



FINANCIAL PUBLICATIONS

During 1998, UPM-Kymmene Corporation will publish the following financial information in Finnish, Swedish, English, German and French:

29 April 1998	Interim Review for January–March
11 August 1998	Interim Review for January–June
29 October 1998	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. +358 204 15 111 or telefax +358 204 15 110.

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

ANNUAL GENERAL MEETING

UPM-Kymmene Corporation will hold its Annual General Meeting at 3.00 pm on Wednesday, 25 March 1998 in the Congress wing of Finlandia Hall, address: Karamzininkatu 4, 00100 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 20 March 1998. 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 23 March 1998 at the latest by writing to: UPM-Kymmene, Share Register, Snellmaninkatu 13, P.O. Box 203, 00171 Helsinki, or by telephoning +358 204 15 0108 or 204 15 0109, or telefax +358 204 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.

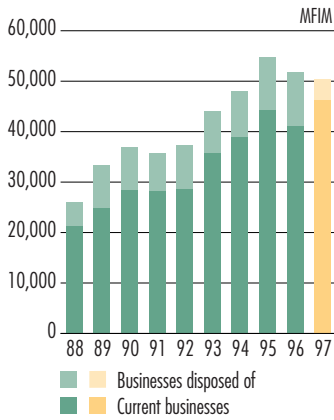
DIVIDEND

The Board of Directors has decided to propose to the Annual General Meeting that a dividend of FIM 5.50 per share be paid in respect of the 1997 financial year. To qualify for dividend, shareholders must be registered in the list of shareholders kept by Finnish Central Securities Depository Ltd on the record date of 30 March 1998. The Board will propose that dividend be paid at the end of the record period, i.e. on 3 April 1998.

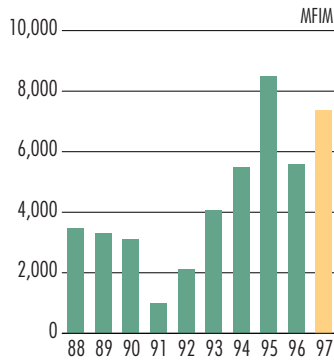
CONTENTS

<i>The year in brief</i>	3
<i>Review by the President</i>	4
<i>Overview of the Group</i>	6
<i>Divisional reviews</i>	
<i>Magazine papers</i>	8
<i>Newsprint</i>	10
<i>Fine papers</i>	12
<i>Packaging materials</i>	14
<i>Sawmilling</i>	16
<i>Plywood</i>	17
<i>Special Product Companies</i>	18
<i>Resources</i>	20
<i>The environment</i>	23
<i>Research and development</i>	24
<i>Personnel</i>	25
<i>Events in 1997</i>	26
<i>Accounts for 1997</i>	
<i>Report of the Board of Directors</i>	27
<i>Proposed distribution of profits</i>	30
<i>Consolidated profit and loss account</i>	31
<i>Consolidated balance sheet</i>	32
<i>Consolidated cash flow statement</i>	34
<i>Parent company profit and loss account</i>	36
<i>Parent company funds statement</i>	36
<i>Parent company balance sheet</i>	37
<i>Notes to the accounts</i>	38
<i>Trends by 4-month period</i>	55
<i>Key figures, 1988–97</i>	56
<i>Calculation of key indicators</i>	58
<i>Information on shares</i>	59
<i>Report of the Auditors</i>	63
<i>Board of Directors</i>	64
<i>Auditors</i>	64
<i>Executive Board</i>	66
<i>Production plants and sales network</i>	68
<i>Addresses</i>	69

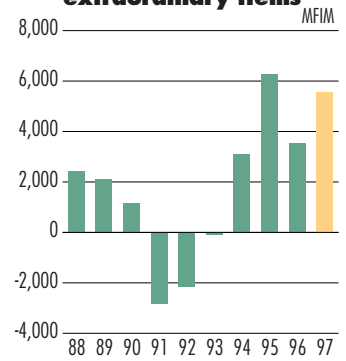
Turnover



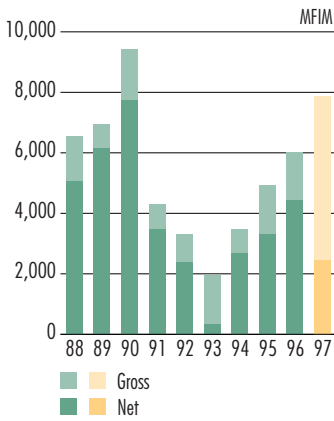
Operating profit



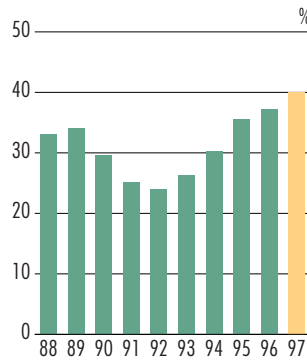
Profit (loss) before extraordinary items



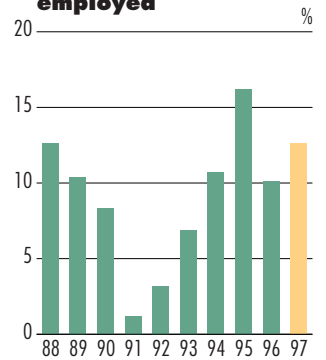
Capital expenditure



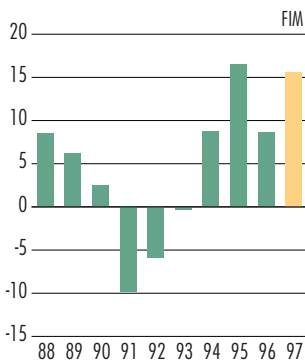
Equity ratio



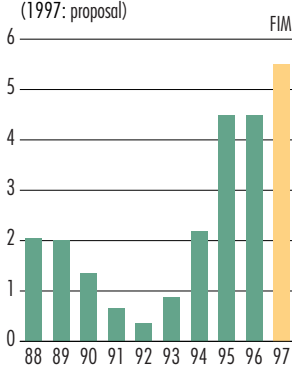
Return on capital employed



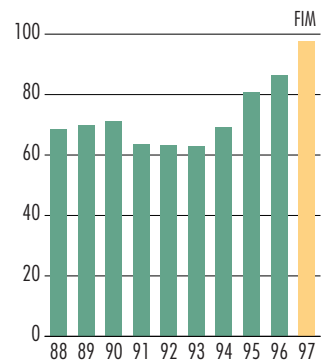
Earnings per share



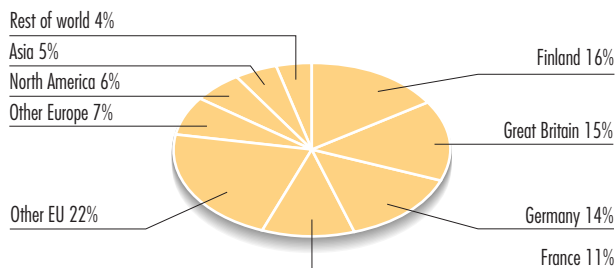
Dividend per share



Equity per share

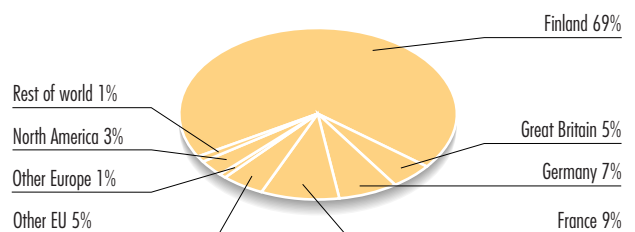


Turnover* by market area, 1997



* Current businesses

Personnel by area at 31 December 1997 33,814 employees

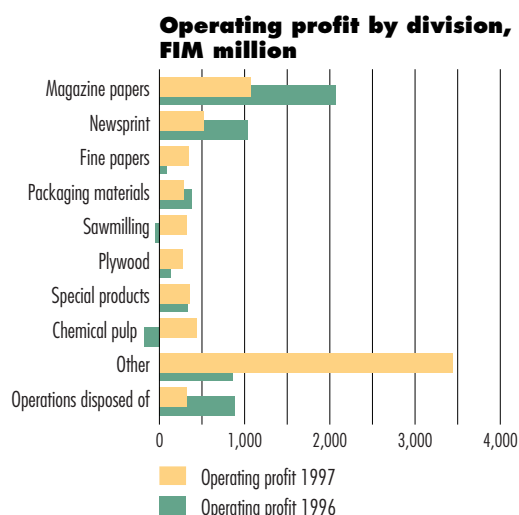
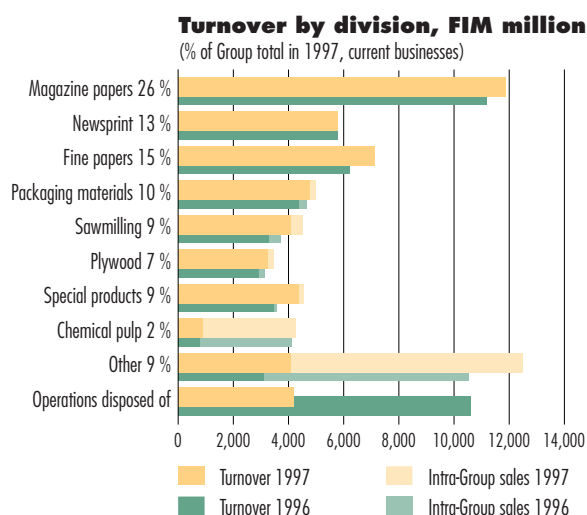


The year in brief

	1997 FIM	1996 FIM	1995 FIM	1997 USD	1997 Ecu
Turnover, million	50,406	51,757	54,738	9,299	8,416
Operating profit, million	7,386	5,591	8,504	1,363	1,233
Profit before extraordinary items, million	5,572	3,555	6,278	1,028	930
Earnings per share	15.55	8.60	16.44	2.87	2.60
Dividend per share (1997: Board's proposal)	5.50	4.50	4.50	1.01	0.92
Return on equity, %	16.6	10.4	22.0	16.6	16.6
Return on capital employed, %	12.6	10.1	16.2	12.6	12.6
Equity to assets ratio at end of period, %	40.1	37.2	35.6	40.1	40.1
Gearing ratio at end of period, %	93	104	112	93	93
Shareholders' equity per share at end of period	97.56	86.31	80.64	18.00	16.29
Net capital expenditure, million	2,465	4,432	3,318	447	405
Adjusted figures *					
Equity to assets ratio at end of period, %	45.5				
Gearing ratio at end of period, %	75				
Shareholders' equity per share	122.10				

* Adjusted figures calculated using current market values of quoted shares, energy shares and forest and other properties.
Formulae for calculation of indicators are shown on page 58.

- Major structural changes:
 - Following a sale of shares, the engineering subsidiary Rauma Oy became an associated company
 - Simpele, Joutseno and St. Etienne-du-Rouvray mills sold
 - Blandin Paper Company acquired
- Agreement on fine paper alliance with APRIL group.
- Sales volumes developed well. Production records set.
- Business more profitable despite smaller operating profit from newsprint and magazine papers due to lower sales prices.
- Result includes net gains of FIM 2.2 billion from fixed asset sales, FIM 1.5 billion more than in 1996.



Review by the President



1997 saw a recovery in demand for UPM-Kymmene's paper products, and production rose, particularly towards the end of the year. For much of 1997, sales prices remained at the level to which they had fallen early in the year. As a result, paper production was less profitable, the exception being fine papers. Despite this, profitability for the Group as a whole was better than the year before. This was due to the improved financial results from pulp, sawmilling and wood-based panels. Due to the substantial gains made on the sale of fixed assets, the Group's pre-tax profit was FIM 5.6 billion and earnings per share rose from FIM 8.60 to FIM 15.55.

The merger has made UPM-Kymmene Europe's leading forest industry group. At the same time, the company set itself the target of expanding into North America and Asia. This strategy is based on the current globalization of the forest industry and its markets, and on the

fact that this would mean a greater presence on large and growing paper markets. It will also make UPM-Kymmene less dependent on one market area, Europe. The first steps in this globalization strategy were taken during 1997 with the acquisition of the North American magazine paper manufacturer Blandin Paper Company and the agreement concerning a fine paper alliance with the Asian group APRIL.

Despite the recent economic crisis, paper consumption in Asia is forecast to grow strongly in the long term, while at the same time the region has the raw material resources needed to sustain a growing pulp and paper industry. Particularly in Indonesia, sufficient wood for processing can be procured from a very small area of forest. This requires that more consideration be given to environmental issues, something that will benefit from the presence of a company like UPM-Kymmene in production projects.

The start-up of Rauma's new magazine paper machine in January marked the conclusion of the Group's major investment programme of recent years. The programme has strengthened production of printing and writing papers, raised self-sufficiency in pulp and energy, and boosted the manufacture and converting of speciality papers. The necessary work was completed within a very tight schedule, and start-ups of the production lines were highly successful. It was especially pleasing to note that Tervasaari's new release paper machine, which started up in summer 1996, produced a positive net result in its very first

year of production. There will be little need for investments in new production capacity in the next few years.

UPM-Kymmene has streamlined its business operations. During 1997, the company relinquished its controlling interest in the engineering group Rauma and continued to develop its core forest industry businesses, which meant discontinuing Simpele's board production and unprofitable magazine paper production in France. The Group's financial position was strengthened through the sale of shares and real estate unrelated to business operations.

UPM-Kymmene's goal is to achieve even greater customer satisfaction. In many cases this means adopting new and more progressive attitudes, while consolidating those approaches that have proved successful in the past. Reaching this goal also requires large-scale development of human resources to enable us to understand our customers' businesses better and develop solutions for their present and future needs.

The action being taken to derive synergy benefits from the UPM-Kymmene merger has continued as planned. Raising efficiency and cutting costs remain the main goals for the future, as securing profitability in fiercely contested markets demands continuous improvements in productivity.

The Group's return on equity for 1997, excluding gains from the sale of fixed assets and taking into account the low interest rates, was close to the minimum target. Improving profitability to create shareholder value

remains the Group's primary objective.

We have entered 1998 with good demand on paper markets, and prices for several products have risen. This otherwise positive picture is clouded by the economic crisis in Asia. While this will directly affect only a very small part of UPM-Kymmene's business operations in 1998, the impact on Europe and the United States over the year as a whole cannot be predicted at this stage. Nevertheless, business will be more profitable, at least during the first few months of the year.



U P M - K Y M M E N E

The new PM 4 started up at Rauma in January represents a new generation in coated printing paper machines.

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.

■ The Group's operations are focused on the European Union countries and the United States. It has production plants in 15 countries.

In 1997, UPM-Kymmene took an important step towards global business operations by acquiring the North American magazine paper manufacturer Blandin Paper Company and agreeing on a fine paper alliance with the Singapore-based APRIL group.

EMPHASIS ON PRINTING AND WRITING PAPERS

UPM-Kymmene is the world's largest manufacturer of printing and writing papers. These products account for more than half of total turnover.

Operations are handled through seven divisions: Magazine Papers, Newsprint, Fine Papers, Packaging Materials, Sawmilling, Plywood and Special Product Companies. The sawmilling business also includes chains of builders' merchants. The Special Product Companies produce self-adhesive labelstock, speciality papers, air-laid paper and stationery products.

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

SERVING THE WORLD

UPM-Kymmene has its own global sales network. In the most important markets the Group has its own marketing subsidiaries, supplemented in other markets by a network of agents.

The importance of good customer

service has increased. UPM-Kymmene has further improved its service through greater sales and distribution cooperation as its multinational customers have expanded into new markets. With production on five continents and more than 170 sales and distribution companies, UPM-Kymmene has close and established relations with customers at the local level.

MODERN MACHINES

The Group's paper manufacturing capacity is 8.1 million tonnes a year, of which printing and writing papers account for 7.4 million tonnes. Rauma's new magazine paper machine, which started up in January 1998, is the latest in a series of large investments that began in the mid-1980s. As a result, 80% of capacity is either new or has been modernized.

SPECIALITY PAPERS AND CONVERTED PRODUCTS

Apart from printing and writing papers, UPM-Kymmene is Europe's leading supplier of speciality papers. These papers are sold to paper converters throughout the world.

The Group's own extensive paper converting operations, which include self-adhesive labelstock and packaging products, are based largely on raw materials supplied by the Group's paper mills. Manufacture of plastic packagings and composite materials is another area in which UPM-Kymmene figures among Europe's leaders.

Products manufactured by the Packaging Materials division and Special Product Companies represent one-fifth of Group turnover.

MECHANICAL WOOD PROCESSING

UPM-Kymmene is also a major force in mechanical wood processing: in Europe it is the biggest plywood manufacturer and one of the biggest producers of sawn timber.



UPM-KYMMENE MAGAZINE

UPM-Kymmene Magazine supplies magazine papers to printers and publishers. The division's papers are also used for mail-order catalogues and printed advertising. The main markets are Europe and the United States.

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. These are both produced in-house and obtained through associated companies. The most important of these are the pulp producers Oy Metsä-Botnia Ab and Oy Metsä-Rauma Ab, and the power companies Pohjolan Voima Oy and Kemijoki Oy.



UPM-KYMMENE NEWSPRINT

In addition to newsprint, the division manufactures specialities for telephone directories, newspaper supplements and books. Almost the entire production is sold in Europe.

Most of the wood raw material used is purchased from private forest owners. The Group's own forest holdings in Finland, Britain and the United States total more than 1 million hectares. These forests supply 10% of the Group's wood raw material.



UPM-KYMMENE FINE

The division produces both uncoated and coated fine papers. Customers are paper merchants and office supplies wholesalers, printers and converters. The main market is Europe.

ENVIRONMENTAL PROTECTION PLAYS A KEY ROLE

Protection and management of the environment are an integral part of UPM-Kymmene's operations. The Group accepts its share of responsibility for environmental conservation and for complying with the principles of sustainable development.



UPM PACK

The division's products include packaging papers, composite materials, and paper, board and plastic packagings. Europe is the most important market.

In the selection of raw materials, energy sources and manufacturing processes, as well as in product development, the aim is to minimize the effect on the environment.



UPM-KYMMENE TIMBER

The division handles the Group's sawmilling business and operates chains of builders' merchants. Its main markets are in Europe.

FOREIGN OWNERSHIP ALMOST HALF

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



SCHAUMAN WOOD

Schauman Wood produces plywood for use by the building industry and in transport vehicles, and for many special applications. Products also include veneers, fibreboard and thin particleboards. The main buyers are in Europe.

UPM-Kymmene has 59,400 registered shareholders. Altogether 47% of the shares are owned by non-Finnish shareholders. The company's market capitalization at the end of 1997 was FIM 29.5 billion.



SPECIAL PRODUCT COMPANIES

These companies manufacture self-adhesive labelstock, label papers, envelope papers and other specialities, as well as air-laid paper for table settings and hygiene products, and envelopes and other stationery products.

Magazine papers, UPM-Kymmene Magazine



New readership groups and changing lifestyles offer new opportunities for publishers. Increasing specialization also places new demands on paper manufacture and marketing.

UPM-Kymmene Magazine

	1997	1996	1995
Turnover, FIM mill.	11,888	11,172	12,322
Operating profit, FIM mill.	1,077	2,072	2,803
Capital expenditure, FIM mill.	5,176	1,061	648
Personnel at 31.12	5,992	5,305	5,181
Production, 1000 t	2,934	2,460	2,897
Capacity utilization rate, %	95	81	98

The purchase of Blandin Paper Company and start-up of Rauma's new LWC machine will strengthen UPM-Kymmene's position as the world's biggest manufacturer of magazine papers. UPM-Kymmene has more than 25% of the European market and around 15% of the US market.

PROFITABILITY

The fall in sales prices meant that the division's profitability was weaker than the year before, despite the growth in delivery volumes.

DEMAND AND PRICES

Demand for coated magazine paper rose by 25% in Europe and by 20% in the USA. Demand for uncoated magazine paper grew by 8% and 13%, respectively. The substantial growth is due partly to the replenishment of stocks.

On average, magazine paper prices were more than 10% lower than in 1996. LWC paper prices began to rise during the second half of the year. Both LWC and SC paper prices have risen during the early part of 1998.

PRODUCTION

Production was up by 19%. The capacity utilization rate was 95%. Towards the end of the year the machines operated at full capacity.

CAPITAL EXPENDITURE AND RESTRUCTURING

It was agreed in June to sell the unprofitable St. Etienne-du-Rouvray LWC paper mill in



France to the French company Otor. The mill's capacity was 220,000 t/a. LWC production was discontinued in January 1998, when the mill switched to producing liner and fluting for corrugated board manufacture.

In September, UPM-Kymmene signed an agreement to purchase Blandin Paper Company in the United States from Fletcher

Challenge Canada Ltd. Expanding magazine paper production into the United States has been one of UPM-Kymmene's key strategic goals. Blandin is one of the biggest LWC paper mills in the United States. In the longer term, technology transfer and specialization will make the division's production more efficient and produce synergy benefits in several areas, including logistics. The mill has four paper machines with a combined production capacity of 430,000 t/a, rising to 450,000 t/a after modernization of PM 6 in January 1998. The acquisition also includes 77,000 hectares of forest owned by the company in the USA. Blandin was transferred to UPM-Kymmene ownership at the end of October.

The new LWC paper machine at Rauma was started up in January 1998. The machine, which has a capacity of 400,000 t/a, represents a new generation in LWC paper-making and came on stream in a buoyant market.

Kaipola's LWC machine (PM 6) was modernized in 1997.

UPM-Kymmene Magazine Main products and their uses

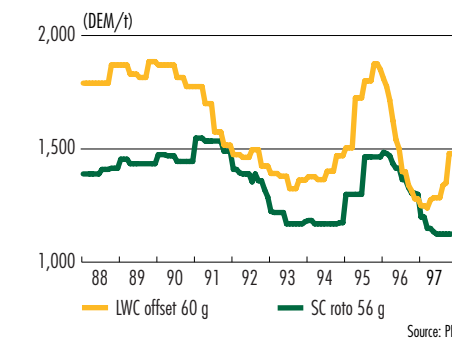
Coated mechanical papers (LWC, MWC and MFC)

Magazines, catalogues, brochures, direct mail advertising, other advertising material

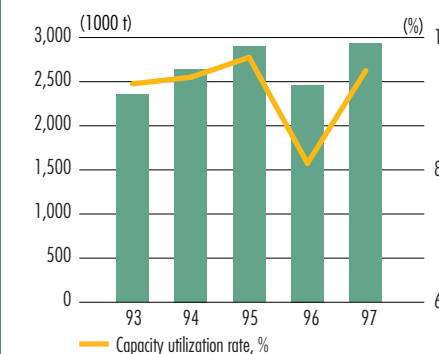
SC magazine papers

Magazines, weekend supplements, catalogues, flyers

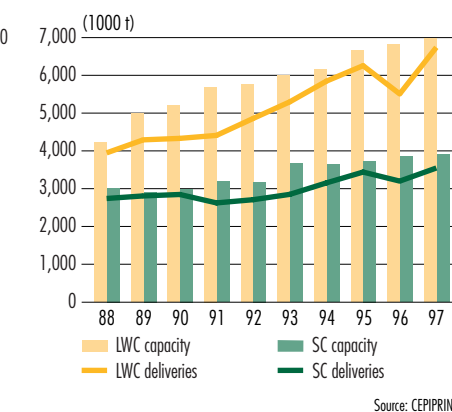
Magazine paper prices in Germany



UPM-Kymmene Magazine Production



Magazine paper production capacities in Western Europe and deliveries



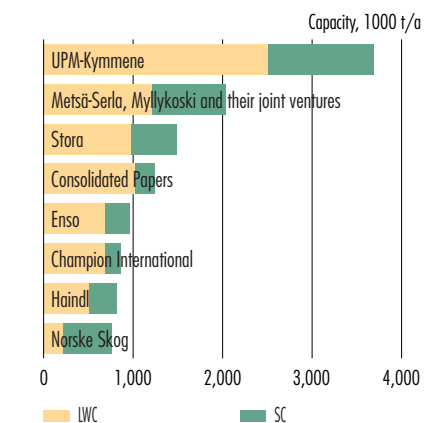
UPM-Kymmene Magazine Mills

(LWC/SC paper machines)	Capacity, 1000 t/a
Jämsänkaski (1/2)	670
Kaipola (1/-)	250
Kajani (-/1)	140
Lappeenranta (2/-)	500
Rauma (2/2)	1,125
Voikkaa (2/-)	340
Blandin (4/-)	430
Caledonian Paper (1/-)	230
(13/5)	3,685

UPM-Kymmene Magazine Turnover by market

1997	FIM million	%
Finland	413	4
Other EU countries	6,986	58
Other European countries	852	7
North America	2,260	19
Rest of world	1,377	12
Total	11,888	100

World's biggest magazine paper manufacturers



Global demand for magazine paper

1997	mill. t/a	kg/person/a
Western Europe	8.1	21.0
North America	6.5	22.0
Rest of world	2.9	0.6
Total	17.5	3.0

Newsprint, UPM-Kymmene Newsprint



Increasing use of colour printing means greater demand for more sophisticated papers, including newsprint.

UPM-Kymmene Newsprint

	1997	1996	1995
Turnover, FIM mill.	5,795	5,780	5,676
Operating profit, FIM mill.	527	1,044	969
Capital expenditure, FIM mill.	437	452	360
Personnel at 31.12	2,912	2,876	2,866
Production, 1000 t	1,883	1,592	1,845
Capacity utilization rate, %	96	82	99

UPM-Kymmene is Europe's largest newsprint manufacturer and one of the biggest in the world. The company accounts for about one-fifth of Europe's total newsprint capacity.

PROFITABILITY

The fall in sales prices meant that the division's profitability was poorer, even though delivery volumes were up on 1996.

DEMAND AND PRICES

Demand grew by 6% in Europe and by 7% in the USA. Exports of Canadian paper to Europe declined. At the end of the year mills in both Europe and the USA were operating at full capacity. In the second quarter, North American manufacturers raised their prices to the European level and later in the year even higher.

On average, prices were 13% lower than the year before. Prices were raised at the beginning of 1998 in all markets; Britain was an exception because of currency exchange rates.

PRODUCTION

UPM-Kymmene's newsprint production was 18% up on 1996. The machines ran at an average of 96% capacity. No new capacity will come on stream in 1998 in either Europe or North America.



CAPITAL EXPENDITURE

Capital expenditure has been aimed largely at improving the quality of fibre raw material and competitiveness. Modernization of wood handling and debarking at Kajaani was completed during the year. Investment projects aimed at increasing the use of recycled fibre were launched at the Shotton, Kaipola and Grand-Couronne mills.

The expansion of Shotton's deinking plant will be completed in the final quarter of 1998. Recycled fibre will then account for over 60% of the mill's fibre raw material.

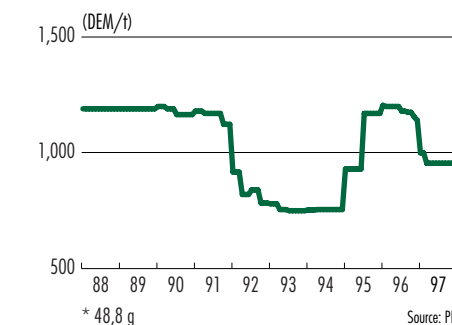
The deinking plant at Kaipola will also be expanded this year, allowing all household waste paper collected in Finland to be processed into raw material for paper-making.

UPM-Kymmene Newsprint Main products and their uses

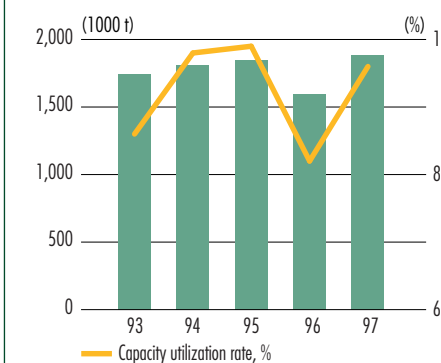
Newsprint
Newspapers, inserts and flyers

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

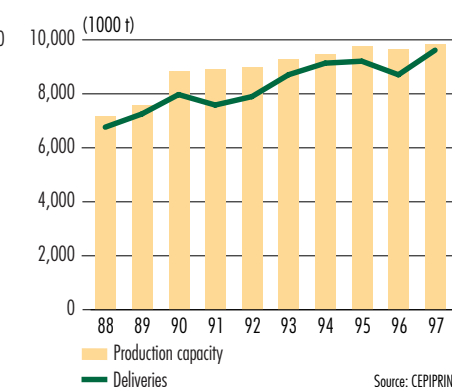
Newsprint* prices in Germany



UPM-Kymmene Newsprint Production



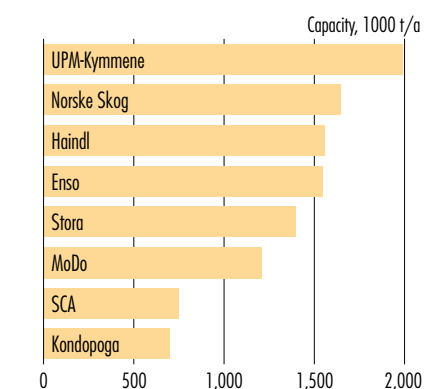
Newsprint production capacities in Western Europe and deliveries



UPM-Kymmene Newsprint Mills

(Paper machines)	Capacity, 1000 t/a
Kaipola (2)	370
Kajaani (2)	440
Voikkaa (2)	160
Chapelle Darblay (2)	300
Shotton (2)	470
Stracel (1)	250
(11)	1,990

Europe's biggest newsprint manufacturers



UPM-Kymmene Newsprint Turnover by market

1997	FIM million	%
Finland	382	7
Other EU countries	4,313	74
Other European countries	226	4
North America	63	1
Rest of world	811	14
Total	5,795	100

Global demand for newsprint

1997	mill. t/a	kg/person/a
Western Europe	8.8	22.8
North America	12.7	43.0
Rest of world	14.2	2.8
Total	35.7	6.2

Source: UPM-Kymmene

Fine papers, UPM-Kymmene *Fine*



Paper is thriving in the information society. In the digitalization of printing, data distribution and office output, fine paper plays an important role.

UPM-Kymmene Fine

	1997	1996	1995
Turnover, FIM mill.	7,144	6,220	7,140
Operating profit, FIM mill.	347	85	719
Capital expenditure, FIM mill.	164	610	827
Personnel at 31.12	3,150	3,287	3,156
Production, 1000 t	1,681	1,429	1,356
Capacity utilization rate, %	96	88	89



In the autumn, prices on many markets were raised by 5–8%. On average, fine paper prices were unchanged on the year before.

PRODUCTION

UPM-Kymmene's fine paper production was 22% up on 1996. The average capacity utilization rate was 96%, though that for coated grades was under 90% because of the increase in capacity.

CAPITAL EXPENDITURE AND RESTRUCTURING

UPM-Kymmene and the Singapore-based group APRIL agreed to form a strategic alliance to develop both companies' fine paper operations in Asia and Europe. The two companies intend to exchange a 30% interest in their respective fine paper operations in a non-cash transaction. In December, agreements were signed relating to fine paper marketing cooperation, technical cooperation in paper mill start-up and efficient operation, and environmental issues. The exchange of shares is planned to take place after the start-up of all April Fine Paper's three fine paper machines in 1999. April Fine Paper has two machines under construction in Indonesia and one in China. These machines will have a combined



annual capacity of around 1 million tonnes of uncoated fine paper. UPM-Kymmene's side of the agreement concerns Nordland Papier in Germany and Kymi paper and pulp mill in Finland.

Papeteries de Docelles, which produces mainly white envelope paper, was transferred from the Fine Papers division to the Special Product Companies division at the beginning of July.

UPM-Kymmene produces both uncoated and coated fine papers. It is one of Europe's biggest fine paper manufacturers.

PROFITABILITY

Profitability improved as a result of greater delivery volumes.

DEMAND AND PRICES

Having picked up in summer the previous year, demand remained strong throughout 1997. In Europe, deliveries of coated fine paper were up by around 12% and of uncoated fine paper by about 5% on the year before.

UPM-Kymmene Fine Main products and their uses

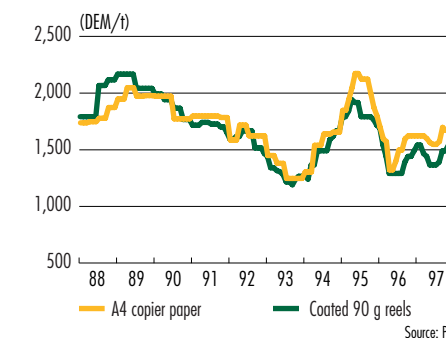
Uncoated fine papers

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

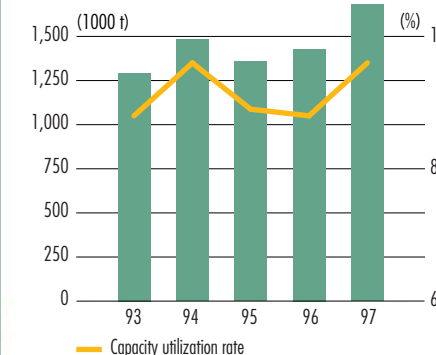
Coated fine papers

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

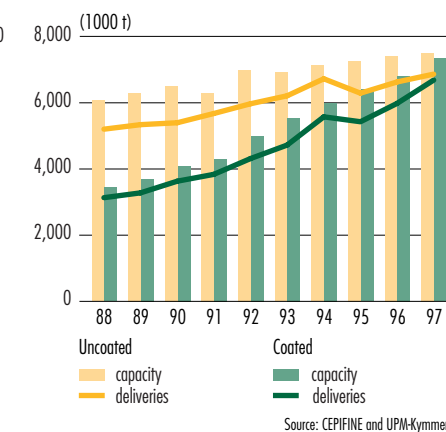
Fine paper prices in Germany



UPM-Kymmene Fine Production



Fine paper production capacity and deliveries in Western Europe

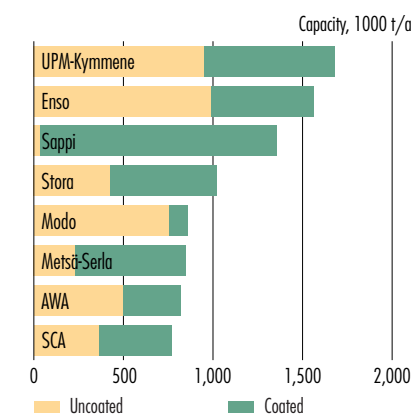


UPM-Kymmene Fine Mills

(Paper/coating machines)	Capacity, 1000 t/a
Kymi (3/1)	680
Nordland Papier (4/2)	1,000
(7/3)	1,680

Uncoated Coated

Europe's biggest fine paper manufacturers



UPM-Kymmene Fine Turnover by market

1997	FIM million	%
Finland	350	5
Other EU countries	5,549	78
Other European countries	605	9
North America	13	—
Rest of world	627	8
Total	7,144	100

Global demand for fine paper

1997	mill. t/a	kg/person/a
Western Europe	15.3	39.7
North America	18.5	62.7
Rest of world	26.8	5.3
Total	60.6	10.5

Source: UPM-Kymmene

Packaging Materials, UPM Pack

UPM Pack*

	1997	1996	1995
Turnover, FIM mill.	5,001	4,664	4,764
Operating profit, FIM mill.	289	382	209
Capital expenditure, FIM mill.	182	237	310
Personnel at 31.12	5,145	5,009	5,302
Paper production, 1000 t	288	270	275

* Excluding Simpele

Turnover by market

1997	FIM mill.	%
Finland	854	17
Other EU countries	3,142	63
Other European countries	643	13
North America	75	1
Rest of world	287	6
Total	5,001	100

Turnover by unit

1997	FIM mill.	%
Walki Wisa	1,577	29
Rosenlew	1,001	18
Walki Pack	841	16
Lohjan Paperi	763	14
Wisapaper	587	11
Others	649	12
Internal sales	-417	-
Total	5,001	100

UPM-Kymmene is one of the leading European manufacturers of plastic-coated packaging papers and boards, industrial wrappings, packaging films and paper and plastic sacks. The company is also one of Europe's biggest suppliers of siliconized papers.

PROFITABILITY

The division's profitability was weaker than the year before. The reasons are the rise in prices for chemical pulp and plastic, the division's main raw materials, and the slight fall in sales prices for packaging papers and sacks compared with 1996.

DEMAND AND PRICES

Demand for almost all products improved during 1997, and prices for some products have already started to rise. Almost all production lines were running at high capacity at the end of the year.



UPM Pack's mission is to supply raw materials and packaging solutions that perform reliably on packaging machines, provide good protection for the product and help to sell it, and can be recycled after use.

UPM Pack's products range from consumer packagings to packagings for industrial goods.



CAPITAL EXPENDITURE AND RESTRUCTURING

At the end of March, the Simpele board, paper and carton production units were sold to Metsä-Serla.

The most notable of current investments concerns a rebuild of Wisapaper's sack and kraft paper machine at Pietarsaari. The rebuild will equip the machine to produce even higher quality sack and kraft paper grades and also raise its production capacity. The work will be finished in autumn 1998.

The main investment completed in 1997 was Walki Wisa's new production line for flexible packaging laminates at Valkeakoski.

Walki Sack purchased the Czech paper sack manufacturer Apex International s.r.o. Once the ongoing investment is complete, the company's plant will produce 50 million sacks annually for the Czech cement and building industry. Modernizations to Walki Sack's production premises and machinery have also been carried out at Pori and at Zaragoza in Spain.



Sales of vacuum packaging films rose substantially. Deliveries to the US markets began.

Rosenlew's main investment was the acquisition of a unit manufacturing intermediate bulk containers in the USA.

The measures taken in 1997 will strengthen the division's strategic position as a manufacturer of kraft papers and composite materials for the packaging industry, and of sacks.



A high-capacity box production line was started up at Valkeakoski corrugated containers factory.

Lohjan Paperi has held talks with a view to purchasing the siliconizing business of the American company Daubert.

UPM Pack - businesses, units and main products

Papers for converting

Wisapaper (135,000 t/a)

White and brown kraft papers

Tervasaari (PM 6: capacity 100,000 t/a)

Brown sack and kraft papers

Lohjan Paperi (60,000 t/a)

White thin packaging papers and composite materials

Release papers

Siliconized papers

Walki Wisa

Composite materials for the packaging industry and technical purposes

Industrial wrappings

Walki Wisa

Wrappings for the paper, steel and mechanical wood-processing industries

Rosenlew

Plastic films for the packaging industry

Sacks

Rosenlew

Intermediate bulk containers and plastic sacks

Walki Sack

Paper sacks

Consumer packaging materials

Walki Pack

Vacuum and modified atmosphere plastic films for the food industry

Corrugated containers

EPS and moulded pulp packagings

Labels and pre-printed food wrappings

Rosenlew

Plastic and paper carrier bags, and bags for retailers

Walki Can

Aseptic liquid packaging system

Sawmilling

	1997	1996	1995
Turnover, FIM mill.	4,531	3,725	3,773
Operating profit, FIM mill.	317	-48	135
Capital expenditure, FIM mill.	87	115	183
Personnel at 31.12	2,661	2,867	3,069
Production, 1000 m ³	2,050	1,857	1,939

Turnover by market

1997	FIM mill.	%
Finland	1,868	41
Other EU countries	2,247	50
Rest of world	416	9
	4,531	100

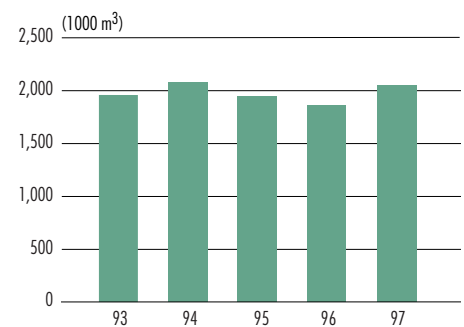
Turnover by business area

1997	FIM mill.	%
Sawmilling and joinery	2,855	58
Building supplies trade	2,094	42
Internal sales	-418	-
	4,531	100

Units and main products

United Sawmills Ltd	Sawn timber and building and joinery components
Ferdinand Braun & Cie. S.A., France	- " -
Parkanon Lista Oy	Strips and mouldings
Puukeskus Oy	Wood-based building supplies
Brooks Group, Ireland	- " -
Anco Trae A/S, Denmark	- " -

Sawn timber production



Schauman Wood's plywoods in use in construction work at Potsdamer Platz railway station in Berlin: phenolic film faced WISA-Form Birch in concrete formwork (red steel frames) and WISA-Form Combi in column casting (yellow supports).



UPM-Kymmene is one of Europe's biggest producers of sawn timber. The division's operations also include sawn timber processing and chains of builders' merchants.

prices were over 20% below their peak. Production of sawn timber was 10% higher than in 1996.

Demand for buildings supplies remained strong.

CAPITAL EXPENDITURE AND RESTRUCTURING

Oulux Oy's door factory was sold to Viitapuu Oy in December.

The Danish wood-based building materials merchant Anco Trae A/S was transferred from Schauman Wood Oy to the UPM-Kymmene Timber division early in the year.

Operations at Sotkamo sawmill were wound up at the end of the year. Puukeskus opened a sales office in Estonia.

PROFITABILITY

The division's profitability improved thanks to higher sales prices for sawn timber and growth in delivery volumes. The wood-based building materials business was also much more profitable than the year before.

DEMAND AND PRICES

Consumption of sawn timber and building supplies remained strong all year. However, the increased supply and rising stocks resulted in the European market being over-supplied from summer onwards, and prices for sawn timber fell in the second half of the year. By the end of the year, whitewood

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.

DEMAND AND PRICES

Demand and orders for Schauman's WISA plywoods were strong throughout the year. In Europe, demand for plywood benefited from the growth in consumption and from the stronger US dollar, which reduced imports of plywood.

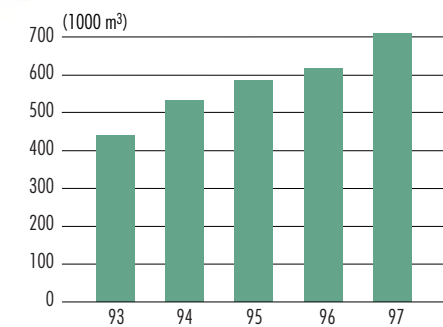
However, the weakening of Asian currencies in 1998 is expected to increase imports of Asian plywood into Europe.

PRODUCTION

Plywood production was up 15% on 1996. The division operated at almost full capacity throughout the year.



Plywood production



PROFITABILITY

Schauman Wood enjoyed better profitability than in 1996. Delivery volumes rose and product prices strengthened.

Plywood

	1997	1996	1995
Turnover, FIM mill.	3,475	3,144	3,084
Operating profit, FIM mill.	274	139	25
Capital expenditure, FIM mill.	42	74	276
Personnel at 31.12	4,598	4,535	4,703
Production, 1000 m ³	710	617	585

Turnover by market

1997	FIM mill.	%
Finland	490	14
Other EU countries	2,611	75
Other European countries	198	6
North America	55	2
Rest of world	121	3
	3,475	100

Units and main products

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

Special Product Companies

One of the end-uses for Raflatac's self-adhesive labelstock is labels for wine bottles at the Ceretto vineyard in Piedmont, northern Italy.

The demands on wine bottle labels are exceptional: they must produce a high-quality print and withstand many years of storage in damp cellars.



Special Product Companies

	1997	1996	1995
Turnover, FIM mill.	4,555	3,574	3,528
Operating profit, FIM mill.	357	339	364
Capital expenditure, FIM mill.	391	1,117	611
Personnel at 31.12	3,540	2,943	2,803
Paper production, 1000 t	364	211	192

RAFLATAC

Raflatac is one of the world's leading manufacturers of self-adhesive labelstock. Its most important customers are manufacturers of price, product and ADP labels. UPM-Kymmene's paper mills supply most of Raflatac's raw material.

Conditions on Raflatac's main markets were good in 1997. Sales in southern and eastern Europe and the USA progressed especially well. Raflatac increased its sales volume by 20%. Profitability was also better, although increasing competition put pressure on market prices. Prices were raised late in the year.

Towards the end of 1997, a new automated service terminal was opened in Düsseldorf and a plastic lacquering and coating unit was started up in Tampere. Expansion of the Jyväskylä facility has greatly increased capacity for A4 products. The joint venture in Malaysia started production. In the USA, the business operations of a service terminal were purchased in Ohio.

LABEL PAPERS AND SPECIALITIES

UPM-Kymmene is the world's leading manufacturer of label papers and Europe's largest manufacturer of envelope papers.

Demand for label papers grew considerably in 1997 and prices remained stable.

Tervasaari's new release paper machine (PM 8) established itself on the market and sales doubled on the previous year. Customer feedback on the new machine's products has been positive.

The switch over of Tervasaari's PM 5 from release papers for self-adhesives to face papers and other specialities was completed faster than expected, and the machine has established its position in the market.

Jämsänkoski's PM 3, which produces coated face papers and label papers, is currently being rebuilt. The work will improve product quality and raise production capacity, and will be complete during the first quarter of 1998.

Envelope papers continued to be in good demand, but prices were unsatisfactory.





WALKISOFT

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

Demand for air-laid paper increased during 1997, notably in the hygiene products and table settings sectors. Walkisoft's sales were almost a third up thanks to the start-up of a new machine in Germany in autumn 1996.

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 was steady and marginally better than the year before. However, prices have fallen due to intensified competition. Business in the Baltic states and Russia has continued to show progress.

UPM-Kymmene has acquired the entire share capital of the envelope manufacturer WA-Kuori Oy.



Turnover by market

1997	FIM mill.	%
Finland	276	6
Other EU countries	3,095	68
Other European countries	375	8
North America	325	7
Rest of world	484	11
	4,555	100

Turnover by unit

1997	FIM mill.	%
Raflatac, self-adhesive labelstock	2,594	51
Label papers and specialities	1,798	35
Walkisoft, air-laid papers	396	8
UPM Stationery, stationery products	284	6
Internal sales	-517	-
	4,555	100

Special products and units

Raflatac

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

Label papers and specialities

Tervasaari

Release paper (PM 8: capacity 125,000 t/a)

Face paper for self-adhesives (PM 5: 60,000 t/a)

Envelope and other papers (PM 7: 85,000 t/a)

Jämsänkoski

Face paper for self-adhesives (PM 3: 85,000 t/a)

Docelles

White envelope paper (110,000 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



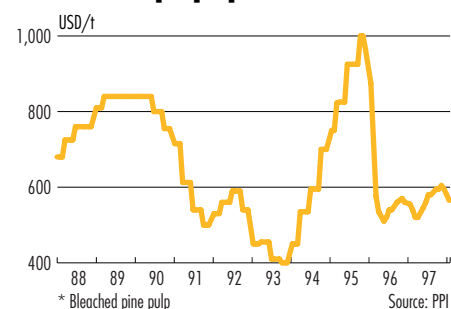
Chemical pulp

	1997	1996	1995
Turnover, FIM mill.	4,248	4,106	6,070
of which internal	3,350	3,320	5,058
Operating profit, FIM mill.	442	-176	2,228
of which attributable to associated companies	202	-72	361
Capital expenditure, FIM mill.	225	1,403	782
Personnel at 31.12	2,279	2,554	2,550

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

Market pulp* prices



CHEMICAL PULP

UPM-Kymmene is 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.

In March, UPM-Kymmene sold its Joutseno Pulp pulp mill to Metsä-Botnia.

The total production capacity of the Group's pulp mills at the end of 1997 was 2.0 million t/a, and the entitlement from shares in associated companies was 0.9 million t/a. UPM-Kymmene owns 47% of Oy Metsä-Botnia Ab and 45.6% of Oy Metsä-Rauma Ab.

The chemical pulp used by UPM-Kymmene's mills is roughly 64% long-fibre pulp and 36% short-fibre pulp. Recycled fibre (455,000 t/a) is used largely in newsprint production.

Prices for long-fibre market pulp fell, reaching their lowest in Europe at around USD 520/tonne in April. Prices then rose gradually to peak at around USD 610/tonne in November. Since November, prices have

shown a downward trend. The average price in dollars for 1997 was almost 2% lower than the year before. However, the strengthening of the dollar meant that, on translation into Finnish markka, average prices were 12% higher than the previous year. This, together with higher delivery volumes, made pulp production more profitable.

Pulp production and consumption

1000 t	1997	1996	1995
Production			
Chemical pulp			
own production	1,963	1,874	2,000
from associated companies	572	243	276
Mechanical pulp	2,708	2,461	2,813
Recycled fibre pulp	452	346	373
Total	5,695	4,924	5,462
Consumption			
Chemical pulp	2,478	2,141	2,335
Mechanical pulp	2,719	2,464	2,813
Recycled fibre pulp	455	351	378
Total	5,652	4,956	5,526

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. Most of the electricity used by the Group's mills abroad is purchased locally. Electrical power available to UPM-Kymmene in Finland at the end of the year was 2,900 MW, of which in-house capacity and entitlement through associated companies represented about 2,300 MW.

The most important associated company in energy terms is Pohjolan Voima Oy, in which UPM-Kymmene has a 46.8% stake. UPM-Kymmene also owns 19.0% of the hydropower shares of Kemijoki Oy. The hydropower entitlement was increased by 5.2 percentage points in 1997.

UPM-Kymmene's electricity procurement in 1997 was 20.8 TWh (20.1), of which 14.6 TWh (13.2) was used industrially and 6.2 TWh (6.9) was sold.

Of the electricity procured in Finland, roughly 69% (68) was generated in-house or by associated company power plants. Industrial consumption by UPM-Kymmene's

mills accounted for 64% of electricity procured in Finland.

Heat energy from fuels used by the Group, plus purchased heat and heat generated by thermomechanical pulping, totalled 26.9 TWh (26.0). The increase on 1996 is due mainly to higher production by the pulp and paper mills. Biofuels represented 62% (54) of total fuels. The corresponding percentage for all fossil fuels, particularly oil and coal, was much lower than in 1996. Development work aimed at making greater use of biofuels and recycled fuels continued.

UPM-Kymmene was one of the first companies to become a party to the energy-saving agreement signed by the Ministry of Trade and Industry and the Confederation of Finnish Industry and Employers. The agreement is a natural extension of the ongoing energy-saving programme within UPM-Kymmene.

Unit prices for energy rose slightly in 1997, largely because of an increase in energy taxation.

Electricity procurement and consumption

1997	GWh	%
Procurement		
Hydropower	2,456	12
Back-pressure power	2,768	13
Nuclear power shares	3,895	19
Thermal energy shares	3,004	14
Purchased electricity	8,701	42
Total	20,824	100
Consumption		
Mills in Finland	10,947	53
Mills abroad	3,676	17
Sales	6,201	30
Total	20,824	100

Sources of thermal energy

1997	GWh	%
Black liquor	8,711	32
Bark and other biofuels	5,854	22
Heat recovery from TMP production	1,919	7
Peat	1,893	7
Purchased heat	1,283	5
Natural gas	5,496	21
Oil	1,070	4
Coal	632	2
Total	26,858	100

WOOD PROCUREMENT

Wood consumption by the Group's Finnish mills was 21.0 million m³ (19.6), including 1.9 million m³ of sawdust and wood chips from the Group's own sawmills and plywood mills. Of total wood consumption by the mills, 80% came from private forests, 2% from state-owned forests and 5% from UPM-Kymmene's own forests. The remaining 13% was purchased from abroad, most of it from Russia. At the end of 1997, the Group had 30 mills in Finland using wood as raw material. Besides supplying these mills, the forestry department delivered 2.0 million m³ of wood to associated companies and other outside customers.

Stumpage prices were on average 7% higher than in 1996, the increase being greater than anticipated. However, prices at the mills rose by less than this thanks to greater efficiency by the forestry department.

The Group's mills in Britain, France and the USA consumed 4.1 million m³ of wood.

COMPANY FORESTS

UPM-Kymmene has 940,000 hectares of forest in Finland, of which 780,000 hectares are in commercial use. The annual growth rate is 3.5 million m³, and the planned level of sustainable felling is 2.1 million m³ a year. UPM-Kymmene also manages over 100,000 hectares of private forest.

The Group has 10,000 hectares of forest in Britain and 77,000 hectares in the USA. Also in Britain, the Group manages 160,000 hectares of private forest.

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 is now beginning.

Wood procurement

	1997	1996	1995
Wood consumption, mill. m ³			
in Finland	21.0	19.6	21.1
in other countries	4.1	3.1	3.3
Group forests, 1000 hectares			
in Finland	940	940	935
in other countries	87	10	10
Wood procurement in Finland			
Standing reserves in own forest, mill. m ³	79	76	74
Felling in own forest, mill. m ³	1.1	1.2	1.0
Net stumpage income, FIM mill.	93	105	82
Personnel at 31 December	1,584	1,667	1,884



The environment

UPM-Kymmene's environmental policy together with the main principles of environmental management as set out by the International Chamber of Commerce provide a framework for the Group's environmental affairs. It is on this basis that the different parts of the Group produce their own policy statements, principles, targets and action programmes.

The environmental principles of new subsidiaries are revised to comply with the Group's environmental policy.

The tools used in developing activities include environmental management systems, for which certificates were awarded during the year to Shotton and Jämsänkoski. Certificates had previously been awarded to the Kymi and Pietarsaari mills. These systems are being developed at several mills and at the forestry department with a view to readiness for certification in 1998. The goal is for all mills to have audited environmental management systems in use by the year 2000.

Capital expenditure on environmental protection was FIM 66 million (261) and the necessary operating expenditure FIM 226 million (218). Environment-related and other net energy taxes totalled FIM 222 million (215).

SULPHUR EMISSIONS CUT MOST

Calculated on a comparative basis, discharges to receiving waters by the Group's pulp and paper mills increased on 1996, but by less than the volume of production. Total emissions of gaseous sulphur compounds were down by 22%, and by over 30% when the increase in production is taken into account. This is largely due to the fact that environmental protection measures introduced in 1996 were employed for the whole year.

The most important goals set by the mills concern reducing water consumption and waste volumes, raising energy efficiency, and cutting emissions from energy generation.

At Rauma, preparations for the start-up of the new paper machine included more than halving water consumption by the mill's existing machines. This was achieved through internal process modifications.

PROGRESS IN FOREST CERTIFICATION

New forest and environmental protection legislation has come into force in Finland. Agreement was reached in the spring on the minimum requirements, i.e. standards, for forest certification. The standards were tested in three areas of Finland. The introduction of these national standards and their possible integration with international systems are matters that will be decided in 1998.

An environmental audit on felling carried out by the forestry department was conducted for the fourth time. Almost without exception, the results of audits in UPM-Kymmene's forests were good. All important natural features had been pinpointed and correctly treated. In private forests, however, felling gave rise to some criticism because of the failure to treat valuable natural features in accordance with instructions. Where forests bordered on lakes, the lakeshore zones had been inadequate.

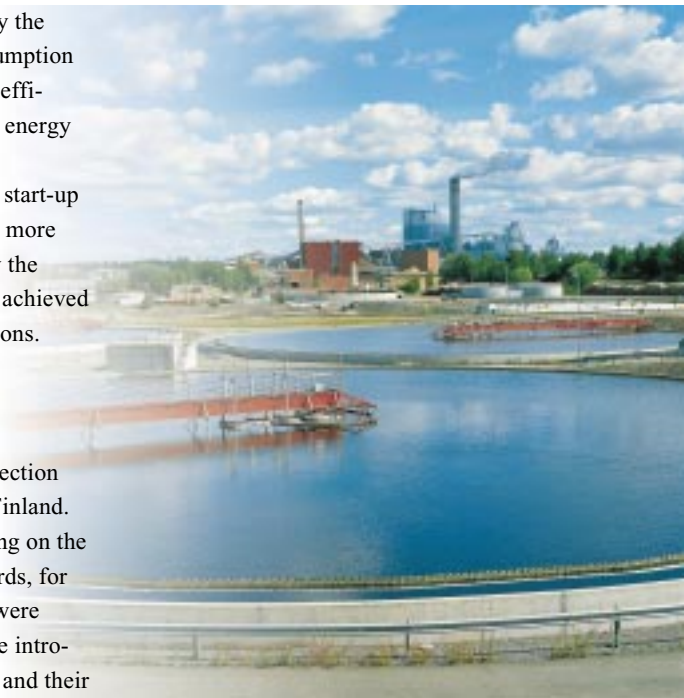
An area of 100,000 hectares of the company's forest was surveyed to identify sites of particular value. It is hoped to complete the survey by 2002.

Further inspections were made to verify the origins of wood purchased from Russia. No discrepancies were found with information given by sellers, and there was actually

some improvement in the environmental standard of felling.

The forestry department's environmental policy was approved, the biodiversity programme was completed and a system introduced for the necessary actions. During 1998, certification will be sought for this system, which is also a quality and environmental management system complying with standards ISO 9002 and 14401.

UPM-Kymmene will publish a separate environmental report for 1997.



Research and development

R&D expenditure related to UPM-Kymmene's forest industry operations was FIM 209 million (207). The figure does not include all development work connected with investment projects, or all the product and production development that forms part of normal operation at the mills.

BUSY YEAR FOR THE DIVISIONS

R&D work carried out by the paper divisions centred on the optimization of processes and raw materials. The work of dedicating the paper machines to particular paper grades was continued.

For the Magazine Paper division, one of the most important jobs of the year concerned making final adjustments to Rauma's new LWC machine and its product, Rauma Exel. Development work aimed at lowering energy consumption in pulping and producing a more effective pigment coating was conducted together with equipment manufacturers and chemicals suppliers. The use of recycled fibre as a raw material was another important area of research.

In the Newsprint division, the emphasis in R&D was on improving the colour printing properties of newsprint. The printability and cost-competitiveness of newsprint and the division's other products are being improved through optimization of raw materials and paper machine wet-end chemistry and the use of new technology.

Research carried out by the Fine Paper division was aimed at improving the quality of copier paper by optimizing both raw materials and fibre refining in order to ensure perfect, high-speed copying. Work was also done to improve the whiteness and opacity of high-quality office paper. New products developed include the colour copying paper nopaColor and the double-coated matt grade Maximago.

In chemical pulping, research work focused on start-up of the new line at Kaukas, which produces bleached sulphate pulp from softwood. The strength characteristics of this long-fibre pulp and the low emissions from pulping both came up to expectations. A series of mill trials was performed aimed at improving the strength characteristics of softwood pulp by means of chip impregnation. The method has been developed in conjunction with the equipment manufacturer.

UPM-Kymmene and the Raisio Group set up a joint venture under the name Sterol Technologies to develop ways of recovering sitosterol, an agent known to lower cholesterol levels, from the extract from wood defibration and other sources.

The Packaging Materials division focused its attention on developing lighter and more easily recycled packaging materials. Lohjan Paperi brought onto the market a new light, coated packaging paper.

UPM-Kymmene Timber took part in joint projects conducted by the mechanical wood-processing industry on topics such as timber drying, weather-resistant heat-treated wood, and automatic measurement of log size and quality. In the plywood sector, the introduction of a new facing method for panels intended for transport vehicle floors has secured Schauman Wood's competitiveness in the fastest growing customer segment.

Raflatac, one of the Special Product Companies, established Rafsec Oy, a subsidiary to develop and manufacture RF security labels designed to prevent shop thefts.

The forestry department introduced a satellite-based positioning system (GPS) to improve the efficiency of timber harvesting.

The fibre composition and running characteristics of UPM-Kymmene's papers are tested on this pilot paper machine operated by a machine manufacturer.



Personnel

TRAINING

A management training programme to be attended by 2,500 members of senior and junior management was launched to help to develop a management and corporate culture for the Group. The programme will take two and a half years to complete.

Training is based on the Group's concept of decentralized decision-making combined with clear target-setting and written strategic objectives. UPM-Kymmene's basic values were defined during the year, providing a pointer for internal cooperation within the Group.

A new unit, UPM-Kymmene Training, was created to support personnel training for the different profit centres.

To further reinforce personnel training, the work of the industrial training colleges at Valkeakoski and Kuusankoski was made more effective.

MAINTENANCE OF WORK CAPACITY

A project was started in 1997 to help maintain the work capacity of those persons born after the war up to their retirement age, which is 65.

GROUP COOPERATION

Group cooperation within the framework of the new cooperation bodies, both national and international, has got off to a good start. Meetings were held in Helsinki in June and in Strasbourg in December.

PROFIT-SHARING SCHEME

The first awards under the profit-sharing scheme introduced in 1996 were made in March. The size of the award is determined by the return on capital employed, and all the Group's employees in Finland qualify.

Similar schemes are in use in other countries.

Pictured here in the control room of the Stracel pulp mill in Strasbourg are Albert Nonnweiler (left) and Jean-Pierre Retz.



OUTLOOK FOR 1998

Aside from a continuation of efforts directed at training and employee skills, wage and salary negotiation arrangements will be developed to better cater for the needs of the Group, profit centres and individuals. A labour policy more in keeping with the global nature of the Group's activities is another of the aims for 1998.

Personnel by country

31 December 1997

Finland	23,231
France	3,181
Germany	2,477
Great Britain	1,780
Sweden	330
Ireland	283
Spain	203
Denmark	176
The Netherlands	169
Belgium	117
Portugal	84
Italy	50
Austria	36
Other European countries	456
USA	1,177
Canada	3
Asia	24
Australia and New Zealand	37
Total	33,814

Events in 1997

- 22 January Decision to rebuild the sack and kraft paper machine at the Pietarsaari mill of Wisapaper, a member of UPM Pack.
- 24 February UPM Pack purchased the Apex International s.r.o. paper sack plant in the Czech Republic.
- 6 March Decision to double capacity at Shotton's deinking plant.
- 14 March The Raisio Group and UPM-Kymmene agreed to set up a joint venture to develop sterol technology.
- 31 March UPM-Kymmene's Simpele mills were sold to Metsä-Serla and Joutseno Pulp pulp mill to Metsä-Botnia.
- 10 April The Annual General Meeting approved a proposal to pay part of the dividend for 1996 in Rauma Oy shares.
- 1 May UPM-Kymmene increased its stake in the hydropower company Kemijoki Oy.
- 27 May UPM-Kymmene sold 13.1 million Rauma Oy shares. As a result, UPM-Kymmene's interest in Rauma Oy fell to 34.5%.
- 25 June UPM-Kymmene sold 4.5 million Nokia Corporation shares.
- 7 July Decision to rebuild Kajaani's SC paper machine (PM 2).
- 23 July Ownership of the St. Etienne-du-Rouvray magazine paper mill in France transferred to Otor.
- 12 September Agreement on fine paper alliance between UPM-Kymmene and APRIL.
- 17 October Decision to expand Kaipola's deinking plant.
- 31 October UPM-Kymmene purchased Blandin Paper Company in the United States.
- 24 November USD 600 million convertible bond loan launched on US market.
Credit ratings for issue: BBB+ (Standard & Poor's) and Baa1 (Moody's).
- 30 December UPM-Kymmene and APRIL signed agreements on marketing, technical cooperation and development of environmental issues relating to implementation of the fine paper alliance.
- 31 December Oulux Oy's business operations at Toijala transferred to Viitapuu Oy.
- 31 December UPM-Kymmene purchased Amer-yhtymä Oyj's 49% shareholding in WA-Kuori Oy.
- 1998 Rauma's new coated magazine paper machine (PM 4) started up on 7 January.

Report of the Board of Directors

CHANGES IN GROUP COMPOSITION

In 1997, UPM-Kymmene strengthened its core business operations through company acquisitions and sold off unrelated assets.

In March, UPM-Kymmene sold its Simpele mill, which was part of the Packaging Materials division, to Metsä-Serla and its Joutseno Pulp pulp mill to Metsä-Botnia. The two sales produced FIM 1,830 million and capital gains of FIM 740 million.

In May, the company relinquished its majority interest in the engineering group Rauma by selling 13.1 million Rauma Oy shares to institutional investors and the public. In addition to this, UPM-Kymmene distributed 7.2 million Rauma shares as dividend, and Rauma Oy redeemed one million of its own shares. As a result, UPM-Kymmene's holding in Rauma Oy fell to 34.5%. The sale of shares brought UPM-Kymmene FIM 1,525 million (net of costs) and capital gains of FIM 815 million. In the accounts, Rauma Oy has been dealt with as a subsidiary up until the end of May, and thereafter as an associated company.

In June, UPM-Kymmene sold 4.5 million of its 11.6 million Nokia Corporation shares. The sales price was FIM 1,701 million, producing capital gains of FIM 1,524 million.

In July, UPM-Kymmene sold the unprofitable Chapelle Darblay LWC paper mill at St. Etienne-du-Rouvray to the French packaging company Otor. A loss of FIM 747 million was booked on the sale. The mill discontinued LWC production at the beginning of 1998 in order to start production of linerboard and fluting.

In September, UPM-Kymmene and the Singapore-based group APRIL agreed on a strategic alliance designed to develop their fine paper businesses. The two companies intend to exchange a 30% interest in their respective fine paper operations in a non-cash transaction. For this purpose, UPM-Kymmene will establish a new company (UPM-Kymmene Fine Paper) comprising Nordland Papier in Germany and Kymi's fine paper mill and pulp mill in Finland. For its part, APRIL will establish APRIL Fine Paper, a company comprising two paper mills currently under construction in Indonesia and China, together with a stationery plant in China. Agreements on marketing, technical cooperation and development of environmental issues relating to the fine paper alliance were signed at the end of December. The exchange of shares is planned to take place after the mills currently under construction have been started up in 1999. The projects have been held back and made more difficult by the economic problems that began in Indonesia last year.

Also in September, UPM-Kymmene agreed to purchase Blandin Paper Company in the United States. Blandin operates a coated magazine paper (LWC) mill, capacity around 450,000 t/a, at Grand Rapids, Minnesota. The acquisition, which cost a total of USD 650 million (about FIM 3.5 billion), took effect at the end of October.

UPM-Kymmene's divisions made other smaller company acquisitions and sales in 1997. Walki Sack, a member of the Packaging Materials division, purchased Apex International s.r.o., a manufacturer of paper sacks in the Czech Republic. UPM-Kymmene Timber sold the business operations of its door manufacturing

subsidiary Oulux Oy. UPM-Kymmene relinquished its controlling interest in the transport company Combitrans Oy in a deal with Transpoint Oy Ab designed to rationalize transport arrangements in Finland.

THE MARKET

The growth in demand for paper that started in the second half of 1996 continued in 1997, strengthening towards the year-end.

According to preliminary figures, demand for printing and writing papers in Western Europe, UPM-Kymmene's main market, rose by 10%. Growth was helped by the general economic optimism in buyer countries, which boosted paper consumption. Another factor was the replenishment of buyers' stocks, which had been reduced in the previous year.

Despite the growth in demand, the price trend for printing papers was unsatisfactory, as prices continued to fall during the first few months of the year. During the second half, a relative shortage of supply allowed coated magazine paper prices to be raised. On the other hand, prices for uncoated grades and newsprint could not be raised until early 1998 in most cases. Annual average prices for both magazine paper and newsprint were well below those for the previous year.

Fine paper prices on some markets fell during the spring, but began to rise again in autumn. On average, fine paper prices were about the same as in 1996.

The pulp market was over-supplied early in the year, and prices for long-fibre bleached pine pulp fell from USD 560/t to around USD 520/t by April. Prices then began to rise, and reached USD 610/t in November. During the last few weeks of the year, falling demand on Asian markets pushed prices down again.

Demand for packaging materials and special products rose, and prices were reasonably stable. Growth was most pronounced for label papers and self-adhesive labelstock.

On sawn timber markets, demand remained strong early in the year. Since then, however, the market has rapidly deteriorated due to increased supply and rising stock levels. Plywood was in good demand all year and sales prices rose, particularly towards the year-end.

CHANGE IN ACCOUNTING PRACTICE

Beginning with the 1997 financial year, UPM-Kymmene has changed its accounting principles so that untaxed reserves and accumulated depreciation are now divided into shareholders' equity and deferred tax liability. Financial statements and key figures for previous years have been changed to correspond with the new practice.

EARNINGS

UPM-Kymmene's earnings for 1997 showed an improvement on the previous year. Although this was primarily due to profits from asset sales, other operating profit also improved. At the same time, financial expenses fell. Earnings per share were FIM 15.55 (8.60), the return on capital employed was 12.6% (10.1) and the return on

	Turnover, FIM million			Operating profit, FIM million			Personnel (average) 6)	
	1997	1996	1995	1997	1996	1995	1997	1996
Magazine papers	11,888	11,172	12,322	1,077	2,072	2,803	5,670	5,456
Newsprint	5,795	5,780	5,676	527	1,044	969	2,997	2,956
Fine papers	7,144	6,220	7,140	347	85	719	3,303	3,262
Packaging materials ¹⁾	5,001	4,664	4,764	289	382	209	5,224	5,243
Sawmilling	4,531	3,725	3,773	317	-48	135	2,780	2,955
Plywood	3,475	3,144	3,084	274	139	25	4,614	4,650
Special products	4,555	3,574	3,528	357	339	364	3,324	2,943
Chemical pulp ²⁾	4,248	4,106	6,070	442	-176	2,228	2,543	2,843
Other ³⁾	12,499	10,525	11,344	1,386	247	-163	3,572	3,333
Intra-Group sales	-12,903	-11,759	-13,393					
Divisions, total	46,233	41,151	44,308	5,016	4,084	7,289	34,027	33,641
Capital gains, net ⁴⁾				2,052	620	320		
Total	46,233	41,151	44,308	7,068	4,704	7,609	34,027	33,641
Businesses disposed of ⁵⁾	4,173	10,606	10,430	318	887	895	4,259	11,167
Total	50,406	51,757	54,738	7,386	5,591	8,504	38,286	44,808

¹⁾ Simpele's figures for the financial period and earlier periods are reported under "businesses disposed of".

²⁾ Includes the Group's share of the results of associated companies: 202 -72 361

³⁾ Includes profit from internal hedging of the Group's foreign currency exposure: 819 - -

⁴⁾ In addition, net capital gains for the divisions: 118 57 41

⁵⁾ Includes Rauma Corporation and Simpele.

⁶⁾ Obtained by averaging the monthly figures.

equity 16.6% (10.4).

Operating profit was FIM 7,386 million (5,591). Operating profit includes net gains from the sale of fixed assets and write-downs in the value of long-term investments together totalling FIM 2,170 million (677), and asset write-offs of FIM 144 million for the final quarter. Excluding capital gains and losses and the asset write-offs just mentioned, operating profit for the final quarter was better than for the previous quarter and more than twice the figure for the last quarter of 1996.

Operating profit for the Magazine Paper and Newsprint divisions was well down on last year due to lower sales prices. The Packaging Materials division also returned a smaller operating profit. The other divisions improved their operating profits. The trend in costs was modest, thanks partly to the elimination of overlapping functions made possible by the merger, and also to greater efficiency.

Before extraordinary items there was a profit of FIM 5,572 million (3,555). Net financial expenses excluding exchange differences and the Group's share of the results of associated companies fell to FIM 1,528 million (1,780), a fall of FIM 252 million. Financial expenses includes FIM 99 million (-129) as the Group's share of the profits made by associated companies, together with exchange losses of FIM 385 million (127).

Taxes were FIM 1,376 million (1,145). Taxes include an increase of FIM 454 million (439) in the provision for deferred tax liability.

PRODUCTION AND TURNOVER

The Group's paper production reached a new record of 7.198 million tonnes (6.134). Excluding Simpele, production rose by 20%. Output of magazine paper was up 19%, newsprint 18%, and fine paper 22%. The average capacity utilization rate was 96% (84).

Production of sawn timber was 2.050 million cubic metres (1.857), 10% higher than the year before. Plywood production rose by 15% to 710,000 cubic metres (617,000).

Turnover was FIM 50,406 million (51,757). The figure includes Rauma Group turnover of FIM 3,958 million up to the end of May. On a comparative basis, turnover rose 12%.

Exports and overseas operations accounted for 84% of turnover (83).

PERSONNEL

The average number of employees in 1997 was 38,286 (44,808) for the Group and 14,927 (16,228) for the parent company. At the end of the year the Group had 33,814 employees (43,636). Rauma accounted for 10,014 of the decrease in the number of employees.

CAPITAL EXPENDITURE

Net capital expenditure on fixed assets was FIM 2,465 million (4,432). Gross capital expenditure totalled FIM 7,875 million (6,032). The sale of shares and other fixed assets, calculated at the selling price, was FIM 5,410 million (1,600).

The biggest single investment was the purchase of Blandin Paper Company for FIM 3.5 billion. Share acquisitions cost FIM 1.2 billion, most notably Kemijoki Oy hydropower shares and shares in the associated company Oy Metsä-Botnia Ab. The latter relates to arrangements under which Joutseno Pulp pulp mill and Metsä-Serla's Äänekoski pulp mill have been transferred to Metsä-Botnia.

Investments in other fixed assets totalled FIM 3.2 billion, including FIM 1.3 billion for Rauma's new LWC paper mill. The new paper machine, which has a production capacity of 400,000 t/a, started up in January 1998. The total cost of the investment was FIM 2.0 billion.

The modernization of wood handling and debarking at Kajaani paper mill was completed in December. Of the projects in progress at the turn of the year, the most significant were the expansion of Shotton's deinking facilities and modernizations of paper machines no. 1 at Pietarsaari, no. 3 at Jämsänkoski and no. 6 at Blandin.

RESEARCH AND DEVELOPMENT

Research and development expenditure was FIM 209 million (207). The main focus was on product development, in particular the quality of the paper to be produced on Rauma's new LWC machine. Attention was also given to further development of production processes and to making more efficient use of materials and energy.

FINANCING

The equity to assets ratio at 31 December 1997, excluding the provision for deferred tax, was 40.1% (37.2). The corresponding gearing ratio was 93% (104). Including the provision for deferred tax, the equity ratio was 45.0% (41.4).

The net cash flow from operations was FIM 6,460 million (6,243). Interest-bearing net liabilities at 31 December were FIM 25,284 million (25,684). The average rate of interest on the Group's loans was 5.7% (6.1).

In November, UPM-Kymmene floated its first bond loan on the US market. USD 225 million of the USD 600 million loan is repayable in 10 years and USD 375 million in 30 years. The credit-rating agencies Standard & Poor's and Moody's rated the bond issue BBB+ and Baa1, respectively.

SHARES

Trading in the company's shares on the Helsinki Stock Exchange totalled FIM 18,582 million (11,734). The highest quotation was FIM 152.40 (in September) and the lowest FIM 94.00 (in February).

The Annual General Meeting held on 10 April 1997 approved the Board's proposal for the distribution of dividend for 1996. For the company's and Finnish shareholders' taxation purposes, the value of the Rauma Oy shares handed over as dividend is the average quotation on the date of dividend payment (6 May 1997), i.e. FIM 109.11 per share.

In October, UPM-Kymmene announced its intention to redeem in full its FIM 750 million convertible bond issue dating from 1993. However, the fall in the price of the company's shares meant that the redemption conditions were not met.

The exercise of equity warrants and bond conversion rights resulted in a total of 3,014,938 new shares being subscribed in 1997. At the end of the year, the number of shares in issue was 270,388,761 and the share capital FIM 2,703,887,610. Share subscriptions under convertible bonds and bonds with equity warrants issued could raise the total number of shares to a maximum of 284,061,603.

The Board of Directors has no current authorization to raise the company's share capital or to issue convertible bonds or bonds with equity warrants.

In December, the Board of Directors announced that it would propose to the Annual General Meeting, to be held on 25 March 1998, that the company redeem some of its own shares and authorize the Board to offer them for sale.

COMPANY DIRECTORS

The Annual General Meeting elected Nokia Corporation President & CEO Jorma Ollila a member of the Board of Directors in place of prof. Jorma Routti, who declined to stand for re-election. At its first meeting, the new Board elected L.J. Jouhki, President & CEO of Thomesto Trading Companies Ltd, as its Chairman and Vesa Vainio, President & CEO of Merita Bank Ltd, and Iiro Viinanen, President and Chairman of the Boards of the Pohjola Group, as Deputy Chairmen.

OUTLOOK FOR 1998

Demand for printing and writing papers on the company's main markets has remained good going into 1998. The strong demand has allowed sales prices to be raised on most markets.

There will be only a small increase in production capacity for magazine papers and newsprint in 1998, and the market prospects for these products are regarded as steady. While the economic crisis in the countries of Southeast Asia raises something of a question mark, the impact on paper consumption in Europe and United States, the company's main markets, is difficult to assess at this stage. Fine paper markets are currently experiencing a slight over-supply, which could be exacerbated by a worsening of the economic difficulties in Southeast Asia, as new production capacity aimed at these markets is currently under construction.

Demand for most of the packaging materials and special products manufactured by UPM-Kymmene is expected to remain stable.

The market for sawn timber is over-supplied, and this has pushed prices down. The good demand for plywood is forecast to continue. However, there is a threat of price competition from Asian producers in certain plywood grades.

Group capital expenditure is planned at around FIM 3.5 billion for 1998.

BOARD'S PROPOSAL FOR THE DISTRIBUTION OF PROFITS

The consolidated balance sheet shows unrestricted shareholders' equity at 31.12.1997 of FIM 16,185 million, of which distributable funds

FIM 6,706,100,000.00

The parent company balance sheet shows unrestricted shareholders' equity at 31.12.1997 of FIM 7,317 million, of which distributable funds

FIM 7,316,657,506.73

The Board of Directors proposes to the Annual General Meeting

a dividend of FIM 5.50 per share on 269,623,761 shares

FIM 1,482,930,685.50

for use by the Board of Directors in the general interest

FIM 800,000.00

and the remainder to be retained.

Helsinki, 16 February 1998

L.J. Jouhki
Chairman

Vesa Vainio

Iiro Viinanen

Casimir Ehrnrooth

Jouko K. Leskinen

Tauno Matomäki

Yrjö Niskanen

Jorma Ollila

Gustaf Serlachius

Juha Niemelä
President & CEO

Consolidated profit and loss account

FIM million, 1.1-31.12	Note	1997	1996	1995
Turnover	(1)	50,406	51,757	54,738
Other operating income	(2)	2,602	864	473
Costs and expenses	(3)	-42,668	-43,760	-44,005
Share of results of associated companies	(4)	264	-32	405
Depreciation on fixed assets and other capitalized expenditure	(5)	-3,218	-3,238	-3,107
Operating profit	(6)	7,386	5,591	8,504
Financial income and expenses	(7)			
Share of results of associated companies	(4)	99	-129	-48
Dividend income		59	55	51
Interest income		180	293	357
Other financial income		17	27	26
Exchange rate differences		-385	-127	-14
Interest expenses		-1,658	-2,004	-2,443
Other financial expenses		-127	-117	-152
Depreciation on investments		1	-34	-3
		-1,814	-2,036	-2,226
Profit before extraordinary items and taxes		5,572	3,555	6,278
Extraordinary income and expenses	(8)			
Extraordinary income		-	424	436
Extraordinary expenses		-	-429	-1,005
		-	-5	-569
Profit before taxes		5,572	3,550	5,709
Taxes	(10)			
Direct taxes		-922	-706	-843
Change in deferred tax liability		-454	-439	-970
		-1,376	-1,145	-1,813
Profit for the period before minority interest		4,196	2,405	3,896
Minority interest		-14	-111	-96
Profit for the period		4,182	2,294	3,800

Consolidated balance sheet

FIM million	Note	31.12.1997	31.12.1996
ASSETS			
Fixed assets and other long-term investments	(11)		
Intangible assets			
Formation expenses		16	22
Intangible rights		246	205
Goodwill		39	165
Goodwill on consolidation		1,158	688
Other capitalized expenditure		245	407
Advance payments		36	3
		1,740	1,490
Tangible assets			
Land and water		7,110	7,083
Buildings		7,663	7,908
Machinery and equipment		22,683	23,184
Other tangible assets		584	590
Advance payments and construction in progress		1,971	935
		40,011	39,700
Financial assets			
Shares and holdings in associated companies		5,280	3,547
Other shares and holdings		2,427	2,448
Loan receivables		1,236	1,117
Other financial assets		25	
		8,968	7,112
Current assets			
Stocks			
Raw materials and consumables		2,254	2,924
Work in progress		209	855
Finished products and goods		2,931	3,513
Other stocks		399	549
Advance payments		431	291
		6,224	8,132
Receivables			
	(12)		
Trade receivables		6,262	6,743
Loan receivables		66	151
Prepaid expenses and accrued income		1,341	1,250
Other receivables		607	421
		8,276	8,565
Cash and bank		2,585	2,729
		67,804	67,728



FIM million	Note	31.12.1997	31.12.1996
EQUITY AND LIABILITIES			
Shareholders' equity	(13)		
Restricted equity			
Share capital		2,704	2,674
Other restricted equity		7,491	7,629
		10,195	10,303
Capital loan		603	750
Non-restricted equity			
Retained earnings		12,003	10,479
Profit for the period		4,182	2,294
		16,185	12,773
Minority interest		160	884
Provisions	(14)	621	442
Long-term and current liabilities	(15)		
Long-term liabilities			
Bond loans		5,549	2,129
Convertible bond loans		959	960
Loans from financing institutions		7,084	9,325
Pension loans		3,828	4,349
Trade payables		2	10
Other long-term liabilities		1,321	1,762
Deferred tax liability		3,656	2,819
		22,399	21,354
Current liabilities			
Current portion of long-term loans		2,493	4,660
Loans from financing institutions		4,181	4,766
Advances received		168	1,226
Trade payables		3,090	3,491
Bills payable		1,192	586
Accrued expenses and deferred income		3,979	4,269
Other current liabilities		2,538	2,224
		17,641	21,222
		67,804	67,728

Consolidated cash flow statement

FIM million	1997	1996
Cash flow from operating activities		
Operating profit	7,386	5,591
Adjustments, total ^{a)}	880	2,817
Change in net working capital ^{b)}	552	630
Cash generated from operations	8,818	9,038
Interest received	173	282
Interest paid	-1,739	-2,100
Dividends received	59	55
Other financial income and expenses	-456	-124
Direct taxes paid	-395	-908
Net cash from operating activities	6,460	6,243
Cash flow from investing activities		
Acquisition of Group companies net of cash acquired ^{c)}	-3,190	-40
Investments in associated company shares	-479	-593
Investments in other shares	-220	-330
Purchase of tangible and intangible assets	-2,472	-5,575
Proceeds from disposal of shares in Group companies net of cash disposed	959	
Proceeds from sale of associated companies	54	908
Proceeds from sale of other shares	2,597	550
Proceeds from sale of tangible and intangible assets	386	246
Increase (-) or decrease (+) in other long-term investments	398	-49
Net cash used in investing activities	-1,967	-4,883
Cash flow before financing activities		
	4,493	1,360
Cash flow from financing activities		
Increase (+) or decrease (-) in long-term liabilities	-2,566	-2,869
Increase (+) or decrease (-) in current interest-bearing liabilities	-685	2,742
Increase (-) or decrease (+) in interest-bearing receivables	-171	369
Dividends paid ^{d)}	-1,203	-1,203
Share issue and share conversions	186	37
Other items	-219	68
Net cash used in financing activities	-4,658	-856
Net increase (+) or decrease (-) in cash and cash equivalents ^{e)}		
	-144	504
Cash and cash equivalents at 1 Jan.	2,729	2,225
Cash and cash equivalents at 31 Dec.	2,585	2,729

Additional information on consolidated cash flow statement, FIM million

	Group	
	1997	1996
a) Adjustments to reconcile operating profit to net cash provided by operating activities		
Depreciation	3,218	3,258
Gains (-) or losses (+) on sale of fixed assets	-2,160	-674
Share of results (+/-) of associated companies	-264	32
Other	86	201
Total	880	2,817
b) Change in net working capital		
Increase (-) or decrease (+) in stocks	274	1,393
Increase (-) or decrease (+) in current non-interest-bearing receivables	1,427	490
Increase (+) or decrease (-) in current non-interest-bearing liabilities	-1,149	-1,253
Total	552	630
c) Additional information on acquisition of Group companies		
Acquired companies' effect on consolidated assets and liabilities		
Fixed assets and other long-term investments	-4,096	-26
Stocks	-276	-12
Receivables	-2,744	-30
Long-term liabilities	606	
Current liabilities	2,674	28
Other	228	
Cash flow	-3,608	-40
Less cash and cash equivalents of acquired companies	418	
Cash flow on acquisition net of cash acquired	-3,190	-40
d) Dividends paid		
In 1997, dividend comprised FIM 423 million in cash and Rauma Oy shares with a market value of FIM 780 million (balance sheet value FIM 288 million).		
e) Effect of exchange rate changes on cash and cash equivalents		
Cash and cash equivalents at 1 Jan.	2,729	2,225
Effect of exchange rate changes	21	
Total	2,750	2,225
Increase (+) or decrease (-) in cash and cash equivalents	-165	504
Cash and cash equivalents at 31 Dec.	2,585	2,729

Parent company profit and loss account

Parent company funds statement

FIM million	1.1-31.12 1997	1.5-31.12 1996
Turnover	25,388	16,018
Increase (+) or decrease (-) in finished goods inventories	-269	-230
Production for own use	95	82
Other operating income (2)	3,433	544
Costs and expenses		
Materials, supplies and products		
Purchases during the financial period	-12,876	-7,332
Increase (+) or decrease (-) in inventories	-117	-220
External services	-1,635	-856
Personnel expenses (3)	-3,658	-2,563
Rents	-214	-137
Other costs and expenses	-3,399	-1,955
	-21,899	-13,063
Depreciation on fixed assets and other capitalized expenditure (5)	-1,689	-1,137
Operating profit	5,059	2,214
Financial income and expenses (7)		
Dividend income	1,172	599
Interest income from long-term investments	169	154
Other financial income	184	117
Exchange rate differences	-530	-75
Interest expenses	-1,182	-945
Other financial expenses	-76	-42
Depreciation on investments	-1	-100
	-264	-292
Profit before extraordinary items, untaxed reserves and taxes	4,795	1,922
Extraordinary income and expenses (8)		
Extraordinary income	626	932
Extraordinary expenses	-27	-142
	599	790
Profit before untaxed reserves and taxes	5,394	2,712
Increase (-) or decrease (+) in accumulated depreciation difference (9)	-1,091	-1,110
Increase (-) or decrease (+) in untaxed reserves		361
Direct taxes (10)	-1,020	-462
Profit for the period	3,283	1,501

FIM million	1.1-31.12 1997	1.5-31.12 1996
Operations		
Funds generated from operations		
Operating profit	5,059	2,214
Depreciation	1,689	1,137
Financial income and expenses	-264	-292
Extraordinary items	48	790
Direct taxes	-1,020	-462
	5,512	3,387
Change in working capital		
Increase (-) or decrease (+) in stocks	255	-1,979
Increase (-) or decrease (+) in current receivables	-1,354	-897
Increase (+) or decrease (-) in non-interest-bearing current liabilities	114	1,778
	-985	-1,098
Cash flow from operations	4,527	2,289
Investments		
Capital expenditure	-6,252	-23,642
Decrease in fixed assets	3,849	11,496
	-2,403	-12,146
Cash flow before financing	2,124	-9,857
Financing		
Increase (-) or decrease (+) in long-term receivables	-2,393	6,133
Increase (+) or decrease (-) in long-term loans	-218	2,134
Increase (+) or decrease (-) in short-term loans	1,267	1,353
Group contributions	551	
Dividends *)	-1,203	
Share issue and share conversions	186	37
Conversion of capital loan	-147	
Other financial items	-153	-1
	-2,110	9,656
Decrease (-) or increase (+) in liquid funds	14	-201

*) In 1997, dividend comprised FIM 423 million in cash and Rauma Oy shares with a market value of FIM 780 million (balance sheet value FIM 288 million).

Parent company balance sheet

	31.12	31.12		31.12	31.12
FIM million	1997	1996	FIM million	1997	1996
ASSETS			EQUITY AND LIABILITIES		
Fixed assets and other			Shareholders' equity (13)		
long-term investments (11)			Restricted equity		
Intangible assets			Share capital	2,704	2,674
Intangible rights	75	102	Share issue		37
Goodwill	31	36	Legal reserve	3,759	3,566
Other capitalized expenditure	130	254	Revaluation reserve	3,552	3,660
Advance payments	35	1		10,015	9,937
	271	393	Capital loan	603	750
Tangible assets			Non-restricted equity		
Land and water	6,238	6,251	Retained earnings	4,034	3,397
Buildings	3,793	3,972	Profit for the period	3,283	1,501
Machinery and equipment	12,828	14,010		7,317	4,898
Other tangible assets	403	421	Untaxed reserves		
Advance payments and construction			Accumulated depreciation difference	10,154	9,122
in progress	1,598	767			
	24,860	25,421	Provisions (14)	125	141
Financial assets			Long-term and current liabilities (15)		
Shares and holdings in associated companies	4,476	3,305	Long-term liabilities		
Shares in subsidiaries	7,559	7,196	Bond loans	4,735	1,433
Other shares and holdings	2,151	1,962	Convertible bond loans	959	960
Loan receivables	5,961	3,553	Loans from financing institutions	5,070	6,287
Other financial assets	9	9	Pension loans	3,120	3,203
	20,156	16,025	Other long-term liabilities	23	206
Current assets				13,907	12,089
Stocks			Current liabilities		
Raw materials and consumables	1,036	1,190	Current portion of long-term loans	1,385	3,421
Work in progress	43	54	Loans from financing institutions	2,316	2,410
Finished products and goods	821	1,095	Advances received	210	379
Advance payments	424	240	Trade payables	1,274	1,499
	2,324	2,579	Accrued expenses and deferred income	2,288	1,683
Receivables (12)			Other current liabilities	5,207	3,926
Trade receivables	2,163	1,997		12,680	13,318
Loan receivables	2,206	1,198			
Prepaid expenses and accrued income	849	752			
Other receivables	234	166			
	5,452	4,113			
Cash and bank	1,738	1,724			
	54,801	50,255		54,801	50,255

Notes to the accounts

Accounting policies for 1997

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 parent company figures for 1996 given for comparison are for the period 1 May to 31 December 1996, while the consolidated financial statements for 1996 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 consolidated figures for 1995 given for comparison have been obtained by combining the 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. From 1 July 1997, exchange differences arising on translation of trade receivables are entered under turnover, and exchange differences on trade payables under costs and expenses. Exchange rate differences on translation of other 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. From 1 July 1997, exchange differences on forward contracts relating to the Group's net cash flow are entered under turnover. Other exchange differences arising from hedging instruments 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 net 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 quarterly 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 foreign exchange 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

Turnover is calculated after deduction of sales discounts and indirect sales taxes. Revenue is recognized at the date of delivery. Turnover also includes exchange differences as explained under “Foreign currencies”.

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.

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.

ACCUMULATED DEPRECIATION

DIFFERENCE AND UNTAXED RESERVES

In Finland and certain other countries, tax laws allow a portion of the profit before taxation to be transferred to untaxed reserves in the balance sheet. Part of these appropriations are accepted for tax purposes only if they are recorded in the financial statements.

Beginning in 1997, untaxed reserves and accumulated depreciation difference in the consolidated balance sheet are divided into shareholders’ equity and deferred tax liability. Changes in untaxed reserves and accumulated depreciation difference during the year are divided into profit for the period and change in deferred tax liability in the profit and loss account. The figures for previous years given for comparison have been adjusted accordingly.

Under Finland’s Companies Act, untaxed reserves and depreciation difference entered under non-restricted equity in the consolidated balance sheet are not counted as distributable non-restricted equity.

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.

TAXES

The Group’s taxes include taxes of Group companies based on taxable profit or proposed dividend for the financial period, together with tax adjustments for previous periods and the change in deferred tax liability. The tax credits arising from the distribution of dividends by subsidiaries are deducted from direct taxes.

Notes to consolidated and parent company profit and loss accounts, FIM million

	Group			Parent company	
	1997	1996	1995	1997	5-12/1996
1 Turnover by division					
Magazine papers	11,888	11,172	12,322		
Newsprint	5,795	5,780	5,676		
Fine papers	7,144	6,220	7,140		
Packaging materials	5,001	4,664	4,764		
Sawmilling	4,531	3,725	3,773		
Plywood	3,475	3,144	3,084		
Special products	4,555	3,574	3,528		
Chemical pulp	4,248	4,106	6,070		
Other	12,499	10,525	11,344		
Intra-Group sales	-12,903	-11,759	-13,393		
Current businesses	46,233	41,151	44,308		
Businesses disposed of ¹⁾	4,173	10,606	10,430		
Total	50,406	51,757	54,738		
Turnover by market					
Finland	7,452	6,908	5,990		
Great Britain	7,199	5,951	6,416		
Germany	6,649	6,749	7,220		
France	4,908	4,333	5,319		
Other EU countries	9,926	9,021	10,209		
Other European countries	3,066	2,600	2,586		
North America	2,858	2,043	2,665		
Rest of world	4,175	3,546	3,903		
Current businesses	46,233	41,151	44,308		
Businesses disposed of ¹⁾	4,173	10,606	10,430		
Total	50,406	51,757	54,738		
2 Other operating income					
Capital gains on disposal of fixed assets ²⁾	2,290	677	361	3,189	477
Income from rents	93	74	44	79	47
Other operating income	219	113	68	165	20
Other operating income, total	2,602	864	473	3,433	544

¹⁾ *Businesses disposed of include Rauma Corporation and Simpele.*

²⁾ *Capital gains for the Group in 1997 include FIM 747 million in losses on sale of Chapelle Darblay's LWC paper mill.*

	Group			Parent company	
	1997	1996	1995	1997	5-12/1996
3	Costs and expenses				
	Increase/decrease (-/+) in stocks of				
	finished goods and work in progress	259	990	-751	
	Production for own use	-116	-154	-138	
	Raw materials, consumables and goods				
	Purchased during the period	25,843	21,459	24,200	12,876 7,332
	Increase/decrease (-/+) in stocks	394	428	-792	117 220
	External services	3,950	4,593	4,149	1,635 856
	Personnel expenses *	7,790	9,730	9,490	3,658 2,563
	Rents	423	410	436	214 137
	Other costs and expenses	4,125	6,304	7,411	3,399 1,955
	Costs and expenses, total	42,668	43,760	44,005	21,899 13,063
	* Personnel expenses				
	Salaries of Boards of Directors and				
	Managing Directors	124	154	147	4 3
	Other wages and salaries	6,164	7,324	7,020	2,850 2,011
	Pension expenses and contributions	750	953	1,006	474 314
	Other indirect employee costs	752	1,299	1,317	330 235
	Personnel expenses, total	7,790	9,730	9,490	3,658 2,563
	The total value of fringe benefits for the parent company was FIM 13.5 (9.5) million.				
4	Share of results of associated companies				
	Oy Metsä-Botnia Ab	170	-15	361	
	Oy Metsä-Rauma Ab	32	-57		
	Corenso United Oy Ltd	9	7	26	
	Pohjolan Voima Oy	25	22	9	
	Others	28	11	9	
	Total included in operating profit	264	-32	405	
	Rauma Oy	119			
	FY-Industries Oy/Finnyards Oy	-22	-140	-76	
	Others	2	11	28	
	Total included in financial income and expenses	99	-129	-48	
5	Depreciation on fixed assets and other capitalized expenditure				
	Formation expenses	10	10	10	
	Intangible rights	33	43	45	17 12
	Goodwill	7	19	16	5 4
	Goodwill on consolidation	39	96	109	
	Other capitalized expenditure	58	108	92	34 61
	Buildings	348	363	352	171 114
	Machinery and equipment	2,655	2,532	2,423	1,427 923
	Other tangible assets	68	67	60	35 23
	Depreciation, total	3,218	3,238	3,107	1,689 1,137

	1997	Group 1996	1995	Parent company	
				1997	5-12/1996
6 Operating profit by division					
Magazine papers	1,077	2,072	2,803		
Newsprint	527	1,044	969		
Fine papers	347	85	719		
Packaging materials	289	382	209		
Sawmilling	317	-48	135		
Plywood	274	139	25		
Special products	357	339	364		
Chemical pulp	442	-176	2,228		
Others	1,386	247	-163		
Total, divisions	5,016	4,084	7,289		
Capital gains net, other operations	2,052	620	320		
Total	7,068	4,704	7,609		
Operations disposed of	318	887	895		
Total	7,386	5,591	8,504		
7 Intra-Group financial income and expenses					
Dividend income				864	459
Interest on long-term investments				153	121
Other financial income				92	20
Exchange rate differences				118	32
Interest expenses				-96	-84
8 Extraordinary income and expenses					
Extraordinary income					
Group contributions				575	
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				51	394
Other		19	5		
- Tax effect of extraordinary items		-151			
Extraordinary income, total	-	424	436	626	932

	1997	Group 1996	1995	Parent company 1997	5-12/1996
Extraordinary expenses					
Group contributions				-25	
Pension liabilities		-149			-114
Additional amortization of goodwill		-100			
Provision for return of investment contribution		-81			
Merger deficit				-2	-17
Consolidation of associated companies due to change in accounting practice			-380		
Write-down in value of Polar Corporation shares and other investments			-99		
Write-down in value of Finnyards shares and receivables			-177		
Other		-99	-349		-11
Extraordinary expenses, total	-	-429	-1,005	-27	-142
9 Change in accumulated depreciation difference					
Intangible rights				2	-2
Other capitalized expenditure					-5
Buildings				-2	-367
Machinery and equipment				-530	-728
Other tangible assets				6	-2
				-524	-1,104
Portion of profit from sale of fixed assets in excess of depreciation according to plan				-567	-6
Change in accumulated depreciation difference, total				-1,091	-1,110
10 Taxes					
Taxes for the financial year	-1,019	-667	-752	-1,013	-400
Taxes from previous years	97	-190	-91	-7	-62
Change in deferred tax liability	-454	-439	-970		
- Tax effect of extraordinary items		151			
Taxes, total	-1,376	-1,145	-1,813	-1,020	-462

Notes to consolidated and parent company balance sheets, FIM million

11 Fixed assets and other long-term investments

	Acquisition cost at 1 Jan.	Increases incl. exchange differences	Decreases	Accumulated depreciation at 1 Jan.	Accumulated depreciation on decreases incl. exchange differences	Depreciation for the period	Book value at 31 Dec.
GROUP							
Intangible assets							
Formation expenses	94	13	-2	-72	-7	-10	16
Intangible rights	496	137	-173	-291	110	-33	246
Goodwill	370	12	-277	-205	146	-7	39
Goodwill on consolidation	1,470	1,026	-929	-782	412	-39	1,158
Other capitalized expenditure	930	25	-251	-523	122	-58	245
Advance payments	3	25	8				36
Group 31 Dec. 1997	3,363	1,238	-1,624	-1,873	783	-147	1,740
Group 31 Dec. 1996	3,499	287	-421	-1,789	191	-277	1,490
Tangible assets							
Land and water	7,084	495	-468	-1			7,110
Buildings	11,338	569	-591	-3,430	127	-350	7,663
Machinery and equipment	45,379	2,732	-2,199	-22,195	1,559	-2,593	22,683
Other tangible assets	1,198	71	-51	-608	43	-69	584
Advance payments and construction in progress	935	1,619	-583				1,971
Group 31 Dec. 1997	65,934	5,486	-3,892	-26,234	1,729	-3,012	40,011
Group 31 Dec. 1996	60,955	10,450	-5,471	-23,706	453	-2,981	39,700
<i>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.</i>							
PARENT COMPANY							
Intangible assets							
Intangible rights	197	12	-40	-95	18	-17	75
Goodwill	53		-3	-17	3	-5	31
Other capitalized expenditure	610	16	-202	-356	96	-34	130
Advance payments	1	24	10				35
Parent company 31 Dec. 1997	861	52	-235	-468	117	-56	271
Parent company 31 Dec. 1996	409	479	-27	-396	5	-77	393
Tangible assets							
Land and water	6,251	12	-25				6,238
Buildings	5,719	172	-305	-1,746	124	-171	3,793
Machinery and equipment	27,325	863	-1,756	-13,315	1,138	-1,427	12,828
Other tangible assets	829	33	-37	-408	21	-35	403
Advance payments and construction in progress	767	1,390	-559				1,598
Parent company 31 Dec. 1997	40,891	2,470	-2,682	-15,469	1,283	-1,633	24,860
Parent company 31 Dec. 1996	3,342	41,519	-3,970	-14,529	118	-1,059	25,421

The fixed assets of merged subsidiaries are included in increases for the parent company in 1996.

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 2,348 million. The market value at 31 December 1997 was FIM 5,788 million.

The company's forest in Finland, 926,000 hectares, has a book value of FIM 7,032 per hectare, i.e. a total value of FIM 6,512 million. This includes revaluations of FIM 3,367 million made in previous years. According to estimates made by the company for each forest holding separately, the average market value is FIM 9,365 per hectare, giving a total value of FIM 8,673 million. The company also estimates that the market value of its shares in energy companies, FIM 7,068 million, exceeds the book value by FIM 3,691 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 unrelated to business operations. Their estimated market value, FIM 2,365 million, exceeds the book value by FIM 1,313 million. Market value is based on transactions completed.

	Group		Parent company	
	1997	1996	1997	1996
Taxation values of fixed assets				
Land and water			2,923	2,652
Buildings			2,314	2,193
Shares and holdings			11,985	12,437
Other long-term investments				
Loan receivables				
From Group companies			4,659	2,630
From associated companies	871	984	997	645
From others	365	133	305	278
Loan receivables, total	1,236	1,117	5,961	3,553

Loans made to directors totalled FIM 0.8 million. The loans, which are for house purchases, are for less than 10 years and carry interest at one percentage point above the Bank of Finland's base rate.

12 Receivables

From Group companies				
Trade receivables			1,319	950
Loan receivables			2,206	803
Prepaid expenses and accrued income			194	78
Other receivables			3	17
Receivables from associated companies				
Trade receivables	131	300	23	226
Loan receivables		327		327
Prepaid expenses and accrued income	73	33	68	34
Other receivables	1		1	
Long-term receivables under current assets				
Trade receivables	1	181		16
Loan receivables	4	13		
Prepaid expenses and accrued income	29	4		
Other receivables	55	32		

The Asset Securitization programme implemented by the Group freed FIM 1,290 million of trade receivables (682).

	Group		Parent company	
	1997	1996	1997	1996 ¹⁾
13 Shareholders' equity				
Restricted				
Share capital at 1 Jan.	2,673.7	2,673.7	2,673.7	2,673.7
Warrant bond loan 1991/II	15.0		15.0	
Capital loan 1993	15.1		15.1	
Convertible bond loan 1994	0.0		0.1	
Share capital at 31 Dec.	2,703.8	2,673.7	2,703.9	2,673.7
Share issue at 1 Jan.	36.8		36.8	
Warrant bond loan 1991/II	-36.8	36.8	-36.8	36.8
Share issue at 31 Dec.	0.0	36.8	0.0	36.8
Legal reserve at 1 Jan.	3,713.7	3,881.3	3,566.3	3,566.3
Share premium	193.0		193.0	
Subsidiary changed to associated company	-152.0			
Other	7.6	-167.6		
Legal reserve at 31 Dec.	3,762.3	3,713.7	3,759.3	3,566.3
Revaluation reserve at 1 Jan.	3,878.4	3,816.9	3,660.2	827.2
Revaluations				2,918.1
Cancellation of revaluations	-108.0	-85.1	-108.0	-85.1
Other	-41.7	146.6		
Revaluation reserve at 31 Dec.	3,728.7	3,878.4	3,552.2	3,660.2
Restricted shareholders' equity at 31 Dec.	10,194.8	10,302.6	10,015.4	9,937.0
Capital loan				
Capital loan at 1 Jan.	749.9	749.9	749.9	749.9
Conversion of capital loan	-146.8		-146.8	
Capital loan at 31 Dec.	603.1	749.9	603.1	749.9
Non-restricted shareholders' equity				
Retained earnings at 1 Jan.	12,772.9	11,189.6	4,897.8	3,397.6
Dividend paid in cash	-423.2	-1,203.2	-423.2	
Dividend paid as Rauma Oy shares, balance sheet value	-287.6		-287.6	
Rauma Oy shares distributed as dividend: tax	-140.6		-140.6	
tax on transfer of assets	-12.4		-12.4	
Subsidiary changed to associated company	201.0			
Used in the general interest	-0.8	-1.2	-0.8	-0.7
Change in accounting practice relating to associated companies		432.0		
Other	-106.1	61.6	0.2	0.2
Retained earnings at 31 Dec.	12,003.2	10,478.8	4,033.4	3,397.1
Profit for the period	4,181.9	2,294.1	3,283.2	1,500.7
Non-restricted shareholders' equity at 31 Dec.	16,185.1	12,772.9	7,316.6	4,897.8

¹⁾ Parent company from 1 May 1996

	Group		Parent company	
	1997	1996	1997	1996
Distributable funds				
Non-restricted shareholders' equity at 31 Dec.	16,185.1	12,772.9	7,316.6	4,897.8
Untaxed reserves and depreciation difference	-12,752.0	-11,772.0		
Deferred tax liability for above	3,273.0	2,819.0		
Distributable funds at 31 Dec.	6,706.1	3,819.9	7,316.6	4,897.8

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 603,090,000. 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 61,937,340 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		Parent company	
	1997	1996	1997	1996
14 Provisions				
Pension costs	352	361	106	114
Others	269	81	19	27
Provisions, total	621	442	125	141

	Group		Parent company	
	1997	1996	1997	1996
15 Long-term and current liabilities				
Liabilities to Group companies				
Other long-term liabilities			17	16
Advances received			112	
Trade payables			118	167
Accrued liabilities and deferred income			13	100
Other current liabilities			2,615	2,743
Liabilities to associated companies				
Other long-term liabilities	20	206		183
Advances received				258
Trade payables	172	254	126	173
Accrued liabilities and deferred income	11	4	7	4
Other current liabilities	194	13	190	1
Interest-bearing and non-interest-bearing liabilities				
Long-term liabilities				
Non-interest-bearing	3,710	3,072	17	16
Interest-bearing	18,689	18,282	13,890	12,073
Total	22,399	21,354	13,907	12,089
Current liabilities				
Non-interest-bearing	7,756	9,830	8,910	3,639
Interest-bearing	9,885	11,392	3,770	9,679
Total	17,641	21,222	12,680	13,318

Group long-term loans and repayment schedules

	Bond loans	Convertible bond loans	Loans from fin. institutions	Pension loans	Others	Total
1999–2002	1,239		5,281	786	759	8,065
2003–	4,310	959	1,803	3,042	564	10,678
Total at 31 Dec. 1997	5,549	959	7,084	3,828	1,323	18,743

Parent company long-term loans and repayment schedules

	Bond loans	Convertible bond loans	Loans from fin. institutions	Pension loans	Others	Total
1999–2002	425		3,928	517	17	4,887
2003–	4,310	959	1,142	2,603	6	9,020
Total at 31 Dec. 1997	4,735	959	5,070	3,120	23	13,907

Bond loans

(incl. current portion)	Interest, %	Currency	Initial loan (million)	Group balance 31.12.1997	Group balance 31.12.1996	Parent company balance 31.12.1997	Parent company balance 31.12.1996
Bond loans							
Fixed interest							
1987–1997	9.50	FIM	30		3		3
1988–2000	4.75	CHF	100	373	344	373	344
Floating rate of interest							
1995–2000	6.19	USD	150	814	696		
				1,187	1,043	373	347

Other bond loans

Fixed interest							
1993–1998	11.00	FIM	100	100	100	100	100
1995–2005	7.72	USD	155	840	720	840	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	50	50
1993–1997	9.60	FIM	150		150		150
1993–2008	9.10	FIM	18	18	18	18	18
1993–1997	10.30	FIM	101		101		101
1997–2007	6.875	USD	225	1,220		1,220	
1997–2027	7.45	USD	375	2,032		2,032	
Floating rate of interest							
1993–2003	4.35	FIM	200	200	200	200	200
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
				4,460	1,653	4,460	1,653

Bond loan with equity

warrants 1991/II	12.00	FIM	1.5		1.4		1.4
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Bond loans, total				5,647	2,697	4,833	2,001
– current portion				–98	–568	–98	–568
Bond loans, long-term portion				5,549	2,129	4,735	1,433

Convertible bond loans

Subordinated convertible

bond loan 1994 ¹⁾	6.50	FIM	960	959	960	959	960
– current portion				–	–	–	–
Convertible bond loans, long-term portion				959	960	959	960

¹⁾ 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		Parent company	
	1997	1996	1997	1996
16 Contingent liabilities				
Mortgages				
As security against own debts	4,800	6,303	3,796	4,948
Against Group company debts			88	
Against associated company debts	8	9	8	8
Pledges given				
On own commitments	89	446	27	332
Guarantees				
Guarantees for loans				
On behalf of Group companies			5,035	5,182
On behalf of associated companies	761	1,192	751	1,174
On behalf of others	35	34	20	21
Other guarantees				
On own commitments	64	92		
On behalf of Group companies			32	67
On behalf of associated companies	52	16	52	16
On behalf of others	4			
Pension liabilities				
Direct liabilities	15	38		
Leasing commitments				
Commitments for 1998/1997	72	113	9	33
Commitments for subsequent years	218	178	41	8
Other commitments	98	201		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.

	Nominal value				Market value			
	Interest rate derivatives		Currency derivatives		Interest rate derivatives ¹⁾		Currency derivatives ²⁾	
	1997	1996	1997	1996	1997	1996	1997	1996
Forward contracts	22,320	32,517	31,569	15,330	29	-5	-177	-96
Options								
Purchased	820	1,098	663	230			4	1
Written	955	1,215	1,231	480	-8	-30	-4	-2
Swap agreements	21,503	16,084	1,253	1,589	-74	-53	15	-24

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

²⁾ 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 22 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.

Foreign currency exposure has been divided into two parts: that comprising the 12-month forecast foreign currency exposure, interest rate exposure and the related hedging, and that comprising foreign currency denominated receivables and debts and foreign currency denominated shareholders' equity of foreign subsidiaries.

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 25.3 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 2.6 billion, the Group has unused committed credit facilities amounting to approximately FIM 8.3 billion. In accordance with the Group's financial policy, liquid funds are invested only with those counterparts, both in Finland and abroad, whose creditworthiness is considered to be sufficient.

Shares and holdings ¹⁾

	Production ■ Sales and distribution ▲ Other ○	Turnover MFIM	Number of shares	Parent company holding %	Group holding %	Nominal value Currency million	Book value MFIM
Shares in subsidiaries							
Nordland Papier AG	■	4,474	3,499,900	100.00	100.00	DEM 175.0	1,056.3
UPM-Kymmene Ltd	▲	3,715	300,000		100.00	GBP 0.3	13.5
UPM-Kymmene SA	▲	2,754	467,494		100.00	FRF 46.7	82.5
UPM-Kymmene Sales GmbH	▲	2,632			100.00	DEM 5.0	33.2
Yhtyneet Sahat Oy	■	2,330	20,600	92.00	100.00	FIM 103.0	348.6
Schauman Wood Oy	■	2,198	3,000,000	100.00	100.00	FIM 300.0	300.0
Chapelle Darblay S.A.	■	1,756	899,991		100.00	FRF 90.0	1,615.0
Shotton Paper Company Plc	■	1,424	145,700,100		100.00	GBP 145.7	1,316.5
Puukeskus Oy	▲	1,348	55,000	100.00	100.00	FIM 55.0	105.9
UPM-Kymmene S.A.	▲	1,039			100.00	ESP 11.0	3.0
Raflatac Oy	■	1,025	25,000	100.00	100.00	FIM 125.0	132.4
Caledonian Paper plc	■	1,016	16,000,000		100.00	GBP 16.0	863.2
Stracel S.A.	■	959	15,496,546		99.98	FRF 697.3	1,457.0
Raflatac S.A.	■	956	85,000		100.00	FRF 85.0	76.9
UPM-Kymmene S.r.l.	▲	907		99.98	100.00	ITL 5,000.0	18.1
Raflatac Ltd	■	819	4,000,000		100.00	GBP 4.0	287.7
UPM-Kymmene B.V	▲	798			100.00	NLG 0.0	0.4
Brooks Group Ltd	▲	720	1,501,100	100.00	100.00	IEP 1.5	83.8
UPM-Kymmene Seaways Oy Ltd.	▲	706	8,000	100.00	100.00	FIM 0.8	2.1
Schauman Wood GmbH	▲	595	1		100.00	DEM 0.5	1.5
Lohjan Paperi Oy	■	595	24,500	100.00	100.00	FIM 24.5	70.0
Walki Wisa Oy	■	591	100,000	100.00	100.00	FIM 100.0	115.4
UPM-Kymmene S.A.	▲	587			100.00	BEF 2.5	0.7
UPM-Kymmene Inc.	▲	587	241		100.00	USD 0.0	110.6
Raflatac GmbH	▲	550			100.00	DEM 2.5	15.9
Anco Trae A/S	▲	506	8,500		100.00	DKK 8.5	5.0
Papeteries de Docelles S.A.	■	474	2,495		99.76	FRF 22.0	53.8
UPM-Kymmene GmbH.	▲	442	1	100.00	100.00	ATS 1.0	0.4
UPM-Kymmene AG	▲	428	1,497	100.00	100.00	CHF 0.1	0.4
UPM-Kymmene Pty.Ltd.	▲	426	80,999	100.00	100.00	AUD 0.1	0.8
UPM-Kymmene A/S	▲	424	6	100.00	100.00	DKK 2.0	1.6
Rosenlew - St. Frères Emballage	■	417	602,494		99.99	FRF 60.2	75.2
Unicarta Oy	○	397	2,020	100.00	100.00	FIM 10.1	19.0
Walki Wisa GmbH	■	384			99.96	DEM 2.4	29.8
Blandin Paper Company	■	342	430,400		100.00	USD 0.0	262.2
Nortrans Speditionsgesellschaft mbH	▲	328			75.00	DEM 0.2	1.5
Schauman B.V.	▲	310	175		100.00	NLG 0.2	0.1
Schauman S.A.	▲	302	1,500	0.07	100.00	FRF 15.0	8.3
UPM-Kymmene AB	▲	284			100.00	SEK 0.0	0.4
Lappeenranta Yhteisterminaali Oy	▲	272	405	90.00	90.00	FIM 0.4	0.6
UPM-Kymmene Distribution GmbH	▲	270			100.00	DEM 0.1	0.3
UPM-Kymmene (S) Pte Ltd.	▲	265	250		100.00	SGD 0.0	0.8
UPM Raflatac Inc.	▲	247	1,200		100.00	USD 0.0	27.6
Ferdinand Braun & Cie S.A.	■	239	194,492	3.66	99.98	FRF 40.0	162.5
Malvaux S.A.	■	234	27,995		100.00	FRF 15.5	12.7
UPM-Kymmene AS	▲	226		100.00	100.00	NOK 2.0	1.5
Oy Paperi-Dahlberg Ab	▲	225	39,000	65.00	65.00	FIM 3.9	12.8
Oy Rauma Stevedoring Ltd	▲	220	8,000	100.00	100.00	FIM 8.0	7.0
K & K Verpackungen GmbH	▲	216			99.94	DEM 1.6	13.4
Walki Wisa Ltd	■	215	3,548,004		100.00	GBP 1.1	129.5
UPM-Kymmene (HK) Ltd.	▲	195	30,000	100.00	100.00	HDK 3.0	1.8
UPM Pack S.A.	▲	193	14,994		99.94	FRF 1.5	1.4
Suomen Kuitulevy Oy	■	187	10,203		60.00	FIM 10.2	13.3
Sterling Coated Materials Ltd	■	186	220,000		100.00	GBP 0.2	18.0
Walkisoft GmbH	■	179			99.98	DEM 4.5	53.3
Schauman (UK) Ltd	▲	174	499,999		100.00	GBP 0.5	3.9

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

	Production ■ Sales and distribution ▲ Other ○	Turnover MFIM	Number of shares	Parent company holding %	Group holding %	Nominal value Currency million	Book value MFIM
Kaukas Timber Components Oy	■	172	1,000	100.00	100.00	FIM 10.0	24.9
UPM-Kymmene Sp. zo.oo.	▲	161	2,895	100.00	100.00	PLZ 0.3	0.5
Raflatac Iberica S.A	▲	161	109		100.00	ESP 10.9	0.4
Oy Nautor Ab	■	159	200,000	100.00	100.00	FIM 20.0	20.0
UPM-Kymmene Distribution Ltd	▲	150	100		100.00	GBP 0.0	0.0
UPM-Kymmene Comercializacao de Papel Lda	▲	142		0.30	100.00	PTE 7.5	0.7
Tilhill Economic Forestry plc	○	138	5,000,000		100.00	GBP 5.0	46.2
Rosenlew Emballage AB	■	133	240,000	100.00	100.00	SEK 24.0	32.1
WA-Kuori Oy	■	124	65,000	100.00	100.00	FIM 65.0	67.8
Schauman Wood AB	▲	114	12,000		100.00	SEK 1.2	0.3
United Sawmills France S.A.	▲	113	24,995	4.00	100.00	FRF 2.5	4.5
Walki Sack B.V.	■	112	12,000	100.00	100.00	NLG 12.0	24.0
Raflatac AB	▲	111	3,775		100.00	SEK 1.1	0.7
Walki Pack Ltd	■	107	2,510		100.00	GBP 0.0	4.5
Raflatac Italia srl	▲	105	60,000		100.00	ITL 60.0	0.2
Kalso-Teollisuus Oy	■	103	172		100.00	FIM 1.7	27.8
Warico GmbH	▲	98			59.50	DEM 0.6	0.3
Walki Paperisto Oy	■	93	4,800	100.00	100.00	FIM 24.0	24.0
Rosenlew A/S	▲	86	12,000	100.00	100.00	NOK 6.0	19.1
Walki Sack S.A.	■	80	124,244	84.60	100.00	ESP 124.2	28.8
Raflatac Handels GmbH	▲	80			100.00	ATS 5.0	2.2
Raflatac AS	▲	79	800		100.00	DKK 0.8	3.3
R-Asuntokiinteistöt Oy	○	77	50,300	100.00	100.00	FIM 25.2	25.2
Walkisoft USA Inc.	■	77	2,100		100.00	USD 0.0	113.8
UPM-Kymmene Distribution n.v.	▲	76	6,000	100.00	100.00	BEF 12.0	1.3
Mahogany Oy	■	74	5,000	100.00	100.00	FIM 5.0	10.0
UPM-Kymmene (Canada) Inc.	▲	69	14		100.00	CAD 0.0	6.4
Raflatac Australia Pty Ltd	▲	66	50,000		100.00	AUD 0.1	4.4
Walkisoft Denmark A/S	■	66	7,000	100.00	100.00	DKK 7.0	39.3
Werla Insurance Company Ltd	○	65	1,000,000	100.00	100.00	FIM 1.0	5.2
Walki Erikson AB	■	64	1,000		100.00	SEK 0.1	17.2
Oy Tilgmann Ab	■	64	1,500,000	100.00	100.00	FIM 15.0	19.0
UPM-Kymmene Distribution S.A.	▲	57	18,994		99.97	FRF 1.9	1.9
Bonvesta Oy	○	53	198,000	100.00	100.00	FIM 99.0	442.6
Valkeakosken Tojax Oy	○	48	67,500	100.00	100.00	FIM 13.5	20.0
UPM Pack GmbH	▲	46			100.00	DEM 0.1	0.4
Rabopale S.A.	▲	44	9,995		99.95	FRF 2.5	2.3
United Sawmills Deutschland GmbH	▲	42	100		100.00	DEM 5.0	0.1
Forexplo S.A.	○	41	66,700		98.08	FRF 6.7	5.4
Walki Flex S.A.	■	39	59,994		99.99	FRF 6.0	43.4
Finnpap Oy	○	38	1,000	100.00	100.00	FIM 10.0	98.7
N.V. Rosenlew S.A.	■	38	1,479	98.53	99.93	BEF 75.0	4.3
Parkanon Lista Oy	■	37	1,000	100.00	100.00	FIM 0.5	5.0
UPM-Service Oy	○	35	60	100.00	100.00	FIM 0.1	0.1
Walki-Paberisto AS	■	32	1,560	62.16	100.00	EEK 21.7	8.6
Ikapack Oy	■	31	102	100.00	100.00	FIM 1.0	11.8
UPM Pack S.A.	▲	29	10,000	100.00	100.00	ESP 10.0	0.4
Schauman Iberica S.A.	▲	29	10,000		100.00	ESP 40.0	4.7
Raflatac Polska S.p.zoo	▲	28	9,786		100.00	PLZ 1.0	1.7
Rosenlew Portugal Embalagens SA	■	26	30,000	100.00	100.00	PTE 30.0	0.9
Oy Alfa-Bag Ab	■	26	1,501	100.00	100.00	FIM 0.3	18.5
UPM Pack s.r.l.	▲	23		100.00	100.00	ITL 190.0	0.6
Varant N.V.	▲	22	19,584		61.20	BEF 19.6	0.1
UPM Speciality Papers Ltd	▲	21	100		100.00	GBP 0.0	0.6
Apex International s.r.o.	■	20		100.00	100.00	CZK 100.1	17.6
Kokkolan Puutavara Oy	▲	19	400		100.00	FIM 0.0	4.0
Kalso S.A.	■	17	6,000		100.00	FRF 10.2	0.0
Kotelo-Tuote Oy	■	17	7,700	100.00	100.00	FIM 0.8	2.2

	Production ■ Sales and distribution ▲ Other ○	Turnover MFIM	Number of shares	Parent company holding %	Group holding %	Nominal value Currency million	Book value MFIM
Shares in subsidiaries, cont.							
Nordland Schiffahrtsgesellschaft mbH	▲	16			100.00	DEM 1.0	3.0
Rosenlew SA	■	15	9,994		99.96	FRF 1.0	0.7
R-Pakki Oy	○	15	150	100.00	100.00	FIM 0.0	0.1
A/O Fin-Stroimaterial	▲	14	100		100.00	FIM	0.4
Roukko Osakeyhtiö	○	13	135,000	100.00	100.00	FIM 13.5	13.9
Länsi-Suomen Voima Oy	○	12	10,220	51.10	51.10	FIM 10.2	349.0
Sapro S.A.	○	12	10,269		97.80	FRF 1.0	0.8
UPM-Kymmene Bumaga Oy	▲	12	15		100.00	FIM 0.0	0.0
Walki Flexoprint Oy	■	12	200	100.00	100.00	FIM 2.0	6.0
Nautor's Swan Charters SARL	○	11	500		100.00	FRF 0.0	0.0
UPM Pack AB	▲	11	50	100.00	100.00	SEK 0.0	0.0
UPM-Kymmene UK plc	○		26,993,161	80.73	100.00	GBP 27.3	300.1
UPM-Kymmene Finance B.V.	○		2,000	100.00	100.00	NLG 0.2	0.4
UPM-Kymmene Groupe S.A.	○		19,787,870	100.00	100.00	FRF 1,978.8	1,862.9
UPM-Kymmene Investments. Inc.	○		2,905	100.00	100.00	USD 0.0	1,508.9
UPM Industries S.A.	○		12,281,994		99.99	FRF 1,228.2	1,721.5
Kymmene Holding S.A.	○		8,911,994		99.99	FRF 891.2	648.4
Walki Investments Ltd	○		2,000,000	100.00	100.00	GBP 2.0	14.3

Shares in associated companies

Cervuctum Oy			250,000	31.25	31.25	FIM 25.0	25.0
Chudovo-RWS					34.40	RUR	6.7
Combitrans Oy			117	39.00	39.00	FIM 0.0	1.3
Compania Forestal Oriental S.A.			16,575	33.30	33.30	UYP 16.6	124.6
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
FY-Industries Oy			1,840	47.90	47.90	FIM 184.0	0.0
Jyväsk-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
Niedermayr Papierwarenfabrik Ag			32,000	32.00	32.00	DEM 3.2	31.9
Oy Keskuslaboratorio Ab			2,071,517	38.10	38.23	FIM 2.1	4.0
Oy Metsä-Botnia Ab			31,708	47.00	47.00	FIM 317	1,543.5
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			15,726,443	46.80	46.80	FIM 157.3	1,513.4
Rauma Oy			18,291,327	34.51	34.51	FIM 182.9	726.6
SP Lenraumamebel				43.70	43.70	RUR 3.9	0.0
Sterol Technologies Oy			3,500	35.00	35.00	FIM 0.4	8.1
Steveco Oy			9,597	32.02	32.02	FIM 9.6	12.5

Other shares and holdings¹⁾

Aamulehti-Yhtymä Oy II			199,000	0.14	2.07	FIM 2.0	8.0
Kemijoki Oy			100,797	4.13	4.13	FIM 10.1	993.1
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
Nokia Corporation, A			29,720	0.01	0.01	FIM 0.1	1.2
Nokia Corporation, ordinary			7,119,984	2.37	2.37	FIM 35.6	281.5
Pohjola Insurance Company, A			479,002	1.18	1.18	FIM 2.4	96.0
Pohjola Insurance Company, B			189,501	0.47	0.47	FIM 0.9	16.8
Polar Corporation			8,816,297	7.33	7.33	FIM 88.2	44.1
Sampo Insurance Company			1,268,656	2.09	2.09	FIM 6.3	91.2
Oy Silja Ab, A			1,461,048	6.70	6.70	FIM 29.2	60.0
Oy Silja Ab, K			827,740	3.82	3.82	FIM 16.6	39.7

¹⁾ Additionally, the most important shareholdings included in stocks: 2,660,617 Enso Oy Series A and 3,276,500 Enso Oy Series R shares

Trends by 4-month period in 1996 and 1997

FIM million	Total					Total				
	1997	IV/97	III/97	II/97	I/97	1996	IV/96	III/96	II/96	I/96
Earnings										
Turnover	50,406	12,670	11,316	13,334	13,086	51,757	13,470	12,115	12,902	13,270
Other operating income	2,602	185	155	1,436	826	864	411	217	49	187
Operating expenses	-42,668	-10,650	-9,304	-11,414	-11,300	-43,760	-11,889	-10,232	-10,940	-10,699
Share of results of associated companies	264	107	94	39	24	-32	6	-26	-56	44
Depreciation	-3,218	-885	-731	-785	-817	-3,238	-892	-778	-780	-788
Operating profit	7,386	1,427	1,530	2,610	1,819	5,591	1,106	1,296	1,175	2,014
% of turnover	14.7	11.3	13.5	19.6	13.9	10.8	8.2	10.7	9.1	15.2
Share of results of associated companies	99	50	35	22	-8	-129	-4	-43	-51	-31
Net financial expenses	-1,528	-419	-335	-337	-437	-1,780	-465	-435	-430	-450
Exchange rate differences	-385	-162	-79	-115	-29	-127	-30	54	10	-161
Profit before extraordinary items and taxes	5,572	896	1,151	2,180	1,345	3,555	607	872	704	1,372
% of turnover	11.1	7.1	10.2	16.3	10.3	6.9	4.5	7.2	5.5	10.3
Extraordinary income and expenditure	-	-	-	-	-	-5	29	-8	-26	-
Profit before taxes and minority interest	5,572	896	1,151	2,180	1,345	3,550	636	864	678	1,372
Direct taxes (incl. change in deferred tax)	-1,376	-222	-284	-538	-332	-1,145	-205	-279	-218	-443
Minority interest	-14	0	-2	20	-32	-111	-20	-21	-29	-41
Profit for the period	4,182	674	865	1,662	981	2,294	411	564	431	888
Turnover by division										
Magazine papers	11,888	3,647	2,879	2,890	2,472	11,172	3,178	2,543	2,521	2,930
Newsprint	5,795	1,599	1,424	1,435	1,337	5,780	1,381	1,331	1,461	1,607
Fine papers	7,144	1,801	1,681	1,855	1,807	6,220	1,517	1,632	1,479	1,592
Packaging materials ¹⁾	5,001	1,326	1,218	1,266	1,191	4,664	1,159	1,064	1,221	1,220
Sawn timber	4,531	1,207	1,101	1,220	1,003	3,725	1,001	945	949	830
Plywood	3,475	976	766	922	811	3,144	802	710	830	802
Special products	4,555	1,163	1,088	1,210	1,094	3,574	880	798	968	928
Chemical pulp	4,248	1,133	1,152	899	1,064	4,106	1,001	970	897	1,238
Other	12,499	3,044	3,046	3,206	3,203	10,525	2,655	2,026	3,108	2,736
Intra-Group sales	-12,903	-3,226	-3,039	-3,207	-3,431	-11,759	-3,056	-2,341	-3,143	-3,219
Total	46,233	12,670	11,316	11,696	10,551	41,151	10,518	9,678	10,291	10,664
Businesses disposed of ⁵⁾	4,173	-	-	1,638	2,535	10,606	2,952	2,437	2,611	2,606
Turnover, total	50,406	12,670	11,316	13,334	13,086	51,757	13,470	12,115	12,902	13,270
Operating profit by division										
Magazine papers	1,077	425	337	201	114	2,072	345	591	511	625
Newsprint	527	178	138	122	89	1,044	103	267	303	371
Fine papers	347	48	65	110	124	85	33	5	20	27
Packaging materials ¹⁾	289	71	57	81	80	382	65	86	125	106
Sawn timber	317	82	78	111	46	-48	9	-24	-3	-30
Plywood	274	114	29	96	35	139	29	18	64	28
Special products	357	67	105	111	74	339	52	70	129	88
Chemical pulp ²⁾	442	248	305	-44	-67	-176	-69	-90	-346	329
Other ³⁾	1,386	270	321	444	351	247	32	16	140	59
Total	5,016	1,503	1,435	1,232	846	4,084	599	939	943	1,603
Capital gains, net ⁴⁾	2,052	-76	95	1,279	754	620	242	176	48	154
Total	7,068	1,427	1,530	2,511	1,600	4,704	841	1,115	991	1,757
Businesses disposed of ⁵⁾	318	-	-	99	219	887	265	181	184	257
Operating profit, total	7,386	1,427	1,530	2,610	1,819	5,591	1,106	1,296	1,175	2,014
¹⁾ Simpele's figures for the review and earlier periods are reported under "businesses disposed of".										
²⁾ Includes the Group's share of the results of associated companies:										
	202	89	107	12	-6	-72	7	-32	-74	27
³⁾ Includes profit from internal hedging of the Group's foreign currency exposure (corresponding loss included in divisional operating profits):										
	819	184	269	195	171	-	-	-	-	-
⁴⁾ In addition, net capital gains for the divisions:										
	118	45		64	9	57	24	5	6	22
⁵⁾ Includes Rauma Corporation and Simpele.										
Production figures										
	1997	IV/97	III/97	II/97	I/97	1996	IV/96	III/96	II/96	I/96
Magazine papers	2,934	802	752	686	694	2,460	662	659	513	626
Newsprint	1,883	485	487	458	453	1,592	358	385	394	455
Fine papers	1,681	419	426	410	426	1,429	403	376	335	315
Other papers	651	184	176	147	144	480	123	128	110	119
Simpele, papers and board	49	-	-	-	49	173	47	46	39	41
Total (1,000 tonnes)	7,198	1,890	1,841	1,701	1,766	6,134	1,593	1,594	1,391	1,556
Sawn timber (1,000 m ³)	2,050	560	421	570	499	1,857	497	393	511	456
Plywood (1,000 m ³)	710	196	149	189	176	617	176	134	155	152
Chemical pulp (1,000 tonnes)	1,963	471	510	431	551	1,875	486	501	406	482

Key figures, 1988-1997 ^{1) 2)}

	1997	1996	1995	1994	1993	1992	1991	1990	1989	1988
Operations										
Turnover, current businesses, FIM million	46,233	41,151	44,308	38,898	35,720	28,594	28,159	28,507	24,911	21,272
Turnover, businesses disposed of, FIM million	4,173	10,606	10,430	9,068	8,243	8,765	7,559	8,498	8,338	4,767
Total turnover, FIM million	50,406	51,757	54,738	47,966	43,963	37,359	35,718	37,005	33,249	26,039
Operating profit, FIM million	7,386	5,591	8,504	5,477	4,073	2,129	1,005	3,096	3,296	3,474
% of turnover	14.7	10.8	15.5	11.4	9.3	5.7	2.8	8.4	9.9	13.3
Profit/loss before extraordinary items and taxes, FIM million	5,572	3,555	6,278	3,110	-87	-2,154	-2,821	1,150	2,094	2,442
% of turnover	11.1	6.9	11.5	6.5	-0.2	-5.8	-7.9	3.1	6.3	9.4
Profit/loss before taxes, FIM million	5,572	3,550	5,709	2,776	-81	-1,827	-2,303	1,346	2,378	3,630
% of turnover	11.1	6.9	10.4	5.8	-0.2	-4.9	-6.4	3.6	7.2	13.9
Profit/loss for the period, FIM million	4,182	2,294	3,800	1,902	-47	-965	-1,738	801	1,691	2,869
% of turnover	8.3	4.4	6.9	4.0	-0.1	-2.6	-4.9	2.2	5.1	11.0
Exports and foreign operations, FIM million (1997: current operations)	38,781	43,765	47,736	41,838	38,058	31,000	29,980	30,139	25,954	20,267
Exports from Finland, FIM million (1997: current operations)	24,689	25,026	28,006	25,858	22,625	15,925	16,046	16,757	16,638	14,753
Fixed assets and other long-term investments										
Stocks	6,224	8,132	9,513	7,279	6,786	7,475	8,506	8,875	8,108	6,399
Other current assets	10,861	11,294	11,370	11,324	11,809	12,960	13,156	12,045	12,882	11,960
Assets	67,804	67,728	66,608	63,916	65,503	67,019	64,622	61,459	53,475	43,286
Shareholders' equity	26,983	23,826	22,312	18,890	16,955	15,773	15,892	17,718	17,678	13,924
Minority interest	160	884	764	104	105	111	130	183	157	163
Provisions	621	442	215	230	194	-	-	-	-	-
Long-term liabilities	22,399	21,354	23,016	25,026	28,741	30,925	30,390	27,297	21,091	16,566
Current liabilities	17,641	21,222	20,301	19,666	19,508	20,210	18,210	16,261	14,549	12,633
Liabilities	67,804	67,728	66,608	63,916	65,503	67,019	64,622	61,459	53,475	43,286
Return on equity, %	16.6	10.4	22.0	12.9	-0.4	-8.3	-13.4	3.3	8.9	13.5
Return on capital employed, %	12.6	10.1	16.2	10.7	6.9	3.2	1.2	8.3	10.4	12.6
Equity to assets ratio, %	40.1	37.2	35.6	30.3	26.4	24.0	25.2	29.7	34.1	33.1
Gearing ratio, %	93	104	112	156	196	225	200	150	102	101
Interest-bearing net liabilities, FIM million	25,284	25,684	25,914	29,598	33,376	35,809	32,063	26,845	18,183	14,246
Gross capital expenditure, FIM million	7,875	6,032	4,918	3,483	1,951	3,321	4,303	9,417	6,962	6,553
% of turnover	15.6	11.7	9.0	7.3	4.4	8.9	12.0	25.4	20.9	25.2
Net capital expenditure, FIM million	2,465	4,432	3,318	2,697	330	2,381	3,460	7,749	6,149	5,073
Personnel at year end, current operations	33,814	32,923	33,308	33,176	32,564	33,688	36,403	38,102	36,493	34,636
Personnel at year end, operations disposed of	-	10,713	11,363	10,812	10,173	10,118	12,668	14,020	13,833	10,130
Personnel at year end, total	33,814	43,636	44,671	43,988	42,737	43,806	49,071	52,122	50,326	44,766
Adjusted share-related indicators										
Earnings per share, FIM (diluted 1997: FIM 15.04)	15.55	8.60	16.44	8.60	-0.28	-5.91	-9.85	2.45	6.23	8.51
Shareholders' equity per share, FIM	97.56	86.31	80.64	69.08	62.78	63.19	63.72	71.05	70.02	68.44
Dividend per share, FIM	5.50 ³⁾	4.50	4.50	2.19	0.88	0.37	0.65	1.36	2.00	2.05
Dividend to earnings ratio, %	35.4	52.3	27.4	25.5	neg.	neg.	neg.	55.3	32.2	24.1
Effective dividend yield, %	5.0	4.7	5.5	2.5	1.0	0.8	1.5	2.8	3.0	2.5
P/E ratio	7.0	11.2	5.0	10.2	neg.	neg.	neg.	19.5	10.7	9.7
Adjusted share price at 31 Dec., FIM	109.00	96.50	82.06	87.78	86.35	44.18	42.52	47.74	66.55	82.33
Market capitalization, FIM million	29,472	25,802	21,941	23,471	22,902	11,700	11,261	11,906	16,803	16,751
Number of shares (1000s)										
Average	268,888	267,374	265,779	260,081	254,479	249,601	249,387	249,653	228,404	206,116
At end of period	270,389	267,374	267,377	262,587	258,120	249,601	249,387	249,369	252,482	203,461
Production figures										
Magazine paper, 1000 t	2,934	2,460	2,897	2,643	2,356	2,070	1,965	1,969	1,678	1,425
Newsprint, 1000 t	1,883	1,592	1,845	1,809	1,740	1,623	1,586	1,493	1,004	650
Fine paper, 1000 t	1,681	1,429	1,356	1,484	1,292	1,129	1,118	1,066	1,026	915
Other papers, 1000 t	700	653	635	672	636	629	587	705	693	680
Total, 1000 t	7,198	6,134	6,733	6,608	6,024	5,451	5,256	5,233	4,401	3,670
Sawn timber, 1000 m ³	2,050	1,857	1,939	2,075	1,957	1,777	1,532	1,934	1,915	1,569
Plywood, 1000 m ³	710	617	585	534	442	303	286	389	333	330
Chemical pulp, 1000 t	1,963	1,874	2,000	2,040	1,972	1,830	1,924	1,956	2,023	1,963

Formulae for calculating indicators are given on page 58.

¹⁾ The figures for 1988-1995 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 in amalgamation merger at 30 April 1996.

²⁾ Deferred tax liability has been reported separately from the depreciation difference and untaxed reserves for the first time in 1997. Figures for 1988-1996 have been adjusted accordingly.

³⁾ Proposal

Calculation of indicators; exchange rates

Formulae for calculation of financial indicators

RETURN ON EQUITY, %:

$$\frac{\text{Profit (loss) before extraordinary items and taxes} - \text{taxes}}{\text{Shareholders' equity} - \text{capital loan} + \text{minority interest}} \times 100$$

(average of year beginning and year end)

RETURN ON CAPITAL EMPLOYED, %:

$$\frac{\text{Profit (loss) before extraordinary items and taxes} + \text{interest expenses and other financial expenses}}{\text{Balance sheet total} - \text{non-interest-bearing liabilities}} \times 100$$

(average of year beginning and year end)

EQUITY TO ASSETS RATIO, %:

$$\frac{\text{Shareholders' equity}^{1)} + \text{minority interest}}{\text{Balance sheet total} - \text{advances received}} \times 100$$

GEARING RATIO, %:

$$\frac{\text{Interest-bearing net liabilities}}{\text{Shareholders' equity}^{1)} + \text{minority interest}} \times 100$$

¹⁾ Shareholders' equity includes a capital loan of FIM 750 million (1997: FIM 603 million).

Formulae for calculation of adjusted share-related indicators

EARNINGS PER SHARE:

$$\frac{\text{Profit (loss) before extraordinary items and taxes} - \text{direct taxes} \pm \text{minority interest}}{\text{Adjusted average number of shares during the period}}$$

SHAREHOLDERS' EQUITY PER SHARE:

$$\frac{\text{Shareholders' equity} - \text{capital loan}}{\text{Adjusted number of shares at end of period}}$$

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:

$$\text{Total number of shares} \times \text{striking price at end of period}$$

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 1997
(page 3 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 as well as housing and property not connected with business operations. Deferred tax liability has been deducted from the difference between market value and book value/acquisition cost at 31 December 1997. The market values and the basis for valuations are given in the Notes to the accounts on page 45.

EXCHANGE RATES

Rates at 31 Dec.	1997	1996	1995
USD	5.421	4.644	4.359
GBP	8.992	7.869	6.741
SEK	0.686	0.675	0.655
DEM	3.028	2.988	3.044
FRF	0.905	0.886	0.891
CAD	3.782	3.390	3.196
XEU (Ecu)	5.989	5.770	5.597
Average rates	1997	1996	1995
USD	5.191	4.594	4.367
GBP	8.501	7.173	6.891
SEK	0.680	0.685	0.613
DEM	2.994	3.053	3.048
FRF	0.889	0.898	0.875
CAD	3.750	3.369	3.181
XEU (Ecu)	5.864	5.753	5.645

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 31 December 1996 was FIM 2,673,738,230, consisting of 267,373,823 shares, each with a nominal value of FIM 10. In 1997, the share capital increased by 3,014,938 shares and FIM 30,149,380. Shares subscribed through the exercise of equity warrants accounted for 1,500,000 of the increase, and shares subscribed through bond conversions for 1,514,938. At 31 December 1997, the company's share capital stood at FIM 2,703,887,610 and the number of shares was 270,388,761.

If the convertible bonds issued by the company are fully converted into shares, the share capital of UPM-Kymmene Corporation will rise to a maximum of FIM 2,840,616,030 and the number of shares to 284,061,603. The shares are included in the computerized book entry system for securities.

DIRECTORS' INTEREST

At the end of the year, the members of the Board of Directors, the Managing Director and Deputy Managing Director owned a total of 911,235 UPM-Kymmene Corporation shares representing 0.337% of the 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 1,030,000. If all bonds are converted into shares, the share capital of UPM-Kymmene Corporation would increase by FIM 96,400, i.e. by 9,640 shares. These shares would represent 0.004% of the share

capital and voting rights of the company.

STOCK EXCHANGE TRADING

During 1997, 151.1 million UPM-Kymmene Corporation shares were traded on the Helsinki Stock Exchange. This represents 56.2% of the share capital. The lowest quotation during this period was FIM 94.00 and the highest FIM 152.40. Total trading in UPM-Kymmene Corporation shares on the Helsinki Stock Exchange in 1997 was FIM 18,582 million (11,734).

BOARD OF DIRECTORS' PROPOSAL TO THE ANNUAL GENERAL MEETING THAT THE COMPANY REDEEM ITS OWN SHARES

In December, the Board of Directors announced its intention to propose to the Annual General Meeting on 25 March 1998 that the company redeem some of its own shares and authorize the Board to offer them for sale.

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

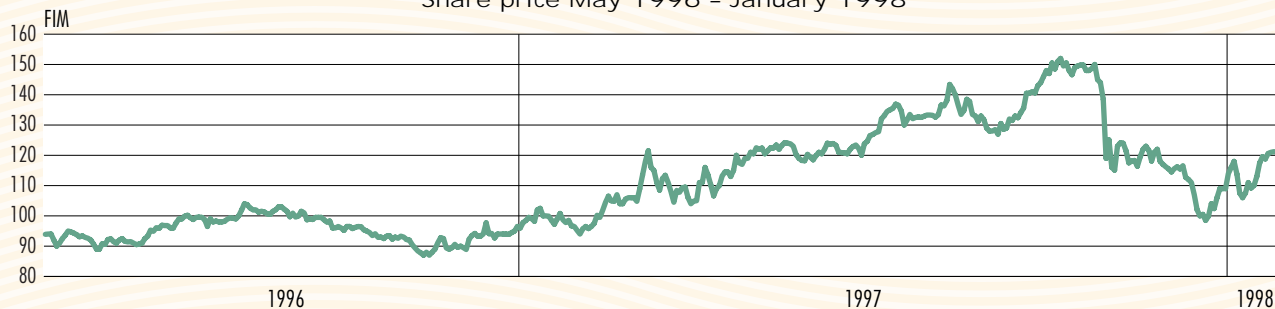
Under § 13 of UPM-Kymmene Corporation's Articles of Association, a shareholder who owns, either singly or jointly with another shareholder, a proportion of the total shares of the company or of the voting rights carried by the shares equal to or in excess of 33 1/3 per cent, or 50 per cent, shall, at 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 CAPITAL	No. of shares	Share capital (FIM)
Formation of share capital in the merger 30.4.1996		
81,998,240 Kymmene Corporation shares (exchange ratio 5:7)	114,797,536	1,147,975,360
152,576,131 Repola Ltd shares (exchange ratio 1:1)	152,576,131	1,525,761,310
Share capital at 30 April 1996	267,373,667	2,673,736,670
1 May - 31 December 1996		
Exchanged under 1994 convertible bond issue	156	1,560
Share capital at 31 December 1996	267,373,823	2,673,738,230
1 January - 31 December 1997		
Subscribed with the warrants of warrant bond issue (1991/II)	1,500,000	15,000,000
Exchanged under 1993 convertible bond issue (1993)	1,508,230	15,082,300
Exchanged under 1993 convertible bond issue (1994)	6,708	67,080
Share capital at 31 December 1997	270,388,761	2,703,887,610

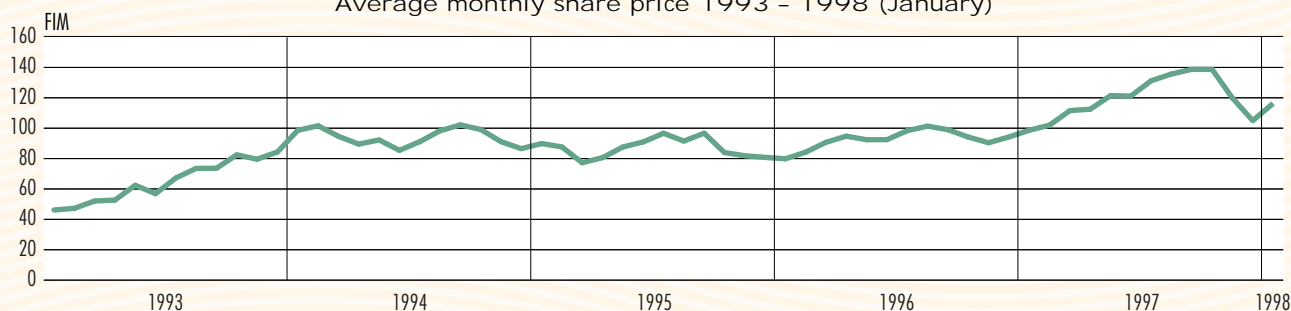
As a result of convertible bonds in issue, the share capital may change after 31 December 1997 as follows:

Convertible bond issue, capital loan (1993)	6,193,734	61,937,340
Convertible bond issue (1994)	7,479,108	74,791,080

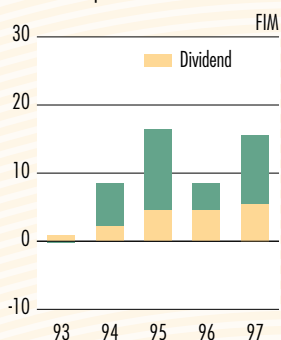
Share price May 1996 - January 1998



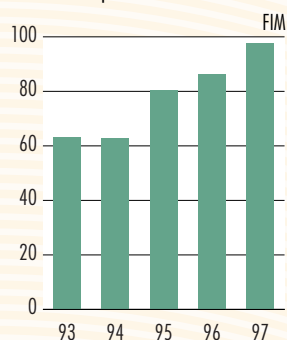
Average monthly share price 1993 - 1998 (January)



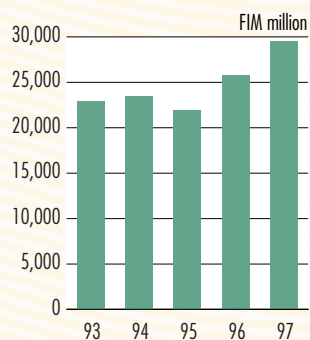
Earnings and dividend per share



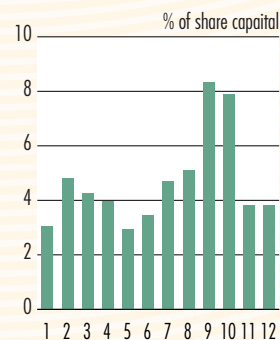
Shareholders' equity per share



Market capitalization



Shares traded Jan.-Dec./1997



DISTRIBUTION OF SHAREHOLDERS 31.12.1997

Size of shareholding	Number of shareholders	% of shareholders	Number of shares, million	% of shares
1 - 100	19,555	33.0	0.9	0.3
101 - 1,000	30,726	51.8	11.3	4.2
1,001 - 10,000	8,256	13.9	21.8	8.0
10,001 - 100,000	734	1.2	18.4	6.8
100,001 - 1,000,000	81	0.1	25.6	9.5
1,000,001 -	24	0.0	68.4	25.3
Total	59,376	100.0	146.4	54.1
Nominee-registered			123.8	45.8
Not registered as book entry units			0.2	0.1
Total			270.4	100.0

BIGGEST SHAREHOLDERS AT 31 DECEMBER 1997

	Shares 31.12.1997	Percentage of share capital
Pohjola Insurance Company Ltd	11,740,000	4.34
Ilmarinen Pension Insurance Company	10,075,000	3.73
Suomi Mutual Life Assurance Company	3,266,780	1.21
Pohjola Mutual Life Assurance Company	1,271,700	0.47
	26,353,480	9.75
Industrial Insurance Company Ltd	5,037,000	1.86
Otso Loss of Profits Insurance Company Ltd	1,625,000	0.60
Insurance Company Sampo Pensions Ltd	1,200,000	0.44
Sampo Insurance Company Ltd	1,050,000	0.39
Yritys-Sampo Insurance Company	1,000,000	0.37
Sampo Life Insurance Company Ltd	850,000	0.31
Kaleva Mutual Insurance Company	751,000	0.28
Insurance Company of Finland Ltd	480,087	0.18
	11,993,087	4.44
Merita Bank Ltd	1,884,200	0.70
Nordica Invest Oy	1,320,000	0.49
Merita Ltd Pension Fund	1,092,635	0.40
Merita Ltd Pension Foundation	1,036,585	0.38
Partita Oy	100,000	0.04
Merita Life Assurance Ltd	73,280	0.03
	5,506,700	2.04
Local Government Pension Institution	4,660,584	1.72
Pension-Varma Mutual Insurance Company	3,338,604	1.23
Nova Life Insurance Company Ltd	210,400	0.08
	3,549,004	1.31
Palkki Group	3,149,000	1.16
Gustaf Serlachius (representing 5 shareholders)	3,133,175	1.16
Valfin Oy	2,954,396	1.09
Solidium Oy	2,783,804	1.03
Sanoma Corporation	1,633,388	0.60
Sanoma Finance AG	1,059,880	0.39
	2,693,268	1.00
Nominee-registered shares	123,840,754	45.80
Other	77,499,775	28.66
Total	270,388,761	100.00

SHAREHOLDER BREAKDOWN BY SECTOR AT 31.12.1997

Financing institutions and insurance companies	16.9 %
Households	14.6 %
Companies	9.2 %
Non-profitmaking organizations	6.6 %
Public bodies	6.0 %
Non-Finnish nationals	46.7 %
Total	100.0 %

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 75.00 in 1997.

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.

Company's notification of 23 October 1997 concerning redemption

Under point 7 of the terms and conditions of the loan, the company on 23 October 1997 announced its intention to exercise its right to redeem the loan on 24 November 1997. One condition for such redemption was that the trade-weighted average quotation for the shares on 21 November 1997, the day of trading prior to the redemption date, should be at least FIM 136.32. As this condition was not met, the shares were not redeemed. Nevertheless, those bondholders who indicated their wish to convert their bonds into UPM-Kymmene Corporation shares were able to do so. Accordingly, bonds to the value of FIM 121,370,000 were converted into 1,246,449 shares.

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, i.e. 7,702,500 shares.

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. By 31 December 1997, a total of 1,508,744 shares had been subscribed under the issue, 1,508,230 of them during 1997.

Shareholders' rights

New shares obtained through conversion entitle holders to dividend for the first time in respect of the financial period during which the conversion took place. Other shareholder rights begin once the increase in share capital has been entered in the Trade Register.

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, i.e. 7,488,000 shares.

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. By 31 December 1997, a total of 8,892 shares had been subscribed under the issue, 6,708 of them during 1997.

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 begin once the increase in share capital has been entered in the Trade Register.

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

The bonds were issued on 15 May 1991. The period of the loan was six years from 15 May 1991 to 15 May 1997. The bonds carried a coupon of 12.0%.

Share subscriptions

Each FIM 15,000 bond carried 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 was FIM 15,000,000, i.e. 1,500,000 shares.

Subscription period

The subscription period was 15 May 1996 to 15 May 1997. In December 1996, 735,000 shares were subscribed through the exercise of warrants, and the remaining 765,000 shares had been subscribed by 15 May 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.

Report of the Auditors

To the Shareholders of UPM-Kymmene Corporation

We have audited the accounts, the accounting records and the administration of UPM-Kymmene Corporation for the financial year 1997. The accounts prepared by the Board of Directors and the Managing Director include, for both the group and the parent company, a report on operations, an income statement, a balance sheet and notes to the accounts. We provide our opinion on the accounts and the administration based on our audit.

We have conducted our audit in accordance with generally accepted auditing standards. We have audited the accounting records, and the accounts, the disclosures and the presentation of information, including the accounting policies, to an extent sufficient to give us reasonable assurance that the financial accounts are free of material misstatement. The audit of the administration has included obtaining assurance that the actions of the members of the Board of Directors and the Managing Director have been in conformity with the regulations of the Companies' Act.

In our opinion the accounts have been prepared in accordance with the regulations of the Accounting Act and other legislation and regulations relevant to the preparation of the accounts, and give a true and fair view of the group's and the parent company's results from operations and financial position in accordance with such legislation and regulations. The accounts including the group accounts may be approved, and the members of the Board of Directors and the Managing Director may be discharged from liability for the financial year examined by us. The proposal of the Board of Directors concerning the disposition of the profit for the year is in accordance with the Companies' Act.

We have reviewed the interim reports published during the financial year. According to our review they have been prepared in accordance with the relevant regulations.

Helsinki, 2 March 1998

SVH Coopers & Lybrand Oy
Authorized Public Accountants

Tauno Haataja
Authorized Public Accountant

Lars Blomquist
Authorized Public Accountant

Management and auditors

CORPORATE GOVERNANCE

Pursuant to the provisions of Finland's Companies Act and the Articles of Association of the company, the control and management of the company is divided between the shareholders at a general meeting of shareholders, the Board of Directors and the President and Chief Executive Officer.

The Board of Directors is responsible for the management of the company and for the proper organization of its activities. The Board of Directors establishes the principles of the strategy, organization, accounting and financial control of the company and appoints the President and Chief Executive Officer, who acts in accordance with the orders and instructions of the Board of Directors. The President and Chief Executive Officer, assisted by the Executive Board, is responsible for the day-to-day management of the company's affairs. Measures which are not within the ordinary course of the company's business may be taken by the President and Chief Executive Officer only if approved by the Board of Directors, unless the time required to obtain such approval would cause the company to suffer a substantial disadvantage. In the latter case, the Board of Directors must be informed as soon as practicable of the measures which have been taken.

BOARD OF DIRECTORS

The Board of Directors consists of at least five and no more than 12 members. The Board of Directors currently consists of nine members, all of whom have been elected by a general meeting of shareholders. Members of the Board of Directors are elected for a term of three years. A rotation system is in place so that every year one-third of the members are elected. The Board of Directors will propose to the 1998 Annual General Meeting that § 4 of the Articles of Association be amended so that all members of the Board of Directors are elected for a term that begins at the end of the general meeting of shareholders at which they are elected and terminates at the end of the next Annual General Meeting, replacing the present terms of office, which are longer. Members of the Board of Directors may be appointed, or removed, only by a resolution of shareholders in general meeting.

The Board of Directors has elected, from among its members, an Audit Committee comprising Jouko K. Leskinen (Chairman) and members Tauno Matomäki and Gustaf Serlachius. Matters pertaining to salaries, fees and other remunerations paid to the company's directors are handled by the Compensation Committee comprising L.J. Jouhki (Chairman) and members Vesa Vainio and Iiro Viinanen. Final decisions on the Committees' proposals are made by the Board of Directors. Meetings of the committees may be attended by all members of the Board of Directors. In accordance with the Articles of Association, the company has an Executive Committee of the Board comprising a Chairman and Vice Chairmen. In 1997, the Board of Directors decided to propose to the 1998 Annual General Meeting that reference to the Executive Committee of the Board be deleted from the Articles of Association.

Pursuant to the Companies Act, the Board of Directors elects the

Board of Directors

Chairman

L.J. Jouhki

Vice Chairmen

Vesa Vainio
Iiro Viinanen

Members

Casimir Ehrnrooth
Jouko K. Leskinen
Tauno Matomäki
Yrjö Niskanen
Jorma Ollila
Gustaf Serlachius

Auditors

SVH Coopers & Lybrand Oy (Authorized Public Accountants)
Lars Blomquist (Authorized Public Accountant)

Deputy auditors

SVH Coopers & Lybrand Oy (Authorized Public Accountants)
Tauno Haataja (Authorized Public Accountant)

Executive Board

Juha Niemelä
Martin Granholm
Jan-Henrik Kulp
Heikki Sara
Kari Toikka
Ismo Lepola
Pentti Arvela
Matti J. Lindahl
Jaakko Rislakki
Kari Makkonen
Paavo Ojanpää
Berndt Brunow

company's President and Chief Executive Officer, for whom a written contract of employment has been drawn up.

The fees of the members of the Board of Directors are subject to approval by a general meeting of shareholders. Salaries, fees and remunerations-in-kind paid to the members of the Board of Directors, the President and Chief Executive Officer, and the Executive Vice President in 1997 totalled FIM 6.4 million.

L.J. Jouhki, 54,

has been a member of the company's Board of Directors since 1996 and Chairman since 1997. He is a Managing Partner of Thom Companies (Thominvest Oy, Thomproperties Oy and Thomesto Trading Companies Ltd). He holds a Master of Science degree in economics. He is a member of the boards of several companies, including Finnlines Oy, Neste Oy, Hartwall Oy and Sanoma Oy. He is also a member of the Supervisory Board of Merita Bank Ltd.

Vesa Vainio, 55,

has been a member of the company's Board of Directors since 1996 and Vice Chairman since 1997. He is Chairman of MeritaNordbanken Plc. He holds a Master's degree in law. He is a member of the Boards of Nokia Corporation and The Finnish Bankers' Association. He is also Vice Chairman of the Board of Metra Corporation and Chairman of the Board of the Finnish Central Chamber of Commerce.

Iiro Viinanen, 53,

has been a member of the company's Board of Directors since 1996 and Vice Chairman since 1997. He is President of the Pohjola Group and Chief Executive Officer of Pohjola Insurance Company Ltd. He holds a Master of Science degree in technology. He was Managing Director of Konevalmistamo Oy from 1967 to 1983, Member of the Finnish Parliament from 1983 to 1996, and Chairman of the Parliamentary Group of the National Coalition Party from 1990 to 1991. He was Finland's Minister of Finance from 1991 to 1996.

Casimir Ehrnrooth, 66,

has been a member of the company's Board of Directors since 1996 and was Vice Chairman until April 1997. He holds a Master of Laws degree and has been awarded an honorary doctorate by Lappeenranta University of Technology. He joined Oy Kaukas Ab in 1962 and was appointed its Managing Director in 1967. He was Chairman and Chief Executive Officer of Kymmene Corporation from 1986 to 1991 and non-executive Chairman of the company until the merger with Repola in 1996. He is also Chairman of the Board of Directors of Nokia Corporation and a member of the Boards of Directors of Merita Ltd, Nordbanken Holding Ltd (Sweden), MeritaNordbanken Plc and Incentive Ltd, and a member of the Supervisory Board of Continental AG (Germany). Additionally, he is a member of the European Advisory Committee of the New York Stock Exchange.

Jouko K. Leskinen, 54,

has been a member of the company's Board of Directors since 1996. He is President and Chief Executive Officer of the Sampo Group and a member of the Board of Directors of Sampo Insurance Company Limited. He holds a Master of Laws degree. He is Chairman of the Board of Cultor Oyj and a member of the Boards of Nokia Corporation and Finnlines Oy. He is also Chairman of several of Sampo's subsidiaries. He is Chairman of the Board of the Federation of Finnish Insurance Companies.

Tauno Matomäki, 60,

has been a member of the company's Board of Directors since 1996 and served as Vice Chairman in 1996. He holds a Master of Science degree in engineering and has been awarded an honorary doctorate by Tampere University of Technology. He joined Rauma-Repola in 1967 and held various positions in the company. He was appointed President and CEO of Rauma-Repola Oy in 1987 and President and CEO of Repola Ltd in 1991. He is Chairman of the Boards of Directors of Rauma Corporation, Pohjolan Voima Oy (PVO Group) and Pohjola Insurance Company Ltd. He is a member of the Boards of Silja Oy Ab and Merita Bank Ltd.

Yrjö Niskanen, 65,

has been a member of the company's Board of Directors since 1996 and served as Chairman in 1996. He holds a Master of Science degree in economics and has been awarded an honorary doctorate by Helsinki School of Economics and Business Administration. He has been a member of the Board of the Pohjola Group since 1980, and was Managing Director of Suomi-Salama from 1986 to 1989, Managing Director and Chairman of the Boards of all Pohjola Group companies from 1989 to 1992, and Chairman of the Boards and President from 1992 to 1996. He is also a member of the Board of Nokia Corporation and Vice Chairman of the Board of the Lassila & Tikanoja Group.

Jorma Ollila, 47,

has been a member of the company's Board of Directors since 1997. He is President and Chief Executive Officer of Nokia Corporation, Chairman of Nokia's Group Executive Board, and a member of Nokia's Board of Directors. He holds a Master of Political Science degree, a Master of Science (Econ.) degree, and a Master of Science (Eng.) degree. He has been awarded an honorary doctorate by the Faculty of Political Science of Helsinki University. He is a member of the Boards of ICL plc and Otava Publishing Company. He is also Deputy Chairman of the Board of the Confederation of Finnish Industry and Employers and Chairman of the Council of the Finnish Foreign Trade Association.

Gustaf Serlachius, 62,

has been a member of the company's Board of Directors since 1996. He holds a Bachelor of Business Administration degree. He is Chairman of the Gösta Serlachius Fine Arts Foundation. He has served as a member of the Boards of a number of companies and associations, including Metsä-Serla Corporation (Chairman of the Board), Repola Ltd, the Central Association of Finnish Forest Industries, the Employers' Association of Finnish Forest Industries, and the Finnish Foreign Trade Association.

Executive Board

Juha Niemelä, 51,

has been President and Chief Executive Officer of UPM-Kymmene Corporation since the company was formed. He holds a Master of Science degree in economics. For most of his career he worked for United Paper Mills Ltd, most recently as the company's Executive Vice President. He is Chairman of the Board of the Finnish Forest Industries Federation and a member of the Executive Committee of the Board of the Confederation of Finnish Industry and Employers. He is also a member of the Boards of MeritaNordbanken Plc, Rauma Corporation, Oy Metsä-Botnia Ab and Oy Metsä-Rauma Ab.

Martin Granholm, 51,

has been Executive Vice President of UPM-Kymmene Corporation since 1996. He holds a Master of Science degree in engineering. He joined Oy Wilh. Schauman Ab in 1970 and held posts in the company's project, production and administrative functions. Following the merger of Oy Wilh. Schauman Ab with Kymmene Corporation, he served first as Managing Director of the subsidiary Wisaforest Oy Ab and was appointed President of Kymmene Corporation in 1992.

Jan-Henrik Kulp, 54,

has been the Group's Chief Financial Officer since 1996. He holds a Bachelor of Science degree in economics. He held several accounting posts in the financial administration of Oy Kaukas Ab starting in 1967, and became the company's Financial Director in 1977. He was appointed Kymmene Corporation's Chief Financial Officer in 1986, and Executive Vice President, Finance, in 1988. He was a member of the Corporate Executive Board of Kymmene Corporation from 1987 to 1995.

Heikki Sara, 52,

has been Senior Vice President, Resources, since 1996. He holds a Doctor of Technology degree in paper science. He joined United Paper Mills Ltd in 1976 and occupied several posts, including Development Manager, Mill Director, and Vice President in charge of the Jämsänkoski business unit. He was appointed a member of United Paper Mills' Executive Board in 1993.

Kari Toikka, 47,

has been Senior Vice President, Investor Relations since 1998. He holds a Master of Science degree in economics and has qualified as an authorized public accountant. He joined United Paper Mills Ltd in 1976, holding several posts in the company's central administration and business units. He was appointed Vice President, Corporate Planning, for Repola Ltd in 1990 and a member of the Executive Board in 1994. He has been Vice President, Investor Relations, for UPM-Kymmene Corporation since 1996.

Pentti Arvela, 53,

has been President, Newsprint, since 1996. He holds a Master of Science degree in paper technology. He joined United Paper Mills in 1975, working in several capacities, including Development Manager and Vice President, Sales, at the Jämsänkoski mill, and

Vice President, Sales, and General Manager of the Kaipola mill. He became Vice President and General Manager of the Kaipola business unit in 1989. He was a member of the Executive Board of United Paper Mills from 1990 to 1995.

Berndt Brunow, 48,

has been President, Special Product Companies, since 1996. He holds a Bachelor of Science degree in economics. He was head of the UPM-News marketing unit at Finnapp between 1989 and 1994, and was President of Finnapp from 1994 to February 1996.

Ismo Lepola, 57,

has been President, Magazine Papers, since 1996. He holds a Master of Science degree in paper technology. In 1967, he joined Oy Kyro Ab, where he held the posts of Laboratory Manager, Technical Director, Deputy Managing Director and Managing Director. He joined United Paper Mills in 1984, and was a member of the company's Executive Board from 1984 to 1995.

Matti J. Lindahl, 51,

has been President of the Group's Fine Papers division since 1997. He holds a Bachelor of Science degree in economics. He is also Chief Executive Officer of Nordland Papier AG. He was President of Finnboard from 1990 to 1992 and President of Wisaforest Oy Ab in Pietarsaari until 1993.

Kari Makkonen, 50,

has been President, Sawmilling, since 1996. He holds a Master of Science degree in economics. He joined Rauma-Repola Oy in 1972 and served in several management positions in production, sales and general administration in the Mechanical Woodworking division. He became a member of the company's Executive Board in 1986. On the merger of Rauma-Repola Oy and United Paper Mills Ltd he was appointed President of United Paper Mills' Mechanical Woodworking division. He became a member of the Executive Board in 1990.

Paavo Ojanpää, 57,

has been President, Plywood, since 1996. He holds a Master of Forestry degree and an MBA degree. Beginning in 1965 he served in export positions in the forest industry in Paris and London. He joined Oy Wilh. Schauman Ab in 1970 and was appointed Vice President, Marketing, for the Wood-Based Panels division in 1978. In 1990 he was appointed Commercial Director of Schauman Wood Oy, and on 1 January 1996 was appointed Managing Director.

Jaakko Rislakki, 57,

has been President, Packaging Materials, since 1996. He holds a Master of Science degree in engineering. He joined United Paper Mills in 1974, originally in corporate planning at central administration. After serving as Vice President in charge of what is now Walki Wisa's Valkeakoski plant, he was appointed to the Executive Board in 1980, his main responsibility being packaging and related businesses.



UPM-KYMMENE
President and CEO
Juha Niemelä

Executive Vice President
Martin Granholm



Magazine Papers
Ismo Lepola
President



Sawmilling
Kari Makkonen
President



Chief Financial Officer
Jan-Henrik Kulp



Newsprint
Pentti Arvela
President



Plywood
Paavo Ojanpää
President



Resources
Heikki Sara
Senior Vice President



Fine Papers
Matti J. Lindahl
President



Special Product Companies
Berndt Brunow
President



Investor Relations
Kari Toikka
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Packaging Materials
Jaakko Rislakki
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Production plants and sales network



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