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Lännen Tehtaat
Annual Report 1998

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COVER: The company's own experimental farm in Köyliö studies the efficient cultivation of vegetables and sugar beet.

The yellow courgettes in the picture will soon be going from the farm to industrial production. Trainees Katri Ruohola and Mikko Järvinen are satisfied with the crop they are harvesting.

Lännen Tehtaat

Annual Report 1998

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KEY INDICATORS		1998	1997	1996
Net sales	FIM million	1 128.4	958.1	866.6
Exports from Finland	FIM million	66.8	96.1	87.3
Operating profit before depreciation	FIM million	77.7	77.1	69.5
Operating profit	FIM million	44.0	45.9	40.2
Profit before extraordinary items	FIM million	49.7	54.2	48.5
Profit before taxes and minority interest	FIM million	49.7	54.2	48.5
Return on investment (ROI)	%	9.4	10.4	10.0
Equity ratio	%	63.4	63.9	58.1
Earnings per share	FIM	6.06	6.00	6.19
Dividend per share	FIM	2.40 ¹⁾	2.40	2.20
Average number of personnel		695	573	530

¹⁾ Board proposal

President's Review

*F*or Lännen Tehtaat, 1998 was an active year. Trends were favourable, and targets were achieved on the whole. Important events during the year included the start-up of Lannen Polska Sp. z o.o., the purchase of Food Processing Koivukangas Oy, which makes frozen pizzas, and powerful inputs in the product development and marketing of frozen meals. All this has consolidated Lännen Tehtaat's position as Finland's number one operator in frozen foods.

Generally speaking, Finland's food industry is once more facing a period of a major structural shift. Finland's accession to the European Union and the economic crisis that began in Russia in 1998 will continue to call for adaptation and change throughout Europe.

Steady Growth

Lännen Tehtaat's net sales rose by 17.8%, to FIM 1 128.4 million. Most of the increase was due to sectoral restructuring agreed on with Cultor plc: sales of consumer sugar products were transferred to Lännen Tehtaat as from the beginning of 1998. The Group's performance remained at the 1997 level, largely because of the poorer market situation in Russia and one-off inputs related to the investment programme.

In the Food Group, a new frozen ready meals production line went on stream in the *Apetit* unit in autumn. The first products in the vegetable-based ready food series *Vihreä keittiö* came into the shops in spring and were well received. Lännen Sugar concentrated on selling consumer products. Sales of frozen foods grew more slowly than the market, and the stagnation of exports to Russia and poor crop conditions had a negative impact on the operations of the entire Food Group.

Favourable developments continued in the Earthmoving Technology Group. The market grew in Finland, as building revived. The companies established in Tallinn and Riga at the beginning of the year increased their market shares steadily. The market in Sweden also developed well.

The profitability of Lännen Plant Systems suffered from the situation in Russia and from fewer seedling technology projects. No improvement



is expected in the situation in Russia in 1999. Growing conditions were unfavourable, and the cultivation targets for peas were not reached. The sugar beet crops were also lower than normal on account of the rainy and chilly summer. Net sales by Lännen Feed increased somewhat, primarily due to increased sales of farm feeds.

Inputs in Quality

The proportion of the Finnish diet accounted for by imported food continues to increase – although more slowly than expected. With changes taking place in the operating environment, farmers have had to face major challenges. It is therefore vital that the special conditions in Finland are taken into account in the European Union's Agenda 2000 negotiations.

It is crucial for the continuing competitive edge of the food industry that the quality standard achieved is maintained and that inputs are made in it at all stages of the value chain. Continuous improvement is the foundation of all operations.

Development Continues

Lännen Tehtaat achieved its 2000 net sales target of FIM 1 billion in 1998. Our new target is now FIM 1.3 billion for 2001. Apart from Finland, the company aims to grow in the Baltic Rim, with frozen foods and contract farming expertise as its strengths.

Lännen Tehtaat has been consistent in the implementation of its chosen strategy. Inputs have concentrated on frozen foods and stronger brands. The construction of a management system incorporating quality and environmental issues is proceeding according to plan.

Lännen Tehtaat's development trend is reflected in the 1998 annual accounts. On the basis of the actual result, the Board of Directors proposes that dividend be kept at the same level as in 1997.

I should like to express my warm thanks to our customers and cooperation partners for the confidence shown in us, and in particular to the entire Lännen Tehtaat personnel for their excellent work contribution in 1998.

Säkylä, March 1999



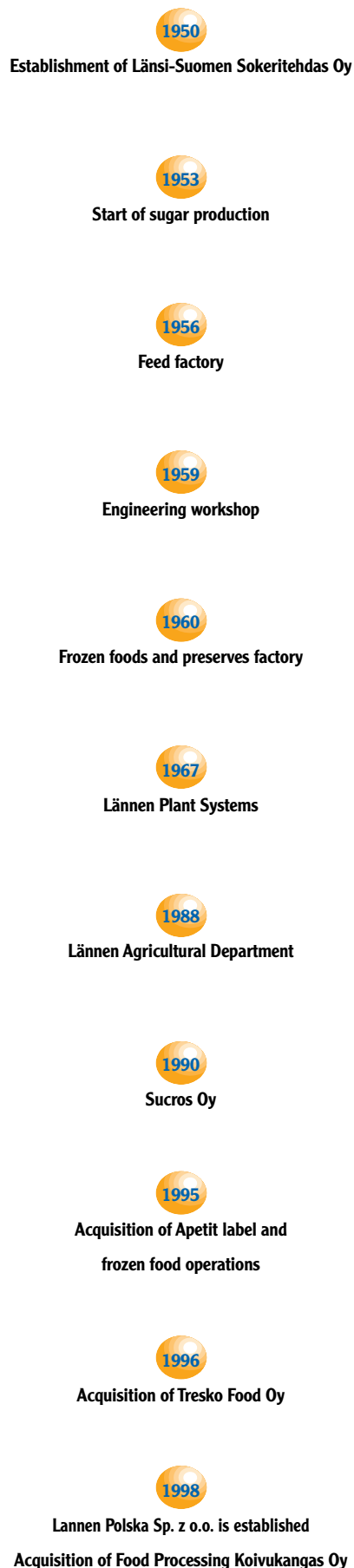
Olli Karkkila

Lännen Tehtaat in Brief

Lännen Tehtaat plc is a company operating in the food sector and quoted on Helsinki Exchanges. The Lännen Tehtaat Group consists of the Food Group, the Earthmoving Technology Group and the Other Business Units group, comprising feed production, seedling technology and contract farming.

The Food Group produces and markets frozen foods, fish products, jams, marmalades and sugar, all from pure, carefully selected raw materials. The Earthmoving Technology Group develops, manufactures and markets earthmoving machinery for northern conditions. Lännen Feed, which is one of the Other Business Units, specializes in cattle and pig feeds, while Lännen Plant Systems specializes in seedling technology and nursery system packages. Lännen Agricultural Department is responsible for contract farming the Finnish crops used as raw material.

Lännen Tehtaat markets its products primarily in Finland, but has gradually expanded its market area to the Baltic Rim.



FOOD GROUP	Frozen foods, jams and marmalades	Apetit
	Frozen foods	Lannen Polska Sp. z o.o.
	Frozen pizzas	Food Processing Koivukangas Oy
	Fish products	Tresko Fish Ltd
	Sugar	Lännen Sugar
EARTHMOVING TECHNOLOGY GROUP	Sales:	
	Lännen earthmoving machinery and Komatsu earthmoving machinery	Suomen Rakennuskone Oy AS Balti Ehitusmasin-Baltem SIA BCM Baltijas Celtniecibas Masina
	Lännen earthmoving machinery	Lännen Maskin AB
	Manufacture:	
Lännen earthmoving machinery	Lännen Engineering Oy	
OTHER BUSINESS UNITS	Feed industry raw materials and compound feeds	Lännen Feed
	Containerized seedling production technology, planting machines and nursery system packages	Lännen Plant Systems
	Contract farming of Finnish vegetables and sugar beet	Lännen Agricultural Department
	Production of tree seedlings	Harvala Oy

Food Group



Food Group

Lännen Tehtaat's Food Group produces and markets frozen foods, jams, marmalades and fish products from pure, carefully selected raw materials. Its selection also includes sweeteners made by Sucros Oy. Lännen Tehtaat is Finland's market leader in frozen foods and in jams and marmalades produced for retail.

The Food Group comprises the Apetit unit, Tresko Fish Ltd, Food Processing Koivukangas Oy, Lannen Polska Sp. z o.o. and Lännen Sugar. Apetit produces and markets frozen foods, jams and marmalades. Tresko Fish Ltd specializes in fish products, and Food Processing Koivukangas Oy in frozen pizzas. Lannen Polska Sp. z o.o. is a frozen food factory in Poland. Lännen Sugar sells Sucros sweeteners on the Finnish consumer market. Calabris Oy (formerly Polar Lake Oy), which specializes in trade with Finland's eastern neighbours, was dismantled, as trading sales to Russia shrank substantially. Operations were merged with Apetit.

Net sales by the Food Group totalled FIM 711.5 million in 1998, an increase of 24% on the previous year. The Food Group's net sales increased, primarily as a result of restructuring measures implemented with Cultor Corporation which transferred sales of consumer sugar products to Lännen Tehtaat. This raised Lännen Sugar's net sales by FIM 133.6 million, to FIM 357.6 million. Frozen foods accounted for FIM 260 million (FIM 250 million in 1997) of net sales.

The Group's operating profit totalled FIM 29.6 million, at the 1997 level. Investments totalled FIM 46.1 million (FIM 23.5 million). The most important investments were the building of a frozen ready meals production line in Säkylä, purchase of the stock of Food Processing Koivukangas Oy and the acquisition of a frozen food factory in Poland.

Apetit

According to advance information released by the Finnish Frozen Food Industries' Association, consumption of frozen foods continued to grow by 4% in 1998, particularly in frozen ready foods and baking doughs.

In accordance with the strategy chosen, Lännen Tehtaat concentrated its investments in the Food Group in 1998. A frozen food factory was purchased in northern Poland, which started operating under Lännen Tehtaat at the beginning of October. Lannen Polska Sp. z o.o. is a company owned 50/50 by Lännen Tehtaat and a Polish bank's PBG-Investment Fund Ltd. Lännen Tehtaat has the option to raise its holding in the company to 100 per cent within 5 years. So far the factory has turned out frozen bulk foods for industry, but rearrangements have started, and the company will produce and market frozen vegetables and berries for the Polish consumer market and produce quality raw material for industry. Operations will still be in the red in 1999.

Apetit expanded its frozen foods range to ready pizzas by buying the stock of Food Processing Koivukangas Oy, thus becoming Finland's leading producer of frozen pizzas and the market leader in frozen food. Marketing of pizzas under the Apetit brand started at the beginning of 1999. Apetit will offer consumers a high-quality Finnish alternative in a market segment so far dominated by foreign producers.

An investment of FIM 12 million was made in a production line for frozen ready meals in Säkylä. The new Cryomix production method improves





the nutritional features of ready meals, preserving the natural flavour of the various ingredients, as no separate thawing is needed and the need for heating has been minimized in the process. Apart from parboiling, the ingredients are not heated before final preparation and serving.

In spring 1998 Apetit launched its new Apetit Vihreä keittiö frozen ready meals for people on a vegetarian diet or otherwise favouring lighter eating. The series includes frozen foods called Napsikkaat, introduced in spring. These new snack-type vegetable and cheese based products are well suited for dips, snacks and side dishes. The series has been complemented with a number of vegetable or potato based casseroles and pastas, which make a ready full meal.

The retail value of Finland's jam and marmalade market is some FIM 92 million. Apetit jams and marmalades held a market share of a good 27%. In February 1999 Lännen Tehtaat consolidated its status on the retail jam market by purchasing the best known traditional trademark Dronningholm and the related rights. After this purchase, the value of Apetit's jam and marmalade production will be some FIM 70 million a year.

The reorganization of the Turku factory fish department was completed in spring 1998. The subcontracted production of herring products was discontinued in autumn, but new herring products were launched on the Christmas market under Lännen's own Kesäpöytä brand.

Tresko Fish Ltd made substantial investments in developing production and products. Facilities were renovated and new equipment was purchased to raise value added. Product improvements scheduled for 1999 will help the consumer to cook healthy fish meals.

Readiness for ISO 9001 and ISO 14001 certification was achieved in quality and environmental systems in late 1998 and early 1999.

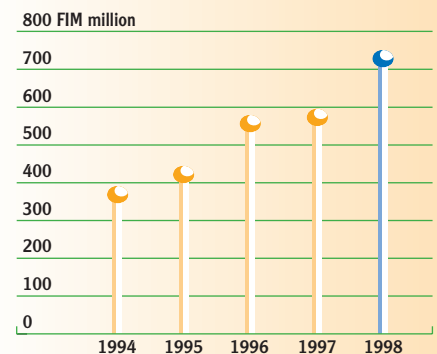
Lännen Sugar

The total sugar market in Finland declined slightly because crops were exceptionally poor on account of the cold summer. Consumption of sugar was some 38 kg per capita (38.5 kg in 1997). The consumer market declined by some 5%. The most significant reason for this was the summer's poor berry crop, which had an effect on how much sugar households used in preserving them. Changes in consumer habits were another factor contributing to the trend. Consumer demand in 1999 is expected to remain at the 1998 level.

The operations of Lännen Sugar changed on January 1, 1998 as a result of sectoral restructuring and the unit now concentrates on selling consumer products made for the Finnish market.

Some new products were introduced: a light treacle called 'Vaalea siirappi' particularly suitable for dessert sauce, the new 'White' small lump sugar, and dark granulated and lump sugars based on cane sugar.

Net Sales, Food Group, 1994–1998



Food Group, FIM million	1998	1997
Net sales	711.5	573.8
Percentage of consolidated net sales	63%	60%
Operating profit	29.6	29.7
Investments	46.1	23.5
Average personnel	392	308

Net sales by business unit, FIM million		
Lännen Sugar	357.6	224.0
Apetit	322.2	337.1
Tresko Fish Ltd	21.9	17.3
Food Processing Koivukangas Oy	8.0	–
Lannen Polska Sp. z o.o.	8.4	–
Calabris Oy	1.1	8.1
Internal sales	– 7.7	–12.7
	711.5	573.8



Earthmoving Technology Group

Lännen Tehtaat's Earthmoving Technology Group works with international companies in the sector to develop, manufacture and market earthmoving machinery for northern conditions.

Lännen Tehtaat is the market leader in earthmoving machinery in Finland, Estonia and Latvia.

The Group consists of Lännen Engineering Oy, which manufactures backhoe loaders and excavators, and the sales companies Suomen Rakennuskone Oy in Finland and Lännen Maskin AB in Sweden, AS Balti Ehitusmasin-Baltem in Estonia and SIA BCM Baltijas Celtniecibas Masina in Latvia. In addition to Lännen's own machinery, the companies also market Komatsu earthmoving machinery in Finland and the Baltic countries.

A favourable trend continued in the Earthmoving Technology Group in 1998. The year was distinctly better for the Group than 1997. Targets were exceeded both in net sales and in profits. The Group's net sales totalled FIM 263.5 million in 1998, an increase of over 9%. Operating profit was FIM 7.6 million (FIM 5.7 million). The low rate of exchange for the Swedish crown weakened the result.

Net sales by Suomen Rakennuskone Oy came to FIM 191.9 million, an increase of 9%, and those by Lännen Engineering Oy to FIM 91.7 million (FIM 90.0 million), while net sales by Lännen Maskin AB reached FIM 48.5 million, up nearly 30%. Net sales by AS Balti Ehitusmasin-Baltem were FIM 12.7 million and those by SIA BCM Baltijas Celtniecibas Masina FIM 2.5 million.

The earthmoving machinery market grew in Finland and Sweden by more than 30%. The exceptionally rapid growth in the Baltic countries evened out. The shaky economic situation in Russia did not allow project sales on the 1997 scale.

Competition tightened on the Finnish earthmoving machinery market on account of the large number of makes available and major imports of second-hand machinery, but in spite of the competition, Lännen kept its market position.

The sales companies representing Lännen and Komatsu earthmoving machinery started operations in Estonia and Latvia at the beginning of the year. A decision was made in November to establish a sales company in Lithuania, too.

Representation of Samsung by Lännen Maskin AB in Sweden was terminated at the end of the year.

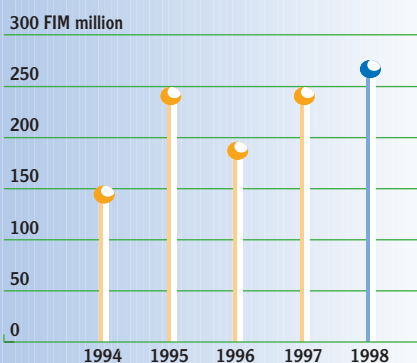
At the beginning of 1998, Lännen Engineering introduced a new hydrostatic backhoe loader replacing two previous front wheel-steered models. The new product has been received well on the market. Suomen Rakennuskone Oy began to sell wheeled type Komatsu excavators, thus complementing Lännen's special excavator range.

R&D continued in order to make the machines increasingly sound environmental-

ly. The use of bio-oils has been increasing constantly, and nearly all of the Group's machines were equipped with 'green' diesel engines meeting the EU1 standard that came into force at the beginning of 1999.

No major changes are expected on the earthmoving machinery market in 1999. The Group's net sales and result are likely to be around the 1998 level.

**Net sales,
Earthmoving Technology Group 1994–1998**



Earthmoving Technology Group, FIM million	1998	1997
Net sales	263.5	241.2
Percentage of consolidated net sales	23%	25%
Operating profit	7.6	5.7
Investments	9.8	1.9
Average personnel	175	168

Net sales by business unit, FIM million

Suomen Rakennuskone Oy	191.9	176.7
Lännen Engineering Oy	91.7	90.0
Lännen Maskin AB	48.5	37.5
AS Balti Ehitusmasin-Baltem	12.7	–
SIA BCM Baltijas Celtniecibas Masina	2.5	–
Internal sales	– 83.8	– 63.0
	263.5	241.2







PLANTEK



Other Business Units

Lännen Feed

Lännen Feed specializes in developing and producing cattle and pig feeds. It processes raw materials and supplies them to the feed industry, produces ready compound feeds as a subcontractor, and sells feed to farms through wholesalers under its own Mella label. As its main raw materials, Lännen Feed uses by-products from the sugar factory, sugar beet pulp and molasses.

Net sales rose to FIM 76.6 million in 1998, an increase of 9%, thanks to the higher volumes of feed and compound feed delivered to farms. The volume of compound feeds delivered to industry declined on the previous year, however. The price of sugar beet pulp went down in Europe, resulting in more imports and lower prices in Finland, too. Profitability was satisfactory.

The compound feed market grew about 7% in Finland, the biggest growth being in broiler chicken and cattle feed, while the prices of compound feeds declined because of lower raw material prices on the world market, particularly in the case of protein raw material.

Sales by Lännen Feed grew at the same pace as the overall market. The previous year's inputs in pig feed development produced new products, that is, protein concentrates for pigs. Compound mineral feeds for dairy cattle were also introduced in the Valio range in spring 1998.

Work to develop Lännen Feed quality and environmental systems continued in 1998. The ISO 9001 quality system was certified in March 1998, and ISO 14001 environmental certification will be applied for in 1999. Lännen Feed invested a good FIM 2 million in raw material and ready product silos in order to improve its capacity for bulk deliveries, and in various conveyors to ensure more efficient raw material handling.

1999 will see further investments in quality improvement, deliveries to nearby areas and the unit's information management systems.

Lännen Plant Systems

Lännen Plant Systems produces containerized seedling production and planting technology for seedling producers and farmers of forest trees, vegetables and horticultural plants. Apart from its sales of seedling trays and machinery, the unit markets project-type nursery system packages and seedling transportation and planting systems.

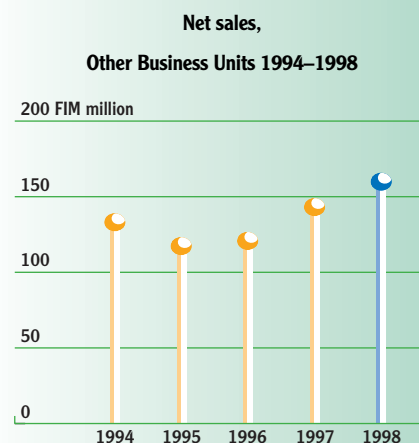
Net sales by Lännen Plant Systems came to FIM 31.9 million, a decrease of some 17%. Sales in Finland grew by 10%, but exports fell by one third. Exports amounted for 47% of net sales. The main reason for the falling export trend was the stagnation of sales to Russia towards the end of the year.

Sales of seedling trays remained at their 1997 level. The change-over from Paperpot and Ecopot containers to Lännen Plantek-F type rigid-plastic containers continued in Finnish forest seedling nurseries. This trend is expected to continue in 1999.

Product development introduced new products: a highly efficient precision-sowing machine for nurseries, nursery logistics equipment, an automatic seedling packing machine and new watering gantries.

New versions of transplanters were designed to make planting more efficient, such as an automatic vegetable planter planting two rows at the same time. An automatic planter equipped with a skip reading system was tested in Finland and on the Con-

Other Business Units comprise Lännen Feed, Lännen Plant Systems, Lännen Agricultural Department and Harviala Oy.



Other Business Units, FIM million	1998	1997
Net sales	153.4	143.1
Percentage of consolidated net sales	14%	15%
Operating profit	6.8	10.5
Investments	7.9	6.4
Average personnel (Includes corporate administration)	128	97

Net sales by business unit, FIM million		
Lännen Feed	76.6	70.4
Lännen Plant Systems	31.9	38.4
Lännen Agricultural Department	32.3	32.3
Harviala Oy	11.0	–
Other sales	2.8	2.7
Internal sales	– 1.2	– 0.7
	153.4	143.1

Other Business Units



continent, and experiences were good. The new transplanters reinforce Lännen Plant Systems' position as a leading supplier in its field.

A new growing-medium processing line was developed for the range of projects and a mechanically controlled system for hanging up plants in greenhouses for greenhouse cultivation.

In 1999, Lännen Plant Systems will be making inputs in opening exports to new market areas, particularly South America and Southeastern Asia.

Lännen Agricultural Department

Lännen Agricultural Department is responsible for contract farming in the Lännen Tehtaat Group, with the aim of ensuring that annually concluded farming contracts provide the Apetit unit and the Sucros Säkylä beet sugar factory with good-quality domestic raw material. Lännen Agricultural Department is also responsible for advising its contract farmers and for research on and testing of the cultivated plants.

Net sales by the Agricultural Department amounted to FIM 32.3 million in 1998, the previous year's level. They consisted mostly of sales of cultivation equipment and supplies to contract farmers and sales of products from the company's own experimental farm. The value of the crops cultivated by contract farmers has been recorded as a raw material acquisition cost for processing factories.

Lännen Agricultural Department is Finland's only company with contract farmers producing vegetables for freezing. In 1998 there were close on 1200 farming contracts. The cultivation of all contract plants takes place on farms chosen by the Agricultural Department and in fields approved by the Department.

Quantities cultivated increased somewhat on the previous year in both sugar beet and contracted vegetables. The growing season was unusually cool and rainy. Crops fell short of the previous year's figures, but targets were achieved for all plants except peas. The quality of the vegetables was good and the crops were harvested and transported to the factories as planned. Contract farmers supplied 22.2 million kilos of vegetables and 289 million kilos of sugar beet for processing.

The 3-year Integrated Production (IP) quality system project continued in cooperation with contract farmers, Pyhäjärvi Institute and the Agricultural Research Centre. In its second year the project proceeded as planned: potato, swede, cauliflower and cabbage were all covered by IP instructions, and contract farmers were trained to adopt cultivation methods based on sustainable development. After the completion of the project a year later, all Lännen vegetables will be cultivated in accordance with IP instructions.

The Department's Räpi experimental farm cultivated and made cultivation tests on vegetables and sugar beet over an area of some 65 hectares. The experimental farm also tested and demonstrated Lännen Plant Systems machinery. The farm is shown to the company's domestic and foreign customers as an example of modern farming.

The operations of the Agricultural Department play an important role in developing contract farming and ensuring access to raw material.

Lännen Tehtaat plc raised its ownership in Harviala Oy, which engages in seedling production and wholesale, to 100%. In its own production, the company concentrates on producing domestic deciduous and coniferous trees. Its product range for sale also includes ornamental shrubs and fruit trees.

Lännen Tehtaat and the Environment

Construction of the Lännen Tehtaat management system proceeded according to plan in 1998. It will comprise an ISO 9001 standard quality system and an ISO 14001 standard environmental system, as well as an occupational health and safety plan. Certificates will be applied for in 1999 for the quality and environmental systems. Lännen Feed was awarded a quality certificate in spring 1998.

In 1998, Lännen Tehtaat signed a Ministry of Trade and Industry agreement on conserving energy.

The Säkylä factories built an automatic heating and air conditioning control system for real estate based on energy surveys and renovated the distant heating network in the residential area.

A Motiva energy survey was carried out at the Turku factory with the aim of reducing energy consumption, and a waste disposal code was devised.

Massive Environmental Investment in Säkylä

A preliminary plan and investment programme for 1999–2000 were completed for intensified treatment of wastewater from the Lännen Tehtaat industrial area. The aim of the investment programme is

- To build more waste water treatment capacity as required by the company's strategic choices
- To ensure that the load on waterways meets the new licence conditions
- To eliminate offensive smells from the operating environment of food plants
- To build a sewage network allowing optimal treatment of various wastewater fractions.

The planned FIM 16 million investment is the largest environmental input in the history of Lännen Tehtaat.



Environmental Policy

Since its foundation, Lännen Tehtaat has acted in a responsible manner in environmental issues and has taken the requirements of the natural environment into account. We are committed to meeting the demands made by society in environmental issues, too. The management of environmental issues is efficiently organized, and those responsible interact with the company's constituent groups.

To control environmental impacts and ensure more efficient operations, we have drawn up an environmental system based on the ISO 14001 standard as part of the company's management system. Lännen Tehtaat's management has set environmental goals and targets for the company under the principle of continuous improvement, and supervises their implementation and any need for amendment.

Our Environmental Goals Include

1. Reducing the amount of wastewater and load on waterways
2. Cutting energy consumption
3. Reducing waste
4. Design and planning of the product range, packaging and investment in accordance with sustainable development principles.
5. Development of our suppliers' environmental systems.

We train all our personnel to be familiar with the International Chamber of Commerce Business Charter in order to ensure sustainable development. Information on environmental issues is passed on to the staff regularly, and an account of our environmental policy is available to the public.



Environmental Targets for 1998-2002

■ To reduce the amount of wastewater and the load on waterways

The amount of production-related wastewater will be reduced by 15% (m³/product tonne). Lännen Tehtaat plc's environmental permit will be renewed during the planning period. The permitted load figures are expected to be some 30% lower than at present. The company undertakes to meet the conditions of the permit.

■ Cutting energy consumption

Energy consumption will be cut by 10% over the planning period. Consumption of electricity and steam energy for production will be measured as production-related energy consumption (MWh/product tonne). Other consumption will be measured as annual overall energy consumption.

■ Reducing waste

The waste produced on the factory site will be handled in accordance with the waste disposal code.

- The amount of recyclable waste will be reduced by 15%
- The amount of miscellaneous waste taken to the Säkylä factory landfill will be reduced by 50%
- Problem waste will be collected and sent for proper processing

The amounts of waste are monitored by measuring the amount of waste in relation to tonnes of products turned out.

■ Design and planning of product range, packaging and investments in accordance with sustainable development principles

Planning and investment decisions will take environmental impacts and goals verifiably into account.

■ Development of suppliers' environmental systems

The environmental systems of cooperation partners and their implementation will be analysed and taken into account when making supplier choices. Queries to suppliers and the answers and suppliers' audit reports will be filed. The aim is to increase the proportion of suppliers that have adopted environmental systems.

Preparing for 2000

Lännen Tehtaat's year 2000 project aims to ensure smooth continuation of operations in all business segments and in all relations with constituent groups as we move over into the new millennium.

The year 2000 project began in 1996 with a charting of all our information systems. Applications requiring adjustments were revised for the most part in 1997. We began to use the revised applications in production at the beginning of 1998.

During 1998, Lännen Tehtaat verified the year 2000 compatibility of its partners' software that has been integrated with its own information systems.

The costs of application modification were for the most part recorded in the 1997 financial period.

The company's payroll accounting and production control applications are still being revised. They are scheduled for completion by July 1999 and will be introduced before year end. The feasibility of access control and office systems will be ensured in early 1999 with software and system software updates.

The functioning of the control and supervision systems of real estate and production machinery and equipment and of communications, network services, etc. will be checked in cooperation with the suppliers. Adjustments and alterations required will be made in connection with normal maintenance.

The corporate business units have made sure that products delivered by Lännen Tehtaat do not contain components that might be adversely affected by the year 2000. The year 2000 readiness of Lännen Tehtaat's major suppliers of products and services will be ascertained by mid-1999.

Preparations for 2000 will not have a significant impact on Lännen Tehtaat's costs and profits.

Euro

Euro Needs in Lännen Tehtaat

The products of Lännen Tehtaat's main business segment, the food industry, and the company's feeds are sold predominantly in Finland. Exports account for a relatively small proportion, while imports of raw materials and investment items are considerably more important. Some trade organizations and wholesalers have recommended the Finnish markka for invoicing in Finland for the entire three-year transition period. In foreign trade, however, the euro will already be needed in 1999.

Both exports and imports play an important role in the Earthmoving Technology Group and in Lännen Plant Systems. The euro will be needed in these segments from the beginning of the transition period, for both invoicing and buying.

Transition Schedule

A step-by-step schedule has been drawn up for going over to the euro, depending on the needs of the various business segments. At the initial stage, preparations were made for Finnish Group companies to use the euro as an invoicing currency and to receive invoices denominated in euros from both Finland and abroad. Domestic trade is still using the markka for the most part, but foreign trade will adopt the euro as widely as possible in 1999.

Lännen Tehtaat will not start using the euro in accounting until 2001 at the earliest. At this point, the main currency in domestic trade will also be the euro. If it is found in 1999-2000 that there are not good grounds for changing over to the euro before 2002, the changeover will be postponed until then.

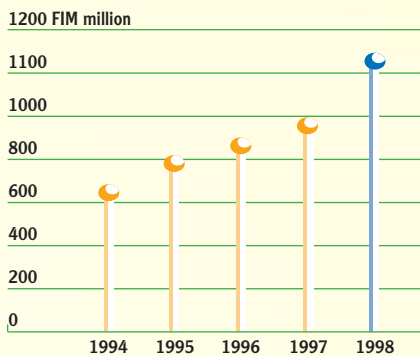
Since Helsinki Exchanges changed over to the euro at the beginning of 1999, Lännen Tehtaat will also give its 1998 profit and loss account, balance sheet and key indicator figures in euros in its annual report.

Board of Directors' Report



From left:
Tapio Reponen,
Hannu Simula,
Heikki Harjuvaara,
Juha Korkeaoja,
Olli Karkkila
and Esko Eela.
Lauri Jalli is not
in the picture.

Consolidated net sales 1994–1998



Operating Environment

According to advance information released by Statistics Finland, industrial production increased by some 8% in 1998. Growth was vigorous up to early autumn, but slackened gradually, and December's production remained at the 1997 level. The downward trend in production was all the more distinct in conventional industrial sectors towards the end of the year, as growth continued in the electrical and electronics industry. The most important reason for the fall in production was the decline in sales to Russia and the Far East.

Reduced exports had an impact on food industry production and sales, too, and the food industry grew as little as 1%. Finnish Food and Drink Industries' Federation statistics show that food companies' sales volume grew by an average 0.5% in 1998, while net sales fell by 2%. According to advance information from the Finnish Frozen Food Industries' Association, total consumption of frozen foods increased substantially more than food industry sales volume overall.

Invoicing by the member companies of the Central Association of Earthmoving Contractors in Finland grew by 15% in the summer season, and the average growth in the volume of machinery was 8%. The average utilization rate of machinery continued to be high: 91% (91%).

Corporate Structure

Lännen Tehtaat business operations are carried out by the parent company Lännen Tehtaat plc and five Finnish and four foreign subsidiaries. Operations are divided between three business groups. The Food Group consists of Lännen Tehtaat plc units Apetit and Lännen Sugar, and the subsidiaries Tresko Fish Ltd, Food Processing Koivukangas Oy and Lännen Polska Sp. z o.o. in Poland. The Earthmoving Technology Group comprises Lännen Engineering Oy, Suomen Rakennuskone Oy, Lännen Maskin AB in Sweden, AS Balti Ehitusmasin-Baltem in Estonia and SIA BCM Baltijas Celtniecibas Masina in Latvia. The Other Business Units consist of the Lännen Tehtaat plc units Lännen Feed, Lännen Plant Systems, Lännen Agricultural Department and Harviala Oy. Two subsidiaries were liquidated in 1998: Calabris Oy (previously Polar Lake Oy) and Sedina Oy.

Among associated companies, Sucros Oy comes under the Food Group, while Oy Potma Ltd and Oy Atraco Ab operate under Other Business Units.

Net Sales

Net sales by Lännen Tehtaat came to FIM 1 128.4 million (FIMm 958.1), an increase of 18%. The Food Group accounted for 63% (60%), the Earthmoving Technology Group for 23% (25%) and Other Business Units for 14% (15%).

Net sales by the Food Group totalled FIM 711.5 million (FIMm 573.8), up 24%. The growth was due to an increase in sales of consumer products resulting from the division of operations between Lännen Sugar and Sucros Oy. Net sales by Lännen Sugar rose to FIM 357.6 million (FIMm 224.0). Net sales by Apetit and subsidiaries in the Food Group totalled FIM 353.9 million (FIMm 349.8). Sales of frozen foods rose to FIM 260 million (FIMm 250). Some of the growth in frozen foods net sales was accounted for by Food Processing Koivukangas Oy, which joined the Group on August 31, 1998, while discontinuation of vegetable preserves sales and ketchup trading reduced other sales by the Food Group.

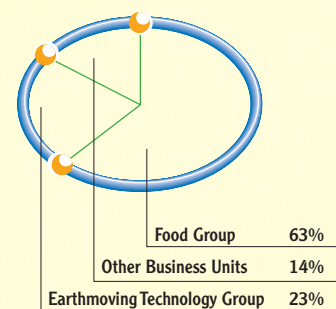
Net sales by the Earthmoving Technology Group were FIM 263.5 million (FIMm 241.2), up 9% on the previous year. The stagnation of sales to Russia was counterbalanced by growth in the home market and the market in Sweden.

Net sales by Other Business Units increased to FIM 153.4 million (FIMm 143.1), i.e. by 7%. The growth was primarily due to the fact that Harviala Oy joined the Group. Net sales by Lännen Feed increased, too, while net sales by Lännen Plant systems declined.

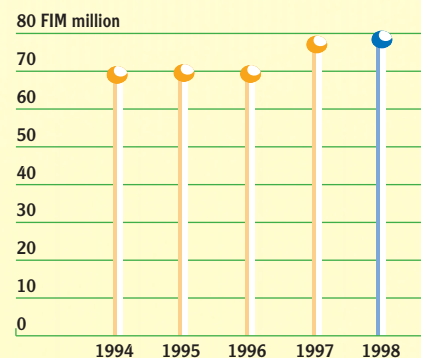
Exports by Lännen Tehtaat totalled FIM 66.8 million (FIMm 96.1), accounting for 6% (10%) of net sales. Exports were particularly reduced by the difficult economic and market conditions in Russia. The value of food exports came to FIM 11.4 million (FIMm 16.1), that of earthmoving machinery exports to FIM 40.2 million (FIMm 56.6) and that of plant technology to FIM 15.2 million (FIMm 23.0).

Net sales by the parent company Lännen Tehtaat plc came to FIM 823.4 million (FIMm 704.9), an increase of 17%.

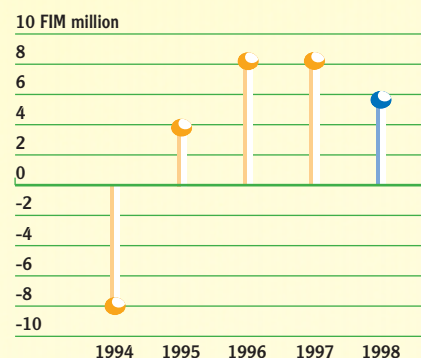
Net sales by business segment



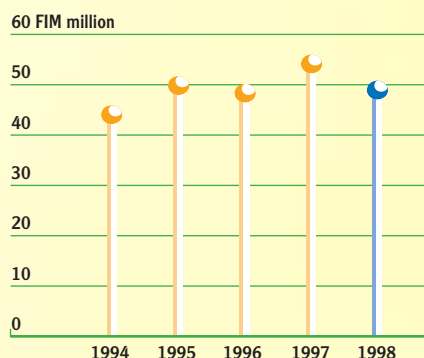
Operating profit before depreciation 1994–1998



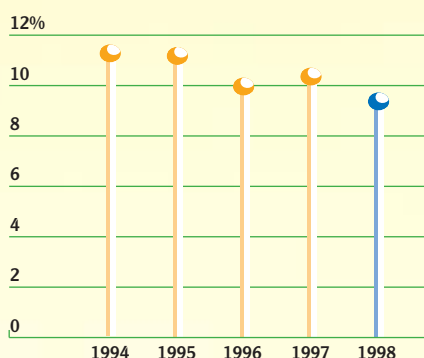
Financial income/expenses, net 1994–1998



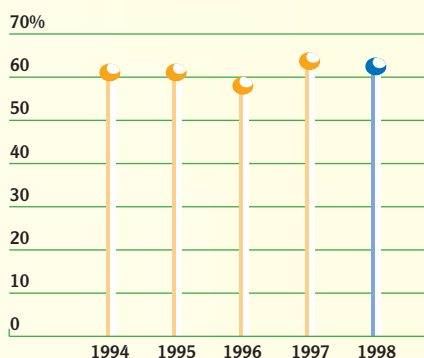
Profit before extraordinary items 1994–1998



Return on investment 1994–1998



Equity ratio 1994–1998



Profits

Lännen Tehtaat's operating profit before depreciation was FIM 77.7 million (FIMm 77.1). After depreciation according to plan of FIM 33.7 million (FIMm 31.2), operating profit totalled FIM 44.0 million (FIMm 45.9).

Financial income exceeded expenses by FIM 5.7 million (FIMm 8.3), including a FIM 7.5 million (FIMm 10.6) share of Oy Atraco Ab's profits. Profit before extraordinary items totalled FIM 49.7 million (FIMm 54.2).

Direct taxes, at FIM 10.5 million were lower than the previous year (FIMm 14.7). Profit for the financial year was FIM 39.0 million, at the 1997 level (FIMm 38.6).

The Food Group's operating profit was FIM 29.6 million (FIMm 29.7). The Group's profitability was weakened not only by shrinking exports to Russia but also by the start-up and integration costs of newly acquired subsidiaries, discontinuation of vegetable preserves and substantial increases in the prices of some imported raw materials. The operating profit includes a FIM 8.6 million (FIMm -1.5) share of Sucros Group profits.

Operating profit in the Earthmoving Technology Group rose to FIM 7.6 million (FIMm 5.7), partly thanks to growth in domestic sales. Operating profit in Other Business Units was only FIM 6.8 million (FIMm 10.5) because of reductions in plant technology project deliveries abroad.

Financing

Lännen Tehtaat's financing structure remained good. The Group's financial assets totalled FIM 88.0 million (FIMm 104.8) at the end of the financial year. The equity ratio stood at 63% (64%) at the end of the year.

Annual General Meeting, Share Capital and Shareholders

Lännen Tehtaat plc's Annual General Meeting held on April 2, 1998, decided to pay a dividend of FIM 2.40 per share.

The Annual General Meeting authorized the Board to decide on acquisition of the company's own shares. The authorization allows the Board to buy from Helsinki Exchanges a maximum of 322 238 Lännen Tehtaat plc shares, i.e. 5% of the total stock. The authorization is in force for one year as from the Annual General Meeting. The Board has since decided to acquire a maximum of 120 000 company shares. By the end of the financial period, a total of 63 272 shares had been bought. Between the end of the financial period and February 25, 1999, 18 528 additional shares had been acquired.

At the end of the financial period the Board has no authorization to issue shares or convertible or warrant bonds.

Investments

Gross investments in fixed assets totalled FIM 63.8 million (FIMm 31.8), with acquisition of subsidiary shares accounting for FIM 32.8 million. The biggest single acquisition was a share subscription of FIM 15.1 million in Lannen Polska Sp. z o.o. The company was founded in Poland together with the Polish PBG-Investment Fund Ltd. Each party holds 50% of the stock. Lannen Tehtaat has the option of increasing its ownership to 100% in five years. FIM 9.0 million was paid for the stock of Food Processing Koivukan-gas Oy in Pudasjärvi. The most significant material investment was the completion of the frozen ready meals production line in Säskylä. The cost of the investment was FIM 11.8 million, of which 1998 accounted for FIM 7.9 million.

Investments by the Food Group totalled FIM 46.1 million (FIMm 23.5), those by the Earthmoving Technology Group FIM 9.8 million (FIMm 1.9) and those by Other Business Units FIM 7.9 million (FIMm 6.4).

R & D

The Group's R & D expenses represented 0.7% (0.7%) of net sales. Most of this focused on Apetit products. New products introduced included Apetit Vihreä Keittiö vegetable meals and potato gratin.

Personnel

The Group employed an average of 695 (573) people during the financial year. The parent company had 400 (379) employees on average.

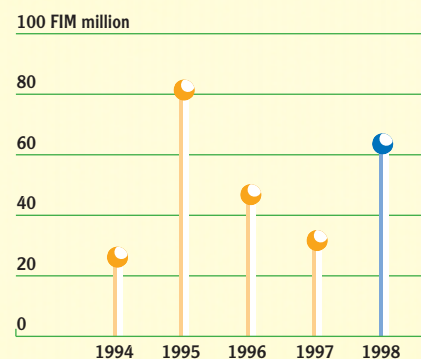
Salaries and fees paid in the Group to the members of the Administrative Council and the Board of Directors, the President and Managing Directors totalled FIM 3.3 million (FIMm 3.1). The fees included bonus payments of FIM 0.3 million. Wages and salaries paid to other employees totalled FIM 93.7 million (FIMm 82.4).

Salaries and fees paid by the parent company to the members of the Administrative Council and the Board of Directors and the President totalled FIM 1.5 million (FIMm 1.4). The fees included bonus payments of FIM 0.2 million. Wages and salaries paid to other employees totalled FIM 61.5 million (FIMm 56.4).

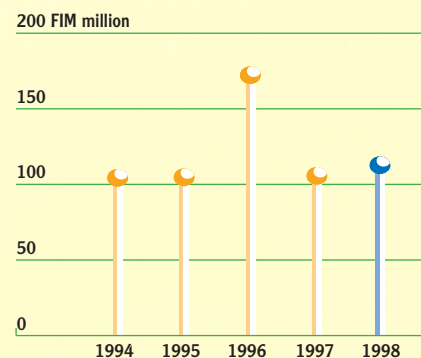
Management System

The construction of a management system based on an environmental and quality system complying with the ISO 9001 and ISO 14001 standards and on an occupational health and safety programme proceeded as targeted. Quality and environmental certificates will be applied for in 1999. Lannen Feed has already been awarded a quality certificate.

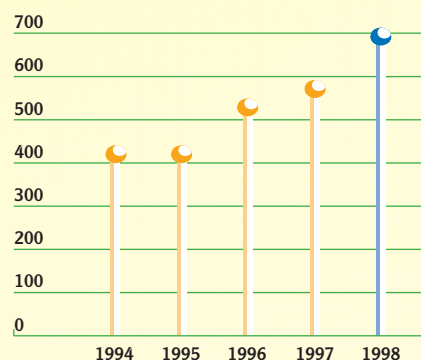
Gross investments in fixed assets 1994–1998



Interest-bearing liabilities 1994–1998



Number of personnel 1994–1998



Events Since the End of the Financial Year

In order to simplify Group structure, a plan was signed in January concerning a merger of Food Processing Koivukangas Oy with Lännen Tehtaat plc. The plan has been entered in the Trade Register, and a decision will be made by the Annual General Meeting this spring.

The Group has decided that Suomen Rakennuskone Oy will establish a subsidiary in Lithuania selling Lännen and Komatsu earthmoving machinery.

In a deal signed in February, Lännen Tehtaat plc bought the Dronningholm trademark, famous for its consumer jams, and its trademark-related rights, in order to safeguard its jam and marmalade production and to strengthen its market status.

Prospects for 1999

Demand for frozen foods is expected to continue to grow faster than that for food on average in Finland, creating good conditions for selling the Food Group's Apetit frozen foods on the home market. The frozen food operations started in Poland towards the end of 1998 will continue as planned. Success in contract farming and frozen food marketing in a new market area will require continuous efforts also in 1999. At the initial stage costs will be greater than income. The Food Group's financial performance is expected to remain at the 1998 level in 1999.

The earthmoving machinery market is expected to remain unchanged in the main market areas. In the Baltic Rim, growth will continue. Net sales and financial performance are expected to stay at the 1998 level.

Net sales by Lännen Tehtaat are expected to rise to FIM 1 200 million. The proportion of the financial performance of associated companies included in consolidated financial income will decrease, but in spite of this and the losses anticipated in Poland, consolidated performance is expected to reach the 1998 level.

Profit and Loss Accounts

FIM 1 000	CONSOLIDATED		PARENT COMPANY		
	1998	1997	1998	1997	
Net sales	(1)	1 128 386	958 112	823 359	704 923
Change in product inventories		15 079	- 32	5 496	- 6 167
Share of profits of associated companies	(2)	8 721	- 1 553		
Other operating income	(3)	2 361	2 137	2 572	2 620
Operating expenses					
Materials, supplies and goods					
Purchases during the financial year		880 306	705 645	637 497	503 274
Change in stocks		- 9 410	- 4 145	- 5 651	- 535
External services		7 193	6 295	6 202	6 146
Personnel expenses	(4)	123 973	106 132	80 871	70 930
Rents and leases		10 016	9 866	8 254	8 357
Other operating expenses		64 728	57 753	49 953	47 836
Operating expenses, total		1 076 806	881 546	777 126	636 008
Operating profit before depreciation		77 741	77 118	54 301	65 368
Depreciation	(5)				
On fixed assets and other capitalized expenditure		- 32 311	- 30 203	- 27 635	- 25 914
On goodwill on consolidation		- 1 449	- 970		
Total depreciation		- 33 760	- 31 173	- 27 635	- 25 914
Operating profit	(6)	43 981	45 945	26 666	39 454
Financial income and expenses	(7)				
Dividend income		663	393	8 140	12 099
Interest income from long-term investments		512	872	1 653	872
Other interest income		4 083	4 888	4 033	5 137
Other financial income		2 266	1 638	2 266	12 217
Foreign exchange gains and losses		- 1 202	6	- 604	- 36
Share of profits of associated companies	(2)	7 517	10 565		
Interest expenses		- 7 580	- 9 076	- 6 266	- 7 362
Other financial expenses		- 522	- 1 032	- 156	- 704
Financial income and expenses, total		5 737	8 254	9 066	22 223
Profit before extraordinary items, provisions, taxes, and minority interest		49 718	54 199	35 732	61 677
Extraordinary income and expenses	(8)				
Extraordinary expenses				- 1 210	- 870
Profit before provisions, taxes and minority interest		49 718	54 199	34 522	60 807
Depreciation in excess of or less than plan	(5)			5 195	- 3 076
Decrease in voluntary provisions	(5)				9 681
Direct taxes	(9)	- 10 489	- 14 695	- 11 735	- 17 650
Minority interest		- 240	- 867		
Profit for the financial year		38 989	38 637	27 982	49 762

Balance Sheets, Assets

FIM 1 000	CONSOLIDATED		PARENT COMPANY	
	1998	1997	1998	1997
Fixed assets and other long-term investments				
Intangible assets	(10)			
Intangible rights	11 118	12 803	10 965	12 027
Goodwill	19 730	22 216	18 418	21 922
Goodwill on consolidation	3 876	1 940		
Other capitalized expenditure	2 367	1 221	1 026	832
	37 091	38 180	30 409	34 781
Tangible assets	(11)			
Land and water	19 647	19 429	15 828	15 883
Buildings and constructions	143 571	117 198	110 076	110 362
Machinery and equipment	73 585	57 538	55 938	51 758
Advance payments and construction in progress	487	5 443	233	5 443
	237 290	199 608	182 075	183 446
Financial assets and other				
long term investments	(12,13)			
Shares in subsidiaries			61 609	38 172
Shares and holdings in associated companies	155 426	143 016	104 352	104 777
Other shares and holdings	7 855	7 581	7 307	7 318
Loans receivable	2 006	10 065	28 946	10 060
Other non-current assets	5 692	5 383	5 692	5 383
Own shares	4 462		4 462	
	175 441	166 045	212 368	165 710
Current assets				
Inventories				
Raw materials and consumables	47 250	36 435	23 971	18 320
Semifinished products	12 108	6 613	1 925	784
Finished products/goods	120 653	105 751	63 771	59 416
Advance payments	26		815	
	180 037	148 799	90 482	78 520
Receivables	(14)			
Accounts receivable	109 151	94 852	77 722	69 038
Loans receivable			27 563	46 049
Prepaid expenses and accrued income	9 654	17 183	5 103	14 105
	118 805	112 035	110 388	129 192
Financial assets				
Other securities	29 460	27 008	29 460	27 008
Cash and cash equivalents	58 519	77 761	37 972	63 142
	836 643	769 436	693 154	681 799

Balance Sheets, Liabilities

FIM 1 000	CONSOLIDATED		PARENT COMPANY	
	1998	1997	1998	1997
Shareholders' equity				
Restricted equity ⁽¹⁵⁾				
Share capital	64 448	64 448	64 448	64 448
Share premium account	130 458	130 458	130 441	130 441
Revaluation reserve	4 599	4 599	4 599	4 599
	199 505	199 505	199 488	199 488
Non-restricted equity				
Reserve for own shares	4 462		4 462	
Contingency reserve	43 000	43 000	43 000	43 000
Retained earnings	224 031	205 254	110 019	80 187
Profit for the financial year	38 989	38 637	27 982	49 762
	310 482	286 891	185 463	172 949
Minority interest	20 033	4 265		
Provisions				
Accumulated depreciation in excess of plan ⁽¹⁶⁾			90 001	95 196
Obligatory provisions	600	612	121	
Liabilities				
Long-term ⁽¹⁷⁾				
Bonds	100 000	100 000	100 000	100 000
Loans from financial institutions	6 835	3 167	1 250	2 500
Deferred tax liability	25 987	27 696		
Other long-term liabilities	975	853	851	853
	133 797	131 716	102 101	103 353
Current				
Loans from financial institutions	6 504	1 916	1 250	1 250
Payments on account	3 679	1 446	564	1 342
Accounts payable	115 735	95 179	86 040	76 241
Accruals and other deferred income	46 148	47 906	28 060	31 920
Other current liabilities	160		66	60
	172 226	146 447	115 980	110 813
	836 643	769 436	693 154	681 799

Source and Application of Funds

FIM 1 000	CONSOLIDATED		PARENT COMPANY	
	1998	1997	1998	1997
Source of funds				
Cash flow from operations				
Net profit	38 989	38 637	27 982	49 761
Depreciation	33 759	31 173	27 635	25 914
Change in provisions	- 12	- 186	- 5 073	- 7 018
Total income financing	72 736	69 624	50 544	68 657
Long-term loans receivable	8 059	295		300
Sale of fixed assets	3 050	2 427	4 805	1 763
Change in long-term liabilities	8 005	44		44
Change in minority interest	15 767	457		
Change in shareholders' equity	70	- 602		
	34 951	2 621	4 805	2 107
	107 687	72 245	55 349	70 764
Application of funds				
Investments				
Increase in fixed assets	86 087	30 727	49 699	36 928
Long-term loans receivable			18 887	
Other non-current assets	308	5 383	308	5 383
Own shares	4 462		4 462	
Decrease in long-term liabilities	5 924	21 403	1 253	17 158
Dividend paid	15 467	14 178	15 467	14 178
	112 248	71 691	90 076	73 647
Change in net working capital	- 4 561	554	- 34 727	- 2 883
	107 687	72 245	55 349	70 764
Change in net working capital				
Cash and cash equivalents	- 19 242	- 63 897	- 25 169	- 58 610
Other current assets	9 221	20 678	- 16 353	41 767
Inventories	31 238	4 267	11 962	- 5 631
Current liabilities	- 25 778	39 506	- 5 167	19 591
	- 4 561	554	- 34 727	- 2 883
Net working capital on Jan. 1	219 156	218 602	187 049	189 932
Net working capital on Dec. 31	214 595	219 156	152 322	187 049

Notes to the Financial Statements 1998

ACCOUNTING PRINCIPLES

Extent of consolidated financial statements

The consolidated financial statements include the parent company Länntehta plc and the following subsidiaries engaged in business operations: Länntehta Engineering Oy, Länntehta Mas-kin AB (Sweden), Suomen Rakennuskone Oy, AS Balti Ehitusmasin-Baltem (Estonia), SIA BCM Baltijas Celtniecibas Masina (Latvia), Tresko Fish Ltd, Harviala Oy, Food Processing Koi-vukangas Oy as from September 1, 1998 and Lannen Polska Sp. z o.o., which started opera-tions in Poland in October. The consolidated financial statements also include eight companies established for future business operations, Cibarius Oy, which leases property to Länntehta companies, and Calabris Oy (former Polar Lake Oy) and Sedina Oy, which were dismantled in December. All associated companies engaged in business are included in the consolida-ted financial statements, namely Sucros Oy (Group), Oy Potma Ltd and Oy Atraco Ab.

More details about Länntehta companies and associated companies are given below under the section entitled 'Subsidiary and associated companies, and other shares and holdings'.

ACCOUNTING PRINCIPLES FOR CONSOLIDATED FINANCIAL STATEMENTS

Mutual shareholdings

The consolidated financial statements have been drawn up according to the acquisition cost method. The price paid for subsidiary companies in excess of their shareholders' equity has been allocated to buildings under fixed assets and goodwill on consolidation. On December 31, 1998, items allocated to buildings totalled FIM 10.4 million; these will be depreciated according to the depreciation plan for buildings.

Internal transactions and margins

Internal transactions, unrealized margins from internal transactions, internal receivables and liabilities, and internal distribution of profit, have been eliminated.

Minority interest

Minority interest is shown separately from consolidated shareholders' equity, from the accumulated depreciation in excess of plan less deferred tax liabilities, and from the profit for the financial period.

Translation differences

The figures from the financial statements of foreign Group companies have been translated into Finnish markkas at the Bank of Finland middle rate on the day of closing. The transla-tion difference arising from the elimination of these companies' shareholders' equity has been recorded under retained earnings.

Associated companies

The associated companies have been consolidated according to the equity method. The Group's share of the profits for the financial period of the associated companies Sucros Group and Oy Potma Ltd have been entered before operating profit before depreciation because the production of these companies is directly related to the business of the parent company. The Group's share of the profits of Oy Atraco Ab has been entered under financial items. The Group's share of profits includes a share of the change in voluntary provisions and the depreciation difference less the change in the deferred tax liability.

VALUATION OF FIXED ASSETS

Fixed assets have been capitalized at their acquisition cost and depreciated on a straight line basis according to plan, based on useful economic life. Publicly quoted fixed asset shares have been valued at the historical cost.

VALUATION OF INVENTORIES

The balance sheet value of inventories is the lowest of variable acquisition cost, repurchase price or probable market value.

FOREIGN CURRENCY ITEMS

Receivables and liabilities denominated in currencies tied to the euro on December 31, 1998 have been translated into Finnish markkas using fixed conversion coefficients. Exchange rate differences have been charged to the profit and loss account.

Other foreign currency receivables and liabilities have been translated into Finnish markkas at the Bank of Finland middle rate. These exchange rate differences have also been charged to the profit and loss account.

USE OF DERIVATIVE INSTRUMENTS

Derivative contracts are used for hedging. The Group used an interest rate swap for partial hedging against risks entailed in long-term fixed-rate liabilities. The interest rate differential for the contract is recorded on an accrual basis under other financial income or expenses.

PENSION ARRANGEMENTS

Statutory pension coverage for corporate personnel is covered by pension insurance.

The assets and liabilities of the Länntehta Staff Pension Trust were transferred to Tapiola Cor-porate Life Insurance Ltd at the end of 1997, and additional pension security for former employees and retired staff in keeping with the Trust's rules is provided by pension insurance policies from insurance companies.

The retirement age for the parent company's President has been set at 60 years.

Notes to the Financial Statements

FIM 1 000	CONSOLIDATED		PARENT COMPANY	
	1998	1997	1998	1997
1. NET SALES BY BUSINESS SEGMENT				
Food Group	711 491	573 762	679 787	561 103
Earthmoving Technology Group	263 471	241 194		
Other Business Units	153 424	143 156	143 572	143 820
Total	1 128 386	958 112	823 359	704 923
Exports from Finland	66 788	96 070	22 816	31 113
Net sales by market area				
Finland	1 029 030	840 256	800 543	673 810
European Union	64 176	48 279	9 608	10 387
Rest of Europe	27 202	60 484	6 867	11 804
Other	7 978	9 093	6 341	8 922
Total	1 128 386	958 112	823 359	704 923
2. SHARE OF PROFITS OF ASSOCIATED COMPANIES				
Performed before operating profit before depreciation				
Sucros-Group	8 556	- 1 505		
Other	165	- 48		
Total	8 721	- 1 553		
Performed in financial income				
Oy Atraco Ab	7 517	10 580		
Other		- 15		
Total	7 517	10 565		
3. OTHER OPERATING INCOME				
Rental income	1 246	945	2 168	2 061
Gains from sales of fixed assets	644	636	335	514
Export subsidies	121	365	46	45
Other	350	191	23	
Total	2 361	2 137	2 572	2 620
4. PERSONNEL EXPENSES AND FRINGE BENEFITS				
Wages and salaries	96 557	85 166	62 831	57 713
Pension expenses	17 821	12 778	12 330	8 161
Other personnel expenses	9 595	8 188	5 710	5 056
	123 973	106 132	80 871	70 930
Fringe benefits	1 367	1 404	1 142	1 082
Total	125 340	107 536	82 013	72 012

5. DEPRECIATION

Depreciation according to plan has been calculated from the original acquisition cost on a straight line basis based on the probable economic life of the asset as follows:

Intangible rights	10 years
Goodwill	10 years
Goodwill on consolidation	5 years
Other capitalized expenditure	5 years
Buildings, made of stone and wood	22–30 years
Other buildings and constructions	10 years
Machinery and equipment	5–10 years

FIM 1 000	CONSOLIDATED		PARENT COMPANY	
	1998	1997	1998	1997
Depreciation according to plan				
On intangible rights	2 069	2 062	2 037	1 933
On goodwill	3 883	3 886	3 504	3 504
On other capitalized expenditure	561	322	240	166
On buildings and constructions	7 285	6 787	6 550	6 353
On machinery and equipment	18 513	17 146	15 304	13 958
Total	32 311	30 203	27 635	25 914
Depreciation of goodwill on consolidation	1 449	970		
Depreciation in excess of or less than plan				
Intangible rights	- 35	- 35	- 35	- 35
Buildings and constructions	- 2 721	5 979	- 2 939	5 444
Machinery and equipment	- 3 722	- 3 899	- 2 221	- 2 333
Total	- 6 478	2 045	- 5 195	3 076
Recorded depreciation according to current tax legislation				
On intangible rights	2 034	2 027	2 002	1 898
On goodwill	3 883	3 885	3 504	3 504
On other capitalized expenditure	561	322	240	166
On buildings and constructions	5 223	4 462	3 611	3 400
On machinery and equipment	14 803	11 492	13 083	10 341
Total	26 504	22 188	22 440	19 309
On goodwill on consolidation	1 449	970		
6. OPERATING PROFIT BY BUSINESS SEGMENT				
Food Group	29 581	29 745		
Earthmoving Technology Group	7 600	5 700		
Other Business Units	6 800	10 500		
Total	43 981	45 945		
Personnel by business segment				
Food Group	392	308		
Earthmoving Technology Group	175	168		
Other Business Units	128	97		
Total	695	573		
7. INTERNAL FINANCIAL INCOME AND EXPENSES				
Financial income from subsidiaries				
Dividend received			1 993	2 193
Interest received			2 282	1 389
Financial expenses paid to subsidiaries				
Interest expenses			6	5

FIM 1 000	CONSOLIDATED		PARENT COMPANY	
	1998	1997	1998	1997
8. EXTRAORDINARY INCOME AND EXPENSES				
Extraordinary expenses				
Group contributions			750	870
Loss of liquidated subsidiaries			460	
Total			1 210	870
9. DIRECT TAXES				
For financial year	11 932	18 154	11 367	17 544
For previous years	371	118	368	106
Change in deferred tax liability	- 1 814	- 3 577		
Total	10 489	14 695	11 735	17 650
FIXED ASSETS AND OTHER CAPITALIZED EXPENDITURE				
10. INTANGIBLE ASSETS				
Intangible rights				
Acquisition cost Jan. 1	21 684	21 501	20 452	20 271
Increases Jan. 1–Dec. 31	1 308	183	975	181
Decreases Jan. 1–Dec. 31	- 1 232			
Acquisition cost Dec. 31	21 760	21 684	21 427	20 452
Accumulated depreciation according to plan	- 10 642	- 8 881	- 10 462	- 8 425
Book value Dec. 31	11 118	12 803	10 965	12 027
Accumulated depreciation in excess of plan Jan. 1	175	210	175	210
Depreciation less than plan Jan. 1–Dec. 31	- 36	- 35	- 36	- 35
Accumulated depreciation in excess of plan Dec. 31	139	175	139	175
Goodwill				
Acquisition cost Jan. 1	36 955	36 955	35 045	35 045
Increases Jan. 1–Dec. 31	2 617			
Acquisition cost Dec. 31	39 572	36 955	35 045	35 045
Accumulated depreciation according to plan	- 19 842	- 14 739	- 16 627	- 13 123
Book value Dec. 31	19 730	22 216	18 418	21 922
Goodwill on consolidation				
Acquisition cost Jan. 1	4 850	4 850		
Increases Jan. 1–Dec. 31	3 385			
Acquisition cost Dec. 31	8 235	4 850		
Accumulated depreciation according to plan	- 4 359	- 2 910		
Book value Dec. 31	3 876	1 940		
Other capitalized expenditure				
Acquisition cost Jan. 1	2 876	2 188	1 894	1 389
Increases Jan. 1–Dec. 31	1 759	688	434	505
Acquisition cost Dec. 31	4 635	2 876	2 328	1 894
Accumulated depreciation according to plan	- 2 268	- 1 655	- 1 302	- 1 062
Book value Dec. 31	2 367	1 221	1 026	832

FIM 1 000	CONSOLIDATED		PARENT COMPANY	
	1998	1997	1998	1997
11. TANGIBLE ASSETS				
Buildings and constructions				
Acquisition cost Jan. 1	168 635	160 005	161 430	153 094
Increases Jan. 1–Dec. 31	36 752	8 862	6 856	8 398
Decreases Jan. 1–Dec. 31	- 1 464	- 232	- 592	- 62
Acquisition cost Dec. 31	203 923	168 635	167 694	161 430
Accumulated depreciation according to plan	- 60 352	- 51 437	- 57 618	- 51 068
Book value Dec. 31	143 571	117 198	110 076	110 362
Accumulated depreciation in excess of plan Jan. 1	68 294	62 323	67 468	62 024
Depreciation in excess of or less than plan Jan. 1–Dec. 31	- 2 808	5 971	- 2 939	5 444
Accumulated depreciation in excess of plan Dec. 31	65 486	68 294	64 529	67 468
Machinery and equipment				
Acquisition cost Jan. 1	172 612	156 097	118 891	103 398
Increases Jan. 1–Dec. 31	38 066	18 354	20 646	16 682
Decreases Jan. 1–Dec. 31	- 1 595	- 1 839	- 1 162	- 1 189
Acquisition cost Dec. 31	209 083	172 612	138 375	118 891
Accumulated depreciation according to plan	- 135 498	- 115 074	- 82 437	- 67 133
Book value Dec. 31	73 585	57 538	55 938	51 758
Accumulated depreciation in excess of plan Jan. 1	30 445	34 335	27 553	29 886
Depreciation less than plan Jan. 1–Dec. 31	- 3 259	- 3 890	- 2 220	- 2 333
Accumulated depreciation in excess of plan Dec. 31	27 186	30 445	25 333	27 553
Share of machinery and equipment in book value Dec. 31	58 574	42 604	44 154	38 996
Taxation values of fixed assets				
Land	4 387	4 391	2 311	2 194
Buildings	87 320	61 738	63 334	59 401
Shares in subsidiaries			57 298	34 337
Other shares and holdings	108 368	91 123	108 297	91 034
Total	200 075	157 252	231 240	186 966
Revaluation				
Land Jan. 1 and Dec. 31	10 999	10 999	10 999	10 999
Buildings Dec. 31	4 827			

Notes to the Financial Statements

12. SUBSIDIARIES AND ASSOCIATED COMPANIES AND OTHER SHARES AND HOLDINGS

Subsidiaries	Holdings and voting rights %	Share of shareholders' equity FIM 1000	Number of shares	Nominal value of share FIM	Book value of shares FIM 1000	Profit/loss in last financial statements FIM 1000
Owned by parent company						
Lännen Engineering Oy, Loimaa municipality	97.93	21 404	1 707 620	6	23 207	2 242
Suomen Rakennuskone Oy, Säskylä	79.50	17 592	7 950	1 000	8 192	4 422
Tresko Fish Ltd, Kustavi	100.00	3 997	40 000	100	3 997	5
Food Processing Koivukangas Oy, Pudasjärvi	100.00	6 603	3 360	1 000	9 144	- 2
Lannen Polska Sp. z o.o., Poland	50.00	14 984	107 711	PLN 100	15 793	- 1 353
Harvia Oy, Janakkala	100.00	959	190	5 000	1 140	- 8
Cibarius Oy, Turku	100.00	49	15	1 000	16	5
8 non-operative companies, Säskylä	100.00	158	24	5 000	120	4
Total					61 609	

Owned by subsidiaries

Lännen Maskin AB, Sweden	100.00	6 324	20 000	SEK 100	6 180	666
AS Balti Ehitusmasin-Baltem, Estonia	94.50	1 120	18 900	EEK 100	1 107	113
SIA BCM Baltijas Celtniecibas Masina, Latvia	95.00	416	1 140	LVL 25	443	-11
Total					7 730	

Associated companies

Associated companies	Holdings and voting rights %	Share of shareholders' equity FIM 1000	Number of shares	Nominal value of share FIM	Book value of shares FIM 1000	Profit/loss in last financial statements FIM 1000	Balance sheet date	Duration of financial period, months
Owned by parent company								
Sucros Oy, Salo	20.00	111 250	700 000	100	70 000	88 657	31.12.1998	12
Oy Potma Ltd, Pello	50.00	1 029	60	10 000	600	335	31.12.1998	12
Oy Atraco Ab, Turku	50.00	37 192	125 080	20	33 752	15 034	31.12.1998	12
Total					104 352			

Other shares and holdings owned by parent company and connection charges

	Number of shares	Nominal value of share FIM	Book value of shares FIM 1000	Market value of shares FIM 1000	CONSOLIDATED		PARENT COMPANY	
					FIM 1 000	1998	1997	1998
Quoted on Stock Exchange								
Kesko Corporation, Helsinki	100 000	10	4 214	7 600				
Cultor Corporation, I shares, Helsinki	8 400	6	380	437				
Raisio Group plc, K shares, Raisio	6 000	10	58	330				
Neomarkka plc, Helsinki	280	50	14	11				
Other								
Asunto Oy Säskylän Ukkomestari, Säskylä	136	500	343					
Lännen Puhelin Oy, Eura	78	300	130					
HEX Ltd, Helsinki	24 400	10	150					
Other shares and holdings			279					
Connection charges			1 739					
Total			7 307					

13. LONG-TERM LOANS RECEIVABLE FROM SUBSIDIARIES AND ASSOCIATED COMPANIES

Loans receivable from subsidiaries			26 947	
Loans receivable from associated companies	2 000	9 560	2 000	9 560

14. RECEIVABLES FROM SUBSIDIARIES AND ASSOCIATED COMPANIES

Accounts receivable from subsidiaries			2 576	658
Accounts receivable from associated companies	542	993	542	993
Advance payments in inventories to subsidiaries			789	
Loans receivable from subsidiaries			27 563	46 049

15. CHANGES IN SHAREHOLDERS' EQUITY

Restricted equity	Share capital Jan. 1	Share capital Dec. 31
	64 448	64 448
	64 448	64 448
	64 448	64 448
	64 448	64 448

FIM 1 000	CONSOLIDATED		PARENT COMPANY	
	1998	1997	1998	1997
Share premium account Jan. 1	130 458	130 441	130 441	130 441
Transfer from retained earnings		17		
Share premium account Dec. 31	130 458	130 458	130 441	130 441
Revaluation reserve Jan. 1	4 599	4 599	4 599	4 599
Revaluation reserve Dec. 31	4 599	4 599	4 599	4 599
Restricted equity total	199 505	199 505	199 488	199 488
Non-restricted equity				
Reserve for own shares Jan. 1				
Transfer from retained earnings	4 462		4 462	
Reserve for own shares Dec. 31	4 462		4 462	
Contingency reserve Jan. 1	43 000	43 000	43 000	43 000
Contingency reserve Dec. 31	43 000	43 000	43 000	43 000
Retained earnings Jan. 1	205 254	180 815	80 186	75 155
Transferred from the previous year profit	38 636	39 237	49 762	19 211
Dividends	- 15 467	- 14 179	- 15 467	- 14 179
Transfer to reserve for own shares	- 4 462		- 4 462	
Transfer to share premium account		- 17		
Changes and translation differences during elimination	70	- 602		
Retained earnings Dec. 31	224 031	205 254	110 019	80 187
Profit for the financial year	38 989	38 637	27 982	49 762
Total non-restricted shareholders' equity	310 482	286 891	185 463	172 949
Shareholders' equity Dec. 31	509 987	486 396	384 951	372 437
Distributable funds				
Shareholders' equity	310 482	286 891	185 463	172 949
./Own shares	- 4 462		- 4 462	
./Balance sheet provisions included in shareholders' equity	- 66 823	- 71 218		
./Balance sheet provisions of associated companies included in shareholders' equity	- 9 019	- 15 136		
Distributable funds Dec. 31	230 178	200 537	181 001	172 949
16. PROVISIONS				
Accumulated depreciation in excess of plan	92 810	98 914	90 001	95 196
Obligatory provisions				
Guarantee provision	479	612		
Salaries provision	121		121	
Total	600	612		
17. LIABILITIES				
Bond				
Lännen Tehtaat plc I/1996				
Reg.no 102/271/96	100 000	100 000	100 000	100 000
Maturity 5 years, interest 6%				
Loan is unsecured and matures on Nov. 11, 2001				
Warrant bond				
Lännen Tehtaat plc I/1997	44	44	44	44

FIM 1 000	CONSOLIDATED		PARENT COMPANY	
	1998	1997	1998	1997
The FIM 44 000 warrant bond issued to corporate and unit management in May 1997 is included in other long-term liabilities. The bond is non-interest-bearing and will mature in total on April 30, 2002. Each FIM 1 000 bond carries 1 000 warrants. Each warrant entitles its holder to subscribe a maximum of five Lännen Tehtaat plc shares during the 1998–2004 period as follows: one share as from May 1, 1998 and one additional share each year as from May 1, 1998 and one additional share each year as from May 1 during subsequent years up to the maximum five. The subscription right lapses on October 31, 2004. The subscription price will be FIM 70 in 1998, after which it will rise by 4% per year up to the subscription to be made in 2004. At the end of the year, 21 people were covered by the warrant bond programme.				
The maximum number of shares to be subscribed is 220 000, and subscriptions must not raise share capital by more than FIM 2 200 000. In the case of full subscription, the warrant subscriptions would account for 3.3% of the raised share capital and of votes.				
Liabilities to subsidiaries and associated companies				
Short-term accounts payable to				
subsidiaries				
associated companies				
Accruals and other deferred income to subsidiaries				
Other short-term liabilities to subsidiaries				
			128	121
	51 188	41 269	51 188	41 269
			750	870
			64	60
CONTINGENT LIABILITIES				
For own debts				
Deposited securities				
Real estate mortgages				
Corporate mortgages				
For own commitments				
Repurchasing commitments				
Other commitments				
For debt of subsidiaries				
Real estate mortgages				
Corporate mortgages				
Guarantees				
Repurchasing commitments				
On behalf of associated companies				
Real estate mortgages				
Guarantees				
On behalf of others				
Guarantees				
Leasing liabilities				
Falling due during the following year				
Falling due at later date				
Total				
	121	2 411	35	2 335
	55		9	
	55 255	51 878	38 354	45 075
Outstanding derivative instruments				
Interest rate swaps				
Forward currency contracts				
Redemption liability of leased buildings				
	20 000	20 000	20 000	20 000
		1 387		1 387
	19 500	19 500	19 500	19 500

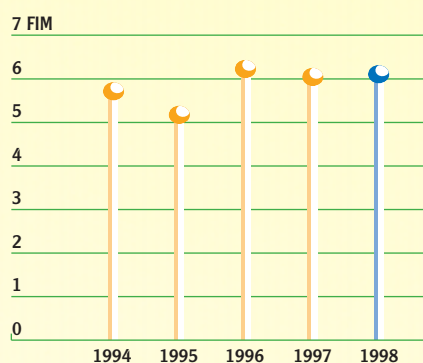
Key Indicators

	1998	1997	1996	1995	1994
Financial indicators					
Scope of operations					
Net sales, FIM 1000	1 128 386	958 112	866 571	783 087	648 885
Change, %	17.8	10.6	10.7	20.7	- 5.0
Food Group, %	63.1	59.9	64.4	54.1	57.1
Earthmoving Technology Group, %	23.3	25.2	21.6	30.9	22.3
Other Business Units, %	13.6	14.9	14.0	15.0	20.6
Exports from Finland, FIM 1000	66 788	96 070	87 278	79 525	40 571
Exports' share of net sales, %	5.9	10.0	10.1	10.2	6.3
Gross investments in fixed assets, FIM 1000	63 821	31 789	46 977	81 474	26 371
% of net sales	5.7	3.3	5.4	10.4	4.1
R&D expenses, FIM 1000	7 768	6 771	4 765	4 203	3 770
% of net sales	0.7	0.7	0.5	0.5	0.6
Investments in associated companies, FIM 1000	104 352	104 776	93 476	85 476	85 476
Dividends received from associated companies, FIM 1000	3 391	6 236	72	16 160	700
Average number of personnel	695	573	530	422	420
Net sales/employee, FIM 1000	1 624	1 672	1 635	1 856	1 545
Financial income/expenses (-), net, FIM 1000	5 737	8 254	8 257	3 839	- 8 013
Extraordinary income/expenses (-), net, FIM 1000				- 186	
Profitability					
Operating profit before depreciation, FIM 1000	77 741	77 118	69 463	69 655	69 170
% of net sales	6.9	8.0	8.0	8.9	10.7
Operating profit, FIM 1000	43 981	45 945	40 207	46 154	52 198
% of net sales	3.9	4.8	4.6	5.9	8.0
Profit before extraordinary items, FIM 1000	49 719	54 199	48 465	49 995	44 207
% of net sales	4.4	5.7	5.6	6.4	6.8
Profit before taxes and minority interest, FIM 1000	49 719	54 199	48 465	49 809	44 207
% of net sales	4.4	5.7	5.6	6.4	6.8
Profit for the financial year, FIM 1000	38 989	38 637	39 237	30 546	34 561
% of net sales	3.5	4.0	4.5	3.9	5.3
Return on equity (ROE), %	7.7	8.3	9.0	7.6	9.8
Return on investment (ROI), %	9.4	10.4	10.0	11.2	11.3
Financial and economic status					
Current ratio	2.3	2.5	2.2	2.5	2.5
Equity ratio, %	63.4	63.9	58.1	61.2	61.2
Net gearing, %	4.1	- 2.0	1.3	- 3.3	- 18.7
Fixed assets and other long-term investments, FIM 1000	449 822	403 833	401 617	336 469	306 123
Inventories and other current assets, FIM 1000	386 821	365 603	404 556	344 444	373 742
Shareholders' equity, FIM 1000	509 987	486 395	462 540	413 008	393 902
Distributable funds, FIM 1000	230 178	200 536	164 082	125 546	103 331
Liabilities, FIM 1000	306 023	278 164	339 028	264 269	267 772
Interest-bearing liabilities, FIM 1000	114 474	105 937	172 838	105 089	104 551
Balance sheet total, FIM 1000	836 643	769 436	806 173	682 301	689 091

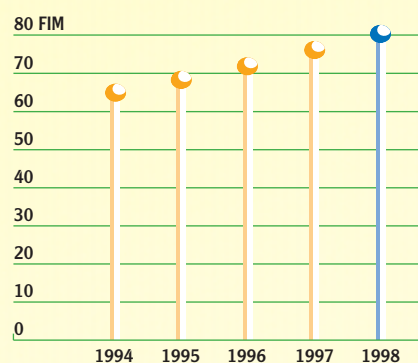
	1998	1997	1996	1995	1994
Share data					
Earnings and dividend					
Earnings per share, FIM	6.06	6.00	6.19	5.06	5.71
Earnings per share, including warrant bond, FIM	5.86	5.88			
Nominal dividend per share, FIM	2.40 ¹⁾	2.40	2.20	2.00	2.00
Adjusted dividend per share, FIM	2.40	2.40	2.20	2.00	2.00
Dividend per earnings, %	39.6	40.0	35.5	39.5	35.0
Effective dividend yield, %	3.7	3.2	3.6	5.6	5.6
P/E-ratio	10.7	12.6	10.0	7.1	6.2
Shareholders' equity per share, FIM	79.22	75.47	71.77	68.18	65.02
Share performance, FIM					
Adjusted quoted share price	65.00	75.39	62.00	36.00	35.50
Lowest price in year	60.00	61.00	36.10	30.00	35.50
Highest price in year	87.00	83.00	63.00	41.00	61.00
Average price during year	78.75	73.04	53.18	35.91	49.61
Shares traded					
Shares traded on Stock Exchange, x 1000	1 146	1 671	2 276	541	737
% of average number of shares	17.8	25.9	35.9	8.9	12.2
Share capital, FIM 1000	64 448	64 448	64 448	60 578	60 578
Market capitalization, FIM 1000	418 910	485 872	399 576	218 080	215 051
Dividends, FIM 1000	15 271 ¹⁾	15 467	14 178	12 116	12 116
Share issues, FIM 1000					
Rights issue					
Targeted issue			3 870		
Share premium			11 610		
Number of shares					
Number of shares	6 444 776	6 444 776	6 444 776	6 057 776	6 057 776
Average adjusted number of shares	6 429 650	6 444 776	6 336 201	6 057 776	6 057 776
Adjusted number of shares at end of financial year	6 381 504	6 444 776	6 444 776	6 057 776	6 057 776

¹⁾ Board proposal

Earnings per share 1994–1998



Shareholders' equity per share 1994–1998



Calculation of Financial Ratios

Financial indicators

Return on equity (ROE), %	=	$\frac{\text{Profit/loss before extraordinary items less taxes} \pm \text{tax on extraordinary items}}{(\text{Shareholders' equity} - \text{own shares} + \text{minority interest}) \text{ keskimäärin}}$	x 100
Return on investment (ROI), %	=	$\frac{\text{Profit/loss before extraordinary items} + \text{interest paid and other financial expenses}}{\text{Capital employed (average)}}$	x 100
Capital employed	=	Balance sheet total – own shares – interest-free accounts payable and accrued liabilities, advance payments received, deferred tax liability, Pension Trust liability deficit – obligatory provisions	
Current ratio	=	$\frac{\text{Current assets}}{\text{Current liabilities}}$	
Equity ratio, %	=	$\frac{\text{Shareholders' equity} - \text{own shares} + \text{minority interest}}{\text{Balance sheet total} - \text{own shares} - \text{advance payments received}}$	x 100
Net gearing ratio, %	=	$\frac{\text{Interest-bearing net liabilities}}{\text{Shareholders' equity} - \text{own shares}}$	x 100
Interest-bearing net liabilities	=	Interest-bearing liabilities – interest-bearing deposits and receivables	

Share data

Earning per share	=	$\frac{\text{Profit/loss before extraordinary items less taxes} \pm \text{tax on extraordinary items} \pm \text{minority interest}}{\text{Average number of shares (adjusted for share issues)}}$	
Adjusted dividend per share	=	$\frac{\text{Dividend for the financial year}}{\text{Share issue coefficient}}$	
Dividend per earnings, %	=	$\frac{\text{Adjusted dividend}}{\text{Earnings per share}}$	x 100
Effective dividend yield, %	=	$\frac{\text{Adjusted dividend}}{\text{Adjusted share price}}$	x 100
Price/earnings ratio (P/E)	=	$\frac{\text{Adjusted share price}}{\text{Earnings per share}}$	
Shareholders' equity per share	=	$\frac{\text{Shareholders' equity} - \text{own shares}}{\text{Number of shares on Dec. 31, adjusted for share issues}}$	
Adjusted share price	=	$\frac{\text{Average price on Dec. 31}}{\text{Share issue coefficient}}$	
Market capitalization	=	Number of shares x average price at end of financial year	

Shares and Shareholders

SHARES AND VOTING RIGHTS

The shares of Lännen Tehtaat plc are all in one series. All shares carry the same voting and dividend rights. The Company Articles prescribe that the number of votes a shareholder is entitled to exercise cannot exceed one tenth of the votes represented at a shareholders' meeting.

The minimum share capital is FIM 60 000 000 and the maximum FIM 240 000 000. Share capital at the end of the financial year was FIM 64 447 760 and the number of shares was 6 444 776. The shares have a nominal value of FIM 10 each.

OWN SHARES

On April 2, 1998, the Annual General Meeting of Lännen Tehtaat plc authorized the Board of Directors to decide on the purchase of a maximum 322 238 of the company's own shares by April 2, 1999. By February 25, 1999 the Board has decided to acquire a maximum of 120 000 shares.

In accordance with the decision made by the Annual General Meeting, the company's own shares were purchased in public trading organized by Helsinki Exchanges at current market price. By the end of the 1998 financial year, in the period between September 23–December 31, 1998, Lännen Tehtaat plc had purchased 63 272 of its own shares, with a total nominal value of FIM 632 720. A total of FIM 4 461 533 was paid for these shares. The sum total of shares purchased during the financial period accounts for 0.98% of share capital. These shares do not carry voting or dividend rights.

After the 1998 financial period, i.e. by February 25, 1999, a total of 18 528 additional own shares had been bought. FIM 1 089 391 was paid for them. The company's own ownership share was then 1.27%.

REGISTRATION AND SHARE QUOTATION

Lännen Tehtaat plc's shares are in the book-entry system and have been quoted on Helsinki Exchanges since 1989. The symbol for the shares is LTE1S and the trading lot is 200 shares.

DIVIDEND POLICY

In accordance with the dividend policy laid down by the Board of Directors of Lännen Tehtaat plc, the company intends to pay a dividend which will be based on the earnings per share in recent years and which is competitive compared with the dividends paid by other listed companies in the sector.

SHAREHOLDERS, ON DECEMBER 31, 1998

Major shareholders	Number of shares	%	Number of votes	%
Tapiola General Mutual Insurance Company	614 000	9.5	614 000	9.6
Esko Eela	387 348	6.0	387 348	6.1
Norvestia plc	355 200	5.5	355 200	5.6
Valio Ltd	327 912	5.1	327 912	5.1
Raisio Group plc	324 294	5.0	324 294	5.1
OKOBANK Osuuspankkien Keskuspankki Oyj	299 400	4.6	299 400	4.7
Ilmarinen Mutual Pension Insurance Company	274 464	4.3	274 464	4.3
Nova Life Insurance Company	262 851	4.1	262 851	4.1
Tapiola Mutual Life Assurance Company	204 600	3.2	204 600	3.2
Varmia-Sampo Mutual Pension Insurance Company	181 566	2.8	181 566	2.8
Pohjola Non-Life Insurance Company	156 000	2.4	156 000	2.4
Central Union of Agricultural Producers and Forest Owners (MTK)	125 485	1.9	125 485	2.0
PT Pension Fund	73 600	1.1	73 600	1.2
Employment Pension Fund	71 000	1.1	71 000	1.1
Nominee registered shares	194 845	3.0	194 845	3.1
Other shareholders	2 528 939	39.4	2 528 939	39.6
External ownership total	6 381 504	99.0	6 381 504	100.0
Owned by the company	63 272	1.0		
	6 444 776	100.0	6 381 504	100.0

SHARES OWNED BY CORPORATE MANAGEMENT

Members of the Administrative Council and the Board of Directors and the President own a total of 410 292 shares, which corresponds to 6.4% of the company's share capital and voting rights. Apart from this, the President holds FIM 6 000 of the capital value of a warrant bond taken by the company in 1997. A breakdown of the management's warrant bonds is given in the notes to the financial statements on page 31.

DISTRIBUTION OF SHAREHOLDINGS

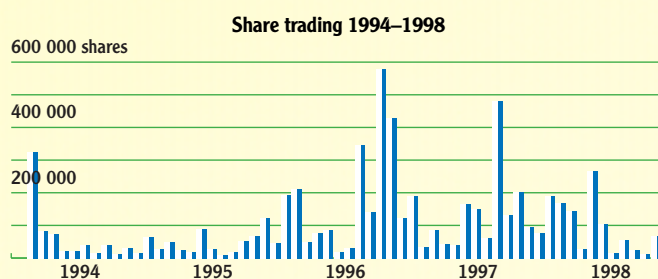
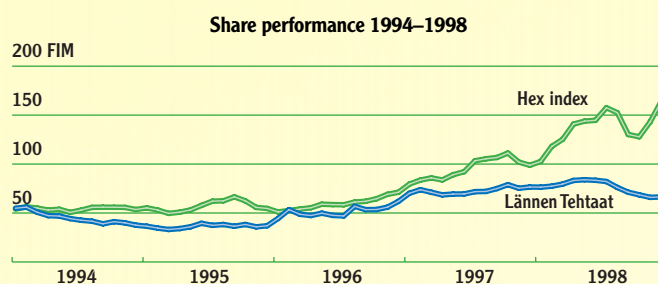
Shares	Number	% of shareholders	% of shares and votes
1–100	3 406	51.2	2.2
101–1 000	2 875	43.2	15.3
1 001–10 000	335	5.0	11.0
10 001–40 000	21	0.3	6.1
40 001–	21	0.3	64.2
Joint account			1.2
Total	6 658	100.0	100.0

DISTRIBUTION OF OWNERSHIP

	% of shareholders	% of shares
Private households	95.2	28.9
Companies	2.0	20.3
Non-profit organizations	1.4	4.7
Financial and insurance institutions	0.6	26.4
Public organizations	0.8	15.5
Foreign and nominee registered		3.0
Joint account		1.2
Total	100.0	100.0

CHANGES IN OWNERSHIP REPORTED

No ownership changes as referred to in chapter 2, section 9, of the Securities Markets Act took place in the company.



Proposal of the Board

Group non-restricted shareholders' equity on December 31, 1998 was FIM 310 482 150.54, including FIM 230 178 348.95 in distributable funds. The parent company's distributable non-restricted equity was FIM 181 001 058.23.

The Board of Directors proposes that Lännen Tehtaat plc pay a dividend of FIM 2.40 per

share. The total dividend distribution calculated in accordance with external ownership in force on February 25, 1999 is FIM 15 271 142.40. No dividend is paid on shares owned by the company itself. The final distribution total will be known when the authorization for buying the company's own shares ends on April 2, 1999.

Säkylä, March 1, 1999

Heikki Harjuvaara

Juha Korkea-
oja

Esko Eela

Lauri Jalli

Tapio Reponen

Hannu Simula

Olli Karkkila

Auditors' Report

To the shareholders of Lännen Tehtaat plc

We have audited the accounting records, financial statements and administration of Lännen Tehtaat plc for the financial year 1 January–31 December 1998. The financial statements prepared by the Board of Directors and the President, contain the Board's report, and the consolidated and parent company profit and loss accounts, balance sheets and notes to the financial statements. Based on our audit we express an opinion on these financial statements and administration.

We have conducted our audit in accordance with generally accepted auditing standards in Finland. These standards require that we conduct a sufficient examination of the annual accounts, as well as the accounting principles, disclosures and presentation of the financial statements, to obtain reasonable assurance that the financial statements are free of material misstatement. The purpose of our audit of the administration is to establish that the Administrative Council, the Board of Directors

and the President have complied with the rules of the Finnish Companies' Act.

In our opinion, the financial statements have been prepared in accordance with the Finnish Accounting Act and other rules and regulations governing the preparation of financial statements in Finland. The financial statements give a true and fair view, as defined in the Accounting Act, of both the consolidated and parent company's result of operations and financial position. The financial statements, including the consolidated statements, may be adopted, and the members of the Administrative Council and the Board of Directors, and the President, may be discharged from liability for the financial period audited by us. The proposal of the Board of Directors concerning the disposal of the profit is in compliance with the Finnish Companies' Act.

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

Säkylä, March 3, 1999

Kauko Lehtonen
Authorized Public Accountant

Pekka Nikula
Authorized Public Accountant

Administrative Council Statement

After examining the 1998 financial statements and auditors' report, the Administrative Council recommends that the consolidated and parent company financial statements be approved and that the Board of Directors' recommendation for distribution of profit be accepted.

The following members of the Administrative Council are in turn for retirement: Heikki Ellilä, Esa Härmälä, Mari Kiviniemi, Vesa Lammela, Hannu Lamminen, Juha Nevavuori and Helena Walldén.

Säkylä, March 8, 1999

Tom Lijeström
Chairman of the
Administrative Council

Jarkko Sillanpää
Secretary of the
Administrative Council

Financial Statement in Euros

Consolidated Profit and Loss Account

Selected Key Indicators

EUR 1 000	1998	1997
Net sales	189 781	161 143
Change in product inventories	2 536	- 5
Share of profits of associated companies	1 467	- 261
Other operating income	397	359
Operating expenses		
Materials, supplies and goods		
Purchases during the financial year	148 057	118 681
Increase in stocks	- 1 583	- 697
External services	1 210	1 059
Personnel expenses	20 851	17 850
Rents and leases	1 685	1 659
Other operating expenses	10 886	9 713
Operating expenses, total	181 106	148 265
Operating profit before depreciation	13 075	12 970
Depreciation		
On fixed assets and other capitalized expenditure	- 5 434	- 5 080
On goodwill on consolidation	- 244	- 163
Total depreciation	- 5 678	- 5 243
Operating profit	7 397	7 727
Financial income and expenses		
Dividend income	112	66
Interest income from long-term investments	86	147
Other interest income	687	822
Other financial income	381	275
Foreign exchange gains and losses	- 202	1
Share of profits of associated companies	1 264	1 777
Interest expenses	- 1 275	- 1 526
Other financial expenses	- 88	- 174
Financial income and expenses, total	965	1 388
Profit before extraordinary items, taxes and minority interest	8 362	9 116
Profit before taxes and minority interest	8 362	9 116
Direct taxes	- 1 764	- 2 472
Minority interest	- 40	- 146
Profit for the financial year	6 557	6 498

	1998	1997
Financial indicators		
Net sales, EUR 1000	189 781	161 143
Change, %	17.8	10.6
Exports from Finland, EUR 1000	11 233	16 158
Gross investments in fixed assets, EUR 1000	10 734	5 347
Average number of personnel	695	573
Net sales/employee, EUR 1000	273	281
Operating profit, EUR 1000	7 397	7 727
Profit/loss before extraordinary items, EUR 1000	8 362	9 116
Profit for the financial year, EUR 1000	6 557	6 498
Return on investment, % (ROI)	9.4	10.4
Equity ratio, %	63.4	63.9
Shareholders' equity, EUR 1000	85 774	81 806
Distributable funds, EUR 1000	38 713	33 728
Interest-bearing liabilities, EUR 1000	19 253	17 817
Balance sheet total, EUR 1000	140 713	129 410
Share data		
Earnings and dividend		
Earnings per share, EUR	1.02	1.01
Earnings per share, incl warrant bond, EUR	0.99	0.99
Nominal dividend per share, EUR	0.40 ¹⁾	0.40
Adjusted dividend per share, EUR	0.40	0.40
Dividend per earnings, %	39.6	40.0
Effective dividend yield, %	3.7	3.2
P/E ratio	10.7	12.6
Shareholders equity per share, EUR	13.32	12.69
Share performance, EUR		
Adjusted quoted share price	10.93	12.68
Lowest price in year	10.09	10.26
Highest price in year	14.63	13.96
Average price during year	13.24	12.28
Shares traded		
Shares traded on Stock Exchange, x 1000	1 146	1 671
% of average number of shares	17.8	25.9
Share capital, EUR 1000	10 839	10 839
Market capitalization, EUR 1000	70 456	81 718
Dividends, EUR 1000	2 568 ¹⁾	2 601

¹⁾ Board of Directors' proposal
Euro conversion coefficient 5,945730

Consolidated Balance Sheet

ASSETS

EUR 1 000	1998	1997
Fixed assets and other long-term investments		
Intangible assets		
Intangible rights	1 870	2 153
Goodwill	3 318	3 736
Goodwill on consolidation	652	326
Other capitalized expenditure	398	205
	6 238	6 421
Tangible assets		
Land and water	3 304	3 268
Buildings and constructions	24 147	19 711
Machinery and equipment	12 376	9 677
Advance payments and construction in progress	82	915
	39 909	33 572
Financial assets and other long-term investments		
Shares and holdings in associated companies	26 141	24 054
Other shares and holdings	1 321	1 275
Loans receivable	337	1 693
Other non-current assets	957	905
Own shares	750	
	29 507	27 927
Current assets		
Inventories		
Raw materials and consumables	7 947	6 128
Semifinished products	2 036	1 112
Finished products/goods	20 292	17 786
Advance payments	4	
	30 280	25 026
Receivables		
Accounts receivables	18 358	15 953
Prepaid expenses and accrued income	1 624	2 890
	19 982	18 843
Financial assets		
Other securities	4 955	4 542
Cash and cash equivalents	9 842	13 078
	140 713	129 410

LIABILITIES

EUR 1 000	1998	1997
Shareholders' equity		
Restricted equity		
Share capital	10 839	10 839
Share premium account	21 941	21 941
Revaluation reserve	773	773
	33 554	33 554
Non-restricted equity		
Reserve for own shares	750	
Contingency reserve	7 232	7 232
Retained earnings	37 679	34 521
Profit for the financial year	6 557	6 498
	52 219	48 252
Minority interest		
	3 369	717
Provisions		
Obligatory provisions	101	103
Liabilities		
Long-term		
Bonds	16 819	16 819
Loans from financial institutions	1 150	533
Deferred tax liability	4 371	4 658
Other long-term liabilities	164	143
	22 503	22 153
Current		
Loans from financial institutions	1 094	322
Payments on account	619	243
Accounts payable	19 465	16 008
Accruals and other deferred income	7 762	8 057
Other current liabilities	27	
	28 966	24 631
	140 713	129 410

Administration and Corporate Management



From left: Markku Routasalo, Pekka Kurri, Olli Karkkila, Jukka Haikonen, Riitta Jaakkola, Antti Kerttula and Ilkka Jaskari

CORPORATE MANAGEMENT

Olli Karkkila, b. 1942
President since 1994

Riitta Jaakkola, b. 1950
Director of Finance since 1998

Antti Kerttula, b. 1956
Director since 1994,
Director of Apetit since 1997

Ilkka Jaskari, b. 1947
Director of Lännen Sugar
since 1988

Markku Routasalo, b. 1952
Director of Earthmoving
Technology Group since 1993

Jukka Haikonen, b. 1955
Director of Lännen Feed
since 1996

Pekka Kurri, b. 1943
Director of Lännen Plant
Systems and Agricultural
Department since 1992

BOARD OF DIRECTORS

Heikki Harjuvaara, b. 1942
Deputy Managing Director,
Åkerlund & Rausing Group,
member since 1990 and
chairman since 1994

Juha Korkeaoja, b. 1950
Member of Parliament,
member since 1983 and
deputy chairman since 1991

Esko Eela, b. 1936
member since 1996

Lauri Jalli, b. 1944
Managing Director, Eimo Oy,
member since 1995

Olli Karkkila, b. 1942
President, Lännen Tehtaat plc,
member since 1993

Tapio Reponen, b. 1947
Professor, Rector Turku School
of Economics and Business
Administration,
member since 1995

Hannu Simula, b. 1947
Head of section, Central Union
of Agricultural Producers and
Forest Owners (MTK),
member since 1998

ADMINISTRATIVE COUNCIL

Tom Liljeström, b. 1959
member since 1994,
chairman since 1996

Rainer Fallila, b. 1937
member since 1978,
deputy chairman since 1996

Helena Waldén, b. 1953
deputy chairman since 1996

Antti Bärlund, b. 1945
member since 1995

Heikki Ellilä, b. 1945
member since 1996

Antti Elo, b. 1949 *
member since 1997

Matti Eskola, b. 1950
member since 1991

Heikki Halkilahti, b. 1947
member since 1990

Jussi Hantula, b. 1955
member since 1995

Hannu Harjunmaa, b. 1941
member since 1988

Börje Helenelund, b. 1951
member since 1998

Esa Härmälä, b. 1954
member since 1995

Pasi Jaakkola, b. 1941
member since 1982

Jouni Kaitila, b. 1963
member since 1991

Mari Kiviniemi, b. 1968
member since 1996

Matti Laakso, b. 1945 *
member since 1997

Vesa Lammela, b. 1941
member since 1993

Hannu Lamminen, b. 1951
member since 1996

Tellervo Lepistö, b. 1950 *
member since 1997

Juha Nevavuori, b. 1942
member since 1973

Esa Paganus, b. 1963 *
member since 1997

Samu Pere, b. 1968
member since 1998

Esa Ruohola, b. 1946
member since 1998

Mikko Soro, b. 1950
member since 1998

* Staff representative

AUDITORS

Kauko Lehtonen
Authorized Public Accountant

Pekka Nikula
Authorized Public Accountant

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E-mail lannen.tehtaat@lannen.fi

Internet www.lannen.fi

Registered office: Säskylä

Trade register number: 122.439

LÄNNEN TEHTAAT UNITS:

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Lännen Plant Systems

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Lännen Agricultural Department

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Räpi Experimental Farm

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SUBSIDIARIES:

Lännen Engineering Oy

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Tel. +358 2 760 721

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Suomen Rakennuskone Oy

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Celtniecibas Masina

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Tel. +358 2 877 338

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Fax +48 55 231 6188

Harviala Oy

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Fax +358 3 6196 807

ASSOCIATED COMPANIES:

Oy Potma Ltd

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Tel. +358 16 513 981

Fax +358 16 513 988

Oy Atraco Ab

c/o Raisio Group plc

P.O.Box 101, FIN-21201 Raisio, Finland

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Sucros Oy

Sokerikatu 1, FIN-24100 Salo, Finland

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Fax +358 2 7742 287

Sucros Oy Säskylä Factory

P.O.Box 210, FIN-27821 Iso-Vimma, Finland

Tel. +358 2 8397 4100

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Information for Shareholders

ANNUAL GENERAL MEETING

The Annual General Meeting of Lännea Tehtaat plc will be held on Thursday, April 15, 1999, at 2.00 p.m. in the Lännea Tehtaat plc staff restaurant in Iso-Vimma, Säkylä.

Shareholders wishing to attend are asked to inform Lännea Tehtaat Head Office by 2.00 p.m. on Tuesday, April 13, 1999.

DIVIDEND

The Board of Directors will propose to the Annual General Meeting that a dividend of FIM 2.40 per share be paid for 1998. The proposed record date is April 20, 1999 and the dividend payment date is April 27, 1999. The dividend will be paid to shareholders who are registered as shareholders on April 20, 1999 on the list kept by the Finnish Central Securities Depository Ltd.

INFORMATION ABOUT RESULTS

Lännea Tehtaat plc will issue two interim reports for the 1999 financial period:

June 16: interim report for January-April

October 13: interim report for January-August

The interim reports will be issued in Finnish and English, and can be ordered by telephone +358 2 83 971 or from Lännea Tehtaat plc, P.O.Box 100, FIN-27821 Iso-Vimma, Finland or by e-mail lannen.tehtaat@lannen.fi.

SHARE REGISTER

Shareholders are asked to report any changes of name or address to the book-entry securities register with which they have a securities account.



Lännen Tehtaat plc

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