MACHINERY LTD

Annual Report 1999

Contents

Business Environment

A positive trend in the global economy strengthened in 1999. The much-feared rollover into the new millennium did not present any significant problems world-wide. Powerful growth of the US economy continued, although the fear of overheating and a deepening current accounts deficit clouded economic prospects.

Stable development in the Euro-zone

The Euro-zone saw stable and positive economic development, and there are no imminent threats to economic growth in sight. As the economic growth gap between the Euro-zone and the United States narrows, the euro is expected to gain a stronger position against the US dollar.

Japan was able to secure modest economic growth in 1999, mainly by subsidising public spending. Meanwhile, no growth is in sight in the private sector.

In the Euro-zone, the number of investments grew at a steady rate. Low interest provided a booster to the construction industry and investments growth accelerated somewhat. Companies prepared for the Y2K switch, which translated into a continued increase in IT investments.

Demand slower than expected

Economic growth in Finland was not quite as strong in some respects as had been expected. Total output in 1999 grew by a meagre 3.5 percent, representing the weakest growth in six years. This deterioration can be attributed to a temporary decline in the traditional export industries which, however, appears to have faded. In view of these expectations, demand in the Finnish market was surprisingly weak.

Private consumption picked up towards the year-end after a slow first half. Sales of durable goods accounted for the biggest growth, with computer equipment and car sales leading the way. Demand for building materials and supplies was also high. Wholesale trade grew less than anticipated following a slowdown in demand in the industrial sector.

Machinery Ltd's Business Activities

The parent company booked a turnover of FIM 205 million (1998: 238) while the Group's turnover totalled FIM 283 million (1998: 330). The Group's operating profit amounted to FIM 11.3 million (16.9). During the year, FIM 4 million worth of repayments on interest-bearing liabilities were made. The number of personnel employed by the parent company rose to 109 (1998: 107).

Machinery Ltd's decision to change its fundamental business strategy and to become a systems supplier instead of a distributor played a key role in all business development measures.

Data processing systems

In the course of 1999, an extensive data processing systems modernisation project was completed at Machinery Ltd to boost operational performance and to ensure a trouble-free rollover into the year 2000. The upgraded system will be fully and extensively employed in the new millennium.

Processes

Process development work continued with the incorporation of our key business processes into marketing processes. We now intend to transform our entire quality system into a process. External audits carried out by the Finnish Standards Association SFS were completed in line with the process model.

Personnel

Human resources development work aimed at improving professional skills, productivity and well-being in the working community continued in collaboration with the Uusimaa Regional Institute of Occupational Health. Furthermore, a study was launched to identify needs for improvement in working conditions as well as to assess the impacts of job organisation and the working environment on health and safety. As a result of the study, a new industrial safety programme and an occupational health and fitness programme were drawn up. The entire personnel is responsible for ensuring sustained well-being in the working community.

Results of the human resources development projects are reviewed in an annual human resources statement which will be introduced gradually and attached, with comparison data, to the Annual Report 2000.

In 1999, 16 new marketing personnel were recruited.

Marketing departments

At the end of the year, the environmental machine department and the contractors' machine department were combined into one department, which will be called *Contractors' machines.* This change was made to ensure more effective and flexible use of sales and servicing resources. Otherwise the departmental structure remained unchanged.

New personnel were recruited to strengthen the organisation of the *Electronics and security products department.* By signing more cooperation agreements, the retail network for the CCTV business was expanded to cover the whole country.

New representations were acquired to expand the product portfolio of the *Abrasives department.* Weiler Ltd's power brushes and abrasive nylon filament brushes and Ultra Tool Ltd's carbide burrs were included in the product selection at the end of the year.

The product range of the *Defence products* department was broadened to meet the future needs of ground forces in particular.

The order book of our *Diesel engines and generators department* grew with a significant order for large reserve power systems which will be delivered in the first quarter of 2000.

Machine tools department retained its market leader position and was involved in close cooperation with our Baltic subsidiaries. Other marketing departments will also be working together with the Baltic subsidiaries in matters related to training.

Activities on the Baltic Rim

Formed in 1998, Machinery Latvia SIA's business activities became more firmly established in the course of 1999. A new subsidiary, Machinery UAB, was set up in Lithuania, and its organisation was built up in the second half of the year. Although weak economic development in all the Baltic countries still reflected the continued adverse impacts of the Russian crisis, the latest economic forecasts provide us with good grounds to develop the Baltic companies. In fact, we expect all Baltic companies to make a profit in 2000.

Exports revived

During the year, there were clear signs of revival in our trade with Russia. Development was particularly good in sales of contractors' machinery and construction machines, as well as after sales and spare parts services to clients in the St. Petersburg economic area. After a long break, sales of spare parts for mixing plants recommenced, and demand for new mixing plants is also picking up. If political stability returns to Russia, Machinery Ltd will proceed with its plans to set up local offices there.

We also plan to expand Machinery Ltd's market area westwards. Negotiations were held in the autumn regarding plans to start a joint venture in Sweden. Operations in the Swedish market will begin in the course of 2000.

Other group companies

	Turnover MFIM	
	1999	1998
Lelumyynti Oy J. Otonkoski	36.6	53.2
Tampereen Konepalvelu Oy	39.2	39.1
Tampereen Työstökonevuokraus Oy	0.2	0.1
Oy Scan-Marine Ab	0.5	1.1
A/S Tallmac (50 %)	28.0	31.8
Machinery Latvia SIA		
Machinery UAB		

The Group also comprises 7 real estate companies.

SFS ISO 9002 certif.no 236

Outlook

We expect domestic demand to recover in 2000. Significant increases in capital spending are anticipated especially in the metal industry. Last year, investments in machinery and equipment grew by 4 percent. Growth is expected to accelerate in 2000 and reach 15 percent.

Machinery Ltd's key theme in 2000 is customer relationship management. Our new customer relationship management system enables us to target our marketing efforts more precisely and effectively than before. Moreover, the system creates synergy benefits between different departments, allowing them to improve their services to shared clients.

Based on a self-audit conducted for the fifth time in accordance with the European Quality Award criteria, a key development theme was selected. This year, we will focus on making our marketing operations better planned and more systematic. Preparation of action plans for different departments began with the definition of market share objectives and design of appropriate marketing measures to meet these objectives. These plans are now complete, and their implementation will be monitored in compliance with the European Quality Award criteria.

Economic growth prospects in 2000 for the sectors of major importance to Machinery Ltd are very good. With its highly motivated and success-driven personnel, as well as powerful marketing and customer support solutions, Machinery is equipped to perform well. The only factor shadowing our future outlook is the upward trend in the interest rate level, which may hamper growth, especially in terms of building investments.

We have budgeted a 25-percent increase in turnover and a FIM 17.8-million operating profit for the parent company.

Board of Directors

The Board of Directors elected Heikki Timonen its Chairman.

The following will continue as members of the Board:
Pekka Linnainmaa Vice-Chairman
Juhani Suomela
Carl G. Nordman
Juhani Otonkoski
Juha Timonen

Janne Timonen acted as the secretary to the Board and as the company's Managing Director.

Auditors

SVH Pricewaterhouse Coopers Oy, Authorised Public Accountants.

Proposal on the distribution of profits

The Board of Directors proposes that the financial year's profit of FIM 1,728,087.01 be transferred on a profit and loss account, and that no dividend be paid.

Profit and loss account

PARENT COMPANY		1.1.-31.12.1999		1.1.-31.12.1998
Turnover		**205,189,117.64**		**238,251,530.13**
Other operating income		4,190,580.07		5,405,635.98
Materials and services				
Purchases during the financial year	149,953,194.76		179,869,234.74	
Increase (-)/decrease (+) in stocks	3,277,360.61		-1,852,415.17	
External services	2,306,743.74	155,537,299.11	2,316,011.54	180,332,831.11
Personnel expenses				
Wages and salaries	19,957,739.78		20,755,251.89	
Pension expenses	3,808,414.22		3,470,866.27	
Other social security expenses	1,763,344.24	25,529,498.24	1,665,625.76	25,891,743.92
Depreciation and reduction in value				
Depreciation according to plan		2,340,618.21		2,487,453.64
Other operating charges		16,790,270.23		22,861,505.46
Operating profit		**9,182,011.92**		**12,083,631.98**
Financial income and expenses				
Income from holdings in associated companies	191,271.00		191,330.00	
Income from other investments	6,331.10		741.50	
Other interest and financial incom				
From Group companies	206,629.79		256,968.78	
From others	290,111.79		1,065,864.91	
Interest and other financial expenses	-9,067,277.34	-8,372,933.66	-10,946,705.25	-9,431,800.06
Profit before extraordinary items		**809,078.26**		**2,651,831.92**
Extraordinary items				
Extraordinary income	1,340,000.00		1,550,000.00	
Extraordinary charges	-120,000.00	1,220,000.00	-610,000.00	940,000.00
Profit before appropriations and taxes		**2,029,078.26**		**3,591,831.92**
Appropriations				
Change in depreciation reserve		280,414.47		1,186,273.10
Income taxes		581,405.72		747,149.84
Profit for the financial year		**1,728,087.01**		**4,030,955.18**

GROUP		1.1.-31.12.1999		1.1.-31.12.1998
Turnover		**283,035,955.23**		**330,180,978.91**
Other operating income		4,622,724.46		5,316,194.77
Materials and services				
Purchases during the financial year	210,270,690.13		247,399,968.60	
Increase (-)/decrease (+) in stocks	-1,676,516.27		-6,385,180.19	
External services	2,976,353.18	211,570,527.04	1,380,955.21	242,395,743.62
Personnel expenses				
Wages and salaries	28,198,873.72		29,325,292.57	
Pension expenses	5,302,327.14		5,933,048.06	
Other social security expenses	2,236,079.13	35,737,279.99	2,300,811.62	37,559,152.25
Depreciation and reduction in value				
Depreciation according to plan		3,840,838.20		4,902,182.72
Other operating charges		25,185,210.79		33,781,111.84
Operating profit		**11,324,823.67**		**16,858,983.25**
Financial income and expenses				
Dividends receivable from others	8,311.10		1,670.60	
Other interest and financial income				
From associated undertakings	194,221.79		256,968.78	
From others	627,769.20		1,452,091.17	
Share of the associated undertakings	70,901.99		56,398.12	
Interest and other financial expenses	-9,362,506.40	-8,461,302.32	-11,340,811.75	-9,573,83.08
Profit before extraordinary items		**2,863,521.35**		**7,285,300.17**
Extraordinary items				
Extraordinary charges		-11,819.36		-32,600.00
Profit before appropriations and taxes		**2,851,701.99**		**7,252,700.17**
Direct taxes		-1,102,874.80		-1,959,484.90
Minority interest in the year´s profit		-16,395.14		-2,228.68
Profit for the financial year		**1,732,432.06**		**5,290,986.59**

Balance sheet

PARENT COMPANY

Assets	31.12.1999		31.12.1998	
Fixed assets				
Intangible assets				
Intangible rights	3,421,505.39		1,342,522.74	
Advance payments		3,421,505.39	414,225.00	1,756,747.74
Tangible assets				
Land and waters	133,000.00		133,000.00	
Machinery and equipment	3,465,191.90		4,378,870.79	
Other tangible assets	562,738.90	4,160,930.80	562,738.90	5,074,609.69
Long-term investment				
Holdings in Group undertakings	60,294,364.65		60,155,400.00	
Holdings in associated undertakings	874,690.00		874,690.00	
Other shares and similar rights	5,147,484.66	66,316,539.31	5,274,027.52	66,304,117.52
Current assets				
Stocks				
Finished goods for sale	23,225,738.24		26,503,098.85	
Advance payments	1,580,905.83	24,806,644.07	1,239,268.64	27,742,367.49
Debtors				
Long-term				
Trade debtors	401,846.00		648,218.00	
Amounts owed by Group undertakings	90,159,445.65		91,547,161.93	
Amounts owed by associated undertakings	2,535,935.45		2,655,476.24	
Loan receivables	469,958.90	93,567,186.00	818,005.85	95,668,862.02
Current				
Trade debtors	21,625,652.85		22,068,728.37	
Prepayments and accrued income	908,591.76	22,534,244.61	1,436,526.53	23,505,254.90
Cash in hand and at banks		160,967.60		1,044,088.97
		214,968,017.78		221,096,048.33

GROUP

Assets	31.12.1999		31.12.1998	
Fixed Assets				
Intangible assets				
Intangible rights	3,826,864.56		1,726,425.31	
Group goodwill	387,719.35		535,355.67	
Advance payments	0.00	4,214,583.91	414,225.00	2,676,005.98
Tangible assets				
Land and waters	7,798,432.11		7,798,432.11	
Buildings and structures	78,171,197.38		78,362,554.21	
Machinery and equipment	7,282,684.40		7,842,551.25	
Other tangible assets	1,569,173.35	94,821,487.24	1,167,936.47	95,171,474.04
Long-term investments				
Holdings in associated companies	10,698,668.20		10,819,037.21	
Other shares and holdings	6,225,672.36	16,924,340.56	6,682,705.22	17,501,742.43
Current assets				
Stocks				
Finished goods for sale	46,749,486.39		45,072,970.12	
Advance payments	3,559,876.00	50,309,362.39	5,140,907.53	50,213,877.65
Debtors				
Long-term				
Trade debtors	1,064,378.93		648,218.00	
Amounts owed by associated companies	2,535,935.45		2,655,478.24	
Loan receivables	481,247.16	4,081,561.54	818,005.85	4,121,702.09
Current				
Trade debtors	33,380,818.66		36,943,961.12	
Loan receivables	2,556,923.21		128,923.71	
Prepayments and accrued income	3,450,468.38		2,029,580.43	
Other receivables	409,711.97	39,797,922.22	63,343.20	39,165,808.46
Cash in hand and at banks		8,677,934.93		17,649,739.28
		218,827,192.79		226,500,349.93

Balance sheet

PARENT COMPANY

Liabilities		31.12.1999		31.12.1998
Shareholders´s equity				
Share capital	9,000,000.00		9,000,000.00	
Other reserves	19,492.80		19,492.80	
Remained earnings	25,805,038.36		21,774,083.18	
Profit for the financial year	1,728,087.01		4,030,955.18	
Capital loan	27,000,000.00	63,552,618.17	27,000,000.00	61,824,531.16
Appropriations				
Depreciation reserve		148,701.48		429,115.95
Creditors				
Long-term				
Amounts owed to credit insitutions	34,727,755.00		58,030,917.00	
Pension loans	37,210,050.49		29,959,194.09	
Amounts owed to Group undertakings	168,655.42		52,184.78	
Accruals and deferred income	6,480,000.00	78,586,460.91	4,860,000.00	92,902,295.87
Current				
Amounts owed to credit institutions	41,318,624.13		28,857,038.59	
Pension loans	4,749,143.60		3,567,896.30	
Advances received	4,587,503.15		4,957,292.98	
Trade creditors	10,359,066.25		14,870,486.87	
Other liabilities	6,346,822.24		7,349,825.20	
Accruals and deferred income	5,319,077.85	72,680,237.22	6,337,565.41	65,940,105.35
		214,968,017.78		221,096,048.33

GROUP

Liabilities		31.12.1999		31.12.1998
Shareholder´s equity				
Share capital	9,000,000.00		9,000,000.00	
Contingency fund	19,492.80		19,492.80	
Profit brought forward	9,048,283.68		3,707,886.58	
Profit for the financial year	1,732,432.06		5,290,986.59	
Capital loan	27,000,000.00	46,800,208.53	27,000,000.00	45,018,365.97
Minority interest		92,991.47		76,596.33
Liabilities				
Long-term				
Loans from financial institutions	36,977,755.00		61,280,917.00	
Pension loans	38,029,447.29		30,856,937.99	
Deferred tax liability	503,455.80		628,011.72	
Accrued liabilities and prepaid income	6,480,000.00	81,990,658.09	4,860,000.00	97,625,866.71
Current				
Loans from financial institutions	42,429,285.72		29,972,116.85	
Pension loans	4,771,455.60		3,660,439.70	
Advances received	12,190,378.16		8,296,626.70	
Accounts payable	15,213,636.14		23,810,410.62	
Accrued liabilities and prepaid income	8,567,037.64		10,433,652.04	
Other current liabilities	6,771,541.44	89,943,334.70	7,606,275.01	83,779,520.92
		218,827,192.79		226,500,349.93

Accounting policies

Fixed assets

Planned depreciation was calculated as straight-line depreciation on fixed assets from the non-depreciated net expenditure shown on the balance sheet on 31 December 1993.
Depreciations of the real estate companies were shown without a depreciation schedule.

Planned depreciation periods are as follows

Other long-term expenses	5 - 10 years
Buildings and structures	40 years
Machinery and equipment	4 - 10 years
Group goodwill	10 years

Stocks

Stocks were valued at direct acquisition cost calculated in accordance with the average price principle.

Receivables and liabilities denominated in foreign currencies

Receivables and liabilities in foreign currencies were valued at the average rate quoted by the Bank of Finland on the balance sheet date.

Helsinki, 7 March 2000

Board of Directors

Heikki Timonen, Chairman	Juhani Otonkoski
Juhani Suomela	Pekka Linnainmaa
Carl G. Nordman	Juha Timonen

Janne Timonen
Managing Director

Auditors

SVH Pricewaterhouse Coopers Oy

Notes to the consolidated financial statements

The consolidated financial statements have been prepared using the acquisition cost method. The price paid for subsidiaries' shares that exceeds the shareholders' equity has been entered partly under fixed assets and partly under Group goodwill. In the financial statements, FIM 297,989.00 worth of purchase price entered under Group goodwill and fixed asset items has been written off.

The Group's internal transactions, internal receivables and liabilities, as well as distribution of profits within the Group have been eliminated.

Minority interests have been separated from the consolidated shareholders' equity and profits presented as an independent item.

The associated company has been consolidated using the equity method. The Group's share of the associated company's profit for the financial year is shown under financial income, under "share of associated companies' profits".

Machinery Ltd in brief

Proving solutions

Founded in 1911, Machinery Ltd is a Finnish conglomerate marketing comprehensive technical solutions. Our principal products are machine tools, construction, industrial, and contracting machinery, aviation and defence products, and electronic security devices. Machinery Ltd is headquartered in Vantaa and has sales offices in Tampere, Turku, Oulu and Kuopio, and subsidiaries in Estonia, Latvia and Lithuania. Machinery's operations have received the ISO 9002 quality certificate.

Strategy

In line with its basic business strategy, Machinery Ltd aims to transform itself from a traditional supplier into a systems supplier - an expert organisation.

Added value and a sharper competitive edge

As a leading company in our line of business, our mission at Machinery Ltd is to create added value for our customers to improve their competitive position.

Profitability

Survival in the business world requires profitability. If our own business is not profitable, we will not be able to generate added value for our customers. Profitability permits us a fair amount of latitude, which in turn translates into creativity, high work motivation, efficiency and successful teamwork.

Security

When making a major investment decision, customers appreciate a secure business partnership. Thanks to our personnel's ability to constantly upgrade their skills and adapt to changes, we can offer such security to all our interest groups.

Respect

At Machinery Ltd, all dealings with co-workers and interest groups are based on respect. Showing respect and appreciation in our business activities helps secure customer loyalty, which is what makes our business viable.

Machinery Ltd 2000
PR-Viestintä Oy
Innocorp Oy
Erweko Painotuote Oy

MACHINERY LTD
Ansatie 5, P.O. Box 560, FIN-01741 VANTAA, FINLAND
Tel. +358 9 89 551, fax +358 9 890 230
www.machinery.fi