

ANNUAL REPORT

1997

**LAROX**

Separates the best from the rest



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### Larox Investor Relations 1998

In addition to the annual report, Larox will publish two interim reports in 1998, the first for the period 1.1.-30.4.1998 on Thursday 28 May 1998 and the second for the period 1.1.-31.8.1998 on Thursday 1 October 1998.

Other information for investors can be requested from Larox Oy phone +358 (5) 668 811, fax +358 (5) 668 8277, eMail [info@larox.com](mailto:info@larox.com)

Larox Oy's B-share is listed on the Helsinki Stock Exchange OTC list. The Helsinki Stock Exchange provides information on the Larox share at the internet address [http://www.hse.fi/english\\_companie\\_lar\\_html](http://www.hse.fi/english_companie_lar_html). Information on Larox Group can also be found at <http://www.larox.com>

**The Larox Values**

**Customer Orientation**

We are in business to serve the customer.

- Customer-oriented organization
- Local customer service
- Flexible operation addressing customer needs

**Reliability**

We do what we promise.

- Reliable test results
- Accurate calculations
- On-time deliveries
- Dependable after sales service
- Trustworthiness

**Quality of Operation**

We perform our work professionally and efficiently from the start.

- Continuous development of the quality system
- Maintaining the ISO 9001 certification
- Concentrated Quality Management

**Leading Expertise**

We develop our expertise to be the best in the business.

- Product development
- Human resources
- Continuous training

**Worldwide Presence**

We support our customers on six continents.

- International operation
- Local customer service

**Fair Play**

We interact with each other and customers in an open, honest manner.

- Sincerity
- Impartiality
- Positive reinforcement
- Constructive criticism

Larox's business operations are divided into solid/liquid separation and pinch valves. In these fields Larox helps a range of process industries save energy in an environmentally friendly way, simplify processes and improve the quality of end products. The main products include automatic pressure filters, vacuum filters, thickeners and pinch valves.

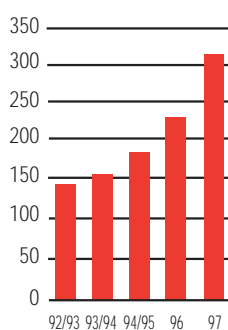
The Larox Group consists of six subsidiaries and eight sales offices in addition to the parent company, Larox Oy, headquartered in Lappeenranta, Finland. The number of employees in the Group is 281.

At present there are close to 550 Larox pressure filters and over 12,000 Larox valves in operation in more than 50 countries.

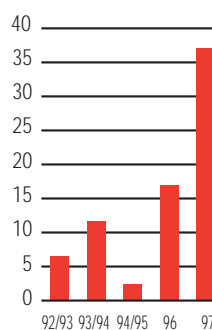
**Fiscal Year 1997**

(FIM 1,000)	1997	1996	Change, %
Net sales	310,519	233,120	33.2
Operating profit before depreciation	55,533	36,055	54.0
% of net sales	17.9	15.5	15.4
Operating profit after depreciation	43,157	24,415	76.8
% of net sales	13.9	10.5	32.4
Profit before extraordinary items, appropriations and taxes	37,075	16,993	118.2
Return on invested capital, %	27.4	15.8	73.4
Equity ratio, %	29.1	26.1	11.5
Balance sheet, total	239,594	175,179	36.8
% of net sales	77.2	75.2	2.7
Earnings per share	11.60	5.05	129.7
Investments	15,630	12,281	27.3
Average personnel	281	268	4.9
Net sales/person	1,105	870	27.0
Order backlog 31.12., FIM million	59	57	3.5

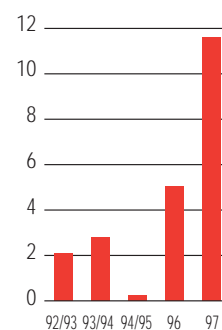
**Net sales 1992-1997, FIM million**



**Profit before extraordinary items, provisions and taxes 1992-1997, FIM million**



**Earnings per share 1992-1997, FIM**



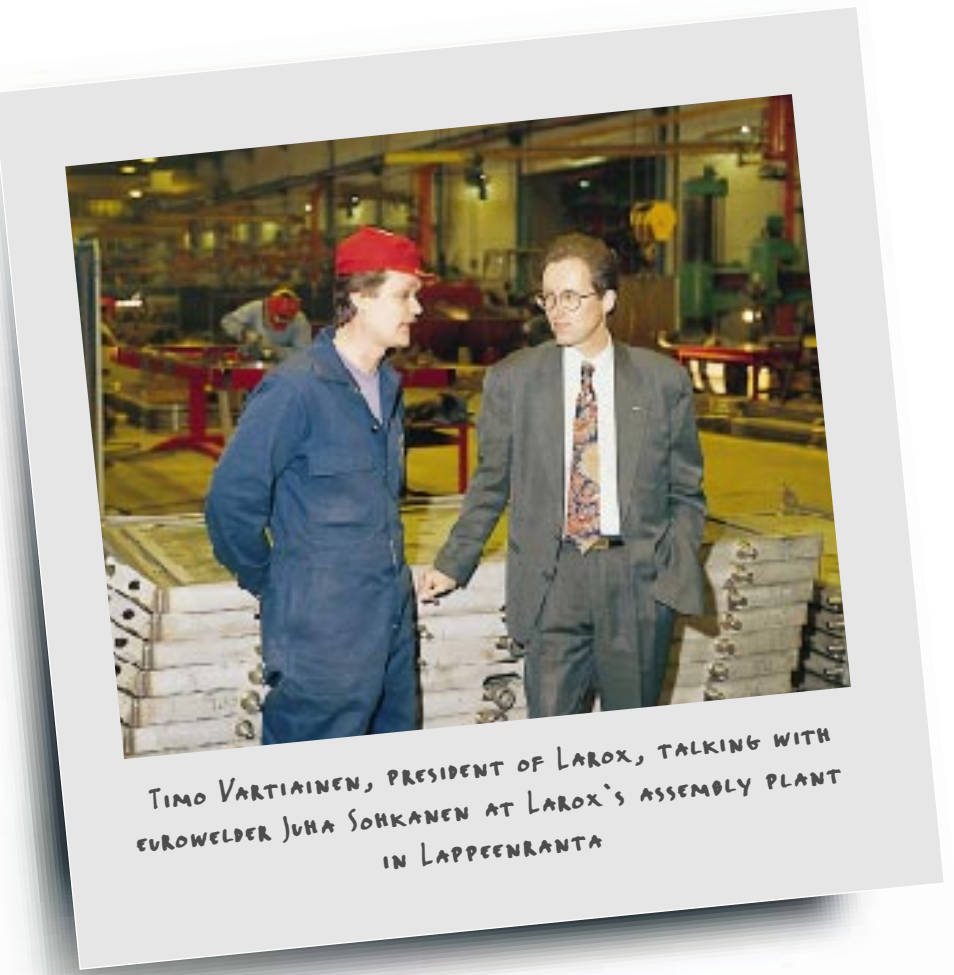
LAROX'S TWENTIETH YEAR OF OPERATION WAS SUCCESSFUL. THE COMPANY MET THE TARGETS IT HAD SET FOR PROFITABLE GROWTH IN 1997. NET PROFIT MORE THAN DOUBLED ON THE PREVIOUS YEAR TO FIM 30.8 MILLION AND NET SALES ROSE BY MORE THAN 33 PER CENT TO FIM 310 MILLION. THE RETURN ON INVESTED CAPITAL IMPROVED FROM THE PREVIOUS YEAR TO 27.4%. NET SALES PER EMPLOYEE GREW BY MORE THAN FIM ONE MILLION AND THE EQUITY RATIO ROSE TO 29.1 PER CENT.

Both of Larox's fields of business, solid/liquid separation and pinch valves, met the targets set for them. Concentrating on processes in which Larox's services bring customers very obvious benefits compared with traditional methods, has proved to be the correct decision for both fields of business.

#### Understanding Customer Needs

Larox's customers will face extremely tough challenges in the future as they consider environmental protection and the need to conserve energy at the same time as they seek to raise productivity. Customers are streamlining their production processes and at the same time are processing more complex materials. Larox has been and will continue to be involved when finding answers to these challenges through solid/liquid separation and pinch valve technology. We are very well placed for this if we react quickly to customer needs and the challenges they pose.

Larox's goal is to further increase its expertise in selected industrial processes. In support of this goal, Larox acquired a 20 per cent holding in an engineering company that focuses on starch processes. This holding



TIMO VARTIAINEN, PRESIDENT OF LAROX, TALKING WITH EUROWELDER JUHA SOHKANEN AT LAROX'S ASSEMBLY PLANT IN LAPPEENRANTA

increases Larox's knowhow and reinforces its competitiveness as an equipment supplier for starch processes worldwide.

Larox also strengthened its

organization during the year, taking on several new process experts and other experts in important fields. These new resources place us in an even better position to succeed.

The partnership started with the Chilean engineering company also opens attractive prospects. In a joint project we are together supplying the complete filtration plant for copper concentrate dewatering. The partnership takes advantage of Larox's knowhow as a supplier of processes and equipment, reinforced by the partner's project skills in turnkey deliveries.

### Profitable Growth is the Key

Larox's goal is to continue to grow in the next few years. An important objective for us is that growth must on no account take place at the expense of profitability. During the past three years our net sales have doubled and at the same time the net profit has grown 3.8 times.

During 1997 the positive effect of the dollar's exchange rate played a part in the encouraging improvement in Larox's growth and profitability. Developments in exchange rates and in particular the economic situation in Asia make for increased uncertainty about what will happen in 1998. Asia accounted for only five per cent of Larox's total sales in 1997, so the market situation in the region will only have indirect effects on Larox's growth objectives. These effects will be felt if the decline in demand in Asia results in a reduction in investments in other countries.

We must be able to compensate internally for rapid and surprising changes in the markets. For Larox this involves heavy investment in product

development and raising the efficiency of our operations. At the moment the services and solutions offered by Larox are competitive in terms of both their quality and the benefits they give.

### Maximum Efficiency in the Organization

The steps we have taken and initiated in the past few years to raise the efficiency of operations have brought results. The net profit for 1997 is a clear indication of how the workforce at Larox has committed itself wholeheartedly to meeting common objectives. The company paid a total of FIM 3.8 million in bonuses to personnel in different countries in recognition of last year's profits and achievements. This was the equivalent of nearly one month's extra pay for most Larox employees.

During the current year we shall continue the projects we have started to raise the efficiency of operations. Our objective is to raise the efficiency of our sales and production, as well as of other parts of our operations.

During the past year we reorganized operations in the CIS countries and increased our resources in these countries. We believe this will bring the first visible results during the current year. We decided to close down the joint venture company in China and concentrate production in Lappeenranta. The reorganization has started with the decision to increase local service and sales personnel in China.

Following the investments in Larox's production in the last few years, now in

effective use, no major investments are needed in the near future. With the programs we have started we aim to achieve considerable improvements in production efficiency in terms of through-put times and costs.

Larox's financial resources have improved significantly thanks to the enhanced financial performance in the

TIMO  
VARTIAINEN



last two years. We are making clear progress towards our targets. We wish to grow profitably at an average rate of 20 per cent per year. We have targets of 20 per cent for the return on invested capital and 40 per cent for our equity ratio. We believe we shall achieve these objectives in the next few years.

The quoted price for Larox B-share improved during 1997 against the HEX and OTC indexes on the Helsinki Stock Exchange. Larox's positive prospects for the future and the dividend policy it has followed will make it possible for the share price to continue to improve in the coming years.

I would like to thank our customers, partners, Larox employees and shareholders for their contribution to this past, successful year.

Timo Vartiainen

LAROX OY, THE PARENT COMPANY OF THE LAROX GROUP, IS HEADQUARTERED IN LAPPEENRANTA, FINLAND. THE MAIN PRODUCTION FACILITIES FOR LAROX PRESSURE FILTERS AND LAROX FLOWSYS PINCH VALVES ARE ALSO LOCATED IN LAPPEENRANTA. THE LAROX GROUP CONSISTS OF SIX SUBSIDIARIES AND EIGHT SALES OFFICES. THE NUMBER OF EMPLOYEES IN THE GROUP IN 1997 WAS 281.



#### Application Consultancy

Larox specialists are experts in a wide range of industrial processes. We believe that thorough knowledge of our customer's applications is the key to achieving the best solutions.

#### Testing

Larox places great emphasis on testing, proving that its solutions represent a sound investment in state-of-the-art solid/liquid separation and pinch valve technology.





### Research and Development

As part of Larox's long-standing commitment to R&D investment, Larox supports a new professorship in solid/liquid separation at the Lappeenranta University of Technology. The professorship offers Finland's Lappeenranta University of Technology the opportunity to become a leading university in solid/liquid separation education and research in Finland and abroad.



### Production

Larox is a pioneer in welding quality assurance. As the first manufacturer of steel constructions in Finland, Larox Oy has been granted a welding quality certificate based on EN 729-2. At Larox EN 729-2 is part of the ISO 9001 quality system. As a by-product of the quality project Larox also has one European welding engineer (EWE), European welding technician (EWT) and four Eurowelders (EW).

### After Sales Support

Larox monitors your equipment long after start-up and addresses your changing process needs. Larox Service guarantees complete back-up: detailed operating and maintenance instructions, training, professional start-up services and technical assistance.



LAROX SOLUTIONS MINIMIZE LOSS RATES AND GEAR CONCENTRATORS AND METALLURGICAL PLANTS TOWARD OPTIMAL OUTPUT AND PROFIT. WE GUARANTEE THESE RESULTS BY USING THE LATEST EQUIPMENT AND MATERIAL TECHNOLOGY, BY MAKING R&D A CONTINUOUS PROCESS, AND BY PUTTING THE CUSTOMER AT THE CENTRE OF WHAT WE DO - FROM APPLICATION PLANNING TO DELIVERY OF THE FINAL SOLUTION.



SOUTH AMERICA STEALS THE HEADLINES



By the end of 1997 more than 550 Larox pressure filters were operating in filtering and washing applications around the world. Over 300 of these were applications for ore dressing, extraction and refining.

Focusing on highly efficient, dependable solutions has favored Larox's mining and metallurgical business. Our clients continue to value the time-tested benefits of Larox technology: consistent product quality, predictable moisture content, and increased plant throughput for both fine and coarse concentrate processing.

#### South America Steals the Headlines

The newsmaker of 1997 was South America, one of our fastest growing markets. This was evidenced by such developments as the new partnership with CODELCO Chile, the world's largest copper producer. As a result of this relationship, Larox is in the process of fulfilling several major Larox Power PF orders for CODELCO Chile's Andina and Chuquicamata dewatering plants.

Other major orders from the South American mining industry included one Larox Power PF unit for a Peruvian customer and a repeat order for two Larox Power PF units for La Minera Escondida in Chile.

In addition to South America, Larox further strengthened its foothold in the mining industries of Australia and North America.

Among metallurgical plants, there is great market potential on all continents. Recent orders from Brazil, Japan and Finland provide clear evidence of these opportunities.

#### Positioned for the Future

In many parts of the world, the desire to increase living standards is boosting the markets related to mining, metallurgy and minerals processing. Competition in solid/liquid separation, however, is intensifying, and the future requirements for mining and metallurgical production processes will be challenging.

Several major trends in processing bear this out. For example, larger units will be necessary to decrease investment and recurrent costs. Concentrates will be ground finer since the best ore bodies have already been exploited. Mines and metallurgical plants will have closed circuits to eliminate waste. Lastly, the

number and knowledge of staff in the industry will change radically, with expertise being concentrated on the core business of the plant. This will cause more maintenance to be outsourced, increasing the need for a self-controlling unit.

Larox pressure filtration is already well positioned to address these trends. We therefore expect Larox pressure filtration technology –

JAAKKO-JUHANI  
HELSTO



backed-up with professional application consulting – to gain increasing recognition as the most attractive process option.

CHEMICAL AND INDUSTRIAL

LAROX'S FIRST DELIVERIES WERE TO THE CHEMICAL INDUSTRY TWENTY YEARS AGO. SINCE THEN LAROX TECHNOLOGY HAS BECOME KNOWN FOR ITS EXCEPTIONAL PROCESS EFFICIENCY, HIGH CAPACITY, QUALITY OF THE PROCESS RESULT, AND LOWER ENVIRONMENTAL IMPACT. THIS FORMULA FOR PROFITABLE, CLEANER PRODUCTION IS MORE RELEVANT TODAY THAN EVER BEFORE.



STARCH PROCESSING GETS EFFICIENT

Since 1990 Larox has sold 19 pressure filters for starch dewatering, including 14 to North America, three to Europe and two to Asia. During the same period, an increasing number of companies in bulk chemicals processing have found the Larox solution attractive.

### Starch Processing Gets Efficient

Starch demand is rising throughout the world. This is particularly true in Asia, where new market conditions are calling for a greater number of high-quality starches. To perform profitably in this environment, the industry is seeking optimized production processes – and it is here that Larox solutions clearly outperform other methods.

The residual moisture of starch dewatered with a Larox pressure filter is generally 10% lower than with a centrifuge. The lower moisture content increases flash dryer throughput and overall plant capacity. A Larox pressure filter requires only approximately 10% of the installed power of conventional centrifuges. In addition, two washing centrifuges and one dewatering centrifuge can be replaced by one Larox unit, greatly simplifying the entire process.

### Titanium Dioxide Needs Room to Grow

World production of titanium dioxide is approximately four million tons annually. By the turn of the century

demand is expected to grow to five million tons and could approach six million tons by 2005. The trend has led several titanium dioxide producers to boost plant capacities through debottlenecking schemes or by expanding existing facilities.

The industry is finding pressure filtration the most effective processing method for overcoming the capacity challenge. Larox pressure filtration technology offers the benefits that titanium dioxide producers need to increase their profits, lower energy consumption, and boost product quality.

The cake washing method is an integral part of the plant capacity equation. Compared to conventional solutions, Larox pressure filters decrease wash liquid consumption by employing a displacement washing method. This procedure requires significantly less wash water to achieve the same washing result.

### Environmental Applications on the Move

Throughout the world, both legislation and market forces are making environmental questions increasingly important to chemical producers. For a wide range of applications, Larox offers a solution that minimizes waste while turning waste into a sellable product.

In addition, a growing number of end uses are being found for enzymes produced with biotechnological methods. These processes have

grown in importance to pharmaceuticals as well as other technical applications. With efficient production and recovery technology, Larox continues to be the preferred solution of this market segment.

REINER  
WEIDNER



PREDICTING THE NEEDS OF CUSTOMERS AND DELIVERING TIMELY, EXPERT SUPPORT ARE THE KEY FACTORS BEHIND THE SUCCESS OF LAROX SERVICE. LAROX SERVICE GUARANTEES COMPLETE BACK-UP: DETAILED OPERATING AND MAINTENANCE INSTRUCTIONS, TRAINING, PROFESSIONAL START-UP SERVICES, TECHNICAL ASSISTANCE AND SPARE PARTS SERVICE.



IN 12 COUNTRIES LAROX CUSTOMERS ARE SERVED BY LOCAL SERVICE PERSONNEL

In 1997 Larox Service became an independent global profit center. Although the majority of the group's net sales comes from spare part services, other services like training and technical assistance possess the highest growth potential.

Larox has built this comprehensive organization with the help of its own subsidiaries and sales offices in 12 countries on six continents. In those countries the customer is served by local Larox personnel.

#### Comprehensive Support Worldwide

An increasing number of Larox customers are choosing to cut costs

by outsourcing certain training, service and maintenance functions. The trend to outsource the service operations to Larox is most evident in fields that traditionally have a limited number of production personnel.

To help address the increasing demand for ongoing support, Larox Service has instituted a service contract program. The contracts emphasize preventive maintenance, pre-scheduled equipment performance check-ups,

and emergency support. Our preventive approach decreases the risk of unexpected breakdowns, which increases the customer's operational efficiency.

Larox service contract customers receive two to four mechanical and operational analyses of their equipment annually. Since slurries and operating conditions may change, Larox service engineers study the functioning of the customer's Larox equipment as well as the filtration process, providing professional consultation and recommendations. A comprehensive report follows each analysis, including recommendations and instructions for preventive main-

tenance and operational guidelines.

During service calls, the Larox service engineer delivers on-site training to the customer's operation and maintenance personnel. Larox service contracts also offer lower service charges than the standard fees for consultation and visits. Customers also learn of upcoming developments and improvements in Larox technology and enjoy the benefit of pre-scheduled service calls. Service contract customers also receive a 24-hour service number providing emergency and spare parts support.

Larox Service has also launched an internal training plan, which emphasizes technical and process-related consulting services. An important objective was to guarantee customers a single source for support and consultation. This is being facilitated by the Account Manager System, where every customer is given a designated support person in the Larox Service organization. We believe this approach will provide the most efficient and effective means to channel support, assistance, communication and the latest Larox expertise to the customer.

KARI SUNINEN



LAROX FLOWSYS OY HAS SPECIALIZED IN HELPING CUSTOMERS SOLVE THE PROBLEMS THEY FACE WITH VALVES FOR THE CHALLENGING CONDITIONS IN PROCESS INDUSTRIES. THE MINING AND MINERAL INDUSTRIES PROVED TO BE THE STRONGEST MARKET AREAS IN 1997.

The goal for the next few years is to raise the market share of Larox valves especially in the paper, chemical and energy industries. The company is constantly looking for new applications for Larox valves and is

JUKKA  
AALTONEN



also aiming to boost sales by expanding the range of applications among existing customers.

One of Larox Flowsys Oy's main objectives for 1997 was to build up its quality system and obtain quality certification. In fact Larox Flowsys Oy was awarded an ISO 9001 quality certificate towards the end of 1997. The quality system places the company in a better position to meet customer expectations. The system also helps improve the competitiveness of Larox valves as operations become more efficient in accordance with the requirements of the quality system. In addition to developing its quality system, Larox Flowsys Oy has also

prepared for growth in sales by upgrading its operations management system.

#### Reorganization of the Sales Network

The sales network for Larox valves covered more than 40 countries in 1997. The expansion of market areas and the reorganization of the network are among the main objectives for 1998. In future the agents will have more responsibility for the goals set by Larox Flowsys Oy, so that the company can meet its growth objectives.

#### R&D Emphasis on Flow Technology

Particular emphasis will be placed on research and development in the next few years. The company will work closely with customers to develop existing products. Using new materials it is possible to expand the areas of application for Larox valves and so provide greater help in solving the problems of customers. Product development in the field of flow technology has proved particularly successful and we shall

continue this work with Lappeenranta University of Technology.

#### Favorable Market Outlook

Larox Flowsys Oy was very active in building up its operations in all fields in 1997. As well as these efforts by the company, the economic situation in the main market areas also looks very favorable, so the company looks well placed to achieve considerable growth in 1998.



THE GOAL IS TO RAISE THE MARKET SHARE IN PAPER, CHEMICAL AND ENERGY INDUSTRIES



In twenty years Larox has grown from a company with net sales of ten million Finnish marks into a competitive global player.

#### Beginning: Modest but Brave

Larox was founded in 1977 by Mr. Nuutti Vartiainen. The business operated on the premises of the former Lappeenranta Konepaja (Lappeenranta Workshop). The most important difference between Larox and the machine workshop was Larox's initial intention to export its own products. The basic idea of the company was to produce energy saving and environmentally friendly solutions for the concentration, classification and filtration processes of the mining industry.

In its first complete year of operation Larox achieved net sales of 13 million Finnish marks. In the same year 17 representative agreements were signed in different countries. In the meantime Larox made substantial investments in research and development as well as in developing its quotation processes. As a result, the field's first comprehensive price lists were introduced.

New products played a major role in production as early as the second year of Larox. An order backlog developed quickly despite the company's small size, which built confidence among the customers and the financiers. Mr. Vartiainen's solid background and personal customer contacts in the mining industry contributed to the growth of Larox. During the first three years the

company's net sales nearly doubled to 22 million in 1980. This was achieved with a staff of 84 employees.

#### New Customer Groups in the 1980s

In the early 1980s the company's target group was expanded from mining to include other areas of the process industry as well. In this way Larox established a foothold in chemicals, foods, pharmaceuticals and other process industries.

In 1986 the company's efforts were recognized when Mr. Nuutti Vartiainen received Finland's Presidential Export Award from President Koivisto. By that time the net sales had reached 62 million Finnish marks, with exports representing over 80 per cent. Larox owned companies in six countries and had committed agents in 15. In 1988 Larox went public. The following year Larox received a national entrepreneur's award.

Considering its size Larox has always invested strongly in research and development. Throughout its growth about 5-15% of the company's net sales were devoted to R&D, especially to new product development. And the results speak for themselves. In the late 1980s the company introduced a mid-size hydraulic pressure filter. At the same time Larox began to develop the Larox Power PF, the largest filter in size and capacity of the product family. The Larox Power PF was introduced in the early 1990s.

#### Hand-over to the Next Generation in 1990

The hand-over to the next generation played a vital role in the organized building of the future. In 1990 Timo Vartiainen took over the operative management of the company while his father, Nuutti, continued as Chairman of the Board. The net sales had grown to 115 million Finnish marks. Larox employed 192 people, including 153 in Lappeenranta.

To strengthen the development of the valve business, Larox Flowsys Oy was founded in 1993 as a subsidiary of Larox Oy. This enabled the valve marketing to expand and be directed toward new target groups; expanding the product line and applications was possible through more effective research and development; and the sales network could be enlarged. Larox Flowsys Oy concentrated on pinch valves, placing special emphasis on their operation in difficult conditions.

In the same year Larox's quality processes reached the level required for the ISO 9001 quality certificate.

The year 1994 saw the introduction of the smallest filter of the product family, the Larox Minimax PF. Net sales reached 155 million Finnish marks and 181 million Finnish marks the following year.

The share of exports remained stable at about 90 per cent. In addition to the headquarters in Lappeenranta, Larox Group includes two other Finnish and 12 foreign units. In 1995 the number of personnel in

the Group was 257, representing 14 nationalities.

### Investing in Research and Development

Worldwide operations require continuous product development and maintaining the best knowledge in the business. The new Larox Research Centre, inaugurated in 1995, is Larox's latest investment in providing superior service to its customers. The FIM 4 million research centre facilities are designed to perform research for the customer, mostly test filtration with customers' process slurries, and to enable continuous research work to further develop Larox products. The Larox Research Centre serves both the solid/liquid separation business of Larox Oy and the valve business of Larox Flowsys Oy.

### ...Not to Forget Production

A recent major investment made by the Larox Group was a FIM 3.5 million welding robotics station. With robotics Larox is able to balance production peaks and shorten manufacturing turnaround times. The investment is part of a research project on the use of computer simulation in the delivery process of a robotics station, carried out in cooperation with the Lappeenranta University of Technology.

Larox has also invested in the professional skills of its personnel. In February 1997 the first Larox welders were awarded European

Welder certificates, and later the same year Larox received the Occupational Safety Award of Kymi Province.

### Specializing Supports the Growth of the 20-year-old

Larox has succeeded in meeting its objective of profitable growth. The Group net sales has grown to over FIM 310 million, and the return on invested capital has increased to 27.4%. Dividing the operations between solid/liquid separation and pinch valves has greatly strengthened the competitive posture of both businesses in international markets.

In solid/liquid separation Larox has concentrated on customer processes in which it has unmatched experience and the world's best solutions for end-product quality and total profitability.

In recent years the pinch valve business has become thoroughly competitive in its marketing, production and products. Today Larox's goal is to concentrate on customer processes in which its technology far exceeds the performance of other valve solutions.

In the last few years Larox key technology and equipment has been applied in several new industries and in continually expanding markets. Concentrating on customer needs, the new Larox organization and the company's core know-how has enabled positive development. In 1997 the Larox Group consisted of six subsidiaries and eight sales offices in addition to the parent company.

### Customer Needs Have to be Known

Larox's future success will rest on how well the company understands the needs and success factors of its customers. Supporting their performance with increasingly better process solutions and equipment will remain the cornerstone of Larox's competitiveness. All this will demand a profound focus in our top fields of expertise.

Growth targets cannot be reached only through an annual market growth of three to five percent. Faster dynamic growth can be obtained thanks to the benefits of Larox solutions and the large market potential.

The selected processes in the mining and chemical industries have huge market potentials worldwide. In addition, Larox customers are world leaders in their own fields, which presents further opportunities for Larox to grow with the customers' successes.

The key applications also have large potential in fields where improvement of process effectiveness and measures for environmental protection are in their initial phases. Market areas of this kind include the CIS countries and several countries in Eastern Europe, Africa, Asia and South America. Larox is in the initial phases of operation in these countries and the expectations for future growth are high.

## LAROX BOARD OF DIRECTORS

" FOR LAROX, THE FISCAL YEAR 1 JANUARY - 31 DECEMBER 1997 WAS AN EXTREMELY GOOD YEAR. THE LAROX GROUP EXCEEDED THE TARGETS IT SET FOR 1997. IT SURPASSED THE FIGURES FORECASTED IN ITS INTERIM REPORT FOR GROWTH IN NET SALES AND IMPROVED PROFITS. THE GROUP'S NET SALES GREW BY 33.2% ON THE PREVIOUS YEAR TO FIM 310.5 MILLION. "

- BOARD OF DIRECTORS' REPORT -



FROM THE LEFT: TIMO VARTIAINEN, TEPPU TABERMAN, TOIVO MATTI KARPPANEN, NUUTTI VARTIAINEN, KATARIINA AALTONEN

Larox Oy  
Board of Directors

Timo Vartiainen, b.1955  
President

Teppo Taberman, b.1944  
Member of the Board

Toivo Matti Karppanen, b.1956  
Executive Vice President  
Director, Solid/Liquid  
Separation

Nuutti Vartiainen, b.1925  
Chairman of the Board

Katariina Aaltonen, b.1959  
Executive Vice President  
Director, Finance and  
Administration

FIELDS OF BUSINESS

Solid/Liquid Separation

Toivo Matti Karppanen

Mining and Metallurgy

Jaakko-Juhani Helsto

Chemical and Industrial

Reiner Weidner

Larox Service

Kari Suninen

Projects & Engineering

Juhana Ylikojola

Marketing

Kaisa Nurminen

SERVICE UNIT MANAGEMENT

Production

Pentti Puhakka

Research and Development

Jukka Koskela

Corporate Service

Katariina Aaltonen

Pinch Valves

Jukka Aaltonen

Larox Flowsys Oy, Finland

Production and Product Development

Jarmo Partanen

Finance and Administration

Liisa Keinänen

SALES AREA MANAGEMENT

Pekka Kauranen

Africa

Patrick Jay

Larox Southern Africa (Pty) Ltd.,  
South Africa

Asia

Pentti Köyljärvi

Larox Oy, Finland

Australia

Lloyd Holliday

Larox Pty Ltd., Australia

Larox Pty W.A. Office, Australia

Europe

Ian Townsend

Larox Europe GmbH, Germany

Larox UK, Great Britain

Larox Poland Ltd., Poland

Nordic, Baltic and CIS countries

Jyrki Kuukka

Larox Oy, Finland

North America

Steven Walters

Larox Inc., United States

Larox Inc., Phoenix, United States

Larox Canada, Canada

Larox Mexico, Mexico

South America

Aquiles Vergara

Larox Chile S.A., Chile

Larox Chile S.A., Antofagasta, Chile

Larox Sucursal Peru, Peru

Larox Oy, parent company

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Subsidiaries and Sales Offices

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**Separates the best from the rest**

FINANCIAL STATEMENTS

1997

**LAROX**

**Separates the best from the rest**



# LAROX GROUP

FINANCIAL STATEMENTS FOR THE PERIOD  
1 JANUARY - 31 DECEMBER, 1997

## Board of Directors' Report

### Overview

For Larox, the fiscal year 1 January - 31 December 1997 was an extremely good year. The Larox Group exceeded the targets it set for 1997. It surpassed the figures forecasted in its interim report for growth in net sales and improved profits. The Group's net sales grew by 33.2% on the previous year to FIM 310.5 million. Net sales per employee rose from FIM 870,000 to FIM 1,105,000. The operating profit before depreciation and the operating profit improved and the Group's profits before extraordinary items, appropriations and taxes rose to FIM 37.1 million (FIM 17.0 million in the previous year). The Group's profitability, measured in terms of return on invested capital, improved to 27.4% (15.8%). The equity ratio rose from 26.1% to 29.1%.

### Business Operation

Larox's chosen strategy of concentrating on a limited number of industrial sectors has proved to be correct. Focusing operations brought results particularly in the mining and food industries. Both of Larox's fields of business - solid/liquid separation and pinch valves - met their targets.

As in previous years, nearly 90% of net sales came from outside Finland. Net sales were distributed as follows: North, Central and South America 45.9%, Europe and Africa 31.1%, and Asia and Australia 23.0%. The Group reinforced its position particularly in South America and in Europe.

At the end of the fiscal year, the Group's order backlog stood at FIM 59 (57) million.

### Changes in Corporate Structure

Minor changes took place in the corporate structure.

Konstruktioinsinöörit Oy, a subsidiary 100% owned by Larox Oy that was responsible for product development for solid/liquid separation, was merged with the parent company Larox Oy at the beginning of 1997.

The operation of the associated company in China failed to match expectations and made a loss. At the end of the fiscal year it was decided to close down the company. Larox's share of the loss for 1997, FIM 0.6 million, is recorded in the income statement. A total of FIM 3.3 million has been written off under extraordinary items and included in the net profit for the period for the balance sheet value of the jointly owned manufacturing company and the costs relating to the closure.

As the fiscal year was closing the company acquired a 20% holding in Statech Engineering Oy, a Finnish company with expertise in starch production. Statech Engineering Oy sells and designs starch production processes to international customers, and supplies them on a turnkey basis. The acquisition will reinforce Larox's business operations in the starch industry. No profits from the associated company have been included in the Group's profits for the fiscal year.

### Profits and Profitability

The Group's profitability improved on the previous year thanks to growth in volume and more efficient operation. Also the strengthening of the US dollar helped improve the Group's profitability by increasing its competitive position in international markets.

The Group had an operating profit

before depreciation of FIM 55.5 (36.1) million, which was 17.9% (15.5%) of net sales. The Group made depreciations of FIM 12.4 (11.6) million, which represented 4.0% of net sales. The operating profit was FIM 43.2 (24.4) million, or 13.9% (10.5%) of net sales.

The profit before extraordinary items, appropriations and taxes was FIM 37.1 (17.0) million, which was 11.9% (7.3%) of net sales. Taxes for the period were FIM 6.3 (3.6) million. The net profit for the period was FIM 27.3 (5.2) million.

The company's return on shareholders' equity improved to 54.4% (31.9%). Return on invested capital was 27.4% (15.8%). Earnings per share rose from FIM 5.05 to FIM 11.60.

From the very start of the 1990's the Group has had the objective of lightening the Group's balance sheet. The reduction in financing costs and improvement in solvency show how the Group has met this objective.

### Financing and Financial Position

The Group's financial position improved during the year.

Equity ratio rose to 29.1% from 26.1% the previous year. Net liabilities were equivalent to 32.9% of net sales. Net financing costs also fell, from FIM 7.4 million to FIM 6.1 million. Net financing costs represented 2.0% (3.2%) of net sales. Liquidity was satisfactory during the year. At the end of the period, accounts receivable stood at FIM 98.4 million, an increase of FIM 58.0 million on the previous year. The reason for the increase is that deliveries and invoicing accrued in the last months of the year. Accounts receivable do not contain any exceptional credit risks.



As a result of the increase in accounts receivable, short term liabilities grew correspondingly because of the greater need for working capital.

### Investments

The Group's investments totalled FIM 15.6 (12.3) million. They were normal replacement investments, apart from the purchase of Larox Australia's business premises. A small investment to expand the offices at Lappeenranta in Finland is also in progress. Existing production capacity is sufficient to meet growing demand without any major investments in the near future.

### Research and Development

Larox' contribution to research, equipment and process development as well as test operations was about FIM 15 million.

Larox Oy signed an agreement to fund a professorship in solid/liquid separation with the Lappeenranta University of Technology. The funding is worth FIM 1.5 million.

### Personnel

The Group had on average 281 (268) employees and the parent company had 180 (171). Salaries and wages paid by the Group totalled FIM 55.1 (44.4) million, of which FIM 3.8 (2.3) million were commissions on profit. Salaries paid to the presidents of the parent and subsidiary companies and the members of the Board totalled FIM 5.3 (4.2) million, of which FIM 1.3 (0.7) million were commissions on profit.

### Share Issue Authorizations

At the annual shareholders' meeting of Larox Oy on 19 March 1997, it was decided to issue to management bonds with warrants to a maximum of FIM 60,000, and FIM 49,000

was subscribed during the subscription period. In consequence of the subscriptions, share capital can be raised by a maximum of 49,000 shares and FIM 490,000. The subscription period for the shares is 19 February - 4 March 2001. In addition to the bonds with warrants the company's Board of Directors has no other authorization to issue shares from the annual shareholders' meeting.

### Prospects

The Group's financial performance is expected to improve in the near future. In solid/liquid separation, focusing on process solutions that require special knowhow improves customer service, which in turn increases the company's competitive position in the world markets. The processes in the mining, chemical and food industries chosen by Larox have great market potential. The benefits of the systems and products offered by Larox to its customers and the large size of the markets place the company in a good position to reach the target it has set itself of average annual growth of 20%. The importance of energy-saving solutions that are environmentally friendly is constantly growing. New market areas, where concern for the environment is just starting to have an effect, open up new opportunities for Larox.

The timing of investments by customers causes some uncertainty about developments in the near future, but in the long term the effects of this will even out as volumes increase. The economic situation in Asia and developments with exchange rates also bring a degree of uncertainty to operations. On its own Asia does not pose a very big risk, but the risk would become bigger if

the uncertainty spreads to other parts of the world and process industries postpone their investments.

Larox's valve operations have also made encouraging progress. They aim to concentrate on customer processes in which their valves are competitive and give other clear benefits.

Larox has achieved average annual growth of 20% in the past five years, which requires the company to focus on maintaining the efficiency of its operations and continuing to raise productivity. Growth by itself is not enough; the company will pay particular attention to profitability and solvency.

The Group's goal is to be a reliable, customer-oriented company with worldwide, high quality operations and leading expertise in its sector.

I N C O M E   S T A T E M E N T

(FIM 1000)	Group		Larox Oy	
	1.1.-31.12.1997	1.1.-31.12.1996	1.1.-31.12.1997	1.1.-31.12.1996
Net sales	<b>310,519</b>	233,120	<b>208,954</b>	165,848
Increase in stocks of finished goods	<b>-3,770</b>	-8,062	<b>-2,875</b>	-8,818
Production for own use	<b>-744</b>	4,199	<b>-744</b>	4,199
Other operating income	<b>340</b>	576	<b>1,038</b>	1,439
<b>Costs</b>				
Material and supplies				
Purchases during the fiscal year	<b>123,986</b>	85,992	<b>79,527</b>	60,214
Change in inventories	<b>-6,056</b>	379	<b>-4,853</b>	1,199
External charges	<b>3,143</b>	5,002	<b>2,899</b>	4,946
Rents	<b>2,054</b>	1,651	<b>438</b>	331
Staff costs	<b>67,660</b>	56,181	<b>41,157</b>	34,255
Share of associated companies' loss	<b>601</b>	752		
Other costs	<b>59,424</b>	43,821	<b>36,627</b>	30,538
	<b>250,812</b>	193,778	<b>155,795</b>	131,483
Operating profit before depreciation	<b>55,533</b>	36,055	<b>50,578</b>	31,185
Depreciation				
Depreciation on fixed assets and other capitalized expenditure	<b>11,888</b>	11,152	<b>8,788</b>	8,913
Depreciation of consolidated assets	<b>488</b>	488		
	<b>12,376</b>	11,640	<b>8,788</b>	8,913
Operating profit	<b>43,157</b>	24,415	<b>41,790</b>	22,272
Financial income and expense				
Dividend income	<b>115</b>	-	<b>159</b>	7,324
Interest income on long-term investments	<b>78</b>	363	<b>731</b>	1,224
Exchange differences	<b>718</b>	191	<b>- 511</b>	287
Interest expenses	<b>- 6,125</b>	- 7,320	<b>- 5,636</b>	- 6,680
Other financial income and charges	<b>- 868</b>	-656	<b>- 560</b>	- 781
	<b>- 6,082</b>	-7,422	<b>- 5,817</b>	1,374
Profit before extraordinary items	<b>37,075</b>	16,993	<b>35,973</b>	23,646
Extraordinary income and charges				
Extraordinary income	-	-	-	-
Extraordinary charges	<b>3,307</b>	8,181	<b>19,568</b>	8,181
	<b>3,307</b>	8,181	<b>19,568</b>	8,181
Profit before provision and income taxes	<b>33,768</b>	8,812	<b>16,405</b>	15,465
Change in accelerated depreciation	-	-	<b>227</b>	-2,230
Change in voluntary provisions	-	-	<b>1,943</b>	4,507
Minority share	<b>- 137</b>	- 96	-	-
Direct taxes	<b>6,298</b>	3,566	<b>5,371</b>	3,349
Net profit for the period	<b>27,333</b>	5,150	<b>13,204</b>	14,393

BALANCE SHEET

(FIM 1000)	Group 31.12.1997	31.12.1996	Larox Oy 31.12.1997	31.12.1996
<b>ASSETS</b>				
Fixed assets and other non-current investments				
Intangible assets				
Intangible rights	4,288	4,258	502	476
Consolidated assets	244	733		
Other capitalized expenditure	3,640	3,942	2,982	3,533
Advance payments	-	-	-	-
	<b>8,172</b>	8,933	<b>3,484</b>	4,009
Tangible assets				
Land and water areas	11,966	8,848	6,589	6,589
Buildings	36,036	35,785	32,526	33,187
Machinery and equipment	22,180	22,228	13,796	14,861
Other tangible assets	349	254	191	46
Paid advances and construction in progress	1,052	-	1,021	-
	<b>71,583</b>	67,115	<b>54,123</b>	54,683
Financial assets				
Subsidiary shares			14,796	14,512
Other bonds and shares	522	3,196	522	4,916
Other long-term investments	990	1,242	3,122	4,271
	<b>1,512</b>	4,438	<b>18,440</b>	23,699
Valuation items	-	1,265	-	1,844
Current assets				
Inventories				
Raw materials and consumables	25,468	23,785	22,092	17,239
Work in progress	1,829	3,054	2,142	3,040
Finished goods	20,483	15,833	1,016	2,993
Other inventories	1,866	3,337	-	-
Advance payments	-	2	-	-
	<b>49,646</b>	46,011	<b>25,250</b>	23,272
Receivables				
Trade receivables	98,392	40,388	84,527	33,474
Loan receivables	407	3	15,302	23,751
Prepaid expenses and accrued income	2,219	3,283	1,488	2,509
Other receivables	3,882	759	2,913	270
	<b>104,900</b>	44,433	<b>104,230</b>	60,004
Cash in hand and at banks	3,781	2,984	285	464
<b>Total assets</b>	<b>239,594</b>	175,179	<b>205,812</b>	167,975

(FIM 1000)	31.12.1997	Group 31.12.1996	Larox Oy 31.12.1997	31.12.1996
<b>EQUITY AND LIABILITIES</b>				
Equity				
Restricted equity				
Shareholders' equity				
Share capital	<b>26,411</b>	26,411	<b>26,411</b>	26,411
Reserve fund	<b>64</b>	64	<b>64</b>	64
Revaluation fund	<b>448</b>	448	<b>448</b>	448
	<b>26,923</b>	26,923	<b>26,923</b>	26,923
Non-restricted				
Retained profits	<b>12,036</b>	9,993	<b>11,450</b>	2,075
Net profit for the period	<b>27,333</b>	5,150	<b>13,204</b>	14,393
	<b>39,369</b>	15,143	<b>24,654</b>	16,468
Minority share	<b>2,430</b>	2,301	-	-
Provisions				
Accelerated overdepreciation	-	-	<b>5,779</b>	6,005
Voluntary provisions				
Interim period provisions	-	-	-	1,943
Obligatory provisions				
Guarantee provision	<b>836</b>	663	<b>836</b>	663
Creditors				
Non-current				
Loans from credit institutions	<b>37,025</b>	39,864	<b>36,535</b>	38,715
Pension loans	<b>10,126</b>	10,889	<b>10,126</b>	10,888
Deferred income taxes	<b>1,705</b>	2,308	-	-
Other non-current liabilities	<b>2,794</b>	1,117	<b>4,719</b>	713
	<b>51,650</b>	54,178	<b>51,380</b>	50,316
Current				
Loans from credit institutions	<b>23,083</b>	19,784	<b>17,591</b>	15,532
Pension loans	<b>762</b>	820	<b>762</b>	820
Advances received	<b>3,699</b>	5,073	<b>5,960</b>	3,542
Trade payables	<b>35,363</b>	8,613	<b>20,791</b>	6,949
Notes payable	<b>28,615</b>	26,460	<b>30,838</b>	25,960
Accrued liabilities and deferred income	<b>23,463</b>	14,525	<b>18,203</b>	12,715
Other current liabilities	<b>3,401</b>	696	<b>2,095</b>	139
	<b>118,386</b>	75,971	<b>96,240</b>	65,657
Total equity and liabilities	<b>239,594</b>	175,179	<b>205,812</b>	167,975

SOURCE AND APPLICATION OF FUNDS

(FIM 1000)	31.12.1997	Group 31.12.1996	31.12.1997	Larox Oy 31.12.1996
Source of funds				
Income				
Net profit	27,470	5,246	13,204	14,393
Depreciations	12,376	11,640	8,788	8,913
Share of associated companies' result	601	752	-	-
Change in voluntary provisions	-	-	- 2,170	-2,277
Extraordinary items	3,307	8,181	19,178	8,181
<b>Total income</b>	<b>43,754</b>	<b>25,819</b>	<b>39,000</b>	<b>29,210</b>
Non-current financial assets	-	206	-	-
Sales of fixed assets	488	1,903	1,406	80
Increase in long-term loans	40,233	32,722	40,233	32,722
Change in valuation items	-	1,325	-	68
Share issue	-	-	-	-
	<b>84,475</b>	<b>61,975</b>	<b>80,639</b>	<b>62,080</b>
Application of funds				
Non-current financial assets	-	1,149	-	8,020
Investments	14,385	12,281	6,975	5,597
Decrease in long-term loans	39,521	39,559	37,168	42,549
Dividends	5,018	2,641	5,018	2,641
Write-off of subsidiary's receivables	-	-	14,209	-
	<b>58,924</b>	<b>55,630</b>	<b>63,370</b>	<b>58,807</b>
Change in net working capital	25,551	2,146	17,269	-926
Production for own use*	-	4,199	-	4,199
	<b>84,475</b>	<b>61,975</b>	<b>80,639</b>	<b>62,080</b>
Change in net working capital				
Cash at bank and in hand	796	-1,230	- 179	-787
Current financial assets	60,467	-17,910	44,225	-13,459
Inventories	3,635	-8,457	1,978	-10,018
Current liabilities	- 39,347	29,743	- 28,755	23,338
	<b>25,551</b>	<b>2,146</b>	<b>17,269</b>	<b>-926</b>
Net working capital on 1 January	37,398	35,252	33,772	10,947
Net working capital on 31 December	62,949	37,398	51,041	10,021

\* Eliminated from investments and inventories

## Accounting Principles

### Consolidation

The consolidated financial statements include the accounts of the parent company, Larox Oy, and all companies in Finland and abroad over which Larox Oy has control.

Minority shares of the results and shareholders' equities have been presented as separate items in the income statement and balance sheet. The result of the associated company has been taken into consideration in the income statement point "Share of the associated companies' loss".

The past-equity method is used in the elimination of subsidiary shares. The so-called overcost that is incurred when the acquisition cost of the shares of a subsidiary exceeds the Group's holding in the shareholders' equity and reserves of the acquired company, is activated entirely into consolidated assets and will be depreciated in ten years.

Voluntary provisions of the Group and accelerated depreciation have been entered in the Group's non-restricted equity. The share of taxes has been entered as deferred taxes in liabilities. The winding up of the provisions and depreciation has been eliminated in the consolidated income statement.

The translation difference resulting from consolidation is presented under consolidated non-restricted equity. The translation difference for the previous year was included in valuation items.

### Foreign Currency Transactions

Transactions in foreign currency are entered in the bookkeeping in the Finnish markka at the exchange rate in effect at the date of the transac-

tion. In financial statements, assets and liabilities in foreign currency are translated into the Finnish markka by using the exchange rate of the Bank of Finland ruling on the balance sheet date.

In the consolidated financial statements, income statements of foreign subsidiaries are converted into Finnish markka at the average rate of the fiscal year and the balance sheet is converted at the average rate by the Bank of Finland ruling on that date.

### Exchange Differences

All realized exchange differences and unrealized exchange differences arising from trade receivables and trade payables and short-term and long-term debts and receivables are reflected in the income statement.

### Net Sales

Sales of products and services are reflected in the income statement at the time of delivery. Sales are presented net of indirect taxes and other adjustments to sales.

### Production for Own Use

Equipment and machinery transferred from fixed assets to inventories is presented as an adjustment item.

### Wages and Salaries

Wages paid to production stated in the Notes to the Accounts include all wages paid for working hours and also those paid for annual holiday periods, days off, periods of sickness, holiday reimbursement and bonuses paid for years in service and related circumstances.

### Direct Taxes

Direct taxes stated in the income statement are estimated taxes to equal the profit of the fiscal year as well as adjusted taxes of previous accounting years.

### Inventories

For domestic Group companies, inventories are valued at purchase price using the FIFO method.

With foreign subsidiaries the practice of the country in question has been followed. This has no essential effect on the value of inventories.

### Fixed Assets and Depreciations

The book values of fixed assets are based on historical purchase cost, with the exception of certain land and water areas and buildings that have been revalued.

For depreciable fixed assets, planned depreciation has been provided on the basis of equal annual installments to write off the cost of the assets over their useful lives. The times for depreciation are based on the useful lives as follows: 40 for buildings, 4-10 years for machinery and equipment, 3-10 years for other capitalized expenditure, 10 years for other tangible assets and 10 years for intangible rights.

The planned depreciation taken into consideration in the consolidated financial statement comprises the sum of the depreciations of the companies within the Group added with the depreciation of the consolidated assets.

NOTES TO THE FINANCIAL STATEMENTS

**NOTES TO THE INCOME STATEMENT**

(FIM 1000)	1.1.-31.12.1997	Group 1.1.-31.12.1996	Larox Oy 1.1.-31.12.1997	1.1.-31.12.1996
<b>1. Wages and salaries</b>				
Wages and benefits	55,140	44,399	33,283	26,864
of which wages and benefits for managing director and board members	5,347	4,203	2,395	1,873
Pension expenses	815	578	67	67
Other personnel expenses	11,705	11,204	7,807	7,324
<b>Total</b>	<b>67,660</b>	<b>56,181</b>	<b>41,157</b>	<b>34,255</b>
<b>2. Depreciation</b>				
Planned depreciation on				
Buildings	834	683	661	661
Machinery and equipment	7,236	5,535	4,578	4,073
Other tangible assets	43	43	43	43
Shares	-	-	-	-
Other capitalized expenditure	1,807	3,455	1,539	2,700
Intangible assets	124	116	123	116
Valuation items	1,844	1,320	1,844	1,320
Mine operations	-	-	-	-
Consolidated assets	488	488	-	-
<b>Total</b>	<b>12,376</b>	<b>11,640</b>	<b>8,788</b>	<b>8,913</b>
Difference between booked and planned depreciation on				
Buildings	62	2,803	62	2,803
Machinery and equipment	215	-272	86	-573
Other tangible assets	-	-	-	-
Other capitalized expenditure	-375	-	-375	-
Intangible assets	-	-	-	-
<b>Total</b>	<b>-98</b>	<b>2,531</b>	<b>-227</b>	<b>2,230</b>
Accelerated depreciation on				
Buildings	4,734	4,672	4,733	4,671
Machinery and equipment	1,690	1,475	943	857
Other tangible assets	2	2	2	2
Other capitalized expenditure	100	475	100	475
Intangible assets	-	-	-	-
<b>Total</b>	<b>6,526</b>	<b>6,624</b>	<b>5,778</b>	<b>6,005</b>
<b>3. Financial income and expenses to Group companies</b>				
Income	-	-	708	8,479
Expense	-	-	51	194
<b>4. Extraordinary income and expense</b>				
Depreciation on invested capital of the mine	-	-8,181	-	-8,181
Write off of equity tied up in jointly owned manufacturing company	- 3,307	-	- 5,359	-
Write off of subsidiary's equity-equivalent receivable	-	-	- 14,209	-
<b>Total</b>	<b>- 3,307</b>	<b>- 8,181</b>	<b>- 19,568</b>	<b>- 8,181</b>
<b>5. Deferred taxes</b>				
Estimated taxes to equal the profit of the fiscal year	-6,356	-3,223	-5,431	-3,009
Adjusted taxes from previous accounting years	59	253	61	-340
Change in deferred taxes	-	-596	-	-
<b>Total</b>	<b>-6,297</b>	<b>-3,566</b>	<b>-5,370</b>	<b>-3,349</b>



## NOTES TO THE BALANCE SHEET

	Group		Larox Oy	
	1997	1996	1997	1996
<b>6. Change in fixed assets</b>				
Intangible assets				
Acquisition expense 1.1	9,827	10,827	5,984	6,286
Increase/decrease	154	-1,000	149	-302
Acquisition expense 31.12	9,981	9,827	6,133	5,984
Accumulated planned depreciation 31.12	5,693	5,569	5,631	5,508
Planned depreciation 1.1 - 31.12	124	116	123	116
Book value 31.12	4,288	4,258	502	476
Other capitalized expenditure				
Acquisition expense 1.1	21,251	20,048	19,581	19,040
Increase/decrease	1,504	1,203	988	541
Acquisition expense 31.12	22,755	21,251	20,569	19,581
Accumulated planned depreciation 31.12	19,116	17,309	17,587	16,048
Planned depreciation 1.1-31.12	1,807	3,455	1,539	2,700
Book value 31.12	3,639	3,942	2,982	3,533
Land areas				
Acquisition expense 1.1	8,848	8,848	6,589	6,589
Increase/decrease	3,118	-	-	-
Acquisition expense 31.12	11,966	8,848	6,589	6,589
Land areas include revaluations	3,350	3,350	3,350	3,350
Buildings				
Acquisition expense 1.1	45,802	41,366	43,068	40,157
Increase/decrease	1,085	4,436	-	2,911
Acquisition expense 31.12	46,887	45,802	43,068	43,068
Accumulated planned depreciation 31.12	10,851	10,017	10,542	9,881
Planned depreciation 1.1-31.12	834	683	661	661
Book value 31.12	36,036	35,785	32,526	33,187
Buildings include revaluations	16,572	16,572	16,572	16,572
Machinery and equipment				
Acquisition expense 1.1	55,003	48,542	39,301	33,276
Increase/decrease	7,188	6,461	3,512	6,025
Acquisition expense 31.12	62,191	55,003	42,813	39,301
Accumulated planned depreciation 31.12	40,011	32,775	29,018	24,440
Planned depreciation 1.1-31.12	7,236	5,535	4,578	4,073
Book value 31.12	22,180	22,228	13,795	14,861
Other tangible assets				
Acquisition expense 1.1	663	717	432	432
Increase/decrease	139	-54	189	-
Acquisition expense 31.12	802	663	621	432
Accumulated planned depreciation 31.12	453	409	430	386
Planned depreciation 1.1-31.12	44	43	44	43
Book value 31.12	349	254	191	46
Subsidiary shares				
Acquisition expense 1.1	-	-	14,512	14,367
Increase/decrease	-	-	284	145
Acquisition expense 31.12	-	-	14,796	14,512
Accumulated planned depreciation 31.12	-	-	-	-
Planned depreciation 1.1-31.12	-	-	-	-
Book value 31.12	-	-	14,796	14,512

(FIM 1000)	Group		Larox Oy	
	1997	1996	1997	1996
Other shares				
Acquisition expense 1.1	3,196	3,970	4,916	4,916
Increase/decrease	-2,674	-774	-4,394	-
Acquisition expense 31.12	522	3,196	522	4,916
Accumulated planned depreciation 31.12	-	-	-	-
Planned depreciation 1.1-31.12	-	-	-	-
Book value 31.12	522	3,196	522	4,916

### 7. Valuation items

Adjustment difference of consolidation				
increase	635	-	-	-
decrease	-	-579	-	-
Other items				
increase	-	-	-	-
decrease	-1,844	-4,159	-1,844	-3,482
Total	-1,209	-4,738	-1,844	-3,482

### 8. Receivables from subsidiaries

Trade receivables			40,191	16,871
Loan receivables,			15,252	23,751
from which with equity term			-	10,526
Deferred assets			526	210
Total			55,969	40,832
Receivables that fall due after one year and later			11,739	

### 9. Fire insurance value of fixed assets

Fire insurance value of fixed assets	105,305	109,224	95,599	93,491
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The fire insurance value is mainly based on the replacement costs of the assets.

### 10. Taxation value of fixed assets

Land and water areas			1,080	1,080
Buildings and constructions			13,297	13,918
Shares			16,238	17,193
Total			30,615	32,191

### 11. Invested capital of the mine

Loans receivable (FIM million)	-	-	3.1	3.1
Fixed assets (FIM million)	6.0	6.0	-	-
Valuation items (FIM million)	-	-	-	-
Shares (FIM million)	-	-	2.9	2.9
Total	6.0	6.0	6.0	6.0

### 12. Shares and shareholdings

		Number	Share, %		Nominal value	Book value
Subsidiary shares						
Larox Inc	USA	50	100	USD	1,000,000	4,084,500
Larox Europe GmbH	Germany	500	100	DEM	250,000	718,601
Larox Pty Ltd	Australia	400	100	AUD	400	4,578,637
Larox Chile S.A.	Chile	1,500	100	CLP	15,000,000	202,879
Larox Poland Ltd	Poland	335	100	PLN	335,000	616,341
Konstruktioinsinöörity Oy	Finland	50	100	FIM	30,000	30,000
Larox Flowsys Oy	Finland	1,650	55	FIM	1,650,000	1,650,000
Cia Minera Trinidad S.A.	Peru	52,991	98	PEI	6,459,642	2,914,770
Total subsidiary shares						14,795,728

\*) A complete specification of share holdings in the Group and other companies is included in the official financial statements.

	Holding,%	Nominal value	Book value
Associated company shares			
Statech Engineering Oy	20	493,560	493,560
Associated company shares, total			493,560
			Book value
Other shares			28,300
Total shares and shareholdings			15,317,588

(FIM 1000)	Group		Larox Oy
	1997	1996	1997
			1996

### 13. Shareholders' equity

#### Restricted

Share capital in the beginning of the fiscal year	<b>26,411</b>	26,411	<b>26,411</b>	26,411
Bonus issue	-	-	-	-
Share capital at the end of the fiscal year	<b>26,411</b>	26,411	<b>26,411</b>	26,411
Reserve fund in the beginning of the fiscal year	<b>64</b>	64	<b>64</b>	64
Reserve fund at the end of the fiscal year	<b>64</b>	64	<b>64</b>	64
Revaluation fund in the beginning of the fiscal year	<b>448</b>	448	<b>448</b>	448
Other increase/decrease	-	-	-	-
Revaluation fund at the end of the fiscal year	<b>448</b>	448	<b>448</b>	448
Total restricted shareholders' capital at the end of the fiscal year	<b>26,923</b>	26,923	<b>26,923</b>	26,923

#### Non-restricted

Non-restricted shareholders' equity in the beginning of the fiscal year	<b>15,143</b>	10,629	<b>16,468</b>	4,716
Dividend	<b>-5,018</b>	-2,641	<b>-5,018</b>	-2,641
From reserve fund	-	-	-	-
Other increase/decrease	<b>1,911</b>	2,005	-	-
Net profit for the year	<b>27,333</b>	5,150	<b>13,204</b>	14,393
Total non-restricted shareholders' equity at the end of the fiscal year	<b>39,369</b>	15,143	<b>24,654</b>	16,468
Total shareholders' equity	<b>66,292</b>	42,066	<b>51,578</b>	43,391

### 14. Provisions

#### Voluntary provisions

Voluntary provision at the beginning of the fiscal year	-	-	<b>1,943</b>	6,450
change	-	-	<b>-1,943</b>	-4,507
Voluntary provision at the end of the fiscal year	-	-	-	1,943

#### Obligatory provisions

Guarantee provision at the beginning of the fiscal year	<b>663</b>	491	<b>663</b>	491
change	<b>173</b>	172	<b>173</b>	172
Guarantee provision at the end of the fiscal year	<b>836</b>	663	<b>836</b>	663

(FIM 1000)	Group		Larox Oy	
	1997	1996	1997	1996
<b>15. Payables to subsidiaries</b>				
Accounts payable	-	-	1,504	1,712
Deferred liabilities	-	-	7	611
Other liabilities	-	-	4,670	713
Total	-	-	6,181	3,036
<b>16. Contingent liabilities</b>				
For own part				
Mortgages	70,910	72,410	68,910	70,410
For Group companies				
Guarantees	-	-	18,386	12,486
Pension liabilities	294	314	294	314
Total	71,204	72,724	87,590	83,210
<b>17. Non-current liabilities which will fall due after five years or later</b>				
Loans from financial institutions	-	2,248	-	2,248
Pension loans	7,575	8,145	7,575	8,145
Total	7,575	10,393	7,575	10,393

#### OTHER NOTES TO THE FINANCIAL STATEMENTS

#### 18. Derivative instruments on 31.12.1997

Foreign currency derivatives, thousand FIM

	market value	value of underlying instrument
Forward foreign exchange contracts	70,018	69,796
Currency option contracts		
Purchased	-	-
Written	-	-

The combined market value of forward contracts has been converted into Finnish markka at the Bank of Finland's average exchange rates on the closing day. The market value of currency options on the closing day is determined in accordance with the pricing models for currency options commonly used in the markets. The values of underlying instruments are recorded as gross figures based on the corresponding Finnish markka value of the purchased currency at the close of the financial period.

#### 19. Hedging against currency and interest risks

The Group's objective is to minimize the impact of currency and interest risks on the Group's cash reserves, profits and shareholders' equity.

In accordance with the approved foreign currency policy, the task of the Group's financing operations is to hedge against all major currency risks. The currency position subject to risk consists primarily of accounts receivable, order book, liabilities in foreign currencies and some of the outstanding offers.

Exchange rate profits and losses relating to actual business operations, as well as premiums paid and received, are treated as adjustments to sales and purchase items. Exchange rate profits and losses from financing are recorded under financial income and expenses. The most important invoicing currencies for Larox are USD, FIM, AUD, DEM and GBP. The main purchasing currency is FIM. To hedge currency positions, the company uses forward contracts, currency options and currency loans. The Group also protects the shareholders' capital of foreign subsidiary companies with currency loans.

To control the risks from interest rates, the Group uses fixed and floating rate instruments when it takes loans. At the end of the financial year the Group had no open forward rate agreements or interest rate swaps.

#### 20. Disputes

Larox Oy is involved in two court actions with Outokumpu Oy. One is the patent infringement suit brought by Outokumpu in 1996 with its claims for compensation of FIM 20 million, and the other is the action for annulment of the patent brought by Larox in 1997. The Helsinki District Court will first decide on the action for annulment brought by Larox and will then decide on Outokumpu's infringement suit if it does not approve the action for annulment. The legal proceedings for both actions may last several years.

In Larox's view the grounds for Outokumpu's compensation and other claims and the amount claimed are unfounded.

#### 21. Bonds with warrants

On 19 March 1997 the company decided to issue bonds with warrants. The subscribed bonds totalled FIM 49,000.00 The company's share capital can be raised by at most FIM 490,000.00 through subscriptions to new shares on the basis of the bonds. The subscription period is between 19 February and 4 March 2001.

## BOARD'S PROPOSAL FOR DISTRIBUTION OF PROFITS

The non-restricted shareholders' equity in the consolidated balance sheet on 31 December 1997 is FIM 39,369,165.00 of which FIM 34,983,664.00 can be distributed. The parent company's profit for the past fiscal year is FIM 13,204,437.40 and the retained profits from previous years amount to FIM 11,450,446.15. The Board of Directors proposes that a dividend of FIM 4.00 per share, i.e. FIM 10,564,400.00 be paid. After this FIM 14,090,483.55 will be retained and carried forward for the parent company.

Lappeenranta on 17 February 1998

Timo Vartiainen

Nuutti Vartiainen

Katariina Aaltonen

Toivo Matti Karppanen

Teppo Taberman

## AUDITORS' REPORT

To Larox Oy's shareholders

We have audited the accounting, the financial statements and the corporate governance of Larox Oy for the period of 1.1.1997 - 31.12.1997. 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 Managing Director. Based on our audit we express an opinion on these financial statements and on corporate governance.

We conducted our audit in accordance with generally accepted Finnish auditing standards. We have audited the accounting records, and accounts, the disclosures and the presentation of information, including the accounting policies, to an extent sufficient to give us reasonable assurance that they are free of material misstatement. The audit of the administration has included obtaining assurance that the actions of the members of the Board of Directors and the Managing Director have been in conformity with the regulations of the Companies' Act.

In our opinion the accounts have been prepared in accordance with the regulations of the Accounting Act and other legislation and regulations relevant to the preparation of the accounts, and give a true and fair view of the parent company's and the Group's results from operations and financial position in accordance with such legislation and regulations. The accounts including the Group accounts may be approved, and the members of the Board of Directors and the Managing Director may be discharged from liability for the period examined by us. The proposal of the Board of Directors concerning the disposition of the unrestricted shareholders' equity according to the balance sheet is in accordance with the Companies' Act.

We have reviewed the interim report published during the period. According to our review it has been prepared in accordance with the relevant regulations.

Lappeenranta on 17 February 1998

Petteri Valkonen  
CPA

Pasi Waris  
CPA

SHARES AND SHAREHOLDERS

Shares and shareholders

Share-related data

	1997	1996	1994-1995	1993-1994	1992-1993
Earnings per share	<b>11.60</b>	5.05	0.22	2.79	2.11
Shareholders' equity per share, FIM	<b>25.10</b>	15.93	14.22	17.31	16.02
Dividend per share, FIM	<b>4.00</b>	1.90	1.00	2.14	0.0
Dividend per earnings ratio %	<b>34.5</b>	37.6	460.7	76.7	0.0
Dividend yield %	<b>6.1</b>	5.0	4.2	5.1	0.0
Price per earnings ratio (P/E)	<b>5.7</b>	7.5	110.6	15.2	10.5
Development of share price					
Average trading price, FIM	<b>59.38</b>	35.22	36.19	38.16	18.45
Lowest trading price, FIM	<b>38.50</b>	25.00	23.00	23.57	11.43
Highest trading price, FIM	<b>74.00</b>	42.00	69.00	59.29	31.43
Trading price at end of period, FIM	<b>67.00</b>	37.60	26.20	42.50	22.14
Market capitalization at end of period					
A-shares, FIM million *	<b>46.7</b>	26.8	17.0	30.0	15.7
B-shares, FIM million	<b>127.4</b>	73.1	46.4	49.9	26.1
Total, FIM million	<b>174.1</b>	99.9	63.4	79.9	41.8
Trading volume					
B-shares	<b>822.5</b>	552.8	292.3	812.8	442.0
In relation to average number of B-shares, %	<b>42.6</b>	28.6	15.7	69.0	37.5
Average number of shares, 1000 pcs	<b>1,933.1</b>	1,933.1	1,856.8	1,178.5	1,178.5
Number of shares at end of period					
A-shares, 1000 pcs	<b>708</b>	708	708	708	708
B-shares, 1000 pcs	<b>1,933.1</b>	1,933.1	1,933.1	1,178.5	1,178.5
Total, 1000 pcs	<b>2,641.1</b>	2,641.1	2,641.1	1,886.5	1,886.5

The figures per share are share-issue adjusted. The lengths of fiscal years 1994-1995 and 1992-1993 are exceptional.

\* The A-share data is based on the B-share's last trading rate of the fiscal year.

Distribution of share capital sectors on 31 December 1997

	Number of shareholders	% of shareholders	Total shares, pcs	% of share capital
Private enterprises	67	10.8	442,982	16.77
Financial institutions and insurance companies	14	2.3	210,503	7.97
Public corporations	2	0.3	31,729	1.20
Non-profit institutions	7	1.1	8,470	0.32
Households	525	85.0	1,893,243	71.68
Foreign owners	3	0.5	765	0.03
Total	618	100.0	2,587,692	97.98
On waiting list			45,000	1.70
On joint account			8,408	0.32
Issued, total			2,641,100	100.00

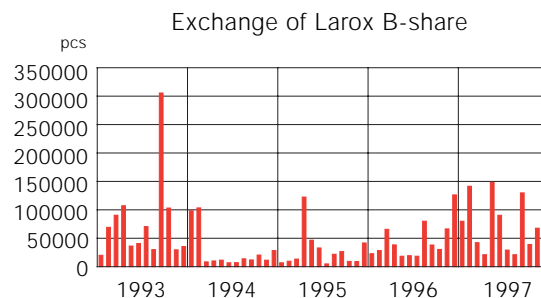
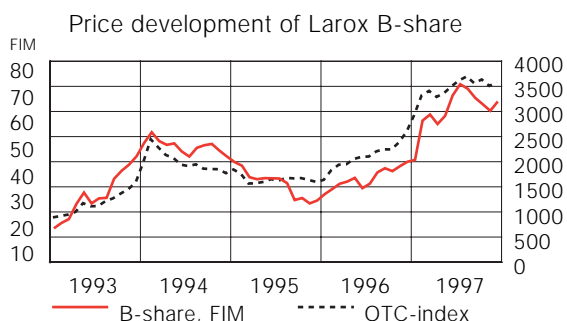
Distribution of share capital in order of magnitude on 31 December 1997

	Number of shareholders	% of shareholders	Total shares, pcs	% of share capital
1 - 100	100	16.1	4,926	0.2
101 - 500	294	47.4	83,220	3.2
501 - 1000	106	17.1	82,323	3.1
1001 - 5000	79	12.7	175,729	6.7
5001 - 10000	8	1.3	57,925	2.2
10001 - 50000	25	4.0	638,876	24.2
50001 - 100000	4	0.7	342,163	13.0
100001 and over	4	0.7	1,202,530	45.5
On waiting list, total			45,000	1.7
On joint account			8,408	0.3
Issued, total			2,641,100	100.0

Principal shareholders on 31 December 1997

	% of share capital	% of voting rights
Vartiainen Timo	12.3	23.2
Aaltonen Terhi-Katariina	12.1	23.2
Kupias Karoliina	11.7	23.1
Vartiainen Nuutti	9.5	16.2
Vartiainen Tyne	3.2	4.3
Capillary Oy	3.7	0.6
Evli-Select Sijoitusrahasto	3.1	0.5
Thomeko Oy	3.0	0.5
Evli Nordic Small Co Sijoitusrahasto	2.3	0.4
Nordica Invest Oy	1.5	0.2

The total number of shares owned and possessed by Board members and President is 1,161,837, which equals 65.2% of voting rights.



DEVELOPMENT OF THE GROUP 1992 - 1997

(FIM 1000)	1997	1996	1994-1995	1993-1994	1992-1993
<b>Scope of activity</b>					
Net sales	<b>310,519</b>	233,120	181,771	155,264	143,155
Growth of net sales (%)	<b>33.2</b>	28.2	17.1	8.5	15.3
Share of exports and foreign operations (%)	<b>88</b>	91	90	90	95
Number of personnel	<b>281</b>	268	257	210	204
Net sales per person	<b>1,105</b>	870	707	739	702
Total liabilities	<b>170,872</b>	130,812	167,170	143,446	143,348
Current liabilities	<b>118,386</b>	75,970	119,484	61,091	47,377
Shareholders' equity	<b>66,292</b>	42,066	37,552	45,729	38,408
Capital invested	<b>174,528</b>	143,997	172,104	160,392	155,565
Balance sheet, total	<b>239,594</b>	175,179	206,918	191,269	180,756
Investments	<b>15,630</b>	12,281	14,060	10,224	8,921
<b>Profit and profitability</b>					
Operating profit before depreciation	<b>55,533</b>	36,055	27,495	34,692	31,756
Depreciation	<b>12,376</b>	11,640	11,671	12,407	10,239
Operating profit	<b>43,157</b>	24,415	15,824	22,285	21,519
Financial income and expenses	<b>- 6,082</b>	- 7,422	- 13,441	- 10,669	- 14,592
Profit before extraordinary items and taxes	<b>37,075</b>	16,993	2,383	11,616	6,505
Net profit	<b>30,777</b>	13,427	625	8,118	4,891
Operating profit before depreciation %	<b>17.9</b>	15.5	15.1	22.3	22.2
Operating profit %	<b>13.9</b>	10.5	8.7	14.4	15.0
Net financial expenses %	<b>2.0</b>	3.2	7.4	6.9	10.2
Profit before extraordinary items and taxes, % of net sales	<b>11.9</b>	7.3	1.3	7.5	4.5
Net income %	<b>9.9</b>	5.8	0.3	5.2	3.4
Return on shareholders' equity %	<b>54.4</b>	31.9	1.4	18.8	9.5
Return on invested capital %	<b>27.4</b>	15.8	10.0	14.1	14.1
<b>Financing</b>					
Quick ratio	<b>0.9</b>	0.7	0.6	1.1	1.2
Current ratio	<b>1.3</b>	1.2	1.0	1.7	1.9
Equity ratio (%)	<b>29.1</b>	26.1	19.8	25.4	21.4
Relative indebtedness %	<b>53.8</b>	53.9	88.6	90.5	96.0

The key figures for fiscal years 1994-1995 and 1992-1993 have been scaled down to 12 months.



## CALCULATION OF KEY RATIOS

Return on shareholders' equity % =	$\frac{\text{Profit before extraordinary items - taxes}}{(\text{invested capital - interest-bearing debts at the beginning of fiscal year}) + (\text{invested capital - interest-bearing debts at the end of fiscal year})/2} \times 100$
Return on invested capital % =	$\frac{\text{Profit before extraordinary items + interest and other financial expenses}}{(\text{Invested capital at the beginning of fiscal year} + \text{invested capital at the end of fiscal year})/2} \times 100$
Equity ratio % =	$\frac{\text{Shareholders' equity} + \text{voluntary provisions} + \text{accelerated depreciation} + \text{valuation items} + \text{minority share}}{\text{Total assets - advances received}} \times 100$
Relative indebtedness % =	$\frac{\text{Current and non-current liabilities} + \text{obligatory provisions} - \text{advances received}}{\text{Net sales}} \times 100$
Invested capital =	Shareholders' equity + minority share + voluntary provisions + accelerated depreciation + valuation items + non-current liabilities + short-term loans from financial institutions + short-term pension loans + notes payable + other current liabilities - deferred taxes
Quick ratio =	$\frac{\text{Accounts receivable} + \text{cash in hand and at banks}}{\text{Current liabilities} - \text{advances received}}$
Current ratio =	$\frac{\text{Current assets}}{\text{Current liabilities}}$
Earnings per share =	$\frac{\text{Profit before extraordinary items, provisions and taxes} - \text{taxes} +/- \text{minority share}}{\text{Adjusted average number of shares during the period}}$
Shareholders' equity per share =	$\frac{\text{Shareholders' equity} + \text{voluntary provisions and accelerated depreciation} - \text{deferred tax liabilities} - \text{minority share}}{\text{Adjusted average number of shares at the end of period}}$
Dividend per share =	$\frac{\text{Dividend distributed for the fiscal year}}{\text{Adjusted average number of shares at the end of period}}$
Dividend per earnings ratio =	$\frac{\text{Dividend per share}}{\text{Earnings per share}} \times 100$
Dividend yield % =	$\frac{\text{Dividend per share}}{\text{Adjusted trading price at the end of period}}$
Price per earnings ratio (P/E) =	$\frac{\text{Adjusted trading price at the end of period}}{\text{Earnings per share}}$
Average trading price =	$\frac{\text{FIM amount traded during the period}}{\text{Number of shares traded during the period}}$
Market capitalization = at the end of period	Number of shares at end of period x trading price at the end of period weighted by the number of the shares traded
Trading volume =	Number of shares traded during the period and in relation to the weighted average number of shares during the period



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