ANNUAL REPORT 1997

VALMET

Key Figures

Millions, except per share data	FIM 1995	FIM 1996	FIM **1997**	USD [2] **1997**
Orders booked	12 131	10 486	**10 609**	**1 946**
Order backlog, December 31	9 699	8 086	**7 126**	**1 307**
Net sales	8 574	11 764	**12 313**	**2 258**
Net sales change, %	2.9	37.2	**4.7**	**4.7**
Operating profit	530	921	**939**	**172**
Income after financial items	637	1 056	**1 018**	**187**
Income before taxes	719	1 020	**1 137**	**209**
Net income for the year	656	806	**863**	**158**
Exports and international operations	7 208	7 891	**9 799**	**1 797**
Exports and international operations, % of net sales	84.1	67.1	**79.6**	**79.6**
Capital expenditures	461	632	**1 376**	**252**
Depreciation and amortization	383	437	**432**	**79**
Research and development	374	493	**498**	**91**
Number of personnel, December 31	12 808	12 871	**13 480**	**13 480**
Shareholders' equity and minority interests	3 094	3 283	**3 949**	**724**
Balance sheet total	9 641	8 302	**10 073**	**1 847**
Net debt / equity, %	–3.2	–9.5	**18.8**	**18.8**
Equity ratio, %	40.6	42.8	**40.3**	**40.3**
Return on net assets, %	16.0	23.4	**20.6**	**20.6**
Return on equity, %	20.7	26.6	**22.4**	**22.4**
Earnings / share	6.74	10.26	**10.08**	**1.85**
Dividend / share	1.75	3.00	**3.50** [1]	**0.64** [1]
Market value of shares, Dec. 31	4 638	6 326	**5 873**	**1 077**

[1] Proposal by the Board of Directors

[2] Translated from Finnish markkas ("FIM") into United States Dollars ("USD") using the December 31, 1997 Noon Buying Rate of the Federal Reserve Bank of New York of USD 1.00 = FIM 5.4530.

Corporate Profile

- Valmet is the worlds leading supplier of paper and board machinery and related automation. Valmet serves pulp, paper and packaging industries worldwide, by engineering and producing advanced and reliable process solutions, machinery and services to support customers in their efforts to become winners in their businesses. In all its operations, Valmet aims at a competitive return for its shareholders and other stakeholders.

- Through R&D, Valmet masters the key processes and process controls and continuously develops new spearhead products. Valmet's strategy is controlled growth and the maintenance of profitability through all stages of the business cycle. A geographically more even market spread and a greater share of net sales from service and machine rebuilds will level out the affects of cyclical variations in the forest industry.

- Valmet bases its operations on a global production network and teamwork across organizational borders. A flexible approach allows the maximum utilization of all individual capabilities. Valmet embraces the principles of sustainable development. The company takes environmental responsibility in its own operations and in the processes offered to customers.

Contents

Another good year

Valmet Group's 1997 operating profit grew to FIM 939 million, and income after financial items was FIM 1,018 million, which was close to last year's level. We have succeeded in maintaining good profitability in the midst of a forest industry downturn and despite prevailing market uncertainty. At the same time, we have increased our marketing and research and technology development to improve competitiveness.

An essential part of Valmet's strategy has long been to serve the increasingly international and concentrated forest and process industry on a global basis. In this way, we ensure that our success is not dependent on the development of a single market area, or individual customers.

The Asian crisis is an example of how changes in the business environment are occurring more than rapidly than ever before – in our business, too. Market development is not something that a single company can control, or even

reliably predict. To succeed in global competition requires an ever deeper understanding of the markets, the ability to react quickly and flexibly, and a sound operating basis.

In the long-term there are no changes to the fundamental situation. Asia remains a vital region for us. China alone, with its population of 1.2 billion, is a significant market. The average annual consumption of paper in China is 20 kg per person – only one tenth of the consumption in western countries. An increase of one kilogram per person per year would mean an overall rise in demand of 1.2 million tons – equivalent to six new paper machines. 1,200 new paper machines would be required in the future to reach the western level of consumption.

The Asian crisis highlights the importance of actions directed at other markets. Although the European and North American paper industry's willingness to invest is generally expected to pick up towards the end of the year, sales projects are mainly focused on modernizing existing production lines, in order to increase capacity and utilization ratios. Service plays an increasingly important role, and we are pleased to note that its contribution to Valmet's net sales has already increased to almost 20 %.

In accordance with its strategy, Valmet is continuing to invest in new markets and reinforce its service operations in different parts of the world. In South America, a new sales office was opened in Venezuela and it was decided at the beginning of 1998 to establish a new sales and service company in Brazil.

The new technology and service center which began operations in Laem Chabang, Thailand, in the fall represents a long-term investment to increase service efficiency and improve our competitiveness in this region. Locating service centers near our customers has been Valmet's operating principle in Europe and North America. This is the first such center in the Asian region.

Valmet is consistently striving for controlled growth. In summer 1997 we expanded our converting machinery operations by acquiring an English company, Atlas Converting Equipment plc. Together with our Italian converting machinery units, it forms a business group which is already now one of the world's largest converting machinery suppliers.

During 1997, Valmet also re-engineered its division of products and production in order to further increase efficiency and competitiveness. Among the major changes were the relocation of board machine production from Tampere to other production units and the concentration of the board machine business in Karlstad, Sweden.

In January 1998, the large and medium-sized paper machine businesses were combined and based in Jyväskylä, Finland. At the beginning of 1998, the production team at Group Management and the production units operating under the Product Groups were also combined to form the Corporate Resources unit.

In recent years, Valmet has changed its modus operandi, becoming less of a local manufacturer and more of a global, expertise-based network, offering a total service to customers. As Valmet increasingly focuses on responsibility for key components and complete processes, many of the manufacturing stages are being transferred to subcontractors.

As a result of increased efficiency and persistent marketing efforts in new areas, Valmet expects income and profitability to remain at a good level also this year. Profitable operations will ensure the Group's sustained development, as well as a competitive overall return for shareholders and customers.

Valmet is continuing to invest heavily in new technology development. As a result, we will launch a completely new paper machine concept this year, which has been developed in Valmet's technology centers in association with universities, research institutes and customers. This is not just a case of improving various parts of the process, but rather of several significant innovations. The new concept will be presented to customers in June 1998, at Valmet's Paper Technology Days in Jyväskylä, Finland.

Valmet received recognition for the total quality of its operations, when the Järvenpää units were awarded the 1997 Finnish Quality Prize. Valmet Automotive's Uusikaupunki plant has also received much international praise for the quality of its Porsche Boxster deliveries. Improvement of quality remains a core goal, both in Valmet's own operations and those of its subcontractors.

Valmet's success in 1997 was achieved by the combined efforts of our personnel. I wish to thank them all, as well as our subcontractors and suppliers, for their fine work and co-operation.

My special thanks go to Valmet's customers and shareholders for the faith you have shown in us. All of us at Valmet worldwide will strive again this year to be worthy of your trust.

Helsinki, 24 February, 1998

Matti Sundberg

Shares and Shareholders' Equity

Valmet Corporation's share capital totals FIM 851 million. According to Valmet's Articles of Association there is one series of shares. The total number of shares issued and outstanding is 78,100,000. No shareholder can vote with more than 80 % of the total votes represented at the General Meeting. According to the Corporation'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.

The Corporation's shares have been quoted on the Helsinki Exchanges since 1988. The shares have been joined to the book entry securities system, in which shareholdings are registered in book entry accounts held by various book entry registrars. Foreign shareholders may alternatively register their shares in nominee accounts administered by a custodian. Nominee-registered shares have no voting rights. Valmet's American Depository Shares (ADS) representing two ordinary shares each, have been listed on the New York Stock Exchange since 1996 and traded under a sticker VA.NYSE.

During 1997, 54 million Valmet shares were traded on the Helsinki Exchanges at an average price per share of FIM 86.48. The number of ADSs traded on the New York Stock Exchange was 0,5 million, and the average price was USD 33.60 per ADS.

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 1,000,000 shares from December 1, 1998 to January 31, 2001, at a subscription price of FIM 60.00. The bonds with warrants were completely subscribed. No other bonds with warrants or convertible bonds have been outstanding during 1997.

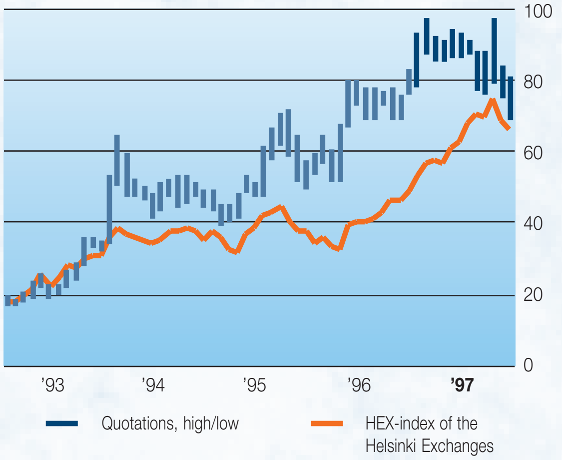
The Board of Directors does not currently have an authorization to increase share capital.

Share Data	1993	1994	1995	1996	**1997**
Share capital, Dec. 31, MFIM	711	851	851	851	**851**
Number of shares					
Number of shares, Dec. 31	71 101 430	85 101 430	85 101 430	78 100 000	**78 100 000**
Average number of shares	71 101 430	79 079 512	85 101 430	81 130 756	**78 100 000**
Trading volume, Helsinki Exchanges	22 653 694	26 552 340	24 751 770	44 980 204	**53 648 851**
Share issues, MFIM					
Increase in share capital		140			
Surplus over nominal value		505			
Number of shares redeemed and cancelled	–	–	–	7 001 430	**–**
Dividend, MFIM	–	43	149	234	**273** [1)]
Dividend / share, FIM	–	0.50	1.75	3.00	**3.50** [1)]
Dividend yield, %	–	1.1	3.2	3.7	**4.7**
Earnings / share, FIM	2.73	2.50	6.74	10.26	**10.08**
P/E ratio	13.00	18.02	8.09	7.89	**7.46**
Cash flow / share, FIM	11.14	8.22	11.35	15.88	**15.32**
Equity / share, FIM	27.48	29.45	36.03	41.57	**49.85**
Nominal value, FIM	10	10	10	10	**10**
Highest quotation, FIM	36.50	64.50	72.50	83.50	**98.00**
Lowest quotation, FIM	17.00	34.50	39.50	52.00	**69.00**
Quotation, Dec. 31, FIM	34.50	45.00	54.50	81.00	**75.20**
Market value of shares, Dec. 31, FIM millions	2 453	3 830	4 638	6 326	**5 873**

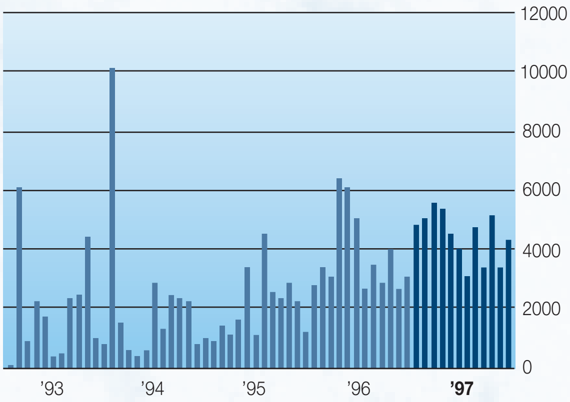
[1)] Proposal by the Board of Directors

The two-for-one share split has been taken into account in the table above for all years presented.

Monthly Trading Range of Valmet Shares on the Helsinki Exchanges, FIM



Monthly Turnover of Shares on the Helsinki Exchanges, 1,000 Shares



ADS Data
(Each ADS represents two shares)

	1996	**1997**
Trading volume, New York Stock Exchange	2 926 700	**521 522**
Earnings/ADS, USD	4.42	**3.70**
Highest quotation, USD	35.25	**38.50**
Lowest quotation, USD	30.00	**26.50**
Quotation, Dec 31, USD	34.75	**27.50**

Shareholders by Category Dec 31, 1997	Number of shareholders	% of shareholders	% of shares
Companies	444	4.0	2.5
Financial institutions and insurance companies	96	0.9	19.2
Public institutions	11	0.1	22.5
Foundations and associations	237	2.1	4.8
Private individuals	10 227	92.5	4.7
Foreign shareholders	41	0.4	0.1
Registered shareholders, total	11 056	100.0	53.8
Nominee registered			46.1
Shares not converted into book entries			0.1
Shareholdings, total			100.0

Shareholders Dec 31. 1997	Number of shareholders	Number of shares	% of shares
The Finnish Government		15 695 287	20.1
Pension Insurance Company Ilmarinen Ltd.		3 510 000	4.5
Pension-Varma Mutual Insurance Company		1 905 400	2.4
The Local Government Pensions Institution		1 359 300	1.7
Insurance Company Sampo-Pension Ltd.		1 000 000	1.3
Industrial Insurance Company Ltd.		975 000	1.2
Pohjola Insurance Company Ltd.		865 000	1.1
Pohjola Life Assurance Company Ltd.		847 800	1.1
Suomi Mutual Life Assurance Company		680 000	0.9
Valmet Corporation Personnel Fund		529 000	0.7
Sampo Insurance Company Limited		500 000	0.6
Kaleva Mutual Insurance Company		434 000	0.6
Social Insurance Institution		372 000	0.5
Sampo Enterprise Insurance Company Limited		370 000	0.5
Sampo Life Insurance Company Limited		300 000	0.4
	15	29 342 787	37.6
Other shareholders, shares / shareholder			
100 001 – 299 999	24	3 991 585	5.1
10 001 – 100 000	121	3 916 988	5.0
5 001 – 10 000	85	635 124	0.8
1 001 – 5 000	1 000	1 830 096	2.4
501 – 1 000	1 078	811 734	1.0
101 – 500	5 439	1 218 030	1.6
1 – 100	3 294	185 519	0.2
Nominee registered		36 124 307	46.2
Shares not converted into book entries		43 830	0.1
Total	11 056	78 100 000	100.0

Members of the Company Board of Directors own a total of 3,690 shares, that is 0.005 % of the total votes carried by all stock. Additionally they hold warrants to subscribe up to 0.2 % of the outstanding shares.

Good result

Valmet's 1997 operating profit grew to FIM 939 million. Income after financial items totalled FIM 1,018 million, which is close to last year's level. Consolidated net sales grew to FIM 12,313 million. New orders worth FIM 10,609 million were gained, and the order backlog is good, at FIM 7,126 million.

During 1997, a total of 11 complete paper, board and pulp drying machines supplied by Valmet were delivered – the same number as in the previous year. Of these machines, two were started up in the United States, two in South Korea and two in Indonesia. The other deliveries were to Finland, Italy, Israel, India and Thailand. Many extensive rebuilds were also delivered.

32 % of Valmet's net sales derived from the Nordic countries, 14 % from other European countries, 32% from North and South America, 21 % from Asia, and other markets the remainder.

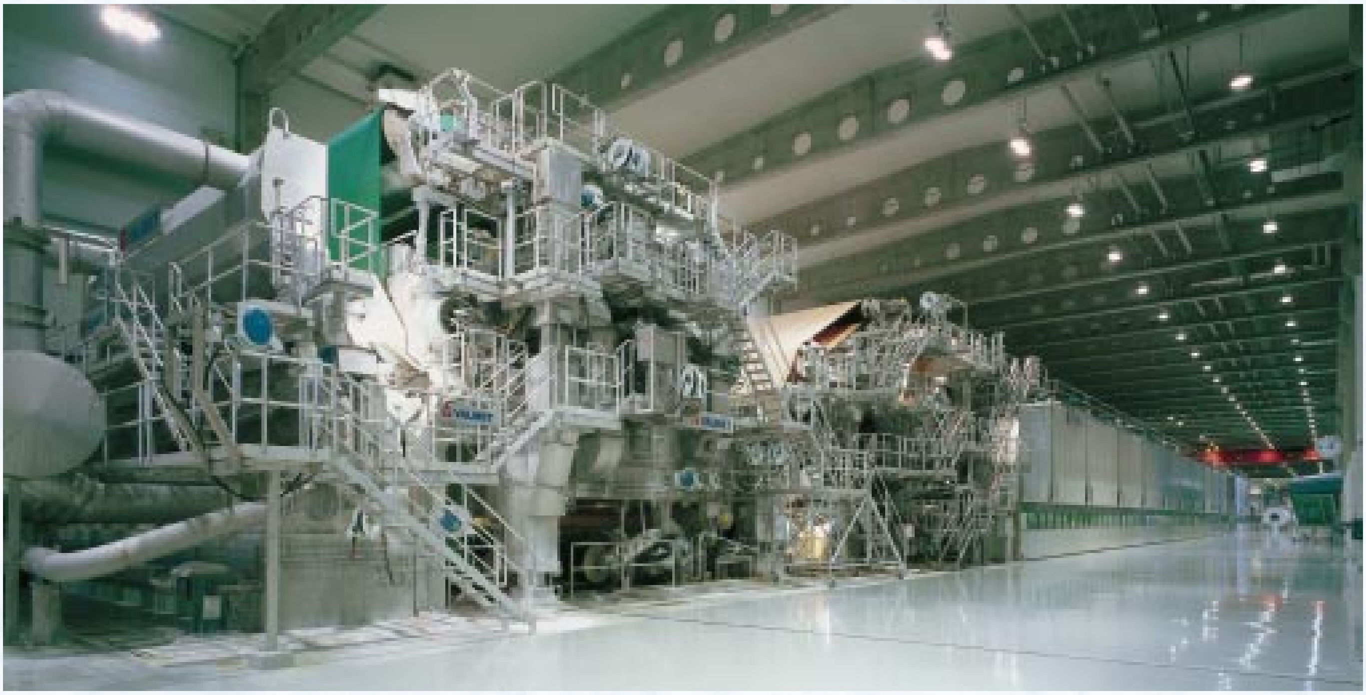
Of the 10 complete new paper machines ordered in 1997, four orders were from China, three from the United States, one from Japan, one from Italy and one from France. Five complete orders were for tissue machines, three for fine paper machines, one for a newsprint machine and one for a special machine producing thermal copy paper. In addition, Valmet gained orders for numerous extensive paper and board machines rebuilds.

A particularly busy period in Asian investments over the past few years has been an exception in the general situation in the forest industry. However, from Valmet's standpoint, there has been a discernible slowing of growth in Southeast Asia from the end of 1996, as customer resources have been tied up in the implementation of on-going projects. Towards the end of 1997, the worsening currency crisis and related economic difficulties further postponed decisions on new investments.

At the end of 1997, Valmet's Asian order backlog totalled FIM 1.7 billion, the major part of which will be delivered in 1998. A considerable amount of new orders are being delivered to China, where the economic situation has remained relatively stable. No projects have been cancelled but delays in a few projects have been unavoidable.

There are some projects included in the order backlog which to be completed will require refinancing arrangements by the customers. Such delivery delays further increase Valmet's working capital requirements and affect cash flow. On the basis of current information, the cancellation of significant projects in progress is unlikely. Deliveries have been carried out within the framework of the contractual terms, against payments made during manufacture or upon receipt of adequate collateral, and proper caution has been exercised in the profit recognition of projects in progress.

In accordance with its strategy, Valmet is continuing to invest in new markets and



to strengthen its service operations worldwide. During 1997, in order to improve the level and accessibility of customer service, Valmet decentralized its Singapore operations to Jakarta in Indonesia and Bangkok in Thailand. In the fall of 1997, a new Technology and Service Center, designed to serve the Southeast Asian region, was opened in Laem Chabang, Thailand. The center was inaugurated in January 1998.

In South America, a new sales office opened in Valencia, Venezuela. A decision was made to establish a new sales and service company in São Paulo, Brazil at the beginning of 1998.

The Paper and Board Machinery group's 1997 net sales totalled FIM 9,987 million, an increase of approximately 4 % from the previous year. Operating profit was better than last year, FIM 711 million. New orders worth FIM 8,376 million were booked. The Service business' net sales grew to almost FIM 1.8 billion, improving the profitability of the whole group together with the positive income growth in the large paper machines and finishing equipment businesses. The volume of board machinery deliveries declined, and income was unsatisfactory.

Power Transmission's net sales totalled FIM 395 million, an increase of approximately 7 % on the previous year. Operating profit was FIM 44 million, which is 8 % more than the previous year. During 1997, Valmet Hydraulics relocated, complete with machinery and equipment, to renewed facilities at the Jyskä plant, Jyväskylä, Finland. The premises vacated by Hydraulics were renovated for use by gear production, service and product development.

Valmet Automation's net sales grew by approximately 3 % from the previous year to reach FIM 1,625 million. Operating profit decreased approximately 29 %, to FIM 100 million. Tough competition and increasing product development expenses resulted in operating income weakening. Throughout 1997, numerous new products were released as a result of a significant increase in research and development expenditure. Many large systems were ordered during the year for France, Canada and South Korea, amongst others.

Valmet Automotive's net sales totalled FIM 583 million, growing by 22 % on the previous year. Operating profit totalled FIM 112 million, which was 6 % higher than in 1996. The increase in total production was mainly due to the success of the Saab Convertible. Porsche Boxster production began last September and had to be rapidly increased to the target level in order to meet high level of demand. Production of the Opel Calibra ended in July, having been discontinued from the Opel range. The demand for the Euro Samara has not met expectations.

Changes in business and production structure

In summer 1997, Valmet acquired an English company Atlas Converting Equipment plc and its subsidiaries for a total net price of FIM 725 million. Valmet's converting machine businesses in England and Italy were combined from the beginning of 1998. The total net annualised sales for this group, which is among the world's largest converting machine suppliers, will be FIM 1,300 million. Atlas's figures have been consolidated with Valmet's figures as from July 1, 1997. Atlas accounted for FIM 391 million, and the whole converting machine group for FIM 860 million of Valmet's 1997 net sales.

Valmet is continually developing its distribution in order to streamline its delivery processes and improve its competitiveness. In January 1998, the Large Paper Machines and Medium-sized Paper Machines business units were combined to form the Printing Paper Machines business unit, which will be based in Jyväskylä.

The transfer of board machine production from Tampere to other production units in Finland and Sweden, and the concentration of board machine business operations in Karlstad, Sweden began in 1997 and will be completed in summer 1998. During this same period, tissue machine headbox production will be relocated from Karlstad to Karhula, Finland, and board machine headbox production from Tampere to Karhula and Jyväskylä. The sack paper machine business will be moved from Tampere to Karlstad and Jyväskylä.

In January 1998, the production team under Corporate Management and the production units which operated together with the product groups were combined to form the Corporate Resources Unit. Valmet's production operations now form a centrally managed resource that serves its business operations, and is responsible for the development of ADP and operations control systems, processes and quality.

In spring 1997, Valmet Dura Inc.'s new roll cover factory was inaugurated in Järvenpää, Finland. The company, a Finnish-Japanese joint venture, of which Valmet's share is 60 %, specializes in the production of polymer roll covers for paper calendering machines.

In the end of summer, production was started at Valmet's new tube roll plant at Lahdesjärvi in Tampere, Finland.

In August, Valmet acquired Pinaltek Oy, a paper machine wearing parts specialist which produces doctor blades for cleaning paper machine rolls.

In fall 1997, Valmet sold its Hudson Falls, USA drying cylinder production, foundry and related spare parts business to the Canadian company, Groupe Laperriere & Verrault Inc.

Advanced new technology

Valmet's investments in the development of new technology will result, in the near future, in the commercial launch of a new paper machine which optimizes the whole papermaking line more than ever before. The most significant innovations are to be found in the management of wet end processes, as well as in pressing, drying and surface treatment technology. The new concept will be presented to customers in June 1998, at Valmet's Paper Technology Days in Jyväskylä, Finland.

Research operations have been improved by active networking with universities, research institutes and customers. Measures encouraging innovation have been systematized.

In February 1998, the Järvenpää Technology Center's pilot coater, which had undergone a rebuild and extension, was inaugurated. Cooperation between the Järvenpää pilot facilities, the rebuilt pilot machine at the Pansio Air Systems Technology Center and the Jyväskylä Technology Center's printing paper pilot machine, completed in 1996, has significantly influenced the creation of the new paper machine concept.

Valmet is researching and developing new, more environmentally friendly solutions for the paper machine wet end, related to water purification, effective process control and the graduated shutdown of the system. Valmet Air Systems is developing solutions for noise and dust control, mist removal and energy saving. Valmet's main goals in clean technology are clear, simple processes, efficient production and minimum environmental impact.

Valmet's total R&D expenditure in 1997 was FIM 498 million, or 4 % of net sales, including capital expenditure of FIM 89 million.

Valmet Automation also continued its investments in strategic development projects. During the year, R&D expenses grew by FIM 22 million, representing 8.3 % of net sales.

The Group's investments totalled FIM 1,376 million in 1997, or 11.2 % of net sales. The largest single investment was the acquisition of Atlas. Other capital expenditures totalled FIM 651 million, of which significant investments included the Thailand Technology Center, pilot plants and the beginning of Porsche Boxster production.

The improvement of total operational quality continued in 1997. After being granted an ISO 9000 certificate for quality, Valmet's units have continued to improve their competitiveness by using the Malcolm Baldrige criteria as a self-evaluation tool. Valmet has organized internal MB training for over 1000 employees. By the end of 1997, a total of 25 units had been evaluated by employees from other Valmet units. Valmet's Järvenpää units won the 1997 Finnish Quality Prize – evidence of the good results achieved from these operations.

The Improvement of environmental systems continued at Valmet's units, in accordance with ISO 14000 standards and with support from the Group's internal self-assessments. Environmental systems have been integrated with quality systems and Valmet's total operational quality program. In February 1998, Valmet-Raisio was granted the first ISO 14001 certificate.

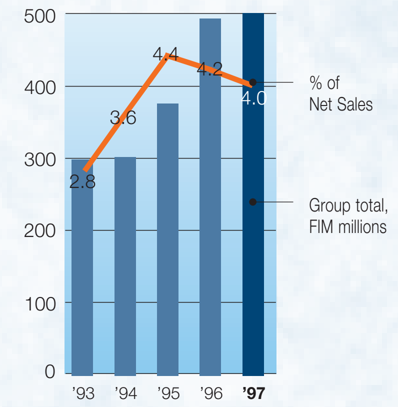
Information systems investments

Valmet continues to invest heavily in information systems. The business operation and production control system, ordered from the Dutch-American software house Baan, has passed its pilot phase and implementation has begun in various units. Over 6000 Valmet employees worldwide will have access to this system after implementation in all units.

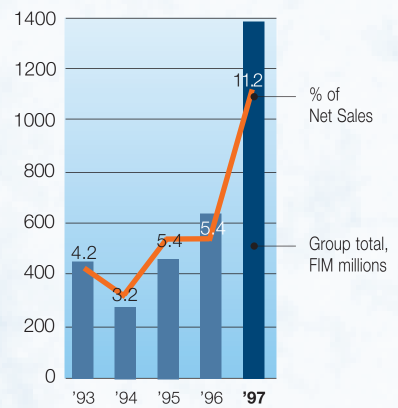
The Baan system, together with the Profis operations control system, will standardize operating procedures throughout Valmet and, after implementation in the next couple of years in as many units as possible, will also enable Year 2000 information system problems to be solved. Other smaller systems are currently being evaluated for possible problems, in order that solutions are found in good time.

Customer service is also being made

Research and Development/ Net Sales, FIM millions



Investments, FIM millions



Research and Development, FIM millions	1993	1994	1995	1996	**1997**
Paper and Board Machinery	175	199	256	329	**318**
Power Transmission	1	2	6	6	**7**
Automation	65	80	99	113	**135**
Automotive	14	16	13	17	**17**
Others	4	3	–	28	**21**
Subtotal	259	300	374	493	**498**
Operations sold	36	–	–	–	**–**
Group total	295	300	374	493	**498**

Investments, FIM millions	1993	1994	1995	1996	**1997**
Paper and Board Machinery	195	165	326	374	**1 120**
Power Transmission	13	14	21	51	**40**
Automation	27	31	35	42	**55**
Automotive	15	9	23	103	**103**
Others	53	36	47	62	**58**
Subtotal	303	255	452	632	**1 376**
Operations sold	144	11	9	–	**–**
Group total	447	266	461	632	**1 376**

more efficient by utilizing modern communications. Internet and intranet connections are used for on-line analysis during maintenance of paper machine control systems. With the aid of distance services, experts are available without delay to the customer.

Valmet is also prepared for the transfer of the first European countries to the Euro currency in the years 1999–2002. After the political decisions regarding transfer to the Euro have been made, the first changes to Valmet's operations and ADP systems will be implemented during 1998. The company has begun a project in which the necessary readiness to transfer to the Euro, by function and by country, is being created. Beginning January 1, 1999, all of Valmet's external information, annual reports and interim reports will be expressed in Euros.

Human resources

The average number of Valmet Group employees in 1997 was 13,536, with 13,480 being employed at the end of the year. The largest single increase occurred with the acquisition of Atlas, which increases the total number of employees by 455. The relocation of resources to areas of growth, and the concentration on core operations in accordance with the new operating mode will continue to cause structural changes. As a result, the number of employees is estimated to stay at around 13,000 during 1998.

The systematic definition of employees' core skills and knowledge and the improvement of skills and knowledge resources is continuing within the Group. The operation of the in-house doctoral program, the "Valmet Academy", was successful particularly in terms of completed education weeks, new development ideas and patent applications. In spring 1998, the first public dissertations of doctoral theses will be held.

The Valmet Leadership Program (VLP) and Valmet Edge continued to be the main Group-wide programs for general management development. The two programs were implemented in association with the Swiss IMD organization. Particular attention has been paid to the long-term development of young employees who are at the beginning of their careers.

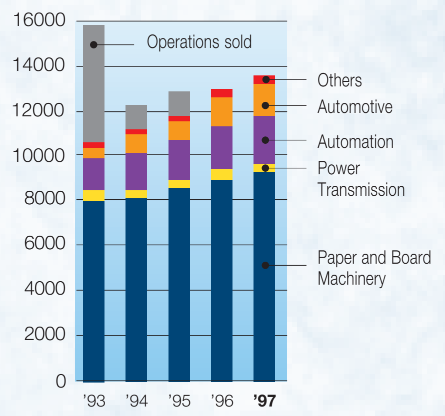
Supplementary and advanced personnel training took up a total of 54,600 days, which is an average of 4 training days per employee. The total investment in training, excluding participants' wages and salaries, was FIM 47 million, or 1.8 % of total wages and salaries. Particular areas of emphasis have been work community and management development, product and process skills and knowledge, and information technology and communications training.

In 1997, the incentive program was renewed. Employees are rewarded on the basis of the performance of their own business units, as well as on the basis of the

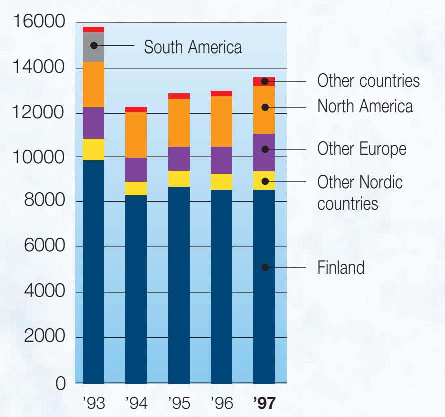
Personnel by Business Group	1993	1994	1995	1996	**1997**
Paper and Board Machinery	8 103	8 193	8 674	9 042	**9 327**
Power Transmission	360	361	364	416	**422**
Automation	1 443	1 560	1 711	1 931	**2 058**
Automotive	514	867	876	1 258	**1 467**
Others	196	208	213	224	**206**
Subtotal	10 616	11 189	11 838	12 871	**13 480**
Operations sold	5 100	957	970	–	**–**
Group total	15 716	12 146	12 808	12 871	**13 480**

Personnel by Region	1993	1994	1995	1996	**1997**
Finland	9 976	8 349	8 729	8 614	**8 690**
Other Nordic countries	948	628	689	768	**811**
Other Europe	1 328	1 058	1 094	1 173	**1 585**
North America	2 109	2 007	2 182	2 191	**2 191**
South America	1 223	–	–	–	**8**
Asia	48	33	54	80	**151**
Other countries	84	71	60	45	**44**
Group total	15 716	12 146	12 808	12 871	**13 480**

Personnel by Business Group



Personnel by Region



Group profit. Based on the 1997 results, the incentives due to personnel plus indirect costs totalled approximately FIM 190 million, of which the profit sharing component was approximately FIM 90 million.

Administrative and legal changes

The Valmet Corporation Annual General Meeting held on April 10, 1997 approved an amendment to the Articles of Association abolishing the company's Supervisory Board. At the same time, a new Board of Directors was elected. These changes came into effect on May 7, 1997 after registration of the amendment to the Articles of Association.

Up until May 7, 1997 the members of the Supervisory Board were Teuvo Kinnunen, Municipal Counsel, Hannu Kemppainen, Member of Parliament, Jarmo Leppiniemi, Professor, Leena Luhtanen, Member of Parliament, Markku Mäkinen, Director General, Jussi Niemi, Provincial Director, Paavo Rantanen, Ambassador, Kari Uotila, Member of Parliament and Markku Vuorensola, Member of Parliament.

Valmet Corporation became a public limited company as of September 1, 1997. As a result, the company's business name is now officially Valmet Oyj in Finnish and Valmet Abp in Swedish. The English name of the company is still Valmet Corporation.

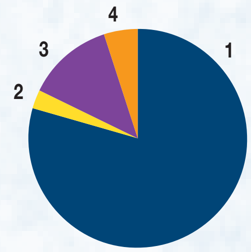
Net sales and income

Valmet Group's 1997 net sales totalled FIM 12,313 million, an increase of 4.7 % on the previous year. New orders worth FIM 10,609 were booked, and the order backlog at the end of 1997 was FIM 7,126 million. Exports and the Group's international operations accounted for 79.6 % of net sales.

The Group's gross profit grew to FIM 3,147 million (FIM 2,778 million), or 25.6 % of net sales, and operating profit was FIM 939 million (FIM 921 million). Income after financial items was FIM 1,018 million (FIM 1,056 million), and income before taxes FIM 1,137 million (FIM 1,020 million). Net income for the year was FIM 863 million (FIM 806 million). The consolidated balance sheet shows the Group's unrestricted equity as FIM 1,644 million (FIM 1,037 million) and distributable funds as FIM 1,578 million (FIM 1,016 million). The parent company's unrestricted equity was FIM 1,338 million (FIM 983 million). Consolidated earnings per share were FIM 10.08 (FIM 10.26) and cash flow per share FIM 15.32 (FIM 15.88). Net income for the year in accordance with U.S.GAAP was FIM 857 million (FIM 767 million), and earnings per share FIM 10.97 (FIM 9.45)

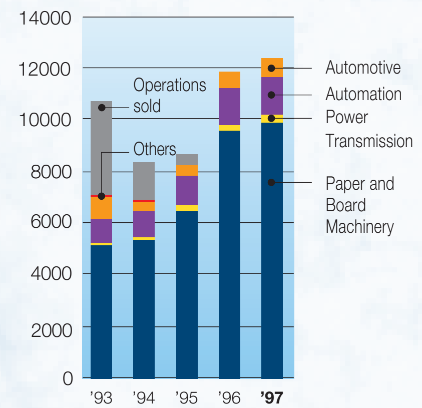
During 1997, Valmet developed its shareholdings in various companies.

Net Sales by Business Group 1997, %

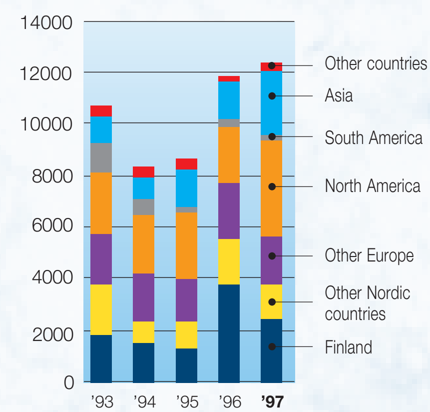


1	Paper and Board Machinery	81 %
2	Power Transmission	2 %
3	Automation	12 %
4	Automotive	5 %

Net Sales by Business Group, FIM millions



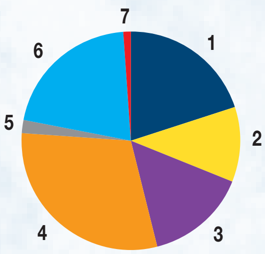
Net Sales by Market Area, FIM millions



Net Sales by Business Group, FIM millions	1993	1994	1995	1996	**1997**
Paper and Board Machinery	5 249	5 470	6 560	9 602	**9 987**
Power Transmission	145	194	267	369	**395**
Automation	980	1 023	1 253	1 581	**1 625**
Automotive	861	381	388	477	**583**
Other	78	80	7	–	**–**
Sub total	7 313	7 148	8 475	12 029	**12 590**
Operations sold	3 597	1 372	283	–	**–**
Less inter-business eliminations	–234	–192	–184	–265	**–277**
Group total	10 676	8 328	8 574	11 764	**12 313**

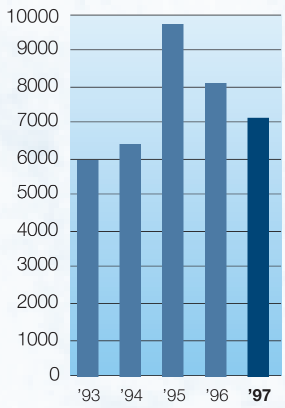
Net Sales by Market Area, FIM millions	1993	1994	1995	1996	**1997**
Finland	1 838	1 575	1 365	3 873	**2 514**
Other Nordic countries	2 041	841	1 068	1 722	**1 370**
Other European countries	1 920	1 831	1 642	2 132	**1 788**
North America	2 344	2 310	2 558	2 246	**3 710**
South America	1 177	537	175	274	**228**
Asia	1 034	848	1 453	1 430	**2 535**
Other countries	322	386	313	87	**168**
Group total	10 676	8 328	8 574	11 764	**12 313**

Net Sales by Market Area 1997, %



1	Finland	20 %
2	Other Nordic countries	11 %
3	Other Europe	15 %
4	North America	30 %
5	South America	2 %
6	Asia	21 %
7	Other countries	1 %

Order Backlog, Dec 31, FIM millions



Group's Financial Performance, FIM millions	1993	1994	1995	1996	1997
Operating profit					
Business Groups:					
Paper and Board Machinery	182	235	425	705	**711**
Power Transmission	19	22	21	41	**44**
Automation	77	80	101	140	**100**
Automotive	74	92	94	105	**112**
Others	32	5	4	–5	**–**
Subtotal	384	434	645	986	**967**
Operations sold	175	17	–7	–	**–**
Total	559	451	638	986	**967**
Less unallocated corporate overhead and inter-business eliminations	–80	–80	–108	–65	**–28**
Operating profit, total	479	371	530	921	**939**
Financial income and expenses	–379	–220	27	115	**66**
Share of profits or losses of associated companies		52	80	20	**13**
Income after financial items	100	203	637	1 056	**1018**
Extraordinary income and expenses	–154	–25	82	–36	**119**
Income before taxes	–54	178	719	1 020	**1 137**

Following the merger of Oy Sisu Ab and Partek Corporation, Valmet became a minority shareholder in Partek, with a 10.5 % interest. This restructuring resulted in an extraordinary profit of FIM 200 million for Valmet. Valmet's current holding in Partek is 8.5 %. Valmet's current portfolio of shares in listed companies has a market value of approximately FIM 805 million.

All pending patent litigation between Valmet and Beloit has been settled. Valmet's payment to Beloit of a USD 15 million lump-sum indemnity has been included in extraordinary expenses in the 1997 consolidated income statement.

Financing and balance sheet structure

The Group's liquidity remained good throughout the year. Liquid assets, i.e. cash and short-term investments, were FIM 1,581 million (FIM 1,602 million) at the end of the accounting period, and the ratio of current assets to current liabilities was 1.4 (1.3). The return on net assets before extraordinary items was 20.6 % (23.4 %).

The balance sheet total was FIM 10,073 million (FIM 8,302 million). The Group's equity ratio was 40.3 % (42.8 %), and the parent company's 47.1 % (55.5 %). During the year interest-bearing debt grew by FIM 1,033 million to FIM 2,323 million. This increase in debt was due to increased working capital needs and the acquisition of Atlas. The Group's cash and short-term investments less interest-bearing debt amounted to FIM 741 million, or 18.8 % (–9.5 %) of equity.

The Group's cash flow after investments was FIM –848 million (FIM 709 million). Financial status and credit worthiness are good.

In December 1997, Valmet Corporation issued bonds worth USD 200 million to the US market. The bonds mature in ten years, and the nominal interest rate is 6 7/8 %. The bonds are SEC registered public bonds, and this is the first such arrangement by a Finnish industrial company on the US capital markets. The bonds are being issued as part of a long-term policy to optimise the company's capital structure and diversify it's funding. The bonds are part of Valmet's general financing and have been used to partly replace shorter-term loans. Valmet's long-term loans have received a Baa2 rating from Moody's and a BBB+ rating from Standard & Poors.

The Group's net financial income was FIM 66 million (FIM 115 million), of which FIM 62 million (FIM 64 million) resulted from foreign exchange gains. A considerable proportion of the Group's cash flow is in currencies other than Finnish markka. The major currency in terms of sales income is the US dollar.

The impact of exchange rate fluctuations are cushioned by the fact that Valmet has production in different countries and can operate 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 based on projected cash flows for the months ahead.

At the end of the year, Valmet's market capitalization was FIM 5,873 million (FIM 6,326 million). Consolidated earnings per share were FIM 49.85 (FIM 41.57)

Consolidated Balance Sheet, FIM millions	1993	1994	1995	1996	**1997**
Paper and Board Machinery	6 496	5 242	5 038	4 568	**7 365**
Power Transmission	160	188	213	239	**262**
Automation	860	804	877	818	**918**
Automotive	810	638	387	493	**668**
Others	149	1 644	2 691	2 184	**860**
Subtotal	8 475	8 516	9 206	8 302	**10 073**
Operations sold	3 291	389	435	–	**–**
Group total	11 766	8 905	9 641	8 302	**10 073**

Outlook

Demand for paper and board products is expected to continue to grow in 1998, although slightly less than in 1997. It is expected that European and North American paper industry investments will pick up in the second half of the year, if paper grades prices continue to rise. Asian paper consumption is still growing faster than anywhere else in the world, despite economic instability. There are a great many new machine projects in China. The Latin American markets have shown signs of picking up.

In order to reduce its sensitivity to business cycles and dependency on individual markets, Valmet is continuing to expand its international marketing and service network. In the long term, net sales are expected to be distributed evenly between Europe, North America and Asia. Growth will also be partly oriented towards developing markets, particularly Latin America. As the markets for new machines stabilize, investments in machine rebuilds and service, where the demand is growing, will be increased.

1998 net sales are expected to remain at a high level. Due to the internal quality and efficiency programs, as well as controlled sub-contracting, profitability is also expected to remain good.

Board of Directors proposal for distribution of profit

The Board proposes to the Annual General meeting that a dividend of FIM 3.50 per share be paid for the fiscal year ended December 31, 1997. The record date of this purpose will be April 2, 1998. The dividend will be paid to all shareholders who, on the record date, are recorded in Valmet Corporation's register of shareholders, which is held by the Finnish Central Securities Depositary Ltd. The dividend will be paid on April 9, 1998.

Helsinki, February 24, 1998

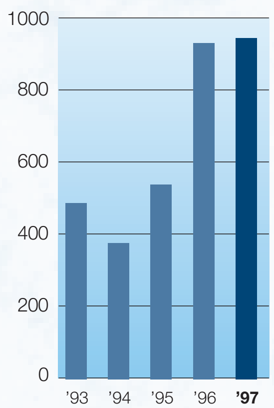
Paavo Rantanen
Chairman of the Board

Teuvo Kinnunen	Jarmo Leppiniemi
Markku Mäkinen	Jaakko Rauramo
Matti Sundberg	Juhani Yli-Paavola

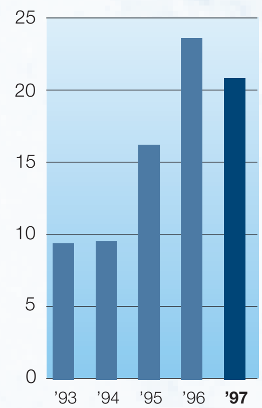
Consolidated Income Statement

(FIM millions)	1997		1996	
Net sales	**12 313**	**100 %**	11 764	100 %
Cost of sales	**–9 166**		–8 986	
Gross profit	**3 147**	**26 %**	2 778	24 %
Marketing and selling expenses	**–933**		–733	
Research and development expenses	**–472**		–404	
Administrative expenses	**–765**		–694	
Amortization of goodwill (2)	**–38**		–26	
Operating profit (1, 2)	**939**	**8 %**	921	8 %
Financial income and expenses (3)	**66**		115	
Share of profits or losses of associated companies (4)	**13**		20	
Income after financial items	**1 018**	**8 %**	1 056	9 %
Extraordinary income (5)	**200**		82	
Extraordinary expenses (5)	**–81**		–118	
Income before income taxes	**1 137**	**9 %**	1 020	9 %
Income taxes (6)	**–253**		–200	
Minority interests	**–21**		–14	
Net income	**863**	**7 %**	806	7 %

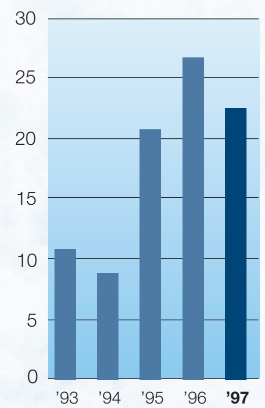
Operating Profit, FIM millions



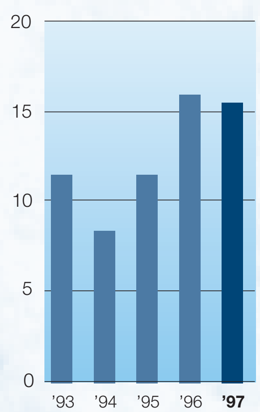
Return on Net Assets, %



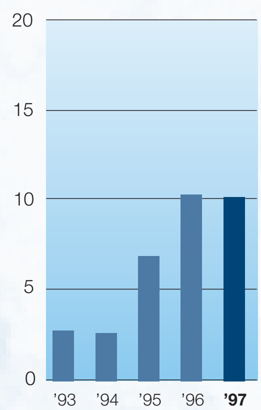
Return on Equity, %



Cash Flow per Share, FIM



Earnings per Share, FIM



Consolidated Balance Sheet

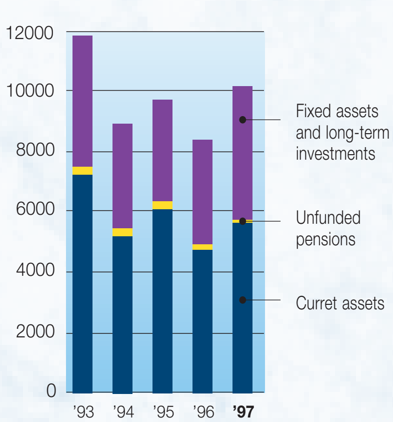
ASSETS

(FIM millions)	Dec 31, 1997		Dec 31, 1996	
FIXED ASSETS AND LONG-TERM INVESTMENTS				
Intangible assets (7)				
Goodwill (9)	**526**		60	
Other intangible assets	**161**		120	
	687		180	
Tangible fixed assets (7)				
Land and water areas	**248**		225	
Buildings	**878**		729	
Machinery and equipment	**1 155**		1 029	
Other tangible assets	**25**		23	
Assets under construction	**154**		145	
	2 460		2 151	
Advances paid for fixed assets	**13**		7	
Long-term investments				
Shareholdings and other securities (8)	**1 087**		970	
Loans receivable	**3**		10	
Other long-term assets	**48**		37	
	1 138		1 017	
	4 298	**43 %**	3 355	40 %
UNFUNDED PENSIONS (10)	**108**	**1 %**	149	2 %
CURRENT ASSETS				
Inventories				
Materials and supplies	**344**		302	
Finished products	**104**		86	
	448		388	
Receivables (11, 12, 21)				
Trade receivables, interest-bearing	**84**		123	
Trade receivables, non-interest-bearing	**1 890**		1 526	
Cost and earnings of projects under construction in excess of billings (12)	**887**		735	
Loans receivable	**29**		44	
Accrued income and prepaid expenses	**589**		329	
Other receivables	**159**		51	
	3 638		2 808	
Cash and short-term investments (13)	**1 581**		1 602	
	5 667	**56 %**	4 798	58 %
TOTAL	**10 073**	**100 %**	8 302	100 %

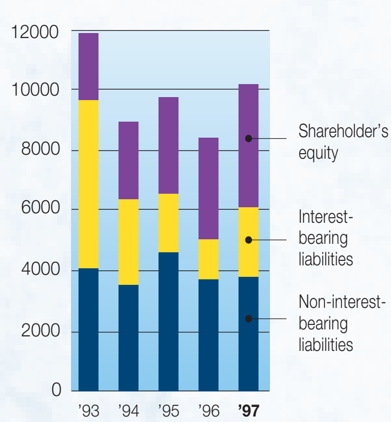
LIABILITIES AND SHAREHOLDERS' EQUITY

(FIM millions)	Dec 31, 1997		Dec 31, 1996	
SHAREHOLDERS' EQUITY (14)				
Share capital	**851**		851	
Restricted funds	**1 351**		1 351	
Cumulative translation adjustment	**–114**		–131	
Retained earnings	**942**		370	
Net income for the year	**863**		806	
	3 893	**39 %**	3 247	40 %
MINORITY INTEREST	**56**	**–**	36	–
LIABILITIES (15)				
Long-term debt				
Bonds	**1 445**		520	
Loans from financial institutions	**350**		159	
Other long-term debt	**155**		241	
	1 950	**19 %**	920	11 %
Other long-term liabilities				
Deferred tax liability (16)	**71**		57	
Accrued expenses (10), (17)	**191**		293	
	262	**3 %**	350	4 %
Current liabilities				
Short-term portion of long-term debt (15)	**219**		121	
Other interest-bearing short-term liabilities (18)	**154**		249	
Non-interest-bearing current liabilities				
Accounts payable	**877**		791	
Billings in excess of cost and earnings of projects under construction (12)	**267**		631	
Accrued expenses and prepaid income (19)	**2 314**		1 868	
Other current liabilities	**81**		89	
	3 539		3 379	
	3 912	**39 %**	3 749	45 %
	6 124		5 019	
TOTAL	**10 073**	**100 %**	8 302	100 %

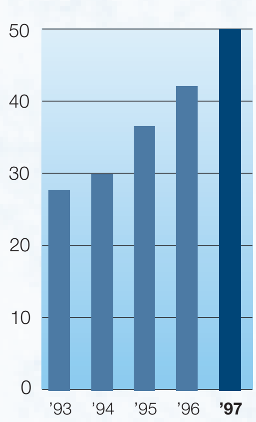
Assets, FIM millions



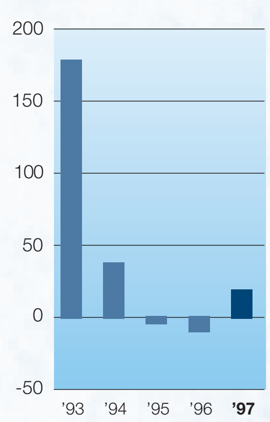
Liabilities and Equity, FIM millions



Equity per Share, FIM



Net Debt/Equity, %



Consolidated Statement of Cash Flow

(FIM millions)	1997	1996
Cash flows from operating activities:		
Net income	**863**	806
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	**432**	431
Gain on sale of property and equipment	**–12**	–1
(Gain) loss on securities	**25**	–30
Gain on sale of subsidiaries and associated companies	**–200**	–19
Foreign exchange losses	**74**	2
Deferred income taxes	**14**	–5
Share of profits or losses of associated companies	**–13**	–20
Dividends from associated companies	**7**	32
Other non-cash items	**21**	17
Changes in assets and liabilities, net of effects of dispositions of businesses:		
Receivables	**–309**	–34
Inventories	**17**	–1
Accounts payable	**–26**	122
Billings in excess of cost and earnings of projects under construction	**–575**	–649
Accrued expenses and prepaid income	**325**	565
Other current liabilities	**–225**	43
Net cash provided by operating activities	**418**	1 259
Cash flows from investing activities:		
Cash proceeds from sale of property and equipment	**110**	31
Capital expenditures on property and equipment	**–649**	–621
Purchase of subsidiary, net of cash acquired	**–727**	–11
Proceeds from sale of subsidiaries and investments in associated companies, net of cash disposed	**–**	51
Net cash used by investing activities	**–1 266**	–550
Cash flows from financing activities:		
Redemption and cancellation of shares	**–**	–494
Dividends paid	**–234**	–149
Proceeds from issuance of debt	**1 465**	83
Principal payments on debt	**–404**	–647
Other	**–**	6
Net cash provided (used) by financing activities	**827**	–1 201
Effect of changes in exchange rates and market values of cash and short-term investments	**–**	20
Net decrease in cash and short-term investments	**–21**	–472
Cash and short-term investments at beginning of year	**1 602**	2 074
Cash and short-term investments at end of year	**1 581**	1 602

Supplemental cash flow information:		
The following is a summary of non-cash financing and investing activities:		
Acquisitions:		
Assets acquired	**997**	48
Liabilities assumed	**–270**	–37
Cash paid, net of cash acquired	**727**	11
Disposals:		
Non-cash assets disposed of	**–**	328
Less liabilities disposed of	**–**	–296
Net non-cash assets sold	**–**	32
Gain on sale	**–**	19
Cash received from sale, net of cash disposed	**–**	51

Parent Company Income Statement

(FIM millions)	1997		1996	
Net sales	**6 751**	**100 %**	6 998	100 %
Cost of sales	**–5 311**		–5 508	
Gross profit	**1 440**	**21 %**	1 490	21 %
Marketing and selling expenses	**–380**		–277	
Research and development expenses	**–281**		–235	
Administrative expenses	**–349**		–309	
Operating profit (1, 2)	**430**	**6 %**	669	10 %
Financial income and expenses (3)	**273**		7	
Income after financial items	**703**	**10 %**	676	10 %
Group internal contributions	**–10**		–9	
Extraordinary income and expenses (5)	**157**		–97	
Income before income taxes	**850**	**13 %**	570	8 %
Allocations to untaxed reserves	**–65**		–	
Income taxes	**–196**		–127	
Net income	**589**	**9 %**	443	6 %

Parent Company Statement of Cash Flow

(FIM millions)	1997	1996
Cash flows from operating activities:		
Net income	**589**	443
Adjustments to reconcile net income to net cash provided by operating activities	**66**	322
Changes in assets and liabilities, net of effects of dispositions of businesses	**–1 006**	–292
Net cash provided by operating activities	**–351**	473
Cash flows from investing activities	**–801**	–209
Cash flows from financing activities	**995**	–847
Net decrease in cash and short-term investments	**–157**	–583
Cash and short-term investments at beginning of year	**1 150**	1 733
Cash and short-term investments at end of year	**993**	1 150

Parent Company Balance Sheet

ASSETS

(FIM millions)	Dec 31, 1997		Dec 31, 1996	
FIXED ASSETS AND LONG-TERM INVESTMENTS				
Intangible assets (7)	**117**		82	
Tangible fixed assets (7)	**1 061**		1 012	
Advances paid for fixed assets	**6**		5	
Long-term investments				
Shareholdings and other securities (8)	**2 850**		2 060	
Loans receivable (21)	**447**		321	
	3 297		2 381	
	4 481	**55 %**	3 480	55 %
UNFUNDED PENSIONS (10)	**108**	**1 %**	149	2 %
CURRENT ASSETS				
Inventories	**121**		147	
Receivables (11, 21)	**2 471**		1 433	
Cash and short-term investments (13)	**993**		1 150	
	3 585	**44 %**	2 730	43 %
TOTAL	**8 174**	**100 %**	6 359	100 %

LIABILITIES AND SHAREHOLDERS' EQUITY

SHAREHOLDERS' EQUITY (14)				
Share capital	**851**		851	
Legal reserve	**1 281**		1 281	
Revaluation reserve	**200**		200	
Retained earnings	**749**		540	
Net income for the year	**589**		443	
	3 670	**45 %**	3 315	52 %
UNTAXED RESERVES	**70**	**1 %**	5	–
LIABILITIES (15)				
Long-term debt	**1 786**	**22 %**	562	9 %
Other long-term liabilities				
Accrued expenses (10, 17)	**116**	**1 %**	216	3 %
Current liabilities				
Short-term portion of long-term debt (15)	**10**		9	
Other interest-bearing short-term liabilities (18)	**497**		423	
Non-interest-bearing current liabilities (19)	**2 025**		1 829	
	2 532	**31 %**	2 261	36 %
	4 434		3 039	
TOTAL	**8 174**	**100 %**	6 359	100 %

Notes to the Financial Statements

(1) PERSONNEL COSTS

The information regarding personnel costs is as follows:

	Group		Parent Company	
(FIM millions)	**1997**	1996	**1997**	1996
Wages and salaries	**2 639**	2 308	**1 090**	1 024
Pension costs	**391**	408	**226**	246
Other indirect employee costs	**432**	448	**181**	215
Total	**3 462**	3 164	**1 497**	1 485
Other information:				
Salaries to the members of the Supervisory Board, the Boards of Directors and Chief Executive Officers of Group Companies	**37**	33	**3**	6
Bonuses to the members of the Boards of Directors and Chief Executive Officers	**4**	4	**1**	2

President and CEO of the Parent Company is entitled to retire at the age of 60.

(2) DEPRECIATION AND AMORTIZATION

Depreciation and amortization expense is allocated in the Income Statement as follows:

	Group		Parent Company	
(FIM millions)	**1997**	1996	**1997**	1996
Cost of sales	**252**	234	**93**	91
Marketing and selling	**18**	16	**4**	4
Research and development	**63**	59	**52**	50
Administrative	**61**	49	**26**	29
Goodwill	**38**	26	**–**	–
Total	**432**	384	**175**	174
Depreciation and amortization expense consists of the following components:				
Consolidation goodwill	**38**	26	**–**	–
Other goodwill	**2**	1	**1**	1
Other intangible assets	**29**	18	**18**	10
Buildings	**53**	48	**29**	28
Machinery and equipment	**302**	282	**121**	127
Other tangible assets	**8**	9	**6**	8
Total	**432**	384	**175**	174
Write-offs are deducted from the carrying values of fixed assets in addition to depreciation expense as follows:				
Write-off of buildings	**–**	43	**–**	–
Write-off of machinery and equipment	**–**	9	**–**	–
Write-off of shareholdings	**–**	–	**–**	190
Total write-off of fixed assets	**–**	52	**–**	190

(3) FINANCIAL INCOME AND EXPENSES

The following information provides a summary of financial income and expenses:

(FIM millions)	Group 1997	Group 1996	Parent Company 1997	Parent Company 1996
Financial income:				
Dividends received	**22**	14	**161**	64
Interest income	**103**	168	**93**	147
Other financial income (*)	**32**	5	**19**	–
Net gains and losses from foreign exchange	**62**	64	**49**	60
Tax credit regarding dividends	**7**	5	**62**	21
	226	256	**384**	292
Financial expenses:				
Interest expenses	**–128**	–121	**–94**	–85
Other financial expenses	**–32**	–20	**–17**	–10
Value adjustments of shares	**–**	–	**–**	–190
	–160	–141	**–111**	–285
	66	115	**273**	7

(*) Includes a gain of FIM 19 million from the sale of shares in listed companies.

(FIM millions)	Group 1997	Group 1996
Unrealized gains and losses of short-term investments included in Group's interest income are	**–25**	30

(4) INFORMATION ON ASSOCIATED COMPANIES

Information regarding the company's investments in associated companies is described below:
A detailed specification of Valmet's long-term investments in associated companies is contained in Note 8.

(FIM millions)	Group 1997	Group 1996	Parent Company 1997	Parent Company 1996
Dividends received	**7**	32	**7**	32
Share of profits or losses	**13**	20	**–**	–
Equity value of investments in associated companies	**250**	482	**199**	390

(5) EXTRAORDINARY INCOME AND EXPENSES

Extraordinary income and expenses, including transactions considered outside the normal course of business, resulted from the following:

(FIM millions)	Group 1997	Group 1996	Parent Company 1997	Parent Company 1996
Extraordinary income:				
Gains from the sale of land and water areas and buildings	**–**	3	**–**	3
Net gains from the sale of shares and businesses (*)	**200**	18	**247**	–
Effect of changes in accounting principles (**)	**–**	53	**–**	–
Other income	**–**	8	**–**	–
Merger gain	**–**	–	**–**	10
	200	82	**247**	13
Extraordinary expenses:				
Compensation to bankruptcy estate of Wärtsilä Marine Industries Inc.	**–**	–110	**–**	–110
Compensation to Beloit regarding patent disputes	**–81**	–	**–81**	–
Settlements and other nonrecurring costs	**–**	–8	**–9**	–
	–81	–118	**–90**	–110

(*) In 1996, the Group sold 50.1 % of its shares in Valmet Aviation Industries to the Finnish State and recognized a gain of FIM 19 million which is recorded as a component of extraordinary income. In 1997 Valmet sold its 25.4 % holding in Oy Sisu Ab to Partek Corporation and recorded an extraordinary gain of FIM 200 million on the sale.

(**) The percentage of completion method of revenue recognition was applied in the Group accounting in 1996. The cumulative effect of this change in accounting principle at January 1, 1996 was an income of FIM 53 million and is classified as a component of extraordinary income and expenses, which represents income on contracts in process at December 31, 1995 that would have been recorded in 1995 under the percentage of completion method.

(6) INCOME TAXES

Income tax expense (benefit) consists of the following:

(FIM millions)	Group 1997	1996
Total current income tax expense (benefit)	**239**	205
Total deferred income tax expense (benefit)	**14**	–5
Total income taxes	**253**	200
Income taxes include tax expenses (benefits) due to extraordinary items	**44**	–10

The principal reasons for the difference between the “expected” income tax expense (benefit), computed by applying the statutory Finnish tax rate of 28 percent to income (loss) before income taxes, and the actual income tax expense (benefit) are as follows:

	1997	1996
“Expected” income tax expense (benefit)	**318**	286
Taxes for prior years	**–6**	–14
Effect of change in Finnish tax rates	**–**	3
Temporary differences for which no deferred tax had been provided	**–50**	–21
Losses not currently utilized	**13**	41
Utilization of tax loss carryforwards for which no deferred tax had been provided	**–63**	–33
Nontaxable income	**–4**	–11
Expenses not deductible	**51**	18
Differences in foreign tax rates	**5**	–5
Deduction for write-down of investment in subsidiaries	**–9**	–57
Other	**–2**	–7
Income taxes	**253**	200

(7) 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. Write-offs are value adjustments made during a fiscal year. In the coming years they will be deducted from acquisition cost.

(FIM millions)	Group 1997	Group 1996	Parent Company 1997	Parent Company 1996
Consolidated goodwill:				
Acquisition cost, beginning of year	**259**	260	**–**	–
Additions	**501**	11	**–**	–
Disposals	**–**	–	**–**	–
Accumulated amortization	**–241**	–216	**–**	–
Book value, end of year	**520**	55	**–**	–
Other goodwill:				
Acquisition cost, beginning of year	**17**	16	**10**	10
Additions	**4**	–	**–**	–
Disposals	**–**	–	**–**	–
Accumulated amortization	**–15**	–11	**–9**	–8
Book value, end of year.	**6**	5	**1**	2
Other intangible assets:				
Acquisition cost, beginning of year	**216**	180	**129**	94
Additions	**80**	37	**53**	38
Disposals	**–13**	–3	**–**	–14
Accumulated depreciation	**–122**	–94	**–66**	–37
Book value, end of year	**161**	120	**116**	81
Land and water areas:				
Acquisition cost, beginning of year	**227**	222	**130**	124
Additions	**24**	1	**1**	8
Disposals	**–3**	2	**–2**	–2
Book value, end of year	**248**	225	**129**	130

(FIM millions)	Group 1997	Group 1996	Parent Company 1997	Parent Company 1996
Buildings:				
Acquisition cost, beginning of year	**1 338**	1 182	**577**	510
Additions	**110**	73	**61**	125
Disposals	**–27**	–	**–11**	–34
Accumulated depreciation	**–543**	–483	**–277**	–272
Write-offs this year	**–**	–43	**–**	–
Book value, end of year	**878**	729	**350**	329
Machinery and equipment:				
Acquisition cost, beginning of year	**3 388**	2 847	**1 565**	1 223
Additions	**423**	475	**167**	392
Disposals	**–35**	–20	**–8**	–136
Accumulated depreciation	**–2 621**	–2 264	**–1 237**	–1 031
Write-offs this year	**–**	–9	**–**	–
Book value, end of year	**1 155**	1 029	**487**	448
Other tangible assets:				
Acquisition cost, beginning of year	**131**	127	**85**	80
Additions	**12**	5	**5**	9
Disposals	**–1**	–3	**–**	–7
Accumulated depreciation	**–117**	–106	**–72**	–63
Book value, end of year	**25**	23	**18**	19
Assets in construction:				
Acquisition cost, beginning of year	**148**	154	**86**	114
Additions	**194**	265	**98**	193
Disposals and transfers	**–188**	–274	**–107**	–221
Book value, end of year	**154**	145	**77**	86
Property insurance values of tangible fixed assets	**7 305**	7 236	**3 298**	3 551
Taxation values				
Land and water areas	**93**	108	**39**	56
Buildings	**734**	686	**369**	332
Shareholdings, subsidiaries	**–**	–	**1 944**	1 189
Shareholdings, associated companies	**171**	326	**170**	325
Shareholdings, other companies	**609**	307	**333**	58
	1 607	1 427	**2 855**	1 960

(8) SHAREHOLDINGS AND OTHER SECURITIES

(The staggering of the names shows the chain of ownership)	Country	Number of shares	%	Nominal value		Parent company ownership Book value FIM millions	Ownership via subsid. Book value FIM millions
SUBSIDIARIES Dec 31, 1997							
Valmet-Boustead Pty. Ltd.	Australia	4 000 000	100	AUD	1	41	
Valmet (ANZ) Pty Ltd	Australia	139 420	100	AUD	1	–	
Valmet Canada Inc.	Canada		100			95	
Valmet Chile Ltda.	Chile		100			–	–
Finbow Oy	Finland	10 200	60	FIM	50	3	
Valmet-Raisio Oy	Finland	204	51	FIM	10 000	13	
Valmet-Raisio GmbH	Germany		100				–
Oulun Kumitehdas Oy	Finland	496	55,1	FIM	1 000	3	
Oulun Norrcon Oy	Finland	8 500	100	FIM	100		
Comroll Oy	Finland	30	100	FIM	500		
UHAB Industrigummering AB	Sweden	4 860	81	SEK	100		
Pinaltek Oy	Finland	130	52	FIM	1 000	2	
Valmet Dura Inc.	Finland	1 200	60	FIM	10 000	12	
Roval S.A.R.L.	France	10 000	100	FRF	1 000	7	
Valmet S.A.R.L.	France	98	98	FRF	500	–	

(The staggering of the names shows the chain of ownership)	Country	Number of shares	%	Nominal value	Parent company ownership Book value FIM millions	Ownership via subsid. Book value FIM millions
Valmet GmbH	Germany		100		17	
Valmet Ges.m.b.H.	Austria		100			–
Valmet Service GmbH	Germany		100			8
Valmet Vertrieb GmbH	Germany		100			1
Valmet-Como S.p.A.	Italy	10 000	100	ITL 1 000 000	120	
Valmet-Gorizia S.p.A.	Italy	146 300	100	ITL 100 000	48	
Valmet Rotomec S.p.A.	Italy	6 999 362	100	ITL 1 000	69	–
Rotomec Frabelux S.A.R.L.	France	850	85	FRF 100		–
Rotomec Service GmbH	Germany	1 000	100	DEM 100		–
Rotomec Iberica S.A.	Spain	2 480	80	ESP 1 000		–
Rotomec America Inc.	USA	2 020	100	USD 100		–
Valmet-Ameriflex, Ltd.	USA		100			3
Valmet Japan Co., Ltd.	Japan	100	100	JPY 100 000	–	
Valmet Korea Inc.	Korea	10 000	100	WON 10 000	1	
Valmet (SEA) Pte Ltd	Singapore	820 000	100	SGD 1	1	1
PT Valmet Indonesia	Indonesia	100 000	100	USD 1		–
Valmet Technology (Thailand) Co., Ltd.	Thailand	999 993	100	THB 100	18	
Valmet (UK) Limited	UK	9 999	100	GBP 1	–	
Valmet Converting PLC	UK	40 000 000	100	GBP 1	354	
Atlas Converting Equipment plc	UK	10 576 839	100	GBP 0,05	–	779
Atlas Hurley Moate Ltd	UK	2	100	GBP 1		–
General Vacuum Equipment Ltd	UK	100	100	GBP 1		–
Titan Converting Equipment Ltd	UK	100	100	GBP 1		–
Atlas Group Americas Ltd	USA	5 000	100	GBP 1		–
Valmet Automation Inc.	Finland	3 000 000	100	FIM 60	230	
Valmet Automation (Australasia) Pty. Ltd.	Australia	502	100	AUD 1		2
Valmet Automation Ges.m.b.H.	Austria		100			–
Valmet Automation (Canada) Ltd.	Canada	11 186 391	100			112
CPS Electronics Inc.	Finland	3 000	100	FIM 1 000		3
Levec Inc.	Finland	4 000	100	FIM 100		–
Sensodec Oy	Finland	800	100	FIM 1 000		8
Valmet Automation Kajaani Ltd.	Finland	1 500	100	FIM 10 000		21
Valmet Automation Projects Ltd.	Finland	3 000	100	FIM 1 000		3
Valmet Fisher-Rosemount Inc.	Finland	102	51	FIM 10 000		1
Valmet Automation France S.A.	France	19 816	99,1	FRF 1 000	–	–
Valmet Automation GmbH	Germany	3 500	100	DEM 1 000		10
Valmet Automation K.K.	Japan	300	100	JPY 50 000		–
Valmet Automation AS	Norway	50	100	NOK 1 000		–
Valmet Automation Polska spolka z.o.o.	Poland		100			–
Valmet Automation B.V.	The Netherlands	1 700	100	NLG 100		–
Valmet Automation Ltd.	UK	200 000	100	GBP 1		1
Valmet Automotive Inc.	Finland	63 200	100	FIM 1 000	363	
Euromotive Inc.	Finland	50	100	FIM 100 000		5
Valmet Power Transmission Inc.	Finland	6 000	100	FIM 5 000	49	
Valmet Hydraulics Oy	Finland	15 000	100	FIM 1 000		25
Statemet Insurance Company Limited	Guernsey	249 993	100	USD 1	1	
Valfin Ltd.	Finland	255	100	FIM 200 000	51	
Valmet Svenska AB	Sweden	800 000	100	SEK 100	107	
Valmet Automation (Sverige) AB	Sweden	46 000	100	SEK 100		4
Valmet-Karlstad AB	Sweden	70 000	100	SEK 1 000		47
Valmet Skandinavien AB	Sweden	200	100	SEK 1 000		–
Valmet NV Inc.	USA	515	100	USD 1	512	–
Valmet Inc.	USA		100			305
Valmet Automation (USA) Inc.	USA		100			171
Valfin Incorporated	USA		100			138
					2 118	1 650

SHAREHOLDINGS AND OTHER SECURITIES OF THE GROUP CONSIST OF THE FOLLOWING:

	Dec 31, 1997				Dec 31, 1996			
	Shares	% Held	Equity value FIM mill.		Shares	% Held	Equity value FIM mill.	
Investment in associated companies:								
Oy Scan-Auto Ab	350 000	50.0 %	135		350 000	50.0 %	133	
Sako Ltd.	40 000	50.0 %	43		40 000	50.0 %	42	
Oy Sisu Ab	–	–	–		9 397 106	25.4 %	247	
Other			72				60	
Total investment in associated companies			250				482	
	Shares	% Held	Book value FIM mill.	Fair value FIM mill.	Shares	% Held	Book value FIM mill.	Fair value FIM mill.
Investment in other securities:								
UPM Kymmene Corporation	2 954 396	1.1 %	269	322	2 784 396	1.0 %	249	269
Tamfelt Corporation	181 575	2.8 %	26	36	181 575	2.8 %	26	22
Merita Ltd	444 266	0.1 %	7	13	440 000	0.1 %	7	7
Sampo Insurance Company Limited	356 408	0.6 %	7	63	89 102	0.6 %	7	32
Sato Corporation	86 760	4.7 %	21	21	86 760	4.7 %	21	21
Patria Finavitec Oy	3 996	49.9 %	71	71	3 996	49.9 %	71	71
Partek Corporation	4 126 039	8.5 %	337	351	–	–	–	–
Other			99	101			107	111
Total investment in other securities			837	978			488	534
Total shareholdings and other securities			1 087	1 228			970	1 016

Revaluations included in Group's investments in associated companies were FIM 70 million at December 31, 1997 and 1996.

(9) GOODWILL

In July 1997 Valmet acquired a U.K. company, Atlas Converting Equipment plc and its subsidiaries for a net price of FIM 725 million. Goodwill amounting to FIM 496 million has been recorded on the acquisition and the goodwill will be amortized over 15 years, which represents its estimated economic life.

(10) UNFUNDED PENSIONS

Unfunded pension liability refers to that part of total pension liability which has not yet been accrued. The full amount of the unfunded pension liability will be accrued by the end of year 2000 through periodic charges to income.

	Group, Dec 31		Parent Company, Dec 31	
(FIM millions)	**1997**	1996	**1997**	1996
Voluntary additional pension liability to Valmet's Pension Fund	**44**	60	**44**	60
Parent company's additional direct pension liability	**64**	89	**64**	89
	108	149	**108**	149

The unfunded pension liabilities are included in assets and long term accrued expenses in the Balance Sheet. The statutory pension liability was transferred from Valmet's Pension Fund to an insurance company at 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.

(11) RECEIVABLES

The information regarding Valmet's receivables is as follows:

	Group, Dec 31		Parent Company, Dec 31	
(FIM millions)	**1997**	1996	**1997**	1996
Receivables due later than one year:				
Trade receivables, interest-bearing	**41**	76	**–**	–
Trade receivables, non-interest-bearing	**25**	24	**31**	34
Accrued income and prepaid expenses	**22**	17	**1**	–
Other receivables	**11**	9	**–**	–
	99	126	**32**	34
Interest-bearing receivables, total	**182**	194	**75**	30
The allowance for doubtful accounts	**57**	36	**–**	1

(12) COST AND EARNINGS OF PROJECTS UNDER CONSTRUCTION IN EXCESS OF BILLINGS/ BILLINGS IN EXCESS OF COST AND EARNINGS OF PROJECTS UNDER CONSTRUCTION

Information on balance sheet items of uncompleted projects at December 31, 1997 (Group):

(FIM millions)	Cost and earnings of uncompleted projects	Billings of projects	Net
Projects, where Costs and earnings exceed Billings	3 006	2 119	887
Projects, where Billings exceed Costs and earnings	84	351	–267

Net sales coming from projects which were uncompleted at the year end were FIM 2,148 million in 1997 and FIM 1,286 million in 1996.

(13) CASH AND SHORT TERM INVESTMENT

	Group, Dec 31		Parent Company, Dec 31	
(FIM millions)	**1997**	1996	**1997**	1996
Cash	**318**	301	**31**	28
Short-term investments	**1 263**	1 301	**962**	1 122
	1 581	1 602	**993**	1 150

Short-term investments consist of time deposits, commercial papers, certificates of deposit, treasury bills, bonds and other securities.

(14) SHAREHOLDERS' EQUITY

Changes in consolidated shareholders' equity are as follows:

		Other shareholders' Equity			
(FIM millions)	Share capital	Restricted funds	Cumulative translation adjustment	Retained earnings	Total shareholders' equity
Balance at Jan 1, 1995	851	1 351	–113	417	2 506
Net income	–	–	–	656	656
Dividends	–	–	–	–43	–43
Share of associated companies' gains and losses from previous years	–	–	–	–17	–17
Translation differences	–	–	–36	–	–36
Balance at Dec 31. 1995	851	1 351	–149	1 013	3 066
Net income	–	–	–	806	806
Dividends	–	–	–	–149	–149
Redemption and cancellation of shares	–	–	–	–494	–494
Translation differences	–	–	18	–	18
Balance at Dec 31, 1996	851	1 351	–131	1 176	3 247
Net income	–	–	–	863	863
Dividends	–	–	–	–234	–234
Translation differences	–	–	17	–	17
Balance at Dec 31, 1997	851	1 351	–114	1 805	3 893

Unrestricted shareholders' equity was FIM 1,644 million at December 31, 1997 and FIM 1,037 million at December 31, 1996. Unrestricted shareholders' equity includes untaxed reserves less deferred taxes FIM 67 million at December 31, 1997 and FIM 21 million at December 31, 1996. At December 31, 1997, FIM 47 million of the cumulative translation adjustment was considered as restricted funds and FIM –161 million as unrestricted funds. According to the Finnish Companies Act, free distributable funds of the Group were FIM 1,578 million at December 31, 1997 and FIM 1,016 million at December 31, 1996. Dividends will be declared and paid in Finnish markka.

Changes in the parent company's shareholder's equity are as follows:

		Other shareholders Equity		
(FIM millions)	Share capital	Restricted funds	Retained earnings	Total shareholders' equity
Balance at Jan 1, 1996	851	1 481	1 183	3 515
Net income	–	–	443	443
Dividends	–	–	–149	–149
Redemption and cancellation of shares	–	–	–494	–494
Balance at Dec 31, 1996	851	1 481	983	3 315
Net income	–	–	589	589
Dividends	–	–	–234	–234
Balance at Dec 31, 1997	851	1 481	1 338	3 670

Unrestricted equity of Parent Company at December 31, 1997 was FIM 1,338 million and FIM 983 million at December 31, 1996.

(15) LONG-TERM DEBT

Long-term debt of Valmet Group consists of the following:

	Group					
	Dec 31, 1997			Dec 31, 1996		
(FIM millions)	Total	Short-term portion	Long-term debt	Total	Short-term portion	Long-term debt
Bonds	1 446	1	1 445	521	1	520
Loans from financial institutions	449	99	350	258	99	159
Other long-term loans	274	119	155	262	21	241
Total	2 169	219	1 950	1 041	121	920

Bonds consist primarily of a 200 million U.S.dollar bond, issued in the United States and registered with the Securities Exchange Commission (SEC). The Bond matures in 2007 and bears a fixed annual rate of 6.875%. A part of that bond has been converted through a currency swap agreement into a fixed rate loan in British pound sterling.

Another bond is a FIM 300 million bond with fixed interest rate of ten percent. The bond matures between 2000 and 2002. This bond has been converted to U.S. dollars and to different rates of interest through the use of currency and interest rate swaps.

Loans from financial institutions consist of international bank borrowings with varying maturities and either fixed or floating interest rates. The majority of the Group's loans from financial institutions are denominated in U.S. dollars. Other bank loans are denominated in various currencies such as Italian liras, Finnish markkas, Canadian dollars and British pound sterling. The interest rates of the loans range from 1.625 percent to 11.8 percent at December 31, 1997 and they mature between 1998 and 2006.

Other long-term loans consist principally of government loans and loans from governmental agencies (e.g., for research and development support) and pension loans at interest rates ranging from 1.0 percent to 11.4 percent at December 31, 1997. The balance of pension loans included in other long-term loans at December 31, 1997 was FIM 24 million and FIM 134 million at December 31, 1996. "Pension loans", as permitted in Finland, consist mainly of relending of contributions paid for pensions.

For substantially all of their bank debt, the Group does not have any financial covenants.

As of December 31, 1997 the Group had FIM 434 million in long-term committed borrowing facilities that were unused and FIM 558 million unused credit facilities and similar lines of credit.

Long-term debt of Valmet Group at December 31, 1997 will be payable as follows:

(FIM millions)	Bonds	Loans from financial institutions	Other long-term loans	Total
1998	1	99	119	219
1999	1	51	30	82
2000	101	20	26	147
2001	101	7	13	121
2002	160	1	10	171
2003 and later	1 082	271	76	1 429
Total	1 446	449	274	2 169

Long-term debt of Parent Company consists of the following:

	Parent Company					
	31.12.1997			31.12.1996		
(FIM millions)	Total	Short-term portion	Long-term debt	Total	Short-term portion	Long-term debt
Bonds	1 439	–	1 439	514	–	514
Loans from financial institutions	278	3	275	9	3	6
Other long-term loans	79	7	72	48	6	42
Total	1 796	10	1 786	571	9	562

Long-term debt of Parent Company at December 31, 1997 will be payable as follows:

(FIM millions)	Bonds	Loans from financial institutions	Other long-term loans	Total
1998	–	3	7	10
1999	–	1	12	13
2000	100	1	11	112
2001	100	2	8	110
2002	160	–	4	164
2003 and later	1 079	271	37	1 387
Total	1 439	278	79	1 796

(16) DEFERRED INCOME TAXES

The net deferred tax liability of the Group consists of the following:

(FIM millions)	Group 31.12.1997	31.12.1996
Deferred tax liabilities:		
Property and equipment	**113**	88
Untaxed reserves	**1**	22
Other	**9**	4
Total deferred tax liabilities	**123**	114
Deferred tax assets:		
Tax loss carryforwards	**235**	318
Property and equipment	**90**	94
Other	**88**	103
Less tax assets not recognized	**–362**	–458
Net deferred tax assets	**51**	57
Net deferred tax liabilities	**72**	57

Deferred taxes have not been provided on the unremitted earnings of subsidiaries and associated companies because such earnings are intended to be permanently reinvested or can be recovered in a tax-free manner and, in the case of associated companies, are not material.

Tax regulations in some countries permit tax deductions for allocations to special reserves with such amounts being accumulated in untaxed reserve accounts. In the Consolidated Balance Sheets, untaxed reserves in Group companies are allocated between shareholders' equity and deferred tax liabilities.

The Group's tax loss carryforwards were FIM 631 million and FIM 861 million at December 31, 1997 and 1996, respectively. FIM 293 million of the tax loss carryforwards at December 31, 1997 have no expiration date. Of the remaining tax loss carryforwards, FIM 113 million arises in Italy and expires during the years 1998 to 2001, FIM 23 million is from Canada and expires during the period 1998 to 2002, FIM 1 million is from France and expires during the period 2000 to 2001 and FIM 201 million relates to the U.S. and expires during the period 1999 to 2007.

(17) ACCRUED EXPENSES, LONG-TERM

	Group , Dec 31		Parent Company, Dec 31	
(FIM millions)	**1997**	1996	**1997**	1996
Voluntary additional pension liabilities (Note 10)	**137**	154	**115**	149
Provisions for other claims and compensations	**2**	60	**1**	56
Other long-term provisions and accruals	**52**	79	**–**	11
	191	293	**116**	216

(18) OTHER INTEREST-BEARING SHORT-TERM LIABILITIES

Other interest-bearing short-term liabilities consist primarily of short-term borrowing under various credit lines, trade finance advances and deposits accepted from Personnel, Pension and Support Funds. The weighted average interest rates on short-term borrowings for the year ended December 31, 1997 was 5.26 percent.

(19) ACCRUED EXPENSES AND PREPAID INCOME, CURRENT LIABILITIES

A detailed specification of accrued expenses and prepaid income is as follows:

	Group, Dec 31		Parent Company, Dec 31	
(FIM millions)	**1997**	1996	**1997**	1996
Personnel costs	**606**	440	**289**	235
Interest expenses	**30**	55	**14**	25
Income taxes	**175**	148	**71**	38
Accrued expenses related to long-term contracts	**821**	722	**580**	346
Provisions for warranty claims	**334**	299	**205**	189
Other accruals	**270**	131	**74**	59
Provisions for losses on long-term contracts	**31**	21	**18**	11
Provisions related to reorganization of production operations	**18**	25	**5**	1
Other provisions	**29**	27	**10**	12
	2 314	1 868	**1 266**	916

(20) ASSETS PLEDGED AND CONTINGENT LIABILITIES

(FIM millions)	Group, Dec 31 **1997**	1996	Parent Company, Dec 31 **1997**	1996
Mortgages on corporate debt	**80**	87	**–**	2
Other pledges and contingencies				
Mortgages	**35**	35	**–**	–
Pledged shares	**4**	4	**–**	–
Other pledged assets	**7**	8	**–**	–
Guarantees on behalf of subsidiaries	**–**	–	**788**	909
Guarantees on behalf of associated companies	**8**	14	**8**	14
Other guarantees	**11**	23	**8**	20
Total	**65**	84	**804**	944
Leasing-repurchase commitments	**19**	30	**19**	29

The mortgage amount has been calculated as the amount of the corresponding loans. The nominal value of the mortgages at December, 1997 was FIM 50 million larger than the amount of the corresponding loans. The pledged shares amount has been calculated as the amount of the corresponding loans and other commitments.

(21) RELATED PARTY INFORMATION

Information regarding transactions with related parties is as follows:

(FIM millions)	Group **1997**	1996	Parent Company **1997**	1996
Associated companies:				
Receivables – current				
Trade receivables, non-interest-bearing	**1**	–	**1**	–
Loans receivable	**–**	15	**–**	–
Accrued income and prepaid expenses	**–**	2	**–**	2
	1	17	**1**	2
Sales to associated companies	**–**	62	**–**	57
Members of the Board of Directors and the Chief Executive Officers:				
Loans receivable – long-term	**1**	1	**1**	1
Subsidiaries (regarding Parent Company only):				
Loans receivable – long-term	**–**	–	**447**	320
Receivables – current				
Trade receivables, non-interest bearing	**–**	–	**155**	189
Loans receivable	**–**	–	**355**	95
Accrued income and prepaid expenses	**–**	–	**77**	87
	–	–	**587**	371
Current liabilities				
Accounts payable	**–**	–	**179**	132
Advances received	**–**	–	**4**	26
Cash pool balance	**–**	–	**445**	365
	–	–	**628**	523
Financial income and expenses:				
Interest income	**–**	–	**33**	21
Interest expenses	**–**	–	**–15**	–16
	–	–	**18**	5

(22) OPERATING LEASE COMMITMENTS

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

(FIM millions)	Group
1998	87
1999	88
2000	74
2001	34
2002	12
2003 and later	34
Total	329

Rental expense for operating leases was FIM 139 million in 1997 and FIM 111 million in 1996. Amounts under finance leases are not significant.

(23) FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Group's financial function must identify the financial risks connected with the business operations and minimize their impacts on the Group's financial result. To minimize financial risks, the Group uses different derivative instruments, such as forward contracts, currency and interest rate swaps and options. Derivatives are used only to support the underlying businesses.

Because the derivative instruments below are presented at their notional or contract amounts, they do not reflect the Group's risk position caused by the use of derivatives.

Foreign Currency and Interest Rate Risk

A substantial portion of the Group's turnover is generated outside Finland. The Group has also invested in net assets of the foreign subsidiaries. The Group's sales, marketing and financial activities are conducted in several countries and raw materials and components are purchased in several different currencies. International operations expose the Group to variations in the exchange rates. Transactional risks relate to the risk that currency fluctuations will have a negative effect on the value of the Group's commercial cash flows. Translation risk relates to the risk of adverse currency fluctuations in the translation of foreign operations and foreign assets and liabilities into Finnish markkas for the Group's consolidated financial statements.

Variations in interest rates expose the Group to interest rate risk, which may cause changes in the values of such interest bearing liabilities and assets which are already in the balance sheet and also affect the amounts of future interest income or expenses.

At December 31, 1997 and 1996, net assets of foreign subsidiaries denominated in currencies other than FIM amounted to FIM 948 million and FIM 529 million, respectively. The Group has partly hedged with loans and other financial instruments the net assets of its foreign subsidiaries.

The table below summarizes in FIM equivalent by major currency the contractual amounts of forward exchange contracts used primarily to hedge future firmly committed cash flows at December 31, 1997 and 1996. The "Buy" amounts represent the Finnish markka equivalent of commitments to purchase foreign currencies, and the "Sell" amounts represent the FIM equivalent of commitments to sell foreign currencies.

	Group			
	Dec 31, 1997		Dec 31, 1996	
(FIM millions)	**Buy**	**Sell**	Buy	Sell
United States dollar	**–**	**1 649**	8	1 642
Canadian dollar	**7**	**455**	–	526
Swedish krona	**16**	**154**	36	3
Other	**11**	**468**	1	199
Total	**34**	**2 726**	45	2 370

The following table presents information regarding the contract amount in FIM equivalent amounts and the estimated fair value of all of the Group's forward exchange contracts with a positive fair value (assets) and a negative fair value (liabilities) as at December 31, 1997 and 1996:

	Group			
	Dec 31, 1997		Dec 31, 1996	
(FIM millions)	**Contract amount**	Fair value	Contract amount	Fair value
Forward exchange contracts:				
Assets	**634**	**20**	365	7
Liabilities	**2 126**	**–115**	2 050	–54

The Group utilizes interest rate and currency swaps to manage its exposure to the interest rate and exchange rate movements. Interest rate swap agreements allow the Group to synthetically adjust floating rate receivables or borrowings into fixed rates or vice versa. Under interest rate swaps, an agreement is made with a counterparty to exchange, at specified intervals, the difference between fixed rate and floating rate interest payments calculated by reference to an agreed notional principal amount. All of the interest swap and currency swap agreements are designated to hedge specific loans. The maturities of the interest rate swap agreements do not exceed the maturities of the debt to which they relate. The Group accounts for interest rate swaps on an accrual basis.

The following is a summary of interest rate swaps, interest/currency swaps and currency swaps of the Group. Swaps that have a positive fair value are listed as assets and swaps with a negative fair value are listed as liabilities.

	Group			
	Dec 31, 1997		Dec 31, 1996	
(FIM millions)	**Contract amount**	**Fair value**	Contract value	Fair value
Interest rate swaps:				
Assets	**300**	**1**	–	–
Liabilities	**–**	**–**	300	–1
Interest rate/currency swaps:				
Assets	**300**	**21**	300	96
Currency swaps:				
Liabilities	**403**	**–4**	–	–

The interest rate and currency swap agreements at December 31, 1997 are maturing over a period of 2000 and 2007, and during 2000 and 2002 at December 31, 1996, respectively. Under the terms of currency swap agreements a part of the Finnish markka denominated bond has been converted to US dollars, and a part of the US dollar denominated bond to British pound sterling. Under the terms of interest rate swap agreements the Group pays interest rate, which is ranging from 5.695 percent to 7.51 percent at December 31, 1997 and from 5.3747 percent to 6.35 percent at December 31, 1996, respectively.

Credit Risk

Derivative contracts carry a risk of non-performance by the counterparty. In the opinion of the management, the counterparties of the Group's financial instruments are creditworthy and no significant losses are expected from existing contracts. In the normal course of business, no collateral is required by the Group. The credit exposure of the interest rate and foreign exchange swaps is represented by the positive fair value of those contracts which have a positive fair value.

The Group's sales receivables also contain credit risk of non-payment. Due to the large amount of customers the credit risk is spread out and the Group has not significant exposure to individual customers or counterparties.

(24) LAWSUITS AND CLAIMS

In February 1997, Valmet won a long-term patent dispute in the United States, when the United States Court of Appeals for the Federal Circuit declared invalid two of Beloit Corporation's patents related to the paper machine drying section. The Court for the Federal Circuit has upheld its decision, and the United States Supreme Court has not accepted the opposing party's case for appeal.

In August, Valmet Inc. was ordered by decision of a District Court jury in Madison (WI) to pay USD 14.6 million compensation to Beloit for patent violations related to the delivery of a fine paper machine to the United States. Valmet was prepared to lodge an appeal to the Court for the Federal Circuit, with justified claims for the decision to be overturned. At the end of the year, in order to avoid enormous legal expenses, Valmet and Beloit analyzed their pending patent disputes and came to a settlement agreement ending all the said disputes. According to the terms of settlement, Valmet paid the opposing party a lump sum indemnity of USD 15 million. As a consequence of the agreement, Valmet and Beloit do not have any pending disputes regarding patents, or any further legal proceedings.

Several product liability suits against Valmet Corporation are pending in the USA. However, taking product liability insurance into account, they cannot be considered as constituting any overall material risk. The normal risks of legal disputes concerning deliveries and the taxation risks involved in export delivery projects cannot be regarded as material in terms of the Corporation's total business activities.

(25) OFFERING OF BONDS WITH WARRANTS TO SENIOR MANAGEMENT

The 1994 Annual General Meeting approved an issue of bonds with warrants, valued at FIM 500,000, to the 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 1,000,000 shares from December 1, 1998 to January 31, 2001, at a subscription price of FIM 60. The bonds with warrants have been completely subscribed.

(26) U.S.GAAP INFORMATION

The accompanying consolidated financial statements have been prepared in accordance with Finnish GAAP which differs in certain significant respects from U.S.GAAP. The following is a summary of the adjustments to net income and shareholders' equity that would have been required if U.S.GAAP had been applied instead of Finnish GAAP in the preparation of the consolidated financial statements.

	Group	
(FIM millions, except per share amounts)	**1997**	1996
Net income under Finnish GAAP	**863**	806
Adjustments to reconcile to U.S.GAAP:		
Long-term contracts (a)	**–**	–53
Pensions (b)	**5**	73
Income taxes (c)	**–28**	–41
Goodwill (d)	**10**	11
Gain/loss on sale of business (e)	**–**	–19
Investments (g)	**25**	–30
Capitalization of interest (h)	**–1**	–1
Equity method investees (i)	**–9**	13
Tax effect of U.S.GAAP adjustments	**–8**	8
Net income under U.S.GAAP	**857**	767
Basic and diluted earnings per share (j)	**10.97**	9.45

	Group	
	Dec 31, 1997	Dec 31, 1996
Shareholders' equity under Finnish GAAP	**3 893**	3 247
Pensions (b)	**–190**	–26
Income taxes (c)	**71**	107
Goodwill (d)	**–82**	–92
Revaluations (f)	**–70**	–70
Investments (g)	**102**	46
Capitalization of interest (h)	**42**	43
Equity method investees (i)	**–**	9
Shareholders' equity under U.S.GAAP	**3 766**	3 264

Those differences which have material effect on consolidated net income and shareholders' equity are as follows:

a) Long-term contracts

Under Finnish GAAP, the Group used the "completed contract" method of recognizing revenue on long-term contracts until the year end 1995. That is, the revenue was recorded as earned when the construction period was complete and delivery had been made to the buyer. Commencing on January 1, 1996 revenue from long-term delivery contracts under Finnish GAAP is recognized using the percentage of completion method, whereby revenue is recognized as earned over the term of the contract based upon progress of the project and proportion of estimated total contract costs.

Under U.S.GAAP, the Group would be required to use the "percentage of completion" method also for the years before 1996.

Under both Finnish and U.S.GAAP, losses are recognized when known on contracts that are expected to incur a loss.

b) Pensions

The Group companies have various pension schemes in accordance with the local conditions and practices in the countries in which they operate. Most of these programs are defined benefit pension schemes with retirement, disability, death and termination income benefits. The retirement income benefits are generally a function of years of employment and final salary with the company and are generally coordinated with local national pensions. The schemes are generally funded through payments to insurance companies or to trustee-administrated funds as determined by periodic actuarial calculations. The Group's policy for funding its defined benefit plans is to satisfy local statutory funding requirement for tax deductible contributions. The Group contributes at least an amount equal to the minimum funding requirements for the countries in which it maintains pension schemes that are subject to such requirements. The Group also participates in some multiemployer pension arrangements and defined contribution pension arrangements.

Under U.S.GAAP, the determination of pension expense for defined pension plans is made pursuant to Statement of Financial Accounting Standard " Employers' Accounting for Pensions" (SFAS No 87). SFAS No 87 is more prescriptive than Finnish GAAP in that it requires the use of a specific actuarial method (the projected unit credit method). Also under SFAS No 87, under certain circumstances, a minimum liability is recorded with a corresponding intangible asset and/or reduction of shareholders' equity for plans that are underfunded.

c) Income taxes

Under Finnish GAAP, the Group recorded deferred income taxes primarily on the amount of untaxed reserves and accelerated depreciation.

Under U.S.GAAP, deferred taxes are required to be recorded on differences between the book basis and the tax basis of all assets and liabilities. Deferred tax liabilities are recognized regardless of the likelihood of reversal of such amounts and deferred tax assets are reduced by a valuation allowance to the amount that is “more likely than not” to be realized.

d) Goodwill

Under Finnish GAAP, negative goodwill arising from the excess of the fair value of the net assets acquired over the purchase price of an acquired business is recorded directly to shareholders’ equity.

Under U.S.GAAP, such negative goodwill is recorded as a reduction in the value of acquired long-lived assets, thus reducing future levels of depreciation expenses for those assets.

e) Gain on sale of business

During 1996, The Group sold 50.1 percent of the share capital of Aviation (Patria Finavitec) to the State of Finland and recognized a gain of FIM 19 million in the income statement.

Under U.S.GAAP, sales or transfers of assets between the Company and the Finnish State, due to the Finnish State’s majority ownership in the Company at the moment of sale of Aviation, are recorded at their predecessor book values and accordingly, no gain or loss is recorded in the income statement. The excess of the book value of the assets received over the book value of the net assets transferred to the State of Finland regarding Aviation would be recorded as capital contributions directly to shareholders’ equity under U.S.GAAP.

f) Revaluations

Under Finnish GAAP, certain fixed assets and investments in associated companies can be revalued with any resulting revaluation surplus recorded directly in shareholders’ equity.

Under U.S.GAAP, no such increases in the carrying value of fixed assets and investments in associated companies are permitted.

g) Investments

Under Finnish GAAP, the Group records short-term investments at market value and changes in the market value are recorded as part of “Financial income and expense” in the Income Statement.

For U.S.GAAP purposes, all of the Group’s investments in debt securities and equity securities with a readily determinable market value are classified as “available-for-sale” and are recorded at fair value with changes in unrealized appreciation or depreciation recorded directly to shareholders’ equity, net of applicable deferred income taxes.

h) Capitalization of interest

Under Finnish GAAP, capitalization of interest is allowed, but not specifically required on projects that are constructed for an entity’s own use. The Group presently does not capitalize interest on such self-constructed assets.

Under U.S.GAAP, capitalization of interest on assets constructed for an entity’s own use is required based upon the weighted average capital expenditures on self-constructed assets.

i) Equity method investees

In the accompanying Consolidated Financial Statements, the Group has reduced its investment in the shares of an associated company as the result of the Group’s share of the losses of that equity method investee company. The Group discontinues the use of the equity method when the investment is reduced to zero and when the Group has not guaranteed to provide further finance.

Under U.S.GAAP, a similar principle would be followed except that the investment in associated companies would also include the amount of any advances made. In addition, this adjustment includes the Group’s proportionate share of U.S.GAAP adjustments to the earnings of associated companies.

j) Earnings per share

Earnings per share for Finnish GAAP purposes is based upon income after financial items deducted with income taxes and minority interests divided by the weighted average number of shares outstanding and adjusted with the tax effect of extraordinary items.

For U.S.GAAP, earnings per share would be based upon net income divided by the weighted average number of shares outstanding.

Key Figures and Financial Ratios 1993–1997

(FIM millions)	1993	1994	1995	1996	**1997**
Orders booked	10 972	8 928	12 131	10 486	**10 609**
Order backlog, December 31	5 907	6 381	9 699	8 086	**7 126**
Net sales	10 676	8 328	8 574	11 764	**12 313**
Net sales change, %	10.7	–22.0	2.9	37.2	**4.7**
Operating profit	479	371	530	921	**939**
Operating profit, %	4.5	4.5	6.2	7.8	**7.6**
Income after financial items	100	203	637	1 056	**1 018**
Income after financial items, %	0.9	2.4	7.4	9.0	**8.3**
Income before taxes	–54	178	719	1 020	**1 137**
Income before taxes, %	–0.5	2.1	8.4	8.7	**9.2**
Net income for the year	85	173	656	806	**863**
Exports and international operations	8 838	6 753	7 208	7 891	**9 799**
Exports and international operations, % of net sales	82.8	81.1	84.1	67.1	**79.6**
Capital expenditures	447	266	461	632	**1 376**
Capital expenditures, % of net sales	4.2	3.2	5.4	5.4	**11.2**
Depreciation and amortization	574	449	383	437	**432**
Depreciation and amortization, % of net sales	5.4	5.4	4.5	3.7	**3.5**
Change in working capital	–498	84	365	46	**–793**
Net cash provided by operating activities	116	463	1 170	1 259	**418**
Research and development	295	300	374	493	**498**
Research and development, % of net sales	2.8	3.6	4.4	4.2	**4.0**
Research and development expenses in the income statement	248	298	306	404	**472**
Number of personnel, December 31	15 716	12 146	12 808	12 871	**13 480**
Shareholders' equity and minority interests	1 993	2 533	3 094	3 283	**3 949**
Balance sheet total	11 766	8 905	9 641	8 302	**10 073**
Net debt/equity, %	177.8	37.5	–3.2	–9.5	**18.8**
Equity ratio, %	19.2	33.3	40.6	42.8	**40.3**
Return on net assets, %	9.2	9.4	16.0	23.4	**20.6**
Return on equity, %	10.7	8.7	20.7	26.6	**22.4**
Earnings / share, FIM	2.73	2.50	6.74	10.26	**10.08**
Dividend / share, FIM	–	0.50	1.75	3.00	**3.50** [1]
Dividend / earnings, %	–	20.0	26.0	29.2	**34.7**
Market value of shares, Dec. 31, FIM millions	2 453	3 830	4 638	6 326	**5 873**

[1] Proposal by the Board of Directors

Accounting Principles

Valmet's Financial Statements have been prepared in accordance with the Finnish 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 holdings exceed 50 percent 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 purchase or up to the date of 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 five to fifteen year period. All inter-Group transactions and balances have been eliminated in consolidation process.

Associated companies

The equity method of accounting is used for investments in associated companies in which the investment provides the Company with the ability to exercise significant influence over operating and financial policies of the investee company. Such influence is presumed to exist for investments in companies in which the Group's direct ownership or indirect ownership is between 20 percent and 50 percent. Under the equity method, the Group's share of profits and losses of associated companies is included in the Consolidated Income Statement. The Group'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 if hedged through related forward exchange contract. Realized and unrealized exchange rate gains and losses related to unhedged transactions are recorded in the income statement as financial income and expenses.

Assets and liabilities denominated in foreign currencies are translated at year-end exchange rates unless a related or matching forward exchange contract or currency swap has been entered into, in which case 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 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 on the translation of financial statements of foreign subsidiaries are recorded to shareholders' equity.

The Group is hedging a portion of foreign subsidiaries shareholders' equity by designating the loans in foreign currencies and other financial instruments as hedge of net assets. The exchange rate differences arising from these loans and other financial instruments are offset against the cumulative translation adjustment in shareholders' equity arising from consolidation. The currency of the loans and other financial instruments should correspond to the currency of the net assets in order to qualify for hedge accounting.

Derivative financial instruments

Forward exchange contracts and currency swaps

Gains and losses on forward exchange contracts and currency swaps that are designated and effective as hedges of firm foreign currency commitments are deferred and recognized in income or as adjustments of carrying amounts when the hedged transaction occurs. It's the Group's policy that the currency of the derivative instruments correspond to the currency of the firm contractual obligations as to which they relate in order to qualify for hedge accounting.

Interest rate swaps

Interest rate swap agreements that are designated as a hedge of a debt obligation are accounted for on an accrual basis. That is, the interest payable and interest receivable under the swap terms are accrued and recorded as an adjustment to the interest expense of the designated liability.

Amounts due from and payable to the counterparties of interest rate swaps are recorded on an accrual basis at each reporting date based on amounts computed by reference to the respective interest rate swap contract. Realized gains and losses that occur from the early termination or expiration of contracts are recorded in income over the remaining period of the original swap agreement.

It is the policy of the Group that the terms and the contractual maturities of the interest rate swap agreements must correspond to the underlying debt obligation to which the swap relates in order to qualify for hedge accounting.

Revenue recognition

Commencing on January 1, 1996, the revenue from long-term delivery contracts is recognized using percentage of completion method. Percentage of completion is determined by reference to the extent of contract performance based on achievements of milestones. The revenues from other goods and services sold is recognized when substantially all of the risks and obligations of ownership are transferred to the buyer, or when the service is performed.

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 commencing on the date of acquisition and using the straight line method over the useful life of the asset or through the date of disposal. 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

Rent expense on operating leases is recognized evenly over the terms of the lease.

Other intangible assets

Intangible assets consisting primarily of patents, licences and other similar items are amortized over their estimated useful lives which are 3 to 10 years.

Inventories

Inventories are recorded at the lower of cost or market value calculated on a "average cost" basis. Historical costs include purchase costs as well as transportation and processing costs. The costs of finished goods include direct materials, wages and salaries plus social costs, subcontracting and other direct costs. In addition, production costs include an allocable portion of production and project administration overheads. Inventories are shown net of a reserve for obsolete and slow-moving inventories. A reserve is established and a corresponding charge is taken to income in the period in which loss occurs based upon an assessment of technological obsolescence, turnover and related factors.

Short-term investments

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

Pensions and other retirement benefits

The cost of retirement benefits is accounted in the period during which the services are rendered by employees. 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 pensions 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 generally charged to income as they are incurred except that such costs may be deferred in limited circumstances if such costs have alternative future use. If such costs are deferred, systematic amortization is made over periods not exceeding five years.

Provision for warranty costs

An accrual is made for expected warranty costs in the period when the respective revenue recognition is made. Management reviews the adequacy of this accrual periodically based on historical analysis and anticipated product returns.

Income Taxes

Income taxes consist of direct taxes and the change in deferred taxes on untaxed reserves and accelerated depreciation. 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, untaxed reserves have been divided between a deferred tax liability and shareholders' equity.

Changes in Accounting Policies

In 1995, the Group's U.S. subsidiary adopted a new standard for the accrual of post-retirement benefits (SFAS No. 106). Commencing in 1996, the Group adopted the Percentage of Completion Method of Revenue Recognition. The goodwill arising from the acquisition of Atlas will be amortized over 15 years, when in years 1994 to 1996 Valmet has applied an amortization over a period of 5 years.

Use of estimates

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

Definition of Financial Ratios and Key Indicators

Equity ratio, % (1, 6) =

$$\frac{\text{Shareholders' equity + Minority interests}}{\text{Total assets – Billings in excess of cost and earnings}} \times 100$$

Return on net assets % =

$$\frac{\text{Income after financial items + Financial expenses}}{\text{Balance sheet total – Non-interest-bearing debt (average for the year)}} \times 100$$

Return on equity, % (1, 5) =

$$\frac{\text{Income after financial items – Taxes}}{\text{Shareholders' equity + Minority interest (average for the year)}} \times 100$$

Net debt/equity, % (1) =

$$\frac{\text{Interest bearing debt – Cash and short-term investments}}{\text{Shareholders' equity + Minority interest}} \times 100$$

Dividend/share, FIM (2, 3) =

$$\frac{\text{Nominal dividend}}{\text{Issue-adjusted number of shares on Dec. 31.}}$$

Dividend yield % (2, 3) =

$$\frac{\text{Dividend/share}}{\text{Issue-adjusted share price on Dec. 31.}} \times 100$$

Earnings/share, FIM (2, 3, 4, 5) =

$$\frac{\text{Income after financial items – Taxes – Minority interest}}{\text{Average number of shares adjusted for share issue}}$$

P/E-ratio (2, 3) =

$$\frac{\text{Issue-adjusted share price on Dec. 31.}}{\text{Earnings/share}}$$

Cash Flow/share, FIM (2, 3, 4, 5) =

$$\frac{\text{Income after financial items + Depreciation – Taxes}}{\text{Average number of shares adjusted for share issues}}$$

Equity/share, FIM (1, 2, 3) =

$$\frac{\text{Shareholders' equity}}{\text{Issue-adjusted number of shares on Dec. 31.}}$$

Dividend/Earnings, % =

$$\frac{\text{Dividend/Share}}{\text{Earnings/Share}} \times 100$$

(1) In calculations of this ratio in 1993 and earlier, shareholders' equity included the total untaxed reserves. In 1994, 1995, 1996 and 1997, however, shareholders' equity includes untaxed reserves net of deferred taxes.

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

(3) At March 25, 1996, the nominal value of shares was changed from FIM 20 to FIM 10 per share and the number of shares was increased in a 2-for-1 share split. The ratios have been retroactively adjusted for all periods presented based on the 2-for-1 share split.

(4) The ratios of 1996 have been adjusted with the redemption and cancellation of those shares made at June 7, 1996.

	Number of shares, Dec. 31	Average number of shares
1993	71 101 430	71 101 430
1994	85 101 430	79 079 512
1995	85 101 430	85 101 430
1996	78 100 000	81 130 756
1997	78 100 000	78 100 000

(5) Taxes from years 1994, 1995, 1996 and 1997 include the change in deferred tax liability from untaxed reserves. Taxes from 1996 and 1997 have been adjusted with the tax effects of extraordinary items.

(6) In calculating the equity ratios for the years 1993–1995, the amount of advances received was deducted from the Balance Sheet total. After having adapted the percentage of completion of revenue recognition in 1996, the advance billings from the customer regarding long-term projects are offset by cost and earnings of the projects in the balance sheet.

Auditors' Report

To the shareholders of Valmet Corporation

We have audited the accounting records and the financial statements, as well as the administration by the Supervisory Board, the Board of Directors and the Managing Director of Valmet Corporation for the year ended 31 December 1997. 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 Managing Director. Based on our audit we express an opinion on these financial statements and the company's administration.

We have conducted our audit in accordance with Finnish Generally Accepted Auditing Standards. Those standards require that we plan and perform the audit in order to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial statement presentation. The purpose of our audit of the administration has been to examine that the Supervisory Board, the Board of Directors and the Managing Director 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 parent company result of operations, as well as of the financial position. The financial statements can be adopted and the members of the Supervisory Board, the Board of Directors and the Managing Director 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 acquainted ourselves with the interim financial statements made public by the company during the year. It is our understanding that the interim financial statements have been prepared in accordance with the rules and regulations governing the preparation of such statements in Finland.

Helsinki, February 24, 1998

KPMG Wideri Oy Ab
Eero Suomela
Authorized Public Accountant

Net sales at nearly FIM 10 billion

The majority of the machines ordered in Europe and North America in 1997 were rebuilds aimed at improving quality and competitiveness. On the other hand, Asian investments were mostly completely new production lines. Paper and board machinery's net sales grew to nearly FIM 10 billion, and operating profit was FIM 711 million. New orders worth almost FIM 8.4 billion were received.

In the world's paper and board markets the volume of production and the used capacity rose to a high level in 1997. The price of pulp, which rose gradually for most of the year, declined slightly at the end of the year and in early 1998, due to the start up of some large new pulp mills. According to preliminary information, the consumption of all paper grades grew by over 4% and of coated grades by as much as 10% in 1997. In contrast, paper prices remained relatively stable. Low price level has discouraged investment in new capacity.

The majority of machine and equipment investments in Europe and North America in 1997 were directed at rebuilds, aimed at improving quality, or competitiveness and dealing with environmental issues. Many large companies are continuing to grow by acquisitions rather than by investing in new machinery. However, production processes are presently in such active use that in the near future paper mills must also begin planning capacity increases by means of rebuilds and new investments. Investments in Asia continued to focus on complete new production lines. Due to a distinct weakening in the region's economies towards the end of the year, some new investment plans were postponed.

Competition has continued to be very tough in all markets. The Group continues to develop its operations in both the Southeast Asia and South America. In order to improve the level and accessibility of customer service, Valmet decided to relocate its Singapore office employees to Jakarta in Indonesia and Bangkok in Thailand. The relocation took place in stages, and most of the employees had transferred to these new locations by the end of 1997.

In South America, a new service operation began in Valencia, Venezuela. It was decided that a new sales and service office would be established in São Paulo, Brazil in the beginning of 1998 .

Valmet Dura Inc., a Finnish-Japanese joint venture, which manufactures polymer roll covers for the most demanding calendering needs, was inaugurated in Järvenpää, Finland, in early 1997.

Order backlog good

Orders worth FIM 8,376 million – almost the same as in the previous year – were won in 1997. At the end of the year the order backlog totalled FIM 6,341 million, which was 13% less than in the previous year. This may be regarded as very satisfactory, however, in view of the market situation and Valmet's more efficient use of capacity and shorter delivery times.

In 1997, Valmet gained orders for 10 complete paper machines, of which four were from China, three from the United States, one from Japan, one from Italy and one from France. Five of the orders gained were for tissue machines, three for fine paper machines, one for a newsprint machine and one for special paper machine producing thermal copy paper.

Valmet also received orders for a number of extensive paper and board machine rebuilds. The largest orders were from UPM-Kymmene and Myllykoski in Finland, Korsnäs, Stora and SCA in Sweden, Norske Skog and Peterson Linerboard in Norway, Danisco Paper in Denmark, Enso's subsidiary, Holtzmann in Germany, Papelera Navarra in Spain, Blandin and Cascades in North America and Marusumi and Mitsubishi in Japan.

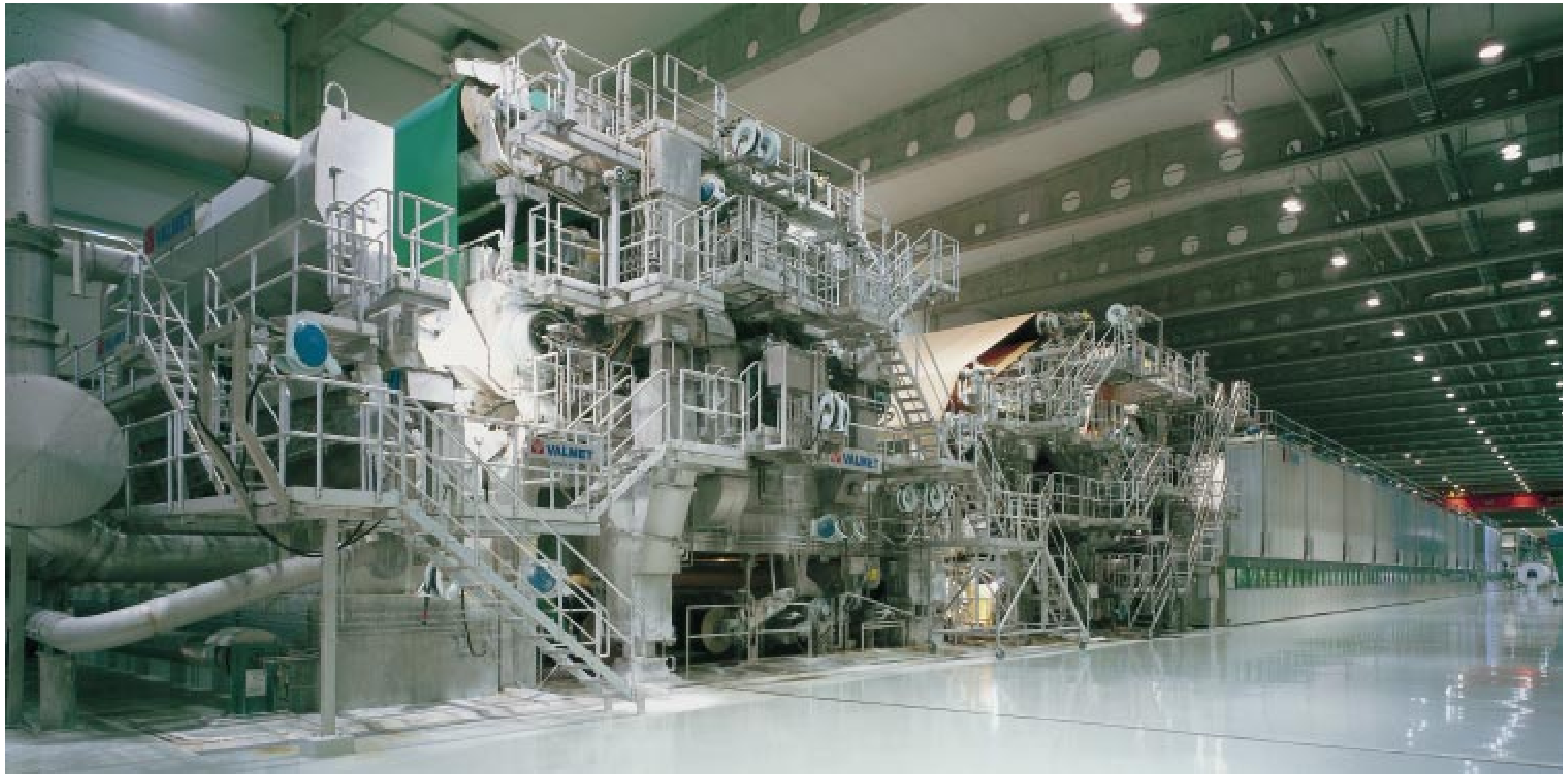
The paper finishing systems markets as a whole continued its good progress and Valmet increased its market coverage and share. All product groups experienced growth. The largest single order was gained from China. It was a complete coating line valued at nearly FIM 700 million, which was the largest finishing machine order of all time. The order included the first new generation OptiCoater, two OptiLoad calenders and two winders. The first on-line OptiLoad multi-roll calender order was gained from Irving Paper in Canada.

Large finishing machine orders were also gained from Stora and MoDo in Sweden, Norske Skog and Peterson in Norway, Crown van Gelder in the Netherlands, Steyermühle in Austria and St. Mary's Paper in USA.

A Condebelt drying process was sold to the South Korean Dong Il company's Ansan board mill. This was the second order gained for this patented new drying concept.

Air systems were sold for many of the new machines supplied by Valmet. The largest air system orders were from UPM-Kymmene and

Key Figures, FIM millions	1997	1996
Net Sales	**9 987**	9 602
Operating Profit	**711**	705
Total Assets, Dec 31	**7 365**	4 568
Personnel, Dec 31	**9 327**	9 042
Order Backlog, Dec 31	**6 341**	7 251
Investments and R&D	**1 377**	574



The new fine paper production line delivered to Enso Fine Papers' Oulu mill was Valmet's biggest-ever delivery. In February 1998, Enso's PM 7 ran at a world record speed (for this grade) of 1,330 m/min.

The world's largest board machine, containing much of Valmet's latest technology, such as a four-station on-machine coater, was delivered to Stora Skoghall in Sweden for the production of liquid packaging board.

Myllykoski in Finland, Stora and SCA in Sweden, Norske Skog and Peterson Linerboard in Norway, Danisco in Denmark, Holtzmann, Lang Papier and Haindl in Germany, Cartiera della Torbola, Cartiera san Paolo, Industria Cartaria Troncetti and Cartiera Vallagarina in Italy, Papelera Navarra in Spain, Soporcel in Portugal, Marcal, Appleton Papers, McMillan Bloedel and Georgia-Pacific in the United States, Abitibi-Consolidated and Donohue in Canada, as well as Shin Ho and Shinmoorim in South Korea.

Runnability systems – intended to improve machine efficiency and runnability – were sold with many dryer section rebuilds. The customers' increasing environmental requirements and the good experiences gained from Stora Skoghall and Iggesund quiet board machines, for example, have been effectively utilized in the marketing of new air systems.

Stock preparation equipment has again successfully expanded its markets. Orders for pulpers and screens were gained as part of complete Valmet packages or directly from new markets.

Valmet Xian Paper Machinery Co. Ltd., 48 % owned by Valmet since 1989, recorded a positive result – the best in its history – and its record high order backlog included five narrow paper and board machines.

LIVELY CONVERTING MACHINERY MARKET

At the beginning of 1998, Valmet established a Converting Equipment Group comprising the Italian companies – Rotomec, Rotomec Automation and MAF – which were previously included in the Paper Finishing Systems Group, as well as Atlas Converting, an English company acquired by Valmet in 1997. Towards the end of 1997, the Italian companies were merged to form Valmet-Rotomec which specializes in packaging printing machines and special coating and laminating machines. Its operations are located in Casale, Bergamo and Verona in Northern Italy. The Atlas Group, on the other hand, specializes in slitters and vacuum metallizing equipment for the treatment of paper, film and aluminum foil for the global converting industry. Its operations are based in Bedford and Heywood in England.

The converting machinery market remained busy. The order backlog for slitters was particularly good. The development of the order backlog for other product groups – rotogravure and flexo-print machines, as well as special coating and laminating machines – was also positive. The proportion of new orders from Asia increased, but the market began to decline

Atlas' 9.5 meter wide slitter rewinder, designed for film, is one of the Converting Equipment Group's most successful products.

towards the end of the year. Numerous orders were gained from the traditional European and North American markets, however, and from South America.

SERVICE OPERATIONS CONTINUE TO DEVELOP

The global service readiness and the Service business network continued to be vigorously developed. In January 1998, a new Technology Center was inaugurated at Laem Chabang near Bangkok in Thailand. It is the first service center designed specifically to meet the needs of the Asian paper industry and to specialize in roll reconditioning, modernization and coverings. In addition to roll services, the center also offers the region's paper mills professional services related to production line service and improvement, and operates as the region's spare parts center.

To improve spare part logistics and delivery reliability, a spare part logistics center was established at Rautpohja in Finland. The ability to deliver consumables was improved by acquiring a majority stake in Pinaltek Oy, based in Varkaus, Finland.

A process support service, specializing in the service and development of paper machines, continued to develop products related to subprocesses, and began systematic work to produce new applications for a wider customer base. Service readiness for Nordic customers was vastly improved with the establishment of a roll service workshop in Karlstad, Sweden.

The Service business also benefited from investments in employee training on a global scale and information systems improvements. The systematic development and marketing of the service agreement concept began to give results.

Good results from product development investments

Valmet's continuous investment in technological development has resulted in a completely new paper machine which is clearly ahead of its predecessors in terms of performance. In developing the new paper machine, the paper production line has been viewed more as a complete entity, in which process and equipment development has been combined more tightly with new process automation and service solutions. The most significant innovations in the new entity are to be found in wet end process control and in pressing, drying and surface treatment technology. The new concept will be presented to customers at Valmet's Paper Technology Days in June 1998.

The successful research and development activity of the past few years is largely due to the network formed with various universities, research institutes and customers. By building active co-operation networks in all its main market areas, Valmet is also ensuring that special regional needs are taken into account in developing technology and skills.

Co-operation with forest industry companies and other equipment and system suppliers participating in the papermaking process forms part of Valmet's approach to the development of technology and new products. Essential to Valmet's working methods is innovation, and the protection of inventions by patents. The number of employees' inventions has increased fourfold in Valmet from the early 1990's level.

January 1998 saw the inauguration of the Laem Chabang in Thailand Technology Center, which is part of Valmet Service. As Valmet's first Asian service center, it will serve the paper industry in both Thailand and the surrounding region.

The new Jyväskylä Technology Center, which specializes in printing paper machines, has already, in its first year of operation, moved paper production to a new speed dimension of over 2,000 meters/min. A significant factor in this development hve been Valmet's new runnability components.

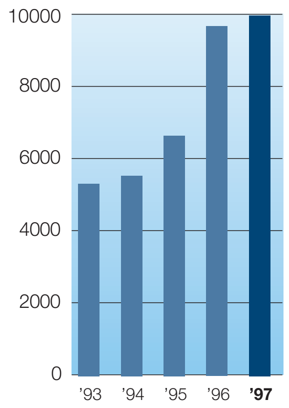
The Järvenpää Technology Center's pilot coater and calenders were completely rebuilt to incorporate the latest technology. The machine's speed was simultaneously increased to more than 3,000 meters/min. The pilot plant was expanded and a separate pilot machine was built for the testing and simulation of high speeds and web transfer solutions. The pilot machines were started up in fall 1997.

At its inauguration in February 1998, the Järvenpää Technology Center's rebuilt pilot coater set a world record speed of 3,101 m/min.

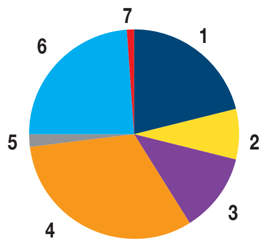
Valmet Automation has significantly contributed to the development of the new paper production concept, especially in terms of special measurements, new controls and machine-merged automation. A new industrial gears R&D and testing center is being completed for Valmet Power Transmission, for the development of drive solutions for the new paper machine concept.

The new or improved products which are a result from Valmet's research and development operations have been a significant factor in the success of sales in recent years. This has been evident in the continual improvement of the speed and productivity records set by printing paper machines, as well as new paper and board production concepts.

Net Sales, FIM millions



Net Sales by Market Area



1	Finland	21 %
2	Other Nordic countries	8 %
3	Other Europe	12 %
4	North America	32 %
5	South America	2 %
6	Asia	24 %
7	Other countries	1 %

In January 1998 a new world record of 1,682 meters/min was set by the newsprint machine of Aylesford Newsprint in the UK. In February 1998, Enso Fine Papers' PM 7 fine paper machine set the world record for this paper grade at 1,330 meters/min. The previous speed record, also on a Valmet machine, for wood-free fine paper production was held by the Hankuk Paper company at 1,310 meters/min. The new speed record for coating machines – 3,101 meters/min – was achieved by a pilot coater in the Järvenpää Technology Center in February 1998.

The new products. such as dilution-controlled headboxes, various versions of the SymBelt press, OptiLoad calenders, PowerDry air dryers, Dura rolls, OptiCoat Jet coating stations, color kitchens and WinRoll winders, have been successful in the market.

Remarkable deliveries

A total of 11 paper, board and pulp machines supplied by Valmet were started up in 1997, which is exactly the same number as the previous year. Five of the machines were fine paper machines, three were tissue machines, two were board machines and one was a pulp drying machine. Two of the start-ups were in the USA, two in South Korea and two in Indonesia. The other start-ups were in Finland, Italy, Israel, India and Thailand. The largest were a coated fine paper production line for Enso's Oulu mill, a fine paper machine for Boise Cascade in Jackson, the USA, a fine paper machine for the Shin Ho in South Korea, a board machine for Asia Paper in South Korea, a fine paper machine for Thai Paper in Thailand, a fine paper machine for Surya Agung Kertas in Indonesia and a coated board production line for ITC Bhadrachalam in India.

Other large deliveries in 1997 included the rebuilds of UPM-Kymmene's LWC machine at their Kaipola mill in Finland, Metsä-Botnia's board machine at their Kemi mill in Finland, SCA Laarkirchen's SC machine in Austria, Papeis Inapa's fine paper machine and Portucel's board machine in Portugal, Riverwood International's board machine in the USA, Cartones Ponderosa's board machine in Mexico, Daio Paper's and Daishowa Papers' fine paper machines in Japan, Cheng Loong's board machine in Taiwan, Cho Il paper company's board machine in South Korea, Kertas Basuki Rachmat's fine paper machine in Indonesia, Ballarpur's fine paper machine in India, and Carter Holt Harvey's board machine in New Zealand.

Air systems net sales remained at the same level as in the previous year, due to large, complete orders for paper and board machines which included air systems and dryers. Large deliveries were made to Finland, Sweden, Germany, the USA, Thailand and Indonesia.

Paper finishing systems formed a remarkable proportion of deliveries in 1997. The single largest finishing machine delivery was a coating machine and complete finishing line for Enso's Oulu mill in Finland. There was a large number of smaller deliveries, of which the successful WinRoll winder delivery to UPM-Kymmene's Voikka mill in Finland attracted the most attention.

1998 Outlook

Demand for paper and board products is expected to continue to grow in 1998, although slightly less than in 1997. It is expected that European and North American paper industry investments will pick up in the second half of the year, if paper grades prices continue to rise. Asian paper consumption is still growing faster than anywhere else in the world, despite economic instability. There are a great many new machine projects in China. The Latin American markets have shown signs of picking up.

1998 net sales are expected to remain at a high level. Due to the internal quality and efficiency programs that have been implemented, profitability is also expected to remain good.

The testliner and corrugating medium board machine delivered to the South Korean company, Asia Paper, has the country's first shoe press on a board machine.

Positive progress continued

Valmet Power Transmission's positive and varied progress continued in 1997. Net sales were FIM 395 million (7 % up on 1996) and operating profit was FIM 44 million (8 % up on 1996).

Key Figures, FIM million	1997	1996
Net Sales	**395**	369
Operating Profit	**44**	41
Total Assets, Dec 31	**262**	239
Personnel, Dec 31	**422**	416
Order Backlog, Dec 31	**150**	163
Investments and R&D	**47**	57

Board of Directors 1998
Matti Sundberg, Chairman
Juha Korhonen,
Vice Chairman
Mikko Karvinen
Hannu Korpisaari

President
Erkki Pylvänäinen

During the year, Valmet Hydraulics relocated to renovated facilities at Jyskä, Finland. The vacated premises were reconfigured for gear production, service and product development. Despite these significant rearrangements, Power Transmission easily achieved its key targets.

MARKET DEVELOPMENT

In the second half of 1997, the emphasis in the gears markets began to shift to rebuild projects in the wood processing industry and to service products. Demand for marine gears has grown, while the heavy industrial gears area has remained stable, though extremely competitive. An increasing need is predicted for energy production, such as wind power stations. Towards the end of 1997, hydraulic motor markets improved, in the wake of the rise in the forest machinery sector.

PRODUCT DEVELOPMENT CO-OPERATION

Valmet Power Transmission is Valmet Group's drive equipment technology center and is part of the Group's technology center network. Valmet is investing in power transmission product development to create drive solutions that improve customer process properties and runnability, and promote service and environmental compatibility. An industrial transmission R&D and test center is being completed for Valmet Power Transmission, to accelerate the development of high-quality drive solutions for customers' increasingly demanding, high-speed and efficient equipment.

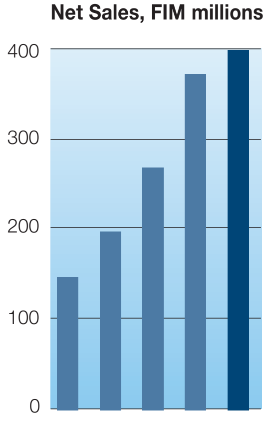
1998 OUTLOOK

The outlook for Valmet Power Transmission in 1998 is favorable. Valmet has a strong position in several areas in mechanical and hydraulic transmissions, as well as in product and drive system service. This strategy will ensure steady progress, despite possible fluctuations in demand in certain areas.

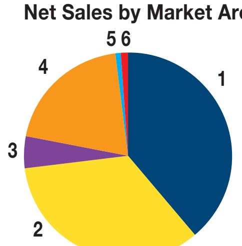
The new generation of integrated roll gears ensures excellent machine runnability at high web speeds.

The newest gear series developed by Power Transmission reduces environmental impacts.

Net Sales, FIM millions



Net Sales by Market Area



1	Finland	39 %
2	Other Nordic countries	34 %
3	Other Europe	5 %
4	North America	20 %
5	Asia	1 %
6	Other countries	1 %

A year of new products

Valmet Automation's net sales and new orders grew by 3% compared to 1996. Operating profit was FIM 100 million. Stiffening competition and increased product development have been the main causes of the weaker operating result. A significant increase in research and development investment brought many new products to market during the year.

Key Figures, FIM millions	1997	1996
Net Sales	**1 625**	1 581
Operating Profit	**100**	140
Total Assets, Dec 31	**918**	818
Personnel, Dec 31	**2 058**	1 931
Order Backlog, Dec 31	**726**	823
Investments and R&D	**182**	148

After two years of strong growth, 1997 was marked by faltering in demand for process control and a consequent tightening in competition. Order intake decreased from last year, especially in Northern Europe. On the other hand, there was growth in the Russian and North American markets. The Sensodec and Sage business units gained the biggest growth in orders.

The spring saw the successful completion of a significant delivery project when Enso Fine Papers Oy's fine paper machine no 7, the LUMI 7 project, commissioned at their Oulu mill in Finland. The PM 7's fully integrated control solution handles the whole production process, from machine control to process, quality and information management. The Sensodec system is used to monitor the runnability and condition of both the paper machine and the coater. The LUMI 7 project is one of Valmet's largest ever automation deliveries.

During 1997, Sensodec, which supplies paper machine runnability and condition monitoring systems, delivered over 20 such systems to different parts of the world. The most significant orders were from France, Indonesia and South Korea.

Russian deliveries increased substantially over previous years. Large deliveries in the past year included the automation of the Norilsk metallurgy combine, as well as deliveries of quality systems for paper machines at Svetogorsk and Syktyvkar, and a process control system delivered to an oil refinery owned by Yokos Corporation, the large Russian oil group.

Substantial complete orders

Significant orders for the automation of entire new production lines included those from Norske Skog Golbey S.A. for its new newsprint machine in France, Stora Port Hawkesbury for its SC papermaking line in Nova Scotia, Canada, and Shinmoorim Paper Mfg. Co. Ltd., which is building a new fine paper machine at its Chinju mill in Korea.

The wearable XDi represents the latest technology, in which the operator has the control system's displays available and can operate the system in a factory or mill.

The first North American order for a PulpXDi system will be delivered to Paperboard Intl & Rolland Inc.'s Jonquiére pulp mill in Québec, Canada. The largest orders for special measurement equipment for the pulp and paper industry came from Stora Port Hawkesbury Ltd., Canada, Peninsular SA, Spain, Nippon Paper Industries Co. Ltd., Japan and Oy Metsä-Botnia Ab, Finland.

PaperLab, an automatic paper testing laboratory, had its most successful year ever. Most PaperLab orders were gained from North America.

A combi power plant is being built in Great Britain for Scottish Hydro-Electric, one of the largest British power generators. GEC Alsthom Power Plants Group Ltd., which is supplying the plant on the turnkey principle, has selected Damatic XDi as the plant's control and information system.

Slovenske Elektrarna is renovating its Vojany II power plant. The Slovak company Regula Kosice a.s will carry out the modernization of the 4 x 100 MW plant. The renovated plant will have a Damatic XDi control system.

Vaskiluodon Voima Oy, based in Vaasa, Finland, has ordered a major modernization of its power plant control system, as well as field planning, a monitoring system and a process calculation specification. The control system will be delivered to two units with a combined power output of approximately 415 megawatts and a district heating output of 350 megawatts.

The Sage unit, a supplier of supervisory control and data acquisition (SCADA) systems for oil, gas and electricity transmission, recorded significant orders from Venezuela, Mexico, Canada and China. Valmet Automation will deliver to China an OASYS® system for the Shaangan Natural Gas Pipeline project. This will be the first gas pipeline in China to have full automatic control. Sage has a very strong position in North American markets, with customers who accounted for over 25 % of the continent's oil and gas pipeline transport in 1997.

Many new products

Valmet Automation continued its determined investment in strategic development projects. During the year, research and development costs grew by FIM 22 million, accounting for 8.3 % of net sales.

A new generation version of Damatic XDi was released, containing numerous technological breakthroughs and improvements, such as control solutions based on the Java programming language, a Windows NT-based control room, a FieldBus for instrumentation and very high-speed internal data transfer buses. The new version of XDi is the result of many years of development and will ensure the continuation of the Damatic product family far into the future.

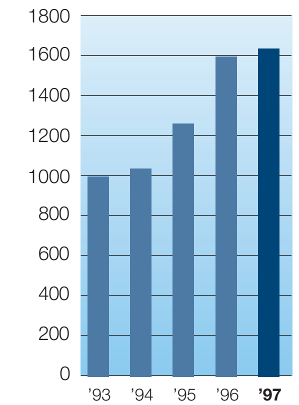
Valmet Automation was the first in the world to apply the Java programming language – which is freely programmable and widely used on the internet – to process control.

Cyber services for service and maintenance

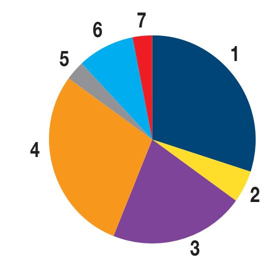
Valmet Automation has continued to develop intranet and wireless communication applications in Damatic XDi. Web XDi displays can be seen using a standard www browser on an office PC, a laptop PC, or a Nokia Communicator.

Modern data links are used to increase customer service efficiency. Internet and intranet communication is being applied through on-line situation analysis to maintain control systems. Cyber services provide customers with advice from top experts without delay.

Net Sales, FIM millions



Net Sales by Market Area



1	Finland	30 %
2	Other Nordic countries	5 %
3	Other Europe	21 %
4	North America	29 %
5	South America	3 %
6	Asia	9 %
7	Other countries	3 %

Board of Directors 1998
Matti Sundberg, Chairman
Mauri Jaakonaho, Vice Chairman
Markku Kangas, President
Ane Ahnger
Martti Karttunen
Heikki Keränen

In 1997, the customers of Sage, which supplies SCADA systems, represented over 25 % of deliveries of oil and gas by pipeline in North America.

New features of PaperIQ

PaperIQ, a distributed paper quality measurement system, has had many new features developed, which cover all measurements, profile control and reporting related to paper machine quality control.

In the second half of the year, overall responsibility for the development of electro mechanical actuators and business related to paper quality control was transferred to Valmet Automation. Previously, development of actuators took place in several Valmet units.

Kajaani FiberLab offers unique exact measurement of fiber length and, as new features, fiber width and cell wall thickness measurement.

New solutions for the pulp industry

The interactive and integrated applications of the new Pulp XDi system cover the fiber line, chemical recovery, wastewater treatment and pulp drying. The system is completed by PulpXDi-integrated special measurement equipment, analyzers and field instruments. Valmet Automation has pioneered the use of fuzzy logic and multi predictive controls.

During 1997, the Measurements business unit launched several new products. A new fiber analyzer, the Kajaani FiberLab, offers unique exact fiber length measurement, with measurements of fiber width and cell wall thickness as new features. The new Kajaani Alkali Analyzer has already been delivered to pulp production processes in Finland, Japan, Portugal and the USA.

Dilution headbox control, utilizing the Kajaani RM-200 retention measurement system, is becoming standard in the paper industry. The application was developed jointly with Valmet paper machinery.

The renewal of the Kajaani bleaching sensors, the Cormec and Polarox, to create the i-series, introduced several new features. An MCAi consistency analyzer, which further increases the applicability of the device to the paper production process, is also part of the i-series.

At the beginning of March, Levec Inc., a wholly owned subsidiary, started operations, specialising on the development, production and distribution of process industry field instruments.

1998 Outlook

Markets are estimated to be at the bottom of a phase of low demand, with no further decline expected. Stiff price competition is expected to continue. Valmet has responded to this competition with cost reductions and new solutions.

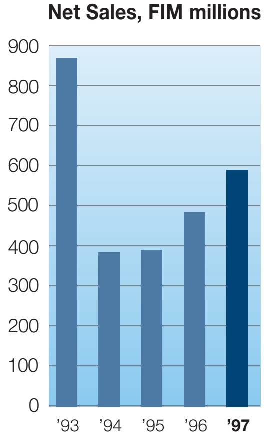
Valmet Automation has initiated changes in order to emphasize more effective service for important customer groups – including the paper, pulp and energy industries, and Valmet's Paper and Board Machinery – and the more efficient global management of delivery processes. This customer-oriented organization will also create faster growth and more effective worldwide use of resources, by exploiting special expertise, sector-specific products and a global network of local sales and services units.

Growth continued

Valmet Automotive's total production rose, thanks to the success of the Saab Convertible and the good start to Porsche Boxster production. The operating result was good.

Key Figures, FIM millions	1997	1996
Net Sales	**583**	477
Operating Profit	**112**	105
Total Assets, Dec 31	**668**	493
Personnel, Dec 31	**1 467**	1 258
Investments and R&D	**120**	120

Net Sales, FIM millions



Board of Directors 1998
Matti Sundberg, Chairman
Mauri Jaakonaho, Vice Chairman
Harri Luoto
Juhani Riutta, President

Valmet Automative's total production grew to 33,700 automobiles, due mainly to Saab Convertible's record market success. Production of the Porsche Boxster, which started in September, was quickly increased to target levels to satisfy enormous demand.

Personnel grew in line with production levels. Profitability, measured by operating profit, was FIM 112 million (FIM 105 million), similar to last year's level.

Saab Convertibles production volume rose to an all-time high. Sales increased in both the United States and Europe. In Great Britain for example, convertibles sales grew by more than 50 % compared to 1996, rising to well over 3000 cars. This brisk demand meant that the pace of production at Valmet Automation remained high throughout the year. In October, the 100,000th Saab Convertible was produced at the Uusikaupunki plant, Finland.

Cooperation between Saab Automobile AB and Valmet Automotive will expand once production of the high performance Saab 9-3 special series begins in Finland. According to the new production agreement, Valmet Automotive will produce all three and five door high performance models of the Saab 9-3, as well as special convertibles, starting from fall 1998. All Saab convertibles will continue to be produced at Uusikaupunki.

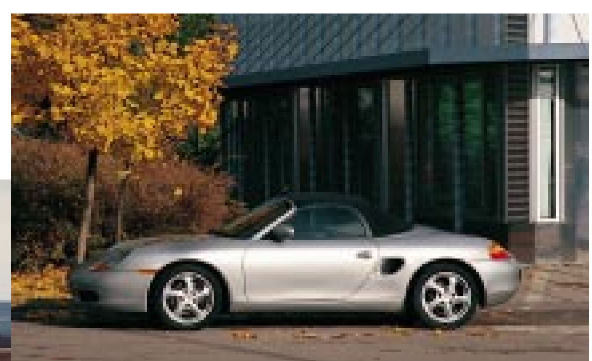
Production of the Opel Calibra ended in July, when the model was dropped from the Opel range. A total of 93,000 Opel Calibras were produced in Finland over a period of seven years. Negotiations regarding potential new co-operation with Adam Opel AG are continuing.

January 1997 saw the announcement of a cooperation agreement between Porsche AG and Valmet Automotive concerning producing Porsche Boxster at the Uusikaupunki plant. Construction of a new body-welding line and alterations to the paintshop and assembly line were completed in record time. About FIM 100 million was invested to commence production. Series production began only eight months after the project was initiated.

Production of the popular Porsche Boxster roadster reinforces Valmet Automotive's position as a manufacturer of high-quality specialty automobiles. Cars are produced in Finland to the equal quality criteria as in Germany. According to Porsche AG, the extra capacity in Finland helps them to increase Porsche production in order to satisfy increased demand.

Valmet Automotive's subsidiary, Euromotive Oy continued to produce Euro-Samara automobiles for west European markets. Due to market conditions, fewer cars than planned were produced.

Brisk demand for both the Porsche Boxster and the Saab Convertible also creates a basis for Valmet Automotive to increase production in 1998. The plant's production capacity also leaves room for new manufacturing agreements, negotiations for which are continuing with several auto manufacturers.



Valmet Automotive concentrated on assembling high quality specialty cars. The success of Saab Convertible and Porsche Boxster was excellent.

Board of Directors

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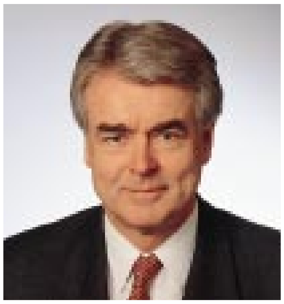
Jaakko Rauramo

Teuvo Kinnunen

Jarmo Leppiniemi

Markku Mäkinen



Matti Sundberg

Juhani Yli-Paavola

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Elected at the Annual General Meeting on April 10, 1997. Term started on May 7,1997.

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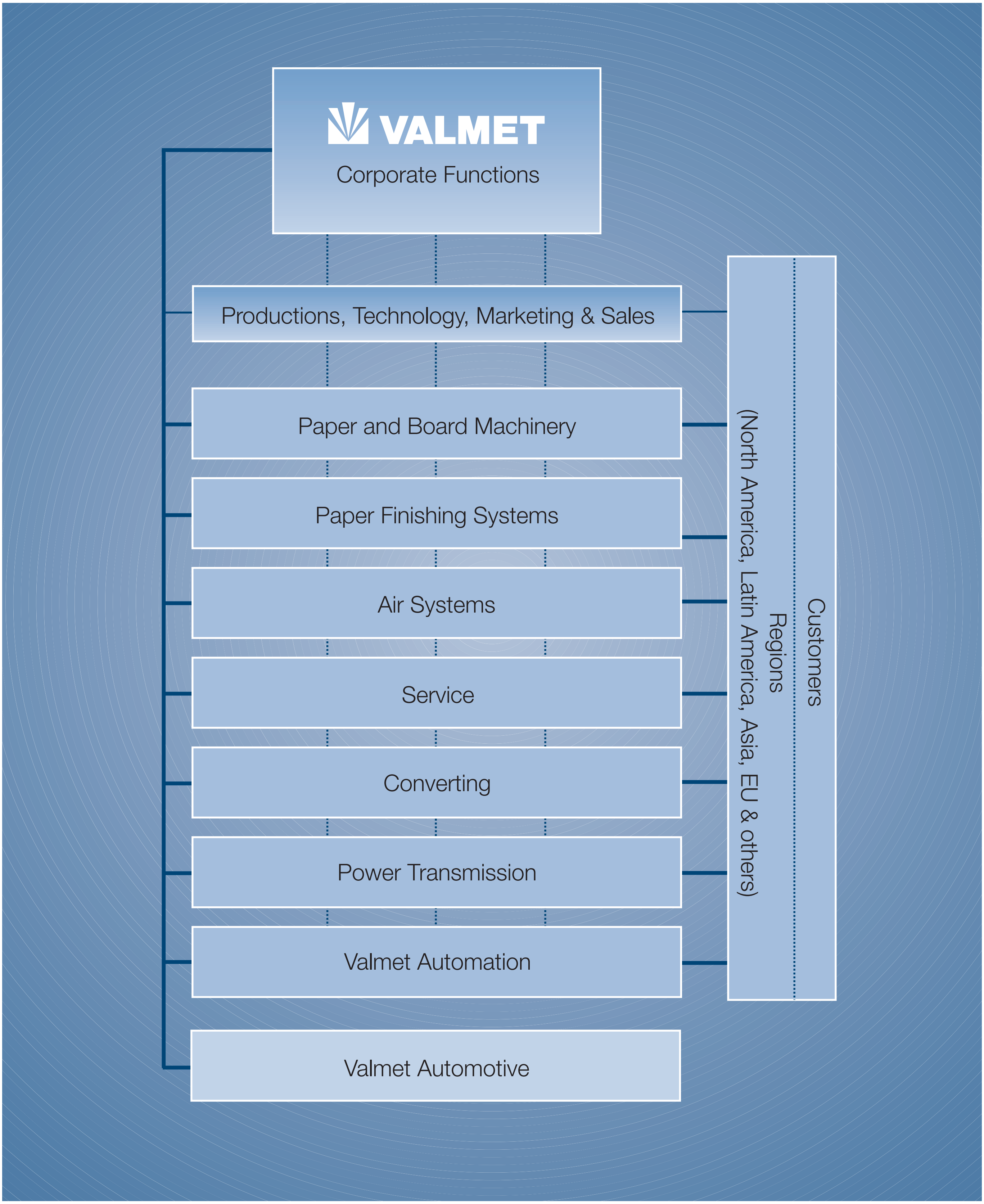
Vice Chairman	Jaakko Rauramo (1941)	President, Sanoma Corporation
Members	Teuvo Kinnunen (1937)	Municipal Counsel
	Jarmo Leppiniemi (1948)	Professor, The Helsinki School of Economics and Business Administration
	Markku Mäkinen (1945)	Secretary General, Ministry of Trade and Industry
	Matti Sundberg (1942)	President and CEO, Valmet Corporation
	Juhani Yli-Paavola (1934)	Former President and COO, Oy Metsä-Botnia Ab
Representatives of Personnel Groups in the Board	Martti Luhanko	Valmet Corporation
	Lasse Saarnio	Valmet Automation Inc.
Secretary	Harri Luoto (1946)	Senior Vice President, General Counsel, Valmet Corporation

Auditor

KPMG Wideri Oy Ab — Eero Suomela, Authorized Public Accountant

Valmet Corporation, March 1, 1998



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The Annual General Meeting

The Annual General Meeting of Valmet Corporation will be held in Hall C1 of the Helsinki Fair Centre, at Rautatieläisenkatu 3, Helsinki, on March 30, 1998, starting at 12.00 noon.

Shareholders who intend to participate in the Annual General Meeting must register in advance, either at room 687 of the Corporate Head Office at Panuntie 6, 00620 Helsinki, by phone +358 9 7770 5607, by fax +358 9 7770 5586 or by mail. All such notifications, including written ones, must be received no later than 4.00 pm on Wednesday, March 25, 1998. Shareholders are kindly requested to forward authorizations, if applicable, so as to reach the Corporation before the above deadline.

Shareholders, who have entered their shareholdings in the shareholders' register maintained by the Finnish Central Securities Depository Ltd., are eligible to participate if their shares are registered in their own name by March 25, 1998.

A shareholder, whose shares have not been transferred to the book entry system, shall also have the right to participate in the Annual General Meeting, providing that the shareholder has been entered in the Corporation's share register before May 5, 1993 or has declared and established his or her title to the shares. In this case, the shareholder must present his or her share certificate, or some evidence that ownership of the shares has not yet been transferred to the book-entry system, at the Annual General Meeting.

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 during 1998. The report for the period January 1– April 30, 1998 will be published in week 23 (on June 3, 1998), and the report for the period January 1– August 31, 1998 in week 40 (on September 30, 1998).

Annual reports can be ordered from:
Valmet Corporation, Corporate Head Office, Panuntie 6,
PO Box 27, FIN-00621 Helsinki, Finland. Tel. +358 9 777 051,
Telefax +358 9 7770 5580.

The interim reports and financial releases can be found on Valmet Corporation's internet pages at http://www.valmet.com/

Helsinki Exchanges	VAL.HSE
New York Stock Exchange	VA.NYSE

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