important acquisitions during the year strengthen the division's strategic position

Several company and technology acquisitions during the year considerably strengthened the division's strategic position. Today, Perstorp Life Science supplies products for everything from R&D projects to full-scale production of biopharmaceuticals, thus serving both the research market and industry.

Pierce acquired Amersham Pharmacia Biotech's plant in Milwaukee, Wisconsin, U.S. This plant produces molecular biological reagents and raw materials for the production of DNA and, as a result of this acquisition, Perstorp Life Science can offer a broader spectrum of products to customers in the field of biotechnology. In conjunction with this acquisition, the division signed a five-year toll manufacturing agreement for continued supplies of raw materials from the plant to the previous owner. Operations are expected to have sales of around SEK 160 m in 1999.

In addition, Pierce strengthened its business operations with the acquisition of chemical luminescence technology, which is used in the detection of proteins.

HyClone strengthened its position with the acquisition of Selborne Biological Services' operations in New Zealand. The company, which has sales of approximately SEK 30 m, manufactures high-quality sera for cell cultivation of biopharmaceuticals and vaccines.

HyClone acquired technology for the production of containers for the distribution and handling of sterile liquids for cell cultivation, which increases its growth opportunities and strengthens its competitiveness.

Atos Medical acquired a product line (LaryCare) as a complement to the company's range of voice-rehabilitation products for people who have had surgery for cancer of the larynx.

Proposal to spin off Life Science to Perstorp shareholders

As explained elsewhere in the Report of the Board of Directors, Perstorp AB's Board of Directors proposes that this division be spun off to Perstorp shareholders and listed separately on the Stockholm Stock Exchange.



The acquisition of Amersham Pharmacia Biotech's plant in Milwaukee, U.S., enables the division to offer a broader range of products to customers in the field of biotechnology.



HyClone acquired technology for the production of containers for the distribution and sterile handling of ready nutrient solutions for cell cultivation during the year.

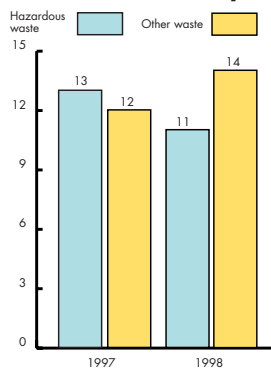


Safety, health and the environment are prioritized areas within Perstorp. The Group strives to make continuous improvements aimed at clear and well-defined objectives, and regards proactive environmental work as a prerequisite for conducting Group operations in a responsible manner and for achieving long-term sustainable development.

Perstorp has a Group-wide staff function for safety, health and the environment – Corporate Safety, Health & Environment (S.H.E.). The overriding responsibility for S.H.E. matters rests with the Perstorp Board of Directors

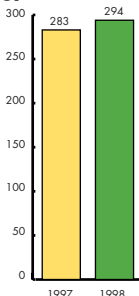
SAFETY, HEALTH AND ENVIRONMENT

Waste costs, SEK m/year



The Group's total costs for waste remained unchanged in 1998 compared with 1997.

Energy costs, SEK m/year



Energy costs rose marginally during 1998.

and the CEO, while the legal and operational responsibility is essentially delegated to the line organization. Each production unit has an S.H.E. coordinator and there are S.H.E. managers at both division and business area level.

Perstorp's operations require permits

The Perstorp Group has production units in fifteen countries in Europe, North and South America, and Asia. In Sweden, Perstorp conducts approximately twenty operations for which special permits are required and valid permits are currently held for the production of, for example, polyalcohols, formalin, formic acid, resins, thermosets and flooring laminates. There are also two operations for the production of laminate flooring and medical technology products that require authorization. In accordance with Swedish law, each unit produces an annual environmental report, which is approved by the authorities.

At the end of the fiscal year, several applications for permits, which are being processed, were transferred to the newly created Swedish Environmental Court. These concerned the production in Perstorp of neopentyl glycol, formic acid, flooring laminates and Remel™.

An application to build a plant in Perstorp for the production of dendritic polymers was submitted at the end of 1998. The final conditions for emissions from Perstorp AB's waste treatment plant at the Perstorp site are expected during 1999.

New laws result in stricter demands

A new environmental law (the Environmental Code) came into force in Sweden on January 1, 1999, which among other things involves stricter demands when considering permit applications. The Seveso-II directive comes into force in 1999, placing stricter demands on the large-scale handling of chemicals and the prevention of major accidents at several production units. In the U.S., requirements in this area will also be sharpened in 1999.

Costs and investments SEK m (excluding divested units)	Chemicals		Flooring		Surface Materials		Life Science		Other		Group total	
	1998	1997	1998	1997	1998	1997	1998	1997	1998	1997	1998	1997
Costs for fresh water	10	10	1	1	3	4	0	0	3	2	17	17
Costs for energy	208	206	28	21	42	45	4	4	12	7	294	283
Costs for hazardous waste	8	10	1	1	2	2	0	0	0	0	11	13
Costs for other waste	6	4	3	2	4	5	0	0	1	1	14	12
Costs for wastewater	30	23	0	0	1	2	0	0	0	1	31	26
Costs for S.H.E. personnel and consultants	17	11	5	4	3	3	2	2	8	6	35	26
Total S.H.E. costs	279	264	38	29	55	61	6	6	24	17	402	377
Investments in safety and fire prevention	31	14	2	0	1	1	1	1	1	0	36	16
Investments in the work environment	22	23	3	1	4	3	2	0	2	3	33	30
Investments in the external environment	17	34	3	1	8	2	0	3	4	1	32	41
Total costs S.H.E. investments	70	71	8	2	13	6	3	4	7	4	101	87
Total investments	388	261	173	201	115	55	79	48	104	31	859	596

Environment-related financial data

Over the past few years, Perstorp has published environment-related financial data in a separate environmental report. These costs and investments are shown on page 34 by division for the calendar years 1997 and 1998. In order to secure a closer connection between the environment-related financial details and the ordinary financial report, the same accounting principles have been used, to the extent possible, when compiling the information. In order to facilitate analysis, operations divested during 1998 are in no way included in this compilation. The figures for 1997 have been adjusted to allow for divested units. Associated companies are not included in any respect.

Concerning costs, there was an increase in the number of S.H.E. personnel and consultants, which is a result of the intensified work to prepare management systems. The increased investments for safety and fire protection are largely attributable to improvements at the Perstorp Chemicals units in Perstorp and Castellanza, Italy.

Steady increase in number of units with environmental certification

The Perstorp Group is gradually introducing a global management system for safety, health and the environment – S.H.E. Management – based on the ISO 14001 international standard. Since 1995, 35 S.H.E. initial reviews have been performed in an introductory phase and the results generally show that the authorities' requirements have been fulfilled and that emission monitoring is satisfactory. The small faults that are found are rectified on a continuous basis. During the period 1999-2000, it is intended that remaining reviews will be completed and the Group's objective is that all production units will have introduced a management system before the end of 2000. Extensive training measures are implemented at the same time as management systems are introduced.

Several of the Group's units have received ISO 14001 certification: Perstorp Flooring (Trelleborg and Perstorp), Perstorp Chemitec (resin and thermoset plants in Perstorp) and Perstorp Specialty Chemicals' polyol production (Castellanza, Italy, and the TMP, penta, Neo, Di-TMP and allyl ether plants in Perstorp). It is believed that it will be possible to obtain certification for further units in Europe and the U.S. in 1999.

Active work on life-cycle assessments and environmental declarations

Perstorp works actively on life-cycle assessments (LCA) with the aim of creating a holistic view of a product during its life cycle. Documentation is used for such purposes as product development and for optimizing production processes. Environmental declarations have been established for around ten products, mainly in the construction-related areas, such as worktops, laminate products, concrete admixture substances and thermosets.

R&D and business opportunities from an environmental perspective

Perstorp has started industrial production of dendritic polymers. The product, which is sold under the Boltorn™ brand name, offers customers a potential substitute for chemicals used in many different applications that may be harmful to health or dangerous for the environment, as well as creating production processes that use fewer resources. Perstorp Chemicals also develops polyalcohols (polyols), which make it possible to produce solvent-free lacquer systems and biodegradable lubricants. The Specialty Chemicals business unit conducts research and development in catalyst systems for the cleaning of waste gases. Since 1995, Pergo® laminate flooring has been permitted to use the Swan, the environmental symbol used in the Nordic countries.

Environment-related cooperation projects and transport

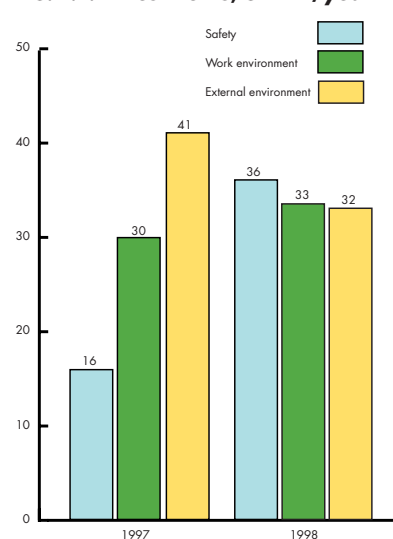
The Perstorp Group is involved in several environment-related projects in cooperation with suppliers and customers. These include product development and changing to the use of reusable containers for raw materials and products. Perstorp units that hold ISO 14001 certification are regularly involved in the evaluation of suppliers from an S.H.E. perspective.

In 1998, a safety adviser for the handling and transportation of dangerous goods was appointed within the Group, in accordance with an EU directive that comes into force in 2000. In recent years, a project has been carried out within the Group aimed at coordinating the procurement of transport services (EcoFreight).

S.H.E. objectives at division level

The main impact on the external environment from the Perstorp Group's production is attributable to emissions to air and water, as well as the generation of waste and

S.H.E.-investments, SEK m/year



The Group's total S.H.E. investments increased during the year, mainly as a result of efforts to enhance safety levels at several production plants.

Perstorp's S.H.E. objectives

Compared with 1997 levels, the following objectives must be achieved by the end of the year 2000.

Perstorp Chemicals

□ Air emissions must be reduced by 10%
The objective has been achieved and efforts for further decreases are continuing.

□ Leakage of coolants (CFC/HCFC) must be reduced to less than 4% of the installed amount

□ Hazardous waste (excluding methanol) must be reduced by 25%

□ Other waste (excluding mother lyes) must be reduced by 10%
The objective has been fulfilled and efforts for further decreases are continuing.

□ The number of work-related injuries resulting in absence from work must be reduced by 25%

□ The S.H.E. management system must be implemented at all units
Of the remaining units, six will receive certification in 1999 and the remaining eight during 2000. In total, Chemicals has 22 units covered by the management system.

Environmental Report

In conjunction with the publishing of Perstorp's 1997/98 annual report, the Group's environmental report for 1998 will be made available on the Group's website (www.perstorp.com).

More detailed information on the Group's S.H.E. work will be presented in the environmental report, which from this year onwards will be published exclusively on the Internet.

Perstorp's S.H.E. objectives

Compared with 1997 levels, the following objectives must be achieved by the end of the year 2000.

Perstorp Flooring

□ Leakage of coolants (CFC/HCFC) must be reduced to less than 4% of the installed amount

The objective has been fulfilled and efforts for further decreases are continuing.

□ The amount of non-hazardous waste per unit of flooring must be reduced to <0.12 kg/kg of flooring

□ The number of work-related injuries resulting in absence from work must be reduced by 25%

□ The S.H.E. management system must be implemented at all units
Flooring's units in Perstorp and Trelleborg have introduced the management system

Perstorp Surface Materials

□ Emissions to the air must be reduced by 50% compared with 1997

□ Leakage of CFC/HCFC coolants must be reduced to less than 4% of the installed amount

□ Hazardous waste and other waste must be reduced per surface unit to the following levels:

Hazardous waste g/kg: <9,7

Other waste g/kg: <140

□ The number of work-related injuries resulting in absence from work must be reduced by 25%

□ The S.H.E. management system must be implemented at all units

Perstorp Life Science and other operations

□ The S.H.E. management system must be implemented at all units

noise. Several of the Group's environmental objectives focus on these areas.

The Group's S.H.E. policy remains unchanged, but against the background of concentration of operations in recent years, the decision to transform the divisions into companies and the suggested spin-off of Perstorp Life Science, the quantified objectives are now reported at division level.

The Group's overall S.H.E. policy is presented in Note 29.

Emissions to air and water, plus waste

Emissions into the atmosphere decreased in 1998 compared with the preceding year. At the Perstorp Surface Materials plant in Bürstadt, Germany, a new cleaning plant (swing-term) was installed to reduce emissions into the air, the catalyst plant in Perstorp installed a wet scrubber to reduce ammonia emissions and Perstorp Flooring in Perstorp added another section of its production to catalytic incineration. The 1997 transition from the use of oil to natural gas in Brazil generated lower levels of emissions into the air of such substances as sulfur dioxide during 1998.

Leakages of CFC and HCFC coolants declined during 1998. The Group's objective of achieving a level of 4% by the year 2000 has not yet been reached, but efforts continued during the year with improved controls and the substitution of CFCs and HCFCs with, for example, HFC.

A new allyl ether plant (TMPDE) was constructed during the year in Perstorp, resulting in considerable reductions in the emission of organic pollutants and salts to Perstorp AB's wastewater treatment plant. In Perstorp, the formic acid plant achieved process improvements and the resin plant installed an evaporation column, leading to a reduction in waterborne emissions to the wastewater treatment plant.

The amount of hazardous waste declined during 1998, while there was a marginal increase in the amount of other waste.

Soil survey and charting noise impact

A study was made of the impact on soil of the penta plant in Perstorp and corrective and preventive measures were taken. The charting of noise levels was carried out in locations such as Perstorp, Trelleborg and Christchurch, U.K. Noise reduction measures were implemented at certain units during the year.

Improved procedures in working environment and preventive health care

As part of a current work environment program, a series of measures were taken to improve procedures and actively develop preventive health care. Within the Group, 614 work-related injuries were reported in 1998 (1997: 719). Of these, 168 (260) were of such a nature that they involved one or more days of absence from work due to illness.

The Swedish Labor Inspectorate addressed shortcomings in health examinations and registers of personnel in Perstorp who handle certain chemicals. These shortcomings have now been rectified. The matter has been submitted for trial in accordance with the Work Environment Act.

Increased safety at several plants

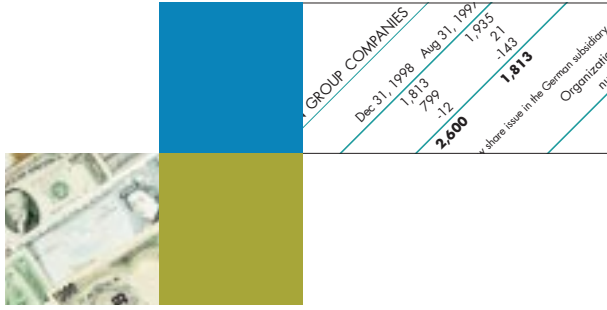
New control and electrical systems were installed at the penta plant in Castellanza, Italy, which have resulted in safer operations. Perstorp Chemitec, Aycliffe, U.K., installed a sprinkler system at its resin plant, a safety tank for the reactors and introduced a new control system aimed at increasing safety at the plant. Risk analyses were carried out at several of the Group's production units.

Penalties, complaints and accidents

Two of the units in the U.S. have been fined for exceeding pH levels in their wastewater. The unit in Belgium paid small fines for mixing hazardous waste with other waste.

Complaints from the public were received concerning odors, dust and noise at two production units in France and the U.S.

In 1998, 59 environmental accidents were reported and 19 fires/explosions within the Group. None of these were of a serious nature.



FINANCIAL REPORT

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DEFINITIONS

Capital ratios

Capital employed

Total assets less total working liabilities.

Total capital

Total assets.

Working capital

Current working assets less current working liabilities.

Operating capital

Operating working assets (accounts receivable, inventories and fixed assets) less operating working liabilities. Used at division level.

Financial ratios

Equity ratio

Shareholders' equity plus minority interest as a percentage of total capital at year-end.

Interest-coverage ratio

Operating earnings plus financial income divided by financial expense.

Free cash flow

Operating earnings after depreciation, before interest expense, after 32% standard tax
+ Depreciation
- Non-strategic investments
- Increase/+ decrease in working capital.

Strategic investments

Investments that make a significant contribution to increased capacity, that significantly boost productivity and/or significantly improve quality at the same cost.

Margin ratios

Profit margin

Operating earnings plus financial income divided by net sales.

Turnover rate, working capital

Net sales divided by average working capital.

Turnover rate, total capital

Net sales divided by average total capital.

Turnover rate, operating capital

Net sales divided by average operating capital.

Profitability ratios

Return on total capital

Operating earnings plus financial income as a percentage of average total capital.

Return on equity

Pretax earnings less actual tax and minority share in earnings after taxes as a percentage of average shareholders' equity. Prior to 1989/90, 50% standard tax was applied.

Return on operating capital

Operating earnings as a percentage of average operating capital.

Return on capital employed

Operating earnings as a percentage of average capital employed.

CONSOLIDATED INCOME STATEMENT

SEK m	Note	Calendar year ¹⁾		Fiscal year	
		1998	1997	1997/98 ²⁾	1996/97
Net sales	2	10,742	11,308	14,418	11,152
Costs of goods sold	3	-7,559	-8,061	-10,190	-7,927
Gross earnings		3,183	3,247	4,228	3,225
Sales costs	3	-1,348	-1,387	-1,810	-1,394
Administration costs	3	-938	-900	-1,250	-880
Research and development costs	3	-275	-232	-332	-254
Items that affect comparability	4	-7	-13	60	-68
Other operating revenues and expenses	5	14	32	41	-4
Result from participations in associated companies	6	21	13	24	13
Operating earnings		650	760	961	638
<i>Result from financial investments:</i>					
Interest income and similar items	8	38	58	50	79
Interest expense and similar items	9	-135	-208	-207	-209
Earnings before taxes		553	610	804	508
Taxes	10	-229	-216	-317	-180
Minority share	11	11	-1	9	-7
Net profit for the year		335	393	496	321

¹⁾ The calendar years are presented pro forma and are not covered by the notes and comments to the financial statements.

²⁾ 16 months

CONSOLIDATED BALANCE SHEET

SEK m	Note	Dec 31, 1998	Dec 31, 1997 ¹⁾	Aug 31, 1997
ASSETS				
Fixed assets				
Intangible fixed assets	12	82	170	123
Tangible fixed assets				
Buildings and land	13	1,007	1,041	1,049
Machinery and equipment	13	2,675	2,767	2,757
Construction in progress and advance payments	13	323	220	229
		4,005	4,028	4,035
Financial fixed assets				
Participations in associated companies	15	59	57	56
Other shares and participations	16	113	22	74
Other long-term receivables		142	52	61
		314	131	191
Current assets				
Inventories	17	1,909	1,833	1,728
Current operating receivables				
Accounts receivables		1,516	2,020	2,082
Other receivables	18	610	726	672
		2,126	2,746	2,754
Current financial assets		101	105	104
Cash and bank		99	95	71
Total assets		8,636	9,108	9,006
SHAREHOLDERS' EQUITY AND LIABILITIES				
Shareholders' equity				
Restricted shareholders' equity				
Share capital	19	716	716	716
Restricted reserves	19	1,505	1,295	1,285
		2,221	2,011	2,001
Unrestricted shareholders' equity				
Unrestricted reserves	19	1,811	2,093	1,763
Net profit for the year		496	161	321
		2,307	2,254	2,084
Minority interests	20	56	61	72
Provisions	21	845	797	795
Long-term liabilities				
Liabilities to credit institutions	23	182	252	231
Convertible debenture loan	24	225	225	225
		407	477	456
Current liabilities				
Current operating liabilities				
Accounts payable		716	1,091	1,094
Other operating liabilities	25	823	845	932
		1,539	1,936	2,026
Current financial liabilities	23	1,261	1,572	1,572
Total shareholders' equity and liabilities		8,636	9,108	9,006
Pledged assets	26	255		200
Contingent liabilities	27	64		139

¹⁾ Not covered by notes.

CASH FLOW ANALYSIS, GROUP

SEK m	Calendar year		Fiscal year	
	1998	1997	1997/98 ¹⁾	1996/97
Continuing operations				
Payments from customers	10,861	10,914	14,646	10,735
Payments to suppliers and employees	-9,858	-10,412	-13,412	-9,855
Cash flow from continuing operations				
	1,003	502	1,234	880
Current investments in fixed assets	-456	-378	-535	-433
Other changes in operating cash flow	21	13	24	13
Operating cash flow				
	568	137	723	460
Tax related to operating earnings	-208	-243	-308	-204
Free cash flow				
	360	-106	415	256
Reversal of tax related to operating earnings	208	243	308	204
Financial items	-97	-150	-157	-130
Tax payments	-201	-167	-215	-276
Other	95	100	98	207
Cash flow from operations				
	365	-80	449	261
Strategic investments and divestments				
Strategic investments in plants and company acquisitions	-471	-437	-614	-452
Divestments	474	241	474	736
Cash flow from strategic investments and divestments				
	3	-196	-140	284
Cash flow before dividend				
	368	-276	309	545
Dividend to shareholders	-197	-179	-197	-179
Net cash flow				
	171	-455	112	366
Net debt				
Net debt at the beginning of the year	-2,178	-1,842	-2,118	-3,039
Net cash flow	171	-455	112	366
Net debt in acquired and divested operations	520	240	520	735
Currency effects	-136	-121	-137	-180
Net debt at year-end				
	-1,623	-2,178	-1,623	-2,118

¹⁾ 16 months

FOUR-MONTH DATA

SEK m	1997/98				1996/97		
	Period 1	Period 2	Period 3	Period 4	Period 1	Period 2	Period 3
Net sales	3,676	3,877	3,667	3,198	3,520	3,756	3,876
Costs of goods sold	-2,631	-2,685	-2,621	-2,253	-2,497	-2,694	-2,736
Gross earnings	1,045	1,192	1,046	945	1,023	1,062	1,140
Sales, administrative and R&D costs	-831	-885	-819	-857	-840	-792	-896
Items that affect comparability	67	-10	39	-36	12	-16	-64
Other operating revenues and expenses	27	-4	-1	19	-9	-2	7
Result from participations in associated companies	3	4	8	9	3	3	7
Operating earnings	311	297	273	80	189	255	194
Net financial items	-60	-26	-40	-31	-40	-42	-48
Earnings before taxes	251	271	233	49	149	213	146
Taxes	-88	-94	-82	-53	-52	-76	-52
Minority share	-2	7	0	4	-8	-10	11
Net profit for the year	161	184	151	0	89	127	105

QUARTERLY DATA

Pro forma SEK m	1998				1997			
	01	02	03	04	01	02	03	04
Net sales	2,885	2,931	2,580	2,346	2,827	2,958	2,777	2,746
Costs of goods sold	-2,006	-2,064	-1,816	-1,673	-1,973	-2,120	-2,004	-1,964
Gross earnings	879	867	764	673	854	838	773	782
Sales, administrative and R&D costs	-666	-666	-595	-634	-687	-568	-636	-628
Items that affect comparability	-3	8	23	-35	-40	18	-57	66
Other operating revenues and expenses	5	0	-4	13	1	-2	4	29
Result from participations in associated companies	1	3	8	9	2	9	0	2
Operating earnings	216	212	196	26	130	295	84	251
Net financial items	-16	-38	-18	-25	-30	-27	-46	-47
Earnings before taxes	200	174	178	1	100	268	38	204
Taxes	-70	-62	-63	-34	-36	-96	-14	-70
Minority share	5	2	1	3	-5	-3	8	-1
Net profit for the year	135	114	116	-30	59	169	32	133

Pro forma, current operations SEK m	1998				1997			
	01	02	03	04	01	02	03	04
Net sales	2,517	2,544	2,461	2,346	2,229	2,574	2,406	2,369
Costs of goods sold	-1,713	-1,767	-1,717	-1,673	-1,518	-1,711	-1,674	-1,659
Gross earnings	804	777	744	673	711	863	732	710
Sales, administrative and R&D costs	-601	-601	-577	-634	-522	-591	-564	-562
Items that affect comparability	0	8	23	-35	-24	63	-52	76
Other operating revenues and expenses	4	5	-2	13	-4	2	12	31
Result from participations in associated companies	1	3	8	9	2	9	0	2
Operating earnings	208	192	196	26	163	346	128	257
Net financial items	-20	-27	-19	-25	-23	-26	-14	-26
Earnings before taxes	188	165	177	1	140	320	114	231

PARENT COMPANY INCOME STATEMENT

SEK m	Note	Fiscal year	
		1997/98 ¹⁾	1996/97
Net sales	2	4,181	3,561
Costs of goods sold	3	-3,160	-2,591
Gross earnings		1,021	970
Sales costs	3	-149	-135
Administrative costs	3	-539	-441
Research and development costs	3	-169	-108
Items that affect comparability		89	-19
Other operating revenues and expenses		33	3
Operating earnings		286	270
<i>Result from financial investments:</i>			
Interest income and similar items	8	245	106
Interest expense and similar items	9	-115	-103
Earnings after net financial items		416	273
Appropriations	22	6	10
Earnings before taxes		422	283
Taxes		-55	-56
Net profit for the year		367	227

¹⁾ 16 months

PARENT COMPANY BALANCE SHEET

SEK m	Note	Dec 31, 1998	Aug 31, 1997
ASSETS			
Fixed assets			
Intangible fixed assets	12	3	28
Tangible fixed assets			
Buildings and land	13	317	299
Machinery and equipment	13	1,254	1,169
Construction in progress and advance payments	13	135	79
		1,706	1,547
Financial fixed assets			
Participations in Group companies	14	2,600	1,813
Receivables from Group companies		70	65
Participations in associated companies	15	15	15
Receivables from associated companies		7	5
Other shares and participations	16	86	2
Other long-term receivables		83	11
		2,861	1,911
Current assets			
Inventories	17	517	362
Current operating receivables			
Accounts receivables		307	326
Receivables from Group companies		496	272
Other receivables	18	114	107
		917	705
Current financial assets		-	196
Cash and bank		-	1
		6,004	4,750
Total assets			
SHAREHOLDERS' EQUITY AND LIABILITIES			
Restricted shareholders' equity			
Share capital	19	716	716
Legal reserves	19	212	212
		928	928
Unrestricted shareholders' equity			
Retained earnings	19	671	641
Net profit for the year		367	227
		1,038	868
Untaxed reserves	22	1,207	1,108
Provisions	21	378	359
Long-term liabilities			
Liabilities to credit institutions		1,354	725
Convertible debenture loan	24	225	225
Other financial liabilities		3	-
		1,582	950
Current liabilities			
Current operating liabilities			
Accounts payable		212	240
Liabilities to Group companies		-	33
Other operating liabilities	25	296	264
		508	537
Current financial liabilities		363	-
		6,004	4,750
Total shareholders' equity and liabilities			
Pledged assets	26	178	192
Contingent liabilities	27	238	254

CASH FLOW ANALYSIS, PARENT COMPANY

SEK m	Fiscal year	
	1997/98 ¹⁾	1996/97
Continuing operations		
Payments from customers	4,322	3,540
Payments to suppliers and employees	-4,199	-3,136
Cash flow from continuing operations	123	404
Financial items	130	3
Tax payments	-25	-66
Group contribution	105	70
Cash flow from operations	333	411
Investments		
Investments in plants, net	-397	-232
Investments in shares, net ²⁾	-871	121
Total investments	-1,268	-111
Cash flow before dividend	-935	300
Dividend to shareholders	-197	-179
Net cash flow	-1,132	121
Net debt		
Net debt at the beginning of the year	-1,031	-1,152
Net cash flow	-1,132	121
Net debt at year-end	-2,163	-1,031

¹⁾ 16 months

²⁾ Investments in 1997/98 consist primarily of a new share issue in the subsidiary Perstorp GmbH.

NOTES AND COMMENTS ON THE FINANCIAL STATEMENTS

Amounts in SEK millions (SEK m), unless otherwise stated. Amounts in parentheses refer to the preceding year.

1. ACCOUNTING PRINCIPLES

General

The Perstorp Group's accounting principles are based on the recommendations of the Financial Accounting Standards Council and the International Accounting Standards Committee. The Group thus fulfills the requirements imposed on foreign companies whose shares are listed on the London Stock Exchange.

Change in accounting principles

New Annual Accounts Act

As of the 1997/98 fiscal year, Perstorp applies Sweden's new EU-adapted Annual Accounts Act. This has mainly resulted in changes in the layout of the income statement and balance sheets. Income statement and balance sheets provided for comparison purposes have been amended accordingly. The new rules had only minor effects on Perstorp's accounting principles.

Leasing agreements

As of 1997/98, Perstorp applies the Financial Accounting Standards Council's recommendation, Reporting of Leasing Agreements, which became effective on January 1, 1997. The recommendation complies in all essential respects with IAS 17. As a result, leasing agreements are divided into operational and financial leasing agreements. Financial leasing applies when the financial risks and the benefits connected to ownership are in all essential respects transferred to the lessee. In other cases, operational leasing applies. Fixed assets held through financial leasing agreements that are signed as of the beginning of the 1997/98 fiscal year are regarded and reported as if the fixed assets were acquired through a financial loan. At December 31, 1998, Perstorp had no leasing agreements signed as of the beginning of the 1997/98 fiscal year that complied with the definition of financial leasing.

Reporting of participations in associated companies

As of 1997/98, participations in associated companies are reported in accordance with the equity method. In the consolidated income statement, Perstorp's participation in the profit of associated companies is entered at two levels:

- participations in earnings after financial items are included in consolidated operating earnings
- participations in the associated companies' tax in accordance with the full-tax method are reported in the Group's tax costs.

The accounts were amended retroactively and increased the opening capital balance in the Group on September 1, 1997 by SEK 40 m.

Accounting for divested subsidiaries

Divested subsidiaries are included in the consolidated financial statements up to the date of divestment. In the former accounting principles, divested subsidiaries were not included for any part of the year. The figures for the preceding year have not been recomputed, since the amounts involved are minor.

Consolidated accounts

Definition of Group and associated companies

The consolidated accounts include the Parent Company, Perstorp AB, and those companies in which the Parent Company directly or indirectly holds shares corresponding to more than 50% of the voting rights for all shares, as well as those companies in which the Parent Company has a controlling interest without holding a majority of the voting rights. Perstorp's investments in other companies which correspond to between 20% and 50% of the total share capital and which are long-term, are reported as associated companies in accordance with the equity method.

The number of operating companies in the Group at the close of the fiscal year was 61 (75).

Companies acquired during the year are included in the consolidated accounts as of the acquisition date, while companies divested during the year are included up to and including the date of the divestment.

Consolidation is based on the purchase accounting method.

Perstorp applies the current method in translating the financial accounts

of foreign subsidiaries into Swedish kronor. Accordingly, income statements are translated using the average exchange rates during the fiscal year, while balance sheets are translated using fiscal year-end rates. The changes that arise in the Group's shareholders' equity due to differences in year-end rates between the various years are included in shareholders' equity.

Exchange rates for the principal currencies used in the Group are presented in Note 23.

The financial accounts of subsidiaries in high-inflation countries determined by the IAS, are expressed in USD in the consolidated financial statements. This has been applied to Brazil in the consolidated financial statements. The translation difference that arises between the local currency and the USD is charged in its entirety against earnings for the year, in accordance with the temporal method. In the consolidated financial statements, translation to SEK is conducted in accordance with the current method.

Depreciation

Cost depreciation is based on the acquisition value of assets and on their estimated economic life.

The following table shows the depreciation and amortization periods for the various types of fixed assets:

Buildings	20-50 years
Land improvements	10-35 years
Machinery and equipment	10-20 years
Goodwill	5-10 years
Know-how	3-7 years
Trademarks	5 years
Computers, molds and vehicles	max 5 years

Land and construction in progress are not depreciated.

Inventories

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

Receivables and liabilities in foreign currencies

Receivables and liabilities in foreign currencies have been translated at the fiscal year-end exchange-rate. In cases where the value of accounts receivable and accounts payable has been hedged through forward contracts, the forward rate is used when valuing the underlying liability or receivable.

Loans intended to protect the Parent Company's net investment in foreign subsidiaries are reported in the Parent Company's accounts at the exchange rate prevailing at acquisition. In the consolidated accounts, these loans are entered at the fiscal year-end exchange rate. The resulting exchange-rate differences are offset against the translation differences affecting the foreign subsidiaries' shareholders' equity.

Pensions

The amount reported as a liability consists of the capital value at fiscal year-end of the pension commitments that are not secured through pension insurance policies or allocations to independent pension foundations. The annual change in the capital value of the pension commitments is charged against earnings for the year.

Deferred tax

Tax legislation in Sweden and certain other countries permits profit transfers through allocations to untaxed reserves. These allocations are reversed in the consolidated accounts. The tax portion is reported, along with tax costs for the year, as deferred tax among tax charges for the year, while the equity portion is included in earnings for the year. In the balance sheet, untaxed reserves are divided into a deferred tax liability and restricted shareholders' equity. Tax is computed on the basis of the current tax rate in each country.

The deferred tax receivable relating to temporary differences between the book and the taxable value of assets and liabilities is reported in the consolidated accounts, as is the deferred tax receivable attributable, in certain cases, to unutilized tax-loss carryforwards. However, the latter only occurs if the probability that the carryforward will be utilized exceeds 50%.

2. NET SALES

The distribution of net sales by division and geographic market is presented in the tables on pages 12 and 13.

The Parent Company's net sales amounted to SEK 4,181 m (3,561), of which sales to Group companies accounted for 38% (37). Exports accounted for SEK 2,569 m (2,132), or 61% (60) of net sales. The Parent Company's purchases from Group companies amounted to 17% (18) of total purchases.

3. DEPRECIATION OF TANGIBLE AND INTANGIBLE FIXED ASSETS

Depreciation according to plan by type of asset

	Group		Parent Company	
	1997/98	1996/97	1997/98	1996/97
Machinery and equipment	587	444	218	168
Buildings and land improvement	86	46	24	15
Goodwill	19	23	1	1
Know-how, trademarks and similar rights	13	20	4	5
	705	533	247	189

Depreciation according to plan by function

	Group		Parent Company	
	1997/98	1996/97	1997/98	1996/97
Production	572	431	208	161
Sales	40	34	4	5
Administration	78	54	26	16
Research and development	15	14	9	7
	705	533	247	189

Depreciation is based on the acquisition value of assets and on their estimated economic lifetime as stipulated in Note 1 of the accounting principles.

4. ITEMS AFFECTING COMPARABILITY

	Group	
	1997/98	1996/97
Gains from divestments	113	114
Restructuring cost	-53	-182
	60	-68

The restructuring costs for 1997/98 were mainly attributable to notice being served to surplus personnel at Perstorp Surface Materials, Perstorp Flooring and Perstorp Plastic Systems.

5. OTHER OPERATING REVENUES AND COSTS

Other operating revenues and costs during the 1997/98 fiscal year pertain to insurance compensation received, the reversal of pension reserves and revenues from the sale of a property.

6. RESULT FROM PARTICIPATIONS IN ASSOCIATED COMPANIES

	Participation in profit		Dividend	
	1997/98	1996/97	1997/98	1996/97
Perstorp Clariant AB (Formerly Hoechst-Perstorp AB)	24	13	13	13

7. LEASING

As of 1997/98, Perstorp applies the Financial Accounting Standards Council's recommendation RR6, Reporting of Leasing Agreements (see Note 1, under Change in accounting principles).

Leasing fees were charged against operating earnings in amounts of SEK 95 m (114) for the Group and SEK 13 m (9) for the Parent Company.

In accordance with leasing agreements entered into at December 31, 1998, the remaining leasing fees amount to SEK 398 m (368) for the Group and SEK 17 m (16) for the Parent Company.

8. INTEREST INCOME AND SIMILAR ITEMS

	Group		Parent Company	
	1997/98	1996/97	1997/98	1996/97
Dividends from associated companies	-	-	13	13
Dividends from subsidiaries	-	-	216	89
Gain on sale of shares	5	-	5	-
Interest income	45	79	4	2
Interest income from subsidiaries	-	-	7	2
	50	79	245	106

In the preceding year, interest was waived on part of the Parent Company's transactions with subsidiaries. If interest had been charged, the Parent Company's earnings for that year would have improved by SEK 12 m. No such waiving of interest occurred in 1997/98.

9. INTEREST EXPENSE AND SIMILAR ITEMS

	Group		Parent Company	
	1997/98	1996/97	1997/98	1996/97
Interest expense	182	157	30	29
Interest expense to subsidiaries	-	-	77	53
Exchange-rate losses, etc.	25	52	8	21
	207	209	115	103

10. TAX

	1997/98	1996/97
Group's tax cost		
Taxes paid	243	159
Deferred tax	74	21
	317	180

Corporate taxation

In Sweden, the corporate tax rate was 28% in 1998, 1997 and 1996. The effective tax rate for earnings after financial income and expense, but before minority interest, was 39% in 1997/98 and 35% in 1996/97. The main reasons for the difference between the mandatory and effective tax rate are as follows:

	1997/98	1996/97
Tax computed in accordance with Swedish tax rate	-225	-142
Difference between tax rate in Sweden and in foreign subsidiaries	-64	-43
Other taxes	-2	-1
Nontaxable profit items, net	-20	8
Change in unutilized tax loss carryforwards	1	-
Other	-7	-2
Effective tax	-317	-180

Tax loss carryforwards

As stated in the accounting and valuation principles, the value of unutilized tax loss carryforwards is, in certain cases, offset against deferred tax receivables. Such deferred tax receivables are included in the consolidated balance sheet in an amount of SEK 123 m (119). In addition, the Group has unutilized tax loss carryforwards totaling SEK 451 m (410), which have not been assigned any value in the consolidated balance sheet.

11. MINORITY SHARE IN NET PROFIT FOR THE YEAR

The minority share in net profit for the year mainly consists of Tre-Atthaboon Perstorp Co. Ltd. which was part of the divested division, Perstorp Plastic Systems.

12. INTANGIBLE FIXED ASSETS

Group

Acquisition values amounted to:

	Aug 31, 1997	Acquisitions during the year	Divested assets	Other	Translation effects	Dec 31, 1998
Goodwill	167	32	-77		12	134
Know-how, trademarks and similar rights	157	20	-75		3	105
	324	52	-152	0	15	239

Accumulated depreciation according to plan amounted to:

	Aug 31, 1997	Acquisitions during the year	Divested assets	Other	Translation effects	Dec 31, 1998
Goodwill	112	19	-53		8	86
Know-how, trademarks and similar rights	89	13	-34	2	1	71
	201	32	-87	2	9	157
Net book value	123					82

Parent Company

Acquisition values amounted to:

	Aug 31, 1997	Acquisitions during the year	Divested assets	Dec 31, 1998
Goodwill	9			9
Know-how, trademarks and similar rights	58		-54	4
	67	0	-54	13

Accumulated depreciation according to plan amounted to:

	Aug 31, 1997	Acquisitions during the year	Divested assets	Dec 31, 1998
Goodwill	5	1		6
Know-how, trademarks and similar rights	34	4	-34	4
	39	5	-34	10
Net book value	28			3

13. TANGIBLE FIXED ASSETS

Group

Acquisition values, including write-ups, amounted to:

	Aug 31, 1997	Acquisitions during the year	Divested assets	Other	Translation effects	Dec 31, 1998
Buildings, land and land improvements	1,342	133	-162		48	1,361
Write-up	68				2	70
Plant and machinery	4,876	755	-974	-13	142	4,786
Write-up	31				3	34
Equipment, tools, fixtures and fittings	521	124	-167	13	36	527
Work in progress, including advance payments	229	85			9	323
	7,067	1,097	-1,303	0	240	7,101

Accumulated depreciation according to plan amounted to:

	Aug 31, 1997	Acquisitions during the year	Divested assets	Other	Translation effects	Dec 31, 1998
Buildings and land improvements	361	84	-39		16	422
Write-up		2				2
Plant and machinery	2,369	495	-584	-10	89	2,359
Write-up		6				6
Equipment, tools, fixtures and fittings	302	86	-118	10	27	307
	3,032	673	-741	0	132	3,096
Net book value	4,035					4,005

Parent Company

Acquisition values, including write-ups, amounted to:

	Aug 31, 1997	Acquisitions during the year	Divested assets	Dec 31, 1998
Buildings, land and land improvements	390	42		432
Write-up	22			22
Plant and machinery	2,111	313	-45	2,379
Equipment, tools, fixtures and fittings	0	23		23
Work in progress, including advance payments	79	56		135
	2,602	434	-45	2,991

Accumulated depreciation according to plan amounted to:

	Aug 31, 1997	Acquisitions during the year	Divested assets	Dec 31, 1998
Buildings and land improvements	113	24		137
Plant and machinery	942	213	-12	1,143
Equipment, tools, fixtures and fittings	0	5		5
	1,055	252	-12	1,285
Net book value	1,547			1,706

The tax assessment value for tangible fixed assets amounted to:

	Group		Parent Company	
	Dec 31, 1998	Aug 31, 1997	Dec 31, 1998	Aug 31, 1997
Buildings (including building fittings)	499	494	449	425
Land improvements	58	62	50	50
	557	556	499	475

The above tax assessment values for the Group pertain solely to Swedish Group companies.

1.4. SHARES IN GROUP COMPANIES

	Dec 31, 1998	Aug 31, 1997
Opening book value	1,813	1,935
Added	799	21
Divested	-12	-143
Closing book value	2,600	1,813

The increase was mainly attributable to the new share issue in the German subsidiary. Specification of the Parent Company's holdings of shares and participations in subsidiaries:

	Organization- number	Holding, %	Book value
Perstorp Inc., Florence, MA, USA		100	255
- National Plastics Corp., Port Gibson, MS, USA		100	
- Perstorp Compounds Inc., Florence, MA, USA		100	
- Perstorp Polyols Inc., Toledo, OH, USA		100	
- Perstorp Systems Inc., Toledo, OH, USA		100	
- Pierce Chemical Comp., Rockford, IL, USA		100	
- RCC Advanced Materials, West Jordan, UT, USA		75.5	
- Medonics, Murray, UT, USA		68.5	
- YLA Inc., Benicia CA, USA		61	
- HyClone Laboratories Inc., Logan, UT, USA		100	
- Perstorp Unidur Inc., Greensboro, NC, USA		100	
- Perstorp Flooring Inc., Raleigh, NC, USA		100	
- Pierce Milwaukee Inc., Milwaukee, WI, USA		100	
- Perstorp Canada Products Inc., Florence, MA, USA		100	
Perstorp Ltd., Aycliffe, UK		100	194
- Perstorp Waverite Ltd., Aycliffe, UK		100	
- Perstorp Chemicals Ltd., Aycliffe, UK		100	
- Perstorp Flooring Ltd., Aycliffe, UK		100	
- Perstorp Analytical Ltd., Aycliffe, UK		100	
- Perstorp Pharma Ltd., Aycliffe, UK		100	
- Perstorp Unidur Ltd., Aycliffe, UK		100	
- HyClone Europe Ltd., Aycliffe, UK		100	
- Perstorp Holding Overseas Ltd., Aycliffe, UK		100	
Perstorp GmbH, Bürstadt, Germany		100	1,222
- Perstorp Elemente GmbH, Herzebrock, Germany		100	
- Perstorp Chemitec GmbH, Bad Salzuflen, Germany		100	
- Perstorp Flooring GmbH, Bürstadt, Germany		100	
- Perstorp Components GmbH, Lambrecht, Germany		100	
- Profi Verlegeservice GmbH, Bürstadt, Germany		100	
- International InfoSystems SA, Bryssel, Belgium		100	
Perstorp Spa, Castellanza, Italy		100	1
Perstorp France SA, Bezons Cédex, France		100	36
- Perstorp SA, Bezons Cédex, France		100	
Perstorp Nederland BV, Oud-Beijerland, Netherlands		100	36
- Perstorp Flooring BV, Naarden, Netherlands		100	
- Perstorp Analytical BV, Oud-Beijerland, Netherlands		100	
- Perstorp Specialty Chemicals BV, Oud-Beijerland, Netherlands		100	
- Perstorp Chemicals BV, Oud-Beijerland, Netherlands		100	
- Perstorp Flooring NV/SA, Antwerpen, Belgium		100	
- Perstorp Aegis Chemicals Pvt Ltd., Mumbai, India		51	
- Perstorp MCHZ AS, Ostrava, Czech Republic		51	
- Perstorp Industrial Surfaces Ltd, Hong Kong		60	
- Tianjin Perstorp Ind. Surf. Co, Beijing, China		100	
Perstorp Iki OY, Kolho, Finland		100	14
- Perstorp Analytical OY, Helsingfors, Finland		100	
- Perstorp Flooring OY, Esbo, Finland		100	
Perstorp & H Puzelik GesmbH, Wien, Austria		100	46
- Creative Chemicals Ltd., Hamilton, Bermuda		100	
- SIAM Perstorp Co Ltd., Bangkok, Thailand		95	
Perstorp do Brasil Ltda., Sao Paulo, Brazil		100	50
Perstorp A/S, Tåstrup, Denmark		100	-
- Perstorp Chemitec A/S, Tåstrup, Denmark		100	
Perstorp Chemitec Portugal Ltda, Oeiras, Portugal		100	1
Perstorp S.p.z.o.o., Warszawa, Poland		100	-
Perstorp Vertriebs AG, Cham/Zug, Switzerland		100	14
- Perstorp Elemente AG, Cham/Zug, Switzerland		100	
Perstorp Railite SA, Valencia, Spain		100	90
Perstorp Asia-Pacific Pte Ltd., Singapore		100	5
Perstorp A/S, Heggedal, Norway		100	16
Perstorp Flooring Korea Ltd., Seoul, Korea		100	1
Vyncolit NV, Gent, Belgium		100	201
HyClone Europe NV, Erembodegem-Aalst, Belgium		100	-
Perstorp (Thailand) Co Ltd., Bangkok, Thailand		100	1
Meffails AB, Perstorp, Sweden	556293-4850	100	1
Pernéo HB, Perstorp, Sweden	916753-1780	60	18
Pernovo AB, Perstorp, Sweden	556034-3922	100	1
- Atos Medical AB, Hörby, Sweden	556268-7607	92,5	
Perstorp Energi AB, Perstorp, Sweden	556190-7220	100	-
- Markaryds Fastbränsle AB, Perstorp, Sweden	556156-0581	100	
Perstorp Flooring AB, Trelleborg, Sweden	556077-6006	100	38
Perstorp Treasury AB, Perstorp, Sweden	556114-5656	100	350
Dormant companies in Sweden			9
			2,600

15. PARTICIPATIONS IN ASSOCIATED COMPANIES

	Organization number	% of capital/ voting rights	Book value	
			Group	Parent Company
Perstorp Clariant AB, Perstorp	556143-4837	50/50	59	12
PT Perstorp Bumi Raya, Pontianak, Indonesien		50/50	-	3
			59	15

16. OTHER SHARES AND PARTICIPATIONS

	Organization number	% of capital/ voting rights	Book value	
			Group	Parent Company
Composite Scandinavia AB, Piteå	556342-8274	15/15	18	18
Novopan Träindustri A/S, Pindstrup, Denmark		9.6/9.6	33	33
Perstorp Plastic Systems Holding AB, Perstorp	556247-6597	30/30	54	35
Raschig SAS, Bezons, France		30/30	3	-
Celcis International PLC, Cambridge, UK		1.2/1.2	3	-
Other			2	-
			113	86

The major changes during the year pertained to the acquisition of Novopan Träindustri A/S, Perstorp Plastic Systems Holding AB and Raschig SAS, as well as the sale of Collins & Aikman Holding AB.

17. INVENTORIES

	Group		Parent Company	
	Dec 31, 1998	Aug 31, 1997	Dec 31, 1998	Aug 31, 1997
Materials	603	589	176	167
Work in progress	165	136	91	62
Finished and semi-finished goods	1,141	1,003	250	133
	1,909	1,728	517	362

18. OTHER OPERATING RECEIVABLES

	Group		Parent Company	
	Dec 31, 1998	Aug 31, 1997	Dec 31, 1998	Aug 31, 1997
Prepaid marketing costs	51	47	-	-
Prepaid pension costs	34	16	7	-
Prepaid insurance premiums	35	29	19	17
Receivables from suppliers	14	21	-	-
Other prepaid expenses and accrued income	88	97	37	50
Tax receivable	-	8	6	5
Receivables from associated companies	21	28	7	11
Value Added Tax receivables	84	66	31	10
Other receivables	283	360	7	14
	610	672	114	107

19. SHAREHOLDERS' EQUITY

Group	Share capital		Unrestricted reserves	Total
	Restricted	Reserves		
According to approved balance sheet, August 31, 1997	716	1,245	2,084	4,045
Effect of changed accounting principles		40		40
Opening balance	716	1,285	2,084	4,085
Net profit for the year			496	496
Dividend			-197	-197
Transfer between restricted and unrestricted reserves		175	-175	-
Translation difference		45	99	144
	716	1,505	2,307	4,528

Specification of restricted reserves in the Group

	Dec 31, 1998	Aug 31, 1997
Equity in untaxed reserves	986	964
Other restricted reserves	519	281
	1,505	1,245

Of net profit for the year, SEK 5 m is required for an allocation to restricted reserves in Group companies.

Parent Company

	Share capital	Legal reserves	Unrestricted shareholders' equity
Opening balance	716	212	868
Net profit for the year			367
Dividend			- 197
	716	212	1,038

The share capital is represented by 71,584,341 shares with a par value of SEK 10 each. There are 8,553,600 Series A shares and 63,030,741 Series B shares. Series A shares carry ten votes and Series B shares one vote each. At full conversion, the number of Series B shares will rise by 2,026,650.

Certain shareholders

	A shares Dec 31, 1998	A shares Aug 31, 1997	B shares Dec 31, 1998	B shares Aug 31, 1997
<i>Board members and deputies¹⁾</i>				
Gunnar Brock	-	-	-	-
Åke Fredriksson	200	200	1,602	1,602
Christer Gardell	-	-	-	-
Finn Johnsson	-	-	3,500	3,500
Carl Johan Wendt	59,742	59,763	-	6,996
Karl Lennart Wendt	183,027	183,027	66,291	66,291
Wilhelm Wendt	341,472	341,472	127,891	142,891
Gösta Wiking	200	200	21,591	21,591
Katarina Wendt-Englund	70,770	70,770	26,811	26,811
Erik Wilhelm Wendt	73,908	73,908	750	750
Bo Berggren	-	-	-	-
Ingolf Christoffersen	200	200	557	357
Lars Hansson	200	200	60	60
Anders Alm	-	-	-	-
Ulla Ohlsson	-	-	-	-
Joakim Magnusson	-	-	-	-

¹⁾ Incl. spouse, minors and private companies.

20. MINORITY INTERESTS

The minority share in shareholders' equity pertains primarily to HB Perneo and Perstorp Aegis Chemicals PVT Ltd., India.

21. PROVISIONS

	Group		Parent Company	
	Dec 31, 1998	Aug 31, 1997	Dec 31, 1998	Aug 31, 1997
PRI pensions	348	331	332	315
Other pensions	121	125	46	44
Provisions for taxes	373	339	-	-
Other provisions	3	-	-	-
	845	795	378	359

22. APPROPRIATIONS IN PARENT COMPANY

	Dec 31, 1998	Aug 31, 1997
Group contributions	105	70
Allocation to untaxed reserves	-99	-60
	6	10

	Value according to balance sheet, Aug 31, 1997	Appropriations, Dec 31, 1998	Value according to balance sheet, Dec 31, 1998
Tax equalization reserve	107	-35	72
Tax allocation reserve	240	47	287
Currency reserve	1	0	1
Accumulated excess depreciation			
- machinery	639	103	742
- buildings	90	-6	84
- land improvements	16	3	19
- goodwill	3	-1	2
- know-how, trademarks, etc.	11	-11	0
- development costs	1	-1	0
	1,108	99	1,207

23. CURRENCY RISKS

Currency risks

Changes in foreign exchange rates affect the Group's results in several ways: *Transaction exposure* – when sales revenues and production costs are denominated in different currencies.

Translation exposure (earnings) – when the earnings of foreign subsidiaries are translated into Swedish kronor (SEK).

Translation exposure (foreign net assets) – revaluation of the foreign subsidiaries' assets and liabilities from foreign currencies into SEK.

Financial exposure – flows of payments related to loans and short-term investments in foreign currencies.

Currency risk – Transaction exposure

Corporate Finance/Perstorp Treasury AB compile periodic projections of anticipated receipts and payments in various foreign currencies.

Perstorp's total transaction exposure (incl. SEK) is estimated to amount to approximately SEK 4.2 billion for the 1999 fiscal year. The exporting subsidiaries in Belgium, Italy, Spain and Sweden account for most of the exposure. The currencies in which Perstorp's exposure is greatest are shown in the table below.

The Perstorp Group's currency policy stipulates that the subsidiaries should hedge at least 50% of the estimated net flow of foreign currencies for the following six months, with the possibility of hedging up to 100% for 18 months. At fiscal year-end, the net of currencies sold/bought on forward contracts amounted to SEK 1,882 m, corresponding to 89.5% of the estimated net inflow during the following six months, and SEK 2,397 m, corresponding to 57%, for the following 12 months. The introduction of the common European currency, EUR, will reduce the Group's exposure by approximately SEK 315 m, or 7%, on an annual basis.

Currency exposure, December 31, 1998

(Forecast flows during 1999 fiscal year, SEK m)

Currency	Before hedging	After hedging	Hedging %
CHF	120	120	0
EUR	435	303	30
GBP	383	211	45
NOK	112	108	4
USD	1,043	153	85
SEK	2,007	804	60
Other	103	107	-4
Total	4,203	1,806	57

Market-valued forward contracts

The table below shows the difference between the actual value and the contract rate of currency forward contracts entered into to hedge future flows. The future flows relate to forecasts, that is flows that have yet to be booked.

	Difference between actual value and value based on contract rate
Maturity 1999	-11.8
Maturity 2000	-1.6

Currency index

Based on the values of payment flows in various currencies, Perstorp has developed a weighted currency index in order to explain how earnings are affected by changes in exchange rates. The average exchange rate during the 1996/97 fiscal year forms the basis for the weighted currency index. A higher index is favorable in terms of Perstorp's earnings. Based on current flows and the exchange rates in effect at fiscal year-end, each percentage-point change in the index has a gross effect, before any hedging measures are implemented, of approximately SEK 23 m on 12-month earnings before taxes. In the table of currencies, the value of the index is stated last. In the diagram, the term TCW index refers to a trade-weighted currency index calculated by the International Monetary Fund (IMF). This shows the trend for the Swedish krona in relation to Sweden's major trading partners.

	Year-end exchange rate		Average exchange rate	
	Dec 31, 1998	Aug 31, 1997	1997/1998	1996/1997
ATS	0.6864	0.6188	0.6364	0.6280
BEF	0.2341	0.2109	0.2171	0.2143
DKK	1.2685	1.1435	1.1759	1.1570
FIM	1.5885	1.4510	1.4778	1.4770
FRF	1.4400	1.2940	1.3357	1.3084
DEM	4.8295	4.3540	4.4783	4.4196
GBP	13.5200	12.6375	13.0217	11.9034
ITL	0.0049	0.0045	0.0046	0.0045
JPY	0.0700	0.0656	0.0612	0.0624
NLG	4.2865	3.8660	3.9729	3.9329
NOK	1.0730	1.0540	1.0569	1.0703
PTE	0.0471	0.0429	0.0438	0.0438
SGD	4.9000	5.1650	4.7831	5.1166
ESP	0.0568	0.0515	0.0528	0.0524
CHF	5.9010	5.2675	5.4473	5.2439
USD	8.0650	7.8050	7.8759	7.3083
INDEX	110.3	104.3	106.2	100.0
TCW	110.5	103.0	105.3	100.0

Currency risk – Translation exposure (foreign net assets)

The main reason for hedging foreign net investments – that is, shareholders' equity in subsidiaries outside Sweden – is to ensure that equity has long-term protection from exchange-rate fluctuations, thereby also protecting the Group's equity ratio.

At fiscal year-end, the value of foreign net assets was SEK 3,436 m, of which SEK 1,297 m was covered by loans arranged to finance share capital contributions in the same currency outside Sweden.

Apart from the above, the Group does not currently apply any other hedging for translation exposure.

Value of net assets in foreign currencies, December 31, 1998

Currency	SEK m	Of which, hedged through loans in same currency
BEF	221	195
DEM	1,094	1,014
ESP	77	-
FIM	142	-
FRF	63	-
GBP	320	88
ITL	79	-
NLG	365	-
THB	67	-
USD	901	-
Other	107	-
Total	3,436	1,297

Interest risk

Interest risk relates to the risk that changes in interest rates will have a negative impact on Perstorp's earnings due to the increased bor-

rowing costs. During the fiscal year, financing was mainly conducted through existing commercial paper programs and through borrowing from banks. Perstorp has primarily worked with short term interest rate fixings during the year. The Group's interest-bearing liabilities (excluding pension costs) at fiscal year-end amounted to SEK 1,668 m. At year-end the loan portfolio had a duration of 35 days. Accordingly, the interest risk arising from a change in the level of interest rates by one percentage point corresponds to an impact of about SEK 15 m on annualized earnings. The average interest rate for loans outstanding was 4.73% at year-end.

The interest risk is managed at Group level by Corporate Finance/Perstorp Treasury AB.

Interest-bearing loans by currency, December 31, 1998

Currency	SEK m	Proportion, %
ATS	18	1
BEF	88	5
DEM	102	6
ESP	40	2
FRF	97	6
GBP	110	7
ITL	78	5
NZD	27	2
SEK	251	15
SGD	21	1
THB	17	1
USD	785	47
Other currencies	34	2
Total	1,668	100

Refinancing risk

Perstorp actively seeks to ensure a high state of financial preparedness and efficient raising of capital. Perstorp Treasury AB is responsible for most of the Group's borrowing, which optimizes the raising of capital in terms of price and management. Perstorp Treasury AB then makes loans to companies within the Perstorp Group at market rates. All inter-company loans are undertaken in local currency and with short periods of fixed interest.

Perstorp must have a liquidity reserve of at least 10% of total assets. This requirement is more than adequately met by currently approved credit facilities. At the end of the fiscal year, the value of confirmed credit facilities was SEK 3,293 m. The Group also has access to commercial paper program totaling SEK 2,046 m. At year-end, SEK 2,400 m of the confirmed credit facilities was unutilized.

Maturity structure of interest-bearing loans and confirmed credit facilities, December 31, 1998

Most of the Group's loan financing is formally short-term in nature, but was previously reported as long-term, since refinancing occurred on a regular basis. Effective December 31, 1998, financing is reported as short-term. Comparative figures at August 31, 1997, have been reclassified accordingly.

Maturity	Principal	Confirmed credit facilities
1999	1,261	486
2000	171	171
2001	233	233
2002	-	-
2003	-	1,200
2004	3	1,203
Total	1,668	3,293

Credit risk

Credit risk in financial investments

Since the Group is a net borrower, its surplus liquidity is limited. The Group's liquidity is coordinated and invested by Perstorp Treasury AB. Funds are only invested in instruments with short maturities (nor-

mally less than a month) and with a high credit rating. At fiscal year-end, liquid funds amounted to SEK 99 m.

Credit risk in financial instruments

Trading in derivative instruments gives rise to counterparty risks, meaning the risk that the counterparty will be unable to fulfill its commitments and that a potential gain does not materialize. This exposure is managed as a liability to or a receivable from the particular counterparty.

In order to limit the risk, maximum risk levels are set for each specific, named counterparty (the counterparty limit). Counterparty limits are subject to approval by the Board and are continuously reviewed. No credit losses have been incurred to date.

Counterparty risk, unrealized gains on derivative trading

The diagram shows the sum of outstanding profits on derivative contracts for which Perstorp has a claim on the counterparty.

Maturity Unrealized gain, Dec 31, 1998

Maturity	Unrealized gain, Dec 31, 1998
1999	16
2000	1
Total	17

24. CONVERTIBLE DEBENTURE LOAN

As of May 15, 1996, the loan carries interest at an annual rate corresponding to STIBOR with a 12-month term minus 0.5 percentage points. The conversion price is SEK 111. Conversion to shares will be possible during the period July 1, 1999 – April 30, 2001.

The loan falls due for repayment on May 15, 2001, to the extent that it has not been converted to shares prior to that date.

25. OTHER OPERATING LIABILITIES

	Group		Parent Company	
	Dec 31, 1998	Aug 31, 1997	Dec 31, 1998	Aug 31, 1997
Accrued vacation pay	105	131	62	59
Accrued social security costs	78	77	53	53
Accrued commissions	39	28	-	-
Accrued interest	18	7	6	7
Other accrued expenses and prepaid income	366	466	116	88
Advances from customers	39	20	33	11
Due to associated companies	-	1	-	-
Tax liabilities	20	-	-	-
Other liabilities	158	202	26	46
	823	932	296	264

26. ASSETS PLEDGED

	Group		Parent Company	
	Dec 31, 1998	Aug 31, 1997	Dec 31, 1998	Aug 31, 1997
Property mortgages	138	101	93	100
Chatel mortgages	117	99	85	92
	255	200	178	192

Liabilities for which the above assets were pledged as security amounted at year-end 1998 to SEK 255 m (200) for the Group and SEK 178 m (192) for the parent company.

27. CONTINGENT LIABILITIES

	Group		Parent Company	
	Dec 31, 1998	Aug 31, 1997	Dec 31, 1998	Aug 31, 1997
Guarantees	45	101	43	98
Guarantees and other contingent liabilities for subsidiaries	-	-	183	137
Discounted bills	7	17	-	-
Conditional pension commitments	11	17	11	17
Other contingent liabilities	1	4	1	2
	64	139	238	254

The contingent liabilities for subsidiaries correspond to the value of utilized facilities at year-end.

28. PERSONNEL

Average number of employees

	1997/98		1996/97	
	Number of employees	Of whom, men	Number of employees	Of whom, men
Sweden				
Parent Company	1,827	1,260	2,115	1,537
Subsidiaries	704	516	477	371
Belgium	151	135	56	42
Brazil	462	378	467	388
Denmark	30	19	27	15
Finland	207	117	209	115
France	195	148	459	363
Holland	34	19	44	27
India	119	115	-	-
Italy	153	138	154	139
China	74	64	45	37
Norway	37	26	43	30
Poland	21	16	11	9
Portugal	13	10	8	6
Switzerland	36	21	35	22
Singapore	23	11	30	17
Spain	225	202	222	195
UK	546	451	692	550
Thailand	188	134	329	227
Germany	437	317	819	600
USA	1,193	835	1,126	793
Austria	5	4	71	60
Other countries	67	45	61	50
	6,747	4,981	7,499	5,592

Distribution by workplace of average number of employees in Parent Company:

	1997/98		1996/97	
	Number of employees	Of whom, men	Number of employees	Of whom, men
Lund	12	5	28	11
Perstorp	1,798	1,241	2,006	1,460
Strömstad	-	-	24	20
Trelleborg	14	12	40	34
Vadstena	3	2	15	11
Other workplaces				
in Sweden	-	-	2	1
outside Sweden	30	30	28	28
	1,857	1,290	2,143	1,565

Wages, salaries, other remuneration and social security costs

	1997/98		1996/97	
	Wages, salaries, remuneration	Social security costs (of which, pensions costs)	Wages, salaries, remuneration	Social security costs (of which, pensions costs)
Parent Company	634	254 (146)	501	204 (118)
Subsidiaries	1,627	466 (57)	1,299	383 (79)
Group total	2,261	720 (203)	1,800	587 (197)

The Board of Directors and President account for SEK 3.8 m of the Parent Company's pension costs. The Company's outstanding pension commitments to this category amount to SEK 18.4 m.

The Board of Directors and President account for SEK 8.9 m of the Group's pension costs. The Group's outstanding pension commitments to this category amount to SEK 19.3 m.

Distribution of wages, salaries, other remuneration and social security costs by country and among Board members, etc. and employees

	1997/98		1996/97	
	Board of Directors and President	Other employees	Board of Directors and President	Other employees
Sweden	14	1,203	12	868
Belgium	4	80	1	59
Brazil	6	100	4	65
Denmark	1	11	2	10
Finland	3	90	2	71
France	-	164	1	190
Holland	2	26	2	20
India	-	4	-	-
Italy	9	63	2	52
China	1	10	1	2
Norway	2	17	1	12
Poland	-	5	-	2
Portugal	1	2	-	1
Switzerland	4	24	3	19
Singapore	1	13	1	14
Spain	2	85	2	66
UK	1	225	2	182
Thailand	1	19	1	23
Germany	6	183	5	296
USA	21	563	15	341
Austria	-	1	-	27
Other countries	1	13	1	9
	80	2,901	58	2,329

Remuneration to senior executives

In accordance with a decision by the Annual General Meeting, the Company's Board of Directors received fees totaling SEK 1,440,000 (16 months), of which the Chairman accounted for SEK 400,000. He is also entitled to a pension, in accordance with the stipulations of the so-called 60-year agreement with the Company's senior executives.

During the 16-month period, the President received a salary and other remuneration totaling SEK 3,553,000. He also received the benefit of a free use of a car. The Company paid premiums of SEK 424,000 for a supplementary pension.

In connection with the termination of employment, the Company must serve three years of notice and the President one year. However, as of the year of the President's 57th birthday, the period of notice from the Company's side is also one year. As of age 65 and in accordance with the stipulations of the ITP plan, the President will receive a pension from SPP, which will also cover salary por-

tions exceeding 30 base amounts. According to a special undertaking, both the President and the Company are entitled, once the President has reached the age of 58 to 65 years, to terminate the employment agreement. In such a situation, the President receives compensation up to the statutory retirement age in an amount corresponding to 55-75% of the combined remuneration payable to the President at the date his employment is terminated, depending on the age at which employment is terminated.

The senior executives who are members of Corporate Management are covered by an agreement according to which – assuming the executive remains in service at the age of 59 – the Company and employee are mutually obliged to serve one year's termination notice, whereby up to the age of 65 the executive concerned is entitled to receive accrued pension rights corresponding to 75% of the remuneration payable at the date of employment termination. This compensation is not subject to any form of deduction.

In the event that the Company terminates the executive's employment before the age of 59, a portion of this commitment is deemed to have been earned in proportion to the period of service in Corporate Management. In addition, the group of executives described above are subject to a period of notice from the Company ranging from 12 to 30 months, based on the period of service in senior management. In general, these are liable to deductions.

Following a decision by Perstorp AB's Board of Directors, 22 senior executives received synthetic options in blocks of between 2,000 and 30,000. The terms were based on a valuation undertaken on market terms by Handelsbanken Markets.

29. CORPORATE POLICY FOR SAFETY, HEALTH AND THE ENVIRONMENT

Perstorp's business operations are based on chemistry and materials technology applications, with production units in several countries. The Group prioritizes continuous improvement in the field of safety, health and the environment in order to achieve sustainable development. Important features of safety, health and environment (S.H.E.) work include emissions to the air and water, the occurrence of waste and the handling of chemicals.

Perstorp strives for:

- A safe and sound working environment in which special priority is assigned to the physical and psychological health of employees. Personal development and commitment, stimulated through interesting work assignments, training and communications. Active cooperation with employees in S.H.E. issues.
- Continuous improvements in processes and products to prevent accidents and minimize their environmental impact. A closed-cycle approach and economization of natural resources shall be prioritized.
- High level of safety standards through risk analyses, preventive measures, emergency preparedness and a long-term technical approach.
- Effective management systems for S.H.E. issues through continuous improvements based on new objectives and action programs to attain high standards in the internal and the external environment.
- Active research and development work that generates know-how for selections of raw materials, processes and transports to limit harmful impact on health and the environment.
- Fulfilling legislated requirements by a broad margin.
- Open and continuous communications with neighbors, authorities, customers, mass media and other stakeholders.
- Subjecting suppliers and subcontractors to the same rigorous demands in S.H.E matters as those applied to the Perstorp Group as a whole.

This revised environmental policy applies to the entire Perstorp Group effective March 1, 1999. Perstorp's policy, objectives and work in the S.H.E area are presented annually in the Group's environmental report on the Internet and in separate reports by various Group units.

PROPOSED DISTRIBUTION OF PROFITS

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

Retained earnings	SEK	671,858,899
Net profit for the year	SEK	366,948,761
	SEK	1,038,807,660

be distributed as follows:

To shareholders		
- a dividend of SEK 4.00 per share	SEK	286,337,364
- all of the shares in Perstorp Life Science AB ¹⁾ , in proportion to the shareholders' current shares in Perstorp AB, with a total book value at the date of distribution of	SEK	600,000,000
To be retained in the business	SEK	152,470,296
	SEK	1,038,807,660

¹⁾ The spin-off of these shares is described briefly on page 9 of the Annual Report and in greater detail in an information brochure that will be distributed to shareholders prior to the Annual General Meeting.

Perstorp, March 22, 1999

Gösta Wiking
Chairman

Bo Berggren

Gunnar Brock

Ingolf Christoffersen

Christer Gardell

Lars Hansson

Finn Johnsson

Carl Johan Wendt

Karl Lennart Wendt

Wilhelm Wendt

Åke Fredriksson
President

AUDITORS' REPORT FOR PERSTORP AB

To the Annual General Meeting in Perstorp AB

Organization number 556024-6513

We have audited the annual report, the consolidated financial statements, the accounts and the administration of the Board of Directors and the President of Perstorp AB for the September 1, 1997 to December 31, 1998 fiscal year.

These accounts and the administration of the Company are the responsibility of the Board of Directors and the President. Our responsibility is to express an opinion on the financial statements and the administration based on our audit.

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

In our opinion, the annual report and the financial statements have been prepared in accordance with the Annual Accounts Act and, consequently we recommend

- that the income statement and the balance sheet for the Parent Company be adopted, and
- that the profit in the Parent Company be dealt with in accordance with the proposal in the Report of the Board of Directors.

In our opinion, the Board members and the President have not committed any act or been guilty of any omission, which could give rise to any liability to the Company. We therefore recommend

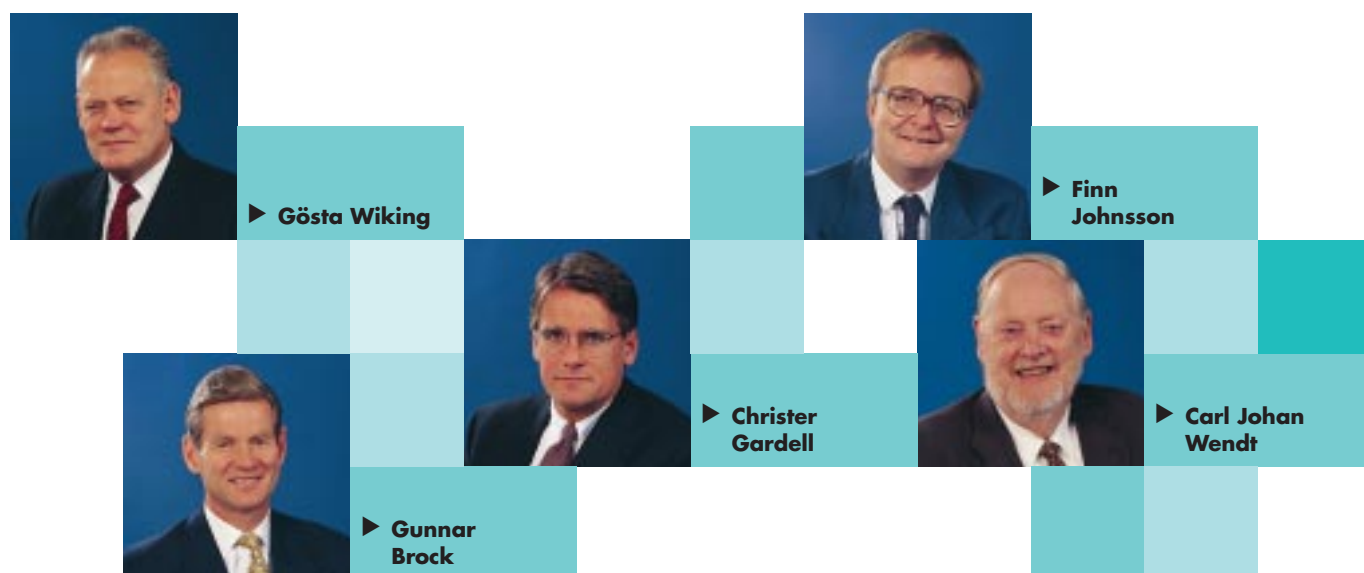
- that the members of the Board of Directors and the President be discharged from liability for the fiscal year.

March 22, 1999

Stig Nilsson
Authorized Public Accountant
Ernst & Young AB

Gunnar Widhagen
Authorized Public Accountant
Ernst & Young AB

BOARD OF DIRECTORS, AUDITORS



Members elected by the Annual General Meeting

Gösta Wiking, Chairman of the Board

Born 1937.
Chairman since 1997.
Former President and Chief Executive Officer of Perstorp AB.
Elected to Board in 1991.
Other Board memberships: Chairman of the Board of Mölnlycke Health Care AB. Deputy Chairman of Skandinaviska Enskilda Banken AB. Board member of Investment AB Bure, Bong Ljungdahl AB, Karlshamns AB and the Federation of Swedish Industries.
Perstorp shares. 21,791¹⁾
Convertible debentures. SEK 267,510.
Gösta Wiking has notified his intention to decline reelection at the 1999 Annual General Meeting.

Gunnar Brock

Born 1950.
President and Chief Executive Officer of Tetra Pak Group.
Elected to Board in 1996.
Other Board memberships: Board member of Tetra Laval Group, Lego A/S, Denmark, and Institute for Management Development, Switzerland.

Christer Gardell

Born 1960.
B. Sc. (Econ), President and Chief Executive Officer of AB Custos.
Elected to Board in 1997.
Other Board memberships: Chairman of the Board of ASG AB. Board member of Svenska Cellulosa Aktiebolaget SCA, Svedala Industri AB and HiQ International AB.

Finn Johnsson

Born 1946.
President of Mölnlycke Health Care AB.
Elected to Board in 1997.
Other Board memberships: Chairman of the Board of Merchant Venture Investments (MVI). Board member of Skanska AB, AB Volvo and Thomas Concrete AB.
Perstorp shares. 3,500¹⁾.

Carl Johan Wendt

Born 1932.
B. Sc. (Econ).
Deputy since 1964, elected to Board in 1968.
Other Board memberships: Chairman of the Board of Stensmölle AB.
Perstorp shares. 59,742¹⁾

Karl Lennart Wendt

Born 1943.
B. Sc. (Econ).
Deputy since 1965, elected to Board in 1974.
Perstorp shares. 249,318¹⁾

Wilhelm Wendt

Born 1954.
B. Sc. (Econ), President of Internal AB.
Deputy since 1982, elected to Board in 1996.
Perstorp shares. 469,363¹⁾

Åke Fredriksson

Born 1948.
President and Chief Executive Officer of Perstorp AB since 1997.
Joined Perstorp in 1972.
Elected to Board in 1997.
Other Board memberships: Board member of the Association of Swedish Chemical Industries and Industrial & Financial Systems, IFS AB.
Perstorp shares. 1,802¹⁾
Convertible debentures. SEK 267,510.
Synthetic options. 30,000.



Deputy members elected by the Annual General Meeting

Erik Wilhelm Wendt

Born 1958.
Master of Science (Physics), Managing Director of Semtech Metallurgy AB.
Deputy since 1996.
Perstorp shares. 74, 658¹⁾

Katarina Wendt-Englund

Born 1959.
B. Sc. (Econ), Partner and Board member of Jaxvall Design Group.
Deputy since 1996.
Perstorp shares. 97,581¹⁾

Employee representatives

Bo Berggren

Born 1949.
Factory worker.
Board member since 1991.
Elected by the Industrial Trade Union at Perstorp AB. Chairman of the Industrial Trade Union at Perstorp AB, Perstorp.

Ingolf Christoffersen

Born 1944.
Machine operator.
Deputy since 1988, Board member since 1991. Elected by the local Woodworkers' Trade Union in Trelleborg. Chairman of Factory Workers' Union at Perstorp Flooring AB, Trelleborg.
Perstorp shares. 757¹⁾
Convertible debentures. SEK 267,510.

Lars Hansson

Born 1952.
Technical Agricultural Adviser.
Board member since 1996.
Elected by local unions of PTK²⁾ at Perstorp AB. Chairman of local SIF³⁾ at Perstorp AB, Perstorp.
Perstorp shares. 260¹⁾
Convertible debentures. SEK 222,000.

Anders Alm

Born 1969.
Factory worker.
Deputy since 1997.
Elected by the Industrial Trade Union at Perstorp AB, Perstorp.
Convertible debentures. SEK 132,000.

Joakim Magnusson

Born 1968.
Factory worker. Deputy since 1998.
Elected by the local Woodworkers' Trade Union in Trelleborg.

Ulla Ohlsson

Born 1954.
Deputy since 1998.
Elected by local unions of PTK²⁾ at Perstorp AB, Perstorp. Chairman of local SIF³⁾ at Perstorp Flooring AB, Trelleborg.

Auditors

Stig Nilsson

Born 1937.

Gunnar Widhagen

Born 1938.

Jan Bogren

Deputy, born 1948.

Lars-Anders Ottosson

Deputy, born 1945.

All are authorized Public Accountants and partners in Ernst & Young AB.

¹⁾ Incl. shares owned by spouse, children and private company as per December 31, 1998.

²⁾ PTK = The Swedish Federation of Salaried Employees in Industries and Service.

³⁾ SIF = The Swedish Industrial Salaried Employees' Association.

CORPORATE MANAGEMENT



Executive Committee

Åke Fredriksson

Born 1948.
President and Chief Executive Officer of Perstorp AB since 1997.
Joined Perstorp in 1972.
Elected to Board in 1997.
Other Board memberships: Board member of the Association of Swedish Chemical Industries and Industrial & Financial Systems, IFS AB.
Perstorp shares. 1,802¹⁾
Convertible debentures. SEK 267,510.
Synthetic options. 30,000.

Mats Tunér

Born 1940.
Executive Vice President with special responsibility for information technology, financial and accounting matters.
Joined Perstorp in 1975.
Board memberships: Board member of SEB Allemansfonder AB and SEB Nordvästra Skåne.
Perstorp shares. 889¹⁾
Convertible debentures: SEK 267,510.
Synthetic options. 15,000.

Tom Almgren

Born 1947.
Executive Vice President and President of Perstorp Flooring.
Joined Perstorp in 1998.

Jan-Eric Bergström

Born 1951.
Executive Vice President and President of Perstorp Surface Materials.
Joined Perstorp in 1991.
Perstorp shares. 200¹⁾
Convertible debentures. SEK 267,510.
Synthetic options. 3,000.

Mats Fischier

Born 1946.
Executive Vice President and President of Perstorp Life Science.
Joined Perstorp in 1996.

Eibert Hansson

Born 1940.
Executive Vice President and responsible for Human Resources functions.
Joined Perstorp in 1984.
Perstorp shares: 11,139¹⁾
Convertible debentures. SEK 267,510.
Synthetic options. 15,000.

Jerker Hartwall

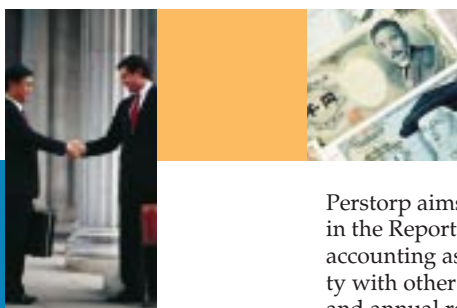
Born 1952.
Executive Vice President and President of Perstorp Chemicals.
Joined Perstorp in 1982.
Perstorp shares: 2,147¹⁾
Convertible debentures. SEK 267,510.
Synthetic options. 15,000.

Magnus Lindquist

Born 1963.
Executive Vice President and Head of Corporate Control.
Joined Perstorp in 1996.
Convertible debentures. SEK 267,510.
Synthetic options. 7,500.

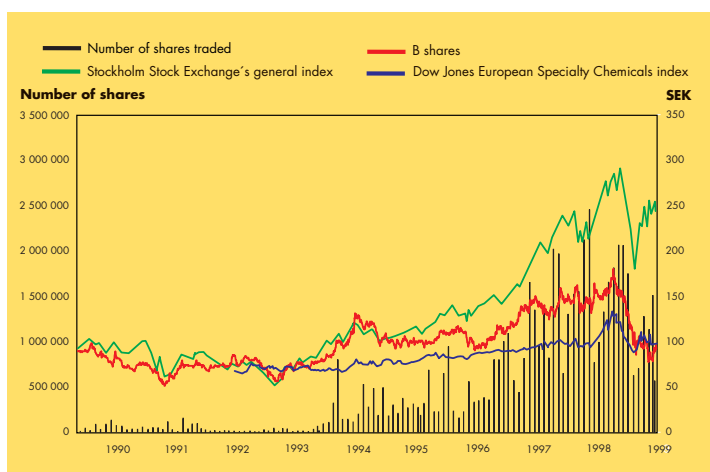
Rolf Bergström was a member of the Executive Committee in 1998.

¹⁾Incl. shares owned by spouse, children and private company as per December 31, 1998.



Perstorp aims to continuously improve its information to the stock market. As explained in the Report of the Board of Directors, Perstorp is applying calendar-year and quarterly accounting as of 1999, which will increase the frequency of information and comparability with other companies. More information about the divisions is provided in interim and annual reports. Financial information about Perstorp on the Group's website has been expanded and complemented with such features as current share prices.

PERSTORP SHARES



The diagram shows trends for Perstorp shares and Stockholm Stock Exchange's general index. Since share trends during the year fluctuated sharply from sector to sector, the trend for speciality chemicals shares is also presented.

Return to Stock Exchange's A List

Following fiscal year-end, Perstorp AB's Board of Directors decided to request the reregistration of the Company's shares on the Stockholm Stock Exchange's A List, which is expected to increase share liquidity, at the same time as a listing on the O List no longer provides any significant benefits.

At the request of Perstorp AB, Perstorp shares were deregistered from the Paris Stock Exchange on February 20, 1998. The reason for this measure was that most trading in Perstorp shares currently occurs on the Stockholm and London stock exchanges.

Weak share performance

Following a strong start to the year, the stock market weakened towards the end of the spring and during the summer and subsequently turned upwards again. The Asian crisis, unrest in Russia and problems in Brazil resulted in large drops in share prices for most companies. During this period, attention was focused mainly on shares with good liquidity and a high market capitalization. In turn, this meant that shares in small and mid-size companies experienced relative declines in their value. On the whole, this had a negative effect on the Perstorp share.

During 1998, Perstorp shares (Series B) were outperformed by Stockholm Stock Exchange's general index, declining by 47%, at the same time as the general index rose by 10%.

The price fluctuations for Perstorp shares were very large during the year. The highest price for the B share, SEK 174, was quoted in May 1998, while the lowest price, SEK 70, was quoted during December 1998. Following fiscal year-end, the share price has risen again.

Increased trading volume

Over the past three years, the turnover rate for the Perstorp share has improved from less than 8% to the current level of approximately 25%. In other words, the entire stock of Perstorp shares is now turned over approximately once every four years.

During the fiscal year, a total of 24,619,293 shares (1998, 12 months: 18,275,247), with a total value of SEK 3,266 m (1998, 12 months: 2,365), were traded on the Stockholm Stock Exchange. Perstorp's total market capitalization at fiscal year-end was SEK 5,380 m.

Per share data¹⁾

	93/94	94/95	95/96	96/97	97/98	1997	1998
Earning per share, SEK ²⁾	5.49	6.98	6.27	4.48	6.93	5.49	4.68
Earnings per share after full conversion, SEK	5.34	6.78	6.14	4.47	6.86	5.43	4.65
Free cash flow SEK/share ³⁾	7.7	-0.7	5.0	3.5	5.6	-1.4	4.9
Cash flow from operations, SEK/share ³⁾	6.7	-1.8	5.8	3.5	6.1	-1.1	5.0
Shareholders' equity, SEK/share ⁴⁾	46	50	52	57	63	60	63
Shareholders' equity after full conversion, SEK/share	44	49	54	59	65	61	65
Dividend, SEK/share	1.9	2.3	2.5	2.8	4.0 ⁵⁾	-	-
P/E ratio ⁶⁾ (B share)	17	14	17	31	14	26	16
Dividend yield % ⁷⁾ (B share)	2.1	2.3	2.3	2.0	4.0 ⁵⁾	-	-
Total return, % ⁸⁾ (B share)	21	13	11	32	-45	-	-
EBIT multiple ⁹⁾	13	11	13	20	-	16	10
Dividend as a percentage of earnings per share	35	33	40	62	58 ⁵⁾	-	-
Dividend as a percentage of shareholders' equity ⁴⁾	4.2	4.6	4.8	4.8	4.6 ⁵⁾	-	-
Market price as a percentage of shareholders' equity ⁴⁾	199	199	210	247	117	238	117
Market price at fiscal year-end, SEK	91	100	109	141	74	142	74
Market price, highest price paid, SEK (B share)	124	106	111	154	174	157	174
Market price, lowest price paid, SEK (B share)	76	85	85	107	70	118	70
Number of shares	71,584,341	71,584,341	71,584,341	71,584,341	71,584,341	71,584,341	71,584,341

¹⁾ The key ratios in the table have been adjusted to take into account the increase in the number of shares resulting from the 1995/96 bonus issue

²⁾ Reported net profit after full tax

³⁾ Free cash flow and cash flow from operations after full conversion

⁴⁾ At fiscal year-end

⁵⁾ Board of Directors' proposal for 1997/98

⁶⁾ Market price at year-end divided by earnings per share

⁷⁾ Dividend as a percentage of market price at fiscal year-end

⁸⁾ Share price performance during the year adjusted for dividend payments

⁹⁾ Market value plus net indebtedness plus minority interest divided by operating earnings (16 months not relevant)

Changes in beta value

Beta value is a type of risk ratio that shows changes in the price of a share in relation to another index. The index used as the norm for Swedish companies is the Stockholm Stock Exchange's General Index, combined with rolling 48-month values. During the 48-month period ended December 31, 1998, the average beta value for Perstorp shares was 0.81. This means that Perstorp shares were 19% less volatile than the stock market average. Perstorp has a history of relatively low beta values, although the beta rose periodically to around the 1.0 level during the period spring 1997 to spring 1998. During the latter months of 1998, however, the beta fell to more normal levels from a historical viewpoint.

Issue

An issue of convertible debentures directed to Perstorp employees in Sweden and approximately 80 specially invited executives outside Sweden was completed on May 15, 1996. Conversion to shares may take place between July 1, 1999 and March 1, 2001. The debenture loan consists of 2,026,650 convertible debentures with a face value of SEK 10 each and a conversion price of SEK 111 each. The total amount of the debenture loan is SEK 224,958,510. The estimated dilution effect is 2.83% of share capital and 1.36% of voting rights.

Share issues

The parent Company's share capital has been increased during recent years through new and bonus issues of shares as shown in the table below:

Year	Issue	Issue price SEK	Increase in share capital, SEK m	Total paid-in amount, SEK m
1982/83	New issue 1:4	170:-	29	97
1982/83	New issue 200,000 unrestricted series B shares	540:-	10	108
1984/85	Bonus issue 1:5	-	31	-
1988/89	New issue 1:10, unrestricted series B shares	110:-	18	201
1988/89	New issue of 1,000,000 unrestricted series B shares	250:-	10	250
1991/92	Bonus issue 1:10	-	21	-
1991/92	New issue, through conversion	-	5	74
1992/93	New issue, through conversion	-	1	21
1995/96	Bonus issue 2:1	-	477	-

History

Perstorp is a public limited liability company. Perstorp's operations were founded in 1881 by Wilhelm Wendt. Perstorp's Series B shares have been listed on the Stockholm Stock Exchange since 1970. Since March 1997, the Company's Series A shares are also listed on the Stockholm Stock Exchange.

The Company has requested that Perstorp shares again be quoted on the A List, Other Shares, after having been quoted on the O List for slightly more than a year.

The Company's unrestricted series B shares were registered on the London Stock Exchange in March 1983 in conjunction with a special issue of 200,000 unrestricted Series B shares to British institutional investors. In May 1989, the Company's shares were listed on the Paris Stock Exchange in connection with the issue of 1,000,000 unrestricted Series B shares. Perstorp shares were delisted from the Paris Stock Exchange in February 1998, at Perstorp's request. The main reasons were limited turnover and thus relatively high costs.

The price trend for Series B price during the past 10-year period is shown in the above table.

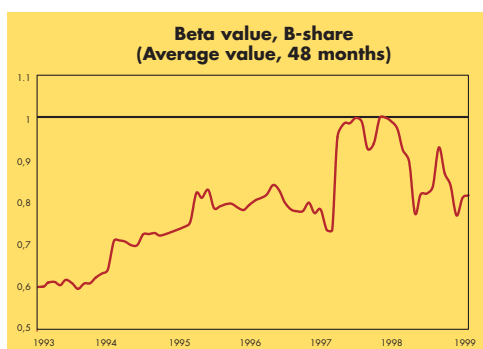
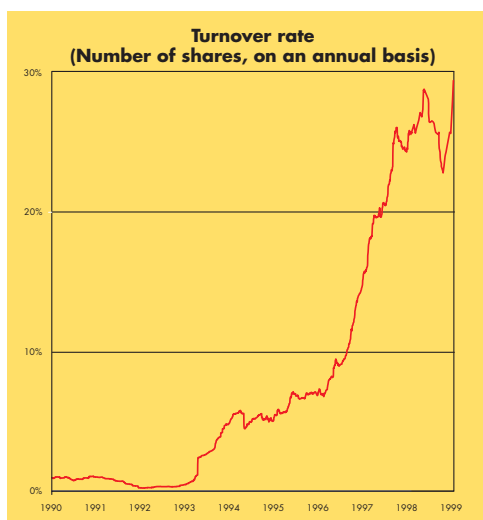
Dividend policy

It is the intention of the Board of Directors that shareholders receive a reasonable percentage of the improvement in Perstorp's earnings. Therefore, dividends should continue to show stable growth. A condition for continuing this policy, however, is that long-term forecasts of earnings must indicate that the higher dividend level can be maintained in parallel with financial balance.

The Board's ambition is that the dividend, combined with the appreciation in the value of the Perstorp share, shall exceed the sector average in the long term.

Dividend

The Board of Directors proposes that the operations of Perstorp Life Science be spun off to shareholders, on condition that this is possible by applying Sweden's Lex Asea act, in addition to a cash dividend of SEK 4.00 (2.75) per share. The increased cash dividend



is attributable to the extended fiscal year. If the proposed dividend is approved by the Annual General Meeting, the growth of Perstorp dividends during the past five years will correspond to an average of 20% per year (including the extended fiscal year: 13%). The average rate of inflation during the same period, calculated as the change in the consumer price index, was 1% per year. The average increase in dividends during the past ten years has been 17% per year.

Financial information

Perstorp AB places considerable importance on providing timely and accurate financial information to capital markets in Sweden and abroad. As of 1999, Perstorp will publish reports on its operations on a calendar-year and quarterly basis. The reports are published in Swedish and English. Financial information is also accessible via the Group's website on the Internet (www.perstorp.com).

Types of shares

	Number of votes	Number of shares	Par value, SEK m
Series A shares	10	8,553,600	86
Series B shares	1	63,030,741	630
Total		71,584,341	716

Number of shares after full conversion

Series A shares	10	8,553,600	86
Series B shares	1	65,057,391	650
Total		73,610,991	736

At fiscal year-end, the number of shareholders was 15,663 (15,852). A round lot of Perstorp shares for trading purposes consists of 200 shares.

Major shareholders at December 31, 1998	No. of shares	% of votes	% of total no. of shares
Members of the Wendt Family	10,972,190	55.02	15.33
Custos	9,481,037	8.35	13.24
Nordbanken's Mutual Funds	8,303,172	5.59	11.60
4th National Pension Insurance Fund	6,107,400	4.11	8.53
5th National Pension Insurance Fund	3,777,200	2.54	5.28
S-E-Banken's Fund	3,274,742	3.28	4.57
SPP	2,330,874	1.57	3.26
Skandia	1,780,474	1.20	2.49
Oktogonen Foundation	1,050,000	0.71	1.47
Trygg-Hansa	780,400	0.53	1.09
Other shareholders	23,726,852	17.10	33.14
Total	71,584,341	100.00	100.00

The percentage of institutional ownership is approximately 70% of the total number of shares. Details in the above table have been compiled on the basis of data received from VPC (the Swedish Securities Register Center).

Distribution of shareholdings	No. of share- holders	% of all share holders	Total no. of shares owned	% of all shares	Aver. no. of shares per share- holder
Owners of <1,000 shares	13,243	84.55	3,491,782	4.88	264
1,000-5,000 shares	1,864	11.90	4,003,450	5.59	2,148
5,001-10,000 shares	225	1.44	1,676,423	2.34	7,451
10,001-20,000 shares	95	0.61	1,325,245	1.85	13,950
20,001-50,000 shares	93	0.59	3,084,836	4.31	33,170
50,001-100,000 shares	46	0.29	3,522,173	4.92	76,569
>100,000 shares	97	0.62	54,480,432	76.11	561,654
Total	15,663	100.00	71,584,341	100.00	4,570

Details in the above table have been compiled on the basis of data received from VPC (the Swedish Securities Register Center).

TEN-YEAR SUMMARY

Amounts in SEK m unless otherwise stated	88/89	89/90	90/91	91/92	92/93	93/94	94/95	95/96	96/97	1997	1998
Income statement¹⁾											
Net sales	6,375	6,712	6,769	7,339	8,574	10,338	13,004	12,928	11,152	11,308	10,742
Costs of goods sold									-7,927	-8,061	-7,559
Gross earnings									3,225	3,247	3,183
Sales, administrative and R&D costs	-5,719	-5,969	-6,356	-6,986	-8,123	-9,669	-12,132	-12,061	-2,528	-2,519	-2,561
Items that affect comparability									-68	-13	-7
Other operating revenues and expenses									-4	32	14
Result from participations in associated companies	-	-	-	-	-	-	-	-	13	13	21
Operating earnings	656	743	413	353	451	669	872	867	638	760	650
Financial income	132	63	97	101	131	56	49	42	79	58	38
Financial expense	-127	-168	-205	-226	-251	-174	-176	-193	-209	-208	-135
Earnings before taxes	661	638	305	228	331	551	745	716	508	610	553
Taxes	-314	-278	-114	-57	-94	-150	-239	-259	-180	-216	-229
Minority share	3	-8	-11	-3	-6	-8	-6	-8	-7	-1	11
Net profit for the year	350	352	180	168	231	393	500	449	321	393	335

Condensed balance sheet

Long-term operating assets	2,294	2,337	2,706	3,066	3,730	3,789	4,454	4,846	4,158	4,198	4,087
Long-term financial assets	115	102	118	116	114	128	137	100	191	131	314
Inventories	1,045	1,019	1,065	1,071	1,290	1,366	1,735	1,703	1,728	1,833	1,909
Current operating receivables	1,135	1,233	1,399	1,433	1,767	2,135	2,622	2,695	2,754	2,746	2,126
Current financial assets	560	820	557	448	546	293	258	246	175	200	200
Total assets	5,149	5,511	5,845	6,134	7,447	7,711	9,206	9,590	9,006	9,108	8,636
Shareholders' equity	2,071	2,546	2,632	2,632	3,038	3,267	3,603	3,722	4,085	4,265	4,528
Minority interests	77	66	98	82	166	163	160	83	72	61	56
Provisions	732	583	685	730	686	693	729	824	795	797	845
Long-term financial liabilities	931	1,049	1,112	1,385	2,046	1,679	2,305	2,848	456 ²⁾	477 ²⁾	407 ²⁾
Current operating liabilities	1,117	1,108	1,147	1,264	1,445	1,837	2,269	2,026	2,026	1,936	1,539
Current financial liabilities	221	159	171	41	66	72	140	87	1,572 ²⁾	1,572 ²⁾	1,261 ²⁾
Total liabilities and shareholders' equity	5,149	5,511	5,845	6,134	7,447	7,711	9,206	9,590	9,006	9,108	8,636

Key ratios

Turnover rate, total capital, times	1.41	1.26	1.19	1.23	1.26	1.36	1.54	1.38	1.21	1.21	1.21
Turnover rate, working capital, times	7.4	6.1	5.5	5.7	6.0	6.3	6.9	5.8	4.7	4.8	4.2
Profit margin, %	12.4	12.0	7.5	6.2	6.8	7.0	7.1	7.0	6.3	7.2	6.4
Return on total capital, %	18	15	9	8	9	10	11	10	8	9	8
Return on shareholders' equity, %	20	19	8	6	8	12	15	13	8	10	8
Return on capital employed, %	27	25	12	9	10	13	15	13	10	12	10
Equity ratio, %	42	47	47	44	43	44	41	40	46	47	53
Interest-coverage ratio, times	6.2	4.8	2.5	2.0	2.3	4.2	5.2	4.7	3.4	3.9	5.1
Rate of self-financing of investment, %	75	89	66	50	91	131	74	72	105	102	70
Average number of employees (annual average)	7,137	7,374	7,811	8,739	8,324	8,674	9,928	10,236	7,499	7,320	6,512
Net sales per employee, SEK 000s	893	910	867	840	1,030	1,192	1,309	1,263	1,487	1,545	1,650
Earnings per employee, SEK 000s	93	87	39	26	40	64	75	70	68	83	85

¹⁾ Sweden's new Accounts Act is applied as of the fiscal year that commenced on September 1, 1997. Comparative figures for 1996/97 and thereafter have been recomputed in accordance with the new principles and the new layout.

²⁾ New classification, see changed accounting principles, Note 23.

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CONSTRUCTION CHEMICALS
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Concrete Admixtures (Peramin), Industrial Surfaces (Peran)

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PERSTORP SURFACE MATERIALS

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Decorative laminate, finished foils, printed paper

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PERSTORP LIFE SCIENCE

Main products

Biochemical/reagents,
media products and
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*Pernovo is Perstorp's special
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GLOSSARY

amino plastic

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

biotechnology

utilization of biological and biochemical processes

board

layers of particleboard

catalyst

an active substance in a chemical process that is not actually consumed

cell cultivation

the reproduction of new cells, for such uses as the production of pharmaceuticals

cell cultivation media

nutrients for cell growth

CFC

a popular designation for a group of carbon-fluorine-chlorine products that precipitate the erosion of the ozone in the atmosphere

chemical luminescence

method of analysis based on the use of light

composite

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

decorative laminate

materials consisting of several layers of impregnated paper pressed together under high pressure to form a board with desired mechanical, color and surface properties

dendritic polymer

hyperbranched polymer that has unique physical and mechanical properties

detection

analysis to trace, discover and find constituent parts

DNA

building elements in the chromosomes of living cells

foils

thin sheets of decorative/ impregnated paper used, for example, for surface covering of furniture

formalin

aqueous solution of formaldehyde, which is used as a basic component in the chemical industry primarily in production of plastics and glues

laminate

see decorative laminate

life sciences

field of operations in biotechnology, medical technology and pharmaceutical products

melamine plastic

a thermoset plastic based on a melamine/formaldehyde resin, normally with a cellulose filler

molding compounds

thermosetting raw material which, after molding, provides products with good mechanical and electrical properties

pentaerythritol

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

phenolic plastic

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

polymer

a (usually organic) chemical compound composed of many identical or similar basic molecules, used in plastics, paints, fibers, etc.

polyol (polyalcohol)

a polyfunctional alcohol

resins

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

serum

clear liquid containing antibodies in or from blood

thermoset

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

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ANNUAL GENERAL MEETING

The Annual General Meeting will be held on Saturday, April 24, 1999 at 10 a.m. at Persgården, Perstorp, Sweden.

Participation rights

To be entitled to participate and vote, shareholders must

- be registered in the Shareholders' Register
- notify the Company of their intention to participate.

Registration in the Shareholders' Register maintained by the Securities Register Center (Värdepapperscentralen, VPC AB) in Stockholm must be completed not later than 10 days prior to the Meeting. Shareholders whose shares are held in trust must temporarily reregister the shares in their own names not later than 10 days prior to the Meeting.

Notification

Notification of intent to participate in the Meeting must be received by Perstorp not later than 3 p.m. on Tuesday, April 20, 1999 at the following address:

Perstorp AB, SE-284 80 Perstorp, Sweden.

Notification may also be made by telephone to: +46 435 378 50 (direct line).

Dividend

For fiscal year 1997/98, a dividend of SEK 4.00 per share is proposed (preceding year: 2.75). The Board proposes Wednesday, April 28, 1999 as the day of record. If the Annual General Meeting approves the Board's proposal, dividends are expected to be distributed on May 5, 1999. In addition, the Board of Directors proposes that Perstorp Life Science be listed as a separate company on the Stockholm Stock Exchange and that the shares in the company be distributed to Perstorp shareholders.

Address changes

Persons registered as residents of Sweden need not notify VPC AB of address changes. Other shareholders who have changed their addresses and all shareholders who have changed their names or account numbers should immediately notify such changes to the institution handling their account. Shareholders whose shares are held in trust should notify their trustees immediately of any change of name, address or account number. Special forms for this purpose are available at Swedish banks.

FINANCIAL INFORMATION

All of Perstorp's financial reports are published in Swedish and English. The reports may be ordered from Perstorp AB, Corporate Communications, SE-284 80 Perstorp, Sweden, tel: +46 435 389 10 (direct line), fax: +46 435 381 00, e-mail (info@perstorp.com). Financial information is also available on Internet (www.perstorp.com).

During fiscal year 1999 Perstorp AB will publish the following financial reports (preliminary dates).

April 23, 1999	Interim report, 3 months ending on March 31, 1999
July 23, 1999	Interim report, 6 months ending on June 30, 1999
October 20, 1999	Interim report, 9 months ending on September 30, 1999
February 2000	Year-End Report

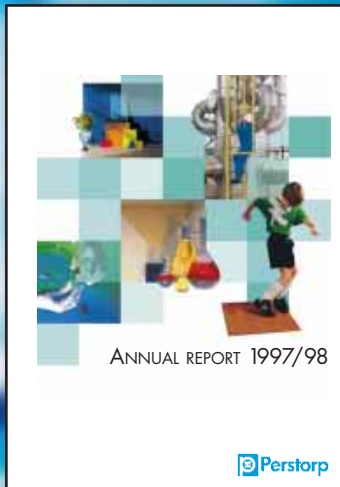


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Perstorp



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