The Year in Brief

- Stable market for soil preparation equipment. Grass market weak but stable.

  Potato market still weak but potato prices are going up.
- Tractor sales in Western Europe is declining – as an example 18% in United Kingdom and 5% in France.
- New organisation implemented during second half of 1997. The new organisation has shorter lines in the decision making processes and is well adapted to current challenges.
- September: Acquisition of 100% of the shares in Silo-Wolff as per 31.12.97.
- October: Decision to establish Kverneland Poland where Kverneland owns 70%.
- November: Acquisition of the majority of shares (75%) in Ferrag from 1998.
- November: Tools division in Kverneland Kvernex divested from 31.12.97. However, Kverneland still to hold a minority position of 40%.
- December: Decision to establish Kverneland USA.
- Revenue growth of 1.5% - from NOK 1,952 million to NOK 1,981 million.
- 45.6 % reduction in profit - profit before tax and minority interest of NOK 93 million.
- Equity ratio of 44%, down from 48% in 1996.

Key Figures

NOK million	**1997**	**1996**	**1995**
Operating revenues	**1,981**	1,952	1,618
Operating profit	**112**	205	185
Profit before minority and tax	**93**	171	143
Cash flow from operations	**-18**	-29	93
Return on capital employed	**11.1%**	23.3%	26.8%
Equity Ratio	**46.5%**	47.9%	51.5%
Earnings Per Share (NOK)	**5.45**	13.61	12.11
No. of employees at 31 December	**2,147**	2,032	1,621

Foundation for growth

The agriculture industry is often regarded as a mature industry. If we use a short-term perspective, such a view can be justified. If we look at the industry on a more long-term and fundamental perspective, other far more diverse observations must form the basis for the analyses made.

President & CEO Atle Eide

«The Kverneland Group keeps ahead of the changes that will take place in our industry and is thus able to exploit the possibilities that lie therein. Through this we will create a platform for growth.»

1997 was a year of change in Kverneland. On the threshold of a new millennium this is perhaps not such a sensational observation for an international group. Following years of growth in earnings we experienced a negative development. The reason for this development was explained in depth in the presentation of the financial results for 1997 and has also been commented in the directors' report.

I do not want to dwell further on the past year, but as President & CEO I must point out that this development is not satisfactory. A united Group Management will implement the changes necessary to create a result that ensures profitability, which in turn will form the basis for new growth and not least a return on investment and value added that satisfies our shareholders.

Change management

Adversity and difficulties can stimulate new thinking and give new people the opportunity to demonstrate their knowledge and skills. We in Kverneland decided that it was time to make a relatively major change in our organisation and to delegate responsibility and give some of our managers new areas of responsibility.

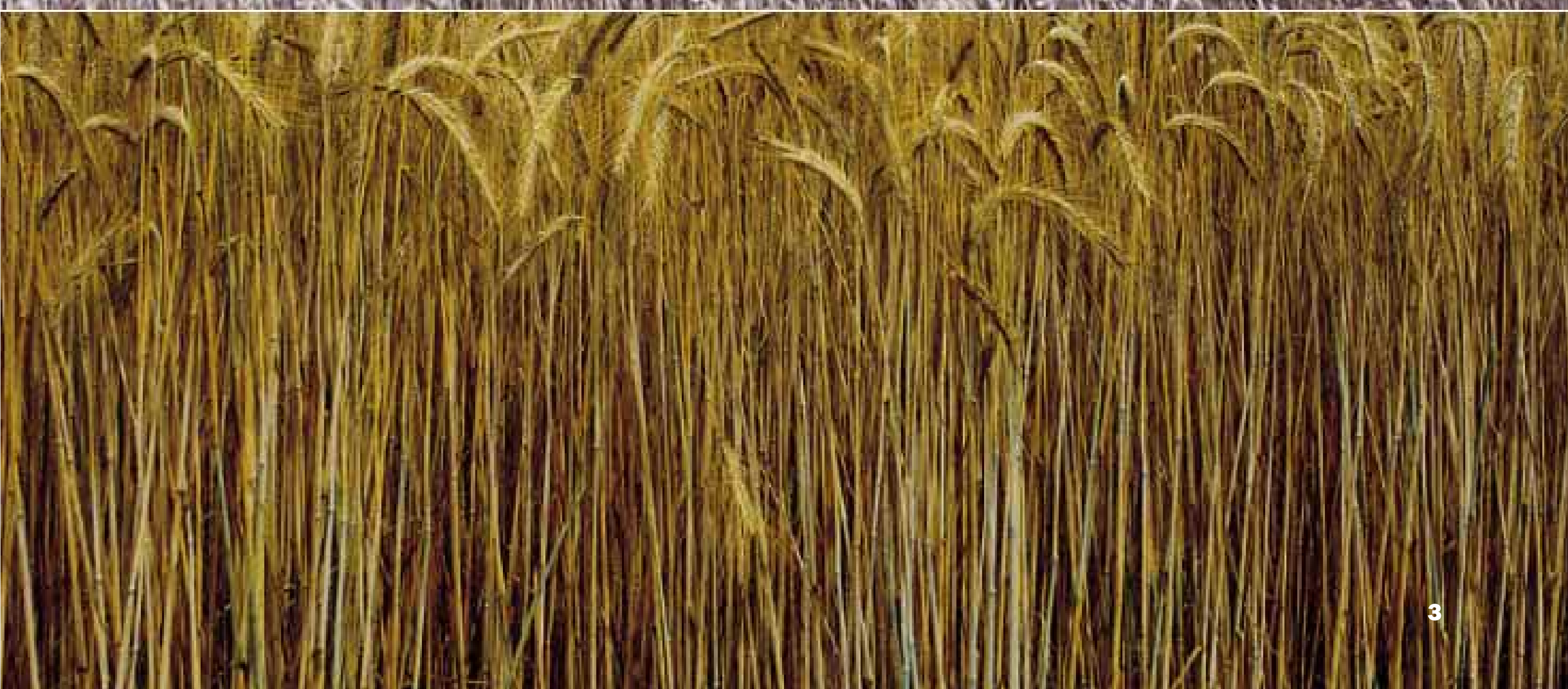
We removed a management level, clarified responsibilities, documented policies and guidelines and introduced a performance measurement system. This change will help to extract the synergies and strengths that shall and must lie in an integrated group. We call it Value Chain Management and this involves changing the Group's integrated nature to an effective, flexible competitive advantage.

Costs have been reduced through this method of working. The effect on earnings lies however to an even greater extent in the clarification and hence the subsequent motivation that has taken place as regards assuming responsibility for commercial development and operation of the Group. From this we expect to achieve savings.

Our extended management team forms, among other things, the basis of our new organisation. In co-operation with Group Management, they will have operational responsibility for the Group's operations and development. This change has meant that we have significantly internationalised the top management, which now comprises representatives from 12 nations. The members of this extended management team, our Managing Directors, have of course their position in each company and act as an important inspiration and corrective source to Group Management. We have found that participation in the team gives each manager a new perspective of his/her leadership role and contributes ultimately towards our market and result-orientation. The close link between Group Management and the operating units gives far better responsiveness and closeness to the market on which we depend.

Two women have joined the management team in 1998, our Group HR Director and the Managing Director in Kverneland Poland. This is a modest but important step forward.

Even more resources will be used in future on ongoing organisational and management development so that the Kverneland Group keeps ahead of the changes that will take



«Kverneland is well positioned through its unique production, its long and sound foundation in the industry and its strong position in the market. We are considered by several companies to be an attractive partner. This strengthens our reputation for accountability that has been established through our previous acquisitions.»

«We are working according to an integrated strategy in which we will build a product range that has strong internal synergy and that will also strengthen our distribution network.»

place in our industry and is thus able to exploit the possibilities that lie therein. Through this we will create a platform for growth. Such changes will affect all players as part of the widespread structural changes that will be imposed upon the agricultural industry in general. The inevitability of these changes forms an important foundation for the Group's prospects for success with its declared growth strategy.

Agriculture in the future

Our employees, managers and shareholders must never forget that we are part of a cyclical industry. Our final customer, the global farmer, has had and even more so in future, will have his earnings linked to the global market price of the products he produces. The industry is however also greatly influenced by national and global politics. It is important that our owners have this perspective in mind when analysing Kverneland.

The agriculture industry is often regarded as a mature industry. If we use a short-term perspective, such a view can be justified. If we look at the industry on a more long-term and fundamental perspective, other far more diverse observations must form the basis for the analyses made.

In Europe, our domestic market, we have experienced for some years now that the number of farmers has been dramatically reduced and this development continues at a high pace. At the same time, the area of cultivated land has remained constant. This has resulted in fewer and larger farms. We have reason to believe that this development will really take off when the new agricultural policy in European Community has been adopted and the level of subsidies is reduced further. Competitiveness and cost-effectiveness require size.

There is however no reason to believe that land will be taken out of production and that the European Community or any national state will accept a reduction in their self-sufficiency rate. This means that the fundamental element, namely production, will remain.

If we look outside Europe, Kverneland has chosen to focus eastwards. The potential for food production in this area is huge, in fact, almost unlimited. Rich agricultural areas, which when they start more intensive production, can help provide some of the food the world so badly needs. Investment in modern agricultural machinery will be needed if these areas are to start production. Development here will have to go hand in hand with the general development in the national economy in these countries. This development will however be clearly strengthened through the support programmes initiated by the Western world. Development will not suddenly take off, but we will see an even, strong growth, with a few temporary setbacks in some years if nothing else. This growth could be affected positively if relevant financing can be obtained.

Our experience from Europe is strengthened when we see the dramatic growth in productivity among farmers who use Kverneland's products in these new markets.

There is no doubt that there are substantial growth prospects in North America, where Kverneland decided to implement a more opportunistic strategy in 1998.

Environment

Focus on the environment is one of the areas that will affect global agriculture in future. We will experience that use of fertiliser and chemicals will be subject to more stringent regulations. The consequence of this will be increased requirements on the machinery used. Accuracy in spreading of fertiliser and dosing of pesticides will be important if the farmer is to meet the environmental requirements imposed by the authorities. This will mean a need for increased investment in product development and the result will be more technically advanced products. The environmental requirements will have to go hand in hand with even more stringent productivity requirements. In our opinion, more advanced technique and more widespread mechanisation will be the answer.

Use of GPS technology will gradually become more and more popular in agriculture if the trial projects now in progress prove to be as successful as the results so far indicate. A development in this direction would lead to an increase in efficiency and thus reduced costs for the farmer. Size will again be a deciding factor in order to justify the basic investments – for user, producer and developer alike. This will require technology that favours the more advanced suppliers, but will also impose new demands on the distribution network. This will represent exciting challenges and possibilities for Kverneland.

Changes in structure

As mentioned previously, we see a dramatic change in the structure on the producer side, i.e. the farmer. This development will soon also affect the distribution and production side. We will gradually see a concentration of fewer distributors and fewer and larger producers.

If we consider the producer side, we will find several small and medium-sized companies within grass and soil preparation products. These are mainly family companies that in most cases concentrate on their domestic market and only to a limited extent on several export markets. We have experienced that an increasing number of these companies seeks new owners or alliances, often as a result of lack of continuity in connection with generation changes and a strong desire from the owner that the company will survive the new market environment.

Kverneland is well positioned through its unique production, its long and sound foundation in the industry and its strong position in the market. We are considered by several companies to be an attractive partner. This strengthens our reputation for accountability that has been established through our previous acquisitions.

On the whole, we see several possibilities for strategic growth in the years ahead.

Our expansion eastwards is also an exciting prospect. It will be necessary and interesting, over time, to establish our own production here, alone or in alliance with others.

Kverneland's position

Kverneland will grow organically and through extension of our product programme.

Kverneland is one of the leading European agricultural implement producers with a unique distribution network. We have a strong international management platform, sound experience from work in the Central and Eastern Europe and increasing competence in the North American market. These factors give us the possibility to take active part in the restructuring that will take place in the agricultural machinery industry. The advantages we gain from this change process and the subsequent growth will also help to strengthen the platform for Kverneland's increased effort in Eastern Europe.

We are working according to an integrated strategy in which we will build a product range that has strong internal synergy and that will also strengthen our distribution network.

The battle for access to the best distribution network will be important in future and a complete product assortment will give us important advantages. This means that our product programme must be profitable and attractive for the dealer. This equals our position today and we are convinced that we will be able to strengthen this position further in the years to come.

Conclusion

Those who produce food will not starve. Production of agricultural machinery has been based on a cyclic, but fundamental and stable in the long-term, globally growing market. Kverneland is well positioned to assume a leading position.

We must allow ourselves to take a long-term view to maximise shareholders' value but we must be short-term in regard to the day-to-day operations. Flexibility is a key word for profitability in this industry. Flexibility will not eliminate the risk of cyclic reduction in profitability, but it will be a guarantee for a sound long-term return and growth in value.

«The battle for access to the best distribution network will be important in future and a complete product assortment will give us important advantages. This means that our product programme must be profitable and attractive for the dealer. This equals our position today and we are convinced that we will be able to strengthen this position further in the years to come.»

Consuming the Future?

Since the middle of the 1950s, food production has increased in line with the world's population. However, in recent years, production has levelled off. The world cannot produce any more than it does at present. In the last seven years, the level has remained the same, while the world's population has increased by 600 million. These people are found in the poorest areas of the world and has therefore not given us much concern.

Anders Palm (56) is a farmer and film producer, born and raised on the Vreta farm outside Nyköping in Sweden.

He has produced the television serie «Food, Power & Greed» for the Swedish television – SVT2. The programme was first broadcasted in 1992 and has since been repeated in both 1994 and 1998.

However, during the last five years, a new major factor has developed which has taken the world's decision-makers and planners by surprise.

The person who first noticed this development was Lester Brown at the Worldwatch Institute in Washington. The Institute continuously carries out analyses of the different production patterns from the four corners of the world. Lester Brown compared trends in Japan, Taiwan and South Korea and found that the production pattern in China is now following the trend curves of these countries very closely.

Japan, Taiwan and South Korea are densely populated and agricultural production increased rapidly in the early 1950s. However, after a number of years, production began to fall, firstly in Japan and then in the other two countries. This was mainly due to two factors – firstly, people gave up their small farms and began to move from the countryside to the city where they could earn more money; and secondly, people started to use agricultural land for industrial purposes, for houses, roads, car parks, railways, etc. The fall in production was not a major problem for these countries as they turned to the world market and imported the food they needed.

«Are we heading towards a permanent food crisis?»

These countries currently import more than 70% of their food requirements. This is no problem for Japan with 120 million inhabitants. However, it is a completely different matter when China, with 1.3 billion inhabitants, starts to head in this direction.

Although trends in China are following previous patterns in Japan, South Korea and Taiwan there is one major difference. China has a lack of fresh water, while the need for grain for food is rapidly increasing. The Chinese are eating increasing amounts of pork, chicken, eggs and beef. Beer consumption is also rising steadily. All these products have grain as the base product in their production chain. So, while consumption of grain is sky-rocketing, production is at the same level as it was at the beginning of the 1990s.

The entire industrial establishment, with its enormous accumulation of economic resources, is now investing in China. This will have knock-on effects, considering that China is home to a quarter of the world's population. Will there be enough food when the Chinese improve their diet and increase their food consumption, from a diet based on rice and vegetables to a more meat-based diet?

Never before in the history of the world have there been so many people who have become rich in such a short period of time. It is true that not all enjoy the same standard of living, but it is estimated that between 250 and 300 million Chinese now have an income approaching that of the average American. In terms of purchasing power, China will become a new America in less than 10 years. Can the world's farmers meet the increasing demand? Or will the predictions of Malthus and, later, Georg Borgström, come true? Are we heading towards a permanent food crisis? Or can we invest ourselves out of this crisis?

«Can we farm more intensively while preserving the environment?»

«What will future resources be like for future generations?»

The Food and Agriculture Organization of the United Nations (FAO) meeting in November 1996 called for a doubling in food production within a period of 20 years. FAO expects 80% of this to come from increased irrigation. But how ?

Can we farm more intensively while preserving the environment? This is a question of life and death for humanity.

One of the most underestimated problems in China at the moment is access to fresh water. In certain areas, China has decreased its groundwater reserves by more than one metre per year, and this has been the case for the last 20-30 years. But it gets worse. They are also draining their rivers. The Huang He (Yellow) river, one of China's two major rivers, dried up in 1995. In 1996, it dried up for an even longer period of time and this time also further upstream. In 1997, the situation was even worse. This is because the Huang He runs through eight provinces which all need more water for agriculture, households and industry.

In all areas of the world, not only in China, where rivers are emptied and groundwater levels reach rock bottom, people will only be able to take out the amount of water which nature can annually replenish.

It is today an indisputable truth that it takes 1,000 tonnes of water to produce 1 tonne of wheat, thus it is easy to work out what is going to happen. It is, and will be, much easier to import 100 tonnes of wheat than 100,000 tonnes of water.

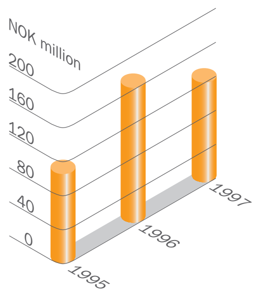
This is why water shortages have created new trading patterns on the world market. The most rapidly expanding markets are North Africa and the Middle East. Algeria, Egypt, Saudi Arabia, Iran and Pakistan have started to buy large quantities of grain on the world market. If this trend continues, the rich will quite simply buy up all the food and there will be nothing left for the poorest nations. If grain prices double here in Sweden or the EU, it effects 5% of the household budget. However, if grain prices double in the Third World, it impacts on 70% of the household budget, leading to a major famine or an enormous increase in Third World debt. It is doubtful whether the current banking system could survive this. This means that not only would the commodities market suffer, it could also lead to the collapse of all money markets. Nobody knows for sure.

Today, we have recently experienced great uncertainty on the world's money markets, particularly in south-east Asia, and analysts are warning of a link to natural resources, energy and water.

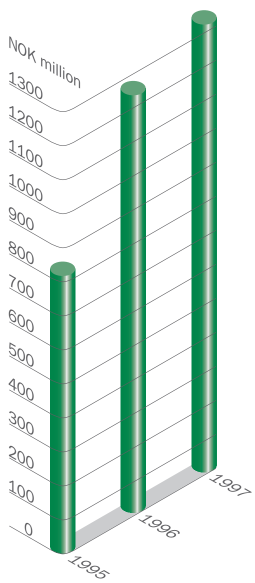
Perhaps the politicians and decision-makers in countries where there is good precipitation and fertile fields should sit down and work out all the figures one more time.

What will future resources be like for future generations ?

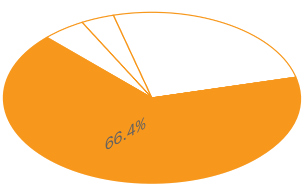
Product Area Soil Preparation



Operating profit



Net sales



Share of turnover

Operations and result

There has been stable demand for soil preparation products in 1997, although the strong growth experienced in recent years has declined. Sales increased by more than 7% compared to 1996. Most of this increase originates from Eastern Europe and the former Soviet Union (CIS), where the Group's increased efforts now start to show results. Sales in these areas has almost doubled compared to 1996 and further growth in sales is expected.

By transferring parts of the harrow production to other factories in the Group, Kverneland Klepp has been able to concentrate its production more on ploughs and harrow components.

Kverneland Accord further positioned itself in 1997 as a leading manufacturer of seeding machinery, visible through both the company's sales growth and product development. The factory in Soest has been extended which has resulted in increased capacity and flexibility.

Market conditions

Kverneland expects the market in Western Europe to remain relatively stable in the short-term, but competition is expected to become tougher. However, there is a great demand for soil preparation implements in Central Europe and CIS. The dramatic decline in the production of agricultural implements in countries such as Russia, Ukraine and White Russia means that there is an even greater need for «western» implements.

The development towards fewer and larger farms continues and is reflected in the demand for larger implements. This corresponds well with Kverneland's commitment in developing large semi-assembled ploughs.

Important events – the year in brief

Kverneland Klepp's new reversible plough, Kverneland ES, was probably Europe's most sold plough model within its first year on the market. Sales of large semi-assembled ploughs were also very good, which confirms that the investments in product development within this area have been correct and form a good basis for future growth.

Kverneland entered into an agreement in September regarding purchase of the Group's German importer Silo-Wolff KG and will take over a profitable harrow production. The acquisition will also enable even more efficient production of several of the Group's harrows and cultivators.

In the autumn of 1997 Kverneland Klepp received a major order for 400 ploughs to Uzbekistan. This is a breakthrough for the Group's work in this area and is an inspiration for continued effort and priority to these countries.

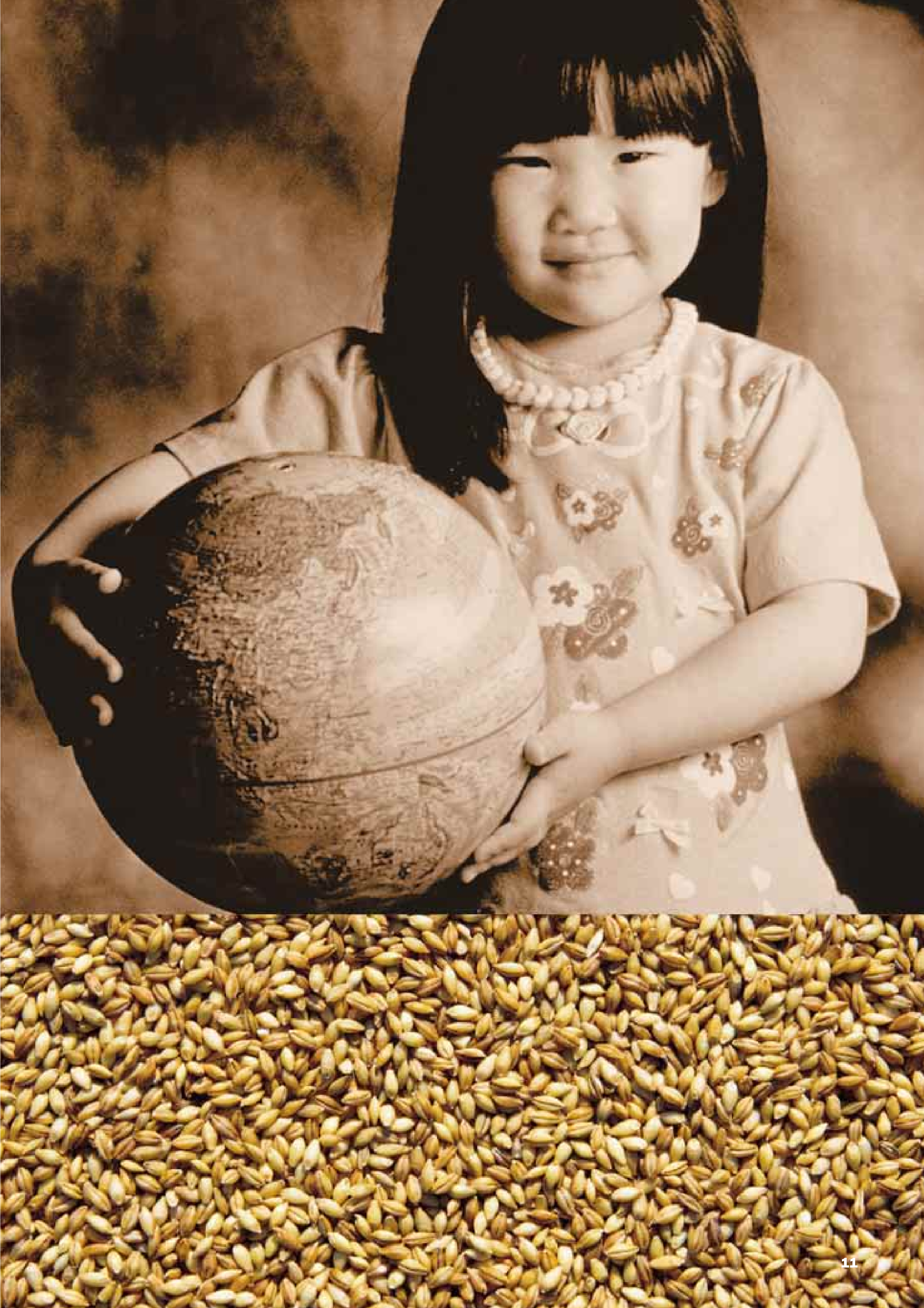
Kverneland Maletti introduced a completely new power harrow line in 1997. This new line was well received and will form the basis for increased efforts in this important product area. Expansion of the factory was also initiated and will result in a doubling of the production area for Kverneland Maletti.

Kverneland's focus and effort in the growing market of combination implements continue. Presentation of Kverneland's new combination machine at the major agricultural exhibition Agritechnica in Germany last autumn showed that farmers are very interested in Kverneland's products in this area, where Kverneland Accord also launched a unique versatile 5 - 8 meter foldable seed drill line.

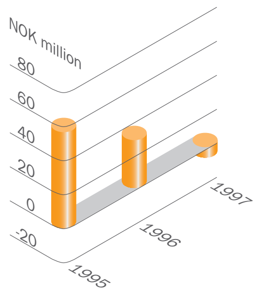
Future prospects

Acquisition of Silo-Wolff gives the Group the possibility for more efficient production of several harrows and cultivators. Silo-Wolff also brings several of its own manufactured implements into the Group which will be a valuable addition to the Group's product range.

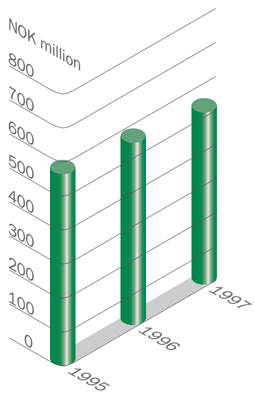
The market in Western Europe is under pressure, but Kverneland expects market development to be relatively stable for the Group's soil preparation products. Kverneland sees good prospects for increased growth and market shares in Western Europe and in Eastern Europe and CIS in particular.



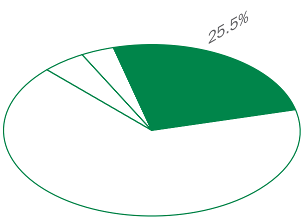
Product Area Grass



Operating profit



Net sales



Share of turnover

Operations and result

In 1997 Kverneland slightly increased its market share in a difficult and competitive market. The market has been characterised by a drop in demand for grass machinery especially in the Western European countries. In some of the major Western European markets there has been a drop in demand of up to 15%. Kverneland has been in a position to further develop the position for its major grass products through continued effort in maintaining a well educated and loyal dealer network.

Market conditions

The effect of the BSE (Mad Cow Disease) which appeared in 1996 also dragged into 1997, with heavy slaughter programmes and restrictions as a result. As a consequence, the total supply of beef has been reduced during the year. One positive factor stemming from this is a better price situation. This coupled with consumers regaining confidence to beef due to the harsh measures imposed to curb the BSE leads to some optimism for grass machinery demand in 1998.

One of the most important factors related to the demand for grass machinery is the «farm gate price» for milk. As an example the «farm milk price» in the United Kingdom was reduced by 12% from 1996 to 1997, but also markets like Germany, Holland and Ireland registered a drop in the «farm gate price» for milk.

The announced changes in the European Community farm policy (CAP) with changes in subsidies, has to some extent resulted in a reluctance to invest in farm machinery.

The change in farm structure towards fewer and bigger farm units is expected to continue. The Group's product development focus has been concentrated in this area, as Kverneland expects increased demand for bigger and more advanced products.

Important events – the year in brief

Kverneland launched a number of new products in 1997. The market now sees Kverneland as an increasing attractive partner in the grass sector as the Group's strong product focus, combined with closer partnership with the best dealers in the trade, continue to strengthen Kverneland's market position.

Highlights from the new products launched:

- New Diet Feeder with automatic loading system. This improves Kverneland's position in Eastern Europe as well as in Southern Europe.
- New, advanced trailed Mower Conditioner – one of several new products in 1997 from Kverneland Taarup.
- New, lower priced Bale Chopper. This allows Kverneland to penetrate a new market segment and contributes to strengthen Kverneland's overall position.

The Group's endeavour for a fast penetration of the German market succeeded when a large Mower Conditioner and a large Rake from Kverneland Taarup passed the demanding German DLG test. This contributes to further develop the Group's position in the important German market.

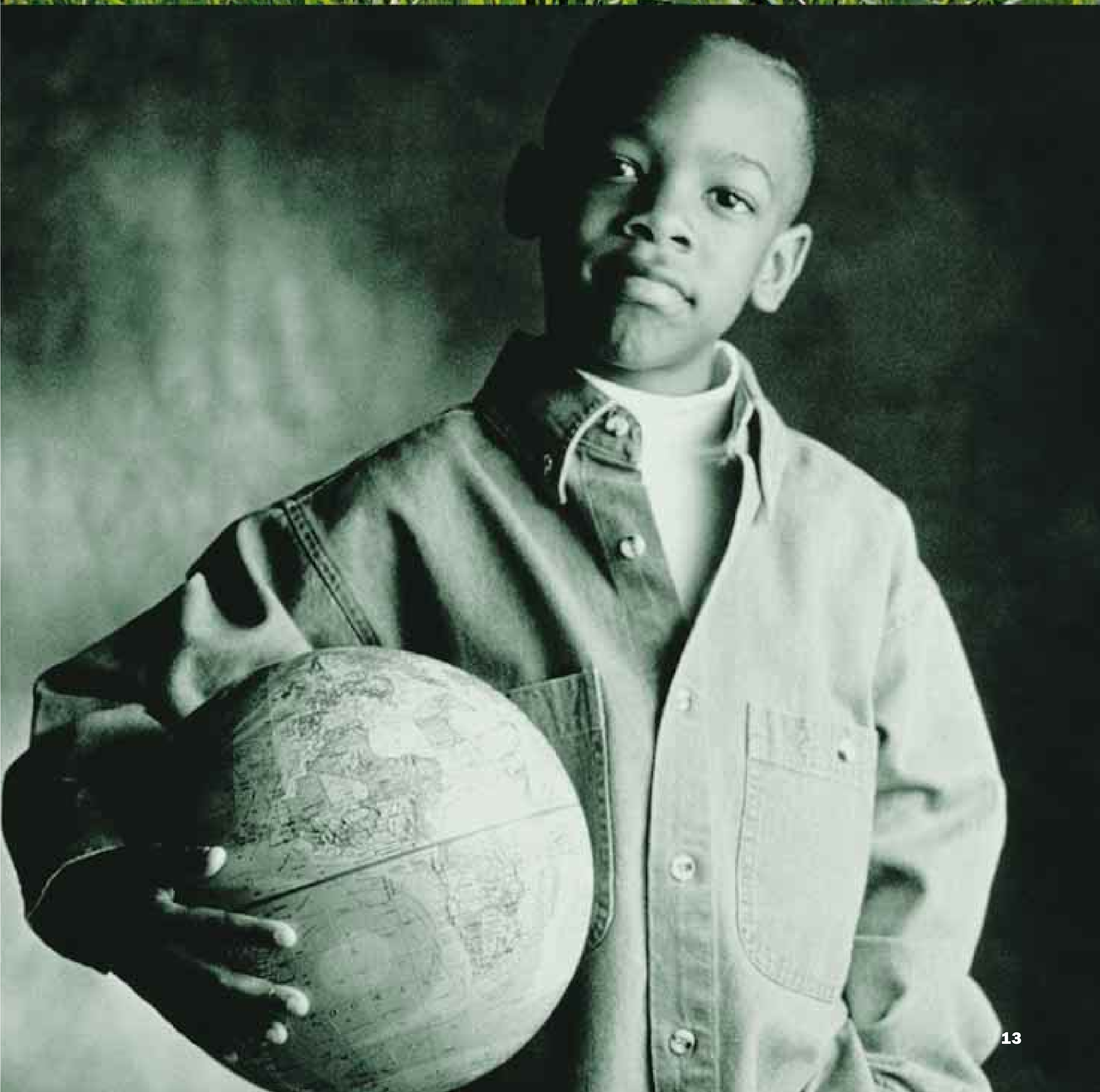
Future prospects

During 1997, Kverneland maintained its strong focus on the Group's core products and competence. This focus will continue into 1998 whereas Kverneland at the end of the year will be ready to launch yet another series of new products, improving Kverneland's position in what is considered weaker segments.

After completing the distribution reorganisation for grass products in France, results are already starting to materialise through improved market share. Following the decision in 1996 to reorganise the distribution in Germany, 1997 became a year full of changes ending up with the acquisition of Silo-Wolff KG, the Group's former importer in Germany. The situation in Germany is developing very positively and Kverneland is expecting an improved market position especially in the grass area.

Outside Western Europe, Kverneland sees growing market potentials. Especially new markets in Eastern Europe are showing positive trends. One such market is Poland whereas Kverneland through its newly created sales company, Kverneland Poland, will take advantage of this market potential.

Kverneland expects that most of the market decline due to BSE is behind us, and that the market will flatten out. Coupled with the Group's new products this will give room for growth also in Kverneland's traditional markets.



Product Area Potato

Operations and result
There has been a low activity level in the potato sector in 1997. Group sales was NOK 71 million against NOK 93 million in 1996 – a reduction of 30%. The reason is that potato prices in Europe have been very low resulting in the total market for potato machines being much lower than in a normal year. This has meant great pressure on prices and several manufacturers of potato machinery have not earned money in 1997.

Market conditions
Even if the market has been characterised by over-production and low potato prices, potato quality has however been poorer than expected in several of the major potato markets. This has meant that prices increased somewhat towards the end of the year and there is cautious optimism for increased prices in 1998.

Even though the consumption of fresh potatoes shows a slight reduction, the consumption of potatoes for industrial purposes has increased. Kverneland believes that the potato cultivation area in Europe will remain stable in future, but that there will be fewer potato farmers. This means more professional potato growers, which will impose greater demands on the suppliers of potato machines.

Many changes among the potato machinery producers have taken place in Europe. The second largest manufacturer of potato machines went bankrupt and a Dutch company acquired the production rights. This company also acquired several other small potato machinery manufacturers.

On the basis of this coupled with Kverneland's strong distribution network, there is now a good opportunity for Kverneland Underhaug to strengthen its position in the potato machinery sector.

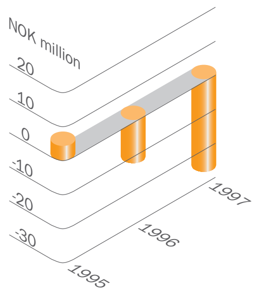
Important events – the year in brief
The Group's new one-row potato harvester was introduced in 1997. This model will in 1998 stand out as one of Europe's most advanced one-row potato harvesters.

During the autumn of 1997 Kverneland thoroughly analysed the European potato market and decided to continue to include potato machinery in the Group's product strategy.

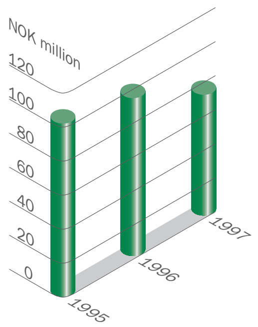
Future prospects
Kverneland now has a complete product range to offer the professional potato farmers. The Group offers a complete line of potato planters, de-stoners, ridges, haulm toppers and one-row and two-row harvesters with different capacity according to requirements.

At the same time as the Group decided to continue to be in the potato market, it was decided that Kverneland Underhaug should invest in today's most modern development tool. This will mean reduced product development cycle and thus bring new products to the market more quickly. The Group's customers will benefit from this through more efficient implements that will help increase profitability.

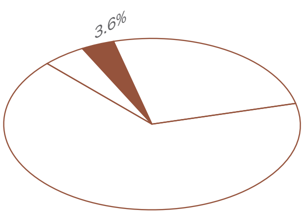
Based on the uncertainty prevailing in this part of the agricultural machinery market today, combined with Kverneland's strong distribution network, there is great optimism for the potato sector in the Group.



Operating profit

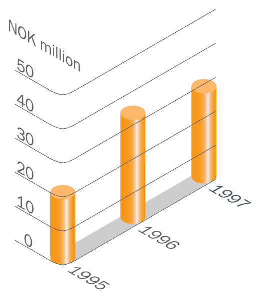


Net sales

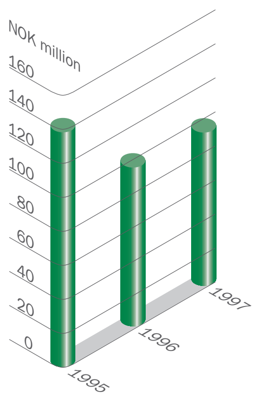


Share of turnover

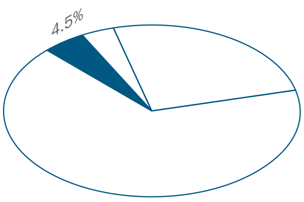
Other Product Areas



Operating profit



Net sales



Share of turnover

Operations and result

1997 was a good year for Kverneland Kvernex and total sales increased by 20% and the external sales by 37%. Both sales and the operating profit are very satisfactory.

Market conditions – mining and civil engineering

Supplies to the mining and civil engineering industry have shown an increase in sales of 22% in 1997. The market in Norway has continued to develop very positively, which has resulted in an increase in sales of 12%. This is due to a very high level of activity in the industry and increased market shares in certain regions.

Export sales has shown an increase of 38%, where most of the increase has been in Australia, UK, Finland and the USA. The company has experienced a 30% sales reduction in South Africa mainly due to substantial currency changes and thus reduced competitiveness.

Market conditions – tools

The sales of tools has increased by 18%. The external sales has also increased and now accounts for 50% of the sales in this business segment. The increase is due to major supplies of automated machinery lines and tools to the automotive industry. Internal sales is 25% lower than last year due to the reduced demand for new forging tools at Kverneland Klepp.

Strategy – mining and civil engineering

Kverneland is a leading manufacturer of wear technology. The Group's material and process technology, which is a result of many years of research and development, originates from the harsh working conditions to which ploughs are exposed. The same wear and tear exist in the mining and civil engineering industry. Through Kverneland Kvernex, Kverneland has therefore for many years used its own SAGITTA wear-resistant steel in the civil engineering industry on fronts and reversible teeth for excavators and wheel loader buckets. SAGITTA steel is now also used in the crushing and asphalt industry, as well as aquaculture. Kverneland Kvernex aims to be a qualitative leading supplier of wear parts to the mining and civil engineering industry based on the Kverneland Group's core technology in heat treatment and other steel processing.

The company has focused on heavy-duty markets where harsh wear conditions exist. The search for new markets and further development of the existing distribution network will characterise the next few years. As the company succeeds in creating a demand in the market, the OEM links will also increase its interest for using the Kverneland Kvernex system as its first choice in the sale of machinery.

Strategy – tools

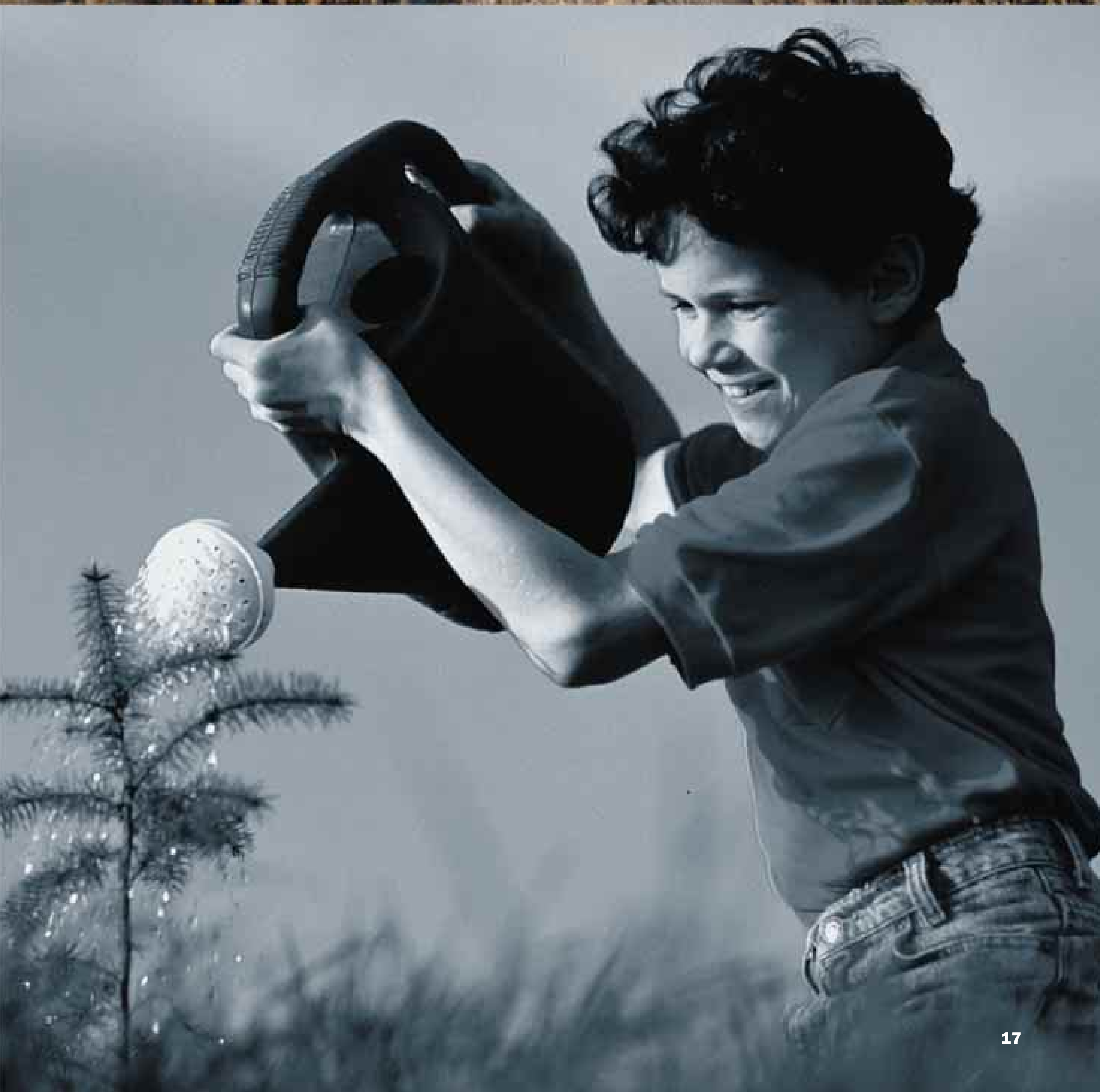
This business segment covers design and production of large, heavy-duty tools and automated machine lines for blow moulding of plastic components to the automotive industry. The segment also covers construction and building of forging tools, jigs and fixtures for the steel industry.

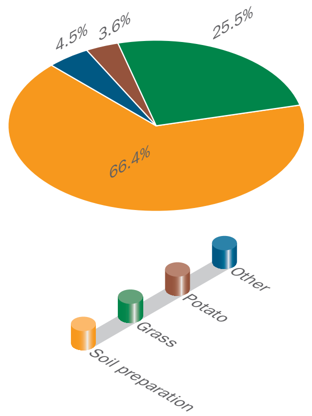
In order to develop the tool segment according to the requirements of the external customers, substantial investments are required. In this situation, where Kverneland also wants to direct the Group's investments to its defined core competence aimed at the agricultural machinery industry, it was natural to seek a strategic alliance partner. In order to create a more effective unit, it was decided to establish this business segment as a new limited company including Trio Industrier AS on the ownership side. The new company, Tritec AS, which is owned 40% by Kverneland ASA and 60% by Trio Industrier AS, will take over all current contracts and obligations. Operations will be carried out at the same premises and with the same employees as before.

Future prospects

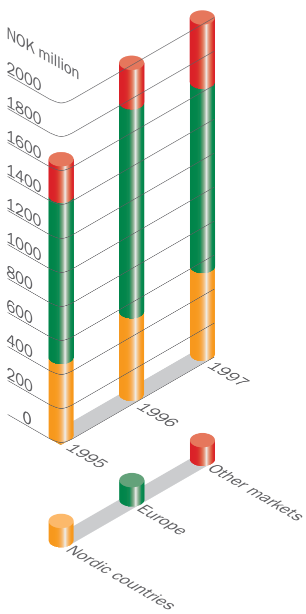
Due to reduced investments in the public infrastructure the company expects a flattening in the demand in Norway in 1998. However, the company expects increased sales to the largest export markets, particularly the US and Australia. One also anticipates to enter into distribution agreements in some new markets.

During the summer of 1998 a completely new and unique product quality will be introduced. It is expected that this improvement in quality will further strengthen the Kverneland Kvernex system's competitive advantage.





Sales per Product Area



Net sales

Sales, operations and profits

The Group's net operating revenues for 1997 were NOK 1,981 million compared to NOK 1,952 million in 1996. This represents an increase in turnover of 1.5% from last year. The Group's market position, as a whole, has been stable this past year. The increase in turnover is disappointing with respect to the Group's strategic objectives.

In line with the Group's distribution strategy, Kverneland has taken over control of the total distribution in Poland, Germany and the UK from the beginning of 1998. Approximately 65-70% of the turnover will therefore take place through Kverneland's own companies, compared to 56% in 1997.

The Group's profit before minority interests and tax expense was NOK 93 million compared to NOK 171 million in 1996. This represents a reduction in profits of 46%. The profit for 1997 includes gains from sales of fixed assets of NOK 15 million compared to NOK 12 million last year.

The tax expense was NOK 44 million, which represents 47% of the year's profit. The high tax rate is due to Norwegian accounting laws that prevent carrying deferred tax advantages on the balance sheet. The actual tax expense for the Kverneland Group has been calculated to approximately 30%, i.e., NOK 28 million.

The profit and loss account shows a profit after tax of NOK 49 million compared to NOK 124 million in 1996. With the real tax expense the profit for the year would have been NOK 65 million. The profit for 1997 is unsatisfactory.

Net cash discounts of NOK 16.2 million have been entered as reductions in sales income in 1997, while in previous years these have been charged to net financial items. The earnings per share is NOK 5.45 compared to NOK 13.61 in 1996.

The potato sector had an operating loss of NOK 27 million in 1997 compared to a corresponding loss of NOK 7 million in 1996. Introduction of the new potato harvesters has been disappointing from a financial point of view. Corrective actions have been implemented.

Kverneland Kidd had an operating loss of NOK 24 million in 1997 compared to an operating loss of NOK 3 million in 1996. The problem is mainly due to harrow production. Production of harrows in Kverneland Kidd will be phased out and the company will in future focus on production of feeding equipment.

There has been a substantial increase in the Group's total operating costs. The Board has implemented measures to correct this.

Balance sheet and liquidity

At the end of 1997 the Group's total balance sheet was NOK 1,611 million – up from NOK 1,479 million in 1996.

The Group's equity is 44%, down from 48% in 1996. This is mainly due to the acquisition of Kverneland Silo-Wolff, which was consolidated on 31 December 1997 and to allocations of pension obligations as a result of the new Norwegian pension arrangement.

Pensions

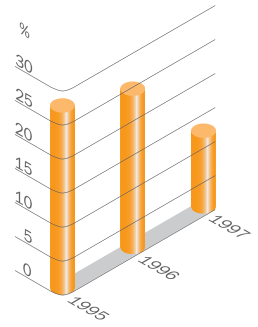
As a consequence of the agreements negotiated during the Norwegian wage settlement in 1997 (AFP arrangement), pension obligations associated with early retirement have increased dramatically. The Group's net obligations for early retirement pension have been included in the balance sheet for 1997. The effect of the change in policy as per 1 January 1997 has been charged directly against equity.

Distribution

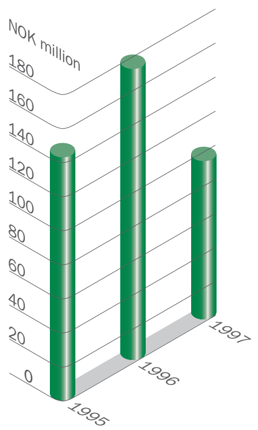
The Group managed to find a solution with its previous importer Silo-Wolff in the autumn of 1997. The acquisition of this company has made it possible to achieve an immediate and assertive implementation of the Group's distribution strategy in Germany. From 1999 the sales company will also take over distribution of Kverneland Accord's product range in Germany. In addition to its own products, Kverneland will also have access to several special soil preparation products and a profitable production of agricultural halls. This acquisition will improve Kverneland's turnover in the German market.

Substantial resources have been allocated to markets outside Western Europe, where Central Europe/CIS have the highest priority. Establishment of a separate sales company in Poland is an example of this. This is the Group's

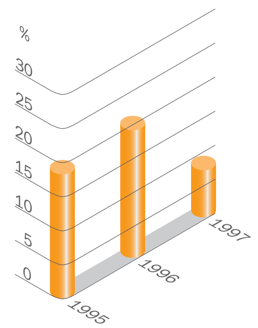

HENRIK AGER-HANSSEN
JOHN ARILD ERTVAAG
PER OTTO DYB
STEIN MOSSIGE
STEINAR OLSEN
Chairman
ATLE EIDE
President & CEO
ÅDNE KVERNELAND
Deputy Chairman
ANDERS ECKHOFF
KAI OLE TOGSTAD



Return on capital employed



Profit before minority interest and tax



Return on equity

first establishment in Central Europe and is considered to be an important step for further development in the East.

The Group has strengthened its efforts in the US market through establishment of Kverneland USA. This investment has already had a positive effect on our sales in North America.

Kverneland will take over the majority of the shares in Ferrag (UK) from the beginning of 1998. Ferrag distributes Kverneland Accord products in the UK and Ireland. The company has a dominant market position within its product area.

Organisation

As from 31 December 1997, the tool division of Kverneland Kvernex will become a separate company, Tritec AS, where Kverneland will maintain an ownership of 40%.

In the autumn of 1997 it was decided to restructure the organisation to make it better adapted to face today's challenges. Shorter decision-making lines were established and the head quarter staff were reduced. Management in the subsidiaries has been more involved in strategic and operative decisions. This has also helped towards an internationalisation of the management in Kverneland. The Board of Directors believes that the new organisational structure will be able to handle the operative and strategic challenges the Group faces in the years to come.

Atle Eide took over as President & Chief Executive Officer on 1 July 1997 and Leif S. Søfting took over as new Group Director Market on 1 October.

At the end of 1997 the Group had 2,147 employees, an increase from 2,032 in 1996. The increase of 115 employees was mainly due to the acquisition of Silo-Wolff.

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 stipulated licence provisions and discharge permits.

Shareholders

Kverneland shares had a reduction in value of 32% in 1997 from a level of NOK 176 per share as per 31 December 1996 to NOK 120 per share as per 31 December 1997. Liquidity has been good throughout 1997 and a total of 10 million shares have been traded. The Group's market value was NOK 1,076 million as per 31 December 1997.

The percentage of foreign shareholdings at year end was 19.1% down from 19.9% at the end of last year.

The Board of Directors proposes payment of a dividend of NOK 1.65 per share for the 1997 financial year. This represents a distribution of 30% of the profits after tax and minority interests.

Market situation

There is great pressure in the market. Tractor sales are a good indicator of the market development. There was a decline in several important markets in Europe.

Extensive discussions are in progress within the European Community regarding the change in the Common Agricultural Policy (CAP). A final proposal for the new agricultural policy will be submitted during the spring. It has so far been indicated that this reduction will be compensated for through increased direct (area) support. It is uncertain what consequences this will have for the farmers in the long-term. However, it appears that future income will to an ever-increasing extent depend on the product price created in the world market. Uncertainty regarding the change may have a negative effect on the farmers' investment behaviour. The Group expects that the development towards fewer and larger farms will continue, which is expected to be favourable for Kverneland.

Preliminary figures for 1997 indicate that the farmers' real earnings dropped by 3.1% on average in the European Community. These figures have been strongly influenced by a drop in earnings in the UK of 23.1% and of 13.7% in Portugal. Important markets such as France, Belgium and Germany show a growth in real earnings for the past year. The decline in 1997 must be seen in connection with the increases in 1994, 1995 and 1996 of 9.3%, 5.1% and 5.5% respectively.

The Group has experienced a steady demand for soil preparation products even though the fairly strong growth experienced in recent years appears to be over and the market has stabilised.

The grass market still shows a slight development. The potato market has been and still is weak, but the potato prices have risen towards the end of 1997.

The market in Central Europe and CIS continues to show a positive trend. Kverneland's order of 400 ploughs to Uzbekistan in the autumn of 1997 is a good example of a breakthrough as a result of determined work in a priority market area. The prospects for continued growth are good.

The development in the North American market, where the Group is now working more actively, is expected to be positive. The same applies to sales to Oceania and Japan.

Strategy and product development
The Group will pursue its present strategy. Further expansion will increase the attractiveness of the Group's product range to the distributor network. The focus will be on stringent quality requirements and improved earnings. This will be implemented through continuous streamlining of the Group's product range to achieve better profitability through concentration on the most profitable products.

Top quality in production, maintenance and services associated with the Group's products will to an ever-increasing extent support Kverneland's competitive ability and thus distinguish the Group's trademark.

Future prospects
Kverneland considers the development within the market for agricultural machines to be interesting both in the short-term and the long-term. This is a market that has been cyclic in nature for a long period and this characteristic will also manifest itself in the global market in future.

Kverneland expects to see a growth in the market in Central Europe and CIS. South East Asia and India will also demand larger volumes in the future. The Group also expects to see a rapid growth in the total market in South America. The market for agricultural mechanisation must be assessed against an increase in the world's population and the consequent need for food.

In the short-term, Kverneland expects that the potato and grass market will show a flat development with possibilities for growth, particularly in the potato sector. Soil preparation products will come under slight pressure, but are expected to be relatively stable in 1998.

Kverneland assumes that there will be tougher competition in the European Community market in the short and medium-term. Development in the new markets will be positive and Kverneland has built up relevant competence and a good platform for further expansion here. The growth can only compensate for a slight decline in Western Europe.

The development towards fewer and larger farms will lead to a demand for larger tools and the manufacturers will be faced with several new product development requirements. The Board of Directors believes that this development will favour large, more powerful companies such as Kverneland. The access to distribution channels, not least within an international market strategy, will be difficult for smaller manufacturers.

The overall operating costs in the Group have had a strong increase over the past years. It has therefore been decided to implement several measures to reduce the Group's total cost level. A separate profit improvement programme, Kverneland Focus, has been implemented. This project has defined objectives within cost cutting, growth in margin, growth in turnover and capital rationalisation for all companies. This will help to improve the Group's earnings in the years to come.

The turbulence in Asia has had a marginal effect on the Group's turnover. It is unclear whether this situation will affect the demand for agricultural products in the short-term.

The Group's order back-log at the beginning of 1998 were satisfactory and somewhat higher than in the same period last year.

In the case of the major business systems, the year 2000 problem will be solved through implementation of SAP R/3 as the main new Group system. In addition to this, several minor adjustments will be made to other systems and to technical equipment to ensure a problem free transition.

Closing of accounts for Kverneland ASA
The parent company reached a profit for the year of NOK 23 million. In addition, the company received NOK 58 million net in Group contribution. Refer to note 3 regarding compensation to the Corporate Assembly, Board of Directors, auditor and President & CEO.

The Board of Directors proposes that the profit for the year be applied as follows:

	(NOK)
Profit for the year	23, 375,624
Group contribution received	80,264,000
Group contribution submitted	-21,846,000
Allocated to the legal reserve	-2,337,200
Allocated to the free reserve	-64,666,427
Dividend distribution	-14,789,996
TOTAL TRANSFERRED	23,375,624

Kvernaland, 31.12.97/2.2.98

Steinar Olsen
Chairman

Ådne Kverneland
Deputy Chairman

Henrik Ager-Hanssen

Per Otto Dyb

Anders Eckhoff

John Arild Ertvaag

Stein Mossige

Kai Ole Togstad

Atle Eide
President & CEO

Profit and Loss Account *Consolidated*

NOK million	**Note**	**1997**	**1996**	**1995**
Sales revenues		**2,048.8**	2,007.2	1,658.1
Freight and royalty		**67.6**	55.6	40.1
Operating revenues	*2*	**1,981.2**	1,951.6	1,618.0
Materials consumed		**768.2**	766.3	684.0
Wages and social welfare expenses		**646.3**	539.1	461.6
Other operating expenses	*4*	**388.3**	376.6	234.0
Ordinary depreciation	*14*	**66.0**	64.8	53.0
Operating expenses		**1,868.8**	1,746.8	1,432.6
Operating profit	*10*	**112.4**	204.8	185.4
Financial income	*6*	**14.7**	14.4	12.3
Financial expenses	*7*	**33.7**	48.1	55.2
Profit (loss) before tax		**93.4**	171.1	142.5
Taxes	*18*	**-43.9**	-47.2	-42.5
Profit before minority interests		**49.5**	123.9	100.0
Minority interests	*16*	**-0.7**	-1.9	-1.3
Profit (loss) after minority interests		**48.8**	122.0	98.7
Earnings Per Share (NOK)		**5.45**	13.61	12.11
Fully Diluted Earnings Per Share (NOK)		**5.45**	13.61	12.11

Balance Sheet *Consolidated*

NOK million	**Note**	**1997**	**1996**	**1995**
ASSETS				
Liquid assets		**37.0**	140.3	156.9
Accounts receivable	4	**495.7**	531.1	397.1
Other current receivables		**73.6**	56.1	42.7
Inventories	11	**505.6**	410.5	328.9
Current assets		**1,111.9**	1,138.0	925.6
Goodwill/Immaterial assets		**77.8**	30.9	23.6
Shares and long-term assets	12	**14.1**	21.3	19.7
Fixed assets	14	**407.2**	288.4	240.6
Fixed and long-term assets		**421.3**	309.7	260.3
Total assets	1	**1,611.0**	1,478.6	1,209.5
DEBT AND EQUITIY				
Operating liabilities	*15*	**379.7**	422.1	383.9
Interest bearing liabilities		**329.1**	164.8	45.9
Current liabilities		**708.8**	586.9	429.8
Long-term interest bearing debt		**133.4**	151.6	136.7
Pension liabilities	22	**18.4**	22.3	9.4
Total long-term liabilities		**151.8**	173.9	146.1
Minority interests	16	**0.9**	10.2	10.4
Share capital 8.963.634 shares with nominal value NOK 10.00		**89.6**	89.6	89.6
Other equity		**659.9**	618.0	533.6
Total equity	17	**749.5**	707.6	623.2
Total debt and equity	1	**1,611.0**	1,478.6	1,209.5
Mortgages and guarantees:				
Mortgages	*20*	**126.8**	161.4	131.3
Guarantees	21	**63.3**	22.9	29.2

Funds Flow Statement *Consolidated*

NOK million	1997	1996	1995
Profit (loss) before tax	**93.4**	171.1	142.5
Depreciation	**66.8**	64.8	53.0
Taxes payable	**-43.9**	-47.2	-42.5
Dividend	**-14.8**	-26.9	-19.8
Operating cash flow	**101.5**	161.8	133.2
Changes in inventories	**-95.1**	-81.6	-41.5
Changes in current receivables	**17.8**	-147.5	-52.2
Changes in operating liabilities	**-42.3**	38.1	53.1
Changes in working capital employed	**-119.6**	-191.0	-40.6
Cash flow from operations	**-18.1**	-29.2	92.6
Investment in fixed assets	**-238.8**	-146.0	-70.8
Changes in long-term assets	**7.3**	-1.6	4.1
Sale of fixed assets	**7.1**	26.1	5.8
Net internal cash flow	**-242.4**	-150.7	31.6
Change in long-term loans	**-22.1**	27.8	-6.1
Change in current liabilities (interest bearing)	**164.3**	118.9	-22.8
New shareholders’ equity	**–**	–	121.1
Revaluation/Exchange differences	**-3.1**	-12.6	3.7
Net change in liquidity	**-103.3**	-16.6	127.5
Liquid assets	**37.0**	140.3	156.9

Profit and Loss Account *Kverneland ASA*

NOK million	Note	1997	1996	1995
Operating revenues		**69.2**	60.6	52.2
Wages and social welfare expenses	*3*	**21.4**	18.4	15.2
Other operating expenses		**35.9**	36.7	29.2
Ordinary depreciation	*14*	**4.9**	4.6	4.6
Operating expenses		**62.2**	59.7	49.0
Operating profit		**7.0**	0.9	3.2
Financial income		**84.5**	55.8	40.9
Financial expenses		**45.1**	28.2	14.4
Profit (loss) before tax		**46.4**	28.5	29.7
Taxes	*18*	**-23.0**	-15.5	-14.2
Net profit (loss) for the year		**23.4**	13.0	15.5
Application/Transfer of Profit:				
Group contribution		**58.4**	42.3	49.3
From legal reserves		**–**	3.3	3.3
To reversal fund		**-2.3**	-1.8	-7.2
To general reserves		**-64.7**	-29.9	-41.1
Allocated to dividend		**-14.8**	-26.9	-19.8

Balance Sheet *Kverneland ASA*

NOK million	Note	1997	1996	1995
ASSETS				
Liquid assets		**0.6**	123.5	173.0
Receivables, Group companies		**237.6**	123.9	91.7
Other current receivables		**6.3**	1.7	1.8
Current assets		**244.5**	249.1	266.5
Shares in subsidiaries	*13*	**135.7**	119.7	106.1
Deferred tax assets		**1.3**	1.2	1.2
Other long-term receivables		**0.3**	0.4	10.3
Long-term receivables, Group companies		**325.0**	133.9	81.0
Fixed assets	*14*	**74.4**	55.7	49.8
Fixed and long-term assets		**536.7**	310.9	248.4
Total assets		**781.2**	560.0	514.9
DEBT AND EQUITY				
Operating liabilities		**73.7**	63.1	43.6
Interest bearing liabilities		**148.1**	–	-5.8
Current liabilities		**221.8**	63.1	37.8
Long-term interest bearing debt		**39.3**	45.5	54.0
Deferred tax	*18*	**4.5**	3.1	3.1
Pension liabilities	*22*	**4.5**	4.3	4.3
Long-term debt		**48.3**	52.9	61.4
Share Capital: 8,963,634 shares nominal value NOK 10.00		**89.6**	89.6	89.6
Legal reserves		**184.6**	181.8	180.5
Reversal fund		**–**	–	3.3
General reserves		**236.9**	172.6	142.3
Total equity		**511.1**	444.0	415.7
Total debt and equity		**781.2**	560.0	514.9
Mortgages and guarantees:				
Mortgages	*20*	**39.3**	45.5	51.8
Guarantees	*21*	**7.8**	5.6	16.4

Funds Flow Statement *Kverneland ASA*

NOK million	**1997**	**1996**	**1995**
Profit (loss) before tax	**46.4**	28.5	29.7
Depreciation	**4.9**	4.6	4.6
Taxes payable	**-23.0**	-15.5	-14.2
Group contribution	**58.4**	42.3	49.3
Dividend	**-14.8**	-26.9	-19.8
Operating cash flow	**71.9**	33.0	49.6
Changes in current receivables	**-118.2**	-32.1	-70.2
Changes in operating liabilities	**10.6**	19.4	20.6
Changes in working capital employed	**-107.6**	-12.7	-49.6
Cash flow from operations	**-35.7**	20.3	–
Investment in fixed assets	**-24.5**	-10.5	-0.6
Changes in long-term assets	**-207.1**	-56.7	70.2
Sale of fixed assets	**1.0**	–	–
Net internal cash flow	**-266.3**	-46.9	69.6
Change in long-term loans	**-4.6**	-8.5	-9.8
Change in current liabilities (interest bearing)	**148.1**	5.8	-9.3
New shareholders' equity	**–**	–	121.1
Net change in liquidity	**-122.8**	-49.5	171.6
Liquid assets	**0.6**	123.5	173.0

Accounting Principles

CONSOLIDATION PRINCIPLES

Consolidated companies
The consolidated accounts for the Kverneland Group comprise the parent company and the companies where Kverneland ASA owns, directly or indirectly, more than 50% of the shares in the company. For subsidiaries acquired/established during the year, results from the date of acquisition/establishment to the end of the year are included in the profit and loss account. These companies are included in the balance sheet as at year end. For any subsidiaries disposed of during the year, transactions from 1 January up to the date of disposal are included in the profit and loss account.

Elimination of shares in subsidiaries
The acquisition of subsidiaries may give rise to an additional value corresponding to the difference between the acquisition price 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 lifetime of the assets and in accordance with the assessment rules laid down in the Norwegian Companies' Act. Goodwill derived from an acquisition is depreciated, according to Norwegian Companies' Act, § 11 - 11.3, by a minimum of 20% per year. If the goodwill represents a material value for the business of the company, depreciation may be made over a longer period, 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 rate prevailing at the end of the year. Any exchange differences are posted to shareholders' equity.

Elimination of transactions within the Group
Unrealised gains on inventories which arise from internal transactions are eliminated from the consolidated inventories. Changes in unrealised internal gains are eliminated from the operating profit/loss for the year. Furthermore, all internal transactions, as well as receivables and liabilities between group companies, are excluded in the consolidated accounts.

Associated companies
Companies where Kverneland owns between 20% and 50% will be consolidated following the equity method in accordance with international practice and developments in Norway. This presupposes that Kverneland ASA has a significant interest in the companies and that the investment is strategic.

CALCULATION AND CLASSIFICATION PRINCIPLES

Receivables and liabilities in foreign currencies
Bank deposits, short-term receivables and short-term liabilities in foreign currency are converted at year end exchange rates. 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 exchange rate at year end.

Financial instruments
The accounting treatment for a financial instrument will 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.

Accounts receivable
Accounts receivable are included in the balance sheet after deduction of estimated bad debts.

Inventories
Inventories 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 valued at the lower of production cost and estimated net realisable value.

Production costs comprise direct wage and social welfare costs, materials and an addition for indirect production costs. Inventory valuation in all group companies are set after provisions for obsolescence.

Investment in shares

Investment in shares classified as current assets is valued following the portfolio principle using the lower of total acquisition cost and market value at 31 December.

Investment in shares classified as long-term assets is entered at acquisition cost, unless circumstances which may not be temporary should dictate a lower value.

Fixed and long-term assets

Fixed and long-term assets are entered in the balance sheet at acquisition cost plus write-ups and less ordinary depreciation.

Ordinary depreciation is calculated on a linear basis over the economic lifetime of the assets, based on acquisition cost plus write-ups. Ordinary depreciation is posted to operating expenses for the year in the profit and loss account.

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 related to the early retirement scheme AFP have been included in the balance sheet from 1997. The deviation in pension plan 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 31.12 last year and actual pension obligations as of 1.1 this year is included in the profit and loss account.

Extraordinary items

Strict regulations have been imposed on the use of extraordinary items. Structural costs arising within the Group's ordinary field of business are accordingly entered as ordinary items in the consolidated profit and loss account. Any profits/losses on disposals of fixed and long-term assets are also correspondingly entered as ordinary items.

Development costs

All costs relating to market studies, market and product development are charged to the operating account as they arise.

Accounting principles concerning deferred 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 consists 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, are carried out in accordance with the Companies' Act and the draft Norwegian Accounting Standard for taxes.

Notes

1. ACQUISITIONS

The following acquisitions have been consolidated into the Group accounts after 1 January 1993:

1993: Kverneland Taarup AS. Acquired 100% and consolidated into the Group accounts as from 1 May.

1995: Kverneland Maletti S.p.A. The Group's ownership was increased from 49.9% to 50.0% as from 1 January, 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 was approximately NOK 170 million of which 25% was equity.

1997: Kverneland Maletti S.p.A: The Group's ownership was increased to 100% as from 1 January. 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

2. OTHER REVENUE

Sales revenue includes other revenue of NOK 15.1 million related to gain on sale of fixed assets.

3. WAGES AND REMUNERATION

	NOK
Corporate Assembly	57,000
The Board of Directors	710,000
Auditor*	437,028
President & CEO	1,179,028
Loan to President & CEO	500,000
**Inclusive consultant fee of NOK*	*237,028*

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.

4. OTHER OPERATING EXPENSES

Other operating expenses include loss on receivables as follows:

NOK million	1997	1996	1995
Actual loss for the year	1.5	4.0	2.2
Change in the year's provision for loss	3.2	-4.2	0.2
Settlement for claims previously written off	0.3	-1.0	-0.2
Loss on receivables in the P&L account	**5.0**	**-1.2**	**2.2**

5. LEASING COMMITMENTS

Leasing commitments which represent an annual rental of NOK 10.6 million have been included in the consolidated profit and loss account for 1997. Total outstanding rental charges amount to NOK 17.6 million.

1998	1999	2000	2001	Thereafter
8.2	5.3	2.6	1.5	0.0

6. SPECIFICATION OF FINANCIAL INCOME

NOK million	1997	1996	1995
Interest income	1.1	4.8	7.5
Cash discount	4.5	5.3	1.1
Exchange gain	7.4	–	–
Others	1.7	4.3	3.7
Total	**14.7**	**14.4**	**12.3**

Notes

7. SPECIFICATION OF FINANCIAL EXPENSES

NOK million	1997	1996	1995
Interests on operating credits	15.5	13.7	20.9
Interests on long-term liabilities	9.6	12.8	12.5
Cash discount	–	10.3	10.6
Exchange loss	–	0.7	6.3
Others	8.7	10.6	4.9
Total	**33.7**	**48.1**	**55.2**

8. FUTURE 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.

Forward currency contracts at 31 December 1997:

Currency	Bought/sold	Net amount (million)	Average rm. (days)
Canadian dollars (CAD)	Sold	7.6	66
Swiss francs (CHF)	Sold	0.4	74
German marks (DEM)	Sold	19.2	108
Danish krone (DKK)	Sold	27.5	83
Spanish pesetas (ESP)	Sold	1,315.0	64
French francs (FRF)	Sold	116.0	69
British pounds (GBP)	Sold	13.2	52
Irish pounds (IEP)	Sold	5.0	92
Italian lira (ITL)	Sold	546.0	30
Dutch gilders (NLG)	Sold	0.5	30
Norwegian krone (NOK)	Bought	650.0	68
Swedish kronor (SEK)	Sold	9.0	83
US dollars (USD)	Sold	9.8	30

9. PRODUCT AREAS AND MARKETS

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

Net sales

NOK million	1. tert	2. tert	3. tert	1997	1. tert	2. tert	3. tert	1996
Soil preparation	455.6	427.1	432.6	1,315.3	416.1	408.3	404.2	1,228.6
Grass	178.5	162.0	164.6	505.1	190.0	157.1	189.4	536.5
Potato machines	18.9	28.1	23.8	70.8	28.2	34.4	30.4	93.0
Others	22.0	25.8	42.2	90.0	23.7	32.2	37.6	93.5
Total	**675.0**	**643.0**	**663.2**	**1,981.2**	**658.0**	**632.0**	**661.6**	**1,951.6**

Operating profit

NOK million	1. tert	2. tert	3. tert	1997	1. tert	2. tert	3. tert	1996
Soil preparation	57.7	47.3	12.7	117.7	47.5	65.2	46.4	159.1
Grass	5.6	-0.1	-11.7	-6.2	7.1	1.2	19.8	28.1
Potato machines	-5.4	-12.6	-9.3	-27.3	-3.3	-4.6	-4.8	-12.7
Others	6.7	-3.6	25.1	28.2	17.7	5.1	7.5	30.3
Total	**64.6**	**31.0**	**16.8**	**112.4**	**69.0**	**66.9**	**68.9**	**204.8**

All Kverneland product areas are within the same business area.

Geographical distribution of net sales are:

NOK million	1. tert	2. tert	3. tert	1997	1. tert	2. tert	3. tert	1996
Nordic countries	193.2	190.3	131.4	514.9	178.7	167.7	141.6	488.0
Western Europe (excl. Nordic countries)	382.4	334.8	369.1	1,086.3	385.4	352.3	403.0	1,140.7
Remaining markets	99.4	117.9	162.7	380.0	93.9	112.0	117.0	322.9
Total	**675.0**	**643.0**	**663.2**	**1,981.2**	**658.0**	**632.0**	**661.6**	**1,951.6**

10. MAIN FIGURES FROM INTERIM FINANCIAL ACCOUNTS 1996-1997

NOK million	1.1 - 30.4.97	1.5 - 31.8.97	1.9 - 31.12.97	1.1 - 31.1.97
PROFIT & LOSS ACCOUNT				
Operating revenues	**675**	**643**	**663**	**1.981**
Operating costs ex. depreciation	-588	-588	-626	-1,802
Depreciation	-22	-24	-21	-67
Operating profit	**65**	**31**	**16**	**112**
Financial items	-7	-13	1	-19
Profit before Tax	**58**	**18**	**17**	**93**
Tax costs	-17	-6	-21	-44
Profit before minority interests	**41**	**12**	**-4**	**49**

NOK million	30.4.97	31.8.97	31.12.97	31.12.97
BALANCE SHEET				
Current assets	1,272	1,210	1,112	1,112
Fixed assets	327	347	499	499
Total assets	**1,599**	**1,557**	**1,611**	**1,611**
Current liabilities	680	601	708	708
Long-term liabilities	180	181	152	152
Minority interests	–	–	1	1
Shareholders equity	739	775	750	750
Total liabilities and shareholders' equity	**1,599**	**1,557**	**1,611**	**1,611**

NOK million	1.1 - 30.4.96	1.5 - 31.8.96	1.9 - 31.12.96	1.1 - 31.1.96
PROFIT AND LOSS ACCOUNT				
Operating revenues	**658**	**632**	**662**	**1,952**
Operating costs ex. depreciation	-567	-542	-573	-1,682
Depreciation	-22	-23	-20	-65
Operating profit	**69**	**67**	**69**	**205**
Financial items	-12	-9	-13	-34
Profit before Tax	**57**	**58**	**56**	**171**
Tax costs	-17	-18	-12	-47
Profit before minority interests	**40**	**40**	**44**	**124**

NOK million	30.4.96	31.8.96	31.12.96	31.12.96
BALANCE SHEET				
Current assets	1,128	1,080	1,138	1,138
Fixed assets	332	328	341	341
Total assets	**1,460**	**1,408**	**1,479**	**1,479**
Current liabilities	544	506	587	587
Long-term liabilities	249	192	174	174
Minority interests	–	–	10	10
Shareholders equity	667	710	708	708
Total liabilities and shareholders' equity	**1,460**	**1,408**	**1,479**	**1,479**

Notes

11. INVENTORIES

Consolidated inventories comprise:

NOK million	**1997**	**1996**	**1995**
Raw material	59.6	68.9	61.0
Work in progress	186.5	180.9	117.6
Finished goods	259.5	160.7	150.2
Total	**505.6**	**410.5**	**328.9**

12. INVESTMENT IN LONG-TERM SHARES

Company name	**Share capital**	**Nominal value**	**Owned by Kverneland**	**Book value** (1,000)
Tritec AS (NOK)	50,000	1	20,000	20
Moi AS (NOK)	1,000,000	1,000	170	170
Total				**190**

13. SHARES IN SUBSIDIARIES

Company name		**Share capital**	**Nominal value**	**Owned by Kverneland ASA**	**Book value (NOK milion)**	**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 Pimsa SA	ESP	40,000,000	100,000	360	10.8	90.0%
Kverneland Poland sp.zo.o.	PLN	1,922,000	1,000	1,811	3.7	70.0%
Kverneland USA Inc.	USD	10,000	1,000	10,000	0.1	100.0%
Kverneland Holding (DK) AS	DKK	55,072,000	1,000	30,000	42.7	54.5%
Kverneland Holding GmbH	DEM	50,000	100	500	34.9	100.0%
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%
Total					**135.7**	
Owned by subsidiaries						
Kverneland Kidd Ltd. UK/Ireland	GBP	1,800,100	1	1,800,051	22.8	100.0%
Kverneland Maletti SpA	ITL	3,500,000,000	1	3,500,000,000	22.1	100.0%
Kverneland Silo-Wolff GmbH	DEM	50,000	50,000	50,000	185.5	100.0%
Kverneland Deutschland GmbH	DEM	50,000	50,000	50,000	0.2	100.0%
Ferrag Ltd.	GBP	300,000	1	147,000	2.6	49.0%
Kverneland (UK) Ltd.	GBP	300,000	1	300,000	3.1	100.0%
Kverneland Pimsa SA	ESP	40,000,000	100,000	40	1.5	10.0%
Kverneland Holding (UK) Ltd.	GBP	5,903,000	1	5,903,000	70.0	100.0%
Kverneland Holding (DK) AS	GBP	55,072,000	1,000	25,072	42.8	45.5%
Kverneland Taarup AS	DKK	40,000,000	40,000,000	1	85.2	100.0%
Kverneland (DK) AS	DKK	7,500,000	100,000	75	9.5	100.0%
Kverneland Accord GmbH & Co. KG	DEM	2,700,000	100	27,000	57.5	100.0%
Kverneland Accord Verwaltungs GmbH		DEM	50,000	100	500	0.2
100.0%						
Kverneland France SA	FRF	24,000,000	100	239,846	20.0	99.9%
Total					**523.0**	

14. FIXED ASSETS

a) CONSOLIDATED NOK million	Aquisitions 1.1.97	Earlier Write-up	Addition 1997*	Disposal 1997	Depreciation 1997	Accumulated depreciation	Book value 31.12.97
Goodwill	**39.9**	**–**	**49.9**	**–**	**3.0**	**12.0**	**77.8**
Machinery & equipment	665.9	–	124.3	16.6	53.6	552.6	221.0
Buildings	287.2	8.0	53.5	2.0	9.1	194.6	152.1
Plant under construction	7.9	–	1.5	0.2	–	–	9.2
Site & property	12.5	8.1	9.6	0.9	0.3	4.4	24.9
Total	**973.5**	**16.1**	**188.9**	**19.7**	**63.0**	**751.6**	**407.2**

** The figures include NOK 81 million of fixed assets (net) in Kverneland Silo-Wolff GmbH, and NOK 46 million of goodwill (net) related to Silo-Wolff's distribution network.*

Investment in and sale of fixed assets	1993 Invest	1993 Sale	1994 Invest	1994 Sale	1995 Invest	1995 Sale	1996 Invest	1996 Sale	1997 Invest	1997 Sale
Goodwill	**21.9**	**–**	**–**	**–**	**1.7**	**–**	**16.3**	**–**	**49.9**	**–**
Machinery & equipment	117.9	6.0	40.2	10.2	60.5	3.3	163.4	2.7	124.3	8.2
Buildings	84.6	8.7	1.4	0.8	4.4	0.3	42.8	32.1	53.5	10.4
Plant under construction	1.2	–	0.5	–	4.2	–	3.2	–	1.5	–
Site & property	–	0.3	–	0.4	–	2.2	4.5	2.2	9.6	3.0
Total	**203.7**	**15.0**	**42.1**	**11.4**	**69.1**	**5.8**	**213.9**	**37.0**	**188.9**	**21.6**

b) KVERNELAND ASA NOK million	Aquisitions 1.1.97	Earlier Write-up	Addition 1997	Disposal 1997	Depreciation 1997	Accumulated depreciation	Book value 31.12.97
Machinery & equipment	13.4	–	24.3	0.6	1.6	4.9	32.2
Buildings	103.9	–	–	0.5	3.3	71.3	32.1
Plant under construction	–	–	–	–	–	–	–
Site & property	2.0	8.1	–	–	–	–	10.1
Total	**119.3**	**8.1**	**24.3**	**1.1**	**4.9**	**76.2**	**74.4**

Investment in and sale of fixed assets	1993 Invest	1993 Sale	1994 Invest	1994 Sale	1995 Invest	1995 Sale	1996 Invest	1996 Sale	1997 Invest	1997 Sale
Machinery & equipment	0.1	–	3.8	–	0.6	0.1	8.0	–	24.3	0.6
Buildings	–	–	0.1	–	–	–	2.5	–	–	0.5
Plant under construction	–	–	–	–	–	–	–	–	–	–
Site & property	–	3.6	–	–	–	–	–	–	–	–
Total	**0.1**	**3.6**	**3.9**	**–**	**0.6**	**0.1**	**10.5**	**–**	**24.3**	**1.1**

15. OPERATING LIABILITIES

NOK million	1997	1996	1995
Accounts payable	227.7	187.9	240.2
Accrued VAT, tax, social welfare contribution etc.	54.8	43.1	38.3
Provisions for guarantee obligations	40.1	19.0	15.8
Other current liabilities	57.1	172.1	89.6
Total	**379.7**	**422.1**	**383.9**

16. MINORITY INTERESTS

Kverneland ASA owns 51% of the shares of its sales and distribution company in Ireland. The minority interest of the 1997 profit, is NOK 0.7 million. The management in the newly established company in Poland owns a share equal to 6% or NOK 0.2 million of the company's shares and controls 30% of the votes in the company. Kverneland Poland sp.zo.o started its operations as of 01.01.98.

17. RECONCILIATION OF EQUITY

NOK million	**1997**	**1996**	**1995**
Equity 1 January	707.6	623.2	426.4
Profit of the year	48.8	122.0	98.7
Capital increase	–	–	121.1
Translation differences	7.9	-10.7	-3.2
Accrued dividends	-14.8	-26.9	-19.8
Equity 31 December	**749.5**	**707.6**	**623.2**

18. 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 different countries have been applied in the calculations of deferred taxes.
The deferred tax asset is in full associated to pension obligations.

NOK 1,000	**CONSOLIDATED**			**KVERNELAND ASA**		
			TEMPORARY DIFFERENCES			
Deferred taxes	**1997**	**1996**	**1995**	**1997**	**1996**	**1995**
Short-term	-49,490	-15,530	-21,326	–	–	1,671
Long-term	84,636	–	–	16,234	11,062	9,312
Total temporary differences	**35,146**	**-15,530**	**-21,326**	**16,234**	**11,062**	**10,983**
Loss carried forward	-43,110	–	–	–	–	–
Temporary differences – after offsetting	-7,964	-15,530	–	16,234	11,062	–
Pension liabilities	-32,688	-3,735	1,051	-4,500	-4,300	-4,300
Elimination of internal profit	-34,200	–	–	–	–	–
Limit of deferred tax asset	74,852	19,265	20,275	–	–	–
Basis for deferred tax	–	–	–	11,734	6,762	6,683
Deferred tax asset/liability	**–**	**–**	**–**	**4,546**	**3,097**	**1,871**
Deferred tax asset	**–**	**–**	**–**	**-1,260**	**-1,204**	**–**
Taxes payable	**1997**	**1996**	**1995**	**1997**	**1996**	**1995**
Profit/(loss) before tax	–	–	140,105	46,392	28,481	29,576
Permanent differences including received dividend	–	–	2,360	-23,768	-15,151	-6,523
Contribution to/from group companies	–	–	–	58,418	42,057	27,562
Change in temporary differences	–	–	17,022	-4,272	-79	2,666
Booked directly on equity	–	–	–	-700	–	–
Basis for taxes payable	**–**	**–**	**159,487**	**76,070**	**55,308**	**53,281**
Tax expense	**1997**	**1996**	**1995**	**1997**	**1996**	**1995**
Taxes payable	47,264	47,228	47,300	21,300	15,486	14,919
Settling of previous year taxes payable	-3,389	–	-4,766	324	–	-746
Deferred tax – net change (see above)	–	–	–	1,392	22	–
Tax expense	**43,875**	**47,228**	**42,534**	**23,016**	**15,508**	**14,173**
Foreign part of the total tax expense is	12,524	15,512	12,524	–	–	–

The Group's net deferred tax asset is according to The Companies Act not included in the balance sheet.
If the tax asset were included the Group would have the following tax expense (NOK 1,000)

Tax payable	43,875	(47% of profit before tax)
Change in deferred tax	-16,120	
Corrected tax expense	**27,755**	**(29% of profit before tax)**

19. OTHER TAX RELATED ISSUES

In relation to a tax review of the Norwegian companies in the Group, discussions are held with the Norwegian tax authorities regarding tax deductibility of certain items in the accounts for the fiscal years 1993 and 1994. The amount related to these discussions is

limited to NOK 8.2 million. This has now been through the superior assessment board during 1997/1998 and the outcome is practically all in favour of Kverneland.

The Group has received a tax refund of DEM 5.5 million from the German authorities. The claim was presented in 1996 and the

20. GUARANTEE OBLIGATIONS

	CONSOLIDATED			KVERNELAND ASA		
NOK million	**1997**	**1996**	**1995**	**1997**	**1996**	**1995**
Long-term loan	110.7	135.3	112.2	39.3	45.5	51.8
Overdraft facility drawn	16.1	26.1	19.1	–	–	–
Total	**126.8**	**161.4**	**131.3**	**39.3**	**45.5**	**51.8**
Book value of mortgaged assets						
Account receivables	3.2	360.0	319.5	–	–	–
Inventories	–	233.9	201.8	–	–	–
Machinery and equipment	71.9	87.1	64.1	–	–	–
Buildings	81.5	86.9	83.2	32.0	35.8	36.7
Land	14.4	14.1	10.4	10.1	10.1	10.1
Total	**171.0**	**782.0**	**679.0**	**42.1**	**45.9**	**46.8**

In addition to the above assets, Kverneland ASA's properties which are located at Kvernaland and Nærbø and have a net book value of NOK 42.1 million are mortgaged as security for liabilities amounting to NOK 24.1 million.

21. GUARANTEE OBLIGATIONS

	CONSOLIDATED			KVERNELAND ASA		
NOK million	**1997**	**1996**	**1995**	**1997**	**1996**	**1995**
Guarantee obligations	63.3	22.9	29.2	–	–	–
Guarantee obligations in relation to subsidiaries	–	–	–	7.8	5.6	16.4

Kverneland ASA has a Group account bank overdraft with Kverneland Klepp AS, Kverneland Underhaug AS, Kverneland Kvernex AS, Kverneland Norge AS, Globus AS and Kverneland Eiendom AS and is responsible for the subsidiaries' bank overdraft. The bank overdraft has not been used as at 31 December 1997. Limit is NOK 100 million.

22. PENSION AND PENSION OBLIGATIONS

The Group's pension obligations are accounted for in accordance with the Norwegian Accounting Standard for pension cost. According to this standard the Group pension schemes are treated as defined benefit plans. The pension schemes for the Group relate to 989 people in Norway and 210 people in Germany. These schemes entitle its members to defined future benefits. These benefits are

primarily dependent upon the number of years of employment, the salary level at the time of retirement and the size of the defined benefit contribution from the government. The obligations are insured through life insurance companies.

Reconciliation between the pension scheme funding as of 31 December 1997 and the amounts shown in the balance sheet:

Insured pension schemes	**Non-Norwegian plans**			**Norwegian plans**		
NOK 1,000	**1997**	**1996**	**1995**	**1997**	**1996**	**1995**
Pension obligations to date	13,775	12,686	–	79,233	78,440	73,946
Net effect of future salary increase	1,428	1,472	–	1,472	10,092	9,649
Calculated pension obligations	15,203	14,158	–	94,086	88,532	83,595
Pension funds (at market value)	2,561	2,318	–	120,733	117,453	114,886
Difference between pension obligations and pension funds	12,642	11,840	–	-26,647	-28,921	-31,291
Net pension assets	**–**	**–**	**–**	**26,647**	**28,921**	**31,291**
Net pension liability	**12,642**	**11,840**	**–**	**–**	**–**	**–**

Since the total obligation is higher than the market value of the funds the net pension assets are included in the company's balance. Estimate deviation is included in the company's Profit & Loss Account.

Uninsured pension schemes (incl. early retirement)	**Non-Norwegian plans**			**Norwegian plans**		
NOK 1,000	**1997**	**1996**	**1995**	**1997**	**1996**	**1995**
Calculated pension obligations	4,336	16,012	–	61,842	6,260	–
Unrecognized plan amendments*	–	–	–	-33,757	–	–
Pension obligations	**4,336**	**16,012**	**–**	**28,085**	**6,260**	**–**

** In 1997 the conditions for the pension scheme (AFP) was considerably improved for the employees. Therefore the future pension obligations have increased substantially. As from 1997 the change in pension obligations due to the AFP have been included in the balance sheet and will be amortized over the average remaining years of service. If Kverneland had decided to fully reflect this obligation in the 1997 profit and loss account, it would have resulted in a higher pension cost of NOK 33.8 million for the year.*

Economic assumptions used in the calculations	
Discount rate	6.0%
Expected future increase in salaries	2.5%
Expected future increase of pensions	1.5%
Expected increase in basis for calculating government contributions	2.5%
Expected return on pension funds	6.0%

The actuarial assumptions relating to demographic variables and employee turnover are based on the common assumptions used by the insurance industry.

The above calculations relate to the insured and uninsured pension schemes. The uninsured pension obligations is for 805 people in Norway and 46 people in Germany.

Kverneland ASA has reflected NOK 5.2 million as pension obligations. This obligation relates to 2 employees.

Kverneland ASA has no insured pension schemes.

Notes

23. SHARES OWNED BY ELECTED REPRESENTATIVES

Shares in Kverneland ASA owned by elected representatives, Group Management and auditor at year-end 1997:

Corporate Assembly	**Number of shares**
Kåre Skogen, *Chairman*	0
Ole Gabriel Kverneland, *Deputy Chairman*	16,068
Magne Bergjord*	5
Roald Bergsaker	0
Torfinn Edland*	8
Per Kverneland	5,000
Otto Skurve*	68
Einar Solheim	203
Arild Stokkeland*	0
Ulf Einar Staalesen	0
Karin Joys Vabø	0
Knut Øgreid	0
Board of Directors	
Steinar Olsen, *Chairman*	0
Ådne Kverneland, *Deputy Chairman*	11,629
Henrik Ager-Hanssen	0
Per Otto Dyb	0
Anders Eckhoff	0
John Arild Ertvaag	0
Stein Mossige*	0
Kai Ole Togstad*	0
Group Management	
Atle Eide	10,000
Audun Berg	0
Ellinor Grude	0
Leif Søfting	0
Frode Underhaug	5,981
Auditor	
Sven Erga	0

** Elected by the employees*

Auditor's Report

KPMG

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Foretaksregisteret
NO 935 174 627

To the Annual Shareholders' Meeting of KVERNELAND ASA

Audit report for 1997

We have audited the annual report and accounts of KVERNELAND ASA for 1997, showing a profit for the year of NOK 23 375 624 for the parent company and a consolidated profit for the year of NOK 48 800 000. The annual report and accounts, which comprise the annual report proper, profit and loss account, balance sheet, funds flow statement and notes to the accounts and consolidated accounts are presented by the company's Board of Directors and its Managing Director.

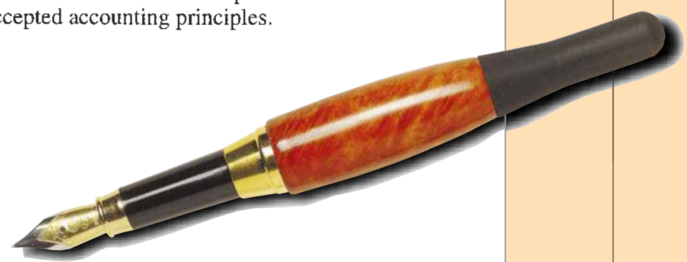
Our responsibility is to examine the company's annual report and accounts, its accounting records and other related matters.

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 Joint-Stock Companies Act.

In our opinion, the annual report and accounts have been prepared in accordance with the requirements of the Joint-Stock Companies Act and present fairly the financial position of the company and the group as of 31.12.97 and the result of its operations for the financial year, in accordance with generally accepted accounting principles.

Stavanger, 2[nd] February 1998
KPMG as



Sven Erga
State Authorised Public Accountant (Norway)

10 Years Survey

NOK million	Def.	1997	1996	1995	1994	1993	1992	1991	1990	1989	1988
Revenue and income											
Net sales		1,981	1,952	1,618	1,445	1,102	899	961	1,087	991	885
Operating profit		112	205	185	144	83	79	25	78	104	37
Profit (loss) before minority and tax		93	171	143	102	26	23	-40	7	40	-7
Tax		44	47	43	27	5	6	14	5	10	6
Net income (loss)		49	122	99	73	20	18	-26	2	30	-13
Capital											
Accounts receivable		496	531	397	356	346	246	201	173	177	171
Inventories		506	411	329	287	286	249	248	313	284	251
Interest bearing debt	1	463	316	183	205	372	327	367	380	358	358
Capital employed	2	1,231	1,057	826	649	760	631	644	685	646	621
Equity	3	750	708	623	426	365	283	265	305	289	262
Total assets		1,611	1,479	1,210	980	983	805	768	862	837	754
Investment in fixed assets		92	63	62	42	22	20	34	70	39	26
Profitability											
Operating margin	4	5.7%	10.5%	11.5%	10.0%	7.5%	8.7%	2.6%	7.2%	10.5%	4.2%
Return on capital employed	5	11.1%	23.3%	26.8%	23.1%	13.3%	14.3%	5.4%	13.1%	17.6%	6.8%
Return on equity	6	6.7%	18.3%	18.8%	18.4%	6.0%	6.4%	-9.1%	0.8%	10.9%	-4.7%
Equity ratio	7	46.5%	47.9%	51.5%	43.5%	37.1%	35.2%	34.5%	35.4%	34.5%	34.8%
Liquidity											
Cash flow from operations		-18	-29	93	206	-11	78	17	21	77	8
Shares											
Number of shares at 31 Dec. (1,000)		8,964	8,964	8,964	7,467	7,420	5,565	5,565	5,565	5,315	5,315
Market capitalization at 31 Dec.		1,076	1,578	1,098	672	397	145	100	300	399	186
Share price at 31 Dec. (NOK)	8	120.00	176.00	122.50	90.00	53.43	25.27	17.50	52.49	72.79	33.97
Equity per share at 31 Dec. (NOK)		84	79	70	57	49	51	48	55	54	49
Share price – High (NOK)	9	234.50	177.00	125.00	93.36	53.98	31.53	48.73	109.69	80.13	34.34
Share price – Low (NOK)	9	114.00	125.00	82.06	52.02	24.83	17.20	14.33	42.99	35.29	20.51
Payout ratio	10	30.3%	22.0%	20.0%	15.4%	26.6%	0.0%	0.0%	0.0%	17.7%	0.0%
Earning Per Share (NOK)	11	5.45	13.61	12.11	9.79	3.05	3.16	-4.67	0.44	5.64	-2.45
Cash Flow Per Share (NOK)	12	-2.02	-3.26	11.36	27.71	-1.72	13.98	2.97	3.94	14.47	1.43
Employees											
Number of employees at 31 Dec.		2,147	2,032	1,621	1,469	1,313	894	1,021	1,228	1,264	1,224

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 Dec.
Share price adjusted for share issues.

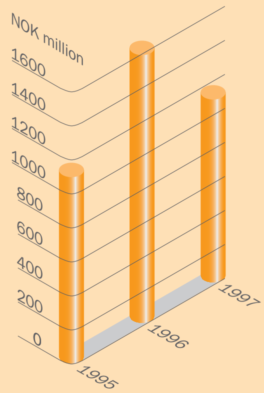
9. Share price high/low
Applicable year's highest and lowest share price adjusted for share issues.

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

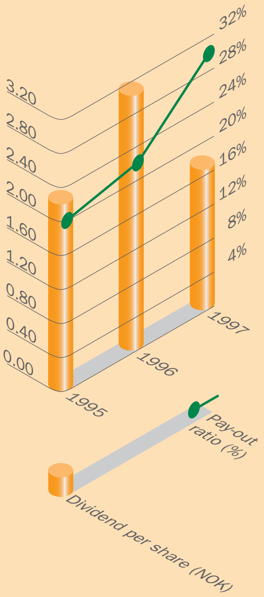
11. Earnings Per Share
Net income after tax divided by average number of shares.

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

Shareholders’ Policy and Investor Relations



Market value at 31 December



Dividend an pay-out ratio

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 which 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 which 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 in connection with 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 1998, Kverneland will publish the four-month results on 27 May and 24 September. The General Assembly will take place on 21 April.

The Kverneland share

The Kverneland share is listed on the Oslo Stock Exchange (ticker symbol KVE). A total of 10.0 million Kverneland shares were traded, where 7.7 million were traded on the Oslo Stock Exchange with a trading value of NOK 1,296 million. This represents 100% of the average outstanding number of Kverneland shares during 1997. The total number of outstanding shares at 31 December 1997 is 8.9 million.

The Kverneland share traded at NOK 176.00 at the end of 1996 and the share price at the end of 1997 is NOK 120.00. This represents a decrease in 1997 of 32.0%. During the same period, the OSE index on the Oslo Stock Exchange rose by 35.1%, while the industrial index rose by 27.7%. The high and low for 1997 were NOK 234.50 and NOK 114.00 respectively.

Based on the price of a Kverneland share as at 31 Dec. 1997 and the Group’s per-share result for 1997, this gives a Price/Earning ratio (P/E) of 22.0.

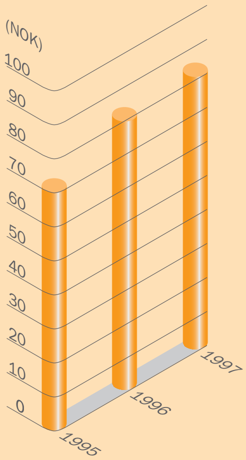
The Board of Kverneland proposes that for 1997 the dividend per share be set at NOK 1.65, a decrease from NOK 3.00 in 1996. This represents a distribution ratio of 30%, an increase from 22% in 1996. The General Assembly will be held on 21 April 1998, and the share will be quoted ex dividend on the following 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 21 April 1998.

Shareholder profile

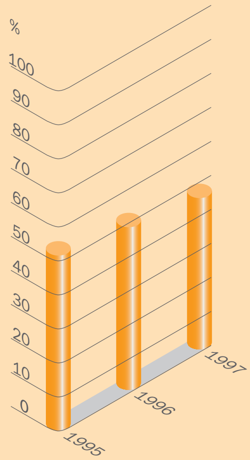
There were 4,096 shareholders in Kverneland as per 31 December 1997 of which 138 were non-Norwegians. The number of shares held by non-Norwegians has decreased by 0.8 percentage points during 1997 and stands at 19.1% at year-end.

THE 20 LARGEST SHAREHOLDERS IN KVERNELAND ASA AT 31 DECEMBER 1997

Shareholder	Number of shares	% of all shares
Orkla ASA	894,733	9.98
Storebrand Livsforsikring	604,670	6.75
Morgan Stanley Trust	417,025	4.65
Gjensidige Livsforsikring	348,311	3.89
Chase Manhattan Bank	342,900	3.83
Kommunal Landspensjon	325,100	3.63
Vital Forsikring	316,962	3.54
State Street Bank	257,575	2.87
Norsk Hydro Pensjonsfond	254,200	2.84
Omega Investment Fund	191,589	2.14
Nor Forsikring	154,344	1.72
Hartog & Co AS	150,000	1.67
Storebrand ASA	129,400	1.44
Meieribrukets Pensjonskasse	125,472	1.40
Verdipapirfondet K-Kapital	121,550	1.36
Gjensidige Skadeforsikring	111,098	1.24
Bank of New York	105,000	1.17
Storebrand Skadeforsikring AS	100,000	1.12
Morgan Guaranty Trust	97,970	1.09
DnB 20	91,900	1.03
Total 10 largest shareholders	**3,953,065**	**44.00**
Total 20 largest shareholders	**5,139,799**	**57.00**



Equity per Share at 31 December



Equity ratio

Shareholders' Policy and Investor Relations

SHARE CAPITAL DEVELOPMENT

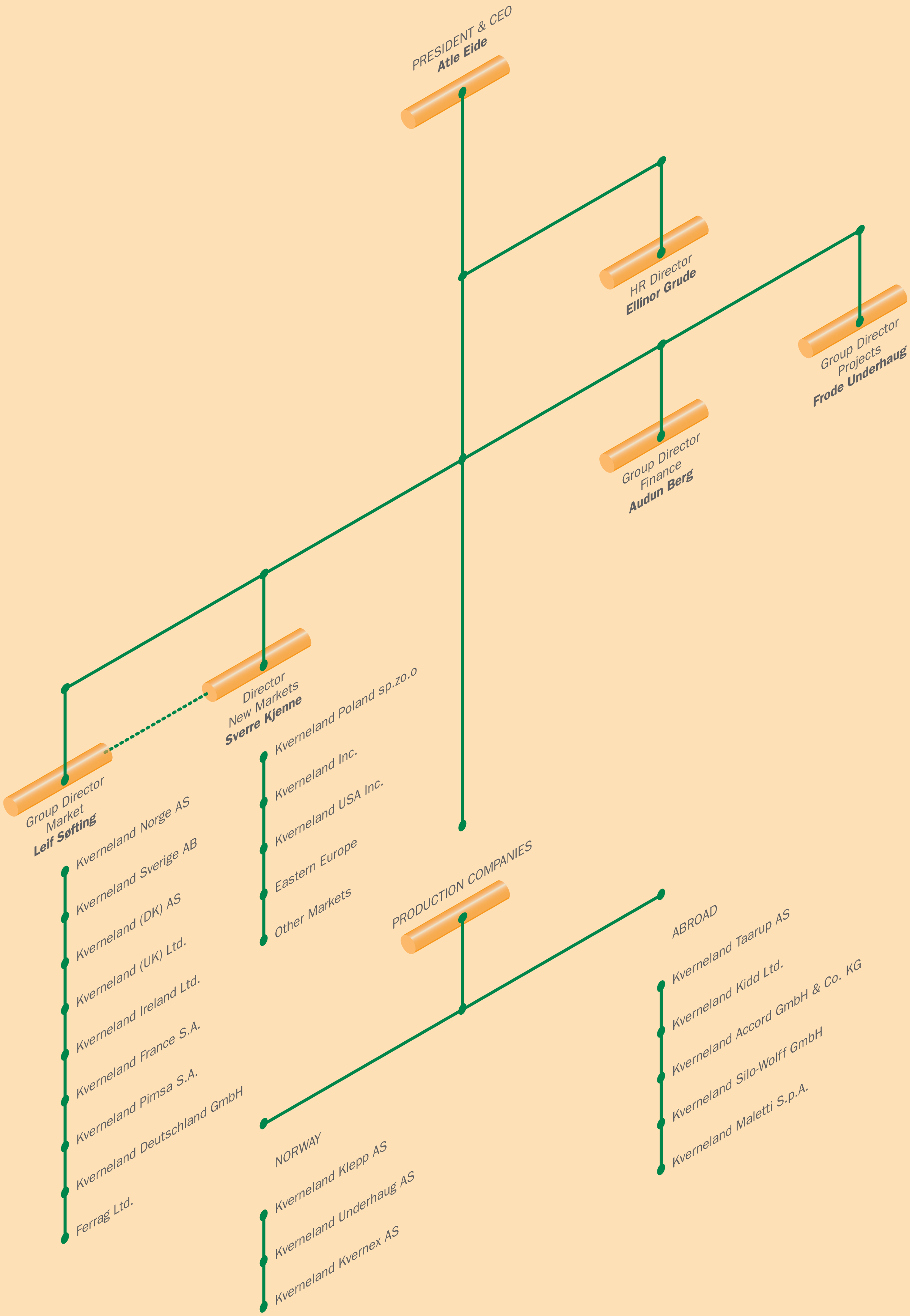
		Ref.	Change in outstanding shares	Number of outstanding shares	Share Capital (NOK)
January -83				1,200,000	12,000,000
September -83	Public Offering	1	600,000	1,800,000	18,000,000
September -83	Private Placement	2	15,000	1,815,000	18,150,000
July -84	Bonus Issue (1:1)		1,815,000	3,630,000	36,300,000
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

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 shareholders 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.

OWNERSHIP STRUCTURE AS AT 31 DECEMBER 1996

No. of shares	No. of shareholders	No. of shareholders as a %	No. of shares	Holding as a %
1 – 100	2,446	60.0%	109,174	1.2%
101 – 1,000	1,250	31.0%	437,576	4.9%
1,001 – 10,000	315	8.0%	1,120,261	12.5%
10,001 –	85	2.0%	7,296,623	81.4%
Totalt	**4,096**	**100.0%**	**8,963,634**	**100.0%**

Organisation



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Artikkelnr. 742336

Contents

Financial Calendar

General Assembly	*Tuesday 21 April 1998*
ACCOUNTS	
First Four-Month Period	*Friday 27 May 1998*
Second Four-Month Period	*Thursday 25 September 1998*

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