



UPM

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*The merger of Kymmene Corporation and Repola Ltd to form UPM-Kymmene Corporation took effect on 30 April 1996. This report covers the operations of the merging companies and the UPM-Kymmene Group in 1996.*

## ANNUAL GENERAL MEETING

UPM-Kymmene Corporation will hold its Annual General Meeting at 3.00 pm on Thursday, 10 April 1997 in Marina Congress Center, address Katajanokanlaituri 6, 00160 Helsinki. Participants' names will be checked and ballot slips issued beginning at 2.00 pm.

Shareholders wishing to attend the Annual General Meeting must be registered in the list of shareholders kept by Finnish Central Securities Depository Ltd no later than 27 March 1997. Shareholders whose shares have not yet been transferred to the book entry system also have the right to attend the Annual General Meeting on certain conditions. Details will be given in the summons to the meeting.

Shareholders wishing to attend the Annual General Meeting must inform the company by 12.00 noon on 8 April 1997 at the latest by writing to: UPM-Kymmene, Share Register, Snellmaninkatu 13, P.O. Box 203, 00171 Helsinki, or by telephoning +358 (0) 204 15 0108 or (0) 204 15 0109, or telefax +358 (0) 204 15 0328. Written notice of a shareholder's intention to attend the meeting must arrive before the deadline stated above. Any letters of authorization must be submitted at the time the shareholders concerned inform the company of their intention to attend.

## DIVIDEND

The Board of Directors' proposal to the Annual General Meeting for the distribution of dividend, together with information on the payment of dividend, can be found on page 33 of this report.

## FINANCIAL PUBLICATIONS

During 1997, UPM-Kymmene Corporation will publish the following financial information in Finnish, Swedish, English, German and French:

|                  |                                      |
|------------------|--------------------------------------|
| 15 May 1997      | Interim Review for January–March     |
| 14 August 1997   | Interim Review for January–June      |
| 13 November 1997 | Interim Review for January–September |

These publications can be ordered from UPM-Kymmene's Head Office, address P.O. Box 203, 00171 Helsinki, Finland, tel. +358 (0) 204 15 0022 or telefax +358 (0) 204 15 110.

UPM-Kymmene's Internet home page: <http://www.upm-kymmene.com>

## THE YEAR IN BRIEF

|   | 1996<br>FIM   | 1995<br>FIM | 1994<br>FIM | 1996<br>USD | 1996<br>Ecu |
|---|---------------|-------------|-------------|-------------|-------------|
| Turnover, million                           | <b>51,757</b> | 54,738      | 47,966      | 11,267      | 8,997       |
| Operating profit, million                   | <b>5,591</b>  | 8,504       | 5,477       | 1,217       | 972         |
| Profit before extraordinary items, million  | <b>3,555</b>  | 6,278       | 3,110       | 774         | 618         |
| Earnings per share                          | <b>10.24</b>  | 20.09       | 10.04       | 2.23        | 1.78        |
| Dividend per share (1996: Board's proposal) | <b>4.50</b>   | 4.50        | 2.19        | 0.97        | 0.78        |
| Return on equity, %                         | <b>11.1</b>   | 24.5        | 14.1        | 11.1        | 11.1        |
| Return on capital employed, %               | <b>10.1</b>   | 16.2        | 10.7        | 10.1        | 10.1        |
| Equity to assets ratio at end of period, %  | <b>41.4</b>   | 39.3        | 32.6        | 41.4        | 41.4        |
| Gearing ratio at end of period, %           | <b>93</b>     | 102         | 145         | 93          | 93          |
| Shareholders' equity per share              | <b>96.85</b>  | 89.54       | 74.45       | 20.86       | 16.79       |
| Net capital expenditure, million            | <b>4,432</b>  | 3,318       | 2,697       | 954         | 768         |

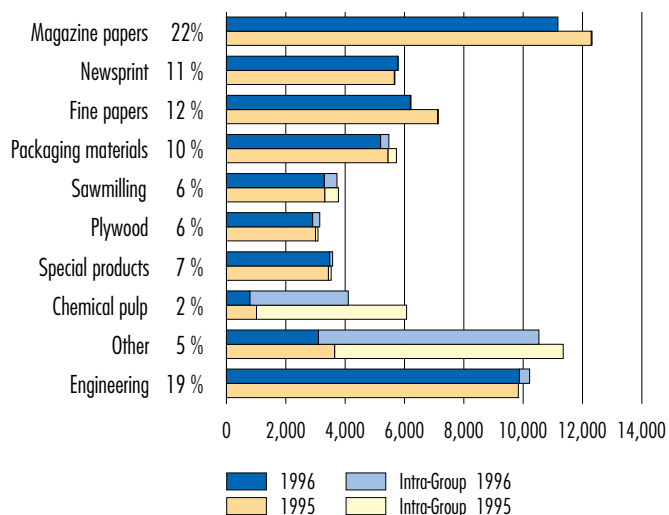
### Adjusted figures

|  |               |
|--|---------------|
| Return on equity, %                        | <b>9.3</b>    |
| Equity to assets ratio at end of period, % | <b>45.7</b>   |
| Gearing ratio at end of period, %          | <b>78</b>     |
| Shareholders' equity per share             | <b>116.50</b> |

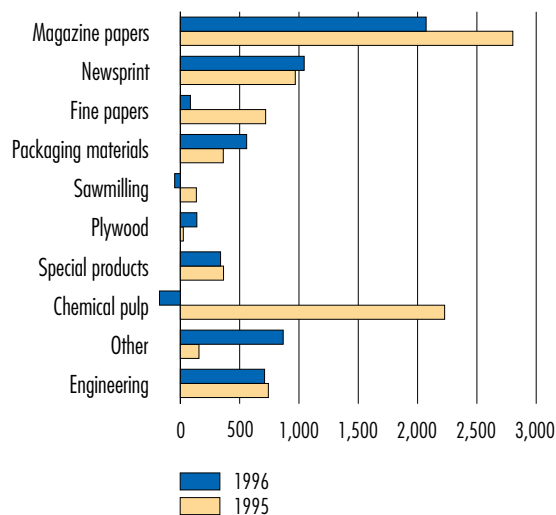
Formulae for calculation of indicators are shown on page 64.

- The merger was completed and UPM-Kymmene Corporation was formed.
- Financial results were poorer because of the decline in printing paper deliveries and the fall in fine paper prices.
- The profitability of the packaging materials division improved. Special products and the engineering group Rauma made steady financial progress.
- The markets for sawn timber, fine paper and plywood improved towards the end of the year.
- The Group's structure was streamlined and the equity to assets ratio improved through the sale of shares and businesses.

**Turnover by division, FIM million**  
(% of Group total in 1996)



**Operating profit by division, FIM million**



*“UPM-Kymmene’s aim is to be a profitable investment for shareholders”*



Following the merger last year, UPM-Kymmene carried out an extremely thorough review of its strategic and economic targets for the future. The starting-point for this review was the company’s ultimate business goal: to be a profitable investment for its shareholders.

To achieve this aim, the company must secure its profitability and seek controlled growth without endangering its financial

solidity. Shareholders have the right to a reasonable portion of profits in the form of dividend. The company’s dividend policy supports the growth and stability of shareholder value.

UPM-Kymmene’s prospects for improved profitability are good. The benefits derived from the merger alone will add about two percentage points to the return on capital employed. The recently completed major investment programme will also enhance the return. Key factors, however, will be careful consideration of future capital expenditure and allocation of investment funds. Efficient use of capital is being stressed at all levels of UPM-Kymmene’s organization. One way in which it is being encouraged is through the new incentive scheme, which offers all employees bonuses based on the return on capital employed.

The management has set a long-term profitability target of 15 per cent for the return on capital employed by the divisions and their units. This aims at giving a return on equity which exceeds risk-free returns by a clear margin.

The Group has set a target for its equity to assets ratio of at least 40 per

cent. The main goal in the immediate future is to reduce indebtedness, which it would seem has a major impact on the company’s share prices. UPM-Kymmene’s balance sheet includes some assets that have been valued at well below their current market price. Liquid listed shares not connected with business operations account for a sizeable proportion of these assets.

Within the limits set by the targets set for profitability and financial solidity, UPM-Kymmene is seeking a rate of growth in its core businesses above the industry average.

The Board of Directors’ proposal for the distribution of profits is in line with the company’s policy of distributing at least one-third of the profit as annual dividend. Our aim is a steady dividend that rises along with the company’s profitable growth, a dividend that offers shareholders a predictable annual return on their investment.

It is proposed to distribute two-thirds of the dividend for 1996 in the form of Rauma Oy shares. This applies only to 1996, and is part of UPM-Kymmene’s plan to reduce its interest in Rauma to below 50 per cent. It is also an indication of UPM-Kymmene’s policy of focusing increasingly on its own core businesses, and will at the same time simplify the Group’s structure.

The intention in offering these shares to UPM-Kymmene shareholders is to give Rauma a stable, more broadly based ownership. I believe the proposal will meet with the approval of UPM-Kymmene’s shareholders, who, indirectly, are already Rauma Oy shareholders.

*Yrjö Niskanen*  
Chairman of the Board of Directors

*“Group operations and structure now streamlined”*

1996 was UPM-Kymmene’s first year of operations, although the company was not officially formed through the merger of its predecessors until the end of April. Behind the decision to merge were the important synergy benefits obtainable by bringing together a wealth of experience and two companies that complemented each other so well.

During 1996 there was a rapid general decline in the markets for forest industry products, and this hindered the process of building up the new group and deferred some of the synergy benefits accruing from the merger. Meaningful conclusions about the economic benefits of the merger will not be possible before market conditions give the Group’s well-tuned production machinery a chance to show what it can do. The basis on which the long-term benefits were estimated remains unchanged.

The Group’s structure was trimmed through company disposals, including that of the chemicals business, to allow a greater focus on the core business areas. The most significant single move in this direction was the decision to sell the Simpele board mill, paper mill and carton plant to Metsä-Serla and Joutseno Pulp’s pulp mill to Metsä-Botnia. This signifies the end of UPM-Kymmene’s board production, for which the Group had only a single machine, and the logical transfer of non-integrated chemical pulp production to the associated company Metsä-Botnia. The sale of shareholdings and businesses agreed on in 1996 will raise a total of around FIM 3.5 billion. Profits of FIM 677 million on these sales were booked for last year. Sales already agreed on will produce profits of some FIM 700 million during 1997.

At the same time, the Group’s structure has been strengthened through investments in converting and the manufacture of speciality papers. The most important of these investments was Tervasaari’s new release paper machine, which has strengthened our already unique position in the self-adhesive label papers



market. This key development area is giving us another strong foothold alongside printing and writing papers.

UPM-Kymmene has achieved an excellent balance within its industry. Wood consumption corresponds well with the forest structure, which means that the right wood raw material is always available. From experience, we know that our product range provides a buffer against cyclical fluctuations. The range includes very profitable products that are at the mature stage, as well as rapidly growing products of the future.

The financial result for 1996 cannot be regarded as satisfactory when compared with the record profits reported by the Group’s two predecessors for 1995, although the return on capital employed was better than in previous years of recession.

The prospects for this year are clouded by many uncertainties. Economic growth, which has a fairly direct impact on demand for UPM-Kymmene’s main products, is forecast to strengthen gradually in Europe, the Group’s most important market. Product prices seem to have levelled off, or in some cases embarked on a new rise. There are clear signs that the situation is improving.

*Juha Niemelä*  
President & CEO

## UPM-Kymmene

*In terms of turnover and market capitalization, UPM-Kymmene is Europe's biggest forest industry group, and in terms of production capacity one of the world's largest paper manufacturers.*

■ UPM-Kymmene Corporation was formed on 30 April 1996 when Kymmene Corporation was merged with Repola Ltd and its subsidiary United Paper Mills Ltd.

The merger affords synergistic benefits in areas such as production specialization and cost effectiveness, research and development, and logistics. The new company is able to offer its partners a wider range of products and services.

### A EUROPEAN FOREST INDUSTRY COMPANY

Forest industry operations account for 80%, or FIM 42 billion, of UPM-Kymmene's total turnover of FIM 52 billion. Forest industry revenues (FIM 35 billion) come largely from exports and overseas operations. The Group's exports from Finland totalled FIM 25 billion in 1996.

Business focuses on the European Union countries, the most important markets for UPM-Kymmene's products being in Germany, Finland, Great Britain and France.

At the end of 1996, the UPM-Kymmene Group had 43,636 employees, of whom 33,622 worked in the forest industry sector.

UPM-Kymmene owns 73.3% of the engineering group Rauma, which had a turnover in 1996 of FIM 10.2 billion and a personnel of 10,014.

### EMPHASIS ON PAPER MANUFACTURING

UPM-Kymmene's forest industry operations are conducted by seven divisions: Magazine Papers, Newsprint, Fine Papers, Packaging Materials, Sawmilling, Plywood and Special Product Companies. The sawmilling division includes joinery products and chains of builders' merchants. The Special Product Companies produce self-adhesive labelstock, self-adhesive label and other speciality papers, air-laid paper and stationery products.

The Group's other operations include a real estate unit, forwarding and logistics companies, and Oy Nautor Ab, a company which builds Swan yachts.

### SERVING THE CUSTOMER

UPM-Kymmene's paper divisions have a global sales network, which was formed in 1996 by combining Finnapp's and Kymmene's sales organizations. The Group also has its own sales networks for speciality papers, converted products, and the products of mechanical wood processing.

UPM-Kymmene has production plants and sales and distribution companies on five continents. They have close and well-established links with local customers, whom they can now serve even more comprehensively. The extensive sales network also provides an efficient service to major multinational customers.



### UPM-KYMMENE MAGAZINE

The world's biggest manufacturer of magazine papers, producing both coated and uncoated grades. The main market is Western Europe followed by the United States.



### UPM-KYMMENE NEWSPRINT

UPM-Kymmene is Europe's largest newsprint manufacturer. It also produces paper for telephone directories and mail order catalogues. Almost the entire output of newsprint is sold to the European market.



### UPM-KYMMENE FINE

Europe's biggest manufacturer of fine papers, producing both coated and uncoated grades. Customers are paper merchants and office supplies wholesalers, printers and converters. Europe is the main market.



### UPM PACK

Europe's leading supplier of composite materials. The range of products includes base papers, packaging materials, and paper, board and plastic packagings for consumer and industrial goods. The main market is Europe.



*In printing and writing papers, UPM-Kymmene's strengths are its large market share, wide range of products, modern production plants and cost effectiveness.*

MODERN MACHINES

The Group has a paper manufacturing capacity of 7.5 million tonnes a year. Printing and writing papers account for 6.8 million tonnes of this. UPM-Kymmene's production capacity has been greatly expanded and extensively modernized in recent years. As a result of investments that began in the mid-1980s, three-quarters of

total capacity is either new or has been completely modernized.

MORE THAN JUST PRINTING PAPER

Apart from printing and writing papers, UPM-Kymmene is Europe's leading manufacturer of speciality papers, which are marketed to converters worldwide. UPM-Kymmene's own extensive paper

converting operations, such as self-adhesive labelstock production, are based largely on raw materials supplied by the Group's paper mills.

SELF-SUFFICIENCY IN ELECTRICITY AND CHEMICAL PULP

Self-sufficiency in key resources is vital to the Group's operations. The most important resources are electricity and chemical pulp, which are obtained both in-house and through associated companies. The most important associated companies are Oy Metsä-Botnia Ab, Oy Metsä-Rauma Ab and Pohjolan Voima Oy.

Most of the wood raw material used is purchased from private forest owners. The Group's own forest holdings in Finland cover 940,000 hectares.

INCREASINGLY INTERNATIONAL SHARE OWNERSHIP

UPM-Kymmene Corporation's shares are quoted on the Helsinki Stock Exchange and on SEAQ International in London. The company also has an ADR programme on the OTC market in the United States.

UPM-Kymmene has 63,000 registered shareholders. Altogether 37% of the shares are owned by non-Finnish nationals. At the end of 1996, the company's market capitalization was FIM 25.6 billion.



UPM-KYMMENE TIMBER

One of Europe's biggest producers of sawn timber. The division is also involved in the joinery business and operates chains of builders' merchants. Its main markets are in Europe.



SCHAUMAN WOOD

Schauman Wood is Europe's largest manufacturer of plywood. The main uses for its products are in the building industry and in transport vehicles. The main market is Western Europe.



SPECIAL PRODUCT COMPANIES

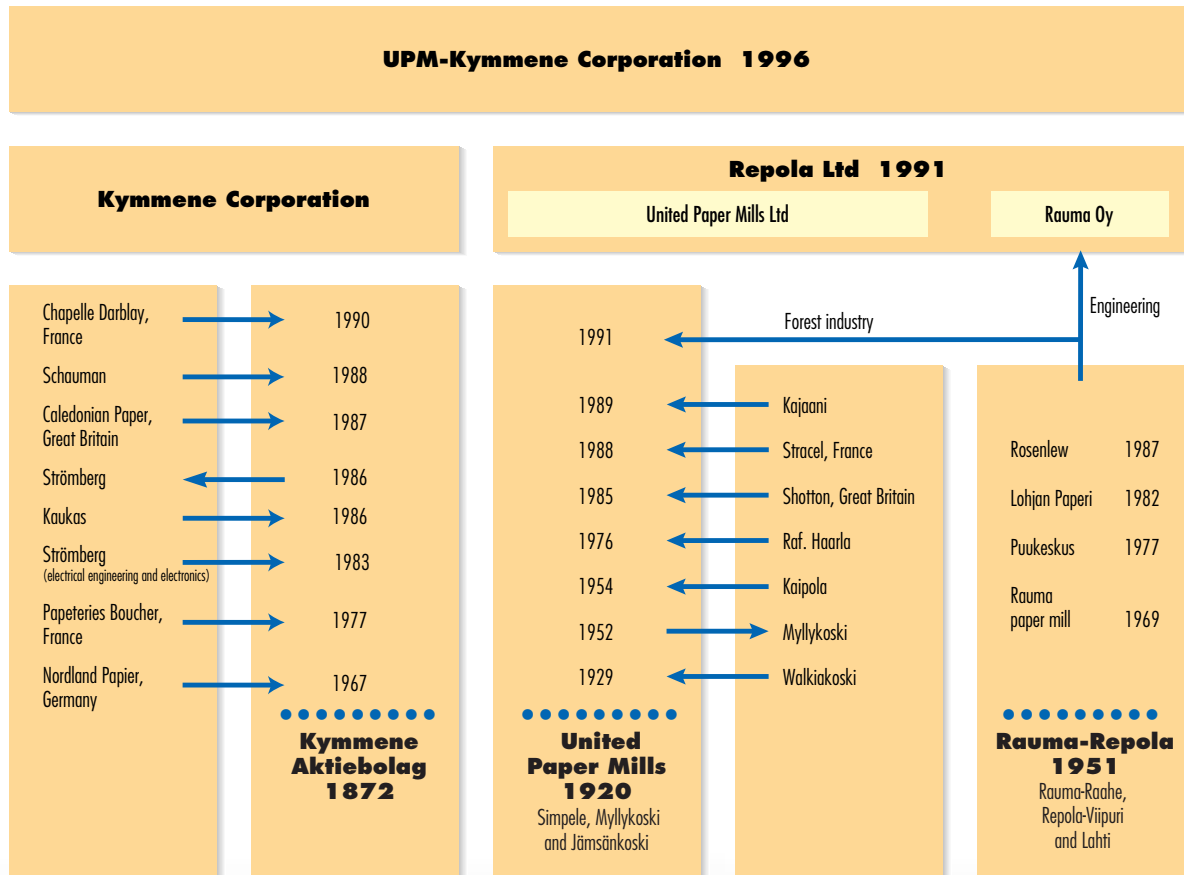
These companies manufacture self-adhesive labelstock, label papers, envelope papers and other specialities, as well as hygiene papers, envelopes and other stationery products.



RAUMA GROUP

Rauma's products are forest machines, fibre technology processes and equipment, rock crushers and industrial valves. Operations are conducted on a global scale.

## History of UPM-Kymmene's forest industry operations



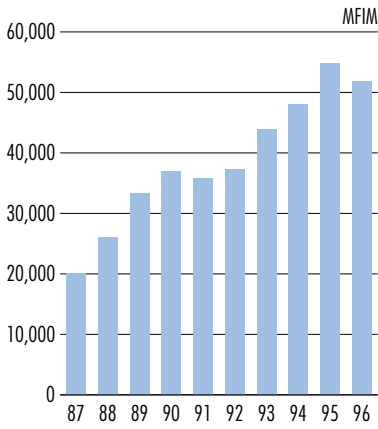
*UPM-Kymmene's founder companies have long traditions in the forest industry.*

*The Verla groundwood mill and board mill at Jaala operated between 1872 and 1964, but are now a museum. In December 1996, this unique industrial site was accepted for UNESCO's World Heritage List.*

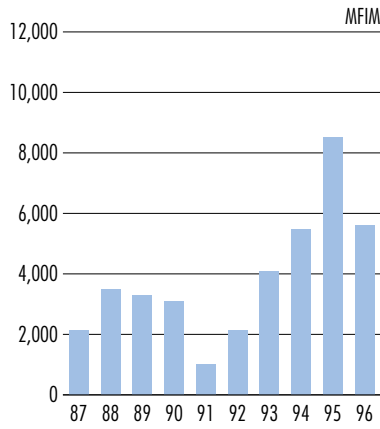




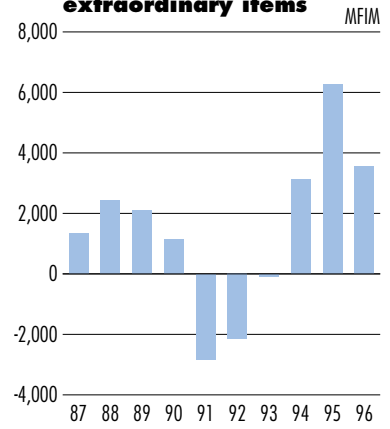
### Turnover



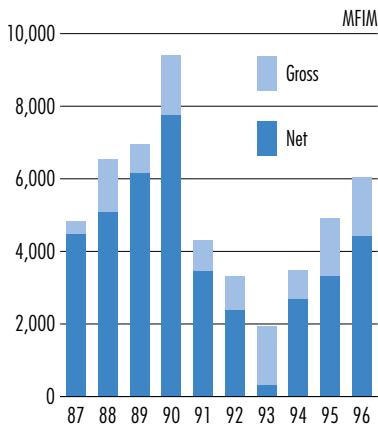
### Operating profit



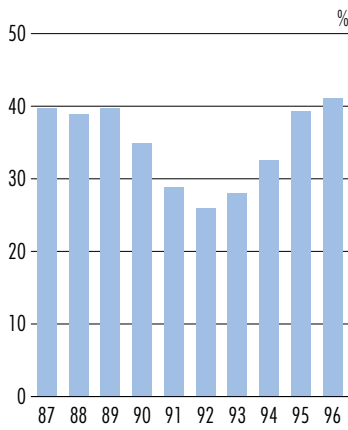
### Profit (loss) before extraordinary items



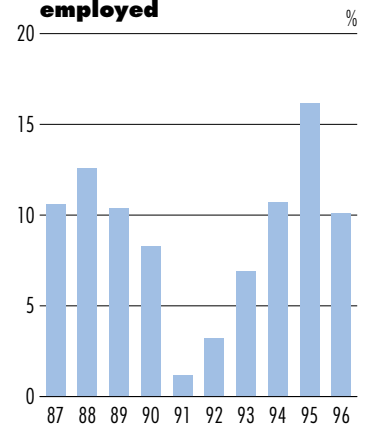
### Capital expenditure



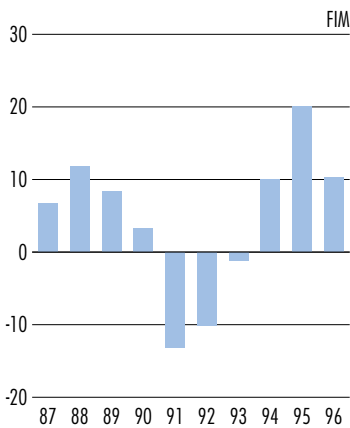
### Equity ratio



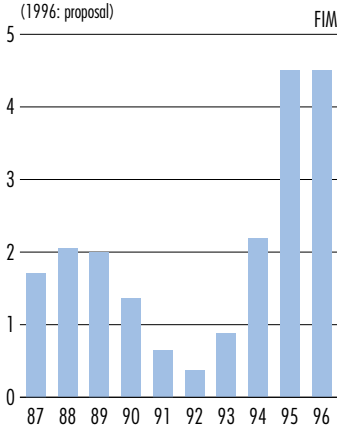
### Return on capital employed



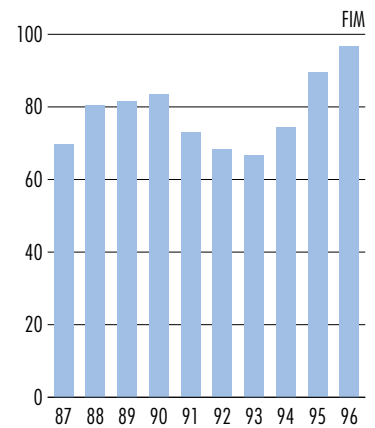
### Earnings per share



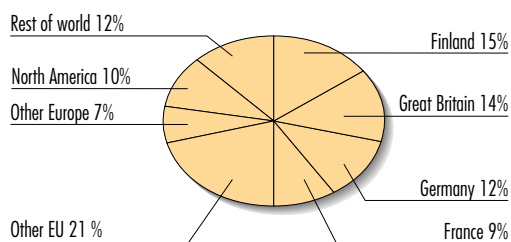
### Dividend per share



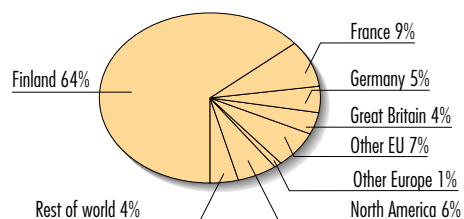
### Equity per share



### Turnover by market area, 1996 FIM 51,757 million



### Personnel by area at 31 December 1996 43,636 employees



## Magazine papers, UPM-Kymmene Magazine

### UPM-Kymmene Magazine

|                                | 1996   | 1995   | 1994  |
|--------------------------------|--------|--------|-------|
| Turnover, FIM mill.            | 11,172 | 12,322 | 9,797 |
| Operating profit, FIM mill.    | 2,072  | 2,803  | 1,358 |
| Capital expenditure, FIM mill. | 1,061  | 648    | 437   |
| Personnel at 31.12             | 5,305  | 5,181  | 5,201 |
| Production, 1000 t             | 2,460  | 2,897  | 2,643 |
| Capacity utilization rate, %   | 81     | 98     | 94    |



*With a production capacity of 3 million t/a, UPM-Kymmene is the world's biggest manufacturer of magazine papers. The company has about a third of Europe's total manufacturing capacity.*



### PROFITABILITY

The division's profitability was weaker than the year before. The reason was the fall in prices and delivery volumes following the running down of buyers' stocks that began early in the year.

Profitability nevertheless remained satisfactory, due partly to the sharp drop in market pulp prices. Profitability was better for the first half of the year than the second.

## DEMAND AND PRICES

In Europe, demand for magazine papers fell by 9%. Demand for LWC paper was down 11% and for SC paper 4%. In the USA, demand was unchanged. LWC has lost some of its market share to coated fine papers.

Magazine paper prices declined during the year by 10–25%, depending on the grade and the market. Despite this, the average price for LWC was almost the same as the previous year, while that for SC was marginally higher.

## PRODUCTION

UPM-Kymmene's magazine paper production fell by 15%. The capacity utilization rate was 81%. Production curtailments have continued into 1997, but on a smaller scale than last year. Demand is expected to improve later this year. The production efficiency of UPM-Kymmene's paper machines was raised still further. Deriving synergy benefits in production is one of the main goals.

## CAPITAL EXPENDITURE

Rebuilds of Jämsänkösken's SC paper machine (PM 5) and Rauma's LWC paper machine (PM 1) were completed during the year. In both cases this has improved product quality and raised production efficiency. Work on modernizing Kaipola's LWC machine (PM 6) began towards the end of the year.

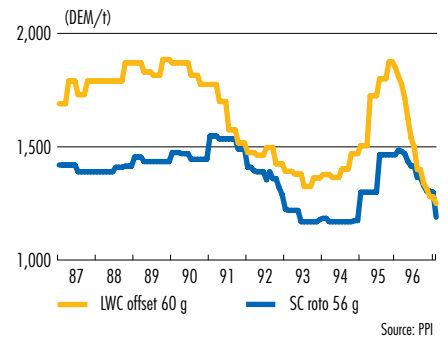
Work on building a new LWC machine at the Rauma mill is proceeding according to schedule. The machine will have a capacity of 400,000 t/a. Start-up is planned for the first quarter of 1998.

## UPM-Kymmene Magazine Main products and their uses

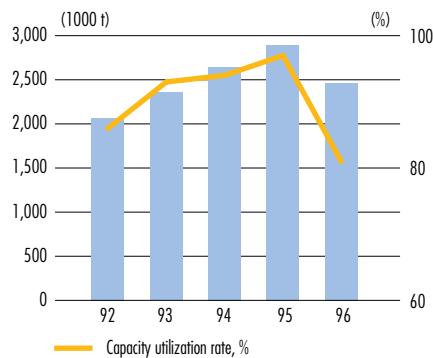
SC magazine papers  
Magazines, weekend supplements, catalogues, flyers

Coated mechanical papers (MFC, FCO, LWC and MWC)  
Magazines, catalogues, brochures, direct mail advertising, other advertising material

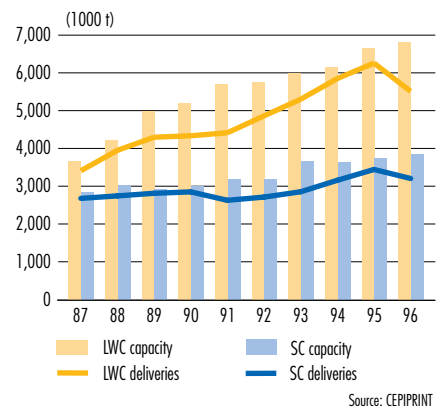
## Trend in magazine paper prices in Germany



## UPM-Kymmene Magazine Production



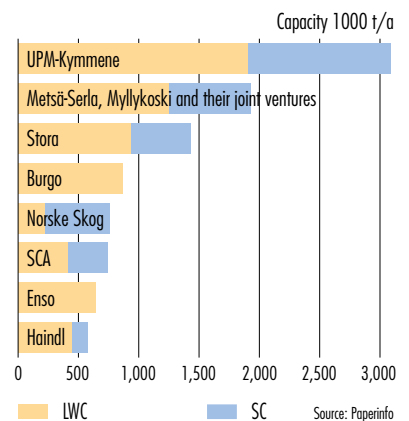
## Magazine paper production capacities and deliveries in Western Europe



## UPM-Kymmene Magazine Mills

| (Paper machines)         | Capacity, 1000 t/a |
|--------------------------|--------------------|
| Jämsänkösken (3)         | 690                |
| Kaipola (1)              | 260                |
| Kajaani (1)              | 140                |
| Lappeenranta (2)         | 490                |
| Rauma (3)                | 710                |
| Voikkaa (2)              | 340                |
| Caledonian Paper (1)     | 240                |
| Chapelle Darblay (2)     | 220                |
| Paper machines, total 15 | Total 3,090        |

## Western Europe's biggest magazine paper manufacturers



## UPM-Kymmene Magazine Turnover by market

| 1996                     | FIM million | %   |
|--------------------------|-------------|-----|
| Finland                  | 344         | 3   |
| Other EU countries       | 6,822       | 61  |
| Other European countries | 752         | 7   |
| North America            | 1,700       | 15  |
| Rest of world            | 1,554       | 14  |
|                          | 11,172      | 100 |

## Global demand for magazine paper

| 1996           | mill. t/a | kg/person/a |
|----------------|-----------|-------------|
| Western Europe | 6.9       | 18          |
| North America  | 6.5       | 22          |
| Rest of world  | 2.7       | 0.5         |
| Total          | 16.1      | 2.8         |

Source: UPM-Kymmene

# Newsprint, UPM-Kymmene Newsprint

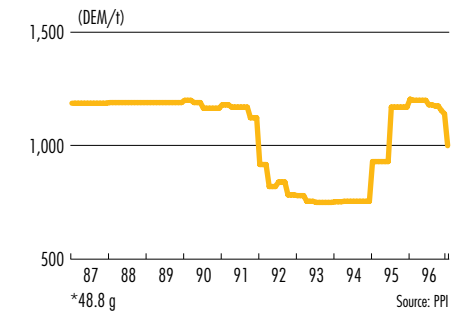


## UPM-Kymmene Newsprint Main products and their uses

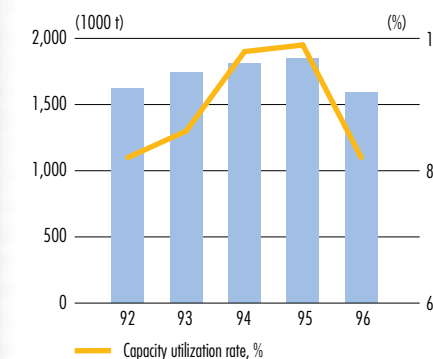
**Newsprint**  
Newspapers, inserts and flyers

**MF specialties**  
Newspapers and supplements, inserts and flyers,  
telephone directories, timetables, pocket books,  
children's colouring books, comics

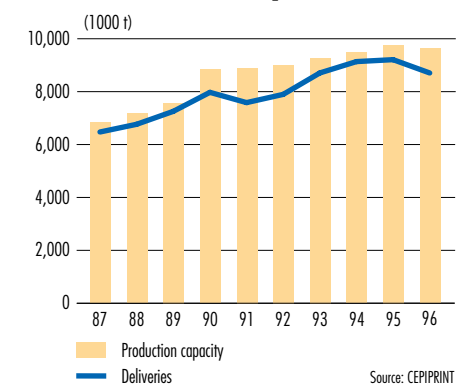
## Trend in newsprint\* prices in Germany



## UPM-Kymmene Newsprint Production



## Newsprint production capacities and deliveries in Western Europe



## UPM-Kymmene Newsprint

|                                | 1996  | 1995  | 1994  |
|--------------------------------|-------|-------|-------|
| Turnover, FIM mill.            | 5,780 | 5,676 | 4,526 |
| Operating profit, FIM mill.    | 1,044 | 969   | 197   |
| Capital expenditure, FIM mill. | 452   | 360   | 214   |
| Personnel at 31.12             | 2,876 | 2,866 | 2,825 |
| Production, 1000 t             | 1,592 | 1,845 | 1,809 |
| Capacity utilization rate, %   | 82    | 99    | 98    |

With a production capacity of 2 million t/a, UPM-Kymmene is the biggest newsprint manufacturer in Europe and one of the largest in the world. The company accounts for about one-fifth of Europe's total newsprint capacity.

## PROFITABILITY

Higher sales prices helped the newsprint division to improve its profitability on 1995. However, profitability declined towards the end of the year as both deliveries and prices fell.

## DEMAND AND PRICES

European demand for newsprint was 6% lower than the year before. This is thought to be largely the result of reductions of stocks, which had risen in response to sharp price rises in 1995, and to measures taken by customers that led to savings in paper consumption. The new production capacity coming on stream in Southeast Asia has hit Canadian newsprint exports to this region, resulting in an increase of 161,000 tonnes in exports of Canadian newsprint to Europe. In consequence, European manufacturers lost some of their shares of the market.



Average prices for newsprint were more than 10% higher than in 1995. Prices were raised early in the year, but had to be revised downwards on some markets from summer onwards. Price negotiations at the turn of the year resulted in a further fall going into 1997.

## PRODUCTION

UPM-Kymmene's newsprint production was 14% down on the year before. The capacity utilization rate was 82%. Demand is expected to improve during 1997 in the United States and also in Europe. Higher capacity utilization rates are also anticipated, as no new capacity is due on stream in 1997 in either Europe or North America. UPM-Kymmene has succeeded in steadily raising the production efficiency of its paper machines.

## CAPITAL EXPENDITURE

A major rebuild of Kaipola's PM 4, which produces telephone directory paper, was completed during the year. This has increased the machine's production capacity and improved control of the paper's quality.

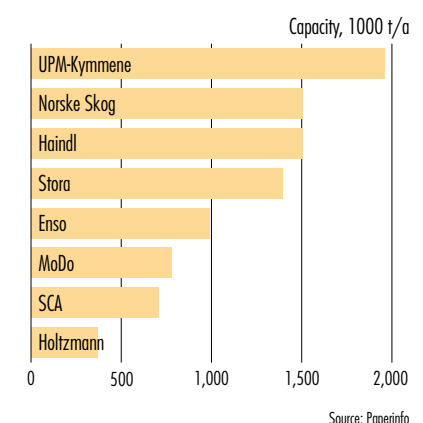
## UPM-Kymmene Newsprint Mills

| (Paper machines)                | Capacity, 1000 t/a |
|---------------------------------|--------------------|
| Kaipola (2)                     | 370                |
| Kajaani (2)                     | 410                |
| Voikkaa (2)                     | 160                |
| Chapelle Darblay (2)            | 300                |
| Shotton (2)                     | 470                |
| Stracel (1)                     | 250                |
| <b>Paper machines, total 11</b> | <b>Total 1,960</b> |

## UPM-Kymmene Newsprint Turnover by market

| 1996                     | FIM million  | %          |
|--------------------------|--------------|------------|
| Finland                  | 386          | 7          |
| Other EU countries       | 4,553        | 79         |
| Other European countries | 230          | 4          |
| North America            | 48           | 1          |
| Rest of world            | 563          | 9          |
|                          | <b>5,780</b> | <b>100</b> |

## Western Europe's biggest newsprint manufacturers



## Global demand for newsprint

| 1996           | mill. t/a   | kg/person/a |
|----------------|-------------|-------------|
| Western Europe | 8.3         | 21.6        |
| North America  | 11.7        | 39.6        |
| Rest of world  | 13.9        | 2.7         |
| <b>Total</b>   | <b>33.9</b> | <b>5.8</b>  |

Source: UPM-Kymmene

## Fine papers, UPM-Kymmene *Fine*

### UPM-Kymmene Fine

|                                | 1996  | 1995  | 1994  |
|--------------------------------|-------|-------|-------|
| Turnover, FIM mill.            | 6,220 | 7,140 | 6,411 |
| Operating profit, FIM mill.    | 85    | 719   | 507   |
| Capital expenditure, FIM mill. | 610   | 827   | 134   |
| Personnel at 31.12             | 3,287 | 3,156 | 2,991 |
| Production, 1000 t             | 1,429 | 1,356 | 1,484 |
| Capacity utilization rate, %   | 88    | 89    | 96    |



*UPM-Kymmene produces both coated and uncoated fine papers. Its 1.8 million t/a capacity makes it Europe's biggest fine paper manufacturer. UPM-Kymmene accounts for 13% of Europe's total fine paper capacity.*

### PROFITABILITY

Profitability was poorer than the year before. Profitability had started to decline during the final four months of 1995 and continued to weaken rapidly throughout the first half of 1996. The fall in prices early in the year for chemical pulp, the main raw material for fine paper production, accelerated the decline in fine paper prices. Demand suffered as a result of customer stock reductions, which had begun in the second half of 1995 and which continued until summer 1996.

### DEMAND AND PRICES

Having fallen continuously for almost a year, European demand for fine paper began to rise in the spring. Demand for coated grades was 10% up on the year before and for uncoated 4% up. The

good demand has continued into 1997.

Fine paper prices fell rapidly throughout the early part of the year. Following the improvement in demand, prices were gradually raised after the summer. By the last quarter, prices were 10% higher than in the spring. However, for the year as a whole, average fine paper prices were 20% lower than the year before.

### PRODUCTION

Production was 5% up on 1995. The capacity utilization rate was 88%. New coated fine paper capacity is due to start up in Western Europe in 1997, and for this reason capacity utilization rates will not keep pace with growing demand. On the other hand, coated fine paper has taken some market shares from coated magazine paper.

### CAPITAL EXPENDITURE

June saw the start-up of Nordland Papier's new coater, which increases the company's coated fine paper capacity by 350,000 t/a. The investment was even more successful than anticipated, thanks to improved demand and to the fact that good quality paper was produced right from the start.

Work on Kymi's PM 7, which included equipping the machine with new coating stations, was completed in September. This will make the paper a more attractive product for direct mail advertising, which is one of the fastest growing uses for printing papers.

UPM-Kymmene has also improved the efficiency of its uncoated fine paper production in order to compensate for the changeover to coated paper at Nordland Papier.

### UPM-Kymmene Fine Main products and their uses

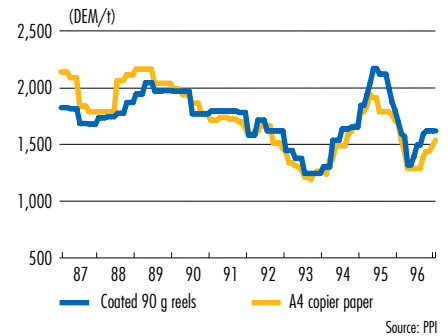
#### Uncoated fine papers

Writing papers, copier papers, continuous stationery, envelopes, direct mail advertising, books, general printing jobs

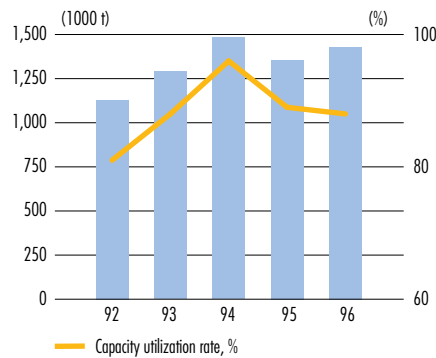
#### Coated fine papers

High-quality 4-colour printings: art books, advertising publications, annual reports, direct mail advertising, high-quality magazines

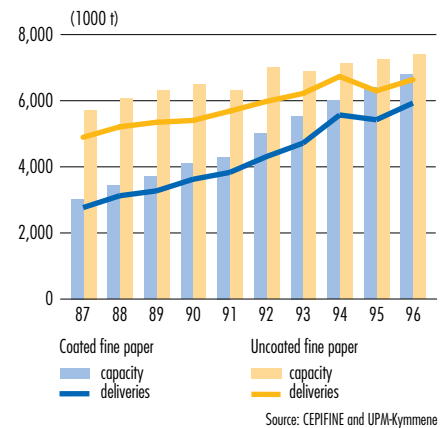
### Trend in fine paper prices in Germany



### UPM-Kymmene Fine Production



### Fine paper production capacity and deliveries in Western Europe

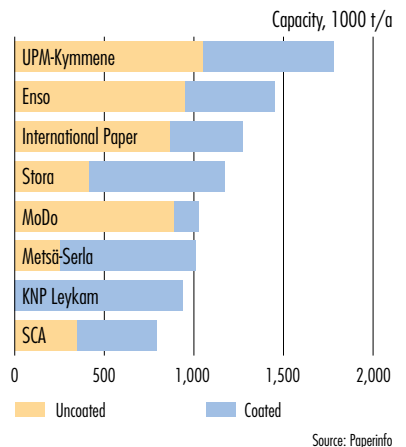


### UPM-Kymmene Fine Mills

| (Paper/coating machines)     | Capacity, 1000 t/a |
|------------------------------|--------------------|
| Kymi (3/1)                   | 680                |
| Nordland Papier (4/2)        | 1,000              |
| Papeteries de Docelles (1/-) | 100                |
| <b>Total</b>                 | <b>1,780</b>       |

Uncoated Coated

### Western Europe's biggest fine paper manufacturers



### UPM-Kymmene Fine Turnover by market

| 1996                     | FIM million  | %          |
|--------------------------|--------------|------------|
| Finland                  | 360          | 6          |
| Other EU countries       | 4,726        | 76         |
| Other European countries | 511          | 8          |
| North America            | 38           | 1          |
| Rest of world            | 585          | 9          |
| <b>Total</b>             | <b>6,220</b> | <b>100</b> |

### Global demand for fine paper

| 1996           | mill. t/a   | kg/person/a |
|----------------|-------------|-------------|
| Western Europe | 11.3        | 29.4        |
| North America  | 17.6        | 59.6        |
| Rest of world  | 21.4        | 4.2         |
| <b>Total</b>   | <b>50.3</b> | <b>8.7</b>  |

Source: UPM-Kymmene

## Packaging materials, UPM Pack

### UPM Pack

|                                | 1996  | 1995  | 1994  |
|--------------------------------|-------|-------|-------|
| Turnover, FIM mill.            | 5,473 | 5,728 | 5,160 |
| Operating profit, FIM mill.    | 559   | 362   | 378   |
| Capital expenditure, FIM mill. | 273   | 378   | 274   |
| Personnel at 31.12             | 5,708 | 5,882 | 5,774 |
| Production, 1 000 t            |       |       |       |
| Paper                          | 313   | 319   | 335   |
| Paperboard                     | 129   | 125   | 134   |

### Turnover by market

| 1996                     | FIM mill. | %   |
|--------------------------|-----------|-----|
| Finland                  | 1,096     | 20  |
| Other EU countries       | 3,360     | 62  |
| Other European countries | 624       | 11  |
| North America            | 61        | 1   |
| Rest of world            | 332       | 6   |
|                          | 5,473     | 100 |

### Turnover by unit

| 1996           | FIM mill. | %   |
|----------------|-----------|-----|
| Walki Wisa     | 1,390     | 23  |
| Rosenlew       | 987       | 16  |
| Simpele        | 857       | 14  |
| Walki Pack     | 838       | 14  |
| Lohjan Paperi  | 697       | 12  |
| Wisapaper      | 590       | 10  |
| Others         | 694       | 11  |
| Internal sales | -580      | -   |
|                | 5,473     | 100 |



UPM Pack took part in the Interpack trade fair in Düsseldorf in May.

UPM-Kymmene is one of the leading European manufacturers of plastic-coated packaging papers and boards, industrial wrappings and intermediate bulk containers. The company is also one of Europe's biggest suppliers of vacuum packs, siliconized papers and packaging papers.

### PROFITABILITY

Profitability for the Packaging Materials division was better than the year before, although production volumes were little changed. Profitability was boosted particularly by the lower prices for chemical pulp and purchased paper, the division's main raw materials.

### DEMAND AND PRICES

Demand for sack and kraft papers was weak throughout the year, and prices fell. The reason was slack business in the building industry and the paper industry, which uses the division's wrappings.

Demand for paper and board for consumer packagings was normal, and improved towards the end of the year. Demand for siliconized papers also increased. Demand for plastic films was below expectations, partly because of the smaller consumption of meat packagings. The prospects for 1997 are better.

In Russia, demand for packaging materials has risen, but competition there has also increased.

### PRODUCTION

Production was 2% down for packaging paper but 3% up for packaging board.



The capacity utilization rate for paper and board production was 91%.

### CAPITAL EXPENDITURE AND RESTRUCTURING

The main investment project completed in 1996 concerned new coating and calendaring equipment for Lohjan Paperi. New investments decided on include a new coating line for Walki Wisa in Valkeakoski and a flexo printing press for Jülich.

The business operations of Wisapak Oy Ab's Karhula paper sack plant were sold to Pyrollsack Oy in May. The sale meets the condition that the company reduce its share of the Finnish paper sack market in order to obtain the EU Commission's approval for the merger.

In December, preliminary agreement was reached on the sale of Simpele paper and board mills and carton plant to Metsä-Serla. The sale is part of a rationalization between the two groups.

A contract was signed in February 1997 and the sale will take effect on 31 March 1997. The impact on UPM Pack will be to further underscore the importance of both base and converted kraft paper and plastic products.

It was decided in January 1997 to rebuild the sack and kraft paper machine at the Pietarsaari mill. As a result, the machine will be much better equipped to produce the most demanding kraft papers.

### UPM Pack - main products and production plants

#### Packaging papers and boards

##### Simpele\*

Folding boxboard (capacity 140,000 t/a)  
Flexible packaging papers (50,000 t/a)

##### Tervasaari PM 6 (100,000 t/a)

Brown sack and wrapping papers

##### Wisapaper (135,000 t/a)

White and brown sack and kraft papers

##### Lohjan Paperi (60,000 t/a)

Release paper  
Flexible packaging paper and PE-coated paper

#### Plastic-coated papers and boards

##### Walki Wisa

Packaging papers and boards, and packaging materials for the paper, food, wood-based panels, solid fibreboard, corrugated board and steel industries  
Insulation and building papers

#### Rosenlew plastic packagings

Intermediate bulk containers and plastic sacks  
Plastic bags and carrier bags for retailers  
Plastic films for industry, agriculture and building

#### Other packaging materials

##### Walki Pack

Multilayer plastic films for vacuum and modified atmosphere packaging  
Corrugated board packagings  
Paperboard cartons\*  
Labels and wrappings  
EPS and moulded pulp packagings

##### Walki Sack

Paper sacks

##### Walki Can

Aseptic liquid packaging systems and the necessary packaging material

\* Simpele paper and board mills and carton plant sold to Metsä-Serla Oy as of 31 March 1997.

# Sawmilling, UPM-Kymmene Timber

## Sawmilling

|                                 | 1996  | 1995  | 1994  |
|---------------------------------|-------|-------|-------|
| Turnover, FIM mill.             | 3,725 | 3,773 | 3,954 |
| Operating profit, FIM mill.     | -48   | 135   | 469   |
| Capital expenditure, FIM mill.  | 115   | 183   | 147   |
| Personnel at 31.12              | 2,867 | 3,069 | 3,169 |
| Production, 1000 m <sup>3</sup> | 1,857 | 1,939 | 2,075 |

## Turnover by market

| 1996               | FIM mill. | %   |
|--------------------|-----------|-----|
| Finland            | 1,406     | 38  |
| Other EU countries | 2,009     | 54  |
| Rest of world      | 310       | 8   |
|                    | 3,725     | 100 |

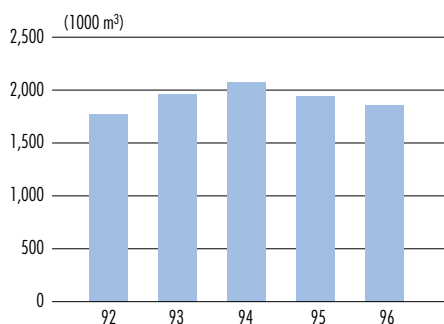
## Turnover by business area

| 1996                    | FIM mill. | %   |
|-------------------------|-----------|-----|
| Sawmilling              | 2,220     | 47  |
| Joinery                 | 219       | 5   |
| Building supplies trade | 1,599     | 48  |
| Internal sales          | -313      | -   |
|                         | 3,725     | 100 |

## Units and main products

|                                     |  |
|-------------------------------------|--|
| United Sawmills Ltd                 | Sawn timber  |
| Ferdinand Braun & Cie. S.A., France | Sawn timber  |
| Joinery                             |  |
| Oulux Oy                            | Doors  |
| Parkanon Lista Oy                   | Strips and mouldings                               |
| Kaukas Timber Components Oy         | Components for the building and joinery industries |
| Puukeskus Oy                        | Wood-based building supplies                       |
| Brooks Group, Ireland               | Wood-based building supplies                       |

## Sawn timber production



UPM-Kymmene is one of Europe's largest producers of sawn timber. The Timber division includes a joinery unit, which processes sawn timber produced by the Group, and chains of builders' merchants.



Wood is an ideal building material for concert halls requiring excellent acoustics.

## PROFITABILITY

The division's profitability was poorer than in 1995, due mainly to the lower average prices for sawn timber. Profitability for wood-based building materials was about the same as the year before.

## DEMAND AND PRICES

Slackening economic growth early in the year combined with bad weather restricted building in Europe and reduced demand for sawn timber. In the second half of the year supply and demand moved more into balance thanks to brisker building activity and the fact that sawmills had curtailed production earlier in the year. Whitewood prices began to rise in autumn and nearing the end of the year were 20% higher than in spring. Redwood prices also rose,

although more slowly.

The division's output of sawn timber was 4% down on the previous year.

In Finland, increased building activity boosted sales of wood-based building materials and improved demand for joinery products.

1997 has started in a more optimistic mood than last. The biggest uncertainty, however, concerns sawlog prices and availability.

## CAPITAL EXPENDITURE AND RESTRUCTURING

The Brooks Group bought Hunter Timber's operations in Northern Ireland. This will increase its turnover by 30%. The picture frames business of Parkanon Lista was sold and the Kettula and Niederhaslach sawmills were closed down.



# Plywood, Schauman Wood



Transport vehicle manufacturers are among Schauman Wood's biggest customers. Plywood is used in body and floor structures.

Schauman Wood is Europe's largest producer of plywood, accounting for 25% of production and 12% of the market. The most important uses for Schauman's plywood are in the building industry and the manufacture of transport vehicles.

## PROFITABILITY

Profitability improved thanks to higher capacity utilization rates towards the end of the year.

## DEMAND AND PRICES

Slack building activity and high stocks kept both demand and prices low during the first half of the year. However, building activity picked up after the cold winter and demand returned to normal. At the end of the year all the division's plywood mills were operating at full capacity.

Demand for conifer plywood was especially good in the second half of the year, and prices rose. Demand for special plywoods and veneers was strong all year.

In Europe, total demand was 4% lower than the previous year. Pressure to

import from North America and South-east Asia eased during the year and deliveries of European plywood rose.

The prospects for this year are much better than a year ago. Prices were raised on some markets in January and new price rises have been announced.



## PRODUCTION

The division's production volume rose by 5%. After production curtailments early in the year, several mills set new production records during the final few months.

## Plywood

|   | 1996  | 1995  | 1994  |
|---|-------|-------|-------|
| Turnover, FIM mill.                     | 3,144 | 3,084 | 3,332 |
| Operating profit, FIM mill.             | 139   | 25    | 275   |
| Capital expenditure, FIM mill.          | 74    | 276   | 239   |
| Personnel at 31.12                      | 4,535 | 4,703 | 4,795 |
| Plywood production, 1000 m <sup>3</sup> | 617   | 585   | 534   |

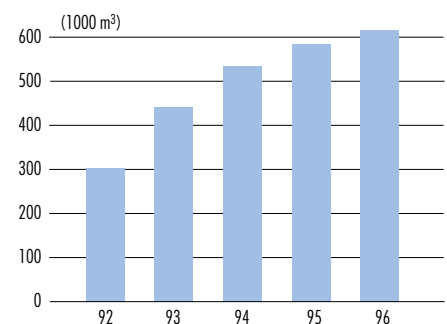
## Turnover by market

| 1996                     | FIM mill. | %   |
|--------------------------|-----------|-----|
| Finland                  | 191       | 6   |
| Other EU countries       | 2,571     | 82  |
| Other European countries | 208       | 7   |
| North America            | 48        | 2   |
| Rest of world            | 126       | 3   |
|                          | 3,144     | 100 |

## Units and main products

|                        |                               |
|------------------------|-------------------------------|
| Schauman Wood Oy       | Plywood<br>Thin particleboard |
| Kalso-Teollisuus Oy    | Veneers                       |
| Kalso S.A., France     | Veneers                       |
| Mahogany Oy            | Special plywoods and veneers  |
| Malvaux S.A., France   | Plywood                       |
| Finnish Fibreboard Ltd | Fibreboard                    |

## Plywood production



## Special Product Companies



### Special Product Companies

|                                | 1996  | 1995  | 1994  |
|--------------------------------|-------|-------|-------|
| Turnover, FIM mill.            | 3,574 | 3,528 | 3,441 |
| Operating profit, FIM mill.    | 339   | 364   | 469   |
| Capital expenditure, FIM mill. | 1,117 | 611   | 198   |
| Personnel at 31.12             | 2,943 | 2,803 | 2,544 |
| Paper production, 1000 t       | 211   | 192   | 203   |

### RAFLATAC

The self-adhesive labelstock manufacturer Raflatac is among the largest in this business in Europe and indeed the whole world. Its main customers are manufacturers of price, product and ADP labels. UPM-Kymmene's paper mills supply most of Raflatac's raw material.

Demand for self-adhesive labelstock grew on all markets, but fastest in Southeast Asia. In Europe, demand rose by 5–6%. Raflatac's deliveries were 10% up on the year before, with the fastest increase coming in the final quarter. Sales prices and raw material prices fell early in the year but steadied off towards the end of the year.

Raflatac signed a joint venture agreement with the Malaysian company Paper Automation SB to start production of self-adhesive labelstock in Malaysia. A sales office was opened in Singapore.

### LABEL PAPERS AND SPECIALITIES

UPM-Kymmene manufactures label papers, envelope papers and other specialities on six paper machines.

Demand for label papers increased. Prices fell early in the year but steadied off after the summer.

A new machine manufacturing release paper for self-adhesive labels



was started up at the Tervasaari mill in July. This has made UPM-Kymmene the world's biggest manufacturer of this paper. The mill's PM 5, which previously produced release paper, was switched to production of face papers and other specialities.

In November, it was decided to rebuild Jämsänkoski's PM 3, which also produces face papers for self-adhesives. The rebuild will raise the machine's production capacity and allow the production of more demanding label papers.

Demand for envelope papers remained good and all production capacity was in use. Prices showed a downward trend.



#### UPM STATIONERY

UPM Stationery's products are envelopes, office and school stationery, and papers for home use. Business focuses on the Nordic countries, the Baltic states and Russia.

Demand for stationery products fell early in the year as customers used up stocks. Demand later returned to normal.



#### WALKISOFT

Walkisoft specializes in the production of absorbent, non-linting air-laid paper for hygiene products, table settings and industrial wipes.

Customers had started to reduce stocks during 1995, causing the growth in demand for air-laid paper to slow down.

A new air-laid paper machine was started up at Steinfurt in Germany in the autumn, increasing Walkisoft's production capacity by 25,000 t/a.

Marketing of air-laid papers was extended to the Far East and South America.

#### Turnover by market

| 1996                     | FIM mill. | %   |
|--------------------------|-----------|-----|
| Finland                  | 275       | 8   |
| Other EU countries       | 2,439     | 68  |
| Other European countries | 294       | 8   |
| North America            | 253       | 7   |
| Rest of world            | 313       | 9   |
|                          | 3,574     | 100 |

#### Turnover by unit

| 1996                                | FIM mill. | %   |
|-------------------------------------|-----------|-----|
| Raflatac, self-adhesive labelstock  | 2,228     | 64  |
| Label papers and specialities       | 1,113     | 17  |
| Walkisoft, air-laid papers          | 392       | 11  |
| UPM Stationery, stationery products | 285       | 8   |
| Internal sales                      | -444      | -   |
|                                     | 3,574     | 100 |

#### UPM-Kymmene's special products and their production plants

##### Raflatac

Self-adhesive labelstock for manufacturers of price, product and ADP labels

##### Label papers and specialities

###### Tervasaari

Release paper (capacity 125,000 t/a)

Envelope and other papers (145,000 t/a)

###### Jämsänkoski

Label paper (65,000 t/a)

###### Kymi

MG paper (20,000 t/a)

##### Walkisoft

Air-laid paper for hygiene products, table settings and industrial wipes

##### UPM Stationery

Envelopes

Office and school papers

Papers for home use

## Resources

### Chemical pulp

|   | 1996  | 1995  | 1994  |
|---|-------|-------|-------|
| Turnover, FIM mill.                           | 4,106 | 6,070 | 4,881 |
| of which internal                             | 3,320 | 5,058 | 3,897 |
| Operating profit, FIM mill.                   | -176  | 2,228 | 854   |
| of which attributable to associated companies | -72   | 361   | 54    |
| Capital expenditure, FIM mill.                | 1,403 | 782   | 729   |
| Personnel at 31.12                            | 2,554 | 2,550 | 2,510 |

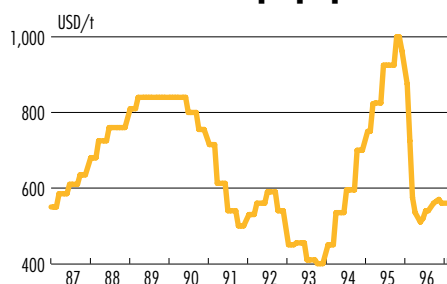
### Pulp production capacity\*

|                                | 1000 t/a |
|--------------------------------|----------|
| Kuusankoski                    | 460      |
| Lappeenranta                   | 630      |
| Pietarsaari                    | 580      |
| Tervasaari                     | 200      |
| Stracel                        | 140      |
| Own production capacity, total | 2,010    |
| Shares in associated companies |          |
| Oy Metsä-Botnia Ab             | 670      |
| Oy Metsä-Rauma Ab              | 230      |

\* 1 April 1997

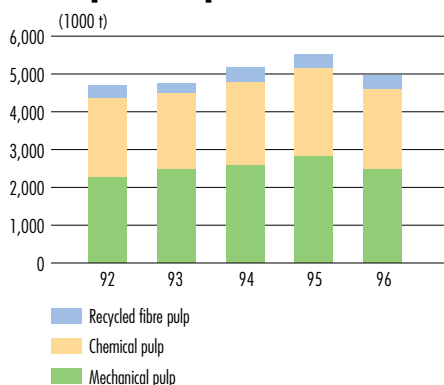


### Trend in market pulp\* prices



\* Bleached pine pulp

### Pulp consumption



### CHEMICAL PULP

UPM-Kymmene is practically self-sufficient in terms of chemical pulp. In order to match the pulps it produces with the grades needed by its paper mills, UPM-Kymmene sells some of its pulp and purchases roughly the same amount of market pulp from outside suppliers. The total production capacity

of the Group's pulp mills at the end of 1996 was 2.3 million t/a. The pulp entitlement from shares in associated companies was 0.5 million t/a at the end of the year, accruing from the Group's 45.6% interest in Oy Metsä-Rauma Ab and 47% interest in Oy Metsä-Botnia Ab.

Production by the Group's own pulp

### Pulp production and consumption

| 1000 t                        | 1996  | 1995  | 1994  |
|-------------------------------|-------|-------|-------|
| <b>Production</b>             |       |       |       |
| Chemical pulp, own production | 1,874 | 2,000 | 2,040 |
| from associated companies     | 243   | 276   | 244   |
| Mechanical pulp               | 2,464 | 2,813 | 2,575 |
| Recycled fibre pulp           | 351   | 378   | 416   |
| Total                         | 4,932 | 5,467 | 5,275 |
| <b>Consumption</b>            |       |       |       |
| Chemical pulp                 | 2,141 | 2,335 | 2,199 |
| Mechanical pulp               | 2,464 | 2,813 | 2,575 |
| Recycled fibre pulp           | 351   | 378   | 416   |
| Total                         | 4,956 | 5,526 | 5,190 |

mills was 1,874,000 tonnes. The 6% fall on 1995 is due to smaller consumption of this raw material by the paper mills. Most of the 351,000 tonnes of recycled fibre pulp used was in newsprint manufacture. The Kaipola, Shotton and Chapelle Darblay mills have deinking plants producing recycled fibre pulp from waste paper.

March saw the completion of the Oy Metsä-Rauma Ab pulp mill, which has a capacity of 500,000 t/a of pine pulp. Much of this is used at the nearby Rauma paper mill. The rebuilt pine pulping line at Kaukas pulp mill went into production in December, marking

completion of the investment programme at the mill.

Also in December, UPM-Kymmene, Metsä-Serla and Metsä-Botnia agreed on a rationalization in which UPM-Kymmene is to sell its Joutseno Pulp pulp mill to Metsä-Botnia. At the same time, Metsä-Serla will sell its Metsä-Sellu Oy business operations, also to Metsä-Botnia. It was also agreed that Metsä-Botnia will proceed immediately with developing the Joutseno Pulp mill. The sales will come into effect on 31 March 1997, following which UPM-Kymmene will have a pulp capacity of 2.0 million t/a and a pulp entitlement

through associated companies of 0.9 million t/a.

Market pulp prices began to fall sharply at the end of 1995. Prices continued to fall throughout the first half of 1996, and by June were about half of the peak prices being paid the previous October. On average, prices fell by 35%. Pulp stocks grew throughout the first half of the year, reaching a peak in June. Greater demand for fine paper early in the summer brought a small improvement in demand for pulp, and prices rose to USD 560/t.

## ENERGY

The electricity supplied by UPM-Kymmene's own power plants and obtained through shares in power companies covers the needs of the Group's Finnish mills. Outside Finland, most of the electricity used by the mills is purchased locally.

Electricity procurement in 1996 was 19.9 TWh, of which 13.1 TWh was used industrially and 6.8 TWh was sold. Of the total, 58% came from the Group's own power plants and investments in power companies, principally Pohjolan Voima Oy and Kemijoki Oy. Electricity consumption by the Group's mills abroad was 3.6 TWh.

Consumption of fuels and heat energy totalled 26.0 TWh. Biofuels and peat accounted for 55% of this.

Electricity procurement was about 4% smaller than the year before because of the fall in paper production. Purchases of fuel and heat were down by 1%. Energy prices remained steady.

In December, UPM-Kymmene reduced its shareholding in Pohjolan Voima Oy to 47% by selling 1.5 million Pohjolan Voima heat shares to Ilmarinen Pension Insurance Company.

In February 1997, the company purchased 5.2% of Kemijoki Oy's hydro-power shares from the Finnish State.

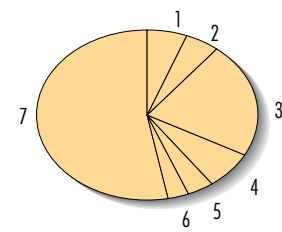
### Electricity procurement and use

| 1996                     | Power supply<br>GWh | Supply capacity<br>MW |
|--------------------------|---------------------|-----------------------|
| Hydropower, own          | 560                 | 151                   |
| Hydropower, shares       | 1,806               | 430                   |
| Nuclear power, shares    | 3,704               | 507                   |
| Back-pressure power, own | 2,468               | 482                   |
| Thermal energy, shares   | 2,691               | 736                   |
| Purchased electricity    | 5,081               | 590                   |
| Finland, total           | 16,310              | 2,896                 |
| Abroad                   | 3,584               | 504                   |
| Total                    | 19,894              | 3,400                 |

|                                 | Power consumption<br>GWh |
|---------------------------------|--------------------------|
| Industrial consumption, Finland | 9,503                    |
| Industrial consumption, abroad  | 3,584                    |
| Sales                           | 6,807                    |
| Total                           | 19,894                   |

### Heat energy procurement, 1996

(total 26,701 GWh)



|                   | %   |
|-------------------|-----|
| 1 Oil             | 6   |
| 2 Coal            | 5   |
| 3 Natural gas     | 22  |
| 4 Peat            | 7   |
| 5 Purchased bark  | 4   |
| 6 Purchased heat  | 3   |
| 7 Own fuels       | 47  |
| Bark, chips, etc. | 13  |
| Spent liquors     | 31  |
| Heat recovery     | 9   |
|                   | 53  |
|                   | 100 |



#### WOOD PROCUREMENT

UPM-Kymmene has 940,000 hectares of forest in Finland, of which 780,000 hectares are in commercial use.

The annual growth in these forests is over 3 million cubic metres (Mm<sup>3</sup>) and the planned level of sustainable felling is 2.5 Mm<sup>3</sup> a year. In addition, UPM-Kymmene manages forest for roughly 1,500 private forest owners.

UPM-Kymmene is a shareholder in a forest management company with 30,000 hectares of eucalyptus plantations in Uruguay. Utilization of this wood raw material resource will begin in the next few years. Tilhill Economic Forestry, Britain's leading forest management company, was acquired in December. As a result, UPM-Kymmene

is now responsible for the management of 180,000 hectares of forest in Britain.

Wood consumption by the Group's 35 Finnish mills totalled 19.6 Mm<sup>3</sup> (21.1). Of this, 58% was obtained from private forests, 21% from the State and other forest industry companies, and 6% from UPM-Kymmene's own forests. The remaining 15% was purchased from abroad, mostly from Russia. The forestry department supplied 1.6 Mm<sup>3</sup> of wood to associated companies and other mills.

The regional price agreements for wood raw material introduced in 1995 expired at the end of March 1996, and no new price agreement was reached until the end of August. The new agreement meant there was little change in wood raw material prices.

Wood consumption by the Group's mills in Britain and France totalled 3.1 Mm<sup>3</sup> (3.3).

#### Wood supplies

|   | 1996   | 1995   | 1994   |
|---|--------|--------|--------|
| Consumption of wood raw material, 1000 m <sup>3</sup> |        |        |        |
| in Finland  | 19,580 | 21,110 | 19,839 |
| abroad  | 3,070  | 3,324  | 3,383  |
| Felling in own forests, 1000 m <sup>3</sup>           | 1,183  | 979    | 2,477  |
| Net stumpage income, FIM mill.                        | 105    | 82     | 301    |
| Own forests, 1000 ha                                  | 940    | 935    | 909    |
| Standing reserves in own forest, 1000 m <sup>3</sup>  | 76,000 | 74,000 | 71,300 |

## The environment

■ UPM-Kymmene has committed itself to the principles of sustainable development as set out in the charter of the International Chamber of Commerce.

An environmental policy was approved for the Group's forest industry operations. One of the goals is that all the Group's mills should have environmental management systems in use.

The main issues in the public debate over the environment were again those relating to wood procurement and forestry practices.

Capital expenditure on environmental protection was FIM 261 million (197) and the necessary operating expenditure FIM 218 million (206). Environment-related and other net energy taxes totalled FIM 215 million (178).

### EMISSIONS DOWN

There was a further decrease in total emissions in relation to production volumes at the Group's pulp and paper mills.

Significant reductions were achieved through the rebuild of the softwood pulping line at the Kaukas mill, rebuilds of the bark and other solid fuel boilers at the Tervasaari, Rauma and Pietarsaari mills, expansion of the biological waste water treatment plant at Joutseno, and more effective biological treatment at Pietarsaari. The several paper machine rebuilds carried out have reduced the solids content of waste waters.

Projects either launched or completed during 1996 included modifications to Simpele's peat-fired boiler and the changeover to dry debarking at Kajaani.

### NEW FOREST AND ENVIRONMENTAL LEGISLATION

New legislation on forests and environmental protection came into force in Finland in January 1997.

The new forest legislation places the ecological and social sustainability of forests alongside the sustainability of commercial utilization. One of the central aims of the new environmental legislation is to preserve natural biodiversity.

The new legislation also means changes to forestry practice, for which preparations were made by providing training for the forestry department's entire field personnel. Work to identify key biotopes continued in the company's forests. Results obtained over the past two years suggest that ecologically valuable sites represent around 5% of the total forest area.

### NO WOOD PROCUREMENT FROM PROTECTED FORESTS

UPM-Kymmene does not accept wood from protected areas or from any other areas designated by the forest or environmental authorities as being of special

ecological importance.

All foreign suppliers of wood are required to provide proof of the origins of the wood, and the forestry department has carried out inspections in Russia to verify the information given by suppliers. No discrepancies have been found.

### PROGRESS IN CERTIFICATION IN FINLAND

Forest certification is a way of verifying wood sources and ensuring that forests



are managed in line with the principles of sustainable development. Finland is working hard to develop certification systems for forestry. The goal is to produce a certification system based on internationally accepted criteria and applicable to Finnish conditions for use before the end of 1997.

UPM-Kymmene is contributing to this work, and once the system is completed is ready to take steps to obtain certificates for its own forests.

*UPM-Kymmene will publish a separate environmental report for 1996.*

## Research and development

■ R&D expenditure related to UPM-Kymmene's forest industry operations was FIM 207 million (198). The figure does not include all development work connected with investment projects, or all the product and production development that forms part of normal operations at the mills.

In addition to the Group's own R&D work, a significant proportion of research work is conducted by the Finnish Pulp and Paper Research Institute, in which UPM-Kymmene is one of four corporate Finnish owners. Research

division continued the development of papers required by new printing technology, including non-impact printing. The emphasis in process development was on paper machine wet end management and on reducing water consumption. Nordland Papier's mill became the first in the world to introduce a new paper machine press section that makes production more efficient and at the same time reduces the need for heat in web drying.

In chemical pulp research, one key area was developing those characteris-

won three Scanstar awards for its work in developing lighter, more easily recycled packagings.

In sawmilling, R&D work in Finland was related principally to joint projects in the mechanical wood-processing sector, including issues such as timber drying, grading and surface treatment, and the use of wood in building.

The development of products to meet customers' specific needs received most attention in the plywood sector. On the process development side, the focus was on raising production speeds for



*A sensor based on a new principle has been developed by Rauma paper mill together with the sensor manufacturer. By measuring the quality of the printed paper, the sensor reveals mechanical disturbances on the paper machine and in the paper web.*

services are also obtained from other research institutes and universities in other countries, either as work commissioned by UPM-Kymmene or as participation in the forest industry's joint technology projects.

### BUSY TIME FOR THE DIVISIONS

The paper divisions' R&D work concentrated on securing the competitiveness and profitability of the wide range of products offered by the new UPM-Kymmene Group. The biggest individual research project concerned developing both products and production strategy for the LWC paper machine being built at Rauma. Important research was also carried out into ways of reducing energy consumption in mechanical pulping. The Fine Papers

tics of softwood pulp that help to strengthen the structure of the paper. The company also took part in the Technology Development Centre's carbohydrate programme, which has developed a new stage in the pulp production process that reduces the yellowing of birch pulp and cuts the consumption of bleaching chemicals. The new idea has been introduced at Wisaforest's pulp mill. At the Kaukas mills, special attention was given to a sitostanol-based agent developed in conjunction with margarine manufacturers. Clinical trials have shown that the agent reduces blood cholesterol levels.

The Packaging Materials division was concerned mainly with research and other investigations relating to its own paper machine investments. UPM Pack

conifer plywood.

Turning to the Special Products Companies' R&D work, Raflatac improved the gloss and printability characteristics of its self-adhesive labelstock. Walkisoft built a new-generation air-laid paper machine based on its own development work at Steinfurt, and continued to work on developing new product applications.

Research carried out by the forestry department included developing wood procurement on the basis of end-product requirements, and research connected with environmental issues.

One key area of environmental protection research was making a detailed analysis of the environmental impact of the new oxygen-based bleaching chemicals.



## Personnel

■ UPM-Kymmene's personnel policy is based on target-setting and the development of personal skills and motivation. To implement this policy, the Group has uniform management principles, provides training, and pursues a pay policy that stresses the importance of individual efforts, productivity and financial performance.

Personnel policy is founded on independent business units, where the policy can be developed using national and local strengths and the strengths of UPM-Kymmene's predecessors.

### EUROPEAN COOPERATION

In compliance with the EU directive on multinational companies, UPM-Kymmene has launched a programme of cooperation within the Group. Agreement on cooperation was reached on a voluntary basis between the Group and its forest industry personnel groups. The agreement was signed in Brussels on 12 July 1996.

### CHALLENGES OF GROWTH

UPM-Kymmene's growth and international expansion also means new

turn, and about 60 were accepted.

UPM-Kymmene has a similar training college in Kuusankoski, and maintains close ties with colleges in continental Europe.

UPM-Kymmene's Paper School is continuing the tradition started by Finnpap by arranging courses on papermaking and printing twice a year for its personnel and customers.



The first UPM-Kymmene European Forum (UPM-KEF) met in Helsinki in December.

One example where local expertise and development work has gained recognition is Shotton paper mill in Britain. At the end of the year Shotton received the "Investor in People" award for its work in encouraging personnel commitment and development.

### PROFIT-SHARING SCHEME

A new profit-sharing scheme was created to provide incentives for employees and to help build a corporate culture geared to profitmaking. Almost all workers and staff permanently employed by the Group's forest industry operations in Finland are members of the scheme. In other countries similar schemes already exist, or are being set up.

challenges for its employees. Job rotation has been introduced to offer employees an opportunity to develop themselves in different organizations, jobs and countries, and at the same time to spread specialist expertise within the Group.

### VOCATIONAL AND IN-SERVICE TRAINING

The knowledge and skills of the entire workforce are constantly being developed. Vocational training is arranged by the profit centres; in Finland this is done in collaboration with institutes such as the Lotila industrial training college. Lotila has provided training for some 2,300 paper industry professionals since 1929. Almost 1,000 young trainees applied for second-year courses last au-

### Forest industry employees

31.12.1996

|                           |               |
|---------------------------|---------------|
| Finland                   | 24,250        |
| France                    | 3,574         |
| Germany                   | 2,201         |
| Great Britain             | 1,752         |
| Sweden                    | 351           |
| Ireland                   | 272           |
| The Netherlands           | 163           |
| Denmark                   | 159           |
| Spain                     | 157           |
| Belgium                   | 91            |
| Portugal                  | 50            |
| Italy                     | 46            |
| Austria                   | 25            |
| Other European countries  | 323           |
| USA                       | 165           |
| Canada                    | 3             |
| Asia                      | 18            |
| Australia and New Zealand | 22            |
| <b>Total</b>              | <b>33,622</b> |

# Rauma Corporation

## Rauma Corporation

|  | 1996   | 1995   | 1994   |
|--|--------|--------|--------|
| Turnover, FIM mill.                          | 10,220 | 9,837  | 8 505  |
| Operating profit, FIM mill.                  | 710    | 742    | 546    |
| %  | 6.9    | 7.5    | 6.4    |
| Profit before extraordinary items, FIM mill. | 679    | 671    | 331    |
| Capital expenditure, FIM mill.               | 567    | 337    | 218    |
| Personnel at 31.12                           | 10,014 | 10,683 | 10,111 |

## Rauma turnover by market

| 1996               | FIM mill. | %   |
|--------------------|-----------|-----|
| Finland            | 1,587     | 16  |
| Other EU countries | 2,198     | 21  |
| North America      | 3,097     | 30  |
| Southeast Asia     | 1,433     | 14  |
| Rest of world      | 1,905     | 19  |
|                    | 10,220    | 100 |

## Rauma personnel by area

| 31.12.1996         |        | %   |
|--------------------|--------|-----|
| Finland            | 3,726  | 37  |
| Other EU countries | 2,326  | 23  |
| North America      | 2,553  | 26  |
| Southeast Asia     | 297    | 3   |
| Rest of world      | 1,122  | 11  |
|                    | 10,014 | 100 |

## Rauma turnover and operating profit by business group

| FIM million      | Turnover |       | Operating profit |      |
|------------------|----------|-------|------------------|------|
|                  | 1996     | 1995  | 1996             | 1995 |
| Timberjack       | 2,156    | 2,763 | 131              | 386  |
| Sunds Defibrator | 3,971    | 3,077 | 367              | 267  |
| Nordberg         | 1,931    | 2,072 | 89               | 81   |
| Neles-Jamesbury  | 1,908    | 1,674 | 170              | 114  |
| Other + internal | 254      | 251   | -47              | -106 |
|                  | 10,220   | 9,837 | 710              | 742  |

## Orders and order stocks

| FIM million      | Orders received |        | Order stocks at 31.12 |       |
|------------------|-----------------|--------|-----------------------|-------|
|                  | 1996            | 1995   | 1996                  | 1995  |
| Timberjack       | 1,949           | 2,574  | 288                   | 424   |
| Sunds Defibrator | 3,230           | 3,555  | 2,304                 | 2,767 |
| Nordberg         | 1,984           | 1,872  | 558                   | 420   |
| Neles-Jamesbury  | 1,727           | 1,842  | 413                   | 586   |
| Other + internal | 376             | 206    | 242                   | 173   |
|                  | 9,266           | 10,049 | 3,805                 | 4,370 |



*Sunds Defibrator supplied its first SuperBatch pulp digester plant to the United States. The customer was Potlatch Corporation's Cloquet mill in Minnesota, and the delivery included pulp washing and screening units.*

*Rauma Corporation is a global engineering company whose shares are quoted on the Helsinki and New York stock exchanges and on SEAQ International in London.*

*Rauma's four business groups are well-known names and each figures among the world's biggest manufacturers in its business area.*

■ Rauma derives two-fifths of its turnover from machinery and equipment for the pulp and paper industry. Sales to the building and civil engineering sectors account for about a quarter of turnover. Other important customers are the mining industry and the chemical and petrochemical industries.

Rauma's profitability remained at roughly the previous year's level. While Timberjack's financial result was noticeably poorer, profitability for the other business groups improved to almost the same extent.

Rauma Ecoplanning Oy, Vetco Pipeline Services Inc. and Heilborn GmbH, all of which operated outside the main business groups, were sold during 1996. As a result, other operations now consist basically of engineering subcontractors supporting the Group's manufacturing, and development and service units.

In May, Rauma purchased 14% of Tampella Corporation's share capital.

#### **Forest machines - Timberjack**

The global market for forest machines declined in 1996. Timberjack's turnover fell and profitability was well down on the record figure of the previous year.

The decrease in timber harvesting caused demand for forest machines to fall more than anticipated, with the result that both manufacturers' and distributors' stocks rose. In summer, production had to be curtailed. Stocks returned to normal in the final quarter as harvesting and machine sales increased.

In June, Timberjack purchased the American company Hudson Sales Corporation, which manufactures slashers and delimiters. These products supplement Timberjack's range offered to the North American market.

Demand for forest machines is expected to be unchanged in 1997.

#### **Fibre technology equipment and processes - Sunds Defibrator**

Deliveries were up by a quarter, and profitability improved in all the business group's sectors.

The value of new orders received was 9% down on the previous year due to lower investment by the forest industry. Demand from the pulp and paper industry was weak, especially in Europe and North America. In the Asia-Pacific region, though, demand continued to be brisk.

As part of the rationalization of its North American operations, Sunds Defibrator sold its US subsidiary



*Last year, Neles-Jamesbury supplied large butterfly valves for major natural gas projects in Southeast Asia.*

LaValley Inc.

Demand in Southeast Asia is expected to remain strong. In Europe and North America, the ongoing restructuring in the pulp and paper industry, combined with uncertainty in the markets, will continue to limit investment, the exceptions being replacements and environmental investments.

#### **Rock crushers - Nordberg**

Nordberg's profitability improved thanks to growth in sales of crusher units and spare and wear parts. Another factor was better management of plant deliveries.

Orders received were worth 6% more than the year before. The building and mining industries continued to invest briskly in both North and South America. In Europe, demand was good with the exception of the important German and French markets. In the Asia-Pacific region, Malaysia and the Philippines continued to show strong growth, while in other countries growth levelled off.

In December, Nordberg bought the grinding mill business of the Swedish company Morgårdshammar AB.

Based on the order stocks and demand predicted for 1997, Nordberg has a fairly stable year in prospect.

#### **Industrial valves - Neles-Jamesbury**

Neles-Jamesbury returned a much better financial result than the previous year. The improved profitability was due to growth in turnover and to the changed sales structure.

Valves were in fairly good demand. However, the value of new orders received was 6% down due to weaker demand from the pulp and paper industry. On the other hand, more orders were received from the oil refining, petrochemicals and chemical industries.

Neles-Jamesbury expanded its global distribution network by opening new sales offices in Thailand and South Africa and a representative office in Beijing, China.

The market prospects for 1997 are steady.

*Rauma Corporation publishes its own Annual Report.*

## Events in 1996

- 1 February The sale of Finnminerals Oy's business operations to an Australian-Swiss consortium came into effect.
  - 2 March Metsä-Rauma's pulp mill went into production.
  - 28 March Work on rebuilding Jämsänkoski's magazine paper machine (PM 5) was completed.
  - 30 April UPM-Kymmene Corporation was entered in the Trade Register.
  - 2 May Trading in UPM-Kymmene Corporation shares began on the Helsinki Stock Exchange and on SEAQ International in London.
  - 21 May The rebuild of Lohjan Paperi's packaging paper machine (PM 2) was completed.
  - 31 May The business operations of Walki Pack's Karhula paper sack plant were sold.
  - 6 June In Ireland, the Brooks Group, a member of the UPM-Kymmene Timber division, bought the Northern Ireland sawn timber importing and distribution business of the Hunter Group of Britain.
  - 17 June Raflatac signed an agreement with the Malaysian company Paper Automation SDN, BHD to set up a joint venture to manufacture self-adhesive laminate.
  - 22 June A new coater went into operation at Nordland Papier's Dörpen mill in Germany.
  - 2 July Tervasaari's new release paper machine was started up in Valkeakoski.
  - 30 August UPM-Kymmene signed a contract to sell its interest in Forchem, which produces tall oil and turpentine.
  - 5 September UPM-Kymmene launched an ADR programme on the American OTC market.
  - 11 October The rebuild of the Kymi profit centre's fine paper machine (PM 7) was completed.
  - 12 October Work on rebuilding Rauma's LWC magazine paper machine (PM 1) was completed.
  - 8 November Walkisoft's new air-laid paper machine started up at Steinfurt in Germany.
  - 9 November The telephone directory paper machine (PM 4) at the Kaipola profit centre was restarted after a rebuild.
  - 3 December The Fibre 90 investment project at Kaukas pulp mill was completed.
  - 10 December UPM-Kymmene and Metsäliitto signed a letter of intent under which the Simpele paper and board mills and carton plant will be sold to Metsä-Serla and the Joutseno Pulp pulp mill to Metsä-Botnia.
  - 11 December UPM-Kymmene acquired Tilhill Economic Forestry, Britain's biggest forest management company.
  - 13 December UPM-Kymmene sold its interest in Finnish Chemicals.
  - 31 December Finnpap, the Finnish paper mills' marketing association, was wound up.
  - 1997 In January, UPM-Kymmene purchased 5.2% of Kemijoki Oy's hydropower shares from the Finnish State.
- In February, contracts were signed for the sale of Simpele paper and board mills and carton plant to Metsä-Serla and the Joutseno Pulp pulp mill to Metsä-Botnia. The sales will take effect on 31 March 1997.

## Accounts for 1996

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## Report of the Board of Directors

### MERGER OF KYMMENE CORPORATION AND REPOLA LTD

The merger of Kymmene Corporation and Repola Ltd to form UPM-Kymmene Corporation took effect on 30 April 1996, when it was entered in the Finnish Trade Register. The two companies had, however, operated as one since November 1995, following the approval of the merger proposal by extraordinary meetings of shareholders of both companies and by the EU Commission. This review covers the operations of the merging companies and the UPM-Kymmene Group in 1996.

UPM-Kymmene's business operations have started as planned.

### CHANGES IN GROUP COMPOSITION

The following subsidiaries of the merging companies were merged with UPM-Kymmene Corporation in May: United Paper Mills Ltd, Kaukas Oy, Kymi Paper Mills Ltd, Wisaforest Oy Ab and Tehdaspuu Oy.

In 1996, UPM-Kymmene relinquished its business operations and investments related to the manufacture of chemicals by selling the talc business of its subsidiary Finnminerals and its interests in the associated companies Forchem and Finnish Chemicals. Together, the sales were worth around FIM 1 billion.

In December, a letter of intent was signed with Metsä-Serla Oy and Oy Metsä-Botnia Ab under which UPM-Kymmene engaged to sell its Simpele board, paper and carton production plants to Metsä-Serla and its Joutseno Pulp pulp mill to Metsä-Botnia. Under a contract signed in February 1997, the sales will take effect on 31 March 1997. The selling price of around FIM 2 billion will yield UPM-Kymmene a profit of about FIM 700 million.

Also in December, the company sold some of its C shares in Pohjolan Voima Oy to Ilmarinen Pension Insurance Company for around FIM 500 million. As a result, the company's stake in Pohjolan Voima fell from 52 to 46.7 per cent.

Paper is no longer marketed jointly through Finnpap, which was transferred entirely to UPM-Kymmene ownership in January 1997. Finnpap's sales network was combined with Kymmene's to form one UPM-Kymmene network.

The Brooks Group, which is a member of the UPM-Kymmene Timber division, bought the sawn timber importing and distribution business of the Hunter group in Northern Ireland. Shotton Paper Company purchased Tilhill Economic Forestry, Britain's leader in forest management and administration. Raflatac agreed on the founding of a self-adhesive labelstock manufacturing joint venture in Malaysia. Also in 1996, UPM-Kymmene sold its Karhula sack plant and Parkanon Lista picture frames business, and closed down its Kettula and Niederhaslach sawmills.

The Rauma Group company Timberjack purchased the American company Hudson Sales Corporation, which

manufactures slashers and delimiters. The Rauma subsidiary Nordberg acquired the grinding mill business operations of the Swedish company Morgårdshammar AB.

Rauma sold Sunds Defibrator's US subsidiary LaValley Inc., as well as Rauma Ecoplaning Oy, Vetco Pipeline Services Inc. and Heilborn GmbH.

In February 1997, UPM-Kymmene purchased 5.2% of the hydropower shares of Kemijoki Oy from the Finnish state for FIM 476 million.

### THE MARKET

Demand for printing and writing papers fell by 2% in Western Europe, the Group's main market. Most of the decline is explained by stock reductions by buyers, although consumption of some paper grades is thought to have fallen slightly because of sluggish economic growth in many European countries.

Falling demand pushed paper prices down. Curtailments in paper production reduced the demand for market pulp, and by spring pulp prices were only about half of the peak levels experienced in October 1995.

Demand for paper picked up in the second half of the year following the reduction of stocks. Demand for fine paper began to rise sharply early in the summer, and market pulp prices strengthened by some 10%. While it was possible to raise fine paper prices late in the year, average prices were well below those for 1995. The strengthening in demand for newsprint and magazine paper was less pronounced, and prices continued to fall throughout the year. Despite this, average prices for these grades were equal to, or higher than, those in 1995.

Demand and prices for packaging materials and special products was more stable, on average, than for printing and writing papers, although there were large differences between individual products and markets.

The sawn timber market strengthened noticeably in the second half of the year as supply and demand moved into balance. Prices agreed for deliveries in early 1997 are about a fifth higher than last spring. Demand for plywood improved towards the end of the year.

The trend in costs in the forest industry was restrained. However, while forest product prices fell, wood raw material prices did not follow suit.

Demand for Rauma's products for the forest industry weakened, but that for other products was stable.

### FINANCIAL RESULTS

Declining deliveries and falling sales prices weakened UPM-Kymmene's profitability in 1996. Earnings per share were FIM 10.24, half the 1995 figure of FIM 20.09. Return on capital employed fell to 10.1% (16.2) and return on equity to 11.1% (24.5).

Operating profit was FIM 5,591 million, 10.8% of turnover (8,504, 15.5). The decrease is due mainly to the fall in fine paper prices and the smaller volume of magazine paper deliveries. The biggest loss-making product

|   | Turnover, FIM million |               |               | Operating profit, FIM million |              |              | Personnel (average) <sup>4)</sup> |
|---|-----------------------|---------------|---------------|-------------------------------|--------------|--------------|-----------------------------------|
|   | 1996                  | 1995          | 1994          | 1996                          | 1995         | 1994         | 1996                              |
| Magazine papers   | 11,172                | 12,322        | 9,797         | 2,072                         | 2,803        | 1,358        | 5,456                             |
| Newsprint   | 5,780                 | 5,676         | 4,526         | 1,044                         | 969          | 197          | 2,956                             |
| Fine papers   | 6,220                 | 7,140         | 6,411         | 85                            | 719          | 507          | 3,262                             |
| Packaging materials   | 5,473                 | 5,728         | 5,160         | 559                           | 362          | 378          | 5,830                             |
| Sawmilling  | 3,725                 | 3,773         | 3,954         | -48                           | 135          | 469          | 3,003                             |
| Plywood   | 3,144                 | 3,084         | 3,332         | 139                           | 25           | 275          | 4,560                             |
| Special products  | 3,574                 | 3,528         | 3,441         | 339                           | 364          | 469          | 2,943                             |
| Chemical pulp <sup>1)</sup>   | 4,106                 | 6,070         | 4,881         | -176                          | 2,228        | 854          | 2,719                             |
| Other <sup>2) 3)</sup>  | 10,525                | 11,344        | 8,928         | 867                           | 157          | 424          | 3,414                             |
| Engineering (Rauma)   | 10,220                | 9,837         | 8,595         | 710                           | 742          | 546          | 10,575                            |
| Intra-Group sales   | -12,182               | -13,764       | -10,969       |                               |              |              |                                   |
| <b>Total</b>  | <b>51,757</b>         | <b>54,738</b> | <b>47,966</b> | <b>5,591</b>                  | <b>8,504</b> | <b>5,477</b> | <b>44,808</b>                     |
| <sup>1)</sup> Includes the Group's share of the results of associated companies   |                       |               |               | -72                           | 361          | 54           |                                   |
| <sup>2)</sup> Operating profit includes profit from fixed asset sales   |                       |               |               | 620                           | 320          | 310          |                                   |
| <sup>3)</sup> Other turnover includes mainly internal sales of wood raw material and electricity, as well as logistics and forwarding services. |                       |               |               |                               |              |              |                                   |
| <sup>4)</sup> Obtained by averaging the monthly figures.  |                       |               |               |                               |              |              |                                   |

was chemical pulp. However, cost savings equal almost to the losses made on pulp are included in the results for the other divisions, as roughly the same amount of pulp as that produced in-house was used as raw material at the Group's paper mills.

Three major investment projects and several paper machine rebuilds were completed in 1996. The additional costs associated with their start-ups adversely affected financial results.

Operating profit includes other operating income of FIM 864 million (473), FIM 677 million (361) of which is profit on disposal of fixed assets. Operating profit also includes FIM 32 million as the Group's share of losses of associated companies, mainly pulp producers, (FIM 405 million share of profit).

Before extraordinary items there was a profit of FIM 3,555 million (6,278). Net financial expenses before exchange differences and the Group's share of the results of associated companies fell by FIM 384 million, due largely to the fall in interest rates. Financial expenses includes exchange losses of FIM 127 million (-14) together with FIM 129 million (-48) as the Group's share of the loss made by associated companies, principally Finnyards Ltd.

Extraordinary income includes profit of FIM 421 million from the sale of Pohjolan Voima Oy shares and a VAT tax refund of FIM 135 million from previous years. Extraordinary income is quoted after deduction of FIM 151 million in tax. Extraordinary expenses includes a provision relating to previous years, FIM 81 million of which concerns the return of an investment contribution and FIM 149 million pension commitments, as well as FIM 100 million in additional amortization of goodwill. Extra-

ordinary expenses for engineering operations were FIM 34 million.

Profit before untaxed reserves, taxes and minority interest was FIM 3,550 million (5,709). Direct taxes were FIM 706 million (843).

Under International Accounting Standards (IAS) there was a profit before taxes, minority interest and extraordinary items of FIM 3,763 million (6,359).

#### PRODUCTION AND TURNOVER

The Group's production of paper and board was 6.134 million tonnes, 8.9% down on last year's figure of 6.733 million tonnes. The capacity utilization rate fell to 84% (96).

Production of magazine paper and newsprint was down by 14.5%. Output of coated fine paper and specialities, on the other hand, was higher than the year before. Production of sawn timber was 1.857 million cubic metres (1.939), 4.2% less than in 1995. Plywood production was 617,200 cubic metres (585,100).

Consolidated turnover was FIM 51,757 million (54,738), a decrease of 5.4%. Turnover for forest industry operations was down by 7.5%. The Rauma Group increased its turnover by 3.9%.

Exports and overseas operations accounted for 85% of turnover (87).

#### PERSONNEL

The average number of employees in 1996 was 44,808 (45,732) for the Group and 16,228 for the parent company. The number of the Group's employees at the end of the year was 43,636 (44,671). The decrease is due to company disposals and the elimination of overlapping functions following the merger.

## CAPITAL EXPENDITURE

Net capital expenditure on fixed assets was FIM 4,432 million (3,318). Gross capital expenditure totalled FIM 6,032 million (4,918) and fixed asset sales FIM 1,600 million (1,600).

Three major investment projects were completed during the year. Nordland Paper's new coater for fine paper started up towards the end of June and Tervasaari's new release paper machine at the beginning of July. The extension and modernization of Kaukas pulp mill was completed in December. Other important investment projects included a new air-laid paper machine for Walki-soft's Steinfurt mill, modernizations of Jämsänkoski's PM 5, Rauma's PM 1, Kaipola's PM 4 and Kymi's PM 7, and a new boiler plant for Rauma paper mill.

The new pulp mill operated by the associated company Metsä-Rauma started up in March.

The biggest project currently under way concerns Rauma paper mill, for which a new LWC machine was ordered in April. Under the revised schedule, the machine will start up in February 1998, later than originally planned.

Gross capital expenditure by the Rauma engineering group was FIM 567 million. The biggest single item was the purchase of Tampella Corporation shares for FIM 185 million.

## RESEARCH AND DEVELOPMENT

Research and development expenditure was FIM 401 million (367), of which FIM 207 million (198) was spent on forest industry R&D. The main focuses were on product quality development, new products, paper machine process development and making more efficient use of raw materials and energy.

The Rauma Group's development work concentrated on the environmental and occupational safety of products. Sunds Defibrator built a new research centre.

## FINANCING

The equity to assets ratio at 31 December 1996 was 41.4% (39.3) and the gearing ratio 93% (102).

Cash flow from operations was FIM 7,418 million (6,661) and interest-bearing net liabilities at 31 December were FIM 25,684 million (25,914). The average rate of interest on the Group's loans fell by one percentage point during the year, due mainly to the general fall in market interest rates. At the end of the year, the Group had unused credit facilities worth a total of FIM 6,700 million.

## SHARES

On the date of its formation through the merger, UPM-Kymmene Corporation had a share capital of FIM 2,673,736,670. As a result of subscriptions under convertible bond loans, the share capital had been increased to FIM 2,673,738,230 by the end of the year. In December, equity warrants were used to subscribe 735,000 shares,

and the resulting FIM 7,350,000 increase in share capital was registered on 13 January 1997.

A listing was obtained for the company's shares on the Helsinki Stock Exchange on 2 May 1996. The shares are also traded on SEAQ International in London. In September, an ADR programme was set up for the American OTC market.

Shares of the merging companies and of UPM-Kymmene Corporation were traded on the Helsinki Stock Exchange to a total value of FIM 11,734 million (10,994) during 1996. The highest price quoted for UPM-Kymmene shares was FIM 105.00 in August and the lowest FIM 85.50 in November.

## OUTLOOK FOR 1997

Economic growth is forecast to strengthen gradually in Europe, the Group's main market, and this will increase consumption of paper.

Deliveries of printing and writing papers are expected to be up on 1996, although sales prices will be lower, at least in the early part of the year. Printing paper prices have probably now bottomed out. Better demand early in 1997 has raised capacity utilization rates and paved the way for an increase in sales prices. It is hoped to raise fine paper and LWC prices during the first quarter of the year.

The good demand for packaging materials and specialities is expected to continue.

Consumption of sawn timber and plywood is expected to be higher than in 1996. At the start of 1997, sawn timber prices were well up on last year.

The Rauma Group had orders worth FIM 3,805 million at the turn of the year (4,370).

At present UPM-Kymmene expects the financial result for 1997 to be similar to that for last year.

Gross capital expenditure in 1997 is expected to be around FIM 6 billion. Most of this concerns projects already decided on, the biggest being the new LWC machine for Rauma paper mill. Capital expenditure net of fixed asset sales already agreed on will be around FIM 4 billion.

## DISTRIBUTION OF RAUMA OY SHARES AS DIVIDEND

The Board of Directors proposes that the dividend for 1996 partly be distributed in the form of Rauma Oy shares.

Rauma Oy is a listed engineering company in which UPM-Kymmene has a 73.3% interest. UPM-Kymmene Corporation's principal business is the forest industry, and the Board of Directors has therefore decided to propose that the company relinquish some of its interest in Rauma Oy by offering Rauma Oy shares as dividend to its own shareholders, who, indirectly, are also shareholders in Rauma Oy. If approved, UPM-Kymmene Corporation's interest in Rauma Oy would fall to 59.9%. In the future it is intended to reduce this to below 50% through other means.



However, in the case of shareholders with fewer than 500 UPM-Kymmene Corporation shares it is proposed that dividend be paid entirely in cash, as distributing dividend in the form of shares would be financially disadvantageous for such shareholders. These shareholders will, nevertheless, have the opportunity to purchase Rauma Oy shares as explained in the proposal for the distribution of profits.

#### BOARD'S PROPOSAL FOR THE DISTRIBUTION OF PROFITS

The parent company's balance sheet shows distributable unrestricted shareholders' equity at 31 December 1996 of FIM 4,898 million and the consolidated balance sheet unrestricted shareholders' equity of FIM 3,820 million. The Rauma Oy shares proposed for distribution in the following have a value of FIM 39.73 per share in the parent company's balance sheet and FIM 50.41 per share in the consolidated balance sheet, both values being well below the stock exchange quotation.

The Board of Directors proposes that, for the financial period ended 31 December 1996, dividend on the company's 267,373,823 shares be distributed partly in cash and partly in the form of Rauma Oy shares to a total value equivalent to FIM 4.50 per UPM-Kymmene share. The total amount of the dividend payable to shareholders will thus be FIM 1,203,182,203.50. For the purpose of dividend distribution, Rauma Oy's shares will be valued at the average trade-weighted quotation on the Helsinki Stock Exchange calculated for the period from 1 to 28 February 1997, i.e. a value of FIM 110.49 per share. From this amount a dividend of FIM 2.75 per share proposed by the Board of Directors of Rauma Oy for the 1996 financial period, which is not included in the shares to be transferred, will be subtracted. Each Rauma Oy share will thus have a value of FIM 107.74 for purposes of dividend distribution. The book value of UPM-Kymmene Corporation's dividend will be determined by the final dividend

distributed. It is proposed that parent company profits remaining after the payment of dividend be left in retained earnings.

Dividend per share will take the form of FIM 1.50 in cash and FIM 3.00 as Rauma Oy shares. However, those shareholders whose UPM-Kymmene Corporation shares as registered in their book entry accounts on the record date for dividend payment do not exceed 499 in number will receive the full dividend in cash. Those shareholders whose book entry accounts show 500 or more UPM-Kymmene Corporation shares, will receive one (1) Rauma Oy share for every 35.91 UPM-Kymmene Corporation shares held. Should the number of shares entered in the shareholder's book entry account not be divisible by 107.74/3.00, the excess value will be paid in cash.

In addition to the above, UPM-Kymmene Corporation will offer those shareholders whose book entry accounts at the record date for dividend payment show no more than 499 UPM-Kymmene Corporation shares, and who will therefore receive their dividend entirely in cash, the opportunity to purchase, from 6 to 19 May 1997, Rauma Oy shares owned by UPM-Kymmene Corporation at a price of FIM 107.74 per share, the number of shares thus offered corresponding to the FIM 3.00 per share dividend paid as cash instead of Rauma Oy shares. As relates to these shareholders, the number of Rauma Oy shares to be offered for sale in this way will be from 1 to 13 per book entry account. The offer does not apply to shareholders domiciled in the United States of America.

The Board of Directors also proposes that the tax on the transfer of assets payable in conjunction with the dividend payment and offer of shares be paid by UPM-Kymmene Corporation and that FIM 800,000 be placed at the disposal of the Board of Directors for use in the general interest.

The record date for dividend payment is 15 April 1997. Dividend will be paid on 6 May 1997.

Helsinki 3 March 1997

Board of Directors

*Yrjö Niskanen*  
Chairman

*Casimir Ehrnrooth*

*Tauno Matomäki*

*L.J. Jouhki*

*Jouko K. Leskinen*

*Jorma Routti*

*Gustaf Serlachius*

*Vesa Vainio*

*Iiro Viinanen*

*Juha Niemelä*  
President and CEO

## Consolidated profit and loss account

| <b>FIM million, 1.1-31.12.</b>                                       | <b>Note</b> | <b>1996</b> | <b>1995</b> | <b>1994</b> |
|--|-------------|-------------|-------------|-------------|
| <b>Turnover</b>  | (1)         | 51,757      | 54,738      | 47,966      |
| Other operating income   | (2)         | 864         | 473         | 476         |
| Costs and expenses   | (3)         | -43,760     | -44,005     | -39,858     |
| Share of results of associated companies                             | (4)         | -32         | 405         | 49          |
| Depreciation on fixed assets and other capitalized expenditure       | (5)         | -3,238      | -3,107      | -3,156      |
| <b>Operating profit</b>  | (6)         | 5,591       | 8,504       | 5,477       |
| Financial income and expenses  | (7)         |             |             |             |
| Share of results of associated companies                             | (4)         | -129        | -48         | -36         |
| Dividend income  |             | 55          | 51          | 24          |
| Interest income  |             | 293         | 357         | 331         |
| Other financial income   |             | 27          | 26          | 35          |
| Exchange rate differences  |             | -127        | -14         | 146         |
| Interest expenses  |             | -2,004      | -2,443      | -2,668      |
| Other financial expenses   |             | -117        | -152        | -192        |
| Depreciation on investments  |             | -34         | -3          | -7          |
|  |             | -2,036      | -2,226      | -2,367      |
| <b>Profit before extraordinary items, untaxed reserves and taxes</b> |             | 3,555       | 6,278       | 3,110       |
| Extraordinary income and expenses                                    | (8)         |             |             |             |
| Extraordinary income   |             | 424         | 436         | 295         |
| Extraordinary expenses   |             | -429        | -1,005      | -629        |
|  |             | -5          | -569        | -334        |
| <b>Profit before untaxed reserves and taxes</b>                      |             | 3,550       | 5,709       | 2,776       |
| Increase (-) or decrease (+) in accumulated depreciation difference  | (9)         | -2,017      | -2,842      | -1,769      |
| Increase (-) or decrease (+) in untaxed reserves                     | (10)        | 278         | -45         | 391         |
| Direct taxes   | (11)        | -706        | -843        | -502        |
| <b>Profit for the period before minority interest</b>                |             | 1,105       | 1,979       | 896         |
| Minority interest  | (12)        | -111        | -96         | 2           |
| <b>Profit for the period</b>   |             | 994         | 1,883       | 898         |

## Consolidated funds statement

| FIM million  | 1996         | 1995         | 1994         |
|--|--------------|--------------|--------------|
| <b>Operations</b>  |              |              |              |
| Funds generated from operations  |              |              |              |
| Operating profit   | 5,591        | 8,504        | 5,477        |
| Depreciation   | 3,238        | 3,107        | 3,156        |
| Share of results of associated companies                                 | 32           | 65           | 171          |
| Financial income and expenses  | -1,907       | -2,226       | -2,367       |
| Extraordinary income and expenses  | -5           | -569         | -334         |
| Direct taxes   | -706         | -843         | -502         |
|  | 6,243        | 8,038        | 5,601        |
| Change in working capital  |              |              |              |
| Increase (-) or decrease (+) in stocks                                   | 1,381        | -2,235       | -492         |
| Increase (-) or decrease (+) in current receivables                      | 622          | -425         | -552         |
| Increase (+) or decrease (-) in non-interest bearing current liabilities | -828         | 1,283        | 1,315        |
|  | 1,175        | -1,377       | 271          |
| <b>Cash flow from operations</b>   | <b>7,418</b> | <b>6,661</b> | <b>5,872</b> |
| <b>Investments</b>   |              |              |              |
| Capital expenditure  | -6,032       | -4,918       | -3,483       |
| Decrease in fixed assets and other changes                               | 267          | 2,035        | 1,588        |
|  | -5,765       | -2,883       | -1,895       |
| <b>Cash flow before financing</b>  | <b>1,653</b> | <b>3,778</b> | <b>3,977</b> |
| <b>Financing</b>   |              |              |              |
| Increase (-) or decrease (+) in long-term receivables                    | -91          | 32           | 765          |
| Increase (+) or decrease (-) in long-term loans                          | -2,869       | -2,924       | -5,061       |
| Increase (+) or decrease (-) in short-term loans                         | 2,742        | -716         | 55           |
| Dividends  | -1,203       | -574         | -226         |
| Share issue  | 37           | 0            | 173          |
| Other financial items  | 235          | 69           | -64          |
|  | -1,149       | -4,113       | -4,358       |
| <b>Decrease (-) or increase (+) in liquid funds</b>                      | <b>504</b>   | <b>-335</b>  | <b>-381</b>  |

## Consolidated balance sheet

| FIM million   | Note | 31.12.1996 | 31.12.1995 |
|---|------|------------|------------|
| <b>ASSETS</b>                                       |      |            |            |
| <b>Fixed assets and other long-term investments</b> | (13) |            |            |
| Intangible assets                                   |      |            |            |
| Formation expenses                                  |      | 22         | 37         |
| Intangible rights                                   |      | 205        | 209        |
| Goodwill  |      | 165        | 116        |
| Goodwill on consolidation                           |      | 688        | 947        |
| Other capitalized expenditure                       |      | 407        | 396        |
| Advance payments                                    |      | 3          | 5          |
|   |      | 1,490      | 1,710      |
| Tangible assets                                     |      |            |            |
| Land and water                                      |      | 7,083      | 7,074      |
| Buildings   |      | 7,908      | 7,385      |
| Machinery and equipment                             |      | 23,184     | 20,143     |
| Other tangible assets                               |      | 590        | 553        |
| Advance payments and construction in progress       |      | 935        | 2,094      |
|   |      | 39,700     | 37,249     |
| Financial assets                                    |      |            |            |
| Shares and holdings in associated companies         |      | 3,547      | 3,101      |
| Other shares and holdings                           |      | 2,448      | 2,597      |
| Loan receivables                                    |      | 1,117      | 1,049      |
| Other financial assets                              |      |            | 19         |
|   |      | 7,112      | 6,766      |
| <b>Current assets</b>                               |      |            |            |
| Stocks  |      |            |            |
| Raw materials and consumables                       |      | 2,924      | 3,250      |
| Work in progress                                    |      | 855        | 1,352      |
| Finished products and goods                         |      | 3,513      | 3,763      |
| Other stocks  |      | 549        | 671        |
| Advance payments                                    |      | 291        | 477        |
|   |      | 8,132      | 9,513      |
| Receivables (14)                                    |      |            |            |
| Trade receivables                                   |      | 6,743      | 6,851      |
| Loan receivables                                    |      | 151        | 230        |
| Prepaid expenses and accrued income                 |      | 1,250      | 1,187      |
| Other receivables                                   |      | 421        | 877        |
|   |      | 8,565      | 9,145      |
| Cash and bank                                       |      | 2,729      | 2,225      |
|   |      | 67,728     | 66,608     |

| <b>FIM million</b>                       | <b>Note</b> | <b>31.12.1996</b> | <b>31.12.1995</b> |
|--|-------------|-------------------|-------------------|
| <b>EQUITY AND LIABILITIES</b>            |             |                   |                   |
| <b>Shareholders' equity</b>              | (15)        |                   |                   |
| Restricted equity                        |             |                   |                   |
| Share capital                            |             | 2,674             | 2,674             |
| Other restricted equity                  |             | 7,629             | 7,698             |
|  |             | 10,303            | 10,372            |
| Capital loan                             |             | 750               | 750               |
| Non-restricted equity                    |             |                   |                   |
| Retained earnings                        |             | 2,826             | 1,700             |
| Profit for the period                    |             | 994               | 1,884             |
|  |             | 3,820             | 3,584             |
| <b>Minority interest</b>                 |             | 884               | 764               |
| <b>Reserves</b>                          |             |                   |                   |
| Accumulated depreciation difference      |             | 11,439            | 9,217             |
| Untaxed reserves                         |             |                   |                   |
| Investment reserves                      |             |                   | 31                |
| Other reserves                           | (16)        | 333               | 738               |
|  |             | 333               | 769               |
| <b>Provisions</b>                        | (17)        | 442               | 215               |
| <b>Long-term and current liabilities</b> | (18)        |                   |                   |
| Long-term                                |             |                   |                   |
| Bond loans                               |             | 2,129             | 2,645             |
| Convertible bond loans                   |             | 960               | 960               |
| Loans from financing institutions        |             | 9,325             | 10,547            |
| Pension loans                            |             | 4,349             | 4,628             |
| Advances received                        |             | 1                 |                   |
| Trade payables                           |             | 9                 | 3                 |
| Other long-term liabilities              |             | 1,762             | 1,853             |
|  |             | 18,535            | 20,636            |
| Current                                  |             |                   |                   |
| Current portion of long-term loans       |             | 4,660             | 5,428             |
| Loans from financing institutions        |             | 4,766             | 1,555             |
| Advances received                        |             | 1,226             | 1,837             |
| Trade payables                           |             | 3,491             | 3,641             |
| Bills payable                            |             | 586               | 496               |
| Accrued expenses and deferred income     |             | 4,269             | 4,403             |
| Other current liabilities                |             | 2,224             | 2,941             |
|  |             | 21,222            | 20,301            |
|  |             | 67,728            | 66,608            |

## Parent company profit and loss account

| FIM million   | 1.5-31.12.96 |
|---|--------------|
| <b>Turnover</b>   | 16,018       |
| Increase (+) or decrease (-) in finished goods inventories              | -230         |
| Production for own use  | 82           |
| Other operating income (2)  | 544          |
| <b>Costs and expenses</b>   |              |
| Materials, supplies and products  |              |
| Purchases during the financial period                                   | -7,332       |
| Increase (-) or decrease (+) in inventories                             | -220         |
| External services   | -856         |
| Personnel expenses (3)  | -2,563       |
| Rents   | -137         |
| Other costs and expenses  | -1,955       |
|   | -13,063      |
| Depreciation on fixed assets and other capitalized expenditure (5)      | -1,137       |
| <b>Operating profit</b>   | 2,214        |
| Financial income and expenses (7)                                       |              |
| Dividend income   | 599          |
| Interest income from non-current investments                            | 154          |
| Other financial income  | 117          |
| Exchange rate differences   | -75          |
| Interest expenses   | -945         |
| Other financial expenses  | -42          |
| Depreciation on investments   | -100         |
|   | -292         |
| <b>Profit before extraordinary items, untaxed reserves and taxes</b>    | 1,922        |
| Extraordinary income and expenses (8)                                   |              |
| Extraordinary income  | 932          |
| Extraordinary expenses  | -142         |
|   | 790          |
| <b>Profit before untaxed reserves and taxes</b>                         | 2,712        |
| Increase (-) or decrease (+) in accumulated depreciation difference (9) | -1,110       |
| Increase (-) or decrease (+) in untaxed reserves (10)                   | 361          |
| Direct taxes (11)   | -462         |
| <b>Profit for the period</b>  | 1,501        |

## Parent company funds statement

| FIM million  | 1.5-31.12.96 |
|--|--------------|
| <b>Operations</b>  |              |
| Funds generated from operations  |              |
| Operating profit   | 2,214        |
| Depreciation   | 1,137        |
| Financial income and expenses  | -292         |
| Extraordinary items  | 790          |
| Direct taxes   | -462         |
|  | 3,387        |
| Change in working capital  |              |
| Increase (-) or decrease (+) in stocks                                   | -1,979       |
| Increase (-) or decrease (+) in current receivables                      | -897         |
| Increase (+) or decrease (-) in non-interest bearing current liabilities | 1,778        |
|  | -1,098       |
| <b>Cash flow from operations</b>   | 2,289        |
| Investments  |              |
| Capital expenditure  | -23,642      |
| Decrease in fixed assets   | 11,496       |
|  | -12,146      |
| <b>Cash flow before financing</b>  | -9,857       |
| Financing  |              |
| Increase (-) or decrease (+) in long-term receivables                    | 6,133        |
| Increase (+) or decrease (-) in long-term loans                          | 2,134        |
| Increase (+) or decrease (-) in short-term loans                         | 1,353        |
| Share issue  | 37           |
| Other financial items  | -1           |
|  | 9,656        |
| <b>Decrease (-) or increase (+) in liquid funds</b>                      | -201         |

## Parent company balance sheet

| FIM million  | 31.12.1996 | FIM million                                   | 31.12.1996 |
|--|------------|---|------------|
| <b>ASSETS</b>  |            | <b>EQUITY AND LIABILITIES</b>                 |            |
| <b>Fixed assets and other long-term investments (13)</b> |            | <b>Shareholders' equity (15)</b>              |            |
| Intangible assets  |            | Restricted equity                             |            |
| Intangible rights  | 102        | Share capital                                 | 2,674      |
| Goodwill   | 36         | Share issue                                   | 37         |
| Other capitalized expenditure                            | 254        | Legal reserve                                 | 3,566      |
| Advance payments   | 1          | Revaluation reserve                           | 3,660      |
|  | 393        |   | 9,937      |
| Tangible assets  |            | Capital loan                                  |            |
| Land and water   | 6,251      |   | 750        |
| Buildings  | 3,972      | Non-restricted equity                         |            |
| Machinery and equipment                                  | 14,010     | Retained earnings                             | 3,397      |
| Other tangible assets                                    | 421        | Profit for the period                         | 1,501      |
| Advance payments and construction in progress            | 767        |   | 4,898      |
|  | 25,421     | <b>Untaxed reserves</b>                       |            |
| Financial assets   |            | Accumulated depreciation difference           |            |
| Shares and holdings in associated companies              | 3,305      |   | 9,122      |
| Shares in subsidiaries                                   | 7,196      | <b>Provisions (17)</b>                        |            |
| Other shares and holdings                                | 1,962      |   | 141        |
| Loan receivables   | 3,553      | <b>Long-term and current liabilities (18)</b> |            |
| Other financial assets                                   | 9          | Long-term                                     |            |
|  | 16,025     | Bond loans                                    | 1,433      |
| <b>Current assets</b>                                    |            | Convertible bond loans                        | 960        |
| Stocks   |            | Loans from financing institutions             | 6,287      |
| Raw materials and consumables                            | 1,190      | Pension loans                                 | 3,203      |
| Work in progress   | 54         | Other long-term liabilities                   | 206        |
| Finished products and goods                              | 1,095      |   | 12,089     |
| Advance payments   | 240        | Current                                       |            |
|  | 2,579      | Current portion of long-term loans            | 3,421      |
| Receivables (14)   |            | Loans from financing institutions             | 2,410      |
| Trade receivables  | 1,997      | Advances received                             | 379        |
| Loan receivables   | 1,198      | Trade payables                                | 1,499      |
| Prepaid expenses and accrued income                      | 752        | Accrued expenses and deferred income          | 1,683      |
| Other receivables  | 166        | Other current liabilities                     | 3,926      |
|  | 4,113      |   | 13,318     |
| Cash and bank  |            |   |            |
|  | 1,724      |   |            |
|  | 50,255     |   |            |
|  |            |   | 50,255     |

## Notes on the accounts

### Accounting policies for 1996

#### FORMATION OF THE UPM-KYMMENE GROUP

UPM-Kymmene Corporation was formed through the amalgamation merger of Kymmene Corporation and Repola Ltd on 30 April 1996. The financial statements for the new parent company are for the period 1 May to 31 December 1996. The consolidated financial statements have been compiled from the financial statements of the merging companies and their subsidiaries and relate to the period 1 January to 31 December 1996. The figures for previous years given for comparison have been obtained by combining the official financial statements of the merging companies.

#### PRINCIPLES OF CONSOLIDATION

UPM-Kymmene's consolidated financial statements are prepared in accordance with Finnish accounting practice. The figures are stated in Finnish markka under the historical cost convention, except for certain balance sheet items that have been revalued.

The consolidated financial statements are drawn up using the purchase method and include all companies in which the parent company has a controlling interest as stated in the Accounting Act. The difference between the acquisition cost and the subsidiary's equity at the time of acquisition has been entered, where applicable, under fixed assets and has been depreciated in the same way as the corresponding assets. The remainder of the difference is shown as goodwill on consolidation and amortized according to plan.

The consolidated financial statements include all Group companies and associated companies with the exception of certain small housing and real estate subsidiaries. Their exclusion has no material effect on either the Group's financial result or non-restricted shareholders' equity. Subsidiaries acquired during the year are included in the consolidated profit and loss account from the date of their acquisition and subsidiaries sold are included up to the date of their sale.

All inter-company transactions, receivables, liabilities and unrealized profits, as well as distribution of profits within the Group, are eliminated in the consolidated financial statements. Minority interests are disclosed separately from the Group shareholders' equity in the consolidated balance sheet and are recorded as a separate item in the consolidated profit and loss account.

Associated companies are consolidated using the equity method. Accordingly, in place of dividends, UPM-Kymmene's share of the results of such companies is included in the consolidated profit and loss account less amortization of goodwill on acquisition for the financial period. Correspondingly, UPM-Kymmene's share of the shareholders' equity and untaxed reserves, less tax liability, of associated companies, including goodwill

less the accumulated amortization of goodwill, is entered in the balance sheet under the value of shares. Goodwill in respect of power companies is included in non-wasting fixed assets.

The financial results of those associated companies connected with the Group's business operations are included in operating profit and those of other associated companies in financial items.

#### FOREIGN CURRENCIES

Foreign currency transactions of domestic Group companies are reported according to the exchange rates prevailing on the transaction date. Receivables and liabilities in foreign currencies are translated into Finnish markka at the Bank of Finland's average exchange rate at the balance sheet date. Exchange rate differences on translation of receivables and liabilities are entered under financial income and expenses.

Changes in the values of instruments used to hedge against foreign exchange and interest rate risks are recognized in the profit and loss account. The interest component is accrued as interest income or expenses, and exchange differences are entered under financial income and expenses. Open hedging instruments are valued at the average rate of exchange prevailing at the balance sheet date and are entered in the profit and loss account. The exception is forward contracts relating to the Group's cash flow, which are entered in the profit and loss account as the cash flow is credited or debited.

The profit and loss accounts of foreign subsidiaries are translated into Finnish markka using the monthly average rate of exchange, and the balance sheets using the Bank of Finland's average rate of exchange at the balance sheet date. The difference is entered in the Group's shareholders' equity.

Most of the net investment in foreign subsidiaries has been hedged by means of foreign currency loans and forward agreements using the equity hedging method. Net exchange differences arising from conversion of shareholders' equity and of the corresponding financial item are entered under the Group's shareholders' equity.

#### STOCKS

Stocks are valued at cost, which is calculated to include the variable costs of manufacture and an appropriate proportion of the fixed costs of their acquisition and manufacture, however not exceeding the probable net realizable value or replacement value.

#### FIXED ASSETS AND DEPRECIATION

Fixed assets are stated at historical cost less planned depreciation. In addition, the balance sheet value includes revaluations for certain land, buildings and investments in shares. Planned depreciation is calculated on a straight-line basis so as to write off the cost of the fixed assets over



their expected useful lives:

|                                      |             |
|--------------------------------------|-------------|
| Buildings and structures             | 25–40 years |
| Heavy machinery                      | 15–20 years |
| Light machinery and equipment        | 5–15 years  |
| Other tangible assets                | 5–12 years  |
| Goodwill and other intangible assets | 5–20 years  |

Depreciation is not made in respect of land, water or revaluations.

#### TURNOVER AND PROJECTS

Turnover is calculated after deduction of indirect sales taxes, sales discounts and sales commissions. Revenue is recognized at the date of delivery. In respect of major long-term projects, principally by the engineering sector, the percentage of completion method is applied.

#### RESEARCH AND DEVELOPMENT

Research and development costs are expensed as incurred.

#### PENSION ARRANGEMENTS

The pensions of employees of domestic Group companies are arranged partly through Finnish pension insurance companies, partly through the company's own pension funds and partly directly by the company. Foreign subsidiaries make their own pension arrangements in accordance with local practice.

#### COST OF WARRANTIES

The probable costs of warranties pertaining to products delivered are included in current liabilities.

#### EXTRAORDINARY INCOME AND EXPENSES

Income and expenses from non-recurring but significant transactions arising otherwise than in the course of the company's ordinary activities are recorded as extraordinary income and expenses and are stated after deduction of tax.

#### INCREASE/DECREASE IN ACCUMULATED DEPRECIATION DIFFERENCE AND UNTAXED RESERVES (APPROPRIATIONS)

In accordance with Finnish accounting practice, the profit and loss account shows the result before untaxed reserves and taxes. In Finland and certain other countries, part of the appropriations are only accepted for tax purposes if they are recorded in the financial statements.

For taxation purposes, accelerated depreciation may be made. Depreciation below planned depreciation may be made up to the maximum planned depreciation if, in previous years, depreciation has been made in excess of plan. The difference between planned and booked depreciation is presented in the profit and loss account as an increase or decrease in depreciation difference, and in the balance sheet as an accumulated depreciation difference.

#### PROVISIONS

Provisions in the balance sheet comprise those expenses to which a commitment has been made but which have not yet been realized. These may include pension liabilities and the costs of business closure and restructuring.

Changes in provisions are shown in the profit and loss account under the appropriate expense item.

#### DIRECT TAXES

The Group's taxation consists of the combined taxes of the parent company and its subsidiaries based on the taxable profit and proposed dividend, calculated in accordance with the accruals convention. The tax credits arising from the distribution of dividends by subsidiaries are deducted from direct taxes.

## Notes on consolidated and parent company profit and loss accounts, FIM million

|  | Group<br>1996 | Group<br>1995 | Group<br>1994 | Parent company<br>May-Dec. 1996 |
|--|---------------|---------------|---------------|---------------------------------|
| <b>1 Turnover by division</b>  |               |               |               |                                 |
| Magazine papers  | 11,172        | 12,322        | 9,797         |                                 |
| Newsprint  | 5,780         | 5,676         | 4,526         |                                 |
| Fine papers  | 6,220         | 7,140         | 6,411         |                                 |
| Packaging materials  | 5,473         | 5,728         | 5,160         |                                 |
| Sawmilling   | 3,725         | 3,773         | 3,954         |                                 |
| Plywood  | 3,144         | 3,084         | 3,332         |                                 |
| Special products   | 3,574         | 3,528         | 3,441         |                                 |
| Chemical pulp  | 4,106         | 6,070         | 4,881         |                                 |
| Other  | 10,525        | 11,344        | 8,928         |                                 |
| Engineering (Rauma)  | 10,220        | 9,837         | 8,505         |                                 |
| Internal sales   | -12,182       | -13,764       | -10,969       |                                 |
| <b>Total</b>   | <b>51,757</b> | <b>54,738</b> | <b>47,966</b> |                                 |
| <b>Turnover by market</b>  |               |               |               |                                 |
| Finland  | 7,992         | 7,003         | 6,130         |                                 |
| Great Britain  | 7,133         | 6,748         | 5,916         |                                 |
| Germany  | 6,384         | 7,720         | 7,082         |                                 |
| France   | 4,639         | 5,667         | 5,026         |                                 |
| Other EU countries   | 10,791        | 11,768        | 9,189         |                                 |
| Other European countries   | 3,473         | 3,204         | 3,621         |                                 |
| North America  | 5,250         | 5,765         | 5,212         |                                 |
| Rest of world  | 6,095         | 6,863         | 5,790         |                                 |
| <b>Total</b>   | <b>51,757</b> | <b>54,738</b> | <b>47,966</b> |                                 |
| <b>2 Other operating income</b>  |               |               |               |                                 |
| Profit on disposal of fixed assets                                       | 677           | 361           | 361           | 477                             |
| Income from rents  | 74            | 44            | 46            | 47                              |
| Other operating income   | 113           | 68            | 69            | 20                              |
| <b>Other operating income, total</b>                                     | <b>864</b>    | <b>473</b>    | <b>476</b>    | <b>544</b>                      |
| <b>3 Costs and expenses</b>  |               |               |               |                                 |
| Increase/decrease (-/+) in stocks of finished goods and work in progress | 990           | -751          | 398           |                                 |
| Production for own use   | -154          | -138          | -119          |                                 |
| Raw materials, consumables and goods                                     |               |               |               |                                 |
| Purchased during the period  | 21,459        | 24,200        | 20,819        |                                 |
| Increase/decrease (-/+) in stocks  | 428           | -792          | -605          |                                 |
| External services  | 4,593         | 4,149         | 3,743         |                                 |
| Personnel expenses   | 9,730         | 9,490         | 9,001         |                                 |
| Rents  | 410           | 436           | 464           |                                 |
| Other costs and expenses   | 6,304         | 7,411         | 6,157         |                                 |
| <b>Costs and expenses, total</b>   | <b>43,760</b> | <b>44,005</b> | <b>39,858</b> |                                 |
| Personnel expenses   |               |               |               |                                 |
| Salaries of Boards of Directors and Managing Directors                   | 154           | 147           | 147           | 3                               |
| Other wages and salaries   | 7,324         | 7,020         | 6,655         | 2,011                           |
| Pension expenses and contributions                                       | 953           | 1,006         | 936           | 314                             |
| Other indirect employee costs  | 1,299         | 1,317         | 1,263         | 235                             |
| <b>Personnel expenses, total</b>   | <b>9,730</b>  | <b>9,490</b>  | <b>9,001</b>  | <b>2,563</b>                    |

The total value of fringe benefits for the parent company was FIM 9.5 million.

|   | Group<br>1996 | Group<br>1995 | Group<br>1994 | Parent company<br>May-Dec. 1996 |
|---|---------------|---------------|---------------|---------------------------------|
| <b>4 Share of results of associated companies</b>                       |               |               |               |                                 |
| Oy Metsä-Botnia Ab  | -15           | 361           | 54            |                                 |
| Oy Metsä-Rauma Ab   | -57           |               |               |                                 |
| Corenso United Oy Ltd   | 7             | 26            | -12           |                                 |
| Pohjolan Voima Oy   | 22            | 9             | 2             |                                 |
| Others  | 11            | 9             | 5             |                                 |
| Total included in operating profit                                      | -32           | 405           | 49            |                                 |
| Finnyards Ltd   | -140          | -76           | -40           |                                 |
| Others  | 11            | 28            | 4             |                                 |
| Total included in financial income and expenses                         | -129          | -48           | -36           |                                 |
| <b>5 Depreciation on fixed assets and other capitalized expenditure</b> |               |               |               |                                 |
| Formation expenses  | 10            | 10            | 11            |                                 |
| Intangible rights   | 43            | 45            | 51            | 12                              |
| Goodwill  | 19            | 16            | 23            | 4                               |
| Goodwill on consolidation   | 96            | 109           | 127           |                                 |
| Other capitalized expenditure   | 108           | 92            | 88            | 61                              |
| Buildings   | 363           | 352           | 352           | 114                             |
| Machinery and equipment   | 2,532         | 2,423         | 2,444         | 923                             |
| Other tangible assets   | 67            | 60            | 60            | 23                              |
| Depreciation, total   | 3,238         | 3,107         | 3,156         | 1,137                           |
| <b>6 Operating profit by division</b>                                   |               |               |               |                                 |
| Magazine papers   | 2,072         | 2,803         | 1,358         |                                 |
| Newsprint   | 1,044         | 969           | 197           |                                 |
| Fine papers   | 85            | 719           | 507           |                                 |
| Packaging materials   | 559           | 362           | 378           |                                 |
| Sawmilling  | -48           | 135           | 469           |                                 |
| Plywood   | 139           | 25            | 275           |                                 |
| Special products  | 339           | 364           | 469           |                                 |
| Chemical pulp   | -176          | 2,228         | 854           |                                 |
| Others  | 867           | 157           | 424           |                                 |
| Engineering (Rauma)   | 710           | 742           | 546           |                                 |
| Total   | 5,591         | 8,504         | 5,477         |                                 |
| <b>7 Intra-Group financial income and expenses</b>                      |               |               |               |                                 |
| Dividend income   |               |               |               | 459                             |
| Interest on long-term investments                                       |               |               |               | 121                             |
| Other financial income  |               |               |               | 20                              |
| Exchange rate differences   |               |               |               | 32                              |
| Interest expenses   |               |               |               | -84                             |

## 8 Extraordinary income and expenses

|  | Group<br>1996 | Group<br>1995 | Group<br>1994 | Parent company<br>May-Dec. 1996 |
|--|---------------|---------------|---------------|---------------------------------|
| <b>Extraordinary income</b>  |               |               |               |                                 |
| Profit on sale of Pohjolan Voima shares  | 421           |               |               | 403                             |
| VAT tax refund on demerger of 1.1.1991   | 135           |               |               | 135                             |
| Profit on sale of Rauma Oy shares  |               | 431           |               |                                 |
| Merger premium   |               |               |               | 394                             |
| Indirect costs attributable to initial stocks<br>due to change in accounting practice      |               |               | 273           |                                 |
| Other  | 19            | 5             | 22            |                                 |
| – Tax effect of extraordinary items  | –151          |               |               |                                 |
| Extraordinary income, total  | 424           | 436           | 295           | 932                             |
| <b>Extraordinary expenses</b>  |               |               |               |                                 |
| Pension liabilities  | –149          |               | –123          | –114                            |
| Additional amortization of goodwill  | –100          |               |               |                                 |
| Provision for return of investment contribution  | –81           |               |               |                                 |
| Merger deficit   |               |               |               | –17                             |
| Consolidation of associated companies<br>due to change in accounting practice              |               | –380          | –159          |                                 |
| Write-down in value of Polar Corporation<br>shares and other investments                   |               | –99           | –57           |                                 |
| Write-down in value of Finnyards shares<br>and receivables                                 |               | –177          |               |                                 |
| Other  | –99           | –349          | –290          | –11                             |
| Extraordinary expenses, total  | –429          | –1,005        | –629          | –142                            |
| <b>9 Change in accumulated<br/>depreciation difference</b>                                 |               |               |               |                                 |
| Intangible rights  | –3            | –6            | –7            | –2                              |
| Goodwill   |               | –3            |               |                                 |
| Other capitalized expenditure  | –4            | –1            | –2            | –5                              |
| Buildings  | –368          | –17           | –76           | –367                            |
| Machinery and equipment  | –907          | –2,915        | –1,723        | –728                            |
| Other tangible assets  | –739          | 5             | 1             | –2                              |
|  | –2,021        | –2,937        | –1,807        | –1,104                          |
| Portion of profit from sale of fixed assets in<br>excess of depreciation according to plan | 4             | 95            | 38            | –6                              |
| Change in accum. depreciation difference, total  | –2,017        | –2,842        | –1,769        | –1,110                          |
| <b>10 Increase (-) or decrease (+)<br/>in untaxed reserves</b>                             |               |               |               |                                 |
| Transitional reserve   | 412           | 16            | 255           | 361                             |
| Stock reserve  |               |               | 15            |                                 |
| Other reserves   | –134          | –61           | 121           |                                 |
| Change in untaxed reserves, total  | 278           | –45           | 391           | 361                             |
| <b>11 Direct taxes</b>   |               |               |               |                                 |
| Taxes for the financial year   | –667          | –752          | –459          | –400                            |
| Taxes from previous years  | –190          | –91           | –43           | –62                             |
| – Tax effect of extraordinary items  | 151           |               |               |                                 |
| Direct taxes, total  | –706          | –843          | –502          | –462                            |
| <b>12 Minority interest</b>  |               |               |               |                                 |
| Minority interest relates mainly to the Rauma Group (minority interest 26.7%).             |               |               |               |                                 |

## Notes on consolidated and parent company balance sheets, FIM million

### 13 Fixed assets and other long-term investments

|  | Acquisition<br>cost<br>at 1 Jan. | Increases<br>incl.<br>exchange<br>differences | Decreases     | Accumulated<br>depreciation<br>at 1 Jan. | Accumulated<br>depreciation<br>on decreases<br>incl. exchange<br>differences | Depreciation<br>for the<br>period | Book<br>value<br>at 31 Dec. |
|--|----------------------------------|---|---------------|--|--|-----------------------------------|-----------------------------|
| <b>GROUP</b>                                     |                                  |   |               |  |  |                                   |                             |
| <b>Intangible assets</b>                         |                                  |   |               |  |  |                                   |                             |
| Formation expenses                               | 94                               | 17  | -18           | -68                                      | 7  | -10                               | 22                          |
| Intangible rights                                | 509                              | 46  | -59           | -297                                     | 49   | -43                               | 205                         |
| Goodwill   | 348                              | 42  | -19           | -221                                     | 34   | -19                               | 165                         |
| Goodwill on consolidation                        | 1,725                            | 46  | -300          | -775                                     | 89   | -97                               | 688                         |
| Other capitalized expenditure                    | 822                              | 133   | -24           | -428                                     | 12   | -108                              | 407                         |
| Advance payments                                 | 1                                | 3   | -1            |  |  |                                   | 3                           |
| <b>Group 31 Dec. 1996</b>                        | <b>3,499</b>                     | <b>287</b>                                    | <b>-421</b>   | <b>-1,789</b>                            | <b>191</b>   | <b>-277</b>                       | <b>1,490</b>                |
| Group 31 Dec. 1995                               | 4,142                            | 91  | -460          | -1,935                                   | 144  | -272                              | 1,710                       |
| <b>Tangible assets</b>                           |                                  |   |               |  |  |                                   |                             |
| Land and water                                   | 7,077                            | 1,841   | -1,835        | -4                                       | 4  |                                   | 7,083                       |
| Buildings  | 10,439                           | 1,200   | -301          | -3,098                                   | 32   | -364                              | 7,908                       |
| Machinery and equipment                          | 40,212                           | 6,042   | -874          | -20,048                                  | 402  | -2,550                            | 23,184                      |
| Other tangible assets                            | 1,131                            | 128   | -61           | -556                                     | 15   | -67                               | 590                         |
| Advance payments and<br>construction in progress | 2,096                            | 1,239   | -2,400        |  |  |                                   | 935                         |
| <b>Group 31 Dec. 1996</b>                        | <b>60,955</b>                    | <b>10,450</b>                                 | <b>-5,471</b> | <b>-23,706</b>                           | <b>453</b>   | <b>-2,981</b>                     | <b>39,700</b>               |
| Group 31 Dec. 1995                               | 57,024                           | 5,024   | -1,121        | -21,587                                  | 742  | -2,834                            | 37,249                      |

Depreciation for the financial period differs from that stated in the profit and loss account because the balance sheets and profit and loss accounts of foreign subsidiaries have been translated into Finnish markka using different exchange rates.

The book value of machinery and equipment includes FIM 160 million (188) in interest expenses capitalized during the course of construction.

|  | Acquisition<br>cost<br>at 1 May | Increases     | Decreases     | Accumulated<br>depreciation<br>at 1 May | Accumulated<br>depreciation<br>on decreases | Depreciation<br>for the<br>period | Book<br>value<br>at 31 Dec. |
|--|---------------------------------|---------------|---------------|---|---|-----------------------------------|-----------------------------|
| <b>PARENT COMPANY</b>                            |                                 |               |               |   |   |                                   |                             |
| <b>Intangible assets</b>                         |                                 |               |               |   |   |                                   |                             |
| Intangible rights                                | 2                               | 195           |               | -83                                     |   | -12                               | 102                         |
| Goodwill   |                                 | 53            |               | -13                                     |   | -4                                | 36                          |
| Other capitalized expenditure                    | 407                             | 230           | -27           | -300                                    | 5   | -61                               | 254                         |
| Advance payments                                 |                                 | 1             |               |   |   |                                   | 1                           |
| <b>Parent company 31 Dec. 1996</b>               | <b>409</b>                      | <b>479</b>    | <b>-27</b>    | <b>-396</b>                             | <b>5</b>                                    | <b>-77</b>                        | <b>393</b>                  |
| <b>Tangible assets</b>                           |                                 |               |               |   |   |                                   |                             |
| Land and water                                   | 3,085                           | 4,935         | -1,769        |   |   |                                   | 6,251                       |
| Buildings  | 23                              | 5,706         | -10           | -1,640                                  | 7   | -114                              | 3,972                       |
| Machinery and equipment                          | 171                             | 27,294        | -140          | -12,504                                 | 111   | -922                              | 14,010                      |
| Other tangible assets                            | 54                              | 785           | -10           | -385                                    |   | -23                               | 421                         |
| Advance payments and<br>construction in progress | 9                               | 2,799         | -2,041        |   |   |                                   | 767                         |
| <b>Parent company 31 Dec. 1996</b>               | <b>3,342</b>                    | <b>41,519</b> | <b>-3,970</b> | <b>-14,529</b>                          | <b>118</b>                                  | <b>-1,059</b>                     | <b>25,421</b>               |

The fixed assets of merged subsidiaries are included in the increases of the Parent Company.

### Market values and basis for valuations

The book value of shares in companies listed on the Helsinki Stock Exchange and entered under fixed assets and stocks is FIM 1,993 million. The market value at 31 December 1996 was FIM 4,495 million. In addition, the difference between the book value and the market value of the subsidiary Rauma Oy (73.3%) is FIM 1,816 million.

The company's forest, 926,000 hectares, has a book value of FIM 6,970 per hectare, i.e. a total value of FIM 6,454 million. This includes revaluations of FIM 3,376 million made in previous years. According to estimates made by the company for each forest holding separately, the average market value is FIM 9,475 per hectare, giving a total value of FIM 8,774 million. The company also estimates that the market value of its shares in energy companies, FIM 6,662 million, exceeds the book value by FIM 3,798 million. Market value is based on dealings in energy company shares and partly on the net asset value of the shares.

Restructuring has left the Group with a considerable amount of real estate and housing not connected with business operations. Their estimated market value, FIM 2,400 million, exceeds the book value by FIM 1,450 million. Market value is based on transactions completed.

|  | Group<br>1996 | Group<br>1995 | Parent company<br>1996 |
|--|---------------|---------------|------------------------|
| <b>Taxation values of fixed assets</b> |               |               |                        |
| Land and water                         |               |               | 2,652                  |
| Buildings                              |               |               | 2,193                  |
| Shares and holdings                    |               |               | 12,437                 |
| <b>Other long-term investments</b>     |               |               |                        |
| Loan receivables                       |               |               |                        |
| From Group companies                   |               |               | 2,630                  |
| From associated companies              | 984           | 674           | 645                    |
| From others                            | 133           | 375           | 278                    |
| Loan receivables, total                | 1,117         | 1,049         | 3,553                  |

Loans made to directors totalled FIM 2 million. The loans, which are mainly for house purchases, are for less than 10 years and carry interest at one percentage point above the Bank of Finland's base rate.

### 14 Receivables

|  |     |     |     |
|--|-----|-----|-----|
| From Group companies                       |     |     |     |
| Trade receivables                          |     |     | 950 |
| Loan receivables                           |     |     | 803 |
| Prepaid expenses and accrued income        |     |     | 78  |
| Other receivables                          |     |     | 17  |
| Receivables from associated companies      |     |     |     |
| Trade receivables                          | 300 | 541 | 226 |
| Loan receivables                           | 327 | 3   | 327 |
| Prepaid expenses and accrued income        | 33  | 17  | 34  |
| Long-term receivables under current assets |     |     |     |
| Trade receivables                          | 181 | 139 | 16  |
| Loan receivables                           | 13  | 67  |     |
| Prepaid expenses and accrued income        | 4   | 15  |     |
| Other receivables                          | 32  | 19  |     |

The Asset Securitisation programme implemented by the Group freed FIM 682 million of trade receivables (852).

|  | Group<br>1996 | Group<br>1995 | Parent company<br>1996 <sup>1)</sup> |
|--|---------------|---------------|--------------------------------------|
| <b>15 Shareholders' equity</b>                                 |               |               |                                      |
| <b>Restricted</b>  |               |               |                                      |
| Share capital at 1 Jan.  | 2,673.8       | 2,673.7       | 2,673.7                              |
| Increase   |               | 0.1           |                                      |
| Share capital at 31 Dec.                                       | 2,673.8       | 2,673.8       | 2,673.7                              |
| Share issue  |               |               |                                      |
| Warrant bond loan 1991/II                                      | 36.8          |               | 36.8                                 |
| Share issue at 31 Dec.   | 36.8          |               | 36.8                                 |
| Legal reserve at 1 Jan.  | 3,881.3       | 3,744.9       | 3,566.3                              |
| Share premium  |               | 0.3           |                                      |
| Transferred from non-restricted equity                         |               | 274.3         |                                      |
| Others   | -167.6        | -138.2        |                                      |
| Legal reserve at 31 Dec.                                       | 3,713.7       | 3,881.3       | 3,566.3                              |
| Revaluation reserve at 1 Jan.                                  | 3,816.9       | 3,845.8       | 827.2                                |
| Revaluations   |               | 3.8           | 2,918.1                              |
| Cancellation of revaluations                                   | -85.1         | -32.7         | -85.1                                |
| Other  | 146.6         |               |                                      |
| Revaluation reserve at 31 Dec.                                 | 3,878.4       | 3,816.9       | 3,660.2                              |
| Restricted shareholders' equity at 31 Dec.                     | 10,302.6      | 10,372.0      | 9,937.0                              |
| <b>Capital loan</b>  |               |               |                                      |
| Capital loan at 1 Jan.   | 749.9         | 750.0         | 749.9                                |
| Conversion of capital loan                                     |               | -0.1          |                                      |
| Capital loan at 31 Dec.  | 749.9         | 749.9         | 749.9                                |
| <b>Non-restricted shareholders' equity</b>                     |               |               |                                      |
| Retained earnings at 1 Jan.                                    | 3,583.6       | 2,734.3       | 3,397.6                              |
| Dividend paid  | -1,203.2      | -586.4        |                                      |
| Used in the general interest                                   | -1.2          | -0.6          | -0.7                                 |
| Transferred to restricted equity                               |               | -274.3        |                                      |
| Change in accounting practice relating to associated companies | 432.0         |               |                                      |
| Other  | 14.6          | -173.1        | 0.2                                  |
| Retained earnings at 31 Dec.                                   | 2,825.8       | 1,699.9       | 3,397.1                              |
| Profit for the period  | 994.1         | 1,883.7       | 1,500.7                              |
| Non-restricted shareholders' equity at 31 Dec.                 | 3,819.9       | 3,583.6       | 4,897.8                              |

<sup>1)</sup> Parent company from 1 May 1996

#### Convertible capital loan

The capital loan is classified in equity as a preferred loan, and the terms and conditions of the bonds therefore differ from those that normally apply to Finnish convertible bonds. Should the company be placed in liquidation or bankruptcy, these bonds rank junior to other undertakings of the company and rank pari passu with any subordinated bonds issued by the company that materially have the same terms and conditions and which improve its capital adequacy. The bonds mature in 50 years, and are not secured. The company has the right to extend the maturity or to amend the bonds to have no maturity date.

Providing that the terms and conditions of the bonds have not been amended to eliminate maturity, the bonds will be redeemed at maturity only if after such payment the assets of the parent company and the Group fully cover the restricted shareholders' equity as shown in the parent company and consolidated balance sheets adopted by the previous Annual General Meeting of shareholders. If these conditions for redemption are not met, the maturity date will be put back by one year at a time.

Providing the conditions for redemption are met, the company has the right to repay the principal of the bonds, together with any interest due, on or after 2 May 2004. The bonds may also be redeemed at par, together with any interest due, at any time providing the conditions for redemption are met and that the price of one UPM-Kymmene Corporation ordinary share quoted on the Helsinki Stock Exchange has exceeded the conversion price of the bonds by 40 per cent during the period stated in the terms and conditions. However, bondholders have the right of conversion before any such redemption.

Annual interest may not be paid in excess of the non-restricted shareholders' equity on the interest payment date reported in the company's accounts as adopted by the previous Annual General Meeting of shareholders or in excess of distributable non-restricted shareholders' equity as reported in the consolidated financial statements for the same period. Interest left unpaid remains the liability of the company. The company may pay dividend only if all payments due to bondholders have been settled in full.

The outstanding amount of the convertible bonds is FIM 749,950,000. Bondholders are entitled to convert their bonds into UPM-Kymmene Corporation shares, the conversion rate being 102.7 UPM-Kymmene Corporation shares, nominal value FIM 10, for one (1) convertible bond, nominal value FIM 10,000. The conversion price is FIM 97.37 per share. In accordance with the terms and conditions of the bond issue, any shares that are not whole numbers on conversion will be paid in cash. The company's share capital may be increased by a maximum of FIM 77,025,000 through the conversion of bonds. The period during which the bonds may be converted into UPM-Kymmene Corporation shares began on 30 April 1996 and will end on 11 November 2043, one week before the bonds are due to mature.

|                          | Group<br>1996 | Group<br>1995 | Parent company<br>1996 |
|--------------------------|---------------|---------------|------------------------|
| <b>16 Other reserves</b> |               |               |                        |
| Transitional reserve     | 50            | 479           |                        |
| Other reserves           | 283           | 259           |                        |
| Other reserves, total    | 333           | 738           |                        |

Calculated tax liability corresponding to accumulated depreciation and untaxed reserves was FIM 3,296 million at 31 December 1996 (2,497).

|                      |     |     |     |
|----------------------|-----|-----|-----|
| <b>17 Provisions</b> |     |     |     |
| Pension costs        | 361 | 185 | 114 |
| Others               | 81  | 30  | 27  |
| Provisions, total    | 442 | 215 | 141 |

The estimated costs of warranties pertaining to products delivered are included in current liabilities.

|   |     |     |       |
|---|-----|-----|-------|
| <b>18 Long-term and current liabilities</b> |     |     |       |
| Liabilities to Group companies              |     |     |       |
| Other long-term liabilities                 |     |     | 16    |
| Trade payables                              |     |     | 167   |
| Accrued liabilities and deferred income     |     |     | 100   |
| Other current liabilities                   |     |     | 2,743 |
| Liabilities to associated companies         |     |     |       |
| Other long-term liabilities                 | 206 | 220 | 183   |
| Advances received                           |     | 146 | 258   |
| Trade payables                              | 254 | 218 | 173   |
| Accrued liabilities and deferred income     | 4   | 2   | 4     |
| Other current liabilities                   | 13  |     | 1     |

#### Interest-bearing and non-interest-bearing liabilities

|                       |        |        |        |
|-----------------------|--------|--------|--------|
| Current liabilities   |        |        |        |
| Non-interest-bearing  | 9,830  | 10,885 | 3,639  |
| Interest-bearing      | 11,392 | 9,416  | 9,679  |
| Total                 | 21,222 | 20,301 | 13,318 |
| Long-term liabilities |        |        |        |
| Non-interest-bearing  | 253    | 334    | 16     |
| Interest-bearing      | 18,282 | 20,302 | 12,073 |
| Total                 | 18,535 | 20,636 | 12,089 |

#### Group long-term loans and repayment schedules

|                       | Bond<br>loans | Convertible<br>bond loans | Loans from<br>fin. institutions | Pension<br>loans | Others | Total  |
|-----------------------|---------------|---------------------------|---------------------------------|------------------|--------|--------|
| 1998–2001             | 1,184         |                           | 7,603                           | 1,051            | 1,040  | 10,878 |
| 2002–                 | 945           | 960                       | 1,722                           | 3,298            | 732    | 7,657  |
| Total at 31 Dec. 1996 | 2,129         | 960                       | 9,325                           | 4,349            | 1,772  | 18,535 |

#### Parent company long-term loans and repayment schedules

|                       | Bond<br>loans | Convertible-<br>bond loans | Loans from<br>fin. institutions | Pension<br>loans | Others | Total  |
|-----------------------|---------------|----------------------------|---------------------------------|------------------|--------|--------|
| 1998–2001             | 488           |                            | 5,154                           | 689              | 200    | 6,531  |
| 2002–                 | 945           | 960                        | 1,133                           | 2,514            | 6      | 5,558  |
| Total at 31 Dec. 1996 | 1,433         | 960                        | 6,287                           | 3,203            | 206    | 12,089 |



**Bond loans**

| (incl. current portion)                                 | Interest, % | Initial loan<br>Currency (million) | Group<br>balance<br>31.12.1996 | Group<br>balance<br>31.12.1995 | Parent<br>company<br>balance<br>31.12.1996 |
|---|-------------|------------------------------------|--------------------------------|--------------------------------|--|
| <b>Bond loans</b>                                       |             |                                    |                                |                                |  |
| Fixed interest  |             |                                    |                                |                                |  |
| 1987–1997   | 9.50        | FIM                                | 30                             | 3                              | 3  |
| 1988–2000   | 4.75        | CHF                                | 100                            | 344                            | 344  |
| Floating rate of interest                               |             |                                    |                                |                                |  |
| 1995–2000   | 6.19        | USD                                | 150                            | 696                            | 654  |
|   |             |                                    | 1,043                          | 1,039                          | 347  |
| <b>Other bond loans</b>                                 |             |                                    |                                |                                |  |
| Fixed interest  |             |                                    |                                |                                |  |
| 1993–1998   | 11.00       | FIM                                | 100                            | 100                            | 100  |
| 1995–2005   | 7.72        | USD                                | 155                            | 720                            | 720  |
| 1993–1997   | 9.00        | FIM                                | 250                            | 250                            | 250  |
| 1993–1997   | 8.65        | FIM                                | 50                             | 50                             | 50   |
| 1993–2000   | 9.75        | FIM                                | 50                             | 50                             | 50   |
| 1993–1997   | 9.60        | FIM                                | 150                            | 150                            | 150  |
| 1993–2008   | 9.10        | FIM                                | 18                             | 18                             | 18   |
| 1993–1997   | 10.30       | FIM                                | 101                            | 101                            | 101  |
| Floating rate of interest                               |             |                                    |                                |                                |  |
| 1993–2003   | 4.55        | FIM                                | 200                            | 200                            | 200  |
| 1988–1996   | 6.75        | FIM                                |                                | 22                             |  |
| 1989–1995   | 6.75        | FIM                                |                                | 1                              |  |
| 1989–1996   | 6.75        | FIM                                |                                | 5                              |  |
| 1988–1996   | 6.75        | FIM                                | 64                             | 9                              |  |
| 1988–1996   | 6.75        | FIM                                | 42                             | 6                              |  |
| 1989–1997   | 6.00        | FIM                                | 83                             | 5                              | 5  |
| 1989–1997   | 6.00        | FIM                                | 30                             | 4                              | 4  |
| 1989–1997   | 6.00        | FIM                                | 27                             | 3                              | 3  |
| 1989–1997   | 6.00        | FIM                                | 31                             | 2                              | 2  |
|   |             |                                    | 1,653                          | 1,673                          | 1,653                                      |
| Bond loan with equity<br>warrants 1991/II <sup>1)</sup> | 12.00       | FIM                                | 1.5                            | 1.4                            | 1.4  |
| <b>Bond loans, total</b>                                |             |                                    | <b>2,697</b>                   | <b>2,713</b>                   | <b>2,001</b>                               |
| – current portion                                       |             |                                    | –568                           | –68                            | –568                                       |
| <b>Bond loans, long-term portion</b>                    |             |                                    | <b>2,129</b>                   | <b>2,645</b>                   | <b>1,433</b>                               |

<sup>1)</sup> The subscription period is 15 May 1996 to 15 May 1997. Each FIM 15,000 bond carries one warrant, which may be used to subscribe 15,000 shares at FIM 50.00 each.

**Convertible bond loans**

| (incl. current portion)   | Interest, % | Initial loan<br>Currency (million) | Group<br>balance<br>31.12.1996 | Group<br>balance<br>31.12.1995 | Parent<br>company<br>balance<br>31.12.1996 |
|---|-------------|------------------------------------|--------------------------------|--------------------------------|--|
| <b>Subordinated convertible<br/>bond loan 1994<sup>1)</sup></b> |             |                                    |                                |                                |  |
| – current portion   | 6.50        | FIM                                | 960                            | 960                            | 960  |
| <b>Convertible bond loans, long-term portion</b>                |             |                                    | <b>960</b>                     | <b>960</b>                     | <b>960</b>                                 |

<sup>1)</sup> The subordinated convertible bonds may be exchanged for shares between January and October each year. Each FIM 10,000 debenture entitles the holder to 78 shares at a computed price of FIM 128.21 per share. Under the terms of the issue, the company has the right, from 25 March 1998, to reduce the loan period.

|                                   | Group<br>1996 | Group<br>1995 | Parent company<br>1996 |
|-----------------------------------|---------------|---------------|------------------------|
| <b>19 Contingent liabilities</b>  |               |               |                        |
| Mortgages                         |               |               |                        |
| As security against own debts     | 6,303         | 9,790         | 4,948                  |
| Against Group company debts       | 9             |               | 8                      |
| Pledges given                     |               |               |                        |
| On own commitments                | 446           | 730           | 332                    |
| On behalf of others               |               | 1             |                        |
| Guarantees                        |               |               |                        |
| Guarantees for loans              |               |               |                        |
| On behalf of Group companies      |               |               | 5,182                  |
| On behalf of associated companies | 1,192         | 486           | 1,174                  |
| On behalf of others               | 34            | 40            | 21                     |
| Other guarantees                  |               |               |                        |
| On own commitments                | 92            | 227           |                        |
| On behalf of Group companies      |               |               | 67                     |
| On behalf of associated companies | 16            | 136           | 16                     |
| On behalf of others               |               | 27            |                        |
| Pension liabilities               |               |               |                        |
| Direct liabilities                | 38            | 44            |                        |
| Leasing commitments               |               |               |                        |
| Commitments for 1997/1996         | 113           | 50            | 33                     |
| Commitments for subsequent years  | 178           | 200           | 8                      |
| Other commitments                 | 201           | 211           | 121                    |

#### Directors' pension commitments

The retirement age for the managing directors and certain other directors of Group companies has been fixed at 60–65 years.

#### Nominal and market values of the Group's derivative agreements open at 31 Dec. 1996.

|                   | Nominal value, FIM million   |                         | Market value, FIM million                  |                                       |
|-------------------|------------------------------|-------------------------|--|---------------------------------------|
|                   | Interest rate<br>derivatives | Currency<br>derivatives | Interest rate<br>derivatives <sup>1)</sup> | Currency<br>derivatives <sup>2)</sup> |
| Forward contracts | 32,517                       | 15,330                  | –5   | –96                                   |
| Options           |                              |                         |  |                                       |
| Purchased         | 1,098                        | 230                     |  | 1                                     |
| Written           | 1,215                        | 480                     | –30  | –2                                    |
| Swap agreements   | 16,084                       | 1,589                   | –53  | –24                                   |

<sup>1)</sup> Interest rate derivatives are included under interest expenses during the period of validity of the contracts.

<sup>2)</sup> Currency derivatives are included in the financial result at market value except for those relating to cash flows on net exports, which are entered in the profit and loss account as the cash flow is credited or debited.

## **Financial risk management**

The objectives and operational principles for financing activities are defined in the Group Financial Policy approved by the company's Board of Directors. The purpose of financial risk management is to protect the company against unfavourable changes in financial markets and thus help to secure profitability. For this purpose the company employs various financial instruments such as forward contracts, options and futures within specified limits. Only those instruments whose market value and risk profile can be continuously and reliably monitored are used for this purpose.

### FOREIGN CURRENCY EXPOSURE

Most of the Group's revenues, expenditures, debts and receivables are denominated in currencies other than Finnish markka. Fluctuations in exchange rates can therefore have a significant impact on the company's financial results and competitiveness. The biggest single risk is that relating to the exchange rate of the Finnish markka: the company's net foreign currency exposure before hedging operations is equivalent to approximately FIM 20 billion annually. Sales normally take place in the customer's own currency, and the breakdown of sales by country is thus a good reflection of the breakdown by currency.

For each Group company, foreign currency exposure includes all items not denominated in the currency of the country in question: loans, receivables, derivative instruments, foreign currency denominated shareholders' equity, and a certain portion of the company's forecasted net exports.

### INTEREST RATE RISK

The Group employs interest rate derivative contracts mainly to control the cost of its funding and to secure competitive rates of interest. This means that the average interest fixing period must be kept fairly short. At the end of the year, the average interest fixing period in respect of net liabilities was about one year. Interest-bearing net liabilities were FIM 25.7 billion.

### REFINANCING RISK

Refinancing risks are minimized by ensuring that the loan portfolio has a balanced maturity schedule and that loans have sufficiently long maturities. The maturities of the loans on the balance sheet are shown in the notes to the accounts.

### LIQUIDITY RISK

The Group seeks to maintain adequate liquidity under all circumstances. In addition to cash funds of FIM 2.7 billion, the Group has unused committed credit facilities amounting to approximately FIM 6.7 billion. In accordance with the Group's financial policy, liquid funds are invested only with those counterparts, both in Finland and abroad, whose credit worthiness is considered to be sufficient.

## Shares and holdings<sup>1)</sup>

|                                      | Production ■<br>Sales and distribution ▲<br>Other □ | Turnover<br>MFIM | Number<br>of<br>shares | Parent company<br>holding<br>% | Group<br>holding<br>% | Nominal value |         | Book value |
|--------------------------------------|---|------------------|------------------------|--------------------------------|-----------------------|---------------|---------|------------|
|                                      |   |                  |                        |                                |                       | Currency      | million | MFIM       |
| <b>Shares in subsidiaries</b>        |   |                  |                        |                                |                       |               |         |            |
| Nordland Papier AG                   | ■   | 4,114            | 3,499,900              | 100.00                         | 100.00                | DEM           | 175.0   | 1,056.3    |
| Schauman Wood Oy                     | ■   | 1,952            | 3,000,000              | 100.00                         | 100.00                | FIM           | 300.0   | 300.0      |
| UPM-Kymmene SA                       | ▲   | 1,832            | 467,494                |                                | 100.00                | FRF           | 46.7    | 80.8       |
| Chapelle Darblay S.A.                | ■   | 1,507            | 899,991                |                                | 100.00                | FRF           | 90.0    | 1,582.1    |
| Kymmene UK plc                       | ▲   | 1,433            | 23,793,995             |                                | 100.00                | GBP           | 0.0     | 6.0        |
| Shotton Paper Company plc            | ■   | 1,418            | 145,700,100            |                                | 100.00                | GBP           | 0.0     | 1,152.1    |
| Puukeskus Oy                         | ▲   | 1,049            | 45,000                 | 100.00                         | 100.00                | FIM           | 45.0    | 75.9       |
| Stracel S.A.                         | ■   | 940              | 10,378,545             |                                | 98.84                 | FRF           | 467.0   | 967.2      |
| Caledonian Paper plc                 | ■   | 911              | 16,000,000             |                                | 100.00                | GBP           | 0.0     | 755.4      |
| Raflatac S.A.                        | ■   | 815              | 85,000                 |                                | 100.00                | FRF           | 85.0    | 73.3       |
| UPM-Kymmene Ltd                      | ▲   | 617              | 300,000                |                                | 100.00                | GBP           | 0.0     | 11.8       |
| Raflatac Ltd                         | ■   | 599              | 2,000,000              |                                | 100.00                | GBP           | 0.0     | 251.8      |
| UPM-Kymmene Seaways Oy               | ▲   | 570              | 8,000                  | 100.00                         | 100.00                | FIM           | 0.8     | 2.1        |
| Wisapak Oy Ab                        | ■   | 555              | 100,000                | 100.00                         | 100.00                | FIM           | 100.0   | 115.4      |
| Combitrans Oy                        | ▲   | 553              | 405                    | 90.00                          | 90.00                 | FIM           | 0.4     | 0.6        |
| Brooks Group Ltd                     | ▲   | 537              | 1,501,100              | 100.00                         | 100.00                | IEP           | 1.5     | 83.8       |
| Lohjan Paperi Oy                     | ■   | 533              | 24,500                 | 100.00                         | 100.00                | FIM           | 24.5    | 70.0       |
| Raflatac Walki GmbH                  | ▲   | 519              |                        |                                | 100.00                | DEM           | 2.5     | 8.2        |
| Wilh. Schauman GmbH                  | ▲   | 514              | 1                      |                                | 100.00                | DEM           | 0.1     | 0.1        |
| UPM-Kymmene Inc.                     | ▲   | 505              | 40                     |                                | 100.00                | USD           | 0.0     | 1.7        |
| Anco Trae A/S                        | ▲   | 434              | 8,500                  |                                | 100.00                | DKK           | 8.5     | 5.0        |
| Yhtyneet Sahat Oy                    | ■   | 412              | 20,600                 | 92.00                          | 100.00                | FIM           | 103.0   | 348.6      |
| Rosenlew - St. Frères Emballage S.A. | ■   | 395              | 602,494                |                                | 99.99                 | FRF           | 60.2    | 0.1        |
| Papeteries de Docelles               | ■   | 381              | 2495                   |                                | 99.76                 | FRF           | 0.2     | 52.7       |
| UPM-Kymmene S.R.L.                   | ▲   | 333              |                        | 99.83                          | 100.00                | ITL           | 601.0   | 4.7        |
| UPM-Kymmene AG                       | ▲   | 296              | 1,497                  | 100.00                         | 100.00                | CHF           | 0.1     | 0.4        |
| Schauman S.A.                        | ▲   | 272              | 1,500                  |                                | 100.00                | FRF           | 15.0    | 8.3        |
| Schauman B.V.                        | ▲   | 264              | 175                    |                                | 100.00                | NLG           | 0.2     | 0.1        |
| Walki Wisa GmbH                      | ■   | 229              |                        |                                | 99.96                 | DEM           | 2.4     | 29.4       |
| UPM-Kymmene GmbH                     | ▲   | 220              | 1                      | 100.00                         | 100.00                | ATS           | 1.0     | 0.4        |
| Ferdinand Braun & Cie S.A.           | ■   | 211              | 149,972                | 3.66                           | 100.00                | FRF           | 30.0    | 132.9      |
| Oy Paperi-Dahlberg Ab                | ▲   | 209              | 39,000                 | 65.00                          | 65.00                 | FIM           | 3.9     | 12.8       |
| UPM-Kymmene A/S                      | ▲   | 193              | 6                      | 100.00                         | 100.00                | DKK           | 0.3     | 0.4        |
| Malvaux S.A.                         | ■   | 193              | 27,994                 |                                | 100.00                | FRF           | 12.2    | 4.8        |
| UPM-Kymmene (HK) Ltd.                | ▲   | 193              | 30,000                 | 100.00                         | 100.00                | HKD           | 3.0     | 1.8        |
| K & K Verpackungen GmbH              | ▲   | 191              |                        |                                | 99.94                 | DEM           | 1.6     | 13.2       |
| UPM-Kymmene Pty.Ltd.                 | ▲   | 191              | 80,999                 | 100.00                         | 100.00                | AUD           | 0.1     | 0.8        |
| Oy Rauma Stevedoring Ltd             | ▲   | 187              | 8,000                  | 100.00                         | 100.00                | FIM           | 8.0     | 7.0        |
| Sterling Coated Materials Ltd        | ■   | 177              | 220,000                |                                | 100.00                | GBP           | 0.0     | 15.7       |
| Walki Wisa Ltd                       | ■   | 175              | 3,548,004              |                                | 100.00                | GBP           | 0.0     | 113.3      |
| Suomen Kuitulevy Oy                  | ■   | 167              | 10,203                 |                                | 60.00                 | FIM           | 10.2    | 13.3       |
| UPM Raflatac Inc.                    | ▲   | 167              | 1,000                  |                                | 100.00                | USD           | 0.1     | 14.4       |
| Walkisoft GmbH                       | ■   | 158              |                        |                                | 99.98                 | DEM           | 4.5     | 52.6       |
| Rosenlew Emballage AB                | ■   | 151              | 240,000                |                                | 100.00                | SEK           | 24.0    | 32.1       |
| Oy Nautor Ab                         | ■   | 150              | 200,000                | 100.00                         | 100.00                | FIM           | 20.0    | 20.0       |
| Schauman (UK) Ltd                    | ▲   | 144              | 499,999                |                                | 100.00                | GBP           | 0.5     | 3.9        |
| Walki Sack B.V.                      | ■   | 138              | 12,000                 | 100.00                         | 100.00                | NLG           | 12.0    | 24.0       |
| Raflatac Iberica S.A.                | ▲   | 130              | 109                    | 100.00                         | 100.00                | ESP           | 10.9    | 0.4        |
| WA-Kuori Oy                          | ■   | 126              | 33,150                 | 51.00                          | 51.00                 | FIM           | 33.2    | 33.2       |
| Raflatac AB                          | ▲   | 115              | 3,000                  |                                | 100.00                | SEK           | 0.3     | 0.2        |
| Schauman Wood AB                     | ▲   | 107              | 12,000                 |                                | 100.00                | SEK           | 1.2     | 0.3        |
| Kaukas Timber Components Oy          | ■   | 106              | 1,000                  | 100.00                         | 100.00                | FIM           | 10.0    | 24.9       |
| Unicarta Oy                          | □   | 106              | 2,020                  | 100.00                         | 100.00                | FIM           | 10.1    | 19.0       |

<sup>1)</sup> A full list of all shares and holdings is kept at UPM-Kymmene Corporation's Head Office.

|   | Production ■             | Turnover | Number of shares | Parent company holding % | Group holding % | Nominal value |         | Book value |
|---|--------------------------|----------|------------------|--------------------------|-----------------|---------------|---------|------------|
|   | Sales and distribution ▲ | MFIM     |                  |                          |                 | Currency      | million | MFIM       |
|   | Other □                  |          |                  |                          |                 |               |         |            |
| Wisapak Mertens GmbH                    | ■                        | 97       | 1                |                          | 100.00          | DEM           | 6.0     | 16.4       |
| UPM-Kymmene AS                          | ▲                        | 97       | 50               | 100.00                   | 100.00          | NOK           | 0.1     | 0.0        |
| Kalso-Teollisuus Oy                     | ■                        | 96       | 172              |                          | 100.00          | FIM           | 1.7     | 27.8       |
| Raflatac Italia S.r.l.                  | ▲                        | 94       | 60,000           | 100.00                   | 100.00          | ITL           | 60.0    | 0.2        |
| Walki Paperisto Oy                      | ■                        | 93       | 4,800            | 100.00                   | 100.00          | FIM           | 24.0    | 24.0       |
| Walki Pack Ltd                          | ■                        | 82       | 2,510            |                          | 100.00          | GBP           | 0.0     | 3.9        |
| UPM-Kymmene Distribution GmbH           | ▲                        | 81       |                  |                          | 100.00          | DEM           | 0.1     | 0.3        |
| Walki Sack S.A.                         | ■                        | 81       | 124,244          | 84.60                    | 100.00          | ESP           | 124.2   | 28.7       |
| Raflatac A/S                            | ▲                        | 79       | 800              | 100.00                   | 100.00          | DKK           | 0.8     | 3.3        |
| UPM-Kymmene (S) Pte Ltd.                | ▲                        | 74       | 250              |                          | 100.00          | SGD           | 0.0     | 0.7        |
| Rosenlew A/S                            | ▲                        | 73       | 12,000           |                          | 100.00          | NOK           | 6.0     | 19.1       |
| Walkisoft USA Inc.                      | ■                        | 73       | 1,600            |                          | 100.00          | USD           | 0.0     | 74.3       |
| R-Asuntokiinteistö Oy                   | □                        | 73       | 50,300           | 100.00                   | 100.00          | FIM           | 25.2    | 25.2       |
| Mahogany Oy                             | ■                        | 73       | 5,000            | 100.00                   | 100.00          | FIM           | 5.0     | 10.0       |
| United Sawmills France S.A.             | ▲                        | 67       | 24,995           | 4.00                     | 99.98           | FRF           | 2.5     | 4.3        |
| AB W Erikson & Co                       | ■                        | 66       | 1,000            |                          | 100.00          | SEK           | 2.5     | 17.0       |
| Oy Tilgmann Ab                          | ■                        | 62       | 1,500,000        | 100.00                   | 100.00          | FIM           | 15.0    | 19.0       |
| Raflatac Handels GmbH                   | ▲                        | 59       |                  | 100.00                   | 100.00          | ATS           | 5.2     | 2.2        |
| Raflatac (Australia) Pty Ltd            | ▲                        | 53       | 50,000           | 100.00                   | 100.00          | AUD           | 0.1     | 4.4        |
| Walkisoft Denmark A/S                   | ■                        | 52       | 7,000            | 100.00                   | 100.00          | DKK           | 7.0     | 39.3       |
| UPM-Kymmene Distributions n.v.          | ▲                        | 49       | 6,000            | 100.00                   | 100.00          | BEF           | 12.0    | 1.3        |
| UPM-Kymmene Distribution S.A.           | ▲                        | 49       | 18,994           |                          | 99.97           | FRF           | 1.9     | 0.0        |
| Werla Insurance Company Ltd             | □                        | 43       | 1,000,000        | 100.00                   | 100.00          | FIM           | 1.0     | 5.2        |
| Parkanon Lista Oy                       | ■                        | 40       | 1,000            | 100.00                   | 100.00          | FIM           | 0.5     | 5.0        |
| Walki Flex S.A.                         | ■                        | 40       | 49,994           |                          | 99.99           | FRF           | 5.0     | 25.9       |
| Rabopale S.A.                           | ▲                        | 39       | 9,994            |                          | 99.94           | FRF           | 2.5     | 0.0        |
| Oulux Oy                                | ■                        | 38       | 67,500           | 100.00                   | 100.00          | FIM           | 13.5    | 20.0       |
| UPM-Kymmene Distribution Ltd            | ▲                        | 35       | 100              |                          | 100.00          | GBP           | 0.0     | 0.0        |
| Forexplo S.A.                           | □                        | 35       | 66,690           |                          | 98.07           | FRF           | 6.7     | 5.3        |
| NV Rosenlew SA                          | ■                        | 34       | 679              |                          | 97.00           | BEF           | 34.0    | 4.3        |
| UPM-Kymmene sp. zo.oo.                  | ▲                        | 33       |                  | 100.00                   | 100.00          | PLZ           | 0.3     | 0.5        |
| United Sawmills Deutschland GmbH        | ▲                        | 30       | 100              |                          | 100.00          | DEM           | 0.1     | 0.1        |
| Ikapack Oy                              | ■                        | 29       | 102              | 100.00                   | 100.00          | FIM           | 1.0     | 11.8       |
| Bonvesta Oy                             | □                        | 26       | 198,000          | 100.00                   | 100.00          | FIM           | 99.0    | 442.6      |
| Oy Alfa-Bag Ab                          | ■                        | 25       | 1,501            | 100.00                   | 100.00          | FIM           | 0.3     | 18.5       |
| Rosenlew Portugal Embalagens SA         | ■                        | 25       | 30,000           |                          | 100.00          | PTE           | 30.0    | 0.9        |
| Walki-Paberisto AS                      | ■                        | 25       | 760              | 32.26                    | 100.00          | EEK           | 22.2    | 5.2        |
| UPM-Service Oy                          | □                        | 23       | 60               | 100.00                   | 100.00          | FIM           | 0.1     | 0.1        |
| UPM Pack S.A.                           | ▲                        | 22       | 14,994           |                          | 99.94           | FRF           | 1.5     | 1.3        |
| Kymmene Deutschland GmbH                | ▲                        | 21       |                  |                          | 100.00          | DEM           | 0.1     | 0.1        |
| Nordland Schiffahrtsgesellschaft m.b.H. | ▲                        | 19       |                  |                          | 100.00          | DEM           | 1.0     | 3.0        |
| Kalso S.A.                              | ■                        | 19       | 1,700            |                          | 99.60           | FRF           | 10.2    | 3.0        |
| UPM Pack Ltd                            | ▲                        | 18       | 100              |                          | 100.00          | GBP           | 0.0     | 0.5        |
| Schauman Iberica S.A.                   | ▲                        | 17       | 10,000           |                          | 100.00          | ESP           | 40.0    | 4.7        |
| R-Pakki Oy                              | □                        | 16       | 150              | 100.00                   | 100.00          | FIM           | 0.0     | 0.1        |
| Roukko Osakeyhtiö                       | □                        | 15       | 135,000          | 100.00                   | 100.00          | FIM           | 13.5    | 13.9       |
| Kotelo-Tuote Oy                         | ■                        | 14       | 200              | 100.00                   | 100.00          | FIM           | 0.0     | 0.7        |
| Rosenlew SA                             | ■                        | 14       | 9,994            |                          | 99.94           | FRF           | 1.0     | 0.0        |
| Kokkolan Puutavara Oy                   | ▲                        | 13       | 400              |                          | 100.00          | FIM           | 0.0     | 4.0        |
| Nautor's Swan Charters                  | □                        | 13       | 500              |                          | 100.00          | FIM           | 0.0     | 0.0        |
| Raflatac Polska sp. zo.o                | ▲                        | 11       | 9,786            | 100.00                   | 100.00          | PLZ           | 1.0     | 1.7        |
| Kymmene Logistics Oy                    | ▲                        | 10       | 1,000            | 100.00                   | 100.00          | FIM           | 1.0     | 15.7       |

|                                      | Production ■<br>Sales and distribution ▲<br>Other □ | Turnover<br>MFIM     | Number<br>of<br>shares | Parent company<br>holding<br>% | Group<br>holding<br>% | Nominal value<br>Currency | million     | Book value<br>MFIM |
|--------------------------------------|---|----------------------|------------------------|--------------------------------|-----------------------|---------------------------|-------------|--------------------|
| Rauma Oy                             |   | 10,220 <sup>2)</sup> | 39,600,000             | 73.33                          | 73.33                 | FIM                       | 396.0       | 1 573.2            |
| Sunds Defibrator Industries AB       | ■   | 1,784                | 800,001                |                                | 100.00                | SEK                       | 80.0        | 611.0              |
| Neles-Jamesbury Inc.                 | ■   | 867                  |                        |                                | 100.00                | USD                       | 53.8        | 306.8              |
| Timberjack Inc.                      | ■   | 762                  | 1,000                  |                                | 100.00                | USD                       | 0.0         | 518.5              |
| Neles-Jamesbury Oy                   | ■   | 739                  | 274,750                |                                | 100.00                | FIM                       | 27.5        | 178.0              |
| Sunds Defibrator Pori Oy             | ▲   | 623                  | 99,000                 |                                | 100.00                | FIM                       | 99.0        | 290.5              |
| Nordberg-Lokomo Oy                   | ■   | 586                  | 85,000                 |                                | 100.00                | FIM                       | 100.0       | 186.8              |
| Timberjack Oy                        | ▲   | 464                  | 320,000                |                                | 100.00                | FIM                       | 51.0        | 68.3               |
| Sunds Defibrator Inc.                | ▲   | 450                  |                        |                                | 100.00                | USD                       | 6.1         | 32.5               |
| Nordberg Inc.                        | ■   | 442                  |                        |                                | 100.00                | USD                       | 36.9        | 171.6              |
| Sunds Defibrator Manufacturing AB    | ■   | 355                  | 20,000                 |                                | 100.00                | SEK                       | 0.1         | 2.3                |
| Timberjack Sales AB                  | ▲   | 344                  | 50,000                 |                                | 100.00                | SEK                       | 5.0         | 4.5                |
| Sunds Defibrator Valkeakoski Oy      | ▲   | 319                  | 1,860,000              |                                | 100.00                | FIM                       | 186.0       | 449.6              |
| Nordberg Sales Corp.                 | ▲   | 315                  |                        |                                | 100.00                | USD                       | 22.6        | 104.8              |
| Timberjack Sales Oy                  | ▲   | 278                  | 10,000                 |                                | 100.00                | FIM                       | 10.0        | 30.7               |
| Nordberg-Bergeaud S.A.               | ■   | 263                  | 798,074                |                                | 100.00                | FRF                       | 40.0        | 82.9               |
| Timberjack Corporation               | ■   | 249                  |                        |                                | 100.00                | USD                       | 0.0         | 547.3              |
| Timberjack AB                        | ■   | 236                  | 134,500                |                                | 100.00                | SEK                       | 13.5        | 17.3               |
| Sunds Defibrator Woodhandling Oy     | ▲   | 191                  | 46,000                 |                                | 100.00                | FIM                       | 46.0        | 71.2               |
| Nordberg Asia-Pacific Pte Ltd        | ▲   | 184                  |                        |                                | 100.00                | SGD                       | 0.1         | 0.5                |
| Nordberg France                      | ▲   | 182                  | 299,990                |                                | 100.00                | FRF                       | 30.0        | 26.6               |
| Mäntyluoto Works Oy                  | ■   | 173                  | 35,277                 |                                | 100.00                | FIM                       | 35.3        | 35.3               |
| Sunds Defibrator Ltd                 | ▲   | 166                  | 250,000                |                                | 100.00                | CAD                       | 0.0         | 8.6                |
| Sunds Woodhandling Inc.              | ▲   | 138                  |                        |                                | 100.00                | USD                       | 0.0         | 10.0               |
| Neles-Jamesbury Pte Ltd              | ▲   | 138                  | 50,000                 |                                | 100.00                | SGD                       | 0.5         | 8.3                |
| ND Engineering Ltd                   | ■   | 131                  | 3,476,712              |                                | 100.00                | ZAR                       | 3.5         | 6.6                |
| Neles-Jamesbury S.A.                 | ■   | 122                  | 400,000                |                                | 100.00                | FRF                       | 49.3        | 34.0               |
| Pori Works Oy                        | ■   | 119                  | 27,000                 |                                | 100.00                | FIM                       | 27.0        | 31.5               |
| Nordberg Pty Ltd                     | ■   | 119                  | 10,000                 |                                | 100.00                | ZAR                       | 0.0         | 31.0               |
| Timberjack Parts AB                  | ▲   | 118                  | 50,000                 |                                | 100.00                | SEK                       | 5.0         | 3.4                |
| Sunds Defibrator Refiner Segments Ab | ■   | 118                  | 20,000                 |                                | 100.00                | SEK                       | 0.1         | 0.7                |
| Sunds Defibrator Pty                 | ▲   | 114                  | 49,999                 |                                | 100.00                | NZD                       | 0.0         | 0.2                |
| Peerless Corporation                 | ■   | 99                   | 2,560,000              |                                | 100.00                | USD                       | 0.0         | 27.5               |
| Neles-Jamesbury Ltd                  | ■   | 97                   | 4,000,000              |                                | 100.00                | GBP                       | 2.1         | 16.4               |
| Sunds Defibrator Loviisa Oy          | ▲   | 97                   | 20,000                 |                                | 100.00                | FIM                       | 20.0        | 34.3               |
| Nordberg GmbH                        | ▲   | 91                   | 100                    |                                | 100.00                | DEM                       | 11.4        | 0.0                |
| Peerless Page Industries Ltd         | ■   | 91                   | 1,000                  |                                | 100.00                | USD                       | 0.0         | 0.0                |
| Neles-Jamesbury Ltd/Ltee             | ▲   | 84                   |                        |                                | 100.00                | CAD                       | 7.4         | 36.5               |
| Nordberg Australia Pty Ltd           | ▲   | 83                   | 2,810                  |                                | 100.00                | AUD                       | 2.8         | -9.6               |
| Timberjack Sales AS                  | ▲   | 81                   | 50                     |                                | 100.00                | NOK                       | 5.0         | 3.2                |
| Sunds Defibrator Panelhandling Oy    | ▲   | 79                   | 200                    |                                | 100.00                | FIM                       | 1.1         | 13.6               |
| Neles-Jamesbury GmbH                 | ▲   | 79                   |                        |                                | 100.00                | DEM                       | 3.9         | 12.8               |
| Nordberg China                       | ▲   | 75                   | 999,999                |                                | 100.00                | HKD                       | 1.0         | 0.7                |
| Nordberg Malaysia SDN BHD            | ▲   | 74                   | 10                     |                                | 100.00                | MYR                       | 0.0         | 0.0                |
| Nordberg Norway AS                   | ▲   | 71                   | 5,000                  |                                | 100.00                | NOK                       | 0.5         | 0.3                |
| Neles-Jamesbury KK                   | ▲   | 70                   | 20,000                 |                                | 100.00                | JPY                       | 200.0       | 39.1               |
| Neles-Jamesbury AB                   | ▲   | 67                   | 57,000                 |                                | 100.00                | SEK                       | 5.7         | 10.2               |
| Sunds Valkeakosken Konepaja Oy       | ■   | 66                   | 14,000                 |                                | 100.00                | FIM                       | 14.0        | 14.0               |
| Neles Valvulas Industriais Ltda      | ■   | 65                   |                        |                                | 100.00                | BRC                       | 7,384,807.0 | 10.6               |
| Nordberg Machinery Ltd               | ▲   | 64                   | 100                    |                                | 100.00                | USD                       | 5.3         | 24.7               |
| Sunds Defibrator GmbH                | ▲   | 64                   |                        |                                | 100.00                | DEM                       | 0.3         | 1.7                |
| Nordberg UK Ltd                      | ▲   | 53                   | 750,000                |                                | 100.00                | GBP                       | 0.8         | 15.3               |
| Nordberg Sweden AB                   | ▲   | 53                   | 1,000                  |                                | 100.00                | SEK                       | 0.1         | 0.7                |
| Nordberg Industrial Ltda             | ■   | 51                   |                        |                                | 100.00                | BRC                       | 0.0         | 0.0                |
| Neles-Jamesbury Spa                  | ▲   | 51                   | 198,800                |                                | 100.00                | ITL                       | 1,000.0     | 5.6                |

<sup>2)</sup> Consolidated turnover

|   | Number of shares | Parent company holding % | Group holding % | Nominal value |         | Book value |
|---|------------------|--------------------------|-----------------|---------------|---------|------------|
|   |                  |                          |                 | Currency      | million | MFIM       |
| <b>Shares in associated companies</b>               |                  |                          |                 |               |         |            |
| Cervuctum Oy  | 250,000          | 31.25                    | 31.25           | FIM           | 25.0    | 25.0       |
| Compania Forestal Oriental S.A.                     | 16,575           | 33.30                    | 33.30           | UYP           | 16.6    | 97.8       |
| Corenso United Oy Ltd                               | 45,240           | 29.00                    | 29.00           | FIM           | 45.2    | 59.7       |
| Finnish Peroxides Oy Ab                             | 12,500           | 25.00                    | 25.00           | FIM           | 12.5    | 87.1       |
| Jyvä-Helmi Oy                                       | 45,000           | 45.00                    | 45.00           | FIM           | 45.0    | 29.2       |
| Kainuun Voima Oy                                    | 40,000           | 50.00                    | 50.00           | FIM           | 40.0    | 45.0       |
| Kiinteistö Oy Eteläesplanadi 2                      | 2,835            | 31.50                    | 31.50           | FIM           | 1.0     | 46.5       |
| Niedermayr Papierwarenfabrik Ag                     | 32,000           | 32.00                    | 32.00           | DEM           | 3.2     | 31.9       |
| Oy Metsä-Botnia Ab                                  | 21,940           | 47.00                    | 47.00           | FIM           | 219.4   | 1,055.0    |
| Oy Metsä-Rauma Ab                                   | 4,376,640        | 45.59                    | 45.59           | FIM           | 218.8   | 218.8      |
| Oy Transfennica Ab                                  | 43,800           | 43.80                    | 43.80           | FIM           | 4.4     | 11.1       |
| Paperinkeräys Oy                                    | 20,682           | 22.99                    | 22.99           | FIM           | 0.2     | 11.9       |
| Pohjolan Voima Oy                                   | 15,697,801       | 46.71                    | 46.71           | FIM           | 157.0   | 1,515.5    |
| Steveco Oy  | 9,597            | 32.02                    | 32.02           | FIM           | 9.6     | 12.5       |
| Shanghai Neles-Jamesbury Valve Co Ltd (Rauma Group) |                  |                          | 50.00           | USD           | 2.7     | 12.4       |
| Kalajoen Konepaja Oy (Rauma Group)                  | 7,000            |                          | 48.00           | FIM           | 7.0     | 7.0        |
| Finnyards Ltd                                       | 1,840            | 47.90                    | 47.90           | FIM           | 184.0   | 0.0        |
| SP Lenraumamebel                                    |                  | 43.70                    | 43.70           | SUR           | 3.9     | 0.0        |
| Chudovo-RWS   |                  |                          | 34.40           | SUR           |         | 6.7        |

|  | Number of shares | Parent company holding % | Group holding % | Nominal value |         | Book value |
|--|------------------|--------------------------|-----------------|---------------|---------|------------|
|  |                  |                          |                 | Currency      | million | MFIM       |
| <b>Other shares and holdings <sup>1)</sup></b> |                  |                          |                 |               |         |            |
| Aamulehti-Yhtymä Oy I                          | 362,324          | 0.69                     | 4.80            | FIM           | 3.6     | 85.5       |
| Aamulehti-Yhtymä Oy II                         | 61,926           | 0.02                     | 0.82            | FIM           | 0.6     | 3.5        |
| Kemijoki Oy                                    | 94,655           | 3.94                     | 3.94            | FIM           | 9.5     | 509.5      |
| Merita Ltd, A                                  | 21,237,339       | 2.56                     | 2.56            | FIM           | 212.4   | 401.9      |
| Merita Ltd, B                                  | 1,330,275        | 0.16                     | 0.16            | FIM           | 13.3    | 19.1       |
| Metsä-Serla Oy, A                              | 211,240          | 0.15                     | 0.15            | FIM           | 2.1     | 14.3       |
| Metsä-Serla Oy, B                              | 616,260          | 0.44                     | 0.44            | FIM           | 6.2     | 22.9       |
| Nokia Corporation, A                           | 29,720           | 0.01                     | 0.01            | FIM           | 0.1     | 1.1        |
| Nokia Corporation, ordinary                    | 11,619,984       | 3.88                     | 3.88            | FIM           | 58.1    | 459.4      |
| Oy Silja Ab, A                                 | 1,461,048        | 6.70                     | 6.70            | FIM           | 29.2    | 60.0       |
| Oy Silja Ab, K                                 | 1,152,740        | 5.28                     | 5.28            | FIM           | 23.1    | 55.3       |
| Polar Corporation                              | 8,816,297        | 16.96                    | 16.96           | FIM           | 88.2    | 88.2       |
| Puhos Board Oy                                 | 7,500            |                          | 19.70           | FIM           | 7.5     | 7.5        |
| Tecply Inc.                                    | 5                |                          | 5.00            | FIM           | 0.0     | 7.3        |
| Pohjola Insurance Company, A                   | 479,002          | 1.18                     | 1.18            | FIM           | 2.4     | 96.0       |
| Pohjola Insurance Company, B                   | 189,501          | 0.46                     | 0.46            | FIM           | 0.9     | 16.8       |
| Sampo Insurance Company Limited                | 362,444          | 2.09                     | 2.39            | FIM           | 7.2     | 103.5      |
| Tampella Corporation (Rauma Group)             | 18,500,000       |                          | 13.88           | FIM           | 92.5    | 185.1      |

<sup>1)</sup> Additionally, the most important shareholdings included in stocks: 5,998,617 Enso Oy Series A and 4,192,808 Enso Series R shares, and 1,942,813 Merita Ltd Series A shares.

## Key figures, 1987-1996<sup>1)</sup>

| FIM million  | 1996               | 1995    | 1994    | 1993    | 1992    | 1991    | 1990    | 1989    | 1988    | 1987    |
|--|--------------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| <b>Operations</b>  |                    |         |         |         |         |         |         |         |         |         |
| Turnover, forest industry                                | 41,537             | 44,901  | 39,461  | 36,307  | 29,149  | 28,300  | 29,002  | 25,430  | 21,834  | 16,658  |
| Turnover, engineering                                    | 10,220             | 9,837   | 8,505   | 7,656   | 8,210   | 7,418   | 8,003   | 7,819   | 4,205   | 3,476   |
| Total turnover   | 51,757             | 54,738  | 47,966  | 43,963  | 37,359  | 35,718  | 37,005  | 33,249  | 26,039  | 20,134  |
| Operating profit   | 5,591              | 8,504   | 5,477   | 4,073   | 2,129   | 1,005   | 3,096   | 3,296   | 3,474   | 2,124   |
| % of turnover  | 10.8               | 15.5    | 11.4    | 9.3     | 5.7     | 2.8     | 8.4     | 9.9     | 13.3    | 10.5    |
| Profit/loss before extraordinary items and taxes         | 3,555              | 6,278   | 3,110   | -87     | -2,154  | -2,821  | 1,150   | 2,094   | 2,442   | 1,349   |
| % of turnover  | 6.9                | 11.5    | 6.5     | -0.2    | -5.8    | -7.9    | 3.1     | 6.3     | 9.4     | 6.7     |
| Profit/loss before appropriations and taxes              | 3,550              | 5,709   | 2,776   | -81     | -1,827  | -2,303  | 1,346   | 2,378   | 3,630   | 1,369   |
| % of turnover  | 6.9                | 10.4    | 5.8     | -0.2    | -4.9    | -6.4    | 3.6     | 7.2     | 13.9    | 6.8     |
| Exports and foreign operations                           | 43,765             | 47,736  | 41,838  | 38,058  | 31,000  | 29,980  | 30,139  | 25,954  | 20,267  | 15,377  |
| Exports from Finland                                     | 25,026             | 28,006  | 25,858  | 22,625  | 15,925  | 16,046  | 16,757  | 16,638  | 14,753  | 11,286  |
| Fixed assets and other long-term investments             | 48,302             | 45,725  | 45,313  | 46,908  | 46,584  | 42,960  | 40,539  | 32,485  | 24,927  | 19,245  |
| Stocks   | 8,132              | 9,513   | 7,279   | 6,786   | 7,475   | 8,506   | 8,875   | 8,108   | 6,399   | 4,916   |
| Other current assets                                     | 11,294             | 11,370  | 11,324  | 11,809  | 12,960  | 13,156  | 12,045  | 12,882  | 11,960  | 8,920   |
| Assets   | 67,728             | 66,608  | 63,916  | 65,503  | 67,019  | 64,622  | 61,459  | 53,475  | 43,286  | 33,081  |
| Shareholders' equity                                     | 14,873             | 14,706  | 13,252  | 12,131  | 10,054  | 9,929   | 10,570  | 10,852  | 9,100   | 7,096   |
| Minority interest  | 884                | 764     | 104     | 105     | 111     | 130     | 183     | 157     | 163     | 42      |
| Untaxed reserves and accumulated depreciation difference | 11,772             | 9,986   | 7,048   | 5,860   | 6,985   | 8,267   | 10,282  | 9,767   | 7,282   | 5,732   |
| Provisions   | 442                | 215     | 230     | 194     | -       | -       | -       | -       | -       | -       |
| Long-term liabilities                                    | 18,535             | 20,636  | 23,616  | 27,705  | 29,659  | 28,086  | 24,163  | 18,150  | 14,108  | 10,821  |
| Current liabilities                                      | 21,222             | 20,301  | 19,666  | 19,508  | 20,210  | 18,210  | 16,261  | 14,549  | 12,633  | 9,390   |
| Liabilities  | 67,728             | 66,608  | 63,916  | 65,503  | 67,019  | 64,622  | 61,459  | 53,475  | 43,286  | 33,081  |
| Return on equity, %                                      | 11.1               | 24.5    | 14.1    | -1.7    | -13.3   | -15.8   | 3.8     | 10.2    | 16.1    | 10.4    |
| Return on capital employed, %                            | 10.1               | 16.2    | 10.7    | 6.9     | 3.2     | 1.2     | 8.3     | 10.4    | 12.6    | 10.6    |
| Equity to assets ratio, %                                | 41.4               | 39.3    | 32.6    | 28.0    | 25.9    | 28.9    | 34.9    | 39.8    | 38.9    | 39.7    |
| Gearing ratio, %   | 93                 | 102     | 145     | 184     | 209     | 175     | 128     | 88      | 86      | 81      |
| Interest-bearing net liabilities                         | 25,684             | 25,914  | 29,598  | 33,376  | 35,809  | 32,063  | 26,845  | 18,183  | 14,246  | 10,426  |
| Gross capital expenditure                                | 6,032              | 4,918   | 3,483   | 1,951   | 3,321   | 4,303   | 9,417   | 6,962   | 6,553   | 4,841   |
| % of turnover  | 11.7               | 9.0     | 7.3     | 4.4     | 8.9     | 12.0    | 25.4    | 20.9    | 25.2    | 24.0    |
| Net capital expenditure                                  | 4,432              | 3,318   | 2,697   | 330     | 2,381   | 3,460   | 7,749   | 6,149   | 5,073   | 4,472   |
| Personnel at year end                                    | 43,636             | 44,671  | 43,988  | 42,737  | 43,806  | 49,071  | 52,122  | 50,326  | 44,766  | 37,244  |
| <b>Adjusted share-related indicators</b>                 |                    |         |         |         |         |         |         |         |         |         |
| Earnings per share, FIM (diluted 1996: FIM 9.98)         | 10.24              | 20.09   | 10.04   | -1.19   | -10.07  | -13.18  | 3.22    | 8.34    | 11.81   | 6.74    |
| Shareholders' equity per share, FIM                      | 96.85              | 89.54   | 74.45   | 66.79   | 68.26   | 72.96   | 83.62   | 81.67   | 80.52   | 69.80   |
| Dividend per share, FIM                                  | 4.50 <sup>2)</sup> | 4.50    | 2.19    | 0.88    | 0.37    | 0.65    | 1.36    | 2.00    | 2.05    | 1.71    |
| Dividend to earnings ratio, %                            | 43.9               | 22.4    | 21.9    | neg.    | neg.    | neg.    | 42.1    | 24.0    | 17.4    | 25.4    |
| Effective dividend yield, %                              | 4.7                | 5.5     | 2.5     | 1.0     | 0.8     | 1.5     | 2.8     | 3.0     | 2.5     | 2.7     |
| P/E ratio  | 9.4                | 4.1     | 8.9     | neg.    | neg.    | neg.    | 14.8    | 8.0     | 7.0     | 9.4     |
| Adjusted share price at 31 Dec., FIM                     | 95.86              | 82.06   | 87.78   | 86.35   | 44.18   | 42.52   | 47.74   | 66.55   | 82.33   | 63.21   |
| Market capitalization                                    | 25,630             | 21,941  | 23,471  | 22,902  | 11,700  | 11,261  | 11,906  | 16,803  | 16,751  | 11,616  |
| Number of shares (1000s)                                 |                    |         |         |         |         |         |         |         |         |         |
| Average  | 267,374            | 265,779 | 260,081 | 254,479 | 249,601 | 249,387 | 249,653 | 228,404 | 206,116 | 187,220 |
| At end of period   | 267,374            | 267,377 | 262,587 | 258,120 | 249,601 | 249,387 | 249,369 | 252,482 | 203,461 | 183,781 |
| <b>Production figures</b>                                |                    |         |         |         |         |         |         |         |         |         |
| Magazine paper, 1000 t                                   | 2,460              | 2,897   | 2,643   | 2,356   | 2,070   | 1,965   | 1,969   | 1,678   | 1,425   | 1,252   |
| Newsprint, 1000 t  | 1,592              | 1,845   | 1,809   | 1,740   | 1,623   | 1,586   | 1,493   | 1,004   | 650     | 714     |
| Fine paper, 1000 t                                       | 1,429              | 1,356   | 1,484   | 1,292   | 1,129   | 1,118   | 1,066   | 1,026   | 915     | 862     |
| Other papers and paperboard, 1000 t                      | 653                | 635     | 672     | 636     | 629     | 587     | 705     | 693     | 680     | 550     |
| Total, 1000 t  | 6,134              | 6,733   | 6,608   | 6,024   | 5,451   | 5,256   | 5,233   | 4,401   | 3,670   | 3,378   |
| Sawn timber, 1000 m <sup>3</sup>                         | 1,857              | 1,939   | 2,075   | 1,957   | 1,777   | 1,532   | 1,934   | 1,915   | 1,569   | 1,288   |
| Plywood, 1000 m <sup>3</sup>                             | 617                | 585     | 534     | 442     | 303     | 286     | 389     | 333     | 330     | 74      |
| Chemical pulp, 1000 t                                    | 1,874              | 2,000   | 2,040   | 1,972   | 1,830   | 1,924   | 1,956   | 2,023   | 1,963   | 1,344   |

Formulae for calculating indicators are given on page 64.

<sup>1)</sup> The figures for 1987-1995 are based on the combined consolidated financial statements (FAS) of Kymmene and Repola. Share-related indicators are based on the share exchange ratios for the two companies' shares on amalgamation merger at 30 April 1996.

<sup>2)</sup> Proposal



## Information on shares

### Share capital

Under UPM-Kymmene Corporation's Articles of Association, the company's issued share capital may be not less than FIM 1,500,000,000 and not more than FIM 6,000,000,000. The issued share capital may be increased or reduced between these limits without amendment to the Articles of Association.

The share capital of UPM-Kymmene Corporation at the date of the merger (30 April 1996) was FIM 2,673,736,670, consisting of 267,373,667 shares, each with a nominal value of FIM 10. Since that date, 156 shares have been subscribed for FIM 20,000 against the 1994 convertible bond. At 31 December 1996, the company's share capital stood at FIM 2,673,738,230 and the number of shares was 267,373,823.

If the convertible bonds and bonds with equity warrants issued by the company are fully converted into shares, the share capital of UPM-Kymmene Corporation will rise to a maximum of FIM 2,840,006,260, comprising 284,000,626 shares. The shares are included in the computerized book entry system for securities.

#### DIRECTORS' INTEREST

At 31 December 1996, the members of the Board of Directors, the Managing Director and Deputy Managing Director owned a total of 901,335 UPM-Kymmene Corporation shares representing 0.337% of the total share capital. The members of the Board of Directors, the Managing Director and Deputy Managing Director also hold convertible bonds for a total nominal value of FIM 900,000. If all bonds are converted into shares, the share

capital of UPM-Kymmene Corporation would increase by FIM 86,260, i.e. by 8,626 shares. These shares would represent 0.003% of the share capital and voting rights of the company.

#### STOCK EXCHANGE TRADING

During the period May to December 1996, 73.2 million UPM-Kymmene Corporation shares were traded on the Helsinki Stock Exchange. This represents 27.4 % of the share capital. The lowest quotation during this period was FIM 85.50 and the highest FIM 105.00. On SEAQ International in London, 89.9 million of the company's shares changed hands. Total trading in the shares of the merging companies and UPM-Kymmene Corporation during the period January to December 1996 was FIM 11,734 million (10,994).

#### AUTHORIZATION TO INCREASE SHARE CAPITAL

The Board of Directors has no current authorization to issue new share capital, convertible bonds, and/or bonds with equity warrants.

#### REDEMPTION CLAUSE

Under § 13 of UPM-Kymmene Corporation's Articles of Association, a shareholder who owns, either singly or jointly with another shareholder, a proportion of the total shares of the company or of the voting rights carried by the shares equal to or in excess of 33 1/3 per cent, or 50 per cent, shall, at the request of other shareholders, be liable to redeem in the manner prescribed in § 13, their shares and any securities that, under the Companies Act, carry the right to such shares.

#### SHARE EXCHANGE RATIOS USED IN THE MERGER

7 UPM-Kymmene shares for 5 Kymmene shares  
1 UPM-Kymmene share for 1 Repola share

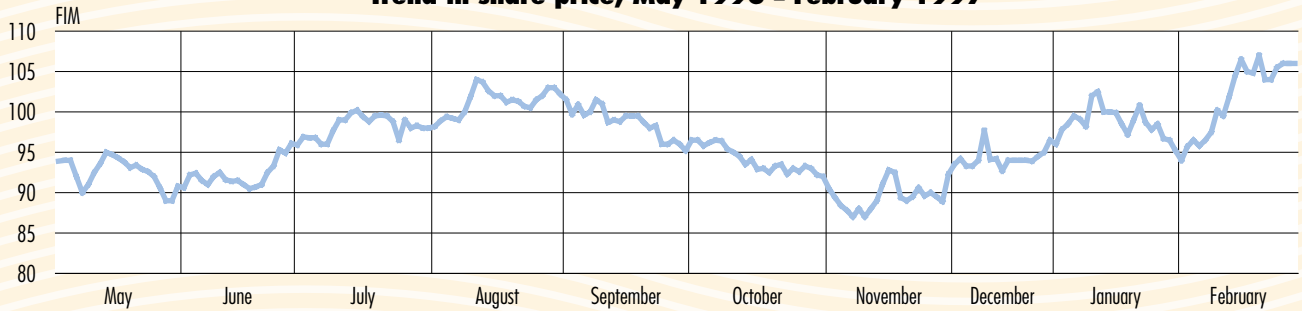
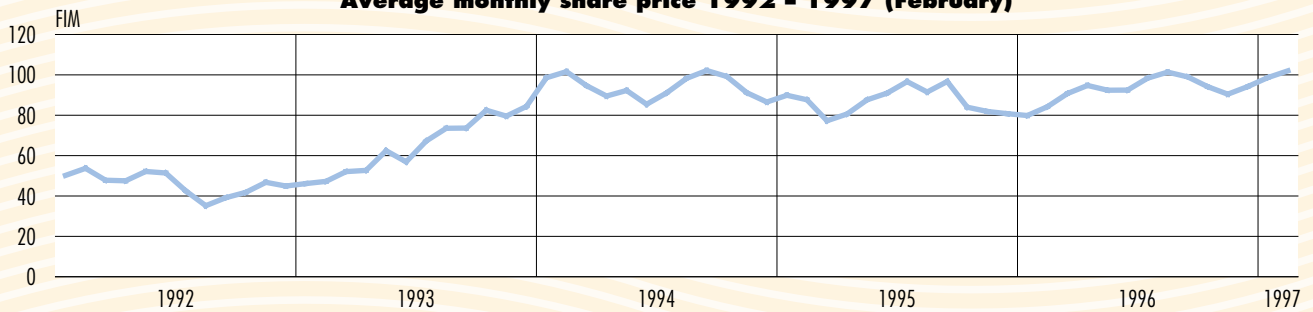
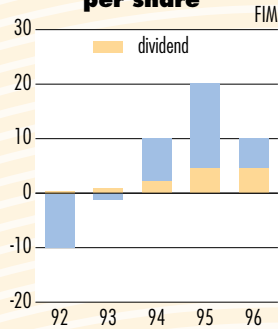
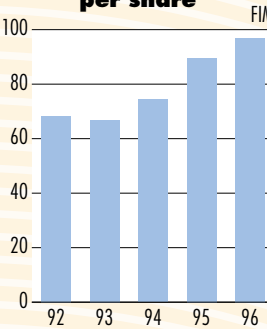
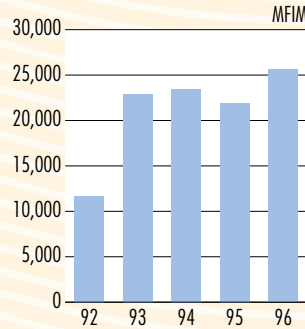
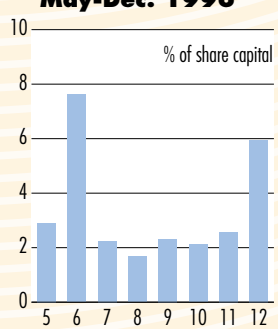
| FORMATION OF SHARE CAPITAL            | No. of shares | Share capital (FIM) |
|---------------------------------------|---------------|---------------------|
| 81,998,240 Kymmene Corporation shares | 114,797,536   | 1,147,975,360       |
| 152,576,131 Repola Ltd shares         | 152,576,131   | 1,525,761,310       |
| Share capital at 30 April 1996        | 267,373,667   | 2,673,736,670       |

#### CHANGES SINCE 1 MAY 1996

|   |             |               |
|---|-------------|---------------|
| Exchanged under 1994 convertible bond issue | 156         | 1,560         |
| Share capital at 31 December 1996           | 267,373,823 | 2,673,738,230 |

As a result of convertible bonds and bonds with equity warrants in issue, the share capital may change after 31 December 1996 as follows:

|   |           |            |
|---|-----------|------------|
| Warrant bond issue (1991/II)                | 1,440,000 | 14,400,000 |
| Convertible bond issue, capital loan (1993) | 7,701,987 | 77,019,870 |
| Convertible bond issue (1994)               | 7,485,816 | 74,858,160 |

**Trend in share price, May 1996 - February 1997**

**Average monthly share price 1992 - 1997 (February)**

**Earnings and dividend per share**

**Shareholders' equity per share**

**Market capitalization**

**Shares traded May-Dec. 1996**

**DISTRIBUTION OF SHAREHOLDERS**

| Size of shareholding               | Number of shareholders | % of shareholders | Number of shares, million | % of share capital |
|------------------------------------|------------------------|-------------------|---------------------------|--------------------|
| 1 - 100                            | 20,538                 | 32.6              | 1.0                       | 0.4                |
| 101 - 1,000                        | 32,594                 | 51.8              | 12.0                      | 4.5                |
| 1,001 - 10,000                     | 8,942                  | 14.2              | 23.5                      | 8.8                |
| 10,001 - 100,000                   | 797                    | 1.3               | 20.8                      | 7.7                |
| 100,001 - 1,000,000                | 80                     | 0.1               | 23.2                      | 8.7                |
| 1,000,001 -                        | 28                     | 0.0               | 91.0                      | 34.0               |
| <b>Total</b>                       | <b>62,979</b>          | <b>100.0</b>      | <b>171.5</b>              | <b>64.1</b>        |
| Nominee-registered                 |                        |                   | 95.7                      | 35.8               |
| Not registered as book entry units |                        |                   | 0.2                       | 0.1                |
| <b>Total</b>                       |                        |                   | <b>267.4</b>              | <b>100.0</b>       |

## BIGGEST SHAREHOLDERS AT 31 DECEMBER 1996

|  | Shares<br>31.12.1996 | Percentage<br>of Share<br>capital |
|--|----------------------|-----------------------------------|
| Pohjola Insurance Company Ltd              | 13,597,000           | 5.09                              |
| Ilmarinen Pension Insurance Company        | 11,306,700           | 4.23                              |
| Suomi Mutual Life Assurance Company        | 3 266,780            | 1.22                              |
| Salama Life Assurance Company Ltd          | 654,300              | 0.24                              |
|  | 28,824,780           | 10.78                             |
| Merita Bank Ltd                            | 8,254,140            | 3.09                              |
| Merita Ltd Pension Fund                    | 2,462,635            | 0.92                              |
| Partita Oy                                 | 1,463,200            | 0.55                              |
| Merita Ltd Pension Foundation              | 1,036,585            | 0.39                              |
| Merita Life Assurance Ltd                  | 66,280               | 0.02                              |
|  | 13,282,840           | 4.97                              |
| Industrial Insurance Company Ltd           | 5,037,000            | 1.88                              |
| Otso Loss of Profits Insurance Company Ltd | 1,825,575            | 0.68                              |
| Yritys-Sampo Insurance Company             | 1,430,000            | 0.53                              |
| Insurance Company Sampo Pensions Ltd       | 1,382,800            | 0.52                              |
| Kaleva Mutual Insurance Company            | 1,245,000            | 0.47                              |
| Sampo Insurance Company Ltd                | 950,000              | 0.36                              |
| Insurance Company of Finland Ltd           | 480,087              | 0.18                              |
|  | 12,350,462           | 4.62                              |
| Sponda Oy                                  | 8,430,604            | 3.15                              |
| Local Government Pension Institution       | 4,660,584            | 1.74                              |
| Pension-Varma Mutual Insurance Company     | 3,504,054            | 1.31                              |
| Nova Life Insurance Company Ltd            | 589,932              | 0.22                              |
|  | 4,093,986            | 1.53                              |
| Palkki Group                               | 3,282,939            | 1.23                              |
| Nokia Corporation                          | 2,865,000            | 1.07                              |
| Valfin Oy                                  | 2,784,396            | 1.04                              |
| Polaris Pension Fund                       | 2,220,384            | 0.83                              |
| Nominee-registered shares                  | 95,680,653           | 35.79                             |
| Other                                      | 88,897,195           | 33.24                             |
| <b>Total</b>                               | <b>267,373,823</b>   | <b>100.00</b>                     |

## SHAREHOLDER BREAKDOWN BY SECTOR

|  |                |
|--|----------------|
| Financing institutions and insurance companies | 21.0 %         |
| Households                                     | 15.9 %         |
| Private companies                              | 9.6 %          |
| Non-profitmaking organizations                 | 7.1 %          |
| Public bodies                                  | 6.2 %          |
| Public companies                               | 3.2 %          |
| Non-Finnish nationals                          | 37.0 %         |
| <b>Total</b>                                   | <b>100.0 %</b> |

## SHAREHOLDER AGREEMENTS

UPM-Kymmene Corporation is not aware of any shareholder agreements concerning either the ownership of the company's shares or the exercise of the associated voting rights.

## TAXATION VALUE OF SHARES IN FINLAND

For Finnish taxation purposes, the company's share was given a value of FIM 67.00 in 1996.

## **Convertible bonds and bonds with equity warrants**

### CONVERTIBLE BOND LOAN 1993, FIM 750,000,000

The bonds were issued on 11 November 1993. The subscription period was 18–26 November 1993. Holders have the right to convert their bonds between 18 November 1993 and 11 November 2043, unless the loan period is extended. Interest at 8.25% p.a. is paid on the loan capital between 1993 and 2004. The interest rate is 0.5 percentage points above the average market rate of interest for Government bonds maturing on 15 March 2004 on the five days preceding the issue of the bonds, however not less than 8.25%. The rate of interest from 2005 onwards will be determined as specified in the terms and conditions of the issue.

### *Conversion ratio*

Holders are entitled to convert their bonds into UPM-Kymmene Corporation shares, each FIM 10,000 bond entitling the holder to subscribe 102.70 UPM-Kymmene Corporation shares, nominal value FIM 10. The calculated conversion price of the share is FIM 97.37. The maximum increase in share capital due to conversion of the bonds is FIM 77,025,000.

### *Conversion period*

The period for the conversion of bonds into UPM-Kymmene Corporation shares ends on 11 November 2043, unless the maturity of the bond is extended in accordance with the terms and conditions of the issue, in which case the conversion period will expire one week prior to the rescheduled maturity date. The conversion period is 2 January to 31 October each year. Under the terms and conditions of the issue, bondholders will also have the opportunity to exercise their conversion rights during a period to be specified by UPM-Kymmene Corporation's Board of Directors in the event that UPM-Kymmene Corporation decides to merge with another company. A total of 512 shares had been subscribed under the issue by 31 December 1996.

#### *Shareholders' rights*

Under the terms and conditions of the issue, new shares obtained through conversion before the merger became effective entitle holders to dividend for the first time in respect of the financial period during which the conversion took place. Other shareholder rights shall, contrary to the terms and conditions of the issue, begin on the day that the bonds are surrendered at the place of their conversion into shares.

#### SUBORDINATED CONVERTIBLE BOND LOAN 1994, FIM 960,000,000

The bonds were issued on 25 February 1994 and the subscription period was 11–18 March 1994. Bondholders have the right to convert their bonds during the period 1 April 1994 to 25 March 2004. The bonds have a maturity of 10 years and carry a coupon of 6.5%. The company has the right to terminate the issue from 25 March 1998 onwards and to repay the loan, with interest, in full.

#### *Conversion ratio*

Bondholders are entitled to convert their bonds into UPM-Kymmene Corporation shares, each FIM 10,000 bond entitling the holder to subscribe 78 UPM-Kymmene Corporation shares, nominal value FIM 10 per share. The calculated conversion price of the share is FIM 128.21. The maximum increase in the share capital due to conversion of the bonds is FIM 74,880,000.

#### *Conversion period*

The period during which the bonds can be converted into UPM-Kymmene Corporation shares ends on 25 March 2004. The conversion period is 1 January to 31 October each year. Bondholders also have the right to convert their bonds into shares during a period to be specified by the Board of Directors in the event that UPM-Kymmene Corporation decides to merge with another company. A total of 2,184 shares had been subscribed under the issue by 31 December 1996.

#### *Shareholders' rights*

Under the terms and conditions of the issue, shares obtained by conversion entitle holders to dividend for the first time in respect of the financial period during which the conversion took place. Other shareholder rights shall, contrary to the terms and conditions of the issue, begin on the day that the bonds are surrendered at the place of their conversion into shares.

#### WARRANT BOND ISSUE 1991/II, FIM 1,500,000

The bonds were issued on 15 May 1991 and subscriptions totalled FIM 1,440,000. The period of the loan is six years from 15 May 1991 to 15 May 1997. The bonds carry a coupon of 12.0%.

#### *Share subscriptions*

Each FIM 15,000 bond carries one warrant entitling the holder to subscribe 15,000 new shares, nominal value FIM 10, at a subscription price of FIM 50. The maximum increase in the share capital due to the exercise of the warrants is FIM 14,400,000.

#### *Subscription period*

The subscription period is 15 May 1996 to 15 May 1997. In December 1996, 735,000 shares were subscribed through the exercise of warrants, and the resulting FIM 7,350,000 increase in share capital was entered in the Trade Register on 13 January 1997.

#### *Shareholders' rights*

Shares subscribed under the issue entitle holders to dividend in respect of the next financial period following the subscription date. Other shareholders' rights apply as soon as the shares have been subscribed and paid for.

## Abridged IAS financial statements

### Accounting convention

The accounting principles adopted by the UPM-Kymmene Group, as presented on pages 40–41, comply, with some exceptions, with International Accounting Standards (IAS). The main differences between Finnish and IAS accounting practices are set out below.

#### ASSOCIATED COMPANIES

In the Finnish financial statements, the Group's share of profits on sales between the Group and its associated companies arising since the introduction of the new Accounting Act on 1 January 1994 are eliminated. In the IAS statements, the Group's share of such profits arising before this date is also eliminated.

#### FIXED ASSETS

In the IAS statements, fixed assets acquired through financial leasing and sale and leaseback contracts are included under "Tangible assets" and "Long-term liabilities". Profits on the sale of fixed assets acquired through sales and leaseback contracts are credited to the accounts during the leasing period.

#### INCREASE/DECREASE IN ACCUMULATED DEPRECIATION AND UNTAXED RESERVES (APPROPRIATIONS)

In the IAS statements, the result for the financial period is stated before the increase/decrease in accumulated depreciation and untaxed reserves. Accumulated appropriations are shown in the balance sheet under "Shareholders' equity".

#### CAPITAL LOAN

In the Finnish statements, the convertible capital loan shown under "Shareholders' equity" is presented between "Shareholders' equity" and "Long-term and current liabilities".

#### EXTRAORDINARY INCOME AND EXPENSES

The income and expenses shown under "Extraordinary items" in the Finnish statements are attributed to operating income and expenses in the IAS statements.

### Consolidated profit and loss account (IAS)

| Years ended 31 December, FIM million                           | 1996    | 1995    |
|--|---------|---------|
| Turnover   | 51,757  | 54,738  |
| Costs and expenses   | -45,926 | -46,575 |
| Operating profit   | 5,831   | 8,163   |
| Share of results of associated companies                       | -161    | 380     |
| Net financial expenses   | -1,907  | -2,184  |
| Profit before taxes, minority interest and extraordinary items | 3,763   | 6,359   |
| Direct taxes   | -857    | -843    |
| Minority interest  | -111    | -108    |
| Profit for the period  | 2,795   | 5,408   |

## Consolidated balance sheet (IAS)

| FIM million                                  | 31.12.1996 | 31.12.1995 |
|--|------------|------------|
| Fixed assets and other long-term investments |            |            |
| Tangible assets                              | 40,467     | 37,662     |
| Intangible assets                            | 669        | 736        |
| Goodwill                                     | 578        | 813        |
| Long-term investments                        | 5,777      | 5,837      |
| Long-term receivables                        | 1,117      | 1,128      |
| Current assets                               |            |            |
| Stocks                                       | 8,132      | 9,513      |
| Trade and other receivables                  | 8,565      | 9,085      |
| Cash and bank                                | 2,729      | 2,225      |
| Current liabilities                          |            |            |
| Trade and other payables                     | 8,208      | 9,006      |
| Advance payments                             | 1,226      | 1,837      |
| Current portion of long-term loans           | 4,660      | 5,455      |
| Other current liabilities                    | 7,689      | 4,344      |
| Net working capital                          | -2,357     | 181        |
| Total  | 46,251     | 46,357     |
| Shareholders' equity                         |            |            |
| Share capital                                | 2,674      | 2,674      |
| Other shareholders' equity                   | 22,977     | 21,214     |
| Total shareholders' equity                   | 25,651     | 23,888     |
| Minority interest                            | 884        | 780        |
| Capital loan                                 | 750        | 750        |
| Long-term liabilities                        | 18,966     | 20,939     |
| Total  | 46,251     | 46,357     |

### Comparison of profits according to Finnish practice and IAS, FIM million

|   | 1996  | 1995  |
|---|-------|-------|
| Profit for the period according to Finnish law and practice | 994   | 1,883 |
| Changes in accounts according to IAS:                       |       |       |
| Appropriations  | 1,657 | 2,887 |
| Other items   | 144   | 638   |
| Profit for the period according to IAS                      | 2,795 | 5,408 |

### Comparison of shareholders' equity according to Finnish practice and IAS, FIM million

|  | 1996   | 1995   |
|--|--------|--------|
| Shareholders' equity according to Finnish law and practice | 14,873 | 14,706 |
| Changes in accounts according to IAS:                      |        |        |
| Accumulated appropriations                                 | 11,294 | 9,986  |
| Capital loan   | -750   | -750   |
| Profit share of sold assets                                | -246   | -333   |
| Other items  | 480    | 279    |
| Shareholders' equity according to IAS                      | 25,651 | 23,888 |

## Calculation of indicators; exchange rates

### Formulae for calculation of financial indicators

|                                 |   |
|---------------------------------|---|
| Return on equity, % =           | $\frac{\text{Profit (loss) before extraordinary items, untaxed reserves and taxes} - \text{taxes}}{\text{Shareholders' equity} - \text{capital loan} + \text{minority interest} + \text{untaxed reserves}^{1)}} \times 100$<br>(average of year beginning and year end)   |
| Return on capital employed, % = | $\frac{\text{Profit (loss) before extraordinary items, untaxed reserves and taxes} + \text{interest expenses and other financial expenses}}{\text{Balance sheet total} - \text{non-interest-bearing liabilities}} \times 100$<br>(average of year beginning and year end) |
| Equity to assets ratio, % =     | $\frac{\text{Shareholders' equity}^{2)} + \text{minority interest} + \text{untaxed reserves}^{1)}}{\text{Balance sheet total} - \text{advances received}} \times 100$   |
| Gearing ratio, % =              | $\frac{\text{Interest-bearing net liabilities}}{\text{Shareholders' equity}^{2)} + \text{minority interest} + \text{untaxed reserves}^{1)}} \times 100$   |

<sup>1)</sup> Untaxed reserves includes accumulated depreciation difference and voluntary reserves. Deferred tax has not been deducted. Untaxed reserves consist mainly of the depreciation difference.

<sup>2)</sup> Shareholders' equity includes a capital loan of FIM 750 million.

### Formulae for calculation of adjusted share-related indicators

|   |  |
|---|--|
| Earnings per share =                    | $\frac{\text{Profit (loss) before appropriations, reserves and taxes} - \text{direct taxes} \pm \text{minority interest}}{\text{Adjusted average number of shares during the period}}$ |
| Shareholders' equity per share =        | $\frac{\text{Shareholders' equity} - \text{capital loan} + \text{untaxed reserves} + \text{accumulated depreciation difference}}{\text{Adjusted number of shares at end of period}}$   |
| Dividend per share =                    | $\frac{\text{Dividend distribution}}{\text{Adjusted number of shares at end of period}}$   |
| Dividend to earnings ratio, % =         | $\frac{\text{Dividend per share}}{\text{Earnings per share}} \times 100$   |
| Effective dividend yield, % =           | $\frac{\text{Adjusted dividend per share}}{\text{Adjusted share price at 31.12}} \times 100$   |
| P/E ratio =                             | $\frac{\text{Adjusted share price at 31.12}}{\text{Earnings per share}}$   |
| Market capitalization =                 | Total number of shares x striking price at end of period   |
| Adjusted share price at end of period = | $\frac{\text{Share price at end of period}}{\text{Share issue coefficient}}$   |
| Adjusted average share price =          | $\frac{\text{Total value of shares traded}}{\text{Adjusted number of shares traded during period}}$  |

### Adjusted indicators 1996 (page 1 of this Annual Report)

The indicators have been calculated using the estimated current market values of the company's forest, energy company shares and listed shares (including those of Rauma Oy) as well as housing and property not connected with business operations. Computed deferred tax has been deducted from the difference between market value and book value and from untaxed reserves at 31 December 1996. The market values and the basis for valuations are given in Note 13 to the accounts on page 46.

### Exchange rates

|           | 31.12.1996 | 1996 (average) | 31.12.1995 | 1995 (average) | 31.12.1994 | 1994 (average) |
|-----------|------------|----------------|------------|----------------|------------|----------------|
| USD       | 4.644      | 4.594          | 4.359      | 4.367          | 4.743      | 5.183          |
| GBP       | 7.869      | 7.173          | 6.741      | 6.891          | 7.409      | 7.942          |
| SEK       | 0.675      | 0.685          | 0.655      | 0.613          | 0.636      | 0.674          |
| DEM       | 2.988      | 3.053          | 3.044      | 3.048          | 3.062      | 3.208          |
| FRF       | 0.886      | 0.898          | 0.891      | 0.875          | 0.887      | 0.938          |
| CAD       | 3.390      | 3.369          | 3.196      | 3.181          | 3.378      | 3.785          |
| XEU (Ecu) | 5.770      | 5.753          | 5.597      | 5.645          | 5.815      | 6.155          |

## Auditors' report

To the shareholders of UPM-Kymmene Corporation

We have audited the accounting records, the accounts and the administration of UPM-Kymmene Corporation for the financial period ended 31 December 1996. UPM-Kymmene Corporation was formed through the merger of Kymmene Corporation and Repola Ltd on 30 April 1996. The financial statements of the new parent company are for the period 1 May 1996 to 31 December 1996. The consolidated financial statements have been prepared from the financial statements of the merged companies and their subsidiaries and relate to the period 1 January 1996 to 31 December 1996. The comparative figures for previous years have been obtained by combining the official accounts of the merged companies.

The accounts prepared by the Board of Directors and the Managing Director include the report of the Board of Directors, consolidated and parent company income statements, balance sheets, funds statements and notes to the financial statements. Based on our audit we express an opinion on these accounts and the parent company's administration.

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

In our opinion the accounts have been prepared in accordance with the Accounting Act and other rules and regulations governing the preparation of financial statements in Finland. The financial statements give a true and fair view, as defined in the Accounting Act, of both the consolidated and parent company result of operations, as well as of the financial position. The accounts can be adopted and the members of the Board of Directors and the Managing Director of the parent company can be discharged from liability for the financial period audited by us. The proposal made by the Board of Directors concerning the disposal of unrestricted shareholders' equity is in compliance with the Companies' Act.

We have acquainted ourselves with the interim reports published by the company during the period. In our opinion they have been prepared in accordance with the rules and regulations governing the preparation of such reports in Finland.

Helsinki, 11 March 1997

Tauno Haataja  
Authorized Public Accountant

Eric Haglund  
Authorized Public Accountant



# Company directors and auditors

## Board of Directors

### *Chairman*

Yrjö Niskanen\*  
Doctor (Econ.) h.c., Helsinki School of  
Economics and Business Administration

### *Deputy Chairmen*

Casimir Ehrnrooth\*  
Doctor of Technology h.c.,  
Lappeenranta University of Technology

Tauno Matomäki\*  
Doctor of Technology h.c.,  
Tampere University of Technology

### *Members*

L.J. Jouhki  
President and CEO,  
Thomesto Trading Companies Ltd

Jouko K. Leskinen  
President and CEO, Sampo Group

Jorma Routti  
Professor, Director-General of DGXII  
(science, research and development),  
EU Commission

Gustaf Serlachius  
Chairman of the Gösta Serlachius  
Fine Arts Foundation

Vesa Vainio  
Chairman and CEO, Merita Bank Ltd

Iiro Viinanen  
President, Chairman of the Boards,  
The Pohjola Group

### **Auditors**

Tauno Haataja  
Authorized Public Accountant

Eric Haglund  
Authorized Public Accountant

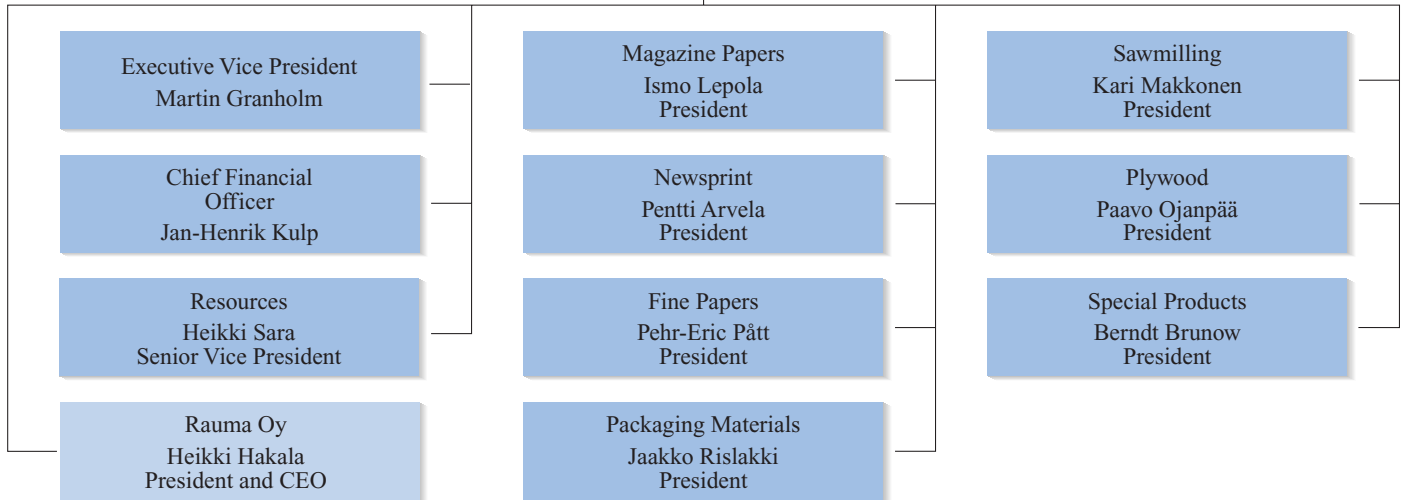
### *Deputy auditors*

SVH Coopers & Lybrand Oy  
Authorized Public Accountants

KPMG Wideri Oy Ab  
Authorized Public Accountants

\* Member of the Executive Committee of the Board

**UPM-Kymmene**  
Juha Niemelä, President and CEO



**Executive Board**



Juha Niemelä



Ismo Lepola



Kari Makkonen



Martin Granholm



Pentti Arvela



Paavo Ojanpää



Jan-Henrik Kulp



Pehr-Eric Pätt



Berndt Brunow



Heikki Sara

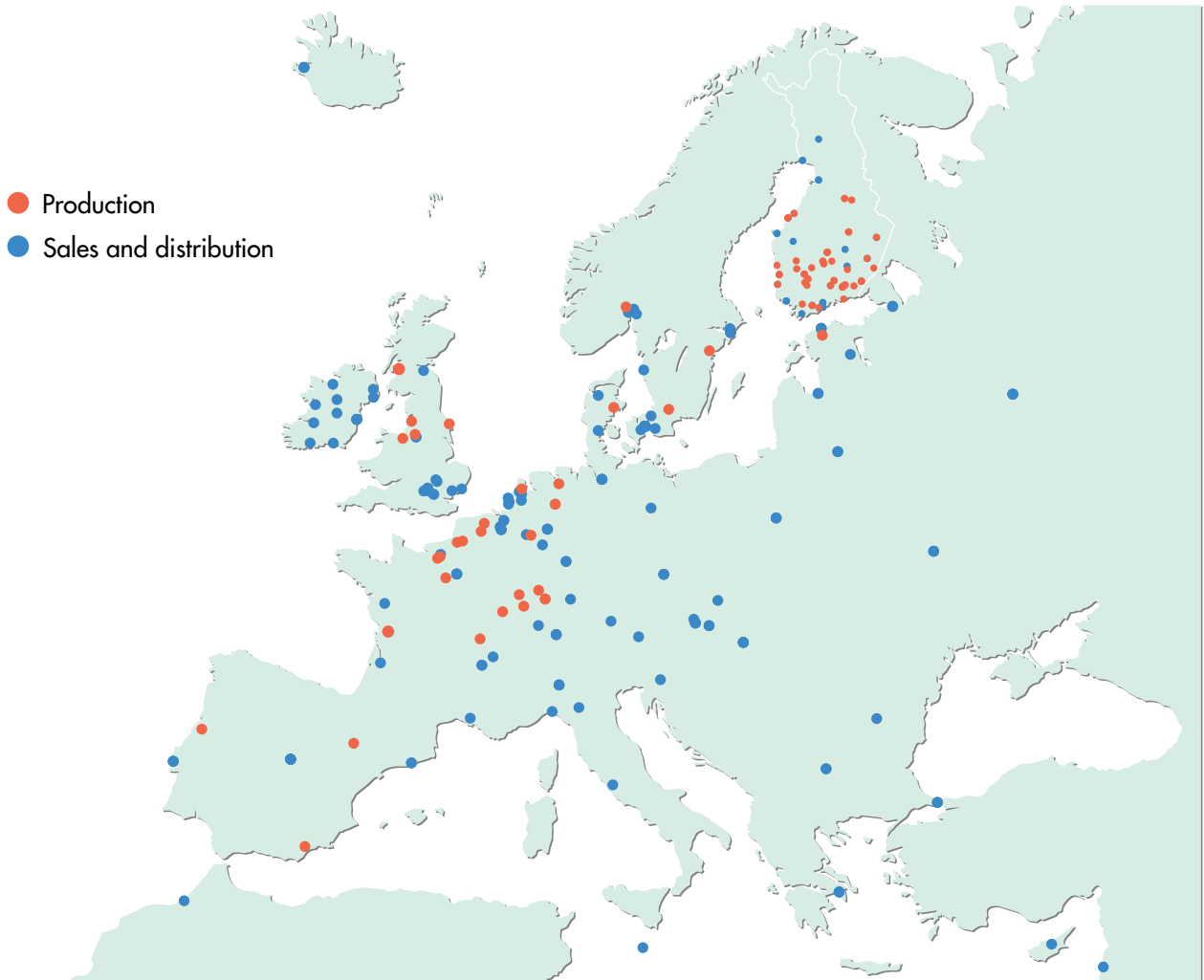
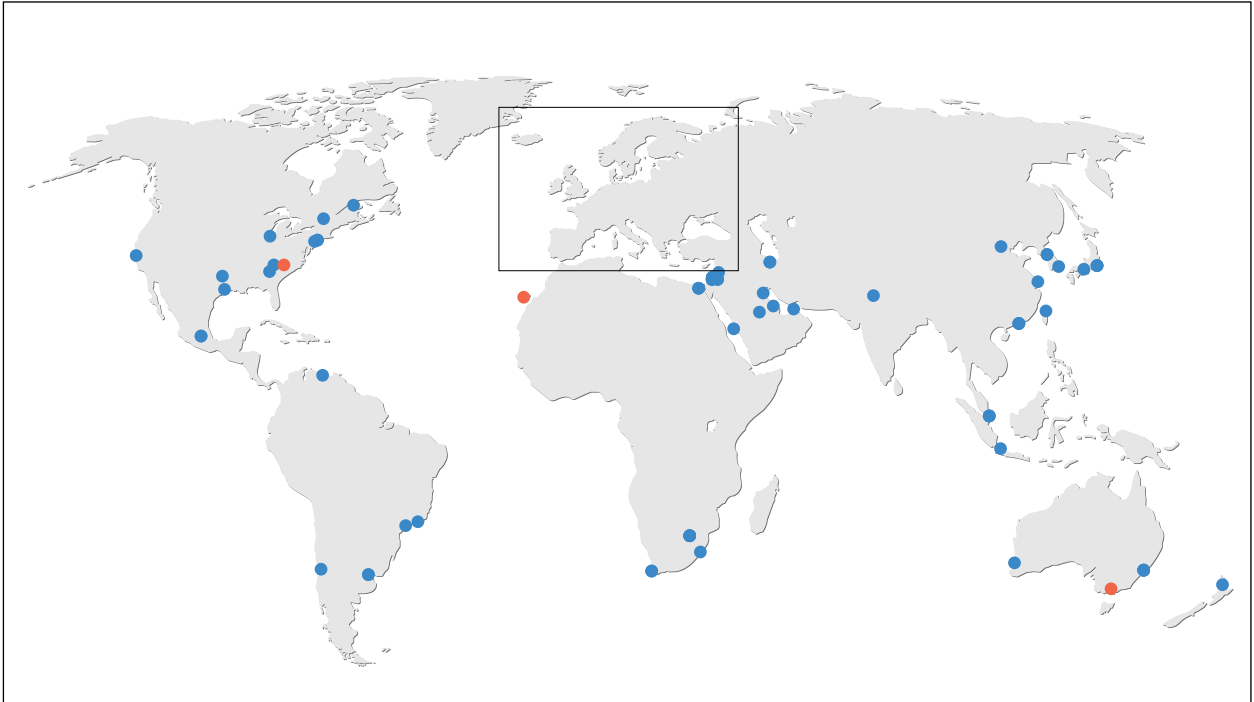


Jaakko Rislakki

## Trends by 4-month period in 1995 and 1996

| <b>FIM million</b>  | <b>Total<br/>1996</b> | <b>III/96</b> | <b>II/96</b>  | <b>I/96</b>   | <b>Total<br/>1995</b> | <b>III/95</b> | <b>II/95</b>  | <b>I/95</b>   |
|---|-----------------------|---------------|---------------|---------------|-----------------------|---------------|---------------|---------------|
| <b>Financial results</b>  |                       |               |               |               |                       |               |               |               |
| Turnover  | 51,757                | 17,935        | 16,199        | 17,623        | 54,738                | 19,122        | 18,243        | 17,373        |
| Other operating income  | 864                   | 449           | 201           | 214           | 473                   | 123           | 248           | 102           |
| Costs and expenses  | 43,760                | 15,655        | 13,791        | 14,314        | 44,005                | 15,726        | 14,347        | 13,932        |
| Share of results of associated companies                            | -32                   | -24           | -45           | 37            | 405                   | 130           | 136           | 139           |
| Depreciation  | 3,238                 | 1,156         | 1,026         | 1,056         | 3,107                 | 1,067         | 1,023         | 1,017         |
| <b>Operating profit</b>   | <b>5,591</b>          | <b>1,549</b>  | <b>1,538</b>  | <b>2,504</b>  | <b>8,504</b>          | <b>2,582</b>  | <b>3,257</b>  | <b>2,665</b>  |
| % of turnover   | 10.8                  | 8.6           | 9.5           | 14.2          | 15.5                  | 13.5          | 17.9          | 15.3          |
| Share of results of associated companies                            | -129                  | -6            | -82           | -41           | -48                   | -32           | -18           | 2             |
| Net financial expenses  | -1,780                | -620          | -560          | -600          | -2,164                | -729          | -744          | -691          |
| Exchange rate differences   | -127                  | -40           | 128           | -215          | -14                   | -80           | 4             | 62            |
| <b>Profit before extraordinary items, reserves and taxes</b>        | <b>3,555</b>          | <b>883</b>    | <b>1,024</b>  | <b>1,648</b>  | <b>6,278</b>          | <b>1,741</b>  | <b>2,499</b>  | <b>2,038</b>  |
| % of turnover   | 6.9                   | 4.9           | 6.3           | 9.4           | 11.5                  | 9.1           | 13.7          | 11.7          |
| Extraordinary income and expenses                                   | -5                    | 91            | -96           | -             | -569                  | -597          | 174           | -146          |
| <b>Profit before untaxed reserves and taxes</b>                     | <b>3,550</b>          | <b>974</b>    | <b>928</b>    | <b>1,648</b>  | <b>5,709</b>          | <b>1,144</b>  | <b>2,673</b>  | <b>1,892</b>  |
| Direct taxes  | -706                  | -263          | -173          | -270          | -843                  | -218          | -405          | -220          |
| Minority interest   | -111                  | -26           | -30           | -55           | -96                   | -29           | -70           | 3             |
| <b>Profit before appropriations</b>                                 | <b>2,733</b>          | <b>685</b>    | <b>725</b>    | <b>1,323</b>  | <b>4,770</b>          | <b>897</b>    | <b>2,198</b>  | <b>1,675</b>  |
| <b>Turnover by division</b>   |                       |               |               |               |                       |               |               |               |
| Magazine papers   | 11,172                | 4,095         | 3,412         | 3,665         | 12,322                | 4,544         | 4,153         | 3,625         |
| Newsprint   | 5,780                 | 1,828         | 1,860         | 2,092         | 5,676                 | 2,182         | 1,797         | 1,697         |
| Fine papers   | 6,220                 | 2,150         | 1,944         | 2,126         | 7,140                 | 2,036         | 2,514         | 2,590         |
| Packaging materials   | 5,473                 | 1,828         | 1,743         | 1,902         | 5,728                 | 1,854         | 1,918         | 1,956         |
| Sawmilling  | 3,725                 | 1,342         | 1,233         | 1,150         | 3,773                 | 1,184         | 1,258         | 1,331         |
| Plywood   | 3,144                 | 1,081         | 988           | 1,075         | 3,084                 | 1,009         | 972           | 1,103         |
| Special products  | 3,574                 | 1,207         | 1,057         | 1,310         | 3,528                 | 1,160         | 1,177         | 1,191         |
| Chemical pulp   | 4,106                 | 1,352         | 1,202         | 1,552         | 6,070                 | 1,891         | 2,195         | 1,984         |
| Other   | 10,525                | 3,537         | 3,180         | 3,808         | 11,344                | 4,004         | 3,694         | 3,646         |
| Engineering (Rauma)   | 10,220                | 3,843         | 2,933         | 3,444         | 9,837                 | 3,794         | 3,198         | 2,845         |
| Intra-Group turnover  | -12,182               | -4,328        | -3,353        | -4,501        | -13,764               | -4,536        | -4,633        | -4,595        |
| <b>Turnover, total</b>  | <b>51,757</b>         | <b>17,935</b> | <b>16,199</b> | <b>17,623</b> | <b>54,738</b>         | <b>19,122</b> | <b>18,243</b> | <b>17,373</b> |
| <b>Operating profit by division</b>                                 |                       |               |               |               |                       |               |               |               |
| Magazine papers   | 2,072                 | 517           | 757           | 798           | 2,803                 | 1,162         | 986           | 655           |
| Newsprint   | 1,044                 | 188           | 373           | 483           | 969                   | 487           | 305           | 177           |
| Fine papers   | 85                    | 44            | 4             | 37            | 719                   | 34            | 323           | 362           |
| Packaging materials   | 559                   | 150           | 203           | 206           | 362                   | 43            | 159           | 160           |
| Sawmilling  | -48                   | 8             | -26           | -30           | 135                   | -54           | 37            | 152           |
| Plywood   | 139                   | 57            | 30            | 52            | 25                    | -79           | 16            | 88            |
| Special products  | 339                   | 76            | 121           | 142           | 364                   | 77            | 146           | 141           |
| Chemical pulp <sup>1)</sup>   | -176                  | -104          | -285          | 213           | 2,228                 | 684           | 841           | 703           |
| Other   | 867                   | 356           | 190           | 321           | 157                   | -91           | 182           | 66            |
| Engineering (Rauma)   | 710                   | 257           | 171           | 282           | 742                   | 319           | 262           | 161           |
| <b>Operating profit, total</b>                                      | <b>5,591</b>          | <b>1,549</b>  | <b>1,538</b>  | <b>2,504</b>  | <b>8,504</b>          | <b>2,582</b>  | <b>3,257</b>  | <b>2,665</b>  |
| <sup>1)</sup> Includes share of the results of associated companies | -72                   | -11           | -68           | 7             | 361                   | 118           | 134           | 109           |
| <b>Production figures</b>   |                       |               |               |               |                       |               |               |               |
| Magazine papers   | 2,460                 | 886           | 753           | 821           | 2,897                 | 951           | 969           | 977           |
| Newsprint   | 1,592                 | 488           | 511           | 593           | 1,845                 | 626           | 608           | 611           |
| Fine papers   | 1,429                 | 536           | 470           | 423           | 1,356                 | 340           | 504           | 512           |
| Other papers and board  | 653                   | 226           | 217           | 210           | 635                   | 176           | 226           | 233           |
| <b>Total (1000 t)</b>   | <b>6,134</b>          | <b>2,136</b>  | <b>1,951</b>  | <b>2,047</b>  | <b>6,733</b>          | <b>2,093</b>  | <b>2,307</b>  | <b>2,333</b>  |
| Sawn timber (1000 m <sup>3</sup> )                                  | 1,857                 | 672           | 569           | 616           | 1,939                 | 647           | 579           | 713           |
| Plywood (1000 m <sup>3</sup> )                                      | 617                   | 236           | 179           | 202           | 585                   | 211           | 173           | 201           |
| Chemical pulp (1000 t)  | 1,874                 | 660           | 593           | 621           | 2,000                 | 577           | 701           | 722           |

# Forest industry production plants and sales network



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Fine Papers  
  
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