INSTRUMENTARIUM

Annual Report 1997

Annual General Meeting

The Annual General Meeting will be held on Wednesday, 25 March 1998, at 4 p.m. at the Instrumentarium Corporation Head Offices in Helsinki, Finland. Advance notification of attendance must be received by 4 p.m., 23 March 1998.

Financial Information

Instrumentarium Corporation will publish two interim reports for the year 1998. The January - April results will be published on 5 June 1998 and the January - August results on 8 October 1998. Preliminary results for the the year 1998 will be published in February 1999. Printed financial information can be ordered by writing to the address:

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Contents

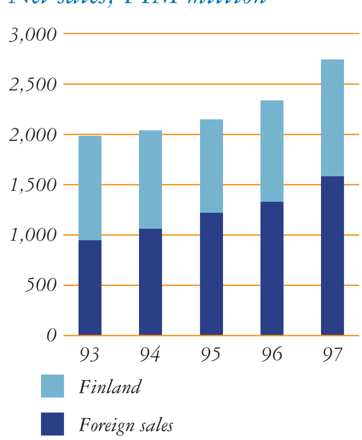
Instrumentarium in Brief

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 in Finland and its neighbouring countries. Instrumentarium's core business is anaesthesia and critical care, in which it is committed to gaining global leadership.

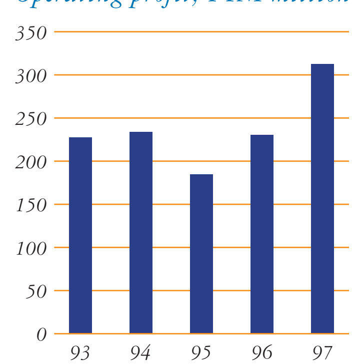
FIM million	1997	1996	+/- %
Net sales	**2,720.2**	2,335.5	16.5
Foreign sales	**1,570.7**	1,328.1	18.3
Operating profit	**314.0**	232.0	35.3
Profit before extraordinary items, reserves and taxes	**340.8**	273.3	24.7
Profit before extraordinary items and reserves, after taxes	**246.0**	200.4	22.8
Shareholders' equity	**1,910.6**	1,732.3	10.3
Balance sheet total	**2,752.3**	2,459.7	11.9
Return on investment, %	**17.8**	15.6	
Equity ratio, %	**70.7**	71.7	
Earnings per share, FIM	**12.21**	9.88	23.6
Dividend per share, FIM	**4.20***	3.50	20.0
Average number of employees	**2,753**	2,633	4.6

** Proposed by the Board of Directors.*

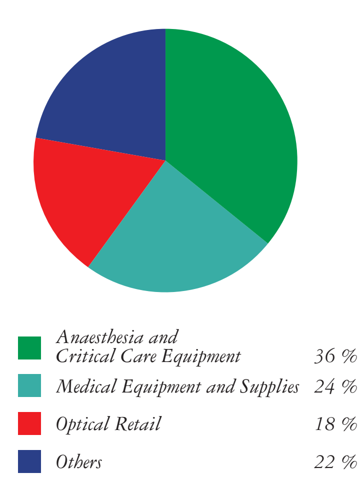
Net sales, FIM million



Operating profit, FIM million



Net sales by business segment, %



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.

Optical Retail

The Optical Retail Division sells optical products and services in Finland, Sweden, Estonia and Russia, and home healthcare products in Finland. In these countries the division has a total of 166 outlets, which are organized into Instrumentarium, Nissen, KEOPS and Ögat chains.

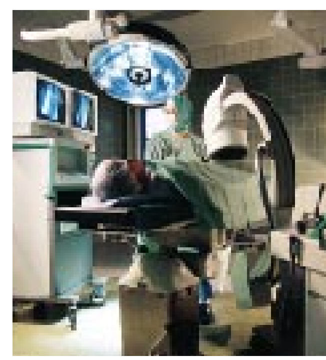
Medical Equipment and Supplies

Diagnostic Imaging

Instrumentarium Imaging develops, manufactures and markets worldwide specialised X-ray equipment for medical and dental imaging.

Medical Furniture

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.



Distribution of Medical Equipment and Supplies

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 engaged in project sales of medical equipment mainly in Russia and the Baltic countries.

Chief Executive's Review

1997 was a successful year for Instrumentarium and I am most gratified to report that virtually all our businesses performed positively. Sustained development of products and services continues to be the most important factor for success, guided by high customer satisfaction and quality.

Our consolidated net sales increased 16 % during the year and the result of operations was good. Operating profit totalled FIM 314 million, an improvement of more than one third on the previous year. Earnings per share were FIM 12.21, compared to FIM 9.88 in 1996.

The goal of our largest business segment, Datex-Engstrom anaesthesia and critical care equipment, is to achieve world leadership. We now have every opportunity of growing profitably in this business. Our personnel are highly skilled and committed to their work. We have a solid track record of outstanding product development spanning two decades. And we have succeeded well in our marketing efforts and in building up our global sales and service network. During the first eight months of last year we experienced technical problems bringing our products to market. This situation was rectified in the final months of the year, however, and sales for the full year rose 15 %. High-technology companies aiming for good profits must also grow strongly. Datex-Engstrom's profits more than doubled, compared to the previous year, and now totalled 17 % of net sales.

Structural changes in the healthcare sector are making rapid progress around the world. They also favour larger companies specializing in specific fields of medical engineering. We hold a strong position in the European anaesthesia and critical care markets but in the USA, Japan and developing markets we have yet to attain a market share which would sustain strong growth. In January 1998 we signed an agreement to acquire two divisions of the American company Ohmeda Inc. manufacturing anaesthesia machines and monitors and infant incubators. Our aim is to strengthen our position in the USA and other markets, and also in product sectors where we still do not have a presence. We expect to achieve substantial synergic benefits from the integration of Datex-Engstrom and acquired operations during 1998. The acquisition also represents an enormous challenge for Instrumentarium. The acquisition price was almost USD 500 million and will mean the addition of more than 2,400 new employees. At the time of writing, final closure of the deal is still subject to regulatory approvals in a number of countries, but we expect to receive these by some time in April this year.

The units which make up our Medical Equipment and Supplies segment also performed well, with overall net sales rising 16 % and the operating profit representing a satisfactory 7 % of net sales.

Our other division with global operations, Instrumentarium Imaging, substantially increased its investment in R&D and marketing with the result that its sales rose more than 50 %. Despite this division's small size in the world market for digital diagnostics equipment, its several new products give it a solid base for further growth. Digital imaging and new technology are changing traditional methods of X-ray imaging, which is creating new growth markets.

Merivaara, Instrumed, Medinovum, LM-Dental and Medko Medical, which operate in Finland and its neighbouring markets, all reformulated their strategies to achieve greater growth but, with the exception of Medinovum, have not yet picked up speed. As a Finnish company, Instrumentarium also needs to cultivate a strong presence in its domestic healthcare market. Our units have excellent contacts with Finnish healthcare experts and our intention is to gain further benefit from them as we develop our international operations.

Soxil S.p.A. in Italy focused more sharply on anaesthesia and critical care equipment. Its almost 50 % growth in net sales during 1997 clearly demonstrates that acquisition of this company three years ago was the right way to penetrate the difficult Italian markets.

Instrumentarium's Optical Retail division raised its net sales and operating profit by 5 %. Its strong position in Finland provides a strong base for growth in Sweden, Estonia and Russia. Optical retail is an important business for the Group. Its strong and steady profitability offsets our more risk-sensitive medical equipment businesses, while it is also well positioned to further raise its sales and profits in Finland and the neighbouring markets. Since institutional healthcare resources for the aged are limited, home healthcare and its products are assuming increasing importance in our society. We have excellent scope for accelerating the growth of our home healthcare business.

Instrumentarium's transformation into a healthcare group took several major strides forward at the beginning of 1998. In addition to the Ohmeda acquisition I mentioned above, we further streamlined our corporate structure by divesting the cosmetics and consumer dailies operation Oy Bergenheim Yhtiöt Ab, and by signing a letter of intent to sell the shares of Instru Data Oy to an American information technology group.

Several important changes also took place in the company's administration during the year. Dr Matti Koskenoja, who had served as chairman of the supervisory board for more than 25 years, handed over to Mr Gustav von Hertzen. When the chairman of the board of directors and Instrumentarium's chief executive officer joined another company, his place was taken by Dr Gerhard Wendt as Chairman, and Instrumentarium's executive vice president Olli Riikala, as CEO. At the end of the year two new members joined the board of directors: Professor Juhani Kuusi and Mr Mikael Lilius, in addition to the third previous member, Instrumentarium's chief financial officer, Matti Salmivuori. Hence, for the first time in more than thirty years the majority of the company's directors are not part of its executive management. This, in my opinion, is a good arrangement as the company now faces entirely new challenges in its future.

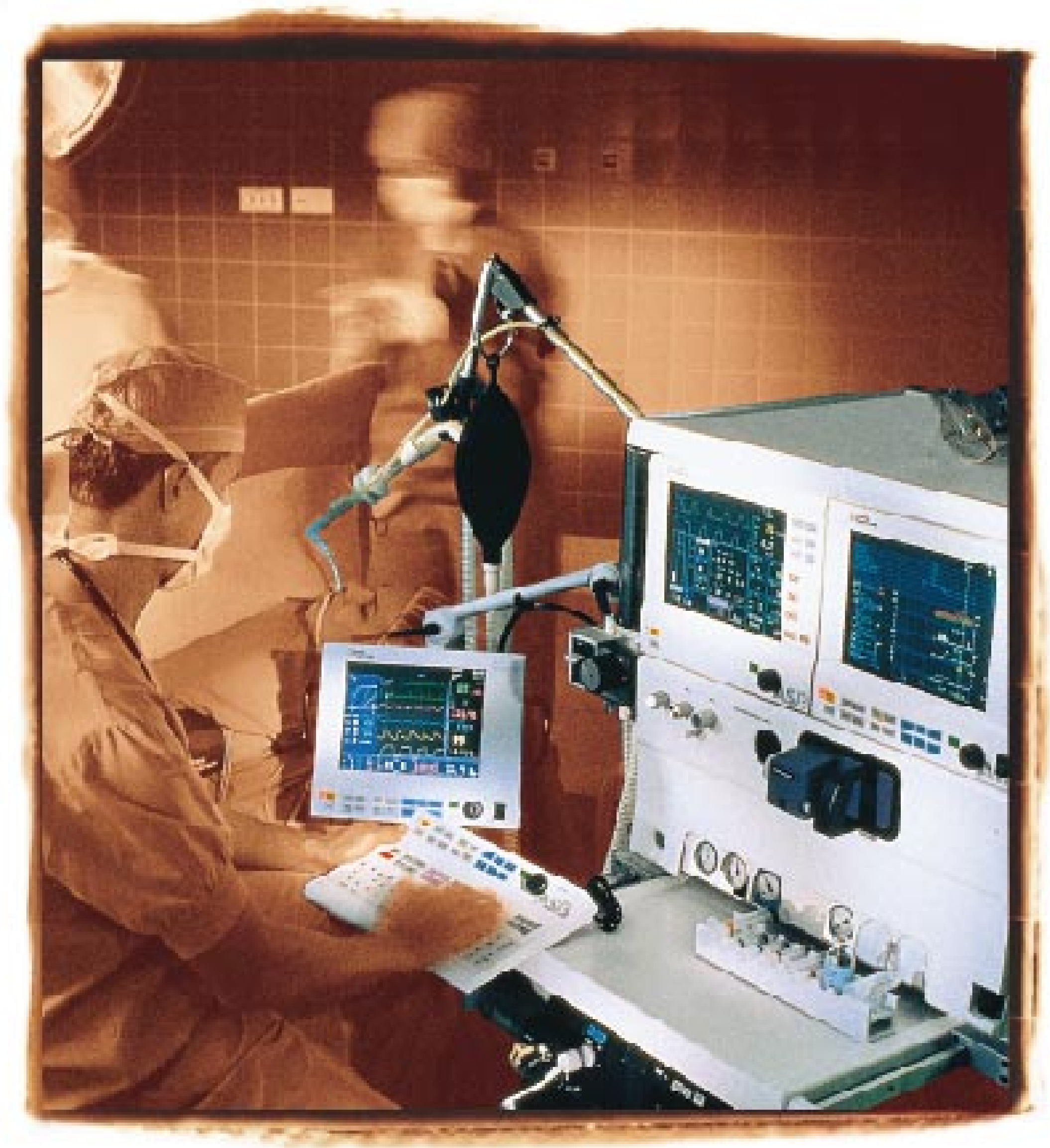
Our top priority in the coming years is to raise shareholder value and we will succeed in this task if we demonstrate an ability to continuously raise customer satisfaction with our products and services. I believe that I can have confidence in the skills of our personnel and their desire to develop Instrumentarium - and themselves - as we grow. The support and confidence of our shareholders will give us all peace of mind to work freely towards our goals and the means to achieve long-term growth.

The Board of Directors proposes to the annual general meeting that a dividend of FIM 4.20 per share be distributed on the financial year 1997. This dividend is in line with the Board's policy, adopted in 1994, to distribute about one-third of the year's profit as a dividend.

I thank all our employees for the successful year behind us and for the commitment which you have all shown in our company.

I also extend my gratitude to our shareholders for your confidence and I believe we will continue to earn this confidence in the future as well.

Olli Riikkala
President and CEO



Datex-Engstrom

Anaesthesia and Critical Care Equipment

Datex-Engstrom is the largest division of Instrumentarium Corporation and represents the Group's core business, anaesthesia and critical care. Datex-Engstrom specializes in products and services designed to facilitate better patient care, and to enable healthcare providers to manage these patient care processes more efficiently and economically.

Datex-Engstrom's strategic goal is to become the leading supplier of equipment and systems for anaesthesia and critical care providers in the world. The division possesses the key technologies necessary for leadership in the monitoring of the patient's vital signs, delivering anaesthetic agents, ventilating the lungs, and managing critical care information. From its roots in proprietary gas monitoring and ventilation technology, Datex-Engstrom has become one of the world's leading companies in its field and today is the largest global supplier of anaesthesia monitors.

Comprehensive expertise, global coverage

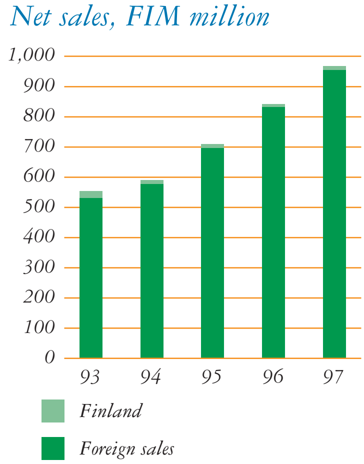
Datex-Engstrom's businesses comprise patient monitoring in anaesthesia and intensive care; portable and general-purpose monitoring; anaesthesia delivery and ventilation; intensive care ventilation; information systems for anaesthesia and intensive care; and supplies.

Roughly 50 % of Datex-Engstrom's sales comes from anaesthesia and critical care monitoring systems and 12 % from anaesthesia machines and intensive care ventilators. To successfully manage these different but overlapping sectors, Datex-Engstrom emphasizes continuous R & D in the hardware, software, information systems solutions, supplies and service businesses.

Almost all of Datex-Engstrom's production volume is exported. In 1997 Western Europe was the largest overall market, accounting for a good 50 % of exports. The US and Canada came next with almost 30 %, followed by Latin America, Australia and New Zealand.

Datex-Engstrom's main customers are anaesthesia and intensive care doctors and nurses, the biomedical engineers who service hospital equipment, and the hospital administrators responsible for management and purchasing. Distribution takes place through subsidiaries and distributors. Datex-Engstrom has six sales companies: in the USA, Germany, France, the British Isles, Spain and the Netherlands. In Finland, Norway, and Italy the division uses other Instrumentarium companies as its exclusive distributors. In the rest of the world Datex-Engstrom operates through a global network of independent local distributors in more than 100 countries, all of which are recognized leaders in their local mar-

Net sales, FIM million



Key figures

	1997	1996	%
Net sales, FIM million	975	845	+15
Operating profit, FIM million	163	108	+51
Personnel, average	1,106	1,015	+9

kets. These are supported by Regional Support Centres in Miami, Salzburg, Singapore, and Hong Kong.

Major healthcare changes favour Datex-Engstrom

Major changes continue to affect the healthcare sector in Datex-Engstrom's main markets, the industrialized countries. The pressure to contain costs and raise efficiency while maintaining high quality of care is leading to new legislation, the introduction of new reimbursement schemes, and industry-wide restructuring.

The most profound changes are evident in the USA, the world's largest healthcare market, where the concept of "managed care" is having an increasingly wide impact on the industry. Managed care is leading to a growing number of alliances and mergers of healthcare payers, providers and suppliers. From Datex-Engstrom's perspective, these developments have highlighted the critical importance to providers of obtaining relevant information in easily accessible form, a trend which is clearly evident in all the developed countries. Secondly, it is emphasising the need, especially in the USA, for effective forms of outpatient care, such as independent surgery centres. This is increasing demand for light, portable and easy-to-use standalone equipment.

These trends clearly favour large single-source suppliers such as Datex-Engstrom with

The Datex-Engstrom HMEF Heat and Moisture Exchanger helps maintain conditions during ventilation.

dedicated R&D resources and the ability to rapidly provide innovative new solutions which meet the different priorities of both clinicians and administrators. The division has already demonstrated its ability to supply integrated, software-based systems which are cost-effective and easy to use, and is well positioned to capitalise on this need in the future.

Datex-Engstrom sales increase sharply

Demand increased slightly in most western European markets and in North America, but declined in Germany and Japan. New mandatory requirements on patient monitoring temporarily boosted demand sharply in France and Australia. Consolidation continued within the industry. However, mergers and acquisitions did not directly affect Datex-Engstrom's competitive position.

After a relatively slow start in 1997, Datex-Engstrom's order intake increased very rapidly. Shipments increased likewise, but could not entirely keep up with demand. Towards the end of the year, factory shipments exceeded the previous year's corresponding monthly figures by more than 50 %, yet the year-end backlog was twice as high as the year before.

Sales in the USA continued to increase, although at a slower rate than the year before. The 1996 peak in US sales was partly due to a large one-time order for Capnomac Ultima™ multigas monitors placed by Abbott Laboratories to demonstrate the safety and cost-efficiency of a new anaesthetic agent called Sevoflurane™. In 1997 Datex-Engstrom developed an anaesthetic gas module for use as an accessory in portable monitors manufactured and marketed worldwide by Datascope Corporation. This product has high future potential in independent surgery centres.

In Germany, the world's second largest healthcare market, the approval of far-reaching federal healthcare reforms failed to make further progress for the second year running. This resulted in further delays to investment decisions, which continued to halt growth in sales. Datex-

Engstrom attained the same volume of sales as in 1996. Sales in 1998 are expected to be significantly higher owing to the postponement of a large volume of deliveries at the end of 1997. Sales to the rest of the European Union developed in general very favourably.

A major change in Datex-Engstrom's sales to the UK took place when Vickers plc decided to withdraw from the healthcare business. Datex-Engstrom acquired the sales, marketing and service operations in the UK of its products from Vickers and transferred them to a new subsidiary called Datex-Engstrom Ltd covering the UK and Ireland.

Sales to Russia and the CIS countries were slack, although prospects looked promising, whereas sales to the Middle East grew rapidly. Sales also developed positively in Latin America.

Slight growth was evident in China but sales declined further in Japan, where the market was not yet ready to receive integrated system products. Local competition was also considerably more aggressive than in earlier years. In Australia and New Zealand sales developed positively.

AS/3™ system further enhanced

1997 was another strong year for the modular AS/3™ Anaesthesia System, a comprehensive family of products covering anaesthesia delivery units, monitors, and information management solutions. Sales of anaesthesia and critical care monitoring systems rose strongly. The introduction of a parallel product for critical care, the CS/3™ Critical Care Monitor, also boosted AS/3™ sales to hospitals wishing to standardize their monitoring technologies.

The AS/3™ system was further developed. Sales of a new compact module for monitoring anaesthetic gases exceeded expectations. Further enhancements included a neuromuscular transmission monitoring module for assessing muscle relaxation during surgery, the first such product in the industry.

The AS/3™ Compact Monitor was upgraded with enhancements including the new compact

The Clinisoft™ Clinical Information Management System helps doctors plan patient care, frees nurses from routine record keeping, and provides a host of tools for complete quality and cost management.

gas module. This sold well, especially in the USA, both as part of larger AS/3™ packages and as a stand-alone monitor in operating and recovery rooms.

A new model of the AS/3™ Anaesthesia Delivery Unit was introduced. This extends the unit's ventilator capabilities to cover infants, and it also enables anaesthetists to use the new and increasingly popular anaesthetic agent desflurane. Sales were strong throughout the year in all markets. In the USA it is due to be launched during 1998.

New concept in intensive care

Datex-Engstrom made further significant progress in its expansion into intensive care. The strong position of the anaesthesia products, coupled with knowhow obtained through the acquisitions of Engström and Clinisoft, created a strong platform for developing a family of products for launch during 1997.

CS/3™ is the only system in the world which integrates monitoring of ventilation, circulation, oxygenation and metabolism - the four key monitoring parameters for intensive care - in a single system. Datex-Engstrom was present at all major intensive care congresses to launch the CS/3™ concept and underline its commitment to intensive care. Shipments of the new CS/3™ critical care monitoring systems commenced in April, and a number of significant installations were taken into use in Western Europe and Latin America.

A prototype of Datex-Engstrom's new product concept, the CS/3™ Critical Care Ventilator, was shown at the 7th World Congress of Intensive and Critical Care Medicine in Ottawa, Canada. It represents a new generation of ultra-compact, stand-alone ventilators and paves the way for a new modular critical care workstation with improved ergonomic design. Customer deliveries are scheduled to commence in 1999.

High priority for information management

Datex-Engstrom centralised its collective know-how and resources for information management into a single business unit, Clinisoft, during the year. This was in response to the top priority now felt for effective information management in the anaesthesia and critical care markets. Development and marketing efforts were significantly increased in response to greater demand. With significant R&D investments this business has now achieved the critical mass to expand substantially with new information management products in the future.

Supplies business grows and expands

The ranges of respiratory supplies and accessories were regrouped into a single business unit, reflecting the increasingly large installed base of Datex-Engstrom equipment and the market's need for a single preferred source of supply. The combined range covers a large number of reusable and disposable items, such as filters and probes, which connect monitoring equipment to the patient. The range, which was further improved and broadened during the year, includes both proprietary items for Datex-Engstrom equipment and generic products for all types of equipment. Significant investments implemented in 1996 began to show results. This business made further fast progress during the year.

Growth was especially strong in pulse oximetry probes.

The CS/3™ Compact Monitor is an all-in-one monitor for patient monitoring in hospitals.

Gastric air tonometry, an exciting new modality

Datex-Engstrom's rapidly developing gastric air tonometry business was further developed during the year. It is well known that the gut is among the first organs to be affected by shock, trauma and sepsis, and the last to be restored to normality. Doctors now recognize that assessing the adequacy of tissue oxygenation in the gut can provide valuable advance warning of possibly fatal complications during critical care and major surgery. Conventional methods of assessment, however, are tedious, time-consuming and unreliable. The Tonocap™ tonometry monitor automates gastric tonometry. It reduces the time required for monitoring from hours to minutes, improves accuracy, and above all brings this important new modality into routine clinical use.

A major multi-centre study carried out during the year is aimed at confirming the value of this new method as a guide to management of patients undergoing high-risk surgery. The results will be announced in 1998. Tonocap™ sales rose steadily during the year as this new technology gained greater market awareness and acceptance. A dedicated sales team was set up in the USA to promote Tonometrics.

Rationalisation around centres of specialisation

To eliminate the bottleneck in shipments of its anaesthesia and intensive care products Datex-Engstrom rationalized its manufacturing, marketing and R&D operations. Monitoring and anaesthesia products are now based entirely in Finland. Anaesthesia delivery, ventilation, gas delivery and supplies are the province of Datex-Engstrom in Sweden. This factory started shipments of the new AS/3™ Anaesthesia Delivery Unit in 1997 as planned. A new logistics and management information system was introduced covering the Swedish manufacturing operations, and this system is currently being implemented in Finland.

Prospects

The anaesthesia and critical care market has reached maturity. If healthcare cost pressures continue to accumulate, growth in demand for medical equipment might halt or even decline. Only companies with sufficient size and with superior cost/value products and service will survive and prosper.

On 29 January 1998 Instrumentarium concluded a definitive agreement with the US companies Baxter International Inc. and Becton, Dickinson and Company to acquire the entire Ohmeda division from The BOC Group. Instrumentarium will receive Ohmeda's Medical Systems Division (MSD) and Specialty Products Division (SPD), the Ohmeda name, and the worldwide business assets and operations of these divisions.

The acquisition has profound significance for the future development of Datex-Engstrom and for Instrumentarium as a whole. The new entity will be the worldwide leader in anaesthesia machines and monitors, the European leader in anaesthesia monitors, and the Asian leader in anaesthesia machines.

The Datex-Engstrom and MSD businesses will be integrated operationally under the name Datex-Ohmeda during 1998. The Specialty Products Division will be managed as an independent division of the Anaesthesia and Critical Care segment. After the acquisition, expected to be closed in early April, this segment will have approximately 3700 employees, compared to about 1200 before.

Datex-Ohmeda will gain substantial synergies through the merger, especially in research & development, sales and marketing. The merger offers four main strategic benefits. It secures Datex-Ohmeda's position as a major anaesthesia company. It provides a strong presence in hospitals worldwide, creating a solid foundation for further growth in anaesthesia and critical care. It creates greater opportunities in the clinical information systems business through an extensive presence in anaesthesia and strong growth in critical care. The large installed base of anaesthesia machines and monitors will also offer significant growth in sales of accessories, sensors and supplies.

The new Datex-Engstrom AS/3™ Anaesthesia Delivery Unit builds on the time and cost saving features of its predecessor.

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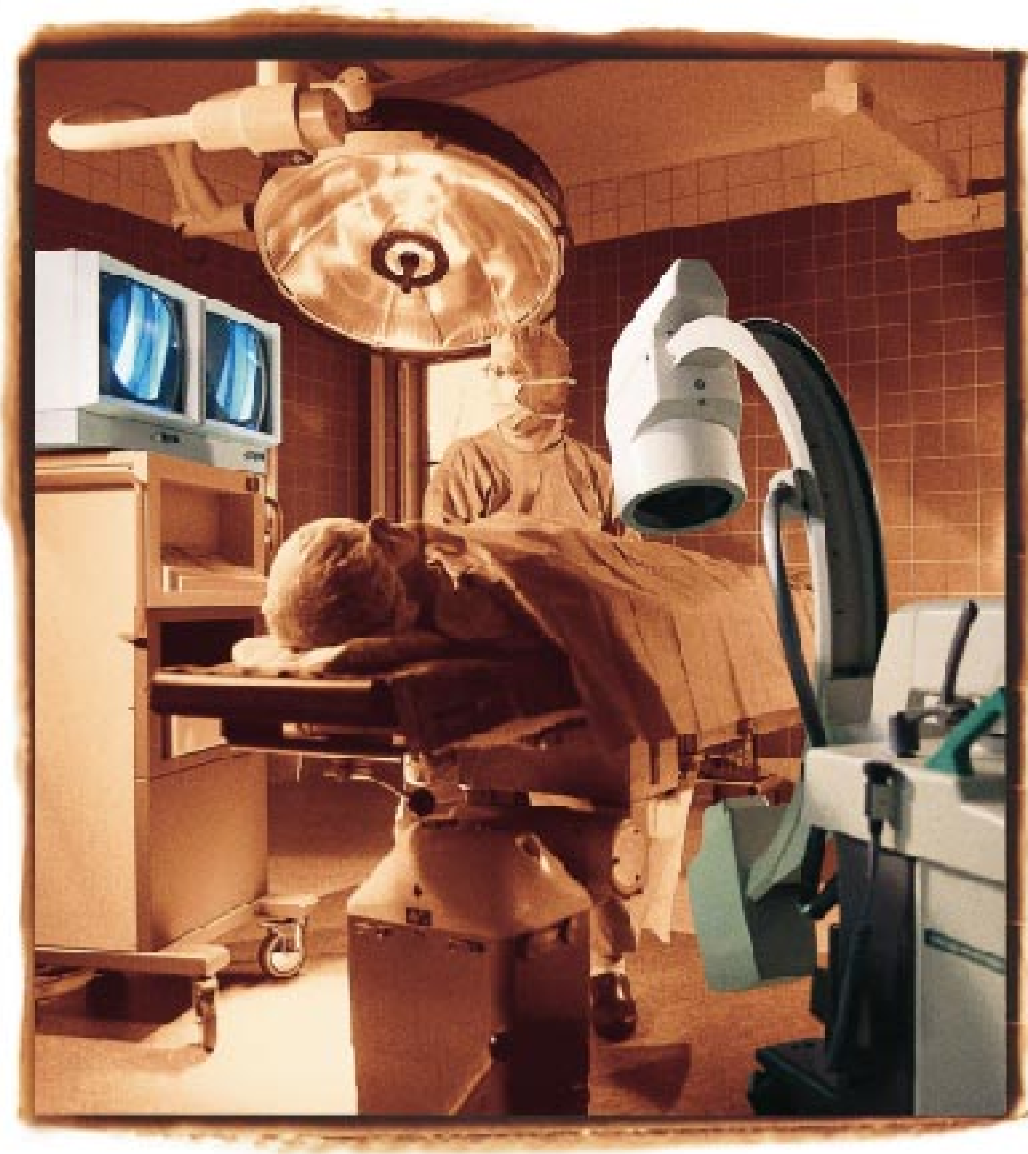


Instrumentarium Imaging

Merivaara

Instrumed

Medko Medical

Medinovum

Soxil

LM-Dental

Medical Equipment and Supplies

Diagnostic Imaging

Instrumentarium Imaging develops, manufactures and markets diagnostic X-ray imaging equipment for three business segments: dental panoramic imaging, mammography and surgical imaging. Instrumentarium Imaging's principal markets are the USA, Europe, and Japan.

Instrumentarium Imaging's goal is to become a leading global company in its core businesses. New product launches related to digital imaging will strengthen its brand recognition. The division will also strongly emphasize further development and clinical trials of its 3-D mammography imaging system.

In its product development, Instrumentarium Imaging emphasizes features which promote high-quality clinical images with easy to use imaging systems. It also seeks to meet the growing need for system connectivity to hospital and radiology information systems.

Greater interest in digital imaging

Demand for dental imaging products remained largely unchanged from previous years although interest was clearly growing in digital imaging, and in particular for more versatile dental X-ray systems.

Instrumentarium Imaging substantially increased sales of its Orthopantomograph® range in the USA and Germany during the year, mainly as a result of stronger market penetration and better brand awareness. Reorganization of distribution in several European and Asian countries, with a strong emphasis on local distributors, significantly boosted sales volumes in most of these markets. Sales remained strong in Japan and Instrumentarium Imaging also made a promising start in South America.

Sales of medical X-ray equipment up

The medical X-ray market picked up slightly after a decline in 1996. Demand for mammography imaging equipment showed growth in several markets although Germany, the largest market in Europe, remained slack. Cost containment, the formation of buyer groups and increased competition among manufacturers placed further pressure on price levels.

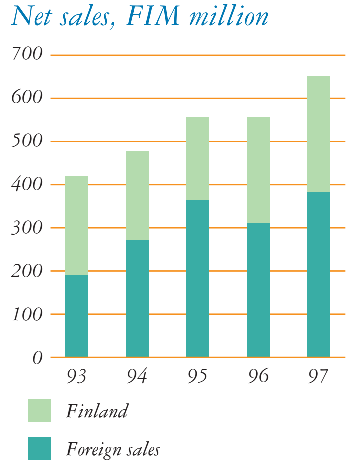
Overall sales of the division's Alpha and Delta mammographic units increased considerably, with significant growth in the USA and South America. Sales in Asia rose less than expected mainly because of a delay in the adoption of breast screening in Japan, coupled with economic turbulence in other Asian markets.

C-arms increase in popularity

The market for mobile surgical C-arm imaging equipment continued to grow as the popularity of less invasive surgical procedures increased and the use of C-arms became more widespread in imaging applications.

Sales of the Omega C-arm rose modestly; some markets showed a strong increase while penetration in other markets proved difficult.

Net sales, FIM million



Key figures

	1997	1996	%
Net sales, FIM million	649	559	+16
• Diagnostic Imaging	166	110	+51
• Medical Furniture	115	116	-0
• Distribution of Medical Equipment and Supplies	368	333	+11
Operating profit, FIM million	47	15	+213
Personnel, average	639	635	+1

Alpha high performance mammography. The Alpha range is gaining in popularity thanks to its user friendliness, outstanding image quality and unique features.

Exclusive licensing agreement

During 1997 Instrumentarium Imaging acquired an exclusive worldwide license to develop, manufacture and market a 3-D image reconstruction method for medical X-ray imaging. Called TACT (Tuned Aperture Computed Tomography) and developed at Wake Forest University, USA, this method facilitates unique new diagnostic capabilities in digital imaging by creating a three-dimensional image of the area of interest. Instrumentarium Imaging intends to apply this novel technology in its future products. Its first application, the Delta TACT digital mammographic system, was introduced at the Radiological Society of North America exhibition in Chicago in November.

Prospects

Cost containment in the developed world's healthcare markets is increasing the need for cost-effective diagnostic imaging systems. Demand for image processing, image archiving and teleradiography is also growing. Coupled with an increasing need to integrate diagnostic imaging into interventional procedures, these factors are creating stronger interest in real-time and almost-real-time digital X-ray imaging. On the dental market, mergers between major dealers, especially in the US, as well as other consolidations and ownership changes, are likely to have a significant impact on market conditions in the future.

Further growth is expected in all three of Instrumentarium Imaging's business segments. Investments in marketing and R&D will be increased in 1998 to further enhance the unit's competitiveness.

Medical Furniture

Merivaara develops and manufactures medical furniture and related products for hospitals and nursing homes. The hospital range includes beds, operating tables, stretchers and delivery beds. For nursing homes, Merivaara manufactures beds, ceiling hoists, wheelchairs and geriatric chairs. The Nordic countries form Merivaara's main market, although exports to Russia and countries outside Europe are growing in significance.

Merivaara aims to maintain its leading position in Finland and to achieve a similar presence in the other Nordic countries. It will also expand in the neighbouring Baltic and Russian markets, supported by recently modernized and more streamlined manufacturing capabilities.

Strong demand for operating tables

Demand for Merivaara's delivery beds, stretchers and particularly operating tables were strong. The Russian and other eastern European markets increased in volume. In the highly competitive western European countries, however, more intensive efforts will be required to achieve satisfactory sales results. Sales in Finland remained at 1996 levels.

Prospects

Improved production control and greater coordination will strengthen Merivaara's position to serve its primary markets more efficiently during 1998. R&D investments will continue to increase in the next few years. The Merivaara division will also introduce new products in 1998, notably a new generation of hospital beds. These are expected to have a significant impact on sales, especially in the Nordic markets.

Distribution of Medical Equipment and Supplies

Instrumed

Instrumed distributes medical and laboratory equipment and supplies of leading international manufacturers to hospitals, clinics, and research and industrial laboratories in Finland. As one of the market's major suppliers, Instrumed offers a full range of products and services including installation, information system integration, training and technical service.

Instrumed's markets showed another year of growth. Instrumed's sales developed most strongly in anaesthesia and intensive care and in surgical supplies, although the unit's overall sales volume did not reach the previous year's record levels.

Medko Medical

Medko Medical is a project sales company supplying turnkey hospital systems in Russia, Central Asia, China and the Baltic countries. Medko Medical has also been responsible for selling products of Datex-Engstrom, Instrumentarium Imaging and Merivaara in these markets. However, since the beginning of 1998 these sales have been organized under the respective business units.

Lack of local financing in Russia, the main market, made conditions difficult. Business was also strong in Estonia, where sales increased significantly.

Medinovum

Medinovum markets branded generic pharmaceuticals in Finland. These are becoming increasingly popular as growth in consumption of pharmaceuticals continues to outstrip the resources of the reimbursement system. Its growing line of products is manufactured by Merckle GmbH, a leading European producer.

Medinovum's sales continued to rise in 1997. Competition increased further and price levels of certain products fell. Medinovum introduced several new products during the year.

Soxil

Soxil is a leading supplier of anaesthesia ventilation and patient monitoring equipment in Italy, the Mediterranean, North Africa and certain eastern European countries. In 1996 Soxil assumed the marketing and distribution of Datex-Engstrom's entire line of products in Italy. This was reflected in a considerable increase in sales in 1997. The company launched its new anaesthesia ventilator.

LM-Dental

LM-Dental markets its own full range of dental hand instruments and accessories in the Nordic countries, where it is the leading supplier, as well as in selected European and East Asian markets. The company also produces and markets dental gold alloys in Finland. Despite only marginal market growth, LM-Dental's overall instrument sales increased.

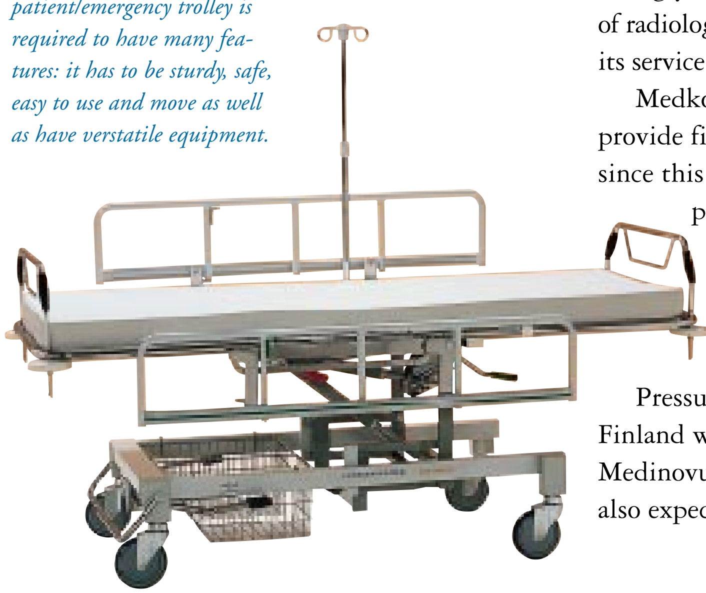
Prospects

The healthcare and laboratory equipment markets in Finland are not expected to grow appreciably compared to 1997. Instrumed aims to increase its sales and market share, supported by several recently concluded co-operation agreements and a strong year-end orderbook. Its solid installed base of radiological and medical equipment supports its service activities and future sales.

Medko Medical is developing its ability to provide financing for turnkey hospital projects since this is proving to be an increasingly important means of gaining new business in the Russian, Baltic and central Asian markets. Signs indicate that project sales will increase during 1998.

Pressure to contain pharmaceutical costs in Finland will continue to bolster demand for Medinovum's products, although competition is also expected to become fiercer.

In demanding hospital use patient/emergency trolley is required to have many features: it has to be sturdy, safe, easy to use and move as well as have verstatile equipment.



Instrumentarium

Nissen

KEOPS

Ögat

Optical Retail

The Optical Retail Division sells optical products, mainly eyeglasses and contact lenses and related products and services, through 166 outlets in Finland, Sweden, Estonia and Russia. The Optical Retail Division is the market leader in Finland. It also markets home healthcare products, such as anatomical footwear and various measuring items in Finland. These are marketed through two home healthcare stores and 61 optical stores.

The division's goal is to expand its presence in Finland's neighbouring countries, in which it will benefit from a strong position in the domestic market.

In Finland the division distributes through 137 outlets in three branded chains – *Instrumentarium*, *Nissen* and *KEOPS* – which are segmented for different customer groups. In Sweden it distributes through the *Ögat* chain with twenty own and seven franchised outlets, in Estonia through seven stores and in St. Petersburg, Russia, through two stores.

Above average increase in optical sales

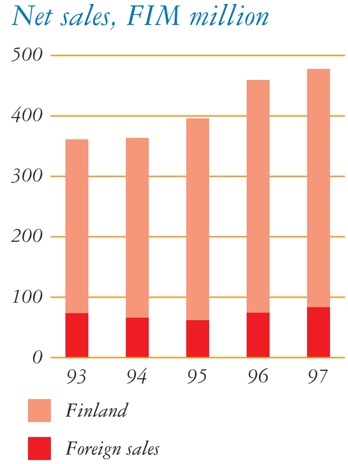
The Finnish market showed only moderate growth during the year. However, Instrumentarium's Optical Retail Division had another strong year. Its overall sales increased above the average. In Sweden demand rose in response to a clear increase in demand. Demand is also increasing significantly in Estonia, where the Instrumentarium outlets have now firmly established their position among the top four suppliers.

Growth in demand for home healthcare products in Finland declined significantly during 1997 although Optical Retail's home healthcare sales grew faster than the industry average. These products account for about 15 % of Optical Retail's overall sales.

Prospects

Consumer demand for the division's products is expected to rise in Finland and to remain at existing levels in Sweden during 1998. The division plans to open further stores in the expanding Estonian market.

Net sales, FIM million



Key figures

	1997	1996	%
Net sales, FIM million	**481**	460	+5
Operating profit, FIM million	**63**	60	+5
Personnel, average	**694**	669	+4

Board of Directors' Report

Consolidated net sales and profit

Instrumentarium's consolidated net sales for 1997 totalled FIM 2,720 million, an increase of 16 % on the previous year. Net sales from exports and operations outside Finland rose 18 % to FIM 1,571 million, which was 58 % of the Group's net sales.

The Group's operating profit was FIM 314 million, compared to FIM 232 million in the preceding year. The profit before extraordinary items, reserves and taxes was FIM 341 million, up FIM 68 million on the year before. Net income from financing operations amounted to FIM 27 million, which was FIM 14 million less than in the previous year. No extraordinary income or expenses were recorded.

Earnings per share totalled FIM 12.21, which represented an increase of 23 % on the year before. Shareholders' equity per share was FIM 94.76.

Group personnel totalled 2,902 at the end of 1997, an increase of 274 on the previous year. Altogether 919 employees worked outside Finland at the year end.

Anaesthesia and Critical Care Equipment

The net sales of the Datex-Engstrom Division, which manufactures anaesthesia and critical care equipment, increased 15 % and the operating profit 51 % on the previous year. This strong improvement was due mainly to greater demand for AS/3™ Anaesthesia Monitors and higher than forecast sales of the CS/3™ Monitoring System for critical care. Sales of the AS/3™ Anaesthesia Delivery Unit rose as expected. Sales of supplies and single-use products for anaesthesia and critical care continued to grow well. The stronger US dollar improved the gross margin and reinforced Datex-Engstrom's position with respect to its American competitors in the struggle for market share. Delivery delays experienced early in the year were eliminated during the final months of the year, when sales also increased almost 50 % compared to the same period in 1996.

In its main markets Datex-Engstrom's sales showed the strongest growth in the USA, which contributed approximately one quarter of the division's total sales. In Europe Datex-Engstrom's overall sales rose more than 10 %, despite considerable fluctuations in demand in different countries. Sales developed well for the new UK subsidiary, which started operating in September. Strong sales growth was also apparent in markets outside the USA and Europe, especially in Latin America and Australia. In Japan and South East Asia sales declined; the impact of sales in these areas on the division's overall sales was minor.

Datex-Engstrom continued its strong focus on research and development and on raising operational efficiency. R&D expenses totalled FIM 112 million, which represented about 12 % of the division's net sales. In production a major change was the decision to concentrate manufacture of anaesthesia delivery units at the Bromma factory in Sweden. Progress continued throughout the year on a new logistics and management informa-

Development by business segment

	Net sales, MFIM			Operating profit, MFIM		
	1997	1996	%	**1997**	1996	%
Anaesthesia and Critical Care Equipment	**975**	845	+15	**163**	108	+51
Medical Equipment and Supplies	**649**	559	+16	**47**	15	+213
Optical Retail	**481**	460	+5	**63**	60	+5
Distribution of Consumer and Commercial Products	**543**	442	+23	**20**	17	+18
Group Administration	**71**	29	+145	**21**	32	-34
Total	**2,720**	2,335	+16	**314**	232	+35

tion system, which will be brought into use in September 1998.

The growth in Datex-Engstrom's operating profit was the result of greater sales volumes and a higher gross margin. Besides the stronger US dollar, the increase in gross margin was also attributable to a shift in sales towards AS/3™ and CS/3™ system products, which have higher sales margins than stand-alone monitors. The division's sales and marketing costs rose slightly more than the increase in sales. An important reason behind this was the establishment of the new subsidiary in Great Britain and Ireland.

Medical Equipment and Supplies

Net sales of the Medical Equipment and Supplies segment rose 16 % on the previous year and its operating profit more than tripled. This was principally due to the substantial growth in sales and operating profit recorded by Instrumentarium Imaging, which manufactures diagnostic X-ray equipment.

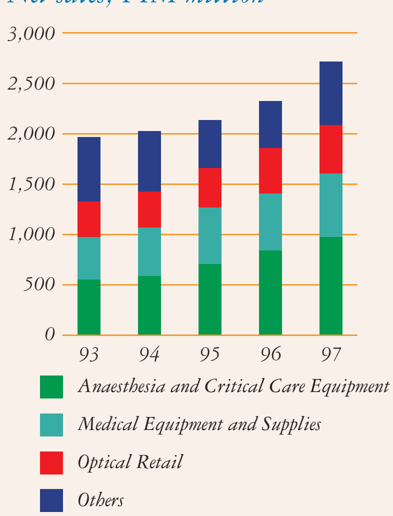
Instrumentarium Imaging's net sales amounted to FIM 166 million, up 51 % on the previous year. Sales of both dental X-ray and mammography equipment increased significantly. In the dental X-ray sector the largest sales growth was evident in Germany and the USA. Sales also increased in Japan but to a lesser extent than in the other main markets. Sales of mammography equipment grew especially vigorously in the USA and UK. In South East Asia, by contrast, sales declined. Sales of Instrumentarium Imaging's third product group, surgical C-arms, did not grow as expected in all markets. C-arm sales improved on the previous year but their impact on this division's overall sales was still minor. Instrumentarium Imaging increased its resources in research and development and marketing. Its main R&D focus was on digital and 3-D imaging applications.

Sales of Merivaara medical furniture and aids for the disabled remained at the previous year's level, totalling FIM 115 million. Exports and foreign operations brought in more than 70 % of its total sales. Hospital beds represent Merivaara's largest product group and account for more than two-thirds of its sales. Hospital beds did not sell as well as during the previous year, whereas sales of operating tables and other special products increased. Sales were liveliest in Russia and in markets outside Europe. In Finland Merivaara's sales remained static. The subsidiaries in Sweden, Norway and France all recorded lower sales. Merivaara focused heavily on marketing and product development during the year and several notable projects are under way to rationalize production.

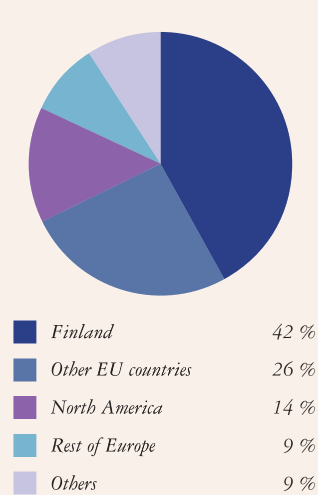
Sales of Instrumed, which markets medical equipment and supplies in Finland, declined slightly compared to the preceding year. The main reason for this was a reduction in orders for radiological equipment, whereas several large projects were implemented in 1996. Moreover, sales of laboratory equipment decreased somewhat. On the other hand, anaesthesia and critical care equipment and surgical equipment and supplies all showed a strong surge in demand.

Sales of Medinovum, which markets branded generic pharmaceuticals, continued to grow well

Net sales, FIM million



Net sales by market area, %



and exceeded the overall rate of growth in Finland's pharmaceuticals market. Medinovum's gross sales totalled FIM 51 million. Roughly 90 % of its sales comes from prescription drugs and the rest from over-the-counter sales.

Revenues of the sales and marketing company Soxil S.p.A., based in Italy, rose substantially on the previous year. This was primarily due to the strong popularity among Italian customers for Datex-Engstrom's products, which were transferred to Soxil during 1996.

Medko Medical's project and equipment sales showed a small overall decrease on the previous year, which was mainly caused by a reduction in project deliveries to Russia. Equipment sales to Russia and the Baltic countries increased, however. Since the beginning of 1998 Medko Medical has concentrated solely on handling project exports to Russia, the Baltic countries and eastern Europe.

LM-Dental, which manufactures dental hand instruments, increased its net sales, almost 60 % of which came from exports.

Optical Retail

The Optical Retail Division's net sales rose 5 %. The three chains of stores in Finland raised sales by approximately 4 %, although the optical retail markets themselves showed almost no growth during the year. Sales of home healthcare products through Instrumentarium outlets increased slightly more than sales of optical products. In Sweden demand for optical products grew approximately 6 % but the Ögat stores managed faster growth, about 10 %. The Instrumentarium stores in Estonia increased sales substantially, due largely to the establishment of two new stores during 1997. The outlets in St. Petersburg, Russia, had as yet no impact on the division's overall sales.

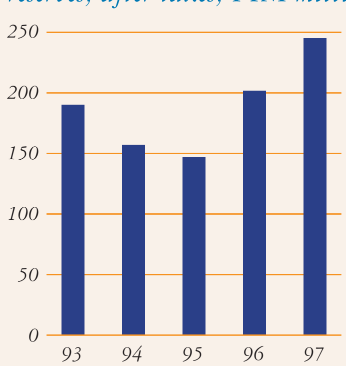
Six new sales outlets were added during the year, bringing the total to 164 at the year end. Four new outlets were opened in Finland, where the number reached 137. In Sweden the number fell by two, but two new stores were acquired at the beginning of 1998, bringing the total once again to 20. Two new outlets were opened in Estonia in 1997, making a total of seven at the year end. The first outlet in St. Petersburg started operation in March and the second in November.

The Optical Retail Division's operating profit also increased 5 %, in pace with net sales. The gross margin increased slightly on the preceding year and expenses rose somewhat more than sales.

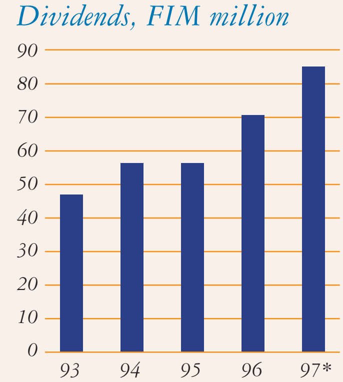
Distribution of Consumer and Commercial Products

The aggregate net sales of the Distribution of Consumer and Commercial Products segment increased 23 % on the previous year to FIM 543 million. Its operating profit rose from FIM 17 million to FIM 20 million. The main reason for the increase in net sales was stronger demand for Instru Data Oy's information technology equipment and systems in Finland and its neighbouring markets. Underlying the improvement in operating profit were better results posted by both Instru Data and by Oy Bergenheim Yhtiöt Ab, a wholesaler of cosmetics and consumer dailies.

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



Dividends, FIM million



*Proposed by the Board of Directors.

Net sales of Instru Data Oy increased from FIM 295 million to FIM 400 million. More than half of this growth came from exports, principally to the St. Petersburg area. Exports contributed more than 30 % of net sales. In Finland, too, sales of Instru Data's information technology equipment and systems showed strong growth. The company's operating profit was a moderate improvement on the previous year.

Oy Bergenheim Yhtiöt Ab's net sales totalled FIM 124 million, compared to FIM 118 million in 1996. The 5 % increase exceeded growth in consumer spending in general. The company's operating profit was better than one year earlier.

Net sales of Oy Tekno-Rema Ab, which sells wireless communications systems and equipment, came to FIM 20 million, having been FIM 29 million in the year before. Its operating profit decreased as well. In September 1997 the company ceased distribution of Motorola cellular phones. Tekno-Rema now concentrates on sales of Motorola's other wireless communication products and also carries responsibility for servicing of its cellular phones.

Financing and investment

Net financing income was FIM 27 million, compared to FIM 41 million in the previous year. The reasons for the decrease were a fall in interest income due to lower interest rates, and the smaller contribution to income made by associated companies. Exchange rate losses resulting from hedging of the Group's currency positions were somewhat higher than in 1996. Dividend income totalled FIM 15 million, having been FIM 12 million in the previous year.

Net sales from securities trading was FIM 42 (23) million. The market capitalization of the Group's equity securities portfolio on 31 December 1997 was FIM 675 (597) million; the corresponding book value was FIM 417 (431) million. The operating profit from securities trading, including gains on sales of shares in fixed assets, was FIM 39 (28) million. The corporate administration's net sales in 1997 also included a profit of FIM 29 million from the sale of a building operation.

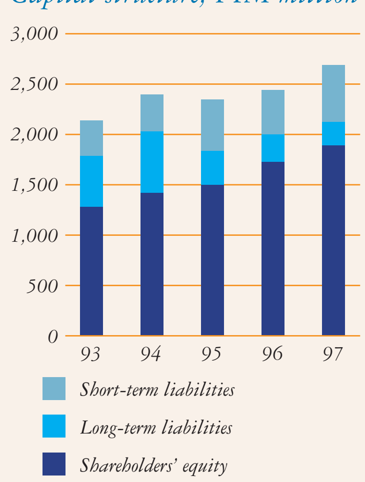
The Group's equity ratio remained virtually unchanged and was 71 % (72 %). Interest-bearing debt on 31 December 1997 was FIM 174, which was FIM 11 million more than one year before. The Group's liquid assets amounted to FIM 366 (421) million.

Capital expenditure and R&D

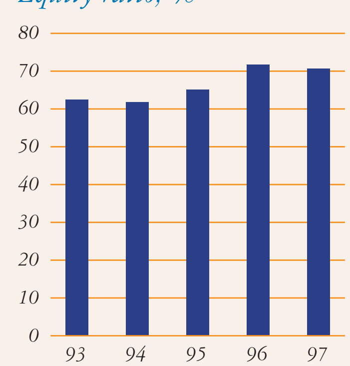
Group capital expenditure totalled FIM 332 million, compared to FIM 69 million in 1996. FIM 65 (45) million was invested in machinery and equipment, FIM 212 (2) million in buildings, and FIM 55 (22) million in securities and other long-term expenditure. During the year the Group took possession of the office, industrial and warehouse premises in Kilo (Espoo), Tuusula and Lahti, which it had previously rented. This acquisition cost was covered by an investment reserve, which was fully used up by the end of the year.

R&D expenses totalled FIM 127 million, having been FIM 116 million in 1996. Most of this expenditure was incurred in development of

Capital structure, FIM million



Equity ratio, %



anaesthesia and critical care equipment and related information management systems.

Personnel and administration

Personnel averaged 2,753 during the year, an increase of 120 on 1996. The Parent Company, Instrumentarium Corporation, had 1,674 (1,639) employees on average.

The Supervisory Board was chaired in 1997 by Matti Koskenoja DMS. Honorary counsellor Gustav von Hertzen was elected as chairman of the Supervisory Board on 22 May 1997. He had been elected to the Supervisory Board on 25 March 1997, until then he had been a member of the Board of Directors. The Board of Directors was chaired by Markku Talonen, President and CEO of Instrumentarium Corporation, until 15 June 1997, when Gerhard Wendt PhD, who had until then been a member of the Board, was elected Chairman. On 15 June 1997 Executive Vice President Olli Riikkala MSc (Eng.) MBA was appointed President and CEO of Instrumentarium Corporation; he was a member of the Board of Directors throughout 1997. Chief Financial Officer Matti Salmivuori is also a member of the Board of Directors.

On 11 December 1997 the Supervisory Board of Instrumentarium Corporation appointed a new Board of Directors as follows: Gerhard Wendt PhD (Chairman) for the years 1998 - 2000, and for 1998 Olli Riikkala and Matti Salmivuori, as well as Mikael Lilius, President and CEO of Incentive AB, and Professor Juhani Kuusi, Director of the Nokia Research Center.

Subsequent events

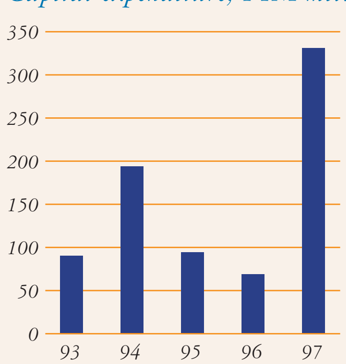
At the beginning of 1998 the Instrumentarium Group implemented one acquisition and initiated two others which will have a major impact on its corporate structure.

In early January the Group signed an agreement divesting the business operations of Oy Bergenheim Yhtiöt Ab to Berner Oy, a Finnish company which imports and markets certain branded consumer products. The deal was closed on 2 February 1998 and since this date the Bergenheim Yhtiöt operations have no longer belonged to the Instrumentarium Group.

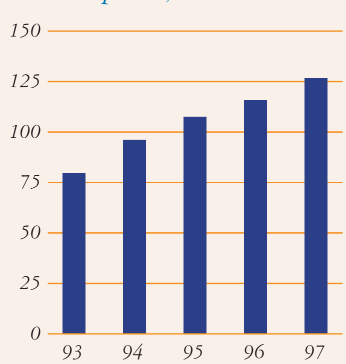
At the end of January Instrumentarium Corporation agreed to acquire the Medical Systems and Specialty Products divisions of the American company Ohmeda from The BOC Group in the UK. Instrumentarium is one of three companies in a consortium formed to acquire the entire Ohmeda division. The deal will almost triple the size of Instrumentarium's Anaesthesia and Critical Care Equipment segment and give the entire Group a clearer multinational structure. The two divisions being acquired have companies and operations in 17 countries, with factories in the USA, and about 2,400 employees. The agreement is scheduled to be closed at the beginning of April this year. Following the acquisition Instrumentarium's pro-forma balance sheet totalled approximately FIM 4.5 billion and the equity ratio was over 40 %.

In February Instrumentarium Corporation and the American company CHS Electronics, Inc. signed a letter of intent whereby CHS Elec-

Capital expenditure, FIM million



R&D expenses, FIM million



tronics would acquire the shares of Instru Data Oy. This deal is expected to be closed no later than at the beginning of May.

In January, Instrumentarium decided to sell its 40 % holding in Hackman Metos Oy Ab, which manufactures professional kitchens, to this company's majority shareholder, Hackman Corporation. The divestment signalled the completion of Instrumentarium's withdrawal from the professional kitchens business.

Prospects for 1998

The focus of Instrumentarium Group's development is its anaesthesia and critical care business, in which it intends to become a world leader. The acquisition of the global anaesthesia machine business of Ohmeda will substantially strengthen Instrumentarium and its Datex-Engstrom division in the US markets. Ohmeda's and Datex-Engstrom's products ranges are largely complementary and the acquisition will therefore give Instrumentarium a stronger position in the global anaesthesia machine markets. The operations of Instrumentarium's Datex-Engstrom Division and Ohmeda's Medical Systems Division will be integrated this year, forming a new entity called Datex-Ohmeda. Instrumentarium will make a provision of approximately FIM 320 million this year to cover non-recurring restructuring costs.

Demand for medical equipment and supplies varies in different countries and product groups. Prospects for the products manufactured and distributed by Instrumentarium's businesses and for its project exports in 1998 are on the whole satisfactory.

Optical retailing is expected to develop favourably in Finland and Sweden. Demand in Estonia and St. Petersburg will show further growth. Instrumentarium's Optical Retail Division holds a strong position in Finland and it aims to increase market share in its other markets. Prospects for 1998 are stable.

Proposal for the Distribution of Profits

Proposal to the Annual General Meeting
At 31 December 1997 the consolidated non-restricted equity of the Group was FIM 1,509,594,963.75, of which FIM 1,201,918,295.13 is available for distribution. At 31 December 1997, the Parent Company's non-restricted equity was FIM 1,315,285,475.43.

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

- Dividend at FIM 4.20 per share (FIM 2.10/ADR)	FIM	84,687,964.20
- To the Instrumentarium Scientific Fund	FIM	150,000.00
- To non-restricted shareholders' equity	FIM	1,230,447,511.23
	FIM	1,315,285,475.43

Helsinki, 25 February 1998

Gerhard Wendt Chairman of the Board	Juhani Kuusi	Mikael Lilius
Olli Riikkala President and CEO	Matti Salmivuori	

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 shareholders' meetings 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 1996 there were 163,854 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 25. Persons registered on 30 March 1998 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 2 April 1998.

Shareholdings of personnel, Board of Directors and Supervisory Board

At the end of 1997 there were 263 shareholders among personnel holding a total of 146,556 shares in the company. At the same time members of the Board of Directors and the Supervisory Board held 57,652 A shares and 3,408 B shares, representing 0.30 % of the entire share capital and 0.37 % of the voting rights.

Debt securities and bonds with warrants

The company does not have any debt securities or bonds with warrants.

Authorizations and shareholder agreements

The Board of Directors had no authorizations to raise the capital stock of the company during the year. The Board of Directors is not aware of any shareholder agreements concerning the company's shares.

Structure of share capital on 31 December 1997

	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 1997

Number of shares	Number of shareholders	% of total shareholders	% of capital stock
1 – 100	2,715	28.6	0.7
101 – 500	4,021	42.3	5.0
501 – 1 000	1,282	13.5	4.6
1 001 – 5 000	1,204	12.7	12.3
5 001 –10 000	135	1.4	4.7
over 10 000	144	1.5	72.7
Total	9,501	100.0	100.0

Shareholders on 31 December 1997

Principal shareholders of Instrumentarium Corporation on 31 December 1997, in order of voting power:

Shareholder	A shares	Number of 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. Pension Varma Mutual Insurance Company	503,609	44,400	548,009	2.7	3.2
7. Instrumentarium Pension Fund **	408,160	141,235	549,395	2.7	2.7
8. Pension Insurance Company Ilmarinen Ltd.	389,600	155,900	545,500	2.7	2.6
9. Instrumentarium Scientific Fund	249,739	-	249,739	1.2	1.6
10. The Finnish Medical Society Duodecim	237,403	60	237,463	1.2	1.5
11. The Finnish Cultural Foundation	220,000	-	220,000	1.1	1.4
12. Medical Investment Trust	217,300	-	217,300	1.1	1.4
13. The Local Government Pensions Fund	195,500	129,200	324,700	1.6	1.3
14. Nova Life Insurance Company Ltd.	172,900	77,400	250,300	1.2	1.1
15. The Finnish Medical Foundation	174,231	-	174,231	0.9	1.1
16. Suomi Mutual Life Assurance Company	159,000	73,612	232,612	1.2	1.1
17. Insurance Company Sampo Pension Ltd.	160,000	-	160,000	0.8	1.0
18. The Pohjola Group	139,000	55,100	194,100	1.0	0.9
19. Pension Foundation Polaris	136,620	12,420	149,040	0.7	0.9
20. Orion Employees' Pension Fund	128,200	-	128,200	0.6	0.8
	7,486,434	1,177,391	8,663,825	42.9	48.3
Nominee registered:					
Merita Bank Oy	770,523	1,157,755	1,928,278	9.6	5.6
Postipankki Ltd.	14,400	37,000	51,400	0.3	0.1
OKO Bank	4,437	7,860	12,297	0.0	0.0

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

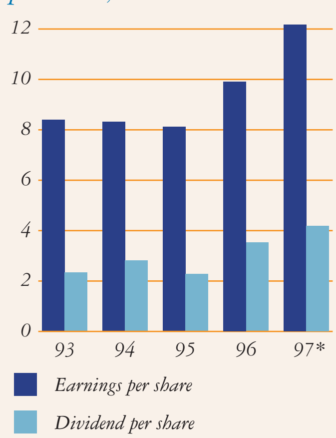
Ownership structure on 31 December 1997

Group	Number of shareholders	Number of shares	% of shares
Private persons	8,782	5,229,856	25.9
Companies	342	5,981,327	29.7
Associations and foundations	331	3,891,498	19.3
Mutual funds	12	307,418	1.5
Insurance companies	21	2,729,961	13.5
Financial institutions	10	13,004	0.1
Nominee-registered	3	1,991,975	9.9
Shares not transferred to the book-entry system		18,762	0.1
Total	9,501	20,163,801	100.0

Share capital increases since 1987

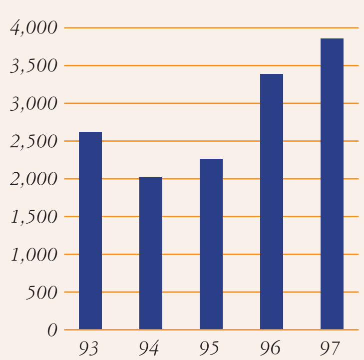
Share issue	Subscription period	Terms of subscription or subscriber	Subscription price	Number of new shares	Total shares
Subscription	6.2.87	acquisition	197.60	25,000 B restricted	5,325,000
Subscription	5.3.87	acquisition	190.00	20,000 B restricted	5,345,000
Subscription	5.3.87	acquisition	190.00	10,000 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

Earnings and dividend per share, FIM



**Proposed by the Board of Directors.*

Market capitalization, FIM million



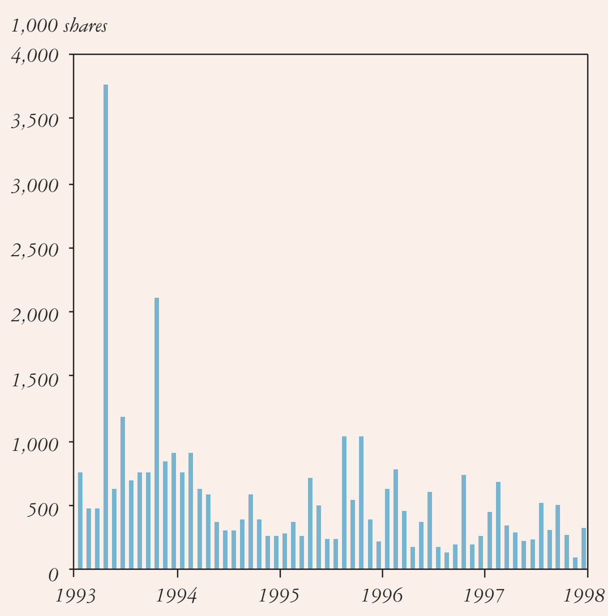
Performance of Instrumentarium shares

	The Helsinki Stock Exchange						NASDAQ, Wash., D.C.	
	A Share, FIM			B Share, FIM			ADR, USD	
	high	low	average	high	low	average	high	low
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
1997	228.00	160.00	188.78	227.00	160.00	187.34	21.53	16.25

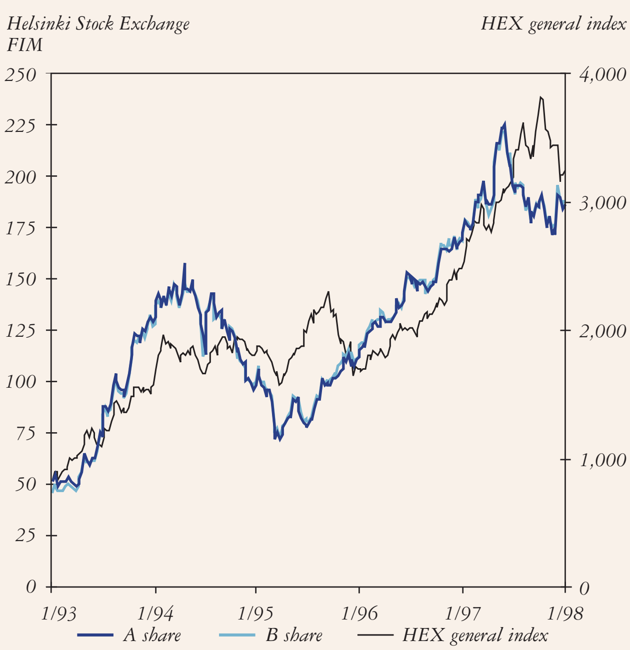
Trading volumes of Instrumentarium shares

	The Helsinki Stock Exchange				NASDAQ, Wash. D.C.	
	A Share		B Share		ADR	
	Volume	% shares outstanding	Volume	% shares outstanding	Volume	% shares outstanding
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
1997	2,577,665	16.8	1,649,382	33.9	63,868	39.0

Trading volumes of A and B shares



Performance of A and B shares



Income Statement

(FIM 1,000)	Note*	CONSOLIDATED 1997	%	1996	%	PARENT COMPANY 1997	%	1996	%
Net sales	(1)	**2,720,201**	100.0	2,335,483	100.0	**1,612,274**	100.0	1,351,256	100.0
Cost of goods sold		**-1,369,763**		-1,195,650		**-753,903**		-657,179	
Gross margin		**1,350,438**	49.6	1,139,833	48.8	**858,371**	53.2	694,077	51.4
Selling and marketing expenses		**-746,823**		-652,535		**-379,353**		-335,834	
Research and development expenses		**-127,130**		-115,865		**-104,195**		-89,991	
Administrative expenses		**-173,222**		-146,784		**-81,819**		-69,154	
Other operating expenses	(3)	**-22,804**		-22,046		**-17,119**		-16,789	
Other operating income	(3)	**56,431**		52,813		**44,299**		41,157	
Amortization of goodwill		**-22,903**		-23,435		**-**		-	
		-1,036,452		-907,851		**-538,187**		-470,611	
Operating profit		**313,986**	11.5	231,983	9.9	**320,184**	19.9	223,466	16.5
Financing income and expenses	(5)	**26,774**		41,330		**-27,256**		-47,268	
Profit before extraordinary items, reserves and taxes		**340,759**	12.5	273,313	11.7	**292,928**	18.2	176,198	13.0
Extraordinary income and expenses	(6)	**-**		76,251		**43,786**		79,781	
Profit before reserves and taxes		**340,759**	12.5	349,563	15.0	**336,714**	20.9	255,979	18.9
Increase (-) or decrease (+) in depreciation difference		**-**		-		**28,778**		27,809	
Increase (-), or decrease (+) in voluntary reserves		**-**		-		**21,725**		-	
Taxes	(8)	**-94,718**		-72,937		**-107,870**		-64,119	
Profit for the period before minority interests		**246,041**	9.0	276,626	11.8	**279,347**	17.3	219,669	16.3
Minority interests		**70**		-1,196					
Profit for the period		**246,112**	9.0	275,430	11.8	**279,347**	17.3	219,669	16.3

**Notes to the financial statements pages 34–45.*

Statement of Cashflows

	CONSOLIDATED		PARENT COMPANY	
(FIM 1,000)	1997	1996	1997	1996
Funds from operations				
Operating profit	313,986	231,983	320,184	223,466
Depreciation	96,101	90,000	49,068	43,878
Financing income and expenses	26,774	41,330	12,387[1)]	31,443[1)]
Extraordinary items	0	-58,933[1)]	43,786	-39,719[1)]
Taxes	-94,718	-72,937	-107,870	-64,119
	342,143	231,443	317,555	194,949
Changes in working capital				
Inventories	-102,563	-7,744	-52,193	-11,209
Current receivables	-57,516	17,598	-35,794	41,273
Interest-free short-term debt	105,184	31,113	50,906	23,492
	-54,895	40,967	-37,081	53,556
Cashflow from operations	287,248	272,410	280,474	248,505
Capital expenditure				
On fixed assets	-331,988	-69,251[1)]	-280,475	-103,690[1)]
Gain on sale of fixed assets	19,457	9,979	19,748[1)]	25,112[1)]
	-312,531	-59,272	-260,727	-78,578
Cashflow before financing	-25,283	213,138	19,747	169,927
Financing				
Long-term receivables	27,560	-11,801	-22,913[1)]	-93,897
Change in deferred tax liability	-29,602	-10,744		
Long-term loans	-10,947	-43,910	-6,932	-32,370
Short-term loans	49,666	-103,439	14,777	-10,555
Merger gain			4,386	
Dividends and donations	-70,873	-56,721	-70,723	-56,571
Share issue		1,057		1,057
	-34,196	-225,558	-81,405	-192,336
Change in liquid assets as calculated	-59,479	-12,420	-61,658	-22,409
Translation adjustment	3,089	4,894	0	0
Change in liquid assets in balance sheet	-56,390	-7,526	-61,658	-22,409

[1)] Changes in value having no impact on cashflow are not taken into account.

Balance Sheet

(FIM 1,000)	Note*	CONSOLIDATED 1997	%	1996	%	PARENT COMPANY 1997	%	1996	%
ASSETS									
Fixed assets and other long-term assets									
Intangible assets	(9)								
Intangible rights		**15,957**		14,612		**10,448**		8,859	
Goodwill		**20,405**		9,649		**19,252**		8,496	
Goodwill on consolidation		**81,582**		102,396					
Other long-term expenditure		**50,231**		50,067		**46,511**		47,753	
		168,175	6.1	176,724	7.2	**76,211**	3.2	65,108	3.0
Tangible assets	(9)								
Land areas		**30,607**		25,701		**26,945**		24,846	
Buildings and constructions		**386,388**		180,381		**201,169**		167,368	
Machinery and equipment		**119,140**		106,429		**57,562**		55,109	
Advance payments and construction in progress		**864**		864		**864**		864	
		536,999	19.5	313,375	12.7	**286,540**	11.9	248,187	11.4
Shares and other long-term investments	(9)								
Shares and shareholdings		**472,469**		468,948		**844,696**		718,425	
Loans receivable		**1,772**		3,939		**1,312**		3,938	
		474,241	17.2	472,887	19.2	**846,008**	35.1	722,363	33.0
Current assets									
Inventories	(10)								
Materials and supplies		**87,711**		72,083		**61,639**		50,823	
Work in progress		**52,113**		43,153		**37,217**		26,729	
Finished goods		**335,684**		252,673		**140,259**		109,370	
Other inventories		**64,011**		69,047					
		539,519	19.6	436,956	17.8	**239,115**	9.9	186,922	8.6
Receivables	(10)								
Accounts receivable		**588,211**		431,666		**321,377**		179,816	
Loans receivable		**5,155**		32,715		**305,765**		283,938	
Accrued receivables		**28,861**		60,888		**5,225**		40,699	
Other receivables		**46,146**		113,148		**12,229**		82,522	
		668,373	24.3	638,417	26.0	**644,596**	26.8	586,975	26.8
Interest-bearing debt securities	(10)	**263,528**	9.6	323,068	13.1	**263,528**	10.9	322,895	14.8
Cash and bank receivables		**101,463**	3.7	98,313	4.0	**51,470**	2.1	53,760	2.5
		2,752,298	100.0	2,459,740	100.0	**2,407,468**	100.0	2,186,210	100.0

Notes to financial statements pages 34–45.

		CONSOLIDATED				PARENT COMPANY			
(FIM 1,000)	Note	1997	%	1996	%	1997	%	1996	%
LIABILITIES AND SHAREHOLDERS' EQUITY									
Shareholders' equity									
Restricted shareholders' equity	(11)								
Share capital		**201,638**		201,638		**201,638**		201,638	
Other restricted equity		**199,389**		198,471		**194,538**		194,538	
		401,027		400,109		**396,176**		396,176	
Non-restricted shareholders' equity	(11)								
Equity share of depreciation difference and reserves		**307,677**		361,095					
Retained earnings		**955,806**		695,660		**1,035,938**		725,560	
Profit for the period		**246,112**		275,430		**279,347**		219,669	
		1,509,595		1,332,185		**1,315,285**		945,229	
		1,910,622	69.4	1,732,294	70.4	**1,711,461**	71.1	1,341,405	61.4
Minority interests		17,055	0.6	15,952	0.6				
Reserves	(12,13)								
Accumulated depreciation difference		-		-		**260,685**		220,095	
Investment reserves		-		-		-		157,047	
Other reserves		-		-		-		91,093	
		-		-		**260,685**	10.8	468,235	21.4
Liabilities									
Long-term liabilities	(14)								
Loans from financial institutions		**2,125**		5,567		**1,745**		3,942	
Loans from pension funds		**98,591**		108,094		**67,712**		72,447	
Deferred taxes		**99,759**		129,361					
Other long-term debt		**25,972**		25,148		**150**		150	
		226,447	8.2	268,170	10.9	**69,607**	2.9	76,539	3.5
Current liabilities	(14)								
Loans from financial institutions		**39,599**		11,829		**2,602**		2,987	
Loans from pension funds		**1,602**		1,799		**-**		-	
Advance payments received		**25,841**		21,281		**7,427**		14,858	
Accounts payable		**198,098**		153,610		**113,038**		79,293	
Accrued liabilities		**233,067**		179,506		**130,264**		101,556	
Other short-term debt		**99,967**		75,299		**112,384**		101,338	
		598,174	21.7	443,324	18.0	**365,715**	15.2	300,032	13.7
		2,752,298	100.0	2,459,740	100.0	**2,407,468**	100.0	2,186,210	100.0

Notes to the Financial Statements

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, Instru UAB Data, Instru Data Eesti AS, and Instru Data SIA, 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 to 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 derivative instruments

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. Transactions in foreign currencies are recorded at the rates of exchange prevailing on the dates of the transactions. Differences arising from the translation of shareholders' equity and the income statement and balance sheet are recorded under non-restricted shareholders' equity.

On balance sheet date, gains and losses arising on the translation of unsettled balances denominated in foreign currencies are recorded in financ-

Exchange rates used in consolidation:

		Income statement		Balance sheet	
		1997	1996	1997	1996
USA	USD	5,191	4,594	5,421	4,644
Sweden	SEK	0,680	0,685	0,686	0,675
France	FRF	0,890	0,898	0,905	0,886
Netherlands	NLG	2,661	2,725	2,686	2,662
Norway	NOK	0,734	0,711	0,739	0,721
Germany	DEM	2,994	3,053	3,028	2,988
Italy	ITL(1000)	3,000	3,000	3,080	3,040
Spain	ESP	0,036	0,036	0,036	0,035
England	GBP	8,725		8,992	

ing income and expenses. Unrealised exchange rate gains and losses on currency derivatives designated as hedges are recognised and reported in financing income and expenses on the same basis as gains and losses on the underlying hedged item. The interest difference of derivative contracts is deferred in the financial statements under either interest income or interest expenses.

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

Net sales

Net sales is calculated as gross sales revenue less indirect sales taxes and discounts. 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.

Fixed 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

The accumulated untaxed reserves, net of deferred tax liability, are included in the balance sheet as part of restricted shareholders' equity. However, they cannot be treated as disposable funds.

II NOTES TO THE INCOME STATEMENT

(FIM 1,000)	CONSOLIDATED 1997	CONSOLIDATED 1996	PARENT COMPANY 1997	PARENT COMPANY 1996
1. Geographical distribution of net sales				
Finland	1,149,478	1,007,391		
Rest of EU	719,055	659,899		
Rest of Europe	243,768	202,147		
North America	370,708	301,482		
Rest of world	237,192	164,564		
Total	2,720,201	2,335,483		
2. Employee expenses				
Wages and benefits in kind	534,934	460,803	294,079	245,752
Pension insurance expenses and contributions to the Pension Funds	54,985	34,706	31,530	15,087
Other employee expenses	78,902	71,377	31,972	28,852
Total	668,821	566,886	357,581	289,691
Remuneration paid to the members of the Supervisory Board and the Board of Directors and Presidents	12,360	11,958	3,817	3,333
Bonuses and fees for the above	1,139	675	632	-

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

(FIM 1,000)	CONSOLIDATED 1997	CONSOLIDATED 1996	PARENT COMPANY 1997	PARENT COMPANY 1996
3. Other operating income and expenses				
Income				
Rental income	30,068	27,582	26,666	24,286
Other income	26,363	25,231	17,633	16,872
Total	56,431	52,813	44,299	41,157
Expenses				
Expenses on property rented out	17,521	19,406	16,094	16,482
Other expenses	5,283	2,639	1,025	308
Total	22,804	22,046	17,119	16,789
4. Depreciation				
Depreciation by function				
Depreciation of goods sold	13,684	17,538	7,922	9,893
Selling and marketing depreciation	34,327	26,147	26,300	18,551
Depreciation on research and development	4,767	4,032	3,201	2,778
Depreciation on administration	14,292	13,535	6,630	7,507
Other depreciation on business operations	6,127	5,313	5,016	5,150
Amortization of goodwill	22,903	23,435	-	-
Total	96,101	90,000	49,068	43,879
Booked depreciation	64,653	58,225	19,094	14,384
Depreciation difference	31,447	31,775	29,975	29,495
Correction of the depreciation difference caused by the sale of fixed assets	-1,718	-2,378	-1,197	-1,685
Depreciation difference in income statement	29,729	29,397	28,778	27,810
Transferred to shareholders' equity after deduction of deferred tax liability and minority interests	29,730	29,398	-	-

(FIM 1,000)	CONSOLIDATED 1997	1996	PARENT COMPANY 1997	1996
5. Financing income and expenses				
Dividend income	14,575	11,808	1,451	1,237
Dividend income, subsidiaries	-	-	1,591	1,888
Interest income	23,666	35,287	20,568	30,624
Interest income, subsidiaries	-	-	13,816	13,053
Other financing income	63,374	37,980	55,259	33,834
Other financing income, subsidiaries	-	-	619	629
Interest expenses	-13,616	-17,847	-10,072	-10,038
Interest expenses, subsidiaries	-	-	-3,888	-4,145
Other financing expenses	-69,348	-38,802	-66,957	-35,639
Writedowns on investments	-	-	-39,643	-78,711
Share of profits and losses of associated companies	8,122	12,905	-	-
Total	26,774	41,330	-27,256	-47,268

Consolidated other financing income for 1997 includes exchange rate gains totalling FIM 56,746,000 (FIM 34,018,000 in the previous year). Other financing expenses includes exchange rate losses totalling FIM 67,274,000 (FIM 38,473,000).

(FIM 1,000)	CONSOLIDATED 1997	1996	PARENT COMPANY 1997	1996
6. Extraordinary income and expenses				
Income				
Gains on sale of business operations	-	6,234	-	4,480
Reversals of writedowns	-	135,184	-	119,500
Group contributions	-	-	43,786	13,532
Total	-	141,418	43,786	137,512
Expenses				
Expenses related to the closing down or sales of business operations	-	5,706	-	134
Taxes from extraordinary income and expenses	-	59,461	-	57,598
Total	-	65,167	-	57,732
Extraordinary income and expenses, total	-	76,251	43,786	79,781
7. Change in voluntary reserves				
Operating reserve	260	29	-	-
Transition reserve	47,254	-	21,725	-
Other reserves	544	270	-	-
Total	48,058	299	21,725	-
Transferred to shareholders' equity after deduction of deferred taxes and minority interest	48,058	300	-	-
8. Taxes				
For the financial period	127,319	82,552	109,188	62,824
For previous years	-2,993	1,180	-1,317	1,296
Change in deferred tax liability	-29,608	-10,794	-	-
Total	94,718	72,937	107,870	64,119
Taxes from normal business activities	94,718	72,937	-	-

9. Fixed assets

Intangible and tangible assets

(FIM 1,000)	Intangible rights	Goodwill	Goodwill on consolidation	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.	25,174	14,527	205,672	98,830	344,203	25,701	249,138	312,819	864	588,522	932,725
Investments during the period	4,661	20,153	2,089	11,831	38,734	2,100	210,338	64,667		277,105	315,839
Acquisitions						2,976	4,643			7,619	7,619
Sales of companies and other deductions	-1,189		-8,247	-4,670	-14,106	-170	-2,400	-63,682		-66,252	-80,358
Translation adjustment	168			113	281			4,055		4,055	4,336
Total purchase cost 31 Dec.	28,814	34,680	199,514	106,104	369,112	30,607	461,719	317,859	864	811,049	1,180,161
Accumulated depreciation 1 Jan.	10,562	4,878	103,276	48,763	167,479		68,757	206,390		275,147	442,626
Depreciation for the period	3,379	9,397	22,903	11,711	47,390		8,074	40,637		48,711	96,101
Sales of companies and other deductions	-1,189		-8,247	-4,663	-14,099		-1,500	-50,532		-52,032	-66,131
Translation adjustment	105			62	167			2,224		2,224	2,391
Total accumulated depreciation 31 Dec.	12,857	14,275	117,932	55,873	200,937		75,331	198,719		274,050	474,987
Purchase cost 31 Dec.	28,814	34,680	199,514	106,104	369,112	30,607	461,719	317,859	864	811,049	1,180,161
Accumulated depreciation 31 Dec.	12,857	14,275	117,932	55,873	200,937		75,331	198,719		274,050	474,987
Book value 31 Dec.	15,957	20,405	81,582	50,231	168,175	30,607	386,388	119,140	864	536,999	705,174
Fire insurance value							529,020				
Accumulated depreciation difference 1 Jan.	7,803			37,918	45,721		132,544	49,161		181,705	227,426
Depreciation difference for the period	-1,519			-6,965	-8,484		-4,779	-18,185		-22,964	-31,448
Investment reserve/transition reserve	3,692			3,580	7,272		197,844	23,197		221,041	228,313
Sales profit							-123	1,841		1,718	1,718
Translation adjustment								16		16	16
Accumulated depreciation difference 31 Dec.	9,976			34,533	44,509		325,486	56,030		381,516	426,025
Parent company											
Original purchase cost or revalue 1 Jan.	13,326	14,527		87,772	115,625	24,846	217,831	168,390	864	411,931	527,556
Investments during the period	3,297	20,152		9,816	33,265	2,099	40,796	22,754		65,649	98,914
Sales of companies and other deductions	-338			-4,624	-4,962			-41,875		-41,875	-46,837
Purchase cost 31 Dec.	16,285	34,679		92,964	143,928	26,945	258,627	149,269	864	435,705	579,633
Accumulated depreciation 1 Jan.	4,467	6,031		40,019	50,517		50,463	113,281		163,744	214,261
Depreciation for the period	1,708	9,396		11,058	22,162		6,995	19,911		26,906	49,068
Sales of companies and other deductions	-338			-4,624	-4,962			-41,485		-41,485	-46,447
Accumulated depreciation 31 Dec.	5,837	15,427		46,453	67,717		57,458	91,707		149,165	216,882
Purchase cost 31 Dec.	16,285	34,679		92,964	143,928	26,945	258,627	149,269	864	435,705	579,633
Accumulated depreciation 31 Dec.	5,837	15,427		46,453	67,717		57,458	91,707		149,165	216,882
Book value 31 Dec.	10,448	19,252		46,511	76,211	26,945	201,169	57,562	864	286,540	362,751
Fire insurance value							286,156				
Accumulated depreciation difference 1 Jan.	7,804			37,647	45,451		128,415	46,230		174,645	220,096
Depreciation difference for the period	-1,395			-6,994	-8,389		-4,062	-17,524		-21,586	-29,975
Investment reserve/transition reserve	3,070			3,411	6,480		40,796	22,090		62,886	69,367
Sales profit								1,197		1,197	1,197
Accumulated depreciation difference 31 Dec.	9,479			34,064	43,542		165,149	51,993		217,142	260,685

(FIM 1,000)	CONSOLIDATED 1997	1996	PARENT COMPANY 1997	1996
Shares and shareholdings				
Shares of subsidiaries				
Purchase cost 1 Jan.	-	-	613,907	520,585
Additions during the financial period	-	-	181,156	175,359
Deductions during the financial period	-	-	-50,311	-82,037
Book value 31 Dec.	-	-	744,752	613,907
Shares of associated companies				
Purchase cost 1 Jan.	23,234	33,242	22,784	23,242
Additions during the financial period	-	2,634	-	2,184
Deductions during the financial period	-	-12,642	-	-2,642
Book value 31 Dec.	23,234	23,234	22,784	22,784

Share of shareholders' equity of associated companies	Share of shareholders' equity, % 1997	Shareholders' equity 1997	Share of shareholders' equity 1997
Abmin Technologies Oy	42.50	1,196	508
Hackman Metos Oy Ab	40.00	70,426	28,171
Neuromag Oy	26.91	13,053	3,513
SR Suojarekisterikeskus Oy	50.00	-	-
Total		84,675	32,192

(FIM 1,000)	CONSOLIDATED 1997	1996	PARENT COMPANY 1997	1996
Other shares				
Purchase cost 1 Jan.	444,878	309,138	81,734	82,413
Additions during the financial period	408	138,978	405	3,791
Deductions during the financial period	-5,009	-3,237	-4,980	-4,470
Book value 31 Dec.	440,277	444,879	77,159	81,734
Long-term investments				
Loans receivable				
Associated companies	-	-	-	-
Other companies	1,772	3,938	1,313	3,938
Total	1,772	3,938	1,313	3,938
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	46,766	37,803	41,417	34,505
Buildings and structures	211,326	128,951	118,232	111,262
Finnish shares	450,117	388,623	582,228	400,186
Total	708,209	555,377	741,877	545,953

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 1997 was FIM 362,314,000 and the corresponding market value on 31 December 1997 was FIM 583,005,000.

Subsidiaries	No.	% of share capital		Nominal value (1,000)		Book value (1,000)
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		0	USD	8,088
					FIM	34,917
Datex-Engstrom S.A.R.L.	1,000	100.00	FRF	500	NLG	166
					FIM	367
Datex-Engstrom Ltd	1,000	100.00	GBP	1		2,793
Datex-Engström AB	240,000	100.00	SEK	24,000		49,432
Datex-Engström Deutschland GmbH		70.00		0		377
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
Helsingin Silmälääkärikeskus Oy	6,400	55.17		64		284
HT-Research Oy	63,450	100.00		6,345		63,663
Instru Data Oy	343,225	62.97		3,432		5,818
Instrumentarium Optika OÜ	50	100.00	EEK	50		122
Instru-Holdings, Inc.	100	100.00	USD	0		0
Instrumentarium AB	500	100.00	SEK	50		4,580
ZAO Instrumentarium	1,370,064	100.00	RUR	1,370,064		1,219
Instrumentarium Medical OÜ	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	9,125	100.00		27,375		92,140
Junior-Notariaatti Oy	6,865	100.00		6,865		93,358
Kiinteistö Oy Kantaatti	2,642	100.00		53		6,518
Kiinteistö Oy Vitikka 1	158,000	100.00		158,000		158,000
L-Dental Products Lumme Oy	192,240	91.54		19,224		24,279
Oy Loko-Invest Ab	108,150	100.00		10,815		110,328
Medko Oy	45,500	100.00		4,550		356,032
Medko Invest Oy	50	100.00		50		50
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
Merivaara AB	18,500	100.00	SEK	1,850		810
Merivaara Norge AS	2,000	100.00	NOK	2,000		1,338
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		39,243
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						69,602
Carital Oy	50	5.00		50		500
Diomed Ltd.	349,333	15.12	GBP	0		2,642
Ewco Oy	50	9.62		500		500
The Helsinki Stock Exchange	20,000	0.61		200		140
The Helsinki Telephone Company	3,592	0.01		18		218
Helsingin Puhelinyhdistys	394	0.07		1,084		1,084
Keski-Suomen Lääkäritalo Oy	171	10.69		171		2,008
Lassila & Tikanoja Oy	276,896	1.84		2,769		3,877
Orion Corporation	3,668,322	5.24		36,683		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		1,972
Others				0		1,368
Total of other shares and holdings						440,277

(FIM 1,000)	CONSOLIDATED 1997	1996	PARENT COMPANY 1997	1996
10. Current assets				
Marketable equity securities				
Market value	**101,179**	90,924	**-**	-
Corresponding book value	**64,011**	69,047	**-**	-
Difference	**37,168**	21,877	**-**	-
Receivables, subsidiaries				
Accounts receivable	**-**	-	**124,655**	55,106
Loans receivable	**-**	-	**301,763**	251,862
Total	**-**	-	**426,418**	306,968
Receivables, associated companies				
Accounts receivable	**183**	252	**172**	215
Loans receivable	**350**	24,780	**350**	24,780
Accrued receivables	**-**	548	**-**	462
Total	**533**	25,580	**522**	25,457
Receivables, other				
Accounts receivable	**588,027**	431,414	**196,550**	124,495
Loans receivable	**4,805**	7,935	**3,653**	7,296
Accrued receivables	**28,861**	60,340	**5,225**	40,237
Other receivables	**46,146**	113,148	**12,229**	82,522
Total	**667,839**	612,837	**217,657**	254,550
Long-term financial assets				
Bank receivables	**809**	1,323	**-**	-
Total	**809**	1,323	**-**	-
Interest-bearing debt securities				
Market value	**264,473**	323,436	**264,473**	323,262
Corresponding book value	**263,528**	323,068	**263,528**	322,895
Difference	**945**	368	**945**	367
11. Shareholders' equity				
Restricted shareholders' equity				
Share capital				
Share capital 1 Jan.				
A shares	**153,025**	153,025	**153,025**	153,025
B shares	**48,614**	48,479	**48,614**	48,479
Total	**201,638**	201,503	**201,638**	201,503
Share issue 1 Jan.–31 Dec.				
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**	48,614	**48,614**	48,614
Total	**201,638**	201,638	**201,638**	201,638

(FIM 1,000)	CONSOLIDATED 1997	1996	PARENT COMPANY 1997	1996
Other restricted shareholders' equity 1 Jan.	198,471	183,015	194,538	193,616
Increases 1 Jan.–31 Dec.	5,499	15,857	-	922
Decreases 1 Jan.–31 Dec.	-4,581	-401	-	-
Total 31 Dec.	199,389	198,471	194,538	194,538
Restricted shareholders' equity 31 Dec.	401,027	400,109	396,176	396,175
Non-restricted shareholders' equity				
Equity share of depreciation difference and reserves				
Before the financial period	361,095	382,330	-	-
Changes 1 Jan.–31 Dec.	-53,418	-21,235	-	-
Total	307,677	361,095	-	-
Other non-restricted shareholders' equity 1 Jan.	971,091	740,785	945,229	782,131
Purchase price of the subsidiary shares covered by investment reserves	-	-	157,047	-
Change in depreciation difference and reserves	53,418	21,235	-	-
Transitions from non-restricted to restricted	-918	-14,533	-	-
Translation adjustment	3,088	4,894	-	-
For dividends	-70,573	-56,421	-70,573	-56,421
For donations	-300	-300	-150	-150
Merger gain	-	-	4,385	-
Profit for the period	246,112	275,430	279,347	219,669
Total	1,201,918	971,090	1,315,285	945,229
Non-restricted shareholders' equity 31 Dec.	1,509,595	1,332,185	1,315,285	945,229
Total shareholders' equity 31 Dec.	1,910,622	1,732,294	1,711,461	1,341,405

12. Accumulated depreciation difference

Intangible rights	9,977	7,803	9,479	7,803
Other long-term expenditure	34,533	37,918	34,064	37,647
Buildings and constructions	325,485	132,544	165,150	128,415
Machinery and equipment	56,030	49,161	51,993	46,230
Total	426,025	227,426	260,685	220,095

13. Voluntary reserves

Operating reserves	1,203	1,440	-	-
Transition reserve	-	118,445	-	91,093
Reserve for future investments	-	157,122	-	157,047
Other reserves	375	933	-	-
Total	1,578	277,941	-	248,140

Group's share of accumulated depreciation difference and voluntary reserves				
Share transferred to shareholders' equity	307,677	361,095	-	-
Deferred tax liability	119,652	140,426	-	-
Deferred tax liability also includes:				
Minority interest of untaxes reserves	77	1,077	-	-
Tax receivables related to consolidation	-19,970	-12,142	-	-
Total deferred tax liability	99,759	129,361	-	-

14. Liabilities

Long-term liabilities

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

1998	4 ,328
1999	2,639
2000	1,847
2001	1,270
2002	1,186
2003–	94,070
Total	105,340

The weighted average interest of the Group's long-term debt on 31 December 1997 was 5.6%.

	CONSOLIDATED		PARENT COMPANY	
(FIM 1,000)	1997	1996	1997	1996
Current liabilities				
Short-term debt, non-interest-bearing				
Subsidiaries				
Accounts payable	-	-	**7,045**	4,848
Total	**-**	-	**7,045**	4,848
Associated companies				
Accounts payable	**83**	-	**83**	-
Accrued liabilities	**-**	494	**-**	-
Other short-term debt	**5,000**	5,000	**-**	-
Total	**5,083**	5,494	**83**	-
Other				
Advance payments	**25,841**	21,281	**7,427**	14,858
Accounts payable	**198,014**	153,610	**105,910**	74,444
Accrued liabilities	**233,067**	179,013	**130,264**	101,556
Other short-term debt	**62,768**	60,193	**10,556**	14,669
Total	**519,691**	414,097	**254,157**	205,528
Short-term debt, interest-bearing				
Payments of long-term debt	**4,328**	6,743	**2,602**	2,987
Subsidiaries	**-**	-	**69,629**	76,560
Other short-term debt	**69,071**	16,990	**32,199**	10,106
Total	**73,399**	23,734	**104,430**	89,653

(FIM 1,000)	CONSOLIDATED 1997	1996	PARENT COMPANY 1997	1996
15. Commitments and contingencies				
For the Group				
Pledges	44,553	31,493	29,924	22,924
Mortgages for long-term debts	14,600	14,600	-	-
Mortgages for bank guarantees	65,249	65,535	38,695	38,646
Other commitments	23,904	19,136	4,370	6,339
Total	148,306	130,764	72,989	67,910
For subsidiaries				
Mortgages for bank guarantees	-	-	8,817	8,793
Guarantees	-	-	42,348	48,303
Total	-	-	51,166	57,096
For associated companies				
Guarantees	13,114	12,169	13,114	12,169
Total	13,114	12,169	13,114	12,169
Pension commitments				
Commitment deficit of the pension fund	3,000	3,963	3,000	3,963
Other pension commitments	1,461	1,484	-	-
Total	4,461	5,447	3,000	3,963
Commitments and contingencies, total	165,881	148,381	140,269	141,138

16. Leasing agreements

Leasing payments based on leasing agreements will be:				
1998	16,447		2,769	
1999	9,652		1,475	
2000	5,643		570	
2001	2,464		-	
2002	-		-	
Later	407		-	
Total	35,292		4,814	

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 protected 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 for the following 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 business operations are managed by contracts only with reputable counterparties. The Group sets cash and maturity limits on these approved counterparties and monitors their credit ratings continuously.

Derivative contracts

The table below lists the 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. 1997**		**31 Dec. 1996**
Currency derivatives				
Forward contracts		415,458		396,298
Option contracts				
Purchased	633,987		245,516	
Written	811,031	1,445,018	331,734	577,250
Total		1,860,476		973,548
Interest rate derivatives				
Forward contracts		0		20,000
Option contracts		0		0
Total		0		20,000

The currency derivatives portfolio valued at the exchange rates prevailing on the balance sheet date included unrealized exchange rate losses totalling FIM 4,212.

Five years in review

		1993	1994	1995	1996	1997
Income statement						
Net sales	FIM million	1,982.2	2,036.9	2,147.9	2,335.5	**2,720.2**
Change from the previous year	%	15.2	2.8	5.4	8.7	**16.5**
Foreign sales	FIM million	947.6	1,060.1	1,217.1	1,328.1	**1,570.7**
Share of net sales	%	47.8	52.0	56.7	56.9	**57.7**
Planned depreciation	FIM million	84.3	73.3	84.3	90.0	**96.1**
Operating profit	FIM million	228.7	235.1	186.1	232.0	**314.0**
Share of net sales	%	11.5	11.5	8.7	9.9	**11.5**
Financing income and expenses, total	FIM million	22.5	-1.3	39.1	41.3	**26.8**
Profit before extraordinary items, reserves and taxes	FIM million	251.2	233.7	225.2	273.3	**340.8**
Share of net sales	%	12.7	11.5	10.5	11.7	**12.5**
Extraordinary items	FIM million	-45.6	39.0	-7.7	76.3	**0**
Profit before reserves and taxes	FIM million	205.6	272.7	217.5	349.6	**340.8**
Share of net sales	%	10.4	13.4	10.1	15.0	**12.5**
Taxes	FIM million	61.2	76.3	78.7	72.9	**94.7**
Profit before extraordinary items and reserves, after taxes	FIM million	190.0	157.4	146.5	200.4	**246.0**
Share of net sales	%	9.6	7.7	6.8	8.6	**9.0**
Capital expenditure	FIM million	91.2	195.3	94.8	69.3	**332.0**
Share of net sales	%	4.6	9.6	4.4	3.0	**12.2**
Research and development expenses	FIM million	79.5	96.2	113.4	115.9	**127.1**
Share of net sales	%	4.0	4.7	5.3	5.0	**4.7**
Dividends	FIM million	47.0	56.4	56.4	70.6	**84.7** [1]
Balance sheet						
Liabilities	FIM million	858.8	966.1	839.3	711.5	**824.6**
Short-term liabilities	FIM million	355.8	369.4	515.7	443.3	**598.2**
Long-term liabilities	FIM million	503.0	596.7	323.7	268.2	**226.4**
Shareholders' equity	FIM million	1,284.6	1,428.2	1,507.6	1,732.3	**1,910.6**
Total assets	FIM million	2,153.2	2,409.2	2,360.9	2,459.7	**2,752.3**
Key indicators						
Return on investment (ROI)	%	18.5	15.5	13.9	15.6	**17.8**
Return on equity (ROE)	%	15.6	11.5	9.9	12.3	**13.4**
Equity ratio	%	62.4	61.8	65.1	71.7	**70.7**
Gearing	%	-14.1	-6.5	-7.8	-14.8	**-9.9**
Quick ratio		2.24	2.01	2.18	2.51	**1.81**
Current ratio		2.72	2.53	2.91	3.38	**2.63**
Average number of employees		2,383	2,351	2,559	2,633	**2,753**
Share capital and shares on 31 dec.						
Share capital	FIM million	134.3	201.5	201.5	201.6	**201.6**
Market capitalization	FIM million	2,633.7	2,010.2	2,272.1	3,400.5	**3,831.1**
Number of shares, x 1,000		6,717	20,150	20,150	20,164	**20,164**
A shares		5,101	15,302	15,302	15,302	**15,302**
B shares		1,616	4,848	4,848	4,861	**4,861**
Adjusted average number of shares, x 1,000		20,150	20,150	20,150	20,159	**20,164**
Per share data						
Earnings per share	FIM	8.36	8.32	8.17	9.88	**12.21**
Earnings per share, U.S. GAAP	FIM	13.78	9.37	6.90	8.09	**12.55**
Shareholders' equity per share	FIM	64.24	71.62	75.51	85.91	**94.76**
Payout ratio	%	27.9	33.7	34.3	35.4	**34.4** [1]
Dividend per share	FIM	2.33	2.80	2.80	3.50	**4.20** [1]
P/E ratio						
A share		15.7	12.0	13.8	17.1	**15.6**
B share		15.3	11.9	13.7	17.1	**15.6**
Dividend yield						
A share	%	1.8	2.8	2.5	2.1	**2.2** [1]
B share	%	1.8	2.8	2.5	2.1	**2.2** [1]
Number of shareholders		11,212	11,917	11,383	10,178	**9,501**

[1] Proposed by the Board of Directors

Calculation Principles of Financial Ratios

Return on investment (ROI) % =

$$\frac{\begin{array}{c}\text{Profit before extraordinary items, reserves and taxes}\\ \text{+ interest and other financing expences less exchange rate losses}\end{array}}{\text{Balance sheet total, less interest-free debt (annual average)}} \times 100$$

Return on equity (ROE) % =

$$\frac{\begin{array}{c}\text{Profit before extraordinary items, reserves and taxes}\\ \text{less direct taxes corrected by tax effect of extraordinary items}\end{array}}{\begin{array}{c}\text{Shareholders' equity + voluntary reserves less deferred taxes}\\ \text{+ minority interest (annual average)}\end{array}} \times 100$$

Equity ratio % =

$$\frac{\begin{array}{c}\text{Shareholders' equity including voluntary reserves less deferred taxes}\\ \text{+ minority interest}\end{array}}{\text{Balance sheet total less advance payments}} \times 100$$

Gearing % =

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

Quick ratio =

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

Current ratio =

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

Market capitalization = Number of shares x share price on 31 Dec.

Earnings per share =

$$\frac{\begin{array}{c}\text{Profit before extraordinary items, reserves and taxes}\\ \text{-/+ minority interest less direct taxes, corrected by tax effect of}\\ \text{extraordinary items and by effect of change in tax rate of deferred tax liability}\end{array}}{\text{Adjusted average number of shares}}$$

Shareholders' equity per share =

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

Payout ratio % =

$$\frac{\text{Dividend per share}}{\text{Earnings per share}} \times 100$$

Dividend per share =

$$\frac{\text{Nominal dividend per share}}{\begin{array}{c}\text{Adjustment coefficients of the share issues that}\\ \text{have taken place during or after the year}\end{array}}$$

P/E ratio =

$$\frac{\text{Adjusted share price on 31 Dec.}}{\text{Earnings per share}}$$

Dividend yield % =

$$\frac{\text{Dividends per share}}{\text{Share price on 31 Dec.}} \times 100$$

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 1997. 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, 25 February 1998

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 1997, 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.

Martti Kormano, Arto Sivula, Leila Telivuo and Turo K. J. Tukiainen are due to retire from the Supervisory Board.

Helsinki, 25 February 1998

Gustav von Herzen	Tero Kivelä	Arto Sivula
Erkki Etola	Martti Kormano	Erkki Tammisalo
Eero Ikkala	Paavo Pitkänen	Tapani Tammisto
Eero Karvonen	Seppo Salonen	Leila Telivuo

Administration and Auditors

Supervisory Board

Elected for the period

Gustav von Hertzen MSc (Tech.), Chairman Owns 3,590 Instrumentarium shares.	1997–99
Turo K. J. Tukiainen LLB, MBA, Deputy Chairman Owns 47,500 Instrumentarium shares.	1995–97
Erkki Etola MSc (Tech.) No shares in Instrumentarium.	1996–98
Eero Ikkala Professor, DMS Owns 1,800 Instrumentarium shares.	1996–98
Eero Karvonen MSc (Tech.) Owns 800 Instrumentarium shares.	1996–98
Tero Kivelä MD, Senior Lecturer Owns 15 Instrumentarium shares.	1997–99
Martti Kormano Professor, DMS Owns 90 Instrumentarium shares.	1995–97
Paavo Pitkänen MSc (Math.) No shares in Instrumentarium.	1997–99
Kari Raivio Professor, DMS No shares in Instrumentarium.	1997–99
Seppo Salonen Lic. Med. No shares in Instrumentarium.	1997–99
Arto Sivula Professor, DMS Owns 1,233 Instrumentarium shares.	1995–97
Erkki Tammisalo Professor, DDS No shares in Instrumentarium.	1996–98
Tapani Tammisto Professor, DMS No shares in Instrumentarium.	1996–98
Leila Telivuo MD (Dentistry) Owns 942 Instrumentarium shares.	1995–97
Seppo Ylppö BBA No shares in Instrumentarium.	1997–98

Board of Directors

Elected for the period

Gerhard Wendt Born 1934, PhD., Chairman. No shares in Instrumentarium.	1998–2000
Olli Riikkala Born 1951, MSc (Tech.), MBA, President and CEO. Joined Instrumentarium in 1979. Owns 3,090 Instrumentarium shares.	1998
Matti Salmivuori Born 1950, MSc (Econ.), Chief Financial Officer. Joined Instrumentarium in 1973. Owns 2,000 Instrumentarium shares.	1998
Juhani Kuusi Born 1938, Professor, DSc (Tech.) No shares of Instrumentarium.	1998
Mikael Lilius Born 1949, MSc (Econ.) No shares of Instrumentarium.	1998

Auditors

Göran Grén
BSc (Econ.), Authorized Public Accountant

Heikki Lassila
MSc (Econ.), Authorized Public Accountant

Deputies:
Audit Firm SVH Coopers & Lybrand Oy

The Board of Directors of Instrumentarium Corporation. From left: Mikael Lilius, Olli Riikkala, Gerhard Wendt, Juhani Kuusi and Matti Salmivuori.

Finnish and U.S. GAAP Differences

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

Instrumentarium's consolidated financial statements are prepared in accordance with generally accepted accounting principles in Finland (Finnish GAAP), which differ in certain respects from United States generally accepted accounting principles (U.S. GAAP). The principal differences between Finnish GAAP and U.S. GAAP are presented and described below together with explanations of the adjustments that affect consolidated net income and total shareholders' equity as of and for the years ended December 31:

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.–31.12.1997**	1.1.–31.12.1996
Net income as reported in the Consolidated Statements of Income, in accordance with Finnish GAAP	**246,112**	275,430
Increase or decrease for:		
(a) Pension expense (income)	**19,651**	-4,246
(c) Property and equipment, net	**-4,860**	-1,188
(d) Deferred income taxes	**46**	33,587
(f) Non-current marketable securities	**620**	620
(b)(f) Writeup of marketable securities	**-8,440**	-141,028
Net income in accordance with U.S. GAAP	**253,129**	163,175
Average number of shares outstanding	**20,164**	20,159
(e) Basic earnings per share in accordance with U.S. GAAP	**12.55**	8.09
(e) Basic earnings per ADS	**6.28**	4.05

Shareholders' Equity

(FIM 1,000)	**31.12.1997**	31.12.1996
Shareholders' equity as reported in the Consolidated Balance Sheets, in accordance with Finnish GAAP	**1,910,622**	1,732,294
Increase or decrease for:		
(a) Pension expense	**145,013**	125,362
(b) Short-term marketable securities	**38,111**	34,318
(c) Property and equipment, net	**-98,547**	-93,687
(d) Deferred income taxes	**-117,583**	-92,568
(f) Non-current marketable securities	**219,449**	141,558
(g) Exchange of non-current assets	**-9,343**	-9,343
Shareholders' equity in accordance with U.S. GAAP	**2,087,722**	1,837,934

The following is a description of the accounting policies followed by the Company, which differ in certain respects from U.S. GAAP:

(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 lower of 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, the Company's investment securities are classified as available-for-sale and are recorded at fair value, with unrealized gains and losses excluded from income and reported as a separate component of shareholders' equity, net of tax.

In 1996 and 1997, the Company recorded an increase of FIM 5,844,000 and FIM 8,440,000 ($ 1,557,000) in certain securities by reversing write-downs recorded in prior years.

(c) Property and equipment

Certain land and buildings have been revalued at an amount in excess of cost, which under certain circumstances is allowed under Finnish GAAP. Under U.S. GAAP, revaluation of assets are generally not permitted except in certain specific circumstances, such as business combinations.

In accordance with Finnish GAAP and prevailing practice, the Company has expensed interest costs in connection with the construction of certain fixed assets. Under U.S. GAAP, interest costs are required to be capitalized as part of the historical cost of acquiring certain assets.

Prior to 1994, the Company had sold and leased back certain buildings. In Finland, the gain or loss on such sales is included in income in the year of the sale. During 1997, the Company repurchased certain of these leased back buildings by exercising its purchase options and recording them at the option price. The net effect of these transactions is that buildings have been recorded in excess of original cost under Finnish GAAP.

The net differences discussed above are being amortized over the useful lives of the related assets.

(d) Deferred income taxes

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

(e) Earnings per share

Earnings per share as presented are not based on net income, but rather on a calculation specified by the Helsinki Stock Exchange. U.S. GAAP requires that net income be utilized in the computation of earning per share.

(f) Non-current marketable securities

In 1990, the Company recorded FIM 34,500,000 of costs to acquire non-current marketable securities as goodwill. Under U.S. GAAP, such costs are considered to be part of the purchase price of the marketable securities. In 1992, the Company recorded an additional write-down under Finnish GAAP 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 over seven years.

Under U.S. GAAP, 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, net of tax.

In 1996, the Company recorded an increase of FIM 135,184,000 in certain securities by reversing write-downs recorded in prior years.

(g) Exchange of non-current assets

During 1994, Instrumentarium and Oy Hackman Ab merged their catering equipment operations and formed a new company, Hackman Metos Ltd. In connection with this transaction, Instrumentarium exchanged certain assets from its Catering Equipment Group for cash and a 40 % interest in Hackman Metos Ltd. In accordance with Finnish GAAP, the Company recorded a gain of FIM 9,343,000 on this transaction. U.S. GAAP requires that the gain arising in a transaction of this nature be deferred until the Company 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)	1997	1996	1997	1996
Current assets	**1,572,883**	1,496,754	**1,610,853**	1,452,104
Property and equipment	**536,999**	313,375	**438,451**	362,121
Goodwill	**81,582**	102,396	**100,745**	100,534
Non-current assets	**560,834**	547,214	**896,931**	885,621
Total assets	**2,752,298**	2,459,739	**3,046,980**	2,800,380
Current liabilities	**615,229**	459,275	**615,229**	459,275
Long-term liabilities	**126,688**	138,809	**126,688**	281,242
Deferred taxes	**99,759**	129,361	**217,341**	221,929
Shareholders' equity	**1,910,622**	1,732,294	**2,087,722**	1,837,934
Total liabilities and shareholders' equity	**2,752,298**	2,459,739	**3,046,980**	2,800,380

Auditors' report

We have examined the determination of consolidated net income and shareholders' equity set out on pages 50 to 52, 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, February 25, 1998

COOPERS & LYBRAND OY

Göran Grén
Authorized Public Accountant

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