

VALMET

Key Figures

MFIM	1991	1992	1993	1994	1995
Net sales	7 666	9 645	10 676	8 328	8 574
Net sales change, %	-24.2	25.8	10.7	-22.0	2.9
Exports and international operations	5 021	7 376	8 838	6 753	7 208
Exports and international operations, % of net sales	65,5	76,5	82,8	81,1	84,1
Orders booked	7 342	10 953	10 972	8 928	12 131
Order backlog, December 31	3 985	5 644	5 907	6 381	9 699
Operating income	-471	171	479	371	530
Income after financial items	-616	-298	100	203	637
Income before taxes	-692	-219	-54	178	718
Net income for the year	-635	-120	85	173	655
Capital expenditures	623	1 209	447	266	461
Research and development	234	256	295	300	374
Number of personnel, December 31	14 508	17 204	15 716	12 146	12 808
Shareholders' equity and minority interests	1 891	1 921	1 993	2 533	3 094
Balance sheet total	9 956	12 200	11 766	8 905	9 641
Solidity ratio, %	21.0	17.9	19.2	33.3	40.6
Return on net assets, %	-0.4	6.5	9.2	9.4	16.0
Return on equity, %	-28.3	-17.7	10.7	8.7	20.7
Earnings / share, FIM	-21.79	-11.71	5.45	5.00	13.48
Dividend / share, FIM	-	-	-	1.00	3.50¹⁾
Market value of shares, Dec. 31, MFIM	537	1 244	2 453	3 830	4 638

¹⁾ Proposal by the Board of Directors

The Annual General Meeting

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 March 25, 1996, starting at 12.00 am.

Shareholders who intend to participate in the Annual General Meeting must register in advance, either at room 686 of the Corporation's headquarters at Panuntie 6, 00620 Helsinki, by phone +358 0 7770 5601, by fax +358 0 7770 5586 or by mail. All such notifications, including written ones, must be received no later than 4.00 pm on Wednesday, March 20, 1996. Shareholders are kindly requested to forward proxies, if applicable, so as to reach the Corporation before the above deadline. Shareholders, who have entered their shareholdings in the Book Entry Securities System, are eligible to participate if their shares are registered in their own name by March 15, 1996.

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

Financial reports

Valmet Corporation will publish two interim reports in 1996. The report for the period January 1 – April 30, 1996 will be published in week 23 (on June 4, 1996), and the report for the period January 1 – August 31, 1996 in week 40 (on October 3, 1996).

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A good year for Valmet



Valmet Corporation into the world's lead-machines and foremost expert in related nced according to plan in recent years. in meeting the expectations of our cus-lders. Our personnel has also been fully ange process.

ng methods introduced are reflected in onger financial performance. Profitability :ructure are clearly better. Our increased ance of profitable operation and the abil-r needs in all market areas.

ly thank the whole personnel for their rk and determined efforts. As a result, e gained not only our customers' trust, lso many extremely important new cts. There are always risks involved in e projects, and the customer must be e to rely implicitly on the main supplier's ills and commitment.



Valmet's natural goal is to be the technological leader in its own field. This can be achieved by significant investments, by close cooperation with customers and by the correct focusing of resources.

The new pilot paper machine in Jyväskylä is essential to the fulfilling of customer needs in the best possible way. The machine incorporates the most advanced technology available, may be easily adapted to many purposes and has been designed for speeds in excess of 2,500 m/min. It is a good example of what can be achieved through long-term development work. Many of its technical solutions have their roots in a new generation paper machine project of some years back, and have been aided by Valmet's solid expertise in process automation.

At the bottom of all operational success, including product development, is competence in core areas. This includes, for example, the thorough knowledge that Valmet possesses of paper grades and their structures.

Valmet works in continuous cooperation with its customers. Together we strive to improve production, to give higher priority in practice to environmental factors, and to develop paper grades that meet customer needs more completely.

One of Valmet's goals has always been a refocusing of resources away from the mere development of machines to

the comprehensive development of the whole papermaking process. Now, attention is also being paid to servicing these processes.



Valmet's production organization was revamped in 1995. Valmet Production Systems (VPS) is a chain formed not only of the Corporation's own product shops, but also its main subcontractors worldwide. The desire to provide top-grade customer service and to improve efficiency, quality and profitability were the main factors behind the reorganization.

The basic principle is product-oriented process management. Thus, individual product shops independently produce a part of a whole machine or components for it. The product shops, e.g. headbox or suction roll shops, continually match their efficiency and product competitiveness against external suppliers.

The redistribution of production has eliminated overlapping operations in different locations. This rationalization and the bringing of production nearer the customer will be continued according to an agreed program.

Valmet's own production will focus increasingly on the critical parts and components required in papermaking. Currently, 35–40 % of Valmet's production can be subcontracted, if necessary.



We see no unsurmountable challenges in the future, to which we are unprepared to respond. I have been pleased to observe that Valmet employees have both the ability and the desire to face change. This will be essential in the future, for as the world around us changes, so will we also need to check our course from time to time. Only through change can we adapt to international markets and ensure our competitiveness under all circumstances.

Worldwide trends in paper consumption are crucial for Valmet. Despite the advances made in electronic communications, world paper consumption is still forecast to grow by 2–3 % per annum.

In practice, paper consumption will, for some time to come, continue to increase at least at the same rate as in the past few decades. In Valmet's new markets in Asia and South America, paper consumption is estimated to grow significantly in the near future. For this reason, Valmet is stepping up investments in marketing and customer service in these regions.

The ability to benefit from cyclical fluctuations in the forest industry has become a matter of critical importance for Valmet in its current structure. It is aided by the fact that we have strengthened our capital structure and that it is still improving.

In recent years the Corporation has invested heavily in service and component operations and in paper machine rebuilds. This will continue. Service and component operations help both Valmet and our customers to balance out cyclical variations.

Valmet Service has adopted a new operating mode of division into three business areas: spare parts service, roll service and process support service. This will help to maximize our effectiveness in working for the customer's benefit.

Restructuring within the Corporation has progressed a long way. For example, Valmet Automation is now integrated more closely with Paper and Board Machinery. The Corporation no longer has a defence equipment industry. The only separate speciality business is the automotive industry which has, however, coped well on its own in difficult circumstances. The Uusikaupunki production plant has thus been able to prove its competitiveness and viability.



The recent extensive personnel survey confirmed that Valmet employees feel strongly committed to our basic values of customer-orientation, quality and profitability.

I would like to thank, in addition to our employees, our subcontractors and suppliers for their excellent contributions and cooperation, and for their commitment to Valmet's goals.

My thanks also go to Valmet's customers and shareholders, for the faith they have shown in us.

We pledge to continually improve our operations throughout the Corporation and to ensure Valmet's competitiveness at all stages of the business cycle. We wish to be worthy of your trust in the future, too.

Helsinki, February 19, 1996

Shares and Shareholders' Equity

Valmet Corporation's share capital totals MFIM 851. According to Valmet's Articles of Association there is one series of shares. The Corporation has issued a total of 42 550 715 shares. No shareholder can vote with more than 80 % of the total votes represented at the meeting. According to the Corpora-

tion's Articles of Association a shareholder whose total shareholding or voting rights reach or exceed 33 1/3 % or 50 %, shall, upon demand, acquire the shares held by other shareholders at a price specified in the Articles. This obligation does not apply to shareholdings which have reached or exceeded these

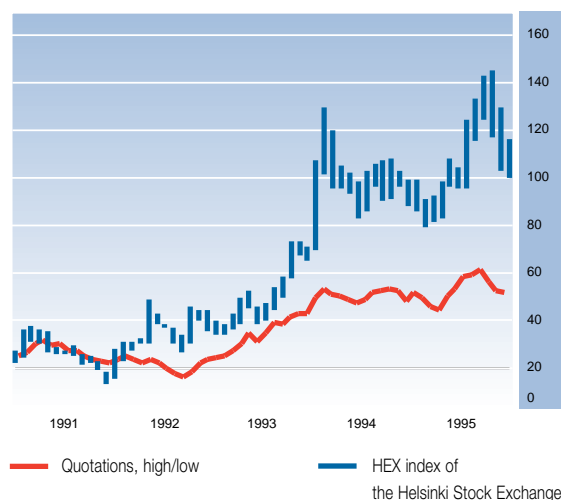
limits before this provision was registered in the Trade Register.

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

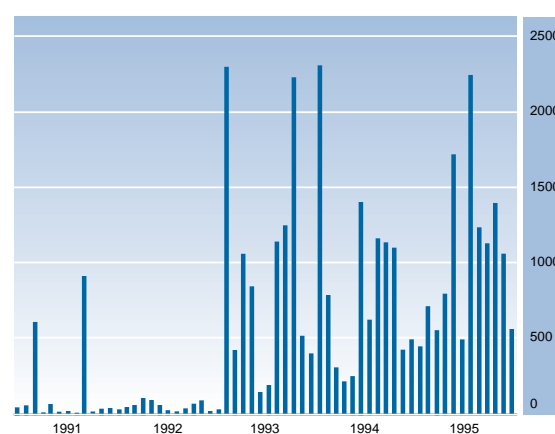
Share Data	1991	1992	1993	1994	1995
Share capital, Dec. 31, MFIM	651	711	711	851	851
Number of shares					
Number of shares, Dec. 31	32 550 715	35 550 715	35 550 715	42 550 715	42 550 715
Average number of shares	32 550 715	34 326 057	35 550 715	39 539 756	42 550 715
Trading volume, Helsinki Stock Exchange	1 756 650	595 710	11 326 847	13 276 170	12 375 885
Share issues, MFIM					
Increase in share capital, MFIM		60		140	
Surplus over nominal value		120		505	
Dividend, MFIM	-	-	-	43	149¹⁾
Dividend / share, FIM	-	-	-	1.00	3.50¹⁾
Dividend yield, %	-	-	-	1.1	3.2
Earnings / share, FIM	-21.79	-11.71	5.45	5.00	13.48
P/E ratio			13.00	18.02	8.09
Cash flow / share, FIM	-6.44	6.37	22.28	16.44	22.70
Equity / share, FIM	56.70	52.13	54.95	58.89	72.06
Nominal value, FIM	20	20	20	20	20
Highest quotation, FIM	37.50	48.50	73.00	129.00	145.00
Lowest quotation, FIM	13.20	15.50	34.00	69.00	79.00
Quotation, Dec. 31, FIM	16.50	35.00	69.00	90.00	109.00
Market value of shares, Dec. 31, MFIM	537	1 244	2 453	3 830	4 638

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



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 1995, 12.4 million Valmet shares were traded on the Helsinki Stock Exchange at an average price per share of FIM 110.60. The number of shares exchanged on the SEAQ system in London was 11.9 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 management. The bonds are valid for five years, carrying an interest rate of 5 % and an issue price of 100 %. The warrants entitle the holders 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 bonds with warrants have been completely subscribed. No other bonds with warrants or convertible bonds were outstanding during 1995.

The 1995 Annual General Meeting authorized the Board of Directors to decide on the raising of a maximum of MFIM 170 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. This authorization is valid until March 23, 1996, and the Board may depart from the pre-emptive right of shareholders to subscribe to new shares. The authorization was not used by February 19, 1996.

Shareholders by Category on December 31, 1995

	Number of shareholders	% of shareholders	% of shares and votes
Private individuals	4 477	93.6	1.4
Foundations and associations	46	1.0	0.4
Companies	181	3.8	0.6
Financial institutions and insurance companies	68	1.4	7.3
Public institutions	5	0.1	59.4
Foreign shareholders	7	0,1	–
Registered shareholders, total	4 784	100.0	69.1
Nominee registered			30.8
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 1,390 shares, that is 0.003 % of the total votes carried by all stock.

Shareholders on December 31, 1995

	Number of shareholders	Number of shares	% of shares and votes
The Finnish Government		24 914 715	58.6
Ilmarinen Pension Insurance Company		900 000	2.1
Pension-Sampo Insurance Company		498 500	1.2
Pension-Varma Mutual Insurance Company		390 450	0.9
Valmet Corporation Personnel Fund		219 800	0.5
Social Insurance Institution		186 000	0.4
The Local Government Pensions Institution		182 500	0.4
Alfred Berg Finland Unit Trust		162 600	0.4
Suomi-Salama Mutual Life Assurance Company		120 000	0.3
OP-Delta Mutual Fund		112 500	0.3
	10	27 687 065	65.1
Other shareholders, shares / shareholder			
10 001 – 112 499	29	847 300	2.0
5 001 – 10 000	22	174 800	0.4
1 001 – 5 000	77	184 170	0.3
501 – 1 000	139	118 615	0.3
101 – 500	918	238 354	0.6
1 – 100	3 589	162 741	0.4
Nominee registered		13 102 732	30.8
Shares not converted into book entries		34 938	0.1
Total	4 784	42 550 715	100.0

Administrative Bodies

Supervisory Board

Term expires at the Annual
General Meeting in

<i>Chairman</i>	Pentti Mäki-Hakola	1998
<i>Vice Chairman</i>	Teuvo Kinnunen	1996
	Hannu Kemppainen	1997
	Jarmo Leppiniemi	1997
	Johannes Leppänen	1998
	Leena Luhtanen	1997
	Markku Mäkinen	1997
	Jussi Niemi	1998
	Pertti Nykänen	1997
	Kirsi Piha	1996
	Ralf Sund	1996
	Markku Vuorensola	1996

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

Martti Luhanko
Matti Palmqvist
Lasse Saarnio
Auvo Salama*
Jorma Muhonen**

* until January 31, 1996
** from February 1, 1996

Board of Directors

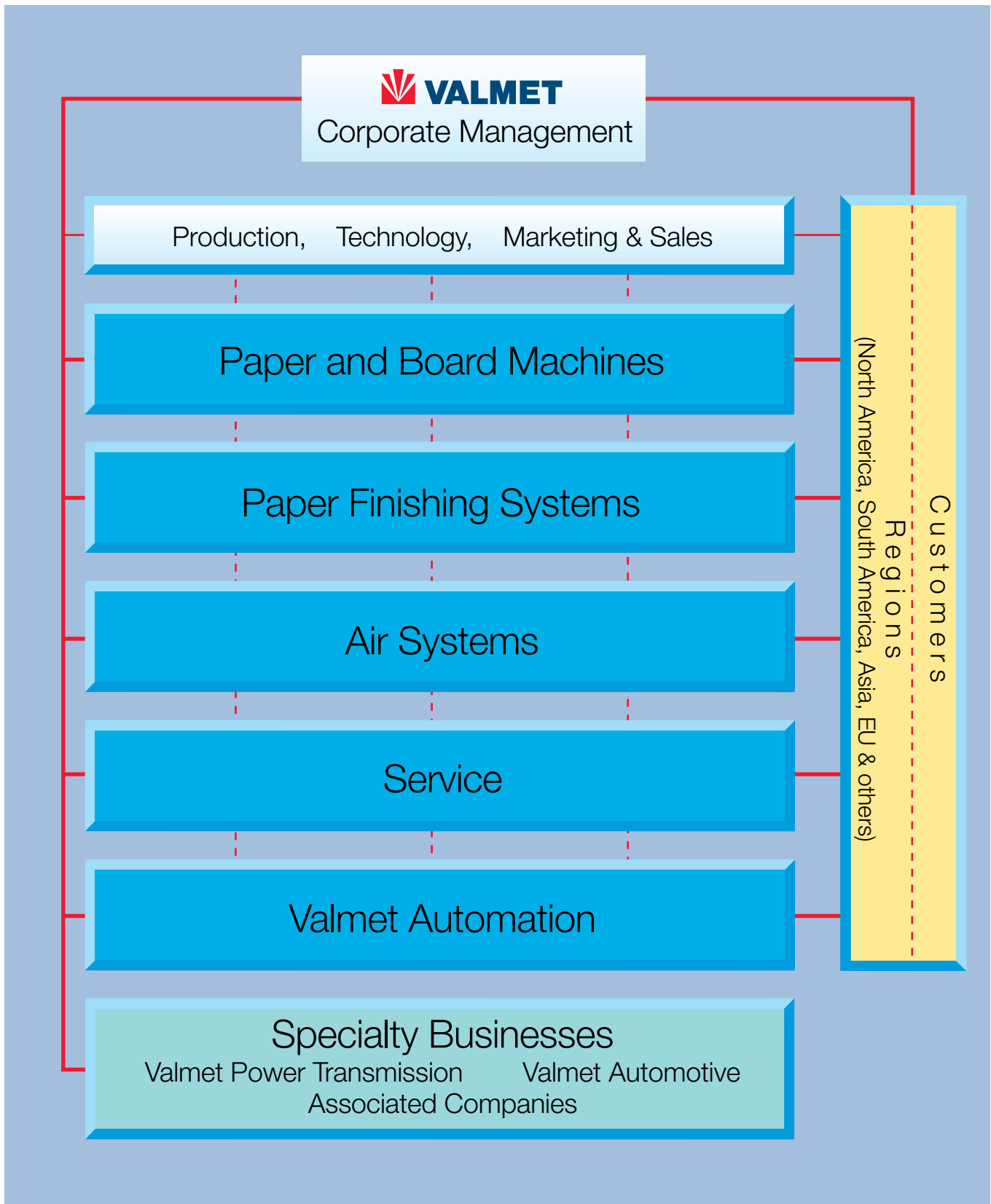
<i>Chairman</i>	Matti Sundberg	President and CEO	Term expires 1998
	Mauri Jaakonaho	Executive Vice President	1996
	Markku Kangas	President, Valmet Automation Inc.	1997
	Juhani Linnoinen	President, Valmet Automotive Inc.	1996
	Jaakko Rauramo	President, Sanoma Corporation	1997
	Juhani Riutta	Executive Vice President	1998
	Raimo Taivalkoski	President and CEO, Amer Group Ltd	1999

Auditor

KPMG Wideri Oy Ab/
Eero Suomela

Authorized Public Accountant

Valmet Corporation, March 1, 1996



Result tripled from previous year

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Valmet Corporation received a record number of new orders in 1995, valued totally at MFIM 12,131 and having effect up to the first half of 1997.

The Corporation's income after financial items was MFIM 637, which was more than triple that of the previous year.

Net sales amounted to MFIM 8,574, representing growth of 19% on last year's comparable figure.

.....

The improved results were made possible by the better management of processes during the business upturn and by the lighter interest burden during the whole of 1995. Interest-bearing debts continued to be repaid from cash flow, as well as with funds received from the sale of tractor and transportation equipment production in 1994 and from a share offering. The Corporation's equity ratio grew during fiscal year 1995 from 33.3 % to 40.6 %. The Corporation's internal rationalization measures also influenced the positive results.

The demand for printing paper and paper finishing machinery exceeded expectations during the past year and generated a greater than anticipated volume of orders. The deliveries are well under control in terms of their scheduling, however. Large orders were received from the Nordic countries and Asia. The order backlog for the whole Corporation was MFIM 9,699 at the end of 1995, which is 52 % up on the previous year. Five of the orders for new, complete machines came from Asia, five from Europe and one from the US. Four are for exceptionally large processes. Paper and board machine orders totalled MFIM 9,872, a growth of 45 % on the previous year.

Forest industry growth seems to be levelling off, although business cycles in different parts of the world are asynchronous. In North America, investment growth is estimated to be just starting, whereas the Asian economies are set to continue their growth.

One of Valmet's goals is to generate most of its net sales in core businesses evenly from Europe, America and Asia in the near future. Thus more attention was paid to Asia in 1995. Technical support and service outlets were opened in South Korea, Thailand and Taiwan. During 1996, a more comprehensive Southeast Asian Service Center will start operating in Thailand. In early 1996, a service outlet was established in China. Since 1989 Valmet has been the joint owner of a paper machine works in Xian, Central China, together with the Chinese.

Development of the service business aims at increasing its share of the Corporation's net sales to one third by the year 2000. In 1995 it was 23 %.

Valmet Automation also progressed favorably in 1995. Net sales grew to MFIM 1,253, or 22 % up on the previous year. Orders worth MFIM 1,518 were received, evidencing strong growth. In addition to its traditional markets, Valmet Automation expanded its operations in several Asian countries, South Africa, Mexico and Brazil. The most significant growth was in North Europe. The new products launched during the year also favorably influenced net sales growth.

Valmet Power Transmission's net sales grew by more than one third to MFIM 267. The strongest growth was evident in mechanical drives for the wood processing industry and in gears and service for energy production. Power Transmission again recorded a positive result.

Valmet Automotive performed to expectations. Both the net sales and the operating profit stayed at the previous year's levels. Net sales totalled MFIM 388 and the operating profit MFIM 94. It has been agreed that the units' net sales are to be considered, in practice, as being equivalent to the processing value of assembly. Agreements on sole production rights for the Opel Calibra and on the commencement of "Euro-Samara" production mean that the Uusikaupunki automotive plant will produce approximately 30,000 cars in 1996, compared to 21,600 in 1995.

Valmet Aviation Industries' order backlog grew slightly from the previous year and reached MFIM 529. Net sales were also up, at MFIM 283. The operating result improved, but still showed a loss of MFIM 7. The outlook is better from 1996 onwards, due to the Hornet project and the offset trade requirement.

On January 1, 1996, a majority shareholding, or 50.1 %, of Valmet Aviation Industries Inc. was transferred from Valmet Corporation to the Finnish

State for a net sales price of MFIM 60. The total value of the business operations was set at MFIM 386. Valmet continues to own 49.9 % of the company. The Finnish State may, at any time, purchase Valmet's minority holding and Valmet may, after a three year transition period, sell to the Finnish State its minority shareholding as well as any capital investments made in the business after the sale.

CHANGES IN CORPORATE STRUCTURE Valmet Corporation's structure

ning of 1995. Valmet Appleton Inc., Honeycomb Systems Inc., Valmet Enerdry Inc. and Valmet Inc. were all merged with Valmet Charlotte Inc., under the new name of Valmet Inc. Valmet Sandy Hill Inc. was merged with Valmet Inc. on December 1, 1995.

In Canada, Valmet-Montreal Inc. and Valmet-Enerdry Inc. were merged to form Valmet Canada Inc.

In December 1994, Valmet sold Procons Data Oy to Tietotehdas Oy, with the transfer of full ownership rights on January 1, 1995.

ist in the production and service of spreader rolls.

Valmet Rotomec S.p.A. strengthened its converting expertise by acquiring the total capital stock of the Italian flexo printing press manufacturer MAF S.p.A. at the beginning of 1996. Due to its advanced technology, the flexo printing press is rapidly spreading to all markets and Valmet is now also fully involved in this business.



was streamlined in 1995 by several internal mergers. Valmet-Tampella Inc.'s merger with Valmet Paper Machinery Inc. came into force at the beginning of 1995. Valmet Paper Machinery Inc. was merged with the Valmet parent company on August 31, 1995, as was Valmet Karhula Inc. on January 2, 1996.

In the United States, several smaller companies were merged at the begin-

Towards the end of 1995, Valmet established a joint venture with the Japanese composite material specialist, Yamauchi, to start production of polymer covers for paper calendering rolls in Finland. Valmet owns 60 % and Yamauchi 40 % of Dura Oy's shares.

At the same time Valmet acquired a 60 % majority in Finbow Oy, a special-

The Board of Directors of Valmet Corporation in January 1996.

From left
**Jaakko Rauramo,
Markku Kangas,
Mauri Jaakonaho,
Juhani Linnoinen,
Matti Sundberg,
Juhani Riutta and
Raimo Taivalkoski.**

DEVELOPMENT INVESTMENTS Valmet has in 1995 continued to make significant investments in R & D, quality and training, with the aim of consolidating technological leadership in its field. In cooperation with its customers, the Corporation develops con-

tinuously productive and environmental improvements to existing processes, machinery and equipment, as well as new paper grades better meeting customer needs, and new patented spearhead products.

Capital Expenditures, MFIM	1991	1992	1993	1994	1995
Paper and Board Machinery	177	341	195	165	326
Automation	17	21	27	31	35
Power Transmission	2	1	13	14	21
Automotive		44	15	9	23
Aviation Industries	39	11	20	11	9
Others	282	717	53	36	47
Subtotal	517	1 135	323	266	461
Operations sold	106	74	124	-	-
Corporation total	623	1 209	447	266	461

Research and Development, MFIM	1991	1992	1993	1994	1995
Paper and Board Machinery	108	143	175	199	256
Automation	60	48	65	80	99
Power Transmission	4	-	1	2	6
Automotive		16	14	16	13
Aviation Industries	5	3	1	-	-
Others	4	2	4	3	-
Subtotal	181	212	260	300	374
Operations sold	53	44	35	-	-
Corporation total	234	256	295	300	374

A new pilot paper machine, inaugurated in Jyväskylä in February 1996, gives Valmet the capability to meet the industry's needs well into the next millennium. The investment of over MFIM 150 is partly included in the investment figures for 1995. Valmet used a record MFIM 374, or 4.4 % of net sales, for R & D in 1995.

One of the most important advances at the paper machine wet end was the development of the patented Sym Belt shoe press, originally meant for boardmaking, to suit the requirements of printing paper production. The significant dry end innovation, the Optireel, is still technologically unique in the world and continued to strengthen its position as the market leader. The new coating equipment launched included the Optiblade and the Opticoat Duo.

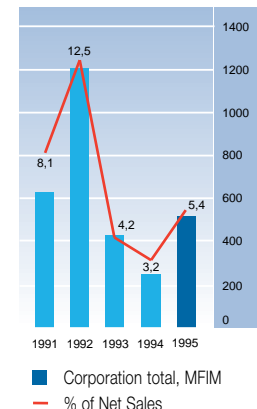
Valmet Automation's most significant innovation in 1995 was a distributed paper quality measurement system, the PaperIQ,

which became an immediate market success. The XIS information station and its applications, developed for the information and reporting needs of mills and production plants, was well-received by the market. The digital, smart transmitters launched in the spring were also very successful and over 1,200 of them had been sold for diverse applications by the end of the year.

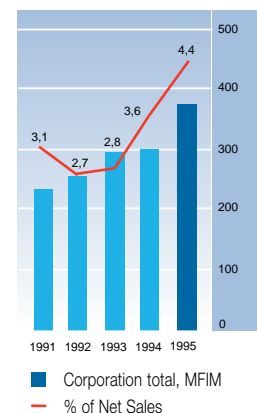
The Corporation's capital expenditures in 1995 were MFIM 461, or 5.4 % of net sales. Production investments amounted to MFIM 330.

Valmet continues to develop its quality system. 44 business units, responsible for 97 % of all Valmet's business, have gained ISO certification. Over 600 persons have so far attended the Malcolm Baldrige quality program workshop. Environmental assessments are included in the program, which will continue as planned, in order to enhance the Corporation's competitiveness.

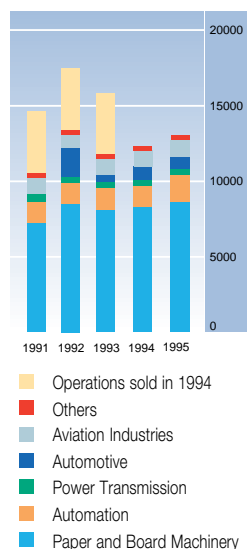
Capital Expenditures/ Net Sales, MFIM



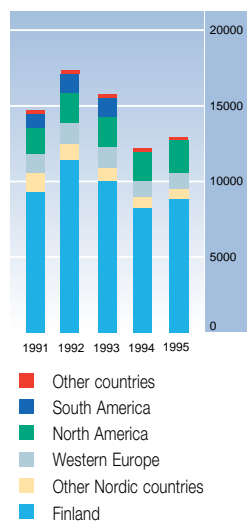
Research and Development/ Net Sales, MFIM



Personnel by Business Group



Personnel by Region



HUMAN RESOURCES The Corporation's average number of employees in 1995 was 12,578 (12,107), and 12,808 (12,146) were employed at the end of the year. 4,079 persons, or 31.8 % of the personnel, were employed outside Finland at the end of the accounting year.

The personnel is represented on the Supervisory Board, and the management of product groups, speciality businesses and certain units. The Corporation's Cooperation Council discusses matters generally affecting the personnel, and its personnel representatives also act as trustees of the personnel fund.

Personnel by Business Group	1991	1992	1993	1994	1995
Paper and Board Machinery	7 201	8 426	8 103	8 193	8 674
Automation	1 492	1 395	1 443	1 560	1 711
Power Transmission	501	388	360	361	364
Automotive		1 921	514	867	876
Aviation Industries	953	933	1 047	957	970
Others	235	187	196	208	213
Subtotal	10 382	13 250	11 663	12 146	12 808
Operations sold	4 126	3 954	4 053	–	–
Corporation total	14 508	17 204	15 716	12 146	12 808

Personnel by Region	1991	1992	1993	1994	1995
Finland	9 369	11 468	9 976	8 349	8 729
Other Nordic countries	1 184	1 058	948	628	689
Western Europe	1 194	1 401	1 328	1 058	1 094
North America	1 807	2 011	2 109	2 007	2 182
South America	861	1 155	1 223	–	–
Asia	25	30	48	33	54
Other countries	68	81	84	71	60
Corporation total	14 508	17 204	15 716	12 146	12 808

The Corporate Cooperation Committee has prepared a draft agreement on European-wide cooperation within Valmet Corporation on the basis of an EU directive due to come into force on September 22, 1996.

The objective of the Valmet Leadership Program (VLP) is to give participants a joint frame of reference and the readiness to act later in senior management duties. 230 persons have so far participated in the program. Young, aspiring managers have their own Edge program, in which 145 persons participated.

Quality training has been included in the above programs or given as separate training packages throughout the organization. The product groups have continued their own human resources development programs as planned. Participation in advanced studies and post-graduate degrees continues to be supported. Independent 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 year 1995 were MFIM 8,574. New orders worth MFIM 12,131 were booked, and the order backlog

at the end of 1995 was MFIM 9,699, or 52 % higher than one year earlier. Exports and the Corporation's international operations accounted for 84 % of net sales.

Net Sales by Business Group, MFIM	1991	1992	1993	1994	1995
Paper and Board Machinery	4 123	4 062	5 249	5 470	6 560
Automation	870	902	980	1 023	1 253
Power Transmission	127	131	145	194	267
Automotive	–	1 638	861	381	388
Aviation Industries	175	202	256	266	283
Others	85	80	78	80	7
Less inter-business eliminations	-220	-178	-234	-192	-184
Subtotal	5 160	6 837	7 335	7 222	8 574
Operations sold	2 506	2 808	3 341	1 106	–
Corporation total	7 666	9 645	10 676	8 328	8 574

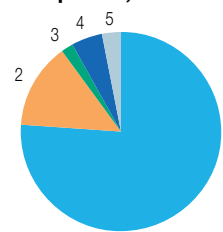
Net Sales by Market Area, MFIM	1991	1992	1993	1994	1995
Finland	2 645	2 269	1 838	1 575	1 365
Other Nordic countries	751	898	2 041	841	1 068
Western Europe	1 609	2 339	1 521	1 709	1 489
Eastern Europe	248	133	399	122	153
North America	1 307	2 221	2 344	2 310	2 558
South America	503	809	1 177	537	175
Asia	357	850	1 034	848	1 453
Other countries	246	126	322	386	313
Corporation total	7 666	9 645	10 676	8 328	8 574

The consolidated operating margin was MFIM 914, or 11 % of net sales. The operating profit was MFIM 530. The income after financial items was MFIM 636 (MFIM 203). The income before taxes was MFIM 718 (MFIM 178). The net income for the year was MFIM 655 (MFIM 173). The unrestricted equity of the Corporation is MFIM 865 (MFIM 264) and of the parent company MFIM 1,183 (MFIM 1,113). Consolidated

earnings per share were FIM 13.48 (FIM 5.00) and cash flow per share was FIM 22.70 (FIM 16.44). Market capitalization was MFIM 4,638 (MFIM 3,830) at the end of the year. The book value per share was FIM 72.06 (FIM 58.89).

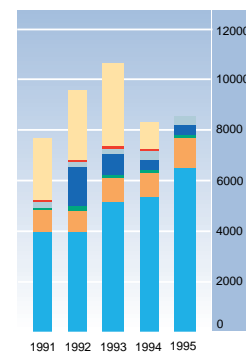
Valmet Corporation's share of total shareholders' equity and untaxed reserves in the associated companies was MFIM 463.

Net Sales by Business Group 1995, %



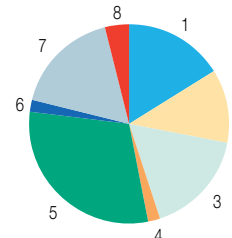
- 1 Paper and Board Machinery 76 %
- 2 Automation 14 %
- 3 Power Transmission 2 %
- 4 Automotive 5 %
- 5 Aviation Industries 3 %

Net Sales by Business Group, MFIM



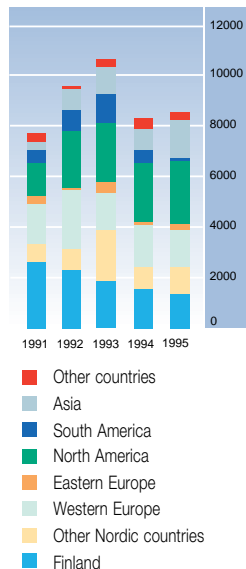
- Operations sold in 1994
- Others
- Aviation Industries
- Automotive
- Power Transmission
- Automation
- Paper and Board Machinery

Net Sales by Market Area 1995, %

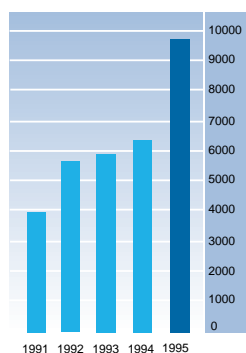


- 1 Finland 16 %
- 2 Other Nordic countries 12 %
- 3 Western Europe 17 %
- 4 Eastern Europe 2 %
- 5 North America 30 %
- 6 South America 2 %
- 7 Asia 17 %
- 8 Others 4 %

Net Sales by Market Area, MFIM



Order Backlog, Dec. 31, MFIM



Corporation's Financial Performance, MFIM	1991	1992	1993	1994	1995
Operating profit					
Paper and Board Machinery	67.7	-59.2	181.6	235.0	424.9
Automation	13.3	60.9	76.9	80.0	101.6
Power Transmission	-11.7	6.5	18.9	21.9	20.7
Automotive	-	307.2	74.2	92.0	94.2
Aviation Industries	-32.2	-22.8	-1.2	-36.2	-6.9
Others	-128.2	-91.2	-47.4	-74.5	-104.1
Subtotal	-91.1	201.4	303.0	318.2	530.4
Operations sold	-380.1	-30.4	176.2	52.9	-
Operating profit, total	-471.2	171.0	479.2	371.1	530.4
Financial income and expenses	-144.6	-468.7	-379.2	-219.5	26.8
Share of profits or losses from associated companies	-	-	-	51.5	79.4
Income after financial items	-615.8	-297.7	100.0	203.1	636.6
Non-operating income and expenses	-16.0	-	-	-	-
Extraordinary income and expenses	-60.0	78.6	-153.9	-24.9	81.9
Income before taxes	-691.8	-219.1	-53.9	178.2	718.5

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 2,074 (MFIM 1,860) at the end of the accounting period, and the ratio of financial assets and inventories to short-term debt was 1.3 (1.4). The return on net assets before extraordinary items was 16.0 % (9.4 %). The return on equity was 20.7 % (8.7 %).

The balance sheet total was MFIM 9,641 (MFIM 8,905). Cash flow from operations was used to repay interest-bearing debt, with the result that it contracted from over MFIM 2,810 to MFIM 1,974. The equity ratio of the Corporation was 40.6 % (33.3 %) and of the parent company 55.8 % (63.0 %). The Corporation's cash and short-term investments less interest-bearing debt was positive, at 3.2 % of equity, whereas the previous year's net liabilities were 37.5 %.

Consolidated Balance Sheet, MFIM	1991	1992	1993	1994	1995
Paper and Board Machinery	4 875	6 637	6 496	5 242	5 038
Automation	803	948	860	804	877
Power Transmission	108	132	160	188	213
Automotive	-	1 134	810	638	387
Aviation Industries	315	377	483	389	435
Others	876	236	149	1 644	2 691
Subtotal	6 977	9 464	8 958	8 905	9 641
Operations sold	2 979	2 736	2 808	-	-
Corporation total	9 956	12 200	11 766	8 905	9 641

The Corporation's cash flow after investments was MFIM 898. Financial status and creditworthiness were very good.

Net financial income was MFIM 27 (expenses MFIM 220), of which MFIM 10 (losses MFIM 18) was due to foreign exchange gains in financial items. A considerable portion of the Corporation's cash flow occurs in currencies other than the Finnish markka. The major currency in sales income

is the US dollar. The effects of exchange rate fluctuations are cushioned by the fact that Valmet has production in different countries and can act locally 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.

SHARE PRICE AND TRADING During 1995, 12.4 million Valmet shares were traded on the Helsinki Stock Exchange. The average price per share was FIM 110.60 and the year's maximum and minimum prices FIM 145 and FIM 79 respectively. On the last trading day of 1995, the share price was FIM 109 and the market capitalization was MFIM 4,638.

The number of Valmet shares traded in London on the SEAQ system totalled 11.9 million. In addition to shares, trading in the USA is also possible in the form of American Depositary Receipts (ADR) which are quoted on the brokers' OTC list.

The total number of Valmet shares at the end of 1995 was 42,550,715, of which the Finnish State owned 58.6 %. On December 31, 30.8 % of the shares were held in nominee accounts.

The 1995 Annual General Meeting authorized the Board of Directors 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. The authorization remains valid until March 23, 1996 and the Board may depart from the pre-emptive right of shareholders to subscribe to new shares. The authorization had not been used by February 19, 1996.

OUTLOOK Investments in new market areas and in the service and component business will level out fluctuations in individual markets in the coming years. In addition, non-synchronous business cycles in the main world markets will to some extent offset each other.

On the other hand, the Corporation's continuous technological development is strengthening its capabilities. When the business cycle weakens, Valmet will be capable of responding to customers' changing needs by rebuilding existing machinery. To this end,

new spearhead products and process solutions are being developed in cooperation with customers in different markets.

One of Valmet's goals is that the majority of the net sales of its core businesses will, in a few years, be evenly distributed between Europe, America and Asia. The Asian share is increasing due to the continuous strong growth in paper consumption in the region. Another goal is to raise the share of the service business to one third of net sales within the next few years.

Because of its healthy order backlog, Valmet estimates that net sales will remain high in 1996. This will be influenced by a change in accounting practice introduced in January 1996, whereby Valmet Corporation will apply the percentage of completion method in recognizing income from long-term projects. The Corporation's income and profitability are expected to remain good.

PROPOSAL TO THE ANNUAL GENERAL MEETING The net income of the parent company, plus retained earnings, i.e. the company's unrestricted equity, totals FIM 1,183,217,526.11. According to the financial statements, consolidated distributable equity amounts to FIM 839,799,000. The Board of Directors proposes to the Annual General Meeting that the net income be written in the profit and loss account, and that a dividend of FIM 3.50 per share be distributed, totalling FIM 148,927,503.

Helsinki, February 19, 1996

Matti Sundberg
Chairman
CEO

Mauri Jaakonaho

Markku Kangas

Juhani Linnoinen

Jaakko Rauramo

Juhani Riutta

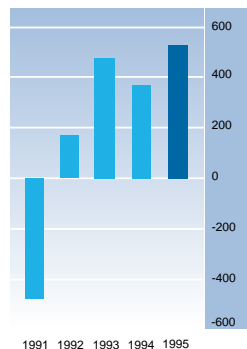
Raimo Taivalkoski

Consolidated Income Statement

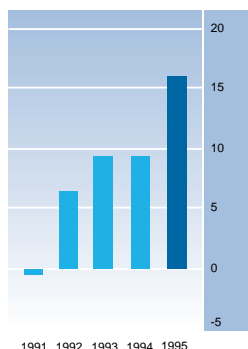
FIM 1000	1995		1994*	
Net sales	8 573 559	100 %	8 328 037	100 %
Costs of goods sold	-6 466 803		-6 207 896	
Gross profit	2 106 756	24.6 %	2 120 141	25.5 %
Marketing and selling expenses	-578 940		-674 576	
Research and development expenses	-306 194		-298 493	
Administrative expenses	-691 248		-775 977	
Operating profit (1, 2, 3)	530 374	6.2%	371 095	4.5%
Financial income and expenses (5)	26 785		-219 535	
Share of profits or losses from associated companies (6)	79 380		51 510	
Income after financial items	636 539	7.4 %	203 070	2.4 %
Extraordinary income and expenses (7)	81 948		-24 899	
Income before taxes	718 487	8.4 %	178 171	2.1 %
Direct taxes (8)	-53 780		-1 628	
Minority interests	-9 207		-3 925	
Net income for the year	655 500	7.6 %	172 618	2.1 %

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

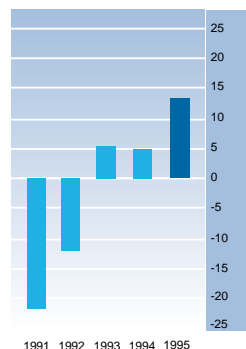
Operating Profit, MFIM



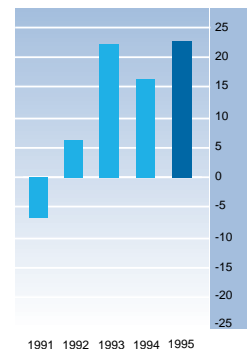
Return on Net Assets, %



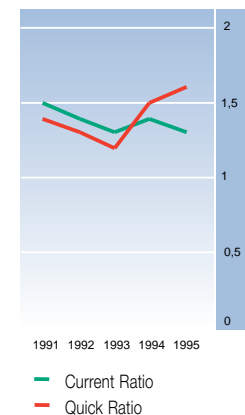
Earnings per Share, FIM



Cash Flow per Share, FIM



Current Ratio and Quick Ratio



Consolidated Balance Sheet

ASSETS

FIM 1000	31.12.1995	31.12.1994	
FIXED ASSETS AND LONG-TERM INVESTMENTS			
Intangible assets (9)			
Goodwill	76 675		85 036
Other intangible assets	108 272		99 105
	184 947		184 141
Tangible fixed assets (9)			
Land and water areas	229 123		226 560
Buildings	800 690		841 059
Machinery and equipment	907 209		1 000 733
Other tangible assets	34 705		47 417
Assets under construction	153 142		61 010
	2 124 869		2 176 779
Advances paid for fixed assets	30 561		51 637
Long-term investments			
Shareholdings and other securities (10)	896 156		809 310
Loans receivable (11)	20 598		176 692
Other long-term assets	34 309		34 953
	951 063		1 020 955
	3 291 440	34.1 %	3 433 512 38.6 %
UNFUNDED PENSION LIABILITY (12)	201 430	2.1 %	243 399 2.7 %
CURRENT ASSETS			
Inventories			
Materials and supplies	320 372		242 178
Finished products	81 143		56 550
Work in progress	1 544 901		1 148 078
Advances paid for inventories	75 992		39 227
	2 022 408		1 486 033
Receivables (13)			
Trade receivables, interest-bearing	34 664		63 179
Trade receivables, non-interest-bearing	1 488 626		1 297 924
Loans receivable	45 621		38 109
Accrued income and prepaid expenses	428 092		366 106
Other receivables	54 420		116 349
	2 051 423		1 881 667
Cash and short-term investments (14)	2 073 986		1 859 945
	6 147 817	63.8 %	5 227 645 58.7 %
TOTAL	9 640 687	100 %	8 904 556 100 %

LIABILITIES AND SHAREHOLDERS' EQUITY

FIM 1000

31.12.1995

31.12.1994

SHAREHOLDERS' EQUITY (15)

Share capital	851 014		851 014	
Restricted funds	1 349 856		1 390 904	
Retained earnings	209 635		91 386	
Net income for the year	655 500		172 618	
	3 066 005	31.8 %	2 505 922	28.1 %

MINORITY INTERESTS

	28 434	0.3 %	26 638	0.3 %
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LIABILITIES (16)

Long-term debt (17)

Bonds	568 893		579 255	
Loans from financial institutions	129 992		375 181	
Pension loans	655 203		1 050 660	
Other long-term debt	106 216		112 246	
	1 460 304	15.1 %	2 117 342	23.8 %

Other long-term liabilities

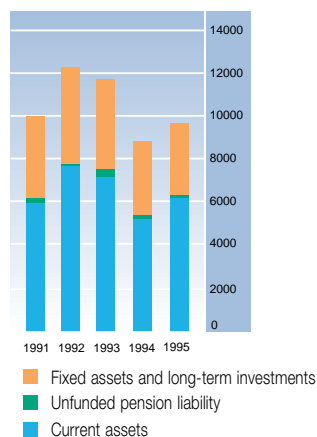
Deferred tax liability	56 977		78 441	
Accrued expenses (12) (18)	395 026		384 301	
	452 003	4.7 %	462 742	5.2 %

Current liabilities

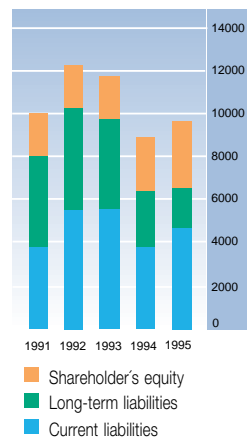
Short-term part of long-term debt (19)	313 858		440 477	
Other interest-bearing short-term debt	199 977		252 025	
Non-interest-bearing current liabilities				
Accounts payable	652 420		596 123	
Advances received	2 020 190		1 293 151	
Accrued expenses and prepaid income (20)	1 272 367		1 101 085	
Other current liabilities	175 129		109 051	
	4 120 106		3 099 410	
	4 633 941	48.1 %	3 791 912	42.6 %

	6 546 248		6 371 996	
TOTAL	9 640 687	100 %	8 904 556	100 %

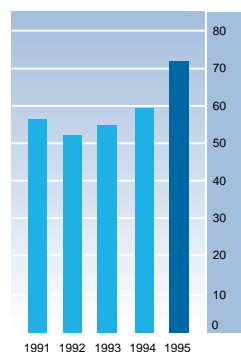
Assets, MFIM



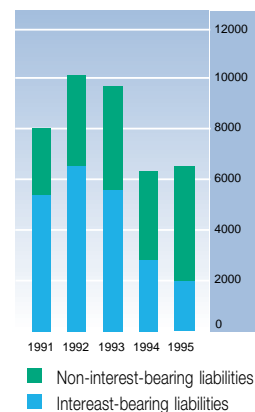
Liabilities and Equity, MFIM



Equity per Share, FIM



Interest- vs. Non-Interest-Bearing Liabilities, MFIM



Consolidated Cash Flow Statement

FIM 1000	1995	1994
Operating profit	530 374	371 095
Adjustments		
Depreciation	383 279	448 556
Extraordinary income and expenses	3 111	-105 165
Change in working capital		
Increase (-) / decrease (+) in inventories	-517 621	-25 061
Increase (-) / decrease (+) in receivables	-240 823	-155 546
Increase (+) / decrease (-) in non-interest-bearing liabilities	1 094 859	273 865
Cash generated from operations	1 253 180	807 744
Financial items and taxes		
Dividends received	27 816	6 349
Interest income and expenses	26 135	-163 987
Other financial income and expenses	-9 708	-60 297
Direct taxes	-63 663	-40 845
Financial items and taxes, net	-19 420	-258 780
Cash flow after financial items and taxes	1 233 760	548 963
Investment activities		
Acquisition of subsidiaries / businesses, net of cash acquired	-39 680	-24 575
Purchase of fixed assets	-423 150	-266 382
Proceeds from sale of fixed assets	95 008	33 999
Proceeds from sale of subsidiaries / businesses	32 298	334 756
Investment activities, net	-335 524	77 798
Cash flow after investment activities	898 236	626 761
Funding activities		
Share issue		644 800
Dividends paid	-44 903	-15 468
Change in loans receivable	156 030	-107 534
Proceeds from long-term borrowing	64 396	86 868
Payments of long-term debt	-780 654	-1 283 137
Increase (+) / decrease (-) in interest-bearing short-term debt	-63 458	-86 451
Funding activities, net	-668 589	-760 922
Cash flow after funding activities	229 646	-134 161
Cash and short-term investments at beginning of year	1 859 945	2 082 318
Effects of exchange rate changes on cash and short-term investments	-15 605	-88 212
Cash and short-term investments at end of year	2 073 986	1 859 945

Parent Company Income Statement

FIM 1000	1995		1994
Net sales	1 509 095	100 %	-
Costs of goods sold	-1 189 370		-
Gross profit	319 725	21.2%	-
Marketing and selling expenses	-69 232		-
Research and development expenses	-64 731		-
Administrative expenses	-177 181		-102 234
Operating profit (1, 2, 3)	8 581	0.6%	-102 234
Financial income and expenses (5)	60 039		-118 522
Income after financial items	68 620	4.5%	-220 756
Corporate internal contributions	-		116 000
Extraordinary income and expenses (7)	83 076		27 067
Income before taxes	151 696	10.1%	-77 689
Allocations to untaxed reserves	733		-38
Direct taxes (8)	-39 709		-14 196
Net income for the year	112 720	7.5%	-91 923

In 1995, Valmet-Tampella Inc. and Valmet Paper Machinery Inc. were merged with the Valmet Parent Company and thus the figures for 1995 and 1994 are not comparable with each other.

Parent Company Balance Sheet

ASSETS

FIM 1000	31.12.1995	31.12.1994	
FIXED ASSETS AND LONG-TERM INVESTMENTS			
Intangible assets (9)			
Goodwill	3 165		-
Other intangible assets	66 564		-
	69 729		
Tangible fixed assets (9)			
Land and water areas	124 427		19 466
Buildings	266 948		39 102
Machinery and equipment	319 186		8 736
Other tangible assets	24 674		640
Assets under construction	114 356		-
	849 591		67 944
Advances paid for fixed assets	30 932		-
Long-term investments			
Shareholdings and other securities (10)	2 347 124		2 894 086
Loans receivable (11)	294 868		556 126
	2 641 992		3 450 212
	3 592 244	46.6 %	3 518 156 64.3 %
UNFUNDED PENSION LIABILITY (12)	201 430	2.6 %	243 399 4.4 %
CURRENT ASSETS			
Inventories			
Materials and supplies	135 387		-
Finished products	924		-
Work in progress	868 992		-
Advances paid for inventories	124 805		-
	1 130 108		-
Receivables (13)			
Trade receivables, interest-bearing	23 330		8 270
Trade receivables, non-interest-bearing	705 101		13 620
Loans receivable	56 084		1 039
Accrued income and prepaid expenses	263 889		264 676
Other receivables	891		129
	1 049 295		287 734
Cash and short-term investments (14)	1 733 230		1 420 835
	3 912 633	50.8 %	1 708 569 31.2 %
TOTAL	7 706 307	100 %	5 470 124 100 %

In 1995, Valmet-Tampella Inc. and Valmet Paper Machinery Inc. were merged with the Valmet Parent Company and thus the figures for 1995 and 1994 are not comparable with each other.

LIABILITIES AND SHAREHOLDERS' EQUITY

FIM 1000	31.12.1995		31.12.1994	
SHAREHOLDERS' EQUITY (15)				
Share capital	851 014		851 014	
Legal reserve	1 281 243		1 281 243	
Revaluation reserve	200 000		200 000	
Retained earnings	1 070 496		1 204 969	
Net income for the year	112 720		-91 923	
	3 515 473	45.6 %	3 445 303	63.0 %
UNTAXED RESERVES	4 645	0.1 %	3 157	0.1 %
LIABILITIES (16)				
Long-term debt (17)				
Bonds	540 000		540 000	
Loans from financial institutions	11 021		94 408	
Pension loans	362 552		23 609	
Other long-term debt	34 303		286 307	
	947 876	12.3 %	944 324	17.3 %
Other long-term liabilities				
Accrued expenses (12) (18)	356 119	4.6 %	323 399	5.9 %
Current liabilities				
Short-term part of long-term debt (19)	128 816		27 169	
Other interest-bearing short-term debt	231 330		649 852	
Non-interest-bearing current liabilities				
Accounts payable	505 495		3 562	
Advances received	1 398 703		-	
Accrued expenses and prepaid income (20)	617 547		73 199	
Other current liabilities	303		159	
	2 522 048		76 920	
	2 882 194	37.4 %	753 941	13.8 %
	4 186 189		2 021 664	
TOTAL	7 706 307	100 %	5 470 124	100 %

In 1995, Valmet-Tampella Inc. and Valmet Paper Machinery Inc. were merged with the Valmet Parent Company and thus the figures for 1995 and 1994 are not comparable with each other.

Parent Company Cash Flow Statement

FIM 1000	1995	1994
Operating profit	8 581	– 102 234
Adjustments		
Depreciation	51 009	8 090
Gain on sale of tangible and intangible assets	5 381	1 328
Change in working capital		
Increase (-) / decrease (+) in inventories	-174 133	
Increase (-) / decrease (+) in receivables	623 289	271 720
Increase (+) / decrease (-) in non-interest-bearing liabilities	290 137	7 297
Cash generated from operations	804 264	186 201
Financial items and taxes		
Dividends received	23 506	2 266
Interest income and expenses	52 528	-44 698
Other financial income and expenses	-10 969	60 786
Direct taxes	-28 962	-14 196
Financial items and taxes, net	36 103	4 158
Cash flow after financial items and taxes	840 367	190 359
Investment activities		
Acquisition of subsidiaries	-25 023	-18 633
Purchase of fixed assets	-70 449	-23 842
Proceeds from sale of fixed assets	68 304	22 225
Proceeds from sale of subsidiaries	21 041	317 921
Investment activities, net	-6 127	297 671
Cash flow after investment activities	834 240	488 030
Funding activities		
Share issue	–	644 800
Dividends paid	-42 551	–
Change in loans receivable	-258 097	4 235
Proceeds from long-term borrowing	1 619	40 500
Payments of long-term debt	-96 508	-427 127
Increase (+) / decrease (-) in interest-bearing short-term debt	-126 308	-596 194
Funding activities, net	-521 845	-333 786
Cash flow after funding activities	312 395	154 244
Cash and short-term investments at beginning of year	1 420 835	1 266 591
Cash and short-term investments at end of year	1 733 230	1 420 835

Notes to the Financial Statements

(MFIM)	Corporation		Parent Company	
	1995	1994	1995	1994
1. OPERATING PROFIT				
The components of operating profit are as follows:				
Net sales	8 573.6	8 328.0	1 509.1	
Materials and changes in inventories:				
Purchases of materials and subcontracting	-4 031.8	-3 498.9	-1 001.0	-
Increase (+) / decrease (-) in materials and supplies inventories	76.4	42.7	16.8	-
Increase (+) / decrease (-) in work in progress	382.9	30.0	224.3	-
Increase (+) / decrease (-) in finished products	26.2	3.1	1.1	-
Personnel costs	-2 851.1	-2 838.6	-485.4	-78.9
Other operating expenses	-1 307.2	-1 268.9	-264.2	-26.9
Depreciation	-383.3	-448.6	-51.7	-8.1
Other operating income	44.8	22.3	59.7	11.6
Operating profit	530.4	371.1	8.6	-102.2

2. PERSONNEL COSTS

The information regarding personnel costs is as follows:

Wages and salaries	2 080.3	2 094.5	270.7	19.1
Pension costs	288.0	286.0	66.9	45.2
Other indirect employee costs	482.8	458.1	147.8	14.6
Total	2 851.1	2 838.6	485.4	78.9
Other information:				
Salaries of the Supervisory Board, the Boards of Directors and CEOs	30.3	36.9	5.3	4.9
Bonuses to the Boards of Directors and CEOs	2.1	1.6	0.7	-

Members of the Board of Directors and the CEO of the Parent Company are entitled to retire at the age of 60.

3. DEPRECIATION

Depreciation expense consists of the following components:

Depreciation according to plan:				
Consolidation goodwill	30.9	32.3	-	-
Other goodwill	1.7	0.7	0.3	-
Other intangible assets	17.5	22.7	3.3	-
Buildings	48.8	51.8	11.0	5.2
Machinery and equipment	274.6	329.3	34.5	2.6
Other tangible assets	9.8	11.8	2.6	0.3
Depreciation in the income statement	383.3	448.6	51.7	8.1

Depreciation expense is allocated in the consolidated income statement as follows:

Costs of goods sold	263.3	319.5	26.8	-
Marketing and selling	12.9	11.9	1.4	-
Research and development	36.3	39.0	8.9	-
Administrative	39.3	45.1	14.6	8.1
Goodwill	31.5	33.0	-	-
Depreciation in the income statement	383.3	448.6	51.7	8.1

4. REVENUE RECOGNITION

Commencing January 1, 1996, Valmet Corporation will apply the percentage of completion method when recognizing revenue on long-term delivery contracts. If the percentage of completion method had been applied with respect to work-in-progress on December 31, 1995, the estimated gross profit included in that balance, that would have been reported as revenues, is FIM 53 million.

NOTES TO THE FINANCIAL STATEMENTS

(MFIM)	Corporation		Parent Company	
	1995	1994	1995	1994
5. FINANCIAL INCOME AND EXPENSES				
The following information provides a summary of financial income and expenses:				
Financial income:				
Dividends received	7.8	4.7	17.6	1.7
Interest income	211.6	188.3	176.1	134.3
Other financial income	6.8	24.9	2.7	3.7
Gains and losses from foreign exchange of financial items	9.8	–	–	–
Tax credit regarding dividends	2.8	–	5.9	0.6
	238.8	217.9	202.3	140.3
Financial expenses:				
Interest expenses	-185.4	-352.3	-123.6	-179.0
Other financial expenses	-26.6	-67.4	-8.2	-1.2
Gains and losses from foreign exchange of financial items	–	-17.8	-5.5	-10.0
Value adjustments of shares of associated companies	–	–	-5.0	-68.6
	-212.0	-437.5	-142.3	-258.8
	26.8	-219.5	60.0	-118.5
Corporate internal financial income and expenses:				
Corporate internal financial income:				
Interest income	–	–	22.8	44.0
Other financial income	–	–	0.4	3.0
	–	–	23.1	47.0
Corporate internal financial expenses:				
Interest expenses	–	–	-61.6	-95.2
	–	–	-38.5	-48.2

6. INFORMATION ON ASSOCIATED COMPANIES

A detailed specification of Valmet's long-term investments in associated companies is contained in Note 10.

Dividends received	17.2	1.6		
Share of profits or losses	79.4	41.4		
Comprising the following:				
Share of profits or losses in associated companies	79.4	51.5		
Extraordinary income and expenses	–	-10.1		
	79.4	41.4		
Book value of shares	497.1	429.1	390.8	343.4
Share of shareholders' equity and untaxed reserves:				
Accumulated after acquisition	44.4	-1.2		
Share of the total amount of equity and untaxed reserves	463.3	391.0		

7. EXTRAORDINARY INCOME AND EXPENSES

Extraordinary income and expenses resulted from the following:

Extraordinary income:				
Gains from the sale of land and water areas and buildings	39.0	4.8	49.9	–
Gains from the sale of shares and businesses	25.6	250.3	16.5	26.2
Compensation from litigations	20.2	–	20.2	–
Other income	27.8	–	4.6	0.9
Merger gain	–	–	6.7	–
	112.6	255.1	97.9	27.1
Extraordinary expenses:				
Sale and closing of businesses	–	-120.9	–	–
Effect of changes in accounting principles	-13.5	-44.3	–	–
Share of associated companies' extraordinary items	–	-10.1	–	–
Expenses and provisions related to earlier deliveries	-17.1	-104.7	-14.8	–
	-30.6	-280.0	-14.8	–
	82.0	-24.9	83.1	27.1

(MFIM)	Corporation		Parent Company	
	1995	1994	1995	1994
8. DIRECT TAXES				
Taxes on net income for the year:				
Taxes payable	-63.0	-33.2	-28.7	-14.2
Change in deferred tax liability	20.6	39.2	-	-
Taxes for previous years	-11.4	-7.7	-11.0	-
	-53.8	-1.6	-39.7	-14.2
9. FIXED ASSETS				
Fixed assets of businesses sold during the year are not included in the fixed asset balances on January 1.				
Fixed assets of businesses acquired during the year are included in the fixed asset balances on January 1.				
Exchange rate differences arising from consolidation are included in the beginning balances in this specification.				
Consolidated goodwill:				
Acquisition cost, beginning of year	264.8	281.2	-	-
+ Additions this year	38.6	7.1	-	-
- Disposals this year	-18.2	-10.4	-	-
- Accumulated depreciation	-215.4	-197.5	-	-
Book value, end of year	69.8	80.4	-	-
Other goodwill:				
Acquisition cost, beginning of year	6.5	-	-	-
+ Additions this year	2.7	5.3	10.6	-
- Disposals this year	-	-	-	-
- Accumulated depreciation	-2.3	-0.7	-7.4	-
Book value, end of year	6.9	4.6	3.2	-
Other intangible assets:				
Acquisition cost, beginning of year	198.8	171.2	-	-
+ Additions this year	24.1	41.4	94.2	-
- Disposals this year	-0.4	-0.1	-	-
- Accumulated depreciation	-114.2	-113.4	-27.6	-
Book value, end of year	108.3	99.1	66.6	-
Land and water areas:				
Acquisition cost, beginning of year	224.7	226.7	19.5	19.5
+ Additions this year	6.3	0.2	105.4	-
- Disposals this year	-1.9	-0.4	-0.5	-
Book value, end of year	229.1	226.5	124.4	19.5
Buildings:				
Acquisition cost, beginning of year	1 240.6	1 263.9	113.9	113.9
+ Additions this year	38.0	15.1	412.8	-
- Disposals this year	-14.7	-17.5	-15.8	-
- Accumulated depreciation	-463.2	-420.4	-244.0	-74.8
Book value, end of year	800.7	841.1	266.9	39.1
Machinery and equipment:				
Acquisition cost, beginning of year	2 806.1	2 981.2	19.4	16.1
+ Additions this year	215.0	175.3	1 268.5	4.5
- Disposals this year	-21.2	-8.6	-53.0	-1.2
- Accumulated depreciation	-2 092.7	-2 147.2	-915.7	-10.7
Book value, end of year	907.2	1 000.7	319.2	8.7
Other tangible assets:				
Acquisition cost, beginning of year	134.5	142.2	1.2	1.2
+ Additions this year	4.3	5.8	78.6	-
- Disposals this year	-1.2	-0.6	-0.2	-
- Accumulated depreciation	-102.9	-100.0	-54.9	-0.6
Book value, end of year	34.7	47.4	24.7	0.6

NOTES TO THE FINANCIAL STATEMENTS

(MFIM)	Corporation		Parent Company	
	1995	1994	1995	1994
Assets in construction:				
Acquisition cost, beginning of year	60.4	58.5	-	-
+ Additions this year	183.4	88.8	169.9	-
- Disposals and transfers this year	-90.7	-86.3	-55.5	-
Book value, end of year	153.1	61.0	114.4	-
Property insurance values of tangible fixed assets	7 271.3	7 879.5	2 971.0	360.4
Taxation values				
Land and water areas	105.3	100.4	47.1	13.2
Buildings	785.2	844.2	329.7	63.5
Shareholdings, subsidiaries	-	-	1 532.0	1 857.4
Shareholdings, associated companies	303.4	173.5	302.1	158.8
Shareholdings, other companies	245.8	295.3	60.4	47.7
	1 439.7	1 413.4	2 271.3	2 140.6

10. SHAREHOLDINGS

(The staggering of the names shows the chain of ownership)

Company	Number of shares	%	Currency code	Nominal value	Parent Company ownership Book value FIM 1000	Ownership via subsidiaries Book value 1000 FIM
SUBSIDIARIES						
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 Paper Machinery (Holdings) Inc.	Canada		100			191 832
Valmet Canada Inc.	Canada		100			
Finbow Oy	Finland	600	60	FIM	50	2 450
Jylhäräisio Oy	Finland	204	51	FIM	10 000	13 257
Jylhäräisio GmbH	Germany		100			122
Jylhäräisio Inc.	USA		100			579
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 Industrigummering AB	Sweden	486	81	SEK	1 000	
Valmet Dura Inc.	Finland	1 200	60	FIM	10 000	12 000
Valmet-Karhula Inc.	Finland	140 000	100	FIM	1 000	129 032
Roval S.A.R.L.	France	10 000	100	FRF	1 000	7 426
Valmet Paper Machinery France S.a.r.l.	France	98	98	FRF	500	36
Valmet Papiermaschinen GmbH	Germany		100			16 580
Valmet Papiermaschinen Ges.m.b.H.	Austria		100			216
Valmet Papiermaschinen Service GmbH	Germany		100			7 609
Valmet Papiermaschinen Vertriebs GmbH	Germany		100			913
Valmet-Como S.p.A.	Italy	10 000	100	ITL	1 000 000	68 327
Valmet-Gorizia S.p.A.	Italy	146 300	100	ITL	100 000	47 900
Rotomec-Costruzioni Meccaniche Elettriche S.p.A.	Italy	2 879 368	96	ITL	1 000	47 777
Rotomec Automation S.r.l.	Italy	1 500 000	100	ITL	1 000	4 125
Rotomec Frabelux S.A.R.L.	France	850	85	FRF	100	71
Rotomec Service GmbH	Germany	900	90	DEM	100	121
Rotomec Iberica S.A.	Spain	2 480	80	ESP	1 000	160
Rotomec America Inc.	USA	2 020	100	USD	100	
Valmet Japan Co.. Ltd.	Japan	100	100	JPY	100 000	497
Valmet Korea Inc.	Korea	10 000	100	WON	10 000	657
Valmet (SEA) Pte Ltd	Singapore	600 000	100	SGD	1	699
Valmet-Singapore Pte. Ltd.	Singapore	250 000	100	SGD	1	525
Valmet Paper Machinery (UK) Ltd.	UK	9 999	100	GBR	1	181

Company		Number of shares	%	Currency code	Nominal value	Parent Company ownership Book value FIM 1000	Ownership via subsidiaries Book value 1000 FIM
Valmet Automation Inc.	Finland	3 000 000	100	FIM	60	229 991	
Valmet Automation (Australia) Pty. Ltd.	Australia	502	100	AUD	1		1 678
Valmet Automation Ges.m.b.H.	Austria		100				156
Valmet Automation (Canada) Ltd.	Canada	11 186 391	100				111 979
CPS Elektroniiikka Inc.	Finland	3 000	100	FIM	1 000		3 000
Sensodec Oy	Finland	800	100	FIM	1 000		7 979
Valmet Automation Kajaani Ltd.	Finland	1 500	100	FIM	10 000		20 976
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 AS	Norway	50	100	NOK	1 000		34
Valmet Automation B.V.	The Netherlands	1 700	100	NLG	100		51
Valmet Automation Ltd.	UK	200 000	100	GBP	1		1 481
Valmet Automotive Inc.	Finland	63 200	100	FIM	1 000	363 288	
Valmet Aviation Industries Inc.	Finland	6 200	100	FIM	5 000	104 000	
Valmet Avicom Inc.	Finland	1 600	100	FIM	10 000		106 000
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	
Valfin Ltd.	Finland	255	100	FIM	200 000	51 000	
Valmet Svenska AB	Sweden	800 000	100	SEK	100	106 516	
Umeå Logging and Industrial Machines AB	Sweden	100	100	SEK	1 000		98
Valmet Automation (Sverige) AB	Sweden	46 000	100	SEK	100		3 806
Valmet-Karlstad AB	Sweden	70 000	100	SEK	1 000		44 578
Valmet Pappersmaskiner Skandinavien AB	Sweden	200	100	SEK	1 000		131
Valmet NV Inc.	USA	515	100	USD	1	379 227	
Valmet Inc.	USA		100				188 649
Honeycomb Systems S.a.r.l.	France		100				
Sandy Hill International Inc.	USA		100				
Valmet-Sandy Hill Services Inc.	USA		100				
Valmet Automation (USA) Inc.	USA		100				72 327
Valfin Incorporated	USA		100				111 144
						1 846 658	733 696
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	
Valfin B.V.	The Netherlands	35	100	NLG	1 000	60	
A/O Valmet STP	Russia	77 696	100	SUR	1 000	289	6
						432	6
ASSOCIATED COMPANIES							
Valmet Xian Paper Machinery Co. Ltd.	China	6	48.3			11 525	
KajaaniCAD Oy	Finland	1 500	31.3				150
Oy Saab-Auto Ab	Finland	191 500	50	FIM	100	19 224	
Oy Scan-Automotive Ab	Finland	350 000	50	FIM	100	119 715	
Sako Ltd.	Finland	40 000	50	FIM	500	25 000	
Sakon Kiinteistöt Oy	Finland	500	50	FIM	10	4 724	
Sampower Oy	Finland	1 991	34.7	FIM	1 000	3 982	
Oy Sisu Ab	Finland	9 397 106	25.4	FIM	10	201 038	
Vallox Oy	Finland	1 640	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				135
Contur S.P.	Russia		50				1 044
						390 757	1 329

NOTES TO THE FINANCIAL STATEMENTS

Company	Number of shares	%	Currency code	Nominal value	Parent Company ownership Book value FIM 1000	Ownership via subsidiaries Book value 1000 FIM
OTHER						
Ekokem Oy Ab	83	0.5	FIM	2 000	150	16
Finnair Oy	15 600		FIM	5		733
Innopoli Oy	10 000	1.1	FIM	100	1 000	
Kiinteistö Oy Panuntie 6	3 917	56.3	FIM	10	56 224	
Kymmene Oy	97 269	0.1	FIM	20		12 541
Merita Ltd.	440 000	0.1	FIM	10	6 925	
Oy Rastor Ab	140	1.2	FIM	100		2
Rautaruukki Oy	120 000	0.1	FIM	10	1 498	
Repola Corporation	2 648 225	1.7	FIM	10		235 893
Sampo Insurance Company	89 093	0.6	FIM	20		6 633
Tamfelt Oy	181 575	2.8	FIM	20	26 286	
Uudenkaupungin Kehityskeskus Oy	237	19	FIM	1 000	1 014	
Vuotekno Oy	20	13.3	FIM	100 000	2 000	
Impact Systems Inc.	100 000	1	USD	4.24	2 252	
Other shares and holdings					11 928	33 556
					109 277	289 374
Shareholdings total					2 347 124	1 024 405

	Corporation		Parent Company	
	1995	1994	1995	1994
Book value of shareholdings:				
Subsidiaries	-	-	1 847 090	2 470 095
Associated companies	392 086	361 676	390 757	343 442
Other companies	399 089	379 069	109 277	80 549
Withdrawal of depreciation of shares in associated companies	13 591	68 565		
Share of associated companies' profits or losses incurred after acquisition	91 331	-	-	-
	896 097	809 310	2 347 124	2 894 086
Book value of shareholdings in listed companies on Dec 31. (MFIM)	290.5	291.3	34.7	9.2
Market value of shareholdings in listed companies on Dec 31. (MFIM)	270.5	282.8	36.7	20.3
Book value of revaluations included in shareholdings Dec. 31 (MFIM)	70.0	70.0	200.0	200.0

(MFIM)

11. LOANS RECEIVABLE

The following information is a specification of Valmet's loans receivable:

Subsidiaries	-	-	286.1	398.8
Associated companies	-	135.5	-	135.5
Members of the Boards of Directors, the Supervisory Board and CEOs	0.8		0.5	
Other companies	19.8	41.2	8.3	21.8
	20.6	176.7	294.9	556.1

12. 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	75.5	113.0	75.5	113.0
Parent company's additional direct pension liability	125.9	130.4	125.9	130.4
Unfunded pension liabilities, total	201.4	243.4	201.4	243.4

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 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	
	1995	1994	1995	1994

13. RECEIVABLES

The information regarding Valmet's receivables is as follows:

Receivables from subsidiaries

Trade receivables, non-interest-bearing	-	-	186.0	12.6
Loans receivable	-	-	48.6	-
Accrued income and prepaid expenses	-	-	23.8	109.8
	-	-	258.5	122.4

Receivables from associated companies

Trade receivables, non-interest-bearing	0.8	0.7	0.3	0.4
Loans receivable	11.2	7.3	-	-
Accrued income and prepaid expenses	-	1.7	-	1.5
	12.0	9.7	0.3	1.9

Receivables due later than one year

Trade receivables, interest-bearing	15.2	30.4	8.6	7.4
Trade receivables, non-interest-bearing	40.1	8.0	25.0	-
Accrued income and prepaid expenses	59.1	35.1	43.8	21.9
Other receivables	2.4	1.1	-	-
	116.8	74.6	77.4	29.3

Interest-bearing receivables, total

	96.5	144.1	41.9	9.2
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14. CASH AND SHORT-TERM INVESTMENTS

Cash	285.8	295.3	24.3	41.4
Short-term investments	1 788.2	1 564.6	1 708.9	1 379.4
	2 074.0	1 859.9	1 733.2	1 420.8

Short-term investments are time deposits, commercial papers, treasury bills or other securities.

15. SHAREHOLDERS' EQUITY

Share capital, January 1	851.0	711.0	851.0	711.0
Share issue	-	140.0	-	140.0
Share capital, December 31	851.0	851.0	851.0	851.0
Restricted funds, January 1	1 390.9	1 478.4	1 481.2	976.4
Issue profit	-	504.8	-	504.8
Changes in corporate structure	-	-455.0	-	-
Translation adjustment of foreign subsidiaries	-41.0	-137.3	-	-
Restricted funds, December 31	1 349.9	1 390.9	1 481.2	1 481.2
Retained earnings, January 1	264.0	-513.6	1 113.1	1 205.0
Dividends paid	-42.6	-	-42.6	-
Change in untaxed reserves less deferred taxes	-	152.6	-	-
Share of associated companies' gains and losses from previous years	-16.6	-40.5	-	-
Changes in corporate structure	-	455.0	-	-
Translation adjustment of foreign subsidiaries	4.8	37.9	-	-
Retained earnings, December 31	209.6	91.4	1 070.5	1 205.0
Net income for the year	655.5	172.6	112.7	-91.9
Total equity, December 31	3 066.0	2 505.9	3 515.4	3 445.3
Unrestricted shareholders' equity includes voluntary untaxed reserves and accumulated depreciation adjustment less deferred taxes	25.3	63.6		
The amount of distributable unrestricted equity	839.8	200.4	1 183.2	1 113.1

NOTES TO THE FINANCIAL STATEMENTS

(MFIM)	Corporation		Parent Company	
	1995	1994	1995	1994
16. LIABILITIES				
Liabilities to subsidiaries				
Long-term debt	-	-	-	285.9
Current liabilities				
Short-term part of long-term debt	-	-	-	21.5
Other interest-bearing short-term debt	-	-	66.2	69.3
Accounts payable	-	-	183.9	-
Advances received	-	-	213.6	-
Accrued expenses and prepaid income	-	-	7.9	20.1
Cash pool balance	-	-	89.3	548.6
	-	-	560.9	945.4
Liabilities to associated companies				
Current liabilities				
Accounts payable	1.2	13.4	-	-
Accrued expenses and prepaid income	1.0	0.4	0.9	-
	2.2	13.8	0.9	-

17. 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
1997	2.5	49.6	81.0	18.7	151.9
1998	102.5	55.4	40.3	18.5	216.7
1999	102.6	15.9	37.5	25.5	181.6
2000	102.6	5.6	34.9	16.4	159.5
2001 or later	258.6	3.5	461.4	27.0	750.6
Total	568.9	130.0	655.2	106.2	1 460.3

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

Year	Bonds	Loans from financ.instit.	Pension loans	Other long- term debt	Total
1997	-	3.0	60.5	4.0	67.5
1998	100.0	3.0	21.3	4.3	128.5
1999	100.0	2.0	19.8	10.0	131.8
2000	100.0	1.7	18.4	7.4	127.5
2001 or later	240.0	1.3	242.5	8.6	492.5
Total	540.0	11.0	362.6	34.3	947.9

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	**
Debenture	31.01.92–1996	5.0	5.0
Valmet Inc.			
Debenture	01.05.79–2004	USD 1.7	USD 0.2
Debenture	1989–2009	USD 5.5	USD 0.4

* instalments 1998–2002

** instalment 2002

(MFIM)	Corporation		Parent Company	
	1995	1994	1995	1994
18. ACCRUED EXPENSES, LONG-TERM				
Voluntary additional pension liabilities	204.4	246.3	201.4	243.4
Provisions for warranty claims	27.9	4.5	22.4	–
Provisions for other claims and compensations	64.0	44.5	52.1	–
Other long-term provisions and accruals	98.7	89.0	80.2	80.0
	395.0	384.3	356.1	323.4

The parent company's long-term accrued expenses include a provision of MFIM 80 made in the 1989 financial statements to cover compensation claims made by the Wärtsilä Marine Industries' bankruptcy estate regarding ship deliveries.

19. SHORT-TERM PART OF LONG-TERM DEBT

Bonds	7.5	13.7	5.0	–
Loans from financial institutions	224.7	313.3	78.1	4.0
Pension loans	48.9	78.8	26.8	1.7
Other long-term debt	32.8	34.7	18.9	21.5
	313.9	440.5	128.8	27.2

20. ACCRUED EXPENSES, SHORT-TERM

Accruals related to personnel costs	360.7	370.7	182.6	4.4
Accruals related to interest expenses	77.7	82.1	34.4	47.4
Accruals related to direct taxes	121.2	49.3	65.5	14.9
Accruals related customer project deliveries	382.4	227.8	176.0	–
Provisions for warranty claims	124.7	116.8	70.9	–
Other accruals	123.5	145.4	54.9	6.5
Provisions for losses in order backlog	31.7	23.0	29.9	–
Other provisions related to production	37.5	32.5	3.3	–
Other provisions	12.8	53.5	–	–
	1 272.4	1 101.1	617.5	73.2

21. ASSETS PLEDGED AND CONTINGENT LIABILITIES

Collateral on corporate debt				
Mortgages	260.9	416.0	113.2	2.5
Pledged shares	–	135.1	–	–
Pledged receivables	10.9	5.5	–	0.9
Total	271.8	556.6	113.2	3.4
Other pledges and contingencies				
Mortgages	–	38.7	–	1.7
Pledged shares	3.6	8.9	–	–
Other pledged assets	3.0	27.4	–	–
On behalf of subsidiaries				
Mortgages	–	–	–	37.8
Guarantees	–	–	1 545.8	1 867.0
Guarantees on behalf of associated companies	8.9	304.9	8.9	298.6
Other guarantees	99.1	37.4	25.6	34.3
Total	114.6	417.3	1 580.3	2 239.4

Leasing-repurchase commitments	41.0	51.1	40.2	–
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The mortgage amount has been calculated as the amount of the corresponding loans.

The nominal value of the mortgages is MFIM 142 larger than the amount of the corresponding loans.

The amount of pledged shares has been calculated as the amount of the corresponding loans and other commitments.

22. OPERATING LEASE COMMITMENTS (CORPORATION)

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

	MFIM
1996	68.8
1997	62.1
1998	46.1
1999	24.8
2000	19.8
2001 and later	25.8
Total	247.5

23. DERIVATIVES AND RISK MANAGEMENT

Valmet Corporation operates internationally, giving rise to exposure to risks from changes in foreign exchange rates and interest rates. The Corporation utilizes derivative financial instruments to reduce those risks.

Foreign exchange risk management

Foreign exchange risks arise because a significant part of the Corporation's order backlog is comprised of delivery contracts in foreign currencies. The Corporation utilizes forward exchange rate contracts to hedge future cash flows of firmly committed customer delivery contracts. The amount of outstanding foreign exchange contracts related to hedged items on Dec 31, 1995 are in MFIM:

	Sold	Purchased
USD	1 309	
DEM	415	61
Other currencies	276	
Total	2 000	61

The firm sales and purchase commitments are recognized in the income statement at the forward rates specified in the forward exchange rate contract when the hedged transaction occurs. The forward exchange rate contracts in the above table are due primarily in 1996.

Valmet Corporation has entered into currency swap agreements related to long-term borrowing. Some loans in FIM have been converted into USD by these swap contracts in order to diminish the Corporation's USD exposure. The notional amounts of the Corporation's currency swaps on December 31, 1995 were FIM 332 million. The gains and losses from these swaps are designated and effective hedges of respective balance sheet items are recognised in the income statement. The currency swap agreements have a contract length of 0-7 years.

Interest rate risk management

Valmet Corporation has entered into interest rate swap agreements to lower its interest costs. The notional amount of interest rate swaps on December 31, 1995 amount to FIM 514 million. Interest rate swaps are accounted for as hedges of designated liabilities on an accrual basis. The interest payable and interest receivable under the swap terms is accrued and recorded as an adjustment to the interest expense on the designated liability.

24. CLAIMS AND DISPUTES

Legal proceedings on the claims for damages, made by Wärtsilä Marine Industries Inc.'s bankruptcy estate against Valmet Corporation at the beginning of 1990, continue in the District Court of Helsinki. These claims contain nothing financially new, from Valmet Corporation's 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 the view of Valmet, in accordance with legislation and regulations. The claims are based on unfounded allegations and biased reports made by the bankruptcy estate.

In a patent dispute between the then 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 for patent infringement amounting to USD 7,875,000. An appeal against the decision has been lodged at a higher court. In the same legal proceedings, one of Beloit Corporation's patents was declared invalid.

Patent lawsuits against Valmet Corporation are pending in the USA, Canada and Sweden. In order to defend its technology, the Corporation has instigated legal proceedings concerning patent violations in the USA, Canada and England.

Lawsuits on product liability against the Corporation are pending in the USA. However, taking product liability insurance into consideration, they constitute no material risk. Legal proceedings are also pending in the USA on an as yet unsettled customs duties case. It is accepted that export delivery projects usually carry continuous taxation risks and generate some legal disputes, which cannot, however, be regarded as material in terms of the Corporation's overall business activities.

In the contractual dispute between Valmet Corporation and Oy Tampella Ab on the acquisition of Tampella Papertech Oy, the court of arbitration has ordered Oy Tampella Ab to pay Valmet Corporation damages, with interest, amounting to approximately FIM 30 million. At the same time, Oy Tampella Ab renounced its claim of approximately FIM 16 million and redeemed from Valmet overdue, unpaid receivables, with interest, amounting to about FIM 7 million. After this, Oy Tampella Ab is still liable for certain receivables and pension liabilities, which have not yet reached maturity.

25. OFFERING OF BONDS WITH WARRANTS, AND AUTHORIZATION TO RAISE SHARE CAPITAL

The 1994 Annual General Meeting approved an issue of bonds with warrants, valued at FIM 500,000, to members of Valmet Corporation's senior management. The bonds are valid for five years, carrying an interest rate of 5 % and an issue price of 100 %. The warrants entitle the holders 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 bonds with warrants have been completely subscribed.

The 1995 Annual General Meeting authorized the Board of Directors to decide on the raising of a maximum of MFIM 170 of new share capital by means of a rights issue or an issue of convertible bonds and/or bonds with warrants. This authorization is valid until March 23, 1996, and the Board may depart from the pre-emptive right of shareholders to subscribe to new shares. The authorization was not used by February 19, 1996.

Accounting Principles

Valmet follows the accounting concepts stated 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. The following accounting principles have been applied to all subsidiaries in the consolidated financial statements.

BASIS OF CONSOLIDATION Subsidiaries in which Valmet's holding exceeds 50 % are consolidated in the 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 of companies is accounted for using the purchase method. The excess of the purchase price over the estimated fair value of the net assets acquired is recorded as goodwill, and is amortized on a straight-line basis over a ten year period. Commencing in 1994, goodwill for new acquisitions are amortized over a five year period. All inter-corporate transactions and balances have been eliminated in consolidation.

ASSOCIATED COMPANIES Associated companies are companies in which Valmet's direct ownership or indirect ownership is between 20% and 50 %. The Corporation's share of profits or losses of associated companies is included in the consolidated income statement. The Corporation's share of post-acquisition retained profits and losses of associated companies is reported as part of investments in associated companies in the consolidated balance sheet.

FOREIGN CURRENCIES Foreign currency transactions are recorded at the exchange rate of the date 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.

Assets and liabilities denominated in foreign currencies are translated at year end exchange rates unless related or matching forward exchange contracts or currency swaps have been entered into, when the rate specified in the contract is used. Exchange rate differences on assets and liabilities denominated in a foreign currency that are not covered by a hedging arrangement are recorded in the income statement.

FOREIGN SUBSIDIARIES In the consolidated financial statements, the income statements of foreign subsidiaries are translated into Finnish markka at the average rate of exchange prevailing during the year, and the balance sheets are translated at the exchange rate at the balance sheet date. Exchange differences arising from the translation of financial statements of foreign subsidiaries are taken directly into shareholders' equity and are allocated between restricted or unrestricted equity based upon the classification of the respective item that gives rise to the translation difference.

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. In cases where major contracts consist of technically separate sub-contracts with independent acceptance procedures, income is recognised when sub-contract delivery takes place. Commencing on January 1, 1996 the percentage of

completion method will be applied when recognizing the revenue of long-term delivery contracts.

FIXED ASSETS AND DEPRECIATION

Fixed assets are recorded at historical cost. Revaluations of long-term investments are made in certain cases. Tangible fixed assets are depreciated using the straight line method over the useful life of the asset. Typical useful lives of tangible fixed assets are as follows:

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 subject to finance leases are recognised in the balance sheet as fixed assets and liabilities, and are depreciated according to Valmet's normal depreciation policy. A lease that transfers substantially all of the risks and rewards of ownership of a property is considered a finance lease. All other leases are considered to be operating leases and rent expense is recognized evenly over the terms of the lease.

INVENTORIES Inventories are recorded at the lower of cost or market value calculated on a "first in, first out" or "weighted average price" basis. 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 an allocatable portion of production and project administration overheads.

SHORT-TERM INVESTMENTS Short-term investments are recorded at market value and 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 dur-

ing which the services are rendered by employees. Valmet has 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.

A portion of the voluntary additional pension liability incurred in previous years is not fully funded. It is recorded in assets as unfunded pension liability and in liabilities 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 as they are incurred. If such costs are deferred under certain circumstances, systematic amortisation is made over periods not exceeding five years.

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

In the consolidated financial statements, the untaxed reserves have been divided between a deferred tax liability and shareholders' equity.

CASH FLOW STATEMENT Exchange rate differences arising from the translation of non-Finnish subsidiaries' balance sheets from different years into

FIM have been eliminated in the cash flow statement by using 1995 exchange rates to translate the balance sheets of 1994. Similarly, changes in corporate structure have been eliminated by deducting the balance sheets of sold companies from 1994 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 cash flow statement in other financial income and expenses.

Definition of Financial Ratios and Key Indicators

(*) Equity 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 and 1995, 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

To the shareholders of Valmet Corporation

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, 1995. 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 23, 1996

KPMG Wideri Oy Ab/
Eero Suomela
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 1995 at its meeting today.

The Supervisory Board hereby states as its recommendation to the 1996 Annual General Meeting that the Income Statement and Balance Sheet for the year 1995 be adopted and that the profit be handled in the manner proposed by the Board of Directors.

The term of office for Supervisory Board Vice Chairman Teuvo Kinnunen and members Kirsi Piha, Ralf Sund and Markku Vuorensola expires at the end of the 1996 Annual General Meeting.

Helsinki, February 27, 1996

Pentti Mäki-Hakola
Chairman

Teuvo Kinnunen
Hannu Kempainen
Jarmo Leppiniemi
Johannes Leppänen
Leena Luhtanen
Markku Mäkinen

Jussi Niemi
Pertti Nykänen
Kirsi Piha
Ralf Sund
Markku Vuorensola

Order backlog grew sharply

Orders worth MFIM 9,872, 45 % up on the previous year, were won in 1995. At the end of the year, the value of the order backlog was MFIM 8,288, 63 % more than the previous year.

Key Figures, MFIM	1995	1994
Net Sales	6 560	5 470
Operating Profit	425	235
Total Assets, December 31	5 038	5 242
Personnel, December 31	8 674	8 193
Order Backlog	8 288	5 080
Investments and R&D	476	310

The consumption of paper has increased worldwide, but clearly at a slower rate than at its peak in 1994. The increase has been greatest in highly processed coated paper grades. In 1995, there was an increase of about 3 % in the consumption of paper and board grades. The output from paper mills has continued to increase, even though uncertainties have been clearly visible since the summer. In the main markets in Europe, North America and Asia, the capacity utilization of mills has been high throughout the entire year. In Asia, the volume of output has increased considerably, mainly due to the start-up of new capacity.

Increased demand was responsible for a sharp rise in the price of pulp until the latter half of the year, when the first signs of a drop in prices could be seen. Wastepaper prices have also begun to decrease from record levels. There was still a rise in the prices of paper and board grades from the beginning of the year. Price development at the end of the year has been marked by uncertainty, which led to a halt in price increases and even to a slight drop. The price of newsprint continued to rise at the beginning of 1996.

Customer mills in traditional markets still mainly invested in rebuilds in order to increase capacity or improve quality. However, in Europe some significant investment decisions were made including some of the biggest paper machines in the world, in terms of output. Asian machine investments have focused on entire new production lines.

Competition has remained stiff in all market areas.

COMPLETE MACHINES AND LARGE REBUILDS 11 complete machines were ordered in 1995. Five of the new complete machine orders came from Asia, five from Europe and one from the USA. Four of the machines ordered are very large in scale: an art paper line for the Veitsiluoto Oulu mill in the Enso Group, a coated fine paper line at Metsä-Serla's Kirkniemi mill, a liner board line for the Stora Group's Skoghall mill in Sweden and a fine paper machine for the Boise Jackson mill in the USA. The Asian orders came from South Korea, Thailand and Indonesia.

Three of the 1995 orders were for coated fine paper lines, two for fine paper, two for newsprint, two for liner board, one for release paper and one for tissue paper.

Apart from whole machines, numerous extensive machine rebuilds were ordered from Valmet. The largest of these were a catalog paper machine for the Kaipola mill and an LWC paper machine for the Rauma mill, both belonging to UPM-Kymmene. Other important rebuilds were an LWC paper machine for the SCA Laakirchen mill in Austria, a fine paper machine for Kertas Basuki Rachmat in Indonesia, an LWC machine for Stora's Kabel mill in Germany and a fine paper machine for Ballarpur in India.

Markets for paper finishing machinery continued to develop favorably. There was growth in all product groups. The largest single order was for a coater, two supercalenders and a large quantity of other finishing machinery for UPM-Kymmene's Nordland Papier mill in Germany.

Air systems were sold not only for new machines being supplied by Valmet, but also for many dryer section rebuilds which are intended to improve machine efficiency and runnability and the quality of paper. Customers' increasing interest in environmental aspects has been effectively utilized in the marketing of new air systems.

The stock preparation equipment added to Valmet's product range two years ago has further extended its market area. A total of nine pressure grinders were ordered.

SUCCESSFUL INNOVATIONS Despite the economic upswing, investments by the paper industry have been mainly directed at machine re-



In January 1996, the Central Laboratory's Optiblade coater reached a record speed of 2,503 m/min. The photo shows an Optiblade coater for LWC paper grades, delivered to UPM-Kymmene's Kaukas mill.



Heat recovery equipment supplied to Aylesford Newsprint Ltd. is an essential part of the mill's energy economy.

One of Valmet's most extensive deliveries in 1995 was a newsprint line, using recycled pulp, for Aylesford Newsprint Ltd. in England.

builds intended to improve production efficiency and the quality of the finished product. New and improved products created by Valmet's intensive R&D have played a decisive role in the success of sales in recent years.

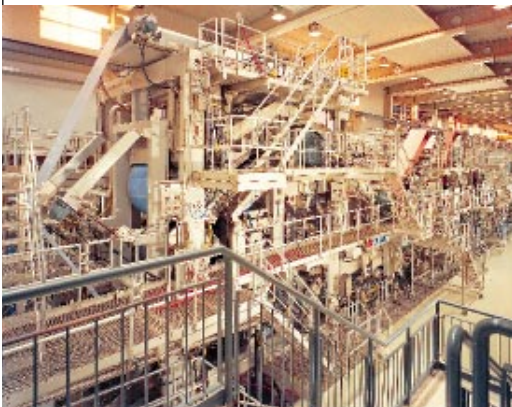
The most important developments at the paper machine wet end include the application of the Speed-Former gap former to an increasing number of paper and board grades and a completely new dilution headbox. The patented Sym-Belt shoe press, originally intended for board making, has also been adapted for the production of printing papers.

A significant development at the dry end, the Optireel, is still technically unique, and is further improving its position as the market's leading reel.

The extension to the Jyväskylä Research Center was opened at the beginning of 1996. This investment of more than MFIM 150 will allow Valmet to re-



A paper machine roll waiting for drilling, following covering with rubber at the Oulu Rubber Factory.



The Research Center extension, due to start operating in spring 1996 at Jyväskylä, Finland, will ensure that Valmet Corporation can respond to customers' growing needs right into the next millenium.

spond to customers' increasing demands at least until the first years of the next millenium.

New methods of improving paper surface properties, such as the Sym-Sizer size press, the Optisoft calender and new coating heads, have continued their market success. The Optiblade and Opticoat Duo were the latest coating heads introduced in the market.

Air dryers have been a success in coating drying. They have been supplied for converting applications as well as to the paper industry. An airborne dryer for pulp was the most significant new product. The first delivery will go to Metsä-Rauma's pulp mill in 1996.

INCREASE IN NET SALES A total of 12 complete paper, board and pulp machines were delivered during 1995, against 10 a year earlier. Three of these went to the USA and two to South Korea and China. Other deliveries were to England, Indonesia, India, Mexico and Taiwan. The most extensive deliveries were a newsprint line using recycled paper supplied to Aylesford Newsprint in England and a liner board machine for International Paper's Mansfield mill in the USA.

Large deliveries during 1995 included a tissue machine for Procter & Gamble in the USA, a coated fine paper line for Suzhou Papyrus in China and a line producing coated folding boxboard for ITC Bhadrachalam in India. Among the extensive rebuilds carried out were that of the Kabel LWC line for the Stora group in Germany, a liquid board machine for Iggesund in Sweden, the SC machine at the Halden mill and a newsprint machine at the Follum mill of Norske Skog in Norway, as well as SAPPi's Tugela board mill in South Africa.

Net sales of air systems increased, as a result of the machinery and equipment included in large deliveries of complete lines. Extensive deliveries were made to Finland, Sweden, Norway, Germany, the USA, Canada, Indonesia and Thailand.

Paper finishing machinery accounted for a considerable part of deliveries in 1995. Large deliveries included winders and a calender modernization for Mondi Paper, South Africa and a complete finishing line for Advance Agro in Thailand, which comprised supercalenders, winders and roll handling systems.

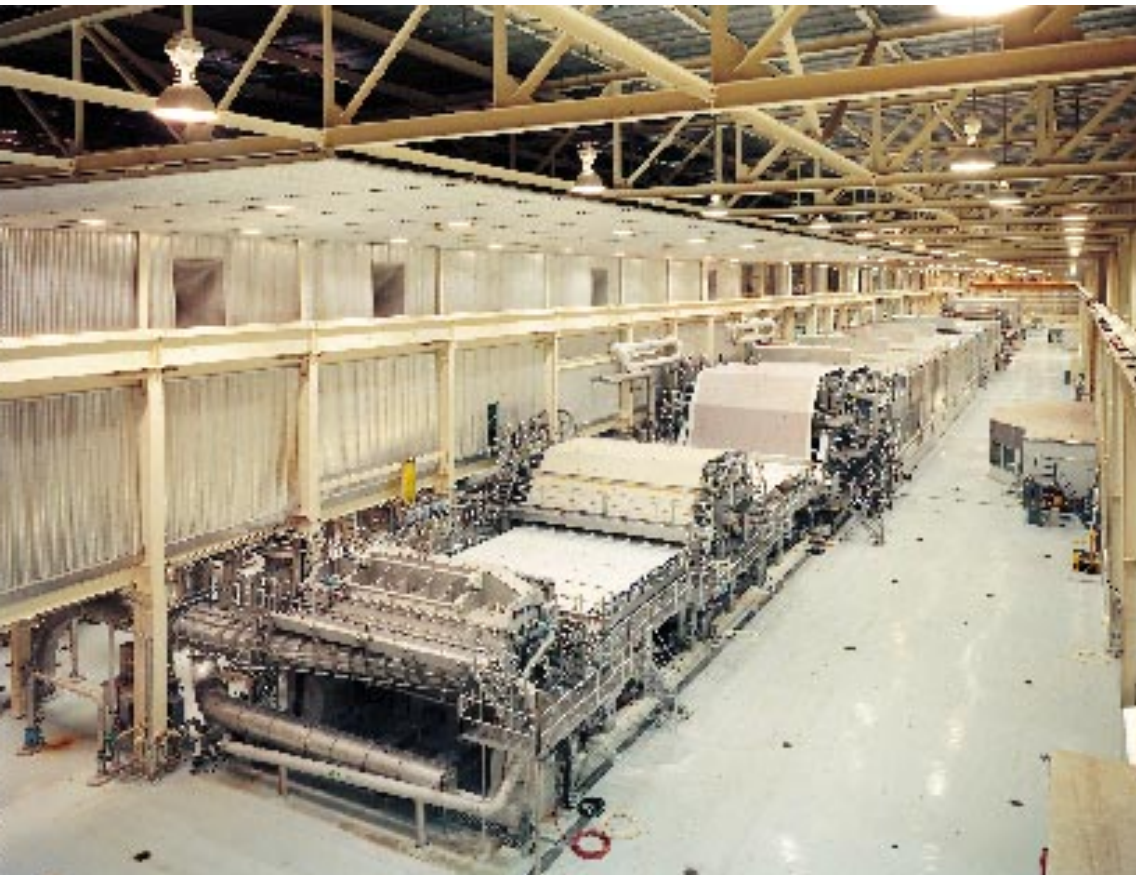
Service operations have continued to grow vigorously, with their share of paper and board machinery's net sales climbing to nearly one-quarter.

SERVICE AND MARKETING DEVELOPED SIGNIFICANTLY In 1995, new sales, technical assistance and service outlets, especially for the growing Asian markets, were opened to further improve customer service. They were located in South Korea, Thailand and Taiwan, and were complemented by one in China at the beginning of 1996. A Southeast Asian Service Center will open in Thailand in 1996.

The range of service products was supplemented through the acquisition of a majority shareholding in Finbow Oy, which specializes in paper machine spreader rolls. Roll covers made by Valmet Dura Oy, a joint venture established with the Japanese company Yamauchi, are also closely related to service products.

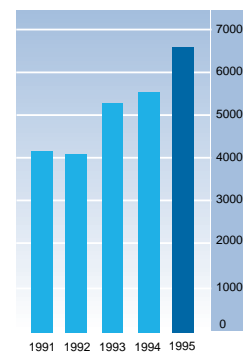
Sales in the USA and Canada of the entire range of paper and board machine products were concentrated in a single company, and sales and service was organized on a regional basis. Operations in the USA and Canada were revamped by placing the companies in both countries under a joint North America management. Sales and service in German-speaking Europe were combined from the beginning of 1995.

As the significance of the Asian markets increased, the regional organization was also strengthened by appointing a joint management in Singapore for all Asian operations.



A production line for coated folding boxboard delivered to Temple-Inland Corporation in Texas, USA, started up one month ahead of schedule in spring 1995 and was producing a saleable product after only twelve hours.

Net Sales, MFIM



CONCENTRATION OF PRODUCTION Production development continued as planned and in accordance with a product-based operating model. Thus, Valmet's production now takes place in a network of product shops, in which each focuses on the production of those critical components that have been allotted to it. At the same time, it was decided to transfer the manufacture of certain products to collaborating companies.

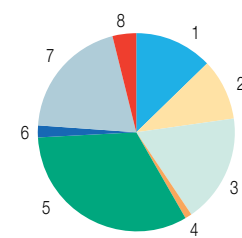
Production purchasing now concentrates on the effective management of previous purchasing sources, and on linking new sources of parts and components – those that are cheaper and closer to the customer – to Valmet's workshop network. In order to improve competitiveness and profitability, manufacturing agreements have been made with selected collaborating companies in Russia, the Baltic countries and Asia.

Production has picked up along with increased orders. The growth in work loads has not, however, caused any exceptional increase in costs.

THE OUTLOOK FOR 1996 The growth in the paper industry is normalizing. Nevertheless, according to some estimates, it will continue relatively strong in Asia. The economic development of China will greatly influence the overall pace of growth in the entire continent. The drop in the rate of overall growth in the world paper industry will result in a reduction in machine investments in the near future.

Net sales will show a clear increase in 1996 over the year before, as more machines on order than previously become ready for delivery. Internal quality and efficiency programs will also help to improve profitability. The financial result and profitability are expected to remain good.

Net Sales by Market Area



1	Finland	13 %
2	Other Nordic countries	9 %
3	Western Europe	18 %
4	Eastern Europe	1 %
5	North America	33 %
6	South America	2 %
7	Asia	20 %
8	Other countries	4 %

Growth in traditional and new markets

The growth in investments in the process and energy industries continued for the whole year. Valmet Automation's business operations developed favorably and in equilibrium, while central goals in orders, net sales and profitability were exceeded. During the year, particular emphasis was placed on product development, marketing and the expansion of the international distribution network.

Key Figures, MFIM	1995	1994
Net Sales	1 253	1 023
Operating Profit	102	80
Total Assets, December 31	877	804
Personnel, December 31	1 711	1 560
Order Backlog	905	731
Investments and R&D	128	104



Damatic XD control systems have also shown themselves to be competitive in managing energy generation and the environmental impact of production.

Valmet Automation achieved net sales of MFIM 1,253, an increase of 22 % over the previous year. Growth was maintained by increased deliveries to traditional markets and by the simultaneous expansion of market areas in South Africa, Mexico, Brazil and several countries in Asia. The most significant growth was in Northern Europe. New products that came onto the market during the year also assisted the favorable development in net sales.

In the course of the year, large Damatic XD control systems were delivered to Temple-Inland Forest Products Corp. and International Paper Co. in the USA, Suzhou Papyrus Paper Co. Ltd. in China, Shin Ho Paper Mfg. Co. Ltd. in South Korea, Neusidler AG in Austria, ČEZ Elektrarna in the Czech Republic and Outokumpu Harjavalta Metals Oy in Finland.

NEW ORDERS UP BY ONE QUARTER 25 % more new orders were gained than in the previous year. Significant growth was achieved in nearly all market areas, except North America and Russia.

Orders for control and paper quality systems were placed by PT Indah Kiat Pulp&Paper Mills from Indonesia, Chemg Loong Co. Ltd. and Yen Foong Yu Paper Mfg. Co. Ltd. from Taiwan, Avenor Inc. from Canada, Boise Cascade Corp. from the USA, Industrias Klabin Papel e Cellulose from Brazil, and by the following European companies: Nordland Papier AG (Germany), Fedrigoni & C. SpA, Cartiere (Italy) and Torras Papel SA (Spain). The main domestic delivery contracts were made with Veitsiluoto Oy, Metsä-Serla Oy and Neste Oy.

There was an especially large increase in sales of paper machine runnability and condition monitoring systems, in which Valmet Automation's Sensodec unit further reinforced its position as the world market leader. Significant orders were placed by Stora Billerud Ab from Sweden, Nordland Papier AG from Germany and SCA Laakirchen from Austria. Systems were also ordered by Veitsiluoto Oy, Metsä-Serla Oy and UPM from Finland.

The tightening of environmental regulations and the rapid improvement of profitability in the pulp and paper industry resulted in a considerable increase in the demand for process measurement and analysis equipment. Kajaani's Kappa Analyzer was a success, particularly in North America. The MCA microwave consistency analyzer, gained a considerable market share in Europe. The largest single delivery consisted of 25 MCA analyzers for the Skoghall mill of Stora AB in Sweden. The RM-200 system, which improves paper machine runnability, was sold for the production processes of all main paper grades. Five of the world's fastest paper machines use the RM-200 wet end control system. Japan, like Finland, became a leading user of PaperLabs, when the Honshu Paper, Nippon Paper and New Oji Paper companies introduced the new automatic paper testing laboratories.

Damatic XD control and management solutions, used to manage the environmental effects of production and energy generation, which previously achieved good growth, have now also shown their competitiveness in new markets. Breakthroughs have been made and new customer relations cemented in Germany, Poland, Spain and several countries in eastern Central Europe. The Sage unit, which supplies SCADA systems, successfully expanded its operations in Brazil and China.

CUSTOMER-SPECIFIC SERVICE AGREEMENT The development of customer service, which had been previously set as a priority, continued for the whole year with the development of preventive maintenance for control systems. Individual customer service is ensured by agreements covering customer training, system maintenance, spare parts, system extensions and updating and the services of applications experts.



The new PaperIQ was an even greater market success than expected. 40 systems were ordered from different parts of the world for paper and board quality measurement.

The distribution and maintenance network was expanded by establishing new service units in China, the Czech Republic, Indonesia, Korea, Norway, Taiwan, Thailand.

SUCCESSFUL NEW PRODUCTS Research and development investments were maintained at their previous high level and several new products were launched. Product development costs in 1995 totalled MFIM 99, nearly 8 % of net sales. The most important innovation was the PaperIQ distributed paper quality measurement system, which was an even greater market success than expected. By the end of the year, 40 systems had been ordered in various parts of the world, for the quality measurement of boards, printing papers, fine and special papers and tissue.

The XIS information station and its applications, developed for the information and reporting requirements of mills and plants, was a market success.

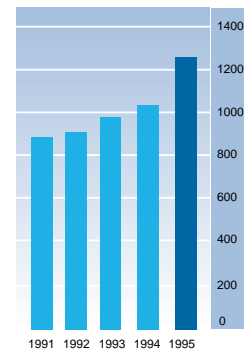
Digital "smart" transmitters, launched in the spring, were an immediate success. By the end of the year, more than 1,200 transmitters had been sold for various applications. The Kajaani Filtrate Polarox sensor was developed for the measurement of chemicals used in the bleaching of pulp.

THE OUTLOOK FOR 1996 The outlook for 1996 is positive. Demand will continue to be good, even though growth appears to be levelling off. Investments in the expansion of the distribution network will be continued, with the main emphasis on Asian markets. Measurement and control solutions for energy production and environmental protection will become even more competitive. Cooperation with other Valmet units will be strengthened in order to develop pulp and paper industry automation solutions that fully meet customers' changing requirements.

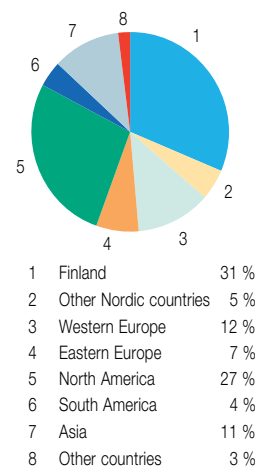
Recent deliveries have made Finland and Japan the biggest users of PaperLab automatic paper testing laboratories.



Net Sales, MFIM



Net Sales by Market Area



Board of Directors 1996

- Matti Sundberg, *Chairman*
- Mauri Jaakonaho
- Markku Kangas, *President*
- Heikki Keränen
- Eino Auvinen
- Jaakko Helenius
- Jouko Pajunen

Demand rose steadily

The net sales of Valmet Power Transmission were 38 % up compared to the previous year. The growth was uniform in all product groups. Market demand increased favorably. At the end of the year, the company's order backlog was 59 % greater than in the previous year. The financial result was satisfactory.

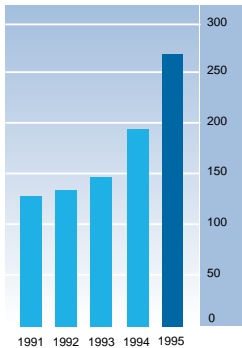


This roll cylinder drive is part of a mechanical drive system delivered for Aylesford's PM 14.

Key Figures, MFIM	1995	1994
Net Sales	267	194
Operating Profit	21	22
Total Assets, December 31	213	188
Personnel, December 31	364	361
Order Backlog	176	111
Investments and R&D	27	16

Market demand increased significantly in the fall of 1994 and remained brisk throughout 1995, both in Finland and abroad. The strongest growth occurred in mechanical drives for the wood processing industry, gears for energy production, and service operations. The demand for hydraulic motors was high, but levelled off towards the end of the year, due to increasing caution on the part of forest machinery customers.

Net Sales, MFIM



Board of directors 1996
 Juhani Riutta,
Chairman
 Hannu Korpisaari
 Leo Lahtinen

President
 Erkki Pylvänäinen

SUCCESS IN ENVIRONMENTALLY-FRIENDLY APPLICATIONS The consistent product development of previous years and long-term cooperation with customers solidified Power Transmission's position as a major supplier of gears for wind power plants. Valmet gears have been successful especially because of the high quality, low noise level and operating reliability.

NEW INVESTMENTS Market success, customer cooperation and an enlarged sales network led to a considerable increase in production. Investments to increase capacity, and to improve production processes and product quality were implemented.

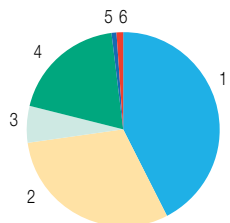
The operating structure was substantially improved by enlarging the resource network and increasing production cooperation with contract partners.

More capital than before was invested in human resources development. Extensive, organization-wide teamwork and cooperation training led to visible improvements in processes and work stations at the production plant.



A drive developed for Valmet Yankee cylinders improves machine runnability.

Net Sales by Market Area



- 1 Finland 42 %
- 2 Other Nordic countries 31 %
- 3 Western Europe 6 %
- 4 North America 19 %
- 5 Asia 1 %
- 6 Other countries 1 %

OUTLOOK FOR 1996 The outlook for 1996 is favorable. Power Transmission's order backlog is good, and the market situation will remain buoyant, even though growth will slow somewhat. Due to a strengthening market share in hydraulic motors and active development of the service business in gears, Power Transmission's positive trend is expected to continue.

New contracts increase car production

The revival of car sales continued in the main market areas of Valmet Automotive.

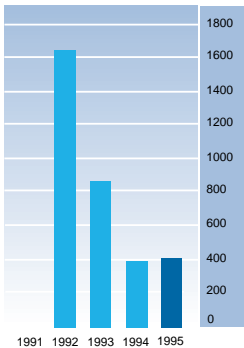
Production was also up on the previous year, mainly due to the success of the Saab 900 convertible. In 1996, production will further increase to about 30,000 cars through the plant's sole right to produce Opel Calibras and the commencement of "Euro-Samara" production.



All Saab convertibles and Opel Calibras are now made at Uusikaupunki.

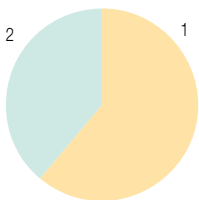
Key Figures, MFIM	1995	1994
Net Sales	388	381
Operating Profit	94	92
Total Assets, December 31	387	638
Personnel, December 31	876	867
Investments and R&D	35	24

Net Sales, MFIM



Board of Directors 1996
 Matti Sundberg, *Chairman*
 Juhani Riutta, *Vice Chairman*
 Jorma Halonen
 Mauri Jaakonaho
 Juhani Linnoinen, *President*

Net Sales by Market Area



1 Other Nordic countries 61 %
 2 Western Europe 39 %

NEW AGREEMENTS Negotiations with Adam Opel AG led to the entire production of the Opel Calibra being transferred to Uusikaupunki, starting in November. This will mean the production of several thousand more cars in 1996.

In November, Valmet Automotive made a cooperation agreement with a Russian company. This three-year agreement, made with the AvtoVAZ automobile plant, the AVVA development company and the EuroLada marketing company, means that about 60,000 Samara cars, intended for Western European markets, will be produced at Uusikaupunki.

The production agreement was preceded by a product development project, in which EuroLada commissioned Valmet Automotive to design the alterations to the Samara desired by European markets. The car made its debut at the autumn Frankfurt Car Show.

A special unit will be established for "Euro-Samara" production. The bodies will be made and painted at the present plant. A production line will be constructed in leased premises in the vicinity of Uusikaupunki harbor for the purposes of assembly. Full production will start in late summer 1996 and will employ 300-400 at the car plant and in subcontractors. This year about 6,000 Samaras will be made for customers in Western Europe.

Cooperation with Russia's largest car manufacturer will make it possible for Valmet Automotive to act as a link between the eastern and western automotive industries. Negotiations are also being conducted with western collaborators, with the intention of utilizing the production capacity of the plant to the full.

SUCCESSFUL CONVERTIBLES The Saab 900 Cabriolet, of which Valmet Automotive is the sole manufacturer, achieved its best sales result of all time. Total production reached nearly 13,000 cars. Europe overtook the USA as the biggest market area.

INVESTMENTS FOR THE FUTURE The car plant will renew its information systems, in order to serve the various car plant customers flexibly. Renovations in materials reception and handling and in assembly loads and changeover management were introduced in the fall. Investments totalling MFIM 60 were begun in the paint shop. These will allow a transfer to waterborne top coat application in 1997.

Hornet project under way

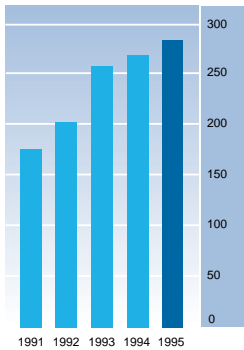
The majority shareholding in Valmet Aviation Industries Inc. was transferred from Valmet Corporation to the Finnish State on January 1, 1996, in accordance with an agreement signed on January 2, 1996.



The first Hornets arrived in Finland in the fall of 1995.

Key Figures, MFIM	1995	1994
Net Sales	283	266
Operating Profit	-7	-36
Total Assets, December 31	434	389
Personnel, December 31	970	957
Order Backlog	529	518
Investments and R&D	9	11

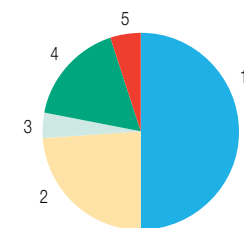
Net Sales, MFIM



Board of Directors 1996

Juhani Riutta, *Chairman*
 Harri Pynnä, *Vice Chairman*
 Jorma Eloranta
 Leo Lahtinen
 Raine Vairimaa
 Veijo Vartiainen, *President*

Net Sales by Market Area



- 1 Finland 50 %
- 2 Other Nordic countries 24 %
- 3 Western Europe 4 %
- 4 North America 17 %
- 5 Other countries 5 %

The Hornet F/A-18 project, including technology transfer, acquisition of tools and the building of necessary facilities such as an aircraft paint shop, advanced to the stage where assembly of aircraft, landing gear and engines could be started in 1995, as agreed. The first engines were delivered to the client in the fall.

The number of F/A-18 side panels and composite dorsal covers produced increased considerably during 1995. McDonnell Douglas granted Valmet Aviation Industries bronze-level, favored supplier status, based on delivery reliability and product quality.

Despite the low level of defence funding, it is expected that the order backlog for 1996 will be satisfactory, mainly due to work with the Hornet. The most important project for the future is to acquire maintenance readiness for the Hornet. This will require a high degree of overall knowhow, good cooperation and a knowledge of aviation electronics.

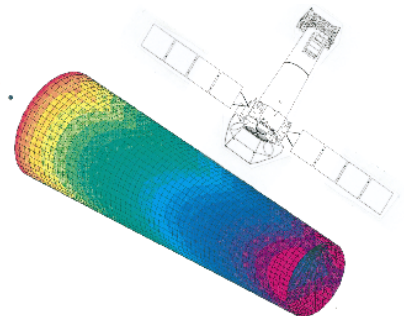
It was decided to end production of the Redigo trainer, following completion of presently unfinished aircraft.

During the year under review, Avicomp Oy began the development and manufacture of space equipment, the first project being a composite Telescope Tube for ESA's XMM scientific satellite.

During the first half of the year, the number of components delivered for SAAB 2000 commercial aircraft grew rapidly.

This, together with the simultaneous increase in the production of side panels, placed considerable demands on capacity growth management. Towards the end of the year, the number of components supplied for the SAAB 2000 was reduced below the plan, allowing control to be firmly established over total capacity growth.

Capacity variations were levelled off by aircraft adaptations carried out for domestic and foreign customers. The Maintenance unit achieved the targets set.



The Telescope Tube is Avicomp Inc.'s first project related to space constructions.

Oy Scan-Automotive Ab, Group

The sales of heavy trucks weighing over 16 tonnes continued to grow in Finland. The total market grew by 69% in the accounting year, from 1,408 to 2,380 vehicles. Scania's market share, 29%, remained at last year's level. Scania registrations grew by 280, from 410 to 690 vehicles.

The total Finnish market for heavy buses weighing more than 12 tonnes increased by 38% from 191 to 263 vehicles. Scania's market share grew by over six percentage points, from 33 to

39.2%. Scania registrations grew from 63 vehicles to 103 vehicles.

MFIM	1995	1994	Change
Net Sales	1 465	1 050	40 %
Income before allocations and taxes	71	31	129 %
Personnel 31.12.	576	533	43

Board of Directors 1996

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Lars V. Kylberg, *Vice Chairman*
Jorma Halonen, *President*
Mauri Jaakonaho
Urban Erdtman
Olli Mutanen
Juhani Suvinen
Leif Östling

Owners

Valmet Corporation 50 %
Scania AB 50 %

Oy Saab-Auto Ab

Sales of new cars continued to grow in Finland in 1995. The total market expanded by nearly 20 % to 79,890 vehicles. Saab registrations increased by 30 % to 1,420 vehicles.

MFIM	1995	1994	Change
Net Sales	265	222	19 %
Income before allocations and taxes	10	4	150 %
Investments	5	5	
Personnel 31.12	25	25	

Board of Directors 1996

Robert McEniry, *Chairman*
Juhani Riutta, *Vice Chairman*
John P. Arle
Bjarne Engstrand
Jorma Halonen, *President*

Werner Hösel
Mauri Jaakonaho
Juhani Linnoinen

Owners

Valmet Corporation 50 %
Saab-Auto-mobile AB 50 %

Sako Ltd.

A fundamental change took place in Sako Ltd's corporate structure during 1995, when the company agreed on the sale of its subsidiary, Sako Defencetec Ltd, to Vammass Oy. By this sale, which occurred in May, all Defencetec's ammunition materials and its artillery and subcontracting activities in Jyväskylä, as well as its cartridge production in Leppävirta were transferred to Vammass Oy. Sako Defencetec Ltd's net sales were approximately MFIM 90 and the number of employees was 170.

MFIM	1995	1994	Change
Net Sales	152	232	-35 %
Income before allocations and taxes	4	36	-89 %
Personnel 31.12	290	435	-145

Because of the structural change, the net sales and income figures of 1995 and 1994 are not directly comparable.

The large decrease in personnel is due to the sale of Defencetec. The number of personnel in the weapons business sector remained at the 1994 level.

Sako Ltd. will now concentrate on strengthening its weapons and cartridge businesses in Riihimäki and on developing its international marketing network.

Sako Ltd's position as Europe's leading supplier of hunting and sports weapons strengthened further during 1995. A major portion of the Riihimäki factory's production is exported. In its largest market, North America, Sako operates through its subsidiary, Stoeger Industries Inc. Tikka rifles, in particular, strengthened their position on the US market as a top quality product.

In summer 1995 Sako made an agreement on a land purchase which will facilitate the transfer of the company's ammunition loading plant from

Riihimäki to Hausjärvi. A plant with the necessary auxiliary accommodation will be built on the 65 hectare site in fall, 1996. The move was necessitated by the expiry within a few years of a permit allowing the ammunition loading plant to operate adjacent to the Riihimäki factory. The space vacated by the move will be used to extend Sako's weapons production facilities.

Board of Directors 1996

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Tapio Hintikka, *Vice Chairman*
Juhani Riutta
Petteri Walldén

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Owners

Valmet Corporation 50 %
Oy Nokia Ab 50 %

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