Registered no: 2055148

Valmet General Limited

(formerly General Vacuum Equipment Limited)

Annual report

for the year ended 31 December 1999

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for the year ended 31 December 1999

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Directors and advisers

Directors
MJ Gavin (resigned 3 February 2000)
FA Moody (resigned 3 February 2000)
CR Rogers (resigned 3 February 2000)
PG Slater (resigned 30 June 1999)
JL Southall (resigned 3 February 2000)
M Helander (appointed 3 February 2000)
S Carey (appointed 3 February 2000)
A Johnson (appointed 3 February 2000)

Secretary and registered office
FA Moody (resigned 3 February 2000)
S Aitokallio (appointed 3 February 2000)
8 Wolseley Road
Kempston
Bedford
MK42 7XT

Auditors
PricewaterhouseCoopers
Abacus House
Castle Park
Cambridge
CB3 0AN

Solicitors
Ashurst Morris Crisp
Broadwalk House
5 Appold Street
London
EC2A 2HA

Bankers
Barclays Bank plc
32 Clarendon Road
Watford
Herts
WD1 1BZ

Directors' report
for the year ended 31 December 1999

The directors present their annual report and the audited financial statements of the company for the year ended 31 December 1999.

Principal activities

The company is principally engaged in the manufacture of vacuum metallisers and furnaces.

Review of the business

1999 has been extremely challenging and business volume has been markedly reduced due to the problems with Far East markets and over capacity in the European film markets. The underlying markets for Valmet General are showing strong growth in high added value sectors and this gives confidence for a return to profitability in 2000.

Post balance sheet events

On 1 January 2000 the business of a fellow subsidiary, Atlas Hurley Moate Limited, was transferred into the company. In June 2000 a decision was taken to close the company's Winder business production unit in Heywood, Lancashire.

Dividends

The directors do not recommend the payment of a dividend (1998: Nil).

Change of name

On 1 December 1999 the company changed its name to Valmet General Limited.

Directors

The directors who held office during the year are shown on page 3.

The directors who held office during the financial year had no interest in the shares of any group companies.

Research and development

The company conducts research and development on a continuing basis to improve the range of products. Such expenditure is charged against profits in the year in which it is incurred.

Year 2000

The company reviewed its computer systems for the impact of the Year 2000 date change. An impact analysis was prepared to identify major risks, and action plans implemented to address these in advance of critical dates. The Board is pleased to be able to report that they are not aware of any significant issues arising out of Year 2000 problems and now believe there are no further liabilities in connection with Year 2000 compliance.

Directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

The directors confirm that suitable accounting policies have been used and applied consistently and that reasonable and prudent judgements and estimates have been made in preparing the financial statements for the year ended 31 December 1999 and that applicable accounting standards have been followed.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditors

The auditors, PricewaterhouseCoopers, have indicated their willingness to continue in office, and a resolution concerning their reappointment will be proposed at the Annual General Meeting.

By order of the board

S Aitokallio
Company Secretary

Auditors' report to the members of General Vacuum Equipment Limited

We have audited the financial statements on pages 7 to 17.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the annual report. As described on page 5, this includes responsibility for preparing the financial statements, in accordance with applicable United Kingdom accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the United Kingdom Companies Act. We also report to you, if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions is not disclosed.

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs at 31 December 1999 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers

PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
Cambridge, 25 July 2000

Profit and loss account for the year ended 31 December 1999

	Note	1999 £'000	1998 £'000
Turnover – continuing operations	2	**8,593**	9,160
Changes in stocks of finished goods and work in progress		**1,529**	(521)
		10,122	8,639
Raw materials and consumables		**(6,188)**	(4,638)
Other external charges		**(478)**	(1,597)
Staff costs	3	**(2,008)**	(2,185)
Depreciation		**(302)**	(600)
Other operating charges		**(1,508)**	(1,284)
		(10,484)	(10,304)
Operating loss – continuing operations		**(362)**	(1,665)
Interest receivable and similar income		**19**	-
Interest payable and similar charges	4	**(62)**	(107)
		(43)	(107)
Loss on ordinary activities before taxation		**(405)**	(1,772)
Tax on loss on ordinary activities	5	**82**	418
Loss for the financial year	14	**(323)**	(1,354)

The company has no recognised gains or losses other than the loss above and therefore no separate statement of total recognised gains and losses has been presented.

There is no difference between the loss on ordinary activities before taxation and the loss for the year stated above and their historical cost equivalents.

Balance sheet
at 31 December 1999

	Notes	1999 £'000	1998 £'000
Fixed Assets			
Intangible assets	6	**199**	199
Tangible assets	7	**3,366**	3,593
		3,565	3,792
Current Assets			
Stocks	8	**2,838**	1,243
Debtors	9	**4,305**	5,040
Cash at bank and in hand		**1,715**	49
		8,858	6,332
Creditors: amounts falling due within one year	10	**(13,177)**	(11,002)
Net current liabilities		**(4,319)**	(4,670)
Total assets less current liabilities		**(754)**	(878)
Provisions for liabilities and charges	11	**(637)**	(190)
Net liabilities		**(1,391)**	(1,068)
Capital and reserves			
Called up share capital	12	**-**	-
Profit and loss account	13	**(1,391)**	(1,068)
Shareholders' deficit	14	**(1,391)**	(1,068)

The financial statements on pages 7 to 17 were approved by the board of directors on 13 July 2000 and were signed on its behalf by:

Director

Notes to the financial statements for the year ended 31 December 1999

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements.

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting convention.

The company has taken advantage of the exemption under Financial Reporting Standard 1 (revised 1996) not to prepare a cashflow statement, as it is a wholly owned subsidiary. The consolidated financial statements of the parent company include a consolidated cashflow statement dealing with the cashflows of the group.

As the company is a wholly owned subsidiary of the Metso Corporation, the company has taken the advantage of the exemption contained in FRS 8 and has therefore not disclosed transactions or balances with entities which form part of the group (or investees of the group qualifying as related parties). The consolidated financial statements of the Metso Corporation, within which this company is included, can be obtained from the address given in note 18.

Going concern

The parent undertaking has indicated that it will provide financial support to the company to enable it to meet all financial liabilities as and when they fall due. The financial statements have therefore been prepared on a going concern basis.

Intangible fixed assets and amortisation

Intangible fixed assets purchased separately from a business are capitalised at their cost.

Intangible assets acquired as part of an acquisition are capitalised at their fair value where this can be measured reliably.

Concessions, patents, licences and trademarks purchased by the company are amortised to nil over their useful economic lives, generally their respective unexpired periods, of two years.

Fixed assets and depreciation

Depreciation is provided to write off the cost less the estimated residual value of tangible fixed assets by equal instalments over their estimated useful economic lives as follows:

Freehold buildings	25 years
Plant and machinery	5 years
Fixtures and fittings	5 years
Motor vehicles	4 years
Computer equipment	3 years

No depreciation is provided on freehold land.

Foreign exchange

Transactions denominated in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction or, if hedged forward, at the rate of exchange under the related forward currency contract. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account.

Leases

Assets acquired under finance leases are capitalised and the outstanding future lease obligations are shown in creditors. Operating lease rentals are charged to the profit and loss account on a straight line basis over the period of the lease.

Research and development expenditure

Expenditure on research and development is written off against profits in the year in which it is incurred.

Stocks and work in progress

Stocks are stated at the lower of cost and net realisable value. In determining the cost of raw materials, consumables and goods purchased for resale, the weighted average purchase price is used. For work in progress and finished goods cost is taken as production cost, which includes an appropriate proportion of attributable overheads.

Long term contracts

The amount of profit attributable to the stage of completion of a long term contract is recognised when the outcome of the contract can be foreseen with reasonable certainty. Turnover for such contracts is stated at the cost appropriate to their stage of completion plus attributable profits, less amounts recognised in previous years. Provision is made for any losses as soon as they are foreseen.

Contract work in progress is stated at costs incurred, less those transferred to the profit and loss account, after deducting foreseeable losses and payments on account not matched with turnover.

Amounts recoverable on contracts are included in debtors and represent turnover recognised in excess of payments on account.

Deferred taxation

Provision is made for deferred taxation only to the extent that an actual liability will crystallise.

Turnover

Turnover represents:

i. the amounts (excluding value added tax) derived from the provision of goods and services to customers, and

ii. the value of work done on contracts once their outcome can be assessed with reasonable certainty.

Pension schemes

The company operates a pension scheme for the benefit of employees under which contributions are administered by trustees in a fund independent of the company's assets. The scheme is a defined contribution scheme and the cost of contributions is charged against the profit and loss account for the period in which it is incurred.

2 Turnover

The turnover is attributable to the principal activity of the company as disclosed in the directors' report.

An analysis of turnover by geographical market is given below:

	1999 £'000	1998 £'000
Destination:		
United Kingdom	**874**	1,637
The Americas	**3,689**	1,652
Far East and Australia	**1,680**	3,460
Europe	**2,048**	804
Other export markets	**89**	132
Group undertakings	**213**	1,475
	8,593	9,160

3 Loss on ordinary activities before taxation

The loss on ordinary activities before taxation is stated after charging:

	1999 £'000	1998 £'000
Auditors' remuneration for audit services	7	6
Hire of plant and machinery	1	1
Depreciation charge for the year		
Tangible owned fixed assets	297	278
Tangible fixed assets held under finance leases	5	6
Amortisation of intangibles	-	313

3 Directors and Employees

Staff costs during the year were as follows:

	1999 £'000	1998 £'000
Wages and salaries	1,775	1,928
Social security costs	159	175
Other pension costs	74	82
	2,008	2,185

The average number of employees of the company during the year was 70 (1998: 74). No remuneration was paid in respect of directors (1998: £nil).

4 Interest payable and similar charges

	1999 £'000	1998 £'000
Interest on bank loans, overdrafts and other loans repayable within five years otherwise than by instalments	62	107
	62	107

5 Tax on loss on ordinary activities

The tax credit is based on the loss for the year and represents:

	1999 £'000	1998 £'000
Corporation tax (credit) at 30.25% (1998: 31%)	-	(358)
Deferred tax (note 11)	(82)	(31)
Adjustments in respect of prior year corporation tax	-	(29)
	(82)	(418)

6 Intangible fixed assets

	Intellectual Property rights £'000
Cost	
At 1 January 1999	512
At 31 December 1999	512
Depreciation	
At 1 January 1999	313
Amortisation	-
At 31 December 1999	313
Net book value at 31 December 1999	**199**
Net book value at 31 December 1998	199

The amortisation of the intellectual property rights included above will commence in 2000 when the first machines related to this intellectual property are sold.

7 Tangible fixed assets

	Fixtures and fittings £'000	Plant and machinery £'000	Motor vehicles £'000	Computer equipment £'000	Freehold properties £'000	Total £'000
Cost						
At 1 January 1999	425	665	93	421	3,333	4,937
Additions	-	-	-	48	27	75
At 31 December 1999	425	665	93	469	3,360	5,012
Depreciation						
At 1 January 1999	348	317	62	384	233	1,344
Charge for the year	43	122	10	27	100	302
At 31 December 1999	391	439	72	411	333	1,646
Net book value						
At 31 December 1999	**34**	**226**	**21**	**58**	**3,027**	**3,366**
At 31 December 1998	77	348	31	37	3,100	3,593

The net book value of motor vehicles held under hire purchase contracts was £10,000 (1998: £6,000) and the depreciation charge for the year on those assets was £5,000 (1998 : £3,000).

8 Stocks

	1999 £'000	1998 £'000
Raw materials and consumables	**195**	128
Work in progress	**1,856**	377
Finished goods	**787**	738
	2,838	1,243

In the opinion of the directors there were no significant differences between the replacement cost of and the values disclosed for stocks and work in progress.

9 Debtors

	1999 £'000	1998 £'000
Trade debtors	**756**	2,397
Amounts receivable from group undertakings	**553**	1
Amounts recoverable on contracts	**2,883**	2,567
Other debtors	**113**	75
	4,305	5,040

10 Creditors: amounts falling due within one year

	1999 £'000	1998 £'000
Bank overdraft	**-**	1,078
Payments received on account	**1,473**	997
Trade creditors	**1,157**	223
Amounts owed to group undertakings	**10,150**	8,055
Current taxation	**44**	-
Other creditors	**347**	639
Finance leases	**6**	10
	13,177	11,002

The bank overdraft, which is repayable on demand, is secured by cross guarantees given by the parent and fellow subsidiary undertakings.

11 Provisions for liabilities and charges

	Deferred taxation £'000	Warranty provision £'000	Total £'000
At 1 January 1999	82	108	190
Provided during the year	(82)	529	447
At 31 December 1999	**-**	**637**	**637**

Deferred taxation

	Amount provided 1999 £'000	1998 £'000	Amount unprovided 1999 £'000	1998 £'000
Accelerated capital allowances	-	82	-	-

12 Share capital

	1999 £	1998 £
Authorised, allotted, called up and fully paid		
100 ordinary shares of £1 each	**100**	100

13 Profit and loss account

	1999 £'000
At 1 January 1999	(1,068)
Loss for the financial year	(323)
At 31 December 1999	**(1,391)**

14 Reconciliation of movements in shareholders' funds

	1999 £'000	1998 £'000
Loss for the financial year	**(323)**	(1,354)
Shareholders' (deficit)/funds at 1 January	**(1,068)**	286
Shareholders' deficit at 31 December	**(1,391)**	(1,068)

14 Capital commitments

The company had no capital commitments at 31 December 1999 or 31 December 1998.

15 Contingent liabilities

The following contingent liabilities existed at 31 December:

	1999	1998
	£000	£000
Indemnities	-	680

16 Pensions

The group operates defined contribution schemes for the benefit of employees and directors. The pension cost charge for the year represents contributions payable to these schemes and amounted to £74,000 (1998: £82,000).

17 *Ultimate parent undertaking*

The directors consider that the ultimate parent undertaking of this company is the Valmet Corporation, incorporated in Finland.

Metso Corporation *is the company's ultimate controlling* related party by virtue *of its* 100% control of the share capital of Valmet Atlas PLC, the 100% parent company for the Atlas group, and the immediate 100% parent undertaking of Valmet General Limited.

The only group of undertakings for which group accounts have been drawn up is that headed by the Metso Corporation.

Copies of Metso Corporation financial statements can be obtained from its registered office at FabianinKatu 9A, PO Box 1220, FIN-00101, Helsinki, Finland.

18 Post balance sheet events

On 1 January 2000 the business of a fellow subsidiary, Atlas Hurley Moate Limited, was transferred into the company. In June 2000 a decision was taken to close the company's Winder business production unit in Heywood, Lancashire.