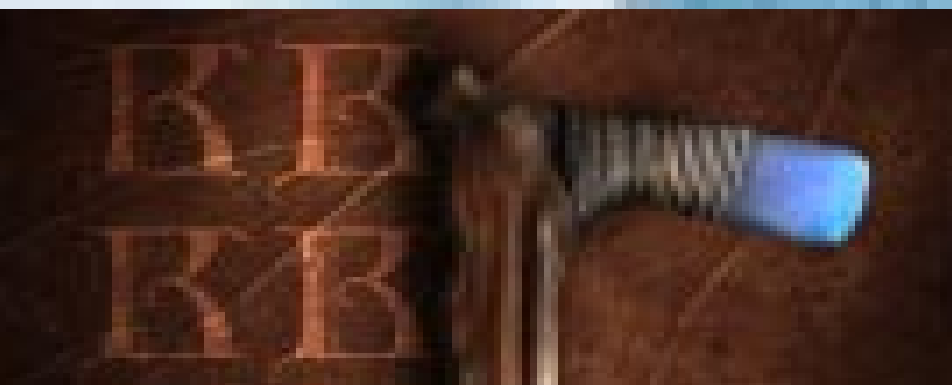


Annual Report 1998



111 METSÄLIITTO

Metsäliitto procures and sells wood raw material and manufactures forest products. The Group's operations are based in Europe, and the products are marketed worldwide.

The Group's strength derives from the fact that its procurement organization covers the whole of Finland and is based on the small-scale family forestry practised by the members of its parent company, Metsäliitto Osuuskunta. To ensure that all wood supplied by its members is processed efficiently and productively, the Group has chosen as its core businesses mechanical wood-processing and pulp, paper and board production.

Metsäliitto's business operations are handled through its subsidiaries. The resources provided by the Group cover strategic business planning and target setting, financing and capital management.

Financial information

Financial reports to be published in 1999:

5 February	Unaudited figures for 1998
Week 12	Annual Report for 1998
29 April	Interim Report for January-March 1999
5 August	Interim Report for January-June 1999
28 October	Interim Report for January-September 1999

All the above reports are published in Finnish, Swedish and English.

They can be ordered through the Internet or by mail from:

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<http://www.metsaliitto.com>

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Metsä-Serla bought the business operations of the British company UK Paper plc.

The company's turnover is around FIM 2.3 billion.

Metsä Tissue bought the German tissue manufacturers Papierwerke Halstrick GmbH and Strepp GmbH & Co. KG Papierfabrik Hochkoppelmühle (Strepp). Halstrick has a turnover of about FIM 1 billion and Strepp a turnover of about FIM 700 million.

Metsä-Serla established a EUR 1 billion Medium Term Note programme.

Metsäliitto Osuuskunta issued an index-linked capital note loan, the first tranche being FIM 500 million. Investments in additional members' capital were discontinued.

A cautious start to wood trading combined with wet weather interfered with wood supplies to the

sawmills. Wood purchased totalled 15.2 million cubic metres (15.8 million). Purchases had to be limited during the last few months.

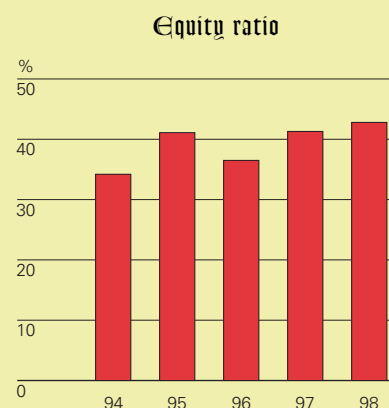
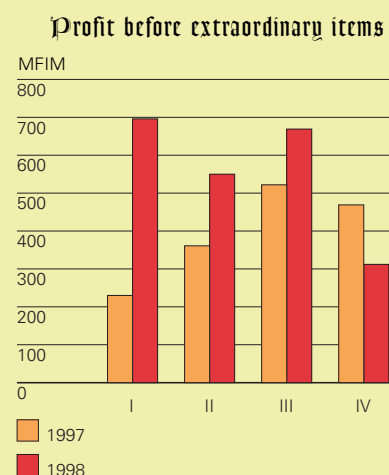
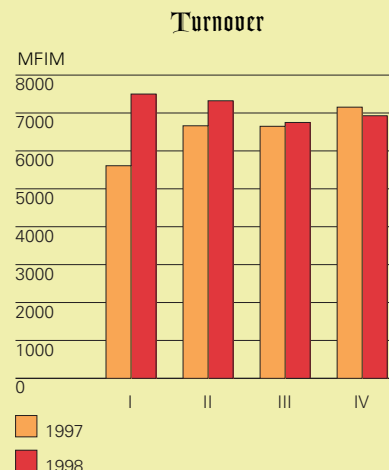
Restructuring of the Group's sawmilling operations was completed with the purchase by Metsä Timber of the share capital of Botnia Wood.

Modernization of the recovery system and power plant at Metsä-Botnia's Joutseno Pulp pulp mill was completed at a cost of around FIM 900 million.

Finnforest's new Kerto LVL production line started up, and the expansion of plywood production at Suolahti was completed.

Metsäliitto SW expanded its wooden poles and impregnation business to Britain through company acquisitions.

The outlook on the markets for forest products deteriorated during the final quarter.



KEY FIGURES	1998	1997
Turnover, MFIM	28 509	26 075
Operating profit, MFIM	2 818	2 690
Profit before extraordinary items, MFIM	2 227	1 582
Return on net assets, %	11,9	12,9
Return on equity, %	12,5	10,8
Equity ratio, %	42,8	41,3
Gearing ratio, %	64	59
Interest-bearing net liabilities, MFIM	8 852	7 434
Liquid funds total, MFIM	9 312	9 864
Capital investments, MFIM	3 430	3 647
Personnel at 31 December	19 927	18 717

The strategy drawn up the Group four years ago has been implemented earlier than planned. The goals set for growth, profitability and financing have all been reached. The Group's structure has been streamlined and its market positions in key areas strengthened. A clear division of business operations into mechanical wood processing and pulp and paper was completed during 1998 when Metsä Timber took responsibility for the Group's entire sawmilling operations. Metsä-Serla's position on the UK market for printing and writing papers was strengthened through company acquisitions. And Metsä Tissue further consolidated its already strong position in Germany by acquiring two companies there.

The financial result for 1998 was the second best in the Group's history. This was achieved despite the fact that the slackening of demand late in the year necessitated several production stoppages and caused product prices to fall. In view of the market situation, the achievement can be attributed largely to measures taken in recent years to raise internal efficiency. Under these circumstances a profit of FIM 2.2 billion and a return on net assets of almost 12 per cent can be considered very satisfactory.

Wood consumption at mills in Finland rose as a result of mill expansions. Metsäliitto's wood procurement from privately owned Finnish forests reached record levels and accounted for almost 40 per cent of all wood purchased from private forests. Exceptionally poor harvesting conditions and the protracted negotiations over stumpage rates meant that some mills experienced problems with wood raw material supplies.

The Group underwent a certain amount of restructuring in 1998. The companies acquired will swell turnover by around one billion euros (6 billion Finnish markka) over the next few years. The acquisition of the British company UK Paper for Metsä-Serla's Fine Paper division has strengthened our position in the market. Metsä Tissue's two company acquisitions in Germany and one in Poland have elevated the company to a new league in terms of size and shifted the focus of its activities to continental Europe.

In February of this year, a preliminary outcome was obtained from negotiations concerning the purchase of a pulp mill belonging to the German company Zellstoff- und Papierfabrik Rosenthal GmbH & Co. KG. The company produces extremely high-quality long-fibre reinforcement pulp, the kind of raw material needed by Metsä-Serla's and Myllykoski's European paper mills. The deal is expected to be finalized during the spring.

Among the Group's key objectives are to raise the value added in mechanical wood processing and to further develop marketing. In support of this, wholesaling operations were expanded on the European market. Metsä Timber and Finnforest set up Metsä Prima, whose primary mission is to provide customers



with an even more efficient service, raise the level of product upgrading and further develop the distribution chain. Metsäliitto has developed its mechanical wood processing operations considerably in recent years, and with good results. Even so, sawn timber prices and high raw material costs in 1998 caused Metsä Timber to make a loss, despite the fact that the company's productivity was above average for the industry.

The emphasis this year will be on finalizing the projects already implemented and on maintaining and improving business productivity and cost-effectiveness. As far as business is concerned, it seems that 1999 will be a poorer year than last. Prices for many products are weak, production curtailments are anticipated, and there are no signs of any recovery in demand. At present, it looks as if financial results for 1999 will be well below last year's, despite the substantial growth in turnover due to companies acquired.

On behalf of the entire Metsäliitto Group, I would like to thank all our employees for their hard work and belief in our own strengths.



Metsäliitto Osuuskunta's Board of Directors 1998

Standing from left to right:

Carl G. Björnberg, Seppo T. Niemi, Pentti Jormanainen, Kullervo Karjalainen and Tapani Kantola.

Sitting from left to right:

Arimo Uusitalo, Antti Oksanen and Timo Haapanen.

Board of Directors, Auditors and Group administration

Board of Directors

Chairman since 1994	Arimo Uusitalo, 56	M.Sc. (Agr.)
Deputy Chairman Member since 1992	Antti Oksanen, 54	M.Sc. (For.) President and CEO, Metsäliitto Osuuskunta
Member since 1996	Carl G. Björnberg, 57	M.Sc. (Pol.) President and CEO, Myllykoski Corp.
Member since 1995	Timo Haapanen, 60	M.Sc. (Agr.)
Member since 1995	Pentti Jormanainen, 60	journalist
Member since 1993	Tapani Kantola, 59	diploma in agriculture
Member since 1993	Kullervo Karjalainen, 52	forestry entrepreneur
Member since 1985	Seppo T. Niemi, 62	farmer
Secretary	Pertti Vuopala, 57	General Counsel

Auditors

Ilkka Haarlaa, 54	M.Sc. (Econ.), APA
SVH Pricewaterhouse Coopers Oy Authorised Public Accountants Responsible auditor: Göran Lindell, 52	M.Sc. (Econ.), APA

Group administration

Antti Oksanen, 54	president
-------------------	-----------

Financial control

Kari Haavisto, 57	Senior VP, CFO
-------------------	----------------

Strategic planning

Jouko M. Jaakkola, 54	Senior VP
-----------------------	-----------

Communications and Public Affairs

Pekka Kivelä, 51	Senior VP
------------------	-----------

Legal Affairs

Pertti Vuopala, 57	Senior VP, General Counsel
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Five years in figures

Metsäliitto Group										
FIM million	1998	%	1997	%	1996	%	1995	%	1994	%
Turnover	28 509	100.0	26 075	100.0	20 232	100.0	17 856	100.0	14 429	100.0
- change, %	9.3		28.9		13.3		23.8		8.2	
Exports from Finland	13 409		12 633		10 119		9 511		7 585	
Exports and foreign subsidiaries	22 919		20 938		16 639		13 379		10 753	
Operating profit	2 818	9.9	2 690	10.3	1 133	5.6	2 790	15.6	1 680	11.6
Profit before extraordinary items	2 227	7.8	1 582	6.1	485	2.4	2 212	12.4	1 129	7.8
Profit before tax and minority interest	2 326	8.2	2 524	9.7	856	4.2	2 195	12.3	1 121	7.8
Fixed assets	20 644	62.5	19 379	60.4	17 477	68.6	15 232	70.1	13 126	65.6
Current assets										
Inventories	3 964	12.0	3 647	11.4	3 103	12.2	2 940	13.5	2 060	10.3
Other current assets	5 178	15.7	4 260	13.3	3 196	12.5	2 637	12.2	2 229	11.1
Liquid funds	3 224	9.8	4 776	14.9	1 709	6.7	912	4.2	2 600	13.0
Total	33 010	100.0	32 062	100.0	25 485	100.0	21 721	100.0	20 015	100.0
Members' funds	5 224	15.8	4 353	13.6	2 851	11.2	2 670	12.3	1 772	8.8
Convertible subordinated capital notes	1 325	4.0	1 325	4.1						
Minority interest	7 528	22.8	7 510	23.4	6 324	24.8	6 039	27.8	4 939	24.7
Provisions for liabilities and charges	359	1.1	353	1.1	236	0.9	119	0.5	18	0.1
Liabilities	18 574	56.3	18 521	57.8	16 074	63.1	12 893	59.4	13 286	66.4
Total	33 010	100.0	32 062	100.0	25 485	100.0	21 721	100.0	20 015	100.0
Net assets, average MFIM	26 030		22 973		18 828		17 012		16 734	
Return on net assets, %	11.9		12.9		7.0		17.5		11.1	
Equity, average MFIM ¹⁾	12 308		10 520		8 942		7 710		6 316	
Return on equity, %	12.5		10.8		3.6		22.3		13.8	
Equity ratio, %	42.8		41.3		36.5		41.1		34.2	
Equity ratio, % ¹⁾	38.8		37.1							
Gearing ratio, %	64		59		102		89		109	
Gearing ratio, % ¹⁾	81		76							
Interest-bearing liabilities	12 278		12 516		11 066		8 706		9 898	
Interest-bearing financial assets	3 426		5 082		1 986		1 358		3 093	
Interest-bearing net liabilities	8 852		7 434		9 080		7 348		6 805	
as % of turnover	31.0		28.5		44.9		41.1		47.2	
Cash flow from operations	3 534		3 311		1 815		2 567		1 718	
Capital investments	3 430		3 647		4 984		3 132		1 043	
as % of turnover	12.0		14.0		24.6		17.5		7.2	
R&D -expenditure	95		90		97		98		83	
Personnel, at end of year	19 927		18 717		16 455		15 403		13 158	
Personnel, average	19 346		18 100		16 586		14 204		13 331	
- of whom in Finland	11 567		11 537		10 967		10 682		10 371	

¹⁾ The convertible subordinated capital notes added to liabilities.

Calculation of key ratios is presented on page 63.

Turnover FIM million	1998					1997				
	Total	IV	III	II	I	Total	IV	III	II	I
Wood procurement	6 175	1 637	1 484	1 476	1 578	5 450	1 471	1 345	1 336	1 298
Paper	8 063	1 989	1 942	2 022	2 110	7 218	2 067	1 882	1 743	1 526
Packaging	6 326	1 423	1 540	1 694	1 669	5 954	1 619	1 580	1 515	1 240
Tissue	2 038	505	495	506	532	1 893	515	460	468	450
Merchanting & Trading	2 732	644	615	744	729	1 707	475	416	418	398
Pulp	4 077	897	991	1 051	1 138	4 130	1 200	1 170	976	784
Sawn goods	2 662	705	577	716	664	2 428	656	509	697	566
Wood based boards	3 737	801	896	975	1 065	3 958	943	1 025	1 032	958
Others & internal sales	-7 301	-1 665	-1 790	-1 861	-1 985	-6 663	-1 792	-1 738	-1 522	-1 611
Turnover	28 509	6 936	6 750	7 323	7 500	26 075	7 154	6 649	6 663	5 609

Operating profit FIM million	1998					1997				
	Total	IV	III	II	I	Total	IV	III	II	I
Wood procurement	137	24	43	27	43	171	49	56	28	38
Paper	1 071	257	246	267	301	292	133	98	52	9
Packaging	692	101	166	187	238	654	138	190	164	162
Tissue	147	27	52	27	41	174	45	49	37	43
Merchanting & Trading	20	-3	-2	14	11	53	13	13	15	12
Pulp	489	-27	150	129	237	718	313	282	44	79
Sawn goods	22	-18	-10	33	17	324	74	55	124	71
Wood based boards	243	50	81	51	61	195	52	43	62	38
Others	-3	17	39	-1	-58	109	32	-21	136	-38
Operating profit	2 818	428	765	734	891	2 690	849	765	662	414
as % of turnover	9.9	6.2	11.3	10.0	11.9	10.3	11.9	11.5	9.9	7.4
Net exchange gains/losses	76	49	41	10	-24	-392	-174	-69	-121	-28
Financial income and expenses	-667	-165	-137	-194	-171	-716	-206	-174	-180	-156
Profit before extraordinary items	2 227	312	669	550	696	1 582	469	522	361	230

Production volumes 1 000 units	1998					1997				
	Total	IV	III	II	I	Total	IV	III	II	I
Paper, t	1 704	407	419	418	460	1 617	441	419	385	372
Paperboard, t	633	133	166	167	167	584	155	162	141	126
Corrugated board, t	222	68	52	52	50	208	52	57	51	48
Fluting and liner, t	525	116	142	123	144	515	139	136	122	118
Tissue, t	264	62	68	65	69	223	56	54	56	57
Pulp, t	1 675	413	422	409	431	1 599	428	436	408	327
Sawn goods, m ³	2 169	615	449	581	524	1 937	550	413	518	456
Wood based boards, m ³	413	112	98	102	101	397	109	90	104	94

✂ from the axe > > and a blaze flew from the oak ✂

and the oak wanted to tilt >> the world-sallow to topple. >> Felling and Sowing



✂ He struck the tree with his axe >> bashed it with his even ✂

blade; >> he struck once, struck twice >> soon a third time tried: >> fire flashed

Metsäliitto Osuuskunta, the parent company of the Metsäliitto Group, is responsible for wood procurement for the mills of the Group's companies. The parent company's mission is to provide competitive wood procurement and marketing services for its members and to act as a holding company with forest industry operations in its home country.

Turnover and profits

Metsäliitto Osuuskunta's turnover for 1998 was FIM 6,175 million, 13% up on the previous year's figure of FIM 5,450 million. Operating profit was FIM 137 million, 2.2% of turnover (FIM 171 million and 3.1%.

Profit before extraordinary items was FIM 324 million (FIM 288 million). The improvement is due to an increase of FIM 70 million in net financial income. Extraordinary income includes group contributions of FIM 21.6 million from Finnforest Oy and of FIM 2.0 million from Bio-watti Oy. Extraordinary expenditure includes group contributions of FIM 36.0 million made to Oy Metsä Timber Ltd and of FIM 21.0 million made to Soinlahden Saha Oy.

Before appropriations and taxes there was a profit of FIM 291 million (FIM 367 million). Surplus for the financial period was FIM 208 million (FIM 318 million).

Financing

Paid-in members' capital totalled FIM 1,771 million at the end of the year (FIM 1,510 million), including additional members' capital of FIM 1,151 million (FIM 957 million). The increase in members' capital during 1998 was FIM 261 million (FIM 419 million), of which the increase in additional members' capital was FIM 194 million (FIM 325 million). In accordance with a decision of the Board of Directors, no additional members' capital was accepted after 11 May 1998.

Subscribed members' capital at the end of the year was FIM 1,080 million (FIM 1,058 million). Of this, FIM 619 million was paid-in (FIM 553 million) and FIM 461 million was outstanding (FIM 505 million).

At its meeting on 10 February 1998, Metsäliitto Osuuskunta's Board of Directors decided to issue an index-linked capital note loan. The notes carry a coupon of 6.75% and mature in 10 years. In addition to the fixed rate of interest and return of capital, the notes will attract additional interest as well as an additional return indexed to the dividend paid on, and market price for, Metsä-Serla Corporation's Series B shares.

It was decided to issue the first tranche in April up to the maximum amount, i.e. FIM 500 million nominal value. It was decided to set the issue price at 108% of the nominal value of the notes. More notes may be issued at a later date under the same terms and conditions. However, the total nominal value of notes in issue may not exceed FIM 1,000 million without the Board of Directors' approval. Quotations for the notes on HEX Ltd, Helsinki Securities and Derivatives Exchange began on 23 April 1998.

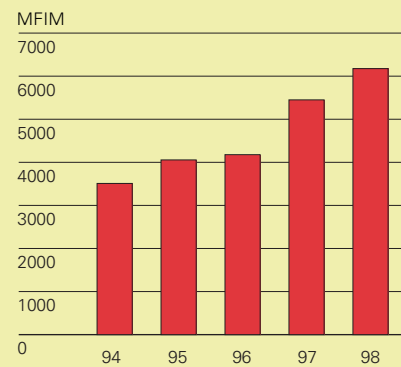
This is the first capital note loan of its kind issued by Metsäliitto Osuuskunta, and the aim is to make greater use of capital markets in its financing. At the same time financing-related risks will diminish and financing costs will be partly dependent on the financial success of the Group as a whole.

On 1 June 1998, Metsäliitto Osuuskunta began using the loan in its wood trading. At 31 December 1998, notes to a total value of FIM 521 million had been issued.

Key figures

The return on net assets was 12.9% (12.0) and the return on equity 8.3% (8.0). The equity ratio at 31 December 1998 was 66.2% (73.7) and the gearing ratio -5% (-4). Liquidity was good throughout the year.

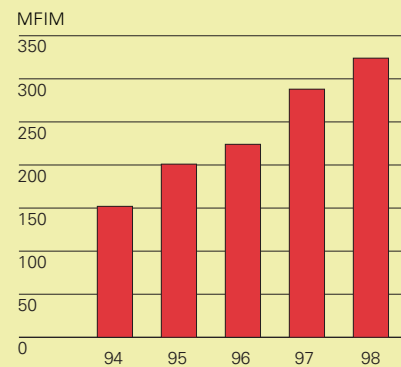
Turnover



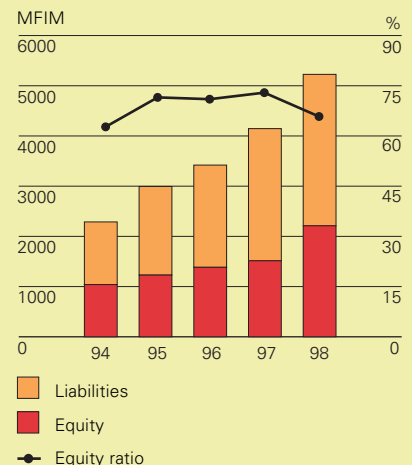
Metsäliitto Osuuskunta

MFIM	1998	1997
Turnover	6 175	5 450
Operating profit	137	171
Profit before extraordinary items	324	288
Personnel at 31 December	945	1 022

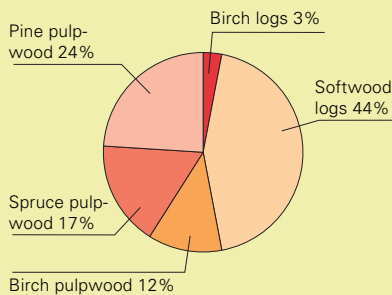
Operating profit



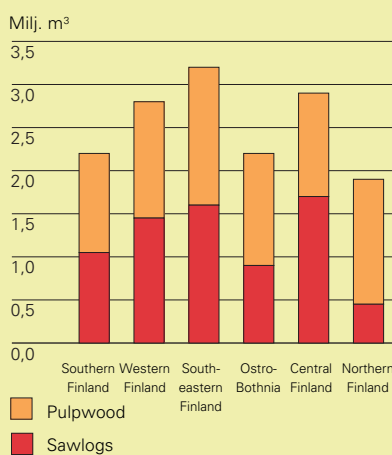
Financial structure



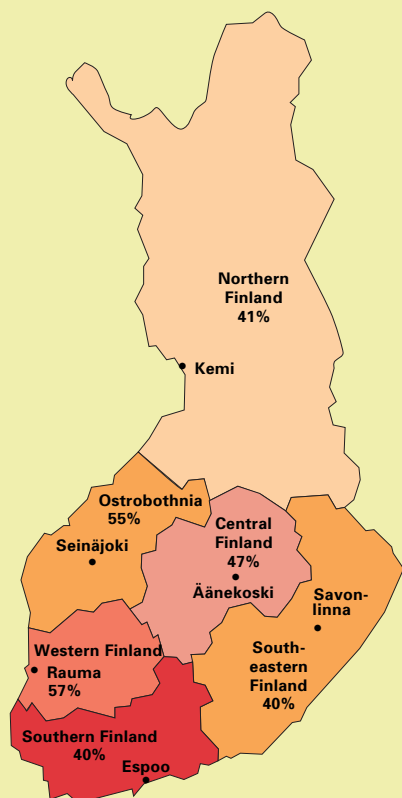
Wood purchases from private forest, by species



Wood purchased by procurement area



Area of members' forest in relation to total private forest



Investment

Capital expenditure totalled FIM 582 million (FIM 255 million). Of this, FIM 11 million (FIM 17 million) was invested in tangible fixed assets, comprising mainly computer equipment, motor vehicles and wood harvesting machines. Investment in intangible assets was FIM 571 million (FIM 239 million).

During the year, Metsäliitto Osuuskunta purchased Metsä-Serla Corporation shares costing a total of FIM 390 million. At the end of the year Metsäliitto owned 54,650,535 Metsä-Serla Corporation shares, corresponding to 39.3% of the company's shares and 64.1% of the voting rights.

Also during the year, Metsäliitto Osuuskunta invested FIM 100 million in Oy Metsä Timber Ltd shares, FIM 15 million in Metsäliitto SW Ltd shares, and FIM 4.9 million in Oy Metsäliitto International Ltd shares, all in connection with increases in share capital. A 20.5% interest in Kiinteistö Oy Metsätapiola was purchased from the Central Union of Agricultural Producers and Forest Owners, raising Metsäliitto's stake in the company to 59.9%.

In September, Metsäliitto Osuuskunta sold 32.6% of the voting rights of Metsämarkka Oyj to Norvestia Oy. The shares sold represent 3% of the company's share capital. The deal was struck at the net asset value of Metsämarkka Oyj shares at 30 September 1998. As part of the agreement, Norvestia undertook to make a limited offer to purchase shares from other Metsämarkka shareholders at the same price. Metsäliitto Osuuskunta still owns 19.9% of Metsämarkka's share capital.

Wood procurement and marketing

Deliveries of wood raw material to customers were 22.2 million cubic metres, up 9% on the previous year (20.3 million). This comprised 18.1 million cubic metres of roundwood (16.8 million), the rest being by-products from mechanical wood

processing. The increase in volume is due to investments in higher production capacity at several of the Group's mills.

The procurement areas purchased a total of 15.2 million cubic metres of wood during the year (15.8 million). The volume purchased by Head Office and by Metsäliitto International Oy, a subsidiary established during the year, totalled 6.4 million cubic metres (6.1 million). Of this, 65% was in the form of by-products (61). The total volume purchased was 21.6 million cubic metres (21.9 million).

Delivery contracts represented 27% of all wood purchased (25). Wood was purchased under a total of 42,900 agreements (44,800), of which 56% were delivery contracts (56).

A total of FIM 2,986 million was paid in stumpage rates to private wood suppliers for wood supplied during the year (FIM 2,561 million).

Harvesting and transport

Sales on the stump represented 11.9 million cubic metres of wood (10.4 million), of which 95% was harvested by machine (93). A total of 265 forest workers (314), 359 harvesters (312) and 369 forwarders (336) were employed at the end of the year. Of these, 2 harvesters (2) and 2 forwarders (2) were owned by Metsäliitto.

Roundwood deliveries to customers' mills totalled 17.1 million cubic metres (15.7 million). Of this amount, 84% was carried by road (83), 13% by rail (14), 2% by floating (2) and 1% by ship (1). At the end of the year 356 haulage vehicles were at work (317), 8 of them owned by Metsäliitto (8).

Development work

1998 saw the completion of technical and economic studies related to wood procurement as part of an extensive programme launched in 1997 to investigate the industrial use of wood obtained from first thinnings. The project is continuing

in the form of a development project conducted by the industry.

The new computer-based transport control system went into operation in most procurement districts. The remaining districts will introduce the system during the first half of 1999.

Research continued into the cultivation and breeding of hybrid aspen. The work is being conducted with the Finnish Forest Research Institute and the Foundation for Forest Tree Breeding, and will continue for at least the next two years.

In Estonia, a joint project funded under the EU's Interreg and Phare programmes was started with the aim of promoting the work of organizations providing advisory and training services to private forest owners.

Wood raw material feasibility studies were completed in Germany and the Baltic states during the year. Similar raw material studies were also made both in Finland and elsewhere.

A large-scale project to develop forest systems was launched towards the end of the year. The objective is to examine the status of current working methods and information systems and to prepare the way for an updating of information systems. The first step was to start a project concerned with working methods.

Members

Metsäliitto Osuuskunta acquired 5,046 new members during 1998 (4,430), and 2,251 members resigned (2,426). The number of members at the end of the year was 122,582 (119,787). Metsäliitto members own a total of 4.9 million hectares of forest, about 45% of all forest area subject to the forestry levy in Finland.

Metsäliitto Osuuskunta's by-laws and electoral system were revised during the year. In elections of members to the Representative Council, procurement districts are now used in most cases instead of procurement areas. Members'

representatives for the district committees for the procurement districts are now elected in conjunction with the election of members of the Representative Council. The purpose of the revision is to bring the election of members of the Representative Council and their scope for influencing affairs as close to Metsäliitto's members as possible.

Personnel and training

Metsäliitto had 945 employees at the end of the year (1,022). These comprised 265 workers (362) and 680 salaried staff (660). The average number of employees for the year was 892 (931), comprising 218 workers (285) and 674 salaried staff (646).

Salaries paid to the Supervisory Board, Board of Directors, President & CEO and Senior Executive Vice President totalled FIM 5.2 million (FIM 5.4 million) and to other employees FIM 151.8 million (FIM 146.3 million).

A profit-sharing scheme for salaried staff was introduced on a trial basis in 1998. The experience gained was used to further improve and clarify the scheme.

Outlook

Metsäliitto Osuuskunta's wood deliveries and purchasing volumes are likely to increase further in 1999, although more slowly than in previous years. Turnover is expected to approach FIM 6.5 billion and the result from business operations will be about the same as in 1998.

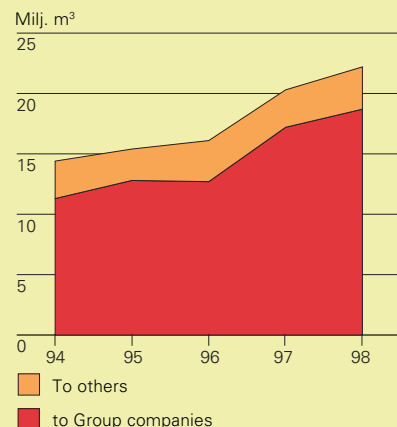
Wood purchases by procurement area

Milj. m ³	1998	1997
Southern Finland	2.2	2.2
Western Finland	2.8	3.2
Southeastern Finland	3.2	3.3
Ostrobothnia	2.2	2.3
Central Finland	2.9	3.0
Northern Finland	1.9	1.8
Total	15.2	15.8

Wood deliveries by customer

Milj. m ³	1998	1997
Metsä-Serla	2.3	2.2
Metsä-Botnia	10.5	10.7
Metsä Timber	4.8	3.2
Finnforest	1.0	1.0
Metsäliitto SW	0.1	0.1
Other Finnish companies	3.4	3.0
Exports	0.1	0.1
Total	22.2	20.3

Total wood deliveries



houses. > < Hail, mountains, hail, slopes > < hail,

soughing spruces > < Hail, grizzled aspens! > < Elk, horse, swan



I go from men forestward > < from fellows > < to outdoor work > < along Tapiola's roads > < and through Tapiola's

Metsä-Serla is one of Europe's biggest and fastest-growing forest industry groups. Metsä-Serla develops, manufactures and markets high-quality printing papers, paperboard, corrugated board, packaging raw materials, chemical pulp and tissue. Through controlled growth the company aims to achieve leading market and competitive positions in its chosen business areas.

Turnover and profits

Metsä-Serla's turnover for 1998 was FIM 20,948 million (FIM 19,182 million in 1997). Almost two-thirds of the increase is attributable to company acquisitions. On a comparative basis, turnover rose by 4%. Exports from Finland and sales by foreign subsidiaries accounted for 85% of turnover (85%). Altogether 34% (34%) of turnover was derived from operations outside Finland. Other income from operations was FIM 196 million, including FIM 63 million in profit from the sale of fixed assets.

Operating profit improved to FIM 2,299 million, 11.0% of turnover (FIM 2,016 million and 10.5%). Net financial expenses fell to FIM 475 million (FIM 1,008 million). The fall was due mainly to the change in exchange differences on foreign currency denominated loans. Financial items include exchange gains of FIM 50 million, compared with net exchange losses of FIM 381 million the previous year. Profit before extraordinary items was FIM 1,824 million (FIM 1,008 million).

Extraordinary income, net of expenses, was FIM 97 million. Extraordinary income includes a capital gain of FIM 19 million on UPM-Kymmene Corporation shares, a capital gain of FIM 63 million from the sale of Oy Botnia Wood Ab, and a net gain of FIM 17 million on the sale of Starckjohann shares and a loan receivable.

Profit before taxes and minority interests was FIM 1,921 million (FIM 2,002 million). Minority interests were FIM 232 million (FIM 148 million) and direct taxes, including the change in deferred tax liability, were FIM 606 million (FIM 564 million).

Earnings per share were FIM 7.57 (FIM 4.30). The return on net assets was 11.0% (11.2%).

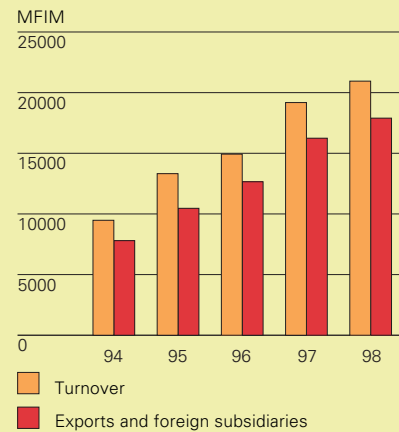
Financial position

Metsä-Serla's financial position and liquidity were good throughout the year. Liquid funds and investments totalled FIM 2,272 million at the end of the year (FIM 4,289 million). Liquid funds have been reduced in line with the company's financial strategy, and liquidity is increasingly maintained through committed credit lines. Metsä-Serla had about FIM 5.9 billion in committed credit facilities available at 31 December 1998. To cover its short-term financing needs, Metsä-Serla had non-committed commercial paper programmes and credit lines totalling around FIM 2.5 billion.

Interest-bearing net liabilities at 31 December were FIM 7,333 million (FIM 6,289 million). The increase was due principally to company acquisitions at the end of the year and to discontinuation of the programme to securitize accounts receivable launched in 1997.

Credit ratings were published for Metsä-Serla Corporation and Metsä Group Financial Services Ltd (Metsä Finance) at the beginning of December. Standard & Poor's gave Metsä-Serla's long-term loans a rating of BBB and Metsä Finance's short-term loans a rating of A2. The ratings given by Moody's Investor Service were Baa2 and P2, respectively. The purpose of procuring credit ratings is to help the Group raise funds on international markets and to diversify its sources of financing.

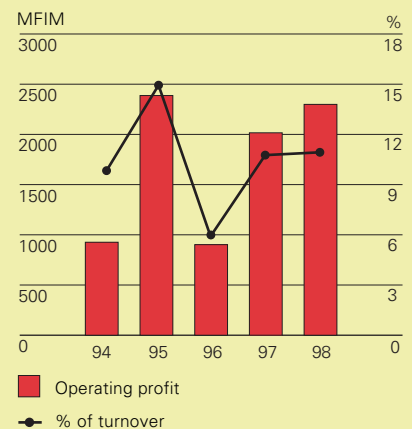
Turnover



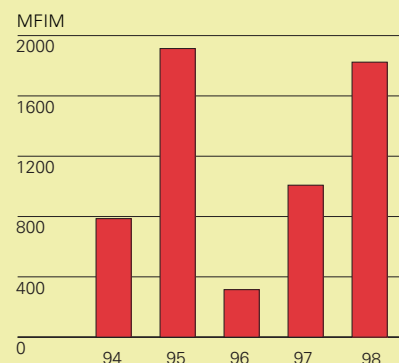
Metsä-Serla

MFIM	1998	1997
Turnover	20 948	19 182
Operating profit	2 299	2 016
Profit before extraordinary items	1 824	1 008
Personnel at 31 December	15 221	14 078

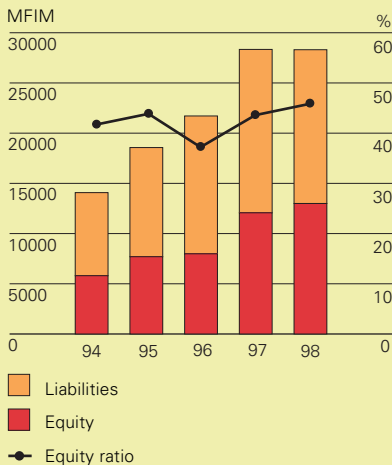
Operating profit



Profit before extraordinary items



Financial structure



In December, a EUR 1 billion Medium Term Note programme was established, under which notes to the value of EUR 200 million were issued. The notes carry a coupon of 4.875% and mature in 7 years. This is the first loan of its kind in Europe to be raised directly in euros. The notes were bought mainly by investors in mainland Europe, with payment falling due in January 1999.

The equity ratio at the end of the period was 45.9% (42.6%) and the gearing ratio was 60% (57%).

Business groups

The Paper Group's main products are coated magazine papers (LWC), coated and uncoated fine papers, and specialities. Turnover for the Paper Group rose 12% to FIM 8,063 million (FIM 7,218 million). At FIM 1,071 million, operating profit was almost four times the previous year's figure (FIM 292 million). The improved profitability is due primarily to the good market for magazine papers, greater internal efficiency, and the better than predicted profitability of Kirkniemi's Galerie Fine fine paper machine.

The Packaging Group produces and markets folding boxboard, cartonboard and wallpaper baseboards, corrugated board raw materials, consumer and transport packagings made from corrugated board and cartonboard, and chemi-thermo-mechanical pulp for production of hygiene products. Profitability was slightly better than the year before. Operating profit was FIM 692 million (FIM 654 million) and turnover FIM 6,326 million (FIM 5,954 million).

Metsä Tissue is the Nordic region's leading tissue manufacturer with 45% of the market. It is also Europe's leading manufacturer of papers for baking and cooking. Company acquisitions at the end of 1998 have made Metsä Tissue the second largest tissue manufacturer in Germany.

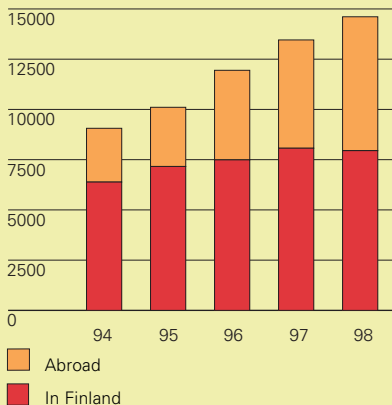
Metsä Tissue had a turnover of FIM 2,038 million (FIM 1,893 million). Operating profit was down on the previous year at FIM 147 million (FIM 174 million). The reasons were the non-recurring costs of reorganizing the unit in Poland and intensified price competition on several markets.

Operating profit for Metsä-Serla's Merchenting and Trading Group was FIM 20 million, down on the previous year (FIM 53 million). The fall in profit is due largely to the cost of closing merchenting operations and to exchange rate losses incurred in Russia. Turnover rose to FIM 2,732 million (FIM 1,707 million).

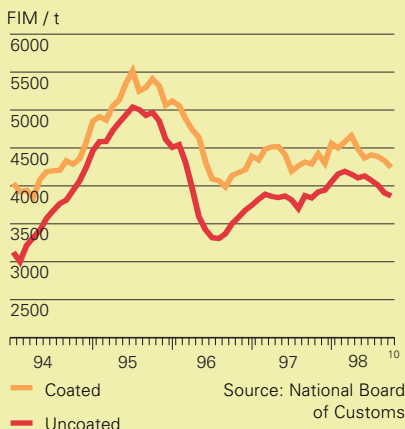
Metsä-Serla's subsidiary Oy Metsä-Botnia Ab is responsible for supplying chemical pulp to its parent company's paper and board mills. In addition to Metsä Botnia, the Pulp Group includes a share in the associated company Oy Metsä-Rauma Ab. The group is one of Europe's biggest producers of bleached chemical pulps.

Operating profit for the Pulp Group was FIM 497 million, down on the previous year (FIM 804 million). Profitability was affected by the fall in average prices, curtailments to production, and the stoppage for investment and subsequent start-up costs at Joutseno Pulp. Turnover was FIM 4,227 million (FIM 4,711 million).

Personnel, average



Fine paper, export price



Source: National Board of Customs

The Euro and the Year 2000

A project covering the entire Metsä-Serla Group was carried out to prepare for the introduction of the euro. In its business dealings, Metsä-Serla adopted the euro as widely as possible right from the 1 January 1999. Interim reports and other financial information will be given in euros from January 1999 onwards.

A Year 2000 project was launched in spring 1997 embracing all Metsä-Serla's units in Finland and abroad. Each business unit is responsible for ensuring a smooth transition to the year 2000 and beyond. For this purpose each business unit has appointed a person in charge and has been asked to produce a plan, together with a schedule, budget and contingency plan.

Investment

Gross capital expenditure for 1998 was FIM 2,450 million (FIM 3,160 million). Company acquisitions accounted for FIM 800 million of this.

In November, Metsä-Serla signed an agreement to purchase UK Paper. The acquisition concerned the entire share capital of the Sittingbourne and New Thames paper mills and the merchant Guppy Paper Ltd, together with 50% of Grovehurst Energy Ltd. The debt-free cost was FIM 780 million, including fixed assets worth just under FIM 400 million. The acquisition of UK Paper has raised Metsä-Serla's fine paper production in the UK and has made the company the leader in Europe's biggest fine paper market with a 17% share. The deal was finalized early in 1999.

In December, Metsä Tissue Corporation bought the two German tissue manufacturers Halstrick and Strepp. The debt-free cost of Strepp was FIM 750 million and of Halstrick FIM 300 million. As a result, Metsä Tissue is now Germany's second biggest tissue manufacturer in terms of production capacity.

Metsä-Serla acquired 94% of the shares of the Lithuanian company Medienos Plausas at a cost of FIM 60 million. The company is Lithuania's biggest corrugated board manufacturer with 40% of the market.

Arrangements agreed on in 1997 to purchase 70% of the share capital of the international forest industry products trading group Price & Pierce were completed at the beginning of the year.

The biggest investment in production in 1998 was modernization of the chemicals recovery system and power plant at Oy Metsä-Botnia Ab's Joutseno Pulp pulp mill. The investment, which cost FIM 895 million, has raised production capacity from 320,000 to 410,000 t/a.

The revitalization project at Biberist designed to raise the mill's production capacity and reduce the size of the workforce was completed during the year. As a result of the project and investment in new equipment, the workforce was reduced by the planned 200 persons and production capacity was raised from 320,000 to 395,000 t/a.

An investment project was carried out to modernize sheeting at Äänekoski art paper mill, raising sheeting capacity from 100,000 to 160,000 t/a. A series of investments to raise the efficiency of the paper machine is also under way at the mill. This will raise total production capacity to 180,000 t/a. The investments will cost a total of FIM 70 million.

A new sheeting line and ream wrapping machine went into production at the Albrück mill in November. The FIM 40 million investment has raised sheeting capacity from 45,000 to 65,000 t/a.

A new sheeting line was built for finishing operations at Simpele board mill at a cost of FIM 25 million. Some 75% of the mill's 160,000 t/a capacity can now be sheeted at the mill.

At Kemi pulp mill, the rebuilt pulp washing facilities went into production at the end of June and a project to raise the efficiency of oxygen delignification was completed at the end of the year. As part of the development programme for the mill it has been decided to acquire a new lime kiln during summer 1999. The mill's production capacity will be increased by 40,000 t/a. The total cost of the investments at Kemi pulp mill is FIM 250 million.

Personnel

In 1998, Metsä-Serla and its subsidiaries had an average of 14,611 employees (13,458). The number at the end of the year was 15,211 (14,078), of whom 7,721 (6,258) worked outside Finland.

Metsä-Serla Corporation's President & CEO is Jorma Vaajoki.

Outlook

The effects of Asia's economic crisis are likely to continue to be felt in the fine paper, paperboard and market pulp sectors. The economic situation in Russia will also adversely affect business, particularly for wallpaper baseboard. Average prices for market pulp will probably be lower than in 1998. The poorer market outlook means that Metsä-Serla's financial result will be well below that for 1998.

✘ he talked: > < 'Fir, could you become > < a boat for

Väinämöinen > <

> < and ship-wood for the singer? > <

To Build a Boat

✘ And he came upon a fir > < of six fathoms' height. ✘



He struck the tree with the axe > < whacked it with his adze > < he asked and

Finnforest manufactures and markets high-quality plywoods, wood-based panels and building products. It has production plants in Finland and wholesale operations in other countries. Finnforest is one of Europe's biggest wholesalers of wood-based panel products.

Business environment

The markets for wood-based panels, especially plywood, suffered from the collapse in plywood prices and uncertainties over supply, first in Asia and later also in South America. Production in several Asian countries fell considerably during 1998. This particularly affected Finnforest's wholesaling business in Europe, and the future trend in product prices is still uncertain.

Changes in Group structure

Finnforest increased its focus on the production and wholesaling of plywood and other veneer-based panel products. Wirebo Oy's doors business at Vääksy and Kangasniemi was sold at the end of January and Tiwi's thin veneers business in February. The windows business at Lammi was sold at the end of June and Göteborgs Trä och Fanér AB in Gothenburg was sold in December. In March, the business operations of the Metsäliitto Group's consulting company FWI Wood International were transferred to Metsäliitto Osuuskunta.

Business was strengthened both by investments in production and by the acquisition of the French panels wholesaler Rambert at the end of 1997. In December 1998, a letter of intent was signed to acquire the Austrian company Baillou, which has operations in Austria, Germany, Hungary, the Czech Republic, Slovakia, Poland and Rumania. The company has a turnover of about FIM 300 million and employs 85 persons.

In December, the Board of Directors decided to establish Metsä Prima, a new division to focus on the Do-It-Yourself (DIY) business. Metsä Prima is owned 50/50 by Finnforest and Metsä Timber and specializes in the production and European distribution of wood-based DIY products. Metsä Timber's planing business and Finnforest's UK subsidiary Stanton's will be made part of Metsä Prima in 1999. It has also been decided to acquire the Bremen-based timber processing company Louis Krages for the new division. Metsä Prima expects turnover of around FIM 1.6 billion in 1999.

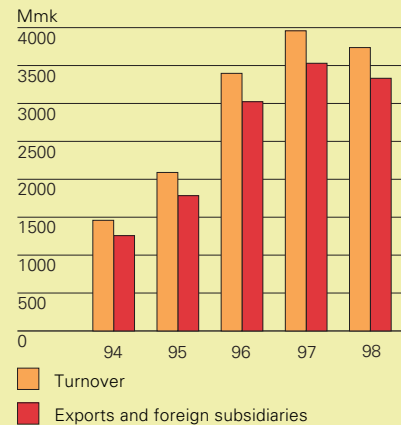
Turnover and profits

Turnover was FIM 3,737 million, 5.6% below the previous year's figure of FIM 3,958 million. Calculated according to the Group's present structure, turnover was unchanged. Exports from Finland and sales by foreign subsidiaries represented 89% of turnover (89%).

Operating profit was FIM 243 million, 6.5% of turnover (FIM 195 million and 4.9%). The improvement is due largely to the better profitability of the units in the UK following a revitalization programme lasting over two years. Central Europe, on the other hand, suffered from the effects of the Asian crisis.

Profit before extraordinary items was FIM 178 million, 4.8% of turnover (FIM 123 million and 3.1%). The main extraordinary items were capital gains from the sale of units and a FIM 21.6 million group contribution made to Metsäliitto Osuuskunta. Profit before taxes and minority interests was FIM 216 million (FIM 57 million).

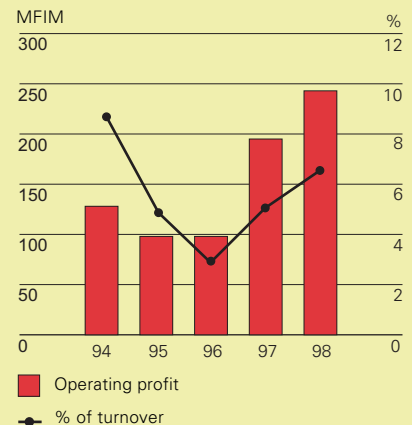
Liikevaihto



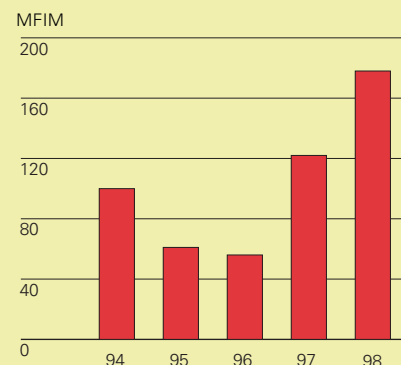
Finnforest

MFIM	1998	1997
Turnover	3 737	3 958
Operating profit	243	195
Profit before extraordinary items	178	123
Personnel at 31 December	2 227	2 619

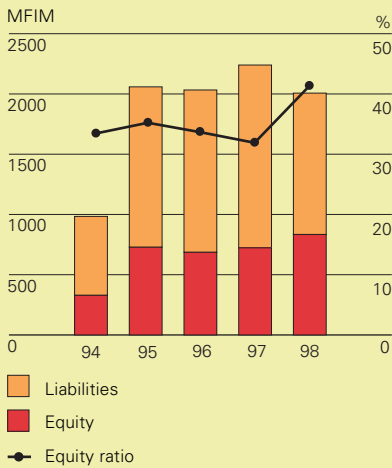
Operating profit



Profit before extraordinary items



Financial structure



Divisions

The **Interpan** Division produced a turnover of FIM 2,866 million (FIM 2,882 million). The economic crisis in Southeast Asia and the collapse in plywood prices were reflected in Interpan's business early in the year as the value for plywood in stock fell sharply. The fall in demand for North American conifer plywood was also seen in the units' financial results, notably in Germany.

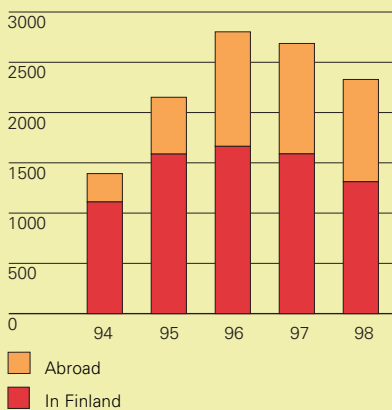
In the UK, trading in sawn timber imported mainly from Russia and the Baltic countries totalling over 200,000 cubic metres a year was discontinued. At the beginning of November, Hunter Timber Distribution and Bligh Boards Ltd were combined to form Bligh Hunter. The new company is the leader on the UK plywood market with a share of about 25%. The new unit has got off to a good start and has been well received by the market.

In Scandinavia, attention was focused on developing synergies between the Danish company Kristian Staerk and the Swedish company Plyfa Handel. A new warehouse was built for Plyfa in Stockholm. In Germany, the main emphasis was on improving logistics for Gottfried Lauprecht. The French company Rambert, which was acquired at the end of 1997, was incorporated into the division. Work on building new premises for Rambert in Paris began in the autumn.

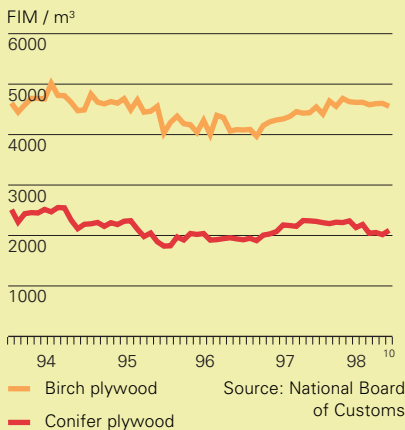
Turnover for the **Plywood** Division was FIM 846 million (FIM 840 million). The division's birch plywood was in good demand all year, though the market weakened towards the end of the year and the order backlog shortened. Nevertheless, prices remained good right up to the year end, although pressure on prices has increased. The market for conifer plywood became difficult during the summer and the order backlog shortened considerably. The fall in the value of the dollar during the year made US and Canadian products more competitive. These factors, combined with cheap Asian plywood, caused prices to fall noticeably. Profitability has so far remained good.

The **Building Products** Division had a turnover of FIM 418 million (FIM 543 million). The decrease is due to the units sold. The market for particleboards and components weakened towards the end of the year. Slacker demand in Russia led to cut-backs at the Tiwi mill, and competition in Finland is expected to intensify. The market for Kerto LVL products was good throughout the year. All the additional capacity resulting from the investment completed in the summer was sold, and the future looks bright. The division's profitability remained good.

Personnel, average



Plywood, export price



Source: National Board of Customs

Investment

Gross capital expenditure was FIM 228 million (FIM 198 million). The two major investment projects started in 1997 were largely completed. The Kerto LVL unit's capacity was raised to 100,000 cubic metres following construction of a third production line at the Lohja mill. The new line started up in April. Expansion of Suolahti plywood mill was completed in the summer, raising production capacity there to 270,000 cubic metres.

Financial position

Finnforest's equity ratio improved to 41.6% from 32.3% and the gearing ratio fell to 81% from 126%. Interest-bearing net liabilities at 31 December were FIM 669 million (FIM 903 million).

An agreement for a USD 130 million syndicated loan was signed in February to refinance existing loans. Liquid funds at the end of the year totalled FIM 64 million (FIM 38 million). Liquidity was good throughout the year.

Personnel

At the end of the year Finnforest had 2,227 employees (2,619), of whom 1,253 worked in Finland (1,532) and 974 abroad (1,087). The fall in the number of employees is due to the sale of units.

Finnforest's President & CEO Karl-Johan Lindborg was appointed Executive Vice President of the Metsä-Serla subsidiary Forest House B.V. as of 1 January 1999. Ari Martonen, Metsä-Serla's Executive Vice President, was appointed his successor with effect from 1 February 1999. Mr Lindborg continued to act as Finnforest's President & CEO, in addition to his new duties, during the period 1 January - 1 February 1999.

The Euro

Many of the changes to the information systems required by the euro were completed alongside those necessitated by the transition to the year 2000. The euro will not become Finnforest's main currency until 2000, but the use of the new currency in business dealings will increase from January 1999.

As most of Finnforest's business is conducted with European countries, Finland's accession to EMU has greatly reduced the risks associated with foreign currencies. Such risks are hedged in accordance with the Group's foreign currency policy. Foreign currency exposure corresponds to about four months' sales, of which 39% was hedged at the end of the year.

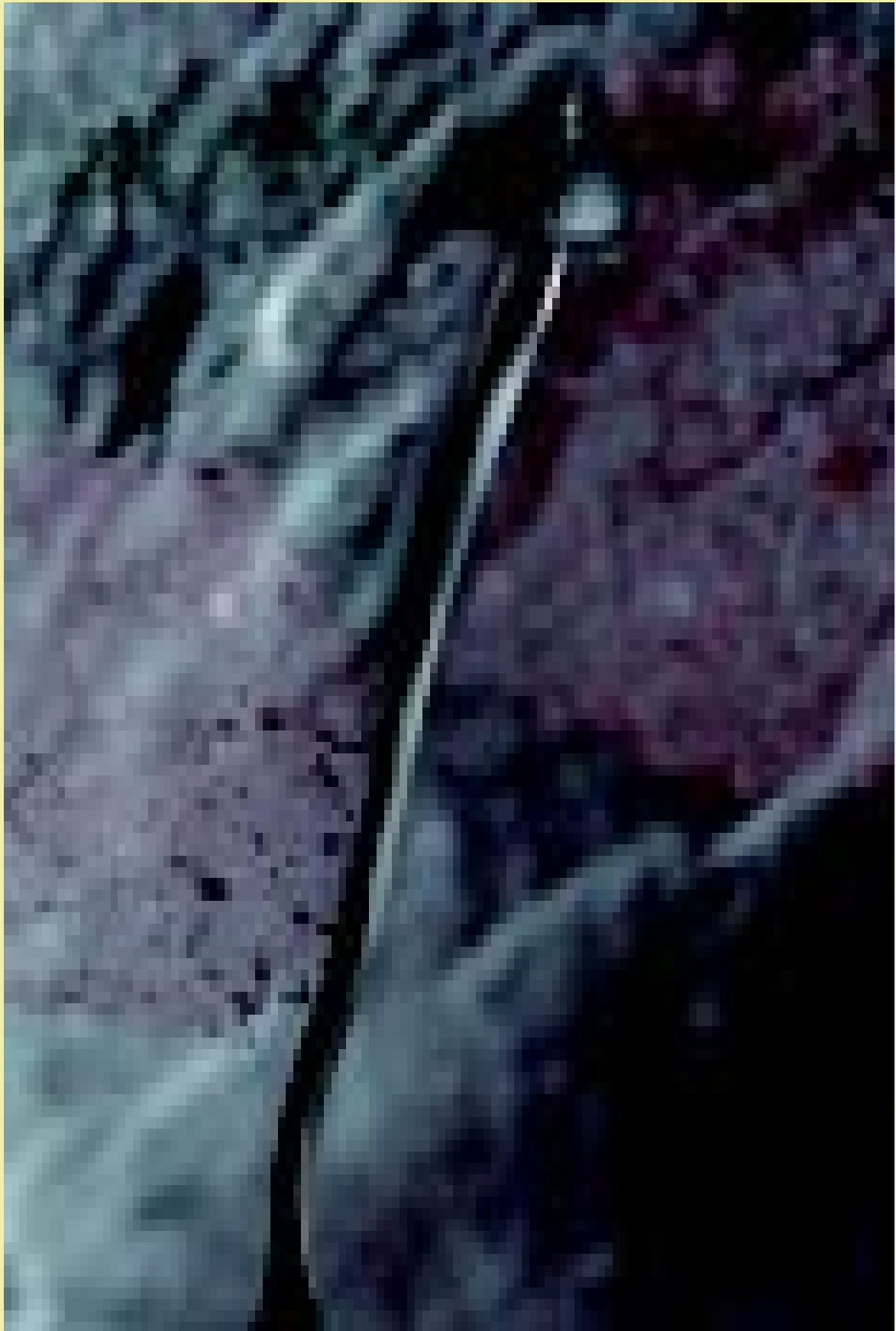
Outlook

Market prices for panel products were rising slightly at the end of the year compared with the lows of the summer and autumn, but both supply and prices continue to be unstable. Economic growth in Europe is forecast to slow down this year, and this will reduce the rate of construction and intensify competition.

Finnforest will strengthen its core business activities in Europe in 1999. The prospects for maintaining satisfactory profitability, even in a more difficult economic climate, have been improved through marketing efforts, restructuring and measures to raise efficiency within the units. Turnover is expected to be about the same as for 1998.

✘ for more versatile singers > < more abundant bards ✘

among the youngsters rising > < among the people growing. > < The Newborn King



✘ I've skied a trail, snapped a treetop > < lopped off boughs ✘

and shown the way: > < that is where the way goes now > < where a new track leads

Metsä Timber owns 13 sawmills in Finland as well as Reopalu sawmill in Estonia. The company also has further processing plants at Kaskinen and Kemi. Following a restructuring during 1998, Metsä Timber now handles sawmilling operations for the entire Metsäliitto Group.

Business environment

Sawn timber was in good demand all year but prices were unsatisfactory. Whitewood production showed a loss early in the year but moved marginally into profit towards the year-end. Production during the early part of the year switched more towards redwood. However, the growth in redwood production led to over-supply in European markets and prices fell throughout the year. Average prices for 1998 were well below budget and the financial result was unsatisfactory.

Turnover and profits

Turnover was FIM 2,505 million (FIM 1,783 million) and operating profit FIM 14 million (FIM 238 million). Exports accounted for 67% of turnover. The main buyer countries were Great Britain, France, Germany, Denmark, Italy, the Netherlands, Japan, the USA and North Africa, which together accounted for 85% of total exports.

Before extraordinary items there was a loss of FIM 21 million (profit of FIM 196 million).

Investment

Total capital expenditure for 1998 was FIM 371 million. The biggest items were the purchase of Oy Botnia Wood Ab's share capital at the beginning of April and the purchase of Saha-Tapio Oy's share capital in June. At the end of the year, Metsä Timber acquired the entire share capital of Woodward & Dickerson, its import agent in the USA.

Substantial production investments were made at almost all sawmills during the year. The biggest of

these was construction of a new trimming plant at Lappeenranta, marking completion of the sawmill's modernization. Other important investments were improvements to log handling at Vilppula, modernization of camera-assisted dimension grading at Renko, and construction of a new bark-fired combustion plant at Merikarvia. A new plant for timber sticking and packaging was built at Reopalu sawmill in Estonia.

In December, it was decided that Metsä Timber and Finnforest would set up a joint venture to handle the manufacture and distribution of timber-based DIY products in Europe. Metsä Timber's Board of Directors also decided to build a timber processing plant at Kaskinen at a cost of around FIM 60 million.

Personnel

At the end of the year, Metsä Timber had a total of 1,223 employees (875). Oy Metsä Timber Ltd's President and CEO is Antti Reinikka.

Production

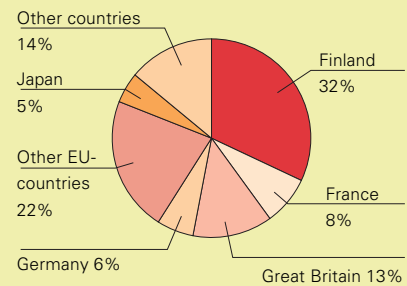
Production of sawn timber was 2,168,910 cubic metres (1,936,719), with deliveries totalling 2,226,681 cubic metres (1,840,284). The company has a capacity of 2.6 million cubic metres of sawn timber and around 200,000 cubic metres of further processed goods.

Outlook

In Europe, sawn timber consumption is expected to remain good. Demand for Scandinavian timber from Japan is also expected to be brisk. In view of the current high stock levels, prices for redwood will remain low during the first half of the year. Whitewood prices are likely to remain steady or to show a slight rise during the early part of the year. A strengthening of prices is anticipated during the second half.

In 1999, production by Metsä Timber will be around 2.5 million cubic metres. Turnover is expected to be FIM 3.5 billion and operations will show a profit.

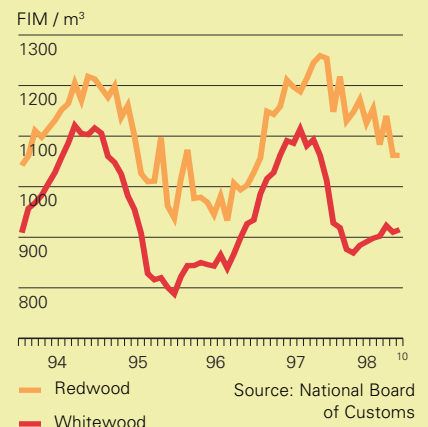
Turnover by market area



Metsä Timber

MFIM	1998	1997
Turnover	2 505	1 783
Operating profit	14	238
Result before extraordinary items	-21	196
Personnel at 31 December	1 223	875

Sawn goods, export price



METSÄLIITTO OSUUSKUNTA'S OTHER SUBSIDIARIES

Metsäliitto SW Ltd

Metsäliitto SW specializes in the production of wooden poles, impregnated timber and impregnated special products. Turnover was FIM 129 million (FIM 92 million), of which 66% came from exports (64%). Operating profit was FIM 9 million (FIM 8 million). The number of employees at the end of the year was 93 (31).

The main event of the year was the purchase of a company and production facilities in the UK at the end of June. The company acquired the entire share capital of Burt Boulton & Haywood Ltd (BBH), together with two production plants from James Jones & Sons Ltd, also in the UK. Business operations for all production plants were subsequently reorganized under BBH's name. BBH's plants are at Newport in South Wales and at Grangemouth and Leven in Scotland. Operations are focused on production of wooden poles and railway sleepers and on timber impregnation.

In Finland, construction of a plant at Kolho to produce Luxi poles has progressed according to plan and will be completed early in 1999. A new collision-safe pole for road lighting (Luxi Road) and a building system for use in gardens and parks (Kesto Wihreä) were brought onto the market.

Biowatti Oy

Biowatti is responsible for marketing and delivering wood-based by-products from Metsäliitto's plants to buyers for energy production and also for supplying the Group's plants with wood-based fuels. The company also procures bark and sawdust from sawmills and other wood-processing plants outside the Group. Procurement of smallwood and logging waste for chipping purposes takes place in conjunction with Metsäliitto's wood procurement organization.

Deliveries of wood-based fuels totalled 2,100 GWh. Biowatti is also responsible for supplying the sawdust needed for the Group's production of chemical pulp and board products. Deliveries of sawdust in 1998 were 0.2 million cubic metres.

Turnover was FIM 130 million (FIM 102 million) and operating profit FIM 10 million (FIM 9 million). The company had 19 employees at the end of the year (15).

Power plants have shown increasing interest in wood-based fuels during the past year, and Biowatti has increased sales in all segments. New fuel supply contracts have been signed with several plants.

Oy Metsäliitto International Ltd

Oy Metsäliitto International Ltd was formed in February 1998. At the end of that month the company acquired the business operations of FWI Wood International Ltd, a consulting and project management subsidiary of Finnforest.

Metsäliitto Osuuskunta's international activities and projects began to expand considerably during 1998, and it was therefore decided to transfer all the parent company's foreign operations to Metsäliitto International. In its present form, Metsäliitto International began operating on 1 July 1998. The company's main areas of activity are wood trading (including the Group's foreign subsidiaries), consulting and project services for forestry and the forest industry, and industrial projects in Finland and abroad, the most notable of which in 1998 were the launch of a project to promote wood construction in Finland and several project studies in Latvia and Lithuania.

Metsäliitto International forms a group comprising the parent company Oy Metsäliitto International Ltd in Finland, AS Metsind in Estonia and Metsä Holz GmbH in Germany. The parent company also has its own project office in Singapore.

Turnover for the Metsäliitto International Group was FIM 64 million and operating profit was FIM 0,5 million. There were 40 employees at the end of the year.

Since 1 July 1998, Metsäliitto International has been responsible for Metsäliitto's international wood trading arrangements. Imports for June - December were 0.7 million cubic metres and for 1998 as a whole 1.3 million cubic metres. Exports for 1998 totalled 0.1 million cubic metres.

AS Metsind

AS Metsind procures wood raw material for Metsäliitto's production plants in Finland and Estonia. Turnover for 1998 was FIM 71 million (FIM 35 million) and operating profit FIM 1.8 million (FIM 0.5 million). At the end of the year the company had 23 employees (17). Deliveries totalled 420,000 cubic metres (200,000). Work began during the year to acquire land for aspen cultivation in Estonia and to establish a network of forest holdings there.

Metsä Holz GmbH

Metsä Holz GmbH (Gratenau Holz & Fiber GmbH up to 31 December 1998) was acquired on 30 June 1998. The company's job is to get wood procurement under way in Germany. The company's office is in Hamburg. The first phase of operations concerns northern Germany. Activities will later be extended to southern Germany, the aim being to secure wood supplies for Metsäliitto's alliance partners in Germany.

Turnover was FIM 8 million and the number of employees at the end of December was 4. Wood raw material deliveries to local consumers and the Group's mills totalled 47,000 cubic metres.

Metsämannut Oy

Metsämannut is responsible for managing Metsäliitto's land and forest and some of its buildings. Metsämannut also offers its services to associations and private forest owners outside the Metsäliitto Group. The company manages 200,000 hectares of forest (200,000), in which 315,000 cubic metres of wood were felled (216,000).

Metsämannut is coordinating the Group's aspen cultivation project and is responsible for procuring seedlings and promoting contract cultivation. A total of 150 hectares were planted with aspen, and this will increase to 300 hectares in 1999.

The company had a turnover of FIM 24 million (FIM 20 million) and an operating profit of FIM 1 million (FIM 1 million). It had 29 employees (29) at the end of the year.

Metsäliitto-Yhtymän Tehdasmittaus Oy

On 26 November 1997, Metsä-Serla, Finforest, Metsä Timber and Metsäliitto Osuuskunta established the company Metsäliitto-Yhtymän Tehdasmittaus Oy to handle wood reception and measurement for its shareholders' mills. Tehdasmittaus Oy also offers its services to Metsäliitto's customers on a contract basis. Wood reception and measurement for Metsä-Botnia are handled by Mittaportti Oy.

1998 was the company's first year of operations. Tehdasmittaus Oy took over five measuring stations during the pilot stage in February - July. By the end of the year the company had altogether nine measuring stations and a workforce of 34.

The company's measuring stations received a total of 2.4 million cubic metres of wood during the year. Turnover was FIM 4.7 million. The first year's operations showed a loss.

Associated companies

Oy Metsä-Rauma Ab (48.4%)

In 1998, Oy Metsä-Rauma Ab had a turnover of FIM 1,241 million (FIM 1,088 million) and an operating profit of FIM 220 million (FIM 163 million). Production for the year was 482,000 tonnes (428,000). At the end of the year the company had 187 employees (185).

The improved financial result is due mainly to the growth of around 13% in sales volumes and to the exchange rate for the dollar, which was FIM 5.34 as against FIM 5.19 for 1997. Also, the unit costs of production were lower than the year before.

Wood consumption was 2.9 million cubic metres (2.5 million), comprising 1.9 million cubic metres of softwood logs (1.8 million) and 1.0 million cubic metres of sawmill chips (0.7 million). Finnish wood represented 96% of the total (99%).

Pulp markets were subject to large fluctuations. Southeast Asia's economic crisis pushed pulp prices down to USD 500/t in March. Production cut-backs, including two weeks' downtime by Metsä-Rauma at the beginning of April, helped prices back up to USD 575/t by the summer. However, during the

second half of the year prices fell steadily down to USD 460/t as a result of high pulp stocks and the general slowing of economic growth. In consequence, production was suspended for nine days in December.

Oy Metsä-Rauma Ab's other shareholders are UPM-Kymmene Corporation (45.6%), Tapiola insurance company (3.0%) and Oyj Kyro Abp (3.0%). The company's Managing Director is Timo Piilonen.

Myllykoski Alliance

The winding up of Finnapp in 1996 meant that Metsä-Serla had to reorganize its paper sales and marketing. In order to create a worldwide sales and marketing channel for their printing papers, Metsä-Serla and Myllykoski formed a strategic alliance in June 1996. The resulting joint distribution channel offers customers of the two companies a broader range of products.

Metsä-Serla and Myllykoski each have half shares in the Albruck and MD Papier's Plattling and Dachau coated magazine paper mills in southern Germany. Metsä-Serla also owns 35% of Myllykoski Paper Oy, a company comprising Myllykoski's magazine paper mill in Finland.

Myllykoski Paper Oy (35%)

Myllykoski Paper's turnover for 1997 was FIM 1,9 billion (FIM 1,8 billion). Total production was 475,000 tonnes of magazine paper (468,000), comprising 317,000 tonnes of SC (313,000) and 158,000 tonnes of LWC (155,000). The company had an average of 1 061 employees (1 059).

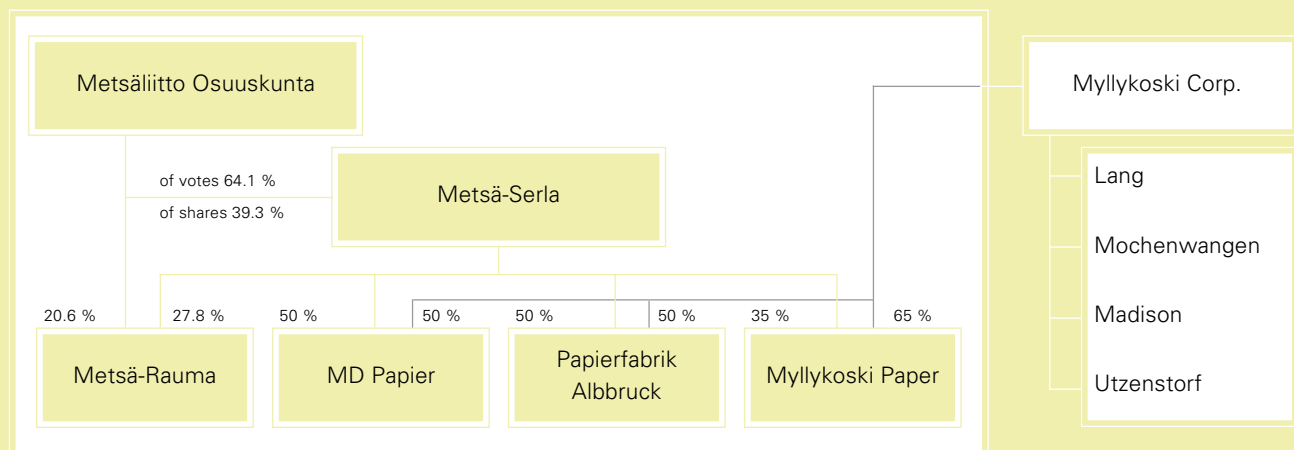
Papierfabrik Albruck GmbH (50%)

In 1998, Papierfabrik Albruck produced 256,000 tonnes of coated magazine paper (248,000) and had a turnover of around FIM 1.2 billion (FIM 1.0 billion). The number of employees at the end of the year was 633 (642).

MD Papier GmbH (50%)

In 1998, MD Papier's mills at Plattling and Dachau produced a total of 495,000 tonnes of paper (470,000). Turnover was about FIM 2.4 billion (FIM 2.1 billion) and the number of employees at the year-end was 995 (1,036).

Associated companies 31.12.1998





● **Metsäliitto Osuuskunta:**
Blankenstein

- **Metsä-Serla:**
Jyväskylä, Järvenpää, Kirkniemi,
Kuopio, Kyröskoski, Nokia, Tampere,
Tohmajärvi,
Vihti, Äänekoski, Simpele
Denmark: Naestved, Randers, Vejle
Estonia: Jõelähtme
Great Britain: Belvedere (Kent),
Kemsley, Sittingbourne
The Netherlands: Winschoten
Greece: Corinth, Crete, Thessaloniki
Germany: Albbruck, Dachau, Plattling
Russia: St. Petersburg, Kuban
Switzerland: Biberist
Lithuania: Vilnius

- **Metsä Tissue:**
Mänttä
Sweden: Mariestad, Pauliström,
Kvillsfors
Poland: Warsaw
Germany: Kreuzau, Raubach,
Stotzheim, Selm-Bork
Spain: Gran Canaria

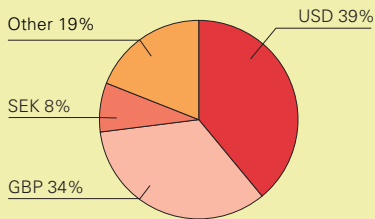
- **Metsä-Botnia:**
Joutseno, Kaskinen, Kemi, Äänekoski

- **Finnforest:**
Keuruu, Lohja, Punkaharju, Suolahti,
Great Britain: Boston, Grangemouth

- **Metsä Timber:**
Iisalmi, Kaskinen, Kemi,
Kiihtelysvaara, Kyrö, Kyröskoski,
Lappeenranta, Merikarvia, Renko,
Teuva, Vilppula
Estonia: Paide

- **Metsäliitto SW:**
Kolho
Great Britain: Leven, Grangemouth,
Newport

Net foreign currency cash flow (following euro)



Metsä Group Financial Services Ltd (Metsä Finance) operates as an internal bank providing the Group with financial services. Its purpose is to manage the Group's financial risks, to optimize the financial net, to maintain adequate liquidity, to negotiate new financing and to handle investor relations. The company started operations in May 1997 and employs a staff of 17.

Financial markets in 1998

Economic difficulties in the Far East, Japan, Russia and South America led to uncertainty on financial markets. The US dollar, the pound sterling and the Swedish krona weakened by some 10 per cent and the Russian rouble by almost 25 per cent. The Finnish markka and the currencies of the other states admitted to EMU remained steady.

Long-term interest rates in Europe and the United States fell to all-time lows. Uncertainty over the future of the world economy prompted the US Federal Reserve Bank to lower its steering three times. In December, the Bank of Finland lowered its tender rate from 3.4 to 3.0 per cent. All other central banks in the euro countries reduced their steering rates simultaneously.

The Euro

Metsäliitto's foreign currency exposure involves over 20 different currencies, largely within the euro area. In fact, euro currencies account for around 43 per cent of the annual foreign currency cash flow of FIM 12 billion. Introduction of the euro will reduce the need to hedge foreign currency risks as well

as the cost of changing one currency into another. As exchange rate risks within the euro area become a thing of the past, it will be possible to seek better risk/return ratios for investments throughout the entire euro area.

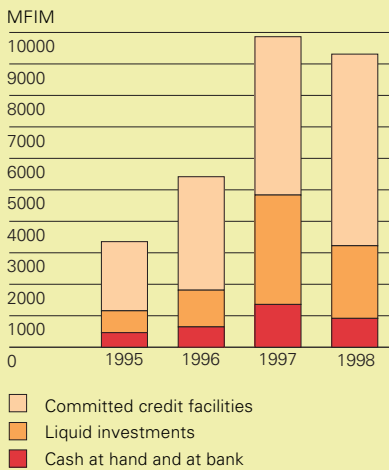
The Group has prepared for this change in the capital market by obtaining for Metsä-Serla both long-term and short-term credit ratings from Standard & Poors and from Moody's Investor Service. Metsä-Serla has also signed a 1 billion euro global note programme, under which a 200 million euro bond was launched in January 1999.

The euro will pose considerable challenges to cash management and the handling of payment transactions. The aim is to establish a single account, cash management and payment transaction system covering the entire euro area. The system will be introduced in stages during 1999.

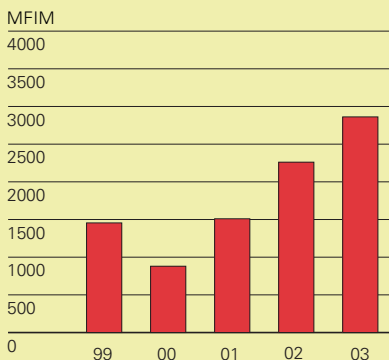
Financial risk management

Aside from profitability, the Metsäliitto Group's primary objective is to secure a strong, well-structured balance sheet. The goal is to maintain an average equity ratio of 45% and a gearing ratio of under 80%. The risks associated with financing are managed in accordance with the policy endorsed by the Board of Directors and the Group's financial directors. The purpose is to hedge against any major financing-related risks, achieve a balanced cash flow, and give the business units time to adjust their operations to changing conditions. Financing is under the control and supervision of a Finance Committee comprising members of the Group's top management.

Liquidity at 31 December



Amortization plan for long-term debts



Foreign currency exposure

While the Group's costs are incurred largely in Finland, corresponding sales revenues are denominated in currencies other than Finnish markka. Sales revenues can therefore vary with changes in exchange rates, even though production costs remain unchanged. Also, prices for products are often quoted in currencies other than Finnish markka.

This foreign currency exposure comprises accounts receivable and payable, orders received, and a portion of the future net foreign currency flows. The hedging instruments used are principally foreign currency denominated loans, forward foreign exchange contracts and options.

Following the introduction of the euro, the Group's annual net foreign currency cash flow will be around FIM 7 billion. The main currencies involved are the US dollar and the pound sterling. The foreign currency exposure is hedged for an average of six months ahead, but may vary from 0 to 12 months, depending on the currency concerned. The extent of the exposure varies with the exchange rates and expectations prevailing at any given time and with the significance to the Group's financial results of changes in a particular exchange rate.

At the end of the year, the annual foreign currency exposure was hedged for an average of 8 months ahead, having varied between 5 and 8 months during the year.

The Group protects the Finnish markka value of the net assets of its foreign subsidiaries through foreign currency denominated loans and derivatives. The goal is to hedge at least half of the equity. At 31 December, 73% of foreign equity was hedged.

Exchange differences arising on the hedging of foreign equity are set against the difference on translation of shareholders' equity of foreign subsidiaries under unrestricted shareholders' equity. Exchange differences arising from foreign exchange derivatives (forward contracts and options) used to hedge foreign currency exposure are entered as adjustments to turnover. Exchange differences on foreign currency denominated loans are entered under exchange gains/losses in financial items.

A probability-based "value-at-risk" analysis was introduced during the year. The risk calculated in this way reflects the maximum exchange rate losses on unhedged cash flows at a given probability over a specified period.

Interest rate risks

Changes in interest rates pose risks to Metsäliitto in the form of price risks and reinvestment risks. Price risks relate to the change in the value of balance sheet items, while reinvestment risks relate to future changes in interest rates on receivables and debts.

Interest rate risks are managed using forward interest rate agreements and futures, interest rate swaps and options. How quickly changes in interest rates are reflected in the net financial expenses item of the profit and loss account depends on the period for which loans, investments and derivatives are subject to fixed rates of interest before they are repriced. Based on the Group's total net interest rate position, the time to repricing varied between 14 and 20 months, and at the end of the year stood at 14 months.

Liquidity risk

Liquidity risk is defined as the risk that the Group's funds and borrowing facilities become insufficient to meet the business needs, or that extra costs are incurred in arranging the necessary financing. The Group's liquidity risk is monitored by estimating the need for liquidity 12 months ahead and comparing this with the total liquidity available.

Liquid funds and investments totalled FIM 3.3 billion at the end of the year. In addition to this, the Group had committed credit facilities of FIM 6.1 billion. To cover its short-term financing needs, the Group had both domestic and foreign commercial paper programmes and non-committed forward credits totalling around FIM 2.5 billion. Interest-bearing liabilities at the balance sheet date were roughly FIM 12.3 billion.

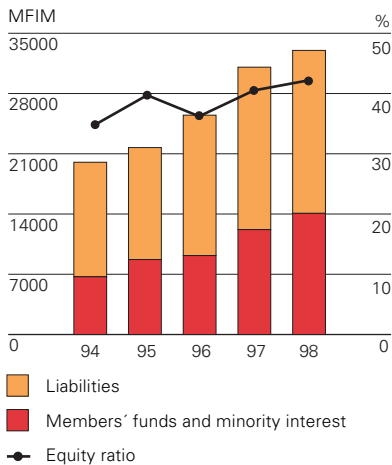
Investment policy and counterparty risk

Financial instruments carry the risk that the counterparty is partially or completely unable to meet its commitments. Such counterparty risk is managed by entering into financial transactions only with parties with good credit ratings and within specified limits. Of the total liquidity at the end of the year, FIM 3.2 billion was in the form of liquid funds. The secure and profitable investment of these funds is provided for in the Group's financial policy, which specifies the investment instruments and markets and the management of counterparty risk. Instruments and markets are chosen in such a way that, when necessary, investments can be converted into cash quickly and at low cost.





Financial structure



Service were Baa2 and P2, respectively.

The programme launched by Metsä-Serla in 1997 to securitize the financing of accounts receivable from paper and board sales was discontinued. The amount involved was FIM 1.25 billion. The decision was prompted by good liquidity and improved investment opportunities.

Metsäliitto Osuuskunta's members' capital increased by FIM 261 million (FIM 419 million) to stand at FIM 1,771 million (FIM 1,510 million) at the end of the year. No additional members' capital was accepted after 11 May 1998.

Key figures

The return on net assets was 11.9% (12.9%) and the return on equity 12.5% (10.8%). The equity ratio was 42.8% (41.3%) and the gearing ratio 64% (59%).

Investment

Capital investment for the Metsäliitto Group was FIM 3,430 million, 12.0% of turnover (FIM 3,647 million and 14.0%).

Following a stock exchange transaction on 10 February 1998, Metsäliitto Osuuskunta's shareholding in Metsä-Serla Corporation exceeded one-third of the share capital. At the end of the year Metsäliitto owned a total of 54,650,535 Metsä-Serla Corporation shares, representing 39.3% of the company's shares and 64.1% of the voting rights. Metsä-Serla shares worth around FIM 390 million were acquired during the year.

The most important company acquisitions were the purchase of the business operations of Britain's largest fine paper manufacturer, UK Paper, and purchase of the German tissue manufacturers Papierwerke Halstrick GmbH and Strepp GmbH & Co. KG Papierfabrik Hochkoppelmühle. The debt-free purchase price of these companies totalled about FIM 1.8 billion.

Projects completed during the year included a third production line at Lohja Kerto LVL mill, extension of Suolahti plywood mill, modernization

of the chemicals recovery system and boiler plant at Joutseno Pulp, and an increase in sheeting capacity at Äänekoski art paper mill. The efficiency of sawn timber production was improved by investing in kilning capacity and grading at several sawmills.

Wood procurement and wood markets

Trading in wood raw material during the first half of the year was based on the pricing principles agreed in spring 1997. In April 1998, buyers and sellers began negotiations aimed at reaching an understanding over prices. In accordance with a decision by the Board of Directors, Metsäliitto introduced a price guarantee system for pulpwood purchases on 23 April. Despite this, trading was extremely slack during the spring and early summer. UPM-Kymmene came to an understanding with forest owners over prices at the beginning of July. On 8 July, Metsäliitto's Board of Directors approved pricing principles to be used by Metsäliitto, including wood purchased at guaranteed prices.

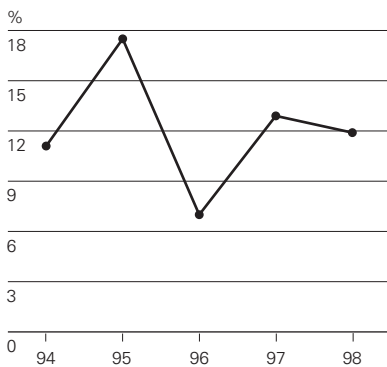
Despite the new price arrangements, trading got off to a sluggish start. This, combined with the exceptionally wet weather, led to problems in the supply of wood to sawmills operated by Metsäliitto and its customers. Production curtailments were necessary, particularly for whitewood.

Wood purchases for the year were 15.3 million cubic metres (15.8 million). Purchases had to be restricted towards the end of the year because of production cut-backs at pulp mills.

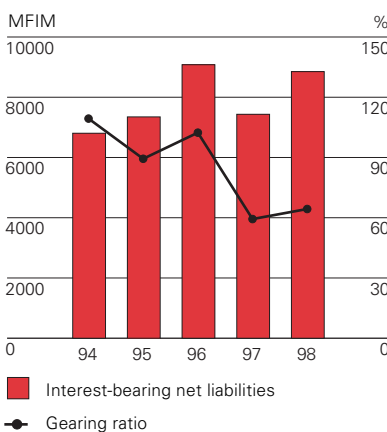
Wood imports were 1.3 million cubic metres (1.3 million). As in 1997, most of this was birch and aspen for pulping. Metsäliitto's own procurement organization supplied 0.4 million cubic metres (0.3 million) from the Baltic countries. Exports, including Metsäliitto SW's untreated poles, totalled 0.2 million cubic metres (0.1 million).

Agreements were signed during

Return on net assets



Interest-bearing net liabilities



the year to procure wood raw material for Alavuden Puunjalostus-tehdas Oy, and with Enso Oyj to sell logs from Ukkola sawmill, which is being closed down, to Enso's sawmills in North Karelia. A delivery agreement was also signed with Koski Timber Oy.

The outlook for wood procurement in 1999 is positive. Logs will be in greater demand than last year, and despite production cut-backs early in the year, the volume of pulpwood needed will also rise. More than 16 million cubic metres of wood will have to be purchased from private forests.

The environment

In March, the Board of Directors approved an environmental policy for the Metsäliitto Group. This policy sets out the principles for the management of environmental affairs and also includes the principle of continuous improvement. The policy is being put into practice at the Group's production plants, which have been issued with more detailed policies and guidelines appropriate to their activities.

Wood procurement has been further developed using Metsäliitto's quality and environmental systems, which comply with standards ISO 9002 and 14001. Environmental standards based on ISO 14001 are also in use or under preparation at the Group's pulp and paper mills.

The Group will publish three environmental reports this spring: for Metsä-Serla, Metsä-Botnia and Metsäliitto's mechanical wood processing operations.

Research and development

The focus of R&D work has been shifted to projects aimed at providing a competitive advantage through control of the entire chain of events and through optimization of product characteristics. The aim is to make more economical use of raw materials, energy and capital. In some cases this means making the product lighter, in others it means simplifying

the manufacturing process.

Those competitive factors that were previously important in paper manufacture are being replaced by new services and product modifications. Customers emphasize the reliability of production, products and deliveries, while consumers are more interested in the characteristics of the paper surface.

A project was completed at Äänekoski art paper mill aimed at making more effective use of raw materials and water in papermaking. The results have been applied at the Kirkniemi, Biberist and Tako mills. Specific water consumption can be reduced by 20-40% and at the same time pigment can be used much more efficiently.

Special pulp made from fibre obtained from pine thinnings was tested in papermaking. This new type of chemical pulp looks especially promising for tissue production. In spring, Mänttä high-density paper mill introduced a system for monitoring those stages of production that are important to product safety.

Investment in research and development totalled FIM 95 million.

Personnel

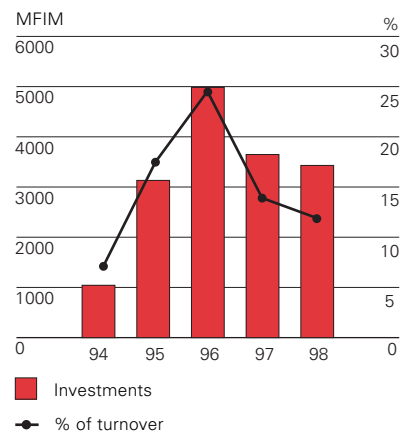
Metsäliitto and its subsidiaries had an average total of 19,346 employees in 1998 (18,100). Of these, 11,567 (11,537) worked in Finland and 7,779 (6,563) abroad. The number of employees at the end of the year was 19,927 (18,717), of whom 8,823 (7,418) were located outside Finland. The parent company had an average of 892 employees (931). Metsäliitto's 50% owned associated companies had 1,628 employees at the end of the year (1,678).

The Euro

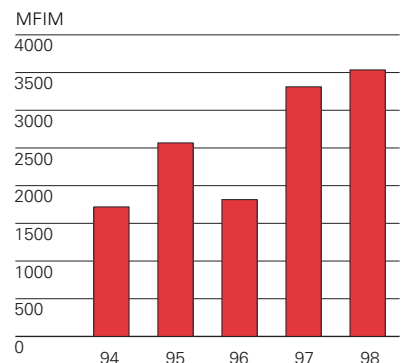
The euro is gradually being introduced in those countries admitted to the third stage of Europe's economic and monetary union (EMU). Finland was among the first countries to join EMU on 1 January 1999. Sweden, the UK, Denmark and Greece opted to remain outside.

Some 80% of the Metsäliitto

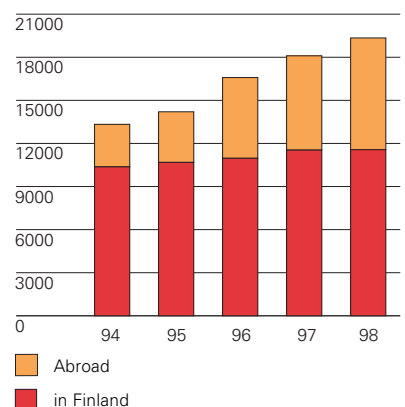
Investments



Cash flow from operations



Personnel, average



Group's turnover comes from the EU countries. The single currency, the euro, will simplify management of the Group's foreign exchange and interest rate risks and greatly diversify sources of financing.

The Metsäliitto Group will be introducing the euro in its bookkeeping in stages, with Metsä-Serla, Finnforest and Metsä Timber scheduled to be working in euros from 1 January 2000. Metsäliitto Osuuskunta will not change over to the euro until 1 January 2002. Financial information will be published mainly in euros from January 1999 onwards.

The Year 2000

Action is being taken by the Group's subsidiaries to assess and manage the risks associated with the arrival of the year 2000. The main problems concern computers and systems that could malfunction if their micro-processors fail to recognize that 1999 is followed by the year 2000 or that 00 does not signify the end of a file.

Work to ensure that information systems continue to function properly began in spring 1997 and is going according to plan. In several cases it has been possible to exchange old systems for new ones.

Metsäliitto Osuuskunta

Metsäliitto Osuuskunta's turnover was FIM 6,175 million (FIM 5,450 million). Operating profit was FIM 137 million, 2.2% of turnover (FIM 171 million and 3.1%). Profit before extraordinary items improved to FIM 324 million (FIM 288 million). Financial items include FIM 196 million in dividends received (FIM 104 million). The return on net assets was 12.9% (12.0%) and the equity ratio 66.2% (73.7%).

Metsä-Serla Corporation

Metsä-Serla's turnover was FIM 20,948 million (FIM 19,182 million) and operating profit FIM 2,299 million (FIM 2,016 million). Operating profit was 11.0% of turnover (10.5%). Profit before extraordinary items was FIM 1,824 million (FIM

1,008 million). Metsä-Serla's return on net assets was 11.0% (11.2%) and the equity ratio 45.9% (42.6%).

Finnforest Oy

Finnforest had a turnover of FIM 3,737 million (FIM 3,958 million). Operating profit was FIM 243 million, 6.5% of turnover (FIM 195 million and 4.9%). Before extraordinary items there was a profit of FIM 178 million (FIM 122 million). The return on net assets was 15.8% (12.5%), and the equity ratio 41.6% (32.3%).

Oy Metsä Timber Ltd

Turnover was FIM 2,505 million (FIM 1,783 million) and operating profit FIM 14 million (FIM 238 million). The result before extraordinary items was a loss of FIM 21 million (profit of FIM 196 million). The return on net assets was 1.3% (25.3%) and the equity ratio 24.4% (31.5%).

Outlook

The trend in the world economy still lacks stability. The future is clouded by the economic crisis in Southeast Asia, protracted economic difficulties in Japan, devaluation of the Brazilian currency, the situation in Russia and the uncertainty prevailing in stock markets. Economic growth in the United States and Europe is forecast to be below 1998 levels but to recover in 2000. The European economy will also be influenced, both this year and next, by the trend in the exchange rate between the euro and the dollar.

The restructuring of industry gathered pace during 1998. Major mergers were announced in the automobile and oil industry and, most notably, between financial institutions. The forest industry saw mergers between Jefferson Smurfit and Stone Container, between International Paper and Union Camp, and between STORA and Enso. Corporate restructuring of one kind or another, including the forest industry, can be expected to continue in 1999.

The Metsäliitto Group's financial results for the final quarter of 1998 were weaker than for the preceding

quarter due to the rapid deterioration in the market, and there has been no significant improvement so far this year. Order stocks for magazine papers have fallen and fine paper prices are still falling slowly. To safeguard profitability it will be necessary to reject low-price deals for paper, board and corrugated board raw materials. Production stoppages are expected to continue, at least during the first quarter.

Pulp markets are being affected by economic difficulties in Southeast Asia and by stoppages at fine paper mills. Norscan stocks rose to almost two million tonnes in August while softwood pulp prices fell to below USD 500 million, resulting in production curtailments in Finland and elsewhere. Since October, market prices for pulp have been USD 460/tonne for softwood and EUR 360/tonne for hardwood, despite the fact that Norscan stocks have fallen to 1.6 million tonnes.

Sawn timber prices were unsatisfactory in 1998. No strengthening of prices is expected until the second half of 1999, though consumption will remain good. Market prices for panel products were showing a slight improvement at the end of the year compared with the low levels of summer and autumn, but both supply and prices are still unstable. The slowing rate of economic growth in Europe will reduce building activity and lead to increased competition.

Towards the end of 1998, the Group made major company acquisitions in the UK and Germany. Reorganization of the mills acquired, together with implementation of measures to raise efficiency, will be the main tasks in 1999.

The Metsäliitto Group expects turnover for 1999 to reach almost FIM 35 billion. The result from operations will be well below that for 1998.

Espoo, March 1999
BOARD OF DIRECTORS

Consolidated profit and loss account

	1.1.-31.12.1998		1.1.-31.12.1997	
	MFIM	%	MFIM	%
Turnover	28 509.0	100.0	26 074.6	100.0
Change in stocks of finished goods and in work in progress	99.3		215.4	
Share of profit from associates (1)	52.6		47.0	
Other operating income (2)	225.1		362.2	
Materials and services				
Raw materials and consumables				
Purchases during financial year	-14 516.0		-13 462.5	
Change in stocks	66.4		114.1	
Costs of external services	-1 989.3		-1 854.9	
Employee costs (3)	-4 300.6		-4 023.6	
Depreciation and reduction in value (4)	-1 618.5		-1 493.5	
Other operating expenses	-3 710.1		-3 288.9	
	-26 068.1		-24 009.3	
Operating profit	2 817.9	9.9	2 689.9	10.3
Financial income and expenses (5)				
Income from other financial investments	28.3		12.4	
Other interest and similar income	251.3		254.8	
Net exchange gains/losses (6)	75.9		-391.5	
Interest expense and similar charges	-946.8		-983.6	
	-591.3	-2.1	-1 107.9	-4.2
Profit before extraordinary items	2 226.6	7.8	1 582.0	6.1
Extraordinary items (7)				
Extraordinary income	116.8		950.2	
Extraordinary expenses	-17.2		-8.1	
	99.6		942.1	
Profit before tax and minority interest	2 326.2	8.2	2 524.1	9.7
Taxation (8)	-715.5		-706.6	
Profit before minority interest	1 610.7		1 817.5	
Minority interest	-880.9		-1 017.4	
Profit for the financial period	729.8	2.6	800.1	3.1

Consolidated balance sheet

Assets	31.12.1998		31.12.1997	
	MFIM	%	MFIM	%
Fixed assets				
Intangible assets (9)				
Intangible rights	106.4		99.6	
Goodwill	428.0		450.8	
Other capitalized expenditure	116.5		142.8	
Advance payments	50.9		28.4	
	701.8	2.1	721.6	2.2
Tangible assets (9)				
Land and waters	1 562.3		1 498.1	
Buildings	4 192.9		3 668.7	
Plant and equipment	11 859.3		11 023.4	
Other tangible assets	151.8		120.5	
Advance payments and construction in progress	349.4		485.1	
	18 115.7	54.9	16 795.8	52.4
Financial investments (10) (11)				
Investments in associated companies	1 024.5		1 078.5	
Amounts owed from associated companies	161.1		156.2	
Other investments	570.2		428.3	
Other receivables	70.9		199.0	
	1 826.7	5.5	1 862.0	5.8
Fixed assets total	20 644.2	62.5	19 379.4	60.4
Current assets				
Inventories				
Raw materials and consumables	1 354.5		1 110.1	
Finished goods and work in progress	2 343.5		2 237.9	
Advance payments	266.0		299.5	
	3 964.0	12.0	3 647.5	11.4
Long-term receivables (12)				
Amounts owed from associated companies	13.1		3.3	
Loan receivables	5.2		0.3	
Accrued income (13)	9.3		18.2	
Short-term receivables (12)				
Accounts receivable	4 275.1		3 137.8	
Amounts owed from associated companies	60.8		42.4	
Loan receivables	6.2		91.8	
Other receivables	583.9		661.8	
Accrued income (13)	224.0		304.0	
	5 177.6	15.7	4 259.6	13.3
Current financial assets(14)	2 306.7	7.0	3 415.9	10.7
Cash at bank and in hand	917.5	2.8	1 359.8	4.2
Current assets total	12 365.8	37.5	12 682.8	39.6
	33 010.0	100.0	32 062.2	100.0

Consolidated balance sheet

Members' funds and liabilities	31.12.1998		31.12.1997	
	MFIM	%	MFIM	%
Members' funds (15)				
Members' capital	619.2		553.4	
Additional members' capital	1 151.4		957.1	
Share premium account	158.8		165.3	
Revaluation reserve	0.7		2.8	
Other reserves	102.9		85.5	
Equity in previous years' untaxed reserves	856.0		793.2	
Contingency reserve	39.8		39.8	
Translation differences	-29.7		-0.2	
Retained earnings	1 595.0		956.7	
Profit for the financial period	729.8		800.1	
	5 223.9	15.8	4 353.7	13.6
Convertible subordinated capital notes	1 324.7	4.0	1 324.7	4.1
Members' funds total	6 548.6	19.8	5 678.4	17.7
Minority interest	7 527.8	22.8	7 510.3	23.4
Provisions for liabilities and charges (16)	358.9	1.1	352.5	1.1
Liabilities (17) (18)				
Long-term liabilities (20)				
Bonds and debentures	1 765.1		1 322.0	
Loans from financial institutions	6 662.7		6 335.2	
Pension premium loans	722.6		1 525.9	
Amounts owed to associated companies	0.0		210.0	
Deferred tax (19)	1 667.6		1 384.6	
Other long-term liabilities	884.8		810.0	
Accruals and deferred income (22)	48.7		0.0	
	11 751.5	35.6	11 587.7	36.2
Short-term liabilities (21)				
Bonds and debentures	77.9		461.5	
Loans from financial institutions	1 467.1		1 223.1	
Pension premium loans	617.9		126.9	
Advance payments	17.8		30.5	
Accounts payable	2 026.7		1 863.0	
Bills of exchange payable	1.0		1.0	
Amounts owed to associated companies	131.8		124.0	
Other short-term liabilities	1 068.5		1 770.7	
Accruals and deferred income (22)	1 414.5		1 332.6	
	6 823.2	20.7	6 933.3	21.6
Liabilities total	18 574.7	56.3	18 521.0	57.8
	33 010.0	100.0	32 062.2	100.0

Cash flow statements

	Group		Parent	
	1998 MFIM	1997 MFIM	1998 MFIM	1997 MFIM
Cash flow from operations				
Operating profit	2 817.9	2 689.9	137.4	171.3
Depreciation	1 618.6	1 493.5	17.1	15.5
Financial income and expenses	-591.3	-1 107.9	186.5	116.6
Extraordinary items	99.6	942.1	-33.4	79.2
Taxation	-410.3	-706.6	-81.1	-124.6
	3 534.5	3 311.0	226.5	258.0
Change in working capital				
Inventories (increase-/decrease+)	-316.5	-544.7	-15.5	-58.5
Current receivables (increase-/decrease+)	-899.8	-965.1	-83.2	-62.5
Interest-free liabilities (increase+/decrease-)	-206.3	1 180.1	326.2	173.1
	-1 422.6	-329.7	227.5	52.1
Total cash flow from operations	2 111.9	2 981.3	454.0	310.1
Capital investments				
Capital investments	-3 430.0	-3 647.0	-581.9	-255.2
Sale of fixed assets and other changes	153.6	165.0	12.4	4.7
	-3 276.4	-3 482.0	-569.5	-250.5
Cash flow after capital investments	-1 164.5	-500.7	-115.5	59.6
Interest-bearing liabilities (increase+/decrease-)	-638.7	1 450.5	379.1	-43.6
Interest-bearing receivables (increase-/decrease+)	104.9	-30.2	-16.7	-818.9
Dividends	-86.1	-67.1	-86.1	-67.4
Increase in members' funds	226.5	2 123.9	261.2	421.0
Change in minority interest	0.0	168.7	-	-
Other changes	6.4	-78.6	-9.1	1.6
	-387.0	3 567.2	528.4	-507.3
Change in liquid funds	-1 551.5	3 066.5	412.9	-447.7
Group	31.12.98	Change	31.12.97	Change
Interest-bearing liabilities	12 277.6	-238.7	12 516.3	1 450.5
Interest-bearing receivables	201.9	-104.9	306.8	30.2
Liquid funds	3 224.2	-1 551.5	4 775.7	3 066.5
Interest-bearing net liabilities	8 851.5	1 417.7	7 433.8	-1 646.3

Parent company profit and loss account

	1.1.-31.12.1998		1.1.-31.12.1997	
	MFIM	%	MFIM	%
Turnover	6 174.7	100.0	5 449.8	100.0
Other operating income (2)	18.5		20.6	
Materials and services				
Raw materials and consumables				
Purchases during financial year	-4 659.3		-4 009.0	
Change in stocks	50.2		-20.9	
Costs of external services	-1 039.8		-916.3	
Employee costs (3)	-204.1		-191.6	
Depreciation and reduction in value (4)	-17.1		-15.5	
Other operating expenses	-185.7		-145.8	
	-6 055.8		-5 299.1	
Operating profit	137.4	2.2	171.3	3.1
Financial income and expenses (5)				
Interest income from Group companies	188.6		100.9	
Interest income from associated companies	3.9		0.0	
Income from other financial investments	49.4		15.2	
Other interest and similar income	45.5		31.2	
Net exchange gains/losses (6)	0.4		0.4	
Interest expense and similar charges	-101.2		-31.1	
	186.6	3.0	116.6	2.1
Profit before extraordinary items	324.0	5.2	287.9	5.3
Extraordinary items (7)				
Extraordinary income	23.6		119.8	
Extraordinary expenses	-57.0		-40.6	
	-33.4		79.2	
Profit before appropriations and taxes	290.6	4.7	367.1	6.7
Change in depreciation reserve	-1.1		0.2	
Change in untaxed reserves	0.0		75.0	
Taxation (8)	-81.1		-124.6	
Surplus for the financial period	208.4	3.4	317.7	5.8

Parent company balance sheet

Assets	31.12.1998		31.12.1997	
	MFIM	%	MFIM	%
Fixed assets				
Intangible assets (9)				
Intangible rights	21.8		2.3	
Other capitalized expenditure	4.5		7.0	
Construction in progress	1.4		21.5	
	27.7	0.5	30.8	0.8
Tangible assets (9)				
Land and waters	0.1		0.0	
Buildings	2.2		2.4	
Plant and equipment	28.8		30.4	
Other tangible assets	1.4		2.1	
	32.5	0.6	34.9	0.8
Financial investments (10) (11)				
Shares in Group companies	2 202.0		1 623.9	
Amounts owed from Group companies	613.4		613.2	
Investments in associated companies	107.1		198.4	
Amounts owed from associated companies	77.0		77.0	
Other investments	111.5		40.4	
Other receivables	0.1		6.1	
	3 111.1	59.5	2 559.0	61.7
Fixed assets total	3 171.3	60.7	2 624.7	63.3
Current assets				
Inventories				
Raw materials and consumables	303.9		253.7	
Advance payments	251.3		286.0	
	555.2	10.6	539.7	13.0
Receivables (12)				
Accounts receivable	91.9		65.5	
Amounts owed from Group companies	508.3		454.2	
Amounts owed from associated companies	32.6		31.4	
Loan receivables	0.0		4.8	
Other receivables	4.9		0.0	
Accrued income (13)	50.1		26.2	
	687.8	13.1	582.1	14.0
Current financial assets (14)	778.0	14.9	322.6	7.8
Cash at bank and in hand	34.5	0.7	77.0	1.9
Current assets total	2 055.5	39.3	1 521.4	36.7
	5 226.8	100.0	4 146.1	100.0

Parent company balance sheet

Members' funds and liabilities	31.12.1998		31.12.1997	
	MFIM	%	MFIM	%
Members' funds (15)				
Members' capital	619.2		553.4	
Additional members' capital	1 151.4		957.1	
Other reserves				
General reserve I	23.4		22.4	
General reserve II	79.0		63.1	
Contingency reserve	39.8		39.8	
Retained surplus	877.8		662.0	
Surplus for the financial period	208.4		317.7	
Members' funds total	2 999.0	57.4	2 615.5	63.1
Appropriations				
Depreciation reserve	17.2	0.3	16.2	0.4
Provisions for liabilities and charges (16)	13.6	0.3	22.7	0.5
Liabilities (17) (18)				
Long-term liabilities (20)				
Bonds and debentures	520.9		0.0	
Loans from financial institutions	40.0		51.4	
Pension premium loans	67.3		75.8	
Amounts owed to Group companies	0.0		0.0	
Amounts owed to associated companies	0.0		100.0	
Other long-term liabilities	2.6		22.3	
Accruals and deferred income (22)	38.7		0.0	
	669.5	12.8	249.5	6.0
Short-term liabilities (21)				
Loans from financial institutions	11.4		26.4	
Pension premium loans	8.4		8.7	
Advance payments	12.2		18.5	
Accounts payable	540.9		397.0	
Amounts owed to Group companies	691.5		578.2	
Amounts owed to associated companies	109.3		76.0	
Other short-term liabilities	57.5		70.8	
Accruals and deferred income (22)	96.3		66.6	
	1 527.5	29.2	1 242.2	30.0
Liabilities total	2 173.3	42.0	1 491.7	36.0
	5 226.8	100.0	4 146.1	100.0

Principles of consolidation

Subsidiaries

The consolidated financial statements include the accounts of Metsäliitto Osuuskunta and those subsidiaries in which the parent company controlled, directly or indirectly, over 50 per cent of the voting rights or in which it has management control. Subsidiaries acquired or established during the financial period have been consolidated from their date of acquisition or establishment. Companies divested are included up to the date of disposal.

Housing and property subsidiaries have been excluded from the consolidated financial statements; their exclusion has no material effect on the Group's financial results or unrestricted members' funds.

The purchase method of consolidation has been adopted in the elimination of intra-Group shareholdings. The amount of goodwill, being the excess of purchase cost over the fair value of net assets of acquired companies, which can be considered to raise the value of fixed assets above the subsidiary's balance sheet value has been entered under "Fixed assets" and depreciated according to plan for the appropriate heading. The rest of the goodwill is entered under "Goodwill". Goodwill arising on the acquisition of production capacity or significant market shares is amortized on a straight-line basis over a period not exceeding ten years; other goodwill is amortized over five years.

All intra-group balances, transactions and unrealized profits have been eliminated. Gains from the sale of fixed assets between subsidiaries prior to the formation of the Metsäliitto Group (in 1992) has not been eliminated.

Minority interests are separated from the results and members' funds figure, and are presented as distinct items.

Associated companies

Those companies in which Metsäliitto Osuuskunta controls, either directly or indirectly, 20-50 per cent of the shares and voting rights are dealt with as associated companies. Associated companies are consolidated using the equity method. The Group's share of the results of such companies, less amortization of goodwill, is shown in the consolidated profit and loss account under "Share of profit from associates". The difference between the acquisition cost and the Group's share of the equity, together with the net increase in assets since acquisition, is added to the acquisition cost of the associated company.

Companies in which the parent company has a 50 per cent interest have been consolidated using the proportional method. For each such company, the appropriate lines in the profit and loss account, balance sheet and notes to the accounts have been entered in the consolidated financial statements to reflect the 50 per cent ownership.

Goodwill arising on interests in associated companies represents the excess of the cost of investment over the Group's share of the net assets, as at the date when the associated company was first included in the consolidated financial statements. Such goodwill is amortized in five years or during their expected useful lives over a period not exceeding ten years.

Interests in associated companies which are not material to consolidated profits or members' funds have been excluded from the financial statements. Associated companies are listed in the notes to the accounts.

Foreign currencies

The profit and loss statements of foreign subsidiaries have been translated into Finnish markka at the average selling and buying exchange rates of the Bank of Finland for the financial period and the balance sheets at the average selling and buying exchange rates of the Bank of Finland at year-end except the currencies of the euro-area. The balance sheets in the national currencies of the euro-area are translated to Finnish markka according to the fixed, irrevocable exchange rate of the European Central Bank. Exchange differences arising on the translation of shareholders' equity have been entered under unrestricted shareholders' equity.

Business transactions denominated in foreign currencies are entered using the exchange rate on the day of the transaction. For Group companies based in Finland, assets and liabilities in foreign currencies are translated into Finnish markka using the average of the Bank of Finland's selling and buying exchange rates at the balance sheet date. Exchange differences arising on such translations are entered in the profit and loss account as adjustments to sales or purchases or as exchange differences in the financial items.

From January 1998, exchange differences arising on translation of foreign currency bank accounts have been used to adjust turnover instead of being entered as exchange differences under financial items, as previously.

Realized exchange differences arising from derivative agreements used in hedging foreign currency turnover are recorded as adjustments to turnover. The unrealized exchange differences arising from loans and derivatives used to hedge the future cash flow are booked concurrently with the hedged cash flow according to the hedge accounting principal.

Pensions and pension funding

Statutory pension cover for employees of the parent company and its subsidiaries in Finland is provided by payments to insurance companies. In addition, some salaried employees have supplementary pension arrangements, which are either funded (by contributions to insured schemes or to the Metsäliitto Employees' Pension Foundation) or unfunded. The Metsäliitto Employees' Pension Foundation has no unfunded shortfall based on the current value of its assets.

Contributions to the funded schemes, which are based on wage and salary costs, are charged in the profit and loss account on an accrual basis. Unfunded pension liabilities are included in the balance sheet under "Provisions for liabilities and charges", with a corresponding amount included in the fixed assets. The costs of unfunded pension liabilities will be charged to income in the year 2000 at the latest.

Foreign subsidiaries make pension arrangements in accordance with local practice.

Turnover

Turnover is calculated as gross sales revenues less indirect sales taxes, trade discounts, reclamation costs and exchange differences on sales. Freight costs and other sales and delivery costs are recorded as operating expenses.

Research and development

Research and development costs are expensed as incurred.

Inventories

Inventories are valued at the lower of cost and net realizable value at the end of the financial period. Cost is determined on either a FIFO or an average cost basis. Cost is calculated to include the variable cost of manufacture and an appropriate portion of the fixed costs of acquisition and manufacture.

Fixed assets and depreciation

Fixed assets are stated at cost less depreciation according to plan. Depreciation according to plan is calculated on a straight-line basis so as to write off the cost of fixed assets over their expected useful lives. The principal annual rates adopted are as follows:

Buildings	2.5-5%
Plant and equipment	5-20%
Other items	10-25%

Land, buildings and investments also include certain revaluations. No depreciation is made in respect of the purchase cost and revaluation of land and water.

Leasing

Operating lease payments are in general treated as rentals. Major assets held under finance leases are included in fixed assets and the capital element of the leasing commitments is included under liabilities. Significant profits on sales and leaseback arrangements, together with the associated deferred tax receivable, are allocated to the accounts over the duration of the contract concerned.

Extraordinary income and expenses

Substantial income and expenses arising on transactions of an abnormal nature, such as divestment of businesses, are presented in the profit and loss account as extraordinary items.

Appropriations, including untaxed reserves

Taxable profit is based on profit before taxes and appropriations as increased or reduced by appropriations to or from untaxed reserves or accumulated depreciation difference. Certain appropriations are only deductible for tax purposes if they are recorded in the financial statements of the taxable entities within the Group.

In the financial statements of the parent company (and other taxable entities), these appropriations to or from untaxed reserves or accumulated depreciation difference are recorded as an adjustment to profits before appropriations and taxes in arriving at the profit for the financial period, and accumulated appropriations are shown as a separate reserve in the balance sheet without tax effect. On consolidation, these appropriations are tax affected in the profit and loss account and the accumulated tax effect is recorded as a deferred tax liability in the balance sheet with the after-tax balance of appropriations included as part of unrestricted members' funds.

Provisions for liabilities and charges

Future costs which are likely or certain to be incurred and which are not expected to be matched by any future income are entered in the profit and loss account under the appropriate expenses heading and included in the balance sheet under "Provisions for liabilities and charges". Such items are e.g. unfunded pension liabilities and costs for shut-downs and reorganization.

Direct taxes

The consolidated profit and loss account includes direct taxes for the period calculated according to the accruals convention on the basis of the financial results of Group companies for the period and in accordance with local tax regulations, together with tax payable or refunded in respect of previous financial periods. Income tax also includes the charge or credit for the period in respect of deferred tax. The corporate tax credit arising on intra-group dividends has been eliminated by deducting it from direct taxes.

Notes to the accounts

Notes to the profit and loss account, FIM million

1. Share of profit from associates

	Percentage holding	Share of profit	Goodwill write-off	Share of profit	Goodwill still to be written off
Oy Metsä-Rauma Ab	48.4	53.2	0.0	53.2	0.0
Myllykoski Paper Oy	35.0	56.4	-58.1	-1.7	344.2
Other associates		0.8	0.3	1.1	0.0
Total		110.4	-57.8	52.6	344.2

	Group		Parent	
	1998	1997	1998	1997
2. Other operating income				
Rental income	36.6	39.0	5.1	4.4
Gains on disposals of fixed assets	66.1	177.1	3.2	4.4
Service revenue	55.8	56.4	10.0	11.6
Other items	66.6	89.7	0.2	0.2
Total	225.1	362.2	18.5	20.6

3. Employee costs

Wages, salaries and fees for working hours	2 775.1	2 629.1	129.5	123.7
Pension expenses	424.6	404.6	19.0	26.0
Other social security expenses	1 100.9	989.9	55.6	41.9
Total	4 300.6	4 023.6	204.1	191.6

Salaries and fees to Group Management

Chief Executive Officers and their deputies	63.3	61.3	3.6	3.9
Board of Directors and their deputies	4.1	3.8	1.2	1.1
Members of other comparable bodies	2.8	1.0	0.4	0.4
Total	70.2	66.1	5.2	5.4

At the end of 1997 a bonus system was introduced to the Group's Top Management. The system is comparable to the bonds with equity warrants issued to the Top Management of Metsä-Serla in 1997.

Pension agreements with the members of the Boards and Chief Executive Officers as well as their deputies and with current and former members of other comparable bodies.

The President and the Vice President as well as certain other members of the Group's Management have the right to retire on a pension at the age of 62 years.

The parent company has no liabilities related to current or former members of other comparable bodies.

4. Depreciation and reduction in value	Group		Parent	
	1998	1997	1998	1997
Depreciation according to plan				
Intangible rights	26.0	24.3	2.4	1.6
Consolidation goodwill	112.3	108.5	–	–
Consolidation reserve	-40.9	-29.3	–	–
Other capitalized expenditure	47.5	50.0	4.0	4.0
Buildings	185.6	163.7	0.2	0.2
Plant and equipment	1 267.1	1 161.1	9.8	9.0
Other tangible assets	20.9	15.2	0.7	0.7
Total depreciation and reduction in value	1 618.5	1 493.5	17.1	15.5
Depreciation difference	477.7	740.3	0.3	-2.1
Total depreciation	2 096.2	2 233.8	17.4	13.4
Accumulated depreciation difference 1.1.	–	–	16.2	16.4
Depreciation difference	–	–	0.3	-2.1
Depreciation difference on assets sold	–	–	0.7	1.9
Change in depreciation difference (+/-)	–	–	1.0	-0.2
Accumulated depreciation difference 31.12.	–	–	17.2	16.2
5. Financial income and expenses				
Dividend income				
From Group companies	–	–	188.6	100.9
From associated companies	–	–	3.9	0.0
From others	11.6	3.3	3.2	0.0
Total	11.6	3.3	195.7	100.9
Interest income from fixed assets				
From Group companies	–	–	40.6	11.5
From associated companies	7.4	0.0	0.0	0.0
From others	9.3	9.1	5.6	3.7
Total	16.7	9.1	46.2	15.2
Income from investments in fixed assets	28.3	12.4	241.9	116.1
Other interest and similar income				
Interest income from Group companies	–	–	12.7	14.8
Financial income from Group companies	–	–	0.0	0.0
Interest income from other companies	225.4	254.8	24.8	13.2
Financial income from other companies	25.9	0.0	8.0	3.2
Total	251.3	254.8	45.5	31.2
Net exchange gains/losses	75.9	-391.5	0.4	0.4
Interest expense and similar charges				
Interest expense to Group companies	–	–	-3.4	-7.5
Financial expenses to Group companies	–	–	0.0	0.0
Interest expense to other companies	-885.0	-983.6	-77.2	-21.7
Financial expenses to other companies	-61.8	0.0	-20.6	-1.9
Total	-946.8	-983.6	-101.2	-31.1
Total financial income and expenses	-591.3	-1 107.9	186.6	116.6

Notes to the accounts

	Group		Parent	
	1998	1997	1998	1997
6. Net exchange gains/losses				
Exchange gains/losses on sales				
Exchange differences on derivatives	41.6	-95.9	0.0	0.0
Other exchange derivatives	-108.8	173.1	0.0	0.0
Total exchange gains/losses on sales	-67.2	77.2	0.0	0.0
Exchange gains/losses on purchases				
Exchange differences on derivatives	-5.1	-95.9	0.0	0.0
Other exchange derivatives	-1.1	173.1	0.0	0.0
Total exchange gains/losses on purchases	-6.2	77.2	0.0	0.0
Exchange gains/losses on financing				
Exchange gains				
Realized	1 267.9	591.6	3.6	0.9
Unrealized	74.4	68.6	0.0	0.0
Total	1 342.3	660.2	3.6	0.9
Exchange losses				
Realized	-1 239.5	-708.6	-3.2	-0.5
Unrealized	-26.9	-343.1	0.0	0.0
Total	-1 266.4	-1 051.7	-3.2	-0.5
Total exchange gains/losses on financing	75.9	-391.5	0.4	0.4
7. Extraordinary items				
Extraordinary income				
Gains from disposals of shares	41.7	595.8	0.0	0.0
Gains from disposals of businesses	68.6	337.7	0.0	0.0
Group contributions, received	-	-	23.6	119.8
Other items	6.5	16.7	0.0	0.0
Total extraordinary income	116.8	950.2	23.6	119.8
Extraordinary expenses				
Group contributions, paid	-	-	57.0	0.0
Price revision of shares sold	0.0	0.0	0.0	40.6
Starckjohann/loan balance	11.0	0.0	0.0	0.0
Losses from disposals of businesses	1.1	0.0	0.0	0.0
Other items	5.1	8.1	0.0	0.0
Total extraordinary expenses	17.2	8.1	57.0	40.6
8. Taxation				
Income taxes for the year	403.9	722.0	81.0	124.6
Income taxes for previous years	6.4	30.2	0.1	0.0
Change in deferred tax liability	305.2	-45.6	0.0	0.0
Total	715.5	706.6	81.1	124.6
Taxes on extraordinary items	27.9	263.8	-9.4	22.2
Taxes on ordinary operations	687.6	442.8	90.5	102.4
Total	715.5	706.6	81.1	124.6

Notes to the balance sheet, FIM million

9. Intangible and tangible assets

GROUP	Intangible rights	Purchased goodwill	Consolidation goodwill	Other capitalized expenditure	Advance payments	Total
Intangible assets						
Acquisition cost 1.1.	233.1	1 205.1	-305.9	293.2	38.4	1 453.9
Increase	29.5	273.5	-189.0	3.3	55.6	172.9
Decrease	-9.7	-33.4	0.0	-3.4	-33.4	-79.9
Changes between items	5.8	6.0	0.0	-5.7	0.3	6.4
Acquisition cost 31.12.	258.7	1 451.2	-494.9	287.4	50.9	1 553.3
Accumulated depreciation 1.1.	-133.5	-581.8	133.4	-150.4	0.0	-732.3
Accumulated depreciation on decrease	7.2	-8.5	0.0	27.0	0.0	25.7
Depreciation for the period	-26.0	-112.0	40.9	-47.5	0.0	-144.6
Reduction in value	0.0	-0.3	0.0	0.0	0.0	-0.3
Accumulated depreciation 31.12	-152.3	-702.6	174.3	-170.9	0.0	-851.5
Revaluation	0.0	0.0	0.0	0.0	0.0	0.0
Book value 31.12.1998	106.4	748.6	-320.6	116.5	50.9	701.8
Book value 31.12.1997	99.6	623.3	-172.5	142.8	28.4	721.6

The purchased goodwill and the consolidation goodwill are presented in the Group balance sheet as a net value of FIM 428.0 million.

GROUP	Land and waters	Buildings	Plant and equipments	Other tangible assets	Advance payments	Total
Tangible assets						
Acquisition cost 1.1.	517.7	4 237.0	16 385.9	177.7	485.1	21 839.4
Increase	90.6	1 040.0	2 230.2	52.1	686.5	4 099.4
Decrease	-30.9	-145.8	-357.2	-11.6	-642.9	-1 188.4
Changes between items	6.7	69.8	119.2	-1.5	-179.3	14.9
Acquisition cost 31.12.	584.1	5 237.0	18 378.1	216.7	349.4	24 765.3
Accumulated depreciation 1.1.	-2.9	-908.1	-5 363.6	-57.2	0.0	-6 331.8
Accumulated depreciation on decrease	-0.2	-210.2	111.9	13.2	0.0	-85.3
Depreciation for the period	0.0	-183.8	-1 267.8	-9.0	0.0	-1 460.6
Reduction in value	-2.0	0.2	0.7	-11.9	0.0	-13.0
Accumulated depreciation 31.12	-5.1	-1 301.9	-6 518.8	-64.9	0.0	-7 890.7
Revaluation 1.1.	983.3	303.8	1.1	0.0	0.0	1 288.2
Increase	0.0	0.0	0.0	0.0	0.0	0.0
Decrease	0.0	-46.0	-1.1	0.0	0.0	-47.1
Revaluation 31.12.	983.3	257.8	0.0	0.0	0.0	1 241.1
Book value 31.12.1998	1 562.3	4 192.9	11 859.3	151.8	349.4	18 115.7
Book value 31.12.1997	1 498.1	3 668.7	11 023.4	120.5	485.1	16 795.8

Capitalized interest expenses not yet written off were FIM 14.7 million for "Buildings" as per 31 Dec. 1998 (FIM 16.6 mill. in 1997) and FIM 66.1 million for "Plant and equipment" (FIM 78.7million).

There are no corresponding figures for the parent company.

During 1998 no interest expenses have been capitalized.

Notes to the accounts

9. Intangible and tangible assets

PARENT	Intangible rights	Other capitalized expenditure	Advance payments	Total
Intangible assets				
Acquisition cost 1.1.	23.0	15.2	21.5	59.7
Increase	21.9	1.6	11.4	34.9
Decrease	0.0	0.0	-31.5	-31.5
Changes between items	0.0	0.0	0.0	0.0
Acquisition cost 31.12.	44.9	16.8	1.4	63.1
Accumulated depreciation 1.1.	-20.6	-8.3	0.0	-28.9
Accumulated depreciation on decrease	-0.1	0.0	0.0	-0.1
Depreciation for the period	-2.4	-4.0	0.0	-6.4
Reduction in value	0.0	0.0	0.0	0.0
Accumulated depreciation 31.12	-23.1	-12.3	0.0	-35.4
Revaluation	0.0	0.0	0.0	0.0
Book value 31.12.1998	21.8	4.5	1.4	27.7
Book value 31.12.1997	2.3	7.0	21.5	30.8

PARENT	Land and waters	Plant and Buildings equipments	Other tangible assets	Total	
Tangible assets					
Acquisition cost 1.1.	0.0	4.1	94.9	3.9	102.9
Increase	0.1	0.0	9.3	0.0	9.4
Decrease	0.0	0.0	-3.9	0.0	-3.9
Changes between items	0.0	0.0	0.0	0.0	0.0
Acquisition cost 31.12.	0.1	4.1	100.3	3.9	108.4
Accumulated depreciation 1.1.	0.0	-1.7	-64.5	-1.8	-68.0
Accumulated depreciation on decrease	0.0	0.0	2.8	0.0	2.8
Depreciation for the period	0.0	-0.2	-9.8	-0.7	-10.7
Reduction in value	0.0	0.0	0.0	0.0	0.0
Accumulated depreciation 31.12	0.0	-1.9	-71.5	-2.5	-75.9
Revaluation 1.1.	0.0	0.0	0.0	0.0	0.0
Increase	0.0	0.0	0.0	0.0	0.0
Decrease	0.0	0.0	0.0	0.0	0.0
Revaluation 31.12.	0.0	0.0	0.0	0.0	0.0
Book value 31.12.1998	0.1	2.2	28.8	1.4	32.5
Book value 31.12.1997	0.0	2.4	30.4	2.1	34.9

10. Market value of financial investments in fixed assets

Stock exchange listed shares had a book value of FIM 1,958.0 million and a market value of FIM 3,207.8 million.

The figures include Metsä-Serla Corporation shares, book value FIM 1,412.1 million and market value FIM 2,280.5 million.

In addition, the book value of the shares of Metsä-Serla's subsidiary Metsä Tissue Corporation was FIM 391.9 million and market value FIM 750.3 million.

11. Financial investments

GROUP	Invest- ments in associates	Other shares	Amounts		Other receiv- ables	Total
			owed from Group companies	Amounts owed from associates		
Financial investments						
Acquisition cost 1.1.	1 098.2	388.1	–	157.5	199.0	1 842.8
Increase	18.6	83.3	–	3.6	0.5	106.0
Decrease	-1.9	-4.4	–	0.0	-128.6	-134.9
Changes between items	-91.0	64.0	–	0.0	0.0	-27.0
Acquisition cost 31.12.	1 023.9	531.0	–	161.1	70.9	1 786.9
Revaluation/Reduction	0.6	39.2	–	0.0	0.0	39.8
Book value 31.12.1998	1 024.5	570.2	–	161.1	70.9	1 826.7
Book value 31.12.1997	1 078.5	428.3	–	156.2	199.0	1 862.0

PARENT	Shares in Group companies	Invest- ments in associates	Amounts		Other receiv- ables	Total
			owed from Group companies	Amounts owed from associates		
Financial investments						
Acquisition cost 1.1.	1 623.9	198.4	40.4	613.2	77.0	2 559.1
Increase	561.4	0.0	7.5	100.2	0.0	669.1
Decrease	-0.9	-0.1	-0.7	-100.0	0.0	-107.8
Changes between items	17.6	-91.2	64.3	0.0	0.0	-9.3
Acquisition cost 31.12.	2 202.0	107.1	111.5	613.4	77.0	3 111.1
Revaluation/Reduction	0.0	0.0	0.0	0.0	0.0	0.0
Book value 31.12.1998	2 202.0	107.1	111.5	613.4	77.0	3 111.1
Book value 31.12.1997	1 623.9	198.4	40.4	613.2	77.0	2 559.0

12. Long-term and short-term receivables

	Group		Parent	
	1998	1997	1998	1997
Long-term receivables				
Amounts owed from Group companies				
Accounts receivable	–	–	0.0	0.0
Loan receivables	–	–	0.0	0.0
Other receivables	–	–	0.0	0.0
Accrued income	–	–	0.0	0.0
Total	–	–	0.0	0.0
Amounts owed from associated companies				
Accounts receivable	0.0	0.0	0.0	0.0
Loan receivables	13.1	2.0	0.0	0.0
Other receivables	0.0	1.3	0.0	0.0
Accrued income	0.0	0.0	0.0	0.0
Total	13.1	3.3	0.0	0.0
Other receivables				
Accounts receivable	0.0	0.0	0.0	0.0
Loan receivables	5.2	0.3	0.0	0.0
Other receivables	0.0	0.0	0.0	0.0
Accrued income	9.3	18.2	9.3	17.4
Total	14.5	18.5	9.3	17.4
Total long-term receivables	27.6	21.8	9.3	17.4

Notes to the accounts

	Group		Parent	
	1998	1997	1998	1997
12. Long-term and short-term receivables				
Short-term receivables				
Amounts owed from Group companies				
Accounts receivable	–	–	121.3	105.2
Loan receivables	–	–	367.9	342.7
Other receivables	–	–	2.1	0.0
Accrued income	–	–	17.0	6.3
Total	–	–	508.3	454.2
Amounts owed from associated companies				
Accounts receivable	45.0	40.9	32.6	31.4
Loan receivables	8.5	1.5	0.0	0.0
Other receivables	0.1	0.0	0.0	0.0
Accrued income	7.2	0.0	0.0	0.0
Total	60.8	42.4	32.6	31.4
Other receivables				
Accounts receivable	4 275.1	3 137.8	91.9	65.5
Loan receivables	6.2	91.8	0.0	4.8
Other receivables	583.9	661.8	4.9	0.0
Accrued income	224.0	304.0	40.9	8.8
Total	5 089.2	4 195.4	137.7	79.1
Total short-term receivables	5 150.0	4 237.8	678.6	564.7
Total receivables	5 177.6	4 259.6	687.8	582.1
13. Accrued income				
Long-term				
Unfunded pension obligation	9.3	17.4	9.3	17.4
Other	0.0	0.8	0.0	0.0
Total	9.3	18.2	9.3	17.4
Short-term				
Interest	36.5	3.6	9.9	3.0
Insurance	34.2	9.7	0.0	0.0
Tax	42.4	4.9	23.7	0.0
Other	110.9	285.8	7.3	5.8
Total	224.0	304.0	40.9	8.8
14. Current financial assets				
Other investments				
Market value	2 328.6	3 417.6	799.9	324.3
Book value	-2 306.7	-3 415.9	-778.0	-322.6
Difference	21.9	1.7	21.9	1.7

	Group		Parent	
	1998	1997	1998	1997
15. Members' funds				
Restricted funds				
Members' capital				
Members capital 1.1.	553.4	459.0	553.4	459.0
Participation shares	52.3	69.7	52.3	69.7
Transferred to participation shares from dividend on members' capital	20.5	30.7	20.5	30.7
Participation shares of ex-members	-7.0	-6.0	-7.0	-6.0
*) Members capital 31.12. (Parent)	619.2	553.4	619.2	553.4
Additional members' capital				
Additional members' capital 1.1.	957.1	632.4	957.1	632.4
Increase in additional members' capital	194.3	324.7	194.3	324.7
***) Additional members' capital 31.12.	1 151.4	957.1	1 151.4	957.1
Members' capital 31.12. (Group)	1 770.6	1 510.5	1 770.6	1 510.5
Share premium account 1.1.	165.3	167.3	-	-
Decrease	-6.5	-2.0	-	-
Share premium account 31.12.	158.8	165.3	-	-
Revaluation reserve 1.1.	2.8	5.3	-	-
Decrease	-2.1	-2.5	-	-
Revaluation reserve 31.12.	0.7	2.8	-	-
General reserves				
General reserve I 1.1.	22.4	20.5	22.4	20.5
Membership fees	1.1	1.9	1.0	1.9
General reserve I 31.12.	23.5	22.4	23.4	22.4
General reserve II 1.1.	63.1	55.1	63.1	55.1
Transferred from retained earnings	15.9	8.0	15.9	8.0
General reserve II 31.12.	79.0	63.1	79.0	63.1
Other restricted reserves 31.12.	0.4	0.0	-	-
Other reserves 31.12. (Group)	102.9	85.5	-	-
Total restricted funds	2 033.0	1 764.1	1 873.0	1 596.0
*) Unpaid participation shares				
Total called-up members' capital	1 079.7	1 058.0	1 079.7	1 058.0
Participation shares paid	-619.3	-553.4	-619.3	-553.4
Unpaid participation shares	460.4	504.6	460.4	504.6

**) Of the additional members' capital FIM 84.8 million is due on 1 July 1999.

Notes to the accounts

	Group		Parent	
	1998	1997	1998	1997
Unrestricted funds				
Unrestricted reserves and retained earnings 1.1.	2 589.6	1 481.9	1 019.5	777.3
Dividends paid	-85.8	-67.2	-86.0	-67.5
Transferred to general reserve II	-15.9	-8.0	-15.9	-8.0
Change in translation differences	-29.5	9.8	-	-
Change in minority interest	0.0	361.1	-	-
Other increase / decrease	2.7	11.9	-	-
Unrestricted reserves and retained earnings 31.12.	2 461.1	1 789.5	917.6	701.8
Profit for the financial period	729.8	800.1	208.4	317.7
Total unrestricted funds	3 190.9	2 589.6	1 126.0	1 019.5
Convertible capital notes issued				
Convertible capital notes 1.1.	1 324.7	0.0	-	-
Increase / Decrease	0.0	1 324.7	-	-
Convertible capital notes 31.12.	1 324.7	1 324.7	-	-
Total members' funds	6 548.6	5 678.4	2 999.0	2 615.5

Convertible subordinated capital notes

Metsä-Serla Corporation's convertible subordinated capital note loan is a capital loan as referred to in Section 5 of Finland's Companies Act. The loan principal is USD 350 million, divided among 350,000 convertible notes, nominal value USD 1,000 each. The loan carries interest at 4.375% and the subscription price for shares is FIM 57.9375 each. On conversion, the Finnish markka (FIM) equivalent value of the USD denominated notes will be calculated using the exchange rate 1 USD = FIM 5.2738. Conversion of all notes to shares will result in a maximum increase in the company's share capital of FIM 318,393,020.

Holders of the convertible notes have the right to subscribe Metsä-Serla Corporation's Serie B shares during the period 15 January 1998 to 1 October 2002. Provided that the terms specified in the agreement are met, Metsä-Serla Corporation has the right to redeem the loan as of 15 October 2000. USD 250 million of the convertible subordinated capital note loan was subscribed by Finnish and foreign investors and USD 100 million by Metsäliitto Osuuskunta. The total amount of the loan shown in Metsä-Serla Corporation's balance sheet is FIM 1,845.8 million, of which Metsäliitto Osuuskunta's share is FIM 521,2 million.

	1998	Increase	Decrease	1998
	1.1.			31.12.
16. Provisions for liabilities and charges				
Group				
Provision for unfunded pension obligations	17.4	0.0	-8.1	9.3
Provision for pension obligations	189.2	7.6	-2.5	194.3
Provision for taxes	16.8	0.0	-16.8	0.0
Provision for unemployment pension insurance	58.2	5.8	-10.4	53.6
Provision for reorganization of businesses	22.2	35.1	-14.8	42.5
Provision for rental costs	31.8	0.0	-3.0	28.8
Other provisions	16.9	16.0	-2.5	30.4
Total	352.5	64.5	-58.1	358.9
Parent				
Provision for unfunded pension obligations	17.4	0.0	-8.1	9.3
Provision for unemployment pension insurance	5.3	0.0	-1.0	4.3
Total	22.7	0.0	-9.1	13.6

	Group		Parent	
	1998	1997	1998	1997
17. Liabilities				
Long-term				
Non-interest bearing	1 751.4	1 219.1	38.7	0.0
Interest bearing	10 000.1	10 368.6	630.8	249.5
Total	11 751.5	11 587.7	669.5	249.5
Short-term				
Non-interest bearing	4 545.7	4 785.6	1 489.6	1 202.0
Interest bearing	2 277.5	2 147.7	37.9	40.2
Total	6 823.2	6 933.3	1 527.5	1 242.2

Metsäliitto Osuuskunta's share index-linked capital note loan

The notes are being issued continuously up to the maximum amount of FIM 1,000,000,000. At the end of 1998, notes to a nominal value of FIM 520,860,000 had been issued. Applications to subscribe the notes are being accepted according to procedures and at times specified by Metsäliitto Osuuskunta. The notes may also be offered for subscription as payment for wood raw material purchased by Metsäliitto Osuuskunta from forest owners. The issue price is floating.

The capital loan is classified in equity as a preferred loan and the principal will be repaid in full on 16 April 2008 provided the conditions for redemption set out in the terms of the issue are met. Holders of notes qualify for the following:

1. Annual interest at a fixed 6.75% paid on the principal and on interest due but outstanding, on additional interest and additional return up to the date of maturity at 16 April 2008.
2. Additional annual interest may be declared per note (nominal value FIM 1,000) equal to three times the dividend declared on Metsä-Serla Corporation Series B shares for the financial period preceeding the date of payment of such additional interest.
3. At maturity, an additional return per note (nominal value FIM 1,000) equal to three times the trade-weighted average quotation for Metsä-Serla Corporation Series B shares calculated over a period of 30 days ending 10 days before the redemption date, however not exceeding FIM 474.84.

Other bonds and debentures

Specified in Metsä-Serla's Annual Report
– Metsä-Serla

1 327.7 1 789.2

Bonds with equity warrants

Specified in Metsä-Serla's Annual Report

1994-1999

0.2 0.3

1997-2000

0.8 0.7

18. Long-term liabilities with amortization plan

	Bonds and debentures	Loans from financial institutions	Pension premium loans	Other loans	Total
1999	77.9	679.0	617.9	84.5	1 459.3
2000	0.7	740.1	54.1	85.2	880.1
2001	400.0	975.3	48.6	86.6	1 510.5
2002	843.5	1 295.5	39.8	82.5	2 261.3
2003	0.0	2 741.3	37.2	83.9	2 862.4
2004 –	520.9	907.8	542.9	323.5	2 295.1
Total at 31 December 1998	1 843.0	7 339.0	1 340.5	746.2	11 268.7

Notes to the accounts

	Group		Parent	
	1998	1997	1998	1997
19. Deferred tax liability				
Deferred tax liabilities relating to appropriations	1 798.6	1 542.8	–	–
Deferred tax receivables relating to consolidation procedures	-210.9	-205.2	–	–
Other deferred tax receivables	-3.3	0.0	–	–
Other deferred tax liabilities	83.2	47.0	–	–
Total	1 667.6	1 384.6	–	–
20. Long-term liabilities				
Amounts owed to Group companies				
Bonds and debentures	–	–	0.0	0.0
Other liabilities	–	–	0.0	0.0
	–	–	0.0	0.0
Amounts owed to associated companies				
Other liabilities	0.0	210.0	0.0	100.0
	0.0	210.0	0.0	100.0
Liabilities to others				
Bonds and debentures	1 765.1	1 322.0	520.9	0.0
Loans from financial institutions	6 662.7	6 335.2	40.0	51.4
Pension premium loans	722.6	1 525.9	67.3	75.8
Accounts payable	0.0	0.0	0.0	0.0
Deferred tax	1 667.6	1 384.6	0.0	0.0
Other long-term liabilities	884.8	810.0	2.6	22.3
Accruals	48.7	0.0	38.7	0.0
	11 751.5	11 377.7	669.5	149.5
Total long-term liabilities	11 751.5	11 587.7	669.5	249.5
21. Short-term liabilities				
Amounts owed to Group companies				
Advance payments	–	–	556.1	487.5
Accounts payable	–	–	63.3	43.1
Other short-term liabilities	–	–	72.1	47.6
Accruals	–	–	0.0	0.0
	–	–	691.5	578.2
Amounts owed to associated companies				
Advance payments	105.6	69.1	105.6	69.1
Accounts payable	22.9	51.4	0.8	3.9
Other short-term liabilities	2.9	3.2	2.9	3.0
Accruals	0.4	0.3	0.0	0.0
	131.8	124.0	109.3	76.0
Liabilities to others				
Bonds and debentures	77.9	461.5	0.0	0.0
Loans from financial institutions	1 467.1	1 223.1	11.4	26.4
Pension premium loans	617.9	126.9	8.4	8.7
Advance payments	17.8	30.5	12.2	18.5
Accounts payable	2 026.7	1 863.0	540.9	397.0
Bills of exchange payable	1.0	1.0	0.0	0.0
Other short-term liabilities	1 068.5	1 770.7	57.5	70.8
Accruals	1 414.5	1 332.6	96.3	66.6
	6 691.4	6 809.3	726.7	588.0
Total short-term liabilities	6 823.2	6 933.3	1 527.5	1 242.2

	Group		Parent	
	1998	1997	1998	1997
22. Accruals and deferred income				
Long-term				
Premium on share index-linked capital note loan	38.7	0.0	38.7	0.0
Commitments for compensation	9.5	0.0	0.0	0.0
Other	0.5	0.0	0.0	0.0
Total	48.7	0.0	38.7	0.0
Short-term				
Wages, salaries and social expenses	476.3	129.7	55.9	59.5
Interest expense	210.0	275.3	26.9	2.7
Purchases	150.7	159.1	0.0	0.0
Taxes	78.0	46.7	0.0	0.0
Other	499.5	721.8	13.5	4.4
Total	1 414.5	1 332.6	96.3	66.6
23. Securities and guarantees				
<i>For own loans</i>				
Assets pledged as security for				
loans from financial institutions	64.3		51.4	
pension premium loans	24.0		0.0	
other liabilities	0.5		0.0	
Assets pledged	128.6	277.1	6.7	49.3
Mortgages as securities for				
loans from financial institutions	2 173.0			
pension premium loans	192.2			
Mortgages	2 491.3	2 871.2		
<i>For own liabilities</i>				
Assets pledged	131.3	0.0	131.3	0.0
<i>For Group companies</i>				
Assets pledged	–	–	108.2	84.3
Guarantees	–	–	820.1	574.9
<i>For associated companies</i>				
Assets pledged	57.5	44.9	57.5	44.9
Mortgages	1.5	1.5	0.0	0.0
Guarantees	160.6	167.8	69.1	69.0
<i>For others</i>				
Assets pledged	1.5	0.5	0.0	0.0
Mortgages	0.3	0.2	0.0	0.0
Guarantees	14.6	18.5	0.0	0.0
<i>Other liabilities</i>				
Bills of exchange	16.1	23.1	0.0	0.0
Pension liabilities	0.5	14.6	0.0	0.2
Others	134.1	1 037.7	0.0	0.0
<i>Leasing commitments</i>				
Payments due in following year	90.7	115.9	0.0	0.0
Payments due in subsequent years	358.2	634.2	0.0	0.0
Total				
Mortgages	2 493.1	2 872.9	0.0	0.0
Assets pledged	318.9	322.5	303.7	178.5
Guarantees	175.2	186.3	889.2	643.9
Bills of exchange	16.1	23.1	0.0	0.0
Pension liabilities	0.5	14.6	0.0	0.2
Other liabilities	134.1	1 037.7	0.0	0.0
Leasing commitments *)	448.9	750.1	0.0	0.0
Total	3 586.8	5 207.2	1 192.9	822.6

*) Leasing commitments don't include financial leasing agreements.

Notes to the accounts

Group	1998			1997
	Gross amount	of which converted contracts	Unrecognized valuation difference	Gross amount
<i>Liabilities due to open derivative contracts</i>				
Interest rate derivatives				
Forward agreements	27 102.3	24 099.7	2.2	32 176.4
Options				
Purchased	1 437.1	1 000.0	-1.7	1 538.5
Sold	4 161.5	1 000.0	1.2	3 700.0
Interest rate swap agreements	2 864.4	0.0	30.8	666.4
Currency derivatives				
Forward agreements	8 138.5	4 652.7	-10.3	7 937.8
Options				
Purchased	5 160.7	3 442.2	-65.7	4 655.9
Sold	6 811.2	3 442.2	33.1	7 930.1
Currency swap agreements	0.0	0.0	0.0	0.0
Equity derivatives				
Options				
Purchased	100.5	0.0	-1.7	121.3

With reference to the syndicated loan raised by Metsä-Rauma, the company's shareholders have undertaken, in accordance with the loan terms and conditions, to see that certain conditions relating to equity ratio etc. are fulfilled, each in an amount proportional to its shareholding, however not exceeding FIM 500 million.

The Metsäliitto Group owns 48.41% of Metsä-Rauma's shares. Long-term loans receivable also includes FIM 138.0 million in capital notes, pursuant to Section 5 of the Companies Act, issued by Metsä-Rauma's main shareholders in proportion to their shareholdings. The loan carries interest at 9% and matures in 15 years from 23 October 1995. The loan will be repaid in full in one or more instalments during the period 1997 to 2010.

Financial leasing agreements

	1988	1997
The values of the assets in Metsä-Serla's balance sheet		
Land	3.2	0.0
Plant and equipment	132.1	127.1
Buildings	22.5	0.0
	157.8	127.1
Liabilities from financial leasing agreements		
Short-term	13.6	8.7
Long-term	239.2	211.0
	252.8	219.7
Corresponding payments		
1998		17.1
1999	27.5	17.1
2000	27.5	17.1
2001	27.5	17.1
2002	27.5	17.1
2003	27.5	17.1
payments due in subsequent years	163.3	123.3
Total	300.8	226.0

24. Disputes

In January 1999, the bankrupt's estate representing the seller (Alte PBU) of Papierfabrik Biberist AG announced it was seeking from Metsä-Serla Corporation (and from Papierfabrik Biberist AG), through the courts, additional payment on the grounds that the agreed purchase price is too low.

Shares and investments at 31 December 1998

	Number of shares	Percentage holdings	Indirect ownership	Nominal value in thousands	Book value FIM 1,000
Subsidiaries					
Biowatti Oy	72 000	90.0	94.5	3 600	3 600
Finnforest Oy	27 000 000	90.0	93.9	270 000	270 000
Itä-Suomen Puutoimitus Oy	650	100.0		325	2 743
Kiinteistö Oy Metsätapiola	36 528	59.9		3 653	63 309
Oy Metsä-Botnia Ab	468	0.7	21.3	4 680	8 751
Metsä Group Financial Services Oy	24 500	49.0	69.1	24 500	29 397
Metsämannut Oy	60	60.0	73.9	60	60
Metsä-Serla Corporation	54 650 535	*) 64.1 ⁽¹⁾		546 505	1 412 115
Oy Metsäliitto International Ltd	5 000	100.0		5 000	5 000
Metsäliitto SW Ltd	25 000	100.0		25 000	25 000
Metsäliitto-Yhtymän Tehdasmittaus Oy	100	25.0	83.3	100	100
Oy Metsä Timber Ltd	6 000 000	100.0		300 000	373 367
Metsä Tissue Corporation	161 100	0.2	21.6	1 611	6 263
MMM Logisware Oy	1 500	33.3	46.4	1 500	2 267
Puukonttori Oy	10	100.0		1	1
Total shares in subsidiaries (Parent)					2 201 973

¹⁾ Calculated from number of votes.

¹⁾ Holding 39.3 % by number of shares.

Other shares and investments

	Number of shares	Percentage holding	Indirect ownership	Nominal value in thousands	Book values, FIM 1,000	
					Parent	Group
Associated companies						
Oy Herttovuo Ltd	255	33.8		25	25	25
Oy Metsä-Rauma Ab	1 981 440	20.6	31.5	99 072	99 072	116 578
Metsäteho Oy	40	24.0		200	400	654
Mittaportti Oy	1 000	33.3		50	50	50
Suomen Metsäsijoitus Oy	7 500	25.0		7 500	7 500	6 495
Vaakamitta Oy	50	50.0		50	50	48
					107 097	123 850
Other investments						
Devecap Oy	27 000	11.7		27	200	200
Golfsarfvik Oy	2			50	273	273
Neomarkka Oyj	1 205 305	19.9		60 265	64 323	64 323
Merita Oyj	151 895			1 519	3 070	3 070
Misawa Homes of Finland Oy	400	2.1		400	400	400
Rauma Oyj	6 317			63	680	680
UPM-Kymmene Corp.	273 672	0.2		2 737	22 714	22 714
Uittokalusto Oy	48	13.7		48	1 671	1 671
YIT-Yhtymä Oyj	257 600	1.1		2 576	8 453	8 453
Housing and property companies					8 404	8 404
Telephone shares					1 082	1 082
Other investments					248	248
					111 518	111 518
Other (unconsolidated subsidiaries)						63 207
Total other investments (Parent)					218 615	298 575

Shares and investments of sub-groups

	Number of shares	Percentage holding		Nominal value in thousand	Book values, FIM 1,000 Company	Group
Metsä-Serla Corporation						
Subsidiaries						
Amerpap Oy	5 600	100.0		28 000	28 000	
Oy Hangö Stevedoring Ab	113	75.3		565	16 053	
Oy Metsä-Botnia Ab	10 083	14.9 ⁽¹⁾		100 830	260 893	
Metsä Group Financial Services Oy	25 500	51.0		25 500	30 600	
Metsä Tissue Corporation	16 075 000	56.9		170 750	384 628	
Metsä-Sellu Oy	36 600	100.0		366 000	865 367	
Metsä-Serla Sales Oy	8 997	90.0 ⁽²⁾		900	19 189	
Neopac Oy	22 000	100.0		11 000	33 519	
Savon Sellu Oy	200 010	100.0		20 001	70 001	
Takon Kotelotehdas Oy	330 101	100.0		33 010	37 769	
Other companies, total				6 177	2 710	
Housing and property companies, total					12 588	
AB Medienos Plausas	2 644 258	99.0	LTL	26 443	61 137	
A/S Neopac Elksen	5 000	100.0	EEK	5 000	1 886	
A/S Rõngasill	3	100.0	EEK	10 000	3 748	
Carl Jonsson Papper A/S	7 800	100.0	NOK	1 950	5 197	
Grafiskt Papper Norden AB	11 000	100.0	SEK	957	1 917	
Forest House B.V.	400	100.0	NLG	40	84	
Metsä-Serla A.G.	188	100.0	CHF	94	141	
Metsä-Serla NL Holding B.V.	5 350	100.0	NLG	4 650	25 362	
Metsä-Serla Holding GmbH		100.0	DEM	50	196 955	
Metsä-Serla Papper A/S	50	100.0	NOK	50	32	
Metsä-Serla PLC	14 750 000	100.0	GBP	14 750	170 008	
Neopac A/S	189 000	100.0	DKK	18 900	66 558	
OAo Komsomolets	290 013	92.2	MRUR	26 101	33 320	
Price & Pierce Holdings B.V.	28	70.0	NLG	28	21 019	
Silva International Paper Holdings B.V.	670	67.0	NLG	670	56 957	
Metsä-Serla Corporation total ¹ 52.3 % ² 100 %						
Associated companies						
Kemi Shipping Oy	140 000	50.0		1 400	4 263	4 263
Oy Metsä-Rauma Ab	2 665 920	27.8		133 296	157 041	157 041
MMM Logisware Oy	1 500	33.3		1 500	3 637	0
Myllykoski Paper Oy	105 000	35.0		105 000	664 712	664 712
Paperinkeräys Oy	18 186	20.2		182	8 478	8 478
Plastiroll Oy	39	39.0		39	11 549	11 549
Oy Transfennica Ab	27 306	29.8		3 211	6 035	6 035
Other					8 940	8 469
Housing and property companies						2 220
Fin-Trans A/S	267	24.1	DKK	134	1 219	1 219
Ultimatic Systems GmbH	70	46.7	CHF	70	9 165	9 165
Varant N.V.	8 896	26.6	BEF	8 896	7 293	7 293
Varma Services Ltd	2 980	28.3	GBP	3	3 024	3 024
Warico GmbH	596	28.3	DEM	149	5 912	5 912
Other investments						
Biowatti Oy	6 400	6.6		320	320	
Finnforest Oy	2 460 000	10.0		24 600	30 000	
Metsäliitto Osuuskunta	179 171			3 583	3 608	
MSC Metsa Speciality Chemicals Oy	600 000	19.2		18 000	60 000	60 000
Pohjolan Voima Oy	1 554 906	5.0		15 549	182 122	182 122
UPM-Kymmene Corporation	399 176			3 992	50 885	50 885
Other telephone shares					1 567	1 567
Housing and property companies					26 346	26 346
Other companies, total					49 673	49 673
Unconsolidated housing and property companies					12 588	12 588
Total Metsä-Serla Corporation investments						1 272 561

Shares and investments of sub-groups

	Number of shares	Percentage holding		Nominal value in thousands	Book values, FIM 1,000	
					Company	Group
Finnforest / Subsidiaries						
Metsikko Oy	3 000	100.0		3 000	3 230	
Foriela Oy		100.0		10 000	29 972	
Gottfried Lauprecht Holzwerkstoffe GmbH		100.0	DEM	5 000	53 196	
- Interpan Central Europe GmbH		100.0	DEM	50	152	
- Teukros GmbH		100.0	DEM	50	152	
Interpan Ltd	43 200 000	100.0	GBP	43 200	314 728	
- Interpan UK Ltd	30 000 000	100.0	GBP	30 000	252 840	
- Bligh Boards Ltd	1 000 000	100.0	GBP	1 000	69 110	
- Interpan Services Ltd	50 000	100.0	GBP	50	421	
McCausey Wood Products. Inc.	500 000	100.0	USD	500	1 879	
Omniplex N.V.		100.0	BEF	142 544	26 934	
- Omniplex S.A.	11 665	77.8	FRF	1 167	1 058	
Plyfa Holding AB	2 400	93.0	SEK	2 400	8 904	
- Plyfa Handel Sverige AB	30 000	100.0	SEK	3 000	9 463	
- Plyfa Fastigheter AB	1 000	100.0	SEK	1 000	3 134	
- Finnforest Norge A/S	150	100.0	NOK	150	90	
- Göteborgs Trä och Faner Sverige AB	50 000	100.0	SEK	5 000	15 668	
- Göteborgs Trä och Faner AB	2 500	100.0	SEK	250	15 668	
- Plyfa Handel AB	1 200	100.0	SEK	1 200	9 401	
- Kristian Staerk A/S	5 000	100.0	DKK	500	1 692	
Finnforest U.K. Ltd	100	100.0	GBP	115		
Finnforest Holland B.V.		100.0	NLG	40	107	
Finnforest GmbH		100.0	DEM	100	899	
Interpan North-America Inc.		100.0	USD	100	543	
Rambert S.A.	18 000	100.0	FRF	2 250	15 791	
Associated companies						
Fanerintressenter i Hassela AB	450	45.0	SEK	450	313	313
Kumpuniemen Voima Oy	21	33.3		1 050	1 050	1 050
Metsäliitto Iberica SL		50.0		9	9	9
Metsäliitto-Yhtymän Tehdasmittaus Oy	100	25.0		100	100	0
Profireo Oy	50	50.0		25	26	26
Other investments						
Biowatti Oy	1 600	2.0		80	80	0
L.A.Lund A/S	250	5.0	NOK	250	3 452	3 452
Sato-Yhtymä Oy	17 906			5 071	5 071	5 071
Other investments, total					828	828
Total Finnforest Group investments						10 749
Metsä Timber / Subsidiaries						
Oy Botnia Wood Ab		100.0		83 526	166 622	
Metsä Tapio Oy	230	100.0		230	35 670	
Saha-Tapio Oy	1	100.0			17	
Soinlahden Saha Oy	15 000	100.0		7 650	49 707	
Metsä Timber France S.A.	2 494	100.0	FRF	249	457	
Metsä Timber Danmark A/S	2 000	100.0	DKK	2 000	586	
Metsä Timber (UK) Ltd	1	100.0	GBP	0	1	
Metsä Timber GmbH	100	100.0	DEM	100	298	
Metsä Timber Eesti AS	500	100.0	EKK	2 500	927	
Woodward & Dickerson			USD	1 000	5 064	
Associated companies						
Metsäliitto Iberica S.L.		50.0	ESP	250	9	9
Profireo Oy	50	50.0			26	26
Metsäliitto-Yhtymän Tehdasmittaus Oy	100	25.0		100	0	0
Koski Timber Oy		49.0		9 800	8 196	8 196
Porin Pituuspaketointi Oy	1 000	29.6		1 109	996	996
Other investments, total						2 668
Total Metsä Timber Group investments						11 895
Investments of other subsidiaries						
Liettu Oy	50	100.0		1	50	50
Metsäwatti Oy	50	100.0		50	50	50
Metsäliitto UK Ltd	8 000 000	100.0	GBP	8 000	73 016	
Burt Boulton & Haywood Ltd	500 000	100.0	GBP	500	24 795	
AS Metsind	25 000	100.0	EEK	2 500	2 055	
Metsä Holz GmbH		100.0	DEM	800	2 512	
SIA Metsameistri		100.0	USD	50	236	
UAB Metsamaster		100.0	LTL	10	12	
AS Metsaomanik	800	73.7	EEK	400	151	
Other investments					1 257	814
Investments of other subsidiaries total						914
Total Metsäliitto Group investments						1 594 694

Proposal for the distribution of the surplus

Metsäliitto Osuuskunta

At the disposal of the Representative Council

surplus for the period		208 395 955.14
retained surplus from previous years,		877 792 765.19
total	FIM	<u>1 086 188 720.33</u>

The Board of Directors proposes,
under Section 11, Section 1,
a transfer to general reserve II of
in additional

10 419 797.76	
<u>202.24</u>	10 420 000.00

a dividend of 6.0 % be distributed
on paid-in members' capital and
on paid-in additional members' capital
to be retained on the surplus and deficit account
total

35 780 799.06	
<u>66 774 329.58</u>	102 555 128.64
	<u>973 213 591.69</u>
	FIM <u>1 086 188 720.33</u>

If the Representative Council approves the above proposal,
the members' funds will be

Restricted

Members' capital	619 259 268.81
Additional members' capital	1 151 408 760.00
General reserve I	23 427 607.08
General reserve II	<u>89 388 000.00</u>
	1 883 483 635.89

Unrestricted

Contingency reserve	39 765 127.33
Surplus and deficit account	<u>973 213 591.69</u>
	1 012 978 719.02

Total members' funds

FIM	<u>2 896 462 354.91</u>
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Espoo, 9 March 1999

Arimo Uusitalo

Antti Oksanen
President, CEO

Carl G. Björnberg

Timo Haapanen

Pentti Jormanainen

Tapani Kantola

Kullervo Karjalainen

Seppo T. Niemi

Statement by the Supervisory Board

The Supervisory Board has examined the financial statements of Metsäliitto Osuuskunta and the consolidated financial statements for 1998, and has approved them for submission to the Auditors and to the Annual General Meeting. The Supervisory Board recommends that the surplus for the period be dealt with as proposed by the Board of Directors.

The terms of the following members are due to expire: Heikki Asunmaa, Leo Autio, Matti Jaakkola, Lauri Kananen, Runar Lillandt, Juhani Ollila, Tauno Pirttijärvi, Anna-Liisa Pyynönen, Axel Westersträhle and Ilkka Yliluoma.

Espoo, 9 March 1999

On behalf of the Supervisory Board

Runar Lillandt
Chairman

Pertti Vuopala
Secretary

Report of the Auditors

To the Annual General Meeting of Metsäliitto Osuuskunta

We have examined the accounting records and the financial statements, as well as the corporate governance of Metsäliitto Osuuskunta for the year ended 31 December 1998. The financial statements prepared by the Board of Directors and the President and CEO include the report of the Board of Directors, consolidated and parent company profit and loss accounts and balance sheets, together with notes to the accounts. On the basis of our audit we submit the following statement on the financial statements and corporate governance.

We have conducted our audit in accordance with Finnish Auditing Standards. Those standards require that we plan and perform the audit in order to obtain reasonable assurance about whether the financial statements are substantially correctly prepared. The scope of our audit of corporate governance has been to obtain assurance that the members of the Supervisory Board and Board of Directors and the President and CEO have complied with the rules of the Finnish legislation.

In our opinion, the financial statements have been prepared in accordance with the Accounting Act and other rules and regulations governing the preparation of financial statements. The financial statements give a true and fair view, as defined in the Accounting Act, of both the consolidated and parent company result of operations, as well as of the financial position. The financial statements for the group and the parent company can be adopted and the members of the Supervisory Board and Board of Directors and the President and CEO can be discharged from liability for the period audited by us. The proposal by the Board of Directors for the distribution of the surplus equity is in compliance with applicable law.

Espoo, 11 March 1999

SVH Pricewaterhouse Coopers Oy
Authorised Public Accountants

Ilkka Haarlaa
Authorised Public Accountant

Göran Lindell
Authorised Public Accountant

Economic and Monetary Union (EMU) in Europe is being implemented in three stages. Since the first stage began in 1990, member states have been preparing for monetary union by harmonizing their economic policies. During the second stage, which began in 1994, member states widened their co-operation in economic and monetary policy in order to secure the stability of the single currency to be introduced at the start of stage three. This began in January 1999, and those states admitted to EMU are now gradually introducing the single currency. It was agreed in 1995 that the new currency would be called the euro.

The purpose of the single currency is to facilitate trading within the European Union. It is expected that the single currency will make it easier to keep inflation in check, interest rates low and the currency itself stable. At the same time the costs and risks associated with currency dealings will disappear. Of the 15 EU member states, the UK, Greece, Sweden and Denmark are at present outside EMU. Finland is thus the only Nordic country represented in EMU.

The fact that the euro will replace the national currencies of several European countries means it is likely to become a world currency on a par with the US dollar and the Japanese yen. The euro area has a population of 290 million and a gross national product of 5,600 billion euros.

By comparison, the United States has 260 million people and a GNP of around 6,300 billion euros.

The euro made a successful appearance on foreign exchange markets on 4 January 1999. Interest in the new currency by international investors caused money to flow from the United States and Japan into the euro countries. Once doubts about the new single currency had dispersed, the Japanese yen found itself relegated to number three in the list of world currencies.

The conversion rate for the euro was fixed irrevocably on 1 January 1999 at 5.94573 Finnish markka.

The euro is divided into 100 cents, which means one cent is equivalent to about six penni.

The euro will be introduced gradually over the next three years and will be used only for non-cash transactions alongside existing national currencies. Hard currency in the form of notes and coins will not be introduced until 1 January 2002. This will be followed by a six-month transition period, and on 1 July 2002 the euro will become Finland's only official currency.

The basic rule during the transition period is that there should be no barriers or compulsion to introduce the euro. Private persons, companies and other organizations are free to decide, during these three years, when they wish to introduce the euro alongside their national currency.

Most businesses in Finland will change over to using the euro in 1999. The Metsäliitto Group will adopt the euro for its bookkeeping in stages. It is planned that Metsä-Serla, Finnforest and Metsä Timber will be using the euro as of 1 January 2000. Metsä-Botnia began using the euro in its bookkeeping on 1 January 1999, but Metsäliitto Osuuskunta will not change over until 1 January 2002. In transactions involving money, either the euro or some other currency will be used, depending on the customer's wishes. Group salaries will continue to be paid in local currency until euros are available in cash, i.e. until the year 2002.

The euro is more than just a new unit of currency: it will also have widespread effects on the entire Group's activities. Persuading people to "think euro" in marketing, purchasing, financial and personnel administration, financing, legal matters, etc. requires that people be properly informed and offered the necessary training throughout the transition period.

The Group's financial information will be published largely in euros from 1999 onwards.

PROFIT AND LOSS ACCOUNT mill. euro	METSÄLIITTO GROUP				METSÄLIITTO OSUUSKUNTA			
	1998	%	1997	%	1998	%	1997	%
Turnover	4 794.9	100.0	4 385.4	100.0	1 038.5	100.0	916.6	100.0
Share of profit from associates	8.8		7.9					
Other operating income	37.9		60.9		3.1		3.5	
Operating expenses	-4 095.4		-3 750.7		-1 015.6		-888.6	
Depreciation	-272.2		-251.2		-2.9		-2.6	
Operating profit	473.9	9.9	452.4	10.3	23.1	2.2	28.8	3.1
Net exchange gains/losses	12.8		-65.8		0.1		0.1	
Other financial income and expenses	-112.2		-120.5		31.3		19.5	
Profit before extraordinary items	374.5	7.8	266.1	6.1	54.5	5.2	48.4	5.3
Extraordinary income	19.6		159.8		4.0		20.1	
Extraordinary expenses	-2.9		-1.4		-9.6		-6.8	
Profit before tax and minority interest	391.2	8.2	424.5	9.7	48.9	4.7	61.7	6.7
Change in reserves					-0.2		12.6	
Taxation	-120.3		-118.8		-13.7		-21.0	
Minority interest	-148.2		-171.1					
Profit/surplus for the financial period	122.7	2.6	134.6	3.1	35.1	3.4	53.4	5.8
BALANCE SHEET mill. euro	METSÄLIITTO GROUP				METSÄLIITTO OSUUSKUNTA			
	1998	%	1997	%	1998	%	1997	%
Assets								
Fixed assets	3 472.1	62.5	3 259.3	60.4	533.3	60.7	441.4	63.3
Current assets								
Inventories	666.7	12.0	613.4	11.4	93.4	10.6	90.8	13.0
Other current assets	870.9	15.7	716.5	13.3	115.7	13.2	97.9	14.0
Liquid funds	542.2	9.8	803.3	14.9	136.7	15.5	67.2	9.7
Total	5 551.9	100.0	5 392.4	100.0	879.1	100.0	697.3	100.0
Members' funds and liabilities								
Members' capital and other members' funds	1 101.5	19.8	955.0	17.7	507.3	57.7	442.6	63.5
Minority interest	1 266.1	22.8	1 263.1	23.4				
Provisions for liabilities and charges	60.4	1.1	59.4	1.1	2.3	0.3	3.8	0.5
Liabilities								
Long-term	1 976.4		1 949.1		112.7		42.0	
Short-term	1 147.5		1 165.9		256.8		208.9	
Total	3 123.9	56.3	3 115.0	57.8	369.5	42.0	250.9	36.0
Total	5 551.9	100.0	5 392.4	100.0	879.1	100.0	697.3	100.0

Metsäliitto Group

mill. euro	1998	%	1997	%	1996	%	1995	%	1994	%
Turnover	4 795	100.0	4 386	100.0	3 403	100.0	3 003	100.0	2 427	100.0
– change, %	9.3		28.9		13.3		23.8		8.2	
Exports from Finland	2 255		2 125		1 702		1 600		1 276	
Exports and foreign subsidiaries	3 855		3 522		2 798		2 250		1 809	
Operating profit	474	9.9	452	10.3	191	5.6	469	15.6	283	11.6
Profit before extraordinary items	375	7.8	266	6.1	82	2.4	372	12.4	190	7.8
Profit before tax and minority interest	391	8.2	425	9.7	144	4.2	369	12.3	189	7.8
Fixed assets	3 472	62.5	3 259	60.4	2 939	68.6	2 562	70.1	2 208	65.6
Current assets										
Inventories	667	12.0	613	11.4	522	12.2	494	13.5	346	10.3
Other current assets	871	15.7	716	13.3	538	12.5	444	12.2	375	11.1
Liquid funds	542	9.8	803	14.9	287	6.7	153	4.2	437	13.0
Total	5 552	100.0	5 392	100.0	4 286	100.0	3 653	100.0	3 366	100.0
Members' funds	879	15.8	732	13.6	480	11.2	449	12.3	298	8.8
Convertible subordinated capital notes	223	4.0	223	4.1						
Minority interest	1 266	22.8	1 263	23.4	1 064	24.8	1 016	27.8	831	24.7
Provisions for liabilities and charges	60	1.1	59	1.1	40	0.9	20	0.5	3	0.1
Liabilities	3 124	56.3	3 115	57.8	2 703	63.1	2 168	59.4	2 235	66.4
Total	5 552	100.0	5 392	100.0	4 286	100.0	3 653	100.0	3 366	100.0
Net assets, average MFIM	4 378		3 864		3 167		2 861		2 814	
Return on net assets, %	11.9		12.9		7.0		17.5		11.1	
Equity, average MFIM ¹⁾	2 070		1 769		1 504		1 297		1 062	
Return on equity, %	12.5		10.8		3.6		22.3		13.8	
Equity ratio, %	42.8		41.3		36.5		41.1		34.2	
Equity ratio, % ¹⁾	38.8		37.1							
Gearing ratio, %	64		59		102		89		109	
Gearing ratio, % ¹⁾	81		76							
Interest-bearing liabilities	2 065		2 105		1 861		1 464		1 665	
Interest-bearing financial assets	576		855		334		228		520	
Interest-bearing net liabilities	1 489		1 250		1 527		1 236		1 145	
as % of turnover	31.0		28.5		44.9		41.1		47.2	
Cash flow from operations	594		557		305		432		289	
Capital investments	577		613		838		527		175	
as % of turnover	12.0		14.0		24.6		17.5		7.2	
R&D -expenditure	16		15		16		16		14	
Personnel, at end of year	19 927		18 717		16 455		15 403		13 158	
Personnel, average	19 346		18 100		16 586		14 204		13 331	
– of whom in Finland	11 567		11 537		10 967		10 682		10 371	

¹⁾ The convertible subordinated capital notes added to liabilities.

Calculation of key ratios is presented on page 63.

Metsäliitto Osuuskunta

mill. euro	1998	%	1997	%	1996	%	1995	%	1994	%
Turnover	1 039	100.0	917	100.0	703	100.0	682	100.0	590	100.0
– change, %	13.3		30.5		3.0		15.6		15.0	
Operating profit	23	2.2	29	3.1	21	2.0	21	3.0	21	3.5
Profit before extraordinary items	54	5.2	48	5.3	38	5.4	34	4.9	26	4.3
Profit before appropriations and taxes	49	4.7	62	6.7	16	2.3	52	7.7	33	5.7
Fixed assets	533	60.7	441	63.3	314	54.6	293	58.1	222	57.7
Current assets										
Inventories	93	10.6	91	13.0	81	14.1	80	15.9	68	17.7
Other current assets	116	13.2	98	14.1	38	6.5	57	11.4	45	11.8
Liquid funds	137	15.5	67	9.6	142	24.8	73	14.6	49	12.8
Total	879	100.0	697	100.0	575	100.0	504	100.0	385	100.0
Members' capital and other members' funds	507	57.7	443	63.5	342	59.5	297	59.0	210	54.5
Provisions for liabilities and charges	2	0.3	4	0.5	1	0.1	0	0.0	0	0.0
Liabilities	370	42.0	251	36.0	232	40.4	207	41.0	175	45.5
Total	879	100.0	697	100.0	575	100.0	504	100.0	385	100.0
Dividends distributed, mill. euro	17.2		14.5		11.4		8.8		6.6	
Interest rate paid, % *)	6.0		6.5		7.0		8.0		10.0	
Return on net assets, %	12.9		12.0		11.5		12.8		12.9	
Return on equity, %	8.3		8.4		6.6		9.6		9.9	
Equity ratio, %	66.2		73.7		70.9		71.9		62.4	
Gearing ratio, %	-5		-4		-25		-9		1	
Interest-bearing liabilities	113		49		56		47		51	
Interest-bearing financial assets	312		240		177		133		67	
Interest-bearing net liabilities	-199		-191		-121		-85		-17	
Capital investments	98		43		30		90		14	
Members	122 582		119 787		117 783		116 665		116 271	
Personnel, average	892		931		938		1 049		1 152	

*) Board's proposal

Calculation of key figures

Return on net assets (%)	=	$\frac{\text{Operating profit} + \text{financial income}}{\text{Total assets} - \text{non-interest bearing liabilities (average)}}$
Return on equity (%)	=	$\frac{\text{Profit before extraordinary items} - \text{taxes}}{\text{Members' funds total} + \text{minority interest (average)}}$
Equity ratio (%)	=	$\frac{\text{Members' funds total} + \text{minority interest}}{\text{Balance sheet total} - \text{advance payments received}}$
Gearing ratio (%)	=	$\frac{\text{Interest-bearing liabilities} - \text{liquid funds}}{\text{Members' funds total} + \text{minority interest}}$
Interest-bearing net liabilities	=	Interest-bearing liabilities – Interest-bearing financial assets
Cash flow from operations	=	Cash flow from operations in the Cash flow statements

The wood raw material processed by the Metsäliitto Group is obtained from well-managed Finnish forests.

Products derived from wood are environment-friendly in many respects throughout their life cycles. This applies just as much to the carbon balance in the atmosphere, energy and recycling as it does to the type of waste produced once the product has reached the end of its life cycle. Metsäliitto's products and industrial operations are thus built on environmentally sound foundations. Nevertheless, large-scale industrial activity always has some negative environmental impact. Metsäliitto's new environmental policy sets out the principles to be observed throughout the Group.

Wood procurement

Metsäliitto does not purchase wood from conservation areas or areas being considered for conservation. All environmental and other factors that could affect harvesting are carefully considered before a purchase is made. The origins of all wood purchased by Metsäliitto can be traced from the number shown on the purchasing contract. Every three months, production plants receive a statement of the origins of all wood supplied to them.

Metsäliitto Osuuskunta's quality and environmental management systems for wood procurement are certified under standards ISO 9002 and 14001. Metsämannut Oy, which is responsible for Metsäliitto's own forests, has corresponding certificates for its quality and environmental systems relating to forest management. The underlying concept is to continuously improve the standard of environmental management. Specific goals include promoting forest biodiversity, and maintaining and improving the environmental awareness of the Group's own

Metsäliitto Group environmental policy

Within the Metsäliitto Group, environmental issues are a vital part of business operations, as only a company that manages its environmental affairs in a sustainable way can succeed in the long term.

As well as meeting all our obligations, we seek continuously to improve our performance and to reduce the environmental impact of our operations throughout the entire life cycles of our products.

Wood is the Metsäliitto Group's most important raw material. In our wood procurement we take responsibility for ensuring that economic, social and environmental aspects are properly considered both in forest management and in wood harvesting and procurement. In this way we can develop our operations in accordance with the principle of sustainable development.

This environmental policy statement was approved in March 1998 by the Metsäliitto Group's Board of Directors, which makes an annual appraisal of the need to revise the policy. In practice, the environmental policy is implemented by Metsäliitto Osuuskunta, its subsidiaries and associated companies.

personnel, its subcontractors and members. An environment programme detailing concrete measures for development is produced annually.

A key biotope register based on digital mapping was introduced in 1998, allowing greater consideration to be given to sensitive sites during wood harvesting. The register will be expanded in the future. Issues

singled out for action in individual procurement areas and districts in 1998 were preventing the spread of root rot, wood harvesting in populated areas, consideration for landscape features in proximity with shorelines, and planning harvesting so as to avoid nesting sites used by flying squirrels.

Certification of family forestry

The Metsäliitto Group has played an active role in devising a forest certification system based on internationally accepted principles and suitable for Finland's system of family forestry. The work, which has taken several years, was virtually complete by the end of 1998, allowing forest certification to begin in 1999.

The system, which consists of eight standards, provides certification for sustainable forest management and for "chain of custody" procedures for tracing products from source. The standards also set out models for group certification and stipulate the competences required of certification bodies. The system does not have its own environmental label for products but rather forms a module that can be included in international labelling and certification.

Carbon dioxide

At the United Nations conference in Kyoto in December 1997, the European Union undertook to reduce carbon dioxide emissions by 8%. As part of the EU commitment, it was agreed that Finland would seek to cut emissions back to 1990 levels. How these decisions are to be enforced within the framework of the law remains to be seen. However, Metsäliitto has already begun to study the implications of the Kyoto protocol and to make the necessary preparations.

As a raw material and energy source, wood itself has no effect on the carbon dioxide balance. A growing tree removes carbon dioxide from the atmosphere via photosynthesis. When the wood eventually decays or is burned, a corresponding amount of carbon dioxide is returned to the atmosphere. According to calculations, Finland's forests are a "carbon sink", since their growth exceeds utilization and decay. In the case of timber products, carbon is bound up for a considerable length of time, whereas the carbon in pulp, paper and board is bound up for a comparatively short time. The Kyoto protocol recognizes the neutral impact of wood when used as a fuel but pays scant regard to its role as a carbon sink. Political pronouncements do not always correspond with the way nature works.

Most of the sawdust, bark and other wood by-products from Metsäliitto's mills that cannot be used as raw material for production is burned to provide energy. Metsäliitto has done much to promote the production, marketing and related logistics for these biofuels, including the collection of logging waste. This work is handled by Biowatti, which markets wood by-products and logging waste, not just for energy production but also for other uses such as landscaping, composting and animal litter.

Metsä-Serla is the Group's biggest energy consumer, and wherever possible seeks to favour bioenergy. In 1998, almost 45% of the energy consumed by Metsä-Serla was derived from wood. Thanks to a restructuring of energy sources, carbon dioxide emissions from Metsä-Serla's Finnish mills in 1998 were about the same as in 1990. Besides biofuels, Metsä-Serla makes considerable use of natural gas, which results in the lowest carbon dioxide emissions of any of the fossil fuels.

Pulp, paper and board production

Metsä-Serla's products are largely those which, in one way or another, reduce the volumes of waste arising during their life cycles. The company's mills turn out high-quality products that fulfil their purpose perfectly, thus reducing waste and providing customers with excellent value for money.

The main targets set for environmental protection at the Group's pulp, paper and board mills in 1998 were to increase water cycle closure, reduce water consumption, cut volumes of solid waste, and improve waste utilization. In accordance with Metsä-Serla's environmental policy, special attention was given to efficient utilization of resources in production processes. Significant improvements in areas such as coating pigment recovery and recycling were made at several mills during the year.

Wastes and by-products that cannot be recycled to the process are used for other purposes such as soil improvement or energy production. In this way, Metsä-Serla is preparing for the rise in waste disposal costs that seems likely within the next few years.

New environmental management systems were introduced at two mills during the year: Kaskinen pulp mill's ISO 14001 system was certified in June and Äänekoski art paper mill's ISO 14001 system in December. Detailed information on environmental management systems, either certified or being prepared for certification, are given in Metsä-Serla's environmental report.

Modernization of the chemicals recovery system at Joutseno pulp mill in October has made the mill self-sufficient in energy and at the same time greatly reduced its emissions. So much energy is now produced from wood that some can be sold to the national grid, thus replacing power generated from

fossil fuels. The mill also supplies bark as fuel to Simpele paper and board mill, allowing the mill to burn less peat. As a result of this FIM 900 million investment, biofuels now provide a much higher proportion of the Metsäliitto Group's total energy requirement.

Mechanical wood processing

Modernizations and investments in production at Finnforest's Finnish plants have considerably reduced both noise and dust emissions. The technology employed on the new production line at Lohja Kerto LVL mill has helped reduce unit consumption of both wood and energy. Investments have been made at Suolahti plywood mill to raise the efficiency of heat generation and utilization of waste heat. The heat needed is generated by burning bark, dust, sawdust and dry chips from the mill, so that no fossil fuels are used. An investment in biological treatment for water from the log pond at Punkaharju plywood mill has all but eliminated solid discharges to the receiving water.

Metsä Timber has continued to invest in making its production plants more efficient. At the same time, new technology has reduced both noise and dust emissions. The new bark-fired boiler at Merikarvia means that bark can now be used more efficiently.

An environmental management system is being set up for Metsäliitto SW's Kolho unit. The aim is to improve process management and raise the environmental awareness of the unit's employees. Certification will be sought for the new system.

Environmental reports

The Metsäliitto Group will issue three environmental reports this year: for Metsä-Serla, Metsä-Botnia and the Group's mechanical wood processing operations.

MEMBERSHIP AND MEMBERS

Membership of Metsäliitto Osuuskunta's Board of Directors is open to all private persons and corporations owning at least three hectares of productive forest in Finland.

At the end of 1998, Metsäliitto had 122,582 members. Together they own 4.94 million hectares of forest, which is almost half of all private forest in Finland.

REPRESENTATIVE COUNCIL

Every four years, Metsäliitto's members elect from among their number a Representative Council. The representative Council holds one yearly General Meeting, at which each representative has one vote.

The General Meeting deals with the following matters:

- adoption of the final accounts and disposal of the trading surplus;
- granting freedom from responsibility to the Board of Directors and Supervisory Board;
- deciding the remunerations to be paid to the Chairman and members of the Supervisory Board and the auditors;
- election of the members of the Supervisory Board and the auditors.

The Representative Council currently has 68 members. A list of members appears on page 68.

SUPERVISORY BOARD

The Supervisory Board comprises at least 20 and at most 30 persons elected from among Metsäliitto's members by the Representative Council. In addition to this, Metsäliitto employees may elect up to five members and the Representative Council up to three consultant members.

It is the duty of the Supervisory Board to ensure that Metsäliitto is run in accordance with the by-laws and decisions made, and to see that the decisions of the Representative Council are put into effect.

The duties of the Supervisory Board also include:

- election of the members of the Board of Directors and determination of their salaries and other remunerations;
- election of the President & CEO of the parent company and the Group
- approval of proposals to expand Metsäliitto's sphere of operations and the launching of new business enterprises;
- examination of the Annual Report and final accounts submitted by the Board of Directors, and submission of a statement thereon to the Representative Council.

Members of the Supervisory Board are elected for a term of three years. Notwithstanding, the term of office ends at the end of the calendar year in which a member reaches the age of 62. The Supervisory Board currently has 30 forest owner members and four employee representatives. During 1998 the Supervisory Board met 5 times. The members of the Supervisory Board are shown in page 69.

BOARD OF DIRECTORS

The Board of Directors comprises between five and eight members together with the President & CEO. The term of office of a member of the Board of Directors is three years, but ends at the end of the year in which the member reaches the age of 62.

The Board of Directors is responsible for general business management and also for:

- deciding on the admission of members to Metsäliitto;
- hiring and dismissing the directors immediately subordinate to the President & CEO;
- approving the purchasing, relinquishing and mortgaging against debt of real estate;
- deciding the terms and conditions of additional participation shares.

The Board of Directors elects from among its members a Chairman for one year at a time. The terms of one-third of the members expire annually. The members of the Board of Directors are shown on page 5.

PRESIDENT & CEO

In accordance with a decision by the Supervisory Board, Metsäliitto Osuuskunta's President & CEO Antti Oksanen has also acted as President & CEO of the Metsäliitto Group since November 1995.

In addition to what is stipulated by law, the duties of the President & CEO include:

- managing the Metsäliitto Group's business activities in accordance with the instructions of the Board of Directors;
- directing the company's planning for the future and monitoring development of the organization and efficiency of business activities;
- monitoring and taking an active part in the forest industry's development in Finland and abroad.

ORGANIZATION OF BUSINESS OPERATIONS

The Metsäliitto Group consists of the parent company Metsäliitto Osuuskunta and its subsidiaries. The parent company procures and markets its members' wood raw material, and at the same time acts as a holding company with forest industry activities in Finland. Its goal is to increase the Group's shareholder value.

The Group's pulp and paper operations are handled by Metsä-Serla Corporation and its subsidiaries Oy Metsä-Botnia Ab and Metsä Tissue Corporation. Mechanical wood processing is conducted by Oy Metsä Timber Ltd., which is engaged mainly in sawmilling, and Finnforest Oy, which manufactures and markets wood-based panels.

The subsidiaries are responsible for their own business operations. The Group's role is to supply the resources for strategic business planning, financing and capital management.

ACCOUNTS AND FINANCIAL REPORTING

Responsibility for the Group's internal and external accounting is decentralized in the business units and subsidiaries, who are responsible for producing and ensuring the correctness of their own financial information. Metsäliitto Osuuskunta's Finance Department is responsible for producing parent company and consolidated financial statements and for overseeing compliance with the Group's accounting principles.

Monthly reports are produced to monitor trends in the Group's business activities and earnings. Information on the economic situation is freely available through the Group's financial review, Annual Report and interim reports (three per year). The publication dates are shown on the inside front cover.

FINANCIAL ADMINISTRATION

Metsä Group Financial Services Ltd (Metsä Finance) acts as an internal bank for the Metsäliitto Group and handles all the Group's external financial transactions. Likewise, the Group's subsidiaries use Metsä Finance's services in the same way.

It is the job of Metsä Finance to manage financial risks, to optimize the financial net, to maintain adequate liquidity, to negotiate new financing and to handle relations with investors. Its activities are based on the financial policy approved by each of the boards of directors of the Group's subsidiaries.

Its activities are scrutinized by Metsäliitto's Board of Directors and by a Finance Committee representing the Group's top management.

The foreign currency, interest rate, liquidity and counterparty risks associated with business operations are dealt with on pages 26-27.

SALARIES AND FEES

Salaries and fees paid to the President & CEO, Vice Presidents and the members of the Supervisory Board and Board of Directors were FIM 70.2 million in 1998 (FIM 66.1 million in 1997). Personnel costs are analysed on page 42.

The Group has a Salaries Committee, whose job is to coordinate salaries, with particular reference to those paid to the directors of the Group's subsidiaries.

AUDITORS

The auditors elected by the Representative Council were Ilkka Haarlaa (Authorised Public Accountant) and SVH Pricewaterhouse Coopers Oy, with Göran Lindell (APA) responsible for the audit. The Group's internal audit is handled by two directors, one dealing with the mechanical wood processing business and the other with the pulp and paper business.

Metsäliitto's Representative Council

Every four years, Metsäliitto Osuuskunta's members elect from among their number a Representative Council by postal ballot. The Council has 68 members and is Metsäliitto Osuuskunta's highest decision-making body. The Council elects thirty members to the Supervisory Board and the employees elect four members.

Anne Ahola
Esa Alamartimo
Raimo Auvinen
John Berg
Kaarina Flén

Tuomo Haapakoski
Paavo Haapamäki
Raimo Hakkarainen
Osmo Hirvonen
Kimmo Hovila

Tellervo Hurskainen to 10.8.1998
Seppo Hynninen
Antti Isotalo
Antti Jaakkola
Erkki Jaakkola

Seppo Jokela
Jorma Juhaninmäki
Hannu Järvinen
Saini Jääskeläinen to 7.4.1998
Matti Kainulainen

Timo Kalli
Oiva Korhonen
Tapio Koskinen from 7.4.1998
Juho Kujala
Juhani Kumpusalo

Arto Lonkila
Bengt Lövsund
Pekka Markula
Matti Mikkilä
Juhani Naasko

Timo Nikula
Ralf Norrman
Jorma Nummela
Hannu Ojantakanen
Raimo Ollikainen

Timo Osara
Martti Palojärvi from 1.1.1999
Veikko Partanen
Ilkka Pekonen
Tapio Peltola

Aarno Pirilä
Marja-Liisa Pohjola
Voitto Purhonen
Tapani Purra
Jaakko Pyykönen from 10.8.1998

Anna-Liisa Pynnönen to 31.12.1998
Antti Päkkiä
Veikko Pölkki
Väinö Rekonen
Antti Ruska

Pentti Rytisalo
Erkki Saarilahti
Timo Saukkonen
Esa Silvennoinen
Peter Simberg

Heikki Sipilä
Timo Sirviö
Hannu Soikka
Mikko Taka-Sihvola
Asko Tienhaara

Seppo Tilus
Mikko Tolonen to 31.12.1998
Matti Tossavainen
Heikki Tuppi
Pekka Turtiainen

Eero Ukkola
Sauli Uusitalo
Eero Valtanen from 1.1.1999
Matti Vettenranta
Matti Ylitalo

Matti Äijö
Per Östman

Metsäliitto's Supervisory Board

It is the duty of the Supervisory Board to ensure that Metsäliitto Osuuskunta is run in accordance with the by-laws and the decisions of the Supervisory Board, and in the interests of Metsäliitto. The Supervisory Board also ensures that the decisions of the Representative Council are put into effect, and elects the Board of Directors. The members of the Supervisory Board are:

Runar Lillandt
Chairman from 14.1.1999

Eero Oittila
Chairman to 31.12.1998

Kyösti Moilanen
Vice Chairman

Juhani Ollila
Eero Pelto-Arvo
Tauno Pirttijärvi
Anna-Liisa Pyynönen from 1.1.1999
Teuvo Raivio

Heikki Asunmaa
Martti Asunta from 1.1.1999
Leo Autio
Arne Hedetniemi

Seppo Reijonen
Olav Store
Mikko Tolonen from 1.1.1999
Erkki Vainionpää
Pekka Vedenpää

Jaakko Heikkinen to 31.12.1998
Eeva-Liisa Honkanen to 7.4.1998
Aimo Hyvärinen
Matti Jaakkola
Ilkka Juusela

Axel Westersträhle
Ilkka Yliluoma

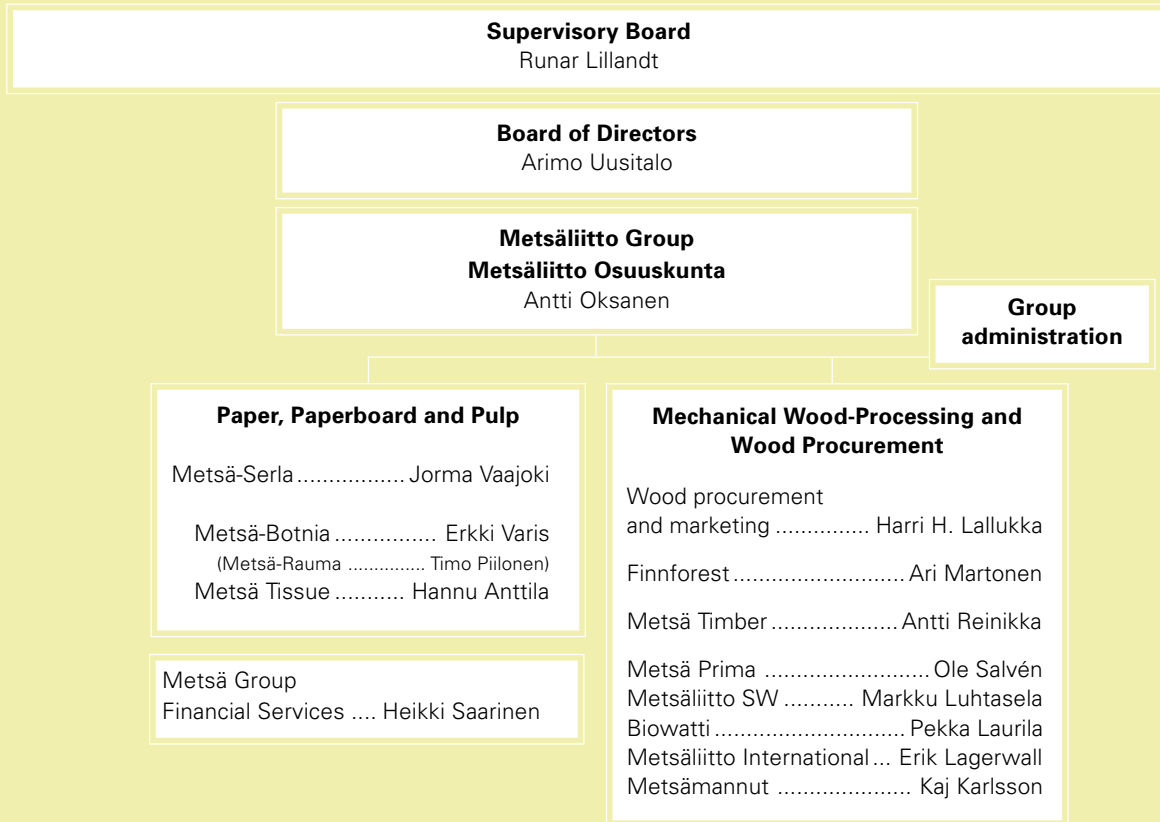
Saini Jääskeläinen from 7.4.1998
Marja Kallioniemi
Lauri Kananen
Esko Kinnunen
Unto Kotipalo

Employee representatives

Juhani Laaksonen
Olavi Lampela to 31.12.1998
Henrik Långstedt
Teuvo Mankki
Martti Niiranen

Hannu Leppäjärvi
Pertti Matilainen
Markku Melkko
Pekka Peltola

The structure of Metsäliitto Group



Metsäliitto Osuuskunta's operative organization



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VP, Group Treasurer Heikki Saarinen
Senior VP, Business Development
Jouko M. Jaakkola
Senior VP, Group Communications and
Public Affairs Pekka Kivelä
VP, Public Affairs Mikko Ohela
Information Officer Anne-Mari Achrén
Senior VP, General Counsel Pertti Vuopala
Group Legal Counsel Aapo Nikunen
Controller Henrik Ugeldahl

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Inspection Director Juhani Tevamäri
Director, Information Systems Erkki Kataja
Quality Manager Timo Frilander

Wood Procurement

Wood Procurement Director Markku Melkko
Harvesting Timo Saarentaus
Transport Juha Korhonen
Planning Juhani Lukkari
Development Mikko Kiviniemi

Administration

Administration Director Jaakko Punkari
Membership Affairs Matti Arpiainen
Materials Kai Knape
Personnel Juhani Saari
Office Marita Frost
Job Security and Real Estates Service
Matti Knuutila

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Finance Director Harri Turunen
Financial Accounting Mirja Karppinen
Financing Esko Okko
Invoicing Jouko Kallio
Information Systems Keijo Asplund

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District Supervisor Juha Hörkkö

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Wood Procurement Area

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Harvesting Tero Rautolahti
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**Central Finland
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1999 will see the 150th anniversary of the Finnish national epic, the Kalevala. The verses of the Kalevala derive their inspiration from Finnish folklore and the Finnish countryside.

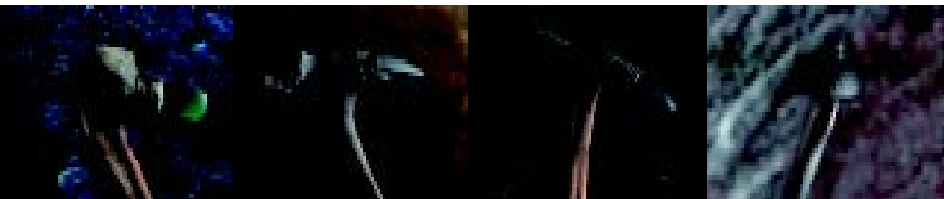
Metsäliitto's roots are also firmly planted in Finland's forests and system of family forestry. For this reason, ancient tools used in forestry and other trades from the time of the Kalevala are pictured on the pages of this Annual Report. These unique tools are the work of the goldsmith Eero Taskinen.



Metsäliitto Group Annual Report

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