



FINANCIAL PUBLICATIONS

During 1999, UPM-Kymmene Corporation will publish the following financial information in Finnish, Swedish, English, German and French:

29 April 1999	Interim Review for January–March
10 August 1999	Interim Review for January–June
28 October 1999	Interim Review for January–September

These publications can be ordered from UPM-Kymmene's Head Office,
address P.O. Box 380, 00101 Helsinki, Finland,
tel. +358 204 15 0022, Corporate Communications, or telefax +358 204 15 110.

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

HEX Helsinki Exchanges, trading code: UPM1V

Contents

ANNUAL GENERAL MEETING

UPM-Kymmene Corporation will hold its Annual General Meeting at 3.00 pm on Tuesday, 23 March 1999 at Helsinki Fair Centre (main entrance), address Rautatieläisenkatu 3, 00520 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 18 March 1999. 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.

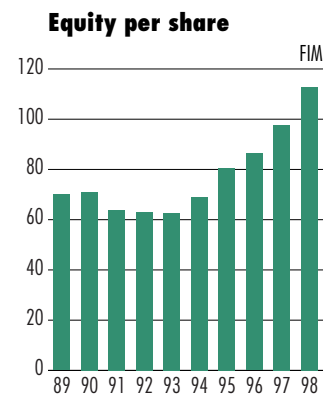
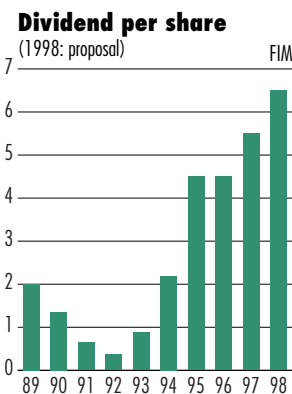
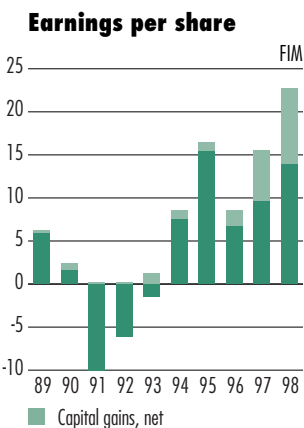
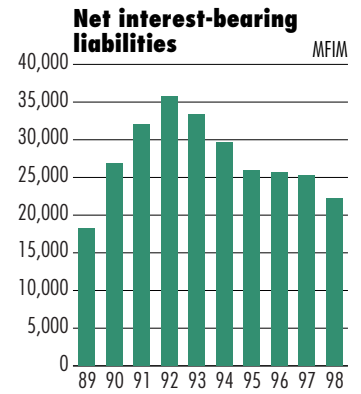
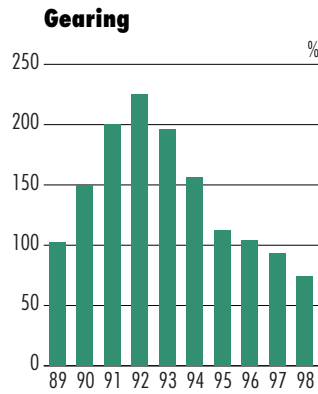
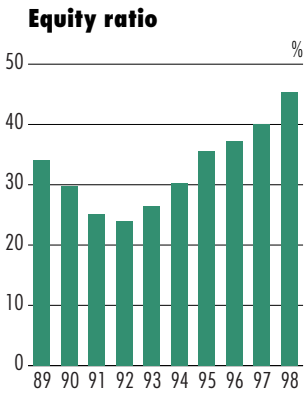
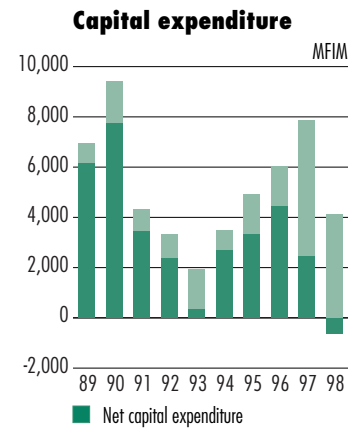
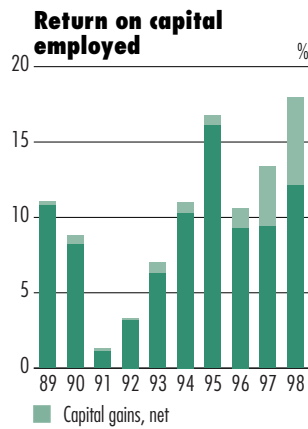
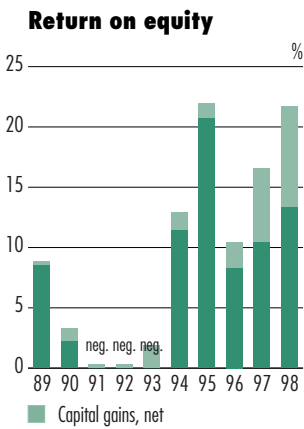
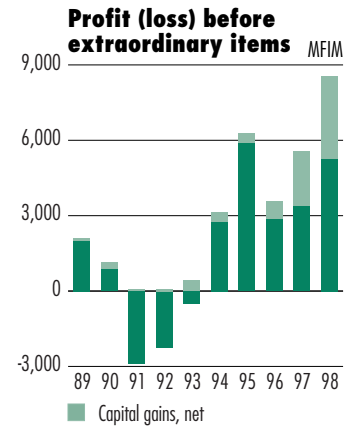
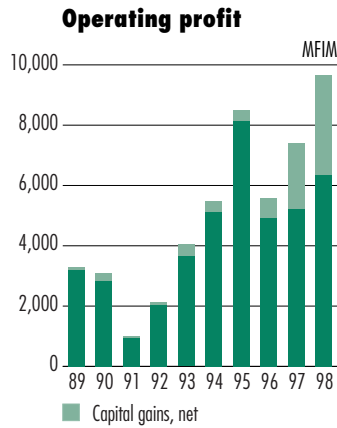
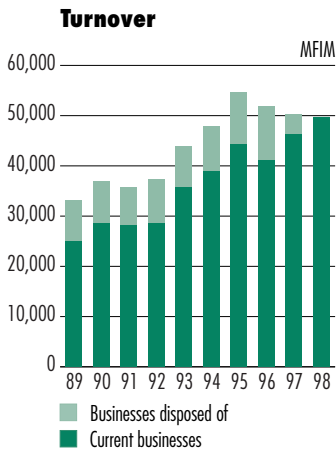
Shareholders wishing to attend the Annual General Meeting must inform the company by 12.00 noon on 19 March 1999 at the latest by writing to: UPM-Kymmene, Share Register, Eteläesplanadi 2, P.O. Box 380, 00101 Helsinki, or by telephoning +358 204 15 0108 or 204 15 0109, or telefax +358 204 15 0333. Written 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 6.50 per share be paid in respect of the 1998 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 26 March 1999. The Board will propose that dividend be paid on 1 April 1999.

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Key financial information, 1989-98



The year in brief

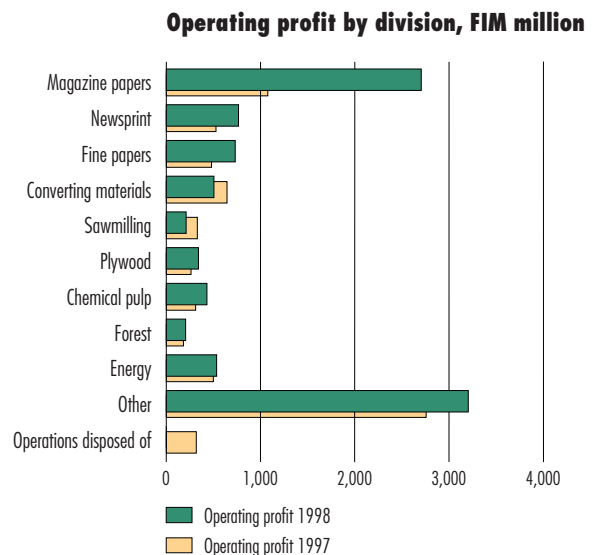
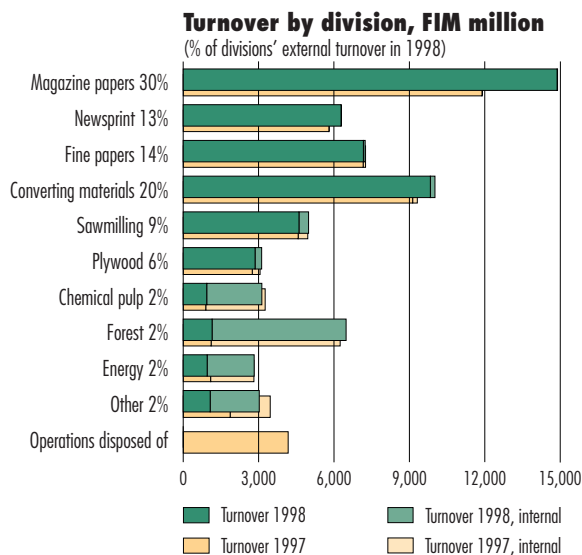
	1998 FIM	1997 FIM	1996 FIM	1998 EUR
Turnover, million	49,735	50,406	51,757	8,365
Operating profit, million	9,632	7,386	5,591	1,620
Profit before extraordinary items, million	8,543	5,572	3,555	1,437
Earnings per share	22.69	15.55	8.60	3.82
Dividend per share (1998: Board's proposal)	6.50	5.50	4.50	1.09
Return on equity, %	21.8	16.6	10.4	21.8
Return on capital employed, %	18.0	13.4	10.6	18.0
Equity to assets ratio at end of period, %	45.3	40.1	37.2	45.3
Gearing ratio at end of period, %	74	93	104	74
Shareholders' equity per share at end of period	112.73	97.56	86.31	18.96
Net capital expenditure, million	-618	2,465	4,432	-104

Adjusted figures*

Equity to assets ratio at end of period, %	50.5
Gearing ratio at end of period, %	60
Shareholders' equity per share	139.10

* 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 66.

- Profitability of business improved.
- Sales volumes developed well. Demand weakened at end of year.
- Divestment of non-core business continued.
- Result includes net capital gains of FIM 3.3 billion from fixed asset sales (FIM 2.2 billion).
- Shareholding in fine paper mill in China.
- Printing paper divisions reorganized into product and customer segments.
- Company bought back 13.5 million of its own shares, 5% of share capital.



Review by the President



Demand and sales prices for UPM-Kymmene's printing papers rose during the early part of 1998. However, there was a clear deterioration towards the end of the year. Despite this, average prices were higher than the year before. Markets for products of the company's other divisions also weakened in the final months of the year.

UPM-Kymmene's financial results were better than in the previous two years due to higher operating profit and capital gains from asset sales and to lower financial expenses. Pre-tax profit was FIM 8.5 billion, and earnings per share rose from FIM 15.55 to FIM 22.69. However, final quarter profit from business operations was below that for the previous quarter and for the last quarter of 1997.

UPM-Kymmene has implemented the measures decided on at the time of the merger three years ago with the aim of raising efficiency and improving profitability. According to the company's own calculations, the impact of these measures has been around FIM 1.8 billion annually. The lapse of three years natu-

rally affects the accuracy of the calculation.

About a quarter of synergies stemmed from specialization in production and from more efficient distribution and logistics. Savings achieved in purchasing account for about another quarter, and the better targeting of investments also for about a quarter. The rest is attributable to other improvements in efficiency and savings on overheads.

Because of the weaker market at the end of the year, the synergy benefits are not reflected in full in the financial results for 1998, which fell somewhat short of the targets. Nevertheless, the return from ordinary operations exceeded cost of capital.

During 1998, UPM-Kymmene continued to dispose of assets not essential to its core businesses. This, together with a stronger balance sheet and the fairly low level of capital expenditure anticipated in the near future, meant that the company was able to buy back some of its own shares in accordance with the decision of the Annual General Meeting last spring and allowed the Board of Directors to propose a higher dividend than last year. The share buy-back and the dividend for 1998 together mean a cash flow of FIM 3.4 billion from the company to its shareholders.

As part of the continuous drive for higher efficiency and improved profitability, numerous projects were either completed or started at the units last year. These included an extensive efficiency programme for Kymi Paper, workforce reductions at Caledonian Paper, the sale of Chapelle Darblay's LWC mill early in the year, the sale of the sawmilling subsidiary Ferdinand Braun at the end of the year, the decision to close down Stracel pulp mill, and programmes to raise efficiency at the Pietarsaari and Blandin mills. The drive for greater

efficiency was also behind the decision to combine UPM Pack and the Special Product Companies into a single division with effect from January 1999.

Programmes to save costs and raise efficiency will be continued during 1999–2000. The aim is to improve the financial result by FIM 1.2 billion annually, and it is intended to achieve half of this in 1999. The programmes are based largely on cost savings and the divestment of unprofitable businesses.

Achieving greater customer focus in business operations remains a key area for development. In practice this means considering the customer's interests in everything we do. It also means that every employee should understand our relationship with the customer and act accordingly.

It was on this basis, and after careful planning, that the divisions concerned with printing papers began 1999 under a new organization. The aim is to solve customers' problems, both current and future, more effectively and in a way that generates greater value for the customer. The reorganization has also affected the mills and sales companies. These changes provide a new way of setting targets, gauging profitability and rewarding success. The aim is to bring about a permanent change in the way of thinking throughout the Group. I believe that this will be accomplished through the same strong spirit of collaboration among our employees that has marked UPM-Kymmene's progress in recent years.

Business will also benefit from the introduction of the euro, the European Union's single currency, which UPM-Kymmene has introduced in its bookkeeping from January 1999. The euro will become more widely used in business as it is adopted by partners and

customers. As a result of the euro, UPM-Kymmene's home market now covers the entire euro area. The euro will cut the costs and risks attached to financing and bring clarity to product pricing.

Asia's economic crisis and the unstable situation in Indonesia slowed down implementation of the fine paper alliance with APRIL last year. UPM-Kymmene therefore acquired an interest in the paper mill being built in China and contributed to its financing in order to speed up the mill projects under the alliance. As a result, the mill will start up in March 1999 as planned. The situation as regards financing is still extremely difficult, and this is holding back construction of a second paper machine and pulping line in Indonesia.

The impact of the Asian crisis will be reflected this year in both Europe and the United States, UPM-Kymmene's main markets, in the form of slower economic growth, and for this reason demand for paper will rise only marginally. UPM-Kymmene expects sales during the first few months to be down on 1998. Sales prices are somewhat below those at the end of last year. Despite the cost-saving and efficiency drive, financial results for the first few months of 1999 will be poorer than last year.



UPM-Kymmene



UPM-Kymmene is one of the world's biggest forest industry groups. The company manufactures printing papers, converting materials, and timber products and plywood.

UPM-KYMMENE'S OBJECTIVES

UPM-Kymmene has set itself the target of being one of the leading forest industry companies in the world. Its businesses focus on printing papers, mechanical wood processing, and speciality papers and converted products based on the Group's own development work.

UPM-Kymmene's target is to grow faster than the industry average and to achieve top supplier status in its selected products and markets. The aim is to satisfy customers' needs so well that the company becomes the supplier of choice for its customers.

To secure good profitability, the company emphasizes the importance of continuously improving cost-effectiveness and the use of new technology. UPM-Kymmene also seeks to maintain a strong financial position, allowing it to secure long-term development and to make effective use of capital markets. The financial goal is to increase shareholder value.

The company accepts its own share of responsibility for safeguarding the environment and for complying with ethical business principles of the very highest standard.



For its employees, UPM-Kymmene seeks to create a basis for profitable activities that encourages enterprise and the desire for self-improvement.

FINANCIAL OBJECTIVES

UPM-Kymmene is determined to be more profitable than its main competitors.

The long-term goal is to achieve a return on equity of at least 5 percentage points above that for risk-free investments such as the government's 10-year Euro bonds.

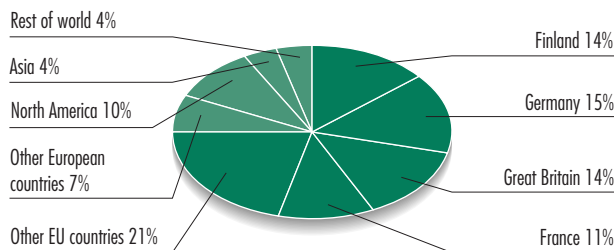
Internally, the target is a return on capital employed of 15% for the Group as a whole. To achieve this requires an even higher goal for each division.

The aim is to keep the gearing ratio below 100%, which corresponds to an equity to assets ratio of over 40%.

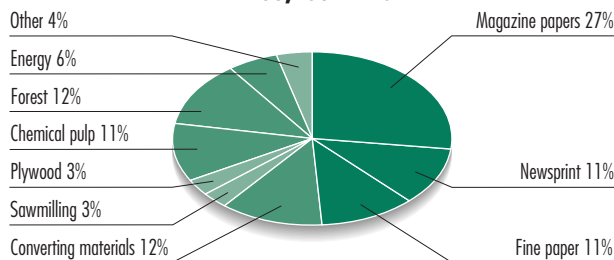
DIVIDEND POLICY

It is UPM-Kymmene's policy to distribute a dividend averaging over one-third of the profit for the period. The aim is to provide shareholders with a steady, growing annual dividend.

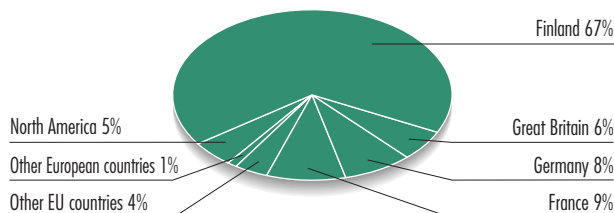
Turnover by market, 1998
FIM 49,735 million



Capital employed by division, 31.12.1998
FIM 55,406 million



Personnel by area, 31.12.1998
32,351



WORLD'S BIGGEST IN MAGAZINE PAPERS

Operations are handled by six divisions: magazine papers, newsprint, fine papers, converting materials, sawmilling and plywood. Other operations include resource units and real estates.

Printing papers account for over half of the UPM-Kymmene Group's FIM 50 billion turnover. UPM-Kymmene is the world's biggest manufacturer of magazine papers, and figures among Europe's largest manufacturers of newsprint and fine papers.

UPM-Kymmene's activities are centred on the European Union countries and the United States. The company has production plants in 14 countries.

The fine paper mill owned jointly with APRIL in China is due to start up early in 1999.

SPECIALITY PAPERS AND CONVERTED PRODUCTS

UPM-Kymmene is one of Europe's leading suppliers of speciality papers; the production capacity in these products is 0.8 million tonnes per year. The Group's own paper converting operations, which include self-adhesive labelstock and packaging products, are based largely on raw materials supplied by the Group's paper mills. Other products include plastic-coated packaging papers, industrial wrappings, packaging films, sacks and siliconized papers.

SAWN TIMBER AND PLYWOOD

Mechanical wood processing is another area in which UPM-Kymmene is a major player: in Europe it is the biggest plywood manufacturer and one of the biggest sawn timber producers. Mechanical wood processing also plays an important role in the optimization of the raw material flow for the Group's pulp and paper production.

WORLDWIDE PRESENCE

UPM-Kymmene's extensive sales network covers the entire world. In key markets the Group has its own subsidiaries, backed up in other countries by a network of agents. The production plants and over 170 sales and distribution companies on five continents maintain close and lasting relations with local customers.

The importance of customer focus has been underscored as multinational customers expand into new markets. In 1998, the Group's printing papers business was reorganized into six global customer segments and five product groups.

EFFICIENT MACHINES

UPM-Kymmene's printing paper machines are newer and more efficient than average for the industry. The average production capacity is 210,000 t/a. Total paper manufacturing capacity is 8.5 million t/a, 35% of which is located outside Finland.

SELF-SUFFICIENCY IN CHEMICAL PULP AND ELECTRICITY

Supplies of chemical pulp, electricity and wood raw material are vital. In chemical pulp and electricity the Group is virtually self-sufficient. These are produced in house and obtained through important shareholdings in the pulp producers Oy Metsä-Botnia Ab and Metsä-Rauma Oy and the power companies Pohjolan Voima Oy and Kemijoki Oy.

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 one million hectares. These forests supply 10% of the Group's wood raw material.

ENVIRONMENTAL PROTECTION PLAYS A KEY ROLE

Protection and management of the environment are an integral part of UPM-Kymmene's operations. In the selection of raw materials, energy sources and manufacturing processes, as well as in product development, the aim is to minimize the impact on the environment.

FOREIGN OWNERSHIP HALF

At the end of 1998, UPM-Kymmene had 55,807 registered shareholders. Half of the company's shares are owned by non-Finnish nationals. The company's market capitalization at the end of 1998 was FIM 39.4 billion.

UPM-Kymmene's shares are listed on the Helsinki Stock Exchange, and the company also has an ADR programme on the OTC market in the United States.



UPM-KYMMENE MAGAZINE

UPM-Kymmene Magazine supplies magazine papers to printers and publishers. The division's papers are also used for products such as mail-order catalogues and printed advertising. Europe is the main market, with the United States also important.



UPM-KYMMENE NEWSPRINT

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



UPM-KYMMENE FINE

The division produces both uncoated fine paper, e.g. copier paper, and coated fine paper. Coated grades are used for high-quality printed products. Customers are paper merchants and office supplies wholesalers, printers and converters. Europe is the main market.

UPM CONVERTING

UPM Converting is a major converter of paper and plastic and an important supplier of base papers to the converting industry. The division manufactures speciality papers and converted products for four main end uses: self-adhesive labels, barrier packs, envelopes and hygiene. Europe is the most important market.



UPM-KYMMENE TIMBER

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

SCHAUMAN WOOD

Schauman Wood produces plywood for use by the building industry and in transport vehicles, and for many special applications. Products also include special veneers. The division's main market is Europe.



Magazine papers, UPM-Kymmene Magazine



UPM-Kymmene Magazine

	1998	1997	1996	1998
	MFIM	MFIM	MFIM	MEUR
Turnover	14,895	11,888	11,172	2,505
Operating profit	2,705	1,077	2,072	455
Capital employed	15,901	12,018	11,249	2,674
ROCE, %	17.0	9.0	18.4	
Capital expenditure	1,016	5,176	1,061	171
Personnel at 31.12	5,875	5,992	5,305	
Production, 1000 t	3,333	2,934	2,460	
Capacity utilization rate, %	93	95	81	

With an annual production capacity of 3.8 million tonnes, UPM-Kymmene is the world's leading manufacturer of magazine papers. The successful start-up of Rauma's new LWC machine has further strengthened this position. UPM-Kymmene has about a quarter of the European market and 12% of the US market.

PROFITABILITY

The division's profitability was much improved. Operating profit was more than twice the previous year's figure. Return on capital employed was 17.0%. The improved financial result was due mainly to higher sales prices. Profitability also benefited from internal restructuring.



DEMAND AND PRICES

Demand for coated magazine paper rose by 1% in Europe and by 2% in the USA. Demand slackened towards the end of the year because of the economic downturn on overseas markets and the weakening of the Russian and US markets.

Demand for uncoated paper was 9% higher in Europe and 8% higher in the USA. Demand was steady all year.

On average, magazine paper prices were 11% higher than the year before. Price rises

for both LWC and SC papers were introduced at the start of the year. LWC prices came under pressure late in the year and fell on markets outside Europe. SC prices remained stable.

PRODUCTION

Production was 14% up on 1997. The capacity utilization rate was 93%. Less LWC capacity was in use at the end of the year because of slacker demand.

Production of lightweight catalogue papers is one of UPM-Kymmene's specialities. Mail order catalogues are posted in tens of millions, and the paper has a major impact on mailing costs. The paper's good opacity and high-quality printing surface ensure excellent reproduction of multi-colour pictures. Mail order companies are among UPM-Kymmene's most important customers.

CAPITAL EXPENDITURE AND RESTRUCTURING

Rauma's new LWC paper machine was started up in January. The machine, which has a capacity of 400,000 t/a, represents a new generation in LWC papermaking. Start-up was extremely successful, and by the second quarter the machine was already contributing to the division's profit. The products have been well received by the market.

Blandin paper mill reached the targets set for its operations in 1998. A 4-week rebuild of the mill's PM 6 was completed in January.

Production of LWC paper at St. Etienne-du-Rouvray's mill, which had been sold in 1997, was discontinued in January 1998. Under its new owners, the mill is now producing materials for corrugated board manufacture.

Kajaani's PM 2 was rebuilt to focus on high-quality SC specialities.

UPM-Kymmene Magazine Main products and their uses

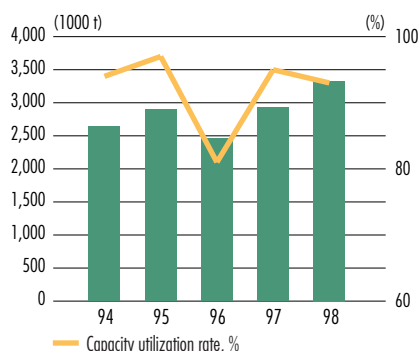
Coated mechanical papers

(LWC, MWC and MFC)
Magazines, catalogues, brochures, direct mail advertising, other advertising material

SC magazine papers

Magazines, weekend supplements, catalogues, flyers

UPM-Kymmene Magazine Production



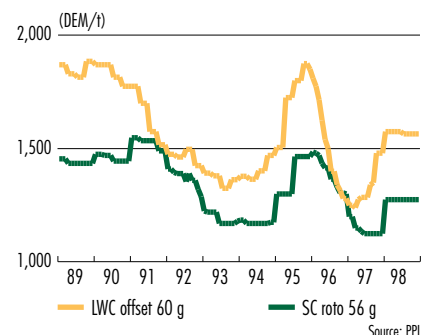
UPM-Kymmene Magazine Mills

(LWC/SC paper machines)	Capacity, 1000 t/a
Jämsänkoski (1/2)	670
Kaipola (1/-)	260
Kajaani (-/1)	160
Lappeenranta (2/-)	515
Rauma (2/2)	1,130
Voikkaa (2/-)	345
Blandin, USA (4/-)	455
Caledonian Paper, UK (1/-)	230
LWC (13)	2,565
SC (5)	1,200
	3,765

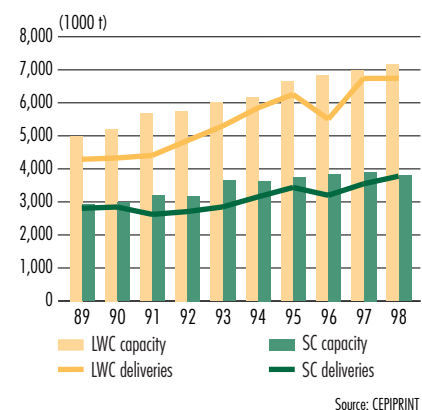
UPM-Kymmene Magazine Turnover by market

1998	MFIM	%	MEUR
Finland	420	3	71
Other EU countries	7,878	53	1,325
Other European countries	930	6	156
North America	4,141	28	696
Rest of world	1,526	10	257
Total	14,895	100	2,505

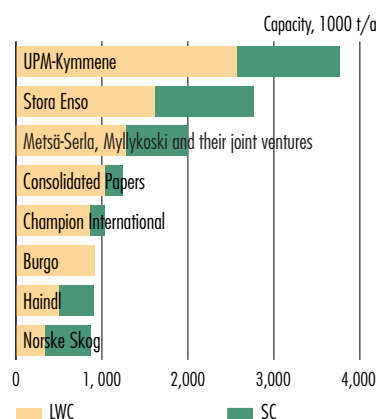
Magazine paper prices in Germany



Magazine paper production capacities in Western Europe and deliveries



World's biggest magazine paper manufacturers



Global demand for magazine paper

1998	mill. t/a	kg/person/a
Western Europe	8.4	21.8
North America	6.9	23.0
Rest of world	3.0	0.6
Total	18.3	3.1

Source: UPM-Kymmene

Newsprint, UPM-Kymmene Newsprint



UPM-Kymmene Newsprint

	1998	1997	1996	1998
	MFIM	MFIM	MFIM	MEUR
Turnover	6,282	5,795	5,780	1,057
Operating profit	766	527	1,044	129
Capital employed	6,099	6,119	6,000	1,026
ROCE, %	12.6	8.6	17.4	
Capital expenditure	635	437	452	107
Personnel at 31.12	2,861	2,912	2,876	
Production, 1000 t	1,935	1,883	1,592	
Capacity utilization rate, %	98	96	83	

UPM-Kymmene is Europe's second biggest producer of newsprint, accounting for about one-fifth of European production capacity. UPM-Kymmene manufactures both standard newsprint as well as specialities, which account for about a quarter of the division's 2 million t/a production capacity.

PROFITABILITY

The division's profitability improved thanks to increases in sales prices at the beginning of the year. Sales volumes were also higher.

DEMAND AND PRICES

Demand grew by 4% in Europe and by 1% in the USA. Supply and demand for newsprint were in balance, partly as a result of strikes at several newsprint mills in Canada. No new capacity came on the market in either Europe or North America.

On average, prices were about 3% higher than in 1997.

PRODUCTION

UPM-Kymmene's newsprint production was 3% up on the year before. The capacity utilization rate was 98%.



The use of supplements in newspapers is steadily increasing. First came Sunday supplements, and now readers are being offered several other special supplements. In terms of number of pages, Saturday supplements now compete with their Sunday counterparts.

CAPITAL EXPENDITURE

Investments were aimed mainly at stepping up the use of recycled fibre. The expansion of Shotton's deinking plant was completed in November. Recycled fibre now represents over 60% of all fibre raw material used at Shotton, twice the previous figure.

Kaipola's deinking plant was also expanded. As a result, all household waste paper collected in Finland can now be processed into raw material for newsprint production. Recycled fibre will account for 60% of all fibre raw material.

A project was launched to expand the deinking plant at Chapelle Darblay's mill in France, allowing the mill to produce newsprint from a furnish containing up to 100% recycled fibre.

In January 1999, it was decided to rebuild PM 1 at Stracel paper mill in France. The rebuilt machine will start production in the first quarter of 2000 of a new type of high-quality paper specially designed for newsprint publishers and printers.

UPM-Kymmene Newsprint Main products and their uses

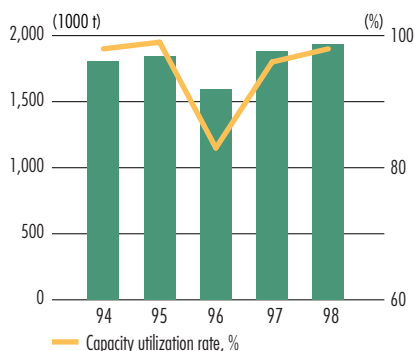
Newsprint

Newspapers, inserts and flyers

MF specialities

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

UPM-Kymmene Newsprint Production



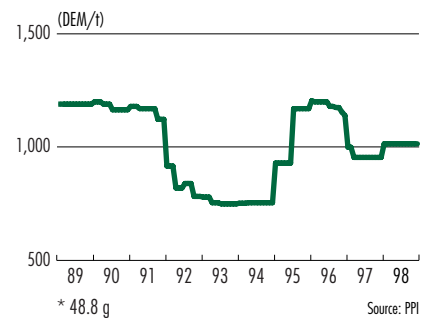
UPM-Kymmene Newsprint Mills

(Paper machines)	Capacity, 1000 t/a
Kaipola (2)	380
Kajaani (2)	445
Voikkaa (2)	165
Chapelle Darblay (2)	300
Shotton (2)	470
Stracel (1)	245
(11)	2,005

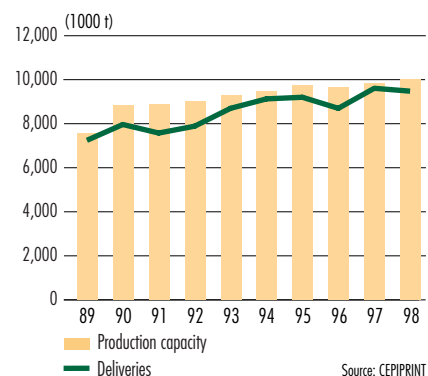
UPM-Kymmene Newsprint Turnover by market

1998	MFIM	%	MEUR
Finland	347	5	58
Other EU countries	4,577	73	771
Other European countries	382	6	64
Rest of world	976	16	164
Total	6,282	100	1,057

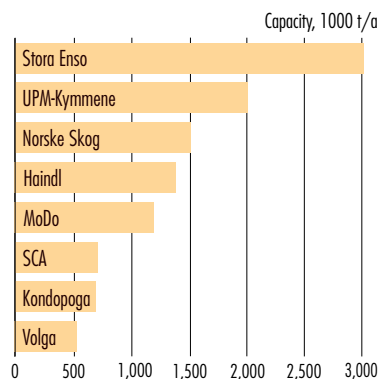
Newsprint* prices in Germany



Newsprint production capacities in Western Europe and deliveries



Europe's biggest newsprint manufacturers



Global demand for newsprint

1998	mill. t/a	kg/person/a
Western Europe	9.1	23.6
North America	12.7	42.6
Rest of world	14.2	2.8
Total	36.1	6.2

Source: UPM-Kymmene

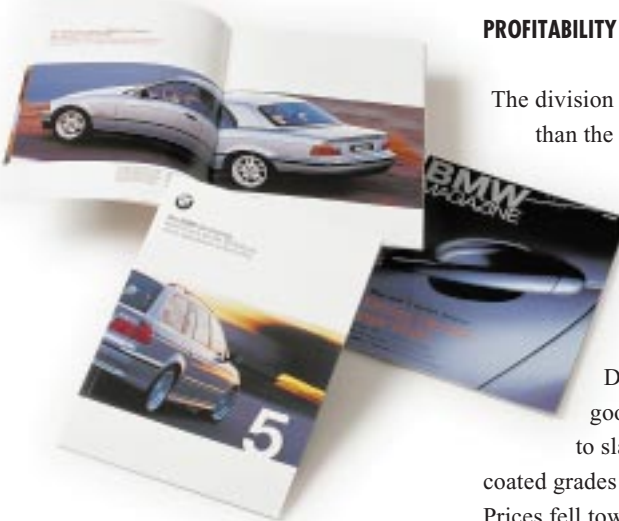
Fine papers, UPM-Kymmene *Fine*



UPM-Kymmene Fine*

	1998	1997	1996	1998
	MFIM	MFIM	MFIM	MEUR
Turnover	7,240	7,252	6,355	1,218
Operating profit	731	480	71	123
Capital employed	6,372	6,770	6,720	1,072
ROCE, %	11.5	7.1	1.1	
Capital expenditure	228	204	709	38
Personnel at 31.12	3,771	3,759	3,899	
Paper production, 1000 t	1,558	1,681	1,429	
Capacity utilization rate, %	89	96	88	

* The figures include Kymi pulp mill. Capital employed in the paper mill being built in China is included in Group figures.



UPM-Kymmene manufactures both coated and uncoated fine papers. It is one of the biggest manufacturers of these papers in Europe.

PROFITABILITY

The division enjoyed better profitability than the year before. Price rises in January and good demand early in the year did most to improve profitability.

DEMAND AND PRICES

Demand for fine paper was good early in the year but began to slacken in the spring, first for coated grades and later also for uncoated. Prices fell towards the end of the year. In Europe, deliveries of coated fine paper were up by about 8% and of uncoated by 1% on the year before.

On average, fine paper prices were 4% higher than in 1997.

PRODUCTION

UPM-Kymmene's fine paper production fell 4%. The average capacity utilization rate was 89%.

Coated fine paper is ideal for high-quality printing jobs such as brochures, art books and annual reports, where high brightness, smoothness and gloss are vital. UPM-Kymmene's coated fine papers have either single or double coatings.

CAPITAL EXPENDITURE AND RESTRUCTURING

UPM-Kymmene bought a 49% stake in the fine paper mill and converting plant being built for APRIL in China. It was agreed with the other shareholders that UPM-Kymmene would also take responsibility for managing the project. The mill's 350,000 t/a machine is due to start production in March 1999.

Sales of fine paper from APRIL's mill in Indonesia through UPM-Kymmene Fine's sales network began in the autumn.

In October, Kymi Paper announced its intention to stop production of mechanical printing papers and label papers at Kuusankoski. Accordingly, coating operations and groundwood production were discontinued. By focusing on fine paper and improving production efficiency, the mill has been able to raise its capacity by about 10%.

In December, the world's biggest A4 sheeter went into operation at Nordland Papier.

A digester plant modernization project was started at Kymi Paper's pulp mill.

UPM-Kymmene Fine Main products and their uses

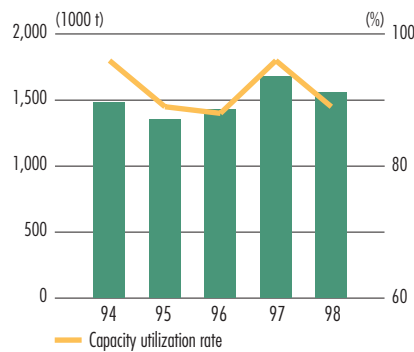
Uncoated fine papers

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

UPM-Kymmene Fine Production



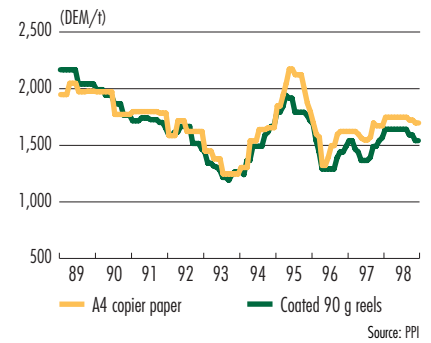
UPM-Kymmene Fine Mills

(Paper/coating machines)	Capacity, 1000 t/a
Kymi (3/-)	750
Nordland Papier (4/2)	1,150
Uncoated	1,070
Coated	830
Total	1,900

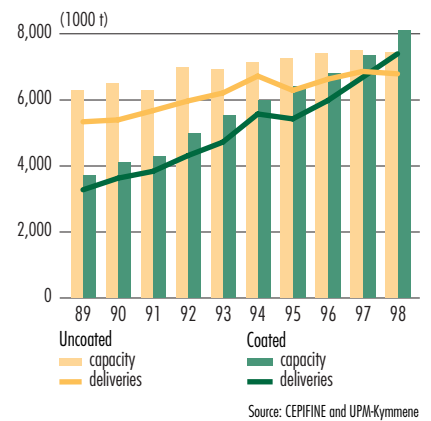
UPM-Kymmene Fine Turnover by market

1998	MFIM	%	MEUR
Finland	435	6	73
Other EU countries	5,625	78	947
Other European countries	638	9	107
Rest of world	542	7	91
Total	7,240	100	1,218

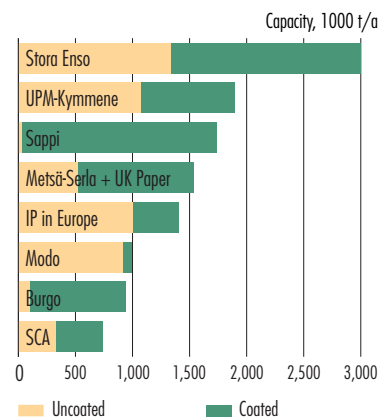
Fine paper prices in Germany



Fine paper production capacity in Western Europe and deliveries



Europe's biggest fine paper manufacturers



Global demand for fine paper

1998	mill. t/a	kg/person/a
Western Europe	15.6	40.4
North America	18.8	62.9
Rest of world	27.2	5.3
Total	61.6	10.6

Source: UPM-Kymmene

Converting materials, UPM Converting



Bags used to pack dog food are made from grease-resistant Wisakraft paper.

UPM Converting

	1998	1997	1996	1998
	MFIM	MFIM	MFIM	MEUR
Turnover	10,017	9,133	8,024	1,685
Operating profit	505	644	707	85
Capital employed	6,873	6,168	5,118	1,156
ROCE, %	7.3	10.4	13.8	
Capital expenditure	947	573	1,354	159
Personnel at 31.12	7,902	8,600	7,995	
Paper production, 1000 t	653	631	462	

Turnover by market

1998	MFIM	%	MEUR
Finland	1,094	11	184
Other EU countries	6,603	66	1,111
Other European countries	963	10	162
North America	787	8	132
Rest of world	570	5	96
	10,017	100	1,685

Turnover by business area

1998	MFIM	%	MEUR
Label materials	5,053	47	849
Packaging materials	4,505	42	758
Envelope papers	777	7	131
Air-laid paper	461	4	78
Others + internal sales	-779	0	-131
	10,017	100	1,685

UPM Converting produces speciality papers and converted products for four end uses: self-adhesive labels, barrier packagings, envelopes and hygiene. In most of its product segments it is among Europe's leading manufacturers.



UPM Converting was formed in January 1999 by combining the packaging materials division UPM Pack and the Special Product Companies into a single division. There were also changes in the composition of the two divisions. The corrugated boards business was transferred to a joint venture owned 70% by the Peterson Group of Norway. The UPM Stationery units and Oy Tilgmann Ab were sold.

UPM Converting experienced poorer profitability than the year before. Profitability was particularly affected late in the year, as the growth in demand slowed down and prices fell. Shutdowns of the division's three paper machines for modernization work also affected financial results.



LABEL MATERIALS

This business area comprises self-adhesive labelstock, label papers and siliconized papers. In each of these product segments UPM-Kymmene is among the world's leading manufacturers.

Demand for Raflatac's self-adhesive labelstock was steady early in the year. However, growth slackened due to the Russian and Asian crises. Sustained growth in this business has encouraged manufacturers to invest, and this has led to over-capacity. As a result, competition has intensified and prices have fallen.

Raflatac began production and marketing of self-adhesive labelstock through a joint venture in Australia, and purchased the entire share capital of its joint venture in Malaysia. A terminal was established in Singapore, strengthening Raflatac's position on Far Eastern markets.

Demand for label papers rose early in the year and prices were firm. The weakening of the market for self-adhesive labelstock also led to intensified competition in label papers, for which there is now over-capacity.

Modernization of Jämsänkoski's PM 3, which produces label papers, was completed in March.

Lohjan Paperi strengthened its position as a leading supplier of siliconized papers by purchasing the US paper siliconizing company Daubert Industries Inc. This has given Lohjan Paperi a significant position on the North American market. It was decided to modernize Lohja's PM 1 to improve the quality of siliconized papers and raise the machine's production efficiency.



PACKAGING MATERIALS

This business area consists of sack and kraft papers, and converted paper and plastics such as composite materials, wrappings, sacks, intermediate bulk containers and food packaging films.

Demand for packaging materials was satisfactory early in the year. However, economic uncertainty after the summer and, for some products, economic difficulties in Russia weakened demand. Sales prices for both raw materials and products fell. Sales of certain products to Russia resumed at the end of the year.

In Europe, production capacity for sack paper has grown faster than demand, causing downtime and putting pressure on prices. Lower capacity utilization rates at fine paper mills reduced demand for wrappings. Packaging films were in good demand all year.

Wisapaper's kraft paper machine at Pietarsaari was rebuilt, and work on rebuilding Tervasaari's sack paper machine began at the end of the year.

ENVELOPE PAPERS

This business area comprises both white and tinted envelope papers, of which UPM-Kymmene is Europe's leading manufacturer.

Competition on the market for envelope paper intensified and prices fell. Allocation of some fine paper capacity to produce white envelope paper has led to greater competition.

AIR-LAID PAPER

Walkisoft specializes in the production of absorbent, non-linting air-laid paper.

Demand for air-laid paper slackened towards the end of the year. Prices were lower than in 1997.

In order to help improve profitability, in January 1999 Walkisoft began a reorganization of its European and US operations.

Units and products by business area

LABEL MATERIALS

Raflatac

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

Tervasaari

Face paper for self-adhesives
(PM 5: capacity 60,000 t/a)
Release paper (PM 8: 125,000 t/a)

Jämsänkoski

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

Lohja (60,000 t/a)

Siliconized release materials for hygiene products, labels and industrial applications

PACKAGING MATERIALS

Wisapaper

White and brown kraft papers (PM 1: 160,000 t/a)

Tervasaari

Brown sack and kraft papers (PM 6: 115,000 t/a)

Walki Wisa

Wrappings for the paper, steel and mechanical wood-processing industries
Composite materials for the packaging industry and technical purposes

Walki Sack

Paper sacks

Walki Films

Vacuum and modified atmosphere plastic films for the food industry
Plastic films for the packaging industry

Rosenlew

Intermediate bulk containers and plastic sacks
Plastic and paper carrier bags, and bags for retailers

Walki Can

Aseptic liquid packaging system

ENVELOPE PAPERS

Tervasaari

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

Docelles

White envelope paper (PM 1: 110,000 t/a)

AIR-LAID PAPERS

Walkisoft

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

Sawmilling, UPM-Kymmene Timber

Sawmilling

	1998	1997	1996	1998
	MFIM	MFIM	MFIM	MEUR
Turnover	4,988	4,953	4,097	839
Operating profit	210	329	-35	35
Capital employed	1,786	1,791	1,692	300
ROCE, %	11.7	18.4	-2.1	
Capital expenditure	130	87	115	22
Personnel at 31.12	2,714	2,764	2,917	
Production, 1000 m ³	2,104	2,050	1,857	

Turnover by market

1998	MFIM	%	MEUR
Finland	1,980	40	333
Other EU countries	2,639	53	444
Rest of world	369	7	62
	4,988	100	839

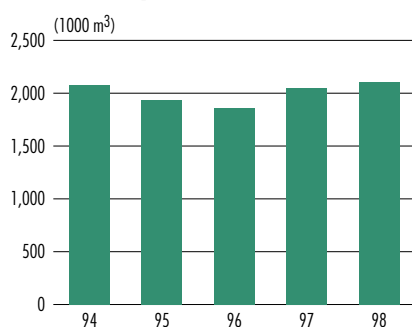
Turnover by business area

1998	MFIM	%	MEUR
Sawmilling and joinery	2,709	50	456
Building supplies trade	2,722	50	457
Internal sales	-442	-	-74
	4,988	100	839

Units and main products

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

Sawn timber production



UPM-Kymmene is one of Europe's biggest producers of sawn timber, with an annual output of around 2 million cubic metres. The division's operations also include sawn timber processing and chains of builders' merchants in Finland, Ireland and Denmark.



reflected in the smaller volume of orders and shortening of delivery times. White-wood stocks remained low, and prices strengthened slightly towards the year end. Redwood prices, on the other hand, fell slightly late in the year as stocks and production volumes both rose. Prices were affected by a weakening of the main invoicing currencies during the year.

Demand for wood-based building supplies was strong all year.

PROFITABILITY

The division's profitability was weaker than the previous year due to the lower prices for sawn timber. Production of sawn timber was up by 3%. The wood-based building materials business (Puukeskus, Brooks and Anco Trae) enjoyed better profitability.

DEMAND AND PRICES

Consumption of sawn timber and building supplies was strong all year, and delivery volumes were higher than in 1997. General economic uncertainty at the end of the year made buyers cautious, and this is being

CAPITAL EXPENDITURE AND RESTRUCTURING

The most notable investments in 1998 concerned the Wisatimber, Korkeakoski and Heinola sawmills.

In December, UPM-Kymmene sold its French sawmilling subsidiary Ferdinand Braun & Cie S.A.

Plywood, Schauman Wood



Schauman Wood's Wisa-Form plywood was used as shuttering board on this bridge construction site in France.

Schauman Wood is Europe's largest producer of plywood, accounting for about a quarter of production and 12% of the market.

The main applications for Schauman's WISA® plywood are in the building industry and the manufacture of transport vehicles.

PROFITABILITY

Profitability improved, partly as a result of greater efficiency and the modest trend in costs, and partly due to the good market and a strengthening of sales prices during the first half of the year. Profitability weakened towards the end of the year as demand for plywood fell. The division's plywood production fell by 2% on 1997. The mills operated at almost full capacity during the early part of the year, but several mills had to take downtime later in the year.

DEMAND AND PRICES

Plywood continued to be in good demand during the first half of the year and prices were stable. The fall in prices for Indonesian plywood that began late the previous year started to affect demand for cheaper structural plywood, putting pressure on prices in the spring. Increasing economic uncertainty in the autumn also reduced demand for special plywoods nearing the end of the year. Despite this, average prices for plywood were over 10% up on 1997.

CAPITAL EXPENDITURE AND RESTRUCTURING

The biggest single investment concerned construction of additional capacity at Pellos plywood mill.

Mahogany Oy bought the veneer and special plywood business of Tiwi Oy. Production of veneer at Kalso S.A. and of thin particleboard at Heinola, both of which have been unprofitable, was discontinued.

A controlling interest in Finnish Fibre-board Ltd was sold to the subsidiary's management.

Plywood

	1998	1997	1996	1998
	MFIM	MFIM	MFIM	MEUR
Turnover	3,121	3,055	2,784	525
Operating profit	341	262	126	57
Capital employed	1,591	1,687	1,912	268
ROCE, %	21.4	15.5	6.6	
Capital expenditure	159	42	74	27
Personnel at 31.12	4,318	4,494	4,436	
Production, 1000 m ³	698	710	617	

Turnover by market

1998	MFIM	%	MEUR
Finland	461	15	78
Other EU countries	2,189	70	368
Other European countries	253	8	43
North America	67	2	11
Rest of world	151	5	25
	3,121	100	525

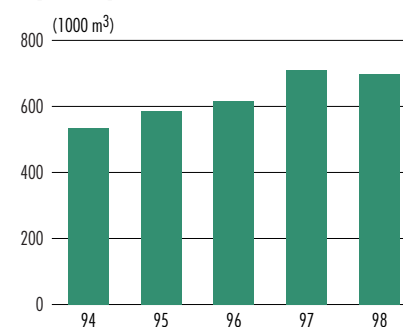
Units and main products

Schauman Wood Oy	Plywood
Kalso-Teollisuus Oy	Veneers
Mahogany Oy	Special plywoods and veneers
Malvaux S.A., France	Plywood

Uses

Building industry and vehicle manufacture
Parquet flooring
Furniture industry
Packaging industry
Shipbuilding

Plywood production



Resources, Chemical Pulp



Kaukas pulp mill produces both long-fibre softwood pulp and short-fibre birch pulp, mainly for use by the Group's own paper mills. At this integrated wood-processing complex, sawdust and chips produced as by-products at the sawmill and plywood mill provide raw material for pulp production. Black liquor from pulping is burned to produce energy.

Chemical pulp*

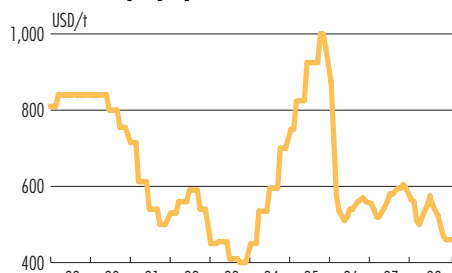
	1998	1997	1996	1998
	MFIM	MFIM	MFIM	MEUR
Turnover	3,128	3,258	3,310	526
of which internal	2,138	2,241	2,534	360
Operating profit	431	311	-149	72
of which attributable to associated companies	246	202	-72	41
Capital employed	6,183	6,357	6,345	1,040
ROCE, %	7.0	4.9	-2.4	
Capital expenditure	72	185	1,304	12
Personnel at 31.12	1,695	1,755	2,144	

* Kymi pulp mill is part of the Fine Paper division, while Tervasaari pulp mill belongs to the Converting Materials division.

Pulp production capacity

	1000 t/a
Kaukas	660
Kymi	465
Wisaforest	600
Tervasaari	200
Own production capacity, total	1,925
Shares in associated companies	
Oy Metsä-Botnia Ab	650
Oy Metsä-Rauma Ab	250

Market pulp* prices



* Bleached pine pulp

Source: PPI

Through its own production and shares in associated companies, UPM-Kymmene is self-sufficient in chemical pulp. To match the grades needed by its paper mills with the pulps it produces, the company sells a small amount of its pulp and buys roughly the same amount of market pulp from outside suppliers. UPM-Kymmene owns 47% of Oy Metsä-Botnia Ab and 45.6% of Oy Metsä-Rauma Ab.

UPM-Kymmene's pulp consumption totalled 2.5 million tonnes, 3% more than in 1997. The Group's own mills produced 1.9 million tonnes of this. Pulp used under the entitlement to production by associated companies was 0.7 million tonnes.

The chemical pulp used by the Group's mills comprises two-thirds long-fibre pulp and one-third short-fibre pulp. The Fine Paper division used 41% of the total, the Magazine Paper division 34% and the Converting Materials division 25%. Consumption of recycled fibre, mainly for newsprint production, was 470,800 tonnes.

The mechanical pulp needed by the paper mills is produced on site. Production of mechanical pulp in 1998 was 2.94 million tonnes, up 8%.

Market pulp prices varied during the year, being highest in summer at USD 570/t and lowest at the end of the year at USD 460/t. On average, prices were 9% lower than the previous year.

Stracel pulp mill, capacity 140,000 t/a, has been operating at a loss and will be shut down in summer 1999.

Pulp production and consumption

1000 t	1998	1997	1996
Production			
Chemical pulp			
own production	1,913	1,963	1,874
from associated companies	655	572	243
Mechanical pulp	2,939	2,708	2,461
Recycled fibre pulp	467	452	346
Total	5,974	5,695	4,924
Consumption			
Chemical pulp	2,536	2,478	2,141
Mechanical pulp	2,942	2,719	2,464
Recycled fibre pulp	471	455	351
Total	5,949	5,652	4,956



UPM-Kymmene Energy procures and sells electricity and natural gas to the Group's mills and outside customers in Finland. The electricity obtained from in-house power plants and through shares in power companies covers the needs of the Group's Finnish mills. Most of the electricity used by the Group's mills in other countries is obtained direct from local suppliers.

Electrical power available to UPM-Kymmene in Finland at the end of the year was around 2,900 MW, of which in-house and leased capacity and entitlement through associated companies represented about 2,350 MW. The most important associated company in energy terms is Pohjolan Voima Oy, in which UPM-Kymmene has a 46.3% stake. UPM-Kymmene also owns 19.0% of the hydropower shares of Kemijoki Oy. In 1998, UPM-Kymmene invested both in traditional forms of energy generation as well as in wind power by acquiring a 17% stake in Tunturituuli Oy, a company specializing in the utilization of wind power.

UPM-Kymmene's electricity procurement in 1998 was 21.5 TWh (20.8), of which 15.7 TWh (14.6) was used industrially and 5.8 TWh (6.2) was sold. The higher industrial consumption was due to the greater volume of production at the paper mills. The fall in sales to outside customers was due mainly to structural changes affecting sales to major customers.

Heat energy from fuels procured by the

Group, plus purchased heat and heat generated by thermomechanical pulping, totalled 27.7 TWh (26.9). The increase on the previous year is due largely to higher production at the mills. Biofuels represented 62% of total fuels (61), their consumption being 3% up on 1997. More natural gas was also used as a result of structural changes, while consumption of peat, coal and oil fell correspondingly. Development work aimed at making greater use of biofuels, particularly logging waste, was continued.

A modern and highly effective energy management system designed to optimize electricity and natural gas utilization at the mills in Finland became available in 1998. As a signatory to the Ministry of Trade and Industry's energy-saving agreement, UPM-Kymmene continued with energy efficiency audits at its pulp and paper mills and environmental audits at its power plants.

There were no major changes in the prices of energy purchased from outside the Group.

Energy unit

	1998	1997	1996	1998
	MFIM	MFIM	MFIM	MEUR
Turnover	2,823	2,810	2,979	475
of which internal	1,870	1,722	1,742	315
Operating profit	534	499	316	90
of which attributable to associated companies	50	27	23	8
Capital employed	3,066	2,902	2,878	516
ROCE, %	17.4	17.2	11.0	

The table relates to the Group's energy management in Finland, excluding energy generated at the mills.

Electricity procurement and consumption

1998	GWh	%
Procurement		
Hydropower	3,317	15
Back-pressure power	3,041	14
Nuclear power shares	4,200	20
Thermal energy shares	1,609	8
Purchased electricity	9,349	43
Total	21,516	100
Consumption		
Mills in Finland	11,481	53
Mills abroad	4,235	20
Sales	5,800	27
Total	21,516	100

Sources of thermal energy

1998	GWh	%
Black liquor	8,357	30
Bark and other biofuels	6,480	24
Heat recovery from TMP production	2,225	8
Peat	1,366	5
Purchased heat	1,444	5
Natural gas	6,307	23
Oil	870	3
Coal	635	2
Total	27,684	100



UPM-Kymmene protects all sites of special ecological value in its forests. The biodiversity of commercial forests is considered in connection with harvesting and forest management. Here, Tuomo Nurmikumpu records valuable forest sites at Janakkala, southern Finland.

Wood procurement

	1998	1997	1996	1998
	MFIM	MFIM	MFIM	MEUR
Turnover	6,481	6,242	5,556	1,090
of which internal	5,338	5,152	4,680	898
Operating profit	205	182	70	34
incl. net stumpage income	123	93	105	21
Capital employed	6,917	7,053	6,901	1,163
ROCE, %	3.0	2.6	1.0	
Personnel at 31.12	1,520	1,584	1,667	
mill. m ³				
Standing reserves in own forest	80	79	76	
Felling in own forest	1.1	1.0	1.2	

The table includes the Group's forests and wood procurement in Finland.

Wood raw material consumption, million m³

In Finland	21.0	21.0	19.6
In other countries	3.7	4.1	3.1

Own forests, 1000 ha

In Finland	940	940	940
In other countries	87	87	10

WOOD PROCUREMENT

Consumption of wood by the Group's Finnish mills was 21.0 million m³ (21.0), including 1.8 million m³ of sawdust and wood chips (1.9) as by-products from the Group's own sawmills and plywood mills. Of the total used, 79% came from private forests, 2% from state-owned forests and 5% from the Group's own forests. The remaining 14% was purchased from abroad, mainly from Russia. Besides supplying its own mills, the forestry department delivered 4.8 million m³ of wood to associated companies and other outside customers.

Stumpage prices paid for wood were on average 4% higher than the previous year. Price rises concerned mainly heavy logs. Prices at the mills rose by an average of 2%.

The Group's mills in Britain, France and the USA consumed 3.7 million m³ of wood.

COMPANY FORESTS

In Finland, UPM-Kymmene owns 940,000 hectares of forestry land, of which commercial forests cover 770,000 hectares. The volume of wood in these forests is 80 million m³, the annual growth rate is 3.5 million m³ and 2.1 million m³/a can be sustainably felled. A total of 1.1 million m³ of wood was harvested from the company's own forests in 1998. The forestry department manages 170,000 hectares of private forest.

In Britain, UPM-Kymmene has 10,000 hectares of forest and manages a further 163,000 hectares of private forest. In the USA, the Group has 77,000 hectares of forest.

UPM-Kymmene is a shareholder in a Uruguay company which owns almost 30,000 hectares of eucalyptus plantations.

The environment



Residential areas have sprung up around several of UPM-Kymmene's mills. Pictured here are the Tervasaari pulp and paper mills in Valkeakoski.

In its work to improve and monitor the quality of the environment, UPM-Kymmene is making increasing use of environmental management systems. In 1998, environmental management systems were inspected and certified according to the relevant standards at Kajaani, Stracel and Nordland Papier paper mills, Raflatac's Scarborough plant, Schauman Wood's Finnish plywood mills and the forestry department.

The goal is for all mills to have inspected environmental management systems in place by the year 2000. Achieving this will require extensive personnel training.

Capital expenditure on environmental protection was FIM 88 million (66) and the necessary operating expenditure FIM 224 million (226). In addition, environment-related and other net energy taxes totalled FIM 240 million.

EMISSIONS DOWN AGAIN

The biological oxygen demand of discharges to receiving waters from the Group's pulp and paper mills was 12% down on 1997.

Sulphur dioxide emissions to air fell by 10%, while solid wastes used for landfill declined by 20%. Odour problems from

chemical pulping arose at Stracel and at Tervasaari mill in Valkeakoski.

The most important points for development at many mills were effective use of raw material, energy efficiency, lower water consumption and reducing the amounts of solid wastes for landfill. There has been a steady drive to increase the proportion of recycled fibre in the raw material base in all countries where UPM-Kymmene produces newsprint. The efficiency of water usage on the paper machines at Rauma was improved to the extent that start-up of the large new machine has not increased the mill's total water consumption.

The sources of wood raw material are now known more accurately and reliably. Finland's national forest certification system was completed ready for use in 1999. Personnel training was started in readiness for the new system. The survey being conducted to identify valuable natural sites in the Group's forests in Finland continued with a further 260,000 hectares surveyed. The survey is due for completion by 2002.

The forestry department provided expert assistance on environmental issues related to wood supplies for the Indonesian mill of UPM-Kymmene's partner APRIL.

IMPACT OF GLOBAL CLIMATE CONVENTION

Implementation by the year 2010 of the international agreement on limiting emissions of the gases responsible for global warming will affect UPM-Kymmene in several ways. Carbon dioxide emissions arising from the use of fossil fuels and peat in energy generation at UPM-Kymmene's mills in Finland in 1998 totalled 1.4 million tonnes. Emissions of carbon dioxide and other greenhouse gases will continue to be monitored. In its energy procurement, UPM-Kymmene emphasized energy sources with less detrimental effects on the environment. Energy consumption was made more efficient and biofuels continued to be favoured.

UPM-Kymmene will publish a separate environmental report for 1998.

Personnel



Almost 500 people attended UPM-Kymmene's international Management Pro and Talent management training programmes in 1998.

Personnel by country at end of year

	1998	1997	1996*
Finland	21,811	23,231	23,454
France	2,979	3,181	3,574
Germany	2,532	2,477	2,201
Great Britain	1,827	1,845	1,815
Ireland	220	218	209
Sweden	204	330	351
Spain	208	203	157
Denmark	173	176	159
The Netherlands	170	169	163
Belgium	124	117	91
Norway	109	114	110
Portugal	84	84	50
Czech Republic	82	82	7
Italy	50	50	46
Estonia	20	186	130
Other European countries	107	110	101
USA	1,543	1,177	165
Rest of world	108	64	43
Total	32,351	33,814	32,826

Key indicators

	1998	1997*
Turnover per person, FIM million (Turnover / no. of employees, average)	1.45	1.36
Value added per person, FIM million (Turnover – materials and services / no. of employees, average)	0.67	0.58
Remunerations based on financial performance, FIM million	80	59
Training costs, FIM million (Training costs incl. salaries and indirect employee costs)	174	162
Average no. of days spent in training (No. of days of training / no. of employees, average)	2.8	2.7
Personnel turnover, % (No. of persons leaving / no. of employees, average)	6.5	4.8
No. of man-days lost through strikes	700	3,100

* Excluding Rauma Group and Simpele

Development of the Group's corporate and management culture continued on the basis of local cultures. UPM-Kymmene's international expansion, the growth of its core businesses and continued emphasis on customer focus require universal operating models at all levels of the organization.

A two-year project to promote employee performance and well-being was launched during the year. The aim of the project is to improve the working conditions, expertise and commitment of the personnel.

WORKING CONDITIONS

Preparations were made for the launch in 1999 of a Values Process that will focus attention at each business unit on UPM-Kymmene's key values: openness, trust and initiative.

Opinion surveys were conducted during the year to study goal awareness, working conditions, the workplace as a community, and employees' views of the leadership skills of their superiors. Surveys were completed for corporate administration, UPM-Kymmene Timber, the forestry department and Schauman Wood. The surveys will continue in 1999.

EXPERTISE

The business units are responsible for the professional advancement of their own employees. In practice, this is achieved through further training arranged either by the company or through educational institutions in different countries.

The professional training arranged by UPM-Kymmene centres on the Lotila and Kuusankoski industrial training colleges, which provide instruction in pulp and paper making. Last year, 122 trainees were selected out of 2,000 applicants. The mechanical wood processing sector arranges professional training through apprenticeship schemes.



Trainees in the laboratory at Shotton newsprint mill in North Wales.

The Group's international management training programmes focus on issues such as networking and establishing a common base for values, concepts and information. Training programmes are tailor-made for foremen and other supervisors to further improve the expertise of these key personnel. In addition to the Group's training programmes, the divisions have their own development programmes.

To consolidate the Group's own goals, simulation tools have been designed to promote the study of business principles, the fundamentals of profit-sharing schemes, and work based on the needs of customers.

MOTIVATION

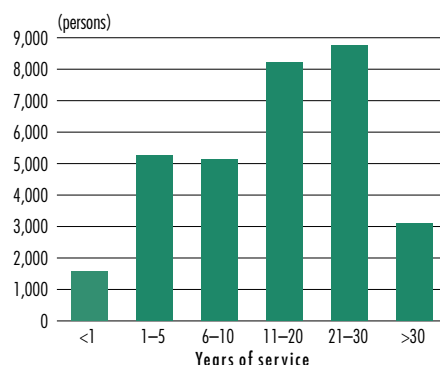
The practice of appraisal discussions was expanded to link the individual goals with those of the business units.

Incentive schemes were further developed.

In developing the content of work, emphasis was placed on the independence and initiative of individuals and working groups.

Job rotation was further promoted by means of the Group's internal "labour exchange".

Employees' years of service with UPM-Kymmene



Research and development

R&D expenditure in 1998 was FIM 212 million (209). 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.

A considerable amount of R&D work is commissioned from the Finnish Pulp and Paper Research Institute, of which UPM-Kymmene is one of four Finnish forest industry owners. Research services are also obtained from other research institutes and universities in different countries, either through specific assignments or through participation in the forest industry's joint technology programmes.

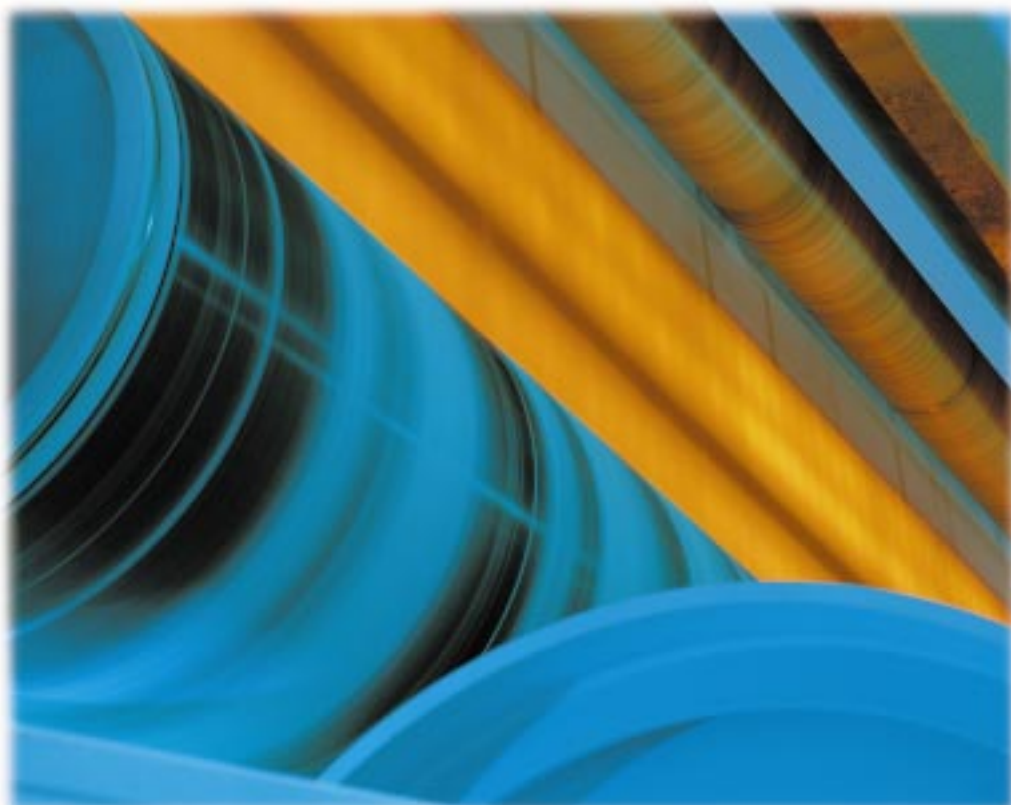
SPOTLIGHT ON PRODUCT PROPERTIES

For the Magazine Paper division, the most important R&D work concerned securing a successful start-up for Rauma paper mill's new PM 4 at the beginning of the year, together with work to develop the machine's runnability and the paper's printing properties. Another major achievement in this area concerned the technology for producing jumbo customer reels for high-capacity rotogravure printing presses.

The recycled fibre pulp technology developed by UPM-Kymmene was applied to newsprint manufacture. Capacity increases and quality improvements were made for the recycled fibre lines at the Chapelle, Kaipola and Shotton mills. Research in the area of paper machine wet-end chemistry was continued and the results were used to achieve lightweight, high-brightness sheet structures.

In fine papers, the focus of R&D was on optimizing the use of fillers. This has made production more economic and improved the quality of matt grades. Technical assistance was given to UPM-Kymmene's partner APRIL in connection with start-up of the fine paper machine in Sumatra.

In converting materials, work centred on developing light, porous sack papers and multi-layer plastic films. Based on its own technology, Walki Can developed a production line for aseptic liquid packagings.



Raflatac continued to develop its security labels against shop thefts and its radio-frequency identification labels. The use of synthetic films in laminate-based special labels was expanded.

Schauman Wood and Walki Pack together developed a group of new coated plywoods. A new plywood facade element was also developed.

On the pulping side, the forestry department and the pulp mills studied the suitability for chemical pulping of wood obtained from first thinnings. Removal of first thinnings allows the forest to produce heavy logs for sawmilling. Under the alliance with APRIL, test pulping and bleaching of Indonesian wood species was carried out to assess their papermaking potential.

At the forestry department, research focused on the use of logging waste, including tops and branches, as a source of biofuel. The satellite-based forest inventory system was further developed in conjunction with the Finnish Forest Research Institute.

One key area of research at UPM-Kymmene concerns the high-speed coating and drying of paper. The results of this work are being applied in this infra-red dryer on Rauma's LWC paper machine (PM 4).

Events in 1998

8 January	Rauma's new LWC printing paper machine (PM 4) started up.
9 January	Mahogany Oy, a member of Schauman Wood, bought Tiwi Oy's veneer and special plywood business from Finnforest Oy.
23 January	Production of LWC paper at Chapelle Darblay's St. Etienne-du-Rouvray mill was discontinued.
9 February	Decision to rebuild Tervasaari's sack paper machine.
6 March	UPM-Kymmene made a USD 114 million equity investment to acquire 49% of the company building APRIL's fine paper mill in China. UPM-Kymmene provided the same company with a USD 121 million shareholder loan.
11 March	Raflatac signed a letter of intent to set up a joint venture together with Consolidated Paper Industries Group (CPI) of Australia. The new company began production of self-adhesive laminates on 1 June 1998.
13 March	UPM-Kymmene announced its intention to redeem in full the outstanding portion of its FIM 750 million convertible bond issue of 1993.
25 March	The Annual General Meeting approved the Board's proposal that the company buy back at least 1,000,000 or at most 13,519,438 of its own shares. The AGM also approved the Board's proposal to issue share options to the Group's directors.
1 April	UPM-Kymmene announced it had sold, between January and the end of March, all its shares in Merita and Sampo, together with shares in Aamulehti obtained through bond conversions.
3 April	Between 3 April and 9 October, UPM-Kymmene bought back its own shares to the maximum number authorized by the Annual General Meeting.
3 April	Raflatac signed a letter of intent with the Malaysian company Paper Automation to purchase the entire share capital of their Malaysian joint venture mill. Ownership of the mill was transferred on 9 October 1998.
6 April	UPM-Kymmene agreed to sell the shares of Oy Nautor Ab, which builds ocean-going yachts, to a group of private investors. Ownership of the company was transferred on 27 May 1998.
29 April	A letter of intent was signed to sell UPM-Kymmene's envelopes production to the Swedish company Bong Ljundahl AB. The business concerned was transferred to the new owner on 1 October 1998.
29 April	A letter of intent was signed to set up a joint venture to handle UPM-Kymmene's corrugated board business in which the Peterson Group of Norway would have a controlling interest. The new joint venture (Petersonwalki Oy) began operations on 1 July 1998.
30 April	Decision to build a third deinking line for Chapelle Darblay's newsprint mill.
30 April	UPM-Kymmene bought the US company Daubert Industries Inc. and formed a new company (DCP-Lohja Inc.) to manufacture release papers and consumer products.
9 May	Raflatac's new production line for synthetic self-adhesive laminate started up in Tampere.
20 May	Decision to close down the Kalso S.A. veneers business belonging to Schauman Wood in France. The mill was closed on 30 June 1998.

8 June	Decision to carry out a major rebuild of Voikkaa's PM 18.
22 June	Letter of intent signed to transfer UPM-Kymmene's stationery business to the Norwegian company Fredrik Lindegaard ASA. The business in question was transferred to the new owner on 17 December 1998.
22 June	Decision to rebuild Lohjan Paperi's PM 1.
23 June	Decision to acquire a new continuous digester for the birch line at Kymi Paper Oy's pulp mill.
3 July	UPM-Kymmene announced it had sold, between 1 January and 30 June, a total of 6.2 million Nokia shares.
24 September	UPM-Kymmene and the Lübeck port company signed a cooperation agreement relating to logistics arrangements in central Europe.
24 September	UPM-Kymmene and the Dutch shipping company Spliethoff signed a freight agreement to expedite shipments to North America.
28 October	Schauman Wood and A. Ahlstrom sold 75% of Finnish Fibreboard Ltd to the company's management.
29 October	Decision to discontinue production of mechanical fine papers and label papers at Kymi Paper Oy. Production stopped on 11 December 1998.
29 October	It was decided to combine UPM-Kymmene's Packaging Materials and Special Product Companies divisions into a new division on 1 January 1999. The name of the new division is UPM Converting.
17 November	Schauman Wood began statutory talks with a view to closure of production at Heinola thin particleboard mill. Production stopped on 31 December 1998.
27 November	Shotton Paper Company's second deinking line started up.
30 December	UPM-Kymmene Timber sold its French sawmilling subsidiary Ferdinand Braun to J.&L. SIAT S.A.

Report of the Board of Directors

THE MARKET

Growth in demand for paper was higher than average throughout the first half of the year. Growth slowed down during the autumn.

Demand for printing papers in Western Europe, the company's main market, rose by about 3% and in North America by 2%, according to advance figures. There was a downturn on Southeast Asian markets, with demand falling.

Newsprint and magazine paper prices rose at the beginning of the year. Prices for uncoated magazine paper were also raised in the summer. Growth in demand for coated grades slackened during the final quarter, causing prices on North American markets to fall. Average prices for both newsprint and magazine paper for 1998 were higher than the year before.

Fine paper prices rose early in the year but fell towards the end. Average prices for the year were 4% up on the previous year.

The market for chemical pulp is still over-supplied. The price of long-fibre bleached pulp fell from about USD 570/t in summer to around USD 460/t at the end of the autumn, since when it has remained unchanged.

Demand for packaging materials slackened, mainly because of the decline in trade with Russia. Demand also declined on other markets at the end of the year, and prices fell. The growth in demand for label papers slowed down and prices fell slightly due to over-supply. The growth in demand for self-adhesive labelstock also slowed, partly due to economic difficulties in Asia and Russia, and sales prices were down on the year before.

The strong demand for sawn timber continued, but there was a weakening at the end of the year. On average, prices fell. Demand for plywood was strong during the first six months. Towards the end of the year demand weakened for both cheaper structural plywoods and specialty plywoods.

CHANGES IN GROUP COMPOSITION

In September 1997, UPM-Kymmene signed a strategic alliance with the Singapore-based group APRIL. Under the agreement, the two companies engaged to exchange 30% shares in their respective fine paper businesses in a non-cash transaction. To speed up progress on the mill projects relating to the alliance, in March 1998 UPM-Kymmene made a USD 114 million equity investment (49%) in Asia Pacific Forest Products (Suzhou) Pte, the company building APRIL's fine paper mill in China. UPM-Kymmene provided the same company with a shareholder loan of USD 121 million. In December 1998, a USD 250 million bank loan was negotiated to finance the fine paper mill project in China. UPM-Kymmene has issued a cash deficiency support deed relating to repayment of the loan, plus interest. Economic difficulties in Indonesia, which started in 1997, have continued to hinder and delay implementation of APRIL's investment projects, and for this reason the two parties are discussing possible changes to their strategic alliance agreement.

In April, Lohjan Paperi purchased the American company Daubert Industries Inc., which operates a paper siliconizing business.

In July, the corrugated boards business was transferred to a joint venture owned 30% by UPM-Kymmene and 70% by a Norwegian company.

In October, a controlling interest in the fibreboard and processed products manufacturer Finnish Fibreboard Ltd was sold to the company's management.

In December, UPM-Kymmene sold its French sawmilling subsidiary Ferdinand Braun & Cie S.A.

Also in 1998, UPM-Kymmene sold Oy Nautor Ab, which builds ocean-going yachts, and the business operations of its UPM Stationery unit. Oy Tilgmann Ab was sold early in 1999.

Raflatac and the Australian company Consolidated Paper Industries Group set up a manufacturing joint venture under the name Raflatac Oceania Pty. Ltd. In Malaysia, Raflatac bought its partner's 51% share in the joint venture Raflatac (M) Sdn. Bhd.

Mahogany Oy, which is part of Schauman Wood, purchased Tiwi Oy's veneers and special plywoods business from Finnforest Oy.

In November, the boards of directors of the associated company Rauma Corporation and Valmet Corporation agreed a plan to merge. Meeting in January 1999, the shareholders of the two companies approved the proposed merger. UPM-Kymmene's interest in the new Valmet-Rauma Corporation will be 14.7%. UPM-Kymmene has undertaken not to sell its shares before 30 June 2000.

During the year, UPM-Kymmene sold stock exchange listed shares for a total of FIM 4,146 million. Most notable was the sale of 8.0 million Nokia shares for a total of FIM 3,108 million.

EARNINGS

Earnings for 1998 were better than for the previous two years. Both operating profit and gains from asset sales were higher, while financial expenses fell. Earnings per share were FIM 22.69 (15.55), return on equity was 21.8% (16.6) and return on capital employed was 18.0% (13.4). Excluding net gains on asset sales, earnings per share were FIM 13.91 (9.74), return on equity was 13.4% (10.4) and return on capital employed was 12.1% (9.4).

Operating profit was FIM 9,632 million (7,386). Operating profit includes gains from the sale of shares and fixed assets plus asset value adjustments totalling FIM 3,288 million (2,170). Gains on the sale of listed shares were FIM 3,468 million, with Nokia shares accounting for FIM 2,950 million and Merita, Sampo and Aamulehti shares for altogether FIM 518 million. Other net gains on the sale of fixed assets were FIM 192 million. Value adjustments include FIM 100 million written off the value of listed shares and FIM 272 million in provisions for future expenses, principally those associated with business reorganizations.

Depreciation includes FIM 130 million in additional depreciation due to the closure of Stracel pulp mill. The cost of closing down the mill, together with the loss on operations, reduced the operating profit for 1998 by around FIM 300 million.

Operating profit for the final quarter, calculated to exclude value adjustments and net gains from asset sales, was poorer than

	Turnover				Operating profit				Capital employed ²⁾				ROCE ³⁾		
	1998	1997	1996	1998	1998	1997	1996	1998	1998	1997	1996	1998	1998	1997	1996
	MFIM	MFIM	MFIM	MEUR	MFIM	MFIM	MFIM	MEUR	MFIM	MFIM	MFIM	MEUR	%	%	%
Magazine papers	14,895	11,888	11,172	2,505	2,705	1,077	2,072	455	15,901	12,018	11,249	2,674	17.0	9.0	18.4
Newsprint	6,282	5,795	5,780	1,056	766	527	1,044	129	6,099	6,119	6,000	1,026	12.6	8.6	17.4
Fine papers	7,240	7,252	6,355	1,218	731	480	71	123	6,372	6,770	6,720	1,072	11.5	7.1	1.1
Converting materials	10,017	9,312	8,024	1,685	505	644	707	85	6,873	6,168	5,118	1,156	7.3	10.4	13.8
Sawmilling	4,988	4,953	4,097	839	210	329	-35	35	1,786	1,791	1,692	300	11.7	18.4	-2.1
Plywood	3,121	3,055	2,784	525	341	262	126	57	1,591	1,687	1,912	268	21.4	15.5	6.6
Chemical pulp ¹⁾	3,128	3,258	3,310	526	431	311	-149	73	6,183	6,357	6,345	1,040	7.0	4.9	-2.4
Forest ^{1) 4)}	6,481	6,242	5,556	1,090	205	182	70	34	6,917	7,053	6,901	1,163	3.0	2.6	1.0
Energy ^{1) 4)}	2,823	2,810	2,979	475	534	499	316	90	3,066	2,902	2,878	516	17.4	17.2	11.0
Other	3,025	3,459	1,984	509	-33	705	-138	-5							
Internal sales	-12,265	-11,791	-10,890	-2,063											
Divisions, total	49,735	46,233	41,151	8,365	6,395	5,016	4,084	1,076							
Capital gains, net					3,237	2,052	620	544							
Total	49,735	46,233	41,151	8,365	9,632	7,068	4,704	1,620							
Businesses disposed of	-	4,173	10,606	-	-	318	887	-							
Group, total	49,735	50,406	51,757	8,365	9,632	7,386	5,591	1,620							

¹⁾ Internal sales				
Chemical pulp	2,138	2,241	2,534	360
Forest	5,338	5,152	4,680	898
Energy	1,870	1,722	1,742	315

²⁾ For the divisions, capital employed includes non-current assets together with stocks and trade receivables less trade payables (= operating capital).

³⁾ For the divisions, return on capital employed, ROCE, is calculated using the formula: Operating profit/average of monthly capital invested.

⁴⁾ Forest includes wood procurement and forests in Finland (Forestry dept.). Energy includes the procurement and sale of electricity and natural gas in Finland to the Group's own mills and to outside customers (Energy dept.). Capital employed under "energy" includes the Group's shares in Pohjolan Voima Oy and Kemijoki Oy. Figures for the divisions include local energy generation at the mills.

for the previous quarter and also for the final quarter of 1997.

The Magazine Paper division more than doubled its operating profit on the previous year thanks to higher sales prices and increased capacity. The newsprint, fine paper and plywood businesses also improved their operating profits. The converting materials and sawmilling businesses, however, produced smaller operating profits.

Profit before extraordinary items was FIM 8,543 million (5,572). Financial income and expenses were FIM -1,236 million (-1,913), which includes exchange losses of FIM 26 million (385). The Group's share of the profits made by associated companies was FIM 147 million (99).

Taxes were FIM 2,418 million (1,376). Taxes include an increase of FIM 49 million (454) in the provision for deferred tax liability.

PRODUCTION AND TURNOVER

Production of paper by the Group reached a new record of 7.499 million tonnes, up 4% on the 1997 figure of 7.198 million tonnes. Output was up 14% for magazine paper and 3% for newsprint. Output of fine paper fell 4%. The average capacity utilization rate was 93% (96).

Production of sawn timber was 2,104 million cubic metres

(2,050), a rise of 3%. Plywood production fell 2% to 698,000 cubic metres (710,000).

Turnover was FIM 49,735 million (50,406). Turnover for 1997 included FIM 4,173 million in turnover from the Rauma Group and Simpele. On a comparative basis, turnover rose by 8%.

Exports and overseas operations accounted for 86% of turnover (84).

PERSONNEL

The average number of employees in 1998 was 34,382 (38,286) for the Group and 12,849 (14,927) for the parent company. At the end of the year the Group had 32,351 employees (33,814).

CAPITAL EXPENDITURE

Gross capital expenditure was FIM 4,105 million (7,875). The sale of shares and other fixed assets totalled FIM 4,723 million (5,410), exceeding capital expenditure by FIM 618 million.

The biggest single investment was the purchase of the 49% interest in Asia Pacific Forest Products (Suzhou) Pte for FIM 629 million. Other share and company acquisitions cost FIM 266 million.

Investments in other fixed assets totalled FIM 3,210 million. Rauma's new LWC paper mill, which started up in January,

accounted for FIM 330 million of this. The paper mill investment cost a total of FIM 2.0 billion. The rebuild of Wisapaper's PM 1 at Pietarsaari was completed in October and expansion of Shotton's deinking plant in November. Several smaller machine rebuilds were completed during the year.

The most notable projects in progress at the end of the year were expansion of the deinking plant at Chapelle Darblay and rebuilds of the coater on Voikkaa's PM 18, Lohja's PM 1 and Tervasaari's PM 6.

RESEARCH AND DEVELOPMENT

Research and development expenditure was FIM 212 million (209). Printing paper characteristics were further developed to meet the printing needs of individual customers. Work on production processes focused on studying environmental impacts and making more efficient use of materials and energy.

FINANCING

The equity to assets ratio at 31 December 1998 was 45.3% (40.1). The gearing ratio was 74% (93).

The net cash flow from operations was FIM 5,684 million (6,460). Taxes paid increased by FIM 1,931 million. Interest-bearing net liabilities were FIM 22,233 million (25,284), a decrease of FIM 3,051 million. The average rate of interest on the Group's loans was 5.6% (5.7).

The credit-rating agencies Standard & Poor's and Moody's retained their ratings of BBB+ and Baa1, respectively, for the USD 600 million bond issue launched in the USA.

SHARES

Trading in the company's shares on the Helsinki Stock Exchange totalled FIM 20,060 million (18,582). The highest quotation was FIM 174.00 in May and the lowest FIM 100.00 in October.

On 4 March 1998, notification was received that the shareholding and voting rights in the company held by investment funds belonging to the Tiger group had reached 10.09%, thus exceeding the 10% limit.

The Annual General Meeting approved a proposal to issue share options to the Group's directors and to UPM-Kymmene's wholly-owned subsidiary Unicarta Oy. The options carry entitlement to subscribe a total of 6,000,000 UPM-Kymmene Corporation shares.

In accordance with the decision of the Annual General Meeting, the company between 3 April and 9 October 1998 bought back 13,519,438 of its own shares at an average price of FIM 135.81 per share, i.e. for a total of FIM 1,836 million. Of these shares, 757,356 were used in paying for the US company Daubert Industries, Inc. At the end of the year, UPM-Kymmene held 12,762,082 of its own shares at a purchase price of FIM 1,720 million (FIM 134.77/share). These shares represent about 4.6% of the total number of shares. The Board of Directors proposes to the Annual General Meeting to be held on 23 March 1999 that the UPM-Kymmene Corporation shares held by the company be declared void and that the company

purchase a maximum number of 13,200,000 of its own shares.

In March, UPM-Kymmene announced its intention to redeem in full the outstanding portion of its FIM 750 million convertible bond issue dating from 1993. By the redemption date of 15 April 1998, bonds had been converted into a total of 6,165,322 shares. Also during the year, a total of 1,051,986 shares were subscribed through the conversion of bonds from the 1994 bond issue.

At the end of the year, the number of shares in issue was 277,606,069 and the share capital FIM 2,776,060,690. Share subscriptions under convertible bonds and options issued to directors could raise the total number of shares to a maximum of 290,033,191. The Board of Directors proposes to the Annual General Meeting that, following the introduction of the euro, the company's shares should no longer have a nominal value.

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.

COMPANY DIRECTORS

The Annual General Meeting decided to change the term of office of members of the Board of Directors to one year, and elected President & CEO Juha Niemelä as a new member of the Board. Yrjö Niskanen has withdrawn from the Board. At its first meeting, the new Board elected Tauno Matomäki as Chairman and Jouko K. Leskinen, President & CEO of the Sampo Group, and Iiro Viinanen, President and Chairman of the Boards of the Pohjola Group, as Deputy Chairmen.

THE EURO

UPM-Kymmene Corporation introduced the euro as its bookkeeping currency on 1 January 1999. The consolidated financial statements, both interim and final, will now be prepared in euros. About 60% of the Group's turnover comes from the euro region. Final preparations for the changeover to the euro were made in 1998.

THE YEAR 2000

A Year 2000 project has been launched to ensure a smooth transition to the new millennium for the Group's businesses. The project concerns business-related information systems such as process automation, computer networks, and ensuring that the main outside partners are properly prepared for the year 2000. Around three-quarters of the necessary changes had been made by the end of 1998. Adequate personnel resources have been allocated to the project, which is due for completion in October 1999. The project will cost an estimated total of about FIM 50 million.

OUTLOOK FOR 1999

Economic growth is forecast to slow down in Europe and the United States, UPM-Kymmene's main markets, and for this reason demand for paper products will rise only slightly. With the exception of newsprint and uncoated fine paper, the growth in global manufacturing capacity both last year and this will be

comparatively small.

Sales volumes for the first few months of 1999 will be lower than a year ago. On average, sales prices are currently somewhat lower than at the end of 1998. The trend in costs is expected to be moderate.

A cost-saving and rationalization programme has been introduced covering the period 1999–2000. The goal is to improve the financial result by FIM 1.2 billion annually; half of this amount will be achieved in 1999. The programme is based mainly on cost reductions and divestment of unprofitable businesses.

Capital expenditure planned for 1999 will be around FIM 4 billion.

DIVIDEND

The Board of Directors has decided to propose to the Annual General Meeting that a dividend of FIM 6.50 per share be paid in respect of the 1998 financial year. The proposal is based on a dividend policy, according to which the company distributes a dividend averaging over one-third of the profit for the period, the aim being a steady, growing dividend.

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 26 March 1999. The Board will propose that dividend be paid on 1 April 1999.

BOARD'S PROPOSAL FOR THE DISTRIBUTION OF PROFITS

The consolidated balance sheet shows unrestricted shareholders' equity at 31.12.1998 of FIM 20,426 million, of which distributable funds	FIM	8,667,900,000.00
The parent company balance sheet shows unrestricted shareholders' equity at 31.12.1998 of FIM 11,011 million, of which distributable funds	FIM	9,290,998,481.17
The Board of Directors proposes to the Annual General Meeting		
a dividend of FIM 6.50 (= 1.09 euros) per share on the 264,843,987 outstanding shares	FIM	1,721,485,915.50
for use by the Board of Directors in the general interest	FIM	800,000.00
and the remainder to be retained.		

Helsinki, 12 February 1999

Tauno Matomäki
Chairman

Jouko K. Leskinen

Iiro Viinanen

Casimir Ehrnrooth

L.J. Jouhki

Juha Niemelä

Jorma Ollila

Gustaf Serlachius

Vesa Vainio

Consolidated profit and loss account

	Note	1998 MFIM	1997 MFIM	1996 MFIM	1998 MEUR
Turnover	(1)	49,735	50,406	51,757	8,365
Other operating income	(2)	3,858	2,602	864	649
Costs and expenses	(3)	-40,621	-42,632	-43,712	-6,832
Share of results of associated companies	(4)	316	264	-32	53
Depreciation and value adjustments	(5)	-3,656	-3,254	-3,286	-615
Operating profit		9,632	7,386	5,591	1,620
Share of results of associated companies	(4)	147	99	-129	25
Financial income and expenses	(6)	-1,236	-1,913	-1,907	-208
Profit before extraordinary items		8,543	5,572	3,555	1,437
Extraordinary items	(7)			-5	
Profit before taxes		8,543	5,572	3,550	1,437
Income taxes	(8)	-2,418	-1,376	-1,145	-407
Minority interest		-5	-14	-111	-1
Profit for the financial period		6,120	4,182	2,294	1,029

Consolidated balance sheet

	Note	31.12.1998 MFIM	31.12.1997 MFIM	31.12.1998 MEUR
ASSETS				
Non-current assets				
Intangible assets	(9)	495	582	83
Goodwill on consolidation	(10)	1,294	1,158	218
Tangible assets	(11)	39,124	40,011	6,581
Investments held as non-current assets	(12)	9,699	8,968	1,631
Own shares	(12)	1,720		289
		52,332	50,719	8,802
Current assets				
Stocks	(13)	6,270	6,224	1,054
Non-current receivables	(14)	54	89	9
Current receivables	(15)	6,960	8,187	1,171
Cash in hand and at bank		2,458	2,585	413
		15,742	17,085	2,647
Total		68,074	67,804	11,449

	Note	31.12.1998 MFIM	31.12.1997 MFIM	31.12.1998 MEUR
EQUITY AND LIABILITIES				
Shareholders' equity (16)				
Share capital		2,776	2,704	467
Share premium reserve		663		112
Revaluation reserve		3,691	3,729	621
Reserve for own shares		1,720		289
Legal reserve		4,019	3,762	676
Retained earnings		12,586	12,003	2,117
Profit for the financial period		6,120	4,182	1,029
Capital loan			603	
		31,575	26,983	5,311
Minority interest		142	160	24
Provisions	(17)	613	621	103
Liabilities				
Deferred tax liability	(18)	3,691	3,656	621
Non-current liabilities	(19)	17,883	18,743	3,007
Current liabilities	(20)	14,170	17,641	2,383
		35,744	40,040	6,011
Total		68,074	67,804	11,449

Consolidated cash flow statement

	1998 MFIM	1997 MFIM	1998 MEUR
Cash flow from operating activities			
Operating profit	9,632	7,386	1,620
Adjustments to operating profit ^{a)}	-187	880	-31
Change in net working capital ^{b)}	-91	552	-16
Cash generated from operations	9,354	8,818	1,573
Interest received	197	173	33
Interest paid	-1,547	-1,739	-260
Dividends received	64	59	11
Other financial income and expenses	-58	-456	-10
Direct taxes paid	-2,326	-395	-391
Net cash from operating activities	5,684	6,460	956
Cash flow from investing activities			
Acquisition of Group companies net of cash acquired ^{c)}	-5	-3,190	-1
Investments in associated company shares	-704	-479	-118
Investments in other shares	-64	-220	-11
Purchase of tangible and intangible assets	-3,400	-2,472	-572
Proceeds from sale of Group companies net of cash disposed	42	959	7
Proceeds from sale of associated companies	20	54	3
Proceeds from sale of other shares	4,133	2,597	696
Proceeds from sale of tangible and intangible assets	570	386	96
Purchase of own shares	-1,836		-309
Increase in other long-term investments	-711	-175	-120
Decrease in other long-term investments	81	573	14
Net cash used in investing activities	-1,874	-1,967	-315
Cash flow before financing activities	3,810	4,493	641
Cash flow from financing activities			
Increase in long-term liabilities	13,107	12,201	2,203
Decrease in long-term liabilities	-14,659	-14,620	-2,465
Increase (+) or decrease (-) in current interest-bearing liabilities	-1,416	-685	-238
Increase (-) or decrease (+) in interest-bearing receivables	12	-171	2
Dividends paid ^{d)}	-1,483	-1,203	-249
Increase (+) or decrease (-) in capital loan	-603	-147	-101
Share issue and share conversions	735	186	124
Other items	395	-219	66
Net cash used in financing activities	-3,912	-4,658	-658
Net increase (+) or decrease (-) in cash and cash equivalents ^{e)}	-127	-144	-22
Cash and cash equivalents at 1 Jan.	2,585	2,729	435
Cash and cash equivalents at 31 Dec.	2,458	2,585	413

Additional information on consolidated cash flow statement

	Group 1998 MFIM	Group 1997 MFIM	Group 1998 MEUR
a) Adjustments to operating profit			
Depreciation and value adjustments	3,656	3,254	615
Gains (+) or losses (-) on sale of fixed assets	-3,645	-2,160	-613
Share of results (+/-) of associated companies	-316	-264	-53
Other	118	50	20
Total	-187	880	-31
b) Change in net working capital			
Increase (-) or decrease (+) in stocks	-178	274	-30
Increase (-) or decrease (+) in non-interest-bearing receivables	1,101	1,427	185
Increase (+) or decrease (-) in current non-interest-bearing liabilities	-1,014	-1,149	-171
Total	-91	552	-16
c) Additional information on acquisition of Group companies			
Effect of acquired companies on consolidated assets and liabilities			
Non-current assets	-65	-4,096	-11
Current assets	-110	-3,020	-18
Non-current liabilities	85	606	14
Current liabilities	43	2,674	7
Other items	-65	228	-11
Cash flow	-112	-3,608	-19
Relinquishment of own shares	112		19
Less cash and cash equivalents of acquired companies	-5	418	-1
Cash flow on acquisition net of cash acquired	-5	-3,190	-1
d) Dividends paid			
In 1997, dividend comprised FIM 423 million in cash and Rauma Oyj shares with a market value of FIM 780 million (balance sheet value FIM 288 million).			
e) Effect of exchange rate differences on cash and cash equivalents			
Cash and cash equivalents at 1 Jan.	2,585	2,729	435
Effect of exchange rate changes	-25	21	-5
	2,560	2,750	430
Increase (+) or decrease (-) in cash and cash equivalents	-102	-165	-17
Cash and cash equivalents at 31 Dec.	2,458	2,585	413

Parent company profit and loss account

1.1-31.12 (MFIM)	1998	1997
Turnover	26,039	25,388
Increase (+) or decrease (-) in finished goods	-36	-269
Production for own use	47	95
Other operating income (2)	3,778	3,433
Raw materials and services		
Raw materials and consumables		
Purchases during the financial period	-12,916	-12,876
Increase (-) or decrease (+) in stocks	-60	-117
External services	-1,733	-1,635
	-14,709	-14,628
Personnel expenses		
Wages and salaries (3)	-2,555	-2,854
Social security expenses		
Pension expenses	-416	-474
Other social security expenses	-300	-330
	-3,271	-3,658
Depreciation and value adjustments		
Depreciation according to plan (5)	-1,552	-1,689
Value adjustments to goods held as non-current assets	-36	-22
	-1,588	-1,711
Other costs and expenses	-2,549	-3,591
Operating profit	7,711	5,059
Financial income and expenses (6)		
Income from Group companies	23	1,065
Income from participating interest companies	131	33
Income from other investments held as non-current assets		
Received from Group companies	336	153
Received from other companies	110	90
Other interest and financial income		
Received from Group companies	113	210
Received from other companies	331	92
Value adjustments to investments held as non-current assets		-1
Interest and other financial expenses		
Paid to Group companies	-546	-96
Paid to other companies	-971	-1,810
	-473	-264
Profit before extraordinary items	7,238	4,795
Extraordinary items (7)		
Extraordinary income	792	626
Extraordinary expenses	-65	-27
	727	599
Profit before appropriations and taxes	7,965	5,394
Appropriations		
Increase (-) or decrease (+) in accumulated depreciation difference	-637	-1,091
Income taxes (8)	-2,148	-1,020
Profit for the financial period	5,180	3,283

Parent company funds statement

MFIM	1998	1997
Business operations		
Operating profit	7,711	5,059
Adjustments to operating profit ^{a)}	-1,885	-721
Change in net working capital ^{b)}	-409	-278
Interest	-469	-844
Dividends received	232	1,172
Other financial items	-236	-592
Taxes	-2,148	-1,020
Net cash flow from operations	2,796	2,776
Investments		
Purchase of shares	-2,051	-2,928
Purchase of other fixed assets	-1,679	-2,521
Sale of shares	4,192	3,505
Sale of other fixed assets	389	1,371
Purchase of own shares	-1,836	0
Increase in other long-term investments	-1,237	-3,733
Decrease in other long-term investments	362	2,063
Total cash used in investments	-1,860	-2,243
Cash flow before financing	936	533
Financing		
Increase in long-term liabilities	13,406	11,823
Decrease in long-term liabilities	-11,509	-12,150
Increase (-) or decrease (+) in long-term receivables	-1,023	-693
Increase (+) or decrease (-) in interest-bearing current liabilities	-1,083	1,267
Dividends paid	-1,483	-1,203
Increase (+) or decrease (-) in capital loan	-603	-147
Group contributions received and paid	730	551
Share issue and share conversions	735	186
Other items	-3	-153
Total financing	-833	519
Increase (+) or decrease (-) in liquid funds	103	14
Liquid funds at 1 Jan.	1,738	1,724
Liquid funds at 31 Dec.	1,841	1,738
^{a)} Adjustments to operating profit		
Depreciation	1 552	1 689
Value adjustments on non-current assets	36	22
Gains (+) or losses (-) on sale of fixed assets	-3 473	-2 432
Total	-1 885	-721
^{b)} Change in net working capital		
Increase (-) or decrease (+) in stocks	303	255
Increase (-) or decrease (+) in non-interest-bearing receivables	-264	-647
Increase (+) or decrease (-) in non-interest-bearing current liabilities	-448	114
Total	-409	-278

Notes to the accounts

Accounting policies

CHANGES IN ACCOUNTING PRINCIPLES

The consolidated financial statements have been prepared in accordance with Finland's revised accounting legislation. The main differences from previous practice relate to the presentation of the profit and loss account and balance sheet and to the Notes to the accounts. Figures for previous years given for comparison have been changed accordingly.

USE OF THE EURO IN THE ACCOUNTS

The accounts for 1998 have been prepared in Finnish markka. The most important figures and certain statistics are also presented in euros.

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 include all Group companies and associated companies. 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 their date of sale.

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 allocated, where applicable, to the underlying assets and depreciated accordingly. The remainder of the difference is shown as goodwill on consolidation and amortized according to plan.

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 presented separately in determining the Group's profit for the financial period. They are also shown separately from shareholders' equity and liabilities in the consolidated balance sheet.

Associated companies are accounted for using the equity method. Accordingly, the Group's share of profits and losses of associated companies less amortization of the acquisition cost difference is included in the consolidated profit and loss account. The Group's share of post-acquisition undistributed profits and losses of associated companies and the unamortized portion of the acquisition cost difference is included in the investments in associated companies in the consolidated balance sheet. The acquisition cost difference in respect of power companies is allocated to non-wasting tangible assets.

The shares of results of associated companies connected with the Group's core 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 middle exchange rate at the balance sheet date. 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.

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 middle rate of exchange at the balance sheet date. The difference is entered in the Group's shareholders' equity.

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. 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 middle 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.

Hedging of the equities of foreign subsidiaries was discontinued on 1 July 1998.

FIXED ASSETS AND DEPRECIATION

Fixed assets are stated at historical cost less planned depreciation. In addition, the balance sheet value includes revaluations for land 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:

Goodwill on consolidation and other intangible assets	5–20 years
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 on consolidation of large companies acquired is amortized over 20 years, which corresponds to the estimated time of influence of the acquisitions.

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

OWN SHARES

The company's own shares are entered at cost under non-current assets. For calculation of key indices, own shares are eliminated from shareholders' equity and number of shares.

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.

APPROPRIATIONS

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.

DEFERRED TAXES

Deferred tax liabilities and assets are recorded in the consolidated balance sheet and are calculated from timing differences. Deferred tax liability is not calculated on revaluations, as they relate to the Group's long-term forest and energy resources.

Accumulated depreciation difference and untaxed reserves (appropriations) are divided into shareholders' equity and deferred tax liability in the consolidated balance sheet. Under Finland's Companies Act, those portions of untaxed reserves and accumulated depreciation difference included in shareholders' equity are excluded from distributable funds.

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.

TURNOVER

Turnover is calculated after deduction of sales discounts and indirect sales taxes. Turnover also includes exchange differences arising on translation of trade receivables and on forward contracts relating to the Group's net cash flow.

RESEARCH AND DEVELOPMENT

Research and development costs are expensed as incurred.

PENSION ARRANGEMENTS

The pensions of employees of Finnish Group companies are arranged partly through Finnish pension insurance companies, partly through the company's own pension funds and partly directly by the company. The pension liability of the company's own pension funds is covered in full. 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 other than in the course of the company's ordinary activities are recorded as extraordinary income and expenses and are stated in the consolidated accounts after deduction of tax.

INCOME 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 the accounts

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

	1998	Group 1997	1996	Parent company 1998	1997
1. Turnover by division					
Magazine papers	14,895	11,888	11,172		
Newsprint	6,282	5,795	5,780		
Fine papers	7,240	7,252	6,355		
Converting materials	10,017	9,312	8,024		
Sawmilling	4,988	4,953	4,097		
Plywood	3,121	3,055	2,784		
Chemical pulp	3,128	3,258	3,310		
Forest	6,481	6,242	5,556		
Energy	2,823	2,810	2,979		
Other	3,025	3,459	1,984		
Intra-Group sales	-12,265	-11,791	-10,890		
Current businesses	49,735	46,233	41,151		
Businesses disposed of *		4,173	10,606		
Total	49,735	50,406	51,757		

Turnover by market

Finland	6,789	7,452	6,908		
Great Britain	7,174	7,199	5,951		
Germany	7,451	6,649	6,749		
France	5,293	4,908	4,333		
Other EU countries	10,529	9,926	9,021		
Other European countries	3,324	3,066	2,600		
North America	5,078	2,858	2,043		
Rest of world	4,097	4,175	3,546		
Current businesses	49,735	46,233	41,151		
Businesses disposed of *	–	4,173	10,606		
Total	49,735	50,406	51,757		

* Businesses disposed of include Rauma Corporation and Simpele.

Because of the Group's corporate structure no breakdown of turnover is presented for the parent company.

2. Other operating income

Capital gains on disposal of fixed assets	3,770	2,290	677	3,633	3,189
Income from rents	62	93	74	64	79
Other	26	219	113	81	165
Total	3,858	2,602	864	3,778	3,433

	1998	Group 1997	1996	Parent company	
				1998	1997
3. Costs and expenses					
Change in stocks of finished goods and work in progress	-12	259	990		
Production for own use	-80	-116	-154		
Materials and services					
Raw materials, consumables and goods					
Purchased during the period	23,514	25,843	21,459		
Change in stocks	14	394	428		
External services	3,328	3,950	4,593		
	26,764	30,330	27,316		
Personnel expenses					
Salaries and fees					
Salaries of Boards of Directors and Managing Directors	130	126	154	7	6
Other salaries	6,523	6,162	7,324	2,548	2,848
	6,653	6,288	7,478	2,555	2,854
Indirect employee costs					
Pension expenses	838	750	953		
Other indirect employee costs	872	752	1,299		
	1,710	1,502	2,252		
Other operating costs and expenses	5,494	4,512	6,666		
Total	40,621	42,632	43,712		
Personnel (average)	1998	1997	1996		
Magazine papers	6,201	5,670	5,456		
Newsprint	2,946	2,997	2,956		
Fine papers	3,881	3,945	3,904		
Converting materials	8,753	8,450	8,121		
Sawmilling	2,797	2,883	2,972		
Plywood	4,601	4,510	4,550		
Chemical pulp	1,808	1,988	2,171		
Other	1,788	1,894	1,693		
Forest	1,564	1,651	1,771		
Energy	43	40	48		
Total	34,382	34,028	33,642		
Businesses disposed of		4,259	11,167		
Total	34,382	38,287	44,809		

	1998	Group 1997	1996	Parent company	
				1998	1997
4. Share of results of associated companies					
Oy Metsä-Botnia Ab	196	170	-15		
Oy Metsä-Rauma Ab	50	32	-57		
Corenso United Oy Ltd	0	9	7		
Pohjolan Voima Oy	49	25	22		
Others	21	28	11		
Total included in operating profit	316	264	-32		
Rauma Corporation	150	119			
FY-Industries Oy/Finnyards Oy	3	-22	-140		
Others	-6	2	11		
Total included in financial income and expenses	147	99	-129		
5. Depreciation according to plan and value adjustments					
Depreciation according to plan					
Formation expenses	10	10	10		
Intangible rights	22	33	43	3	17
Goodwill	7	7	19	5	5
Other capitalized expenditure	85	58	108	57	34
Goodwill on consolidation	107	39	96		
Buildings	386	348	363	165	171
Machinery and equipment	2,744	2,622	2,532	1,291	1,427
Other tangible assets	76	68	67	31	35
Total	3,437	3,185	3,238	1,552	1,689
Value adjustments on non-current assets	219	69	48	36	22
Depreciation according to plan and value adjustments, total	3,656	3,254	3,286	1,588	1,711
6. Financial income and expenses					
Income from other investments held as non-current assets	95	84	117		
Other interest and financial income	171	172	259		
Value adjustments of investments held as non-current assets	-2	1	-35		
Interest expenses and other financial expenses	-1,500	-2,170	-2,248		
Total	-1,236	-1,913	-1,907		
The items above include:					
Exchange differences	-26	-385	-127	-227	-530
Dividend income from other companies	64	59	55	79	75
Interest received	186	180	293	574	337
Interest expenses	-1,428	-1,658	-2,004	-1,042	-1,182

	1998	Group 1997	1996	Parent company	
				1998	1997
7. Extraordinary items					
Extraordinary income					
Group contributions				792	575
Merger premium					51
Gains from sale of Pohjolan Voima Oy shares			421		
VAT refund on demerger of 1 Jan. 1991			135		
Other			19		
Income tax on extraordinary income			-151		
			424	792	626
Extraordinary expenses					
Group contributions				-62	-25
Merger deficit				-3	-2
Pension liabilities			-149		
Additional amortization of goodwill			-100		
Provision for return of investment contribution			-81		
Other			-99		
Income tax on extraordinary expenses			0		
			-429	-65	-27
Total			-5	727	599
8. Income taxes					
Taxes for the financial period	-2,238	-1,019	-667	-1,839	-859
Taxes from previous periods	-131	97	-190	-105	-7
Change in deferred tax liability *	-49	-454	-439		
Income tax on extraordinary items			151	-204	-154
Total	-2,418	-1,376	-1,145	-2,148	-1,020
* Change in deferred tax liability					
From timing differences	-36	-74	61		
From other temporary differences	153				
From appropriations	-166	-380	-500		
	-49	-454	-439		

Notes to consolidated and parent company balance sheets, MFIM

9. Intangible assets, Group

	Formation expenses	Intangible rights	Goodwill	Other capitalized expenditure ¹⁾	Advance payments	Total 31.12.98
Acquisition cost at 1 Jan. 1998	105	480	99	704	36	1,424
Difference on translation	-7	-6	-1			-14
Increases		30	2	57	29	118
Decreases		-6		-19	-2	-27
Transfers between balance sheet items and other changes		-233	-26	202	-30	-87
Acquisition cost at 31 Dec. 1998	98	265	74	944	33	1,414
Accumulated depreciation at 1 Jan. 1998	-89	-234	-60	-459		-842
Difference on translation	5					5
Accumulated depreciation on decreases and transfers		80	24	-55		49
Depreciation for the period	-9	-22	-7	-85		-123
Value adjustments		-3		-5		-8
Accumulated depreciation at 31 Dec. 1998	-93	-179	-43	-604		-919
Book value at 31 Dec. 1998	5	86	31	340	33	495
Book value at 31 Dec. 1997	16	246	39	245	36	582

9. Intangible assets, Parent Company

Acquisition cost at 1 Jan. 1998		169	50	424	35	678
Increases		3	2	37	28	70
Decreases		-6		-19		-25
Transfers between balance sheet items and other changes	-128	1	98	-35	-64	
Acquisition cost at 31 Dec. 1998		38	53	540	28	659
Accumulated depreciation at 1 Jan. 1998		-94	-19	-294		-407
Accumulated depreciation on decreases and transfers	75	-2	23		96	
Depreciation for the period		-3	-5	-57		-65
Value adjustments				-1		-1
Accumulated depreciation at 31 Dec. 1998		-22	-26	-329		-377
Book value at 31 Dec. 1998		16	27	211	28	282
Book value at 31 Dec. 1997		75	31	130	35	271

¹⁾ The costs of bond issues in previous periods have been capitalized for the Group to a total of FIM 13 million (FIM 11 million).

10. Goodwill on consolidation

Acquisition cost at 1 Jan. 1998	1,350
Increases	241
Transfers between balance sheet items and other changes	2
Acquisition cost at 31 Dec. 1998	1,593
Accumulated depreciation at 1 Jan. 1998	-192
Depreciation for the period	-107
Accumulated depreciation at 31 Dec. 1998	-299
Book value at 31 Dec. 1998	1,294
Book value at 31 Dec. 1997	1,158

FIM 453 million in goodwill arising on consolidation has been allocated to land (466 million), FIM 103 million to buildings (92 million), FIM 416 million to machinery and equipment (461 million) and FIM 127 million to shares (187 million).

11. Tangible assets, Group

	Land and water	Buildings	Machinery and equipment	Other tangible assets	Adv. payments and construction in progress	Total 31.12.98
Acquisition cost at 1 Jan. 1998	3,740	11,332	46,056	1,218	1,971	64,317
Difference on translation	-6	-87	-402	-6	-13	-514
Increases	38	315	1,854	50	1,086	3,343
Decreases	-47	-117	-430	-11	-162	-767
Transfers between balance sheet items and other changes	-23	112	1,019	79	-1,881	-694
Acquisition cost at 31 Dec. 1998	3,702	11,555	48,097	1,330	1,001	65,685
Accumulated depreciation at 1 Jan. 1998	-1	-3,666	-23,373	-634		-27,674
Difference on translation		26	199	2		227
Accumulated depreciation on decreases and other changes		41	929	-53		917
Depreciation for the period		-386	-2,722	-76		-3,184
Value adjustments		-37	-174			-211
Accumulated depreciation at 31 Dec. 1998	-1	-4,022	-25,141	-761		-29,925
Revaluations *	3,364					3,364
Book value at 31 Dec. 1998	7,065	7,533	22,956	569	1,001	39,124
Book value at 31 Dec. 1997	7,110	7,663	22,683	584	1,971	40,011
* Revaluations						
Value at 1 Jan. 1998	3,368					3,368
Cancellation of revaluations 1.1-31.12.1998	-4					-4
Value at 31 Dec. 1998	3,364					3,364

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.

11. Tangible assets, Parent Company

	Land and water	Buildings	Machinery and equipment	Other tangible assets	Adv. payments and construction in progress	Total 31.12.98
Acquisition cost at 1 Jan. 1998	2,871	5,586	26,432	825	1,598	37,312
Increases	17	103	1,003	6	480	1,609
Decreases	-18	-65	-215	-2	-75	-375
Transfers between balance sheet items and other changes	1	-598	-2,816	-160	-1,551	-5,124
Acquisition cost at 31 Dec. 1998	2,871	5,026	24,404	669	452	33,422
Accumulated depreciation at 1 Jan. 1998		-1,793	-13,604	-422	0	-15,819
Accumulated depreciation on decreases and transfers		270	2,899	101	0	3,270
Depreciation for the period		-165	-1,291	-31	0	-1,487
Value adjustments		-3	-32	0	0	-35
Accumulated depreciation at 31 Dec. 1998		-1,691	-12,028	-352	0	-14,071
Revaluations *	3,364					3,364
Book value at 31 Dec. 1998	6,235	3,335	12,376	317	452	22,715
Book value at 31 Dec. 1997	6,238	3,793	12,828	403	1,598	24,860
* Revaluations						
Value at 1 Jan. 1998	3,367					3,367
Cancellation of revaluations 1.1–31.12.1998	-3					-3
Value at 31 Dec. 1998	3,364					3,364

12. Investments held as non-current assets, Group

	Holdings in associated companies	Receivables from associated companies	Other shares and holdings osuudet	Other receivables	Total 31.12.98
Acquisition cost at 1 Jan. 1998	4,517	1,130	2,122	392	8,161
Difference on translation	-12		-5	-8	-25
Increases	704	759	67	8	1,538
Decreases	-10	-8	-689	-64	-771
Transfers between balance sheet items and other changes	326	-78	-96	-6	146
Acquisition cost at 31 Dec. 1998	5,525	1,803	1,399	322	9,049
Accumulated depreciation at 1 Jan. 1998	10	-259	-55	-2	-306
Value adjustments	-10	-46	-101		-157
Accumulated depreciation at 31 Dec. 1998	0	-305	-156	-2	-463
Revaluations *	753		360		1,113
Book value at 31 Dec. 1998	6,278	1,498	1,603	320	9,699
Book value at 31 Dec. 1997	5,280	871	2,427	390	8,968
* Revaluations					
Value at 1 Jan. 1998	754		360		1,114
Cancellation of revaluations 1.1-31.12.1998	-1				-1
Value at 31 Dec. 1998	753		360		1,113

Holdings in associated companies include net unamortized goodwill of FIM 106 million (112). Of this amount, FIM 67 million relates to Pohjolan Voima Oy's non-wasting assets and is not amortized.

Own shares, Group

See Investments held as non-current assets, Parent Company.

12. Investments held as non-current assets, Parent company

	Holdings in Group companies	Receivables from Group companies	Holdings in particip. interest companies	Receivables from particip. interest companies	Other shares and holdings	Other receivables	Own shares ¹⁾	Total
Acquisition cost at 1 Jan. 1998	8,109	4,659	3,722	1,130	1,835	314		19,769
Increases	1,296	475	688	759	67	3	1,836	5,124
Decreases	-99	-292	-2	-8	-679	-62		-1,142
Transfers between balance sheet items and other changes	73	-219	40	-55	-37	1	-116	-313
Acquisition cost at 31 Dec. 1998	9,379	4,623	4,448	1,826	1,186	256	1,720	23,438
Acc. depreciation at 1 Jan. 1998	-560			-133	-44			-737
Value adjustments				-13	-101			-114
Accumulated depreciation at 31 Dec. 1998	-560			-146	-145			-851
Revaluations *	10		753		360			1,123
Book value at 31 Dec. 1998	8,829	4,623	5,201	1,680	1,401	256	1,720	23,710
Book value at 31 Dec. 1997	7,559	4,659	4,476	997	2,151	314		20,156
* Revaluations								
Value at 1 Jan. 1998	10		754		360			1,124
Cancellation of revaluations 1 Jan. - 31 Dec. 1998			-1					-1
Value at 31 Dec. 1998	10		753		360			1,123

¹⁾ At 31 December 1998, the company held 12,762,082 shares with a total nominal value of FIM 128 million and a total purchase price of FIM 1,720 million at 31 December 1998.

Market values and basis for valuations

The book value of shares in companies listed on the Helsinki Stock Exchange and entered under fixed assets and stocks is FIM 1,638 million. The market value at 31 December 1998 was FIM 5,830 million. The difference is due mainly to the value of Nokia Corporation shares.

The company's forest in Finland, 925,000 hectares, has a book value of FIM 7,001 per hectare, i.e. a total value of FIM 6,476 million. This includes revaluations of FIM 3,364 million made in previous years. According to estimates made by the company for each forest holding separately, the average market value is FIM 9,623 per hectare, giving a total value of FIM 8,901 million. The company also estimates that the market value of its shares in energy companies, FIM 7,063 million, exceeds the book value by FIM 3,612 million. Market value is based on dealings in energy company shares and partly on the net asset value of the shares.

The Group has a certain amount of real estate and housing unrelated to business operations. Their estimated market value, FIM 2,246 million, exceeds the book value by FIM 1,223 million. Market value is based on transactions completed.

	Group		Parent Company	
	1998	1997	1998	1997
Taxation values of fixed assets				
Land and water ¹⁾			2,984	2,923
Buildings			2,130	2,314
Shares and holdings			13,703	11,985

¹⁾ Taxation values of land and water are based largely on 1996 values.

13. Stocks

Raw materials and consumables	2,131	2,257		
Work in progress	222	206		
Finished products and goods	3,010	2,931		
Other stocks	502	399		
Advance payments	405	431		
Total	6,270	6,224		

14. Non-current receivables

Trade receivables	2	1	1	
Loan receivables	9	4		
Other receivables	34	55	1	
Prepayments and accrued income	9	29	2	
Total	54	89	4	
Receivables from associated and participating interest companies				
Other receivables	1		1	
	1		1	

Loans to company directors

The company's directors had no loans from either the company or its subsidiaries at 31 December 1998.

	Group		Parent Company	
	1998	1997	1998	1997
15. Current receivables				
Trade receivables	5,331	6,261	2,144	2,163
Loan receivables	76	62	3,476	2,206
Other receivables	500	552	171	234
Prepaid expenses and accrued income *	1,053	1,312	943	849
Total	6,960	8,187	6,734	5,452
Receivables from Group companies				
Trade receivables			1,150	1,319
Loan receivables			3,403	2,206
Other receivables			3	3
Prepaid expenses and accrued income			196	194
			4,752	3,722
Receivables from associated and participating interest companies				
Trade receivables	180	131	51	23
Loan receivables	71		71	
Other receivables				1
Prepaid expenses and accrued income	79	73	78	68
	330	204	200	92
* Main items included in current prepaid expenses and accrued income				
Personnel expenses	65	81	48	52
Interest income	25	42	181	130
Interest expenses	89	67	87	65
Income tax	162	52	182	153
Indirect taxes	365	458	277	230
Others	347	612	168	219
	1,053	1,312	943	849

The Group's asset securitization programme has freed FIM 1,233 million in trade receivables (1,290 million)

Interest-bearing receivables

Non-current assets	419	501	5,069	5,071
Current assets	2,757	2,970	4,687	3,562
	3,176	3,471	9,756	8,633

	Group		Parent Company	
	1998	1997	1998	1997
16. Shareholders' equity				
Share capital at 1 Jan.	2,703.9	2,673.7	2,703.9	2,673.7
Warrant bond loan 1991/II		15.0		15.0
Capital loan 1993	61.7	15.1	61.7	15.1
Convertible bond loan 1994	10.5	0.1	10.5	0.1
Share capital at 31 Dec.	2,776.1	2,703.9	2,776.1	2,703.9
Share issue at 1 Jan.		36.8		36.8
Warrant bond loan 1991/II		-36.8		-36.8
Share issue at 31 Dec.		0.0		0.0
Share premium reserve at 1 Jan.				
Share premium	663.0		663.0	
Capital gain on sale of own shares net of taxes	0.1		0.1	
Share premium reserve at 31 Dec.	663.1		663.1	
Revaluation reserve at 1 Jan.	3,728.7	3,878.4	3,552.2	3,660.2
Cancellation of revaluations	-33.9	-108.0	-3.5	-108.0
Other change	-3.7	-41.7		
Revaluation reserve at 31 Dec.	3,691.1	3,728.7	3,548.7	3,552.2
Reserve for own shares at 1 Jan.				
Increase	1,719.9		1,719.9	
Reserve for own shares at 31 Dec.	1,719.9		1,719.9	
Legal reserve at 1 Jan.	3,762.3	3,713.7	3,759.3	3,566.3
Share premium		193.0		193.0
Subsidiary changed to associated company		-152.0		
Transfer from retained earnings	245.2			
Other change	11.6	7.6		
Legal reserve at 31 Dec.	4,019.1	3,762.3	3,759.3	3,759.3
Retained earnings at 1 Jan.	16,185.1	12,772.9	7,316.6	4,897.8
Dividend paid	-1,482.9	-863.8	-1,482.9	-863.8
Transferred to reserve for own shares	-1,719.9		-1,719.9	
Losses on sale of own shares, incl. tax	-2.7		-2.7	
Subsidiary changed to associated company		201.0		
Used in the general interest	-0.7	-0.8	-0.7	-0.8
Transferred to legal reserve	-245.2			
Translation differences and other	-147.7	-106.1	0.2	0.2
Retained earnings at 31 Dec.	12,586.0	12,003.2	4,110.6	4,033.4
Profit for the period	6,120.2	4,181.9	5,180.4	3,283.2
Capital loan at 1 Jan.	603.1	749.9	603.1	749.9
Redemption of capital loan ¹⁾	-603.1	-146.8	-603.1	-146.8
Capital loan at 31 Dec.	0.0	603.1	0.0	603.1
Shareholders' equity, total	31,575.5	26,983.1	21,758.0	17,935.1

¹⁾ In connection with the redemption of the 1993 capital loan, bonds were converted into a total of 6,165,322 UPM-Kymmene Corporation shares during 1998.

	Group		Parent Company	
	1998	1997	1998	1997
Calculation of distributable funds at 31 Dec.				
Reserve for own shares	1,719.9		1,719.9	
Retained earnings	12,586.0	12,003.2	4,110.6	4,033.4
Profit for the period	6,120.2	4,181.9	5,180.4	3,283.2
Portion of accumulated depreciation difference and untaxed reserves transferred to shareholders' equity	-10,038.3	-9,479.0		
Cost of acquisition of own shares	-1,719.9		-1,719.9	
Distributable funds at 31 Dec.	8,667.9	6,706.1	9,291.0	7,316.6

17. Provisions

Pension provisions	384	352	103	106
Other	229	269	18	19
	613	621	121	125

18. Deferred tax liability

Deferred tax liability				
From timing differences	407	383		
From other temporary differences	42			
From appropriations	3,939	3,773		
Total	4,388	4,156		
Deferred tax receivable				
From timing differences	502	500		
From other temporary differences	195			
Total	697	500		
Deferred tax liability, total	3,691	3,656		

Deferred tax liabilities and assets for the parent company are not recorded in the balance sheet. Deferred tax liability comprises mainly depreciation differences, for which the deferred tax liability at 31 December 1998 was FIM 2,628 million (2,722 million).

Deferred tax liability for revaluations is not stated separately. The potential tax (at a tax rate of 28%) arising on the sale of the revalued assets amounts to FIM 1,254 million (1,255 million).

	Group		Parent Company	
	1998	1997	1998	1997
19. Non-current liabilities				
Bond loans	4,488	5,549	4,488	4,735
Convertible bond loans	824	959	824	959
Loans from financial institutions	7,251	7,084	5,814	5,070
Pension loans	4,024	3,828	3,399	3,120
Trade payables	4	2		
Other liabilities	1,292	1,321	206	23
Total	17,883	18,743	14,731	13,907
Payables to Group companies				
Other liabilities			16	17
			16	17
Payables to associated and participating interest companies				
Other liabilities	183	20	183	
	183	20	183	
Long-term loans and repayment schedules				
In 2000–2003 / 1999–2002				
Bond loans	620	1,239	620	425
Loans from financial institutions	3,909	5,281	2,986	3,928
Pension loans	999	786	792	517
Trade payables	4	2		
Payables to Group companies			16	
Payables to associated and participating interest companies	183	20	183	
Other liabilities	759	737	1	17
	6,474	8,065	4,598	4,887
In 2004– / 2003–				
Bond loans	3,868	4,310	3,868	4,310
Convertible bond loans	824	959	824	959
Loans from financial institutions	3,343	1,803	2,828	1,142
Pension loans	3,025	3,042	2,607	2,603
Other liabilities	349	564	6	6
	11,409	10,678	10,133	9,020
Total at 31 Dec.	17,883	18,743	14,731	13,907

Bond loans

(incl. current portion)	Interest, %	Currency	Initial loan mill.	Group balance		Parent company balance	
				31.12.1998	31.12.1997	31.12.1998	31.12.1997
Bond loans							
Fixed interest							
1988–2000	4.75	CHF	100	370	373	370	373
Floating rate of interest							
1995–2000	6.19	USD	150		814		
				370	1,187	370	373
Other bond loans							
Fixed interest							
1993–1998	11.00	FIM	100		100		100
1995–2005	7.72	USD	155	790	840	790	840
1993–2000	9.75	FIM	50	50	50	50	50
1993–2008	9.10	FIM	18	20	18	20	18
1997–2007	6.875	USD	225	1,147	1,220	1,147	1,220
1997–2027	7.45	USD	375	1,911	2,032	1,911	2,032
Floating rate of interest							
1993–2003	4.35	FIM	200	200	200	200	200
				4,118	4,460	4,118	4,460
Bond loans, total				4,488	5,647	4,488	4,833
– current portion				–	–98	–	–98
Bond loans, long-term portion				4,488	5,549	4,488	4,735
Convertible bond loans							
Subordinated convertible bond loan 1994 ¹⁾							
	6.50	FIM	960	824	959	824	959
– current portion				–	–	–	–
Convertible bond loans, long-term portion			824	959	824	959	

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 had the right, from 25 March 1998, to reduce the loan period.

	Group		Parent Company	
	1998	1997	1998	1997
20. Current liabilities				
Bond loans		98		98
Loans from financial institutions	3,723	5,950	1,905	3,226
Pension loans	287	262	234	193
Advances received	78	168	75	210
Trade payables	2,927	3,092	1,330	1,274
Bills of exchange payable	438	1,192	362	944
Other liabilities	3,151	2,900	5,317	4,447
Accruals and deferred income *	3,566	3,979	1,718	2,288
Total	14,170	17,641	10,941	12,680
Payables to Group companies				
Advances received			1	112
Trade payables			165	118
Other liabilities			2,779	2,615
Accruals and deferred income			80	13
			3,025	2,858
Payables to associated and participating interest companies				
Advances received	2			
Trade payables	153	172	120	126
Other liabilities	181	194	160	190
Accruals and deferred income	41	11	39	7
	377	377	319	323
* Main items included in current accruals and deferred income				
Personnel expenses	1,227	1,143	567	605
Interest income	11	17		
Interest expenses	363	460	377	407
Income tax	559	1,157	406	912
Indirect taxes	291	297		4
Others	1,115	905	368	360
	3,566	3,979	1,718	2,288
Non-interest-bearing and interest-bearing liabilities				
Non-current				
Non-interest-bearing	38	54	16	17
Interest-bearing	17,845	18,689	14,715	13,890
Total	17,883	18,743	14,731	13,907
Current				
Non-interest-bearing	6,606	7,756	3,325	3,770
Interest-bearing	7,564	9,885	7,616	8,910
Total	14,170	17,641	10,941	12,680

	Group		Parent Company	
	1998	1997	1998	1997
21. Contingent liabilities				
Mortgages ¹⁾				
As security against own debts	4,198	4,800	3,228	3,796
Against Group company debts			72	88
Against associated and participating interest company debts		8		8
Pledges given				
On own commitments	1	89		27
Guarantees				
Guarantees for loans				
On behalf of Group companies			2,930	5,035
On behalf of associated and participating interest companies ²⁾	513	761	513	751
On behalf of others	35	35	13	20
Other guarantees				
On own commitments	5	64		
On behalf of Group companies			5	32
On behalf of associated and participating interest companies	34	52	37	52
On behalf of others	50	4	48	
Pension liabilities				
Direct liabilities	22	15		
Leasing commitments ³⁾				
Commitments for 1999/1998	69	72	6	9
Commitments for subsequent years	220	218	33	41
Other commitments	199	98		

¹⁾ Mortgages given by the Group and the parent company relate mainly to reborrowing of statutory employment pension contributions. Mortgages have been given either to the lender or the guarantor.

²⁾ UPM-Kymmene has also made a cash deficiency support commitment relating to a USD 250 million loan (plus interest) negotiated in 1998 by the companies involved in building the fine paper mill in China.

³⁾ UPM-Kymmene has also leased certain power plants under long-term agreements and uses the electrical power generated by these plants in its production. The company has the right, but not the obligation, to purchase these power plants or shares in them. Leasing commitments are FIM 113 million in 1999 and subsequently FIM 1,163 million up to 2012. UPM-Kymmene estimates that the market value of these agreements exceeds the above commitment.

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⁾	
	1998	1997	1998	1997	1998	1997	1998	1997
Forward contracts	17,640	22,320	21,297	31,569	-3	29	123	-177
Options								
Purchased	130	820	57	663	0	0	0	4
Written	347	955	149	1,231	-2	-8	-3	-4
Swap agreements	18,188	21,503	1,693	1,253	188	-74	2	15

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 risks

The objective of financial risk management is to protect the Group against unfavourable changes in financial markets and thus help to secure profitability. The objectives and principles for financing activities are defined in the Group's Financial Policy approved by the company's Board of Directors.

In its financial risk management, the Group uses various financial instruments within specified limits. Only those instruments whose market value and risk profile can be continuously and reliably monitored are used for this purpose.

Funding and management of the financial risks are the responsibility of the Group Treasury department. Besides effective risk management, the department seeks to save costs and optimize the Group's cash flows.

Foreign currency exposure

Up until 1999, a substantial proportion of the Group's revenues, expenditures, debts and receivables has been in currencies other than Finnish markka. Fluctuations in exchange rates have therefore had a significant impact on the company's financial results and competitiveness. The introduction of the euro will reduce these risks, as flows in non-domestic currencies will fall to about half of those in 1998.

The Group's financial results and competitiveness are also affected indirectly by the domestic currencies of its main competitors, principally the US dollar, the Canadian dollar and the Swedish krona. Exposure to these currencies is not normally hedged as part of the Group's treasury activities.

Management of foreign currency exposure is divided into two parts: that relating to foreign currency flows and that relating to foreign currency denominated balance sheet items. The first concerns the 12-month forecasted foreign currency flows, interest flows and related hedging. In 1999, the net foreign currency flow, before hedging, is expected to be around FIM 10 billion. Hedging 50% of the net foreign currency flow for the 12 months ahead is considered neutral; however the figure may vary between 25 and 100%.

The table below shows the net foreign currency flows forecasted for 1999, the amounts hedged and the market value of the related hedging instruments used at 31 December 1998.

Currency	Forecasted 12-month flow MFIM	Amount hedged MFIM	Market value of instruments MFIM
USD	3,400	1,716	51
GBP	3,100	1,692	36
CHF	500	266	2
DKK	500	290	0
JPY	500	318	-28
NOK	400	195	12
SEK	1,300	405	46
others	400	206	5
Total	10,100	5,088	124

The Group's profit centres and subsidiaries use their own discretion in hedging their net foreign currency exposures, which they do through the Group Treasury department.

The balance sheet position comprises foreign currency denominated debts and receivables. No more than FIM 2 billion of this exposure is left unhedged.

Interest rate risk

Management of interest rate risks is based on the 12-month average duration of the net debt portfolio as defined in the Group's Financial Policy. This relatively short duration is based on the assumption that, on average, yield curves will be positive. This approach thus reduces interest costs in the long term. The duration may deviate from the 12-month norm by +/- 6 months. At 31 December 1998, the duration of the net debt portfolio was 13 months.

The Group's interest-bearing net debt at 31 December 1998 were FIM 22.2 billion, for which the average rate of interest at the same date was 5.2%. A rise of one percentage point in market rates of interest would increase the Group's net interest expenses by around FIM 130 million over the following 12 months.

Liquidity and refinancing risks

The Group seeks to maintain adequate liquidity under all circumstances. In addition to cash funds of FIM 2.5 billion, at 31 December 1998 the Group had unused committed credit facilities amounting to FIM 6.7 billion.

The Group's Financial Policy stipulates a minimum requirement for the amount of cash funds and unused committed credit facilities. Cash funds are only invested where the credit risk is limited.

Refinancing risks are minimized by ensuring that the loan portfolio has a balanced maturity schedule and that loans have sufficiently long maturities. The average maturity for the Group's loans at 31 December 1998 was 7.5 years. Maturities for interest-bearing loans are as follows:

Year	Loan repayments MFIM	Use of committed credit facilities MFIM	Committed credit facilities MFIM	Total MFIM
1999 long	-1,727	-3,637	10,246	4,882
1999 short ¹⁾	-5,837			-5,837
2000	-2,024		-69	-2,093
2001	-1,003		-2,091	-3,094
2002	-1,385		-1,915	-3,300
2003	-1,051		-3,511	-4,562
2004	-591		-2,660	-3,251
2005	-1,275			-1,275
2006	-296			-296
2007	-1,405			-1,405
beyond	-5,178			-5,178
Total	-21,772	-3,637	0	-25,409

¹⁾ It is assumed that all short-term loans raised from uncommitted credit facilities will be repaid.

The company also has a FIM 3 billion Commercial Paper programme and a USD 500 million Euro Commercial Paper programme.

Shares and holdings ¹⁾

	Production ■ Sales and distribution ▲ Other ○	Turnover MFIM	Number of shares	Parent company holding %	Group holding %	Nominal value Currency mill.	Book value MFIM
Shares in subsidiaries							
Nordland Papier AG	■	4,690	3,499,900	100.00	100.00	DEM 175.0	1,056.3
UPM-Kymmene Ltd	▲	3,822	300,000		100.00	GBP 0.3	12.6
UPM-Kymmene S.A.	▲	3,053	467,494		100.00	FRF 46.7	82.7
Kymi Paper Oy	■	2,778	2,000,000	100.00	100.00	FIM 200.0	206.1
UPM-Kymmene Sales GmbH	▲	2,771			100.00	DEM 5.0	33.4
Yhtyneet Sahat Oy	■	2,306	22,600	92.92	100.00	FIM 113.0	373.5
Schauman Wood Oy	■	2,224	3,000,000	100.00	100.00	FIM 300.0	300.0
UPM-Kymmene Inc.	▲	2,217	241		100.00	USD 0.0	104.0
Blandin Paper Company	■	2,117			100.00	USD 0.0	2,045.4
Puukeskus Oy	▲	1,423	55,000	100.00	100.00	FIM 55.0	105.9
Shotton Paper Company plc	■	1,375	145,700,100		100.00	GBP 145.7	1,233.9
UPM-Kymmene S.A.	▲	1,177	11,000		100.00	ESP 11.0	3.0
Raflatac S.A.	■	1,080	85,000		100.00	FRF 85.0	77.0
Stracel S.A.	■	1,064	15,496,546		99.98	FRF 697.3	1,459.9
Raflatac Oy	■	1,059	25,000	100.00	100.00	FIM 125.0	132.4
Chapelle Darblay S.A.	■	1,007	999,994		100.00	FRF 100.0	2,524.6
Caledonian Paper plc	■	1,004	16,000,000		100.00	GBP 16.0	809.1
UPM-Kymmene Srl.	▲	945	5,000	99.98	100.00	ITL 5,000.0	18.1
UPM-Kymmene B.V.	▲	901	250		100.00	NLG 0.3	0.4
Raflatac Ltd	■	798	4,000,000		100.00	GBP 4.0	269.7
UPM-Kymmene Seaways Oy Ltd	▲	787	8,000	100.00	100.00	FIM 0.8	2.1
Brooks Group Ltd	▲	743	1,501,100	100.00	100.00	IEP 1.5	83.8
UPM-Kymmene S.A.	▲	630	2,499		100.00	BEF 2.5	0.7
Lohjan Paperi Oy	■	608	24,500	100.00	100.00	FIM 24.5	70.0
Raflatac GmbH	▲	597			100.00	DEM 2.5	16.0
Schauman Wood GmbH	▲	564	1		100.00	DEM 0.5	1.5
UPM-Kymmene Pty.Ltd.	▲	523	80,999	100.00	100.00	AUD 0.1	0.8
Anco Trae A/S	▲	517	27,375	68.90	100.00	DKK 27.4	35.0
UPM-Kymmene AG	▲	509	1,497	100.00	100.00	CHF 0.1	0.4
UPM-Kymmene GmbH	▲	508	1	100.00	100.00	ATS 1.0	0.4
Papeteries de Docelles S.A.	■	477	2,495		99.76	FRF 0.2	53.9
UPM-Kymmene A/S	▲	438	6	100.00	100.00	DKK 2.0	1.6
Walki Wisa GmbH	■	436			99.96	DEM 2.4	29.9
Rosenlew - St. Frères Emballage S.A.	■	413	682,494		99.99	FRF 68.2	147.9
UPM-Kymmene AB	▲	371			100.00	SEK 0.4	0.4
Nortrans Speditionsgesellschaft mbH	▲	333			75.00	DEM 0.2	1.5
Schauman B.V.	▲	319	175		100.00	NLG 0.2	0.1
UPM Pack S.A.	▲	319	14,994		99.94	FRF 1.5	1.4
DCP-Lohja Inc.	■	315	100		100.00	USD 0.0	0.5
Schauman S.A.	▲	308	1,500	0.07	100.00	FRF 15.0	8.3
UPM-Kymmene Distribution GmbH	▲	292			100.00	DEM 0.1	0.3
UPM Speciality Papers Ltd	▲	289	100		100.00	GBP 0.0	0.5
UPM Raflatac Inc.	▲	275	1,200		100.00	USD 0.1	26.0
UPM-Kymmene AS	▲	268	2,000	100.00	100.00	NOK 2.0	1.5
UPM Pack GmbH	▲	267			100.00	DEM 0.1	0.4
K & K Verpackungen GmbH	▲	247			99.94	DEM 1.6	13.5
Oy Rauma Stevedoring Ltd	▲	241	8,000	100.00	100.00	FIM 8.0	7.0
Malvaux S.A.	■	239	27,999		100.00	FRF 15.6	12.7
Walkisoft GmbH	■	226			99.98	DEM 4.5	53.5
Oy Paperi-Dahlberg Ab	▲	225	39,000	65.00	65.00	FIM 3.9	12.8
UPM-Kymmene Sp. z o.o.	▲	223		100.00	100.00	PLZ 0.3	0.5
Walki Wisa Ltd	■	218	3,548,004		100.00	GBP 1.1	121.4
Schauman (UK) Ltd	▲	187	1,000,000		100.00	GBP 1.0	8.2
UPM-Kymmene Comercializacao de Papel, Lda	▲	186		0.30	100.00	PTE 7.5	0.7
Raflatac Iberica S.A	▲	180	1,359		100.00	ESP 135.9	4.8
Sterling-Lohja Ltd	■	175	220,000		100.00	GBP 0.2	16.9
UPM-Kymmene Distribution Ltd	▲	169	100		100.00	GBP 0.0	0.0

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 mill.	Book value MFIM
Shares in subsidiaries, cont.							
UPM-Asunnot Oy	○	148	40,000	79.48	100.00	FIM 200.0	256.8
UPM-Kymmene (Canada) Inc.	▲	147	14		100.00	CAD 0.0	6.0
Tilhill Economic Forestry	○	139	5,000,000		100.00	GBP 5.0	43.5
UPM-Kymmene (HK) Ltd.	▲	135	30,000	100.00	100.00	HDK 3.0	1.8
UPM-Kymmene (S) Pte Ltd.	▲	134	250		100.00	SGD 0.0	0.8
Mahogany Oy	■	130	5,000	100.00	100.00	FIM 5.0	10.0
Schauman Wood AB	▲	127	12,000		100.00	SEK 1.2	0.3
Kalso-Teollisuus Oy	■	126	172		100.00	FIM 1.7	27.8
Raflatac Italia Srl.	▲	123	60,000		100.00	ITL 60.0	0.2
United Sawmills France S.A.	▲	122	24,995	4.00	99.98	FRF 2.5	4.5
Rosenlew Emballage AB	■	120	240,000	100.00	100.00	SEK 24.0	32.1
Walki Sack B.V.	■	120	12,000	100.00	100.00	NLG 12.0	24.0
Walki Kuori Oy	○	116	65,000	100.00	100.00	FIM 65.0	67.8
UPM-Kymmene Distribution S.A.	▲	115	18,994		99.97	FRF 1.9	1.9
Raflatac AB	▲	115	3,775		100.00	SEK 1.1	0.7
Walki Films Ltd	▲	112	2,510		100.00	GBP 0.0	4.2
Walki Paperisto Oy	○	102	4,800	100.00	100.00	FIM 24.0	24.0
Forest Union GIE	○	94	300		100.00	FRF 0.0	0.0
Walkisoft Finland Oy	■	94	2,000	100.00	100.00	FIM 10.0	31.7
Walkisoft USA Inc.	■	93	2,400		100.00	USD 0.0	122.3
Walki Sack S.A.	■	88	124,244	84.60	100.00	ESP 124.2	28.8
UPM Pack Srl.	▲	86		100.00	100.00	ITL 190.0	0.6
Raflatac Handels GmbH	▲	83			100.00	ATS 5.0	2.2
Rosenlew AS	■	80	12,000	100.00	100.00	NOK 6.0	19.1
Raflatac A/S	▲	78	800		100.00	DKK 0.8	3.3
UPM-Kymmene Distribution N.V.	▲	73	6,000	100.00	100.00	BEF 12.0	1.3
Werla Insurance Company Ltd	○	68	1,000,000	100.00	100.00	FIM 1.0	5.2
Bonvesta Oy	○	54	198,000	100.00	100.00	FIM 99.0	442.6
Lohja Papierprodukte GmbH	▲	53	100		100.00	DEM 0.1	0.1
UPM Pack S.A.	▲	53	10,000	100.00	100.00	ESP 10.0	0.4
Walki Flex S.A.	■	47	59,994		99.99	FRF 6.0	43.5
Schauman Iberica S.A.	▲	46	10,000		100.00	ESP 40.0	4.7
Rabopale S.A.	▲	45	9,995		99.95	FRF 2.5	2.3
UPM Net Services sa / nv	○	44	554	0.89	100.00	BEF 6.9	1.1
Raflatac (Australia) Pty Ltd	○	44	6,050,000		100.00	AUD 6.1	24.2
N.V. Rosenlew S.A.	■	43	1,500	98.63	99.94	BEF 35.0	19.1
Oy Tilgmann Ab	■	43	1,500,000	100.00	100.00	FIM 15.0	19.0
Parkanon Lista Oy	■	42	1,000	100.00	100.00	FIM 0.5	5.0
UPM-Service Oy	○	41	60	100.00	100.00	FIM 0.1	0.1
Apex International s.r.o	■	36		100.00	100.00	CZK 100.1	32.7
Raflatac Polska Sp. z o.o.	▲	36	9,786		100.00	PLZ 1.0	1.7
United Sawmills Deutschland GmbH	▲	34			100.00	DEM 0.1	0.1
Unicarta Oy	○	33	2,020	100.00	100.00	FIM 10.1	19.0
Ikapack Oy	■	30	102	100.00	100.00	FIM 1.0	11.8
Rosenlew Portugal Embalagens SA	▲	30	30,000	100.00	100.00	PTE 30.0	0.9
Varant N.V.	▲	27	19,584		61.20	BEF 0.0	0.1
Oy Alfa-Bag Ab	■	25	1,501	100.00	100.00	FIM 0.3	18.5
Kokkolan Puutavara Oy	▲	24	400		100.00	FIM 0.0	4.0
Forexplo S.A.	○	22	67,975		99.96	FRF 6.8	5.6
Länsi-Suomen Voima Oy	○	20	10,220	51.10	51.10	FIM 10.2	349.0
Raflatac (S) Pte Ltd	▲	18	100		100.00	SGD 0.1	0.3
R-Pakki Oy	○	18	150	100.00	100.00	FIM 0.0	0.1
A/O Fin-Stroimaterial	▲	16	100		100.00	FIM 0.0	0.6
Rosenlew S.A.	■	15	9,994		99.94	FRF 1.0	0.7
Rosenlew Inc.	■	15	400		100.00	USD 0.0	20.4
Rosenlew Minibulk Ltd	■	14	1,100	100.00	100.00	GBP 0.0	0.0
Kalso S.A.	■	13	6,000		99.90	FRF 9.2	0.0
UPM-Kymmene (Pty) Ltd (SA)	▲	12	100		100.00	ZAR 0.0	0.3
Finnpap Oy	▲	12	1,000	100.00	100.00	FIM 10.0	98.7

	Production ■ Sales and distribution ▲ Other ○	Turnover MFIM	Number of shares	Parent company holding %	Group holding %	Nominal value Currency mill.	Book value MFIM
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Shares in subsidiaries, cont.

UPM-Kymmene Seven Seas Oy	▲	12	2,000		100.00	FIM 2.0	2.0
Puukeskus AS	▲	12	100		100.00	EEK 0.0	1.1
Walki Flexoprint Oy	■	12	200	100.00	100.00	FIM 2.0	6.0
Raflatac CZ s.r.o	▲	12	1		100.00	CZK 0.0	0.1
UPM-Kymmene Distribution Sp. z o.o.	▲	11		100.00	100.00	PLZ 0.4	0.6
UPM-Kymmene Beteiligungs GmbH	○			25.00	100.00	DEM	81.8
UPM-Kymmene Groupe S.A.	○		19,787,870	100.00	100.00	FRF 1,978.8	2,842.2
UPM-Kymmene Investments, Inc.	○		2,925	100.00	100.00	USD 0.0	1,627.4
UPM-Kymmene UK plc	○		26,993,161	80.73	100.00	GBP 27.3	292.5

Shares in participating interest companies

Asia Pacific Forest Products (Suzhou) Pte. Ltd			113,680	49.00	49.00	SGD 0.1	629.1
Cervuctum Oy			250,000	31.25	31.25	FIM 25.0	25.0
Chudowo-RWS					34.40	RUR 0.1	6.6
Combitrans Oy			117	39.00	39.00	FIM 1.2	1.3
Compania Forestal Oriental S.A.				38.28	38.28	UYP	141.5
Corenso United Oy Ltd			45,240	29.00	29.00	FIM 45.2	59.7
AS Forestex			4,046	33.72	33.72	EEK 0.4	1.6
FY-Industries Oy			1,840	47.92	47.92	FIM 1.8	0.0
Jyväs-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 Finnish Peroxides Ab			12,500	25.00	25.00	FIM 12.5	87.1
Oy Keskuslaboratorio - Centrallaboratorium Ab			2,064,517	37.91	37.91	FIM 2.1	4.0
Oy Metsä-Botnia Ab			31,708	47.00	47.00	FIM 317.1	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	22.98	22.98	FIM 0.2	11.9
Petersonwalki Oy			42,000	30.00	30.00	FIM 42.0	42.0
Osakeyhtiö Pientare			3,379	45.66	45.66	FIM 2.2	47.1
Pohjolan Voima Oy			15,711,103	46.27	46.27	FIM 157.1	1,511.8
Raflatac Oceania Pty Ltd					50.00	AUD 0.0	13.0
Rauma Oyj			18,291,198	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	31.99	31.99	FIM 9.6	12.5
Oy Timberpak Ab			300	33.33	33.33	FIM 1.5	1.5

Other shares and holdings

Kemijoki Oy			100,797	4.13	4.13	FIM 10.1	993.1
Metsä-Serla Oyj, A			211,240	0.15	0.15	FIM 2.1	14.3
Neptun Maritime Oyj, A			4,824,165	7.76	7.76	FIM 48.2	56.9
Neptun Maritime Oyj, K			827,740	1.33	1.33	FIM 8.3	13.2
Nokia Oyj, K			6,284,968	1.04	1.04	FIM 15.7	124.2
Norvestia Oyj, B			40,000	0.78	0.78	FIM 0.8	1.2
Pohjola-Yhtymä Vakuutus Oyj, A			479,002	1.18	1.18	FIM 2.4	96.0
Pohjola-Yhtymä Vakuutus Oyj, B			189,501	0.47	0.47	FIM 0.9	16.8
Polar-Yhtymä Oyj, K			14,836,442	8.24	8.24	FIM 74.2	33.4

Additionally, the most important shareholdings included in stocks: 2,660,617 Stora Enso Oyj Series A and 3,276,500 Series R shares.

Quarterly figures 1997-1998

FIM million	Total 1998	Total 1997	IV/98	III/98	II/98	I/98	IV/97	III/97	II/97	I/97
Turnover by division										
Magazine papers	14,895	11,888	3,826	3,698	3,947	3,424	3,647	2,879	2,890	2,472
Newsprint	6,282	5,795	1,623	1,586	1,486	1,587	1,599	1,424	1,435	1,337
Fine papers	7,240	7,252	1,682	1,792	1,819	1,947	1,832	1,707	1,882	1,831
Converting materials	10,017	9,312	2,293	2,462	2,683	2,579	2,532	2,346	2,300	2,134
Sawmilling	4,988	4,953	1,265	1,241	1,322	1,160	1,319	1,212	1,326	1,096
Plywood	3,121	3,055	731	677	854	859	860	661	813	721
Chemical pulp	3,128	3,258	662	767	821	878	852	872	691	843
Forest	6,481	6,242	1,703	1,507	1,564	1,707	1,618	1,469	1,491	1,664
Energy	2,823	2,810	694	626	682	821	745	637	634	794
Other	3,025	3,459	763	621	688	953	686	946	1,082	745
Internal sales	-12,265	-11,791	-2,978	-2,982	-3,066	-3,239	-3,020	-2,837	-2,848	-3,086
Total	49,735	46,233	12,264	11,995	12,800	12,676	12,670	11,316	11,676	10,551
Businesses disposed of ⁴⁾	-	4,173	-	-	-	-	-	-	1,638	2,535
Turnover, total	49,735	50,406	12,264	11,995	12,800	12,676	12,670	11,316	13,334	13,086
Operating profit by division										
Magazine papers	2,705	1,077	673	779	705	548	425	337	201	114
Newsprint	766	527	178	237	167	184	178	138	122	89
Fine papers	731	480	105	179	206	241	106	132	104	138
Converting materials	505	644	65	118	157	165	139	162	191	152
Sawmilling	210	329	29	52	81	48	82	82	116	49
Plywood	341	262	74	33	117	117	114	25	91	32
Chemical pulp ¹⁾	431	311	-90	186	131	204	189	236	-36	-78
Forest	205	182	36	75	44	50	13	38	75	56
Energy	534	499	183	114	80	157	197	84	73	145
Other ²⁾	-33	705	-23	-20	-28	38	60	201	295	149
Total	6,395	5,016	1,230	1,753	1,660	1,752	1,503	1,435	1,232	846
% of turnover	12.9	10.8	10.0	14.6	13.0	13.8	11.9	12.7	10.5	8.0
Capital gains, net ³⁾	3,237	2,052	1	569	2,136	531	-76	95	1,279	754
Total	9,632	7,068	1,231	2,322	3,796	2,283	1,427	1,530	2,511	1,600
Businesses disposed of ⁴⁾	-	318	-	-	-	-	-	-	99	219
Operating profit, total	9,632	7,386	1,231	2,322	3,796	2,283	1,427	1,530	2,610	1,819
Financial income and expenses	-1,089	-1,814	-255	-326	-136	-372	-531	-379	-430	-474
Profit before extraordinary items	8,543	5,572	976	1,996	3,660	1,911	896	1,151	2,180	1,345
Extraordinary items	-	-	-	-	-	-	-	-	-	-
Profit before taxes	8,543	5,572	976	1,996	3,660	1,911	896	1,151	2,180	1,345
Income taxes	-2,418	-1,376	-189	-661	-1,072	-496	-222	-284	-538	-332
Minority interest	-5	-14	5	-3	-5	-2	0	-2	20	-32
Profit for the period	6,120	4,182	792	1,332	2,583	1,413	674	865	1,662	981
¹⁾ Includes the Group's share of the results of associated companies:	246	202	4	85	74	83	89	107	12	-6
²⁾ Includes profit from internal hedging of the Group's foreign currency exposure (corresponding loss included in divisional operating profits):	284	819	-41	25	91	209	184	269	195	171
³⁾ In addition, net capital gains for the divisions:	51	118	41	-6	14	2	45	-	64	9
⁴⁾ Includes Rauma Corporation and Simpele. Rauma has been an associated company since June 1997.										
Production figures										
	1998	1997	IV/98	III/98	II/98	I/98	IV/97	III/97	II/97	I/97
Magazine papers	3,333	2,934	755	878	836	864	802	752	686	694
Newsprint	1,935	1,883	475	507	468	485	485	487	458	453
Fine papers	1,558	1,681	346	393	392	427	419	426	410	426
Other papers	673	651	157	166	175	175	184	176	147	144
Simpele, papers and board	-	49	-	-	-	-	-	-	-	49
Total (1,000 t)	7,499	7,198	1,733	1,944	1,871	1,951	1,890	1,841	1,701	1,766
Sawn timber (1,000 m ³)	2,104	2,050	587	441	582	494	560	421	570	499
Plywood (1,000 m ³)	698	710	168	148	188	194	196	149	189	176
Chemical pulp (1,000 t)	1,913	1,963	434	510	465	504	471	510	431	551
Exchange rates										
			31.12.98	30.9.98	30.6.98	31.3.98	31.12.97	30.9.97	30.6.97	31.3.97
USD			5.096	5.098	5.493	5.606	5.421	5.301	5.189	4.995
GBP			8.428	8.672	9.141	9.401	8.992	8.554	8.629	8.134
SEK			0.627	0.650	0.689	0.704	0.686	0.697	0.672	0.657
DEM			3.040	3.044	3.039	3.035	3.028	2.992	2.983	2.966
FRF			0.906	0.908	0.907	0.906	0.905	0.891	0.884	0.880
CAD			3.292	3.362	3.741	3.942	3.782	3.834	3.762	3.638
XEU (EUR 31.12.98)			5.946	5.991	6.020	6.030	5.989	5.865	5.855	5.765

Key figures, 1989-1998, in markka ¹⁾

Operations (in millions)	1998	1997	1996	1995	1994	1993	1992	1991	1990	1989
Turnover, current businesses	49,735	46,233	41,151	44,308	38,898	35,720	28,594	28,159	28,507	24,911
Turnover, businesses disposed of	—	4,173	10,606	10,430	9,068	8,243	8,765	7,559	8,498	8,338
Total turnover	49,735	50,406	51,757	54,738	47,966	43,963	37,359	35,718	37,005	33,249
Operating profit, excluding capital gains, net	6,344	5,216	4,914	8,143	5,116	3,647	2,049	935	2,820	3,196
% of turnover	12.8	10.3	9.5	14.9	10.7	8.3	5.5	2.6	7.6	9.6
Operating profit, total	9,632	7,386	5,591	8,504	5,477	4,073	2,129	1,005	3,096	3,296
% of turnover	19.4	14.7	10.8	15.5	11.4	9.3	5.7	2.8	8.4	9.9
Profit/loss before extraordinary items	8,543	5,572	3,555	6,278	3,110	-87	-2,154	-2,821	1,150	2,094
% of turnover	17.2	11.1	6.9	11.5	6.5	-0.2	-5.8	-7.9	3.1	6.3
Profit/loss before taxes	8,543	5,572	3,550	5,709	2,776	-81	-1,827	-2,303	1,346	2,378
% of turnover	17.2	11.1	6.9	10.4	5.8	-0.2	-4.9	-6.4	3.6	7.2
Profit/loss for the period	6,120	4,182	2,294	3,800	1,902	-47	-965	-1,738	801	1,691
% of turnover	12.3	8.3	4.4	6.9	4.0	-0.1	-2.6	-4.9	2.2	5.1
Exports and foreign operations (1997: current operations)	42,921	38,781	43,765	47,736	41,838	38,058	31,000	29,980	30,139	25,954
Exports from Finland (1997: current operations)	27,176	24,689	25,026	28,006	25,858	22,625	15,925	16,046	16,757	16,638
Fixed assets and other long-term investments	52,332	50,719	48,302	45,725	45,313	46,908	46,584	42,960	40,539	32,485
Stocks	6,270	6,224	8,132	9,513	7,279	6,786	7,475	8,506	8,875	8,108
Other current assets	9,472	10,861	11,294	11,370	11,324	11,809	12,960	13,156	12,045	12,882
Assets	68,074	67,804	67,728	66,608	63,916	65,503	67,019	64,622	61,459	53,475
Shareholders' equity	31,575	26,983	23,826	22,312	18,890	16,955	15,773	15,892	17,718	17,678
Minority interest	142	160	884	764	104	105	111	130	183	157
Provisions	613	621	442	215	230	194	—	—	—	—
Long-term liabilities	21,574	22,399	21,354	23,016	25,026	28,741	30,925	30,390	27,297	21,091
Current liabilities	14,170	17,641	21,222	20,301	19,666	19,508	20,210	18,210	16,261	14,549
Equity and liabilities	68,074	67,804	67,728	66,608	63,916	65,503	67,019	64,622	61,459	53,475
Capital employed	55,406	55,717	54,384	52,795	52,528	55,730	56,265	53,120	49,735	42,504
Return on equity, %	21.8	16.6	10.4	22.0	12.9	-0.4	-8.3	-13.4	3.3	8.9
Return on capital employed, %	18.0	13.4	10.6	16.8	11.0	7.0	3.3	1.3	8.8	11.1
Equity to assets ratio, %	45.3	40.1	37.2	35.6	30.3	26.4	24.0	25.2	29.7	34.1
Gearing ratio, %	74	93	104	112	156	196	225	200	150	102
Net interest-bearing liabilities	22,233	25,284	25,684	25,914	29,598	33,376	35,809	32,063	26,845	18,183
Gross capital expenditure	4,105	7,875	6,032	4,918	3,483	1,951	3,321	4,303	9,417	6,962
% of turnover	8.3	15.6	11.7	9.0	7.3	4.4	8.9	12.0	25.4	20.9
Net capital expenditure	-618	2,465	4,432	3,318	2,697	330	2,381	3,460	7,749	6,149
Personnel at year end, current businesses	32,351	33,814	32,826	33,308	33,176	32,564	33,688	36,403	38,102	36,493
Personnel at year end, businesses disposed of	—	—	10,810	11,363	10,812	10,173	10,118	12,668	14,020	13,833
Personnel at year end, total	32,351	33,814	43,636	44,671	43,988	42,737	43,806	49,071	52,122	50,326
Share-related indicators										
Earnings per share, FIM (diluted 1998: FIM 21.94)	22.69	15.55	8.60	16.44	8.60	-0.28	-5.91	-9.85	2.45	6.23
Shareholders' equity per share, FIM	112.73	97.56	86.31	80.64	69.08	62.78	63.19	63.72	71.05	70.02
Dividend per share, FIM	6.50 ²⁾	5.50	4.50	4.50	2.19	0.88	0.37	0.65	1.36	2.00
Dividend to earnings ratio, %	28.6	35.4	52.3	27.4	25.5	neg.	neg.	neg.	55.3	32.2
Effective dividend yield, %	4.6	5.0	4.7	5.5	2.5	1.0	0.8	1.5	2.8	3.0
P/E ratio	6.3	7.0	11.2	5.0	10.2	neg.	neg.	neg.	19.5	10.7
Adjusted share price at 31 Dec., FIM	142.00	109.00	96.50	82.06	87.78	86.35	44.18	42.52	47.74	66.55
Market capitalization	39,420	29,472	25,802	21,941	23,471	22,902	11,700	11,261	11,906	16,803
Shares traded ³⁾	20,060	18,582	6,906	—	—	—	—	—	—	—
Shares traded (1000s)	147,035	151,054	73,187	—	—	—	—	—	—	—
Shares traded, % of all shares	53.4	56.2	41.1	—	—	—	—	—	—	—
Highest/lowest quotation, FIM	100.00/174.00	94.00/152.40	85.50/105.00	—	—	—	—	—	—	—
Average quotation for the period, FIM	136.43	123.02	94.36	—	—	—	—	—	—	—
Number of shares, average (1000s)	269,723	268,888	267,374	265,779	260,081	254,479	249,601	249,387	249,653	228,404
Number of shares at end of period (1000s)	264,844	270,389	267,374	267,377	262,587	258,120	249,601	249,387	249,369	252,482
Production figures										
Magazine paper	3,333	2,934	2,460	2,897	2,643	2,356	2,070	1,965	1,969	1,678
Newsprint	1,935	1,883	1,592	1,845	1,809	1,740	1,623	1,586	1,493	1,004
Fine paper	1,558	1,681	1,429	1,356	1,484	1,292	1,129	1,118	1,066	1,026
Other papers	673	700	653	635	672	636	629	587	705	693
Total (1000 t)	7,499	7,198	6,134	6,733	6,608	6,024	5,451	5,256	5,233	4,401
Sawn timber (1000 m ³)	2,104	2,050	1,857	1,939	2,075	1,957	1,777	1,532	1,934	1,915
Plywood (1000 m ³)	698	710	617	585	534	442	303	286	389	333
Chemical pulp (1000 t)	1,913	1,963	1,874	2,000	2,040	1,972	1,830	1,924	1,956	2,023

Key figures, 1989–1998, in euros ⁴⁾

Operations (in millions)	1998	1997	1996	1995	1994	1993	1992	1991	1990	1989
Turnover, current businesses	8,365	7,776	6,921	7,452	6,542	6,008	4,809	4,736	4,795	4,190
Turnover, businesses disposed of	–	702	1,784	1,754	1,525	1,386	1,474	1,271	1,429	1,402
Total turnover	8,365	8,478	8,705	9,206	8,067	7,394	6,283	6,007	6,224	5,592
Operating profit, excluding capital gains, net	1,067	877	826	1,370	860	613	345	157	474	538
% of turnover	12.8	10.3	9.5	14.9	10.7	8.3	5.5	2.6	7.6	9.6
Operating profit, total	1,620	1,242	940	1,430	921	685	358	169	521	554
% of turnover	19.4	14.7	10.8	15.5	11.4	9.3	5.7	2.8	8.4	9.9
Profit/loss before extraordinary items	1,437	937	598	1,056	523	–15	–362	–474	193	352
% of turnover	17.2	11.1	6.9	11.5	6.5	–0.2	–5.8	–7.9	3.1	6.3
Profit/loss before taxes	1,437	937	597	960	467	–14	–307	–387	226	400
% of turnover	17.2	11.1	6.9	10.4	5.8	–0.2	–4.9	–6.4	3.6	7.2
Profit/loss for the period	1,029	703	386	639	320	–8	–162	–292	135	284
% of turnover	12.3	8.3	4.4	6.9	4.0	–0.1	–2.6	–4.9	2.2	5.1
Exports and foreign operations (1997: current operations)	7,219	6,522	7,361	8,029	7,037	6,401	5,214	5,042	5,069	4,365
Exports from Finland (1997: current operations)	4,571	4,152	4,209	4,710	4,349	3,805	2,678	2,699	2,818	2,798
Fixed assets and other long-term investments	8,802	8,530	8,124	7,691	7,621	7,890	7,835	7,225	6,818	5,463
Stocks	1,054	1,047	1,368	1,600	1,224	1,141	1,257	1,431	1,493	1,364
Other current assets	1,593	1,827	1,899	1,912	1,905	1,986	2,180	2,213	2,026	2,167
Assets	11,449	11,404	11,391	11,203	10,750	11,017	11,272	10,869	10,337	8,994
Shareholders' equity	5,311	4,538	4,007	3,753	3,177	2,851	2,653	2,673	2,980	2,973
Minority interest	24	27	149	128	17	18	19	22	31	27
Provisions	103	105	74	36	39	33	0	0	0	0
Long-term liabilities	3,628	3,767	3,591	3,871	4,209	4,834	5,201	5,111	4,591	3,547
Current liabilities	2,383	2,967	3,570	3,415	3,308	3,281	3,399	3,063	2,735	2,447
Equity and liabilities	11,449	11,404	11,391	11,203	10,750	11,017	11,272	10,869	10,337	8,994
Capital employed	9,319	9,371	9,147	8,879	8,835	9,373	9,463	8,934	8,365	7,149
Return on equity, %	21.8	16.6	10.4	22.0	12.9	–0.4	–8.3	–13.4	3.3	8.9
Return on capital employed, %	18.0	13.4	10.6	16.8	11.0	7.0	3.3	1.3	8.8	11.1
Equity to assets ratio, %	45.3	40.1	37.2	35.6	30.3	26.4	24.0	25.2	29.7	34.1
Gearing ratio, %	74	93	104	112	156	196	225	200	150	102
Net interest-bearing liabilities	3,739	4,252	4,320	4,358	4,978	5,613	6,023	5,393	4,515	3,058
Gross capital expenditure	690	1,324	1,015	827	586	328	559	724	1,584	1,171
% of turnover	8.3	15.6	11.7	9.0	7.3	4.4	8.9	12.0	25.4	20.9
Net capital expenditure	–104	415	745	558	454	56	400	582	1,303	1,034
Personnel at year end, current businesses	32,351	33,814	32,826	33,308	33,176	32,564	33,688	36,403	38,102	36,493
Personnel at year end, businesses disposed of	–	–	10,810	11,363	10,812	10,173	10,118	12,668	14,020	13,833
Personnel at year end, total	32,351	33,814	43,636	44,671	43,988	42,737	43,806	49,071	52,122	50,326
Share-related indicators										
Earnings per share, EUR (diluted 1998: EUR 21.94)	3.82	2.62	1.45	2.76	1.45	–0.05	–0.99	–1.66	0.41	1.05
Shareholders' equity per share, EUR	18.96	16.41	14.52	13.56	11.62	10.56	10.63	10.72	11.95	11.78
Dividend per share, EUR	1.09 ²⁾	0.93	0.76	0.76	0.37	0.15	0.06	0.11	0.23	0.34
Dividend to earnings ratio, %	28.6	35.4	52.3	27.4	25.5	neg.	neg.	neg.	55.3	32.2
Effective dividend yield, %	4.6	5.0	4.7	5.5	2.5	1.0	0.8	1.5	2.8	3.0
P/E ratio	6.3	7.0	11.2	5.0	10.2	neg.	neg.	neg.	19.5	10.7
Adjusted share price at 31 Dec., EUR	23.88	18.33	16.23	13.80	14.76	14.52	7.43	7.15	8.03	11.19
Market capitalization	6,630	4,957	4,340	3,690	3,948	3,852	1,968	1,894	2,002	2,826
Shares traded ³⁾	3,374	3,125	1,162	–	–	–	–	–	–	–
Shares traded (1000s)	147,035	151,054	73,187	–	–	–	–	–	–	–
Shares traded, % of all shares	53.4	56.2	41.1	–	–	–	–	–	–	–
Highest/lowest quotation, EUR	16.82/29.26	15.81/25.63	14.38/17.66	–	–	–	–	–	–	–
Average quotation for the period, EUR	22.95	20.69	15.87	–	–	–	–	–	–	–
Number of shares, average (1000s)	269,723	268,888	267,374	265,779	260,081	254,479	249,601	249,387	249,653	228,404
Number of shares at end of period (1000s)	264,844	270,389	267,374	267,377	262,587	258,120	249,601	249,387	249,369	252,482

Formulae for calculating indicators are given on page 66.

¹⁾ The figures for 1989–1995 are based on the combined consolidated financial statements (FAS) of Kymmene and Repola. Share-related indicators are based on the share exchange ratios for the two companies' shares on amalgamation merger at 30 April 1996.

²⁾ Proposal

³⁾ Shares traded and share prices for 1996 are for the period 1 May - 31 December. Shares traded in 1998 includes 13,519,438 own shares bought by the company for FIM 1,836 million.

⁴⁾ The figures in Finnish markka have been converted into euros using the official conversion rate, 1 euro = 5.94573 markka.

Calculation of indicators; exchange rates

FORMULAE FOR CALCULATION OF FINANCIAL INDICATORS

RETURN ON EQUITY, %:

$$\frac{\text{Profit (loss) before extraordinary items and taxes} - \text{taxes}}{\text{Shareholders' equity} - \text{capital loan} - \text{own shares} + \text{minority interest (average of year beginning and year end)}} \times 100$$

RETURN ON CAPITAL EMPLOYED, %:

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

EQUITY TO ASSETS RATIO, %:

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

GEARING RATIO, %:

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

RETURN ON CAPITAL EMPLOYED (ROCE) FOR THE DIVISIONS (OPERATING CAPITAL), %:

$$\frac{\text{Operating profit}}{\text{Non-current assets} + \text{stocks} + \text{trade receivables} - \text{trade payables}} \times 100$$

FORMULAE FOR CALCULATION OF ADJUSTED SHARE-RELATED INDICATORS

EARNINGS PER SHARE:

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

SHAREHOLDERS' EQUITY PER SHARE:

$$\frac{\text{Shareholders' equity}^{1)} - \text{capital loan} - \text{own shares}}{\text{Adjusted number of shares at end of period}}$$

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 1998

(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 1998. The market values and the basis for valuations are given in the Notes to the accounts on page 50.

EXCHANGE RATES

Rates at 31 Dec.	1998	1997	1996
USD	5.096	5.421	4.644
GBP	8.428	8.992	7.869
SEK	0.627	0.686	0.675
DEM	3.040	3.028	2.988
FRF	0.906	0.905	0.886
CAD	3.292	3.782	3.390
XEU (ecu), EUR (euro)	5.94573	5.989	5.770
Average rates	1998	1997	1996
USD	5.344	5.191	4.594
GBP	8.849	8.501	7.173
SEK	0.673	0.680	0.685
DEM	3.038	2.994	3.053
FRF	0.906	0.889	0.898
CAD	3.612	3.750	3.369
XEU (Ecu)	5.994	5.864	5.753

¹⁾ In 1993–1997, shareholders' equity includes a capital loan (1993–96: FIM 750 million, 1997: FIM 603 million).

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 company's shares have a nominal value of FIM 10. The Board of Directors proposes to the Annual General Meeting to be held on 23 March 1999 that, following the introduction of the euro, the company's shares should no longer have a nominal value.

The shares are included in the computerized book entry system for securities.

At 31 December 1998, the number of shares in issue was 277,606,069 and the share capital was FIM 2,776,060,690. If the convertible bonds issued by the company in 1994 are fully converted into 6,427,122 shares, and all 6,000,000 shares attached to the share options distributed to the company's directors are also subscribed, the share capital of UPM-Kymmene Corporation will rise to a maximum of FIM 2,900,331,910 and the number of shares to 290,033,191, of which total new shares will represent 4.29% (2.22% from the convertible bond loan and 2.07% from share options).

Own shares

UPM-Kymmene Corporation's Annual General Meeting, held on 25 March 1998, approved a proposal by the Board of Directors that the company buy back at least 1,000,000 and at most 13,519,438 of its own shares, i.e. 5% of the share capital. The maximum number of shares approved by the Annual General Meeting was acquired between April and October in accordance with the trading rules of Helsinki Stock Exchange at a cost of FIM 1,836 million, an average price of FIM 135.81 per share. Of these shares, 757,356 were used in paying for the US company Daubert Industries Inc. At the end of the year the company held 12,762,082 of its own shares, acquisition price FIM 1,720 million (FIM 134.77 per share). The Board of Directors proposes to the Annual General Meeting that the UPM-

Kymmene Corporation shares held by the company be declared void and that the company purchase a maximum number of 13,200,000 of its own shares.

Shares held by the company carry no voting rights nor do they qualify for payment of dividend.

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.

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 1,551,923 UPM-Kymmene Corporation shares (including those held by under-age children and by organizations or foundations of which the person has control). These represent 0.56% of the share capital and 0.59% of the voting rights. The members of the Board of Directors, the Managing Director and Deputy Managing Director hold convertible bonds issued in 1994 for a total nominal value of FIM 380,000. The Managing Director and Deputy Managing Director have additionally received 250,000 share options. Conversion of these convertible bonds and equity options into shares could raise UPM-Kymmene Corporation's share capital by FIM 2,529,640, i.e. by 252,964 shares. The shares would have represented 0.09% of the share capital and 0.10% of the voting rights of the company at 31 December 1998.

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.

CHANGES IN SHARE CAPITAL

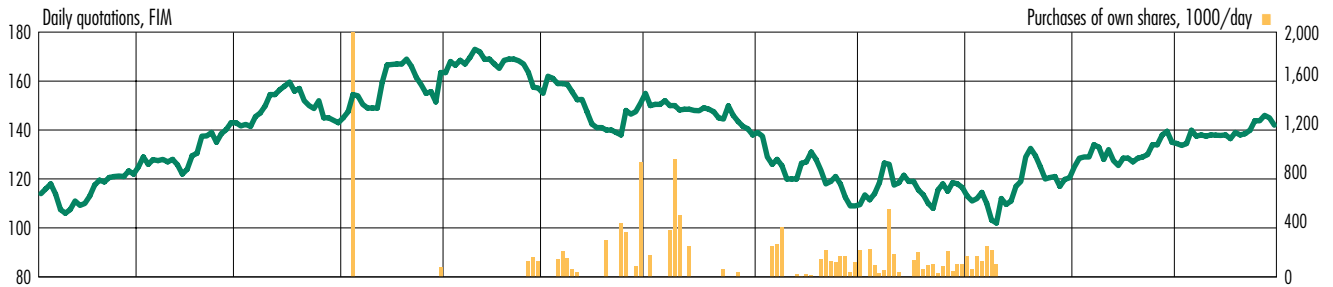
Formation of share capital in the merger 30.4.1996

	No. of shares	Share capital FIM
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

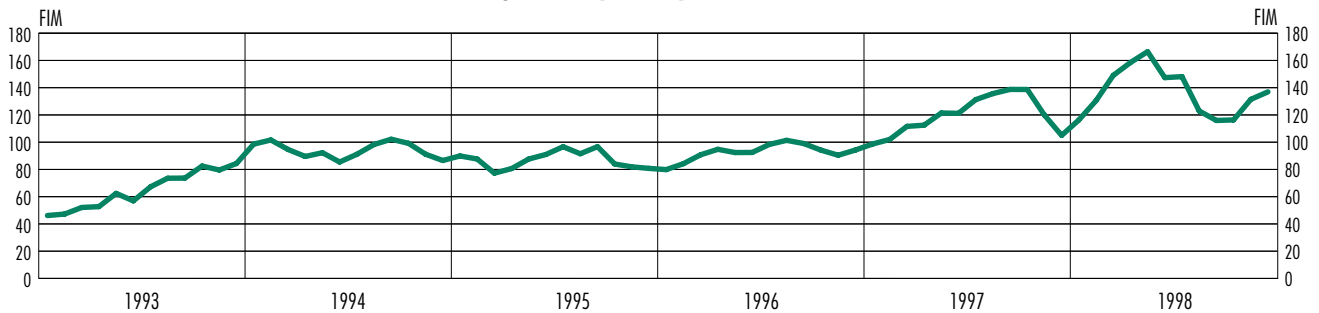
Changes in share capital 1 May 1996–31 December 1998

	Before 1 May 1996	1996	1997	1998
No. of shares at beginning of period		267,373,667	267,373,823	270,388,761
Subscribed under warrant bond issue 1991/II			1,500,000	
Exchanged under 1993 convertible bond issue	514		1,508,230	6,165,322
Exchanged under 1994 convertible bond issue	2,028	156	6,708	1,051,986
No. of shares at end of period		267,373,823	270,388,761	277,606,069
Share capital at end of period		2,673,738,230	2,703,887,610	2,776,060,690

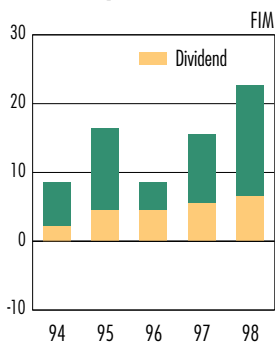
Share price and purchases of own shares in 1998



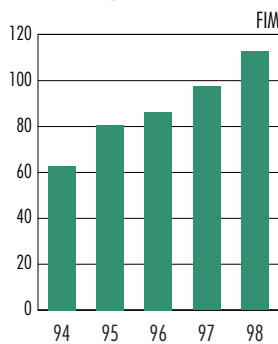
Average monthly share price 1993 – 1998



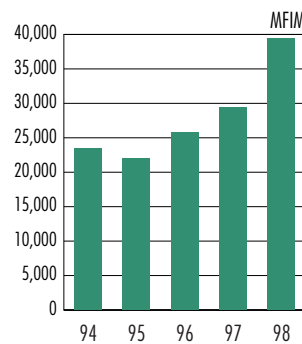
Earnings and dividend per share



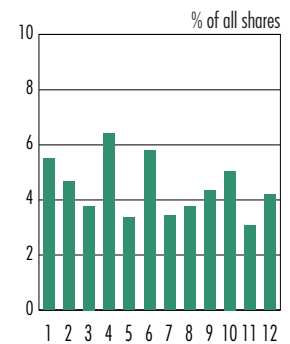
Shareholders' equity per share



Market capitalization



Shares traded Jan. - Dec./1998



Distribution of shareholders 31.12.1998

Size of shareholding	Number of shareholders	% of shareholders	Number of shares, million	% of shares
1 – 100	18,863	33.8	0.9	0.3
101 – 1,000	28,629	51.3	10.4	3.7
1,001 – 10,000	7,573	13.6	19.9	7.2
10,001 – 100,000	647	1.2	16.1	5.8
100,001 – 1,000,000	73	0.1	22.8	8.2
1,000,001 –	22	0.0	71.2	25.7
Total	55,807	100.0	141.3	50.9
Nominee-registered			136.1	49.0
Not registered as book entry units			0.2	0.1
Total			277.6	100.0

Biggest shareholders at 31 December 1998

	Shares 31.12.1998	% of shares	% of votes
Pohjola Group Insurance Corporation	7,680,000	2.77	2.90
Pohjola Non-Life Insurance Ltd	2,585,000	0.93	0.98
Suomi Mutual Life Assurance Company	3,638,554	1.31	1.37
Pohjola Life Assurance Company Ltd	1,480,100	0.53	0.56
	15,383,654	5.54	5.81
Pension Insurance Company Ilmarinen Ltd	9,818,400	3.54	3.71
Industrial Insurance Company Ltd	5,037,000	1.81	1.90
Sampo Enterprise Insurance Company Ltd	860,000	0.31	0.32
Otso Loss of Profits Insurance Company Ltd	1,475,000	0.53	0.56
Sampo Life Insurance Company Ltd	331,000	0.12	0.12
Insurance Company of Finland Ltd	480,087	0.17	0.18
Sampo Insurance Company plc	1,158,900	0.42	0.44
	9,341,987	3.37	3.53
Merita Ltd Pension Fund	392,635	0.14	0.15
Nordica Invest Oy	3,339,200	1.20	1.26
Merita Ltd Pension Foundation	1,036,585	0.37	0.39
Merita Life Insurance	169,880	0.06	0.06
	4,938,300	1.78	1.86
The Finnish Local Government Pensions Institution	3,919,584	1.41	1.48
Gustaf Serlachius (repr. 5 shareholders)	3,133,175	1.13	1.18
Palkkiyhtymä Ltd	679,000	0.24	0.26
Palmills Oy	150,000	0.05	0.06
Oy Premiere Holding Ab	2,014,800	0.73	0.76
	2,843,800	1.02	1.07
Varma-Sampo Mutual Pension Insurance Company	2,887,698	1.04	1.09
Valfin Oy	1,984,396	0.71	0.75
Nokia Oyj	1,910,000	0.69	0.72
Nominees and registered foreign owners*	137,861,094	49.66	52.05
Others	70,821,899	25.51	26.74
	264,843,987	95.40	100.00
Shares held by UPM-Kymmene Corporation	12,762,082	4.60	—
Total	277,606,069	100.00	100.00

* On 4 March 1999, UPM-Kymmene received notification that the shareholding and voting rights in the company held by investment funds managed by Tiger Management had reached 10.09%, thus exceeding the 10% limit.

Shareholder breakdown by sector at 31.12.1998

Households	13.2%
Companies	12.0%
Financial institutions and insurance companies	10.5%
Public bodies	8.6%
Non-profitmaking organizations	6.0%
Non-Finnish nationals	49.7%
Total	100.0%

Stock exchange trading

During 1998, 147.0 million UPM-Kymmene Corporation shares were traded on the Helsinki Stock Exchange (151.1 million in 1997). This represents 53.4% (56.2%) of the total number of shares. The lowest quotation during this period was FIM 100.00 and the highest FIM 174.00. Total trading in UPM-Kymmene Corporation shares on the Helsinki Stock Exchange in 1998 was FIM 20,060 million (18,582 million). The company's shares are also traded under an ADR programme on the OTC market in the United States, on SEAQ International in London, and in Germany on the Freie Markt in Frankfurt, Berlin and Munich.

Taxation value of shares in Finland

For Finnish taxation purposes, the company's share was given a value of FIM 100.00 in 1998.

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.

CONVERTIBLE BONDS AND DIRECTORS' SHARE OPTIONS

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 had the right to convert their bonds from 18 November 1993 onwards. Interest at a fixed 8.25% p.a. was paid on the loan capital.

Company's notification concerning redemption

Under point 7 of the terms and conditions of the loan, in March the company announced its intention to exercise its right to redeem the loan on 15 April 1998. One condition for such redemption was that the trade-weighted average quotation for the shares on 14 April 1998, the day of trading prior to the redemption date, should be at least FIM 136.32. Accordingly, bonds to the value of FIM 600,330,000 were converted into 6,165,322 shares. The portion of the loan remaining after the conversion (FIM 2,760,000) was repaid by the company.

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 con-

version 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 1998, a total of 1,060,878 shares had been subscribed under the issue, 1,050,986 of them during 1998.

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.

Share options to key personnel

The Annual General Meeting of 25 March 1998 authorized the company's Board of Directors to issue a total of 6,000,000 share option warrants to the Group's key personnel and to UPM-Kymmene's wholly-owned subsidiary Unicarta Oy. The warrants are divided into A, B and C warrants, with 2,000 of each. The warrants can be exercised to subscribe 6,000,000 shares.

Holders of A warrants have the right to subscribe shares at FIM 184 each from 1 April 2001. From 1 April 2003, holders of B warrants may subscribe shares at FIM 214 each and holders of C warrants at FIM 307 each. The subscription period for all warrants ends on 30 April 2005.

C warrants were issued to Unicarta Oy. The company's Board of Directors may decide to pass these on to the Group's directors if the one-week average price quoted for the shares on the Helsinki Stock Exchange exceeds FIM 200.

The subscription price was based on the trade-weighted average price (FIM 153.10 per share) quoted on the Helsinki Stock Exchange during the period 18–24 March 1998. The subscription price for holders of A warrants is FIM 30 above the average price, for holders of B warrants FIM 60 above the average price, and for holders of C warrants twice the average price, always rounded up to the next markka. Between 1 May 1998 and the date at which the shares are subscribed the final subscription price will be reduced by the dividend paid without corporate tax credit.

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 1998. 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 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, 16 February 1999

SVH Pricewaterhouse Coopers Oy

Authorised Public Accountants

Tauno Haataja
Authorised Public Accountant

Lars Blomquist
Authorised Public Accountant

Management and auditors

CORPORATE GOVERNANCE

As recommended by the Helsinki Stock Exchange, UPM-Kymmene follows the guidelines issued by the Central Chamber of Commerce and the Confederation of Finnish Industry and Employers relating the governance of publicly quoted joint stock companies.

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 general meeting of shareholders is the company's supreme decision-making body. Under the Companies Act, certain important issues such as amendments to the Articles of Association, the adoption of the accounts, deciding the size of the dividend, and election of members of the Board of Directors and the auditors may only be decided by the general meeting of shareholders.

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. Members of the Board of Directors are elected for a term of one year 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. Members of the Board of Directors may be elected, or removed, only by a resolution of shareholders in general meeting.

The Board of Directors elects from among its number a Chairman and Vice Chairmen for one year at a time.

The Board of Directors has elected, from among its members, an Audit Committee comprising Gustaf Serlachius (Chairman) and members L.J. Jouhki and Vesa Vainio. The Committee's duties include scrutinizing the contents of the accounts, the company's internal control systems and audit. At its meetings, the Committee discusses matters with the company's auditors, President and Chief Executive Officer, Chief Financial Officer and other directors as required.

Matters pertaining to salaries, fees and other remunerations paid to the company's directors are handled by the Compensation Committee comprising Tauno Matomäki (Chairman) and members Jouko K. Leskinen 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. Pursuant to the Companies Act, the Board of Directors elects the company's President and Chief Executive Officer, for whom a written contract of employment has been drawn up.

During 1998, the Board of Directors met 16 times.

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 1998 totalled FIM 6.7 million.

Board of Directors

Chairman

Tauno Matomäki

Vice Chairmen

Jouko K. Leskinen

Iiro Viinanen

Members

Casimir Ehrnrooth

L.J. Jouhki

Juha Niemelä

Jorma Ollila

Gustaf Serlachius

Vesa Vainio

Auditors

SVH PricewaterhouseCoopers Oy (Authorized Public Accountants)

Lars Blomquist (APA)

Deputy auditors

PricewaterhouseCoopers Oy (Authorized Public Accountants)

Merja Lindh (APA)

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

Board of Directors

Tauno Matomäki, 61,

has been a member of the company's Board of Directors since 1996 and served as Chairman in 1998. 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 Pohjolan Voima Oy (PVO Group) and Pohjola Insurance Company Ltd. Owns 8,560 UPM-Kymmene Corporation shares.

Jouko K. Leskinen, 55,

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 plc. 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 plc. He is also Chairman of several of Sampo's subsidiaries. He is Vice Chairman of the Board of the Federation of Finnish Insurance Companies. Owns 6,639 UPM-Kymmene Corporation shares.

Iiro Viinanen, 54,

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. Does not own UPM-Kymmene Corporation shares.

Casimir Ehrnrooth, 67,

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 Plc, Nordbanken Holding AB (publ) (Sweden) and MeritaNordbanken Plc, 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. Owns 233,800 UPM-Kymmene Corporation shares.

L.J. Jouhki, 55,

has been a member of the company's Board of Directors since 1996. He is a Managing Partner of Thom Companies (Thominvest Oy, Thomproperties Oy and Thomesto Oy). He holds a Master of Science degree in economics. He is a member of the boards of several companies, including Finnlines Plc, Fortum Corporation, Oyj Hartwall Abp and Sanoma Corporation. He is also a member of the Supervisory Board of Merita Bank Plc and chairman of the delegation of the Finnish-Russian Chamber of Commerce. Owns 451,947 UPM-Kymmene Corporation shares.

Juha Niemelä, 52,

has been President and Chief Executive Officer of UPM-Kymmene Corporation since the company was formed and a member of the Board of Directors since 1998. 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. Owns 5,768 UPM-Kymmene Corporation shares, 70,000 series A directors' share options and 70,000 series B options, and FIM 50,000 in bonds from the 1994 convertible bond issue.

Jorma Ollila, 48,

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 and by Helsinki University of Technology. 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. Owns FIM 330,000 in bonds from the 1994 convertible bond issue.

Gustaf Serlachius, 63,

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. Owns 835,000 UPM-Kymmene Corporation shares.

Vesa Vainio, 56,

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 Board of Nokia Corporation. He is also Vice Chairman of the Board of Metra Corporation and Chairman of the Board of the Finnish Central Chamber of Commerce. Owns 14 UPM-Kymmene Corporation shares.

Stated shareholdings also include shares held by under-age children and by organizations or foundations of which the person has control.

Executive Board

Juha Niemelä, 52,

President and Chief Executive Officer of UPM-Kymmene Corporation and member of the Board of Directors.

Martin Granholm, 52,

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. Owns 10,195 UPM-Kymmene Corporation shares, 55,000 series A directors' share options and 55,000 series B options.

Jan-Henrik Kulp, 55,

has been the Group's Chief Financial Officer since 1996. He holds a Bachelor of Science degree in economics. He held several 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. He was a member of the Corporate Executive Board of Kymmene Corporation from 1987 to 1995. Owns 1,596 UPM-Kymmene Corporation shares, 35,000 series A directors' share options and 35,000 series B options.

Heikki Sara, 53,

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. Owns 2,000 UPM-Kymmene Corporation shares, 35,000 series A directors' share options and 35,000 series B options.

Kari Toikka, 48,

has been Senior Vice President, Investor Relations and Administration 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. He was appointed Vice President, Corporate Planning, for Repola Ltd in 1990 and a member of the Executive Board in 1994. He was Vice President, Investor Relations, for UPM-Kymmene Corporation from 1996 to 1998. Owns 2,450 UPM-Kymmene Corporation shares, 35,000 series A directors' share options and 35,000 series B options.

Pentti Arvela, 54,

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. Owns 2,120 UPM-Kymmene Corporation shares, 35,000 series A directors' share options and 35,000 series B options.

Berndt Brunow, 49,

has been President, Converting materials, since 1996. He holds a Bachelor of Science degree in economics. He was head of the UPM-News marketing unit at Finnpap between 1989 and 1994, and was President of Finnpap from 1994 to February 1996. Owns 245,897 UPM-Kymmene Corporation shares, 35,000 series A directors' share options and 35,000 series B options.

Ismo Lepola, 58,

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. Owns 2,200 UPM-Kymmene Corporation shares, 35,000 series A directors' share options and 35,000 series B options.

Matti J. Lindahl, 52,

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. Owns 35,000 series A directors' share options and 35,000 series B options.

Kari Makkonen, 51,

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. Owns 7,000 UPM-Kymmene Corporation shares, 35,000 series A directors' share options and 35,000 series B options, and FIM 80,000 in bonds from the 1994 convertible bond issue.

Paavo Ojanpää, 58,

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. Owns 739 UPM-Kymmene Corporation shares, 35,000 series A directors' share options and 35,000 series B options.

Jaakko Rislakki, 58,

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. Owns 5,000 UPM-Kymmene Corporation shares, 35,000 series A directors' share options and 35,000 series B options.

Stated shareholdings also include shares held by under-age children and by organizations or foundations of which the person has control.

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



Converting Materials
Berndt Brunow
President



**Investor Relations
and Administration**
Kari Toikka
Senior Vice President



Packaging Materials
Jaakko Rislakki
President



UPM-Kymmene production plants and sales network



- Production
- Sales and distribution



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Griffin, Hugo Simberg 1899

100 YEARS OF THE GRIFFIN

UPM-Kymmene's corporate symbol, the Griffin, has been employed by the company for 100 years. The Griffin was the outcome of a design competition held at the end of last century to find a distinctive trademark. Kymmene Aktiebolag, one of the companies behind today's UPM-Kymmene, acquired the right to the Griffin from the competition winner, Hugo Simberg.

Several versions of the Griffin have been produced over the years, but the original figure created by Simberg has always been preserved by the artists involved. The Griffin was probably chosen because of what it symbolizes: a guard watching over the green gold of the northern forests.

This heraldic symbol, which is half eagle and half lion, arrived in Europe by way of Greece. Ancient belief has it that the Griffin possesses the speed and strength of the king of birds and the king of beasts.

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