UPM

UPM-Kymmene Annual Report 2002

FINANCIAL INFORMATION IN 2003

During the 2003 financial period, UPM-Kymmene will publish the following financial information in Finnish, Swedish, English, German and French:

30 January	Financial Review 2002
23 April	Interim Review for January – March 2003
17 July	Interim Review for January – June 2003
23 October	Interim Review for January – September 2003

These publications can be ordered from UPM-Kymmene's Head Office, address P.O. Box 380, 00101 Helsinki, Finland, tel. +358 204 15 0020, fax +358 204 15 110, or from the company's Internet pages, address http://www.upm-kymmene.com

STOCK EXCHANGE LISTINGS

UPM-Kymmene's shares are listed on the Helsinki and New York stock exchanges. On the New York Stock Exchange, trading is in American Depository Receipts (ADR). One UPM-Kymmene ADR is equivalent to one share in the company.

Helsinki Exchanges: Trading code UPM1V
New York Stock Exchange: Trading code UPM

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Fax +358 204 15 0303
E-mail: ir@upm-kymmene.com

ANNUAL GENERAL MEETING

UPM-Kymmene Corporation will hold its Annual General Meeting on Wednesday 19 March 2003 beginning at 1.30 pm in the Congress Wing of Helsinki Fair Centre, address Messuaukio 1, 00520 Helsinki. Instructions for participation will be given in the summons to the meeting and can also be found on the company's Internet page at http://www.upm-kymmene.com

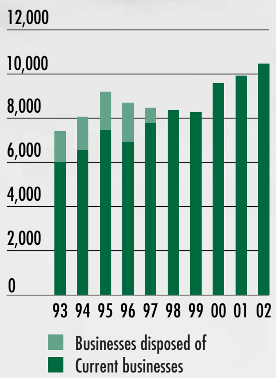
DIVIDEND

The Board of Directors has decided to propose to the Annual General Meeting that a dividend of € 1.50 per share be paid in respect of the 2002 financial year. To receive dividend, shareholders must be registered in the list of shareholders kept by Finnish Central Securities Depository Ltd. at 24 March 2003, the record date for dividend payment. The Board of Directors will propose to the Annual General Meeting that dividend be paid on 1 April 2003.

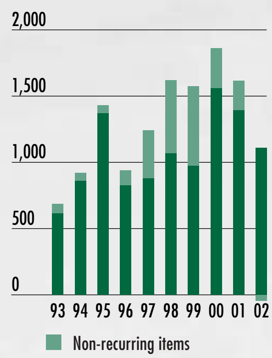
CONTENTS

KEY FINANCIAL INFORMATION 1993–2002

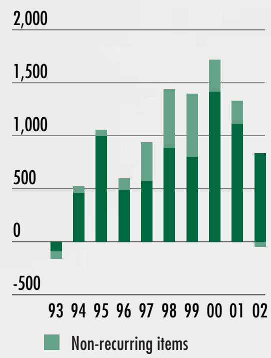
Turnover, €m



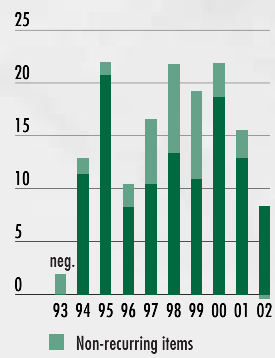
Operating profit, €m



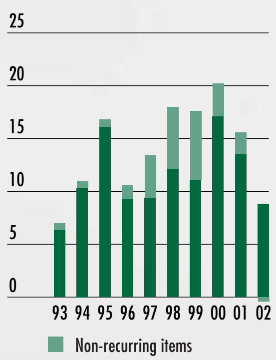
Profit (loss) before extraordinary items, €m



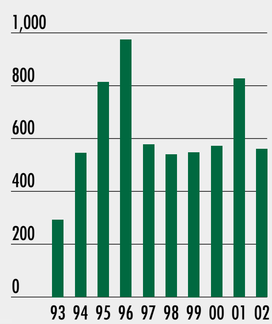
Return on equity, %



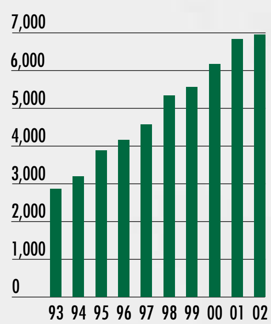
Return on capital employed, %



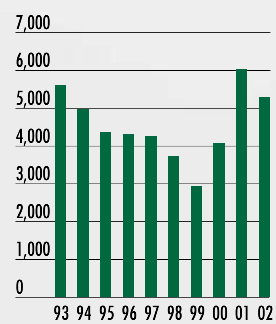
Capital expenditure excluding acquisitions, €m



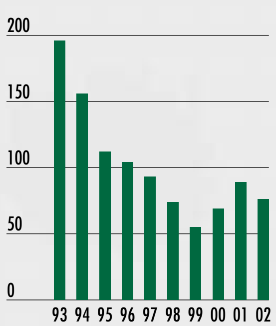
Shareholders' equity, €m



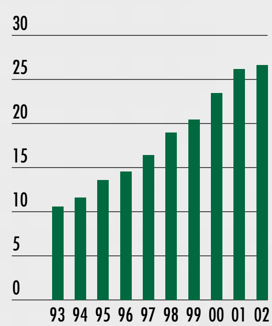
Net interest-bearing liabilities, €m



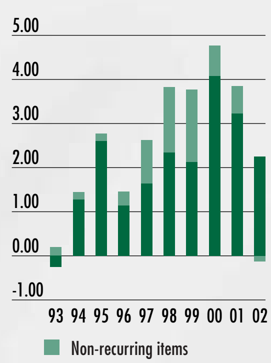
Gearing ratio, %



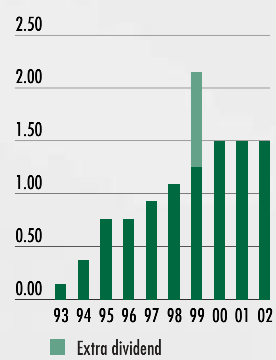
Equity per share, €



Earnings per share, €



Dividend per share (2002: proposal), €

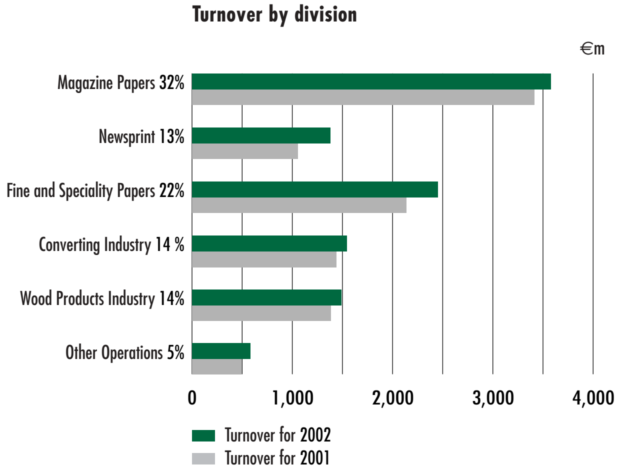


THE YEAR IN BRIEF

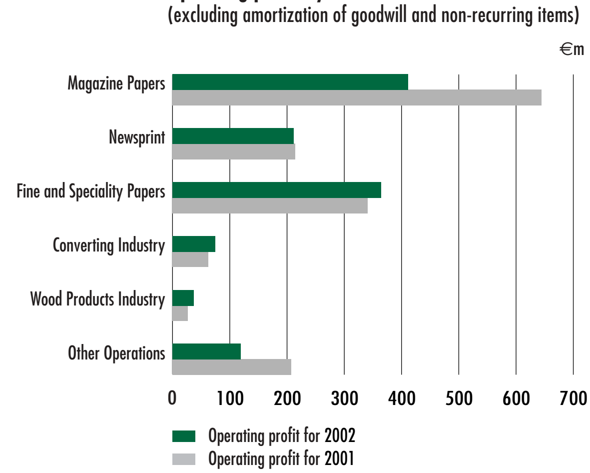
	2002	2001	2000
Turnover, € million	10,475	9,918	9,583
Operating profit, € million	1,062	1,614	1,860
Profit before extraordinary items, € million	789	1,333	1,717
Earnings per share, €	2.12	3.85	4.77
Cash flow from operating activities per share, €	5.51	6.64	6.38
Return on equity, %	8.0	15.5	21.9
Dividend per share (2002: Board's proposal), €	1.50	1.50	1.50
Shareholders' equity per share at end of period, €	26.60	26.18	23.45
Gearing ratio at end of period, %	76	89	69
Capital expenditure and acquisitions, € million	613	3,850	2,175

- Market situation continued to be difficult
- Financial result satisfactory under the prevailing circumstances
- Decision made to build second paper machine in China
- Converting business growth continues under more focused structure
- Integration of Haindl went well

Turnover by division



Operating profit by division
(excluding amortization of goodwill and non-recurring items)



Financial result below targets, but balance sheet strengthened.

Integration of the German company Haindl's four paper mills has gone extremely well.

Major boost to Converting Industry's growth through MACtac.

REVIEW BY THE PRESIDENT

Market conditions were difficult for the second year running. Demand was weak, and there was pressure to reduce the prices of our main products. Production had to be cut back significantly, and our paper mills operated at under 90% of capacity. Demand for paper was stronger during the second half of the year than the first – mainly for seasonal reasons. However, a more lasting improvement in the market will require stronger economic growth in the main markets as well as a recovery in printed advertising.

Earnings per share, calculated to include non-recurring items, were € 2.12 (3.85). Excluding non-recurring items the figure was € 2.25 (3.22). Our profitability was one of the best in the industry, even though we did not meet our key targets. Despite the difficult circumstances, our operational efficiency was good.

The dividend of € 1.50 proposed by the Board of Directors is in line with the company's policy of providing shareholders with a steady, growing dividend. The proposed dividend is the same for the third year in succession despite the weaker market and financial result.

The acquisition of the German company Haindl's four paper mills in November 2001 has proved to be a success. The work of integrating Haindl has gone smoothly and the company's mills and employees have joined our team in a good spirit. The synergies we aimed for have been achieved earlier than anticipated. The new arrangements have been well received by our customers and no significant market shares have been lost. While Haindl's four modern mills are already providing UPM-Kymmene with a strong cash flow, their true potential will only be seen once the market improves and capacity utilization rates rise.

As a result of the acquisition of Haindl, the gearing ratio at the end of 2001 rose to close on the maximum specified in our financial targets. The logical goal is to strengthen our balance sheet and in this way pave the way for future growth. In 2002 we succeeded in doing this through careful control of capital. The gearing ratio at the end of 2002 was 76%.

The self-adhesive labelstock manufacturer Raflatac, which is part of our Converting Industry, will grow considerably following the acquisition of the pressure-sensitive materials business of the US company MACtac. This USD 420 million investment will almost double Raflatac's turnover and strengthen its global business operations. This acquisition is expected to bring us added value in a fairly short space of time, and we forecast an improvement in earnings per share during the first full year of operations. We anticipate receiving the necessary clearance from the authorities during the first half of this year.

In connection with the purchase of MACtac, our Walki Films business was sold to Bemis Company Inc. for USD 70 million. As a result of these transactions, the structure of our Converting Industry is now more focused. It consists of three strong businesses: Raflatac, Loparex and Walki Wisa, all of whom enjoy established global positions in their fields. Together they are also expected to show improved profitability in the future.

The investment projects started in 2002 were modernization and expansion of Pietarsaari pulp mill, a new deinking plant for Shotton, which will allow newsprint to be produced from 100% recycled fibre, and modernizations of Rauma's LWC machine (PM 1) and Jämsänkoski's label paper machine (PM 3). These projects will be completed during 2003. Considerable investments were also made in information technology, one aim being to improve the management of our logistics chain.

Towards the end of the year the company decided to build a new paper machine at Changshu fine paper mill in China. The Chinese economy and paper markets have grown rapidly in recent years and the prospects for future demand are good, particularly for good-quality office papers. Changshu's first paper machine, with its major infrastructure investment, is producing satisfactory financial results and the time is now right to strengthen our position in the world's most populous market by investing in new and efficient capacity.

Alongside investments in modernizations and expansions, it was decided to close down some outdated capacity. Accordingly, one newsprint machine at Voikkaa and two small magazine paper machines at Blandin's mills in the United States were closed down.

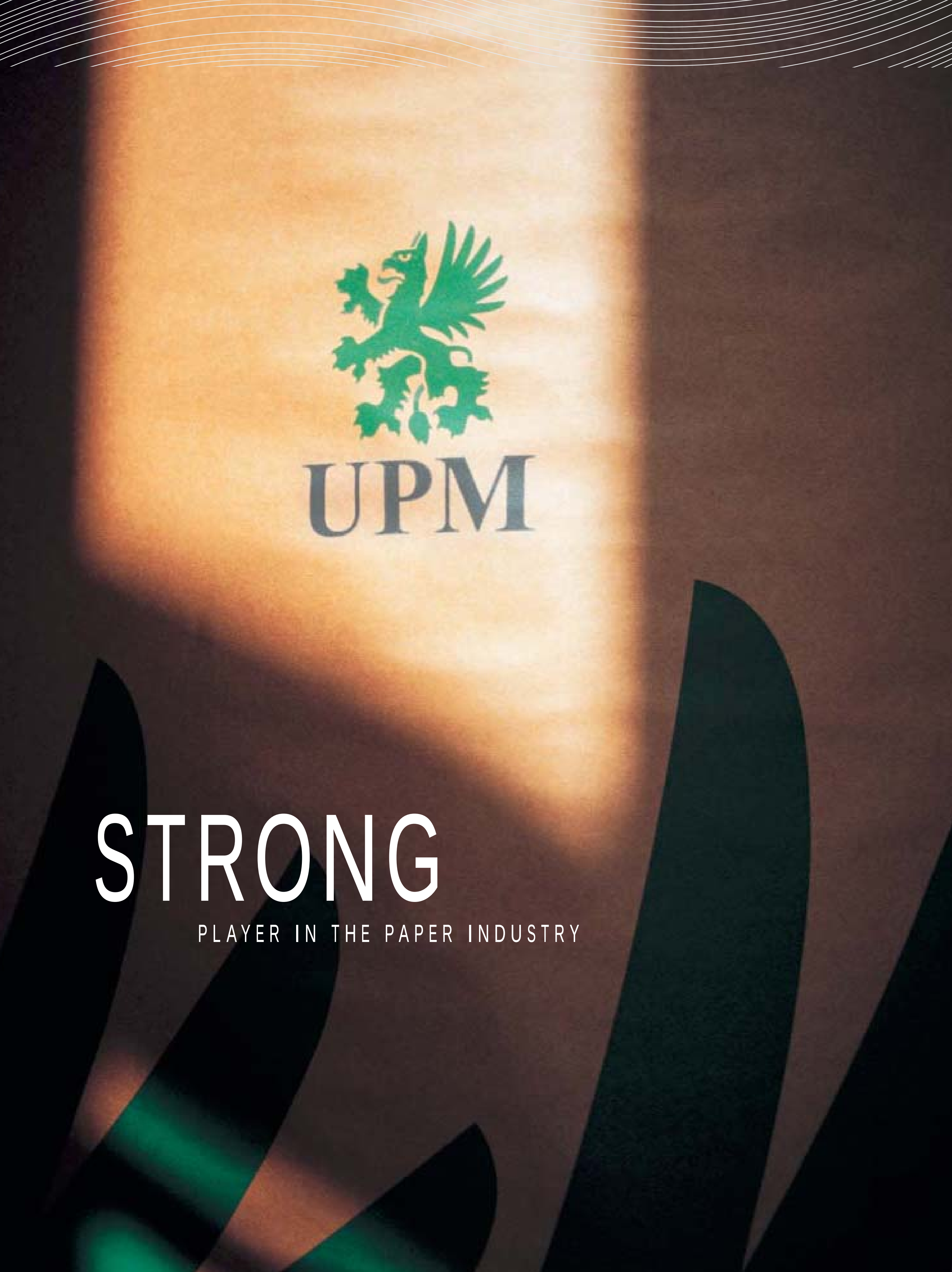
In our Wood Products Industry, the most notable project decided on was the construction of a new sawmill, annual capacity 200,000 cubic metres, in the town of Pestovo between St. Petersburg and Moscow. The cost will be around € 35 million, and the work will be completed by the end of this year. Although Russia is not yet one of our main markets, its huge forest reserves and the consumer potential of its large population are of growing interest to our company. We nevertheless want to proceed cautiously.

Restructuring of the forest industry continued, but at a rather more sedate pace than in the previous two years. UPM-Kymmene still intends to carry on growing by taking part in this restructuring provided the terms are in the interests of both the company and its shareholders.

Despite the difficult market, 2002 was in many ways an interesting year. We achieved our goal of being one of the industry's most profitable players. I feel that in 2002 we laid a sound foundation for the future. I would therefore like to thank all our employees, our customers and other partners who have helped us reach the very top of our industry. I also want to thank our shareholders for the confidence they have shown in our work.

The economic outlook for 2003 suggests little change on the year just past. At the time of writing the main source of uncertainty concerns the Iraq situation. For this reason the anticipated growth is likely to be delayed, and demand for paper is not expected to pick up significantly, at least during the first half of the year. Prices for many paper grades fell at the start of 2003. Production will continue to be curtailed if required by market conditions. On the other hand, the outlook for the converting and wood products businesses in 2003 is better.

Juha Niemelä


UPM
STRONG
PLAYER IN THE PAPER INDUSTRY

UPM-KYMMENE

UPM-Kymmene is the world's largest manufacturer of printing papers. In magazine papers, the company is the clear market leader. Turnover in 2002 was € 10.5 billion. The UPM-Kymmene Group has 35,500 employees. The company's market capitalization at the end of 2002 was € 8.0 billion.

BUSINESS ON A GLOBAL SCALE

UPM-Kymmene has production plants in 17 countries, and its products are sold on all markets throughout the world.

Sales to the Group's most important markets – the EU countries and North America – contribute about 83% of total turnover.

On the most important paper markets, the company sells its products through its own sales network. Elsewhere, sales are handled by a wide network of agents. UPM-Kymmene's converting business has its own global sales and marketing network. Wood products are sold mainly in Europe.

PAPERS

UPM-Kymmene has paper mills in Finland, Germany, Great Britain, France, Austria, the United States, Canada and China.

The Group has a total papermaking capacity of 11.8 million tonnes a year.

UPM-Kymmene's comprehensive range of papers caters for even the most discerning customers. Papers are produced from a varied raw material base, and a high proportion of production is based on recycled fibre.

Magazine paper is used to produce magazines, newspaper supplements, printed advertising material and sales catalogues. Most of this magazine paper is supplied to buyers in Western Europe. The next most important market is the United States. UPM-Kymmene is the world's largest manufacturer of magazine paper, with an annual capacity of 5.5 million tonnes. This corresponds to about a fifth of the global market for magazine paper.

The Group manufactures newsprint for publishers and printers, as well as for other uses such as telephone directories and mail order catalogues. Most of this newsprint is sold on the Western European market, of which UPM-Kymmene has around 20%.

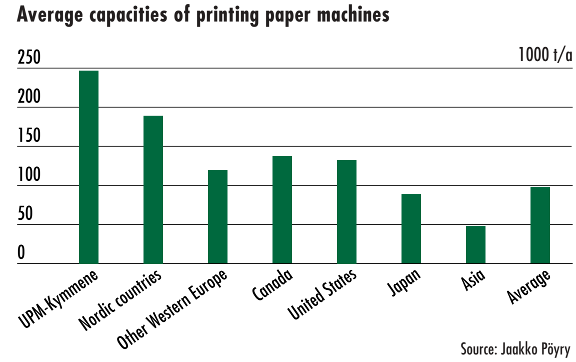
UPM-Kymmene's fine paper is supplied mainly to paper merchants, office supplies wholesalers, printers and converters. Uses for fine paper include copying and non-impact printing, direct mail advertising and specialist magazines. The range includes both coated and uncoated fine papers. The main markets for the Group's fine paper are in Western Europe and Asia. UPM-Kymmene is a leading supplier of fine papers both in Europe and worldwide.

PAPER INDUSTRY	CAPACITY (1000 t/a)	EUROPEAN POSITION	GLOBAL POSITION
Magazine papers	5,465	1	1
Newsprint	2,785	2	5
Fine paper	2,620	3	8
Printing papers, total	10,870		
Label papers	310	1	1
Envelope papers	220	1	–
Packaging papers	305	3	–
Papers from Converting Industry	65	–	–
Total	11,770	2	3

CONVERTING INDUSTRY	EUROPEAN POSITION	GLOBAL POSITION
Self-adhesive laminates	2	2
Siliconized papers	1	1
Industrial wrappings	1	–

WOOD PRODUCTS INDUSTRY	CAPACITY (1000 m^3/a)	EUROPEAN POSITION
Sawn timber	2,400	3
Plywood	1,215	1

Average capacities of printing paper machines



Source: Jaakko Pöyry

UPM-Kymmene's speciality papers comprise face and release papers for self-adhesive labels, white and brown sack and kraft papers, and white and tinted envelope papers. UPM-Kymmene is the world's largest producer of label papers and Europe's leading producer of envelope papers. The company is also one of Europe's biggest suppliers of packaging papers.

CONVERTED PRODUCTS

UPM-Kymmene's converting units manufacture self-adhesive labelstock (Raflatac), siliconized papers (Loparex) and industrial wrappings (Walki Wisa).

Raflatac is one of Europe's leading suppliers of self-adhesive labelstock, which is used by manufacturers of price, product and ADP labels. Raflatac has production plants in five countries in Europe and in the United States, Australia, Malaysia, China and South Africa.

Loparex manufactures siliconized release materials for hygiene products, self-adhesive labels and industrial uses. Loparex is the world's biggest producer of siliconized papers, and has production in Finland, Great Britain, the Netherlands and the United States.

Walki Wisa produces wrapping materials for manufacturers of paper, wood and steel products. As a manufacturer of industrial wrappings the company is the European market leader. Walki Wisa also manufactures composite materials for the packaging industry and for technical purposes. It has production plants in Finland, Germany, Great Britain, China and the United States.

The main markets for the units of the Converting Industry are Europe and the United States.

WOOD PRODUCTS

UPM-Kymmene Wood Products is the largest plywood producer in Europe and one of the world leaders in the manufacture of high-quality plywoods. It is also Europe's third biggest producer of sawn timber and processed products.

In plywood production, the company's strengths cover not just standard plywood grades but also special plywoods and veneers. The main customers are the building and transport vehicle industries.

UPM-Kymmene Wood Products also includes chains of builders' merchants specializing in wood-based materials in Finland, Great Britain, Ireland and Denmark.

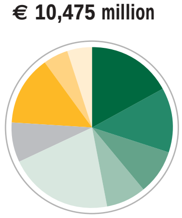
UPM-Kymmene Wood Products' main markets are in the EU countries.

SUBSTANTIAL RESOURCES

The pulp mills operated by UPM-Kymmene and its associated company Oy Metsä-Botnia Ab supply some 90% of the chemical pulp needed by the company's paper mills. More than a fifth of the fibre raw material used by the company is recovered fibre, most of which is secured under long-term purchasing agreements. UPM-Kymmene is Europe's biggest consumer of household waste paper. Including its interests in power generating companies, UPM-Kymmene is about 70% self-sufficient in electrical energy. In Finland, the company is fully self-sufficient, while elsewhere, most of the electricity used by UPM-Kymmene's mills is purchased locally under long-term agreements.

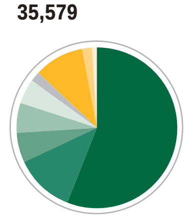
UPM-Kymmene owns over one million hectares of forest land. In Finland, the company owns 930,000 hectares, making it the country's biggest private forest owner. UPM-Kymmene also owns forest in the United States, Canada and Great Britain, and, through an associated company, also in Uruguay. In Canada, the company has licences to use 941,000 hectares of forest. Felling in the company's own forests and in other forests where it has felling rights supplies on average about one tenth of the annual fibre raw material required by the Group. Felling in the company's forests in Finland can temporarily be increased quite substantially.

Turnover by market, 2002
€ 10,475 million



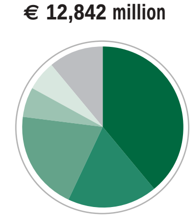
- Germany 17%
- Great Britain 13%
- Finland 9%
- France 8%
- Other EU countries 21%
- Other European countries 8%
- North America 14%
- Asia 5%
- Rest of world 5%

Personnel by area, 31.12.2002
35,579



- Finland 56%
- Germany 12%
- France 6%
- Great Britain 6%
- Other EU countries 5%
- Other European countries 2%
- North America 10%
- Asia 2%
- Rest of world 1%

Capital employed by division, 31.12.2002
€ 12,842 million



- Magazine papers 39%
- Newsprint 18%
- Fine and speciality papers 20%
- Converting 6%
- Wood products 6%
- Other 11%

SKILLED EMPLOYEES

The cornerstones of UPM-Kymmene's human resources policy are target-setting, continuous development of employee knowledge and skills, and maintaining a high level of motivation. Everyday activities are based on the company's core values, which are openness, trust and initiative.

The company has a single unified set of management principles, it provides training for its employees, and it uses incentive schemes that are based on individual performance, productivity and financial results.

RESPONSIBILITY IN BUSINESS OPERATIONS

At UPM-Kymmene, responsible business operations means operating profitably without jeopardizing the well-being of either people or the environment. Acting responsibly gives the company a competitive advantage so that it is seen as a preferred and desirable business partner, employer and investment.

Environmental protection is an integral part of daily activities. The aim is a continuous reduction in the loadings attributable to products over their lifetimes.

UPM-Kymmene's shares are listed in the Dow Jones sustainability indexes World and EuroStoxx.

INTERNATIONAL OWNERSHIP

At the end of 2002, the company had 59,861 registered shareholders. Geographically, shareholders fall broadly into three groups of about the same size: Finns, other Europeans and American shareholders. UPM-Kymmene's shares are quoted on the Helsinki (UPM1V) and New York (UPM) stock exchanges.

THE COMPANY'S STRENGTHS

GLOBAL ACTIVITIES
UPM-Kymmene has production plants in 17 countries. The most important of these are in Finland, Germany, France, Great Britain, Austria, the United States, Canada and China.

LONG-TERM CUSTOMER RELATIONS
The company enjoys close and lasting relations with both local and multinational customers.

SKILLED PERSONNEL
One of UPM-Kymmene's key competitive advantages is its skilled, highly motivated employees.

MODERN MACHINES
The company's production facilities are unrivalled in terms of production capacity and competitiveness.

COMPREHENSIVE LOGISTICS NETWORK
The company operates a global and highly efficient logistics network. The high proportion of shipments made by sea ensures competitive deliveries, which are backed up by modern IT management systems.

STRONG BUSINESS FOCUS AND MARKET SHARES
UPM-Kymmene has focused its activities by investing in its core businesses and by divesting non-core assets and activities. In all its main product areas, the Group is among the leading manufacturers in its most important markets.

STRONG VERTICAL INTEGRATION
UPM-Kymmene's activities are based on close integration of raw materials, energy and production. The company enjoys a high degree of self-sufficiency in chemical pulp and electrical power. Wood raw material supplies are partly secured by the company's own forests. In its production of pulp, paper and wood products, the company makes proper and efficient use of its wood raw material. UPM-Kymmene's converting business is based to a large extent on raw material supplied by its own paper mills as well as on in-house special know-how.

AIMING FOR PROFITABLE GROWTH

UPM-Kymmene's goal is to be one of the leading companies in the global paper industry.

UPM-Kymmene seeks to achieve profitable growth and to be one of the leading companies in the global paper industry.

The company's businesses focus on printing and writing papers, speciality papers for the converting industry, converted paper products and wood products.

In seeking to achieve these goals, the key factors are good customer relations, skilled employees, cost-effectiveness, and global market positions for the company's main products.

UPM-Kymmene is known as a reliable supplier. To ensure customer satisfaction, the company offers a competitive product portfolio, customer-oriented product development, and a high standard of service.

For its employees, UPM-Kymmene offers work that inspires initiative and the desire to produce results. Professional expertise is promoted through job rotation and continuous in-service training.

The company seeks to achieve cost-effectiveness by continuously raising efficiency levels and by focusing on products in which its production resources and know-how can be utilized to maximum advantage.

To achieve leading market positions, the company will continue to grow both organically and through acquisitions. In investments, special emphasis is placed on product development and new technology.

UPM-Kymmene 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 wants to reach this goal in a socially and ecologically sustainable way.

FINANCIAL OBJECTIVES

UPM-Kymmene's objective is to be more profitable than its competitors.

The long-range objective is a return on equity of at least five percentage points above the yield of a risk-free investment such as the Finnish government's 10-year euro-denominated bonds. At the end of 2002, the minimum target for return on equity, as defined above, was 9.3%.

Internally, the long-range target for the profitability of business operations is a return of 15% on capital employed.

The aim is to keep the gearing ratio under 100%.

DIVIDEND POLICY

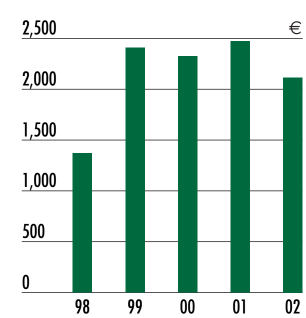
It is UPM-Kymmene's policy to distribute a dividend averaging over one-third of the profit for the financial period. The aim is to provide shareholders with a steady, growing annual dividend.

MEETING FINANCIAL TARGETS

		2002	2001	2000	1999	1998
Return on equity, %	Min. target	9.3	10.0	10.5	9.7	9.8
Return on equity, %	Achieved	8.0	15.5	21.9	19.2	21.8
excluding non-recurring items	Achieved	8.4	12.9	18.7	10.9	13.4
	Target			**Achieved**		
Gearing ratio, %	<100	76	89	69	55	74
Dividend per share, €	Steady, growing	1.50*	1.50	1.50	2.15**	1.09
Dividend to earnings ratio, %	>33	70.8	39.0	31.4	57.0	28.6

* Board's proposal for 2002
** Includes an extra dividend of € 0.90.

Total shareholder return 1998–2002: Average yield 16% a year



Value of a € 1,000 investment, made at year-end 1997, at the end of each year assuming dividends received have been reinvested in the company's shares.

SENSITIVITY ANALYSIS AND RISK FACTORS

Forest products markets are sensitive to swings in the business cycle. Changes in sales prices and variations in production capacity utilization rates have a major impact on financial results. Faced with changing markets, there is only a limited amount a company can do to protect its financial results.

SENSITIVITY ANALYSIS

The main factor affecting UPM-Kymmene's financial results is the sales price of its paper. A change in the volume delivered has only about half the effect on financial results as the same percentage change in product prices. Long-term changes in exchange rates also have a marked impact on financial results.

EFFECT OF A 10% CHANGE IN PAPER PRICES ON OPERATING PROFIT FOR THE YEAR

	€ million
Magazine paper	360
Newsprint	140
Fine paper	170

A 10 per cent change in the value of the US dollar results in an increase/decrease of around € 40 million in pre-tax profit in the short term and of around € 80 million in the long term under the company's hedging policy (an average of 50% of net currency exposure hedged for 12 months ahead).

Crude oil prices, perhaps the most important of all world market prices, have little direct impact on the company. The effect on financial results of a change of USD 5/barrel in the price of oil is less than € 10 million over 12 months. The indirect effects are greater but cannot be predicted.

COST STRUCTURE

The company's biggest cost items are its personnel expenses and the cost of its fibre raw material. Delivering products to customers worldwide is also a major cost factor.

UPM-KYMMENE'S COSTS, EXCLUDING DEPRECIATION, IN 2002

	%
Personnel expenses	21
Logs and pulpwood	14
Delivery of own products	12
Chemicals and fillers	12
Energy	8
Other raw materials	12
Other costs	21
Total	100

In 2002, costs totalled € 8.6 billion.

RISK FACTORS

Below are the main risk factors that can affect the company's business and financial results.

COMPETITION AND BUSINESS CYCLE FLUCTUATIONS
Forest products markets are highly competitive, and there is little individual suppliers can do to influence prices for their products. The markets are also susceptible to swings in the business cycle.

CHANGES IN CONSUMER HABITS
Demand for paper is influenced by the use of information technology and consumer expectations.

ENVIRONMENTAL ISSUES
By operating responsibly, the company also seeks to avoid environment-related risks. Environmental legislation and the company's management of its environmental affairs may involve a direct financial risk and a risk to the company's reputation.

FOREST INDUSTRY CONSOLIDATION AND POSSIBLE ACQUISITIONS
The forest industry in general and UPM-Kymmene have undergone numerous restructurings. These can involve risks.

SIGNIFICANCE OF BIGGEST CUSTOMERS
The company is not dependent on any one customer or group of customers. However, the loss of an important customer or group of customers is possible.

INSURANCE COVER
UPM-Kymmene is extensively insured against material damage and against statutory liability for damages. This insurance does not necessarily cover unforeseen catastrophes.

CHANGES IN EXCHANGE RATES
Most of the company's business is transacted in the euro-zone. Nevertheless, the company is susceptible to changes in exchange rates. This risk mainly concerns our exports to the extent that our product prices are in currencies other than the currency in which production costs are incurred.

CUSTOMER CREDIT RISKS
The company has insured most of its trade receivables. While every effort is made to monitor credit and payment times, a risk still remains.

AVAILABILITY AND PRICE OF MAJOR PRODUCTION INPUTS
The rise in prices for the company's main production inputs has historically been fairly modest. Availability has been good.

POLITICAL RISK
Although the political situation is currently quite stable in those countries where the company has business activities, unexpected political developments do occur in some areas.

AVAILABILITY OF MANPOWER
Every effort is made to predict the risks associated with the availability of manpower and with the change of generation through career planning and by stepping up internal recruitment.

STRATEGIC RISKS
The company's present product portfolio and its geographic spread help to even out business risks. However, they may not necessarily be the right ones for profitable business in the future.

OTHER RISKS
It is important for UPM-Kymmene that goods suppliers and other partners fulfil their obligations in relation to quality, environmental management and delivery times.

COMPETITIVE

PAPER SUPPLIER

PAPER INDUSTRY

UPM-Kymmene has strengthened its position as the paper supplier of choice for its customers. The integration of Haindl into the company has gone well.

UPM-KYMMENE PAPER INDUSTRY TURNOVER BY BUSINESS AREA AND MARKET IN 2002

€ million	Magazine papers	%	Newsprint	%	Fine and speciality papers	%
Europe	2,321	65	1,204	87	1,907	78
North America	1,009	28	44	3	83	3
Rest of world	247	7	133	10	459	19
Total	3,577	100	1,381	100	2,449	100

GLOBAL DEMAND FOR PRINTING PAPERS IN 2002

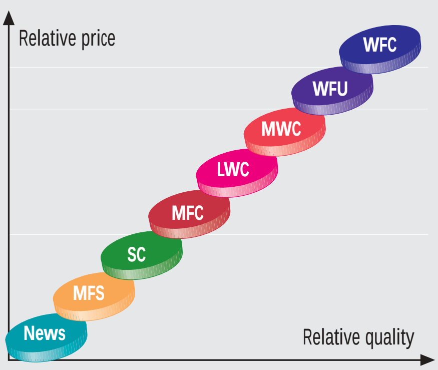
	Magazine papers	Newsprint	Fine and speciality papers
million t/a			
Western Europe	9.4	9.1	15.3
North America	7.9	11.4	18.2
Rest of world	4.1	15.5	30.7
Total	21.4	36.0	64.2
kg per capita/a			
Western Europe	23.9	23.2	38.9
North America	25.0	36.1	57.6
Rest of world	0.8	2.9	5.7
Total	3.5	5.9	10.5

THE MARKET

European demand remained almost as low as the year before and, for some paper grades, showed a further decline. Due to disappointing economic growth and the low volume of advertising activity, demand for paper was weak. Prices fell during the first half of the year but there was a levelling off towards the year-end. In the United States, demand for paper recovered slightly, and this led to price rises for newsprint and fine paper, though prices were very low to begin with. Other markets continued to be affected by uncertainty in 2002.

The market for coated magazine papers was out of balance for almost the entire year, though in the United States demand picked up slightly in the second half. In Europe, capacity utilization rates were low, especially in the first half of the year, and

UPM-Kymmene printing papers



Brand name	Paper grade
UPM finesse	WFC – coated fine paper
UPM fine	WFU – uncoated fine paper
UPM STAR	MWC – medium-weight coated paper
UPM ultra UPM cote	LWC – light-weight coated paper
UPM satin UPM matt	MFC – machine-finished coated paper
UPM cat UPM LUX UPM max UPM eco	SC – supercalendered paper
UPM BRITE UPM OPALITE UPM book UPM color	MFS – machine-finished uncoated speciality paper
UPM norm	News – newsprint

prices followed a slow downward trend all year. In the United States, capacity utilization rates improved after the summer and it was possible to raise prices for some grades. The European market for uncoated magazine papers was stable, with demand at last year's level. In the United States, demand grew as several customers changed over to lower-cost paper. Uncoated magazine paper prices held steady following price reductions early in the year.

The newsprint market in Europe was weak following a further decline in demand. Newsprint prices fell early in the year, and because of long-term contracts prices in Europe were steady all year. In the United States, prices fell at the start of the year but took a slight upturn in the autumn as manufacturers radically curtailed production.

The European ***market for fine paper*** showed no growth during the year. Overcapacity, notably for coated fine paper, put pressure on prices, and capacity utilization rates were low. The situation for uncoated fine paper was more balanced.

Taken all round, the trend in the ***market for speciality papers*** was steady, as in 2001. Demand for label papers remained good. Demand for envelope papers, however, weakened.

CUSTOMER SEGMENTS

Magazine publishers

Global economic uncertainty was reflected in the magazine publishing business in 2002. Magazine advertising increased towards the year-end, but for the year as a whole it was the same as in 2001 and much lower than in 2000. The economic decline particularly affected advertising in financial and professional journals, but also hit general and special-interest magazines.

The uncertainty was also reflected in circulation figures. However, the overall trend was favourable thanks to growth in the general-interest magazine segment and the launch of new special-interest titles on the market.

Consolidation within the magazine publishing business continued during the year and was in evidence in Europe, North America and China. The slow-down in growth in the main markets encouraged particularly the largest publishers to expand their operations in developing markets.

Catalogue publishers

The new opportunities offered by the Internet for product advertising and ordering have boosted catalogue sales and increased the size of the market.

The trend has continued towards special catalogues, although rapidly changing fashions and models have also increased editions of general catalogues. Customers sought to cut costs by switching to lower grammage papers.

Retailers

Some retail chains use substantial quantities of paper in promoting their business, for example through direct mail advertising. The retail trade was affected by the economic uncertainty prevailing during the year. The focal point of growth is shifting from the slow-growth retail markets of Western Europe and North America to central and Eastern Europe and Asia. An increasing number of retail chains are now international with operations on several continents.

Electronic media are becoming increasingly important as a sales channel, although online sales still represent only a small proportion of total retail sales. Retailers have sought growth by expanding the range of outlet types and by providing services alongside traditional retailing.

Printers

Uncertainty in the publishing business was also reflected in the printing industry in the shape of lower volumes, greater competition, lower prices and pressure to cut costs. However, the latter part of the year brought printers more orders, but intense competition kept prices low.

Competition, over-capacity and corporate restructuring have encouraged consolidations and internationalization in the printing industry, and this was again visible in 2002.

Newspaper publishers

Newspaper advertising was at a low level in 2002. The adverse conditions affecting newspapers, particularly national dailies, meant that demand for newsprint was smaller than forecast. Local newspapers showed slight growth, but this was not enough to offset the decline in overall demand. Publishers' financial results suffered as a result of the slight drop in circulations and low advertising revenue.

Four-colour printing, production efficiency and, in particular, quality of content were seen as the key factors for competitiveness. Widening their readership has been a major challenge to publishers. Cost pressures, coupled with increased competition for advertising, made publishers cautious about investing in printing presses. Only modest attention was given to developing new media solutions and Internet applications, and the main focus remained on the core business, i.e. newspaper publishing.

The expansion of the EU has aroused interest among the leading publishers in the markets of East-Central Europe. This was reflected in structural changes and in shareholdings acquired in local publishing companies.

Specialist publishers

Telephone directory publishers lost some advertising revenue, although business is on a steadier footing than that of magazine and newspaper publishers. Demand for directory paper fell somewhat during the year.

Telephone companies in North America continued to focus on their core businesses and publishing units were sold off. There were further mergers among telephone companies.

Book publishers are not dependent on income from advertising. Demand continued to be brisk, especially for pocketbooks. There was no growth in the book publishing business in 2002.

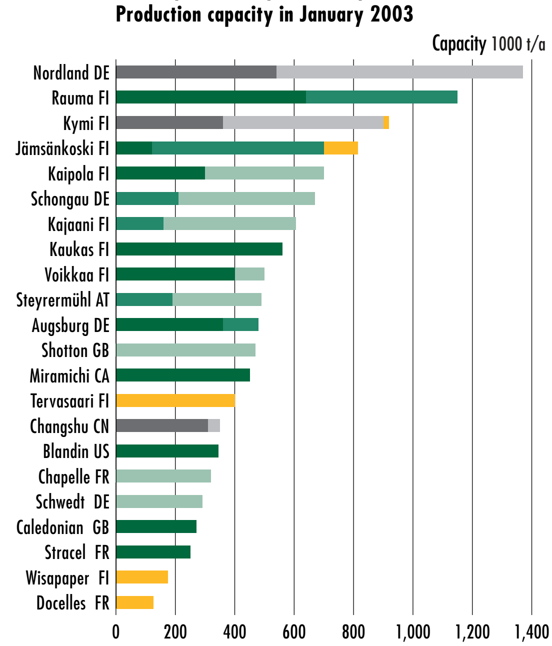
Merchants

Profitability declined further. Low delivery volumes and margins, together with the more difficult financial position of printers, were the main reasons. Merchants further streamlined their activities and worked together with their suppliers to make delivery chains more efficient.

The trend towards globalization of the merchanting business was reflected in the form of international alliances and company acquisitions.

The consolidation of distribution channels serving office supplies outlets continued. The importance of office supplies outlets as a channel for distribution has grown, and these outlets are now important direct buyers.

UPM-Kymmene Paper Industry
Production capacity in January 2003



Capacities, total

	No. of paper machines	1000 t/a
LWC paper	15	3,695
SC paper	8	1,770
Newsprint	13	2,785
Uncoated fine paper	8	1,210
Coated fine paper	–	1,410
Speciality papers	9	835
Total	53	11,705

MAGAZINE PAPERS

UPM-KYMMENE MAGAZINE PAPERS, KEY FIGURES

€ million	2002	2001	2000
Turnover	3,577	3,548	3,343
Operating profit [1)]	225	598	630
% of turnover	6.3	16.9	18.8
excluding amortization of goodwill and non-recurring items	411	644	673
% of turnover	11.5	18.2	20.1
Capital employed (average)	5,253	4,380	3,456
ROCE, %	4.3	13.7	18.2
excluding amortization of goodwill and non-recurring items	7.8	14.7	19.5
Capital expenditure and acquisitions	188	1,556	1,244
Personnel at 31 Dec.	9,325	9,317	8,285
Deliveries, 1000 t	4,618	3,964	3,747
Capacity utilization rate, %	86	85	94

[1)] Operating profit for 2002 includes non-recurrent charges of € 128 million (2001:20 million, 2000: 30 million).
The division comprises the Group's magazine paper machines, the Kaukas and Miramichi pulp mills, and Miramichi's sawmills (see Fibre Supply, p. 32).

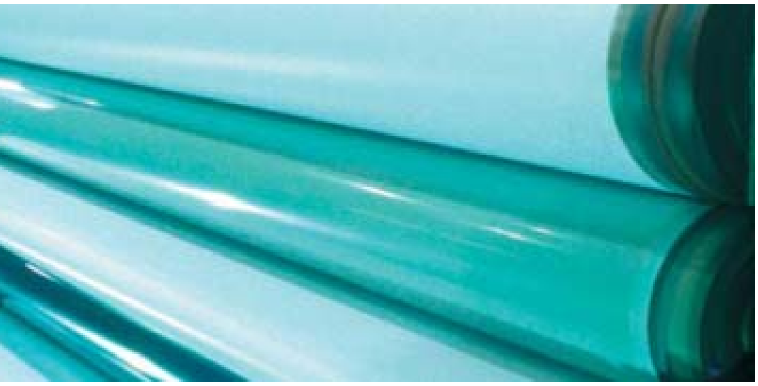
PROFITABILITY

Turnover for magazine papers showed only marginal growth on 2001 despite the inclusion of Haindl. Much lower sales prices pushed turnover down despite a 16% increase in deliveries. The capacity utilization rate was 86% (85%). Production had to be curtailed throughout the year, although by less in the second half than in the first.

Profitability was weaker than the year before. On average, prices were lower than the previous year, and this reduced operating profit. On the other hand, improved cost-effectiveness had a positive impact on earnings.

In Western Europe, demand for coated magazine paper grew by only 1%, while in the United States there was a growth of 4%. Demand for uncoated magazine paper declined in Western Europe by 1% but rose by 5% in the United States. Better demand in the United States also meant a rise in exports of magazine paper from Europe.

Average market prices for magazine papers were some 9% lower than in 2001 in Western Europe and 15% lower in the United States.

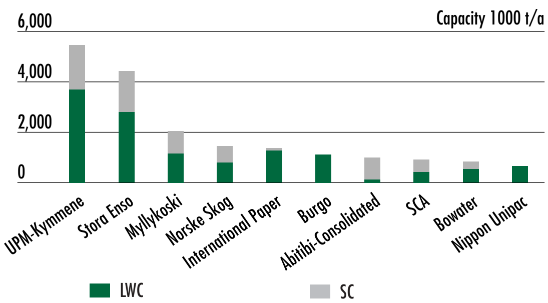


CAPITAL EXPENDITURE AND RESTRUCTURING

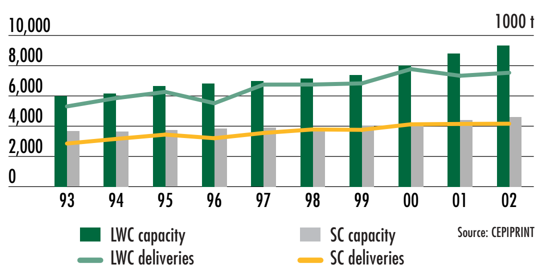
Work started during the year to rebuild Rauma's paper machine no. 1, which produces coated magazine paper. When the € 64 million investment is completed in February 2003, PM 1 will be the equivalent of a new machine in terms of its technical features. Its production capacity will increase from 260,000 to 300,000 t/a.

The company decided to make its operations in North America more efficient by closing down the two smallest machines, combined production capacity around 157,000 t/a, at Blandin's paper mill. The closures resulted in non-recurrent charges totalling € 128 million and a reduction from 800 to 500 in Blandin's workforce.

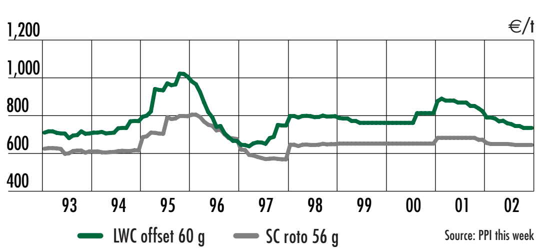
World's biggest magazine paper manufacturers



Magazine paper production capacities in Western Europe and total deliveries



Magazine paper prices in Germany



NEWSPRINT

UPM-KYMMENE NEWSPRINT, KEY FIGURES

€ million	2002	2001	2000
Turnover	1,381	1,058	1,045
Operating profit [1)]	162	211	118
% of turnover	11.7	19.9	11.3
excluding amortization of goodwill and non-recurring items	212	214	119
% of turnover	15.4	20.2	11.4
Capital employed (average)	2,368	984	899
ROCE, %	6.8	21.4	13.1
excluding amortization of goodwill and non-recurring items	9.0	21.7	13.2
Capital expenditure and acquisitions	84	1,503	54
Personnel at 31 Dec.	3,826	3,842	2,603
Deliveries, 1000 t	2,467	1,667	1,798
Capacity utilization rate, %	89	91	97

[1)] Operating profit for 2002 includes non-recurrent charges of € 8 million.

The division comprises the Group's newsprint machines.

PROFITABILITY

Turnover was up by 31% on the year before. The increase is due to the four paper machines acquired with Haindl. Deliveries rose by 48%. The capacity utilization rate was 89% (91%).

Operating profit was down on the previous year, mainly due to lower sales prices. The sharp rise in the price of household waste paper in the summer was short lived. Cost-effectiveness improved. Capacity utilization rates remained fairly good thanks partly to an increase in deliveries to customers outside Western Europe.

Demand for newsprint fell by 6% in Western Europe and by 3% in the United States.

Average market prices for newsprint in Western Europe were some 13% down on 2001. In the United States, record low prices showed a rise in the autumn.

CAPITAL EXPENDITURE AND RESTRUCTURING

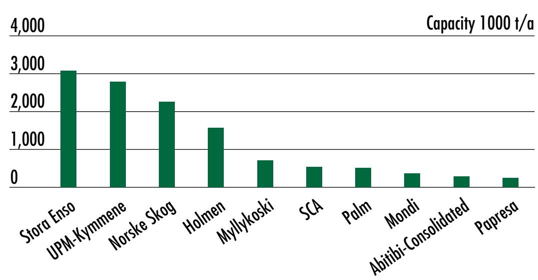
At the Shotton mill, € 127 million is being invested in a new deinking plant, which will start up towards the end of 2003. The British government has awarded grant aid to the project, although the final decision on this rests with the European Commission. Completion of the deinking plant will raise the mill's consumption of recovered paper to around 620,000 tonnes a year, enabling all newsprint to be produced from this raw material.

The second stage of the deinking capacity expansion at Steyrermühl was completed in the spring.

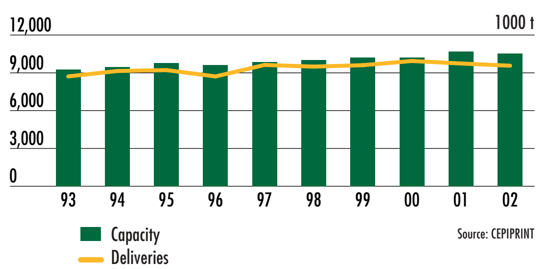
Following these investments, about 75% of UPM-Kymmene's newsprint will be produced from recovered fibre. In 2002, the company's newsprint machines used a total of 1,800,000 tonnes of recovered paper.

Voikkaa's PM 16, capacity 75,000 t/a, which has been unprofitable, was closed down in the spring. Production of the machine's speciality newsprint has been transferred to other machines within the company.

Europe's biggest newsprint manufacturers

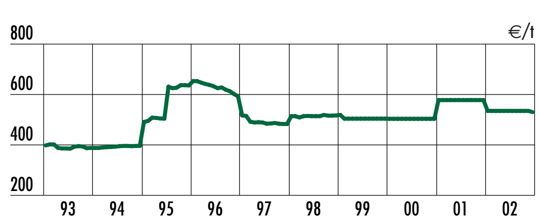


Newsprint production capacities in Western Europe and total deliveries



Source: CEPIPRINT

Newsprint* prices in Germany



* 48.8 g

Source: PPI this week

FINE AND SPECIALITY PAPERS

UPM-KYMMENE FINE AND SPECIALITY PAPERS, KEY FIGURES

€ million	2002	2001	2000
Turnover	2,449	2,362	2,390
Operating profit	359	336	404
% of turnover	14.7	14.2	16.9
excluding amortization of goodwill and non-recurring items	364	341	420
% of turnover	14.9	14.4	17.6
Capital employed (average)	2,628	2,602	2,101
ROCE, %	13.7	12.9	19.2
excluding amortization of goodwill and non-recurring items	13.9	13.1	20.0
Capital expenditure and acquisitions	153	391	665
Personnel at 31 Dec.	6,611	6,635	6,579
Deliveries, 1000 t	2,774	2,546	2,610
Capacity utilization rate, %	90	89	96

The division comprises the Group's paper machines producing fine and speciality papers, and the Kymi, Wisaforest and Tervasaari pulp mills (see Fibre supply, p. 32).

PROFITABILITY

Turnover was 4% higher than the year before. Delivery volumes rose by 9%. The capacity utilization rate was 90% (89%). The coating capacity utilization rate was under 80%. The speciality paper machines operated at virtually full capacity.

Profitability improved thanks to higher delivery volumes and greater cost-effectiveness. Operating profit was up by 7%. The Changshu mill in China clearly improved its profitability, and the paper machine operated at full capacity.

Demand for fine paper in Western Europe remained at the weak level of the previous year. In China, the market continued to show growth, notably in the high-quality office papers segment.

Average market prices for uncoated fine papers were 5% lower than in 2001, while prices for coated fine papers were 7% lower. In China, uncoated fine paper prices rose during the year, but levelled off towards the end of the year.

Profitability for speciality papers was about the division average and similar to that in 2001. Delivery volumes were slightly higher than the year before and prices remained relatively stable. Both label papers and envelope papers were more profitable, partly due to the lower cost of chemical pulp. Packaging papers were slightly less profitable.

CAPITAL EXPENDITURE AND RESTRUCTURING

At the end of the year it was decided to build a new 450,000 t/a paper machine at Changshu near Shanghai, China, and to substantially increase the mill's production capacity for coated fine paper. These investments will cost around € 470 million. Start-up of the new machine is planned for 2005, bringing the mill's

UPM-KYMMENE SPECIALITY PAPERS, BUSINESS UNITS

LABEL PAPERS
- Face and release papers for self-adhesives
- World's biggest producer, over one-third of the European market

ENVELOPE PAPERS
- White and tinted envelope papers
- Europe's leading producer with about one-quarter of the market

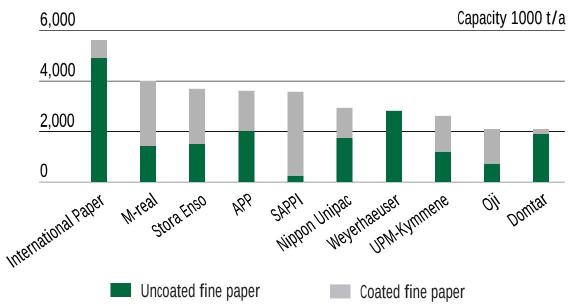
PACKAGING PAPERS
- White and brown sack and kraft papers
- One of Europe's three biggest suppliers, depending on grade

total production capacity up to 800,000 t/a. In the first stage, coating capacity will increase to 200,000 t/a.

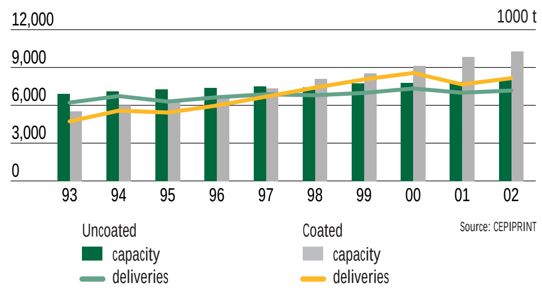
Modernization of Jämsänkoski's label paper machine (PM 3) will be complete in 2003. This € 46 million investment will improve paper quality and raise production capacity from 110,000 to 140,000 t/a.

Work on modernizing Pietarsaari pulp mill began during the summer. On completion in 2004, the mill's capacity will increase by 180,000 t/a to 800,000 t/a. The work will be carried out in conjunction with Pohjolan Voima's subsidiary Wisa Power, whose share of the cost of the € 250 million project will be around 50%.

World's biggest fine paper manufacturers

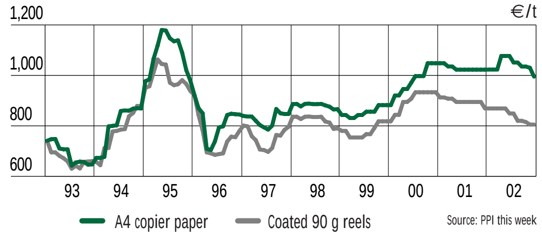


Fine paper production capacities in Western Europe and total deliveries



Source: CEPIPRINT

Fine paper prices in Germany



Source: PPI this week


TOP QUALITY
SPECIALIST EXPERTISE

CONVERTING INDUSTRY

Converting Industry's structure clarified and position strengthened.

UPM-Kymmene's Converting Industry comprises the self-adhesive labelstock manufacturer Raflatac, the siliconized papers manufacturer Loparex and the industrial wrappings manufacturer Walki Wisa.

Turnover was up by 4% despite subdued demand. The growth is attributable to expansion in all business areas. Profitability improved, mainly as a result of better internal efficiency.

Restructuring of the Converting Industry continued during 2002. In August, the company agreed to buy the MACtac pressure-sensitive materials business from Bemis Company Inc. for USD 420 million and to sell its Walki Films packaging films business to Bemis for USD 70 million. Final permission from

UPM-KYMMENE CONVERTING INDUSTRY

KEY FIGURES

€ million	2002	2001	2000
Turnover	1,541	1,480	1,272
Operating profit [1]	70	46	61
% of turnover	4.5	3.1	4.8
excluding amortization of goodwill and non-recurring items	75	62	63
% of turnover	4.9	4.2	4.9
Capital employed (average)	786	801	632
ROCE, %	8.9	5.8	9.6
excluding amortization of goodwill and non-recurring items	9.5	7.7	10.0
Capital expenditure and acquisitions	68	215	70
Personnel at 31 Dec.	4,694	4,872	4,193
Paper production, 1000 t	59	49	52

[1] Operating profit for 2001 includes non-recurring charges of € 11 million.

Converting Industry, turnover by business unit in 2002 (current businesses)

Converting Industry, personnel by business unit at 31.12.2002

TURNOVER BY BUSINESS UNIT

€ million	2002	2001	2000
Raflatac	736	667	624
Loparex	389	375	232
Walki Wisa	318	323	312
Walki Films	105	123	113
Other + internal sales	–7	–8	–9
	1,541	1,480	1,272

TURNOVER BY MARKET

€ million	2002	%
Finland	78	5
Other EU countries	843	55
Other European countries	150	10
North America	373	24
Rest of world	97	6
	1,541	100

the competition authorities for the MACtac deal is expected during the first half of 2003. The Walki Films business was transferred to the buyer on 1 October 2002.

RAFLATAC

Turnover was up by 10%. Growth was achieved particularly in North America, where deliveries and quality at the new production plant that started up in autumn 2001 developed favourably. Growth in demand for products was weaker than normal. Demand showed signs of picking up during the second half of the year.

Raflatac booked higher earnings than the previous year. Internal efficiency was improved in the unit's European operations. Sales prices fell slightly during the year.

Acquisition of MACtac

In August 2002, the company signed an agreement to purchase the MACtac pressure-sensitive materials business from Bemis Company Inc. MACtac has 1,800 employees and in 2001 had a turnover of roughly USD 500 million. It has five production plants in North America and one in Europe, and a joint venture in Mexico. On completion of the deal Raflatac's turnover will rise to around € 1.2 billion and its workforce to 3,800.

The acquisition will increase Raflatac's share of the North American market for self-adhesive labels and at the same time strengthen Raflatac's know-how in special materials.

Expansion of the product portfolio through the inclusion of graphic products and technical labels and tapes will strengthen the business unit's position in both North America and Europe. Graphic labels are used in outdoor advertising, while technical products are sold to the electronics and automobile industries. Demand for these high value-added products is growing by faster than the average.

The production plants complement each other and provide an opportunity to achieve greater efficiency through specialization. Synergies will also be achieved in logistics and materials purchasing. Combining operations is expected to produce synergies of USD 28 million within two years.

LOPAREX

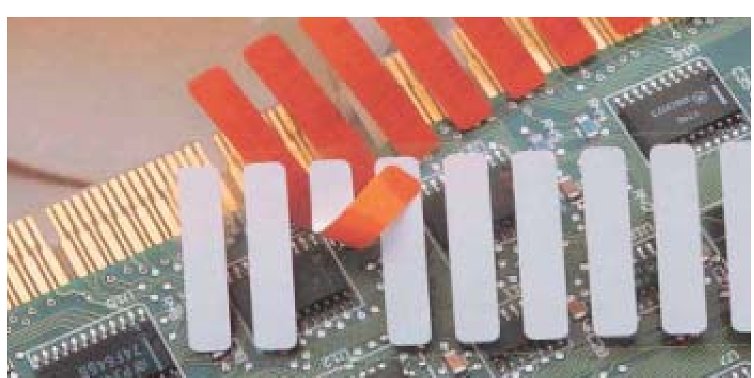
Loparex recorded a 4% increase in turnover, mainly due to inclusion of the siliconizing business bought from Rexam PLC in 2001. Demand for siliconized papers was subdued throughout the year in all the company's main markets. Loparex increased its earnings on the previous year, mainly thanks to greater internal efficiency and lower raw material costs.

Loparex continued with its strategy of international expansion during the year with decisions to invest in both China and India. New production lines in these countries will start up in 2003-2004.

WALKI WISA

Walki Wisa's turnover was unchanged despite a 3% increase in sales volumes. Both sales prices and raw material costs were, on average, lower than the year before. Profitability remained good.

Walki Wisa is expanding its operations to both the Far East and North America. A printing plant was opened in China in November 2002 and a similar plant will open in North Carolina in the US in January 2003.



UPM-KYMMENE CONVERTING INDUSTRY
CONVERTING UNITS AND MAIN PRODUCTS

RAFLATAC

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

LOPAREX

- Siliconized release materials for hygiene products, labels and industrial applications

WALKI WISA

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

A LEADING EUROPEAN
WOOD PRODUCTS MANUFACTURER

WOOD PRODUCTS INDUSTRY

Plywood production showed substantial rise. Investment in Russia continued.

PROFITABILITY

Turnover was about the same as in 2001. Profitability improved but was still unsatisfactory.

The weak profitability is due to the sawmilling business, which suffered from high raw material costs and low sales prices resulting from over-supply.

The plywood business was marginally less profitable because of the lower sales prices. Plywood production rose following start-up of the new Pellos softwood plywood mill.

Business in wood-based building supplies was brisk, especially in Finland and Ireland. Profitability was better than the year before.

THE MARKET

The building industry started the year in an air of uncertainty, but low interest rates maintained a good level of building activity in Europe.

Sawn timber stocks fell towards the year-end, causing an imbalance between supply and demand in all customer segments. Prices improved somewhat later in the year but were still unsatisfactory.

Deliveries of spruce plywood increased considerably thanks to the new Pellos softwood plywood mill. Prices fell, however, because of fierce competition from South America. Deliveries of birch plywood were almost the same as the year before and prices remained steady. With Russia and the Baltic countries producing more birch plywood, competition has intensified. The volume of deliveries to industrial customers was about the same as in 2001.

UPM-KYMMENE WOOD PRODUCTS INDUSTRY

KEY FIGURES

€ million	2002	2001	2000
Turnover	1,489	1,463	1,490
Operating profit	37	27	75
% of turnover	2.5	1.8	5.0
Capital employed (average)	742	664	603
ROCE, %	5.0	4.1	12.5
Capital expenditure and acquisitions	69	137	94
Personnel at 31 Dec.	7,577	7,865	7,407
Production, 1000 m^3			
Sawn timber	2,051	1,856	2,098
Plywood	905	786	793

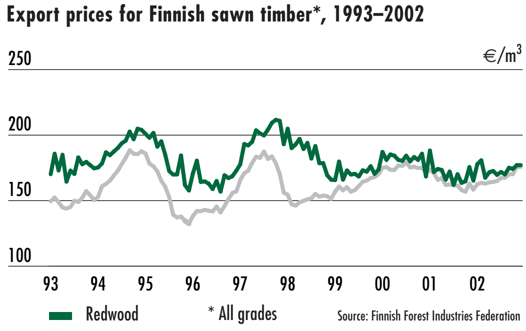
TURNOVER BY BUSINESS AREA

€ million	2002	2001	2000
Sawmilling	432	417	454
Plywood	525	504	500
Building supplies trade	615	621	586
Other + internal sales	–83	–79	–50
	1,489	1,463	1,490

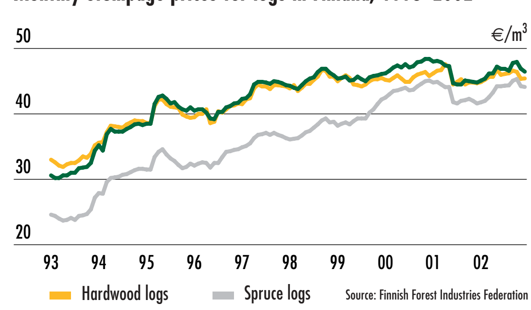
TURNOVER BY MARKET

€ million	2002	%
Finland	426	29
Other EU countries	911	61
Other European countries	64	4
North America	11	1
Rest of world	77	5
	1,489	100

Export prices for Finnish sawn timber*, 1993–2002



Monthly stumpage prices for logs in Finland, 1993–2002



Business in wood-based building supplies was brisk all year in both Finland and Ireland. The uncertain economic situation in Denmark had an adverse impact on ANCO Træ's business.

CAPITAL EXPENDITURE AND RESTRUCTURING

The most significant investment decision concerned construction of a new sawmill at Pestovo in Russia. Building work on the sawmill, which will initially produce 200,000 cubic metres a year of whitewood, began at the end of the year. The sawmill will go into production at the end of 2003. The wood terminal to be built for the sawmill will also help to secure wood raw material supplies to the Group's mills in Finland.

Modernization of Steyrermühl's sawing line was completed early in the year, almost doubling production capacity to 300,000 cubic metres a year.

Investments in Russia also concerned plywood production. A new facility to produce thin veneers was built alongside Chudovo plywood mill. The facility will turn out over 10 million square metres of birch plywood a year when it starts up early in 2003.

UPM-Kymmene Wood Products Industry streamlined its operations in Britain by opening a service centre for WISA products in Hull and by combining with the new centre Brooks Manson's timber processing and merchanting business in Dinnington. The Brooks Manson sales outlets in central Britain were relinquished as non-core business.

Puukeskus signed a cooperation agreement with Rautakesko. Under this agreement Puukeskus will provide the timber procurement and wood-based panels storage services needed by Rautakesko in Finland. Brooks Group opened two new outlets in Ireland.

UPM-KYMMENE WOOD PRODUCTS INDUSTRY UNITS AND MAIN PRODUCTS

SAWMILLING

United Sawmills Ltd, Finland
- Sawn timber and building and joinery components, strips and mouldings

Steyrermühl sawmill, Austria
ZAO Pestovo Novo, Russia (2003–)

PLYWOOD

Schauman Wood Oy, Finland
– Plywood
Schauman Wood S.A., France
– Plywood
Kalso-Teollisuus Oy, Finland
– Veneers
Mahogany Oy, Finland
– Special plywoods and veneers
ZAO Chudovo-RWS, Russia
– Plywood and veneer

WOOD-BASED BUILDING SUPPLIES MERCHANTS

Puukeskus Oy, Finland
Brooks Group Limited, Ireland and Great Britain
ANCO Træ A/S, Denmark

OTHER OPERATIONS

The biggest units of UPM-Kymmene's Other Operations are the forestry and energy departments in Finland, together with associated companies, the most important of which are Oy Metsä-Botnia Ab and Pohjolan Voima Oy. The purpose of Other Operations is to secure supplies of wood, energy and chemical pulp at competitive prices. Roughly 70% of these units' sales are within the Group.

The biggest of the logistics companies responsible for the forwarding, storage and export transport of UPM-Kymmene's products are Rauma Stevedoring Oy, UPM-Kymmene Seaways Oy and Interot Speditions GmbH.

The New Ventures unit develops new products and services in support of the company's future business operations. The most notable products currently being developed are Rafsec smart labels.

The real estate unit comprises business and residential premises in Finland.

Other Operations also includes staff functions and shareholdings, the most important being 11.3 million shares in Nokia Corporation and 19.9 million shares in Metso Corporation.

PROFITABILITY

Operating profit for the forestry department decreased due to less felling in the company's forests.

The energy department also returned a smaller operating profit because sales of electricity to outside buyers have been reduced. The shortage of hydropower in the Nordic countries raised the cost of purchased electricity.

Metsä-Botnia was less profitable because of the fall in pulp prices. Metsä-Botnia is reported under results of associated companies.

METSÄ-BOTNIA

UPM-Kymmene owns 47% of Oy Metsä-Botnia Ab, one of Europe's biggest pulp producers with a capacity of 2.6 million t/a. The other owners are the Metsäliitto Group company M-real Corporation (47%) and Metsäliitto Cooperative (6%). Metsä-Botnia produces softwood and birch pulps at five mills in Finland. Most of this pulp is supplied to the company's owners. Metsä-Botnia provides about a fifth of UPM-Kymmene's annual chemical pulp requirement. Turnover in 2002 was € 1,030 million. Metsä-Botnia has around 2,000 employees. In 2002, UPM-Kymmene bought 594,000 tonnes of pulp from Metsä-Botnia.

POHJOLAN VOIMA

UPM-Kymmene has a 40.4% interest in the industry-owned company Pohjolan Voima Oy, which generates and procures some 20,000 GWh of electricity and heat annually for its shareholders. The company supplies around 40% of UPM-Kymmene's electricity requirement, mostly as hydropower and nuclear power. Nuclear power is generated by Pohjolan Voima's 56.8% owned subsidiary Teollisuuden Voima Oy. In 2002, Pohjolan Voima had a turnover of € 670 million and a workforce of 2,300.

CURRENT VALUE OF RESOURCES

The Group's assets are in most cases valued at purchase cost less depreciation according to plan. The values of certain assets are, however, considerably higher than their book values.

At the end of the year, listed shares held by the company had a book value totalling € 191 million and a current value of € 388 million.

The company's 930,000 hectares of forest holdings had a book value of € 1,144 per hectare, making a total value of € 1,064 million (including revaluations of € 548 million). The company estimates that the average current value of its forest holdings was € 1,396 per hectare, i.e. a total of € 1,298 million. The company also estimates that the current value of its energy shares at the end of 2002 was € 1,254 million, which exceeds the book value by € 601 million.

UPM-KYMMENE OTHER OPERATIONS

€ million	2002	2001	2000
Turnover [1]	583	489	576
Operating profit, total	209	396	572
of which			
forestry department (Finland)	37	45	53
energy department (Finland)	51	99	69
share of results of associated companies	60	82	167
other [2]	61	170	283
Personnel at 31 Dec.	3,546	3,767	3,688

[1] Turnover includes sales outside the Group.
[2] Includes capital gains of € 81 million on sales of listed shares in 2002, € 265 million in 2001 and € 485 million in 2000. The figure for 2000 also includes a write-down of € 128 million due to harmonization of Miramichi's depreciation periods.

FIBRE SUPPLY

UPM-Kymmene makes varied use of different fibre raw materials in its paper production. Recovered paper now represents more than one fifth of fibre raw material.

Fluctuations in market pulp prices have only a small impact on earnings as UPM-Kymmene is about 90% self-sufficient with regard to chemical pulp.

The Group's own pulp mills have a total production capacity of 2.3 million t/a and the associated company Metsä-Botnia a capacity of 2.6 million t/a, of which UPM-Kymmene's entitlement is almost 1.1 million t/a. Work at Wisaforest's Pietarsaari pulp mill, due for completion in 2004, will raise production capacity by 180,000 t/a to 800,000 t/a.

Efficiency levels at the pulp mills were further increased in 2002. Weak demand for paper caused production to be curtailed throughout the year, and the capacity utilization rate was 91% (88%). Total consumption of chemical pulp rose by 6%, mainly due to the inclusion of Haindl's mills.

Demand for market pulp was modest throughout the year because of low paper mill capacity utilization rates. However, cut-backs in production kept pulp producers' stocks at around normal levels. Buyers' stocks also remained at reasonable levels. The average price of bleached long-fibre pulp was USD 463/t, compared with USD 535/t in 2001.

The inclusion of Haindl's mills considerably increased the need for recycled fibre, and the total procured in 2002 was around 2.2 million tonnes. Recycled fibre was readily available.

Recovered paper prices were steady apart from a sharp rise that occurred during the summer. In Germany, prices started the year at around € 75/t, rising momentarily to € 140 in the summer, and ending the year at below € 90/t.

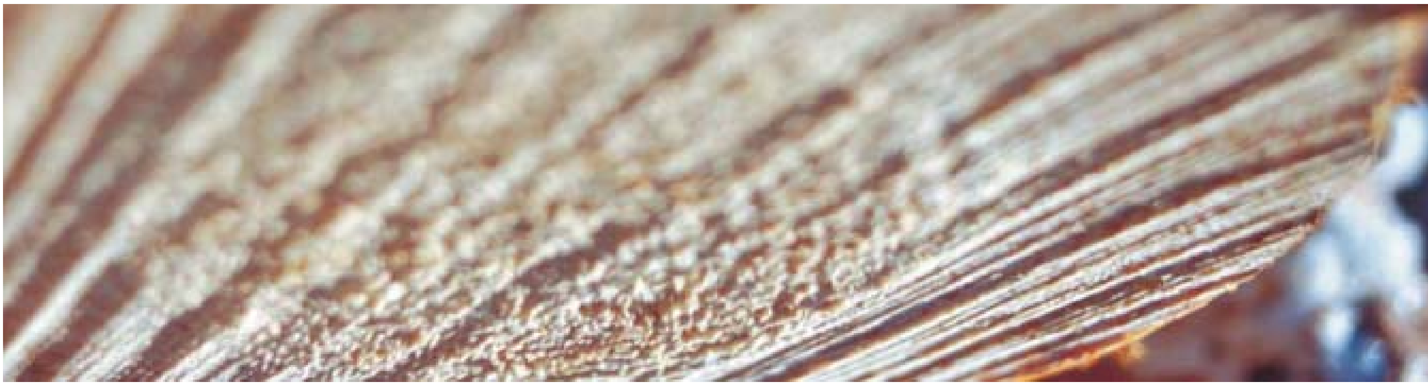
PULP PRODUCTION AND CONSUMPTION

1000 t/a	2002	2001	2000
Pulp production			
Chemical pulp			
own production	2,102	2,038	1,967
from associated company	594	550	692
Mechanical pulp	2,951	2,673	2,678
Recycled fibre pulp	1,735	810	749
Total	7,382	6,071	6,086
Pulp consumption			
Chemical pulp	3,161	2,970	3,126
Mechanical pulp	2,988	2,683	2,691
Recycled fibre pulp	1,737	811	751
Total	7,886	6,464	6,568

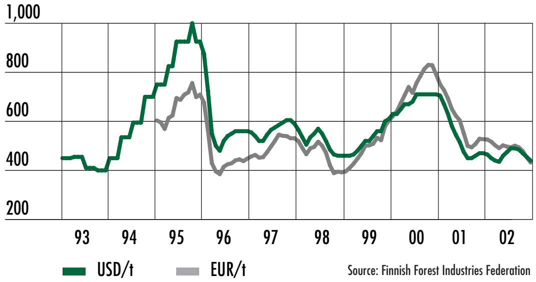
PULP PRODUCTION CAPACITY

1000 t/a	January 2003
Kaukas	720
Wisaforest	625
Kymi	525
Tervasaari	235
Miramichi	220
Own production capacity, total	2,325
Share in associated company	
Oy Metsä-Botnia Ab	1,050
Total	3,375

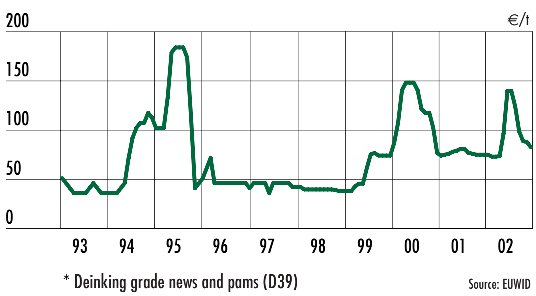
The Kaukas and Miramichi pulp mills are part of the Magazine Papers division, and the Kymi, Wisaforest and Tervasaari pulp mills belong to the Fine and Speciality Papers division.



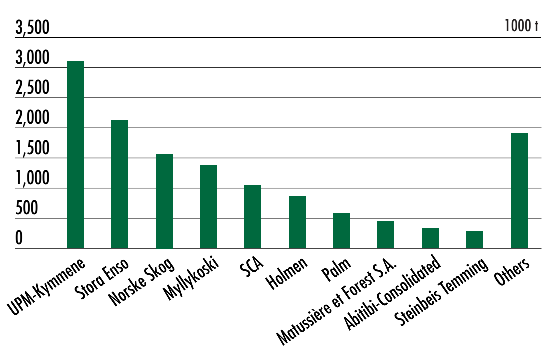
Market pulp prices 1993–2002 (bleached pine pulp)



Market price of recovered paper* in Germany, 1993–2002



World's biggest users of domestic waste paper, 2003



Including UPM-Kymmene's investment in Shotton and Stora Enso's in Langebrügge, both due to be completed in 2003.

WOOD PROCUREMENT

Availability of wood raw material was good. Less felling in Group's own forests.

UPM-Kymmene used a total of 26.3 million m^3 of wood raw material during 2002 (24.4 million in 2001). The Group's Finnish mills accounted for 21.0 million m^3 of this (20.8 million).

WOOD PROCUREMENT

UPM-Kymmene's 29 production plants in ***Finland*** consumed a total of 21.0 million m^3 of wood during the year (20.8 million). By-products from the Group's own sawmills and plywood mills provided 1.8 million m^3 of this (1.8 million). Paper manufacture accounted for 71% of wood consumption and wood products manufacture for 29%. Of the total wood used, 73% came from private forests, 2% from state-owned forests and 7% from the Group's own forests. The remaining 18% was imported, mainly from Russia. Wood imports totalled 3.8 million m^3, about the same as in 2001, which was a record year.

Besides supplying its own mills, the forestry department delivered 4.4 million m^3 of wood (4.6 million) to associated companies and other outside customers.

Forest-based fuel equivalent to 636 GWh (378) was supplied to the Group's power plants.

The availability of wood from private forests improved markedly following changes made to the price and dimensional requirements of pine pulpwood in the summer. Overall, wood purchases were in line with the target, and the total purchased was a fifth higher than in 2001. Wood stumpage prices were about the same as the year before.

In ***Great Britain***, wood consumption by the Shotton and Caledonian paper mills totalled 0.8 million m^3 (0.8 million). The main supplier was the State Forestry Commission, which provided about 40% of the total.

In ***Austria***, Steyrermühl paper mill and sawmill consumed 0.8 million m^3 of wood (1.0 million). The paper mill also uses recycled fibre as raw material.

In ***France***, Stracel paper mill used 0.4 million m^3 of wood (0.4 million). About 47% of this came from Germany.

In ***Germany***, the Augsburg and Schongau paper mills used 0.5 million m^3 of wood (0.5 million). Augsburg uses both recycled fibre and roundwood, while Schongau uses chips. The Schwedt mill uses exclusively recycled fibre.

In the ***United States***, Blandin paper mill in Minnesota used 0.6 million m^3 of wood (0.5 million). Some 18% of this came from the company's own forests.

In ***Canada***, the Miramichi pulp mill, paper mill and two sawmills in New Brunswick used 2.1 million m^3 of wood (1.8 million).

In ***Russia***, Chudovo plywood mill in Novgorod province used 0.2 million m^3 of birch logs. The birch chips produced during plywood manufacture were exported to Finland.

COMPANY FORESTS

The Group's own forests help to secure supplies of wood raw material.

In ***Finland***, the company owns roughly 930,000 hectares of forestry land, of which 770,000 hectares is commercial forest. Felling in the company's own forests provided 1.6 million m^3 (1.9 million), which is less than the volume that can be felled sustainably. In addition to the company's own forests, the forestry department manages some 200,000 hectares of private forest.

In ***Great Britain***, UPM-Kymmene owns 2,000 hectares of forest, while its subsidiary Tilhill Forestry manages around 168,000 hectares of private forest.

In the ***United States***, UPM-Kymmene owns approximately 78,000 hectares of forest.

In ***Canada***, the Group has around 17,000 hectares of forest and also leases some 941,000 hectares of State-owned forest.

In ***Uruguay***, UPM-Kymmene has a 38.4% interest in Forestal Oriental, a company that owns some 31,000 hectares of eucalyptus plantations.

FOREST CERTIFICATION

Of the wood raw material used by UPM-Kymmene in 2002, 58% came from certified forests (54% in 2001).

UPM-Kymmene encourages the use of forest certification in different countries, as certification can be used to prove that the wood raw material used in making products was obtained from well-tended, sustainably managed forests.

Work to gain certification for the entire chain of custody of wood raw material has been started and will continue in 2003.

UPM-KYMMENE'S WOOD CONSUMPTION

1000 m^3	2002	2001	2000
Finland	20,960	20,800	21,680
Great Britain	760	800	825
Austria	800	40	–
Canada	2,140	1,800	410
France	420	410	435
Germany	500	30	–
Russia	200	–	–
United States	560	515	550
Total	26,340	24,395	23,900

WOOD CERTIFICATION SYSTEMS USED BY UPM-KYMMENE

Country	National system	International system	Certified wood, % of total used
Finland	FFCS	PEFC	67
Great Britain	UKWAS	FSC	57
Austria	PEFC	PEFC	38
Canada	CSA	SFI, FSC	–
France	PEFC	PEFC	–
Germany	PEFC	PEFC	71
Uruguay	–	FSC	–
United States	SFI	ISO 14001	–

ENERGY

UPM-Kymmene acquires electricity and heat from several different sources. The Group is about 70% self-sufficient in electric power.

Electricity procurement for the year was 20.6 TWh (18.8), of which 18.7 TWh (15.6) was consumed by the Group's own mills and 1.9 TWh (3.2) was sold. Because the Group is largely self-sufficient in electric power, the price of electricity purchased for the Group's own use has remained fairly stable. Changes in spot prices on the Nordic electricity exchange had no significant impact on energy costs.

The generating capacity available to UPM-Kymmene in the form of in-house and leased capacity and through associated companies totalled around 2,000 MW. The most important associated company in terms of energy is Pohjolan Voima Oy (see p. 31). UPM-Kymmene also owns 19.0% of Kemijoki Oy's hydropower shares.

Heat generated from fuels procured by the Group, plus purchased heat and heat generated by thermomechanical pulping totalled 34.7 TWh (31.9). Biofuels accounted for 54% of fuel procurement.

The associated company Pohjolan Voima has built power plants at Jämsänkoski, Kuusankoski and Ristiina. Most of the power generated by these plants is used by UPM-Kymmene's mills. Start-up of these plants has further increased UPM-Kymmene's use of biofuels and combined heat and power generating capacity.

In 2002, Teollisuuden Voima Oy, a subsidiary of Pohjolan Voima Oy, received Parliament's approval to build additional nuclear power generating capacity.

ELECTRICITY PROCUREMENT AND CONSUMPTION

TWh	2002	2001	2000
Procurement			
Hydropower	2.4	2.9	3.2
Back-pressure power	4.6	3.1	2.9
Nuclear power shares	4.4	4.4	4.4
Thermal energy shares	2.4	2.1	1.4
Purchased electricity	6.8	6.3	7.1
Total	20.6	18.8	19.0
Consumption			
Mills in Finland	11.2	11.2	11.5
Mills abroad	7.5	4.4	3.7
Sales	1.9	3.2	3.8
Total	20.6	18.8	19.0
SOURCES OF THERMAL ENERGY			
Black liquor	10.6	9.9	9.0
Bark and other biofuels	5.0	7.2	6.9
Heat recovered from TMP production	2.3	2.1	2.0
Peat	1.0	1.2	1.3
Purchased and entitlement through associated companies	3.6	1.2	1.3
Natural gas	9.1	6.8	6.5
Oil	1.4	1.6	1.0
Coal	1.7	1.9	1.0
Total	34.7	31.9	29.0

INVESTMENT

Capital expenditure smaller than depreciation.

Maintenance and replacement investments are aimed at keeping production machinery in good condition and cost-competitive. Investments are also designed to improve product quality.

Capital expenditure, excluding company acquisitions, was € 561 million, representing 5.4% of turnover (827 million and 8.3%).

Maintenance and replacement investments in existing production machinery totalled € 363 million (353 million). A further € 198 million was invested in machine conversions and in new production units and lines (474 million). The most significant investment completed in 2002 was the expansion of Steyrermühl's deinking plant.

Company acquisitions cost a total of € 52 million (3,023 million).

Sales of shares and other fixed assets totalled € 212 million (350 million). The most notable was the sale of Walki Films for USD 70 million in conjunction with the MACtac acquisition.

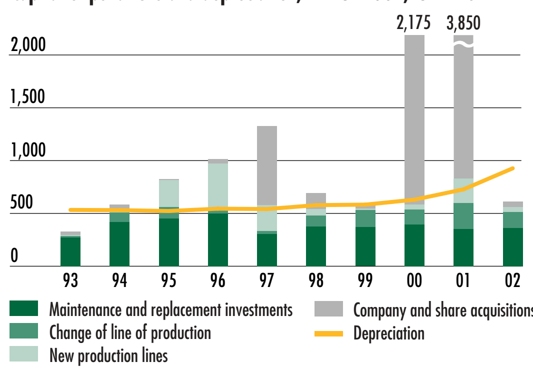
MAIN ONGOING INVESTMENT PROJECTS

	Total cost, € million
Rauma PM 1, modernization and extra pulp capacity	64
Jämsänkoski PM 3, modernization	46
Shotton, deinking plant expansion	127
Pietarsaari pulp mill, rebuild	132
Changshu paper machine	470

CAPITAL EXPENDITURE AND ACQUISITIONS BY COUNTRY, 1998–2002

€ million	2002	2001	2000	1999	1998
Finland	389	660	379	330	371
Germany	41	2,197	25	45	27
Canada	12	29	1,011	–	–
United States	32	171	61	34	53
China	14	5	546	–	106
Austria	10	669	–	–	–
Other European countries	86	103	125	187	108
Rest of world	29	16	28	13	31
Total	613	3,850	2,175	609	696

Capital expenditure and depreciation, 1993–2002, € million



RESEARCH AND DEVELOPMENT

In R&D work, special emphasis was given to developing solutions that promote customer focus and cost-effectiveness.

Research and development expenditure in 2002 was € 46 million (45 million). In addition, considerable development work was carried out in conjunction with many investment projects and during normal production, some of which involved equipment and chemicals suppliers.

The Group employs a total of 500 people in research and development. Research and development work is also commissioned from the Finnish Pulp and Paper Research Institute, which is owned by the Finnish pulp and paper industry and in which UPM-Kymmene has a 39% shareholding. The company has also been involved in numerous national pulp and paper technology programmes initiated by the National Technology Agency of Finland (TEKES). In addition to this, UPM-Kymmene provides wide-ranging support for research at universities and colleges by sponsoring students working on academic theses.

UPM-Kymmene is a member of several research institutes in other countries, and is also involved in certain research projects under the EU's 5th framework programme.

In the ***Paper Industry***, the focus of development work was on improving the cost-effectiveness of different paper grades. Development work aimed at bringing customers new value added was also stepped up. One such area concerns papers designed for digital printing.

At the Augsburg mill an R&D centre was opened primarily to develop RCF-based newsprint and magazine paper. More use was made of recycled fibre in newsprint and standard magazine papers.

Work continued to lower the costs of the fibre raw materials and fillers used in magazine and fine paper production by various technical means such as replacing some chemical pulp with mechanical pulp and/or deinked pulp, and by raising pigment contents. The opacity and brightness of magazine paper were further improved. The company brought onto the market its new Finesse range of papers and the improved UPM Ultra and Star grades.

In ***pulp research***, the emphasis was on developing chemical pulps for use in the company's integrated fine and speciality paper production. Significant improvements have been made in optimizing the use of wood raw material. Other areas of development included reducing fibre line costs and work on environmental issues at the mills.

In the ***Converting Industry***, a new UV-curable adhesive developed by Raflatac for synthetic special laminates was put on the market. Raflatac also began extensive use of hot-melt adhesives. Development work carried out by Loparex was mainly concerned with raw materials optimization. Important results were achieved in development work on several products, including a silicone-coated paper designed for insulation purposes and a PE-coated lay-flat release liner for graphic end-uses. Walki Wisa has developed new grades of Walki-Jet inkjet printing paper for photograph-quality print.

In the ***Wood Products Industry***, the WISA R&D centre focused on product improvements designed to generate added value, particularly for industrial customers. One important area was improving the biological resistance of products used in building applications. A project aimed at improving the properties of plywood products was launched with the support of TEKES.

Rafsec, which is one of the ***New Ventures*** units, continued the development of its radio-frequency identification (RFID) products and production processes, and brought new smart card products onto the market. Commercial interest in Rafsec's products has grown during the latter part of 2002.

ENVIRONMENT

Caring for the environment is a natural part of UPM-Kymmene's responsible business operations.

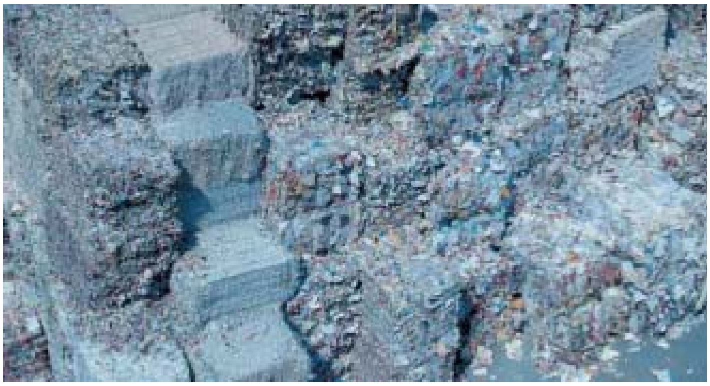
The company's environment policy was revised in 2002. The policy stresses the importance of the sustainable use of natural resources and environmental protection as key requirements for sustainable economic growth and for the wellbeing of people and society. For UPM-Kymmene, the main environmental issues concern pulp and paper production.

The purchase of Haindl's paper mills has made UPM-Kymmene the world's biggest user of deinking grade waste paper, and the company's shares have been admitted to the Dow Jones sustainability indexes DJSI Stoxx and DJSI World for 2003. The German publisher Axel Springer Verlag and UPM-Kymmene received an award in recognition of their joint efforts to promote sustainable development at the UN international earth summit in Johannesburg in 2002.

AIMING FOR CONTINUOUS IMPROVEMENT

Caring for the environment has two main goals: continuously to reduce environmental loadings throughout a product's entire life cycle, and to integrate environment-related issues naturally into business operations at all levels. To reach these goals, environment-related issues are included in the company's regular training programmes and work guidance. During 2002, a total of 4,500 people took part in environment-related training at the company's mills and sales offices. Long-term collaboration with customers provides a sound basis for understanding those environmental issues that are important to the market and for further developing operations.

Besides reducing loadings from its production plants, UPM-Kymmene places special emphasis on the environmental aspects of forest management, energy generation and transport,



and other subcontracts involved in the supply chain. Wood raw material is obtained from sustainably managed forests. In 2002, certified wood represented 58% (54%) of all wood used by the Group. Work aimed at gaining certification for the entire chain of custody for wood raw material began in 2002 and will continue in 2003.

UPM-Kymmene generates most of the energy it needs at its own and associated company power plants, where biofuels accounted for 63% of total fuel consumption in 2002 (61% in 2001). The environmental loadings arising from transport are being reduced through a careful choice of routes, means of transport, and fuels.

MANAGEMENT SYSTEMS IN SUPPORT OF GOALS

Management systems complying with ISO standard 14001 are used to manage environmental issues relating to industrial production, forest management, energy generation and transport. Under these systems, targets are specified and their implementation is monitored and reported. Most of the management systems employed at the pulp and paper mills in Europe have also received EMAS certification. These systems set specific environmental goals for each individual mill, and compliance with these is monitored to ensure the continuous improvement of the company's processes. Almost 95% of all UPM-Kymmene's paper is produced at mills employing certified management systems. Applications will be made for certification of the systems at the Changshu and Miramichi mills during 2003.

HAINDL'S MILLS ARE ALSO LEADERS IN ENVIRONMENTAL PROTECTION

The performance of Haindl's mills meets the requirements for Best Available Technology (BAT), as specified in EU legislation, in relation to almost all consumption and emission parameters.

The acquisition of Haindl's mills has raised UPM-Kymmene's paper production by nearly 2 million t/a and increased the total environmental loading. Despite this, the average loading per production unit showed a decrease on 2001.

Consumption of recovered paper rose from 970,000 to 2,200,000 tonnes.

Action to reduce emissions to air and water from the Miramichi mill will be needed in the next few years.

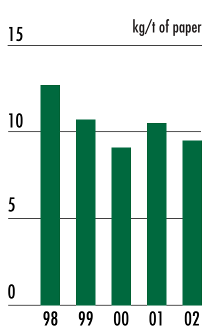
ENVIRONMENT-RELATED INVESTMENT AND OPERATING COSTS

Direct environment-related investment in treatment systems and measures to reduce loadings at all mills totalled € 21 million (40 million in 2001). Operating expenditure relating directly to environmental protection, including depreciation according to plan, was € 113 million (89 million). A total of € 56 million (52 million) was paid in environmental and energy taxes.

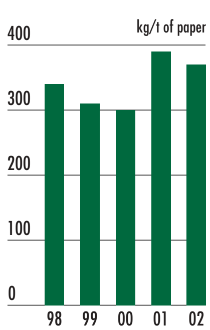
For 2002, UPM-Kymmene will publish its first corporate responsibility report, which deals primarily with environmental and social issues.

More information on the company's environmental protection work can be found on the company's web pages, address: www.upm-kymmene.com

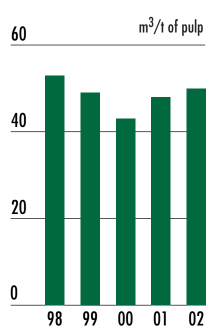
Chemical oxygen demand (COD) of wastewater



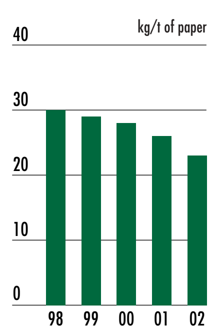
Fossil carbon dioxide (CO_2) emissions4)



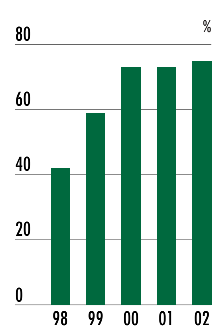
Average volume of process wastewater from pulp production1)



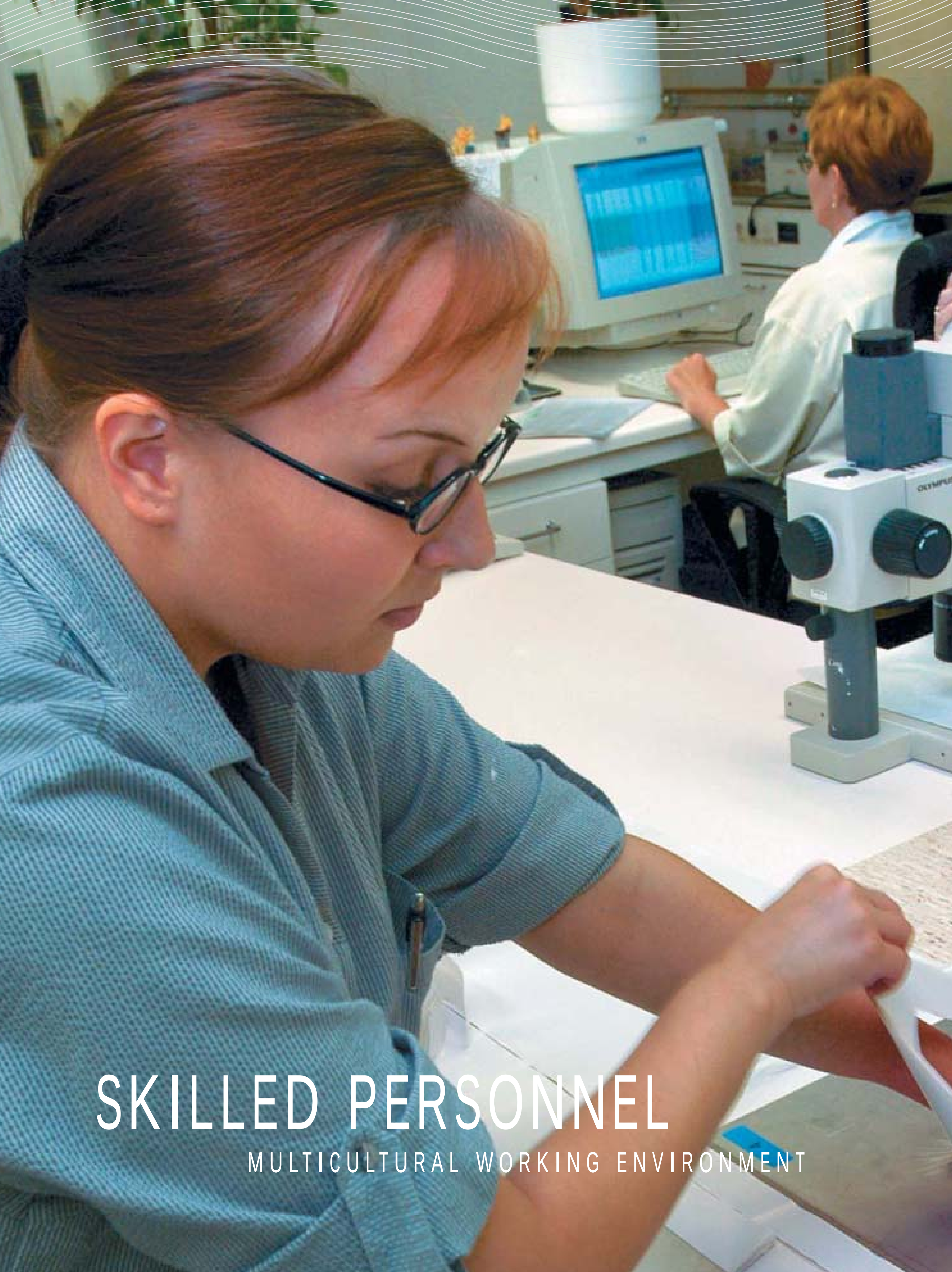
Landfill waste from pulp and paper production2) 4)



Average recycled fibre content of newsprint3)



1) Specific effluent volumes have risen due to acquisition of Miramichi pulp mill. 2) Waste also includes building and demolition waste. 3) Chapelle Darblay, Kaipola and Shotton. Figures for 2000 do not include Changshu and Miramichi; figures for 2001 do not include Haindl. 4) Figures reflecting CO_2 emissions and landfill waste in previous years have been changed to comply with current calculation practice.



SKILLED PERSONNEL

MULTICULTURAL WORKING ENVIRONMENT

PERSONNEL

UPM-Kymmene's human resources policy is guided by the company's values of openness, trust and initiative.

UPM-Kymmene's aim is a corporate culture that seeks to encourage creativity and initiative and at the same time shows respect for the individual. Success for the company and its employees is seen as a common goal.

HUMAN RESOURCES POLICY BASED ON LOCAL FACTORS

At the end of 2002, UPM-Kymmene had 35,579 employees. The company's human resources policy takes account of both national and local factors. During the year a start was made to introduce a human resources information system to steer the human resources policy and management of the entire Group.

CAREER PLANNING AND MANAGEMENT BY PERFORMANCE

The average number of years of service among the Group's employees is approximately 14. The workforce includes a large number of experienced persons and people who have served the company for many years.

Globalization and the large number of people due to retire in the next few years will require greater job mobility on the part of employees. With this in mind, career planning and internal recruitment have been stepped up.

Personal performance is assessed regularly during development discussions, during which new targets are set and personal needs for development are evaluated.

INCENTIVE SCHEMES

Rewards paid to employees are based on the return on capital employed. Rewards are paid if the return on capital employed exceeds a pre-set minimum target. Payments made under the profit-sharing scheme in 2002 totalled € 11 million (24 million in 2001).

The company also operates incentive schemes based on achievement of personal targets and increased productivity.

PROMOTING SKILLS

Leadership Academy, a training programme based on the company's own management principles, was started during the year to meet the company's need for development.

KEY INDICATORS

	2002	2001	2000
Turnover per person, € (= Turnover / average no. of employees)	284,000	288,000	294,000
Value added per person, € (= Turnover – materials and services / average number of employees)	141,000	142,000	137,000
Remunerations based on financial performance, € million	11	24	44
Training costs, € million (= Training costs incl. salaries and indirect employee costs)	27	26	22
Average no. of days spent in training (= No. of days of training / average no. of employees)	2.7	2.7	2.4
Personnel turnover, % (= No. of persons leaving / average no. of employees)	4.1	5.7	5.3
No. of man-days lost through strikes	800	1,200	49,500

Altogether 108 people graduated from the company's two industrial training colleges in 2002.

In China, Changshu paper mill began working together with a local vocational training college. UPM-Kymmene is helping the college by supplying know-how from its training colleges in Finland.

GROUP COOPERATION

Representatives of the different personnel groups meet twice a year to help promote international collaboration within the UPM-Kymmene Group. Matters dealt with in 2002 included new policies for human resources and health and safety at work.

COLLECTIVE WAGE AGREEMENTS

In drawing up collective wage agreements, the company complies with local legislation and practices. A high proportion of employees are trade union members, although the numbers vary from country to country.

PENSION SCHEMES

The Company's pension schemes are specific to each country and unit. In Finland, the pensions of 93% of our employees are arranged through pensions insurance companies, and the remaining 7% through the Company's pension funds. Outside Finland, approximately 25% and 75% of employees are members of defined contribution plans and defined benefit plans respectively.

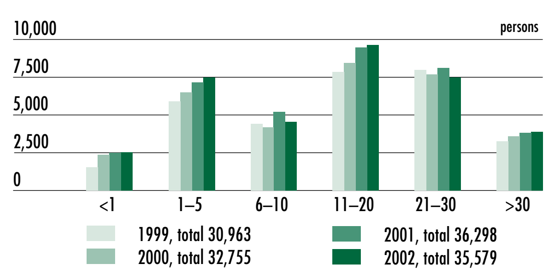
PENSION EXPENSES 2000–2002

	2002	2001	2000
Pension expenses, €m			
In Finland	138	128	91
Abroad	61	23	21
Total	199	151	112
Pensions expenses, % of wages and salaries			
In Finland	18.6	16.9	12.6
Abroad	10.0	4.8	4.7

PERSONNEL BY COUNTRY AT END OF YEAR

	2002	2001	2000
Finland	19,873	20,642	20,719
Germany	4,385	4,411	2,699
France	2,032	2,170	2,226
Great Britain	2,001	2,030	1,959
Austria	737	721	27
Russia	571	514	12
Ireland	315	283	272
Spain	255	193	183
Denmark	233	241	268
The Netherlands	185	196	84
Belgium	128	139	123
Portugal	88	73	89
Sweden	69	77	75
Italy	65	61	48
Poland	53	51	48
Other European countries	93	103	77
USA	1,968	1,915	1,441
Canada	1,449	1,473	1,518
China	772	726	685
Malaysia	103	89	70
Australia	90	80	71
South Africa	73	74	30
Rest of world	41	36	31
Total	35,579	36,298	32,755

Employees' years of service with UPM-Kymmene



EVENTS IN 2002

JANUARY

2 United Sawmills Ltd announced it would cease operations at Parkano sawmill by the summer.

7 The new softwood plywood production line was started up at Schauman Wood's Pellos mill.

14 UPM-Kymmene announced it would invest € 127 million in a new deinking plant at the Shotton mill in Wales. The investment will allow production to be based entirely on recycled fibre. The new deinking plant is scheduled to come on stream at the end of 2003.

23 M-real, UPM-Kymmene, Metsäliitto Cooperative and Metsä-Botnia signed a letter of intent to hive off Metsä-Botnia's Kemiart Liners business in Kemi to form an independent company with the same ownership structure as Metsä-Botnia.

MARCH

19 The Annual General Meeting decided to lower the company's share capital by declaring void 1,175,398 shares bought back by the company in accordance with a previous decision. The meeting approved a proposal by the Board of Directors to buy back at least 100 and at most 12,300,000 of the company's own shares. The meeting also approved the Board's proposal to donate some 560 hectares of land to the Finnish state for the establishment of Repovesi national park.

APRIL

7 The second stage of the deinking plant expansion at Steyrermühl came on stream.

10 UPM-Kymmene and APRIL agreed on new conditions and an extension of the repayment period for the USD 121 million loan made by UPM-Kymmene to APRIL on 19 April 1999. At the same time, UPM-Kymmene and APRIL agreed on stricter environmental requirements for the contract concerning the supply of chemical pulp from Riau to UPM-Kymmene's paper mill at Changshu in China.

MAY

1 Voikkaa's old paper machine (PM 16) was closed down. The machine had a capacity of 75,000 t/a of special newsprint.

15 The company decided to modernize Pietarsaari pulp mill in collaboration with Pohjolan Voima Oy's subsidiary Wisapower. The estimated cost of the project is around € 250 million, of which UPM-Kymmene will contribute about half.

28 UPM-Kymmene announced its intention to build a new sawmill, capacity 200,000 m^3/a, at Pestovo in the Novgorod region of Russia as a joint venture with the Russian company ZAO Novgorodlesprom. The project will cost an estimated € 35 million and will be completed at the end of 2003.

JUNE

6 UPM-Kymmene, M-real, Metsä-Botnia and Myllykoski Paper signed an agreement to sell 51% of Transfennica Oy Ab to the Dutch company Spliethoff.

18 UPM-Kymmene's Board of Directors decided to issue share options to around 400 key company employees.

JULY

11 UPM-Kymmene received the necessary official consent to expand its fine paper mill in China.

AUGUST

5 The new coating plant at Kymi Paper's Kuusankoski fine paper mill was inaugurated.

6 Minnesota Power and Blandin Paper abandoned their joint project to build an energy generating plant.

19 UPM-Kymmene Wood Products Industry opened a service centre for WISA products in Hull and combined its sawn timber processing and merchant operations in Dinnington. At the same time the company closed its Brooks Manson sales offices in central England.

21 UPM-Kymmene decided to buy the MACtac pressure-sensitive materials business from the American company Bemis Company, Inc. for USD 420 million and, under a separate agreement, to sell its Walki Films business unit to Bemis for USD 70 million.

26 The European Commission announced it was discontinuing its investigations into the alleged newsprint price cartel in 1989–1995.

SEPTEMBER

12 Seikku's new sawmill in Pori was inaugurated.

17 Loparex announced it was to expand its operations in China and India in cooperation with its partners in these countries. A new siliconizing plant will be built at Shenzen near Hong Kong in China, while in India production will be increased by expanding the existing plant there.

OCTOBER

2 The sale of Walki Films to Bemis was completed.

8 UPM-Kymmene sold its Walki Can liquid packaging business to Stromsdal and RMG Pointo Oy.

15 UPM-Kymmene was admitted to both the European and global DJSI sustainability indexes. The criterion for admission was the company's economic, ecological and social sustainability.

17 The European Commission approved UPM-Kymmene's acquisition of MACtac. The consent of the US authorities is expected during the first half of 2003.

NOVEMBER

6 UPM-Kymmene signed the United Nations' Global Compact initiative under which it has undertaken to adhere to the principle of continuous improvement and to report annually to the United Nations on at least one development project relating to human rights, the use of labour, or environmental issues.

DECEMBER

17 UPM-Kymmene announced it would build a new fine paper machine in China and substantially increase coated fine paper capacity at the Changshu mill. The new paper machine will have a production capacity of 450,000 t/a of high-quality fine paper. The total cost of the investment will be € 470 million. Start-up of the new machine is planned for the first quarter of 2005.

17 UPM-Kymmene announced it would exercise its right to bring forward redemption of the € 161.5 million convertible bonds issued in 1994.

JANUARY 2003

8 UPM-Kymmene announced the closure of two paper machines at Blandin's mills in the United States.

REPORT OF THE BOARD OF DIRECTORS

THE MARKET IN 2002

Over-supply, production cut-backs and pressure on prices made it a difficult year on paper markets. Disappointing economic growth and the low volume of advertising activity meant that demand for printing papers was little changed on the previous year or, in some cases, showed a further decline. In Europe, demand for paper picked up slightly in the second half of the year for seasonal reasons. In the United States the recovery was more pronounced.

Average prices for magazine papers were down on the previous year. In the United States, small price rises were introduced towards the end of the year for some coated grades. Newsprint prices fell early in the year both in Europe and in the United States, where prices showed a slight rise in the autumn. Average prices for both coated and uncoated fine paper fell in Europe. In China prices were firmer. Prices for speciality papers were stable.

In the converting industry, both demand and the trend in product prices remained sluggish. Demand for self-adhesive labelstock rose by less than average for this product, and demand for siliconized papers remained weak. The market for industrial wrappings was stable.

Demand for sawn timber was satisfactory thanks to the good level of building activity, and prices began to rise towards the end of the year. Despite steady demand, the plywood market was highly contested and prices fell somewhat.

EARNINGS

➤ FOURTH QUARTER OF 2002 COMPARED WITH THIRD QUARTER

Turnover for the fourth quarter was € 2,617 million, compared with € 2,613 million for the third quarter.

Operating profit was € 173 million (344 million for the third quarter). Operating profit includes net non-recurring charges of € 46 million (net income of € 4 million). The main non-recurring item was the closure of two paper machines at Blandin at a cost of € 128 million. Capital gains of € 77 million were booked from the sale of Nokia shares. At the end of the year, the company owned 11.3 million Nokia shares. Operating profit before non-recurring items was € 219 million, down by 36% on the previous quarter's € 340 million.

The lower operating profit is due to production downtime primarily affecting fine papers, mainly in December, together with the related costs. The forest and energy units in Finland and shares in the results of associated companies also had a negative impact on operating profit. Earnings were also affected by the fall in prices for several paper grades and the stronger euro. The cash flow improved mainly as a result of a decrease in working capital. Operating profit was 6.6% of turnover (13.2%). Excluding non-recurring items, operating profit was 8.4% of turnover (13.0%).

The Group's paper machines operated at 87% of capacity (91%).

Profit before extraordinary and non-recurring items was € 148 million (277 million), and including non-recurring items € 102 million (281 million). Net financial expenses were € 71 million (63 million). Taxes for the final quarter were lower than predicted and amounted to € 19 million (95 million).

Excluding non-recurring items, earnings per share were € 0.45 (0.71), return on equity was 6.7% (10.8%) and return on capital employed 7.0% (10.7%).

EARNINGS

➤ 2002 COMPARED WITH 2001

Turnover for 2002 was € 10,475 million, 6% up on the previous year. The increase is due to company acquisitions.

Operating profit was € 1,062 million (1,614 million for 2001). The figure includes net non-recurring charges of € 46 million (income of 220 million). Gains from the sale of listed shares were € 81 million (265 million). Non-recurring charges of € 128 million resulting from the closure of two of Blandin's paper machines were entered in the accounts. The figure comprises a € 88 million write-off in respect of fixed and other assets, and personnel and other costs of € 40 million. Other non-recurring items (net € 1 million, 2001: –45 million) include a restructuring provision of € 10 million in Other Operations, and net capital gains of € 11 million mainly from the sale of the Walki Films business unit.

Excluding non-recurring items, operating profit was 10.6% of turnover (14.1%). Although the inclusion of Haindl brought a clear increase in volumes delivered, the Paper Industry's operating profit fell due to lower sales prices. The Converting Industry recorded an improved operating profit, due mainly to greater internal efficiencies. Operating profit for the Wood Products Industry also improved due to higher delivery volumes.

Profit before extraordinary items was € 789 million (1,333 million), and excluding non-recurring items € 835 million (1,113 million).

Net financial expenses were € 273 million (281 million). Financial income includes € 21 million (33 million) in dividend income. Financial expenses were about the same as the previous year. Lower interest rates helped to keep financial expenses down despite the fact that, on average, net interest-bearing liabilities were higher than in the previous year. Taxes were € 241 million (378 million), and the effective tax rate was 30.5% (28.4%). Profit for the year was € 550 million (955 million).

Earnings per share were € 2.12 (3.85), return on equity 8.0% (15.5%) and return on capital employed 8.4% (15.6%). Excluding non-recurring items, earnings per share were € 2.25 (3.22), return on equity 8.4% (12.9%) and return on capital employed 8.8% (13.5%).

PRODUCTION AND DELIVERIES

UPM-Kymmene produced 10.046 million tonnes of paper in 2002 (8.298 million in 2001). The increase is due to the acquisition of Haindl's mills at the end of 2001. The Paper Industry's capacity utilization rate averaged 88% for the year (87%). The rate for the first half of the year was 86%, but this rose to near 90% in the second half, which for seasonal reasons is a stronger period. Full-year capacity utilization rates for the different grades were as follows: magazine papers 86% (85%), newsprint 89% (91%), fine papers 87% (86%), and speciality papers 97% (95%).

Delivery volumes were: magazine papers 4.618 million tonnes (3.964 million), newsprint 2.467 million tonnes (1.667 million), and fine and speciality papers 2.774 million tonnes (2.546 million).

The output of sawn timber rose by 8% to 2.201 million cubic metres (2.035 million). Plywood production was up by 15% at 905,000 cubic metres (786,000).

FINANCING

At 31 December 2002, the gearing ratio was 76% (89%) and the equity to assets ratio 45.3% (41.5%). A strong cash flow relative to the prevailing market conditions, together with controlled capital expenditure, improved these key figures.

The cash flow from operations was € 1,429 million (1,645 million). Net interest-bearing liabilities were € 5,285 million, a decrease of € 756 million on the previous year's figure of € 6,041 million. The average rate of interest on borrowings was 3.8% (4.9%) for the year and 3.9% (3.7%) at the year-end. The average maturity at the year-end was 8.5 years (7.2).

In January 2002, the company floated two loans on the international bond market: a € 600 million bond issue, maturity ten years, and a GBP 250 million bond issue with a maturity of 15 years. In November, the company issued a USD 500 million bond to mature in 2014. The total value of bonds issued during the year was € 1,682 million.

The credit ratings for the company's bonds remained at BBB+ and Baa1.

PERSONNEL

The average number of employees was 36,866 (34,463). The increase is due to company acquisitions. At the end of the year the Group had 35,579 employees (36,298). The average number of people employed by the parent company was 11,130 (12,029).

CAPITAL EXPENDITURE

Gross capital expenditure, excluding acquisitions, was € 561 million (827 million). Including acquisitions, the figure was € 613 million (3,850 million). Sales of shares and other fixed assets totalled € 212 million (350 million).

The second stage of the expansion of Steyrermühl's deinking plant was completed during the year. The total cost of the project was € 56 million. The new capacity came on stream in April.

Projects in progress during the year included rebuilds of Rauma's LWC machine (PM1) and Jämsänkoski's label paper machine. The two projects will cost a total of € 110 million and will be completed during 2003.

In January 2002, it was decided to build a new deinking plant at Shotton at a cost of € 127 million. When in production at the end of 2003, the plant will allow the mill to produce all its newsprint from recycled fibre.

A decision was made in May to modernize Pietarsaari pulp mill and to raise production capacity from 620,000 to 800,000 t/a. The work will be carried out in conjunction with Pohjolan Voima's subsidiary Wisapower, whose share of the cost of the € 250 million project will be around 50%. The expansion should be completed by spring 2004.

Also in May, it was decided to build a new 200,000 m^3/a sawmill in the city of Pestovo in the Novgorod region in Russia. The estimated cost is approximately € 35 million, and completion is timed for the end of 2003.

The most significant investment decision of the year came in December, when it was decided to build a new fine paper machine at the Changshu mill in China and at the same time to substantially increase production capacity of coated fine paper at the mill. The new machine will have a capacity of 450,000 t/a of high-quality fine paper. Initially, the mill's coating capacity will be raised to 200,000 t/a. The total cost of the investment will be € 470 million. It is planned to start up the new paper machine in the first quarter of 2005. Over two-thirds of production will be sold on the Chinese market, the rest going to other countries in the Asia-Pacific region.

INTEGRATION OF HAINDL

The integration of Haindl has gone well. Synergies of € 35 million have been achieved, compared with a target for the year of € 25 million. Altogether the synergies from the Haindl acquisition were calculated to be € 70 million over a period of three years. The inclusion of Haindl's mills had a positive impact on the cash flow per share.

RESTRUCTURING

In July, UPM-Kymmene sold 22.8% of the shipping company Transfennica Oy Ab to the Dutch transport company Spliethoff. UPM-Kymmene owned 49.9% of Transfennica's shares before the transaction and 27.1% after.

In August, the company announced it was to acquire the MACtac pressure-sensitive materials business of the US-based Bemis Company Inc. for USD 420 million. The EU's competition authority gave its approval in October, and the approval of the US competition authority is expected during the first half of 2003. MACtac has five production plants in the United States, one in Belgium, and a joint venture in Mexico. The company has a turnover of around USD 500 million and employs 1,800 people. The acquisition will strengthen the global business operations of UPM-Kymmene's subsidiary Raflatac. The integration of business operations is expected to produce synergies of USD 28 million over two years, while the impact on earnings per share is expected to be positive within a year of the acquisition.

In connection with the MACtac deal, UPM-Kymmene sold its Walki Films business unit to Bemis for USD 70 million. The sale took effect in October. In 2001 Walki Films had a turnover of € 123 million and employed 500 people.

In November, the company completed the sale of its Walki Can liquid packagings business to Stromsdal Oyj and RMG Pointo Oy. Walki Can had 35 employees.

SHARES

UPM-Kymmene shares worth € 10,827 million (7,645 million) were traded on the Helsinki Exchanges in 2002. The highest quotation was € 44.50 in March and the lowest € 25.21 in October. The value of the company's shares traded on the New York Stock Exchange was USD 169 million (121 million).

The Annual General Meeting of 19 March 2002 approved a proposal by the Board of Directors to lower the company's share capital by declaring void 1,175,398 own shares held by the company, thus reducing the share capital by € 1,998,176.60. The meeting also approved a proposal to buy back up to 12.3 million of the company's own shares using distributable funds. The meeting authorized the Board of Directors to decide on the disposal of the shares.

The company did not buy back any of its own shares during the year.

The Annual General Meeting of 19 March 2002 also approved a share option programme aimed at key personnel. The number of options to be offered is 7.6 million, each option entitling the holder to subscribe one UPM-Kymmene share. The subscription period for 3.8 million options (marked 2002D) is 1 April 2004 to 30 April 2007 and for the other 3.8 million (marked 2002E) 1 April 2005 to 30 April 2008.

A total of 3,732,000 2002D options, each of which can be used to subscribe one share, was allocated to about 400 persons. The remaining 2002D options (68,000) and all 2002E options were transferred to the wholly-owned subsidiary Unicarta Oy to be distributed later.

The subscription price for shares using 2002D options is the trade volume weighted average price for UPM-Kymmene shares on the Helsinki Exchanges between 15 April and 15 May 2002 plus 10%, i.e. € 43.90. Subscription prices for shares subscribed will be reduced, on the respective record dates for dividend payments, by the amount of dividend declared after the period for determining the subscription price has expired and before the shares are subscribed.

The meeting also approved the Board of Directors' proposal to declare void all 2,000,000 C options issued in 1998 that the company had not distributed. With the exception of the above, the Board of Directors has no current authorization to issue shares, convertible bonds or share options.

During the year a total of 1,398,150 shares were subscribed under the € 161.5 million (FIM 960 million) convertible bond issue of 1994. In December, the company decided to exercise its right, under the terms and conditions of the issue, to redeem all unconverted bonds. At the time, bonds with a value of € 121,747,889.39 had been converted into 5,646,264 shares, leaving bonds with a value of € 39,712,550.56 unconverted. The redemption date is 28 February 2003. Bondholders wishing to exercise their right of conversion instead of redemption must request conversion during the period from 2 January 2003 to 18 February 2003. If all bondholders exercise their right of conversion, the number of shares in issue will rise by 1,841,736 and the company's share capital by € 3,130,951.20. Holders of new shares subscribed under the issue will be entitled to receive dividends for the first time for the 2003 financial period.

At the end of the year, the number of shares in issue was 260,115,975 and the share capital € 442,197,157.50. Share subscriptions under convertible bonds and share options could raise the number of shares to a maximum of 273,557,711.

COMPANY DIRECTORS

The Annual General Meeting of 19 March 2002 elected the following new members of the Board of Directors: Berndt Brunow, President and CEO of Oy Karl Fazer Ab, and Friedrich Holzhey, ex-Chief Operating Officer of Haindl'sche Papierfabriken KgaA. The following persons were re-elected members of the Board of Directors: Martti Ahtisaari, ex-President of the Republic of Finland, Carl H. Amon III, partner of the international law firm White & Case LLP, Michael C. Bottenheim, ex-Director of Lazard Brothers, the Canadian lawyer Donna Soble Kaufman, Antoon Lenstra, President of Unilever PLC's Business Group Africa and Middle East, Juha Niemelä, President and Chief Executive Officer of UPM-Kymmene Corporation, Jorma Ollila, Chairman and Chief Executive Officer of Nokia Corporation, Gustaf Serlachius, and Vesa Vainio.

At its first meeting the Board of Directors elected Vesa Vainio to serve as its chairman and Gustaf Serlachius and Carl H. Amon III as vice chairmen.

LITIGATION

A Statement of Objection presented by the European Commission alleged that UPM-Kymmene's predecessors had been party to a price cartel concerning newsprint during the period 1989–1995. In August 2002, the Commission informed UPM-Kymmene that it was discontinuing its investigation into the matter. Following this, the company has no significant matters of litigation.

RESEARCH AND DEVELOPMENT

Research and development expenditure was € 46 million, 0.4% of turnover (45 million, 0.5%). In addition to the product development work conducted at the mills, research and development collaboration continued at both national and international levels in connection with various projects. In the Paper Industry, the focus was on cutting fibre and pigment costs through technical innovations. Work continued to improve the opacity and brightness of magazine papers. The Wood Products Industry has been developing the biological resistance of products used in building applications. Development work carried out by the Converting Industry included the introduction of new adhesives and optimization of raw materials. New grades of inkjet printing paper were developed for producing photograph-quality images. Work continued to develop and commercialize radio-frequency smart cards and self-adhesive labels.

THE ENVIRONMENT

Environment-related capital expenditure was € 21 million (40 million), and the corresponding operating expenses including depreciation were € 113 million (89 million). Certified environmental management systems now cover roughly 85% of production.

In May, the company donated some 560 hectares of forest land to the Finnish State in accordance with a decision taken at the Annual General Meeting. The area will form part of the new Repovesi National Park. The company has also undertaken to conserve, without recompense, 1,400 hectares of forest land that it owns around the new park.

OUTLOOK FOR 2003

The year has started off with major uncertainties with regard to the general economic and political outlook. Demand for the company's main products has been subdued and production has been curtailed to meet demand. It is therefore expected that the Group's profitability will be lower than in 2002.

Publication paper demand is seasonally weak during the beginning of the year, while overcapacity persists. Magazine paper prices fell slightly at the turn of the year in Europe but remained unchanged in the United States. At the same time, newsprint prices in Europe fell as demand continues to be weak due to low advertising. There has also been some reduction in fine paper prices in Europe. However, demand for fine paper is expected to strengthen due to seasonal reasons in the first quarter. In China and the Asia-Pacific region, fine paper demand is expected to continue on a strong growth path. In the speciality papers business, both demand and prices are expected to be fairly stable.

The markets for the Converting Industry should also be fairly stable.

Low interest rates have boosted construction and the demand for wood products. Prices are showing a slight improvement at the beginning of 2003.

Excluding acquisitions, capital expenditure will remain below depreciation.

BOARD OF DIRECTORS' PROPOSAL FOR THE DISTRIBUTION OF PROFITS

The consolidated balance sheet shows unrestricted shareholders' equity at 31 December 2002 of € 4,788 million, of which distributable funds comprise € 3,312,000,000.00.

The parent company balance sheet shows unrestricted shareholders' equity at 31 December 2002 of € 3,176 million, of which distributable funds comprise € 3,176,143,132.95.

The Board of Directors proposes to the Annual General Meeting that a dividend of € 1.50 per share be paid on the shares outstanding at the record date, the remainder being retained.

On 30 January 2003, there are 260,115,975 outstanding shares and the corresponding amount to be paid in dividends is € 390.2 million.

Helsinki, 30 January 2003

Vesa Vainio
Chairman

Gustaf Serlachius

Carl H. Amon III

Martti Ahtisaari

Michael C. Bottenheim

Berndt Brunow

Friedrich Holzhey

Antoon Lenstra

Juha Niemelä

Jorma Ollila

Donna Soble Kaufman

CONSOLIDATED PROFIT AND LOSS ACCOUNT

€ million	Note	2002	2001	2000
Turnover	(1)	10,475	9,918	9,583
Other operating income	(2)	155	315	539
Costs and expenses	(3)	–8,610	–7,958	–7,741
Share of results of associated companies	(4)	60	83	153
Depreciation according to plan and value adjustments	(5)	–1,018	–744	–674
Operating profit	(6)	1,062	1,614	1,860
Financial income and expenses	(7)	–273	–279	–143
Share of results of associated companies	(7)	–	–2	–
Profit before extraordinary items		789	1,333	1,717
Extraordinary income	(8)	–	–	230
Extraordinary expenses		–	–	–30
Income tax on extraordinary items		–	–	–58
Profit after extraordinary items		789	1,333	1,859
Income taxes	(9)	–241	–378	–494
Minority interest		2	–	1
Profit for the financial period		550	955	1,366
Undiluted earnings per share, €	(10)	2.12	3.85	4.77
Diluted earnings per share, €	(10)	2.10	3.81	4.70

CONSOLIDATED BALANCE SHEET

€ million	Note	31.12.2002	31.12.2001
ASSETS			
Non-current assets			
Intangible assets	(11)	364	339
Goodwill on consolidation	(12)	1,987	2,086
Tangible assets	(13)	8,253	8,934
Investments held as non-current assets	(14)	1,507	1,477
Own shares	(15)	–	38
		12,111	12,874
Current assets			
Stocks	(16)	1,288	1,289
Receivables	(17)	1,550	1,845
Cash in hand and at bank		425	423
		3,263	3,557
Total		15,374	16,431

€ million	Note	31.12.2002	31.12.2001
EQUITY AND LIABILITIES			
Shareholders’ equity	(18)		
Share capital		442	442
Share premium reserve		654	624
Revaluation reserve		365	366
Reserve for own shares		–	38
Legal reserve		671	672
Retained earnings		4,238	3,713
Profit for the financial period		550	955
		6,920	6,810
Minority interest		33	28
Provisions	(19)	450	413
Liabilities			
Deferred tax liability	(20)	645	666
Non-current liabilities	(21)	5,139	4,913
Current liabilities	(22)	2,187	3,601
		7,971	9,180
Total		15,374	16,431

CONSOLIDATED CASH FLOW STATEMENT

€ million	Additional information	2002	2001	2000
CASH FLOW FROM OPERATING ACTIVITIES				
Operating profit		1,062	1,614	1,860
Adjustments to operating profit	a)	862	397	153
Change in net working capital	b)	–144	96	–13
Interest received		30	40	49
Interest paid		–301	–337	–243
Dividends received		67	118	76
Other financial income and expenses		46	32	22
Direct taxes paid	c)	–193	–315	–265
Cash from operating activities		1,429	1,645	1,639
CASH FLOW FROM INVESTING ACTIVITIES				
Acquisition of Group companies net of cash acquired	d)	–10	–2,330	–271
Investments in associated company shares		–26	–29	–8
Investments in other shares		–5	–8	–2
Purchase of tangible and intangible assets		–571	–849	–592
Proceeds from sale of Group companies net of cash disposed		12	1	25
Proceeds from sale of associated companies		7	–2	–40
Proceeds from sale of other shares		–1	253	292
Proceeds from sale of tangible and intangible assets		84	50	3
Increase in other long-term investments		–2	–4	–38
Decrease in other long-term investments		71	64	159
Termination of Champion agreement		–	–	143
Cash used in investing activities		–441	–2,854	–329
Cash flow before financing activities		988	–1,209	1,310
CASH FLOW FROM FINANCING ACTIVITIES				
Increase in long-term liabilities		1,050	3,551	137
Decrease in long-term liabilities		–978	–1,993	–763
Increase (+) or decrease (–) in current interest-bearing liabilities		–605	–50	19
Increase (–) or decrease (+) in interest-bearing receivables		–19	19	44
Dividends paid		–388	–371	–324
Extra dividends paid for 1999		–	–	–233
Share issue		–	419	–
Purchase of own shares		–	–152	–279
Other items		–57	–24	1
Cash used in financing activities		–997	1,399	–1,398
Net increase (+) or decrease (–) in cash and cash equivalents	e)	2	195	–93
Cash and cash equivalents at 1 Jan.		423	228	321
Cash and cash equivalents at 31 Dec.		425	423	228

ADDITIONAL INFORMATION ON CONSOLIDATED CASH FLOW STATEMENT

	€ million	2002	2001	2000
a)	**Adjustments to operating profit**			
	Depreciation and value adjustments	1,018	744	674
	Gains (–) or losses (+) on sale of fixed assets	–123	–294	–493
	Share of results (+/–) of associated companies	–60	–83	–153
	Other	27	30	125
	Total	862	397	153
b)	**Change in net working capital**			
	Increase (–) or decrease (+) in stocks	–23	26	–99
	Increase (–) or decrease (+) in non-interest-bearing receivables	78	85	63
	Increase (+) or decrease (–) in current non-interest-bearing liabilities	–199	–15	23
	Total	–144	96	–13
c)	**Taxes paid**			
	Taxes paid, total	–284	–358	–588
	Allocated to sale of shares	82	44	246
	Allocated to sale of other fixed assets	9	–1	19
	Allocated to termination of the Champion agreement	–	–	58
	Total	–193	–315	–265
d)	**Additional information on acquisition of Group companies**			
	Effect of acquired companies on consolidated assets and liabilities			
	Non-current assets	–3	–2,962	–1,574
	Current assets	–21	–819	–324
	Non-current liabilities	9	332	1,252
	Current liabilities	–	668	295
	Other items	3	28	12
	Cash flow	–12	–2,753	–339
	Less cash and cash equivalents of acquired companies	2	423	68
	Cash flow on acquisition net of cash acquired	–10	–2,330	–271
e)	**Effect of exchange rate differences on cash and cash equivalents**			
	Cash and cash equivalents at 1 Jan.	423	228	321
	Effect of exchange rate changes	11	5	–5
		434	233	316
	Increase (+) or decrease (–) in cash and cash equivalents	–9	190	–88
	Cash and cash equivalents at 31 Dec.	425	423	228

NOTES TO THE CONSOLIDATED ACCOUNTS

ACCOUNTING POLICIES

PRINCIPLES OF CONSOLIDATION

UPM-Kymmene's consolidated financial statements are prepared in accordance with Finnish accounting practice. The figures are stated in euro 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 of a subsidiary and its equity at the time of acquisition is 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 on 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 on 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

Receivables and liabilities in foreign currencies are converted into euro at the middle rates of exchange quoted on 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 subsidiaries outside the euro-zone are converted into euro using quarterly average rates of exchange, and the balance sheets using the exchange rates quoted by the European Central Bank on the balance sheet date. The difference is entered in the Group's shareholders' equity.

Exchange differences on derivative 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 derivative contracts 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 derivative 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.

TANGIBLE AND INTANGIBLE ASSETS AND DEPRECIATION

Tangible and intangible assets are stated at historical cost less planned depreciation and value adjustments. 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 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 or water areas.

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 on 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 on the consolidated balance sheet and are calculated from timing differences. Deferred tax liability is calculated on revaluations. Accumulated depreciation difference and untaxed reserves (appropriations) are divided into shareholders' equity and deferred tax liability on 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 on 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 derivative contracts relating to protection of the Group's sales.

RESEARCH AND DEVELOPMENT
Research and development costs are expensed as incurred.

PENSION ARRANGEMENTS
The pension arrangements made in the Group comply with local conditions and practices of each country concerned. Pension expenses are based on pension liability calculations and are included in the profit and loss account.

The pension cover of employees of the parent company and of other Finnish Group companies are arranged through Finnish pension insurance companies, through the company's own pension funds and directly by the company. The liabilities of the company's own pension funds are covered in full.

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 taxes. The tax credits arising from the distribution of dividends by subsidiaries are deducted from income taxes.

1 TURNOVER BY DIVISION

€m	2002	2001	2000
Magazine Papers	3,577	3,548	3,343
Newsprint	1,381	1,058	1,045
Fine and Speciality Papers	2,449	2,362	2,390
Converting Industry	1,541	1,480	1,272
Wood Products Industry	1,489	1,463	1,490
Other Operations	583	489	576
Intra-Group sales	–545	–482	–533
	10,475	9,918	9,583

INTERNAL TURNOVER BY DIVISION

€m	2002	2001	2000
Magazine Papers	105	136	211
Newsprint	4	3	–2
Fine and Speciality Papers	311	225	221
Converting Industry	44	40	27
Wood Products Industry	81	78	76
Other Operations [1]	–	–	–
	545	482	533

[1] Turnover from Other Operations includes only sales outside the Group.

TURNOVER BY MARKET

€m	2002	2001	2000
Germany	1,803	1,561	1,565
Great Britain	1,368	1,433	1,398
Finland	988	974	1,020
France	850	876	982
Other EU countries	2,150	1,995	1,938
Other European countries	796	668	670
North America	1,495	1,453	1,201
Rest of world	1,025	958	809
	10,475	9,918	9,583

2 OTHER OPERATING INCOME

€m	2002	2001	2000
Capital gains on disposal of fixed assets	132	299	523
Income from rents	12	11	13
Other	11	5	3
	155	315	539

3 COSTS AND EXPENSES

€m	2002	2001	2000
Change in stocks of finished goods and work in progress	–43	49	–122
Production for own use	–51	–46	–18
Materials and services			
Raw materials, consumables and goods			
Purchased during the period	4,540	4,311	4,573
Change in stocks	–20	–69	–2
External services	863	772	678
	5,289	5,017	5,109
PERSONNEL EXPENSES			
Salaries and fees			
Salaries of boards of directors and managing directors	20	22	21
Other salaries	1,344	1,235	1 158
	1,364	1,257	1,179
INDIRECT EMPLOYEE COSTS			
Pension expenses	199	151	112
Other indirect employee costs	206	204	178
	405	355	290
OTHER OPERATING COSTS AND EXPENSES	1,552	1,329	1,163
	8,610	7,958	7,741

The annual salaries, emoluments in kind and fees paid to the Parent Company's Managing Director and Deputy Managing Director in 2002 were € 1.184 million (0.838 million) and € 0.487 million (0.540 million), respectively.

At 31 December 2002, none of the Group's managing directors, deputy managing directors or members of the boards of directors had any loans outstanding from the company or its subsidiaries.

The Managing Director's agreed retirement age is 60 years. In the event of the Managing Director's dismissal and a change of control of the company, he shall be entitled to compensation corresponding to 24 months' salary. If the Managing Director or the company terminates his employment contract before he reaches the age of 60 years, he shall be entitled to the pension agreed in the contract.

PERSONNEL (AVERAGE)	2002	2001	2000
Magazine Papers	9,635	8,491	7,298
Newsprint	3,914	2,972	2,719
Fine and Speciality Papers	6,816	6,797	6,314
Converting Industry	4,979	4,903	4,160
Wood Products Industry	7,862	7,580	7,267
Other Operations	3,660	3,720	4,882
Total	36,866	34,463	32,640
PERSONNEL AT YEAR END	35,579	36,298	32,755

4 SHARE OF RESULTS OF ASSOCIATED COMPANIES

€m	2002	2001	2000
Oy Metsä-Botnia Ab	50	80	171
Pohjolan Voima Oy	–3	–	–4
Others	13	3	–14
Total included in operating profit	60	83	153

5 DEPRECIATION ACCORDING TO PLAN AND VALUE ADJUSTMENTS

€m	2002	2001	2000
Depreciation according to plan			
Formation expenses	–	–	–
Intangible rights	8	4	3
Goodwill	11	4	1
Goodwill on consolidation	112	41	20
Other capitalized expenditure	22	20	20
Buildings	98	76	69
Machinery and equipment	652	562	505
Other tangible assets	24	21	12
	927	728	630
Value adjustments			
on non-current assets	91	16	44
	1,018	744	674

PLANNED DEPRECIATION AND VALUE ADJUSTMENTS BY DIVISION

€m	2002	2001	2000
Magazine Papers [1]	492	343	299
Newsprint	196	93	87
Fine and Speciality Papers	190	171	161
Converting Industry	59	56	42
Wood Products Industry	49	43	46
Other Operations	32	38	39
	1,018	744	674

[1] Includes in 2002 a non-recurring expense of € 85 million charged in connection with the shutdown of Blandin's two paper machines

6 OPERATING PROFIT BY DIVISION

€m	2002	2001	2000
Magazine Papers	225	598	630
Newsprint	162	211	118
Fine and Speciality Papers	359	336	404
Converting Industry	70	46	61
Wood Products Industry	37	27	75
Other Operations	209	396	572
	1,062	1,614	1,860

The 2002 figures include non-recurring charges of € 128 million for Magazine Papers and € 8 million for Newsprint. The corresponding figures in 2001 and, in parentheses, 2000 were Magazine Papers € 20 million (30), Fine and Speciality Papers € 0 million (14) and Converting € 11 million (0).

OTHER OPERATIONS

€m	2002	2001	2000
Forest Department in Finland	37	45	53
Energy Department in Finland	51	99	69
Share of results of associated companies	60	82	167
Others and eliminations	61	170	283
	209	396	572

The most significant non-recurring items for Other Operations are gains on the sale of listed shares: 2002, € 81 million; 2001, € 265 million; and 2000 € 485 million.

CAPITAL EMPLOYED (AVERAGE) BY DIVISION

€m	2002	2001	2000
Magazine Papers	5,253	4,380	3,456
Newsprint	2,368	984	899
Fine and Speciality Papers	2,628	2,602	2,101
Converting Industry	786	801	632
Wood Products Industry	742	664	603
Other Operations and Group items	1,404	1,376	2,035
	13,181	10,807	9,726

The formulae used to calculate the capital employed for the divisions and the Group are presented on page 81.

RETURN ON CAPITAL EMPLOYED (ROCE) BY DIVISION

%	2002	2001	2000
Magazine Papers	4.3	13.7	18.2
Newsprint	6.8	21.4	13.1
Fine and Speciality Papers	13.7	12.9	19.2
Converting Industry	8.9	5.8	9.6
Wood Products Industry	5.0	4.1	12.5
Group total	8.4	15.6	20.2
Excluding non-recurring items	8.8	13.5	17.1

7 FINANCIAL INCOME AND EXPENSES

€m	2002	2001	2000
Income from other investments held as non-current assets			
Dividend income	21	33	50
Interest received	10	15	21
Other interest and financial income			
Other interest income	15	25	26
Other financial income	2	1	4
Exchange differences	2	–5	5
Interest expenses and other financial expenses			
Interest expenses	–286	–317	–234
Other financial expenses	–37	–31	–15
Share of results of associated companies	–	–2	–
	–273	–281	–143

8 EXTRAORDINARY ITEMS

€m	2002	2001	2000
Extraordinary income	–	–	230
Taxes on extraordinary income	–	–	–66
	–	–	164
Extraordinary expenses	–	–	–30
Taxes on extraordinary expenses	–	–	8
	–	–	–22
	–	–	142

Extraordinary income and expenses are associated with the Champion agreement and its termination.

9 INCOME TAXES

€m	2002	2001	2000
Taxes for the financial period	273	394	564
Included in extraordinary items	–	–	–58
Taxes from previous periods	–2	1	22
Change in deferred taxes	–30	–17	–34
	241	378	494
Effective tax rate, %	30.5	28.4	28.8
CHANGE IN DEFERRED TAXES			
From timing differences	–23	–6	–2
From consolidation eliminations	8	–2	–
From appropriations	–15	–9	–32
	–30	–17	–34

10 EARNINGS PER SHARE

€m	2002	2001	2000
Profit before extraordinary items	789	1,333	1,717
Minority interest	2	–	1
Income taxes	–241	–378	–494
Earnings	550	955	1,224
Average number of shares			
Undiluted (1,000)	259,468	247,892	256,817
Earnings per share, €	2.12	3.85	4.77
Average number of shares			
Diluted (1,000)	262,891	251,992	261,143
Diluted earnings per share, €	2.10	3.81	4.70

11 INTANGIBLE ASSETS

€m	2002	2001
INTANGIBLE RIGHTS		
Acquisition cost at 1 Jan.	162	81
Difference on translation	–5	2
Increases	6	78
Decreases	–3	–1
Transfers between balance sheet items	–4	2
Acquisition cost at 31 Dec.	156	162
Accumulated depreciation at 1 Jan.	–80	–31
Accumulated depreciation on acquired companies	–	–46
Accumulated depreciation on decreases and transfers	2	2
Depreciation for the period	–8	–4
Transfers between balance sheet items	–	–1
Accumulated depreciation at 31 Dec.	–86	–80
Book value at 31 Dec.	70	82
GOODWILL		
Acquisition cost at 1 Jan.	167	14
Difference on translation	–2	–
Increases	4	159
Decreases	–1	–6
Transfers between balance sheet items	–37	–
Acquisition cost at 31 Dec.	131	167
Accumulated depreciation at 1 Jan.	–47	–6
Accumulated depreciation on acquired companies	–	–37
Accumulated depreciation on decreases and transfers	37	–
Depreciation for the period	–11	–4
Accumulated depreciation at 31 Dec.	–21	–47
Book value at 31 Dec.	110	120

The 2001 increase is goodwill arising from the Haindl acquisition.

OTHER CAPITALIZED EXPENDITURE		
Acquisition cost at 1 Jan.	179	165
Difference on translation	–5	1
Increases	12	23
Decreases	–6	–11
Transfers between balance sheet items	27	1
Acquisition cost at 31 Dec.	207	179
Accumulated depreciation at 1 Jan.	–102	–93
Difference on translation	2	–
Accumulated depreciation on decreases and transfers	5	9
Transfers between balance sheet items	–13	2
Depreciation for the period	–21	–20
Accumulated depreciation at 31 Dec.	–129	–102
Book value at 31 Dec.	78	77

€m	2002	2001
ADVANCE PAYMENTS		
Acquisition cost at 1 Jan.	60	26
Increases	60	38
Decreases	–1	–1
Transfers between balance sheet items	–13	–3
Book value at 31 Dec.	106	60

12 GOODWILL ON CONSOLIDATION

€m	2002	2001
Acquisition cost at 1 Jan.	2,192	613
Increases	13	1,586
Decreases	–	–7
Acquisition cost at 31 Dec.	2,205	2,192
Accumulated depreciation at 1 Jan.	–106	–65
Depreciation for the period	–112	–41
Accumulated depreciation at 31 Dec.	–218	–106
Book value at 31 Dec.	1,987	2,086

€ 109 million in goodwill arising on consolidation has been allocated to machinery and equipment (136 million), € 75 million to land (75 million), € 0 million to shares (21 million), € 32 million to buildings (14 million) and € 10 million to intangible rights (10 million).

13 TANGIBLE ASSETS

€m	2002	2001
LAND AND WATER AREAS		
Acquisition cost at 1 Jan.	671	630
Difference on translation	–5	2
Increases	8	44
Decreases	–12	–5
Transfers between balance sheet items	2	–
Acquisition cost at 31 Dec.	664	671
Accumulated depreciation at 1 Jan.	–8	–7
Difference on translation	1	–
Value adjustments and their cancellations	–	–1
Accumulated depreciation at 31 Dec.	–7	–8
Revaluations	567	567
Book value at 31 Dec.	1,224	1,230
Revaluations		
Value at 1 Jan.	567	567
Value at 31 Dec.	567	567

€m	2002	2001
BUILDINGS		
Acquisition cost at 1 Jan.	2,914	2,284
Difference on translation	–72	13
Increases	40	645
Decreases	–52	–51
Transfers between balance sheet items	45	23
Acquisition cost at 31 Dec.	2,875	2,914
Accumulated depreciation at 1 Jan.	–1,116	–836
Difference on translation	22	–4
Accumulated depreciation on acquired companies	–	–221
Transfers between balance sheet items	–2	–
Accumulated depreciation on decreases and transfers	23	21
Depreciation for the period	–97	–76
Value adjustments and their cancellations	–12	–
Accumulated depreciation at 31 Dec.	–1,182	–1,116
Book value at 31 Dec.	1,693	1,798
MACHINERY AND EQUIPMENT		
Acquisition cost at 1 Jan.	12,088	9 961
Difference on translation	–370	77
Increases	265	2 146
Decreases	–163	–242
Transfers between balance sheet items	20	146
Acquisition cost at 31 Dec.	11,840	12 088
Accumulated depreciation at 1 Jan.	–6,557	–5 379
Difference on translation	168	–28
Accumulated depreciation on acquired companies	–	–785
Transfers between balance sheet items	108	–1
Accumulated depreciation on decreases and transfers	118	213
Depreciation for the period	–640	–562
Value adjustments and their cancellations	–75	–15
Accumulated depreciation at 31 Dec.	–6,878	–6 557
Book value at 31 Dec.	4,962	5 531
OTHER TANGIBLE ASSETS		
Acquisition cost at 1 Jan.	470	261
Difference on translation	–11	1
Increases	21	211
Decreases	–9	–9
Transfers between balance sheet items	–1	6
Acquisition cost at 31 Dec.	470	470
Accumulated depreciation at 1 Jan.	–318	–142
Difference on translation	6	–
Accumulated depreciation on acquired companies	–	–151
Transfers between balance sheet items	–5	–16
Accumulated depreciation on decreases and transfers	12	12
Depreciation for the period	–27	–21
Accumulated depreciation at 31 Dec.	–332	–318
Book value at 31 Dec.	138	152
ADVANCE PAYMENTS AND CONSTRUCTION IN PROGRESS		
Acquisition cost at 1 Jan.	223	222
Difference on translation	–5	2
Increases	205	284
Decreases	–20	–118
Transfers between balance sheet items	–167	–167
Book value at 31 Dec.	236	223

14 INVESTMENTS HELD AS NON-CURRENT ASSETS

€m	2002	2001
HOLDINGS IN ASSOCIATED COMPANIES		
Acquisition cost at 1 Jan.	848	818
Increases	34	29
Decreases	–4	–
Transfers between balance sheet items	–16	1
Acquisition cost at 31 Dec.	862	848
Accumulated depreciation at 1 Jan.	–16	–15
Value adjustments and their cancellations	16	–1
Accumulated depreciation at 31 Dec.	–	–16
Revaluations	103	103
Book value at 31 Dec.	965	935
Revaluations		
Value at 1 Jan.	103	103
Value at 31 Dec.	103	103

Holdings in associated companies include net unamortized goodwill of € 52 million (41 million). Of this amount, € 49 million (37 million) relates to Pohjolan Voima Oy's shares.

RECEIVABLES FROM ASSOCIATED COMPANIES		
Acquisition cost at 1 Jan.	77	94
Increases	3	1
Decreases	–6	–12
Transfers between balance sheet items	–56	–6
Acquisition cost at 31 Dec.	18	77
Accumulated depreciation at 1 Jan.	–44	–51
Value adjustments and their cancellations	39	7
Accumulated depreciation at 31 Dec.	–5	–44
Book value at 31 Dec.	13	33

OTHER SHARES AND HOLDINGS		
Acquisition cost at 1 Jan.	391	416
Difference on translation	–1	–
Increases	7	10
Decreases	–20	–35
Transfers between balance sheet items	–21	–
Acquisition cost at 31 Dec.	356	391
Accumulated depreciation at 1 Jan.	–27	–31
Value adjustments and their cancellations	15	4
Accumulated depreciation at 31 Dec.	–12	–27
Revaluations	61	61
Book value at 31 Dec.	405	425
Revaluations		
Value at 1 Jan.	61	61
Value at 31 Dec.	61	61

MARKET VALUES

The book value of shares in listed companies is € 191 million. The market value at 31 December 2002 was € 388 million. The difference is due mainly to the value of Nokia Corporation shares.

€m	2002	2001
OTHER RECEIVABLES		
Acquisition cost at 1 Jan.	84	224
Increases	48	114
Decreases	–72	–127
Transfers between balance sheet items	65	–127
Acquisition cost at 31 Dec.	125	84
Book value at 31 Dec.	125	84

15 OWN SHARES

€m	2002	2001
Acquisition cost at 1 Jan.	38	279
Increases	–	152
Own shares declared void	–38	–393
Book value at 31 Dec.	–	38

16 STOCKS

€m	2002	2001
Raw materials and consumables	502	550
Work in progress	70	61
Finished products and goods	612	597
Other stocks	65	45
Advance payments	39	36
	1,288	1,289

17 NON-CURRENT RECEIVABLES

€m	2002	2001
Trade receivables	2	1
Loan receivables	1	1
Other receivables	9	19
Prepayments and accrued income	6	9
	18	30

17 CURRENT RECEIVABLES

€m	2002	2001
Trade receivables	1 224	1,310
Loan receivables	4	138
Other receivables	151	157
Prepayments and accrued income	153	210
	1,532	1,815

17 RECEIVABLES TOTAL

€m	2002	2001
Trade receivables	1,226	1,311
Loan receivables	5	139
Other receivables	160	176
Prepayments and accrued income	159	219
	1,550	1,845
MAIN ITEMS INCLUDED IN CURRENT PREPAYMENTS AND ACCRUED INCOME		
Personnel expenses	7	17
Interest income	12	17
Interest expenses	21	11
Income taxes	51	76
Indirect taxes	26	35
Others	36	54
	153	210
RECEIVABLES FROM ASSOCIATED AND PARTICIPATING INTEREST COMPANIES		
Trade receivables	20	22
	20	22

Some Group companies in Great Britain, France, Italy and Germany have made agreements with third parties concerning their trade receivables (asset securitization). The Group companies in question have agreed to sell the ownership right to specified trade receivables on a continuous and irrevocable basis. The value of the receivables sold on the basis of the asset securitization agreement at 31 December 2002 was € 108 (154) million, and it is presented on the consolidated balance sheet as a decrease in trade receivables. The security associated with the asset securitization programme is reported on the consolidated balance sheet under other receivables. The expenses incurred in the sales of these receivables are included in financial expenses on the consolidated profit and loss account. Increases and decreases in trade receivables are reported on the consolidated cash flow statement as cash generated from operations.

€m	2002	2001
INTEREST-BEARING RECEIVABLES		
Non-current assets		
Loan receivables	125	83
Current assets		
Loan receivables	4	138
Trade receivables	5	–
Other receivables	45	34
Cash in hand and at bank	425	423
	604	678

18 SHAREHOLDERS' EQUITY

€m	Share capital	Share premium reserve	Revaluation reserve	Reserve for own shares	Legal reserve	Retained earnings	Shareholders' equity, total
Shareholders' equity at 1 Jan. 2001	437	199	366	279	672	4,203	6156
Convertible bond loan 1994	1	10	–	–	–	–	11
Directed share issue	21	398	–	–	–	–	419
Bonus issue	5	–5	–	–	–	–	–
Own shares declared void	–22	22	–	–393	–	–	–393
Transferred to reserve for own shares	–	–	–	152	–	–152	–
Dividends paid	–	–	–	–	–	–371	–371
Profit for the period	–	–	–	–	–	955	955
Translation differences and other	–	–	–	–	–	33	33
Shareholders' equity at 31 Dec. 2001	442	624	366	38	672	4,668	6,810
Convertible bond loan 1994	2	28	–	–	–	–	30
Own shares declared void	–2	2	–	–38	–	–	–38
Cancellation of revaluations	–	–	–1	–	–	–	–1
Dividends paid	–	–	–	–	–	–388	–388
Profit for the period	–	–	–	–	–	550	550
Translation differences and other	–	–	–	–	–1	–42	–43
Shareholders' equity at 31 Dec. 2002	442	654	365	–	671	4,788	6,920

DISTRIBUTABLE FUNDS AT 31 DEC.

€m	2002	2001
Reserve for own shares	–	38
Retained earnings	4,238	3,713
Profit for the period	550	955
Portion of accumulated depreciation difference and untaxed reserves transferred to shareholders' equity	–1,476	–1,502
Cost of acquisition of own shares	–	–38
Distributable funds at 31 Dec.	3,312	3,166

19 PROVISIONS

€m	2002	2001
Pensions	339	299
Closure and restructuring expenses	32	32
Environmental expenses	7	5
Others	72	77
	450	413

20 DEFERRED TAX LIABILITY

€m	2002	2001
DEFERRED TAX LIABILITY		
From timing differences	112	164
From consolidation eliminations	6	10
From appropriations	633	649
From revaluations	214	214
	965	1,037
DEFERRED TAX RECEIVABLE		
From timing differences	289	328
From consolidation eliminations	31	43
	320	371
Deferred tax liability, net	645	666

The deferred tax liability from revaluations has been deducted from the revaluation reserve in the shareholders' equity.

21 NON-CURRENT LIABILITIES

€m	2002	2001
Bonds	2,860	1,521
Convertible bond loans	–	70
Loans from financial institutions	1,291	2,190
Pension loans	647	723
Trade payables	17	18
Other liabilities	324	391
	5,139	4,913

€m	2002	2001
PAYABLES TO ASSOCIATED COMPANIES		
Other liabilities	–	31
	–	31
REPAYMENT SCHEDULE FOR LONG-TERM LOANS		
In 2004–2007 / 2003–2006		
Bonds	527	386
Convertible bond loans	–	70
Loans from financial institutions	1,065	1 915
Pension loans	331	332
Trade payables	5	5
Payables to associated and participating interest companies	–	31
Other liabilities	131	149
	2,059	2 888
In 2008– / 2007–		
Bonds	2,333	1 135
Loans from financial institutions	226	275
Pension loans	316	391
Trade payables	12	13
Other liabilities	193	211
	3,080	2,025
Total at 31 Dec.	5,139	4,913

BONDS

	Interest, %		Initial amount million	2002	2001
Fixed-rate					
1993–2008	9.10	EUR	4	–	4
1995–2005	7.72	USD	155	148	176
1997–2007	6.875	USD	215	205	255
1997–2007	6.88	EUR	102	102	102
1997–2027	7.45	USD	375	358	426
1998–2004	9.00	USD	200	–	133
1999–2004	11.50	USD	100	–	60
1999–2009	6.35	EUR	250	250	250
2000–2030	3.55	JPY	10,000	80	87
2001–2006	0.962	JPY	2,000	16	17
2001–2007	6.875	USD	10	10	11
2002–2005	0.10	EUR	30	30	–
2002–2007	0.869	JPY	2,000	16	–
2002–2012	6.125	EUR	600	600	–
2002–2014	5.625	USD	500	477	–
2002–2017	6.625	GBP	250	384	–
				2,676	1,521
Floating-rate					
2002–2008	3.653	EUR	39	39	–
2002–2008	3.434	EUR	50	50	–
2002–2010	4.110	EUR	59	59	–
2002–2012	4.436	EUR	25	25	–
2002–2012	3.834	EUR	11	11	–
				184	–
Bonds, total				2,860	1,521
– current portion				–	–
Bonds, long-term portion				2,860	1,521

SUBORDINATED CONVERTIBLE BOND LOANS

	Interest, %	Initial loan, million		2002	2001
Convertible bond loan					
1994	6.50	EUR	161	40	70
– current portion				40	–
Convertible bond loans, long-term portion				–	70

The subordinated convertible bonds may be exchanged for shares between January and October each year. Each € 1,681.88 debenture entitles the holder to 78 shares at a computed price of € 21.56 per share. Under the terms of the issue, the company has had the right, from 25 March 1998, to reduce the loan period. The company's Board of Directors decided on 17 December 2002 that the loan period would end on 28 February 2003 and that instead of repayment the bondholders could demand that their bonds be exchanged for shares during the period beginning 2 January 2003 and ending 18 February 2003.

22 CURRENT LIABILITIES

€m	2002	2001
Loans from financial institutions	231	1,278
Pension loans	83	83
Advances received	16	23
Trade payables	722	878
Bills of exchange payable	44	–
Other liabilities	593	554
Accruals and deferred income	498	785
	2,187	3,601
PAYABLES TO ASSOCIATED AND PARTICIPATING INTEREST COMPANIES		
Trade payables	34	31
Other liabilities	62	67
	96	98
MAIN ITEMS INCLUDED IN CURRENT ACCRUALS AND DEFERRED INCOME		
Personnel expenses	205	251
Interest expenses	36	43
Income tax	75	208
Indirect taxes	12	41
Others	170	242
	498	785
NET INTEREST-BEARING LIABILITIES		
Interest-bearing liabilities		
Non-current liabilities		
Bond loans	2,860	1,521
Convertible bond loans	–	70
Loans from financial institutions	1,291	2,190
Pension loans	647	723
Other liabilities	307	394
	5,105	4,898
Current liabilities		
Amortization of long-term loans	258	664
Bills of exchange payable	44	–
Other current liabilities	482	1,157
	784	1,821
Interest-bearing liabilities, total	5,889	6,719

€m	2002	2001
Interest-bearing receivables		
Non-current assets		
Loan receivables	125	83
Current assets		
Loan receivables	4	138
Trade receivables	5	–
Other receivables	45	34
Cash in hand and at bank	425	423
Interest-bearing receivables, total	604	678
Net interest-bearing liabilities	5,285	6,041

23 CONTINGENT LIABILITIES

€m	2002	2001
MORTGAGES [1]		
As security against own debts	175	388
GUARANTEES		
Guarantees for loans		
On behalf of associated and participating interest companies	41	72
On behalf of others	6	4
Other guarantees		
On own commitments	70	63
On behalf of others	3	6
PENSION LIABILITIES		
Direct liabilities	3	3
LEASING COMMITMENTS [2]		
Commitments for 2003/2002	26	17
Commitments for subsequent years	107	65
OTHER COMMITMENTS	31	42

[1] The 2001 figure includes securities for Miramichi's bond loans of € 193 million.

[2] 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 therein. Leasing commitments are € 20 million in 2003 and subsequently € 118 million up to 2012. UPM-Kymmene estimates that the market value of these agreements exceeds the above commitments.

DIRECTORS' PENSION COMMITMENTS

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

OTHER COMMITMENTS

UPM-Kymmene purchases some of its electricity from Pohjolan Voima Oy, in which it has a 40.37% stake. Pohjolan Voima Oy has a 56.8% stake in Teollisuuden Voima Oy, which owns one of the nuclear power plants operating in Finland. According to company documents of Pohjolan Voima Oy, shareholders purchase electricity produced by the company at a price that covers its production costs. This price has generally been below the average market price.

MARKET AND NOMINAL VALUES OF THE GROUP'S DERIVATIVE AGREEMENTS OPEN AT 31 DECEMBER

	Market value		Nominal value	
€m	2002	2001	2002	2001
CURRENCY DERIVATIVES				
Forward contracts	66	–18	3,562	2,296
Option contracts				
bought	–	–	–	–
written	–	–	–	–
Swap contracts	6	–35	249	297
INTEREST RATE DERIVATIVES				
Forward contracts	–9	–8	6,553	8,715
Option contracts				
bought	–	–	–	–
written	–	–	–	–
Swap contracts	275	46	4,042	2,430
OTHER DERIVATIVES [1]				
Forward contracts	–7	–1	33	45

[1] Other derivatives include pulp, paper and electricity derivatives. The parent company's share of their market value is € –7 million (0 million) and that of their nominal value € 30 million (17 million).

Interest rate derivatives are included under interest expenses during the period of validity of the contracts. Currency derivatives are included in the financial result at market value except for those relating to net currency flows, which are entered in the profit and loss account as the cash flow is credited or debited. The outcomes of other derivatives are entered in the profit and loss account as the cash flow is credited or debited.

METHODS USED TO DETERMINE THE CURRENT VALUES OF DERIVATIVE CONTRACTS
Derivative contracts are valued at the present value of the cash flows arising from them.

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 limits for financing activities are defined in the Group's Financial Policy approved by the company's Board of Directors.

In the financial risk management, various financial instruments are used within the limits specified in the Group's Financial Policy. 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 RISKS

Management of foreign currency exposure is divided into two parts: that relating to foreign currency flows and that relating to balance sheet items denominated in foreign currency.

The first concerns the 12-month forecasted commercial foreign currency flows and their related hedging. Hedging 50% of the net foreign currency flow for the 12 months ahead is considered neutral. The overall hedging rate may vary between 25 and 100%, and the hedging rates for individual currencies between 0 and 100%. The table below shows the nominal and market values of the hedging instruments as well as their middle rates at 31 December 2002.

Currency	Nominal value of hedging instruments €m	Market value of hedging instruments €m	Middle rates of hedging instruments per € 1
USD	502	62	0.9337
GBP	314	10	0.6340
CAD	–92	–12	1.4699
SEK	75	–	9.2502
DKK	43	–	7.4499
JPY	42	–1	114.25
NOK	40	–2	7.7407
CHF	37	–	1.4400
Others	30	1	
Total	991	58	

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 Group's financial results and competitiveness are also affected indirectly by changes in the value of the domestic currencies of its main competitors, principally the US dollar, the Canadian dollar and the Swedish krona. Exposure to these risks is not hedged. However, the company's own production in the United States and Canada reduces this risk.

The balance sheet position comprises foreign currency denominated debts and receivables. According to the Group's Financial Policy, the aim is a fully hedged position. At 31 December 2002 the balance sheet position was € 344 million. It mainly comprises financing operations concerning China. Foreign currency risks associated with the shareholders' equity of foreign subsidiaries are not hedged.

INTEREST RATE RISKS

According to the Group's Financial Policy, the financing of foreign subsidiaries occurs in their own domestic currencies. As a consequence of this policy, the Group's most important loan currencies are the euro, U.S. dollar, sterling and Canadian dollar. China is the only exception to this domestic currency rule.
The Group's interest-bearing net debts (including derivatives) at 31 December 2002 were broken down by currency as follows:

Currency	Amount €bn	Interest rate sensitivity[1] €m
EUR	3.9	19
USD	0.6	2
GBP	0.1	–
CAD	0.6	2
Others	0.1	1
Total	5.3	24

[1] Effect of a one percentage point rise in market rates of interest on the Group's net interest expenses over the following 12 months.

At 31 December 2002, the average rate of interest on the net debt was 3.9%.

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 2002, the average duration of the net debt portfolio was 12 months.

LIQUIDITY AND REFINANCING RISKS

The Group seeks to maintain adequate liquidity under all circumstances by means of efficient cash management and restricting investments to those that can be cashed in quickly. In addition to cash funds of € 425 million, at 31 December 2002 the Group had unused committed credit facilities amounting to € 2.7 billion.

Refinancing risks are minimized by ensuring that the loan portfolio has a balanced maturity schedule and that loans have sufficiently long maturities. The average loan maturity at 31 December 2002 was 8.5 years (7.2 years at 31 December 2001).

LOAN MATURITY SCHEDULE AND CREDIT FACILITIES AT 31 DECEMBER 2002

Year	Loan repayments €m	Committed credit facilities €m	Use of committed credit facilities €m	Total €m
2003	–784	2,815	–590	1,441
short-term [1]	–526	–	–	–
long-term	–258	–	–	–
2004	–313	–447	–	–760
2005	–415	–166	–	–581
2006	–210	–2,093	–	–2,303
2007	–484	–18	–	–502
2008	–277	–39	–	–316
2009	–323	–14	–	–337
2010	–174	–14	–	–188
2011–	–2,319	–24	–	–2,343
Total	–5,299	–	–590	–5,889

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

At 31 December 2002, the most important financing programmes in use were:
- Domestic commercial paper programme, € 1 billion
- Euro commercial paper programme, USD 500 million
- Belgian commercial paper programme, € 400 million
- Medium term note programme, € 3 billion
- Revolving credit facility, € 895 million (matures 2003–2004)
- Revolving credit facility, € 2 billion (matures 2006)

COUNTERPARTY RISK

Counterparty risk is defined as the risk that a counterparty will be unable to fulfil his contractual obligations. According to the Group's Financial Policy, derivative instruments and investments of cash funds may be made only with a counterparty who meets a certain standard of creditworthiness.

PARENT COMPANY ACCOUNTS

PROFIT AND LOSS ACCOUNT

1.1.–31.12., €m	Note	2002	2001
Turnover	(1)	4,222	4,712
Increase (+) or decrease (–) in finished goods		19	–6
Production for own use		48	42
Other operating income	(2)	118	298
Raw materials and services			
Raw materials and consumables			
Purchases during the financial period		–1,874	–2,094
Increase (–) or decrease (+) in stocks		–9	36
External services		–359	–310
		–2,242	–2,368
Personnel expenses			
Wages and salaries	(3)	–443	–472
Social security expenses			
Pension expenses		–82	–86
Other social security expenses		–44	–49
		–569	–607
Depreciation and value adjustments	(4)		
Depreciation according to plan		–289	–284
Value adjustments to goods held as non-current assets		–2	–9
		–291	–293
Other costs and expenses		–609	–625
Operating profit		696	1,153
Financial income and expenses			
Income from investments held as non-current assets			
Income from Group companies		58	82
Income from participating interest companies		66	122
Income from other shares and holdings		24	43
Interest income from Group companies		107	43
Interest income from other companies		9	15
Other interest and financial income			
Other interest income from Group companies		28	33
Other interest income from other companies		8	12
Other financial income from other companies		186	–
Interest and other financial expenses			
Interest expenses paid to Group companies		–29	–11
Interest expenses paid to other companies		–208	–209
Other financial expenses paid to Group companies		–183	–3
Other financial expenses paid to other companies		–23	–12
		43	115
Profit before extraordinary items		739	1,268
Extraordinary items	(5)		
Extraordinary income		87	77
Extraordinary expenses		–28	–32
		59	45
Profit before appropriations and taxes		798	1,313
Appropriations			
Increase (–) or decrease (+) in accumulated depreciation difference		66	47
Income taxes	(6)	–230	–386
Profit for the financial period		634	974

FUNDS STATEMENT

€m	2002	2001
Business operations		
Operating profit	696	1,153
Adjustments to operating profit a)	184	11
Change in net working capital b)	–31	274
Interest	–84	–117
Dividends received	119	191
Other financial items	–100	67
Taxes c)	–182	–297
Net cash flow from operations	602	1,282
Investments		
Purchase of shares	–184	–861
Purchase of other fixed assets	–293	–355
Sale of shares	76	221
Sale of other fixed assets	68	111
Increase in other non-current investments	–312	–2,506
Decrease in other non-current investments	250	437
Total cash used in investments	–395	–2,953
Cash flow before financing	207	–1,671
Financing		
Increase in non-current liabilities	2,051	1,804
Decrease in non-current liabilities	–1,526	–303
Increase (–) or decrease (+) in interest-bearing receivables	44	–273
Increase (+) or decrease (–) in interest-bearing current liabilities	–331	634
Purchase of own shares	–	–152
Dividends paid	–388	–371
Group contributions, received and paid	42	32
Share issue and share conversions	–	430
Total financing	–108	1,801
Increase (+) or decrease (–) in liquid funds	99	130
Liquid funds at 1 Jan.	270	140
Liquid funds at 31 Dec.	369	270

	2002	2001
a) Adjustments to operating profit		
Depreciation	289	284
Gains (+) or losses (–) on sale of fixed assets	–107	–282
Value adjustments on non-current assets	2	9
Total	184	11
b) Change in net working capital		
Increase (–) or decrease (+) in stocks	–14	–8
Increase (–) or decrease (+) in non-interest-bearing receivables	133	195
Increase (+) or decrease (–) in non-interest-bearing current liabilities	–150	87
Total	–31	274

c) Taxes due to extraordinary items and the sale of fixed assets are presented on a net basis.

BALANCE SHEET

€m	Note	31.12.2002	31.12.2001
ASSETS			
Non-current assets			
Intangible assets	(7)		
Intangible rights		6	7
Other capitalized expenditure		50	36
Advance payments		103	58
		159	101
Tangible assets	(8)		
Land and water areas		1,034	1,033
Buildings		603	532
Machinery and equipment		2,099	1,882
Other tangible assets		58	50
Advance payments and construction in progress		135	73
		3,929	3,570
Investments	(9)		
Holdings in Group companies		3,665	3,505
Receivables from Group companies		2,590	2,563
Holdings in participating interest companies		644	624
Receivables from participating interest companies		18	55
Other shares and holdings		337	334
Other receivables		117	77
Own shares		–	38
		7,371	7,196
		11,459	10,867
Current assets			
Stocks			
Raw materials and consumables		188	186
Work in progress		4	5
Finished products and goods		122	97
Advance payments		38	35
		352	323
Receivables			
Current	(10)		
Trade receivables		162	185
Receivables from Group companies		1,123	1,220
Receivables from participating interest companies		14	15
Loan receivables		–	137
Other receivables		66	59
Prepayments and accrued income		70	105
		1,435	1,721
Cash in hand and at bank		369	270
		2,156	2,314
Total assets		13,615	13,181

€m	Note	31.12.2002	31.12.2001
EQUITY AND LIABILITIES			
Shareholders' equity	(11)		
Share capital		442	442
Share premium reserve		654	624
Revaluation reserve		555	555
Reserve for own shares		–	38
Legal reserve		632	632
Retained earnings		2,542	1,956
Profit for the financial period		634	974
		5,459	5,221
Appropriations			
Accumulated depreciation difference		1,668	1,534
Provisions	(12)		
Provisions for pensions		21	15
Other provisions		8	16
		29	31
Liabilities			
Non-current	(13)		
Bond loans		2,758	1,226
Convertible bond loans		–	70
Loans from financial institutions		713	1,453
Pension loans		610	644
Payables to Group companies		3	3
Payables to participating interest companies		–	31
Other liabilities		170	183
		4,254	3,610
Current	(14)		
Convertible bond loans		40	–
Loans from financial institutions		42	930
Pension loans		76	76
Advances received		12	10
Trade payables		211	248
Bills of exchange payable		1,246	775
Payables to participating interest companies		92	91
Other liabilities		310	383
Accruals and deferred income		176	272
		2,205	2,785
		6,459	6,395
Total liabilities		13,615	13,181

1 TURNOVER

Owing to the corporate structure of the Group, the turnover of the parent company has not been broken down by division and market.

2 OTHER OPERATING INCOME

€m	2002	2001
Capital gains on disposal of fixed assets	107	290
Income from rents	10	7
Other	1	1
	118	298

3 PERSONNEL EXPENSES

€m	2002	2001
SALARIES AND FEES		
Salaries of the Managing Director, Deputy Managing Director and members of the Board of Directors [1]	2	2
Other salaries	441	470
	443	472

[1] See notes to the consolidated accounts, note 3.

LOANS TO COMPANY DIRECTORS

At 31 December 2002, the company's Managing Director, Deputy Managing Director and members of the Board of Directors had no loans outstanding from the company or its subsidiaries.

4 DEPRECIATION ACCORDING TO PLAN AND VALUE ADJUSTMENTS

€m	2002	2001
DEPRECIATION ACCORDING TO PLAN		
Intangible rights	1	–
Other capitalized expenditure	12	11
Buildings	31	29
Machinery and equipment	240	239
Other tangible assets	5	5
	289	284
VALUE ADJUSTMENTS		
Value adjustments on non-current assets	2	9
	291	293

5 EXTRAORDINARY ITEMS

€m	2002	2001
EXTRAORDINARY INCOME		
Group contributions	86	77
Other	1	–
	87	77
EXTRAORDINARY EXPENSES		
Group contributions	–27	–32
Other	–1	–
	–28	–32
	59	45

6 INCOME TAXES

€m	2002	2001
Taxes on business income for the financial period	230	380
Income taxes from previous periods	–	6
	230	386

DEFERRED TAX LIABILITIES AND RECEIVABLES

Deferred tax liabilities and receivables 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 2002 was € 484 million (445 million).

Deferred tax liability is not stated separately for revaluations. Applying a tax rate of 29% to the amount of the revaluations, the potential tax liability arising from the sale of revalued assets is € 207 million (207 million).

7 INTANGIBLE ASSETS

€m	2002	2001
INTANGIBLE RIGHTS		
Acquisition cost at 1 Jan.	11	7
Increases	–	5
Transfers between balance sheet items	–1	–1
Acquisition cost at 31 Dec.	10	11
Accumulated depreciation at 1 Jan.	–4	–5
Accumulated depreciation on decreases and transfers	1	1
Accumulated depreciation at 31 Dec.	–1	–
Accumulated depreciation at 31 Dec.	–4	–4
Book value at 31 Dec.	6	7
GOODWILL		
Acquisition cost at 1 Jan.	1	3
Decreases	–	–
Transfers between balance sheet items	–1	–2
Acquisition cost at 31 Dec.	–	1
Accumulated depreciation at 1 Jan.	–1	–3
Accumulated depreciation on decreases and transfers	1	2
Depreciation for the period	–	–
Accumulated depreciation at 31 Dec.	–	–1
Book value at 31 Dec.	–	–
OTHER CAPITALIZED EXPENDITURE		
Acquisition cost at 1 Jan.	95	87
Increases	7	12
Decreases	–3	–
Transfers between balance sheet items	33	–4
Acquisition cost at 31 Dec.	132	95
Accumulated depreciation at 1 Jan.	–59	–56
Accumulated depreciation on decreases and transfers	–11	8
Depreciation for the period	–12	–11
Accumulated depreciation at 31 Dec.	–82	–59
Book value at 31 Dec.	50	36
ADVANCE PAYMENTS		
Acquisition cost at 1 Jan.	58	24
Increases	59	37
Decreases	–	–1
Transfers between balance sheet items	–14	–2
Book value at 31 Dec.	103	58

8 TANGIBLE ASSETS

€m	2002	2001
LAND AND WATER AREAS		
Acquisition cost at 1 Jan.	485	485
Increases	2	1
Decreases	–1	–1
Acquisition cost at 31 Dec.	486	485
Revaluations at 1 Jan.	548	548
Revaluations at 31 Dec.	548	548
Book value at 31 Dec.	1,034	1,033
BUILDINGS		
Acquisition cost at 1 Jan.	893	878
Increases	185	15
Decreases	–26	–8
Transfers between balance sheet items	–4	8
Acquisition cost at 31 Dec.	1,048	893
Accumulated depreciation at 1 Jan.	–361	–338
Accumulated depreciation on decreases and transfers	–53	7
Depreciation for the period	–31	–29
Value adjustments and their cancellations	–	–1
Accumulated depreciation at 31 Dec.	–445	–361
Book value at 31 Dec.	603	532
MACHINERY AND EQUIPMENT		
Acquisition cost at 1 Jan.	4,472	4,355
Increases	979	169
Decreases	–109	–34
Transfers between balance sheet items	–26	–18
Acquisition cost at 31 Dec.	5,316	4,472
Accumulated depreciation at 1 Jan.	–2,590	–2,432
Accumulated depreciation on decreases and transfers	–385	89
Depreciation for the period	–240	–239
Value adjustments and their cancellations	–2	–8
Accumulated depreciation at 31 Dec.	–3,217	–2,590
Book value at 31 Dec.	2,099	1,882
OTHER TANGIBLE ASSETS		
Acquisition cost at 1 Jan.	123	119
Increases	40	4
Decreases	–1	–
Acquisition cost at 31 Dec.	162	123
Accumulated depreciation at 1 Jan.	–73	–68
Accumulated depreciation on decreases and transfers	–26	–
Depreciation for the period	–5	–5
Accumulated depreciation at 31 Dec.	–104	–73
Book value at 31 Dec.	58	50
ADVANCE PAYMENTS AND CONSTRUCTION IN PROGRESS		
Acquisition cost at 1 Jan.	73	102
Increases	128	113
Decreases	–15	–80
Transfers between balance sheet items	–51	–62
Book value at 31 Dec.	135	73

9 INVESTMENTS HELD AS NON-CURRENT ASSETS

€m	2002	2001
HOLDINGS IN GROUP COMPANIES		
Acquisition cost at 1 Jan.	3,601	2,778
Increases	705	826
Decreases	–556	–
Transfers between balance sheet items	15	–3
Acquisition cost at 31 Dec.	3,765	3,601
Accumulated depreciation at 1 Jan.	–98	–97
Accumulated depreciation on decreases and transfers	–4	–
Value adjustments and their cancellations	–	–1
Accumulated depreciation at 31 Dec.	–102	–98
Revaluations at 1 Jan.	2	2
Revaluations at 31 Dec.	2	2
Book value at 31 Dec.	3,665	3,505
RECEIVABLES FROM GROUP COMPANIES		
Acquisition cost at 1 Jan.	2,563	477
Increases	268	2,389
Decreases	–247	–300
Transfers between balance sheet items	6	–3
Acquisition cost at 31 Dec.	2,590	2,563
Book value at 31 Dec.	2,590	2,563
HOLDINGS IN PARTICIPATING INTEREST COMPANIES		
Acquisition cost at 1 Jan.	536	508
Increases	33	28
Decreases	–4	–
Transfers between balance sheet items	–24	–
Acquisition cost at 31 Dec.	541	536
Accumulated depreciation at 1 Jan.	–15	–15
Value adjustments and their cancellations	15	–
Accumulated depreciation at 31 Dec.	–	–15
Revaluations at 1 Jan.	103	103
Revaluations at 31 Dec.	103	103
Book value at 31 Dec.	644	624
RECEIVABLES FROM PARTICIPATING INTEREST COMPANIES		
Acquisition cost at 1 Jan.	77	95
Increases	3	1
Decreases	–6	–12
Transfers between balance sheet items	–56	–7
Acquisition cost at 31 Dec.	18	77
Accumulated depreciation at 1 Jan.	–22	–25
Accumulated depreciation on decreases and transfers	22	8
Value adjustments and their cancellations	–	–5
Accumulated depreciation at 31 Dec.	–	–22
Book value at 31 Dec.	18	55

€m	2002	2001
OTHER SHARES AND HOLDINGS		
Acquisition cost at 1 Jan.	299	316
Increases	6	7
Decreases	–5	–24
Transfers between balance sheet items	–12	–
Acquisition cost at 31 Dec.	288	299
Accumulated depreciation at 1 Jan.	–26	–30
Accumulated depreciation on decreases and transfers	12	–
Value adjustments and their cancellations	2	4
Accumulated depreciation at 31 Dec.	–12	–26
Revaluations at 1 Jan.	61	61
Revaluations at 31 Dec.	61	61
Book value at 31 Dec.	337	334
OTHER RECEIVABLES		
Acquisition cost at 1 Jan.	77	218
Increases	44	114
Decreases	–64	–125
Transfers between balance sheet items	60	–130
Acquisition cost at 31 Dec.	117	77
Book value at 31 Dec.	117	77
OWN SHARES		
Acquisition cost at 1 Jan.	38	279
Increases	–	152
Own shares declared void	–38	–393
Book value at 31 Dec.	–	38

10 CURRENT RECEIVABLES

€m	2002	2001
Trade receivables	433	471
Loan receivables	847	1,056
Other receivables	68	60
Prepayments and accrued income	87	134
	1,435	1,721
MAIN ITEMS INCLUDED IN CURRENT PREPAYMENTS AND ACCRUED INCOME		
Personnel expenses	4	5
Interest income	24	30
Interest expenses	21	12
Income taxes	28	56
Others	10	31
	87	134

€m	2002	2001
RECEIVABLES FROM GROUP COMPANIES		
Trade receivables	260	271
Loan receivables	844	919
Other receivables	2	1
Prepayments and accrued income	17	29
	1,123	1,220

€m	2002	2001
RECEIVABLES FROM PARTICIPATING INTEREST COMPANIES		
Trade receivables	11	15
Loan receivables	3	–
	14	15

11 SHAREHOLDERS' EQUITY

€m	Share capital	Share premium reserve	Revaluation reserve	Reserve for own shares	Legal reserve	Retained earnings	Shareholders' equity, total
Shareholders' equity at 1 Jan. 2001	437	199	555	279	632	2,479	4,581
Convertible bond loan 1994	1	10	–	–	–	–	11
Own shares declared void	–22	22	–	–393	–	–	–393
Directed share issue	21	398	–	–	–	–	419
Bonus issue	5	–5	–	–	–	–	–
Dividends paid	–	–	–	–	–	–371	–371
Transferred to reserve for own shares	–	–	–	152	–	–152	–
Profit for the period	–	–	–	–	–	974	974
Shareholders' equity at 31 Dec. 2001	442	624	555	38	632	2,930	5,221
Convertible bond loan 1994	2	28	–	–	–	–	30
Own shares declared void	–2	2	–	–38	–	–	–38
Dividends paid	–	–	–	–	–	–388	–388
Profit for the period	–	–	–	–	–	634	634
Shareholders' equity at 31 Dec. 2002	442	654	555	–	632	3,176	5,459

€m	2002	2001
DISTRIBUTABLE FUNDS AT 31 DEC.		
Reserve for own shares	–	38
Retained earnings	2,542	1,956
Profit for the period	634	974
Cost of acquisition of own shares	–	–38
Distributable funds at 31 Dec.	3,176	2,930

12 PROVISIONS

€m	2002	2001
Pension provisions	21	15
Others	8	16
	29	31

13 NON-CURRENT LIABILITIES

€m	2002	2001
Bond loans	2,758	1,226
Convertible bond loans	–	70
Loans from financial institutions	713	1,453
Pension loans	610	644
Other liabilities	173	217
	4,254	3,610
PAYABLES TO GROUP COMPANIES		
Other liabilities	3	3
	3	3
PAYABLES TO ASSOCIATED AND PARTICIPATING INTEREST COMPANIES		
Other liabilities	–	31
	–	31
LONG-TERM LOANS AND THEIR REPAYMENT SCHEDULE		
In 2004–2007 / 2003–2006		
Bonds	425	193
Convertible bond loans	–	70
Loans from financial institutions	595	1,317
Pension loans	304	304
Payables to Group companies	–	–
Payables to associated and participating interest companies	–	31
	1,324	1,915
In 2008– / 2007–		
Bonds	2,333	1,033
Loans from financial institutions	118	136
Pension loans	306	340
Payables to Group companies	3	3
Other liabilities	170	183
	2,930	1,695
Total at 31 Dec.	4,254	3,610

BONDS

	Interest, %		Initial amount, million	2002	2001
Fixed-rate					
1993–2008	9.10	EUR	4	–	4
1995–2005	7.72	USD	155	148	176
1997–2007	6.875	USD	215	205	255
1997–2027	7.45	USD	375	358	426
1999–2009	6.35	EUR	250	250	250
2000–2030	3.55	JPY	10,000	80	87
2001–2006	0.962	JPY	2,000	16	17
2001–2007	6.875	USD	10	10	11
2002–2005	0.10	EUR	30	30	–
2002–2007	0.869	JPY	2,000	16	–
2002–2012	6.125	EUR	600	600	–
2002–2014	5.625	USD	500	477	–
2002–2017	6.625	GBP	250	384	–
				2,574	1,226
Floating-rate					
2002–2008	3.653	EUR	39	39	–
2002–2008	3.434	EUR	50	50	–
2002–2010	4.110	EUR	59	59	–
2002–2012	4.436	EUR	25	25	–
2002–2012	3.834	EUR	11	11	–
				184	–
Bonds, total				2,758	1,226
– current portion				–	–
Bonds, long-term portion				2,758	1,226
Subordinated convertible bond loan 1994 [1)]					
	6.50	EUR	161	40	70
– current portion				40	–
Convertible bond loans, long-term portion				–	70

[1)] The subordinated convertible bonds may be exchanged for shares between January and October each year. Each € 1,681.88 debenture entitles the holder to 78 shares at a computed price of € 21.56 per share. Under the terms of the issue, the company has had the right, from 25 March 1998, to reduce the loan period. The company's Board of Directors decided on 17 December 2002 that the loan period would end on 28 February 2003 and that instead of repayment the bondholders could demand that their bonds be exchanged for shares during the period beginning 2 January 2003 and ending 18 February 2003.

14 CURRENT LIABILITIES

€m	2002	2001
Convertible bond loans	40	–
Loans from financial institutions	42	930
Pension loans	76	76
Advances received	13	11
Trade payables	275	298
Other liabilities	1,507	1,178
Accruals and deferred income	252	292
	2,205	2,785
MAIN ITEMS INCLUDED IN CURRENT ACCRUALS AND DEFERRED INCOME		
Personnel expenses	93	112
Interest expenses	29	30
Income tax	33	102
Others	97	48
	252	292
PAYABLES TO GROUP COMPANIES		
Trade payables	35	26
Other liabilities	1,135	729
Accruals and deferred income	76	20
	1,246	775
PAYABLES TO ASSOCIATED AND PARTICIPATING INTEREST COMPANIES		
Advances received	1	1
Trade payables	29	24
Other liabilities	62	66
	92	91

15 CONTINGENT LIABILITIES

€m	2002	2001
MORTGAGES [1]		
As security against own debts	131	112
GUARANTEES		
Guarantees for loans		
On behalf of Group companies	620	587
On behalf of associated and participating interest companies	41	72
On behalf of others	4	1
Other guarantees		
On behalf of Group companies	474	62
On behalf of others	1	4
LEASING COMMITMENTS		
Commitments for 2003/2002	1	–
Commitments for subsequent years	2	–
OTHER COMMITMENTS [2]		

1) The mortgages given relate mainly to reborrowing of statutory employment pension contributions.

2) See the Group's contingent liabilities.

SHARES AND HOLDINGS [1)]

	Production ■ Sales and distribution ▲ Other ●	Parent company holding, %	Group holding, %
GROUP COMPANIES			
Oy Alfa-Bag Ab	■	100.00	100.00
Anco Træ A/S, DK	▲	68.95	100.00
Blandin Paper Company plc, US	■		100.00
Bonvesta Oy	●	100.00	100.00
Oy Botnia Shipping Ab	▲	100.00	100.00
Brooks Group Ltd, IE	▲	100.00	100.00
Chapelle Darblay S.A., FR	■		100.00
ZAO Chudovo-RWS, RU	■		60.00
Forexplo S.A., FR	●		99.96
Interot Speditions GmbH, DE	▲		100.00
Jyväs-Helmi Oy	●	61.00	61.00
Kalso-Teollisuus Oy	■		100.00
Lohja Papierprodukte GmbH, DE	▲		100.00
Loparex B.V., NL	■	100.00	100.00
Loparex Inc., US	■		100.00
Loparex Ltd, GB	■		100.00
Loparex Oy	■	100.00	100.00
Mahogany Oy	■	100.00	100.00
Nordland Papier GmbH, DE	■		100.00
NorService GmbH, DE	▲		100.00
Nortrans Speditions GmbH, DE	▲		75.00
Papeteries de Docelles S.A., FR	■		100.00
Parkanon Lista Oy	■	100.00	100.00
AS Puukeskus, EE	▲		100.00
Puukeskus Oy	▲	100.00	100.00
Raflatac AB, SE	▲		100.00
Raflatac A/S, DK	▲		100.00
Raflatac Canada Inc., CA	▲		100.00
Raflatac CZ s.r.o., CZ	▲		100.00
Raflatac GmbH, DE	▲		100.00
Raflatac Handels GmbH, AT	▲		100.00
Raflatac Iberica S.A., ES	▲		100.00
Raflatac Inc., US	■		100.00
Raflatac Italia s.r.l., IT	▲		100.00
Raflatac Ltd, GB	■		100.00
Raflatac Mexico S.A. de C.V., MX	▲		100.00
Raflatac Oy	■	100.00	100.00
Raflatac Polska Sp. z o.o., PL	▲		100.00
Raflatac Produktions GmbH, DE	▲		100.00
Raflatac Shanghai Co. Ltd, CN	■		100.00
Raflatac Singapore Pte Ltd, SG	▲		100.00
Raflatac South Africa (Pty) Ltd, ZA	■		100.00
Raflatac S.A., FR	■		99.99
Raflatac (M) SDN BHD, MY	■		100.00
Raflatac (Oceania) Pty Ltd, AU	■		100.00
Oy Rauma Stevedoring Ltd	▲	100.00	100.00
N.V. Rosenlew S.A., BE	■	98.63	99.94
Rosenlew-St. Frères Emballage S.A., FR	■		99.99

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

	Production ■ Sales and distribution ▲ Other ●	Parent company holding, %	Group holding, %
Rosenlew Inc., US	■		100.00
Rosenlew Minibulk Ltd, GB	▲	100.00	100.00
Rosenlew Portugal Embalagens SA, PT	■	99.99	99.99
Rosenlew S.A., FR	■		99.94
Sapro S.A., FR	●		99.76
Schauman B.V., NL	▲		100.00
Schauman Iberica S.A., ES	▲		100.00
Schauman Wood AB, SE	▲		100.00
Schauman Wood Oy	■	100.00	100.00
Schauman Wood S.A., FR	■		100.00
STAG-SCA Frischholz Ges.m.b.H, AT	●		66.67
STAG Wasserkraft GmbH, AT	●		100.00
Steyrermühl AG, AT	■		99.53
Steyrermühl Sägewerksgesellschaft m.b.H. Nfg KG, AT	■		100.00
Stracel S.A., FR	■		100.00
Tilhill Economic Forestry Ltd, GB	●		100.00
UPM-Asunnot Oy	●	77.00	100.00
UPM-Kymmene GmbH, AT	▲	100.00	100.00
UPM-Kymmene AB, SE	▲	100.00	100.00
UPM-Kymmene AG, CH	▲	100.00	100.00
UPM-Kymmene AS, NO	▲	100.00	100.00
UPM-Kymmene Asia Pacific Pte Ltd., SG	▲		100.00
UPM-Kymmene A/S, DK	▲	100.00	100.00
UPM-Kymmene Beteiligungs GmbH, DE	●	100.00	100.00
UPM-Kymmene B.V., NL	▲	100.00	100.00
UPM-Kymmene Canada Holdings Inc., CA	●	100.00	100.00
UPM-Kymmene Comercializacao de Papel, Lda, PT	▲	100.00	100.00
UPM-Kymmene Distribution n.v., BE	▲	99.92	100.00
UPM-Kymmene Finance B.V., NL	●	100.00	100.00
UPM-Kymmene Fine-Paper GmbH, DE	●		100.00
UPM-Kymmene Forest Products (Suzhou) Pte. Ltd, SG	●	100.00	100.00
UPM-Kymmene Groupe S.A., FR	●	98.78	100.00
UPM-Kymmene Inc., US	▲		100.00
UPM-Kymmene Investment Inc., US	●	100.00	100.00
UPM-Kymmene Miramichi Inc., CA	■		100.00
UPM-Kymmene Papier GmbH & Co. KG, DE	■		100.00
UPM-Kymmene Sales GmbH, DE	▲		100.00
UPM-Kymmene Seaways Oy Ltd	▲	100.00	100.00
UPM-Kymmene Seven Seas Oy	▲	100.00	100.00
UPM-Kymmene Sp. z o.o., PL	▲	100.00	100.00
UPM-Kymmene Srl., IT	▲	99.98	100.00
UPM-Kymmene S.A., FR	▲		100.00
UPM-Kymmene S.A., ES	▲	100.00	100.00
UPM-Kymmene NV/SA, BE	▲	99.60	99.60
UPM-Kymmene Wood GmbH, DE	▲		100.00
UPM-Kymmene Wood Ltd, GB	▲		100.00
UPM-Kymmene Wood S.A., FR	▲	0.44	99.99
UPM-Kymmene (Changshu) Paper Industry Co., Ltd, CN	■		100.00
UPM-Kymmene (UK) Holding plc, GB	●	80.73	100.00
UPM-Kymmene (UK) Ltd, GB	■		100.00

	Production ■ Sales and distribution ▲ Other ●	Parent company holding, %	Group holding, %
UPM Net Services sa / nv, BE	●	100.00	100.00
UPM Pack S.A., FR	▲		99.94
UPM Pack S.A., ES	▲	100.00	100.00
UPM Speciality Papers Ltd, GB	▲		100.00
UPM Sähkönsiirto Oy	●	100.00	100.00
Walki-Neoplastica B.V., NL	■	50.00	50.00
Walki Wisa Converflex Ab, SE	■		51.60
Walki Wisa GmbH, DE	■		100.00
Walki Wisa Ltd, GB	■		100.00
Walki Wisa Oy	■	100.00	100.00
Werla Insurance Company Ltd, GB	●	100.00	100.00
Yhtyneet Sahat Oy (United Sawmills Ltd)	■	92.92	100.00

	Parent company holding, %	Group holding, %
ASSOCIATED AND PARTICIPATING INTEREST COMPANIES		
Austria Papier Recycling Ges.m.b.H., AT		33,32
Cervuctum Oy	37.50	37.50
Compania Forestal Oriental S.A., UY	38.38	38.38
Corenso United Oy Ltd	29.00	29.00
Oy Finnish Peroxides Ab	25.00	25.00
AS Forestex, EE	34.25	34.25
Kainuun Voima Oy	50.00	50.00
Kaygee Papers Private Limited, IN		50.00
Kemiart Liners Oy	47.00	47.00
Oy Keskuslaboratorio - Centrallaboratorium Ab	38.46	38.65
Oy Metsä-Botnia Ab	47.00	47.00
Paperinkeräys Oy	22.98	22.98
Papier-Recycling Handelsges.m.b.H., AT		50.00
Pohjolan Voima Oy	40.37	40.37
Powest Oy	9.98	43.41
RETS Timber Oy Ltd		50.00
Steveco Oy	34.32	34.32
Oy Transfennica Ab	27.14	27.14

	Number of shares	Parent company holding, %	Group holding, %	Book value €m
OTHER SHARES AND HOLDINGS				
Kemijoki Oy	100,797	4.13	4.13	167.00
Metso Oyj	19,922,115	14.62	14.62	122.20
Nokia Oyj	11,298,944	0.24	0.24	4.70
Polar Kiinteistöt Oyj	14,836,442	8.24	8.24	7.90
Sea Containers Ltd, A	295,037	0.87	0.87	4.80

CALCULATION OF KEY INDICATORS

FORMULAE FOR CALCULATION OF FINANCIAL INDICATORS

Return on equity, %:

$$\frac{\text{Profit (loss) before extraordinary items – income taxes}}{\text{Shareholders' equity – capital loan – own shares + minority interest (average)}} \times 100$$

Return on capital employed, %:

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

Equity to assets ratio, %:

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

Gearing ratio, %:

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

Return on capital employed (ROCE) for the divisions (operating capital), %:

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

FORMULAE FOR CALCULATION OF ADJUSTED SHARE-RELATED INDICATORS

Earnings per share:

$$\frac{\text{Profit (loss) before extraordinary items – income taxes +/– minority interest}}{\text{Adjusted average number of shares during the period excluding own shares}}$$

Shareholders' equity per share:

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

Dividend per share:

$$\frac{\text{Dividend distribution}}{\text{Adjusted number of shares at end of period}}$$

Dividend to earnings ratio, %:

$$\frac{\text{Dividend per share}}{\text{Earnings per share}} \times 100$$

Effective dividend yield, %:

$$\frac{\text{Adjusted dividend per share}}{\text{Adjusted share price at 31.12}} \times 100$$

P / E ratio:

$$\frac{\text{Adjusted share price at 31.12}}{\text{Earnings per share}}$$

Market capitalization:

Total number of shares x striking price at end of period

Adjusted share price at end of period:

$$\frac{\text{Share price at end of period}}{\text{Share issue coefficient}}$$

Adjusted average share price:

$$\frac{\text{Total value of shares traded}}{\text{Adjusted number of shares traded during period}}$$

Cash from operating activities per share:

$$\frac{\text{Cash from operating activities}}{\text{Adjusted average number of shares during the period excluding own shares}}$$

1) In 1993–1997, shareholders' equity includes a capital loan (1993–96: € 126 million, 1997: € 101 million).

KEY EXCHANGE RATES FOR THE EURO AT END OF PERIOD

	31.12.2002	30.9.2002	30.6.2002	31.3.2002	31.12.2001	30.9.2001	30.6.2001	31.3.2001
USD	1.0487	0.9860	0.9975	0.8724	0.8813	0.9131	0.8480	0.8832
CAD	1.6550	1.5566	1.5005	1.3923	1.4077	1.4418	1.2927	1.3904
JPY	124.39	119.67	118.20	115.15	115.33	109.02	105.37	110.74
GBP	0.6505	0.6295	0.6498	0.6130	0.6085	0.6220	0.6031	0.6192
SEK	9.1528	9.1516	9.1015	9.0304	9.3012	9.7321	9.2125	9.1570

KEY FIGURES 1993–2002 1) 6)

€m	2002	2001	2000	1999	1998	1997	1996	1995	1994	1993
FINANCIAL INDICATORS										
Turnover	10,475	9,918	9,583	8,261	8,365	7,776	6,921	7,452	6,542	6,008
Turnover, businesses disposed of 2)	–	–	–	–	–	702	1,784	1,754	1,525	1,386
Total turnover	10,475	9,918	9,583	8,261	8,365	8,478	8,705	9,206	8,067	7,394
Operating profit, excluding non-recurring items	1,108	1,394	1,560	976	1,067	877	826	1,370	860	613
% of turnover	10.6	14.1	16.3	11.8	12.8	10.3	9.5	14.9	10.7	8.3
Operating profit, total	1,062	1,614	1,860	1,573	1,620	1,242	940	1,430	921	685
% of turnover	10.1	16.3	19.4	19.0	19.4	14.7	10.8	15.5	11.4	9.3
Profit/loss before extraordinary items	789	1,333	1,717	1,398	1,437	937	598	1,056	523	–15
% of turnover	7.5	13.4	17.9	16.9	17.2	11.1	6.9	11.5	6.5	–0.2
Profit/loss after extraordinary items	789	1,333	1,859	1,398	1,437	937	597	960	467	–14
% of turnover	7.5	13.4	19.4	16.9	17.2	11.1	6.9	10.4	5.8	–0.2
Profit/loss for the period	550	955	1,366	994	1,029	703	386	639	320	–8
% of turnover	5.3	9.6	14.3	12.0	12.3	8.3	4.4	6.9	4.0	–0.1
Exports from Finland and foreign operations	9,487	8,948	8,563	7,165	7,219	6,522	7,361	8,029	7,037	6,401
Exports from Finland	4,765	4,635	5,216	4,873	4,571	4,152	4,209	4,710	4,349	3,805
Fixed assets and other long-term investments	12,111	12,874	10,163	8,741	8,802	8,530	8,124	7,691	7,621	7,890
Stocks	1,288	1,289	1,184	1,008	1,054	1,047	1,368	1,600	1,224	1,141
Other current assets	1,975	2,268	1,766	1,831	1,593	1,827	1,899	1,912	1,905	1,986
Assets	15,374	16,431	13,113	11,580	11,449	11,404	11,391	11,203	10,750	11,017
Shareholders' equity	6,920	6,810	6,156	5,536	5,311	4,538	4,007	3,753	3,177	2,851
Minority interest	33	28	19	22	24	27	149	128	17	18
Provisions	450	413	130	115	103	105	74	36	39	33
Non-current liabilities	5,784	5,579	4,434	3,715	3,628	3,767	3,591	3,871	4,209	4,834
Current liabilities	2,187	3,601	2,374	2,192	2,383	2,967	3,570	3,415	3,308	3,281
Equity and liabilities	15,374	16,431	13,113	11,580	11,449	11,404	11,391	11,203	10,750	11,017
Capital employed at year end	12,842	13,519	10,448	9,004	9,319	9,371	9,147	8,879	8,835	9,373
Return on equity, %	8.0	15.5	21.9	19.2	21.8	16.6	10.4	22.0	12.9	–0.4
Return on capital employed, %	8.4	15.6	20.2	17.6	18.0	13.4	10.6	16.8	11.0	7.0
Equity to assets ratio, %	45.3	41.5	46.0	47.0	45.3	40.1	37.2	35.6	30.3	26.4
Gearing ratio, %	76	89	69	55	74	93	104	112	156	196
Net interest-bearing liabilities	5,285	6,041	4,071	2,940	3,739	4,252	4,320	4,358	4,978	5,613
Gross capital expenditure on fixed assets	613	3,850	2,175	609	696	1,418	1,015	827	586	328
% of turnover	5.9	38.8	22.7	7.4	8.3	16.7	11.7	9.0	7.3	4.4
Gross capital expenditure excluding acquisitions	561	827	571	548	539	578	974	814	545	293
% of turnover	5.4	8.3	6.0	6.6	6.4	6.8	11.2	8.8	6.8	4.0
Personnel at year end	35,579	36,298	32,755	30,963	32,351	33,814	32,826	33,308	33,176	32,564
Personnel at year end, businesses disposed of 2)	–	–	–	–	–	–	10,810	11,363	10,812	10,173
Personnel at year end, total	35,579	36,298	32,755	30,963	32,351	33,814	43,636	44,671	43,988	42,737
PRODUCTION FIGURES										
Papers, total (1000 t)	10,046	8,298	8,285	7,494	7,499	7,198	6,134	6,733	6,608	6,024
Sawn timber (1000 m^3)	2,201	2,035	2,117	1,911	2,104	2,050	1,857	1,939	2,075	1,957
Plywood (1000 m^3)	905	786	793	729	698	710	617	585	534	442
Chemical pulp (1000 t)	2,102	2,038	1,965	1,846	1,913	1,963	1,874	2,000	2,040	1,972

Formulae for calculating indicators are given on page 81.

ADJUSTED SHARE-RELATED INDICATORS 1993–2002 1) 6)

	2002	2001	2000	1999	1998	1997	1996	1995	1994	1993
ADJUSTED SHARE-RELATED INDICATORS										
Earnings per share, € (diluted 2002: 2.10)	2.12	3.85	4.77	3.77	3.82	2.62	1.45	2.76	1.45	–0.05
Shareholders' equity per share, €	26.60	26.18	23.45	20.46	18.96	16.41	14.52	13.56	11.62	10.56
Dividend per share, € [4]	[3] 1.50	1.50	1.50	2.15	1.09	0.93	0.76	0.76	0.37	0.15
Dividend to earnings ratio, % [4]	70.8	39.0	31.4	57.0	28.6	35.4	52.3	27.4	25.5	neg.
Effective dividend yield, % [4]	4.9	4.0	4.1	5.4	4.6	5.0	4.7	5.5	2.5	1.0
P/E ratio	14.4	9.7	7.7	10.6	6.3	7.0	11.2	5.0	10.2	neg.
Share price at 31 Dec., €	30.60	37.25	36.55	40.00	23.88	18.33	16.23	13.80	14.76	14.52
Market capitalization, €m	7,960	9,681	9,502	10,663	6,630	4,957	4,340	3,690	3,948	3,852
Shares traded, €m [5]	10,827	7,645	6,157	4,834	3,374	3,125	1,162	–	–	–
Shares traded (1000s)	298,539	221,620	200,411	158,437	147,035	151,054	73,187	–	–	–
Shares traded, % of all shares	115.1	88.1	77.2	59.0	53.4	56.2	41.1	–	–	–
Lowest quotation, €	25.21	27.99	24.91	22.00	16.82	15.81	14.38	–	–	–
Highest quotation, €	44.50	39.85	44.90	42.50	29.26	25.63	17.66	–	–	–
Average quotation for the period, €	36.26	34.49	30.72	30.51	22.95	20.69	15.87	–	–	–
Number of shares, average (1000s)	259,468	247,892	256,817	264,018	269,723	268,888	267,374	265,779	260,081	254,479
Number of shares at end of period (1000s)	260,116	258,718	250,647	259,031	264,844	270,389	267,374	267,377	262,587	258,120

Share prices and shares traded are based on trading on the Helsinki Exchanges.

NOTES TO THE TABLES ON PAGES 82–83

1) The financial and share-related indicators for 1993–1995 are based on the combined consolidated financial statement of Kymmene and Repola. The share-related indicators are based on the share exchange ratios for the two companies' shares on amalgamation merger at 30 April 1996.
2) Includes the Rauma engineering group and Simpele's board and packaging unit.
3) Proposal.
4) The 1999 figure includes an extra dividend payment of € 0.90.
5) Trading on the Helsinki Exchanges. Own shares bought by the company are included in shares traded. Shares traded and share prices for 1996 are for the period 1 May–31 December.
6) Figures reported in Finnish markka for the years 1993–1998 have been converted into euro using the official conversion rate, 1 euro = 5.94573 markka.

QUARTERLY FIGURES 2001–2002

€m	2002	2001	IV/2002	III/2002	II/2002	I/2002	IV/2001	III/2001	II/2001	I/2001
TURNOVER BY DIVISION										
Paper Industry										
Magazine Papers	3,577	3,548	941	894	905	837	942	853	891	862
Newsprint	1,381	1,058	347	358	336	340	285	246	268	259
Fine and Speciality Papers	2,449	2,362	610	612	625	602	578	562	590	632
Converting Industry	1,541	1,480	357	393	398	393	371	367	383	359
Wood Products Industry	1,489	1,463	380	358	404	347	345	342	396	380
Other Operations	583	489	145	134	156	148	144	83	130	132
Internal sales	–545	–482	–163	–136	–145	–101	–107	–117	–122	–136
Turnover, total	10,475	9,918	2,617	2,613	2,679	2,566	2,558	2,336	2,536	2,488
OPERATING PROFIT BY DIVISION										
Paper Industry										
Magazine Papers [1)]	225	598	–46	101	77	93	136	148	147	167
Newsprint [1)]	162	211	46	48	37	31	44	55	60	52
Fine and Speciality Papers	359	336	63	111	91	94	88	76	76	96
Converting Industry [1)]	70	46	9	20	18	23	2	7	18	19
Wood Products Industry	37	27	10	5	14	8	–1	–3	15	16
Other Operations [2)]	209	396	91	59	34	25	277	30	39	50
Operating profit total [3)]	1,062	1,614	173	344	271	274	546	313	355	400
% of turnover	10.1	16.3	6.6	13.2	10.1	10.7	21.3	13.4	14.0	16.1
Operating profit excluding non-recurring items	1,108	1,394	219	340	265	284	332	309	353	400
% of turnover	10.6	14.1	8.4	13.0	9.9	11.1	13.0	13.2	13.9	16.1
Dividend income	21	33	1	1	2	17	1	–	11	21
Exchange differences	2	–5	–	–	2	–	–2	–7	6	–2
Other financial income and expenses	–296	–309	–72	–64	–76	–84	–76	–71	–94	–68
Profit before extraordinary items	789	1,333	102	281	199	207	469	235	278	351
Extraordinary items	–	–	–	–	–	–	–	–	–	–
Profit after extraordinary items	789	1,333	102	281	199	207	469	235	278	351
Income taxes	–241	–378	–19	–95	–67	–60	–144	–78	–79	–77
Minority interest	2	–	1	–	–	1	–	–	–	–
Profit for the period	550	955	84	186	132	148	325	157	199	274
Earnings per share, €	2.12	3.85	0.32	0.72	0.51	0.57	1.30	0.64	0.81	1.10
Earnings per share excluding non-recurring items, €	2.25	3.22	0.45	0.71	0.49	0.60	0.69	0.62	0.81	1.10

1) The divisional operating profits include non-recurring charges as follows: first quarter of 2002 € 8 million for the Newsprint business, fourth quarter EUR 128 million for the Magazine Papers business, fourth quarter of 2001 € 20 million for the Magazine Papers business and € 11 million for the Converting Industry.

	2002	2001	IV/2002	III/2002	II/2002	I/2002	IV/2001	III/2001	II/2001	I/2001
2) Break-down of Other Operations										
Forest department, Finland	37	45	5	15	8	9	15	13	8	9
Energy department, Finland	51	99	9	14	13	15	26	16	27	30
Share of results of associated companies	60	82	8	24	10	18	3	14	18	47
Other	61	170	69	6	3	–17	233	–13	–14	–36
3) Non-recurring items	–46	220	–46	4	6	–10	214	4	2	–

	2002	2001	IV/2002	III/2002	II/2002	I/2002	IV/2001	III/2001	II/2001	I/2001
Paper, total (1000 t)	10,046	8,298	2,502	2,659	2,479	2,406	2,085	2,047	1,990	2,176
Sawn timber (1000 m^3)	2,201	2,035	619	479	572	531	503	383	595	554
Plywood (1000 m^3)	905	786	248	198	238	221	200	168	207	211
Chemical pulp (1000 t)	2,102	2,038	506	561	513	522	490	503	490	555
DELIVERIES										
Magazine papers (1000 t)	4,618	3,964	1,263	1,181	1,153	1,021	1,098	964	966	936
Newsprint (1000 t)	2,467	1,667	617	664	609	577	450	389	436	392
Fine and speciality papers (1000 t)	2,774	2,546	690	714	688	682	646	606	637	657
Converting Industry paper (1000 t)	59	49	13	16	15	15	12	12	12	13

INFORMATION ON SHARES

SHARE CAPITAL

Under UPM-Kymmene Corporation's Articles of Association, the company's issued share capital may be not less than € 250,000,000 and not more than € 1,000,000,000. The issued share capital may be increased or reduced between these limits without amendment to the Articles of Association. The equivalent value of the shares is € 1.70.

At 31 December 2002, the number of shares in issue was 260,115,975 and the share capital was € 442,197,157.50. If the remainder of the convertible bonds issued by the company in 1994 are fully converted into 1,841,736 shares, and all 4,000,000 share options distributed to the company's directors in 1998 as well as all 7,600,000 options similarly distributed in 2002 are exercised, the share capital of UPM-Kymmene Corporation will rise to € 465,048,108.70 and the number of shares to 273,557,711, of which the new shares will represent 4.91 % (0.67 % from the convertible bond loan and 4.24 % from the share options).

OWN SHARES

The Annual General Meeting held on 19 March 2002 decided to lower the share capital by declaring void 1,175,398 shares acquired by the company during 2001. The AGM also decided on the purchase of at least 100 and at most 12.3 million of the company's own shares using funds available for the distribution of profit. The AGM authorized the Board of Directors to decide on the disposal of shares so purchased. The company did not purchase any of its own shares during 2002.

AUTHORIZATIONS TO INCREASE SHARE CAPITAL

Apart from the 1998 and 2002 option programmes and the 1994 convertible bond loan, the Board of Directors has no other current authorizations to issue shares, convertible bonds or option rights.

REDEMPTION CLAUSE

Under §13 of UPM-Kymmene Corporation's Articles of Association, a shareholder who alone owns 33 1/3 per cent or more of all the company's shares or their associated voting rights, or jointly with another shareholder owns 50 per cent or more of the same 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.

STOCK EXCHANGE TRADING

The company's shares are listed on the Helsinki and London stock exchanges.

In the year 2002, 298.5 million UPM-Kymmene Corporation shares were traded on Helsinki Exchanges (2001: 221.6 million). This represents 115.1 % (88.1 %) of the total number of shares. The highest quotation was € 44.50 in March and the lowest € 25.21 in October. Total trading in UPM-Kymmene Corporation shares on the Helsinki Exchanges in 2002 was € 10,827 million (2001: € 7,645 million).

A total of 5.0 million shares were traded on the New York Stock Exchange, compared with 3.5 million in the previous year.

The company's shares are also traded on SEAQ International in London, and in Germany on the Freier 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 € 21.35 in the year 2002.

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.

DIRECTORS' INTEREST AT 31 DECEMBER 2002

At the end of the year, the members of the Board of Directors, the Managing Director and Deputy Managing Director owned a total of 3,527,572 UPM-Kymmene Corporation shares (including those held by under-age children and by organizations or foundations of which the person has control). These represent 1.36 % of the share capital and 1.36 % of the voting rights. The members of the Board of Directors, the Managing Director and Deputy Managing Director hold convertible bonds issued in 1994 with a total value of € 63,911.44. The Managing Director and Deputy Managing Director have additionally received 370,000 share options. Conversion of these convertible bonds and equity options into shares could raise UPM-Kymmene Corporation's share capital by € 634,038.80, i.e. by 372,964 shares. The shares would have represented 0.14 % of the share capital and voting rights of the company at 31 December 2002.

CHANGES IN NUMBER OF SHARES AND SHARE CAPITAL, 1 JANUARY 1998 – 31 DECEMBER 2002

		Number of shares	Share capital, €
1997	Share capital at 31 Dec. 1997	270,388,761	454,761,251
1998	Exchanged under convertible bond issue (1993)	6,165,322	10,369,327
	Exchanged under convertible bond issue (1994)	1,051,986	1,769,313
	Share capital at 31 Dec. 1998	277,606,069	466,899,891
1999	Own shares declared void	–12,762,082	–21,464,281
	Exchanged under convertible bond issue (1994)	1,724,970	2,901,191
	Share capital at 31 Dec. 1999	266,568,957	448,336,801
2000	Own shares declared void	–7,538,000	–12,678,011
	Exchanged under convertible bond issue (1994)	942,162	1,584,603
	Share capital at 31 Dec. 2000	259,973,119	437,243,392.66
2001	Increase by bonus issue	–	4,710,909.64
	Own shares declared void	–12,900,000	–21,930,000.00
	Exchanged under convertible bond issue (1994)	520,104	884,176.80
	Rights issue	12,300,000	20,910,000.00
	Share capital at 31 Dec. 2001	259,893,223	441,818,479.10
2002	Own shares declared void	–1,175,398	–1,998,176.60
	Exchanged under convertible bond issue (1994)	1,398,150	2,376,855.00
	Share capital at 31 Dec. 2002	260,115,975	442,197,157.50

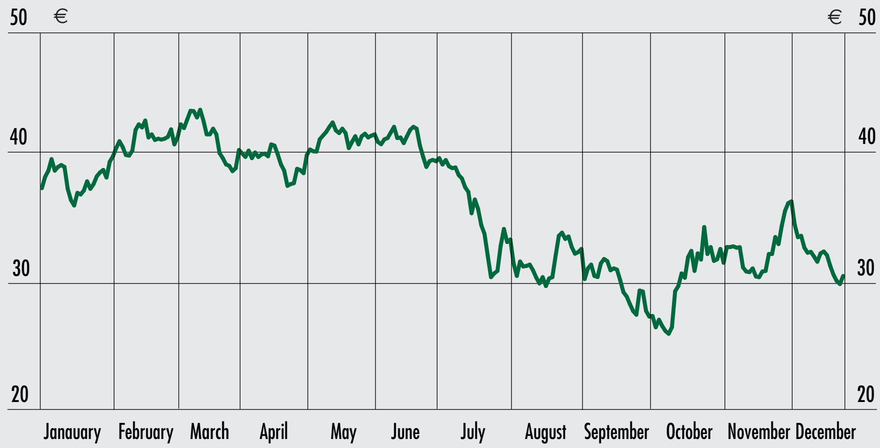
SHAREHOLDER BREAKDOWN BY SECTOR AT 31.12.2002

	%
Companies	2.5
Financial institutions and insurance companies	4.8
Public bodies	6.0
Non-profitmaking organizations	6.3
Households	13.2
Non-Finnish nationals	67.2
Total	100.0

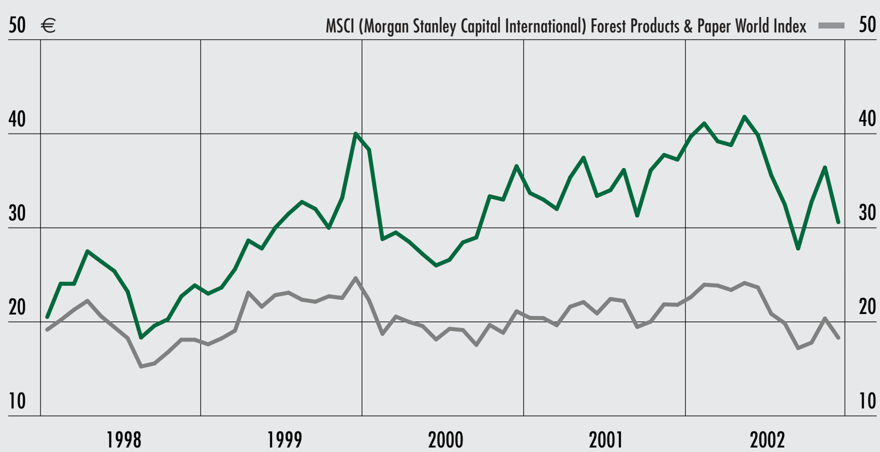
REPURCHASES OF OWN SHARES 1998–2002

	2002	2001	2000	1999	1998
Shares purchased, million	–	4.7	9.3	7.5	13.5
% of share capital	–	1.9	3.6	2.8	5.0
Total acquisition price, € million	–	152	279	236	309
Price per share, €	–	32.00	29.94	31.24	22.81

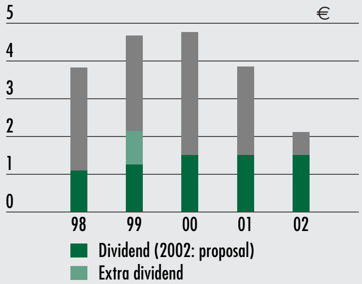
Share price in 2002



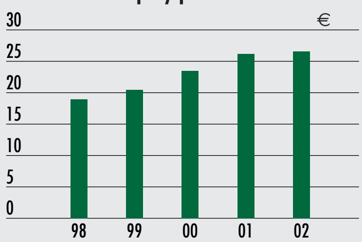
Share price 1998–2002



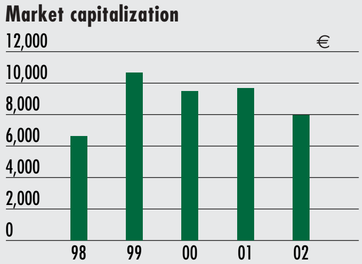
Earnings and dividend per share



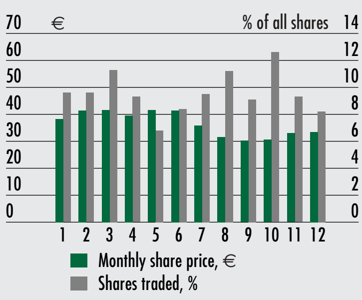
Shareholders' equity per share



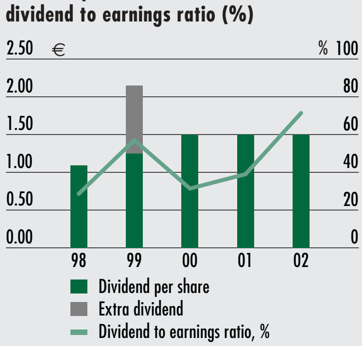
Market capitalization



Monthly average share price and shares traded 1–12/2002



Dividend per share (€) and dividend to earnings ratio (%)



DISTRIBUTION OF SHAREHOLDERS AT 31 DECEMBER 2002

Size of shareholding	Number of shareholders	% of share-holders	Number of shares, mill.	% of shares
1 – 100	22,726	38.0	1.2	0.5
101 – 1,000	29,455	49.2	10.7	4.1
1,001 – 10,000	6,987	11.7	18.3	7.0
10,001 – 100,000	604	1.0	15.7	6.1
100,001 – 1,000,000	79	0.1	22.7	8.7
1,000,001 –	10	0.0	18.8	7.2
Total	59,861	100.0	87.4	33.6
Nominee-registered			172.6	66.4
Not registered as book entry units			0.1	0.0
Total			260.1	100.0

BIGGEST SHAREHOLDERS 31 DECEMBER 2002

	Shares at 31 December 2002	% of shares	% of votes
Holzhey/Bischoff group (representing 10 shareholders)	12,102,914	4.65	4.65
Ilmarinen Mutual Pension Insurance Company [1]	3,776,233	1.45	1.42
Pohjola Group plc	2,070,600	0.80	0.80
Pohjola Non-Life Insurance Company Ltd	1,575,000	0.61	0.61
A-Insurance Ltd	29,000	0.01	0.01
Pohjola Group	3,674,600	1.41	1.41
Gustaf Serlachius (representing 5 shareholders)	3,146,808	1.21	1.21
Suomi Mutual Life Assurance Company	2,479,600	0.95	0.95
Suomi Insurance Company Ltd	475,000	0.18	0.18
Suomi Group	2,954,600	1.14	1.14
Varma-Sampo Mutual Pension Insurance Company	2,520,870	0.97	0.97
Merita plc Pension Fund	452,635	0.17	0.17
Merita plc Pension Foundation	1,036,585	0.40	0.40
Nordea Life Assurance Finland Ltd	447,480	0.17	0.05
Nordea Securities plc	19,305	0.01	0.01
Nordea Group [2]	1,956,005	0.75	0.63
Svenska litteratursällskapet i Finland	1,674,571	0.64	0.64
The State Pension Fund	1,235,000	0.47	0.47
The Finnish Cultural Foundation	1,041,917	0.40	0.40
Nominees & registered foreign owners	162,771,987	62.58	62.58
(including Holzhey/Bischoff)	(174,874,901)	(67.23)	(67.23)
Others	63,260,470	24.32	24.47
	260,115,975	100.00	100.00
Total	260,115,975	100.00	100.00

1) Includes 73,000 lent shares.
2) Includes 308,152 lent shares.

Lent shares have no voting rights.

CONVERTIBLE BONDS AND DIRECTORS' SHARE OPTIONS

SUBORDINATED CONVERTIBLE BOND LOAN 1994, FIM 960,000,000 (APPROX. € 161.5 MILLION)

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.

Early loan repayment

In December the company decided to exercise its loan repayment right in accordance the terms and conditions of the issue. After the conversions made in 2002, the total value of the remaining unconverted bonds was € 39,712,550.56. Repayment will take place on 28 February 2003. In lieu of repayment, a bondholder can demand conversion into shares during the period 2 January – 18 February 2003. If all the bondholders exercise their conversion rights, the number of shares will rise by 1,841,736 shares and the share capital by € 3,130,951.20. New shares obtained by conversion will entitle their holders to dividend for the first time in respect of the 2003 financial period.

Conversion ratio

Bondholders have been entitled to convert their bonds into UPM-Kymmene Corporation shares, each € 1,681,88 bond entitling the holder to subscribe 78 UPM-Kymmene Corporation shares. The calculated conversion price of the share is € 21.56. The maximum increase in the share capital due to the conversion of the bonds is € 12,593,912 , i.e. 7,488,000 shares.

Conversion period

The conversion period was 1 January to 31 October each year. Bondholders also have had 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 2002, a total of 5,646,264 shares had been subscribed under the issue at a total cost of € 121.7 million, with 1,398,150 shares being subscribed at a total cost of € 30.1 million during 2002.

Shareholders' rights

New 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

1998 option programme

The Annual General Meeting held on 25 March 1998 authorized the company's Board of Directors to issue a total of 6,000,000 share options to the Group's key personnel and to UPM-Kymmene's wholly-owned subsidiary Unicarta Oy. The options were divided into A, B and C options, with 2,000,000 of each. The Annual General Meeting held on 19 March 2002 decided to declare void the C options. The A and B options can be exercised to subscribe 4,000,000 shares.

Holders of A options have the right to subscribe shares at € 30.95 each from 1 April 2001. From 1 April 2003, holders of B options may subscribe shares at € 35.99 each. The final subscription price will be reduced by the total amount of dividends paid, excluding the corporate tax credit, during the period between 1 May 1998 and the date on which the shares are subscribed. The subscription period for the A and B options ends on 30 April 2005.

The subscription price was based on the trade-weighted average price (€ 25.75 per share) quoted on the Helsinki Stock Exchange during the period 18–24 March 1998. The subscription price for holders of A options is € 5.05 above the average price, and for holders of B otpions € 10.09 above the average price.

2002 option programme

The Annual General Meeting held on 19 March 2002 decided to create an option programme for the company's key personnel. The number of options granted is 7,600,000, with each option entitling its holder to subscribe one UPM-Kymmene Corporation share. The programme consists of 3,800,000 options designated 2002D with a subscription period of 1 April 2004 – 30 April 2007, and another 3,800,000 options designated 2002E with a subscription period of 1 April 2005 – 30 April 2008.

The subscription price of the 2002D options is the trade-weighted average price of UPM-Kymmene Corporation's share quoted on the Helsinki Stock Exchange during the period 14 April – 15 May 2002 plus an increment of 10%, i.e. € 43.90. Similarly, the subscription price of the 2002E options will be the trade-weighted average share price quoted in Helsinki during the period 14 April – 15 May 2003 plus an increment of 10%. The final subscription prices will be reduced by the amount of dividend confirmed after the end of the subscription price determination period and before the date of share subscription, in each case on the record date of dividend distribution.

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 2002. 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 distributable funds is in accordance with the Companies' Act.

Helsinki 14 February 2003

PricewaterhouseCoopers Oy
Authorised Public Accountants

Lars Blomquist
Authorised Public Accountant

Merja Lindh
Authorised Public Accountant

CORPORATE GOVERNANCE, BOARD OF DIRECTORS AND AUDITORS

CORPORATE GOVERNANCE

As recommended by the Helsinki Exchanges, UPM-Kymmene Corporation follows the guidelines issued by the Central Chamber of Commerce and the Confederation of Finnish Industry and Employers (TT) relating to the governance of publicly quoted joint stock companies. The company also complies with the guidelines for insiders published by the above bodies and the Helsinki Exchanges. 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 represented 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, decisions made by the general meeting of shareholders include:

- amendments to the Articles of Association
- adoption of the accounts
- distribution of dividend
- buying back and relinquishing the company's own shares
- share option programmes
- election of members of the Board of Directors and their fees
- election of the company's auditors and their fees.

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 Team, is responsible for the day-to-day management of the company's affairs. Measures that 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 taken.

The Board of Directors consists of at least five and no more than 12 members. The Board of Directors currently consists of 11 members. Members of the Board of Directors are elected for a term of one year beginning at the end of the general meeting of shareholders at which they are elected and terminating 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 two 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 Martti Ahtisaari and Michael C. Bottenheim. The Committee's duties include scrutinizing the contents of the the company's annual accounts and interim reviews, the company's internal control systems and audit. At its meetings, the Committee discusses matters with the company's external auditors, the head of internal auditing, the President and Chief Executive Officer, the Chief Financial Officer and other directors as required.

Matters pertaining to the salaries, fees and other remunerations paid to the company's directors are handled by the Human Resources Committee, which comprises Vesa Vainio (Chairman) and members Gustaf Serlachius and Carl H. Amon.

Final decisions on proposals made by these committees are taken by the Board of Directors. Meetings of the committees may be attended by all members of the Board of Directors.

The Board of Directors has also elected, from among its members, a Nomination Committee comprising Gustaf Serlachius (Chairman) and members Michael C. Bottenheim and Jorma Ollila. The Committee's job is to prepare a proposal for members of the Board of Directors for consideration by the general meeting of shareholders.

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.

At the request of the Board of Directors and at the recommendation of the auditors, the company has investigated what effects the Sarbanes-Oxley Act (SOX) and the new rules of the New York Stock exchange (NYSE) could have on its corporate governance.

During 2002, the Board of Directors met 10 times.

BOARD OF DIRECTORS

Chairman
Vesa Vainio

Vice Chairmen
Gustaf Serlachius
Carl H. Amon III

Members
Martti Ahtisaari
Michael C. Bottenheim
Berndt Brunow
(from 19.3.2002)
Friedrich Holzhey
(from 19.3.2002)
Antoon Lenstra
Juha Niemelä
Jorma Ollila
Donna Soble Kaufman

AUDITORS

Lars Blomquist (APA)

PricewaterhouseCoopers Oy
(Authorized Public Accountants)
Responsible for the audit:
Merja Lindh (APA)

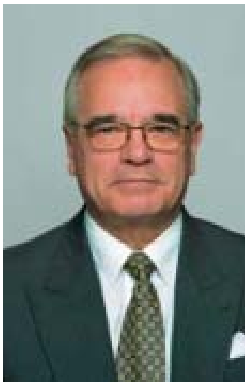
EXECUTIVE TEAM

Juha Niemelä
Martin Granholm
Jussi Pesonen
Harald Finne
Georg Holzhey
(to 31.12.2002)
Pentti Kallio
(to 30.9.2002)
Jan-Henrik Kulp
Matti Lievonen
Matti J. Lindahl
Kari Makkonen
Jyrki Ovaska
Heikki Sara
Hannu Schildt
Kari Toikka
Markku Tynkkynen
Hartmut Wurster

Secretary to the Board of Directors and Executive Team
Reko Aalto-Setälä

BOARD OF DIRECTORS
30 December 2002

VESA VAINIO, BORN 1942
Member since 1996, Vice Chairman in 1997, Chairman since 2001.
LLM.
Member of the Board of Nokia Corporation, Vice Chairman of the Board of Directors of Wärtsilä Corporation, and Chairman of the Board of the Finnish Central Chamber of Commerce.
Owns 1,659 UPM-Kymmene Corporation shares.

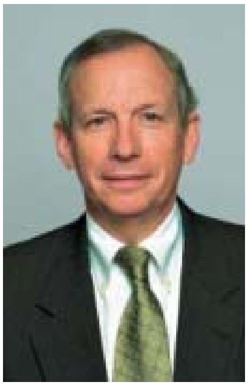


MARTTI AHTISAARI, BORN 1937
Member since 2000.
Teacher Training College, University of Oulu. Granted honorary doctorates by several universities.
Positions in several international organizations and foundations, including Co-Chairman of the Board of the EastWest Institute.
Held several posts in Finland's Ministry for Foreign Affairs and the United Nations, including Finland's Ambassador to Tanzania, UN Commissioner for Namibia, Under-Secretary General for Administration and Management (UN) and Secretary of State at the Ministry for Foreign Affairs. President of the Republic of Finland 1994–2000.
Member of the Board of Directors of Elcoteq Network Oyj.
Owns 945 UPM-Kymmene Corporation shares.

GUSTAF SERLACHIUS, BORN 1935
Member since 1996, Vice Chairman since 2000.
B.B.A.
Chairman of the Board of the Gösta Serlachius Fine Arts Foundation, Chairman of the Board of R. Erik Serlachius Foundation, Managing Director of G.A. Serlachius Oy 1969–1986, Chairman of the Board of Directors of Metsä-Serla Corporation 1987–1993, member of the Board of Directors of Oy Metsä-Botnia Ab 1973–1990 and member of the Board of Directors of Repola Ltd 1990–1995.
Owns 846,233 UPM-Kymmene Corporation shares.

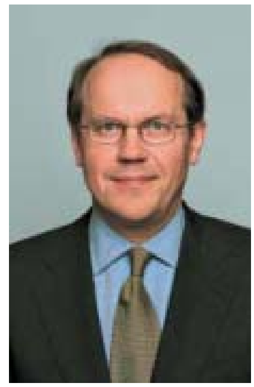
MICHAEL C. BOTTENHEIM, BORN 1947
Member since 2001.
Doctoral degree in Law, MBA.
In 1972 he joined Pierson, Heldring & Pierson, a private Dutch Bank as a corporate financier, which he left in 1976 to join Citicorp's European Investment Bank in London. From 1985 until 2000 he served as a Director of Lazard Brothers & Co. Limited specializing in cross-border mergers and acquisitions, and was appointed in 1992 to the managing directors committee.
Owns 945 UPM-Kymmene shares.

CARL H. AMON III, BORN 1943
Member since 1999, Vice Chairman since 2001.
Juris Doctor degree.
Partner, international law firm White & Case LLP.
Joined White & Case LLP in 1968, partner since 1976. Has worked at the New York, London, Brussels, Hong Kong, Jakarta and Prague offices of White & Case LLP. Currently based in New York office of White & Case LLP.
Owns 1,733 UPM-Kymmene Corporation shares.



BERNDT BRUNOW, BORN 1950
Member since 19 March 2002.
B.Sc. (Econ.)
President & CEO of Oy Karl Fazer Ab.
Leading posts in UPM-Kymmene Corporation and Finnpap.
Chairman of the Board of Sanitec Corporation.
Member of the boards of Hackman Oyj Abp, Lemminkäinen Oyj and Oy Nautor Ab.
Owns 131,109 shares.

FRIEDRICH HOLZHEY, BORN 1941
Member since 19 March 2002
M.Sc. (Eng.) in paper technology.
Held several posts in Haindl GmbH & Co KG and was former Chief Operating Officer of the Haindl Group from 1996 until the company merged with UPM-Kymmene.
Owns 2,512,725 UPM-Kymmene shares.



JORMA OLLILA, BORN 1950
Member since 1997.
M.Sc. (Eng.), M.Sc. (Pol.Sci.), M.Sc. (Econ.), Ph.D. (Pol.Sc.) h.c. and D.Sc. (Tech.) h.c.
Chairman and Chief Executive Officer of Nokia Corporation.
Member of the boards of the Ford Motor Company and Otava Books and Magazines Group Ltd.
Owns 10,945 UPM-Kymmene Corporation shares and holds EUR 55,502 in bonds from the 1994 bond issue convertible into 2,574 shares of the company.

ANTOON LENSTRA, BORN 1949
Member since 1999.
B.Sc. (Soc.Sci.), MBA.
President of Unilever PLC's Business Group Africa and Middle East.
Several posts, including Marketing Director, with Procter & Gamble Benelux N.V. 1976–1984. Joined Unilever N.V. in 1989 as Managing Director of the subsidiary Lever Sunlight B.V. Managed Unilever's operations in China, Hong Kong, Taiwan and other Asian countries 1992–1997.
Owns 945 UPM-Kymmene shares.

DONNA SOBLE KAUFMAN, BORN 1943
Member since 2001.
B.C.L., LL.M.
Mrs. Kaufman has been a full time corporate director since 1997. She is a former partner of Stikeman Elliott, where she practised antitrust law. She currently sits on the boards of BCE Inc., Bell Canada International Inc., Bell Globemedia Inc., TransAlta Corporation, Hudson's Bay Company, and The Public Sector Pension Investment Board.
Owns 1,945 UPM-Kymmene shares.

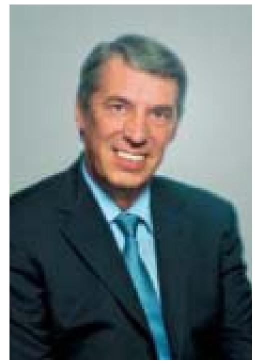
JUHA NIEMELÄ, BORN 1946
Member since 1998.
M.Sc. (Econ.), D.Sc. (Econ.) h.c.
President and Chief Executive Officer of UPM-Kymmene Corporation since it was founded in 1996.
Held several posts in United Paper Mills Ltd from 1971 to 1983, including marketing and mill manager positions, member of the Executive Board 1983–1993 and Executive Vice President and member of the Board of Directors 1993–1995.
Member of the boards of Oy Metsä-Botnia, the Confederation of Finnish Industry and Employers (TT) and the Confederation of European Paper Industries (CEPI). Chairman of the board of Oy Veikkaus Ab.
Owns 7,193 UPM-Kymmene Corporation shares, 70,000 Class A warrants, 70,000 Class B warrants and 70,000 Class D warrants, and EUR 8,409 in bonds from the 1994 bond issue convertible into 390 shares of the company.

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

EXECUTIVE TEAM

1 January 2003

JUHA NIEMELÄ, BORN 1946
President and Chief Executive Officer of UPM-Kymmene Corporation since 1996 and a member of the Board of Directors.
See Board of Directors p. 93.



JAN-HENRIK KULP, BORN 1943
Senior Financial Advisor from January 2002.
B.Sc.(Econ.).
Posts in financial administration with Oy Kaukas Ab from 1967 and Financial Director from 1977. Appointed Chief Financial Officer of Kymmene in 1986. Member of the Executive Board of Kymmene 1987-1995. Chief Financial Officer 1996-2001.
Owns 596 UPM-Kymmene Corporation shares, 35,000 Class A warrants and 35,000 Class B warrants.

MARTIN GRANHOLM, BORN 1946
Senior Executive Vice President of UPM-Kymmene Corporation and Deputy CEO since 1996.
M.Sc.(Eng.), D.Sc. (Tech.) h.c.
Joined Oy Wilh. Schauman Ab in 1970 and held posts in project, production and administrative functions. Following Schauman's merger with Kymmene in 1988 he was Managing Director of the subsidiary Wisaforest Oy Ab and President of Kymmene in 1992–1995.
Owns 11,195 UPM-Kymmene Corporation shares, 55,000 Class A warrants, 55,000 Class B warrants and 50,000 Class D warrants.

MATTI LIEVONEN, BORN 1958
Executive Vice President, Business and Technology Optimization, from January 2002.
B.Sc.(Eng.), MBA.
Several posts in United Paper Mills Ltd since 1986, including Project Manager, Technical Manager and Mill Director at Kaipola mill for telephone directories 1994-1996. Director of Chapelle Darblay S.A. production unit in France 1997-2001.
Owns 10,000 Class B warrants and 33,000 Class D warrants.

JUSSI PESONEN, BORN 1960
Senior Executive Vice President and Chief Operating Officer since September 2001.
M.Sc.(Eng.).
Joined the company in 1987 and occupied several posts including Production Manager at Jämsänkoski mill, Production Unit Director at Kajaani, Kaukas and Shotton mills and Vice President of Newsprint Product Group.
Owns 7 UPM-Kymmene Corporation shares, 10,000 Class A warrants, 17,500 Class B warrants and 50,000 Class D warrants.

MATTI J. LINDAHL, BORN 1946
President, Converting Industry, from October 2002.
B.Sc.(Econ.).
Joined Finnboard in 1972 and held several management posts in sales and marketing. Managing Director of Finnboard (UK) Ltd. 1982-1990. President of Finnboard 1990-1992 and of Wisaforest Oy Ab 1992-1993. CEO of Nordland Papier AG 1994-2002. President, Fine Paper Division, 1997-2001. Executive Vice President, Haindl integration, 2002.
Owns 35,000 Class B warrants and 33,000 Class D warrants.

HARALD FINNE, BORN 1952
Executive Vice President, Human Resources and Information Technology, from January 2002.
M.Sc.(Psychology), MBA.
Served with Oy Wilh. Schauman Ab, Pietarsaari, as Human Resources Manager 1976-1985. General Manager of Wasaplast 1986-1988. Vice President, Administration, of Wisaforest Oy Ab 1988-1994. Managing Director of Oy Wisapak Ab 1994-1996. UPM-Kymmene Corporation Vice President, Human Resources, 1996-2001.
Owns 363 UPM-Kymmene Corporation shares, 17,500 Class B warrants and 33,000 Class D warrants.

KARI MAKKONEN, BORN 1947
President, Wood Products Industry, since January 2000.
M.Sc.(Econ.).
Joined Rauma-Repola Oy in 1972 and held several management posts in the mechanical woodworking division. Member of the Executive Board of Rauma-Repola from 1986. President of United Paper Mills Ltd's mechanical woodworking division and member of the Executive Board 1991-1995. President, Sawmilling, with UPM-Kymmene Corporation 1996-1999.
Owns 7,000 UPM-Kymmene Corporation shares, 5,000 Class A warrants, 35,000 Class B warrants, 33,000 Class D warrants and e 13,455 in bonds from the 1994 bond issue convertible into 624 shares of the company.

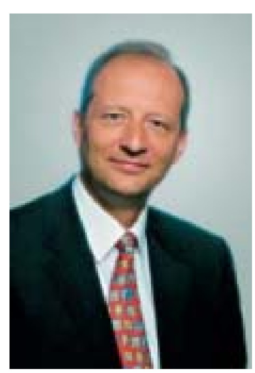
JYRKI OVASKA, BORN 1958
President, Fine & Speciality Papers Division, from January 2002.
M.Sc.(Eng.).
Held several posts with United Paper Mills Ltd, Jämsänkoski mill, in production, customer service and business management 1984-1995. Vice President, Business Development, Printing Papers 1996-98. Vice President, LWC Product Group 1998-2000. Senior Vice President, Business Development and Support Functions, Publication Papers 2000-2001.
Owns 600 UPM-Kymmene Corporation shares, 17,500 Class B warrants and 33,000 Class D warrants.

KARI TOIKKA, BORN 1950
Executive Vice President and CFO from January 2002.
M.Sc.(Econ.).
Several posts in United Paper Mills Ltd from 1976. Vice President, Corporate Planning, for Repola Ltd 1990-1995 and member of the Executive Board 1994-1995. UPM-Kymmene Corporation Vice President, Investor Relations, 1996-1998, and Senior Vice President, Investor Relations and Administration, 1998-2001.
Owns 1,900 UPM-Kymmene Corporation shares, 35,100 Class A warrants, 35,000 Class B warrants and 33,000 Class D warrants.

HEIKKI SARA, BORN 1946
Executive Vice President, Strategic Development, from January 2002.
D.Tech.
Joined United Paper Mills in 1976 holding several posts including Development Manager, Mill Director and Vice President for Jämsänkoski business unit. Member of the Executive Board of United Paper Mills 1993–1995.
UPM-Kymmene Corporation Senior Vice President, Resources, 1996-2001.
Owns 4,300 UPM-Kymmene Corporation shares, 35,000 Class B warrants and 33,000 Class D warrants.

MARKKU TYNKKYNEN, BORN 1952
President, Magazine Paper Division, since January 2002.
M.Sc.(Paper Eng.).
Employed by A.Ahlström Ltd 1980-1982 as Production Engineer. Joined UPM in 1982 having several management posts in production, business development, sales and business management. Paper mill director of Stracel S.A. 1990-94. General Manager and Vice President of Jämsänkoski profit unit 1994-98. Vice President of SC Product Group 1998-2000. Senior Vice President, Publication Papers Division, with responsibility for product groups, technology and mills, 2000-2001.
Owns 1,800 UPM-Kymmene Corporation shares, 17,500 Class A warrants, 17,500 Class B warrants and 33,000 Class D warrants.

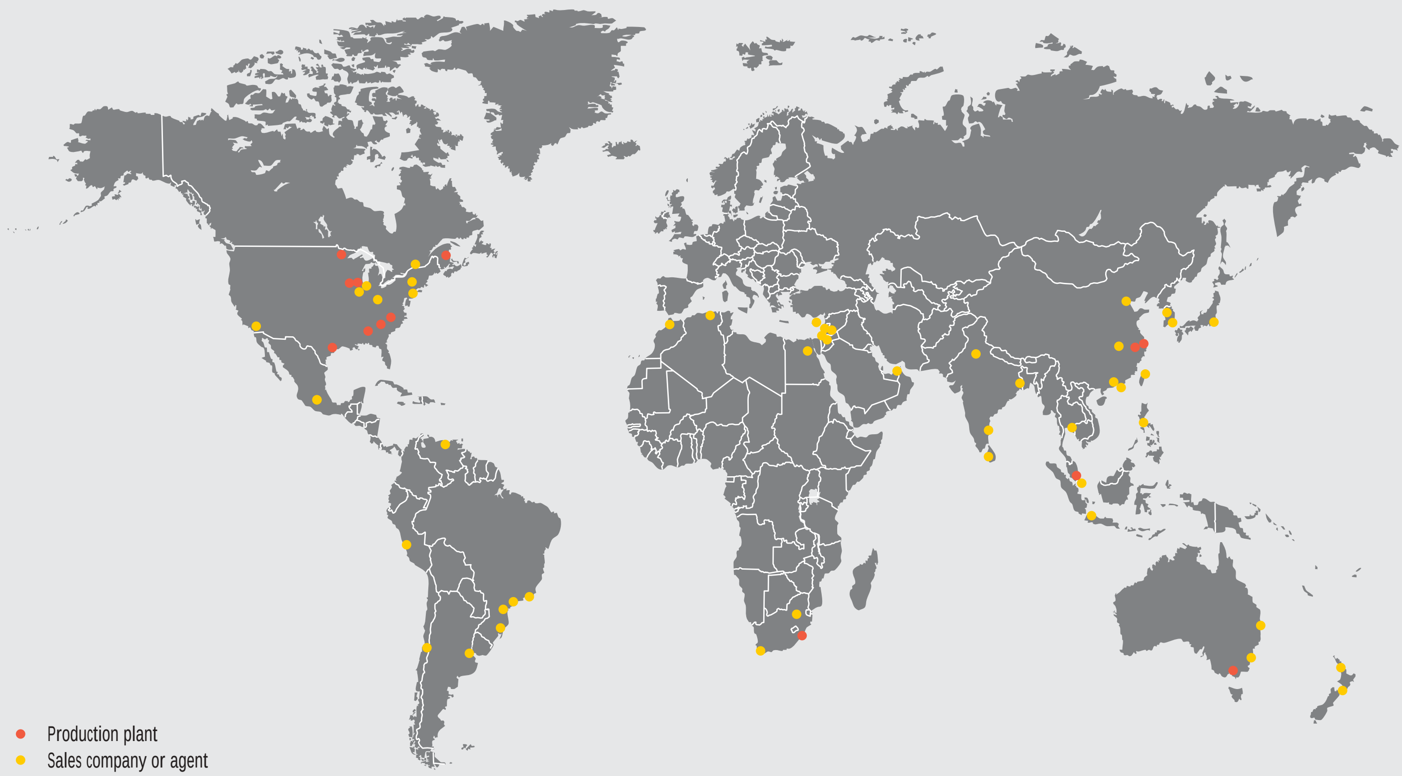
HANNU SCHILDT, BORN 1944
Executive Vice President, Global Marketing, from January 2002.
Commercial Degree in Forestry.
Managing Director of Kaukas Oy and General Manager of UPM-Kymmene Oy, Kaukas-Voikkaa group 1990-1998. UPM-Kymmene Corporation Vice President, Magazine Publishers Segment, 1998-2001.
Member of the Board of Steveco Oy since 1998.
Owns 43 UPM-Kymmene Corporation shares, 17,500 Class B warrants and 33,000 Class D warrants.



HARTMUT WURSTER, BORN 1955
President, Newsprint Division, from January 2002.
D.Tech.
Several posts with Hamburger AG and Brigl & Bergmeister in Austria 1982-1987, including Head of Technology Department and Production Manager. Joined Haindl Papier GmbH & Co. KG in 1987. Head of Technology Department at Augsburg mill 1987-1989. Mill Director, Augsburg, 1989-1996, and member of the Executive Board responsible for the Magazine Paper Division, 1996-2001.
Owns 33,000 Class D warrants.

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

PRODUCTION PLANTS AND SALES NETWORK



PRODUCTION PLANTS

PAPER INDUSTRY

Austria
Steyrermühl AG, Steyrermühl

Canada
UPM-Kymmene Miramichi Inc., New Brunswick
- paper mill
- pulp mill

China
UPM-Kymmene Paper, Changshu

Finland

Paper mills
UPM-Kymmene Corporation
- Jämsänkoski
- Kaipola
- Kajaani
- Kaukas, Lappeenranta
- Kymi, Kuusankoski
- Rauma
- Tervasaari, Valkeakoski
- Voikkaa
- Wisapaper, Pietarsaari

Pulp mills
UPM-Kymmene Corporation
- Kaukas Pulp Mill, Lappeenranta
- Kymi Pulp Mill, Kuusankoski
- Tervasaari Pulp Mill, Valkeakoski
- Wisapulp, Pietarsaari

France
Chapelle Darblay S.A., Grand-Couronne
Papeteries de Docelles S.A., Docelles
Stracel S.A., Strasbourg

Great Britain
UPM-Kymmene (UK) Ltd
- Caledonian Paper plc, Irvine
- Shotton Paper, Shotton

Germany
UPM-Kymmene Papier GmbH & Co. KG,
- Augsburg
- Schongau
- Schwedt
Nordland Papier GmbH, Dörpen

USA
Blandin Paper Company plc, Grand Rapids, MN

CONVERTING INDUSTRY

Australia
Raflatac (Oceania) Pty Ltd, Braeside (Melbourne)

China
Raflatac (Shanghai) Co. Ltd, Shanghai
Walki Wisa, Shanghai

Finland
Loparex Oy, Lohja
Raflatac Oy
- Jyväskylä
- Tampere
Walki Wisa Oy
- Pietarsaari
- Valkeakoski

France
Raflatac S.A., Pompey (Nancy)

Germany
Walki Wisa GmbH
- Werk Jülich
- Werk Steinfurt

Great Britain
Loparex Ltd, Glossop
Raflatac Ltd, Scarborough
Walki Wisa Ltd, Garstang

Malaysia
Raflatac (M) Sdn Bhd, Johor

Netherlands
Loparex B.V., Apeldoorn

South Africa
Raflatac South Africa (Pty) Ltd, Pinetown

Spain
Raflatac Ibérica S.A., Polinyá (Barcelona)

Sweden
Walki Wisa Converflex AB, Örnsköldsvik

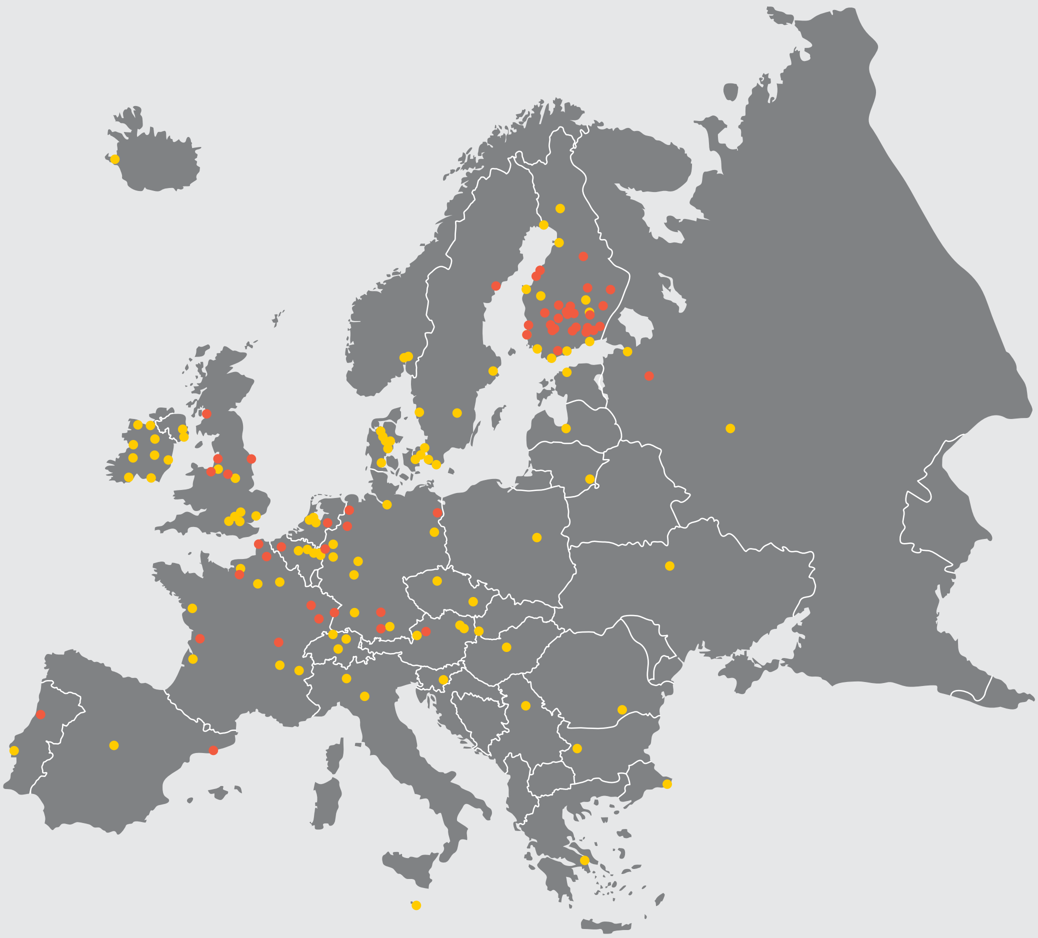
USA
Loparex Inc.
- Cullman, AL
- Dixon, IL
- Eden, NC
- Iowa City, IA
Raflatac Inc., Fletcher, NC

WOOD PRODUCTS INDUSTRY

Austria
Steyrermühl Sägewerksgesellschaft m.b.H. Nfg KG

Finland
United Sawmills Ltd
- Alholma Sawmill and Further Processing, Pietarsaari
- Aureskoski Sawmill and Further Processing, Parkano
- Sawmill and Further Processing, Heinola
- Kajaani
- Kaukas Sawmill and Further Processing, Lappeenranta
- Korkeakoski
- Leivonmäki
- Component Factory, Luumäki
- Seikku Sawmill, Pori
- Parkanon Lista, Parkano

Schauman Wood Oy
- Heinola
- Joensuu
- Jyväskylä Mill, Säynätsalo
- Kaukas Mill, Lappeenranta
- Kuopio



- Lahti
- Pellos, Ristiina
- Savonlinna
- Viiala Mill, Toijala
- Kalso-Teollisuus Oy, Vuohijärvi
- Mahogany Oy
    - Keuruu
    - Lohja

France
Schauman Wood S.A., Loulay

Russia
ZAO Chudovo-RWS, Chudovo

OTHER OPERATIONS

Belgium
M.V. Rosenlew SA, Izegem

Finland
Oy Alfa-Bag Ab, Kokkola
Rafsec Oy, Tampere

France
Rosenlew St. Frères Emballage S.A., Beauval
Rosenlew S.A., Montceau-les-Mines

Portugal
Rosenlew Portugal Embalagens S.A., Travassô

USA
Rosenlew Inc., Houston, TX

SALES NETWORK

(countries listed below)

EUROPE
Austria
Belgium
Bulgaria
Czech Republic
Denmark
Estonia
Finland
France
Germany
Great Britain
Greece
Hungary
Iceland
Ireland
Italy
Latvia
Lithuania
Malta
Netherlands
Norway
Poland
Portugal
Rumania
Russia
Slovakia
Slovenia
Spain
Sweden
Switzerland
Turkey
Ukraine
Yugoslavia

NORTH AMERICA
Canada
Mexico
USA

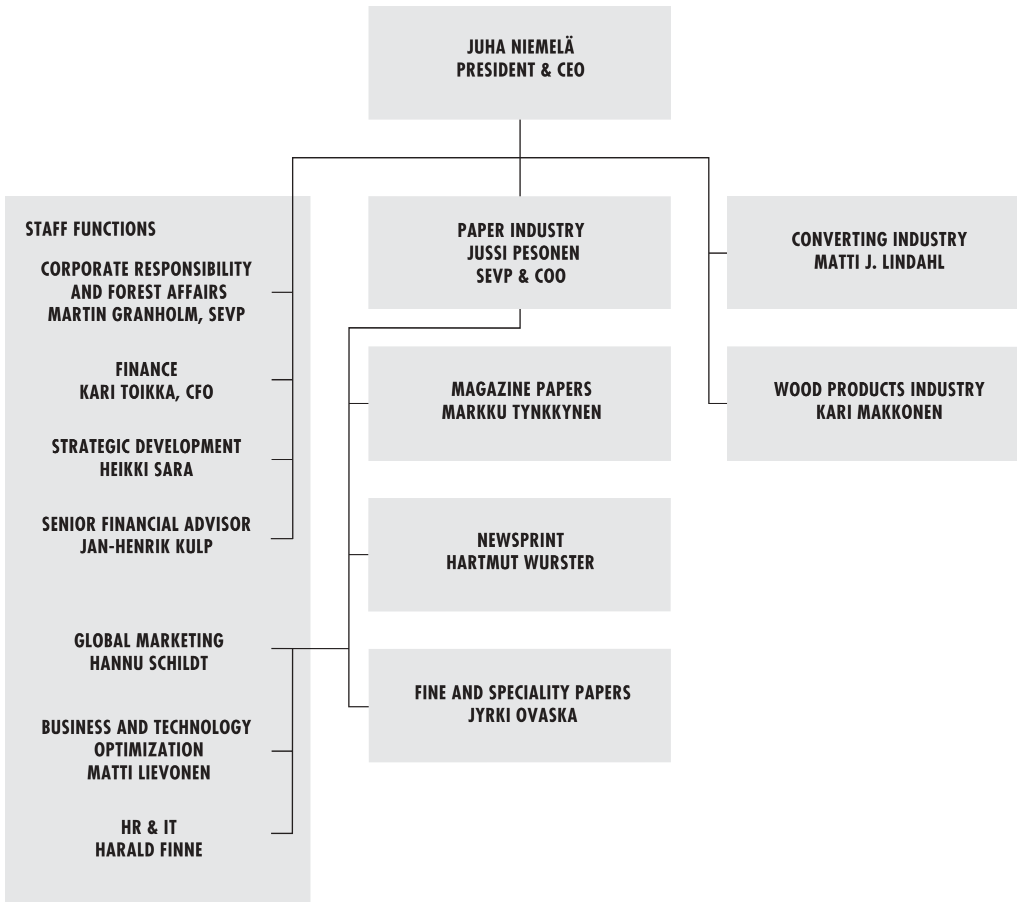
SOUTH AMERICA
Argentina
Brazil
Chile
Peru
Venezuela

AFRICA
Algeria
Egypt
Morocco
South Africa

ASIA
China
Cyprus
Hong Kong
India
Indonesia
Israel
Japan
Jordan
Lebanon
Malaysia
Republic of Korea
Philippines
Singapore
Sri Lanka
Syria
Taiwan
Thailand
United Arab Emirates

OCEANIA
Australia
New Zealand

ORGANIZATION



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Fax +358 204 15 110

UPM-Kymmene Newsprint
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Tel. +49 821 31090
Fax +49 821 3109 156

UPM-Kymmene Fine and Speciality Papers
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It should be noted that certain statements herein which are not historical facts, including, without limitation those regarding expectations for market growth and developments; expectations for growth and profitability; and statements preceded by “believes”, “expects”, “anticipates”, “foresees”, or similar expressions, are forward-looking statements. Since these statements are based on current plans, estimates and projections, they involve risks and uncertainties which may cause actual results to materially differ from those expressed in such forward-looking statements. Such factors include, but are not limited to: (1) operating factors such as continued success of manufacturing activities and the achievement of efficiencies therein, continued success of product development, acceptance of new products or services by the Group’s targeted customers, success of the existing and future collaboration arrangements, changes in business strategy or development plans or targets, changes in the degree of protection created by the Group’s patents and other intellectual property rights, the availability of capital on acceptable terms; (2) industry conditions, such as strength of product demand, intensity of competition, prevailing and future global market prices for the Group’s products and the pricing pressures thereto, financial condition of the customers and the competitors of the Group, the potential introduction of competing products and technologies by competitors; and (3) general economic conditions, such as rates of economic growth in the Group’s principal geographic markets or fluctuations in exchange and interest rates.

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