ANNUAL REPORT

1998

LAROX®

Separates the best from the rest

CONTENTS

LAROX INVESTOR RELATIONS 1999

In addition to the annual report, Larox will publish two interim reports in 1999, the first for the period 1.1.-30.4.1999 on Friday 28 May 1999 and the second for the period 1.1.-31.8.1999 on Friday 1 October 1999.

Other information for investors can be requested from Larox Corporation, phone +358 (05) 668 811, fax +358 (05) 668 8277, Email info@larox.com.

Larox Corporation's B-share is listed on the Helsinki Stock Exchange I-list. The Helsinki Stock Exchange provides information on the Larox share at the Internet address http://www.hex.fi/suomi/listayhtiot/LAR.html. Information on Larox Group can also be found at http://www.larox.com.

LAROX IN BRIEF

Larox is a reliable, customer-oriented company that is a leader in its field of solid/liquid separation and valves. Larox automatic pressure filters, Larox Scheibler polishing filters and Larox pinch valve products support the process industries worldwide. Larox helps its customers to save energy, reduce emissions, simplify processes and improve the quality of end products.

The Larox Group contains six subsidiaries and eight sales offices in addition to the parent company, Larox Corporation, which is headquartered in Lappeenranta, Finland. The Group has 303 employees.

Almost 600 Larox pressure filters, several hundred Larox Scheibler polishing filters and over 15,000 Larox valves are currently in operation in more than 50 countries.

LAROX CORPORATE VALUES

Customer orientation
We are in business to serve the customer.
- Customer-oriented organization
- Local customer service
- Flexible operation addressing customer needs

Reliability
We do what we promise.
- Reliable test results
- Accurate calculations
- On-time deliveries
- Dependable after sales service
- Trustworthiness

Quality of Operation
We perform our work professionally and efficiently from start to finish.
- Continuous development of the quality system
- Maintaining the ISO 9000 certification
- Concentrated quality management at all levels

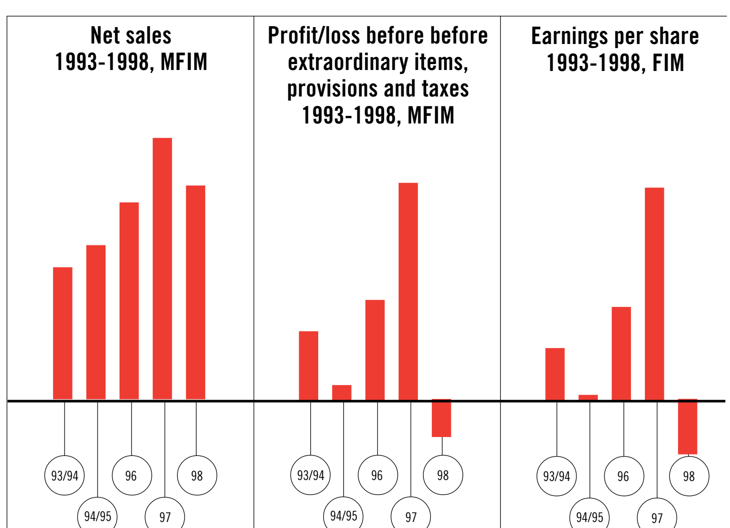
Leading Expertise
We develop our expertise to be the best in the business.
- Product development
- Human resources
- Continuous training

Worldwide Presence
We support our customers on six continents.
- International operations
- Local customer service

Fair Play
We interact with each other and customers in an open, honest manner.
- Sincerity
- Impartiality
- Positive reinforcement
- Constructive criticism

FISCAL YEAR 1998

(FIM 1000)	**1998**	1997	change, %
Net sales	**253 363**	310 519	-18,4
Operating profit before depreciation	**13 401**	55 533	-75,9
% of net sales	**5,3**	17,9	-70,4
Operating profit	**2 296**	43 157	-94,7
% of net sales	**0,9**	13,9	-93,5
Profit/loss before extraordinary items, provisions and taxes	**-6 074**	37 075	-116,4
Return on invested capital %	**1,4**	27,4	-94,9
Equity ratio %	**20,6**	29,1	-29,2
Balance sheet total	**243 829**	239 594	1,8
% of net sales	**96,2**	77,2	24,5
Earnings per share	**-2,90**	11,60	-125,0
Investments	**16 049**	15 630	-2,7
Average no. of personnel	**303**	281	7,8
Net sales per employee	**836**	1 105	-24,3
Order book 31 Dec. MFIM	**54**	59	-8,5



PRESIDENT'S REVIEW

1998

Larox failed to meet the objectives it had set for 1998. Group net sales fell by a fifth from the previous year's figures and the operational result was a loss. The postponement of projects because of low metal prices contributed to the poor sales performance of solid/liquid separation operations. Another factor was the company's heavy investments in recent years in new resources to provide growth, which raised costs to a level that the sales volume in the review year was not able to cover.

However, the poor performance in 1998 of the solid/liquid separation business did not affect pinch valve operations. Sales of pinch valves grew according to plan and in other respects the company met its objectives and kept to budget.

Larox has started an efficiency programme, with the goal of returning profitability to the level of 1997 as quickly as possible. The programme involves modifying operations, cutting costs and looking for ways to return to growing profitability.

Changing customer demands and needs

The grounds on which Larox bases its success have not disappeared. Customers still need to save energy and protect the environment, and they wish to do this in the simplest and most effective way. Larox's systems and products make this possible, so we are going to play our part when the answers to these challenges involve using solid/liquid separation and valves. We are very well placed for this as long as we can react sufficiently quickly to needs and challenges, both in the market and those faced by customers. Another key factor is to size our resources so that they match the needs in different market areas.

Back to basics

During this decade Larox has emphasized growth. This is still our objective, but this year it is even more important to focus particularly on costs and profitability. For this reason Larox has started an efficiency programme, with the goal of returning profitability to the level of 1997 as quickly as possible. The programme involves modifying operations, cutting costs and looking for ways to return to growing profitability.

Growth has caused costs to rise too much in certain areas and yet, on the other hand, we have not invested enough in all areas with potential. We are currently assessing resources in different market areas, so that we can target costs more effectively to places where we can achieve better sales volumes and have more potential. We are focusing on basics, ensuring that customer service functions as efficiently and reliably as possible.

Last year we initiated organizational changes and took steps to raise operational efficiency, but these actions did not fulfill their objectives within the schedule set for them. We shall continue with these projects during the current year, aiming to increase efficiency in sales, production and other areas.

Technology and services

During the review year we launched new products in all our business areas and expect this to show results in the near future. We expanded the product family of Larox pressure filters to cover a range of capacities for which Larox previously had no obvious solution. In a short period we have received several major orders for the new filters for various application areas in the process and mining industries.

Larox expanded its range of services with Scheibler liquid polishing filters. During 1998 the company prepared the ground for Larox Scheibler business operations. The new product will enable us to provide better package solutions for customers.

In our pinch valve operations we launched several product innovations for applications in process industries. These new services and a more complete network give good grounds for expecting the strong growth in the business to continue.

Market prospects

The uncertainty in the world economy will also affect Larox's opportunities in the current year, especially concerning projects in the mining industry. One positive aspect worth mentioning is the progress made in southern Africa, where major orders have been confirmed for the current year. I expect this trend to continue this year.

During the review year we continued our sales efforts in CIS countries. We are working towards several specific projects, so we have good reason to expect to obtain our first orders during the current year.

In Asia Larox's prospects look extremely good in Japan, where we received several orders for filters towards the end of the review year. I anticipate that this positive trend will continue, despite the uncertain state of Japan's economy. We increased our resources in both sales and service in China, and expect this to have a positive effect.

The positive developments that took place in South America in 1997 continued during the early part of the review year, but a clear slowdown took place towards the end of the year. Brazil's impact on the region's economic situation will have a major impact on our prospects in the near future.

Larox's filter sales performed most poorly in Europe and the USA. The company has started to restructure its operations in these market areas, and this should show results during 1999.

Taking an overall view, a positive factor is the large number of projects being negotiated in different parts of the world. However, developments in the world economy and the price of metals will have a major say as to when the projects are carried out.

The quoted price of the Larox B share fell during 1998 compared to the share index on the Helsinki Stock Exchange. Larox's future opportunities, however, give grounds for expecting the price to pick up in future.

I would like to thank all customers, partners, Larox personnel and shareholders for the past year.

Timo Vartiainen

Application Consulting

Larox is a leading specialist in solid/liquid separation and valves. Larox specialists are experts in a wide range of industrial processes, since a thorough knowledge of customer applications is the key to achieving the best solutions.

RELIABLE CUST

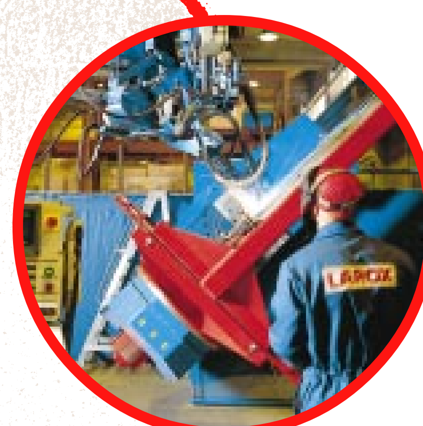
Research and Development

As part of Larox's long-standing commitment to R&D investment, Larox supports a professorship in solid/liquid separation at the Lappeenranta University of Technology. The professorship supports Larox in becoming a major expert in the field of solid/liquid separation.

Testing

Larox places great emphasis on testing, to show that its solutions represent a sound investment in state-of-the-art solid/liquid separation and valves.

OMER SERVICE

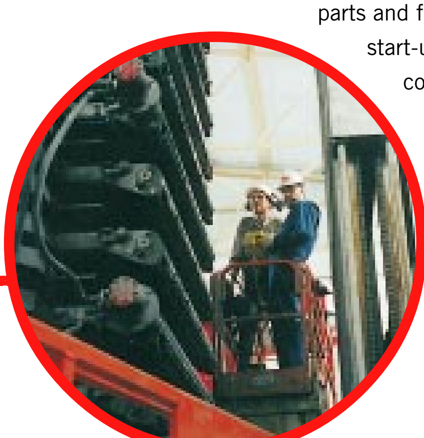


Production

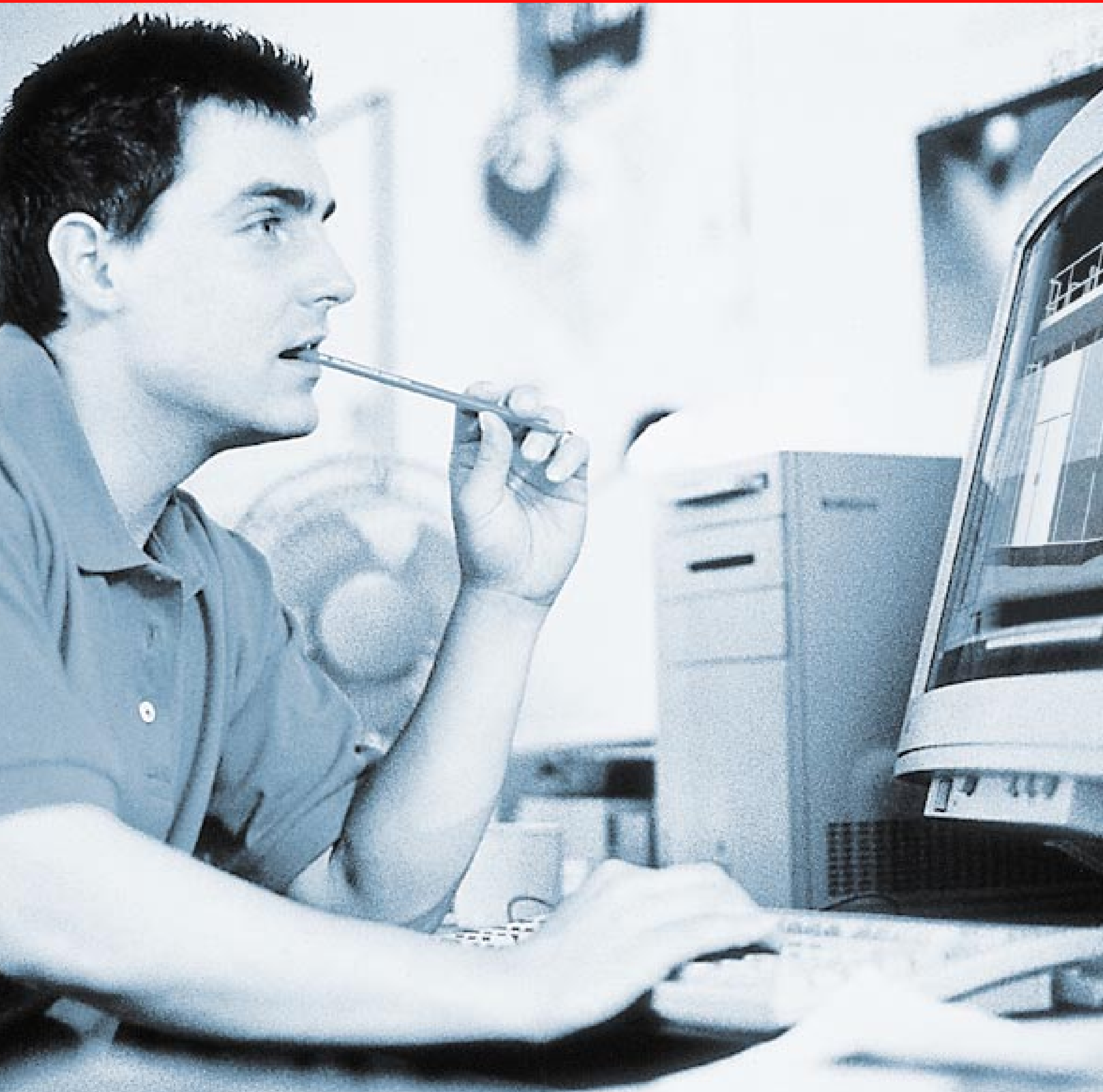
Larox is a pioneer in welding quality assurance. Larox Corporation is the first manufacturer of steel constructions in Finland to be granted a welding quality certificate based on EN 729-2. At Larox EN 729-2 forms part of the ISO 9001 quality system. One benefit of the quality project is that Larox has a European welding engineer (EWE), a European welding technician (EWT) and four Eurowelders (EW).

After Sales Support

Larox monitors its customers' equipment long after start-up, and addresses their changing process needs. Larox Service guarantees complete back-up: technical consultation and customer support, spare parts and filter cloth service, installation and start-ups, training, documentation and continuous product improvement.



mining and metallurgy



A YEAR OF INNOVATION AND PARTNERSHIP

Since developing its first hydraulic pressure filter in the late 1980s, Larox has continued to bring significant benefits to its customers through long-term product development. In fact, one of 1998's most important achievements in the Mining and Metallurgy business unit would not have materialized without that focus.

At EXPOMIN '98 in May in Chile, Larox unveiled a new generation of pressure filters – the Larox PF 30-60. Although the experience gained from earlier product development projects was used extensively in creating this innovative product, it represents a new engineering and design philosophy. The Larox PF 30-60 completes the company's product range, so that a single pressure filter can meet filtration requirements of up to 150 tons of dry solids per hour.

The launch of the Larox PF 30-60 sets a new direction for the major technical and visual characteristics of the Larox product range. The new product retains the traditional Larox benefits of high performance and capacity with low operating costs, but has an improved construction designed for even greater durability. Particular attention was paid to safety aspects and features to increase reliability.

The course chosen is proving to be the right one, and the first Larox PF 30-60s will be commissioned during 1999.

Regional growth

Larox gained a stronger foothold in southern Africa, with orders for five pressure filters for three new locations.

In Tanzania the largest fully automatic pressure filter system in Africa will be commissioned at the Bulyanhulu gold and copper mine near Lake Victoria. The mine will use two Larox pressure filters for CIL tails dewatering and washing to recover cyanide from barren carbon-in-leach solution. The almost cyanide-free filter cake will be repulped with rougher tails and used underground for paste backfill. The mine will also use a smaller Larox PF to dewater copper concentrate to 8 % residual moisture.

In South Africa a Larox pressure filter has been commissioned at a platinum mine. The unit will dewater "Plat reef" concentrate, one of South Africa's most difficult and demanding platinum concentrates in terms of filtration characteristics. The unit will produce filter cake with less than 12% residual moisture and significantly reduce transportation and drying costs.

Joining Forces for the Future

The demands made on mining and metallurgical production processes are constantly rising, aiming to reduce operating costs as far as possible. Traditional processes such as pyrometallurgy and base metals recovery are giving way to more environmentally benign hydrometallurgical processes that have much lower operating costs, especially for filtering complex minerals.

The recently launched Larox Mining Club co-operation demonstrates the desire of the Larox Mining and Metallurgy business unit to work more closely with customers and other important stakeholders to prepare for these and other challenges. This new communications channel will help to increase the awareness of Larox mining solutions and service, and will place Larox in a better position to understand the challenges faced by our customers and to find lasting solutions in partnership with them.

chemical
process industries

EXPANDING ITS RANGE OF APPLICATIONS

The number of applications arising out of environmental legislation and from market forces that favour eco-friendly solutions showed a noticeable uptrend in 1998. The unit has also addressed these issues in its product development planning.

Mergers and acquisitions have become everyday news in the chemical, food and pharmaceutical industries. As a result, economies of scale, productivity and cost-efficiency have moved to the top of management agendas. This trend is particularly evident among starch, pigment and filler and soda ash producers, who must increasingly squeeze capital and operating costs so that they can compete, sustain profitable growth and retain their market position.

The combination of high-quality process results and low operating costs offered by the Larox solution has become increasingly attractive to this market segment. New, cost-effective processes are gradually replacing conventional methods that are excessively expensive due to their thermal drying stage and tendency to create process bottlenecks. These methods traditionally employ several centrifuges, drum filters etc. for washing and dewatering. In contrast, just one Larox pressure filter increases plant capacity while drastically reducing operating costs.

Larox customers have an ever-increasing need for high capacity utilization, low maintenance and high product quality. To enable Larox to gain a stronger footing in this sector, the Chemical Process Industries business unit has addressed these issues in its product development planning for this market segment.

Growth from New Applications

The other, equally important trend was the expanding range of chemical processing applications in which Larox technology offers significant benefits. For example, as part of Larox's overall advance into the starch processing segment, the company signed a cooperation agreement with an engineering company that specializes in starch processes to develop a new process for tapioca starch.

The number of applications arising out of environmental legislation and from market forces that favour eco-friendly solutions showed a noticeable uptrend in 1998. These are not environmental applications in themselves, but processes in which environmental requirements play a major role. Larox soda ash applications also aroused interest, since they offer the same cost and capacity advantages as Larox's starch applications. Larox also provides a clean and profitable option for handling post-distillation waste.

As environmental awareness grows within all the chemical process industries, the commercial potential of waste itself is becoming an increasingly important topic of interest. Several producers are currently looking into commercially viable ways to utilize their waste, which opens up excellent prospects for Larox pressure filters, given the cost implications of existing techniques.

The Chemical Process Industries business unit received several orders during 1998, some of them of major significance. Orders from New Zealand represented a breakthrough in the dairy industry and Larox developed a customized application for an Australian foods producer. A European white pigment plant converted to completely new processes, introducing Larox pressure filtration to replace tube presses. Larox also supplied a filter to a cellulose by-product production plant in South Africa. Thanks to the Larox pressure filter, the company is now able to turn its process waste, which it previously discharged into the sea, into a valuable, sellable product.

The unit intends to continue developing solutions that address changing economic realities while expanding the scope of applications for this diverse customer group.

LAROX service

BUILDING CLOSER CUSTOMER RELATIONSHIPS

Since 1997 Larox Service has built a comprehensive customer support organization covering twelve countries on six continents. Larox Service's target is to have a strategically located global service network providing round-the-clock after sales service, with a quick response time and a high level of expertise. Larox Service has now become the first line of contact for Larox customers after the start-up.

Today, nearly 60 Larox Service employees deliver a variety of after sales services and support worldwide. The current Larox Service product portfolio includes consulting, spare parts and modernizations. In practice this involves technical consultation and customer support, spare parts and filter cloth service, installation and start-ups, training, documentation and continuous product improvement.

Larox Service Customer Engagement Programs

Larox Service's main task has been to provide customers with operation and maintenance support, trouble-shooting and training. To address the increasing demand for ongoing support, Larox Service has instituted a service contract program and an account manager program.

Service Contract

Larox Service contracts cover scheduled inspections, advice on operations and preventive maintenance, operator and maintenance training, and after hours support. This preventive approach considerably increases a customer's operational efficiency by reducing the risk of unexpected breakdowns.

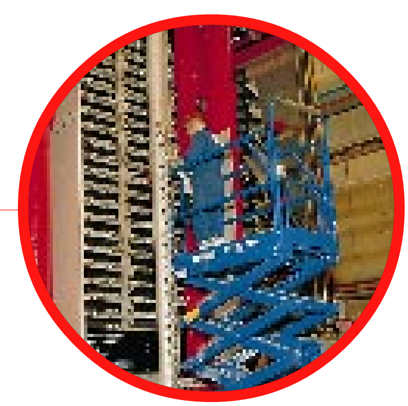
Account Manager System

Every customer is assigned a designated support person in the Larox Service customer support organization. These account managers are responsible for maintaining and improving customer relations. In addition to providing customer support and monitoring the customer's process and key operative parameters, account managers are responsible for seeing that customers are kept informed of the latest developments at Larox.

New Roles Evolving for Larox Service

Since the beginning of 1998 Larox Service has become the primary interface in filter cloth selection and support. A separate Larox Service filter cloth service unit handles customer support and applications analysis worldwide for Larox filter cloths and Larox Scheibler filter bags.

The new Larox Service technical service unit has taken an increasingly active role in supporting continuous product improvement and development, and so forms a vital link with Larox R&D. Supporting the corporate strategy of customer-driven product development is becoming an increasingly central part of the mission of Larox Service.



liquid polishing filters

In March 1998 Larox Corporation and Scheibler Filters Ltd established a global agreement naming Larox as the exclusive distributor of Scheibler liquid polishing filters. Scheibler Filters Ltd is the leading manufacturer in the field of electrolyte filtration. The products are marketed under the brand name Larox Scheibler Filters.

Prior to the agreement, Larox and Scheibler had worked in partnership in Australia for 16 months, supplying a total of 16 filters during that time. Customers in the country include among others several nickel refineries, for applications including electrolyte filtration (polishing), thickener/clarifier overflow polishing, SX feed polishing and bleed stripper bottoms.

The Best Catch in Filtration

Larox Scheibler Filters reduce particle concentration in process liquids to a level of just a few milligrams per liter. Improving the removal and recovery of solids from even low concentrations raises the quality of the resulting filtrate, which in turn increases production capacity and boosts the quality of plant and refinery end products. Currently, the key applications include electrorefining, electroplating, solvent extraction feed solutions, impurity removal prior to crystallization or precipitation of end products, brine filtration in the chloralkali and synthetic soda ash industries.

Looking Ahead

In metallurgy the trend towards hydrometallurgical processes opens up extensive opportunities for the new product line. In fact it will be mainly chemicals and pharmaceuticals, with their numerous potential applications, that will spawn a completely new customer base. Existing plants will see the product as an effective way to cut operating costs while increasing product quality, issues of major significance for decision makers in times of economic recession.

Few competing products offer the same performance and reliability as the Larox Scheibler product line. Larox Scheibler liquid polishing filters fit in well with Larox's existing range of pressure filtration products and strengthen Larox's overall position in the global solid/liquid separation market.

special industrial valves

Larox Flowsys Oy has shown that it is a major supplier of special industrial valves. In 1998 most pinch valve deliveries included special valves that required design engineering. Customers today are not content to order valves from stock; they expect the valve supplier to understand their problems and design the best possible valve for them.

As competition intensifies, a valve supplier must get to know a customer's process and conditions to be able to provide a competitive advantage and create a lasting business relationship. Larox Flowsys Oy worked closely with one customer on the design of a control system for a waste pond, and was able to provide expert services in control technology. Larox Flowsys Oy continues to work closely with the University of Technology in Lappeenranta in the field of flow control research, and this has given significant results in recent years.

Year of R&D Innovations

Larox Flowsys Oy has increased its investments in research and development from year to year. Last year Larox Flowsys Oy launched several new products, expanding the operational range of Larox valves into more complex and abrasive conditions.

The most notable innovation, the Larox Twin Sleeve, was developed for special processes where the valves must have excellent chemical resistance. The inner sleeve, the Larox Insert, can be made to match the exact chemical requirements of the application. The separate pressure rated outer sleeve reduces mechanical wear and increases temperature resistance. A liquid level control device can be installed in the Twin Sleeve to detect ruptures in the Larox Insert, so that this can be changed before the outer sleeve wears out. Larox Flowsys Oy has also worked with Teknikum Oy to develop new sleeve designs that are suitable for higher temperatures and vacuum conditions.

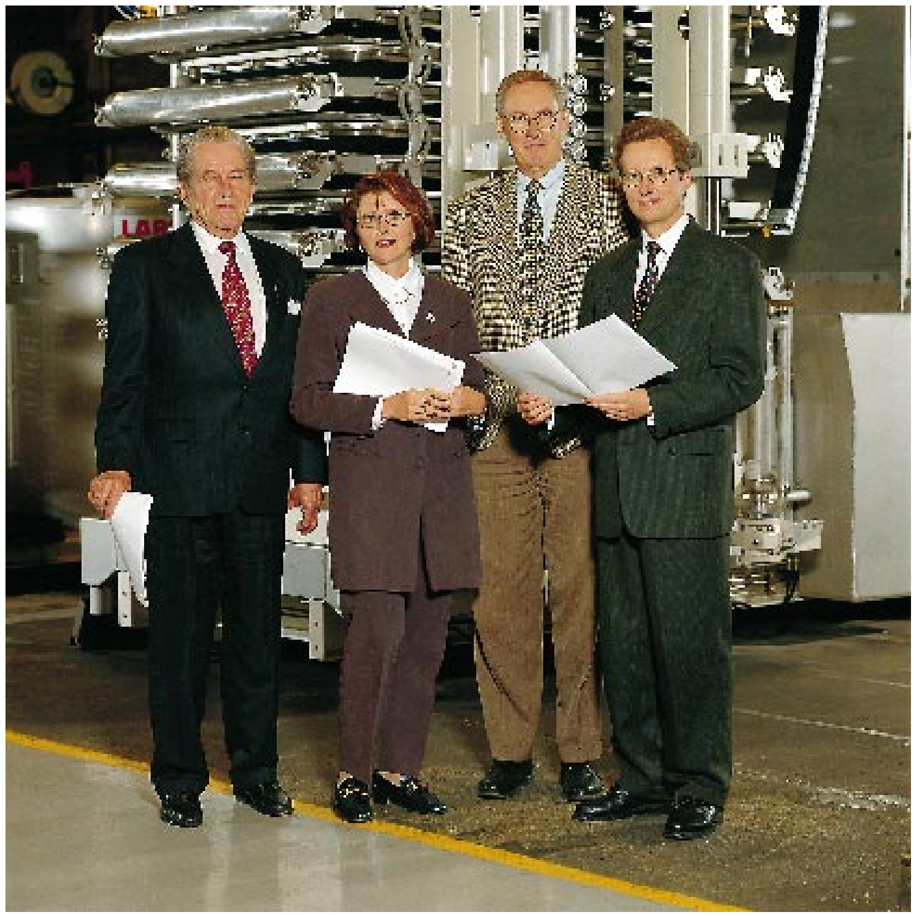
The pinch valve business has grown according to expectations in recent years. It has met its targets by expanding and developing its international representative network and by concentrating on providing high-quality products and deliveries. Customer confidence in Larox valves has also grown thanks to the ISO 9001 quality certificate, and further development of the quality system is one of Larox Flowsys' main objectives for the future. Product innovations have also helped to maintain customer interest in Larox valves. Today the main market areas for Larox valves are North America and Europe, but in 1999 the company aims to expand the representative network to cover areas that have no active Larox valve representation at the moment.

Investments in the Swedish mining industry in 1998 kept the mining industry as the most important target area for Larox valves. Other valve sales were evenly divided among the mineral, chemical, steel and pulp and paper industries. Larox Flowsys Oy is constantly seeking new applications for its valves to reduce dependence on any single industry, which will protect the company against market fluctuations. A wide sales network will also ensure that the pinch valve business is less affected by economic instability in a single market area.

Promising Future for Larox Valves

The future for Larox valves looks extremely promising. Pinch valves have been accepted for the most demanding valve applications in the process industry, and Larox valves are known for their high quality and reliable function.

BOARD OF DIRECTORS



From left: Nuutti Vartiainen, Katariina Aaltonen, Teppo Taberman, Timo Vartiainen

Nuutti Vartiainen, b. 1925
Chairman of the Board

Timo Vartiainen, b. 1955
Member of the Board
President

Katariina Aaltonen, b. 1959
Member of the Board
Director, Group Development

Teppo Taberman, b. 1944
Member of the Board

LAROX ORGANIZATION

SOLID/LIQUID SEPARATION

Management Team


Solid/liquid Separation:
Toivo Matti Karppanen


Production:
Pentti Puhakka


Finance and Administration:
Matti Julku


Sales:
Jaakko-Juhani Helsto

Business Unit Management


Mining Industry:
Mikko Häkämies


Chemical Process Industries:
Reiner Weidner


Larox Service:
Kari Suninen


Larox Scheibler:
Lloyd Holliday

Research and Development: Jukka Koskela
Projects and Engineering: Juhana Ylikojola
Business Promotion: Kaisa Nurminen

Sales Area Management

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South America: Jorma Nuutinen
CIS, Baltic and Nordic countries: Jyrki Kuukka
Austria, Germany and Switzerland: Dirk Otto
Great Britain and Ireland: Trevor Sparks

European agents: Jukka Anttila
Poland: Boguslaw Lubieniecki
Africa: Patrick Jay
Asia: Pentti Köylijärvi
Australia: Stephen Doyle

PINCH VALVES AND FLOWSYSTEMS


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Jukka Aaltonen

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Production and Development: Jarmo Partanen

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FINANCIAL STATEMENTS

1998

LAROX®

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LAROX GROUP

Financial Statements for the Period 1 January - 31 December 1998

BOARD OF DIRECTORS' REPORT

OVERVIEW

For Larox, the financial period 1 January - 31 December 1998 was a poor year. The Larox Group failed to meet the targets it had set for 1998. Net sales declined by about a fifth from the previous year's figure and its net result was a loss. The Group's net sales fell by 18.4% on the previous year to FIM 253.4 million. Net sales per employee fell from FIM 1,105,000 to FIM 836,000. The operating profit before depreciation and the operating profit fell and the Group's result before extraordinary items, appropriations and taxes was a loss of FIM 6.1 million (a profit of FIM 37.1 million in the previous year). The Group's profitability, measured in terms of return on investments, declined to 1.4% (27.4%). The equity ratio fell from 29.1% to 20.6%.

BUSINESS OPERATIONS

Larox's solid/liquid separation business area failed to meet its targets. The level of sales and orders received during the year was poor, due to postponed investments of customers in the mining industry. In contrast the performance of the pinch valve business area met the targets set for it.

As in previous years, nearly 90% of net sales came from outside Finland. Net sales were distributed as follows: North and Central America 21.6%, South America 19.8%, Europe 26.9%, Africa 7.0%, Australasia 17.4% and the rest of Asia 7.3%. The Group strengthened its position in Africa.

At the end of the financial year, the Group's order book stood at FIM 54 (59) million.

CHANGES IN CORPORATE STRUCTURE

No changes took place in the corporate structure.

PROFITS AND PROFITABILITY

The Group's profitability weakened significantly from the previous year due to the sharp drop in volumes. The downturn that took place in the world's stock exchanges in the middle of August and uncertainty about worldwide economic trends caused customers to postpone investment decisions, and as a result orders received and invoicing did not match the expectations for the period. In addition to this, the company's heavy investment in future growth, started in 1997, caused a rise in the cost of resources and fixed costs.

The Group's operating profit before depreciation fell to FIM 13.4 (55.5) million, which was 5.3% (17.9%) of net sales. The Group made depreciations of FIM 11.1 (12.4) million, which represented 4.4% of net sales. The operating profit was FIM 2.3 (43.2) million, or 0.9% (13.9%) of net sales.

The result before extraordinary items, appropriations and taxes was a loss of FIM 6.1 (profit of FIM 37.1) million. Taxes for the period were FIM 1.4 (6.3) million and the net result for the period was a loss of FIM 7.6 (profit of FIM 27.3) million.

The company's return on equity declined to -12.8% (54.5%). Return on investment was 1.4% (27.4%). Earnings per share declined from FIM 11.60 to a loss of FIM -2.90.

FINANCING AND FINANCIAL POSITION

The Group's financial position weakened significantly during the year.

Capital adequacy declined to 20.6% from 29.1% the previous year. Net liabilities were equivalent to 57.4% of net sales. Net financing costs were FIM 8.4 (6.1) million. Net financing costs represented 3.3% (2.0%) of net sales.

INVESTMENTS

The Group's investments totalled FIM 16.0 (15.6) million. The largest investment was the replacement of operations management systems for the whole group. The new systems will start up during the first quarter of 1999 and they make it possible to monitor operational efficiency more effectively. Existing production capacity is sufficient to meet growing demand without any major investments in the near future.

RESEARCH AND DEVELOPMENT

The most significant achievements in research and development were the new products launched during the year in both the solid/liquid separation and the pinch valve business areas. Larox's expenditure on research, development of equipment and processes, and testing was approximately FIM 16 million.

PERSONNEL

The Group had on average 303 (281) employees and the parent company had 189 (180). Salaries and wages paid by the Group totalled FIM 58.1 (55.1) million, of which FIM 0.2 (3.8) million were commissions on profit. Salaries paid to the presidents of the parent and subsidiary companies and the members of the Board totalled FIM 4.8 (5.3) million, of which FIM 0.1 (1.0) million were commissions on profit.

SHARE ISSUE AUTHORIZATIONS

At the annual shareholders' meeting of Larox Oyj on 18 March 1998, it was decided to issue a maximum of 50,000 option rights to management, and all 50,000 were subscribed for during the subscription period. In consequence of the subscriptions, share capital can be raised by a maximum of 50,000 shares and FIM 500,000. The subscription period for the shares is 18 February - 15 March 2002. The company's Board of Directors has a further authorization to issue 50,000 option rights. In consequence of subscriptions based on the option rights, share capital can be raised by a maximum of FIM 500,000.

THE YEAR 2000

The company has identified the critical factors relating to products, internal operations, the operations of subcontractors and other business partners, and delivery reliability.

Replacements needed for systems, equipment and machinery required in the company's own operations will be carried out during 1999 as part of normal replacement investments, so they will not constitute major extra costs for the company. The company has still not received full assurance from all suppliers and business partners, so in this respect the company has not achieved full readiness for the year 2000. The company has carried out tests on its own products, and on the basis of these it can be stated that the equipment will function properly in the year 2000 in so far as the automation systems have been supplied by Larox. To ensure that individual customer applications function properly, the company is sending a letter to all customers informing them of the tests carried out by Larox and encouraging them to carry out tests on their own critical equipment. In addition to this, the Larox's local service network will check that customers have received the letter from the company. The work to ensure that individual customer applications function properly is still underway, so in this respect the company has not yet achieved full readiness for the year 2000.

PROSPECTS

The Group's financial performance is expected to improve in the future. In solid/liquid separation and in the valves business area, focusing on process solutions that require special knowhow improves customer service, which in turn increases the company's competitiveness in the world markets. The processes in the mining and chemical industries chosen by Larox have great market potential. The importance of energy-saving solutions that are environmentally friendly is constantly growing. Geographically new market areas, where concern for the environment is just starting to have an effect, open up new opportunities for Larox.

In consequence of Larox Group's poor performance in 1998, the company initiated a program to increase operational efficiency. The aim is to restore profitability to the level of 1997. All actions in the program should contribute to cutting costs and improving efficiency.

The state of the world economy and by world market prices for metals is causing uncertainty about developments in the near future, especially in the mining sector that is important for the company. A critical factor in the current year is the timing of investments by customers. Developments in the near future also depend on successful progress being made in the company's own efficiency drive.

Larox still aims to achieve average annual growth of 20%, but its main objective in the current year is to achieve profitability and increase operational efficiency.

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

INCOME STATEMENTS

(FIM 1000)	Group 1.1.-31.12.1998	Group 1.1.-31.12.1997	Larox Oyj 1.1.-31.12.1998	Larox Oyj 1.1.-31.12.1997
Net sales	**253 363**	310 519	**171 167**	208 954
Increase/decrease in stocks of finished goods	**-569**	-3 770	**226**	-2 875
Production for own use	**-**	- 744	**-**	- 744
Other operating income	**2 599**	340	**1 901**	1 038
Costs				
Material and supplies				
Purchases during the fiscal year	**112 221**	123 986	**81 369**	79 527
Change in inventories	**-15 471**	-6 056	**-11 510**	-4 853
External charges	**3 222**	3 143	**4 765**	2 899
Rents	**2 997**	2 054	**816**	438
Staff costs	**70 561**	67 660	**40 610**	41 157
Share of associated companies' loss	**849**	601		
Other costs	**67 613**	59 424	**43 971**	36 627
	241 992	250 812	**160 021**	155 795
Operating profit before depreciation	**13 401**	55 533	**13 273**	50 578
Depreciation				
Depreciation on fixed assets and other capitalized expenditure	**10 861**	11 888	**7 371**	8 788
Depreciation of consolidated assets	**244**	488		
	11 105	12 376	**7 371**	8 788
Operating profit	**2 296**	43 157	**5 902**	41 790
Financial income and expense				
Dividend income	**-**	115	**-**	159
Interest income on long-term investments	**175**	78	**418**	731
Exchange rate differences	**-1 451**	718	**- 546**	- 511
Interest expenses	**-6 569**	-6 125	**-5 612**	-5 636
Other financial income and charges	**- 525**	- 868	**- 351**	- 560
	-8 370	-6 082	**-6 091**	-5 817
Profit before extraordinary items	**-6 074**	37 075	**- 189**	35 973
Extraordinary income and charges				
Extraordinary income	**-**	-	**-**	-
Extraordinary charges	**-**	3 307	**-**	19 568
	-	3 307	**-**	19 568
Profit before provisions and income taxes	**-6 074**	33 768	**- 189**	16 405
Change in accelerated depreciation	**-**	-	**2**	227
Change in voluntary provisions	**-**	-	**-**	1 943
Minority share	**- 142**	- 137	**-**	-
Direct taxes	**1 430**	6 298	**22**	5 371
Net profit/loss for the period	**-7 646**	27 333	**- 209**	13 204

BALANCE SHEET

(FIM 1000)	Group 31.12.1998	Group 31.12.1997	Larox Oyj 31.12.1998	Larox Oyj 31.12.1997
ASSETS				
Fixed assets and other non-current investments				
Intangible assets				
Intangible rights	**4 347**	4 288	**550**	502
Consolidated assets	**-**	244		
Other capitalized expenditure	**3 451**	3 640	**2 939**	2 982
Other capitalized expenditure in progress	**4 695**	-	**4 695**	-
	12 493	8 172	**8 184**	3 484
Tangible assets				
Land and water areas	**10 879**	11 966	**6 589**	6 589
Buildings	**39 063**	36 036	**36 455**	32 526
Machinery and equipment	**19 766**	22 180	**13 094**	13 796
Other tangible assets	**469**	349	**159**	191
Paid advances	**95**	1 052	**95**	1 021
	70 272	71 583	**56 392**	54 123
Financial assets				
Subsidiary shares			**14 796**	14 796
Other bonds and shares	**28**	522	**530**	522
Other long-term investments	**187**	990	**3 122**	3 122
	215	1 512	**18 448**	18 440
Current assets				
Inventories				
Raw materials and consumables	**41 422**	25 468	**33 603**	22 092
Work in progress	**2 216**	1 829	**2 051**	2 142
Finished goods	**19 744**	20 483	**1 332**	1 016
Other inventories	**837**	1 866	**-**	-
Advance payments	**-**	-	**-**	-
	64 219	49 646	**36 986**	25 250
Receivables				
Trade receivables	**74 925**	98 392	**64 913**	84 527
Loan receivables	**445**	407	**27 021**	15 302
Prepaid expenses and accrued income	**8 030**	2 219	**6 641**	1 488
Other receivables	**7 745**	3 882	**2 750**	2 913
	91 145	104 900	**101 325**	104 230
Cash in hand and at banks	**5 485**	3 781	**370**	285
Total assets	**243 829**	239 594	**221 705**	205 812

BALANCE SHEET

(FIM 1000)	Group 31.12.1998	Group 31.12.1997	Larox Oyj 31.12.1998	Larox Oyj 31.12.1997
EQUITY AND LIABILITIES				
Equity				
Restricted equity				
Shareholders' equity				
Share capital	**26 411**	26 411	**26 411**	26 411
Reserve fund	**64**	64	**64**	64
Revaluation fund	**448**	448	**448**	448
	26 923	26 923	**26 923**	26 923
Non-restricted equity				
Retained profits	**26 617**	12 036	**14 091**	11 450
Net profit/loss for the period	**-7 646**	27 333	**- 209**	13 204
	18 971	39 369	**13 882**	24 654
Minority share	**2 551**	2 430		
Provisions				
Accelerated overdepreciation	**-**	-	**5 777**	5 779
Voluntary provisions				
Interim period provisions	**-**	-	**-**	-
Obligatory provisions				
Guarantee provision	**685**	836	**685**	836
Creditors				
Non-current				
Loans from credit institutions	**39 754**	37 025	**39 674**	36 535
Pension loans	**9 417**	10 126	**9 417**	10 126
Deferred tax liability	**1 724**	1 705	**-**	-
Other non-current liabilities	**419**	2 794	**267**	4 719
	51 314	51 650	**49 358**	51 380
Current				
Loans from credit institutions	**24 651**	23 083	**14 849**	17 591
Pension loans	**709**	762	**709**	762
Advances received	**8 328**	3 699	**4 776**	5 960
Trade payables	**11 681**	35 363	**17 307**	20 791
Notes payable	**65 262**	28 615	**59 236**	30 838
Accrued liabilities and deferred income	**22 076**	23 463	**16 102**	18 203
Other current liabilities	**10 678**	3 401	**12 101**	2 095
	143 385	118 386	**125 080**	96 240
Total equity and liabilities	**243 829**	239 594	**221 705**	205 812

SOURCE AND APPLICATION OF FUNDS

	Group		Larox Oyj	
(FIM 1000)	**31.12.1998**	31.12.1997	**31.12.1998**	31.12.1997
Source of funds				
Income				
Net profit	**-7 504**	27 470	**- 209**	13 204
Depreciations	**11 105**	12 376	**7 371**	8 788
Share of associated companies' result	**849**	601	**-**	-
Change in voluntary provisions	**-**	-	**- 2**	-2 170
Extraordinary items	**-**	3 307	**-**	19 178
Total income	**4 450**	43 754	**7 160**	39 000
Non-current financial assets	**1 326**	-	**-**	-
Sales of fixed assets	**1 934**	488	**378**	1 406
Increase in long-term loans	**52 458**	40 233	**51 988**	40 233
Change in valuation items	**-**	-	**-**	-
Share issue	**-**	-	**-**	-
	60 168	84 475	**59 526**	80 639
Application of funds				
Non-current financial assets	**-**	-	**-**	-
Investments	**18 417**	14 385	**14 726**	6 975
Decrease in long-term loans	**51 988**	39 521	**56 804**	37 168
Dividends	**10 564**	5 018	**10 564**	5 018
Write-off of subsidiary receivable	**-**	-	**-**	14 209
	80 969	58 924	**82 094**	63 370
Change in net working capital	**-20 801**	25 551	**-22 568**	17 269
	60 168	84 475	**59 526**	80 639
Change in net working capital				
Cash at bank and in hand	**1 704**	796	**85**	- 179
Current financial assets	**-13 756**	60 467	**-2 905**	44 225
Inventories	**14 584**	3 635	**11 736**	1 978
Current liabilities	**-23 333**	-39 347	**-31 484**	-28 755
	-20 801	25 551	**-22 568**	17 269
Net working capital on 1 January	**62 949**	37 398	**51 041**	33 772
Net working capital on 31 December	**42 149**	62 949	**28 473**	51 041

NOTES TO THE FINANCIAL STATEMENTS

Accounting principles

Consolidation

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

The acquisition cost method is used in the elimination of subsidiary shares. The amount by which the acquisition cost of the subsidiary shares exceeds the Group's holding in the acquired company's equity and reserves is capitalized entirely as consolidated assets and depreciated over ten years. The premium from merging associated companies is treated as a one-time expense.

Minority shares in the results and capital and reserves are presented separately in the income statements and balance sheet. The share of the results of the associated company and the write-off of the premium recorded as a one-time expense are presented in the income statement under "Share of associated companies' loss".

The Group's voluntary provisions and accumulated depreciation difference are allocated to the consolidated non-restricted equity. The amount calculated from the tax rate is shown under deferred tax liability under liabilities. The translation difference from consolidation is presented under consolidated non-restricted equity.

Foreign currency transactions

Foreign currency transactions are entered in the accounts as Finnish markka using the exchange rate in effect on the transaction date. Assets and liabilities denominated in foreign currency are translated into Finnish markka in the financial statements using the Bank of Finland's average exchange rate on the balance sheet date. Assets and liabilities in currencies of EMU countries have been translated into Finnish markka in the financial statements using fixed conversion factors.

The income statements of foreign group companies have been converted into Finnish markka in the consolidated financial statements using the average exchange rates for the period and balance sheets using the Bank of Finland's average exchange rate on the closing day and, for EMU countries, using fixed conversions factors.

Exchange rate differences

All realized and unrealized exchange rate differences from sales receivables and accounts payable, current and non-current liabilities, and receivables are charged against the result.

Net sales

Sales of products and services are recognized at the time of delivery. Sales are presented net of indirect taxes and adjustments to sales. As in previous years, adjustments to sales include credit losses, commissions and delivery costs.

Wages and salaries

The wages paid for production in the Notes include not only the wages paid for working hours but also wages for annual holidays, paid days off, periods of sickness as well as holiday reimbursement and bonuses paid for years in service and similar benefits.

Direct taxes

The direct taxes recorded in the income statement are the estimated taxes for the period and adjustments to the taxes of previous periods. Tax receivables due to losses are treated according to local practice in the financial statements of foreign subsidiaries.

Inventories

The inventories of Finnish group companies are valued at the direct acquisition cost according to the FIFO principle.

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

Fixed assets and depreciation

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

Depreciation according to plan is made on a straight-line basis on depreciable fixed assets, based on the estimated useful economic life. The periods of depreciation are based on the useful economic life as follows: buildings and constructions 40 years, machinery and equipment 4-10 years, other capitalized expenditure 3-10 years, other tangible assets 10 years, intangible rights 10 years.

The planned depreciation included in the consolidated financial statements consists of the combined total depreciation by companies belonging to the group as well as depreciation of consolidated assets.

NOTES TO THE INCOME STATEMENT

(FIM 1000)	Group 1.1.-31.12.1998	Group 1.1.-31.12.1997	Larox Oyj 1.1.-31.12.1998	Larox Oyj 1.1.-31.12.1997
1. Wages and salaries				
Wages and benefits	**58 114**	55 140	**31 523**	33 283
of which salaries and benefits for managing directors and board members	**4 835**	5 347	**1 119**	2 395
Pension expenses	**702**	815	**63**	67
Other personnel expenses	**11 745**	11 705	**9 024**	7 807
Total	**70 561**	67 660	**40 610**	41 157
2. Depreciation				
Planned depreciation on				
Buildings	**1 119**	834	**928**	661
Machinery and equipment	**7 543**	7 236	**4 820**	4 578
Other tangible assets	**33**	43	**33**	43
Shares	**-**	-	**-**	-
Other capitalized expenditure	**2 033**	1 807	**1 463**	1 539
Intangible assets	**133**	124	**127**	123
Valuation items	**-**	1 844	**-**	1 844
Goodwill on consolidation	**244**	488		
Total	**11 105**	12 376	**7 371**	8 788
Difference between booked and planned depreciation on				
Buildings	**-**	62	**-**	62
Machinery and equipment	**65**	215	**-**	86
Other tangible assets	**- 2**	-	**- 2**	-
Other capitalized expenditure	**-**	- 375	**-**	- 375
Intangible assets	**-**	-	**-**	-
Total	**63**	- 98	**- 2**	- 227
Accelerated depreciation on				
Buildings	**4 734**	4 734	**4 733**	4 733
Machinery and equipment	**1 755**	1 690	**943**	943
Other tangible assets	**-**	2	**-**	2
Other capitalized expenditure	**100**	100	**100**	100
Intangible assets	**-**	-	**-**	-
Total	**6 589**	6 526	**5 776**	5 778
3. Financial income and expenses to Group companies				
Income			**359**	708
Expense			**12**	51
4. Extraordinary income and expense				
Write-off of capital invested in joint manufacturing company	**-**	-3 307	**-**	-5 359
Write-off of subsidiary receivable	**-**	-	**-**	-14 209
Total	**-**	-3 307	**-**	-19 568
5. Deferred tax liability				
Estimated taxes for the period	**-1 350**	-6 356	**- 81**	-5 431
Adjustments to taxes for previous accounting years	**- 80**	59	**59**	61
Total	**-1 430**	-6 297	**- 22**	-5 370

NOTES TO THE BALANCE SHEET

(FIM 1000)	Group 1998	Group 1997	Larox Oyj 1998	Larox Oyj 1997
6. Change in fixed assets				
Intangible assets				
Acquisition expense 1.1	**9 981**	9 827	**6 133**	5 984
Increase/decrease	**192**	154	**175**	149
Acquisition expense 31.12	**10 173**	9 981	**6 308**	6 133
Accumulated planned depreciation 31.12	**5 826**	5 693	**5 758**	5 631
Planned depreciation 1.1.-31.12	**133**	124	**127**	123
Book value 31.12.	**4 347**	4 288	**550**	502
Other capitalized expenditure				
Acquisition expense 1.1	**22 755**	21 251	**20 569**	19 581
Increase/decrease	**1 845**	1 504	**1 420**	988
Acquisition expense 31.12	**24 600**	22 755	**21 989**	20 569
Accumulated planned depreciation 31.12	**21 149**	19 116	**19 050**	17 587
Planned depreciation 1.1.-31.12.	**2 033**	1 807	**1 463**	1 539
Book value 31.12.	**3 451**	3 639	**2 939**	2 982
Land areas				
Acquisition expense 1.1	**11 966**	8 848	**6 589**	6 589
Increase/decrease	**-1 087**	3 118	**-**	-
Acquisition expense 31.12	**10 879**	11 966	**6 589**	6 589
Land areas include revaluations	**3 350**	3 350	**3 350**	3 350
Buildings				
Acquisition expense 1.1	**46 887**	45 802	**43 068**	43 068
Increase/decrease	**4 146**	1 085	**4 857**	-
Acquisition expense 31.12	**51 033**	46 887	**47 925**	43 068
Accumulated planned depreciation 31.12	**11 970**	10 851	**11 470**	10 542
Planned depreciation 1.1.-31.12	**1 119**	834	**928**	661
Book value 31.12	**39 063**	36 036	**36 455**	32 526
Buildings include revaluations	**16 572**	16 572	**16 572**	16 572
Machinery and equipment				
Acquisition expense 1.1	**62 191**	55 003	**42 813**	39 301
Increase/decrease	**5 129**	7 188	**4 119**	3 512
Acquisition expense 31.12	**67 320**	62 191	**46 932**	42 813
Accumulated planned depreciation 31.12	**47 554**	40 011	**33 838**	29 018
Planned depreciation 1.1.-31.12	**7 543**	7 236	**4 820**	4 578
Book value 31.12	**19 766**	22 180	**13 094**	13 795
Other tangible assets				
Acquisition expense 1.1	**802**	663	**621**	432
Increase/decrease	**153**	139	**-**	189
Acquisition expense 31.12	**955**	802	**621**	621
Accumulated planned depreciation 31.12	**486**	453	**462**	430
Planned depreciation 1.1.-31.12	**33**	44	**32**	44
Book value 31.12	**469**	349	**159**	191

(FIM 1000)	Group 1998	1997	Larox Oyj 1998	1997
7. Receivables from subsidiaries				
Trade receivables			**20 369**	40 191
Loan receivables			**26 576**	15 252
Deferred assets			**1 377**	526
Total			**48 322**	55 969
Receivables falling due in more than one year			**5 244**	11 739
8. Receivables from associated companies				
Loan receivables			**395**	-
9. Fire insurance value of fixed assets				
Fire insurance value of fixed assets	**105 798**	105 305	**95 608**	95 599

The fire insurance value is mainly based on the replacement costs of the assets.

(FIM 1000)	Group 1998	1997	Larox Oyj 1998	1997
10. Taxation value of fixed assets				
Land and water areas			**1 079**	1 080
Buildings and constructions			**13 340**	13 297
Shares			**16 176**	16 238
Total			**30 595**	30 615
11. Capital invested in mining production				
Loans receivable (FIM million)	**-**	-	**3.1**	3.1
Fixed assets (FIM million)	**6.0**	6.0	**-**	-
Shares (FIM million)	**-**	-	**2.9**	2.9
Total	**6.0**	6.0	**6.0**	6.0

12. Shares and shareholdings

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

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

	Share, %	Nominal value	Book value
Associated company shares			
Statech Engineering Oy	20	493 560	501 456
Associated company shares, total			501 456

	Book value
Other shares	28 300
Total shares and shareholdings	15 325 484

(FIM 1000)	Group 1998	1997	Larox Oyj 1998	1997
13. Shareholders' equity				
Restricted				
Share capital at the beginning of the fiscal year	**26 411**	26 411	**26 411**	26 411
Bonus issue	**-**	-	**-**	-
Share capital at the end of the fiscal year	**26 411**	26 411	**26 411**	26 411
Reserve fund at the beginning of the fiscal year	**64**	64	**64**	64
Reserve fund at the end of the fiscal year	**64**	64	**64**	64
Revaluation fund at the beginning of the fiscal year	**448**	448	**448**	448
Other increase/decrease	**-**	-	**-**	-
Revaluation fund at the end of the fiscal year	**448**	448	**448**	448
Total restricted shareholders' capital at the end of the fiscal year	**26 923**	26 923	**26 923**	26 923
Non-restricted				
Non-restricted shareholders' equity at the beginning of the fiscal year	**39 369**	15 143	**24 655**	16 468
Dividend	**-10 564**	-5 018	**-10 564**	-5 018
From reserve fund	**-**	-	**-**	-
Other increase/decrease	**-2 188**	1 911	**-**	-
Net loss/profit for the year	**-7 646**	27 333	**- 209**	13 204
Total non-restricted shareholders' equity at the end of the fiscal year	**18 971**	39 369	**13 882**	24 654
Total shareholders' equity	**45 894**	66 292	**40 805**	51 578
14. Provisions				
Voluntary provisions				
Voluntary provision at the beginning of the fiscal year	**-**	-	**-**	1 943
change	**-**	-	**-**	-1 943
Voluntary provision at the end of the fiscal year	**-**	-	**-**	-
Obligatory provisions				
Guarantee provision at the beginning of the fiscal year	**836**	663	**836**	663
change	**- 151**	173	**- 151**	173
Guarantee provision at the end of the fiscal year	**685**	836	**685**	836
15. Payables to subsidiaries				
Accounts payable	**-**	-	**2 898**	1 504
Deferred liabilities	**-**	-	**2 819**	7
Other liabilities	-	-	218	4 670
Total	**-**	-	**5 935**	6 181

(FIM 1000)	Group 1998	Group 1997	Larox Oyj 1998	Larox Oyj 1997
16. Contingent liabilities				
On own account				
Mortgages	**88 825**	70 910	**65 910**	68 910
For Group companies				
Guarantees			**17 309**	18 386
For associated companies				
Guarantees	**1 672**	-	**1 672**	-
Leasing liabilities				
during year after reporting year	**1 338**	-	**566**	-
after more than one year	**2 558**	-	**1 744**	-
Pension liabilities	**235**	294	**235**	294
Total	**94 628**	71 204	**87 436**	87 590
17. Non-current liabilities which will fall due after five years or later				
Loans from financial institutions	**7 629**	-	**7 629**	-
Pension loans	**1 655**	7 575	**1 655**	7 575
Total	**9 284**	7 575	**9 284**	7 575

OTHER NOTES TO THE FINANCIAL STATEMENTS

18. Derivative instruments on 31.12.1998

Foreign currency derivatives, thousand FIM

	Market value	Value of underlying instrument
Forward foreign exchange contracts	**45 427**	45 131
Currency option contracts		
Purchased	**10 192**	10 900
Written *)	**10 192**	10 580

*) Written options have been used in connection with purchased currency put options.

The total market value of forward foreign contracts and currency option contracts is calculated from the Bank of Finland's average exchange rate on the balance sheet date. The values of the underlying instruments are recorded in full according to the corresponding Finnish markka value of the currency bought or sold on the date of the balance sheet. Options that have a value on the closing day are recorded.

19. Hedging against currency and interest risks

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

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

Exchange rate profits and losses relating to actual business operations, as well as premiums paid and received, are treated as adjustments to sales and purchase items. Exchange rate profits and losses from financial operations are recorded under financial income and expenses.

The most important invoicing currencies for Larox are USD, FIM, AUD, DEM and GBP. The Group's main purchasing currency is FIM.

To hedge currency positions, the company uses forward contracts, currency options and currency loans. The Group also protects the shareholders' capital of foreign subsidiaries with currency loans.

To control interest risks, the Group's disperses its loans and short-term investments in fixed and floating rate instruments. At the end of the fiscal year the Group had no open forward rate agreements or interest rate swaps.

20. Disputes

Larox Oyj is involved in two court actions with Outokumpu Oy. One is the patent infringement suit brought by Outokumpu in 1996 with its claims for compensation of FIM 20 million, and the other is the action for annulment of the patent brought by Larox in 1997. During 1998 both parties have given their written replies in the case concerning the annulment of the patent. The actions will continue in March 1999 in the Helsinki District Court. The District Court will first decide on the action for annulment brought by Larox and will then decide on Outokumpu's infringement suit if it does not approve the action for annulment. The legal proceedings for both actions may last several years.

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

21. Loans with warrants

On 19 March 1997 the company decided to issue bonds with warrants. The subscribed bonds totalled FIM 49,000. The company's share capital can be raised by at most FIM 490,000 through subscriptions to new shares on the basis of the bonds. The subscription period is between 19 February and 4 March 2001.

22. Options

Following the decision taken by the Annual Shareholders' Meeting on 18 March 1998 to issue option rights to management, all 50,000 options were subscribed to during the subscription period. Share capital can be raised by a maximum of FIM 500,000 as a result of subscriptions to shares. The subscription period for the shares is 18 February - 15 March 2002.

The company's Board of Directors also has authorization to issue 50,000 option rights, on the basis of which share capital can be raised by a maximum of FIM 500,000.

BOARD'S PROPOSAL FOR DISTRIBUTION OF PROFITS

The consolidated non-restricted equity on 31 December 1998 is FIM 18,971,193.00, of which FIM 14,540,449.00 can be distributed. The parent company made a loss in the past fiscal year of FIM 208,597.52 and retained profits from previous years amount to FIM 14,090,483.55.

The Board of Directors proposes that no dividend be paid and that the loss for the fiscal year be transferred to the retained profits account. Unused profits retained in the parent company will then be FIM 13,881,886.03.

Lappeenranta, 16 February 1999

Larox Oyj

Timo Vartiainen   Katariina Aaltonen

Nuutti Vartiainen   Teppo Taberman

AUDITORS' REPORT

To the shareholders of Larox Oyj

We have audited the accounting, the financial statements and corporate governance of Larox Oyj for the period 1 January – 31 December 1998. The financial statements, which have been prepared by the Board of Directors and the Chief Executive Officer, include the report of the Board of Directors, and the consolidated and parent company income statements, balance sheets and notes to the accounts. Based on our audit we express an opinion on these financial statements and on corporate governance.

We conducted our audit in accordance with generally accepted Finnish auditing standards. These standards require that we conduct a sufficient examination of the accounting, as well as of 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 corporate governance is to establish that the members of the Board of Directors and the Chief Executive Officer have complied with the rules of the Finnish Companies Act.

In our opinion the financial statements have been prepared in accordance with the Finnish Accounting Act and other rules and regulations governing the preparation of financial statements. 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, can be adopted and the members Board of Directors of the parent company and the Chief Executive Officer can be discharged from liability for the financial period audited by us. The proposal of the Board of Directors concerning the disposition of the non-restricted shareholders' equity is in compliance with the Finnish Companies Act.

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

Lappeenranta, 16 February 1999

Petteri Valkonen   Pasi Waris
CPA   CPA

SHARES AND SHAREHOLDERS

Share-related data

	1998	1997	1996	1994-1995	1993-1994
Earnings per share, FIM	**-2.90**	11.60	5.05	0.22	2.79
Shareholders' equity per share, FIM	**17.38**	25.10	15.93	14.22	17.31
Dividend per share, FIM	**0.00**	4.00	1.90	1.00	2.14
Dividend per earnings ratio, %	**0.0**	34.5	37.6	460.7	76.7
Dividend yield, %	**0.0**	6.1	5.0	4.2	5.1
Price per earnings ratio (P/E)	**-12.9**	5.7	7.5	110.6	15.2
Development of share price					
Average trading price, FIM	**75.26**	59.38	35.22	36.19	38.16
Lowest trading price, FIM	**30.00**	38.50	25.00	23.00	23.57
Highest trading price, FIM	**96.00**	74.00	42.00	69.00	59.29
Trading price at end of period, FIM	**37.50**	67.00	37.60	26.20	42.50
Market capitalization at end of period					
A-shares, FIM million *)	**26.4**	46.7	26.8	17.0	30.0
B-shares, FIM million	**72.1**	127.4	73.1	46.4	49.9
Total, FIM million	**98.5**	174.1	99.9	63.4	79.9
Trading volume					
B-shares, 1000 pcs	**717.0**	822.5	552.8	292.3	812.8
In relation to average number of B-shares, %	**37.1**	42.6	28.6	15.7	69.0
Average number of shares, 1000 pcs	**1 933.1**	1 933.1	1 933.1	1 856.8	1 178.5
Number of shares at end of period					
A-shares, 1000 pcs	**708.0**	708.0	708.0	708.0	708.0
B-shares, 1000 pcs	**1 933.1**	1 933.1	1 933.1	1 933.1	1 178.5
Total, 1000 pcs	**2 641.1**	2 641.1	2 641.1	2 641.1	1 886.5

The figures per share are share-issue adjusted. The length of the fiscal year 1994-1995 was exceptional.
* The A-share data is based on the B-share's last trading rate of the fiscal year.

Distribution of share capital sectors on 31 December 1998

	Number of shareholders	% of shareholders	Total shares, pcs	% of share capital
Private enterprises	57	9.0	300 778	11.4
Financial institutions and insurance companies	6	0.9	36 849	1.4
Public corporations	4	0.6	185 629	7.0
Non-profit institutions	11	1.7	75 470	2.9
Households	544	86.9	1 910 878	72.4
Foreign owners	6	0.9	122 298	4.6
Total	628	100.0	2 631 902	99.7
On waiting list			800	0.0
On joint account			8 398	0.3
Issued, total			2 641 100	100.0

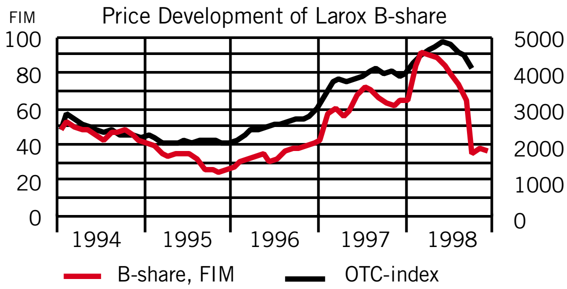
Distribution of share capital in order of magnitude on 31 December 1998

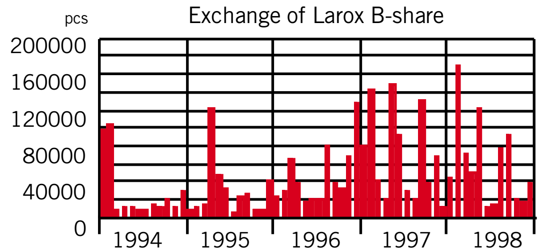
	Number of shareholders	% of shareholders	Total shares, pcs	% of share capital
1 - 100	116	18.5	6 139	0.2
101 - 500	297	47.3	84 018	3.2
501 - 1000	106	16.9	83 511	3.2
1001 - 5000	69	11.0	156 410	5.9
5001 - 10000	11	1.7	87 165	3.3
10001 - 50000	19	3.0	487 816	18.5
50001 - 100000	4	0.6	295 463	11.2
100001 and over	6	1.0	1 431 380	54.2
On waiting list, total			800	0.0
On joint account			8 398	0.3
Issued, total			2 641 100	100.0

Principal shareholders on 31 December 1998

	% of share capital	% of voting rights
Aaltonen Terhi-Katariina	12.0	23.2
Kupias Karoliina	11.7	23.1
Vartiainen Timo	11.6	23.1
Vartiainen Nuutti	9.6	16.2
Keskinäinen Eläkevakuutusyhtiö Ilmarinen	4.7	0.8
Merita Pankki	4.6	0.7
Capillary Oy	3.7	0.6
Vartiainen Tyyne	3.3	4.3
Thomeko Oy	2.3	0.4
Pension fund	1.9	0.3

The total number of shares owned and possessed by Board members and President is 1.146.437, which equals 65.1% of voting rights.





DEVELOPMENT OF THE GROUP 1993-1998

(FIM 1000)	**1998**	1997	1996	1994-1995	1993-1994
Scope of activity					
Net sales	**253 363**	310 519	233 120	181 771	155 264
Change in net sales (%)	**-18.4**	33.2	28.2	17.1	8.5
Share of exports and foreign operations (%)	**89**	88	91	90	90
Number of personnel	**303**	281	268	257	210
Net sales per person	**836**	1 105	870	707	739
Total liabilities	**195 384**	170 872	130 812	167 170	143 446
Current liabilities	**143 385**	118 386	75 970	119 484	61 091
Shareholders' equity	**45 894**	66 292	42 066	37 552	45 729
Capital invested	**199 335**	174 528	143 997	172 104	160 392
Balance sheet, total	**243 829**	239 594	175 179	206 918	191 269
Investments	**16 049**	15 630	12 281	14 060	10 224
Profit and profitability					
Operating profit before depreciation	**13 401**	55 533	36 055	27 495	34 692
Depreciation	**11 105**	12 376	11 640	11 671	12 407
Operating profit	**2 296**	43 157	24 415	15 824	22 285
Financial income and expenses	**-8 370**	-6 082	-7 422	-13 441	-10 669
Profit before extraordinary items and taxes	**-6 074**	37 075	16 993	2 383	11 616
Net profit	**-7 487**	30 777	13 427	625	8 118
Operating profit before depreciation %	**5.3**	17.9	15.5	15.1	22.3
Operating profit %	**0.9**	13.9	10.5	8.7	14.4
Net financial expenses %	**3.3**	2.0	3.2	7.4	6.9
Profit before extraordinary items and taxes %	**-2.4**	11.9	7.3	1.3	7.5
Net income %	**-3.0**	9.9	5.8	0.3	5.2
Return on shareholders' equity %	**-12.8**	54.4	31.9	1.4	18.8
Return on invested capital %	**1.4**	27.4	15.8	10.0	14.1
Financing					
Quick ratio	**0.7**	0.9	0.7	0.6	1.1
Current ratio	**1.1**	1.3	1.2	1.0	1.7
Equity ratio (%)	**20.6**	29.1	26.1	19.8	25.4
Relative indebtedness %	**73.8**	53.8	53.9	88.6	90.5

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

CALCULATION OF KEY RATIOS

Return on shareholders' equity % = $\dfrac{\text{Profit before extraordinary items – taxes}}{\text{(Invested capital – interest-bearing debts at the beginning of fiscal year) + (Invested capital – interest-bearing debts at the end of fiscal year)/2}} \times 100$

Return on invested capital % = $\dfrac{\text{Profit before extraordinary items + interest and other financial expenses}}{\text{(Invested capital at the beginning of fiscal year + Invested capital at the end of fiscal year)/2}} \times 100$

Equity ratio % = $\dfrac{\text{Shareholders' equity + voluntary provisions + accelerated depriciation + valuation items + minority share}}{\text{Total assets – advances received}} \times 100$

Relative indebtedness = $\dfrac{\text{Current and non-current liabilities + obligatory provisions – advances received}}{\text{Net sales}} \times 100$

Invested capital = Shareholders' equity + voluntary provisions + accelerated depriciation + valuation items + minority share + non-current liabilities + short-term loans from financial institutions + short-term pension loans + notes payable + other current liabilities - deferred taxes

Quick ratio = $\dfrac{\text{Account receivable + cash in hand and at bank}}{\text{Current liabilities – advances received}}$

Current ratio = $\dfrac{\text{Current assets}}{\text{Current liabilities}}$

Earnings per share = $\dfrac{\text{Profit before extraordinary items, provisions and taxes – taxes +/– minority share}}{\text{Adjusted average number of shares at the end of the period}}$

Shareholders' equity per share = $\dfrac{\text{Shareholders' equity + voluntary provisions and accelerated depreciation – deferred tax liabilities}}{\text{Adjusted average number of shares at the end of the period}}$

Dividend per share = $\dfrac{\text{Dividend distributed for the fiscal year}}{\text{Adjusted average number of shares at the end of the period}}$

Dividend per earnings ratio = $\dfrac{\text{Dividend per share}}{\text{Earnings per share}} \times 100$

Dividend yield % = $\dfrac{\text{Dividend per share}}{\text{Adjusted trading price at the end of the period}}$

Price per earnings ratio (P/E) = $\dfrac{\text{Adjusted trading price at the end of the period}}{\text{Earnings per share}}$

Average trading price = $\dfrac{\text{FIM amount traded during the period}}{\text{Number of shares traded during the period}}$

Market capitalization at the end of the period = Number of shares at the end of period x trading price at the end of period weighted by the number of the shares traded

Trading volume = Number of shares traded during the period and in relation to the weighted average number of the shares during the period

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