

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-K

(mark one)

☒ Annual Report Pursuant to Section 13 or 15(d) of the Securities
Exchange Act of 1934 for the fiscal year ended January 3, 1998

☐ Transition Report Pursuant to Section 13 or 15(d) of the Securities
Exchange Act of 1934
Commission file number 1-11406

THERMO FIBERTEK INC.

(Exact name of Registrant as specified in its charter)

Delaware 52-1762325
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)

81 Wyman Street
Waltham, Massachusetts 02254-9046
(Address of principal executive offices) (Zip Code)
Registrant's telephone number, including area code: (781) 622-1000

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, \$.01 par value	American Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark whether the Registrant (1) has filed all reports
required to be filed by Section 13 or 15(d) of the Securities Exchange
Act of 1934 during the preceding 12 months (or for such shorter period
that the Registrant was required to file such reports), and (2) has been
subject to the filing requirements for at least the past 90 days.

Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to
Item 405 of Regulation S-K is not contained herein, and will not be
contained, to the best of the Registrant's knowledge, in definitive proxy
or information statements incorporated by reference into Part III of this
Form 10-K or any amendment to this Form 10-K. ☐

The aggregate market value of the voting stock held by nonaffiliates of
the Registrant as of January 30, 1998, was approximately \$74,178,000.
As of January 30, 1998, the Registrant had 61,549,894 shares of Common
Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's Annual Report to Shareholders for the year
ended January 3, 1998, are incorporated by reference into Parts I and II.

Portions of the Registrant's definitive Proxy Statement for the Annual
Meeting of Shareholders to be held on June 1, 1998, are incorporated by
reference into Part III.

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PART I

Item 1. Business

(a) General Development of Business

Thermo Fibertek Inc. (the Company or the Registrant) designs and
manufactures processing machinery, accessories, and water-management
systems for the paper and paper recycling industries. The Company's

principal products include custom-engineered systems and equipment for the preparation of wastepaper for conversion into recycled paper; accessory equipment and related consumables important to the efficient operation of papermaking machines; and water-management systems essential for draining, purifying, and recycling process water.

The Company's predecessors have been in operation for more than 100 years, and the Company has a large, stable customer base that includes most papermakers worldwide. The Company seeks to expand its business through the introduction of new products and technologies to these customers. The Company currently manufactures its products in several countries in Europe and North America, and licenses certain of its products for manufacture in South America and the Pacific Rim.

In May 1997, the Company acquired a majority of the assets, subject to certain liabilities, of the stock-preparation business of Black Clawson Company and affiliates. In August 1997, the Company acquired the remaining assets of the stock-preparation business of Black Clawson Company and affiliates. This business has been renamed Thermo Black Clawson. The aggregate purchase price was approximately \$103.4 million in cash. Thermo Black Clawson is a leading supplier of recycling equipment used in processing fiber for the production of "brown paper," such as that used in the manufacture of corrugated boxes.

Pursuant to a promissory note, the Company borrowed \$110.0 million from Thermo Electron Corporation to finance the acquisition of Thermo Black Clawson. The note was repaid in July 1997 with the net proceeds from the sale of \$153.0 million principal amount of 4 1/2% subordinated convertible debentures due 2004.

In September 1996, the Company's Thermo Fibergen Inc. subsidiary sold 4,715,000 units, each unit consisting of one share of Thermo Fibergen common stock and one redemption right, in an initial public offering at \$12.75 per unit for net proceeds of \$55.8 million. The common stock and redemption rights began trading separately on December 13, 1996. Holders of a redemption right have the option to require Thermo Fibergen to redeem one share of Thermo Fibergen common stock at \$12.75 per share in September 2000 or 2001. The redemption rights are guaranteed, on a subordinated basis, by Thermo Electron. The Company has agreed to reimburse Thermo Electron in the event Thermo Electron is required to make a payment under the guarantee.

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As of January 3, 1998, the Company owned 10,419,950 shares of Thermo Fibergen common stock, representing 71% of such outstanding common stock. During 1997*, the Company purchased 419,950 shares of Thermo Fibergen common stock for \$3.8 million.

The Company is a majority-owned subsidiary of Thermo Electron. As of January 3, 1998, Thermo Electron owned 55,150,063 shares of the Company's common stock, representing 90% of such outstanding common stock. In addition to the Company's products, Thermo Electron provides analytical and monitoring instruments; biomedical products including heart-assist devices, respiratory-care equipment, and mammography systems; alternative-energy systems; industrial process equipment; and other specialized products. Thermo Electron also provides industrial outsourcing, particularly in environmental-liability management, laboratory analysis, and metallurgical processing; and conducts advanced-technology research and development. During 1997, Thermo Electron purchased 1,779,400 shares of the Company's common stock in the open market at a total cost of \$16.3 million.

Forward-looking Statements

Forward-looking statements, within the meaning of Section 21E of the Securities Exchange Act of 1934, are made throughout this Annual Report on Form 10-K. For this purpose, any statements contained herein that are

not statements of historical fact may be deemed to be forward-looking statements. Without limiting the foregoing, the words "believes," "anticipates," "plans," "expects," "seeks," "estimates," and similar expressions are intended to identify forward-looking statements. There are a number of important factors that could cause the results of the Company to differ materially from those indicated by such forward-looking statements, including those detailed under the heading "Forward-looking Statements" in the Registrant's 1997 Annual Report to Shareholders, which statements are incorporated herein by reference.

(b) Financial Information About Industry Segments

The Company is engaged in one business segment: the design and manufacture of equipment, accessory products, and water-management systems for the paper and paper recycling industries.

(c) Description of Business

(i) Principal Products and Services

Recycling

The Company develops, designs, and manufactures custom-engineered systems that remove debris, impurities, and ink from wastepaper, and process it into a fiber mix used to produce either white or brown grades of recycled paper. The Company offers more than 20 products related to

* References to 1997, 1996, and 1995 herein are for the fiscal years ended January 3, 1998, December 28, 1996, and December 30, 1995, respectively.

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all aspects of the recycling process. Some of the systems include:

Pulping and Trash Removal Systems, including specialized high- and low-consistency pulpers that blend wastepaper with water and certain chemicals to form pulp without contaminant breakdown, thus increasing the efficiency of debris removal; and poires (scavengers) that remove large debris.

Cleaning and Screening Systems, including high-density screens and cleaners to remove metals and sand from the pulp mixture, fine screens to filter microscopic particles of glue and plastic from the pulp mixture, and the patented Gyroclean(R) system to remove "stickies" and the lightest plastics from the pulp.

De-inking Systems, including the patented MacCell that uses the latest generation of Autoclean injectors to produce small air bubbles in the bottom of the pulp slurry. The ink bonds to the air bubbles and rises to the surface, where it is removed through a unique propellant system. The efficiency of this unit and the reduced floor space required for equivalent ink removal make the MacCell one of the Company's most important products within a de-inking system.

Reject-handling and Water-treatment Systems, including gravity type strainers and in-line filtration, developed by the Company's Engineered Systems Division (AES), as well as compactors and sand separators designed to recapture "good" fiber rejected with debris in the primary process line.

Thermo Fibergen's GranTek subsidiary employs patented technology to produce absorbing granules from papermaking sludge. These granules, marketed under the trade name Biodac, are principally used as a carrier to deliver chemicals for agricultural, professional turf, home lawn and garden, and mosquito-control applications.

Revenues from the Company's recycling business were \$93.6 million, \$56.2 million, and \$77.0 million in 1997, 1996, and 1995, respectively.

Accessories

The Company designs, develops, and manufactures a wide range of accessories that continuously clean the rolls of a papermaking machine, remove the sheet (web) from the roll, automatically cut the web during sheet breaks, and remove curl from the sheet. These functions are critical for paper manufacturers because they help manufacturers avoid potential catastrophic damage to the papermaking equipment while reducing expensive machine downtime and improving paper quality. Accessories include:

Doctors and related equipment, that shed the sheet from the roll during sheet breaks and start-ups and keep rolls clean by removing stock accumulations, water rings, fuzz, pitch, and filler buildup.

Profiling Systems, that help ensure a uniform gloss on the web and control moisture and curl within the sheet.

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Revenues from the Company's accessories business were \$83.0 million, \$82.2 million, and \$73.9 million in 1997, 1996, and 1995, respectively.

Water-management

The Company designs, develops, and manufactures equipment used to drain water from the pulp slurry, form the sheet web, and reuse the process water. These systems include:

Formation Tables, consisting of free-draining elements and vacuum augmented elements to control the amount of water removed from the pulp slurry to form the paper web.

Showers and Felt-conditioning Systems, used to clean and condition the fabrics and felts which in turn are used to transport the paper web through various stages of the papermaking machine.

Water-filtration Systems, consisting of pressure, gravity, and vacuum assisted filters and strainers used to remove extraneous contaminants from the process water before reuse and to recover reusable fiber for recycling back into the pulp slurry.

Revenues from the Company's water-management business were \$44.0 million, \$40.0 million, and \$40.8 million in 1997, 1996, and 1995, respectively.

Other

The Company also manufactures and markets dryers and pollution-control equipment for the printing, papermaking, and converting industries. The Company's dryers transfer heat efficiently from the dryer to the paper web resulting in significant energy savings and improved paper and printing quality. The Company's thermal incinerators reduce volatile organic compounds (VOCs) that are produced when solvents contained in the printed or coated material evaporate. The Company's Thermo Black Clawson subsidiary also manufactures and markets the Chemi-Washer (R), a horizontal belt washer used in the virgin pulping process. The Chemi-Washer consumes less energy than other commercial washing systems and significantly decreases the amount of water used and effluent produced.

(ii) and (xi) New Products; Research and Development

The Company believes that it has a reputation as a technological innovator in the market niches it serves, although rapid technological

obsolescence is not characteristic of the Company's business. The Company, which maintains active programs for the development of new products using both new and existing technologies, has technology centers in Europe and the U.S. dedicated to specific research projects and markets.

For recycling equipment, the Company maintains a stock-preparation pilot laboratory adjacent to the manufacturing facility at its E. & M. Lamort, S.A. (Lamort) subsidiary and one at Thermo Black Clawson's

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Middletown, Ohio, facility, both of which contain all equipment necessary to replicate a commercial stock-preparation system. A customer's wastepaper can be tested to determine the exact system configuration that would be recommended for its future facility. The testing laboratories are also used to evaluate prototype equipment, enabling research teams to quickly and thoroughly evaluate new designs. In addition, the Company works closely with its customers in the development of products, typically field testing new products on the customers' papermaking machines. In the U.S., one facility houses an operation for continued development of accessory products, while another is devoted to development of new water-management products.

In 1996, Thermo Fibergen constructed a mobile pilot plant that it uses to demonstrate its fiber-recovery process and test the sludge streams of mills in the United States and Canada. In 1997, Thermo Fibergen continued research and development efforts relating to its fiber-recovery systems. In addition, GranTek's processing center in Green Bay, Wisconsin, contains a pilot plant that it uses to develop sludge-based products and processes employed at its main facility. In 1997, GranTek successfully completed commercial introduction of a new row-crop granule in the South African market that it intends to introduce in the U.S. market during 1998. GranTek also introduced a granule for oil- and grease-absorption on a limited basis and completed development of two formulations of cat box filler product, which GranTek expects to begin marketing in 1998.

The Company seeks to develop a broad range of equipment for all facets of the markets it serves. Over the next several years the Company expects to focus its research and development efforts on the advancement of paper recycling equipment to further improve the quality of recycled paper.

Research and development expenses for the Company were \$6.8 million, \$5.5 million, and \$4.1 million in 1997, 1996, and 1995, respectively.

(iii) Raw Materials

Raw materials, components, and supplies for all of the Company's significant products are available either from a number of different suppliers or from alternative sources that could be developed without a material adverse effect on the Company's business. To date, the Company has experienced no difficulties in obtaining these materials.

(iv) Patents, Licenses, and Trademarks

The Company protects its intellectual property rights by applying for and obtaining patents when appropriate. The Company also relies on technical know-how, trade secrets, and trademarks to maintain its competitive position. The Company has numerous U.S. and foreign patents, expiring on various dates ranging from 1998 to 2014.

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Third parties have certain rights in two of the Company's patents that were jointly developed with such parties. The initial development of the Company's Gyroclean equipment was provided by Centre Technique du

Papier (CTP), to which the Company provided further design refinement and applications expertise. The Company currently holds an exclusive long-term, worldwide license for a patent on technology that CTP developed. The Company and CTP have joint ownership of a second patent on technology that was jointly developed.

The Company maintains a worldwide network of licensees and cross-licensees of products with other companies servicing the pulp, papermaking, converting, and paper recycling industries. The Company holds an exclusive worldwide license for its de-inking cells under an agreement that extends until 2007. The Company also has license arrangements with several companies with regard to its dryers, pollution-control equipment, and accessory equipment. Thermo Fibergeren has granted two companies nonexclusive licenses under two of its patents to sell cellulose-based granules produced at an existing site for sale in the oil- and grease-absorption and cat box filler markets.

(v) Seasonal Influences

There are no material seasonal influences on the Company's sales of products and services.

(vi) Working Capital Requirements

There are no special inventory requirements or credit terms extended to customers that would have a material adverse effect on the Company's working capital.

(vii) Dependency on a Single Customer

No single customer accounted for more than 10% of the Company's revenues in any of the past three years.

(viii) Backlog

The Company's backlog of firm orders as of January 3, 1998, and December 28, 1996, was \$60.0 million and \$37.1 million, respectively. The Company anticipates that substantially all of the backlog at January 3, 1998, will be shipped or completed during the next twelve months. Certain of these orders may be canceled by the customer upon payment of a cancellation fee. The Company's backlog of firm orders increased principally due to the inclusion of \$22.8 million of backlog at Thermo Black Clawson, acquired May 1997.

(ix) Government Contracts

Not applicable.

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(x) Competition

The Company faces significant competition in each of its principal markets. The Company competes principally on the basis of quality, service, technical expertise, product innovation, and price. The Company believes that the reputation it has established over more than 100 years for quality products and in-depth process knowledge provides it with a competitive advantage. In addition, a significant portion of the Company's business is generated from its existing customer base. To maintain this base, the Company has emphasized service and a problem-solving relationship with its customers.

The Company is a leading supplier of recycling equipment for the preparation of wastepaper to be used in the production of recycled paper. There are several major competitors that supply various pieces of equipment for this process. The Company's principal competitors on a worldwide basis are Voith Sulzer Papiertechnik, Beloit Corporation, Ahlstrom Machine Company, Kvaerner Pulping Technologies, Sunds Defibrator

Inc., and Maschinenfabrik Andritz AG. Various competitors tend to specialize in segments within the white and brown paper markets. The Company competes in the recycling-equipment marketplace primarily on the basis of systems knowledge, product innovation, and price.

The Company is a leading supplier of specialty accessory equipment for papermaking machines. Because of the high capital costs of papermaking machines and the role of the Company's accessories in maintaining the efficiency of these machines, the Company generally competes in this market on the basis of service, technical expertise, and performance.

The Company is a leading supplier of water-management systems. Various competitors exist in the formation table, conditioning and cleaning systems, and filtration systems markets. JWI Group/Johnson Foils is a major supplier of formation tables while a variety of smaller companies compete within the cleaning and conditioning and filtration markets. In each of these areas, process knowledge, application experience, product quality, service, and price are key factors.

(xii) Environmental Protection Regulations

The Company believes that compliance by the Company with federal, state, and local environmental protection regulations will not have a material adverse effect on its results of operations, financial condition, or competitive position.

(xiii) Number of Employees

As of January 3, 1998, the Company employed approximately 1,404 people. Approximately 78 employees at the Company's Kaukauna, Wisconsin, operation are represented by a labor union under a collective bargaining agreement expiring May 31, 1998. Approximately 30 employees at the Company's Pointe Claire, Quebec, Canada, operation are represented by a labor union under a collective bargaining agreement expiring August 31, 1999. Approximately 18 employees at the Company's Middletown, Ohio,

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operation are represented by a labor union under a collective bargaining agreement expiring November 1, 2000. Approximately 39 employees at the Company's Guadalajara, Mexico, operation are represented by a labor union under an annual collective bargaining agreement. In addition, employees of the Company's subsidiaries in France and England are represented by trade unions. The Company has had no work stoppages and considers its relations with employees and unions to be good.

(d) Financial Information About Exports by Domestic Operations and About Foreign Operations

Financial information about exports by domestic operations and about foreign operations is summarized in Note 13 to Consolidated Financial Statements in the Registrant's 1997 Annual Report to Shareholders, which information is incorporated herein by reference.

(e) Executive Officers of the Registrant

Name	Age	Present Title (Year First Became Executive Officer)
William A. Rainville	56	President and Chief Executive Officer (1991)
John N. Hatsopoulos*	63	Chief Financial Officer and Senior Vice President (1991)
Jonathan W. Painter	39	Executive Vice President, Operations (1997)
Jan-Eric Bergstedt	62	Vice President (1996)
Edwin D. Healy	60	Vice President (1994)

Bruno Lamort de Gail	63	Vice President (1991)
Thomas M. O'Brien	46	Vice President, Finance (1994)
Edward J. Sindoni	53	Vice President; President, Thermo Web Systems, Inc. (1994)
Paul F. Kelleher	55	Chief Accounting Officer (1991)

* John N. Hatsopoulos and Dr. George N. Hatsopoulos, a director of the Company, are brothers.

Each executive officer serves until his successor is chosen or appointed by the Board of Directors and qualified or until earlier resignation, death, or removal. Messrs. Rainville, Hatsopoulos, Lamort de Gail, and Kelleher have held comparable positions for at least five years with the Company or with its parent company, Thermo Electron. Mr. Painter was Vice President, Strategic Planning, from 1993 to 1994, Treasurer of Thermo Electron from 1994 to 1997, and became an Executive Officer of the Company in 1997. Mr. Bergstedt has been a Vice President of the Company since November 1993, and was designated an executive officer in 1996. Prior to joining the Company, Mr. Bergstedt was Group Vice President, Pulp and Paper, at Andritz Sprout-Bauer, Inc., a supplier of equipment to the pulp and paper industry, from January 1991 to December 1992. Mr. Healy has been a Vice President of the Company since November 1991, Chairman of Thermo Black Clawson Ltd. since 1997, and President of Fiberprep from May 1988 to 1997, and was designated an executive officer of the Company in 1994. Mr. O'Brien has been Vice President, Finance, of

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the Company since November 1991, and was designated an executive officer in 1994. Mr. Sindoni has been a Vice President of the Company since November 1991, President of the Company's Thermo Web Systems, Inc. subsidiary since January 1993, and was Senior Vice President of Thermo Web Systems Inc. from 1987 to January 1993, and was designated an executive officer in 1994. Messrs. Hatsopoulos and Kelleher are full-time employees of Thermo Electron, but devote such time to the affairs of the Company as the Company's needs reasonably require.

Item 2. Properties

The Company owns approximately 1,061,000 square feet and leases approximately 323,000 square feet of manufacturing, engineering, and office space worldwide under leases expiring at various dates ranging from 1998 to 2005. The Company's principal engineering and manufacturing space is located in Auburn, Massachusetts; Guadalajara, Mexico; Queensbury, New York; Middletown, Ohio; Green Bay, Wisconsin; Kaukauna, Wisconsin; Pointe Claire, Quebec, Canada; Vitry-le-Francois, France; and Bury, England. The Company believes that its facilities are in good condition and are suitable and adequate for its present operations and that suitable space is readily available if any of such leases are not extended.

Item 3. Legal Proceedings

Not applicable.

Item 4. Submission of Matters to a Vote of Security Holders

Not applicable.

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PART II

Item 5. Market for Registrant's Common Equity and Related Stockholder Matters

Information concerning the market and market price for the Registrant's Common Stock, \$.01 par value, and dividend policy is

included under the sections labeled "Common Stock Market Information" and "Dividend Policy" in the Registrant's 1997 Annual Report to Shareholders and is incorporated herein by reference.

Item 6. Selected Financial Data

The information required under this item is included under the sections labeled "Selected Financial Information" and "Dividend Policy" in the Registrant's 1997 Annual Report to Shareholders and is incorporated herein by reference.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The information required under this item is included under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Registrant's 1997 Annual Report to Shareholders and is incorporated herein by reference.

Item 8. Financial Statements and Supplementary Data

The Registrant's Consolidated Financial Statements as of January 3, 1998, and Supplementary Data are included in the Registrant's 1997 Annual Report to Shareholders and are incorporated herein by reference.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

Not applicable.

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PART III

Item 10. Directors and Executive Officers of the Registrant

The information concerning directors required under this item is incorporated herein by reference from the material contained under the caption "Election of Directors" in the Registrant's definitive proxy statement to be filed with the Securities and Exchange Commission pursuant to Regulation 14A, not later than 120 days after the close of the fiscal year. The information concerning delinquent filers pursuant to Item 405 of Regulation S-K is incorporated herein by reference from the material contained under the heading "Section 16(a) Beneficial Ownership Reporting Compliance" under the caption "Stock Ownership" in the Registrant's definitive proxy statement to be filed with the Securities and Exchange Commission pursuant to Regulation 14A, not later than 120 days after the close of the fiscal year.

Item 11. Executive Compensation

The information required under this item is incorporated herein by reference from the material contained under the caption "Executive Compensation" in the Registrant's definitive proxy statement to be filed with the Securities and Exchange Commission pursuant to Regulation 14A, not later than 120 days after the close of the fiscal year.

Item 12. Security Ownership of Certain Beneficial Owners and Management

The information required under this item is incorporated herein by reference from the material contained under the caption "Stock Ownership" in the Registrant's definitive proxy statement to be filed with the Securities and Exchange Commission pursuant to Regulation 14A, not later than 120 days after the close of the fiscal year.

Item 13. Certain Relationships and Related Transactions

The information required under this item is incorporated herein by

reference from the material contained under the caption "Relationship with Affiliates" in the Registrant's definitive proxy statement to be filed with the Securities and Exchange Commission pursuant to Regulation 14A, not later than 120 days after the close of the fiscal year.

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PART IV

Item 14. Exhibits, Financial Statement Schedules, and Reports on Form 8-K

(a, d) Financial Statements and Schedules

- (1) The consolidated financial statements set forth in the list below are filed as part of this Report.
- (2) The consolidated financial statement schedule set forth in the list below is filed as part of this Report.
- (3) Exhibits filed herewith or incorporated herein by reference are set forth in Item 14(c) below.

List of Financial Statements and Schedules Referenced in this Item 14

Information incorporated by reference from Exhibit 13 filed herewith:

Consolidated Statement of Income
Consolidated Balance Sheet
Consolidated Statement of Cash Flows
Consolidated Statement of Shareholders' Investment
Notes to Consolidated Financial Statements
Report of Independent Public Accountants

Financial Statement Schedules filed herewith:

Schedule II: Valuation and Qualifying Accounts

All other schedules are omitted because they are not applicable or not required, or because the required information is shown either in the financial statements or in the notes thereto.

(b) Reports on Form 8-K

During the Company's quarter ended January 3, 1998, the Company was not required to file, and did not file, any Current Report on Form 8-K.

(c) Exhibits

See Exhibit Index on the page immediately preceding exhibits.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: March 20, 1998

THERMO FIBERTEK INC.

By: William A. Rainville

William A. Rainville
President, Chief Executive
Officer, and Director

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities indicated, as of March 20, 1998.

Signature

Title

By: William A. Rainville President, Chief Executive Officer,

William A. Rainville and Director

By: John N. Hatsopoulos Chief Financial Officer, Senior

John N. Hatsopoulos Vice President, and Director

By: Paul F. Kelleher Chief Accounting Officer

Paul F. Kelleher

By: Walter J. Bornhorst Director

Walter J. Bornhorst

By: George N. Hatsopoulos Director

George N. Hatsopoulos

By: _____ Director
Francis L. McKone

By: Donald E. Noble Chairman of the Board and Director

Donald E. Noble

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Report of Independent Public Accountants

To the Shareholders and Board of Directors of Thermo Fibertek Inc.:

We have audited, in accordance with generally accepted auditing standards, the consolidated financial statements included in Thermo Fibertek Inc.'s Annual Report to Shareholders incorporated by reference in this Form 10-K, and have issued our report thereon dated February 9, 1998. Our audits were made for the purpose of forming an opinion on those statements taken as a whole. The schedule listed in Item 14 on page 13 is the responsibility of the Company's management and is presented for purposes of complying with the Securities and Exchange Commission's rules and is not part of the basic consolidated financial statements. This schedule has been subjected to the auditing procedures applied in the audits of the basic consolidated financial statements and, in our opinion, fairly states in all material respects the consolidated financial data required to be set forth therein in relation to the basic consolidated financial statements taken as a whole.

Arthur Andersen LLP

Boston, Massachusetts
February 9, 1998

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SCHEDULE II

THERMO FIBERTEK INC.
Valuation and Qualifying Accounts
(In thousands)

Description	Balance at Beginning of Year	Provision Charged to Expense	Accounts Recovered	Accounts Written Off	Other(a)	Balance at End of Year
Allowance for Doubtful Accounts						
Year Ended Jan. 3, 1998	\$1,948	\$ 362	\$ -	\$ (576)	\$ 831	\$2,565
Year Ended Dec. 28, 1996	\$2,552	\$ (450)	\$ 74	\$ (202)	\$ (26)	\$1,948
Year Ended Dec. 30, 1995	\$2,097	\$ 440	\$ -	\$ (110)	\$ 125	\$2,552

(a) Represents translation adjustment, net of \$1,113 and \$30 allowances of businesses acquired during 1997 and 1996, respectively, as described in Note 3 to Consolidated Financial Statements in the Registrant's 1997 Annual Report to Shareholders.

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EXHIBIT INDEX

Exhibit Number	Description of Exhibit
2.1	Share Redemption Agreement, dated as of December 22, 1994, by and among the Registrant, Fiberprep, and Aikawa Iron Works Co., Ltd. (filed as Exhibit 2.1 to the Registrant's Current Report on Form 8-K relating to events occurring on January 2, 1995 [File No 1-11406] and incorporated herein by reference).
2.2	Asset Purchase Agreement dated as of May 22, 1997 among BC Acquisition Corp., Thermo Fibertek Inc., The Black Clawson Company, Black Clawson Shartle Mfg. Co. Inc., Black Clawson International, Ltd., Black Clawson Canada Fibre Processing Ltd., Black Clawson Europe S.A. and Carl C. Landegger (filed as Exhibit 2.1 to the Registrant's Current Report on Form 8-K relating to events occurring on May 22, 1997 [File No 1-11406] and incorporated herein by reference).
3.1	Certificate of Incorporation, as amended, of the Registrant (filed as Exhibit 3 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 28, 1997 [File No. 1-11406] and incorporated herein by reference).
3.2	By-Laws of the Registrant (filed as Exhibit 3(b) to the Registrant's Registration Statement on Form S-1 [Reg. No. 33-51172] and incorporated herein by reference).

4.1 - 4.4 Reserved.

- 4.5 Fiscal Agency Agreement dated as of July 16, 1997, among the Registrant, Thermo Electron, and Bankers Trust Company as fiscal agent, relating to \$153 million principal amount of 4 1/2% Convertible Subordinated Debentures due 2004 (filed as Exhibit 4 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 28, 1997 [File No. 1-11406] and incorporated herein by reference).
- 10.1 Exchange Agreement dated as of December 28, 1991, between Thermo Electron and the Registrant (filed as Exhibit 10(a) to the Registrant's Registration Statement on Form S-1 [Reg. No. 33-51172] and incorporated herein by reference).
- 10.2 Amended and Restated Corporate Services Agreement dated January 3, 1993, between Thermo Electron and the Registrant (filed as Exhibit 10(b) to the Registrant's Annual Report on Form 10-K for the fiscal year ended January 2, 1993 [File No. 1-11406] and incorporated herein by reference).
- 10.3 Thermo Electron Corporate Charter, as amended and restated effective January 3, 1993 (filed as Exhibit 10(e) to the Registrant's Annual Report on Form 10-K for the fiscal year ended January 2, 1993 [File No. 1-11406] and incorporated herein by reference).

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EXHIBIT INDEX

Exhibit Number	Description of Exhibit
10.4	Thermo Web Systems, Inc. (formerly Thermo Electron Web Systems, Inc.) Retirement Plan, as amended (filed as Exhibit 10(g) to the Registrant's Registration Statement on Form S-1 [Reg. No. 33-51172] and incorporated herein by reference).
10.5	Noncompetition Agreement dated May 30, 1990, between Thermo Electron and Bruno Lamort de Gail (filed as Exhibit 10(h) to the Registrant's Registration Statement on Form S-1 [Reg. No. 33-51172] and incorporated herein by reference).
10.6	Lamort Retirement Plan (filed as Exhibit 10(i) to the Registrant's Registration Statement on Form S-1 [Reg. No. 33-51172] and incorporated herein by reference).
10.7	Lamort Retirement Plan for Key Employees (filed as Exhibit 10(j) to the Registrant's Registration Statement on Form S-1 [Reg. No. 33-51172] and incorporated herein by reference).
10.8	Severance Agreement dated January 8, 1988, between Thermo Electron and William A. Rainville (filed as Exhibit 10(p) to the Registrant's Registration Statement on Form S-1 [Reg. No. 33-51172] and incorporated herein by reference).
10.9	Employment Agreement dated as of May 30, 1990, between the Registrant and Bruno Lamort de Gail (filed as Exhibit 10(q) to the Registrant's Registration Statement on Form S-1 [Reg. No. 33-51172] and incorporated herein by reference).
10.10	Form of Indemnification Agreement for officers and directors (filed as Exhibit 10(s) to the Registrant's Registration Statement on Form S-1 [Reg. No. 33-51172] and incorporated herein by reference).
10.11	Tax Allocation Agreement dated as of December 28, 1991,

between the Registrant and Thermo Electron (filed as Exhibit 10.13 to the Registrant's Annual Report on Form 10-K for the fiscal year ended January 1, 1994 [File No. 1-11406] and incorporated herein by reference).

- 10.12 Amended and Restated Master Repurchase Agreement dated as of December 28, 1996 (filed as Exhibit 10.12 to the Registrant's Annual Report on Form 10-K for the year ended December 28, 1996 [File No. 1-11406] and incorporated herein by reference).

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EXHIBIT INDEX

Exhibit Number	Description of Exhibit
10.13	Assignment Agreement dated as of December 22, 1994, between Thermo Electron and TE Great Lakes, Inc. (filed as Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1995 [File No. 1-11406] and incorporated herein by reference).
10.14	Management Services Agreement dated as of December 22, 1994, between TE Great Lakes, Inc. and Fiberprep (filed as Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1995 [File No. 1-11406] and incorporated herein by reference).
10.15	Equipment Supply Agreement dated as of December 22, 1994, between TE Great Lakes, Inc. and Fiberprep (filed as Exhibit 10.3 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1995 [File No. 1-11406] and incorporated herein by reference).
10.16	Amended and Restated Master Guarantee Reimbursement and Loan Agreement dated as of December 9, 1997, between the Registrant and Thermo Electron.
10.17	Form of Guarantee of Thermo Electron relating to Thermo Fibergen's Redemption Rights (filed as Exhibit 4.1 to Thermo Fibergen's Registration Statement on Form S-1 [Reg. No. 333-07585] and incorporated herein by reference).
10.18	Guarantee Agreement among Thermo Fibergen, Thermo Electron, and the Representatives of the Underwriters (filed as Exhibit 4.2 to Thermo Fibergen's Registration Statement on Form S-1 [Reg. No. 333-07585] and incorporated herein by reference).
10.19	Form of Thermo Fibergen's Redemption Right Certificate (filed as Exhibit 4.4 to Thermo Fibergen's Registration Statement on Form S-1 [Reg. No. 333-07585] and incorporated herein by reference).
10.20	Incentive Stock Option Plan of the Registrant (filed as Exhibit 10(k) to the Registrant's Registration Statement on Form S-1 [Reg. No. 33-51172] and incorporated herein by reference).
10.21	Nonqualified Stock Option Plan of the Registrant (filed as Exhibit 10(l) to the Registrant's Registration Statement on Form S-1 [Reg. No. 33-51172] and incorporated herein by reference).

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EXHIBIT INDEX

Exhibit Number	Description of Exhibit
10.22	Equity Incentive Plan of the Registrant (filed as Attachment A to the Proxy Statement dated May 3, 1994, of the Registrant [File No. 1-11406] and incorporated herein by reference).
10.23	Deferred Compensation Plan for Directors of the Registrant (filed as Exhibit 10(m) to the Registrant's Registration Statement on Form S-1 [Reg. No. 33-51172] and incorporated herein by reference).
10.24	Directors' Stock Option Plan of the Registrant (filed as Exhibit 10.23 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 1994 [File No. 1-11406] and incorporated herein by reference).
10.25	Thermo Fibergen Equity Incentive Plan (filed as Exhibit 10.11 to Thermo Fibergen's Registration Statement on Form S-1 [Registration No. 333-07585] and incorporated herein by reference).
10.26	Thermo Fibertek - Thermo Fibergen Nonqualified Stock Option Plan (filed as Exhibit 10.25 to the Registrant's Annual Report on Form 10-K for the year ended December 28, 1996 [File No. 1-11406] and incorporated herein by reference).
	In addition to the stock-based compensation plans of the Registrant, the executive officers of the Registrant may be granted awards under stock-based compensation plans of Thermo Electron for services rendered to the Registrant or to such affiliated corporations. The terms of such plans are substantially the same as those of the Registrant's Equity Incentive Plan.
10.27	Restated Stock Holding Assistance Plan and Form of Promissory Note.
13	Annual Report to Shareholders for the year ended January 3, 1998 (only those portions incorporated herein by reference).
21	Subsidiaries of the Registrant.
23	Consent of Arthur Andersen LLP.
27	Financial Data Schedule for the Year Ended January 3, 1998.
27.1	Financial Data Schedule for the Quarter Ended March 29, 1997 (Restated for the adoption of SFAS No. 128).

AMENDED AND RESTATED MASTER GUARANTEE REIMBURSEMENT
AND LOAN AGREEMENT

This AGREEMENT is entered into as of the 9th day of December, 1997 by and among Thermo Electron Corporation (the "Parent") and those of its subsidiaries that join in this Agreement by executing the signature page hereto (the "Majority Owned Subsidiaries").

WITNESSETH:

WHEREAS, the Majority Owned Subsidiaries and their wholly-owned subsidiaries wish to enter into various financial transactions, such as convertible or nonconvertible debt, loans, and equity offerings, and other contractual arrangements with third parties (the "Underlying Obligations") and may provide credit support to, on behalf of or for the benefit of, other subsidiaries of the Parent ("Credit Support Obligations");

WHEREAS, the Majority Owned Subsidiaries and the Parent acknowledge that the Majority Owned Subsidiaries and their wholly-owned subsidiaries may be unable to enter into many kinds of Underlying Obligations without a guarantee of their performance thereunder from the Parent (a "Parent Guarantee") or without obtaining Credit Support Obligations from other Majority Owned Subsidiaries;

WHEREAS, the Majority Owned Subsidiaries and their wholly-owned subsidiaries may borrow funds from the Parent, and the Parent may loan funds or provide credit to the Majority Owned Subsidiaries and their wholly-owned subsidiaries, on a short-term and unsecured basis;

WHEREAS, certain Majority Owned Subsidiaries ("Second Tier Majority Owned Subsidiaries ") may themselves be majority owned subsidiaries of other Majority Owned Subsidiaries ("First Tier Majority Owned Subsidiaries");

WHEREAS, for various reasons, Parent Guarantees of a Second Tier Majority Owned Subsidiary's Underlying Obligations may be demanded and given without the respective First Tier Majority Owned Subsidiary also issuing a guarantee of such Underlying Obligation;

WHEREAS, the Parent may itself make a loan or provide other credit to a Second Tier Majority Owned Subsidiary or its wholly-owned subsidiaries under circumstances where the applicable First Tier Majority Owned Subsidiary does not provide such credit; and

WHEREAS, the Parent is willing to consider continuing to issue Parent Guarantees and providing credit, and the Majority Owned Subsidiaries are willing to consider continuing to provide

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Credit Support Obligations and to borrow funds, on the terms and conditions set forth below;

NOW, THEREFORE, in consideration of the foregoing and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged by each party hereto, the parties agree as follows:

1. If the Parent provides a Parent Guarantee of an Underlying Obligation, and the beneficiary(ies) of the Parent Guarantee

enforce the Parent Guarantee, or the Parent performs under the Parent Guarantee for any other reason, then the Majority Owned Subsidiary that is obligated, either directly or indirectly through a wholly-owned subsidiary, under such Underlying Obligation shall indemnify and save harmless the Parent from any liability, cost, expense or damage (including reasonable attorneys' fees) suffered by the Parent as a result of the Parent Guarantee. If the Underlying Obligation is issued by a Second Tier Majority Owned Subsidiary or a wholly-owned subsidiary thereof, and such Second Tier Majority Owned Subsidiary is unable to fully indemnify the Parent (because of the poor financial condition of such Second Tier Majority Owned Subsidiary, or for any other reason), then the First Tier Majority Owned Subsidiary that owns the majority of the stock of such Second Tier Majority Owned Subsidiary shall indemnify and save harmless the Parent from any remaining liability, cost, expense or damage (including reasonable attorneys' fees) suffered by the Parent as a result of the Parent Guarantee. If a Majority Owned Subsidiary or a wholly-owned subsidiary thereof provides a Credit Support Obligation for any subsidiary of the Parent, other than a subsidiary of such Majority Owned Subsidiary, and the beneficiary(ies) of the Credit Support Obligation enforce the Credit Support Obligation, or the Majority Owned Subsidiary or its wholly-owned subsidiary performs under the Credit Support Obligation for any other reason, then the Parent shall indemnify and save harmless the Majority Owned Subsidiary or its wholly-owned subsidiary, as applicable, from any liability, cost, expense or damage (including reasonable attorneys' fees) suffered by the Majority Owned Subsidiary or its wholly-owned subsidiary, as applicable, as a result of the Credit Support Obligation. Without limiting the foregoing, Credit Support Obligations include the deposit of funds by a Majority Owned Subsidiary or a wholly-owned subsidiary thereof in a credit arrangement with a banking facility whereby such funds are available to the banking facility as collateral for overdraft obligations of other Majority Owned Subsidiaries or their subsidiaries also participating in the credit arrangement with such banking facility.

2. For purposes of this Agreement, the term "guarantee" shall include not only a formal guarantee of an obligation, but

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also any other arrangement where the Parent is liable for the obligations of a Majority Owned Subsidiary or its wholly-owned subsidiaries. Such other arrangements include (a) representations, warranties and/or covenants or other obligations joined in by the Parent, whether on a joint or joint and several basis, for the benefit of the Majority Owned Subsidiary or its wholly-owned subsidiaries and (b) responsibility of the Parent by operation of law for the acts and omissions of the Majority Owned Subsidiary or its wholly-owned subsidiaries, including controlling person liability under securities and other laws.

3. Promptly after the Parent receives notice that a beneficiary of a Parent Guarantee is seeking to enforce such Parent Guarantee, the Parent shall notify the Majority Owned Subsidiary(s) obligated, either directly or indirectly through a wholly-owned subsidiary, under the relevant Underlying Obligation. Such Majority Owned Subsidiary(s) or wholly-owned subsidiary thereof, as applicable, shall have the right, at its own expense, to contest the claim of such beneficiary. If a Majority Owned Subsidiary or wholly-owned subsidiary thereof, as applicable, is contesting the claim

of such beneficiary, the Parent will not perform under the relevant Parent Guarantee unless and until, in the Parent's reasonable judgment, the Parent is obligated under the terms of such Parent Guarantee to perform. Subject to the foregoing, any dispute between a Majority Owned Subsidiary or wholly-owned subsidiary thereof, as applicable, and a beneficiary of a Parent Guarantee shall not affect such Majority Owned Subsidiary's obligation to promptly indemnify the Parent hereunder. Promptly after a Majority Owned Subsidiary or wholly-owned subsidiary thereof, as applicable, receives notice that a beneficiary of a Credit Support Obligation is seeking to enforce such Credit Support Obligation, the Majority Owned Subsidiary shall notify the Parent. The Parent shall have the right, at its own expense, to contest the claim of such beneficiary. If the Parent or the subsidiary of the Parent on whose behalf the Credit Support Obligation is given is contesting the claim of such beneficiary, the Majority Owned Subsidiary or wholly-owned subsidiary thereof, as applicable, will not perform under the relevant Credit Support Obligation unless and until, in the Majority Owned Subsidiary's reasonable judgment, the Majority Owned Subsidiary or wholly-owned subsidiary thereof, as applicable, is obligated under the terms of such Credit Support Obligation to perform. Subject to the foregoing, any dispute between the Parent or the subsidiary of the Parent on whose behalf the Credit Support Obligation was given, on the one hand, and a beneficiary of a Credit Support Obligation, on the other, shall not affect the Parent's obligation to promptly indemnify the Majority Owned Subsidiary or its wholly-owned subsidiary, as applicable, hereunder.

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4. Upon the request of a Majority Owned Subsidiary, the Parent may make loans and advances to the Majority Owned Subsidiary or its wholly-owned subsidiaries on a short-term, revolving credit basis, from time to time in such amounts as mutually determined by the Parent and the Majority Owned Subsidiary. The aggregate principal amount of such loans and advances shall be reflected on the books and records of the Majority Owned Subsidiary (or wholly-owned subsidiary, as applicable) and the Parent. All such loans and advances shall be on an unsecured basis unless specifically provided otherwise in loan documents executed at that time. The Majority Owned Subsidiary or its wholly-owned subsidiaries, as applicable, shall pay interest on the aggregate unpaid principal amount of such loans from time to time outstanding at a rate ("Interest Rate") equal to the rate of the Commercial Paper Composite Rate for 90-day maturities as reported by Merrill Lynch Capital Markets, as an average of the last five business days of such Majority Owned Subsidiary's latest fiscal quarter then ended, plus twenty-five (25) basis points. The Interest Rate shall be adjusted on the first business day of each fiscal quarter of such Majority Owned Subsidiary pursuant to the Interest Rate formula contained in the preceding sentence and shall be in effect for the entirety of such fiscal quarter. Interest shall be computed on a 360-day basis. The aggregate principal amount outstanding and accrued interest thereon shall be payable on demand. The principal and accrued interest may be paid by the Majority Owned Subsidiaries or their wholly-owned subsidiaries, as applicable, at any time or from time to time, in whole or in part, without premium or penalty. All payments shall be applied first to accrued interest and then to principal. Principal and interest shall be payable in lawful money of the United States of America, in immediately available funds, at the principal office of the Parent or at such other place as the Parent may designate from time to

time in writing to the Majority Owned Subsidiary. The unpaid principal amount of any such borrowings, and accrued interest thereon, shall become immediately due and payable, without demand, upon the failure of the Majority Owned Subsidiary or its wholly-owned subsidiary, as applicable, to pay its debts as they become due, the insolvency of the Majority Owned Subsidiary or its wholly-owned subsidiary, as applicable, the filing by or against the Majority Owned Subsidiary or its wholly-owned subsidiary, as applicable, of any petition under the U.S. Bankruptcy Code (or the filing of any similar petition under the insolvency law of any jurisdiction), or the making by the Majority Owned Subsidiary or its wholly-owned subsidiary, as applicable, of an assignment or trust mortgage for the benefit of creditors or the appointment of a receiver, custodian or similar agent with respect to, or the taking by any such person of possession of, any property of the Majority Owned Subsidiary or its wholly-owned subsidiary, as applicable. In case any payments of principal and interest shall not be paid when

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due, the Majority Owned Subsidiary or its wholly-owned subsidiary, as applicable, further promises to pay all cost of collection, including reasonable attorneys' fees.

5. If the Parent makes a loan or provides other credit ("Credit Extension") to a Second Tier Majority Owned Subsidiary, the First Tier Majority Owned Subsidiary that owns the majority of the stock of such Second Tier Majority Owned Subsidiary hereby guarantees the Second Tier Majority Owned Subsidiary's obligations to the Parent thereunder. Such guaranty shall be enforced only after the Parent, in its reasonable judgment, determines that the Second Tier Majority Owned Subsidiary is unable to fully perform its obligations under the Credit Extension. If the Parent provides Credit Extension to a wholly-owned subsidiary of a Second Tier Majority Owned Subsidiary, the Second Tier Majority Owned Subsidiary hereby guarantees it wholly-owned subsidiary's obligations to the Parent thereunder and the First Tier Majority Owned Subsidiary that owns the majority of the stock of such Second Tier Majority Owned Subsidiary hereby guarantees the Second Tier Majority Owned Subsidiary's obligations to the Parent hereunder. Such guaranty by the First Tier Majority Owned Subsidiary shall be enforced only after the Parent, in its reasonable judgment, determines that the Second Tier Majority Owned Subsidiary is unable to fully perform its guaranty obligation hereunder.
6. All payments required to be made by a Majority Owned Subsidiary or its wholly-owned subsidiaries, as applicable, shall be made within two days after receipt of notice from the Parent. All payments required to be made by the Parent shall be made within two days after receipt of notice from the Majority Owned Subsidiary.
7. This Agreement shall be governed by and construed in accordance with the laws of the Commonwealth of Massachusetts applicable to contracts made and performed therein.

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IN WITNESS WHEREOF, the parties have caused this Agreement to be executed by their duly authorized officers as of the date first above written.

THERMO ELECTRON CORPORATION

By: /s/ Melissa F. Riordan

Title: Treasurer

THERMO FIBERTEK INC.

By: /s/ William A. Rainville

Title: President and Chief
Executive Officer

THERMO FIBERTEK INC.

RESTATED STOCK HOLDING ASSISTANCE PLAN

SECTION 1. Purpose.

The purpose of this Plan is to benefit Thermo Fibertek Inc. (the "Company") and its stockholders by encouraging Key Employees to acquire and maintain share ownership in the Company, by increasing such employees' proprietary interest in promoting the growth and performance of the Company and its subsidiaries and by providing for the implementation of the Stock Holding Policy.

SECTION 2. Definitions.

The following terms, when used in the Plan, shall have the meanings set forth below:

Committee: The Human Resources Committee of the Board of Directors of the Company as appointed from time to time.

Common Stock: The common stock of the Company and any successor thereto.

Company: Thermo Fibertek Inc., a Delaware corporation.

Stock Holding Policy: The Stock Holding Policy of the Company, as adopted by the Committee and as in effect from time to time.

Key Employee: Any employee of the Company or any of its subsidiaries, including any officer or member of the Board of Directors who is also an employee, as designated by the Committee, and who, in the judgment of the Committee, will be in a position to contribute significantly to the attainment of the Company's strategic goals and long-term growth and prosperity.

Loans: Loans extended to Key Employees by the Company pursuant to this Plan.

Plan: The Thermo Fibertek Inc. Stock Holding Assistance Plan, as amended from time to time.

SECTION 3. Administration.

The Plan and the Stock Holding Policy shall be administered by the Committee, which shall have authority to interpret the Plan and the Stock Holding Policy and, subject to their provisions, to prescribe, amend and rescind any rules and regulations and to make all other determinations necessary or desirable for the administration thereof. The Committee's interpretations and decisions with regard to the Plan and the Stock Holding Policy and such rules and regulations as may be

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established thereunder shall be final and conclusive. The Committee may correct any defect or supply any omission or reconcile any inconsistency in the Plan or the Stock Holding Policy, or in any Loan in the manner and to the extent the Committee deems desirable to carry it into effect. No member of the Committee shall be liable for any action or omission in connection with the Plan or the Stock Holding Policy that is made in good faith.

SECTION 4. Loans and Loan Limits.

The Committee has determined that the provision of Loans from time to time to Key Employees in such amounts as to cause such Key Employees to comply with the Stock Holding Policy is, in the judgment of the Committee, reasonably expected to benefit the Company and authorizes the Company to extend Loans from time to time to Key Employees in such amounts as may be requested by such Key Employees in order to comply with the Stock Holding Policy. Such Loans may be used solely for the purpose of acquiring Common Stock (other than upon the exercise of stock options or under employee stock purchase plans) in open market transactions or from the Company.

Each Loan shall be full recourse and evidenced by a non-interest bearing promissory note substantially in the form attached hereto as Exhibit A (the "Note") and maturing in accordance with the provisions of Section 6 hereof, and containing such other terms and conditions, which are not inconsistent with the provisions of the Plan and the Stock Holding Policy, as the Committee shall determine in its sole and absolute discretion.

SECTION 5. Federal Income Tax Treatment of Loans.

For federal income tax purposes, interest on Loans shall be imputed on any interest free Loan extended under the Plan. A Key Employee shall be deemed to have paid the imputed interest to the Company and the Company shall be deemed to have paid said imputed interest back to the Key Employee as additional compensation. The deemed interest payment shall be taxable to the Company as income, and may be deductible to the Key Employee to the extent allowable under the rules relating to investment interest. The deemed compensation payment to the Key Employee shall be taxable to the employee and deductible to the Company, but shall also be subject to employment taxes such as FICA and FUTA.

SECTION 6. Maturity of Loans.

Each Loan to a Key Employee hereunder shall be due and payable on demand by the Company. If no such demand is made, then each Loan shall mature and the principal thereof shall become due and payable on the fifth anniversary of the date of the Loan, provided that the Committee may, in its sole and absolute discretion, authorize such other maturity and repayment

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schedule as the Committee may determine. Each Loan shall also become immediately due and payable in full, without demand, upon the occurrence of any of the events set forth in the Note; provided that the Committee may, in its sole and absolute discretion, authorize an extension of the time for repayment of a Loan upon such terms and conditions as the Committee may determine.

SECTION 7. Amendment and Termination of the Plan.

The Committee may from time to time alter or amend the Plan or the Stock Holding Policy in any respect, or terminate the Plan or the Stock Holding Policy at any time. No such amendment or termination, however, shall alter or otherwise affect the terms and conditions of any Loan then outstanding to Key Employee without such Key Employee's written consent, except as otherwise provided herein or in the promissory note evidencing such Loan.

SECTION 8. Miscellaneous Provisions.

(a) No employee or other person shall have any claim or

right to receive a Loan under the Plan, and no employee shall have any right to be retained in the employ of the Company due to his or her participation in the Plan.

(b) No Loan shall be made hereunder unless counsel for the Company shall be satisfied that such Loan will be in compliance with applicable federal, state and local laws.

(c) The expenses of the Plan shall be borne by the Company.

(d) The Plan shall be unfunded, and the Company shall not be required to establish any special or separate fund or to make any other segregation of assets to assure the making of any Loan under the Plan.

(e) Except as otherwise provided in Section 7 hereof, by accepting any Loan under the Plan, each Key Employee shall be conclusively deemed to have indicated his acceptance and ratification of, and consent to, any action taken under the Plan or the Stock Holding Policy by the Company, the Board of Directors of the Company or the Committee.

(f) The appropriate officers of the Company shall cause to be filed any reports, returns or other information regarding Loans hereunder, as may be required by any applicable statute, rule or regulation.

SECTION 9. Effective Date.

The Plan and the Stock Holding Policy shall become effective upon approval and adoption by the Committee.

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EXHIBIT A TO STOCK HOLDING ASSISTANCE PLAN

THERMO FIBERTEK INC.

Promissory Note

\$ _____

Dated: _____

For value received, _____, an individual whose residence is located at _____ (the "Employee"), hereby promises to pay to Thermo Fibertek Inc. (the "Company"), or assigns, ON DEMAND, but in any case on or before [insert date which is the fifth anniversary of date of issuance] (the "Maturity Date"), the principal sum of [loan amount in words] (\$_____), or such part thereof as then remains unpaid, without interest. Principal shall be payable in lawful money of the United States of America, in immediately available funds, at the principal office of the Company or at such other place as the Company may designate from time to time in writing to the Employee.

Unless the Company has already made a demand for payment in full of this Note, the Employee agrees to repay to the Company from the Employee's annual cash incentive compensation (referred to as bonus), beginning with the first such bonus payment to occur after the date of this Note and on each of the next four bonus payment dates occurring prior to the Maturity Date, such amount as may be designated by the Company. Any amount remaining unpaid under this Note shall be due and payable on the Maturity Date.

This Note may be prepaid at any time or from time to time, in whole or in part, without any premium or penalty. The Employee acknowledges and agrees that the Company has advanced to the Employee the principal amount of this Note pursuant to the Company's Stock Holding Assistance Plan, and that all terms and conditions of such Plan are incorporated herein by reference.

The unpaid principal amount of this Note shall be and become immediately due and payable without notice or demand, at the option of the Company, upon the occurrence of any of the following events:

(a) the termination of the Employee's employment with the Company, with or without cause, for any reason or for no reason;

(b) the death or disability of the Employee;

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(c) the failure of the Employee to pay his or her debts as they become due, the insolvency of the Employee, the filing by or against the Employee of any petition under the United States Bankruptcy Code (or the filing of any similar petition under the insolvency law of any jurisdiction), or the making by the Employee of an assignment or trust mortgage for the benefit of creditors or the appointment of a receiver, custodian or similar agent with respect to, or the taking by any such person of possession of, any property of the Employee; or

(d) the issuance of any writ of attachment, by trustee process or otherwise, or any restraining order or injunction not removed, repealed or dismissed within thirty (30) days of issuance, against or affecting the person or property of the Employee or any liability or obligation of the Employee to the Company.

In case any payment herein provided for shall not be paid when due, the Employee further promises to pay all costs of collection, including all reasonable attorneys' fees.

No delay or omission on the part of the Company in exercising any right hereunder shall operate as a waiver of such right or of any other right of the Company, nor shall any delay, omission or waiver on any one occasion be deemed a bar to or waiver of the same or any other right on any future occasion. The Employee hereby waives presentment, demand, notice of prepayment, protest and all other demands and notices in connection with the delivery, acceptance, performance, default or enforcement of this Note. The undersigned hereby assents to any indulgence and any extension of time for payment of any indebtedness evidenced hereby granted or permitted by the Company.

This Note has been made pursuant to the Company's Stock Holding Assistance Plan and shall be governed by and construed in accordance with, such Plan and the laws of the State of Delaware and shall have the effect of a sealed instrument.

Employee Name: _____

Witness

THERMO FIBERTEK INC.

Consolidated Financial Statements

1997

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Thermo Fibertek Inc.

1997 Financial Statements

Consolidated Statement of Income

(In thousands except per share amounts)	1997	1996	1995
Revenues (includes \$1,876 and \$14,737 from related party in 1996 and 1995; Notes 9 and 13)	\$239,642	\$192,209	\$206,743
Costs and Operating Expenses:			
Cost of revenues (includes \$639 and \$8,797 for related-party revenues in 1996 and 1995; Note 9)	145,159	109,537	123,094
Selling, general, and administrative expenses (Note 9)	60,675	47,093	48,659
Research and development expenses	6,814	5,460	4,061
Restructuring costs (Note 11)	1,063	-	-
	213,711	162,090	175,814
Operating Income	25,931	30,119	30,929
Interest Income	7,325	3,568	3,497
Interest Expense	(3,419)	(123)	(188)
Interest Expense, Related Party (Note 8)	(1,411)	(540)	(1,178)
Income Before Provision for Income Taxes and Minority Interest	28,426	33,024	33,060
Provision for Income Taxes (Note 7)	11,011	12,684	12,578
Minority Interest Expense	989	446	233
Net Income	\$ 16,426	\$ 19,894	\$ 20,249
Earnings per Share (Note 14):			
Basic	\$.27	\$.33	\$.33
Diluted	\$.26	\$.31	\$.32
Weighted Average Shares (Note 14):			
Basic	61,384	61,040	60,785
Diluted	63,613	64,343	63,887

The accompanying notes are an integral part of these consolidated financial statements.

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Thermo Fibertek Inc.

1997 Financial Statements

Consolidated Balance Sheet

(In thousands)	1997	1996
Assets		
Current Assets:		
Cash and cash equivalents	\$111,648	\$109,805
Available-for-sale investments, at quoted market value (amortized cost of \$36,273 in 1997; Note 2)	36,319	-
Accounts receivable, less allowances of \$2,565 and \$1,948	53,408	38,115
Unbilled contract costs and fees	4,422	1,236
Inventories	31,960	24,467
Prepaid and refundable income taxes (includes \$940 due from parent company in 1997; Note 7)	7,457	7,220
Other current assets	2,256	1,582
	247,470	182,425
Property, Plant, and Equipment, at Cost, Net	28,336	26,540
Other Assets (Note 4)	14,437	8,720
Cost in Excess of Net Assets of Acquired Companies (Note 3)	128,695	39,547
	\$418,938	\$257,232
	=====	=====

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Thermo Fibertek Inc.

1997 Financial Statements

Consolidated Balance Sheet (continued)

(In thousands except share amounts)	1997	1996
Liabilities and Shareholders' Investment		
Current Liabilities:		
Accounts payable	\$ 25,755	\$ 16,805
Accrued payroll and employee benefits	10,588	10,989
Billings in excess of contract costs and fees	5,548	2,540
Accrued warranty costs	8,620	7,752
Accrued income taxes (includes \$1,340 due to parent company)	-	2,414
Other accrued expenses	18,512	8,707
Due to parent company and affiliated companies (Note 8)	1,451	17,609
	70,474	66,816
Deferred Income Taxes and Other Deferred Items (Note 7)	4,267	3,168
Long-term Obligations (Note 8)	153,000	34
Minority Interest (Note 3)	290	277
Commitments and Contingencies (Note 10)		

Common Stock of Subsidiary Subject to Redemption (\$54,762 and \$60,116 redemption value; Note 1)	52,812	56,087
	-----	-----
Shareholders' Investment (Notes 5 and 6):		
Common stock, \$.01 par value, 150,000,000 shares authorized; 63,331,887 and 61,154,930 shares issued	633	612
Capital in excess of par value	81,865	65,951
Retained earnings	82,607	66,181
Treasury stock at cost, 1,820,709 and 23,550 shares	(19,494)	(360)
Cumulative translation adjustment	(7,545)	(1,534)
Net unrealized gain on available-for-sale investments (Note 2)	29	-
	-----	-----
	138,095	130,850
	-----	-----
	\$418,938	\$257,232
	=====	=====

The accompanying notes are an integral part of these consolidated financial statements.

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Thermo Fibertek Inc.

1997 Financial Statements

Consolidated Statement of Cash Flows

(In thousands)	1997	1996	1995
-----	-----	-----	-----
Operating Activities:			
Net income	\$ 16,426	\$ 19,894	\$ 20,249
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	7,545	4,983	4,760
Provision for losses on accounts receivable	362	(450)	440
Minority interest expense	989	446	233
Restructuring costs (Note 11)	1,063	-	-
Deferred income tax expense (benefit)	1,976	2,017	(1,876)
Other noncash items	(479)	(316)	(111)
Changes in current accounts, excluding the effects of acquisitions:			
Accounts receivable	(1,878)	5,724	(8,052)
Inventories and unbilled contract costs and fees	(1,183)	3,139	(3,113)
Other current assets	(625)	1,468	398
Accounts payable	(3,344)	(3,436)	3,731
Other current liabilities	68	(6,417)	1,718
	-----	-----	-----
Net cash provided by operating activities	20,920	27,052	18,377
	-----	-----	-----
Investing Activities:			
Acquisitions, net of cash acquired (Note 3)	(103,403)	(12,066)	(12,783)
Advances under notes receivable	(3,000)	(6,000)	-
Repayment of notes receivable	3,000	-	150
Purchases of available-for-sale investments	(48,050)	-	-
Proceeds from sale and maturities of available-for-sale investments	12,256	2,750	4,700
Purchases of property, plant, and			

equipment	(3,793)	(3,936)	(3,493)
Other	117	(150)	440
	-----	-----	-----
Net cash used in investing activities	\$ (142,873)	\$ (19,402)	\$ (10,986)
	-----	-----	-----

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Thermo Fibertek Inc.

1997 Financial Statements

Consolidated Statement of Cash Flows (continued)

(In thousands)	1997	1996	1995
-----	-----	-----	-----
Financing Activities:			
Net proceeds from issuance of subordinated convertible debentures (Note 8)	\$ 149,768	\$ -	\$ -
Issuance of obligations to parent company (Note 8)	110,000	-	10,400
Repayment of obligations to parent company (Note 8)	(110,000)	(10,400)	-
Purchases of Company and subsidiary common stock	(23,951)	-	-
Net proceeds from issuance of Company and subsidiary common stock	1,069	55,923	235
Repayment of long-term obligations	(32)	-	(385)
	-----	-----	-----
Net cash provided by financing activities	126,854	45,523	10,250
	-----	-----	-----
Exchange Rate Effect on Cash	(3,058)	(396)	2,137
	-----	-----	-----
Increase in Cash and Cash Equivalents	1,843	52,777	19,778
Cash and Cash Equivalents at Beginning of Year	109,805	57,028	37,250
	-----	-----	-----
Cash and Cash Equivalents at End of Year	\$ 111,648	\$ 109,805	\$ 57,028
	=====	=====	=====
Cash Paid For:			
Interest	\$ 1,714	\$ 662	\$ 1,391
Income taxes	\$ 10,593	\$ 12,625	\$ 14,760
Noncash Activities:			
Fair value of assets of acquired companies	\$ 127,649	\$ 12,310	\$ -
Cash paid for acquired companies	(103,415)	(12,070)	-
	-----	-----	-----
Liabilities assumed of acquired companies	\$ 24,234	\$ 240	\$ -
	=====	=====	=====
Conversion of subordinated convertible note by parent company (Note 8)	\$ 15,000	\$ -	\$ -
	=====	=====	=====
Issuance of Company common stock in connection with the redemption of Fiberprep stock (Note 3)	\$ -	\$ -	\$ 1,428
	=====	=====	=====

The accompanying notes are an integral part of these consolidated financial statements.

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Consolidated Statement of Shareholders' Investment

(In thousands)	1997	1996	1995

Common Stock, \$.01 Par Value			
Balance at beginning of year	\$ 612	\$ 406	\$ 269
Issuance of stock under employees' and directors' stock plans	2	2	1
Conversion of 3 1/2% subordinated convertible note (Note 8)	19	-	-
Effect of three-for-two stock splits	-	204	135
Issuance of Company common stock in connection with the redemption of Fiberprep stock (Note 3)	-	-	1
	-----	-----	-----
Balance at end of year	633	612	406
	-----	-----	-----
Capital in Excess of Par Value			
Balance at beginning of year	65,951	65,222	62,954
Issuance of stock under employees' and directors' stock plans	42	54	680
Tax benefit related to employees' and directors' stock plans	363	781	296
Conversion of 3 1/2% subordinated convertible note (Note 8)	14,981	-	-
Effect of three-for-two stock splits	-	(204)	(135)
Issuance of Company common stock in connection with the redemption of Fiberprep stock (Note 3)	-	-	1,427
Effect of purchases of subsidiary common stock (Note 1)	528	98	-
	-----	-----	-----
Balance at end of year	81,865	65,951	65,222
	-----	-----	-----
Retained Earnings			
Balance at beginning of year	66,181	46,287	26,038
Net income	16,426	19,894	20,249
	-----	-----	-----
Balance at end of year	82,607	66,181	46,287
	-----	-----	-----
Treasury Stock			
Balance at beginning of year	(360)	(446)	-
Purchases of Company common stock	(20,159)	-	-
Activity under employees' and directors' stock plans	1,025	86	(446)
	-----	-----	-----
Balance at end of year	(19,494)	(360)	(446)
	-----	-----	-----
Cumulative Translation Adjustment			
Balance at beginning of year	(1,534)	(1,840)	(4,539)
Translation adjustment	(6,011)	306	2,699
	-----	-----	-----
Balance at end of year	\$ (7,545)	\$ (1,534)	\$ (1,840)
	-----	-----	-----

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Consolidated Statement of Shareholders' Investment (continued)

(In thousands)	1997	1996	1995

Net Unrealized Gain on Available-for-sale Investments			
Balance at beginning of year	\$ -	\$ 2	\$ (26)

Change in net unrealized gain on available-for-sale investments (Note 2)	29	(2)	28
	-----	-----	-----
Balance at end of year	29	-	2
	-----	-----	-----
Total Shareholders' Investment	\$138,095	\$130,850	\$109,631
	=====	=====	=====

The accompanying notes are an integral part of these consolidated financial statements.

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Thermo Fibertek Inc.

1997 Financial Statements

Notes to Consolidated Financial Statements

1. Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

Thermo Fibertek Inc. (the Company) designs and manufactures processing machinery, accessories, and water-management systems for the paper and paper recycling industries. The Company's principal products include custom-engineered systems and equipment for the preparation of wastepaper for conversion into recycled paper; accessory equipment and related consumables important to the efficient operation of papermaking machines; and water-management systems essential for draining, purifying, and recycling process water.

Relationship with Thermo Electron Corporation

The Company was incorporated in November 1991 as a wholly owned subsidiary of Thermo Electron. As of January 3, 1998, Thermo Electron owned 55,150,063 shares of the Company's common stock, representing 90% of such stock outstanding.

Principles of Consolidation

The accompanying financial statements include the accounts of the Company, its wholly owned subsidiaries, its 71%-owned public subsidiary Thermo Fibergen Inc., and its 95%-owned Fiberprep, Inc. subsidiary. All significant intercompany accounts and transactions have been eliminated.

Fiscal Year

The Company has adopted a fiscal year ending the Saturday nearest December 31. References to 1997, 1996, and 1995 are for the fiscal years ended January 3, 1998, December 28, 1996, and December 30, 1995, respectively. The Company's E. & M. Lamort, S.A. subsidiary, based in France, has a fiscal year ending on the Saturday nearest November 30 to allow sufficient time for the Company to receive Lamort's financial statements. Fiscal year 1997 included 53 weeks; 1996 and 1995 each included 52 weeks.

Revenue Recognition

The Company recognizes the majority of its revenues upon shipment of its products. The Company provides a reserve for its estimate of warranty costs at the time of shipment. In addition, revenues and profits on large contracts are recognized using the percentage-of-completion method. Revenues recorded under the percentage-of-completion method were \$37,733,000 in 1997, \$31,066,000 in 1996, and \$51,741,000 in 1995. The percentage of completion is determined by relating the actual costs incurred to date to management's estimate of total costs to be incurred on each contract. If a loss is indicated on any contract in process, a provision is made currently for the entire loss. The Company's contracts generally provide for billing of customers upon the attainment of certain milestones specified in each contract. Revenues earned on contracts in process in excess of billings are classified as unbilled contract costs and fees, and amounts billed in excess of revenues are classified as

billings in excess of contract costs and fees in the accompanying balance sheet. There are no significant amounts included in the accompanying balance sheet that are not expected to be recovered from existing

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Thermo Fibertek Inc.

1997 Financial Statements

Notes to Consolidated Financial Statements

1. Nature of Operations and Summary of Significant Accounting Policies
(continued)

contracts at current contract values, or that are not expected to be collected within one year, including amounts that are billed but not paid under retainage provisions.

Stock-based Compensation Plans

The Company applies Accounting Principles Board Opinion (APB) No. 25, "Accounting for Stock Issued to Employees" and related interpretations in accounting for its stock-based compensation plans (Note 5). Accordingly, no accounting recognition is given to stock options granted at fair market value until they are exercised. Upon exercise, net proceeds, including tax benefits realized, are credited to equity.

Income Taxes

The Company and Thermo Electron have a tax allocation agreement under which the Company and its subsidiaries, exclusive of its foreign operations, its Fiberprep subsidiary, and, beginning in 1996, its Thermo Fibergen subsidiary, are included in the consolidated federal and certain state income tax returns filed by Thermo Electron. The agreement provides that in years in which these entities have taxable income, the Company will pay to Thermo Electron amounts comparable to the taxes it would have paid if the Company had filed separate tax returns. If Thermo Electron's equity ownership of the Company were to drop below 80%, the Company would be required to file its own federal income tax returns.

In accordance with Statement of Financial Accounting Standards (SFAS) No. 109, "Accounting for Income Taxes," the Company recognizes deferred income taxes based on the expected future tax consequences of differences between the financial statement basis and the tax basis of assets and liabilities calculated using enacted tax rates in effect for the year in which the differences are expected to be reflected in the tax return.

Earnings per Share

During the fourth quarter of 1997, the Company adopted SFAS No. 128, "Earnings per Share" (Note 14). As a result, all previously reported earnings per share have been restated; however, basic and diluted earnings per share equals the Company's previously reported primary and fully diluted earnings per share, respectively, for the 1996 and 1995 periods presented. Basic earnings per share have been computed by dividing net income by the weighted average number of shares outstanding during the year. Diluted earnings per share have been computed assuming the conversion of convertible obligations and the elimination of the related interest expense, and the exercise of stock options, as well as their related income tax effects.

Stock Split

All share and per share information has been restated to reflect a three-for-two stock split, effected in the form of a 50% stock dividend, distributed in June 1996.

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Thermo Fibertek Inc.

1997 Financial Statements

Notes to Consolidated Financial Statements

1. Nature of Operations and Summary of Significant Accounting Policies

(continued)

Cash and Cash Equivalents

At year-end 1997 and 1996, \$62,550,000 and \$75,566,000, respectively, of the Company's cash equivalents were invested in a repurchase agreement with Thermo Electron. Under this agreement, the Company in effect lends excess cash to Thermo Electron, which Thermo Electron collateralizes with investments principally consisting of corporate notes, commercial paper, U.S. government-agency securities, money market funds, and other marketable securities, in the amount of at least 103% of such obligation. The Company's funds subject to the repurchase agreement are readily convertible into cash by the Company. The repurchase agreement earns a rate based on the 90-day Commercial Paper Composite Rate plus 25 basis points, set at the beginning of each quarter. The Company's cash equivalents also include \$15,964,000 of U.S. government-agency securities at year-end 1997 and money market fund investments of the Company's foreign subsidiaries at year-end 1997 and 1996, which have original maturities of three months or less. Cash equivalents are carried at cost, which approximates market value.

Inventories

Inventories are stated at the lower of cost (on a first-in, first-out or weighted average basis) or market value and include materials, labor, and manufacturing overhead. The components of inventories are as follows:

(In thousands)	1997	1996
Raw materials and supplies	\$14,609	\$13,778
Work in process	6,426	4,180
Finished goods	10,925	6,509
	-----	-----
	\$31,960	\$24,467
	=====	=====

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Thermo Fibertek Inc.

1997 Financial Statements

Notes to Consolidated Financial Statements

1. Nature of Operations and Summary of Significant Accounting Policies (continued)

Property, Plant, and Equipment

The costs of additions and improvements are capitalized, while maintenance and repairs are charged to expense as incurred. The Company provides for depreciation and amortization using the straight-line method over the estimated useful lives of the property as follows: buildings, 15 to 50 years; machinery and equipment, 2 to 15 years; and leasehold improvements, the shorter of the term of the lease or the life of the asset. Property, plant, and equipment consists of the following:

(In thousands)	1997	1996
Land	\$ 3,070	\$ 3,127
Buildings	19,493	19,166
Machinery, equipment, and leasehold improvements	38,496	35,576
	-----	-----
	61,059	57,869
Less: Accumulated depreciation and amortization	32,723	31,329
	-----	-----
	\$28,336	\$26,540
	=====	=====

Other Assets

Other assets in the accompanying 1997 balance sheet includes the cost of a noncompete agreement entered into in connection with the acquisition

of the stock-preparation business of Black Clawson Company and its affiliates and, in the accompanying 1997 and 1996 balance sheet, includes patents and a \$6,000,000 note receivable (Note 4). The noncompete agreement and patents are amortized using the straight-line method over periods of 10 and 12 years, respectively. These assets aggregate \$3,700,000 and \$958,000, net of accumulated amortization of \$300,000 and \$42,000, at year-end 1997 and 1996, respectively.

Cost in Excess of Net Assets of Acquired Companies

The excess of cost over the fair value of net assets of acquired companies is amortized using the straight-line method principally over 40 years. Accumulated amortization was \$5,726,000 and \$3,521,000 at year-end 1997 and 1996, respectively. The Company assesses the future useful life of this asset whenever events or changes in circumstances indicate that the current useful life has diminished. The Company considers the future undiscounted cash flows of the acquired companies in assessing the recoverability of this asset. If impairment has occurred, any excess of carrying value over fair value is recorded as a loss.

Common Stock of Subsidiary Subject to Redemption

In September 1996, Thermo Fibergen sold 4,715,000 units, each unit consisting of one share of Thermo Fibergen common stock and one redemption right, in an initial public offering at \$12.75 per unit for net proceeds of \$55,781,000. The common stock and redemption rights began trading separately on December 13, 1996. Holders of a redemption right

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Thermo Fibertek Inc.

1997 Financial Statements

Notes to Consolidated Financial Statements

1. Nature of Operations and Summary of Significant Accounting Policies (continued)

have the option to require Thermo Fibergen to redeem one share of Thermo Fibergen common stock at \$12.75 per share in September 2000 or 2001. The redemption rights carry terms that generally provide for their expiration if the closing price of Thermo Fibergen's common stock exceeds \$19 1/8 for 20 of any 30 consecutive trading days prior to September 2001. The difference between the redemption value and the original carrying amount of common stock of subsidiary subject to redemption is accreted over the period ending September 2000, which corresponds with the first redemption period. The accretion is charged to minority interest expense in the accompanying statement of income. The redemption rights are guaranteed, on a subordinated basis, by Thermo Electron. The Company has agreed to reimburse Thermo Electron in the event Thermo Electron is required to make a payment under the guarantee.

During 1997, the Company purchased 419,950 shares of Thermo Fibergen common stock, resulting in a reduction of common stock of subsidiary subject to redemption and an increase in capital in excess of par value.

Foreign Currency

All assets and liabilities of the Company's foreign subsidiaries are translated at year-end exchange rates, and revenues and expenses are translated at average exchange rates for the year, in accordance with SFAS No. 52, "Foreign Currency Translation." Resulting translation adjustments are reflected as a separate component of shareholders' investment titled "Cumulative translation adjustment." Foreign currency transaction gains and losses are included in the accompanying statement of income and are not material for the three years presented.

Forward Contracts

The Company uses short-term forward foreign exchange contracts to manage certain exposures to foreign currencies. The Company enters into forward contracts to hedge firm purchase and sale commitments denominated in currencies other than its subsidiaries' local currencies. These contracts principally hedge transactions denominated in U.S. dollars,

British pounds sterling, French francs, and Japanese yen. The purpose of the Company's foreign currency hedging activities is to protect the Company's local currency cash flows related to these commitments from fluctuations in foreign exchange rates. Gains and losses arising from forward foreign exchange contracts are recognized as offsets to gains and losses resulting from the transactions being hedged. The Company does not enter into speculative foreign currency agreements.

Use of Estimates

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

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Thermo Fibertek Inc.

1997 Financial Statements

Notes to Consolidated Financial Statements

2. Available-for-sale Investments

In accordance with SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities," the Company's debt securities are considered available-for-sale investments in the accompanying 1997 balance sheet and are carried at market value, with the difference between cost and market value, net of related tax effects, recorded currently as a component of shareholders' investment titled "Net unrealized gain on available-for-sale investments."

The aggregate market value, cost basis, and gross unrealized gains of available-for-sale investments at year-end 1997 by major security type are as follows:

(In thousands)	Market Value	Cost Basis	Gross Unrealized Gains
Government-agency securities	\$35,826	\$35,780	\$ 46
Other	493	493	-
	-----	-----	-----
	\$36,319	\$36,273	\$ 46
	=====	=====	=====

Available-for-sale investments in the accompanying 1997 balance sheet includes \$24,657,000 with contractual maturities of one year or less and \$11,662,000 with contractual maturities of more than one year through five years. Actual maturities may differ from contractual maturities as a result of the Company's intent to sell these securities prior to maturity and as a result of put and call options that enable either the Company, the issuer, or both to redeem these securities at an earlier date.

The cost of available-for-sale investments that were sold was based on specific identification.

3. Acquisitions

In May 1997, the Company acquired a majority of the assets, subject to certain liabilities, of the stock-preparation business of Black Clawson Company and affiliates. In August 1997, the Company acquired the remaining assets of the stock-preparation business of Black Clawson Company and affiliates. This business has been renamed Thermo Black Clawson. The aggregate purchase price was approximately \$103.4 million in cash. The Company is in the process of negotiating final adjustments to the purchase price in accordance with the purchase agreement. Management believes that any adjustments related to these final purchase price negotiations will not be material. Thermo Black Clawson is a leading

supplier of recycling equipment used in processing fiber for the production of "brown paper," such as that used in the manufacture of corrugated boxes.

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Thermo Fibertek Inc.

1997 Financial Statements

Notes to Consolidated Financial Statements

3. Acquisitions (continued)

Pursuant to a promissory note, the Company borrowed \$110.0 million from Thermo Electron to finance the acquisition. The note was repaid in July 1997 with the net proceeds from the sale of long-term subordinated convertible debentures. (Note 8)

In July 1996, Thermo Fibergen acquired substantially all of the assets, subject to certain liabilities, of Granulation Technology, Inc. and Biodac, a division of Edward Lowe Industries, Inc. for \$12,070,000 in cash. This business has been renamed GranTek Inc.

In January 1995, the Company increased its ownership of Fiberprep from 51% to 95% through a redemption by Fiberprep of a portion of its stock owned by Aikawa Iron Works Co., Ltd. (Aikawa) for a total purchase price equal to (a) \$12,783,000 in cash, including a royalty payment of \$845,000, (b) a ten-year 1% royalty on sales of certain Aikawa products, and (c) the issuance of 225,000 shares of the Company's common stock. The accompanying statement of income includes royalty expense in connection with this agreement of \$49,000, \$66,000, and \$258,000 in 1997, 1996, and 1995 respectively.

These acquisitions have been accounted for using the purchase method of accounting and their results of operations have been included in the accompanying financial statements from their respective dates of acquisition. The aggregate cost of these acquisitions exceeded the estimated fair value of the acquired net assets by \$104,013,000, which is being amortized principally over 40 years. Allocation of the purchase price for these acquisitions was based on estimates of the fair value of the net assets acquired.

Based on unaudited data, the following table presents selected financial information for the Company and Thermo Black Clawson on a pro forma basis, assuming the companies had been combined since the beginning of 1996. Pro forma data is not presented for the acquisition of GranTek since the acquisition was not material to the Company's results of operations.

(In thousands except per share amounts)	1997	1996
Revenues	\$282,376	\$290,636
Net income	16,093	17,373
Earnings per share:		
Basic	.26	.28
Diluted	.25	.27

The pro forma results are not necessarily indicative of future operations or the actual results that would have occurred had the acquisition of Thermo Black Clawson been made at the beginning of 1996.

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Thermo Fibertek Inc.

1997 Financial Statements

Notes to Consolidated Financial Statements

4. Note Receivable

During 1996, the Company loaned \$6.0 million to Tree-Free Fiber Company, LLC (Tree-Free) in connection with a proposed engineering, procurement, and construction project. This project was delayed due to weakness in pulp prices, and will not proceed as a result of Tree-Free's

recent insolvency. Tree-Free was unable to repay the note upon its original maturity and the Company consented to several payment extensions. In July 1997, the Company restructured the note from Tree-Free into two promissory notes aggregating \$6.5 million, which represent the original principal amount due to the Company plus interest accrued through the date of the restructuring. One such promissory note, for \$3.0 million, is secured by a first priority security interest, *pari passu* with a security interest held by another lender, on certain real estate and equipment, and a second priority security interest, *pari passu* with a security interest held by another lender, on inventories and accounts receivable. The second promissory note, for \$3.5 million, is secured by a first priority security interest in the membership (equity) interests of the equity owners of Tree-Free and certain other assets and is subordinate to other borrowings. In December 1997, the Company and the other secured lenders petitioned the court for an assignment of a receiver to preserve and protect the collateral of the loans. Tree-Free's principal asset is a tissue mill. The secured creditors, through the power of a secured creditor sale, intend to sell the tissue mill at one or more public or private transactions as soon as practicable. The Company will review the bids and make a determination as to whether it will accept one or more of the bids, or instead, purchase the tissue mill itself for the full amount of the secured debt, or a portion thereof. If the Company purchases the tissue mill, the Company will begin operating it with the intent of selling it as a going concern in a private sale. The Company believes that the fair value of its security exceeds the sum of the carrying amount of the notes from Tree-Free and Tree-Free's indebtedness to its secured third-party lenders; however, no assurance can be given as to the outcome of a secured party sale, the timing of any such sale of the tissue mill, or the amount of the proceeds that may be received therefrom. The original note, in the amount of \$6.0 million, is included in other assets in the accompanying balance sheet.

5. Employee Benefit Plans

Stock-based Compensation Plans

Stock Option Plans

The Company maintains stock-based compensation plans for its key employees, directors, and others. Two of these plans, adopted in 1991, permit the grant of nonqualified and incentive stock options. A third plan, adopted in 1994, permits the grant of a variety of stock and stock-based awards as determined by the human resources committee of the Company's Board of Directors (the Board Committee), including restricted stock, stock options, stock bonus shares, or performance-based shares. To date, only nonqualified stock options have been awarded under this plan. The option recipients and the terms of options granted under these plans

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Thermo Fibertek Inc.

1997 Financial Statements

Notes to Consolidated Financial Statements

5. Employee Benefit Plans (continued)

are determined by the Board Committee. Generally, options granted to date are exercisable immediately, but are subject to certain transfer restrictions and the right of the Company to repurchase shares issued upon exercise of the options at the exercise price, upon certain events. The restrictions and repurchase rights generally lapse ratably over a five- to ten-year period, depending on the term of the option, which may range from five to twelve years. In addition, under certain options, shares acquired upon exercise are restricted from resale until retirement or other events. Nonqualified options may be granted at any price determined by the Board Committee, although incentive stock options must be granted at not less than the fair market value of the Company's stock on the date of grant. To date, all options have been granted at fair

market value. The Company also has a directors' stock option plan, adopted in 1991, that provides for the grant of stock options to outside directors pursuant to a formula approved by the Company's shareholders. Options awarded under this plan are exercisable six months after the date of grant and generally expire three or seven years after the date of grant. In addition to the Company's stock-based compensation plans, certain officers and key employees may also participate in the stock-based compensation plans of Thermo Electron.

A summary of the Company's stock option activity is as follows:

	1997		1996		1995	
	Number	Weighted	Number	Weighted	Number	Weighted
(Shares in thousands)	of Shares	Average Exercise Price	of Shares	Average Exercise Price	of Shares	Average Exercise Price
Options outstanding, beginning of year	3,570	\$ 4.81	3,783	\$ 4.52	3,782	\$ 3.91
Granted	845	11.00	102	11.80	315	10.70
Exercised	(396)	3.21	(282)	3.25	(236)	3.08
Forfeited	(31)	9.85	(33)	6.15	(78)	4.53
Options outstanding, end of year	3,988	\$ 6.24	3,570	\$ 4.81	3,783	\$ 4.52
Options exercisable	3,988	\$ 6.24	3,570	\$ 4.81	3,783	\$ 4.52
Options available for grant	1,596		2,410		2,478	

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Thermo Fibertek Inc.

1997 Financial Statements

Notes to Consolidated Financial Statements

5. Employee Benefit Plans (continued)

A summary of the status of the Company's stock options at January 3, 1998, is as follows:

	Options Outstanding and Exercisable		
	Number	Weighted	Weighted
Range of Exercise Prices	of Shares	Average Remaining Contractual Life	Average Exercise Price
(Shares in thousands)			
\$ 3.00 - \$ 5.83	1,784	2.2 years	\$ 3.00
5.84 - 8.66	971	6.8 years	6.15
8.67 - 11.49	1,204	7.5 years	10.91
11.50 - 14.32	29	10.2 years	14.32
\$ 3.00 - \$14.32	3,988	5.0 years	\$ 6.24

Employee Stock Purchase Program

Substantially all of the Company's full-time U.S. employees are

eligible to participate in an employee stock purchase program sponsored by the Company and Thermo Electron. Under this program, shares of the Company's and Thermo Electron's common stock can be purchased at the end of a 12-month period at 95% of the fair market value at the beginning of the period, and the shares purchased are subject to a six-month resale restriction. Prior to November 1, 1995, the applicable shares of common stock could be purchased at 85% of the fair market value at the beginning of the period, and the shares purchased were subject to a one-year resale restriction. Shares are purchased through payroll deductions of up to 10% of each participating employee's gross wages. During 1997, 1996, and 1995, the Company issued 28,778 shares, 30,830 shares, and 38,981 shares, respectively, of its common stock under this program.

Pro Forma Stock-based Compensation Expense

In October 1995, the Financial Accounting Standards Board issued SFAS No. 123, "Accounting for Stock-Based Compensation," which sets forth a fair-value based method of recognizing stock-based compensation expense. As permitted by SFAS No. 123, the Company has elected to continue to apply APB No. 25 to account for its stock-based compensation plans. Had compensation cost for awards granted in 1997, 1996, and 1995 under the Company's stock-based compensation plans been determined based on the fair value at the grant dates consistent with the method set forth under

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Thermo Fibertek Inc.

1997 Financial Statements

Notes to Consolidated Financial Statements

5. Employee Benefit Plans (continued)

SFAS No. 123, the effect on the Company's net income and earnings per share would have been as follows:

(In thousands except per share amounts)	1997	1996	1995
-----	-----	-----	-----
Net income:			
As reported	\$16,426	\$19,894	\$20,249
Pro forma	15,552	19,454	20,118
Basic earnings per share:			
As reported	.27	.33	.33
Pro forma	.25	.32	.33
Diluted earnings per share:			
As reported	.26	.31	.32
Pro forma	.25	.31	.32

Because the method prescribed by SFAS No. 123 has not been applied to options granted prior to January 1, 1995, the resulting pro forma compensation expense may not be representative of the amount to be expected in future years. Pro forma compensation expense for options granted is reflected over the vesting period; therefore, future pro forma compensation expense may be greater as additional options are granted.

The weighted average fair value per share of options granted was \$5.25, \$3.89, and \$3.60 in 1997, 1996, and 1995, respectively. The fair value of each option grant was estimated on the grant date using the Black-Scholes option-pricing model with the following weighted-average assumptions:

	1997	1996	1995
-----	-----	-----	-----
Volatility	35%	26%	26%
Risk-free interest rate	6.6%	5.9%	5.9%
Expected life of options	6.4 years	4.7 years	4.6 years

The Black-Scholes option-pricing model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. In addition, option-pricing

models require the input of highly subjective assumptions including expected stock price volatility. Because the Company's employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options.

401(k) Savings Plan

Three of the Company's domestic subsidiaries participate in Thermo Electron's 401(k) savings plan. Contributions to the plan are made by both the employee and the Company. Company contributions are based upon the level of employee contributions. For this plan, the Company

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Thermo Fibertek Inc.

1997 Financial Statements

Notes to Consolidated Financial Statements

5. Employee Benefit Plans (continued)

contributed and charged to expense \$719,000, \$449,000, and \$449,000 in 1997, 1996, and 1995, respectively.

Profit-sharing Plans

One of the Company's domestic subsidiaries has adopted a profit-sharing plan under which the Company annually contributes 10% of the subsidiary's profit-sharing net income, which equals net income before profit-sharing expense. All contributions are immediately vested. In addition, one of the Company's foreign subsidiaries maintains a state-mandated profit-sharing plan and a voluntary profit-sharing plan, which the Company has agreed with its trade unions to maintain. Under the state-mandated plan, the Company contributes 0-13% of the subsidiary's net profit after taxes reduced by 5% of its shareholders' investment. Contributions become fully vested after five years. The voluntary plan provides for the subsidiary to contribute 8-10% of profit after taxes in excess of 5% of its revenues. Contributions become fully vested in May of the following year. For these plans, the Company contributed and charged to expense \$1,125,000, \$1,263,000, and \$1,215,000 in 1997, 1996, and 1995, respectively.

Other Retirement Plans

In addition, certain of the Company's subsidiaries offer other retirement plans in addition to the Thermo Electron 401(k) savings plan and profit-sharing plans. The majority of these subsidiaries offer defined contribution plans. Company contributions to these plans are based on formulas determined by the Company. For these plans, the Company contributed and charged to expense \$1,636,000, \$1,989,000, and \$1,874,000 in 1997, 1996, and 1995, respectively.

6. Common Stock

At January 3, 1998, the Company had reserved 18,962,542 unissued shares of its common stock for possible issuance under stock-based compensation plans and for issuance upon possible conversion of the Company's subordinated convertible debentures.

7. Income Taxes

The components of income before provision for income taxes and minority interest in the accompanying statement of income are as follows:

(In thousands)	1997	1996	1995
Domestic	\$17,017	\$17,515	\$20,472
Foreign	11,409	15,509	12,588
	-----	-----	-----

\$28,426	\$33,024	\$33,060
=====	=====	=====

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Thermo Fibertek Inc.

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Notes to Consolidated Financial Statements

7. Income Taxes (continued)

The components of the provision for income taxes in the accompanying statement of income are as follows:

(In thousands)	1997	1996	1995
-----	-----	-----	-----
Currently payable:			
Federal	\$ 3,624	\$ 5,672	\$ 7,915
Foreign	4,367	3,382	4,776
State	1,044	1,613	1,763
	-----	-----	-----
	9,035	10,667	14,454
	-----	-----	-----
Deferred (prepaid), net:			
Federal	1,852	142	(1,312)
Foreign	(338)	1,813	(286)
State	462	62	(278)
	-----	-----	-----
	1,976	2,017	(1,876)
	-----	-----	-----
	\$11,011	\$12,684	\$12,578
	=====	=====	=====

The Company receives a tax deduction upon exercise of nonqualified stock options by employees for the difference between the exercise price and the market price of the Company's common stock on the date of exercise. The provision for income taxes that is currently payable does not reflect \$363,000, \$781,000, and \$296,000 of tax benefits from exercises of stock options that have been allocated to capital in excess of par value in 1997, 1996, and 1995, respectively.

The deferred provision for income taxes in 1995 does not reflect \$2,409,000 of tax benefits used to reduce cost in excess of net assets of acquired companies.

The provision for income taxes in the accompanying statement of income differs from the provision calculated by applying the statutory federal income tax rate of 35% to income before provision for income taxes and minority interest due to the following:

(In thousands)	1997	1996	1995
-----	-----	-----	-----
Provision for income taxes at statutory rate	\$ 9,949	\$11,558	\$11,571
Increases (decreases) resulting from:			
State income taxes, net of federal tax	980	1,089	965
Dividend from foreign subsidiary, net of tax credits	-	-	709
Foreign tax rate and tax regulation differential	36	(233)	(434)
Nondeductible expenses	163	150	147
Other	(117)	120	(380)
	-----	-----	-----
	\$11,011	\$12,684	\$12,578
	=====	=====	=====

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Thermo Fibertek Inc.

1997 Financial Statements

Notes to Consolidated Financial Statements

7. Income Taxes (continued)

Prepaid income taxes and deferred income taxes in the accompanying balance sheet consist of the following:

(In thousands)	1997	1996
Prepaid income taxes:		
Reserves and accruals	\$5,298	\$5,087
Inventory basis difference	1,253	1,263
Accrued compensation	227	602
Allowance for doubtful accounts	308	268
	-----	-----
	\$7,086	\$7,220
	=====	=====
Deferred income taxes, net:		
Amortization of intangible assets	\$1,837	\$ 496
Depreciation	283	184
Foreign taxes	549	633
	-----	-----
	\$2,669	\$1,313
	=====	=====

The Company has not recognized a deferred tax liability for the difference between the book basis and the tax basis of its investment in the stock of its domestic subsidiaries (such difference relates primarily to unremitted earnings by subsidiaries) because it does not expect this basis difference to become subject to tax at the parent level. The Company believes it can implement certain tax strategies to recover its investment in its domestic subsidiaries tax free.

A provision has not been made for U.S. or additional foreign taxes on \$56.9 million of undistributed earnings of foreign subsidiaries that could be subject to tax if remitted to the U.S. because the Company currently plans to keep these amounts permanently reinvested overseas. The Company believes that any additional U.S. tax liability due upon remittance of such earnings would be immaterial due to available U.S. foreign tax credits.

8. Short- and Long-term Obligations

In connection with the acquisition of Thermo Black Clawson, the Company borrowed \$110.0 million from Thermo Electron in May 1997. The promissory note bore interest at the 90-day Commercial Paper Composite Rate plus 25 basis points, set at the beginning of each quarter. In July 1997, the Company issued and sold at par \$153.0 million principal amount of 4 1/2% subordinated convertible debentures due 2004 for net proceeds of approximately \$149.8 million. The debentures are convertible into shares of the Company's common stock at a conversion price of \$12.10 per share and are guaranteed on a subordinated basis by Thermo Electron. In July 1997, the Company repaid the \$110.0 million promissory note due to Thermo Electron with a portion of the net proceeds from the sale of subordinated convertible debentures.

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Thermo Fibertek Inc.

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Notes to Consolidated Financial Statements

8. Short- and Long-term Obligations (continued)

In February 1994, the Company issued to Thermo Electron a \$15.0 million principal amount 3 1/2% subordinated convertible note due August 1997, convertible at \$7.94 per share. The note was converted by Thermo Electron during 1997 for 1,888,122 shares of Company common stock. This

note was included in "Due to parent company and affiliated companies" in the accompanying 1996 balance sheet.

In January 1995, in connection with a partial redemption of Fiberprep stock (Note 3), Fiberprep issued to Thermo Electron a \$10.4 million promissory note due January 1996, bearing interest at the Commercial Paper Composite Rate plus 25 basis points, which was repaid in 1996.

See Note 12 for fair value information pertaining to the Company's long-term obligations.

9. Related-party Transactions

Corporate Services Agreement

The Company and Thermo Electron have a corporate services agreement under which Thermo Electron's corporate staff provides certain administrative services, including certain legal advice and services, risk management, certain employee benefit administration, tax advice and preparation of tax returns, centralized cash management, and certain financial and other services, for which the Company has paid Thermo Electron annually an amount equal to 1.0% of the Company's revenues in 1997 and 1996 and 1.2% of the Company's revenues in 1995. For these services, the Company was charged \$2,396,000, \$1,922,000, and \$2,481,000 in 1997, 1996, and 1995, respectively. Beginning in fiscal 1998, the Company will pay an annual fee equal to 0.8% of the Company's revenues. The annual fee is reviewed and adjusted annually by mutual agreement of the parties. Management believes that the service fee charged by Thermo Electron is reasonable and that such fees are representative of the expenses the Company would have incurred on a stand-alone basis. The corporate services agreement is renewed annually but can be terminated upon 30 days' prior notice by the Company or upon the Company's withdrawal from the Thermo Electron Corporate Charter (the Thermo Electron Corporate Charter defines the relationship among Thermo Electron and its majority-owned subsidiaries). For additional items such as employee benefit plans, insurance coverage, and other identifiable costs, Thermo Electron charges the Company based upon costs attributable to the Company.

Recycling Equipment Subcontract

In December 1994, Thermo Electron subcontracted with Fiberprep to supply equipment and services to Thermo Electron, in its role as general contractor on a turnkey contract with a customer for an office wastepaper de-inking facility. The subcontract was substantially completed by Fiberprep during 1996. Under this subcontract, the Company recorded revenues of \$1,876,000 and \$14,737,000, and cost of revenues of \$639,000 and \$8,797,000, during 1996 and 1995, respectively.

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Thermo Fibertek Inc.

1997 Financial Statements

Notes to Consolidated Financial Statements

9. Related-party Transactions (continued)

Repurchase Agreement

The Company invests excess cash in a repurchase agreement with Thermo Electron as discussed in Note 1.

Short- and Long-term Obligations

See Note 8 for obligations of the Company held by Thermo Electron.

10. Commitments and Contingencies

Operating Leases

The Company occupies office and operating facilities under various operating leases. The accompanying statement of income includes expenses from operating leases of \$1,998,000, \$1,252,000, and \$1,167,000 in 1997, 1996, and 1995, respectively. The future minimum payments due under noncancelable operating leases as of January 3, 1998, are \$1,415,000 in

1998; \$795,000 in 1999; \$285,000 in 2000; \$184,000 in 2001; \$123,000 in 2002; and \$20,000 in 2003 and thereafter. Total future minimum lease payments are \$2,822,000.

Long-term Contract

In December 1997, Thermo Fibergen entered into a ten-year contract with a paper mill to provide fiber-recovery and water-clarification services to the paper mill. In addition, Thermo Fibergen and the paper mill have entered into lease and services agreements, under which Thermo Fibergen will lease land from the paper mill for a nominal fee and the paper mill will provide certain utilities and services to Thermo Fibergen. Thermo Fibergen has entered into an engineering, procurement, and construction contract with a third party to construct the fiber-recovery and water-clarification facility on the leased property. Once operational, Thermo Fibergen will provide the paper mill with fiber-recovery and water-clarification services for established monthly fees. The contract with the paper mill may be canceled by either party at the end of the fourth year of the contract, or within one year's notice thereafter, if certain benefits or profitability levels are not achieved. If the contract is canceled by either party, the customer will be required to purchase the facility from Thermo Fibergen at its net book value.

Contingencies

In the ordinary course of business the Company is often required to issue limited performance guarantees relating to its equipment and systems. The Company typically limits its liability under these guarantees to the cost of the equipment. The Company believes that it has adequate reserves for any potential liability in connection with such guarantees.

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Thermo Fibertek Inc.

1997 Financial Statements

Notes to Consolidated Financial Statements

11. Restructuring Costs

During 1997, the Company recorded restructuring costs of \$1,063,000 relating to the consolidation of operations at its Fiberprep, Inc. subsidiary and Lamort Paper Services Ltd. subsidiary (a subsidiary of E&M Lamort, S.A. located in the United Kingdom) into the operations of Thermo Black Clawson. The restructuring charges related primarily to severance for 34 employees whose employment was terminated during 1997 and abandoned-facility payments. Other accrued expenses in the accompanying 1997 balance sheet includes a remaining reserve of \$0.2 million associated with the consolidation of these operations.

12. Fair Value of Financial Instruments

The Company's financial instruments consist mainly of cash and cash equivalents, available-for-sale investments, accounts receivable, accounts payable, due to parent company and affiliated companies, long-term obligations, and forward foreign exchange contracts. The carrying amount of accounts receivable, accounts payable, and due to parent company and affiliated companies, with the exception of the subordinated convertible note in 1996 (Note 8), approximate fair value due to their short-term nature.

Available-for-sale investments are carried at fair value in the accompanying 1997 balance sheet. The fair values were determined based on quoted market prices. See note 2 for fair value information pertaining to these financial instruments.

The carrying amount and fair value of the Company's convertible obligations, other long-term obligations, and off-balance-sheet financial instruments are as follows:

1997

1996

(In thousands)	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Convertible obligations	\$153,000	\$160,650	\$ 15,000	\$ 17,400
Other long-term obligations	-	-	34	34
	-----	-----	-----	-----
	\$153,000	\$160,650	\$ 15,034	\$ 17,434
	=====	=====	=====	=====

Off-balance-sheet financial
instruments:

Forward foreign exchange contracts payable	\$ 22	\$ 32
---	-------	-------

The fair value of debt obligations was determined based on quoted market prices and on borrowing rates available to the Company at the respective year-ends.

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Thermo Fibertek Inc.

1997 Financial Statements

Notes to Consolidated Financial Statements

12. Fair Value of Financial Instruments (continued)

The Company had forward foreign exchange contracts of \$1,728,000 and \$2,378,000 outstanding at year-end 1997 and 1996, respectively. The fair value of such contracts is the estimated amount that the Company would receive or pay upon termination of the contracts, taking into account the change in foreign exchange rates.

13. Geographical Information

The Company is engaged in one business segment: the design and manufacture of processing machinery, accessories, and water-management systems for the paper and paper recycling industries. Revenues from the paper recycling business were \$93,585,000, \$56,171,000, and \$76,981,000 in 1997, 1996, and 1995, respectively. Revenues from the accessories business were \$82,968,000, \$82,173,000, and \$73,934,000 in 1997, 1996, and 1995, respectively. Revenues from the water-management business were \$44,012,000, \$39,950,000, and \$40,835,000 in 1997, 1996, and 1995, respectively. Revenues from the sale of other products were \$19,077,000, \$13,915,000, and \$14,993,000 in 1997, 1996, and 1995, respectively.

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Thermo Fibertek Inc.

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Notes to Consolidated Financial Statements

13. Geographical Information (continued)

The following table shows data for the Company by geographic area.

(In thousands)	1997	1996	1995
Revenues:			
United States	\$150,998	\$102,118	\$121,932
France	52,416	59,941	59,126
United Kingdom	22,804	14,644	14,930
Canada	20,173	19,496	18,274
Other	4,466	4,574	3,609
Transfers among geographic areas (a)	(11,215)	(8,564)	(11,128)
	-----	-----	-----
	\$239,642	\$192,209	\$206,743

	=====	=====	=====
Income before provision for income taxes and minority interest:			
United States	\$ 16,893	\$ 16,053	\$ 21,716
France	2,747	6,598	5,671
United Kingdom	2,510	3,081	1,732
Canada	3,949	3,549	2,924
Other	1,081	1,215	810
Corporate and eliminations (b)	(1,249)	(377)	(1,924)
	-----	-----	-----
Total operating income	25,931	30,119	30,929
Interest income, net	2,495	2,905	2,131
	-----	-----	-----
	\$ 28,426	\$ 33,024	\$ 33,060
	=====	=====	=====

Identifiable assets:			
United States	\$247,550	\$131,540	\$ 81,609
France	55,680	57,643	56,538
United Kingdom	29,318	24,496	20,868
Canada	18,193	15,687	13,769
Other	3,362	3,312	2,917
Corporate and eliminations (c)	64,835	24,554	23,970
	-----	-----	-----
	\$418,938	\$257,232	\$199,671
	=====	=====	=====

Export revenues included in United States revenues above (d)	\$ 20,140	\$ 11,060	\$ 19,012
	=====	=====	=====

- (a) Transfers among geographic areas are accounted for at prices that are representative of transactions with unaffiliated parties.
(b) Primarily general and administrative expenses.
(c) Primarily cash, cash equivalents, and available-for-sale investments.
(d) In general, export sales are denominated in U.S. dollars.

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Thermo Fibertek Inc.

1997 Financial Statements

Notes to Consolidated Financial Statements

14. Earnings per Share

Basic and diluted earnings per share were calculated as follows:

(In thousands except per share amounts)	1997	1996	1995
-----	-----	-----	-----
Basic			
Net income	\$16,426	\$19,894	\$20,249
	-----	-----	-----
Weighted average shares	61,384	61,040	60,785
	-----	-----	-----
Basic earnings per share	\$.27	\$.33	\$.33
	=====	=====	=====
Diluted			
Net income	\$16,426	\$19,894	\$20,249
Effect of:			
Convertible obligations	188	315	315
Majority-owned subsidiary's dilutive securities	(76)	-	-
	-----	-----	-----
Income available to common shareholders, as adjusted	\$16,538	\$20,209	\$20,564
	-----	-----	-----

Weighted average shares	61,384	61,040	60,785
Effect of:			
Convertible obligations	1,126	1,888	1,888
Stock options	1,103	1,415	1,214
	-----	-----	-----
Weighted average shares, as adjusted	63,613	64,343	63,887
	-----	-----	-----
Diluted earnings per share	\$.26	\$.31	\$.32
	=====	=====	=====

The computation of diluted earnings per share excludes the effect of assuming the exercise of certain outstanding stock options because the effect would be antidilutive. As of January 3, 1998, there were 30,000 of such options outstanding, with an exercise price of \$14.32 per share.

In addition, the computation of diluted earnings per share for 1997 excludes the effect of assuming the conversion of the Company's \$153.0 million principal amount of 4 1/2% subordinated convertible debentures, convertible at \$12.10 per share, because the effect would be antidilutive.

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Thermo Fibertek Inc.

1997 Financial Statements

Notes to Consolidated Financial Statements

15. Unaudited Quarterly Information

(In thousands except per share amounts)

1997	First	Second(a)	Third	Fourth
-----	-----	-----	-----	-----
Revenues	\$44,667	\$54,511	\$67,606	\$72,858
Gross profit	19,131	21,861	25,270	28,221
Net income	3,460	3,759	3,594	5,613
Earnings per share:				
Basic	.06	.06	.06	.09
Diluted	.05	.06	.06	.09
-----	-----	-----	-----	-----
1996	First	Second	Third	Fourth
-----	-----	-----	-----	-----
Revenues	\$48,980	\$48,595	\$46,124	\$48,510
Gross profit	20,788	20,491	19,951	21,442
Net income	5,206	4,876	4,213	5,599
Earnings per share:				
Basic	.09	.08	.07	.09
Diluted	.08	.08	.07	.09

(a) Reflects the May 1997 acquisition of Thermo Black Clawson and borrowings to finance such acquisition.

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Thermo Fibertek Inc.

1997 Financial Statements

Report of Independent Public Accountants

To the Shareholders and Board of Directors of Thermo Fibertek Inc.:

We have audited the accompanying consolidated balance sheet of Thermo Fibertek Inc. (a Delaware corporation and 90%-owned subsidiary of Thermo Electron Corporation) and subsidiaries as of January 3, 1998, and December 28, 1996, and the related consolidated statements of income, shareholders' investment, and cash flows for each of the three years in the period ended January 3, 1998. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Thermo Fibertek Inc. and subsidiaries as of January 3, 1998, and December 28, 1996, and the results of their operations and their cash flows for each of the three years in the period ended January 3, 1998, in conformity with generally accepted accounting principles.

Arthur Andersen LLP

Boston, Massachusetts
February 9, 1998

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Thermo Fibertek Inc.

1997 Financial Statements

Management's Discussion and Analysis of
Financial Condition and Results of Operations

Forward-looking statements, within the meaning of Section 21E of the Securities Exchange Act of 1934, are made throughout this Management's Discussion and Analysis of Financial Condition and Results of Operations. For this purpose, any statements contained herein that are not statements of historical fact may be deemed to be forward-looking statements. Without limiting the foregoing, the words "believes," "anticipates," "plans," "expects," "seeks," "estimates," and similar expressions are intended to identify forward-looking statements. There are a number of important factors that could cause the results of the Company to differ materially from those indicated by such forward-looking statements, including those detailed immediately after this Management's Discussion and Analysis of Financial Condition and Results of Operations under the heading "Forward-looking Statements."

Overview

The Company designs and manufactures processing machinery, accessories, and water-management systems for the paper and paper recycling industries. The Company's principal products include custom-engineered systems and equipment for the preparation of wastepaper for conversion into recycled paper; accessory equipment and related consumables important to the efficient operation of papermaking machines; and water-management systems essential for draining, purifying, and recycling process water. The Company's Thermo Black Clawson subsidiary, acquired May 1997, is a leading supplier of recycling equipment used in processing fiber for the manufacture of "brown paper," such as that used in the manufacture of corrugated boxes. The Company's Thermo Fibergen Inc. subsidiary is developing and commercializing equipment and systems to recover valuable materials from papermaking sludge generated by plants that produce virgin and recycled pulp and paper. Through its GranTek Inc. subsidiary, acquired July 1996, Thermo Fibergen employs patented technology to produce absorbing granules from papermaking sludge.

The Company's manufacturing facilities are principally located in the U.S. and France. The manufacturing facility in France is located at the Company's E&M Lamort, S.A. subsidiary, which primarily manufactures

recycling equipment and accessories.

The Company's products are primarily sold to the paper industry. Generally, the financial condition of the paper industry corresponds both to changes in the general economy and to a number of other factors, including paper and pulp production capacity. The paper industry entered a severe downcycle in early 1996 and has not recovered. This cyclical downturn adversely affected the Company's business during the second half of 1996 and all of 1997. The timing of the recovery of the financial condition of the paper industry cannot be predicted.

In 1997, approximately 37% of the Company's sales originated outside the U.S., principally in Europe, and approximately 13% of the Company's revenues were exports from the U.S. During 1997, the Company had exports from the Company's U.S. and foreign operations to Asia of approximately 6% of total revenues, a substantial portion of which represents sales from the Company's recently acquired Thermo Black Clawson subsidiary. Exports to Asia in 1997 were primarily to China, Japan, and South Korea.

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Thermo Fibertek Inc.

1997 Financial Statements

Management's Discussion and Analysis of
Financial Condition and Results of Operations

Overview (continued)

Asia is experiencing a severe economic crisis, which has been characterized by sharply reduced economic activity and liquidity, highly volatile foreign-currency-exchange and interest rates, and unstable stock markets. The Company's sales to Asia could be adversely affected by the unstable economic conditions in Asia.

The Company generally seeks to charge its customers in the same currency as its operating costs. However, the Company's financial performance and competitive position can be affected by currency exchange rate fluctuations affecting the relationship between the U.S. dollar and foreign currencies. The Company reduces its exposure to currency fluctuations through the use of forward contracts. The Company enters into forward contracts to hedge certain firm purchase and sale commitments denominated in currencies other than its subsidiaries' local currencies, principally U.S. dollars, British pounds sterling, French francs, and Japanese yen. The purpose of the Company's foreign currency hedging activities is to protect the Company's local currency cash flows related to these commitments from fluctuations in foreign exchange rates. Because the Company's forward contracts are entered into as hedges against existing foreign currency exposures, there generally is no effect on the income statement since gains or losses on the customer contract offset gains or losses on the forward contract.

Results of Operations

1997 Compared With 1996

Revenues increased 25% to \$239.6 million in 1997 from \$192.2 million in 1996, primarily due to the inclusion of \$52.7 million in revenues from Thermo Black Clawson, acquired May 1997, and GranTek, acquired July 1996. Revenues from the Company's accessories and water-management businesses increased, primarily due to an increase in demand. In addition, revenues from dryers and pollution control equipment, not included in the Company's three primary product lines, increased by \$6.8 million, principally due to large orders from various customers during 1997. These improvements were substantially offset by a \$11.3 million decrease in revenues from the Company's recycling business, principally at the Company's Fiberprep subsidiary, due to a continuing decrease in demand resulting from a severe drop in de-linked pulp prices in the summer of 1996. The unfavorable effects of currency translation due to a stronger U.S. dollar decreased 1997 revenues by \$6.3 million.

The gross profit margin decreased to 39% in 1997 from 43% in 1996, primarily due to the inclusion of lower-margin revenues at Thermo Black Clawson.

Selling, general, and administrative expenses as a percentage of revenues was unchanged at 25% in 1997 and 1996. Selling, general, and administrative expenses as a percentage of revenues increased at Lamort, due to a decrease in revenues, and at Thermo Fibergen, due to an increase in selling, general, and administrative expenses, primarily as a result of hiring additional sales, marketing, and administrative staff to expand its fiber-recovery business. These increases in selling, general, and

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Thermo Fibertek Inc.

1997 Financial Statements

Management's Discussion and Analysis of
Financial Condition and Results of Operations

1997 Compared With 1996 (continued)

administrative expenses as a percentage of revenues were offset by lower selling, general, and administrative expenses as a percentage of revenues at Thermo Black Clawson.

Research and development expenses increased to \$6.8 million in 1997 from \$5.5 million in 1996, primarily due to the inclusion of \$1.1 million in expenses at Thermo Black Clawson and continuing research and development efforts relating to Thermo Fibergen's fiber-recovery and water-clarification systems.

During 1997, the Company recorded restructuring costs of \$1.1 million relating to the consolidation of the operations of two subsidiaries into the operations of Thermo Black Clawson (Note 11).

Interest income increased to \$7.3 million in 1997 from \$3.6 million in 1996, primarily due to an increase in average invested balances resulting from the net proceeds from Thermo Fibergen's initial public offering in September 1996 and the sale of \$153.0 million principal amount of 4 1/2% subordinated convertible debentures in July 1997 (Note 8).

Interest expense increased to \$4.8 million in 1997 from \$0.7 million in 1996, as a result of borrowings from Thermo Electron to finance the May 1997 acquisition of Thermo Black Clawson and the July 1997 issuance of \$153.0 million principal amount of subordinated convertible debentures. The borrowings from Thermo Electron were repaid with a portion of the net proceeds from the sale of subordinated convertible debentures (Note 8).

The effective tax rate was 39% in 1997 and 38% in 1996. These rates exceeded the statutory federal income tax rate primarily due to the impact of state income taxes. In 1996, the impact of state income taxes was offset in part by the effect of lower foreign tax rates.

Minority interest expense primarily represents accretion of Thermo Fibergen's common stock subject to redemption.

In connection with a proposed engineering, procurement, and construction project, the Company made a secured loan of \$6.0 million to Tree-Free Fiber Company, LLC (Tree-Free) during 1996. This project was delayed due to weakness in pulp prices, and will not proceed due to Tree-Free's recent insolvency. Tree-Free's principal asset is a tissue mill. The secured creditors, through the power of a secured creditor sale, intend to sell the tissue mill at one or more public or private transactions as soon as practicable. The Company will review the bids and make a determination as to whether it will accept one or more of the bids, or instead, purchase the tissue mill itself for the full amount of the secured debt, or a portion thereof. If the Company purchases the tissue mill, the Company will begin operating it with the intent of selling it as a going concern in a private sale. The Company believes that the fair value of its security exceeds the sum of the carrying amount of the notes from Tree-Free and Tree-Free's indebtedness to its secured third-party lenders; however, no assurance can be given as to the outcome of a secured party sale, the timing of any such sale of the tissue mill, or the amount of the proceeds that may be received therefrom. (Note 4)

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Management's Discussion and Analysis of
Financial Condition and Results of Operations

1997 Compared With 1996 (continued)

The Company is currently assessing the potential impact of the year 2000 on the processing of date-sensitive information by the Company's computerized information systems. The Company believes that its internal information systems are either year 2000 compliant or will be so prior to the year 2000 without incurring material costs. There can be no assurance, however, that the Company will not experience unexpected costs and delays in achieving year 2000 compliance for its internal information systems, which could result in a material adverse effect on the Company's future results of operations.

1996 Compared With 1995

Revenues decreased 7% to \$192.2 million in 1996 from \$206.7 million in 1995. Revenues earned by the Company's Fiberprep subsidiary under a subcontract from Thermo Electron to supply equipment and services for an office wastepaper de-inking facility decreased \$12.9 million because this subcontract was substantially completed in the first quarter of 1996. Revenues from the Company's recycling business decreased \$7.5 million, excluding the effect of the subcontract from Thermo Electron, due to a decrease in demand resulting from a severe drop in de-inked pulp prices, offset in part by the inclusion of \$2.2 million of revenues from GranTek, acquired July 1996. Revenues from the Company's accessories business increased \$8.8 million, principally due to an increase in demand. The unfavorable effects of currency translation due to a stronger U.S. dollar decreased revenues by \$1.7 million.

The gross profit margin increased to 43% in 1996 from 40% in 1995. Gross profit margins improved at the Company's Lamort subsidiary primarily due to a change in product mix, and at the Company's water-management business principally due to an increase in direct mill sales. Additionally, margins improved at the Company's Fiberprep subsidiary primarily due to the effect of a \$0.7 million payment received under the subcontract from Thermo Electron, which represents the Company's share of certain cost savings on the project.

Selling, general, and administrative expenses as a percentage of revenues increased to 25% in 1996 from 24% in 1995, primarily due to a decrease in revenues.

Research and development expenses increased to \$5.5 million in 1996 from \$4.1 million in 1995, primarily due to the acceleration of Thermo Fibergen's research and development efforts associated with its fiber-recovery system and the extraction and purification of minerals.

Interest income increased to \$3.6 million in 1996 from \$3.5 million in 1995, primarily due to higher average invested balances resulting from the net proceeds from Thermo Fibergen's initial public offering in September 1996, offset in part by lower prevailing interest rates. Interest expense decreased to \$0.7 million in 1996 from \$1.4 million in 1995, primarily due to the January 1996 repayment of a \$10.4 million promissory note to Thermo Electron.

Minority interest expense increased to \$0.4 million in 1996 from \$0.2 million in 1995, primarily due to accretion of Thermo Fibergen's common stock subject to redemption.

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Management's Discussion and Analysis of
Financial Condition and Results of Operations

1996 Compared With 1995 (continued)

The effective tax rate was 38% in 1996 and 1995. These rates exceeded the statutory federal income tax rate primarily due to the impact of state income taxes and, in 1995, the tax effect on a dividend from a foreign subsidiary, offset in part by the effect of lower foreign tax

rates.

Liquidity and Capital Resources

Consolidated working capital was \$177.0 million at January 3, 1998, compared with \$115.6 million at December 28, 1996. Included in working capital are cash, cash equivalents, and available-for-sale investments of \$148.0 million at January 3, 1998, compared with \$109.8 million at December 28, 1996. Of the \$148.0 million balance at January 3, 1998, \$58.1 million was held by Thermo Fibergen, \$6.6 million was held by Fiberprep, and the remainder was held by the Company and its wholly owned subsidiaries. At January 3, 1998, \$31.0 million of the Company's cash and cash equivalents was held by its foreign subsidiaries. Repatriation of this cash into the U.S. would be subject to foreign withholding taxes and could also be subject to a U.S. tax.

During 1997, \$20.9 million of cash was provided by operating activities. Cash provided by the Company's operating results was reduced by a decrease in accounts payable of \$3.3 million, primarily due to the payment of a substantial portion of acquired accounts payable at Thermo Black Clawson, as well as an increase in accounts receivable of \$1.9 million, primarily due to an increase in shipments in the fourth quarter.

During 1997, the Company's primary investing activities, excluding available-for-sale investments activity, included an acquisition and capital expenditures. The Company acquired the assets, subject to certain liabilities, of Thermo Black Clawson for \$103.4 million in cash (Note 3). The Company expended \$3.8 million for purchases of property, plant, and equipment during 1997.

During 1997, the Company's financing activities provided \$126.9 million in cash. The Company borrowed \$110.0 million from Thermo Electron to finance the acquisition of Thermo Black Clawson. In July 1997, the Company issued and sold subordinated convertible debentures for net proceeds of \$149.8 million and used a portion of the proceeds to repay the \$110.0 million note due to Thermo Electron (Note 8).

During 1997, the Company purchased \$20.2 million of Company common stock and \$3.8 million of Thermo Fibergen common stock. As of January 3, 1998, \$1.2 million remained under authorizations by the Company's Board of Directors to purchase Thermo Fibergen common stock in open market or negotiated transactions through March 19, 1998. Any such purchases will be funded from working capital.

Thermo Fibergen's common stock is subject to redemption in September 2000 or 2001, the redemption value of which is \$54.8 million (Note 1).

At January 3, 1998, the Company had \$56.9 million of undistributed foreign earnings. The Company does not intend to repatriate undistributed foreign earnings into the U.S., and does not expect that this will have a material adverse effect on the Company's current liquidity.

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Management's Discussion and Analysis of Financial Condition and Results of Operations

Liquidity and Capital Resources (continued)

In 1998, the Company plans to make expenditures for property, plant, and equipment of approximately \$10 million, which includes expenditures at Thermo Fibergen for the construction of a fiber-recovery and water-clarification facility (Note 10). In addition, Thermo Fibergen may make additional capital expenditures for the construction of additional fiber-recovery facilities. Construction of fiber-recovery facilities is dependent upon Thermo Fibergen entering into long-term contracts with paper mills, under which Thermo Fibergen will charge fees to accept the mills' papermaking sludge. Thermo Fibergen currently has only one such agreement in place and there is no assurance that Thermo Fibergen will be able to obtain such additional contracts. The Company believes that its existing resources are sufficient to meet the capital requirements of its existing operations for the foreseeable future.

Thermo Fibertek Inc.

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In connection with the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995, the Company wishes to caution readers that the following important factors, among others, in some cases have affected, and in the future could affect, the Company's actual results and could cause its actual results in 1998 and beyond to differ materially from those expressed in any forward-looking statements made by, or on behalf of, the Company.

Dependence on Paper Industry and Pulp and Paper Prices. The Company's products are primarily sold to the paper industry. Generally, the financial condition of the paper industry corresponds to the condition of the general economy, as well as a number of other factors, including paper and pulp production capacity. The paper industry entered a severe downturn in early 1996 and has not recovered. This cyclical downturn adversely affected the Company's business during the second half of 1996 and all of 1997. No assurance can be given that the financial condition of the paper industry will improve in the near future.

Risks Associated with International Operations. During 1997, approximately 37% of the Company's revenues originated outside of the United States, particularly in Europe. International revenues are subject to a number of risks, including the following: agreements may be difficult to enforce and receivables difficult to collect through a foreign country's legal system; foreign customers may have longer payment cycles; foreign countries may impose additional withholding taxes or otherwise tax the Company's foreign income, impose tariffs, or adopt other restrictions on foreign trade; U.S. export licenses may be difficult to obtain; and the protection of intellectual property in foreign countries may be more difficult to enforce. In addition, although the Company seeks to charge its customers in the same currency as its operating costs, fluctuations in currency exchange rates may affect product demand and adversely affect the profitability in U.S. dollars of products provided by the Company in foreign markets where payment for the Company's products and services is made in the local currency. There can be no assurance that any of these factors will not have a material adverse impact on the Company's business and results of operations.

During 1997, the Company had exports from the Company's U.S. and foreign operations to Asia of approximately 6% of total revenues, a substantial portion of which represents sales from the Company's recently acquired Thermo Black Clawson subsidiary. Exports to Asia in 1997 were primarily to China, Japan, and South Korea. Asia is experiencing a severe economic crisis, which has been characterized by sharply reduced economic activity and liquidity, highly volatile foreign-currency-exchange and interest rates, and unstable stock markets. The Company's sales to Asia could be adversely affected by the unstable economic conditions in Asia.

Competition. The Company encounters and expects to continue to encounter significant competition in each of its principal markets. The Company believes that the principal competitive factors affecting the markets for its products include quality, service, technical expertise, and product innovation. The Company's competitors include a number of large multinational corporations. Competition could increase if new

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companies enter the market or if existing competitors expand their product lines or intensify efforts within existing product lines. There

can be no assurance that the Company's current products, products under development, or ability to develop new technologies will be sufficient to enable it to compete effectively.

Dependence on Patents and Proprietary Rights. The Company places considerable emphasis on obtaining patent and trade secret protection for significant new technologies, products, and processes because of the length of time and expense associated with bringing new products through the development process and to the marketplace. The Company's success depends in part on its ability to develop patentable products and obtain and enforce patent protection for its products both in the United States and in other countries. The Company owns numerous U.S. and foreign patents, and intends to file additional applications as appropriate for patents covering its products. No assurance can be given that patents will issue from any pending or future patent applications owned by or licensed to the Company, or that the claims allowed under any issued patents will be sufficiently broad to protect the Company's technology. No assurance can be given that any issued patents owned by or licensed to the Company will not be challenged, invalidated, or circumvented, or that the rights thereunder will provide competitive advantages to the Company. The Company could incur substantial costs in defending itself in suits brought against it or in suits in which the Company may assert its patent rights against others. If the outcome of any such litigation is unfavorable to the Company, the Company's business and results of operations could be materially adversely affected.

In addition, there can be no assurance that third parties will not assert claims against the Company to the effect that the Company is infringing the intellectual property rights of such parties. The Company could incur substantial costs and diversion of management resources with respect to the defense of any such claims, which could have a material adverse effect on the Company's business, financial condition, and results of operations. Furthermore, parties making such claims could secure a judgment awarding substantial damages, as well as injunctive or other equitable relief, which could effectively block the Company's ability to make, use, sell, distribute, or market its products and services in the U.S. or abroad. In the event that a claim relating to intellectual property is asserted against the Company, the Company may seek licenses to such intellectual property. There can be no assurance, however, that such licenses could be obtained on commercially reasonable terms, if at all. The failure to obtain the necessary licenses or other rights could preclude the sale, manufacture, or distribution of the Company's products and, therefore, could have a material adverse effect on the Company's business, financial condition, and results of operations.

The Company relies on trade secrets and proprietary know-how which it seeks to protect, in part, by confidentiality agreements with its collaborators, employees, and consultants. There can be no assurance that these agreements will not be breached, that the Company would have adequate remedies for any breach, or that the Company's trade secrets

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will not otherwise become known or be independently developed by competitors.

Risks Associated with Acquisition Strategy. The Company's acquisition strategy includes the acquisition of businesses that complement or augment the Company's existing products and services. Promising acquisitions are difficult to identify and complete for a number of reasons, including competition among prospective buyers and the need for regulatory approvals, including antitrust approvals. Any acquisition completed by the Company may be made at a substantial premium over the fair value of the net assets of the acquired company. There can be no assurance that the Company will be able to complete future acquisitions

or that the Company will be able to successfully integrate any acquired businesses into its existing businesses or make such businesses profitable.

Potential Impact of Year 2000 on Processing of Date-sensitive Information. The Company is currently assessing the potential impact of the year 2000 on the processing of date-sensitive information by the Company's computerized information systems. The Company believes that its internal information systems are either year 2000 compliant or will be so prior to the year 2000 without incurring material costs. There can be no assurance, however, that the Company will not experience unexpected costs and delays in achieving year 2000 compliance for its internal information systems, which could result in a material adverse effect on the Company's future results of operations.

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Selected Financial Information

(In thousands except
per share amounts)

	1997 (a)	1996 (b)	1995 (c)	1994	1993

Statement of					
Income Data:					
Revenues	\$239,642	\$192,209	\$206,743	\$162,625	\$137,088
Net income	16,426	19,894	20,249	10,894	7,442
Earnings per					
share:					
Basic	.27	.33	.33	.18	.12
Diluted	.26	.31	.32	.18	.12
Balance Sheet					
Data:					
Working capital	\$176,996	\$115,609	\$ 70,882	\$ 54,879	\$ 37,442
Total assets	418,938	257,232	199,671	162,389	142,608
Long-term					
obligations	153,000	34	15,041	15,406	15,806
Common stock of					
subsidiary					
subject					
to redemption	52,812	56,087	-	-	-
Shareholders'					
investment	138,095	130,850	109,631	84,696	70,753

- (a) Reflects the May 1997 acquisition of Thermo Black Clawson, the issuance of \$153.0 million principal amount of 4 1/2% subordinated convertible debentures, and the conversion of a \$15.0 million principal amount subordinated convertible note by Thermo Electron.
- (b) Reflects the July 1996 acquisition of GranTek, the net proceeds from Thermo Fibergen's September 1996 initial public offering, and the repayment of a \$10.4 million promissory note to Thermo Electron.
- (c) Reflects the January 1995 redemption of a portion of Fiberprep's stock and the issuance of a \$10.4 million promissory note to Thermo Electron.

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Common Stock Market Information

The Company's common stock is traded on the American Stock Exchange under the symbol TFT. The following table sets forth the high and low sale prices of the Company's common stock for 1997 and 1996, as reported in the consolidated transaction reporting system.

Quarter	1997		1996	
	High	Low	High	Low
First	\$12 1/2	\$ 8 1/2	\$16	\$14
Second	11	8 1/8	20 1/3	14 7/12
Third	12 3/8	9 7/16	18 7/8	12 1/8
Fourth	13 5/8	10 9/16	13 1/4	8 5/8

As of January 30, 1998, the Company had 906 holders of record of its common stock. This does not include holdings in street or nominee names. The closing market price on the American Stock Exchange for the Company's common stock on January 30, 1998, was \$12 7/16 per share.

Common stock and redemption rights of Thermo Fibergen Inc., the Company's majority-owned public subsidiary, are traded on the American Stock Exchange (symbols TFG and TFG-R).

Shareholder Services

Shareholders of Thermo Fibertek Inc. who desire information about the Company are invited to contact John N. Hatsopoulos, Chief Financial Officer, Thermo Fibertek Inc., 81 Wyman Street, P.O. Box 9046, Waltham, Massachusetts 02254-9046, (781) 622-1111. A mailing list is maintained to enable shareholders whose stock is held in street name, and other interested individuals, to receive quarterly reports, annual reports, and press releases as quickly as possible. Distribution of printed quarterly reports is limited to the second quarter only. All material will be available from Thermo Electron's Internet site (<http://www.thermo.com/subsid/tft1.html>).

Stock Transfer Agent

American Stock Transfer & Trust Company is the stock transfer agent and maintains shareholder activity records. The agent will respond to questions on issuance of stock certificates, change of ownership, lost stock certificates, and change of address. For these and similar matters, please direct inquiries to:

American Stock Transfer & Trust Company
Shareholder Services Department
40 Wall Street, 46th Floor
New York, New York 10005
(718) 921-8200

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Dividend Policy

The Company has never paid cash dividends and does not expect to pay cash dividends in the foreseeable future because its policy has been to use earnings to finance expansion and growth. Payment of dividends will rest within the discretion of the Board of Directors and will depend upon, among other factors, the Company's earnings, capital requirements, and financial condition.

Form 10-K Report

A copy of the Annual Report on Form 10-K for the fiscal year ended January 3, 1998, as filed with the Securities and Exchange Commission, may be obtained at no charge by writing to John N. Hatsopoulos, Chief Financial Officer, Thermo Fibertek Inc., 81 Wyman Street, P.O. Box 9046, Waltham, Massachusetts 02254-9046.

Annual Meeting

The annual meeting of shareholders will be held on Monday, June 1, 1998, at 8:15 a.m. at the Hyatt Regency Hotel, Scottsdale, Arizona.

THERMO FIBERTEK INC.

Subsidiaries of the Registrant

At February 20, 1998, the Registrant owned the following companies:

Name	State or Jurisdiction of Incorporation	Registrant's % of Ownership
AES Equipos y Sistemas S.A. de C.V.	Mexico	100
Enviroprint Inc.	Delaware	100
Fibertek Construction Company, Inc.	Maine	100
Thermo AES Canada Inc.	Canada	100
Thermo Black Clawson Inc.	Delaware	100
Thermo Black Clawson	China	100
Thermo Black Clawson S.A.	France	100
Thermo Fibertek Holdings Limited	United Kingdom	100
Thermo Black Clawson Limited	United Kingdom	100
Thermo Fibertek U.K. Limited	United Kingdom	100
Vickerys Holdings Limited	United Kingdom	100
Vickerys Limited	United Kingdom	100
Paperlines Limited	New Zealand	100
Winterburn Limited	United Kingdom	100
Thermo Web Systems, Inc.	Massachusetts	100
Fiberprep, Inc.	Delaware	95
(31.05% of which shares are owned directly by E. & M. Lamort, S.A.)		
Fiberprep Securities Corporation	Delaware	100
Thermo Wisconsin, Inc.	Wisconsin	100
Thermo Fibergen Inc.	Delaware	71*
Fibergen Securities Corporation	Massachusetts	100
GranTek Inc.	Wisconsin	100
TMO Lamort Holdings Inc.	Delaware	100
E. & M. Lamort, S.A.	France	100
Lamort Equipementos Industriais Ltda.	Brazil	60
Lamort GmbH	Germany	100
Lamort Iberia S.A.	Spain	100
Lamort Italia S.R.L.	Italy	100
Lamort Paper Services Ltd.	United Kingdom	100
Nordiska Lamort Lodding AB	Sweden	100

*As of January 3, 1998

Consent of Independent Public Accountants

As independent public accountants, we hereby consent to the incorporation by reference of our reports dated February 9, 1998, included in or incorporated by reference into Thermo Fibertek Inc.'s Annual Report on Form 10-K for the year ended January 3, 1998, into the Company's previously filed Registration Statements as follows: Registration Statement No. 33-58884 on Form S-3, Registration Statement No. 33-67190 on Form S-8, Registration Statement No. 33-67192 on Form S-8, Registration Statement No. 33-67194 on Form S-8, Registration Statement No. 33-67196 on Form S-8, Registration Statement No. 33-83718 on Form S-8, and Registration Statement No. 33-80751 on Form S-8.

Arthur Andersen LLP

Boston, Massachusetts
March 19, 1998

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THERMO FIBERTEK INC.'S ANNUAL REPORT ON FORM 10-K FOR THE YEAR ENDED JANUARY 3, 1998 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THERMO
FIBERTEK INC.'S QUARTERLY REPORT ON FORM 10-Q FOR THE QUARTER ENDED MARCH 29,
1997 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

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