

ANNUAL REPORT 1997



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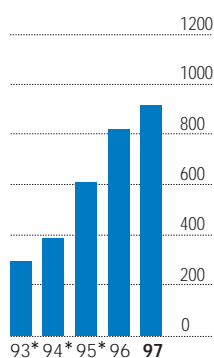
# Kyro in 1997

## Kyro Technologies

Kyro is an international technology group that develops, manufactures, and markets safety glass and telecommunications systems, and generates low environmental impact energy. Specialist know-how, customer service, and product development lie at the heart of the Group's strengths.

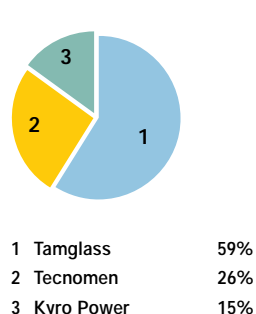
- Net sales rose to FIM 913.4 million in 1997, an increase of 11.6%
- Operating profit totalled FIM 82.2 million, equivalent to 9% of net sales
- Profit before tax was FIM 104.6 million, or 11.4% of net sales
- Equity ratio: 62.6%
- Earnings per share: FIM 2.07
- Dividend per share (Board proposal): FIM 0.70
- Personnel increased to 819
- Kyro increased its share capital by FIM 8,175,000 in May
- Kyro became a listed company on the Helsinki Exchanges in June
- Kyro Power's new hydropower plant was commissioned in December
- Tamglass strengthened its position as the world leader in safety glass machinery, and further improved its profitability
- Tecnomen invested heavily in new product development and distribution network, but recorded a loss
- Kyro Power operated at high capacity and recorded good profit performance

Corporate net sales  
1993–1997, FIM million

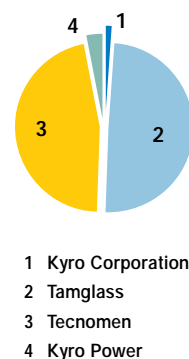


\* Excluding the forest industry activities, which were sold on June 30, 1995.

Corporate net sales by  
business group in 1997, %



Corporate personnel by business  
group as of 31.12.1997, %



# Annual Report 1997

## Information for shareholders

The Annual General Meeting of Kyro Corporation will be held on Friday, April 3, 1998 at 1.00 p.m. at the LordHotel, Lönnrotinkatu 29, Helsinki.

Shareholders entered in the register of the Finnish Central Securities Depository Ltd. as of March 27, 1998 are entitled to attend the Annual General Meeting.

Shareholders whose stock has not been transferred to the book-entry system are also entitled to attend the Annual General Meeting, provided that they were on the Company's share register before December 22, 1995. Such shareholders must present their share certificates, or other proof that title to their holdings has not been transferred to a book-entry account, at the Annual General Meeting.

Shareholders wishing to attend the Annual General Meeting must inform the Corporation by 4.00 p.m. on March 30, 1998, either in writing, addressed to Kyro Corporation, FIN-39200 Kyröskoski, Finland, or by telephone on +358 3 382 3072 (Terttu Uusitalo).

The Board of Directors proposes paying a dividend of FIM 0.70 per share, equivalent to a total of FIM 27.8 million, for the 1997 fiscal year. Payment will be made to shareholders entered in the register maintained by the Finnish Central Securities Depository Ltd. on the record date of April 8, 1998. The dividend proposed by the Board of Directors will be paid on the conclusion of the record period, April 15, 1998.

### **Kyro Oyj Abp will publish the following financial reports in 1998:**

Financial Statement for 1997; March 11, 1998  
Annual Report for 1997; Week 13, 1998  
Interim Report 1/98 (January–April, 1998); June 17, 1998  
Interim Report 2/98 (January–August, 1998); October 14, 1998

Reports are published in Finnish, Swedish, and English.

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# President's Review

Kyro is an international, technology-driven corporation, with a portfolio of businesses supporting Kyro's long-term growth strategy. Tamglass, the Kyro Group's specialist in safety glass processing, is the technology and market leader in safety glass worldwide. Tecnomen is a leading supplier of specialist solutions to growing telecommunications markets in enhanced services and wide-area paging. With its totally modernised power plants, Kyro Power continues the Kyro Group's over 100-year involvement in the energy business. The Group's financial solidity is the foundation of its portfolio.

Solid performance and a successful stock exchange listing Kyro Group saw a number of important events during 1997. Financially, the year was a successful one for the Group; our net sales rose by nearly 12% and we recorded a good overall result. International activities rose to 80% of the consolidated net sales, and to 94% in respect of our technology business groups. The share issue targeted at listing Kyro on the Helsinki Exchanges last year indicated that our technology-driven business is seen as an interesting opportunity by investors.

Kyro's profit after financial items for 1997 was almost 20% above that for 1996, at FIM 120 million. We recorded a consolidated operating profit of FIM 82 million, equivalent to 9% of our net sales. Tamglass and Kyro Power both increased their sales and result significantly; Tecnomen's performance fell short of its target, however. As a result our favourable performance and share issue, the Group's equity ratio rose to 63%. Interest-bearing financial assets exceeded interest-bearing liabilities by FIM 213 million.

Another record year for Tamglass Tamglass secured a record number of new machinery orders in 1997, and its performance for the year exceeded its targets for both net sales and profit. The company further strengthened its market position, and for the first time in its history it supplied over 100 safety glass manufacturing lines in a single year.

A new power plant and a good result for Kyro Power Kyro Power started up electricity generation at its new hydropower plant at the end of the year. The efficient project organization managed to keep

the target timetable, and the investment came in nearly 20% under budget. The company's gas-fired power station commissioned in 1995 and its old hydropower facility both exceeded their capacity utilization targets, thereby contributing to the company's good result.

Investing in the future at Tecnomen

Of Kyro's three business groups, only Tecnomen turned in a disappointing result. Net sales remained virtually unchanged compared to 1996, and the company recorded a loss. This resulted from problems associated with Tecnomen's rapid growth over previous years and how to manage that growth, and a slower-than expected payback on marketing and product development work.

A strong foundation for the future

Kyro Corporation joined the Helsinki Exchanges in summer 1997. Prior to listing, we increased our share capital through a share issue. This increase, and the decision to become a listed company, reflected a decision by the shareholders and was preceded by a thorough evaluation of our structure and strategies.

Kyro is now a listed company and subject to the scrutiny which all listed companies face. The market valuation our shares now enjoy will, I believe, motivate both our management and our personnel, and challenge all of us to achieve our goals. We intend to expand Kyro in the future. This means that we are open to new opportunities, such as acquisitions. Growth calls for capital and financing, and our strengthened balance sheet and position as a listed company provide us with an enhanced set of opportunities.



Targeting technology leadership We operate in very technology-intensive businesses. Our ongoing aim is technology leadership, and our route to achieving this is through development work and innovation. That explains why we allocated over 10% of the Group's net sales in 1997 to product development. We also acquire new technology, as evidenced by our purchase of the glass machine manufacturing expertise of the Swiss-based company, Cattin Machines. Our commitment to technology also makes us an attractive partner for other companies, sub-contractors, and universities and research institutes.

Kyro is also very much an international corporation. Tamglass is already a fully global company; and Tecnomen is in the process of dynamically expanding its operations into new geographical regions.

We are also committed to working closely with our customers. Tamglass' own glass production keeps the com-



pany at the forefront of core know-how in glass processing, and closely in touch with the needs of the customers buying its safety glass manufacturing lines. Close cooperation with telecommunications operators is essential for Tecnomen; and the company develops most of its new systems and service solutions with its customers. Kyro Power adjusts its production to the energy needs of its neighbouring customers.

*Skilled personnel guarantee success*

Much of the credit for the technological excellence of Kyro's businesses lies with our highly trained personnel, and the pride they take in their work. Employees in Kyro's business groups have a solid professional background, and their challenging jobs enable them to develop their skills. Our personnel and their high-tech skills will help ensure our success into the future – and that is why we continual-

ly train and develop our organization to meet the challenges of our changing markets.

We are developing the Tamglass organization to ensure its success into the future. The goal of the T2000 project, initiated as a joint effort by the company's entire personnel, is to secure Tamglass' further growth and development.

We are also revamping Tecnomen's organization. The company has successfully added a number of new professionals to its ranks. We are working to consolidate the company's profitability through a major development of Tecnomen's customer service, and through cooperation with other systems suppliers and customers.

Kyro Power's production facilities have been completely revamped. The company's good generating performance is the result both of its modern power plants and a workforce whose high level of professionalism is maintained through training programmes.

Using these resources, the company will be able to secure its low environmental energy generation for long into the future.

*Outlook for 1998*

Tamglass has a good order-book as we move into 1998. The company's current success opens up good prospects for the year as a whole. Progress in other market areas will enable Tamglass to compensate for the slowdown in South-East Asia.

The opening-up of competition in the telecommunications area means that investments in Tecnomen's target markets will continue at an active pace. How the company succeeds in making its operations and organization more target-driven and efficient will be decisive. Tecnomen's focus is now on building profitability and growth, and on increasing its international reach.

With the completion of its sizeable investments, Kyro Power can now concentrate on its day-to-day business of generating electricity. The liberalization of the Finnish energy market will not greatly effect the company prospects as it has sold the bulk of its output through long-term supply contracts. The use of fuels that help reduce our impact on the environment is a very positive basis for Kyro Power's energy generation.

*Thank you all*

As we approach our first anniversary as a listed company, I would like to warmly thank both our new and our long-established owners for the confidence they have shown in us. My thanks also go to our various partners and, in particular, to our personnel, who have spared no effort in helping us to achieve our common objectives. Thanks to all of you, we are today a more financially solid, efficient, and competitive technology corporation.

*March 1998*

*Pentti Yliheljo*

*President and Chief Executive Officer*



# The international leader in safety glass machines TAMGLASS

Tamglass designs, manufactures, markets, and services production lines for tempered and laminated glass products serving the needs of the construction and automotive industries. The company is the world's leading manufacturer of safety glass machines. Tamglass has production plants in Finland, the United States, and Switzerland, and sales and service companies in all its main markets.

Based on its expertise in engineering and process technology, Tamglass is able to offer its customers in-depth know-how covering the entire spectrum of glass processing. The company's process know-how is reinforced by its Finnish-based subsidiary, Tamglass Tempering Oy, which manufactures architectural and automotive safety glass.

World glass production on the increase

Glass and glass products manufacture increased in North and South America, the Middle East, Africa, and Europe in 1997. Demand in the United States reached a record high, and the South American market also moved up after

a slack year in 1996. Glass production surged in South-East Asia and South Korea in the early part of the year, but slowed towards the end of the year, when investments also moved down.

High demand for safety glass technology

The increased level of glass production boosted demand for glass production lines. Customers placed increased emphasis on cost-efficiency, energy-efficiency, and production flexibility.

Growth in the construction industry continued at the level typical of recent years in Europe and North America. Demand for tempered glass grew strongly, which translated into healthy sales for safety glass manufacturing machinery. The growing focus on security requirements saw an increase in the use of flat laminated glass in construction. The flexibility of Tamglass' production lines to manufacture different types of glass and production runs enabled the company to compete successfully for new machinery orders.

Volumes in the automotive industry increased in North America and Europe. Overall world production of new cars and other vehicles remained at virtually 1996 levels, with some 51 million vehicles manufactured worldwide. Tamglass succeeded in increasing its market share of automotive and architectural glass manufacturing lines over 1996.

Success for Tamglass

Tamglass strengthened its networks in Europe and the Middle East in particular. In October, the company acquired the remaining 30% of Swiss-based Catin Machines S.A., thereby consolidating its technology base and its European production and service network.

Tamglass opened an after sales unit in Dubai at the end of the year.

Tamglass' sales reached new records, both in respect of new machines and after sales services. The company is the market leader in architectural glass machines; horizontal tempering machines continued to represent the majority of construction glass machine deliveries. Tamglass also increased its sales of flat laminating glass machines, and expanded the level of net sales generated by its architectural glass machinery group by some 30% over 1996. Tamglass also strengthened its position as a machine supplier for the automotive glass industry, following its success in winning orders worth over FIM 40 million for automotive glass machines from two large American automotive manufacturers.

Tamglass' Finnish plants produced a record number of machines in 1997, and expanded their sub-contractor network. The continued high level of demand in North America also significantly increased the capacity utilization of the company's US plant. The integration of the Swiss plant into the Tamglass Group, both in terms of ownership structure and commercial operations, was completed.

New services, installations, modifications, and refurbishing projects associated with the increasing number of safety glass machinery worldwide boosted the business of the After Sales Unit.

Tamglass Tempering, the Group's producer of safety glass products, also increased its sales, and turned in an improved profit. Tamglass Tempering, which uses machinery developed by Tamglass Engineering in its glass processing, added new machinery during the year, which enabled it to offer a broader product range and extend its customer base.

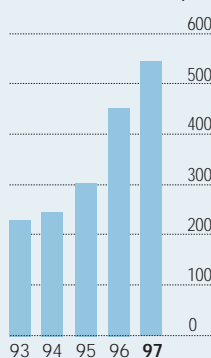
Tamglass' continually developing total knowhow enabled the company to deliver a record of over 100 safety glass production lines during 1997. The company won new orders worth a total of over FIM 500 million. Sales by the whole Tamglass Group rose by 20% over 1996. In line with previous years, the company's financial performance developed favourably and was good.

## TAMGLASS

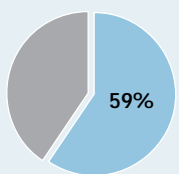
	1997	1996	
Net Sales, MFIM	<b>542.7</b>	450.8	+20.4%
Operating Profit, MFIM	<b>85.3</b>	64.3	

Personnel, average	<b>395</b>	360
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### Net Sales 1993-1997, MFIM



### Share of Group's Net Sales 1997





Tamglass strengthens its know-how

The Tamglass Group invested some 10% of its net sales in 1997 in R & D. Key targets are to increase the automation and user friendliness of safety glass machines, and enhance their energy economy. The company launched a number of new products during the year. Reflecting its innovative product development work and commitment to protecting its intellectual capital, Tamglass currently has over 200 patents.

Tamglass' technology leadership is underlined by the fact that its Glass Processing Days event has become the most important technology seminar in the industry. Tamglass organizes the event every other year in Finland, in cooperation with key industry associations. The 1997 Glass Processing Days held in September covered a number of topics focused on the opportunities for using glass in the architecture and automotive sectors, and was attended by more than 600 glass specialists from 52 countries.

Tamglass started its T2000 programme, which is designed to help it meet the rapid growth in the need for new capacity. The company is working to secure its competitiveness in the next century by a development and upgrade of its product development, production, and customer service operations over the next two to three years. The US plant introduced a new design system. The company's quality development programme focused on quality in operations processes and end-products.

#### New market areas

Tamglass started 1998 well, with a larger order-book than at the beginning of 1997. East Central Europe and the Commonwealth of Independent States will be new growth areas. The sales outlook for construction glass machines looks good in Tamglass' current focal areas. Growth could well be seen in investments by the automotive industry. Given the rapid growth in the number of installed Tamglass machines, after sales operations are expected to continue expanding in all the company's markets.

# A specialist in telecommunications technology

## TECNOMEN

Tecnomen designs and supplies systems for production of telecommunications services. The company is a pioneer in a number of specialty know-how areas. Tecnomen has product development and production companies in Finland and Ireland, and sales units and subsidiaries in Europe, the Middle East, Asia, and South America.

Tecnomen's specialities are wide-area paging systems and enhanced services systems. The company markets its products and services to telecommunications operators and telephone companies around the world. The Tecnomen Group also includes Tecnomen System Solutions Oy, a specialist in data collection systems.

A fluctuating paging market  
Developments in telecommunications technology and the deregulation of competition in the telecommunications industry both served to generate new demand for telecommunications service applications during 1997. The needs of paging subscribers varies

from region to region. The wide range of telecommunications services on offer in technologically advanced countries, and people's high standard of living in these countries, have seen paging services become versatile personal communications tools. For developing countries with high populations, paging services offer a cost-effective solution for individuals' contactability.

Tecnomen tailors its paging solutions to the specific needs of each of its markets. The largest markets for personal paging systems are currently to be found in Asia and North America. Tecnomen used to be strongly focused on Europe, but is now increasingly introducing its products and services into important new markets in China and South-East Asia, as well as South America.

Demand for versatile enhanced services increasing  
The growing transformation of telecommunications into a network of personal communication tools has served to increase customer interest in enhanced services, such as voice mail and personal number. International demand for these enhanced services is projected to multiply many times over in the next few years.

The market for mobile phones is growing rapidly everywhere around the world. Tecnomen supplies a range of versatile, enhanced services for mobile network operators. Similar enhanced service systems are also making strong inroads into fixed line networks.

Continued high investments  
After a number of years of rapid growth, Tecnomen's net sales levelled off in 1997. The company's continued extensive investments designed to strengthen its product development and marketing network held back profitability. Tecnomen's goal was to expand its sales outside Europe. Anyhow, it proved difficult to extend the company's service network and customer base, or the range of products and services it offers to the paging market, to meet the needs of new target markets sufficiently rapidly. The fast pace of development in the telecommunications business and the changing demands in respect of turn-key deliveries also served to slow down customers' purchase decisions. As a result, Tecnomen recorded a loss for the year.

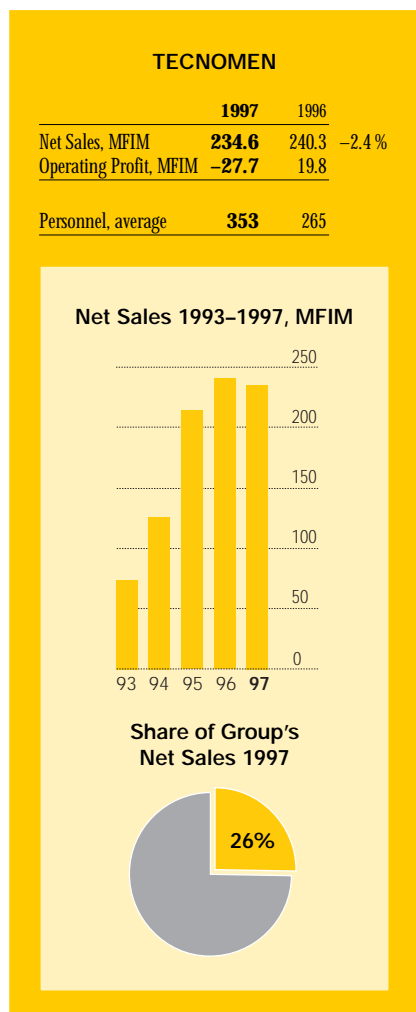
Tecnomen strengthened measures designed to improve its performance, profitability, and operations, to enable the company achieve its new growth targets. The efficiency of customer service was enhanced by concentrating sales, projects, and support functions for different continents into dedicated regional service units. The company also expanded its service network by opening sales offices in Dubai and Thailand. New customer support locations managed by Tecnomen Hong Kong started operations in Beijing and Taiwan. At the beginning of 1998, Tecnomen opened a new subsidiary in São Paulo, Brazil to support sales in South America.

Tecnomen Systems Solutions Oy, a specialist in data collection systems, increased its net sales and exceeded its profit target. The company started export deliveries of data collection systems to the Baltic countries.

### New openings

Tecnomen signed an agreement with its long-established customer, Tele Danmark Mobil A/S, to supply nationwide ERMES wide-area paging systems to Denmark and Sweden. The project was completed in record time. Paging Systems also opened up a bridgehead on the Indian market, and signed contracts with customers in the Middle East and Europe.

One of the major deals secured by Enhanced Services Systems during the year was the expansion of the capaci-







ty of the multimessaging system of Swisscom's GSM network by a million new subscribers, and the addition of new voice and fax mail services to the system. A multimessaging service systems supplied by Tecnomen were extended in a number of other European countries. Tecnomen also supplied the first new-generation, enhanced service system based on Intelligent Network technology to Thailand.

Adding value for the customer through product development Tecnomen's investments in product development continued at a high level during 1997. R & D accounted for over 20% of net sales. Paging Systems focused on bringing the existing models in its family of HiQ base stations into mass production, and on developing new models suitable for the South American and Asian markets.

In line with its growth path strategy, Enhanced Services Systems developed a number of new service features for its product family, making use of technologies such as the Internet. Tecnomen also expanded its range of service systems based on Intelligent Network technology with new products and features.

Enhanced services offer operators a competitive edge. The number of paging system operators' subscribers worldwide is growing by some 15% a year. Particularly rapid growth is being seen in China. The demand for paging services is also sharply increasing elsewhere in Asia, as well as in South America and Africa.

Competition in the telecommunications business is now in its first phase in many countries, and focused on competing on price, building market share, and making alliances. Enhanced services and growing customer needs will be an increasing feature of trends in the second phase. Consumers in developed telecommunications markets already demand a much more sophisticated package of services.

Innovation and offering new service applications to operators will be Tecnomen's central success factors in the competition for telecommunications technology as it focuses on building its profitability.

# Low environmental impact energy generation

## KYRO POWER

Kyro Power generates cost-efficient, low environmental impact energy for industrial and municipal needs. The company sells some 800,000 MWh of electricity, steam, and district heat annually. It generates around 95% of this total at its own modern plants located in Kyröskoski. Kyro Power commissioned its new hydropower plant at the end of 1997; its gas-fired facility came on stream two years ago.

Kyro Power's largest customers are the Kyröskoski mills operated by the Metsäliitto Group, Tampere Power Utility, Teollisuuden Sähkömyynti Oy (Finland's industrial electricity sales company), and the municipality of Hämeenkyrö.

Deregulation accelerates competition

1997 was the second year of a common Nordic market in electricity. Electricity usage grew at an exceptionally fast rate, matching that seen in the 1980s. Usage grew by 5% in Finland compared to 1996. Increased consumption was the result of both eco-

nomie growth and, in particular, the introduction of new production capacity and high capacity utilization in the forest products industry.

High rainfall meant that producers were able to generate hydropower relatively cost-effectively across the Nordic region. The reduction in the tax on energy generated by coal in Finland, introduced at the beginning of 1997, increased competition on the electricity market.

The focus of taxation shifted at the beginning of the year from taxing electricity generation to taxing consumption. Although bulk electricity tariffs generally dropped, the majority of electricity users, such as the public sector and households, found themselves paying a couple of percent more for their electricity as a result of the tax reform.

Combined heat and power generation

To ensure a good level of national self-sufficiency in electricity, Finland supports a broad generating base. Combined heat and power generation is particularly well-developed. This approach to power generation is also a strength of Kyro Power's operations. The company's gas-fired power plant meets the energy needs of its local customers by generating electricity and steam for industry, and district heat for both industry and the surrounding municipality. Kyro Power's hydropower plant sells its output to a distribution company, which sells it on to individual consumers.

Growth in energy usage

Against a background of increased energy demand, Kyro Power sells nearly all its generating output through long-term supply agreements.

During 1997, the company sold 455,000 MWh of electricity, 250,000 MWh of steam, and 107,000 MWh of district heat; in all, 812,000 MWh of energy. This compares to 770,000 MWh in 1996. In addition, the company sold 15,000 MWh of natural gas. Kyro Power generated 755,000 MWh of this energy in its own plants, sourcing the remainder through its shareholder agreement with Northern Power Company Ltd and from other utilities during plant shut-downs.

The company's gas-fired power station is a major user of natural gas. The plant uses some 100 million cubic metres of gas a year. Kyro Power's new hydropower facility is permitted to run 60 cubic metres of water a second through its turbines in normal operation. Annual water usage is the same as previously, however, at 800 million cubic metres.

Kyro Power recorded an improved performance over 1996, and expanded its net sales by 5%.

Successful hydropower start-up

The company's hydropower project started in summer 1996 proceeded according to schedule, and the plant started generating electricity in mid-December. Construction went according to plan.

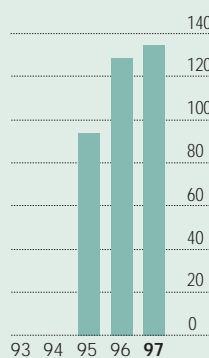
Kyro Power continues landscaping work associated with the project in close cooperation with the Hämeenkyrö local authorities during spring 1998. The company will fund the majority of the costs of landscaping the area around the surge chamber for park use, in line with plans prepared by the municipality, and will arrange regular 'open floodgates' events at the rapids. Kyro Power is responsible for monitoring the impact of the plant on the surrounding waterways in cooperation with the authorities.

### KYRO POWER

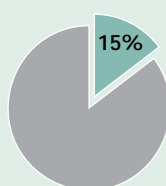
	1997	1996	
Net Sales, MFIM	134.4	128.4	+4.7 %
Operating Profit, MFIM	32.4	25.7	

Personnel, average	24	25
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#### Net Sales 1995-1997, MFIM



#### Share of Group's Net Sales 1997







The hydropower project came in some 20% under budget. Total project costs, including interest paid during construction, were FIM 79 million. The plant has a planned capacity of 12 MW, and is projected to generate an average of 40,000 MWh a year for the next 50 years.

Kyro Power has sold the entire output of the new plant until the end of the year 2000 to Tampere Power Utility. The company's old hydro-power plant, which has turbines dating from between 1912 and 1936, will remain as a standby facility, and will be used during flood seasons.

Kyro Power has no major investment plans for the next few years, and will now concentrate on paying back its extensive gas and hydropower investments.

#### A stable business

Competition on the electricity market will continue to be tough in 1998. Energy demand will increase if industry's capacity utilization continues to run at a high level. If consumption increases and sufficient new generating capacity is not built, the price of electricity is not expected to decline. Prices will probably move up again during 1999, unless exceptionally heavy rainfall or a warm winter do not intervene.

Kyro Power's efficient power plants will enable the company to meet the growing demand with environmentally compatible energy generation methods.

# Report of the Board of Directors

## GENERAL REVIEW

The positive development of the Kyro Group continued in 1997. Net sales for the year rose by 12%, and pre-tax profit remained at the good level achieved in 1996. Tamglass and Kyro Power both improved their performance over 1996. Tecnomen recorded a loss. Profits made on sales of financial asset shares made a positive contribution to the Group's result.

International economic growth saw positive overall development in the markets of the Corporation's businesses, although some region-specific variations were experienced.

### Safety glass

The market for architectural glass tempering machines developed positively in Europe and North America and also elsewhere. Market in the Far East declined at the end of the year. Demand for laminated plate glass machines rose. Worldwide production in the automotive industry remained stable, as did the market for automotive glass machines. Tamglass succeeded in further strengthening its position as the world's leading supplier of safety glass machines.

### Telecommunications systems

The market for telecommunications systems continued to grow strongly. The market for enhanced services systems for telephone networks is still at an early stage around the world, and is growing by 30–40%, depending on product group. The market offers excellent opportunities, both in the area of mobile telephone systems and fixed line systems. A number of changes in the competitive climate have taken place in the industry with the merger of various enhanced services system providers and other cooperation and ownership restructuring.

The world market for wide-area paging systems is growing at some 15% a year. European systems have largely been modernized, however, and the European market has, as a result, lost its growth momentum. Subscriber numbers are increasing in the Americas, Asia, and Africa, and this is reflected in growing demand for new systems in these markets.

## Net sales and operating profit, FIM million

	Net sales		Operating profit	
	1997	1996	1997	1996
Kyro Corporation	<b>103.3</b>	49.2	<b>43.1</b>	1.8
Tamglass Group	<b>542.7</b>	450.8	<b>85.3</b>	64.3
Tecnomen Group	<b>234.6</b>	240.3	<b>-27.7</b>	19.8
Kyro Power	<b>134.4</b>	128.4	<b>32.4</b>	25.7
Internal eliminations	<b>-101.6</b>	-50.1	<b>-50.9</b>	-8.0
<b>Total</b>	<b>913.4</b>	818.6	<b>82.2</b>	103.6

### Energy

The Nordic electricity market moved towards increased integration during 1997, and this development will probably continue as transmission prices fall. Variations in the price of electricity will also narrow as a result. High water levels in the region and a change in the tax on energy generated by coal in Finland reduced the wholesale price of electricity. Electricity consumption rose by some 5% in Finland.

### SHARE ISSUE AND STOCK EXCHANGE LISTING

The share capital of Kyro Corporation was increased by a decision of an Extraordinary Annual General Meeting held on May 30, 1997 by FIM 8,175,000, from FIM 32,700,000 to FIM 40,875,000. The increase was based on a share issue targeted to investors and the general public. It was designed to provide the Corporation with the foundation for strengthening its position and for further growth in its current businesses, and to extend the Corporation's ownership base for a stock exchange listing. Kyro became a listed company on the Helsinki Exchanges (HEX Ltd, Helsinki Securities and Derivatives Exchange, Clearing House) on June 9, 1997.

### NET SALES AND RESULT

The consolidated net sales increased by 12%, to FIM 913.4 million. The Tamglass Group recorded a 20% increase in net sales, and Kyro Power a 5% increase. Net sales at the Tecnomen Group decreased by 2%.

The Kyro Group recorded an operating profit of FIM 82.2 million (1996: FIM 103.6 million), equivalent to 9% of net sales (13%). Tamglass and Kyro Power increased their profitability and both recorded a good op-

erating result. Tecnomen turned in a weaker operating profit, however, and recorded a loss for the year. The Kyro Group's profit before taxes totalled FIM 104.6 million (FIM 99.7 million). Operating income included profits of FIM 44.2 million made on sales of shares. Extraordinary expenses of FIM 15.3 million comprised liabilities associated with forest products activities sold in 1995 and one-off costs associated with the share issue and stock exchange listing in summer 1997.

The Kyro Group's profit for the financial year, after taxes and before minority holdings, totalled FIM 74.8 million (FIM 70.5 million); and its return on capital invested 18.0% (18.4%). Earnings per share were FIM 2.07 (FIM 2.20), and equity per share FIM 17.85 (FIM 14.06).

### FINANCING AND SHAREHOLDERS' EQUITY

The Corporation's financial position was good. Income financing totalled FIM 119.8 million. Investments during the fiscal year totalled FIM 94.4 million, and the net reduction in interest-bearing liabilities was FIM 46.3 million.

Net financing income totalled FIM 37.6 million (FIM -2.8 million), which included profit of FIM 44.2 million made on the sale of financial asset-related shares. Financing expenses rose as a result of one-off expenses associated with an earlier-than-planned repayment of fixed-rate long-term loans.

The company's balance sheet structure was stronger than in 1996, and the equity ratio stood at 62.6% (48.5%). The share issue made in the spring increased shareholders' equity by FIM 221 million. Interest-bearing financial assets exceeded interest-bearing liabilities by FIM 213 million.



## INVESTMENTS

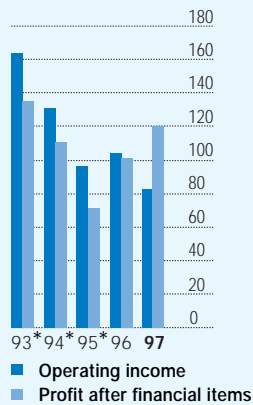
The Kyro Group's investments totalled FIM 94 million (FIM 90 million), equivalent to 10% of net sales. The largest single investment was the new hydropower station at Kyröskoski. The investment costs were split between 1996 and 1997. Landscaping at the site will be completed in spring 1998. The total cost of the investment over 1996–1998 will be FIM 79 million, and the project came in nearly 20% under budget. A sum of FIM 57 million was spent on the project in 1997. The plant started generating electricity, as planned, in mid-December. The plant has a capacity of 12 MW and an annual output of 40,000 MWh.

A project to revamp Tamglass' plants in Finland was started. The company invested some FIM 6 million in the first stage of the project in 1997, in a new glass cutting centre and glass storage facility. The project is part of the T2000 programme, which is designed to secure Tamglass' competitiveness and potential for future growth, and to create a better environment for technological and quality development and customer service. As part of the project, Tamglass plans to build a new glass machine plant and a new customer service centre at its existing production site in Tampere. In addition, the company's existing production, product development, and office space will be modernized, and the glass factory's facilities extended. The project will be implemented on a phased basis over the next two to three years, and its total costs are estimated to be FIM 90 million.

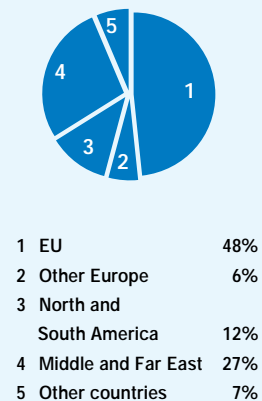
## RESEARCH AND DEVELOPMENT

Research and development activities play a central role for both Tamglass and Tecnomen. The Tamglass Group invests around 10% of its net sales in R & D. Improving automation, user-friendliness, and energy efficiency are central goals of product development work. The company also expanded its product range with a number of product launches. At the end of the year, Tamglass acquired the rights to produce automatic glass preprocessing lines, and this will contribute to improving the company's growth opportunities in the future.

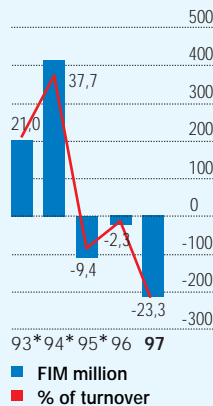
Financial performance in 1993–1997, FIM million



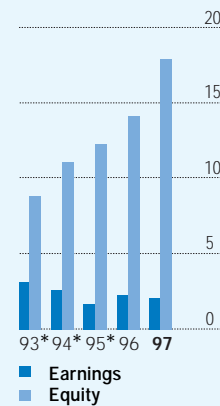
Net Sales by market in 1997, %



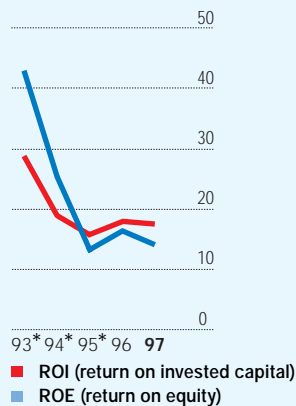
Net interest-bearing liabilities in 1993–1997, FIM million



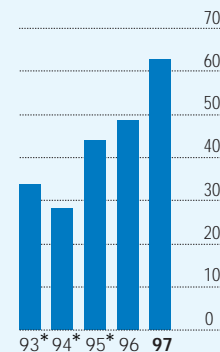
Equity and earnings per share 1993–1997, FIM



Return on capital in 1993–1997, %



Equity ratio in 1993–1997, %



\* The figures include the forest industry activities, which were sold on June 30, 1995.

Tecnomen invested over 20% of its net sales in R & D during 1997. The commercialization of existing base stations and the development of equipment and systems suitable for new market areas were among the most important development projects in wide-area paging systems. The company also developed additional enhanced services for its paging systems and new ways of integrating these services into telecommunications systems. The main focus in enhanced service systems was on developing new features and applications based on the intelligent network technology. Tecnomen also developed new product generations of its system architectures, and customer-specific service solutions.

#### GROUP STRUCTURE

Under an agreement signed at the beginning of October, Tamglass Engineering Oy acquired the remaining 30% of the shares of Cattin Machines S.A. to add to the 70% holding previously acquired. Like Tamglass, Swiss-based Cattin is known for its high-quality safety glass machines, and both companies' skills complement each other.

Tamglass Engineering Oy acquired 100% of the shares of Tamglass Tempering Oy from Kyro Corporation during 1997.

The Tamglass Group reorganized its corporate and organizational structure to improve its customer service and secure its competitive position. Three companies were formed from the previous parent company, Tamglass Engineering Oy. Tamglass Ltd. Oy is now the parent company of the Tamglass Group. Tamglass Engineering Ltd. Oy is responsible for the manufacture of machines and equipment in Finland. Tamglass EMA Sales Ltd. Oy is responsible for the sale of all Tamglass machines and equipment in Eastern and Northern Europe, the Middle East, and Africa. The new structure came into force at the beginning of 1998.

#### CHANGES IN SENIOR MANAGEMENT

The Annual General Meeting held on April 15, 1997 elected Carl-Olaf Homén to the Board of Directors. As no members of the Board were due to step

down, the membership of the Board remained otherwise unchanged.

The President of Tecnomen Oy and Vice President of Kyro Corporation, Arvo Mustonen, B.Sc. (Eng.), resigned on October 20, 1997. The President and Chief Executive Officer of Kyro Corporation and Tamglass, Pentti Ylihjeljo, M.Sc. (Eng), took over as President of Tecnomen as of October 21, 1997.

Esko Rantala, M.Sc. (Eng.), MBA, has been appointed President of Tecnomen from April 14, 1998 onwards.

#### PERSONNEL

To secure its technological know-how base, the Kyro Group recruited a number of new personnel during the course of the year, particularly in Finland. The largest number of new personnel were placed with Tecnomen to reinforce the company's development and customer service organizations and international sales network. As of the end of the year, the Group employed 819 people (700), of which 277 (245) were based outside Finland. As an annual average, the Group employed 782 people (659).

#### BUSINESS GROUPS

##### Tamglass

The Tamglass Group recorded net sales of FIM 542.7 million (FIM 450.8 million), an increase of 20% over 1996. Sales of both new machines and after sales services rose, and the company's order-book improved. Asia accounted for a good share of deliveries and billing during 1997, but the number of orders for new machines fell compared to previous years. The growth in sales in other areas exceeded the drop caused by the slow-down in the markets of South-East Asia.

Demand rose in Europe and North America. The market situation in the Middle East was also good.

Sales of architectural glass machines rose by nearly 30 per cent. During 1997, Tamglass won orders for new glass machines worth a total of FIM 40 million from two major American producers of original automotive glass equipment.

The Tamglass Group's Finnish plants supplied a record number of machines. Tamglass extended its network of sub-contractors to guarantee its ability to meet this demand. Production at Tamglass' US plant also reached a new record. Cattin Machines S.A. suffered from technical problems associated with some of the machines launched in 1995 and 1996. Clear progress was made in resolving these problems as the year drew to a close, however, enabling Cattin to concentrate on further development of its advanced technology. The order-book of its Swiss plant was low throughout the year, and the plant's production volume was, as a result, below target.

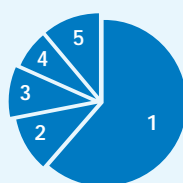
Tamglass' active development of its after sales business yielded results, and sales rose one and half times over those for 1996. Growth was helped by the rapidly expanding installed machinery base and the company's wider service portfolio. The increasing number of service contracts and more extensive customer service network also contributed to the company's success in the after sales sector. The company added operations services (covering installation, start-up, and the first few months of production) to its service offering.

Sales and profitability rose at Tamglass Tempering, which produces

Personnel as of 31.12.1997

	1997	1996
Kyro Corporation	10	10
Tamglass Group	404	368
Tecnomen Group	381	299
Kyro Power	24	23
<b>Total</b>	<b>819</b>	700

Personnel by location on December 31, 1997



- 1 Finland
- 2 Ireland
- 3 Switzerland
- 4 North America
- 5 Other countries

safety glass products and is responsible for product development, demonstration work, and training for the whole Tamglass Group.

### **Tecnomen**

The Tecnomen Group recorded net sales down 2% on 1996, at FIM 234.6 million. The year saw a number of changes in the systems supplier field as a result of acquisitions, mergers, and collaborative agreements.

Although these developments served to increase competition, they also opened up new opportunities for systems suppliers. Demand for enhanced services systems grew more rapidly than for telecommunications systems generally, as by offering new enhanced services telecommunications operators can improve their competitiveness and profitability. Growth in wide-area paging systems slowed in industrial countries but continued at strong levels in developing countries.

The company made significant investments in product development, its sales and marketing network, sales and marketing activities, and project work; and continued to strengthen its human resources. Sales volumes did not grow in spite of the investments, however. The rapid rate of technological progress in the field, together with changes in the operator market, served to slow purchasing decisions by customers. New operators entering the business for the first time are looking for total packages, which means that systems suppliers need to form consortia, and complicates the customer decision-making process.

Tecnomen has traditionally aimed to build its international position through its own efforts, which is a demanding and slow process in the telecommunications business. The company has initiated cooperation with other systems and equipment suppliers to address the needs of today's changing markets.

Following up projects delivered in previous years accounted for a significant portion of Tecnomen's resources, and generated additional costs of over FIM 10 million in 1997.

The company has expanded its network outside Europe in recent years, particularly in the Far East. Economic difficulties in the region and fluctuating exchange rates at the end

of 1997 slowed purchase decisions in the Far East. Tecnomen nevertheless succeeded in winning orders from Malaysia, Taiwan, Thailand, and China. The company strengthened its service network in the Far and Middle East, setting up customer service units in Beijing, Bangkok, Dubai, and Taiwan. A new service company was established in Brazil at the beginning of 1998.

Sales of enhanced services systems kept on the same level as in 1996. The company supplied new systems, and extensions to existing ones, to customers in a number of countries in the Far East and Europe.

Tecnomen's single most important paging system deal of the year was an ERMES system supplied to Tele Danmark Mobil A/S for use in Denmark and Sweden. The delivery went smoothly. Outside Europe, the company did not achieve its sales targets for paging systems, however. This was partly due to shortcomings in the product offering with regard to the needs of new market areas, and partly due to delays in development of the company's service network and customer relation work.

The company has initiated actions designed to improve its profitability, quality and customer service, and enhance its way of operating. Through these measures and investments made in product development and marketing, Tecnomen is laying the foundation for future growth and productivity.

### **Kyro Power**

Kyro Power's modern power plants generate low environmental impact energy. The company's net sales rose by 5% over 1996, and totalled FIM 134 million. Competition on the electricity market was tougher in 1997 as a result of the emergence of a common Nordic market in electricity and changes to energy taxes in Finland favouring the competitiveness of coal-fired plants. Nearly all of Kyro Power's sales are based on long-term contracts, which helps guarantee the stability of its business. Generation activities proceeded smoothly in 1997, and plant capacity utilization was high. The company sold a total of 827,000 MWh of energy in 1997, up 5% on 1996 (785,000 MWh).

Following the start-up of its new hydropower facility, Kyro Power com-

pleted its sizeable investment programme launched in 1994 with the gas-fired facility. The new hydropower plant has a capacity of 40,000 MWh, an increase of 60% over that of the old plant it replaces (25,000 MWh).

### **OUTLOOK FOR THE FUTURE**

Kyro Corporation is well-placed in 1998 to achieve the level of profit performance it recorded in 1997. Both Tamglass and Kyro Power started the year from good positions. Tecnomen's performance will depend on how quickly the problems that have slowed down the company's development can be resolved. In addition, the uncertainty surrounding a deepening of the economic crisis in Asia, and economic growth in industrial countries, could affect the Kyro Group's performance.

Tamglass further reinforced its position as the world's leading supplier of safety glass machines in 1997. The company also started 1998 with a fuller order-book than it did 1997. Tamglass has extended its product range, and the competitiveness of its products is good. The Tamglass Group's positive performance prospects are supported by the strong US dollar; Tamglass has hedged its order-book against changes in exchange rates.

Determined action has been taken to identify and resolve Tecnomen's problems. Operations have been stabilized and work on key change projects initiated. Seeing those changes through and eliminating the company's difficulties will require both additional resource inputs and time, however. Although Tecnomen's order-book at the beginning of 1998 was somewhat healthier than it was at the beginning of 1997, the early part of the year could well see Tecnomen record a loss.

Kyro Power's gas-fired power plant completed at the end of 1995 has proved an operating and efficiency success. The company's new hydropower facility commissioned at the end of 1997 is now running at full capacity. The company's energy sales are based on long-term supply contracts. Kyro Power's performance prospects for 1998 will be similar to those seen in 1997, assuming that the economic trend of the forest industry, so important to Kyro Power, will continue to be positive.

# Shares and Shareholders

## Share capital

As of the beginning of the fiscal year, the number of Kyro Corporation shares totalled 31,500,000. The Corporation's share capital was increased by 8,175,000 shares through a share issue targeted to investors and the public in June. As of the end of the fiscal year, the number of shares stood at 39,675,000.

The Corporation's paid-up and registered share capital as of the end of the fiscal year totalled FIM 40,875,000. The Corporation's minimum share capital is FIM 30 million and maximum share capital FIM 120 million, within which boundaries the Corporation's share capital can be increased or reduced without amending the Corporation's Articles of Association.

In accordance with a decision taken at the Annual General Meeting held on April 15, 1997, the nominal value of Kyro Corporation shares was reduced from FIM 100 to FIM 1.

## Voting restrictions

Shareholders are entitled to one vote per share at votes and elections held at the Annual General Meeting. Nobody is entitled to vote at the Annual General Meeting using more than one-fifth of the combined votes associated with the shares represented at the Meeting (Article 12 of the Articles of Association).

## Share trading on

the Helsinki Exchanges

Following the listing in June of Kyro Corporation shares on the Helsinki Exchanges (HEX Ltd, Helsinki Securities and Derivatives Exchange, Clearing House), a total of 9,606,216 shares were traded during the year, equivalent to 24.2% of the Corporation's total shares.

The Corporation's market capitali-

zation as of the end of the fiscal year was FIM 1,221,990,000. The total number of shareholders registered under the book-entry system as of the end of the fiscal year was 3,104.

The weighted average number of shares during the fiscal year, adjusted for the June share issue, was 36,181,027. The number of share issue-adjusted shares at the end of the fiscal year was 39,675,000.

## Share price development

The highest price paid for a Kyro Corporation share on the Helsinki Exchanges during 1997 was FIM 42, and the lowest FIM 28.40. The average price for the year, adjusted for the share issue, was FIM 36.55.

**Management ownership of shares**  
The combined number of shares owned by the members of the Corporation's Board of Directors and President and Chief Executive Officer as of December 31, 1997 totalled 5,019,400. These shares accounted for 12.7% of the Corporation's total share capital.

## Taxable value in Finland

The taxable value of Kyro Corporation shares in Finland under 1997 taxation is FIM 21.00 per share.

## Bonds with warrants issues

Tamglass Ltd. Oy and Tecnomen Oy issued bonds with warrants in 1997 for members of the management of Kyro Corporation and associated companies. The warrants of the Tamglass Ltd. Oy entitle holders to subscribe to 60,000 shares, representing 7.0% of Tamglass Ltd. Oy's capital stock. The warrants issued by Tecnomen Oy entitle holders to subscribe to 5,400 shares, representing 9.9% of Tecnomen Oy's capital stock. New persons will be admitted to the bonds

with warrants arrangement during 1998. The number of warrants will remain within the total number specified above. The additional arrangement will cover a warrant entitlement without the bond component.

Subscription will start in respect of the warrants associated with both issues in two stages, with half of the options available for subscription as of May 2, 2000, and half as of May 2, 2002. The final date for subscription for all options will be June 30, 2004. The arrangement includes a provision that the options, or part thereof, must be offered back to the Corporation without charge if the subscriber's contract of employment ends before May 2, 2002.

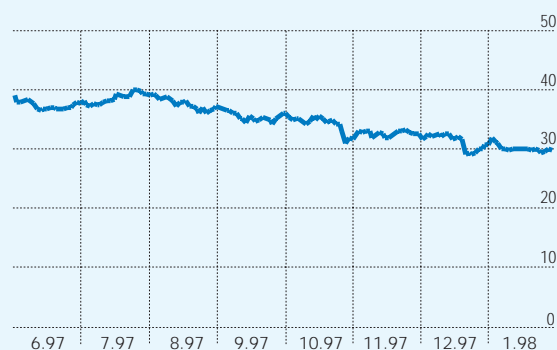
The share subscription price has been determined on the basis of the net asset value of the companies according to the consolidated balance sheet dated December 31, 1996. Irrespective of the bonds with warrants issues, Kyro Corporation can retain 100% ownership of the companies, as subscription requires the permission of Kyro Corporation's Board of Directors. Holders of options are entitled to sell their options to Kyro Corporation during the period allocated for subscription and by May 31, 2004 at the latest, and Kyro Corporation is required to buy options thus offered. The purchase price of options shall be determined through the value of the shares. The value of the latter shall be determined, in the case of a buy-back of an option, as a weighted average of the relevant Company's net asset value and earning capacity value (1 x net asset value + 2 x earning capacity value). The earning capacity value shall be determined on the basis of the average results included in the consolidated financial statements of the Company concerned over the three previous years and the P/E ratio of Kyro Corporation's share. The net asset value shall be determined on the basis of the last balance sheet of the consolidated financial statements prior to the moment of surrender.

The Corporation takes account of the obligations associated with its options through a minority share entry in its year-end financial statements and interim financial statements.

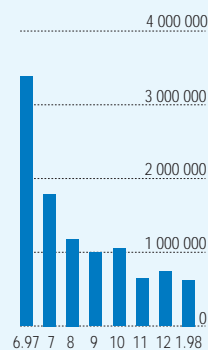
## Shareholder agreements

The Corporation is unaware of any shareholder agreements associated with the ownership of, or use of voting rights associated with shares of,

**Share price development**  
June 1997–January 1998, FIM



**Trading volume**  
June 1997–January 1998





Kyro Corporation that materially affect the value of its shares.

#### Book entry system

A total of 39,635,000 the Corporation's shares were registered with the book-entry system as of December 31, 1997. A register of shareholders is maintained by the Finnish Central Securities Depository Ltd.

#### Board authorization

The Board of Directors has no authorization to change the Corporation's share capital.

#### Share issue and listing on the Helsinki Exchanges

Kyro Corporation's Annual General Meeting held on April 15, 1997 decided to increase the Corporation's share capital by a minimum of FIM 5,000,000 and a maximum of FIM 8,175,000 by deviating from shareholders' subscription privilege and offering a minimum of 5,000,000 and a maximum of 8,175,000 shares, with a nominal value of FIM 1 each, for subscription to institutional investors and the general public. Exception was made in respect of shareholders' subscription privilege to broaden the shareholder base in preparation for a stock exchange listing. The preliminary subscription period for the new shares was May 19–28, 1997. The issue was subscribed nearly 10 times over, and was suspended on the first subscription day.

The share subscription price was determined on the basis of offers received. An Extraordinary Annual General Meeting held on May 30, 1997 set the final subscription price at FIM 27 and the number of shares to be offered at 8,175,000. The issue generated new share capital totalling FIM 40,875,000. The new shares entitle

holders to a full dividend for the fiscal year, January 1, 1997–December 31, 1997.

The Corporation's Board of Directors decided on March 24, 1997 to ap-

ply for the Corporation's shares to be listed on the Helsinki Exchanges. The shares became tradable securities as of June 9, 1997.

#### Ownership of shares

#### Ownership of Kyro Corporation shares as of the end of the fiscal year was as follows:

Shares, number	Number of shareholders	% of holders	Number of shares	% of total holders
1 – 500	1 478	47.6	440 029	1.1
501 – 1 000	762	24.5	612 146	1.5
1 001 – 10 000	640	20.6	2 027 605	5.1
10 001 – 50 000	89	2.9	2 135 916	5.4
50 001 – 100 000	45	1.5	3 422 739	8.6
100 001 – 500 000	77	2.5	16 874 140	42.5
500 001 –	13	0.4	14 119 800	35.6
<b>Total</b>	<b>3 104</b>	<b>100.0</b>	<b>39 632 375</b>	<b>99.9</b>
On the waiting list			2 625	0.0
Shares not transferred to the book-entry system			40 000	0.1
<b>Total</b>			<b>39 675 000</b>	<b>100.0</b>

#### Largest shareholders as of December 31, 1997

	Shares	%
Lars-Olof Hammarén	2 633 500	6.6
Henning Sumelius	2 622 300	6.6
Marina Sumelius	1 342 400	3.4
Maria Sumelius	1 076 800	2.7
Charlie von Christiernson	1 000 000	2.5
Oy Investsum Ab	910 000	2.3
Helena Suutarinen, estate	891 200	2.2
Albatre Oy	600 400	1.5
Ilmarinen Pension Insurance Company	575 000	1.4
Per von Bonsdorff	571 200	1.4
Runi Storhannus	520 000	1.3
Marianne Storhannus	520 000	1.3
Bjarne Sumelius	500 000	1.3
	13 762 800	34.7
Shares held in trust	920 960	2.3
Others	24 991 240	63.0
<b>Total</b>	<b>39 675 000</b>	<b>100.0</b>

#### Ownership by sector

	%
Private companies	8.00
Banks, insurance companies	10.3
Public bodies	1.2
Foundations and non-profit organizations	1.7
Private individuals	71.8
Non-Finnish owners	6.9
Shares not transferred to the book-entry system	0.1
<b>Total</b>	<b>100.0</b>

	1997	1996	1995	1994	1993
Result, FIM/share	<b>2.07</b>	2.20	1.57	2.55	3.07
Shareholders' equity and reserves, FIM/share	<b>17.85</b>	14.06	12.21	11.09	8.76
Dividend/result, %	<b>33.8</b>	31.8	28.6	18.8	4.6
Dividend/share, FIM	<b>0.70</b> <sup>1)</sup>	0.70	0.45	0.48	0.14
Effective dividend yield, %	<b>2.2</b>				
P/E ratio	<b>15.2</b>				

<sup>1)</sup> Board proposal

#### Number of shares, 1,000

	1997	1996	1995	1994	1993
Average	<b>36 181</b>	32 549	32 700	32 700	32 700
As of the end of the year	<b>39 675</b>	31 500	32 700	32 700	32 700

Share price development, average price	36.55	Market capitalization at the end of the year, FIM million	1 221
lowest price	28.40	Volume of shares traded	9 606 216
highest price	42.00	Volume of shares traded, FIM million	351.2

# Financial Performance Indicators

		1997	1996	1995 *	1994 *	1993 *
<b>Consolidated income statement</b>						
Net sales	FIM million	<b>913.4</b>	818.6	1 119.9	1 091.5	954.2
Change	%	<b>11.6</b>	34.6	2.6	14.4	10.5
Exports and international operations		<b>730.7</b>	650.8	983.3	1 043.3	908.2
% of net sales	%	<b>80.0</b>	79.5	87.8	95.6	95.2
Depreciation		<b>40.0</b>	40.6	56.3	73.9	64.0
Operating profit		<b>82.2</b>	103.6	95.7	130.5	163.3
% of net sales	%	<b>9.0</b>	12.7	8.5	12.0	17.1
Financial items		<b>37.6</b>	-2.8	-24.7	-20.6	-28.5
Profit before extraordinary items		<b>119.8</b>	100.8	71.0	110.0	134.8
% of net sales	%	<b>13.1</b>	12.3	6.3	10.1	14.1
Extraordinary items		<b>-15.3</b>	-1.1	6.9	0.0	15.8
Profit before tax		<b>104.6</b>	99.7	77.9	110.0	150.6
% of net sales	%	<b>11.4</b>	12.2	7.0	10.1	15.8
Taxes		<b>-29.8</b>	-29.2	-19.1	-26.5	-38.8
Profit for the year before minority interest		<b>74.8</b>	70.5	58.8	83.5	111.8
<b>Balance sheet</b>						
Fixed assets		<b>471.8</b>	419.4	374.3	903.4	557.5
Current assets		<b>115.5</b>	87.9	65.5	170.9	133.4
Receivables		<b>635.6</b>	463.9	536.8	308.7	256.3
Shareholders' equity		<b>708.3</b>	442.8	399.1	362.6	286.4
Distributable assets		<b>351.4</b>	318.7	289.5	102.7	78.1
Minority interest		<b>8.2</b>	1.6	1.7	1.0	0.4
Liabilities						
Interest-bearing liabilities		<b>173.7</b>	220.1	263.1	532.7	352.7
Non-interest-bearing liabilities		<b>297.8</b>	276.8	288.4	416.1	254.3
Deferred tax liability		<b>34.9</b>	29.9	24.3	70.8	53.4
Balance sheet total		<b>1 222.9</b>	971.2	976.6	1 383.1	947.2
Return on capital invested	%	<b>18.0</b>	18.4	16.2	19.2	29.2
Return on equity	%	<b>14.2</b>	16.9	13.6	25.7	43.5
Equity ratio	%	<b>62.6</b>	48.5	43.7	28.0	33.4
Debt-equity ratio		<b>-29.7</b>	-4.3	-26.4	90.6	69.9
Interest-bearing net liabilities		<b>-213.1</b>	-19.0	-105.8	411.9	200.5
% of net sales	%	<b>-23.3</b>	-2.3	-9.4	37.7	21.0
Gross investments		<b>94.4</b>	89.7	238.2	425.4	188.9
% of net sales	%	<b>10.3</b>	11.0	21.3	39.0	19.8
R & D		<b>108.1</b>	95.9	64.6		
% of net sales	%	<b>11.8</b>	11.7	5.8		
Order-book		<b>315</b>	262	236		
Personnel on average		<b>782</b>	659	780	991	916
Personnel at year-end		<b>819</b>	700	536	1 004	900
- in Finland		<b>542</b>	455	406	881	809

\* The figures for 1993–1995 include Kyro's forest industry activities, which were sold to Metsä-Serla Corporation on June 30, 1995.

# Consolidated Income Statement

FIM thousand	Note	1.1.-31.12.1997	%	1.1.-31.12.1996	%
<b>Net sales</b>	<b>1</b>	<b>913 356</b>	<b>100.0</b>	818 643	100.0
Increase (+), decrease (-) in inventories					
of finished goods		<b>12 615</b>		2 450	
Production for own use (+)		<b>824</b>		3 552	
Other operating income		<b>3 704</b>		4 879	
Expenses	<b>2, 3</b>	<b>808 226</b>		685 277	
<b>Operating margin</b>		<b>122 272</b>	<b>13.4</b>	144 248	17.6
Depreciation	<b>4</b>	<b>40 036</b>		40 643	
<b>Operating profit</b>		<b>82 236</b>	<b>9.0</b>	103 605	12.7
Financial income and expenses	<b>5</b>	<b>37 573</b>		-2 789	
<b>Profit before extraordinary items and taxes</b>		<b>119 809</b>	<b>13.1</b>	100 816	12.3
Extraordinary income and expenses	<b>6</b>	<b>-15 252</b>		-1 069	
<b>Profit before tax</b>		<b>104 557</b>	<b>11.4</b>	99 747	12.2
Direct taxes	<b>7</b>	<b>-29 775</b>		-29 231	
<b>Profit for the fiscal year before minority interest</b>		<b>74 782</b>	<b>8.2</b>	70 517	8.6
Minority interest included in the result					
for the fiscal year		<b>-7 751</b>		69	
<b>Profit for the fiscal year</b>		<b>67 032</b>	<b>7.3</b>	70 586	8.6

# Consolidated Balance Sheet

FIM thousand	Note	31.12.1997	31.12.1996	
<b>ASSETS</b>				
<b>Fixed assets and other non-current assets</b>				
Intangible assets	<b>8</b>			
Intangible rights		<b>10 378</b>	9 594	
Group goodwill		<b>11 394</b>	12 499	
Other long-term expenditure		<b>12 165</b>	<b>33 938</b>	11 857 33 949
Tangible assets	<b>8</b>			
Land and water areas		<b>37 876</b>	33 973	
Buildings and structures		<b>116 819</b>	94 717	
Machinery and equipment		<b>201 037</b>	184 036	
Other tangible assets		<b>29 104</b>	4 077	
Advance payments and work in progress		<b>2 739</b>	<b>387 573</b>	18 046 334 849
Securities included in fixed assets and other long-term investments	<b>15</b>			
Shares and holdings		<b>3 101</b>	3 450	
Other investments		<b>47 195</b>	<b>50 295</b>	47 195 50 644
<b>Inventories and financial assets</b>				
Inventories				
Materials and supplies		<b>33 324</b>	35 804	
Work in progress		<b>74 359</b>	47 778	
Finished products		<b>7 068</b>	3 099	
Advance payments		<b>772</b>	<b>115 523</b>	1 211 87 892
Receivables	<b>9</b>			
Trade receivables		<b>211 251</b>	190 055	
Loan receivables		<b>2 890</b>	4 067	
Prepaid expenses and accrued income		<b>32 563</b>	30 408	
Other receivables		<b>5 030</b>	<b>251 734</b>	4 326 228 857
Shares included in financial assets				
Shares and holdings		<b>33 979</b>	70 778	
Other stocks and bonds		<b>112 872</b>	<b>146 852</b>	70 778
Cash at bank and in hand		<b>237 025</b>		164 277
		<b>1 222 939</b>		971 247



FIM thousand	Note	31.12.1997		31.12.1996	
<b>LIABILITIES</b>					
<b>Shareholders' equity</b>					
	<b>10</b>				
Restricted equity					
Share capital		<b>40 875</b>		32 700	
Appreciation fund		<b>12 187</b>		13 017	
Reserve fund		<b>213 916</b>	<b>266 977</b>	1 366	47 083
Unrestricted equity					
Retained earnings		<b>374 284</b>		325 129	
Profit for the fiscal year		<b>67 032</b>	<b>441 316</b>	70 586	395 714
<b>Minority interest</b>					
			<b>8 162</b>		1 555
<b>Payables</b>					
	<b>12</b>				
Long-term					
Loans from credit institutions		<b>133 222</b>		154 953	
Pension loans		<b>11 126</b>		31 607	
Deferred tax liabilities		<b>34 949</b>		29 932	
Other long-term loans		<b>7 629</b>	<b>186 925</b>	10 756	227 248
Current					
Loans from credit institutions		<b>19 865</b>		18 110	
Pension loans		<b>954</b>		2 477	
Advances received		<b>78 172</b>		55 818	
Trade payables		<b>75 980</b>		53 843	
Accrued liabilities and deferred income		<b>140 644</b>		164 932	
Other current payables		<b>3 944</b>	<b>319 559</b>	4 468	299 647
		<b>1 222 939</b>		971 247	

# Consolidated Sources and Applications of Funds

FIM thousand	1997	1996
<b>Business operations</b>		
Funds from operations		
Operating profit	<b>82 236</b>	103 605
Depreciation	<b>40 036</b>	40 643
Financial income and expenses	<b>37 573</b>	-2 789
Extraordinary items	<b>-15 252</b>	-1 069
Taxes	<b>-24 758</b>	-23 009
	<b>119 836</b>	117 381
<b>Change in net working capital</b>		
Inventories, increase (-) /decrease (+)	<b>-27 631</b>	-22 441
Current receivables, increase (-) /decrease (+)	<b>-22 877</b>	-53 760
Non-interest-bearing current loans, increase (+) /decrease (-)	<b>20 854</b>	-11 793
	<b>-29 653</b>	-87 994
Cash flow from operations	<b>90 182</b>	29 387
<b>Investments</b>		
Investments in fixed assets	<b>-94 402</b>	-89 750
Proceeds from sales of fixed assets	<b>2 517</b>	3 953
	<b>-91 885</b>	-85 796
Cash flow before financing	<b>-1 702</b>	-56 410
<b>Financing</b>		
Increase (+) /decrease (-) in long-term loans	<b>-46 282</b>	-42 693
Dividends	<b>-22 050</b>	-14 715
Share issue	<b>220 725</b>	
Purchase of own shares		-14 757
Use of donation fund		-100
	<b>152 393</b>	-72 265
Increase (+) /decrease (-) in liquid funds according to the statement	<b>150 690</b>	-128 674
Adjustment items	<b>-1 869</b>	2 900
Increase (+) /decrease (-) in liquid funds according to the balance sheet	<b>148 821</b>	-125 774

The items in the above statement of consolidated sources and applications of funds cannot be derived directly from the balance sheets due to factors such as changes in exchange rates.

# Parent Company Income Statement

FIM thousand	Note	1.1.-31.12.1997	%	1.1.-31.12.1996	%
<b>Net sales</b>					
Revenue from sales of Group services		2 666		2 599	
Other sales revenue		1 503		1 364	
Interest income		14 619		12 488	
Dividend income		4		4 668	
Other financial income		84 504		28 098	
		<b>103 296</b>	<b>100.0</b>	49 217	100.0
Other operating income		3 288		5 431	
Expenses					
Interest expenses		6 954		12 323	
Other financial expenses		42 061		26 441	
Personnel expenses	3	10 575		8 309	
Rents		379		465	
Other expenses		3 075		4 642	
		<b>63 044</b>		52 181	
<b>Operating margin</b>					
		<b>43 541</b>	<b>42.2</b>	2 466	5.0
Depreciation	4	458		704	
<b>Operating profit</b>					
		<b>43 083</b>	<b>41.7</b>	1 762	3.6
Extraordinary income and expenses	6	-9 414		23 732	
<b>Profit before appropriations and taxes</b>					
		<b>33 668</b>	<b>32.6</b>	25 494	51.8
Increase (-) /decrease (+) in					
accelerated depreciation	11	-16		28	
Change (+/-) in voluntary appropriations	11	2 749			
Direct taxes	7	-5 236		-7 044	
<b>Profit for the fiscal year</b>					
		<b>31 165</b>	<b>30.2</b>	18 477	37.5

Kyro has received permission (KILA no. 1169/9.12.1991) to present the above Parent Company's Income Statement.

# Parent Company Balance Sheet

FIM thousand	Note	31.12.1997		31.12.1996	
<b>ASSETS</b>					
<b>Fixed and other non-current assets</b>					
Intangible assets	<b>8</b>				
Intangible rights		<b>215</b>		71	
Other long-term expenditure		<b>149</b>	<b>364</b>	201	272
Tangible assets	<b>8</b>				
Land and water areas		<b>17 339</b>		17 836	
Buildings and structures		<b>290</b>		944	
Machinery and equipment		<b>510</b>		566	
Other intangible assets		<b>1 353</b>	<b>19 493</b>	1 477	20 823
Securities included in fixed assets and other non-current investments	<b>15</b>				
Shares and holdings		<b>167 439</b>		171 609	
Loan receivables				4 857	
Other investments		<b>47 195</b>	<b>214 633</b>	47 195	223 660
<b>Financial assets</b>					
Receivables	<b>9</b>				
Loan receivables		<b>76 220</b>		13 374	
Prepaid expenses and accrued income		<b>21 169</b>	<b>97 389</b>	34 415	47 788
Securities included in financial assets					
Shares and holdings		<b>33 979</b>		70 778	
Other stocks and bonds		<b>112 872</b>	<b>146 852</b>		70 778
Cash at bank and in hand			<b>153 766</b>		116 427
			<b>632 498</b>		479 750



FIM thousand	Note	31.12.1997	31.12.1996	
<b>LIABILITIES</b>				
<b>Shareholders' equity</b> <span style="float: right;"><b>10</b></span>				
Restricted equity				
Share capital		<b>40 875</b>	32 700	
Appreciation fund		<b>12 187</b>	13 017	
Reserve fund		<b>213 450</b>	<b>266 512</b>	900 46 617
Unrestricted equity				
Retained earnings		<b>191 419</b>	194 992	
Profit for the fiscal year		<b>31 165</b>	<b>222 585</b>	18 477 213 469
<b>Reserves</b> <span style="float: right;"><b>11</b></span>				
Accelerated depreciation			<b>99</b>	83
Voluntary provisions				
Transition reserve				2 749
<b>Payables</b> <span style="float: right;"><b>12</b></span>				
Long-term				
Loans from financial institutions			34 226	
Pension loans			8 848	43 073
Current				
Loans from financial institutions		<b>2 108</b>	4 818	
Pension loans			666	
Accrued liabilities and deferred income		<b>16 793</b>	34 307	
Other current payables		<b>124 402</b>	<b>143 303</b>	133 967 173 759
		<b>632 498</b>	479 750	

# Parent Company Sources and Applications of Funds

FIM thousand	1997	1996
<b>Business operations</b>		
Funds from operations		
Operating profit	<b>43 083</b>	1 762
Depreciation	<b>458</b>	704
Extraordinary items	<b>-9 414</b>	23 732
Taxes	<b>-5 236</b>	-7 044
	<b>28 890</b>	19 154
<b>Change in net working capital</b>		
Increase (-) /decrease (+) in current receivables	<b>-49 601</b>	141 793
Increase (+) /decrease (-) in non-interest-bearing current loans	<b>-17 489</b>	-13 839
	<b>-67 090</b>	127 955
Cash flow from operations	<b>-38 200</b>	147 108
<b>Investments</b>		
Investments in fixed assets	<b>-705</b>	-13 388
Proceeds from sales of fixed assets	<b>4 825</b>	11 551
	<b>4 120</b>	-1 837
Cash flow before financing	<b>-34 079</b>	145 271
<b>Financing</b>		
Increase (-) /decrease (+) in long-term receivables	<b>4 857</b>	2 187
Increase (+) /decrease (-) in long-term loans	<b>-46 450</b>	-41 333
Increase (+) /decrease (-) in current loans	<b>-9 589</b>	-231 839
Dividends	<b>-22 050</b>	-14 715
Share issue	<b>220 725</b>	
Purchase of own shares		-14 757
Use of donation fund		-100
	<b>147 492</b>	-300 558
Increase (+) /decrease (-) in liquid funds according to the balance sheet	<b>113 413</b>	-155 287

# Notes to the Financial Statements

## ACCOUNTING PRINCIPLES

### Consolidated Financial Statements

#### Extent of consolidation

The consolidated financial statements include all Group companies of which the Parent Company owns, directly or indirectly, more than 50%, excluding housing companies. The financial statements give a true and accurate picture of the company's financial performance and financial position during the fiscal year.

#### Intra-Group shareholdings

The consolidated financial statements have been prepared using the acquisition cost method. The price in excess of shareholders' equity paid for the shares of subsidiaries has been partly allocated to fixed assets and partly to consolidated goodwill. The items allocated to fixed assets are depreciated in accordance with the relevant depreciation plan.

#### Internal transactions and margins

Internal transactions, unrealized margins on internal deliveries, internal receivables and liabilities, together with internal disposal of profit, have been eliminated.

#### Minority shares

Minority shares have been separated from consolidated shareholders' equity and financial results, and are presented as a separate item. Obligations associated with bonds with warrants issues are itemized as a minority share.

#### Translation differences

The financial statements of Group companies outside Finland have been translated into Finnish markka using the official rate quoted by the Bank of Finland on the balance sheet date. Exchange gains and losses arising from eliminations of equity capital have been entered under unrestricted equity.

#### Items denominated in foreign currencies

Receivables and liabilities of Group companies denominated in foreign currencies have been translated into Finnish markka at the official rate quoted by the Bank of Finland on the balance sheet date. Receivables and liabilities hedged through derivatives

have been entered at the exchange rate quoted on the contract date. The interest portions of forwards contracts are distributed over the duration of the contract. The exchange rate differences on derivatives made for hedging purposes have been set against the currency differences for the underlying items in question.

#### Net sales

Net sales comprise sales revenues from which indirect taxes, foreign exchange-related gains and losses, and discounts have been deducted.

#### Pension costs

Mandatory pension cover, together with any additional pension cover, is handled by pension companies in Finland. Outside Finland, pension cover for personnel is arranged in accordance with local legislation and practice.

#### Research and development expenses

Research and development expenses have been entered as an expense for the fiscal year in which they were incurred, with the exception of machinery purchases. Capitalized development expenses are depreciated on a straight-line basis over a five-year period.

#### Valuation of inventories

Inventories are presented in accordance with the FIFO principle at the direct purchase cost or the repurchase cost, if lower, or at the probable sale price. Indirect manufacturing costs have not been activated.

#### Valuation of fixed assets

Fixed assets have been capitalized at the direct acquisition cost. Depreciation according to plan has been calculated on a straight-line basis for the economic lifetime of the assets concerned.

#### Depreciation periods according to plan:

Intangible rights	5–10 years
Group goodwill	5 years
Other long-term expenses	5–10 years
Buildings and structures	25–40 years
Heavy machinery	10–40 years
Other machinery and equipment	3–5 years
Computer hardware and software	3–5 years
Other tangible assets	10–40 years

#### Reserves

Reserves and the difference between total depreciation and depreciation according to plan have been entered in the consolidated financial statements under profit for the fiscal year and shareholders' equity, and under changes in deferred tax liability and deferred tax liability.

## MANAGEMENT OF FINANCIAL RISKS

The Group's financial risks comprise currency, interest, and liquidity risks. The Group's principle is to hedge the Group against the possible negative impact of these risks on the result and balance sheet. Managing currency and counterparty risks associated with normal business transactions is part of the operational activities of Group companies. In all other respects, the Group's financial functions are handled by the Parent Company, which is responsible for bank relationships, the arrangement of long-term financing, investing funds, and allocating the Group's internal funding in line with the liquidity needs of Group companies.

The Group has no loans denominated in foreign currencies in Finland. Credit limits of a fixed asset nature secured by foreign subsidiaries are held in the currencies of the countries concerned. Currency positions comprise receivables and liabilities by currency, and currency income and expenses based on binding orders. Net positions are mainly hedged using forward contracts for a maximum of 12 months. The major currencies used are the US dollar, German mark, the Irish pound, and the ECU.

The Group has not hedged the shareholders' equity of its foreign subsidiaries.

The Group's loan interest risks are linked to the long-term credits secured for power station investments. Around two-thirds of these credits are of a fixed-rate nature over the next 2.5 years.

Liquid funds are invested prudently to ensure that the Group retains the capability to make investments and acquisitions. Funds are invested in market deposits, long-term bonds, and, to a limited extent, in shares. The Board of Directors of the Parent Company has approved the Group's investment principles and risk limits.

# Notes to the Financial Statements

FIM thousand	1997	Group 1996	Parent Company 1997	Parent Company 1996
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## INCOME STATEMENTS

### 1. Net sales

#### Net sales by business area

Parent Company	<b>103 296</b>	49 217
Safety Glass Machinery	<b>542 739</b>	450 846
Telecommunications	<b>234 574</b>	240 334
Energy	<b>134 434</b>	128 365
Eliminations	<b>-101 687</b>	-50 118
Total net sales	<b>913 356</b>	818 643

The Parent Company has been granted permission (Kila Permit No. 1169/9.2.1991) to present income from financial items and sales income from Group services in net sales.

The net sales of the Parent Company have been adjusted during the elimination process to match the income statement formula used for Group companies by transferring financing items to financing items listed in the income statement.

#### Net sales by market area, % of net sales

Finland	<b>20.0</b>	20.5
EU	<b>28.3</b>	23.3
Rest of Europe	<b>5.9</b>	4.5
North and South America	<b>12.0</b>	14.5
Middle and Far East	<b>27.3</b>	30.9
Other countries	<b>6.5</b>	6.4
Total	<b>100.0</b>	100.0

### 2. Expenses

#### Materials and supplies

Purchases during the fiscal year	<b>365 671</b>	321 751
Changes in inventories of materials and supplies	<b>-14 913</b>	-421
Outside services	<b>57 886</b>	53 970
Personnel expenses	<b>205 487</b>	170 671
Rents	<b>12 244</b>	9 605
Other expenses	<b>181 851</b>	129 702
Total	<b>808 226</b>	685 277

### 3. Personnel expenses

Salaries and fringe benefits	<b>166 937</b>	139 955	<b>6 385</b>	5 039
Pension expenses	<b>20 878</b>	18 806	<b>3 757</b>	2 798
Other personnel expenses	<b>20 451</b>	14 184	<b>540</b>	574
Total	<b>208 265</b>	172 944	<b>10 682</b>	8 410

Salaries and remuneration paid to Board members and Managing Directors

	<b>9 838</b>	8 857	<b>2 552</b>	2 099
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A retirement age of 55 has been agreed for the President and Chief Executive Officer of the Parent Company. The retirement age of various other Managing Directors of Group companies has been set at 60 years.



FIM thousand	Group		Parent Company	
	1997	1996	1997	1996
<b>4. Depreciation</b>				
Depreciation according to plan				
Intangible assets				
Intangible rights	<b>2 215</b>	5 076	<b>66</b>	74
Group goodwill	<b>3 196</b>	3 125		
Other long-term expenditure	<b>2 249</b>	2 705	<b>44</b>	134
Tangible assets				
Buildings and structures	<b>6 658</b>	5 911	<b>45</b>	137
Machinery and equipment	<b>25 147</b>	23 267	<b>179</b>	225
Other tangible assets	<b>571</b>	560	<b>124</b>	134
Total depreciation	<b>40 036</b>	40 643	<b>458</b>	704

#### 5. Financial income and expenses

Financial income and expenses				
Dividend income	<b>4</b>	4 668	<b>4</b>	4 668
Interest income from long-term investments			<b>418</b>	915
Income from current investments	<b>12 935</b>	11 303	<b>14 201</b>	11 573
Other financial income	<b>44 213</b>	1 997	<b>44 213</b>	1 997
Exchange rate differences	<b>268</b>	354	<b>524</b>	491
Interest expenses	<b>-15 992</b>	-19 158	<b>-6 954</b>	-12 323
Other financial expenses	<b>-3 855</b>	-1 954	<b>-2 295</b>	-832
Total	<b>37 573</b>	-2 789	<b>50 112</b>	6 490

#### Internal financial income and expenses within the Group

Interest income from Group companies				
Interest income from long-term investments			<b>418</b>	915
Interest income from current investments			<b>2 730</b>	1 118
Financial expenses paid to Group companies				
Interest expenses			<b>4 220</b>	8 751

#### 6. Extraordinary income and expenses

Extraordinary income				
Income from divestments				1 232
Group contributions received				22 500
Total				23 732
Extraordinary expenses				
Share issue and stock exchange listing expenses	<b>9 414</b>		<b>9 414</b>	
Other extraordinary expenses	<b>5 837</b>	1 069		
Total	<b>15 252</b>	1 069	<b>9 414</b>	
Total, extraordinary income and expenses	<b>-15 252</b>	-1 069	<b>-9 414</b>	23 732

Extraordinary expenses comprise liabilities associated with the forest products business sold in 1995, and costs associated with the share issue and listing of the Parent Company on the Helsinki Exchanges in summer 1997.

#### 7. Taxes

Taxes for the fiscal year	<b>30 042</b>	23 081	<b>10 204</b>	7 184
Taxes for previous fiscal years	<b>-5 285</b>	-72	<b>-4 968</b>	-139
Change in deferred tax liability	<b>5 017</b>	6 221		
Total	<b>29 775</b>	29 231	<b>5 236</b>	7 044

# Notes to the Financial Statements

FIM thousand	Acquisition cost, 1.1	Increase, 1.1-31.12	Decrease, 1.1-31.12	Accumulated depreciation to plan 31.12	Asset value, 31.12
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## BALANCE SHEET

### 8. Fixed assets and other long-term investments

#### Group

Intangible rights	29 548	3 013		-23 200	10 378
Group goodwill	21 744	1 913		-12 262	11 394
Other long-term expenditure	25 899	2 588	-256	-16 020	12 165
Land and water areas	20 956	5 877	-1 273		25 689
Buildings and structures	119 209	28 581	-873	-31 321	116 819
Machinery and equipment	256 872	42 019	-2 486	-96 174	201 037
Other tangible assets	6 158	25 598		-2 652	29 104
Investments in progress	18 046	57 503	-72 845		2 739
Group, 1997	498 432	167 093	-77 733	-181 630	409 325
Group, 1996	412 706	108 724	-25 784	-142 482	355 781

#### Parent Company

Intangible rights	361	210		-355	215
Other long-term expenditure	873		-16	-708	149
Land and water areas	4 819	340	-6		5 153
Buildings and structures	1 321		-873	-158	290
Machinery and equipment	997	135	-26	-596	510
Other tangible assets	2 279			-926	1 353
Parent Company, 1997	10 651	685	-922	-2 743	7 671
Parent Company, 1996	11 837	2 107	-3 293	-2 572	8 079

	Group 1997	Group 1996	Parent Company 1997	Parent Company 1996
Share of machinery and equipment in book value	<b>193 537</b>	177 530		

#### Appreciation of fixed assets

Land	<b>12 187</b>	13 017	<b>12 187</b>	13 017
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#### Taxable value of fixed assets

Land	<b>17 362</b>	11 523	<b>6 106</b>	7 138
Buildings	<b>43 318</b>	44 591	<b>257</b>	4 802
Shares in subsidiaries			<b>133 948</b>	163 098
Other shares and holdings	<b>39 127</b>	85 644	<b>38 925</b>	85 564

The taxable values of Finnish subsidiaries have been stated. In cases where Finnish subsidiaries do not have a confirmed taxable value, the book value has been stated.

#### Loan receivables from long-term investments

Loan receivables from Group companies				4 857
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FIM thousand	Group		Parent Company	
	1997	1996	1997	1996

## 9. Receivables

### Receivables which fall due after one year or more:

Loan receivables	1 981
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The book value of publicly listed shares included in the Group's financial assets as of December 31, 1997 totalled FIM 33,979,475.95; and their corresponding market value as of December 31.12.1997 totalled FIM 34,606,630.00.

The corresponding amounts for the Parent Company were FIM 33,979,475.95 and FIM 34,606,630.00.

### Receivables from Group companies

Loans receivables form Group Companies	<b>75 670</b>	12 805
Prepaid expenses and accrued income from Group companies	<b>2 862</b>	25 235

The President and Chief Executive Officer of the Parent Company has been granted a loan of FIM 500,000.

The interest rate charged on the loan is linked to the base rate quoted by the Bank of Finland.

## 10. Shareholders' equity

### Restricted equity

Share capital as of January 1	<b>32 700</b>	32 700	<b>32 700</b>	32 700
Increase	<b>8 175</b>		<b>8 175</b>	
Share capital as of December 31	<b>40 875</b>	32 700	<b>40 875</b>	32 700

Appreciation fund as of January 1	<b>13 017</b>	13 163	<b>13 017</b>	13 163
Decrease	<b>-830</b>	-146	<b>-830</b>	-146
Appreciation fund as of December 31	<b>12 187</b>	13 017	<b>12 187</b>	13 017

Reserve fund as of January 1	<b>1 366</b>	1 366	<b>900</b>	900
Increase	<b>212 550</b>		<b>212 550</b>	
Reserve fund as of December 31	<b>213 916</b>	1 366	<b>213 450</b>	900

Unrestricted equity as of January 1	<b>325 129</b>	289 419	<b>194 992</b>	103 139
Retained earnings	<b>70 586</b>	62 639	<b>18 477</b>	121 426
Dividends	<b>-22 050</b>	-14 175	<b>-22 050</b>	-14 715
Use of the donation fund		-100		-100
Purchase of own shares		-14 757		-14 757
Exchange rate and translation differences	<b>620</b>	2 103		
Total as of December 31	<b>374 284</b>	325 129	<b>191 419</b>	194 992
Result for the fiscal year	<b>67 032</b>	70 586	<b>31 165</b>	18 477
Unrestricted equity as of December 31	<b>441 316</b>	395 714	<b>222 585</b>	213 469

Distributable funds included in unrestricted equity	<b>351 448</b>	318 748	<b>222 585</b>	213 469
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The Company purchased 12,000 of its own shares with a nominal value of FIM 1,200,000.00 in 1996.

These shares have been annulled.

# Notes to the Financial Statements

FIM thousand	1997	Group 1996	1997	Parent Company 1996
<b>11. Reserves</b>				
Accelerated depreciation as of January 1	<b>98 650</b>	68 539	<b>83</b>	111
Increase (+) /decrease (-)	<b>26 167</b>	30 111	<b>16</b>	-28
Accelerated depreciation as of December 31	<b>124 817</b>	98 650	<b>99</b>	83
Voluntary reserves as of January 1	<b>8 248</b>	16 140	<b>2 749</b>	2 749
Increase (+) /decrease (-)	<b>-8 248</b>	-7 892	<b>-2 749</b>	
Voluntary reserves as of December 31	<b>0</b>	8 248	<b>0</b>	2 749
Total accelerated depreciation and voluntary reserves as of December 31	<b>124 817</b>	106 898		
Corresponding tax liability	<b>-34 949</b>	-29 932		
Reserves included in shareholders' equity as of December 31	<b>89 868</b>	76 967		
<b>12. Liabilities</b>				
<b>Liabilities which fall due after five years or more</b>				
Loans from financial institutions	<b>37 217</b>	30 142		
Pension loans	<b>7 858</b>	22 651		6 619
Total	<b>45 074</b>	52 793		6 619
<b>Non-interest-bearing loans</b>				
Non-interest-bearing liabilities	<b>297 839</b>	276 829		
Deferred tax liability	<b>34 949</b>	29 932		
Total	<b>332 787</b>	306 761		
<b>Liabilities due to Group and associated companies</b>				
Deferred liabilities and prepaid expenses due to Group companies			<b>1 004</b>	3 005
Other short-term liabilities to Group companies			<b>101 066</b>	133 786
<b>13. Contingent liabilities</b>				
Own obligations				
Mortgages	<b>199 700</b>	131 773	<b>30 000</b>	6 828
Group companies				
Pledges		50 000		50 000
Guarantees			<b>56 797</b>	33 289
Other liabilities	<b>50 978</b>	36 960	<b>450</b>	450
Leasing liabilities	<b>3 802</b>	2 464	<b>178</b>	147
Repurchase liabilities		1 542		
Pension liabilities	<b>1 880</b>	1 919	<b>1 880</b>	1 919
<b>14. Value of derivative contracts as of December 31, 1997</b>				
I. Interest derivatives				
Interest swap contracts	<b>96 000</b>	108 000		
II. Currency derivatives				
Forward contracts	<b>199 943</b>	153 596		
Option contracts				
Purchased		58 752		
Drawn		58 049		



	Group ownership, %	Group voting rights, %	Group shareholders' equity, FIM thousand	Parent Company ownership, %	Parent Company shares/holdings			Profit/loss in current financial statements, FIM thousand
					Number	Nominal value, FIM/share	Book value, FIM thousand	
<b>15. Companies owned by the Group and the Parent Company</b>								
<b>GROUP COMPANIES</b>								
<b>Oy Kyro Board &amp; Paper Ltd</b>	100.0	100.0	28 203	100.0	660 000	10	33 000	-6 176
<b>Kyro Power Oy</b>	100.0	100.0	58 348	100.0	1 505 500	10	56 305	93
<b>Tamglass Ltd. Oy</b>	100.0	100.0	117 693	100.0	800 000	10	40 000	29 324
Tamglass Engineering Ltd. Oy	100.0	100.0	50					0
Tamglass Tempering Oy	100.0	100.0	4 945					854
Tamglass EMA Sales Ltd. Oy	100.0	100.0	50					0
Tamglass Far East Ltd.	100.0	100.0	5 326					3 390
Tamglass. Inc.	100.0	100.0	7 288					382
TGL Tempering Systems Inc.	100.0	100.0	21 054					5 777
Tamglass Engineering (UK) Ltd.	99.9	99.9	2 801					2 129
Tamglass S.A.R.L.	99.8	99.8	87					43
Tamglass GmbH	100.0	100.0	540					-133
Tamglass Japan. Inc.	100.0	100.0	761					242
Tamglass Project Development	100.0	100.0	32					0
Tamglass Singapore Pte Ltd.	100.0	100.0	1 063					269
Cattin Machines S.A.	100.0	100.0	335					-3 457
Thermie Industrielle S.A.	100.0	100.0	102					-27
Kiint. Oy Alhonmetsä	100.0	100.0	61					0
<b>Tecnomen Oy</b>	100.0	100.0	57 545	100.0	49 066	200	35 226	838
Tecnomen Ltd.	100.0	100.0	30 837					859
Tecnomen GmbH	100.0	100.0	399					16
Tecnologia de Mensajes								0
Tecnomen S.L.	100.0	100.0	135					-31
Tecnomen System Solutions Oy	64.2	64.2	922					285
<b>Total</b>							164 531	

#### Other shares and holdings owned by the Parent Company

	Ownership, %	Number	Nominal value, FIM/share	Book value, FIM thousand
Shares and holdings				
Kiinteistö Oy Torikyrö	63.4	804	500	1 427
Other housing companies				1 257
Other shares and holdings				223
<b>Total</b>				2 908

#### Other Parent Company investments

	Number	Nominal value, FIM/share	Book value, FIM thousand
Pohjolan Voima Oy C	61 856	10	17 194
Pohjolan Voima Oy H	1 860	10	0
Oy Metsä-Rauma Ab	288 000	50	30 001
<b>Total</b>			47 195

# Definitions of Key Ratios

Equity ratio, % =  

$$\frac{\text{Shareholders' equity} + \text{minority interest}}{\text{Balance sheet total} - \text{advances received}} \times 100$$

Debt/equity ratio (GEARING), % =  

$$\frac{\text{Net interest-bearing liabilities}}{\text{Shareholders' equity} + \text{minority interest}} \times 100$$

Net interest-bearing liabilities =  
 Interest-bearing liabilities – interest-bearing receivables – cash and other liquid financial assets

Return on equity (ROE), % =  

$$\frac{\text{Profit or loss before extraordinary items and taxes} - \text{taxes for the fiscal year}}{\text{Shareholders' equity} + \text{minority interest (average)}} \times 100$$

Return on invested capital (ROI), % =  

$$\frac{\text{Profit before extraordinary items and taxes} + \text{interest and other financial expenses}}{\text{Balance sheet total} - \text{non-interest-bearing liabilities (average)}} \times 100$$

Earnings/share (EPS), FIM =  

$$\frac{\text{Profit before extraordinary items and taxes} - \text{taxes for the fiscal year} -/+ \text{minority interest}}{\text{Adjusted average number of shares during the fiscal year}}$$

Equity/share, FIM =  

$$\frac{\text{Shareholders' equity}}{\text{Adjusted number of shares at the end of the fiscal year}}$$

Dividend/result, % =  

$$\frac{\text{Dividend distribution for the fiscal year}}{\text{Profit before extraordinary items and taxes} - \text{taxes for the fiscal year} -/+ \text{minority interest}} \times 100$$

Dividend/share, FIM =  

$$\frac{\text{Dividend distribution for the fiscal year}}{\text{Adjusted number of shares at the end of the fiscal year}}$$

Effective dividend yield, % =  

$$\frac{\text{Dividend/share}}{\text{Adjusted stock price at the end of the fiscal year}} \times 100$$

P/E ratio, % =  

$$\frac{\text{Adjusted stock price at the end of the fiscal year}}{\text{Earnings/share (EPS)}}$$

Market capitalization, FIM =  
 Number of shares x stock price on December 31

# Proposal by the Board of Directors to the Annual General Meeting

The Group's distributable assets amounted to FIM 351 447 999,00.

The Parent Company's distributable assets, according to the Parent Company's balance sheet of December 31, 1997, amounted to FIM 222 584 521.91.

Retained earnings	FIM	191 419 216.56
Profit for the fiscal year	FIM	31 165 305.35
Total	FIM	222 584 521.91

The number of shares entitling holders to a dividend total 39,675,000.

The Board of Directors proposes that:

A dividend of FIM 0.70/share should be paid	FIM	27 772 500.00
And that the balance of should be carried forward to retained earnings	FIM	194 812 021.91
Total	FIM	222 584 521.91

Tampere, March 10, 1998

Carl-Johan Numelin	Christer Sumelius
Jukka Lehtinen	Lars Hammarén
Lauri Fontell	Barbro Koljonen
Carl-Johan Rosenbröijer	Carl-Olaf Homén

Pentti Yliheljo  
*President and Chief Executive Officer*

## Auditors' Report

To the shareholders of Kyro Corporation

We have audited the accounting records and the financial statements, as well as the administration by the Board of Directors and the President and Chief Executive Officer of Kyro Corporation for the year ended on December 31, 1997. The financial statements, which include the report of the Board of Directors, consolidated and parent company income statements, balance sheets and notes to the financial statements, have been prepared by the Board of Directors and the President and Chief Executive Officer. Based on our audit, we express an opinion on these financial statements and the company's administration.

We have conducted our audit in accordance with generally accepted Finnish auditing standards. Those standards require that we plan and perform the audit in order to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, of evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial statement presentation. The purpose of our audit of the administration has been to examine that the Board of Directors and the President and Chief Executive Officer have complied with the rules of the Finnish Companies' Act.

In our opinion, the financial statements have been prepared in accordance with the Finnish Accounting Act and other rules and regulations governing the preparation of financial statements in Finland. The financial statements give a true and fair view, as defined in the Accounting Act, of both the consolidated and parent company result of operations, as well as of the financial position. The financial statements can be adopted and the members of the Board of Directors and the President and Chief Executive Officer of the parent company can be discharged from liability for the period audited by us. The proposal made by the Board of Directors on how to deal with the retained earnings is in compliance with the Finnish Companies' Act.

We have reviewed the interim reports published during the financial year. The interim reports have been prepared in accordance with applicable regulations.

Tampere, March 10, 1998

KPMG WIDERI OY AB  
Eero Suomela  
*Authorized Public Accountant*

# Kyro Group Structure 1998

	Business Groups	Business Units
<b>Parent Company</b>  <b>KYRO CORPORATION</b>  <b>Board of Directors</b>  Chairman Carl-Johan Numelin  Deputy Chairman Christer Sumelius  Jukka Lehtinen Lars Hammarén Lauri Fontell Barbro Koljonen Carl-Johan Rosenbröjjer Carl-Olaf Homén  <b>Management</b>  President and Chief Executive Officer Pentti Yliheljo  Chief Financial Officer Erkki Hautaniemi  <b>Corporate Communications</b>  Communications Manager Heli Ojaniemi	<b>TAMGLASS</b>  <b>TAMGLASS Ltd. Oy</b> <b>President</b> Pentti Yliheljo  <b>Business Areas</b>  Architectural Glass Industry Mauri Leponen  Automotive Glass Industry Tommi Salenius  After Sales Juha Liettyä  <b>Sales</b> Pentti Salin <b>Tech. and Production</b> Kai Silander <b>Finance</b> Magnus Sjöblom <b>Quality</b> Erkki Kekkonen <b>Human Resources</b> Anneli Ranki <b>Marketing Comm.</b> Anne Riekkola	<b>Marketing, Sales and Service units:</b> Tamglass EMA Sales Ltd. Oy, Finland Seppo Lautamäki Tamglass S.A.R.L., France Richard Bazin Tamglass GmbH, Germany Hermann Frey Tamglass (UK) Ltd., UK Robert McKeag Tamglass, Inc., USA Raimo Nieminen Tamglass Singapore Pte Ltd., Singapore Markku Karvonen Tamglass Far East Ltd., Hongkong Michael Tsui Tamglass Japan, Inc., Japan Juhani Salminen Tamglass Middle East, Dubai Juha Liettyä  <b>Glass Processing Machine Plants:</b> Tamglass Engineering Ltd. Oy, Finland Kai Silander TGL Tempering Systems Inc., USA Ken Freidel Cattin Machines S.A., Switzerland Georges Béguet  <b>Glass Processing Plants:</b> Tamglass Tempering Oy, Finland Pertti Iivanainen
	<b>TECNOMEN</b>  <b>TECNOMEN Oy</b> <b>President</b> Pentti Yliheljo <small>Effective April 14, 1998</small> Esko Rantala  <b>Business Areas</b>  Paging Systems Seppo Seitsonen  Enhanced Services Systems Jari Anttonen  <b>Sales</b> Aki Siltamies <b>Business Development</b> Laura Santasalo <b>Marketing Comm.</b> Eija Hautaniemi <b>Quality</b> Markku Pehkonen <b>Finance</b> Riitta Järnstedt <b>Data Administration</b> Jyrki Santaholma	<b>Sales and Marketing Units:</b> Tecnomen Espoo, Finland Kimmo Alho Tecnomen GmbH, Germany Jari Anttonen Tecnomen Spain, Spain Aki Siltamies Tecnomen Hong Kong & Beijing, Peoples Republic of China Mikko Suuntala Tecnomen Malaysia, Malaysia Jouni Hartikainen Tecnomen Thailand, Thailand Jarmo Häärä Tecnomen Middle East, Dubai Tomi Saario Tecnomen Brazil, Brasilia Eero Mertano  <b>Production and Product Development Units:</b> Tecnomen Oy, Finland Pentti Yliheljo Tecnomen Ltd., Ireland Paul Fitzgerald  <b>Data Collection Systems:</b> Tecnomen System Solutions Oy, Finland Heikki Jekunen
	<b>KYRO POWER</b>  <b>KYRO POWER Oy</b> <b>President</b> Matti Heino <b>Power Generation</b> Esa Kujala  <b>Business Areas</b>  Electricity Sales Steam Sales District Heat Sales	<b>Generating Units:</b>  Hydropower Plant Gas-fired Power Plant



# Administration



Kyro's Board of Directors. Standing from left to right: Carl-Olaf Homén, Lars Hammarén, Jukka Lehtinen, Lauri Fontell and Carl-Johan Rosenbröijer.  
Seated from left to right: Barbro Koljonen, Carl-Johan Numelin and Christer Sumelius.

			From	Term of office
BOARD OF DIRECTORS	Chairman	Carl-Johan Numelin, M.Sc. (Eng.)	1990	1996–1999
	Deputy Chairman	Christer Sumelius, M.Sc. (Econ.) (due to step down)	1995	1995–1998
	Members	Jukka Lehtinen, B.Sc. (Econ.) (due to step down)	1978	1995–1998
		Lars Hammarén, B.Sc. (Eng.) (due to step down)	1982	1995–1998
		Lauri Fontell, Lic. Phil.	1987	1996–1999
		Barbro Koljonen, M.Sc. (Agr.)	1996	1996–1999
		Carl-Johan Rosenbröijer, D.Sc. (Econ.)	1996	1996–1999
Carl-Olaf Homén, Master of Laws	1997	1997–2000		
MANAGEMENT	President and Chief Executive Officer	Pentti Yliheljo (52), M.Sc. (Eng.)	1992	
	Chief Financial Officer	Erkki Hautaniemi (58), B.Sc. (Econ.)	1986	
AUDITORS		KPMG Wideri Oy Ab Responsible Auditor: Eero Suomela, Authorized Public Accountant		

# Key Concepts and Terminology

A number of product names and technical terms related to the Group's technology businesses are used in Kyro's Annual Report. As some of these may be unfamiliar to the reader, the key concepts and terms are explained below.

## TAMGLASS

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### Coated Glass and Low-E Glass

The insulation properties and visual appearance of glass can be modified by various coating processes to produce glass with specific types of responses to sunlight, colour, and heat.

### Convection

A type of heating in which air currents are used to transfer heat to the product being processed. Convection can be of either the natural or forced type.

### Float Glass

Flat glass manufactured using the float process from raw materials including sand, soda ash, dolomite, lime, and recycled glass. During the manufacturing process, the molten glass is poured from the furnace on to a surface of molten tin, which causes the glass to spread out in sheet form. After cooling, float glass is used in the manufacture of architectural and automotive glass.

### Laminating and Laminated Glass

During the lamination process, sheets of glass and a special plastic film placed between them are bonded together at high temperature by means of a vacuum and high pressure. The resulting product is a quality safety glass capable of withstanding high levels of mechanical stress and offering good fire resistance and optical qualities.

### Safety Glass

Glass produced by the tempering or lamination processes. This type of glass is many times stronger than normal glass. In the event of breakage, laminated glass remains in its frame. Tempered glass breaks harmlessly into tiny pieces.

### Safety Glass Machine

A fully automated production system for manufacturing tempered or laminated safety glass products.

### Tempering

A glass manufacturing process in which cool raw glass is heated to some 650°C and then cooled quickly back to room temperature. The powerful compression stress imposed on the surface of the glass as a result of this process increases the strength of glass by four to five times that of raw glass.

## TECNOMEN

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### Data Collection System

The CID 2000 system developed by Tecnomen is a computer-assisted data collection system, suitable for collecting manufacturing data, work time monitoring, and access control – wherever real-time information is required.

### Enhanced Services System

A system enabling operators and service providers to provide customers with advanced telecommunications services. Sophisticated services of this type typically require special features to be incorporated into telecommunications networks, such as Intelligent Network technology. Enhanced services include call completion, personal number, voice mail, fax mail, and e-mail.

### ERMES Paging Standard

The Enhanced Radio Messaging System (ERMES) is an advanced paging system standard developed by the European Telecommunications Stand-

ards Institution (ETSI). Among other

things, the ERMES paging system ensures that paging messages reach their right destination when subscribers travel from country to country.

### HiQ Base Station

A transmission station serving a paging network. A base station receives messages forwarded to paging networks and sends a radio signal to the relevant pager.

### Intelligent Network

A telecommunications network incorporating features designed to simplify the implementation of new services. Typical Intelligent Network functions include common service numbers with built-in number switching covering a wide area of subscribers, and advanced call management and routing options.

### Operator

An organization that maintains a telecommunications network and provides telecommunications services. Operators can provide services both to service providers and directly to users. Telephone companies are typical operators.

### Paging System

A wireless telecommunications service used for personal communication. Tecnomen is a specialist in the design and manufacture of high-speed, wide-area paging systems.

### Service Provider

An organization providing telecommunications services. A service provider that does not maintain its own telecommunications network can buy the network services it needs from an operator.

# Locations and Addresses

## KYRO OYJ ABP

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## TECNOMEN

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## KYRO POWER

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