

Annual report 1997



KOSKITUKKI-GROUP

A D R E S S E S

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KOSKITUKKI GROUP PERFORMANCE HIGHLIGHTS

M F I M	1997	1996
Turnover	715,2	491,7
change -%	45,5	-3,4
Exports	453,3	306,2
Exports as % of turnover	63,4	62,3
Operating margin	109,5	63,2
as % of turnover	15,3	12,9
Operating result	65,0	8,2
Net financing expenses	10,7	11,4
as % of turnover	1,5	2,3
Planned depreciation	29,8	26,9
Balance sheet total	644,1	555,4
Personnel	812	707
Return on investment (ROI) %	16,5	10,8
Equity to assets ratio -%	38,9	38,9
Wood consumption m ³	642 600	443 800
Land, hectares	1329	1135



**REPORT BY THE BOARD OF DIRECTORS
1 JAN.–31 DEC. 1997**

GENERAL

The Finnish economy improved encouragingly during the year under review, with total output growing by more than 5 per cent. Exports rose by 12 per cent compared to 1996. Despite strong growth, inflation remained low, at about 1 per cent. The upswing in the economy also strengthened demand at home.

The year under review saw a marked recovery of the construction industry. Industrial investments remained at roughly the same level as during the previous year. Unemployment fell only slightly despite the encouraging trend in the economy. International economic growth remained favourable during the first half of the year. Although the European and North American economies continued to grow, economic turmoil in Southeast Asia jeopardised international economic growth during the latter half of the year.



Kalevi Koskinen, chairman of the Boards of Directors of Group companies

PRODUCTION AND INVESTMENTS

All Koskitukki Group companies reported growth in productive activity during 1997. Koskisen Oy's board and sawmill divisions achieved record outputs. Investments gave priority to improving customer-driven production.

The year under review saw a decision being made to build a log merchandiser, a computerised complete log processing system, at Koskisen Oy's sawmill. Processing directed towards end customers will increase once the investment and pre-cut activities start up. The new glued board line and extension to the board division's coating mill at Vilkon Oy enabled us to provide customised processing.

TIMBER PROCUREMENT

Stumpage price views held by certain forest industry combines and the forest ownership organisation had a major impact on private timber sales throughout the year. Demand for timber remained brisk until late autumn. Demand for pulpwood strengthened towards the end of the year. Supply remained high throughout the year and private timber sales reached record levels. Log stumpage prices strengthened by about 6 per cent during the year and, despite a downturn in the sawn goods market, remained high until the end of the year.

In 1997, Koskitukki Oy purchased around 870,000 m³ of logs. Our procurement targets were met with the exception of birch logs. The considerable rise in stumpage prices resulted in an increase of around 6 per cent in factory prices since last year.

P E R S O N N E L

The Group employed an average of 812 people (707 in 1996), of which 47 (41) were employed by the parent company.

F I N A N C E

At the close of the financial year, the Group's interest-bearing liabilities totalled FIM 301.9 million (FIM 258.2 million in 1996). Net interest paid was FIM 10.7 million, equivalent to 1.5 per cent of turnover. The corresponding figures for 1996 were FIM 11.4 million and 2.3 per cent of turnover. Group solvency and liquidity remained good throughout the year.

T U R N O V E R A N D P E R F O R M A N C E

All companies within the Koskitukki Group reported an encouraging increase in turnover during the year under review. Group turnover amounted to FIM 715.2 million (FIM 491.7 million in 1996), the operating margin was FIM 109.5 million (FIM 63.2 million) and the profit before extraordinary items, reserves and taxes FIM 65.0 million (FIM 8.2 million). Exports accounted for 63.4 per cent of group turnover. Group equity to assets ratio was 38.9 per cent and return on investment (ROI) 16.5 per cent.

F U T U R E P R O S P E C T S

Prospects for 1998 are somewhat weaker than those during the year under review, especially in respect of the market for softwood sawn goods. The gloomy economic outlook in Japan may slow the recovery of the sawn goods market. Although Group turnover is likely to grow and profitability will remain good during 1998, mixed economic outlooks in our main market areas and the economic crisis prevailing in Southeast Asia may result in performance in 1998 differing from that expected. The Group will continue its dynamic commitment to customer-driven operations and to increasing processing directed towards the end user market.

A D M I N I S T R A T I O N

Kalevi Koskinen served as chairman of the Board of Directors. Other Board members were Kari Koskinen and Markku Koskinen. Kari Wuolijoki was managing director of the company. The company auditors, nominated by KPMG WIDERI OY AB public accounting firm, were Eero Suomela and Tapani Huopainen, both authorised public accountants.

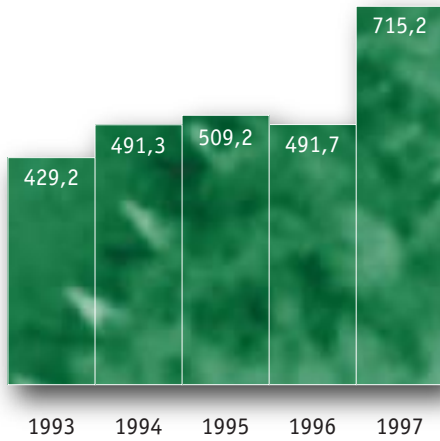
P R O P O S A L B Y T H E B O A R D O F D I R E C T O R S F O R T H E D I S P O S A L O F P R O F I T

The Group's non-restricted equity shown in the balance sheet at 31 December 1997 stood at FIM 21,013,739.40, and Koskitukki Oy's non-restricted equity shown in the balance sheet at 31 December 1997 stood at FIM 10,917,174.43. Koskitukki Oy's Board of Directors proposes that of the profit for 1997, FIM 1,500,000.00 be paid as dividend and FIM 405,344.44 be retained.

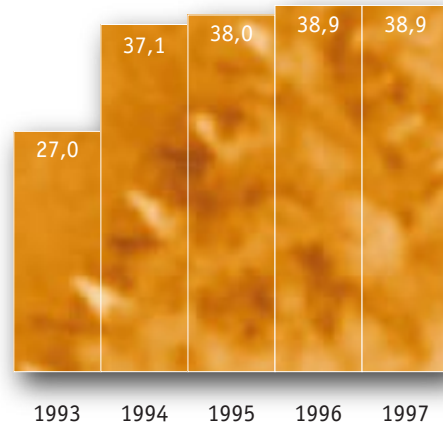


KOSKITUKKI GROUP IN BRIEF

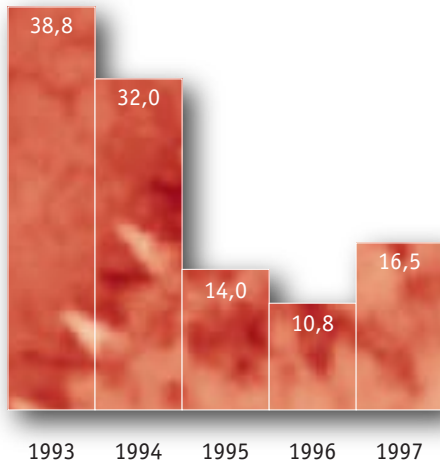
Group turnover (MFIM)



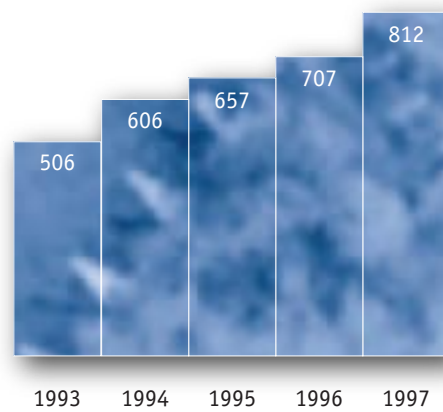
Group equity to assets ratio



Return on investment (ROI) %



Group personnel



CONSOLIDATED INCOME STATEMENT (FIM)

	01.01.1997 31.12.1997	01.01.1996 31.12.1996
TURNOVER	715 242 975.43	491 716 315.08
Change in product inventories	3 226 338.34	-3 030 221.52
Production for own use	189 309.36	490 040.60
Other operating income	4 859 719.75	10 645 968.68
OPERATING EXPENSES		
Materials and consumables:		
Purchases during the financial year	269 282 469.13	181 981 943.97
Change in inventories	-4 908 598.12	-2 156 915.39
External services	61 179 735.36	41 920 834.19
Personnel costs	148 725 725.94	120 537 913.50
Rents	4 114 977.54	3 393 266.14
Other operating expenses	135 629 767.43	90 942 408.48
	614 024 077.28	436 619 450.89
OPERATING MARGIN	109 494 265.60	63 202 651.95
Depreciation	29 776 437.36	26 933 455.93
OPERATING PROFIT	79 717 828.24	36 269 196.02
Financial income and expenses:		
Dividends received	108.00	125 000.00
Interest received	681 349.67	789 106.36
Other financial income	5 484 961.64	9 081 812.62
Interest paid	-11 336 687.71	-12 151 415.71
Other financial expenses	-9 578 497.03	-25 920 242.11
	-14 748 765.43	-28 075 738.84
PROFIT BEFORE EXTRAORDINARY ITEMS, RESERVES AND TAXES	64 969 062.81	8 193 457.18
Extraordinary income and expenses:		
Extraordinary income		41 179 860.83
Profit before reserves and taxes	64 969 062.81	49 373 318.01
Change in depreciation difference	-36 330 437.91	-44 886 390.66
Change in voluntary reserves	11 176 784.54	
Direct taxes	-11 969 686.56	-1 315 011.91
Profit for the financial year before minority interest	27 845 722.88	3 171 915.44
Share of minority interest of the result for the financial year	14 022 106.75	688 866.93
GROUP PROFIT FOR THE FINANCIAL YEAR	13 823 616.13	2 483 048.51


CONSOLIDATED BALANCE SHEET

	31.12.1997	31.12.1996
ASSETS		
FIXED ASSETS AND OTHER		
LONG-TERM FINANCIAL ASSETS		
Intangible assets		
Intangible rights	565 145.23	313 772.44
Consolidation goodwill	7 671 352.37	8 630 417.13
Other long-term expenditure	4 265 947.00	4 106 289.45
	12 502 444.60	13 050 479.02
Tangible assets		
Land and water	23 730 337.80	21 764 026.47
Buildings	144 878 359.76	142 814 599.97
Machinery and equipment	238 439 078.12	211 058 840.39
Other tangible assets	9 432 644.47	8 940 213.14
Advance payments and construction in progress	14 959 108.55	3 147 141.31
	431 439 528.70	387 724 821.28
Long-term financial assets		
Shares and securities	1 589 561.19	6 025 008.50
	1 589 561.19	6 025 008.50
INVENTORIES AND CURRENT ASSETS		
Inventories		
Raw materials and supplies	25 662 346.01	20 753 747.89
Finished products	45 063 153.53	41 836 815.19
	70 725 499.54	62 590 563.08
Receivables		
Trade receivables	65 374 820.98	44 583 326.73
Loand receivables	2 046 404.99	1 512 219.31
Prepaid expenses and accrued income	14 733 081.43	20 838 343.32
Other receivables	961 518.66	792 065.57
	83 115 826.06	67 725 954.93
Other current assets		
Shares and securities		1 444 000.00
		1 444 000.00
Cash and cash equivalents	44 742 454.43	16 846 915.93
	644 115 314.52	555 407 742.74

CONSOLIDATED BALANCE SHEET

	31.12.1997	31.12.1996
SHAREHOLDERS' EQUITY AND LIABILITIES		
SHAREHOLDERS' EQUITY		
Restricted equity		
Share capital	8 820 000.00	8 820 000.00
Reserve fund	266 280.00	266 280.00
Revaluation reserve		1 972 351.38
Other restricted equity	5 580.90	5 580.90
Non-restricted equity		
Retained profits	7 190 123.27	13 696 457.31
Profit for the financial year	13 823 616.13	2 483 048.51
	30 105 600.30	27 243 718.10
Minority interest	25 835 426.80	19 891 434.74
Accumulated depreciation difference	194 306 374.56	157 975 936.65
Voluntary reserves		
Other reserves		11 176 784.54
 LIABILITIES		
Long-term		
Loans from financial institutions	228 501 813.72	141 302 359.90
	228 501 813.72	141 302 359.90
Current		
Loans from financial institutions	73 281 872.00	116 936 140.00
Advances received	497 728.50	
Trade payables	39 204 989.52	29 484 414.52
Accrued expenses and deferred income	49 862 564.32	41 230 005.40
Other current liabilities	2 518 944.80	10 166 948.89
	165 366 099.14	197 817 508.81
	644 115 314.52	555 407 742.74

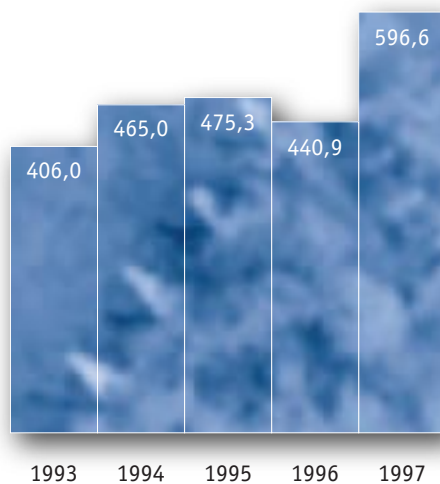




PERFORMANCE HIGHLIGHTS OF KOSKISEN OY

MFIM	1997	1996
Turnover	596,6	440,9
change %	35,3	-7,2
Exports	425,0	296,3
Exports as % of turnover	71,2	67,2
Operating margin	104,0	54,5
as % of turnover	17,4	12,4
Operating result	66,2	3,5
Net financing expenses	8,1	9,9
as % of turnover	1,4	2,2
Planned depreciation	25,4	25,0
Balance sheet total	576,6	518,7
Personnel	634	578
Return on investment (ROI) %	18,3	9,8
Equity to assets ratio %	42,0	40,0
Wood consumption m ³	599 200	424 200

Koskisen Oy's turnover (MFIM)





PLYWOOD

GENERAL

The plywood market developed extremely encouragingly in 1997. The late spring witnessed a sharp rise in export demand, which remained very good throughout the year. Minor price hikes were successfully implemented in all main markets. Overall plywood production in Finland increased by 14 per cent to reach 987.000 m³.

SALES AND PRODUCTION

Although performance and turnover clearly exceeded those budgeted, our annual production was 50,912 m³, slightly below budgeted figures. The most important quality indicators are progressing in the right direction.

R&D AND INVESTMENTS

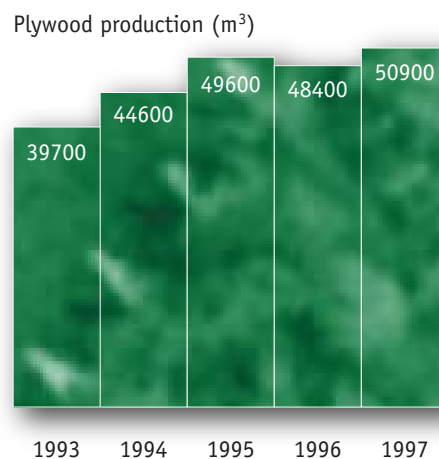
The most significant investment projects at the plywood mill during the year were conversion of the 12-daylight hot press to a 16-daylight one and the installation of a new pre-press unit. New plywood storage facilities were completed towards the end of the year. We also began work on extending the coating mill.

PERSONNEL

The plywood mill employed an average of 338 people during the year, with 345 employees at year end. The most important project concerning the entire personnel was the launch of the ELMENOX project together with the Faculty of Social and Health Care of Lahti Vocational College. ELMENOX is a part project of the Osajana Halki Elämän project. The project is designed to promote the motivation and welfare of plywood mill employees and to maintain and improve working capacity.

QUALITY, THE ENVIRONMENT AND SAFETY

A quality improvement programme was launched in all business sectors towards the end of the year. Our target for 1998 is to achieve International Quality Rating (IQR) level 4 and to extend our quality system to ISO 9001 standards, so that it includes R&D. IQR is an internationally comparable rating system which we can best utilise to follow our business development. The year under review saw the introduction of the Jatkuvan Parantamisen Järjestelmä (Ongoing Improvement System), which multiplied several times over the number of initiatives made. Initiative competitions on various themes will continue. This practise also spread to other units during the year.



ULTIPRO / CHIPBOARD

GENERAL

Good demand prevailed in the chipboard mill's domestic market throughout the year. Agent cooperation established in Russia last year also proved to be effective. We also achieved our budgeted targets in other markets. The pound sterling remained high, which made exports more profitable. Price changes in raw materials and production factors were absorbed through increasing prices.

SALES AND PRODUCTION

New records in overall production (91,266 m³) and coating (35,354 m³) were made during 1997. This was made possible by the new sanding line, which entered commercial service in the spring, basic production lines working at high capacity and improvements in production technology. We successfully broke budgeted production and performance targets.

PERSONNEL

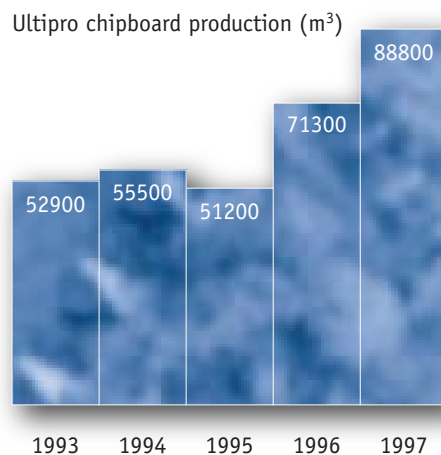
The chipboard mill employed an average of 83 people during the year, with 84 employees at year end.

R&D AND INVESTMENTS

The most significant investment during the year under review was the installation and inauguration of the new sanding line. Steinemann AG and Sunds Defibrator Panelhandling Oy supplied the main machinery. The new line started up well, without any major technical problems. Several smaller investments were also made, mostly in increasing reliability and improving quality.

FUTURE PROSPECTS

Production in 1998 is expected to continue growing by around 10 per cent compared to 1997.





SAWN GOODS

GENERAL

Demand for sawn goods got off to a good start. Despite growing outputs of sawn goods in many producer countries, continued high building activity in the USA and Japan kept the market in balance for the first half of the year.

As the summer progressed, it began to transpire that there was market disturbance, especially in the Japanese market. This led to burgeoning stocks and a slow down in deliveries. Subsequently, some companies were forced to cut back production sharply, which resulted in dumping in the European market. Nevertheless, delivery prices fell only slightly during the autumn, although later deliveries were discounted by as much as 30 per cent.

SALES AND PRODUCTION

Productive activity restarted so well after last year's fire that by March we had already reached the budgeted production rate. Processing was hampered by having to use only one line instead of three, as we had earlier.

Sawmill performance was clearly much better than budgeted. This was principally due to higher average prices than expected. Costs remained fairly well within budget despite the problems during the running-in stage in the early part of the year after the fire.

PERSONNEL

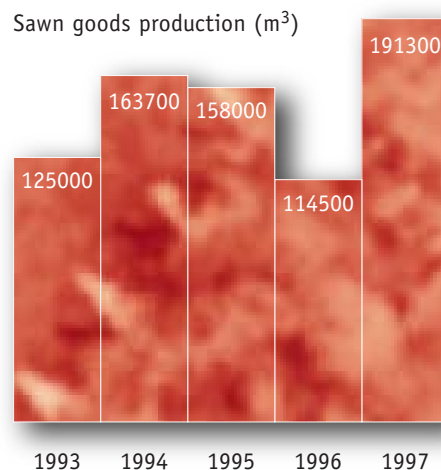
The sawmill employed an average of 148 people during the year, with 154 employees at year end.

R&D AND INVESTMENTS

The sawmill continued to be overshadowed by rebuilding. The office, social facilities and canteen building was completed in the autumn, at the same time as the new repair shop. Work on length-sorting plant II began in the autumn and the line is scheduled for completion in May 1998.

FUTURE PROSPECTS

Performance is expected to be poor during 1998, with a sharp fall in average prices taking place early in the year. Although prices are expected to rise as a whole during the rest of the year, the rate of such rises may well be low. The technical and commercial run-in of the new log merchandiser will also present us with challenges in 1998.



PROCESSED SAWN GOODS

GENERAL

1997 was marked by an extremely brisk demand for sawn goods. The situation remained good throughout the year, and the sharp weakening of the market experienced towards the end of the year failed to affect performance for the year.

SALES AND PRODUCTION

Production of both planed timber and roof trusses reached record levels in 1997. Planed timber production rose to 60,504 m³ (33,800 m³ in 1996) and 16,223 (12,606 in 1996) roof trusses were made.

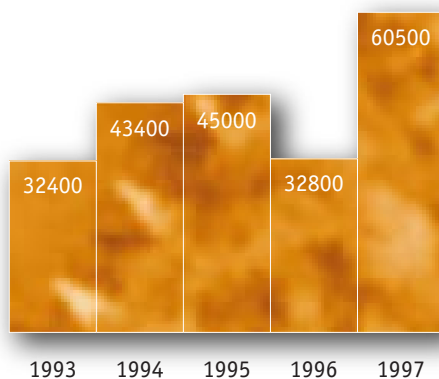
FINANCE

The processed sawn goods division had a turnover of FIM 82.1 million, which exceeded that budgeted by FIM 18.7 million. Performance was also good, exceeding that budgeted.

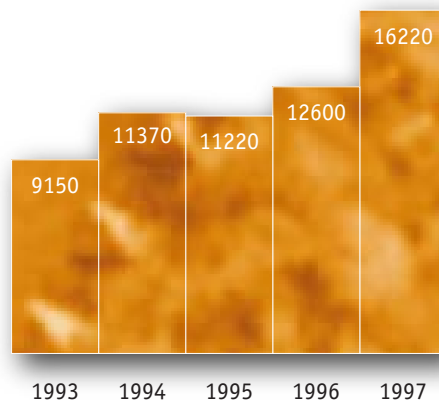
R&D AND INVESTMENTS

Commencement of pre-cut housing production can be considered as strategically far-sighted. In December we concluded a marketing agreement with Rautakesko to sell house frameworks on the domestic market.

Planing mill production (m³)



Roof truss production (m³)







GENERAL

Demand for Vilkon Oy's products remained good throughout the year, with exports accounting for 52 per cent of turnover. Greatest growth was witnessed in exports to the Far East. The greatest growth was in demand for ice hockey stick shafts, which clearly exceeded the budget. Vilkon Oy's products were on show in May at the Interzum Fair in Cologne, where they aroused keen interest.

FINANCES

Vilkon Oy's turnover grew by almost 20 per cent to reach FIM 53.1 million. The operating profit was around FIM 6.6 million compared to FIM 5.2 million a year earlier. Performance can be considered good despite the company just failing to meet the target budgeted.

INVESTMENTS

Gross investments during the year under review were over FIM 10 million. The biggest project was modernisation of the 100" lathe line in the veneer mill. By far the largest project last year was the installation of a new birch glue laminated board line, which was completed towards the end of the year.

PERSONNEL

Vilkon Oy employed an average of 97 people during the year, with 120 employees at year end. A group of apprentices comprising students from various departments began studying last year. Great interest was shown in apprenticeships.

FUTURE PROSPECTS

At year end, the order backlog was FIM 13.4 million spread fairly evenly between the various product groups. Intensive studies of both the export and domestic glued board markets were conducted last year. Unfortunately start-up of the glued board line was postponed until 1998. Our prime targets in the immediate future are to commence glued board production and to make full use of the opportunities provided by the line.

QUALITY, THE ENVIRONMENT AND SAFETY

Vilkon was the first company in the Koskitukki Group to introduce the systematic Jatkuvan Parantamisen Ohjelma. During the year, the practice spread to the Järvelä plywood mill.



GENERAL

At home, there was a healthy increase in building activities during the year under review, as building projects postponed in earlier years got under way, especially in the Helsinki region. Initiatives to build private houses grew by around 20 per cent to reach 9,000 houses (7,400 houses in 1996), of which prefabricated houses grew by 5 percentage units. Then overall market for prefabricated houses grew by 1,000 units. Despite this growth, unused capacity was still high enough to prevent anything other than a marginal increase in prices.

SALES AND PRODUCTION

Herrala-Talot Oy's deliveries began in May. Trade was brisk, and the budget was exceeded by 50 per cent at home. Turnover during the first year of business was FIM 26.7 million. Exports failed to reach the level budgeted, mostly because of postponed deliveries. Performance was weak, with a variety of initiative and development costs taxing performance at various levels of the organisation and operations.

PERSONNEL

Improvements were made to the company's organisation throughout the year. During the year under review, the company employed an average of 34 people, and 62 at year end. The network of representatives grew during the year as expected, with a network covering the main market area of southern Finland by the end of the year. The export sales network, however, developed more slowly than expected. The sales situation corresponded to the market situation in respect of installation teams. Bearing 1998 in mind, work was done in the autumn to increase the organisation to ensure quality and product development.

QUALITY, THE ENVIRONMENT AND SAFETY

Gradual introduction of the quality system resulted in a marked improvement in quality and customer satisfaction. Quality improvement highlights customer orientation both outwardly and between internal operations in respect of job descriptions. Our principal target in 1998 is to achieve outstanding customer satisfaction.

FUTURE PROSPECTS

Prospects for 1998 are reasonable, with forecast growth in demand set to continue. Nevertheless, a shortage of good building plots in many municipalities limits building activity. Numerous training programmes implemented during the winter of 1997-98 guarantee good quality operations and products far into the future.



