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UPM

ANNUAL REPORT 2003

FINANCIAL INFORMATION IN 2004

During the 2004 financial period, UPM-Kymmene Corporation will publish the following financial information in Finnish, Swedish and English:

29 January	Financial Review 2003
27 April	Interim Review for January – March 2004
27 July	Interim Review for January – June 2004
26 October	Interim Review for January – September 2004

These publications can be ordered from UPM's Head Office, address P.O. Box 380, FIN-00101 Helsinki, tel. +358 204 15 0020, fax +358 204 15 110. They are also available from the company's Internet pages, address www.upm-kymmene.com

STOCK EXCHANGE LISTINGS

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

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ANNUAL GENERAL MEETING

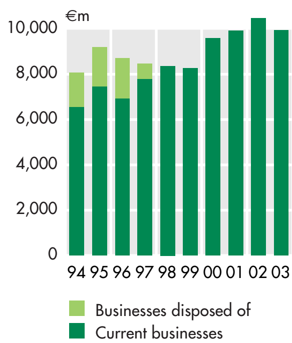
UPM-Kymmene Corporation will hold its Annual General Meeting on Wednesday 24 March 2004 beginning at 1.30 pm in the Congress Wing of Helsinki Fair Centre, address Messuaukio 1, 00520 Helsinki. Instructions for participation will be given in the summons to the meeting and can also be found on the company's Internet page at www.upm-kymmene.com

DIVIDEND

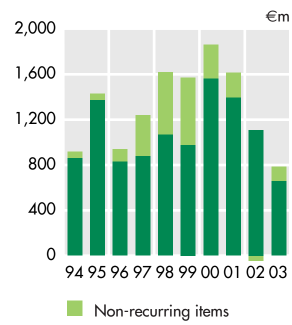
The Board of Directors has decided to propose to the Annual General Meeting that a dividend of € 0.75 per share be paid in respect of the 2003 financial year. To receive dividend, shareholders must be registered in the list of shareholders kept by Finnish Central Securities Depository Ltd. at 29 March 2004, the record date for dividend payment. The Board of Directors will propose to the Annual General Meeting that dividend be paid on 5 April 2004.

KEY FINANCIAL INFORMATION 1994–2003

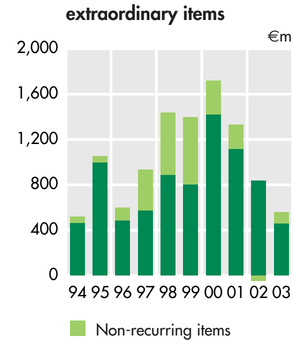
Turnover



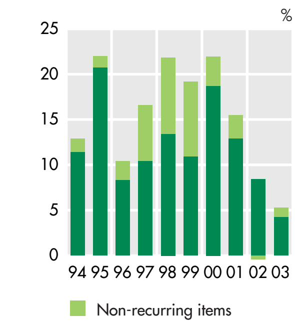
Operating profit



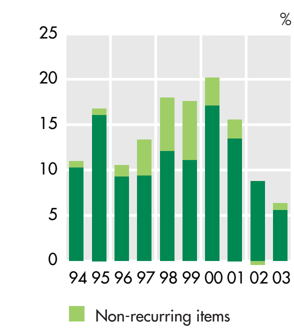
Profit before extraordinary items



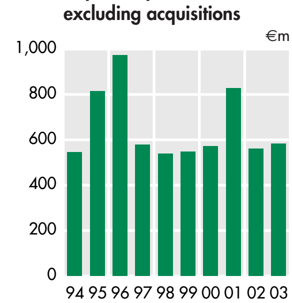
Return on equity



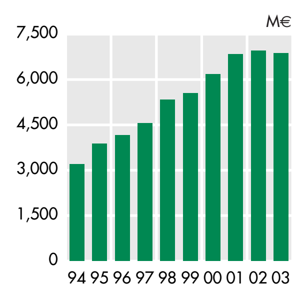
Return on capital employed



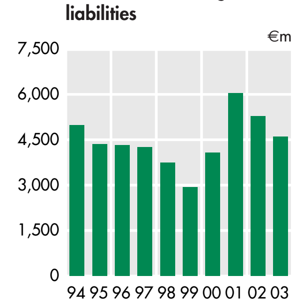
Capital expenditure excluding acquisitions



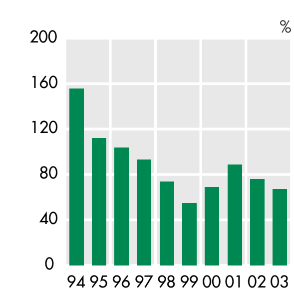
Shareholders' equity



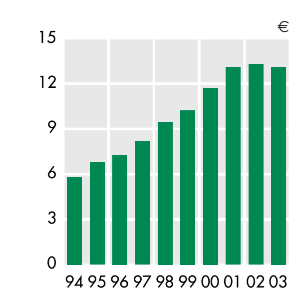
Net interest-bearing liabilities



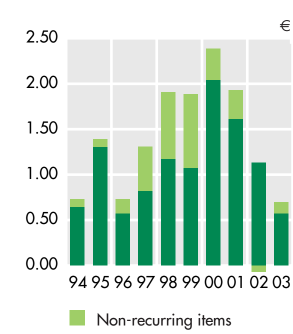
Gearing ratio



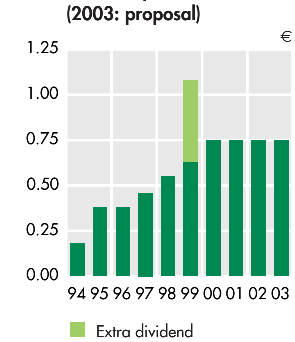
Equity per share



Earnings per share



Dividend per share (2003: proposal)



THE YEAR IN BRIEF

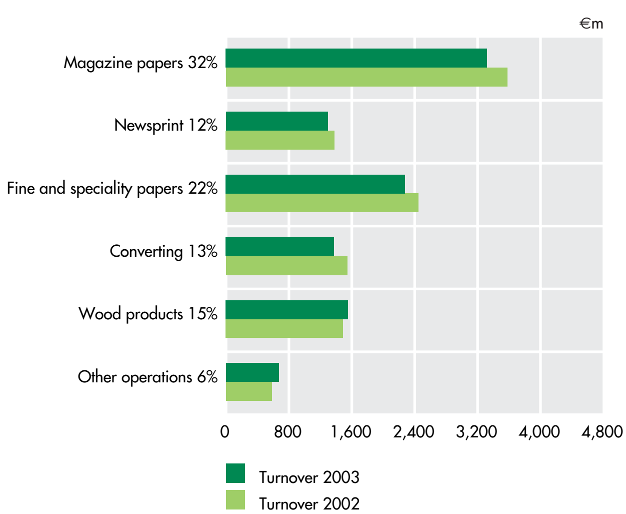
FINANCIAL RESULT HIT BY LOWER SALES PRICES AND THE STRONGER EURO.

OVER TWO-THIRDS OF THE € 200 MILLION TARGET FOR ANNUAL COST REDUCTIONS BY EARLY 2005 ACHIEVED.

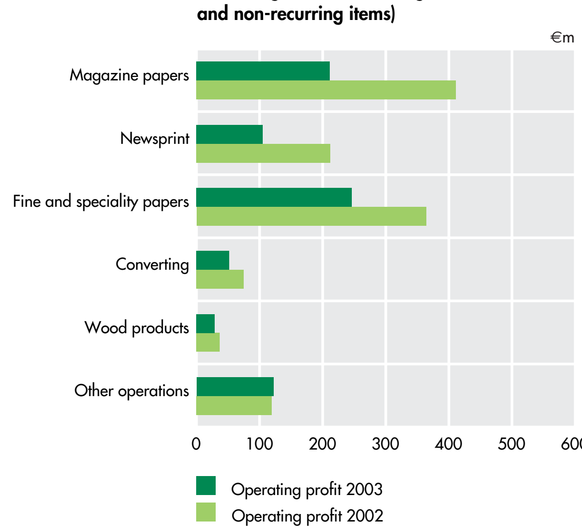
CASH FLOW REMAINED GOOD.

	2003	2002	2001
Turnover, € million	9,948	10,475	9,918
Operating profit, € million	784	1,062	1,614
Profit before extraordinary items, € million	559	789	1,333
Earnings per share, €	0.70	1.06	1.93
Cash flow from operating activities per share, €	2.42	2.75	3.32
Return on equity, %	5.3	8.0	15.5
Dividend per share (2003: Board's proposal), €	0.75	0.75	0.75
Shareholders' equity per share at end of period, €	13.12	13.30	13.09
Gearing ratio at end of period, %	67	76	89
Capital expenditure and acquisitions, € million	620	613	3,850

Turnover by division



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



REVIEW BY THE PRESIDENT

Dear Reader,

The business cycle continued its downward trend for the third year in a row, and as a result UPM's profitability in 2003 was unsatisfactory. We nevertheless retained our strong position in relation to our main competitors. Lower average prices for paper and the strengthening of the euro were the main reasons for the poorer profitability. On the other hand, profitability benefited from cost savings achieved through greater efficiency and from the increased volume of deliveries. Earnings per share were € 0.70 (1.06), and the Board of Directors proposes that the dividend remain unchanged. A good cash flow combined with restrained investment led to a reduction in interest-bearing liabilities and a strengthening of the balance sheet. Our competitiveness is good, and when demand strengthens we are well placed to improve financial results and achieve growth.

Market conditions remained challenging throughout 2003, with demand in Europe lacklustre and prices falling. In North America, prices began to rise after a prolonged downward trend. Paper deliveries were up on the previous year. Demand strengthened towards the year end and this, together with positive forecasts for economic growth and advertising activity, suggests that demand for paper will develop positively in 2004.

During the year we devoted much attention to developing our business practices, products and services to better meet customers' needs and expectations. In a challenging market, collaboration with customers and the changes we introduced during the year were positively reflected in customer satisfaction surveys.

A continuous drive towards greater efficiency is one of the features of UPM. A cost-cutting programme was introduced last year throughout the entire Group with the aim of making permanent annual savings of € 200 million by the beginning of 2005. It is extremely satisfying to see how strongly our employees and units have committed themselves to improving cost-effectiveness. Over two-thirds of the targeted saving was achieved last year alone.

We have continued to close down unprofitable paper machines. Two machines were closed down at Blandin's mill in the United States in early January, and the book paper machine at Voikkaa paper mill will be shut down this spring.

CHALLENGING MARKET CONDITIONS AND COST SAVINGS THE YEAR'S MAIN FEATURES.

PROJECT TO BUILD NEW PAPER MACHINE IN CHINA IN FULL SWING.

UPM-KYMMENE ADOPTS UPM AS ITS COMMERCIAL NAME.

The investments we have made support our chosen strategy. By carefully targeting investment and emphasizing new technology we will ensure that our mills remain among the most competitive in the world.

UPM's most important ongoing investment project – construction of a new paper machine at Changshu fine paper mill in China – got under way at the end of the summer. China's economy has continued to show extremely strong growth and demand for paper has risen rapidly, so that the investment has good prospects of being profitable.

The Shotton deinking plant expansion, which was completed at the end of the year, has made UPM the world's leading user of recycled fibre in printing paper manufacture.

The planned acquisition of MACtac's pressure-sensitive materials business by Raflatac, a member of the Converting Division, did not go ahead because the necessary permission was not given by the US authorities. Despite this, Raflatac's prospects for growth are good.

The importance to UPM of countries close to Finland is increasing. Extensive surveys were made during the year relating to the utilization of raw materials and markets in Russia. The new sawmill being built by the Wood Products Division at Pestovo in the west of Russia will be completed this spring.

Towards the end of the year UPM made a long-term commitment to securing its energy supply by reserving almost one-third of the capacity of the new nuclear power plant to be built in Finland.

At the turn of the year UPM-Kymmene adopted UPM as its new commercial name. The name UPM is widely known and is easy to use. The company's official registered name will continue to be UPM-Kymmene Corporation. The new commercial name is part of UPM's initiative to clarify its corporate brand.

2003 witnessed a change of generation within UPM both in the Group's administration and in its different units. The composition of the Executive Team and the areas of responsibility of its members were revised with the aim of better serving customers' needs and speeding up decision-making.

In this connection I would like to thank my predecessor, Juha Niemelä, for his support, particularly over the past two years. Juha Niemelä resigned as the company's President and CEO in January of this year, a post he had held since the merger of Repola and Kymmene in 1996. It was under his leadership, which coincided with challenging circumstances, that the company achieved its present good position. He planned the change of generation with great foresight and strongly encouraged me to develop my own management ideas.

Business in 2003 presented considerable challenges, and I want to thank our customers for working with us, our shareholders for their confidence in us, and all our employees for their commitment to reaching our common goals.

The economic outlook for 2004 is cautiously optimistic. Growth on our main markets is expected to gather pace during the year, and demand for paper is forecast to develop positively. The prospects for our converting operations are slightly better than they were last year, but no improvement between market demand and supply is forecast for wood products in 2004. The financial result for the first quarter is forecast to be somewhat weaker than last year.

UPM is seeking to become the most attractive company in its own sector. The company's long-term approach to business and its desire for continuous improvement are among its characteristic features. The company is currently both developing and competitive. It enjoys good market positions globally. We are nevertheless seeking further growth. We want to do this profitably and at the same time in a socially and ecologically sustainable way. I am approaching the challenges of 2004 full of energy and with an open mind.

Jussi Pesonen

UPM – A STRONG AND DYNAMIC PAPER AND FOREST PRODUCTS COMPANY

UPM IS AMONG THE WORLD'S LEADING MANUFACTURERS OF PRINTING PAPERS AND THE CLEAR MARKET LEADER IN MAGAZINE PAPERS. TURNOVER IN 2003 WAS € 9.9 BILLION. THE COMPANY'S MARKET CAPITALIZATION AT THE END OF 2003 WAS € 7.9 BILLION. FINANCIAL RATIOS SHOW THAT UPM IS ONE OF THE PAPER INDUSTRY'S TOP PLAYERS.

Market positions of UPM's main products

Papers	Capacity (1000 t/a)	European position	Global position
Magazine papers	5,580	1	1
Newsprint	2,775	2	5
Fine papers	2,670	3	9
Printing papers, total	11,025		
Label papers	340	1	1
Envelope papers	220	1	–
Packaging papers	315	3	–
Papers from Converting Division	65	–	–
Total	11,965	2	3

Converting	European position	Global position
Self-adhesive laminates	2	2
Siliconized papers	1	1
Industrial wrappings	1	–

Wood products	Capacity (1000 m^3/a)	European position
Plywood	1,150	1
Sawn timber	2,440	3

BUSINESS ON A GLOBAL SCALE

UPM's mission is to promote both social and economic well-being through its innovative products: papers, converting materials and wood products. The Group has production plants in 16 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 – account for some 81% of total turnover.

On the most important markets the Group sells its products through its own sales organization. Elsewhere, sales are handled by a wide network of agents.

PAPERS

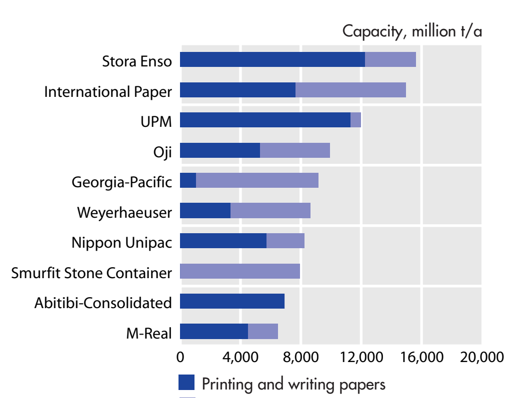
UPM has paper mills in Finland, Germany, Great Britain, France, Austria, the United States, Canada and China.

The UPM Group has a total papermaking capacity of some 12 million tonnes a year.

UPM manufactures a comprehensive range of different papers. Both products and customer service are constantly being developed. UPM's papers are produced from a varied raw material base, and roughly a quarter of production is based on recycled fibre.

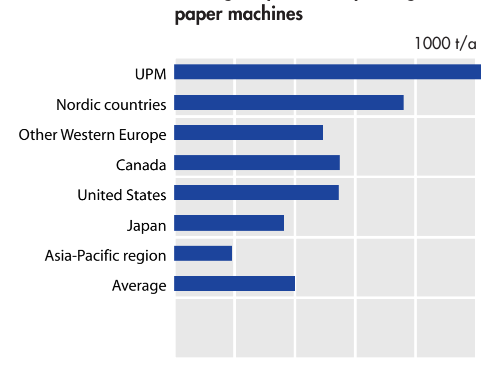
MAGAZINE PAPER is used to produce not just magazines but also newspaper supplements, printed advertising material and sales catalogues. Most of this magazine paper is supplied to buyers in Western Europe. The next most important market is the

World's biggest paper manufacturers



Source: UPM/Jaakko Pöyry

Average capacities of printing paper machines



Source: Jaakko Pöyry

United States. With an annual capacity of 5.6 million tonnes, UPM is the world's largest manufacturer of magazine paper. UPM has about one-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 markets of Western Europe, where UPM has a share of just under one-fifth.

UPM'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, specialist magazines and high-quality printed products. The range includes both coated and uncoated fine papers. The main markets for UPM's fine papers are in Western Europe and in Asia, particularly in the growing Chinese market. UPM is a leading supplier of fine papers both in Europe and worldwide.

UPM'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 is the world's largest producer of label papers and Europe's leading producer of envelope papers. It is also one of Europe's biggest suppliers of packaging papers.

CONVERTED PRODUCTS

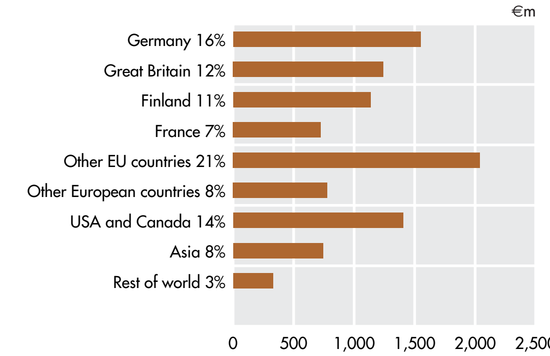
UPM's converting units manufacture self-adhesive labelstock (Raflatac), siliconized papers (Loparex) and industrial wrappings (Walki Wisa).

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 four countries in Europe and in the United States, Australia, Malaysia, China and South Africa.

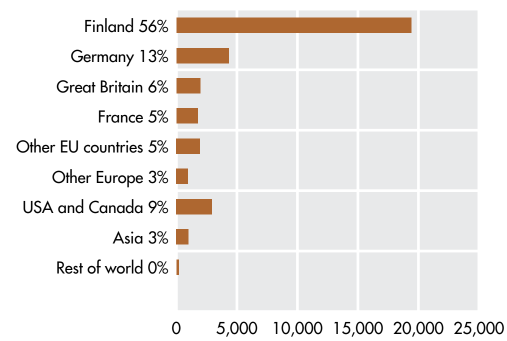
LOPAREX manufactures siliconized release materials for hygiene products, self-adhesive labels and industrial uses. Loparex is the world's biggest producer of siliconized papers, with production in Finland, Great Britain, the Netherlands and the United States.

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

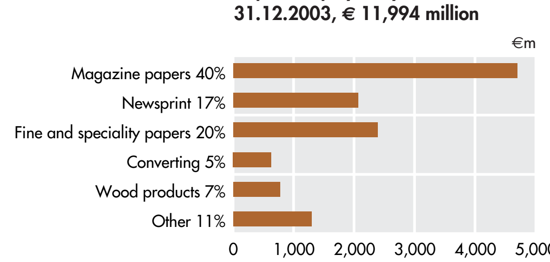
Turnover by market, 2003
€ 9,948 million

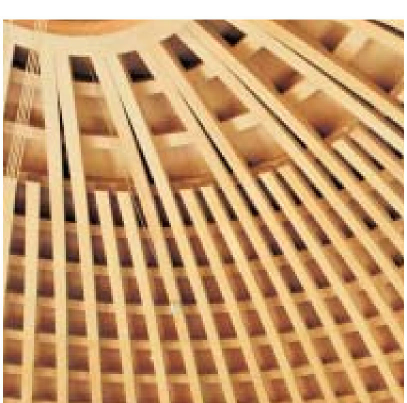


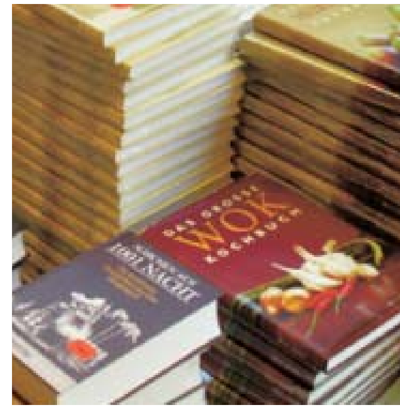
Personnel by area, 31.12.2003
34,482



Capital employed by division,
31.12.2003, € 11,994 million







COMPANY EMPLOYEES NUMBER 34,500. UPM IS COMMITTED TO THE FUTURE AND SEEKS CONTINUOUS IMPROVEMENT IN ALL ITS ACTIVITIES.

industry and for technical purposes. It has production plants in Finland, Germany, Great Britain, China and the United States. The main markets for UPM's converting business are Europe and the United States.

WOOD PRODUCTS

UPM 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.

In plywood production, UPM'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 also has chains of builders' merchants specializing in wood-based materials in Finland, the Republic of Ireland, Northern Ireland and Denmark.

The main markets for UPM's plywood and sawn timber are in the EU countries.

SUBSTANTIAL RESOURCES

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

UPM owns over one million hectares of forest land. In Finland, it owns 930,000 hectares, making it the country's biggest private forest owner. UPM also owns forest in the United States and Canada, and, through an associated company, also in Uruguay. In Canada, UPM has licences to use 938,000 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 wood raw material needed by the Group. Felling in the company's forests in Finland can temporarily be increased quite substantially.

SKILLED EMPLOYEES

The cornerstones of UPM'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 set of unified management principles, it provides training for its employees, and it uses incentive schemes that are based on productivity, financial results and individual performance.

RESPONSIBILITY IN BUSINESS OPERATIONS

Today, companies are clearly perceived as part of the society in which they operate. They are therefore judged not just on economic criteria, but also in terms of their business practices. UPM thus attaches increasing importance to the use of ethically acceptable practices and to meeting its social and environmental obligations.

At UPM 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.

UPM regards meeting its responsibilities as a key factor in securing quality and as a part of everyday work. UPM's shares are listed in the Dow Jones sustainability indexes World and EuroStoxx.

INTERNATIONAL OWNERSHIP

At the end of 2003, UPM had 70,708 registered shareholders. Geographically, shareholders fall broadly into three groups of about the same size: Finns, other Europeans and American shareholders. UPM's shares are quoted on the Helsinki (UPM1V) and New York (UPM) stock exchanges.

THE COMPANY'S STRENGTHS

GLOBAL ACTIVITIES
UPM has production plants in 16 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 its customers, both local and global. Continuous development of operations, combined with a long-term commitment, make UPM a reliable and attractive partner.

SKILLED PERSONNEL
One of UPM's key competitive advantages is its skilled, highly motivated employees. It is people who lay the foundations for quality, continuous learning and renewal.

MODERN MACHINES
The company's production facilities rank with the world's best in terms of production capacity and competitiveness. A high level of technical expertise forms the basis for cost leadership and reliability as a supplier.

COMPREHENSIVE LOGISTICS NETWORK
UPM operates a highly efficient worldwide 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 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'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. UPM's production plants make proper and efficient use of their wood raw material.

The Group's converting business is based to a large extent on raw material supplied by its own paper mills as well as on in-house specialist know-how.

GOALS

UPM'S GOAL IS TO BE ONE OF THE LEADING COMPANIES IN THE GLOBAL PAPER INDUSTRY.

UPM 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 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 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 knowhow 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 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's objective is to be more profitable than its main 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 2003, the minimum target for return on equity, as defined above, was 9.3%.

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

DIVIDEND POLICY

It is UPM'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.

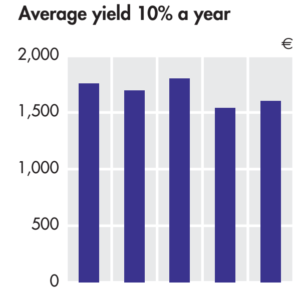
Meeting financial targets

		2003	2002	2001	2000	1999
Return on equity, %	Min. target	9.3	9.3	10.0	10.5	9.7
Return on equity, %	Achieved	5.3	8.0	15.5	21.9	19.2
excluding non-recurring items	Achieved	4.2	8.4	12.9	18.7	10.9

	Target	Achieved				
Gearing ratio, %	<100	67	76	89	69	55
Dividend per share, € [1]	Steady, growing	[2] 0.75	0.75	0.75	0.75	[3] 1.08
Dividend to earnings ratio, %	>33	107.1	70.8	39.0	31.4	57.0

[1] Dividend per share adjusted for the bonus issue.
[2] Board's proposal for 2003.
[3] Includes an extra dividend of € 0.45.

Total shareholder return 1999–2003
Average yield 10% a year



Value of a € 1,000 investment, made at year-end 1998, 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 influenced by swings in the business cycle. Changes in sales prices and variations in production capacity utilization rates resulting from cyclical swings have a major impact on UPM's financial results.

SENSITIVITY ANALYSIS

PRICE CHANGES

The biggest factor affecting UPM's financial results is the sales price of its paper. A change in the volume delivered has about half the effect on financial results as the same percentage change in product prices.

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

	€ million
Magazine paper	310
Newsprint	130
Fine paper	160
Plywood	50
Sawn timber	50

EXCHANGE RATE RISK

Long-term changes in exchange rates also have a marked impact on financial results. Around half of the Group's net foreign currency exposure is in US dollars and about a third is in sterling. For example, a 10% change in the value of the euro against the US dollar has a profound effect on pre-tax profit: an increase/decrease of around € 45 million in the short term and an increase/decrease of some € 90 million in the long term. Under the company's hedging policy, an average of 50% of net currency exposure is hedged for 12 months ahead.

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.

COSTS, EXCLUDING DEPRECIATION

%	2003	2002
Personnel expenses	20	21
Logs and pulpwood	13	14
Delivery of own products	12	12
Fillers, coating pigments and other chemicals	12	12
Energy	8	8
Recovered paper	3	2
Other raw materials	10	10
Other costs	22	21
Total	100	100

Costs in 2003 totalled € 8.5 billion (8.6 billion in 2002)

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 difficult to predict.

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 by consumer expectations.

RISKS ASSOCIATED WITH CORPORATE RESPONSIBILITY

The company seeks to manage those risks associated with its corporate responsibility, primarily risks concerning the environment and its products. However, changes in legislation and unforeseen events can affect the company's reputation and financial results.

FOREST INDUSTRY CONSOLIDATION AND POSSIBLE ACQUISITIONS

UPM, in common with the forest industry in general, has 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 is extensively insured against material damage and against statutory liability for damages. This insurance is not necessarily sufficient to cover unforeseen catastrophes.

CHANGES IN EXCHANGE RATES

Most of UPM's business is conducted in the euro-zone. Nevertheless, the company is still vulnerable to changes in exchange rates. The risk mainly concerns exports to the extent that 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. Credit and payment times are monitored closely. Nevertheless, customer credit risks still remain.

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. In some areas or in some activities there may nevertheless be disruptions in the prices and/or availability of production inputs.

POLITICAL RISK

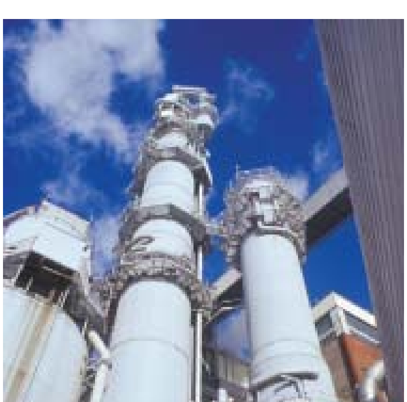
Although the political situation is currently quite stable in those countries where the company has business activities, unexpected political developments do occur in some areas.

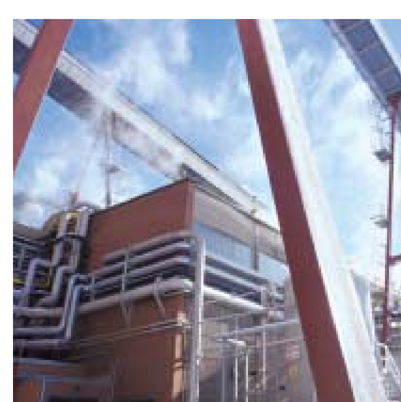
AVAILABILITY OF MANPOWER

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.





PAPERS

UPM paper divisions: Turnover by market in 2003

€m	Magazine papers	%	Newsprint	%	Fine and speciality papers	%
Europe	2,098	63	1,060	82	1,779	78
USA and Canada	938	28	79	6	88	4
Rest of world	284	9	156	12	411	18
	3,320	100	1,295	100	2,278	100

Global demand for printing papers in 2003

	Magazine papers	Newsprint	Fine papers
million t/a			
Western Europe	9.6	9.5	13.7
USA and Canada	8.1	11.2	17.8
Rest of world	4.4	15.8	34.2
Total	22.1	36.5	65.7
kg per capita/a			
Western Europe	24.5	24.3	35.0
USA and Canada	25.9	36.0	57.0
Rest of world	0.8	2.9	6.2
Total	3.6	5.9	10.6

THE MARKET

For the third year in a row, paper markets were characterized by weak demand and over-supply. In Europe, demand for magazine paper and coated fine paper improved somewhat on the previous year, but demand for other paper grades remained unchanged or declined. Economic growth was sluggish, and the volume of magazine and other printed advertising was practically unchanged. Average prices continued to fall, but steadied off towards the end of the year. Although economic growth in the United States outstripped that in Europe, it was only magazine paper that showed any growth on either of these markets. Paper prices, which had been extremely low in the US, were nevertheless raised during the year. In China, the pace of economic growth was fast and demand for paper rose strongly.

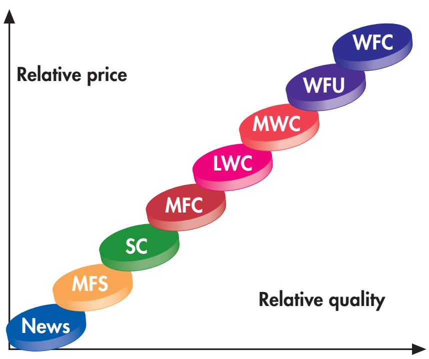
The MARKET FOR MAGAZINE PAPER strengthened during the year, particularly in the US, but also in Europe. European capacity utilization rates for coated magazine papers were higher than in 2002, but over-supply persisted. The fall in prices slowed down in the second half of the year. Capacity utilization rates in the United States were high all year, and gradual price rises were introduced. In Europe, the market for uncoated magazine papers strengthened during the second half of the year, and prices were stable. In the United States, demand rose faster and prices were raised.

The NEWSPRINT MARKET in Europe was lacklustre, and demand was little changed on the previous year. Capacity utilization rates rose as producers increased their deliveries to markets outside Western Europe, though production capacity was still under-utilized. Newsprint prices fell early in 2003 but then remained unchanged for the rest of the year. In the United States, prices began to rise despite the weak growth in demand.

The European FINE PAPER MARKET continued to be challenging. The demand was weak, particularly for uncoated fine paper. The market for coated grades remained heavily over-supplied, and this kept capacity utilization rates extremely low. Prices for both coated and uncoated grades slipped downwards during the year.

The MARKET FOR SPECIALITY PAPERS showed several different trends: demand for label papers was strong, while that for envelope papers was slack. The market for packaging papers deteriorated rapidly in the spring but began to show signs of recovery later in the year.

UPM 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 news	News – newsprint

CUSTOMER SEGMENTS

MAGAZINE PUBLISHERS

Uncertainty over future circulation figures and advertising income affected magazine publishers in both Europe and the United States. In China, on the other hand, both circulations and advertising income showed strong growth, and several Western publishers continued to push forward in Asia. Many global magazine publishers are looking into the possibility of publishing established, strong-selling titles on new markets.

During the latter half of the year publishers brought onto the market several new special-interest magazines and introduced certain strong titles into new market areas. There was a clear trend towards magazines targeted more accurately at particular interest groups. Magalogues (magazine-style illustrated sales catalogues) and handbag-sized magazines had a successful year. As in many previous years, women's magazines served as an indicator of the trend in the magazines business.

Magazine advertising began to recover towards the end of the year.

RETAILERS AND SALE CATALOGUES

The positive trend in the retail business indicated an economic recovery. Advertising by the retail sector, particularly direct-mail advertising, increased towards the end of the year.

In the West, retail chains have both consolidated and become increasingly international in recent years. The biggest have expanded into markets, notably developing ones, where the prospects for growth are more promising. In the Asia-Pacific region China provided the driving force for growth.

The use of several sales channels in parallel helped the growth in sales. The big retail chains are seeking to reach customers not just through their own stores but also through sales catalogues and the Internet. The Internet offers new ways to present products, and this promotes both in-store sales and catalogue sales.

PRINTERS

Subdued advertising, together with cost pressures caused by overcapacity, meant that printers in both Europe and North America recorded unsatisfactory profitability in 2003. The industry cut its costs and sought greater efficiencies through restructuring. In China, the printing industry enjoyed strong growth, and the trend is expected to continue. Investment mainly concerned traditional printing processes, although digital printing was the fastest growing area in terms of printing press orders.

With the economy moving in a more positive direction nearing the year-end, printers adopted a more optimistic outlook.

NEWSPAPER PUBLISHERS

The generally weak market continued to have a negative impact on newspaper advertising. Brand advertising in national newspapers was particularly affected. The volume of classified advertising showed little change.

Weak financial results over the past two years prompted publishers in many markets to instigate measures to improve results. The biggest challenges facing publishers were felt to be how to encourage young people to read more, the quality of newspaper contents, and how to develop multimedia alongside printed media. Free copy-sharing among publishers through different channels increased, and this affected the planning by publishers of their business concepts.

In Europe, newspapers are still an extremely important channel for advertising. Vigorous growth is visible in this respect, especially in Eastern Europe.

SPECIALIST PUBLISHERS

Telephone directory publishers employed CDs and the Internet in addition to traditional printed products. Printed media showed modest growth. The fastest growth was in ‘yellow pages’.

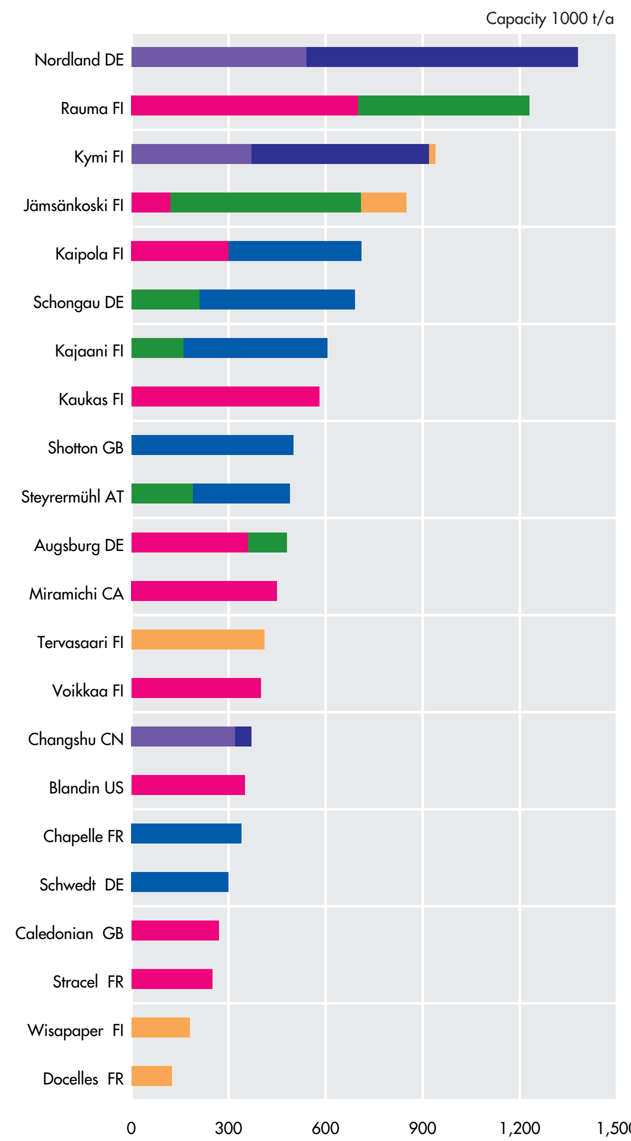
Directory publishers recorded improved profitability, thanks largely to their on-line services. In Europe, many of the companies in this business were either sold to investment companies or obtained stock exchange listings. In North America, restructuring and consolidations continued.

Book publishing showed signs of recovery on all markets. Growth was fastest in fantasy, crime fiction and glossy illustrated works.

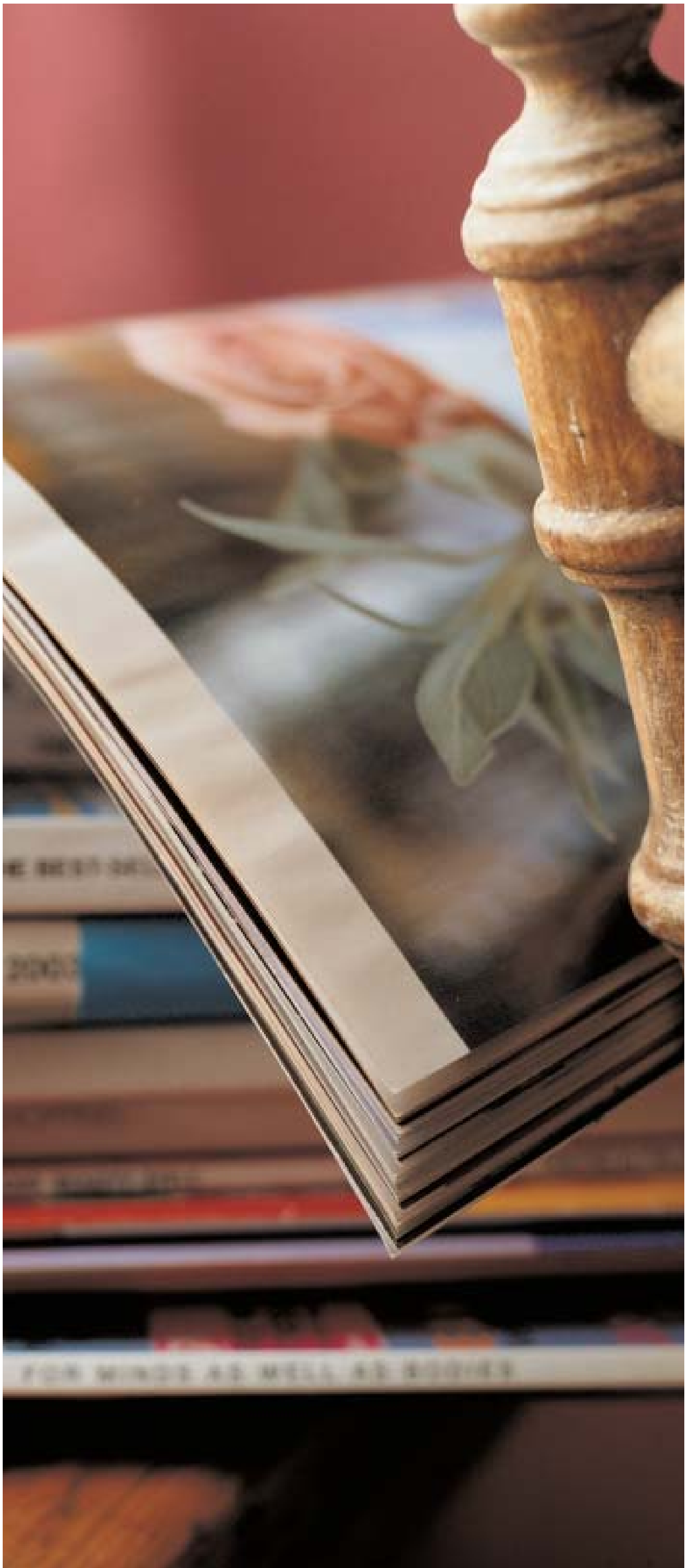
MERCHANTS

Business conditions in the merchanting sector were very difficult all year. Financial results were hit by lower sales volumes and falling prices. Merchants sought to cut costs and minimize risks by streamlining their delivery chains, reducing the number of their suppliers and concentrating more on key customers. Consolidation and globalization continued.

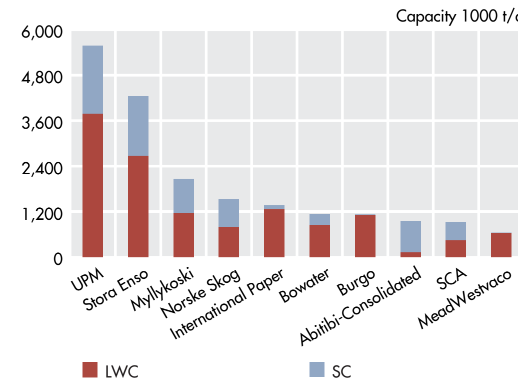
Production capacities by mill in January 2004



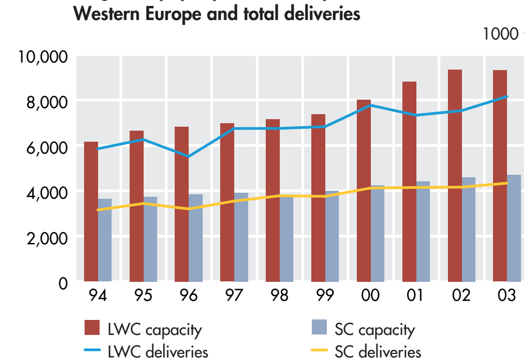
Capacities, total	No. of paper machines	1000 t/a
LWC paper	15	3,780
SC paper	8	1,800
Magazine paper total	23	5,580
Newsprint	12	2,775
Uncoated fine paper	8	1,230
Coated fine paper		1,440
Fine paper total	8	2,670
Speciality papers	9	875
Total	52	11,900



World's biggest magazine paper manufacturers

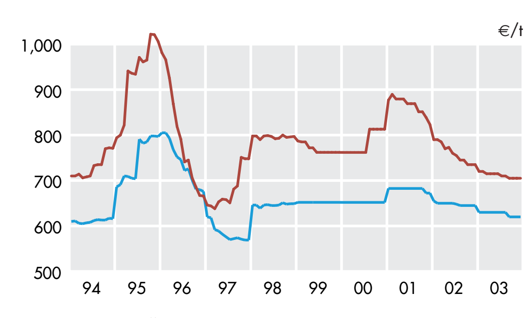


Magazine paper production capacities in Western Europe and total deliveries



Source: CEPIPRINT

Magazine paper prices in Germany



Source: PPI this week

MAGAZINE PAPERS

Magazine papers, key figures

€m	2003	2002	2001
Turnover	3,320	3,577	3,548
Operating profit [1]	153	225	598
% of turnover	4.6	6.3	16.9
excluding amortization of goodwill and non-recurring items	211	411	644
% of turnover	6.4	11.5	18.2
Capital employed (average)	4,923	5,253	4,380
ROCE, %	3.1	4.3	13.7
excluding amortization of goodwill and non-recurring items	4.3	7.8	14.7
Capital expenditure and acquisitions	162	188	1,556
Personnel at 31 Dec.	8,887	9,325	9,317
Deliveries, 1000 t	4,822	4,618	3,964
Capacity utilization rate, %	87	85	84

[1] Operating profit for 2002 includes non-current charges of € 128 million relating to Blandin. In 2001, non-recurrent charges were € 20 million.

The division comprises the Group's magazine paper machines, the Kaukas and Miramichi pulp mills, and Miramichi's sawmills (see Fibre Supply, p. 33).

PROFITABILITY

Full-year turnover for magazine papers declined by 7%, as lower sales prices and the weaker US dollar had a negative impact on sales. The capacity utilization rate was 87% (85%). Deliveries increased by 4%.

Profitability was substantially weaker than in 2002. Decreased average prices and the stronger euro were the main reasons for the lower operating profits. Improved cost-effectiveness and synergy benefits, on the other hand, had a positive impact on profitability.

In Western Europe, demand for coated magazine paper grew by 3%, while in the United States the growth in demand was 5%. Demand for uncoated magazine paper grew by 2% in Western Europe but in the United States the growth was more pronounced at 6%. Exports of UPM's magazine paper from Europe to overseas markets continued to increase. The closure of two machines at the Blandin mill also resulted in an increase in exports.

Average sales prices for magazine papers declined by 9% in Western Europe but were 2% higher, although still at a record low level, in the United States.

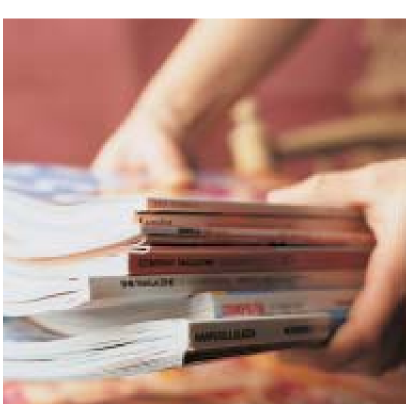
CAPITAL EXPENDITURE AND RESTRUCTURING

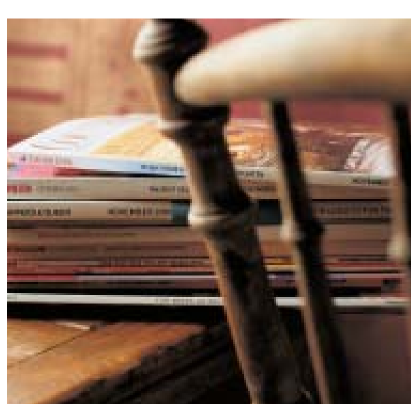
In January, UPM announced the closure of two old coated magazine paper machines at its Blandin mill in the United States. The machines in question were built in 1931 and 1963, and were uneconomic. Their combined production capacity was 157,000 t/a.

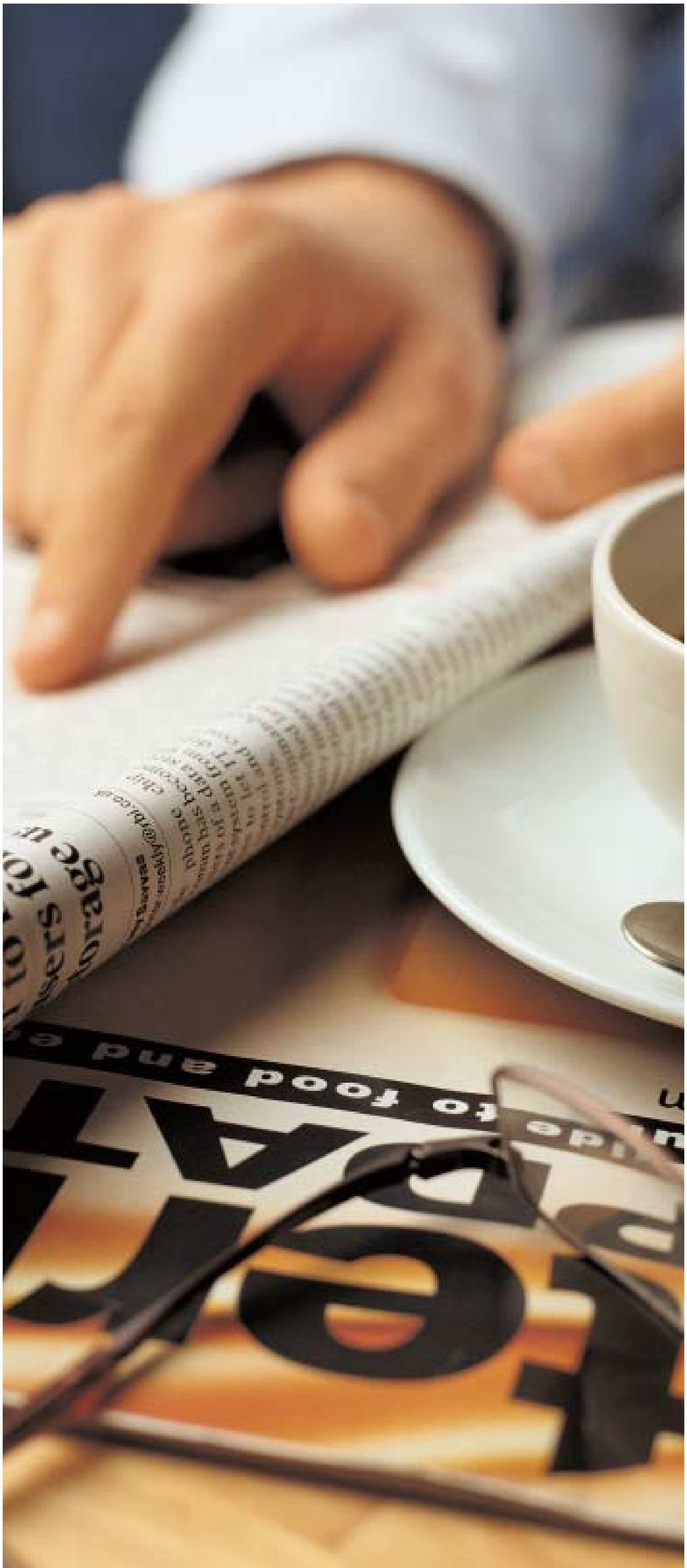
Modernization work on Rauma's PM 1, which produces coated magazine paper, was completed early in the year. Following this € 64 million investment, the machine is as good as new in terms of its technical features. Its production capacity was raised from 260,000 to 300,000 t/a.

In March, it was decided to rebuild Rauma's PM 2 at a cost of about € 30 million. The rebuild, which will improve the quality of the machine's uncoated magazine paper, will be completed in May 2004.

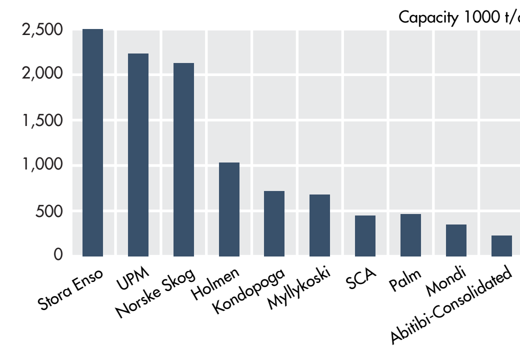
In December, UPM decided on a rebuild for the SC magazine paper machine (PM 6) at its Jämsänkoski mill. The work will cost € 24 million. The rebuilt machine will start up in the first quarter of 2005.



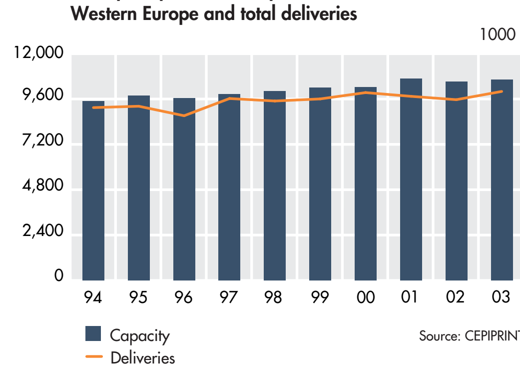




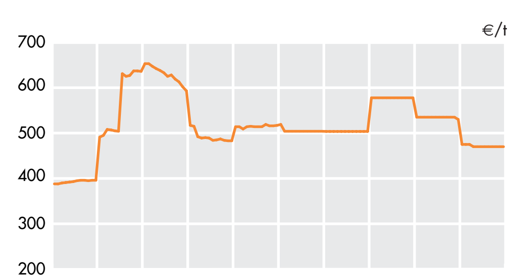
Europe's biggest newsprint manufacturers



Newsprint production capacities in Western Europe and total deliveries



Newsprint* prices in Germany



* 48.8 g

Source: PPI this week

NEWSPRINT

Newsprint, key figures

€m	2003	2002	2001
Turnover	1,295	1,381	1,058
Operating profit [1]	54	162	211
% of turnover	4.2	11.7	19.9
excluding amortization of goodwill and non-recurring items	105	212	214
% of turnover	8.1	15.4	20.2
Capital employed (average)	2,124	2,368	984
ROCE, %	2.5	6.8	21.4
excluding amortization of goodwill and non-recurring items	4.9	9.0	21.7
Capital expenditure and acquisitions	109	84	1,503
Personnel at 31 Dec.	3,785	3,826	3,842
Deliveries, 1000 t	2,587	2,467	1,667
Capacity utilization rate, %	90	88	89

[1] Operating profit for 2003 includes non-recurrent charges of € 9 million (€ 8 million for 2002).

The division comprises the Group's newsprint machines.

PROFITABILITY

Turnover was 6% down on the previous year due to lower sales prices. Deliveries were up on 2002 and the capacity utilization rate improved to 90% (88%).

Operating profit dropped markedly from the year before as a result of lower prices. The average price of recovered paper, the main raw material for UPM's newsprint production, was slightly lower than during the year before. Synergies from the Haindl integration and cost-effectiveness continued to have a favourable impact on profitability. Deliveries to customers outside Western Europe increased, although by less than the year before.

Demand for newsprint grew by only 1% in Western Europe and declined by 1% in the United States due to slack advertising activity.

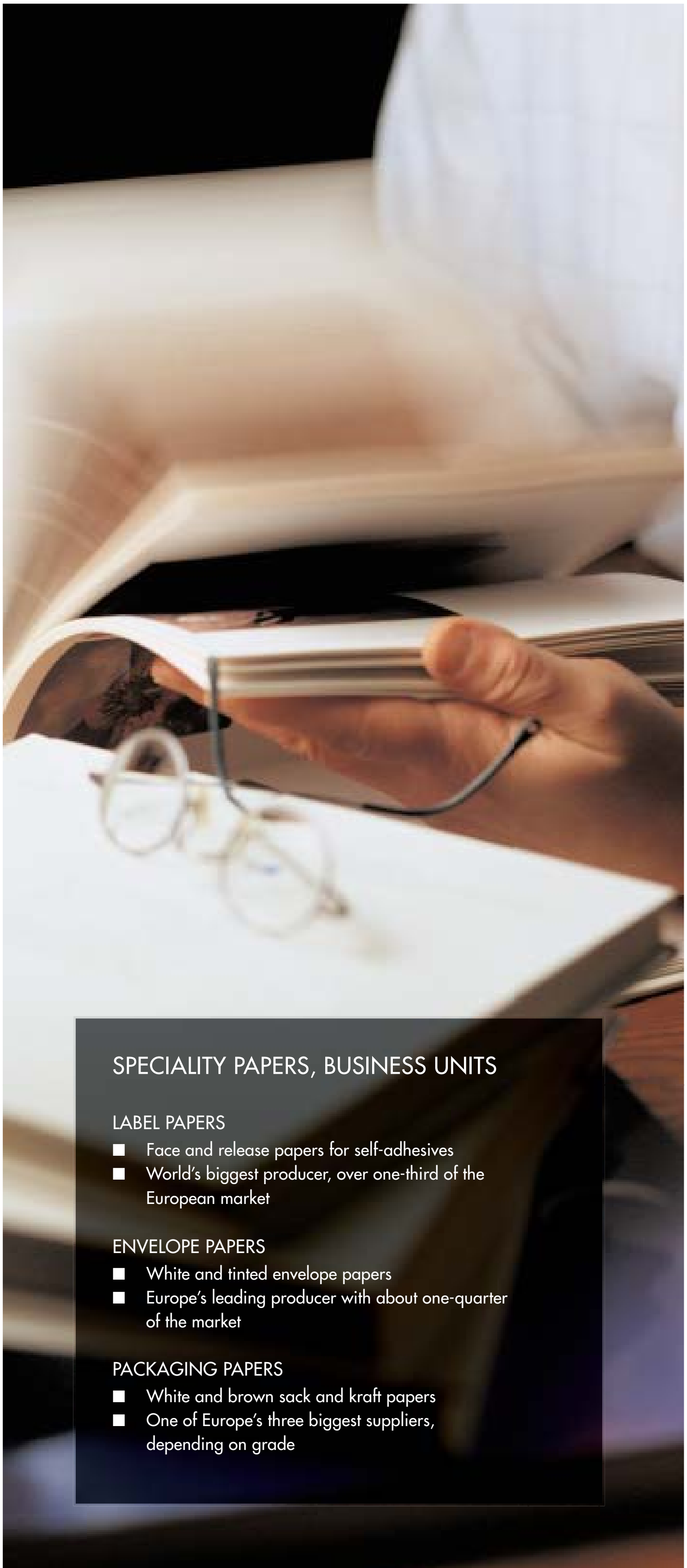
Average sales prices for newsprint in Western Europe were down by 13% compared with 2002. In the United States average prices increased by about 10%.

CAPITAL EXPENDITURE AND RESTRUCTURING

The € 127 million expansion of Shotton's deinking plant was completed in November. The mill now uses around 620,000 tonnes of recovered paper a year, and all its newsprint is now produced from this raw material.

Following the investment at Shotton, some 75 per cent of all UPM's newsprint is produced from recycled fibre. In 2003, the company used 1.7 million tonnes of recovered paper in its newsprint production.

In September, UPM decided to close down PM 17 and the old groundwood mill at Voikkaa paper mill in Finland. The machine produces 100,000 t/a of book paper, and its closure is planned for 1 May 2004.



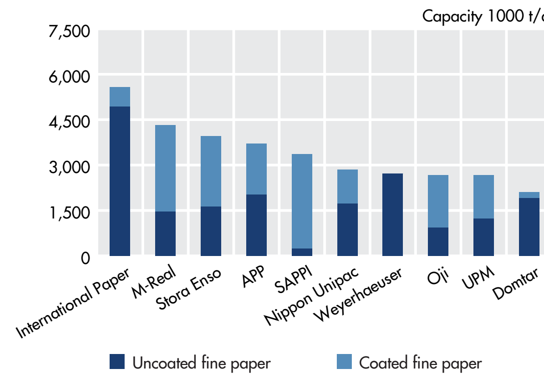
SPECIALITY PAPERS, BUSINESS UNITS

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

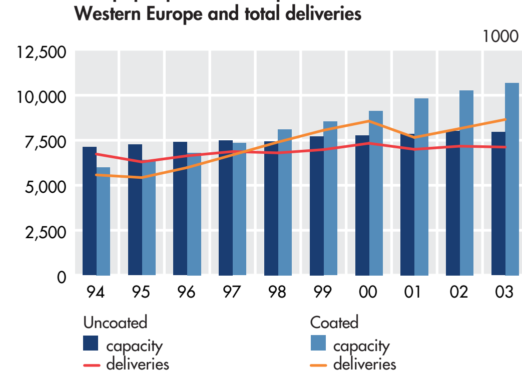
ENVELOPE PAPERS
- White and tinted envelope papers
- Europe's leading producer with about one-quarter of the market

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

World's biggest fine paper manufacturers

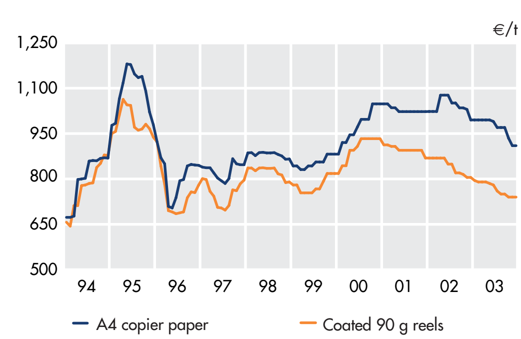


Fine paper production capacities in Western Europe and total deliveries



Source: CEPIPRINT

Fine paper prices in Germany



Source: PPI this week

FINE AND SPECIALITY PAPERS

Fine and speciality papers, key figures

€m	2003	2002	2001
Turnover	2,278	2,449	2,362
Operating profit	241	359	336
% of turnover	10.6	14.7	14.2
excluding amortization of goodwill and non-recurring items	246	364	341
% of turnover	10.8	14.9	14.4
Capital employed (average)	2,471	2,628	2,602
ROCE, %	9.8	13.7	12.9
excluding amortization of goodwill and non-recurring items	10.0	13.9	13.1
Capital expenditure and acquisitions	206	153	391
Personnel at 31 Dec.	6,654	6,611	6,635
Deliveries, 1000 t	2,879	2,774	2,546
Capacity utilization rate, %	88	89	87

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. 33).

PROFITABILITY

Lower prices meant that turnover was 7% down on the previous year. Delivery volumes, however, rose by 4%. The capacity utilization rate was 88% (89%). The coating capacity utilization rate remained below 80%. The speciality paper machines operated at above 90% capacity, but this was still lower than the 2002 figure. The fine paper mill in China operated at virtually maximum capacity.

Profitability was weaker due mainly to lower sales prices in all business areas. Operating profit declined by 33%.

Demand for uncoated fine paper in Western Europe fell by 2% but increased by 2% for coated fine paper. The robust growth in China continued.

Average market prices for uncoated fine papers were down by 10% on 2002, while prices for coated fine papers were 11% lower. In China, prices were on average about the same as during the previous year.

Profitability for speciality papers declined on 2002 and was about the division average. Average prices fell. Label paper and packaging paper markets were better than those for envelope paper.

CAPITAL EXPENDITURE AND RESTRUCTURING

In 2003, UPM began work on building the new 450,000 t/a paper machine at Changshu, near Shanghai in China. The mill's capacity for coated fine paper will be raised sigificantly at the same time. The cost of the investment is around USD 470 million. The new machine is scheduled to start up in summer 2005. The machine will raise UPM's fine paper production capacity in China to 800,000 t/a, of which some 200,000 tonnes will initially be coated.

Modernization work at Pietarsaari pulp mill will be finished in April 2004. This will raise the mill's capacity by 180,000 to 800,000 t/a. The work is being carried out in conjunction with Pohjolan Voima's subsidiary Wisa Power, whose share of the cost of the € 280 million project will be around half.

Modernization work on Jämsänkoski's label paper machine (PM 3) was completed during the year. The € 46 million investment has improved paper quality and raised production capacity from 110,000 to 140,000 t/a.

CONVERTING UNITS AND MAIN PRODUCTS

RAFLATAC

- Self-adhesive labelstock for manufacturers of price, product and ADP labels
- The production plants are in Finland, Spain, Great Britain, France, the United States, Australia, Malaysia, China and South Africa.

LOPAREX

- Siliconized release materials for hygiene products, labels and industrial applications
- The production plants are in Finland, Great Britain, the Netherlands and the United States.

WALKI WISA

- Wrappings for the paper, steel and wood products industries
- Composite materials for the packaging industry and technical purposes
- The production plants are in Finland, Germany, Great Britain, China and the United States.

CONVERTING

Converting, key figures

€m	2003	2002	2001
Turnover	1,374	1,541	1,480
Operating profit [1]	43	70	46
% of turnover	3.1	4.5	3.1
excluding amortization of goodwill and non-recurring items	52	75	62
% of turnover	3.8	4.9	4.2
Capital employed (average)	688	786	801
ROCE, %	6.3	8.9	5.8
excluding amortization of goodwill and non-recurring items	7.6	9.5	7.7
Capital expenditure and acquisitions	31	68	215
Personnel at 31 Dec.	4,558	4,694	4,872
Paper production, 1000 t	54	59	49

[1] Operating profit for 2003 includes non-recurring charges of € 4 million (11 million for 2001).

Turnover by business unit

M€	2003	2002	2001
Raflatac	736	736	667
Loparex	334	389	375
Walki Wisa	305	318	323
Sold units and other	4	105	123
Internal sales	–5	–7	–8
	1,374	1,541	1,480

UPM's Converting Division comprises the self-adhesive labelstock manufacturer Raflatac, the siliconized papers manufacturer Loparex and the industrial wrappings manufacturer Walki Wisa. These units are among the leading manufacturers in their segments in Europe, with Raflatac and Loparex also among the world leaders. Business is based extensively on in-house technology and development work.

Turnover was 11% down on the previous year largely due to the sale of Walki Films in October 2002, but also to the weak market for siliconized papers. Fierce competition in all the division's businesses reduced profitability. The strengthening of the euro also had a negative impact on the financial result.

UPM looked to boost the Converting Division's growth by seeking to acquire the MACtac pressure-sensitive materials business of Bemis Company Inc. for USD 420 million. UPM withdrew from the deal in July because the necessary official permission was not given. Other moves to achieve growth mainly concerned Far East markets.

RAFLATAC

Turnover was the same as the year before. The market for Raflatac's self-adhesive laminates moved positively in North America, but in Europe the market was subdued. In Asia, demand grew, but competition there kept prices at an unsatisfactory level.

Raflatac's operating profit was slightly better than in 2002. Efforts to cut costs and raise efficiency continued. This helped to offset the impact on the financial result of lower than average sales prices and the stronger euro.

In contrast to previous years, Raflatac's growth was not supported by major investments in 2003. Measures necessitated by the cancelled MACtac deal used up the unit's resources.

LOPAREX

Turnover was 14% down on last year. Demand for siliconized papers was weak in both Europe and North America. Prices fell, and Loparex's financial result was much poorer. Efforts to improve internal efficiency are continuing.

Loparex is focusing its development drive on Asia. In India, the unit's joint venture started up a new production line. In China, a new production line is to be built for start-up in the third quarter of 2004. The markets for Loparex's products in North America and Europe are growing at the same pace as GNP. In the Far East, the market is growing much faster.

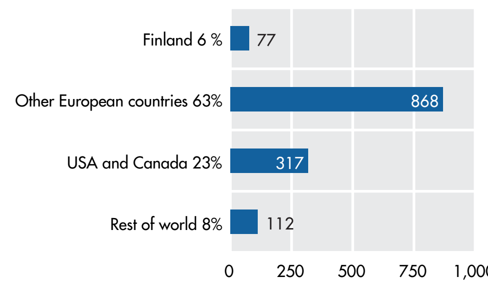
WALKI WISA

Turnover was marginally smaller than in 2002. In Europe, the market for industrial wrappings was affected by lower than average capacity utilization rates in the paper and board industry. Sales prices fell. Profitability declined but was still good. It was decided in November to carry out reorganizations at Walki Wisa's UK plant in order to improve competitiveness.

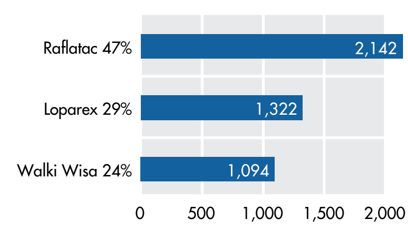
Weak demand from Walki Wisa's main customers – the paper and food industries – reduced sales of industrial wrappings.

Walki Wisa's expansion into the US and China via investments in new printing plants has proved challenging, partly because of weak demand and intense competition.

Converting Division: Turnover by market 2003, € 1,374 million



Converting Division: Personnel by business unit at 31.12.2003

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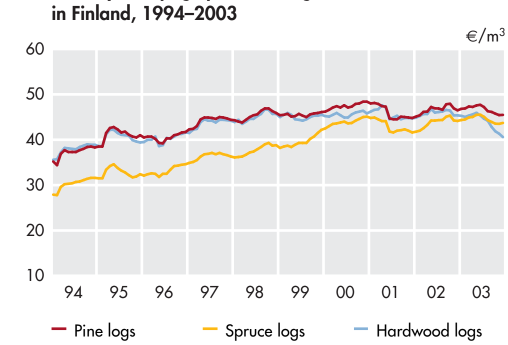
Export prices for Finnish sawn timber*, 1994–2003

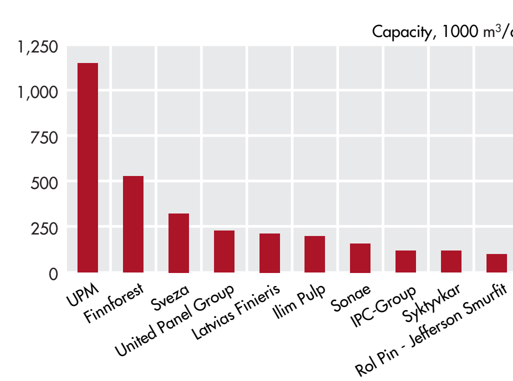
Fource: Finnish Forest Industries Federation

Monthly stumpage prices for logs in Finland, 1994–2003



Fource: Finnish Forest Industries Federation

Europe's biggest plywood producers



Plywood consumption in Europe is about 7 million m^3/a

WOOD PRODUCTS

Wood Products

Key figures

€m	2003	2002	2001
Turnover	1,552	1,489	1,463
Operating profit	29	37	27
% of turnover	1.9	2.5	1.8
Capital employed (average)	777	742	664
ROCE, %	3.7	5.0	4.1
Capital expenditure and acquisitions	91	69	137
Personnel at 31 Dec.	7,711	7,577	7,865
Production, 1000 m³			
Plywood	936	905	786
Sawn goods	2,274	2,051	1,856

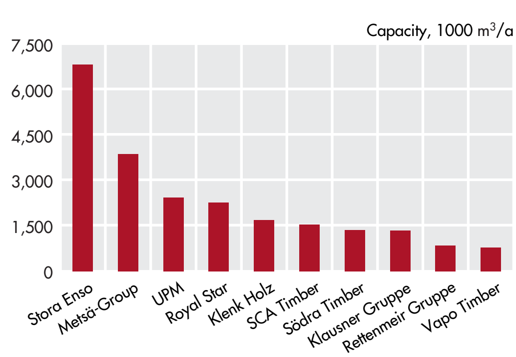
Turnover by business area

€m	2003	2002	2001
Plywood	529	538	522
Sawmilling	499	459	434
Building supplies trade	650	615	621
Other + internal sales	–126	–123	–114
	1,552	1,489	1,463

Turnover by market

€m	2003	%
Finland	478	31
Other EU countries	901	58
Other European countries	64	4
North America	11	1
Rest of world	98	6
	1,552	100

Europe's biggest sawn timber producers



Sawn timber consumption in Europe is about 110 million m³/a

PROFITABILITY

Turnover for the Wood Products Division increased by 4% on the previous year. Although plywood prices declined and there was little change in the average prices of sawn timber, growth in deliveries boosted turnover. Profitability was weaker than in 2002.

The plywood business produced a turnover of € 529 million (538 million) and an increase in delivery volumes. Lower unit costs, due to new capacity in Russia and Estonia, partly compensated for the effects of lower prices.

Turnover for the sawmilling business was € 499 million (459 million). Despite improving its profitability, the business still made a loss. The fundamental reasons were high Finnish raw material costs and low sawn timber prices due to increased supply were fundamental factors negatively affecting the business.

Turnover from the sale of wood-based building supplies was € 650 million (615 million). Trading continued to grow, especially in Finland and Ireland. Profitability was good, and similar to that in 2002.

THE MARKET

Building activity in Europe was at a satisfactory level throughout the year. Increased supply from outside Western Europe caused the weakening of the dollar, coupled with local over-supply, adversely affected the market late in the year. At the beginning of July, UPM became the first supplier in Europe to employ CE labelling of plywoods intended for the building industry. CE labelling is primarily aimed at removing the technical barriers to trade arising from differences in national requirements placed on plywood by EU member states.

Plywood deliveries rose by 2%. On the main markets competition intensified during the year and prices fell due largely to increased imports from Russia and the Baltic countries, and also from South America. Special plywoods and veneers continued to be in good demand with the exception of deliveries of plywoods for LPG tankers, which were hampered by increasingly fierce competition.

UPM's output of sawn timber was up by almost 11% on the previous year. Prices for sawn timber in Europe began to fall late in the year as a result of over-supply, mainly from Eastern Europe but also from the Nordic countries. Sawn timber stocks rose towards the year-end.

Trading in wood-based building supplies was brisk all year in Finland and Ireland, but in Denmark demand failed to come up to expectations.

CAPITAL EXPENDITURE AND RESTRUCTURING

The Division's most notable investment was the construction of a new sawmill at Pestovo in Russia. The sawmill, which has an annual capacity of 300,000 cubic metres, will start production in spring 2004. The wood terminal built alongside the mill will also serve to supply raw material to the mills in Finland.

The Division has also built a veneer production facility in Russia in conjunction with Chudovo plywood mill. The new facility started up early in 2003 and has the capacity to produce over 10 million square metres of birch veneer a year. UPM also acquired 100% ownership of Otepää birch plywood mill in Estonia. This mill produces 20,000 cubic metres a year of high-quality plywood for the building, furniture and transport vehicle industries. Most of its production is exported, mainly to the markets of central Europe.

The division's structure was reorganized with the merger of Schauman Wood Oy and United Sawmills Ltd, which took effect in January 2004.

WOOD PRODUCTS UNITS AND MAIN PRODUCTS

PLYWOOD

- High-quality WISA plywoods and veneers, mainly for building, interiors and transport equipment
- 14 production plants in Finland, 1 in France, 1 in Estonia and 2 in Russia

SAWMILLING

- Wide selection of WISA products ranging from standard products to complete components and mouldings, mainly for the building and joinery industries
- 8 sawmills and 6 processing facilities in Finland, 1 sawmill in Austria and 1 in Russia

WOOD-BASED BUILDING SUPPLIES TRADE

- Puukeskus, Finland
- Brooks Group, Republic of Ireland and Northern Ireland
- Anco Træ, Denmark

OTHER OPERATIONS

Other operations

€m	2003	2002	2001
Turnover [1]	672	583	489
Operating profit, total	264	209	396
of which			
Forestry department, Finland	41	37	45
Energy department, Finland	78	51	99
Share of results of associated companies	22	60	82
Staff functions and other [2]	123	61	170
Personnel at 31 Dec.	2,887	3,546	3,767

1) Turnover includes sales outside the Group.
2) Includes capital gains on sales of listed shares: € 167 million in 2003, € 81 million in 2002 and € 265 million in 2001.

The biggest units of UPM's Other Operations are the forestry and energy departments in Finland, together with the 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's products are Rauma Stevedoring Oy, UPM-Kymmene Seaways Oy and Interot Speditions GmbH.

The New Ventures unit develops new products and services that are expected to support the company's future business operations. The most notable new 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 19.9 million shares in Metso Corporation (14.6% of Metso's shares).

PROFITABILITY

Operating profit for the forestry department was about the same as in 2002.

The energy department improved its operating profit thanks to a considerable rise in the average market price of electricity on the year before. The company was also able to benefit from selling its temporary excess capacity. Operating profit includes € 8 million in capital gains from the sale of certain energy assets in the fourth quarter.

The associated company Metsä-Botnia returned a lower operating profit than the year before. The average price of long-fibre pulp increased from USD 463 per tonne in 2002 to USD 525 per tonne, but at the same time the strengthening of the euro mitigated the positive effects of the improved pulp market.

METSÄ-BOTNIA

UPM owns 47% of Oy Metsä-Botnia Ab, one of Europe's biggest pulp producers with a capacity of 2.7 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 the pulp is supplied to the company's owners. Turnover in 2003 was € 1,006 million. Metsä-Botnia has roughly 2,000 employees. In 2003, UPM bought 605,000 tonnes of pulp from Metsä-Botnia.

POHJOLAN VOIMA

UPM has a 42.0% 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's electricity requirement, mostly as hydropower and nuclear power. Nuclear power is generated by Pohjolan Voima's 56.8% owned Teollisuuden Voima Oy. In 2003, Pohjolan Voima had a turnover of € 660 million and a workforce of about 850.

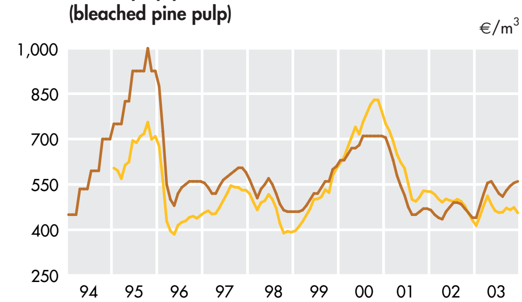
CURRENT VALUE OF RESOURCES

In the accounts, 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 € 176 million and a current value of € 196 million.

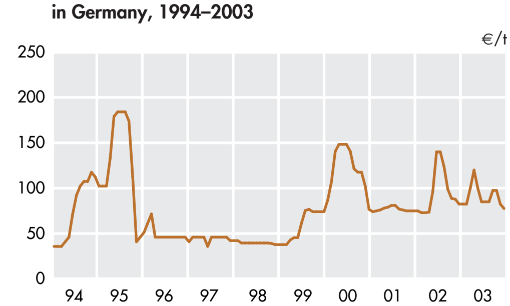
The company's 930,000 hectares of forest holdings had a book value of € 1,141 per hectare, making a total value of € 1,061 million. The figure includes revaluations of € 548 million. The company estimates that the average current value of its forest holdings in 2003 was € 1,371 per hectare, i.e. a total of € 1,275 million.

Market pulp prices 1994–2003, (bleached pine pulp)



Source: Finnish Forest Industries Federation

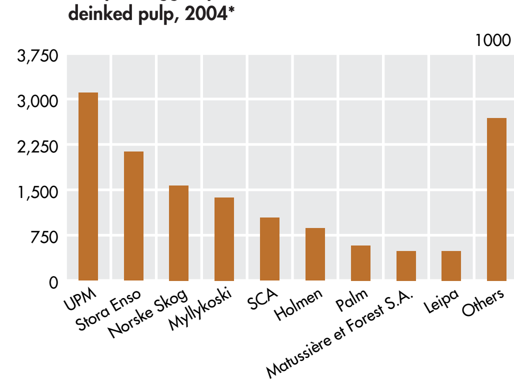
Market price of recovered paper* in Germany, 1994–2003



* Deinking grade news and pams (D39)

Source: EUWID

Europe's biggest producers of deinked pulp, 2004*



* Including ongoing investment projects

FIBRE SUPPLY

UPM MAKES VARIED USE OF DIFFERENT FIBRE RAW MATERIALS IN ITS PAPER PRODUCTION. RECYCLED FIBRE PULP NOW REPRESENTS AROUND ONE QUARTER.

Pulp production and consumption

1000 t/a	2003	2002	2001
Pulp production			
Chemical pulp			
own production	2,027	2,102	2,038
from associated company	605	594	550
Mechanical pulp	2,952	2,951	2,673
Recycled fibre pulp	1,875	1,735	810
Total	7,459	7,382	6,071
Pulp consumption			
Chemical pulp	3,139	3,161	2,970
Mechanical pulp	3,002	2,988	2,683
Recycled fibre pulp	1,877	1,737	811
Total	8,018	7,886	6,464

Pulp production capacity

1000 t/a	January 2004
Kaukas	720
Wisaforest	625
Kymi	525
Tervasaari	235
Miramichi	220
Own production capacity, total	2,325
Share in associated company	
Oy Metsä-Botnia Ab	1,100
Total	3,425

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.

UPM is around 90% self-sufficient in chemical pulp. Fluctuations in market pulp prices therefore have only a small impact on earnings.

The Group's own pulp mills have a total production capacity of 2.3 million t/a and the associated company Metsä-Botnia has a capacity of 2.7 million t/a, of which UPM's entitlement is almost 1.1 million t/a. Modernization work at Pietarsaari pulp mill due for completion in April 2004 will raise UPM's production capacity by 180,000 t/a.

Continuing weak demand for paper, together with maintenance work at the pulp mills, caused production to be curtailed throughout the year, and the capacity utilization rate was only 87% (90). UPM's consumption of chemical pulp fell by 1%.

Demand for market pulp strengthened towards the year-end. Producers' stocks were at normal levels for most of the year. The market for long-fibre pulp was considerably more buoyant. In the case of short-fibre pulp, supplies grew faster than demand, and the price difference between these pulps increased. The average price of bleached long-fibre pulp in 2003 was $ 525/tonne, compared with $ 463/tonne in 2002.

UPM purchased around 2.3 million tonnes of recovered paper. UPM is the world's largest user of recovered paper in the manufacture of printing papers. Recycled fibre was readily available.

The average price of recovered paper was the same as the previous year.

WOOD PROCUREMENT

ALL THE GROUP'S FORESTS ARE CERTIFIED.

UPM VERIFIES THE ORIGINS OF ITS WOOD RAW MATERIAL.

UPM's wood consumption

1000 m^3	2003	2002	2001
Finland	20,910	20,960	20,800
Great Britain	690	760	800
Austria	980	800	40
Canada	2,080	2,140	1,800
France	460	420	410
Germany	520	500	30
Russia	200	200	–
United States	410	560	515
Estonia	60	–	–
Total	26,310	26,340	24,395

Wood certification systems used by UPM

Country	National system	International system	Certified wood, % of total used*)
Finland	FFCS	PEFC	71
Great Britain	UKWAS	FSC	1)
Austria	PEFC	PEFC	66
Canada	–	SFI	2)
France	PEFC	PEFC	3) 9
Germany	PEFC	PEFC	84
United States	SFI	SFI	4)
Russia	–	–	–
Estonia	–	–	5)
Uruguay	–	FSC	–

*) According to the certified chain of custody system.

1) Over 60% of the forests that supply wood to UPM's mills are certified. Chain of custody certificate awarded in December 2003. 2) 53% of wood used by UPM came either from the company's own forests or from forests leased from the relevant province, all of which are certified. 3) Chain of custody certificate awarded in autumn 2003. 4) 59% of wood came either from certified forests or from felling areas audited by a third party. 5) 9% of wood purchased direct from state-owned certified forests.

WOOD PROCUREMENT

UPM's production plants in Finland consumed a total of 20.9 million m^3 of wood during the year (21.0 million). By-products from the Group's own sawmills and plywood mills provided 1.9 million m^3 of this (1.8 million). The paper divisions accounted for 69% of wood consumption and the Wood Products Division for 31%. Of the total wood used, 74% came from private forests, 2% from state-owned forests and 6% from the Group's own forests. The remaining 18% was imported, mainly from Russia. Wood imports totalled 4.0 million m^3 (3.8 million).

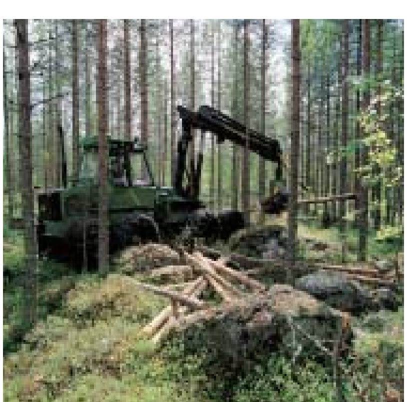
Besides supplying its own mills, the forestry department delivered 4.6 million m^3 of wood (4.4 million) to associated companies and other outside customers. Forest-based fuel equivalent to 994 GWh (636) was supplied to the Group's power plants and 111 GWh to outside customers.

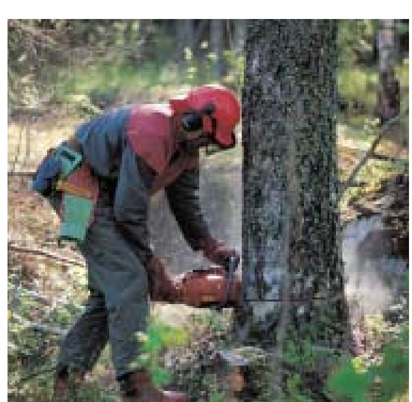
Trading in wood raw material was brisk in Finland in the early part of the year, but the fall in wood prices at the end of the summer greatly reduced supplies from private forests. The volume of wood purchased was 13% down on the year before. Wood stumpage prices were on average 2% lower.

Wood consumption by UPM's mills outside Finland totalled 5.4 million m^3 (5.4 million).

The use of wood at Shotton paper mill in England ended in November, when the mill switched over to 100% recovered paper.

A wood procurement company was established in Estonia to handle wood deliveries from and through the Baltic countries to UPM's mills in Finland.





COMPANY FORESTS

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

In FINLAND, UPM 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 (1.6 million). In addition to the company's own forests, the forestry department manages some 200,000 hectares of private forest.

In GREAT BRITAIN, the Group owns about 2,000 hectares of forest, while its subsidiary Tilhill Forestry manages around 167,000 hectares of private forest.

In the UNITED STATES, the Group owns approximately 79,000 hectares of forest.

In CANADA, the Group has around 17,000 hectares of forest and also leases some 938,000 hectares of provincial forest.

In URUGUAY, the Group has a 38.4% interest in Forestal Oriental (FOSA), a company that owns some 57,000 hectares of land, of which some 32,000 hectares is eucalyptus plantations. The Finnish company Metsä-Botnia, in which UPM is a shareholder, acquired a controlling interest in FOSA in 2003.

In CHINA, a letter of intent was signed to establish a joint venture at Zhanjiang in Guangdong province. The venture will initially focus on forestation projects.

FOREST CERTIFICATION AND WOOD ORIGINS

Customers showed increasing interest in the origins of the wood raw material used to manufacture paper and wood products. The number of enquiries increased, especially concerning the origins of imported wood and the state of Finland's old-growth forests. UPM is very particular about the origins of the wood it uses.

UPM encourages the use of forest certification. In order to verify the origins of its wood raw material, UPM seeks certification for its chain of custody arrangements. Forest certification, combined with a certified chain of custody for wood, ensures that the wood used in production originates from sustainably managed forests.

Certification of the forests in Canada in 2003 means that all forests owned by UPM have now been certified.

Work to gain certification for the chain of custody for wood raw material was continued. The Stracel mill in France and Caledonian Paper's mill in Great Britain received certificates for their chains of custody of wood raw material from forest to mill during the year.

Of the wood raw material used by UPM in 2003, 67% (58%) came from certified forests.

ENERGY

UPM IS FURTHER INCREASING ITS NON-FOSSIL PRODUCTION OF ENERGY IN ORDER TO CUT CARBON DIOXIDE EMISSIONS. THE GROUP IS SOME 70% SELF-SUFFICIENT IN ELECTRIC POWER.

Electricity procurement for the year was 19.9 TWh (20.0), of which 18.1 TWh (18.1) was consumed by the Group's own mills and 1.8 TWh (1.9) was sold. Because the Group is largely self-sufficient in electric power, the price of electricity purchased for the Group's own use in Finland 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 in the form of in-house and leased capacity and through associated companies totalled around 2,150 MW at the end of the year. The most important associated company in terms of energy is Pohjolan Voima Oy (see p. 31). UPM 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 36.6 TWh (35.5). The energy generated during the year from logging residues exceeded 1 TWh for the first time, and the figure is rising. Biofuels accounted for 56% (54%) of total fuel procurement.

UPM and Pohjolan Voima are engaged in a programme to build power plants designed to burn biofuels. The power plant that went into production in 2003 to supply heat for Savonlinna plywood mill is part of this programme.

Teollisuuden Voima Oy, which is owned 56.8% by Pohjolan Voima Oy, has decided to build a 1,630 MW nuclear power plant at Olkiluoto. UPM has reserved, through Pohjolan Voima, a 468 MW share in the plant's output. The aim is to secure supplies of electric power at a stable, favourable price for UPM's mills in Finland and mainland Europe well into the future. Making greater use of biofuels and nuclear power limits carbon dioxide emissions from fossil fuels. UPM has keenly followed progress towards emissions trading, particularly in Europe, and has made preparations for its own involvement.

Electricity procurement and consumption

TWh	2003	2002	2001
Procurement			
Hydropower shares	2.1	2.4	2.9
Back-pressure power	4.2	4.0	3.1
Nuclear power shares	4.4	4.4	4.4
Thermal energy shares	3.2	2.4	2.1
Purchased electricity	6.0	6.8	6.3
Total	19.9	20.0	18.8
Consumption			
Mills in Finland	11.3	11.2	11.2
Mills abroad	6.8	6.9	4.4
Sales	1.8	1.9	3.2
Total	19.9	20.0	18.8

Sources of thermal energy

TWh			
Black liquor	10.6	11.0	10.4
Bark and other biofuels	8.3	6.8	7.3
Heat recovered from TMP production	2.2	2.3	2.2
Peat	2.2	2.1	1.5
Purchased heat	0.9	0.4	1.2
Natural gas	8.8	9.5	6.8
Oil	1.5	1.5	1.6
Coal	2.1	1.9	1.9
Total	36.6	35.5	32.9

CAPITAL EXPENDITURE

SECOND FINE PAPER MACHINE TO BE BUILT IN CHINA BY 2005.

Capital expenditure, excluding company acquisitions, was € 584 million, 5.9% of turnover (2002: 561 million and 5.4%). A total of € 36 million was used for company acquisitions (52 million).

Maintenance and replacement investments in existing production machinery totalled € 312 million (363 million). A further € 272 million was invested in machine conversions and in new production units and lines (198 million).

Sales of shares and other fixed assets totalled € 255 million (212 million). Assets sold during 2003 included an 8.2% shareholding in the company Polar Kiinteistöt, Rosenlew's intermediate bulk containers business and 11.3 million Nokia shares.

WISAFOREST'S PULP MILL in Pietarsaari is rebuilding its recovery system. The investment will cost about € 280 million, of which UPM's share is around one half. The remaining cost will be met by the associated company Pohjolan Voima Oy and its subsidiary Wisapower Oy. When the work is completed in spring 2004, combustion of black liquor alone will supply more energy than the Pietarsaari mill requires. In terms of cost-effectiveness, the modernized mill will rank with the best in the world. The work will also result in a decrease in emissions.

CHANGSHU'S NEW FINE PAPER LINE will support UPM's growth strategy in the fastest-growing printing paper markets and strengthen the position of the Changshu mill. The investment comprises a new paper machine, which has been ordered from Metso Paper, together with a coating line for the present paper machine. The latter will greatly increase the mill's capacity to produce lightweight coated fine paper. The new paper machine is scheduled for completion in summer 2005. It will make use of the mill's existing infrastructure. The 800,000 t/a mill will strengthen UPM's position on the markets of China and Southeast Asia.

CHAIN 2000 is a project to develop systems for managing UPM's supply chain. Once operational, it will make the processes and practices of planning, sales and transport more efficient. It is also intended to reduce operating costs by making even more effective use of resources.

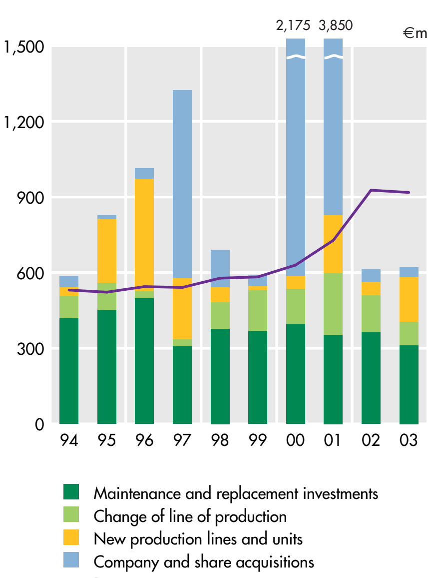
Main ongoing investment projects

	Cost in 2003 €m	Total cost €m	Due for completion
Changshu paper machine	45	450	2005
Wisaforest's pulp mill, rebuild	71	132	5/2004
Chain 2000 management system	20	90	2003–2005
Rauma PM 2, modernization	8	31	4/2004

Capital expenditure and acquisitions by country, 1999–2003

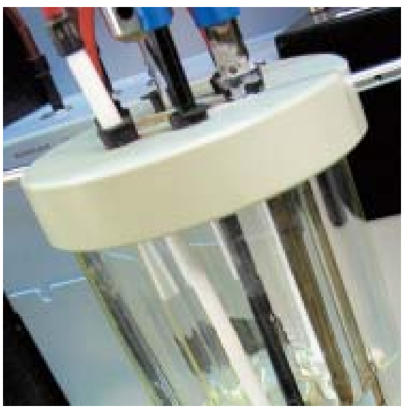
€m	2003	2002	2001	2000	1999
Finland	330	389	660	379	330
Germany	40	41	2,197	25	45
Canada	15	12	29	1,011	–
United States	15	32	171	61	34
China	52	14	5	546	–
Austria	6	10	669	–	–
Other European countries	136	86	103	125	187
Rest of world	26	29	16	28	13
Total	620	613	3,850	2,175	609

Capital expenditure and depreciation, 1994–2003



RESEARCH AND DEVELOPMENT

UPM'S R&D WORK IS STEERED BY THE NEEDS OF CUSTOMERS. THE AIMS ARE TO DEVELOP NEW PRODUCTS AND CONTINUOUSLY TO IMPROVE THE QUALITY AND COST-EFFECTIVENESS OF EXISTING PRODUCTS.



UPM's research and development work is divided between its own product and process development, New Ventures project, and that conducted together with universities, research institutes, consultants and suppliers of materials and equipment. In 2003, UPM spent around € 48 million on research and development projects, corresponding to 0.5% of turnover (46 million and 0.4%). Important development work is also carried out in conjunction with production line modernizations.

PRODUCT AND PROCESS DEVELOPMENT

UPM's own research projects are directed at developing the company's products and manufacturing processes.

Development work conducted by the paper divisions is aimed at providing customers with tailor-made papers that are competitive and have the right quality for each end-use. Improving cost-effectiveness is a constant challenge for the mills, as it means reducing the costs of fibre and other materials as well as energy costs. Work is constantly being done to expand the range of fibre raw materials and to manage the use of energy consumption more efficiently.

The manufacture of newsprint and magazine papers was made more cost-effective by increasing the use of recycled fibre and of minerals costing less than wood fibre, and by cutting down on the use of the more expensive chemical pulp. In fine paper manufacture, the proportions of short-fibre birch pulp and minerals were increased. The already wide range of printing papers was further expanded by the addition of Finesse products and grades intended for digital printing. Production of high-brightness magazine papers was stepped up on several of the Group's paper machines.

Process research by the paper divisions is aimed at achieving more consistent quality and at reducing specific consumptions and wastes.

Testing and introduction of new technical solutions together with machinery and equipment manufacturers continued. The results were improved product quality and more efficient production.

The main rebuilds and modernizations in 2003 were:

- Rauma PM 1: rebuild of the press section and coater and changeover to the neutral process for magazine paper manufacture
- Kaipola PM 6: rebuild of forming section
- Voikkaa PM 18: modifications to allow production of brighter magazine papers
- Schongau PM 9: press section rebuild to improve the printability of RCF-containing papers
- Jämsänkoski PM 3: modernization for production of new label papers.

Long-term collaboration with suppliers of machinery, equipment and raw materials is aimed at developing new generations of high-quality coated and uncoated printing papers. Work continued with numerous printing press manufacturers and printing houses to improve printing process efficiency and print quality.

The paper divisions have four research centres in Finland and two more abroad employing a total of over 200 people. In Finland, all research work will be handled by the Lappeenranta research centre from mid-2005 onwards. A total of around 200 people are engaged in technical development work at the mills. Collaboration with suppliers of machinery, equipment and raw materials takes the form of individual projects.

Chemical pulp research focused on raising efficiency levels at the mills. Efforts to reduce specific consumptions of wood and bleaching chemicals and volumes of solid waste from the pulp mills were successful.

In order to support growth, particularly in the fine papers business, the range of fibre raw materials was extended and work was done to modify the properties of fibres from different wood raw materials for optimum end-use suitability.

UPM's own softwood pulps have been developed to provide even better raw material for manufacture of the Group's magazine papers. The properties of the fibres present in wood obtained from forest thinning were used to develop a new type of pulp that is particularly suitable for speciality paper production.

The most important development projects conducted by the Converting Division concerned Raflatac's double-sided Duoface labelstock and thin glassine backing paper, Loparex's PE-coated Layflat release liner for graphic applications, CopperGard – a special product for printed circuit boards, a glassine liner for high-speed self-adhesive label applications, and Walki Wisa's high-strength envelope laminates.

Research conducted by the Wood Products Division in 2003 focused on improving the surface treatment of cladding boards and panels, further developing gluing techniques for wood products, and replacing the materials traditionally used to improve the biological resistance of wood products by more environmentally friendly methods.

NEW VENTURES

UPM's New Ventures unit conducts development projects arising from research work carried out by the company or its partners and aimed at finding new ways to improve existing products and processes and at developing completely new products. The projects in progress relate to coating, biochemistry and waste handling. Promising innovations that are not directly linked to present business operations are developed into commercial products through the New Ventures unit.

The most notable New Ventures project currently concerns UPM Rafsec, which is developing radio-frequency identification (RFID) labels and cards. These are used for product labelling by both wholesalers and retailers. The principal users have already agreed on global standards, and the first commercial applications are expected to be introduced on a wider scale during 2004.

Another important use for RFID products is in public transport, for which UPM Rafsec is developing new, competitive non-contact tickets. The use of systems using such tickets is expected to increase in the next few years.

UPM Rafsec currently employs 60 people.

COLLABORATION WITH UNIVERSITIES AND RESEARCH INSTITUTES

UPM owns 39% of the Finnish Pulp and Paper Research Institute, which is owned collectively by the pulp and paper industry in Finland. Other research institutes with which UPM works are Papiertechnische Stiftung (PTS) in Germany, Rochester Institute of Technology (RIT) in the United States, and the Pulp and Paper Research Institute of Canada (Paprican).

The company also works closely together with universities by sponsoring every year numerous postgraduate research projects connected with the company's products and manufacturing technologies.

ENVIRONMENT

CARING FOR THE ENVIRONMENT IS A NATURAL PART OF UPM'S BUSINESS OPERATIONS.

The main environmental impacts of UPM's business operations stem from pulp and paper manufacture and energy production. As a responsible company, UPM assesses, oversees and promotes environment-related issues, both its own and those of its subcontractors.

UPM's shares were again admitted to the Dow Jones sustainability indexes DJSI World and DJSI Stoxx for 2004.

FOCUS ON CONTINUOUS DEVELOPMENT OF ACTIVITIES

To maintain its leading position as a responsible forest products manufacturer, UPM is constantly seeking to reduce the environmental impact of its products over their entire life cycles. Development work conducted by the company itself and together with its customers generates plenty of new ideas for taking greater account of the environment. Today, environmental legislation relating to the forest industry is changing in line with the example set by the industry's leading players. Best available technology is a key criterion in all investments. The shift in emphasis towards management of the entire product chain is reflected in areas such as wood and pulp procurement, energy production, transport of raw materials and products, and in the safety and recycling properties of products.

In 2003, certified wood made up 67% of all raw material used by UPM (2002: 58%). Chain of custody certificates for verifying the origins of wood raw material are in use at UPM's mills in Finland, Germany, Austria, France and Great Britain.

The company's mills produce 56% of their electricity and heat from biofuels (54%).

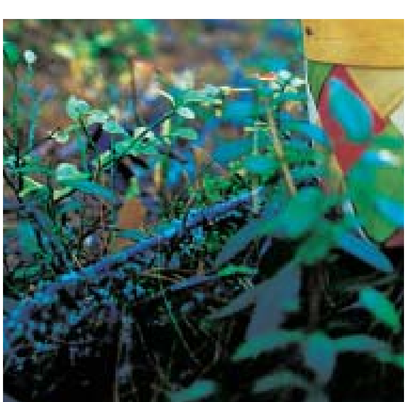
MANAGEMENT SYSTEMS WIDELY USED

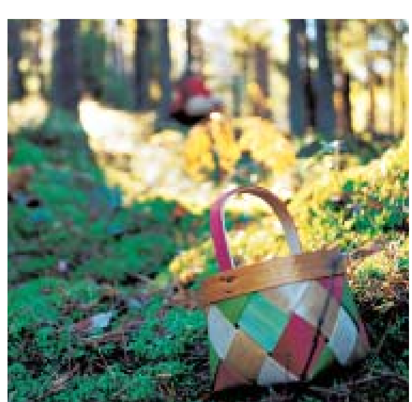
Environmental affairs are managed using systems complying with the ISO 14001 standard. Several mills in Europe, together with wood procurement operations in Finland, have received EMAS approval for their systems. The Changshu and Miramichi mills applied for certification of their systems in 2003. In Miramichi's case, approval was deferred until 2004. Once approval is given, all the Group's main environmental management systems will have been certified.

RISK MANAGEMENT IMPROVED

Total emissions to both water and air by UPM's mills were very low, and in some cases even lower than the previous year. The volumes of solid waste taken for landfilling were unchanged.

An abnormally high effluent discharge occurred at Kaukas pulp mill in summer 2003 due to problems with restarting production after the summer shut-down. During a period of 24 hours, neutralized black liquor equivalent to almost one month's normal loading was discharged into the recipient lake. The accident occurred during the height of the holiday season and, although it had no permanent impact on the water system, it did affect hundreds of people's holidays. The quality of the water below the mill was temporarily affected. The accident was unusual by today's standards, and led to substantial measures being taken both at Kaukas and at UPM's other mills. Operations that could pose a risk to the environment have been reappraised at all mills. Prevention and contingency arrangements have been reviewed and clearer instructions issued. There has also been a review of procedures and responsibilities for communicating in crisis

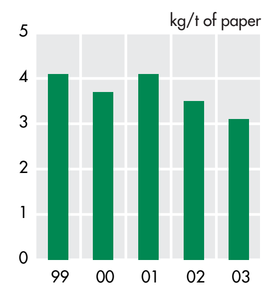




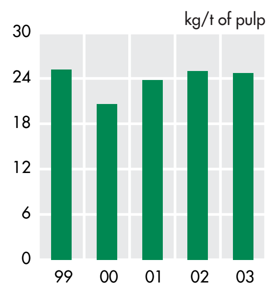
The corporate responsibility report published separately for 2003 contains the Group's environment policy, revised in 2002, together with detailed, up-to-date information, and a list of the environmental and other reports available for its mills.

Information can also be obtained from UPM's web site, address: www.upm-kymmene.com

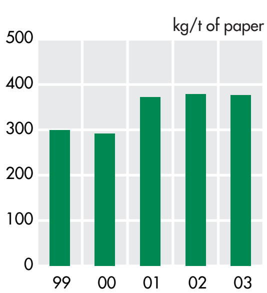
Chemical oxygen demand (COD) of wastewater from paper production [1]



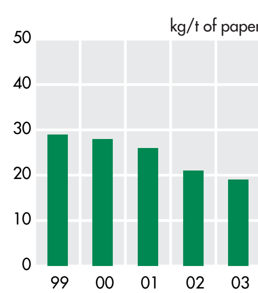
Chemical oxygen demand (COD) of wastewater from pulp production



Fossil carbon dioxide (CO_2) emissions from paper and pulp production



Landfill waste from paper and pulp production [2]



Figures for 2000 do not include Changshu and Miramichi; figures for 2001 do not include Haindl.

1) Figures for Augsburg, Blandin and Caledonian not included. COD is not measured at Blandin. Wastewater at Augsburg and Caledonian is treated in municipal treatment plants.

2) Waste also includes building and demolition waste.

situations. Legal investigations into the occurrence continue. UPM has announced it will compensate for the damage caused.

ENVIRONMENT-RELATED INVESTMENT AND OPERATING COSTS

The most important project in 2003 in terms of its environmental impact was modernization work at Pietarsaari pulp mill. When this is complete in spring 2004, the mill's specific emissions will fall considerably, while the dust content of the flue gases will fall by almost 70% as planned, and the specific oxygen demand of the effluent will be cut by around 50%. A third deinking line for recovered paper went into production at Shotton in November, allowing mechanical pulp production there to be discontinued.

Investments in measures to reduce environmental loadings or reduce environment-related risks totalled € 37 million (21 million).

Direct operating expenditure, including depreciation according to plan, was € 109 million (113 million). A total of € 53 million (56 million) was paid in environmental and energy taxes.

KEY CHALLENGES IN THE NEAR FUTURE

A study of all emission risks was started in autumn 2003. The resulting proposals for improvements relate to UPM's organizational structure, management and control systems, and to individual items of process and other equipment.

UPM operates its own industrial landfill sites. In some of these the structures will be improved, while others could be closed in the next few years. Despite all the progress made, the total volume of solid waste used for landfilling is still high. The company is constantly seeking ways to use those solid wastes that are unsuitable for its production.

As a major producer and user of energy, UPM is seriously concerned about global climate change. The company is seeking to use energy ever more efficiently. Wherever possible, the company favours non-fossil fuels for energy production, both at its own power plants and when buying energy from outside. UPM has already moved significantly in favour of natural gas and biofuels.


UPM

PERSONNEL

UPM'S HUMAN RESOURCES POLICY IS GUIDED BY THE COMPANY'S VALUES OF OPENNESS, TRUST AND INITIATIVE

UPM's aim is a corporate culture that encourages 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.

EMPHASIS ON CAREER AND SUCCESSOR PLANNING

There is plenty of scope for career planning and job rotation, particularly among younger people, as UPM prepares for an increase in the number of people retiring in the next few years. Job rotation on an international basis will benefit particularly.

EMPLOYEE NUMBERS DOWN

The number of employees was 35,579 at the start of 2003 and 34,482 at the end. This is a decrease of 1,097, of which 480 resulted from business disposals. Reductions were mainly achieved through natural attrition and by greatly limiting recruitment during 2003. In line with UPM's policy, all negotiations concerning workforce reductions were conducted locally together with management and employee representatives.

TRAINING AIMED AT INDIVIDUAL DEVELOPMENT

A training programme, the main aim of which was to establish a common corporate culture, was completed during 2003. Several thousand employees took part. The emphasis now is on individual development in support of career planning and on training aimed at top management through the Leadership Academy programme. The aim is to promote management in unison with UPM's principles.

Computer-assisted instruction has become an established part of vocational training for papermakers. At Changshu, the local vocational training school has set up a UPM Paper Maker study course specially for the new paper machine being built. At Blandin, a tailor-made training course is being introduced based on computer-assisted learning.

HUMAN RESOURCES POLICY

Implementation of UPM's human resources policy was reviewed and harmonized. A new information system for human resources administration was completed. The system supports the systematic development of employee-related issues and high-priority projects such as equality in career planning.

Key indicators

	2003	2002	2001
Turnover per person, € (= Turnover / average no. of employees)	278,000	284,000	288,000
Value added per person, € (= Turnover – materials and services / average number of employees)	127,000	141,000	142,000
Remunerations based on financial performance, € million	6	11	24
Training costs, € million (= Training costs incl. salaries and indirect employee costs)	24	27	26
Average no. of days spent in training (= No. of days of training / average no. of employees)	2.6	2.7	2.7
Personnel turnover, % (= No. of persons leaving / average no. of employees)	2.7	4.1	5.7
No. of man-days lost through strikes	6,300	800	1,200

OCCUPATIONAL HEALTH AND SAFETY

The targets for reducing accidents and absenteeism through illness have not been met. The situation varies between countries and between mills, but absences through illness have increased, notably in Finland. High priority has been given to reducing accidents and absences through illness.

COOPERATION WITHIN THE GROUP

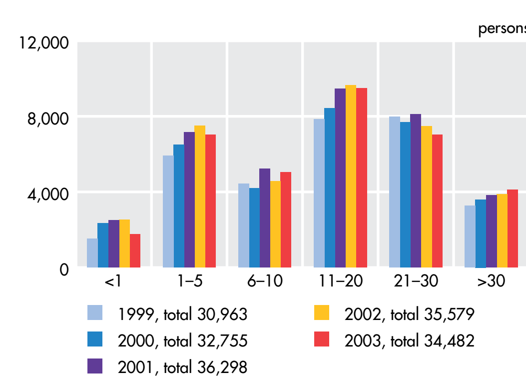
The aim of cooperation is to promote the exchange of information and other interactions between employer and employees throughout the UPM Group. Improvements are being achieved by encouraging openness among employees and by stepping up the exchange of information on matters of interest. Two international conferences were arranged during the year.

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. Rewards under the profit-sharing scheme for 2003 total € 6 million (11 million).

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

Employees' years of service with UPM



Pension expenses 2001–2003

	2003	2002	2001
Pension expenses, € million			
In Finland	145	138	128
Abroad	43	61	23
Total	188	199	151
Pensions expenses, % of wages and salaries			
In Finland	19.4	18.6	16.9
Abroad	7.7	10.0	4.8

Personnel by country at end of year

	2003	2002	2001
Finland	19,401	19,873	20,642
Germany	4,333	4,385	4,411
Great Britain	1,960	2,001	2,030
France	1,771	2,032	2,170
Austria	712	737	721
Russia	660	571	514
Ireland	345	315	283
Spain	272	255	193
Denmark	234	233	241
Estonia	173	22	21
The Netherlands	169	185	196
Italy	81	65	61
Belgium	66	128	139
Sweden	62	69	77
Poland	50	53	51
Portugal	7	88	73
Other European countries	73	71	82
United States	1,526	1,968	1,915
Canada	1,414	1,449	1,473
China	834	772	726
Malaysia	126	103	89
Australia	96	90	80
South Africa	78	73	74
Rest of world	39	41	36
Total	34,482	35,579	36,298

PENSION SCHEMES

The company's pension schemes are specific to each country and unit. In Finland, the pensions of 93% of UPM's employees are arranged through pensions insurance companies, and the remaining 7% through UPM's own pension funds. Outside Finland, about one-third of employees are members of defined contribution plans and the other two-thirds are covered by defined benefit plans.

EVENTS IN 2003

JANUARY

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

15 Production began at the veneer mill built by UPM and the Russian company ZAO Novgorodlesprom at Chudovo in Russia.

FEBRUARY

3 UPM and Antalis embarked on e-trading through Expresso Paper Platform. Expresso is designed for use by the paper industry and its customers and makes more effective the entire supply chain from manufacturer to customer.

MARCH

19 The Annual General Meeting approved a proposal by the Board of Directors to buy back a minimum of 100 and a maximum of 24,600,000 of the company's own shares. The meeting also approved the Board's proposal for a € 445,042,090.50 bonus issue that will raise the company's share capital from € 445,042,090.50 to € 890,084,181.00. One new share was issued for each existing old share.

21 UPM announced a rebuild of paper machine 2 at its Rauma mill at a cost of about € 30 million. As a result, the machine's capacity will increase by 30,000 t/a. The work will be completed in April 2004.

25 UPM announced the installation of a new winder at its Miramichi paper mill at a cost of some € 19 million. The winder will go into operation in summer 2004.

APRIL

10 UPM acquired 100% of the shares of the Estonian plywood mill AS FSS Plywood.

30 UPM announced the sale of its Rosenlew intermediate bulk containers business to a group of international investors.

MAY

21 UPM signed a letter of intent to set up a joint venture at Zhanjiang in the Guangdong province of China. The aim is to prepare the way for wood procurement for a possible future pulp mill project.

23 The wood products business announced a change of its corporate structure through the merger of Schauman Wood Oy and United Sawmills Ltd. The company's new name is UPM-Kymmene Wood Oy. The change took effect from January 2004.

30 UPM received an award as one of the top 15 suppliers to the US retail chain JC Penney. The award was chiefly in recognition of UPM's broad range of quality paper products. Other reasons were the shorter lead times achieved through investment and the commitment and flexibility of UPM's mills.

JUNE

2 UPM established UPM-Kymmene Forest AS, a wood procurement company to operate in the Baltic region. The company handles deliveries of pulpwood and chips from and through the Baltic countries to UPM's paper mills in Finland, and deliveries of birch logs to the plywood mill in Estonia.

30 An accident occurred at Kaukas pulp mill involving the discharge of soap, which caused turbidity in the lake water, followed later by the discharge of neutralized black liquor resulting in chemical oxygen demand.

WE LEAD.
WE LEARN.

UPM

JULY

23 The EU approved a € 24 million grant from the UK government for construction of a new deinking plant at UPM's Shotton paper mill. The amount of aid initially granted was € 35 million.

26 A court in the United States blocked UPM's proposed acquisition of MACtac. UPM had agreed to buy the pressure-sensitive materials business of the American company Bemis Company Inc. for $ 420 million. The agreement with Bemis was therefore terminated.

AUGUST

19 UPM received a subpoena in connection with investigations into competition in the US labelstock industry.

19 UPM became the first in Europe to use CE labelling for its plywood products.

SEPTEMBER

1 The sale of UPM's Rosenlew intermediate bulk containers business was completed.

1 UPM entered into negotiations with employee representatives concerning closure of Voikkaa mill's paper machine 17 and old groundwood mill. The machine is to be shut down on 1 May 2004.

8 UPM placed an order with Metso Paper for a new fine paper machine for its Changshu mill.

OCTOBER

1 UPM sold its interest in Polar Kiinteistöt Oyj to the German real estate company IVG Immobilien AG.

27 UPM announced it will transfer all its paper divisions' research and development work to Lappeenranta, Finland, by summer 2005.

NOVEMBER

11 The new deinking plant at Shotton paper started production.

12 The company announced it was introducing UPM as its commercial name, together with a new graphic design guide, from January 2004.

DECEMBER

16 UPM announced a revision of the composition of its Executive Team and the duties of its members. The aim is to increase customer focus and speed up decision-making. Jussi Pesonen's responsibilities as Senior Executive Vice President were widened and at the same time he was appointed deputy to the President and CEO.

18 UPM announced a € 24 million modernization of the SC paper machine (PM 6) at its Jämsänkoski mill. This will raise the machine's production capacity by 25,000 t/a. The work will be completed in the first quarter of 2005.

18 UPM announced it would reserve, through its associated company Pohjolan Voima Oy, around 470 MW of power from a new nuclear power plant, i.e. almost 29% of the plant's capacity. The cost to UPM will be roughly € 40 million.

JANUARY 2004

29 The Board of Directors accepted the resignation of Juha Niemelä as the company's President and CEO. Mr Niemelä also announced that he will resign from the Board of Directors. At the same meeting, the Board appointed Jussi Pesonen, the Senior Executive Vice President and COO, as the company's new President and CEO.

REPORT OF THE BOARD OF DIRECTORS

THE MARKET IN 2003

For the third year in a row, paper markets were characterized by weak growth in demand and by over-supply. Although economic growth was better than in 2002, growth was still weak, especially in Europe. Growth in print media advertising continued to be subdued. In Europe, magazine paper demand improved somewhat from the previous year but demand for the other main paper grades remained practically flat or declined. The picture was similar in North America, with magazine papers gaining ground but fine paper and newsprint demand declining. In China, the growth in demand for paper was robust.

Average prices for magazine papers in Europe were markedly lower than in 2002. In the United States prices were slightly higher due to gradual increases introduced throughout the year. Newsprint prices in Europe fell early in the year but then levelled off as supply contracts are generally agreed for one year at a time. In the United States and Asia, newsprint prices were raised and average prices ended up higher. Price erosion continued in European fine paper markets. Average prices for both coated and uncoated fine paper fell significantly. In China, prices were more stable. Prices for speciality papers decreased somewhat.

The markets served by the Converting Division remained challenging. Demand for self-adhesive labelstock grew in the Americas and the Asia-Pacific region, but was lacklustre in Europe. Demand for siliconized papers remained weak, but towards the end of the year some improvement was in sight. The market for industrial wrappings was also weaker than the year before.

Competition on the plywood market intensified due to new supply. The oversupply in sawn timber continued. Trading conditions for wood-based building supplies remained good.

EARNINGS

■ FOURTH QUARTER OF 2003 COMPARED WITH THIRD QUARTER

Turnover for the fourth quarter was € 2,552 million, compared with € 2,437 million for the third quarter. Turnover grew by 5%. Paper deliveries increased by 9%.

Operating profit was € 275 million (164 million for the third quarter). Operating profit includes net non-recurring income of € 153 million (net non-recurring charges of € 15 million). The main non-recurring item was the sale of 11.3 million Nokia shares, resulting in a capital gain of € 163 million. Following the sale, UPM no longer owns shares in Nokia. Other capital gains were € 8 million and restructuring costs, mainly related to the cost-savings programme, and other provisions were € 18 million.

Operating profit excluding non-recurring items was € 122 million, down from the previous quarter's € 179 million. The lower operating profit is due to mandatory production downtime at Finnish pulp and paper mills during the Christmas holiday, and to a one-day strike by paper industry workers in Finland on 3 December. Profitability also suffered from lower export prices due to the stronger euro. Operating profit for the Converting Division was lower than in the third quarter, and the Wood Products Division's performance was also weak. Operating profit was 10.8% of turnover (6.7%). Excluding non-recurring items, operating profit was 4.8% of turnover (7.3%).

The Group's paper machines operated at 89% of capacity during the fourth quarter (88%).

Profit before extraordinary and non-recurring items was € 82 million (128 million), and including non-recurring items € 235 million (113 million). Net financial expenses were € 40 million (51 million). Taxes booked for the final quarter amounted to € 73 million (42 million).

The cash flow continued to be good due to a further € 199 million reduction in working capital.

Excluding non-recurring items, earnings per share were € 0.11 (0.16), return on equity was 3.1% (4.9%) and return on capital employed 4.5% (6.0%).

■ 2003 COMPARED WITH 2002

Turnover for 2003 was € 9,948 million, 5% down on the previous year despite 4% higher deliveries. Lower paper prices in Europe and the stronger euro were the main reasons for the fall in turnover.

The operating profit of € 784 million (1,062 million for 2002) includes net non-recurring income of € 129 million (charges of 46 million). Gains from the sale of listed shares were € 167 million and other capital gains € 23 million. Non-recurring restructuring costs were € 32 million, and write-downs and other provisions € 10 million. The unrealized MACtac acquisition caused non-recurring costs of € 46 million, of which € 27 million were exchange losses.

Excluding non-recurring items, operating profit was 6.6% of turnover (10.6%). Operating profit for the paper divisions fell due to lower sales prices partly caused by the stronger euro. Profits benefited from cost savings, synergy benefits from the Haindl acquisition and higher deliveries. The performance of the Converting Division suffered from the difficult market conditions and operating profit declined. Operating profit for the Wood Products Division was also weaker than during the previous year.

Profit before extraordinary items was € 559 million (789 million), and excluding non-recurring items € 457 million (835 million).

Net financial expenses were € 225 million (273 million), including dividend income of € 18 million (21 million) and exchange losses of € 28 million (gains of € 2 million). Lower interest rates and lower interest-bearing liabilities reduced interest expenses. Taxes were € 193 million (241 million), and the effective tax rate was 34.5% (30.5%). Profit for the year was € 368 million (550 million).

Earnings per share were € 0.70 (1.06), return on equity 5.3% (8.0%) and return on capital employed 6.4% (8.4%). Excluding non-recurring items, earnings per share were € 0.57 (1.12), return on equity 4.2% (8.4%) and return on capital employed 5.6% (8.8%).

PRODUCTION AND DELIVERIES

UPM produced 10.232 million tonnes of paper in 2003 (10.046

million in 2002). The paper divisions' capacity utilization rate averaged 88% for the year (87%). Full-year capacity utilization rates for the different grades were as follows: magazine papers 87% (85%), newsprint 90% (88%), fine papers 87% (86%), and speciality papers 91% (95%).

Paper delivery volumes increased by 4.3% to 10.342 million tonnes (9.918 million tonnes). Delivery volumes by division were: magazine papers 4.822 million tonnes (4.618 million), newsprint 2.587 million tonnes (2.467 million), and fine and speciality papers 2.879 million tonnes (2.774 million).

Plywood production amounted to 936,000 cubic metres (905,000). The output of sawn timber rose by 9% to 2.408 million cubic metres (2.201 million).

FINANCING

At 31 December 2003, the gearing ratio was 67% (76% at 31 December 2002).

The cash flow from operations was € 1,264 million (1,429 million). Cash flow remained good due to limited capital expenditure and reduction in working capital. Net interest-bearing liabilities were € 4,599 million, a decrease of € 686 million on the previous year's figure of € 5,285 million. The average rate of interest on borrowings was 3.5% (3.8%) for the year. The average maturity at the year-end was 8.1 years (8.5).

In May, Standard & Poors lowered the company's credit rating from BBB+ to BBB. The credit ratings for UPM's bonds at the year-end were BBB (S&P – stable) and Baa1 (Moody's – stable).

PERSONNEL

The average number of employees was 35,751 (36,866). At the end of the year the Group had 34,482 employees (35,579). The decrease was mainly due to divestments and streamlining of operations.

CAPITAL EXPENDITURE

Gross capital expenditure, excluding acquisitions, was € 584 million (561 million), and including acquisitions € 620 million (613 million). Sales of shares and other fixed assets totalled € 255 million (212 million).

The USD 470 million project to build a 450,000 t/a fine paper machine and additional coating capacity at Changshu near Shanghai in China is progressing. Construction work on the site started in September and the new paper machine was ordered during the same month. The planned start-up of the paper machine is in the summer 2005.

The other major investment projects completed or on-going are the expansion of the deinking plant at Shotton, which was commissioned in November 2003, and the rebuild of Pietarsaari pulp mill, which is due for completion in April 2004. The new 300,000 m³ sawmill at Pestovo, Russia, is currently in the start-up phase.

In March, the company decided to rebuild paper machine 2 at the Rauma mill at a cost of approximately € 30 million. The investment will improve the quality of uncoated magazine paper and reduce production costs. The rebuild will be completed in April 2004.

In May, UPM signed a letter of intent to establish a joint venture company in Zhanjiang, Guangdong Province in China. The joint venture will investigate and make preparations for wood supplies for a possible future pulp mill. The first phase forestry operations are estimated to cost USD 44 million, of which UPM's 45% share will be USD 20 million.

In July the company decided on an additional € 90 million investment to develop customer and supply chain management systems during 2003–2006.

In December the company decided to invest € 24 million in rebuilding SC paper machine 6 at Jämsänkoski. The rebuilt machine will come on stream during the first quarter of 2005.

In December, UPM reserved 470 MW of power capacity from the nuclear power plant to be constructed by Teollisuuden Voima Oy, Finland. UPM's investment will be made through its associated company Pohjolan Voima Oy and requires a € 40 million investment in PVO's share capital.

RESTRUCTURING

In September, UPM sold its Rosenlew flexible intermediate bulk container (FIBC) operations. The business in question has some 470 employees and an annual turnover of approximately € 40 million.

In September, the company decided to close down the old 100,000 t/a book paper machine 17 and the adjacent stone groundwood plant at Voikkaa paper mill in Finland. Planned closure of the machine is on 1 May 2004.

In October, UPM agreed to sell its 8.2% holding in the real estate company Polar Kiinteistöt for € 11 million.

COST SAVINGS PROGRAMME AND INTEGRATION OF HAINDL

In April 2003 UPM announced a programme aiming at annual cost savings of € 200 million by the beginning of 2005. Cost savings are being sought in all areas of operations, including fixed costs, purchasing, logistics and reduction of working capital. By the end of 2003 more than two-thirds of the savings target had been achieved. The synergy benefits from the Haindl acquisition in November 2001 have been greater than originally anticipated. The annual target of € 70 million by the end of 2004 had largely been reached at the end of 2003.

SHARES

UPM shares worth € 9,117 million (10,827 million) were traded on the Helsinki Exchanges in 2003. The highest quotation was € 17.10 in September and the lowest € 11.05 in April. The value of the company's shares traded on the New York Stock Exchange was USD 191 million (169 million).

In December 2002, it was decided that the company would redeem the outstanding bonds of the € 161.5 million convertible bonds issued in 1994 by Repola Ltd, a predecessor of the company. By the redemption, 28 February 2003, the total number of conversions during the years 1994 to 2003 was € 157,832,624.79 and the number of shares converted 7,319,754 corresponding to 14,639,508 shares after the bonus issue. The remaining amount of the bonds (€ 3,627,815.16) was redeemed on the redemption date. According to the terms of the bonds, holders of new shares subscribed under the issue in 2003 are entitled to receive dividends for the first time for the 2003 financial period.

The Annual General Meeting of 19 March 2003 approved a proposal to buy back a minimum of 100 and a maximum of 24.6 million own shares using distributable funds.

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

The meeting also decided to increase the share capital of the company through a one-for-one bonus issue. As a result, a total of 261,789,465 new shares were issued. Following the bonus issue, the number of shares in issue as of 31 March 2003 was 523,578,930.

The same meeting authorized the Board of Directors to decide to increase the share capital by issuing new shares or convertible bonds in one or more issues. The increase in the number of shares may amount to an aggregate maximum of 104,000,000 shares. This authorization has not been used. Together with the authorization and share options, the number of shares, which stood at 523,578,930 at the end of December, may increase to a maximum of 650,778,930.

Apart from the above, the Board of Directors has no current authorization to issue shares, convertible bonds or share options.

The subscription price for the company's 2002E share options was set at € 14.27, i.e. the trade-weighted average quotation for UPM shares on the Helsinki Exchanges between 15 April and 15 May 2003 plus 10%. The subscription price 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 subscription period for the 2002E share options is from 1 April 2005 to 30 April 2008. A total of 3,526,000 share options, each entitling the holder to subscribe two UPM shares, were distributed to about 400 key employees in June.

COMPANY DIRECTORS

The Annual General Meeting of 19 March 2003 elected Georg Holzhey, former Managing Director and co-owner of Haindl and former Executive Vice President of UPM-Kymmene, as a new member of the Board of Directors. 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 in the international law firm White & Case LLP, Michael C. Bottenheim, ex-Director of Lazard Brothers, Berndt Brunow, Managing Director of Oy Karl Fazer Ab, the Canadian lawyer Donna Soble Kaufman, 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.

In December, UPM announced a revision of its management organization. From the beginning of 2004 all divisions report to Jussi Pesonen, SEVP & COO, who also acts as deputy to the President and CEO. Martin Granholm, former SEVP and deputy to the President and CEO, was appointed Senior Advisor to Group Management in strategy-related matters until his retirement on 31 December 2004.

In its meeting on 29 January 2004, the Board of Directors accepted the resignation of Juha Niemelä from the position of President and CEO. Mr Niemelä also announced that he will resign from the Board of Directors. In the same meeting the Board appointed Jussi Pesonen, the current Senior Executive Vice President and COO, President and CEO of UPM-Kymmene Corporation.

LITIGATION

In late July, a US District Court in Chicago approved an injunction to block the USD 420 million acquisition of MACtac, the pressure-sensitive materials business of the US-based Bemis Corporation, following which UPM terminated its agreement on the transaction.

In August, UPM received a grand jury subpoena in connection with the US Department of Justice Antitrust Division's investigation into the US labelstock industry. UPM is responding to the subpoena as required. As a result of the investigation, several class action suits have been brought against UPM-Kymmene Corporation, Raflatac Inc. and other labelstock producers in the United States.

RESEARCH AND DEVELOPMENT

UPM's research and development work is divided between its own product and process development, New Ventures projects, and that conducted together with universities, research institutes, consultants and suppliers of materials and equipment. In 2003, UPM spent around € 48 million on research and development projects, corresponding to 0.5% of turnover (46 million and 0.4%). Important development work is also carried out in conjunction with production line modernizations.

Most of the development projects conducted by the paper divisions represented product and process development relating to day-to-day operations. UPM's own research centres are studying ways to expand the range of fibre raw materials and to make more efficient use of energy. Pulp research in 2003 focused mainly on improving cost-effectiveness at the mills. In converting, the most important areas were two-sided products and new types of release liner. Research into wood products was devoted to improving surface treatments and gluing techniques, and to the introduction of more environment-friendly wood preservatives.

The latest New Ventures projects relate to coating, biochemistry and waste recycling

THE ENVIRONMENT

Environment-related capital expenditure was € 37 million (21 million) and the corresponding operating expenses, including depreciation, were € 109 million (113 million). Certified environmental management systems covered roughly 85% of production in 2003.

OUTLOOK FOR 2004

The economic recovery in Europe is expected to continue. Good economic growth in both the USA and Asia is forecast to continue. This should lead to further improvement in demand for paper, although growth rates will vary by grade and by market.

In Europe, magazine paper prices are expected to remain largely unchanged during the first quarter. In the United States, magazine paper prices are expected to increase during the year. Euro-denominated contract prices for newsprint will be slightly below those of last year.

Prices for fine papers are expected to strengthen as demand rises. The markets for speciality papers are expected to improve.

The markets for the products of the Converting Division are also expected to show a gradual improvement. The Wood Products Division's markets will continue to suffer from oversupply.

The weakened US dollar will adversely affect profitability.

Operating profit for the first quarter of 2004 is expected to be somewhat lower than that of last year.

Capital expenditure will be approximately € 700 million.

ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

UPM adopted IFRS standards in its financial reporting starting from 1 January 2004. UPM will publish a separate report in March 2004 to communicate the new accounting policies, the main effects of IFRS, and comparative financial statements with reconciliations to the Finnish GAAP for the years 2002 and 2003.

BOARD OF DIRECTORS' PROPOSAL FOR THE DISTRIBUTION OF PROFITS

The consolidated balance sheet shows unrestricted shareholders' equity at 31 December 2003 of € 4,701 million, of which distributable funds comprise € 3,265,000,000.00.

The parent company balance sheet shows unrestricted shareholders' equity at 31 December 2003 of € 3,062 million, of which distributable funds comprise € 3,062,079,191.66.

The Board of Directors proposes to the Annual General Meeting that a dividend of € 0.75 per share be paid on the shares outstanding at the record date, the remainder being retained.

On 29 January 2004, there are 523,578,930 outstanding shares and the corresponding amount to be paid in dividends is € 392.7 million.

Helsinki, 29 January 2004

Vesa Vainio
Chairman

Gustaf Serlachius

Carl H. Amon III

Martti Ahtisaari

Michael C. Bottenheim

Berndt Brunow

Georg Holzhey

Jorma Ollila

Donna Soble Kaufman

Jussi Pesonen
President and CEO

CONSOLIDATED PROFIT AND LOSS ACCOUNT

€ million	Note	2003	2002	2001
Turnover	(1)	9,948	10,475	9,918
Other operating income	(2)	220	155	315
Costs and expenses	(3)	–8,480	–8,610	–7,958
Share of results of associated companies	(4)	22	60	83
Depreciation according to plan and value adjustments	(5)	–926	–1,018	–744
Operating profit	(6)	784	1,062	1,614
Financial income and expenses	(7)	–228	–273	–279
Share of results of associated companies	(7)	3	–	–2
Profit before extraordinary items		559	789	1,333
Extraordinary income		–	–	–
Extraordinary expenses		–	–	–
Profit after extraordinary items		559	789	1,333
Income taxes	(8)	–193	–241	–378
Minority interest		2	2	–
Profit for the financial period		368	550	955
Undiluted earnings per share, €	(9)	0.70	1.06	1.93
Diluted earnings per share, €	(9)	0.70	1.05	1.90

CONSOLIDATED BALANCE SHEET

€ million	Note	**31.12.2003**	**31.12.2002**
ASSETS			
Non-current assets			
Intangible assets	(10)	348	364
Goodwill on consolidation	(11)	1,894	1,987
Tangible assets	(12)	7,846	8,253
Investments held as non-current assets	(13)	1 398	1,507
		11,486	12,111
Current assets			
Stocks	(14)	1,217	1,288
Receivables	(15)	1,426	1,550
Cash in hand and at bank		388	425
		3,031	3,263
Total		14,517	15,374

€ million	Note	**31.12.2003**	**31.12.2002**
EQUITY AND LIABILITIES			
Shareholders' equity	(16)		
Share capital		890	442
Share premium reserve		687	654
Revaluation reserve		365	365
Legal reserve		226	671
Retained earnings		4,333	4,238
Profit for the financial period		368	550
		6,869	6,920
Minority interest		32	33
Provisions	(17)	410	450
Liabilities			
Deferred tax liability	(18)	644	645
Non-current liabilities	(19)	4,274	5,139
Current liabilities	(20)	2,288	2,187
		7,206	7,971
Total		14,517	15,374

CONSOLIDATED CASH FLOW STATEMENT

€ million	Additional information	2003	2002	2001
CASH FLOW FROM OPERATING ACTIVITIES				
Operating profit		784	1,062	1,614
Adjustments to operating profit	a)	723	862	397
Change in net working capital	b)	122	–144	96
Interest received		16	30	40
Interest paid		–226	–301	–337
Dividends received		70	67	118
Other financial income and expenses		–64	46	32
Direct taxes paid	c)	–161	–193	–315
Cash from operating activities		1,264	1,429	1,645
CASH FLOW FROM INVESTING ACTIVITIES				
Acquisition of Group companies net of cash acquired	d)	–14	–10	–2,330
Investments in associated company shares		–2	–26	–29
Investments in other shares		–	–5	–8
Purchase of tangible and intangible assets		–564	–571	–849
Proceeds from sale of Group companies net of cash disposed		–5	12	1
Proceeds from sale of associated companies		14	7	–2
Proceeds from sale of other shares		174	–1	253
Proceeds from sale of tangible and intangible assets		18	84	50
Increase in other long-term investments		–2	–2	–4
Decrease in other long-term investments		54	71	64
Other items		–25	–	–
Cash used in investing activities		–352	–441	–2,854
Cash flow before financing activities		912	988	–1,209
CASH FLOW FROM FINANCING ACTIVITIES				
Increase in long-term liabilities		579	1,050	3,551
Decrease in long-term liabilities		–1,004	–978	–1,993
Increase (+) or decrease (–) in current interest-bearing liabilities		–86	–605	–50
Increase (–) or decrease (+) in interest-bearing receivables		11	–19	19
Dividends paid		–390	–388	–371
Share issue		–	–	419
Purchase of own shares		–	–	–152
Other items		–28	–57	–24
Cash used in financing activities		–918	–997	1,399
Net increase (+) or decrease (–) in cash and cash equivalents	e)	–37	2	195
Cash and cash equivalents at 1 Jan.		425	423	228
Cash and cash equivalents at 31 Dec.		388	425	423

ADDITIONAL INFORMATION ON CONSOLIDATED CASH FLOW STATEMENT

€ million		2003	2002	2001
a)	**Adjustments to operating profit**			
	Depreciation and value adjustments	926	1,018	744
	Gains (–) or losses (+) on sale of fixed assets	–198	–123	–294
	Share of results (+/–) of associated companies	–22	–60	–83
	Other	17	27	30
	Total	723	862	397
b)	**Change in net working capital**			
	Increase (–) or decrease (+) in stocks	26	–23	26
	Increase (–) or decrease (+) in non-interest-bearing receivables	55	78	85
	Increase (+) or decrease (–) in current non-interest-bearing liabilities	41	–199	–15
	Total	122	–144	96
c)	**Taxes paid**			
	Taxes paid, total	–181	–284	–358
	Allocated to sale of shares	26	82	44
	Allocated to sale of other fixed assets	7	9	–1
	Allocated to other items	–13	–	–
	Total	–161	–193	–315
d)	**Additional information on acquisition of Group companies**			
	Effect of acquired companies on consolidated assets and liabilities			
	Non-current assets	–15	–3	–2,962
	Current assets	–2	–21	–819
	Non-current liabilities	2	9	332
	Current liabilities	2	–	668
	Other items	–1	3	28
	Cash flow	–14	–12	–2,753
	Less cash and cash equivalents of acquired companies	–	2	423
	Cash flow on acquisition net of cash acquired	–14	–10	–2,330
e)	**Effect of exchange rate differences on cash and cash equivalents**			
	Cash and cash equivalents at 1 Jan.	425	423	228
	Effect of exchange rate changes	–31	11	5
		394	434	233
	Increase (+) or decrease (–) in cash and cash equivalents	–6	–9	190
	Cash and cash equivalents at 31 Dec.	388	425	423

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 eurozone 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 is 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	2003	2002	2001
Magazine Papers	3,320	3,577	3,548
Newsprint	1,295	1,381	1,058
Fine and Speciality Papers	2,278	2,449	2,362
Converting	1,374	1,541	1,480
Wood Products	1,552	1,489	1,463
Other Operations	672	583	489
Intra-Group sales	–543	–545	–482
	9,948	10,475	9,918

INTERNAL TURNOVER BY DIVISION

€m	2003	2002	2001
Magazine Papers	110	105	136
Newsprint	24	4	3
Fine and Speciality Papers	278	311	225
Converting	43	44	40
Wood Products	88	81	78
Other Operations [1]	–	–	–
	543	545	482

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

TURNOVER BY MARKET

€m	2003	2002	2001
Germany	1,550	1,803	1,561
Great Britain	1,242	1,368	1,433
Finland	1,135	988	974
France	725	850	876
Other EU countries	2,040	2,150	1,995
Other European countries	778	796	668
USA and Canada	1,406	1,495	1,453
Rest of world	1,072	1,025	958
	9,948	10,475	9,918

2 OTHER OPERATING INCOME

€m	2003	2002	2001
Capital gains on disposal of fixed assets	200	132	299
Income from rents	11	12	11
Other	9	11	5
	220	155	315

3 COSTS AND EXPENSES

€m	2003	2002	2001
Change in stocks of finished goods and work in progress	34	–43	49
Production for own use	–47	–51	–46
Materials and services			
Raw materials, consumables and goods			
Purchased during the period	4,474	4,540	4,311
Change in stocks	–3	–20	–69
External service	959	863	772
	5,417	5,289	5,017
PERSONNEL EXPENSES			
Salaries and fees			
Salaries of boards of directors and managing directors	11	20	22
Other salaries	1,293	1,344	1,235
	1,304	1,364	1,257
INDIRECT EMPLOYEE COSTS			
Pension expenses	188	199	151
Other indirect employee costs	191	206	204
	379	405	355
OTHER OPERATING COSTS AND EXPENSES	1,380	1,552	1,329
	8,480	8,610	7,958

The annual salaries, emoluments in kind and fees paid to the Parent Company's Managing Director and Deputy Managing Director in 2003 were € 1.089 million (1.184 million) and € 0.484 million (0.487 million), respectively.

At 31 December 2003, 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.

PERSONNEL (AVERAGE)	2003	2002	2001
Magazine Papers	9,180	9,635	8,491
Newsprint	3,843	3,914	2,972
Fine and Speciality Papers	6,827	6,816	6,797
Converting	4,755	4,979	4,903
Wood Products	7,803	7,862	7,580
Other Operations	3,343	3,660	3,720
Personnel (average) total	35,751	36,866	34,463
PERSONNEL AT YEAR END	34,482	35,579	36,298

4 SHARE OF RESULTS OF ASSOCIATED COMPANIES

€m	2003	2002	2001
Oy Metsä-Botnia Ab	26	50	80
Pohjolan Voima Oy	–9	–3	–
Other	5	13	3
Total included in operating profit	22	60	83

5 DEPRECIATION ACCORDING TO PLAN AND VALUE ADJUSTMENTS

€m	2003	2002	2001
Depreciation according to plan			
Intangible rights	8	8	4
Goodwill	10	11	4
Goodwill on consolidation	113	112	41
Other capitalized expenditure	26	22	20
Buildings	95	98	76
Machinery and equipment	642	652	562
Other tangible assets	24	24	21
	918	927	728
Value adjustments on non-current assets	8	91	16
	926	1 018	744

PLANNED DEPRECIATION AND VALUE ADJUSTMENTS BY DIVISION

€m	2003	2002	2001
Magazine Papers [1]	415	492	343
Newsprint	184	196	93
Fine and Speciality Papers	196	190	171
Converting	57	59	56
Wood Products	50	49	43
Other operations	24	32	38
	926	1,018	744

[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	2003	2002	2001
Magazine Papers	153	225	598
Newsprint	54	162	211
Fine and Speciality Papers	241	359	336
Converting	43	70	46
Wood Products	29	37	27
Other Operations	264	209	396
	784	1,062	1,614

The 2003 figures include non-recurring charges of € 9 million for the Newsprint Division and € 4 million for the Converting Division. The corresponding figures in 2002 and, in parenthesis, for 2001 were Magazine Papers Division € 128 million (20), Newsprint Division € 8 (0), and Converting Division € 0 million (11).

OTHER OPERATIONS

€m	2003	2002	2001
Forest Department in Finland	41	37	45
Energy Department in Finland	78	51	99
Share of results of associated companies	22	60	82
Others and eliminations	123	61	170
	264	209	396

The most significant non-recurring items for Other Operations are gains on the sale of listed shares: 2003, € 167 million; 2002, € 81 million; and 2001 € 265 million.

CAPITAL EMPLOYED (AVERAGE) BY DIVISION

€m	2003	2002	2001
Magazine Papers	4,923	5,253	4,380
Newsprint	2,124	2,368	984
Fine and Speciality Papers	2,471	2,628	2,602
Converting	688	786	801
Wood Products	777	742	664
Other Operations and Group items	1,435	1,404	1,376
	12,418	13,181	10,807

The formulae used to calculate the capital employed for the divisions and the Group are presented on page 80.

RETURN ON CAPITAL EMPLOYED (ROCE) BY DIVISION

%	2003	2002	2001
Magazine Papers	3.1	4.3	13.7
Newsprint	2.5	6.8	21.4
Fine and Speciality Papers	9.8	13.7	12.9
Converting	6.3	8.9	5.8
Wood Products	3.7	5.0	4.1
Group total	6.4	8.4	15.6
Excluding non-recurring items	5.6	8.8	13.5

7 FINANCIAL INCOME AND EXPENSES

€m	2003	2002	2001
Income from other investments held as non-current assets			
Dividend income	18	21	33
Interest received	5	10	15
Other interest and financial income			
Other interest income	11	15	25
Other financial income	6	2	1
Exchange differences	–28	2	–5
Interest expenses and other financial expenses			
Interest expenses	–219	–286	–317
Other financial expenses	–21	–37	–31
Share of results of associated companies	3	–	–2
	–225	–273	–281

8 INCOME TAXES

€m	2003	2002	2001
Taxes for the financial period	182	273	394
Taxes from previous periods	4	–2	1
Change in deferred taxes	7	–30	–17
	193	241	378
Effective tax rate, %	34.5	30.5	28.4
CHANGE IN DEFERRED TAXES			
From timing differences	10	–23	–6
From consolidation eliminations	10	8	–2
From appropriations	–13	–15	–9
	7	–30	–17

9 EARNINGS PER SHARE

€m	2003	2002	2001
Profit before extraordinary items	559	789	1,333
Minority interest	2	2	–
Income taxes	–193	–241	–378
Earnings	368	550	955
Average number of shares Undiluted (1,000)	523,130	518,935	495,784
Earnings per share, E	0.70	1.06	1.93
Average number of shares Diluted (1,000)	524,254	525,782	503,984
Diluted earnings per share, E	0.70	1.05	1.90

10 INTANGIBLE ASSETS

€m	2003	2002
INTANGIBLE RIGHTS		
Acquisition cost at 1 Jan.	156	162
Difference on translation	–4	–5
Increases	8	6
Decreases	–1	–3
Transfers between balance sheet items	–13	–4
Acquisition cost at 31 Dec.	146	156
Accumulated depreciation at 1 Jan.	–86	–80
Accumulated depreciation on decreases and transfers	2	2
Depreciation for the period	–8	–8
Transfers between balance sheet items	9	–
Accumulated depreciation at 31 Dec.	–83	–86
Book value at 31 Dec.	63	70
GOODWILL		
Acquisition cost at 1 Jan.	131	167
Difference on translation	–1	–2
Increases	5	4
Decreases	–1	–1
Transfers between balance sheet items	–	–37
Acquisition cost at 31 Dec..	134	131
Accumulated depreciation at 1 Jan.	–21	–47
Accumulated depreciation on decreases and transfers	–	37
Depreciation for the period	–10	–11
Accumulated depreciation at 31 Dec.	–31	–21
Book value at 31 Dec.	103	110
OTHER CAPITALIZED EXPENDITURE		
Acquisition cost at 1 Jan.	207	179
Difference on translation	–4	–5
Increases	29	12
Decreases	–18	–6
Transfers between balance sheet items	26	27
Acquisition cost at 31 Dec.	240	207
Accumulated depreciation at 1 Jan.	–129	–102
Difference on translation	2	2
Accumulated depreciation on decreases and transfers	16	5
Transfers between balance sheet items	–9	–13
Depreciation for the period	–26	–21
Value adjustments and their cancellations	–4	–
Accumulated depreciation at 31 Dec.	–150	–129
Book value at 31 Dec.	90	78
ADVANCE PAYMENTS		
Acquisition cost at 1 Jan.	106	60
Increases	5	60
Decreases	–12	–1
Transfers between balance sheet items	–7	–13
Book value at 31 Dec.	92	106

11 GOODWILL ON CONSOLIDATION

€m	2003	2002
Acquisition cost at 1 Jan.	2,205	2,192
Increases	20	13
Decreases	–	–
Acquisition cost at 31 Dec.	2,225	2,205
Accumulated depreciation at 1 Jan.	–218	–106
Depreciation for the period	–113	–112
Accumulated depreciation at 31 Dec.	–331	–218
Book value at 31 Dec.	1,894	1,987

€ 92 million in goodwill arising on consolidation has been allocated to machinery and equipment (109 million), € 75 million to land (75 million), € 30 million to buildings (32 million) and € 9 million to intangible rights (10 million).

12 TANGIBLE ASSETS

€m	2003	2002
LAND AND WATER AREAS		
Acquisition cost at 1 Jan.	664	671
Difference on translation	–5	–5
Increases	4	8
Decreases	–10	–12
Transfers between balance sheet items	–	2
Acquisition cost at 31 Dec.	653	664
Accumulated depreciation at 1 Jan.	–7	–8
Difference on translation	–	1
Value adjustments and their cancellations	3	–
Accumulated depreciation at 31 Dec.	–4	–7
Revaluations	567	567
Book value at 31 Dec.	1,216	1,224
Revaluations		
Value at 1 Jan.	567	567
Value at 31 Dec.	567	567
BUILDINGS		
Acquisition cost at 1 Jan.	2,875	2,914
Difference on translation	–42	–72
Increases	52	40
Decreases	–37	–52
Transfers between balance sheet items	19	45
Acquisition cost at 31 Dec.	2,867	2,875
Accumulated depreciation at 1 Jan.	–1,182	–1,116
Difference on translation	14	22
Transfers between balance sheet items	2	–2
Accumulated depreciation on decreases and transfers	32	23
Depreciation for the period	–94	–97
Value adjustments and their cancellations	–1	–12
Accumulated depreciation at 31 Dec.	–1,229	–1,182
Book value at 31 Dec.	1,638	1,693

€m	2003	2002
MACHINERY AND EQUIPMENT		
Acquisition cost at 1 Jan.	11,840	12,088
Difference on translation	–239	–370
Increases	307	265
Decreases	–241	–163
Transfers between balance sheet items	157	20
Acquisition cost at 31 Dec..	11,824	11,840
Accumulated depreciation at 1 Jan.	–6,878	–6,557
Difference on translation	120	168
Transfers between balance sheet items	–	108
Accumulated depreciation on decreases and transfers	236	118
Depreciation for the period	–634	–640
Value adjustments and their cancellations	–3	–75
Accumulated depreciation at 31 Dec.	– 7,159	–6,878
Book value at 31 Dec.	4,665	4,962
OTHER TANGIBLE ASSETS		
Acquisition cost at 1 Jan.	470	470
Difference on translation	–5	–11
Increases	17	21
Decreases	–20	–9
Transfers between balance sheet items	–3	–1
Acquisition cost at 31 Dec.	459	470
Accumulated depreciation at 1 Jan.	–332	–318
Difference on translation	3	6
Transfers between balance sheet items	3	–5
Accumulated depreciation on decreases and transfers	14	12
Depreciation for the period	–23	–27
Accumulated depreciation at 31 Dec.	–335	–332
Book value at 31 Dec.	124	138
ADVANCE PAYMENTS AND CONSTRUCTION IN PROGRESS		
Acquisition cost at 1 Jan.	236	223
Difference on translation	–5	–5
Increases	215	205
Decreases	–49	–20
Transfers between balance sheet items	–194	–167
Book value at 31 Dec.	203	236

13 INVESTMENTS HELD AS NON-CURRENT ASSETS

€m	2003	2002
HOLDINGS IN ASSOCIATED COMPANIES		
Acquisition cost at 1 Jan.	862	848
Increases	6	34
Decreases	–42	–4
Transfers between balance sheet items	–	–16
Acquisition cost at 31 Dec.	826	862
Accumulated depreciation at 1 Jan.	–	–16
Value adjustments and their cancellations	–	16
Accumulated depreciation at 31 Dec.	–	–
Revaluations	103	103
Book value at 31 Dec.	929	965
Revaluations		
Value at 1 Jan.	103	103
Value at 31 Dec.	103	103

Holdings in associated companies include net unamortized goodwill of € 60 million (52 million). Of this amount, € 58 million (49 million) relates to Pohjolan Voima Oy's shares.

RECEIVABLES FROM ASSOCIATED COMPANIES		
Acquisition cost at 1 Jan.	18	77
Increases	–	3
Decreases	–9	–6
Transfers between balance sheet items	3	–56
Acquisition cost at 31 Dec.	12	18
Accumulated depreciation at 1 Jan.	–5	–44
Value adjustments and their cancellations	3	39
Accumulated depreciation at 31 Dec.	–2	–5
Book value at 31 Dec.	10	13

OTHER SHARES AND HOLDINGS		
Acquisition cost at 1 Jan.	356	391
Difference on translation	–	–1
Increases	3	7
Decreases	–16	–20
Transfers between balance sheet items	–12	–21
Acquisition cost at 31 Dec.	331	356
Accumulated depreciation at 1 Jan.	–12	–27
Accumulated depreciation on decreases and transfers	12	12
Value adjustments and their cancellations	–	3
Accumulated depreciation at 31 Dec.	–	–12
Revaluations	61	61
Book value at 31 Dec.	392	405
Revaluations		
Value at 1 Jan.	61	61
Value at 31 Dec.	61	61

MARKET VALUES

The book value of shares in listed companies is € 176 million. The market value at 31 December 2003 was € 196 million.

€m	2003	2002
OTHER RECEIVABLES		
Acquisition cost at 1 Jan.	125	84
Increases	2	48
Decreases	–48	–72
Transfers between balance sheet items	–12	65
Acquisition cost at 31 Dec.	67	125
Book value at 31 Dec.	67	125

OWN SHARES

€m	2003	2002
Acquisition cost at 1 Jan.	–	38
Increases	–	–
Own shares declared void	–	–38
Book value at 31 Dec.	–	–

14 STOCKS

€m	2003	2002
Raw materials and consumables	494	502
Work in progress	39	70
Finished products and goods	579	612
Other stocks	73	65
Advance payments	32	39
	1,217	1,288

15 RECEIVABLES

€m	2003	2002
NON-CURRENT RECEIVABLES		
Trade receivables	1	2
Loan receivables	2	1
Other receivables	6	9
Prepayments and accrued income	7	6
	16	18
CURRENT RECEIVABLES		
Trade receivables	1,065	1, 224
Loan receivables	4	4
Other receivables	182	151
Prepayments and accrued income	159	153
	1,410	1,532

€m	2003	2002
RECEIVABLES TOTAL		
Trade receivables	1,066	1,226
Loan receivables	6	5
Other receivables	188	160
Prepayments and accrued income	166	159
	1,426	1,550
MAIN ITEMS INCLUDED IN CURRENT PREPAYMENTS AND ACCRUED INCOME		
Personnel expenses	7	7
Interest income	13	12
Interest expenses	8	21
Income taxes	62	51
Indirect taxes	23	26
Others	46	36
	159	153
RECEIVABLES FROM ASSOCIATED AND PARTICIPATING INTEREST COMPANIES		
Trade receivables	19	20
Loan receivables	4	–
	23	20

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 2003 was € 179 (108) 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	2003	2002
INTEREST-BEARING RECEIVABLES		
Non-current assets		
Loan receivables	68	125
Current assets		
Loan receivables	4	4
Trade receivables	–	5
Other receivables	34	45
Cash in hand and at bank	388	425
	494	604

16 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. 2002	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
Convertible bond loan 1994	3	33	–	–	–	–	36
Bonus share issue	445	–	–	–	–445	–	–
Dividends paid	–	–	–	–	–	–390	–390
Profit for the period	–	–	–	–	–	368	368
Translation differences and other	–	–	–	–	–	–65	–65
Shareholders' equity at 31 Dec. 2003	890	687	365	–	226	4,701	6,869

DISTRIBUTABLE FUNDS AT 31 DEC.

€m	2003	2002
Retained earnings	4,333	4,238
Profit for the period	368	550
Portion of accumulated depreciation difference and untaxed reserves transferred to shareholders' equity	–1,436	–1,476
Distributable funds at 31 Dec.	3,265	3,312

17 PROVISIONS

€m	2003	2002
Pensions	342	339
Closure and restructuring expenses	21	32
Environmental expenses	9	7
Others	38	72
	410	450

18 DEFERRED TAX LIABILITY

€m	2003	2002
DEFERRED TAX LIABILITY		
From timing differences	111	112
From consolidation eliminations	5	6
From appropriations	620	633
From revaluations	214	214
	950	965
DEFERRED TAX RECEIVABLE		
From timing differences	286	289
From consolidation eliminations	20	31
	306	320
Deferred tax liability, net	644	645

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

19 NON-CURRENT LIABILITIES

€m	2003	2002
Bonds	2,816	2,860
Loans from financial institutions	593	1,291
Pension loans	571	647
Trade payables	13	17
Other liabilities	281	324
	4,274	5,139

€m	2003	2002
REPAYMENT SCHEDULE FOR LONG-TERM LOANS		
In 2005–2008 / 2004–2007		
Bonds	552	527
Loans from financial institutions	457	1,065
Pension loans	567	331
Trade payables	4	5
Other liabilities	250	131
	1,830	2,059
In 2009– / 2008–		
Bonds	2,264	2,333
Loans from financial institutions	136	226
Pension loans	4	316
Trade payables	10	12
Other liabilities	30	193
	2,444	3,080
Total at 31 Dec.	4,274	5,139

BONDS

	Interest, %	Initial amount	million	2003	2002
Fixed-rate					
1995–2005	7.72	USD	155	123	148
1997–2007	6.875	USD	215	170	205
1997–2007	6.88	EUR	102	102	102
1997–2027	7.45	USD	375	297	358
1999–2009	6.35	EUR	250	250	250
2000–2030	3.55	JPY	10,000	74	80
2001–2006	0.962	JPY	2,000	15	16
2001–2007	6.875	USD	10	8	10
2002–2005	0.10	EUR	30	30	30
2002–2007	0.869	JPY	2,000	15	16
2002–2012	6.125	EUR	600	600	600
2002–2014	5.625	USD	500	396	477
2002–2017	6.625	GBP	250	354	384
2003–2018	5.50	USD	250	198	
				2,632	2,676
Floating-rate					
2002–2008	2.955	EUR	39	39	39
2002–2008	2.734	EUR	50	50	50
2002–2010	3.013	EUR	59	59	59
2002–2012	3.034	EUR	25	25	25
2002–2012	3.134	EUR	11	11	11
				184	184
Bonds, total				2,816	2,860
– current portion				–	–
Bonds, long-term portion				2,816	2,860

20 CURRENT LIABILITIES

€m	2003	2002
Loans from financial institutions	398	231
Pension loans	83	83
Advances received	38	16
Trade payables	729	722
Bills of exchange payable	9	44
Other liabilities	391	593
Accruals and deferred income	640	498
	2,288	2,187
PAYABLES TO ASSOCIATED AND PARTICIPATING INTEREST COMPANIES		
Trade payables	30	34
Other liabilities	7	62
	37	96
MAIN ITEMS INCLUDED IN CURRENT ACCRUALS AND DEFERRED INCOME		
Personnel expenses	214	205
Interest expenses	16	36
Income tax	101	75
Indirect taxes	9	12
Currency derivatives	136	15
Others	164	155
	640	498
NET INTEREST-BEARING LIABILITIES		
Interest-bearing liabilities		
Non-current liabilities		
Bond loans	2,816	2,860
Loans from financial institutions	593	1,291
Pension loans	571	647
Other liabilities	261	307
	4,241	5,105
Current liabilities		
Amortization of long-term loans	248	258
Bills of exchange payable	9	44
Accruals and deferred income	136	–
Other current liabilities	459	482
	852	784
Interest-bearing liabilities, total	5,093	5,889
Interest-bearing receivables		
Non-current assets		
Loan receivables	68	125
Current assets		
Loan receivables	4	4
Trade receivables	–	5
Other receivables	34	45
Cash in hand and at bank	388	425
Interest-bearing receivables, total	494	604
Net interest-bearing liabilities	4,599	5,285

21 CONTINGENT LIABILITIES

€m	2003	2002
MORTGAGES		
As security against own debts	178	175
GUARANTEES		
Guarantees for loans		
On behalf of associated and participating interest companies	41	41
On behalf of others	4	6
Other guarantees		
On own commitments	20	70
On behalf of others	3	3
PENSION LIABILITIES		
Direct liabilities	9	3
LEASING COMMITMENTS [1]		
Commitments for 2004/2003	25	26
Commitments for subsequent years	68	107
OTHER COMMITMENTS	23	31

[1] 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 € 19 million in 2004 and subsequently € 93 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 41.97% 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	**2003**	**2002**	**2003**	**2002**
CURRENCY DERIVATIVES				
Forward contracts	40	66	2,836	3,562
Option contracts				
Bought	–	–	–	–
Written	–	–	–	–
Swap contracts	–77	6	584	249
INTEREST RATE DERIVATIVES				
Forward contracts	–3	–9	6,468	6,553
Option contracts				
Bought	–	–	–	–
Written	–3	–	71	–
Swap contracts	214	275	3,281	4,042
OTHER DERIVATIVES [1)]				
Forward contracts	1	–7	13	33
Swap contracts	–	–	13	–

1) Other derivatives include pulp, paper and electricity derivatives. The parent company's share of their market value is € 1 million (–7 million) and that of their nominal value € 26 million (30 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 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 at 31 December 2003.

Currency	Nominal value of hedging instruments €m	Market value of hedging instruments €m
USD [1)]	295	76
GBP	296	5
CAD	–106	9
SEK	59	–1
DKK	42	–
JPY	47	2
NOK	36	1
CHF	23	1
Other	35	–2
Total	727	91

1) Includes hedging of capital expenditure worth € –175 million.

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 2003 the balance sheet position was € 5 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
The Group's net debt per currency corresponds to the parent company's and subsidiaries' loan portfolios in their home currencies.

The Group's interest-bearing net debts (including derivatives) at 31 December 2003 were broken down by currency as follows:

Currency	Amount €bn	Interest rate sensitivity[1] €m
EUR	3.2	13
USD	0.5	2
GBP	0.1	1
CAD	0.5	1
CNY	0.2	1
Other	0.1	–
Total	4.6	19

[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

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 2003, 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 € 388 million, at 31 December 2003 the Group had unused committed credit facilities amounting to € 3.4 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 2003 was 8.1 years (8.5 years at 31 December 2002).

Loan maturity schedule and credit facilities at 31 December 2003

Year	Loan repayments €m
2004	852
short-term [1]	604
long-term	248
2005	397
2006	208
2007	446
2008	330
2009	323
2010	168
2011	155
2012–	2,214
Total	5,093

[1] No committed credit facilities were in use at 31 December 2003.

The most important financing programmes in use at present are:
- Domestic commercial paper programme, € 1.0 billion
- Euro commercial paper programme, USD 500 million
- Belgian commercial paper programme, € 400 million
- Medium term note programme, € 4.0 billion
- Revolving credit facility, € 2.0 billion (matures 2006)
- Revolving credit facility, € 1.2 billion (matures 2008)

Counterparty risk
Counterparty risk is defined as the risk that a counterparty will be unable to fulfil its 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. The creditworthiness of counterparties is monitored by the Group Treasury department.

PARENT COMPANY ACCOUNTS

PROFIT AND LOSS ACCOUNT

1.1.–31.12., €m	Note	2003	2002
Turnover	(1)	4,403	4,222
Increase (+) or decrease (–) in finished goods		–18	19
Production for own use		46	48
Other operating income	(2)	207	118
Raw materials and services			
Raw materials and consumables			
Purchases during the financial period		–2,070	–1,874
Increase (–) or decrease (+) in stocks		13	–9
External services		–337	–359
		–2,394	–2,242
Personnel expenses			
Wages and salaries	(3)	–489	–443
Social security expenses			
Pension expenses		–102	–82
Other social security expenses		–47	–44
		–638	–569
Depreciation and value adjustments	(4)		
Depreciation according to plan		–356	–289
Value adjustments to goods held as non-current assets		–4	–2
		–360	–291
Other costs and expenses		–872	–609
Operating profit		374	696
Financial income and expenses			
Income from investments held as non-current assets			
Income from Group companies		21	58
Income from participating interest companies		73	66
Income from other shares and holdings		23	24
Interest income from Group companies		79	107
Interest income from other companies		5	9
Other interest and financial income			
Other interest income from Group companies		18	28
Other interest income from other companies		7	8
Other financial income from Group companies		3	–
Other financial income from other companies		66	186
Interest and other financial expenses			
Interest expenses paid to Group companies		–31	–29
Interest expenses paid to other companies		–167	–208
Other financial expenses paid to Group companies		–86	–183
Other financial expenses paid to other companies		–16	–23
		–5	43
Profit before extraordinary items		369	739
Extraordinary items	(5)		
Extraordinary income		49	87
Extraordinary expenses		–14	–28
		35	59
Profit before appropriations and taxes		404	798
Appropriations			
Increase (–) or decrease (+) in accumulated depreciation difference		65	66
Income taxes	(6)	–193	–230
Profit for the financial period		276	634

FUNDS STATEMENT

€m	2003	2002
Business operations		
Operating profit	374	696
Adjustments to operating profit a)	381	184
Change in net working capital b)	124	–31
Interest	–87	–84
Dividends received	78	119
Other financial items	–171	–100
Taxes c)	–129	–182
Net cash flow from operations	570	602
Investments		
Purchase of shares	–15	–184
Purchase of other fixed assets	–277	–293
Sale of shares	155	76
Sale of other fixed assets	48	68
Increase in other non-current investments	–17	–312
Decrease in other non-current investments	75	250
Total cash used in investments	–31	–395
Cash flow before financing	539	207
Financing		
Increase in non-current liabilities	565	2,051
Decrease in non-current liabilities	–851	–1,526
Increase (–) or decrease (+) in interest-bearing receivables	72	44
Increase (+) or decrease (–) in interest-bearing current liabilities	8	–331
Dividends paid	–390	–388
Group contributions, received and paid	50	42
Total financing	–546	–108
Increase (+) or decrease (–) in liquid funds	–7	99
Liquid funds at 1 Jan.	369	270
Liquid funds at 31 Dec.	362	369

	2003	2002
a) Adjustments to operating profit		
Depreciation	356	289
Gains (+) or losses (–) on sale of fixed assets	21	–107
Value adjustments on non-current assets	4	2
Total	381	184
b) Change in net working capital		
Increase (–) or decrease (+) in stocks	15	–14
Increase (–) or decrease (+) in non-interest-bearing receivables	18	133
Increase (+) or decrease (–) in non-interest-bearing current liabilities (–)	91	–150
Total	124	–31

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

BALANCE SHEET

€m	Note	31.12.2003	31.12.2002
ASSETS			
Non-current assets			
Intangible assets	(7)		
Intangible rights		5	6
Other capitalized expenditure		59	50
Advance payments		90	103
		154	159
Tangible assets	(8)		
Land and water areas		1,034	1,034
Buildings		594	603
Machinery and equipment		2 045	2,099
Other tangible assets		55	58
Advance payments and construction in progress		83	135
		3,811	3,929
Investments	(9)		
Holdings in Group companies		3,617	3,665
Receivables from Group companies		2,458	2,590
Holdings in participating interest companies		645	644
Receivables from participating interest companies		12	18
Other shares and holdings		323	337
Other receivables		62	117
		7,117	7,371
		11,082	11,459
Current assets			
Stocks			
Raw materials and consumables		201	188
Work in progress		1	4
Finished products and goods		106	122
Advance payments		29	38
		337	352
Receivables			
Current	(10)		
Trade receivables		139	162
Receivables from Group companies		1,007	1,123
Receivables from participating interest companies		9	14
Loan receivables		–	–
Other receivables		63	66
Prepayments and accrued income		65	70
		1,283	1,435
Cash in hand and at bank		362	369
		1,982	2,156
Total assets		13,064	13,615

€m	Note	31.12.2003	31.12.2002
EQUITY AND LIABILITIES			
Shareholders' equity	(11)		
Share capital		890	442
Share premium reserve		687	654
Revaluation reserve		555	555
Legal reserve		187	632
Retained earnings		2,786	2,542
Profit for the financial period		276	634
		5,381	5,459
Appropriations			
Accumulated depreciation difference		1,603	1,668
Provisions			
Provisions for pensions		36	21
Other provisions		8	8
		44	29
Liabilities			
Non-current	(12)		
Bond loans		2,714	2,758
Loans from financial institutions		284	713
Pension loans		541	610
Payables to Group companies		31	3
Other liabilities		157	170
		3,727	4,254
Current	(13)		
Convertible bond loans		–	40
Loans from financial institutions		33	42
Pension loans		76	76
Advances received		29	12
Trade payables		205	211
Bills of exchange payable		1,435	1,246
Payables to participating interest companies		34	92
Other liabilities		199	310
Accruals and deferred income		298	176
		2,309	2,205
		6,036	6,459
Total liabilities		13,064	13,615

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	2003	2002
Capital gains on disposal of fixed assets	195	107
Income from rents	11	10
Other	1	1
	207	118

3 PERSONNEL EXPENSES

€m	2003	2002
SALARIES AND FEES		
Salaries of the Managing Director, Deputy Managing Director and members of the Board of Directors [1]	2	2
Other salaries	487	441
	489	443

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

LOANS TO COMPANY DIRECTORS

At 31 December 2003, 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	2003	2002
DEPRECIATION ACCORDING TO PLAN		
Intangible rights	1	1
Other capitalized expenditure	17	12
Buildings	37	31
Machinery and equipment	295	240
Other tangible assets	6	5
	356	289
VALUE ADJUSTMENTS		
Value adjustments on non-current assets	4	2
	360	291

5 EXTRAORDINARY ITEMS

€m	2003	2002
EXTRAORDINARY INCOME		
Group contributions	47	86
Other	2	1
	49	87
EXTRAORDINARY EXPENSES		
Group contributions	–14	–27
Other	–	–1
	–14	–28
	35	59

6 INCOME TAXES

€m	2003	2002
Taxes on business income for the financial period	193	230
Income taxes from previous periods	–	–
	193	230

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 2003 was € 465 million (484 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	2003	2002
INTANGIBLE RIGHTS		
Acquisition cost at 1 Jan.	10	11
Transfers between balance sheet items	–	–1
Acquisition cost at 31 Dec.	10	10
Accumulated depreciation at 1 Jan.	–4	–4
Accumulated depreciation on decreases and transfers	–	1
Accumulated depreciation at 31 Dec.	–1	–1
Accumulated depreciation at 31 Dec.	–5	–4
Book value at 31 Dec.	5	6
OTHER CAPITALIZED EXPENDITURE		
Acquisition cost at 1 Jan.	132	95
Increases	20	7
Decreases	–	–3
Transfers between balance sheet items	–2	33
Acquisition cost at 31 Dec.	150	132
Accumulated depreciation at 1 Jan.	–82	–59
Accumulated depreciation on decreases and transfers	12	–11
Depreciation for the period	–17	–12
Value adjustments and their cancellations	–4	–
Accumulated depreciation at 31 Dec.	–91	–82
Book value at 31 Dec.	59	50
ADVANCE PAYMENTS		
Acquisition cost at 1 Jan.	103	58
Increases	1	59
Decreases	–7	–
Transfers between balance sheet items	–7	–14
Book value at 31 Dec.	90	103

8 TANGIBLE ASSETS

€m	2003	2002
LAND AND WATER AREAS		
Acquisition cost at 1 Jan.	486	485
Increases	2	2
Decreases	–2	–1
Acquisition cost at 31 Dec.	486	486
Revaluations at 1 Jan.	548	548
Revaluations at 31 Dec.	548	548
Book value at 31 Dec.	1,034	1,034
BUILDINGS		
Acquisition cost at 1 Jan.	1 048	893
Increases	14	185
Decreases	–1	–26
Transfers between balance sheet items	9	–4
Acquisition cost at 31 Dec.	1,070	1,048
Accumulated depreciation at 1 Jan.	–445	–361
Accumulated depreciation on decreases and transfers	6	–53
Depreciation for the period	–37	–31
Accumulated depreciation at 31 Dec.	–476	–445
Book value at 31 Dec.	594	603
MACHINERY AND EQUIPMENT		
Acquisition cost at 1 Jan.	5,316	4,472
Increases	133	979
Decreases	–7	–109
Transfers between balance sheet items	56	–26
Acquisition cost at 31 Dec.	5,498	5,316
Accumulated depreciation at 1 Jan.	–3,217	–2,590
Accumulated depreciation on decreases and transfers	59	–385
Depreciation for the period	–295	–240
Value adjustments and their cancellations	–	–2
Accumulated depreciation at 31 Dec.	–3,453	–3,217
Book value at 31 Dec.	2,045	2,099
OTHER TANGIBLE ASSETS		
Acquisition cost at 1 Jan.	162	123
Increases	2	40
Decreases	–	–1
Transfers between balance sheet items	–2	–
Acquisition cost at 31 Dec.	162	162
Accumulated depreciation at 1 Jan.	–104	–73
Accumulated depreciation on decreases and transfers	3	–26
Depreciation for the period	–6	–5
Accumulated depreciation at 31 Dec.	–107	–104
Book value at 31 Dec.	55	58
ADVANCE PAYMENTS AND CONSTRUCTION IN PROGRESS		
Acquisition cost at 1 Jan.	135	73
Increases	110	128
Decreases	–36	–15
Transfers between balance sheet items	–126	–51
Book value at 31 Dec.	83	135

9 INVESTMENTS HELD AS NON-CURRENT ASSETS

€m	2003	2002
HOLDINGS IN GROUP COMPANIES		
Acquisition cost at 1 Jan.	3,765	3,601
Increases	13	705
Decreases	–12	–556
Transfers between balance sheet items	130	15
Acquisition cost at 31 Dec.	3,896	3,765
Accumulated depreciation at 1 Jan.	–102	–98
Accumulated depreciation on decreases and transfers	25	–4
Value adjustments and their cancellations	–204	–
Accumulated depreciation at 31 Dec.	–281	–102
Revaluations at 1 Jan.	2	2
Revaluations at 31 Dec.	2	2
Book value at 31 Dec.	3,617	3,665
RECEIVABLES FROM GROUP COMPANIES		
Acquisition cost at 1 Jan.	2 590	2,563
Increases	17	268
Decreases	–20	–247
Transfers between balance sheet items	–129	6
Acquisition cost at 31 Dec.	2,458	2,590
Book value at 31 Dec.	2,458	2,590
HOLDINGS IN PARTICIPATING INTEREST COMPANIES		
Acquisition cost at 1 Jan.	541	536
Increases	2	33
Decreases	–1	–4
Transfers between balance sheet items	–	–24
Acquisition cost at 31 Dec.	542	541
Accumulated depreciation at 1 Jan.	–	–15
Value adjustments and their cancellations	–	15
Accumulated depreciation at 31 Dec.	–	–
Revaluations at 1 Jan.	103	103
Revaluations at 31 Dec.	103	103
Book value at 31 Dec.	645	644
RECEIVABLES FROM PARTICIPATING INTEREST COMPANIES		
Acquisition cost at 1 Jan.	18	77
Increases	–	3
Decreases	–9	–6
Transfers between balance sheet items	3	–56
Acquisition cost at 31 Dec.	12	18
Accumulated depreciation at 1 Jan.	–	–22
Accumulated depreciation on decreases and transfers	–	22
Book value at 31 Dec.	12	18

€m	2003	2002
OTHER SHARES AND HOLDINGS		
Acquisition cost at 1 Jan.	288	299
Increases	–	6
Decreases	–15	–5
Transfers between balance sheet items	–11	–12
Acquisition cost at 31 Dec.	262	288
Accumulated depreciation at 1 Jan.	–12	–26
Accumulated depreciation on decreases and transfers	12	12
Value adjustments and their cancellations	–	2
Accumulated depreciation at 31 Dec.	–	–12
Revaluations at 1 Jan.	61	61
Revaluations at 31 Dec.	61	61
Book value at 31 Dec.	323	337
OTHER RECEIVABLES		
Acquisition cost at 1 Jan.	117	77
Increases	–	44
Decreases	–45	–64
Transfers between balance sheet items	–10	60
Acquisition cost at 31 Dec.	62	117
Book value at 31 Dec.	62	117

10 CURRENT RECEIVABLES

€m	2003	2002
Trade receivables	407	433
Loan receivables	732	847
Other receivables	71	68
Prepayments and accrued income	73	87
	1,283	1,435
MAIN ITEMS INCLUDED IN CURRENT PREPAYMENTS AND ACCRUED INCOME		
Personnel expenses	4	4
Interest income	20	24
Interest expenses	7	21
Income taxes	31	28
Others	11	10
	73	87
RECEIVABLES FROM GROUP COMPANIES		
Trade receivables	259	260
Loan receivables	732	844
Other receivables	8	2
Prepayments and accrued income	8	17
	1,007	1,123
RECEIVABLES FROM PARTICIPATING INTEREST COMPANIES		
Trade receivables	9	11
Loan receivables	–	3
	9	14

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. 2002	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
Convertible bond loan 1994	3	33	–	–	–	–	36
Bonus share issue	445	–	–	–	–445	–	–
Dividends paid	–	–	–	–	–	–390	–390
Profit for the period	–	–	–	–	–	276	276
Shareholders' equity at 31 Dec. 2003	890	687	555	–	187	3,062	5,381

€m	2003	2002
DISTRIBUTABLE FUNDS AT 31 DEC.		
Retained earnings	2,786	2,542
Profit for the period	276	634
Distributable funds at 31 Dec.	3,062	3,176

12 NON-CURRENT LIABILITIES

€m	2003	2002
Bond loans	2,714	2,758
Loans from financial institutions	284	713
Pension loans	541	610
Other liabilities	188	173
	3,727	4,254
PAYABLES TO GROUP COMPANIES		
Other liabilities	31	3
	31	3
LONG-TERM LOANS AND THEIR REPAYMENT SCHEDULE		
In 2005–2008 / 2004–2007		
Bonds	450	425
Loans from financial institutions	219	595
Pension loans	541	304
Payables to Group companies	31	–
Other liabilities	2	–
	1,243	1,324
In 2009– / 2008–		
Bonds	2,264	2,333
Loans from financial institutions	65	118
Pension loans	–	306
Payables to Group companies	–	3
Other liabilities	155	170
	2,484	2,930
Total at 31 Dec.	3,727	4,254

BONDS

	Interest, %		Initial amount, million.	2003	2002
Fixed-rate					
1995–2005	7.72	USD	155	123	148
1997–2007	6.875	USD	215	170	205
1997–2027	7.45	USD	375	297	358
1999–2009	6.35	EUR	250	250	250
2000–2030	3.55	JPY	10,000	74	80
2001–2006	0.962	JPY	2,000	15	16
2001–2007	6.875	USD	10	8	10
2002–2005	0.10	EUR	30	30	30
2002–2007	0.869	JPY	2,000	15	16
2002–2012	6.125	EUR	600	600	600
2002–2014	5.625	USD	500	396	477
2002–2017	6.625	GBP	250	354	384
2003–2018	5.50	USD	250	198	–
				2,530	2,574
Floating-rate					
2002–2008	2.955	EUR	39	39	39
2002–2008	2.734	EUR	50	50	50
2002–2010	3.013	EUR	59	59	59
2002–2012	3.034	EUR	25	25	25
2002–2012	3.134	EUR	11	11	11
				184	184
Bonds, total				2,714	2,758
– current portion				–	–
Bonds, long-term portion				2,714	2,758

13 CURRENT LIABILITIES

€m	2003	2002
Convertible bond loans	–	40
Loans from financial institutions	33	42
Pension loans	76	76
Advances received	30	13
Trade payables	270	275
Other liabilities	1,463	1,507
Accruals and deferred income	437	252
	2,309	2,205
MAIN ITEMS INCLUDED IN CURRENT ACCRUALS AND DEFERRED INCOME		
Personnel expenses	94	93
Interest expenses	14	29
Income tax	43	33
Currency derivatives	275	84
Others	11	13
	437	252
PAYABLES TO GROUP COMPANIES		
Trade payables	39	35
Other liabilities	1 257	1,135
Accruals and deferred income	139	76
	1,435	1,246
PAYABLES TO ASSOCIATED AND PARTICIPATING INTEREST COMPANIES		
Advances received	1	1
Trade payables	26	29
Other liabilities	7	62
	34	92

14 CONTINGENT LIABILITIES

€m	2003	2002
MORTGAGES [1]		
As security against own debts	130	131
GUARANTEES		
Guarantees for loans		
On behalf of Group companies	658	620
On behalf of associated and participating interest companies	40	41
On behalf of others	1	4
Other guarantees		
On behalf of Group companies [2]	180	474
On behalf of others	3	1
LEASING COMMITMENTS		
Commitments for 2004/2003		1
Commitments for subsequent years	2	2
OTHER COMMITMENTS [3]		

1) The mortgages given relate mainly to reborrowing of statutory employment pension contributions.
2) The € 404 million in guarantees made in 2002 relate to the cancelled MACtac acquisition.
3) See the Group's contingent liabilities.

SHARES AND HOLDINGS [1)]

Production ■
Sales and distribution ▲
Other ●

		Parent company holding, %	Group holding, %
GROUP COMPANIES			
Anco Træ A/S, DK	▲	68.95	100.00
Blandin Paper Company, 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
ZAO Chudovo-RWS, RU	■		60.00
Jyväs-Helmi Oy	●	61.00	61.00
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
Nordland Papier GmbH, DE	■		100.00
NorService GmbH, DE	▲		100.00
Nortrans Speditions GmbH, DE	▲		100.00
AS Puukeskus, EE	▲		100.00
Puukeskus Oy	▲	100.00	100.00
Raflatac AB, SE	▲	100.00	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 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
Raflatac (Thailand) Co., Ltd, TH	▲		100.00
Rafsec Oy	■		100.00
Oy Rauma Stevedoring Ltd	▲	100.00	100.00
Schauman Iberica S.A., ES	▲		100.00
Schauman Wood AB, SE	▲		100.00
Schauman Wood Oy (2.1.2004 UPM-Kymmene 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 Sägewerksgesellschaft m.b.H. Nfg KG, AT	■		100.00
Stracel S.A.S., FR	■		100.00
Tilhill Economic Forestry Ltd, GB	●		100.00
UPM-Asunnot Oy	●	77.00	100.00
UPM-Kymmene AB, SE	▲	100.00	100.00

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, %
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 Austria GmbH, AT	■		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 Finance B.V., NL	●	100.00	100.00
UPM-Kymmene Fine-Paper GmbH, DE	●		100.00
UPM-Kymmene Forest AS, EE	●	100.00	100.00
UPM-Kymmene Forest Products (Suzhou) Pte. Ltd, SG	●	100.00	100.00
UPM-Kymmene France S.A.S., FR	■		99.99
UPM-Kymmene Groupe S.A., FR	●	98.78	100.00
UPM-Kymmene Grundstücksverwaltung GmbH	●	100.00	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 NV/SA, BE	▲	99.60	99.60
UPM-Kymmene Otepää AS, EE	■		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 Sp. z o.o., PL	▲	100.00	100.00
UPM-Kymmene Srl., IT	▲	99.98	100.00
UPM-Kymmene S.A., ES	▲	100.00	100.00
UPM-Kymmene Wood B.V., NL	▲		100.00
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) Holdings plc, GB	●	80.73	100.00
UPM-Kymmene (UK) Ltd, GB	■		100.00
UPM Pack S.A., FR	▲		99.94
UPM Speciality Papers Ltd, GB	▲		100.00
UPM Sähkönsiirto Oy	●	100.00	100.00
Walki Wisa Benelux B.V., NL	●	100.00	100.00
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

ASSOCIATED AND PARTICIPATING INTEREST COMPANIES

	Parent company holding, %	Group holding, %
Austria Papier Recycling Ges.m.b.H., AT		33.32
Cervuctum Oy	37.50	37.50
Circel Grundstücks- und Vermögensverwaltung AG, DE	32.52	32.52
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
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
Pohjolan Voima Oy	41.97	41.97
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

OTHER SHARES AND HOLDINGS

	Number of shares	Parent company holding, %	Group holding, %	Book value €m
Kemijoki Oy	100,797	4.13	4.13	167.00
Metso Oyj	19,922,115	14.62	14.62	122.20
Sea Containers Ltd, A	149,037	0.65	0.65	2.40

CALCULATION OF KEY INDICATORS

FORMULAE FOR CALCULATION OF FINANCIAL INDICATORS

Return on equity, %:

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

Return on capital employed, %:

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

Equity to assets ratio, %:

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

Gearing ratio, %:

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

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

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

[1] In 1994–1997, shareholders' equity includes a capital loan (1994–1996: € 126 million, 1997: € 101 million).

FORMULAE FOR CALCULATION OF ADJUSTED SHARE-RELATED INDICATORS

Earnings per share:

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

Shareholders' equity per share:

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

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:

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

KEY EXCHANGE RATES FOR THE EURO AT END OF PERIOD

	31.12.2003	30.9.2003	30.6.2003	31.3.2003	31.12.2002	30.9.2002	30.6.2002	31.3.2002
USD	1.2630	1.1652	1.1427	1.0895	1.0487	0.9860	0.9975	0.8724
CAD	1.6234	1.5717	1.5506	1.6037	1.6550	1.5566	1.5005	1.3923
JPY	135.05	128.80	137.32	129.18	124.39	119.67	118.20	115.15
GBP	0.7048	0.6986	0.6932	0.6896	0.6505	0.6295	0.6498	0.6130
SEK	9.0800	8.9625	9.2488	9.2608	9.1528	9.1516	9.1015	9.0304

KEY FIGURES 1994–2003 [1) 6)]

€m	2003	2002	2001	2000	1999	1998	1997	1996	1995	1994
FINANCIAL INDICATORS										
Turnover	9,948	10,475	9,918	9,583	8,261	8,365	7,776	6,921	7,452	6,542
Turnover, businesses disposed of [2)]	–	–	–	–	–	–	702	1,784	1,754	1,525
Total turnover	9,948	10,475	9,918	9,583	8,261	8,365	8,478	8,705	9,206	8,067
Operating profit, excluding non-recurring items	655	1,108	1,394	1,560	976	1,067	877	826	1,370	860
% of turnover	6.6	10.6	14.1	16.3	11.8	12.8	10.3	9.5	14.9	10.7
Operating profit, total	784	1,062	1,614	1,860	1,573	1,620	1,242	940	1,430	921
% of turnover	7.9	10.1	16.3	19.4	19.0	19.4	14.7	10.8	15.5	11.4
Profit before extraordinary items	559	789	1,333	1,717	1,398	1,437	937	598	1,056	523
% of turnover	5.6	7.5	13.4	17.9	16.9	17.2	11.1	6.9	11.5	6.5
Profit after extraordinary items	559	789	1,333	1,859	1,398	1,437	937	597	960	467
% of turnover	5.6	7.5	13.4	19.4	16.9	17.2	11.1	6.9	10.4	5.8
Profit for the period	368	550	955	1,366	994	1,029	703	386	639	320
% of turnover	3.7	5.3	9.6	14.3	12.0	12.3	8.3	4.4	6.9	4.0
Exports from Finland and foreign operations	8,813	9,487	8,948	8,563	7,165	7,219	6,522	7,361	8,029	7,037
Exports from Finland	4,597	4,765	4,635	5,216	4,873	4,571	4,152	4,209	4,710	4,349
Fixed assets and other long-term investments	11,486	12,111	12,874	10,163	8,741	8,802	8,530	8,124	7,691	7,621
Stocks	1,217	1,288	1,289	1,184	1,008	1,054	1,047	1,368	1,600	1,224
Other current assets	1,814	1,975	2,268	1,766	1,831	1,593	1,827	1,899	1,912	1,905
Assets	14,517	15,374	16,431	13,113	11,580	11,449	11,404	11,391	11,203	10,750
Shareholders' equity	6,869	6,920	6,810	6,156	5,536	5,311	4,538	4,007	3,753	3,177
Minority interest	32	33	28	19	22	24	27	149	128	17
Provisions	410	450	413	130	115	103	105	74	36	39
Non-current liabilities	4,918	5,784	5,579	4,434	3,715	3,628	3,767	3,591	3,871	4,209
Current liabilities	2,288	2,187	3,601	2,374	2,192	2,383	2,967	3,570	3,415	3,308
Equity and liabilities	14,517	15,374	16,431	13,113	11,580	11,449	11,404	11,391	11,203	10,750
Capital employed at year end	11,994	12,842	13,519	10,448	9,004	9,319	9,371	9,147	8,879	8,835
Return on equity, %	5.3	8.0	15.5	21.9	19.2	21.8	16.6	10.4	22.0	12.9
Return on capital employed, %	6.4	8.4	15.6	20.2	17.6	18.0	13.4	10.6	16.8	11.0
Equity to assets ratio, %	47.7	45.3	41.5	46.0	47.0	45.3	40.1	37.2	35.6	30.3
Gearing ratio, %	67	76	89	69	55	74	93	104	112	156
Net interest-bearing liabilities	4,599	5,285	6,041	4,071	2,940	3,739	4,252	4,320	4,358	4,978
Gross capital expenditure on fixed assets	620	613	3,850	2,175	609	696	1,418	1,015	827	586
% of turnover	6.2	5.9	38.8	22.7	7.4	8.3	16.7	11.7	9.0	7.3
Gross capital expenditure excluding acquisitions	584	561	827	571	548	539	578	974	814	545
% of turnover	5.9	5.4	8.3	6.0	6.6	6.4	6.8	11.2	8.8	6.8
Personnel at year end	34,482	35,579	36,298	32,755	30,963	32,351	33,814	32,826	33,308	33,176
Personnel at year end, businesses disposed of [2)]	–	–	–	–	–	–	–	10,810	11,363	10,812
Personnel at year end, total	34,482	35,579	36,298	32,755	30,963	32,351	33,814	43,636	44,671	43,988
PRODUCTION FIGURES										
Papers, total (1000 t)	10,232	10,046	8,298	8,285	7,494	7,499	7,198	6,134	6,733	6,608
Plywood (1000 m^3)	936	905	786	793	729	698	710	617	585	534
Sawn timber (1000 m^3)	2,408	2,201	2,035	2,117	1,911	2,104	2,050	1,857	1,939	2,075
Chemical pulp (1000 t)	2,027	2,102	2,038	1,965	1,846	1,913	1,963	1,874	2,000	2,040

Formulae for calculating indicators are given on page 80.

ADJUSTED SHARE-RELATED INDICATORS [1) 6)]

	2003	2002	2001	2000	1999	1998	1997	1996	1995	1994
ADJUSTED SHARE-RELATED INDICATORS										
Earnings per share, € (diluted 2003: 0.70)	0.70	1.06	1.93	2.38	1.88	1.91	1.31	0.72	1.38	0.72
Shareholders' equity per share, €	13.12	13.30	13.09	11.72	10.23	9.48	8.20	7.26	6.78	5.81
Dividend per share, € [4)]	[3)] 0.75	0.75	0.75	0.75	1.08	0.55	0.46	0.38	0.38	0.18
Dividend to earnings ratio, % [4)]	107.1	70.8	39.0	31.4	57.0	28.6	35.4	52.3	27.4	25.5
Effective dividend yield, % [4)]	5.0	4.9	4.0	4.1	5.4	4.6	5.0	4.7	5.5	2.5
P/E ratio	21.6	14.4	9.7	7.7	10.6	6.3	7.0	11.2	5.0	10.2
Cash flow from operations per share, €	2.42	2.75	3.32	3.19	2.39	–	–	–	–	–
Share price at 31 Dec., €	15.12	15.30	18.63	18.28	20.00	11.94	9.17	8.12	6.90	7.38
Dividend distribution, €m [4)]	[3)] 393	390	388	371	557	290	249	202	202	97
Market capitalization, €m	7,917	7,960	9,681	9,502	10,663	6,630	4,957	4,340	3,690	3,948
Shares traded, €m [5)]	9,117	10,827	7,645	6,157	4,834	3,374	3,125	1,162	–	–
Shares traded (1000s)	645,988	597,078	443,240	400,822	316,874	294,070	302,108	146,374	–	–
Shares traded, % of all shares	123.4	115.1	88.1	77.2	59.0	53.4	56.2	41.1	–	–
Lowest quotation, €	11.05	12.61	14.00	12.46	11.00	8.41	7.91	7.19	–	–
Highest quotation, €	17.10	22.25	19.93	22.45	21.25	14.63	12.82	8.83	–	–
Average quotation for the period, €	14.11	18.13	17.24	15.36	15.25	11.47	10.34	7.94	–	–
Number of shares, average (1000s)	523,130	518,935	495,784	513,634	528,035	539,445	537,775	534,748	531,558	520,162
Number of shares at end of period (1000s)	523,579	520,232	517,436	501,295	518,062	529,688	540,778	534,748	534,753	525,173

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

NOTES TO THE TABLES ON PAGES 81–82

1) The financial and share-related indicators for 1994–1995 are based on the combined consolidated financial statements 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 € 0.45.
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 1994–1998 have been converted into euro using the official conversion rate, 1 euro = 5.94573 markka.

QUARTERLY FIGURES 2002–2003

€m	2003	2002	IV/2003	III/2003	II/2003	I/2003	IV/2002	III/2002	II/2002	I/2002
TURNOVER BY DIVISION										
Magazine Papers	3,320	3,577	902	839	815	764	941	894	905	837
Newsprint	1,295	1,381	356	308	326	305	347	358	336	340
Fine and Speciality Papers	2,278	2,449	558	567	565	588	610	612	625	602
Converting	1,374	1,541	329	335	345	365	357	393	398	393
Wood Products	1,552	1,489	369	382	426	375	380	358	404	347
Other Operations	672	583	156	152	171	193	145	134	156	148
Internal sales	–543	–545	–118	–146	–147	–132	–163	–136	–145	–101
Turnover, total	9,948	10,475	2,552	2,437	2,501	2,458	2,617	2,613	2,679	2,566
OPERATING PROFIT BY DIVISION										
Magazine Papers [1]	153	225	39	53	32	29	–46	101	77	93
Newsprint [1]	54	162	7	11	18	18	46	48	37	31
Fine and Speciality Papers	241	359	46	63	56	76	63	111	91	94
Converting [1]	43	70	4	14	9	16	9	20	18	23
Wood Products	28	37	–	1	18	10	10	5	14	8
Other Operations [2]	264	209	179	22	41	22	91	59	34	25
Operating profit total	784	1,062	275	164	174	171	173	344	271	274
% of turnover	7.9	10.1	10.8	6.7	7.0	7.0	6.6	13.2	10.1	10.7
Non-recurring items in operating profit	129	–46	153	–15	–5	–4	–46	4	6	–10
Operating profit excluding non-recurring items	655	1,108	122	179	179	175	219	340	265	284
% of turnover	6.6	10.6	4.8	7.3	7.2	7.1	8.4	13.0	9.9	11.1
Dividend income	18	21	2	1	12	3	1	1	2	17
Exchange differences [3]	–28	2	2	–3	–9	–18	–	–	2	–
Other financial income and expenses	–215	–296	–44	–49	–57	–65	–72	–64	–76	–84
Profit before extraordinary items	559	789	235	113	120	91	102	281	199	207
Non-recurring items, total	102	–46	153	–15	–12	–24	–46	4	6	–10
Profit before extraordinary and non-recurring items	457	835	82	128	132	115	148	277	193	217
Extraordinary items	–	–	–	–	–	–	–	–	–	–
Profit after extraordinary items	559	789	235	113	120	91	102	281	199	207
Income taxes	–193	–241	–73	–42	–48	–30	–19	–95	–67	–60
Minority interest	2	2	1	1	–	–	1	–	–	1
Profit for the period	368	550	163	72	72	61	84	186	132	148
Earnings per share, €	0.70	1.06	0.31	0.14	0.13	0.12	0.16	0.36	0.25	0.29
Earnings per share excluding non-recurring items, €	0.57	1.12	0.11	0.16	0.15	0.15	0.22	0.35	0.25	0.30

1) Operating profits for the divisions include non-recurring charges as follows: Newsprint Division: € 8 million for the first quarter of 2002 and € 9 million for the third quarter of 2003; Magazine Papers Division: € 128 million for the final quarter of 2002.

2) Break-down of Other Operations

Forest department, Finland	41	37	9	11	10	11	5	15	8	9
Energy department, Finland	78	51	30	14	19	15	9	14	13	15
Share of results of associated companies	22	60	1	3	6	12	8	24	10	18
Other	123	61	139	–6	6	–16	69	6	3	–17

3) Costs of € 7 million arising from hedging of the cancelled MACtac acquisition are included in the second quarter of 2003 and € 20 million in the first quarter of 2003.

	2003	2002	IV/2003	III/2003	II/2003	I/2003	IV/2002	III/2002	II/2002	I/2002
PRODUCTION										
Paper, total (1000 t)	10,232	10,046	2,629	2,577	2,536	2,490	2,502	2,659	2,479	2,406
Plywood (1000 m^3)	936	905	231	208	251	246	248	198	238	221
Sawn timber (1000 m^3)	2,408	2,201	661	529	623	595	619	479	572	531
Chemical pulp (1000 t)	2,027	2,102	476	537	473	541	506	561	513	522
DELIVERIES										
Magazine papers (1000 t)	4,822	4,618	1,349	1,218	1,184	1,071	1,263	1,181	1,153	1,021
Newsprint (1000 t)	2,587	2,467	703	629	661	594	617	664	609	577
Fine and speciality papers (1000 t)	2,879	2,774	747	715	713	704	690	714	688	682
Converting papers (1000 t)	54	59	12	14	13	15	13	16	15	15

INFORMATION ON SHARES

SHARE CAPITAL

Under UPM-Kymmene Corporation's Articles of Association, the company's issued share capital may be not less than € 750,000,000 and not more than € 3,000,000,000. The issued share capital may be increased or decreased between these limits without amendment to the Articles of Association. The minimum number of shares is 500,000,000 and the maximum 2,000,000,000. The equivalent value of the company's share is € 1.70.

The number of UPM-Kymmene Corporation shares in issue rose in January – February by 1,673,490 to 261,789,465 and the share capital by € 2,844,933.00 to € 445,042,090.50 as a result of the conversion of bonds. The bonus issue, in which one new share was issued for each existing share held (total 261,789,465), raised the share capital by € 445,042,090.50. The number of shares in issue at 31 December 2003 was 523,578,930 and the share capital was € 890,084,181.00.

OWN SHARES

The Annual General Meeting held on 19 March 2003 approved a proposal to buy back a minimum of 100 and a maximum of 24,600,000 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 2003.

AUTHORIZATIONS TO INCREASE SHARE CAPITAL

The Annual General Meeting authorized the Board of Directors to decide to increase the company's share capital by issuing new shares and/or convertible bonds in one or more issues. The number of shares carrying an equivalent value of € 1.70 per share available for subscription under this authorization may not exceed 104,000,000 and the share capital may be increased by a maximum total amount of € 176,800,000.00. Under the same authorization, the number of shares may rise by 19.86%. The authorization was not used during 2003. If all 8,000,000 shares are subscribed under the 4,000,000 share options issued to the company's management in 1998, together with all 15,200,000 shares that can be subscribed under the 7,600,000 share options issued in 2002, the number of the company's shares will increase by a total of 23,200,000 shares, i.e. by 4.43%.

The shares available for subscription under the Board's authorization and through the exercise of options may increase the total number of the company's shares by 24.29%, i.e. by 127,200,000 shares, to 650,778,930 shares, and the share capital by € 216,240,000 to € 1,106,324,181.00.

BONUS ISSUE

UPM-Kymmene Corporation's Annual General Meeting held on 19 March 2003 decided to increase the company's share capital from € 445,042,090.50 to € 890,084,181.00 through a € 445,042,090.50 bonus issue. For this purpose, an amount equivalent to the increase in share capital was transferred from the legal reserve to the share capital. One new share was issued for each existing share held. The total number of new shares issued was 261,789,465. Shareholders entered in the company's list of shareholders at 24 March 2003, the record date, had the right to receive new shares under the bonus issue. The bonus issue did not affect the structure of the share ownership.

The new shares carry the right to receive dividend in full for the financial period beginning 1 January 2003.

The terms and conditions of the share options issued in 1998 and 2002 were amended in such a way that the number of shares subscribable through the exercise of options remained unchanged in relation to the total number of shares.

REDEMPTION CLAUSE

Under § 12 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 § 12 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 New York stock exchanges.

A total of 646.0 million UPM-Kymmene Corporation shares were traded on the Helsinki Exchanges in 2003 (597.1 million in 2002). This represents 123.4% (115.1%) of the total number of shares. The highest quotation during the financial period was € 17.10 (in September) and the lowest € 11.05 (in April). UPM-Kymmene Corporation shares with a total value of € 9,117 million were traded on the Helsinki Exchanges in 2003 (€ 10,827 million in 2002). During the year, 457,950 A options issued in 1998 were traded for € 3.9 million (944,900 and € 13.3 million in 2002). From 1 April 2003, 72,700 B options were traded for € 0.4 million.

Trading in the company's shares on the New York Stock Exchange was USD 191 million (11.8 million shares). The corresponding figures for 2002 were USD 169 million and 10.0 million shares.

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 € 10.40 in 2003.

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 2003

At the end of the year, the members of the Board of Directors, the Managing Director and Deputy Managing Director owned a total of 2,382,519 (2002: 7,055,144) UPM-Kymmene Corporation shares (including those held by under-age children and by organizations or foundations of which the person has control). These represent 0.45% of the share capital (1.36%) and 0.45% of the voting rights (1.36%). At the end of the year, the Managing Director and Deputy Managing Director owned 490,000 share options. Exercise of these options would increase the company's share capital by € 1,666,000 and the number of shares by 980,000, which at 31 December 2003 would have represented 0.19% of the company's share capital and voting rights.

Juha Niemelä, the company's Managing Director up to 29 January 2004, owned 13,503 of the company's shares and a total of 280,000 share options at the end of 2003.

Martin Granholm, Deputy Managing Director up to 31 December 2003, owned 22,390 shares and a total of 210,000 share options at the end of 2003.

The holdings of both Juha Niemelä and Martin Granholm are included in the directors' interest as stated at 31 December 2003.

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. Following the 2003 bonus issue, the A and B options can be exercised to subscribe a total of 8,000,000 shares.

Holders of A options have had the right to subscribe shares at € 15.47 each since 1 April 2001 and holders of B options to subscribe shares at € 18.00 each from 1 April 2003. The final subscription price will be reduced by the total amount of dividends paid, excluding corporate tax credit, during the period between 1 May 1998 and the date on which the shares are subscribed. The subscription period for A and B options ends on 30 April 2005.

The subscription price was based on the trade-weighted average price (€ 12.87 per share) quoted on the Helsinki Stock Exchange during the period 18 – 24 March 1998. The subscription price for holders of A options is € 2.52 above the average price, and for holders of B options € 5.05 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 that may be granted is 7,600,000. Following the 2003 bonus share issue, each option entitles its holder to subscribe two UPM-Kymmene Corporation shares. 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 share 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 15 April – 15 May 2002 plus an increment of 10%, i.e. € 21.95. For the 2002E options, the corresponding subscription price is the average during the period 15 April – 15 May 2003 plus 10%, i.e. € 14.27. 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.

DIRECTORS' SHAREHOLDINGS AND OPTIONS

		Options			
Name	Shares	A	B	D	E
BOARD OF DIRECTORS, 31 December 2003					
Vesa Vainio	6,040	–	–	–	–
Gustaf Serlachius	1,714,644	–	–	–	–
Carl H. Amon III	4,644	–	–	–	–
Martti Ahtisaari	3,523	–	–	–	–
Michael C. Bottenheim	3,523	–	–	–	–
Berndt Brunow	259,735	–	–	–	–
Georg Holzhey	* 321,323	–	–	–	–
Juha Niemelä [1]	13,503	70,000	70,000	70,000	70,000
Jorma Ollila	28,671	–	–	–	–
Donna Soble Kaufman	3,523	–	–	–	–
Total	2,359,129	70,000	70,000	70,000	70,000

[1] At its meeting on 29 January 2004, the Board of Directors accepted the resignation of Juha Niemelä from the post of President and CEO. Mr Niemelä also announced he was resigning as a member of the Board of Directors. In accordance with the terms of the share options, he relinquished his D and E share options.

EXECUTIVE TEAM, 1 January 2004					
Jussi Pesonen	14	10,000	17,500	50,000	50,000
Harald Finne	476	–	9,200	33,000	33,000
Pirkko Harrela [1]	–	10,000	10,000	13,200	15,000
Pauli Hänninen [1]	–	–	17,500	22,000	22,000
Matti Lievonen	–	–	10,000	33,000	33,000
Matti J. Lindahl	–	–	35,000	33,000	33,000
Jyrki Ovaska	3,300	–	17,500	33,000	33,000
Heikki Sara	10,800	–	35,000	33,000	33,000
Hans Sohlström [2]	1,492	17,500	17,500	26,400	26,000
Kari Toikka	3,956	35,100	35,000	33,000	33,000
Markku Tynkkynen	3,600	17,500	17,500	33,000	33,000
Hartmut Wurster	–	–	–	33,000	33,000
Total	23,638	90,100	221,700	375,600	377,000

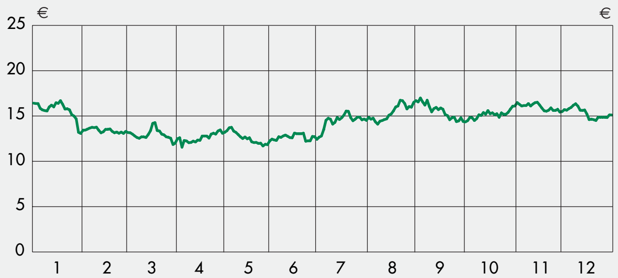
* in nominee register

[1] Member from 1.1.2004
[2] Member from 1.3.2004

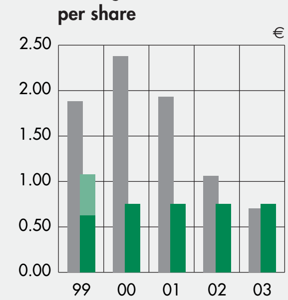
Hannu Schildt, a member of the Executive Team to 29 February 2004, owned 86 shares and a total of 50,500 share options.

Share ownership also includes shares held by under-age children and by organizations or foundations of which the person has control.

Share price in 2003

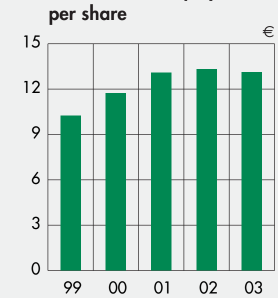


Earnings and dividend per share

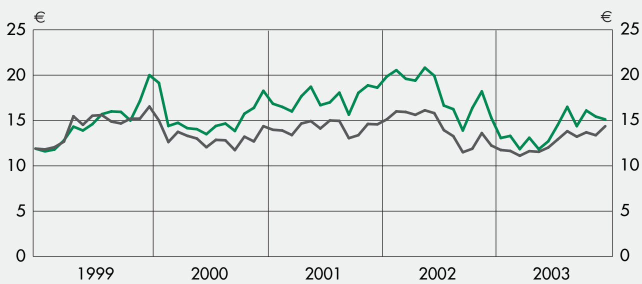


- Earnings per share
- Dividend per share (2003: proposal)
- Extra dividend

Shareholders' equity per share

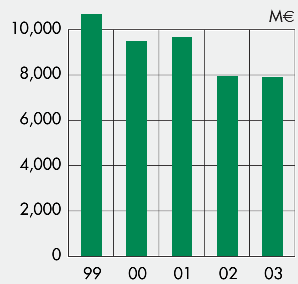


Share price 1999–2003

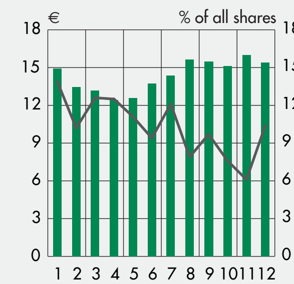


— MSCI (Morgan Stanley Capital International) Forest Products & Paper World Index

Market capitalization



Monthly average share price and shares traded 1–12/2003

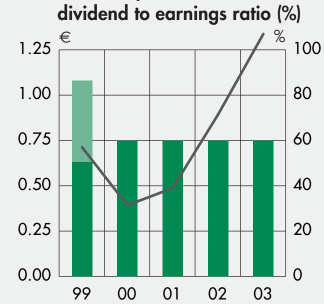


- Monthly average share price, €
- Shares traded, %

SHAREHOLDER BREAKDOWN BY SECTOR AT 31.12, %

	2003	2002
Companies	4.4	2.5
Financial institutions and insurance companies	3.2	4.8
Public bodies	6.9	6.0
Non-profitmaking organizations	6.8	6.3
Households	15.3	13.2
Non-Finnish nationals	63.4	67.2
Total	100.0	100.0

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



- Dividend per share (2003: proposal)
- Extra dividend
- Dividend to earnings ratio, %

REPURCHASES OF OWN SHARES 1999–2003

	2003	2002	2001	2000	1999
Shares purchased, million	–	–	4.7	9.3	7.5
% of share capital	–	–	1.9	3.6	2.8
Total acquisition price, € million	–	–	152	279	236
Price per share, €	–	–	32.00	29.94	31.24

BIGGEST REGISTERED SHAREHOLDERS AT 31 DECEMBER 2003

	Shares at 31 December 2003	% of shares	% of votes
Holzhey/Bischoff group (representing 10 shareholders)	18,723,353	3.58	3.58
Ilmarinen Mutual Pension Insurance Company [1]	9,819,566	1.88	1.73
Gustaf Serlachius (representing 5 shareholders)	6,290,794	1.20	1.20
Varma Mutual Pension Insurance Company	5,165,340	0.99	0.99
Palkkiyhtymä Oy	1,660,600	0.32	0.32
Oy Premiere Holding Ab	1,800,000	0.34	0.34
Palcmills Oy	1,176,200	0.22	0.22
Palkki Group	4,636,800	0.89	0.89
Merita plc Pension Fund	905,270	0.17	0.17
Merita plc Pension Foundation	2,073,170	0.40	0.40
Nordea Life Assurance Finland Ltd	1,210,760	0.23	0.23
Nordea Group	4,189,200	0.80	0.80
The State Pension Fund	4,050,000	0.77	0.77
Suomi Mutual Life Assurance Company	3,826,450	0.73	0.73
Svenska litteratursällskapet i Finland	3,390,526	0.65	0.65
Pohjola Non-Life Insurance Company Ltd	1,200,000	0.23	0.23
Pohjola-Yhtymä Oyj	855,000	0.16	0.16
A-Vakuutus Oy	75,000	0.01	0.01
Pohjola Group	2,130,000	0.41	0.41
Nominees & registered foreign owners	313,160,171	59.81	59.81
(including Holzhey/Bischoff)	(331,883,524)	(63.39)	(63.39)
Others	148,196,730	28.30	28.45
	523,578,930	100.00	100.00
Total	523,578,930	100.00	100.00

[1] Includes 758,814 lent shares.

Lent shares have no voting rights.

On 19 March 2003, UPM-Kymmene received notification that the holdings of investment funds of Capital Group Companies, Inc. of UPM-Kymmene's share capital and voting rights had fallen to 4.95%. On 4 April 2003, the same shareholder announced that it owned 5.02% of the company's share capital and voting rights.

CHANGES IN NUMBER OF SHARES AND SHARE CAPITAL, 1 JANUARY 1999 – 31 DECEMBER 2003

		Number of sharesl	Share capital, €
1998	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
1999	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 through 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
2003	Exchanged under convertible bond issue (1994)	1,673,490	2,844,933.00
	Bonus share issue (1:1)	261,789,465	445,042,090.50
	Share capital at 31 Dec. 2003	523,578,930	890,084,181.00

DISTRIBUTION OF SHAREHOLDERS AT 31 DECEMBER 2003

Size of shareholding	Number of shareholders	% of shareholders	Number of shares, million	% of shares
1 – 100	14,060	19.9	0.8	0.2
101 – 1 000	40,225	56.9	16.7	3.2
1 001 – 10 000	14,747	20.9	41.8	8.0
10 001 – 100 000	1,490	2.1	36.8	7.0
100 001 – 1 000 000	167	0.2	50.6	9.7
1 000 001 –	19	0.0	49.2	9.4
Total	70,708	100.0	195.9	37.5
Nominee-registered			327.5	62.5
Not registered as book entry units			0.2	0.0
Total			523.6	100.0

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 2003. 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.

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Helsinki, 11 February 2004

PricewaterhouseCoopers Oy
Authorised Public Accountants

Merja Lindh
Authorised Public Accountant

ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

The Board of Directors of UPM-Kymmene Corporation have decided that the company will convert from Finnish Accounting Standards (FAS) to International Financial Reporting Standards (IFRS) in 2004. The 2004 interim reports will be prepared in accordance with IFRS. The Company will publish a separate report in March 2004. The report will include the principal accounting policies applied in the preparation of IFRS as well as comparative figures for the years 2002 and 2003.

The change in accounting standards affects, among other things, the following principles:

ASSET REVALUATIONS

The revaluations made primarily to forest holdings in Finland are reverted. However, biological assets are valued under IFRS at their fair value.

SALE AND LEASE-BACK

The company has sold and then leased back certain power plants under long-term agreements and uses the electrical power generated by these plants in its own production. Under IFRS these divested assets must be reinstated on the balance sheet.

INTEREST PAID DURING CONSTRUCTION

Most interest payments made while construction is in progress are recognized under FAS as expenses. Under IFRS, the company will recognize interest paid during construction partly as acquisition cost when it relates to fixed assets.

LISTED SHAREHOLDINGS

Under IFRS, these holdings are measured in the balance sheet at their final quoted prices on the balance sheet date without any profit/loss effect, whereas under FAS they are valued at no more than their acquisition cost.

FINANCIAL INSTRUMENTS

Under IFRS, financial instruments are stated on the balance sheet at their fair values. Gains or losses on hedging instruments relating to future cash flows are booked under IFRS according to the principles of hedge accounting.

VALUE OF FOREST HOLDINGS

Under FAS, forest holdings are valued at acquisition cost plus revaluations made. Under IFRS, biological assets are valued at their fair value and any change in value is booked to the income statement. The determination of the fair value is based on the present value of future cash flows.

SEGMENT ACCOUNTING AND REPORTING

The reporting segments will not change under IFRS. It is based on the Group's organization and internal reporting. Under IFRS, the results of currency derivatives relating to future cash flows will be reported under the heading "Other operations", whereas under FAS they are included in the divisions' operating profit.

OTHER DIFFERENCES

The other differences concern mainly the treatment and reporting of provisions, taxes, associated companies and pensions. Under IFRS, the share of the result of associated companies before taxes is reported after operating profit, whereas under FAS they are reported in operating profit.

CORPORATE GOVERNANCE

In accordance with the recommendations of Helsinki Exchanges, UPM-Kymmene Corporation observes the guidelines issued by the Central Chamber of Commerce and the Confederation of Finnish Industry and Employers concerning the corporate governance of publicly listed companies. Furthermore, as a company listed on the New York Stock Exchange (NYSE), the company complies with the Sarbanes-Oxley Act and the NYSE's regulations for foreign companies insofar as Finnish legislation allows.

Pursuant to the provisions of the Finnish Companies Act and the company's Articles of Association, the company's control and governance is divided among the shareholders represented at the general meeting of shareholders, the Board of Directors and the President and CEO. The President and CEO is assisted by the company's Executive Team.

GENERAL MEETING OF SHAREHOLDERS

The Annual General Meeting is held annually by the end of June at the latest. The general meeting of shareholders is the company's supreme decision-making body. Under the Companies Act, the following issues, among others, are decided at a general meeting of shareholders:

- amendment of the Articles of Association
- adoption of the accounts
- the distribution of dividend
- the procurement and disposal of own shares
- option programmes
- election of members of the Board of Directors, and the fees to be paid to them
- election of auditors, and the audit fees.

A shareholder is entitled to have any matter put before a general meeting of shareholders provided that he/she demands it in writing from the Board of Directors in good time and the matter can be included in the summons to the meeting.

The right to attend a general meeting of shareholders shall apply to any shareholder who is registered as a shareholder of the company ten days prior to the meeting.

BOARD OF DIRECTORS

DUTIES OF THE BOARD OF DIRECTORS

The Board of Directors is responsible for the governance of the company and for the proper organization of its activities in accordance with legislation and the Articles of Association. The Board of Directors establishes the principles of the strategy, organization, accounting and financial control of the company, and appoints the President and CEO, who acts in accordance with the orders and instructions of the Board of Directors. The Board of Directors' other duties include:

- defining the company's dividend policy and making a proposal to the general meeting of shareholders for the dividend to be paid annually
- deciding on large and strategically significant investments, corporate acquisitions and asset divestments
- appointing the Executive Team based on the President and CEO's proposal
- scrutinizing the annual financial statements and the Report of the Board of Directors
- setting up committees and defining the scope of their work
- assessing the performance of management.

The Board of Directors has endorsed the company's risk management principles, social responsibility policy, health & safety at work policy, environmental policy and human resource policy.

The Board of Directors makes an annual assessment of its own activities and working practices.

COMPOSITION OF THE BOARD OF DIRECTORS

The Annual General Meeting elects at least five but not more than 12 members to sit on the Board of Directors. At the Annual General Meeting held on 19 March 2003, ten members were elected to the Board of Directors. Members of the Board of Directors are elected for a term of one year that begins at the end of the general meeting of shareholders at which they are elected and ends at the conclusion of the next Annual General Meeting.

According to a recommendation concerning Finnish listed companies that was released in December 2003, the following members of the Board of Directors have been independent of the company in 2003: Vesa Vainio, Gustaf Serlachius, Martti Ahtisaari, Michael C. Bottenheim, Berndt Brunow, Jorma Ollila and Donna Soble Kaufman. According to the recommendation, a member of the Board of Directors is not independent of the company if, amongst other reasons, he or she has been employed by the company within three years of becoming a member of the Board or if the member belongs to the operative management of another company with which UPM-Kymmene has a significant collaborative relationship.

The Board of Directors elects from among its members a Chairman and two vice chairmen for a term of one year. The Board of Directors has a quorum when more than a half of its members are present and one of them is either the Chairman or a Vice Chairman.

The Board of Directors met on 11 occasions in 2003. On average, the members attended 95 per cent of the meetings.

COMMITTEES OF THE BOARD OF DIRECTORS

The Board of Directors has set up committees composed of its members and has elected chairmen for them.

The Audit Committee was chaired by Michael C. Bottenheim and its members were Martti Ahtisaari and Gustaf Serlachius. The

Committee's tasks include scrutinizing the contents of the annual financial statements and interim reports as well as the company's internal control systems and auditing. Those represented at the Committee's meetings also include the company's external auditor, the head of internal auditing, the President and CEO, the Chief Financial Officer, the Senior Vice President, Financial Control, and other management representatives as and when necessary. The Audit Committee met on four occasions during the year.

Matters pertaining to the appointment, assessment, salaries, fees and other remuneration or benefits of senior management are handled by the Human Resources Committee, which has comprised Vesa Vainio (Chairman) and members Carl H. Amon III and Berndt Brunow. The Human Resources Committee met on seven occasions during the year.

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

The Board of Directors has also elected from among its members a Nomination Committee, which has comprised Gustaf Serlachius (Chairman) and members Michael C. Bottenheim and Jorma Ollila. The task of the Committee is to prepare nominations for membership of the Board of Directors for consideration by the general meeting of shareholders. The Nomination Committee met on three occasions during the year.

PRESIDENT AND CEO

The Board of Directors elects a President and CEO for the company in accordance with the Companies Act. The President and CEO is responsible for the day-to-day management of the company's affairs. The President and CEO ensures that the company's bookkeeping conforms with the law and that the company's financial administration and management is reliably organized. Measures which are not within the ordinary course of the company's business may be taken by the President and CEO only if approved by the Board of Directors, unless the time required to obtain such approval would cause the company to suffer a substantial disadvantage. In the latter case, the Board of Directors must be informed as soon as practicable of the measures which have been taken.

A Service Contract has been drawn up for the company's President and CEO. The Board of Directors prepares a written assessment of the work of the President and CEO once a year.

EXECUTIVE TEAM AND OTHER MANAGEMENT GROUPS

The Executive Team assists the President and CEO in running the company. It prepares matters that are to be put before the Board of Directors for decision-making. Examples of such matters include the Group's strategies, budgets and policies as well as significant investments and acquisitions. The Executive Team also handles matters related to reporting, corporate image, personnel rewards, and the management of investor relations. The members of the Executive Team are the President and CEO, the presidents of the five business divisions, and executive vice presidents responsible for different corporate functions.

The different divisions have their own management groups, the purpose of which is to assist the presidents of their respective divisions. In addition there are local management groups in which the personnel are represented.

SALARIES, FEES AND OTHER BENEFITS OF THE BOARD OF DIRECTORS AND SENIOR MANAGEMENT

In accordance with a decision made by the 2003 Annual General Meeting, the Chairman of the Board of Directors received a fee of € 100,000 per annum, the vice chairmen € 80,000, and the members € 60,000. In addition, a meeting attendance fee of € 1000 was paid to those present at each meeting of the Board of Directors and its standing committees. The annual fee was paid to the members of the Board of Directors so that 60 per cent was paid in cash and 40 per cent in the form of company shares purchased on their behalf. The cash component of the fees paid to the members of the Board of Directors in 2003 totalled € 772,000. The additional equity component of their fees amounted to 18,509 UPM-Kymmene shares. The President and CEO does not receive any meeting attendance fees. The annual salaries, emoluments in kind and fees paid to Juha Niemelä, President and CEO, and to Martin Granholm, the Deputy CEO, in 2003 totalled € 1,089,000 and € 484,000, respectively. The annual salaries, emoluments in kind and fees paid to the other members of the Executive Team in 2003 totalled € 4,146,000.

Jussi Pesonen, the company's President and CEO, receives a monthly salary of € 45,000, in addition to which he receives benefits in kind in the form of a car and a telephone. Under the company's profit-sharing and incentive scheme for top management, an amount equivalent of up to 6 months' salary may be paid to the President and CEO as profit-sharing based on his overall performance. The retirement age of the President and CEO, as stated in the Service Contract, is 60. In the event that the President and CEO is dismissed, or in situations where control of the company changes, he has the right to receive compensation corresponding to 24 months' salary. The period of notice is 6 months.

The shares and options held by the members of the Board of Directors and the Executive Team are detailed on page 85.

At 31 December 2003, the company's President and CEO, the Deputy CEO and the members of the Board of Directors had no loans outstanding from the company or its subsidiaries.

INSIDER GUIDELINES

Helsinki Exchanges, the Central Chamber of Commerce and the Confederation of Finnish Industry and Employers published insider guidelines on 28 October 1999 (see www.hex.fi). On 14 December 1999 the company's Board of Directors decided to observe these guidelines. When necessary, registers of project-specific insiders are established. The company's permanent insiders are the members of the Board of Directors and the Executive Team and those persons who, in the course of their duties, regularly receive information having a significant bearing on the value of the company's listed securities. Each year the company decides on so-called "closed windows", i.e. specific periods of time during which insiders are barred from trading in shares and options issued by the company as well as warrants related to the company. In 2003 the closed windows were 1.1.2003–1.2.2003 (relating to the 2002 financial statements bulletin), 31.3.2003–24.4.2003, 30.6.2003–18.7.2003 and 30.9.2003–24.10.2003 (relating to the 2003 interim reports).

AUDITORS

The Annual General Meeting elects an auditor to scrutinize the company's governance and accounts. The elected auditor must be a public accountant or firm of public accountants authorized by the Central Chamber of Commerce. The AGM elected PricewaterhouseCoopers Oy to act as the company's auditor. The total amount of fees paid for auditing work in 2003 was € 2,901,000. An additional € 1,892,000 was paid for service unrelated to auditing work. The auditor's term of office ends at the conclusion of the first AGM after the election.

INTERNAL CONTROL, RISK MANAGEMENT AND INTERNAL AUDIT

The company's Board of Directors is responsible for internal control.

The company's Executive Team has approved internal control guidelines. In accordance with these guidelines, the director of each unit of function must organize the internal control of his or her unit or organization.

The Executive Team has confirmed the risk management guidelines drawn up according to principles approved by the Board of Directors. The company's business units are responsible for the identification of risks as well as their management in practice. The Executive Team monitors the development of risks and risk concentrations.

The Group's internal audit function assists the Board of Directors to discharge its supervisory responsibility by ensuring that the Group's control is planned appropriately and effectively. The internal audit function is administratively subordinate to the President and CEO, but it reports to the Audit Committee on the adequacy and effectiveness of the company's internal control systems.

BOARD OF DIRECTORS

CHAIRMAN

Vesa Vainio

VICE CHAIRMEN

Gustaf Serlachius
Carl H. Amon III

MEMBERS

Martti Ahtisaari
Michael C. Bottenheim
Berndt Brunow
Georg Holzhey
Juha Niemelä*
Jorma Ollila
Donna Soble Kaufman

AUDITORS

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

EXECUTIVE TEAM

Juha Niemelä (to 29.1.2004)*
Jussi Pesonen*
Harald Finne
Martin Granholm (to 31.12.2003)
Pirkko Harrela
Pauli Hänninen
Jan-Henrik Kulp (to 31.8.2003)
Matti Lievonen
Matti J. Lindahl
Kari Makkonen (to 31.12.2003)
Jyrki Ovaska
Heikki Sara
Hannu Schildt (to 29.2.2004)
Hans Sohlström (from 1.3.2004)
Kari Toikka
Markku Tynkkynen
Hartmut Wurster

SECRETARY TO THE BOARD OF DIRECTORS

Reko Aalto-Setälä

* In its meeting on 29 January 2004, the Board of Directors accepted the resignation of Juha Niemelä from the position of President and CEO. Mr Niemelä also announced that he will resign from the Board of Directors. In the same meeting the Board appointed Jussi Pesonen, the Senior Executive Vice President and COO, as the new President and CEO of UPM-Kymmene Corporation.

BOARD OF DIRECTORS, 31 DECEMBER 2003

VESA VAINIO
Member since 1996,
Vice Chairman in 1997,
Chairman since 2001

Chairman of the Human Resources Committee

MICHAEL C. BOTTENHEIM
Member since 2001

Chairman of the Audit Committee and member of the Nomination Committee

GUSTAF SERLACHIUS
Member since 1996,
Vice Chairman since 2000

Member of the Audit Committee and Chairman of the Nomination Committee

BERNDT BRUNOW
Member since 2002

Member of the Human Resources Committee

CARL H. AMON III
Member since 1999,
Vice Chairman since 2001

Member of the Human Resources Committee

GEORG HOLZHEY
Member since 2003

MARTTI AHTISAARI
Member since 2000

Member of the Audit Committee

JUHA NIEMELÄ
Member since 1998

JORMA OLLILA
Member since 1997

Member of the Nomination Committee

DONNA SOBLE KAUFMAN
Member since 2001

The shares and options held by the members of the Board of Directors are detailed on page 85.

PERSONAL DATA OF THE MEMBERS OF THE BOARD OF DIRECTORS

VESA VAINIO, born 1942

LLM.
Member of the Board of Nokia Corporation, and Chairman of the Board of the Finnish Central Chamber of Commerce to 31.12. 2003.

GUSTAF SERLACHIUS, born 1935

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.

CARL H. AMON III, born 1943

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.

MARTTI AHTISAARI, born 1937

President of the Republic of Finland 1994–2000. Teacher Training College, University of Oulu. Granted honorary doctorates by several universities.
Chairman of the Board of Crisis Management Initiative.
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.
Member of the Board of Directors of Elcoteq Network Oyj.

MICHAEL C. BOTTENHEIM, born 1947

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.

BERNDT BRUNOW, born 1950

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 Lemminkäinen Oyj and Oy Nautor Ab.

GEORG HOLZHEY, born 1939

Dr. oec.-publ.
Executive Vice President and co-owner of G. Haindl'sche Papierfabriken KgaA 1970–2001. Executive Vice President of UPM-Kymmene Corporation in 2002.
Chairman of the Board of Augsburger Localbahn GmbH, member of the boards of BDI, Bundesverband der Deutschen Industrie, the Confederation of European Paper Industries (CEPI), VBP Verband Bayerischer Papierfabriken, VIK Verband der Industriellen Energie- und Kraftwirtschaft.

JUHA NIEMELÄ, born 1946

M.Sc. (Econ.), D.Sc. (Econ.) h.c.
President and Chief Executive Officer of UPM-Kymmene Corporation since it was founded in 1996 to 29 January 2004.
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 the Confederation of Finnish Industry and Employers (TT) and the Confederation of European Paper Industries (CEPI). Chairman of the board of Oy Veikkaus Ab.

JORMA OLLILA, born 1950

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.

DONNA SOBLE KAUFMAN, born 1943

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 BCI Inc., Bell Canada, TransAlta Corporation, and Hudson's Bay Company.

EXECUTIVE TEAM, 1 MARCH 2004

JUSSI PESONEN
President and
Chief Executive Officer

MATTI LIEVONEN
President,
Fine and Speciality Papers Division

HARALD FINNE
President,
Wood Products Division

MATTI J. LINDAHL
President,
Converting Division

PIRKKO HARRELA
Executive Vice President,
Corporate Communications

JYRKI OVASKA
President,
Magazine Papers Division

PAULI HÄNNINEN
Executive Vice President,
Business Development

HEIKKI SARA
Executive Vice President,
Strategy

HANS SOHLSTRÖM
Executive Vice President,
Marketing

MARKKU TYNKKYNEN
Executive Vice President,
Resources

KARI TOIKKA
Executive Vice President and
CFO

HARTMUT WURSTER
President,
Newsprint Division

The shares and options held by the members of the Executive Team are detailed on page 85.

PERSONAL DATA OF THE MEMBERS OF THE EXECUTIVE TEAM

JUSSI PESONEN, born 1960

President and Chief Executive Officer of UPM-Kymmene Corporation, from 29.1.2004.
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. COO of the paper divisions 2001–2003. From the beginning of 2004 Senior Executive Vice President and deputy to the President and CEO.

HARALD FINNE, born 1952

President, Wood Products Division, from January 2004.
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 and Executive Vice President, Human Resources and Information Technology 2002–2003.

PIRKKO HARRELA, born 1960

Executive Vice President, Corporate Communications, from January 2004.
M.A.
Several posts in Finnpap 1985–1996. Several management posts in Communications for Printing Papers Division 1996–2002. Vice President, Communications, 2003.

PAULI HÄNNINEN, born 1948

Executive Vice President, Business Development, from January 2004.
M.Sc.(Eng.), Tech. Licentiate.
In A. Ahlstrom in various production and line management positions 1974–1989, the last position as Vice President and General Manager of the Kauttua paper mill 1986–1989. Director of Kaipola LWC mill 1989–1993. Vice President and General Manager of Kajaani paper mill 1993–2000. Vice President, Product Group Uncoated Papers 2000–2001. Senior Vice President, Fine Paper Operations 2001–2003.

MATTI LIEVONEN, born 1958

President, Fine and Speciality Papers Division, from January 2004.
B.Sc.(Eng.), MBA.
Several posts in United Paper Mills Ltd since 1986, including Project Manager, Technical Manager and Director for TD production unit at Kaipola mill 1994–1996. Director of Chapelle Darblay S.A. production unit in France 1997–2001. Executive Vice President, Business and Technology Optimization 2002–2003.

MATTI J. LINDAHL, born 1946

President, Converting Division, 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.

JYRKI OVASKA, born 1958

President, Magazine Papers Division, from January 2004.
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 1996–1998. Vice President, LWC Product Group 1998–2000. Senior Vice President, Business Development and Support Functions, Publication Papers 2000–2001. President, Fine & Speciality Papers Division 2002–2003.

HEIKKI SARA, born 1946

Executive Vice President, Strategy, 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 Executive Vice President, Resources, 1996–2001.

HANS SOHLSTRÖM, born 1964

Executive Vice President, Marketing, from March 2004.
M.Sc.(Tech.), M.Sc.(Econ.).
Various tasks in business control and development, procurement, planning, production and maintenance at Oy Wilh. Schauman Ab, Nordland Papier GmbH and Kymmene Oy 1984–1989. Marketing Assistant, Finnpap, 1989–1990. Marketing Manager, Stracel S.A. 1990–1994. Mill Director, Jämsänkoski MFC and SC mills, 1994–1998. Management posts in sales and marketing, Publication Papers, 1998–2002. Senior Vice President Sales & Marketing, Magazine Paper Division, 2002–2004.

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.

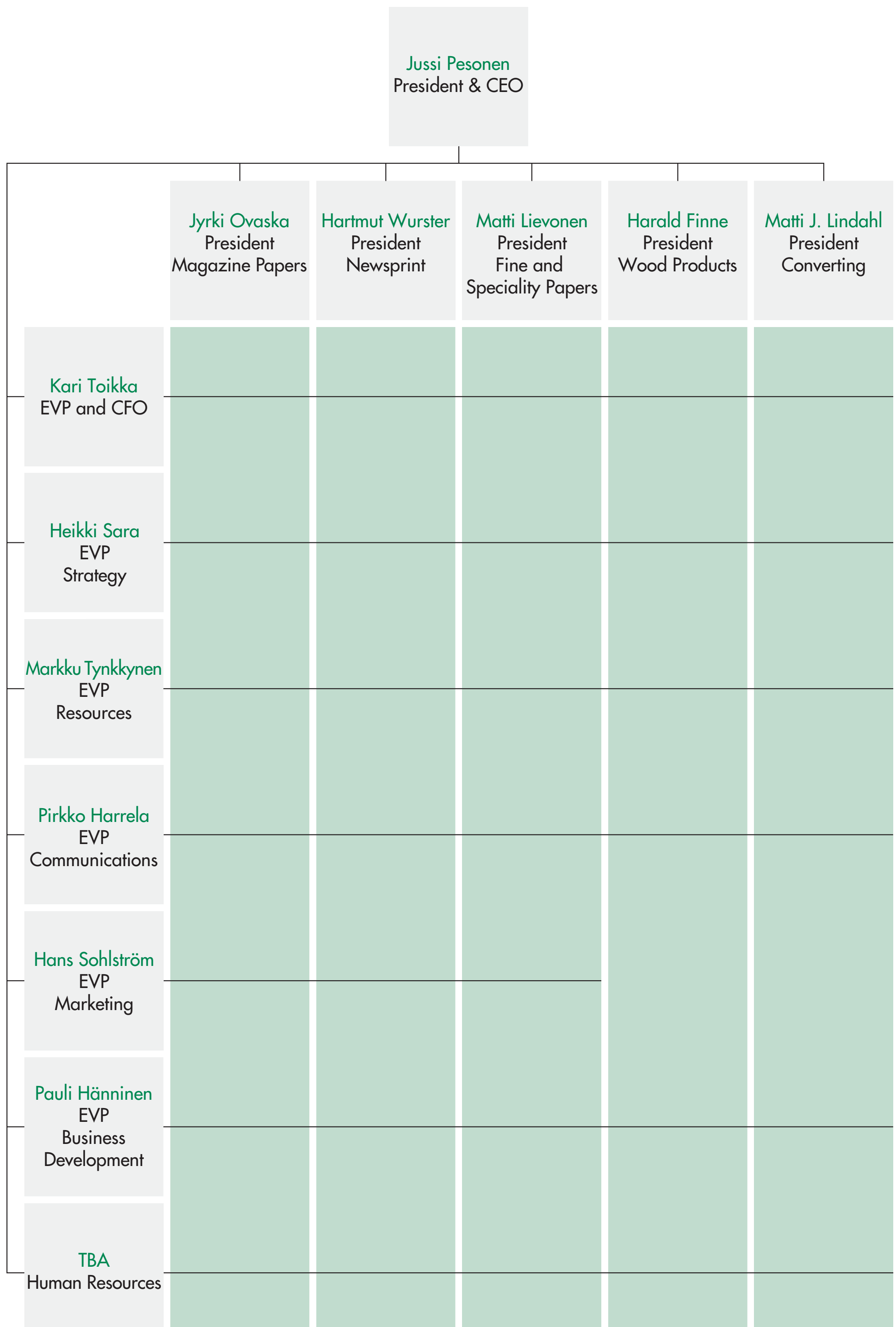
MARKKU TYNKKYNEN, born 1952

Executive Vice President, Resources, since January 2004.
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. 1990–1993. General Manager and Vice President of Jämsänkoski profit unit 1994–1998. Vice President of SC Product Group 1998–2000. Senior Vice President, Publication Papers Division, with responsibility for product groups, technology and mills, 2000–2001. President, Magazine Paper Division 2002–2003.

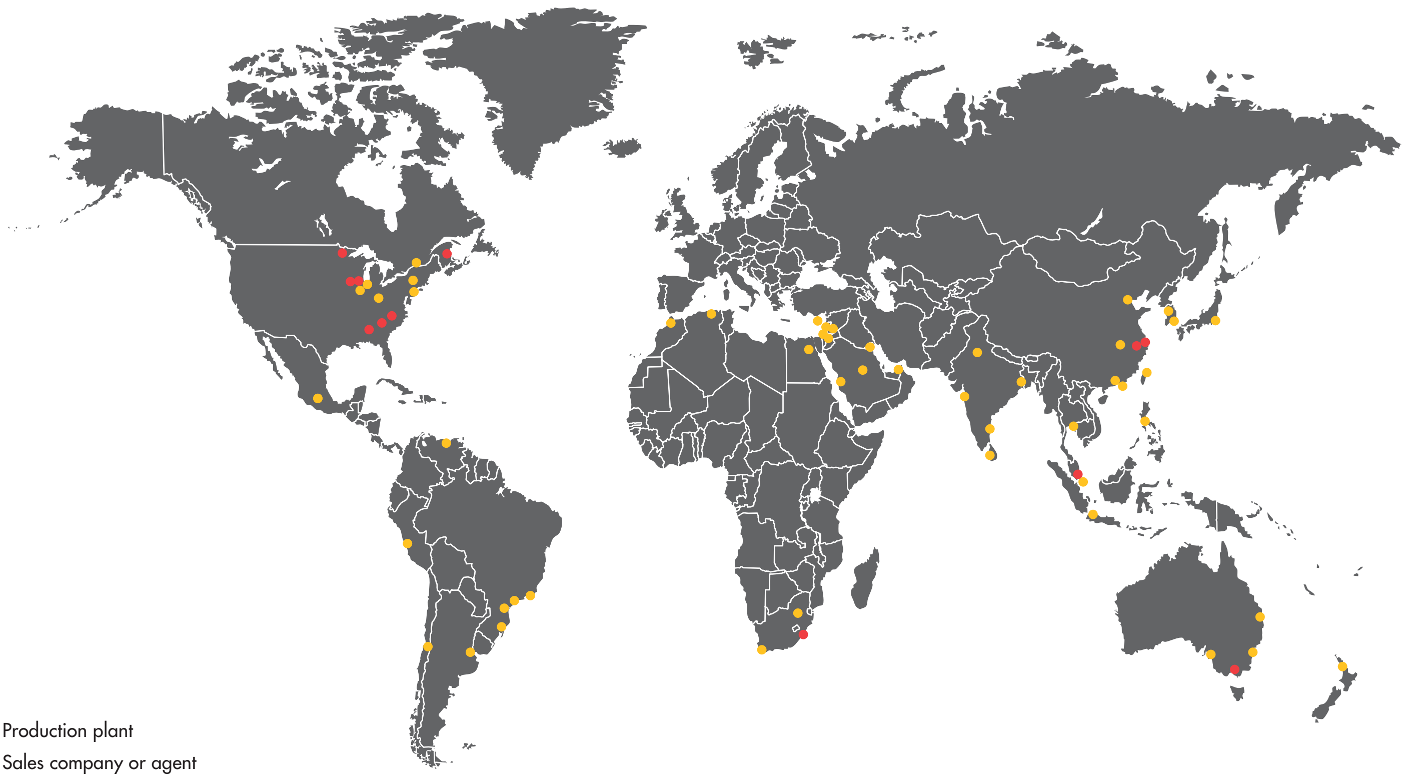
HARTMUT WURSTER, born 1955

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.

ORGANIZATIONAL STRUCTURE, 1 MARCH 2004



PRODUCTION PLANTS AND SALES NETWORK



Production plant
Sales company or agent

Production plants

PAPERS

AUSTRIA
UPM-Kymmene Austria GmbH, 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
UPM-Kymmene France S.A.S.
– Grand-Couronne
– Docelles
Stracel S.A.S., Strasbourg

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

GREAT BRITAIN
UPM-Kymmene (UK) Ltd
– Caledonian Paper, Irvine
– Shotton Paper, Shotton

USA
Blandin Paper Company plc, Grand Rapids, MN

CONVERTING

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

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

FINLAND
Loparex Oy, Lohja
Raflatac Oy, 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

NETHERLANDS
Loparex B.V., Apeldoorn

SOUTH AFRICA
Raflatac South Africa (Pty) Ltd, Pinetown

MALAYSIA
Raflatac (M) Sdn Bhd, Johor

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

SWEDEN
Walki Wisa Converflex AB, Arnäsvall

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

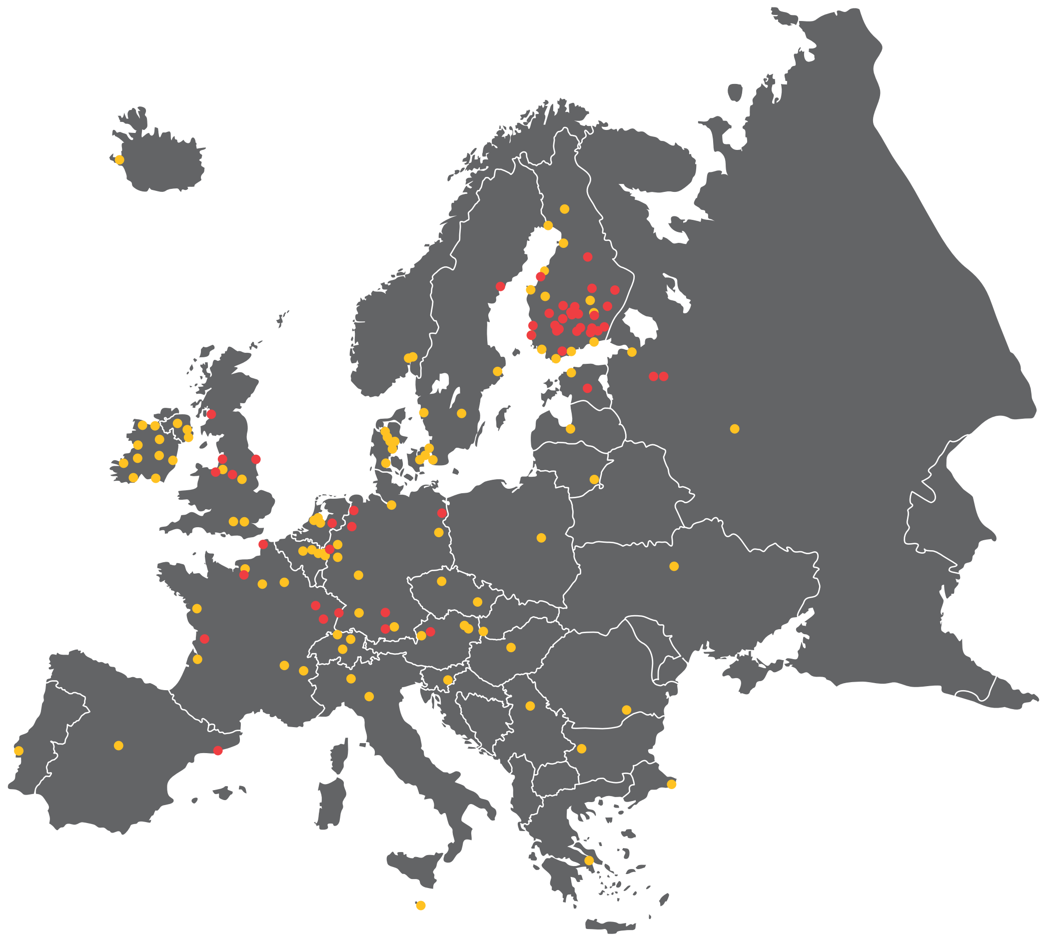
WOOD PRODUCTS

AUSTRIA
Steyrermühl Sägewerksgesellschaft m.b.H. Nfg KG

ESTONIA
UPM-Kymmene Otepää AS, Otepää

FINLAND

Sawmilling and Further Processing
– Alholma Sawmill and Planing, Pietarsaari
– Aureskoski Sawmill and Planing, Parkano
– Heinola Sawmill
– Heinola Timber Components Mill
– Kajaani Sawmill
– Kaukas Sawmill and Planing, Lappeenranta
– Korkeakoski Sawmill, Juupajoki
– Leivonmäki Sawmill
– Luumäki Timber Components Mill
– Parkano Timber Components Mill
– Seikku Sawmill, Pori



Plywood mills
- Heinola Plywood Mill
- Joensuu Plywood Mill
- Jyväskylä Plywood Mill, Säynätsalo
- Kaukas Plywood Mill, Lappeenranta
- Kuopio Plywood Mill
- Lahti Processing Mill
- Pellos Plywood Mills, Ristiina
- Savonlinna Plywood Mill
- Viiala Plywood Mill, Toijala

Veneer mills
- Kalso Veneer Mill, Vuohijärvi
- Keuruu Veneer Mill, Keuruu
- Lohja Veneer Mill, Lohja

FRANCE
UPM-Kymmene Loulay S.A., Loulay
UPM-Kymmene Wood S.A.
- Aigrefeuille
- Boulogne sur Mer

RUSSIA
ZAO Chudovo-RWS, Chudovo
ZAO Pestovo Novo, Pestovo

OTHER OPERATIONS

FINLAND
Rafsec Oy, Tampere

Sales network
(countries listed below)

NORTH AMERICA
Canada
Mexico
USA

SOUTH AMERICA
Argentina
Brazil
Chile
Peru
Venezuela

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
Serbia and Montenegro
Slovakia
Slovenia
Spain
Sweden
Switzerland
Turkey
Ukraine

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

AFRICA
Algeria
Egypt
Morocco
South Africa

OCEANIA
Australia
New Zealand

GLOSSARY OF TERMS

The following explanations are not intended as technical definitions, but to assist the general reader to understand certain terms as used in this annual report.

COATED FINE PAPER (WFC)
Also known as coated woodfree paper. Coated fine paper is used for demanding printing. The amount of coating and gloss of the paper is determined by the end-use. Top quality coated fine papers are called art printing papers and due to excellent printability are used for art books, brochures, annual reports and other similar purposes. Other papers, with a lighter coating, are used for brochures, books, magazines, catalogues and other similar purposes.

COATED PAPER
Paper which has been coated on one or both sides with a mix of clay or carbonates and latex to create a high quality printing surface.

LWC
Light-weight coated paper. The main characteristics of LWC paper are its higher gloss, brightness and smoothness relative to uncoated supercalendered paper. These properties are necessary for quality printing and good colour reproduction. The main uses of LWC paper are in the printing of mass circulation magazines, catalogues and direct mail advertising.

MWC
Medium-weight coated paper. MWC paper has higher basis weight and consequently better smoothness, brightness and gloss than LWC paper, qualities which are required for demanding colour reproduction during the printing process. The main uses of MWC paper are similar to those of LWC paper.

MFC
Machine-finished coated paper. MFC paper has high brightness, opacity, bulk and stiffness and is used in specialized magazines, catalogues, inserts, advertising materials and books. The soft nip calender gives a matte finish to the paper.

DEINKING
The process of obtaining fibre which can be recycled for papermaking by removing the ink and other non-fibrous components from recovered paper, by washing or flotation combined with chemical treatment.

FACE PAPERS
Paper on which the label is printed in self-adhesive labelstock.

FIBRE
The basic structural unit of paper. Fibres used in papermaking originate mainly from the stem of softwood and hardwood trees.

FINE PAPER
Also known as writing paper, free sheet or woodfree paper. Fine paper generally contains chemical pulp, with no more than ten percent of mechanical pulp, and its filler content varies between five and 25 percent. Fine paper is generally highly regarded for its strength, brightness and good archiving characteristics. Fine paper may be coated or uncoated.

GRAVURE PRINTING
A process of printing that uses a thin, quick-drying ink applied from a cylindrical surface having an etched (recessed) design. Rotogravure printing is the opposite of letterpress printing, since the design areas are recessed into the plate instead of being in relief.

KRAFT PAPER
High strength packaging paper made of softwood pulp, which has the longest fibres. Kraft paper is used primarily in carrier bags, pouches and wrappings.

LABEL PAPER
Face and base papers suitable for self-adhesive labels. Face papers have distinct printing properties and base papers have siliconizing and tear-off properties.

MACHINE FINISHED SPECIALITY (MFS)
Uncoated, machine-finished speciality paper, containing mechanical pulp and recycled fibre as raw material. MFS is suitable for newspaper inserts, newspapers, magazines, books and directories.

MAGAZINE PAPER
Paper used in magazines, catalogues, brochures, direct mail advertising and similar printed material.

MG PAPER
Machine-glazed paper. Paper made smooth and glossy on one side by drying on a heated, polished metal cylinder, which forms part of the drying section of the machine.

NEWSPRINT
Uncoated paper manufactured mainly from mechanical pulp or recycled paper and used for newspapers and directories. Newsprint has low basis weight and is mainly used for printing newspapers, but it is also used for printing magazines and advertising publications which do not require high quality printing and good colour reproduction.

NON-IMPACT PRINTING
A method of printing involving electro-photographic and ink jet printing. In this method, the printing element does not make contact with the paper.

PM
PM, or "paper machine," is a term used when referring to individual paper manufacturing units within a paper mill.

PRINTING PAPER
Papers used in the graphic industry and for photocopying. Printing papers may be coated or uncoated.

PULP
Generic name for wood or plant based fibre masses used as raw material in papermaking.

CHEMICAL PULP
Generic name for wood-based fibres separated from each other by "cooking" wood chips or plants in hot alkaline or acidic solutions of various chemicals.

MECHANICAL PULP
Generic name for wood-based fibres separated from each other mechanically.

SOFTWOOD PULP
Pulp obtained from coniferous trees which have the advantage of long fibres which enhance the strength of the paper.

RECOVERED PAPER
Paper and board recovered for secondary use.

RECYCLED FIBRE
Fibre extracted from recovered paper.

RELEASE PAPER
In self-adhesive labelstock, the back page of a label that is removed and discarded.

SC
Supercalendered paper. Supercalendered paper is manufactured from mechanical and chemical pulp with mineral pigments as filler. This paper is used for printing magazines, especially multi-colour magazines with large circulations. Traditional SC paper is made for gravure printing, but other SC paper grades have also been developed to suit offset printing.

SELF-ADHESIVE LABELSTOCK
Face and base materials laminated together for manufacturers of price and product labels, as well as labels used in automatic data processing. Self-adhesive labelstock is also known as pressure sensitive paper.

SILICONIZED PAPER
Papers siliconized on one side to form the tear-off part of speciality tapes for hygiene products, labels and industrial applications.

UNCOATED FINE PAPER (WFU)
Also known as uncoated woodfree paper, this paper is principally used for printing and writing. It includes A4 paper used for photocopying and business form paper used as continuous stationery for computer printouts. Uncoated fine paper, when pigmented or surface sized, is used for conversion into envelopes and labels. Machine glazed woodfree paper is used for wrapping and for paper bags.

WOODFREE, FREE SHEET OR FINE PAPER
Papers used by the graphic industry for writing, including office papers such as photocopying and laser printing paper. These papers may be coated or uncoated.

ADDRESSES

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Fax +49 821 3109 156

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Fax +49 40 341 02 444

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UPM

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