The year in Brief

57 % increase in turnover compared to 1997 – from NOK 1,981 million to NOK 3,199 million.

153 % growth in profit before tax and minority interests compared to 1997 – from NOK 93 million to NOK 235 million.

56 % increase in the value of the company shares compared to last year – from NOK 120.00 to NOK 187.50.

Increase in dividend from NOK 1.65 per share to NOK 4.00 per share.

Earnings Per Share increased from NOK 5.45 to NOK 18.88.

Demand for soil preparation products steady. Market for grass equipment stable.

January: The Group's ownership in Ferrag Ltd increased from 49 % to 75 %.

April: Agreement reached to acquire 100 % of the shares in the Greenland Group as per 1 May 1998.

June: Establishment of Komatsu KVX LLC where Komatsu America owns 60 % of the shares and Kverneland owns the remaining 40 %. The operations in Kverneland Kvernex was sold to Komatsu KVX LLC.

November: Agreement reached to acquire 100 % of the shares in RAU Agrotechnic as per 1 January 1999.

Key Figures

(NOK million)	**1998**	1997	1996
Operating revenues	**3,119**	1,981	1,952
Operating profit	**294**	112	205
Profit before tax	**235**	93	171
Return on capital employed (%)	**17.4**	11.1	23.3
Return on equity (%)	**19.7**	6.9	18.3
Equity Ratio (%)	**35.7**	46.5	47.9
Earnings Per Share (NOK)	**18.88**	5.45	13.61
No. of employees at 31 December	**3,273**	2,147	2,032

For definitions of key figures, see page 41.

Report from the President & CEO

Change

Agriculture, and the agricultural machinery industry along with it, is undergoing major changes. Like most other industries facing global competition, our industry is going to experience a change away from the traditional structure of business and distribution as we know it today. A structure where the most important business entities are nationally-focused family owned companies. Kverneland is now entering an era where larger companies with international – and, in some cases, global – distribution will be the dominant players.

ATLE EIDE
PRESIDENT & CEO

There are many reasons for this development. One important factor is that several of today's players are faced with a shift in generation. This also makes it more natural to seek outside ownership. Kverneland see a number of family owned companies seeking owners who can preserve the values, brands and jobs created over generations. A far more important reason for the structural changes is that the agricultural sector as a whole is experiencing a total change, with fewer and larger farms. This is a situation that agricultural machinery manufacturers must adapt to. For those of us who want to be leaders in the future, it is important to be ahead of these changes.

The market

In the EU, Agenda 2000 and a new agricultural policy will shortly be introduced, driven forward by GATT/WTO and a desire by the EU politicians to reduce subsidies to agriculture. This serves to accelerate development in the direction of fewer and larger farms. Over time, this development may also lead to a different geographical profile of the market for agricultural machinery. The countries east of the EU will be central to this scenario.

In Eastern Europe and the former Soviet Union, there is a crying need for reforms that could contribute to increased food production. In Southeast Asia and in South America, too, more mechanisation can be expected in order to increase food production. Consequently, the market for agricultural machinery will be a global growth market in the years to come. The question is how it will be financed. Although often underrated, that is one of the most important questions facing the rich nations of the world.

Customer requirements – a foundation for growth

The suppliers of agricultural machinery are facing increasingly stronger demands for the development of new technology to cover farmers' needs for efficient production, reduced costs, improved profitability and environmentally-friendly operation. Reduced subsidisation will force production costs in agriculture down to a level that can only be achieved through increased mechanisation and the use of more modern equipment. This means that suppliers of agricultural machinery need to invest significant amounts in product development and modern production technology. These investments will require the companies that succeed to become bigger than they are today. In addition, they will need profound qualifications within their specialised areas and a thorough under-

standing of the requirements of the market. As well as this high level of expertise, access to a cost-effective distribution network will be a decisive factor for success.
These critical factors will create a clear distinction between manufacturers of tractors and the companies that will succeed in the complex world of agricultural implements. While tractor suppliers move towards ”global modelling”, implement manufacturers must manage a completely different type of product development and production philosophy.

Customer income

The agricultural machinery industry is further complicated by the fact that the income of farmers will increasingly be tied to prices on the world market. 1998 was an interesting year in this context. Record harvests have been experienced in many parts of the world as a result of increasingly more effective machinery and cultivation methods, increased expertise and optimum weather conditions. At the same time, a number of the large markets such as Southeast Asia, South America and Russia are struggling economically and reducing their imports. In other words, we are experiencing concurrently two extreme conditions that directly lead to a reduction in farmers' income and a danger of reduced investment.
Even so, these factors do not alter the fact that world food stocks are too low. This applies not only in countries where people are starving, but also in nations that have all the necessary conditions for creating an agricultural system that can meet its own consumption requirements and also provide income from export. This will be a factor to encourage large-scale production of food.

Investments in agricultural machinery will unquestionably increase

As farms become larger, and as new technology and more efficient machinery become available, there will also be a major need for renewal in the EU and the USA. Because of this, there is also reason to believe that Kverneland will see investment strategies that to a greater extent are defined by long-term cost objectives rather than the ongoing cash flow. Such a development will result in an implement market that is less driven by commodity prices and thus is less cyclical in nature.
There is reason to believe that the prices of key products have reached their lowest level. A number of unfortunate circumstances have contributed to a major drop, but adjustments in productions are already made, while Kverneland at the same time feel confident that demand will increase. This means that an increase in commodity prices is most likely in 1999. In addition, a restructuring of the machinery sector will take place. The restructuring is driven by the needs of the industry and the individual companies therein, reinforced by changes on the customer side. Kverneland is well equipped to deal with this situation.

Market prospects

Main market

Europe is the main market for Kverneland products and, in 1998, approximately 83 % of the turnover was within the EU. The EU agricultural policy is, therefore, important to the development in income for our most important customer groups. In 1998, the development in income was negative for the 15 EU Member States taken as a whole, but with a positive trend in individual markets such as Germany and Italy. The Agenda 2000 debate and the EU's new agricultural policy have led to some nervousness and uncertainty.

The world market in 1998

The world market has been characterised by low prices for important agricultural goods, which has led to price support intervention within the EU area and, to some extent, to a significant reduction in income for North American farmers. This in turn has caused a drop in tractor sales in several important markets. So far, however, Kverneland has not been significantly affected by these factors.

Throughout the year, milk prices were stable in most markets and the dairy farming segment – which to a large extent demands machinery for grass handling – showed better incomes than the arable farmers. However, milk prices are dependent upon pricing policy in the individual countries and a levelling-out in continental countries, coupled with a slight rise in the UK and Ireland, is expected.

Due to pork disease and associated export bans imposed by Germany and other countries, a number of individual markets have had several good years. The disease is now under control and Germany is exporting again. This led, among other things, to lower meat prices in 1998. The prices for pork, in particular, are at an all-time low. For beef, the crisis in Russia/CIS has led to a reduction in demand and in prices.

After several years of very low prices, potato prices rose significantly in the last six months of 1998. Today's prices provide farmers in Europe with a good income. Because of high rainfall levels throughout Europe, the harvest season in 1998 was difficult. Consequently, potato prices are expected to be maintained at a satisfactory level for the coming year.

Prospects for 1999

The development in important individual markets has shown large differences. In the UK, the level of investment continues to be low and farmers' incomes are negatively influenced by the high exchange rate of the pound sterling. With the removal of the export ban on British beef, a rise in the price of potatoes and a weakening of the pound sterling exchange rate, we anticipate that this market will be strengthened in 1999.

In Germany, farmers have experienced a positive income trend in 1998. This market has shown very fine development in recent years, particularly thanks to agricultural investments in the former East Germany.

In Eastern Europe and the CIS, the economic crisis, together with a significant need for reform, has led to a lower level of investment in the short term. However, there is considerable potential for project sales if commercial or partially state backed credit facilities can contribute to an acceptable risk level.

The structural changes in European agriculture continue. The number of farmers and the number of implements sold are both declining, while the size of farms is increasing. Nevertheless, measured in terms of value, the overall market will remain stable. This trend, too, will have impact on the future.

Kverneland is well positioned

The competition in the agricultural market is increasingly about developing machines that are more economical to run. Preferably combination implements that carry out several tasks simultaneously and which are designed to meet modern environmental requirements. This trend favours suppliers who have the financial strength and the expertise to launch such products. In other words, it is a trend that puts Kverneland in a good position compared with the competition.

Strategic acquisitions

Kverneland's development

In 1999, Kverneland will be 120 years old. It took us 115 years to achieve a turnover of NOK 1 billion. It took three years to reach NOK 2 billion. It took another two years to reach NOK 4 billion. And Kverneland has the potential to achieve a turnover of almost NOK 8 billion in just a few years! In other words, based on the 1998 turnover of the companies Kverneland has acquired, the Kverneland group has quadrupled its turnover since 1993. The increase in turnover Kverneland promised in the 1997 annual report is already in place – and there is more growth to come.

Growth

Organic growth must be based on our current brands and product range. In addition, growth will come through new acquisitions, in order to strengthen our position in markets and products where Kverneland is still weak. Such acquisitions will also make Kverneland flexible to variations in the demand for the different products.

Our vision: Kverneland will be the market leader and the most profitable supplier of quality products for professional farmers.

Kverneland has stated that in time, earnings in the region of 8 – 10 % (operating margin) should be realistic. Provided that Kverneland is able to finance the majority of the growth from our own income, this will give our shareholders a sound, long-term return.

Agriculture remains our focus

Kverneland acquired Greenland, RAU and Ferrag in 1998. Kverneland has also established its own distribution operation in the important German market and has set up a sales company in Poland – our first market in Eastern Europe. Kverneland has established a representative office in Moscow and more will be established in this area in the future. Through the acquisition of RAU, Kverneland now has its own sales company in the Italian market. In addition, Kverneland has sold the operations in the industrial company, Kverneland Kvernex, in order to concentrate solely on agriculture.

World's largest

Today, Kverneland is indisputably the largest specialised supplier of agricultural implements in the world. Kverneland has adjusted the distribution strategy in order to concentrate on working through a large number of dealers. Our business partners will be offered long-term co-operation. Kverneland also wish to develop a close, long-term relationship with our dealers, because this is crucial to achieving close contact with the farmers. The dealer can thus think long term and invest in sales of the Kverneland product range.

A strong organisation knows how to adapt

1998 was a tough test for the organisation, but the decentralised organisation Kverneland established in 1997 has fully demonstrated that it works. Kverneland has devoted major resources and a great deal of energy to achieve a rapid integration of the companies acquired, and Kverneland can state that this has gone well. Not least because Kverneland gained a number of well qualified managers from both Greenland and RAU. Much of 1999 will be dedicated to putting all internal procedures in place, realising the significant potential for synergy identified and, last but, not least, working out active market strategies in co-operation with our dealers.

Interesting candidates for acquisition have been identified

Our growth will come both from within and outside the EU. Our turnover will continue to grow in the important American market. In South America, too, Kverneland will gain a better foothold in the years to come.

Kverneland see a number of potential acquisition candidates. Sound companies that can give Kverneland a stronger market presence and additional expertise. Early on in the acquisition process, Kverneland pay special attention to the corporate culture of the individual companies, and features that will complement and strengthen Kverneland. Kverneland is also looking for companies that will enable us to achieve synergies without destroying local values built up over generations. Companies that contribute to fulfilling our market share objectives for key products in important markets are particularly attractive. The most promising potential acquisition targets have been identified and preliminary discussions will take place during 1999.

So far, we are working in the following product areas

Arable: ploughs, harrows, seed drills, fertiliser spreaders and sprayers.

Grass: mowers, rakes, tedders, balers, bale wrappers and feeding equipment.

World-wide, these areas have the potential to achieve a turnover far higher than the NOK 8 billion outlined. There are also some very exciting implement areas that Kverneland is evaluating. Areas in which the farmers invest large amounts and that Kverneland will look into in due course.

Product area grass

Operation and results

Following the acquisition of Greenland, Kverneland was able, for the first time, to offer a complete product range. With seven factories and 1,600 employees in product area grass, Kverneland is the leading manufacturer of grass machinery in Europe. Kverneland is the only manufacturer offering a complete range of balers, bale wrappers, rakes, tedders, mowers and feeding equipment.

Kverneland products are known in the market for their high quality

During 1998, Kverneland gained market share and strengthened its position in the dealer network. In France, in particular, the Group had great success, gaining market share in all segments. The acquisition of Greenland also gave Kverneland access to a number of highly-skilled company-owned sales organisations with a focus on the European and international grass sector. This makes Kverneland better prepared in the market today.

The figures from the acquisition of Greenland have been consolidated as from May. The consolidated accounts do not include the first four-month period, which normally are the period with the highest turnover and operating result in the grass sector. Integration of the four new factories has been in progress since May.

Today, Kverneland has two brands in the grass machinery product area, Kverneland Taarup and Vicon. Kverneland Taarup is known for quality products in the area of disc mowers, grass and straw choppers, forage harvesters, rakes and tedders. Vicon was a brand name used by the Greenland group and is well known in many parts of the world for its high quality and innovative solutions. The Kverneland group markets Kverneland Taarup and Vicon products through two independent sales channels.

Market conditions

With the exception of the UK, the market for grass machinery in Europe showed cautious growth in 1998. This resulted partly from a 1.9 % increase in the price of beef, coupled with the increased earnings by dairy farmers of 1.7 %. This is in contrasts with an average price drop of 3.7 % for agricultural products and a general decline in tractor sales. The European market was strong and stable throughout the year.

In North America, too, income for dairy farmers has shown a positive development throughout the year. In Japan, there has been serious turbulence in the financial market, and farmers have come under price pressure from imports. This primarily affected rice, while the trend in dairy products has been far more positive. This means that our two largest export markets have shown positive results for 1998.

Key events in 1998

The acquisition of Greenland in May gave Kverneland access to important new products and knowledge within the grass sector. Today, Kverneland has seven factories manufacturing products for the grass sector. They are located in Norway, Denmark, Germany, Netherlands (2), UK and France. The product list includes: large squared balers, variable chamber balers; fixed chamber balers; packers for bales of hay; rakes and tedders; mowers (drum and disc); grass and straw choppers; fodder and mixer units for feeding; single and double forage harvesters; fertiliser spreaders and sprayers.

The Group focuses on research and development, and a number of new products were launched in 1998. Some examples are:

- A four-meter grass and straw chopper with a unique conveyor solution. This solution is new in Europe and was well received by the market.
- A new, improved generation of fixed chamber balers. This type of product is gaining market share and recognition because of its high quality.
- A complete line of rakes up to 6.5m.
- Further development of a patented system for rapid drying of grass. The system features extra high grass and straw chopper performance, and allows one single machine to replace a whole process that otherwise requires several machines and several passes over the same ground.
- New vertical mixer and forage units.

Innovation is a key to success

Development of new products has high priority because Kverneland see that market shares are won through innovative solutions that can be distributed quickly to the farmer through a well-developed dealer network. Kverneland therefore use considerable resources on continually developing equipment to make the farmer more efficient.

Possibilities and visions

The strong position in the dealer network in Europe will continue to give increased market share in the coming years. In Germany in particular, Kverneland has good prospects for growth in the grass sector. In addition, Kverneland anticipate positive development in Eastern Europe and the former Soviet Union. North America also represents a large potential for grass machinery. The turnover is showing excellent growth and, with our own office in the USA as well as with stronger investment in distributors, Kverneland expect to gain market shares in the next few years.

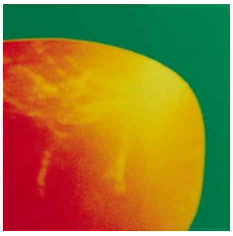
Product area arable

Operation and results

There was positive demand within soil preparation and seeding technology in 1998. The turnover for both ploughs and seed drills increased and, overall, the growth in turnover for the area was 14 %. Most factories supplying this type of product have improved their profits. The Kverneland Klepp plough factory and the Kverneland Accord seed drill factory in Germany in particular achieved good results.

In the beginning of the year, investment in Eastern Europe and the former Soviet Union (CIS) resulted in several important orders, and sales to this area also increased in 1998.

During 1998, both Kverneland Accord and Kverneland Klepp introduced new data systems for operational and control planning (SAP R/3). They are currently in the process of completing implementation within the planned cost and time framework. In addition, Kverneland Klepp has made major changes to the internal organisation of its production flow, enabling the factory to increase its turnover and raise the level of service to the market.



Key events

In June 1998, Kverneland opened its own representative office in Moscow. This has already given us new, valuable market contacts and has resulted in concrete enquiries.

The responsibility for manufacturing of Kverneland's harrow products was transferred to Kverneland Accord and therefore, the production facility at Kverneland Silo-Wolff in Lauenförde (Germany) was integrated into the operations of Kverneland Accord. As a result, valuable expertise in combination harrows for the German market has been linked organisationally with Kverneland Accord's special expertise in seed drill technology.

Kverneland supplied a large new order of ploughs to Uzbekistan and more than 1,200 Uzbekistani farmers now use Kverneland ploughs.

Kverneland launched its new generation of wear – and spare parts at the Smithfield agricultural show in London. This is a new, patent-pending concept involving partial heat treatment that gives significantly improved wear-and-tear properties and, thus, improved cost-effectiveness for the customer.

Kverneland Maletti's new generation of power harrows has been supplemented with several new models. These products have now been well adjusted to the market in terms of performance and product quality.

Kverneland launched three new models in 1998 within the key product area of semi-mounted ploughs. These are specially built to take market share in France, UK and Germany. Sales of larger ploughs are increasing and, with new models adjusted to the market, Kverneland will also set the trend in this area.

Future potential

With the acquisition of RAU, Kverneland has clearly improved its position in soil preparation and seed drill technology. RAU Sicam and RAU Jean de Bru in France, which develop and manufacture a variety of harrow and combination implements, represent a strengthening of Kverneland's product range and expertise. Together with the know-how of RAU Weilheim (Germany), these products complement the Kverneland product range in this sector.

Kverneland has an excellent foundation for exploiting synergy effects and gains from rationalisation in areas such as purchasing and production. By utilising the knowledge and technology of our companies across factory boundaries, Kverneland is now able to realise completely new product concepts and solutions based on the best from each individual unit. The conditions appear particularly promising for more cost-effective solutions in the area of combination seed drills and combination harrows.

The Kverneland programme of seed-bed harrows, disc harrows and stubble cultivators now covers all the key markets and represents the largest and broadest combined product range in the industry. In addition, the market will increasingly require products with solutions that contribute to more effective, profitable operation. Especially in the new markets in Eastern Europe and the former Soviet Union, Kverneland will utilise its strength to be a supplier of total solutions well adjusted to the needs of the individual farmer in the specific market.

Crop Management

Care for the environment and the quality of food

A growing world population places particular demands on productivity and effective utilisation of cultivable land. Likewise, the environment and quality of food remain two important key words for what the farmers will increasingly be focusing on together with requirements for larger crops and reduced costs. As a leading supplier of agricultural machinery, Kverneland has the task of contributing to fulfilling these requirements.

The optimal results can only be achieved through effective use of mechanical soil preparation, chemicals, fertiliser and effective harvesting systems. Kverneland has therefore decided to be involved in all these areas. Kverneland can only work in a close, constructive and credible dialogue with dealers and customers.

Kverneland is convinced that an increased proportion of investment will move from tractors to implements. Customer requirements for cost-effectiveness, together with requirements from the society and the environment, will force developments in this direction.

Criteria for success

Kverneland need expertise in order to succeed in our new area of sprayers. Kverneland has found this expertise in Vicon, which has a strong position in the Benelux countries and in France. Kverneland has also found this in RAU, which is a market leader in Germany. RAU is also strong in Eastern Europe and France and has been in the UK market for a number of years.

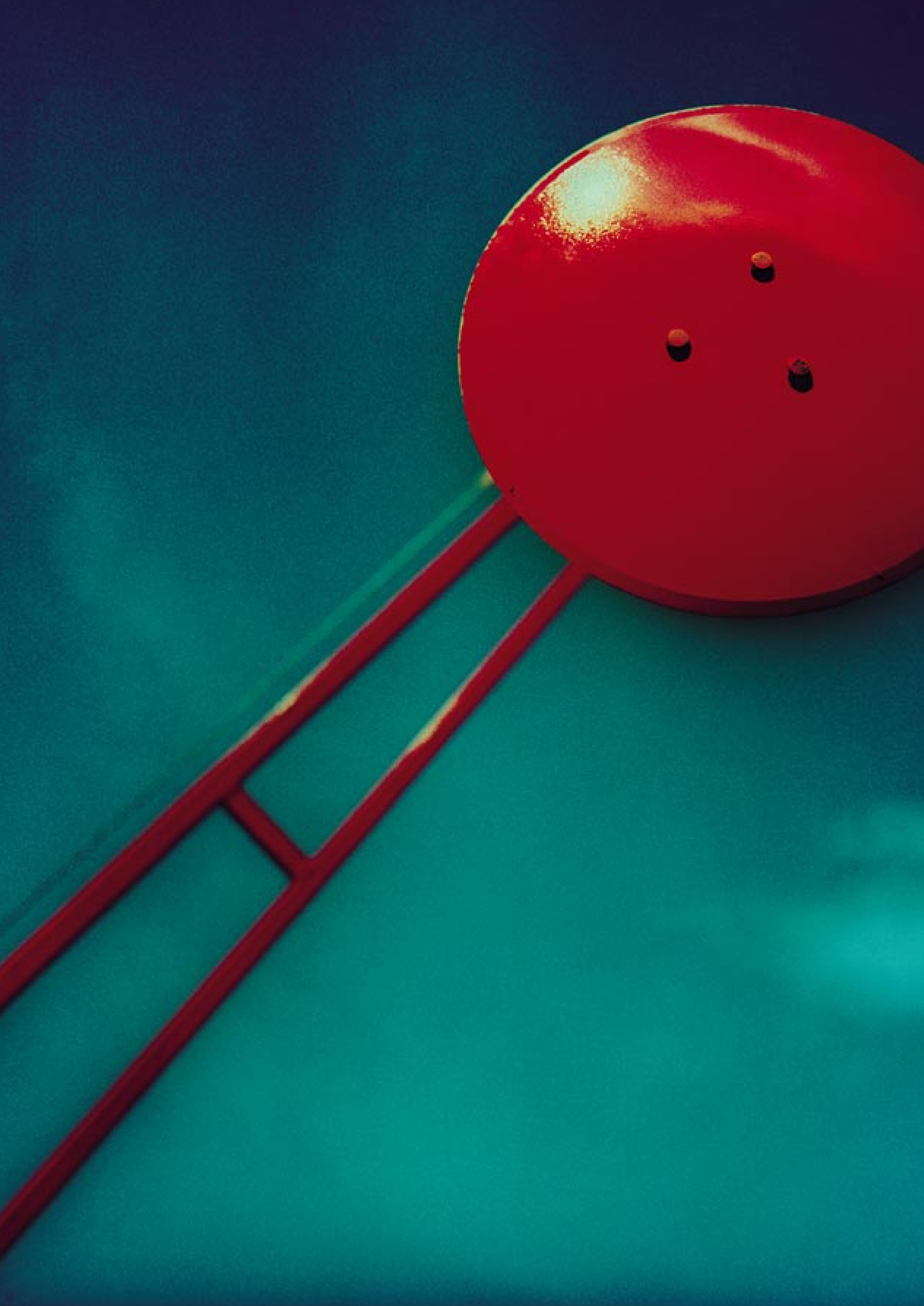
Through RAU and Vicon, Kverneland has gained top expertise in product development, research and customer advisory services. Expertise which, together with Kverneland's distribution network and its financial resources, forms the basis for the organisation that will make Kverneland the market leader in crop management. Considerable investment will be made in this area, which can also benefit greatly from the Group's expertise in the areas of soil preparation, seed drill technology and fertiliser spreaders.

Precision

More than anything, the development of effective sprayers requires in-depth knowledge of the conditions in the individual country and the individual district. RAU and Vicon sprayers must be designed so that every single drop reaches the plant correctly. Climate, soil and temperature can easily affect the final result, and therefore the sprayers need to be easy to adapt to local conditions.

Technical superiority must drive us forward

No one else can match Kverneland's experience in developing agricultural implements for a global market. Kverneland is now adding expertise in sprayers to our existing knowledge base through combining our development team with those of RAU and Vicon. This will give the customer unique products and the dealers an unbeatable product range.



Distribution

More brands means improved dealer networks

Business Unit Distribution involves all sales companies in the Group and requires shared resources for marketing and business development. In 1998, almost 70 % of Group sales were channelled through our own sales companies. The objective is to ensure that at least 80 % of the turnover is achieved through our own channels or channels controlled by us.

More brands mean wider distribution

Following the acquisitions, a brand name utilisation strategy was developed in 1998. At the same time, Kverneland has revised its distribution strategy. From marketing all our products under the Kverneland label, Kverneland has moved to offering several brands. Kverneland plan to utilise the strength of the best-known brand names to secure new market positioning and volume, as well as to offer dealers exclusive areas.

Kverneland will continue active co-operation with RAU and Greenland distributors

A distribution strategy built around multiple brand names requires a broader network of dealers with several channels in individual markets. Kverneland is, therefore, now working with separate sales forces for each brand, while ensuring that its sales companies share common logistics, administrative and management functions.

Distribution structure

Kverneland currently has sales companies in thirteen countries, as well as a representative office in Moscow covering the CIS area. Through the acquisition of Greenland and RAU, Kverneland has added new sales companies in Italy and the Benelux countries.

In larger markets, such as Germany, France, the UK and Spain, where the acquisitions have left us with overlapping sales organisations, Kverneland is currently restructuring, consolidating and relocating storage and office functions. This restructuring should be completed towards the end of 1999.

Individual markets have developed differently in 1998

The market remains weak in UK and, in the last six months of 1998, Denmark, too, showed some decline. The necessary steps have been taken in both countries to ensure profitable operation in a market that is showing an overall decline. Extensive restructuring of the operations in UK has been implemented, with considerable reductions in staff levels and the relocation of operations.

The first year with a Group owned sales company in Germany, following the acquisition of importer Silo-Wolff in 1997, has been according to expectation. 1998 showed improved margins in the German market, which, with turnover approaching NOK 1 billion, is clearly the most significant market for Kverneland. In 1999, activities will be concentrated in Lauenförde under joint management. In addition, Kverneland will further develop RAU Agrotechnic.

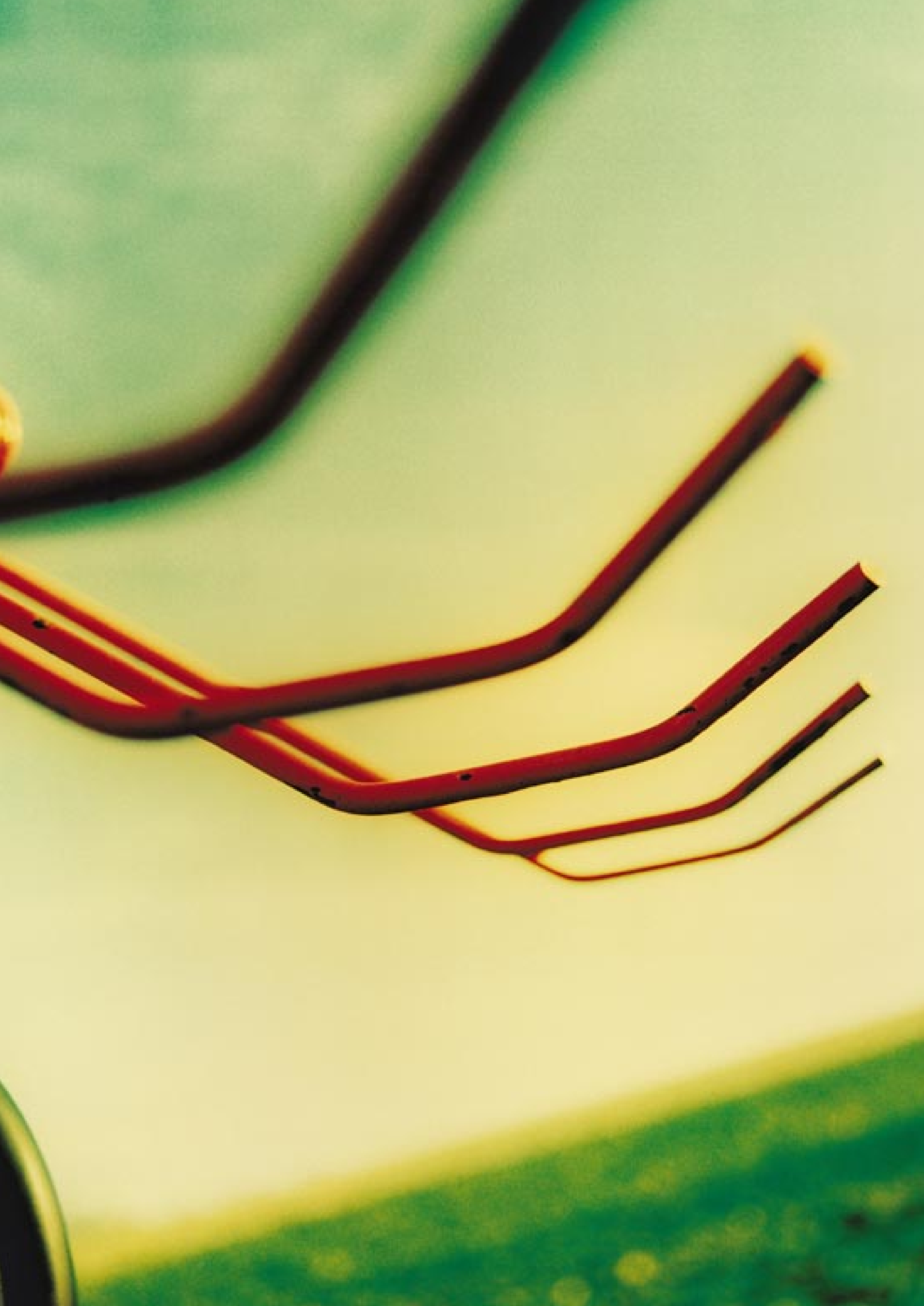
The French market also developed very positively in 1998, but there is still potential for improvement in individual products/brands. From mid-1999, the French company will operate from new headquarters in Orleans. This represents a more centralised location for the French customers and our distribution system. RAU Agrotechnic will also continue to operate in France.

Other key markets such as Spain, Sweden and the Benelux countries have shown positive development, and Kverneland's market position has been strengthened during the past year.

Emphasis on new areas

Eastern Europe and the CIS are important new markets for Kverneland. In 1998, the Group again sent large deliveries to this market, mainly in the area for soil preparation. The credit situation and general business conditions are, however, difficult and further efforts are being made to develop export credit arrangements.

Through the ”Focus 2000” programme, efforts to reduce sales and distribution costs are implemented. These gave positive results in 1998. Further targets for improvements have been set for 1999.



Organisational development

Kverneland is ahead

Organisational and skills developments, together with learning, are important tools for meeting increased competition and the sharpened overall quality demands from the customers. With extensive growth in recent years, Kverneland is ahead of the structural change in the agricultural sector. Kverneland's operational management, which consists of Group management and managing directors, currently represents 14 countries. Kverneland has thus brought about a significant and important internationalisation of our management.

A well-anchored value basis and shared attitudes are important elements in Kverneland's corporate culture

Kverneland must take the lead in the changes that are occurring in our industry and employees at all levels, particularly our managers, must be capable of non-traditional innovation. Kverneland's ability to combine variety with the local insight represented by individual companies will be crucial to the success of our growth strategy. ”Value Chain Management” is, therefore, central to the Group's organisational development.

Management training

Good communication between the Group companies, the ability to respond and adjust rapidly, strategic objectives, is all central organisational qualities in Kverneland. This has become increasingly important with new companies constantly needing to be integrated. Kverneland has, therefore, initiated a comprehensive development programme for local management groups, staff managers and future managers. Over the next few years, some 150 people will be taking part in the ”Kverneland International Management Training Program”.

This programme has been developed in co-operation with the AFF (administrative research fund at the Norwegian College of Business Administration and Economics). The objective is to improve communication, increase the level of knowledge in matters relating to management, and to foster understanding of business processes and the strategic challenges. Topics such as ”Value Chain Management”, ”Balanced Scorecard”, individual management roles and communication are central. Throughout the programme, the participants also work with strategic Kverneland projects, thus linking theory with practice. Results from these projects will be used in our operational activities.

Development of skills

Kverneland's organisation must be open to change, eager to learn new things and able to find better solutions and the best ideas faster. Ongoing innovation requires participation from skilled and independent employees who actively involve themselves in working to achieve the objectives of the company. The Group's ability to motivate employees and cut loose their creativity has become increasingly important, and knowledge and expertise have become one of the most important areas of focus. Ongoing learning has thus become a critical success factor in strengthening Kverneland's position.

In order to maintain and further develop the Group's competitive strength, Kverneland is investing large resources in organisational development and development of skills. Use of modern technology and simple electronic communication via e-mail now give the ability to let new ideas surface more rapidly than before. The Group's flat organisation also stimulates managers and other employees to take an active part in the development of Kverneland.

Organisation

The Kverneland Group is organised into Strategic Business Units for Arable, Grass, Crop Management and Distribution & Marketing. At the end of 1998, the Group had 3,273 employees, compared to 2,147 the previous year. Of these, 2,269 are employed in Kverneland companies outside Norway. The increase in the number of employees is mainly due to the acquisition of Greenland and the purchase of the remaining shares in Ferrag Ltd. In addition to these figures, another 500 are employed at RAU Agrotechnic.

KVERNELAND

GRASS

Kverneland Nieuw-Vennep
Kverneland Geldrop
Kverneland Gottmadingen
Kverneland Orleans
Kverneland Taarup
Kverneland Kidd
Kverneland Underhaug
Global Sales

DISTRIBUTION & MARKETING

Kverneland Norge
Kverneland Sverige
Kverneland Denmark
Kverneland UK/Ferrag
Vicon UK
Kverneland Deutschland
Kverneland France
Vicon France
Vicon Iberica
Kverneland Moscow
Kverneland Pimsa
Kverneland Ireland
Kverneland Inc
Kverneland Poland
Kverneland USA
Kverneland Benelux
RAU Agrotechnic France
RAU Poland
RAU Italy
RAU Agrotechnic (D)

ARABLE

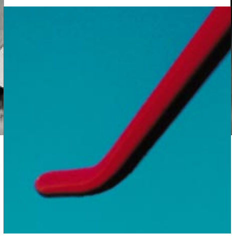
Kverneland Klepp
Kverneland Maletti
Kverneland Accord
RAU Jean de Bru
RAU Sicam

SPRAYERS

RAU Weilheim
Kverneland Nieuw-Vennep

Board of Directors’ Report


ATLE EIDE
PRESIDENT & CEO




STEINAR OLSEN
CHAIRMAN


KAI OLE TOGSTAD


GEORG ELDOR FJERMESTAD


OLAF EIE
DEPUTY BOARD MEMBER


STEIN MOSSIGE

Sales, operations and profits

The Group’s net operating revenue for 1998 were NOK 3,119 million compared to NOK 1,981 million in 1997. This represents an increase in turnover of 57 %. The increase in turnover in 1998 is mainly due to the acquisition of the Greenland Group, Silo-Wolff and Ferrag. Greenland was consolidated as of 1 May, while Silo-Wolff and Ferrag have been consolidated throughout 1998.

The Group’s operating margin was 9.4 % compared to 5.7 % last year.

The Group’s profit before minority interests and tax expense was NOK 235 million compared to NOK 93 million in 1997. This represents an increase in profits of 153 %. The profit for 1998 includes gain from sales of fixed assets of just over NOK 60 million. This is mainly the gain related to the sale of the trade and assets of Kverneland Kvernex AS to a newly established company which is owned 60 % by Komatsu America and 40 % by Kverneland. The new company is part of the core activity in Komatsu but non core in Kverneland.

The tax expense was NOK 58 million. Due to acquisitions this is lower than expected and represents 25 % of the profit.

The profit and loss account shows a profit after tax and minority interests of NOK 178 million compared to NOK 49 million in 1997. This represents an increase of 263 %. The earnings per share is NOK 18.88 compared to NOK 5.45 in 1997.

Most operating companies had a positive development both in sales and profit in 1998. Kverneland Underhaug had an improvement in profits of NOK 43 million and Kverneland Kidd had an improvement of NOK 16 million.

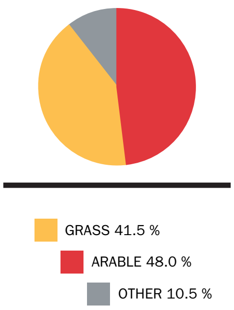
The Greenland companies were consolidated as from 1 May and have contributed with sales of NOK 785 million and a profit of NOK 37 million.

Return on capital employed was 17 % up from 11 % in 1997.

Return on equity was 19 % compared to 7 % in 1997.

The Board of Directors considers the profit and return on capital for 1998 to be satisfactory.

SALE BY PRODUCT AREA



Balance sheet and Financing

At the end of 1998 the Group’s total balance sheet was NOK 3,064 million – up from NOK 1,611 million in 1997. The increase is due to the consolidation of the Group’s new operations in Greenland and Ferrag.

The Group’s equity is 36 %, down from 47 % in 1997. The reduction in equity ratio is due to substantial acquisitions during the last year. The acquisitions have doubled the Group’s turnover. After the consolidation of RAU as per 1 January 1999 the equity ratio will be 32 %.

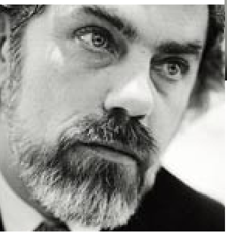
In order to finance acquisitions and operating capital of the acquired companys, the Group established a Club Loan for NOK 500 million at the end of 1998. The Club Loan is a Multicurrency Revolving Credit Facility valid for 4 years. The total interest bearing debt as per 31.12.98 was NOK 1,053 million.

Product areas

Kverneland had two strategic product areas in 1998 – soil and grass. Both areas show solid earnings.

The increase in turnover in 1998 was 57 % where product area soil shows a growth of 14 % and achieved operating revenues of NOK 1,499 million. The growth within product area grass was 156 % with operating revenues of NOK 1,293 million that is due to the acquisition of Greenland. In 1998 product area soil represents 48 % of the Group’s operating turnover – down from 66 % in 1997. Product area grass has increased its share of turnover from 25 % in 1997 to 41 % in 1998.

Product area grass will be larger than product area soil when Greenland is consolidated for the whole year. There is reason to believe that the marked development in the two



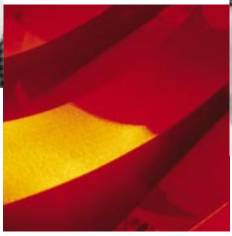
ÅDNE KVERNELAND
DEPUTY CHAIRMAN

HENRIK AGER-HANSSEN

OLE JULIAN EILERTSEN

PER OTTO DYB

ANDERS ECKHOFF



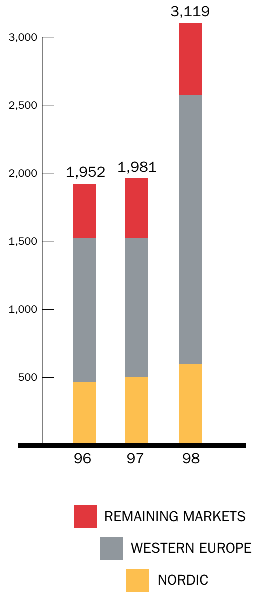
MAGNE VIGGO HØYLAND
OBSERVER

product areas shows different patterns. This contributes to make the Group less vulnerable to market fluctuations. The Group considers this to be positive for 1999.
The operating margin for product area soil was 11 % in 1998, up from 9 % in 1997. The operating margin for product area grass was 5 % up from a small loss in 1997. The Group expects further improvement in operating margin for product area grass in 1999.

Distribution

Kverneland has sales companies in 13 countries and sales support offices in USA (Chicago) and in Russia (Moscow) where the latter covers the CIS area. Due to the acquisition of Greenland and RAU, Kverneland has new sales companies in Benelux and Italy. Due to the recent acquisitions the Group has some overlapping sales organisations in larger markets such as Germany, France, UK and Spain. The Group is now in the process of restructuring, merging and re-location of storage and sales operations in these markets. According to plan the process of restructuring shall be finish by the end of 1999. The costs and gains related to this process will be part of operating profit when they occur.
The Group's marketing strategy until 1997 was that all products should be marketed under the brand name of Kverneland. As from 1998 the Group has decided that in addition to the valuable Kverneland brand the Group will also market strong brands acquired by the Group. This means that in addition to Kverneland, strong brands such ac Vicon, Taarup, Accord, Underhaug, RAU, Sicam and Jean de Bru will be actively used in marketing. Whereas the previous strategy required few dealers in each market, the distribution of several brands requires a wider dealer network and more distribution channels in some markets. Each brand will have its own sales force but logistics, administrative functions and management will be the same. Our adjusted strategy for distribution and branding is well accepted by our customers and dealers and is expected to strengthen the Group's market position.

SALE BY TERITORY
(NOK million)



Organisation

After the acquisition of Greenland in May, all factories within product area grass were organised into a strategic business unit. This was in line with the Group's organisational plan from 1997. As of January 1999 a similar strategic business unit has been established for product area arable (including seeding technology). Through this new structure the management in our subsidiaries are more strongly involved in strategic decisions. The new structure also contributes to more internationalisation of the management in Kverneland. The Board of Directors' opinion is that this organisational structure will be able to handle the operational as well as the strategic challenges that the Group will face in the future.
At the end of 1998 the Group had 3,273 employees, an increase from 2,147 last year. The increase is mainly due to the acquisition of the Greenland Group. RAU will be consolidated as from 1 January 1999 and the number of employees will increase further by approximately 500.
The statutory working environment committee and joint staff committee, have had regular meetings and have worked as intended. The Group's activity is carried out in accordance with the licence provision and discharge permits obtained.
In April 1998 the General Assembly joined the agreement between Kverneland and the joint staff committee to phase out the corporate assembly. As part of this agreement the Board of Directors where extended with one board member and one observer elected by the employees.

Shareholders

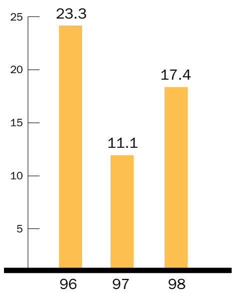
In relation to the acquisition of Greenland there was a share issue of 751,667 shares with offering price of NOK 169.00 per share toward the owner of Greenland.

The Kverneland share had an increase in value of 56 % in 1998 from a level of NOK 120.00 per share as per 31 December 1997 to a level of NOK 187.50 as per 31 December 1998. This made the Kverneland share the one which value increased the most on the Oslo Stock Exchange in 1998. The liquidity has been good throughout 1998 and a total of 10.3 million shares have been traded. The Group's market value was NOK 1,822 million as per 31 December 1998, compared to NOK 1,076 million at the end of last year.

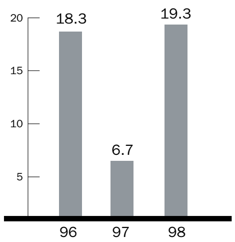
At the end of 1998 the Group had 3,835 shareholders. None of the shareholders had more than 20 % of the shares and the percentage of foreign shareholdings at year end was 22 %, up from 19 % at the end of last year.

The Board of Directors proposes a dividend payment of NOK 4.00 per share for the 1998 financial year. This represents a distribution of 22 % of the profits after tax and minority interests. Risk value per share as of 1 January 1998 was NOK 8.17 and the preliminary risk value as of 1 January 1999 is calculated to NOK 5.91 per share.

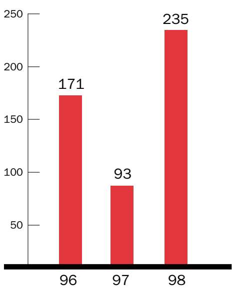
RETURN ON CAPITAL EMPLOYED
(%)



RETURN ON EQUITY
(%)



PROFIT BEFORE TAX AND MINORITY
(NOK million)



Market situation

The presented proposal for changes in the Common Agricultural Policy (CAP) within European Community is now debated. The proposal for changes is according to expectations. However, there is considerable political disagreement between a number of countries and therefore there are still uncertainties regarding the conclusions. If the proposal is accepted, expectations are that in time the reduction in intervention prices and the development towards fewer but larger farms will continue. With this development the demand changes towards larger and more advanced machinery – one market area where Kverneland has its main focus and leading position.

Preliminary figures for 1998 indicate that the farmer's real earnings dropped by 3.9 % in average in the European Community. This is the second year in a row that the farmer's real earnings have decreased as there was a reduction of 2.7 % in 1997. The reasons for the decreasing real earnings are lower grain prices (-3.7 %) and reduced subsidies (-6.2 %) combined with approximately unchanged production volume. However, there are substantial variations in the development in real earnings between different countries and different segments. The largest reduction is shown for producers of pork. Generally the producers of grain have a reduction due to the low grain prices. The earnings for the dairy farmers have been more stable, while bad harvesting conditions have caused low crops of potato and equivalent higher prices.

The Group has experienced a relatively stable demand for soil preparation products. The fairly strong growth experienced in recent years appears to be over and the market for 1998 has been stable tending towards a slight decrease.

The demand for grass products has been characterised by stability in 1998. The product range from Greenland is strong in the market and has taken increased market share during the year.

The market in Central Europe and CIS continues to show a positive trend in 1998. However, the financial crisis in Russia in 1998 has had a negative effect on the market, and further growth will come later than previously anticipated. In a long-term perspective, Kverneland sees this as one of the markets with potential for growth.

The Groups development in the North American market was positive in 1998.

One important indicator for market development is tractor sales. Tractor sales were down in some important markets, especially UK and Denmark. In Germany and France tractor sales showed a moderate increase.

Strategy

As from 1 January 1999 Kverneland has acquired 100 % of the shares in the RAU Group with factories in Germany and France. The German operations are mainly focused on sprayers. This is one product area of great strategic importance for Kverneland, and the operations will be organised as a separate strategic business unit in order to get the necessary focus. The French operations mainly produce harrows and will be included in the strategic business unit for soil.

Kverneland has during 1998 accomplished a number of acquisitions in line with the Group's strategy. In 1999 the Group will focus on consolidation in order to realise the identified areas for synergy.

In order to obtain our target for market share, further strengthening of our product range is necessary. This will be achieved by a combination of product development in Kverneland and acquisitions. Kverneland has a good position in order to take advantage of the re-structuring that will happen in the global agricultural machinery business.

Year 2000

The problems related to year 2000 are partly solved for the Group by the implementation of SAP R/3 as a new Group system. In addition the Group has carried out systematic audit of areas where problems can be expected to occur. Problem areas that have been identified have been given priority and the necessary adjustments and upgrading will be carried out within the first six months in 1999.

Future prospects

The market for agricultural implements has been cyclical in its nature for a long time, and this feature will also characterise the global market in the future. However, there is reason to take into account that the world's production of food will have to increase. One condition for such an increase is increased use of mechanical equipment. Based on this the Group expects a global growth in the market for agricultural implements in the future.

In the short-term, Kverneland expects that the market for grass products will show a slightly negative trend with potential for growth in market share.

The market for soil preparation products will temporarily come under a stronger pressure based on the low product prices and reduced earnings for the farmers, and a reduction of 10 % in this area is expected in 1999. The market estimates are uncertain and can change quickly by changes in product prices or political relations regarding agricultural policy.

Kverneland has developed competence and a good basis for further expansion in East and Central Europe. However, the growth will be delayed due to the financial crisis in Russia.

The trend towards larger and fewer farms will lead to a demand for larger machines and give the producers a number of new demands for product development. This development will be in favour of larger and more resourceful companies as Kverneland. The access to channels of distribution, not least within international marketing strategy, will become more difficult for the smaller producers.

A number of macroeconomic indicators such as low product prices, reduces earnings for the farmers and the uncertainty of the political conditions for the agriculture in Europe makes the prospects for the market development less secure. The large tractor producers have announced expectations for a considerable reduction in the total tractor market in 1999. However, they have substantial market exposure in areas where Kverneland do not have such an exposure (South East Asia, India, South America, North America) and where the markets expect a larger decrease than in Europe.

Kverneland has to a small extent been exposed for the market reduction in 1998. The Group's order back-log for product area grass at the beginning of 1999 was satisfactory and somewhat higher than in the same period last year. For the product area soil the order back-log was somewhat lower than at the same time last year. The Group will more actively monitor the market development in 1999 through monitoring inventory in our distribution channels, so that we quickly can catch trends and make necessary actions. The Group has implemented a number of projects for re-structuring that will demand resources in 1999, but that are expected to start giving their return already in year 2000.

Based on the acquisitions already accomplished Kverneland will continue its growth in 1999.

Kverneland ASA accounts for 1998

The parent company reached a profit for the year of NOK 28 million. In addition, the company received NOK 99 million in Group contribution. Reference is made to note 3 regarding compensation to the Corporate Assembly, Board of Directors, auditor and President & CEO.

The Board of Directors proposes the following allocations:

	(NOK million)
Profit for the year	28.2
Group contribution received	99.2
Allocated to free reserve	88.6
Dividend distribution	38.8
Total transferred	28.2

Kvernaland, 12 December 1998/8 February 1999.

Steinar Olsen Chairman	Ådne Kverneland Deputy Chairman	Henrik Ager-Hanssen	Per Otto Dyb	Anders Eckhoff
Ole Julian Eilertsen	Stein Mossige	Georg Eldor Fjermestad	Kai Ole Togstad	Atle Eide President & CEO

Consolidated Profit and Loss Account

(NOK million)	Note	1998	1997	1996
Sales Revenue		**3,244.1**	2,048.8	2,007.2
Freight and royalty		**124.7**	67.6	55.6
Operating revenue	2, 9, 10	**3,119.4**	1,981.2	1,951.6
Materials consumed		**1,290.2**	768.2	766.3
Wages and other personnel expenses	3	**927.3**	646.3	539.1
Operating expenses	4,5	**476.9**	388.3	376.6
Depreciation and amortisation	15	**131.3**	66.0	64.8
Operating expenses		**2,825.7**	1,868.8	1,746.8
Operating profit	9, 10	**293.7**	112.4	204.8
Financial income	6	**10.5**	14.7	14.4
Financial expenses	7	**68.9**	33.7	48.1
Profit before tax		**235.3**	93.4	171.1
Taxes	19	**57.7**	43.9	47.2
Profit before minority interests		**177.6**	49.5	123.9
Minority interests	18	**0.4**	-0.7	-1.9
Profit after minority interests		**178.0**	48.8	122.0
Earnings Per Share (NOK)		**18.9**	5.5	13.6
Fully Diluted Earning Per Share (NOK)		**18.9**	5.5	13.6

Consolidated Balance Sheet

(NOK million)	Note	1998	1997	1996
ASSETS				
Cash and deposits		**117.9**	37.0	140.3
Debtors	4	**765.4**	495.7	531.1
Other current assets		**63.2**	73.6	56.1
Stocks	12	**1,074.2**	505.6	410.5
Current assets		**2,020.7**	1,111.9	1,138.0
Shares and other long-term assets	13, 22	**106.9**	14.1	21.3
Intangible assets/Goodwill	15	**119.0**	77.8	30.9
Tangible assets	15	**817.3**	407.2	288.4
Fixed assets		**1,043.2**	499.1	340.6
Total assets	1	**3,063.9**	1,611.0	1,478.6
LIABILITY AND EQUITY				
Creditors and provisions	16	**801.8**	379.7	422.1
Debt falling due within one year		**167.5**	329.1	164.8
Current liabilities		**969.3**	708.8	586.9
Loans and other borrowings	17	**885.8**	133.4	151.6
Pension liabilities	22	**107.6**	18.4	22.3
Long-term liabilities		**993.4**	151.8	173.9
Minority interests	18	**6.0**	0.9	10.2
Share capital: 9,715,301 shares à NOK 10.00	24	**97.2**	89.6	89.6
Other equity		**998.0**	659.9	618.0
Equity	23	**1,095.2**	749.5	707.6
Total liabilities and equity	1	**3,063.9**	1,611.0	1,478.6
Mortgages and guarantees:				
Mortgages	20	**156.9**	126.8	161.4
Guarantees	21	**112.9**	63.3	22.9

Consolidated Cash Flow Statement

(NOK million)	**1998**	1997	1996
Profit before tax	**235.3**	93.4	171.1
Depreciation and amortisation	**130.4**	66.8	64.8
Taxes	**-57.7**	-43.9	-47.2
Equity dividends	**-38.8**	-14.8	-26.9
Operating cash flow	**269.2**	101.5	161.8
Increase/decrease in stocks	**-123.3**	-18.2	-8.7
Increase/decrease in debtors and receivable	**45.5**	45.9	-113.2
Increase/decrease in creditors and provisions	**11.9**	-95.5	-2.7
Changes in working capital employed	**-65.9**	-67.8	-124.6
Cash flow from operations	**203.3**	33.7	37.2
Investering i varige driftsmidler	**-246.3**	-97.1	–93.5
Effects of foreign exchange movements	**-264.0**	-183.3	-41.8
Increase/decrease other long-term assets	**-90.2**	7.6	8.5
Capital disposal proceeds	**3.5**	7.1	26.1
Net internal cash flow	**-393.7**	-232.0	-63.5
Increase/decrease debt due beyond one year	**453.7**	-19.2	-51.4
Increase/decrease debt due within one year	**-201.1**	150.8	111.1
Issue of ordinary share capital	**127.0**	0.0	0.0
Effects of foreign exchange movements	**95.0**	-3.1	-12.8
Net change in liquidity	**80.9**	-103.5	-16.6
Liquid assets	**117.9**	37.0	140.3

Kverneland ASA Profit and Loss Account

(NOK million)	Note	1998	1997	1996
Sales revenue		**47.3**	69.2	60.6
Wages and other personnel expenses	3	**19.0**	21.4	18.4
Other operating expenses		**25.9**	35.9	36.7
Depreciation and amortisation	15	**12.6**	4.9	4.6
Operating expenses		**57.5**	62.2	59.7
Operating profit (loss)		**-10.2**	7.0	0.9
Financial income		**175.2**	84.5	55.8
Financial expenses		**100.1**	45.1	28.2
Profit before tax		**64.9**	46.4	28.5
Taxes	19	**36.7**	23.0	15.5
Profit after tax		**28.2**	23.4	13.0
Transfers:				
Group contribution		**99.2**	58.4	42.3
To reversal fund		–	–	3.3
To legal reserves		–	-2.3	-1.8
To general reserves		**-88.6**	-64.7	-29.9
Allocated to dividend		**-38.8**	-14.8	-26.9

Kverneland ASA Balance Sheet

(NOK million)	Note	1998	1997	1996
ASSETS				
Cash and deposits		**0.3**	0.6	123.5
Debtors. Group companies		**554.8**	237.6	123.9
Other assets		**5.0**	6.3	1.7
Current assets		**560.1**	244.5	249.1
Shares in subsidiaries	14	**160.3**	135.7	119.7
Deferred tax assets	19	**1.3**	1.3	1.2
Shares and other long-term assets	13	**36.5**	0.3	0.4
Long-term receivables, Group companies		**1,069.4**	325.0	133.9
Tangible assets	15	**132.0**	74.4	55.7
Fixed assets		**1,399.5**	536.7	310.9
Total assets		**1,959.6**	781.2	560.0
LIABILITIES AND EQUITY				
Creditors and provisions		**114.9**	73.7	63.1
Debt falling due within one year		**316.2**	148.1	–
Current liabilities		**431.1**	221.8	63.1
Loans and other borrowings		**787.9**	39.3	45.5
Deferred tax	19	**8.9**	4.5	3.1
Pension liabilities	22	**4.9**	4.5	4.3
Long-term liabilities		**801.7**	48.3	52.9
Share capital: 9,715,301 shares à NOK 10.00		**97.2**	89.6	89.6
Legal reserves		**304.1**	184.6	181.6
General reserves		**325.5**	236.9	172.6
Equity		**726.8**	511.1	443.8
Total liabilities and equity		**1,959.6**	781.2	559.8
Mortgages and guarantees:				
Mortgages	20	**31.9**	39.3	45.5
Guarantees	21	**63.4**	7.8	5.6

Kverneland ASA Cash Flow Statement

(NOK million)	**1998**	1997	1996
Profit before tax	**64.9**	46.4	28.5
Depreciation	**12.6**	4.9	4.6
Taxes	**-36.7**	-23.0	-15.5
Group contribution	**99.2**	58.4	42.3
Equity dividends	**-38.8**	-14.8	-26.9
Operating cash flow	**101.2**	71.9	33.0
Increase/decrease in debtors and receivable	**-315.9**	-118.2	-32.1
Increase/decrease in creditors and provisions	**41.2**	10.6	19.4
Changes in working capital employed	**-274.7**	-107.6	-12.7
Cash flow from operations	**-173.5**	-35.7	20.3
Capital expenditure	**-71.0**	-24.5	-10.5
Increase/decrease other long-term assets	**-805.1**	-207.1	-56.7
Capital disposal proceeds	**0.8**	1.0	0.0
Net internal cash flow	**-1,048.8**	-266.3	-46.9
Increase/decrease debt due beyond one year	**753.4**	-4.6	-8.5
Increase/decrease debt due within one year	**168.1**	148.1	5.8
Issue of ordinary share capital	**127.0**	0.0	0.0
Net change in liquidity	**-0.3**	-122.8	-49.6
Liquid assets	**0.3**	0.6	123.5

Accounting Principles

The consolidated accounts of Kverneland ASA and its subsidiaries (Kverneland) have been prepared in accordance with Norwegian generally accepted accounting principles. These principles are similar to the international accounting standards (IAS).

CONSOLIDATION PRINCIPLES

Consolidated companies

The consolidated financial statements for Kverneland include the financial statements of Kverneland ASA and its subsidiaries in which Kverneland ASA owns, directly or indirectly, more than 50 % of the shares. Where subsidiary undertakings are acquired/ established during the year, the consolidated profit includes the profits or losses from the effective date of acquisition/incorporation. These companies are included in the balance sheet as at year end. For any subsidiary undertakings disposed of during the year, the consolidated profit includes the profits or losses to the effective date of disposal.

Elimination of shares in subsidiaries

The acquisition of subsidiaries may give rise to an additional value corresponding to the difference between the acquisition cost and the book value of shareholders' equity at the date of acquisition. This additional value is attributed to relevant assets and depreciated at a rate reflecting the economic life of the assets and in accordance with the assessment rules laid down in the Norwegian Companies' Act. Purchased goodwill is amortised over its estimated economic life, but maximum 20 years.

Currency translation relating to foreign subsidiaries

When consolidating foreign subsidiaries, revenues and expenses are converted at the average exchange rate for the year, while balance sheet items are converted at the year end exchange rate. Translation differences are posted to shareholders' equity.

Elimination of transactions within the Group

Unrealised profit on inventories which arise from internal transactions are eliminated from the consolidated inventory value. Changes in unrealised internal profit are eliminated from the operating profit/loss for the year. All other internal transactions, as well as receivables and liabilities between group companies, are eliminated in the consolidated accounts.

Associated companies

Companies where Kverneland owns between 20 % and 50 % and has a strategic interest in the company will be accounted for in accordance with the equity method.

VALUATION PRINCIPLES

Cash and Deposits

Cash and deposits include cash, deposits and financial instruments purchased for an original maturity of three months or less.

Accounts receivable

Accounts receivable are valued net of estimated bad debts.

Stocks

Stocks of raw materials are valued at the lower of acquisition cost and replacement cost, following the first in first out principle. Work in progress and finished goods are included at the lower of cost and net realisable value after making due allowance for any obsolete or slow moving items. Cost comprises direct materials, direct labour and, an appropriate amount of works overhead expenses related to the state of manufacture of the goods concerned.

Investment in shares

Investments in shares classified as current assets are valued following the portfolio principle using the lower of total acquisition cost and market value at 31 December.
Investments in shares classified as long-term assets are stated at cost, less provision for diminution in value.

Tangible assets

Tangible fixed assets are stated at cost plus write-ups less depreciation. Depreciation is provided on a straight line basis to write off the cost of fixed assets over their estimated useful lives.

Receivables and liabilities in foreign currencies
Cash and current receivables liabilities in foreign currency are converted using the year end exchange rate. Long-term receivables and liabilities are managed together as a portfolio to reduce the overall foreign currency risk. These balances are converted at the highest/lowest of historical exchange rate and the exchange rate at year end.

Financial instruments
The company uses various financial instruments in order to reduce currency risk and interest rate risk. The accounting treatment for financial instruments follow the intention behind the contract. At the time of commitment, the financial instrument will be defined as either a balance sheet contract or a cash flow contract. A balance sheet contract is entered into to secure the balance sheet balances and order back-logs and will be accounted for in connection with these. A cash flow contract is entered into to secure future currency in- and outflows after the balance sheet date and will be accounted for in connection with these.

Research and development
Revenue expenditure on research and development, including market development, is charged against profits in the year in which it is incurred.

Pension costs
Kverneland ASA and its Norwegian subsidiaries have pension schemes which will give the employees future pension benefits. Except for the German subsidiaries the pension schemes relating to the foreign subsidiaries are not reflected in the Financial Statements as these are considered to be defined contribution plans.
The annual pension cost and the calculated pension obligation at the beginning and end of the year are based on the draft Norwegian Accounting Standard for pension costs. The obligations associated with the early retirement scheme AFP have been included in the balance sheet from 1997. The deviation in pension obligations due to the implementation of AFP will be distributed over the average remaining years of service. The deviation in the estimated pension obligations as of 31 December last year and actual pension obligations as of 1 January this year is included in the profit and loss account.

Extraordinary items
To be considered extraordinary, an item must be irregular, related to transactions of decisions outside the normal course of business, unusual in nature and not expected to occur often or regularly. Restructuring costs are recorded as ordinary items. Profits/losses on disposals of fixed and long-term assets are also recorded as ordinary items.

Tax
The profit and loss account includes a tax expense which comprise the tax expense related to the fiscal result of the year. The tax expense consist of taxes payable and deferred taxes based on temporary differences between taxable results and fiscal results in addition to the effect of any tax losses carried forward.
The assessment and presentation of taxes, including netting off positive and negative temporary differences, is carried out in accordance with the Companies' Act and the draft Norwegian Accounting Standard for taxes.

Notes

NOTE 1 ACQUISITIONS

1993: Kverneland Taarup AS: Acquired 100 % and consolidated into the Group accounts 1 May.
1995: Macchine Agricole Maletti SpA: The Group's ownership was increased from 49.9 % to 50.0 %, and consolidated into the Group accounts from that date.
1996: Kverneland Accord GmbH & Co. KG: The Group's ownership was increased from 26 % to 100 % as from 1 January, and consolidated into the Group accounts from that date. Accord's total assets at that time were approximately NOK 170 million of which 25 % was equity.
1997: Kverneland Maletti S.p.A (former Macchine Agricole Maletti SpA): The Group's ownership was increased to 100 % as from 1 January 1997. As of 31 December 1997 our newly established company Kverneland Silo-Wolff GmbH bought all the shares in Silo-Wolff KG. The total asset of the company was NOK 248 million.
Kverneland Poland sp.zo.o. was established in the autumn of 1997 to take over the role as importer/distributor in Poland as of 1 January 1998. Kverneland owns 70 % of the company and the local management owns the remaining 30 %. Kverneland USA Inc. was established in the autumn of 1997 and will at first act as a sales support office.
1998: Greenland Group was acquired 100 % and consolidated into the Group accounts as from 1 May. The total asset of the Greenland Group was NOK 1,020 million at the time of acquisition. The Group's ownership in Ferrag was increased to 75 % and consolidated into the Group accounts from 1 January.

NOTE 2 OTHER REVENUE

Sales revenue includes other revenue of NOK 64 million related to the sale of Kverneland Kvernex. Kverneland Kvernex was sold to the newly established company Komatsu KVX LLC on 1 July 1998. The new company is owned 60 % by Komatsu America and 40 % by Kverneland ASA.

NOTE 3 WAGES AND REMUNERATION

The following items are included in the accounts of Kverneland ASA:

Corporate Assembly	85,000
Board of Directors	710,000
Auditor*	1.172,732
President & CEO	1.751,716
Loan to President & CEO	500,000
*Inclusive consultant fee	942,732

If the company terminates the employment of the Chief Executive Officer, he is entitled to a compensation corresponding to 12 months of salary beyond the termination period of 6 months. Any income earned by the Chief Executive Officer in another position in this 12 months period will be deducted from the above mentioned compensation.

NOTE 4 OPERATING EXPENSES

Operating expenses include loss on receivables as follows:

(NOK million)	**1998**	1997	1996
Actual loss of the year	**0.4**	1.5	4.0
Change in the year's provisions for loss	**5.0**	3.2	-4.2
Settlement for claims previously written off	**-0.2**	0.3	-1.0
Loss on receivables in the Profit and Loss Account	**5.2**	5.0	-1.2

NOTE 5 LEASING COMMITMENTS

Leasing commitments that represent an annual rental of NOK 21 million have been included in the consolidated profit and loss account for 1998. Total outstanding rental charges amount to NOK 56.7 million.

1999	2000	2001	2002	Thereafter
21.6	16.1	10.0	5.7	3.3

Notes

NOTE 6 FINANCIAL INCOME

(NOK million)	**1998**	1997	1996
Interest income	**9.1**	1.1	4.8
Cash discount	–	4.5	5.3
Currency exchange gain	–	7.4	–
Other	**1.4**	1.7	4.3
Total financial income	**10.5**	14.7	14.4

NOTE 7 FINANCIAL EXPENSES

(NOK million)	**1998**	1997	1996
Interest expense	**53.6**	25.0	26.5
Cash discount	–	–	10.3
Currency exchange loss	**3.1**	–	0.7
Other	**12.2**	8.7	10.6
Total financial expenses	**68.9**	33.7	48.1

NOTE 8 FORWARD CONTRACTS

The Group uses forward exchange contracts to secure future in- and outflows in foreign currencies and to alter the foreign currency mix of the Group's balance sheet and order back-log.

Outstanding forward contracts at 31 December 1998:

Currency		Bought/sold	Net amount (million)	Average remaining (days)
Canadian dollars	(CAD)	Sold	5.4	34
Swiss francs	(CHF)	Sold	0.6	15
German marks	(DEM)	Sold	16.0	162
Danish krone	(DKK)	Bought	102.6	64
Spanish pesetas	(ESP)	Sold	1,490.0	166
French francs	(FRF)	Sold	60.0	191
British pounds	(GBP)	Sold	22.1	77
Irish pounds	(IEP)	Sold	1.3	15
Italian lira	(ITL)	Sold	4,300.0	15
Dutch gilders	(NLG)	Sold	21.4	15
Norwegian kroner	(NOK)	Bought	701.2	180
Swedish kroner	(SEK)	Bought	10.4	95
American dollars	(USD)	Sold	14.0	112

Notes

NOTE 9 PRODUCT AREAS AND MARKETS

Net sales and operating profits derive from the following product areas:

Net sales

(NOK million)	1. Tert	2. Tert	3.Tert	**1998**	1. Tert	2. Tert	3.Tert	1997
Arable	545	480	474	**1,499**	456	427	432	1,315
Grass	183	633	477	**1,293**	178	162	165	505
Other	70	158	99	**327**	41	54	66	161
Total	798	1,271	1,050	**3,119**	675	643	663	1,981

Operaing profit

(NOK million)	1. Tert	2. Tert	3.Tert	**1998**	1. Tert	2. Tert	3.Tert	1 997
Arable	64	59	40	**163**	58	47	13	118
Grass	9	38	14	**61**	5	–	-12	-7
Other	3	70	-3	**70**	1	-16	16	1
Total	76	167	51	**294**	64	31	17	112

All Kverneland product areas are within the same business area.

Geographical distribution of net sales:

Netto salg

(NOK million)	1. Tert	2. Tert	3.Tert	**1998**	1. Tert	2. Tert	3.Tert	1997
Nordic countries	200	250	136	**586**	194	190	131	515
Western Europe (ex. Nordic)	477	791	732	**2,000**	382	335	369	1,086
Remaining markets	121	230	182	**533**	99	118	163	380
Total	798	1,271	1,050	**3,119**	675	643	663	1,981

NOTE 10 MAIN FIGURES FROM INTERIM FINANCIAL ACCOUNTS 1997 – 1998

Profit & Loss Account

(NOK million)	1. Tert	2. Tert	3. Tert	**1998**	1. Tert	2. Tert	3. Tert	1997
Operating revenues	798	1,271	1,050	**3,119**	675	643	663	1,981
Operating expenses ex. depreciation	-694	-1,067	-933	**-2,694**	-588	-588	-626	-1,802
Depreciation	-28	-37	-66	**-131**	-22	-24	-21	-67
Operating profit	76	167	51	**294**	65	31	16	112
Financial items	-13	-32	-14	**-59**	-7	-13	1	-19
Profit before tax	63	135	37	**235**	58	18	17	93
Taxes	-19	-40	1	**-58**	-17	-6	-21	-44
Profit before minority interests	44	95	38	**177**	41	12	-4	49

Balance Sheet

(NOK million)	1. Tert	2. Tert	3. Tert	**1998**	1. Tert	2. Tert	3. Tert	1997
Current assets	1,401	1,945	2,021	**2,021**	1,272	1,210	1,112	1,112
Fixed assets	536	943	1,043	**1,043**	327	347	499	499
Total assets	1,937	2,888	3,064	**3,064**	1,599	1,557	1,611	1,611
Current liabilities	868	1,545	969	**969**	680	601	708	708
Long-term liabilities	251	287	994	**994**	180	181	152	152
Minority interests	6	10	6	**6**	–	–	1	1
Equity	812	1,046	1,095	**1,095**	739	775	750	750
Total liabilities and equity	1,937	2,888	3,064	**3,064**	1,599	1,557	1,611	1,611

Notes

NOTE 11 ACQUISITION OF RAU 1 JANUARY 1999 – PRO FORMA BALANCE SHEET

As from 1 January 1999 the Group has acquired 100 % of the shares in the German/French producer of agricultural implements, RAU-Agrotechnic.

The pro forma balance sheet as per 1 January 1999 reflects an acquisition cost, including transaction costs, of DEM 9.6 million. A preliminary purchase price allocation has been carried out. The net equity of RAU has been adjusted for differences between net book value and estimated market values of assets and for appropriate provisions for costs incurred at the acquisition date. The difference between the adjusted equity of RAU and the acquisition cost, NOK 25 million, has been reported as negative goodwill and will be amortised over the economic life of the assets.

There is some uncertainty related to the assumptions and estimates used in the preliminary purchase price allocation. The final purchase price allocation which will be based on more accurate assumptions and estimates will be carried out within the end of 1999.

Balance Sheet

(NOK million)	31.12.98	Proforma 01.01.99
Current assets	2,021	2,258
Goodwill	119	94
Fixed assets	924	1,024
Total assets	3,064	3,376
Creditors and provisions	802	1,003
Debt falling due within one year	167	278
Current liabilities	969	1,281
Long-term liabilities	994	994
Minority interests	6	6
Equity	1,095	1,095
Total liabilities and equity	3,064	3,376

NOTE 12 STOCKS

Consolidated stocks comprise

(NOK million)	**1998**	1997	1996
Raw materials	**155.6**	59.6	68.9
Work in progress	**288.6**	186.5	180.9
Finished goods	**630.0**	259.5	160.7
Total stock	**1,074.2**	505.6	410.5

NOTE 13 SHARES

Company name		Share Capital	Nominal value	Owned by Kverneland	Book value (1.000)	Ownership (%)
Tritec AS	NOK	7,500,000	1	3,000,000	3,000	40
Komatsu KVX LLC	NOK	83,500,000	83,500	400	33,400	40
Moi AS	NOK	1,000,000	1,000	170	170	17
Total					**36,570**	

Notes

NOTE 14 SHARES IN SUBSIDIARIES

Company name		Share capital	Nominal value	Owned by Kverneland ASA	Book value (NOK Mill)	Ownership (%)
Kverneland Klepp AS	NOK	10,000,000	1,000	10,000	23.8	100.0
Kverneland Underhaug AS	NOK	8,000,000	100	80,000	8.0	100.0
Kverneland Norge AS	NOK	1,000,000	100,000	10	1.0	100.0
Kverneland Sverige AB	SEK	2,500,000	1,000	2,500	0.8	100.0
Kverneland Inc	CAD	300,000	300,000	1	1.7	100.0
Kverneland Kvernex AS	NOK	500,000	1,000	500	0.5	100.0
Kverneland Poland sp.zo.o.	PLN	1,922,000	1,000	1,811	3.8	70.0
Kverneland USA Inc	USD	10,000	1,000	10	0.1	100.0
Kverneland Holding (DE) GmbH	DEM	500,000	100	50	0.9	1.0
Kverneland Eiendom AS	NOK	1,800,000	100	17,938	3.8	99.6
Globus AS	NOK	5,000,000	100,000	50	3.9	100.0
Kverneland Europe bv	NLG	42,000	1,000	42	112.0	100.0
Total					**160.3**	

Company name		Share capital	Nominal value	Owned by Kverneland ASA	Ownership (%)
Kverneland Kidd Ltd. UK/Ireland	GBP	1,800,000	1	1,800,000	100.0
Vicon Belgium nv	BEF	60,000,000	60,000	1,000	100.0
Kverneland Silo-Wolff GmbH	DEM	50,000	50,000	50,000	100.0
Kverneland Holding (DE) GmbH	DEM	500,000	100	4,950	99.0
Kverneland Gottmadingen Verw. GmbH.	DEM	100,000	1,000	100	100.0
Kverneland Gottmadingen GmbH&Co. KG	DEM	16,392,000	16,392,000	16,392,000	100.0
Kverneland Deutschland GmbH	DEM	50,000	50,000	50,000	100.0
Kverneland Accord Verwaltungs GmbH	DEM	50,000	100	500	100.0
Kverneland Accord GmbH & Co. KG	DEM	2,700,000	100	27,000	100.0
Greenland Vertrieb GmbH	DEM	1,550,000	1,550,000	1,550,000	100.0
Deutz-Fahr Landmaschinen Vertrieb GmbH	DEM	5,000,000	5,000,000	5,000,000	100.0
Accord Fähse	DEM	750,000	750,000	750,000	99.3
Kverneland Taarup AS	DKK	40,000,000	40,000,000	1	100.0
Kverneland Holding (DK) AS	DKK	72,379,000	1,000	55,072	100.0
Kverneland (DK) AS	DKK	7,500,000	100,000	75	100.0
Vicon Iberica Maquinaria Agricola, SA	ESP	91,000,000	1,000	91,000	100.0
Kverneland Pimsa SA	ESP	40,000,000	100,000	400	100.0
Kverneland Holding (FR)SAS	FRF	51,500,000	1,000	51,500	100.0
Greenland France SA	FRF	35,502,000	50	710,030	100.0
Kverneland France SA	FRF	24,000,000	100	240,000	100.0
Vicon Ltd	GBP	600,000	600	1,000	100.0
Vicon Agricultural Holdings Ltd	GBP	50,000	50,000	1	100.0
Suffolk Agricultural Implements Ltd	GBP	200,000	1	200,000	100.0
Staalkat of Great Britain Ltd	GBP	20,000	1	20,000	100.0
Kverneland Holding (UK) Ltd	GBP	5,903,000	1	5,903,000	100.0
Kverneland (UK) Ltd	GBP	300,000	1	300,000	100.0
Greenland Seeddrills Ltd	GBP	1,000,000	1,000	1,000	100.0
Greenland Distribution UK Ltd	GBP	1,000	1	1,000	100.0
Kverneland Ferrag Ltd	GBP	300,000	1	225,000	75.0
Kverneland Maletti S.p.A.	ITL	3,500,000,000	1	3,500,000,000	100.0
Multinorm bv	NLG	50,000	50	1,000	100.0
Machinefabriek Nijverdal bv	NLG	100,000	1,000	100	100.0
Machinefabriek & Meetalgieterij Bosch bv.	NLG	1,000,000	1,000	1,000	100.0
Kverneland Nieuw Vennep bv	NLG	5,507,000	1,000	5,507	100.0
Kverneland Grass nv	NLG	40,000,000	1,000	40,000	100.0
Kverneland Geldrop bv	NLG	500,000	100	5,000	100.0
Kverneland Benelux bv	NLG	200,000	1,000	200	100.0
Expert nv	USD	1,060,000	1,060	1,000	100.0

NOTE 15 FIXED ASSETS

CONSOLIDATED	Goodwill/ intangible assets	Machinery & equipment	Buildings	Plant under construction	Site and property	Total fixed assets
Acquisition cost 01.01.98	89.8	773.6	338.7	9.2	21.2	1,232.5
Write-up per 01.01.98	–	–	8.0	–	8.1	16.1
Addition 1998	54.6	264.4	77.4	–	199.0	595.4
Disposal 1998	–	14.6	9.2	–	2.5	26.3
Acquisition cost 31.12.98	**144.4**	**1,023.4**	**414.9**	**9.2**	**225.8**	**1,817.7**
Accumulated depreciation	25.4	635.5	215.1	–	5.4	881.4
Depreciation 1998	13.4	99.8	17.6	–	0.5	131.3
Net Book value 31.12.98	**119.0**	**387.9**	**199.8**	**9.2**	**220.4**	**936.3**
Depreciation rate (%)	10	10 – 30	3 – 5	–	0 – 15	–

Investment	Goodwill/ intangible assets	Machinery & equipment	Buildings	Plant under construction	Site and property	Total fixed assets
1994	–	40.2	1.4	0.5	–	42.1
1995	1.7	60.5	4.4	4.2	–	70.8
1996	16.3	163.4	42.8	3.2	4.5	230.2
1997	49.9	124.3	53.5	1.5	9.6	238.8
1998	**54.6**	**264.4**	**77.4**	–	**199**	**595.4**

Sale	Goodwill/ intangible assets	Machinery & equipment	Buildings	Plant under construction	Site and property	Total fixed assets
1994	–	10.2	0.8	–	0.4	11.4
1995	–	3.3	0.3	–	2.2	5.8
1996	–	2.7	32.1	–	2.2	37.0
1997	–	8.2	10.4	–	3.0	21.6
1998	–	**3.5**	–	–	–	**3.5**

KVERNELAND ASA	Machinery & equipment	Buildings	Site and property	Total fixed assets
Acquisition cost 01.01.98	37.1	103.4	2.0	142.5
Write-up per 01.01.98	–	–	8.1	8.1
Addition 1998	69.1	1.9	–	71.0
Disposal 1998	0.7	–	–	0.7
Acquisition cost 31.12.98	**105.5**	**105.3**	**10.1**	**220.9**
Accumulated depreciation	14.2	74.7	–	88.9
Depreciation 1998	9.3	3.3	–	12.6
Net Book value 31.12.98	**91.3**	**30.6**	**10.1**	**132.0**
Depreciation rate (%)	10 – 30	3 – 5	–	–

	Machinery & Equipment		Buildings		Total	
Investment/sale	Investment	Sale	Investment	Sale	Investment	Sale
1994	3.8	–	0.1	–	3.9	–
1995	0.6	0.1	–	–	0.6	0.1
1996	8.0	–	2.5	–	10.5	–
1997	24.3	0.6	–	0.5	24.3	1.1
1998	**69.1**	**0.8**	**1.9**	–	**71.0**	**0.8**

Notes

NOTE 16 CREDITORS AND PROVISIONS

(NOK million)	**1998**	1997	1996
Creditors	**476.8**	227.7	187.9
Accrued VAT, tax, social welfare contributions etc	**72.6**	54.8	43.1
Provisions for guarantee obligations	**38.8**	40.1	19.0
Other current liabilities	**213.6**	57.1	172.1
Total	**801.8**	379.7	422.1

NOTE 17 LONG-TERM LIABILITIES

The Group had the following long-term credit facilities at the end of 1998:

NOK 700 millioner, 7 years Multicurrency Revolving Credit Facility established in April 1997
NOK 500 millioner, 4 years Multicurrency Revolving Credit Facility established in December 1998

The following drawing were outstanding at the end of 1998:

(NOK million)

Currency	Amount drawn	Equivalent amount in NOK
DEM	100	453.4
DKK	180	214.2
NLG	22	88.5
Total		**756.1**

In addition the Group has mortgages on buildings where NOK 103.7 million is classified as long-term and the remaining long-term debt is financial leasing.

NOTE 18 MINORITY INTERESTS

Kverneland ASA owns 51 % of the shares of its sales and distribution company in Ireland. The minority interest of the 1998 profit, is NOK 0.6 million. The management in the newly established company in Poland owns a share equal to 6 % or NOK 0.2 million and the company's shares and controls 30 % of the votes in the company. Kverneland Poland sp.zo.o started its operations as of 1 January 1998.

Deutz-Fahr Landmaschinen Vertrieb, which was acquired in the acquisition of Greenland, was on the time of the acquisition owned 80 %. The remaining 20 % were acquired in December 1998.

Kverneland's ownership in Ferrag Ltd was increased from 49 % to 75 % in 1998. The minority interest of the 1998 loss was NOK 1 million.

NOTE 19 ACCOUNTING FOR INCOME TAXES

In accordance with the draft Norwegian Accounting Standard for taxes, positive and negative temporary differences together with losses carried forward, are available for offset if they reverse or can reverse in the same period. The deferred taxes stated below have been calculated after offsetting temporary differences and losses carried forward.

Nominal tax rates in the various countries have been applied in the calculations of deferred taxes. However, in calculation deferred tax pertaining to deferred tax positions acquired, the discounted tax rates as reflected in the purchase price have been used. As per 31 December 1998 discounted tax rates of 15 % and 25 % gave been used for step up values related to properties for provision related to long-term liabilities respectively. The nominal tax rate here is 35 %.

	Group			Kverneland ASA		
Deferred taxes. Temporary Differences (NOK million)	**1998**	1997	1996	**1998**	1997	1996
Short-term	**3**	-50	-16	–	–	–
Long-term	**120**	85	–	**32**	16	11
Total temporary differences	**123**	35	-16	**32**	16	11
Loss carry forward	**-53**	-43	–	–	–	–
Acquisition related step up	**79**	–	–	–	–	–
Differences on acquisition	**-17**	–	–	–	–	–
Elimination of internal profit	**-57**	-34	–	–	–	–
Deferred tax asset/(liability)	**75**	-42	-16	**32**	16	11
Deferred tax liability	**7**	–	–	**9**	5	3
Pension liabilities	**-31**	-33	- 4	**-5**	-5	-4
Limitation on recording deferred tax asset	**4**	75	19	–	–	–
Basis for deferred tax asset	**-27**	42	15	**-5**	-5	3
Deferred tax asset	**7**	–	–	**1**	1	-1

Tax expense	**1998**	1997	1996	**1998**	1997	1996
Taxes payable	**55**	47	47	**33**	21	16
Taxes payable – previous years	**3**	-3	–	–	–	–
Deferred tax – net change	–	–	–	**4**	2	–
Tax expense	**58**	44	47	**37**	23	16
Foreign part of total tax expense	**20**	13	16	–	–	–

	Kverneland ASA		
Taxes payable	**1998**	1997	1996
Profit before tax	**65**	46	28
Permanent differences including received dividend	**-9**	-23	-15
Contribution from group companies	**75**	58	42
Change in temporary differences	**-15**	-5	–
Basis for taxes payable	**116**	76	55

NOTE 20 MORTGAGES

	Group		Kverneland ASA	
(NOK million)	**1998**	1997	**1998**	1997
Long-term loan	**116.8**	110.7	**31.9**	39.3
Overdraft facility drawn	**40.1**	16.1	–	–
Total	**156.9**	126.8	**31.9**	39.3
Book value on mortgaged assets				
Debtors	**20.4**	3.2	–	–
Stocks	**129.7**	–	–	–
Machinery and equipment	**70.7**	71.9	–	–
Buildings	**69.4**	81.5	**30.6**	32.0
Land	**20.8**	14.4	**10.1**	10.1
Total	**311.0**	171.0	**40.7**	42.1

Notes

NOTE 21 GUARANTEE OBLIGATIONS

At the end of 1998 the Group had guarantee obligations of NOK 112.9 million compared to 63.3 million last year. At the end of 1998 Kverneland ASA had guarantee obligations on behalf of their subsidiaries of NOK 63.4 million compared to 7.8 million at the end of 1997.

Kverneland ASA has a Cashpool System with an overdraft facility where all subsidiaries in Norway, Sweden, Denmark, UK and Germany are participating, and where Kverneland ASA is responsible for the total overdraft for the Group. The limit of this overdraft facility is NOK 100 million and at the end of the year the Group used NOK 13.8 million.

In addition the Group has overdraft facilities for the companies in Netherlands and Germany with limits of DEM 4 million and NLG 5 million. As per 31 December 1998 the Group used NLG 5 million.

NOTE 22 PENSION AND PENSION OBLIGATIONS

Kverneland ASA and the Norwegian subsidiaries have pension schemes that entitle its members to defined future benefits (defined benefit plans). These benefits are primarily dependent upon the number of years of employment, the salary level at the time of retirement and the size pension payments from the government. These obligations are insured and managed by life insurance companies. Some of the subsidiaries outside Norway have pension schemes that are defined contribution plans. These plans may be specific for the company or be multi-employer plans.

Insured pension schemes

(NOK million)	**1998**	1997	1996
Pension obligation to date	**76**	79	78
Net effect of future salary increase	**25**	15	10
Calculated pension obligations	**101**	94	88
Pension funds (at market value)	**135**	121	117
Net pension assets	**34**	27	29

The Norwegian insured pension schemes cover 1,033 people. The net pension assets are included in the Group's Balance Sheet since the total obligation is higher than the market value of the funds. Estimation deviations are included in the company's Profit and Loss Account.

Uninsured pension schemes

(incl. early retirement)	Non-Norwegian plans			Norwegian plans		
(NOK million)	**1998**	1997	1996	**1998**	1997	1996
Calculated pension obligations	**83**	17	28	**28**	62	6
Unrecognised plan amendments		–	–	**-3**	34	–
Pension obligations	**83**	17	28	**25**	28	6

The uninsured pension obligations cover 835 people in Norway and 966 people in Germany.

Economic assumptions used in the calculation (%)	**1998**	1997
Discount rate	**7.0**	6.0
Expected future increase in salaries	**3.3**	2.5
Expected future increase of pensions	**1.5**	1.5
Expected increase in the basis for calculating government contributions	**2.5**	2.5
Expected return on plan assets	**8.0**	6.0
Expected percentage of qualifying employees to use the pension scheme AFP	**45.0**	90.0

Kverneland ASA has reflected NOK 4.9 million as pension obligations in the balance sheet. This obligation covers 7 employees. Kverneland ASA has no insured pension schemes. Estimation deviations related to uninsured plans are included in the company's Profit and Loss Account.

Notes

NOTE 23 RECONCILIATION OF EQUITY

(NOK million)	**1998**	1997	1996
Equity 01.01.	**749.5**	707.6	623.2
Profit for the year	**178.0**	48.8	122.0
New equity	**127.0**	–	–
Effect of step by step acquisitions	**10.6**	–	–
Translation differences	**68.9**	7.9	-10.7
Accrued dividends	**-38.8**	-14.8	-26.9
Equity 31.12	**1,095.2**	749.5	707.6

NOTE 24 SHARES OWNED BY ELECTED REPRESENTATIVES

Shares in Kverneland ASA owned by elected representatives, Group Management and auditor at year end 1998:

Board of Directors	No. of shares
Steinar Olsen, Chairman	0
Ådne Kverneland, Deputy Chairman	23,129
Ole Julian Eilertsen	0
Henrik Ager-Hanssen	0
Per Otto Dyb	0
Anders Eckhoff	20,000
Stein Mossige*	0
Kai Ole Togstad*	0
Eldor Fjermestad*	0

Group Management	
Atle Eide	10,000
Audun Berg	0
Leif Søfting	0
Sverre Kjenne	600
Eirik Larsen	3
Ellinor Grude	150

Auditor	
Aage K. Seldal	0

* Elected by the employees

Audit report for 1998

We have audited the annual report and accounts of Kverneland ASA for 1998, showing a profit for the year of NOK 28,178,832 for the parent company and a consolidated profit for the year of NOK 178,029,000. The annual report and accounts, which comprise the annual report proper, profit and loss account, balance sheet, funds flow statement, notes to the accounts and consolidated accounts are presented by the company's Board of Directors and its Managing Director.

Our responsibility is to examine the company's annual report and accounts, its accounting records and other related matters.

We have conducted our audit in accordance with relevant laws, regulations and generally accepted auditing standards. We have performed those audit procedures which we considered necessary to confirm that the annual report and accounts are free of material misstatements. We have examined selected parts of the evidence supporting the accounts and assessed the accounting principles applied, the estimates made by management, and the content and presentation of the annual report and accounts. To the extent required by generally accepted auditing standards we have reviewed the company's internal control and the management of its financial affairs.

The Board of Directors' proposal for the application of the profit for the year is in accordance with the requirements of the Companies Act.

In our opinion, the annual report and accounts have been prepared in accordance with the requirements of the Companies Act and present fairly the financial position of the company and of the group as of 31 December 1998 and the result of its operations for the financial year, in accordance with generally accepted accounting principles.

Stavanger, 8 February 1999
KPMG as

Aage K. Seldal

State Authorized Public Accountant (Norway)

10 years survey

(NOK million)	Note	1998	1997	1996	1995	1994	1993	1992	1991	1990	1989
Revenue and Income											
Net sales	9	3,119	1,981	1,952	1,618	1,445	1,102	899	961	1,087	991
Operating profit	9	294	112	205	185	144	83	79	25	78	104
Profit (loss) before minority and tax		235	93	171	143	102	26	23	-40	7	40
Taxes		58	44	47	43	27	5	6	14	5	10
Net income (loss)		178	49	122	99	73	20	18	-26	2	30
Capital											
Debtors		765	496	531	397	356	346	246	201	173	177
Stocks	12	1,074	506	411	329	287	286	249	248	313	284
Interest bearing liabilities		1,053	463	316	183	205	372	327	367	380	358
Capital employed		2,262	1,231	1,057	826	649	760	631	644	685	646
Equity	23	1,095	750	708	623	426	365	283	265	305	289
Total assets		3,064	1,611	1,479	1,210	980	983	805	768	862	837
Investments in fixed assets	15	595	239	146	62	42	22	20	34	70	39
Profitability											
Operating margin (%)		9.4	5.7	10.5	11.5	10.0	7.5	8.7	2.6	7.2	10.5
Return on capital employed (%)		17.4	11.1	23.3	26.8	23.1	13.3	14.3	5.4	13.1	17.6
Return on equity (%)		19.3	6.7	18.3	18.8	18.4	6.0	6.4	-9.1	0.8	10.9
Equity ratio (%)		35.7	46.5	47.9	51.5	43.5	37.1	35.2	34.5	35.4	34.5
Liquidity											
Cash flow from operations		-137	-18	-29	93	206	-11	78	17	21	77
Shares											
Number of shares at 31.12. (1,000)		9,715	8,964	8,964	8,964	7,467	7,420	5,565	5,565	5,565	5,315
Market capitalisation at 31.12.		1,822	1,076	1,578	1,098	672	397	145	100	300	399
Equity per share at 31.12. (NOK)		113	84	79	70	57	49	51	48	55	54
Share price at 31.12. (NOK)		187.50	120.00	176.00	122.50	90.00	53.43	25.27	17.50	52.49	72.79
Share price – High (NOK)		217.00	234.50	177.00	125.00	93.36	53.98	31.53	48.73	109.69	80.13
Shareprice – Low (NOK)		118.00	114.00	125.00	82.06	52.02	24.83	17.20	14.33	42.99	35.29
Payout ratio		21.8	30.3	22.0	20.0	15.4	26.6	0.0	0.0	0.0	17.7
Earnings Per Share (NOK)		18.88	5.45	13.61	12.11	9.79	3.05	3.16	-4.67	0.44	5.64
Cash Flow Per share (NOK)		-14.49	-2.02	-3.26	11.36	27.71	-1.72	13.98	2.97	3.94	14.47
Employees											
Number of employees at 31.12.		3,273	2,147	2,032	1,621	1,469	1,313	894	1,021	1,228	1,264

Definitions

1. Interest bearing debt
Short-term and long-term interest bearing debt.

2. Capital employed
Total assets less short-term non interest bearing debt.

3. Equity
Untaxed equity is 100 % included before 1991. From 1991 untaxed equity is transferred partly to equity, partly to deferred tax. From 1993 the effect of the new accounting standard for pension is included in equity.

4. Operating margin
Operating profit as % of net sales.

5. Return on capital employed
Operating profit plus financial income as % of average capital employed.

6. Return on equity
Net income after tax as % of average equity.

7. Equity ratio
Equity as % of total assets

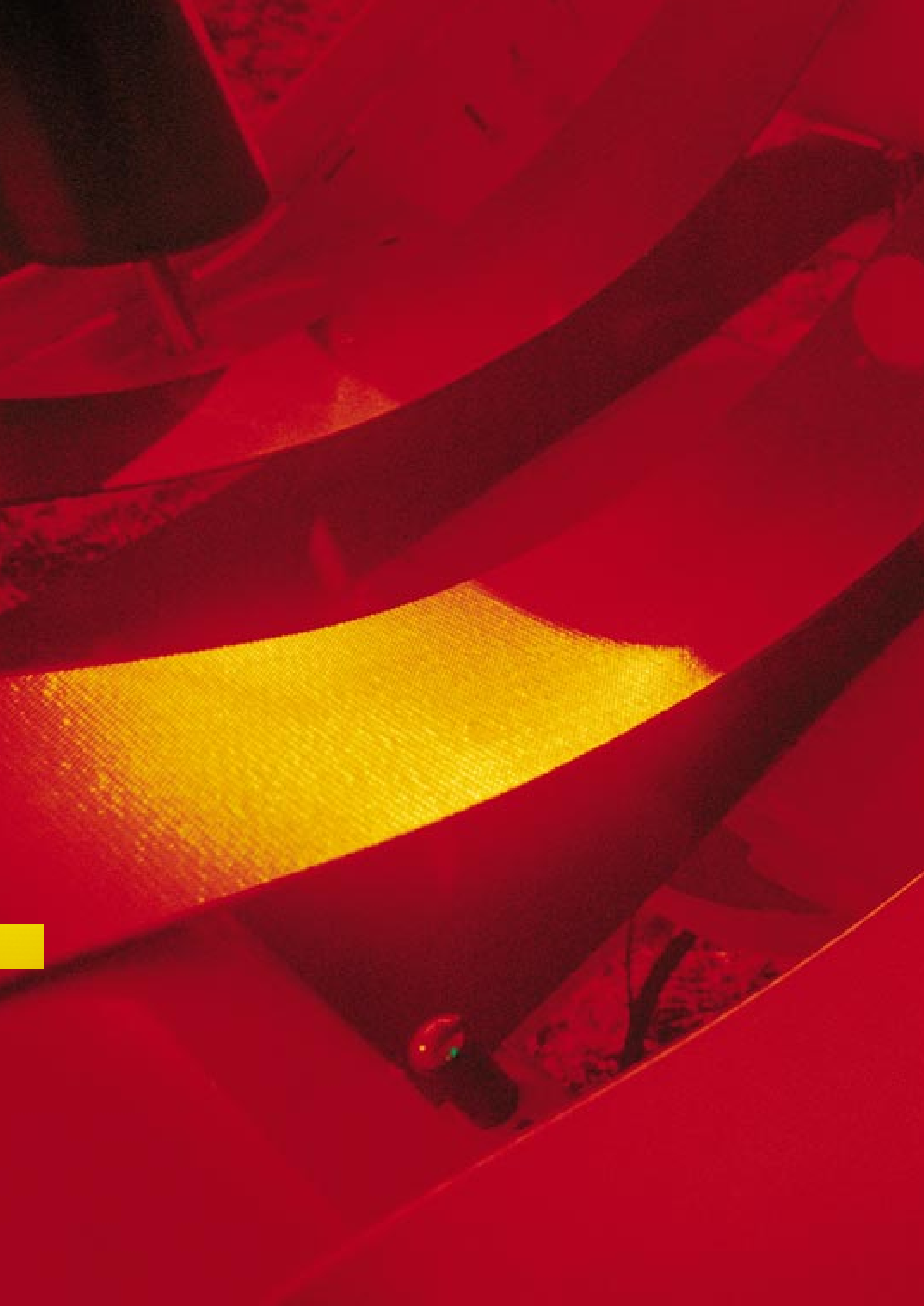
8. Share price at 31 December
Share price adjusted for share issues.

9. Share price high/low
Applicable year's highest and lowest share price adjusted for share issues.

10. Payout ratio
Dividend as % of net income after tax.

11. Earnings Per Share
Net income after tax divided by average number of shares.

12. Cash Flow Per Share
Cash flow from operations divided by average number of shares.



Shareholders' Policy and Investor Relations

Financial targets
The Board has established the long-term yield target on capital employed for the Group to be risk free interest with the addition of 8 % covering risk.

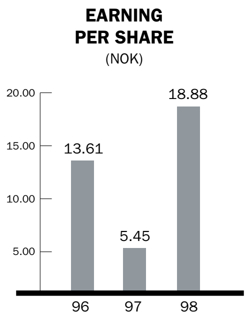
Capital structure
To ensure freedom of action and based on risk assessment, Kverneland has determined to maintain a solvency ratio for the Group of at least 40 % of total assets.
This should help the company ensure it has access to the necessary loan capital on reasonable terms.

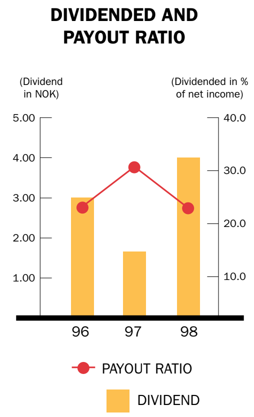
Shareholders' earnings
Kverneland's aim is that shareholders should, in the long-term, have a yield that is competitive in relation to other investments having the same degree of risk. The yield should reflect the value added of the company and should be expressed in the form of dividend and an increase in the value of the company's shares. The sum of the dividend and the increase in share price should give the shareholders an annual yield that at least corresponds to risk-free placements plus addition for risk.

Share issues
It is the company's policy, by possible new share issues, to ensure that a dilution of the shareholders' value does not happen. Share issues will primarily be effected with preference for existing shareholders. Private share issues may be effected if they are considered favourable for existing shareholders, for instance when related to acquisitions of or mergers with other companies.

Voting rights
One share gives the right to one vote at the General Assembly.

Investors relations/Financial information
Kverneland is committed to disclose relevant information promptly in order to enable shareholders, investors and the financial market in general to undertake correct company evaluation and pricing. In connection with its presentation of interim four-month reports and annual results, Kverneland regularly holds presentations for investors and analysts at home and abroad. The objective is to increase the understanding and enhance knowledge about Kverneland, so that at any given time the share price will reflect the company's status and future prospects. In addition, the company will give the stock market ongoing information about events of importance to the Group.
The Kverneland Group publishes written reports in Norwegian and English for the 1st and 2nd four-month periods as well as an annual report. In 1999, Kverneland will publish the four-month results on 27 May and 23 September. The General Assembly will take place on 29 April.





The Kverneland share
The Kverneland share is listed on the Oslo Stock Exchange (ticker symbol KVE). A total of 10.3 million Kverneland shares were traded, where 7.9 million were traded on the Oslo Stock Exchange with a trading value of NOK 1,350 million. This represents 84 % of the average outstanding number of Kverneland shares during 1998. The total number of outstanding shares at 31 December 1998 is 9.7 million.
The Kverneland share traded at NOK 120.00 at the end of 1997 and the share price at the end of 1998 is NOK 187.50. This represents an increase in 1998 of 55,8 %. During the same period, the all share index on the Oslo Stock Exchange fell by 26.7 %, while the industrial index fell by 22.0 %. The high and low for 1998 were NOK 217.00 and NOK 118.00 respectively.
Based on the price of a Kverneland share as at 31 December 1998 and the Group's per-share result for 1998, this gives a Price/Earning ratio (P/E) of 9.93.
The Board of Kverneland proposes that for 1998 the dividend per share be set at NOK 4.00, an increase from NOK 1.65 in 1997. This represents a distribution ratio of 22 %, a decrease from 30 % in 1997. The General Assembly will be held on 29 April 1999, and the share will be quoted ex dividend on the following day. The dividend will be paid out in early May to those registered as shareholders with the Norwegian Registry of Securities, the Verdipapirsentralen (VPS), as at 29 April 1999.

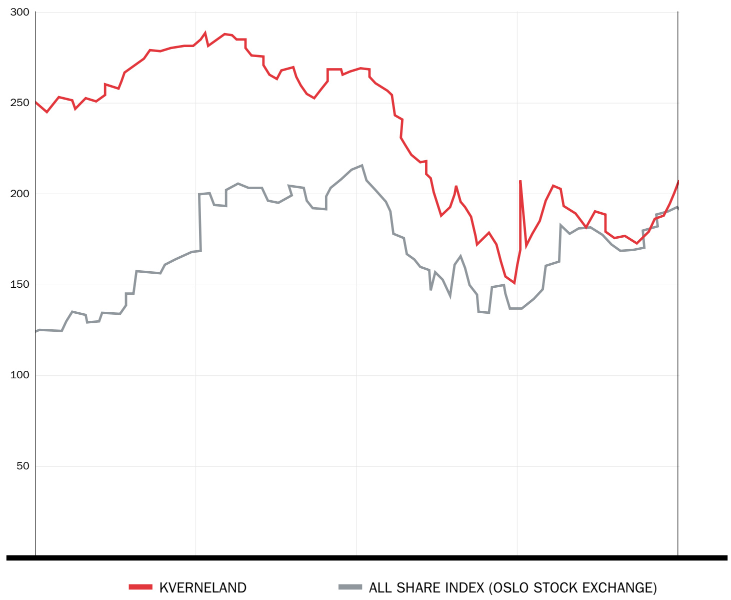
Shareholder profile
There were 3,835 shareholders in Kverneland as per 31 December 1998 of which 129 were non-Norwegians. The number of shares held by non-Norwegians has increased by 2.4 percentage points during 1998 and stands at 21.5 % at year-end.

Shareholders’ Policy and Investor Relations

The 20 largest shareholders in Kverneland ASA at 31 December 1998

Shareholder	Number of shares	% of all shares
Orkla ASA	888,733	9.15
Chase Manhattan Bank	863,050	8.88
Storebrand Livsforsikring	686,220	7.06
Kommunal Landspensjonskasse	473,900	4.88
Vital Forsikring ASA	291,149	3.00
Gjensidige Livsforsikring	274,961	2.83
Norsk Hydros Pensjonsfond	254,200	2.62
K-Holding	220,000	2.26
State Street Bank & Trust Co.	203,455	2.09
Nor Forsikring AS	174,344	1.79
Hartog & Co. A/S	150,000	1.54
Morgan Stanley Trust Company	146,640	1.51
Verdipapirfondet Delphi Norge	134,300	1.38
Verdipapirfondet K-Kapital	130,000	1.34
Statoils Pensjonskasse	118,000	1.21
Verdipapirfondet Avanse	116,200	1.20
Boston Safe Dep. & Trust	114,400	1.18
Storebrand AMS	107,000	1.10
Tine Pensjonskasse	99,372	1.02
Gjensidige Skadeforsikring	96,848	1.00
Total 10 largest shareholders	**4,330,012**	**44.57**
Total 20 largest shareholders	**5,542,772**	**57.05**

KVERNELAND SHARE PRICE
(Last year development)



Shareholders' Policy and Investor Relations

Share capital development

		Ref.	Change in outstanding shares	Number of outstanding shares	Share Capital (NOK)
January –83				1,200,000	12,000,000
September –83	Public Offering	1	600,000	1,800,000	18,000,000
September –83	Private Placement	2	15,000	1,815,000	18,150,000
July –84	Bonus Issue 1:1		1,815,000	3,630,000	36,300,000
July –84	Rights Offering	3	907,500	4,537,500	45,375,000
September –86	Private Placement	4	777,600	5,315,100	53,151,000
June –90	Shares Dividend	5	37,008	5,352,108	53,521,080
July –90	Private Placement	6	212,600	5,564,708	55,647,080
July –93	Rights Offering	7	1,854,903	7,419,611	74,196,110
June –94	Shares Dividend	8	47,329	7,466,940	74,669,400
July –95	Rights Offering	9	746,694	8,213,634	82,136,340
July –95	Private Placement	10	750,000	8,963,634	89,636,340
May –98	Private Placement	11	751,667	9,715,301	97,153,010

1. Public offering of 600,000 shares before the introduction at the Oslo Stock Exchange. Offering price per share of NOK 80.00.
2. Private Placement – employee directed. Offering of 15,000 shares with an offering price per share of NOK 10.00.
3. Rights Offering of 907,500 shares with a subscription price per share of NOK 40.00. Existing shareholder were given the right to subscribe to one additional share for every four shares held.
4. Private Placement – in connection with merger with F.A. Underhaug AS. Offering of 777,600 shares.
5. Shares offered instead of dividend payment. Offering price per share of NOK 95.00. 37,008 shares were issued.
6. Private Placement – employee directed. Offering of 212,600 shares with an offering price per share of NOK 50.00.
7. Rights Offering of 1,854,903 shares with a subscription price per share of NOK 42.00. Existing shareholders were given the right to subscribe to one additional share for every three shares held.
8. Shares offered instead of dividend payment. Offering price per share of NOK 68.60. 47,329 shares were issued.
9. Rights Offering of 746,694 shares with a subscription price per share of NOK 72.00. Existing shareholders were given the right to subscribe to one additional share for every ten shares held.
10. Private Placement – towards foreign investors. Offering of 750,000 shares with an offering price per share of NOK 94.00.
11. Private placement – towards foreign investor, related to the acquisition of Greenland. Offering of 751,667 shares with an offering price per share of NOK 169.00.

Ownership structure at 31 December 1998

No. of shares	No. of shareholders	No. of shareholders as a %	No. of shares	Holding as a %
1 – 100	1,393	62.4	103,873	1.1
101 – 1,001	1,085	28.3	350,466	3.6
1,001 – 10,000	258	6.7	858,687	8.8
10,001 –	99	2.6	8,402,275	86.5
Total	**3,835**	**100.0**	**9,715,301**	**100.0**

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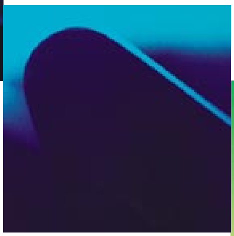
BALER FROM
VICON

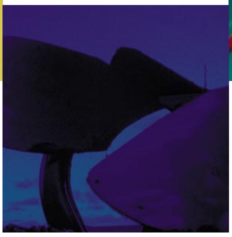


POWER HARROW FROM
KVERNELAND MALETTI

SPRAYER FROM
RAU AGROTECHNIC

RAKE FROM
KVERNELAND KLEPP

SEEDER FROM
KVERNELAND ACCORD



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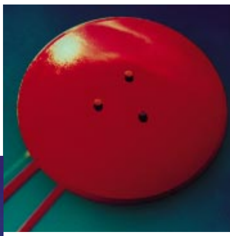

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Kverneland is the world's largest, most specialised manufacturer of agricultural machinery.
The pictures demonstrate the wide product range the Kverneland Group offers the marked.

Annual Report 1998

Kverneland

FINANCIAL CALENDAR

GENERAL ASSEMBLY	29 April 1999
ACCOUNTS	
FIRST FOUR-MONTH PERIOD	27 May 1999
SECOND FOUR-MONTH PERIOD	23 September 1999

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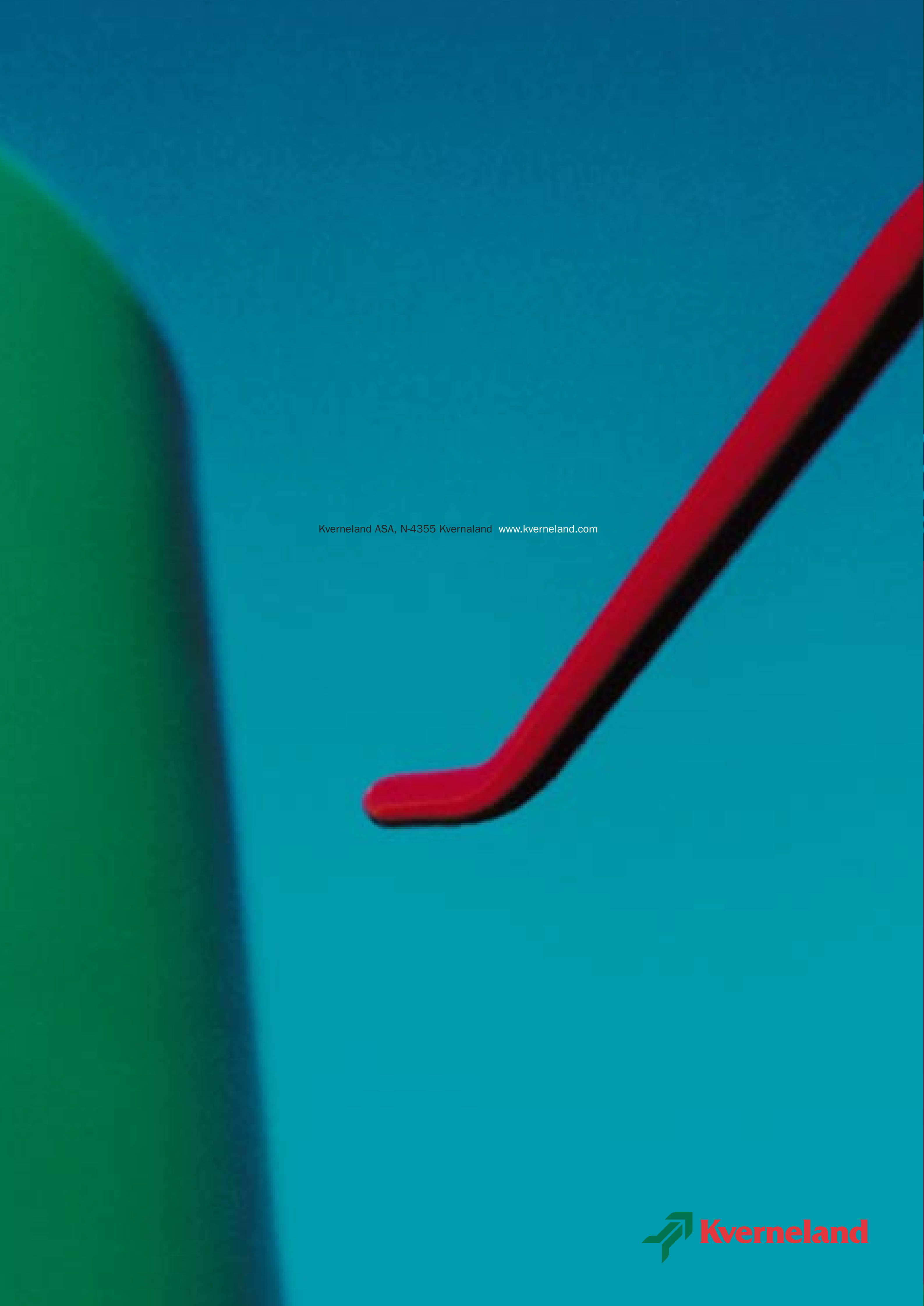

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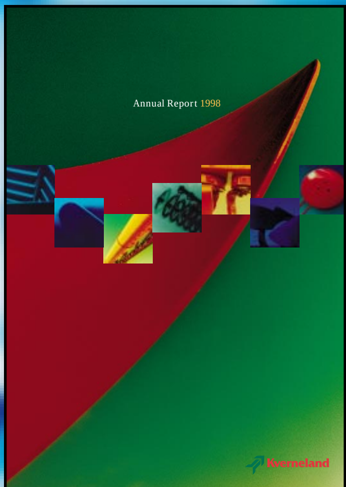

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