LASSILA & TIKANOJA

# ANNUAL REPORT 1998

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## FINANCIAL INFORMATION IN 1999

Interim Report, January 1 - March 31, issued April 28, 1999
Interim Report, January 1 - June 30, issued July 27, 1999
Interim Report, January 1 - September 30, issued October 26, 1999

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

## ANNUAL GENERAL MEETING

The Annual General Meeting of the shareholders of Lassila & Tikanoja plc will be held on Thursday, March 18, 1999, at 5 p.m. in the Savoy Restaurant, Eteläesplanadi 14, Helsinki.

Notice of attendance at the Annual General Meeting is requested by 4 p.m. on March 16, 1999 in writing to the address: Lassila & Tikanoja plc P.O.Box 33, 00101 Helsinki,
by fax at +358-205 05 2899,
by e-mail at kaija.aho@lassila-tikanoja.fi
or by telephone at +358-205 05 2882.

# TO OUR SHAREHOLDERS

For Lassila & Tikanoja 1998 was a good year, but not an excellent one. Net sales increased by 4.6 per cent and the return on capital invested was 23.1 per cent. Despite this good performance, the Group had and continues to have the potential for faster growth, higher profitability and thus for a better share price.

The financial results of the Group's business units were very good or satisfactory, although with the exception of those of Säkkiväline, they were all down on the previous year. As other operating income was less than that for the previous year, the Group's operating profit decreased and stood at FIM 226.3 million.

Performance at Säkkiväline reached the targets set. The comprehensive service concept combined with a regional organization proved effective. Säkkiväline has steadily increased its share of a growing market through internal growth and minor company acquisitions. The unit's operating model has been effective and efficiency has remained high. As a result, Säkkiväline has been one of the most profitable companies in its sector.

JWS succeeded well in sales of hydroentangled nonwovens and the overall profitability of operations was good. The production capacity for thermally bound nonwovens has been directed through investment into new, rapidly growing product lines. JWS is building a competitive advantage through its own extensive programme of research and development. Product applications are developed together with key customers and the unit's own process development is seeking the best possible cost structure in all product lines. Thanks to the small number of products, JWS's net sales, profitability and investment grow in progressive steps.

Amerplast's financial results were modest. This was due in part to the timing of capital expenditure and modifications during the financial year. The standard of production technology was raised, plant specialization was furthered and film manufacture, for example, was concentrated. All these are changes that will improve Amerplast's profitability and competitiveness.

Inka's poor showing during the second half of the year was to some extent a surprise; the impact of Russia's economic problems on transport and therefore on demand for Inka's products was great. Capital expenditures and modifications to improve the efficiency of Inka's operations were completed during the year and operations have been and will continue to be altered in keeping with the new mode of operation. Inka now has an effective operating model for the manufacture of heavy webbings, lifting slings and lashing equipment.

To ensure our success in the future and to be able to report good financial results, we are making operations in all units of Lassila & Tikanoja contribute to faster growth and a substantial increase in productivity. The markets where the Group operates are growing and even more importantly, they are becoming increasingly concentrated. Fewer and fewer ever larger customers are concentrating their business with an increasingly smaller number of the best and most efficient providers in the sector in question. Success is both the requirement for and the result of growth in excess of demand.

Our goal is to **grow** by an average of 12 per cent annually or to double our net sales in six years. This will require organic growth, launching of new products and service concepts and a carefully considered company acquisitions.

We shall seek organic growth by intensifying our co-operation with key customers, with the aim of increasing their satisfaction. We shall measure this satisfaction with the number of orders. More effort will be put into the development of new products and service concepts; the number of projects will be reduced and the size expanded. Our goal is to speed up the development process by concentrating resources and to be the first on the market. Company acquisitions will be sought in sectors related to existing operations to increase our market shares or to expand our market. Compatibility and impact on earnings per share are the main criteria.

**Productivity** exceeding that of our competitors is the condition for profitable growth. Simplification and standardization of operations are the means to improve productivity and to further improve related quality systems. In the business units, productivity will be improved through projects focusing on various functions. The goals of such projects will be based on the best practices and on measurement of the productivity of material use, labour and capital.

The structure of the organization and the expertise and motivation of those working for it will largely determine the success of our operations. Here Lassila & Tikanoja is strong. Our operations are based on independent business units, a low organization and confidence in people at all levels.

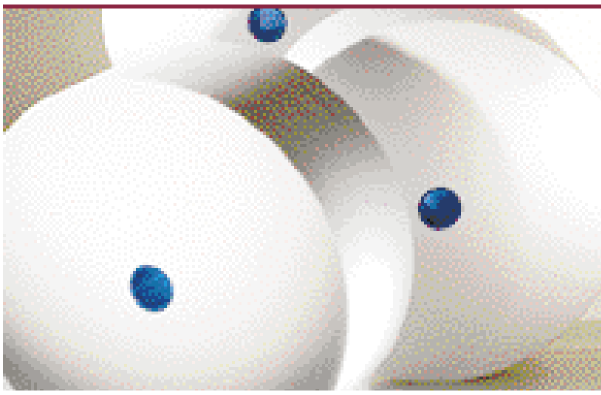
Juhani Maijala

Heikki Bergholm


# THE LASSILA & TIKANOJA GROUP

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

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



## KEY FIGURES FOR 1998

| | **1998** | 1997 | Change % |
|---|---|---|---|
| Net sales, FIM mill. | **1 746.0** | 1 669.5 | 4.6 |
| Gross margin, FIM mill. | **350.2** | 356.3 | -1.7 |
| Operating profit, FIM mill. | **226.3** | 247.1 | -8.4 |
| Profit before extraordinary items, FIM mill. | **208.9** | 230.5 | -9.4 |
| Return on invested capital, % (ROI) | **23.1** | 27.8 | |
| Dividend per share, FIM | **9.70** | 10.99 | -11.7 |
| Earnings/share, FIM (EPS) | **5.95** * | 5.00 | 19.0 * |
| Equity ratio, % | **53.8** | 48.6 | |
| Gross investment, FIM mill. | **208.4** | 202.8 | 2.8 |
| Average personnel employed | **3 956** | 3 610 | 9.6 |

* Proposal by the Board of Directors

## AMERPLAST

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

**MANAGING DIRECTOR** Aarno Lindström
**PRODUCTION DIRECTOR** Juha Henttonen
**FINANCIAL MANAGER** Ulla Pyysalo
**MARKETING DIRECTOR** Heikki Uusitalo

**AMERPLAST LTD BOARD OF DIRECTORS**
Juhani Maijala, chairman, Heikki Bergholm, deputy chairman, Margareta Huldén, Aarno Lindström, Esa Palttala, Sirkka Tuomola

| | 1998 | 1997 | Change % |
|---|---|---|---|
| Net sales, FIM million | **378.2** | 377.5 | +0.2 |
| Exports, FIM million | **151.0** | 152.9 | -1.3 |
| Operating profit, FIM million | **27.8** | 34.5 | -19.4 |
| Investments, FIM million | **73.8** | 63.7 | +15.9 |
| Average personnel | **645** | 618 | +4.3 |

## INKA

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

**MANAGING DIRECTOR** Pentti Kulmala
**LOCAL MANAGER** Mikko Haapaniemi
**PRODUCTION MANAGER** Kimmo Jalo
**MARKETING DIRECTOR** Antti Jouppi
**CONTROLLER** Jaana Ojala

**INKA LTD BOARD OF DIRECTORS**
Juhani Maijala, chairman, Heikki Bergholm, deputy chairman, Margareta Huldén, Pentti Kulmala, Esa Palttala, Sirkka Tuomola

| | 1998 | 1997 | Change % |
|---|---|---|---|
| Net sales, FIM million | **114.4** | 115.7 | -1.1 |
| Exports, FIM million | **73.5** | 69.4 | +5.9 |
| Operating profit, FIM million | **7.1** | 14.0 | -49.3 |
| Investments, FIM million | **19.4** | 12.9 | +50.4 |
| Average personnel | **238** | 246 | -3.3 |

## JWS

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

**MANAGING DIRECTOR** Kari Parviainen
**PRODUCTION DIRECTOR** Jukka Heikkinen
**RESEARCH AND DEVELOPMENT DIRECTOR** Margareta Huldén
**MARKETING DIRECTOR** Timo Kokkola
**FINANCIAL DIRECTOR** Kristiina Lilja
**MARKETING DIRECTOR** Jouko Penttilä

**J.W. SUOMINEN LTD BOARD OF DIRECTORS**
Juhani Maijala, chairman, Heikki Bergholm, deputy chairman, Margareta Huldén, Esa Palttala, Kari Parviainen, Sirkka Tuomola

| | 1998 | 1997 | Change % |
|---|---|---|---|
| Net sales, FIM million | **555.1** | 577.1 | -3.8 |
| Exports, FIM million | **534.9** | 548.9 | -2.6 |
| Operating profit, FIM million | **110.5** | 116.8 | -5.4 |
| Investments, FIM million | **35.2** | 51.2 | -31.3 |
| Average personnel | **339** | 354 | -4.2 |

## SÄKKIVÄLINE

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

**MANAGING DIRECTOR** Jari Sarjo
**DIRECTOR, MARKETING** Anna-Maija Apajalahti
**DIVISION DIRECTOR PRODUCT TRADE** Seppo Hartikainen
**ADMINISTRATION AND LEGAL AFFAIRS** Jorma Mikkonen
**DIRECTOR, FINANCES** Raine Okker
**DEVELOPMENT DIRECTOR, ENVIRONMENTAL SERVICES** Mikko Talola

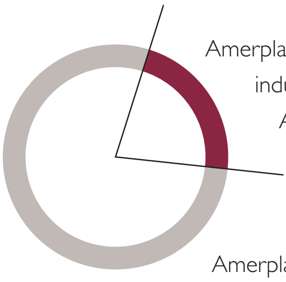
**REGIONAL DIRECTORS:**
Pasi Hurme, Tapio Häyrinen, Kauko Kukkonen, Jaana Mulari, Anne Nordenswan, Juha Nurminen, Juha Simola, Ari Ylärakkola

**SÄKKIVÄLINE LTD BOARD OF DIRECTORS**
Juhani Maijala, chairman, Heikki Bergholm, deputy chairman, Jari Sarjo, Sirkka Tuomola

| | 1998 | 1997 | Change % |
|---|---|---|---|
| Net sales, FIM million | **697.7** | 600.3 | +16.2 |
| Operating profit, FIM million | **64.8** | 54.7 | +18.5 |
| Investments, FIM million | **79.5** | 74.2 | +7.1 |
| Average personnel | **2 728** | 2 386 | +14.3 |


**Amerplast manufactures top-quality packaging for hygiene products, foods and the retail trade.**

# AMERPLAST 21.7 %



Amerplast manufactures flexible packaging for industry and the retail trade. In its operations Amerplast stresses quality, rapid delivery, customer service and cost effectiveness. The main lines are packaging for hygiene products, foods and retail service. Amerplast is one of the leading Nordic companies in its product lines and an important manufacturer of packaging for the European hygiene products industry.

Demand for products during the first half of 1998 was good, except in packaging for the hygiene products industry; changes in customers' product ranges momentarily postponed orders. During the second half of the year the collapse of the rouble reduced exports to Russia and in part to the Baltic countries as well. Sales increased somewhat in Finland and Sweden and remained on the level of the previous year in Poland. The volume of bag-type packaging deliveries increased by more than 10 per cent, while the number of tonnes produced remained constant because of the thinner film used.

Falling prices for raw materials during the second half of the year reduced net sales. A weaker Swedish crown and the collapse of the Russian rouble had an adverse effect on Amerplast's performance, which fell short of expectations.

A cooperation agreement concerning packaging and product development was concluded with several major customers. The emphasis on product development was increased. Development of the quality system was continued and a documented environmental system was introduced in all units.

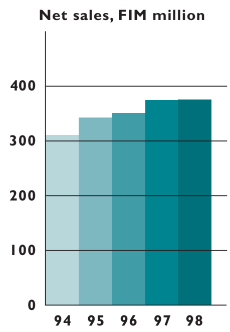
Most of the capital expenditure was applied to modernization of printing presses; these investments were used to double the company's eight-colour capacity. Film lamination began and an industrial site was acquired in Poland. A new operational control system was introduced at all factories. To improve productivity, concentration of production and specialization by plant were continued.

Amerplast's net sales in 1998 amounted to FIM 378.2 million; the figure was the same recorded in 1997. Exports and international operations accounted for FIM 151.0 million and were on the level of last year. Operating profit was FIM 27.8 million, which was down 19.4 per cent on the previous year. Gross investment in 1998 totalled FIM 73.8 million. Amerplast employed an average of 645 persons during 1998.

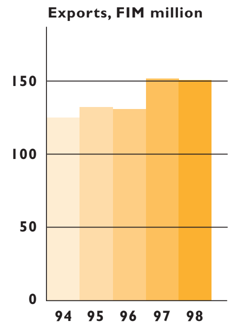
Amerplast seeks to increase sales of the main product groups in the Baltic area. Marketing will be stepped up in Poland, where manufacture of packaging will begin in autumn 1999 at a plant to be built there. An effort will be made to keep sales in Russia at the level achieved. Laminated products and tamper-proof envelopes will create new opportunities.

In 1999, Amerplast will concentrate - apart from the plant project in Poland - on full utilization of investments already implemented. Close cooperation with customers and the good quality and price competitiveness obtained through investment will permit growth in sales and improved operational profitability.

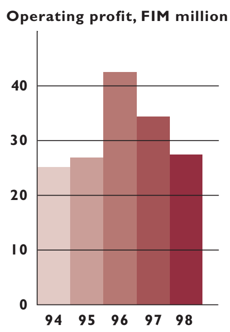
**Consumers value Amerplast packaging; it is light-weight, strong, carefully finished and the print is high-quality.**



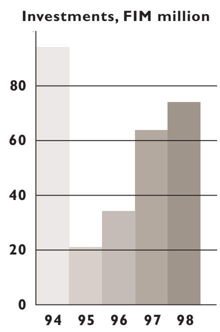
Net sales, FIM million
400
300
200
100
0
94 95 96 97 98

Exports, FIM million
150
100
50
0
94 95 96 97 98

Operating profit, FIM million
40
30
20
10
0
94 95 96 97 98

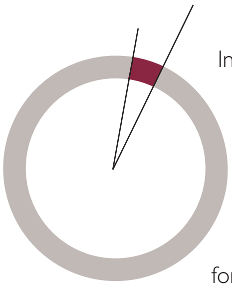



Investments, FIM million
80
60
40
20
0
94 95 96 97 98


Coca-Cola


**Inka manufactures narrow fabrics and heavy webbings for a wide range of applications. It is one of the leading European companies in its sector.**

## INKA 6.5 %



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

Inka manufactures heavy webbings for materials handling; the end products are lifting slings and lashing equipment. The product range also includes light-weight narrow fabrics for industry and trade. The main markets are the Nordic countries, Central Europe and the Baltic region.

The heavy webbings are woven in Turku. Ready-made lifting slings, lashing equipment and roundslings are manufactured in Turku, Tallinn and Gothenburg. Inka has an associated company in Tallinn. Exports account for 83 per cent of the materials handling products. Slings and lashing equipment for industry and transport are two of the most typical uses.

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

The volume of heavy webbings and ready-made slings and lashing equipment increased by over 20 per cent, which raised Inka's market share. The volume of light-weight technical narrow fabrics also increased, while the volume used by the clothing industry declined. The latter also accounted for a smaller proportion of production. Declining prices for raw materials reduced sale prices.

The most important item of capital expenditure was for a fibre extrusion line that will triple fibre manufacturing capacity and allow Inka to meet future growth targets. Research and development were increased with the aim of more competitive products.

The production facilities at the Turku factory were converted for process-type production; the aim is to increase the volume of heavy webbings for materials handling and to reduce unit costs. New automated machinery for further processing of webbings was introduced. The work involved in conversion hampered production somewhat during the second half of the year.

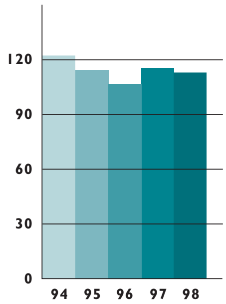
Inka's financial results were satisfactory; performance for the first half of the year was good. During the second half, transport volumes in Russia and Europe declined, price competition in heavy webbings for materials handling intensified, use of narrow fabrics by the clothing industry decreased and the Swedish and Norwegian crowns weakened.

Inka recorded net sales of FIM 114.4 million, which are on the level of the previous year. Exports including international operations totalled FIM 73.5 million and increased by 5.9 per cent. Growth continued in Germany, although operations of the sales company there were terminated and a shift was made to direct deliveries. The operating profit amounted to FIM 7.1 million and was only half that of the previous year. Gross investment amounted to FIM 19.4 million. Inka employed an average of 238 persons during 1998 and 218 at the end of the year.

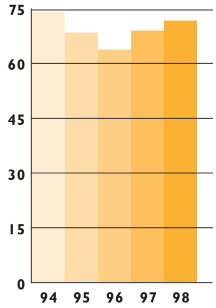
Operations have been adapted to conditions and will be in the future, too. New production methods and investments will reduce the costs of webbing manufacture and allow an increase in the market share for narrow fabrics and heavy webbings and eventually for increased volumes as well.

**Inka's heavy webbings designed for hoisting and lashing heavy materials represent the company's advanced product development.**

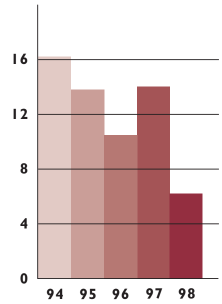
Net sales, FIM million



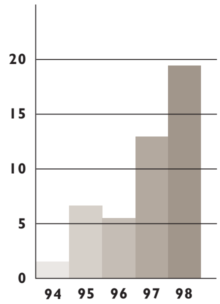

Exports, FIM million

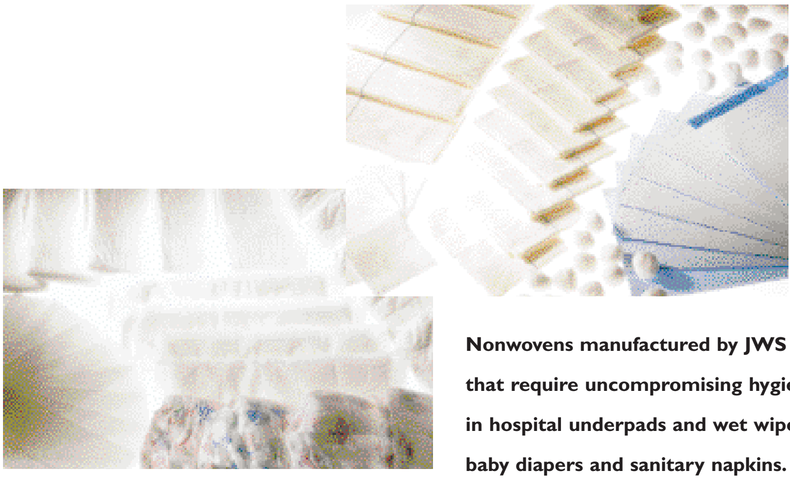



Operating profit, FIM million



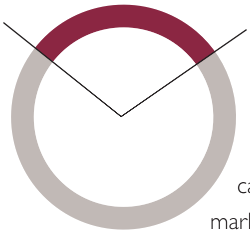

Investments, FIM million



**Nonwovens manufactured by JWS are used in products that require uncompromising hygiene: in hospital underpads and wet wipes and in wound care, baby diapers and sanitary napkins.**

## JWS 31.8 %



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

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

Sales of hydroentangled nonwovens continued to grow. Sales of thermally bound products declined in Europe as a result of increased supply and in Asia due to the economic crisis. Sales picked up somewhat towards the end of the year. As in the previous year, sales of new materials for hygiene products and of materials for wet wipes increased.

Prices for raw materials declined during the year and averaged below those of last year. The value of sales fell along with the trend in raw material prices. Profitability remained on the good level of the previous year.

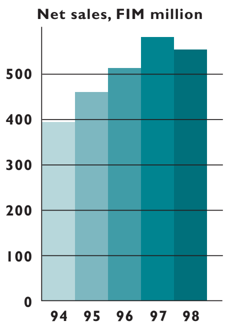
During 1998, JWS invested in an extrusion coating line for textile-like backsheet, modernization of the hydroentanglement lines and in product development equipment.

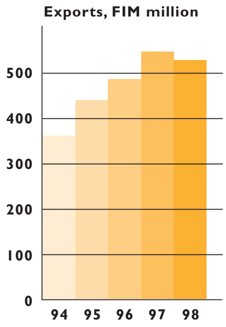
The main areas for development of JWS' operations are safety, total quality management (TQM), and operational control systems. The competitiveness of the product range and production is being ensured with an extensive programme of research and development.

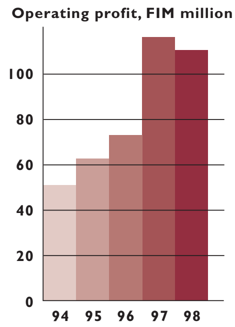
JWS has its own environmental system, which is used to lessen and prevent load on the environment.

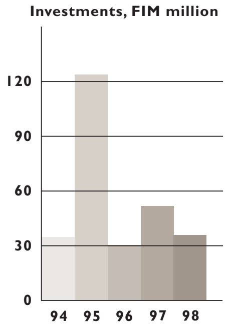
Net sales in 1998 were FIM 555.1 million or 3.8 per cent below those for the previous year. The operating profit was FIM 110.5 million or 5.4 per cent less than in the previous year. Exports amounted to FIM 534.9 million and were down 2.6 per cent. Gross investment totalled FIM 35.2 million. JWS employed an average of 339 persons during 1998.

The outlook for 1999 is one of cautious optimism. Demand is expected to grow in Europe and the United States and to pick up in Asia. The coating line for textile-like backsheet will increase potential, although a greater supply will intensify competition in conventional product lines. Overall, JWS has the potential to increase its net sales and keep profitability on a good level.



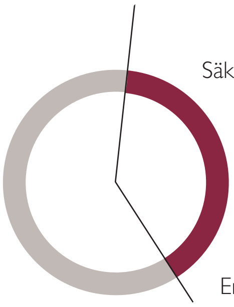




Nonwovens manufactured by JWS are found in the best baby diapers the world over.

**Säkkiväline provides a comprehensive range of services for environmental management, professional cleaning, and property supervision and maintenance. It also supplies products to the sector.**

## SÄKKIVÄLINE 40.0 %



Säkkiväline is Finland's leading producer and marketer of comprehensive environmental management services. Its core areas are environmental management, professional cleaning, property supervision and maintenance and supplying of products for environmental management.

Environmental management comprises community and industrial waste management, recycling services, industrial cleaning and maintenance, hazardous waste management, sewer maintenance and fire clean-up.

The markets for all Säkkiväline's lines grew steadily; this trend will probably continue for a long time. Today only approximately one quarter of the growing overall market in the sector - nearly FIM 20 billion - is handled by private enterprise. The environmental management market in particular is expanding rapidly thanks to increased mandatory recycling of waste.

Säkkiväline's market position strengthened and its market shares grew. This was the result of successful sales of comprehensive services and of improved customer satisfaction. Long-term cooperation, expanding service entities and the ability to produce diverse services efficiently are Säkkiväline's competitive advantages.

In keeping with its strategy, Säkkiväline has concentrated on development of services in its present business areas, with the aim of continued growth in its market shares. A new form of service introduced during the year was an Internet link to improve communication between Säkkiväline and its customers. Collection and processing of electric and electronic scrap was begun during the second half of the year.

Säkkiväline's financial results continued to improve. Property supervision and maintenance recorded the greatest improvement; environmental management also bettered its results. The product supply business fell short of its goals.

Apart from equipment, investment in 1998 concentrated on terminal functions for environmental management, information systems and company acquisitions that complement existing operations.

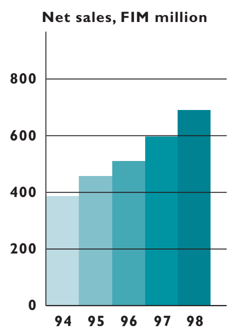
Säkkiväline developed its quality and environmental programmes. Implementation proceeded according to plan.

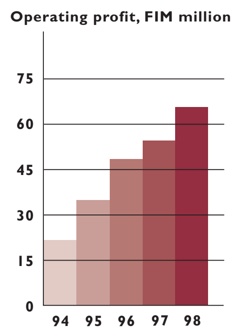
Säkkiväline's net sales rose by 16.2 per cent and stood at FIM 697.7 million. Growth was organic. Net sales from environmental management rose 14.4 per cent and stood at FIM 298.9 million. Net sales from professional cleaning services rose by 22.0 per cent and from property supervision and maintenance by 21.7 per cent. Cleaning recorded net sales of FIM 221.0 million and property supervision and maintenance of FIM 124.3 million. Net sales from the product supply business declined by 4.1 per cent and stood at FIM 53.6 million.

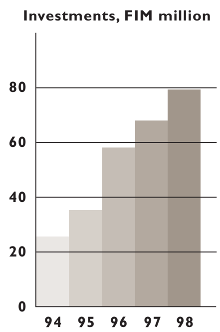
The operating profit rose by 18.5 per cent and amounted to FIM 64.8 million. Gross investment stood at FIM 79.5 million. The number of personnel increased and averaged 2 728 when converted to full-time staff.

In 1999, Säkkiväline's net sales are expected to grow and financial results to improve. As a service enterprise, Säkkiväline's operations are affected most by domestic demand, which is expected to increase. Investment in environmental management in particular will continue.

**Säkkiväline is constantly developing and diversifying its environmental management services. The latest additions to the range comprise the collection and treatment of oily water.**


Net sales, FIM million
800
600
400
200
0
94
95
96
97
98


Operating profit, FIM million
75
60
45
30
15
0
94
95
96
97
98


Investments, FIM million
80
60
40
20
0
94
95
96
97
98

# ORGANIZATION AND MANAGEMENT

## LASSILA & TIKANOJA PLC BOARD OF DIRECTORS

**JUHANI MAIJALA, 59**
B.Sc. (Econ.), LL.B.
Member of the Board since 1983,
Chairman and CEO since 1998

**MATTI KAVETVUO, 54**
M.Sc. (Eng.), B.Sc. (Econ.)
Valio Ltd, President and CEO
Member of the Board since 1998

**JUKKA VIINANEN, 51**
M.Sc. (Eng.)
President and COO of Neste Oyj,
Member of the Board since 1993

**HEIKKI HAKALA, 57**
M.Sc. (Econ.)
President and CEO of
Rauma Corporation,
Member of the Board since 1988

**JUHANI LASSILA, 36**
M.Sc. (Econ.)
Group Treasurer of
Instrumentarium Corporation,
Member of the Board since 1998

## PRESIDENT AND COO

**HEIKKI BERGHOLM, 42**
M.Sc. (Eng.)
President and COO of the Lassila & Tikanoja Group
and Lassila & Tikanoja plc since 1998

## LASSILA & TIKANOJA PLC AUDITORS

**ILKKA HAARLAA**
Authorised Public Accountant

**ANTTI LASSILA**
Authorised Accountant

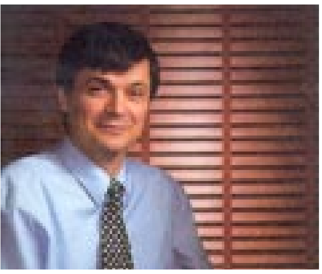
Deputies

**SVH PRICEWATERHOUSE COOPERS OY**
Authorised Public Accountants

**JUHA VÄISÄNEN**
Authorised Public Accountant

# LASSILA & TIKANOJA GROUP MANAGEMENT

**JUHANI MAIJALA, 59**
B.Sc. (Econ.), LL.B.
Chairman and CEO since April 2, 1998,
President and CEO of the Lassila &
Tikanoja Group and Lassila & Tikanoja plc
until April 2, 1998,
joined a Group company in 1977

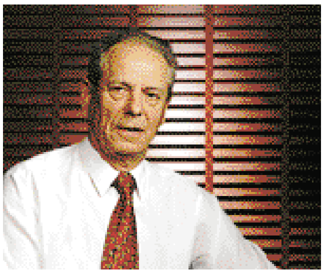


**HEIKKI BERGHOLM, 42**
M.Sc. (Eng.)
President and COO of the Lassila &
Tikanoja Group and Lassila & Tikanoja plc
since April 2, 1998,
Executive Vice President until April 2, 1998,
Managing Director of J.W. Suominen Oy
until October 31, 1998,
joined a Group company in 1985

**SIRKKA TUOMOLA, 51**
M.Sc. (Econ.)
Chief Financial Officer
of the Lassila & Tikanoja Group since 1992,
joined a Group company in 1981

**MARGARETA HULDÉN, 43**
D.Sc. (Tech.)
Research and Development,
Industrial Units, Director since 1997,
joined a Group company in 1993

**PENTTI KULMALA, 50**
B.Sc. (Eng.)
Managing Director of
the Inka Group since 1992



**AARNO LINDSTRÖM, 64**
Managing Director
of the Amerplast Group
since 1997,
joined a Group company in 1961

**ESA PALTTALA, 55**
B.Sc. (Eng.)
Procurement and Production Systems,
Industrial Units,
Director since 1997,
joined a Group company in 1972

**KARI PARVIAINEN, 44**
M.Sc. (Eng.)
Managing Director
of J.W. Suominen Oy
since 1998

**JARI SARJO, 42**
LL.B
Managing Director
of the Säkkiväline Group
since 1997,
joined a Group company in 1984

## 1. GENERAL

The Group's financial results were good, although a slight decline on the previous year was recorded and not all the targets were reached. Säkkiväline's results were good and showed improvement on the previous year. JWS maintained its good results. Amerplast and Inka recorded a substantial decline, although their results remained satisfactory.

Amerplast's results were affected by the sharp drop in Russian demand after the summer and Inka's by the decrease in transport volumes caused by the Russian situation. The results of both were also affected adversely by extensive programmes of modifications and investment and a weaker Swedish crown. Predicting the extent of the above change and devising a response proved inadequate.

Investments were financed with cash flow from operations. The equity ratio improved and net interest-bearing liabilities decreased.

## 2. FINANCIAL RESULTS

The Group's operating profit was FIM 226.3 million; it declined by 8.4 per cent and was equivalent to 13.0 per cent of net sales. The operating profit for the previous year was 14.8 per cent of net sales. Invested capital at the end of the year amounted to FIM 1 033.1 million. It increased by 7.7 per cent or at a faster rate than net sales. The return on invested capital was 23.1 per cent compared with 27.8 per cent the previous year. The return on shareholders' equity was 22.0 per cent.

The return on invested capital earned by Säkkiväline and JWS was excellent. Based on this criterion, the profitability of Amerplast and Inka was satisfactory.

Säkkiväline was the most successful of the units. Improvements in financial results can be attributed to the growth in net sales, while profitability remained on a good level. Säkkiväline increased its market shares. The comprehensive service concept combined with the regional organization proved efficient.

JWS' profitability was good. Net sales declined as a result of falling prices for raw materials. Growth in sales of hydroentangled nonwovens continued, while sales of thermally bound products in Europe declined due to increased supply and in Asia due to the economic crisis. Sales of these products in Europe picked up somewhat during the second half of the year.

Amerplast's financial results declined, but remained on a satisfactory level. Performance was weakened by the extensive programme of modifications and investment and by falling demand in Russia during the autumn, which reduced sales. Modernization and measures to adjust costs to the prevailing situation were completed; production in Russia was discontinued for the time being.

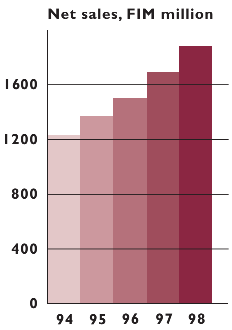
Inka's financial results were a disappointment. The trends in sales and particularly in results during the second half of the year were discouraging. Declining demand had a powerful effect on financial results. Inka's results were also affected by the expenses incurred from changes to the production process; these exceeded estimates. Clarification of Inka's operating model will be continued by concentrating on products for materials handling and on process-type manufacturing. Measures to bring costs into line have been undertaken.

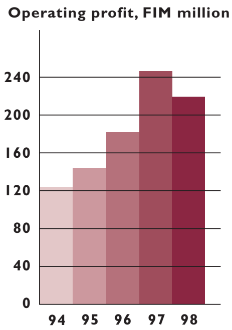
Operating profit by business unit:

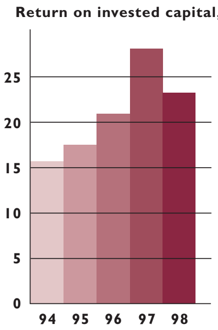
| | **1998 FIM million** | **%** | 1997 FIM million | % |
|---|---|---|---|---|
| Amerplast | **27.8** | **7.4** | 34.5 | 9.1 |
| Inka | **7.1** | **6.2** | 14.0 | 12.1 |
| JWS | **110.5** | **19.9** | 116.8 | 20.2 |
| Säkkiväline | **64.8** | **9.3** | 54.7 | 9.1 |
| Lassila & Tikanoja | **17.1** | | 28.1 | |
| Consolidation items | **-1.0** | | -1.0 | |
| Total | **226.3** | **13.0** | 247.1 | 14.8 |

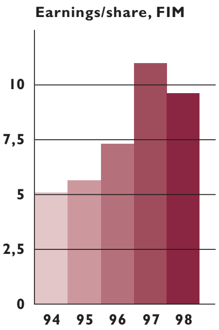
FINANCIAL RESULTS DURING THE PAST YEAR

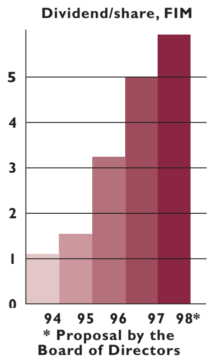
| FIM million | 1-4/98 | 5-8/98 | 9-12/98 | 1-12/98 |
|---|---|---|---|---|
| NET SALES | | | | |
| Amerplast | 128.5 | 123.4 | 126.3 | 378.2 |
| Inka | 41.8 | 36.0 | 36.6 | 114.4 |
| JWS | 187.5 | 179.0 | 188.6 | 555.1 |
| Säkkiväline | 210.8 | 239.4 | 247.5 | 697.7 |
| Lassila & Tikanoja | 5.3 | 5.6 | 5.6 | 16.5 |
| Internal net sales | -5.4 | -5.1 | -5.4 | -15.9 |
| Group net sales | 568.5 | 578.3 | 599.2 | 1 746.0 |
| OPERATING PROFIT | | | | |
| Amerplast | 12.2 | 9.8 | 5.8 | 27.8 |
| Inka | 5.4 | 1.6 | 0.1 | 7.1 |
| JWS | 34.4 | 36.4 | 39.7 | 110.5 |
| Säkkiväline | 16.1 | 29.8 | 18.9 | 64.8 |
| Lassila & Tikanoja | 11.6 | 1.9 | 3.6 | 17.1 |
| Consolidation items | -0.3 | -0.3 | -0.4 | -1.0 |
| Group operating profit | 79.4 | 79.2 | 67.7 | 226.3 |
| Net financial items | -5.2 | -8.9 | -3.3 | -17.4 |
| **Profit before extraordinary items** | **74.2** | **70.3** | **64.4** | **208.9** |




## 3. GROUP STRUCTURE

Säkkiväline Etelä Oy, Säkkiväline Itä Oy, Säkkiväline Länsi Oy and Säkkiväline Pohjoinen Oy were merged with Säkkiväline Siivouspalvelut Oy, Porin Ongelmajätekeräys Oy was acquired in full and the name of A. Eskola Oy was changed to Säkkiväline Kalusto Oy.

In January 1999, Säkkiväline Siivouspalvelut Oy and Säkkiväline Kiinteistöhuolto Oy were merged with Säkkiväline Oy and the name of SV-Ammattipörssi Oy was changed to Säkkiväline Ympäristöhuolto Oy.

## 4. ANNUAL GENERAL MEETING

The Annual General Meeting of Lassila & Tikanoja plc, which was held on April 2, 1998, decided to pay a dividend of FIM 5 per share or a total of FIM 75.3 million for 1997.

The Annual General Meeting elected two new members to the Board of Directors, Matti Kavetvuo and Juhani Lassila. The Board of Directors is composed of Heikki Hakala, Matti Kavetvuo, Juhani Lassila, Juhani Maijala and Jukka Viinanen.

Juhani Maijala, President and CEO, thanked Jaakko Lassila, the resigning chairman of the Board of Directors, for his contribution to the company, which was exceptional with respect to both quality and duration.

The Annual General Meeting decided to make the Chairman of the Board a full-time position.

Immediately after the Annual General Meeting, the Board of Directors elected Juhani Maijala full-time chairman. The Board defined the tasks of the full-time chairman of the Board as the preparation of strategic decisions for the Group and monitoring of their implementation and the maintenance of key investor relations.

## 5. 1998 WARRANT BOND

The Annual General Meeting decided to issue a warrant bond for a maximum of FIM 547,500; the warrants entitle their holders to subscribe to a total of 730,000 shares in Lassila & Tikanoja plc with a nominal value of FIM 10. Shareholders waived their subscription rights as part of an incentive scheme in which the warrant bond was offered to key Group personnel and to a subsidiary chosen by the Board of Directors. The warrant bond will mature in five years and does not bear interest.

As a result of termination of employment, part of the bond has been redeemed and the loan stakes with warrants cancelled. On December 31, 1998, FIM 540,000 of the bond remained. A total of 360,000 shares can be subscribed with A warrants between May 15, 2001 and May 15, 2004 and 360,000 shares with B warrants between May 15, 2003 and May 15, 2004. The subscription price for shares is FIM 201 with A warrants and FIM 221 with B warrants. Dividends per share paid between April 1, 1998 and detachment of the warrants will be deducted from the subscription price for the shares. For those employed by subsidiaries, subscription rights are linked to the performance of the employer company.

A total of 720,000 shares can be subscribed and the share capital can be increased by FIM 7,200,000 through subscription. These shares represent 4.4 per cent of the total number of company shares.

## 6. 1993 WARRANT BOND

The 1993 warrant bond matured on July 1, 1998. Shareholders waived their subscription rights and the bond was offered for subscription to the full-time management of the Lassila & Tikanoja Group. The period for conversion of warrants ended on December 31, 1998. A maximum of 760,000 shares could be subscribed on the basis of the warrant bond. All the shares were subscribed.

## 7. NET SALES

Net sales of the business units:

| FIM million | **1998 Jan. 1–Dec. 31.** | 1997 Jan. 1–Dec. 31. | Change % |
|---|---|---|---|
| Amerplast | **378.2** | 377.5 | 0.2 |
| Inka | **114.4** | 115.7 | -1.1 |
| JWS | **555.1** | 577.1 | -3.8 |
| Säkkiväline | **697.7** | 600.3 | 16.2 |
| Lassila & Tikanoja | **16.5** | 15.3 | |
| Total | **1 761.9** | 1 685.9 | |
| Internal net sales | **-15.9** | -16.4 | |
| Group net sales | **1 746.0** | 1 669.5 | 4.6 |

## 8. GROSS INVESTMENT

| FIM million | **1998** | 1997 |
|---|---|---|
| Real estate | **13.8** | 32.9 |
| Machinery and equipment | **174.7** | 147.3 |
| Other tangible assets | **6.1** | 6.6 |
| Securities and goodwill | **11.3** | 11.0 |
| Intangible assets and other capitalized expenditure | **2.5** | 5.0 |
| Total | **208.4** | 202.8 |

Most of the investments made by Amerplast (FIM 73.8 million) were used to modernize the printing presses. Amerplast's eight-colour printing capacity was doubled as a result. Lamination was begun and an industrial site was acquired in Poland.

The most important investment at Inka (FIM 19.4 million) concerned a new fibre extrusion line that will triple fibre manufacturing capacity.

JWS invested in an extrusion coating line for manufacture of textile-like backsheet for diapers, in modernization of the hydroentanglement lines and in product development equipment (FIM 35.2 million):

Apart from equipment, investments at Säkkiväline (FIM 79.5 million) concentrated on terminal functions for environmental management, information systems and company acquisitions complementing existing operations.

The Group disposed of FIM 34.5 million in fixed assets during the year. The balance sheet value of these asset items was FIM 11.0 million.

## 9. INVESTED CAPITAL

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

| FIM million | **Dec. 31,1998** | Dec. 31, 1997 |
|---|---|---|
| Fixed assets | **968.0** | 898.1 |
| Current assets | **366.6** | 379.2 |
| Deferred tax liability | **-96.6** | -89.2 |
| Trade payables | **-63.6** | -73.6 |
| Accrued liabilities | **-16.5** | -23.6 |
| Other current, non-interest bearing liabilities | **-124.8** | -131.7 |
| Invested capital | **1 033.1** | 959.2 |

Invested capital increased during the year by FIM 73.9 or 7.7 per cent. The rate of circulation for invested capital was 1.7.

## 10. FINANCE

The Group's equity ratio was 53.8 per cent as opposed to 48.6 per cent at the end of the previous year. The ratio of net interest-bearing liabilities to shareholders' equity (the gearing rate) was 35.0 per cent. The figure for the previous year was 44.0 per cent. Net financial expenses were 1.0 per cent of net sales and 7.7 per cent of the operating profit.

Cash flow from operations (FIM 268.7 million) was sufficient to cover net investment and dividends. Net interest-bearing liabilities declined by FIM 21.8 million and stood at FIM 251.4 million.

It is the principle of the Group to provide hedging against the risk of foreign currency risks. There are no significant risks of this kind after adoption of the euro.

Liquidity was good throughout the year. It is Group policy to keep reserves small and to see to sufficient circulation of accounts receivable and stocks. For cash needs arising from short-term fluctuations in cash flow, the Group has adequate credit limits for which no fee is charged.

## 11. THE EURO

The parent company, Amerplast, Inka and JWS made the euro their accounting, reporting and payment currency on January 1, 1999. Säkkiväline will changeover to the euro on January 1, 2000.

The Board of Directors will propose an amendment to Lassila & Tikanoja plc's Articles of Association so that share capital will be expressed in euros and the nominal share value will be abandoned.

## 12. THE YEAR 2000

According to the Board of Directors' estimation, the year 2000 will not cause any significant risks to the operations of business units in the Lassila & Tikanoja Group. Each unit has its own project group for the year 2000; these project groups are responsible for seeing that systems and production equipment are valid for the year 2000. Each group has assessed the risks for its own critical operations and prepared a contingency plan for unpredictable situations. Most of the software used in operations and financial control, the servers and databases have already been updated or replaced. All preparations are scheduled for completion by September 30, 1999. With respect to process-type production, the emphasis is on securing the production and logistics chain.

Development and modernization projects for data management and other systems have been carried out during the last few years so that the additional costs to the Group during 1999 for modifications caused by the year 2000 will not be significant.

## 13. PERSONNEL

The average number of staff in the Group converted to full-time employees:

| Average | **1998** | 1997 |
|---|---|---|
| Amerplast | **645** | 618 |
| Inka | **238** | 246 |
| JWS | **339** | 354 |
| Säkkiväline *) | **2 728** | 2 386 |
| Lassila & Tikanoja | **6** | 6 |
| Total | **3 956** | 3 610 |

* Converted to full-time employees.

## 14. THE YEAR 1999

Most of the Group's business operations are not sensitive to business cycle fluctuations. Despite uncertainty in the economic environment, all business units have the potential to increase their net sales and improve their financial results. It is estimated that the Group's financial results will remain good.

## CONSOLIDATED STATEMENT OF INCOME

| Jan. 1 - Dec. 31 FIM 1000 | 1998 | % | 1997 | % | Additional information |
|---|---|---|---|---|---|
| Net sales | 1 745 985 | 100.0 | 1 669 493 | 100.0 | 1 |
| Cost of goods sold | -1 395 754 | | -1 313 160 | | |
| Gross margin | 350 231 | 20.1 | 356 333 | 21.3 | |
| Sales and marketing expenses | -56 159 | | -51 277 | | |
| Administrative expenses | -90 779 | | -86 927 | | |
| Other operating income | 26 147 | | 32 167 | | 4 |
| Other operating expenses | -1 951 | | -1 954 | | |
| Depreciation on consolidated goodwill | -1 212 | | -1 219 | | |
| Operating profit | 226 277 | 13.0 | 247 123 | 14.8 | 2,3 |
| Financial income and expenses | | | | | |
| Share of associated company profit | -557 | | | | |
| Income from other investment in fixed assets | 1 715 | | 5 420 | | |
| Other interest and financial income | 2 266 | | 2 218 | | |
| Interest expenses and other financial expenses | -20 766 | | -24 190 | | |
| | -17 342 | -1.0 | -16 552 | -1.0 | 5 |
| Profit before extraordinary items | 208 935 | 12.0 | 230 571 | 13.8 | |
| Extraordinary expenses | | | -936 | | 6 |
| Profit before income taxes | 208 935 | 12.0 | 229 635 | 13.8 | |
| Income taxes | -61 436 | -3.5 | -65 058 | -3.9 | 7 |
| Profit for the financial year | 147 499 | 8.4 | 164 577 | 9.9 | |

## CONSOLIDATED BALANCE SHEET

| Dec. 31 FIM 1000 | | 1998 | % | | 1997 | % | Additional information |
|---|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | | |
| **Fixed assets** | | | | | | | |
| Intangible assets | | | | | | | 8 |
| Intangible rights | 694 | | | 696 | | | |
| Goodwill | 21 854 | | | 19 067 | | | |
| Consolidated goodwill | 10 068 | | | 8 482 | | | |
| Other capitalized expenditure | 10 838 | | | 12 386 | | | |
| Advance payments | 673 | 44 127 | 3.3 | | 40 631 | 3.2 | |
| Tangible assets | | | | | | | 9 |
| Land and water | 31 292 | | | 27 202 | | | |
| Buildings | 237 666 | | | 245 726 | | | |
| Machinery and equipment | 550 322 | | | 459 998 | | | |
| Other tangible assets | 11 183 | | | 9 339 | | | |
| Advance payments and construction in progress | 19 142 | 849 605 | 63.6 | 32 999 | 775 264 | 60.7 | |
| Financial assets | | | | | | | 10 |
| Associated company shares | 25 163 | | | 25 701 | | | |
| Other holdings | 48 230 | | | 55 437 | | | |
| Other receivables | 876 | 74 269 | 5.6 | 1 042 | 82 180 | 6.4 | |
| Total fixed assets | | 968 001 | 72.5 | | 898 075 | 70.3 | |
| **Current assets** | | | | | | | |
| Inventories | | | | | | | |
| Raw materials and consumables | 43 007 | | | 41 816 | | | |
| Work in progress | 18 319 | | | 21 402 | | | |
| Finished products/Goods | 46 258 | | | 47 602 | | | |
| Other inventories | 9 134 | 116 718 | 8.7 | 9 373 | 120 193 | 9.4 | |
| Non-current receivables | | | | | | | |
| Loan receivables | | 1 021 | 0.1 | | 921 | 0.1 | |
| Current receivables | | | | | | | 11 |
| Trade receivables | 165 878 | | | 180 493 | | | |
| Receivables from participating interests | 500 | | | 357 | | | |
| Loan receivables | 29 | | | 40 | | | |
| Other receivables | 422 | | | 459 | | | |
| Prepayments and accrued income | 18 278 | 185 107 | 13.9 | 11 118 | 192 467 | 15.1 | |
| Cash at bank and in hand | | 63 784 | 4.8 | | 65 634 | 5.1 | |
| Total current assets | | 366 630 | 27.5 | | 379 215 | 29.7 | |
| Total assets | | 1 334 631 | 100.0 | | 1 277 290 | 100.0 | |

## CONSOLIDATED BALANCE SHEET

| Dec. 31 FIM 1000 | | 1998 | % | | 1997 | % | Additional information |
|---|---|---|---|---|---|---|---|
| **LIABILITIES** | | | | | | | |
| Shareholders' equity | | | | | | | 12,13 |
| Share capital | | 158 263 | | | 150 663 | | |
| Share premium | | 19 190 | | | | | |
| Revaluation reserve | | 18 598 | | | 18 598 | | |
| Legal reserve | | 6 057 | | | 6 057 | | |
| Profit from previous financial years | | 368 365 | | | 280 527 | | |
| Profit for the financial year | | 147 499 | | | 164 577 | | |
| Total shareholders' equity | | 717 972 | 53.8 | | 620 422 | 48.6 | |
| Creditors | | | | | | | 14 |
| Deferred tax liability | | 96 635 | 7.2 | | 89 213 | 7.0 | |
| Non-current | | | | | | | |
| Loans from financial institutions | 173 518 | | | 221 682 | | | |
| Pension loans | 65 530 | | | 49 865 | | | |
| Advance payments | 3 | | | 36 | | | |
| Other liabilities | 833 | 239 884 | 18.0 | 553 | 272 136 | 21.3 | |
| Current | | | | | | | |
| Bonds | | | | 9 971 | | | |
| Loans from credit institutions | 63 721 | | | 51 281 | | | |
| Pension loans | 11 321 | | | 4 813 | | | |
| Advance payments received | 334 | | | 280 | | | |
| Trade payables | 63 487 | | | 73 483 | | | |
| Liabilities to participating interests | 131 | | | 105 | | | |
| Other liabilities | 124 617 | | | 131 988 | | | |
| Prepayments and accrued income | 16 529 | 280 140 | 21.0 | 23 598 | 295 519 | 23.1 | |
| Total creditors | | 616 659 | 46.2 | | 656 868 | 51.4 | |
| Total liabilities | | 1 334 631 | 100.0 | | 1 277 290 | 100.0 | |

# STATEMENT OF CHANGES IN FINANCIAL POSITION

| FIM 1000 | Group 1998 | Group 1997 | Parent company 1998 | Parent company 1997 |
|---|---|---|---|---|
| **Operations** | | | | |
| **Funds from operations** | | | | |
| Operating profit | 226 277 | 247 123 | 17 998 | 21 041 |
| Depreciation | 126 883 | 113 976 | 2 406 | 2 519 |
| Financial income and expenses | -17 342 | -16 553 | 66 730 | 106 065 |
| Extraordinary items | | -936 | 164 980 | 130 134 |
| Income taxes | -54 014 | -62 832 | -70 411 | -72 211 |
| | 281 804 | 280 778 | 181 703 | 187 548 |
| **Change in working capital** | | | | |
| Change in inventories | 3 476 | -11 712 | | |
| Change in current receivables | 7 359 | -23 158 | 2 012 | -84 309 |
| Change in current, non-interest-bearing liabilities | -23 974 | 15 971 | -31 843 | 13 825 |
| | -13 139 | -18 899 | -29 831 | -70 484 |
| **Cash flow from operations** | 268 665 | 261 879 | 151 872 | 117 064 |
| **Net capital expenditure** | -196 362 | -175 116 | -33 700 | 13 491 |
| **Cash flow before financing** | 72 303 | 86 763 | 118 172 | 130 555 |
| **Financing** | | | | |
| Change in non-current receivables | 66 | 13 977 | -100 | 13 809 |
| Change in non-current loans | -34 273 | -46 840 | -895 | -314 |
| Change in current loans | 8 595 | 6 693 | -65 637 | -80 841 |
| Cancellation of merged subsidiary shares | | | | -627 |
| Dividends | -75 331 | -48 966 | -75 331 | -51 404 |
| Share issue | 26 790 | | 26 790 | |
| | -74 153 | -75 136 | -115 173 | -119 377 |
| **Changes in liquid assets according to the balance sheet** | -1 850 | 11 627 | 2 999 | 11 178 |

## STATEMENT OF INCOME

| Jan. 1 - Dec. 31 FIM 1000 | 1998 | 1997 | Additional information |
|---|---|---|---|
| Net sales | 16 435 | 15 105 | |
| Costs of goods sold | -3 622 | -3 773 | |
| Gross margin | 12 813 | 11 332 | |
| Administrative expenses | -6 718 | -6 296 | |
| Other operating income | 11 908 | 17 065 | 4 |
| Other operating expenses | -5 | -1 060 | |
| Operating profit | 17 998 | 21 041 | 2,3 |
| Financial income and expenses | | | |
| Income from Group undertakings | 67 639 | 109 872 | |
| Income from other investments in fixed assets | 381 | 5 147 | |
| Other interest and financial income | | | |
| From Group companies | 5 815 | 1 711 | |
| From others | 1 588 | 1 642 | |
| Interest expenses and other financial expenses | | | |
| To Group companies | -2 724 | -6 632 | |
| To others | -5 969 | -5 675 | |
| | 66 730 | 106 065 | 5 |
| Profit before extraordinary items | 84 728 | 127 106 | |
| Extraordinary items | 164 980 | 130 134 | 6 |
| Profit before appropriations and income taxes | 249 708 | 257 240 | |
| Appropriations | | | |
| Decrease in accelerated depreciation | 1 568 | 2 070 | |
| Decrease in voluntary reserves | | 613 | |
| Income taxes | -70 411 | -72 211 | 7 |
| Profit for the financial year | 180 865 | 187 712 | |

## BALANCE SHEET

| Dec. 31 FIM 1000 | | 1998 | % | | 1997 | % | Additional information |
|---|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | | |
| **Fixed assets** | | | | | | | |
| Intangible assets | | | | | | | |
| Other capitalized expenditure | | 922 | 0.1 | | 1 339 | 0.2 | 8 |
| Tangible assets | | | | | | | 9 |
| Land and water | 18 918 | | | 18 918 | | | |
| Buildings | 32 025 | | | 33 836 | | | |
| Machinery and equipment | 299 | | | 396 | | | |
| Other tangible assets | 192 | 51 434 | 6.0 | 62 | 53 212 | 6.5 | |
| Financial assets | | | | | | | 10 |
| Holdings in | | | | | | | |
| Group companies | 527 721 | | | 487 721 | | | |
| Receivables from | | | | | | | |
| Group companies | 68 120 | | | 68 120 | | | |
| Participating interests | 24 478 | | | 24 478 | | | |
| Other holdings | 3 005 | 623 324 | 72.8 | 9 517 | 589 836 | 71.6 | |
| Total fixed assets | | 675 680 | 78.9 | | 644 387 | 78.3 | |
| **Current assets** | | | | | | | |
| Receivables | | | | | | | 11 |
| Current receivables | | | | | | | |
| Loan receivables | | 950 | 0.1 | | 850 | 0.1 | |
| Non-current receivables | | | | | | | |
| Receivables from | | | | | | | |
| Group companies | 122 824 | | | 126 766 | | | |
| Other receivables | | | | 100 | | | |
| Prepayments and | | | | | | | |
| accrued income | 2 173 | 124 997 | 14.6 | 144 | 127 010 | 15.4 | |
| Cash at bank and in hand | | 54 312 | 6.4 | | 51 312 | 6.2 | |
| Total current assets | | 180 259 | 21.1 | | 179 172 | 21.7 | |
| Total assets | | 855 939 | 100.0 | | 823 559 | 100.0 | |

## BALANCE SHEET

| Dec. 31 FIM 1000 | | 1998 | % | | 1997 | % | Additional information |
|---|---|---|---|---|---|---|---|
| **LIABILITIES** | | | | | | | |
| Shareholders' equity | | | | | | | 12 |
| Share capital | | 156 813 | | | 150 663 | | |
| Share issue | | 1 450 | | | | | |
| Share premium | | 19 190 | | | | | |
| Legal reserve | | 6 046 | | | 6 046 | | |
| Other reserves | | | | | | | |
| Contingency fund | | 133 694 | | | 133 694 | | |
| Profit from previous years | | 209 027 | | | 96 646 | | |
| Profit for the financial year | | 180 865 | | | 187 712 | | |
| Total shareholders' equity | | 707 085 | 82.6 | | 574 761 | 69.8 | |
| Total untaxed reserves | | | | | | | |
| Accumulated depreciation difference | | 7 446 | 0.8 | | 9 014 | 1.1 | |
| Creditors | | | | | | | 14 |
| Non-current | | | | | | | |
| Loans from financial institutions | 84 151 | | | 111 866 | | | |
| Pension loans | 35 612 | | | 9 333 | | | |
| Other liabilities | | | | | | | |
| to Group companies | 27 | | | | | | |
| to others | 513 | 120 303 | 14.1 | | 121 199 | 14.7 | |
| Current | | | | | | | |
| Bonds | | | | 9 971 | | | |
| Loans from credit institutions | 10 000 | | | 16 634 | | | |
| Pension loans | 8 031 | | | 1 667 | | | |
| Trade payables | 183 | | | 409 | | | |
| Liabilities to | | | | | | | |
| Group companies | 17 | | | 55 023 | | | |
| Other liabilities | 2 194 | | | 31 956 | | | |
| Prepayments and accrued income | 680 | 21 105 | 2.5 | 2 925 | 118 585 | 14.4 | |
| Total creditors | | 141 408 | 16.6 | | 239 784 | 29.1 | |
| Total liabilities | | 855 939 | 100.0 | | 823 559 | 100.0 | |

## PRINCIPLES FOR PREPARING THE FINANCIAL STATEMENTS

### PRINCIPLES APPLIED IN THE PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

EXTENT OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements include those companies in which Lassila & Tikanoja plc held, either directly or indirectly, over 50 per cent of the voting rights during the financial year. The financial statements of foreign subsidiaries have been brought into line with the accounting principles of the Group. Separate consolidated financial statements were prepared for the subgroups. The subsidiaries not included in the consolidated financial statements (real-estate companies with state-subsidized mortgages) have only a minor effect on consolidated shareholders' equity. Companies are included in the consolidated financial statements from the date of acquisition or establishment to the last day of holding. The parent company Lassila & Tikanoja plc is the management company for the Group.

More detailed information on companies in the Group are found on page 31 of the notes.

ACCOUNTING PRINCIPLES

Mutual share ownership

The consolidated financial statements were prepared with the acquisition cost method. The acquisition cost of shares in Säkkiväline Oy comprises both the sum paid and the nominal value of the directed issue. The shareholders' equity of a subsidiary at the time of acquisition was deducted from the purchase price of that subsidiary's shares, including accumulated appropriations net of tax. As a rule, the resulting consolidated goodwill not included in the balance sheet items will be written off in five years. The consolidated goodwill of companies acquired in Säkkiväline's sectors of operation comprises contracts expected to generate income for some time. Consolidated goodwill of this kind will be depreciated in ten years.

Intra-group transactions and margins

All intra-Group transactions, balances and unrealized margins on intra-Group deliveries, intra-Group receivables and liabilities, and the intra-Group profit were eliminated.

Translation differences

As of 1998, the statements of income for foreign Group companies were translated into Finnish marks using the average annual rates. The balance sheets were translated at the average rate quoted by the Bank of Finland on the closing date. Translation differences arising from the elimination of the shareholders' equities of foreign subsidiaries were treated as a valuation item under consolidated unrestricted equity.

Mergers of subsidiaries

The principles of previous consolidated financial statements were observed with respect to merger entries. Subsidiary mergers therefore had no effect on consolidated unrestricted shareholders' equity.

Accumulated appropriations

When entered in the consolidated balance sheet, accumulated appropriations are divided between shareholders' equity and the deferred tax liability and the resulting change in the consolidated statement of income, divided between the change in deferred tax liability and the profit for the financial year. The deferred tax liability was calculated at the current tax rate and entered in the balance sheet as a separate item under non-current creditors.

Income taxes

The consolidated statement of income includes accrual based taxes determined on the basis of Group company profits and the change in the tax liability calculated from the accumulated appropriations. The tax credit related to payment of intracorporate dividends was deducted from the income taxes for the financial year.

No tax liability arising from revaluation of properties when sold was entered in the financial statements.

Associated companies

Associated companies were consolidated with the equity method. The share of AS Norsafe's profit (related to the business operations of Inka) based on the Group's holding was entered before operating profit. Kiinteistö Oy Tikankulma was combined with the consolidated financial statements for the first time in 1998. The share of the loss for the financial year entered under financial items comprises depreciation on consolidated goodwill.

### VALUATION AND MATCHING PRINCIPLES

VALUATION OF FIXED ASSETS

Fixed assets were entered in the balance sheet at direct acquisition cost less planned depreciation. Planned straight-line depreciation was calculated from the original acquisition cost on the basis of probable economic life.

The annual depreciation percentages are as follows:

| | | |
|---|---|---|
| 1. | Buildings and structures | 2.5 - 8.0 % |
| 2. | Transport equipment | 16.6 - 25.0 % |
| 3. | Machinery and equipment | 10.0 - 25.0 % |
| 4. | Goodwill | 10.0 % |
| 5. | Intangible rights and other capitalized expenditures | 10.0 - 20.0 % |

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

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

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

Other non-current expenditures are the first-run costs and expenses incurred in renovation of rented premises.

VALUATION OF INVENTORIES

Inventories were valuated in the balance sheet on the fifo principle at the variable costs of acquisition or manufacture or the probable lower replacement or sale price. No indirect capital costs were capitalized.

NET SALES

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

EXPENDITURE FOR RESEARCH AND DEVELOPMENT

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

MATCHING OF EXPENDITURE ON PENSIONS

Statutory pension coverage for employees in Finnish companies was provided by private pension insurance companies. Pension insurance premiums were matched with salaries for the financial year. Foreign subsidiaries provide pension coverage in compliance with local practice.

## CHANGES IN INFORMATION FOR THE PREVIOUS FINANCIAL YEAR

The regulations of the new accountancy act have been applied in Group companies since the beginning of 1998. The new act did not cause any significant changes in the valuation and accounting principles used by the companies. Balance sheet items for the year of comparison were grouped according to the provisions of the new legislation.

## ITEMS DENOMINATED IN FOREIGN CURRENCIES

The business transactions of Finnish Group companies denominated in foreign currencies were entered at the rates current on the dates of the transactions. Receivables and liabilities denominated in foreign currencies were translated into Finnish marks at the Bank of Finland's average rate on the day the books were closed. In the 1998 financial statements, the irrevocably fixed conversion rates adopted by the Council of the European Union were used to translate items denominated in the currencies of the countries joining stage three of the European Economic and Monetary Union at the begininning of 1999. The exchange rate differences were entered in the statement of income.

Unrealized exchange rate gains or losses incurred from forward deals made for hedging purposes were not taken into account in the financial statements unless a corresponding entry was made for the hedged balance sheet item. The interest components of forward deals were accrued as interest income or expense for the duration of the contracts. Foreign exchange rate differences on forward contracts made to provide hedging for sales income were deducted from sales revenues.

## 1. NET SALES

| FIM 1000 | 1998 | % | 1997 | % |
|---|---|---|---|---|
| **Net sales by business units** | | | | |
| Service Companies | 697 679 | 40.0 | 600 272 | 36.0 |
| Nonwoven Industry | 555 076 | 31.7 | 577 052 | 34.5 |
| Flexible Packaging | 378 234 | 21.7 | 377 535 | 22.6 |
| Narrow Fabric Manufacturing | 114 439 | 6.6 | 115 724 | 6.9 |
| Group Administration | 16 435 | 0.9 | 15 305 | 1.0 |
| Internal net sales | -15 878 | -0.9 | -16 395 | -1.0 |
| Total | 1 745 985 | 100.0 | 1 669 493 | 100.0 |
| **Net sales by market** | | | | |
| Finland | 983 573 | 56.3 | 895 458 | 53.7 |
| Other Nordic countries | 130 880 | 7.5 | 128 915 | 7.7 |
| Other EU countries | 500 060 | 28.6 | 473 023 | 28.3 |
| Other Europe | 88 225 | 5.1 | 99 515 | 6.0 |
| Other countries | 43 247 | 2.5 | 72 582 | 4.3 |
| Total | 1 745 985 | 100.0 | 1 669 493 | 100.0 |

## 2. PERSONNEL AND ADMINISTRATIVE BODIES

| | Group 1998 | Group 1997 | Parent company 1998 | Parent company 1997 |
|---|---|---|---|---|
| **Average personnel by business unit** | | | | |
| Service Companies | 2 728 | 2 386 | | |
| Nonwoven Industry | 339 | 354 | | |
| Flexible Packaging | 645 | 618 | | |
| Narrow Fabric Manufacturing | 238 | 246 | | |
| Group Administration | 6 | 6 | 6 | 6 |
| Total | 3 956 | 3 610 | 6 | 6 |
| **Personnel expenses for the financial year FIM 1000** | | | | |
| Salaries | 421 424 | 375 461 | 2 907 | 2 623 |
| Other compensations | 1 841 | 2 295 | 539 | 639 |
| Pension expenditure | 60 638 | 52 200 | -210 | 177 |
| Other salary-related expenses | 52 948 | 47 455 | 940 | 394 |
| | 536 851 | 477 411 | 4 176 | 3 833 |
| **Salaries and bonuses paid to management** | | | | |
| Members of the Boards of Directors and managing directors | 4 837 | 4 589 | 2 209 | 1 879 |

**Members of the Board of Directors of the parent company do not have pension contracts with the company. The Chairman of the Board of Directors and the managing directors of the parent company and subsidiaries have statutory pension insurance.**
**No loans were granted to members of administrative bodies of Group companies.**

## 3. DEPRECIATION

| FIM 1000 | Group 1998 | Group 1997 | Parent company 1998 | Parent company 1997 |
|---|---|---|---|---|
| **Depreciation per function** | | | | |
| On acquisition and production | 111 799 | 100 423 | 2 261 | 2 356 |
| On sales and marketing | 2 112 | 1 445 | | |
| On administration | 11 017 | 10 890 | 145 | 163 |
| On consolidated goodwill | 1 212 | 1 219 | | |
| On consolidated goodwill of associated companies | 743 | 85 | | |
| Total | 126 883 | 114 062 | 2 406 | 2 519 |

Depreciation is itemized under 'Fixed assets'.

## 4. OTHER OPERATING INCOME AND EXPENSES

| FIM 1000 | Group 1998 | Group 1997 | Parent company 1998 | Parent company 1997 |
|---|---|---|---|---|
| **Other operating income** | | | | |
| Income on disposal of fixed assets | 8 714 | 6 575 | | 393 |
| Income on sales of shares | 13 871 | 16 359 | 11 897 | 10 622 |
| Refund of pension fund actuarial surplus | | 5 577 | | 5 577 |
| Research contributions and insurance indemnities | 2 677 | 3 011 | | 434 |
| Rents | 400 | 30 | | |
| Recovery of bad debts | 212 | 313 | | 35 |
| Other | 273 | 257 | 11 | 4 |
| | 26 147 | 32 122 | 11 908 | 17 065 |
| Share of associated company profit | | 45 | | |
| Total | 26 147 | 32 167 | 11 908 | 17 065 |
| **Other operating expenses** | | | | |
| Losses on disposal of fixed assets | 356 | 352 | | |
| Losses on sales of shares | | 120 | 5 | 1 058 |
| Bad debts | 1 301 | 1 063 | | |
| Indemnities | 6 | 296 | | |
| Other | 258 | 123 | | 2 |
| | 1 921 | 1 954 | 5 | 1 060 |
| Share of associated company loss | 30 | | | |
| Total | 1 951 | 1 954 | 5 | 1 060 |

## 5. FINANCIAL INCOME AND EXPENSES

| FIM 1000 | Group 1998 | Group 1997 | Parent company 1998 | Parent company 1997 |
|---|---|---|---|---|
| **Income from holdings in other companies** | | | | |
| In Group companies | | | 67 639 | 109 872 |
| In other companies | 1 715 | 1 050 | 381 | 785 |
| **Interest income** | | | | |
| From Group companies | | | 5 815 | 1 711 |
| From others | 2 266 | 6 549 | 1 588 | 5 901 |
| **Interest expenses** | | | | |
| To Group companies | | | -2 724 | -6 632 |
| To others | 17 895 | 22 066 | -5 629 | -4 569 |
| **Exchange rate differences** | | | | |
| Exchange rate gains | 4 085 | 4 737 | 2 125 | 3 528 |
| Exchange rate losses | -6 200 | -4 698 | -2 136 | -3 425 |
| | -2 115 | 39 | -11 | 103 |

Net exchange rate differences are included under 'Other interest and financial income/expenses'. Exchange rate differences apply to financing. Differences arising from sales and purchases are entered as valuation items for either sales or purchases.

## 6. EXTRAORDINARY INCOME AND EXPENSES

| FIM 1000 | Group 1998 | Group 1997 | Parent company 1998 | Parent company 1997 |
|---|---|---|---|---|
| **Extraordinary income** | | | | |
| Group contribution | | | 169 940 | 128 570 |
| Merger profits | | | | 2 500 |
| | | | 169 940 | 131 070 |
| **Extraordinary expenses** | | | | |
| Group contribution | | | 4 960 | |
| Redemption of warrants | | 936 | | 936 |
| | | 936 | 4 960 | 936 |
| Total extraordinary income and expenses | | -936 | 164 980 | 130 134 |

## 7. INCOME TAXES

| FIM 1000 | Group 1998 | Group 1997 | Parent company 1998 | Parent company 1997 |
|---|---|---|---|---|
| **Income taxes for the financial year** | | | | |
| Income taxes on extraordinary items | | | 46 194 | 36 437 |
| Income taxes on operations | 54 001 | 63 055 | 24 204 | 35 914 |
| Income taxes from previous financial years | 13 | -222 | 13 | -140 |
| Changes in the deferred tax liability | 7 422 | 2 225 | | |
| | 61 436 | 65 058 | 70 411 | 72 211 |

## 8. INTANGIBLE ASSETS

**The figures include all those intangible assets whose acquisition costs have not yet been written off in full as expenses under planned depreciation. In contrast, all consolidated goodwill and reserves are listed below.**

| | Group | | Parent Company | |
|---|---|---|---|---|
| FIM 1000 | 1998 | 1997 | 1998 | 1997 |
| **Intangible rights** | | | | |
| Acquisition cost Jan. 1 | 1 176 | 983 | | |
| Fully depreciated | -82 | | | |
| Increase | 112 | 193 | | |
| Acquisition cost Dec. 31 | 1 206 | 1 176 | | |
| Accumulated depreciation Jan. 1 | -480 | -369 | | |
| Fully depreciated | 82 | | | |
| Depreciation for the financial year | -114 | -111 | | |
| Accumulated depreciation Dec. 31 | -594 | -480 | | |
| Book value Dec. 31 | 694 | 696 | | |
| **Goodwill** | | | | |
| Acquisition cost Jan. 1 | 63 510 | 63 316 | | |
| Fully depreciated | -10 605 | -4 305 | | |
| Increase | 8 117 | 4 499 | | |
| Acquisition cost Dec. 31 | 61 022 | 63 510 | | |
| Accumulated depreciation Jan. 1 | -44 443 | -43 418 | | |
| Fully depreciated | 10 605 | 4 305 | | |
| Depreciation for the financial year | -5 330 | -5 330 | | |
| Accumulated depreciation Dec. 31 | -39 168 | -44 443 | | |
| Book value Dec. 31 | 21 854 | 19 067 | | |
| **Consolidated goodwill** | | | | |
| Acquisition cost Jan. 1 | 223 741 | 224 112 | | |
| Increase | 2 798 | 7 | | |
| Decrease | | -378 | | |
| Acquisition cost Dec. 31 | 226 539 | 223 741 | | |
| Accumulated depreciation Jan. 1 | -215 259 | -214 419 | | |
| Depreciation on decrease | | 378 | | |
| Depreciation for the financial year | -1 212 | -1 218 | | |
| Accumulated depreciation Dec. 31 | -216 471 | -215 259 | | |
| Book value Dec. 31 | 10 068 | 8 482 | | |
| **Consolidated reserve** | | | | |
| Acquisition cost Jan. 1 and Dec. 31 | -983 | -983 | | |
| Accumulated entries in statement of income Jan. 1 and Dec. 31 | 983 | 983 | | |
| Book value Dec. 31 | 0 | 0 | | |
| **Other capitalized expenditure** | | | | |
| Acquisition cost Jan. 1 | 21 725 | 17 378 | 2 231 | 2 168 |
| Fully depreciated | -308 | -363 | | |
| Increase | 1 604 | 4 823 | 33 | 63 |
| Decrease | -1 122 | | | |
| Transfers between items | 120 | -113 | | |
| Acquisition cost Dec. 31 | 22 019 | 21 725 | 2 264 | 2 231 |
| Accumulated depreciation Jan. 1 | -9 339 | -6 605 | -892 | -434 |
| Fully depreciated | 308 | 362 | | |
| Depreciation on decrease | 803 | | | |
| Depreciation for the financial year | -2 953 | -3 096 | -450 | -458 |
| Accumulated depreciation Dec. 31 | -11 181 | -9 339 | -1 342 | -892 |
| Book value Dec. 31 | 10 838 | 12 386 | 922 | 1 339 |
| **Advance payments on intangible assets** | | | | |
| Acquisition cost Jan. 1 | 0 | | | |
| Increase | 793 | | | |
| Transfers to other capitalized expenditure | -120 | | | |
| Book value Dec. 31 | 673 | | | |

## 9. TANGIBLE ASSETS

**The figures include all those intangible assets whose acquisition costs have not yet been written off in full as expenses under planned depreciation.**

| FIM 1000 | Group 1998 | Group 1997 | Parent company 1998 | Parent company 1997 |
|---|---|---|---|---|
| **Land** | | | | |
| Acquisition cost Jan. 1 | 12 005 | 11 532 | 5 118 | 5 145 |
| Increase | 4 408 | 515 | | |
| Decrease | -318 | -42 | | -27 |
| Acquisition cost Dec. 31 | 16 095 | 12 005 | 5 118 | 5 118 |
| Revaluations Jan. 1 | 15 197 | 15 297 | 13 800 | 13 800 |
| Cancellation of revaluations | | -100 | | |
| Book value Dec. 31 | 31 292 | 27 202 | 18 918 | 18 918 |
| **Buildings** | | | | |
| Acquisition cost Jan. 1 | 306 085 | 279 940 | 42 911 | 48 113 |
| Fully depreciated | -3 951 | -1 496 | -204 | -647 |
| Increase | 6 730 | 18 407 | | |
| Decrease | -1 599 | -4 790 | | -4 555 |
| Transfers between items | 664 | 14 024 | | |
| Acquisition cost Dec. 31 | 307 929 | 306 085 | 42 707 | 42 911 |
| Accumulated depreciation Jan. 1 | -100 333 | -90 795 | -30 049 | -31 196 |
| Fully depreciated | 3 951 | 1 496 | 204 | 647 |
| Depreciation on decrease | 529 | 2 502 | | 2 413 |
| Depreciation for financial year | -14 384 | -13 536 | -1 811 | -1 913 |
| Accumulated depreciation Dec. 31 | -110 237 | -100 333 | -31 656 | -30 049 |
| Revaluations Jan. 1. | 39 974 | 40 555 | 20 974 | 20 974 |
| Cancellation of revaluations | | -581 | | |
| Book value Dec. 31 | 237 666 | 245 726 | 32 025 | 33 836 |
| **Machinery and equipment** | | | | |
| Acquisition cost Jan. 1 | 833 229 | 767 586 | 628 | 279 |
| Translation difference | -1 736 | 377 | | |
| Fully depreciated | -44 512 | -71 535 | -58 | -120 |
| Increase | 146 237 | 108 004 | 37 | 469 |
| Decrease | -5 811 | -12 555 | | |
| Transfers between items | 45 821 | 41 352 | | |
| Acquisition cost Dec. 31 | 973 228 | 833 229 | 607 | 628 |
| Accumulated depreciation Jan. 1 | -373 231 | -365 034 | -232 | -215 |
| Translation difference | 1 318 | -250 | | |
| Fully depreciated | 44 512 | 71 535 | 58 | 120 |
| Depreciation on decrease | 3 954 | 9 491 | | |
| Depreciation for financial year | -99 459 | -88 973 | -134 | -137 |
| Accumulated depreciation Dec. 31 | -422 906 | -373 231 | -308 | -232 |
| Book value Dec. 31 | 550 322 | 459 998 | 299 | 396 |
| Balance sheet value of production machinery and equipment | 529 886 | 426 660 | 0 | 0 |
| **Other tangible assets** | | | | |
| Acquisition cost Jan. 1. | 13 913 | 8 037 | 107 | 105 |
| Translation difference | -14 | 3 | | |
| Fully depreciated | -1 124 | -838 | | -6 |
| Increase | 2 054 | 5 702 | 141 | 8 |
| Transfers between items | 2 479 | 1 009 | | |
| Acquisition cost Dec. 31 | 17 308 | 13 913 | 248 | 107 |
| Accumulated depreciation Jan. 1 | -4 574 | -3 681 | -45 | -40 |
| Translation difference | 14 | -2 | | |
| Fully depreciated | 1 124 | 838 | | 6 |
| Depreciation for financial year | -2 689 | -1 729 | -11 | -11 |
| Accumulated depreciation Dec. 31 | -6 125 | -4 574 | -56 | -45 |
| Book value Dec. 31 | 11 183 | 9 339 | 192 | 62 |
| **Advance payments and construction in progress** | | | | |
| Acquisition cost Jan. 1 | 32 999 | 35 083 | | |
| Translation difference | -38 | | | |
| Increase | 35 145 | 54 188 | | |
| Transfers to buildings | -664 | -14 024 | | |
| Transfers to machinery and equipment | -45 821 | -41 352 | | |
| Transfers to other tangible assets | -2 479 | -896 | | |
| Book value Dec. 31 | 19 142 | 32 999 | | |

## 10. FINANCIAL ASSETS

| FIM 1000 | Group 1998 | 1997 | Parent company 1998 | 1997 |
|---|---|---|---|---|
| **Holdings in Group companies** | | | | |
| Acquisition cost Jan. 1 | | | 487 721 | 478 808 |
| Increase | | | 40 000 | 10 000 |
| Decrease | | | | -1 087 |
| Acquisition cost Dec. 31 | | | 527 721 | 487 721 |
| **Receivables from Group companies** | | | | |
| Jan. 1 and Dec. 31 | | | 68 120 | 68 120 |
| **Holdings in participating interests** | | | | |
| Acquisition cost Jan. 1 | 25 693 | 24 478 | 24 478 | 24 478 |
| Translation difference | -105 | 15 | | |
| Increase | | 343 | | |
| Transfers between items | | 857 | | |
| Acquisition cost Dec. 31 | 25 588 | 25 693 | 24 478 | 24 478 |
| Adjustment of equity share Jan. 1 | 8 | 0 | | |
| Change in translation differences | 154 | -37 | | |
| Share of associated company profits | 156 | 130 | | |
| Depreciation of consolidated goodwill | -743 | -85 | | |
| Dec. 31 | -425 | 8 | | |
| Associated company investments in consolidated balance sheet | 25 163 | 25 701 | | |
| Undepreciated consolidated goodwill from associated company shares Dec. 31 | 12 151 | 12 895 | | |
| **Other holdings** | | | | |
| Acquisition cost Jan. 1 | 55 437 | 59 228 | 9 517 | 30 291 |
| Increase | 431 | 6 108 | 363 | 172 |
| Decrease | -7 638 | -9 899 | -6 875 | -20 946 |
| Acquisition cost Dec. 31 | 48 230 | 55 437 | 3 005 | 9 517 |
| **Other receivables** | | | | |
| Acquisition cost Jan. 1 | 1 042 | 1 188 | | |
| Decrease | -166 | -146 | | |
| Acquisition cost Dec. 31 | 876 | 1 042 | | |

### GROUP COMPANIES

| | Percentage of total number of shares and of voting power % |
|---|---|
| Amerplast Oy, Tampere | 100.0 |
| Inka Oy, Turku | 100.0 |
| J. W. Suominen Oy, Nakkila | 100.0 |
| Säkkiväline Oy, Helsinki | 100.0 |
| **Owned trough subsidiaries** | |
| Amerplast AB, Norrköping, Sweden | 100.0 |
| Amerplast Sp. z o.o., Warsaw, Poland | 100.0 |
| ZAO Amerplast, St. Petersburg, Russia | 100.0 |
| Inka GmbH, Bochum, Germany | 100.0 |
| Kanta-Hämeen Ympäristöyhtiö Oy, Helsinki | 100.0 |
| Kiinteistö Oy Tampereen Sarankulma, Helsinki | 100.0 |
| Porin Ongelmajätekeräys Oy, Pori | 100.0 |
| SV-Ammattipörssi Oy, Helsinki | 100.0 |
| Svensk Lasthantering Bengt Lindahl AB, Gothenburg, Sweden | 100.0 |
| Säkkiväline Kalusto Oy, Helsinki | 100.0 |
| Säkkiväline Kiinteistöhuolto Oy, Helsinki | 100.0 |
| Säkkiväline Palvelu Oy, Helsinki | 100.0 |
| Säkkiväline Puhtaanapito Oy, Helsinki | 100.0 |
| Säkkiväline Siivouspalvelut Oy, Helsinki | 100.0 |

## ASSOCIATED COMPANIES

| | Percentage of total number of shares and voting power % |
|---|---|
| Kiinteistö Oy Tikankulma, Tampere | 45.5 |
| Owned through a subsidiary | |
| AS Norsafe, Tallinn, Estonia | 50.0 |

The associated companies were consolidated with the equity method.

## COMPANIES NOT INCLUDED IN THE CONSOLIDATED FINANCIAL STATEMENTS

(Included in the balance sheet under 'Other holdings')

| | Percentage of total number of shares % | Number of shares | Nominal value of shares FIM | Book value of shares FIM 1000 | Amount of company shareholders' equity FIM 1000 | Profit/loss to most recent financial statement FIM 1000 |
|---|---|---|---|---|---|---|
| **Group companies** | | | | | | |
| Kiinteistö Oy Inkanmäki, Turku | 100.0 | 100 | 250 000 | 256 | 250 | 0 |
| Kiinteistö Oy Killinkivi, Virrat | 58.3 | 14 | 70 000 | 70 | 200 | 0 |
| **Participating interest company** | | | | | | |
| Kiinteistö Oy Killinpolku, Virrat | 25.0 | 1 | 50 000 | 50 | 51 | -34 |

## PUBLICLY QUOTED SECURITIES

| | Percentage of total number of shares % | | Number of shares | | Nominal value of shares FIM 1000 | | Book value of shares FIM 1000 | |
|---|---|---|---|---|---|---|---|---|
| | Group | Parent | Group | Parent | Group | Parent | Group | Parent |
| Instrumentarium Corporation A, Helsinki | 0.07 | 0.07 | 11 100 | 11 100 | 111 000 | 111 000 | 1 154 | 1 154 |
| Instrumentarium Corporation B, Helsinki | 0.03 | 0.03 | 3 010 | 3 010 | 30 100 | 30 100 | 400 | 400 |
| Merita Bank Plc A, Helsinki | 0.11 | | 952 701 | | 9 527 010 | | 36 087 | |
| Total | | | | | | | 37 641 | 1 554 |

On December 31, 1998, a write-down of FIM 32.0 million on shares in Merita Bank Plc was made in the consolidated financial statements. This is FIM 2.0 million less than a year earlier. According to the financing agreement related to acquisition of these shares, the write-down has no effect on financial results. Otherwise, the shares were valued at original acquisition cost. The value of publicly quoted securities calculated at the prices current on the day the books were closed was FIM 4.0 million lower than their book value in the Group on December 31, 1998 and FIM 1.4 million higher in the parent company.

## 11. RECEIVABLES

| FIM 1000 | Group 1998 | Group 1997 | Parent company 1998 | Parent company 1997 |
|---|---|---|---|---|
| **Receivables from Group companies** | | | | |
| Loan receivables | | | 122 824 | 126 766 |
| **Receivables from participating interests** | | | | |
| Trade receivables | 500 | 306 | | |
| Prepaid expenses and accrued income | | 51 | | |
| **Prepaid expenses and accrued income** | | | | |
| Interest receivables | 140 | 113 | 88 | 68 |
| Employees' health care compensation | 1 190 | 1 189 | | |
| Insurance receivables | 1 449 | 2 645 | | |
| VAT receivables | 9 255 | 3 665 | | |
| Direct taxes | 2 661 | 238 | 1 934 | |
| Other residual income and prepaid expenditure | 3 583 | 3 268 | 151 | 76 |
| | 18 278 | 11 118 | 2 173 | 144 |

## 12. SHAREHOLDERS' EQUITY

| FIM 1000 | Group 1998 | Group 1997 | Parent company 1998 | Parent company 1997 |
|---|---|---|---|---|
| Share capital Jan. 1 | 150 663 | 63 723 | 150 663 | 63 723 |
| Share issue/Warrant bond 93 | 6 150 | | 6 150 | |
| Cancellation of Company shares | | -26 057 | | -26 057 |
| Capitalization issue | | 112 997 | | 112 997 |
| Share capital Dec. 31 | 156 813 | 150 663 | 156 813 | 150 663 |
| | | | | |
| Share issue Jan. 1 | 0 | | 0 | |
| Share issue/Warrant bond 93 | 1 450 | | 1 450 | |
| Share issue Dec. 31 | 1 450 | | 1 450 | |
| | | | | |
| *Registered on Jan. 13, 1999 | | | | |
| | | | | |
| Share premium | 0 | 0 | 0 | 0 |
| Share issue/Warrant bond 93 | 15 529 | | 15 529 | |
| Share premium of shareholders' equity not yet registered | 3 661 | | 3 661 | |
| Transfer from share capital | | 26 057 | | 26 057 |
| Capitalization issue | | -26 057 | | -26 057 |
| Share premium Dec. 31 | 19 190 | 0 | 19 190 | 0 |
| | | | | |
| Revaluation fund Jan. 1 and Dec. 31 | 18 598 | 18 598 | | |
| | | | | |
| Legal reserve Jan. 1 | 6 057 | 92 997 | 6 046 | 92 986 |
| Capitalization issue | | -86 940 | | -86 940 |
| Legal reserve Dec. 31 | 6 057 | 6 057 | 6 046 | 6 046 |
| | | | | |
| Other reserves | | | | |
| Contingency reserve Jan. 1 | | | 133 694 | 134 321 |
| Cancellation of shares owned by subsidiary | | | | -627 |
| Contingency reserve Dec. 31 | | | 133 694 | 133 694 |
| | | | | |
| Profit from previous years Jan. 1 | 445 104 | 330 115 | 284 358 | 148 050 |
| Dividend | -75 331 | -48 966 | -75 331 | -51 404 |
| Cancellation of revaluations | | -681 | | |
| Translation difference | -1 408 | 59 | | |
| Profit from previous years Dec. 31 | 368 365 | 280 527 | 209 027 | 96 646 |
| | | | | |
| Profit for the financial year | 147 499 | 164 577 | 180 865 | 187 712 |
| | | | | |
| Shareholders' equity Dec. 31 | 717 972 | 620 422 | 707 085 | 574 761 |
| | | | | |
| Distributable assets | | | | |
| | | | | |
| Profit for the financial year | 147 499 | 164 577 | 180 865 | 187 712 |
| Other unrestricted shareholders' equity | 368 365 | 280 527 | 209 027 | 96 646 |
| Equity share of accumulated appropriations | -177 959 | -158 786 | | |
| Distributable assets | 337 905 | 286 318 | 389 892 | 284 358 |

## 13. ACCUMULATED APPROPRIATIONS AND DEFERRED TAX LIABILITY

| FIM 1000 | Dec. 31, 1998 | Change | Jan. 1, 1998 |
|---|---|---|---|
| Accumulated appropriations | | | |
| | | | |
| Accumulated depreciation difference | 342 303 | 26 496 | 315 807 |
| Other reserves | 2 820 | 8 | 2 812 |
| Total | 345 123 | 26 504 | 318 619 |
| | | | |
| Deferred tax liability | 96 635 | -7 422 | -89 213 |
| Equity share of subsidiaries at time of acquisition | -70 529 | 91 | -70 620 |
| Transferred to shareholders' equity | 177 959 | 19 173 | 158 786 |
| | | | |
| Deferred tax liability | | | |
| | | | |
| Based on appropriations of Group companies | 92 371 | 6 711 | 85 660 |
| Based on consolidation | 4 264 | 711 | 3 553 |
| Total | 96 635 | 7 422 | 89 213 |

Accumulated appropriations in the parent company comprise accumulated depreciation differences.

## 14. CREDITORS

| FIM 1000 | 1999*) | 2000 | 2001 | 2002 |
|---|---|---|---|---|
| **Repayment of non-current creditors in coming years** | | | | |
| **Group** | | | | |
| Loans from credit institutions | 63 721 | 71 600 | 39 400 | 5 000 |
| Pension loans | 11 321 | 11 341 | 11 351 | 11 363 |
| Other liabilities | 233 | 133 | 133 | 54 |
| Total | 75 275 | 83 074 | 50 884 | 16 417 |
| **Parent Company** | | | | |
| Loans from credit institutions | 10 000 | 10 000 | 10 000 | 5 000 |
| Pension loans | 8 031 | 8 025 | 8 020 | 8 015 |
| Total | 8 031 | 18 025 | 18 020 | 13 015 |

*) In the balance sheet under current creditors

| | Group | | Parent company | |
|---|---|---|---|---|
| | 1998 | 1997 | 1998 | 1997 |
| **Creditors which fall due within five years or more** | | | | |
| Loans from credit institutions | 57 518 | 31 665 | 59 151 | 65 719 |
| Pension loans | 31 475 | 36 740 | 11 552 | 4 137 |
| Other liabilities | 513 | 106 | 540 | |
| Total | 89 506 | 68 511 | 71 243 | 69 856 |
| **Non-interest bearing liabilities** | | | | |
| Non-current | 96 638 | 89 249 | | |
| Current | 204 865 | 228 839 | 3 072 | 34 915 |
| Total | 301 503 | 318 088 | 3 072 | 34 915 |
| **Liabilities to Group companies** | | | | |
| Trade payables | | | 15 | 7 |
| Other current liabilities | | | 2 | 55 015 |
| Other non-current liabilities | | | 27 | |
| **Liabilities to participating interests** | | | | |
| Trade payables | 131 | 105 | | |
| **Accrued liabilities and deferred income** | | | | |
| Deferred interest | 3 190 | 5 023 | 643 | 1 819 |
| Waste charges | 3 460 | 4 103 | | |
| Matched expenses | 9 879 | 14 472 | 37 | 1 106 |
| | 16 529 | 23 598 | 680 | 2 925 |

On December 31, 1998, the Group had FIM 239.4 million in non-current, interest-bearing liabilities and the parent company FIM 119.8 million. Amounts denominated in foreign currencies accounted for 16.7 % of the Group's creditors.

### Warrant bond

Other non-current liabilities include the remaining FIM 540,000 of the warrant bond issued by the company in 1998. FIM 27,000 of this bond are in the possession of a subsidiary. The bond will be repaid in a single instalment on May 15, 2003 and bears no interest. Due to termination of employment, part of the loan was redeemed and the loan stakes with warrants were cancelled. The value of the cancelled loan stakes is FIM 7,500.

## 15. PLEDGES AND CONTINGENT LIABILITIES

| FIM 1000 | Group 1998 | Group 1997 | Parent company 1998 | Parent company 1997 |
|---|---|---|---|---|
| **Security for Company liabilities** | | | | |
| Loans from credit institutions for which mortgages have been given as security | 65 589 | 75 275 | | |
| Real estate mortgages | 250 | | | |
| Company mortgages | 50 000 | 65 000 | | |
| Total | 50 250 | 65 000 | | |
| **Other security given** | | | | |
| Real estate mortgages | 685 | 685 | | |
| Company mortgages | 1 400 | 1 400 | | |
| Book value of pledged shares | | 77 820 | | 77 729 |
| Other securities | 3 493 | 6 237 | | |
| Total | 5 578 | 86 142 | | 77 729 |
| **Security for Group companies** | | | | |
| Guarantees on behalf of Group companies | | | 1 000 | 2 000 |
| **Commitments for which comprehensive security was given** | | | | |
| Loans from credit institutions | 192 035 | 215 865 | 59 151 | 66 534 |
| Other Company commitments | 95 537 | 116 312 | 3 433 | 3 673 |
| Group company commitments | | | 72 104 | 93 520 |
| Real estate mortgages | 155 530 | 184 530 | 37 000 | 66 000 |
| Company mortgages | 61 930 | 61 930 | | |
| Book value of pledged shares | 105 063 | 105 063 | 105 063 | 105 063 |
| **Other Company liabilities** | | | | |
| **Leasing liabilities** | | | | |
| Falling due next year | 119 | 120 | | |
| Falling due in subsequent years | 313 | 329 | | |
| Total | 432 | 449 | | |

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

| FIM 1000 | Group 1998 | Group 1997 | Parent company 1998 | Parent company 1997 |
|---|---|---|---|---|
| **Derivative contracts** | | | | |
| **Currency derivatives** | | | | |
| Difference between open contracts and market values | -1 598 | -380 | -1 598 | -380 |
| Counter values of forward contracts | 27 436 | 31 300 | 27 436 | 31 300 |
| **Interest rate derivatives** | | | | |
| Difference between open contracts and market values | | -52 | | |
| Nominal values of interest rate swaps | | 5 000 | | |

## SHARE CAPITAL

The share capital of Lassila & Tikanoja plc totals FIM 158 263 080. The nominal value of a share is FIM 10. At the closing of the books, the share capital was 156 813 080; FIM 1 450 000 was on the share issue account and not recorded in the trade register. The company is quoted on the Helsinki Exchanges and 99.9 per cent of the shares were registered in the book-entry system.

Warrants from the 1993 warrant bond have been used to subscribe 760 000 shares. The share capital was increased by FIM 7 600 000 and FIM 19 190 000 were entered in the share premium account.

## SHAREHOLDERS

Lassila & Tikanoja Oy had 1 128 registered shareholders on January 29, 1999. Shares held in the name of nominees accounted for 10.1 per cent. Members of the company's Board of Directors and the President and COO owned a total of 1 128 840 shares entitling them to 7.1 per cent of the voting rights. The members of the Board and the President and COO may subscribe 60 000 shares with the 1998 warrant bond, which represent 0.4 per cent of the share capital. Other company management and key personnel own 164 220 shares, which represent 1.0 per cent of the total.

The Pohjola Group Insurance Corporation's holding - both shares and voting rights - fell below 10 per cent. The decrease is due to the fact that Ilmarinen Mutual Pension Insurance Company is no longer part of the Pohjola Group.

## SHARE TRADING

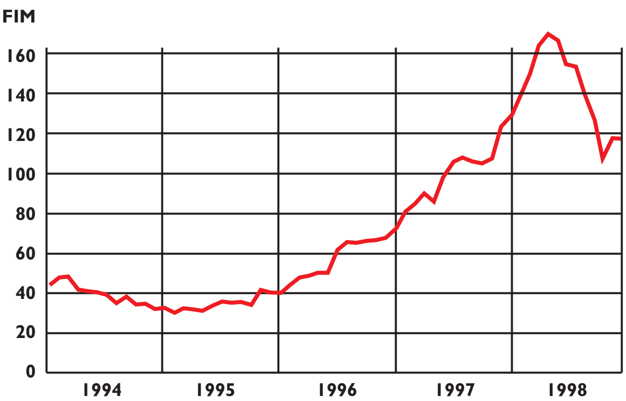
During 1998, 5 451 210 company shares were traded on the Helsinki Exchanges. This represents 35.9 per cent of the average number of shares during the year.

The market capitalization of company shares on December 31, 1998 was FIM 1 982.5 million.

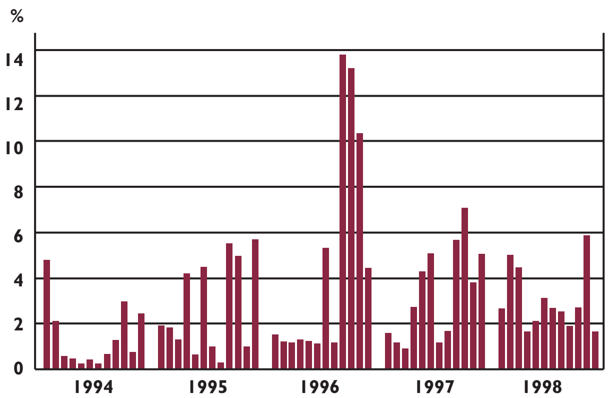
## AUTHORIZATION FOR THE BOARD OF DIRECTORS

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

**Average share prices adjusted for share issue**




**Relative trading in shares**



## SHAREHOLDERS BY CATEGORY

| | Number of shareholders | Percentage | Total shares held in each category | Percentage of shares and of voting power |
|---|---|---|---|---|
| Companies | 125 | 11.1 | 634 650 | 4.0 |
| Financial institutions and insurance companies | 38 | 3.4 | 4 073 033 | 25.8 |
| Public institutions | 32 | 2.8 | 3 295 915 | 20.9 |
| Non-profit organizations | 44 | 3.9 | 1 772 623 | 11.2 |
| Individuals | 884 | 78.4 | 4 402 602 | 27.8 |
| Foreign shareholders | 5 | 0.4 | 20 340 | 0.1 |
| | 1 128 | 100.0 | 14 199 163 | 89.8 |
| Shares registered in a nominee's name | | | 1 604 945 | 10.1 |
| Shares not transferred to the book-entry securities system | | | 22 200 | 0.1 |
| Total | | | 15 826 308 | 100.0 |

## DISTRIBUTION OF SHARE OWNERSHIP

| Number of shares | Number of shareholders | Percentage | Total shares held in each category | Percentage of shares and of voting power |
|---|---|---|---|---|
| 1-4000 | 907 | 80.4 | 719 293 | 4.6 |
| 4001-12000 | 120 | 10.7 | 884 121 | 5.6 |
| 12001-40000 | 62 | 5.5 | 1 347 063 | 8.5 |
| 40001-80000 | 15 | 1.3 | 888 506 | 5.6 |
| 80001-200000 | 8 | 0.7 | 1 003 396 | 6.4 |
| 200001-400000 | 6 | 0.5 | 1 618 256 | 10.2 |
| over 400000 | 10 | 0.9 | 7 738 528 | 48.9 |
| | 1 128 | 100.0 | 14 199 163 | 89.8 |
| Shares registered in a nominee's name | | | 1 604 945 | 10.1 |
| Shares not transferred to the book-entry securities system | | | 22 200 | 0.1 |
| Total | | | 15 826 308 | 100.0 |

## THE LARGEST SHAREHOLDERS

| Shareholders | Number of shares | Percentage of shares and of voting power |
|---|---|---|
| 1. Pohjola Group Insurance Corporation * | 1 404 300 | 8.9 |
| 2. Evald and Hilda Nissi Foundation | 1 005 660 | 6.4 |
| 3. Ilmarinen Mutual Pension Insurance Company | 833 700 | 5.3 |
| 4. Sampo Life Insurance Company Ltd | 764 783 | 4.8 |
| 5. The Local Government Pensions Institution | 747 000 | 4.7 |
| 6. Ruth Kangas | 702 080 | 4.4 |
| 7. Juhani Maijala | 694 240 | 4.4 |
| 8. Varma-Sampo Mutual Pension Insurance Company | 609 925 | 3.9 |
| 9. Tapiola Insurance Group ** | 572 840 | 3.6 |
| 10. Heikki Bergholm | 404 000 | 2.6 |
| 11. Tapiola Mutual Pension Insurance Company | 343 300 | 2.2 |
| 12. Alfred Berg Optimal Unit Trust | 305 860 | 1.9 |
| 13. Alfred Berg Finland Unit Trust | 260 096 | 1.6 |
| 14. Mikko Maijala | 250 560 | 1.6 |
| 15. Mutual Insurance Company Pension-Fennia | 239 840 | 1.5 |
| 16. Finnish National Fund for Research and Development | 218 600 | 1.4 |
| 17. Instrumentarium Corporation | 172 396 | 1.1 |
| 18. Alfred Berg Portfolio Unit Trust | 157 700 | 1.0 |
| 19. Foundation for Economic Education | 150 000 | 0.9 |
| 20. Merita Fennia Unit Trust | 138 200 | 0.9 |

* Pohjola Non-Life Insurance Company Limited, Pohjola Life Assurance Company Ltd and Suomi Mutual Life Assurance Company

** Tapiola General Mutual Insurance Company, Tapiola Mutual Life Assurance Company and Tapiola Corporate Life Insurance Company

All information concerning the company's shares is based on the book-entry securities register, as on January 29, 1999.

# KEY FIGURES

## KEY FIGURES ON SHARES

| | 1994 | 1995 | 1996 | 1997 | 1998 |
|---|---|---|---|---|---|
| Earnings/share (EPS), FIM | 5.03 | 5.64 | 7.33 | 10.99 | 9.70 *) |
| Equity/share, FIM | 24.29 | 27.83 | 33.55 | 41.18 | 45.37 |
| Dividend/share, FIM | 1.13 | 1.63 | 3.25 | 5.00 | 5.95 **) |
| Dividend/earnings, % | 22.4 | 28.8 | 44.3 | 45.5 | 61.3 **) |
| Dividend yield, % | 3.2 | 4.1 | 4.5 | 4.0 | 4.7 **) |
| P/E ratio | 6.9 | 7.1 | 9.9 | 11.5 | 12.9 |
| Funds from operations per share | 11.66 | 12.45 | 14.48 | 18.64 | 18.54 |
| Adjusted share price | | | | | |
| low, FIM | 32.00 | 28.75 | 41.00 | 73.25 | 87.00 |
| high, FIM | 50.50 | 44.00 | 75.00 | 133.00 | 184.00 |
| average, FIM | 40.99 | 36.60 | 64.72 | 106.44 | 141.46 |
| at year end weighted with the number of trades per closing date, FIM | 34.66 | 40.05 | 72.72 | 126.01 | 125.27 |
| Market capitalization on Dec. 31, FIM million | 522.2 | 603.5 | 1 095.6 | 1 898.6 | 1 982.5 |
| Adjusted number of shares held outside the Group | | | | | |
| Average during the year | 15 066 308 | 15 066 308 | 15 066 308 | 15 066 308 | 15 199 922 |
| At year end | 15 066 308 | 15 066 308 | 15 066 308 | 15 066 308 | 15 826 308 |
| Number of shares traded | 2 546 940 | 4 937 296 | 8 403 216 | 6 117 488 | 5 481 210 |
| as a percentage of the average during the year | 16.9 | 32.8 | 55.8 | 40.6 | 35.9 |

* With dilution of the 1998 warrant bond taken into account: FIM 9.50
** Proposal by the Board of Directors

## KEY FIGURES ON FINANCIAL PERFORMANCE

| | 1994 | 1995 | 1996 | 1997 | 1998 |
|---|---|---|---|---|---|
| Net sales, FIM million | 1 229.9 | 1 374.0 | 1 497.8 | 1 669.5 | 1 746.0 |
| Exports and international operations, FIM million | 570.4 | 633.5 | 690.0 | 774.0 | 762.4 |
| Operating profit, FIM million | 122.1 | 142.8 | 180.1 | 247.1 | 226.3 |
| as % of net sales | 9.9 | 10.4 | 12.0 | 14.8 | 13.0 |
| Profit before extraordinary items, FIM million | 90.2 | 109.0 | 153.7 | 230.5 | 208.9 |
| as % of net sales | 7.4 | 7.9 | 10.3 | 13.8 | 12.0 |
| Profit before reserves, income taxes and minority interest, FIM million | 89.0 | 103.9 | 153.4 | 229.6 | 208.9 |
| as % of net sales | 7.2 | 7.6 | 10.2 | 13.8 | 12.0 |
| Balance sheet total, FIM million | 1 103.6 | 1 146.8 | 1 174.7 | 1 277.3 | 1 334.6 |
| Funds from operations, FIM million | 175.7 | 187.6 | 218.2 | 280.2 | 281.2 |
| Return on equity, % (ROE) | 21.8 | 20.8 | 23.9 | 29.4 | 22.0 |
| Return on invested capital, % (ROI) | 15.8 | 17.3 | 21.2 | 27.8 | 23.1 |
| Equity ratio, % | 36.2 | 36.6 | 43.0 | 48.6 | 53.8 |
| Gearing, % | 95.0 | 98.5 | 61.6 | 44.0 | 35.0 |
| Gross investments, FIM million | 163.4 | 229.9 | 131.9 | 202.8 | 208.4 |
| as % of net sales | 13.3 | 16.7 | 8.8 | 12.1 | 11.9 |
| Expenditure on R&D, FIM million | 10.0 | 9.8 | 12.1 | 11.2 | 16.8 |
| as % of net sales | 0.8 | 0.7 | 0.8 | 0.7 | 1.0 |
| Average personnel employed | 2 910 | 3 019 | 3 241 | 3 610 | 3 956 |

**EARNINGS/SHARE =**

Profit before extraordinary items and taxes
including change in deferred tax liability -/+ minority interest
Adjusted number of shares held outside the Group (average)

**EQUITY/SHARE =**

Shareholders' equity including accumulated appropriations net of tax
Adjusted number of shares held outside the Group at year end

**DIVIDEND/SHARE =**

Dividend/share for the financial year
Adjustment coefficient for share issues
after the financial year

**DIVIDEND/EARNINGS =**

Dividend/share x 100
Earnings/share

**DIVIDEND YIELD, % =**

Dividend/share x 100
Adjusted share price at year end
weighted with the number of
trades per closing date

**P/E RATIO =**

Adjusted share price at year end
weighted with the number of
trades per closing date
Earnings/share

**FUNDS FROM OPERATIONS PER SHARE =**

Operating profit
+ Depreciation
+ Financial income and expenses
+/- Extraordinary items
Income taxes excluding the
change in deferred tax liability
Adjusted number of shares held
outside the Group at year end (average)

**MARKET CAPITALIZATION =**

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

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

Profit before extraordinary items,
accumulated appropriations and taxes
- taxes including change in
deferred tax liability x 100
Shareholders' equity including
accumulated appropriations net of tax
+ minority interest (average)

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

Profit before extraordinary items,
accumulated appropriations and taxes
+ interest and other financial expenses x 100
Balance sheet total
- non-interest bearing liabilities (average)

**EQUITY RATIO, % =**

Shareholders' equity including
accumulated appropriations net of tax
+ minority interests x 100
Balance sheet total - advances
received

**GEARING, % =**

Interest-bearing liabilities
- cash at bank and in hand x 100
Shareholders' equity including
accumulated appropriations net of tax
+ minority interest

# PROPOSAL BY THE BOARD OF DIRECTORS

## TO THE ANNUAL GENERAL MEETING

| | |
|---|---|
| Distributable equity according to the consolidated balance sheet on December 31, 1998 | 337 904 766.05 |
| Parent company profit | 180 864 977.67 |
| Profit carried over from previous years | 209 026 636.53 |
| Total | 389 891 614.20 |
| The Board of Directors proposes that a dividend of FIM 5,95 be paid on each of the 15,826,308 shares | 94 166 532.60 |
| Leaving the remainder on the retained earnings account | 295 725 081.60 |
| Total | 389 891 614.20 |

In accordance with the decision of the Board of Directors, the record date is March 23, 1999. The Board of Directors proposes to the Annual General Meeting that the dividend be paid after the record period on March 30, 1999.

Helsinki, February 11, 1999

| | |
|---|---|
| Juhani Maijala | Heikki Hakala |
| Matti Kavetvuo | Juhani Lassila |
| Jukka Viinanen | Heikki Bergholm<br>President and COO |

# AUDITORS' REPORT

## TO THE SHAREHOLDERS OF LASSILA & TIKANOJA PLC

We have audited the accounting, the financial statements and the corporate governance of Lassila & Tikanoja plc for the period January 1 - December 31, 1998. The financial statements, which include the report of the Board of Directors, consolidated and parent company income statements, balance sheets and notes to the financial statements, have been prepared by the Board of Directors and the Managing Director. Based on our audit we express an opinion on these financial statements and on corporate governance.

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

In our opinion the financial statements have been prepared in accordance with the Accounting Act and other rules and regulations governing the preparation of financial statements. The financial statements give a true and fair view, as defined in the Accounting Act, of both the consolidated and parent company's result of operations as well as of the financial position.

The financial statements with the consolidated financial statements can be adopted and the members of the Board of Directors and the President and Chief Operating Officer of the parent company can be discharged from liability for the period audited by us. The proposal by the Board of Directors regarding the distribution of the retained earnings is in compliance with the Companies' Act.

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

Helsinki, February 15, 1999

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

# ESSENTIAL FIGURES IN EUROS

## CONSOLIDATED STATEMENT OF INCOME

| EUR million | 1998 | % | 1997 | % | Change % |
|---|---|---|---|---|---|
| NET SALES | 293.7 | 100 | 280.8 | 100 | 4.6 |
| Cost of goods sold | -234.8 | -79.9 | -220.9 | -78.7 | 6.3 |
| GROSS MARGIN | 58.9 | 20.1 | 59.9 | 21.3 | -1.7 |
| Sales and marketing expenses | -9.4 | -3.2 | -8.6 | -3.1 | |
| Administrative expenses | -15.3 | -5.2 | -14.6 | -5.2 | |
| Other operating income and expenses | 4.1 | 1.4 | 5.1 | 1.8 | |
| Depreciation on consolidated goodwill | -0.2 | -0.1 | -0.2 | -0.1 | |
| OPERATING PROFIT | 38.1 | 13.0 | 41.6 | 14.8 | -8.4 |
| Financial income and expenses | -2.9 | -1.0 | -2.8 | -1.0 | 4.8 |
| PROFIT BEFORE EXTRAORDINARY ITEMS | 35.2 | 12.0 | 38.8 | 13.8 | -9.4 |
| Extraordinary expenses | | | -0.2 | -0.1 | |
| PROFIT BEFORE INCOME TAXES | 35.2 | 12.0 | 38.6 | 13.8 | -9.0 |
| Income taxes | -10.4 | -3.5 | -10.9 | -3.9 | -5.5 |
| PROFIT FOR THE FINANCIAL YEAR | 24.8 | 8.4 | 27.7 | 9.9 | -10.4 |

## CONSOLIDATED BALANCE SHEET

| EUR million | Dec. 31, 1998 | Dec. 31, 1997 |
|---|---|---|
| **ASSETS** | | |
| Fixed assets | | |
| Intangible assets | 7.4 | 6.8 |
| Tangible assets | 142.9 | 130.4 |
| Financial assets | 12.5 | 13.8 |
| Total fixed assets | 162.8 | 151.0 |
| Current assets | | |
| Inventories | 19.6 | 20.2 |
| Noncurrent receivables | 0.2 | 0.2 |
| Current receivables | 31.2 | 32.4 |
| Cash at bank and in hand | 10.7 | 11.0 |
| Total assets | 224.5 | 214.8 |
| **LIABILITIES** | | |
| Shareholders' equity | | |
| Share capital | 26.6 | 25.3 |
| Other restricted equity | 7.4 | 4.1 |
| Transferred from accumulated appropriations | 29.9 | 26.7 |
| Other unrestricted equity | 56.8 | 48.2 |
| Total shareholders' equity | 120.7 | 104.3 |
| Creditors | | |
| Deferred tax liability | 16.3 | 15.0 |
| Non-current liabilities | 40.4 | 45.8 |
| Current liabilities | 47.1 | 49.7 |
| Total liabilities | 224.5 | 214.8 |

## NET SALES

| EUR million | 1998 Jan. 1-Dec. 31 | 1997 Jan. 1-Dec. 31. | Change % |
|---|---|---|---|
| Amerplast | 63.6 | 63.5 | 0.2 |
| Inka | 19.2 | 19.5 | -1.1 |
| JWS | 93.4 | 97.1 | -3.8 |
| Säkkiväline | 117.3 | 101.0 | 16.2 |
| Lassila & Tikanoja | 2.8 | 2.6 | 7.8 |
| Total | 296.3 | 283.7 | |
| Internal sales | -2.6 | -2.9 | |
| Group net sales | 293.7 | 280.8 | 4.6 |

## OPERATING PROFIT

| | 1998 EUR million | % | 1997 EUR million | % |
|---|---|---|---|---|
| Amerplast | 4.7 | 7.4 | 5.8 | 9.1 |
| Inka | 1.2 | 6.2 | 2.4 | 12.1 |
| JWS | 18.6 | 19.9 | 19.6 | 20.2 |
| Säkkiväline | 10.9 | 9.3 | 9.2 | 9.1 |
| Lassila & Tikanoja | 2.9 | | 4.8 | |
| Consolidation items | -0.2 | | -0.2 | |
| Group operating profit | 38.1 | 13.0 | 41.6 | 14.8 |

## FINANCIAL RESULTS DURING THE PAST YEAR

| EUR million | 1-4/98 | 5-8/98 | 9-12/98 | 1-12/98 |
|---|---|---|---|---|
| **NET SALES** | | | | |
| Amerplast | 21.6 | 20.8 | 21.2 | 63.6 |
| Inka | 7.0 | 6.1 | 6.1 | 19.2 |
| JWS | 31.6 | 30.1 | 31.7 | 93.4 |
| Säkkiväline | 35.4 | 40.3 | 41.6 | 117.3 |
| Lassila & Tikanoja | 0.9 | 1.0 | 0.9 | 2.8 |
| Internal sales | -0.9 | -0.8 | -0.9 | -2.6 |
| Group net sales | 95.6 | 97.5 | 100.6 | 293.7 |
| **OPERATING PROFIT** | | | | |
| Amerplast | 2.1 | 1.6 | 1.0 | 4.7 |
| Inka | 0.9 | 0.3 | 0.0 | 1.2 |
| JWS | 5.8 | 6.1 | 6.7 | 18.6 |
| Säkkiväline | 2.7 | 5.0 | 3.2 | 10.9 |
| Lassila & Tikanoja | 2.0 | 0.3 | 0.6 | 2.9 |
| Consolidation items | -0.1 | | -0.1 | -0.2 |
| Group operating profit | 13.4 | 13.3 | 11.4 | 38.1 |
| Net financing expenses | -0.9 | -1.5 | -0.5 | -2.9 |
| Profit before extraordinary items | 12.5 | 11.8 | 10.9 | 35.2 |

## PLEDGES AND CONTINGENT LIABILITIES

| EUR million | 31.12.1998 | 31.12.1997 |
|---|---|---|
| **SECURITY FOR OWN LIABILITIES** | | |
| Pledges*) | 18.3 | 30.8 |
| Real estate mortgages | 26.3 | 31.2 |
| Company mortgages | 19.1 | 21.6 |
| *)Total commitments for which pledges have been as security | 18.0 | 27.7 |
| **LIABILITIES** | | |
| Leasing payments and liabilities | 0.1 | 0.1 |

## DERIVATIVE CONTRACTS

| EUR million | 31.12.1998 | 31.12.1997 |
|---|---|---|
| Nominal values of interest rate swaps | | 0.8 |
| Difference between open contracts and market values | | 0.0 |
| **CURRENCY SWAPS** | | |
| Counter values of forward contracts | 4.6 | 5.3 |
| Difference between open contracts and market values | -0.3 | -0.1 |

## KEY FIGURES ON SHARES

| | 1994 | 1995 | 1996 | 1997 | 1998 |
|---|---|---|---|---|---|
| Earnings/share (EPS), EUR | 0.85 | 0.95 | 1.23 | 1.85 | 1.63 *) |
| Equity/share, EUR | 4.09 | 4.68 | 5.64 | 6.93 | 7.63 |
| Dividend/share, EUR | 0.19 | 0.27 | 0.55 | 0.84 | 1.00 **) |
| Dividend/earnings, % | 22.4 | 28.8 | 44.3 | 45.5 | 61.3 **) |
| Dividend yield, % | 3.2 | 4.1 | 4.5 | 4.0 | 4.7 **) |
| P/E ratio | 6.9 | 7.1 | 9.9 | 11.5 | 12.9 |
| Funds from operations per share | 1.96 | 2.09 | 2.44 | 3.13 | 3.12 |
| Adjusted share price | | | | | |
| low, EUR | 5.38 | 4.84 | 6.90 | 12.32 | 14.63 |
| high, EUR | 8.49 | 7.40 | 12.61 | 22.37 | 30.95 |
| average, EUR | 6.89 | 6.16 | 10.88 | 17.90 | 23.79 |
| at year end weighted with the number of trades per closing date, EUR | 5.83 | 6.74 | 12.23 | 21.19 | 21.07 |
| Market capitalization on Dec. 31, EUR million | 87.8 | 101.5 | 184.3 | 319.3 | 333.4 |
| Adjusted number of shares held outside the Group | | | | | |
| Average during the year | 15 066 308 | 15 066 308 | 15 066 308 | 15 066 308 | 15 199 922 |
| At year end | 15 066 308 | 15 066 308 | 15 066 308 | 15 066 308 | 15 826 308 |
| Number of shares traded | 2 546 940 | 4 937 296 | 8 403 216 | 6 117 488 | 5 451 210 |
| as a percentage of the average during the year | 16.9 | 32.8 | 55.8 | 40.6 | 35.9 |

*) With dilution of the 1998 warrant bond taken into account: EUR 1.60
**) Proposal by the Board of Directors

## KEY FIGURES ON FINANCIAL PERFORMANCE

| | 1994 | 1995 | 1996 | 1997 | 1998 |
|---|---|---|---|---|---|
| Net sales, EUR million | 206.9 | 231.1 | 251.9 | 280.8 | 293.7 |
| Exports and international operations, EUR million | 95.9 | 106.5 | 116.0 | 130.2 | 128.2 |
| Operating profit, EUR million | 20.5 | 24.0 | 30.3 | 41.6 | 38.1 |
| as % of net sales | 9.9 | 10.4 | 12.0 | 14.8 | 13.0 |
| Profit before extraordinary items, EUR million | 15.2 | 18.3 | 25.9 | 38.8 | 35.2 |
| as % of net sales | 7.3 | 7.9 | 10.3 | 13.8 | 12.0 |
| Profit before reserves, income taxes and minority interest. EUR million | 15.0 | 17.5 | 25.8 | 38.6 | 35.2 |
| as % of net sales | 7.2 | 7.6 | 10.2 | 13.8 | 12.0 |
| Balance sheet total, EUR million | 185.6 | 192.9 | 197.6 | 214.8 | 224.5 |
| Funds from operations, EUR million | 29.6 | 31.6 | 36.7 | 47.2 | 47.4 |
| Return on equity, % (ROE) | 21.8 | 20.8 | 23.9 | 29.4 | 22.0 |
| Return on invested capital, % (ROI) | 15.8 | 17.3 | 21.2 | 27.8 | 23.1 |
| Equity ratio, % | 36.2 | 36.6 | 43.0 | 48.6 | 53.8 |
| Gearing, % | 95.0 | 98.5 | 61.6 | 44.0 | 35.0 |
| Gross investments, EUR million | 27.5 | 38.7 | 22.2 | 34.1 | 35.1 |
| as % of net sales | 13.3 | 16.7 | 8.8 | 12.1 | 11.9 |
| Expenditure on R&D, EUR million | 1.5 | 1.7 | 1.9 | 1.9 | 2.8 |
| as % of net sales | 0.8 | 0.7 | 0.8 | 0.7 | 1.0 |

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