ANNUAL REPORT 1998

INSTRUMENTARIUM

Annual General Meeting

The Annual General Meeting will be held on Tuesday, 23 March 1999, at 5 p.m. at the Instrumentarium Corporation Head Offices in Helsinki, Finland. Advance notification of attendance must be received by 4 p.m., 19 March 1999.

Financial information

Instrumentarium Corporation will publish three interim reports for the year 1999. The January–March results will be published on 6 May 1999, the January–June results on 11 August and the January–September results on 5 November 1999. Preliminary results for the year 1999 will be published in February 2000. Printed financial information can be ordered by writing to the address:

Instrumentarium Corporation, Investor Relations
P.O. Box 100, FIN-00031 INSTRUMENTARIUM
Telephone International + 358 9 394 1401
Fax International + 358 9 146 4172
E-mail hannele.sosimaki@instrumentarium.fi

U.S. Depositary
Morgan Guaranty Trust Company of New York
ADR Administration
60 Wall Street
New York, NY 10260-0060
Telephone International + 1 (212) 648 3217
Fax International +1 (212) 648 5104

Contents

Instrumentarium

INSTRUMENTARIUM Corporation is a Finnish-based, international healthcare company focusing on selected fields of medical technology manufacturing, marketing and distribution. Instrumentarium operates through three business segments: Anesthesia and Critical Care Equipment, Medical Equipment and Supplies, and Optical Retail. The company's core business is anesthesia and critical care represented by Datex-Ohmeda, one of the world's leading medical device businesses.

INSTRUMENTARIUM SEEKS global or regional leadership within its business segments. The company uses its established presence among the medical community and its expertise within its business areas as a platform to further develop its existing businesses and to expand into selected new product areas and markets.

GROUP

Restructuring

Instrumentarium Corporation was restructured during 1998. Instrumentarium aquired the worldwide medical equipment businesses of Ohmeda and divested all activities not related to healthcare.

Instrumentarium acquired Ohmeda's Medical Systems Division and Specialty Products Division for about 490 million US dollars (FIM 2.6 billion) This led to the integration of Ohmeda's Medical Systems Division with Datex-Engstrom, while the Specialty Products Division continued as a separate business unit within Instrumentarium's Medical Equipment and Supplies segment.

These changes were part of Instrumentarium's long-term planning and reflect the profound restructuring now taking place in the global healthcare markets. Instrumentarium's strategy is to focus on specific areas of healthcare in which it can gain global or regional market leadership.

THE GLOBAL HEALTHCARE MARKETS

By far the biggest challenge facing the healthcare industry today is to provide high-quality healthcare services at lower cost.

This is leading to a variety of measures in different countries, from new legislation to 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 leading to a growing number of alliances and mergers among healthcare payers, providers and suppliers, including the emergence of group purchasing organizations.

These trends have a direct bearing on Instrumentarium's operations. First, they highlight the importance of advanced, computer-based technology which provides accurate and relevant information while ensuring that equipment operation is as effortless for hospital staff as possible. Information systems for hospital equipment are a vital tool for collecting, processing and archiving patient data.

Second, cost containment is creating a greater need, especially in the USA, for effective new forms of outpatient care such as independent surgery centers. This calls for a wide range of compact, easy-to-use anesthesia and subacute patient monitoring equipment, supplementing the increasingly advanced systems required by operating rooms and critical care units in hospitals.

Third, hospitals are standardizing their technology platforms to gain economies of scale in purchasing and upgrading. Suppliers must be sufficiently large, both to act as a single source of supply and to qualify for major hospital projects.

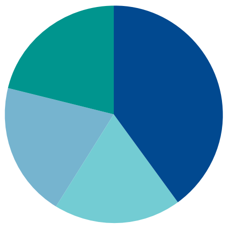
Instrumentarium is systematically working to meet these simultaneous needs through organizational and product development.

RESTRUCTURING HIGHLIGHTS DURING 1998

During 1998 Instrumentarium implemented the following main acquisitions and divestments in line with the strategy and healthcare trends outlined above:

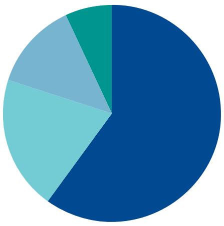
- The worldwide medical equipment businesses of Ohmeda were acquired.
- Cosmetics and consumer dailies business, Oy Bergenheim Yhtiöt Ab, was sold.
- 63 % shareholding in Instru Data Oy, a supplier of information systems, equipment and services in Finland, was sold.
- Oy Tekno-Rema Ab, an importer, wholesaler and servicer of wireless telecommunications equipment, was sold.
- Medinovum, which markets generic pharmaceuticals in Finland, was sold.
- Non-business related financial assets were sold.

1997
Net sales by business segment, %



Anesthesia and Critical Care Equipment	40 %
Medical Equipment and Supplies	19 %
Optical Retail	18 %
Others	23 %

1998
Net sales by business segment, %



Anesthesia and Critical Care Equipment	60 %
Medical Equipment and Supplies	20 %
Optical Retail	13 %
Others	7 %

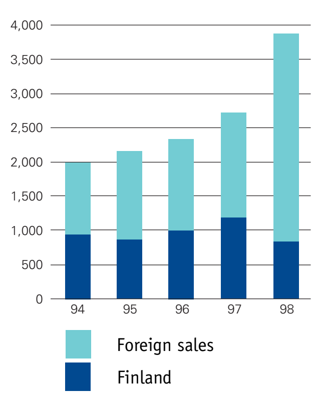
Key Figures

FIM million	1997	**1998**	+/-%
Net sales	2,681.0	**3,890.7**	45.1
Foreign sales	1,570.7	**3,045.3**	93.9
Operating profit	314.0	**251.2**	-20.0
Income before extraordinary items	340.8	**181.0**	-46.9
Income before extraordinary items, after taxes	246.0	**94.2**	-61.7
Shareholders' equity	1,910.6	**2,516.5**	31.7
Balance sheet total	2,772.3	**5,504.7**	98.6
Return on investment, %	17.7	**10.2**	
Equity ratio, %	70.2	**46.0**	
Earnings per share, FIM	11.76*	**4.45**	-62.2
Dividend per share, FIM	4.05*	**3.50****	-13.6
Employees at the end of the year	2,902	**5,131**	76.8

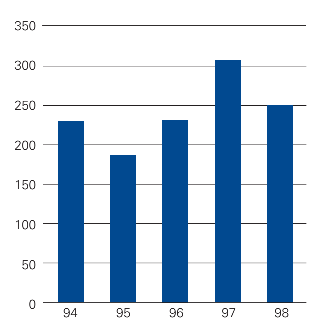
* Adjusted for the rights offering.

** Proposed by the Board of Directors.

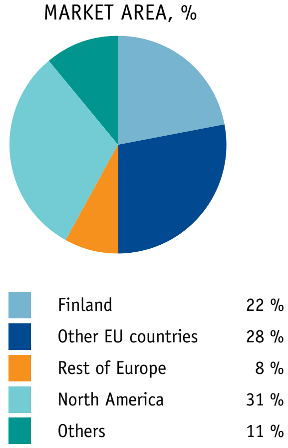
NET SALES, FIM MILLION



OPERATING PROFIT, FIM MILLION



NET SALES BY MARKET AREA, %



Business Segments

ANESTHESIA AND CRITICAL CARE EQUIPMENT

Instrumentarium's core business, anesthesia and critical care, is represented by the Datex-Ohmeda division, one of the world's leading medical device businesses. Datex-Ohmeda manufactures and markets medical equipment such as anesthesia machines which mechanically ventilate and deliver drugs to patients during anesthesia; ventilators which help critically ill patients to breathe; anesthesia monitoring systems for use before, during and after operations; critical care monitoring systems for use in intensive care; and clinical information systems for doctors and nurses.

Datex-Ohmeda's operations are divided into the following main businesses: anesthesia and drug delivery, anesthesia monitoring, sub-acute monitoring, critical care monitoring and respiratory therapy, supplies, technical service, clinical information management, and tonometry.

MEDICAL EQUIPMENT AND SUPPLIES

The business units of this segment are specialized either in niche healthcare markets or distribution of healthcare products.

Instrumentarium Imaging manufactures and markets diagnostic imaging equipment for dental, mammography and surgical imaging. Merivaara manufactures and markets medical furniture such as hospital beds and operating tables. Ohmeda Medical manufactures and markets an extensive line of infant care systems and suction and oxygen therapy products. Instrumed is a distributor of medical and laboratory equipment and supplies in Finland. Medko Medical is engaged in project sales, and LM-Dental manufactures and markets dental hand instruments and accessories.

OPTICAL RETAIL

Instrumentarium's Optical Retail Division sells eyeglasses, contact lenses and other ophthalmic optics products in Finland, Sweden, Estonia and Russia. The division's own laboratory grinds and coats lenses for all its retail outlets. Optical Retail also markets home healthcare products.

Chief Executive's Review

1998 was a year of immense change for Instrumentarium. The purpose behind restructuring of the Group was to support our strategy of focusing on the healthcare sector both as a manufacturer and as a service and sales organization. The changes we made strengthen our goal to gain global leadership in our core business, anesthesia and critical care. All in all the year proceeded satisfactorily and we are now well positioned to perform strongly in the years to come.

The largest restructuring measures were the Ohmeda acquisition, the disposal of operations unrelated to our core healthcare sector, and the termination of securities trading. Our consolidated net sales in 1998 totaled FIM 3,891 million. Our result of operations before amortization of goodwill was FIM 199 million, which was considerably weaker than one year earlier. The reason for this was our concentrated efforts to integrate the newly acquired operations, which resulted in a temporary increase in costs and slower growth in sales. Higher financial expenses, coupled with an increase in goodwill writeoffs, had a major detrimental effect on our performance. Our income before extraordinary items, after taxes totaled FIM 94 million. Earnings per share were FIM 4.45, compared to FIM 11.76 in 1997.

In April we closed the deal to acquire the medical equipment operations of the US company Ohmeda. Our aim was to secure global leadership in the anesthesia market and also to lay the foundation for growth in clinical care and clinical information systems.

More than 200 of our people, as well as numerous external consultants, were occupied virtually full-time in integrating the Datex-Engström and Ohmeda operations and systems. Restructuring of the sales channels and companies, regional and structural changes in R&D, re-engineering of the information systems and processes, not to mention the inevitable personnel reductions, all hampered the day-to-day activities of the company. Most of these tasks were completed by the end of 1998 but some will still need time during the first months of 1999, especially in the USA where we have experienced very severe operational losses. Our objective in the USA in 1999 is to achieve a clear improvement in profitability, and most of the groundwork for this was put in place at the end of 1998.

During the year we divested the company's non-healthcare related operations and the generic pharmaceuticals unit. We also sold most of our assets unrelated to our business operations.

The global market in our main business, anesthesia and critical care, is worth more than FIM 20 billion and it is also growing somewhat faster than gross national product. The need for greater cost-efficiency felt by customers, along with a continuous rise in development and marketing costs, further accelerated consolidation among the corporations active in this sector into larger and more efficient entities. This trend will continue and the position of small companies, in particular, will be more difficult. On the other hand, such companies generally have special knowhow in new fields of technology and they are therefore seeking alliances and mergers with the big players. Instrumentarium, as a large company in this sector, intends to play an active role in such developments.

Datex-Ohmeda's growth through further acquisitions in the future will depend decisively on our success this year in restoring our operations to profitability and efficiency, and on strengthening the Group's balance sheet by achieving positive cash flow from operations. A strong balance sheet will also enable us to strategically develop our other business units when the right opportunities present themselves.

The healthcare sector is relatively insensitive to business fluctuations; growth is steady and competition increasing. In this environment success depends on having a long-term strategic vision. Putting strategy into action requires systematic development and directing of operations. Since every company active in this sector is well aware of customer needs and the changes taking place in the competitive environment, we can only succeed if we can identify these trends better and faster than our competitors, draw the right conclusions from them and put our plans into action with speed.

By far the most important factor in this development is a well trained, professional and committed personnel, and its continuous development is one of management's biggest challenges. Personnel's confidence in a company's management faces its toughest test after an acquisition, when changes both in the business environment and within the company are felt most keenly and the new structure has not yet settled into place.

In addition to their regular responsibilities our financial control personnel in Datex-Ohmeda and at corporate level have had to deal with dozens of entirely new and extremely challenging problems. I am immensely grateful to all of you for your responsible attitude and commendable efforts in very trying circumstances. Our people in Optical Retail, Instrumentarium Imaging, the Merivaara division, Ohmeda Medical, Instrumed and LM-Dental, likewise, have demonstrated their initiative during change in taking independent responsibility for developing their operations. They have made sure that changes taking place elsewhere in the Group have not adversely affected their own businesses. I offer you my heartfelt thanks for your confidence in the company.

An extraordinary shareholders' meeting in June authorized the Board of Directors to grant the company's key personnel and management stock options in order to support their long-term commitment to the Group and its development. Used judiciously, stock options are essential to the growth of an international corporation.

At the end of the year Instrumentarium offered existing shareholders a rights issue. Altogether 99.2 % of the shares offered were subscribed, giving the company FIM 549 million in new capital to strengthen its financial position in order to better fulfill its future needs. Let me also thank our shareholders for their active support of the company's long-term growth. I am confident that we will continue to generate the return on investment that you expect of us in the future.

Instrumentarium's Board of Directors will propose to the Annual General Meeting that a dividend of FIM 3.50 per share be paid on the financial year 1998. Our aim in the future is to adopt an active dividend policy which serves the overall interests of our shareholders, a policy which will support growth in corporate value and match the dividend policies applied by other international companies in this sector.

This year Instrumentarium will resolutely pursue its aim as an international healthcare company to raise the profitability of its investments.

Olli Riikkala
President and CEO

Shares and Shareholders

Shares and voting rights

Instrumentarium's share capital is divided into A and B series shares, each with a nominal value of FIM 10. Each A series share carries ten votes at a shareholders' meeting and each B series share carries one vote. Shares of both series provide their holders with equal rights to company profit distribution. A series shares can be converted into B series shares if so required by the shareholder or, in the case of shares registered in nominee accounts, if required by the custodian of the shares registered in the book-entry shareholder register, provided that such conversion can take place without affecting the maximum number of shares in each series.

Stock exchanges

Both share series are quoted on the Helsinki Exchanges; 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 1998 there were 170,860 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 39. Persons registered on 26 March 1999 in the List of Shareholders of Instrumentarium Corporation maintained by the Finnish Central Securities Depository Ltd., have the right to receive dividends. The payment date for dividends is 7 April 1999.

Distribution of ownership on 31 December 1998

Number of shares	Number of shareholders	% of total shareholders	% of capital stock
1– 100	2,517	26.6	0.5
101– 500	4,027	42.6	4.2
501– 1,000	1,260	13.3	3.8
1,001– 5,000	1,333	14.1	11.2
5,001–10,000	148	1.6	4.2
over 10,000	172	1.8	76.1
Total	9,457	100.0	100.0

Shareholdings of personnel, Board of Directors and Supervisory Board

At the end of 1998 there were 227 shareholders among personnel holding a total of 146,347 shares in the company. At the same time members of the Board of Directors and the Supervisory Board held 72,730 A shares and 12,798 B shares, representing 0.36 % of the entire share capital and 0.46 % of the voting rights. An extraordinary shareholders' meeting on June 17, 1998 decided to issue stock options to key personnel, the members of the Board of Directors and a wholly owned subsidiary of Instrumentarium Corporation. The maximum amount of stock options to be granted is 1,300,000 and if fully exercised they would correspond to 6.06 % of the stock and 0.95 % of the voting rights. The stock options granted to members of the Board correspond to 0.32 % of the stock and 0.05 % of the voting rights (see also page 53).

Convertible bonds and bonds with warrants

The company does not have any convertible bonds or bonds with warrants.

Authorizations and shareholder agreements

The extraordinary shareholders' meeting on June 17, 1998 authorized the Board of Directors to raise the share capital of the Company with a Rights Issue of at most 4,000,000 B series shares in one or several lots with a total nominal value of FIM 40,000,000. The subscription price may not exceed FIM 600,000,000. This authorization is valid until the next Annual General Meeting of the Company. Based on this authorization 3,920,570 new B series shares were issued, which raised the Company's share capital by a total of FIM 39,205,700. The subscription price totaled FIM 548,879,800 (see also page 53). The Board of Directors is not aware of any shareholder agreements concerning the Company's shares.

Structure of share capital on 31 December 1998

	Number of shares	% of shares	% of votes
A Shares	15,302,451	63.5	94.6
B Shares	8,781,920	36.5	5.4
Total	24,084,371	100.0	100.0

Shareholders on 31 December 1998

Principal shareholders of Instrumentarium Corporation on 31 December 1998, in order of voting power:

Shareholder	A shares	Number of B shares	Total	% of shares	% of votes
1. Orion Corporation *	1,046,523	766,104	1,812,627	7.5	6.9
2. Oriola Oy *	741,327	168,210	909,537	3.8	4.7
3. Kuulolaitekeskus Oy *	737,299	115,270	852,569	3.5	4.6
4. Panfarma Oy *	735,523	114,920	850,443	3.5	4.6
5. Hiven Oy *	734,500	114,720	849,220	3.5	4.6
6. Mutual Pension Insurance Company Varma-Sampo	484,109	147,778	631,887	2.6	3.1
7. Mutual Pension Insurance Company Ilmarinen Ltd.	454,600	258,260	712,860	3.0	3.0
8. Pohjola Life Assurance Company	337,160	164,465	501,625	2.1	2.2
9. Suomi Mutual Life Assurance Company	295,000	202,102	497,102	2.1	1.9
10. Instrumentarium Scientific Fund	229,739	30,980	260,719	1.1	1.4
11. Pohjola Non-Life Insurance company	207,800	123,030	330,830	1.4	1.4
12. Pension Fennia Mutual Insurance Company	218,100	-	218,100	0.9	1.3
13. Nova Life Insurance Company Ltd.	198,299	151,169	349,468	1.5	1.3
14. The Local Government Pensions Fund	195,500	129,200	324,700	1.3	1.3
15. Medical Investment Trust Oy	201,000	23,000	224,000	0.9	1.3
16. The Finnish Cultural Foundation	201,800	-	201,800	0.8	1.2
17. The Finnish Medical Society Duodecim	188,903	37,110	226,013	0.9	1.2
18. Tapiola Mutual Insurance Company	106,600	244,260	350,860	1.5	0.8
19. Orion Employees´ Pension Fund	128,200	25,140	153,340	0.6	0.8
20. The Social Insurance Institution	120,600	23,650	144,250	0.6	0.8
	7,562,582	2,839,368	10,401,950	43.1	48.4
Nominee registered					
Merita Bank plc	1,035,321	1,189,351	2,224,672	9.2	7.1
OKO Bank Osuuspankkien Keskuspankki Oyj	13,877	8,570	22,447	0.1	0.1
Finnish Central Securities Depository	9,000	120	9,120	0.0	0.1
Svenska Handelsbanken, Helsinki	5,000	6,670	11,670	0.0	0.0
Leonia Bank plc	5,600	-	5,600	0.0	0.0
Skandinaviska Enskilda Banken	900	-	900	0.0	0.0
Pankkiiriliike FSB Oy	500	90	590	0.0	0.0
Alfred Berg Finland Oy Ab	-	1,922	1,922	0.0	0.0

* Part of the Orion Group.

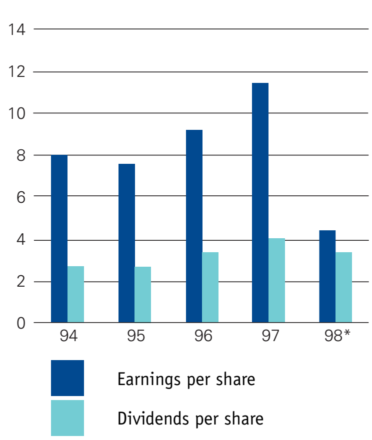
Ownership structure on 31 December 1998

Group	Number of shareholders	Number of shares	% of shares
Private persons	8,651	5,545,916	23.0
Companies	370	6,735,071	28.0
Associations and foundations	356	5,224,262	21.7
Mutual funds	29	1,373,452	5.7
Insurance companies	26	2,885,457	12.0
Financial institutions	17	29,552	0.1
Nominee-registered	8	2,276,921	9.4
Shares not transferred to the book-entry system		13,740	0.1
Total	9,457	24,084,371	100.0

Share capital increases since 1988

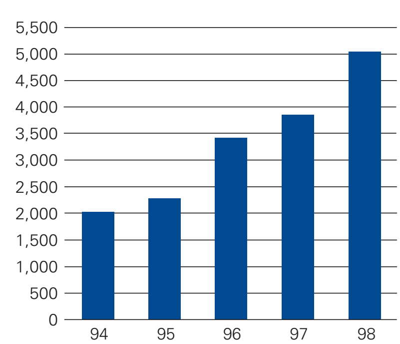
Share issue	Subscription period	Terms of subscription or subscriber	Subscription price	Number of new shares	Total shares
Bonus issue	22.1.-23.2.88	5:1 A	-	839,025 A	6,229,025
Bonus issue	22.1.-23.2.88	5:1 Bs	-	68,917 Bs	6,297,942
Bonus issue	22.1.-23.2.88	5:1 Bv	-	170,058 Bv	6,468,000
Subscription	22.1.-23.2.88	personnel	130.00	82,000 Bs	6,550,000
Subscription	22.6.88	acquisition	223.00	86,000 Bs	6,636,000
Subscription	22.12.88	acquisition	218.00	14,100 Bs	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
Rights issue	4.12.-18.12.98	51:10B	140.00	3,920,570 B	24,084,371

EARNINGS AND DIVIDEND PER SHARE, FIM



*Proposed by the Board of Directors.

MARKET CAPITALIZATION, FIM MILLION



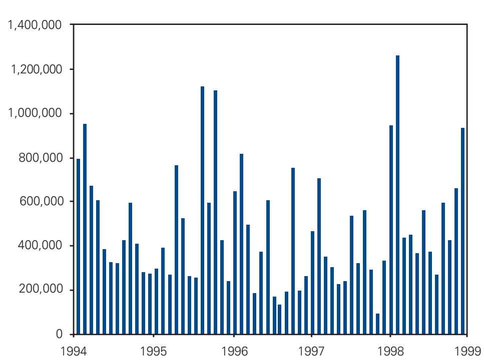
Performance of Instrumentarium shares

	The Helsinki Exchanges						NASDAQ	
	A Share, FIM			B Share, FIM			ADR, USD	
	high	low	average	high	low	average	high	low
1994	149.32	93.45	130.09	142.58	43.35	124.75	13.01	9.39
1995	110.79	71.29	92.48	110.79	71.29	90.85	13.25	7.95
1996	166.66	108.86	137.06	165.70	107.90	131.57	17.82	11.56
1997	219.65	154.14	181.87	218.69	154.14	180.48	20.74	15.65
1998	375.72	163.77	262.77	383.81	163.77	249.94	33.96	16.38

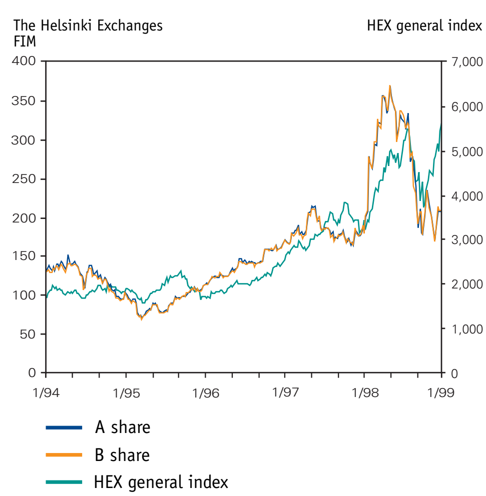
Trading volume of Instrumentarium shares

	The Helsinki Exchanges				NASDAQ	
	A Share		B Share		ADR	
	Volume	% shares outstanding	Volume	% shares outstanding	Volume	% shares outstanding
1994	2,884,284	18.8%	3,226,251	60.7%	174,788	60.8%
1995	2,496,636	16.3%	3,818,920	68.2%	130,678	41.6%
1996	3,171,988	20.7%	1,713,423	30.5%	33,460	13.7%
1997	2,577,665	16.8%	1,906,250	33.9%	73,815	39.0%
1998	3,738,799	24.4%	3,626,603	63.0%	75,233	39.9%

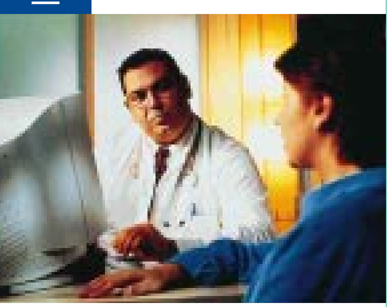
TRADING VOLUMES OF A AND B SHARES



PERFORMANCE OF A AND B SHARES



Anesthesia and Critical Care Equipment



DATEX-OHMEDA

Datex-Ohmeda represents Instrumentarium's core business. The division manufactures and markets anesthesia and critical care products. Its wide range of products includes patient monitors and monitoring systems for operating rooms, recovery rooms and intensive care units, anesthesia machines for anesthesia delivery and mechanical ventilation, clinical information systems, and supplies and accessories.

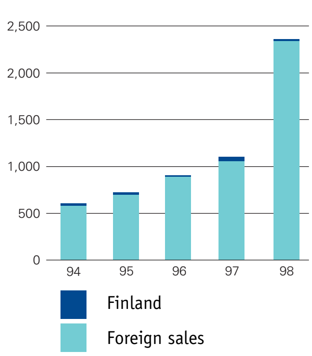
Datex-Ohmeda was formed on April 4, 1998 when Instrumentarium acquired two medical device divisions from the British company The BOC Group plc. One of these, the Medical Systems division, was integrated during 1998 with the company's Datex-Engström division. Ohmeda was recognized as the leading supplier of anesthesia machines in the US market and a leading global manufacturer of anesthesia machines and vaporizers, respiratory monitors and pulse oximeters. The acquisition substantially strengthened Instrumentarium's position in the global medical device markets.

The formation of Datex-Ohmeda is consistent with Instrumentarium's vision, defined in the early 1990s, to gain world leadership among anesthesia system manufacturers. Datex-Ohmeda is the foremost supplier of anesthesia products in the world today and it enjoys substantial growth potential, especially in the field of critical care.

The extensive integration process which followed the merger was mainly brought to completion during 1998 although certain measures to raise operational efficiency are still in progress. The global distribution network has been restructured to ensure the optimal form of distribution for Datex-Ohmeda in each country. Operations have been merged in areas where two sales companies existed after the acquisition. By the end of 1998 Datex-Ohmeda had its own sales company in 12 countries: Australia, Canada, France, Germany, Great Britain, Italy, India, the Netherlands, Japan, Spain, Singapore and the USA, supplemented by a network of independent distributors in more than 100 countries.

The new Datex-Ohmeda is now able to offer its customers a far wider range of products than earlier since research and development resources can now be focused more effectively. Development and manufacture of Datex-Ohmeda products takes place in Helsinki, Kuopio and Oulu, Finland; in Bromma and Gällivare, Sweden; in Louisville (Colorado) and Madison (Wisconsin), USA; and in Milan, Italy, chiefly for domestic and regional needs. Its products are sold throughout the world although roughly 80 % of sales is derived in equal proportions from North America and Western Europe.

NET SALES, FIM MILLION



Key figures

	1997	1998	%
Net sales (FIM million)	1,079	2,331	+116
Operating profit (FIM million)*	179	51	-72
Personnel, average	1,175	2,874	+145

* Before amortization of goodwill on consolidation.

Datex-Ohmeda develops products for operating rooms and critical care units in hospitals in tight cooperation with healthcare professionals.

DATEX-OHMEDA'S LEADING POSITION TO BE STRENGTHENED

Datex-Ohmeda's strategic goal is to further strengthen its position as a world-leading supplier of equipment and systems for anesthesia and critical care providers. The division possesses the key technologies necessary for leadership in the monitoring of the patient's vital signs, delivering anesthetic agents, ventilating the lungs and managing clinical information. To grow successfully in these different but synergistic sectors, Datex-Ohmeda emphasizes high investment in research and development. Its goal is to continuously outperform its competitors in satisfying customer needs and to exceed the average rate of growth in its sector.

R&D concentrated around Centers of Excellence

During 1998 Datex-Ohmeda committed approximately 9 % of net sales to R&D, an area which employs some 450 people. To further enhance R&D efficiency the division set up four Centers of Excellence for its core competencies during the year, each responsible for its own development work. Anesthesia machine development is now centered at Madison (Wisconsin), USA. Anesthesia and critical care monitoring and clinical information management are based in Finland. Critical care ventilation is centered in Sweden. Subacute monitoring and oximetry development are centered in Louisville (Colorado), USA.

These Centers of Excellence work in tight collaboration with the division's customers – doctors and nurses, the biomedical engineers who service hospital equipment, and hospital administrators responsible for management and purchasing. This ensures that Datex-Ohmeda's R&D efforts constantly receive valuable feedback both on clinical and working needs and also on the evolving economic priorities facing healthcare practitioners. Datex-Ohmeda develops solutions together with its customers which offer safer and more efficient patient care at reasonable financial cost.

Datex-Ohmeda also supports its systems and equipment with a comprehensive range of supplies and accessories. It is continuously developing high-value-added services for its customers in collaboration with the division's independent distributors and partners. Datex-Ohmeda's goal is increasingly to offer total solutions encompassing equipment, supplies, software products, information technology solutions, and training and consulting services for anesthesia and critical care processes in hospitals.

DATEX-OHMEDA BUSINESSES

Anesthesia equipment and systems

For anesthesia customers Datex-Ohmeda provides a large range of anesthesia machines, ventilators and vaporizers. The range contains solutions for customers wishing to freely combine equipment and components themselves (Aestiva™, Excel™), and for customers wishing to adopt

Among Datex-Ohmeda's product highlights in 1998 were the 3900 Pulse Oximeter with integrated fax and modem, and the Aestiva™ Anesthesia Machine. The CS/3™ Critical Care Monitor integrates monitoring of breathing, circulation, oxygenation and metabolism in a single device.

advanced integrated systems (AS/3™ ADU with AS/3™ monitors and AS/3™ information management).

The division's main anesthesia monitoring products are the AS/3™ Anesthesia Monitors and Compact Monitors. These cover all patient monitoring needs at all stages of anesthesia, from preoperative preparation to postoperative recovery. The modular construction of the monitors enables them to be cost-effectively tailored to customer needs.

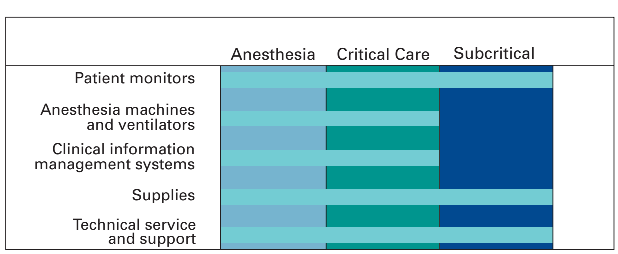
Critical care equipment and systems
Datex-Ohmeda's main product for critical care, the CS/3™ Critical Care Monitor, is the only such monitor in the world which integrates monitoring of breathing, circulation, oxygenation and metabolism in a single device. The CS/3™ system also includes the CS/3™ clinical information management system and an innovative new ventilator, the CS/3™ Engstrom, which is currently under development. The INOvent®, a new nitric oxide inhaler for the treatment of acute respiratory distress, was launched during 1998. This device, the patent for which was acquired by Instrumentarium in conjunction with the Ohmeda deal, is the first of its kind in the world. It will be made more widely commercially available when nitric oxide is given official approval as a pharmaceutical substance.

Stand-alone patient monitors
These products comprise portable cardiac and hemodynamic monitors, respiratory gas monitors and pulse oximeters, with suitable products for anesthesia, critical care and subcritical care in hospitals, and for outpatient and home care.

Clinical information systems
Datex-Ohmeda develops system products for management of anesthesia and critical care information. This business area focuses primarily on the Western industrialized countries. The AS/3™ Anesthesia System comprises AS/3™ anesthesia monitors, the AS/3™ ADU anesthesia machine and AS/3™ AIM anesthesia information system. In critical care, respectively, the CS/3™ clinical information management system together with CS/3™ monitoring and the future CS/3™ Engstrom ventilator will form a complete system.

Supplies
The need for supplies and accessories is growing constantly, partly because Datex-Ohmeda now has a large base of installed equipment worldwide and also because customers are showing a preference for sourcing their needs from one supplier. The range includes both branded products for Datex-Ohmeda's own equipment and generic products suitable for other makes of equipment.

Technical service and support
With more than 700 people at its disposal, Datex-Ohmeda's technical service and support organization is one of the largest in the world's healthcare sector.



Datex-Ohmeda's products and services.

MAJOR FORCE IN THE GLOBAL MARKETS DURING 1998

Anesthesia and critical care emerged more clearly than ever as Instrumentarium's core business during 1998. The Ohmeda acquisition raised the volume of its US operations many times over and established the newly integrated Datex-Ohmeda as a leading manufacturer of anesthesia and critical care products in all markets. Datex-Ohmeda's operations almost tripled in size and by the end of the year its product range, scope of services and organizational efficiency were also strong.

Total Solution Provider program

The pressure for change in the global healthcare sector has created the need to enhance both quality of care and cost-effectiveness in anesthesia and critical care. Datex-Ohmeda is committed to developing solutions to help hospitals better manage and develop their care processes.

In 1998 the division introduced a Total Solution Provider program with its subsidiaries and main distributors based on a new way of looking at cooperation between supplier and customer. Datex-Ohmeda's aim is to build a total solution based on Datex-Ohmeda's hardware and software products, together with each customer. This solution would be uniquely suited to each customer's needs and would include customer support, training and financial services as required. To be successful, this program will require extending the focus of Datex-Ohmeda's organization from expertise in equipment to a sound knowledge of hospital processes.

Stronger in the USA

In 1998 Datex-Ohmeda's Aestiva™ and AS/3™ ADU anesthesia machines were approved for sale in the USA. Sales of the CS/3™ critical care monitoring system, approved earlier, will reach full strength during 1999. Datex-Ohmeda also has supply contracts with the major US group purchasing organizations, which supports its strong position in the North American market.

PROSPECTS

The key to Datex-Ohmeda's success in the future will be innovative product concepts, strong R&D and operational efficiency.

Datex-Ohmeda's product range is the widest and most competitive available for anesthesia and critical care. The division's international sales organization is strong likewise. New products due for launching during 1999 will further strengthen the division's stature in its markets. Datex-Ohmeda is well positioned to increase market share.

The markets in North America and Europe continue to grow modestly in real terms. The economic crises in Asia and Latin America are dampening Datex-Ohmeda's prospects in the short term although their impact on equipment investments in the healthcare sector are expected to be somewhat weaker than in general.

Changes in healthcare markets

The anesthesia and critical care equipment market has reached maturity in the industrialized world and is growing at a

To be successful in the rapidly changing healthcare sector, Datex-Ohmeda recognizes the need to evolve from being an equipment specialist into a company with unrivalled expertise in critical hospital care processes.

single-digit rate. However, the markets for clinical information management solutions and subacute monitoring are growing fast. Likewise demand for integrated anesthesia systems, combining anesthesia delivery, monitoring and clinical information management, is continuing to grow faster than the market overall. Today various services, supplies and accessories account for half of Datex-Ohmeda's sales.

Major changes continue to affect the healthcare sector in Datex-Ohmeda's main markets. The pressure to contain costs and raise efficiency is leading to new legislation, the introduction of new reimbursement schemes and industry-wide restructuring. From Datex-Ohmeda's perspective, these developments highlight the critical importance to providers of obtaining relevant information in easily accessible form. Secondly, it is emphasizing the need, especially in the USA, for effective forms of outpatient care, such as independent surgery centers. This is increasing demand for light, portable and easy-to-use equipment.

Prospects for the anesthesia business

Datex-Ohmeda's improved sales network and market position put it on a solid foundation for future growth. In the USA sales of the AS/3™ family of monitoring products is well positioned to continue growing, supported by an expanded anesthesia machine range and competitive anesthesia information management system. The same factors will boost anesthesia machine sales in Europe as well as strengthen the division's position throughout Asia and Latin America.

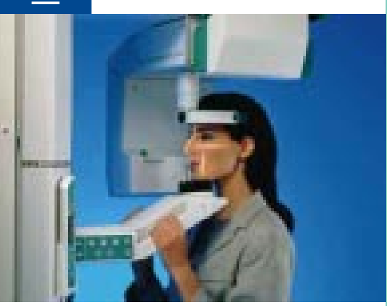
To strengthen its market leadership, the division will need to maintain its position as a leader in innovation. Datex-Ohmeda's anesthesia business units are working continuously to meet the needs of customers willing to invest in total solutions. At the same time the division will ensure that the majority of its customers, who buy stand-alone pieces of equipment, continue to receive products covering all price and performance ranges.

Prospects in critical care

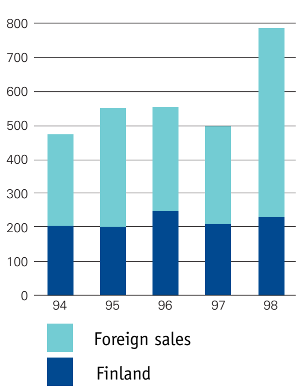
Datex-Ohmeda is still a minor supplier of critical care products. However, its systematic investments in this business are beginning to show results and prospects for 1999 are promising. This business will be launched in the world's largest and most competitive market, the USA, during the year.

Datex-Ohmeda's strong position in anesthesia will support the growth of its critical care business since an increasing number of customers prefer to place larger orders with a single supplier. Datex-Ohmeda's expanded sales and technical support organization will also be a valuable asset in this growth.

Medical Equipment and Supplies



NET SALES, FIM MILLION



The Medical Equipment and Supplies segment consists of business units which are specialized either in niche healthcare markets or distribution of healthcare products.

Instrumentarium Imaging specializes in diagnostic imaging equipment for dental, mammography and surgical imaging. Merivaara produces and markets medical furniture such as hospital beds and operating tables. Ohmeda Medical manufactures and markets infant care systems and suction and oxygen therapy products. LM-Dental manufactures and markets dental hand instruments, mainly in the Nordic countries. Instrumed and Medko Medical are distribution units. Instrumed markets and offers services for hospital equipment and supplies in Finland, while Medko Medical has specialized in selling complete hospital projects.

DIAGNOSTIC IMAGING

Instrumentarium Imaging develops, manufactures and markets diagnostic X-ray imaging equipment for dental imaging, mammography and surgical imaging.

Key figures

	1997	1998	+/-%
Net sales (FIM million)	499	789	+58
- Diagnostic Imaging	166	165	-1
- Medical Furniture	115	151	+31
- Infant Care and Suction and Oxygen Therapy		216	
- Distribution of Medical Equipment and Supplies	218	257	+18
Operating profit (FIM million)*	37	67	+81
Personnel, average	553	696	+26

* Before amortization of goodwill on consolidation.

The division's main products include the Orthopantomograph® range of computer-controlled panoramic dental imaging systems, the Alpha range of advanced mammography systems for breast cancer screening, diagnosis and stereotactic biopsy, and the Omega C range of C-arm real-time imagers designed primarily for applications in surgery and other interventional procedures. 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.

In Europe Instrumentarium Imaging experienced changes in its distribution network. The division set up its own sales companies in France, Italy and Germany at the end of the year. These companies are expected to achieve greater market recognition and provide better support to customers, thus increasing business opportunities in these important markets.

Markets remained stable

The diagnostic X-ray markets were stable overall although demand in Japan and Germany was clearly below normal levels. Economic uncertainty in South America also affected demand in this region.

Instrumentarium Imaging's aggregate sales in 1998 remained broadly similar to the previous year's level. Demand for mammography equipment increased, particularly in Europe but declined slightly in the USA. Demand for dental X-ray equipment was well below the previous year's level due specifically to the depressed Japanese and Latin American markets. Sales of the

Ohmeda Medical ranks among the world's leading manufacturers of infant care systems. Its main products are infant incubators and infant warmers.

surgical C arm grew substantially as the popularity of less invasive surgical procedures increases and the use of C-arms becomes more widespread in imaging applications.

R&D resources doubled to meet digital imaging needs

Instrumentarium Imaging doubled its R&D investments during the year. The main thrust of this effort was the development of new-generation digital imaging products in all product groups. The TACT® (Tuned Aperture Computed Tomography) technology acquired in 1997 enables unique new diagnostic capabilities in digital imaging by creating a three-dimensional image of the area of interest. Clinical trials of the Delta TACT® mammography system in the USA made a positive start. In dental imaging plans now call for upgrading the Orthopantomograph® OP 100 with Ortho TACT® capabilities.

New technology was introduced in the Alpha mammography system which achieves better reduction of scattered radiation in images, therefore improving image quality. This new technology will be in full production from early 1999. Other major launches included the new Orthopantomograph® OP100 D digital panoramic dental system and new technology for surgical C arms, improving their performance and providing connectivity with hospital information networks.

A new R&D project was started during the year aimed at developing a new-generation mobile X-ray system for critical care and subacute wards in hospitals. This product will have increasing application as digital imaging technology becomes more widespread.

Prospects

Demand for cost-effective diagnostic imaging systems, image processing, image archiving and teleradiology is growing as healthcare providers in the developed countries continue to face cost containment pressures. Digital imaging systems will grow in popularity, driven partly by the new opportunities offered by 3-D imaging technology in diagnostic imaging and interventional radiology. Simultaneously mergers, alliances and consolidations among smaller manufacturers and distributors are likely to keep market conditions fluid in the future.

Instrumentarium Imaging is rapidly updating its entire product range with a heavy emphasis on digital imaging techniques. The new distribution arrangements in Europe are expected to have a positive effect on sales especially in the latter half of the year. In the USA significant new agreements with group purchasing organizations are expected to increase sales potential.

MEDICAL FURNITURE

Instrumentarium's Merivaara unit is responsible for developing, manufacturing and distributing 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

The business units in Instrumentarium's Medical Equipment and Supplies segment manufacture products for niche markets. These include mammography systems for breast cancer screening, the Itkalux hospital lamp and the Futura Nova modular hospital bed.

hoists, wheelchairs and geriatric chairs. Its Itka unit specializes in surgical devices such as examination, operation and disinfection lamps, electric and pneumatic suction units and diathermy devices.

The Nordic countries form Merivaara's main market, although exports to Russia and countries outside Europe are growing in significance. Merivaara holds a leading position in Finland, which it aims to maintain. It is also working to achieve a similar presence in the other Nordic countries and to expand in the neighboring Baltic and Russian markets, supported by recently modernized and streamlined manufacturing capabilities.

Robust increase in exports

Merivaara's overall sales increased significantly. Sharp growth in exports, notably to Russia and other markets outside Europe, more than compensated for a decline in domestic sales.

At the end of the year Merivaara launched a new generation of hospital bed called Futura Nova. With its modular design, this product offers considerable scope for variation to meet the needs of a wide range of users. Different versions will be available for hospitals and nursing homes.

During the year Merivaara was awarded ISO 9001 quality certification.

Prospects

Merivaara's aim during 1999 is to drive growth and strengthen its position in its core markets: Finland, Sweden, Norway, Russia, the Baltic countries, Denmark and Poland. Marketing and sales will focus on the Nordic and Baltic countries. The new hospital bed is expected to considerably help Merivaara's subsidiaries in Sweden and Norway to raise market share.

INFANT CARE AND SUCTION AND OXYGEN THERAPY

Ohmeda Medical, the former Specialty Products Division of Ohmeda, is a leading global supplier of infant care products for critically ill newborns, and suction and oxygen products for hospital-wide use. Since April 4, 1998 it has formed a separate division within Instrumentarium's Medical Equipment and Supplies segment.

In infant incubators and infant warmers Ohmeda Medical is the second largest supplier worldwide. Its key infant care products include the CarePlus® Incubator, Ohio® Infant Warmer systems, the Biliblanket® Plus phototherapy system and fiberoptic devices for treating infants with jaundice. These products are used primarily in the Neonatal Intensive Care Unit and Labor & Delivery departments around the world.

Ohmeda Medical is the largest supplier of wall vacuum regulators worldwide. Its key products, an Intermittent Suction unit and continuous vacuum regulator, are used to precisely regulate the hospital vacuum system for a variety of medical and surgical applications. These products are used in operating rooms and emergency departments, and in post-anesthesia, intensive and cardiac care units around the world.

The division's principal market is the USA, where it has had a dedicated infant care sales force for many years. In international markets it cooperates with the Datex-Ohmeda sales and distribution network.

Product launches boost growth

Overall demand for Ohmeda Medical's products remained stable in its main markets, although regional fluctuations were evident. The division's sales and market share increased in the USA, supported by the high reputation and quality of its products and strong distribution. Outside the USA, the Ohmeda acquisition caused Ohmeda Medical sales to decline somewhat from the previous year.

In 1998 Ohmeda Medical completed the launch of the CarePlus® Access incubator for larger infants, and this product now accounts for a significant portion of incubator sales. Ohmeda Medical has also launched several products aimed at increasing its position in labor and delivery, which is outside its traditional NICU (Neonatal Intensive Care Unit) strength. These products include two well-baby bassinets and an infant armoire which includes a built-in infant warmer system. These products have already generated significant interest from US hospitals.

Ohmeda Medical also signed two major OEM deals which enabled it to begin selling neonatal patient monitoring products during the year. A focused international sales and marketing team was added as well. These distribution investments support Ohmeda Medical's strategy for increasing sales growth as an independent and entrepreneurial division of Instrumentarium.

Prospects

Ohmeda Medical's markets are expected to show slight growth during 1999. However, the division's new neonatal monitoring products and growing labor and delivery line are expected to boost its sales growth significantly. The division also expects to achieve improved market penetration from its increased efforts in suction and therapy products in the USA, and in both business segments internationally.

DISTRIBUTION OF MEDICAL EQUIPMENT AND SUPPLIES

Instrumed

Instrumed distributes and services in Finland medical and laboratory equipment, supplies and accessories, imported from leading international suppliers. As one of the market's major suppliers, Instrumed also offers a wide range of services including installation, information system integration, training and technical support. Instrumed's core competence is to help customers to improve the quality of their healthcare and research services through consultative sales efforts. Networking, clinical information systems and system integration have become one of Instrumed's strengths and a core business along with sales of individual products.

Its main customers are hospitals, healthcare centers, clinics, and research and industrial laboratories in Finland. Instrumed is locally present in all the cities of Finland where university hospitals are

Instrumentarium's mission is to help healthcare professionals by developing products and systems which improve patient care and safety.

located and therefore can serve its countrywide customer base at short notice.

Growth in 1998 was slower than in recent years and competition over prices became stiffer, especially in radiology. Instrumed's overall sales declined moderately.

Several new products were added to Instrumed's range including Zeiss operating room and laboratory microscopes and Radionics neurosurgical equipment and supplies. Progress was made towards ISO 9002 quality certification.

Medko Medical

Medko Medical supplies turnkey hospital projects in Russia, Central Asia, China and the Baltic countries. Turnkey hospital projects include planning, delivery, installation, training and warranty responsibilities related to the equipment.

The year began strongly in all markets although the Russian currency crisis caused postponements and cast a shadow over prospects in the CIS countries. In 1998 the largest and most challenging project involved enhancing patient safety and developing a breast cancer screening program in Lithuania. Another project called for the equipping of seven hospitals in the Chinese city of Dalian.

LM-Dental

LM-Dental markets its own full range of ergonomic 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.

Sales of hand instruments showed steady growth during the year. Two-thirds of LM-Dental's annual sales came from exports.

Prospects

Only moderate growth is expected in the healthcare and laboratory equipment markets in Finland during 1999. Instrumed will concentrate on growing its market share in radiology and on further expanding its product range. Its sales and service activities are supported by a solid installed base of radiological and medical equipment.

The opening of a new representative office in Beijing during 1999 will strengthen Medko Medical's presence in China. Prospects for turnkey hospital projects are promising, despite the depressed Russian market.

R&D projects begun by LM-Dental during 1998 are expected to increase its sales substantially in the next couple of years.

Optical Retail

The Optical Retail Division sells optical products - mainly eyeglasses, contact lenses and related products and services - through altogether 182 outlets: 141 in Finland, 27 in Sweden, and 12 in Estonia. The division also operates two optical retail stores in St. Petersburg, Russia.

The Optical Retail Division sells optical products – eyeglasses, contact lenses and related products and services. In addition to this main activity, Optical Retail also markets home healthcare products such as measuring devices, anatomical footwear, thermal underwear, support and compression socks and various aids. In Finland 67 of Instrumentarium's optical retail stores also have a TerveysInstru section for home healthcare products, while Helsinki and Lahti each have a separate store specializing in these products.

Optical Retail is the market leader in Finland, with roughly one-third of the total market for optical products. Instrumentarium operates three optical retail chains in Finland – Instrumentarium, Nissen and KEOPS.

Optical Retail's strengths in addition to high level of service are its centralized logistics and its own lens grinding laboratory. The division imports its principal products – lenses, frames and contact lenses – direct from leading international manufacturers and suppliers.

Key figures

	1997	1998	+/-%
Net sales (FIM, million)	481	520	+8
Operating profit (FIM, million)*	70	75	+7
Personnel, average	694	735	+6

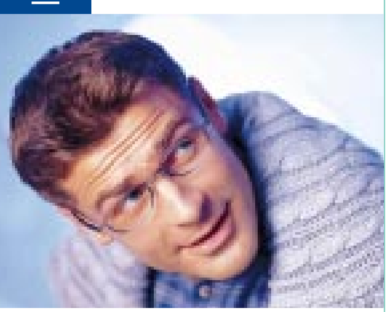
* Before amortization of goodwill on consolidation.

INSTRUMENTARIUM, NISSEN AND KEOPS CLEARLY SEGMENTED

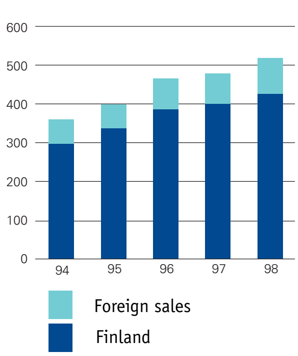
In Finland Optical Retail distributes through three branded chains. There are 102 Instrumentarium outlets, 31 Nissen outlets and 8 KEOPS outlets.

These chains have clearly defined but different profiles in terms of products, visual identity and marketing communication. Instrumentarium targets more traditional, knowledgeable and price-sensitive customers in all age groups. Nissen focuses especially on the younger, more active and trendier segment of the population, while KEOPS customers typically value individuality and a preference for the highest quality.

Sales and distribution in Sweden take place through the Ögat chain with 20 own and 7 franchised outlets. In Estonia, where Optical Retail has 12 stores, it is already the third largest supplier. The two stores in St. Petersburg, Russia are pilot projects. Their operation has been hampered by the recent economic difficulties in Russia. The Ögat chain in Sweden and the Instrumentarium chains in Estonia and Russia are profiled to their specific markets but at the same time they utilize the best practices developed in Finland.



NET SALES, FIM MILLION



Instrumentarium's Optical Retail division is the market leader in Finland. Its wide product range covers eyeglasses, contact lenses, sunglasses and various home healthcare products. The division also provides services for ophthalmologists and opticians, and for a variety of healthcare needs.

Eyeglasses and sunglasses come in an increasing variety of shapes and shades. Consumer tastes in eyeglass frames are increasingly bold.

ROBUST GROWTH IN SALES

The division had another year of strong growth in all main markets, coupled with continued steady expansion outside Finland. Growth was strongest in Estonia – more than 30%. Optical Retail's sales rose clearly during the year by approximately 7% in Finland and 11% in Sweden. In St. Petersburg, however, the Russian currency crisis undermined growth. Markets are changing especially in Estonia. Large European chains are trying to enter Estonia and the other Baltic countries. In Estonia, however, the only optical retail outlets are Finnish and Estonian.

Optical Retail's sales of home healthcare products in Finland grew strongly as well. Particularly successful among the wide range of products were the Samson and Delilah compression socks, manufactured by Ganzoni & Cie AG. These are used by aircraft passengers to relieve swelling and tiredness. Other successful articles included Omron blood pressure measurement devices, and the Julia Spies and Dr Brinkmann anatomical footwear lines.

Training of opticians began in Estonia during 1998, arranged jointly by experts from Finland, Estonia and Sweden. The first Estonian opticians will graduate in three years' time. The Estonian regulations relating to testing of eyesight will need revising, however, before these opticians are officially allowed to practise.

NEW PRODUCTS GAIN POPULARITY

The division introduced several new products and brand names during the year. New lenses included the Pentax Joyas progressive lens for older people with presbyopia, and the Transitions III phototropic lens, which darkens automatically in stronger light.

Disposable contact lenses established themselves firmly on the domestic market during the year with consumers finding them easy and safe to use. These "one-day lenses" are typically used by eyeglass wearers in situations where eyeglasses are impractical.

Several new frames were launched on the market. Nissen introduced Nike sunglasses and the KEOPS chain began sales of the stylish and unassuming Jil Sander frames. Kenny 'O titanium frames were introduced through all three chains.

The fashion in frames became even more diverse during 1998. The main trend is variety; striking, multi-colored plastic frames are gaining in popularity, while lens openings become increasingly small and metal frames even lighter in weight. In particular luxury, multi-colored plastic frames for sunglasses made an impressive breakthrough during 1998.

The Terveysinstru home healthcare outlets in Finland sell plenty of items for a variety of home healthcare needs. Anatomical footwear, compression socks and blood pressure gauges are all in popular demand.

ISO 9002 QUALITY CERTIFICATION

Optical Retail was awarded ISO 9002 quality certification for its production and logistics operations at the end of the year, marking completion of the division's quality project which had lasted almost two years. Process development, however, is an ongoing activity.

At the year end the division's production, warehousing and office functions were moved to new and more functional premises in Kilo, Espoo. This move will have an especially favorable impact on production.

Prospects for 1999

There were approximately 750 optical retail outlets in Finland during 1998 and the market was worth rough one million Finnish markka. Several new chains and alliances emerged during the year and new chains are expected to enter the market in 1999.

Consumer demand for optical retail products closely reflects general economic trends. Slower economic growth is forecast for the Finnish and Swedish economies in 1999. Demand for the Optical Retail Division's products is expected to remain at 1998 levels in Finland and Sweden. In Estonia growth should continue to remain strong in terms of both number of outlets and market share. Optical Retail believes that by placing strong emphasis on customer needs it will strengthen its position as one of the major players in its sector throughout the Baltic region.

Group-Wide Priorities

PERSONNEL

Competent and motivated employees are one of the Instrumentarium Group's most important resources. Instrumentarium's success is largely dependent on the professional skills and motivation of its people, and a corporate culture based on respect for the company and its individuals.

Recruiting and developing competent employees to meet the constantly changing requirements of the business environment is a challenging task for those responsible for personnel and corporate management in the Group. Recruitment at Instrumentarium is a continuous process and during the year the company gave high priority to developing intranet and Internet tools to facilitate internal and external recruitment.

Human resource development is the responsibility of the Group's top management. Each business unit in the Group is independently responsible for preparing and implementing appropriate training for its personnel since each unit knows the needs of its personnel best. The company is committed to developing a multi-skilled workforce and job rotation, and it also actively supports the personal development priorities of its employees.

An extensive project was started during 1998 to develop the Group's internal communications. Instrumentarium's intranet network is constantly upgraded and extended with the aim of developing a network to serve all the Group's employees everywhere in the world.

Instrumentarium Group had 4,513 employees on average during 1998. At the year end personnel numbered 5,131: 37 % in Finland, 22 % in the rest of the Europe, 35 % in the USA, and 6 % in other countries.

Personnel by country

at the end of the year	**1997**	**1998**
Finland	2,014	**1,934**
Rest of the Europe	688	**1,106**
Sweden	265	326
United Kingdom	66	223
France	70	168
Italy	73	101
Germany	82	94
Spain	26	82
Estonia	33	47
Holland	31	31
Norway	13	17
Russia	26	10
Latvia	3	7
North America	200	**1,793**
USA	200	1,749
Canada	0	44
Other countries	0	**298**
India	0	96
Australia	0	72
Japan	0	71
Singapore	0	59
Total	2,902	**5,131**

ENVIRONMENT

Instrumentarium's business units are individually responsible for environmental protection. In all its operations the Group fulfills the official environmental regulations and generally accepted standards, and aims to minimize environmental risks before they occur.

Employees are informed about the company's environmental protection goals and instructed in environmental issues related to their own work. Employees required to handle hazardous substances are given special training to ensure both their personal safety and protection of the environment.

Paper and board waste, biowaste and construction waste are sorted, collected and sent for appropriate processing. Hazardous waste, likewise, is collected and sent to the appropriate processing plants for combustion. Instrumentarium's production processes require only minor quantities of liquids, solvents and gases, and their environmental significance is minimal. Recycling and correct choice of materials is integral to Instrumentarium's day-to-day activities both in its manufacturing operations and its office functions.

EURO CURRENCY

The 1992 treaty on European Union provides that, on or before January 1, 1999, and subject to the fulfillment of certain conditions, a new single European currency, to be named the "Euro," will become a currency in its own right, replacing some of the currencies of the fifteen member states of the EU. As of January 1, 1999 the euro has been taken into use by 11 European Union member states.

In spring 1997, a task force was appointed to begin to coordinate preparations for the euro within the company. Based on an interim report from the task force at the end of October 1998, the Group's divisions were prepared to undertake transactions in euros from the beginning of January 1, 1999. From the same date the company has been able to handle euro denominated transactions as planned with some minor exceptions that will be taken care of during this year. According to the plan Instrumentarium Group will start to use the euro as a home currency in the fall of 1999. The changes in IT systems in the divisions makes it possible to transfer to the use of the euro as the home currency. However, none of these changes have been made solely because of the euro. Transition to the euro is not expected to have any material adverse effect on the Group's financial condition or results of operations.

YEAR 2000

The Year 2000 problem is caused by the inability of computers, or devices driven by computer software programs, to recognize any date after December 31, 1999. In public discussions, Year 2000 compliance means that a device or software performs all date-related functions correctly both before and after the Year 2000, and that the transition to the Year 2000 will not affect the correct functioning of the device or software.

Instrumentarium has a Year 2000 program. The problem has been divided into three parts. First, because of the nature of the company's core business, it is of great importance that the products manufactured by the company are Year 2000 compliant. Products are being tested and the results of the tests are available to customers. Second, the systems where critical date fields can be found, both IT and non-IT, are being examined, in order to avoid disruptions and breakdowns. Third, the company is analyzing its major dependencies on third parties, to determine for example how suppliers' possible non-performance might affect the company. All major units have posted a listing of their products' current Year 2000 compliance status on their websites.

The major part of Instrumentarium's Year 2000 costs is caused by extensive IT projects which are in progress. These projects also deal with the Year 2000 problem. The overall cost estimate for the Datex-Ohmeda IT projects is FIM 150 million and for other business segments FIM 4 million. Part of the Datex-Ohmeda projects were launched prior to the acquisition. The majority of these costs have already been incurred and only about one fifth of the costs have not yet been recorded.

The company estimates, based on available information, that it will be able to manage its transition to the Year 2000 without any material adverse effect on its results of operations, business operations, products or financial prospects.

Consolidated net sales and profit
Instrumentarium's consolidated net sales for 1998 totaled FIM 3,891 million, an increase of 45 % on the previous year. The main reason for this growth was the acquisition of the Ohmeda divisions, which were consolidated from the beginning of April 1998. Conversely, several divestments during the year reduced net sales. Excluding the impact of acquisitions and divestments, net sales increased 10 %. Net sales from exports and operations outside Finland amounted to FIM 3,045 million, which was 78 % of consolidated net sales.

On April 4, 1998 Instrumentarium acquired the Medical Equipment and Specialty Products divisions of Ohmeda for approximately FIM 2,600 million. The Medical Systems division was integrated with Datex-Engstrom to form Datex-Ohmeda. The Specialty Products division was renamed Ohmeda Medical and placed within Instrumentarium's Medical Equipment and Supplies segment. The net sales of the acquired operations for the financial period ended September 30, 1997 totaled approximately FIM 2,200 million. The acquisition generated goodwill totaling about FIM 1,800 million, which will be amortized over a period of 20 years. Four business units were divested during the year; their aggregate net sales in 1997 totaled FIM 590 million.

The Group's operating profit was FIM 251 million, compared to FIM 314 million in the preceding year. The operating profit was improved by non-recurring operating items which had a positive net impact of FIM 181 million. Non-recurring income totaled FIM 293 million, comprising mainly operating profit from securities trading, profits from the sale of fixed assets and profits from the divestment of operations. Non-recurring operating expenses, totaling FIM 112 million, consisted of consulting expenses and restructuring costs related to the Ohmeda acquisition. A further FIM 160 million was capitalized to the acquisition price for expenses related to the acquisition.

The result for 1998 was substantially burdened by the integration of the acquired Datex-Ohmeda businesses. The operating profit was also reduced by a FIM 61 million increase in amortization of goodwill on consolidation, most of which arose from the Ohmeda acquisition. Correspondingly,

Development by business segment

	Net sales, MFIM			Operating profit, MFIM		
	1997	**1998**	%	1997	**1998**	%
Anesthesia and critical care	1,079	**2,331**	+116	179	**51**	- 72
Medical equipment and supplies	499	**789**	+58	37	**67**	+81
Optical retail	481	**520**	+8	70	**75**	+7
Other operations	32	**2**	-94	-1	**3**	
Divested operations	590	**250**	- 58	30	**3**	- 90
Operations, total	2,681	**3,891**	+45	315	**199**	- 37
Amortization of goodwill on consolidation				- 22	**-84**	+282
Operating profit from businesses				293	**115**	- 61
Group administration and non-recurring items				21	**136**	+548
Total	2,681	**3,891**	+45	314	**251**	- 20

the operating profit was improved by FIM 32 million, compared to the previous year, since no pension fund transfer was recorded in the annual accounts for 1998 because the pension fund was dissolved and the assets standing as collateral for the fund's pension obligations were sold.

The profit before extraordinary items, reserves and taxes was FIM 181 million, compared to FIM 341 million in the previous year. Net expenses from financing operations rose by FIM 97 million, which was mainly attributable to an increase in financing expenses caused by the Ohmeda acquisition. No extraordinary items were recorded.

Earnings per share were FIM 4.45, having been FIM 11.76 in the previous year. EPS, including the diluting effect of the option rights, was FIM 4.38. Shareholders' equity per share was FIM 104.49.

Group personnel totaled 5,131 at the end of 1998, an increase of 2,229 on the previous year. This large increase was due almost entirely to the Ohmeda acquisition. The divestments of business operations during the year reduced personnel by 270 correspondingly. Altogether 3,197 employees worked outside Finland at the year end.

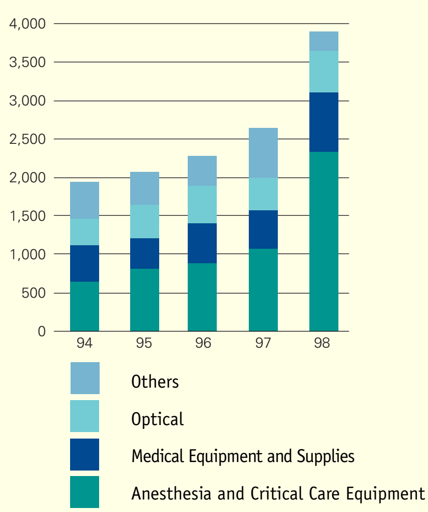
Anesthesia and Critical Care Equipment

The Datex-Ohmeda Division, which manufactures anesthesia and critical care equipment, recorded net sales totaling FIM 2,331 million, up 116 % on the year before. This figure includes the net sales of Ohmeda's medical systems division from April 4, 1998. Excluding Ohmeda, this segment's net sales grew 11 %.

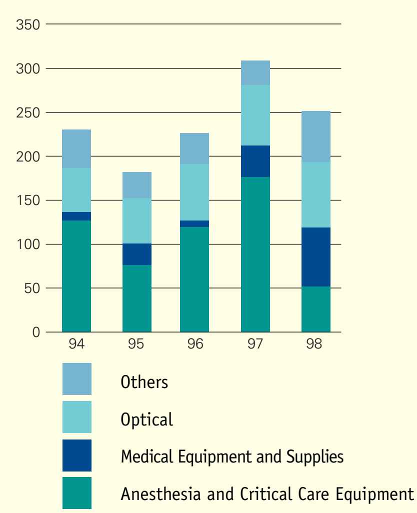
Datex-Ohmeda's operating profit before non-recurring items and amortization of goodwill was FIM 51 million, having been FIM 179 million one year earlier. The operating profit was clearly weakened by Datex-Ohmeda's integration process, which caused additional costs, notably in the US companies. The division's network of independent distributors and its own sales companies had overlapping functions during the year, which reduced sales efficiency and caused additional costs. Restructuring of the distribution and sales company network was essentially completed by the end of the year.

Datex-Ohmeda's anesthesia and critical care equipment and systems manufactured in the Nordic countries sold strongly. Likewise sales of anesthesia machines grew briskly once the delivery difficulties arising from changes to product models of the AS/3 ADU manufactured in Sweden were brought under control. Sales

NET SALES BY BUSINESS SEGMENT, FIM MILLION



OPERATING PROFIT BY BUSINESS SEGMENT, FIM MILLION



of anesthesia machines and pulse oximeters manufactured in the USA were hampered by restructuring of the distribution network. Sales of anesthesia and critical care supplies and accessories rose substantially on the previous year. Aftersales service contributed a greater share of the segment's overall net sales as a result of the Ohmeda acquisition. Aftersales service will require further reorganization which has already been started.

In Datex-Ohmeda's main markets, the USA and Europe, sales were boosted substantially by the acquisition. Of Datex-Ohmeda's net sales, including Ohmeda from April 4, 1998 onwards, 42 % came from Europe and 41 % from North America. Japan and Southeast Asia contributed 6 %, Latin America 3 % and Russia 1 %.

Sales in the final quarter of the year were clearly below sales in the previous quarter owing to the integration process and to delivery problems caused by changes to the Company's information systems. In the last quarter of the year the operating profit was weakened due to the decrease in sales, but also due to larger than forecast inventory differences and provisions for credit losses related to receivables in Latin America.

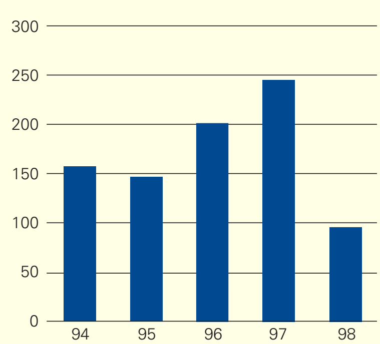
Medical Equipment and Supplies

Net sales of the Medical Equipment and Supplies segment totaled FIM 789 million, up 58 % on the previous year. The operating profit was FIM 67 million, an increase of 81 %. The main reason for the increase in both figures was Ohmeda Medical, which was consolidated from April 4, 1998. Excluding its impact, the segment's net sales increased 15 %.

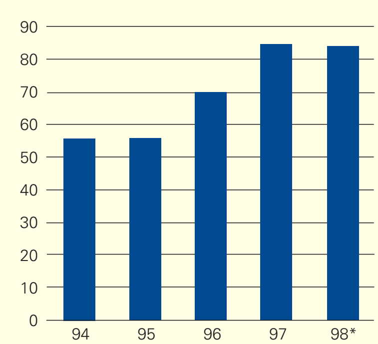
Ohmeda Medical manufactures and markets infant incubators and warmers and oxygen and suction therapy equipment. This company's net sales for the nine months during which it was part of the Group totaled FIM 216 million, almost 80 % of which was derived in the USA where sales grew strongly. In other markets sales declined somewhat on the previous year owing to restructuring of the sales channels.

Instrumentarium Imaging's net sales were FIM 165 million, almost equivalent to the previous year's level. Sales of dental X-ray equipment decreased on the previous year mainly because of a significant drop in demand in Japan and Latin America. Conversely, sales of mammography equipment showed a distinct increase especially in Europe, where growth was strong, whereas sales in the USA declined. Project deliveries to the Baltic countries had a positive effect on sales of the surgical C-arms. Instrumentarium Imaging considerably boosted its investments in product development and marketing during the year, giving special priority to applications based on digital technology. At the end of 1998 the unit established its own sales companies in France, Italy and Germany.

INCOME BEFORE EXTRAORDINARY ITEMS, AFTER TAXES, FIM MILLION



DIVIDENDS, FIM MILLION



* Proposed by the Board of Directors.

Sales of Merivaara medical furniture and aids for the disabled totaled FIM 151 million, representing growth of 31 % on one year earlier. Merivaara's sales rose most strongly in Russia following strong development in the first half of the year. Sales to markets outside Europe showed further growth, likewise. Merivaara's sales in Finland declined on the previous year. Sales outside Finland represented almost 80 % of Merivaara's total net sales. Merivaara continued to emphasize research and development and at the end of the year launched a new modular hospital bed.

Sales of Instrumed, which markets medical equipment and supplies in Finland, declined slightly compared to the preceding year. Sales of radiological equipment and surgical products decreased, whereas sales of laboratory equipment and anesthesia and critical care equipment showed growth.

Medko Medical's project sales increased significantly on the previous year, mainly on account of a large hospital project delivered to Lithuania.

Instrumentarium Group established a new unit specializing in project sales and financing during the year. This unit's mission is to find new projects which are especially dependent on financing for their implementation.

LM-Dental, which manufactures dental hand instruments, increased its net sales. This unit also substantially raised its R&D investments to develop a new series of hand instruments.

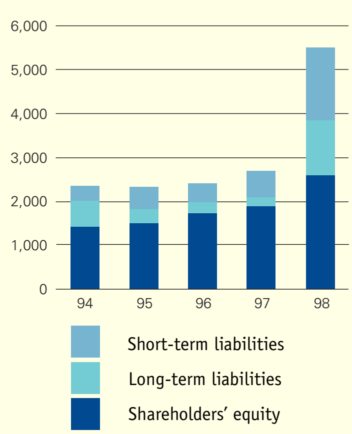
Optical Retail

The Optical Retail Division's net sales totaled FIM 520 million, up 8 % on the year before. Sales by the chains of stores in Finland rose 7 %, which was slightly above the average in the sector. Sales of home healthcare products increased somewhat more than sales of optical products. Home healthcare products represent about 13 % of this division's total sales. In Sweden sales of the Ögat stores also showed higher than average growth in sales, up 10 % on the year before. Sales by the outlets in Estonia continued to increase, driven by the opening of new stores in the year. Sales in St. Petersburg did not meet expectations.

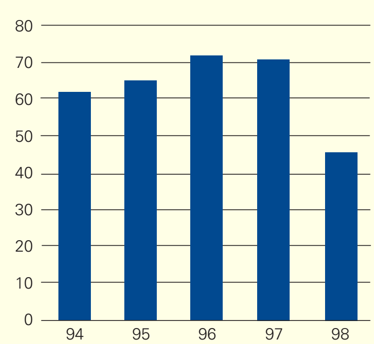
The Optical Retail Division had 173 sales outlets at the end of the year. The number increased by three in Finland, bringing the total to 140. The Ögat chain in Sweden had 20 stores, as in the previous year. Four new outlets were opened in Estonia during 1998, bringing the year-end total there to 11. Two stores were operational in St. Petersburg during the year.

The Optical Retail Division's operating profit was FIM 75 million, an increase of 7 % on 1997. The division's operating expenses grew more than the increase in net sales and the sales margin fell somewhat, compared to the previous year. However, the operating

CAPITAL STRUCTURE, FIM MILLION



EQUITY RATIO, %



profit improved owing to a reduction in pension costs when the pension fund was dissolved in 1998.

Divested operations

In February 1998 Instrumentarium divested Oy Bergenheim Yhtiöt Ab, a wholesaler of cosmetics and consumer dailies and in June the Group sold its 63 % holding in its information technology and equipment unit Instru Data Oy. The entire stock of Oy Tekno-Rema Ab, a specialist in wireless communications systems and equipment, was sold in October. Medinovum, an importer of generic pharmaceuticals, was sold in November. The aggregate net sales of these divested operations in 1998 totaled FIM 250 million and their operating profit was FIM 3 million. At the beginning of the year the Group also divested its 40 % holding in Hackman Metos Oy Ab, which manufactured catering equipment. These disposals generated a total profit of FIM 94 million, which was recorded under non-recurring items.

Financing and investment

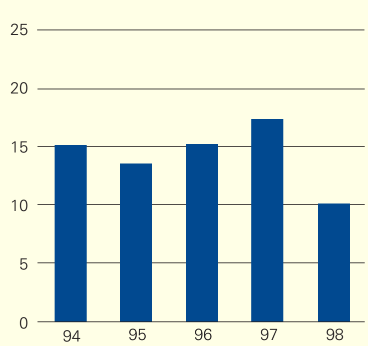
Net financing items amounted to FIM -70 million, having been FIM 27 million one year before. The main reason for the FIM 97 million increase in financing expenses was a substantial increase in interest expenses arising from financing of the Ohmeda acquisition. Exchange rate differences totaled FIM 13 million, compared to FIM -11 million in the previous year. Dividend income was FIM 41 million, up FIM 21 million on the year before.

The equity ratio was 46 %, having been 71 % in the previous year. The equity ratio was considerably reduced by the increase in debt required to finance the acquisition. On the other hand, profits on the sale of securities and business operations, as well as the share issue floated at the end of the year, substantially improved the Group's financial structure and equity ratio. Interest-bearing debt on December 31, 1998 was FIM 1,745 million, which was FIM 1,571 million more than one year earlier. The Group's liquid assets on the balance sheet date amounted to FIM 197 million, compared to FIM 429 million in the previous year.

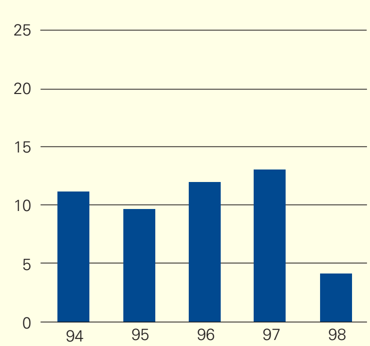
The Group decided to discontinue securities trading during 1998 and the effect of this was eliminated from net sales and the gross margin. The operating profit from securities trading, including non-recurring items, totaled FIM 160 million. The sold securities included 1,668,322 Orion Corporation shares, which yielded a pre-tax profit of FIM 73 million.

Instrumentarium still owns 2,000,000 Orion Corporation A shares. Instrumentarium Corporation and Mutual Pension Insurance Company Varma-Sampo have agreed that

RETURN ON INVESTMENT, %



RETURN ON EQUITY, %



Varma-Sampo is committed to acquiring all 2,000,000 of these Orion Corporation A shares by September 2000. Similarly Instrumentarium, for its part, has agreed to sell 1,000,000 Orion Corporation A shares to Varma-Sampo by September 2000. The prices of these transactions will be determined by the share prices prevailing at the time of transaction. The market capitalization of the Group's publicly quoted equity securities on December 31, 1998 was FIM 274 million. The corresponding book value of the portfolio was FIM 223 million.

Dissolution of the pension fund

On November 2, 1998 Instrumentarium Corporation's Board of Directors approved the decision of Instrumentarium Pension Fund to dissolve the fund and hand over its pension obligations to pension insurance companies with effect from January 1, 1999. During the year the fund sold the assets standing as collateral for the fund's pension obligations. These divestments generated a surplus for the fund, which can be reimbursed to Instrumentarium Corporation. After tax, this surplus totaled approximately FIM 190 million, and will be charged to Instrumentarium Corporation's result for 1999 once this dissolution is approved by the Ministry of Social Affairs and Health.

Share issue

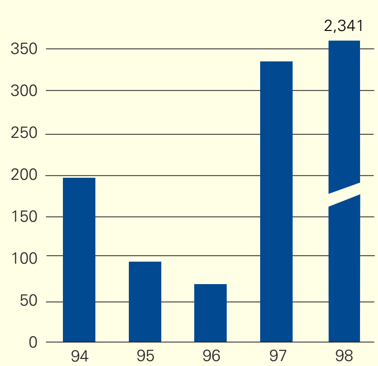
On November 25, 1998 Instrumentarium Corporation's Board of Directors decided, based on the authorization of an extraordinary shareholders' meeting granted on June 17, 1998, to offer for subscription 3,953,680 new Series B shares allowing shareholders to subscribe for 10 new B shares for FIM 140 per share based on 51 existing A or B shares. During the subscription period 4 - 18 December 1998, 99.2 % of all the shares offered, i.e. altogether 3,920,570 new B shares, were subscribed for FIM 548.9 million. After the issue there were 15,302,451 A shares and 8,781,920 B shares.

Capital expenditure and R&D

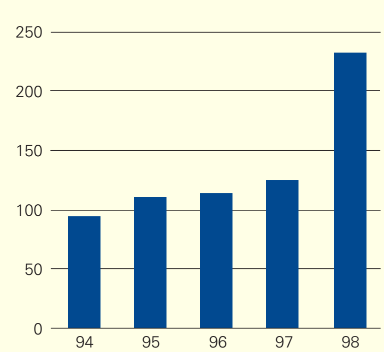
Gross capital expenditure totaled FIM 2,341 million, which included FIM 2,191 in respect of the Ohmeda acquisition. Other investments totaled FIM 150 million. FIM 109 million was invested in machinery and equipment, FIM 9 million in buildings and land, and FIM 32 million in securities and other long-term expenditure.

R&D expenses totaled FIM 238 million, compared to FIM 127 million in the previous year. The substantial increase in R&D expenses was mainly due to the expansion of the anesthesia and critical care segment as a result of the Ohmeda acquisition. R&D investments were also

CAPITAL EXPENDITURE, FIM MILLION



R&D EXPENSES, FIM MILLION



substantially increased in Instrumentarium Imaging, especially in digital imaging applications.

Personnel and administration

Personnel in the Instrumentarium Group averaged 4,513 during 1998, which was 1,760 more than one year earlier. The parent company, Instrumentarium Corporation, had 1,821 employees on average, compared to 1,674 the year before.

The Supervisory Board was chaired by Gustav von Hertzen until November 16, 1998, when he announced his abstention from the Supervisory Board pending a legal decision on charges brought against him concerning alleged use of insider information. Since November 16, 1998 the Supervisory Board has been chaired by Mr Turo K.J. Tukiainen MBA.

The Board of Directors was chaired in 1998 by Gerhard Wendt Ph.D., who has been elected Chairman of the Board of Directors for the period 1998 - 2000. Instrumentarium Corporation's President and Chief Executive Officer was Olli Riikkala M.Sc. (Tech.), MBA, who also is a member of the Board of Directors. The other members of the Board of Directors were Professor, D.Sc. (Tech.) Juhani Kuusi, Director of the Nokia Research Center, Mikael Lilius B.Sc. (Econ.), President and CEO of Gambro AB, and Matti Salmivuori M.Sc. (Econ.), Chief Financial Officer of Instrumentarium Corporation.

Stock options

An extraordinary meeting of Instrumentarium Corporation shareholders on June 17, 1998 decided to issue at most 1,300,000 stock options to the Group's key personnel and members of the Board of Directors and to a wholly owned subsidiary of Instrumentarium Corporation. Adjusted for the rights offering, these options entitle their holders to subscribe for altogether 1,554,930 Series B shares in Instrumentarium Corporation. Altogether 833,000 options had been granted to key employees and members of the Board of Directors by December 31, 1998. The remainder have been given to a subsidiary of Instrumentarium Corporation for later disbursement to key personnel at the decision of the Board of Directors.

Prospects for 1999

Instrumentarium Corporation's structure was considerably developed during 1998. The Ohmeda acquisition and divestment of its non-core operations in Finland turned Instrumentarium into an international healthcare group. Instrumentarium's core business is anesthesia and critical care, represented by its Datex-Ohmeda division. In 1998 Datex-Ohmeda contributed 64 % of the Group's total net sales after eliminating the contribution of the divested operations.

Instrumentarium Group's future rests on Datex-Ohmeda's success in the international anesthesia and critical care markets. The Datex-Ohmeda integration process is further strengthening this division's position and its prospects for 1999 are encouraging. Datex-Ohmeda's main goal during the current year will be to raise its operational efficiency. This will depend on further development of cooperation between the division's sales organizations and its production plants, continuous improvements in its selected product strategies, more effective launching of new products, good coordination of its global expertise, and continuous monitoring of costs.

Prospects for Instrumentarium Group's Medical Equipment and Supplies segment and Optical Retail division in 1999 are on the whole satisfactory.

Proposal for the distribution of profit

At December 31, 1998 the consolidated non-restricted equity of the Group was FIM 1,552,896,444.24 of which FIM 1,270,391,330.58 is available for distribution. At December 31, 1998 the Parent Company's non-restricted equity was FIM 1,403,773,105.44.

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

- Dividend of FIM 3.50 per share (FIM 1.75/ADR)	FIM 84,295,298.50
- To the Instrumentarium Scientific Fund	FIM 150,000.00
- To non-restricted shareholders' equity	FIM 1,319,327,806.94
	FIM 1,403,773,105.44

Helsinki, February 23, 1999

Gerhard Wendt
Chairman of the Board

Juhani Kuusi

Mikael Lilius

Olli Riikkala
President and CEO

Matti Salmivuori

Consolidated Statements of Income

	Note	1996 FIM (in thousands)	1997 FIM (in thousands)	**1998 FIM (in thousands)**	1998 EUR (in thousands)
Net sales		2,313,773	2,681,027	**3,890,723**	654,373
Cost of goods sold		-1,190,458	-1,360,701	**-2,055,909**	-345,779
Gross profit		1,123,315	1,320,326	**1,834,814**	308,594
Selling, marketing and administrative expenses	(2)	-938,616	-1,060,927	**-1,823,792**	-306,740
Other income and expenses, net	(3)	20,211	25,219	**59,011**	9,925
Non-recurring operating items, net	(3)	27,073	29,368	**181,157**	30,468
Operating profit		231,983	313,986	**251,190**	42,247
Interest and other financial income and expenses, net	(5)	41,330	26,774	**-70,150**	-11,798
Income before extraordinary items		273,313	340,760	**181,040**	30,449
Extraordinary income and expenses, net	(6)	135,712	0	**0**	0
Income before income taxes		409,025	340,760	**181,040**	30,449
Income taxes	(7)	-132,399	-94,718	**-86,837**	-14,605
Income before minority interests		276,626	246,042	**94,203**	15,844
Minority interests		-1,196	70	**-389**	-65
Net income		275,430	246,112	**93,814**	15,778
Earnings per share, FIM	(8)	9.52	11.76	**4.45**	0.75

Consolidated Statements of Cash Flows

	1997 FIM (in thousands)	**1998 FIM** (in thousands)	1998 EUR (in thousands)
Cash flows from operating activities			
Net income	246,112	**93,814**	15,778
Charges to retained earnings:			
Contribution	-300	**-300**	-50
Adjustments to reconcile net profit to net cash provided by operating activities:			
Depreciation and amortization	96,101	**230,618**	38,787
Gain on sale of shares	-28,568	**-239,688**	-40,313
Gain (-) loss (+) on sale of other tangible assets		**-3,911**	-658
Unrealized interest income (-) and interest expense (+)	-5,044	**46,420**	7,807
Unrealized exchange gains (-) and exchange losses (+)	6,428	**154,033**	25,906
Write-down of receivables	2,768	**25,152**	4,230
Write-down of inventories	13,369	**83,166**	13,988
Deferred income taxes	-29,602	**-32,114**	-5,401
Other	-8,440	**-273**	-46
Changes in assets and liabilities, net of effects from business acquisitions:			
Increase (-) decrease (+) in assets:			
Inventory	-99,375	**-150,318**	-25,282
Receivables	-156,209	**116,995**	19,677
Other assets	52,980	**-26,123**	-4,394
Increase (-) decrease (+) in liabilities:			
Accounts payable	44,487	**70,000**	11,773
Accrued liabilities	40,751	**-37,681**	-6,337
Other short-term liabilities	12,206	**-43,121**	-7,252
Net cash provided by operating activities	187,664	**286,669**	48,214
Cash flows from investing activities			
Investments in Group companies	-53,801	**-2,660,521**	-447,468
Investments in other shares and holdings	-4,360	**-12,413**	-2,088
Investments in other long-term investments	-18,350	**-24,262**	-4,081
Purchases of other tangible assets	-274,071	**-196,891**	-33,115
Proceeds from disposition of shares, holdings and businesses	17,518	**420,087**	70,654
Maturities of short-term investments	88,251	**340,400**	57,251
Maturities of other long-term investments	78,524	**1,397**	235
Proceeds from sale of other tangible assets	12,389	**23,148**	3,893
Net cash used in investing activities	-153,900	**-2,109,055**	-354,718
Cash flows from financing activities			
Dividends paid	-70,573	**-84,688**	-14,243
Proceeds from issuance of common shares		**533,469**	89,723
Net borrowings (payments) on short-term debt	52,080	**251,619**	42,319
Proceeds from long-term debt	848	**1,715,039**	288,449
Principal payment on long-term debt	-12,969	**-560,942**	-94,344
Net cash provided by (used in) financing activities	-30,614	**1,854,497**	311,904
Effect of exchange rate changes on cash		**-2,071**	-348
Net increase (+) decrease (-) in cash and cash equivalents	3,150	**32,111**	5,401
Cash and cash equivalents at beginning of year	98,313	**101,463**	17,065
Cash and cash equivalents at end of year	101,463	**131,503**	22,117
Supplemental cash flow information:			
Acquisition of businesses:			
Current assets, other than cash	24,696	**1,120,384**	188,435
Tangible assets	10,652	**266,916**	44,892
Other non-current assets		**141,186**	23,746
Goodwill	18,453	**1,883,526**	316,786
Liabilities assumed		**-751,491**	-126,392
	53,801	**2,660,521**	447,468

Consolidated Balance Sheet

	Note	1997 FIM (in thousands)	**1998 FIM** (in thousands)	1998 EUR (in thousands)
ASSETS				
Fixed assets and other long-term investments				
Intangible assets	(9)	168,175	**1,959,577**	329,577
Tangible assets	(9)	536,999	**781,586**	131,453
Shares and holdings	(10)	472,469	**311,267**	52,351
Loans receivable	(12)	1,772	**27,540**	4,632
		1,179,415	**3,079,970**	518,014
Current assets				
Inventories	(11)	475,508	**909,709**	153,002
Deferred tax assets	(14)	19,970	**94,957**	15,971
Short-term receivables	(12)	668,373	**1,222,841**	205,667
Short-term investments	(12)	327,539	**65,734**	11,056
Cash and cash equivalents		101,463	**131,503**	22,117
		1,592,853	**2,424,744**	407,813
Total assets		2,772,268	**5,504,714**	925,826

Consolidated Balance Sheet

	Note	1997 FIM (in thousands)	**1998** FIM (in thousands)	1998 EUR (in thousands)
SHAREHOLDERS' EQUITY AND LIABILITIES				
Shareholders' equity	(13)			
Share capital		201,638	**240,844**	40,507
Share premium account		183,938	**678,201**	114,065
Legal reserve		2,567	**22,943**	3,859
Other reserves		12,884	**21,578**	3,629
Equity share of accelerated depreciation and other untaxed reserves		307,677	**282,505**	47,514
Retained earnings		955,806	**1,176,577**	197,886
Net income		246,112	**93,814**	15,778
		1,910,622	**2,516,462**	423,239
Minority interest		17,056	**2,908**	489
Provisions	(3)		**62,156**	10,454
Liabilities				
Deferred tax liabilities	(14)	119,729	**110,553**	18,594
Long-term liabilities	(15)	126,688	**1,210,517**	203,594
Short-term liabilities	(16)	598,173	**1,602,118**	269,457
		844,590	**2,923,188**	491,645
Total shareholders' equity and liabilities		2,772,268	**5,504,714**	925,826

Consolidated Statements of Changes in Shareholders' Equity

FIM (in thousands)	Share capital	Share premium account	Legal reserves	Other reserves	Cumulative translation adjustments	Retained earnings	Total
	(Par value FIM 10 per share)						
Balance at December 31, 1996	201,638	183,938	0	14,533	-1,415	1,333,600	1,732,294
Dividend paid						-70,573	-70,573
Contribution						-300	-300
Transfer to reserves			2,567	-1,649		-918	0
Translation adjustment					3,089		3,089
Net income						246,112	246,112
Balance at December 31, 1997	201,638	183,938	2,567	12,884	1,674	1,507,921	1,910,622
Share issue on December 28, 1998	39,206						39,206
Share issue premium		494,263					494,263
Dividend paid						-84,688	-84,688
Contribution						-300	-300
Transfer to reserves			20,376	8,694		-29,070	0
Translation adjustment					63,545		63,545
Net income						93,814	93,814
Balance at December 31, 1998	240,844	678,201	22,943	21,578	65,219	1,487,677	2,516,462

Notes to the Financial Statements

1. ACCOUNTING PRINCIPLES

The consolidated financial statements and the parent company's financial statements have been prepared in accordance with legislation and generally accepted accounting principles in Finland.

Certain prior year balances have been reclassified to conform with the current year presentation.

All amounts are presented in thousands of Finnish Markka (FIM), except per share amounts, personnel and share data.

Preparation of the consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

A summary of the Group's significant accounting policies follows:

(a) Principles of 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 principal subsidiaries included in the consolidated figures are mentioned in Notes to the Financial Statements. In addition to the subsidiaries mentioned in the Notes, the following company was consolidated: Lääkintämuovi Oy, part of the L-Dental Products Lumme Oy subgroup.

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

The consolidated accounts have been prepared using the purchase method. The difference between the acquisition value and balance sheet value of subsidiaries is partially booked under fixed assets of subsidiaries in the consolidated balance sheet. Goodwill represents the share in excess of the market value of the assets and is principally amortized over a period of five to twenty years. Goodwill arising from the acquisition of Ohmeda-businesses in April 1998 and the goodwill arising from the acquisition of Engström's anesthesia and intensive care business in 1994 are amortized over 20 years since the products manufactured by this businesses require a long development period and the technology they represent is slow to become obsolete. 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. The Group's share of post acquisition retained earnings is added to the cost of associated company investments in the consolidated balance sheet.

(b) Foreign currency translation

In the consolidated accounts, the income statements of foreign group companies are translated into Finnish Markka at the average exchange rates 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 date. Differences arising from the translation of shareholders' equity and income statement and balance sheet are recorded under shareholders' equity.

Transactions in foreign currencies are recorded at the rates of exchange prevailing on the dates of transactions. Foreign exchange gains and losses related to normal business operations are treated as adjustments to cost of goods sold. Foreign exchange gains and losses associated with financing are entered under financial income and expenses.

(c) Derivative Financial Instruments

The Company uses a variety of derivative financial instruments, principally foreign exchange forward contracts, foreign exchange options, interest rate futures, interest rate swaps, forward rate agreements, and interest rate options. Foreign exchange and interest rate related instruments are used to reduce exposures to market risk resulting from fluctuations in foreign exchange and interest rates by creating offsetting exposures. The Company is not a party to leveraged financial instruments.

Derivatives are designated at inception as a hedge with respect to the hedged item or group of items with similar characteristics. Derivatives are measured for effectiveness both at inception and on an ongoing basis. The foreign exchange position of the Company is managed centrally.

Exchange rates used in consolidation

	Income statement			Balance sheet	
	1996	1997	**1998**	1997	**1998**
USD	4.594	5.191	**5.344**	5.421	**5.096**
SEK	0.685	0.680	**0.673**	0.686	**0.627**
FRF	0.898	0.890	**0.906**	0.905	**0.906**
NLG	2.725	2.661	**2.695**	2.686	**2.698**
NOK	0.711	0.734	**0.708**	0.739	**0.670**
DEM	3.053	2.994	**3.038**	3.028	**3.040**
ITL	0.003	0.003	**0.003**	0.003	**0.003**
ESP	0.036	0.036	**0.036**	0.036	**0.036**
GBP	7.173	8.725	**8.849**	8.992	**8.428**
CAD			**3.531**		**3.292**
JPY			**0.040**		**0.045**
AUD			**3.264**		**3.130**
INR			**0.112**		**0.112**

The Company principally uses forward exchange contracts, foreign exchange options to hedge the foreign exchange risk on certain commercial assets (accounts receivable) and liabilities (accounts payable) and a proportion of related anticipated cashflows denominated in foreign currency up to 12 months forward. The Company uses loans to hedge part of its net equity investments in overseas subsidiaries.

Interest rate related contracts other than interest rate swaps are held on a fair value basis and unrealized gains and losses are recognized in net income on a current basis. Long term interest rate swaps which are expected to be held to maturity are not marked to market. Only accrued interests of these long term interest rate swaps are reported in net income on a current basis.

Foreign exchange related contracts are held on a fair value basis and unrealized gains and losses are recognized in net income on a current basis.

Unrealized gains and losses on derivatives designated as hedges, including anticipatory hedges, are measured on a monthly basis and are recognized and reported in financial income and expenses on the same basis as gains and losses on the underlying hedged item. Any premium on derivative financial instruments is deferred in other assets/liabilities until the contract matures or is terminated.

Deferral (hedge) accounting is applied only if the derivative reduces the risk of the underlying hedged item and is designated at inception as a hedge with respect to the hedged item. If a derivative financial instrument ceases to meet the criteria for hedge accounting, any subsequent gains or losses are recognized in net income on a current basis. If an anticipated transaction does not occur, the related hedge is restated at fair value and any gains of losses are recognized in net income. If a hedging instrument is sold or terminated prior to maturity, gains or losses are deferred until the hedged item is recognized in net income.

(d) Revenue recognition

Net sales is calculated as gross sales revenue less in direct sales taxes and discounts. Revenues from products and services are recognized from the date of delivery.

(e) Research and development costs

Research and developed costs, are expensed as incurred.

(f) Pensions and coverage of pension liabilities

The companies within Instrumentarium have various pension schemes in accordance with local conditions and practices in the countries in which they operate. 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. The schemes are generally funded through payments to insurance companies or to trustee-administered funds as determined by periodic actuarial calculations. Pension costs are charged to the income statement as expensed and as the commitment arises. Instrumentarium has met minimum funding requirements for the countries in which it maintains pension schemes.

(g) Fixed assets

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 not calculated on land areas and revaluations. Depreciation is calculated from the direct acquisition cost on a straight-line basis according to the useful life of the assets.

The useful lives of the assets are as follows:

Buildings	20-40 years
Machinery and equipment	4-10 years
Intangibles (other than goodwill)	3-10 years
Goodwill	5-20 years

Gains and losses on the disposal of fixed assets are included in operating profit.

The Company reviews long-lived assets and certain intangibles to be held and used by the Company for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. When such events or changes in circumstances indicate an asset may not be recoverable, the Company must estimate the future cash flows expected to result from the use of the asset and its eventual disposition. If the sum of such expected future cash flows (undiscounted and without interest charges) is less than the carrying amount of the asset, an impairment loss is required to be recognized in an amount by which the asset's net book value exceeds its fair market value.

(h) 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.

(i) Short-term investment

Short-term marketable equity securities are carried at the lower of acquisition cost or market determined on an individual security basis. Securities written down to a new cost basis are written up for subsequent recoveries in market value. Realized gains and losses are determined based on the specific identification cost method, which generally approximates the first-in, first-out method.

(j) 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.

(k) Income taxes

Income taxes presented in the income statement consist of current and deferred taxes. Current taxes include estimated taxes corresponding to the results for the financial year of the companies, and adjustments of taxes for previous years.

A deferred tax liability or asset has been determined for all temporary differences between tax bases of assets and liabilities and their amounts in financial reporting, using enacted tax rates effective for the future years. The deferred tax liabilities are recognized in the balance sheet in full, and the deferred tax assets at their estimated realizable amounts. Deferred tax assets are reduced by a valuation allowance if, based on the weight of available evidence, it is more likely than not that some portion or all of the deferred tax assets will not be realized.

No deferred tax liability has been recognized for undistributed earnings of domestic subsidiaries since, in most cases, such earnings can be transferred to the parent company without tax consequences. Except in situations where the Company has elected to distribute earnings of foreign subsidiaries, the Company does not provide deferred income taxes on undistributed earnings of foreign subsidiaries because such earnings are intended to be permanently reinvested in those operations.

(l) Financial statements expressed in euros

The financial statements, presented in thousands Finnish Markka, for the year ended December 31, 1998 are also expressed in euro, solely for convenience of the reader, at the rate of 5.94573 Finnish Markka per euro, the rate of conversion on December 31, 1998 by the European Central Bank. No representation is made that markka amounts have been, could have been, or could be converted into euros at that or any other rate.

	1996 FIM (in thousands)	1997 FIM (in thousands)	**1998** FIM (in thousands)

2. Selling, marketing and administrative expenses

Selling, marketing and adminstrative expenses consists of the following:

	1996	1997	1998
Selling and marketing expenses	652,534	737,426	**1,038,082**
Research and development expenses	115,864	127,130	**237,882**
General and administrative expenses	146,783	164,071	**450,274**
Amortization of goodwill*	23,435	32,300	**97,554**
Selling, marketing and adminstrative expenses	938,616	1,060,927	**1,823,792**

* Includes Amortization of goodwill on consolidation of FIM 23,435 thousand, FIM 22,903 thousand and FIM 84,106 thousand for the years ending December 31, 1996, 1997 and 1998, respectively. Goodwill amortization of FIM 2,443 thousand is included in cost of goods sold for the year ending December 31, 1998.

3. Other income and expenses, net

Other income and expenses, net consist of the following:

	1996	1997	1998
Other income			
Rental income	27,582	30,068	**30,475**
Agency fees			**17,849**
Service fees			**9,600**
Other income	14,675	17,955	**35,681**
Total	42,257	48,023	**93,605**
Other expense			
Expenses on rented properties	-19,406	-17,521	**-23,042**
Other expenses	-2,640	-5,283	**-11,552**
Total	-22,046	-22,804	**-34,594**
Other income and expenses, net	20,211	25,219	**59,011**
Nonrecurring operating items			
Securities trading	16,518	30,111	**60,028**
Gain on sale of non-current marketable securities	10,555	8,408	**99,610**
Disposal of business operations			**94,332**
Other nonrecurring operating income			**39,596**
Restructuring and consulting expenses		-9,151	**-112,409**
Nonrecurring operating items, net	27,073	29,368	**181,157**
Provisions			
Provision for restructuring costs relating to Ohmeda acquisition			**62,156**

4. Depreciation and amortization

Depreciation and amortization expense according to plan are as follows:

	1996	1997	1998
Intangible assets			
Intangibles	3,106	3,379	**7,409**
Goodwill*	23,435	32,299	**99,997**
Other capitalized expenditures	14,585	11,711	**13,627**
Tangible assets			
Buildings	7,901	8,074	**30,893**
Machinery and equipment	40,973	40,637	**78,692**
Total depreciation and amortization	90,000	96,100	**230,618**

Depreciation and amortization charged against operations by activity are as follows:

	1996	1997	1998
Cost of goods sold	17,538	13,684	**34,271**
Selling and marketing expenses*	49,582	57,230	**134,475**
Research and development expenses	4,032	4,767	**10,941**
General and administrative expenses	13,535	14,292	**37,982**
Other operating expenses	5,313	6,127	**12,949**
Total depreciation and amortization	90,000	96,100	**230,618**

* Includes Amortization of goodwill on consolidation of FIM 23,435 thousand, FIM 22,903 thousand and FIM 84,106 thousand for the years ending December 31, 1996, 1997 and 1998, respectively.

	1996 FIM (in thousands)	1997 FIM (in thousands)	**1998 FIM (in thousands)**

5. Interest and other financial income and expenses, net

The components of interest and other financial income and expenses, net are as follows:

	1996	1997	**1998**
Dividend income			
Dividend income	15,666	20,224	**40,648**
Other interest and financial income			
Other interest income	35,287	23,666	**24,525**
Foreign exchange gains	34,018	56,746	**326,939**
Other financial income	104	979	**14**
Write down of investments			
Write down of long-term investment			**-7,614**
Interest expense and other finacial expenses			
Interest expenses	-17,847	-13,616	**-135,573**
Foreign exchange losses	-38,474	-67,273	**-314,300**
Other financial expenses	-329	-2,074	**-5,451**
Share in results of associated companies			
Share in results of associated companies	12,905	8,122	**662**
Total interest and other financial income and expenses, net	41,330	26,774	**-70,150**

6. Extraordinary income and expenses

	1996	1997	**1998**
Income			
Gain on sale of business operations	6,234	0	**0**
Reversal of write-downs	135,184	0	**0**
Total	141,418	0	**0**
Expenses			
Expenses related to closing down or sales of business operations	-5,706	0	**0**
Total	-5,706	0	**0**
Extraordinary income and expenses, net	135,712	0	**0**

The reversal of write-downs in 1996 relates to the shares of Orion, a publicly-traded Finnish pharmaceutical company.

7. Income taxes

The domestic and foreign components of income before taxes and minority interests are as follows:

	1996	1997	**1998**
Finland	433,030	360,707	**388,388**
Other countries	-24,005	-19,947	**-207,348**
	409,025	340,760	**181,040**

The components of income taxes are as follows:

	1996	1997	**1998**
Current taxes			
Finland	77,794	122,024	**158,216**
Other countries	5,938	2,302	**2,772**
	83,732	124,326	**160,988**
Deferred taxes			
Finland	-10,794	-29,608	**-31,244**
Other countries	0	0	**-42,907**
	-10,794	-29,608	**-74,151**
Income taxes	72,938	94,718	**86,837**
Taxes from extraordinary income and expenses	59,461	0	**0**
Income taxes	132,399	94,718	**86,837**

The principal reasons for the difference between income tax rate and effective tax rate in relation to income before taxes and minority interests are outlined below:

	1996	1997	**1998**
Income tax at statutory rate	28 %	28 %	**28 %**
Amortization of goodwill	2 %	2 %	**13 %**
Deduction in Finland for write-down of investments in subsidiaries	-5 %	-3 %	**-2 %**
Operating losses with no current tax benefit	3 %	2 %	**11 %**
Adjustment of prior years tax accruals	5 %	-1 %	**-2 %**
Other	-1 %		
Effective tax rate on income before income taxes and minority interests	32 %	28 %	**48 %**

	1996	1997	**1998**
8. Earnings per share			
Earnings per share is calculated in accordance with Finnish GAAP as follows:			
Income before extraordinary items	273,313	340,760	**181,040**
Minority interests	-1,196	70	**-389**
Taxes on normal business operations	-72,938	-94,718	**-86,837**
	199,179	246,112	**93,814**
Weighted average number of shares outstanding (in thousands)*	20,915	20,921	**21,060**
Earnings per share, FIM	9.52	11.76	**4.45**
Diluted earnings per share			
Income before extraordinary items	273,313	340,760	**183,902****
Minority interests	-1,196	70	**-389**
Taxes on normal business operations	-72,938	-94,718	**-86,837**
	199,179	246,112	**96,676**
Weighted average number of shares outstanding, diluted (in thousands)*	20,915	20,921	**22,056****
Diluted earnings per share, FIM	9.52	11.76	**4.38**

* In accordance with Finnish GAAP, the weighted average shares outstanding is calculated from the date paid. Earnings per share for previous years has been calculated by using the weighted average number of shares outstanding adjusted with the effect of share issue.

** Options granted in June of 1998 related to the Company's 1997 Stock Option Plan have been included in the calculation of diluted earnings per share for the year ended December 31,1998. Income before extraordinary items has been increased by the deferred interest income (FIM 2,862 thousand), net of tax, relating to the assumed exercise of the granted stock options. The weighted average number of shares outstanding has been increased by the number of additional common shares that would have been issued if the options granted had been exercised. At December 31, 1998 the aggregate number of options granted was 833,000.

9. Intangible and tangible assets

	1997 FIM (in thousands)	**1998** FIM (in thousands)
Intangible assets		
Intangibles		
Acquisition cost at beginning of year	25,174	**28,814**
Capital expenditures	4,661	**9,714**
Business acquisitions		**99,043**
Decreases	-1,189	**-7,800**
Translation differences	166	**-9,146**
Acquisition cost at end of year	28,814	**120,625**
Accumulated depreciation at beginning of year	10,562	**12,857**
Depreciation during the year	3,379	**7,409**
Accumulated depreciation of business acquisitions		**75,445**
Accumulated depreciation of sold/disposed assets	-1,189	**-3,407**
Translation differences	105	**-7,150**
Accumulated depreciation at end of year	12,857	**85,154**
Net book value at end of year	15,957	**35,471**
Goodwill		
Acquisition cost at beginning of year	220,199	**234,194**
Capital expenditures	22,242	**4,978**
Business acquisitions		**1,904,082**
Decreases	-8,247	**-5,280**
Translation differences		**-1,625**
Acquisition cost at end of year	234,194	**2,136,349**
Accumulated amortization at beginning of year	108,154	**132,207**
Amortization during the year	32,300	**99,997**
Accumulated amortization of business acquisitions		**41,058**
Accumulated amortization of sold/disposed assets	-8,247	**-8,953**
Translation differences		**-1,991**
Accumulated amortization at end of year	132,207	**262,318**
Net book value at end of year	101,987	**1,874,031**

	1997 FIM (in thousands)	**1998** FIM (in thousands)
Other capitalized expenditure		
Acquisition cost at beginning of year	98,830	**106,104**
Capital expenditures	11,831	**16,019**
Business acquisitions		**7,857**
Decreases	-4,670	**-22,923**
Translation differences	113	**-1,155**
Acquisition cost at end of year	106,104	**105,902**
Accumulated depreciation at beginning of year	48,763	**55,873**
Depreciation during the year	11,711	**13,627**
Accumulated depreciation of business acquisitions		**6,388**
Accumulated depreciation of sold/disposed assets	-4,663	**-19,357**
Translation differences	62	**-704**
Accumulated depreciation at end of year	55,873	**55,827**
Net book value at end of year	50,231	**50,075**
Intangible assets total		
Acquisition cost at beginning of year	344,203	**369,112**
Capital expenditures	38,734	**30,711**
Business acquisitions	0	**2,010,982**
Decreases	-14,106	**-36,003**
Translation differences	281	**-11,926**
Acquisition cost at end of year	369,112	**2,362,876**
Accumulated depreciation at the beginning of year	167,479	**200,937**
Depreciation during the year	47,390	**121,033**
Accumulated depreciation of business acquisitions	0	**122,891**
Accumulated depreciation of sold/disposed assets	-14,099	**-31,717**
Translation differences	167	**-9,845**
Accumulated depreciation at end of year	200,937	**403,299**
Net book value at end of year	168,175	**1,959,577**
Tangible assets		
Land		
Acquisition cost at beginning of year	24,601	**29,507**
Capital expenditures	2,100	**200**
Business acquisitions	2,976	**8,030**
Decreases	-170	**-2,665**
Translation differences		**-280**
Acquisition cost at end of year	29,507	**34,792**
Revaluations	1 100	**1 100**
Net book value at end of year	30,607	**35,892**
Buildings		
Acquisition cost at beginning of year	247,463	**460,044**
Capital expenditures	210,338	**9,236**
Business acquisitions	4,643	**183,775**
Decreases	-2,400	**-3,968**
Translation differences		**-12,920**
Acquisition cost at end of year	460,044	**636,167**
Accumulated depreciation at the beginning of year	68,757	**75,331**
Depreciation during the year	8,074	**30,893**
Accumulated depreciation of business acquisitions		**58,678**
Accumulated depreciation of sold/disposed assets	-1,500	**-2,715**
Translation differences		**-4,431**
Accumulated depreciation at end of year	75,331	**157,756**
Revaluations	1,675	**1,675**
Net book value at end of year	386,388	**480,086**

	1997 FIM (in thousands)	1998 FIM (in thousands)
Machinery and equipment		
Acquisition cost at beginning of year	312,819	**317,859**
Capital expenditures	64,667	**129,890**
Business acquisitions		**416,045**
Decreases	-63,682	**-88,477**
Translation differences	4,055	**-45,193**
Acquisition cost at end of year	317,859	**730,124**
Accumulated depreciation at the beginning of year	206,390	**198,719**
Depreciation during the year	40,637	**78,692**
Accumulated depreciation of business acquisitions		**297,417**
Accumulated depreciation of sold/disposed assets	-50,532	**-63,651**
Translation differences	2,224	**-33,354**
Accumulated depreciation at end of year	198,719	**477,823**
Net book value at end of year	119,140	**252,301**
Advance payments and assets under construction		
Acquisition cost at beginning of year	864	**864**
Capital expenditures		**2,653**
Business acquisitions		**36,241**
Decreases		**-23,028**
Translation differences		**-3,423**
Net book value at end of year	864	**13,307**
Tangible assets total		
Acquisition cost at beginning of year	585,747	**808,274**
Capital expenditures	277,105	**141,979**
Business acquisitions	7,619	**644,091**
Decreases	-66,252	**-118,138**
Translation differences	4,055	**-61,816**
Acquisition cost at end of year	808,274	**1,414,390**
Accumulated depreciation at the beginning of year	275,147	**274,050**
Depreciation during the year	48,711	**109,585**
Accumulated depreciation of business acquisitions	0	**356,095**
Accumulated depreciation of sold/disposed assets	-52,032	**-66,366**
Translation differences	2,224	**-37,785**
Accumulated depreciation at end of year	274,050	**635,579**
Revaluations	2,775	**2,775**
Net book value at end of year	536,999	**781,586**

10. Shares and holdings

	1997	1998
Investment in associated companies:		
Acquisition cost at beginning of year	23,234	**23,234**
Increases		
Business acquisitions		
Decreases		**-16,453**
Acquisition cost at end of year	23,234	**6,781**
Accumulated share in results of associated companies at beginning of year	836	**8,958**
Share of profits for the year	8,122	**662**
Share of losses for the year		
Disposals		**-11,717**
Accumulated share in results of associated companies at end of year	8,958	**-2,097**
Net book value at end of year	32,192	**4,684**

Associated companies are at December 31, 1998 as follows:

	Shareholding percentage
Abmin Technologies Oy	42.50
Neuromag Oy	26.91

	1997 FIM (in thousands)	1998 FIM (in thousands)
Investment in other shares and holdings		
Acquisition cost at beginning of year	444,878	**440,277**
Increases	408	**813**
Business acquisitions		**11,652**
Decreases	-5,009	**-145,124**
Translation differences		**-1,035**
Net book value at end of year	440,277	**306,583**
Shares and holdings total	472,469	**311,267**

Investments in other shares and holdings are carried at the lower of acquisition cost or market. The net book value of investments in non-current marketable equity securities at December 31, 1998 and December 31, 1997 was FIM 218,691 thousand and FIM 362,314 thousand, respectively. The corresponding market value was FIM 267,081 thousand at December 31, 1998 and FIM 583,005 thousand at December 31, 1997.

Included in non-current marketable equity securities in 1997 and 1998 was a investment in Orion, a publicly traded Finnish pharmaceutical company of FIM 346,529 thousand (ownership 5.2%) and FIM 216,845 thousand (ownership 2.9%), respectively. At December 31, 1997 the market value of this investment was FIM 528,238 thousand and at December 31, 1998 FIM 242,000 thousand.

On November 4, 1998, the Company sold 1,033,664 and 634,658 of Orion Corporation A and B shares, respectively, to Pohjola Life Assurance Company Ltd., Pohjola Non-Life Insurance Company Limited and Suomi Mutual Life Assurance Company. In addition, the Company and Varma-Sampo Mutual Pension Insurance Company have made an agreement according to which Varma-Sampo has committed itself to buy from the Company 2,000,000 Orion Corporation A shares by September 2000. The Company, for its part, has made a commitment to sell to Varma-Sampo 1,000,000 Orion Corporation A shares by September 2000. The share transactions will be made at market prices prevailing at the time of the transactions.

11. Inventories

	1997	1998
Raw material and supplies	87,711	**255,385**
Work in progress	52,113	**97,763**
Finished goods	335,684	**556,561**
Inventories	475,508	**909,709**

12. Interest bearing and non-interest bearing assets

FIM (in thousands)	1997 Interest bearing	1997 Non-interest bearing	1997 Total	**1998 Interest bearing**	**1998 Non-interest bearing**	**1998 Total**
Financial assets						
Loans receivable	1,772		1,772	**27,540**		**27,540**
	1,772		1,772	**27,540**		**27,540**
Short-term receivable from associated companies						
Accounts receivable		183	183			
Loans receivable		350	350		**1,249**	**1,249**
		533	533		**1,249**	**1,249**
Other short-term receivable						
Accounts receivable		588,027	588,027		**1,007,068**	**1,007,068**
Loans receivable	4,805		4,805	**3,506**		**3,506**
Prepaid expenses and accrued income		28,861	28,861		**138,898**	**138,898**
Other receivables		46,146	46,146		**72,120**	**72,120**
	4,805	663,034	667,839	**3,506**	**1,218,086**	**1,221,592**

Prepaid expenses and accrued income at December 31, are as follows:	1997 FIM (in thousands)	1998 FIM (in thousands)
Accrued interest	3,897	**2,095**
Tax receivable	5,409	**26,780**
Receivables relating to acquired and sold businesses		**95,665**
Other	19,555	**14,358**
	28,861	**138,898**

	1997 FIM (in thousands)			1998 FIM (in thousands)		
	Interest bearing	Non-interest bearing	Total	**Interest bearing**	**Non-interest bearing**	**Total**
Short-term investments						
Shares and holdings (a)		64,011	64,011		**23,883**	**23,883**
Time deposits and certificates of deposit (b)	58,644		58,644	**41,851**		**41,851**
Commercial paper and corporate notes and bonds (b)	204,885		204,885			
	263,529	64,011	327,540	**41,851**	**23,883**	**65,734**

(a) Carried at lower of acquisition cost or market.

In 1997 the company recorded an increase of FIM 8,440 thousand in certain securities by reversing write-downs recorded in previous years.

The approximate market value of the portfolio of all marketable equity securities was FIM 101,179 thousand at December 31, 1997 and FIM 19,257 thousand at December 31, 1998.

(b) Carried at cost which approximates market.

The contractual date of maturity for all time deposits and certificates of deposit at December 31, 1998 is within one year.

13. Shareholders' equity

Share capital

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

Pursuant to the Articles of Association of the Company, each A share can be converted into a B share at the request of the shareholder or, in the case of nominee-registered shares, the person registered in the book-entry register as the custodian of the assets provided that the conversion can be made within the limits of the maximum amounts of the two classes of shares as provided for in the Articles of the Association of the Company. At December 31, 1998 no A shares had been converted to B shares.

Under its Articles of Association, Instrumentarium's minimum amount of share capital is FIM 200 million and the maximum amount is FIM 800 million. The maximum number of A series shares is 80,000,000 and the maximum number of B series shares is 80,000,000, however the total number of shares is restricted to 80,000,000.

Share capital at December 31, 1998 was as follows:

Par value FIM 10 per share	Number of Shares	Aggregate Par Value FIM
A shares	15,302,451	153,024,510
B shares	8,781,920	87,819,200
	24,084,371	240,843,710

Cash dividends per share were FIM 3.37 in 1996 and FIM 4.05 in 1997.

Rights issue

The Company increased its share capital by means of an issue of 3,953,680 new B share with a nominal value of FIM 10 pursuant to shareholders' pre-emptive rights in December 1998. The share subsciption price was FIM 140 per share. The rights offering was subscribed by 99.2% and the number of B shares increased to 8,781,920 and the share capital increased to FIM 240,843,710. The Company used the net FIM 548,879,800 of the rights offering to repay the syndicated credit facility that was used to fund the acquisition of the Ohmeda businesses. The trading in the new B shares commenced on December 29, 1998.

Stock Compensation

On June 17, 1998, the Extraordinary Shareholders' Meeting approved the Company's Stock Option Plan, as previously approved by the Board of Directors, pursuant to which key personnel and members of the Board of Directors of the Company are eligible to receive stock options as a part of an incentive program. The maximum number of stock options issued were 1,300,000, of which 390,000 are marked with a letter A, 390,000 with a letter B, and 520,000 with a letter C, entitling to subscription of a total of 1,554,930 B shares. The subscription share amount has been adjusted by multiplying the amount by 1.1961 due to the December 1998 rights issue. The options are variable plan options until the exercise price has been determined.

The following table sets forth the subscription period, the method to calculate the exercise price, and options granted as of December 31, 1998.

	Options issued	Subscription period	Exercise price[1]	Options granted at December 31,1998
Letter A[2]	466,479	1.6.2001-30.6.2006	1.8.1998-31.10.1998	249,900
Letter B[3]	466,479	1.6.2002-30.6.2006	1.11.1998-31.1.1999	249,900
Letter C	621,972	1.6.2003-30.6.2006	1.2.1999-30.4.1999	333,200
Total	1,554,930			833,000

1) The share subscription price is determined by the trade volume weighted average price of the Company's B share in The Helsinki Exchanges during the equivalent period.
2) The share subscription price for Letter A stock options adjusted for the share issue was FIM 215,74 as of 31.10.1998
3) The share subscription price for Letter B stock options adjusted for the share issue was euro 32.64 (FIM 194.07) as of 31.1.1999

If a stock option holder, with the exception of a member of the Board of Directors who is not employed by or in the service of the Company on a full time basis, ceases to be employed by or in the service of the Company for any other reason than retirement or death, then such person shall without delay offer to the Company free of charge such option certificates for which the share subscription period has not commenced.

Untaxed reserves

Shareholders' equity includes accelerated depreciation and other untaxed reserves of FIM 282,505 thousand as of December 31, 1998, which are not distributable. Total distributable funds as of December 31, 1998 were FIM 1,270,391 thousand.

Untaxed reserves consist of the following at December 31:	1997 FIM (in thousands)	**1998** FIM (in thousands)
Equity share of accelerated depreciation and other untaxed reserves 1.1.	361,095	**307,677**
Change in accelerated depreciation and other untaxed reserves	-53,418	**-25,172**
Equity share of accelerated depreciation and other untaxed reserves 31.12.	307,677	**282,505**

Deferred tax liability has been recorded on accelerated depreciation and untaxed reserves.

14. Deferred tax assets and liabilities

The components of deferred tax asset and liabilities under Finnish GAAP at December 31 are as follows:

	1997 FIM (in thousands)	**1998** FIM (in thousands)
Deferred tax assets		
Internal margin of inventories	19,970	**40,978**
Differences between book and tax basis	56,953	**219,717**
Valuation allowance	-56,953	**-165,738**
Deferred tax assets	19,970	**94,957**
Deferred tax liabilities		
Accelerated depreciation and reserves	119,729	**109,894**
Differences between book and tax basis		**659**
Deferred tax liabilities	119,729	**110,553**

15. Long-term liabilities

Long-term debt at December 31, 1997 and 1998 consists of the following:	1997	**1998**
	FIM (in thousands)	FIM (in thousands)
Loans from financial institutions	5,147	**1,175,126**
Loans from pension Insurance companies	32,481	**666**
Loans from pension funds		
Voluntary plan	3,364	**14,864**
Compulsory plan	64,348	**52,848**
Other long-term liabilities (non-interest bearing)	25,676	**35,817**
	131,016	**1,279,321**
Less, current maturities	-4,328	**-68,804**
Long-term liabilities	126,688	**1,210,517**

Maturities of long-term debt as of December 31, 1998 are as follows:

year 2000	529
year 2001	39
year 2002	37
year 2003	34
year 2004	561,639
Thereafter (including amounts payable under Pension Fund loans)	648,239
	1,210,517

The Company is permitted by Finnish Law to borrow from insurance companies a portion of amounts it contributed for pensions during the year at minimum specified interest rates. The interest rate on such pension loans, which is regulated by the Finnish government, has been 5.5% since January 1, 1997. The Company is not obligated to repay the insurance loans until required by the fund to meet its liabilities or pension obligations. In 1998 the Company has transferred all its pension schemes from the company managed pension fund to external pension insurance companies and will, therefore, repay all the loans from pension funds during 1999.

Other long term liabilities at December 31, 1997 and 1998 include pension liabilities of FIM 25,676 thousand and FIM 34,117 thousand, respectively.

The long-term liabilities include a bridge facility that was used to fund the acquisition of the Ohmeda businesses. On July 3, 1998, the Company refinanced the short term bridge facility by a USD 300 million (FIM 1,529 million) syndicated credit facility provided by an international group of 13 financing institutions and bankers acceptances of USD 100 million (FIM 510 million). The term of the syndicated credit facility is seven years with repayment in five semiannual installments beginning at the end of the fifth year. The facility is a multi-currency facility but the credit presently outstanding is denominated solely in USD 230 million. The interest rate, based on LIBOR, for the USD denominated credit is 5.469%. After the fifth year, the margin on the interest rate will increase by 0.025% for the two remaining years. The commitment fee for the undrawn balances is 0.10% per annum. The terms of the credit facility contain certain debt covenants including limitations on indebtedness, liens, change of business, mergers, and disposal of assets. In December 1998 the Company repaid bankers acceptances of USD 100 million (FIM 510 million) and USD 70 milllion (FIM 357 million) portion of the syndicated credit facility.

	1997 FIM (in thousands)	**1998 FIM (in thousands)**

16. Short-term liabilities

Short-term debt, interest bearing

	1997	1998
Notes to banks	30,687	**454,828**
Overdrafts	6,185	**11,285**
Other loans	32,199	**35,663**
Current maturities of loans from pension funds		**67,774**
Current maturities of loans from financial institutions	4,328	**1,030**
Total	73,399	**570,580**

Short-term debt, non-interest bearing

	1997	1998
Associated companies		
Accounts payable	83	
Other short-term debt	5,000	
	5,083	
Other		
Accounts payable	198,015	**382,537**
Advance payments	25,841	**25,404**
Accrued liabilities	233,067	**539,576**
Other current liabilities	62,768	**84,021**
	519,691	**1,031,538**
Non-interest bearing short-term debt, total	524,774	**1,031,538**
Short-term liabilities	598,173	**1,602,118**

Accrued liabilities at December 31, consist of the following:

	1997	1998
Accrued payroll	95,514	**117,359**
Accrued interest and exchange losses	3,646	**57,159**
Accrued income taxes	33,451	**51,766**
Other post retirement benefits		**73,169**
Accrued warranty expense	7,470	**26,508**
Other	92,986	**213,615**
	233,067	**539,576**

The maximum amount of short-term debt outstanding during 1998 was FIM 2,305,788 thousand. The average amount outstanding during 1998 was FIM 946,845 thousand at a weighted average interest rate of approximately 4.80%. The weighted average interest rate at December 31, 1998 was 3.80%.

The Company and its subsidiaries maintain lines of credit and overdraft arrangements with certain banks. The unused portion aggregated to FIM 324,852 thousand at December 31, 1998.

17. Commitments and contingencies

	1997	1998
On behalf of Instrumentarium		
Pension loans		
Mortgages	14,600	**0**
Other mortgages and plegdes		
Securities pledged for commitments	44,553	**1,431**
Mortgages for bank quarantees	65,249	**70,292**
Other commitments	23,904	**27,198**
	148,306	**98,921**
On behalf associated companies		
Guarantees	13,114	
	13,114	**0**
Pension commitments		
Commitment deficit of the pension fund	3,000	**1,928**
Other pension commitments	1,461	**1,461**
	4,461	**3,389**
Commitments and contingencies total	165,881	**102,310**

At December 31, 1997 and 1998, the company was contingently liable for approximately FIM 2,901 thousand and FIM 5,094 thousand, respectively, relating to repurchase obligations.

The Company and its subsidiaries are party to routine litigation, including product litigation, incidental to the normal conduct of its business. Most of the expenses incurred in connection with such litigation are covered by insurance. Company management does not believe that liabilities related to such proceedings in the aggregate, before insurance recoveries, if any, are likely to be material to Company's or Group's financial condition or results of operations.

Datex-Ohmeda Inc. is named as a defendant in an antitrust case filed in July 1998 in the US District Court for the District of Delaware by two independent service organizations as plaintiffs. This case charges the defendant with violations of Sections 1 and 2 of the Sherman Act, including: (i) illegal tying, (ii) monopolization, and (iii) attempted monopolization by unlawfully restricting access to repair parts and linking the provision of after-sale services to the defendant's equipment sales. The plaintiffs have not sought any specific level of damages. The Sherman Act allows the recovery of treble damages for these types of actions.

The factual allegations and the cause of action in this Delaware litigation are substantially similar to those in an earlier case filed in November 1996 in the US District Court for the Eastern District of California in which Datex-Ohmeda, Inc. is named as defendant. The plaintiffs allege that the defendant refused to sell them replacement parts for their anesthesia machines, prevented their access to software documentation and restricted their ability to participate in training programs on how to service defendant's hardware. Since the alleged wrongdoing at issue occurred prior to the Ohmeda acquisition, under the purchase and sale arrangements, The BOC Group plc is liable for any loss resulting from the California litigation. The request that the two cases be consolidated in the court in California has been rejected.

Given the preliminary stage of the Delaware litigation, the Company's management and legal counsel cannot predict the timing of the Delaware litigation. Based on current information, the Company's management believes that the ultimate resolution of the Delaware litigation should not have a material adverse impact on the group's or the Company's financial position, results of operations or cash flows.

18. Leasing contracts

Minimum annual rental commitments at December 31, 1998, principally for noncancelable operating leases, were as follows:

Fiscal	FIM (in thousands)
1999	30,077
2000	28,598
2001	21,360
2002	9,793
2003	8 023
2004 and thereafter	14,271
Total minimum lease payments	112,122

19. Financial Instruments

Financial Risk Management and Derivative Financial Instruments

The Company's financial risks are managed according to a financial risk management policy set and approved by the Board of Directors of Instrumentarium Corporation. The objective of the financial risk management policy is to identify and analyze risk positions, to measure the risks and to hedge against them using appropriate and cost-effective means. The Company has market risk exposures to foreign exchange rates, interest rates and marketable equity securities, together with liquidity and credit risks.

Market Risk

The Company uses a variety of derivative financial instruments, principally foreign exchange forward contracts, foreign exchange options, interest rate swaps, interest rate futures, forward rate agreements and interest rate options. Foreign exchange and interest rate related instruments are used to reduce exposures to market risk resulting from fluctuations in foreign exchange and Interest rates by creating offsetting exposures. The Company is not a party to leveraged financial instruments.

Derivatives are designated at inception as a hedge with respect to the hedged item or group of items with similar characteristics. Derivatives are measured for effectiveness both at inception and on an ongoing basis. The foreign exchange position of the Company is managed centrally.

The Company principally uses forward exchange contracts and foreign exchange options to hedge the foreign exchange risk on certain commercial assets (accounts receivable) and liabilities (accounts payable) and a proportion of related anticipated cashflows denominated in foreign currency up to 12 months forward. The principal foreign currency to which the Company is exposed is the U.S. dollar. The Company uses loans to hedge part of its net equity investments in overseas subsidiaries.

Interest rate related contracts other than interest rate swaps are held on a fair value basis and unrealized gains and losses are recognized in net income on a current basis. Long term interest rate swaps which are expected to be held to maturity are not marked to market. Only accrued interests of these long term interest rate swaps are reported in net income on a current basis. The Company also hedges the basis risk that arises from the differences between the Government Bond Index benchmark and interest rate swaps. This hedging is done through spreadlock forward instruments.

Foreign Exchange related contracts are held on a fair value basis and unrealized gains and losses are recognized in net income on a current basis.

Unrealized gains and losses on derivatives designated as hedges, including anticipatory hedges, are measured on a monthly basis and are recognized and reported in financial income and expenses on the same basis as gains and losses on the underlying hedged item. Any premium on derivative financial instruments is deferred on other assets / liabilities until the contract matures or is terminated.

Deferral (hedge) accounting is applied only if the derivative reduces the risk of the underlying hedged item and is designated at inception as a hedge with respect to the hedged item. If a derivative financial instrument ceases to meet the criteria for hedge accounting, any subsequent gains or losses are recognized in net income on a current basis. If an anticipated transaction does not occur, the related hedge is restated at fair value and any gains or losses are recognized in net income. If a hedging instrument is sold or terminated prior to maturity, gains or losses are deferred until the hedged item is recognized in net income.

The Company does not hedge the price risk of its marketable equity securities. Instrumentarium Corporation and Varma-Sampo Mutual Pension Insurance Company have made an agreement according to which Varma-Sampo has committed itself to buy from Instrumentarium a total amount of 2,000,000 Orion Corporation A series shares by September 2000. Instrumentarium, for its part, has made a commitment to sell to Varma-Sampo 1,000,000 Orion Corporation A series shares by September 2000. The share transactions will be made at market prices prevailing at the time of the transactions. Other equity holdings are minor.

Liquidity Risk

The Company's goal is to maintain liquidity at an appropriate level in relation to its business activities at all times. The Company has unused credit lines at its disposal in addition to the liquid funds in the balance sheet.

Credit Risk

Credit risks arising from financial operations are managed by entering into contracts only with counterparties with a good credit standing. The Company sets cash and maturity limits on these approved counterparties and monitors their credit positions / ratings continuously.

Carrying Amount, Notional and Fair value

The table below shows the notional principal, fair value and credit risk amounts of the Company's foreign currency instruments and interest rate derivatives at December 31, 1998 and 1997. The notional principal amount for off-balance-sheet instruments provide one measure of the transaction volume outstanding as of year-end, and does not represent the amount of Company's exposure to credit risk or market loss. The credit risk amount in the table below represents the Company's gross exposure to potential accounting loss on these transactions if all counterparties failed to perform according to the terms of the contract. The Company's exposure to credit loss and market risk will vary over time as a function of interest rates and currency exchange rates. The estimates of fair value are based on applicable and commonly used pricing models using prevailing financial market information as of December 31, 1998 and 1997. Although the table below reflects the notional principal, fair value, and credit risk amounts of the Company's foreign exchange and interest rates instruments, it does not reflect the gains or losses associated with the exposures and transactions that the foreign exchange and interest rate instruments are intended to hedge. The amounts ultimately realized upon settlement of these financial instruments, together with the gains and losses on the underlying exposures, will depend on actual market conditions during the remaining life of the instruments.

(In thousands of FIM)	Notional Principal	Fair value	Credit risk	Carrying Amount
	Year ended 31, December 1998			
Foreign exchange instruments				
Forwards to buy	852,267	998	998	998
Forwards to sell	909,034	-12,178	-	-12,178
Forwards between EMU currencies	968,797	529	529	529
Options purchased	336,160	3,808	3,808	3,808
Options written	387,120	-3,525	-	-3,525
Options written between EMU currencies	304,000	400	400	400
Interest rate instruments				
Futures	25,480	-109	-	-109
Forwards	588,333	-3,185	-	-3,185
IR Swaps	1,260,560	-82,889	-	-35,977
Options purchased	-	-	-	-
Options written	254,800	-13	-	-13

(In thousands of FIM)	Notional Principal	Fair value	Credit risk	Carrying Amount
	Year ended 31, December 1997			
Foreign exchange instruments				
Forwards to buy	202,176	1,869	1,869	1,869
Forwards to sell	399,271	-3,904	-	-3,904
Options purchased	644,874	-2,705	-	-2,705
Options written	821,918	-325	-	-325
Interest rate instruments				
Futures	-	-	-	-
Forwards	204	14	14	14
IR Swaps	-	-	-	-
Options purchased	-	-	-	-
Options written	-	-	-	-

Fair value of other financial instruments
The carrying amounts reflected in the consolidated balance sheets for short term financial instruments approximate fair value.

Shares and holdings in associated companies are unquoted securities. The estimated fair value is the same as book value as of December 31, 1997 and 1998.

The fair value of Company's long-term loans (both receivables and payables) is estimated based on quoted market prices for the same or similar issues or on current rates offered to the Company for loans of the same remaining maturities. The fair value of long term liabilities, long-term receivables and loans receivable and payable is not significantly different from their carrying value.

20. Personnel expenses and number of personnel

Personnel expenses

	1996 FIM (in thousands)	1997 FIM (in thousands)	**1998 FIM (in thousands)**
Salaries, bonuses and fees of the members of the Supervisory board. Board of Directors and Presidents	12,633	13,499	**19,209**
Other wages and salaries	448,170	521,435	**894,245**
Pension expenses	34,706	54,985	**34,136**
Other personnel expenses	71,377	78,902	**134,579**
Personnel expenses total	566,886	668,821	**1,082,169**

Number of personnel	1996	1997	**1998**
Personnel, average	2,633	2,753	**4,513**
Personnel, at year end	2,628	2,902	**5,131**

Pension arrangements for management

The members of Board of Directors of Instrumentarium Corporation may retire at the age of 60. The retirement age of the managing directors of the group companies is detemined according to local standards.

21. Segment and geographical information

A breakdown of the group by business segment is as follows:

	1996 FIM (in thousands)	1997 FIM (in thousands)	**1998** FIM (in thousands)
Net sales			
Anesthesia and critical care equipment	918,295	1,079,173	**2,330,542**
Medical equipment and supplies	446,352	498,890	**788,624**
Optical retail	459,852	481,412	**519,656**
Other	7,519	31,843	**2,378**
Discontinued operations	481,755	589,709	**249,523**
Net sales	2,313,773	2,681,027	**3,890,723**
Operating profit			
Anesthesia and critical care equipment	121,744	179,050	**51,225**
Medical equipment and supplies	6,726	36,965	**67,103**
Optical retail	67,424	69,851	**75,215**
Other	1,761	-851	**2,670**
Discontinued operations	26,897	29,954	**2,770**
Operating profit from businesses before amortization of goodwill on consolidation	224,552	314,969	**198,983**
Amortization of goodwill on consolidation*	-22,376	-21,848	**-84,106**
Operating profit from businesses	202,176	293,121	**114,877**
General corporate expenses and other nonrecurring items	29,807	20,865	**136,313**
Operating profit	231,983	313,986	**251,190**

* Includes amortization of goodwill on consolidation for Anesthesia and critical care equipment segment FIM 11,334 thousand, FIM 11,285 thousand and FIM 67,011 thousand for the years ending December 31, 1996, 1997 and 1998, respectively.

	1996	1997	**1998**
Identifiable assets			
Anesthesia and critical care equipment		855,745	**2,382,101**
Medical equipment and supplies		349,142	**394,145**
Optical retail		161,179	**166,354**
Other		1,158,151	**822,194**
Discontinued operations		166,469	**16,337**
Identifiable assets		2,690,686	**3,781,131**
Goodwill on consolidation		81,582	**1,723,583**
Identifiable assets		2,772,268	**5,504,714**
Average number of personnel			
Anesthesia and critical care equipment	1,088	1,175	**2,874**
Medical equipment and supplies	548	553	**696**
Optical retail	669	694	**735**
Other	69	75	**78**
Discontinued operations	259	256	**130**
Average number of personnel	2,633	2,753	**4,513**
Net sales by destination			
Finland	985,681	1,110,304	**847,123**
Rest of EU	659,899	719,055	**1,110,445**
Rest of Europe	202,147	243,768	**304,447**
North America	301,482	370,708	**1,217,345**
Rest of the world	164,564	237,192	**411,363**
Net sales	2,313,773	2,681,027	**3,890,723**

22. Principal subsidiaries

Instrumentarium's principal subsidiaries at December 31, 1998 are as follows:

	Country	Shareholding percentage
Anesthesia and critical care equipment		
Datex-Ohmeda, Inc.	United States	100
Datex-Ohmeda (Canada) Inc.	Canada	100
Datex-Ohmeda AB	Sweden	100
Datex-Ohmeda GmbH	Germany	100
Datex-Ohmeda B.V.	Netherlands	100
Datex-Ohmeda Ltd.	UK	100
Datex-Ohmeda S.A.S	France	100
Datex-Ohmeda S.L.	Spain	100
Datex-Ohmeda S.p.A.	Italy	100
Instrumentarium Pty Ltd	Australia	100
Instrumentarium Pte Ltd	Singapore	100
Datex-Ohmeda K.K.	Japan	100
Datex-Ohmeda (India) Pvt Ltd.	India	100
Instru Holdings, Inc.	United States	100
Medical equipment and supplies		
Instrumentarium Imaging Inc.	United States	100
Instrumentarium Imaging France S.A.R.L.	France	100
Instrumentarium Imaging Italia s.r.l	Italy	100
Instrumentarium Imaging Dental GmbH	Germany	51
Merivaara AB	Sweden	100
Merivaara Norge AS	Norway	100
Merivaara France S.A.R.L.	France	100
Medko Medical Oy	Finland	100
L-Dental Products Lumme Oy	Finland	91.54
Optical retail		
AB Ögat	Sweden	100
Instrumentarium AB	Sweden	100

Parent Company Statements of Income

	1997 FIM (in thousands)	**1998** FIM (in thousands)	1998 EUR (in thousands)
Net sales	1,612,274	**1,741,762**	292,943
Cost of goods sold	-753,903	**-831,315**	-139,817
Gross profit	858,371	**910,447**	153,126
Selling, marketing and administrative expenses	-565,367	**-679,983**	-114,365
Other income and expenses, net	27,180	**135,617**	22,809
Operating profit	320,184	**366,081**	61,570
Interests and other financial income and expenses, net	-27,256	**-147,049**	-24,732
Income before extraordinary items	292,928	**219,031**	36,838
Extraordinary income and expenses, net	43,786	**722**	121
Income before income taxes	336,714	**219,753**	36,960
Change in accelerated depreciation and untaxed reserves	50,503	**23,133**	3,891
Income taxes	-107,870	**-69,560**	-11,699
Net income	279,347	**173,326**	29,151

Parent Company Balance Sheet

	1997 FIM (in thousands)	**1998** FIM (in thousands)	1998 EUR (in thousands)
ASSETS			
Fixed assets and other long-term investment			
Intangible assets	76,211	**70,229**	11,812
Tangible assets	286,540	**295,757**	49,743
Shares in subsidiaries	744,752	**1,608,159**	270,473
Other shares and holdings	99,943	**66,904**	11,252
Loans receivable	1,313		
	1,208,759	**2,041,049**	343,280
Current assets			
Inventories	239,115	**278,317**	46,810
Short-term receivables	644,596	**2,570,587**	432,342
Short-term investments	263,528	**41,851**	7,039
Cash and cash equivalents	51,470	**42,252**	7,106
	1,198,710	**2,933,006**	493,296
Total assets	2,407,469	**4,974,055**	836,576

	1997 FIM (in thousands)	**1998** FIM (in thousands)	1998 EUR (in thousands)
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity			
Share capital	201,638	**240,844**	40,507
Share premium account	194,538	**704,212**	118,440
Retained earnings	1,035,939	**1,230,448**	206,946
Net income	279,347	**173,326**	29,151
	1,711,461	**2,348,829**	395,045
Accelerated depreciation	260,685	**237,553**	39,954
Liabilities			
Long-term liabilities	69,607	**1,174,096**	197,469
Short-term liabilities	365,715	**1,213,578**	204,109
	435,322	**2,387,674**	401,578
Shareholders' equity and liabilities	2,407,469	**4,974,055**	836,576

Parent Company Statement of Changes in Shareholders' Equity

(FIM thousand)	Share capital (Par value FIM 10 per share)	Share premium account	Retained earnings	Total
Balance at December 31, 1996	201,638	194,538	945,229	1,341,405
Dividend paid			-70,573	-70,573
Contribution			-150	-150
Purchase price of the subsidiary shares covered by investment reserves			157,047	157,047
Merger income			4,386	4,386
Net income			279,347	279,347
Balance at December 31, 1997	201,638	194,538	1,315,285	1,711,461
Share issue on December 28, 1998	39,206			39,206
Share issue premium		509,674		509,674
Dividend paid			-84,688	-84,688
Contribution			-150	-150
Net income			173,326	173,326
Balance at December 31, 1998	**240,844**	**704,212**	**1,403,773**	**2,348,829**

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 1998. 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 23, February 1999

Göran Grén
Authorized Public Accountant

Heikki Lassila
Authorized Public Accountant

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, 1997 and 1998.

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)	1.1.-31.12.1997	**1.1.-31.12.1998**
Net income as reported in the Consolidated Statements of Income, in accordance with Finnish GAAP	246,112	**93,814**
Increase or (decrease) for:		
(a) Pension income	19,651	**24,764**
(c) Property and equipment, net	-4,860	**4,012**
(d) Deferred income taxes	46	**4,543**
(f) Non-current marketable securities	620	**621**
(b)(f) Write-up of marketable securities	-8,440	**-10,829**
(g) Exchange of non-current assets	-	**9,343**
(i) Restructuring accrual	-	**10,079**
(j) Purchase accounting	-	**-110,146**
Net income in accordance with U.S. GAAP	253,129	**26,201**

Presentation of net income in accordance with U.S. GAAP for the years ended December 31 (FIM 1,000, except per share data):

Income from continuing operations	241,507	**5,875**
(k) Discontinued operations:		
Income (loss) from discontinued operations, net of taxes of 6,104 and -1,101, respectively	11,622	**-1,503**
Gain on disposals, net of taxes of 13,295	-	**21,829**
Net income in accordance with U.S. GAAP	253,129	**26,201**
(e) Basic and diluted earnings per share:		
Continuing operations	11.42	**0.28**
Discontinued operations	0.55	**0.95**
Total basic and diluted earnings per share	11.97	**1.23**
(e) Basic and diluted earnings per ADS: (1 share = 2 ADS)		
Continuing operations	5.71	**0.14**
Discontinued operations	0.27	**0.48**
Total basic and diluted earnings per ADS	5.98	**0.62**

Earnings per share is based on net income divided by the weighted average number of shares outstanding during each period adjusted for the rights issue that occurred in 1998. The weighted average number of shares used in calculating basic and diluted earnings per share at December 31, 1997 was 21,144 thousands. The weighted average number of shares used in calculating basic and diluted earnings per share at December 31, 1998 were 21,305 and 21,324 thousands, respectively.

	31.12.1997	**31.12.1998**
Shareholders' equity as reported in the Consolidated Balance Sheets (FIM 1,000):	1,910,622	**2,516,462**
Increase (decrease) for:		
(a) Pension expense	145,013	**169,777**
(b) Short-term marketable securities	38,111	**2,650**
(c) Property and equipment, net	-98,547	**-94,535**
(d) Deferred income taxes	-117,583	**-57,899**
(f) Non-current marketable equity securities	219,449	**47,769**
(g)Exchange of non-current assets	-9,343	**-**
(i) Restructuring accrual	-	**10,079**
(j) Purchase accounting	-	**-110,146**
Shareholders' equity in accordance with U.S. GAAP	2,087,722	**2,484,157**

(a) Pension expense

The Company generally records pension expense in accordance with local accounting practices in the countries in which employees are provided with such benefits. Accordingly, the determination of pension expense for defined benefit plans in accordance with Finnish GAAP differs from the methodology set forth in SFAS No. 87, "Employers' Accounting for Pensions."

Under U.S. GAAP, pension expense is recorded on a full accrual basis and reflected in the income statements over the working lives of employees provided with such benefits. The economic and demographic assumptions used in calculating pension expense are required to be reviewed and updated periodically to the extent that local market economic conditions and demographic change. Under U.S. GAAP, the Company has estimated the effect on net income and shareholders' equity assuming the adoption of SFAS No. 87 as of January 1, 1989.

(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 determining income and reported as a separate component of shareholders' equity, net of tax.

(c) Property and equipment, net

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, as appropriate.

(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 is not based on net income, but rather on a calculation specified by the Financial Accounting Board of the Finnish Ministry of Trade and Finance. U.S. GAAP requires that net income be utilized in the computation of earnings per share.

(f) Non-current marketable securities

In 1990, the Company recorded FIM 34,500 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 for Finnish accounting purposes of the goodwill of FIM 24,693 as a reduction of the cost of non-current marketable securities. The difference of FIM 4,341 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.

(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 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. In 1998, the Company sold its 40 % interest in Hackman Metos Ltd. and, accordingly, the deferred gain has been recognized.

(i) Restructuring accrual

Under Finnish GAAP, the Company recorded restructuring expenses, not all of which had been incurred, related to the acquisition of the Ohmeda businesses. Under U.S. GAAP, only the items that meet certain criteria and that have been incurred are allowed to be expensed.

(j) Purchase accounting

Under both Finnish GAAP and U.S. GAAP, the cost of a company acquired in a purchase business combination includes the direct costs of acquisition and the excess of the cost of the acquired company over the sum of the amounts assigned to identifiable assets, based upon an appraisal of the fair value of the assets, acquired less liabilities assumed should be recorded as goodwill. However, the concept of "fair value" in assigning amounts to assets acquired and liabilities assumed is less comprehensive under Finnish GAAP.

(k) Discontinued operations

Instrumentarium developed a formal plan of disposition in January 1998. In accordance with Finnish GAAP, the operating losses, the gains on disposal, and expenses incurred in disposing of a line of business were recorded in determining the net income. Under U.S. GAAP, when certain criteria in APB 30, "Reporting the Results of Operations - Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions," are fulfilled, the income from continuing and discontinued operations shall be presented separately and all prior period information need to be restated to reflect the presentation.

Five Years in Review

		1994	1995	1996	1997	1998
Income statement						
Net sales	MFIM	1,974.0	2,083.5	2,313.8	2,681.0	3,890.7
Change from the previous year	%	-0.4	5.5	11.1	15.9	45.1
Foreign sales	MFIM	1,060.1	1,217.1	1,328.1	1,570.7	3,045.3
Share of net sales	%	53.7	58.4	57.4	58.6	78.3
Planned depreciation	MFIM	73.3	84.3	90.0	96.1	233.4
Operating profit	MFIM	235.1	186.1	232.0	314.0	251.2
Share of net sales	%	11.9	8.9	10.0	11.7	6.5
Financing income and expenses	MFIM	-1.3	39.1	41.3	26.8	-70.1
Income before extraordinary items	MFIM	233.7	225.2	273.3	340.8	181.0
Share of net sales	%	11.8	10.8	11.8	12.7	4.7
Extraordinary items	MFIM	39.0	-7.7	135.7	0,0	0,0
Income before taxes	MFIM	272.7	217.5	349.6	340.8	181.0
Share of net sales	%	13.8	10.4	15.1	12.7	4.7
Taxes	MFIM	76.3	78.7	132.4	94.7	86.8
Income before extraordinary items, after taxes	MFIM	157.4	146.5	200.4	246.0	94.2
Share of net sales	%	8.0	7.0	8.7	9.2	2.4
Capital expenditure	MFIM	195.3	94.8	69.3	332.0	2,341.0
Share of net sales	%	9.9	4.6	3.0	12.4	60.2
Research and development expenses	MFIM	96.2	113.4	115.9	127.1	237.9
Share of net sales	%	4.9	5.4	5.0	4.7	6.1
Dividends	MFIM	56.4	56.4	70.6	84.7	84.3 [1]
Balance sheet						
Liabilities	MFIM	966.1	839.3	711.5	824.6	2,985.3
Short-term liabilities	MFIM	369.4	515.7	443.3	598.2	1,602.1
Long-term liabilities	MFIM	596.7	323.7	268.2	226.4	1,383.2
Shareholders' equity	MFIM	1,428.2	1,507.6	1,732.3	1,910.6	2,516.5
Total assets	MFIM	2,409.2	2,360.9	2,459.7	2,772.3	5,504.7
Key indicators						
Return on investment (ROI)	%	15.5	13.9	15.6	17.7	10.2
Return on equity (ROE)	%	11.5	9.9	12.3	13.4	4.2
Equity ratio	%	61.8	65.1	71.7	70.2	46.0
Gearing	%	-6.5	-7.8	-14.8	-9.9	62.9
Quick ratio		2.01	2.18	2.51	1.87	0.96
Current ratio		2.53	2.91	3.38	2.66	1.51
Average number of employees		2,351	2,559	2,633	2,753	4,513
Share capital and shares on Dec. 31						
Share capital	MFIM	201.5	201.5	201.6	201.6	240.8
Market capitalization	MFIM	2,010.2	2,272.1	3,400.5	3,831.1	5,016.5
Number of shares, x 1,000		20,150	20,150	20,164	20,164	24,084
A shares		15,302	15,302	15,302	15,302	15,302
B shares		4,848	4,848	4,861	4,861	8,782
Adjusted average number of shares, x 1,000		20,905	20,905	20,915	20,921	21,060
Per share data						
Earnings per share	FIM	8.02	7.87	9.52	11.76	4.45
Earnings per share (including diluting effect of stock options)	FIM	8.02	7.87	9.52	11.76	4.38
Earnings per share, U.S. GAAP	FIM	8.93	6.58	7.72	11.97	1.23
Shareholders' equity per share	FIM	68.32	72.12	82.80	91.33	104.49
Payout ratio	%	33.7	34.3	35.4	34.4	78.6 [1]
Dividend per share	FIM	2.70	2.70	3.37	4.05	3.50 [1]
P/E ratio						
A share		12.0	13.8	17.1	15.6	47.5
B share		11.9	13.7	17.1	15.6	47.7
Dividend yield						
A share	%	2.8	2.5	2.1	2.2	1.7 [1]
B share	%	2.8	2.5	2.1	2.2	1.7 [1]
Number of shareholders		11,917	11,383	10,178	9,501	9,457

[1] Proposed by the Board of Directors.

Calculation Principles of Financial Ratios

Return on investment (ROI) %

$$= \frac{\text{Income before extraordinary items} \atop \text{+ interest and other financing expences less exchange rate losses}}{\text{Balance sheet total, less interest-free debt (annual average)}} \times 100$$

Return on equity (ROE) %

$$= \frac{\text{Income before extraordinary items} \atop \text{- less direct taxes corrected by tax effect of extraordinary items}}{\text{Shareholders' equity + voluntary reserves less deferred taxes} \atop \text{+ minority interest (annual average)}} \times 100$$

Equity ratio %

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

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

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

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

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

P/E ratio

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

Dividend yield %

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

Statement by the Supervisory Board

The Supervisory Board of Instrumentarium Corporation has examined the Parent Company and Consolidated Financial Statements for 1998, 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.

Erkki Etola, Eero Ikkala, Eero Karvonen, Tapani Tammisto, Iiro Viinanen and Seppo Ylppö are due to retire from the Supervisory Board.

Helsinki, 23 February 1999

Turo K. J. Tukiainen	Jouko Brade	Erkki Etola
Eero Ikkala	Eero Karvonen	Tero Kivelä
Paavo Pitkänen	Kari Raivio	Seppo Salonen
Tapani Tammisto	Iiro Viinanen	

Administration and Auditors

SUPERVISORY BOARD

Elected for the period

Gustav von Hertzen 1997 - 99
M.Sc. (Tech.), Chairman [1]
Owns 4,300 Instrumentarium shares.

Turo K. J. Tukiainen 1998 - 2000
LL.B., MBA, Deputy Chairman
Owns 60,002 Instrumentarium shares.

Jouko Brade 1998 - 2000
MBA
Owns 5,000 Instrumentarium shares.

Erkki Etola 1996 - 98
M.Sc. (Tech.)
Owns 3,240 Instrumentarium shares.

Eero Ikkala 1996 - 98
Professor, M.D., Ph. D.
Owns 1,850 Instrumentarium shares.

Eero Karvonen 1996 - 98
M.Sc. (Tech.)
Owns 3,628 Instrumentarium shares.

Tero Kivelä 1997 - 99
Senior Lecturer, M.D., Ph. D.
Owns 25 Instrumentarium shares.

Martti Kormano 1998 - 2000
Professor, M.D., Ph. D.
Owns 110 Instrumentarium shares.

Paavo Pitkänen 1997 - 99
M.Sc. (Math.)
Does not own Instrumentarium shares.

Kari Raivio 1997 - 99
Professor, M.D., Ph. D.
Does not own Instrumentarium shares.

Seppo Salonen 1997 - 99
lLic. Sc. (Med.)
Does not own Instrumentarium shares.

Arto Sivula 1998 - 2000
Professor, M.D., Ph. D.
Owns 1,473 Instrumentarium shares.

Tapani Tammisto 1996 - 98
Professor, M.D., Ph. D.
Does not own Instrumentarium shares.

Iiro Viinanen 1998
M.Sc. (Tech.)
Does not own Instrumentarium shares.

Seppo Ylppö 1997 - 98
BBA
Does not own Instrumentarium shares.

[1] On November 16, 1998 Mr. von Hertzen notified the Company that he would cease to act as a member of the Supervisory Board of which he is Chairman until the conclusion of a prosecution against him for allegedly using insider information in connection with the purchase of 2,000 shares of the Company on October 7, 1997. Mr. von Hertzen has informed the Company that he denies guilt as at the time he purchased such shares he had no unpublished information affecting the value of the shares of the Company.

BOARD OF DIRECTORS

Elected for the period

Gerhard Wendt 1998 - 2000
Born 1934, Ph. D., Chairman.
Does not own Instrumentarium shares.

Olli Riikkala
Born 1951, M.Sc. (Tech.), MBA, 1999
President and CEO.
Joined Instrumentarium in 1979.
Owns 3,700 Instrumentarium shares.

Matti Salmivuori
Born 1950, M.Sc. (Econ.), 1999
Chief Financial Officer.
Joined Instrumentarium in 1973.
Owns 2,200 Instrumentarium shares.

Juhani Kuusi
Born 1938, Professor, D.Sc. (Tech.) 1999
Does not own Instrumentarium shares.

Mikael Lilius
Born 1949, B.Sc. (Econ.) 1999
Does not own Instrumentarium shares.

AUDITORS

Göran Grén B.Sc. (Econ.), Authorized Public Accountant
Heikki Lassila M.Sc. (Econ.), Authorized Public Accountant

Deputies:
Audit Firm SVH Pricewaterhouse Coopers Oy

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

Glossary

Accessories
Single-use or reusable specific devices intended for use with patient monitors and anesthesia machines, e.g. pulse oximetry probes, ECG and EEG electrodes, gas sampling and return tubes, and water traps.

Anesthesia
Loss of sensation (numbness), reversibly caused by anesthetic drugs.

Anesthesia machine (Anesthesia delivery unit)
A combination of modules (gas mixer, vaporizer, positive pressure generator, overflow and scavenging system) for the delivery of determined gas concentrations and volumes to a patient during general anesthesia.

Anesthesia monitor
A patient monitor used during anesthesia.

Anesthetic agent
An anesthetic gas used to induce and maintain anesthesia.

Armoire
A cabinet designed for treating babies.

Bassinet
A hospital bed designed for babies.

Biopsy
The surgical removal of tissue from the living body, for examination performed to establish a precise diagnosis.

Breathing
The alternate inspiration and expiration of air (gas mixtures) into and out of the lungs, see *respiration* and *ventilation.*

Cardiac monitor
A patient monitor used specifically to measure hemodynamic parameters related to the function of the heart.

Ceiling hoist
A hoist attached to the ceiling of a room for lifting purposes.

Circulation
Regular movement of blood in a circuitous course through the heart, blood vessels and organs to transport oxygen, nutrients and metabolic products.

Clinical information system
A computerized information system used to collate, process, print and archive clinical data.

Critical care
The area and processes in a hospital used to treat a patient whose life is at immediate risk.

Critical care monitor
A patient monitor used to measure and display vital signs specific to critical or intensive care.

Diagnostic imaging
Radiological imaging for clinical diagnostic purposes.

Diathermy device
A device for heating internal parts of the body by electric currents, e.g. to stop bleeding or to cut through tissues.

Diffusion
Spontaneous movement of gas from a point of higher pressure to that of lower pressure.

Hemodynamic monitor
A patient monitor used to measure parameters related to the circulation of the blood.

Hypertension
Abnormally high blood pressure.

General anesthesia
A state of unconsciousness, produced by *anesthetic agents* and/or *intravenous drugs* with absence of pain sensation in the whole body and a degree of muscular relaxation.

ICU
Intensive Care Unit.

Infant incubator
An apparatus for maintaining prematurely born babies in an environment of proper temperature and humidity.

Intensive care
See *critical care.*

Intensive care unit
A hospital unit for treating critically ill patients, see *critical care.*

Interventional procedure
Any measure whose purpose is to improve health or to alter the course of a disease.

Intraoperative
Pertaining to the period during the operation.

Intravenous
Pertaining to the inside of a vein.

Intravenous (i.v.) anesthetic drugs
Intravenously administered hypnotic, analgetic or neuromuscular blocking drugs used to produce or maintain components of *general anesthesia.*

Mammography
Diagnostic method for imaging the breast.

Mechanical ventilation
Ventilation of patients unable to breathe by themselves, e.g. during general anesthesia.

Metabolic monitoring
Measurement of a patient's metabolic functions, particularly oxygen consumption and CO2 production and the calculation of energy expenditure.

Metabolism
All chemical and energy transformations that occur in the body.

Nitric oxide inhaler
Device used in the treatment of *pulmonary hypertension* due to *pulmonary vasoconstriction*.

Non-invasive
A medical procedure which does not require puncture or incision of the skin or insertion of an instrument or foreign material into the body.

Operating room
A hospital room where surgical operations are performed.

Oximetry
The measurement of oxygen saturation of the blood.

Oxygenation
To add oxygen.

Panoramic
A wide view.

Patient monitor
A device used to measure and display a patient's vital signs.

Perioperative
The time period of a surgical operation. In a wider context the period of time including the preoperative, intraoperative and postoperative phases.

Phototherapy
The treatment of a disease by light.

Postoperative
The time after a surgical operation.

Preoperative
The time period preceding a surgical operation.

Pulmonary
Pertaining to the lungs.

Pulse oximeter
A *non-invasive* device used to measure oxygen saturation of pulsating capillary blood.

Radiology
The branch of the health sciences dealing with diagnosis and treatment of disease by means of imaging with both ionizing (e.g. X-rays) and non-ionizing (e.g. ultrasound) radiation.

Recovery room
A hospital room where patients are monitored during recovery from anesthesia after a surgical operation.

Respiration
The exchange of oxygen and carbon dioxide between the atmosphere and the cells of the body. The process includes ventilation (inspiration and expiration), *diffusion* between the lungs and the blood and diffusion between the blood and the cells and within the cells (metabolic gas exchange).

Respiratory monitor
A device used to monitor a patient's respiratory functions, e.g. respiration rate, volume and flow.

Standalone monitor
A patient monitor, either bedside or portable, which can be used without connection to other monitors or monitoring systems.

Stereotactic biopsy
Biopsy guided by imaging from two or more directions.

Subacute
Patient care other than critical care.

Supplies
Generic disposable and reusable items used with patient monitors and anesthesia machines, e.g. airway filters and humidifiers and breathing tubes.

System connectivity
The ability of computerized hospital systems to exchange data in a compatible format.

Teleradiology
Remote interpretation of diagnostic images using data connections.

Tomography
A diagnostic imaging technique used to obtain serial images of the body; the images appear as sequential slices.

Vaporizer
The component in an *anesthesia machine* that vaporizes a set concentration of an anesthetic agent into the fresh gas.

Vasoconstriction
The constriction of a blood vessel.

Ventilation
The process of exchange of air (gas mixtures) between the lungs and the ambient air (patient circuit).

Ventilation monitoring
Measurement and display of parameters related to ventilation, specifically carbon dioxide in the lungs and inhalational anesthetic agents.

Ventilator
An adjustable positive pressure generator, used during *anesthesia or critical care* that maintains *ventilation* during respiratory depression.

Vital signs
The signs of life, such as consciousness, heart rate, blood pressure, pulse, respiratory rate, peripheral temperature, limb movements and skin color.

Addresses

INSTRUMENTARIUM

Instrumentarium Corporation
Kuortaneenkatu 2, Helsinki
P.O. Box 100
FIN-00031 INSTRUMENTARIUM
Tel. +358 9 394 11
Fax +358 9 146 4172

President and CEO
Olli Riikkala
olli.riikkala@instrumentarium.fi
Fax +358 9 394 1505

Divisions: Optical Retail, Merivaara, Instrumentarium Imaging and Instrumed
Seppo Oksanen
seppo.oksanen@instrumentarium.fi
Fax +358 9 394 1505

Project Sales and Trade Financing
Peter Tchernych
peter.tchernych@datex-ohmeda.com
Fax +358 9 394 1367

Group Administration
Matti Salmivuori
matti.salmivuori@instrumentarium.fi
Fax +358 9 146 4172

Finance and Investor Relations
Juhani Lassila
juhani.lassila@instrumentarium.fi
Sean Donovan
sean.donovan@datex-ohmeda.com
Fax +358 9 146 4172

Personnel (Finland)
Leo Johansson
leo.johansson@instrumentarium.fi
Fax +358 9 146 3885

Real Estate (Finland)
Aarne Reponen
aarne.reponen@instrumentarium.fi
Fax +358 9 394 1527

ANESTHESIA AND CRITICAL CARE EQUIPMENT

Datex-Ohmeda Division
Chairman Olli Riikkala

Nordic Business Units and Global Marketing
Hannu Ahjopalo
Datex-Ohmeda, Finland
Instrumentarium Corp.
Kuortaneenkatu 2, Helsinki
P.O. Box 900
FIN-00031 DATEX-OHMEDA
Tel. +358 9 394 11
Fax +358 9 146 3515
hannu.ahjopalo@datex-ohmeda.com

Datex-Ohmeda, Finland
Instrumentarium Corp.
Teollisuuskatu 27, Helsinki
P.O.Box 900
FIN-00031 DATEX-OHMEDA
Tel. +358 9 394 11
Fax +358 9 272 6532
Mona Grönstrand
mona.gronstrand@datex-ohmeda.com

Datex-Ohmeda AB
Karlsbodavägen 18
Box 20109
S-161 02 BROMMA Sweden
Tel. +46 8 629 3100
Fax +46 8 298 418
Jan-Erik Backström
jan-erik.backstrom@se.datex-ohmeda.com

European Sales Companies
Sami Erviö (Datex-Ohmeda Ltd)
sami.ervio@uk.datex-ohmeda.com
Fax +44 1707 259 633

Datex-Ohmeda Ltd
71 Great North Road, Hatfield
HERTS AL9 5EN United Kingdom
Tel. +44 1707 263 570
Fax +44 1707 260 065
Leslie Smith
leslie.smith@uk.datex-ohmeda.com

Datex-Ohmeda B.V.
Kantemarsweg 18
3871 AP HOEVELAKEN
P.O.Box 22
3870 CA HOEVELAKEN
The Netherlands
Tel. +31 33 253 5404
Fax +31 33 253 7223
Wim Huisman
wim.huisman@datex-ohmeda.com

Datex-Ohmeda S.A.S.
Parc de Pissaloup BP 10
8 avenue Jean d'Alembert
F-78191 TRAPPES CEDEX France
Tel. +33 1 30 68 60 00
Fax +33 1 30 68 60 01
Gunter Kopf
gunter.kopf@fr.datex-ohmeda.com

Datex-Ohmeda S.A.S.
17, rue de Jean-Elysée Dupuy
F-69410 CHAMPAGNE AU MONT D'OR France
Tel. +33 478 666 210
Fax +33 478 432 658
Gunter Kopf
gunter.kopf@fr.datex-ohmeda.com

Datex-Ohmeda GmbH
David-Ricardo Strasse 14
D-28832 ACHIM-UPHUSEN Germany
Tel. +49 421 486 40
Fax +49 421 486 4236
Wim Huisman
wim.huisman@datex-ohmeda.com

Datex-Ohmeda S.p.A.
Via Cassanese, 100
20090 SEGRATE (MI) Italy
Tel. +39 02 216 931
Fax +39 02 269 262 26
Filip Heilpern
filip.heilpern@it.datex-ohmeda.com

Datex Ohmeda S.L.
Calle Manuel Tovar, 26
28034 MADRID Spain
Tel. +34 91 334 26 00
Fax +34 91 358 12 84
Antonio Pérez Martinez
antonio.perez@es.datex-ohmeda.com

Distributor Sales (excl. Asia-Pacific) and India
Chris Clough
Datex-Ohmeda Ltd
71 Great North Road, Hatfield
HERTS AL9 5EN United Kingdom
Tel. +44 1707 263 570
Fax +44 1707 259 633
chris.clough@uk.datex-ohmeda.com

Datex-Ohmeda (India) Pvt Ltd
P43 Taratala Road
700088 CALCUTTA India
Tel. +91 33 478 4401, 478 4342
Fax +91 33 478 4401
Ranajit Bandyopadhyay
ranajit.bandyopadhyay@boci.wiprobt.ems.vsnl.net.in

North American Business Units and Sales Companies
Richard Atkin (Datex-Ohmeda Inc.)

Datex-Ohmeda Inc.
Three Highwood Drive
TEWKSBURY, MA 01876 USA
Tel. +1 978 640 0460
Fax +1 978 640 0469
Richard Atkin
richard.atkin@us.datex-ohmeda.com

Datex-Ohmeda Inc.
1315 West Century Drive
LOUISVILLE, CO 80027 USA
Tel. +1 303 666 7001
Fax +1 303 665 9175
Derek Smith
derek.smith@us.datex-ohmeda.com

Datex-Ohmeda Inc.
3030 Ohmeda Drive
P.O. Box 7550
MADISON, WI 53707-7550 USA
Tel. +1 608 221 1551
Fax +1 608 223 2475
Lori Cross
lori.cross@us.datex-ohmeda.com

Datex-Ohmeda (Canada) Inc.
1093 Meyerside Drive, Unit 2
MISSISAUGA,
ONTARIO L5T 1J6 Canada
Tel. +1 905 565 8572
Fax +1 905 565 8592
Temi Pangilinan
temi.pangilinan@ca.datex-ohmeda.com

Asia-Pacific Distributors and Sales Companies
Arto Kontturi
Datex-Ohmeda, Finland
Instrumentarium Corp.
Teollisuuskatu 29, Helsinki
P.O.Box 900
FIN-00031 DATEX-OHMEDA
Tel. +358 9 394 11
Fax +358 9 278 7725
arto.kontturi@datex-ohmeda.com

Datex-Ohmeda K.K.
TRC Annex 9F
6-1-1 Heiwajima, Ohta-ku
143-0006 TOKYO Japan
Tel. +81 3 576 368 30
Fax +81 3 576 368 38
Kiyo Kanai
kiyokazu.kanai@jp.datex-ohmeda.com

Datex-Ohmeda Pte Ltd
152 Beach Road
#12-05/07 Gateway East
189721 SINGAPORE
Tel. +65 391 8618
Fax +65 291 6618
Nicholas Ong
nicholas.ong@sg.datex-ohmeda.com

Datex-Ohmeda Pty Ltd
Units 1 & 2, 149 Arthur Street
Locked Bag 356
Homebush, NSW 2140 Australia
Tel. +61 2 9735 7222
Fax +61 2 9764 2354
Hannu Syrjälä
hannu.syrjala@au.datex-ohmeda.com

MEDICAL EQUIPMENT AND SUPPLIES

Diagnostic Imaging and Dental Products Division
Kuortaneenkatu 2, Helsinki
P.O.Box 100
FIN-00031 INSTRUMENTARIUM
Tel. +358 9 394 11
Fax +358 9 146 3515
Folke Lindberg
folke.lindberg@datex-ohmeda.com

Instrumentarium Imaging
Nahkelantie 160
04300 TUUSULA
P.O.Box 20
FIN-04301 TUUSULA
Tel. +358 9 258 851
Fax +358 9 275 7276
Markku Wederhorn
markku.wederhorn@imaging.imtg.fi

Instrumentarium Imaging, Inc.
300, W. Edgerton Avenue
Milwaukee, WI 53207 USA
Tel. +1 414 747 1030
Fax +1 414 481 8665
Michael Palazzola
michael.palazzola@iimaging.com

Instrumentarium Imaging
France S.A.R.L.
4, Avenue des Roses
94386, Bonneuil Sur Marne Cedex
France
Tel. +33 1 43 39 51 51
Fax +33 1 43 39 75 75
André Bassargette

Instrumentarium Imaging Italia s.r.l.
Centro Direzionale Colleoni
Viale Colleoni 11
Palazzo Sirio, Interno 3
20041 Agrate Brianza (MI) Italy
Tel. +39 039 689 0408, 605 6238
Fax +39 039 609 1299
Sergio Roncaldi

Instrumentarium Imaging
Dental GmbH
Siemensstrasse 12
77694 Kehl am Rhein
P.O. Box 2044
77680 Kehl am Rhein Germany
Tel. +49 7851 932 90
Fax +49 7851 932 930
Jean Paul Lentz

LM-Dental
Lääkintämuovi Oy
Rydöntie 12 A 20360 TURKU
P.O. Box 729 FIN-20361 TURKU
Tel. +358 2 274 0100
Fax +358 2 274 0117
Jaakko Packalén
jaakko.packalen@lmdental.com

L-Dental Products Lumme Oy
Norrbyn rantatie 8
FIN-21600 PARAINEN
Tel. +358 2 274 0100
Fax +358 2 454 6444
Jaakko Packalén
jaakko.packalen@lmdental.com

Ohmeda Medical
9065 Guilford Road
COLUMBIA, MD 21046-1801 USA
Tel. +1 410 381 2555
Fax +1 410 381 2558
Andrew Krakauer
andrew.krakauer@ohmedamedical.com

Merivaara Group
Teollisuuskatu 29, Helsinki
P.O.Box 100
FIN-00031 INSTRUMENTARIUM
Tel. +358 9 394 11
Fax +358 9 278 9824
Ilkka Laipio
ilkka.laipio@instrumentarium.fi

Merivaara
Puustellintie 2 FIN-15150 LAHTI
Tel. +358 3 869 11
Fax +358 3 869 444
Ilkka Laipio
ilkka.laipio@instrumentarium.fi

Merivaara AB
Gårdsfogdevägen 2 - 4
S-168 66 BROMMA
P.O.Box 20126
S-161 02 BROMMA Sweden
Tel. +46 8 627 2950
Fax +46 8 627 2955
Thomas Swärdh
thomas.swardh@merivaara.se

Merivaara Norge AS
Østensjøveien 18
P.O.Box 6022 Etterstad
N-0601 OSLO Norway
Tel. +47 2303 9400
Fax +47 2303 9401
Per Michaelsen
pm@merivaara.no

Itka
Puustellintie 2
FIN-15150 LAHTI
Tel. +358 3 869 11
Fax +358 3 869 515
Petri Vaulo
petri.vaulo@instrumentarium.fi

Medko Medical Ltd.
Vitikka 1 F, Espoo
P.O.Box 260
FIN-00031 INSTRUMENTARIUM
Tel. +358 9 5281
Fax +358 9 146 4048
Kari Visti
kari.visti@medkomedical.fi

Instrumentarium Medical Oü
Magdaleena tn. 3E-37
EE-0013 TALLINN Estonia
Tel. +372 6 502 545, 502 546
Fax +372 6 502 544
Tiit Maasik
imedical@online.ee

SIA Instrumentarium Medical
Elizabetes Str. 9, Office 5
LV-1010 RIGA Latvia
Tel. +371 7 323 059, 321 304
Fax +371 7 323 070
Janis Liepinš
jliepins@instrumed.lv

Instrumed
Vitikka 1 F, Espoo
P.O.Box 300
FIN-00031 INSTRUMENTARIUM
Tel. +358 9 5281
Fax +358 9 524 144
Ilkka Laipio
ilkka.laipio@instrumentarium.fi

OPTICAL RETAIL

Instrumentarium Corporation
Vitikka 1 F, Espoo
P.O.Box 500
FIN-00031 INSTRUMENTARIUM
Tel. +358 9 5281
Fax +358 9 502 1551
pekka.perttila@instrumentarium.fi
Optical Stores: Juha Uskali
juha.uskali@instrumentarium.fi
Marketing: Raimo Tikkanen
raimo.tikkanen@instrumentarium.fi

AB Ögat
Karlsbodavägen 20 B
S-168 67 BROMMA Sweden
Tel. +46 8 284 210
Fax +46 8 283 310
Jan Lundblad
jan.lundblad@ogat.se

Instrumentarium Optika Oü
Pärnu mnt. 32
EE-0001 TALLINN Estonia
Tel. +372 6 443 600
Fax +372 6 313 531
Pekka Perttilä
pekka.perttila@instrumentarium.fi

ZAO Instrumentarium
Srednii 70, V.O., P.O. Box 836
199179 ST. PETERSBURG Russia
Tel. +7 812 3219 989
Fax +7 812 3217 763
Pekka Perttilä
pekka.perttila@instrumentarium.fi

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INSTRUMENTARIUM

Kuortaneenkatu 2, Helsinki Finland
P.O.Box 100, FIN-00031 INSTRUMENTARIUM
Tel. +358 9 394 11, fax +358 9 146 4172
http://www.instrumentarium.fi