

VALMET-RAUMA

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RAUMA

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Financial Reports in 1999

The merging companies, Rauma Corporation and Valmet Corporation, have published their own annual reports for 1998.

In 1999 Rauma and Valmet will publish the following financial reports:

- Interim review for January- March 1999 released May 6, 1999
- Interim review for January-June 1999 released August 10, 1999

In connection with the interim reviews above the pro forma figures for Valmet-Rauma will also be published.

The new company will publish its January-September 1999 interim review on November 10, 1999.

The financial reports will be published in Finnish, English and Swedish. They can be ordered from Rauma's and Valmet's Corporate Communications (see back cover).

THE ESTABLISHMENT OF VALMET-RAUMA

On November 17, 1998, the Boards of Directors of Rauma and Valmet approved a merger plan, under which Rauma and Valmet will merge to form a new company, to be called Valmet-Rauma during the transition period.

At the Rauma and Valmet extraordinary shareholders' meetings held on January 31, 1999 the merger was approved. In addition, the EU Commission, and the U.S and Canadian competition authorities have approved the merger.

The merger authorization will be registered with the Finnish Trade Register and the merger will become valid as of June 30, 1999. The company will apply for a listing on the main list of the Helsinki Exchanges (HEX) and the New York Stock Exchange (NYSE), so that trading of the new company's shares can begin on July 1st, 1999.

In this review the structure and businesses of the Valmet-Rauma Corporation are described. The financial information included in this review has been prepared by consolidating the main financial statements of the merging companies (pro forma).

Rauma Corporation		Valmet Corporation	
Net sales 1998		Net sales 1998	
EUR, million	1,736	EUR, million	1,959
FIM, million	10,320	FIM, million	11,649
Personnel, Dec 31	10,384	Personnel, Dec 31	12,680
Shareholders, approx.	17,000	Shareholders, approx.	10,000

Combination merger

Valmet-Rauma	
Net sales 1998	
EUR, million	3,695
FIM, million	21,969
Personnel, Dec 31	23,064
Shareholders, estimate	23,000

VALMET-RAUMA IN BRIEF

The merger of Rauma and Valmet creates a global leader, specialized in the development and manufacture of process engineering and machinery. The net sales (pro forma) of the merging companies for 1998 totaled approximately EUR 3,7 billion (FIM 22 billion) and the operating profit approximately EUR 246 million (FIM 1.5 billion). The companies employed a total of 23,000 employees.

Valmet-Rauma comprises three business areas. The Fiber and Paper Technology area includes the business groups of Valmet paper machinery (paper, board and paper finishing and converting machines), Sunds fiber technology (fiber processing technology and equipment) and related maintenance services. The Automation and Control Technology area includes Valmet Automation (process automation systems), Neles Controls (valves and flow control systems) and the complementary maintenance services. The Machinery area contains four business groups: Timberjack forest machines, Nordberg crushing systems, the manufacture of machinery and components (industrial gears and hydraulic motors) and Valmet Automotive (assembly of automobiles).

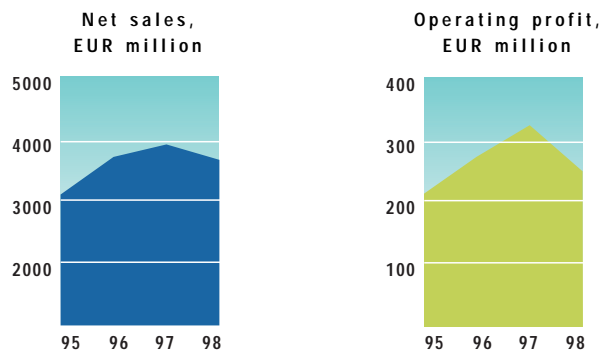
Valmet-Rauma will be a market leader in all areas relative to wood fiber handling from forest machines to paper converting machines. In wood fiber handling the company's competitive advantage is its comprehensive knowledge of the core sections of customer production processes.

Another pivotal area of business and growth covers process automation and flow control. Capitalizing on the integration of Valmet Automation and Neles Controls will enable the company to achieve a strong position as a supplier of automation systems for the pulp and paper industry, as well as the energy, chemical and oil and gas industries.

Maintenance and spare parts services constitute the third central area of Valmet-Rauma, where growth is based on the broad range of delivered machines and equipment. In addition, production line modernization and maintenance provide substantial growth potential.

Nearly two thirds of Valmet-Rauma deliveries are destined for the forest industry. Other significant customer industries are the construction and civil engineering industries, the energy and process industries, and the mining industry.

Valmet-Rauma is a global corporation with 49 percent of net sales (pro forma) originating from Europe, 30 percent from North America and 21 percent from other countries in 1998. Valmet-Rauma has its own production in 12 countries, offices in 40 countries and an extensive network of dealers and agents.

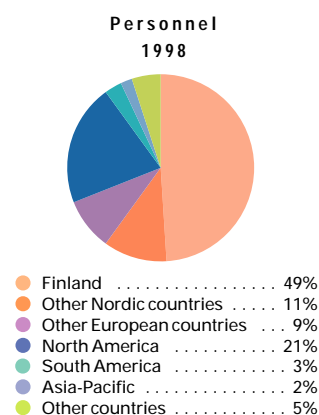
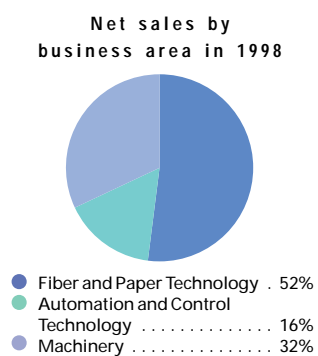
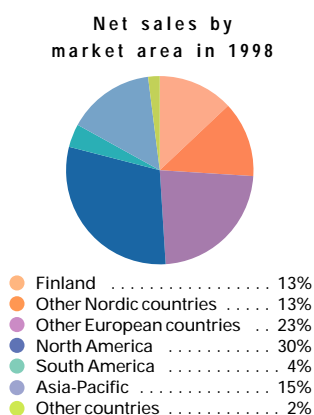


KEY FIGURES

Pro forma

	1995	1996	1997	1998	1998	1998
(Millions)	EUR	EUR	EUR	EUR	FIM	USD
Net sales	3,096	3,697	3,898	3,695	21,969	4,338
Operating profit	214	274	325	246	1,463	289
Income before extraordinary items and taxes	220	292	328	251	1,495	295
Net income for the year	186	213	232	184	1,093	216
Orders booked	3,730	3,322	3,528	3,399	20,211	3,991
Order backlog, Dec 31	2,366	2,000	1,718	1,342	7,980	1,576
Capital expenditures	133	171	295	157	934	184
Research and development	91	115	119	116	689	136
Number of personnel, Dec 31	23,491	22,885	23,496	23,064	23,064	23,064
Shareholders' equity	927	1,010	1,172	1,216	7,232	1,428
Balance sheet total	2,834	2,575	2,909	2,798	16,638	3,285
Gearing, %	6.8	-1.8	15.5	14.6	14.6	14.6
Return on net assets, %	19.0	22.6	23.0	16.1	16.1	16.1
Return on equity, %	21.9	23.3	22.5	15.8	15.8	15.8
Earnings/share, EUR	1.26	1.59	1.77	1.37	8.15	1.61
Dividend/share, EUR	0.33	0.47	0.55	0.59 ^{*)}	3.50 ^{*)}	0.69 ^{*)}
Quotation, Dec 31, EUR	10.82	14.21	12.85	11.43	67.98	13.42
Market value of shares, Dec 31, EUR million	1,557	1,945	1,745	1,553	9,233	1,823

^{*)} Proposals by the Boards of Directors of Rauma and Valmet



MANAGEMENT REVIEW



The structural change currently under way in many industries is generating ever larger global corporations. This type of development has now begun to impact the forest industry, and the trend is expected to accelerate. The production process of our customers frequently covers the entire value chain, from the production of pulp and selected paper grades to highly value-added converted products. An equipment and systems supplier must be able to manage the entire solution as comprehensively as possible, even though individual investments and development programs may be aimed at sub-processes. The comprehensive product and service range and extensive international sales and technical support network of the new Valmet-Rauma Corporation will strengthen its competitiveness significantly. We believe that a leading position in our core business areas based on high quality research and development and the resources of a large company are advantages that our customers will appreciate in the development of their own operational efficiency and profitability.

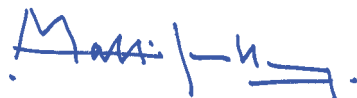
The maintenance and improvement of process industry competitiveness depends heavily on the application of advanced technologies. Our objective is to engage in long term cooperation with customers in which we work closely together to produce new products and more efficient production processes. We can also direct the results of our R&D activities at a broader applications area and a more diversified customer portfolio, while our customers will be able to focus on the marketing and distribution of their own products.

The integration of Rauma and Valmet operations will also improve our ability to generate growth. Process automation and flow control technology represent one coherent business entity which now has a much stronger position as an automation solution supplier to the wood processing, chemical, oil refining and gas industries. A solid and profitable service and maintenance operation will also support growth. We have a large number of installed machinery and, in part, complementary service networks to support customer service requirements internationally. Finally, our company is well positioned to make strategic acquisitions and participate in industry restructuring, in addition to pursuing organic growth opportunities.

Our merging companies have been able to maintain a healthy level of profitability despite the difficult conditions prevailing on our markets over the last couple of years. We believe that this new company will have a better foundation for the development of its profitability and competitiveness under any economic conditions. We have estimated the synergy-related benefits from integration at approximately EUR 70 million, and we will feel the full impact of these synergies from the beginning of 2001. Savings can be generated through the integration of our sales, service and distribution networks. There will be economies of scale in purchasing and component manufacturing both in our own production and in outsourcing. We can also achieve substantial savings in administrative and support services, at both the corporate and business unit levels.

The shareholders of both our companies have unanimously approved the merger plan. Now we will focus our maximum effort on the implementation of the plan and the achievement of its goals and targets by creating a detailed action plan and by defining assignments and responsibility areas. The undisturbed continuity of operations in spite of these changes is of vital importance.

Valmet-Rauma is now a specialist in the supply of machinery and equipment, systems and maintenance services for the process industry and various manufacturing application areas. At the moment the forest industry is our most important customer segment. Advanced technology, a comprehensive product and service range, and the continuous improvement of our customers' operational efficiency are critical to the competitiveness and profitability of Valmet-Rauma's operations. Environmental sensitivity and sustained development will play a central role in the product portfolio we offer our customers. Our target is to be the global leader in our established businesses. We will be continuously seeking out new applications for our know-how and technologies close to our customers and products which offer growth opportunities based on total demand and market share. The ultimate goal in our strategy is to increase shareholder value by combining good return on investment with balanced growth.



Matti Sundberg
Chief Executive Officer



Heikki Hakala
President

FIBER AND PAPER TECHNOLOGY



Juhani Pakkala

The Fiber and Paper Technology business area combines the impressive technology of Valmet papermaking and finishing machinery with the extensive pulping expertise of Sunds Defibrator and thus offers customers an exceptionally wide range of capability and value within the paper-making process. In cooperation with the Automation and Control Technology business area, Fiber and Paper Technology has resources to develop the best papermaking solutions for its worldwide customer base.

During the recent years both Rauma and Valmet have been strengthening their customer support operations. The customers in Southeast Asia have ordered new machines, while customers on the more mature markets of Europe and North America have invested less in new machinery and more in ways to make existing machines more efficient, faster and environmentally sound. As a result, machine rebuilds, services and new innovative solutions now play a key role within both Valmet Paper Machinery and Sunds Defibrator. The new Fiber and Paper Technology business area will combine these customer service operations under the same umbrella and thus improve service to customers.

Valmet paper machines and Sunds Defibrator's fiber lines are known worldwide for their technological leadership. Our goal is to maintain our lead in the industry by gaining the maximum benefit from synergies and by creating a strong and action-oriented business area.

Paper and Board Machinery Key Figures 1998

Net sales, EUR million	1,356
Operating profit, EUR million	96
Orders received, EUR million	1,233
Order backlog Dec 31, EUR million	788
Personnel, Dec 31	7,547



Main products:

Paper, tissue and board machines
Paper finishing systems
Air systems

VALMET PAPER MACHINERY

Valmet Paper Machinery is the leading supplier in its field in the world. The business group comprises paper, board and tissue machines, paper finishing systems, air systems and converting machinery.

Valmet Paper Machinery has a global production network and operates across organizational borders. The business group's production plants are in Finland, Sweden, Italy, Great Britain, the USA and Canada, supplemented by a license manufacturing agreement with Sumitomo in Japan, and a joint venture in China. Valmet Paper Machinery has sales and service companies in all the major market areas in Europe, North and South America, Asia and Australia.

PAPER AND BOARD MACHINERY

The Paper and Board Machines business group's products and services consist of large and medium-sized paper, board and tissue machines, stock preparation equipment, machine rebuilds, components and service. Also included in the group are paper finishing systems, air systems and related service.

Paper finishing machines are used to improve paper quality and printing properties, and to ensure that these properties are not adversely affected in paper roll handling. The group makes machines, equipment and systems needed in the coating and calendering of paper, and in the winding, wrapping and handling of paper rolls. Air systems products are used for water removal during the papermaking process, ensuring the runnability of the machine and the control of energy consumption, noise, dust and moisture. Service includes customer process services, roll service and spare parts.

Sales of new machines accounted for approximately 34 per cent of the total net sales of Paper and Board Machines in 1998. The share of rebuilds, finishing and air systems grew to nearly 44 per cent, while service accounted for about 22 per cent.

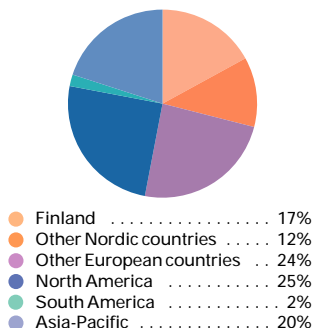
New generation paper machine launched

The most significant technological achievements in paper and board machines are developed in Valmet's RTD centers. In June 1998, the new OptiConcept paper production line was launched. OptiConcept has been extremely well received by customers around the world.

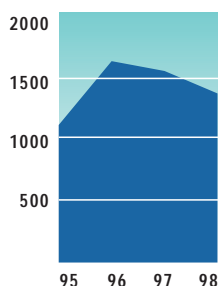


A fine paper machine, supplied by Valmet to Willamette Industries' Hawesville Mill, was among the few start-ups of new machines in the USA in 1998.

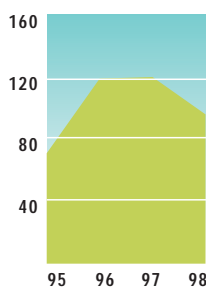
Net sales by market area in 1998



Net sales (EUR million)



Operating profit (EUR million)



The management of fiber and water processes has emerged as an important sub-process in papermaking. The products of Valmet Flootek, established jointly with Raisio Chemicals, are used to improve the water economy of papermaking processes.

The global marketing and service network of paper and board machines covers all the major market areas. The construction of the sales network has been refocused from Asia onto South America, where a Brazilian sales office started in early 1998.

Continued investments were made to develop service operations in accordance with strategic plans. A new Technology and Service Center, opened in Thailand in January 1998, specializes in the servicing, modernizing and recovering of rolls. In June, a renewed service center started operations in Melbourne, Australia.

14 new paper machines

Pulp and paper mill capacity utilization rates were high throughout the year. The price of market pulp began to fall as pulp capacity increased. This was particularly true in the case of short-fiber pulp. Paper price levels also declined slightly throughout the year as supply increased on the European and North American markets due to weakened demand in Asia. In an attempt to balance the markets, pulp and paper suppliers have continued to postpone investment decisions.

Paper and board machine markets have developed according to expectations. In the Asian market, new machine projects remain active

only in China and Japan. Investments in North America are still mainly machine rebuilds. In a departure from general market developments, Europe has had a relatively large number of investment projects. In 1998, Valmet received orders for nine new paper and board machines of which two each were for China and Germany, and one each for Japan, Italy, France and Turkey. The orders concerned for six tissue machines, one fine paper machine, one newsprint machine and one gypsum board machine. The mill ordered by SCA Hygiene Paper, a German subsidiary of the Swedish SCA Group, included the world's largest tissue machine. Printing paper machine orders represented the new OptiConcept design, and came from Nanping Paper in China, for a large newsprint machine, and Haindl Papier in Germany, for the world's largest LWC paper machine. The latter will also be the world's fastest paper machine, since it is designed to run at 2000 m/min. The gypsum board machine ordered by Takasago Paper in Japan was the first ever Valmet board machine to be ordered in that country.

Net sales of paper and board machines decreased by 12 per cent compared with the previous year and totaled EUR 1,356 million (EUR 1,535 million). Inconsistent market demand and capacity utilization weakened the group's operating profit, which fell by 20 per cent to EUR 96 million (EUR 120 million). New orders were received to the value of EUR 1,233 million (EUR 1,272 million), a fall of three per cent on 1997. The value of the order backlog at the end of the year was EUR 788 million (EUR 962 million), which was 18 per

cent less than in 1997. At year's end, the paper and board machines group employed 7,547 persons (8,318 persons).

The year saw the start-up of 14 complete paper and board machines supplied by Valmet, which was three more than in 1997. Of these machines, eight were for the production of printing paper, one for board and five for tissue. The most significant start-ups were an LWC paper machine for UPM-Kymmene's Rauma mill in Finland, a newsprint machine for Norske Skog Golbey in France, a fine paper machine for Riau Andalan's Pulp and Paper in Indonesia, a fine paper machine for Willamette in the USA, an SC paper machine for Stora's Port Hawkesbury mill in Canada and a fine paper machine for Shandong Chenming in China.

The demand for Service operations continued to be stable. Roll service workshop investments in North America, Thailand and Australia gave the opportunity to make significant roll service agreements. The service product range and service readiness have been further improved to meet demands for availability and efficiency in paper industry processes and equipment. It is estimated that paper machine service operations will grow at about 15 per cent per annum. In 1998, Service accounted for approximately one fifth of Paper and Board Machinery's net sales, i.e. EUR 300 million or about FIM 1.8 billion.

Short-term outlook

The demand for paper and board products is forecast to grow in 1999, although at a somewhat lower rate than in 1998. The timing of a number of paper machine projects that are currently being planned in Europe and North America will depend on paper price developments. Some projects are pending in Asia, particularly in China. The focus of sales in 1999 is expected to be on machine rebuilds and service.

CONVERTING EQUIPMENT

Converting machines are made by Valmet Rotomec in Italy and Atlas Converting in England. Valmet Rotomec specializes in rotogravure and flexo-printing presses for the packaging industry, and special coating and laminating equipment. These are used for a range of packaging materials, including paper, board, aluminum, and plastic film and foil. Rotomec also makes printing machines used in the production of wallpa-

per and other interior furnishing materials. Atlas supplies slitter rewinders and sheeters, reels, winders and rewinders, automatic web splicers and vacuum metallizing equipment for the treatment of paper, film and aluminum foil. Atlas is one of the world's leading suppliers of slitter rewinders, with its products being used mainly in the film and packaging industries. High demand has almost doubled the company's net sales in recent years.

Valmet is ranked among the world's largest suppliers of converting equipment – a business area in which there are interesting growth and development opportunities.

Strong product development ensures competitiveness

The Converting Equipment business group has successfully developed a new generation of rotogravure presses which, together with a full range of flexo presses, has strengthened Valmet's position as a leading supplier of printing machinery for the converting industry. Successful development has resulted in the Rotomec 3000-3R rotogravure press which has been ordered by nearly 30 customers all over the world in the last two years. Valmet Rotomec has also delivered the world's fastest coating line for self-adhesive paper to a Central European customer.

Atlas Converting's sheeter operations have started promisingly and the first equipment has been delivered to Germany, Turkey and China.

The competitiveness of slitter rewinders has been maintained by product improvements and development that has made it possible to increase the slitting speed.

Valmet has developed a new generation of equipment principally for the metallizing of plastic films for food packaging. Product development has also reduced the consumption of the aluminum needed in metallizing and consequently the material costs. Converting equipment has also acquired the rights to a new coating technology, which is expected to increase the sales of special coating machines.

Events in 1998

Net sales of converting machinery grew by 28 per cent to EUR 185 million (EUR 145 million). The growth in net sales was due mainly to the

**Converting equipment
Key Figures 1998**

Net sales, EUR million	185
Operating profit, EUR million	-9
Orders received, EUR million	152
Order backlog, Dec 31, EUR million	68
Personnel, Dec 31	961



Main products:

- Converting slitters
- Vacuum metallizing equipment
- Rotogravure and flexo-print machines
- Unwinders and rewinders
- Special coating and laminating machines



Atlas Converting specializes in the manufacture of slitters and sheet cutters for the converting industry. They cut paper, film and aluminum foil.

addition of the Atlas companies which were merged with Valmet on July 1, 1997. The group's operating loss was EUR nine million (profit EUR one million). This weakening was due to smaller delivery volumes, tighter competition and the strength of the pound sterling. The number of employees at the end of the year was 961 (1,009).

The Converting Equipment business group received new orders worth EUR 152 million (EUR 137 million). Growth slowed because of weak demand in the Asian markets. Converting machines have succeeded relatively well in the difficult markets, due to new products and efficient production. The order backlog of converting machines at the end of the year was EUR 68 million (EUR 105 million). Order books for sheeters made by Converting Equipment remained good, but the demand for slitter rewinders and printing presses continued to be on a weaker level. On the whole, the delivery volumes and market shares have increased due to successful product development.

Short-term outlook

The market situation will continue to be tight in 1999, although product improvements have begun to yield results. There are signs, especially in Asia, of rising demand. In the current economic situation, the order backlog for converting machines is satisfactory. Cost rationalization measures have been started to improve profitability.

SUNDS FIBER TECHNOLOGY

Sunds Defibrator is a leading global supplier of wood fiber processing equipment and systems. Sunds Defibrator develops and designs equipment and systems for chemical, mechanical and recycled fiber based pulping, wood handling and panelboard manufacturing. Two thirds of the deliveries are supplied to the pulp and paper industry and one third to the fiberboard industry. The sale of wear and spare parts and after-sales services is a stable and growing business segment.

Sunds Defibrator manufactures the core components of its machines and equipment and outsources the rest to qualified subcontractors. Key components are manufactured in Sundsvall, Sweden and Valkeakoski, Finland. Wear parts such as refiner segments and fillings are manufactured in Finland, Sweden and Japan. The research and development center for the technology areas is located in Sundsvall. Sunds Defibrator subcontractors include the Pori and Loviisa works of Valmet-Rauma's Machine and Component Manufacturing business group. Customer service centers providing spare part and maintenance services are located in Finland, Sweden and Canada. The products are sold through a network comprising sales subsidiaries in 38 countries, as well as local dealers.

The Fiber Technology Group comprises three main divisions

The Sunds Fiber Technology business group is divided into three divisions: chemical pulping - including the delivery of complete wood

processing lines up to equipment for pulp drying and baling - mechanical pulping and fiberboard technology.

Chemical Pulping

In chemical pulping the fibers suitable for paper making are separated chemically from wood chips. Chemical pulp is used in the production of high quality printing paper because of its wear resistance, color stability and good printing qualities. Sunds Defibrator supplies every type of equipment required in chemical pulping from individual units to entire fiber production lines. Sunds Defibrator is a leading supplier of batch cooking equipment. In terms of quality and process flexibility, SuperBatch is the most efficient batch cooking method available at the moment. Chemical pulping equipment and processes, including wood handling, pulp drying and baling, constituted approximately 50 per cent of Sunds Defibrator's net sales.

Mechanical Pulping

In mechanical pulping, wood chips are transformed into fibers mechanically by grinding or milling. Mechanical pulping consumes a substantial amount of energy and optimally requires raw material with long fibers, such as spruce or pine. Mechanical pulp is used mainly in the production of newsprint, and magazine paper, as well as special cardboard grades. Sunds Defibrator is a leading supplier of equipment and systems for TMP, CTMP and CMP. Also integrated into the mechanical pulping process supply is comprehensive know-how and continuous development of refiner and fillings to generate the highest production quality and optimal energy usage. Equipment and systems for mechanical pulping constituted about 33 per cent of net sales in the year under review.

Sunds Defibrator also supplies equipment for pulping with recycled fiber, where fiber is retrieved from waste paper by removing ink and superfluous fiber from the paper. Pulping with recycled fiber is a steadily growing business segment.

Panelboard

The panelboard division supplies plants and equipment for manufacturing fiberboard, mainly Medium Density Fiberboard (MDF), particleboard and Oriented Strand Board (OSB). Sunds Defibrator is one of the world's leading suppliers of MDF production plants.

The boards are used primarily in the building and furniture industries. The panelboard segment constituted about 17 per cent of the net sales of Sunds fiber technology during the year under review.

Product development aims at overall technological supremacy

At Sunds Defibrator, research and development concentrates on increasing the profitability of customer processes, reducing environmental impact and improving the quality of end products. Recent developments include the Twin-Roll fiber line developed for the production of bleached chemical pulp, Thermopulp, a less energy-intensive method of mechanical pulping, and a new defibrating systems forming method for MDF board production which reduces production costs and improves product quality.

1998 featured equipment investments and strong demand for services

In 1998 the pulp industry invested mainly in process productivity and the reduction of environmental impact. Major new capital investments were not initiated. The demand for equipment and plants in fiber technology was weak. Recession in the important Southeast Asian market could be seen throughout the year. However, some new projects were launched in South America and Europe. The relatively high capacity utilization of pulp mills still supported strong demand for replacement and renewal equipment, as well as spare parts and services. The overall demand for fiber board industry equipment and systems was also generally weak.

The net sales of Sunds Defibrator decreased in 1998 by 27 per cent to EUR 408 million (EUR 557 million). The decrease in net sales was due mainly to the lack of large-scale project deliveries, while existing plants were still being renovated and spare parts and service sales remained strong. In the first half of the year the last part of the extensive Southeast Asian project order for Musi pulp mill was delivered. Most of the year's deliveries consisted of smaller equipment deliveries to Europe and North and South America. The operating profit fell to EUR 24 million (EUR 31 million).

Sunds Defibrator received new orders totaling EUR 333 million (EUR 408 million). The

**Sunds Fiber Technology
Key Figures 1998**

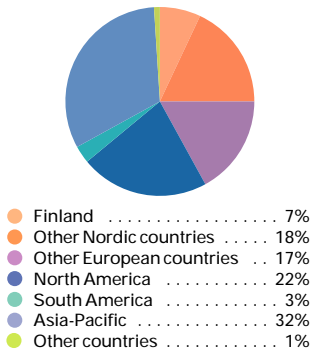
Net sales, EUR million	408
Operating profit, EUR million	24
Orders received, EUR million	333
Order backlog Dec 31, EUR million	154
Personnel, Dec 31	2,366



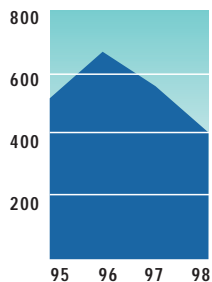
Main products:

- Wood processing technology
- Chemical pulping technology
- Mechanical pulping technology
- Recycled fiber technology
- Stock preparation technology
- Pulp drying and bale handling technology
- Fiberboard technology
- Particleboard technology
- Panel handling technology

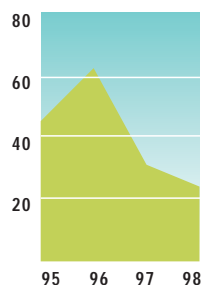
Net sales by market area in 1998



Net sales (EUR million)



Operating profit (EUR million)



In September Sunds Defibrator delivered a complete TMP plant for the production of newsprint to Industrias Forestales S.A. (Inforsa) of Nacimiento, Chile.

lack of extensive project orders reduced the amount of new orders from last year. The orders received during 1998 were mainly renewal investments aimed at improving the efficiency and profitability of existing processes and reducing environmental impact. One of the most significant individual orders was the timber yard modernization and pulp line extension for the German Zellstoff und Papierfabrik Rosenthal GmbH & Co. The orderbook stood at EUR 154 million (EUR 233 million) as at year end.

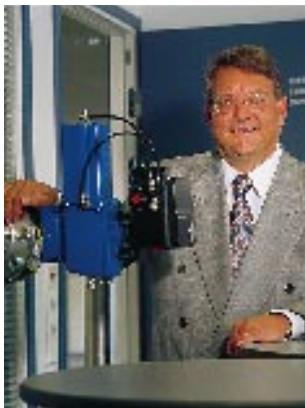
In July Sunds Defibrator strengthened its position as a supplier of complete production solutions for the panelboard industry by acquiring the operations of ABB Fläkt Industri AB related to wood fiber drying and screening technology. Likewise in July an agreement was

concluded for the acquisition of the product rights to TwinWire presses from Kvaerner Pulp and Paper. TwinWire presses are used principally in mechanical and recycled fiber-based pulping, and the press technology will play an essential role in the development of more environmentally sensitive bleaching processes.

Short-term outlook

Sunds Defibrator's critical pulp and paper industry markets worldwide are still dominated by uncertainty, which is reflected in cautious investment decisions. In Europe, there are some signs of increasing willingness to invest, and some new pulp and paper industry projects are under consideration. In North America, investments are expected to be directed mainly at improving the efficiency of existing mills. In Southeast Asia the situation has stabilized, but the markets are not expected to recover properly in the very near future. In South America, both pulp and panelboard projects have been under consideration, but recent financial difficulties in Brazil may postpone investment decisions. Prospects in the panelboard industry are cautiously optimistic, especially in Europe. Spare parts and service activities are expected to remain strong.

AUTOMATION AND CONTROL TECHNOLOGY



Arto Aaltonen

Valmet Automation and Neles Controls have strong global positions as suppliers of process automation and flow control solutions. Combining these activities creates comprehensive know-how covering all of the three principal business areas: automation systems, automatic and control valves, and process sensors and analyzers.

Process automation markets are changing with the rapid development of new digital products and applications. This trend provides new opportunities for the Automation and Control Technology business area to meet the needs of current customers and to gain new markets as well.

The basis of the cooperation between Neles Controls and Valmet Automation is solid technological know-how, a global network and good financial resources for innovative technology and product development. The combined sales and service networks will strengthen sales and reduce costs.

Valmet Automation Key Figures 1998

Net sales, EUR million	274
Operating profit, EUR million	15
Orders received, EUR million	282
Order backlog, Dec 31, EUR million	125
Personnel, Dec 31	2,074



Main products:

Control applications and solutions
Process measurements
Runnability and condition monitoring systems
SCADA systems

VALMET AUTOMATION

Valmet Automation competes on open, international markets against the world's largest automation suppliers by specializing and applying the latest technological advances.

Valmet Automation operates globally, with a structure based on customer segmentation. The company develops, supplies and services extensive measurement and control solutions which may, if necessary, cover whole industrial plants. They are used for the measurement, monitoring, automatic control and process information management of pulp and paper mills, power and desulphurization plants, oil and gas pipelines and other industrial processes.

Valmet Automation is a pioneer in applying new technology

Valmet Automation applies the latest technology in its products, having invested more than EUR 94 million in product development during the last five years. The main thrust of development is now mainly focused on software, special measurements and industry-specific applications. Valmet Automation has become a pioneer in recent years in applying new technologies to process automation.

The product range in certain specialized areas is comprehensive, including extensive control systems, remote monitoring and control, process availability and condition monitoring, special process measurements taken on-line, labo-

ratory measurements, monitored control systems, and software for millwide data collection, data processing and system integration.

Deliveries occur as customer projects, involving a considerable amount of engineering and commissioning work. The proportion of net sales attributable to post-delivery customer service grew last year to about one fifth. Customer service and maintenance is carried out via a global network operating in 30 countries.

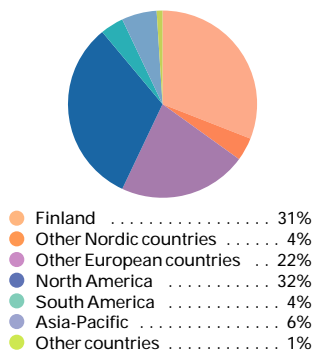
Valmet Automation has opened an Internet-based service concept known as the Automation@Store. Customers may use it to order automation hardware, spare parts, software, product documentation, user manuals and product training, and use other services based on these. Automation@Store is one of the globally most comprehensive electronic trading and service production applications in the automation industry.

August saw the launch of the Rmi, a paper machine wet end measurement and management system, which is the successor to the Kajaani RM-200 analyzer that had previously achieved market supremacy. At the same time, the Valmet PaperLab*i*, designed as a completely automated paper testing system for paper mills, was also launched. It succeeds the earlier Kajaani PaperLab systems which have long been on the market. The new PaperLab measures faster and has improved data processing and reporting properties, as well as information transfer via the Internet. In October, the latest version of the Damatic XDi control

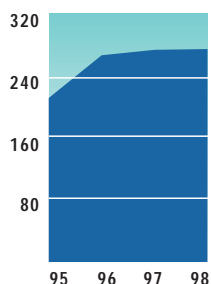


In recent years, Valmet Automation has become a pioneer in applying new technologies to process automation. The Damic XDi control system covers all of the functions of UPM-Kymmene's Rauma paper mill PM4.

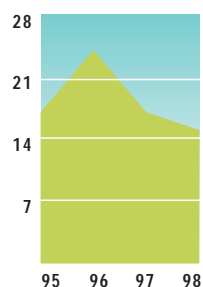
Net sales by market area in 1998



Net sales (EUR million)



Operating profit (EUR million)



system was launched. This is the next step towards open system architecture, combining process automation, information management and millwide data processing.

The Sensodec 6S, a new generation condition and runnability monitoring system, monitors and analyzes the condition of machinery components and provides a comprehensive view of all maintenance-sensitive parts. Sensodec 6S may be used not only for paper machines, but also for other machines and equipment.

In October, Valmet Automation's patented IQTension system was awarded the highly-respected innovation prize of ATIP (Association Technique de l'Industrie Papetière) in France. IQTension is a non-contact system that measures cross-direction profiles of machine-direction paper web tension. Variations in paper web tension cause variable print quality in printing machines and breaks in the paper web.

Events in 1998

In 1998, Valmet Automation's net sales grew and were EUR 274 million (EUR 273 million). Net sales growth was limited by unsatisfactory demand at the end of 1997 and the consequent low work loads in early 1998. Operating profit fell by 13 per cent to EUR 15 million (EUR 17 million). Profit weakened because of the low capacity utilization at the beginning of the year, non-recurring costs due to restructuring and the continuation of tight price competition. Invoicing and profit for the last four months of the year were good, however. The intake of new orders grew by 13 per cent compared with the

previous year and was EUR 282 million (EUR 249 million). The year-end order backlog was EUR 125 million (EUR 122 million). Valmet Automation employed 2,074 (2,058) persons at the end of the year.

The market situation was exceptionally variable following the rapid fall in demand in Asia. The demand in continental Europe revived more than expected, partly compensating the under-performance of other markets. Significant orders were gained in South America and Asia, particularly in China. Demand in Finland weakened compared with the previous year.

In November, a competing SCADA operation was purchased from GSE Corporation. A new field of operation was begun, based on the VISI (Valmet Information System International) business, focusing on new opportunities opened up by the deregulation of the North American energy industry. The most important of these systems are Internet-based customer information management and trading systems, and the linking of real-time production data, i.e. data from SCADA systems, to electronic trading points.

Short-term outlook

The early-year order backlog is satisfactory, but is weighted towards deliveries in the latter half of the year. Demand is expected to remain at last year's good level in the first months. It is forecast that new and renewed products will increase orders. The restructuring measures that have been implemented are raising productivity and diminishing quality costs.

NELES CONTROLS

Neles Controls is one of the world's leading suppliers of industrial valves and control systems for the process industry. Its main customer segments are the pulp and paper industry, the oil refining industry, and the petrochemical and chemical industries. The product range covers both traditional shut-off valves and intelligent control valves and related software products.

In keeping with the 1997 shift in the company's strategy, structure and name, Neles Controls has focused on the development of control valves and digital control systems. Customers are supplied with systems for the efficient collection and analysis of information on process flows. Neles Controls is a pioneer in digital valve technology development.

Neles Controls has production facilities in Finland, the USA, Mexico, Brazil and France, as well as a joint venture in China. Its products are sold through a global distribution network, comprising sales subsidiaries in 30 countries and local dealers. There are 31 service centers in different corners of the globe.

Customer segment-based operations

Neles Controls has organized its activities by customer segment. The process and energy division and the pulp and paper division both operate globally. The divisions develop and market tailored product and process control systems according to the specific needs of their customers. They work in close cooperation with contractors, engineering companies, equipment suppliers and end users.

The *Process and Energy Division* serves companies involved with the oil refining, petrochemical and chemical industries, which require control valve systems adapted to demanding process conditions. The division's share of Neles Control deliveries was in excess of 40 percent. The Pulp and Paper Division is among the world's leading suppliers of industrial valves and flow control systems. The clientele includes almost all significant pulp and paper companies and the primary equipment suppliers. The division has close to a 30 percent share of all Neles Control's deliveries.

Neles Controls' third *Division, Jamesbury*, operates in North America, providing its customers with traditional manually operated and automatic shut-off valves through independent dealers. Jamesbury had an approximately 30 percent share of Neles Controls deliveries. The Neles Controls subsidiary Control CAD Ltd has specialized in the software of control technology and the modeling and simulation of processes.

Product development focused on digital control technology applications

Neles Controls has developed new digital control technology products and software that improve the control of its customers' processes. The reliability and durability of the field devices are enhanced especially by the preventive maintenance features of the products.

In 1998 several products applying new technology were launched. The Field Browser system allows the automatic control of intelligent field devices when the plant is running, which enables the prediction of mechanical problems and the elimination of unnecessary downtime. The system works with the field devices to gather information on control valve operations and transmits the data exceeding the warning limit to the e-mail or cellular phone of the service personnel, before disturbances arise. A combined control valve and flow meter, NelFlow, enables more cost-effective measurement of the flows, particularly in large pipes and where the measuring has been technically difficult.

Internal programs improved profitability

In the process and energy industries it was mainly the petrochemical industry which invested in the maintenance of current plants and in new plants in 1998. In addition, the demand for valves, control systems and flow control systems for the petrochemical industry was strong. On the other hand, investments by the pulp and paper industry concentrated mainly on renovation and extension investments aimed at improving the efficiency of processes. The small amount of new investments weakened the demand for valves and control systems. The high capacity utilization of the pulp and paper industry supported steady demand for spare parts and service. Forecasts of weakening economic growth in the U.S. reduced demand for Jamesbury products in 1998.

Neles Controls
Key Figures 1998

Net sales, EUR million	323
Operating profit, EUR million	23
Orders received, EUR million	306
Order backlog, Dec 31, EUR million	67
Personnel, Dec 31	3,318



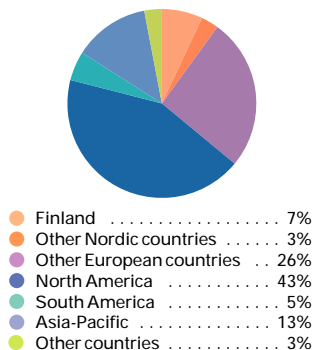
Main products:

- Control and shut-off valves
- Actuators
- Positioners
- Digital valve controllers
- Software products

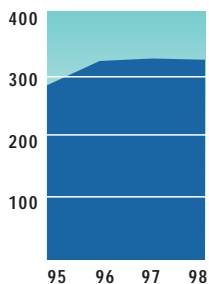


Neles Controls' Finetrol rotary control valve is an economical, high-performance control valve that can be used in virtually any process application.

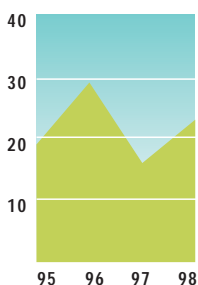
Net sales by market area in 1998



Net sales (EUR million)



Operating profit (EUR million)



The net sales of Neles Controls declined close to one per cent from the previous year to EUR 323 million (EUR 325 million) while the net sales of the Process and Energy Division increased over the previous year. The net sales of the Pulp and Paper Division declined in the face of reduced investment activity in the pulp and paper industry, particularly in the Southeast Asian market. Jamesbury's net sales declined compared to year 1997.

The 1998 operating profit rose substantially by 42 per cent to EUR 23 million (EUR 16 million). The improvement resulted primarily from internal efficiency programs and the reorganization executed at the end of 1997. In addition, the Quick-on-Time project brought significant results especially in North America. The purpose of the project was to cut lead times in half and to improve the delivery performance.

A new positioner factory was started in September in Helsinki, Finland. The new factory will strengthen Neles Controls position in the production of digital control and automation systems and related services. The delivery volumes in this product segment have experienced rapid growth.

New orders totaling EUR 306 million (EUR 344 million) were received during the period under review, a decline of 11 per cent from the previous year. The reduction in new orders was due mainly to falling demand for valves in the pulp and paper industry and for Jamesbury products. The most important orders for the Pulp and Paper Division came from Europe. The Process and

Energy Division received a healthy amount of new orders except during the last quarter of the year, when the demand for valves and flow control systems began to decline. Most new orders were received from Europe and North America and from Southeast Asia as well. The demand for Jamesbury products was strong in North America during the first half of the year, but weakened during the second half. Neles Controls' order backlog decreased from its level at the beginning of the year to a total of EUR 67 million (EUR 89 million) at year-end.

Short-term outlook

The low prices of oil and plastic raw materials, and the rapid consolidation of the industry are expected to slow the pace of investments in the process and energy industries. The demand for valves and flow control systems is expected to remain weaker than in 1998. Uncertainty in the pulp and paper market held back industry investments and reduced valve demand to some extent in 1998. Demand is not expected to recover rapidly. The demand for Jamesbury products is expected to remain on the 1998 level.

TIMBERJACK FOREST MACHINES

Timberjack designs, manufactures and markets forest machines for timber harvesting, terrain transport and log loading. In addition it provides a wide range of maintenance, spare parts and training services through its dealer network. In 1998 Timberjack was the world's leading manufacturer of forest machines. Its share of the global forest machine market was nearly 30 per cent. The most important end users were private contractors, as in the Nordic countries and North America, and forest companies, mainly in South America and Asia. Timberjack forest machines are used in over 80 countries.

Timberjack Key Figures 1998

Net Sales, EUR million	530
Operating Profit, EUR million	42
Orders Received, EUR million	490
Order backlog, Dec 31, EUR million	45
Personnel, Dec 31	1,900



Main products:

Harvesters
Feller bunchers
Forwarders
Skidders
Log loaders
Forest machine attachments
Log, wood chip and specialty trailers

Timberjack manufactures its forest machines in Finland, Canada, Sweden and the USA. The product range covers some 90 per cent of the world's mechanized timber harvesting needs. Timberjack's main markets are in Europe and North America, but markets in South America, Southeast Asia and Russia are significant potential growth areas.

Organized for global operation

Timberjack's wholesale operations are divided into two strategic organizational lines: The Product Supply line is responsible for material management, assembly, product development and other production-related activities. The sector contains three product divisions operating globally: Harvesting, Transporting and Loading. In addition to forest machines, Timberjack sells felling and harvester heads for its own machines, and as attachments for other forest machine manufacturers.

The four Continental Distribution Centers are responsible for distribution development, marketing, service parts and technical support. The centers are located in Atlanta, USA, Stockholm, Sweden, Singapore and Sao Paulo, Brazil.

In the Nordic countries, Brazil and New Zealand forest machines are sold through Timberjack's own retail companies. Elsewhere sales and customer service are handled by about 70 independent dealers with more than 250 outlets.

The Timberjack Group also includes the Peerless Corporation operating in North America, which manufactures log and wood chip trailers and specialty trailers.

Product development focused on improving productivity

The main emphasis of Timberjack's product development in 1998 continued to be on improving the productivity and versatility of logging equipment, as well as the environmental performance and operator ergonomics of the machines. In 1998 several new products were brought to market. The popular forwarder product range was extended with two mid-size machines, and a new log loader was added to the loader range. New harvesters and feller bunchers were also launched. In addition Timberjack presented a simulator designed for harvester operator training.

Forest Machine Group profitable in fiscal 1998

The high capacity utilization of the pulp and paper industry and the resulting steady demand for timber generated healthy forest machine demand throughout the year. The strong demand for sawn timber in North America also bolstered forest machine demand.

Timberjack's net sales rose six per cent over last year to EUR 530 million (EUR 500 million). Net sales increased especially during the first half of the year. The majority of net sales came from Europe and North America. Sales of forwarders and loaders were strong throughout the year, and market shares rose in North America. Deliveries to South America also grew from last year. On the other hand, deliveries to Asia and Russia fell below last year's level.

The operating profit of the division increased considerably to EUR 42 million, which was 21 per cent higher than last year's figure. The main factors contributing to the favorable trend were the increased deliveries and investments in quality and product cost control, which produced results.

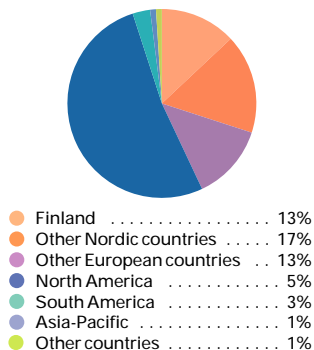
In July-August the Woodstock plant in Canada was modernized and reorganized into production and assembly units in order to improve the plant's cost-effectiveness and competitiveness. This caused delivery levels to decline in July-August, which in turn decreased third quarter net sales and operating profits. After August the plant operated according to plan.

In May the Forest Machine Group acquired a dealer in New Zealand, Trackwell Group Ltd,

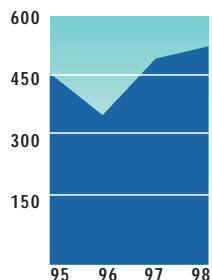


Ergonomically designed for maximum comfort and ease of use, the 870B's cab and operator controls encourage productivity.

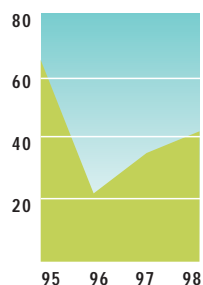
Net sales by market area in 1998



Net sales (million e)



Operating profit (EUR million)



which has achieved a solid position with Timberjack machines on the New Zealand forest machine market. In July Timberjack's Finnish retail company extended its service area into the Western parts of Russia.

the demand is also expected to weaken during the spring. In Asia demand is expected to pick up to some extent. In the South American and Russian forest machine markets, demand is expected to remain weak.

New forest machine orders were received totaling EUR 490 million (EUR 542 million), which is 10 per cent less than last year. The strong demand that began in the spring of 1997 continued into the beginning of 1998 and a very healthy amount of orders were registered in both main markets, North America and Europe. During the summer months the flow of new orders from North America stabilized and started to decline. In part this was due to the fact that North American dealers emptied their inventories during the summer. Forest machine demand continued to decline towards the end of the year. Orders for forest machines were obtained at a good rate from Europe throughout the year. Demand was particularly strong in the Nordic countries. The amount of orders received from South America was modest and the Asian and Russian markets stagnated almost completely. The orderbook stood at EUR 45 million as at the year-end (EUR 85 million).

Short-term outlook

The demand for raw material for the pulp and paper and sawmilling industries is expected to weaken at the beginning of 1999 and this will negatively impact harvesting volumes in North America and Europe. Consequently, forest machine demand is expected to decline in North America at the beginning of the year relative to 1998, as dealer inventories were above average at the end of 1998. In Europe

NORDBERG ROCK CRUSHERS

Nordberg is the world's leading supplier of crushing, comminution and screening systems for rock and similar materials. The group's product range comprises crushers and auxiliary equipment for the handling of crushed materials, such as screens, feeders and conveyors. The products are increasingly sold as part of turnkey deliveries for complete plants or as portable crushing and screening plants. Automation packages for individual products, complete plants and unit deliveries are becoming an increasingly important factor in operations. A growing share of sales comprise wear and spare parts, as well as after-sales services.

**Nordberg
Key Figures 1998**

Net Sales, EUR million	465
Operating Profit, EUR million	34
Orders Received, EUR million	462
Order backlog, Dec 31, EUR million	92
Personnel, Dec 31	2,299



Main products:

- Stationary, portable and self-propelled crushing plants
- Jaw, cone, gyratory and impact crushers
- Grinding mills and comminution processes
- Recycle crushing units
- Screens, feeders and conveyors
- Portable and self-propelled screens

Nordberg's largest customer segment consists of quarries and sand and gravel contractors. The civil engineering contractors of major construction projects are the fastest growing customer segment. Quarries and sand and earthmoving contractors account for three quarters of Nordberg's deliveries and the mining industry for one quarter. Recycle crushing, screening and the sorting of stone and construction waste account for a little more than five percent of deliveries. A little less than one third of Nordberg's net sales derive from wear and spare parts, and after-sales services.

Development and manufacturing concentrated in product divisions

The development and manufacture of crushing systems and products are organized into four product divisions: the Crushing Equipment Division, the Mobile Equipment Division, the Minerals Processing Division, and the Screening and Crushing Systems Division.

The Crushing Equipment Division develops crushing systems and is in charge of the development and manufacture of unit crushers, such as jaw, cone, gyratory and impact crushers, for all customer segments. The manufacturing units of the Division are located in Finland, France and the U.S. and they also include the Lokomo steel foundry and Parkano Works in Finland, as well as the crusher factory in China that came on line at the end of 1998. The units in Brazil and South Africa manufacture crushers for the local markets.

The Mobile Equipment Division is responsible for the development and manufacture of mobile track- and wheel-mounted crushing and screening systems. The group is Nordberg's fastest-growing product segment. The main production units are located in Finland and the U.S. In addition, all of the screening units manufactured by Masterskreen of Northern Ireland are sold through the Nordberg distribution network.

The Minerals Processing Division is in charge of the development and global distribution of crushing and comminution systems and related Products, such as large cone and primary gyratory crushers and grinding mills. Large cone crushers are manufactured mainly at the Milwaukee plant in the U.S. The other products are purchased from subcontractors and assembled on site at customers' plants.

The Screening and Crushing Systems Division is responsible for the development and manufacture of crushing plants and related products, such as screens and conveyors. The division also develops, on its own or in cooperation with partners, systems for other process elements of plant deliveries, such as dust treatment, sand production and plant automation.

Nordberg products are sold through four independent area organizations: Nordberg Americas, Nordberg Europe, Nordberg Asia-Pacific and Nordberg South. Nordberg's own 25 sales subsidiaries and local retailers constitute a global service organization for customers and markets around the world.

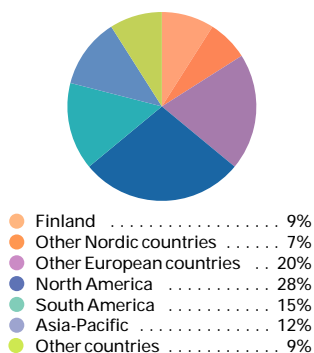
Research and development center supports product development

The most important product development projects of the year included the development of the portable screening units product group and the automation of unit crushers. The full-scale launch of both will take place during 1999. From the beginning of 1998 the crushing and screening processes of all crusher types could be developed in cooperation with customers at the research and development center in Milwaukee, USA. In the spring of 1999 a grinding mill will be installed in the center, after which the center will cover the entire crushing and milling process.

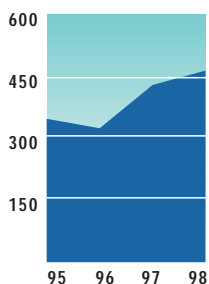


Nordberg has specialized in the turnkey design and delivery of complete crushing facilities. This turnkey facility was delivered to Siam Cement in southern Thailand. It is the company's largest cement plant and processes 300 tons of material per hour.

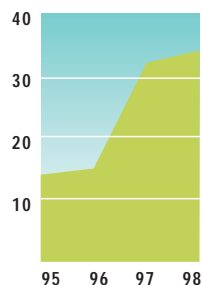
Net sales by market area in 1998



Net sales (EUR million)



Operating profit (EUR million)



Demand for crushed material still strong

The construction industry continued its heavy investments in North America. Even in Europe the situation was fairly good except in Eastern Europe. In Southeast Asia and Japan the situation deteriorated significantly because of the economic problems in the region. In Australia and in China markets remained relatively stable. Demand in the mining industry remained strong in the beginning of the year under review, but started to decline during the second half of the year. The decline in the mining industry was particularly pronounced in South America and Africa.

Nordberg's net sales totaled EUR 465 million or eight per cent more than for 1997 (EUR 430 million). A quarter of the growth in net sales resulted from the acquisition towards the end of 1997 of Nordberg-Read which produces portable screens. The demand for wear and spare parts was strong. Nordberg's operating profit increased thanks to larger delivery volumes and totaled EUR 34 million (EUR 32 million) or seven per cent of net sales. The decrease in relative profitability resulted mainly from the reduced share of deliveries to the mining industry.

In the beginning of March Nordberg acquired the South African Lennings foundry which manufactures wear parts for crushers. Already prior to the acquisition Nordberg was the most important customer of the foundry, purchasing 80 per cent of its annual production. After the acquisition the entire production of the foundry will be focused on wear parts for Nordberg's own crushers.

New orders increased four per cent over last

year to EUR 462 million (EUR 444 million). Nordberg's orderbook declined slightly during the year and stood at EUR 92 million as at the year-end (EUR 106 million).

Market conditions in the quarry and contractor segments in Northern and Central America remained good in 1998. In June the U.S. congress approved a USD 215 billion financial package for the years 1998 - 2003 for the development of the transport infrastructure, which clearly strengthened demand. Due to its strengthened marketing organization and updated product range Nordberg's market share increased distinctly. In Europe the market situation remained good and even improved in the largest markets, Germany and France. Most of the new orders in the Asia-Pacific area were obtained from Australia, China and Japan. The most significant delivery was a large crushing plant to Hongkong. In South America and Africa poor conditions in the mining industry were clearly evident.

Short-term outlook

In North America, infrastructure redevelopment and the demand for crushed materials are estimated to remain strong. In Europe substantial EU funds will be directed at the improvement of the road and railroad networks. Investments in the mining industry are expected to remain weak, until the prices of the key metals, gold and copper start to rise. Mining companies, however, will continuously require wear and spare parts, and they are also expected to invest in mine efficiency. We believe that successful product development activities and our worldwide marketing network will increase Nordberg's competitiveness.

MACHINE AND COMPONENT MANUFACTURING

This business group develops, markets and supplies mechanical and hydraulic power transmission equipment, as well as manufacturing and expert services related to machinery construction. Internal deliveries within the group comprise a third of net sales. Both internal and external customer relationships are based on strong competitiveness, specialized know-how and long-term cooperation.

Machine and Component Manufacturing Key Figures 1998

Net sales, EUR million	96
Operating profit, EUR million	7
Orders received, EUR million	98
Order backlog, Dec 31, EUR million	39
Personnel, Dec 31	841



Powder metallurgically produced sleeve for paper machine presser suction roll represents innovative business developed by Rauma Materials Technology Oy.

Power Transmission

The Power Transmission unit has products based on both mechanical and hydraulic power transmission technology. Valmet Power Transmission Inc. manufactures gears and mechanical drives for the paper and pulp industries and other process industries. The company has established itself as one of the leading manufacturers of gears for the ship building industry and energy production. Cooperation in product development between the power transmission unit and paper machine operations, as well as the new gear research and testing center, will strengthen opportunities to develop power transmission solutions that will improve the efficiency, runnability, serviceability and environmental performance of customer processes. Valmet Hydraulics Oy manufactures hydraulic motors for industrial and off-road applications. The customers of these firms are located mainly in the Nordic countries and North America. These companies' own service units supply spares, service and rebuilds.

Component Manufacturing

Pori Works Oy and Loviisa Works Oy provide planning, manufacturing and installation services related to key components mainly to Nordic equipment suppliers, whose customers are for instance the forest industry and the offshore industry. The companies' cutting edge know-how in welding, machining and assembly support the improvement of clients' delivery capabilities. Rauma Materials Technology Oy has specialized in material technology expert services and the manufacture of machinery parts using the powder metallurgical method.

Highlights of 1998

The net sales of the Power Transmission rose three per cent over the previous year to EUR 68 million (EUR 66 million in 1997). The

growth in net sales resulted mainly from the increased deliveries of hydraulic motors, marine gears and services. These factors compensated for the decrease in deliveries to the forest industry. The operating profit was EUR six million (EUR 7 million). The decrease in operating profits from the previous year resulted from the R&D and production start-up costs for wind turbine gears. The value of orders received rose nine per cent over the previous year to EUR 70 million (EUR 64 million).

The net sales of the Component Manufacturing unit decreased 36 per cent from the previous year to EUR 28 million (EUR 44 million). The operating profit totaled EUR one million (EUR 7 million). The reduction in net sales and operating profits resulted mainly from the divestiture of Mäntyluoto Works Oy in May, 1997. New orders were received totaling EUR 28 million (EUR 29 million), a three per cent decrease from the previous year. The decrease was due to both the divestiture and reduced investments by forest industry customers.

In January, 1999, a 48 per cent interest in the equity of Kalajoen Konepaja Oy held by Rauma was sold to PPTH Steel Oy. The net sales of that firm for this year had been budgeted at approximately EUR 10 million.

Short-term outlook

Falling forest industry investments will impact the production volumes for both power transmission equipment and components, at least during 1999. On the other hand, the demand for wind turbine gears is rapidly increasing, and this will support the growth of power transmission volumes. In addition, compensating growth areas can be found in the component manufacturing sector. The merger of Rauma and Valmet will create opportunities to raise delivery volumes. The prospects for the business group as a whole for the beginning of the year are satisfactory.

VALMET AUTOMOTIVE

Valmet Automotive is an independent contract manufacturer of specialty cars, providing its specialized expertise and production capacity to different car manufacturers. The automotive plant focuses on the production and development of demanding speciality cars. Its most significant competitive advantages are high quality, the rapid start-up of new production and cost-effectiveness.

While major car manufacturers are moving towards greater uniformity of production, there is also an increase in the number of variants, i.e. special models, within single product families. These specialty cars are aimed at very limited customer groups and are increasingly contracted out to external manufacturers.

Production facilities Europe's best

Valmet Automotive's strength lies in its ability to develop special models from basic cars, and rapidly and flexibly commence production according to market requirements. Recent years have seen the plant's production facilities raised to the level of the best in Europe. In 1999, significant alterations will be made to the assembly line to achieve even more efficient assembly of specialty cars.

The automotive plant's data processing strategy has been re-focused and substantial investments have been made in ADP solutions, with the objective of being able to start production of new models more rapidly than competitors and being able to cooperate with several car manufacturers simultaneously.

In early 1999, Valmet Automotive was one of the first automotive plants in the world to be granted the QS-9000 quality certification.

Automotive one of Europe's biggest manufacturers of convertibles

In 1998, Valmet Automotive increasingly concentrated on the manufacture of specialty cars. The Saab 9-3 Convertible and the Porsche Boxster roadster formed a major part of the annual production. Production of the Euro-Samara was terminated in July, due to poor demand. However, brisk demand for the Saab Convertible and the Porsche Boxster brought production at the automotive plant to nearly the previous year's level. Demand for convertibles was at a

record level in both Europe and the USA.

In 1998, Valmet Automotive joined the ranks of Europe's four biggest manufacturers of convertibles. The company's net sales increased by 23 per cent over the previous year to reach EUR 120 million (EUR 98 million). The operating profit rose by 33 per cent to EUR 25 million (EUR 19 million). The number of employees at the end of the year was 1,476 (1,467).

Short-term outlook

The forecast for 1999 is for continued growth in demand for the Saab 9-3 Convertible and Porsche Boxster. Valmet Automotive will also produce the Saab 9-3 Viggen on the same assembly line as the other specialty cars. This high-performance Saab 9-3 is available as a three-door coupé, with five doors and as a convertible.

Valmet Automotive is one of about ten contract manufacturers of specialty cars in Europe whose total production has risen during the 1990's from just under 200,000 to more than 300,000 vehicles. Future development looks likely to continue in the same direction. Valmet Automotive is continually negotiating with other car manufacturers for new contracts.

Valmet Automotive Key Figures 1998

Net sales, EUR million	120
Operating profit, EUR million	25
Amount of cars manufactured	31,400
Personnel, Dec 31	1,476



The Porsche Boxster and Saab 9-3 Convertibles are Valmet Automotive's main products.

Main products:

Assembly of specialty cars
Saab Convertible
Porsche Boxster

VALMET-RAUMA YEAR 1998

Business environment

For Valmet-Rauma's largest industrial customer group - the pulp and paper industry - 1998 was a year of high utilization rates. The pulp supply outstripped demand and prices fell. To stabilize the market, the pulp and paper industry responded by postponing investments. No significant new investments were made in the pulping industry in 1998 and investments in the paper industry were limited. This in turn had a negative impact on the demand for fiber and paper technology equipment and processes, and also for automation and control technology solutions. On the other hand, demand for rebuilds of existing pulp and paper equipment and processes and for maintenance and spare parts services remained strong. Demand for valves and control solutions for the process and energy industries, particularly the petrochemical industry, was good.

Steady demand for timber kept harvesting levels high and the demand for forest machinery was strong in Europe throughout the year. In North America the greatest demand was visible in the first half of the year. The construction and civil engineering industries continued to invest heavily and demand for crushers in the North and Central American quarry and contracting segments remained strong.

The company received new orders amounting to EUR 3,399 million in the year under review (1997 EUR 3,528 million) and the order backlog stood at EUR 1,342 million (EUR 1,718 million) at year end. The order backlog fell well short of last year's level, primarily because of the lack of orders from the fiber and paper technology sector.

Profitability and financial position

Valmet-Rauma's profitability was good in 1998. The operating profit totaled EUR 246 million (EUR 325 million), or seven per cent (8%) of net sales. Earnings per share totaled EUR 1.37 (EUR 1.77).

The Automation and Control Technology, and Machinery business areas increased their earnings while the Fiber and Paper Technology business area experienced a decline in earnings from last year. Net sales totaled EUR 3,695 million (EUR 3,898 million).

The company's return on net assets was 16 per cent (23%) and its return on equity

was 16 per cent (23%).

The operational cash flow of Valmet-Rauma after investments totaled EUR 16 million (EUR - 94 million). A large amount of working capital was tied up in operations during both the current and previous year because of the decline in major projects and related advance payments.

The company's equity ratio was 45 per cent (42%) at the year end. Net interest-bearing liabilities totaled EUR 177 million at year end (EUR 181 million) or 15 percent (16%) of equity.

Synergy benefits

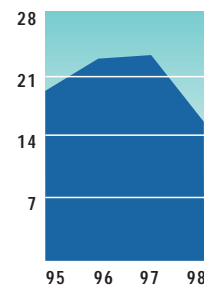
The synergy-related annual benefits arising from the merger of Valmet and Rauma have been estimated at EUR 70 million and these should be realized in full from the year 2001 onwards. Costs will be reduced by integrating the companies' distribution networks, by generating savings from larger purchasing volumes and by increasing the efficiency of component production and administrative activities. Synergy benefits are also anticipated from the joint development of maintenance and spare parts services and automation and flow control operations, and also from the more efficient exploitation of product development activities.

The non-recurring expenses related to these synergies have been estimated at EUR 25 million.

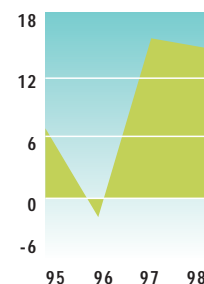
Short-term outlook

The business environment in which Valmet-Rauma operates became more unpredictable in 1998 in the face of growing instability in international economic conditions. We do not expect any significant turnaround in pulp and paper investments during the first months of 1999, although some pulp and paper projects are underway in Europe, North America and China. Postponement of these investments will limit demand for new fiber and paper equipment and processes, and for control technology solutions. The demand for forest machinery is expected to weaken as well during 1999 - at the beginning of the year in North America and later in the spring in Europe. On the other hand, demand in the quarry and contractor segments for crushing equipment is expected to remain strong. On the whole we expect market conditions to remain difficult. This will be apparent in the company's financial performance in the first part of the year.

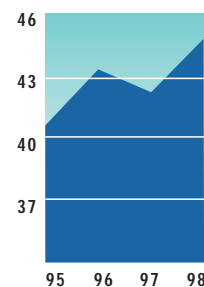
Return on net assets, %



Gearing %



Equity ratio %



INCOME STATEMENT

Pro forma

	1996	1997	1998	1998	1998
(Millions)	EUR	EUR	EUR	FIM	USD
Net Sales	3,697	3,898	3,695	21,969	4,338
Cost of sales	-2,748	-2,873	-2,696	-16,030	-3,165
Gross profit	949	1,025	999	5,939	1,173
General income and expenses	-675	-700 ^{*)}	-753	-4,476	-884
Operating profit	274	325	246	1,463	289
Financial income and expenses	14	-	2	13	3
Share of profits of associated companies	4	3	3	19	3
Income before extraordinary items and income taxes	292	328	251	1,495	295
Extraordinary income and expenses	-12	-14	-2	-15	-3
Income before taxes	280	314	249	1,480	292
Income taxes	-65	-78	-63	-372	-73
Minority interests	-2	-4	-2	-15	-3
Net income	213	232	184	1,093	216

^{*)} General income and expenses in 1997 included non-recurring gains on sale of shares about EUR 59 million, of which EUR 34 million is included in extraordinary items in Valmet's consolidated financial statements.

Valmet-Rauma's pro forma financial information presents a combination of Rauma's and Valmet's financial statements for certain periods. Valmet-Rauma's pro forma financial statements have been accounted for under the pooling-of-interest method. Under the pooling-of-interest method of accounting, the recorded assets and liabilities of Rauma and Valmet will be carried forward to Valmet-Rauma's consolidated financial statements at their historical amounts.

The financial statements of Rauma and Valmet that have been prepared in Finnish markkas (FIM), have been translated into euros using the irrevocable conversion ratio of EUR 1.00 = FIM 5.94573 adopted by the European Union Council.

The financial information included herein has been translated from Finnish markkas (FIM) into United States dollars using the December 31, 1998 Noon Buying Rate of the Federal Reserve Bank of New York of USD 1.00 = FIM 5.0645.

BALANCE SHEET

Pro forma

ASSETS (Millions)	Dec 31, 1997 EUR	Dec 31, 1998 EUR	Dec 31, 1998 FIM	Dec 31, 1998 USD
Intangible Assets				
Goodwill	212	177	1,053	208
Other intangible assets	47	47	280	55
	259	224	1,333	263
Tangible fixed assets				
Land and water areas	57	54	323	64
Buildings	239	235	1,396	276
Machinery and equipment	304	286	1,703	336
Other tangible assets	11	14	80	16
Assets under construction	36	46	274	54
	647	635	3,776	746
Other long-term assets				
Shareholdings and other securities	189	158	943	186
Loans receivable	4	1	4	1
Accounts receivable	24	23	136	27
Other long-term assets	8	12	71	14
	225	194	1,154	228
Total fixed assets and other long-term assets	1,131	1,053	6,263	1,237
Unfunded pensions	18	12	71	14
Inventories				
Materials and supplies	159	163	971	192
Work-in-progress	69	43	256	50
Finished products	146	201	1,194	236
	374	407	2,421	478
Receivables				
Trade receivables	609	655	3,892	768
Cost and earnings of projects under construction in excess of billings	260	203	1,208	239
Loans receivable	9	5	31	6
Accrued income and prepaid expenses	145	139	824	163
Other receivables	48	23	139	27
	1,071	1,025	6,094	1,203
Cash and short-term investments	315	301	1,789	353
Total current assets	1,760	1,733	10,304	2,034
TOTAL ASSETS	2,909	2,798	16,638	3,285

SHAREHOLDERS' EQUITY AND LIABILITIES	Dec 31, 1997	Dec 31, 1998	Dec 31, 1998	Dec 31, 1998
(Millions)	EUR	EUR	FIM	USD
Shareholders' equity				
Share capital	228	228	1,358	268
Other shareholders' equity	934	978	5,816	1,149
Total shareholders' equity	1,162	1,206	7,174	1,417
Minority interest	10	10	58	11
Long-term debt				
Bonds	243	229	1,359	268
Loans from financial institutions	69	77	456	90
Pension loans	46	81	485	96
Other long-term debt	24	53	315	62
	382	440	2,615	516
Other long-term liabilities				
Deferred tax liabilities	12	12	73	14
Accrued expenses	74	25	151	30
	86	37	224	44
Current liabilities				
Short-term portion of long-term debt	48	36	213	42
Other interest-bearing short-term debt	110	121	721	142
Accounts payable	276	241	1,434	283
Billings in excess of cost and earnings of projects under construction	133	121	718	142
Accrued expenses and prepaid income	663	544	3,234	639
Other current liabilities	39	42	247	49
	1,269	1,105	6,567	1,297
Total liabilities	1,737	1,582	9,406	1,857
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	2,909	2,798	16,638	3,285

CASH FLOW STATEMENT

Pro forma

(Millions)	1996 EUR	1997 EUR	1998 EUR	1998 FIM	1998 USD
Cash flows from operating activities:					
Net income	213	232	184	1,093	216
Adjustments to reconcile net income to net cash provided by operating activities					
Depreciation and amortization	116	119	131	779	154
(Gain) loss on securities	-5	-21	-9	-55	-11
Gain on sale of subsidiaries and associated companies	-3	-38	-	-1	-
Foreign exchange (gains) losses	-	13	-16	-92	-18
Other	18	17	7	46	9
Change in net working capital	27	-205	-202	-1,203	-238
Net cash provided by operating activities	366	117	95	567	112
Cash flows from investing activities:					
Capital expenditures on property and equipment	-154	-161	-133	-792	-156
Proceeds from sale of property and equipment	22	8	28	168	33
Business acquisitions, net of cash acquired	-13	-136	-24	-142	-28
Investments in associated companies	-2	-2	-	-	-
Proceeds from sale of subsidiaries	11	9	10	57	11
Investments in shares in listed companies	-31	-	-	-	-
Proceeds from sale of shares	-	71	40	238	47
Net cash used by investing activities	-167	-211	-79	-471	-93
Cash flows from financing activities:					
Redemption and cancellation of shares	-83	-18	-	-	-
Dividends paid	-48	-65	-74	-445	-88
Hedging of net investment in foreign subsidiaries	-	-29	-1	-5	-1
Net funding	-97	153	55	329	65
Other	-3	-3	-1	-5	-1
Net cash provided (used) by financing activities	-231	38	-21	-126	-25
Effect of changes in exchange rates and market values of short-term investments					
	5	6	-9	-53	-11
Net increase (decrease) in cash and short-term investments	-27	-50	-14	-83	-17
Cash and short-term investments at beginning of year	392	365	315	1,872	370
Cash and short-term investments at end of year	365	315	301	1,789	353

NET SALES BY MARKET AREA

Pro forma

(Millions)	1996 EUR	1997 EUR	1998 EUR	1998 FIM	1998 %
Finland	918	599	479	2,849	13
Other Nordic countries	472	457	455	2,707	13
Other European countries	678	573	863	5,132	23
North America	899	1,196	1,110	6,599	30
South America	129	215	158	938	4
Asia-Pacific	487	753	547	3,250	15
Other countries	114	105	83	494	2
Valmet-Rauma total	3,697	3,898	3,695	21,969	100

PERSONNEL BY REGION

	1996	1997	1998	1998 %
Finland	12,340	12,007	11,300	49
Other Nordic countries	2,404	2,473	2,481	11
Other European countries	1,913	2,287	2,235	9
North America	4,744	5,017	4,795	21
South America	501	609	619	3
Asia-Pacific	412	491	501	2
Other countries	571	612	1,133	5
Valmet-Rauma total	22,885	23,496	23,064	100

NET SALES BY BUSINESS AREA

Pro forma

(Millions)	1996 EUR	1997 EUR	1998 EUR	1998 FIM
Paper and Board Machinery	1,615	1,535	1,356	8,063
Converting Equipment	-	145	185	1,101
Sunds Fiber Technology	668	557	408	2,422
Fiber and Paper Technology	2,283	2,237	1,949	11,586
Valmet Automation	266	273	274	1,627
Neles Controls	321	325	323	1,920
Automation and Control Technology	587	598	597	3,547
Timberjack Forest Machines	362	500	530	3,152
Nordberg Crushing Systems	325	430	465	2,766
Machine and Component Manufacturing	139	113	96	572
Valmet Automotive	80	98	120	715
Machinery	906	1,141	1,211	7,205
Subtotal	3,776	3,976	3,757	22,338
Less inter-business eliminations	-79	-78	-62	-369
Valmet-Rauma total	3,697	3,898	3,695	21,969

OPERATING PROFIT BY BUSINESS AREA

(Millions)	1996 EUR	1997 EUR	1998 EUR	1998 FIM
Paper and Board Machinery	118	120	96	572
Converting Equipment	-	1	-9	-55
Sunds Fiber Technology	62	31	24	146
Fiber and Paper Technology	180	152	111	663
Valmet Automation	23	17	15	87
Neles Controls	29	16	23	136
Automation and Control Technology	52	33	38	223
Timberjack Forest Machines	22	35	42	250
Nordberg Crushing Systems	15	32	34	200
Machine and Component Manufacturing	9	14	7	45
Valmet Automotive	18	19	25	149
Machinery	64	100	108	644
Subtotal	296	285	257	1,530
Less unallocated corporate overhead and inter-business eliminations	-22	40	-11	-67
Valmet-Rauma total	274	325	246	1,463

General income and expenses in 1997 included non-recurring gains on sale of shares about EUR 59 million, of which EUR 34 million is included in extraordinary items in Valmet's consolidated financial statements.

ORDERS RECEIVED BY BUSINESS AREA

Pro forma

	1996	1997	1998	1998
(Millions)	EUR	EUR	EUR	FIM
Paper and Board Machinery	1,420	1,272	1,233	7,331
Converting Equipment	-	137	152	902
Sunds Fiber Technology	543	408	333	1,982
Fiber and Paper Technology	1,963	1,817	1,718	10,215
Valmet Automation	240	249	282	1,677
Neles Controls	291	344	306	1,820
Automation and Control Technology	531	593	588	3,497
Timberjack Forest Machines	328	542	490	2,911
Nordberg Crushing Systems	334	444	462	2,749
Machine and Component Manufacturing	150	94	98	584
Valmet Automotive	80	98	120	715
Machinery	892	1,178	1,170	6,959
Subtotal	3,386	3,588	3,476	20,671
Less inter-business eliminations	-64	-60	-77	-460
Valmet-Rauma total	3,322	3,528	3,399	20,211

PERSONNEL BY BUSINESS AREA

	1996	1997	1998	1998
				%
Paper and Board Machinery	9,042	8,318	7,547	33
Converting Equipment	-	1,009	961	4
Sunds Fiber Technology	2,417	2,401	2,366	10
Fiber and Paper Technology	11,459	11,728	10,874	47
Valmet Automation	1,931	2,058	2,074	9
Neles Controls	2,425	2,437	3,318	15
Automation and Control Technology	4,356	4,495	5,392	24
Timberjack Forest Machines	1,561	1,907	1,900	8
Nordberg Crushing Systems	2,565	2,747	2,299	10
Machine and Component Manufacturing	1,350	855	841	4
Valmet Automotive	1,258	1,467	1,476	6
Machinery	6,734	6,976	6,516	28
Other	336	297	282	1
Valmet-Rauma total	22,885	23,496	23,064	100

FINANCIAL INDICATORS

(Millions)	1995 EUR	1996 EUR	1997 EUR	1998 EUR	1998 FIM	1998 USD
Net sales	3,096	3,697	3,898	3,695	21,969	4,338
Net sales change %	9.4	19.4	5.4	-5.2	-5.2	-5.2
Operating profit	214	274	325	246	1,463	289
Operating profit, %	6.9	7.4	8.3	6.7	6.7	6.7
Income before extraordinary items	220	292	328	251	1,495	295
Income before extraordinary items, %	7.1	7.9	8.4	6.8	6.8	6.8
Income before taxes	226	280	314	249	1,480	292
Income before taxes, %	7.3	7.6	8.1	6.7	6.7	6.7
Net income for the year	186	213	232	184	1,093	216
Exports and international operations	2,679	2,776	3,303	3,219	19,138	3,779
Exports and international operations, % of net sales	86.5	75.1	84.7	87.1	87.1	87.1
Orders booked	3,730	3,322	3,528	3,399	20,211	3,991
Order backlog, December 31	2,366	2,000	1,718	1,342	7,980	1,576
Capital expenditures	133	171	295	157	934	184
Capital expenditures, % of net sales	4.3	4.6	7.6	4.3	4.3	4.3
Depreciation and amortization	110	118	119	131	779	154
Depreciation and amortization, % of net sales	3.5	3.2	3.0	3.5	3.5	3.5
Research and development	91	115	119	116	689	136
Research and development, % of net sales	2.9	3.1	3.0	3.1	3.1	3.1
Number of personnel, December 31	23,491	22,885	23,496	23,064	23,064	23,064
Shareholders' equity	927	1,010	1,172	1,216	7,232	1,428
Net interest-bearing liabilities	63	-18	181	177	1,055	208
Balance sheet total	2,834	2,575	2,909	2,798	16,638	3,285
Gearing, %	6.8	-1.8	15.5	14.6	14.6	14.6
Equity ratio, %	40.6	43.3	42.2	45.4	45.4	45.4
Return on net assets, %	19.0	22.6	23.0	16.1	16.1	16.1
Return on equity, %	21.9	23.3	22.5	15.8	15.8	15.8

Formulas for calculation of financial indicators:

Gearing, %:
$$\frac{\text{Interest-bearing debt} - \text{interest-bearing receivables} - \text{cash and short-term investments}}{\text{Shareholders equity} + \text{minority interests}} \times 100$$

Equity ratio, %:
$$\frac{\text{Shareholders equity} + \text{minority interests}}{\text{Total assets} - \text{billings in excess of cost and earnings}} \times 100$$

Return on net assets, %:
$$\frac{\text{Income before extraordinary items and income taxes} + \text{financial expenses}}{\text{Balance sheet total} - \text{non-interest-bearing debt (average for the year)}} \times 100$$

Return on equity, %:
$$\frac{\text{Income before extraordinary items and income taxes} - \text{taxes}}{\text{Shareholders equity} + \text{minority interests (average for the year)}} \times 100$$

SHARE - RELATED INDICATORS

	1995	1996	1997	1998
Share capital, Dec 31, EUR million	242	230	228	228
Number of shares				
Number of shares, December 31	143,916,610	136,915,180	135,826,010	135,826,010
Average number of shares	142,827,440	139,945,936	136,264,946	135,826,010
Trading volume, Helsinki Exchanges	36,131,418	72,283,518	97,260,307	74,734,449
Number of shares redeemed and cancelled	-	7,001,430	1,089,170	-
Dividend, EUR million	48	64	75	80
Dividend/share, EUR	0.33	0.47	0.55	0.59 ⁽¹⁾
Dividend/Earnings, %	26	29	31	43
Dividend yield, %	3.1	3.3	4.3	5.1
Earnings/share, EUR	1.26	1.59	1.77	1.37
P/E ratio	8.60	8.91	7.24	8.34
Equity/share, EUR	6.40	7.33	8.56	8.97
Quotation, December 31, EUR	10.82	14.21	12.85	11.43
Market value of shares, December 31, EUR million	1,557	1,945	1,745	1,553

1) Proposals by the Boards of Directors of Rauma and Valmet		EUR	FIM
	Rauma	0.64	3.81
	Valmet	0.59	3.50

Formulas for calculation of share-related indicators:

Dividend/share, EUR:	$\frac{\text{Nominal dividend}}{\text{Issue-adjusted number of shares on Dec 31}}$
Dividend/earnings, %:	$\frac{\text{Dividend/share}}{\text{Earnings/share}} \times 100$
Dividend yield, %:	$\frac{\text{Dividend/share}}{\text{Issue-adjusted share price on Dec 31}} \times 100$
Earnings per share, EUR:	$\frac{\text{Income before extraordinary items and income taxes} - \text{taxes} - \text{minority interests}}{\text{Average number of shares adjusted for share issue}}$
P/E ratio:	$\frac{\text{Issue-adjusted share price on Dec 31}}{\text{Earnings/share}}$
Equity/share, EUR:	$\frac{\text{Shareholders' equity}}{\text{Issue-adjusted number of shares on Dec 31}}$

SHARES AND SHAREHOLDERS

Changes in ownership structure

Rauma

Rauma Corporation was listed on the Helsinki Exchanges June 27, 1995 and on the New York Stock Exchange June 22, 1995. Rauma and Repola (the predecessor of UPM-Kymmene), which was the 100 per cent owner of Rauma, offered 13.5 million Rauma shares for subscription in a share offering. As a result of the offering Repola's ownership in Rauma dropped to 73.3 per cent.

In connection with a dividend paid partly in the form of Rauma shares and performed on May 6, 1997, UPM-Kymmene's holding dropped to 59.5 per cent. At the same time Rauma received approximately 18,000 new shareholders.

In May 1997 UPM-Kymmene's ownership decreased further. In a deal executed May 6-21, 1997 UPM-Kymmene sold 13,065,000 Rauma shares to Finnish and foreign institutional investors. As a result of the sale UPM-Kymmene's ownership dropped to 35.7 per cent and the number of shareholders rose above 20,000.

In connection with the sale in May 1997 Rauma redeemed and canceled a million of its shares, reducing the number of Rauma shares from 54 million to 53 million. After the share redemption UPM-Kymmene held a total of 18,291,327 Rauma shares or 34.5 per cent of Rauma's stock.

Valmet

Valmet Corporation was listed on the Helsinki Exchanges on October 24, 1988. Prior to this, in August-September, Valmet's shares were issued to the general public after which the ownership of the Finnish State in the company dropped from 100 to 80 per cent.

In 1992 Valmet acquired 91 per cent of Tampella Papertech Oy's shares and provided 3,000,000 Valmet shares to Oy Tampella Ab.

In June, 1994 a private placement was executed. In connection with this issue the share of the Finnish State dropped to 58.6 per cent.

Valmet Corporation was listed on the New York Stock Exchange on May 31, 1996.

CONVERSION RATIOS AND SHARE CAPITAL

Conversion ratio per share

One Rauma share entitles the holder to 1.08917 Valmet-Rauma shares

One Valmet share entitles the holder to one Valmet-Rauma share

Number of shares		Share capital			
Rauma Shareholders					
53,000,000 shares	→ 57,726,010 shares	EUR 97,088,179	FIM 577,260,100		42.5 %
Valmet Shareholders					
78,100,000 shares	→ 78,100,000 shares	EUR 131,354,771	FIM 781,000,000		57.5 %
Total	135,826,010 shares	EUR 228,442,950	FIM 1 358,260,100		100.0 %

LARGEST SHAREHOLDERS OF VALMET-RAUMA, DECEMBER 31, 1998.

UPM-Kymmene Corporation	14.7
The State of Finland	11.6
Ilmarinen Mutual Pension Insurance Company	3.7
Varma-Sampo Mutual Pension Insurance Company	2.7
Pohjola Life Assurance Ltd	1.5
Local Government Pensions Institution	1.5
Pohjola Non-Life Insurance Company Ltd	1.2
Industrial Insurance Company Ltd	1.1
Suomi Mutual Life Assurance Company	1.1
Pension-Fennia Mutual Insurance Company	0.7
Other registered shareholders	16.0
Nominee registered shareholders	44.2
Total	100.0

In 1996 the face value of Valmet shares was cut in half in accordance with a decision made at the company's shareholders' meeting. The company redeemed and canceled about seven million shares. In the public offering of June, 1998 the State sold a total of 26.9 million Valmet shares to institutional and private investors. At the same time State ownership of Valmet shares dropped to 20 per cent.

Largest shareholders

Based on the present ownership structure

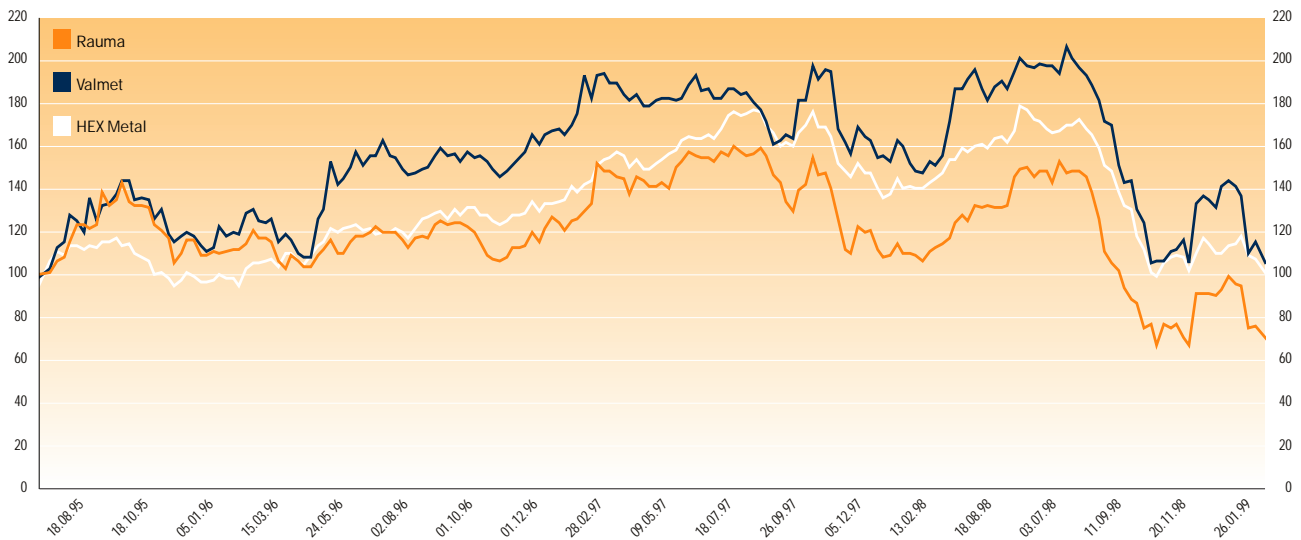
the largest shareholders of the new company will be UPM-Kymmene with a 14.7 per cent interest and the Finnish State with an 11.6 per cent interest.

UPM-Kymmene and the Finnish State have made a commitment not to sell Valmet-Rauma shares before June 30, 2000 and to inform each other, if one of them intends to surrender at least 30 per cent of its shares before June 30, 2001.

Share capital

In accordance with the proposals of the

DAILY SHARE PRICES 1995 - 1998 ON THE HELSINKI EXCHANGES, INDEXED



Rauma Corporation and Valmet Corporation Boards to the shareholders at their respective shareholders' meetings, the minimum share capital stipulated by the articles of association of Valmet-Rauma will be EUR 168,187,926 (FIM 1 billion) and the maximum share capital EUR 672,751,706 (FIM 4 billion). Within these limits the share capital can be raised or lowered without any changes in the articles of association.

The maximum share capital of Valmet-Rauma has been set at EUR 236,852,346 (FIM 1,408,260,100) including 140,826,010 shares with a face value of EUR 1.68 (FIM 10). The exact amount of the share capital will depend on how even the conversion ratio turns out to be when shareholders trade in their Rauma Corporation shares for the new Valmet-Rauma shares, and how many convertible bond options are exercised and subscribed for, prior to the finalization of the merger.

Conversion ratios and merger compensation

At the time of merger Rauma's shareholders' holding in the new company will be 42.5 per cent and Valmet's shareholders' 57.5 per cent. As merger compensation for the invalidation of the shares of the merging companies Valmet-Rauma shares will be issued to the shareholders as follows:

- Rauma Corporation shareholders will be given 1.08917 Valmet- Rauma shares for each Rauma share.
- Valmet Corporation shareholders will be given one Valmet-Rauma share for each Valmet share.

Bonds with warrants and options

The procedure with respect to the bonds with warrants and options issued by Rauma or Valmet will entitle the holders thereof to subscribe for shares of Valmet-Rauma before the merger. Valmet-Rauma will assume the principal amounts of outstanding bonds with warrants and any accrued or accruing interest thereto. After the merger, such warrants and options will entitle the holders thereof to subscribe for shares of Valmet-Rauma during the normal exercise periods of the warrants and options and in accordance with the exchange ratio used in the merger. After the merger, such warrants and options entitle the holders thereof to subscribe for a maximum of five million shares of Valmet-Rauma. (Options have been covered in more detail in the Rauma and Valmet annual reports for 1998).

Share trading

The listing applications for Valmet-Rauma shares on the main list of the Helsinki Exchanges (HEX) and the New York Stock Exchange (NYSE) will be executed so that the shares of the company will be traded on the first day after the merger, or starting from July 1st, 1999, in accordance with the schedule.

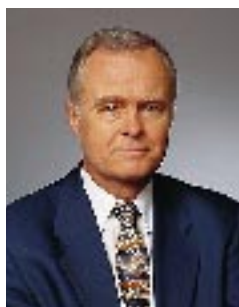
BOARD OF DIRECTORS



Chairman of the Board
Pertti Voutilainen
President
Merita Bank Plc.



Vice Chairman of the Board
Mikko Kivimäki
President and CEO
Rautaruukki Group



Felix Björklund
Partner
Nordic Capital



Jaakko Rauramo
President
Sanoma Corporation



Matti Sundberg
President and CEO
Valmet Corporation

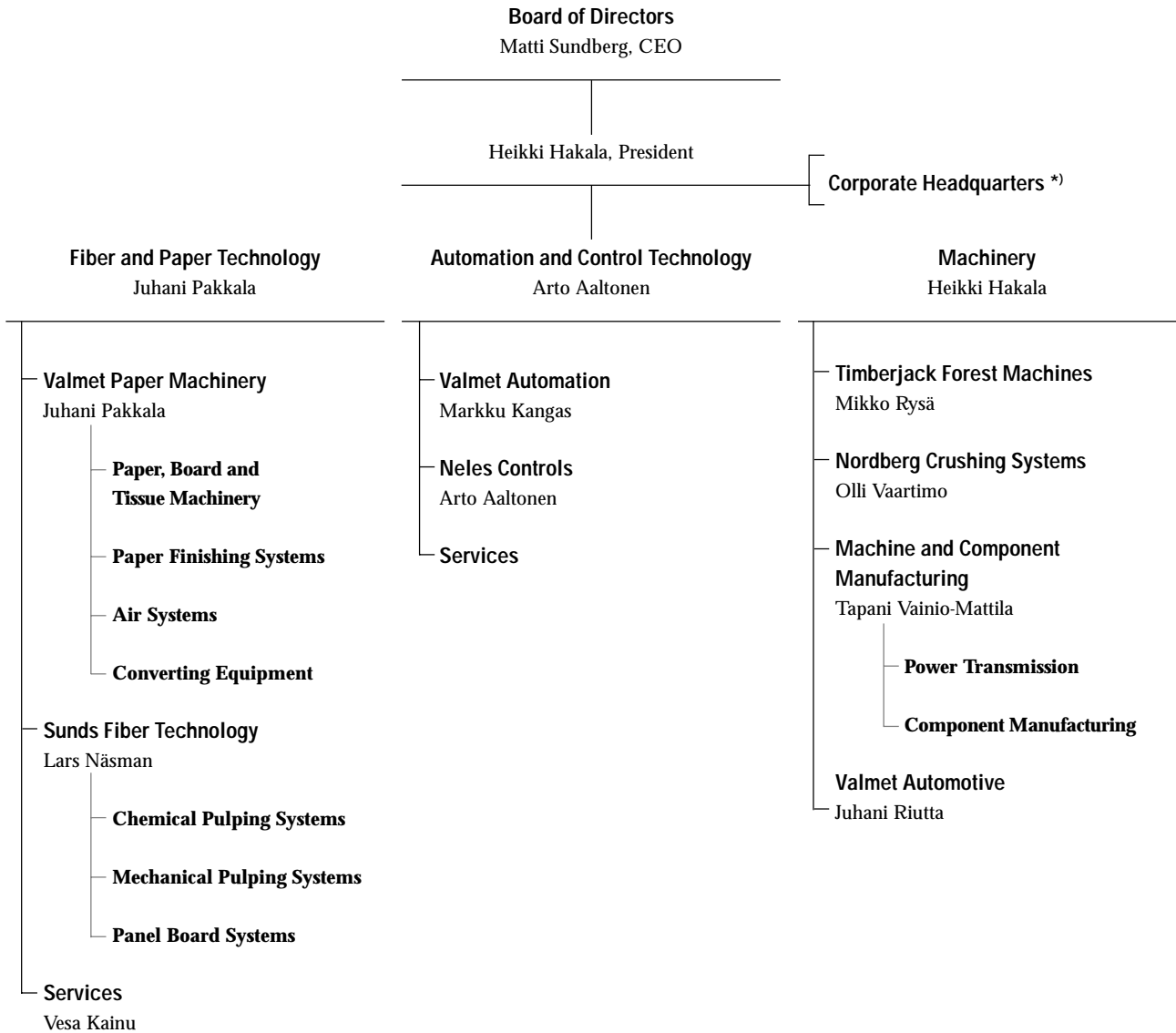


Markku Tapio
Deputy Director General
Ministry of Trade and Industry



Pertti Turtiainen
Labour representative
Valmet Corporation
Messukylä Production unit and
Tampere Roll Works

VALMET-RAUMA ORGANIZATION



***) Corporate Headquarters**

- Finance, Administration and Personnel: Sakari Tamminen
- Treasury, Investor Relations and Communications: Pekka Hölttä
- Corporate Level Marketing: Jyrki Mustaniemi
- Corporate Level Technology and Strategy: Markku Karlsson
- Legal Matters: Harri Luoto

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