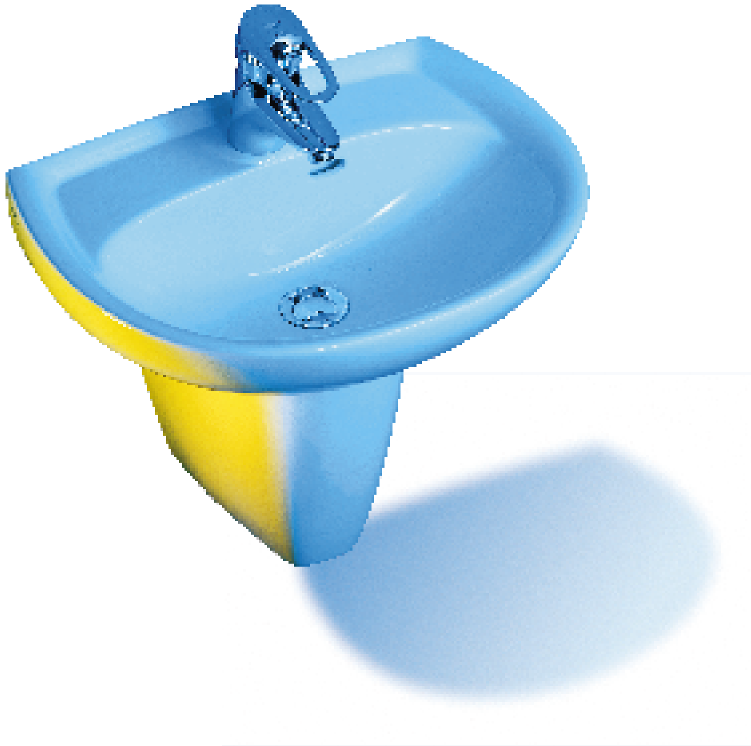


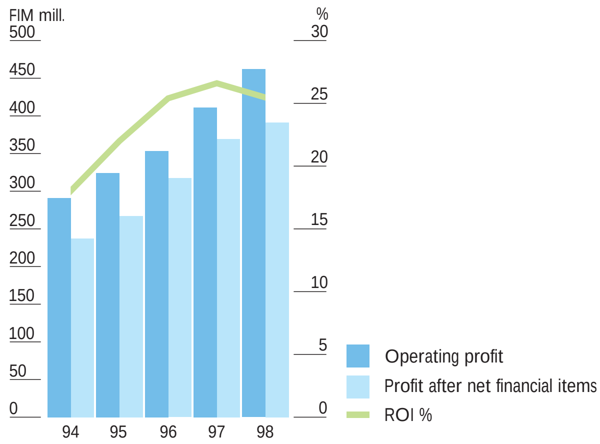
Annual Report 1998

Sanitec

SANITEC LTD OY - A METRA COMPANY

A washbasin
with half-pedestal
from the
Renova Nr. 1 Plus
series by Keramag.

Result 1998



Sanitec in Brief

Through its business units Sanitec designs, manufactures and markets bathroom products. The Sanitec Group has three core businesses: bathroom ceramics, bath and shower related products and Evac vacuum toilets. In 1998 the Group's net sales reached FIM 3.4 billion and operating profit FIM 461 million.

Sanitec is one of the leading industrial players in the European bathroom business and in bathroom ceramics worldwide.

Sanitec has significantly increased its production capacity in bathtubs and shower systems in recent years. Due to the acquisition of Domino S.p.A. in Italy in 1998 Sanitec has now reached a strong number three position in Europe in the production of acrylic bathtubs, whirlpools and shower systems.

Sanitec is a multinational group with 27 production facilities and 31 marketing offices mainly in Europe. Sanitec has reached its present leading position by both acquisitions and organic growth. Originally starting from Finland, 95% of sales are now derived outside the country.

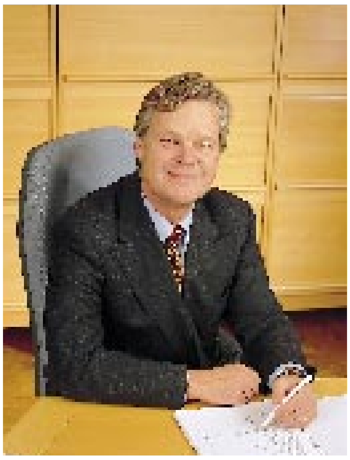
Most of the Sanitec companies are market leaders in their respective home-markets, with well-established and well-known brands, and long traditions. The Group has following brands: in France Allia, in Germany Keramag, in Italy Albatros, Revita and Pozzi-Ginori, in Scandinavia Ido, Ifö, Porsgrund and Scandispa, in Poland Kolo, in the UK, Middle East and Africa Lecico, and in South East Asia Johnson Suisse.

Evac closed vacuum technology systems for mobile and stationary use are a global business. Evac is the market leader in marine industries and trains and number two in aviation.

The joint ventures that Sanitec formed in 1997 with Lecico in Egypt and Lebanon and Johnson Suisse in Malaysia and Singapore have given Sanitec access to new markets, and the opportunity to closely follow the development of the bathroom markets in these regions.

Five Years in Figures

MFIM	**1998**	**1997**	**1996**	**1995**	**1994**
Net sales	3,394	2,951	2,687	2,496	2,564
of which outside Finland	95 %	95 %	95 %	95 %	96 %
Operating profit	461	409	352	325	291
Profit before extraordinary items	391	369	317	267	237
ROI %	25	27	25	22	18
Solvency, %	44	40	39	33	38
Personnel, end of period	5,557	4,824	4,416	4,456	4,425
of which outside Finland	5,175	4,447	4,059	4,109	4,130
MEUR	**1998**	**1997**	**1996**	**1995**	**1994**
Net sales	571	496	452	420	431
Operating profit	78	69	59	55	49
Profit before extraordinary items	66	62	53	45	40



Henrik Eklund, President

President's Review

Sanitec continued its successful growth in sales and profits during 1998. Net sales reached FIM 3.4 billion, an increase of 15 % on the year before, and the operating profit was FIM 461 (409) million, which represented 14 % of net sales. Sales growth was especially strong in Italy due to the acquisition of Domino S.p.A., and in Poland as a result of increased production capacity. Since bathroom refurbishment represents some 70 % of sales in our main markets, fluctuation in new building activities had a minor influence on our performance.

Strategy • Sanitec's present business units still have plenty of potential for further growth through intensive product development and new marketing concepts. These will form the base for our future activities and, combined with high cashflow, will put us in a good position to continue the profitable growth we have enjoyed in the past few years.

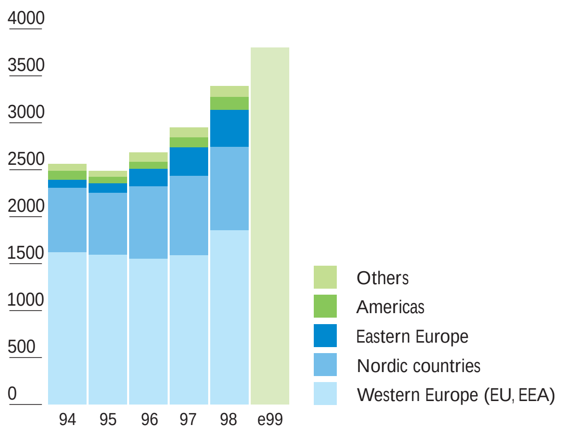
The European bathroom business continues to experience strong restructuring. Sanitec has both the interest and the capabilities to participate in this process and, through acquisitions, to become the leading bathroom products manufacturer in Europe. In line with this strategy, Sanitec aims in new markets to buy companies with a strong market position. In its existing markets, Sanitec wishes to acquire companies which would supplement its current product range and further strengthen its market position.

Industrial policy • Ever increasing competition, especially in lower-end products, will lead to a shift of production capacity to countries offering more competitive production costs. A good example of this trend is the Wloclawek factory in Poland, which reached full capacity during 1998. More cost-competitive capacity will come on stream at the beginning of 1999 when the Borg-el-Arab factory in Egypt commences production.

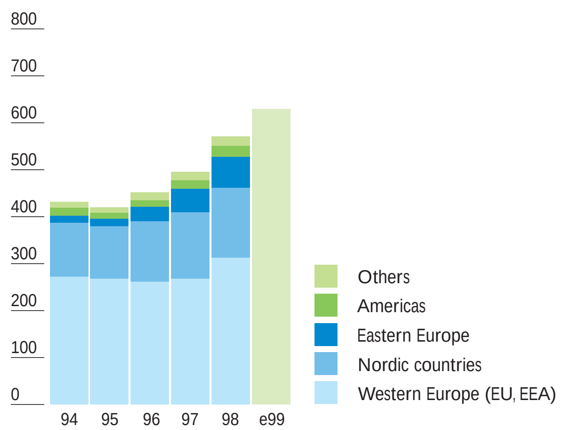
On the other hand it is important for us to ensure that our factories in countries with higher production costs also stay competitive. Here we have both the required technological knowhow and the financial resources to carry out the necessary investments. An excellent example is our Swedish company Ifö, which recently successfully introduced an automatic casting line for manufacture of wash basins.

Evac • The Evac group continued to grow strongly in all business areas, posting a 19 % increase in net sales on the year before. In 1998 Evac penetrated a new market sector with the development of condense

**Net sales by market area
FIM million**



**Net sales by market area
EUR million**



water collection systems delivered to supermarket chains in the United States and Europe.

To strengthen our position in the growing market for closed vacuum systems for trains, Evac acquired Sanivac GmbH in Germany. The rapid growth in vacuum technology applications has strengthened our belief in the future of Evac, and the opportunities to find synergies between Evac and the rest of Sanitec.

Acquisitions • The acquisition of Domino S.p.A. in Italy during 1998 considerably strengthens our position in the shower, whirlpool and bathtub business.

Our Evac subsidiary's acquisition of 100 % of the shares of Sanivac GmbH in Germany will strongly improve our position in the rapidly growing railway market.

In December 1998 Sanitec increased its shareholding in the Swiss holding company to 60 %, which resulted in the consolidation of the Johnson Suisse Malaysia operations as of December 1998.

Personnel • Sanitec's numerous acquisitions and the changing market environment place growing demands on our personnel. We must integrate the new companies into Sanitec's reporting systems and invest time and manpower in developing their business processes. Through internal training we aim to improve our personnel's ability to face new challenges.

In this context I wish to express my warm and personal thanks to every Sanitec employee. Through your multiple skills and commitment, you have all played a key role in Sanitec's success.

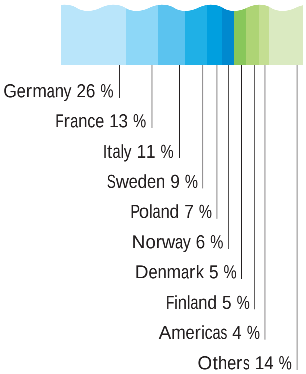
Prospects for 1999 • Despite the volatility in the world market Sanitec is expected to continue its profitable growth supported by its European operating model. Sanitec's main markets are forecast to remain at current levels of activity, considering the effect of renovation. The biggest question mark is the Russian market, which weakened considerably in the autumn 1998. Sanitec's net sales are expected to increase, as in previous years, and result to remain at a good level.

Henrik Eklund

General Business Description

Market overview • Globally, the market for bathroom products comprises companies with very strong positions in local markets and with long histories. The ceramics business has fewer large companies owing to the high investment costs of production facilities. Similarly, the shower and bathtub business is characterized by a large number of small companies and private entrepreneurs. The bathroom business in Europe has a total annual sales value of FIM 55.2 billion; that is, EUR 9.3 billion (1997: EUR 9.1 billion). Sanitec operates in three segments: ceramic sanitaryware, bathtubs/showers, and furniture. These segments represent 61 % of the total bathroom business in Europe.

Share of Sanitec net sales by country 1998



Strategy • In the future, Sanitec will focus its efforts on its three core business areas: bathroom ceramics, bath and shower related products, and closed vacuum sewage technology for mobile and stationary use. In its bathroom ceramics business Sanitec will play an active role in the current restructuring of the European bathroom product industry by considering acquisitions of major ceramics manufacturers to further enhance its competitive position and operating efficiency.

Outside Europe Sanitec will carefully evaluate opportunities to participate in attractive emerging markets with long-term potential. Furthermore, Sanitec will work towards increasing the accessibility of its products and improving the supply chain. This will mean emphasizing group-wide coordination of core functions and processes in product development, production and logistics, supported by a shared information system to promote an integrated supply chain.

Sanitec will also emphasize continuous restructuring of its production structure. This will focus on optimizing capacity, cost-efficiency and use of technology to secure cost leadership with respect to market demand.

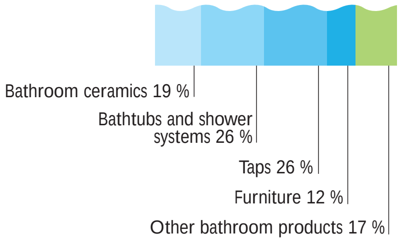
In its bath and shower business, Sanitec will improve its internal organization and coordination especially in the area of product exchange, sourcing and production. The company plans to grow further in Europe in order to achieve economies of scale, develop its current competence base and reach a critical size on a European level. The acquisition of Domino S.p.A. in Italy in September 1998 has given Sanitec a strong number three position in Europe in the production of acrylic bathtubs, whirlpools and shower systems.

In its vacuum system business, which already operates globally and has a world-leading position, Sanitec will emphasize penetration of further key geographical markets through acquisitions and development of its technological position. The acquisition of Sanivac GmbH in Germany will considerably improve Sanitec's position in the growing European train market.

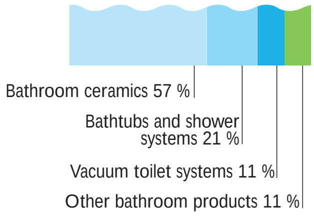
In addition to these acquisitions, Sanitec also strengthened its position in the European public and commercial bathroom product market with the acquisition of 49 % of the outstanding shares in Varicor S.A. in France. Varicor mainly produces bathroom products made of solid surface mineral material which complement Sanitec's ceramic products in this market segment.

Competitive situation • Sanitec has maintained its focus on bathroom products. This strategy has been one of the key factors behind Sanitec's success. Another driver has been Sanitec's ability to combine the local nature of the bathroom business with its pan-European production network. Sanitec's subsidiary Evac

Major product groups of European bathroom business 1998



Sanitec share of sales by major product groups



is world leader in closed vacuum technology systems for trains and marine vessels, and number two in aircraft applications.

Financial risks and risk management • The objectives, responsibilities and limits in financing and risk management of the Sanitec Group are defined in the risk policy set by Metra's Board of Directors. The policy is to minimize the impact of foreign exchange, interest rate, credit and liquidity risks on the Group's cash reserves, profits and equity. The financing department of Metra Corporation coordinated the financing operations in 1998. The operations were mainly carried out by Sanitec subsidiaries via Metra's finance companies in Finland and Sweden. The financial derivatives used for hedging risks are forward deals, options and interest rate swaps.

Operational risks • The cyclical nature of Sanitec's business closely follows trends in the construction industry. However, as 70 % of Sanitec's net sales is derived from refurbishment, fluctuations in new building activities are a minor risk factor. Moreover, Sanitec companies sell their products in several markets and therefore weaker demand in some markets is offset by brisk sales in other markets. This also helps optimize capacity distribution at our factories.

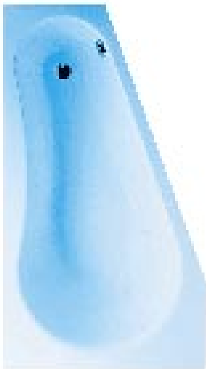
Euro • Sanitec is actively promoting the adoption of the euro, which the group has used in its budgeting and internal reporting since the beginning of 1999. EMU countries today account for 58 % of Sanitec's net sales and 61 % of its costs. The adoption of the euro reduces Sanitec's currency risks and financial costs.

Year 2000 • At the end of 1999 Sanitec's products and production processes are not expected to run into any essential Y2K problems. Certain details of the production processes are currently being examined, however, and any necessary action will be performed. This work is focusing particularly on information systems. The renewal, and upgrading and testing of the information systems will continue and this work will be completed according to schedule, which means that sufficient readiness will be reached well in advantage of the change of millennium.

	Net sales, 1998			Personnel	
	MFIM	MEUR	Change[1]	31 Dec. 1998	Change
Keramag	943	158	3 %	949	60
Ifö	589	99	4 %	825	9
Allia	587	99	4 %	927	-6
Ido	446	75	8 %	457	3
Evac	360	61	19 %	249	34
Sanitec Kolo	291	49	46 %	732	23
Sanitari Pozzi	271	46	1 %	452	-50
Domino	191	32		221	221
Johnson Sanitec [2]	(58)	(10)		421	421
Other units	100	17		311	14
Group management				13	4
Intragroup sales	-384	-65			
Sanitec Group, total	3,394	571	15 %	5 557	733
Associated company Lecico	415	70	-3 %	3 064	34

[1] The subsidiaries figures have been compared in local currencies.
[2] Consolidated at the end of 1998. The figures are not included in the total net sales.

Keramag



Primera bathtubs by Keramag are available in several different shapes.

Market conditions and Keramag • Building output in Germany decreased by 0.5 % in 1998 compared to the previous year. The decline was stronger in the former East German states, whereas a slight recovery was evident in the western parts of the country. In line with this development, the sanitary ceramics market contracted as well. The price for low-end products continued to fall.

The German market leader Keramag succeeded in increasing its market share especially in the middle and upper-range segment. The company also managed to raise its net sales through strong growth in exports via the marketing companies and the introduction of innovative new products. Revenues from bath and shower systems continued to grow in line with the plan to build a second core business in addition to bathroom ceramics.

Trends • The supply chain in Germany, and in western Europe as a whole, is experiencing a combination of industrial concentration and international expansion. The German bathroom products industry is still characterised by a high degree of specialization with two main trends visible in the market. Some companies are further expanding their product offerings, while others are diversifying their product ranges to serve different target groups and different consumer needs.

Prospects • Total GDP is forecast to rise by 2 % in 1999. The current year should also see a return to minor growth in the building industry as well as the bathroom market. Growth is expected to be higher in the western part of Germany due largely to renovation, new construction of private houses and an apparent improvement in the status of bathroom among consumers. Despite continued difficult business and competitive conditions Keramag is expected to grow further in 1999 through product innovations and marketing support based on continuous market research of customer and consumer needs.

Product launches in 1998 • Keramag successfully introduced two new bathroom ceramic series on the market: Joly for smaller guest toilets in cooperation with the leading producer of bathroom accessories; and Renova Nr. 1 Plus, which includes 4.5-litre water saving toilets. Keramag also extended its bath and shower related product lines with the introduction of a full range of Primera bathtubs and shower trays and Revita shower systems. Other introductions included the Sinfo washbasin concept with a leading bathroom furniture manufacturer, and electronic taps and flushing mechanisms for professional use.

Allia

Market conditions and Allia • In France tax incentives helped to accelerate new housing construction, which grew by 5 % after two stagnant years. The renovation sector improved significantly as well, which slightly increased the volume of the sanitary ceramics market. Allia raised both its market share and ceramics sales, exceeding in volume the average market growth. The sales of its acrylic bathtubs also increased considerably. The collapse of the Russian market created overcapacity in Europe, which has intensified competition in low-range products. Allia is number one on the French sanitaryware market.

Trends • France, too, has witnessed an increasing concentration of wholesalers and other merchants in the traditional sector, while alternative distribution channels have started to concentrate and increase in market share. All distribution channels operated actively in 1998. On the product side there is a trend towards vanity tops, vanity basins and wall hung toilets.

Prospects • Consumer expenditure is estimated to grow in France in 1999, although at a slower pace than originally expected. Buoyed by this trend Allia expects to increase its sales and volumes in 1999.

Product launches • The upper-range ceramics series Eden and middle-range series Desirede launched in 1997 have proved successful and significantly contributed to turnover growth in ceramic series. The new large ceramic shower trays have generated a huge increase in sales of high-range shower trays.

Keramag's Sinfo washbasin was designed in co-operation with Sanipa.

Elegant and luxurious Eden bathroom ceramics series by Allia.

A washbasin from the Eden series.

Italy - Sanitari Pozzi and Domino

The technically sophisticated and elegant Akira showerbox by Domino.

Market conditions • In Italy growth was largely based on lively sales by the Italian whirlpool, bathtub and shower system company Domino S.p.A.The Italian whirlpool market is the largest and fastest growing in Europe. In 1998 the market increased 5 %, driven by greater consumer demand for higher-range whirlpool products and shower boxes and the replacement of traditional products with acrylic products. Domino's sales clearly exceeded average market growth and its exports via Sanitec Group companies are also rising rapidly.

The Italian sanitary ceramics market was rather stagnant. Growth was only 1%, and based mainly on state support granted for home renovation.There was also a moderate increase in sales of upper-range products although domestic demand was focused on the medium range. Sanitari Pozzi slightly increased its market share in volume and value.

Sanitari Pozzi and Domino are among the top three companies in their respective business segments in Italy.

Trends • Italy, in common with other western European countries, has seen a continuous proliferation and empowerment of the wholesale sector. The distribution channel is developing in two ways: some wholesalers are expanding territorially while others are specializing in niche markets or product ranges.The ever-harder competition between the main actors in the ceramics market will require a more customized offering where training, sales support and aftersales service will play a strategic role.

In the bath and shower product market the shower box segment is expanding. A special wellness-related sector is emerging with low-volume, upper-range products.

Prospects • The Financial Act offering tax reductions for home renovation will remain in force in 1999. Italy forecasts a slight recovery in the construction sector, in view of which Sanitari Pozzi estimates moderate sales growth for 1999. Domino will focus on differentiating and further establishing its two brands Albatros and Revita, and on increasing its sales volume compared to 1998.

Product launches • Sanitari Pozzi extended its ceramics range and presented two new series in 1998: Trylogya for the upper range as a Pozzi-Ginori brand and Joly for the Keramag product range. Both series have been well received. Domino revised its product assortment with several new introductions including new shower columns and a turbopool bathtub at the Bologna Fair. In addition it started an Albatros Bioproject program targeted at spas and hotels.

Sanitec Kolo

Market conditions and Sanitec Kolo • GDP in Poland continued to grow strongly during 1998, but construction output slowed down slightly. The level of refurbishment continued to be high.The sanitary ceramics market grew 5 % in 1998, which corresponded to general market growth. The market for shower products and acrylic bathtubs rose14 % on the year before.

Sanitec Kolo had another successful year with strong sales growth.The company is the market leader in Poland in ceramics and acrylic bathtubs, and has positioned itself in all price segments of the bathroom product market.

Trends • Alternative distribution channels are growing dynamically. Big international wholesales are entering the market while domestic ones are forming bigger groups. The competition created by newcomers in the Polish market is getting harder, and market conditions as a whole are becoming more difficult.

Prospects • New construction is expected to increase in the long term as there is huge demand for housing. Refurbishment should also continue at a high level owing to the rather poor condition of Polish houses. A slowdown in the Polish economy may be visible during the first half of the year.

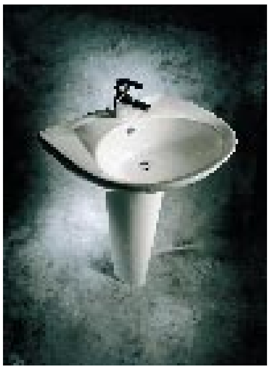
Product launches • The Atol shower product range has been very successful in Poland. Sanitec Kolo extended the offer by developing a foldable shower wall that has been well accepted on the market. Sanitec Kolo also introduced new ceramic products under its Kolo brand, as well as some new products from Sanitec sister companies. At the end of the 1998 Sanitec Kolo launched a new standard ceramics series called NovaTop which is intended to be its future locomotive on the market.

Fantasia bathroom by the Italian Sanitari Pozzi.

Domino's Albatros Vasca Forum whirlpool was launched during the Bologna Fair.

Sanitec Kolo in Poland launched its NovaTop product line at the end of 1998.

Ido



The Mosaik washbasin by Ido. The Mosaik series was recently introduced in Finland.

Market conditions and Ido • Growth in Ido's Nordic markets was driven by Finland and Norway. In Finland new housing increased slightly and investments in the HEPAC industry grew by over 10 %. Despite the slow-down of the Norwegian market in the latter half of the year, Ido raised its sales strongly. In the weak Swedish market almost 80 % of the bathroom business comes from refurbishment, where Ido clearly strengthened its position. In Russia and the Baltic countries the pace of growth slowed down following collapse of the Russian economy in August. However Ido's direct customers survived and its monthly sales are growing again. In all these markets Ido reached double-digit growth over last year based on market share growth in ceramics and a significant 50 % increase in the shower cabin market. Ido is the market leader in Finland and Norway.

Trends • Consumers in the Nordic markets are increasingly interested in home decoration. This also includes bathrooms, which are no longer considered simply a hygienic necessity but a place for wellbeing and enjoyment. Material choices based on lifecycle analysis are gaining ground in the construction sector. Materials for a house are selected on the basis of their lifecycle costs. This is increasing sales of high-quality products, which in the long run are a better choice than low-priced products.

Prospects • The Scandinavian markets are expected to grow moderately and exports to Russia and Baltic countries are estimated to pick up. Environmental issues continue to play an important role in the Nordic countries. Based on market expectations and current trends, Ido is expected to further strengthen its position in all its markets.

Product launches • At the very beginning of 1999 Ido introduced a new bathroom ceramics series called Mosaik, which included a wide range of furniture. The idea is to give even the most demanding consumers the opportunity to create an individual and personal bathroom interior for wellbeing, relaxation and enjoyment.

Ifö

Market conditions and Ifö • The Danish bathroom product market continued to grow strongly, up 8 % on the year before. The forecasted recovery in the Swedish market did not materialize. However, despite the stagnating domestic market Ifö succeeded in moderately increasing the value of its sales on the year before. In Denmark the water-saving concept has been the main reason behind the strong volume growth. Ifö's sales grew only modestly in Norway, owing to the financial situation there during the latter half of the year. Growth centred around shower products. Exports to Russia and Baltic countries were hit by the difficult economic situation. Ifö divested its plastic sheets and subcontracting operations to focus on its core businesses. Ifö is market leader in Sweden and Denmark.

Trends • The water saving concept, which Ifö is pioneering, is a strong value driver in the market because of the interest of Scandinavian consumers in reducing environmental load. The total structure of the main markets in Scandinavia is still fairly stable with a clear tendency towards increased activity in DIY concepts.

Industrial investments • Ifö Sanitär AB has invested in two new ceramic lines in Bromölla. Washbasins are produced on an automatic line and vanity top production has been transferred to a new factory. With the volume of vanity tops increasing more than 50 % during the year, these plans were well in line with objectives.

Prospects • Recovery is expected in the Swedish and Russian markets, but in Denmark and Norway the construction industry faces the risk of a slow-down. Ifö intends to increase its sales during the coming years.

Product launches • In 1998 Ifö extended its range of bath and shower related products by introducing innovative and individual solutions such as a new range of free-standing two-colored enamel bathtubs. Other introductions include the Bahamas corner whirlpool and a new shower cabin in the Prisma range. Ifö also developed new shower enclosures and shower walls for the Polish market.

Another bathroom interior by Ifö with Cera ceramic pieces and Parade accessories.

The popular Ido Showerama 64 shower enclosure.

A bathroom interior by Ifö consisting of Ceranova toilet, Cera washbasin and Parade furniture, the new two-coloured bathtub called Caribia, and the Prisma shower cabin.

Johnson Sanitec Group

Market conditions and Johnson Sanitec companies • The economic downturn in Asia has sharply reduced construction growth, and the sanitaryware markets have considerably contracted. This has produced overcapacity on the market, which is causing pressure on pricing. Sales by Johnson Sanitec companies also decreased in all markets, although the company managed to raise its market share in Malaysia. Australia was the only country with solid growth in the housing sector, but this is expected to decline as a result of the Asian crisis.

Johnson Sanitec companies hold a strong position in their markets and solid relationships with the major merchants. Together with their innovative products, this will ensure a good position for future growth. For example, the sales of water saving 3.5-litre full-flush toilets have been increasing over the past 12 months despite the depressed economical conditions.

Prospects • No significant improvement in the market climate is anticipated for 1999, but the lower sales volumes in the domestic market will be partly offset by increased exports. The slowdown has given Johnson Sanitec an opportunity to upgrade production facilities. This year an extensive program to improve productivity and quality will be introduced at the Kuala Lumpur factory.

The Johnson Suisse Moritz washbasin.

Evac Group

Evac has supplied vacuum toilet systems for aircraft such as Boeing, McDonnell Douglas, Canadair, Gulfstream GV and Airbus.

Market conditions and Evac • The Evac Group continued to grow strongly in all business areas, raising sales by 19 % on the year before.

The Evac building business developed positively in the USA and especially in the UK and Italy. In 1998 Evac penetrated a new market sector by developing condense water collection systems for refrigerated display cases delivered to supermarket chains in the United States and Europe. Evac Train became the prime producer of train toilet cabins in the UK and Scandinavian markets. The new assembly line for complete sanitary cabin modules for trains in Bromölla will enable Evac to secure the continued position as the market leader in this segment.

Evac Marine increased its sales and enjoys the leading position in marine applications. It also started supplying other products from Sanitec Group companies to cruise liners. A cruise ship with a Sanitec product package is currently being built in Italy.

New technology • Evac Marine has launched a new system which offers 100 % control of the vessel's entire sewage system. The system was developed in close cooperation with shipyards worldwide and offers a simple overview of the entire shipboard sewage chain. Envirovac developed new applications for vacuum technology in both the building and train markets.

New markets • The new pneumatic toilet was introduced and the first orders were placed by the Chinese Ministry of Railways. These deliveries also meant entry into the Chinese market for Evac Train. In Hong Kong Evac scored a breakthrough with its heavy-duty toilet system for public toilet facilities.

Prospects • The recent acquisition of Sanivac Vakuumtechnik GmbH in Germany further strengthens Evac's position in the growing market for closed vacuum systems for trains. The marine market looks promising since 40 cruise liners will be delivered within the next four years. Evac Marine is developing into a full-service supplier of bathroom ceramics and other products for bathrooms on cruise liners. By combining its own high technology with the design and quality of Sanitec's other products Evac will gain a sharper profile on the market.

Several cruisers also use Evac vacuum systems. In the photo the Royal suite restroom in the M/S Grandeur of the Seas.

Lecico

Market conditions and Lecico • Egypt has been relatively isolated from global economic turbulence and has maintained domestic growth rates of over 5 % per year. The construction sector is an important motor of economic development and, barring major international difficulties, it is expected that Egypt will continue to develop satisfactorily in the coming year. Lecico Egypt's sanitaryware business has fully participated in this development, gaining significant growth in sales. Sanitaryware exports, in particular, grew by over 25 % and 1999 started again very strongly. Lecico now exports almost 1 million pieces from Egypt and is expected to continue developing in new markets as well as supplying to the Sanitec group. In Lebanon the combination of difficult macroeconomic conditions and political uncertainty has kept the construction sector relatively depressed.

Trends • For Lecico's business in its local and domestic markets, the most significant factor continues to be the political situation in the region. This applies particularly to Lecico Lebanon. Egypt, with its strong export performance, is relatively immune to this factor.

Production • The new Borg-el-Arab factory in Egypt was started at the beginning of January and should be producing to its first-phase capacity of 1 million pieces a year this summer. The factory has a program of considerable expansions over the coming years.

New launches • Lecico launched a mid-range bathroom series called Laguna in 1998. Another ceramics set, Atlas, was presented to the public in December 1998, and the Royal range was broadened with the Katherine set. In the course of 1999 it is expected that new developments will expand the Lecico range as the joint venture takes advantage of the product design and branding capabilities of other companies in the Sanitec group.

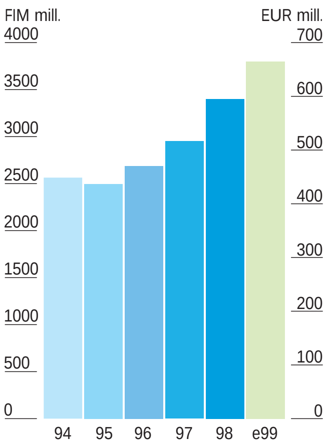
The Elisabeth ceramics series by Lecico.

Lecico's Laguna bathroom set was introduced in 1998.

Five Years in Figures, Euro

MEUR		1998	1997	1996	1995	1994
Net sales		571	496	452	420	431
of which outside Finland	%	95	95	95	95	94
Personnel on average		5,034	4,640	4,380	4,514	4,541
of which in Finland		391	374	348	357	351
From the income statement						
Depreciation		-34	-30	-30	-31	-31
Share of profits/losses in associated companies		-3	0	0	0	0
Operating profit		78	69	59	55	49
Net financial items		-12	-7	-6	-10	-9
Profit before extraordinary items		66	62	53	45	40
Profit before taxes		65	53	32	32	31
Profit for the financial year		37	38	14	11	11
From the balance sheet						
Fixed assets		261	249	197	205	205
Inventories		89	79	67	68	58
Receivables		125	113	99	120	102
Cash and bank balances		28	38	36	31	31
Shareholders' equity		210	183	149	135	127
Minority interests		10	9	7	7	25
Provisions		32	28	29	29	18
Interest-bearing liabilities		121	126	87	134	104
Non interest-bearing liabilities		130	133	127	119	122
Balance sheet total		503	479	399	424	396
Financial ratios						
Funds generated from operations		77	78	66	57	54
Gross capital expenditure		66	82	23	68	43
as a percentage of net sales	%	12	17	5	16	10
Research and development expenses		11	9	8	8	6
as a percentage of net sales	%	2	2	2	2	1
Return on investment (ROI)	%	25	27	25	22	18
Solvency ratio	%	44	40	39	33	38
Gearing		0.43	0.45	0.32	0.72	0.49

Net sales in MFIM and MEUR



Exchange Rates

	Closing rates					Average rate	
	31.12. 1998	31.12. 1997	31.12. 1996	31.12. 1995	31.12. 1994	1998	1997
USD	5.0960	5.4207	4.6439	4.3586	4.7432	5.3415	5.1944
GBP	8.4280	8.9920	7.8690	6.7410	7.4090	8.8470	8.5060
SEK	0.6267	0.6863	0.6748	0.6546	0.6358	0.6721	0.6799
NOK	0.6702	0.7394	0.7209	0.6899	0.7014	0.7078	0.7339
DEM	3.0400	3.0275	2.9880	3.0435	3.0615	3.0381	2.9939
NLG	2.6981	2.6861	2.6624	2.7185	2.7337	2.6953	2.6603
FRF	0.9064	0.9046	0.8862	0.8906	0.8873	0.9062	0.8894
CHF	3.6981	3.7258	3.4392	3.7884	3.6180	3.6880	3.5785
ITL*	3.0707	3.0800	3.0400	2.7500	2.9200	3.0800	3.0500
ECU/EUR	5.94573	5.9890	5.7700	5.5970	5.8150	5.9940	5.8640

* 1,000 units

Five Years in Figures, Finnish Markka

MFIM		1998	1997	1996	1995	1994
Net sales		3,394	2,951	2,687	2,496	2,564
of which outside Finland	%	95	95	95	95	94
Personnel on average		5,034	4,640	4,380	4,514	4,541
of which in Finland		391	374	348	357	351
From the income statement						
Depreciation		-204	-178	-177	-183	-182
Share of profits/losses in associated companies		-17	-2	-1	1	0
Operating profit		461	409	352	325	291
Net financial items		-70	-40	-36	-58	-54
Profit before extraordinary items		391	369	317	267	237
Profit before taxes		387	318	192	191	184
Profit for the financial year		221	224	83	65	64
From the balance sheet						
Fixed assets		1,549	1,479	1,172	1,217	1,220
Inventories		529	471	397	404	346
Receivables		746	670	586	715	607
Cash and bank balances		165	227	218	187	179
Shareholders' equity		1,249	1,089	888	801	755
Minority interests		57	54	42	41	146
Provisions		187	165	173	176	107
Interest-bearing liabilities		721	747	514	795	617
Non interest-bearing liabilities		775	792	756	710	727
Balance sheet total		2,989	2,847	2,373	2,523	2,352
Financial ratios						
Funds generated from operations		455	465	391	339	322
Gross capital expenditure		391	489	136	402	256
as a percentage of net sales	%	12	17	5	16	10
Research and development expenses		66	54	47	46	34
as a percentage of net sales	%	2	2	2	2	1
Return on investment (ROI)	%	25	27	25	22	18
Solvency ratio	%	44	40	39	33	38
Gearing		0.43	0.45	0.32	0.72	0.49

Calculation of financial ratios

Return on investment (ROI)

$$\frac{\text{Profit before extraordinary items + interest and other financial expenses}}{\text{Balance sheet total - non interest-bearing liabilities - provisions, average over the year}} \times 100$$

Solvency ratio

$$\frac{\text{Shareholders' equity + minority interest}}{\text{Balance sheet total - advances received}} \times 100$$

Gearing

$$\frac{\text{Interest-bearing liabilities - cash and bank balances}}{\text{Shareholders' equity + minority interest}}$$

Review by the Board of Directors

Net sales and result • Sanitec continued successful growth in sales and profits during 1998. Net sales reached FIM 3.4 billion, an increase of 15 % on the year before. The operating profit increased to FIM 461 million, which represented 14 % of net sales. Sales growth was especially strong in Italy, where Sanitec acquired the remaining 75 % of Domino S.p.A. The acquisition is a part of Sanitec's strategy to strengthen its second core business, bathtubs and shower products. Most of Sanitec's growth, 10 %, was reached in its other core countries. Net sales continued to increase in Poland as a result of higher production capacity, and growth was also strong in the Nordic countries and France. Sanitec also managed to raise its sales in Russia compared to the previous year despite the economic difficulties in this market. The unstable economic conditions in Asia did not significantly affect Sanitec's operations in the area.

Market conditions • Building output in Germany declined by 0.5 % in 1998 compared to the previous year. A similar trend was visible in the German sanitary ceramics market. Keramag succeeded in slightly increasing its market share, especially in the upper-range segment. Keramag also raised its net sales through increased exports via the marketing companies and the introduction of innovative products.

After two stagnant years in France tax incentives helped to accelerate new housing construction, which grew by 5%. The renovation sector improved significantly as well. Allia succeeded in increasing its market share. Its bathroom ceramics sales exceeded the average market growth.

In Italy sales growth was largely based on buoyant sales by the Italian whirlpool, bathtub and shower systems company Domino S.p.A. The Italian whirlpool market is the largest and fastest growing in Europe. Domino's main market is Italy, but exports via Sanitec group companies are growing rapidly. The bathroom ceramics market was stagnant with only 1 % growth encouraged by state support for home-renovation. Sanitari Pozzi raised its market share slightly.

Growth in the Nordic markets was driven by Finland, Denmark and Norway. Despite the economic slowdown in Norway in the latter half of the year, sales in the region increased. Sales in Finland and Denmark showed good growth figures, but the forecast recovery in the Swedish market did not take place. The economic difficulties in Russia slowed down the pace of export growth.

In Poland GDP continued to grow strongly during 1998 but the building sector slowed somewhat. However, there is huge demand for dwellings, and new construction is expected to increase again. Sanitec Kolo had another successful year with strong sales growth. The company is the market leader in Poland in ceramics and acrylic bathtubs, and holds a strong position in all price segments.

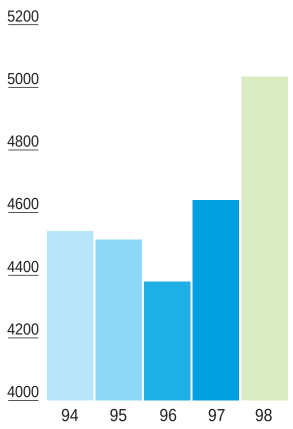
Evac continued its strong growth in all business areas with sales increasing 19 % on the year before. Evac penetrated a new market sector with the development of condense water collection systems for refrigerated display cases. These have been delivered to supermarket chains in the United States and Europe. Evac Train became the prime producer of train toilet cabins in the UK and Scandinavian markets. The recent acquisition of Sanivac GmbH in Germany strengthens Evac's position in the growing market for closed vacuum systems in the train market. Evac has further developed new applications for vacuum technology both in the train and building markets, as well as a new control system for marine vessels that offers 100 % control of their whole sewage system. These innovations will ensure Evac's rapid growth in the coming years.

Bathroom ceramics sales of the joint venture Lecico in Egypt and its exports showed significant growth over the previous year. In Lebanon the combination of difficult macroeconomic conditions and political uncertainty kept the construction sector relatively depressed. In Asia the markets for bathroom ceramics have considerably contracted owing to economic stagnation. Sales by the Johnson Sanitec companies decreased although the company managed to raise its market share in Malaysia.

Changes in the Group structure • In 1998 Sanitec acquired the remaining 75 % of the Italian whirlpool, bathtub and shower systems producer Domino S.p.A., which increased the shareholding to 100 %. Domino's 1998 sales were FIM 270 million. Keramag acquired the outstanding 49 % of shares in Varicor S.A. in France. Varicor produces mineral material for use in solid surfaces mainly in bathrooms. Sales of Varicor were FIM 46 million in 1998. In December 1998 Sanitec increased its shareholding in the Swiss holding company, Johnson Industrial Holding AG to 60 %, which led to the consolidation of the Johnson Suisse Malaysia operations as of the end of 1998. The Johnson Suisse companies generated net sales of FIM 60 million in 1998.

In January 1999 Evac improved its position in the European market for train vacuum toilet applications by acquiring 100 % of the Sanivac Vakuumtechnik GmbH in Germany. Sanivac's sales in 1998 totalled FIM 30 million.

Personnel on average



Financing • The Group's cash flow remained strong throughout the period. Cash flow from operating activities was FIM 345 million, 10 % of net sales. Cash flow before financing activities was FIM -27 million owing to large investments in shares and new production technology.

Financing expenses increased from FIM 40 million to FIM 70 million, 2.1 % of sales. This was mainly due to increased indebtedness in Poland, where high interest rates prevail. The increase in indebtedness resulted from the investments in the Wloclawek factory. High profitability further strengthened the balance sheet and the solvency ratio increased to 44 % from 40 % in the previous year. Gearing was 43 %.

Capital expenditure and R&D • The Group's capital expenditure totalled FIM 391 million, including FIM 190 million invested in shares. The most important investments were the shares of Domino S.p.A. and Varicor. In addition Sanitec increased its shareholding in Keramag AG from 92.8 % to 95.3 %.

The investments in ZWS Kolo's new Wloclawek factory were concluded at the beginning of 1998. Sanitec has reached two million pieces of high-quality and cost-competitive capacity in Poland to be used for the domestic and export markets.

Sanitec has started investments in new production technology to keep its production costs competitiveness in countries with higher payroll costs. Ifö in Sweden started up an automated washbasin production line which increases productivity and reduces costs. The line also released factory space which Ifö has used to further increase its production capacity. Allia and Ido also invested in automatic production lines during 1998.

Keramag raised productivity at the Haldensleben and Wesel plants by introducing new automated glazing lines.

In the associated company Lecico, the kiln of the Borg-el-Arab factory was fired in January 1999. This new factory will increase Lecico's ceramic capacity by one million pieces.

Sanitec spent FIM 66 million (FIM 54 million) on product development in 1998.

Board of Directors and auditors • The Annual General Meeting was held on 23 March 1998. After a long and prestigious career on Sanitec's Board of Directors Mr Sven Borelius declined re-election for reasons of age. Wolfgang H. Molitor, who resigned last year from Keramag after a very successful career as president of the company, was elected to the Board of Directors. Authorized public accountants KPMG Wideri Oy Ab were appointed the Company's auditors.

The members of the Board of Directors are Georg Ehrnrooth (Chairman), Henrik Eklund, Ole Johansson, Wolfgang H. Molitor and Pekka Virtanen. Sanitec Ltd Oy is a wholly owned subsidiary of Metra Corporation.

Human resource development and training • The Group's personnel increased by 733 to 5,557 employees at the end of 1998 (4,824 at the end of 1997). In 1998 personnel averaged 5,034 (4,640 in 1997). The increase in employees came mainly from Domino and Johnson Sanitec companies, which were consolidated in the Group during the year. Personnel in Finland totalled 382 at the end of the year.

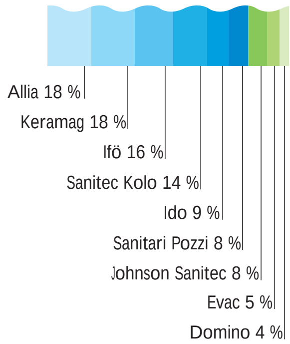
The Group developed and actively trained personnel at all organizational levels. In addition to various external and Metra schemes, Sanitec started to develop its own group internal training programmes.

To ensure regular flow of information in all Sanitec units, the Group has started to publish a newsletter, Sanitec World. The newsletter contains financial information and information on the company goals, new projects and product launches; it also reviews its existing and new business units. The newsletter is partly published in several languages in order to meet every employee in the business units. Most of the business units also publish their own newsletters.

Sanitec's European Works Council (EWC) convened in May in Wesel, Germany, where it renewed the current cooperation agreement on transnational information and consultation between management and employees. The EWC has employee representatives from six countries. The new agreement meant that Poland became a member of the EWC as of 1 January 1999 with two representatives. Sanitec companies also continued to work actively with the TYKY national fitness-at-work project in Finland, the aim of which is to improve the health and working capacity of personnel.

Prospects for 1999 • Despite the volatility in the world market Sanitec is expected to continue its profitable growth supported by its European operating model. Sanitec's main markets are forecast to remain at current levels of activity, considering the effect of renovation. The biggest question mark is the Russian market, which weakened considerably in the autumn 1998. Sanitec's net sales are expected to increase, as in previous years, and result to remain at a good level.

Share of Sanitec employees by operational unit



Financial Statements

Income statement		Group, MFIM				Group, MEUR	
MFIM	Note	1998	%	1997	%	1998	1997
Net sales	1	3,394.0		2,951.4		570.8	496.4
Change of inventories of finished goods and work in progress, increase (+), decrease (-)		42.7		46.0		7.2	7.7
Production for own use (+)		9.0		3.1		1.5	0.5
Other operating income	2	14.7		25.3		2.5	4.3
Materials and services							
Materials and consumables							
Purchases during the financial year		-1,057.8		-888.8		-177.9	-149.5
Change in inventories, increase (+), decrease (-)		19.3		19.6		3.2	3.3
External services		-372.1		-335.2		-62.6	-56.4
		-1,410.6		-1,204.4		-237.3	-202.6
Personnel expenses	3	-915.6		-838.5		-154.0	-141.0
Depreciation and writedowns	4	-203.8		-177.6		-34.3	-29.9
Other operating expenses		-451.7		-394.3		-76.0	-66.3
Share of profits/losses in associated companies		-17.6		-1.7		-3.0	-0.3
Operating profit		461.1	14	409.3	14	77.4	68.8
Financial income and expenses	5						
Income from financial assets							
In associated companies		0.8		-		0.1	-
Others		-		1.0		0.0	0.2
Other interest income and financial income							
In Group companies		13.0		23.9		2.2	4.0
Others		15.0		11.9		2.5	2.0
Exchange gains and losses		-5.9		-2.5		-1.0	-0.4
Writedowns of financial assets		-		-2.9		-	-0.5
Interest expenses and other financial expenses							
In Group companies		-46.4		-41.7		-7.8	-7.0
Others		-46.5		-29.8		-7.8	-5.0
		-70.0	-2	-40.1	-1	-11.8	-6.7
Profit before extraordinary items		391.1	12	369.2	13	65.6	62.1
Extraordinary items	6						
Extraordinary income		5.3		-		0.9	-
Extraordinary expenses		-9.3		-		-1.6	-
Group contribution		-		-51.0		-	-8.6
		-4.0		-51.0		-0.7	-8.6
Profit before appropriations and taxes		387.1	11	318.2	11	64.9	53.5
Income taxes	7	-157.5		-83.5		-26.5	-14.0
Minority interests		-8.6		-10.8		-1.4	-1.8
Profit for the financial year		221.0	7	223.9	8	37.0	37.7

Intragroup items arise from transactions with other Metra Group companies.

Financial Statements

Financial analysis	Group, MFIM		Group, MEUR	
	1998	1997	1998	1997
Funds generated from operations				
Operating profit	478.7	411.1	80.5	69.1
Depreciation	203.8	177.6	34.3	29.9
Financial income and expenses	-70.1	-40.1	-11.8	-6.7
Taxes	-157.5	-83.5	-26.5	-14.0
	454.9	465.1	76.5	78.3
Change in working capital				
Inventories, increase (-), decrease (+)	-30.4	-66.8	-5.1	-11.2
Short-term receivables, increase (-), decrease (+)	-67.2	-50.7	-11.3	-8.5
Non interest-bearing liabilites, increase (+), decrease(-)	-12.2	80.6	-2.1	13.6
	-109.8	-36.9	-18.5	-6.1
Cash flow from operations	345.1	428.2	58.0	72.2
Investments				
Purchase of plant, property and equipment	-201.6	-198.5	-33.9	-33.4
Disposal of fixed assets	19.4	11.1	3.3	1.9
	-182.2	-187.4	-30.6	-31.5
Net cash flow from operations	162.9	240.8	27.4	40.7
Investments in shares	-189.9	-290.5	-31.9	-48.9
Cash flow before financing	-27.0	-49.7	-4.5	-8.2
Financing				
Loan receivables, increase (-), decrease (+)	108.4	-24.1	18.2	-4.1
Long-term loans, increase (+), decrease (-)	-150.2	112.3	-25.3	18.9
Short-term loans, increase (+), decrease (-)	23.6	63.3	4.0	10.6
Dividends	-6.5	-4.7	-1.1	-0.8
Group contributions	-	-51.0	-	-8.6
Other changes	-4.0	-39.5	-0.7	-6.7
	-28.7	56.1	-4.9	9.3
Change in liquid funds, increase (+), decrease (-)	-55.7	6.6	-9.4	1.1

The impact of changes in exchange rates
on consolidation has been eliminated.

Financial Statements

Balance sheet, Assets		Group, MFIM				Group, MEUR	
	Note	1998	%	1997	%	1998	1997
Fixed assets	8						
Intangible assets							
Intangible rights		7.2		6.7		1.2	1.1
Goodwill on consolidation		389.5		284.7		65.5	47.9
Other long-term expenditure		9.3		4.9		1.6	0.8
		406.0	14	296.3	10	68.3	49.8
Tangible assets							
Land and water		125.8		101.6		21.2	17.1
Buildings and structures		322.4		271.7		54.2	45.7
Machinery and equipment		463.3		366.0		77.9	61.6
Other tangible assets		14.5		18.3		2.4	3.1
Advance payments and construction in progress		32.6		85.2		5.5	14.3
		958.6	32	842.8	30	161.2	141.8
Financial assets							
Shares in associated companies		171.6		314.1		28.9	52.8
Other shares and securities		7.2		5.0		1.2	0.8
Other receivables		5.8		20.5		1.0	3.4
		184.6	6	339.6	12	31.1	57.0
Total fixed assets		1,549.2	52	1,478.7	52	260.6	248.6
Current assets							
Inventories							
Materials and consumables		196.8		166.0		33.1	27.9
Work in progress		108.3		96.5		18.2	16.2
Finished products/goods		224.0		207.5		37.7	34.9
Advance payments		0.3		1.1		0.1	0.2
		529.4	18	471.1	17	89.1	79.2
	9						
Long-term receivables							
Trade receivables		5.7		1.9		1.0	0.3
Deferred tax assets		6.5		-		1.1	-
Other receivables		2.3		3.1		0.4	0.5
Prepaid expenses and accrued income		2.6		3.8		0.4	0.6
		17.1		8.8		2.9	1.4
	9						
Short-term receivables							
Trade receivables		559.9		402.8		94.2	67.7
Receivables from Group companies		0.9		125.9		0.2	21.2
Receivables from associated companies		14.1		1.1		2.4	0.2
Loan receivables		6.6		24.1		1.1	4.1
Deferred tax assets		2.4		5.7		0.4	1.0
Other receivables		40.4		25.5		6.8	4.3
Prepaid expenses and accrued income		103.9		76.0		17.5	12.8
		728.2	24	661.1	23	122.6	111.3
Cash and bank balances		165.5	6	227.2	8	27.8	38.2
Total current assets		1,440.2	48	1,368.2	48	242.4	230.1
Assets		2,989.4	100	2,846.9	100	503.0	478.7

Intragroup items arise from transactions with other Metra Group companies.

Financial Statements

Balance sheet, Shareholders' equity and liabilities	Note	Group, MFIM 1998	%	1997	%	Group, MEUR 1998	1997
Shareholders' equity	10						
Share capital		336.0		336.0		56.5	56.5
Share premium reserve		84.0		84.0		14.1	14.1
Other shareholders' equity		102.0		99.1		17.2	16.7
		522.0	18	519.1	18	87.8	87.3
Retained earnings	11, 12						
Retained earnings		505.8		346.2		85.1	58.2
Profit for the year		221.0		224.0		37.2	37.7
		726.8	24	570.2	20	122.3	95.9
Total shareholders' equity		1,248.8	42	1,089.3	38	210.1	183.2
Minority interests		56.9	2	54.0	2	9.6	9.1
Provisions	14						
Provisions for pensions		163.9		160.1		27.6	26.9
Provisions for taxation		9.0		-		1.5	-
Other provisions		13.8		4.5		2.3	0.8
		186.7	6	164.6	6	31.4	27.7
Liabilities	15						
Long-term							
Loans from credit institutions		127.0		126.6		21.4	21.3
Pension loans		9.6		10.3		1.6	1.7
Liabilities to Group companies		0.1		145.9		0.0	24.5
Deferred tax liabilities	16	81.1		78.7		13.6	13.2
Other liabilities		21.7		19.6		3.8	3.3
		239.5	8	381.1	13	40.4	64.0
Current	17						
Loans from credit institutions		258.8		203.9		43.5	34.3
Pension loans		0.7		0.8		0.1	0.1
Advances received		2.9		2.2		0.5	0.4
Trade payables		268.3		244.4		45.1	41.1
Liabilities to Group companies		278.2		338.9		46.8	57.0
Liabilities to associated companies		3.4		-		0.6	-
Other liabilities		64.0		42.2		10.8	7.1
Accrued expenses and deferred income		381.2		325.5		64.1	54.7
		1,257.5	42	1,157.9	41	211.5	194.7
Total liabilities		1,497.0	50	1,539.0	54	251.9	258.7
Shareholders' equity and liabilities		2,989.4	100	2,846.9	100	503.0	478.7

Intragroup items arise from transactions with other Metra Group companies.

Financial Statements

Income statement		Parent company, MFIM		Parent company, MEUR	
MFIM	**Note**	**1998**	**1997**	**1998**	**1997**
Net sales	1	26.1	24.3	4.3	4.1
Personnel expenses	3	-2.5	-1.7	-0.4	-0.3
Depreciation and writedowns	4	-5.9	-5.8	-1.0	-1.0
Other operating expenses		-25.2	-17.2	-4.2	-2.9
Operating profit		-7.5	-0.4	-1.3	-0.1
Financial income and expenses	5				
Income from financial assets					
In Group companies		154.7	55.1	26.0	9.3
Others		0.8	-	0.1	-
Other interest income and financial income					
In Group companies		6.7	6.1	1.1	1.0
In associated companies		0.4	-	0.1	-
Others		2.1	0.7	0.4	0.1
Exchange gains and losses		-2.4	-1.2	-0.4	-0.2
Writedowns of financial assets		-73.9	-	-12.4	-
Interest expenses and other financial expenses					
In Group companies		-34.1	-26.0	-5.7	-4.4
Others		-8.9	-3.6	-1.5	-0.6
		45.4	31.1	7.7	5.2
Profit before extraordinary items		37.9	30.7	6.4	5.1
Extraordinary items	6				
Group contribution		99.6	26.8	16.8	4.5
Profit before appropriations and taxes		137.5	57.5	23.2	9.6
Appropriations					
Change in depreciation difference		0.8	0.4	0.1	0.1
Change in appropriations		-	0.1	-	-
Income taxes		-16.2	0.5	-2.7	0.1
	7				
Profit for the financial year		122.1	58.5	20.6	9.8

Intragroup items arise also from transactions with other Metra Group companies.

Financial Statements

Financial analysis	Parent company, MFIM		Parent company, MEUR	
	1998	1997	1998	1997
Funds generated from operations				
Operating profit	-7.5	-0.4	-1.3	-0.1
Depreciation	5.9	5.8	1.0	1.0
Financial income and expenses	119.2	31.1	20.0	5.2
Taxes	-16.2	0.4	-2.7	0.1
	101.4	36.9	17.0	6.2
Change in working capital				
Short-term receivables, increase (-), decrease (+)	-103.9	-18.9	-17.5	-3.2
Non interest-bearing liabilites, increase (+), decrease(-)	3.3	16.5	0.6	2.8
	-100.7	-2.4	-16.9	-0.4
Cash flow from operations	0.8	34.5	0.1	5.8
Investments				
Purchase of plant, property and equipment	-0.7	-0.3	-0.1	-0.1
Disposal of fixed assets	0.2	2.4	0.0	0.4
	-0.5	2.1	-0.1	0.3
Net cash flow from operations	0.3	36.6	0.0	6.1
Investments in shares	-194.1	-403.5	-32.6	-67.9
Cash flow before financing	-193.8	-366.9	-32.6	-61.8
Financing				
Loan receivables, increase (+), decrease (-)	-65.7	-	-11.0	-
Long-term loans, increase (+), decrease (-)	-101.0	146.2	-17.0	24.6
Short-term loans, increase (+), decrease (-)	264.7	194.7	44.5	32.8
Group contributions	99.6	26.9	16.8	4.5
Other changes	-6.3	-	-1.1	-
	191.3	367.8	32.2	61.9
Change in liquid funds, increase (+), decrease (-)	-2.5	0.9	-0.4	0.1

The impact of changes in exchange rates
on consolidation has been eliminated.

Financial Statements

Balance sheet, Assets	Note	Parent company, MFIM 1998	Parent company, MFIM 1997	Parent company, MEUR 1998	Parent company, MEUR 1997
Fixed assets					
Tangible assets					
Land and water		15.5	15.5	2.6	2.6
Buildings and structures		80.3	86.1	13.5	14.5
Machinery and equipment		0.7	0.4	0.1	0.1
		96.5	102.0	16.2	17.2
Financial assets					
Shares in Group companies		1,337.6	1,030.0	225.0	173.2
Shares in associated companies		-	180.2	-	30.3
		1,337.6	1,210.2	225.0	203.5
Total fixed assets		1,434.1	1,312.2	241.2	220.7
Current assets					
Short-term receivables	9				
Trade receivables		0.1	-	0.0	-
Receivables from Group companies		215.7	74.6	36.3	12.5
Receivables from associated companies		7.2	8.1	1.2	1.4
Prepaid expenses and accrued income		42.2	12.9	7.1	2.2
		265.2	95.6	44.6	16.1
Cash and bank balances		1.2	3.6	0.2	0.6
Total current assets		266.4	99.2	44.8	16.7
Assets		1,700.5	1,411.4	286.0	237.4

Intragroup items arise also from transactions with other Metra Group companies.

Financial Statements

Balance sheet, Shareholders' equity and liabilities	Note	Parent company, MFIM 1998	Parent company, MFIM 1997	Parent company, MEUR 1998	Parent company, MEUR 1997
Shareholders' equity	10				
Share capital		336.0	336.0	56.5	56.5
Share premium reserve		84.0	84.0	14.1	14.1
		420.0	420.0	70.6	70.6
Retained earnings	11, 12				
Retained earnings		281.6	223.1	47.4	37.5
Profit for the year		122.0	58.4	20.5	9.8
		403.6	281.5	67.9	47.3
Total shareholders' equity		823.6	701.5	138.5	117.9
Depreciation difference	13	16.1	16.9	2.7	2.8
Liabilities	15				
Long-term					
Loans from credit institutions		112.7	68.6	19.0	11.5
Liabilities to Group companies		-	145.0	-	24.4
		112.7	213.6	19.0	35.9
Current	17				
Trade payables		4.2	0.3	0.7	0.1
Liabilities to Group companies		722.5	458.1	121.5	77.1
Other liabilities		14.1	19.3	2.4	3.3
Accrued expenses and deferred income		7.3	1.7	1.2	0.3
		748.1	479.4	125.8	80.8
Total liabilities		860.8	693.0	144.8	116.7
Shareholder's equity and liabilities		1,700.5	1,411.4	286.0	237.4

Intragroup items arise also from transactions with other Metra Group companies.

Accounting Principles

The consolidated financial statements of Sanitec Group have been prepared in accordance with the new Finnish accounting regulations which came into force on 31 December 1997. In all essential respects these comply with the accounting standards issued by the International Accounting Standards Committee (IASC). The comparative data for the previous year have been restated to conform to the new principles. The changes to the income statement caused by the new accounting principles on the balance sheet at the start of the year are recorded under extraordinary items. The most important of these changes concern the treatment of deferred tax liabilities and deferred tax assets.

The financial statements are presented in Finnish markka. The preparation of the financial statements in conformity with applicable regulations and generally accepted accounting principles requires management to make estimates and assumptions that affect the valuation and allocation of the reported figures. Actual results may differ from such estimates.

Principles of consolidation • The consolidated financial statements include the accounts of the parent company and the accounts of its directly or indirectly owned subsidiaries (over 50 % of the voting rights) and associated companies. Acquired or established subsidiaries and associated companies are consolidated from the date of acquisition or establishment until the end of the period of ownership.

All intra-group transactions as well as distribution of profit, receivables and liabilities, and unrealized margins on intragroup transactions are eliminated in the consolidation. Minority interests are presented in the income statement as a separate item after taxes. The share of minority interests in shareholders' equity is also shown separately in the consolidated balance sheet.

Mutual shareholdings are eliminated using the purchase method. The goodwill in the subsidiaries is calculated on the basis of their acquisition cost by eliminating the Group's share of the equity of the acquired subsidiaries, including untaxed reserves, less deferred tax liability. Of the difference between the cost of the acquisition and the equity of the subsidiaries at the date of acquisition, that amount by which the value of fixed assets can be considered to exceed the subsidiary's balance sheet value has been entered under fixed assets. The remainder of the difference is recorded as goodwill. Goodwill is amortized over the useful life of the asset, nevertheless over a period not exceeding twenty years.

Investments in associated companies (voting rights between 20 % and 50 %) are included in the consolidated accounts using the equity method. The consolidated income statement includes the Group's share of results in associated companies taking into account goodwill write-offs and dividends received. The Group's share of post-acquisition increase of the net assets of these companies is added to the acquisition cost and to shareholders' equity. The book values of the shares of associated companies are listed in the notes to the financial statements as recorded by the shareholding subsidiaries. Investments in other companies are listed in the balance sheet at acquisition cost and the book values of these shares are written down, if required, to correspond with their market value.

Foreign subsidiaries • In the consolidated accounts all items in the income statements of foreign subsidiaries are translated into Finnish markka at the average exchange rates for the financial year. The balance sheet items of subsidiaries are translated into Finnish markka at the rates of exchange ruling on the balance sheet date. Translation differences arising from the application of the purchase method are treated as an adjustment affecting consolidated shareholders' equity; the translation difference applying to shareholders' equity at the time of acquisition is allocated to distributable and non-distributable equity. Those differences which arise from the translation of income statement items and balance sheet items at different rates, are recorded as part of the consolidated non-restricted equity.

Transactions denominated in foreign currencies • Business transactions in foreign currencies are recorded at the rates of exchange prevailing on the transaction date. Receivables and payables on the balance sheet date are valued at the exchange rates prevailing on that date. Open hedging instruments of foreign currency based items, including interest components, are valued at the balance sheet date. Exchange gains and losses related to business operations are treated as adjustments to net sales and operating expenses. Exchange gains and losses related to financing operations are entered at their net values under financial income and expenses.

Revenue recognition • Net sales is calculated by deducting items including indirect sales taxes and discounts from gross sales revenues. Revenue is recognized at the date of delivery.

Research and development • Research and development costs are expensed in the financial period in which they occurred.

Pension arrangements • Statutory and supplementary pension obligations in Finland are covered through payments to pension insurance institutions and recorded as determined by periodical actuarial calculations prepared by those institutions. In the Group companies outside Finland, the pension obligations are arranged and pension liabilities recorded in accordance with local regulations and practice. Changes in uncovered pension obligations are entered in the income statement and the pension liability is included in provisions in the balance sheet.This treatment of pension costs, which differs from IAS principles, is not estimated to have a material effect on the financial statements.

Warranty costs • The estimated warranty costs of goods delivered to customers are included under current liabilities in the balance sheet.Actual warranty costs, including changes in warranty liability, are charged against earnings for the period.

Valuation of inventories • Inventories are valued at their direct acquisition cost, which includes direct manufacturing costs and an appropriate proportion of indirect production overheads and acquisition costs.The upper value used in the valuation of inventories is their net realizable value.

Fixed assets and depreciation • Fixed assets are valued in the balance sheet at their direct acquisition cost less accumulated depreciation.

The following indicative useful lives are used:

Other long-term expenditure	3-10 years
Buildings	10-40 years
Machinery and equipment	5-20 years.

Leasing • Operating leasing payments are treated as rentals. Significant financial leasing items are capitalized as fixed assets.

Extraordinary income and expenses • Extraordinary income and expenses include items which fall outside the ordinary activities of the company, such as items arising from divestments of operations and Group contributions. Extraordinary items include the effect of the changes in accounting principles on the balance sheet at the start of the year.

Appropriations • Appropriations comprise voluntary provisions and the depreciation difference. In the consolidated accounts accumulated appropriations are divided into tax liability and shareholders' equity. The change in appropriations, net of tax liability, is included in the result for the year. Since appropriations were recorded in this manner in previous years, they have not been affected by the changes in accounting principles concerning deferred tax liabilities. The amount of appropriations entered under shareholders' equity is not regarded as distributable funds.

Provisions • Provisions in the balance sheet comprise those items which the Company is committed to covering either through agreements or otherwise, but which are not yet realized. These may include e.g. uncovered pension liabilities. Changes to provisions are included in the income statement.

Direct taxes • Direct taxes in the income statement include taxes of subsidiaries for the financial period, calculated in accordance with local regulations, as well as adjustments to prior year taxes and deferred taxes.Taxes allocated to extraordinary items are listed in the notes to the financial statements.

Deferred tax liabilities or assets are calculated as the temporary differences between the tax and financial periods using the tax rate for subsequent years confirmed on the balance sheet date. The balance sheet includes deferred tax liabilities in their entirety and the probable realizable amount of deferred tax assets.

Notes to the Financial Statements

Figures in FIM million	Group 1998	Group 1997	Parent company 1998	Parent company 1997

1. Net sales

Net sales by country	Group 1998	Group 1997	Parent company 1998	Parent company 1997
Germany	887.0	851.2		
France	429.1	397.2		
Sweden	317.1	324.0	3.6	3.5
Italy	369.0	216.0		
Norway	215.0	200.6	0.6	0.5
Denmark	177.3	165.6		
Finland	179.0	157.3	19.2	18.6
Poland	245.0	188.4	2.0	1.4
America	137.8	106.5		
Other countries	437.7	344.6	0.6	0.3
Total	3,394.0	2,951.4	26.0	24.3

	Group 1998	Group 1997	Parent company 1998	Parent company 1997
Personnel in average	5034	4640	13	9

2. Other operating income

	Group 1998	Group 1997	Parent company 1998	Parent company 1997
Rental income	0.9	0.4		
Profit on sale of fixed assets	0.5	5.6		
Other operating income	13.3	19.3		
Total	14.7	25.3		

3. Personnel expenses

	Group 1998	Group 1997	Parent company 1998	Parent company 1997
Wages and salaries	670.8	616.4	1.6	1.0
Pension costs	10.4	9.3	0.7	0.5
Other personnel costs	199.6	182.2	0.2	0.1
Total	880.8	807.9	2.5	1.6

Pension costs contain only pension costs for Finnish companies. Pension costs for foreign companies are included in other personnel costs.

The CEO and the presidents of some Group Companies have the right to retire at the age of 60 years.
The Company's Board of Directors decides the remunerations of the President and his immediate subordinates.

4. Depreciation and writedowns

	Group 1998	Group 1997	Parent company 1998	Parent company 1997
Depreciation according to plan				
Intangible assets	6.3	3.3		
Goodwill on consolidation	54.0	45.0		
Other long-term expenditure	2.9	1.7		
Land and water				
Buildings and structures	22.4	19.6	5.7	5.7
Machinery and equipment	109.4	90.5	0.2	0.1
Other tangible assets	8.7	17.5		
Total depreciation according to plan	203.7	177.6	5.9	5.8
Total book depreciation			-6.7	-6.1
Depreciation difference			-0.8	-0.3
Depreciation according to plan and writedowns of fixed assets, total	203.7	177.6	5.9	5.8
Depreciation difference on 1 January			16.9	17.2
Change in depreciation difference			-0.8	-0.3
Depreciation difference on 31 December			16.1	16.9

5. Financial income and expenses

	Group 1998	Group 1997	Parent company 1998	Parent company 1997
Income from financial assets				
Dividend income				
From Group companies			154.6	55.0
From associated companies	0.8		0.8	
From other companies		0.7		0.1
Total	0.8	0.7	155.4	55.1
Interest income from financial assets	0.0	0.4		
From other companies	0.0	0.4		
Total	0.8	1.1	155.4	55.1
Income from financial assets, total				
Other interest income and financial income				
From Group companies	13.0	23.9	6.7	6.1
From associated companies			0.4	
From other companies	15.0	11.9	2.1	0.7
Total	28.0	35.8	9.2	6.8
Exchange gains and losses	-5.9	-2.5	-2.4	-1.2
Writedowns of financial assets		-2.9	-73.9	
Interest expenses and other expenses				
To Group companies	-46.4	-41.7	-34.1	-26.0
To other companies	-46.5	-29.8	-8.9	-3.6
Total	-92.9	-71.5	-43.0	-29.6
Financial income and expenses, total	-70.0	-40.0	119.2	31.1

Intragroup items in the Group column arise from transactions with other Metra Group companies.

Notes to the Financial Statements

Figures in FIM million	Group 1998	Group 1997	Parent company 1998	Parent company 1997
6. Extraordinary income and expenses				
Deferred tax, change in accounting principles	-4.0			
Group contributions		-50.9	99.6	26.8
Total	-4.0	-50.9	99.6	26.8
7. Direct taxes				
Direct taxes on operations				
for the financial year	-155.0	-91.3	-15.3	-0.8
for prior years	-7.8	3.2	-0.9	1.3
Change in deferred tax	5.3	4.6		
Total	-157.5	-83.5	-16.2	0.5
Direct taxes on extraordinary items		-14.3	27.9	7.5

Figures in FIM million	Acquisition cost on 1 Jan.	Increases	Decreases	Accumulated depreciation and writedowns on 1 Jan.	Accumulated depreciation in decreases	Depreciation during year	Residual value on 31. Dec
8. Fixed assets and other long-term investments							
Group							
Intangible assets							8.3
Intangible rights	26.4	7.3	-2.1	-19.2	2.1	-6.3	8.2
Goodwill on consolidation	524.0	158.8		-239.3		-54.0	389.5
Other long-term expenditure	30.5	9.3	-0.4	-28.4	0.2	-2.9	8.3
Group 1998	580.9	175.4	-2.5	-286.9	2.3	-63.2	406.0
Group 1997	571.9	8.8	-1.4	-233.7	0.7	-49.9	296.4
Tangible assets							
Land and water	97.8	30.1	-2.1	-0.1			125.7
Buildings and structures	473.5	81.6	-2.9	-207.7		-22.3	322.2
Machinery and equipment	1,198.4	221.8	-40.5	-844.7	37.6	-109.4	463.2
Other tangible assets	93.7	5.1	-3.7	-75.5	3.6	-8.7	14.5
Advance payments and work in progress	80.9	29.9	-77.9				32.9
Group 1998	1,944.3	368.5	-127.1	-1,128.0	41.2	-140.4	958.5
Group 1997	1,764.3	229.9	-47.5	-991.5	15.3	-127.7	842.8
Financial assets							
Shares in associated companies	314.0		-142.4				171.6
Receivables from associated companies	4.5		-4.5				
Shares in other companies	4.9	2.2					7.1
Receivables from other companies	16.0	-	-10.2				5.8
Group 1998	339.4	2.2	-157.1				184.5
Group 1997	89.3	250.2					339.5
Parent company							
Tangible assets							
Land and water	15.5						15.5
Buildings and structures	126.1			-40.1		-5.7	80.3
Machinery and equipment	1.5	0.6	-0.2	-1.0		-0.2	0.7
Parent company 1998	143.1	0.6	-0.2	-41.1		-5.9	96.5
Parent company 1997	145.2		-2.1	-35.3		-5.8	102.0
Investments							
Shares in Group companies	1,030.1	307.5					1,337.6
Shares in associated companies	180.2		-180.2				
Shares in other companies	1,266.6						
Parent company 1998	1,210.3	307.5	-180.2				1,337.6
Parent company 1997	806.8	403.5					1,210.3

Figures in FIM million	Group 1998	Group 1997	Parent company 1998	Parent company 1997
9. Main items in prepaid expenses and accrued income				
Interest	0.6	0.4	0.3	0.5
Other financial items	2.4		1.8	1.8
Value added tax	28.6	22.9	1.2	1.0
Income and other taxes	10.3	28.3		0.6
Other	71.1	28.2	47.8	18.1
	113.0	79.8	51.1	22.0
Specification of short-term receivables				
Receivables from Group companies				
Trade receivables	0.9	0.4	4.0	3.5
Loan receivables		123.6	209.7	69.6
Other receivables		1.9	2.0	1.5
Total	0.9	125.9	215.7	74.6
Receivables from associated companies				
Trade receivables	7.3	1.1	0.4	0.3
Other receivables			6.6	7.0
Prepaid expenses and accrued income	6.8		0.2	0.8
Total	14.1	1.1	7.2	8.1

Intragroup items in the Group column arise from transactions with other Metra Group companies.

Notes to the Financial Statements

Figures in FIM million	Group 1998	Group 1997	Parent company 1998	Parent company 1997
10. Shareholders' equity				
Share capital				
Share capital on 1 January				
Series A	302.4	302.4	302.4	302.4
Series B	33.6	33.6	33.6	33.6
Total	336.0	336.0	336.0	336.0
Share capital on 31 December				
Series A	302.4	302.4	302.4	302.4
Series B	33.6	33.6	33.6	33.6
Total	336.0	336.0	336.0	336.0
Other reserves				
Other reserves on 1 January	99.1	63.5		
Share premium reserve	84.0	84.0	84.0	84.0
Transfers from retained earnings	11.1	9.6		
Translation differences and other changes	-8.2	25.9		
Other reserves on 31 December	186.0	183.0	84.0	84.0
11. Retained earnings				
Retained earnings on 1 January	570.2	404.6	281.6	223.1
Transfers to other reserves	-11.1	-9.6		
Net change in translation differences	-53.4	-38.7		
Other	0.1	-10.0		
Profit for the year	220.9	223.9	122.0	58.5
Retained earnings on 31 December	726.8	570.2	403.6	281.6
12. Distributable equity				
Retained earnings on 31 December	726.8	570.2	403.6	281.6
Voluntary provisions and depreciation difference	-61.7	-36.8		
Deferred tax liability	19.1	8.7		
Distributable equity	684.2	542.1	403.6	281.6
13. Accumulated appropriations				
Voluntary provisions and depreciation difference			16.1	16.9
Deferred tax liability			-4.5	-4.7
			11.6	12.2
14. Provisions				
Pension liabilities	163.9	160.1		
Tax liabilities	9.0			
Other liabilities	13.8	4.5		
Provisions, total	186.7	164.6		
Change in provisions	22.1	-8.5		
15. Liabilities				
Long-term				
Non interest-bearing	92.0	86.4		
Interest-bearing	147.5	294.7	112.7	213.6
Total	239.5	381.1	112.7	213.6
Current				
Non interest-bearing	683.6	705.6		
Interest-bearing	573.9	452.4	717.8	453.1
Total	1,257.5	1,158.0	717.8	453.1

Long-term debt with maturity profile	Bank loans	Pension loans	Other loans	Total
1999	7.6	0.7	3.4	11.7
2000	120.5	0.7	4.5	125.7
2001	6.4	0.6	2.2	9.2
2002	0.1	0.6	1.3	2.0
2003	0.0	0.5	0.5	1.0
2004 -	0.0	7.2	2.4	9.6
Total 31 December 1998	134.6	10.3	14.3	159.2
Total 31 December 1997	152.3	11.1	241.8	405.2

Figures in FIM million	Group 1998	Group 1997
16. Specification of deferred tax assets and liabilities		
Deferred tax assets		
Based on consolidation	2.6	
Included in balance sheets of Group companies	3.9	5.7
Total	6.5	5.7
Deferred tax liabilities		
Based on appropriations	19.2	8.7
Based on consolidation	52.4	55.8
Included in balance sheets of Group companies	13.9	14.2
Total	85.5	78.7

Notes to the Financial Statements

Figures in FIM million	Group 1998	Group 1997	Parent company 1998	Parent company 1997
17. Main items in accrued expenses and deferred income				
Warranty costs	34.2	20.7		
VAT, income and other taxes	116.1	74.5		
Personnel expenses	120.6	106.6		
Financial items	8.1	3.2	10.3	5.7
Other	102.2	120.5	0.5	
Total	381.2	325.5	10.8	5.7
Specification of long-term liabilities				
Liabilities to group companies				
Other liabilities		145.9		
Specification of current liabilities				
Liabilities to Group companies				
Advances received	0.3	0.7	1.2	0.5
Other current liabilities	273.7	331.0	717.7	453.5
Accrued expenses and deferred income	4.2	7.2	3.6	4.0
Total	278.2	338.9	722.5	458.0
Liabilities to associated companies				
Trade payables				
Other liabilities	2.0			
Accrued expenses and deferred income	1.4			
Total	3.4			

	Group				Parent company			
	Balance sheet, 1998		Balance sheet, 1997		Balance sheet, 1998		Balance sheet, 1997	
	Debt	Security	Debt	Security	Debt	Security	Debt	Security
18. Collateral, contingent liabilities and other commitments								
Mortgages given as collateral for liabilities and commitments								
Loans from credit institutions	5.3	12.4	2.8	2.8				
Pension loans	11.1	11.1	11.9	11.9				
Liabilities to Group companies						11.1		11.9
Off balance sheet commitments				7.0				
Total		23.5		21.7		11.1		11.9
Chattel mortgages given as collateral for liabilities								
Off balance sheet commitments		10.0		10.9				
Total		10.0		10.9				
Other pledges given as collateral for liabilities								
Loans from credit institutions	19.7	32.2	52.7	48.0				
Other liabilities	0.5	6.6						
Off balance sheet commitments		10.6						
Total		49.4		48.0				

	Group 1998	Group 1997	Parent company 1998	Parent company 1998
Collateral on behalf of Metra companies				
Mortgages	85.9	87.1	85.9	87.1
Collateral on behalf of Sanitec Group companies				
Mortgages	2.8			
Other pledges	2.7			
Guarantees and contingent liabilities on behalf of Sanitec Group companies	13.9	25.1	240.8	219.8
All pension liabilities are included in the balance sheet.				
Nominal amounts of rents according to leasing contracts				
Payable within one year.	5.3	6.9		
Payable after one year.	13.6	35.6		
Total	19.0	42.5		

Inner circle loans and commitments

There are no loan receivables from the management and the Board of Directors.

No pledges or other commitments were given on behalf of senior management or shareholders.

Notes to the Financial Statements

Shares and securities

							Book value 1,000	
		Number of shares	%	Curr.	Nominal value 1,000	Curr.	Sanitec Ltd Oy direct ownership	Indirect ownership through subsidiary
Subsidiaries								
Ido Kylpyhuone Oy	Finland	300,000	100.0	FIM	30,000	FIM	30,000	
Ido Badrum AB	Sweden	20,000	100.0	SEK	2,000	FIM		10,673
Porsgrund Oy	Finland	600	100.0	FIM	600	FIM		600
Porsgrund Bad AS	Norway	10,000	100.0	NOK	10,000	FIM	6,057	
Ifö Sanitär AB	Sweden	20,000	100.0	SEK	20,000	FIM	35,000	
Fastighets AB Pressarna	Sweden	100,000	100.0	SEK	10,000	SEK		20,882
Ifö Sanitär A/S	Norway	20	100.0	NOK	200	SEK		185
Scandi-aqualine A/S	Denmark	70,000	100.0	DKK	7,000	SEK		15,115
IFÖ Sanitär Eesti AS	Estonia	10	100.0	EEK	1	SEK		216
Scandiaqua Sp.zo.o.	Poland	4,995	100.0	PLN	500	SEK		1,882
Allia International S.A.	France	1,775,000	100.0	FRF	177,500	FIM	630,010	
Allia S.A.	France	1,099,994	100.0	FRF	109,999	FRF		109,999
Polyroc S.A.	France	67,995	99.9	FRF	680	FRF		8,504
Fabrication d'Appareils Sanitaires S.A.R.L.	France	4,299	99.9	FRF	4,299	FRF		19,419
Keramag Keramische Werke AG	Germany	457,250	95.3	DEM	22,863	FIM	78,941	153,472
Hutschenreuther-Keramag GmbH	Germany		50.0	DEM	1,500	DEM		2,603
Keramag Keramische Werke Haldensleben GmbH	Germany		100.0	DEM	5,254	DEM		5,263
Keramag Vertriebs Holding GmbH	Germany		100.0	DEM	1,000	DEM		1,000
Varicor S.A.	France	6,358	100.0	FRF	6,358	DEM		5,062
Spectra Vertriebsgesellschaft mbH	Germany	15,000	100.0	DEM	1,500	FRF		5,342
Eurocer Industria de Sanitarios S.A.	Portugal	540,000	100.0	PTE	540,000	FRF		23,748
Laminex Sp. z o.o.	Poland	10,040	99.0	PLN	2,510	FRF		10,336
Evac International Oy	Finland	500	100.0	FIM	5,000	FIM	10,139	
Evac AB	Sweden	70,000	100.0	SEK	7,000	FIM		4,508
Evac Oy	Finland	70,000	100.0	FIM	7,000	FIM		6,182
Evac S.r.l.	Italy		100.0	TITL	150,000	FIM		4,260
Evac S.A.R.L.	France	500	100.0	FRF	50	FIM		683
Evac (U.K.) Limited	Great Britain	2	100.0	GBP	0	FIM		0
Envirovac Inc,	USA	1,010	100.0	USD	1,246	FIM		5,487
Envirovac Inc	Canada	1	100.0	CAD	1	USD		1
Evac GmbH	Germany		100.0	DEM	300	USD		215
Sanitec Kolo Sp. z o.o.	Poland	333,333	80.3	PLN	16,667	FIM	52,461	
Sanitec International GmbH	Germany	1	100.0	DEM	250,000	FIM	597	
Sanitari Pozzi S.p.A.	Italy	4,956,597	100.0	TITL	17,348,090	FIM	24,740	
Domino S.p.A.	Italy	2,666,996	100.0	TITL	2,666,996	FIM	191,174	
Sanitec Servizi Logistici S.r.l.	Italy	80,000	100.0	TITL	8,000,000	FIM	24,688	
Johnson Industrial Holding AG	Switzerland	240	60.0	CHF	60,000	FIM	59,094	
Sanitec Group others (3)						FIM	194,720	
							1,337,621	
Associated companies								
Ina/Ifö Co Ltd.	Japan	60,000	50.0	JPY	30,000	SEK		947
Raftery Holding B.V.	Netherlands	10	50.0	NLG	10,000	USD		14
Ceramic Holdings Middle East C.V.	Netherlands		50.0			USD		35,000
Johnsson Suisse Sanitec Pte Ltd	Singapore	1	50.0	SGD	1	FIM		0
AWEK Industrial Patents Ltd. Oy	Finland	50	25.0	FIM	100	FIM		100

Other Sanitec Group companies	6
Sanitec Group total shares and securities	1,337,627

A complete list of shares and securities is included in the official financial statements.

Proposal by the Board of Directors

The consolidated distributable funds of the Sanitec Group on 31 December 1998 amounted to FIM 684,217,000. The Parent Company's net profit for the financial year amounted to FIM 122,058,950 and the retained earnings to FIM 281,596,810. The distributable funds on 31 December 1998 amounted to FIM 403,655,760.

The Board of Directors proposes that a dividend of FIM 45,000,000 be paid, and that the retained earnings of FIM 358,655,760 be carried forward in the Parent Company.

Helsinki, 11 February 1999

Georg Ehrnrooth   Wolfgang H. Molitor

Ole Johansson   Pekka Virtanen

Henrik Eklund
president

Auditors' Report

To the shareholders of Sanitec Ltd Oy • We have audited the accounting, the financial statements and the administration of Sanitec Ltd Oy for the year ended 31 December 1998. The financial statements, which include the report of the Board of Directors, the consolidated and parent company income statements, balance sheets, cash flow statements and notes to the financial statements, have been prepared by the Board of Directors and the President. Based on our audit we express an opinion on these financial statements and on administration.

We have conducted the audit in accordance with Finnish Standards on Auditing. Those standards require that we perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining on a test basis evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial statements presentation. The purpose of our audit of administration is to examine that the Board of Directors and the President have complied with the rules of the Companies Act.

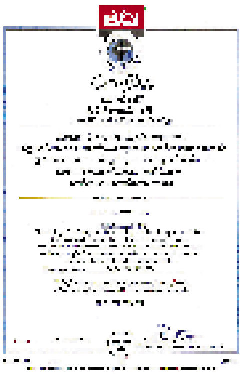
In our opinion, the financial statements have been prepared in accordance with the Accounting Act and other rules and regulations governing the preparation of financial statements. The financial statements give a true and fair view, as defined in the Accounting Act, of both the consolidated and parent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

Helsinki, 18 February 1999

KPMG WIDERI OY AB

Sixten Nyman
Authorized Public Accountant

The Environment



Ifö Sanitär A/S in Sweden received the ISO 14001 certificate in November 1998.

CERAMICS

Raw materials and solid waste • Where raw materials are concerned the ceramic industry does not exert a significant load on the environment since it uses mainly natural raw materials: clay, kaolin, feldspar and quartz. Moulds are made of gypsum. The substances needing more attention are glazing and colour pigments. By installing new technology the Sanitec factories have been able to reduce dust emissions, and even totally eliminate glaze waste.

Excess clay and product scrap are reused or recycled as much as possible. In 1998, for example, the Limoges factory in France reused 1600 tons of broken pieces in chamotte preparation (640 tons in 1997).

Production process • In production the main burden on the environment is caused by energy usage since ceramics manufacture is a highly energy-intensive process requiring the use of kilns both for drying and firing.

A study conducted at Ido's factory in Finland in 1997 showed that energy consumption is the biggest single contributor to environmental impacts caused by the plant. Through simple actions employees themselves can greatly affect energy usage.

Ifö's investments in new production technology will considerably reduce energy consumption.

Sanitec Kolo's investments in its main production hall will also result in energy savings of up to 30 % compared to the situation prior to the investment.

Water saving • Water saving plays a key role in Sanitec's product development for toilets since water consumption is the biggest environmental factor when the product is in use.

Traditional tanks use from six to nine litres of water. Many Sanitec companies in Europe and the Johnson Sanitec joint venture in Singapore have successfully marketed water-saving toilets for several years. Ifö has calculated that its sales of water-saving WCs has increased by 39 % from 1995 to 1998. At the end of 1998 Keramag launched a 4.5-litre toilet to offer a more environmental choice to German consumers.

ACRYLIC BATHTUBS

Acrylic bathtubs are produced from thin acrylic sheets. At Domino moulding process improvements reduced acrylic and other material waste by more than 35 % between 1996 and 1998. Production waste is largely reused or recycled.

Laminex in Poland has developed a detailed waste management program.

Emissions to air • The manufacture of acrylic bathtubs creates styrene emissions into the air, the level of which is legally regulated. The emissions at all Sanitec factories are below the permitted levels. Poland has the toughest standard in Europe (25 mg/cubic metre). Laminex has been able to reduce styrene emissions to only 5 mg/cubic metre.

Other measures • All Sanitec factories carried out smaller investments during the year in order to reduce environmental effects. These include dehydration of wastewater, reduction of dust emissions, reduction of energy usage, reduction of discharged carbon oxide, and increased recycling of materials.

ENVIRONMENTAL CERTIFICATES

- Ido's environmental system was reviewed and the standard changed from the previous BS 7750 certificate to ISO 14001 in March 1998.
- Keramag's headquarters and both its plants were reviewed during 1998 and their ISO 14001 certificate was renewed for the next three years.
- Ifö's sites in Bromölla and Mörrum received the ISO 14001 certificate in November 1998.
- The Digoin factory in France is continuously improving its processes in order to receive ISO 14001 in near future.
- Laminex in Poland is commencing adaptive measures aimed at introducing the ISO 14000 environmental standard.

ENVIRONMENTAL MANAGEMENT PRIZE FOR IDO

Ido Bathroom Ltd in Ekenäs, Finland, received the first Environmental Management Award to be granted in the country. This award is in recognition of Ido's consistent long-term environmental efforts. According to the jury Ido succeeded in linking environmental management to its business operations and total quality management.

Ido carries out a lifecycle analysis (LCA) every two years to measure the environmental effects of its products. The LCA concerning the Trevi dual-flush toilet was carried out in 1998 based on 1997 data. The results show that the product's environmental effects had declined by 5 % between 1995 and 1997.

EVAC

Evac's closed vacuum-based toilet systems offer an environmentally sound solution in various fields. Compared with the conventional gravity-based system, they help to save water and reduce sewage.

Evac Marine launched a new system, which offers 100 % control of the vessel's black and grey water systems, fulfilling all current and future IMO (International Maritime Organization) regulations and providing a simple complete overview of the whole shipboard sewage chain.

Key Events

ACQUISITIONS

Domino S.p.A. • In May 1998 Sanitec increased its shareholding in the Italian company Domino S.p.A. from 25 % to 51 %. In September 1998 Sanitec Ltd Oy purchased the outstanding 49 % of the shares in Domino. Domino is a manufacturer of whirlpool baths, bathtubs and shower systems. Sanitec has owned shares in Domino since 1995.

Domino's net sales in 1998 were FIM 270 million and it has around 200 employees. The trademarks of the company are Albatros and Revita. Domino has its factories near Pordenone in northern Italy.

Sanivac GmbH • In January 1999 Sanitec's subsidiary Evac International acquired 100 % of the shares of Sanivac GmbH from Otto Wolff Industrieberatung und Beteiligungen GmbH.

Sanivac's business is mainly focused on vacuum toilet systems for trains and emptying technology for retention tanks. The company also provides vacuum technology solutions to the marine and construction markets.

Sanivac's net sales in 1998 were approximately FIM 30 million. The company has 29 employees in its office and assembly factory near Hamburg, Germany.

Johnson Industrial Holding AG • In December 1998 Sanitec increased its shareholding in the Swiss holding company to 60 %, which meant that the operations of Johnson Suisse Malaysia were consolidated as of December 1998.

Logistics Centre • Sanitari Pozzi's factory in Fiume Veneto was turned into a logistics centre that will distribute products to northern Italy. This will improve Sanitari Pozzi's service to its customers, most of whom are located in northern and central Italy. The new logistics centre will also serve as one of the key transit points for import and export of Sanitec intercompany products.

Major events in production • The Borg-el-Arab ceramics factory in Alexandria Egypt completed its investments and commenced production in February 1999.

The ceramics factory in Wloclawek, Poland, which started operation in 1997, has reached expected performance and production levels.

Ifö Sanitär AB has invested in two new ceramic lines in Bromölla. Washbasins are produced on an automatic line and fine fireclay production has been transferred to a new factory.

After closure of the Fiume Veneto factory in Italy, Sanitari Pozzi transferred equipment to its Gaeta factory to increase Gaeta's flexibility and productivity.

Evac • Evac introduced a new pneumatic train toilet and received its first orders from the Chinese Ministry of Railways. These deliveries also meant entrance into the Chinese market for Evac Train.

Evac gained several projects in the supermarket sector, especially in the UK and Italy, where it offers an unmatched system for collection of condense water.

Evac Marine launched a new system which offers 100 % control of the vessel's black and grey water systems, fulfilling all current and future IMO (International Maritime Organization) regulations. Developed in close cooperation with shipyards worldwide and based on feedback from cruise ship operators, this system is easy to use and provides a simple complete overview of the whole shipboard sewage chain.

Environmental award • Ido Bathroom Ltd in Ekenäs was granted the first Environmental Management Award in Finland.

The award is in recognition of Ido's consistent long-term environmental efforts.

Sanitec representative office • A Sanitec representative office was opened in Moscow to promote exports to Russia.

Others • Sanitec continued with measures to strengthen its profile and independence. This process involved integrating the treasury, internal audit and legal functions into Sanitec Ltd Oy's organization in Helsinki.

Mr. Esko Mäntyniemi, Marketing Manager of Ido Bathroom Ltd, is handed the first Environmental Management Award in Finland.

Quality control at Domino's plant in Spilimbergo, Italy.

Board of Directors

Georg Ehrnrooth
Born 1940. Chairman, President and CEO of Metra Corporation.

Henrik Eklund
Born 1939. President of Sanitec Ltd Oy.

Ole Johansson
Born 1951. President and CEO of Wärtsilä NSD.

Wolfgang H. Molitor
Born 1937. Director.

Pekka Virtanen
Born 1941. Senior Vice President of Metra Corporation.

Board of Management

Henrik Eklund
Born 1939. President of Sanitec Ltd Oy.

Stefan Berger
Born 1955. Senior Vice President of Sanitec Ltd Oy.

Massimo Bonotti
Born 1947. Managing Director of Sanitari Pozzi S.p.A.

Alberto Casali
Born 1954. Managing Director of Domino S.p.A.

Arto Korhonen
Born 1943. Vice President of Sanitec Ltd Oy.

Marek Kukuryka
Born 1954. Managing Director of Sanitec Kolo S.p.zo.o.

Pertti Lehti
Born 1958. Managing Director of Ido Bathroom Ltd Oy.

Benny Persson
Born 1942. Managing Director of Ifö Sanitär Ab.

Yvon Riou
Born 1940. Managing Director of Allia S.A.

Matti Tanska
Born 1946. Managing Director of Evac International Ltd Oy.

Georg Wagner
Born 1953. Managing Director of Keramag AG.

First row from left: Georg Wagner, Stefan Berger, Henrik Eklund, Pertti Lehti
Second row from left: Matti Tanska, Benny Persson, Marek Kukuryka, Massimo Bonotti, Arto Korhonen, Yvon Riou

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Sanitec is one of the leading bathroom ceramics companies in Europe. It also has activities in the Middle East and South East Asia. Its local brands in ceramics and in other bathroom products are well established in their markets. The Evac group is a world leader in water-saving vacuum toilet systems. Sanitec is a subgroup of Metra Corporation.

Metra Corporation is a Finnish based industrial group. Metra's other subgroups are Wärtsilä NSD Corporation and Imatra Steel. Wärtsilä NSD is a mechanical engineering group with global operations. Offering customers complete power solutions for land- based power plants and marine propulsion. Imatra Steel produces special engineering steels and products for the European automotive and mechanical engineering industries. Metra's associated company Assa Abloy is the world's leading locking systems company.

Metra is based in Helsinki, Finland. The Metra Group's 14,000 employees are located in more than 50 countries.

In 1998 Metra's net sales were FIM 15.5 billion (USD 2.9 billion). Metra's shares are listed on HEX Ltd., Helsinki Exchanges and the SEAQ system in London. Metra has 17,100 shareholders.

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