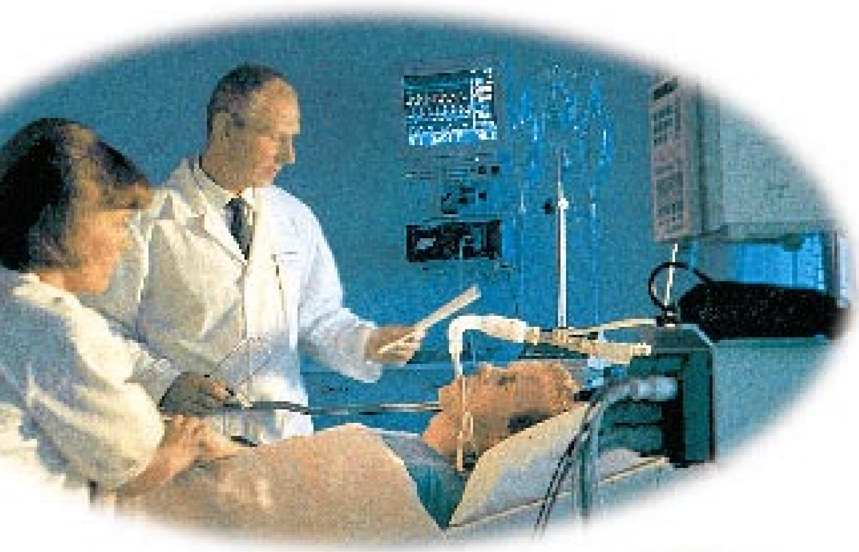
Annual Report 1996



INSTRUMENTARIUM

Annual General Meeting

The Annual General Meeting will be held on Tuesday, 25 March 1997, at 4 p.m. at the Instrumentarium Corporation Head Offices in Helsinki, Finland. Advance notification of attendance must be received by 4 p.m., 20 March 1997.

Financial Information

Instrumentarium Corporation will publish two interim reports for the year 1997. The January - April results will be published on 5 June 1997 and the January - August results on 7 October 1997. Preliminary results for the the year 1997 will be published in February 1998.
Printed financial information can be ordered by writing to the address:
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FIN-00031 INSTRUMENTARIUM
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60 Wall Street
New York, NY 10260-0060
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INSTRUMENTARIUM

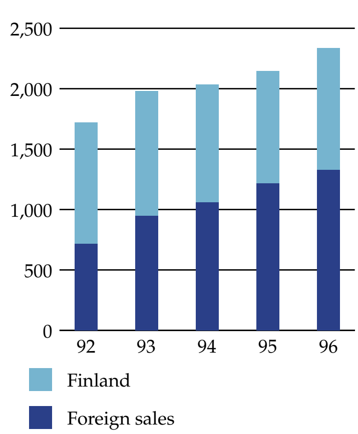
Instrumentarium in Brief

Instrumentarium is an international healthcare company concentrating on selected fields of medical technology manufacturing, marketing and distribution. The Company is also involved in optical retailing and distribution of consumer and commercial products in Finland and its neighbouring countries. Instrumentarium's core business is anaesthesia and critical care in which it is committed to gaining global leadership. In business development the Company benefits from its strong financial position.

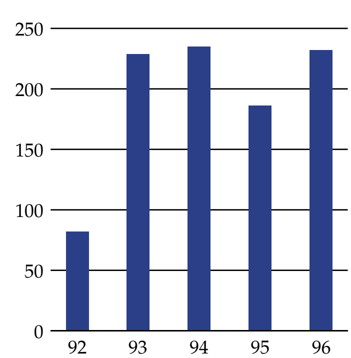
FIM million	**1996**	1995	+/- %
Net sales	**2,335.5**	2,147.9	8.7
Foreign sales	**1,328.1**	1,217.1	9.1
Operating profit	**232.0**	186.1	24.6
Profit before extraordinary items, reserves and taxes	**273.3**	225.2	21.4
Profit before extraordinary items and reserves, after taxes	**200.4**	146.5	36.8
Shareholders' equity	**1,732.3**	1,507.6	14.9
Balance sheet total	**2,459.7**	2,360.9	4.2
Return on investment, %	**17.6**	15.2	
Equity ratio, %	**71.7**	65.1	
Earnings per share, FIM	**9.88**	8.17	20.9
Dividend per share, FIM	**3.50** *	2.80	25.0
Average number of employees	**2,633**	2,559	2.9

* Proposed by the Board of Directors.

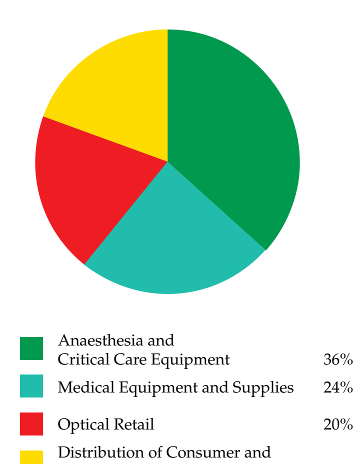
Net Sales, FIM million



Operating profit, FIM million



Net sales by business area



Business Segments

Anaesthesia and Critical Care Equipment

Datex-Engstrom offers the world's healthcare providers products and services for safe, efficient and economical anaesthesia and critical care processes. Its product range consists of anaesthesia and intensive care monitors and systems, anaesthesia delivery units, ventilators, information management systems and supplies.

Medical Equipment and Supplies

Instrumentarium Imaging develops, manufactures and markets worldwide specialized X-ray equipment for medical and dental imaging.
Merivaara offers a wide range of hospital and nursing home furniture including beds, operating tables, patient trolleys and geriatric chairs mainly for the European market.
Instrumed is a distributor of medical and laboratory equipment and supplies in Finland.
Medinovum markets branded generic pharmaceuticals in Finland.
Soxil is a supplier of medical equipment in Italy and throughout the Mediterranean.
LM-Dental manufactures and markets dental hand instruments and accessories
for the European market.
Medko Medical is a project sales unit and a distributor of medical equipment, mainly in Russia and the Baltic countries.

Optical Retail

The Optical Retail Division sells optical products and services in Finland, Sweden and Estonia, and home healthcare products in Finland. It has its own retail outlet chains in these countries.

Distribution of Consumer and Commercial Products

Instru Data Oy is a supplier of information systems, equipment and related services in Finland, Russia and the Baltic countries.
Oy Bergenheim Yhtiöt Ab is a wholesaler and manufacturer of cosmetics and consumer dailies mainly in Finland.
Oy Tekno-Rema Ab is a wholesaler of wireless communication systems and equipment in Finland.

President's Review

Instrumentarium Corporation posted a good result in 1996. Earnings per share were FIM 9.88, an increase of 20.9 % on the year before. The operating profit increased 24.6 % to FIM 232 million. Profit before extraordinary items, reserves and taxes was FIM 273 million, up 21.4 % on the previous year. FIM 116 million was invested in research and development, compared to FIM 113 million in 1995. Selling and marketing expenses increased 8.4 % to FIM 653 million.

The improvement in performance was principally due to the positive development in Datex-Engstrom and the Optical Retail Division. We continued intensive investments in developing and marketing our anaesthesia and critical care product portfolio and we made successful progress in integrating the Datex and Engström units, all of which raised this business segment's profits by 64 % and sales by 19 % on the previous year. Demand for Optical Retail's products is growing steadily. This division posted a 16 % increase in sales and a 33 % rise in profits, thanks in part to the successful expansion of its sales outlet network.

The overall result for the Medical Equipment and Supplies segment weakened. Sales and performance in Finland were strong but export sales failed to meet expectations and the revenues from project sales characteristic of the previous year were not forthcoming.

Our Distribution of Consumer and Commercial Products segment also posted lower profits as increased competition reduced gross margins, although its overall result was still good.

The year 1996 can be considered a consolidation phase after the far-reaching investments and structural changes implemented during the previous two years. The market potential for Datex-Engstrom products has risen substantially and we have already demonstrated our ability to capitalize on these opportunities.

Instrumentarium manufactures and markets medical technology products for the international markets; in Finland and its neighbouring countries the company is engaged in the retail of optical products and wholesale of special products. As such, our widely varying business risks and cash flows are diversified in a well-balanced business portfolio. Our focus is in anaesthesia and critical care, a business in which our goal is to achieve global leadership.

At the end of the year we had 2,628 employees. It is your efforts that are creating Instrumentarium's success, and for this I extend my warmest thanks.

We will do our best to ensure that the share value will continue to develop positively, making the Instrumentarium shares a profitable investment to our 10,174 current (31 December 1996) as well as to our future shareholders.

The Board of Directors will propose at the annual shareholders' meeting that a dividend of FIM 3.50 per share be distributed, which is 25 % more than the previous year. This dividend follows the policy we adopted earlier of distributing roughly one-third of our earnings in dividends. This proposal corresponds to 35.4 % of earnings.

The satisfaction of our customers is fundamental to our business.
I would like to thank all of you who have done business with us.
We will make every effort to earn your confidence in the future as well, through our continued focus on reliability, quality and the development of our products and services.

Markku Talonen
President and CEO

Anaesthesia and Critical Care Equipment

Datex-Engstrom offers a comprehensive range of products for anaesthesia and intensive care. In spite of the advanced and complex technologies employed, the products are easy to use and maintain.

Through its Datex-Engstrom Division, Instrumentarium offers the world's healthcare providers products and services that improve outcome and facilitate more efficient and economic anaesthesia and critical care processes. From its roots in proprietary gas monitoring and ventilation technology, Datex-Engstrom has become one of the world's leading companies in anaesthesia and critical care and the largest global supplier of anaesthesia monitors. Its businesses now comprise patient monitoring in anaesthesia and intensive care, portable and general-purpose monitoring, anaesthesia delivery and ventilation, intensive care ventilation, information systems for anaesthesia and intensive care, and respiratory supplies. These businesses today require focused involvement in the hardware, software, supplies and service businesses.

The overriding trend in Datex-Engstrom's main markets, the developed countries, is to contain costs and improve efficiency. In anaesthesia and critical care technology there is a continuing shift from stand-alone products to integrated, software-based systems. Apart from their primary functions such as patient monitoring, ventilation or anaesthesia delivery, such systems must increasingly provide reliable information in real time wherever clinicians need it. This data must also be compatible with information provided by other hospital systems to allow analysis for cost reduction and quality improvement purposes. This trend favours large and already established suppliers, such as Datex-Engstrom, who have the flexibility to rapidly adopt new technical and business solutions.

Cost control is also creating pressure to reduce the length of patient stay in hospitals. This is encouraging the proliferation of alternative methods of patient care, such as day surgery and outpatient care, which calls for portable monitors for routine applications.

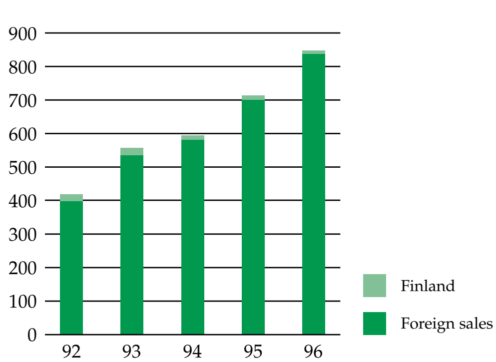
Keen demand for Datex-Engstrom products

Within anaesthesia and intensive care, Datex-Engstrom currently addresses a global market with potential end-user value of roughly 2.6 billion US dollars. The division markets its products worldwide through five subsidiaries in the USA, Germany, France, Spain and the Netherlands, and a global network of independent distributors. The latter, which account for more than half of the division's annual sales, are supported by regional support centres in Miami and Hong Kong.

Overall, the global healthcare markets remained stable in volume during 1996. Wide regional differences were evident, however, as structural change continued to have a profound impact on national healthcare sectors. Datex-Engstrom increased sales by 19 % on the previous year and maintained its profit margins, despite tough price competition.

Datex-Engstrom had another highly successful year in the USA, the world's largest healthcare market. Since the division has so far concentrated solely on anaesthesia monitors and information management systems, the US market still offers vast potential for the other products in the AS/3™ family as well as Datex-Engstrom's new CS/3™ critical care line. Although demand for medical equipment declined overall, the division's sales grew by more than 30 % in the USA. This was the result of the growing need to reduce healthcare costs. Payers (eg. insurance companies and employers) are

Net sales, FIM million



Key figures

	1996	1995	%
Net sales, FIM million	845	712	+19
Operating profit, FIM million	108	66	+64
Personnel, average	1,015	952	+7

increasingly subjecting providers such as hospitals to competitive bidding for various healthcare services. This is leading to fundamental changes in the healthcare system, and to alliances and mergers of healthcare providers, payers and the industry serving them. Datex-Engstrom has succeeded in demonstrating an integrated approach to patient monitoring and information management which has proved able to help healthcare providers adapt to the changes in reimbursement schemes.

In Germany, the world's second largest healthcare market, investments remained largely at a standstill pending progress on far-reaching federal healthcare reforms. Despite the decline in this market, Datex-Engstrom increased both sales and market share.

Sales declined significantly in the UK, but this trend was expected. The drop was mainly due to the absence of large deals which had boosted the previous year's sales to record levels. In France, by contrast, Datex-Engstrom had another very successful year with an almost 25 % increase in sales and a significant gain in market share. In the Netherlands sales rose approximately 50 % due to several large sales contracts. In the Nordic countries sales exceeded targets.

In its Latin American markets Datex-Engstrom had another very successful year. Targets were exceeded, particularly in Brazil and Colombia. Support for this region by the Regional Support Centre in Miami was strengthened during the year.

In Japan investment levels fell as the economy showed no growth but Datex-Engstrom increased its market share. Sales are gradually rising in the large and potentially promising markets in both China and South East Asia, where Datex-Engstrom concentrated on consolidating its presence through local distributors and the Regional Support Centre in Hong Kong. In Thailand, Datex-Engstrom supplied a large number of ventilators and respiratory supplies for a hospital project. Sales were also brisk in Australia.

A new corporate identity

The organisations of the Swedish ventilator manufacturer Engström and the Finnish software company Clinisoft, both acquired in 1994, were fully integrated during the year. Engström brought established core expertise in ventilators and supplies for intensive care; Clinisoft specializes in advanced information systems for intensive care. Datex, Engström and Clinisoft were relaunched as a single entity called Datex-Engstrom. The new corporate identity and company logo were presented to the international medical community in conjunction with the World Congress of Anaesthesiologists in Sydney, Australia, in the spring.

AS/3™ products grow in strength

The AS/3™ Anaesthesia System, a comprehensive family of products covering monitoring, anaesthesia delivery and information management throughout the anaesthesia process, continued to make impressive strides in the world's major markets. The first component, the AS/3™ Anaesthesia Monitor, was introduced in 1992 and by 1996 was into its fourth release of upgrades and new capabilities.

Most significant to the AS/3™ system's successful progress during 1996 was the installation of a large number of AS/3™ Anaesthesia Information Management (AIM) Systems integrated with AS/3™ Anaesthesia Monitors. Time and again the information management capability has proved to be a vital factor in decisions favouring the AS/3™ system. Datex-Engstrom has demonstrated its ability to deliver, and its commitment to upgrading these systems in the future as technology evolves.

The AS/3™ Anaesthesia Delivery Unit (ADU), launched in 1995, marked the third and last main pillar of the AS/3™ system. Across Europe AS/3™ systems combining monitors and ADUs were well received and significant market shares were gained.

CS/3™ — a new product family for intensive care

During the year Datex-Engstrom introduced a family of systems and equipment for intensive care parallel to its family of anaesthesia products. This was in response to the company's strategic decision to expand into intensive care, while maintaining and strengthening its core expertise in anaesthesia. The success of the anaesthesia products, together with know-how acquired through Engström and

Clinisoft, created a ready platform for developing a family of products similar in scope to the AS/3™ system.

Major progress was made in this new sector, with the concept and main components being introduced to distributors and customers in the autumn. By the end of the year a full line of CS/3™ intensive care monitors had been launched, from compact portable models for basic bedside monitoring to high-end monitors for the most critical applications.
The CS/3™ is the first intensive care monitor to provide integrated metabolic monitoring; conventionally, this requires separate and expensive metabolic measuring equipment. Other highlights of the system include a central monitoring station for up to 32 patients, and a full-disclosure arrhythmia workstation which represents state-of-the-art technology in cardiac monitoring and information analysis.

Datex-Engstrom also introduced a new upgraded version of the Clinisoft™ Clinical Information Management System, which offers the most complete means of patient care planning and information management on the market today. Intensive efforts are now under way to develop a new-generation ventilator for intensive care. When launched in late 1998, this will complete Datex-Engstrom's product range for intensive care.

Light Monitor well received

The new portable Light Monitor, based on the same user interface as the AS/3™ and CS/3™ systems, was well received by the markets. It found applications in monitoring of patients during transport, in emergency departments, and in recovery rooms. It also has a large future potential in alternative care applications outside hospitals such as day surgery and emergency services.

Stand-alone monitors remain in demand

Datex-Engstrom gas monitors were given a considerable uplift during the year by Abbott Laboratories, which used Datex-Engstrom's Capnomac Ultima™ multigas monitor to demonstrate the safety and cost-efficiency of its new anaesthetic agent called Sevoflurane™.

The highly successful Cardiocap™ stand-alone

The Clinisoft™ Clinical Information Management System supports therapy planning in the intensive care unit. It also incorporates tools for quality and cost management.

The CS/3™ Monitoring System provides a complete, modular and upgradable solution for all bedside, central, and arrhythmia monitoring requirements.

haemodynamic monitor continued to sell strongly. In a notable project financed by the World Bank, for example, forty Cardiocap™ monitors were delivered to a hospital in Croatia along with thirty AS/3™ Anaesthesia Monitors.

Supplies business expands strongly

The range of respiratory supplies was expanded, most notably by the combination of a heat and moisture exchanger and bacterial/viral filter. Respiratory supplies and single-use products represent a fast developing business for Datex-Engstrom, which is now able to offer a comprehensive line-up for both the anaesthesia and intensive care environments. Many of these are high-technology disposables such as microbial filters and heat and moisture exchangers, which protect the patient from infections and complications associated with drying of the respiratory tract. The range now includes generic products for all types of equipment as well as proprietary items designed to help users gain optimum benefit from their Datex-Engstrom products.

During the year the division made significant investments in this business unit's manufacturing operations. These included expanding the Gällivare unit in northern Sweden, and further development of production co-operation in Estonia.

Promising future for tonometry

In 1996 Instrumentarium's Tonometrics Division started shipments of the Tonocap™ automated tonometry monitor, based on technologies provided by the Datex-Engstrom Division and the in 1995 acquired business of Tonometrics, Inc. The Tonocap™ is the first monitor to provide an easy and automatic method of assessing the adequacy of tissue oxygenation in the gut. Called gastrointestinal tonometry, this modality is proving to be a significant new means of providing advance warning of potentially fatal complications during critical care and major surgery since the gut is among the first organs to be affected by shock, trauma and sepsis, and the last to be restored to normality. As such gastrointestinal tonometry will make an important contribution to improved outcome and shorter patient stay in expensive intensive care units. Instrumentarium holds several patents for this technology and is the only company in world able to provide it.

In late 1996 a distribution network for Tonometrics products was in place in most of the world's markets. Development has also started on incorporating tonometry into Datex-Engstrom's AS/3™ and CS/3™ products.

R&D focus on information management

R&D spending will increase in 1997 following the initiation of several major new projects, especially in information technology. These focus on developing a new generation of patient monitoring and respiratory care products, while simultaneously maintaining the competitive advantage of the current product lines. Datex-Engstrom actively involves its international distribution partners in ongoing R&D projects.

Major investments in production and material management

Datex-Engstrom has concentrated its expertise in patient monitoring and information systems in Helsinki. Anaesthesia delivery products and intensive care ventilators are centred in Bromma, Sweden, where a new production line for the AS/3™ ADUs will be established. Datex-Engstrom is currently renewing and unifying its internal information management systems, which will be the division's single largest investment during 1997.

Prospects

Two major factors are shaping the healthcare markets in the most developed OECD countries today: the increasing pressure to contain costs, and the concurrent development of information technology (IT). The main benefit of information technology to healthcare providers is the wide range of quality improvement and process re-engineering initiatives which it introduces. IT solutions allow hospitals to better control and develop their processes, reduce wastage of time and material resources, and improve their organizations to better satisfy their customers. The rapid development of biotechnology that facilitates “target-oriented” pharmaceuticals, and the proliferation of minimally invasive surgery, are also changing the way patients are treated.

The anaesthesia and critical care equipment industry is maturing; successful companies are developing evolutionary rather than revolutionary products. Considerable efforts are now also needed to establish new monitoring modalities such as Tonometrics and metabolic monitoring, which must increasingly be justified in terms of their cost efficiency benefits and not just quality of patient care. The industry is in a phase of consolidation, through acquisitions and mergers, that is likely to continue in the foreseeable future.

The IT revolution, however, is opening up entirely new business opportunities in the management of anaesthesia and intensive care processes. Datex-Engstrom is well positioned to benefit from this challenge, having successfully integrated its traditional patient monitoring, anaesthesia delivery and ventilation products with state-of-the-art networking and information management solutions as these technologies have themselves developed. Datex-Engstrom solutions are designed to allow the customer to manage information from the anaesthesia and intensive care processes efficiently, and to improve these processes by making more efficient use of care facilities, human resources, pharmaceuticals and medical consumables.

The Light Monitor gained wide acceptance as a compact and versatile patient monitoring solution in the alternate care settings.

A combination of a bacterial/viral filter and a heat and moisture exchanger provides both effective protection against infections and gentle humidification of the patient’s airway.

Medical Equipment and Supplies

The strong emphasis in the industrial countries on raising the cost-efficiency of healthcare services is profoundly affecting the markets. Reliable, easy to use and economical are the key words now applied to medical equipment and supplies.

Instrumentarium Imaging   Merivaara   Soxil Instrumed
Medinovum   Medko Medical   LM-Dental

Diagnostic imaging shows positive growth

Instrumentarium Imaging develops, manufactures and markets diagnostic X-ray imaging equipment. Its customers are hospitals, imaging centres, dental and medical clinics, and dental practices worldwide.

The demand for dental imaging products remained unchanged from previous years. Interest is increasing, however, in digital imaging and demand is growing for more versatile dental X-ray systems. This trend favours Instrumentarium Imaging, whose Orthopantomograph® product family offers innovative features enabling the more sophisticated dental imaging procedures required by the higher end of the market. The medical X-ray and mammography markets, on the other hand, declined, especially in Germany and the USA. This was due to a surge in sales during previous years in anticipation of tighter technical regulations, which recently became effective. The US market, however, appeared to gain strength towards the end of 1996.

Sales of panoramic dental equipment increased substantially and the Orthopantomograph® OP100 gained market share in all the major markets. Growth was especially strong in the USA and Japan. This was offset by disappointing sales of mammography equipment, which declined somewhat in the USA and sharply in several European markets, notably Germany. Demand was buoyant in East Asia.

The Ortho Trans, an innovative option for facilitating accurate placement of dental implants, fulfilled its promises during the year and contributed significantly to the continuing success of the dental imaging product line. An additional version of the Orthopantomograph® specially designed for the Japanese market was launched at the end of the year.

New features launched in 1996 to improve automatic exposure control technology and facilitate breast compression further enhanced the versatility of the Alpha mammography product family. The Delta 16, a new digital imaging system for stereotactic biopsy, was also well received. This product, with its application of 'near-real-time' imaging, makes biopsy procedures considerably easier and faster.

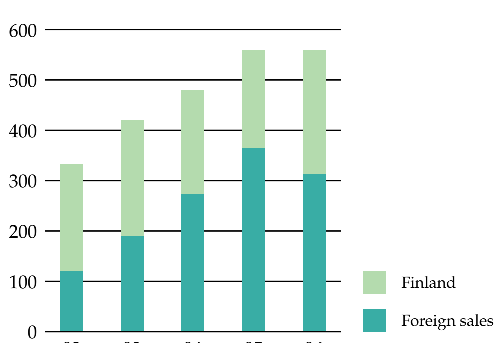
The Omega C mobile C-arm, an imaging system used in operating theatres, was introduced in 1996. The competitive edge of this product, too, rests on its greater ease of use and high image quality.

Repositioning for future growth in European medical furniture markets

Merivaara develops, manufactures and markets furniture and related products for hospitals and nursing homes. These include hospital and delivery beds, operating tables and stretchers, as well as nursing home aids such as hoists, wheelchairs and geriatric chairs. Merivaara's main market is the Nordic countries, with Russia also a significant target for exports.

Demand for Merivaara's products declined in most European markets, where overcapacity and stiff price competition prevail. Sales increased slightly in Finland but demand failed to recover in Sweden and Norway. Exports to Russia fell on the previous year but demand picked up significantly at the year end. A positive development was increasing interest in eastern European countries, especially Poland. Merivaara recorded an overall decrease in sales.

Net sales, FIM million



Key figures

	1996	1995	%
Net sales, FIM million	559	559	+0
Operating profit, FIM million	15	31	-52
Personnel, average	635	654	-3

Merivaara raised its investments in product development during 1996, which is expected to yield positive results in the next few years. The highlights of the year were a new stretcher line, which displayed Merivaara's new visual image and design, and a comprehensive range of accessories for operating tables. Merivaara also undertook measures to increase production efficiency and flexibility since short delivery times have become an important competitive factor.

Merivaara's sales companies in Sweden and Norway were integrated during the year. These will now be responsible for selling primarily Merivaara products in their markets as well as other supporting products obtained from outside the company.

Strengthened sales force in Russia and Estonia

Medko Medical is engaged in project sales and distribution of medical equipment and supplies in Russia and the Baltic countries. Conditions continued unsettled in Russia. Medko Medical's sales declined but its order book for 1997 increased at the end of the year. Sales in Estonia developed favourably.

Medko Medical reorganized its sales and marketing around four units, which are Project Sales and the product groups of Datex-Engstrom, Instrumentarium Imaging and Merivaara. It has also considerably strengthened its local sales and aftersales resources in Russia and Estonia.

Buoyant sales of medical and laboratory equipment and supplies in Finland

Instrumed markets and services medical and laboratory equipment and supplies in Finland produced by internationally leading manufacturers. Its main customers are radiology departments, surgery clinics, operating theatres and anaesthesia and intensive care units, as well as various laboratories in the medical and industrial sectors. Instrumed, one of the major suppliers in this market, provides a full range of services from sales, distribution and installation, to integration with information systems, training, aftersales service and also financing if required.

The Finnish market for medical and laboratory equipment and supplies grew favourably. Instrumed raised sales appreciably and gained market share through its ability to act as an integrator of various equipment and services. In sutures and laparoscopic instruments Instrumed maintained its position as the market leader in Finland.

Finnish market for branded generic pharmaceuticals continues to grow

Medinovum markets branded generic pharmaceuticals in Finland. These products are manufactured by the German company Merckle GmbH, which is one of the biggest suppliers of generic pharmaceuticals in Europe. Medinovum is the pioneer and leader in high-quality, price-competitive generic pharmaceuticals in Finland. These are becoming increasingly popular as the pressure to reduce medical costs rises. Some 90 % of Medinovum's sales consist of prescription drugs, the remaining 10 % coming from over-the-counter products.

Medinovum's sales grew modestly during 1996, due to increased competition and lower price levels of some products. Medinovum made considerable efforts to improve its ability to introduce new products at a fast pace in order to maintain growth.

Consolidation in Italy and the Mediterranean

Soxil is a leading supplier of equipment for operating theatres and manufacturer and distributor of medical equipment and supplies in Italy. Soxil also exports its own anaesthesia products in the Mediterranean. For Soxil, 1996 was a year of transition. During the year the company started marketing and distributing Datex-Engstrom's entire line of products in Italy and moved its business premises to Milan. The company also made further progress on the development of its new anaesthesia delivery system. Soxil plans to achieve ISO 9000 quality certification in 1997.

A solid year for dental hand instruments

LM-Dental supplies dental hand instruments and accessories to the Nordic and other European markets, and dental gold alloys in Finland. Exports increased further during 1996, totalling over half of sales.
The company is the largest supplier of dental hand instruments in the Nordic countries.

Demand for instruments was strong throughout the year. Growth was most pronounced in central and southern Europe, where overall sales increased more than 30 % compared to 1995. Sales also rose slightly in Sweden, despite a decline in this market, and LM-Dental strengthened its overall position in the Nordic countries.

Prospects

The mammography market is expected to regain at least some of its earlier strength in the USA and Europe during 1997. The East Asian markets will continue to grow. In its main product lines, Instrumentarium Imaging is well positioned to capitalize on this improvement. The division also aims to further consolidate its position as one of the world's leading manufacturers of dental panoramic X-ray systems. In 1997 this will mean a strengthening of the distribution channels in some European countries. Another major effort during 1997 will involve launching the Omega C mobile C-arm on several new markets in pace with the continued growth for surgical imaging products.

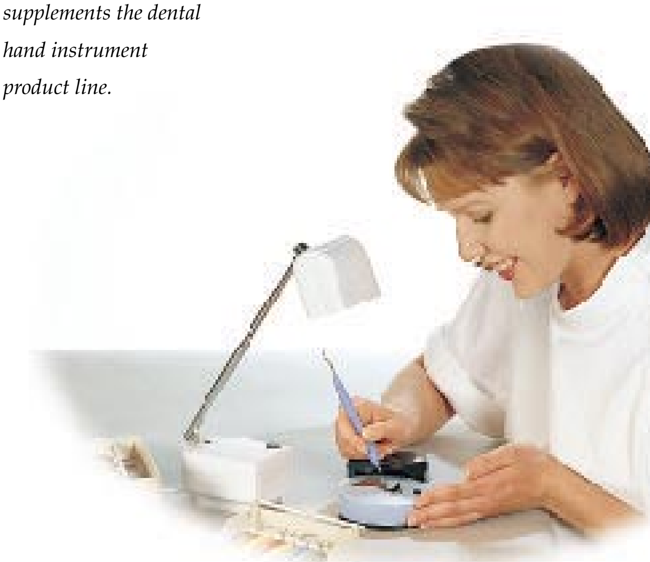
Hospital furniture will continue to be Merivaara's main line of business. However, the elderly are forming an increasingly large proportion of the European population, which is creating further potential for nursing home products. Merivaara's goals in 1997 are to maintain and strengthen its position in the Nordic markets and Russia, and to seek further growth in other European countries. To achieve this it will expand its distribution network and product range.

Prospects for Instrumed in Finland continue to be bright. Through annual purchase contracts and its consultative sales approach Instrumed has been able to maintain sales of consumable products. The year-end orderbook of medical equipment was strong.

Growth potential will remain good in the pharmaceutical business in Finland. Several significant drugs will also become open to competition due to patent expiration within the next few years.

The advanced design of the Omega C ensures high-quality imaging during surgical and interventional applications.

The LM-Rondo instrument sharpener supplements the dental hand instrument product line.



Optical Retail

Eye glasses are an investment deserving careful consideration. The Instrumentarium optical stores offer frames and lenses for every need and taste.

Instrumentarium   Nissen   Keskus-Optiikka   Ögat

The Optical Retail Division specializes in the retailing of optical and home healthcare products. The division supplies eyeglasses, contact lenses and other ophthalmic products in Finland, Sweden and Estonia. In Finland, where the division is the market leader, these products are retailed through a total of 133 outlets. These are organized into three branded chains – Instrumentarium, Nissen and Keskus-Optiikka – each of which addresses a specific customer segment. In Sweden the division operates through the Ögat chain, which has 20 outlets and 6 franchised stores. In Estonia the division has five Instrumentarium outlets.

The Optical Retail Division also supplies a wide range of home healthcare products in Finland. Marketed through 68 of the Instrumentarium outlets, these include various measuring devices, anatomical footwear and aids for the disabled.

During 1996 consumer demand in Finland strengthened, which was also reflected in an overall increase of some 5 % in the market for optical products and more than 10 % for home healthcare products. Demand for optical products fell slightly in Sweden, continuing the trend in several previous years. The establishment of new optical stores increased competition in the Estonian market.

Sales improve as demand increases for more sophisticated products

The Optical Retail Division had a strong year in Finland with overall sales rising by some 16 %. New products were met with great interest. In the eyeglass sector, the introduction of more sophisticated progressive lenses quickly found a ready market among the steadily increasing older section of the population. New plastic, phototropic lenses for eyeglasses also proved popular. Sales of contact lenses also clearly increased as new short-term (one-month) or disposable (24-hour) types requiring little or no care were introduced.

Sales of home healthcare products in Finland rose for the second year running, increasing by 16%. This sector contributes roughly 15 % of the division's aggregate net sales.

Number of outlets increased further

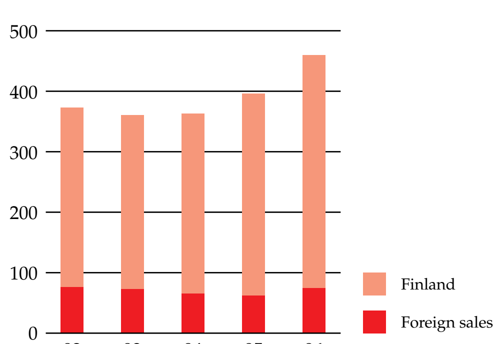
The Keskus-Optiikka chain, acquired in 1995, was integrated during the year with the Optical Retail Division. This allowed the division to gain significant financial benefits through bulk discounts in media costs, stocks in common and greater use of its lens service centre.

During the year the division expanded by opening four stores in Finland and one in both Sweden and Estonia. Three new franchising agreements were also made in Sweden.

Prospects

Consumer demand and purchasing power are expected to grow in Finland as the economy continues to strengthen. The Swedish economy also showed encouraging signs of recovery in late 1996, which is expected to be reflected in a modest increase in demand during 1997. Activity will remain brisk in Estonia, where the division expects to open a further two or three outlets. The first outlet in St. Petersburg, due to be opened in 1996, was postponed until early 1997.

Net sales, FIM million



Key figures

	1996	1995	%
Net sales, FIM million	460	396	+16
Operating profit, FIM million	60	45	+33
Personnel, average	669	618	+8

Distribution of Consumer and Commercial Products

This regional emergency service centre receives about one thousand calls daily, all of which must be handled with absolute reliability. Decisive factors favouring the choice of Stratus central computer delivered by Instru Data were its fault sensitivity and reliability.

Instru Data Oy

Instru Data serves the information technology markets in Finland, the Baltic countries and the St. Petersburg region of Russia. As a wholesaler Instru Data provides software companies and dealers with branded products and related services. As a systems supplier the company focuses on customized work management systems and high-availability systems for critical environments such as banks and emergency services.

The information systems market grew again by more than 10 % in Instru Data's markets. The trend for international manufacturers to reduce direct sales to end-users further strengthened the position of wholesalers in local markets. The company's sales rose mainly in its domestic wholesale business. Exports represented roughly one-third of total sales.

Instru Data now focuses entirely on its information technology interests, having divested its Electronic Weighing Scales operations during 1996. The wholesale business unit concluded an agreement with IBM to distribute the entire IBM product range. The acquisition of Data General's Finnish operations in 1995 followed by an agreement to distribute Stratus products in early 1996 formed a uniform portfolio of high-availability products for critical system environments. The company also broadened its portfolio of work management products after signing an agreement with the US company FileNet Corporation to distribute its document handling systems.

Demand for work management products is expected to grow. In its systems software business, the outlook for the company's Informix database products is very bright.

Oy Bergenheim Yhtiöt Ab

Bergenheim Yhtiöt imports, manufactures and distributes toiletries, cosmetics and consumer dailies. The fragrances and cosmetics brands which it represents command a substantial share of both the retail and tax-free markets in Finland.

Demand for consumer goods picked up in Finland during the year and the company's sales rose by some 6 %. Sales of selective cosmetics were particularly successful and the company gained market share despite no growth in demand. Sales to the Baltic countries and especially to Russia developed positively.

During 1996 the company placed special emphasis on active marketing of its brands and on providing further training for retailers. The company also began distributing certain products through pharmacies. The Clarins, Christian Dior, Kanebo and Almay face and body care products were all successful. New fragrances introduced during the year included Organza by Givenchy and Jardin de Soleil by Escada. All Calvin Klein products, and especially cK one, sold excellently.

Oy Bergenheim Yhtiöt Ab holds a significant share of the Finnish market for baby products. Sales of these increased, as did sales of Scholl footcare products and sandals. The company also made active progress in product development at its own factory. New products introduced during the year included Orient Henna semi-permanent hair colours and Bemina antibacterial kitchen soap.

Oy Bergenheim Yhtiöt Ab is confident of its prospects in 1997 as the economy in Finland shows signs of further buoyant growth.

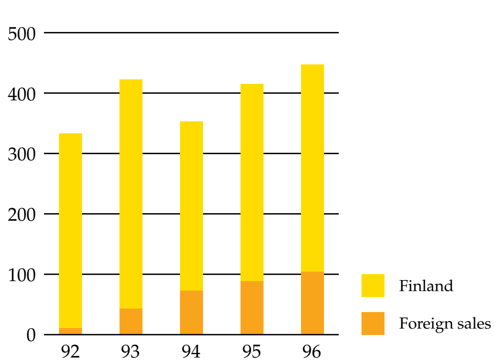
Oy Tekno-Rema Ab

Tekno-Rema is an importer and wholesaler of wireless telecommunications systems and terminal equipment. Most of its sales come from distribution of Motorola cellular phones, Private Mobile Radios (PMR) and paging receivers. Tekno-Rema sells primarily through local distributors, but it also markets PMR systems direct to the industries and public authorities.

Demand of cellular phones increased in 1996, but fierce competition had a sharp impact on Tekno-Rema's sales. The company's sales of PMRs and PMR systems increased during the year. The small Motorola Visar hand portable radio for professional users launched during the previous autumn was extremely well received during the year.

Wireless communications has been one of the world's fastest growing businesses for several years. The consistently growing need for wireless systems, coupled with continual upgrading of terminal products, gives Tekno-Rema a solid basis for profitable trading. Tekno-Rema will continue to concentrate on leading global brands.

Net sales, FIM million



Key figures

	1996	1995	%
Net sales, FIM million	448	415	+8
Operating profit, FIM million	18	22	-18
Personnel, average	244	260	-6

Board of Directors' Report

Consolidated net sales and profit

Instrumentarium's consolidated net sales for 1996 totalled FIM 2,335 million, an increase of 9 % on the previous year. Net sales from exports and operations outside Finland were FIM 1,328 million, which represented 57 % of the Group's net sales.

The Group's profit before extraordinary items, reserves and taxes was FIM 273 (FIM 225 million in 1995). The operating profit was FIM 232 (186) million and net income from financing operations amounted to FIM 41 (39) million.

The profit before reserves and taxes totalled FIM 350 (217) million. Extraordinary income and expenses totalled FIM 76 (-8) million; these were mainly generated from reversals of write-downs of shares in fixed assets made in previous years and from taxes related to extraordinary items.

Earnings per share totalled FIM 9.88, which represented an increase of 21 % on one year earlier. Shareholders' equity per share was FIM 85.91 (75.51).

Group personnel totalled 2,628 at the end of 1996, which was four more than one year before. Altogether 727 (723) employees worked outside Finland at the year end.

Anaesthesia and Critical Care Equipment

Net sales of the Datex-Engstrom Division rose by 19 % on the previous year. Growth was strongest in the USA, where the net sales of Datex-Engstrom's sales company increased by more than 30 %. Sales in Europe fluctuated considerably. The subsidiaries in France, the Netherlands and Spain increased sales by a total of almost 20 %. In Germany, where demand was in decline, Datex-Engstrom's sales company succeeded in increasing sales by 10 %. In other markets sales of Datex-Engstrom's anaesthesia and critical care equipment are handled by independent local distributors, who contributed more than half of the Division's revenue. Datex-Engstrom's fastest growing markets outside the USA and Europe were in Latin America and Southeast Asia.

One factor driving the strong increase in Datex-Engstrom's sales was the continued success of the AS/3™ Anaesthesia System family of products. Following on from the AS/3™ Anaesthesia Monitor, sales of the AS/3™ Anaesthesia Information Management system and AS/3™ Anaesthesia Delivery Unit have risen rapidly. The CS/3™ Critical Care Monitor, launched in autumn 1996, was well received on the market. Sales of supplies and single-use products for anaesthesia and critical care equipment also grew vigorously.

Datex-Engstrom devoted further substantial resources to research and development and to expanding its operations. R&D expenses totalled FIM 103 million in 1996, which was 12 % of net sales. An increasing share of R&D expenses was spent on the development of information technology applications. Active development took place in 1996 in the production of anaesthesia machines and of supplies for anaesthesia and critical care including rationali-

Development by business segment

	Net sales			Operating profit		
FIM million	**1996**	1995	%	**1996**	1995	%
Anaesthesia and Critical Care Equipment	**845**	712	+19	**108**	66	+64
Medical Equipment and Supplies	**559**	559	+0	**15**	31	-52
Optical Retail	**460**	396	+16	**60**	45	+33
Distribution of Consumer and Commercial Products	**448**	415	+8	**18**	22	-18
Group Administration	**23**	66	-65	**31**	22	+41
Total	**2,335**	2,148	+9	**232**	186	+25

zation of the product range of the factories. A project aimed at renewing the information management systems for production and material flow was started in 1996.

The Datex-Engstrom Division's operating profit rose by 64 % on the previous year due to the strong increase in sales and to the Division's ability to prevent costs rising as fast as sales. Sales and marketing costs did not increase in 1996 as strongly as during the previous year, when new sales companies were established and the sales resources were strengthened in pace with the expanded product portfolio.

Medical Equipment and Supplies

Net sales of the Medical Equipment and Supplies segment remained largely unchanged compared to the previous year, when sales also included one-time revenues from project sales totalling FIM 48 million. Eliminating these one-time items, the growth in net sales was 9 %.

Sales of Instrumentarium Imaging's X-ray imaging equipment increased somewhat. Sales of dental X-ray imaging equipment rose substantially in both the USA and Japan, whereas sales of mammography X-ray imaging equipment declined on the previous year. This decline was due to a distinct deterioration in demand for mammography equipment in the USA and Europe, especially Germany. Deliveries of Instrumentarium Imaging's new C-arm operating theatre imaging system began at the end of 1996.

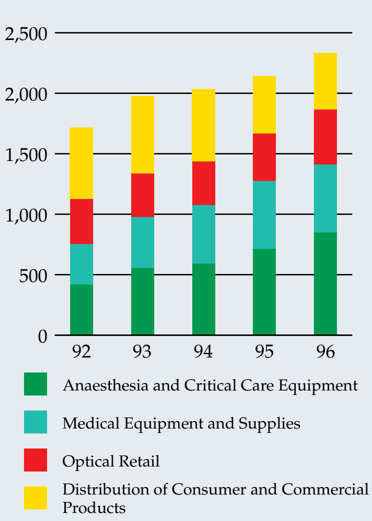
Merivaara concentrates on manufacturing and marketing medical furniture and aids for the disabled. Its sales decreased slightly compared to the prior year, which was especially due to a fall in exports to Russia. Merivaara's sales in Finland were unchanged on the previous year. Sales by Merivaara's sales companies in Sweden, Norway and France decreased from the previous year.

Sales of Instrumed, which markets medical equipment and supplies in Finland, rose strongly since orders for radiology equipment during the previous year were delivered at the end of 1996. Medinovum, which markets branded generic pharmaceuticals, continued to increase its sales and this unit's gross sales totalled FIM 44 million. Revenues of the sales and marketing company Soxil S.p.A., based in Italy, rose marginally on the previous year. LM-Dental, which manufactures dental hand instruments, also increased its net sales, more than half of which were exported.

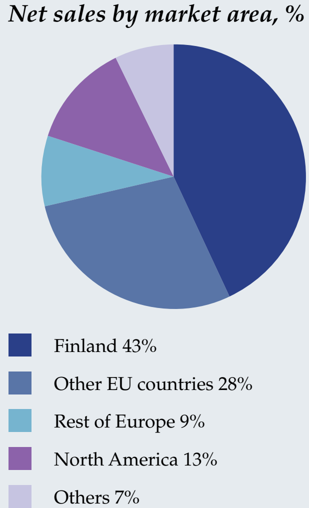
Medko Medical's project and equipment sales showed an overall decrease on the previous year, due mainly to lower project deliveries to Russia. Equipment sales grew, however, and the increase in sales to the Baltic countries was especially notable.

The operating profit of the Medical Equipment and Supplies segment fell from FIM 31 million to FIM 15 million. The main reasons were the low income from project exports coupled with the advance payments entered in the previous year's accounts.

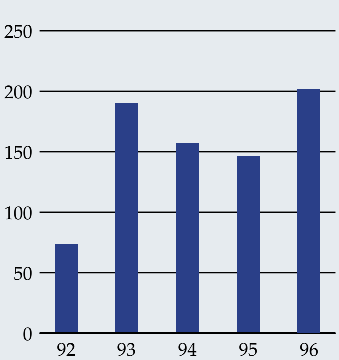
Net sales, FIM million



Net sales by market area, %



Profit before extraordinary items and reserves, after taxes, FIM million



Optical Retail

The Optical Retail Division's net sales increased 16 % on the previous year. The three chains of stores in Finland increased sales likewise by 16 %, almost half of which was due to the acquisition of the Keskus-Optiikka chain in 1995. Sales rose by the same proportion in both optical and home health-care products. The sales of the outlets in Sweden increased by 15 %, calculated in Finnish markka, and

3 % in Swedish krona. The sales of the outlets in Estonia developed well but this did not have a significant effect on this division's overall sales.

Altogether six sales outlets were added during the year, bringing the year-end total to 158. Four new outlets were opened in Finland, making altogether 133. One new outlet was opened in both Sweden and Estonia. The year-end total in Sweden was 20 and in Estonia, five.

The Optical Retail Division's operating profit increased by 33 % on the previous year due to strong sales development and to the gross margin, which remained at the previous year's level. There was also a smaller increase in costs than in net sales.

Distribution of Consumer and Commercial Products

The Distribution of Consumer and Commercial Products segment's aggregate net sales increased by 8 % but its operating profit fell by 18 %.

Net sales of Instru Data Oy, which sells information technology equipment and systems, rose by 18 % and totalled FIM 295 (250) million. This was mainly due to a strong increase in equipment sales in Finland. Sales to the Baltic countries and the St. Petersburg region of Russia also developed well, contributing about 30 % to Instru Data Oy's total sales. The operating profit decreased on the previous year.

Oy Bergenheim Yhtiöt Ab, a wholesaler of cosmetics and consumer dailies, raised its net sales by 6 % to FIM 118 (111) million, in line with domestic consumer demand in general. The operating profit decreased from the previous year.

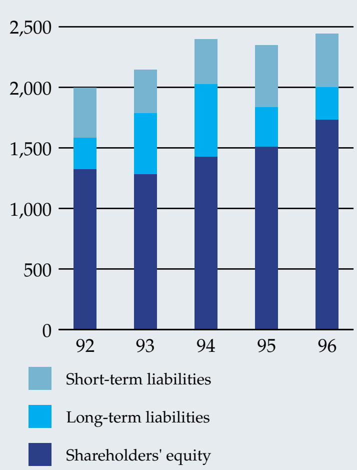
Net sales of Oy Tekno-Rema Ab, which sells wireless communications systems and equipment, fell by 34 % on the previous year and totalled FIM 29 (44) million. Sales of cellular phones, which it distributes in Finland, did not develop in pace with demand. The operating profit increased slightly over 1995.

Financing and investment activities

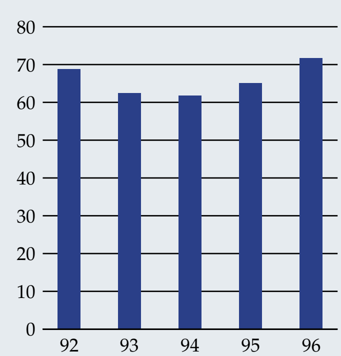
Net financing income was FIM 41 (39) million. Interest income decreased and exchange rate losses increased compared to the previous year. The net contribution of associated companies to net financing income increased to FIM 13 (-2) million. Dividend income totalled FIM 12 (9) million.

Net sales from securities trading was FIM 23

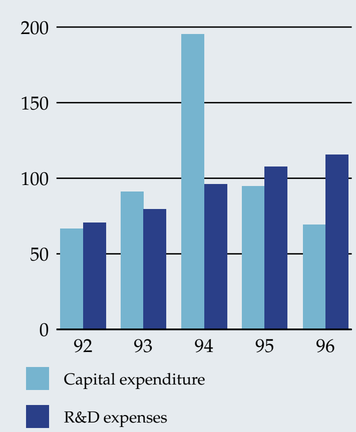
Capital structure, FIM million



Equity ratio, %



Capital expenditure and R&D expenses, FIM million



(66) million. The market capitalization of the Group's equity securities portfolio on 31 December 1996 was FIM 597 (429) million; the corresponding book value was FIM 431 (306) million. The operating profit from securities trading including gains on sales of shares in fixed assets was FIM 28 (30) million.

The Group's equity ratio improved on the previous year and was 72 % (65 %). The Group's interest-bearing debt on 31 December 1996 was FIM 163 million, which was FIM 148 million less than one year before. The Group's liquid assets amounted to FIM 421 (431) million.

Capital expenditure and R&D

Group capital expenditure totalled FIM 69 (95) million. FIM 45 (49) million was invested in machinery and equipment, FIM 2 (0) million to buildings, and FIM 22 (46) million in securities and other long-term expenditure. R&D expenses totalled FIM 116 (113) million.

Personnel and Administration

During the year Group personnel averaged 2,633 employees, an increase of 74 on 1995. The Parent Company, Instrumentarium Corp., employed an average of 1,639 (1,557).

The Supervisory Board was chaired in 1996 by Matti Koskenoja DMS, and the Board of Directors by Markku Talonen, President and CEO of Instrumentarium Corp. The other members of the Board of Directors were Gustav von Hertzen MSc (Tech.), Executive Vice President Olli Riikkala, Chief Financial Officer Matti Salmivuori and Gerhard Wendt PhD.

Prospects for 1997

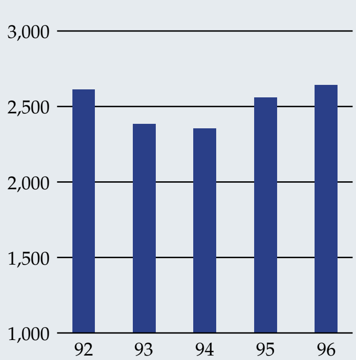
The Instrumentarium Group is focusing on the anaesthesia and critical care business, and it is committed to making this business segment a global leader. Achieving this goal will require continuous investments in R&D and operative development. Prospects in the anaesthesia and critical care sector are favourable.

Demand for medical equipment and supplies varies considerably in different countries and product groups. Altogether, however, prospects in Instrumentarium's businesses are more positive than during 1996.

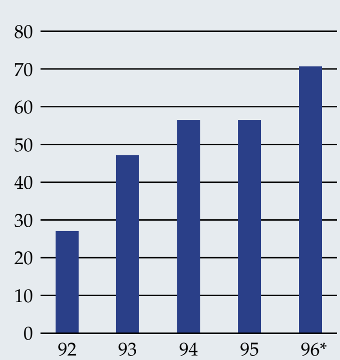
Optical retailing is expected to develop favourably during 1997 both in Finland and in Sweden. Instrumentarium's Optical Retail Division holds a strong position in its markets, so prospects for 1997 are good.

Demand for information systems and wireless telecommunications equipment is expected to remain good. The outlook for growth in the cosmetics and consumer dailies sector will depend on consumer demand in general, which is expected to grow during 1997.

Personnel on average

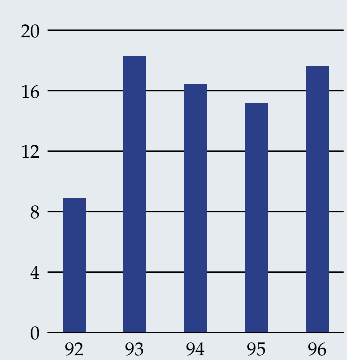


Dividends paid, FIM million



*Proposed by the Board of Directors.

Return on investment, %



Shares and Shareholders

Shares and voting rights

Instrumentarium's share capital is divided into A and B series shares, each with a nominal value of FIM 10. Each A series share carries ten votes at a shareholders' meeting and each B series share carries one vote. Shares of both series provide their holders with equal rights to company profit distribution.

Stock exchanges

Both share series are quoted on the Helsinki Stock Exchange; the A series since 1971 and the B series since 1986. Since 1983 the B shares, in the form of American Depositary Shares (ADSs) evidenced by American Depositary Receipts (ADRs), have been traded on the NASDAQ Stock Market in the United States. Two ADRs equal one B share. At the end of 1995 there were 179,954 ADRs outstanding on the NASDAQ list.

Shareholder register

Shareholders should notify the particular register holding their book-entry account about changes in address or account numbers for payment of dividends and other matters related to ownership of shares.

Dividend

The Board of Directors' proposal for cash dividends is on page 48. Persons registered on 1 April 1997 in the List of Shareholders of Instrumentarium Corporation maintained by the Finnish Central Securities Depositary Ltd., have the right to receive dividends. The payment date for dividends is 4 April 1997.

Shareholdings of personnel, Board of Directors and Supervisory Board

At the end of 1996 there were 282 shareholders among personnel holding a total of 194,378 shares in the company. At the same time members of the Board of Directors and the Supervisory Board held 134,034 A shares and 13,013 B shares, representing 0.73 % of the entire share capital and 0.86 % of the voting rights.

Debt securities and bonds with warrants

At the beginning of 1996, outstanding bonds with warrants issued by the Company in 1989 totalled FIM 150,000. The warrants carried subscription rights for 13,500 B shares at a subscription price of FIM 78.33 per share. The above mentioned warrants have been exercised and 13,500 B shares were subscribed on 9 May 1996. The Company's share capital has increased by FIM 135,000 and the number of the Company's shares now totals 20,163,801.
After this subscription, the Company has no outstanding bonds with warrants.

Authorizations and shareholder agreements

The Board of Directors had no authorizations to increase the Company's share capital during 1996. The Board of Directors is not aware of any shareholder agreements concerning the Company's shares.

Structure of share capital on 31 December 1996

	Number of shares	% of shares	% of votes
A Shares	15,302,451	75.9	96.9
B Shares	4,861,350	24.1	3.1
Total	20,163,801	100.0	100.0

Distribution of ownership on 31 December 1996

Number of shares	Number of shareholders	% of total shareholders	% of shares
1– 100	2,818	27.7	0.7
101– 500	4,392	43.2	5.4
501– 1,000	1,428	14.0	5.1
1,001– 5,000	1,286	12.6	13.1
5,001–10,000	128	1.3	4.4
over 10,000	126	1.2	71.3
Total	10,178	100.0	100.0

Shareholders on 31 December 1996

Principal shareholders of Instrumentarium Corporation in order of voting power:

Shareholder	Number of A shares	B shares	Total	% of shares	% of votes
1. Orion Corporation *	1,046,523	468,954	1,515,477	7.5	6.9
2. Oriola Oy *	741,327	19,110	760,437	3.8	4.7
3. Kuulolaitekeskus Oy *	737,299	-	737,299	3.7	4.7
4. Panfarma Oy *	735,523	-	735,523	3.6	4.7
5. Hiven Oy *	734,500	-	734,500	3.6	4.7
6. Mutual Insurance Company Eläke-Varma	449,209	52,200	501,409	2.5	2.9
7. Instrumentarium Pension Fund**	411,960	141,235	553,195	2.7	2.7
8. Pension Insurance Company Ilmarinen Ltd.	373,600	146,900	520,500	2.6	2.5
9. Instrumentarium Scientific Fund	299,739	-	299,739	1.5	1.9
10. Medical Investment Trust Oy	298,000		298,000	1.5	1.9
11. The Finnish Medical Society Duodecim	250,103	60	250,163	1.2	1.6
12. The Finnish Cultural Foundation	220,087	-	220,087	1.1	1.4
13. The Local Government Pensions Fund	195,500	89,200	284,700	1.4	1.3
14. Salama Life Insurance Company Ltd.	174,300	65,100	239,400	1.2	1.1
15. The Finnish Medical Foundation	172,851	-	172,851	0.9	1.1
16. Suomi Mutual Life Assurance Company	159,000	73,612	232,612	1.2	1.1
17. Nova Life Insurance Company Ltd.	131,000	125,000	256,000	1.3	0.9
18. Pension Foundation Polaris	136,620	12,420	149,040	0.7	0.9
19. The Social Insurance Institution	120,600	-	120,600	0.6	0.8
20. Lassila & Tikanoja Oy	96,000	23,400	119,400	0.6	0.6
	7,483,741	1,217,191	8,700,932	43.2	48.2
Nominee registered:					
Merita Bank Oy	824,694	1,731,656	2,556,350	12.7	6.3
Other register holders	7,500	47,000	54,500	0.3	0.1

* Part of the Orion Group.
** Not entitled to vote at the General Shareholders' Meeting.

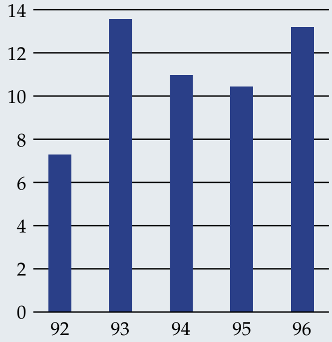
Ownership structure on 31 December 1996

Group	Number of shareholders	Number of shares	% of shares
Private persons	9,462	5,632,099	27.9
Companies	349	5,970,338	29.6
Associations and foundations	329	4,427,340	22.0
Mutual funds	7	174,939	0.9
Insurance companies	15	1,315,208	6.5
Financial institutions	12	11,937	0.1
Nominee-registered	4	2,610,850	12.9
Shares not transferred to the book-entry system		21 090	0.1
Total	10,178	20,163,801	100.0

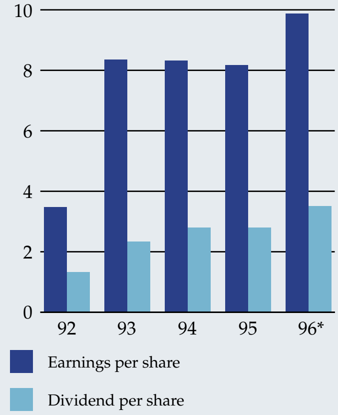
Share capital increases since 1987

Share issue	Subscription period	Terms of subscription or subscriber	Subscription price	Number of new shares	Total shares
Subscription	6.2.87	acquisition	197.60	25,000 B restricted	5,325,000
Subscription	5.3.87	acquisition	190.00	20,000 B restricted	5,345,000
Subscription	5.3.87	acquisition	190.00	10,000 B restricted	5,355,000
Subscription	27.4.87	acquisition	220.00	15,000 B restricted	5,370,000
Subscription	18.9.87	acquisition	315.00	20,000 B restricted	5,390,000
Bonus issue	22.1.–23.2.88	5:1 A	-	839,025 A	6,229,025
Bonus issue	22.1.–23.2.88	5:1 B restricted	-	68,917 B restricted	6,297,942
Bonus issue	22.1.–23.2.88	5:1 B non-restricted	-	170,058 B non-restricted	6,468,000
Subscription	22.1.–23.2.88	personnel	130.00	82,000 B restricted	6,550,000
Subscription	22.6.88	acquisition	223.00	86,000 B restricted	6,636,000
Subscription	22.12.88	acquisition	218.00	14,100 B restricted	6,650,100
Subscription	23.6.92	acquisition	300.00	66,667 A	6,716,767
Split	21.4.94	1:2 A	-	5,100,817 A	11,817,584
Split	21.4.94	1:2 B	-	1,615,950 B	13,433,534
Bonus issue	21.4.94	2:1 A	-	5,100,817 A	18,534,351
Bonus issue	21.4.94	2:1 B	-	1,615,950 B	20,150,301
Subscription	9.5.96	warrants	78.33	13,500 B	20,163,801

Cashflow per share, FIM

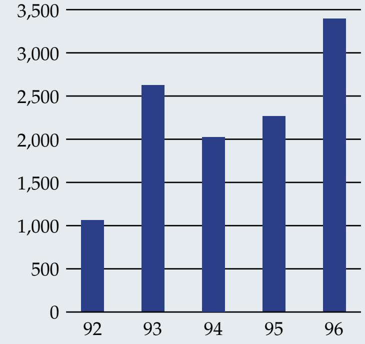


Earnings and dividend per share, FIM



*Proposed by the Board of Directors.

Market capitalization, FIM million



Performance of Instrumentarium shares

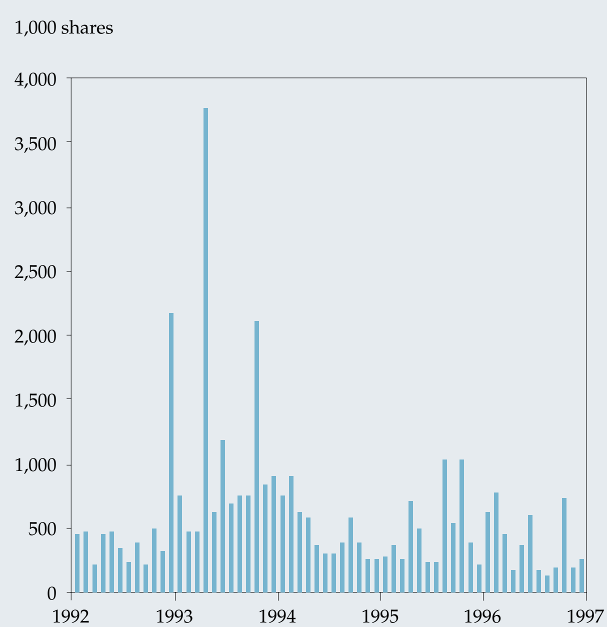
	The Helsinki Stock Exchange						NASDAQ, Wash.D.C.	
	A Share, FIM			B Share, FIM			ADR, USD	
	high	low	average	high	low	average	high	low
1992	57.67	37.67	48.25	46.67	26.00	40.80	4.92	3.00
1993	133.67	50.67	80.93	131.67	45.67	89.86	10.83	3.67
1994	155.00	97.00	135.03	148.00	45.00	129.49	13.50	9.75
1995	115.00	74.00	96.00	115.00	74.00	94.30	13.75	8.25
1996	173.00	113.00	142.27	172.00	112.00	136.57	18.50	12.00

Trading volumes of Instrumentarium shares

	The Helsinki Stock Exchange				NASDAQ, Wash. D.C.	
	A Share		B Share		ADR	
	Volume	% shares outstanding	Volume	% shares outstanding	Volume	% shares outstanding
1992	3,887,214	25.6	2,337,699	52.6	1,106,079	136.7
1993	7,674,447	50.2	5,593,563	129.8	183,175	67.9
1994	2,884,284	18.8	2,791,513	60.7	151,235	60.8
1995	2,496,636	16.3	3,304,319	68.2	113,069	41.6
1996	3,171,988	20.7	1,482,539	30.5	28,951	13.7

Performance of A and B shares

Trading volumes of A and B shares



Income Statement

(FIM 1,000)	Note*	CONSOLIDATED 1996	%	1995	%	PARENT COMPANY 1996	%	1995	%
Net sales	(1)	**2,335,483**	100.0	2,147,852	100.0	**1,351,256**	100.0	1,191,188	100.0
Cost of goods sold		**-1,195,650**		-1,095,031		**-657,179**		-573,724	
Gross margin		**1,139,834**	48.8	1,052,821	49.0	**694,077**	51.4	617,464	51.8
Selling and marketing expenses		**-652,535**		-602,240		**-335,834**		-313,515	
Research and development expenses		**-115,865**		-113,446		**-89,991**		-103,933	
Administrative expenses		**-146,784**		-139,171		**-69,154**		-65,453	
Other operating expenses	(3)	**-22,046**		-29,838		**-16,789**		-40,023	
Other operating income	(3)	**52,813**		39,582		**41,157**		44,359	
Amortization of goodwill		**-23,435**		-21,575		**-**		-	
		-907,851		-866,687		**-470,611**		-478,565	
Operating profit		**231,983**	9.9	186,134	8.7	**223,466**	16.5	138,899	11.7
Financing income and expenses	(5)	**41,330**		39,067		**-47,268**		29,486	
Profit before extraordinary items, reserves and taxes		**273,313**	11.7	225,201	10.5	**176,198**	13.0	168,385	14.1
Extraordinary income and expenses	(6)	**76,251**		-7,706		**79,781**		-884	
Profit before reserves and taxes		**349,563**	15.0	217,495	10.1	**255,979**	18.9	167,501	14.1
Increase (-) or decrease (+) in depreciation difference		**-**		-		**27,809**		24,327	
Taxes	(8)	**-72,937**		-78,720		**-64,120**		-51,911	
Profit for the period before minority interest		**276,626**	11.8	138,775	6.5	**219,669**	16.3	139,917	11.7
Minority interest		**-1,196**		848					
Profit for the period		**275,430**	11.8	139,623	6.5	**219,669**	16.3	139,917	11.7

* Notes to the financial statements pages 34–45.

Statement of Cashflows

(FIM 1,000)	CONSOLIDATED **1996**	1995	PARENT COMPANY **1996**	1995
Funds from operations				
Operating profit	**231,983**	186,134	**223,466**	138,899
Depreciation	**90,000**	84,254	**43,878**	47,766
Financing income and expenses	**41,330**	39,067	**31,443** [1]	29,486
Extraordinary items	**-58,933** [1]	-7,705	**-39,719**	-884
Taxes	**-72,937**	-78,721	**-64,119**	-51,911
	231,443	223,029	**194,949**	163,356
Changes in working capital				
Inventories	**-7,744**	29,311	**-11,209**	21,852
Current receivables	**17,598**	-79,812	**41,273**	-53,499
Interest-free short-term debt	**31,113**	-86,463	**20,599**	-96,470
	40,967	-136,964	**50,663**	-128,117
Cashflow from operations	**272,410**	86,065	**245,612**	35,239
Capital expenditure				
On fixed assets	**-69,251** [1]	-94,806	**-103,690** [1]	-88,499
Gain on sale of fixed assets	**9,979**	51,742	**25,112**	65,108
	-59,272	-43,064	**-78,578**	-23,391
Cashflow before financing	**213,138**	43,001	**167,034**	11,848
Financing				
Long-term receivables	**-11,801**	42,508	**-93,897**	91,757
Change in deferred tax liability	**-10,744**	-229		
Long-term loans	**-43,910**	-45,665	**-32,370**	-27,516
Short-term loans	**-103,439**	5,391	**-7,662**	-22,467
Dividends and donations	**-56,721**	-56,571	**-56,571**	-56,571
Share issue	**1,057**		**1,057**	
	-225,558	-54,566	**-189,443**	-14,797
Change in liquid assets as calculated	**-12,420**	-11,565	**-22,409**	-2,949
Translation adjustment	**4,894**	-3,600	**0**	0
Change in liquid assets in balance sheet	**-7,526**	-15,165	**-22,409**	-2,949

[1] Change in value having no impact on cashflow is not taken into account.

Balance Sheet

		CONSOLIDATED				PARENT COMPANY			
(FIM 1,000)	Note*	**1996**	%	1995	%	**1996**	%	1995	%
ASSETS									
Fixed assets and other long-term assets									
Intangible assets	(9)								
Intangible rights		**14,612**		13,806		**8,859**		7,198	
Goodwill		**102,396**		124,657					
Other long-term expenditure		**59,716**		62,367		**56,249**		55,220	
		176,724	7.2	200,830	8.5	**65,108**	3.0	62,418	3.0
Tangible assets	(9)								
Land areas		**25,701**		25,512		**24,846**		24,657	
Buildings and constructions		**180,381**		186,056		**167,368**		171,900	
Machinery and equipment		**106,429**		109,356		**55,109**		59,199	
Advance payments and construction in progress		**864**		875		**864**		875	
		313,375	12.7	321,799	13.6	**248,187**	11.4	256,631	12.4
Shares and other long-term investments	(9)								
Shares and shareholdings		**468,948**		320,311		**718,425**		626,240	
Loans receivable		**3,938**		15,590		**3,938**		14,882	
		472,886	19.2	335,901	14.2	**722,363**	33.0	641,122	31.0
Current assets									
Inventories	(10)								
Materials and supplies		**72,083**		67,599		**50,823**		47,882	
Work in progress		**43,153**		43,586		**26,729**		29,386	
Finished goods		**252,673**		245,428		**109,370**		98,445	
Other inventories		**69,047**		72,599					
		436,956	17.8	429,212	18.2	**186,922**	8.6	175,713	8.5
Receivables	(10)								
Accounts receivable		**431,666**		412,489		**179,816**		185,925	
Loans receivable		**32,715**		20,914		**283,938**		190,041	
Accrued receivables		**60,888**		101,735		**40,699**		65,144	
Other receivables		**113,148**		109,076		**82,522**		93,241	
		638,417	26.0	644,214	27.3	**586,975**	26.8	534,351	25.8
Interest-bearing debt securities	(10)	**323,068**	13.1	349,883	14.8	**322,895**	14.8	349,739	16.9
Cash and bank receivables		**98,313**	4.0	79,024	3.3	**53,760**	2.5	49,325	2.4
		2,459,739	100.0	2,360,863	100.0	**2,186,210**	100.0	2,069,299	100.0

* Notes to the financial statements pages 34–45.

(FIM 1,000)	Note	CONSOLIDATED 1996	%	1995	%	PARENT COMPANY 1996	%	1995	%
LIABILITIES AND SHAREHOLDERS' EQUITY									
Shareholders' equity									
Restricted shareholders' equity	(11)								
Share capital		**201,638**		201,503		**201,638**		201,503	
Other restricted equity		**198,471**		183,015		**194,537**		193,615	
		400,109		384,518		**396,175**		395,118	
Non-restricted shareholders' equity	(11)								
Equity share of depreciation difference and reserves		**361,095**		382,330					
Retained earnings		**695,660**		601,162		**725,560**		642,213	
Profit for the period		**275,430**		139,623		**219,669**		139,917	
		1,332,185		1,123,115		**945,229**		782,130	
		1,732,294	70.4	1,507,633	63.9	**1,341,404**	61.4	1,177,248	56.9
Minority interest		**15,951**	0.6	13,886	0.6				
Reserves	(12,13)								
Accumulated depreciation difference		**-**		-		**220,095**		218,669	
Investment reserves		**-**		-		**157,047**		165,847	
Other reserves		**-**		-		**91,093**		111,529	
		-		-		**468,235**	21.4	496,045	24.0
Liabilities									
Long-term liabilities	(14)								
Loans from financial institutions		**5,567**		27,818		**3,942**		14,163	
Loans from pension funds		**108,094**		133,348		**72,447**		94,595	
Deferred taxes		**129,361**		140,105					
Other long-term debt		**25,148**		22,423		**150**		150	
		268,170	10.9	323,694	13.7	**76,539**	3.5	108,908	5.3
Current liabilities	(14)								
Loans from financial institutions		**11,829**		111,815		**2,987**		6,651	
Loans from pension funds		**1,799**		2,720		**-**		795	
Advance payments received		**21,281**		22,923		**14,858**		12,783	
Accounts payable		**153,610**		144,070		**79,293**		66,050	
Accrued liabilities		**179,506**		170,699		**101,556**		94,746	
Other short-term debt		**75,299**		63,423		**101,338**		106,073	
		443,324	18.0	515,650	21.8	**300,032**	13.7	287,098	13.9
		2,459,739	100.0	2,360,863	100.0	**2,186,210**	100.0	2,069,299	100.0

I ACCOUNTING PRINCIPLES

The consolidated financial statements, the parent company's financial statements and the financial statements of the Finnish subsidiaries have been prepared in accordance with legislation and generally accepted accounting principles in Finland. The financial statements of foreign subsidiaries have been adjusted to correspond with the Finnish financial statements.

Consolidation

The consolidated financial statements include Instrumentarium Corporation and those companies in which the parent company, directly or indirectly, holds more than 50 % of the voting rights. The Company owns 90.00 % of Litonii Gård Ab and 70.42 % of Bostads Ab Hafnia. These were not consolidated due to the different nature and small volume of business activities involved; nor would their consolidation have weakened the Group's result or shareholders' equity. All the subsidiaries included in the consolidated figures are mentioned in Note 9 of Notes to the Financial Statements. In addition to the subsidiaries mentioned in the Notes, the following companies were consolidated: Instru Data General Oy, Instru Data ZAO, UAB Instru Data, and Instru Data Eesti AS, all of which belong to the Instru Data Oy subgroup; and Lääkintämuovi Oy, part of the L-Dental Products Lumme Oy subgroup.

Companies acquired during the accounting period were consolidated in the Group's income statement from the date of acquisition. Companies sold during the accounting period are included in the consolidated income statement up until the date of sale.

The consolidated accounts have been prepared using the purchase method. The difference between the acquisition value and balance sheet value of subsidiaries is partially booked under fixed assets of subsidiaries in the consolidated balance sheet. Goodwill represents the share in excess of the market value of the assets and is principally amortized over a period of five years. Goodwill arising from the acquisition of the anaesthesia and intensive care business in 1994 is amortized over 20 years since the products manufactured by this business require a long development period and the technology they represent is slow to become obsolete. The products are estimated to have an average economic life of about 20 years. These principles are also applied where appropriate in the case of mergers or liquidations of Group companies. Intragroup receivables and debts and the effects of intragroup transactions are eliminated. Minority interests are separated before reserves but after taxes. They are also separated from shareholders' equity and reserves. Minority interests are shown in the consolidated income statement and balance sheet as separate items. The Group's share of profits and losses in associated companies (ownership 20–50 %) is included in accordance with the equity accounting method.

Foreign currency items and derivatives

Transactions in foreign currencies are recorded at the rates of exchange prevailing at the dates of the transactions. At the end of the period the unsettled balances on foreign currency transactions are valued at the Bank of Finland's average rate of exchange prevailing on the balance sheet date. Foreign exchange gains and losses are entered under financing income and expenses.

In the consolidated accounts, the income statements of foreign Group companies are translated into Finnish markka at the average rates of exchange computed from the Bank of Finland's daily rates. All balance sheet items, excluding the net profit for the year, are translated into Finnish markka at the Bank of Finland's average rates on the balance sheet date. Differences arising from the translation of shareholders' equity and the income statement and balance sheet are recorded under non-restricted shareholders' equity.

Unrealized exchange rate gains or losses associated with the company's currency derivatives portfolio are not taken into consideration unless a corresponding entry was made for the hedged balance sheet item. The interest difference of derivative contracts is deferred in the financial statements under either interest expenses or interest income.

The interest rate derivatives portfolio is valued in the financial statements at the lower of purchase price or market value.

Exchange rates used in consolidation:

		Income statement		Balance sheet	
		1996	1995	1996	1995
USA	USD	4.594	4.367	4.644	4.359
Sweden	SEK	0.685	0.613	0.675	0.655
France	FRF	0.898	0.875	0.886	0.891
Netherlands	NLG	2.725	2.721	2.662	2.719
Norway	NOK	0.711	0.689	0.721	0.690
Germany	DEM	3.053	3.048	2.988	3.044
Italy	ITL(1000)	3.000	2.680	3.040	2.750
Spain	ESP	0.036	0.035	0.035	0.036

Net sales

Net sales is calculated as gross sales revenue less indirect sales taxes and discounts. Net sales for 1994 and 1993 have been adjusted to correspond with the figures for 1995. Revenues from products and services are recognized from the date of delivery.

Research and development expenses

Research and development expenses, including capital expenditure on machinery and equipment, are expensed as incurred.

Pension schemes

The pension schemes and additional pension benefits of parent company employees are covered by Instrumentarium's Pension Fund. The pension schemes of Finnish subsidiaries are covered by pension insurance companies. Non-Finnish subsidiaries make their own pension arrangements in accordance with local practice and legislation.

Pension costs are charged to the income statement as expensed and as the commitment arises. The parent company is responsible for a minor share of additional pension benefits and they are recorded as charged.

Inventories

Inventories are stated at the lower of cost, on a first-in-first-out (FIFO) basis, or net realizable value. Net realizable value is the amount that can be realized from the sale of the asset in the normal course of business less the costs of realization. In the case of products manufactured by the Company itself, inventory values in the consolidated accounts include an appropriate proportion of production overheads in addition to the direct cost of purchase.

Interest-bearing debt securities

Bonds and other interest-bearing debt securities are valued at their lowest value. If the book value is higher than the market value, the market value is used for valuation purposes.

Fixet assets and depreciation

Fixed asset values are based on the original direct cost of acquisition less planned depreciation. In addition, the values for certain land areas and buildings include revaluations which are shown separately in the Notes. Depreciation is calculated from the direct acquisition cost on a straight-line basis according to the useful life of the assets. Depreciation is not calculated on land areas and revaluations.
The useful lives of the assets are as follows:

• Intangible assets	5–10 years
• Goodwill	5–20 years
• Other long-term expenses	3–10 years
• Buildings and structures	20–40 years
• Machinery and equipment	4–10 years

Extraordinary income and expenses

Extraordinary income and expenses include income and expenses incurred in the closure or divestment of business operations and reversals of writedowns of shares in fixed assets. In addition to these, extraordinary expenses in 1996 also include taxes on extraordinary income and expenses.

Taxes

The taxes for the review year are shown separately from taxes for previous years in the Notes to the Income Statement. From 1996 onwards taxes on extraordinary income and expenses are entered under extraordinary items.

To cover the deferred tax liability, a tax reserve was made at the end of the accounting period according to the prevailing tax rate. The change in deferred tax liability is recorded in the income statement. The deferred tax liability consists of untaxed reserves and tax receivables related to consolidation. Tax receivables related to the future use of confirmed losses are not included until they are actually used.

Untaxed reserves

According to legislation introduced in Finland at the beginning of 1993, companies are not permitted to make new untaxed reserves, and existing reserves must be reversed or used to cover the acquisition cost of existing fixed assets by the end of 1997. These accumulated untaxed reserves, net of deferred tax liability, are included in the balance sheet as part of non-restricted shareholders' equity. However, they cannot be treated as disposable funds.

II NOTES TO THE INCOME STATEMENT

(FIM 1,000)	CONSOLIDATED 1996	1995	PARENT COMPANY 1996	1995
1. Geographical distribution of net sales				
Finland	**1,007,391**	930,778		
Rest of EU	**659,899**	600,840		
Rest of Europe	**202,147**	236,940		
North America	**301,482**	250,598		
Rest of the world	**164,564**	128,696		
Total	**2,335,483**	2,147,852		
2. Employee expenses				
Wages and benefits in kind	**460,803**	444,495	**245,752**	249,917
Pension insurance expenses and contributions to the Pension Funds	**34,706**	25,960	**15,087**	2,852
Other employee expenses	**71,377**	66,364	**28,852**	31,388
Total	**566,886**	536,819	**289,691**	284,157
Remuneration paid to the members of the Supervisory Board and the Board of Directors and managing directors	**11,958**	11,830	**3,333**	3,268
Bonuses and fees for the above	**675**	1,199	**-**	250

Pension arrangements for management:
Members of the Board of Directors of Instrumentarium Corp. may retire at the age of 60.

(FIM 1,000)	CONSOLIDATED 1996	1995	PARENT COMPANY 1996	1995
3. Other operating income and expenses				
Income				
Rental income	**27,582**	27,649	**24,286**	23,850
Other income	**25,231**	11,934	**16,872**	20,510
Total	**52,813**	39,583	**41,158**	44,360
Expenses				
Expenses on property rented out	**19,406**	25,331	**16,482**	23,029
Other expenses	**2,639**	4,507	**308**	16,993
Total	**22,045**	29,838	**16,790**	40,022
4. Depreciation				
Depreciation by function				
Depreciation of goods sold	**17,538**	18,736	**9,893**	10,153
Selling and marketing depreciation	**26,147**	24,400	**18,551**	24,306
Depreciation on research and development	**4,032**	2,687	**2,778**	1,641
Depreciation on administration	**13,535**	9,777	**7,507**	5,732
Other depreciation on business operations	**5,313**	7,079	**5,150**	5,934
Amortization of goodwill	**23,435**	21,575	**-**	-
Total	**90,000**	84,254	**43,879**	47,766
Booked depreciation	**58,225**	57,668	**14,384**	22,572
Depreciation difference	**31,775**	26,586	**29,495**	25,194
Correction of the depreciation difference caused by the sale of fixed assets	**-2,378**	-1,460	**-1,685**	-867
Depreciation difference in income statement	**29,397**	25,126	**27,810**	24,327
Transferred to shareholders' equity after deduction of deferred tax liability and minority interest	**29,398**	25,124	**-**	-

(FIM 1,000)	CONSOLIDATED 1996	1995	PARENT COMPANY 1996	1995
5. Financing income and expenses				
Dividend income	**11,808**	9,277	**1,237**	1,380
Dividend income, subsidiaries	**-**	-	**1,888**	1,490
Interest income	**35,287**	47,837	**30,624**	45,951
Interest income, subsidiaries	**-**	-	**13,053**	12,019
Other financing income	**37,980**	35,111	**33,834**	26,976
Other financing income, subsidiaries	**-**	-	**629**	497
Interest expenses	**-17,847**	-25,228	**-10,038**	-12,306
Interest expenses, subsidiaries	**-**	-	**-4,145**	-4,047
Other financing expenses	**-38,802**	-25,756	**-35,639**	-23,320
Writedowns on investments	**-**	-	**-78,711**	-19,153
Share of profits and losses of associated companies	**12,905**	-2,174	**-**	-
Total	**41,331**	39,067	**-47,268**	29,487

Consolidated other financing income for 1996 includes exchange rate gains totalling FIM 34,018,000 (FIM 31,777,000 in the previous year). Other financing expenses includes exchange rate losses totalling FIM 38,473,000 (FIM 24,332,000).

(FIM 1,000)	CONSOLIDATED 1996	1995	PARENT COMPANY 1996	1995
6. Extraordinary income and expenses				
Income				
Gains on sale of business operations	**6,234**	3,429	**4,480**	-
Reversals of writedowns	**135,184**	-	**119,500**	-
Group contributions	**-**	-	**13,532**	8,950
Total	**141,418**	3,429	**137,512**	8,950
Expenses				
Expenses related to the closing down or sales of business operations	**5,706**	11,135	**134**	9,834
Taxes from extraordinary income and expenses	**59,461**	-	**57,598**	-
Total	**65,167**	11,135	**57,732**	9,834
Extraordinary income and expenses, total	**76,251**	-7,706	**79,780**	-884
7. Change in voluntary reserves				
Reserve for future investments	**-**	93	**-**	-
Operating reserve	**29**	442	**-**	-
Transition reserve	**-**	9	**-**	-
Other reserves	**270**	715	**-**	-
Total	**299**	1,259	**-**	-
Transferred to shareholders' equity after deduction of deferred taxes and minority interest	**300**	1,259	**-**	-
8. Taxes				
For the financial period	**82,552**	62,005	**62,824**	48,075
For previous years	**1,180**	17,044	**1,296**	3,836
Change in deferred tax liability	**-10,794**	-328	**-**	-
Total	**72,937**	78,721	**64,120**	51,911
Taxes from normal business activities	**72,937**	61,498	**-**	-
Taxes from extraordinary income and expenses	**-**	1,292	**-**	-
Change in tax rate on deferred tax liability	**-**	15,930	**-**	-

9. Fixed assets
Intangible and tangible assets

(FIM 1,000)	Intangible rights	Goodwill	Other long-term expenditure	Intangible assets, total	Land areas	Buildings and constructions	Machinery and equipment	Advance payments and construction progress	Tangible assets, total	Total
Consolidated										
Original purchase cost or revalue 1 Jan.	21,885	207,692	104,431	334,008	25,512	246,912	301,287	875	574,586	908,594
Investments during the period	4,002	2,262	12,061	18,325	189	2,226	44,725		47,140	65,465
Sales of companies and other deductions	-828	-4,282	-3,093	-8,203			-36,647	-11	-36,658	-44,861
Translation adjustment	115		-42	73			3,454		3,454	3,527
Total purchase cost 31 Dec.	25,174	205,672	113,357	344,203	25,701	249,138	312,819	864	588,522	932,725
Accumulated depreciation 1 Jan.	8,079	83,036	42,064	133,179		60,856	191,931		252,787	385,966
Depreciation for the period	3,106	23,435	14,585	41,126		7,901	40,973		48,874	90,000
Sales of companies and other deductions	-757	-3,195	-3,008	-6,960			-28,516		-28,516	-35,476
Translation adjustment	134			134			2,002		2,002	2,136
Total accumulated depreciation 31 Dec.	10,562	103,276	53,641	167,479		68,757	206,390		275,147	442,626
Purchase cost 31 Dec.	25,174	205,672	113,357	344,203	25,701	249,138	312,819	864	588,522	932,725
Accumulated depreciation 31 Dec.	10,562	103,276	53,641	167,479		68,757	206,390		275,147	442,626
Book value 31 Dec.	14,612	102,396	59,716	176,724	25,701	180,381	106,429	864	313,375	490,099
Fire insurance value						262,188				
Accumulated depreciation difference 1 Jan.	5,817		36,101	41,918		135,768	48,691		184,459	226,377
Depreciation difference for the period	-1,110		-6,432	-7,542		-4,406	-19,828		-24,234	-31,776
Investment reserve/transition reserve	3,096		8,249	11,345		1,182	17,900		19,082	30,427
Sales profit							2,378		2,378	2,378
Translation adjustment							20		20	20
Accumulated depreciation difference 31 Dec.	7,803		37,918	45,721		132,544	49,161		181,705	227,426
Parent company										
Original purchase cost or revalue 1 Jan.	10,551		122,542	133,093	24,657	215,605	167,127	875	408,264	541,357
Investments during the period	3,096		14,467	17,563	189	2,226	17,940		20,355	37,918
Sales of companies and other deductions	-321		-34,710	-35,031			-16,677	-11	-16,688	-51,719
Purchase cost 31 Dec.	13,326		102,299	115,625	24,846	217,831	168,390	864	411,931	527,556
Accumulated depreciation 1 Jan.	3,353		67,322	70,675		43,705	107,927		151,632	222,307
Depreciation for the period	1,435		13,438	14,873		6,758	22,247		29,005	43,878
Sales of companies and other deductions	-321		-34,710	-35,031			-16,893		-16,893	-51,924
Accumulated depreciation 31 Dec.	4,467		46,050	50,517		50,463	113,281		163,744	214,261
Purchase cost 31 Dec.	13,326		102,299	115,625	24,846	217,831	168,390	864	411,931	527,556
Accumulated depreciation 31 Dec.	4,467		46,050	50,517		50,463	113,281		163,744	214,261
Book value 31 Dec.	8,859		56,249	65,108	24,846	167,368	55,109	864	248,187	313,295
Fire insurance value						193,428				
Accumulated depreciation difference 1 Jan.	5,818		35,940	41,758		130,725	46,185		176,910	218,668
Depreciation difference for the period	-1,110		-6,450	-7,560		-3,492	-18,442		-21,934	-29,494
Investment reserve/transition reserve	3,096		8,157	11,253		1,182	16,802		17,984	29,237
Sales profit							1,685		1,685	1,685
Accumulated depreciation difference 31 Dec.	7,804		37,647	45,451		128,415	46,230		174,645	220,096

(FIM 1,000)	CONSOLIDATED 1996	1995	PARENT COMPANY 1996	1995
Shares and shareholdings				
Shares of subsidiaries				
Purchase cost 1 Jan.	**-**	-	**520,585**	515,168
Additions during the financial period	**-**	-	**175,359**	30,866
Deductions during the financial period	**-**	-	**-82,037**	-25,449
Book value 31 Dec.	**-**	-	**613,907**	520,585
Shares of associated companies				
Purchase cost 1 Jan.	**33,242**	33,212	**23,242**	33,212
Additions during the financial period	**2,634**	30	**2,184**	30
Deductions during the financial period	**-12,642**	-	**-2,642**	-10,000
Book value 31 Dec.	**23,234**	33,242	**22,784**	23,242

Share of shareholders' equity of associated companies	Share of shareholders' equity, % 1996	Shareholders' equity 1996	Share of shareholders' equity 1996
Abmin Technologies Oy	**42.50**	**1,560**	**663**
Hackman Metos Oy Ab	**40.00**	**50,821**	**20,329**
Neuromag Oy	**32.37**	**8,833**	**2,859**
SR Suojarekisterikeskus Oy	**50.00**	**437**	**219**
Total		**61,651**	**24,070**

(FIM 1,000)	CONSOLIDATED 1996	1995	PARENT COMPANY 1996	1995
Other shares				
Purchase cost 1 Jan.	**309,138**	330,417	**82,413**	104,105
Additions during the financial period	**138,978**	7,343	**3,791**	7,343
Deductions during the financial period	**-3,237**	-28,623	**-4,470**	-29,035
Book value 31 Dec.	**444,879**	309,137	**81,734**	82,413
Long-term investments				
Loans receivable				
Associated companies	**-**	14,882	**-**	14,882
Other companies	**3,938**	708	**3,938**	-
Total	**3,938**	15,589	**3,938**	14,882
Revaluations				
Land areas	**1,100**	1,100	**1,100**	1,100
Buildings	**1,675**	1,675	**1,675**	1,675
Total	**2,775**	2,775	**2,775**	2,775
Taxable values				
Land areas	**37,803**	34,891	**34,505**	31,593
Buildings and constructions	**128,951**	131,272	**111,262**	113,341
Finnish shares	**388,623**	298,290	**400,186**	322,408
Total	**555,377**	464,453	**545,953**	467,342

Taxable values cover the Parent Company's and the Group's real estate in Finland.
The book value has been used for the Finnish shares with no confirmed taxable value.

Shares and shareholdings

The value of the publicly quoted shares booked in fixed assets on 31 December 1996 was FIM 362,157,000 and the corresponding market value on 31 December 1996 was FIM 505,577,000.

	No.	% of share capital		Nominal value (1,000)		Book value (1,000)
Subsidiaries						
Oy Bergenheim Yhtiöt Ab	250,000	100.00		2,500		8,367
Investment AB Coland	1,000	100.00	SEK	100		393
Datex-Engstrom B.V.	403	100.00	NLG	403	NLG	413
					FIM	888
Datex-Engstrom Inc.	100	100.00	USD	0	USD	8,088
					FIM	34,917
Datex-Engstrom S.A.R.L.	1,000	100.00	FRF	500	NLG	166
					FIM	367
Datex-Engström AB	240,000	100.00	SEK	24,000		49,432
Datex Engström Iberica S.L.	150,000	100.00	ESP	150,000		5,386
Datia Holdings B.V.	1,385	100.00	NLG	1,385		2,638
Oy Dentaldepot Ab	82,464	99.96		4,453		10,451
Eksperimentarium Oy	15	100.00		15		15
Erkkola Oy	100	100.00		50		3,530
Findip Oy	11,620	100.00		11,620		11,620
Helsingin Silmälääkärikeskus Oy	6,600	56.90		66		286
Hoyer Klinikgeräte Handels GmbH		70.00		0		25,912
HT-Research Oy	150	100.00		15		363
Instru Data Oy	343,225	62.97		3,432		5,818
AS Instruest	44	88.00	EEK	44		20
Instru-Holdings, Inc.	100	100.00	USD	0		0
Instru Invest Oy	15	100.00		15		15
Instrumentarium AB	500	100.00	SEK	50		2,178
ZAO Instrumentarium	100	100.00	RUR	23,000		29
AS Instrumentarium	101	100.00	EEK	1,010		906
Instrumentarium SIA	24	100.00	LVL	2		20
Instrumentarium Imaging, Inc.	100	100.00	USD	10	USD	14,602
					FIM	66,660
Japo Trading Oy	5	100.00		15		940
Junior-Notariaatti Oy	15	100.00		15		24,858
L-Dental Products Lumme Oy	192,240	91.54		19,224		24,279
Oy Loko-Invest Ab	150	100.00		15		2,328
Medko Oy	45,500	100.00		4,550		356,032
Medko Medical Oy	2,000	100.00		2,000		2,000
ZAO Medko Medikal	10	100.00	RUR	10		0
Merimedic AB	1,500	100.00	SEK	150		186
Merimedic A/S	2,000	100.00	NOK	2,000		1,338
Merivaara AB	18,500	100.00	SEK	1,850		3,746
Merivaara S.A.R.L.	15,000	100.00	FRF	300		1,559
ZAO Merivaara	60,000	100.00	RUR	60,000		60
Oy Metava Ab	100	100.00		100		7,489
Pika-Optiikka Oy	150	100.00		15		15
Optiker Simson AB	20,000	100.00	SEK	2,000		16,205
Sotem Oy	4,000	100.00		40,000		40,000
Soxil S.p.A.	10,000,000	100.00	ITL	10,000,000		39,374
Suomen Keskus-Optiikka Oy	150	100.00		15		30
Oy Tekno-Rema Ab	60	100.00		60		7,329
AB Ögat	500	100.00	SEK	50	SEK	7,000
					FIM	4,494
Ögat Förvaltning Aktiebolag	500	100.00	SEK	50		8,692
Associated companies						
Abmin Technologies Oy	2,125	42.50		213		744
Hackman Metos Oy Ab	40,000	40.00		4,000		16,003
Neuromag Oy	493	32.37		74		6,037
SR Suojarekisterikeskus Oy	25,000	50.00		250		450
Total associated companies						23,234
Others						
Office, warehousing and store facilities						72,744
Carital Oy	50	5.00		50		500
Diomed Ltd.	349,333	15.12	GBP	0		2,642
MIE Ltd.	298,500	19.90	GBP	299		1,001
Ewco Oy	50	9.62		500		500
The Helsinki Stock Exchange	20,000	0.61		200		140
The Helsinki Telephone Company	395	0.07		1,086		1,087
Keski-Suomen Lääkäritalo Oy	171	10.69		171		2,008
Lassila & Tikanoja Oy	69,224	1.75		692		3,877
MTV Oy	380	0.69		190		662
Orion Corporation	2,620,236	5.24		26,202		346,529
Pohjola Insurance Company Ltd	76,150	0.19		381		9 ,627
Central Share Register of Finland				0		210
Ventana Growth Fund II	5	3.50	USD	500		2,101
Others				0		1,250
Total of other shares and holdings						444,878

(FIM 1,000)	CONSOLIDATED 1996	1995	PARENT COMPANY 1996	1995
10. Current assets				
Marketable equity securities				
Market value	**90,924**	81,267	**-**	-
Corresponding book value	**69,047**	72,599	**-**	-
Difference	**21,877**	8,668	**-**	-
Receivables, subsidiaries				
Accounts receivable	**-**	-	**55,106**	59,855
Loans receivable	**-**	-	**251,862**	170,512
Total	**-**	-	**306,968**	230,367
Receivables, associated companies				
Accounts receivable	**252**	3,298	**215**	3,228
Loans receivable	**24,780**	13,780	**24,780**	13,780
Accrued receivables	**548**	419	**462**	419
Total	**25,580**	17,497	**25,457**	17,427
Receivables, other				
Accounts receivable	**431,414**	409,191	**124,495**	122,842
Loans receivable	**7,935**	7,134	**7,296**	5,749
Accrued receivables	**60,340**	101,316	**40,237**	64,725
Other receivables	**113,148**	109,076	**82,522**	93,241
Total	**612,837**	626,717	**254,550**	286,557
Long-term financial assets				
Investment deposits	**-**	88,311	**-**	88,124
Bank receivables	**1,323**	1,500	**-**	-
Total	**1,323**	89,811	**-**	88,124
Interest-bearing debt securities				
Market value	**323,436**	353,638	**323,262**	353,493
Corresponding book value	**323,068**	349,883	**322,895**	349,739
Difference	**368**	3,755	**367**	3,754
11. Shareholders' equity				
Restricted shareholders' equity				
Share capital				
Share capital 1 Jan.				
A shares	**153,025**	153,025	**153,025**	153,025
B shares	**48,479**	48,479	**48,479**	48,479
Total	**201,503**	201,503	**201,503**	201,503
Share issue 1 Jan. - 1 Dec.				
A shares	**-**	-	**-**	-
B shares	**135**	-	**135**	-
Total	**135**	-	**135**	-
Share capital 31 Dec.				
A shares	**153,025**	153,025	**153,025**	153,025
B shares	**48,614**	48,479	**48,614**	48,479
Total	**201,638**	201,503	**201,638**	201,503

(FIM 1,000)	CONSOLIDATED 1996	1995	PARENT COMPANY 1996	1995
Other restricted shareholders' equity 1 Jan.	**183,015**	185,251	**193,616**	193,616
Increases 1 Jan. - 1 Dec.	**15,857**	463	**922**	-
Decreases 1 Jan. - 1 Dec.	**-401**	-2,699	**-**	-
Total 31 Dec.	**198,471**	183,015	**194,538**	193,616
Restricted shareholders' equity 31 Dec.	**400,109**	384,518	**396,176**	395,119
Non-restricted shareholders' equity				
Equity share of depreciation difference and reserves				
Before the financial period	**382,330**	418,129	**-**	-
Changes 1 Jan. - 31 Dec.	**-21,235**	-35,800	**-**	-
Total	**361,095**	382,330	**-**	-
Other non-restricted shareholders' equity 1 Jan.	**740,785**	623,295	**782,131**	698,784
Change in depreciation difference and reserves	**21,235**	35,800	**-**	-
Transitions from non-restricted to restricted	**-14,533**	2,236	**-**	-
Translation adjustment	**4,894**	-3,597	**-**	-
For dividends	**-56,421**	-56,421	**-56,421**	-56,421
For donations	**-300**	-150	**-150**	-150
Profit for the period	**275,430**	139,623	**219,669**	139,918
Total	**971,091**	740,785	**945,229**	782,131
Non-restricted shareholders' equity 31 Dec.	**1,332,185**	1,123,115	**945,229**	782,131
Total shareholders' equity 31 Dec.	**1,732,295**	1,507,634	**1,341,405**	1,177,249
12. Accumulated depreciation difference				
Intangible rights	**7,803**	5,818	**7,803**	5,818
Other long-term expenditure	**37,918**	36,101	**37,647**	35,940
Buildings and constructions	**132,544**	135,768	**128,415**	130,725
Machinery and equipment	**49,161**	48,691	**46,230**	46,185
Total	**227,426**	226,377	**220,095**	218,669
13. Voluntary reserves				
Operating reserves	**1,440**	1,426	**-**	-
Transition reserve	**118,445**	139,771	**91,093**	111,529
Reserve for future investments	**157,122**	166,222	**157,047**	165,847
Other reserves	**933**	1,092	**-**	-
Total	**277,941**	308,511	**248,140**	277,376
Group's share of accumulated depreciation difference and voluntary reserves				
Share transferred to shareholders' equity	**361,095**	382,330	**-**	-
Deferred tax liability	**140,426**	148,684	**-**	-
Deferred tax liability also includes:				
Minority interest of untaxed reserves	**1,077**	1,085	**-**	-
Tax receivables related to consolidation	**-12,142**	-9,663	**-**	-
Total deferred tax liability	**129,361**	140,105	**-**	-

14. Liabilities

Long-term liabilities

97 % (93 %) of the Group's interest-bearing long-term debt, including amortizations in 1997, were held in Finnish marks at the end of the year.

The interest-bearing long-term debt of the Group will mature as follows (FIM 1,000):

1997	6,743
1998	5,704
1999	2,754
2000	1,891
2001	1,311
2002 –	102,321

The weighted average interest rate of the Group's long-term debt on 31 December 1996 was 5.7 %.

	CONSOLIDATED		PARENT COMPANY	
(FIM 1,000)	**1996**	1995	**1996**	1995
Current liabilities				
Short-term debt, non-interest-bearing				
Subsidiaries				
Accounts payable	**-**	-	**4,848**	4,817
Total	**-**	-	**4,848**	4,817
Associated companies				
Accounts payable	**-**	22	**-**	22
Accured liabilities	**494**	-	**-**	-
Other short-term debt	**5,000**	-	**-**	-
Total	**5,494**	22	**-**	22
Other				
Advance payments	**21,281**	22,923	**14,858**	12,783
Accounts payable	**153,610**	144,047	**74,444**	61,211
Accrued liabilities	**179,013**	170,699	**101,556**	94,746
Other short-term debt	**60,193**	50,785	**14,669**	13,309
Total	**414,097**	388,453	**205,528**	182,049
Short-term debt, interest-bearing				
Payments of long-term debt	**6,743**	11,889	**2,987**	7,447
Subsidiaries	**-**	-	**76,560**	80,124
Other short-term debt	**16,990**	115,283	**10,106**	12,638
Total	**23,734**	127,172	**89,653**	100,209

(FIM 1,000)	CONSOLIDATED **1996**	1995	PARENT COMPANY **1996**	1995
15. Commitments and contingencies				
For the Group				
Pledges	**31,493**	29,234	**22,924**	21,709
Mortgages for long-term debts	**14,600**	32,600	**-**	18,000
Mortgages for bank guarantees	**65,535**	55,767	**38,646**	22,739
Other commitments	**19,136**	4,903	**6,339**	798
Total	**130,764**	122,504	**67,910**	63,246
For subsidiaries				
Mortgages for bank guarantees	**-**	-	**8,793**	9,799
Guarantees	**-**	-	**48,303**	82,374
Total	**-**	-	**57,096**	92,173
For associated companies				
Guarantees	**12,169**	19,798	**12,169**	19,798
Total	**12,169**	19,798	**12,169**	19,798
Pension commitments				
Commitment deficit of the pension fund	**3,963**	4,747	**3,963**	4,747
Other pension commitments	**1,484**	1,507	**-**	-
Total	**5,447**	6,254	**3,963**	4,747
Commitments and contingencies, total	**148,381**	148,556	**141,138**	179,964
16. Leasing agreements				
Leasing payments based on leasing agreements will be:				
1997	**18,307**		**8,225**	
1998	**13,268**		**7,834**	
1999	**8,037**		**6,331**	
2000	**5,976**		**5,782**	
2001	**5,897**		**5,782**	
Later	**34,692**		**34,692**	
Total	**86,177**		**68,646**	

17. Financial risk management and derivative contracts

The Group's financial risks are managed by a financial policy set and approved by the Board of Directors of Instrumentarium Corp. The aim of the financial risk management policy is to identify and analyse risk positions, to measure the risks and to hedge against them by appropriate and cost-effective means. Financial risks are divided into foreign exchange, interest rate, liquidity and credit risks.

Foreign exchange risk

Group currency risks are partly managed at Group level. The divisions and subsidiaries are internally responsible for foreign exchange risks related to their own businesses. The foreign exchange positions of the business units are combined into a Group position, which is hedged centrally. The net foreign exchange position of each currency is monitored by including in the position the receivables and liabilities denominated in that currency and the estimated currency-based cashflow up to 12 months. Forward contracts and options are used as hedging instruments. The most important foreign currencies are the US dollar and the German mark.

Interest rate risk

The Group's interest rate risks are managed at Group level. The goal is to optimize financial income and expenses at an acceptable level of risk. Price risk and duration analyses are the principal means of measuring the interest rate risk. Derivative instruments such as forward contracts and options are used for hedging purposes.

Liquidity risk

The Group's goal is to maintain liquidity at a good level at all times. The Group has unused credit limits at its disposal in addition to the liquid funds in the balance sheet.

Credit risk

Credit risks related to financial operations are managed by entering into contracts only with counterparties of good credit standing. The Group sets cash and maturity limits on these approved counterparties and monitors their credit ratings continuously.

Derivative contracts

The table below lists by counterparty open derivative positions at the year end. The FIM-based counter values are given in the case of currency derivatives, and the nominal values in the case of interest rate derivatives.

(FIM 1,000)		31 Dec. 1996		31 Dec. 1995
Currency derivatives				
Forward contracts		396,298		234,045
Option contracts				
Purchased	245,516		138,550	
Written	331,734	577,250	198,625	337,175
Total		973,548		571,220
Interest rate derivatives				
Forward contracts		20,000		70,000
Option contracts		0		0
Total		20,000		70,000

The currency derivatives portfolio valued at the exchange rates prevailing on the balance sheet date included unrealized exchange rate losses totalling FIM 700,000.
The interest rate derivatives portfolio valued at the exchange rates prevailing on the balance sheet date included unrealized exchange rate gains totalling FIM 188,000.

Five Years in Review

		1992	1993	1994	1995	**1996**
Income statement						
Net sales	FIM million	1,721.0	1,982.2 [1]	2,036.9 [1]	2,147.9	**2,335.5**
Change from the previous year	%	-6.9	15.2	2.8	5.4	**8.7**
Foreign sales	FIM million	718.6	947.6	1,060.1	1,217.1	**1,328.1**
Share of net sales	%	41.8	47.8	52.0	56.7	**56.9**
Planned depreciation	FIM million	81.9	84.3	73.3	84.3	**90.0**
Operating profit	FIM million	82.2	228.7	235.1	186.1	**232.0**
Share of net sales	%	4.8	11.5	11.5	8.7	**9.9**
Financing income and expenses, total	FIM million	-15.6	22.5	-1.3	39.1	**41.3**
Profit before extraordinary items, reserves and taxes	FIM million	88.3	251.2	233.7	225.2	**273.3**
Share of net sales	%	5.1	12.7	11.5	10.5	**11.7**
Extraordinary items	FIM million	-56.1	-45.6	39.0	-7.7	**76.3**
Profit before reserves and taxes	FIM million	32.2	205.6	272.7	217.5	**349.6**
Share of net sales	%	1.9	10.4	13.4	10.1	**15.0**
Taxes	FIM million	14.4	61.2	76.3	78.7	**72.9**
Profit before extraordinary items and reserves, after taxes	FIM million	73.9	190.0	157.4	146.5	**200.4**
Share of net sales	%	4.3	9.6	7.7	6.8	**8.6**
Capital expenditure	FIM million	66.7	91.2	195.3	94.8	**69.3**
Share of net sales	%	3.9	4.6	9.6	4.4	**3.0**
Research and development expenses	FIM million	70.5	79.5	96.2	113.4	**115.9**
Share of net sales	%	4.1	4.0	4.7	5.3	**5.0**
Dividends	FIM million	26.9	47.0	56.4	56.4	**70.6** [2]
Balance sheet						
Liabilities	FIM million	669.9	858.8	966.1	839.3	**711.5**
Short-term liabilities	FIM million	413.5	355.8	369.4	515.7	**443.3**
Long-term liabilities	FIM million	256.4	503.0	596.7	323.7	**268.2**
Shareholders' equity	FIM million	1,325.6	1,284.6	1,428.2	1,507.6	**1,732.3**
Total assets	FIM million	1,997.8	2,153.2	2,409.2	2,360.9	**2,459.7**
Key indicators						
Return on investment (ROI)	%	8.9	18.3	16.4	15.2	**17.6**
Return on equity (ROE)	%	5.4	15.6	11.5	9.9	**12.3**
Equity ratio	%	68.7	62.4	61.8	65.1	**71.7**
Gearing	%	5.1	-14.1	-6.5	-7.8	**-14.8**
Quick ratio		2.15	2.24	2.01	2.18	**2.51**
Current ratio		2.85	2.72	2.53	2.91	**3.38**
Average number of employees		2,612	2,383	2,351	2,559	**2,633**
Share capital and shares on 31.dec.						
Share capital	FIM million	134.3	134.3	201.5	201.5	**201.6**
Market capitalization	FIM million	1,065.9	2,633.7	2,010.2	2 272.1	**3,400.5**
Number of shares, x 1,000		6,717	6,717	20,150	20,150	**20,164**
A shares		5,101	5,101	15,302	15,302	**15,302**
B shares		1,616	1,616	4,848	4,848	**4,861**
Adjusted average number of shares, x 1,000		20,055	20,150	20,150	20,150	**20,159**
Per share data						
Earnings per share	FIM	3.47	8.36	8.32	8.17	**9.88**
Earnings per share, U.S. GAAP	FIM	1.23	13.78	9.37	6.90	**8.09**
Shareholders' equity per share	FIM	66.21	64.24	71.62	75.51	**85.91**
Cashflow per share	FIM	7.28	13.10	11.58	11.45	**13.81**
Payout ratio	%	38.3	27.9	33.7	34.3	**35.4**
Dividend per share	FIM	1.33	2.33	2.80	2.80	**3.50** [2]
P/E ratio						
A share		15.9	15.7	12.0	13.8	**17.1**
B share		13.1	15.3	11.9	13.7	**17.1**
Dividend yield						
A share	%	2.4	1.8	2.8	2.5	**2.1** [2]
B share	%	2.9	1.8	2.8	2.5	**2.1** [2]
Number of shareholders		16,093	11,212	11,917	11,383	**10,178**

[1] Net sales in 1993 and 1994 have been brought into line with the present accounting practice.
[2] Proposed by the Board of Directors.

Calculation Principles of Financial Ratios

$$\text{Return on investment (ROI) \%} = \frac{\text{Profit before extraordinary items, reserves and taxes + interest and other financing expenses}}{\text{Balance sheet total, less interest-free debt (annual average)}} \times 100$$

$$\text{Return on equity (ROE) \%} = \frac{\text{Profit before extraordinary items, reserves and taxes less direct taxes corrected by tax effect of extraordinary items}}{\text{Shareholders' equity + voluntary reserves less deferred taxes + minority interest (annual average)}} \times 100$$

$$\text{Equity ratio \%} = \frac{\text{Shareholders' equity including voluntary reserves less deferred taxes + minority interest}}{\text{Balance sheet total less advance payments}} \times 100$$

$$\text{Gearing \%} = \frac{\text{Gross debt less cash and liquid assets}}{\text{Adjusted equity}} \times 100$$

$$\text{Quick ratio} = \frac{\text{Current assets}}{\text{Short-term debt less advance payments}}$$

$$\text{Current ratio} = \frac{\text{Current assets and inventories}}{\text{Short-term debt}}$$

$$\text{Market capitalization} = \text{Number of shares x share price on 31 Dec.}$$

$$\text{Earnings per share} = \frac{\text{Profit before extraordinary items, reserves and taxes -/+ minority interest less direct taxes, corrected by tax effect of extraordinary items and by effect of change in tax rate on deferred tax liability}}{\text{Adjusted average number of shares}}$$

$$\text{Shareholders' equity per share} = \frac{\text{Shareholders' equity including voluntary reserves less deferred taxes}}{\text{Adjusted number of shares on 31 Dec.}}$$

$$\text{Cashflow per share} = \frac{\text{Profit before extraordinary items, reserves and taxes -/+ minority interest + planned depreciation less direct taxes corrected by tax effect of extraordinary items excluding change in deferred tax liability}}{\text{Adjusted average number of shares}}$$

$$\text{Payout ratio \%} = \frac{\text{Dividend per share}}{\text{Earnings per share}} \times 100$$

$$\text{Dividend per share} = \frac{\text{Nominal dividend per share}}{\text{Adjustment coefficients of the share issues that have taken place during or after the year}}$$

$$\text{P/E ratio} = \frac{\text{Adjusted stock exchange price on 31 Dec.}}{\text{Earnings per share}}$$

$$\text{Dividend yield \%} = \frac{\text{Dividend per share}}{\text{Share price on 31 Dec.}} \times 100$$

Proposal for the Distribution of Profits

Proposal to the Annual General Meeting

At 31 December 1996 the consolidated non-restricted equity of the Group was FIM 1,332,185,494.14, of which FIM 971,090,813.60 is available for distribution. At 31 December 1996, the Parent Company's non-restricted equity was FIM 945,228,566.78.

The Board of Directors proposes that the profits at the disposal of the Annual General Meeting be allocated as follows:

- Dividend at FIM 3.50 per share (FIM 1.75/ADR)	FIM 70,573,303.50
- To the Instrumentarium Scientific Fund	FIM 150,000.00
- To non-restricted shareholders' equity	FIM 874,505,263.28
	FIM 945,228,566.78

Helsinki, 26 February 1997

Gustav von Hertzen

Olli Riikkala

Markku Talonen
Chairman of the Board
President

Gerhard Wendt

Matti Salmivuori

Auditors' Report

To the Shareholders of Instrumentarium Corporation

We have audited the accounts, the accounting records and the administration of Instrumentarium Corporation for the financial year 1996. The accounts prepared by the Board of Directors and the Managing Director include, both for the Group and the Parent Company, a report on operations, an income statement, a balance sheet and notes to the accounts. We provide our opinion on the accounts and the administration based on our audit.

We have audited the accounting records, and the accounts, disclosures and the presentation of information, including the accounting policies to the extent generally accepted auditing standards require. The audit of the administration has included obtaining assurance that the actions of the members of the Supervisory Board, the Board of Directors and the Managing Director have been in conformity with the regulations of the Companies´ Act.

In our opinion, the accounts have been prepared in accordance with the regulations of the Accounting Act and other legislation and regulations relevant to the preparation of the accounts, and give a true and fair view of the Parent Company´s and the Group´s results from operations and financial position in accordance with such legislation and regulations.

The accounts including the Group accounts may be approved, and the members of the Supervisory Board, the Board of Directors and the Managing Director may be discharged from liability for the financial year examined by us.

The proposal of the Board of Directors concerning the disposition of the unrestricted shareholders´equity according to the balance sheet is in accordance with the Companies´Act.

We have reviewed the interim reports published during the financial year. According to our review they have been prepared in accordance with the relevant regulations.

Helsinki, 3 March 1997

Göran Grén
Authorized Public Accountant

Heikki Lassila
Authorized Public Accountant

Statement by the Supervisory Board

The Supervisory Board of Instrumentarium Corporation has examined the Parent Company and Consolidated Financial Statements for 1996, submitted by the Board of Directors, and read the Auditors' Report.

The Supervisory Board proposes that the Income Statements and Balance Sheets be ratified and that the profit be distributed according to the Board of Directors' proposal.

Matti Eestilä, Matti Koskenoja, Paavo Pitkänen, Kari Raivio and Eino Tunkelo are due to retire from the Supervisory Board.

Helsinki, 4 March 1997

Matti Koskenoja
Matti Eestilä
Erkki Etola
Eero Ikkala

Eero Karvonen
Paavo Pitkänen
Kari Raivio
Arto Sivula

Erkki Tammisalo
Tapani Tammisto
Turo K. J. Tukiainen
Eino Tunkelo

Administration and Auditors

Supervisory Board

Matti Koskenoja, DMS, Chairman 1994–96
Owns 70,350 Instrumentarium shares.

Kari Raivio, Professor, DMS, Deputy Chairman 1994–96
No shares in Instrumentarium.

Matti Eestilä, BSc (Econ.) 1994–96
No shares in Instrumentarium.

Erkki Etola, Msc (Tech.) 1996–98
No shares in Instrumentarium.

Eero Ikkala, Professor, DMS 1996–98
Owns 1,900 Instrumentarium shares.

Eero Karvonen, Msc (Tech.) 1996–98
Owns 300 Instrumentarium shares.

Martti Kormano, Professor, DMS 1995–97
Owns 90 Instrumentarium shares.

Paavo Pitkänen, MSc (Math.) 1994–96
No shares in Instrumentarium.

Aatto Prihti, DSc (Econ.) 1996–98
No shares in Instrumentarium.

Arto Sivula, Associate Professor, DMS 1995–97
Owns 1,233 Instrumentarium shares.

Erkki Tammisalo, Professor, DDS 1996–98
No shares in Instrumentarium.

Tapani Tammisto, Professor, DMS 1996–98
No shares in Instrumentarium.

Leila Telivuo, MD (Dentistry) 1995–97
Owns 942 Instrumentarium shares.

Turo K. J. Tukiainen, LLB, MBA 1995–97
Owns 47,500 Instrumentarium shares.

Eino Tunkelo, Professor, DSc (Tech.) 1994–96
Owns 771 Instrumentariumi shares.

Auditors:

Göran Grén, BSc (Econ.), Authorized Public Accountant
Heikki Lassila, MSc (Econ.), Authorized Public Accountant

Deputies:

SVH Coopers & Lybrand Oy
Coopers & Lybrand Oy

The Board of Directors of Instrumentarium Corporation. From left: Gerhard Wendt, Markku Talonen, Olli Riikkala, Gustav von Hertzen and Matti Salmivuori.

Board of Directors

Markku Talonen 1995–97
Born 1946, LicSc (Tech.),
Chairman and President.
Joined Instrumentarium in 1978.
Owns 15,565 Instrumentarium shares.

Gustav von Hertzen 1997
Born 1930, MSc (Tech.).
Owns 1,590 Instrumentarium shares.

Olli Riikkala 1997
Born 1951, MSc (Tech.), MBA,
Executive Vice President.
Joined Instrumentarium in 1979.
Owns 4,806 Instrumentarium shares.

Matti Salmivuori 1997
Born 1950, MSc (Econ.), Chief Financial Officer.
Joined Instrumentarium in 1973.
Owns 2,000 Instrumentarium shares.

Gerhard Wendt 1997
Born 1934, PhD.
No shares in Instrumentarium.

Finnish and U.S.GAAP Differences

Net income and shareholders' equity in accordance with U.S. GAAP

Accounting principles generally accepted in Finland (Finnish GAAP) vary in certain respects from accounting principles generally accepted in the United States (U.S. GAAP). The consolidated net profit and shareholders' equity according to U.S.GAAP, and the differences between the official Finnish financial statements and U.S.GAAP are given in the tables below.

Instrumentarium also files an annual report (Form 20-F) with the Securities and Exchange Commission (SEC) in the United States.

Consolidated Net Income

(FIM 1,000, except per share data)	**1.1.–31.12.1996**	1.1.–31.12.1995
Net income as reported in the Consolidated Statements of Income, in accordance with Finnish GAAP	**275,430**	139,623
Increase (decrease) for:		
(a) Pension expense	**-4,246**	-6,319
(c) Capitalization of interest expense	**-1,180**	-1,180
(d) Sale/leaseback transactions	**-8**	9,196
(e) Deferred income taxes	**33,587**	- 2,892
(f) Non-current marketable securities	**620**	620
(b)(f) Writeup of marketable securities	**-141,028**	-
Net income in accordance with U.S. GAAP	**163,175**	139,048
Average number of shares outstanding	**20,159**	20,151
(g) Earnings per share in accordance with U.S. GAAP	**8.09**	6.90
Earnings per ADS	**4.05**	3.45

Shareholders' Equity

(FIM 1,000)	**31.12.1996**	31.12.1995
Shareholders' equity as reported in the Consolidated Balance Sheets, in accordance with Finnish GAAP	**1,732,294**	1,507,634
Increase (decrease) for:		
(a) Pension expense	**125,362**	129,608
(b) Short-term marketable securities	**34,318**	10,223
(c) Property and equipment, net	**-21,547**	-20,367
(d) Sale/leaseback transactions	**-69,365**	-69,357
(e) Deferred income taxes	**-92,568**	-79,645
(f) Non-current marketable securities	**141,558**	116,765
(h) Revaluation of assets	**-2,775**	-2,775
(i) Exchange of non-current assets	**-9,343**	-9,343
Shareholders' equity in accordance with U.S. GAAP	**1,837,934**	1,582,743

A description of the accounting policies followed by the Company which differ in certain respects from U.S. GAAP follows:

(a) Pension expense

The Company participates in several pension plans which cover substantially all employees of its Finnish operations as well as certain employees in foreign subsidiaries. The plans are principally administered by the Pension Fund which is managed by the Company subject to Government control. Pension expense for Finnish GAAP represents contributions to the Pension Fund and is based upon the level of benefits and actuarial assumptions established by the Government. Contributions to the Pension Fund are determined by comprehensive actuarial calculations performed on an annual basis by independent actuaries.

The Company's actuaries have estimated pension costs for the defined benefit plans in accordance with U.S. GAAP. The cumulative difference between contributions to the Pension Fund in accordance with Finnish GAAP and pension expense under U.S. GAAP has been recorded as prepaid pension cost.

(b) Short-term marketable securities

Under Finnish GAAP short-term marketable securities are reflected at the individual acquisition cost or market. Securities written down to a new cost basis can be written up for subsequent recoveries in market value. Under U.S. GAAP, prior to 1994 the cost and market values of each security in a portfolio are aggregated to determine whether a market valuation allowance is required.

Effective January 1, 1994, the Company adopted the provisions of Statement of Financial Accounting Standards No. 115 "Accounting for Certain Investments in Debt and Equity Securities" (SFAS 115). Under SFAS 115, the Company's investment securities are classified as available for sale and are recorded at fair value, with unrealized gains and losses included as a separate component of shareholders' equity.

In 1996 the Company recorded an increase of FIM 5,844,000 ($ 1,258,000) in certain securities by reversing writedowns recorded in prior years.

(c) Property and equipment

In accordance with Finnish GAAP, the Company has expensed interest costs in connection with financing of expenditures for the construction of property, plant and equipment. Under U.S. GAAP, such interest costs are required to be capitalized.

(d) Sale/leaseback transactions

During 1992 as well as in prior years, the Company sold and leased back certain properties. Under Finnish GAAP, the gain or loss on such sales is included in income in the year of the sale. The deferred gain in certain transactions is required to be amortized over the lease term and in certain transactions the deferred gain continues to be deferred with a portion of the related rental payment applied to interest expense and an additional charge for depreciation is recognized.

(e) Deferred income taxes

U.S. GAAP requires recognition of deferred tax liabilities and assets for the expected future tax consequences of events that have been recognized in the Company's financial statements or tax returns. Under this method, deferred tax liabilities and assets are determined based on the difference between the financial statement and tax bases of assets and liabilities using enacted tax rates in effect at year-end.

Deferred income taxes have been adjusted to give effect to the differences between Finnish GAAP and U.S. GAAP.

(f) Non-current marketable securities

The Company recorded FIM 34,500,000 of costs to acquire non-current marketable securities in 1990 as goodwill. Under U.S. GAAP such costs are considered costs of acquiring the investment. In 1992, the Company for Finnish GAAP recorded an additional write-down of the goodwill of FIM 24,693,000 as a reduction of the cost of non-current marketable securities. The difference of FIM 4,341,000 is being amortized for Finnish GAAP over seven years.

As described in note (b), the Company adopted SFAS 115 in 1994 for U.S. GAAP purposes. The Company's investment securities are classified as available for sale and are carried at fair value, with unrealized gains and losses included as a separate component of shareholders' equity.

In 1996 the Company recorded an increase of FIM 135,184,000 ($ 29,110,000) in certain securities by reversing writedowns recorded in prior years.

(g) Earnings per share

Earnings per share as presented are not based on net income. See page 47 for a description of the earnings per share calculation. U.S. GAAP requires that net income be utilized in the computation of earning per share.

(h) Revaluation of assets

Certain land and buildings have been revalued at an amount in excess of cost under Finnish GAAP. U.S. GAAP does not permit the revaluation of assets in the financial statements.

(i) Exchange of non-current assets

During 1994, Instrumentarium and Oy Hackman Ab merged their catering equipment operations and formed a new company, Hackman Metos Oy Ab. In connection with this transaction, Instrumentarium exchanged certain assets from its Catering Equipment Group for cash and a 40% interest in Hackman Metos Oy Ab. In accordance with Finnish GAAP, Instrumentarium recorded a gain of FIM 9,343,000 on this transaction. U.S. GAAP requires that the gain be deferred until Instrumentarium no longer has a commitment to support the operations of the new company.

Balance Sheet

The following is a summary of certain balance sheet captions and the amounts reported in the Consolidated Balance Sheets with the related approximate amounts after adjustment to conform with U.S. GAAP.

	As reported under Finnish GAAP		Approximate amounts as adjusted to conform with U.S. GAAP	
(FIM 1,000)	**1996**	1995	**1996**	1995
Current assets	**1,496,754**	1,502,332	**1,452,104**	1,424,100
Property and equipment	**313,375**	321,799	**362,121**	374,535
Goodwill	**102,396**	124,656	**100,534**	122,174
Non-current assets	**547,214**	412,074	**885,621**	740,041
Total assets	**2,459,739**	2,360,861	**2,800,380**	2,660,850
Current liabilities	**459,275**	529,533	**459,275**	529,533
Long-term liabilities	**138,809**	183,589	**281,242**	328,824
Deferred taxes	**129,361**	140,105	**221,929**	219,750
Shareholders' equity	**1,732,294**	1,507,634	**1,837,934**	1,582,743
Total liabilities and shareholders' equity	**2,459,739**	2,360,861	**2,800,380**	2,660,850

Auditors' report

We have examined the determination of consolidated net income and shareholders' equity set out on pages 50 to 53, which have been prepared using accounting policies that conform to Generally Accepted Accounting Principles in the United States (U.S. GAAP). This determination has been adapted from the Company's statutory accounts which have been prepared in accordance with generally accepted accounting principles in Finland. In our opinion this determination has been properly made.

Helsinki, March 3, 1997

COOPERS & LYBRAND OY

Göran Grén
Authorized Public Accountant

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