



ANNUAL REPORT 1994

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Chairman's Review

It gives me pleasure to report that Valmet Corporation met many of the goals set for it during 1994. As a result of the structural changes made, Valmet can focus more specifically on the paper and board machinery industry. These core businesses now account for more than 80 % of net sales.

The mergers carried out within the Corporation serve to optimize business efficiency. The focus on customer-orientation, project control and service operations has already produced encouraging results.

The share offering implemented in the late spring substantially improved the Corporation's solidity. The structural arrangements made in conjunction with the sale of businesses to Sisu also supported this trend. We have reduced the debt and interest burden. The Corporation's solidity ratio has improved significantly and is approaching the desired level. The ownership base has become more international. The privatization process has advanced, and the conditions have been created for its continuation.

All of this supports the Corporation's strategy and opens up opportunities for future development. The ability to withstand economic fluctuations has thus clearly improved. Despite the continuation of weak demand in the early months of the year, the profit objectives were achieved and even exceeded. The improvement in profitability is encouraging, when we consider the future.

The market prospects for Valmet's main products are good in the next

few years. Our order backlog has developed favorably. Many more paper and board machines were ordered in 1994 than in the previous year. An increasing volume of orders originate from Asia. Valmet Automation's prospects are also bright.

Due to the rationalization measures taken at Saab-Valmet, Aviation Industries and Power Transmission, we may also expect better results from the specialty businesses this year. Negotiations with potential partners in the automobile industry continue on a sounder footing now that Finland has become a member of the European Union.

Valmet has paid particular attention in recent years to quality. Up to now, 35 Valmet business units have achieved ISO 9000 quality certification. This represents over 90 % of the Corporation's business activities. As a part of quality leadership, the Malcolm Baldrige system has also been adopted. It is our continuing goal to improve quality in our customer relations, and in our productivity and profitability.

Quality also includes a responsible, long-range approach to the environment. Valmet aims to take environmental viewpoints into consideration both in its own production processes and in designing customer applications. The extent to which environmental matters have become important to Valmet's customer companies is shown by the increasing demands for the use of recycled paper as a raw material in papermaking and the building of closed circulation systems in pulp mills. Valmet has good references in these areas of expertise.

Finnish State ownership in Valmet was reduced, in connection with the spring share offering, from 73 % to 58.6 %. The intention is to continue the privatization process. A decision made in the Finnish Parliament last December allows the State to surrender its ownership in Valmet completely. This is also in accord with the aims of the Corporation. It is not appropriate to rush in this matter, however. There is no immediate need for a significant injection of outside capital to replace that of the State. The key element in the Parliament's decision is the greater freedom of movement it allows.

Valmet Corporation operates on a global scale. It must be capable of continuing to operate in all markets as the leading supplier in its field. Through research and development we are able to offer increasingly better solutions for customer needs. Our investments in new research centers make this possible.

The motivation, versatility and flexibility of the personnel are the key assets for a successful business. I would like to thank Valmet's employees and partners for their diligent and good work, and for their commitment to the Corporation's goals. I also wish to express my thanks to Valmet's shareholders and customers for the faith they have shown in the Corporation. Ahead of us is a more solid future, built on growth and profitability.

Helsinki, February 15, 1995

Shares and Shareholders' Equity

Valmet Corporation's capital stock totals MFIM 851. According to Valmet's Articles of Association there is one series of shares. No shareholder can vote with more than 80 % of the total votes represented at the meeting.

The Corporation's shares have been quoted on the Helsinki Stock Exchange since 1988. The shares have been joined to the book entry securities system, in which shareholdings

are registered in book entry accounts held by various book entry registrars. Foreign shareholders may alternatively register their shares in nominee accounts administered by a custodian. Nominee-registered shares have no voting rights.

During 1994, 13.3 million Valmet shares were traded on the Helsinki Stock Exchange at an average price per share of FIM 96.76. The number of

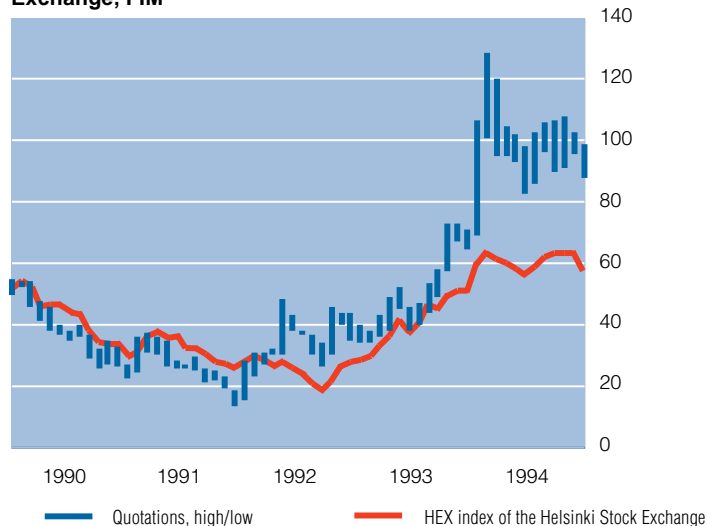
shares exchanged on the SEAQ system in London from June to December was 9.7 million. In the USA, trading is possible with shares and with USD-denominated American Depositary Receipts (ADR) which are quoted on the brokers' OTC list.

The 1994 Annual General Meeting approved an issue of bonds with warrants, valued at FIM 500,000, to members of Valmet Corporation's senior

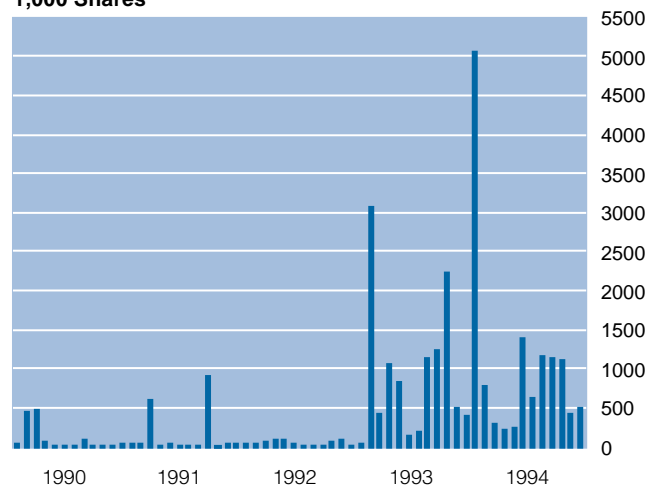
Share Data	1990	1991	1992	1993	1994
Share capital, Dec. 31, MFIM	651	651	711	711	851
Number of shares					
Number of shares, Dec. 31	32 550 715	32 550 715	35 550 715	35 550 715	42 550 715
Average number of shares	32 550 715	32 550 715	34 326 057	35 550 715	39 539 756
Trading volume, Helsinki Stock Exchange	1 256 680	1 756 650	595 710	11 326 847	13 276 170
Share issues, MFIM					
Increase in share capital			60		140
Surplus over nominal value			120		505
Dividend, MFIM	-	-	-	-	43¹⁾
Dividend / share, FIM	-	-	-	-	1.00¹⁾
Dividend yield, %	-	-	-	-	1.1
Earnings / share, FIM	-12.45	-21.79	-11.71	5.45	5.00
P/E ratio				13	18
Cash flow / share, FIM	1.16	-6.44	6.37	22.28	16.44
Equity / share, FIM	76.48	56.70	52.13	54.95	58.89
Nominal value, FIM	20	20	20	20	20
Highest quotation, FIM	55.00	37.50	48.50	73.00	129.00
Lowest quotation, FIM	26.00	13.20	15.50	34.00	69.00
Quotation, Dec. 31, FIM	26.50	16.50	35.00	69.00	90.00
Market value of shares, Dec. 31, MFIM	863	537	1 244	2 453	3 830

¹⁾ Proposal by the Board of Directors

Trading Prices of Valmet Shares on the Helsinki Stock Exchange, FIM



Turnover of Shares on the Helsinki Stock Exchange, 1,000 Shares



management. The bonds were valid for five years, carried an interest rate of 5 % and an issue price of 100 %. They included the right to subscribe to a maximum of 500,000 shares from December 1, 1998 to January 31, 2001, at a subscription price of FIM 120.

The 1994 Annual General Meeting authorized the Board of Directors to decide on the raising of a maximum of MFIM 140 of new share capital by means of a rights issue or an issue of convertible bonds and/or bonds with warrants, in one or several instalments. The Board of Directors used this authorization in deciding on May 31, 1994 to implement a share offering to institutional investors in which all 7,000,000 shares on offer were subscribed at a price of FIM 95.90 per share. The subscription price was the same as the share's last trading price on May 31, 1994. On completion of the subscription period, May 31 – June 7, 1994, the fully-paid increase in capital stock was entered in the trade register. The new shares have full dividend rights for 1994. The share offering strengthened the Corporation's capital structure, lowered financial expenses and widened the shareholder base. Since this action, the Board of Directors has had no authorization to raise share capital.

At the time of the share offering, the Finnish State sold 1,050,000 Valmet shares on the basis of an option included in the terms of the offering. As a result, the State's ownership share was reduced to 58.6 %. A major portion of the subscribed shares were offered to international investors, and by the end of the year 28 % of the shares were held in nominee accounts.

The Board of Directors proposes to the 1995 Annual General Meeting that the Board be authorized to decide on the raising of a maximum of MFIM 170 new share capital by means of a rights issue or an issue of convertible bonds and/or bonds with warrants in one or several instalments. The Board may depart from the pre-emptive right of shareholders to subscribe to new shares.

Shareholders by Category on December 31, 1994

	Number of shareholders	% of shareholders	% of shares and votes
Private individuals	5 099	94.0	1.8
Foundations and associations	58	1.1	1.2
Companies	179	3.3	0.3
Financial institutions and insurance companies	63	1.2	8.2
Public institutions	3	–	59.9
Foreign shareholders	20	0.4	–
Registered shareholders, total	5 422	100.0	71.4
Nominee registered			28.5
Shares not converted into book entries			0.1
Shareholdings, total			100.0

Members of the Company Supervisory Board and the Board of Directors own a total of 1,240 shares, that is 0.003 % of the total votes carried by all stock.

Shareholders on December 31, 1994

	Number of shareholders	Number of shares	% of shares and votes
The Finnish Government		24 914 715	58.6
Ilmarinen Pension Insurance Company		933 700	2.2
Kansallis-Osake-Pankki		851 930	2.0
Pension-Sampo Insurance Company		498 500	1.2
Pension-Varma Mutual Insurance Company		488 450	1.1
The Local Government Pensions Institutions		404 500	1.0
Vahinkovakuutusosakeyhtiö Kansa		194 000	0.5
Social Insurance Institution		186 000	0.4
Valmet Corporation Personnel Fund		157 800	0.4
Nova Life Insurance Company		156 000	0.4
Kansallis-Forest Unit Trust		110 500	0.3
Valmet Corporation Pension Fund		94 650	0.2
	12	28 990 745	68.3
Other shareholders, shares / shareholder			
10 001 – 94 649	15	383 800	0.9
5 001 – 10 000	15	116 700	0.2
1 001 – 5 000	103	234 705	0.5
501 – 1 000	188	160 779	0.4
101 – 500	1 129	300 502	0.7
1 – 100	3 960	182 623	0.4
Nominee registered		12 118 077	28.5
Shares not converted into book entries		62 784	0.1
Total	5 422	42 550 715	100.0

Administrative Bodies

Supervisory Board

		Term expires at the Annual General Meeting in
<i>Chairman</i>	Pentti Mäki-Hakola	1995
<i>Vice Chairman</i>	Teuvo Kinnunen	1996
	Bengt Hellström	1995
	Marita Jurva	1996
	Hannu Kempainen	1997
	Matti Korhonen	1995
	Jarmo Leppiniemi	1997
	Johannes Leppänen	1995
	Leena Luhtanen	1997
	Markku Mäkinen	1997
	Jussi Niemi	1995
	Sauli Niinistö	1996 *
	Aimo Pajunen	1997
	Ralf Sund	1996
	Markku Vuorensola	1996

*until August 31, 1994

Representatives of Personnel Groups on the Supervisory Board in 1995–1997

Martti Luhanko
Matti Palmqvist
Lasse Saarnio
Auvo Salama

Board of Directors

		Term expires
<i>Chairman</i>	Matti Sundberg	President and CEO 1998
	Mauri Jaakonaho	Executive Vice President 1996
	Markku Kangas	President, Valmet Automation Inc. 1997
	Juhani Linnoinen	President, Saab-Valmet 1996
	Jaakko Rauramo	President, Sanoma Corporation 1997
	Juhani Riutta	Executive Vice President 1998
	Raimo Taivalkoski	Senior Executive Vice President, Partek 1995

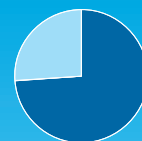
Auditors

<i>Chairman</i>	Heikki Vesa	
	Erkki Mäki-Ranta	Approved Public Accountant
	KPMG Wideri Oy Ab/ Heikki Koskelainen	Authorized Public Accountant

Valmet Corporation, March 1, 1995

Paper and Board Machinery

Printing Paper Machines, Pulp Drying
Board and Tissue Machines, Stock Preparation
Paper Finishing Machines
Air Systems
Service



Share of Corporation's
Net Sales 74 %

Valmet Automation

Share of Corporation's
Net Sales 14 %



Specialty Businesses

Saab-Valmet
Valmet Aviation Industries
Valmet Power Transmission



Share of Corporation's
Net Sales 11 %

Other and Associated Companies

Valfin (100 %)	Vallox (40 %)
Saab-Auto (50 %)	Sampower (36.5 %)
Sako (50 %)	Transtech (25 %)
Scan-Automotive (50 %)	Sisu (24 %)



Share of Corporation's
Net Sales 1 %

The Board of Directors' Report

The Board of Directors of Valmet Corporation in February 1995. (Left to right) Matti Sundberg, Markku Kangas, Jaakko Rauramo, Raimo Taivalkoski, Juhani Linnoinen, Juhani Riutta and Mauri Jaakonaho.

Several major structural changes, in pursuit of specific goals, were implemented in Valmet Corporation in 1994. The goals were to concentrate more on core businesses, and to achieve an overall improvement in financial position.

The Corporation's structure was simplified in April 1994 by selling the transportation equipment and tractor businesses to Sisu, Inc. This also laid the foundations for strengthening Sisu. Valmet's paper and board machinery operations were merged for greater efficiency and further development.

The Corporation's solidity improved substantially during 1994, due

mainly to a share offering and the Sisu arrangements. The proceeds were used for loan repayments, reducing indebtedness and financial expenses. The consolidated solidity ratio has increased from 19.2 %, and was 33.3 % at the turn of the year.

1994 net sales remained at the same level as the previous year, concerning those businesses in the present structure. Profitability improved, due mainly to the decrease in financial expenses. The order backlog rose clearly towards the end of the year, reaching MFIM 6,381 at the end of December. It is expected to further increase in the next few years.

Business development

Markets in Valmet's main businesses picked up considerably in the final part of 1994. Faster-than-expected growth in paper consumption, as well as a rise in pulp and paper prices, improved forest company profitability. A greater willingness to invest is visible in many ways. There have been clear signs in Europe and North America of a growth in the demand for machine rebuilds, whereas in Southeast Asia it is mainly complete paper machines that have been sold.

Competition has continued to be extremely severe in all market areas. During 1994 Valmet delivered a total

of ten complete paper, board and pulp drying machines. The market revival is reflected in the receipt of 17 complete machine orders during the year. The order backlog in these businesses at year's end was valued at MFIM 5,080, or about 18 % higher than one year earlier. Improving markets have increased capacity utilization at machine suppliers' workshops. This will lengthen future delivery times and influence price levels.

Valmet Automation's deliveries also increased during 1994 and net sales were up on the previous year. New orders increased by 18 %. The pick-up in pulp and paper industry investments at the end of the year brought Valmet Automation many orders for paper quality control systems. Growth also continued in the automation of energy production and environmental protection processes. SCADA systems for oil, gas and electricity remote transfers were ordered in both North and South America.

Sensodec, a supplier of paper machine runnability and condition monitoring systems, was transferred for synergetic reasons from Valmet Paper Machinery to Valmet Automation. Sensodec is the market leader in its field.

Saab-Valmet's annual production rose to about 18,000 cars. Thanks to new, flexible operating methods, Saab-Valmet's financial result was positive, despite continued idle capacity. Demand for the new Saab convertible was lively. The production of Opel Calibras also grew after Valmet and Adam Opel AG had resolved their dispute concerning the car's production.

The outlook for Aviation Industries is also brightening, due to the F/A-18 fighter and Saab 2000 projects. A decision to terminate production of the unprofitable Redigo training aircraft was made at the end of 1994, causing MFIM 89 of non-recurring, extraordinary expenses to the Corporation. The order backlog of empennage systems for the Saab 2000 commercial airplane grew sharply after the favorable solution of problems affecting the customer. The Hornet project deliveries,

scheduled for the remainder of the 1990's, and the regular maintenance work on Air Force aircraft, give a basic, profitable workload.

The net sales of Power Transmission grew by more than 30 % compared with 1993. Growth was apparent in all product lines, but particularly in the wood processing industry drive equipment group. The profitability of Power Transmission has improved uniformly due to new product and production solutions.

Changes in business structure

Valmet Tractors and Valmet Transmec, with the exception of the Power Transmission unit, were sold to Sisu, Inc. in April 1994. The net sales price of MFIM 606 was formed from a cash payment of MFIM 254, an offering of Sisu shares valued at MFIM 185 and granting 24 % ownership rights, and an interest-bearing, secured note valued at MFIM 167 and due for payment within five years.

When the interest-bearing net liabilities of MFIM 1,019, as shown in the balance sheet figures of April 29, 1994, the date of the sale, and transferred with Valmet Tractors and Valmet Transmec, are taken into account, the total value of the deal comes to MFIM 1,625. In addition, unfunded pension liabilities of about MFIM 45 were transferred to Sisu.

Valmet has the discretionary right to sell its Sisu shares to the Finnish State at a price of MFIM 250 on May 1, 1998 or thereafter.

Valmet Tractors and Valmet Transmec are included as subsidiaries in the Valmet Corporation income statement until April 29, 1994. The adaptational measures carried out in 1992-93 bore fruit in the tractors and transportation equipment businesses, decisively strengthening their profit potential to Sisu Corporation.

In December Valmet sold all the shares of Procons Data Corp. to Tietotehdas Oy. The right of ownership was transferred on January 1, 1995. Procons Data, a supplier of systems

and services in data technology, had net sales of about MFIM 70 in 1994, and employed 110 persons.

The merger of Valmet-Tampella Inc. with Valmet Paper Machinery Inc. came into force at the beginning of 1995. In addition, a decision has been made to merge Valmet Paper Machinery Inc. with Valmet parent company. In the United States, Valmet-Appleton Inc., Honeycomb Systems Inc., Valmet-Enerdry Inc. and Valmet Inc. were merged with Valmet-Charlotte Inc. At the same time the company's name was changed to Valmet Inc. In Canada, Valmet-Montreal Inc. and Valmet-Enerdry Inc. were merged to form a new company named Valmet Canada Inc.

Development investments

Throughout the recession, Valmet Corporation has continued to invest in quality improvement, training and R & D. The goal is to improve competitiveness by developing total operational quality and offering new model solutions.

Valmet continued to develop its quality systems. By the end of the year, 35 units had gained ISO certification. These units account for over 90 % of the Corporation's business. 220 Valmet employees have undergone training to teach quality leadership. 410 persons have attended the Malcolm Baldrige quality program workshop and self-assessments have been performed in 20 units. The official external audits will be started during 1995.

The Corporation's capital expenditures were MFIM 266, or 3.2 % of net sales. This figure does not include the Sisu, Inc. shares acquired in connection with restructuring arrangements for MFIM 185. These are dealt with as a change in corporate structure.

Capital Expenditures by Business Group, MFIM

	1990	1991	1992	1993	1994
Paper and Board Machinery	268	177	341	195	165
Automation	27	17	21	27	31
Saab-Valmet			44	15	9
Aviation Industries	48	39	11	20	11
Power Transmission	16	2	1	13	14
Others	47	92	67	35	36
Subtotal	406	327	485	305	266
Operations sold	237	106	74	124	–
Consolidation items	–3	190	650	18	–
Corporation total	640	623	1 209	447	266

Research and Development by Business Group, MFIM

	1990	1991	1992	1993	1994
Paper and Board Machinery	152	108	143	175	199
Automation	54	60	48	65	80
Saab-Valmet			16	14	16
Aviation Industries	10	5	3	1	–
Power Transmission	5	4	–	1	2
Others	7	4	2	4	3
Subtotal	228	181	212	260	300
Operations sold	85	53	44	35	–
Corporation total	313	234	256	295	300

R & D expenditure totaled MFIM 300, or 3.6 % of net sales. The extension of the Jyväskylä research center continued according to plan. The more than MFIM 150 investment will meet customer needs into the early years of the next century.

New products resulting from Valmet's R & D succeeded on the markets. They included new coating solutions to improve paper and board surface properties.

Important innovations at the paper machine wet end were the Speed-Former gap former for board grades and a dilution headbox. Both were commercially applied during the year. The Condebelt method developed for the board machine dryer section will soon receive its first production application.

Valmet Automation and the paper machinery units together developed an integrated solution of paper profile controls and actuators for papermaking quality control. In January 1995 Valmet Automation launched a unique paper quality control system based on distributed measurement, the PaperIQ, which is compatible in its software with the Damatic XD.

Control systems for processes related to environmental protection have sharply

increased their share of Valmet Automation's business in recent years. The measurement, steering and control systems developed have been successfully applied to air and water protection in the process industry, to oil and gas transfer, to energy production, to waste water treatment for industry and municipalities, and to waste treatment in various parts of the world.

Valmet Transmission's three-year, customer-oriented product development cooperation with wind energy producers and equipment manufacturers led to significant deliveries in 1994 and a growth in order backlog for 1995.

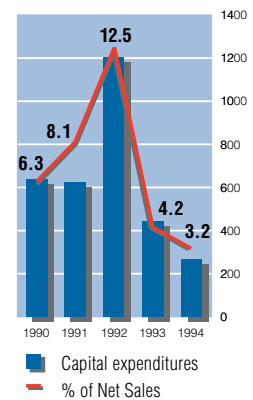
Saab-Valmet's new convertible, the Saab 900 Cabriolet, started production in April. Saab-Valmet participated in international development work on the car, and its experts played a significant role in the design of the car.

Aviation Industries is building a new paint shop at Kuorevesi for the Hornet fighters. The shop will be completed in May.

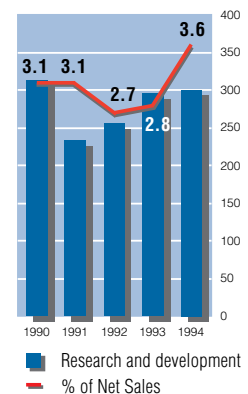
Human resources

The Corporation's average number of employees according to the current structure

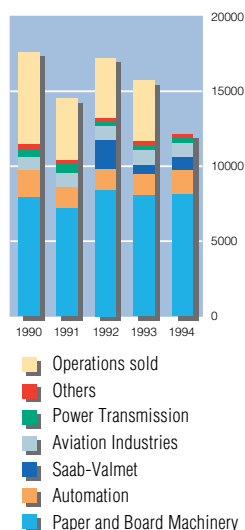
Capital Expenditures/Net Sales, MFIM



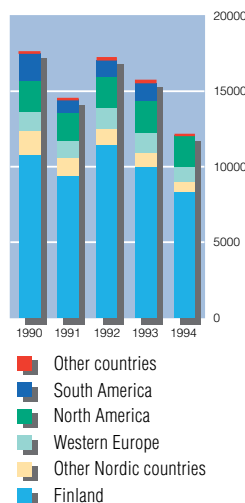
Research and Development/Net Sales, MFIM



Personnel by Business Group



Personnel by Region



was 12,107 in 1994 (12,010 in 1993). 12,146 (15,716) persons were employed at the end of the accounting year. The reduction in personnel was mainly due to the transfer of about 4,000 persons along with

the sale of transportation equipment and tractor operations to Sisu.

At the end of the year 3,797 persons, or 31 % of the personnel, were employed by international units.

Personnel by Business Group	1990	1991	1992	1993	1994
Paper and Board Machinery	7 921	7 201	8 426	8 103	8 193
Automation	1 825	1 492	1 395	1 443	1 560
Saab-Valmet			1 921	514	867
Aviation Industries	877	953	933	1 047	957
Power Transmission	531	501	388	360	361
Others	366	235	187	196	208
Subtotal	11 520	10 382	13 250	11 663	12 146
Operations sold	6 126	4 126	3 954	4 053	–
Corporation total	17 646	14 508	17 204	15 716	12 146

Personnel by Region	1990	1991	1992	1993	1994
Finland	10 819	9 369	11 468	9 976	8 349
Other Nordic countries	1 586	1 184	1 058	948	628
Western Europe	1 279	1 194	1 401	1 328	1 058
North America	2 068	1 807	2 011	2 109	2 007
South America	1 814	861	1 155	1 223	–
Asia	18	25	30	48	33
Other countries	62	68	81	84	71
Corporation total	17 646	14 508	17 204	15 716	12 146

Changes in corporate structure are reflected in the Corporation's employee participation systems. The personnel is represented on the Supervisory Board, the management teams of product groups and special businesses, and on the management teams of certain units. The Corporation's Cooperation Committee discusses matters generally affecting the personnel, and its personnel representatives are authorized to manage the personnel fund. Matters handled in the Cooperation Committee are prepared in the Corporation's Cooperation Group.

The objective of the Corporation's VMP Management Training Program is to give participants a joint frame of reference and the readiness to act later in higher management duties. 200 persons have so far participated in the program. In addition, 115 young, promising managers have participated in the Edge program. The TeamLead program gives training in leadership and cooperation to all levels of the organization. About 420 persons have par-

ticipated in these seminars. Quality training has been included in the above programs or given as separate training packages throughout the organization.

Each business group has continued to develop its own personnel according to plan. Participation in advanced studies and post-graduate degrees continues to be supported. Voluntary training in professional skills has continued in Finnish and international units. In addition, cooperation with universities and technical institutes has continued.

Net sales and income

Valmet Corporation's net sales during fiscal 1994 were MFIM 8,328. The Corporation booked new orders worth MFIM 8,928. The Corporation's order backlog on December 31 was MFIM 6,381, or 8.0 % higher than one year earlier. The growth in order backlog according to the current structure is 17.9 %. Exports and the Corporation's international operations accounted for 81 % of net sales in 1994.

Net Sales by Business Group, MFIM	1990	1991	1992	1993	1994
Paper and Board Machinery	5 768	4 123	4 062	5 249	5 470
Automation	776	870	902	980	1 023
Saab-Valmet	–	–	1 638	861	381
Aviation Industries	163	175	202	256	266
Power Transmission	192	127	131	145	194
Others	100	85	80	78	80
Subtotal	6 999	5 380	7 015	7 569	7 414
Operations sold	3 421	2 506	2 808	3 341	1 106
Less inter-business eliminations	-310	-220	-178	-234	-192
Corporation total	10 110	7 666	9 645	10 676	8 328

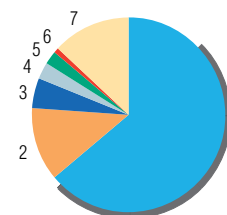
Net Sales by Market Area, MFIM	1990	1991	1992	1993	1994
Finland	2 682	2 645	2 269	1 838	1 575
Other Nordic countries	1 800	751	898	2 041	841
Western Europe	2 020	1 609	2 339	1 521	1 709
Eastern Europe	319	248	133	399	122
North America	2 220	1 307	2 221	2 344	2 310
South America	755	503	809	1 177	537
Asia	197	357	850	1 034	848
Other countries	117	246	126	322	386
Corporation total	10 110	7 666	9 645	10 676	8 328

Concerning the various business groups, Paper and Board Machinery's income for the year after financial items was positive, and profitability was at a satisfactory level. Valmet Automation's income was positive,

as in the previous year. Saab-Valmet also showed a profit. Valmet Aviation Industries recorded a loss, which led to adaptation measures. Valmet Power Transmission was very profitable.

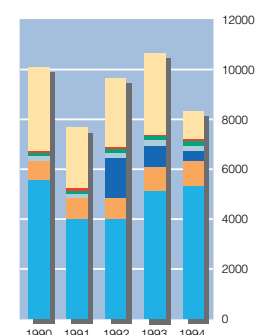
Corporation's Financial Performance, MFIM	1990	1991	1992	1993	1994
Operating Income					
Paper and Board Machinery	180.0	67.7	-59.2	181.6	235.0
Automation	-38.3	13.3	60.9	76.9	80.0
Saab-Valmet	–	–	307.2	74.2	92.0
Aviation Industries	-1.2	-32.2	-22.8	-1.2	-36.2
Power Transmission	13.9	-11.7	6.5	18.9	21.9
Others	-199.2	-119.6	-94.6	-139.8	-96.4
Subtotal	-44.8	-82.5	198.0	210.6	296.3
Operations sold	-216.2	-380.1	-30.4	176.2	52.9
Less inter-business eliminations	80.3	-8.6	3.4	92.4	21.9
Operating income, total	-180.7	-471.2	171.0	479.2	371.1
Financial income and expenses	-68.9	-144.6	-468.7	-379.2	-219.5
Share of profit or losses from associated companies	–	–	–	–	51.5
Income after financial items	-249.6	-615.8	-297.7	100.0	203.1
Non-operating income and expenses	-37.7	-16.0	–	–	–
Extraordinary income and expenses	-2.9	-60.0	78.6	-153.9	-24.9
Income before taxes	-290.2	-691.8	-219.1	-53.9	178.2

Net Sales by Business Group 1994, %



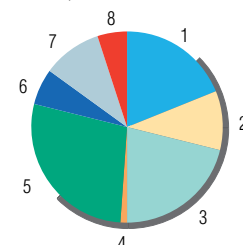
- 1 Paper and Board Machinery 64 %
- 2 Automation 12 %
- 3 Saab-Valmet 5 %
- 4 Aviation Industries 3 %
- 5 Power Transmission 2 %
- 6 Others 1 %
- 7 Operations sold 13 %

Net Sales by Business Group, MFIM



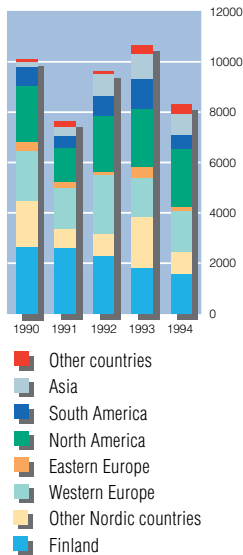
- Operations sold
- Others
- Power Transmission
- Aviation Industries
- Saab-Valmet
- Automation
- Paper and Board Machinery

Net Sales by Market Area 1994, %



- 1 Finland 19 %
- 2 Other Nordic countries 10 %
- 3 Western Europe 21 %
- 4 Eastern Europe 1 %
- 5 North America 28 %
- 6 South America 6 %
- 7 Asia 10 %
- 8 Others 5 %

Net Sales by Market Area, MFIM



The consolidated operating margin was MFIM 820, or 9.8 % of net sales. The operating income was MFIM 371. The income after financial items was MFIM 203 (MFIM 100). The income before allocations and taxes was MFIM 178 (MFIM -54). The net income for the year was MFIM 173 (MFIM 85). The unrestricted equity of the Corporation is MFIM 264 (MFIM -514) and of the parent company is MFIM 1,113 (MFIM 1,205). Consolidated earnings per share were FIM 5.00 (FIM 5.45) and cash flow per share was FIM 16.44 (FIM 22.28). Market capitalization amounted to MFIM 3,830 at the end of the year. The book value per share was FIM 58.89 (FIM 54.95).

Net extraordinary expenses of MFIM 25 were formed on the one hand from extraordinary income due to the Sisu arrangements, and on the other hand from extraordinary expenses resulting from changes in accounting principles, write-offs from the ending of production of the Redigo training aircraft and special expenses and reserves related to earlier deliveries.

Valmet Corporation's share of total shareholders' equity and untaxed reserves in the associated companies was MFIM 391.

Financing and balance sheet structure

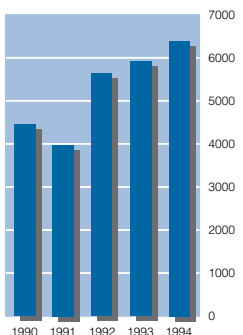
The Corporation's liquidity remained good throughout the year. Liquid assets, i.e. cash and short-term investments, were MFIM 1,860 (MFIM 2,082) at the end of the accounting period, and the ratio of financial assets and inventories to short-term debt was 1.4 (1.3). The return on net assets before extraordinary items was 9.4 % (9.2 %). The return on equity was 8.7 % (10.7 %) as calculated before allocations and extraordinary items on the total of equity and untaxed reserves.

Due to the restructuring the balance sheet total was MFIM 8,905 (MFIM 11,766), and the amount of debt decreased. In addition, cash flow from operations and the increase in equity were used to repay interest-bearing debt, with the result that it contracted in total from over MFIM 5,600 to MFIM 2,810. The solidity ratio of the Corporation was 33.3 % (19.2 %) and of the parent company 63.0 % (48.0 %). Correspondingly, the Corporation's net liabilities were 37.5 % (177.8 %) of its equity.

Consolidated Balance Sheet by Business Group, MFIM

	1990	1991	1992	1993	1994
Paper and Board Machinery	5 094	4 875	6 637	6 496	5 242
Automation	800	803	948	860	804
Saab-Valmet	-	-	1 134	810	638
Aviation Industries	208	315	377	483	389
Power Transmission	182	108	132	160	188
Others	3 762	3 217	4 960	6 713	5 814
Subtotal	10 046	9 318	14 188	15 522	13 075
Operations sold	3 220	2 979	2 736	2 808	-
Less inter-business eliminations	-2 426	-2 341	-4 724	-6 564	-4 170
Corporation total	10 840	9 956	12 200	11 766	8 905

Order Backlog, Dec. 31, MFIM



The Corporation's cash flow after investments was MFIM 627. Financial status and creditworthiness are good.

Net financial expenses were MFIM 220 (MFIM 379), of which MFIM 18 (MFIM 65) was due to foreign exchange losses in financial items. A considerable portion of the Corporation's cash flow occurs in currencies other than the Finnish markka. A major currency in terms of sales income is the US dollar. Exchange rate risks are hedged in practice by conducting a part of the op-

erations in the currency of the country in question. In addition, assets and order backlog in different currencies are hedged by loans and financial instruments denominated in those currencies for the cash flow forecast for a few months ahead.

Shares and expansion of the ownership base

Valmet's Board of Directors decided on May 31, 1994 to implement, within the limits of the authorization given by the Annual

General Meeting, a share offering of 7 million new shares, at a price of FIM 95.90 per share, to international and Finnish institutional investors.

Of the total subscription amount, the increase in share capital was MFIM 140, and the surplus over nominal value, MFIM 505, was entered in the legal fund. The subscription period ended on June 7, 1994. Owing to lively demand for the shares, the Finnish State sold 1,050,000 Valmet shares as a "green shoe" option, on the same terms as the share offering.

As a result of the offering, the number of Valmet Corporation's shares rose to 42.55 million.

Trading in Valmet shares on the Helsinki Stock Exchange was valued at MFIM 1,285 in 1994. Prices varied during the year between FIM 129 and FIM 69 per share. On December 31, 1994, the share price was FIM 90.

Valmet's shares are also traded in London on the SEAQ system and in the USA in the form of American Depositary Receipts (ADR) which are quoted on the brokers' OTC list.

The Finnish Parliament decided on December 9, 1994 that the State may, if it so desires, surrender its 1/3 qualified minority position in Valmet Corporation. In its decision, the Parliament stipulated that the State must retain control in those Valmet businesses that serve the Defence Department, i.e. in Valmet Aviation Industries. The State currently owns 58.6% of Valmet's capital stock. 28% is in foreign ownership.

Outlook

The outlook for 1995 is clearly better than earlier. The competitiveness of Valmet's main customer group, the forest industry, has improved considerably during the last two years and the

readiness to invest has grown. The growth in paper consumption is expected to continue and prices will remain high. Paper machinery investments are expected to peak in 1997. Risk factors in both the forest and metal industries are raw material prices and exchange and interest rate fluctuations. Finnish membership in the EU gives industry better opportunities for business development.

According to current forecasts, Valmet Corporation's profit will develop favorably in 1995. Net sales will increase clearly from the previous year, but will be scheduled mainly in the latter half of the year. The year's first tertial is expected to show a loss. The Corporation's income and profitability for the whole year will be a further improvement.

Proposal to the Annual General Meeting

The net income of the parent company, plus retained earnings and unrestricted funds, i.e. the company's unrestricted equity, totals FIM 1,113,046,550.82. According to the financial statements, consolidated unrestricted equity amounts to FIM 264,004,000.00. The Board of Directors proposes to the Annual General Meeting that a dividend of FIM 1.00 per share be distributed, totalling FIM 42,550,715.00, and that the parent company's net loss for the year, FIM 91,922,470.83, be written in the profit and loss account.

Helsinki, February 15, 1995

Matti Sundberg
Chairman and CEO

Mauri Jaakonaho
Juhani Linnoinen
Juhani Riutta

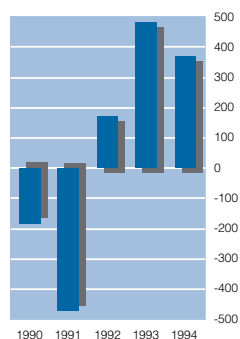
Markku Kangas
Jaakko Rauramo
Raimo Taivalkoski

Consolidated Income Statement

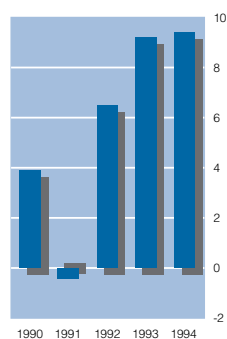
FIM 1000	1994*		1993	
Net sales	8 328 037	100 %	10 675 880	100 %
Operating expenses and other operating income (1)	-7 508 386		-9 622 690	
Depreciation (2)	-448 556		-574 011	
Operating income	371 095	4.5 %	479 179	4.5 %
Financial income and expenses (3)	-219 535		-379 155	
Share of profits or losses from associated companies (4)	51 510		-	
Income after financial items	203 070	2.4 %	100 024	0.9 %
Extraordinary income and expenses (5)	-24 899		-153 926	
Income before taxes	178 171	2.1 %	-53 902	-0.5 %
Allocations to untaxed reserves (14)	-		25 399	
Direct taxes (6)	-1 628		118 205	
Minority interests	-3 925		-4 426	
Net income for the year	172 618	2.1 %	85 276	0.8 %

* Includes Transmec and Tractors sold to Sisu Corporation, for 4 first months only.

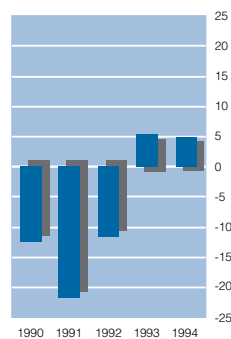
Operating Income, MFIM



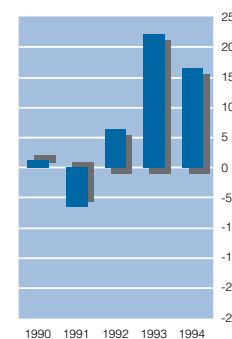
Return on Net Assets, %



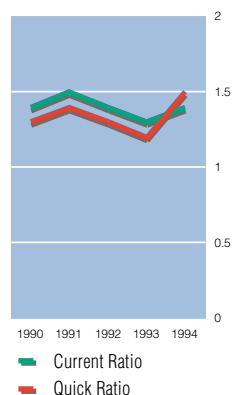
Earnings per Share, FIM



Cash Flow per Share, FIM



Current Ratio and Quick Ratio



Consolidated Balance Sheet

ASSETS

FIM 1 000	31.12.1994		31.12.1993	
FIXED ASSETS AND LONG-TERM INVESTMENTS (7)				
Intangible assets				
Goodwill	85 036		157 451	
Other intangible assets	99 105		118 282	
	184 141		275 733	
Tangible fixed assets				
Land and water areas	226 560		283 796	
Buildings	841 059		1 225 923	
Machinery and equipment	1 000 733		1 527 695	
Other tangible assets	47 417		50 864	
Assets under construction	61 010		60 209	
	2 176 779		3 148 487	
Advances paid for fixed assets	51 637		53 543	
Long-term investments				
Shareholdings and other securities (8)	809 310		630 554	
Loans receivable (9)	176 692		82 837	
Other long-term assets	34 953		5 881	
	1 020 955		719 272	
	3 433 512	38.6 %	4 197 035	35.7 %
UNFUNDED PENSION LIABILITY (10)	243 399	2.7 %	337 522	2.9 %
CURRENT ASSETS				
Inventories				
Materials and supplies	242 178		539 822	
Finished products	56 550		306 822	
Work in progress	1 148 078		1 326 965	
Advances paid for inventories	39 227		66 539	
	1 486 033		2 240 148	
Receivables (11)				
Trade receivables, interest-bearing	63 179		392 378	
Trade receivables, non-interest-bearing	1 297 924		1 932 245	
Loans receivable	38 109		57 304	
Accrued income and prepaid expenses	366 106		312 054	
Other receivables	116 349		215 477	
	1 881 667		2 909 458	
Cash and short-term investments (12)	1 859 945		2 082 318	
	5 227 645	58.7 %	7 231 924	61.5 %
TOTAL	8 904 556	100 %	11 766 481	100 %

LIABILITIES AND SHAREHOLDERS' EQUITY

FIM 1000

31.12.1994

31.12.1993

SHAREHOLDERS' EQUITY (13)

Share capital	851 014		711 014	
Restricted funds	1 390 904		1 478 359	
Retained earnings	91 386		-598 824	
Net income for the year	172 618		85 276	
	2 505 922	28.1 %	1 675 825	14.2 %

MINORITY INTERESTS

UNTAXED RESERVES (14)

LIABILITIES (15)

Long-term debt (16)

Bonds	579 255		573 157	
Loans from financial institutions	337 235		1 398 852	
Pension loans	1 050 660		1 345 773	
Other long-term debt	150 192		452 633	
	2 117 342	23.8 %	3 770 415	32.0 %

Other long-term liabilities

Deferred tax liability	78 441		69 881	
Accrued expenses (10) (17)	384 301		360 386	
	462 742	5.2 %	430 267	3.7 %

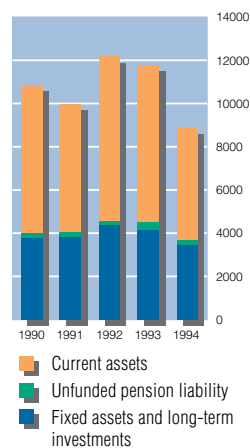
Current liabilities

Short-term part of long-term debt (18)	440 477		1 408 760	
Other interest-bearing short-term debt	252 025		446 777	
Non-interest-bearing current liabilities				
Accounts payable	596 123		716 292	
Advances received	1 293 151		1 397 697	
Accrued expenses and prepaid income (19)	1 101 085		1 224 705	
Other current liabilities	109 051		298 193	
	3 099 410		3 636 887	
	3 791 912	42.6 %	5 492 424	46.7 %

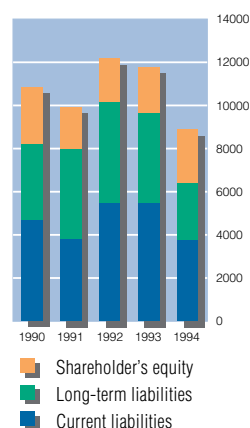
TOTAL

8 904 556 **100 %** 11 766 481 100 %

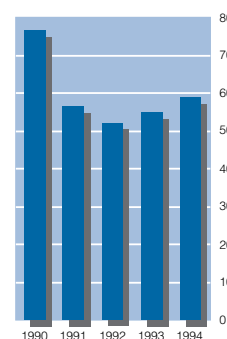
Consolidated Assets, MFIM



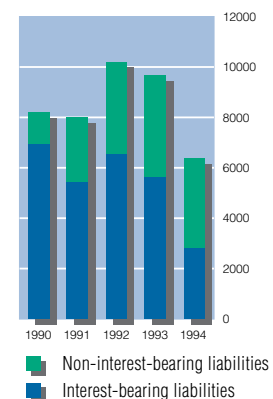
Consolidated Liabilities and Equity, MFIM



Consolidated Equity per Share, FIM



Interest- vs. Non-interest-bearing Liabilities, MFIM



Consolidated Cash Flow Statement

FIM 1000	1994	1993*
Operating income	371 095	479 179
Adjustments		
Depreciation	448 556	571 943
Extraordinary income and expenses	-105 165	7 671
Change in working capital		
Increase (-) / decrease (+) in inventories	-25 061	51 672
Increase (-) / decrease (+) in receivables	-155 546	-11 375
Increase (+) / decrease (-) in non-interest-bear. liabilities	273 865	202 257
Cash generated from operations	807 744	1 301 346
Financial items and taxes		
Dividends received	6 349	4 758
Interest income and expenses	-163 987	-280 664
Other financial income and expenses	-60 297	-103 248
Direct taxes	-40 845	-24 695
Financial items and taxes, net	-258 780	-403 849
Cash flow after financial items and taxes	548 963	897 497
Investment activities		
Acquisition of subsidiaries / businesses, net of cash acquired	-24 575	-
Purchase of fixed assets	-266 382	-447 088
Proceeds from sale of fixed assets	33 999	188 735
Proceeds from sale of subsidiaries / businesses	334 756	-
Investment activities, net	77 798	-258 353
Cash flow after investment activities	626 761	639 144
Funding activities		
Share issue	644 800	-
Dividends paid	-15 468	-
Change in loans receivable	-107 534	69 947
Proceeds from long-term borrowing	86 868	834 513
Payments of long-term debt	-1 283 137	-918 817
Increase (+) / decrease (-) in interest-bear. short-term debt	-86 451	-783 322
Funding activities, net	-760 922	-797 679
Cash flow after funding activities	-134 161	-158 535
Cash and short-term investments at beginning of year	2 082 318	2 240 853
Effects of exchange rate changes on cash and short-term investments	-88 212	-
Cash and short-term investments at end of year	1 859 945	2 082 318

* 1993 figures have not been adjusted for effects of changes of exchange rates and in corporate structure.

Parent Company Income Statement

FIM 1000	1994	1993
Net sales	–	–
Operating expenses and other operating income (1)	–94 144	–99 305
Depreciation (2)	–8 090	–73 037
Operating income	–102 234	–172 342
Financial income and expenses (3)	–118 522	224 911
Income after financial items	–220 756	52 569
Corporate internal contributions	116 000	371 000
Extraordinary income and expenses (5)	27 067	1 584
Income before taxes	–77 689	425 153
Allocations to untaxed reserves (14)	–38	663
Direct taxes (6)	–14 196	8 325
Net income for the year	–91 923	434 141

Parent Company Balance Sheet

ASSETS

FIM 1000	31.12.1994		31.12.1993	
FIXED ASSETS AND LONG-TERM INVESTMENTS (7)				
Tangible fixed assets				
Land and water areas	19 466		19 466	
Buildings	39 102		44 279	
Machinery and equipment	8 736		8 058	
Other tangible assets	640		913	
	67 944		72 716	
Long-term investments				
Shareholdings and other securities (8)	2 894 086		3 237 901	
Loans receivable (9)	556 126		560 361	
	3 450 212		3 798 262	
	3 518 156	64.3 %	3 870 978	64.1 %
UNFUNDED PENSION LIABILITY (10)				
	243 399	4.4 %	337 522	5.6 %
CURRENT ASSETS				
Receivables (11)				
Trade receivables, interest-bearing	8 270		15 102	
Trade receivables, non-interest-bearing	13 620		–	
Loans receivable	1 039		64 451	
Accrued income and prepaid expenses	264 676		479 827	
Other receivables	129		74	
	287 734		559 454	
Cash and short-term investments (12)	1 420 835		1 266 591	
	1 708 569	31.2 %	1 826 045	30.3 %
TOTAL	5 470 124	100 %	6 034 545	100 %

LIABILITIES AND SHAREHOLDERS' EQUITY

FIM 1000	31.12.1994		31.12.1993	
SHAREHOLDERS' EQUITY (13)				
Share capital	851 014		711 014	
Legal reserve	1 281 243		776 443	
Revaluation reserve	200 000		200 000	
Retained earnings	1 204 969		770 828	
Net income for the year	-91 923		434 141	
	3 445 303	63.2 %	2 892 426	47.9 %
UNTAXED RESERVES (14)	3 157	0.1 %	83 119	1.4 %
LIABILITIES (15)				
Long-term debt (16)				
Bonds	540 000		500 000	
Loans from financial institutions	94 408		362 226	
Pension loans	23 609		26 027	
Other long-term debt	286 307		307 319	
	944 324	17.3 %	1 195 572	19.8 %
Other long-term liabilities				
Accrued expenses (10) (17)	323 399	5.9 %	337 522	5.6 %
Current liabilities				
Short-term part of long-term debt (18)	27 169		206 241	
Other interest-bearing short-term debt	649 852		1 250 040	
Non-interest-bearing current liabilities				
Accounts payable	3 562		3 678	
Accrued expenses and prepaid income (19)	73 199		65 158	
Other current liabilities	159		789	
	76 920		69 625	
	753 941	13.5 %	1 525 906	25.3 %
	2 021 664		3 059 000	
TOTAL	5 470 124	100 %	6 034 545	100 %

Parent Company Cash Flow Statement

FIM 1000	1994	1993
Operating income	-102 234	-107 342
Adjustments		
Depreciation	8 090	8 037
Gain on sale of tangible and intangible assets	27 067	1 584
Change in working capital		
Increase (-) / decrease (+) in receivables	271 720	-343 234
Increase (+) / decrease (-) in non-interest-bear. liabilities	7 297	-8 509
Cash generated from operations	211 940	-449 464
Financial items and taxes		
Dividends received	2 266	320 892
Interest income and expenses	-44 698	-126 917
Other financial income and expenses	60 786	405 059
Direct taxes	-14 196	8 325
Financial items and taxes, net	4 158	607 359
Cash flow after financial items and taxes	216 098	157 895
Investment activities		
Acquisition of subsidiaries	-18 633	-10 264
Purchase of fixed assets	-23 842	-12 023
Proceeds from sale of fixed assets	21 068	3 597
Proceeds from sale of subsidiaries	293 339	16
Investment activities, net	271 932	-18 674
Cash flow after investment activities	488 030	139 221
Funding activities		
Share issue	644 800	-
Dividends paid	-	-
Change in loans receivable	4 235	61 216
Proceeds from long-term borrowing	40 500	142 928
Payments of long-term debt	-427 127	-233 071
Increase (+) / decrease (-) in interest-bear. short-term debt	-596 194	596 651
Funding activities, net	-333 786	567 724
Cash flow after funding activities	154 244	706 945
Cash and short-term investments at beginning of year	1 266 591	559 646
Cash and short-term investments at end of year	1 420 835	1 266 591

Notes to the Financial Statements

(MFIM)	Corporation		Parent Company	
	1994	1993	1994	1993
1. Operating expenses and other operating income				
Materials and change in inventories				
Purchases of materials and subcontracting	3 498.9	5 100.8	–	–
Increase (+) / decrease (–) in inventories of materials and supplies	–42.7	12.4	–	–
Increase (+) / decrease (–) in work in progress	–30.0	44.9	–	–
Increase (+) / decrease (–) in inventories of finished products	–3.1	5.7	–	–
	3 423.1	5 163.8	–	–
Personnel costs				
Wages and salaries	2 094.5	2 446.0	19.1	16.2
Pension costs	286.0	311.6	45.2	50.8
Other indirect employee costs	458.1	408.5	14.6	5.2
	2 838.6	3 166.1	78.9	72.2
Other operating expenses and income	1 246.6	1 292.8	15.2	27.1
	7 508.3	9 622.7	94.1	99.3
Salaries of the Supervisory Board, the Board of Directors and CEOs	36.9	38.3	4.9	3.2
Bonuses to the Boards of Directors and CEOs	1.6	2.0	–	–
Members of the Board of Directors and the CEO of the Parent Company are entitled to retire at the age of 60.				
2. Depreciation				
Depreciation according to plan				
Consolidation goodwill	32.3	35.9	–	–
Other goodwill	0.7	–	–	–
Other intangible assets	22.7	36.1	–	65.0
Buildings	51.8	55.9	5.2	5.6
Machinery and equipment	329.3	432.7	2.6	2.1
Other tangible assets	11.8	13.4	0.3	0.3
Depreciation in the income statement	448.6	574.0	8.1	73.0
Total depreciation (for tax purposes)	448.6	571.9	8.1	72.3
Depreciation adjustment for the year	–	–2.1	–	–0.7
3. Financial income and expenses				
Financial income				
Dividends received	4.7	3.6	1.7	240.7
Interest income	188.3	267.7	134.3	132.6
Other financial income	24.9	–	3.7	3.5
Tax credit regarding dividends	–	1.1	0.6	80.2
	217.9	272.4	140.3	457.0
Financial expenses				
Interest expenses	–352.3	–548.3	–179.0	–259.5
Other financial expenses	–67.4	–37.9	–1.2	–3.6
Gains and losses from foreign exchange of financial items	–17.8	–65.3	–10.0	31.0
Value adjustments of shares of associated companies	–	–	–68.6	–
	–437.5	–651.5	–258.8	–232.1
	–219.5	–379.1	–118.5	224.9
Corporate internal financial income and expenses				
Corporate internal financial income				
Dividends received	–	–	–	239.0
Interest income	–	–	44.0	48.8
Other financial income	–	–	3.0	–
	–	–	47.0	287.8
Corporate internal financial expenses				
Interest expenses	–	–	–95.2	–143.6
	–	–	–48.2	144.2

Notes to the Financial Statements

(MFIM)	Corporation		Parent Company	
	1994	1993	1994	1993
4. Information on associated companies				
Share of profits or losses	43.0			
– Dividends received	-1.6			
Share of profits or losses in the consolidated income statement	41.4	–		
comprising the following:				
Share of profits or losses in associated companies	51.5			
Extraordinary income and expenses	-10.1			
	41.4	–		
Book value of shares	429.1	263.9	343.4	245.6
Share of shareholders' equity and untaxed reserves accumulated after acquisition	-1.2	–		
Share of the total amount of equity and untaxed reserve	391.0	–		
5. Extraordinary income and expenses				
Extraordinary income:				
Gains from the sale of land and water areas and buildings	4.8	5.9	–	0.3
Gains from the sale of shares and businesses	250.3	1.8	26.2	0.1
Other income	–	5.5	0.9	1.2
	255.1	13.2	27.1	1.6
Extraordinary expenses:				
Discontinuation and sale of business units	-120.9	-167.1	–	–
Effect of changes in accounting principles	-44.3	–	–	–
Share of associated companies' extraordinary items	-10.1	–	–	–
Expenses and reserves related to earlier deliveries	-104.7	–	–	–
	-280.0	-167.1	–	–
	-24.9	-153.9	27.1	1.6
6. Direct taxes				
Taxes on net income for the year:				
Taxes payable	-33.2	45.5	-14.2	–
Change in deferred tax liability	39.2	63.2	–	–
Taxes for previous years	-7.7	9.4	–	8.3
	-1.6	118.2	-14.2	8.3
7. Fixed assets and long-term investments				
Fixed assets of businesses sold during the year (Valmet Transmec and Valmet Tractors) are not included in the fixed asset balances on January 1, 1994. Fixed assets of businesses acquired during the year are included in the fixed asset balances on January 1, 1994. Exchange rate differences arising from consolidation are included in the beginning balances in this specification.				
Consolidated goodwill:				
Acquisition cost, beginning of year	281.2	371.9	–	–
+ Additions this year	7.1	9.8	–	–
– Disposals this year	-10.4	–	–	–
– Accumulated depreciation	-197.5	-224.3	–	–
Book value, end of year	80.4	157.4	–	–
Other goodwill:				
Acquisition cost, beginning of year	–	–	–	–
+ Additions this year	5.3	–	–	–
– Disposals this year	–	–	–	–
– Accumulated depreciation	-0.7	–	–	–
Book value, end of year	4.6	–	–	–

(MFIM)	Corporation		Parent Company	
	1994	1993	1994	1993
Other intangible assets:				
Acquisition cost, beginning of year	171.2	238.1	-	-
+ Additions this year	41.4	34.0	-	-
- Disposals this year	-0.1	-28.6	-	-
- Accumulated depreciation	-113.4	-125.2	-	-
Book value, end of year	99.1	118.3	-	-
Land and water areas:				
Acquisition cost, beginning of year	226.7	247.6	19.5	19.4
+ Additions this year	0.2	2.9	-	0.2
- Disposals this year	-0.4	-0.2	-	-0.1
+ Accumulated revaluations	-	33.5	-	-
Book value, end of year	226.5	283.8	19.5	19.5
Buildings:				
Acquisition cost, beginning of year	1 263.9	1 592.8	113.9	114.1
+ Additions this year	15.1	70.1	-	-
- Disposals this year	-17.5	-28.3	-	-0.1
+ Accumulated revaluations	-	135.3	-	-
- Accumulated depreciation of revalued portion	-	-15.9	-	-
- Accumulated depreciation	-420.4	-528.1	-74.8	-69.7
Book value, end of year	841.1	1 225.9	39.1	44.3
Machinery and equipment:				
Acquisition cost, beginning of year	2 981.2	4 041.8	16.1	13.5
+ Additions this year	175.3	277.6	4.5	2.7
- Disposals this year	-8.6	-116.8	-1.2	-0.1
+ Accumulated revaluations	-	182.7	-	-
- Accumulated depreciation of revalued portion	-	-89.8	-	-
- Accumulated depreciation	-2 147.2	-2 767.8	-10.7	-8.0
Book value, end of year	1 000.7	1 527.7	8.7	8.1
Other tangible assets:				
Acquisition cost, beginning of year	142.2	159.2	1.2	1.2
+ Additions this year	5.8	-	-	-
- Disposals this year	-0.6	-7.8	-	-
- Accumulated depreciation	-100.0	-100.5	-0.6	-0.3
Book value, end of year	47.4	50.9	0.6	0.9
Assets in construction:				
Acquisition cost, beginning of year	58.5	80.2	-	-
+ Additions this year	88.8	99.9	-	-
- Disposals and transfers this year	-86.3	-119.9	-	-
Book value, end of year	61.0	60.2	-	-
Book value of revaluations included in fixed assets and long-term investments:				
Land and water areas	-	33.5	-	-
Buildings	-	119.4	-	-
Machinery and equipment	-	92.9	-	-
Shareholdings	70.0	70.0	200.0	200.0
Total book value of revaluations, December 31	70.0	315.8	200.0	200.0
Property insurance values of tangible fixed assets	7 879.5	9 892.4	360.4	406.2
Taxation values				
Land and water areas	100.4	129.5	13.2	13.4
Buildings	844.2	1 146.2	63.5	65.5
Shareholdings, subsidiaries	-	-	1 857.4	1 947.1
Shareholdings, associated companies	173.5	117.5	158.8	99.2
Shareholdings, other companies	295.3	191.2	47.7	40.4
	1 413.4	1 584.4	2 140.6	2 165.6

Notes to the Financial Statements

8. Shareholdings

(The staggering of names shows the chain of ownership)

Company		Number of shares	%	Currency code and nominal value	Parent Company ownership Book value FIM 1000	Ownership via subsidiaries Book value FIM 1000
SUBSIDIARIES						
Valmet Paper Machinery Inc.	Finland	12 000 000	100	FIM	50	1 060 697
Valmet-Boustead Pty. Ltd.	Australia	4 000 000	100	AUD	1	20 643
Valmet Paper Machinery (ANZ) Pty. Ltd.	Australia	19 999	100	AUD	1	–
Valmet-Montréal Inc.	Canada	38 000 001	100			128 853
Valmet Paper Machinery Holdings Inc.	Canada	1	100	CAD	1	–
Valmet-Enerdry Inc.	Canada	520	100	CAD	304	13 782
Jylhäräisio Oy	Finland	204	51	FIM	10 000	13 257
Jylhäräisio GmbH	Germany		100			122
Jylhäräisio Inc.	USA		100			579
Roval S.A.R.L.	France	8 010	80.1	FRF	1 000	5 567
Valmet Paper Machinery France S.a.r.l.	France	98	98	FRF	100	36
Valmet Papiermaschinen GmbH	Germany	100	100			–
Valmet Papiermaschinen Ges.m.b.H.	Austria	1	100			217
Valmet Papiermaschinen Service GmbH	Germany	1	100	DEM	2 500	7 654
Valmet Papiermaschinen Vertriebs GmbH	Germany	1	100	DEM	300	919
Valmet Paper Machinery (Asia) Ltd.	Hong Kong	2	100			–
Valmac Italia S.r.l.	Italy	100	100			47 900
Rotomec-Costruzioni Meccaniche						
Ellettriche S.p.A.	Italy	3 000 000	71.5	ITL	1 000	32 523
O.M.E.A. S.r.l.	Italy	82 500	55	ITL	1 000	309
Rotomec Automation S.r.l.	Italy	1 500 000	100	ITL	1 000	4 350
Rotomec Frabelux S.a.r.l.	France	850	85	FRF	100	74
Rotomec Service GmbH	Germany	900	90	DEM	100	128
Rotomec Iberica S.A.	Spain	2 480	80	ESP	1 000	169
Rotomec America Inc.	USA	2 020	100	USD	100	395
Valmet-Gorizia S.p.A.	Italy	5 400	100	ITL	100 000	10 520
Valmet Japan Co., Ltd.	Japan	100	100	JPY	100 000	497
Valmet Pappersmaskiner Skandinavien AB	Sweden	200	100	SEK	1 000	132
Valmet Paper Machinery (UK) Ltd.	UK	9 999	100	GBR	1	181
Oulun Kumitehdas Oy	Finland	496	55.1	FIM	1 000	2 512
Oulun Norrcon Oy	Finland	8 500	100	FIM	100	–
Comroll Oy	Finland	30	100	FIM	500	–
Uhab Industrigumming AB	Sweden	486	81	SEK	1 000	–
Valmet-Tampella Inc.	Finland	7 815 800	100	FIM	20	401 513
Valmet-Karhula Inc.	Finland	140 000	100	FIM	1 000	129 032
Valmet-Carcano S.p.A.	Italy	10 000	100	ITL	1 000 000	68 327
Valmet-Singapore Pte. Ltd.	Singapore	250 000	100	SGD	1	525
Valmet Automation Inc.	Finland	3 000 000	100	FIM	60	229 991
Valmet Automation Ges.m.b.H.	Austria		100			156
Valmet Automation (Canada) Ltd.	Canada	11 186 391	100			111 979
Valmet Automation (Australasia) Pty. Ltd.	Australia	4	100			757
CPS Elektronikka Inc.	Finland	3 000	100	FIM	1 000	3 000
Kajaani Electronics Ltd.	Finland	1 500	100	FIM	10 000	20 976
Sensodec Oy	Finland	800	100	FIM	1 000	7 979
Valmet Automation Projects Ltd.	Finland	3 000	100	FIM	1 000	3 048
Valmet Fisher-Rosemount Inc.	Finland	102	51	FIM	10 000	1 020
Valmet Automation France S.A.	France	19 816	99.1	FRF	1 000	1
Valmet Automation GmbH	Germany	3 500	100	DEM	1 000	9 613
Valmet Automation K.K.	Japan	300	100	JPY	50 000	482
Valmet Automation B.V.	The Netherlands	1 700	100	NLG	100	51
Valmet Automation (UK) Ltd.	UK	200 000	100	GBP	1	1 481
Oy Saab-Valmet Ab	Finland	63 200	100	FIM	1 000	363 288

(The staggering of names shows the chain of ownership)

Company		Number of shares	%	Currency code and nominal value	Parent Company ownership Book value FIM 1000	Ownership via subsidiaries Book value FIM 1000
Valmet Aviation Industries Inc.	Finland	9 600	100	FIM	5 000	80 000
Valmet Avicomp Oy	Finland	4 740	100	FIM	10 000	50 000
Valmet Power Transmission Inc.	Finland	6 000	100	FIM	5 000	49 276
Statemet Insurance Company Limited	Guernsey	249 993	100	USD	1	1 028
Procons Data Corp.	Finland	6 000	100	FIM	1 000	5 161
Valfin Ltd.	Finland	255	100	FIM	200 000	51 000
Valmet (SEA) Pte. Ltd.	Singapore	600 000	100	SGD	1	–
Valmet Svenska AB	Sweden	750 000	100	SEK	100	106 516
Umeå Logging and Industrial Machines AB	Sweden	100	100	SEK	1 000	95
Valmet Automation (Sverige) AB	Sweden	1 000	100	SEK	100	550
Valmet-Karlstad AB	Sweden	70 000	100	SEK	1 000	43 298
Tampella Pappersmaskiner AB	Sweden	50	100	SEK	1 000	465
Valmet NV Inc.	USA	515	100	USD	1	121 624
Sensodec Inc.	USA		100			257 603
Valmac U.S. Inc.	USA		100			–
Honeycomb Systems Inc.	USA	100	100			160 064
Honeycomb Systems S.a.r.l.	France		100			59 290
Valmet-Appleton Inc.	USA	100	100			–
Valmet-Enerdry Inc.	USA	100	100			30 831
Valmet-Enerdry	USA		100			194
V.E. Investments	USA		100			–
Valmet-Charlotte Inc.	USA	100	100			–
Valmet Automation (USA) Inc.	USA		100			91 653
Valmet-Sandy Hill Inc.	USA		100			27 444
Sandy Hill International Inc.	USA		100			31 846
Valmet-Sandy Hill Services Inc.	USA		100			–
Valtra Inc.	USA		100			–
Valmet Inc.	USA		100			5 920
						47
						2 470 095
						1 431 132
Valauto Oy	Finland	10	100	FIM	5 000	51
Valmet Transportation Equipment Inc.	Finland	150	100	FIM	100	16
Valmet Services Oy	Finland	15	100	FIM	1 000	16
Valmet (East Asia) Limited	Hong Kong	3 000 000	100	HKD	1	2 242
Valfin B.V.	The Netherlands	35	100	NLG	1 000	60
A/O Valmet STP	Russia	33 806	100	SUR	1 000	118
						2 503
						27
ASSOCIATED COMPANIES						
Valmet Xian Paper Machinery Co. Ltd.	China	6	42.3			8 343
KajaaniCAD Oy	Finland	1 500	31.3			150
Oy Saab-Auto Ab	Finland	191 500	50	FIM	100	–
Oy Scan-Automotive Ab	Finland	350 000	50	FIM	100	119 715
Sako Ltd.	Finland	40 000	50	FIM	500	25 000
Sakon Kiinteistö Oy	Finland	500	50	FIM	10	4 724
Sampower Oy	Finland	1 694	36.5	FIM	1 000	8 565
Oy Sisu Ab	Finland	8 757 106	24.1	FIM	10	185 038
Oy Transtech Ltd.	Finland	6 000	25	FIM	10 000	–
Vallox Oy	Finland	1 600	40	FIM	250	400
Ateliers de Constructions Allimand S.A.	France	9 012	33.4	FRF	750	5 149
Carcom S.r.l.	Italy		49.5			142
ESI Metals Corporation	USA		35			3 406
Contur S.P.	Russia		50			1 044
						343 442
						18 234

Notes to the Financial Statements

(The staggering of names shows the chain of ownership)

Company	Number of shares	%	Currency code and nominal value	Parent Company ownership Book value FIM 1000	Ownership via subsidiaries Book value FIM 1000
OTHER					
Ekokem Oy Ab	75	0.6	FIM	2 000	150
Finnair Oy	15 600		FIM	5	733
Innopoly Oy	10 000	1.6	FIM	1 000	1 000
Kansallis-Osake-Pankki	420 000	0.1	FIM	10	3 001
Kiinteistö Oy Panuntie 6	3 917	56	FIM	10	56 224
Kymmene Oy	97 269	0.1	FIM	20	12 541
Oy Rastor Ab	140	1.2	FIM	100	2
Rautaruukki Oy	120 000	0.1	FIM	10	1 498
Repola Corporation	2 648 225	1.8	FIM	10	235 893
Sampo Insurance Company	91 122	0.7			6 633
Tamfelt Oy	181 575	4.5	FIM	20	26 286
Unitas Oy	300 000	0.1	FIM	10	4 702
Uudenkaupungin Kehityskeskus Oy	475	19	FIM	1 000	1 014
Vuotekno Oy	20	20	FIM	1 000	2 000
Impact Systems Inc.	100 000	0.1	USD	4.24	2 252
Other shares and holdings					6 205
					78 046
					298 493
Shareholdings total					2 894 086
					1 747 886

	Corporation		Parent Company	
	1994	1993	1994	1993
Book value of shareholdings				
Subsidiaries	–	–	2 470 095	2 932 044
Associated companies	361 676	263 953	343 442	245 643
Other companies	379 069	366 601	80 549	60 214
Withdrawal of depreciation of shares in associated companies	68 565	–	–	–
	809 310	630 554	2 894 086	3 237 901

Book value of shareholdings in listed companies on Dec. 31. (MFIM)	291.3	288.8	9.2	9.2
Market value of shareholdings in listed companies on Dec. 31. (MFIM)	282.8	307.8	20.3	13.7

(MFIM)	Corporation		Parent Company	
	1994	1993	1994	1993
9. Loans receivable				
Subsidiaries	–	–	398.8	512.7
Associated companies	135.5	19.0	135.5	19.0
Other companies	41.2	63.8	21.8	28.7
	176.7	82.8	556.1	560.4

10. Unfunded pension liability

Unfunded pension liability refers to that part of total pension liability which is not yet charged to income.

Voluntary additional pension liability to Valmet's Pension Fund	113.0	151.2	113.0	151.2
Parent company's additional direct pension liability	130.4	186.3	130.4	186.3
Unfunded pension liabilities, total	243.4	337.5	243.4	337.5

The unfunded pension liabilities are included in "other long-term liabilities" in the balance sheet.

The statutory pension liability was transferred from Valmet's Pension Fund to an insurance company on January 1, 1992.

Valmet's Pension Fund has been closed to new employees since 1987.

Due to the closing of the Pension Fund and according to actuarial estimates, the unfunded pension liability will decrease in the future and the remaining part of the liability will be charged to income by the end of the year 2000.

(MFIM)	Corporation		Parent Company	
	1994	1993	1994	1993
11. Receivables				
Receivables from subsidiaries				
Trade receivables, interest-bearing	–	–	–	2.8
Trade receivables, non-interest-bearing	–	–	12.6	–
Loans receivable	–	–	–	63.4
Accrued income and prepaid expenses	–	–	109.8	378.5
	–	–	122.4	444.7
Receivables from associated companies				
Trade receivables, non-interest-bearing	0.7	19.7	0.4	–
Loans receivable	7.3	–	–	–
Accrued income and prepaid expenses	1.7	–	1.5	–
	9.7	19.7	1.9	–
Receivables due later than one year				
Trade receivables, interest-bearing	30.4	212.6	7.4	5.2
Trade receivables, non-interest-bearing	8.0	32.6	–	–
Accrued income and prepaid expenses	35.1	20.7	21.9	2.5
Other receivables	1.1	0.6	–	–
	74.6	266.5	29.3	7.7
Interest-bearing receivables, total	144.1	537.1	9.2	15.7
12. Cash and short-term investments				
Cash	295.3	400.4	41.4	33.2
Short-term investments	1 564.6	1 681.9	1 379.4	1 233.4
	1 859.9	2 082.3	1 420.8	1 266.6
Short-term investments are time deposits, commercial papers, treasury bills or other securities.				
13. Shareholders' equity				
Share capital, January 1	711.0	711.0	711.0	711.0
Share issue	140.0	–	140.0	–
Share capital, December 31	851.0	711.0	851.0	711.0
Restricted funds, January 1	1 478.4	1 535.9	976.4	976.4
Issue profit	504.8	–	504.8	–
Cancellation of revaluation and transfer to retained earnings	–	–164.3	–	–
Changes in corporate structure	–455.0	–	–	–
Translation adjustment of foreign subsidiaries	–137.3	106.8	–	–
Restricted funds, December 31	1 390.9	1 478.4	1 481.2	976.4
Retained earnings, January 1	–513.6	–696.9	1 205.0	770.8
Change in untaxed reserves less deferred taxes	152.6	–	–	–
Transfer from restricted funds	–	130.0	–	–
Share of associated companies' gains and losses from previous years	–40.5	–	–	–
Changes in corporate structure	455.0	–	–	–
Translation adjustment of foreign subsidiaries	37.9	–32.0	–	–
Retained earnings, December 31	91.4	–598.9	1 205.0	770.8
Net income for the year	172.6	85.3	–91.9	434.2
Total equity, December 31	2 505.9	1 675.8	3 445.3	2 892.4
Unrestricted shareholders' equity on December 31, 1994, includes voluntary untaxed reserves and accumulated depreciation adjustment less deferred taxes	63.6	–	–	–
The amount of distributable unrestricted equity	200.4	–513.6	1 113.1	1 205.0
14. Untaxed reserves				
Untaxed reserves	–	194.5	–	80.0
Accumulated depreciation adjustment	–	163.1	3.2	3.1
	–	357.6	3.2	83.1

The laws in Finland and some other countries allow companies to defer their taxable income by allocations to untaxed reserves. In the consolidated balance sheet for 1994 the untaxed reserves and accumulated depreciation are divided into deferred taxes and equity. The compulsory reserves specified in the revised Finnish Accounting Act are included in accrued expenses.

Notes to the Financial Statements

(MFIM)	Corporation		Parent Company	
	1994	1993	1994	1993
15. Liabilities				
Liabilities to subsidiaries				
Long-term debt	–	–	285.9	307.3
Current liabilities				
Short-term part of other long-term loans	–	–	21.5	23.1
Other interest-bearing short-term debt	–	–	69.3	110.4
Accounts payable	–	–	–	2.1
Accrued expenses and prepaid income	–	–	20.1	25.6
Cash pool balance	–	–	548.6	1 107.8
	–	–	945.4	1 576.3
Liabilities to associated companies				
Current liabilities				
Accounts payable	13.4	0.8	–	–
Accrued expenses and prepaid income	0.4	–	–	–
	13.8	0.8	–	–

16. Long-term debt

Long-term debt will be payable as follows (Corporation)

Year	Bonds	Loans from financ.instit.	Pension loans	Other long term debt	Total
1996	7.7	217.4	74.0	21.0	320.1
1997	2.7	44.7	68.1	19.3	134.8
1998	102.7	31.7	63.5	59.6	257.6
1999	102.9	17.8	58.9	24.8	204.3
2000 or later	363.2	25.6	786.1	25.6	1 200.6
Total	579.3	337.2	1 050.7	150.2	2 117.3

Long-term debt will be payable as follows (Parent Company)

Year	Bonds	Loans from financ.instit.	Pension loans	Other long term debt	Total
1996	–	84.6	1.6	20.0	106.2
1997	–	2.8	1.5	18.6	22.9
1998	100.0	2.8	1.3	17.3	121.4
1999	100.0	0.2	1.2	16.6	118.0
2000 or later	340.0	4.0	18.0	213.8	575.8
Total	540.0	94.4	23.6	286.3	944.3

Bonds

Instruments	Loan period	Amount	Annual instalment
Valmet Corporation (Parent)			
Debenture	13.05.92–2002	500.0	100.0*
Debenture	08.03.94–2002	40.0	**
Valmet Paper Machinery Inc.			
Debenture	31.01.92–1996	10.0	5.0
Valmet-Appleton Inc.			
Debenture	01.05.79–2004	USD 1.9	USD 0.2
Valmet-Sandy Hill Inc.			
Debenture	1989–2009	USD 5.9	USD 0.4
Valmet-Karhula Inc.			
Debenture	04.12.87–1995	6.0	6.0

* instalments 1998–2002 ** instalment 2002

(MFIM)	Corporation		Parent Company	
	1994	1993	1994	1993
17. Accrued expenses, long-term				
Voluntary additional pension liabilities	246.3	337.5	243.4	337.5
Provisions for severance payments	0.9	2.4	–	–
Provisions for other claims and compensations	44.5	20.5	–	–
Other long-term provisions and accruals	92.6	–	80.0	–
	384.3	360.4	323.4	337.5
<p>The parent company's long-term accrued expenses for 1994 include a reserve of MFIM 80 made in the 1989 financial statements to cover compensation claims made by the Wärtsilä Marine Industries' bankruptcy estate regarding ship deliveries. In earlier years this reserve was included in untaxed reserves. Due to its nature, it has not been included in untaxed reserves when calculating either the solidity or equity per share ratios.</p>				
18. Short-term part of long-term debt				
Bonds	13.7	49.5	–	–
Loans from financial institutions	313.3	1 109.1	4.0	181.3
Pension loans	78.8	105.4	1.7	1.8
Other long-term debt	34.7	144.8	21.5	23.1
	440.5	1 408.8	27.2	206.2
19. Accrued expenses, short-term				
Accrued expenses	928.8	1 098.9	73.2	65.1
Provisions for warranty claims	116.8	104.6	0	–
Other short-term provisions and accruals	55.5	21.2	–	–
	1 101.1	1 224.7	73.2	65.1
20. Assets pledged and contingent liabilities				
Collateral on corporate debt				
Pledged receivables	5.5	85.6	0.9	4.8
Mortgages	416.0	1 193.0	2.5	21.5
Pledged shares	135.1	101.0	–	–
Total	556.6	1 379.6	3.4	26.3
Other pledges and contingencies				
Mortgages	38.7	40.2	1.7	39.9
Pledged shares	8.9	8.9	–	–
Other pledged assets	27.4	30.6	–	–
On behalf of subsidiaries				
Mortgages	–	–	37.8	201.1
Guarantees	–	–	1 867.0	3 010.9
Guarantees on behalf of associated companies				
	304.9	10.0	298.6	8.9
Other guarantees				
	37.4	69.6	34.3	29.2
Total	417.3	159.3	2 239.4	3 290.0

"Letter of Comfort" or other similar commitments have been given on behalf of subsidiaries and are not included in the figures above. The mortgage amount has been calculated as the amount of the corresponding loans. The nominal value of the mortgages is MFIM 237.9 larger than the amount of the corresponding loans. The pledged shares amount has been calculated as the amount of the corresponding loans and other commitments. The book value of the shares is MFIM 89.3 larger than the amount of the corresponding loans and commitments. Guarantees on behalf of associated companies include guarantees totalling MFIM 289 given on behalf of Valmet Transmec and Valmet Tractors which, by agreement, are the responsibility of Sisu, Inc. and the Finnish State.

21. Operating lease commitments (Corporation)

The minimum lease payments under non-cancellable, operating lease agreements:

1995	52,1
1996	40,7
1997	30,7
1998	25,6
1999	16,2
2000 and later	33,4
Total	198,7

22. Claims and disputes

Wärtsilä Marine Industries Inc.'s bankruptcy estate and the company's customers, Carnival Cruise Lines Inc. and Carnival Maritime Inc., have made legal claim for damages against Valmet Corporation. These claims contain nothing financially new, from Valmet Corporation's point of view, that departs from previously published financial statements. Increases in shareholders' capital and the transfer of assets that occurred after the founding of Wärtsilä Marine Industries Inc. transpired in accordance with the law and general accounting practice. These claims are based on unfounded allegations and biased reports made by the bankruptcy estate.

In response to the suit raised by Carnival Cruise Lines Inc. and Carnival Maritime Inc., a US federal court in Miami announced a decision on October 19, 1993 in which it declined the case. Carnival Cruise Lines Inc. and Carnival Maritime Inc. appealed against the decision to a higher court. The parties have now withdrawn their appeal, with the result that the decision of the lower court remains in force.

In a patent dispute between Valmet Paper Machinery Inc. and Beloit Corporation, a federal court in Wisconsin USA announced a decision on November 28, 1994 requiring Valmet Paper Machinery Inc. to pay Beloit Corporation damages amounting to USD 7,875,000 for patent infringements. Valmet Paper Machinery Inc. has appealed against the decision. In the same legal proceedings, one of Beloit Corporation's patents was declared invalid.

Patent lawsuits against Valmet Paper Machinery Inc. are pending in Canada and Sweden as well. In order to defend its technological advances, the company has also instigated legal proceedings concerning patent violations in the USA and England, among others.

Regarding the acquisition of Tampella Papertech Oy, a number of significant deviations from and deficiencies in the terms of the contract have been observed. According to the contract, Oy Tampella Ab is liable to compensate. As no agreement had been reached on the amount of compensation, Valmet Corporation initiated arbitration proceedings against Oy Tampella Ab at the end of 1993.

Accounting Principles

Valmet Corporation follows the accounting concepts given in the Fourth and Seventh Directives of the European Community, the principles of the International Accounting Standards Committee (IAS Standards) and the regulations of Finland's Accounting Act. Since the beginning of 1994 Valmet has also adopted the regulations of the revised Finnish Accounting Act.

Changes in accounting principles

When preparing the financial statements of Valmet Corporation for the year 1994, the revised accounting principles have been applied. The statements for the comparison year 1993 have been grouped according to the new format. Other figures for earlier years have not been changed to correspond with the new accounting regulations.

The main accounting difference affecting the Finnish companies in Valmet Corporation is the provision for warranty costs. According to the new accounting principles, the provision for warranty costs is charged to income in that period when the respective delivery is completed. According to prior practice, the realised warranty costs were recognised as accounting period costs as they were incurred. This change in accounting principles causes an additional charge to income for 1994 of MFIM 44.3, and is shown in the income statement as extraordinary expenses.

In consolidating the accounts in 1994, the income statements of non-Finnish subsidiaries have been translated into Finnish markka at the average rates of exchange for the whole year. Previously, the rates of exchange on the balance sheet date were used.

The untaxed reserves are divided into deferred taxes and equity. This change increases the amount of equity in 1994 by MFIM 63.6. In previous years, when calculating key ratios, the untaxed reserves and depreciation difference were added to equity as total amounts. In 1994, however, the deferred tax portion has been deducted. This causes a minor decrease in the level of certain key ratios in 1994.

The share of profits or losses in associated companies has been included in the 1994 consolidated financial statements. The accumulated share of associated companies' profits and losses from previous years, amounting to MFIM -42.1, is included in retained earnings on January 1, 1994.

Principles of consolidation

In the consolidated financial statements, the following accounting principles have been applied to all subsidiaries.

Subsidiaries

Business subsidiaries in which Valmet's holding exceeds 50 % are consolidated in the Corporation's financial statements. The results of subsidiaries acquired or sold during the year are included in the consolidated income statement from the date of their purchase or up to the date of their sale. The acquisition method is used in their consolidation. In calculating goodwill, the Corporation's share of the subsidiary's equity, incl. untaxed reserves, is deducted from the acquisition cost. Part of the elimination difference has been allocated to fixed assets, and part has been handled as goodwill to which a 10 % straight-line depreciation has been applied. An annual depreciation of 20% will be applied to new acquisitions starting from 1994. All inter-corporate transactions and balances have been eliminated.

Associated companies

Associated companies are companies in which Valmet's direct ownership or ownership via a subsidiary is 20-50 %. In the income statement, the Corporation's share of profits or losses of associated companies is divided into income from operations and extraordinary items. The Corporation's share of post-acquisition, retained profits and losses of associated companies is added to the cost of investments in the consolidated balance sheet.

Foreign currency transactions

In the consolidated accounts, the income statements of foreign subsidiaries are translated into Finnish markka at the average rate of exchange for the year, and the balance sheets at the exchange rate of the balance sheet date. The exchange rate difference between the income statement and balance sheet is included in retained earnings. All foreign currency transactions are recorded at the exchange rate of the date or month of origin, or at a forward contract rate, according to the nature of the transaction.

Realized and unrealized exchange rate gains and losses are recorded in the income statement as financial income and expenses and as adjustments to net sales and purchases.

Net sales and order backlog

Net sales are derived from gross invoicing, by deducting indirect taxes, discounts, freight and insurance charges on customer shipments, sales commissions, royalties and licences, provisions for bad debt on accounts receivable, and realized and unrealized exchange rate gains and losses on accounts receivable. Advances received regarding the order backlog are not deducted from the value of the order backlog.

Revenue recognition

The revenue from goods and services sold is recognised when the significant risks and obligations of ownership are transferred to the buyer, or when the service is performed. The revenue from long-term delivery contracts is recognised using the completed contract method.

Fixed assets and depreciation

Fixed assets are valued according to historical purchase price or production cost. Revaluations of certain fixed assets and long-term investments are made in some cases. Tangible fixed assets are depreciated by using the straight line method, calculated over the useful life of an asset. Typical useful life periods are:

- buildings 15-20 years
- heavy machinery 10-12 years
- other machinery 8-10 years
- vehicles, office and EDP equipment 3-5 years

Tangible fixed assets which are leased through finance leasing are recognised in the balance sheet as fixed assets and liabilities, and are depreciated according to normal depreciation policy. Other leases are recorded in the income statement as expenses for the period.

Inventories

Inventories are valued according to historical cost and are calculated on a "first in, first out" or "weighted average price" basis. If the market value is lower than the historical cost the market value is used. Historical costs include purchase costs as well as transportation and processing costs. The costs of work in progress and finished goods include direct materials, wages and salaries plus social costs, subcontracting and other direct costs. In addition, production costs include production and project administration overheads.

Short-term investments

Short-term investments are carried at market value and any gains or losses arising from changes in market value are recognised in the income statement.

Pensions and other retirement benefits

The cost of retirement benefits is accounted in the period during which the services are rendered by employees. The Valmet companies run various retirement plans in accordance with local regulations and practices. The cost of these plans is charged to income systematically and the amounts are based on actuarial calculations or on insurance companies' charges.

Accounting Principles (continued)

Part of the voluntary additional pension liability incurred in previous years is not fully funded and is recorded as a valuation item in balance sheet assets and as long-term accrued expenses. This pension liability will be charged to income by the end of the year 2000.

Research and development expenses

Research and development costs are charged to income for the period when they are incurred. If the costs are deferred under certain circumstances, systematic amortisation is made during not more than five years.

Taxes

Direct taxes are calculated on accounting period results of the consolidated companies and according to the local tax rules of each country.

In the consolidated accounts, the untaxed reserves have been divided into a deferred tax liability and equity.

Funds statement

Exchange rate differences arising from the translation of non-Finnish subsidiaries' balance sheets from different years into FIM have been eliminated in the funds statement

by using 1994 exchange rates to translate the balance sheets of 1993. Similarly, changes in corporate structure have been eliminated by deducting the balance sheets of sold companies from 1993 balance sheet values and by correspondingly adding the companies acquired during the accounting period.

Exchange rate differences arising from accounts receivable and payable in foreign currencies are included in cash generated from operations. Exchange rate differences regarding loans in foreign currencies are included in the funds statement in other financial income and expenses.

Definition of Financial Ratios and Key Indicators

(*) Solidity ratio, % =	$\frac{\text{Shareholders' equity} + \text{Minority interests}}{\text{Total assets} - \text{Advances received}} \times 100$
Return on net assets, % =	$\frac{\text{Income after financial items} + \text{Financial expenses}}{\text{Balance sheet total} - \text{Non-interest-bearing debt (average for the year)}} \times 100$
(*) Return on equity, % =	$\frac{\text{Income after financial items} - \text{Taxes}}{\text{Shareholders' equity} + \text{Minority interests (average for the year)}} \times 100$
Current ratio =	$\frac{\text{Inventories} + \text{Receivables} + \text{Cash and short-term investments}}{\text{Current liabilities}}$
Quick ratio =	$\frac{\text{Advances paid for inventories} + \text{Receivables} + \text{Cash and short-term investments}}{\text{Current liabilities} - \text{Advances received}}$
(**) Dividend / share, FIM =	$\frac{\text{Nominal dividend}}{\text{Issue-adjusted number of shares on Dec. 31.}}$
(**) Dividend yield, % =	$\frac{\text{Dividend / share}}{\text{Issue-adjusted share price on Dec. 31.}} \times 100$
(**) Earnings / share, FIM =	$\frac{\text{Income after financial items} - \text{Taxes} - \text{Minority interests}}{\text{Average number of shares adjusted for share issue}}$
(**) P/E ratio =	$\frac{\text{Issue-adjusted share price on Dec. 31.}}{\text{Earnings / share}}$
Cash Flow / share, FIM =	$\frac{\text{Income after financial items} + \text{Depreciation} - \text{Taxes}}{\text{Average number of shares adjusted for share issues}}$
(*) Equity / share, FIM =	$\frac{\text{Shareholders' equity}}{\text{Issue-adjusted number of shares on Dec. 31.}}$

(*) In calculations of this ratio in 1993 and earlier, shareholders' equity included the total untaxed reserves.

In 1994, however, shareholders' equity includes untaxed reserves net of deferred taxes.

(**) In calculations of ratios related to shares the dilution effect of the FIM 500,000 bonds with warrants has not been calculated.

Auditors' Report

We have audited the accounting records and the financial statements, as well as the corporate governance of Valmet Corporation for the year ended December 31, 1994. The financial statements, which include the report of the Board of Directors, consolidated and parent company income statements, balance sheets and notes to the financial statements, have been prepared by the Board of Directors and the President. Based on our audit we express an opinion on these financial statements and on corporate governance.

We have conducted our audit in accordance with Finnish Generally Accepted Auditing Standards. Accounting records, accounting principles and the content and disclosure of financial statements have been audited in order to obtain reasonable assurance about whether the financial statements are free of material misstatement. The purpose of our audit of corporate governance has been to examine that the Supervisory Board, the Board of Directors and the President have complied with the rules of the Finnish Companies Act.

In our opinion, the financial statements have been prepared in accordance with the Finnish Accounting Act and other rules and regulations governing the preparation of financial statements in Finland. The financial statements give a true and fair view, as defined in the Accounting Act, of both the consolidated and the parent company result of operations, as well as of the financial position. The financial statements can be adopted and the Supervisory Board, the Board of Directors and the President of the parent company can be discharged from liability for the period audited by us. The proposal made by the Board of Directors on how to deal with the retained earnings is in compliance with the Finnish Companies Act.

We have reviewed the interim reports made public by the company during the year. It is our understanding that the interim reports have been prepared in accordance with the rules and regulations governing the preparation of such statements in Finland.

Helsinki, February 20, 1995

Heikki Vesa
Chairman

Erkki Mäki-Ranta, *Approved Public Accountant*
KPMG Wideri Oy Ab/
Heikki Koskelainen, *Authorized Public Accountant*

Statement by the Supervisory Board

The Supervisory Board of Valmet Corporation has examined the financial statements and Auditors' Report of the Company for the year 1994 at its meeting today.

The Supervisory Board hereby states as its recommendation to the 1995 Annual General Meeting that the Income Statement and Balance Sheet for the year 1994 be adopted and that the profit be handled in the manner proposed by the Board of Directors.

The term of office for Supervisory Board Chairman Pentti Mäki-Hakola and members Bengt Hellström, Matti Korhonen,

Johannes Leppänen and Jussi Niemi expires at the end of the 1995 Annual General Meeting.

Supervisory Board member Sauli Niinistö resigned from the Supervisory Board during the course of the financial year, and member Aimo Pajunen has requested resignation from Supervisory Board membership from the 1995 Annual General Meeting.

Helsinki, February 22, 1995

Pentti Mäki-Hakola, *Chairman*
Teuvo Kinnunen
Bengt Hellström
Marita Jurva
Hannu Kemppainen
Matti Korhonen
Jarmo Leppiniemi

Johannes Leppänen
Leena Luhtanen
Markku Mäkinen
Jussi Niemi
Aimo Pajunen
Ralf Sund
Markku Vuorensola

Paper and Board Machinery

Global paper consumption continued to grow at a slightly faster rate than forecast. It has now practically cancelled out the extensive over-capacity that prevailed at the turn of the decade. According to advance figures, the consumption of paper and board grades grew by about 9 million tonnes in 1994, which is over 3 % higher than 1993. Although consumption increased in all grades, the strongest growth was in highly-processed coated grades.

Key Figures, MFIM	1994	1993
Net Sales	5 470	5 249
Operating Income	235	182
Total Assets, Dec. 31.	5 242	6 496
Personnel, Dec. 31.	8 193	8 103
Order Backlog	5 080	4 316
Investments and R&D	310	316

Board of Directors 1995

Matti Sundberg, *Chairman*
 Mauri Jaakonaho, *Vice Chairman*
 Seppo Holkko, *President*
 Juhani Riutta
 Pekka Niemi
 Erkki J. Partanen
 Harri Ristola

The on-machine coater of a board machine delivered to Australian Paper Ltd. The Petrie Mill has three AutoBlade coating stations and two Optimip soft calenders.

Market situation has improved

Paper mill production has increased considerably, and capacity utilization at European and North American mills was high throughout the year. Production volumes in Asia rose appreciably, due mainly to the commissioning of new capacity. Growth in demand and the contraction of pulp stocks caused the price of pulp to rise sharply. Paper prices also increased on many occasions.

As a result of these factors, markets for forest industry machinery picked up. In the traditional markets of Europe and North America, customer mills are investing mainly in rebuilds, aimed at increasing capacity or improving quality. Machine investments in Asia have focused mainly on complete production lines.

The improvement in the market prospects of customer products has not yet significantly raised the prices of machinery and equipment, because competition has continued to be extremely tight in all market areas. In addition, the main competitors have attempted, through acquisitions and alliances, to expand their product ranges to the same extent as Valmet, which currently leads this trend.

Orders up on the previous year

Orders received during 1994 totalled MFIM 6,827, which is 33 % more than in the previous year. The value of the order backlog at year's end was MFIM 5,080, or 18 % up on the previous year.

The number of complete machines ordered was 17, compared with the previous year's total of seven. Eight of the new orders came from Asia. During the slack demand of the early 1990's, Asia developed as a counterbalance to Valmet's traditional markets in Europe and North America.

Two of the machines ordered were printing paper machines for the Hankuk and Hansol Groups in Korea. In recent years Korea has become one of Valmet's more important trading partners. Two pulp drying lines were also ordered - one for Metsä- Rauma's new pulp mill in Finland and the other for Kiani Kertas in Indonesia.

The demand for board machinery grew appreciably. Of the six machines ordered, three are for delivery to the United States and three to Asia. All use recycled fiber as the main raw material. The largest of the machines are linerboard-making lines for the American companies, International Paper and Georgia-Pacific. The other orders came from Thailand, Taiwan and India.

The markets for tissue machinery continued to be lively. Seven complete machines were ordered. The machine

ordered by Procter & Gamble of the USA was one of the largest tissue machine sales Valmet has made. The two machines sold to Mexico and an order received from Israel were new market conquests.

Valmet also obtained orders for numerous large machine rebuilds. The most significant were a folding boxboard machine for Metsä-Serla's Tako mill, a linerboard machine for Mexico's Industria Centauro, a newsprint machine for MacMillan Bloedel in the USA, a board machine for Sweden's Iggesund, a linerboard machine for Canada's St. Laurent Paperboard, a fine paper machine for Korea's Hankuk and an LWC machine for Stora Feldmühle in Germany.

The markets for paper finishing machinery developed favorably. The largest individual order was a complete finishing line for Thailand's Advance Agro including two supercalenders, three winders, two rereelers, a roll wrapping machine and roll conveying system. Valmet gained numerous orders for large rebuilds of coaters, especially from Scandinavia. The market share of roll finishing systems grew considerably due to new market conquests.

Air systems sales focused on the dryer sections of new machines, as well as on many dryer section rebuilds aimed at improving runnability and total operational quality. The stock prepa-

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An extensive rebuild of a board machine belonging to Oy Kyro Board and Paper Ltd. in Finland included three closed hoods in the dryer section, an open hood in the coating machine and a high-velocity hood on a new MG drying cylinder.

The newsprint line of Sachsen Papier Eilenburg GmbH & Co. was one of the largest complete deliveries during 1994. The mill, situated in eastern Germany, uses locally-collected, recycled newspapers as its raw material.

Paper and Board Machinery (continued)

ration equipment that was added to Valmet's product range two years ago extended its market area considerably. The largest single order in this sector was received from South Korea.

Innovations succeeded

Paper industry investments have focused mainly on increasing production efficiency and improving the quality of the end product by means of rebuilds. Valmet continued to invest heavily in research and development during the recession, and the resulting completely new or improved products have played a decisive role in the sales successes of recent years.

New coating solutions improving paper surface properties, such as the Sym-Sizer size press, the Optisoft calender and coaters based on air knife technology, have proven to be sales assets. The size presses, of which over 70 have been sold during the 1990's, improve printing properties and have resulted in the introduction of new paper grades to the market. Due to the more than ten Optisoft calenders sold in 1994, Valmet has substantially increased its market share in this difficult area.

Two of the most important innovations at the paper machine wet end were the Speed-Former gap former for board grades and the dilution headbox. The Sym-Belt shoe press continued to prove itself in raising board machine productivity in 1994. The Frövifors Board Mill in Sweden, owned by Assi Domän, achieved a world record when its Sym-Belt operated for 502 days without a belt change.

A remarkable product innovation at the dry end, the Optireel, continues to be technologically unique and has strengthened its position as the leading reel on the market. The Condebelt method, developed for the dryer section of board machines, was first applied in production as part of a rebuild program for Enso-Gutzeit's Pankakoski Mill.

Work continued as planned on an extension to the research center at Jyväskylän, Finland. This investment of over FIM 150 million aims at meeting the needs of the early years of the next century.

Net sales grew

During 1994 a total of 10 complete paper, board and pulp drying machines were delivered, three of them for South Korea. Other deliveries went to South Africa, China, Mexico, Germany, Venezuela and the United States. The largest delivery was a recycled-fiber-based newsprint machine with finishing lines delivered to Sachsen Papier, owned by Enso-Gutzeit. It started up ahead of schedule at the end of August and achieved target values in start-up speed and output in record time. A boardmaking line delivered to Riverwood International in the USA also clearly exceeded the customer's original targets.

Large deliveries in 1994 included a pulp drying line for Sappi Saiccor in South Africa, a newsprint machine for On Yang and a fine paper machine for Hankuk in South Korea, a large rebuild of a fine paper machine for the Schwedt in Germany and a large rebuild of a folding boxboard machine for Kyro in Finland.

A large, complete pulp drying line with finishing equipment was delivered to Sappi Saiccor in South Africa.

Schwedt Papier und Karton GmbH in Germany is one of the customers of the new Optisoft calenders.

The share of paper finishing machinery in the deliveries of 1994 was considerable. Service and maintenance operations are becoming increasingly important; in 1994 they were responsible for 17 % of paper and board machinery net sales.

Restructuring of marketing and service

The main goals of marketing development in 1994 were to make the existing sales network more efficient by combining the sales of paper, board and tissue machines and of automation into the same offices, and to consolidate Valmet's position in new, growing markets by establishing new offices and strengthening resources in existing ones.

The most extensive changes occurred in the USA and Canada. They involved the concentration of the whole paper and board machinery range, and the reorganization of sales and service on a regional basis. Sales and service operations were combined in the same way in German-speaking Europe at the beginning of 1995.

As a result of the growing importance of service in recent years, a Product Group was formed from both the traditional service units and several other former profit units. Ambitious growth targets and a corresponding investment program were prepared for the whole Group. New service centers were set up in all the main market areas in Europe, North America and Asia. A customer service network is being established for the growing markets of Asia. Valmet's existing range of ceramic and hard metal roll coverings was complemented by rubber roll coverings as a result of the acquisition of the Finnish company Oulun Kumitehdas Oy. Roll service can now meet the needs of all types of rolls used in papermaking.

More customer-oriented production

An essential part of the restructuring carried out in Valmet in the spring of 1994 was a changeover to customer-oriented assembly and component workshops. The production concept is based on process management. This means that each production plant produces parts of the total product for delivery to the customer, as part of one organization with combined purchasing, design and production.

The new production model divides operations into several parallel component and assembly workshops, whose production of parts of a long-term project shortens lead times, improves total quality and reduces the number of organizational levels. The first, encouraging results of the changes are already visible.

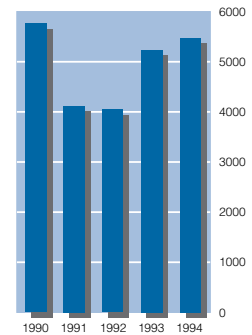
Outlook for 1995

It is generally expected that rising trends in the paper industry will last for at least the next two years. Improved profitability in the mills and the competition to maintain market shares will encourage investment. There are clear signs in Europe and North America of a growing demand for machine rebuilds in particular, while in Southeast Asia many new projects for complete paper machines are announced every year.

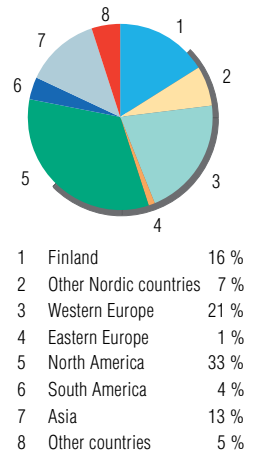
Net sales in 1995 will be clearly higher than the previous year, due to the greater number of machines reaching the delivery stage. Although increased efficiency will raise profitability, a growth in external subcontracting due to high work loads in Valmet workshops will cause additional pressure on costs. The financial result will further improve.

The technical and functional quality of Valmet's roll covers is continually controlled in laboratories and real production conditions.

Net Sales, MFIM



Net Sales by Market Area



Valmet Automation

Valmet Automation's delivery projects increased during 1994 and net sales were 4 % higher than in the previous year. The intake of new orders was 18 % up on 1993. Operational growth was greater than these figures show, due to the strengthening of the Finnish markka compared with the main invoicing currencies.

Key Figures, MFIM	1994	1993
Net Sales	1 023	980
Operating Income	80	77
Total Assets, Dec. 31.	804	860
Personnel, Dec. 31.	1 560	1 443
Order Backlog	731	634
Investments and R&D	104	90

Pulp mills all over the world use Kajaani's Kappa Analyzer when transferring to non-chloride pulp production.

Board of Directors 1995

Matti Sundberg, *Chairman*
 Mauri Jaakonaho
 Markku Kangas, *President*
 Heikki Keränen
 Jouko Pajunen
 Risto Raiskila
 Jorma Viitanen

Net sales exceeded MFIM 1,000

Net sales in 1994 were MFIM 1,023, or 4 % higher than one year earlier. Invoicing increased most in North America, where system deliveries grew by more than one fifth. The figures for 1994 include the new Sensodec business unit.

Markets reviving

The revival of process and energy industry markets towards the end of 1994 was clearly reflected in an increase in the number of offer requests. The value of new orders booked by Valmet Automation was over 18 % higher than the previous year, while the order backlog at year's end was 15 % higher. The favorable trend was due not only to the more lively demand, but also to a strengthening of the global distribution network. Valmet Automation opened a new sales and customer service unit in Durban, South Africa, for example.

All the business units gained more orders compared to 1993. The strongest growth occurred in the northern and eastern European regions.

Pulp and paper industry investments increased

Oy Metsä-Rauma Ab ordered a millwide control system for its new Rauma pulp mill. Valmet is supplying an innovative control system based on fuzzy logic for the mill's recovery boiler. JP International Oy ordered a millwide control system for the Nanning pulp mill in South China.

Valmet expanded its market share in paper quality control systems. Process and quality control systems were ordered by the following American companies: International Paper in Louisiana, Chesapeake Paper Products Company in Virginia and Fraser Paper in Maine. Loreto Y Peña Pobre from Mexico ordered a tissue machine control system. Valmet is delivering several quality control systems to Mondi Paper Co. Ltd. in South Africa. Concerning Europe, significant orders were received from PWA Waldhof GmbH in Germany, Arjo Wiggins Appleton in Belgium, and Neusiedler and SCA Laakirchen in Austria. Sensodec agreed on deliveries to the P.T.Kertas Tjiwi Kimia company in Indonesia and the On Yang Pulp company in Korea.

The Measurements business unit strengthened its position in Asia's fast-growing markets. Hansol Paper Co. Ltd. made a major order of measuring instruments and analyzers for its Daejon Mill in Korea. An order of similar size was delivered to Sachsen Papier Eilenburg GmbH in Germany. Operations in Japan continued to be successful, despite low investment activity in the country's pulp and paper industry.

Stronger position in energy automation

The strong growth in the automation of energy production and environmental protection processes continued. Control, management and reporting systems were ordered by John Brown Engineering UK. The systems were installed in two new combi power plants in England. Numerous orders for the automation of power plants and desulphurization plants were obtained from Finland and especially from the Czech Republic for the Hodonin, Punerov and Pocerady power plants.

The Sage Systems unit, which supplies supervisory control and data acquisition (SCADA) systems, gained all significant SCADA orders for oil and gas pipelines in North America in 1994. Orders were obtained from Arco Pipe Line Co., Marathon Pipe Line Co. and Chevron Pipe Line Co. In addition, Sage agreed on the delivery of two major SCADA systems for the Petrobras company in Brazil.

New products

Valmet Automation cooperated with the paper machinery units to develop integrated paper profile controls and actuators for better quality control in papermaking. Many process control applications were also developed for the needs of pulp and energy production.

The latest version of the Damatic XD control system was launched in September. System innovations include the Motif user interface, which facilitates the introduction and practical learning of new production plant applications.

An Automation Lifecycle Management (ALMA) system was developed in cooperation with the Finnish AIM organization.

In January 1995, Valmet Automation launched a unique paper quality control system based on distributed measurement. Known as PaperIQ, it is compatible in its software with the Damatic XD.

In process measurement there has been a clear trend towards the development and

delivery of product packages aiming at the wet end control of the paper machine. Newly-developed retention and fiber measurement systems complement earlier systems for the control of pulp consistency and bleaching, in which Valmet is the market leader.

Automated paper testing system PaperLab has been used for the first time for board quality measurements.

Sensodec completes the range

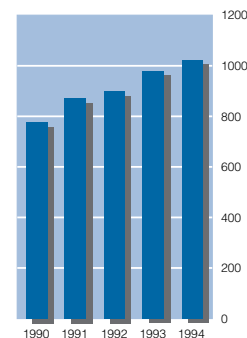
Sensodec, a supplier of paper machine runnability and condition monitoring systems, was transferred from Valmet Paper Machinery to Valmet Automation. The closer relationship with Automation brings synergetic advantages especially in system intergration, sales and service. Sensodec is the world market leader in its field.

The outlook for 1995

The trend towards greater activity seems to be continuing in the process industry, and is particularly strong in the pulp, paper and energy sectors. Environmental protection investments continue to be lively in all industrialized countries, with the most rapid growth occurring in eastern Europe.

Valmet Automation is technologically and operationally well-prepared to meet the challenges of growing markets. The new products and continuous investment in R & D have strengthened the unit's position as a leading global supplier of process measurement and control systems.

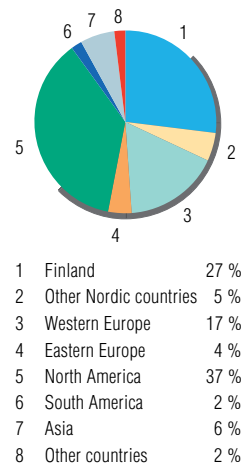
Net Sales, MFIM



Control systems for processes related to environmental protection have strongly increased their share of Valmet's business in recent years.

PaperIQ, based on distributed measurement, is compatible in its software with the Damatic XD.

Net Sales by Market Area



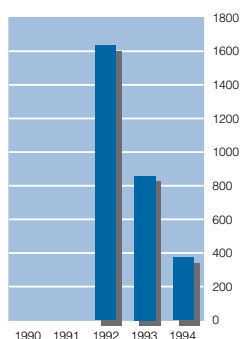
Saab-Valmet

Saab-Valmet's production was almost double that of the previous year. Free capacity remains, however, as the plant is operating mainly in one shift. Even at current capacity the Group's financial result was positive, due to the adaptational measures taken.

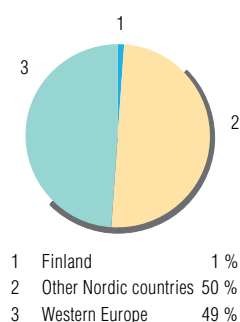
Key Figures, MFIM	1994	1993
Net Sales	381	861
Operating Income	92	74
Total Assets, Dec. 31.	638	810
Personnel, Dec. 31.	867	514
Investments and R&D	24	29

Starting from 1994, the net sales figure expresses only the value added in assembly work done on materials owned by the principals.

Net Sales, MFIM



Net Sales by Market Area



Board of Directors 1995

- Matti Sundberg, *Chairman*
- Juhani Riutta, *Vice Chairman*
- Jorma Halonen
- Mauri Jaakonaho
- Juhani Linnoinen, *President*

Production grew

The success story of Saab-Valmet's first convertible continued for eight years. Its successor, the new Saab 900 Cabriolet, was launched in April with exclusive production rights. Demand for the new Saab convertible has been lively.

Saab-Valmet was involved in international cooperation to develop the car, and its experts played a central role in the car's design. Due to the high demand and despite the late start of production, the convertible set a new annual production record. At best, 85 convertibles are produced per day.

Production of the Opel Calibra also grew. Valmet Corporation and Adam Opel AG agreed in January that about half of all Opel Calibras will be made by Saab-Valmet until the end of the car's lifecycle.

The Uusikaupunki plant produced 18,000 automobiles in 1994, compared with 11,000 the year before. Approximately 300 laid-off employees were recalled in the spring due to the increase in production. The contracts of other employees, who had been laid off for long periods, were terminated in the fall. As processes and automobiles are developed, the productivity of the current personnel will rise.

Automobile markets are reviving

Personal car sales have begun to rise in both Europe and the United States, and this growth is forecast to continue until the end of the decade. 12 million cars were sold in Europe in 1994; half a million more than in 1993, but still one and a half million less than in 1992.

About half of the Saab convertibles are sold in the United States and the rest mainly in Europe. European demand has been liveliest in Italy, England and Germany. Opel Calibra sales have fallen a little. The German economic revival may stimulate the demand for coupé models, however.

Finland's membership in the EU and the revival of European car markets have stimulated car manufacturers' interest in cooperation with Saab-Valmet. Negotiations with these manufacturers on the development and production of new models have become more active. A new, significant competitive factor is the ISO 9001 certificate granted for the car plant's design and production processes at the beginning of 1995. Value added and profitability will be maintained at the 1994 level.

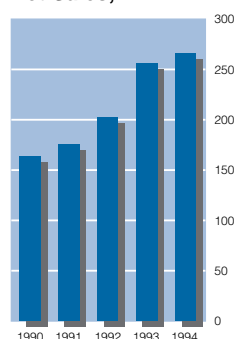
Convertibles are Saab-Valmet's main area of expertise. The new Saab 900 Cabriolet has been well-received on the markets.

Aviation Industries

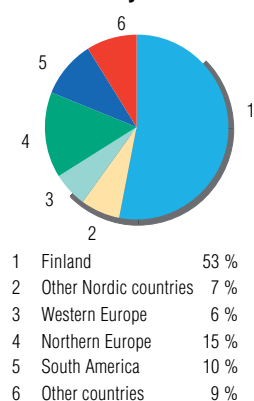
Key Figures, MFIM	1994	1993
Net Sales	266	256
Operating Profit	-36	-1
Total Assets, Dec. 31.	389	483
Personnel, Dec. 31.	957	1 047
Order Backlog	518	485
Investments and R&D	11	21

The air surveillance version of the Saab 340 aircraft, equipped with a radar box supplied by Valmet Avicomp, made its first flight in 1994.

Net Sales, MFIM



Net Sales by Market Area



General market situation

The worldwide recession in civil aviation is gradually easing off. In the final months of the year many manufacturers began to obtain orders. The slump continues in military aviation, however, with sales occurring from stock. Programs vital to Valmet Aviation Industries, and related to the Finnish Air Force's acquisition of F/A-18 Hornet fighters, have proceeded as planned. Saab Aircraft has gained further orders since the solution of problems in its Saab 2000 commercial aircraft.

Improved profitability through revitalization

In order to raise competitiveness and materially improve business profitability, Valmet Aviation Industries changed its operating methods and cut costs in a process lasting almost the whole year. A parallel aim was to create more customer-oriented service. Over-capacity was eliminated and employees were encouraged to diversify their skills.

A decision was made in December to discontinue the Redigo training aircraft business due to its unprofitability. Maintenance and spare parts required by existing Redigo customers were transferred to the Maintenance organization. Many Redigo employees were relocated to other businesses within Aviation Industries, mostly to the Saab 2000 and Hornet projects. Dismissals could not be avoided, however.

Maintenance met targets

The Maintenance business met its budget and customer quality targets, and kept to delivery schedules. A notable order was gained from the Finnish Air Force concerning the delivery of a data flow system for the F/A-18 fighters.

Despite restricted defence expenditure, the order backlog for 1995 is expected to be satisfactory. Granting of a JAR 145 permit by the aviation authorities allowed diversification into the maintenance and repair of Super Puma helicopters used by Finnish border guards. Diesel repairs were directed at civilian customers as well as the Finnish Navy. Austria ordered modifications to its Draken fighters.

The emergence of design problems in the control system of Saab 2000 commercial aircraft led to a halt in empennage deliveries for several months. Deliveries restarted in the second half of the year when the problems were solved, and the empennage order backlog for 1995 shows clear growth.

The first F/A-18 side panels were delivered to McDonnell Douglas in the spring, as part of the Hornet cooperation. The first composite-constructed radar boxes for radar surveillance aircraft were delivered to Ericsson Radar Electronics AB.

Improved outlook

Based on the backlog of orders due for delivery in 1995, Valmet Aviation Industries will show a positive financial result. The Hornet project deliveries, scheduled for the rest of the 1990's, guarantee steady work in addition to the more traditional aircraft maintenance business.

Board of Directors 1995

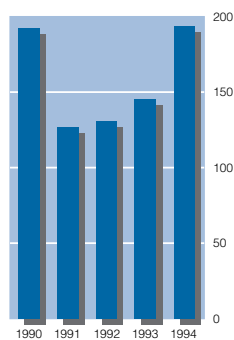
Juhani Riutta, *Chairman*
 Hannu Korpisaari, *Vice Chairman*
 Leo Lahtinen
 Seppo Laine
 Juhani Markula, *President*

Power Transmission

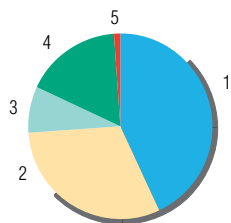
The net sales of Valmet Power Transmission were over 30 % higher than in 1993. Growth occurred in all product groups, but was greatest in the drive equipment group serving the wood processing industry. Net sales and order backlog grew so quickly in the second half of 1994 that end-of-year figures exceeded the best results of the early 1990's. Power Transmission's financial result was positive and showed uniform progress in all product groups.

Key Figures, MFIM	1994	1993
Net Sales	194	145
Operating Income	22	19
Total Assets, Dec. 31.	188	160
Personnel, Dec. 31.	361	360
Order Backlog	111	77
Investments and R&D	16	14

Net Sales, MFIM



Net Sales by Market Area



1 Finland	43 %
2 Other Nordic countries	31 %
3 Western Europe	8 %
4 North America	17 %
5 Other countries	1 %

Board of Directors 1995

Juhani Riutta, *Chairman*
 Hannu Korpisaari
 Leo Lahtinen

President
 Erkki Pylvänäinen

Markets

The markets for gears and mechanical drive systems have picked up in Finland and the other Nordic countries. Quotations and orders increasingly concern wood processing industry projects. Demand has also increased in other fields of heavy engineering. Service is a growing area.

The rapidly recovering demand for off-road vehicles such as logging machines has sharply increased the need for hydraulic motors. Rising exports and the global sales network that has resulted from cooperation with Sauer Sundstrand are reflected in full workloads.

New business area in pollution-free energy production

Three years of intensive marketing and customer-oriented product development with wind energy producers and equipment manufacturers led to significant deliveries in 1994 and a multiple growth in order backlog for 1995.

Operational development, new products

Power Transmission has operated with the ISO 9001 certificate since the start of 1993. It was one of the first units in Valmet to start the Malcolm Baldrige program at the beginning of 1994.

Product development was promoted by organizational changes and by investment in research and testing equipment.

Good results were achieved in gear development by improving cost structure and quality. New products included speed-increasing gears for energy production and drive gears for the dryer section.

A new generation of hydraulic motors was launched.

Investments

Power Transmission's profitability trend and the very realistic growth potential in different businesses necessitated investment decisions in 1994 exceeding FIM 30 million. These investments met the need for greater capacity, and also improved productivity and competitiveness.

Outlook for 1995

The outlook for 1995 is positive. Power Transmission's order backlog at the end of 1994 was more than a third higher than one year earlier. Net sales will increase. Despite some risks in the prices and availability of materials, operational profitability is expected to further improve.

The power transmission of the turning wheels on this high-speed forklift truck has been constructed with Valmet's Black Bear hydraulic motors.

Associated Companies (50 %)

Oy Scan-Automotive Ab, Group

The sales of heavy trucks weighing over 16 tonnes doubled in Finland in 1994. The total market grew by 115 %, from 655 to 1,408 vehicles. Scania's market share grew by more than two percentage points, from 27 % to 29 %. Scania registrations grew faster than the total market, at 132 % from 177 to 410 vehicles.

The total Finnish market for heavy buses weighing over 12 tonnes increased by 12 % from 170 to 191 vehicles. Scania's market share grew by six percentage points, from 27 % to 33 %. Scania registrations grew from 46 to 63 vehicles.

MFIM	1994	1993	Change %
Net sales	1050	643	63.3
Income before allocations and taxes	31	-40	+
Investments	53	38	37.0
Personnel 31.12.	533	532	0.02

Board of Directors

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Lars V. Kylberg, *Vice Chairman*
Jorma Halonen, *President*
Mauri Jaakonaho
Urban Erdtman
Juhani Riutta
Juhani Linnoinen
Leif Östling

Owners

Valmet Corporation 50 %
Scania AB 50 %

The Sako Group

The year 1994

The Sako Group's persistent actions to concentrate its businesses in terms of production and locality brought positive results in 1994. Net sales reached MFIM 232, and the income before allocations and taxes exceeded expectations. Exports and foreign operations accounted for a good 47 % of net sales.

Hunting and sports weapons

Concentration of the weapons business at Riihimäki substantially improved cost effectiveness in production, while the purchase of a majority stake in the American company Stoeger Industries Inc. strengthened Sako's position in North America, its major market for hunting and sports weapons. The success of Sako's well-known brand products, Sako and Tikka, continued. The Sako Finnfire small-bore hunting rifle was very well-received by the markets.

Defence equipment

Defence equipment – assault rifles and ammunition materials – still accounts for a significant part of the Sako Group's net sales. Public sector savings measures have affected the domestic purchases of the Finnish Defence Forces, however, making long-term planning of activities more difficult.

The pressure on prices, due to the savings measures, has made imported goods from cheap-labor countries more competitive in Finland. A streamlining of export permit practices related to Finnish defence equipment has made it somewhat easier to work in export markets, although competition continues to be very hard. Finland's EU membership and the Nordic

countries' framework agreement on cooperation in the defence equipment area may, in time, open up new opportunities for Finnish industry.

Outlook

Sako's success in hunting and sports weapons' markets derives from its high quality products and extremely effective global brand marketing. In this product sector the development of Sako's own production, trading products and production under licence also lays a good basis for future competitiveness.

The dependence of the defence equipment sector on the purchases of the Defence Forces continues. Success cannot be ensured solely by reliance on exports, and defence appropriations seem likely to contract further in the coming years. The securing of an acceptable level of business in Finland in the final years of the decade will require growing international and inter-company cooperation, as well as close dialogue with the main customer, the Defence Forces.

MFIM	1994	1993	Change %
Net sales	232	230	0.9
Income before allocations and taxes	36	11	227.3
Personnel 31.12.	435	427	1.9

Board of Directors 1995

Matti Sundberg, *Chairman*
Tapio Hintikka, *Vice Chairman*
Juhani Riutta
Petteri Walldén

President
Henry Paasikivi

Owners

Valmet Corporation 50 %
Oy Nokia Ab 50 %

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The Annual General Meeting 1995

The Annual General Meeting of Valmet Corporation will be held in Hall A of the Congress Wing of Finlandia Hall, at Karamzininkatu 4, Helsinki, on Thursday, March 23, 1995, starting at 11 am.

Shareholders who intend to participate in the Annual General Meeting must register in advance, either at room 681 of the Corporation's headquarters at Panuntie 6, 00620 Helsinki, or by telephone at +358 (0) 7770 5601, by fax at +358 (0) 7770 5586, or by mail. All such notifications, including written ones, must be received no later than 4 pm on Monday, March 20, 1995. Shareholders are kindly requested to forward proxies, if applicable, so as to reach the Corporation before the above deadline.

Notice of the Annual General Meeting will be given in the following Finnish newspapers: Helsingin Sanomat, Kauppalehti and Hufvudstadsbladet.

Financial reports

Valmet Corporation will publish two interim reports in 1995. The report for the period January 1 – April 30, 1995 will be published in week 23 (on June 5, 1995), and the report for the period January 1 – August 31, 1995 in week 40 (on October 2, 1995).



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