LASSILA & TIKANOJA

# ANNUAL REPORT 1997

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# KEY FIGURES FOR 1997

| | **1997** | 1996 | Change % |
|---|---|---|---|
| Net sales, FIM million | **1 669.5** | 1 497.8 | 11.5 |
| Gross margin, FIM million | **356.3** | 302.3 | 17.9 |
| Operating profit, FIM million | **247.1** | 180.1 | 37.2 |
| Profit before extraordinary items, FIM million | **230.5** | 153.7 | 50.0 |
| Return on invested capital, % (ROI) | **27.8** | 21.2 | |
| Dividend per share, FIM | **5.00 *** | 3.25 | 53.8 |
| Earnings/share, FIM (EPS) | **10.99** | 7.33 | 49.9 |
| Equity ratio, % | **48.6** | 43.0 | |
| Gross investment, FIM million | **202.8** | 131.9 | 53.7 |
| Average personnel employed | **3 610** | 3 241 | 11.4 |

* Proposal by the Board of Directors

Lassila & Tikanoja is a multisector company composed of a parent company and four business units.

The parent company has been quoted on the Helsinki Stock Exchange since 1961. It is the function of the parent company to determine the strategy for the business units, to participate in making the most important decisions, to set targets and to see to the observance of strategies and budgets. The parent company also sees to the Group's investor relations and arranges external financing. All operative decisions are made in the business units, which enjoy a high degree of independence. The parent company employs only six persons.

**The Group seeks to be**

A profitable and competitive investment for owners
A challenging and secure workplace for employees
A reliable partner for customers

**To achieve these goals, the following operating principles have been defined:**

A significant position in narrow sectors
Independent business units
A low organization
Confidence in people at all levels of the organization

There have been no changes in the Group structure since 1992. All business units are profitable and have an opportunity to develop as parts of the company. The Group relies most on the largest two units, JWS and Säkkiväline.

**AMERPLAST**

The Amerplast Group manufactures flexible packaging for industry and the retail trade. The main product lines are packaging for tissue paper and hygiene products, bakery goods and frozen vegetables and retail service packaging. Amerplast is one of the leading Nordic companies in its product lines.

**INKA**

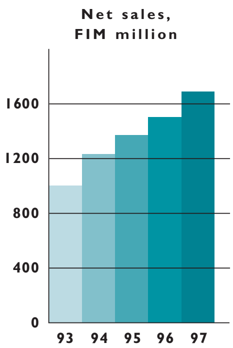
The Inka Group is the leading Nordic manufacturer of narrow fabrics and heavy webbings. Inka manufactures heavy webbings and end products such as lifting slings and lashing equipment for materials handling. It also makes narrow fabrics for industry and trade.

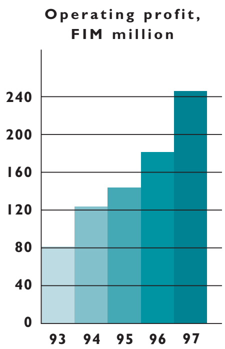
**JWS**

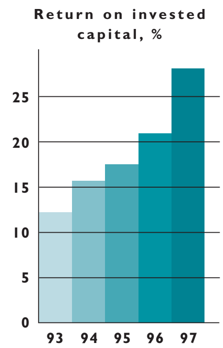
J.W. Suominen Oy manufactures nonwoven roll goods for producers of disposable hygiene and medical products and for manufacturers of wiping products. JWS' nonwovens are used as coverstock for products such as baby diapers, sanitary napkins and hospital under-pads, for wound care and for wet wipes and industrial wiping.

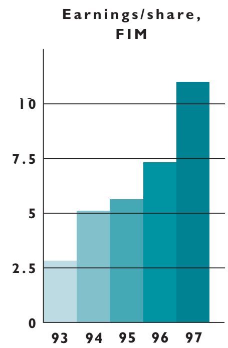
**SÄKKIVÄLINE**

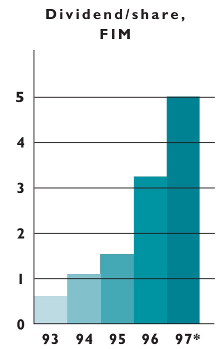
The Säkkiväline Group is Finland's leading producer and marketer of comprehensive environmental management services. Its operations comprise the following product lines: environmental management, professional cleaning, property supervision and supplying of products for environmental management. Environmental management comprises waste management, recycling services, industrial cleaning and maintenance, hazardous waste management, sewer maintenance and fire clean-up.




* Proposal by the Board of Directors

The Lassila & Tikanoja Group observes the following operating principles:

A significant position in narrow sectors
Independent business units
A low organization
Confidence in people at all levels of the organization

In the following review, I shall attempt to evaluate our success in this endeavour.

**A significant position in narrow sectors**

As a company, Lassila & Tikanoja is relatively small. It operates, however, in several business sectors. Precise definitions for these business sectors are the condition for achieving a significant position. Sectors can be defined in several ways. Market share in a geographical region is one perspective.

Amerplast's main market comprises Finland and Sweden. In Finland, it is the market leader in all product areas in which it operates. In Sweden, the situation is the same, with the exception of retail service packaging. Amerplast is approaching the limits for growth in the present market, and seeks to expand its market in the Baltic region. Prospects exist for a significant market position in a narrow product range, and net sales are already increasing rapidly in the region.

Despite its relatively small size, Inka is perhaps the major Nordic company in its sector. In Finland it is the obvious market leader in all its product lines. In Sweden the market shares are also good, especially in materials handling. Its share of the dispersed European market is rather small. To secure growth, Inka must expand its market to the countries around the Baltic Sea. An expanding market requires a narrower product range. Efforts to this end are already under way.

JWS operates in the European market. Market shares vary greatly, depending on the purpose of the products. JWS is nevertheless an important factor in Europe in all its product lines. In products based on hydroentanglement technology, which is JWS' main area of production, it is the leading company in Europe and in the second position worldwide. In the next few years, JWS will have to decide whether it wishes to operate worldwide.

Säkkiväline operates entirely in Finland, except for supplying of products, and is the largest company in its sector. However, its market shares in the various service sectors are still inadequate. They vary between 10-20 per cent, depending on the type of service. Strengthening its market share in Finland will be the most important objective of the next few years. Säkkiväline will not expand abroad until its targets in Finland have been reached.

**Independent business units**

Lassila & Tikanoja's Group administration is small, comprising only six persons. The small size of the Group administration is a direct consequence of the substantial degree of independence enjoyed by the business units. Dispersed authority and responsibility, which have long been a basic premise of Group operations, have created a corporate culture in which entrepreneurship is widespread. This is also supported by the existing system of incentive pay.

A year ago purchasing and product development for the industrial units was centralized. The advantages of this reorganization are obvious, although it also limited the independence of the units to some extent. The basic principle, however, remains clear; the business units are responsible for their own operations.

**Low organization**

The lowness of an organization is a relative concept. It is difficult to define and difficult to compare with respect to other companies. The number of organizational levels alone does not explain everything. Our approach has been to avoid separate staff organizations. Operations in the units have been organized as simply as possible. We have attempted to make each function and operation serve the profit-making process. This is also reflected in the compactness of the Group administration.

**Confidence in people at all levels**

Confidence is a complex matter. If it is to function, it must be deeply embedded in the corporate culture. It must also exist on numerous levels: supervisors must trust their subordinates, subordinates their supervisors. Employees must trust each other and the entire workplace must be committed to achieving the goals set. It is difficult to assess our success in this area, although confidence as an aim is also valuable. We believe that it is the best guarantee of motivation and responsibility. For my own part, I would like to say that those with whom I have worked are worthy of my confidence. I would like to thank all of you for that.

Juhani Maijala

# ORGANIZATION AND MANAGEMENT

## LASSILA & TIKANOJA PLC BOARD OF DIRECTORS

**JAAKKO LASSILA, 69**
D.Sc. (Econ.)
Chairman of the Board since 1970

**YRJÖ NISKANEN, 65**
M.Sc. (Econ.)
Vice Chairman of the Board since 1990

**HEIKKI HAKALA, 56**
M.Sc. (Econ.)
President and CEO of
Rauma Corporation,
Member of the Board since 1988

**JUHANI MAIJALA, 58**
B.Sc. (Econ.), LL.B.
President and CEO of the Lassila &
Tikanoja Group and Lassila & Tikanoja plc,
Member of the Board since 1983

**JUKKA VIINANEN, 50**
M.Sc. (Eng.)
President and COO of Neste Oy,
Member of the Board since 1993

## LASSILA & TIKANOJA PLC AUDITORS

**ILKKA HAARLAA**
Authorised Public Accountant

**ANTTI LASSILA**
Authorised Accountant

Deputies

**SVH COOPERS & LYBRAND OY
AUTHORISED PUBLIC ACCOUNTANTS**

**JUHA VÄISÄNEN**
Authorised Public Accountant

## LASSILA & TIKANOJA GROUP MANAGEMENT

**JUHANI MAIJALA, 58**
B.Sc. (Econ.), LL.B.
President and CEO of the Lassila &
Tikanoja Group since 1983

**HEIKKI BERGHOLM, 41**
M.Sc. (Eng.)
Executive Vice President of the Lassila &
Tikanoja Group since 1997,
Managing Director of
J.W. Suominen Oy since 1986

**SIRKKA TUOMOLA, 50**
M.Sc. (Econ.)
Chief Financial Officer
of the Lassila & Tikanoja Group
since 1992

**MARGARETA HULDÉN, 42**
D.Sc. (Tech.)
Research and Development,
Industrial Units,
Director since 1997

**PENTTI KULMALA, 49**
B.Sc. (Eng.)
Managing Director
of the Inka Group since 1992

**AARNO LINDSTRÖM, 63**
Managing Director
of the Amerplast Group
since 1997

**ESA PALTTALA, 54**
B.Sc. (Eng.)
Procurement and Production
Systems, Industrial Units,
Director since 1997

**JARI SARJO, 41**
LL.B.
Managing Director
of the Säkkiväline Group
since 1997

## AMERPLAST

**AARNO LINDSTRÖM,** managing director
**JUHA HENTTONEN,** production director
**ULLA PYYSALO,** financial manager
**HEIKKI UUSITALO,** marketing director

## INKA

**PENTTI KULMALA,** managing director
**MIKKO HAAPANIEMI,** local manager
**KIMMO JALO,** production manager
**ANTTI JOUPPI,** marketing director
**JAANA OJALA,** controller

## JWS

**HEIKKI BERGHOLM,** managing director
**MARGARETA HULDÉN,** research and development director
**TIMO KOKKOLA,** marketing director
**KRISTIINA LILJA,** financial director
**ESA PALTTALA,** production director
**JOUKO PENTTILÄ,** marketing director

## SÄKKIVÄLINE

**JARI SARJO,** managing director
**ANNA-MAIJA APAJALAHTI,** director, marketing
**SEPPO HARTIKAINEN,** division director, product trade
**JORMA MIKKONEN,** administration and legal affairs
**RAINE OKKER,** director, finances
**MIKKO TALOLA,** development director, environmental services
**REGIONAL DIRECTORS:**
Pasi Hurme, Tapio Häyrinen, Kauko Kukkonen, Jaana Mulari, Anne Nordenswan, Juha Nurminen, Juha Simola, Ari Ylärakkola

**AMERPLAST LTD BOARD OF DIRECTORS**

Juhani Maijala, chairman
Heikki Bergholm, deputy chairman
Margareta Huldén
Aarno Lindström
Esa Palttala
Sirkka Tuomola

**INKA LTD BOARD OF DIRECTORS**

Juhani Maijala, chairman
Heikki Bergholm, deputy chairman
Margareta Huldén
Pentti Kulmala
Esa Palttala
Sirkka Tuomola

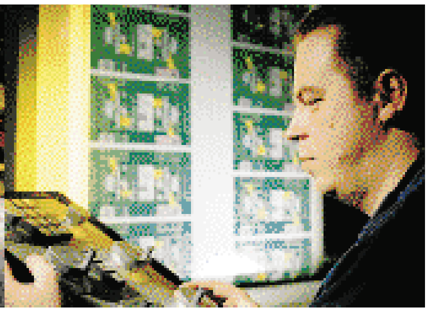
**J.W. SUOMINEN LTD BOARD OF DIRECTORS**

Juhani Maijala, chairman
Heikki Bergholm, deputy chairman
Margareta Huldén
Esa Palttala
Sirkka Tuomola

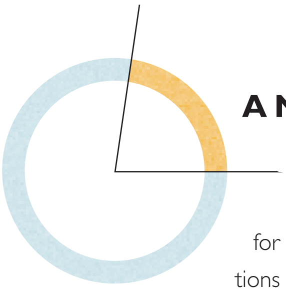
**SÄKKIVÄLINE LTD BOARD OF DIRECTORS**

Juhani Maijala, chairman
Sirkka Tuomola, deputy chairman
Anna-Maija Apajalahti
Seppo Hartikainen
Raine Okker
Jari Sarjo





**Substantial investments were made during 1997 to modernize film manufacturing capacity and bag-welding. Plant premises were also expanded at Tampere and Nastola.**



# AMERPLAST 22.6 %

Amerplast manufactures flexible packaging for industry and the retail trade. In its operations Amerplast stresses quality, rapid delivery, customer service and cost effectiveness.

The main product lines are packaging for tissue paper and hygiene products, bakery goods and frozen vegetables and retail service packaging. Amerplast is one of the leading Nordic companies in its product lines.

Demand for products was good in 1997, except during the first four months of the year. Amerplast concentrated its sales in the main product groups, where the overall trend was positive. At the end of the year, rising prices for plastic raw materials narrowed the margin. Exchange rate fluctuations did not significantly affect Amerplast's performance.

Financial results were very satisfactory. Concentration of the product range continued, as did expansion of the market and market shares. Closer co-operation was established with several major customers. Development of the quality system continued in all units.

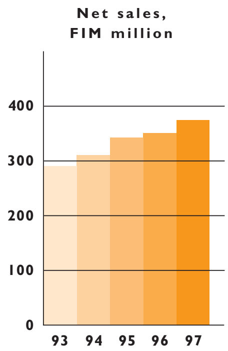
Gross investment in 1997 totalled FIM 63.7 million and focused on modernization of film manufacturing and bag-welding. Factory premises at Tampere and Nastola were also expanded. Equipment that will become operational in 1998 accounted for some FIM 24 million in capital expenditure.

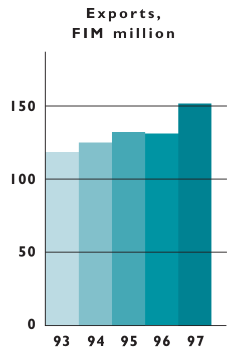
Net sales in 1997 totalled FIM 377.5 million and were 7.8 per cent greater than in the previous year. The volume of production in tonnes increased by 3.3 per cent. Exports and international operations accounted for 40.5 per cent of net sales. The Amerplast Group employed an average of 618 persons during 1997.

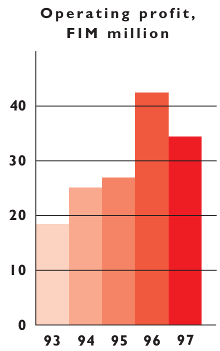
Amerplast seeks to continue expansion of sales in its main product lines in the Baltic region. This goal is based on rising demand for packaging in Russia, Poland and the Baltic countries. Operations in St. Petersburg have made a successful start and will expand during 1998 into a production unit employing approximately 20 persons. In Poland, operations will be expanded during 1998 with the establishment of a local warehouse.

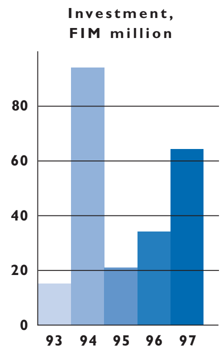
The largest single investment project in Amerplast's history, modernization of the presses in the packaging department of the Tampere plant, will be implemented in 1998.

Close co-operation with customers and good competitiveness in quality and price will allow Amerplast to increase its sales volume and maintain operational profitability on at least the level achieved.



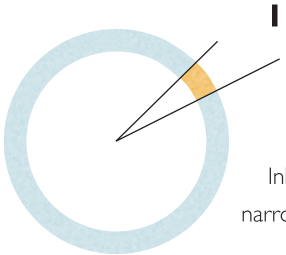



Exports and international operations account for 40.5 % of the company's net sales. Consumer goods packaging made by the company is used throughout Europe. Russia and Poland recorded the most growth in demand.

**Manufacture of the narrow fabrics, lifting slings and lashing equipment needed for materials handling requires expertise, high technology and precision.**

## INKA 6.9 %



Inka is the leading Nordic manufacturer of narrow fabrics and heavy webbings.

Inka develops, manufactures and markets heavy webbings and end products such as lifting slings and lashing equipment for materials handling. It also makes narrow fabrics for industry and trade. Inka's main markets are the Nordic countries, the Baltic region and Central Europe.

Heavy webbings for materials handling and ready-made lifting slings, lashing equipment and roundslings are manufactured in Turku and Gothenburg. Exports account for 80 per cent of these products. Slings and lashing equipment for industry and transport are two of the most typical uses.

Light-weight narrow fabrics are manufactured at the Killinkoski factory. The Nordic countries are their main market. The Killinkoski factory also manufactures polypropylene fibre which is used in both products for materials handling and technical narrow fabrics.

Inka's net sales in 1997 totalled FIM 115.7 million, which is 7.9 per cent more than in the previous year. The greatest increase in volume - more than 30 per cent - was recorded in narrow fabrics for materials handling and in ready-made slings and lashing equipment. Demand for light-weight narrow products in 1997 was steady, and declining volumes for the clothing industry were offset by concentrating increasingly on technical narrow fabrics based on own raw material processing. The volume of production grew more than net sales.

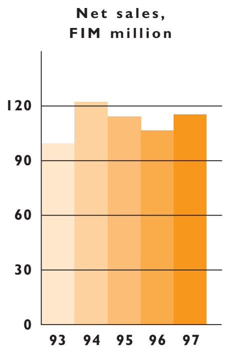
Inka's exports, including international operations, totalled FIM 69.4 million or 60.0 per cent of net sales. Exports rose by 8.9 per cent on the previous year.

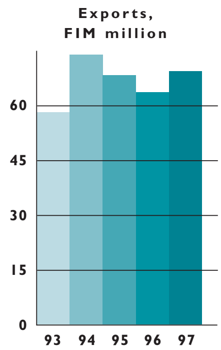
Gross investment totalled FIM 12.9 million. The most important investments were in a new dyeing/stretching and heat setting line for narrow products, in weaving machines and equipment and in increased automation of unit goods production. Modernization of Inka's computer hardware and data system was also a significant item of capital expenditure.

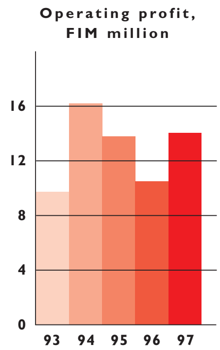
Weaving methods were improved to support volume growth and to increase productivity. Greater efficiency was achieved in the manufacture of unit goods for materials handling and flexibility was increased.

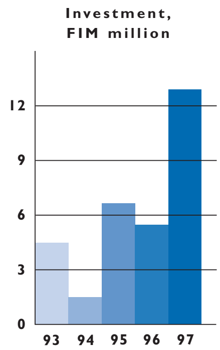
Inka employed an average of 246 persons during the financial year.

Inka's financial results were good, thanks to rising volumes, more efficient production and own integrated raw material manufacture. Demand for new products developed from polypropylene fibre increased in the Nordic countries and Central Europe. Inka's fibre production will be tripled during 1998 through acquisition of another larger fibre extrusion line at Killinkoski. Inka's own rising fibre capacity will permit greater export volumes, especially of materials handling products and technical polypropylene narrow fabrics.



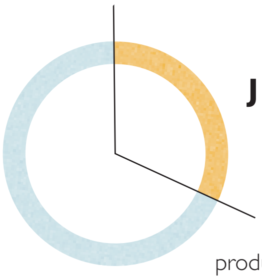



Inka's exports and international operations account for 60.0 % of the company's net sales. Inka slings are used extensively, for example in loading cargo.

**High quality – in both products and operations – is vital to the success of JWS's business operations. The company manufactures nonwovens for hygiene and medical products and for manufacturers of wiping products.**



## JWS 34.5 %

JWS manufactures nonwoven roll goods for producers of disposable hygiene and medical products and for manufacturers of wiping products.

JWS' nonwovens are used as coverstock for products such as baby diapers, sanitary napkins and hospital underpads, for wound care and for wet wipes and industrial wiping. JWS has a significant market position in Europe in all its product lines.

The markets for JWS' products are expanding and demand was good in all markets throughout the year. A stronger dollar contributed to increased sales in the United States, Latin America and the Middle East. As in the previous year, sales of new materials for hygiene products and of materials for wet wipes recorded the most growth.

Prices for raw materials increased slightly during the year. Raw material prices for the entire year averaged out on the level of the previous year.

As a consequence of the growth in volume and productivity, profitability increased on the previous year and was good.

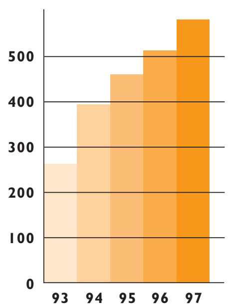
During 1997, JWS invested in modernization of the hydro-entanglement lines completed in 1985 and 1990 and in product development equipment. The modernized lines were completed at the end of the year, according to plans.

The main areas for development of JWS' operations are safety, total quality management (TQM), and operational control systems. Competitiveness of the product range and production is ensured with an extensive programme of research and development.

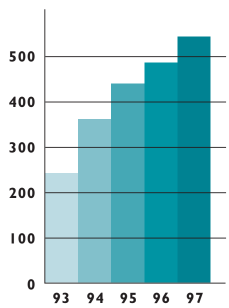
Net sales in 1997 were FIM 577.1 million or 12.5 per cent more than in the previous year. The operating profit was FIM 116.8 million or 20.2 per cent of net sales. Exports increased by 13.6 per cent and were FIM 548.9 million. They accounted for 95.1 per cent of net sales. Gross investment totalled FIM 51.2 million. JWS employed an average of 354 persons during 1997.

Prospects for 1998 are basically positive. Demand is expected to grow in Europe, the United States, Latin America and the Middle East and to decline in Asia. Overall, JWS has the potential to increase sales volumes and maintain profitability at the good level achieved.

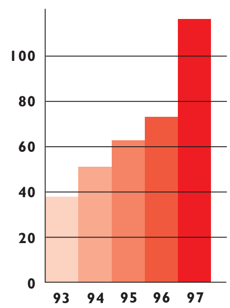
**Net sales, FIM million**



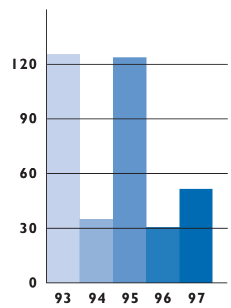

**Exports, FIM million**




**Operating profit, FIM million**

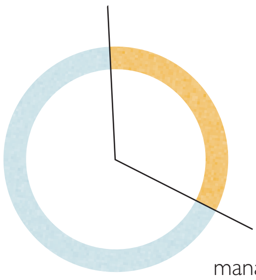



**Investment, FIM million**



JWS nonwovens are used worldwide, for example as coverstock for baby diapers. Exports account for 95.1 % of the company's net sales.

**Pleasant surroundings and working environments require constant attention. Säkkiväline is a nationwide supplier of diverse services and products for environmental management.**



## SÄKKIVÄLINE 36.0 %

Säkkiväline is Finland's leading producer and marketer of comprehensive environmental management services. Its core areas are environmental management, professional cleaning, property supervision and maintenance and supplying of products for environmental management. Environmental management comprises community and industrial waste management, recycling services, industrial cleaning and maintenance, hazardous waste management, sewer maintenance and fire clean-up.

The overall markets in all Säkkiväline's product lines continued to grow. Growth in environmental management was rapid. Marketing of comprehensive services was very successful. More and more customers purchased service entities instead of individual services and recognized the benefits of long-term co-operation. Customer companies in Säkkiväline's sector continued to outsource their services at a rapid rate. Contracts have often represented a broader approach than that conventionally employed. Säkkiväline has in fact good prospects for expanding services thanks to its diversification.

The reorganization affected a year ago, from a sectoral to a regional organization, was achieved according to plan and met the expectations set.

Development is rapid in the product lines of environmental management. The legislation is changing and becoming more stringent. There is a shift from waste management to closed cycles. Progress in recycling has been rapid; the collection and reuse target set by the Finnish Government for tyre recycling was achieved during the first year, three years before the mandatory deadline.

Säkkiväline's net sales increased by 13.8 per cent and its market share grew. Growth was primarily in volume. Net sales from environmental management increased by 22.7 per cent and totalled FIM 261.1 million. Net sales from professional cleaning services increased by 14.2 per cent and from property supervision by 1.3 per cent. Net sales from professional cleaning services totalled FIM 181.2 million and from property supervision FIM 102.1 million. Net sales from the product supply business increased by 0.7 per cent and totalled FIM 55.9 million.

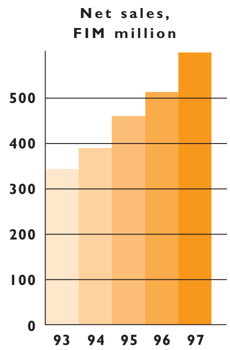
Säkkiväline's financial results continued to improve. Profitability of environmental management and professional cleaning services were good. The greatest improvement was recorded in environmental management. Neither the product supply business nor property supervision achieved their goals.

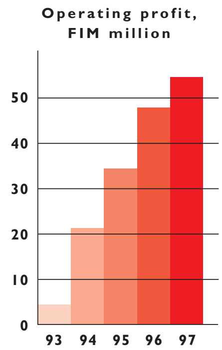
The personnel of all product lines increased during 1997 by a total of more than 300. Converted to full-time staff, they averaged 2,386.

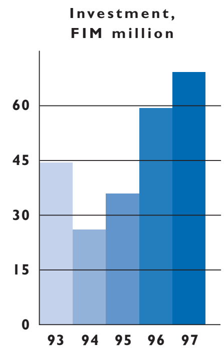
Säkkiväline's gross investment increased by 25.6 per cent and totalled FIM 74.2 million. The major individual items of capital expenditure were made in terminal operations for environmental management.

Implementation of quality and environmental programmes began during 1997 and will continue during the current year. Introduction of new information systems in several different functions at the same time will also require concerted effort in 1998.

Säkkiväline's net sales and financial results are expected to grow during 1998, despite the fact that the financial results for the final four months of 1997 were below those for the same period in 1996. Investments will also increase during 1998.




**Helsinki-Vantaa Airport is one of Säkkiväline's new, demanding responsibilities.**

## 1. GENERAL

The Group's financial results improved and the overall targets were reached. The excellent performance of JWS contributed most to improvement in the overall financial results although the performance of Säkkiväline and Inka also improved. Amerplast's financial results declined, but remained on a very satisfactory level. Other revenue from business operations increased, which was primarily due to higher gains from the sale of shares.

Improvement in the financial results in recent years has been based on a relative decline in fixed costs. No clear, uniform trend was apparent last year, although the overall relative decline in fixed costs continued.

Investments exceeded those of the previous year and were financed out of cash flow from operations. Interest-bearing net liabilities declined.

## 2. FINANCIAL RESULTS

The Group operating profit was FIM 247.1 million. It increased by 37.2 per cent and amounted to 14.8 per cent of net sales. The operating profit for the previous year was 12.0 per cent of net sales. Capital invested at the end of the year amounted to FIM 959.2 million. It increased by 10.1 per cent, slightly less than net sales. The return on capital invested was 27.8 per cent as opposed to 21.2 per cent the previous year. The return on shareholders' equity was 29.4 per cent.

The return on capital invested by Säkkiväline, JWS and Inka was good. Amerplast's financial results were very satisfactory with respect to this indicator.

JWS' operating profit increased by 59 per cent and was on an excellent level. Improvement in the financial results accelerated towards the end of the year, which gives cause for confidence in continuation of the favourable trend during the current year. The volume of operations increased, which was apparent from the 12.5 per cent growth in net sales.

The relative profitability of Säkkiväline expressed as the operating profit percentage remained on the good level of the previous year. The absolute financial results increased along with rapid growth in net sales. The results for the final four months of the year were somewhat disappointing. Corrective measures have been undertaken.

Inka's financial results picked up during the past year. Increased efficiency improved competitiveness and permitted growth in volume.

Amerplast's financial results declined from the previous year, which was the best in its history. Better results could have been achieved had it been possible to respond more rapidly to prices and production costs.

Operating profit by business unit:

| | **1997 FIM million** | **%** | 1996 FIM million | % |
|---|---|---|---|---|
| Amerplast | **34.5** | **9.1** | 42.4 | 12.1 |
| Inka | **14.0** | **12.1** | 10.4 | 9.7 |
| JWS | **116.8** | **20.2** | 73.4 | 14.3 |
| Säkkiväline | **54.7** | **9.1** | 47.8 | 9.1 |
| Lassila & Tikanoja | **28.1** | | 7.1 | |
| Consolidated items | **-1.0** | | -1.0 | |
| Total | **247.1** | **14.8** | 180.1 | 12.0 |

### FINANCIAL RESULTS DURING THE PAST YEAR

| FIM million | 1-4/97 | 5-8/97 | 9-12/97 | 1-12/97 |
|---|---|---|---|---|
| NET SALES | | | | |
| Amerplast | 121.3 | 126.6 | 129.6 | 377.5 |
| Inka | 39.6 | 35.1 | 41.0 | 115.7 |
| JWS | 182.9 | 187.8 | 206.4 | 577.1 |
| Säkkiväline | 184.6 | 204.3 | 211.4 | 600.3 |
| Lassila & Tikanoja | 5.0 | 5.2 | 5.1 | 15.3 |
| Internal net sales | -5.5 | -5.3 | -5.6 | -16.4 |
| Group net sales | 527.9 | 553.7 | 587.9 | 1 669.5 |
| OPERATING PROFIT | | | | |
| Amerplast | 12.9 | 12.6 | 9.0 | 34.5 |
| Inka | 5.4 | 3.7 | 4.9 | 14.0 |
| JWS | 31.2 | 39.3 | 46.3 | 116.8 |
| Säkkiväline | 14.1 | 27.5 | 13.1 | 54.7 |
| Lassila & Tikanoja | 14.5 | 4.0 | 9.6 | 28.1 |
| Consolidated items | -0.3 | -0.3 | -0.4 | -1.0 |
| Group operating profit | 77.8 | 86.8 | 82.5 | 247.1 |
| Net financial expenses | -8.0 | -5.7 | -2.9 | -16.6 |
| Profit before extraordinary items | 69.8 | 81.1 | 79.6 | 230.5 |

## 3. GROUP STRUCTURE

It was decided at the extraordinary meeting of shareholders on November 17, 1997 to change the name of the parent company to Lassila & Tikanoja plc.

During the year, Fiktio Oy and Ura Oy were merged with Lassila & Tikanoja plc. Greenwill AB was terminated. AS Norsafe became an associated company.

## 4. SHARES AND SHAREHOLDERS

The following measures related to the shares and the share capital of the company were carried out during the year:

1. The shares in Lassila & Tikanoja owned by Fiktio Oy (187,555 shares) were cancelled after it was merged with Lassila & Tikanoja.
2. The company's share capital was reduced on October 31, 1997 by transferring the value of the redeemed and cancelled shares (2,605,675 shares at FIM 10 per share) from share capital to the share premium.
3. Shareholders received three new shares for each old share in the capitalization issue effected on the basis of a decision taken by the extraordinary meeting of shareholders held on November 17, 1997. The following funds were used to effect the increase:

| | |
|---|---|
| Reserve fund | FIM 86,940,560 |
| Share premium | FIM 26,056,750 |
| Total | FIM 112,997,310 |

The company's share capital after the increase amounted to FIM 150,663,080 and the reserve fund to FIM 6,045,600. The structure of the company's restricted equity changed as follows due to the measures taken.

The situation after each measure is shown below:

| FIM 1000 | Dec. 31, 1996 | Cancellation of shares owned by Fiktio | Decrease in share capital | Capitalization issue |
|---|---|---|---|---|
| Share capital | | | | |
| Held outside | 39 542 | 37 666 | 37 666 | 150 663 |
| Redeemed | 24 181 | 26 057 | - | - |
| Share premium | | | 26 057 | - |
| Reserve fund | 92 986 | 92 986 | 92 986 | 6 046 |
| Total | 156 709 | 156 709 | 156 709 | 156 709 |

Merita Bank Ltd's holding and votes in the company declined to less than 10 per cent during the financial year while the holding of the Pohjola Group rose to more than 10 per cent.

## 5. NET SALES

Net sales of the business units:

| FIM million | **1997 Jan. 1 - Dec. 31** | 1996 Jan. 1. - Dec.31. | Change % |
|---|---|---|---|
| Amerplast | **377.5** | 350.2 | 7.8 |
| Inka | **115.7** | 107.2 | 7.9 |
| JWS | **577.1** | 513.1 | 12.5 |
| Säkkiväline | **600.3** | 527.7 | 13.8 |
| Lassila & Tikanoja | **15.3** | 13.5 | 13.3 |
| Total | **1 685.9** | 1 511.7 | |
| Internal net sales | **-16.4** | -13.9 | |
| Group net sales | **1 669.5** | 1 497.8 | 11.5 |

## 6. GROSS INVESTMENT

| FIM million | **1997** | 1996 |
|---|---|---|
| Real estate | **32.9** | 15.7 |
| Machinery and equipment | **147.3** | 105.6 |
| Other tangible assets | **6.6** | 3.9 |
| Securities and consolidated goodwill | **11.0** | 0.9 |
| Intangible assets and other capitalized expenditure | **5.0** | 5.8 |
| Total | **202.8** | 131.9 |

Gross investment increased substantially on the previous year and amounted to FIM 202.8 million.

The major investments by JWS (FIM 51.2 million) were on the modernization of two hydroentanglement lines and automation of the balers.

Amerplast's production process comprises film manufacture, printing and bag-welding. Investments in 1997 (FIM 63.7 million) focused on film manufacture and bag-welding. Substantial modernization will continue in 1998, with the focus on printing.

Säkkiväline's investments (FIM 74.2 million) were on expansion of the terminal network and modernization of equipment.

The largest single item in Inka's investments (FIM 12.9 million) was an advance payment on a new fibre extrusion line which will nearly triple fibre manufacturing capacity.

The group sold FIM 49.1 in fixed assets during the year. The balance sheet value of these asset items was FIM 27.7 million.

## 7. INVESTED CAPITAL

The Group's invested capital calculated from the balance sheet is as follows:

| FIM million | **Dec. 31, 1997** | Dec. 31, 1996 |
|---|---|---|
| Fixed assets and other non-current investmentst | **899.0** | 839.2 |
| Inventories | **120.2** | 108.5 |
| Receivables and liquid assets | **258.1** | 223.3 |
| Deferred tax liability | **-89.2** | -87.0 |
| Trade payables | **-72.2** | -65.1 |
| Accrued liabilities | **-155.0** | -146.0 |
| Other current, non-interest bearing liabilities | **-1.7** | -1.8 |
| Invested capital | **959.2** | 871.1 |

Invested capital increased during the year by FIM 88.1 million or 10.1 per cent. Net sales increased more rapidly than invested capital. The rate of circulation for invested capital was 1.7.

## 8. FINANCE

The Group's equity ratio was 48.6 as opposed to 43.0 at the end of the previous year. The ratio of net interest-bearing liabilities to shareholders' equity (the gearing rate) was 44.0. The figure for the previous year was 61.6 per cent. Net financial expenses were 1.0 per cent of net sales and 6.7 per cent of the operating profit.

Net financial expenses include interest income of FIM 4.4 million obtained on the basis of a lower court decision concerning a disputed claim. This claim (FIM 13.1 million) was related to the winding up of Avardo Oy.

Cash flow from business operations (FIM 261.9 million) was sufficient to cover net investment, dividends and taxes. Net interest-bearing liabilities declined by FIM 38.3 million and amounted to FIM 273.1 million.

Liquidity was good throughout the year. It is Group policy to keep reserves small and see to sufficient circulation of accounts receivable and stocks. For cash needs arising from short-term fluctuations in cash flow, the Group has adequate credit limits for which no fee is charged. Liquidity is not assessed with the conventional liquidity indicators, but instead in terms of capacity to meet obligations on time. This improves capital circulation.

## 9. PERSONNEL

The average number of staff in the Group converted to full-time employees increased by 369 or by 11.4 per cent.

| Average | **1997** | 1996 |
|---|---|---|
| Amerplast | **618** | 570 |
| Inka | **246** | 232 |
| JWS | **354** | 357 |
| Säkkiväline * | **2 386** | 2 078 |
| Lassila & Tikanoja | **6** | 4 |
| Total | **3 610** | 3 241 |

* Converted to full-time employees.

## 10. 1998

All business units have the potential to improve their financial results. Improvement in absolute financial results on 1997 is expected.

Improvement in JWS' financial results towards the end of the year gives confidence in success for 1998 as well.

Net sales by Säkkiväline will continue their substantial growth in the current year. If it is possible to maintain relative profitability at the current level, the financial results improve.

The minor problems confronted by Amerplast during the past year are over, and increased efficiency at Inka bodes well for the future.

## CONSOLIDATED STATEMENT OF INCOME

| Jan. 1 - Dec. 31 (FIM 1000) | 1997 | % | 1996 | % | Additional information |
|---|---|---|---|---|---|
| Net sales | 1 669 493 | 100.0 | 1 497 842 | 100.0 | 1 |
| Cost of goods sold | -1 313 162 | | -1 195 571 | | |
| Gross margin | 356 331 | 21.3 | 302 271 | 20.2 | |
| Sales and marketing expenses | -51 276 | | -47 286 | | |
| Administrative expenses | -86 928 | | -79 289 | | |
| Other operating expenses | -1 956 | | -5 204 | | 4 |
| Other operating income | 32 122 | | 10 840 | | |
| Share of associated company profits | 45 | | | | |
| Depreciation on consolidated goodwill | -1 218 | | -1 214 | | |
| Operating profit | 247 120 | 14.8 | 180 118 | 12.0 | 2.3 |
| Financial income and expenses | -16 550 | -1.0 | -26 372 | -1.7 | 5 |
| Profit before extraordinary items | 230 570 | 13.8 | 153 746 | 10.3 | |
| Extraordinary income and expenses | -936 | | -376 | | 6 |
| Profit before income taxes | 229 634 | 13.8 | 153 370 | 10.2 | |
| Income taxes | | | | | |
| For the financial year | -63 053 | | -43 325 | | |
| For previous financial years | 219 | | 376 | | |
| Change in deferred tax liability | -2 225 | | -336 | | |
| | -65 059 | -3.9 | -43 285 | -2.9 | |
| Profit for the financial year | 164 575 | 9.9 | 110 085 | 7.3 | |

## CONSOLIDATED BALANCE SHEET

| Dec. 31 (FIM 1000) | | 1997 | % | | 1996 | % | Additional information |
|---|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | | |
| **Fixed assets and other non-current investments** | | | | | | | |
| **Intangible assets** | | | | | | | 7 |
| Intangible rights | 697 | | | 615 | | | |
| Goodwill | 19 067 | | | 19 898 | | | |
| Consolidated goodwill | 8 483 | | | 9 693 | | | |
| Other capitalized expenditure | 12 499 | 40 746 | 3.2 | 10 773 | 40 979 | 3.5 | |
| **Tangible assets** | | | | | | | 8 |
| Land and water | 27 202 | | | 26 829 | | | |
| Buildings | 245 726 | | | 229 700 | | | |
| Machinery and equipment | 459 997 | | | 402 595 | | | |
| Other tangible assets | 9 226 | | | 4 356 | | | |
| Advance payments and construction in progress | 32 999 | 775 150 | 60.7 | 35 083 | 698 563 | 59.5 | |
| **Financial assets** | | | | | | | |
| Shares in associated companies | 1 223 | | | | | | 10 |
| Other holdings | 79 916 | | | 83 706 | | | 11 |
| Loan receivables | 1 963 | 83 102 | 6.5 | 15 940 | 99 646 | 8.5 | |
| | | 898 998 | 70.4 | | 839 188 | 71.5 | |
| **Valuation items** | | | | | 3 709 | 0.3 | 13 |
| **Current assets** | | | | | | | |
| **Inventories** | | | | | | | |
| Raw materials and consumables | 41 817 | | | 43 681 | | | |
| Work in progress | 21 402 | | | 14 520 | | | |
| Finished products | 56 975 | 120 194 | 9.4 | 50 282 | 108 483 | 9.2 | |
| **Receivables** | | | | | | | |
| Trade receivables | 180 798 | | | 156 078 | | | 14 |
| Loan receivables | 39 | | | 105 | | | |
| Prepaid expenses and accrued income | 11 169 | | | 12 493 | | | |
| Other receivables | 459 | 192 465 | 15.1 | 632 | 169 308 | 14.4 | |
| **Cash in hand and at banks** | | 65 633 | 5.1 | | 54 006 | 4.6 | |
| | | 1 277 290 | 100.0 | | 1 174 694 | 100.0 | |
| **LIABILITIES** | | | | | | | |
| **Shareholders' equity** | | | | | | | 15 |
| **Restricted equity** | | | | | | | |
| Share capital | | | | | | | |
| Externally held | 150 663 | | | 39 542 | | | |
| Redeemed | | | | 24 181 | | | |
| | 150 663 | | | 63 723 | | | |
| Reserve fund | 6 057 | | | 92 997 | | | |
| Revaluation fund | 18 598 | 175 318 | 13.7 | 18 598 | 175 318 | 14.9 | |
| **Unrestricted equity** | | | | | | | 17 |
| Retained earnings | 280 530 | | | 220 030 | | | |
| Profit for the financial year | 164 575 | 445 105 | 34.9 | 110 085 | 330 115 | 28.1 | |
| | | 620 423 | 48.6 | | 505 433 | 43.0 | |
| **Creditors** | | | | | | | 18 |
| **Non-current** | | | | | | | |
| Loans from credit institutions | 221 682 | | | 213 749 | | | |
| Pension loans | 49 865 | | | 90 737 | | | |
| Pension liabilities | | | | 4 007 | | | |
| Deferred tax liability | 89 213 | | | 86 988 | | | |
| Other non-current liabilities | 589 | 361 349 | 28.3 | 924 | 396 405 | 33.7 | |
| **Current** | | | | | | | |
| Loans from credit institutions | 61 252 | | | 51 762 | | | |
| Pension loans | 4 814 | | | 7 489 | | | |
| Trade payables | 72 159 | | | 65 050 | | | |
| Accrued liabilities and deferred income | 155 025 | | | 146 035 | | | |
| Other current liabilities | 2 268 | 295 518 | 23.1 | 2 520 | 272 856 | 23.3 | |
| | | 1 277 290 | 100.0 | | 1 174 694 | 100.0 | |

## STATEMENT OF INCOME

| Jan. 1 - Dec. 31 (FIM 1000) | 1997 | 1996 | Additional information |
|---|---|---|---|
| Net sales | 15 105 | 13 318 | |
| Cost of goods sold | -3 773 | -3 798 | |
| Gross margin | 11 332 | 9 520 | |
| Administrative expenses | -6 296 | -4 830 | |
| Other operating expenses | -1 060 | -2 375 | 4 |
| Other operating income | 17 065 | 4 833 | |
| Operating profit | 21 041 | 7 148 | 2.3 |
| Financial income and expenses | 106 065 | -10 825 | 5 |
| Profit before extraordinary items, reserves and income taxes | 127 106 | -3 677 | |
| Extraordinary income and expenses | 130 134 | 88 276 | 6 |
| Profit before reserves and income taxes | 257 240 | 84 599 | |
| Decrease in accelerated depreciation | 2 070 | 1 570 | |
| Change in voluntary reserves | 613 | | |
| Income taxes | | | |
| For the financial year | -72 351 | -24 243 | |
| For previous financial years | 140 | 515 | |
| | -72 211 | -23 728 | |
| Profit for the financial year | 187 712 | 62 441 | |

## BALANCE SHEET

| Dec. 31 (FIM 1000) | 1997 | | % | 1996 | | % | Additional information |
|---|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | | |
| **Fixed assets and other non-current investments** | | | | | | | |
| **Intangible assets** | | | | | | | |
| Other capitalized expenditure | | 1 339 | 0.2 | | 1 734 | 0.2 | 7 |
| **Tangible assets** | | | | | | | 8 |
| Land and water | 18 918 | | | 18 945 | | | |
| Buildings | 33 836 | | | 37 891 | | | |
| Machinery and equipment | 396 | | | 64 | | | |
| Other tangible assets | 62 | 53 212 | 6.5 | 65 | 56 965 | 7.5 | |
| **Financial assets** | | | | | | | 12 |
| Shares in subsidiaries | 487 721 | | | 478 808 | | | 9 |
| Other holdings | 33 995 | | | 54 769 | | | 11 |
| Loan receivables | 68 970 | 590 686 | 71.7 | 82 779 | 616 356 | 80.9 | |
| | | 645 237 | 78.4 | | 675 055 | 88.6 | |
| **Valuation items** | | | | | 3 709 | 0.5 | 13 |
| **Current assets** | | | | | | | |
| **Receivables** | | | | | | | 14 |
| Loan receivables | 126 766 | | | 42 485 | | | |
| Prepaid expenses and accrued income | 144 | | | 213 | | | |
| Other receivables | 100 | 127 010 | 15.4 | 3 | 42 701 | 5.6 | |
| **Cash in hand and at banks** | | 51 312 | 6.2 | | 40 134 | 5.3 | |
| | | 823 559 | 100.0 | | 761 599 | 100.0 | |
| **LIABILITIES** | | | | | | | |
| **Shareholders' equity** | | | | | | | 16 |
| **Restricted equity** | | | | | | | |
| Share capital | | | | | | | |
| Externally held | 150 663 | | | 39 542 | | | |
| Redeemed | | | | 24 181 | | | |
| | 150 663 | | | 63 723 | | | |
| Reserve fund | 6 046 | 156 709 | 19.0 | 92 986 | 156 709 | 20.6 | |
| **Unrestricted equity** | | | | | | | |
| Operating fund | 133 694 | | | 134 321 | | | |
| Retained earnings | 96 646 | | | 85 609 | | | |
| Profit for the financial year | 187 712 | 418 052 | 50.8 | 62 441 | 282 371 | 37.0 | |
| | | 574 761 | 69.8 | | 439 080 | 57.6 | |
| **Accelerated depreciation** | | 9 014 | 1.1 | | 11 084 | 1.5 | |
| **Voluntary reserves** | | | | | 613 | 0.1 | |
| **Creditors** | | | | | | | 18 |
| **Non-current** | | | | | | | |
| Loans from credit institutions | 111 866 | | | 83 500 | | | |
| Pension loans | 9 333 | | | 37 625 | | | |
| Pension liabilities | | | | 3 709 | | | |
| Other non-current liabilities | | 121 199 | 14.7 | 388 | 125 222 | 16.4 | |
| **Current** | | | | | | | |
| Loans from credit institutions | 26 605 | | | 5 631 | | | |
| Pension loans | 1 667 | | | 3 177 | | | |
| Trade payables | 416 | | | 65 | | | |
| Accrued liabilities and deferred income | 34 165 | | | 20 770 | | | |
| Other current liabilities | 55 732 | 118 585 | 14.4 | 155 957 | 185 600 | 24.4 | |
| | | 823 559 | 100.0 | | 761 599 | 100.0 | |

# STATEMENT OF CHANGES IN FINANCIAL POSITION

| FIM 1000 | Group 1997 | Group 1996 | Parent Company 1997 | Parent Company 1996 |
|---|---|---|---|---|
| **Operations** | | | | |
| **Funds from operations** | | | | |
| Operating profit | 247 120 | 180 118 | 21 041 | 7 148 |
| Depreciation | 113 977 | 107 789 | 2 519 | 3 366 |
| Financial income and expenses | -16 550 | -26 372 | 106 065 | -10 826 |
| Extraordinary items | -936 | -376 | 130 134 | 88 277 |
| Income taxes | -62 834 | -42 949 | -72 211 | -23 728 |
| | 280 777 | 218 210 | 187 548 | 64 237 |
| **Change in working capital** | | | | |
| Change in inventories | -11 711 | 8 700 | | |
| Change in current receivables | -23 157 | -3 363 | -84 309 | 37 551 |
| Change in current, non-interest-bearing liabilities | 15 969 | 25 533 | 13 825 | 9 347 |
| | -18 899 | 30 870 | -70 484 | 46 898 |
| **Cash flow from operations** | 261 878 | 249 080 | 117 064 | 111 135 |
| **Net capital expenditure** | -175 114 | -118 897 | 13 491 | -4 138 |
| **Cash flow before financing** | 86 764 | 130 183 | 130 555 | 106 997 |
| **Financing** | | | | |
| Change in loan receivables | 13 977 | -1 188 | 13 809 | 46 481 |
| Change in non-current loans | -46 841 | -109 397 | -314 | -62 818 |
| Change in current loans | 6 693 | 23 070 | -80 841 | -40 723 |
| Cancellation of merged subsidiary shares | | | -627 | |
| Dividends | -48 966 | -24 483 | -51 404 | -25 702 |
| | -75 137 | -111 998 | -119 377 | -82 762 |
| **Change in liquid assets according to the balance sheet** | 11 627 | 18 185 | 11 178 | 24 235 |

## ACCOUNTING PRINCIPLES

### THE GROUP

The consolidated financial statements include those companies in which Lassila & Tikanoja plc held, either directly or indirectly, over 50 per cent of the shares' voting rights. The subsidiaries not included in the consolidated financial statements (real-estate companies with state-subsidized mortgages) have only a minor effect on consolidated shareholders' equity. Companies are included in the consolidated financial statements from the date of acquisition or establishment to the last day of holding.

The financial statements of foreign subsidiaries have been adjusted to comply with Finnish accounting standards.

The associated company involved in business operations was combined using the equity method. The share of its profit based on the Group holding was entered before operating profit. Associated companies in the form of real estate companies were not included in the consolidated financial statements. Most of the premises owned by these companies were leased out.

For more details on Group companies, see page 25 in the notes to the financial statements.

### MUTUAL SHARE OWNERSHIP

Mutual share ownership was eliminated by applying the acquisition cost method. The acquisition cost of the shares of Säkkiväline comprises both the sum paid and the nominal value of the directed issue. Subsidiary shareholders' equity was deducted from the purchase price of the subsidiary's shares, including untaxed reserves net of tax. As a rule, the resulting consolidated goodwill will be written-off in five years. The consolidated goodwill of companies acquired in Säkkiväline's sectors of operation comprises contracts which are expected to generate revenue for some time. Consolidated goodwill of this kind will be depreciated over a ten-year period.

### INTRA-GROUP TRANSACTIONS

All intra-Group transactions, balances, unrealized margins and internal distribution of profit were eliminated.

### MERGERS OF SUBSIDIARIES

The principles of previous consolidated financial statements were observed in entering mergers. In consequence, mergers of subsidiaries have not had an impact on consolidated unrestricted equity.

### ITEMS DENOMINATED IN FOREIGN CURRENCIES

The financial statements of foreign Group companies were translated into Finnish marks at the average rate of the Bank of Finland on the closing date. Translation differences produced in conversion of equity were treated as an adjustment item under consolidated unrestricted equity.

Transactions of Finnish Group companies denominated in foreign currencies were entered at the rates current on the dates of the transactions. Receivables and payables denominated in foreign currencies were translated into Finnish marks at the Bank of Finland's average rate on the closing date. Unrealized exchange rate gains or losses incurred from forward deals made for hedging purposes were not taken into account in the financial statements unless a corresponding entry was made for the hedged balance sheet item. The interest components of forward deals were accrued as interest income or expense. Exchange rate differences arising from conversion were deducted from sales revenues.

### NET SALES

Indirect sales taxes, discounts granted and foreign exchange differences on sales were deducted from sales revenues. Sales freights and other costs incurred in sales and deliveries were treated according to their nature, as either costs of goods sold or sales expenses. Bad debts were entered under other operating expenses.

### REAL ESTATE

Rent income from real estate was entered under net sales. The costs incurred therein were entered under costs of goods sold.

### RESEARCH AND DEVELOPMENT EXPENDITURE

Research and development expenditure, with the exception of outlays for equipment, was entered as an expense.

### PENSIONS

Statutory pension coverage for employees in Finnish companies was provided by private pension insurance companies. Pension insurance premiums were matched with salaries for the financial year. Foreign subsidiaries handle their pension arrangements in accordance with local practice. The pension liability of the Lassila & Tikanoja Oy pension fund was transferred to an insurance company on December 31, 1997. The excess margin in the fund on the date of transfer was returned to the company and entered under other operating income.

## VALUATION OF INVENTORIES

Inventories were valued in the balance sheet at the variable costs of acquisition and production or the probable lower replacement or sale price. No indirect costs were capitalized.

## FIXED ASSETS AND DEPRECIATION

Planned, straight-line depreciation on fixed assets was calculated from the original acquisition cost on the basis of probable economic life.

The annual depreciation percentages are as follows:

| | |
|---|---|
| 1. Buildings and structures | |
| Office and commercial premises | 2.5 % |
| Production and storage buildings | 4.0-5.0 % |
| Structures | 5.0-8.0 % |
| 2. Transport equipment | 16.6-25.0 % |
| 3. Machinery and equipment | 10.0-25.0 % |
| 4. Goodwill | 10.0 % |
| 5. Intangible rights and other capitalized expenditures | 10.0-20.0 % |

The depreciation percents for used machinery and equipment are double. Depreciation on fixed assets acquired during the financial year was calculated from the date on which they became operational.

No depreciation was made on land and revaluations. The values of land and buildings were last raised in 1987.

All goodwill items originated in Säkkiväline's sectors. They comprise contracts with an estimated effect of ten years.

Other capitalized expenditures were first-run costs and expenses incurred in renovation of leased premises.

## UNTAXED RESERVES

Appropriations (changes in voluntary reserves and the difference between booked depreciation and depreciation according to plan) were returned to the results for the financial year, with the exception of the deferred tax liability. The untaxed reserves were included in the consolidated unrestricted equity after deduction of the deferred tax liability and the reserves entered under equity at the acquisition of subsidiaries. The deferred tax liability was calculated according to the present tax rate and entered in the balance sheet as a separate item in non-current creditors.

## TAXATION

In addition to the accrual-based taxes for the financial year of the Group companies, changes in the deferred tax liability from appropriations are included in the consolidated financial statements. The tax credit for intracorporate dividends was deducted from the taxes for the financial year in the consolidated statement of income.

## 1. NET SALES

| FIM 1000 | 1997 | % | 1996 | % |
|---|---|---|---|---|
| **Net sales by business unit** | | | | |
| Service Companies | 600 272 | 36.0 | 527 733 | 35.2 |
| Nonwoven Industry | 577 052 | 34.5 | 513 124 | 34.2 |
| Flexible Packaging Manufacture | 377 535 | 22.6 | 350 234 | 23.4 |
| Narrow Fabric Manufacture | 115 724 | 6.9 | 107 165 | 7.2 |
| Other | 15 305 | 1.0 | 13 534 | 0.9 |
| Internal net sales | -16 395 | -1.0 | -13 948 | -0.9 |
| Total | 1 669 493 | 100.0 | 1 497 842 | 100.0 |
| **Net sales by market** | | | | |
| Finland | 895 458 | 53.7 | 807 807 | 53.9 |
| Other Nordic countries | 128 915 | 7.7 | 128 159 | 8.6 |
| Other EU countries | 473 023 | 28.3 | 428 044 | 28.6 |
| Other Europe | 99 515 | 6.0 | 79 871 | 5.3 |
| Other countries | 72 582 | 4.3 | 53 961 | 3.6 |
| Total | 1 669 493 | 100.0 | 1 497 842 | 100.0 |

## 2. PERSONNEL EXPENSES

| | Group | | Parent Company | |
|---|---|---|---|---|
| FIM 1000 | 1997 | 1996 | 1997 | 1996 |
| **Personnel expenses for the financial year** | | | | |
| Salaries | 377 803 | 345 751 | 3 262 | 2 540 |
| Pension expenses | 52 305 | 50 533 | 177 | 175 |
| Other salary-related expenses | 51 509 | 46 711 | 408 | 252 |
| | 481 617 | 442 995 | 3 847 | 2 967 |
| Fringe benefits | 3 424 | 3 321 | 73 | 36 |
| Total | 485 041 | 446 316 | 3 920 | 3 003 |
| **Salaries paid** | | | | |
| Members of the Boards and Managing Directors | 4 057 | 3 679 | 1 616 | 1 500 |
| Other personnel | 374 428 | 342 625 | 1 467 | 896 |
| Additional bonus to members of the Boards and Managing Directors | 675 | 517 | 190 | 150 |
| Total | 379 160 | 346 821 | 3 273 | 2 546 |

**Members of the Lassila & Tikanoja plc Board of Directors do not have pension contracts with the company. The Managing Directors of the Parent Company and the subsidiaries have statutory pension insurance.**

## 3. DEPRECIATION

| | Group | | Parent Company | |
|---|---|---|---|---|
| FIM 1000 | 1997 | 1996 | 1997 | 1996 |
| **Depreciation per function** | | | | |
| On acquisition and production | 100 423 | 95 280 | 2 356 | 2 465 |
| On sales and marketing | 1 445 | 1 257 | | |
| On administration | 10 891 | 10 040 | 163 | 47 |
| On consolidated goodwill | 1 218 | 1 214 | | |
| Total | 113 977 | 107 791 | 2 519 | 2 512 |
| **Planned depreciation by balance sheet item** | | | | |
| Intangible assets | 8 538 | 8 243 | 458 | 434 |
| Consolidated goodwill | 1 218 | 1 214 | | |
| Buildings | 13 536 | 13 070 | 1 913 | 2 031 |
| Machinery and equipment | 88 956 | 84 128 | 137 | 34 |
| Other tangible assets | 1 729 | 1 136 | 11 | 13 |
| Total | 113 977 | 107 791 | 2 519 | 2 512 |
| **Increase (-)/decrease (+) in accelerated depreciation** | | | | |
| Intangible assets | -749 | -75 | | |
| Buildings | -8 311 | -2 756 | 1 584 | 1 553 |
| Machinery and equipment | -18 633 | -27 287 | -84 | 17 |
| Other tangible assets | -2 408 | -386 | | |
| | -30 101 | -30 504 | 1 500 | 1 570 |
| Accelerated depreciation on fixed assets sold | -4 352 | -2 346 | 570 | |
| Increase (-)/decrease (+) in accelerated depreciation for the financial year | -34 453 | -32 850 | 2 070 | 1 570 |

## 4. OTHER OPERATING EXPENSES AND INCOME

| FIM 1000 | Group 1997 | 1996 | Parent Company 1997 | 1996 |
|---|---|---|---|---|
| **Other operating expenses** | | | | |
| Losses on disposal of fixed assets | 352 | 372 | | |
| Losses on sales of shares | 120 | 2 375 | 1 058 | 2 375 |
| Bad debts | 1 063 | 1 430 | | |
| Expenses incurred from fire and other damage | 296 | 763 | | |
| Other | 125 | 264 | 2 | |
| | 1 956 | 5 204 | 1 060 | 2 375 |
| **Other operating income** | | | | |
| Gains on sales of fixed assets | 6 575 | 2 780 | 393 | |
| Gains on sales of shares | 16 359 | 5 828 | 10 622 | 4 831 |
| Return of the excess pension fund margin | 5 577 | | 5 577 | |
| Indemnities and research contributions | 3 011 | 1 048 | 434 | |
| Recovery of bad debts | 313 | 321 | 35 | |
| Other | 287 | 863 | 4 | 2 |
| | 32 122 | 10 840 | 17 065 | 4 833 |

## 5. FINANCIAL INCOME AND EXPENSES

| FIM 1000 | Group 1997 | 1996 | Parent Company 1997 | 1996 |
|---|---|---|---|---|
| **Group companies** | | | | |
| Dividend income | | | 109 872 | 1 469 |
| Financial income | | | 1 711 | 2 380 |
| Interest expenses | | | -6 632 | -10 876 |
| **External** | | | | |
| Dividend income | 1 058 | 1 539 | 785 | 1 146 |
| Interest income on non-current investments | 4 362 | 53 | 4 362 | 6 |
| Other financial income | 2 181 | 2 425 | 1 539 | 1 433 |
| Exchange rate gains | 4 737 | 9 057 | 3 528 | 6 981 |
| Exchange rate losses | -4 698 | -9 623 | -3 424 | -6 649 |
| Interest expenses | -22 131 | -28 008 | -4 569 | -6 243 |
| Other financial expenses | -2 059 | -1 815 | -1 107 | -472 |
| | -16 550 | -26 372 | 106 065 | -10 825 |

The exchange rate differences were incurred from financing.
Exchange rate differences arising from sales or purchases were entered as adjustment items for either sales or purchases.

Interest income obtained during the financial year on the basis of a lower court decision concerning a disputed claim is included under interest income on non-current investments. The other party to the dispute has appealed the lower court's decision.

## 6. EXTRAORDINARY INCOME AND EXPENSES

| FIM 1000 | Group 1997 | 1996 | Parent Company 1997 | 1996 |
|---|---|---|---|---|
| **Extraordinary income** | | | | |
| Group contribution | | | 128 570 | 88 644 |
| Unredeemed dividends | | 19 | | 19 |
| Merger profits | | | 2 500 | |
| | | 19 | 131 070 | 88 663 |
| **Extraordinary expenses** | | | | |
| Redemption of warrants | 936 | 387 | 936 | 387 |
| Other | | 8 | | |
| | 936 | 395 | 936 | 387 |
| Total extraordinary income and expenses | -936 | -376 | 130 134 | 88 276 |

## 7. INTANGIBLE ASSETS

The figures include all the intangible assets whose acquisition costs have not yet been entered in their entirety as expenses under planned depreciation. However, all consolidated goodwill and reserves are shown.

| FIM 1000 | Group 1997 | 1996 | Parent Company 1997 | 1996 |
|---|---|---|---|---|
| **Intangible rights** | | | | |
| Acquisition cost Jan. 1 | 983 | 885 | | |
| Fully depreciated | | -11 | | |
| Increase | 193 | 109 | | |
| Acquisition cost Dec. 31 | 1 176 | 983 | | |
| Accumulated depreciation | -479 | -368 | | |
| Balance sheet value Dec. 31 | 697 | 615 | | |
| Accelerated depreciation Jan. 1 | 45 | 46 | | |
| Changes | -5 | -1 | | |
| Accelerated depreciation Dec. 31 | 40 | 45 | | |
| **Goodwill** | | | | |
| Acquisition cost Jan. 1 | 63 316 | 71 888 | | |
| Fully depreciated | -4 305 | -8 128 | | |
| Increase | 4 499 | 100 | | |
| Decrease | | -544 | | |
| Acquisition cost Dec. 31 | 63 510 | 63 316 | | |
| Accumulated depreciation | -44 443 | -43 418 | | |
| Balance sheet value Dec. 31 | 19 067 | 19 898 | | |
| Accelerated depreciation Jan. 1 | 694 | 853 | | |
| Changes | 328 | -159 | | |
| Accelerated depreciation Dec. 31 | 1 022 | 694 | | |
| **Consolidated goodwill** | | | | |
| Acquisition cost Jan. 1 | 224 114 | 223 856 | | |
| Increase | 7 | 258 | | |
| Decrease | -378 | | | |
| Acquisition cost Dec. 31 | 223 743 | 224 114 | | |
| Accumulated depreciation | -215 260 | -214 421 | | |
| Balance sheet value Dec. 31 | 8 483 | 9 693 | | |
| **Consolidated reserve** | | | | |
| Acquisition cost Jan. 1 and Dec. 31 | -983 | -983 | | |
| Accumulated entries in statement of income | 983 | 983 | | |
| Acquisition cost Dec. 31 | 0 | 0 | | |
| **Other capitalized expenditure** | | | | |
| Acquisition cost Jan. 1 | 17 378 | 11 985 | 2 168 | 0 |
| Fully depreciated | -363 | -313 | | |
| Increase | 4 823 | 5 706 | 63 | 2 168 |
| Acquisition cost Dec. 31 | 21 838 | 17 378 | 2 231 | 2 168 |
| Accumulated depreciation | -9 339 | -6 605 | -892 | -434 |
| Balance sheet value Dec. 31 | 12 499 | 10 773 | 1 339 | 1 734 |
| Accelerated depreciation Jan. 1 | 1 419 | 1 184 | | |
| Changes | 427 | 235 | | |
| Accelerated depreciation Dec. 31 | 1 846 | 1 419 | | |

## 8. TANGIBLE ASSETS

**The figures include all the fixed assets whose acquisition costs have not yet been entered in their entirety as expenses under planned depreciation.**

| FIM 1000 | Group 1997 | Group 1996 | Parent Company 1997 | Parent Company 1996 |
|---|---|---|---|---|
| **Land** | | | | |
| Acquisition cost Jan. 1 | 26 829 | 26 171 | 18 945 | 18 945 |
| Increase | 515 | 658 | | |
| Decrease | -142 | | -27 | |
| Balance sheet value Dec. 31 | 27 202 | 26 829 | 18 918 | 18 945 |
| Revaluations included in the balance sheet value | 15 197 | 15 297 | 13 800 | 13 800 |
| **Buildings** | | | | |
| Acquisition cost Jan. 1 | 320 495 | 308 808 | 69 087 | 69 041 |
| Fully depreciated | -1 496 | 46 | -647 | 46 |
| Increase | 32 431 | 11 644 | | |
| Decrease | -5 371 | | -4 555 | |
| Exchange differences | | -3 | | |
| Acquisition cost Dec. 31 | 346 059 | 320 495 | 63 885 | 69 087 |
| Accumulated depreciation | -100 333 | -90 795 | -30 049 | -31 196 |
| Balance sheet value Dec. 31 | 245 726 | 229 700 | 33 836 | 37 891 |
| Accelerated depreciation Jan. 1 | 85 963 | 83 206 | 11 060 | 12 612 |
| Changes | 7 669 | 2 757 | -2 218 | -1 552 |
| Accelerated depreciation Dec. 31 | 93 632 | 85 963 | 8 842 | 11 060 |
| Revaluations included in the balance sheet value | 39 974 | 40 555 | 20 974 | 20 974 |
| **Machinery and equipment** | | | | |
| Acquisition cost Jan. 1 | 767 586 | 742 565 | 279 | 519 |
| Fully depreciated | -71 535 | -54 807 | -120 | -279 |
| Increase | 149 356 | 88 061 | 469 | 39 |
| Decrease | -12 555 | -8 946 | | |
| Exchange differences | 377 | 713 | | |
| Acquisition cost Dec. 31 | 833 229 | 767 586 | 628 | 279 |
| Accumulated depreciation | -373 232 | -364 991 | -232 | -215 |
| Balance sheet value Dec. 31. | 459 997 | 402 595 | 396 | 64 |
| Accelerated depreciation Jan. 1 | 192 457 | 162 833 | 24 | 42 |
| Changes | 23 623 | 29 624 | 148 | -18 |
| Accelerated depreciation Dec. 31. | 216 080 | 192 457 | 172 | 24 |
| Net book value of machines and equipment, included in fixed assets, Dec. 31 | 426 660 | 378 539 | 0 | 0 |
| **Other tangible assets** | | | | |
| Acquisition cost Jan. 1 | 8 037 | 6 640 | 105 | 105 |
| Fully depreciated | -838 | -936 | -6 | |
| Increase | 6 601 | 2 355 | 8 | |
| Decrease | | -22 | | |
| Acquisition cost Dec. 31 | 13 800 | 8 037 | 107 | 105 |
| Accumulated depreciation | -4 574 | -3 681 | -45 | -40 |
| Balance sheet value Dec. 31 | 9 226 | 4 356 | 62 | 65 |
| Accelerated depreciation Jan. 1 | 776 | 382 | | |
| Changes | 2 411 | 394 | | |
| Accelerated depreciation Dec. 31. | 3 187 | 776 | | |
| **Advance payments and construction in progress** | | | | |
| Acquisition cost Jan. 1 | 35 083 | 12 630 | | |
| Increase/Decrease | -2 084 | 22 453 | | |
| Acquisition cost Dec. 31 | 32 999 | 35 083 | | |
| **Taxation values** | | | | |
| Land | 10 354 | 9 897 | 7 024 | 7 060 |
| Buildings | 114 990 | 102 790 | 27 447 | 31 080 |
| Bonds and shares | | | | |
| Subsidiaries | | | 258 744 | 275 063 |
| Other | 60 257 | 56 812 | 23 532 | 39 873 |

The book value was presented where taxation values were unavailable.

## 9. SUBSIDIARIES DECEMBER 31, 1997

| | Percentage of total number of shares and of voting power | Share of equity | Number of shares | | Nominal value of shares | Book value of shares | Profit/loss according to the latest financial statements |
|---|---|---|---|---|---|---|---|
| | % | FIM 1000 | | | | FIM 1000 | FIM 1000 |
| Amerplast Oy, Tampere | 100.0 | 59 170 | 9 000 | FIM | 13 500 000 | 141 890 | 1 903 |
| Inka Oy, Turku | 100.0 | 25 268 | 20 | FIM | 2 000 000 | 15 008 | 1 747 |
| J. W. Suominen Oy, Nakkila | 100.0 | 85 016 | 70 000 | FIM | 63 000 000 | 92 563 | 0 |
| Säkkiväline Oy, Helsinki | 100.0 | 178 456 | 1 948 000 | FIM | 19 480 000 | 238 260 | 41 580 |
| **Total** | | | | | | 487 721 | |
| **Owned through subsidiaries:** | | | | | | | |
| Amerplast AB, Norrköping, Sweden | 100.0 | 8 609 | 100 000 | SEK | 10 000 000 | 575 | 2 540 |
| Amerplast Sp.z. o.o. Warsaw, Poland | 100.0 | 55 | 1 000 | PLN | 100 000 | 164 | -329 |
| ZAO Amerplast, St. Petersburg, Russia | 100.0 | -109 | 20 | RUR | 4 500 000 | 13 | -108 |
| A. Eskola Oy, Oulu | 100.0 | 448 | 115 | FIM | 115 000 | 950 | 2 |
| Inka GmbH, Bochum, Germany | 100.0 | -1 294 | | DEM | 50 000 | 98 | 141 |
| Kanta-Hämeen Ympäristöyhtiö Oy, Helsinki | 100.0 | 128 | 50 | FIM | 50 000 | 36 | 8 |
| Kiinteistö Oy Tampereen Sarankulma, Helsinki | 100.0 | 24 | 150 | FIM | 15 000 | 0 | 6 |
| SV-Ammattipörssi Oy, Helsinki | 100.0 | 200 | 100 | FIM | 15 000 | 204 | 2 |
| Svensk Lasthantering Bengt Lindahl AB, Gothenburg, Sweden | 100.0 | 7 766 | 5 000 | SEK | 500 000 | 2 820 | 1 333 |
| Säkkiväline Etelä Oy, Helsinki | 100.0 | 159 | 500 | FIM | 50 000 | 50 | 87 |
| Säkkiväline Itä Oy, Helsinki | 100.0 | 150 | 500 | FIM | 50 000 | 50 | 94 |
| Säkkiväline Kiinteistöhuolto Oy, Helsinki | 100.0 | 1 075 | 1 000 | FIM | 1 000 000 | 3 313 | 65 |
| Säkkiväline Länsi Oy, Helsinki | 100.0 | 118 | 500 | FIM | 50 000 | 50 | 59 |
| Säkkiväline Palvelu Oy, Helsinki | 100.0 | 104 | 60 | FIM | 30 000 | 246 | 65 |
| Säkkiväline Pohjoinen Oy, Helsinki | 100.0 | 107 | 500 | FIM | 50 000 | 50 | 40 |
| Säkkiväline Puhtaanapito Oy, Helsinki | 100.0 | 7 065 | 1 000 | FIM | 1 000 000 | 16 890 | 96 |
| Säkkiväline Siivouspalvelut Oy, Helsinki | 100.0 | 1 833 | 1 000 | FIM | 1 000 000 | 6 046 | 807 |
| **Total** | | | | | | 519 276 | |

## 10. ASSOCIATED COMPANIES DECEMBER 31, 1997

| | Percentage of total number of shares and of voting power | Share of equity | Number of shares | Nominal value of shares | Book value of shares | Profit/loss according to the latest financial statements | Balance sheet date | Financial year, months |
|---|---|---|---|---|---|---|---|---|
| | % | FIM 1000 | | | FIM 1000 | FIM 1000 | | |
| AS Norsafe, Tallinn, Estonia | 50.0 | 528 | 5 000 | EEK 50 000 | 1 223 | 389 | Dec. 31,1997 | 12 |

## 11. OTHER COMPANIES DECEMBER 31, 1997

| | Percentage of total number of shares and of voting power | | Number of shares | | Nominal value of shares FIM 1000 | | Book value of shares FIM 1000 | |
|---|---|---|---|---|---|---|---|---|
| | Group | Parent | Group | Parent | Group | Parent | Group | Parent |
| Oy Ekokem Ab, Riihimäki | 4.39 | | 773 | | 1 546 000 | | 5 378 | |
| Instrumentarium Corporation, Series A, Helsinki | 0.33 | 0.33 | 51 000 | 51 000 | 510 000 | 510 000 | 5 300 | 5 300 |
| Instrumentarium Corporation, Series B, Helsinki | 0.38 | 0.38 | 18 400 | 18 400 | 184 000 | 184 000 | 2 017 | 2 017 |
| Kiinteistö Oy Inkanmäki*, Turku | 100.00 | 100.00 | 100 | 100 | 250 000 | 250 000 | 256 | 256 |
| Kiinteistö Oy Killinkivi*, Virrat | 58.30 | 58.30 | 14 | 14 | 70 000 | 70 000 | 70 | 70 |
| Kiinteistö Oy Killinpolku*, Virrat | 25.00 | 25.00 | 1 | 1 | 50 000 | 50 000 | 50 | 50 |
| Kiinteistö Oy Tikankulma*, Tampere | 45.47 | 45.47 | 3 092 | 3 092 | 1 314 100 | 1 314 100 | 24 478 | 24 478 |
| Merita Bank Ltd., Series A, Helsinki | 0.12 | | 952 701 | | 9 527 010 | | 34 066 | |
| OKR-Issuers Co-operative, Helsinki | 0.64 | 0.42 | 3 | 2 | 110 000 | 40 000 | 110 | 40 |
| Pihlajamäen Ostoskeskus Oy, Helsinki | 4.43 | 4.43 | 77 | 77 | 7 700 | 7 700 | 711 | 711 |
| Pohjola Insurance Company, Series A, Helsinki | 0.04 | 0.04 | 8 800 | 8 800 | 44 000 | 44 000 | 758 | 758 |
| Connection fees | | | | | | | 2 255 | 206 |
| Telephone company shares | | | | | | | 1 060 | 16 |
| Other | | | | | | | 3 407 | 93 |
| Total | | | | | | | 79 916 | 33 995 |

* Not consolidated

A complete list of the shares owned is appended to the documents concerning the financial statements. It is available at the Lassila & Tikanoja Group administration.

On December 31, 1997, a writedown of FIM 34.1 million was made in the consolidated financial statements on shares of Merita Bank Ltd. This is FIM 13.3 million less than a year ago. On the basis of the financing agreement related to acquisition of these shares, the writedown has no effect on the financial results. Otherwise, shares are valued at the original acquisition price. The value of publicly quoted securities at the price current on the closing date was FIM 1.3 million higher than their book value in the Group and FIM 6.9 million higher than their book value in the Parent Company.

## 12. FINANCIAL ASSETS

| | Group | | Parent Company | |
|---|---|---|---|---|
| FIM 1000 | 1997 | 1996 | 1997 | 1996 |
| Group companies | | | | |
| Loan receivables | | | 68 120 | 68 120 |

There were no loan receivables from members of Group company boards or Managing Directors.

## 13. VALUATION ITEMS

| | Group | | Parent Company | |
|---|---|---|---|---|
| FIM 1000 | 1997 | 1996 | 1997 | 1996 |
| Portion of pension liability not entered as an expense Jan. 1 | 3 709 | 4 078 | 3 709 | 4 078 |
| Change during the financial year | -3 709 | -369 | -3 709 | -369 |
| Portion of pension liability not entered as an expense Dec. 31, book value | 0 | 3 709 | 0 | 3 709 |

The pension liability of the pension fund was transferred to an insurance company on December 31, 1997 by means of a liability transfer agreement. The fund's excess margin was returned to the employer and entered under other operating income.

## 14. CURRENT ASSETS

| FIM 1000 | Group 1997 | 1996 | Parent Company 1997 | 1996 |
|---|---|---|---|---|
| Trade receivables | | | | |
| Denominated in FIM | 83 514 | 72 121 | | |
| Denominated in foreign currencies | 97 284 | 83 957 | | |
| Total | 180 798 | 156 078 | | |
| Trade receivables as a percentage of net sales | 10.8 | 10.4 | | |
| Receivables from Group companies | | | | |
| Loan receivables | | | 126 766 | 42 481 |
| Receivables from associated companies | | | | |
| Trade receivables | 308 | | | |

## 15. GROUP EQUITY CAPITAL

| | | Restricted equity | | | | Unrestricted equity | |
|---|---|---|---|---|---|---|---|
| FIM 1000 | Total | Share capital | Reserve fun | Share premium | Revaluation fund untaxed | Transferred from reserves | Distributable equity capital |
| Equity capital Jan. 1, 1997 | 505 433 | 63 723 | 92 997 | 0 | 18 598 | 153 303 | 176 812 |
| Reduction of share capital | 0 | -26 057 | | 26 057 | | | |
| Capitalization issue | 0 | 112 997 | -86 940 | -26 057 | | | |
| Dividends | -48 966 | | | | | | -48 966 |
| Dissolution of revaluation | -681 | | | | | | -681 |
| Translation differences | 62 | | | | | | 62 |
| Change in untaxed reserves for the financial year | 0 | | | | | 5 483 | -5 483 |
| Profit | 164 575 | | | | | | 164 575 |
| Dec. 31, 1997 | 620 423 | 150 663 | 6 057 | 0 | 18 598 | 158 786 | 286 319 |
| Distributable equity | | | | | | | 286 319 |

## 16. PARENT COMPANY EQUITY

| | | Restricted equity | | | Unrestricted equity | | |
|---|---|---|---|---|---|---|---|
| FIM 1000 | Total | Share capital | Reserve fund | Share premium | Operating fund | Retained earnings | Profit for the financial year |
| Equity capital Jan. 1, 1997 | 439 080 | 63 723 | 92 986 | 0 | 134 321 | 148 050 | |
| Reduction of share capital | 0 | -26 057 | | 26 057 | | | |
| Capitalization issue | 0 | 112 997 | -86 940 | -26 057 | | | |
| Dividends | -51 404 | | | | | -51 404 | |
| Cancellation of shares | -627 | | | | -627 | | |
| Profit | 187 712 | | | | | | 187 712 |
| Dec. 31, 1997 | 574 761 | 150 663 | 6 046 | 0 | 133 694 | 96 646 | 187 712 |

## 17. GROUP UNTAXED RESERVES AND DEFERRED TAX LIABILITY

| FIM 1000 | Dec. 31, 1997 | Change | Jan. 1, 1997 |
|---|---|---|---|
| Accelerated depreciation | 315 807 | 34 453 | 281 354 |
| Investment reserves | 0 | -305 | 305 |
| Transition reserves | 0 | -26 800 | 26 800 |
| Other reserves | 2 812 | 377 | 2 435 |
| Total untaxed reserves | 318 619 | 7 725 | 310 894 |
| Deferred tax liability | -89 213 | -2 225 | -86 988 |
| Subsidiaries' share of equity on acquisition | -70 620 | -17 | -70 603 |
| Share transferred to unrestricted equity | 158 786 | 5 483 | 153 303 |

## 18. CREDITORS

| FIM 1000 | 1998 * | 1999 | 2000 | 2001 |
|---|---|---|---|---|
| **Instalments of non-current creditors in near future** | | | | |
| **Group** | | | | |
| Loans from credit institutions | 51 281 | 68 383 | 76 857 | 44 777 |
| Pension loans | 4 813 | 4 574 | 4 370 | 4 181 |
| Other loans | 613 | 233 | 107 | 107 |
| Total | 56 707 | 73 190 | 81 334 | 49 065 |
| **Parent Company** | | | | |
| Loans from credit institutions | 16 634 | 15 388 | 15 382 | 15 377 |
| Pension loans | 1 667 | 1 737 | 1 732 | 1 727 |
| Other loans | 380 | | | |
| Total | 18 681 | 17 125 | 17 114 | 17 104 |

* Under current liabilities in the balance sheet

| | Group | | Parent Company | |
|---|---|---|---|---|
| | **1997** | 1996 | **1997** | 1996 |
| **Liabilities which fall due in five years or a longer period** | | | | |
| Loans from credit institutions | **31 665** | 48 365 | **65 719** | 66 095 |
| Pension loans | **36 740** | 72 987 | **4 137** | 30 264 |
| Other loans | **106** | | | |
| Total | **68 511** | 121 352 | **69 856** | 96 359 |
| **Non-interest bearing liabilities** | | | | |
| Non-current | **89 213** | 90 697 | | 3 709 |
| Current | **228 836** | 212 867 | **34 915** | 21 090 |
| Total | **318 049** | 303 564 | **34 915** | 24 799 |
| **Liabilities to Group companies** | | | | |
| Other current liabilities | | | **55 015** | 155 693 |
| **Liabilities to associated companies** | | | | |
| Trade payables | **105** | | | |

On December 31, 1997, the Group had FIM 272.1 million in non-current, interest-bearing liabilities and the Parent Company FIM 121.2 million. Liabilities denominated in foreign currencies accounted for 15.4 per cent of total consolidated liabilities.

### Warrant bond

The remainder of the FIM 380,000 warrant bond issued in 1993 is included in other current liabilities. By the end of 1997, FIM 28,000 in premature repayments on the bond had been made. The bond will be repaid in a single instalment on July 1, 1998. Annual interest due on the bond is 10 per cent. Shares can be subscribed between July 1, 1993 and December 31, 1998 with the warrants attached to the bond. The price for subscriptions made after the capitalization issue is FIM 35.25 and the number of subscribable shares is 760,000. The share capital can therefore be increased by FIM 7,600,000. These shares represent 4.8 per cent of the company's shares. No subscription rights based on the warrant bond have been exercised.

## 19. PLEDGES AND CONTINGENT LIABILITIES

| FIM 1000 | Group 1997 | Group 1996 | Parent Company 1997 | Parent Company 1996 |
|---|---|---|---|---|
| **Security for own liabilities** | | | | |
| Pledges* | 183 049 | 215 181 | 182 792 | 214 730 |
| Real estate mortgages | 185 215 | 184 910 | 66 000 | 66 000 |
| Company mortgages | 128 330 | 78 330 | | |
| * Total commitments for which pledges have been given as security | 164 712 | 196 267 | 161 063 | 190 675 |
| **Security for Group company liabilities** | | | | |
| Guarantees | | | 95 520 | 102 746 |
| **Liabilities** | | | | |
| Pension fund liabilities | | 16 084 | | 16 084 |
| Other pension liabilities | | 59 | | |
| Leasing liabilities | | | | |
| Falling due next year | 120 | 75 | | |
| Falling due in subsequent years | 329 | 12 | | |
| Other leasing liabilities | | 85 | | |

| Group | 1997 Values | 1997 Difference between open contracts and market values | 1996 Values | 1996 Difference between open contracts and market values |
|---|---|---|---|---|
| **Derivative contracts** | | | | |
| Interest rate derivatives | | | | |
| Nominal values of interest rate derivatives | 5 000 | -52 | 35 000 | -2 400 |
| Currency derivatives | | | | |
| Counter values of forward contracts | 31 300 | -380 | 36 323 | -13 |

The Group has given no pledges, mortgages or guarantees on behalf of outsiders.

# SHARES AND SHAREHOLDERS

## SHARE CAPITAL

The share capital of Lassila & Tikanoja plc totals FIM 150,663,080. The nominal value of shares is FIM 10. The company is quoted on the Helsinki Stock Exchange. At the closing of the books, 99.9 per cent of the company's shares were registered in the book-entry securities system.

The following changes in company share capital were made during the year:

The Board of Directors decided at a meeting on October 27, 1997 to reduce the share capital by an amount equivalent to the nominal value of the shares redeemed by the company and removed from the share register without lowering the share capital. The share capital before the reduction was FIM 63,722,520. After the reduction the share capital of the company was FIM 37,665,770. It was decided to transfer the amount of the reduction to the share premium.

An extraordinary meeting of shareholders decided on November 17, 1997 to effect a capitalization issue in which the share capital would be increased by FIM 112,997,310 from FIM 37,665,770 to FIM 150,663,080. The capitalization issue was effected by transferring FIM 86,940,560 from the reserve fund and FIM 26,056,750 from share premium to share capital. Shareholders received three new shares for each old share.

## SHAREHOLDERS

Lassila & Tikanoja plc had 961 registered shareholders. Foreign shareholders owned 14.4 per cent of the shares. Members of the Board of Directors owned a total of 575,640 shares, which entitled them to 3.8 per cent of the voting rights. Members of the Board of Directors can subscribe 120,000 shares or 0.8 per cent of the share capital with the 1993 warrant bond.

With respect to the 1993 warrant bond, it is possible to subscribe a maximum of 760,000 shares between July 1, 1993 and December 31, 1998. The share capital can be increased by FIM 7,600,000.

## TRADING IN SHARES AND SHARE PRICES

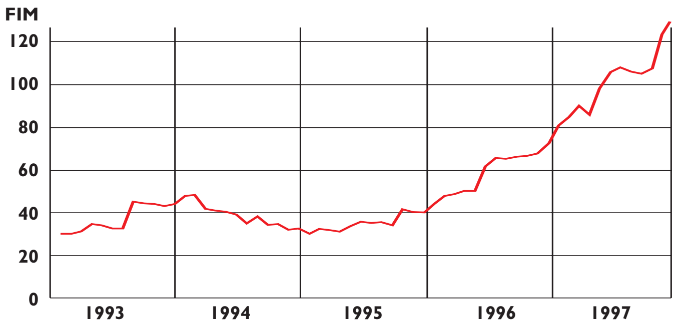
During 1997, 6,177,488 shares - adjusted for the share issue - were traded on the Helsinki Stock Exchange. This represents 40.6 per cent of the company's shares. The price of a company share rose during the year by 73.3 per cent. The rise was greater than that of the general index of the Helsinki Stock Exchange.

The market capitalization value of company shares on December 31, 1997 was FIM 1,896.6 million.

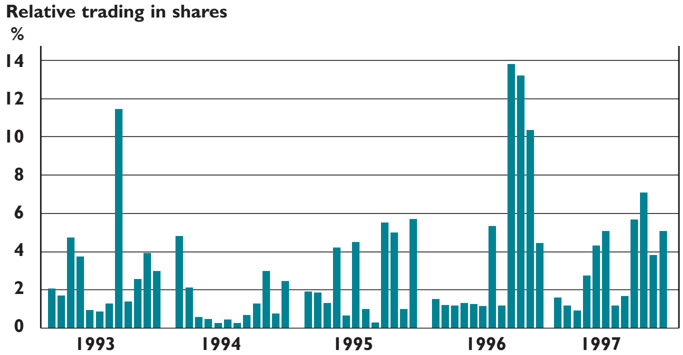
## AUTHORIZATION FOR THE BOARD OF DIRECTORS

The company Board of Directors is not authorized to effect any share issues or launch a convertible bond or warrant bond.

**Average share prices adjusted for share issue**




**Relative trading in shares**



## SHAREHOLDERS BY CATEGORY

| | Number of shareholders | Percentage of total shares | Total shares held in each category | Percentage of shares and of voting power |
|---|---|---|---|---|
| Companies | 103 | 10.7 | 1 716 533 | 11.4 |
| Financial institutions and insurance companies | 26 | 2.7 | 4 117 434 | 27.3 |
| Public institutions | 17 | 1.8 | 2 115 364 | 14.0 |
| Non-profit organizations | 32 | 3.3 | 932 886 | 6.2 |
| Individuals | 779 | 81.1 | 4 003 967 | 26.5 |
| Foreign shareholders | 4 | 0.4 | 25 240 | 0.2 |
| | 961 | 100.0 | 12 911 424 | 85.6 |
| Shares registered in a nominee's name | | | 2 132 160 | 14.2 |
| Shares not transferred to the book-entry securities system and on the waiting list | | | 22 724 | 0.2 |
| Total | | | 15 066 308 | 100.0 |

## DISTRIBUTION OF SHARE OWNERSHIP

| Number of shares | Number of shareholders | Percentage of total shares | Total shares held in each category | Percentage of shares and of voting power |
|---|---|---|---|---|
| 1-4000 | 768 | 79.9 | 601 999 | 4.0 |
| 4001-12000 | 104 | 10.9 | 713 283 | 4.7 |
| 12001-40000 | 54 | 5.6 | 1 133 516 | 7.5 |
| 40001-80000 | 13 | 1.4 | 799 182 | 5.3 |
| 80001-200000 | 11 | 1.1 | 1 367 856 | 9.1 |
| 200001-400000 | 3 | 0.3 | 941 160 | 6.2 |
| over 400000 | 8 | 0.8 | 7 354 428 | 48.8 |
| | 961 | 100.0 | 12 911 424 | 85.6 |
| Shares registered in a nominee's name | | | 2 132 160 | 14.2 |
| Shares not transferred to the book-entry securities system and on the waiting list | | | 22 724 | 0.2 |
| Total | | | 15 066 308 | 100.0 |

## THE LARGEST SHAREHOLDERS

| Shareholders | Number of shares | Percentage of shares |
|---|---|---|
| 1. Pohjola Insurance Company | 2 146 000 | 14.2 |
| 2. Evald and Hilda Nissi Foundation | 1 005 660 | 6.7 |
| 3. Instrumentarium Corporation* | 918 160 | 6.1 |
| 4. Nova Life Insurance Company | 723 848 | 4.8 |
| 5. Municipal Pension Insurance | 707 600 | 4.7 |
| 6. Ruth Kangas | 702 080 | 4.7 |
| 7. Tapiola Insurance Group | 576 840 | 3.8 |
| 8. Juhani Maijala | 574 240 | 3.8 |
| 9. Pension-Varma Mutual Insurance Company | 366 600 | 2.4 |
| 10. Heikki Bergholm | 324 000 | 2.2 |
| 11. Mikko Maijala | 250 560 | 1.7 |
| 12. Optimal Unit Trust | 175 060 | 1.2 |
| 13. Partita Oy | 160 000 | 1.1 |
| 14. Alfred Berg Finland Unit Trust | 157 696 | 1.0 |
| 15. Oy Norvestia Ab | 152 000 | 1.0 |
| 16. Foundation for Economic Education | 150 000 | 1.0 |
| 17. Merita Fennia Unit Trust | 115 200 | 0.8 |
| 18. Eeva Maijala | 100 400 | 0.7 |
| 19. Finnish National Fund for Research and Development | 100 000 | 0.7 |
| 20. Alfred Berg Portfolio Unit Trust | 93 700 | 0.6 |

* Includes shares owned by the pension fund.

All information concerning the company's shares is based on the book-entry securities register, as on February 16, 1998.

# KEY FIGURES

## KEY FIGURES ON SHARES

| | 1993 | 1994 | 1995 | 1996 | 1997 |
|---|---|---|---|---|---|
| Earnings/share (EPS), FIM | 2.77 | 5.03 | 5.64 | 7.33 | **10.99** * |
| Equity/share, FIM | 20.13 | 24.29 | 27.83 | 33.55 | **41.18** |
| Dividend/share, FIM | 0.63 | 1.13 | 1.63 | 3.25 | **5.00** ** |
| Dividend/earnings, % | 22.6 | 22.4 | 28.8 | 44.3 | **45.5** ** |
| Dividend yield, % | 1.4 | 3.2 | 4.1 | 4.5 | **4.0** ** |
| P/E ratio | 15.7 | 6.9 | 7.1 | 9.9 | **11.5** |
| Adjusted share price | | | | | |
| low, FIM | 26.83 | 32.00 | 28.75 | 41.00 | **73.25** |
| high, FIM | 48.75 | 50.50 | 44.00 | 75.00 | **133.00** |
| average, FIM | 39.53 | 40.99 | 36.60 | 64.72 | **106.44** |
| at year end weighted with the number of trades per closing date, FIM | 43.51 | 34.66 | 40.05 | 72.72 | **126.01** |
| Market capitalization on Dec. 31, FIM million | 655.5 | 522.2 | 603.5 | 1 095.6 | **1 898.6** |
| Adjusted number of shares held outside the Group | | | | | |
| Average during the year | 13 787 800 | 15 066 308 | 15 066 308 | 15 066 308 | **15 066 308** |
| At year end | 15 066 308 | 15 066 308 | 15 066 308 | 15 066 308 | **15 066 308** |
| Number of shares traded | 5 250 719 | 2 546 940 | 4 937 296 | 8 403 216 | **6 117 488** |
| as a percentage of the average during the year | 38.1 | 16.9 | 32.8 | 55.8 | **40.6** |

* With dilution of the warrant bond taken into account: FIM 10.50

** Proposal by the Board of Directors

## KEY FIGURES ON FINANCIAL PERFORMANCE

| | 1993 | 1994 | 1995 | 1996 | 1997 |
|---|---|---|---|---|---|
| Net sales, FIM million | 1 013.2 | 1 229.9 | 1 374.0 | 1 497.8 | **1 669.5** |
| Exports and international operations, FIM million | 418.6 | 570.4 | 633.5 | 690.0 | **774.0** |
| Operating profit, FIM million | 81.4 | 122.1 | 142.8 | 180.1 | **247.1** |
| as % of net sales | 8.0 | 9.9 | 10.4 | 12.0 | **14.8** |
| Profit before extraordinary items, FIM million | 37.7 | 90.2 | 109.0 | 153.7 | **230.5** |
| as % of net sales | 3.7 | 7.4 | 7.9 | 10.3 | **13.8** |
| Profit before reserves, income taxes and minority interest, FIM million | 27.3 | 89.0 | 103.9 | 153.4 | **229.6** |
| as % of net sales | 2.7 | 7.2 | 7.6 | 10.2 | **13.8** |
| Balance sheet total, FIM million | 1 053.9 | 1 103.6 | 1 146.8 | 1 174.7 | **1 277.3** |
| Return on equity, % (ROE) | 11.9 | 21.8 | 20.8 | 23.9 | **29.4** |
| Return on invested capital, % (ROI) | 12.2 | 15.8 | 17.3 | 21.2 | **27.8** |
| Equity ratio, % | 31.6 | 36.2 | 36.6 | 43.0 | **48.6** |
| Gearing, % | 114.8 | 95.0 | 98.5 | 61.6 | **44.0** |
| Gross investments, FIM million | 202.0 | 163.4 | 229.9 | 131.9 | **202.8** |
| as % of net sales | 19.9 | 13.3 | 16.7 | 8.8 | **12.1** |
| Expenditure on R&D, FIM million | 8.1 | 8.7 | 9.9 | 11.3 | **11.2** |
| as % of net sales | 0.8 | 0.7 | 0.7 | 0.8 | **0.7** |
| Average personnel employed | 2 639 | 2 910 | 3 019 | 3 241 | **3 610** |

**RETURN ON EQUITY, % (ROE)=**

$$\frac{\text{Profit before extraordinary items, reserves and taxes - taxes including change in deferred tax liability} \times 100}{\text{Shareholders' equity including untaxed reserves net of tax + minority interest (average)}}$$

**RETURN ON INVESTED CAPITAL, % (ROI) =**

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

**EQUITY RATIO, % =**

$$\frac{\text{Shareholders' equity including untaxed reserves net of tax + minority interests} \times 100}{\text{Balance sheet total - advances received}}$$

**GEARING, % =**

$$\frac{\text{Interest-bearing liabilities - cash in hand and at banks} \times 100}{\text{Shareholders' equity including untaxed reserves net of tax + minority interest}}$$

**EARNINGS/SHARE =**

$$\frac{\text{Profit before extraordinary items, reserves and taxes - taxes indluding change in deferred tax liability - minority interest}}{\text{Adjusted number of shares held outside the Group (average)}}$$

**EQUITY/SHARE =**

$$\frac{\text{Shareholders' equity including untaxed reserves net of tax}}{\text{Adjusted number of shares held outside the Group at year end}}$$

**DIVIDEND/SHARE =**

$$\frac{\text{Dividend/share for the financial year}}{\text{Adjustment coefficient for share issues after the financial year}}$$

**DIVIDEND/ EARNINGS, % =**

$$\frac{\text{Dividend/share} \times 100}{\text{Earnings/share}}$$

**DIVIDEND YIELD, % =**

$$\frac{\text{Dividend/share} \times 100}{\text{Adjusted share price at year end weighted with the number of trades per closing date}}$$

**P/E RATIO =**

$$\frac{\text{Adjusted share price at year end weighted with the number of trades per closing date}}{\text{Profit/share}}$$

**MARKET CAPITALIZATION =**

Number of shares held outside the Group × adjusted share price at year end weighted with the number of trades per closing date

# PROPOSAL BY THE BOARD OF DIRECTORS

## TO THE ANNUAL GENERAL MEETING

| | |
|---|---|
| On December 31, 1997, the consolidated balance sheet shows unrestricted equity | 620 423 000.00 |
| With distributable equity of | 286 319 000.00 |
| | |
| The Parent Company's profit | 187 712 241.95 |
| Profit carried over from previous years | 96 645 934.58 |
| Total | 284 358 176.53 |

| | |
|---|---|
| The Board of Directors proposes that a dividend of FIM 5.00 be paid on each of the 15,066,308 shares | 75 331 540.00 |
| Leaving the remainder on the retained earnings account | 209 026 636.53 |
| Total | 284 358 176.53 |

Helsinki, February 25, 1998

Jaakko Lassila    Yrjö Niskanen

Heikki Hakala    Jukka Viinanen

Juhani Maijala

## TO THE SHAREHOLDERS OF LASSILA & TIKANOJA PLC

We have audited the accounting, the financial statements and the corporate governance of Lassila & Tikanoja plc for the period January 1 - 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 Managing Director. Based on our audit we express an opinion on these financial statements and on corporate governance.

We have conducted the audit in accordance with Finnish Standards on Auditing. Those standards require that we perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining on a test basis evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by the management as well as evaluating the overall financial statements presentation. The purpose of our audit of corporate governance is to examine that the members of the Board of Directors and the Managing Director have legally complied with the rules of the Companies' Act.

In our opinion the financial statements have been prepared in accordance with the Accounting Act and other rules and regulations governing the preparation of financial statements. The financial statements give a true and fair view, as defined in the Accounting Act, of both the consolidated and parent company's result of operations as well as of the financial position. The financial statements with the consolidated financial statements can be adopted and the members of the Board of Directors and the Managing Director of the parent company can be discharged from liability for the period audited by us. The proposal by the Board of Directors regarding the distribution of retained earnings is in compliance with the Companies' Act.

We have reviewed the interim reports published during the financial year. In our view, these have been prepared in accordance with applicable regulations.

Helsinki, March 2, 1998

| | |
|---|---|
| Ilkka Haarlaa | Antti Lassila |
| Authorised Public Accountant | Authorised Accountant |

# CONTACT INFORMATION

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## FINANCIAL INFORMATION

Interim Report, January 1 - April 30,
issued June 2, 1998

Interim Report, January 1 - August 31,
issued September 29, 1998

The Annual Report and the Interim Reports are also published in English-language translations.

## ANNUAL GENERAL MEETING

The Annual General Meeting of the shareholders of Lassila & Tikanoja plc will be held on Thursday, April 2, 1998, at 4 p.m. in the Savoy Restaurant, Eteläesplanadi 14, Helsinki.

Notice of attendance at the Annual General Meeting is requested by 4 p.m. on March 31, 1998 by telephone at +358-9-2287 6203, or in writing to the address: Lassila & Tikanoja plc P.O.Box 33, 00101 Helsinki, by fax at +358-9-6154 4560 or by e-mail at info@lassila-tikanoja.fi.

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