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# Information for Shareholders

## ANNUAL GENERAL MEETING

The Annual General Meeting of Metsä-Serla Corporation will be held at Metsä-Serla's Head Office, Revontulentie 6, 02100 Espoo, on Thursday 18 March 1999 beginning at 10.00 a.m. Finnish time.

Shareholders wishing to take part in the Annual General Meeting and to exercise their right to vote must be registered in the list of shareholders kept by Finnish Central Securities Depository Ltd by 12 March 1999 at the latest and should announce their intention to attend the meeting before 16.30 p.m. Finnish time on 15 March 1999, either by telephoning Ms Eija Niittynen on +358 1046 94530, by sending a telefax to Ms. Eija Niittynen to +358 1046 94529 or an e-mail message to [eija.niittynen@metsaserla.fi](mailto:eija.niittynen@metsaserla.fi) or by writing to Metsä-Serla Corporation, Ms Eija Niittynen, Revontulentie 6, 02100 Espoo, Finland. Any proxies should be submitted at the time such shareholders notify the company of their intention to attend.

The Board of Directors proposes that a dividend of FIM 2.60 for the 1998 financial year be paid on 30 March 1999 to share-

holders who are entered by 23 March 1999 at the latest in the list of shareholders kept by Finnish Central Securities Depository Ltd.

## FINANCIAL INFORMATION

The financial reports are published in Finnish, Swedish, English and German. Copies can be obtained from Metsä-Serla Corporation, Corporate Communications, Revontulentie 6, 02100 Espoo, Finland, tel. +358 1046 94542, fax +358 1046 94355, or via Metsä-Serla's Internet pages, address: [www.metsaserla.com](http://www.metsaserla.com). Metsä-Serla's Environmental Report can be ordered from the same address.

Metsä-Serla publishes an English-language investor magazine Insight which comes out four times a year.

On Metsä-Serla's English-language Internet pages, material of most interest to investors can be found in the Investor Relations service. Stock exchange announcements, interim reports and financial information on these pages are updated in real time. A new feature is a company presentation that is regularly updated when financial reports are published. Information on

the Group's organization, products, sales network and environmental issues can also be found on the Internet pages. Also, Group publications can be ordered and feedback sent via the Internet.

## SHARES

The company has a total of 138,999,425 shares. Each share has a nominal value of FIM 10. Information on Metsä-Serla's shares is given on pages 72-76.

Metsä-Serla's Series A and Series B shares are quoted on the Helsinki Stock Exchange. Quotations can be found on Reuters with the following symbols: Series A MESSa.HE and Series B MESSb.HE. Metsä-Serla's Series B shares are also quoted on the London Stock Exchange and on the Bavarian Stock Exchange.

## SHARE REGISTER

Shareholders are requested to inform the book-entry register holding their book entry account of any changes of name, address or share ownership.

### PUBLICATION DATES FOR METSÄ-SERLA'S FINANCIAL REPORTS IN 1999 ARE THE FOLLOWING:

5 February	UNAUDITED FIGURES FOR 1998
Week beginning 1 March	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

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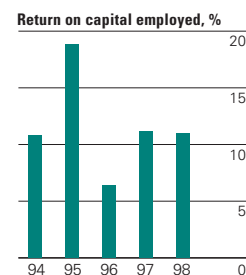
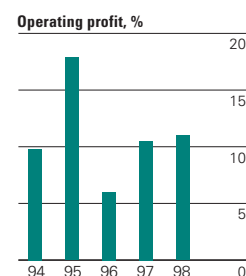
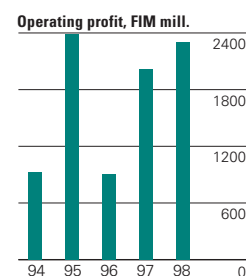
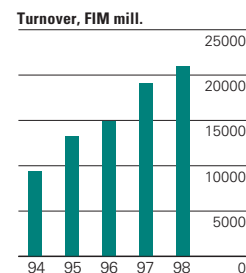
Investor Relations

[www.metsaserla.com](http://www.metsaserla.com)

# The Year in Brief and Main Events in 1998

Metsä-Serla Group	1998	1997	Change
Turnover, FIM mill.	20 948	19 182	9%
Operating profit, FIM mill.	2 299	2 016	14%
- % of turnover	11.0	10.5	
Profit before extraordinary items, FIM mill.	1 824	1 008	81%
- % of turnover	8.7	5.3	
Return on capital employed, %	11.0	11.2	
Return on equity, %	11.6	7.8	
Interest bearing net liabilities, FIM mill. **)	7 333	6 289	17%
Gearing ratio, % **)	60	57	
Equity ratio, % **)	45.9	42.6	
Earnings per share, FIM	7.57	4.30	76%
Shareholders' equity per share, FIM	65	59	10%
Dividend per share, FIM *)	2.60	1.80	44%
Market capitalization at 31 December, FIM mill.	5 787	5 853	-1%
Gross capital investments, FIM mill.	2 450	3 160	-22%
Cash flow from operations, FIM mill.	2 093	2 565	-18%
Personnel at 31 December	15 221	14 078	8%

\*) Board's proposal to year 1998  
 \*\*) For calculation purposes, the convertible capital note issue has been added to shareholders' equity.



## MAIN EVENTS IN 1998

- In the spring, Metsä-Serla acquired a 94 per cent holding in Medienos Plaušas, a Lithuanian corrugated board mill. The acquisition strengthened Metsä-Serla's position as the market leader in corrugated board products in the Baltic countries.
- In April, Metsä-Serla sold the entire shares outstanding in Oy Botnia Wood Ab to Oy Metsä Timber Ltd, a Metsäliitto Group company.
- In November, Metsä-Serla bought UK Paper of Britain from Fletcher Challenge of New Zealand. By way of the acquisition of UK Paper, Metsä-Serla expanded its fine paper production to Britain and became the market leader in Europe's largest fine paper market. The deal also included the paper merchant Guppy Ltd., an acquisition that enabled Metsä-Serla to strengthen its position as one of Great Britain's leading paper merchants.

- Metsä-Serla diversified its financing alternatives in November when it signed a billion euro Medium Term Note programme. At the same time, the Company received a Baa2 rating from Moody's, a credit rating institution, and a BBB rating from Standard and Poor's.
- In December, Metsä-Serla's subsidiary Metsä Tissue acquired two German tissue paper manufacturers, Halstrick and Strepp. The acquisitions made Metsä Tissue the second largest producer in the German market.

# President's Review

## Dear Shareholder,

The good results of 1998 bear witness to the speed of change that has enabled Metsä-Serla to catch up with competitors. Our sales have doubled in only three years. Over the same period, our profitability measured by the return on capital employed has almost doubled, the debt ratio has halved and the equity ratio has improved considerably. Metsä-Serla's fast growth has been realized mainly through acquisitions. The transformation is continuing and thanks to last year's acquisitions, sales will grow by a further one billion dollars.

## DETERMINED WORK TO BOOST PROFITABILITY

The overall improvement in the Company's internal efficiency on the one hand and the successful integration of acquired and old business units on the other explain the dramatic increase in profitability. Metsä-Serla has succeeded well in recognizing and using to best advantage the different cultural backgrounds of our business units abroad. Enhancing market positions has been an additional important goal that has boosted profitability.

The greatest change has been realized within the Paper Group, which for the first time in the company's history brought in the biggest share of profits. Accordingly, from the analyst's point of view, Metsä-Serla's profit is now clearly less dependent on the price of pulp. Metsä-Serla has been determined to establish itself as a local supplier in the heart of European markets in Germany, Switzerland and the United Kingdom. This has meant that Metsä-Serla has quickly become a global corporation. Almost half of the company's production is abroad and of the personnel, Finns are in the minority.

## STRONGER MARKET POSITIONS

The alliance with Myllykoski has greatly improved the market positions of both partners. By working together we can better serve our customers through a wider product selection and more efficient logistics. Forest Alliance is being further developed and it is today one of the best paper and paperboard sales networks, reaching nearly 90 per cent of all potential paper and paperboard customers in the world. As a supplier of coated magazine paper, the alliance with Myllykoski has raised

the partners to the position of third place in the world market. Within coated fine papers, the acquisition of UK Paper in Europe's biggest fine paper market has further enhanced Metsä-Serla's market position as the third largest supplier in Europe.

Metsä-Serla has a clear hold on the number two spot as a supplier of folding boxboard in Europe, and in wallpaper baseboard it is the market leader. Metsä Tissue Corporation, Metsä-Serla's publicly traded subsidiary is the leading tissue paper supplier in all of the Nordic countries and it is now seeking market leadership in Poland. The acquisitions of both Halstrick and Strepp in Germany have made Metsä Tissue the second largest producer of tissue paper in Germany.

Metsä-Serla is not a market pulp producer; rather, the pulp goes to produce paper and paperboard products. Metsä-Botnia and Metsä-Rauma are among the lowest cost producers of long fibre pulp in the world. It is indicative of Metsä-Serla's strong market position that two thirds of its sales comes from businesses where the company ranks among the three biggest suppliers in the market.

## AIMING FOR FURTHER IMPROVEMENTS IN PROFITABILITY

It has taken a far-reaching effort to develop Metsä-Serla and to increase its internal efficiency. All the functions within the company have been benchmarked and new more efficient operational models have been sought. The entire personnel have been involved in striving for improved competitiveness. A new historical agreement that was signed with the Paperworkers' Union will serve as a basis for nationwide maintenance operations across Metsä-Serla's units in Finland. This agreement enables maintenance operations to be reorganized, whilst improving motivation and providing for better utilization of human resources and for sizable cost savings at the mills. Further resources have been allocated to training and to the recruitment of personnel following the establishment of a new personnel development centre, the Silva Institute.

Metsä-Serla's biggest shareholder is Metsäliitto Cooperative, which is owned by private Finnish forest owners. Metsä-Serla is also a customer of its biggest shareholder, because Metsäliitto is responsible for supply-

ing all the wood Metsä-Serla needs for its manufacturing processes. Family forestry in line with the principles of sustainable yield forest management gives Metsä-Serla a solid raw material base on which the company can build its future and which our customers in Europe have learnt to appreciate. Metsäliitto's nationwide wood procurement organization is highly cost-effective and competitive. Because forest owners are shareholders in Metsä-Serla, they are a vital factor in creating stability, and they support a long-term development strategy. The shareholder friendly dividend policy proposed by the Board of Directors to the Annual General Meeting well reflects this kind of thinking.

## METSÄ-SERLA IS FOCUSING ON ITS CORE BUSINESSES

The forest industry is going through a period of transition. The industry is consolidating rapidly and many questions in principle have been raised as companies seek new directions. Company size is considered to be a critical success factor. It seems, however, that even as greater company size improves the capability for risk taking, market shares by product are becoming ever more crucial to success. Hand in hand with bigger market shares goes focusing on core businesses. At the same time the management and strategic development of a company become easier. The globalization of the forest industry has also surfaced as a key issue for the future development of the industry. In a market situation of continuous overcapacity, margins are narrow and do not allow large-scale exportation of products from one region to another. Accordingly, the forest industry will in future, as in the past, be a predominantly regional business in which production and markets cannot be too far apart. Operational synergies between regions are limited, and this is the justification for establishing operations in a new region, especially when the potential of a company's own region has already been fully utilized. The market is now showing the first signs that companies are returning to look for major growth in their own home market.

## ORDER BOOKS THINNER TOWARDS YEAR-END

Towards the end of last year the market outlook worsened in practically every business

sector, although for the first time paper prices did not collapse following the rapid deterioration of pulp prices. Fine paper prices receded slowly but steadily during the autumn 1998. The fact that major producers refused to accept low prices, taking production curtailments instead, explains the slow price erosion. Order books for magazine papers as well as paperboard shrank towards year end, and this led to cutbacks in production capacity. There was also increased competition within corrugated packaging and its related raw materials. The tissue paper market remained competitive throughout the year.

**GOOD STARTING BLOCKS FOR RESPONDING TO A TIGHTER MARKET**

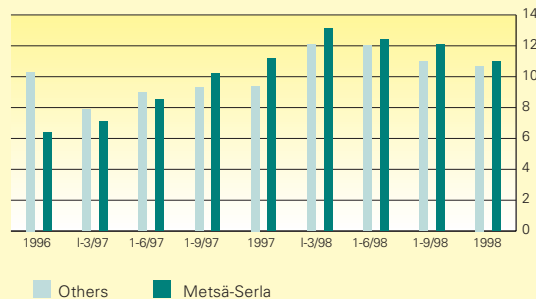
In 1999 the market situation seems to be following the trend at the end of the year. There is a chance, however, that the second half of 1999 might bring some relief due to factors such as the turn of the millennium, which may well increase paper consumption. Pulp prices are likely to move up as well. Of the various world economic crises, it appears that the development of the Japanese economy will have the greatest impact on world business. The steady growth of the US economy is equally important. These global elements greatly influence economic trends in Metsä-Serla's home region, Europe. The general economic climate thus weighs heavily in determining the market environment for Metsä-Serla's different product groups. Metsä-Serla's improved internal efficiency and greatly enhanced profitability, stronger market positions and solid balance sheet give the Company a good ability to face the clearly more difficult market situation this year. Metsä-Serla is expecting this year to yield considerably smaller profits than we posted in 1998, which was a near-record year.

Jorma Vaajoki  
President and CEO



”Metsä-Serla has caught up with its competitors”

Cumulative return on capital employed (%)



(Competitor figures are arithmetic averages of ROCE percentages.)

# Metsä-Serla Today

**Metsä-Serla's core businesses are products and services for the printing industry as well as packaging and consumer products (tissue paper). Metsä-Serla develops, manufactures and markets high-quality printing papers, paperboards, corrugated board, packaging raw materials, chemical pulp and tissue paper. Efficient, modern production technology and innovative product development ensure the competitiveness of Metsä-Serla's products in world markets.**

Metsä-Serla is Europe's fourth largest forest products company. Its products are sold in over 70 markets and the company has sales offices in 30 countries. Production plants are located in Finland, Germany, Switzerland, Great Britain, Sweden, Denmark, Spain, Greece, Russia, Poland, Lithuania and Estonia. Sales abroad account for 85 per cent of total sales. Metsä-Serla employs more than 15 000 people, half of whom work abroad. The company is part of the Metsäliitto Group, a group that focuses on the forest industry and wood trade.

## STRATEGY

Metsä-Serla's strategy is to increase shareholder value by strengthening its market position and by improving its cost structure and efficiency in its key business areas.

## A FOCUS ON KEY BUSINESSES

Metsä-Serla markets paper, packaging and consumer goods products worldwide. In its core market area in Europe, Metsä-Serla's objective is to increase local market positions. Strengthening the Group's competitive position is accomplished by

way of acquisitions and alliances. In accordance with this strategy, UK Paper was acquired in 1998, making Metsä-Serla the leading producer of fine paper in its main market, the UK (18% of turnover). In line with its strategy, Metsä Tissue strengthened its position in continental Europe by acquiring the business operations of Halstrick and Strepp. The acquisitions raised Metsä Tissue to the position of Germany's second largest tissue paper producer.

## BEING LOCAL AND CREATING ADDED VALUE FOR CUSTOMERS

Metsä-Serla seeks to be a strong local actor in its important markets and to build a strong bond of cooperation with its customers. Metsä-Serla operates 39 main production plants, many of which are strategically located close to principal customers and suppliers. Metsä-Serla is able to offer its customers a wide range of paper and packaging alternatives by concentrating on highly converted products and by trading in products manufactured by other companies through its comprehensive merchanting and trading network.

## SUSTAINING CONTINUOUS DEVELOPMENT

Metsä-Serla is carrying out a development programme that aims to improve competitiveness and efficiency all along the company's delivery chain. The focus of the 1998 development programme was on raising capacity utilization rates, improving machine efficiencies and boosting cost-effectiveness at the different units. The development programme's accent on regional cultural differences – such as the local management culture – has been cru-

cially important in reaching objectives.

Environmental policy is an important part of Metsä-Serla's business strategy. Metsä-Serla strives continually to develop its environmental standards and to maintain its environmental resources. The company regularly publishes environmental reports on its operations.

## FINANCIAL TARGETS

Improving the financial position is part of the company's strategy and a fundamental condition for profitable growth. Metsä-Serla aims for a gearing ratio not in excess of 80 per cent and an equity ratio of at least 45 per cent across business cycles. A further objective of the company is to increase the return on capital employed to 12 per cent across business cycles. By achieving these targets, the company will obtain a good return on equity.

Metsä-Serla employs a decentralized organization in which the four main business groups are assigned responsibilities and objectives for financial performance, operational efficiency and profitability.

## GROWTH POTENTIAL

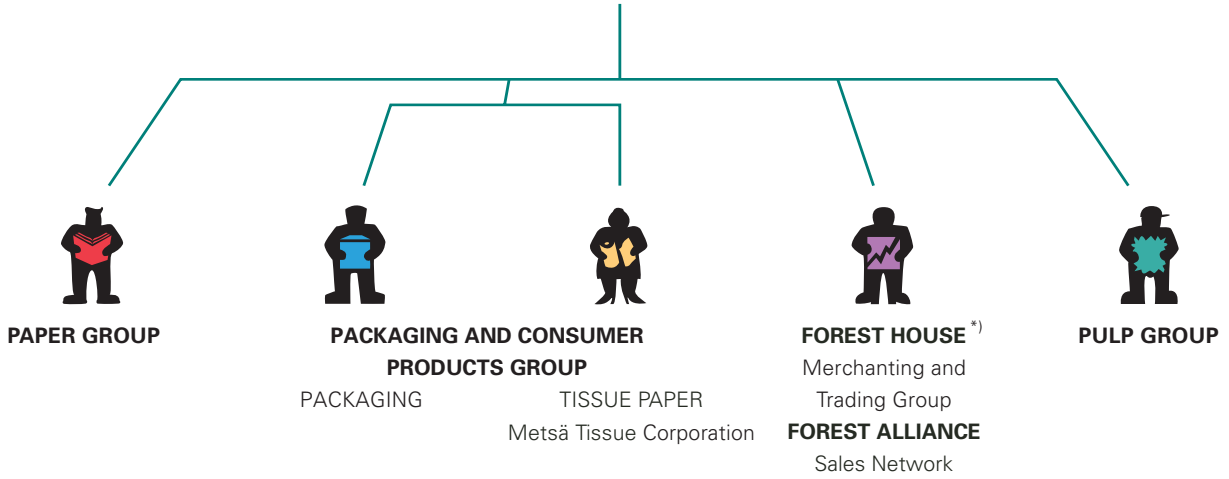
Metsä-Serla continually assesses the company's potential for growth. The Company is seeking to strengthen its positions, particularly in its home market area, Europe, but also in other geographical areas. Alternatives are weighed primarily from the perspective of sales and marketing, and only thereafter from the production angle. Contacts with the most important customers are a prime factor in determining growth alternatives.



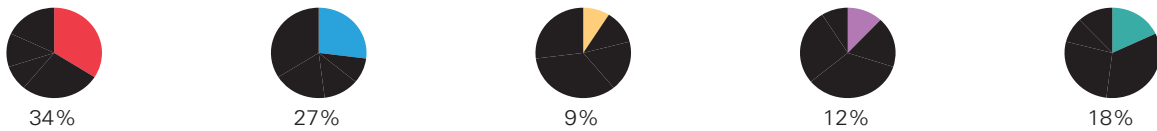
# Structure of the Group



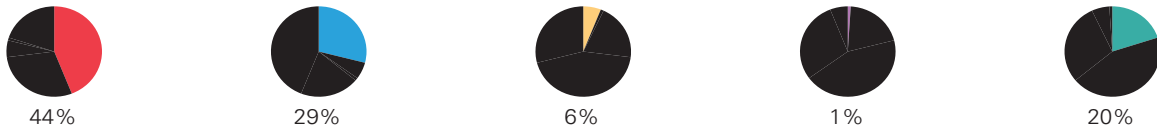
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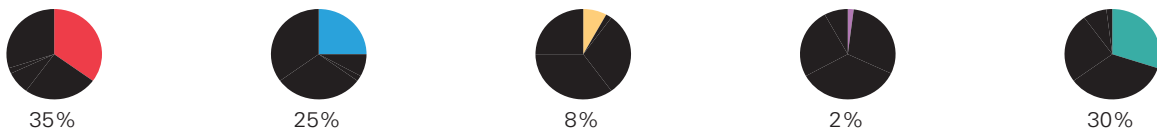
## TURNOVER 1998



## OPERATING PROFIT 1998



## CAPITAL EMPLOYED, AVERAGE 1998



\*) The figures are for the Merchanting and Trading Group.





**In terms of turnover, the Paper Group is the largest of Metsä-Serla's strategic business groups. Operations are geared towards coated papers, which accounted for about 85 per cent of the group's turnover in the past year. The Paper Group's main products are coated magazine papers (LWC), coated and uncoated fine papers as well as speciality papers. Typical uses of the products are for magazines, high quality printed products, advertising materials and annual reports.**

**The Paper Group's main market is Western Europe. On the yardstick of capacity, Metsä-Serla is Europe's third largest manufacturer of coated magazine papers and coated fine papers. Important markets outside Europe are the United States, Australia and Japan.**

The Paper Group's profitability improved substantially during the year under review. Operating profit nearly quadrupled and was FIM 1 071 million (292 million in 1997). The improvement in the group's profitability was attributable above all to the good market situation for magazine papers, improved internal efficiency and the better than anticipated earnings trend of the Galerie Fine fine paper machine at the Kirkniemi Mill. Furthermore, profitability was improved by average pulp prices that were lower than they were a year ago.

The Paper Group's turnover grew by 12 per cent and was FIM 8 063 million (7 218 million in 1997). Delivery volumes were up 3 per cent on the previous year. The production curtailments that were called to support the price level of fine papers in the latter half of the year resulted in lower capacity utilization rates at the fine paper mills.

For the most part, demand for the Paper Group's main products remained good throughout the year, except for a weakening in the demand for fine papers in the latter half of the year. Prices of magazine papers in foreign currency terms remained strong and relatively stable almost throughout the year, but prices of fine papers fell steadily beginning in March.

The Paper Group's capital turnover rate was 1.2 (1.2) and the return on capital employed was 16.0 per cent (4.9 % in 1997).

## MAGAZINE PAPERS

*The division's profitability improved substantially compared with the previous year thanks to good demand and a price level that held up well.*

Demand for **coated magazine paper** – deliveries to factories in Western Europe – remained at the previous year's level. The apparent levelling of demand was attributable to the exceptionally high in-

crease in demand in 1997, which was due to the fact that customers topped up their stocks from the rock-bottom levels of 1996. Demand held firm throughout virtually the entire review period and this led to a good capacity utilization rate. The price level also remained firm, weakening only somewhat in the second half of the year. Annualized foreign currency-denominated selling prices rose on average by 12 per cent on the previous year.

The volumes of coated magazine papers delivered by Metsä-Serla grew by 2 per cent during the review period and the capacity utilization rate rose to 96 per cent (94 %). As a result of the higher price level and the growth in delivery volumes, the profitability of the Magazine Paper Division improved markedly compared with the previous year. Operating profit more than doubled and was FIM 653 million (254 million in 1997). The capital turnover rate was 1.3 (1.2) and the return on capital employed was 25.5 per cent (11.4 % in 1997).

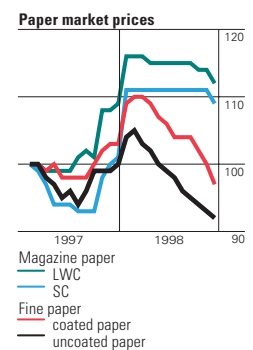
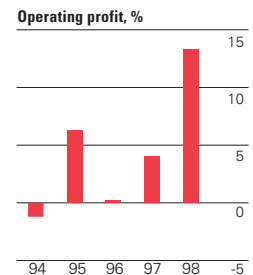
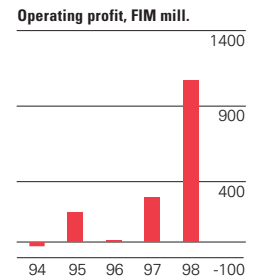
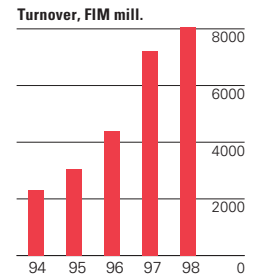
## FINE PAPERS

*The acquisition of UK Paper, which was agreed in November, strengthened Metsä-Serla's position as one of the major producers of fine paper in Europe, and it raised Metsä-Serla's fine papers to a position of market leadership in the UK, Europe's largest fine paper market.*

Demand for **coated fine paper** in Western Europe was 8 per cent greater than it was a year ago, when demand also grew strongly (12 %). The capacity utilization rate in the industry and prices in foreign currency-terms remained on average at the previous year's level. The exceptionally high and prolonged growth in demand began to taper off in the spring 1998, and prices headed downward at the end of the first quarter. Prices have moved steadily downward, bringing the price level in the industry to an unsatisfactory level.

Metsä-Serla's deliveries of coated fine papers were up 5 per cent on 1997, despite the fact that the product group's capacity utilization rate fell to 89 per cent, from 93 per cent a year earlier. The product group's delivery volumes were boosted above all by the continued good productivity trend of the Kirkniemi fine paper mill and the programme for revitalizing Biberist's operations.

The profitability of Metsä-Serla's coated fine papers has reached a competitive level thanks to the good trend in productivity and earnings of the Kirkniemi fine paper mill, the revitalization measures carried out at Biberist, the changes that have been made to the product palette and the increase in the efficiency ratios of the paper machines.







The news won't wait. That's why international news and weekly magazines have everything timed down to the last minute, which calls for the utmost in reliability at every step of the production process – not least where paper comes in. - Julie Moretti, production manager, International MagazineServices/Druckerei Winterthur dw AG, Winterthur

Deliveries by European manufacturers of **uncoated fine papers** were down by 1 per cent on 1997. The main reason for the fall in deliveries was the economic crisis in South-East Asia, which has cut into exports of uncoated fine paper from Europe to Asia and, on the other hand, led to an increase in imports of the same grades from Asia to Europe. Owing to the low initial price level in 1997, foreign currency-denominated average prices were about 5 per cent higher than they were a year earlier. Prices of uncoated fine papers also began to fall towards the end of the first quarter of the year under review. The fall in prices and the trend in producers' profitability parallel the situation for coated grades.

Metsä-Serla's deliveries of uncoated fine papers grew by 2 per cent on the previous year. The product group's capacity utilization rate was 88 per cent (90 %).

Demand in Europe for **speciality papers** weakened during the report year, mainly due to Russia's economic difficulties. The volumes of speciality papers delivered by Metsä-Serla remained at the previous year's level. In comparable terms, Metsä-Serla's delivery volumes nevertheless were down by 23 per cent on last year's level. In addition to the weakened demand, the product rationalization that was carried out within speciality papers dropped delivery volumes.

Operating profit of Metsä-Serla's Fine Paper Division improved markedly compared with 1997 and was FIM 418 million (38 million in 1997). The capital turnover rate was 1.2 (1.1) and the return on capital employed was 10.1 per cent (1.0 per cent in 1997).

### CAPITAL EXPENDITURES

At the Äänekoski Art Paper Mill, sheeting operations were modernized. The investment raised the sheeting capacity from 100 000 tonnes to 160 000 tonnes a year. Also in progress at the mill is a series of investments designed to increase the efficiency of the paper machine.

The operations revitalization project aiming to boost capacity at the Biberist fine paper mill and to reduce staff levels was seen to completion during the review period. As a result of this project and investments that were made in equipment, the number of personnel has been reduced according to plan by 200 employees and the production capacity has risen from 320 000 to 395 000 t/a.

The new sheet cutting line and ream packaging machine at the Albrück magazine paper mill went into production use in November. As a result of the investment project, the mill's sheeting capacity rose from 45 000 to 65 000 t/a.

The modernization works on both machines at the Plattling magazine paper mill were started in December. The capital expenditure projects will increase the mill's production capacity by 10 per cent and improve

the quality of its gravure paper. The investment project will be completed during the first quarter of the current year. In November, an agreement was signed on the purchase of UK Paper, a fine paper manufacturer, and the deal also included the purchase of its merchandising business. The deal was concluded at the beginning of the current year.

### NEAR-TERM OUTLOOK

Despite the weakening in economic growth, paper consumption is expected to grow in the Paper Group's main markets in Europe. The process of consolidation in the industry will move ahead, and a shakeout is expected in Europe's still relatively scattered fine paper sector.

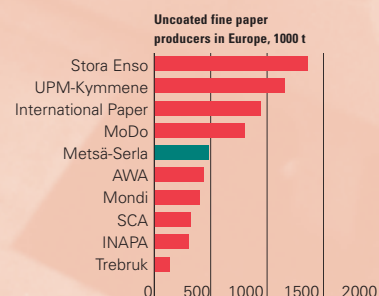
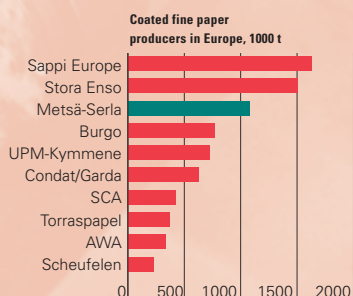
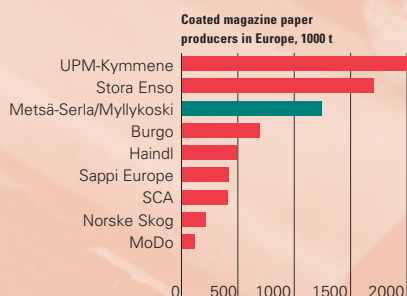
Demand for coated magazine papers – deliveries to factories – is expected to rise somewhat in Western Europe. At the same time, capacity utilization rates in the industry are nevertheless notching downward. Somewhat lower prices are also forecast in the first part of the year, but they may strengthen again in the latter part of the year.

Within fine papers, the rising levels of stocks held by the producers and distribution chain coupled with the uncertain economic situation, particularly in South-East Asia, continue to put downward pressure on both the capacity utilization rates at the mills and on the selling prices of paper. Although it is assumed that the real consumption of fine papers will be good and will track the annual 4 per cent growth trend in 1999 too, deliveries by the mills in Western Europe are estimated to remain at the level of 1998, mainly owing to increased paper imports from South-East Asia.

A central objective of Metsä-Serla's Paper Group in the current year is to integrate UK Paper's mills and distribution network into the Metsä-Serla organization. UK Paper's product range and production machinery offer an opportunity to expand the product palette for fine papers and to further amplify the synergies between the group's fine paper machines. In addition, the programme for cutting costs at UK Paper and boosting the efficiency of its operations is estimated to improve the Paper Group's earnings already during 1999. The biggest part of the programme's impact on earnings will nevertheless not come until the year 2000. Raising the efficiency ratios and output levels of all the Paper Group's paper machines is continuing ahead, as is the trimming of costs. The capacity of the Biberist fine paper mill will be increased through debottlenecking. The mill's new capacity objective is 420 000 t/a.

Despite improvements in internal efficiency, it is forecast that due to market factors the Paper Group's earnings in the current year will fall short of last year's figure.

KEY FIGURES				
		1998	1997	Change
Magazine paper		3 278	2 895	13%
Fine paper		4 785	4 323	11%
<b>Turnover, Paper Group</b>	FIM mill.	<b>8 063</b>	<b>7 218</b>	12%
./. Internal sales, Group		-422	-309	
<b>Turnover, external</b>	FIM mill.	<b>7 641</b>	<b>6 909</b>	11%
Magazine paper		653	254	
Fine paper		418	38	
<b>Operating profit</b>	FIM mill.	<b>1 071</b>	<b>292</b>	
Magazine paper		19.9	8.8	
Fine paper		8.7	0.9	
<b>Operating profit</b>	%	<b>13.3</b>	<b>4.0</b>	
Magazine paper		2 578	2 378	8%
Fine paper		4 154	3 881	7%
<b>Capital employed (average)</b>	FIM mill.	<b>6 732</b>	<b>6 259</b>	8%
Magazine paper		25.5	11.4	
Fine paper		10.1	1.0	
<b>Return on capital employed</b>	%	<b>16.0</b>	<b>4.9</b>	
Magazine paper		1 338	1 402	-5%
Fine paper		1 973	2 029	-3%
<b>Personnel (average)</b>		<b>3 311</b>	<b>3 431</b>	-3%
<b>Investment in fixed assets</b>	FIM mill.	<b>227</b>	<b>242</b>	-6%
<b>PRODUCTION, 1 000 t</b>				
Magazine paper		699	676	3%
Fine paper, coated		790	730	8%
Fine paper, uncoated		215	210	2%





**The operational emphasis of Metsä-Serla's Packaging Group is on packaging materials and solutions for high quality branded products. The group manufactures and markets folding boxboard, cartonboard and wallpaper base, corrugated raw materials, consumer and transport packagings made from corrugated board and paperboard as well as chemithermomechanical pulp (CTMP) for use in the production of hygiene products. Metsä Tissue Corporation, a manufacturer of tissue paper products which is listed on the Helsinki Stock Exchange, is also part of the Packaging and Consumer Products Group.**

## PACKAGING GROUP

The group comprises three divisions: the Paperboard Division, the Corrugated Packaging Division and the Packaging Raw Materials Division.

Packaging end users of the Paperboard Division are the tobacco, cosmetics, food processing and pharmaceutical industries. Paperboard is also used for book covers and cards. The main applications of corrugated board and packaging made from it are in the food and beverage industry as well as by manufacturers of electronics, paper, plastics as well as glass and ceramic products.

The most important market for the Packaging Group is the EU, which accounts for about two thirds of the Group's turnover. The Paperboard Division's main markets are Great Britain, Germany and France. Corrugated board is a local business. Metsä-Serla has mills in Finland, Denmark, Greece, Estonia, Russia and Lithuania. The main market for Metsä-Serla's packaging raw materials outside Europe is North America.

The Packaging Group's profitability improved somewhat on the previous year. Operating profit rose to FIM 692 million (654 million in 1997). The capital turnover rate was 1.3 (1.4) and the return on capital employed was 15.1 per cent (16.3 % in 1997). The Packaging Group's turnover was FIM 6 326 million (5 954 million in 1997).

## Paperboard

Consumption of **folding boxboard** in Western Europe grew by about 5 per cent compared with 1997. Metsä-Serla's deliveries of folding boxboard nevertheless rose by 8 per cent, but deliveries of wallpaper base fell by 10 per cent compared with 1997. For both product groups, the good market situation in the first part of the year went into decline in the third quarter. The situation in Russia had a significant impact on the volumes of wallpaper base delivered, since the key European market – wallpaper

manufacturers – dried up. The most important factor bearing on the demand for folding boxboard was the economic difficulties in Asia, which affected the market not only directly, but also indirectly by causing uncertainty in the converting chain. This in turn led to the winding down of stocks. Markka-denominated prices of Metsä-Serla's folding boxboard and wallpaper base held up at the previous year's level.

The Paperboard Division's operating profit rose somewhat and was FIM 512 million (452 million in 1997). The main factors that improved profitability were the increased sales volumes, the stable price level, lower raw material prices and improvements in operational efficiency.

The Paperboard Division had a capital turnover rate of 1.1 (1.3) and its return on capital employed was 17.0 per cent (18.7 % in 1997).

## Corrugated Packaging

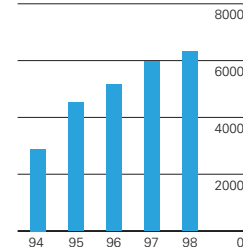
Demand for **corrugated packaging** in Europe grew by 3 per cent compared with the previous year, though it did head downward in the latter half of the year. The volumes delivered by Metsä-Serla's Corrugated Packaging Division were up 7 per cent on the levels a year earlier and totalled 204 000 tonnes. The trend in selling prices varied greatly in the different European markets, but on average prices nevertheless remained at the level of 1997.

In Greece, the corrugated packaging industry has run into a strong build-up of excess capacity, which nevertheless was alleviated somewhat during the past year when two competitors went out of business. The effects of Russia's economic crisis showed up in the latter half of the year, causing a fall in demand for corrugated board packaging in Finland, Denmark, the Baltic countries and Russia.

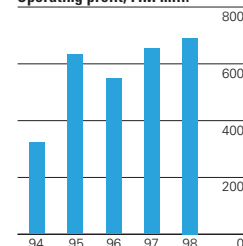
Operating profit for the Corrugated Packaging Division fell to FIM 33 million (65 million in 1997). The main reason for the weakened earnings trend was the depreciation of the rouble in the wake of the Russian economic crisis coupled with a marked decrease in the demand for packaging in Russia in the latter half of the year. Operating profit was further reduced by about FIM 30 million of foreign exchange losses that were booked.

The Corrugated Packaging Division had a capital turnover rate of 2.3 (2.3) and its return on capital employed was 7.9 per cent (14.0 % in 1997).

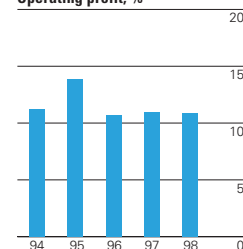
Turnover, FIM mill.



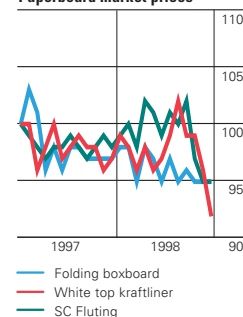
Operating profit, FIM mill.



Operating profit, %



Paperboard market prices





Foods cannot be packaged just anyhow. Corrugated board has firmly established its position as a durable, lightweight and hygienic packaging material, say, for sensitive fruits.  
 - Emmanouil Koutentakis, packager,  
 Paskalis Kreta (fruit packaging company), Crete

### **PACKAGING RAW MATERIALS**

Deliveries of **corrugating raw materials – liner and fluting** – were up by about 2 per cent on the previous year. Selling prices rose right after the start of the year, but headed downward in the second half. Deliveries of chemithermomechanical pulp (CTMP) remained at last year's level. The price of CTMP was affected by the price trend of chemical market pulp, but average prices in Finnish markka remained at the previous year's level.

The Packaging Raw Materials Division operated in positive conditions in the early months of 1998 because the demand for all its products was much brisker than it had been a year ago. The crisis in Asia also affected special materials by causing an oversupply of corrugating raw materials, and the crisis was furthermore felt on the European market. As a result of this, the capacity utilization rate fell below 90 per cent in the last quarter.

The profitability of the Packaging Raw Materials Division remained at the level of 1997. Operating profit was FIM 147 million (137 million). The capital turnover rate was 1.6 (1.5) and the return on capital employed was 13.5 per cent (12.2 % in 1997).

### **CAPITAL EXPENDITURES**

The Corrugated Packaging Division expanded to Lithuania during 1998 by acquiring a majority holding of 94% in AB Medienos Plaušas. The company is Lithuania's leading manufacturer of corrugated board, and a new corrugated board machine came on stream at its mill the year before. The beginning of the year saw the start-up at the division's mill in St. Petersburg of a new corrugated board machine that will replace the old machine and raise the quality level of products significantly.

The most important ongoing investment at the Packaging Raw Materials Division is a project to increase the capacity of the liner machine at the Kemi mill. The objective is to raise the capacity from 310 000 to 335 000 t/a. During the year under review, a modernization of the wood handling process at the Savon Sellu fluting mill was started and it will be continued in the current year.

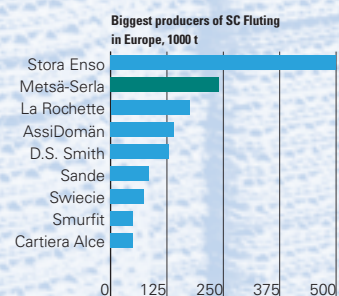
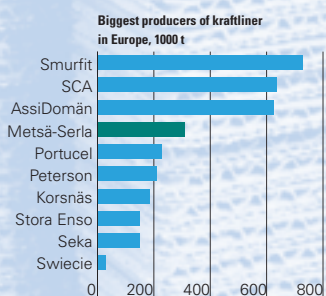
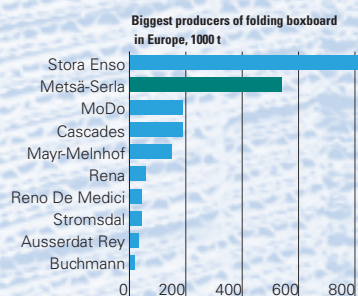
### **NEAR-TERM OUTLOOK**

In the context of continuing uncertainty for the world economy, demand for folding boxboard and wallpaper base is forecast to fall short of the previous year's level, also dragging prices downward.

The economic crisis in Russia is expected to work in favour of Metsä-Serla's corrugated packaging mills in Russia since local production will expand, leading to a greater demand for domestic-produced packaging. The volumes of deliveries by the entire Corrugated Packaging Division are expected to increase somewhat during 1999. Selling prices will follow differing trends in different market areas.

The oversupply of kraftliner, which overshadowed packaging raw materials operations in the latter months of 1998, will still affect the market situation in the first half of 1999. Prices are expected to firm up starting in the second quarter. Combined transport and point-of-sale packaging is becoming more popular, and this will increase the importance of the printing characteristics of packaging materials. This trend is expected to increase the demand for Metsä-Serla's liners, which have a high quality printing surface. Primarily due to the weakened market situation for folding boxboard and wallpaper base, the Packaging and Consumer Products Group's earnings are forecast to be weaker in the current year than they were in the review year.

KEY FIGURES				
		1998	1997	Change
Paperboard		3 418	3 152	8%
Corrugated packaging		1 335	1 269	5%
Packaging raw materials		1 771	1 706	4%
./. Internal sales, Packaging Group		-198	-173	
<b>Turnover, Packaging Group</b>	FIM mill.	<b>6 326</b>	<b>5 954</b>	6%
./. Internal sales, Group		-194	-114	
<b>Turnover, external</b>	FIM mill.	<b>6 132</b>	<b>5 840</b>	5%
Paperboard		512	452	13%
Corrugated packaging		33	65	-49%
Packaging raw materials		147	137	7%
<b>Operating profit</b>	FIM mill.	<b>692</b>	<b>654</b>	6%
Paperboard		15.0	14.3	
Corrugated packaging		2.5	5.1	
Packaging raw materials		8.3	8.0	
<b>Operating profit</b>	%	<b>10.9</b>	<b>11.0</b>	
Paperboard		3 081	2 461	25%
Corrugated packaging		585	553	6%
Packaging raw materials		1 114	1 162	-4%
<b>Capital employed, average</b>	FIM mill.	<b>4 780</b>	<b>4 176</b>	14%
Paperboard		17.0	18.7	
Corrugated packaging		7.9	14.0	
Packaging raw materials		13.5	12.2	
<b>Return on capital employed</b>	%	<b>15.1</b>	<b>16.3</b>	
Paperboard		2 014	1 959	3%
Corrugated packaging		2 691	2 298	17%
Packaging raw materials		647	745	-13%
<b>Personnel (average)</b>		<b>5 352</b>	<b>5 002</b>	7%
<b>Investment in fixed assets</b>	FIM mill.	<b>241</b>	<b>372</b>	-35%
<b>PRODUCTION, 1 000 t</b>				
Paperboard		633	584	8%
Corrugated board		222	208	7%
Fluting		238	234	2%
Liner		287	281	2%
CTMP		98	96	2%





**Metsä Tissue Corporation is the leading manufacturer of tissue products in the Nordic countries, with a market share of 45 per cent. Following the acquisitions made at the end of the review period, Metsä Tissue will rank as the second largest tissue paper manufacturer in Germany.**

**Metsä Tissue's business areas carry the names Consumer, Away-from-Home, and Baking and Cooking. The production plants are located in Finland, Sweden, Poland and Germany.**

**The company's main markets are the Nordic countries, Poland, Germany and the rest of continental Europe. The best known brands are Lambi, Leni, Serla, Katrin, Fasana and Mola. The company's main products are bathroom tissue, kitchen towels, paper towels and industrial wipes, handkerchiefs and table napkins.**

Metsä Tissue's operating profit was down on the previous year and totalled FIM 147 million (174 million). The fall in profitability was due mainly to the non-recurring costs caused by the reorganization of the unit in Poland and to loss-making operations. In addition, one-off acquisition costs were booked in the fourth quarter. Earnings were also affected by keener price competition in a number of markets.

The company's turnover grew to FIM 2 038 million (1 893 million in 1997). The bulk of the growth was due to the integration of Warszawskie Zakłady Papiernicze S.A., the Polish company that was acquired towards the end of 1997, into Metsä Tissue's operations. In comparable terms, the growth in turnover was 3 per cent.

Demand for tissue paper in the Nordic countries grew only slightly, whereas elsewhere in Western Europe the growth in consumption was 2-3 per cent. In Poland, the annual growth rate in demand is nearly 10 per cent.

Tougher price competition was encountered in a number of markets, though the supply and demand of products were moderately well in balance. Metsä Tissue continued to direct its development efforts towards high quality products that have a stronger market trend than do other products.

In the Away-from-Home business area, a decision was made to concentrate on high-quality products that are primarily manufactured from virgin fibre. The cornerstones of the renewed Katrin product family are the Katrin Ultimatic system and the Katrin product palette as well as the Katrin Less is More concept.

The Baking and Cooking business area continued to enjoy positive development and the unit increased its market share in Europe.

Production at the mill in Warsaw was rationalized and the level of quality was boosted substantially. The number of employees at the mill was reduced from more than 900 at the beginning of the year to 465 by year-end.

Metsä Tissue had a 79 per cent holding in the Warsaw mill as at 31 December 1998.

Metsä Tissue had a capital turnover rate of 1.3 (2.0) and its return on capital employed was 10.0 (19.2 % in 1997).

### THE STOCK EXCHANGE IN 1998

The price of Metsä Tissue's share on the Helsinki Stock Exchange varied from a high of FIM 67.00 to a low of FIM 35.00. The average share price was FIM 56.43. Share turnover amounted to 40.6 per cent of the shares outstanding. Metsä-Serla owns 56.9 per cent of the shares and international investors 22.2 per cent.

### CAPITAL EXPENDITURES

In December 1998, Metsä Tissue purchased the entire shares outstanding in two German manufacturers of tissue paper, Papierwerke Halstrick GmbH and Strepp GmbH & Co. KG Hochkoppelmühle. Following these acquisitions, Metsä Tissue has Germany's second largest production capacity. Metsä Tissue's pro forma turnover in 1998 inclusive of Strepp and Halstrick rose to over FIM 3.5 billion. Concurrently, the tissue paper capacity rose to 410 000 t/a, from 230 000 tonnes.

In progress at the Nyboholm mill in Sweden is a capital expenditure project which will be completed towards the end of 1999.

### NEAR-TERM OUTLOOK

The market situation for tissue paper is expected to tighten up during the current year. Demand will grow relatively steadily, but will be outstripped somewhat by supply.

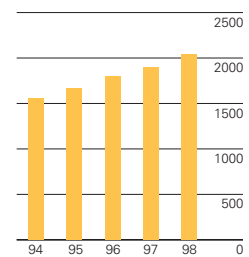
Metsä Tissue is concentrating on strengthening its operations in the Nordic countries as well as on the development and integration of the businesses acquired in Poland and Germany with the aim of achieving synergy advantages.

The acquisitions will bring a substantial increase in Metsä Tissue's sales, and earnings are expected to improve.

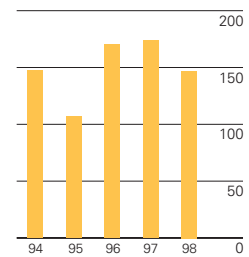
Metsä Tissue Corporation will publish its own annual report for 1998.

KEY FIGURES	1998	1997	Change
<b>Turnover, Tissue Group</b>	2 038	1 893	8%
./. Internal sales, Group	-14	-11	
<b>Turnover, external</b>	FIM mill. <b>2 024</b>	<b>1 882</b>	8%
<b>Operating profit</b>	FIM mill. <b>147</b>	<b>174</b>	-16%
<b>Operating profit</b>	% <b>7.2</b>	<b>9.2</b>	
<b>Capital employed (average)</b>	FIM mill. <b>1 546</b>	<b>925</b>	67%
<b>Return on capital employed</b>	% <b>10.0</b>	<b>19.2</b>	-48%
<b>Personnel (average)</b>	<b>2 580</b>	<b>1 725</b>	50%
<b>Investment in fixed assets</b>	FIM mill. <b>97</b>	<b>83</b>	17%
<b>PRODUCTION, 1 000 t</b>			
Tissue	264	223	18%

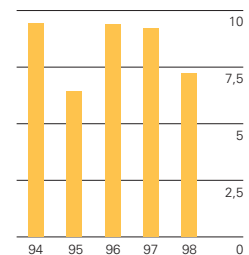
Turnover, FIM mill.



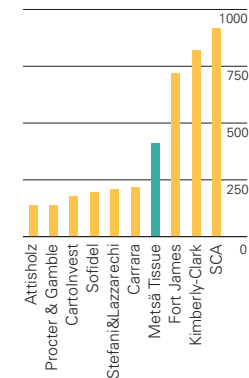
Operating profit, FIM mill.



Operating profit, %



Biggest tissue producers in Europe, 1 000 t







Contentment often depends on small things.  
Tissue paper, in itself, is a fairly unassuming product, yet it plays a prominent part  
in the daily life of millions of people.  
- Robin Metsäranta, two years old, on a holiday trip in Rauma, Finland

# Sales network, Merchanting and Trading Group



METSÄ-SERLA

MYLLYKOSKI

From the beginning of 1999, the sales network for Metsä-Serla's and Myllykoski's paper and paperboard products will be known by a new name, Forest Alliance. The mission of the new alliance is to achieve the objectives agreed with principals on a customer-centred and cost-effective basis by offering high-calibre service to customers worldwide, in the manner of a local supplier regardless of the country from which the products are supplied. Via its subsidiaries or associated companies, the sales network today has its own locations in 30 countries and furthermore makes regular sales to over 40 countries through its agents. The alliance will have more than 3 000 customers around the world, and in 1998 its products were sold in more than 90 countries.

In 1998, 2.9 million tonnes of paper and paperboard were sold via Forest Alliance, Metsä-Serla's and Myllykoski's sales network for paper and paperboard. Sales totalled FIM 13 billion. The most important product groups were magazine papers (35 %), fine papers (25 %), different grades of paperboard and packaging papers (22 %) as well as corrugated board raw materials (18 %).

## FOREST HOUSE (MERCHANTING AND TRADING GROUP)

1998 was the first year of operations for Forest House, the company that was set up to develop Metsä-Serla's merchanting and trading activities. The company is organized into two divisions: Forest House Merchants and Forest House Trading. During the year, efforts centred on setting out the group's strategy and, in particular, on reorganizing the Trading Division and putting operations on a healthy footing.

Forest House Trading acts as a worldwide trading house for forest products. Its priority areas are newsprint, uncoated fine paper, unbleached packaging papers as well as corrugated board raw materials. The products round out the product palette of the Metsä-Serla/Myllykoski alliance. Forest House Trading also acts as an agent for Metsä-Serla's products in the markets of the Far East, South America, the Middle East and Africa.

The paper merchanting operations of Forest House Merchants consist of 11 companies that have a well established and recognized position in their own markets. Forest House Merchants have more than 10 000 customers and it ranks among Europe's 10 largest paper merchants.

Operating profit of the Merchanting and Trading Group fell markedly compared with the previous year and was FIM 20 million (53 million in 1997). The factors behind the weakening in profitability

were above all the costs of winding up merchanting operations and the foreign exchange losses incurred in Russia as well as the losses on trading activities due to the general market situation and the economic crisis in Asia.

Turnover grew to FIM 2 732 million (1 707 million in 1997). The growth was attributable mainly to the inclusion of trading operations within the group from the start of the year. The volumes delivered by the merchanting arm grew by 14 per cent on the previous year and were 351 000 tonnes (307 000 tonnes in 1997).

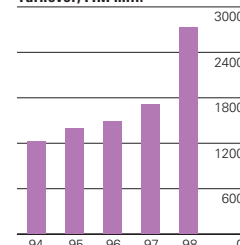
Operations were expanded through acquisitions. In July, the division's paperboard merchant Hedsor Ltd purchased a paperboard representation office named Judd Graphics in the UK. In November, agreement was reached on purchase of the entire shares outstanding in the English paper merchant Guppy Paper Ltd, and the company was made a part of the Group as from the beginning of the current year. The company's turnover is about 100 million pounds. By way of this deal, Metsä-Serla strengthened its position on the paper wholesale market in the UK.

There will continue to be tough competition in all the main market areas, and this will call for paying particular attention to the cost structure and measures required to improve it. Despite the difficult market situation, the group is expected to achieve better profitability.

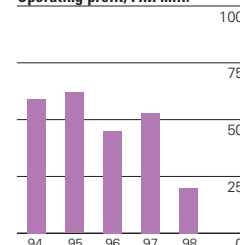
KEY FIGURES	1998	1997	Change
<b>Turnover, Merchanting and Trading Group</b>	2 732	1 707	60%
./. Internal sales, Group	-24	-24	
<b>Turnover, external</b>	FIM mill. <b>2 756</b>	<b>1 683</b>	64%
<b>Operating profit</b>	FIM mill. <b>20</b>	<b>53</b>	-62%
<b>Operating profit</b>	% <b>0.7</b>	<b>3.1</b>	
<b>Capital employed (average)</b>	FIM mill. <b>472</b>	<b>318</b>	49%
<b>Return on capital employed</b>	% <b>4.8</b>	<b>17.2</b>	
<b>Personnel (average)</b>	<b>820</b>	<b>691</b>	19%
<b>Investment in fixed assets</b>	FIM mill. <b>70</b>	<b>17</b>	

## Merchanting and Trading Group

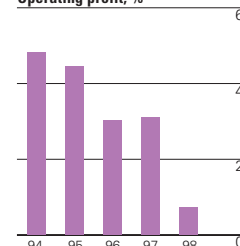
Turnover, FIM mill.



Operating profit, FIM mill.



Operating profit, %





Service is half of the product. Users of paper and paperboard have individual needs for which manufacturers must offer customized solutions.  
 The salesperson must be on hand where customers are.  
 - Jeroen Schuit, Sales Director, Forest Alliance, Amsterdam



METSÄ-BOTNIA

**MB** Supplies of chemical pulp to Metsä-Serla's paper and board mills are handled by the subsidiary Oy Metsä-Botnia Ab. The Pulp Group comprises Metsä-Botnia and an interest in its associated company Oy Metsä-Rauma Ab.

The Pulp Group is one of Europe's largest producers of bleached grades of pulp. Its objective is to further develop its operations so as to ensure its position as Europe's most profitable and efficient pulp producer.

Metsä-Botnia is a strategic resource company whose main task is to assure a disturbance-free supply of pulp to its owners, Metsä-Serla and UPM-Kymmene, on a competitive basis. Joint ownership allows the owners to share the risks associated with major pulp mill investments. About 80 per cent of the Pulp Group's production is sold to the paper and board mills of the owner companies. The rest is sold mainly on the European market. The marketing organization Botnia Pulps is responsible for pulp marketing and sales.

The Pulp Group's operating profit fell compared with 1997 and amounted to FIM 497 million (804 million). Profitability was weakened by lower average prices than in the previous year coupled with production curtailments. The price of pulp fell sharply, especially in the latter part of the year. Concurrently, there was a fall in the US dollar, the currency in which prices of long-fibre pulp are set. These factors together with production curtailments caused the group to post an operating loss in the last quarter of the year.

The Group's delivery volume was up 3 per cent, but in comparable terms the delivery volume fell somewhat. The Pulp Group's turnover declined by 10 per cent and was FIM 4 227 million (4 711 million in 1997). On a comparable basis, turnover fell by 6 per cent.

The economic crisis in Asia depressed the demand for market pulp during the year under review. The market pulp stocks of Norscan producers rose to 1.95 million tonnes at the end of August. As a consequence of production curtailments, stocks declined in the latter months of the year and amounted to 1.59 million tonnes at the end of December. The price of bleached softwood pulp varied from USD 580 at the turn of the year to USD 510 in March. Thereafter the price rose again in June and July to slightly more than USD 570 until it again dipped sharply in August, hitting about USD 460 towards the end of the review period. The price of birch pulp followed that of softwood pulp and was 360 ECUs at the end of the year.

The Pulp Group had a capital turnover rate of 0.7 (0.8) and its return on capital employed was 8.0 per cent (14.9 % in 1997).

## CAPITAL EXPENDITURES

Metsä-Serla's most important capital expenditure during

the review period was for the modernization of the chemicals recovery system and power plant at Joutseno Pulp. The project was completed in October, 10 weeks ahead of the original schedule the mill has increased output from 320 000 tonnes to 410 000 tonnes a year. The mill became more than self-sufficient in energy and its operating regime and atmospheric protection situation improved.

A rebuild of the pulp washing section at the Kemi Pulp Mill was completed after the midsummer holidays, and a project to raise the efficiency of oxygen bleaching was completed towards the end of the year. Also in progress at the Kemi Pulp Mill is a modernization of the lime kiln, which will be completed by the end of June. The capital expenditures carried out during 1998 and 1999 will increase the production capacity at the Kemi Pulp Mill by 40 000 t/a.

An investment project aiming at increasing the efficiency of pulp washing and oxygen bleaching is in progress at the Äänekoski pulp mill and it will be completed in the spring 1999. The objective of the investment is to improve pulp quality, lower production costs and reduce the level of effluents.

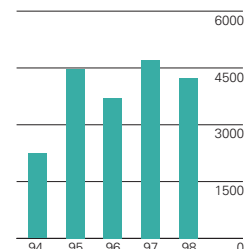
## NEAR-TERM OUTLOOK

The oversupply of pulp is expected to continue in the current year. This will mean continuing production curtailments at the pulp mills, at least in the first half of the year. Unprofitable pulp mills are being closed, but there is still plenty of overcapacity. Large price increases are not expected in the first part of the year, but prices are expected to rise before the turn of the year.

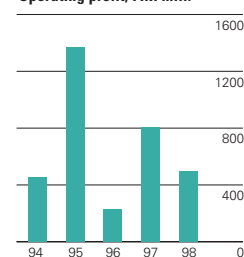
A priority of the Pulp Group is to amplify cost-effectiveness with the aim of further lowering operating costs. Because of the low price level of pulp, profitability is estimated to weaken compared with the previous year.

KEY FIGURES	1998	1997	Change
Pulp	4 077	4 130	-1%
Sawn goods	173	687	-75%
./ Internal sales, Pulp Group	-23	-106	
<b>Turnover, Pulp Group</b> FIM mill.	<b>4 227</b>	<b>4 711</b>	-10%
./ Internal sales, Group	-1 602	-2 076	
<b>Turnover, external</b> FIM mill.	<b>2 625</b>	<b>2 635</b>	
Pulp	489	718	-32%
Sawn goods	8	86	-91%
<b>Operating profit</b> FIM mill.	<b>497</b>	<b>804</b>	-38%
Pulp	12.0	17.4	
Sawn goods	4.6	12.5	
<b>Operating profit</b> %	<b>11.8</b>	<b>17.1</b>	
Pulp	5 834	5 068	15%
Sawn goods	0	326	
<b>Capital employed (average)</b> FIM mill.	<b>5 834</b>	<b>5 393</b>	8%
Pulp	8.0	14.2	
Sawn goods	0.0	26.5	
<b>Return on capital employed</b> %	<b>8.0</b>	<b>14.9</b>	
Pulp	1 492	1 574	-5%
Sawn goods	77	309	-75%
<b>Personnel (average)</b>	<b>1 569</b>	<b>1 883</b>	-17%
<b>Investment in fixed assets</b> FIM mill.	<b>930</b>	<b>337</b>	
<b>PRODUCTION</b>			
Pulp, 1 000 t	1 675	1 599	5%
Sawn goods, 1 000 m <sup>3</sup>	116	473	-75%

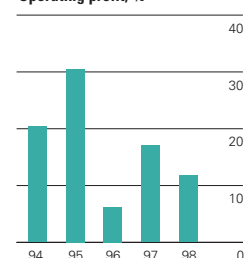
Turnover, FIM mill.



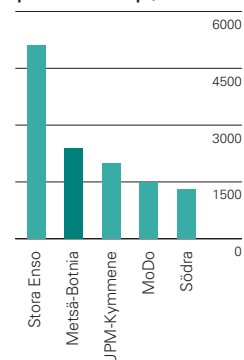
Operating profit, FIM mill.

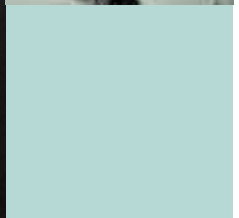
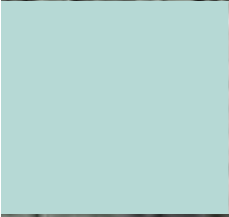
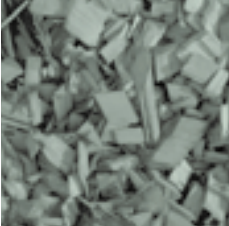
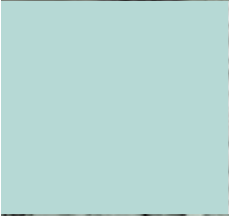
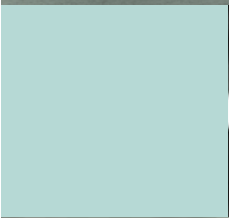


Operating profit, %



The biggest pulp producers in Europe, 1000 t





Wood goes through a multistage process on its way to becoming pulp.  
At a modern pulp mill, this calls for the development of operations and products  
as well as continuous quality assurance.  
- Merita Kemppainen, laboratory employee, Metsä-Botnia, Kemi

# Metsä-Serla's Brands

One of Metsä-Serla's main strategies is to strengthen its market position and competitiveness in the company's key business areas: paper as well as packaging and consumer products.

In accordance with this strategy, Metsä-Serla offers products that have been developed specifically for customers' needs and it also provides ancillary support services.

Today, Metsä-Serla has a wide range of paper and packaging products varying from standard papers to speciality grades. Metsä-Serla aims to expand its know-how and service ability further by developing new, competitive products in response to changes in customer and market needs.

## A TWO-TIER BRAND STRATEGY

From the customer's standpoint, high up on the list of criteria for selecting paper and packaging materials are product quality and supplier reliability. Metsä-Serla's two-tier brand strategy is based on this fact.

From a marketing perspective, Metsä-Serla represents a strong corporate brand at the group level. Its objective is to increase the company's visibility and to promote the competitiveness of its products in the international marketplace.

In addition to Metsä-Serla's corporate brand, its business groups each have their own product brands for which precise market and user segments have been defined. The business groups maintain and develop their products on the basis of customer needs, and they constantly strive to gain the leading market position in their own brand segment.

The strength of Metsä-Serla's corporate and product brands is reflected in their perceived added value, not only making it easier for customers to choose but also giving them assurance of the high quality of the products.

## KEY OBJECTIVES OF THE BRAND STRATEGY

The task of the corporate brand, Metsä-Serla, is

- to project the image of a major forest products group that has strong backing and financial resources
- to convey the message that the company is a reliable and responsible supplier not only in the manufacture but also in the sales and distribution of its products
- to highlight the importance of marketing and a customer-centred approach

The task of the product brands is

- to build for the product an individual and personal identity that makes it stand out from competing grades
- to make the product more familiar and "closer" to the end user
- to build an enduring product image that also helps the product to sell, even in market sectors that are undergoing major changes

## COMMUNICATIONS SUPPORT BRAND-BUILDING

A consistent image and well coordinated communications are an important part of Metsä-Serla's corporate and product brands. The mutual relationships and emphases of the parent company and the product brands have been defined precisely and formulated into a set of guidelines that has been issued to all the business groups (Metsä-Serla Brand Management Guide and Product Brand Image Guides).

## BRANDS SELL BETTER

Metsä-Serla's brands have been developed through a recognition of the overall trends in the forest industry. The characteristics of competing products often become convergent, and there are few differences in product availability.



# Galerie

In this market situation, well controlled production is not enough. Other competitive advantages, such as marketing and product perceptions, are gaining in importance. Products that have their own strong identity and brand recognition have the edge when customers make their choices.

## THE GALERIE FAMILY, A METSÄ-SERLA BRAND

One example of Metsä-Serla's brand philosophy is the Galerie family of papers and paperboards.

The Galerie family concept was developed for a market situation where customers had an abundant choice of alternative grades. We then presented a product family that was united by a single name: Galerie.

The competitive factors underlying the Galerie brand were defined clearly, as set out below. Similar brand surveys have been prepared also for other Metsä-Serla's brands. An essential part of the Galerie brand is service and a well-known supplier, Metsä-Serla, an aspect that is highlighted in all marketing.

## THE BRAND IDENTITY OF GALERIE PAPERS AND PAPERBOARDS

Brand promise

- Not just one product, but an entire product family

Product characteristics

- the right paper and paperboard for nearly every printing need
- features for each Galerie product
- compatibility with the other Galerie products
- excellent printability and runnability

Personality factors

- a premier quality product family
- a reliable choice in any situation
- easy to select and easy to remember

Product symbols

- Own logo (Galerie Papers&Boards)
- Coordinated profile (Metsä-Serla Brand Guide, Galerie Brand Identity Guide)



# Environment

The main objectives of environmental protection at Metsä-Serla's pulp, paper and board mills last year was to increase the degree of self-contained water cycles, to cut down the use of water and to reduce the amount of solid waste, whilst reclaiming it for useful purposes. In accordance with Metsä-Serla's environmental policy, the efficient use of resources has been taken into account in designing and running the manufacturing processes. Over the year, significant improvements have been made at a number of mills, notably, in the recovery and reuse of coating pigments.

Wastes and byproducts which cannot be recycled back to their original usage purposes have been channelled, where possible, into other useful applications, such as for earthworks and energy production. In this way, the company is preparing to meet the anticipated rise in waste management costs in the years ahead.

## **Capping carbon dioxide emissions through well-considered energy solutions**

As a Member State of the EU, Finland undertook to abide by the Community's objective of reducing carbon dioxide emissions by eight per cent, according to the agreement reached at the Kyoto Conference on Climate Change, which was organized by the United Nations in December 1997. In the EU's internal division of commitments, it was agreed that Finland's objective would be to reduce emissions back to the level of 1990.

The forest industry's most important raw material – wood – is neutral in terms of its carbon dioxide balance because when a forest grows it binds the same amount of carbon dioxide as is released when the wood matter rots. Furthermore, at least as much wood is grown as is used as a raw material. In its energy solutions, Metsä-Serla has endeavoured primarily to favour bioenergy. In 1998, nearly 45% of the energy used by the Group came from wood. Thanks to changes that have taken place in the structure of Metsä-Serla's energy sources, in 1998 the carbon dioxide emissions from the company's mills in Finland were at the level of 1990.

The completion in November 1998 of the modernization of the chemicals recovery system at the Joutseno Pulp Mill made the mill self-sufficient in energy and at the same time significantly reduced its environmental emissions. Energy derived from wood now amounts to a surplus that can even be sold to the public power grid, where it replaces electricity produced using fossil fuels. In addition, the mill supplies the Simpele paper and board mill with bark for use as a fuel, thus enabling the mill to reduce its use of peat. The effect of the capital project, which cost FIM 900 million to complete, will show up at the Group level too, since it will clearly increase the share of bioenergy within total energy use.

Apart from biofuels, the Group's energy supply is based to a large extent on natural gas, which is the most advantageous fossil fuel in terms of its carbon dioxide emissions.

## **BUYERS ARE INTERESTED IN PRODUCT SAFETY AND ENVIRONMENTAL SOUNDNESS**

The accent in Metsä-Serla's product palette is on products which throughout their life cycle in one way or another reduce the amount of waste that arises. The mills have set the target of manufacturing high-quality products that offer faultless usage characteristics, thus preventing loss and waste and resulting in overall economy for the customer.

During the report year, environmental affairs and product safety issues were again of considerable interest to buyers. Of eco-labels, the Nordic Swan Label in particular has achieved broad recognition as a guarantee of the product's environmental friendliness. The Swan Label is therefore an important form of consumer service, especially for Metsä Tissue, whose clientele consists of a large number of private consumers. The most important grades of magazine paper, fine paper and office paper are also available in a version that carries the Swan Label. For the paperboard mill, however, the issue is not a timely concern because the label is granted only for products, and never for a packaging by itself.

A self-monitoring system based on the EU's general Directive on the Hygiene of Foodstuffs is in use at Metsä Tissue's pro-

duction line that manufactures high-density paper and at the CTMP mill in Lielähti. Similar systems are currently being built for most of the boxboard and paperboard mills as well as for the Neopac Oy corrugated packaging mill.

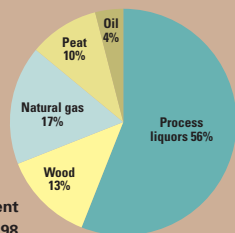
## **OPERATIONS BASED ON SUSTAINABLE USE OF FORESTS**

Wood raw material is supplied to Metsä-Serla's mills by Metsäliitto Osuuskunta. The wood is procured mainly from diversified family-owned Finnish wood-producing forests. The use and care of forests in Finland is governed by stringent forest and nature protection legislation, which attaches equal importance to environmental, economic and social values. The forest sector is well organized and forest owners are assisted, among other things, by public forest centres and a private network of experts who operate within the silvicultural associations.

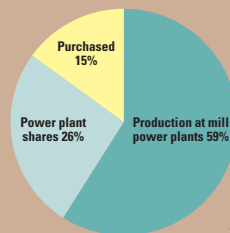
Metsäliitto has a wood procurement quality and environmental system that is certified according to the ISO 9002 and 14001 standards. Metsämannut Oy, which is in charge of caring for Metsä-Serla's own forests, has received corresponding certificates for its silvicultural quality and environmental system. The fundamental idea embodied in the systems is to continually improve the level of the management of environmental affairs. Individualized goals include promoting the diversity of woodland nature as well as maintaining and improving the environmental awareness of the organization's own personnel, suppliers and members.

The year under review saw the introduction of a key biotope register based on a digital map system. The register makes it possible to take environmentally sensitive spots better into account in wood harvesting. Among other development focuses are the prevention of the spreading of fungus-induced butt rot, activities in groundwater areas, wood harvesting in densely populated areas, giving proper consideration to the forest landscape in the vicinity of shorelines and the planning of logging so as to take into account areas where flying squirrels make their nests.





Breakdown of heat procurement within Metsä-Serla in 1998



Breakdown of electricity procurement within Metsä-Serla in 1998

Metsäliitto does not procure wood from protected nature zones or similar areas that are under supervision by the authorities. Environmental and other factors that place constraints on wood harvesting are established before a purchase is made. The origin of wood procured by Metsäliitto can be traced on the basis of the purchase agreement number. The mills receive a quarterly summary on the origin of wood delivered to them.

#### CERTIFICATION OF FAMILY FORESTRY STARTS UP

Metsäliitto Group has contributed to the building of a forest certification system that is appropriate for Finland's family forestry and is based on internationally recognized principles. The long years of work have nearly reached completion and certification can begin in 1999.

The system, which is made up of eight

standards, covers sustainable silviculture and certification of the audit trail for wood. The standards also contain definitions of Group certification models and the competence requirements for certification bodies. A company trademark has not been created for the system because it has been designed to form a module that can be made a part of international ecolabelling and certification frameworks.

#### A REVIEW OF ENVIRONMENTAL POLICY

On 16 March 1998, Metsä-Serla's top management approved the Group's thoroughly reviewed environmental policy, which will be published in the Environmental Report that comes out in April 1999.

New environmental systems were introduced in two mill localities last year. The ISO 14001 environmental system for the Kaskinen pulp mill was certified in

June, and the Äänekoski Art Paper Mill's ISO 14001 environmental system received its own certificate in December. More detailed studies on the environmental systems that have been built for company sites and are under development will be published in the Group's Environmental Report.

# Personnel: a Key Corporate Resource

The central personnel administration task of the international and growing Metsä-Serla Group is to train personnel who are capable of engaging in international business.

Metsä-Serla's personnel administration is decentralized mainly through a division into local units. At the Group-level, the emphasis within human resources administration has been on coordination and the setting of guidelines for a common operational policy.

Development programmes during the year under review have been based on the needs of operations and have supported the individual development of each staff member. Development programmes targeted at supervisors and management have increasingly aimed not only to expand individual competence but also to increase the organization's know-how and capability to carry out changes. The development programmes covering the entire personnel have been geared to the needs of the various workplaces. Since they have been planned jointly, they have also served in fortifying the commitment to the Group's process of change.

## RESULTS THROUGH PURPOSEFUL DEVELOPMENT

Within development of the Group's human resources, an important priority has been to increase the efficiency and capability for change of the entire organization as well as to improve the personnel's job satisfaction. Metsä-Serla's own development programmes together with programmes offered by other institutes aim to build systematic long-term training programmes for each and every Metsä-Serla employee.

The Company's growth and the expansion of its business operations give the personnel greater alternatives for self-development. International and national job rotation and the arrangement of career planning promote the efficient utilization of human resources potential in business activities.

In planning and implementing human resources development, the objective is to serve, better than before, the internationalization of business operations as a whole.

Metsä-Serla has its own management training programme, the Metsä-Serla Academy, whose objective is to improve the business capabilities of people working in supervisory and management positions. The objective of the training programme for younger employees in supervisory and expert positions is to create ca-



capabilities for understanding business fundamentals as well as to outline the importance of the supervisor's work and one's own personal development for the activities of each team. The management training programme creates a foundation for developing business operations on an overall basis as well as for understanding the significance of strategic planning and leadership as the cornerstones of successful business operations.

The development and expansion of vocational training is a central task of the Group now and in the future. By means of vocational training and development activities at the workplace, it will be possible to ensure that existing know-how is retained and that it is utilized better. To accomplish this, there must be a better understanding of the significance of experienced personnel for business operations.

The greying of the population means that clearly more people will retire in the years ahead. Within the Group this creates pressures for stepping up the effectiveness of human resources recruitment processes.

In order to ensure the continuous development of vocational training and the availability of new recruits, in November the Group established its own vocational education institution, Metsä Instituutti Silva. Its activities will get under way in the form of recruitment training in September 1999. Two training lines will be started, an maintenance/operator line and a maintenance specialist line. The training is for a period of two years, one-third of which consists of theoretical teaching and the remainder of on-the-job practice at the different mills. The training also includes stints

abroad. In the years ahead, Metsä Instituutti Silva will also train the Group's present personnel by way of vocational training programmes connected with development of the workplace.

## STEPPING UP ACTIVITIES THAT MAINTAIN WORKING ABILITY

The personnel are encouraged to undertake activities that continually maintain and improve working ability. The Group's Tyky model has been well received everywhere and its development will be continued purposefully.

## EMPLOYMENT RELATIONSHIP AND COLLECTIVE BARGAINING MATTERS

Collective bargaining negotiations per se were not held within the paper industry in 1998 because the nationwide collective agreements reached towards the end of the previous year were in effect throughout the year under review.

Local agreements in matters connected with developing the workplace have been increased and in future, activities of this sort will be stepped up further.

Metsä-Serla's personnel by countries on 31 December

	1998	1997
Finland	7 500	7 820
Germany	2 399	927
Sweden	732	755
Poland	697	974
Russia	644	789
Denmark	630	668
Switzerland	606	707
Great Britain	547	542
Greece	464	461
Lithuania	458	26
The Netherlands	108	97
Others	436	312
Total	15 221	14 078

# Research and Development

Within wood-processing, research and development has undergone a change in character. Instead of hit-and-miss innovations, companies in the industry must commit their resources to a process of continuous renewal. Global competition has given rise to development projects spanning the entire wood-processing chain as well as cooperation networks between research institutes and companies. At the same time, the traditional task of the joint research institutes operated by the wood-processing industry has come into question, because the typical development project of a forest company is often divided among ten or so different research institutes.

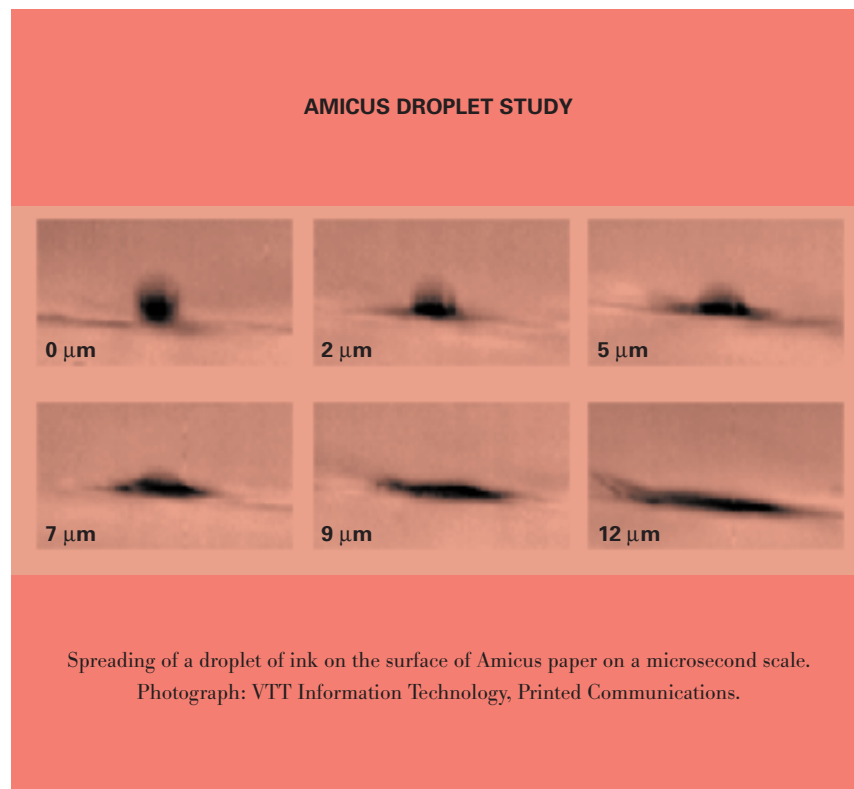
## STRATEGIC RESEARCH

During the year under review Metsä-Serla's technology strategy was renewed and work on implementing the strategy got under way. Among the important initiatives which the Group launched was an extensive manufacturing and operating systems project for mechanical pulping, and preparatory work was carried out on an integrated project connected with the use of wood to produce energy. Metsä-Serla is playing an active part in the national "Wood Wisdom" project, which aims to create in Finland a base of materials science know-how in the wood field.

The thrust of development within printing papers is changing in step with developments in customer technologies. The competitive factors that used to be important in mass production are now being replaced by new services, and products are becoming increasingly modifiable. Customers emphasize the reliability of production, products and deliveries, whereas consumers have definite preferences regarding the printing surface. These demands have led to a new type of know-how in development work to improve paper.

### New products and processes

The accent in Metsä-Serla's development work has shifted to joint projects involving raw materials, manufacturing and paper projects – projects in which we are seeking competitive advantage from a mastery of the entire chain and from optimizing product characteristics. When new products are developed, a key objective is the frugal use of resources: raw materials, energy and capi-



tal. In many of the Group's product categories this means, above all, making the product lighter, whereas in others the aim is to simplify the manufacturing technology.

Pulp made from thinned-out pine stands underwent extensive testing at the mills during the report year. The new type of pulp has proved to have promising characteristics, especially for tissue papers.

The weakened position of birch as a fine paper fibre can now be improved by means of the new pulp manufacturing technology.

Galilei papers for digital printing were brought out on the market and the approval of printing machine manufacturers was obtained for eleven grades. In particular, the coated Galilei papers have been well received. The product family is now being expanded to paperboards.

## SUPPORTING OUR REALIGNED OPERATIONS

The "Water-saving Paper Manufacture" technology project that leads to a more efficient use of water and raw materials in paper manufacture was carried out at the Äänekoski Art Paper Mill. The know-how that the project yielded has been applied at the Kirkniemi, Biberist and Tako mills. Depending on the initial situation, the specific water consumption can be lowered by 20-40%, whilst significantly enhancing the use of pigments.

At Savon Sellu a joint project aiming at the more efficient use of capital and comprising a related availability performance

project got under way. At Kirkniemi, results that are important for the practical work of the mill working groups were obtained in a study that focuses on working group composition, training and the interrelated factors that determine productivity.

The emphasis in environmental research is shifting from production processes to the logistic chain for each project and to energy efficiency.

Within product safety – an essential factor for the manufacture of paperboards and tissue papers – self-monitoring systems reached the break-in phase. The first self-monitoring system became operational at the Mänttä high density paper mill in the spring 1998.

## ORGANIZATION AND FINANCING

During the year under review, the position of the business groups within development work was strengthened. Up to now, Metsä-Serla has pioneered the outsourcing of research work. Now that the corporate structure has been streamlined, we are nevertheless beefing up our own resources for our core businesses in accordance with the agreed technology strategy.

Participation shares in eleven international research institutes in all were retained. Particular attention was directed at the service received by the Group's international units.

FIM 90 million was spent on research and development work during the year under review. The figure does not include research and development expenditure for the companies acquired during the year.

# Treasury Management and Management of Financing Risks

The Group's financial position and financing events are discussed in the Report of the Board of Directors on pages 34–39.

## EMU AND THE EURO

At the beginning of May, the 11 countries that would participate in EMU as from 1 January 1999 were chosen. At the same time, agreement was reached on the mutual currency exchange rates of the EMU countries. With the start of stage three of EMU at the beginning of 1999, the national currencies disappeared and became embodiments of the new European currency, the euro. Concurrently, the financial and foreign exchange markets changed over to the euro.

The replacement of the national currencies with the euro causes major changes in the financial markets of the euro zone. Within the Group's financial administration, during the year capabilities have been created for meeting the challenges brought by the euro and for realizing the potential it offers.

With the advent of the euro, management of foreign exchange risks will be easier. The Group has foreign exchange risks in more than 20 currencies, the major part of which are in the euro zone. Euro currencies account for about 40 per cent of the annual foreign exchange cash flow of about FIM 12 billion. The balance sheet risk due to the shareholders' equity of foreign subsidiaries will also be eliminated in respect of the EMU countries. There will be a lesser need for foreign currency hedging. Currency transaction costs will also diminish.

The advent of the euro in investment operations will bring more investment alternatives. With the elimination of foreign exchange risk, better risk/return ratios than ever before can be sought for investments, tapping the entire area of the countries participating in the single currency.

The euro will change Europe's capital markets and make them more diversified. The coming of EMU means that Europe will become the home of an extensive and liquid debt market in which credit ratings will grow in importance and the pricing of genuine credit risk will become more pronounced. The Metsä-Serla Group has prepared for the change in the capital market by obtaining a long- and short-term credit rating from both Standard & Poor's (BBB/A2) and Moody's Investor Service (Baa2/P2). In addition, a one billion euro Medium Term Note-programme was agreed, within the framework of which the first tranche of bonds, 200 million euros in amount, was issued.

The euro will bring major challenges for cash management and payment transfers. The objective is to achieve an account, cash management and payment transfer system covering the entire euro zone so that money and payment transfers can be handled cost-effectively within the framework of a uniform system. The system will be introduced in stages during 1999.

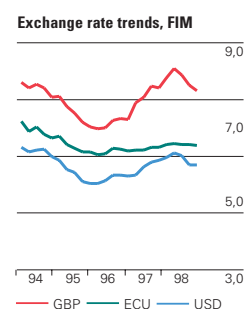
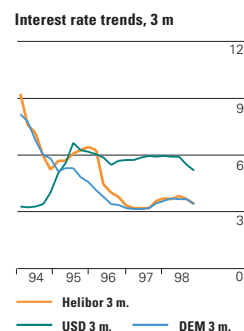
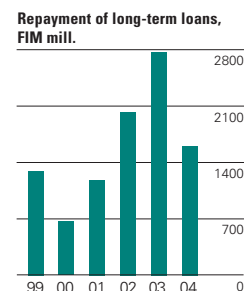
## MANAGEMENT OF FINANCING RISKS

The primary objective of the Metsä-Serla Group – apart from profitability – is to maintain a strong balance sheet structure that is in good equilibrium. The average equity ratio target across business cycles has been set at a minimum of 45 per cent and the gearing ratio target is for a maximum level of 80 per cent. Financing risks involved in business operations are managed in accordance with the financing policy confirmed by the Company's Board of Directors and management. It defines detailed operating instructions for the management of factors such as foreign exchange, interest rate, liquidity and counterparty risk as well as for the use of derivative instruments. The aim is to hedge against significant financing risks, to balance the cash flow and to give the business units time to adjust their operations to changed conditions.

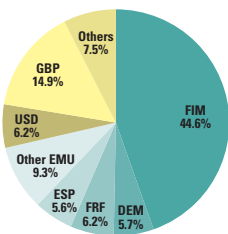
## FOREIGN EXCHANGE RISKS

Most of Metsä-Serla's costs are generated in Finland and elsewhere in the euro zone, but sales income is obtained in foreign currency. The consequence of this is that due to changes in foreign exchange rates, trade receivables can fluctuate whilst production costs remain unchanged. Similarly, the pricing of products is also done in currencies other than the Finnish markka. This so-called foreign currency exposure includes foreign currency-denominated accounts receivable, accounts payable, orders booked as well as a certain part of the budgeted net foreign currency cash flow. The main instruments used for hedging are loans taken out in foreign currency, forward rate agreements and options.

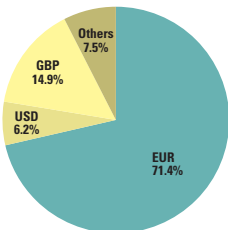
The Group's net foreign currency cash flow during the year under review was about FIM 11 billion, and in the current year, following the introduction of the euro, it will be about FIM 6 billion. The main currencies are the US dollar and the British pound. A strengthening in the dollar and pound sterling has a positive effect on the Group's net profit though there is a lag and, on the other hand, a weakening in these currencies has a negative effect, also with a lag.



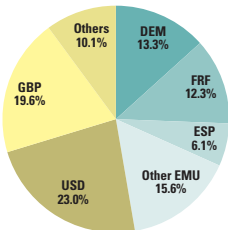
Foreign currency breakdown of loans prior to the euro



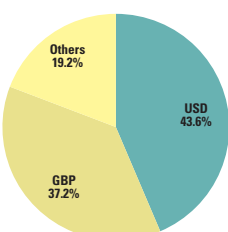
In the euro era



Foreign currency breakdown of currency exposure prior to the euro



In the euro era



The cash flow position that is hedged is on average six months long, but it can vary from currency to currency from 0 to 12 months. The amount of hedging for specific currencies depends on the exchange rates and expectations prevailing at any given time as well as on the significance for the Group's earnings of a change in foreign exchange rates.

At the end of the year, the annual foreign currency exposure was hedged on average for 9 months. The degree of hedging during the year varied between 5 and 9 months. At the beginning of 1998, the degree of hedging was about 52 per cent and at the end of the year it was about 74 per cent of the annual net foreign currency cash flow.

During 1998, value-at-risk analysis based on probability calculations was introduced. The risk figure reflects the largest possible loss based on historical information with the probability assigned during a given period. The calculations take into account the net cash flow exposure that is hedged and the items hedging it. The calculations employ historical volatilities and correlations for a period of one year and are carried out using Monte Carlo simulation.

In accordance with Metsä-Serla's accounting practice, foreign exchange differences arising from foreign currency derivatives (forward agreements and options) used for hedging the cash flow have been booked as an adjustment to turnover, but foreign exchange differences on loans in foreign currency are stated in the foreign exchange differences for financial items.

The Group hedges the foreign currency-denominated shareholders' equity items of international subsidiaries by means of loans taken out in foreign currency and through foreign currency derivatives. A minimum of 50 per cent of the equity exposure subject to risk must be hedged. The degree of hedging as at 31 December 1998 was 68 per cent.

Foreign exchange differences arising from the hedging of balance sheet risk are allocated to non-restricted shareholders' equity in the consolidated accounts and are entered against the translation adjustment for foreign currency-denominated shareholders' equity items.

## INTEREST RATE RISK

The Group is vulnerable to interest rate risk in the form of price and reinvestment risk. Price risk refers to a change in the value of balance sheet items and reinvestment risk to future changes in interest rates in respect of receivables and payables. Interest rate risk primarily pertains to interest-bearing receivables and liabilities in the balance sheet.

Metsä-Serla aims to hedge the most important interest rate risks. How fast a change in the level of interest rates is reflected in net financial expenses in the profit and loss account depends on the periods during which investments, loans and derivatives are tied to fixed interest rates, i.e. on how long the interest rate of a financial item is fixed. The instruments used to manage interest rate risk are forward rate agreements, futures, interest rate swaps and options.

The duration of the Group's net interest rate position as at 31 December 1998 was 15 months and during the year the duration varied in the range of 15–25 months.

## LIQUIDITY RISK

Liquidity risk means that financial assets and borrowing facilities do not suffice to cover the financing need of operations or that funding becomes immoderately expensive. Within the Group, liquidity risk is monitored by estimating the liquidity need over a period of 12 months and comparing it with the amount of available liquidity.

The amount of the Group's liquid assets and investments at the end of the year was FIM 2 272 million. In addition to these, at the balance sheet date the Group had available binding credit facility agreements in an amount of about FIM 5.9 billion. To cover its short-term financing needs, the Group has established domestic and foreign commercial paper programmes and uncommitted credit lines in an amount of about FIM 2.5 billion. At the balance sheet date, the Group's interest-bearing liabilities totalled about FIM 10.0 billion.

## Treasury Management and Management of Financing Risks

### INVESTMENT POLICY AND COUNTERPARTY RISK

Financial instruments involve a risk that the Group will sustain losses because the counterparty is either totally or partially unable to meet its commitments. The Group manages counterparty risk by handling its financial transactions only with the most creditworthy counterparties and within the framework of limits that have been decided in advance.

At the end of 1998, FIM 2 272 million of the total liquidity consisted of liquid assets. The investment of these assets productively and safely has been decided as part of the financing policy, which covers the selection of investment instruments and investment markets as well as the management of counterparty risk. Investment instruments and markets are chosen in such a way that the investment can be converted to cash quickly and at a small cost. Because only the most creditworthy financial institutions are chosen as counterparties, defaults on payment obligations are not anticipated.

### METSÄ FINANCE

Metsä Group Financial Services Oy (Metsä Finance) is the Group's subsidiary which is specialized in financing and acts as the Group's internal bank. Its task is the management of financing risks, the optimization of financing costs, the maintenance of adequate liquidity as well as negotiations concerning financing and maintaining relationships with providers or financing. In addition, it produces financing information and training for the Group companies. Metsä Finance had a payroll of 17 employees.

### DERIVATIVE AGREEMENTS

On the balance sheet date the Group had open derivative contracts hedging the following financial risks.

	<b>Maturity months</b>	<b>Counter-values 31.12.1998 (FIM mill.)</b>
Forward (foreign exchange contracts)	< 12 months	137
Foreign exchange options bought and sold	< 12 months	165
Forward interest rate agreements	< 12 months	124
Interest rate options bought and sold	< 2 years	21
Interest rate swaps	< 7 years	69

At Note 21 (Contingent liabilities) a schedule is given of the gross volume and fair values of derivative contracts at 31 December 1998.

### Bank of Finland exchange rates at 31.12.

	<b>1998</b>	<b>1997</b>	<b>1996</b>	<b>1995</b>	<b>1994</b>
GBP	8.4280	8.9920	7.8690	6.7410	7.4090
USD	5.0960	5.4207	4.6439	4.3586	4.7432
DEM	3.0400	3.0275	2.9880	3.0435	3.0615
FRF	0.9064	0.9046	0.8862	0.8906	0.8873
SEK	0.6267	0.6863	0.6748	0.6546	0.6358
ECU	5.9457	5.9890	5.7700	5.5970	5.8150

# Metsä-Serla's Year 2000 Project

## BACKGROUND

In past years, the design and implementation of information technology has not taken sufficient account of the impact of the millennium change. The problem is the correctness of processing the date in computer software, operating systems and, in particular, in so-called embedded information technology. At the turn of the millennium, this may cause problems in the operation of computers, information systems and automation systems at our companies and in the functions of our partners in cooperation. Information system-related disturbances can affect our own operational ability and that of our partners in a way that is difficult to formulate in precise terms.

## ORGANIZATION OF THE YEAR 2000 PROJECT

Metsä-Serla has a Group-wide Year 2000 project that was launched in the spring 1997. The project covers all Metsä-Serla's business units in Finland and abroad.

The business units have operational responsibility for their own functional preparedness at the turn of the millennium and thereafter. For each business unit, a person has been appointed to be in charge of Year 2000 preparations and within the unit responsibilities have been designated by subarea. The units have drawn up project plans complete with timetables, cost estimates and contingency plans.

## DESCRIPTION OF THE YEAR 2000 PROJECT

Metsä-Serla's Year 2000 project is divided into four stages:

### Stage 1

Collecting of information for the actual project work and drawing up of action plans, 26 May - 30 September 1997.

### Stage 2

Carrying out the changes required by the technology used by the business units,  
1 October 1997 - 31 December 1998.



Kari Kannisto of the Tako mill is taking part in the Year 2000 project.

### Stage 3

Testing the operation of the modifications carried out and approving the solutions,  
1 May 1998 - 30 June 1999.

### Stage 4

Tracking and monitoring of Year 2000 compliance beginning on 1 May 1998 and extending up to 31 May 2000.

The project will progress according to plan, with the priority for the current year being the implementation and testing of the required measures. Major operational risks connected with the Year 2000 have not been detected.

## RISKS CONNECTED WITH THE YEAR 2000

Work has been carried out at the Group level in cooperation with suppliers of the information systems that are of greatest importance for business operations in order to ensure sufficient resources, cost-effectiveness and sticking to agreed timetables in the best possible way.

Within the Group, a survey has been carried out on the risk connected with the operational ability of our suppliers of goods and services. In addition to discussions that have been held, the aim has been to ensure the operational ability of key suppliers by inspecting their Year 2000 capabilities. It is difficult to forecast precisely the Year 2000 risks connected with external

partners, but on the basis of the studies that have been carried out so far, major operational risks have not been observed.

## COSTS OF THE YEAR 2000 PROJECT

According to present calculations, the total costs of the project are estimated to be about FIM 45 million.

# Quarterly Data 1997 - 1998

TURNOVER FIM mill.	1998		1997		1998				1997			
	I-IV	I-IV	IV	III	II	I	IV	III	II	I		
<b>Paper Group</b>	<b>8 063</b>	<b>7 218</b>	<b>1 989</b>	<b>1 942</b>	<b>2 022</b>	<b>2 110</b>	<b>2 067</b>	<b>1 882</b>	<b>1 743</b>	<b>1 526</b>		
- Magazine paper	3 278	2 895	836	776	824	842	866	762	698	569		
- Fine paper	4 785	4 323	1 153	1 166	1 198	1 268	1 201	1 120	1 045	957		
<b>Packaging and Consumer Products Group</b>	<b>8 364</b>	<b>7 847</b>	<b>1 928</b>	<b>2 035</b>	<b>2 200</b>	<b>2 201</b>	<b>2 134</b>	<b>2 040</b>	<b>1 983</b>	<b>1 690</b>		
<b>Packaging Group</b>	<b>6 326</b>	<b>5 954</b>	<b>1 423</b>	<b>1 540</b>	<b>1 694</b>	<b>1 669</b>	<b>1 619</b>	<b>1 580</b>	<b>1 515</b>	<b>1 240</b>		
- Paperboard	3 418	3 152	746	848	920	904	851	875	821	605		
- Corrugated packaging	1 335	1 269	319	337	344	335	341	320	316	292		
- Packaging raw materials	1 771	1 706	399	417	472	483	462	428	427	389		
- Internal sales, Packaging Group	-198	-173	-41	-62	-42	-53	-35	-43	-49	-46		
<b>Tissue Group</b>	<b>2 038</b>	<b>1 893</b>	<b>505</b>	<b>495</b>	<b>506</b>	<b>532</b>	<b>515</b>	<b>460</b>	<b>468</b>	<b>450</b>		
<b>Merchanting and Trading Group</b>	<b>2 732</b>	<b>1 707</b>	<b>644</b>	<b>615</b>	<b>744</b>	<b>729</b>	<b>475</b>	<b>416</b>	<b>418</b>	<b>398</b>		
<b>Pulp Group</b>	<b>4 227</b>	<b>4 711</b>	<b>897</b>	<b>991</b>	<b>1 051</b>	<b>1 288</b>	<b>1 368</b>	<b>1 289</b>	<b>1 134</b>	<b>920</b>		
- Pulp	4 077	4 130	897	991	1 051	1 138	1 200	1 170	976	784		
- Sawn goods	173	687	0	0	0	173	200	143	188	156		
- Internal sales, Pulp Group	-23	-106	0	0	0	-23	-32	-24	-30	-20		
Internal sales and others	-2 438	-2 301	-436	-597	-659	-746	-605	-645	-451	-600		
<b>METSÄ-SERLA</b>	<b>20 948</b>	<b>19 182</b>	<b>5 022</b>	<b>4 986</b>	<b>5 358</b>	<b>5 582</b>	<b>5 439</b>	<b>4 982</b>	<b>4 827</b>	<b>3 934</b>		

OPERATING PROFIT AND RESULT FIM mill.	1998		1997		1998				1997			
	I-IV	I-IV	IV	III	II	I	IV	III	II	I		
<b>Paper Group</b>	<b>1 071</b>	<b>292</b>	<b>257</b>	<b>246</b>	<b>267</b>	<b>301</b>	<b>133</b>	<b>98</b>	<b>52</b>	<b>9</b>		
- Magazine paper	653	254	150	151	171	181	118	92	43	1		
- Fine paper	418	38	107	95	96	120	15	6	9	8		
<b>Packaging and Consumer Products Group</b>	<b>839</b>	<b>828</b>	<b>128</b>	<b>218</b>	<b>214</b>	<b>279</b>	<b>183</b>	<b>239</b>	<b>201</b>	<b>205</b>		
<b>Packaging Group</b>	<b>692</b>	<b>654</b>	<b>101</b>	<b>166</b>	<b>187</b>	<b>238</b>	<b>138</b>	<b>190</b>	<b>164</b>	<b>162</b>		
- Paperboard	512	452	74	127	142	169	96	141	104	111		
- Corrugated packaging	33	65	10	-2	16	9	16	15	17	17		
- Packaging raw materials	147	137	17	41	29	60	26	34	43	34		
<b>Tissue Group</b>	<b>147</b>	<b>174</b>	<b>27</b>	<b>52</b>	<b>27</b>	<b>41</b>	<b>45</b>	<b>49</b>	<b>37</b>	<b>43</b>		
<b>Merchanting and Trading Group</b>	<b>20</b>	<b>53</b>	<b>-3</b>	<b>-2</b>	<b>14</b>	<b>11</b>	<b>13</b>	<b>13</b>	<b>15</b>	<b>12</b>		
<b>Pulp Group</b>	<b>497</b>	<b>804</b>	<b>-27</b>	<b>150</b>	<b>129</b>	<b>245</b>	<b>338</b>	<b>295</b>	<b>74</b>	<b>97</b>		
- Pulp	489	718	-27	150	129	237	313	282	44	79		
- Sawn goods	8	86	0	0	0	8	25	13	30	18		
<b>Others</b>	<b>-128</b>	<b>39</b>	<b>-3</b>	<b>24</b>	<b>-33</b>	<b>-116</b>	<b>15</b>	<b>-54</b>	<b>113</b>	<b>-35</b>		
<b>Operating profit</b>	<b>2 299</b>	<b>2 016</b>	<b>352</b>	<b>636</b>	<b>591</b>	<b>720</b>	<b>682</b>	<b>591</b>	<b>455</b>	<b>288</b>		
- % of turnover	11,0	10,5	7,0	12,8	11,0	12,9	12,5	11,9	9,4	7,3		
Net exchange gains/losses	<b>50</b>	<b>-381</b>	<b>43</b>	<b>25</b>	<b>1</b>	<b>-19</b>	<b>-169</b>	<b>-70</b>	<b>-120</b>	<b>-22</b>		
Other financial income and expenses	<b>-525</b>	<b>-627</b>	<b>-118</b>	<b>-116</b>	<b>-140</b>	<b>-151</b>	<b>-180</b>	<b>-152</b>	<b>-158</b>	<b>-137</b>		
<b>PROFIT BEFORE EXTRAORDINARY ITEMS</b>	<b>1 824</b>	<b>1 008</b>	<b>277</b>	<b>545</b>	<b>452</b>	<b>550</b>	<b>333</b>	<b>369</b>	<b>177</b>	<b>129</b>		
- % of turnover	8,7	5,3	5,5	10,9	8,4	9,9	6,1	7,4	3,7	3,3		

KEY FIGURES	Turnover		Operating profit		Operating profit		Capital employed		Return on		Personnel	
	FIM mill.		FIM mill.		%		average, FIM mill.		capital employed, %		average	
	98	97	98	97	98	97	98	97	98	97	98	97
<b>Paper Group</b>	<b>8 063</b>	<b>7 218</b>	<b>1 071</b>	<b>292</b>	<b>13,3</b>	<b>4,0</b>	<b>6 732</b>	<b>6 259</b>	<b>16,0</b>	<b>4,9</b>	<b>3 311</b>	<b>3 431</b>
- Magazine paper	3 278	2 895	653	254	19,9	8,8	2 578	2 378	25,5	11,4	1 338	1 402
- Fine paper	4 785	4 323	418	38	8,7	0,9	4 154	3 881	10,1	1,0	1 973	2 029
<b>Packaging and Consumer Products Group</b>	<b>8 364</b>	<b>7 847</b>	<b>839</b>	<b>828</b>	<b>10,0</b>	<b>10,6</b>	<b>6 326</b>	<b>5 101</b>	<b>13,8</b>	<b>16,2</b>	<b>7 932</b>	<b>6 727</b>
<b>Packaging Group</b>	<b>6 326</b>	<b>5 954</b>	<b>692</b>	<b>654</b>	<b>10,9</b>	<b>11,0</b>	<b>4 780</b>	<b>4 176</b>	<b>15,1</b>	<b>16,3</b>	<b>5 352</b>	<b>5 002</b>
- Paperboard	3 418	3 152	512	452	15,0	14,3	3 081	2 461	17,0	18,7	2 014	1 959
- Corrugated packaging	1 335	1 269	33	65	2,5	5,1	585	553	7,9	14,0	2 691	2 298
- Packaging raw materials	1 771	1 706	147	137	8,3	8,0	1 114	1 162	13,5	12,2	647	745
<b>Tissue Group</b>	<b>2 038</b>	<b>1 893</b>	<b>147</b>	<b>174</b>	<b>7,2</b>	<b>9,2</b>	<b>1 546</b>	<b>925</b>	<b>10,0</b>	<b>19,2</b>	<b>2 580</b>	<b>1 725</b>
<b>Merchanting and Trading Group</b>	<b>2 732</b>	<b>1 707</b>	<b>20</b>	<b>53</b>	<b>0,7</b>	<b>3,1</b>	<b>472</b>	<b>318</b>	<b>4,8</b>	<b>17,2</b>	<b>820</b>	<b>691</b>
<b>Pulp Group</b>	<b>4 227</b>	<b>4 711</b>	<b>497</b>	<b>804</b>	<b>11,8</b>	<b>17,1</b>	<b>5 834</b>	<b>5 393</b>	<b>8,0</b>	<b>14,9</b>	<b>1 569</b>	<b>1 883</b>
- Pulp	4 077	4 130	489	718	12,0	17,4	5 834	5 068	8,0	14,2	1 492	1 574
- Sawn goods	173	687	8	86	4,6	12,5	0	326	0,0	26,5	77	309
Internal sales and others	-2 438	-2 301	-128	39	0,0	0,0	0	0	0	0	979	726
<b>METSÄ-SERLA</b>	<b>20 948</b>	<b>19 182</b>	<b>2 299</b>	<b>2 016</b>	<b>11,0</b>	<b>10,5</b>	<b>23 118</b>	<b>20 389</b>	<b>11,0</b>	<b>11,2</b>	<b>14 611</b>	<b>13 458</b>



# Report of the Board of Directors and Financial Reports 1998

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# Report of the Board of Directors

Metsä-Serla further developed its group structure during 1998 in line with its chosen strategy. The Group continued to sharpen its focus on its key business areas: printing, packaging and consumer products (tissue paper). Metsä-Serla's financial result nearly doubled compared with the previous year. The improvement in profitability was due to the higher average prices for certain product groups – above all, for printing papers – than in the previous year, to the growth in delivery volumes and to further gains that have been made in raising cost-effectiveness. A factor that weakened profitability, however, was the fact that the average price of pulp fell below the previous year's level. This cut into earnings, particularly in the last quarter.

Consolidated operating profit rose to FIM 2 299 million and profit before extraordinary items to FIM 1 824 million. Profitability improved, particularly in the Paper Group, whose operating profit nearly quadrupled on the previous year's figure. The Packaging Group also improved its profitability somewhat. The operating profit of the other business groups, the Pulp Group in particular, declined compared with the previous year.

The Board of Directors will propose to the Annual General Meeting the payment of a dividend of FIM 2.60 per share, which corresponds to 34 per cent of the net earnings per share. The dividend paid for 1997 was FIM 1.80 per share.

## THE ECONOMIC ENVIRONMENT

Metsä-Serla's most important market area is the European Union (EU). The biggest trading partners are the UK, Germany and France.

Total output in the EU area increased by an average of three per cent last year in spite of the difficulties that beset the world economy. The growth in exports weakened markedly, and the thrust of demand shifted to domestic demand.

In early May, a decision was taken on the countries that would be in the first wave of stage three of EMU. Finland was one of the 11 countries chosen. Of Finland's important trading partners, Sweden and the UK opted out of EMU. The third stage of EMU began at the start of 1999. The introduction of the single currency, the euro, also unified the short interest rates of the countries in the EMU zone.

The economic expansion in the United States has continued for nearly the entire decade, but inflation has remained low. This made it possible to ease monetary policy by lowering interest rates last autumn, with the objective of heading off a recession.

The economic crisis in eastern Asia escalated into an international financial crisis, eventually

spreading to Russia and several other countries in the autumn. Japan's industrial production and total output contracted markedly, and the country's economy is in great difficulties. The United States and Western Europe came through the economic storm largely unscathed, though in their economies, too, growth in industrial production slowed down towards the end of the year.

In Finland, total output increased by about five per cent last year. The thrust of growth shifted to domestic demand. Capital expenditures increased further and by a substantial amount. In the first half of last year, exports continued their strong growth, which then began to taper off, as it did in the other Western industrial countries towards the end of the year. The current account balance again showed a substantial surplus. Despite the slowdown, industrial production rose by seven per cent last year. The forest industry saw its output grow by some five per cent. Within industry, including paper manufacturers, capacity utilization rates fell in the latter months of the year due to the slowdown in industrial growth.

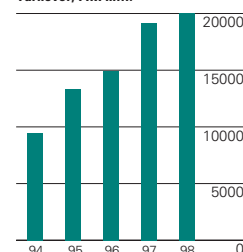
The exchange rates of the most important currencies for Metsä-Serla's operations, the US dollar and the pound sterling, were relatively strong in the early months of the year but weakened in the course of the autumn. Both currencies were nevertheless on average at a 3-4 per cent higher level in 1998 than they were a year earlier. The value of the Finnish markka against the EMU currencies remained stable throughout the year. With the introduction of the euro, Metsä-Serla's currency flow exposure has diminished by nearly a half from its previous level.

## THE MARKET

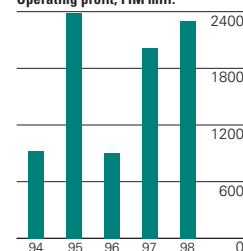
Demand for the paper grades produced by Metsä-Serla remained by and large good throughout the year. The demand for fine papers, however, weakened in the latter half of the year. Prices of magazine papers held up well, but weakened somewhat in the second half of the year. In foreign currency terms, selling prices were on average 12 per cent higher than they were a year earlier. Prices of fine papers headed downward at the end of the first quarter. The downward trend has been steady, bringing prices in the industry to an unsatisfactory level.

Consumption of folding boxboard in Western Europe grew by 5 per cent on the previous year. The market situation for both folding boxboard and wall-paper base nevertheless weakened in the third quarter owing to the economic difficulties in Russia and Asia. The average prices for both grades of board in Finnish markka terms were at the 1997 level. Demand for corrugated packaging in Europe grew by 3

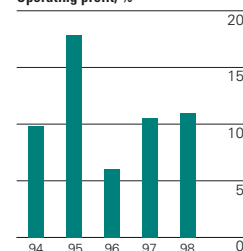
Turnover, FIM mill.



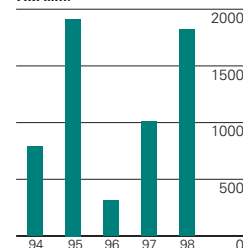
Operating profit, FIM mill.



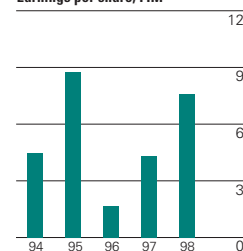
Operating profit, %

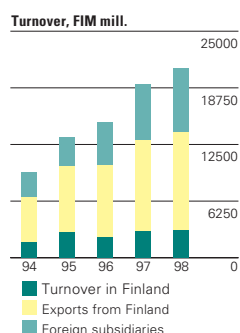


Profit before extraordinary items, FIM mill.



Earnings per share, FIM





**Turnover by countries**

	1998	1997
Great Britain	3 546	3 418
Finland	3 052	2 939
Germany	2 791	2 512
France	1 465	1 218
Denmark	850	940
Spain	778	644
Sweden	768	786
USA	721	509
Italy	706	653
The Netherlands	546	482
Switzerland	545	499
Poland	476	263
Russia	381	423
Norway	328	347
Australia	324	352
Greece	315	371
Hong Kong	271	228
Belgium	266	254
China	210	141
Austria	203	169
Canada	193	126
India	184	52
Baltic countries	177	104
Japan	132	225
Ireland	127	124
Portugal	76	65
Other countries	616	429
Other Asia	474	461
Other Europe	447	410
Others	-20	38
<b>Metsä-Serla</b>	<b>20 948</b>	<b>19 182</b>

per cent. Prices varied by market area, but on average they were in line with 1997 prices. Demand for packaging raw materials in the first part of the year was clearly brisker than it was a year earlier, but towards the end of the year demand slackened. The price level also weakened in the latter months of the year.

Demand for tissue paper products in continental Europe grew by 2-3 per cent, but in the Nordic countries it remained at nearly the level of the previous year. Price competition tightened up in a number of markets.

The economic crisis in Asia depressed the demand for market pulp. Owing to the unstable market situation, the price of pulp fluctuated during the year. Following the drop at the beginning of the year, the price of softwood pulp peaked at USD 570 per tonne in June and July, but again went into a sharp decline in August. At the end of the year the price had fallen to USD 460.

**TURNOVER AND PROFIT**

Consolidated turnover for 1998 was FIM 20 948 million (19 182 million in 1997). More than half of the growth in turnover came as a result of acquisitions. In comparable terms, the growth in turnover was 4 per cent. Exports and sales by subsidiaries abroad accounted for 85 per cent of turnover (85%). Altogether, 34 per cent (34%) of Metsä-Serla's turnover came from operations outside Finland. Other operating income amounted to FIM 196 million, of which gains on the sale of fixed assets accounted for FIM 63 million.

The Group's operating profit improved on the previous year and was FIM 2 299 million (2 016 million in 1997), or 11.0 per cent of turnover (10.5%).

The Paper Group's operating profit improved substantially and was FIM 1 071 million (292 million in 1997). The Packaging and Consumer Products Group posted operating profit of FIM 692 million (654 million in 1997). Operating profit reported by the Tissue Paper Group (Metsä Tissue Corporation) declined and was FIM 147 million (174 million in

1997). The Merchating and Trading Group also saw its operating profit fall to FIM 20 million (53 million in 1997). The Pulp Group's operating profit fell markedly and was FIM 497 million (804 million in 1997).

Metsä-Serla's profit before extraordinary items was FIM 1 824 million (1 008 million in 1997). The Group's net financial expenses decreased to FIM 475 million (1 008 million in 1997). The decrease was due above all to the change in foreign exchange differences on loans denominated in foreign currency. Financial income and expenses includes FIM 50 million of gains on foreign exchange, whereas the corresponding figure a year earlier was a loss of FIM 381 million.

The Group's extraordinary income and expenses were FIM 97 million. The main items booked under extraordinary income are a FIM 19 million capital gain on UPM-Kymmene Oyj shares, a FIM 63 million capital gain on the divestment of Oyj Botnia Wood Ab as well as a FIM 17 million net gain on the sale of shares in Starckjohann Oyj as well as a loan receivable from the company.

Profit before tax was FIM 1 921 million (2 002 million in 1997). The minority interest share of the financial result was FIM 232 million (148 million in 1997) and direct taxes, including the change in the deferred tax, were FIM 606 million (564 million in 1997).

Earnings per share were FIM 7.57 (4.30 in 1997). The return on capital employed was 11.0 per cent (11.2%).

**FINANCIAL POSITION**

Metsä-Serla's financial position and liquidity remained good throughout the year.

Net financial expenses were FIM 533 million less than they were a year earlier, when foreign exchange losses on financing burdened profits by nearly FIM 400 million.

The Group's funds from operations totalled FIM 3 061 million. Despite the good cash flow, the Group's interest-bearing net liabilities grew and

	Turnover FIM mill.		Operating profit FIM mill.		Personnel average	
	98	97	98	97	98	97
<b>Paper Group</b>	<b>8 063</b>	<b>7 218</b>	<b>1 071</b>	<b>292</b>	<b>3 311</b>	<b>3 431</b>
<b>Packaging and Consumer Products Group</b>	<b>8 364</b>	<b>7 847</b>	<b>839</b>	<b>828</b>	<b>7 932</b>	<b>6 727</b>
Packaging Group	6 326	5 954	692	654	5 352	5 002
Tissue Group	2 038	1 893	147	174	2 580	1 725
<b>Merchanting and Trading Group</b>	<b>2 732</b>	<b>1 707</b>	<b>20</b>	<b>53</b>	<b>820</b>	<b>691</b>
<b>Pulp Group</b>	<b>4 227</b>	<b>4 711</b>	<b>497</b>	<b>804</b>	<b>1 569</b>	<b>1 883</b>
<b>Internal sales and others</b>	<b>-2 438</b>	<b>-2 301</b>	<b>-128</b>	<b>39</b>	<b>979</b>	<b>726</b>
<b>METSÄ-SERLA</b>	<b>20 948</b>	<b>19 182</b>	<b>2 299</b>	<b>2 016</b>	<b>14 611</b>	<b>13 458</b>

stood at FIM 7 333 million at the end of the financial year (FIM 6 289 million in 1997). The growth in net liabilities was due above all to the acquisitions made at the end of the year and to the winding up of the accounts receivable securitization programme that was started in the previous year.

The Group's liquid funds and investments totalled FIM 2 272 million at the end of the year (FIM 4 289 million in 1997). The amount of liquid funds has diminished in accordance with the financing strategy that has been chosen, and the Group's liquidity will be maintained to an increasing extent by means of binding credit facilities. At 31 December 1998, the Group had at its disposal binding credit facility agreements amounting to about FIM 5.9 billion. To cover its short-term financing needs, the Group has non-binding commercial paper programmes, both Finnish and foreign, to a value of about FIM 2.5 billion.

At the close of the year, 55 per cent of the Group's long-term loans was denominated in foreign currencies. From the beginning of 1999 euro-denominated loans made up 71 per cent of the loan portfolio, and loans in foreign currency had dropped to 29 per cent. Of these loans, 68 per cent was subject to variable interest rates and the rest to fixed interest rates. The average interest rate for all Metsä-Serla's long-term loans in 1998 was 5.4 per cent.

In March, Metsä Tissue Corporation signed a DEM 100 million syndicated loan agreement. The loan is a multicurrency credit and the loan period is 7 years.

In May, Metsä-Serla Corporation signed credit agreements in a total amount of FIM 450 million with the European Investment Bank.

A programme for securitizing the accounts receivable from paper and paperboard sales, which was started in 1997 and totalled FIM 1.25 billion, was wound up in September. At the time of winding up the programme, off-balance-sheet securitized accounts receivable amounted to FIM 986 million, which following the discontinuance of securitization are now included in the balance sheet.

The credit ratings of Metsä-Serla Corporation and Metsä Group Financial Services Oy (Metsä Finance) were announced at the beginning of December. Standard and Poor's gave Metsä-Serla's long-term loans a BBB rating and Metsä Finance's short-term loans an A2 rating. The corresponding ratings assigned by Moody's Investor Service were Baa2 and P2. The purpose of obtaining the credit ratings is to support the Group's funding in the international markets and to diversify the sources of financing.

In December, a one billion euro global medium term note programme was signed, within the framework of which a 200 million euro issue of notes was floated. The maturity is 7 years and the interest rate is 4.875 per cent. This is the first issue of corporate bonds or notes to be made directly in euros. The issue was sold mainly to investors in continental Europe and the date of its payment was in January 1999.

The equity ratio as at 31 December was 45.9 per cent (42.6% in 1997) and the gearing ratio was 60 per cent (57%).

Distributable shareholders' equity in the consolidated balance sheet as at 31 December 1998 was FIM 2 651 million (2 239 million in 1997).

### THE EURO

At the beginning of May, the 11 countries that would participate in EMU from 1 January 1999 were chosen, and at the same time the exchange rates among the future EMU countries were agreed. When the third stage of EMU got under way at the beginning of 1999, the national currencies disappeared and became embodiments of the new European currency, the euro. Concurrently, the financial and foreign exchange markets went over to using euro amounts. The conversion rates between the currencies in the euro zone were officially set on 31 December 1998 and they came into force on 1 January 1999.

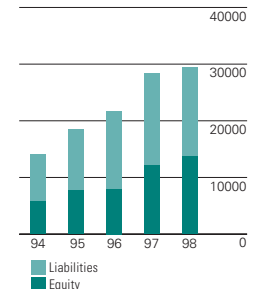
During the year, preparations have been made for introducing the euro by carrying out a Group-wide project. In its business operations, Metsä-Serla has gone over to using the euro as widely as possible right from the beginning of the current year. The Group's interim reports along with other financial information will apply euro notation as from the beginning of the year.

### YEAR 2000

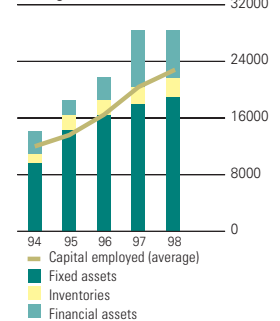
Metsä-Serla is carrying out a Group-wide Year 2000 project that was started in the spring 1997. The project covers all Metsä-Serla's business units in Finland and abroad. Chief responsibility for the project has been assigned to designated individuals at the Group level.

The business units have an operational responsibility for their own year 2000 capability at the turn of the millennium and thereafter. Each business unit has designated its own person in charge of year 2000 preparations, and duties within the unit have been assigned by subarea. The units have prepared project plans complete with implementation timetables, cost estimates and contingency plans. Year 2000 preparedness is discussed in greater detail on page 31 of this Annual Report.

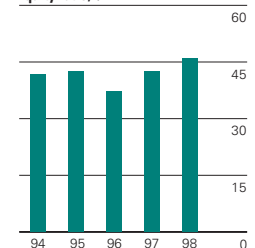
Financial structure, FIM mill.



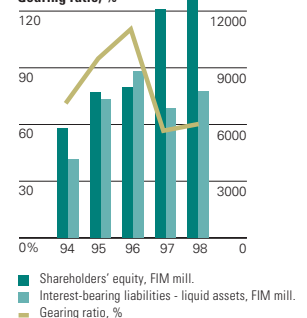
Assets and capital employed (average), FIM mill.



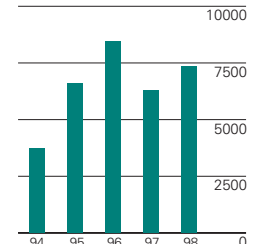
Equity ratio, %



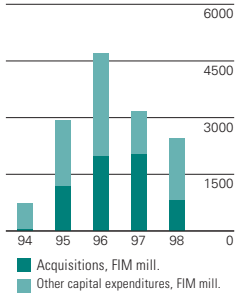
Gearing ratio, %



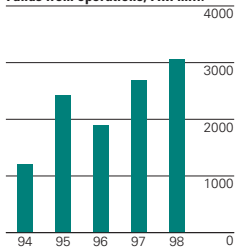
Interest bearing net liabilities, FIM mill.



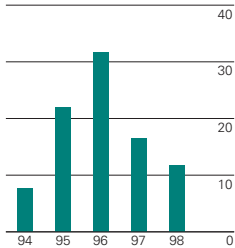
Gross capital expenditures, FIM mill.



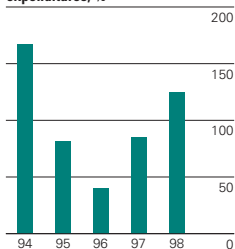
Funds from operations, FIM mill.



Gross capital expenditures, % of turnover



Internal financing of capital expenditures, %



## BOARD OF DIRECTORS AND AUDITORS

The Annual General Meeting held on 20 March 1998 re-elected the following persons to seats on Metsä-Serla's Board of Directors for a term extending up to the next Annual General Meeting: Asmo Kalpala, Erkki Karmila, Curt Lindbom, Seppo T. Niemi, Eero Oittila, Antti Oksanen, Antti Tanskanen and Arimo Uusitalo.

The firm of public accountants SVH Coopers & Lybrand Oy (SVH Pricewaterhouse Coopers Oy as from 12 October 1998) and Ilkka Haarlaa, M.Sc.(Econ.), Authorized Public Accountant, were elected as the company's auditors.

The Board of Directors has no valid authorizations to carry out a share issue or issue of convertible bonds or bonds with warrants.

## CHANGES IN THE GROUP STRUCTURE

The structure of the Metsä-Serla Group was developed during the year under review in line with the chosen strategy.

In November, Metsä-Serla signed an agreement on the purchase of UK Paper of Great Britain. The deal included the entire shares outstanding in the Sittingbourne and New Thames paper mills and the paper merchant Guppy Paper Ltd as well as a 50 per cent stake in the energy company Grovehurst Energy Ltd. The purchase price, free of debt, was FIM 780 million, of which fixed assets amounted to slightly less than FIM 400 million. With the acquisition of UK Paper, Metsä-Serla expanded its fine paper production to Great Britain and became the market leader in Europe's largest fine paper market, with a 17 per cent market share. The deal was consummated at the beginning of the current year.

In the spring, Metsä-Serla spent FIM 60 million to acquire 94 per cent of the shares in the Lithuanian company Medienos Plaušas. The company is Lithuania's largest manufacturer of corrugated board and has a 40 per cent market share.

In December, Metsä-Serla's subsidiary Metsä Tissue Corporation acquired two tissue paper manufacturers, Halstrick and Strepp. The purchase price of Strepp, free of debt, was FIM 750 million, whereas FIM 300 million was spent to acquire Halstrick. Following these acquisitions, Metsä Tissue now has Germany's second largest production capacity in tissue products. Metsä Tissue's pro forma turnover in 1998, including Strepp and Halstrick, rose to over FIM 3.5 billion. At the beginning of the year, the Polish tissue paper company Warszawskie Zakłady Papiernicze S.A. was made a part of the Tissue Paper Group.

At the beginning of the year, the purchase of 70 per cent of the shares outstanding in Price & Pierce,

a world-wide trading house for forest products, was seen to completion pursuant to an agreement signed in the previous year.

In December, Metsä-Serla bought the remaining 25 per cent of the shares outstanding in Amerpap Oy, Finland's leading paper merchant. Following the deal, Amerpap is a wholly-owned subsidiary of Metsä-Serla.

Metsä-Serla's subsidiary Oy Metsä-Botnia Ab sold the entire shares outstanding in Oy Botnia Wood Ab to Oy Metsä Timber Ltd in April. The price of the deal was FIM 165 million.

## CAPITAL EXPENDITURES

Gross capital expenditures for 1998 totalled FIM 2 450 million (3 160 million in 1997). Business acquisitions accounted for FIM 800 million of these expenditures.

Metsä-Serla's most important capital expenditure project during the year under review was the modernization of the chemicals recovery line and power plant at the Joutseno pulp mill of Oy Metsä-Botnia Ab. The capital project enabled the mill to raise its production capacity from 320 000 to 410 000 t/a and to improve its cost-effectiveness. The investment was completed at a cost of FIM 895 million.

A project designed to increase the efficiency of the operations of the Biberist fine paper mill with the aim of boosting the mill's capacity and reducing its staff level was seen to completion during the review year. As a result of the project and related investments in equipment, the number of employees at the mill was reduced by 200 people as planned and the production capacity was increased from 320 000 tonnes to 395 000 tonnes.

An investment aiming at modernizing sheeting operations was carried out at the Äänekoski Art Paper Mill, increasing the sheeting capacity from 100 000 to 160 000 t/a. Also in progress at the mill is a series of investments aiming at increasing the efficiency of the paper machine. Total capacity at the mill will rise to 180 000 tonnes. The investments were carried out at a total cost of FIM 70 million.

A new sheet cutting line and ream packaging machine went into production at the Albbrock magazine paper mill in November. The mill's sheeting capacity rose from 45 000 to 65 000 t/a as a result of the FIM 40 million capital expenditure project.

Modernization works on both paper machines at the Plattling magazine paper mill were started in December. The investments will increase the mill's production capacity by 10 per cent and improve the quality of its gravure paper. The project will be

completed during the first quarter of the current year at a cost of about FIM 90 million.

A new sheeting line for finishing operations was completed at the Simpele paperboard mill at an investment cost of FIM 25 million. Of the mill's 160 000 tonne capacity, 75 per cent is delivered to customers in sheeted form. Thanks to the new sheet cutter, this amount can be cut into sheets right at the mill.

The capacity of the Kemi paperboard machine will be raised by modernizing the press section and by adding drying capacity. The new equipment will come on stream in the first half of 1999.

Modernization of the pulp washing section at the Kemi pulp mill was completed after the Midsummer holidays, and a project to increase the efficiency of oxygen bleaching reached completion in the late months of the year. As part of the development programme at the mill, a decision has also been taken to purchase a new lime kiln, which will be procured in the summer of the current year. The production capacity at the pulp mill will increase by 40 000 tonnes a year. The investments carried out at the Kemi mill total FIM 245 million.

An investment aiming at increasing the efficiency of oxygen bleaching and pulp washing will be carried out at the Äänekoski pulp mill. The project will be completed in the spring 1999 at a cost of FIM 72 million.

Metsä Tissue is carrying out a FIM 70 million investment at its Nyboholm mill in Sweden. The mill's production line will be modernized and 10 000 tonnes of capacity will be added when the project is completed at the end of 1999.

### WOOD AND ENERGY PROCUREMENT

Wood procurement for Metsä-Serla is handled by Metsäliitto Osuuskunta, Metsä-Serla's parent company. At the end of 1998, Metsä-Serla owned about 150 000 hectares (375 000 acres) of woodlands comprising an estimated 12 million cubic metres of wood. The company's land and forest holdings are currently valued at around FIM 1.3 billion (1.3 billion in 1997). Felling in the company's forests produced a total of about 200 000 cubic metres of wood (135 000 in 1997).

Wood consumption by Metsä-Serla's Finnish mills in 1998 was 11.0 million cubic metres (11.2 million in 1997). The divestment of Botnia Wood in April reduced the consumption of wood. The average price of pulp wood at the mill fell by about one per cent, whereas the average price of sawlogs remained at the previous year's level.

Energy consumption by Metsä-Serla's mills increased compared with the previous year, mainly

owing to higher production volumes. The Group's mills in Finland consumed 4 000 GWh of electricity, of which 66 per cent was generated by power plants at the mills. Electricity obtained through the company's shareholding in Pohjolan Voima Oy accounted for 26 per cent of Metsä-Serla's electricity procurement. To produce heat, 17 200 Gwh of fuel was consumed, of which the Group's own process fuels accounted for 66 per cent.

The most important capital project affecting energy economy, was the new recovery boiler and turbine plant for the Joutseno pulp mill of Metsä-Botnia. The investments were completed on schedule in November, and the modernization will reduce the purchased fuel requirement, whilst improving self sufficiency in electricity.

Prices of fuels, particularly oil and coal, were in decline. The price of electricity was also lower than it was a year ago due to the effective use of resources that was made possible by the deregulated electricity market. On the other hand, electricity taxes on industry rose twice during the year under review, for a total hike of nearly 50 per cent. Fuel taxes rose by 45 per cent during the year. In 1998, Metsä-Serla paid FIM 60 million in electricity taxes in Finland and a further FIM 40 million, either directly or indirectly, in fuel tax on purchased heat.

### RESEARCH AND DEVELOPMENT

Metsä-Serla's technology strategy was revamped and work to implement the strategy got under way. The Group launched an extensive project for improving mechanical pulp production and mill operations, and preparatory work was carried out on an integrated project involving the use of wood to produce energy.

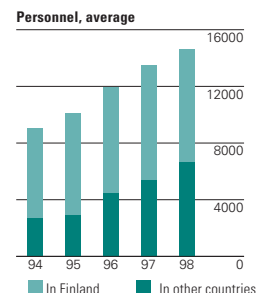
The emphasis in Metsä-Serla's development work has shifted to joint projects involving raw materials, manufacturing and paper products. In these projects a competitive advantage is sought by mastering the entire chain and by optimizing product characteristics.

Softwood pulp from the first thinning of forest stands was subjected to extensive testing at Metsä-Serla's mills during the year under review.

Expenditure on research and development totalled FIM 90 million (85 million in 1997).

### MANAGEMENT OF ENVIRONMENTAL RISKS

The central objectives of environmental protection work at Metsä-Serla's paper and paperboard mills during the year under review were to reduce process water use by means of increased water re-use at the mills and through the internal recycling of materials. Other uses have been sought for wastes and byproducts that cannot be recycled back to their



original process or application. In this way, the company is preparing to meet the anticipated rise in waste management costs in the years ahead.

In its energy solutions, Metsä-Serla has in recent years favoured bioenergy and natural gas, which is the most advantageous fossil fuel in terms of its carbon dioxide emissions. Last year nearly 45 per cent of all the energy used at our production plants came from wood. The completion in October 1998 of the modernized chemicals recovery system at the Joutseno pulp plant will further increase the proportion of bio-fuel in the Group's total energy use.

Metsä-Serla will publish a separate Environmental Report in 1999.

#### **PERSONNEL**

In 1998, Metsä-Serla and its subsidiaries employed an average of 14 611 people (13 458 in 1997). The payroll at 31 December was 15 221 employees (14 078), of whom 7 721 worked abroad (6 258). The Group's total payroll includes 50 per cent of the employees of the MD Papier and Albbrock paper mills in Germany. The net increase in the number of employees due to changes in the Group structure was thus 1 838 people. Excluding these changes, the number of personnel was reduced by 695 employees. The parent company had an average payroll of 3 884 employees, compared with 3 820 employees a year earlier.

#### **OUTLOOK**

This year, economic growth in the industrial countries will fall short of 1998, since the growth in exports is slowing down. Growth will become increasingly dependent on domestic demand.

The growth in total output in Finland is expected to cool down and the growth rate for industrial output will be half of last year's figure. The growth in forest industry output is likely to be modest owing to slackening demand.

The start of stage three of EMU, i.e. the introduction of the European Union's single currency, was accomplished as expected without difficulties at the beginning of the current year. The level of interest rates in the euro zone is very low thanks to inflation that is at a historically low level. Inflationary pressures are still low and this is likely to argue for a further easing of monetary policy.

Consumption of paper is expected to grow despite the slowdown in economic growth. Demand for coated magazine papers is estimated to rise somewhat, but at the same time, capacity utilization rates will nevertheless fall. The price level is estimated to fall slightly.

Within fine papers, consumption is expected to grow and to track the annual 4 per cent growth trend. Despite this, the increase in stocks and the uncertain economic situation, particularly in Asia, will cause downward pressure on the capacity utilization rates at the mills and on the selling prices for fine papers.

As uncertainty concerning the world economy is continuing, demand for paperboard and prices of paperboard products are forecast to be at a lower level than they were a year ago.

All in all, deliveries of corrugated packaging are forecast to grow somewhat. The price trend will continue to vary by market area. Within packaging raw materials, oversupply is expected to continue, at least into the first half of the year. Prices are nevertheless expected to strengthen during the spring.

The market situation for tissue paper is expected to tighten up during the current year. Demand will grow steadily, but will be somewhat outstripped by supply.

The oversupply of pulp is forecast to continue in the current year, too. For this reason, production curtailments at the pulp mills will continue, at least in the first half of the year. In the first part of the year, large changes in the price of pulp are not expected, but it is estimated that prices will rise towards the end of the year.

The outlook for the Metsä-Serla Group in 1999 is weaker than it was in the year under review. The repercussions of the economic crisis in Asia are expected to show up for some time, above all in the fine paper, paperboard and pulp businesses. The economic situation in Russia will exert a drag on operations, particularly those of the wallpaper base business. The average price of pulp is likely to be lower than it was last year. Owing to the weakened market outlook, Metsä-Serla's financial result will be clearly lower than it was in the previous year. Because of the weakened market outlook for the first part of the year, Metsä-Serla's net profit in 1999 is likely to fall markedly short of the previous year's result.

Espoo, February 1999

#### **BOARD OF DIRECTORS**

## Consolidated Profit and Loss Account (FIM)

	1.1.-31.12.1998		1.1.-31.12.1997	
	FIM million	%	FIM million	%
<b>TURNOVER</b>	20 948.4	100.0	19 182.0	100.0
<b>Change in stocks of finished goods and in work in progress</b>	71.2		47.2	
<b>Share of operating profit from associates</b>	30.6		33.2	
<b>Other operating income</b>	195.8		336.5	
Materials and services				
Raw materials and consumables	10 678.0		9 788.8	
Costs of external services	668.6		699.7	
Employee costs	3 342.9		3 142.7	
Depreciation	1 459.9		1 380.7	
Other operating expenses	2 798.0	18 947.4	2 570.9	17 582.8
<b>Operating profit</b>	2 298.6	11.0	2 016.1	10.5
<b>Financial income and expense</b>				
Interest income from Group companies	4.5		3.7	
Income from other financial investments	19.2		11.3	
Other interest and similar income	222.2		260.9	
Net exchange gains/losses	50.3		-381.1	
Interest expense and similar charges	-771.1	-474.9	-903.0	-1 008.2
<b>Profit before extraordinary items</b>	1 823.7	8.7	1 007.9	5.3
<b>Extraordinary items</b>				
Extraordinary income	109.4		1 000.9	
Extraordinary expenses	-12.1	97.3	-7.1	993.8
<b>Profit before tax</b>	1 921.0	9.2	2 001.7	10.4
<b>Taxation</b>	-606.1		-564.1	
<b>Profit before minority interest</b>	1 314.9	6.3	1 437.6	7.5
<b>Minority interest</b>	-232.3		-147.8	
<b>Profit for the financial period</b>	1 082.6	5.2	1 289.8	6.7



## Consolidated Profit and Loss Account (EUR)

	1.1.-31.12.1998		1.1.-31.12.1997	
	EUR million	%	EUR million	%
<b>TURNOVER</b>	3 523.3	100.0	3 226.2	100.0
<b>Change in stocks of finished goods and in work in progress</b>	12.0		7.9	
<b>Share of operating profit from associates</b>	5.1		5.6	
<b>Other operating income</b>	32.9		56.6	
Materials and services				
Raw materials and consumables	1 795.9		1 646.4	
Costs of external services	112.5		117.7	
Employee costs	562.2		528.6	
Depreciation	245.5		232.2	
Other operating expenses	470.6	3 186.7	432.4	2 957.3
<b>Operating profit</b>	386.6	11.0	339.0	10.5
<b>Financial income and expense</b>				
Interest income from Group companies	0.8		0.6	
Income from other financial investments	3.2		1.9	
Other interest and similar income	37.4		43.9	
Net exchange gains/losses	8.5		-64.1	
Interest expense and similar charges	-129.7	-79.8	-151.9	-169.6
<b>Profit before extraordinary items</b>	306.8	8.7	169.4	5.3
<b>Extraordinary items</b>				
Extraordinary income	18.4		168.3	
Extraordinary expenses	-2.0	16.4	-1.2	167.1
<b>Profit before tax</b>	323.2	9.2	336.5	10.4
<b>Taxation</b>	-101.9		-94.9	
<b>Profit before minority interest</b>	221.3	6.3	241.6	7.5
<b>Minority interest</b>	-39.1		-24.9	
<b>Profit for the financial period</b>	182.2	5.2	216.7	6.7

# Consolidated Balance Sheet (FIM)

ASSETS	31.12.1998		31.12.1997	
	FIM million		FIM million	
		%		%
<b>FIXED ASSETS</b>				
<b>Intangible assets</b>				
Intangible assets	75.0		90.2	
Purchased goodwill	177.4		111.0	
Goodwill arising on consolidation	571.8		603.3	
Other capitalized expenditure	102.5	926.7	126.4	930.9
		3.3		3.3
<b>Tangible assets</b>				
Land	1 490.5		1 452.8	
Buildings	3 593.6		3 200.7	
Plant and equipment	10 843.5		10 257.7	
Other tangible assets	109.0		92.0	
Payments in advance and assets in the course of construction	357.9	16 394.5	406.4	15 409.6
		57.9		54.4
<b>Financial investments</b>				
Shares in Group companies	33.9		33.9	
Amounts owed from Group companies	84.9		9.5	
Investments in associated companies	893.5		885.2	
Amounts owed from associated companies	83.0		79.2	
Other investments	383.2		356.8	
Other receivables	70.3	1 548.8	192.8	1 557.4
		5.5		5.5
<b>FIXED ASSETS TOTAL</b>		18 870.0		17 897.9
		66.7		63.2
<b>CURRENT ASSETS</b>				
<b>Inventories</b>				
Raw materials and consumables	907.7		750.3	
Finished goods and goods for resale	1 548.4		1 413.3	
Advance payments	308.5	2 764.6	323.4	2 487.0
		9.8		8.8
<b>Receivables</b>				
Accounts receivable	3 487.7		2 349.8	
Amounts owed from Group companies	241.9		364.2	
Amounts owed from associated companies	14.9		9.8	
Loan receivables	2.3		78.7	
Other receivables	507.9		608.0	
Prepayments and accrued income	149.2	4 403.9	255.5	3 666.0
		15.5		12.9
<b>Investments</b>				
Current financial assets	1 522.1	5.4	3 092.7	10.9
<b>Cash at bank and in hand</b>	749.8	2.6	1 196.4	4.2
<b>CURRENT ASSETS TOTAL</b>		9 440.4		10 442.1
		33.3		36.8
<b>ASSETS TOTAL</b>		28 310.4		28 340.0
		100.0		100.0

Consolidated Balance Sheet (FIM)

	31.12.1998		31.12.1997	
	FIM million	%	FIM million	%
<b>SHAREHOLDERS' EQUITY AND LIABILITIES</b>				
<b>SHAREHOLDERS' EQUITY</b>				
Share capital	1 390.0		1 390.0	
Share premium account	1 548.4		1 548.4	
Revaluation reserve	622.7		627.2	
Other reserves	1.8		0.0	
Equity in previous years untaxed reserves	2 385.5		2 169.2	
Retained earnings	1 983.9		1 219.1	
Profit for the financial period	1 082.6	9 014.9	1 289.8	8 243.7
		31.9		29.1
Convertible subordinated capital notes		1 845.8		1 845.8
		6.5		6.5
<b>SHAREHOLDERS' EQUITY TOTAL</b>		10 860.7		10 089.5
		38.4		35.6
<b>MINORITY INTEREST</b>		2 136.4		1 980.6
		7.5		7.0
<b>PROVISIONS FOR LIABILITIES AND CHARGES</b>		333.6		321.9
		1.2		1.1
<b>LIABILITIES</b>				
<b>Long-term liabilities</b>				
Bonds and debentures	1 250.8		1 328.5	
Loans from financial institutions	5 705.9		5 531.2	
Pension premium loans	648.9		1 407.4	
Deferred tax	1 509.8		1 253.1	
Other liabilities	828.4		790.0	
Accruals and deferred income	10.0	9 953.8	1.9	10 312.1
		35.2		36.4
<b>Short-term liabilities</b>				
Bonds and debentures	77.9		461.5	
Loans from financial institutions	830.3		893.6	
Pension premium loans	584.9		113.9	
Advance payments	4.8		5.0	
Accounts payable	1 284.6		1 198.5	
Bills of exchange payable	1.0		1.0	
Amounts owed to Group companies	153.0		219.8	
Amounts owed to associated companies	26.6		37.5	
Other liabilities	960.0		1 637.6	
Accruals and deferred income	1 102.8	5 025.9	1 067.5	5 635.9
		17.7		19.9
<b>LIABILITIES TOTAL</b>		14 979.7		15 948.0
		52.9		56.3
<b>SHAREHOLDERS' EQUITY AND LIABILITIES TOTAL</b>		28 310.4		28 340.0
		100.0		100.0

# Consolidated Balance Sheet (EUR)

<b>ASSETS</b>	<b>31.12.1998</b>		<b>31.12.1997</b>	
	<b>EUR million</b>	<b>%</b>	<b>EUR million</b>	<b>%</b>
<b>FIXED ASSETS</b>				
<b>Intangible assets</b>				
Intangible assets	12,6		15,2	
Purchased goodwill	29,8		18,7	
Goodwill arising on consolidation	96,2		101,5	
Other capitalized expenditure	17,2	155,8	21,2	156,6
<b>Tangible assets</b>				
Land	250,7		244,3	
Buildings	604,4		538,3	
Plant and equipment	1 823,7		1 725,2	
Other tangible assets	18,3		15,5	
Payments in advance and assets in the course of construction	60,2	2 757,3	68,4	2 591,7
<b>Financial investments</b>				
Shares in Group companies	5,7		5,7	
Amounts owed from Group companies	14,3		1,6	
Investments in associated companies	150,3		148,9	
Amounts owed from associated companies	14,0		13,3	
Other investments	64,4		60,0	
Other receivables	11,8	260,5	32,4	261,9
<b>FIXED ASSETS TOTAL</b>		<b>3 173,6</b>		<b>3 010,2</b>
		<b>66,7</b>		<b>63,2</b>
<b>CURRENT ASSETS</b>				
<b>Inventories</b>				
Raw materials and consumables	152,7		126,1	
Finished goods and goods for resale	260,4		237,7	
Advance payments	51,9	465,0	54,4	418,2
<b>Receivables</b>				
Accounts receivable	586,6		395,2	
Amounts owed from Group companies	40,7		61,3	
Amounts owed from associated companies	2,5		1,6	
Loan receivables	0,4		13,2	
Other receivables	85,4		102,3	
Prepayments and accrued income	25,1	740,7	43,0	616,6
<b>Investments</b>				
Current financial assets		256,1		520,2
		5,4		10,9
<b>Cash at bank and in hand</b>		<b>126,1</b>		<b>201,2</b>
		<b>2,6</b>		<b>4,2</b>
<b>CURRENT ASSETS TOTAL</b>		<b>1 587,9</b>		<b>1 756,2</b>
		<b>33,3</b>		<b>36,8</b>
<b>ASSETS TOTAL</b>		<b>4 761,5</b>		<b>4 766,4</b>
		<b>100,0</b>		<b>100,0</b>

Consolidated Balance Sheet (EUR)

	31.12.1998		31.12.1997	
SHAREHOLDERS' EQUITY AND LIABILITIES	EUR million		EUR million	
		%		%
<b>SHAREHOLDERS' EQUITY</b>				
Share capital	233,8		233,8	
Share premium account	260,4		260,4	
Revaluation reserve	104,7		105,5	
Other reserves	0,3		0,0	
Equity in previous years untaxed reserves	401,2		364,8	
Retained earnings	333,7		205,1	
Profit for the financial period	182,1	1 516,2	216,9	1 386,5
		31,9		29,1
Convertible subordinated capital notes		310,4		310,4
		6,5		6,5
<b>SHAREHOLDERS' EQUITY TOTAL</b>		1 826,6		1 696,9
		38,4		35,6
<b>MINORITY INTEREST</b>		359,3		333,1
		7,5		7,0
<b>PROVISIONS FOR LIABILITIES AND CHARGES</b>		56,1		54,1
		1,2		1,1
<b>LIABILITIES</b>				
<b>Long-term liabilities</b>				
Bonds and debentures	210,4		223,4	
Loans from financial institutions	959,7		930,3	
Pension premium loans	109,1		236,7	
Deferred tax	253,9		210,8	
Other liabilities	139,3		132,9	
Accruals and deferred income	1,7	1 674,1	0,3	1 734,4
		35,2		36,4
<b>Short-term liabilities</b>				
Bonds and debentures	13,1		77,6	
Loans from financial institutions	139,6		150,3	
Pension premium loans	98,4		19,2	
Advance payments	0,8		0,8	
Accounts payable	216,1		201,6	
Bills of exchange payable	0,2		0,2	
Amounts owed to Group companies	25,7		37,0	
Amounts owed to associated companies	4,5		6,3	
Other liabilities	161,5		275,4	
Accruals and deferred income	185,5	845,4	179,5	947,9
		17,7		19,9
<b>LIABILITIES TOTAL</b>		2 519,5		2 682,3
		52,9		56,3
<b>SHAREHOLDERS' EQUITY AND LIABILITIES TOTAL</b>		4 761,5		4 766,4
		100,0		100,0

# Consolidated Profit and Loss Account, *Profit Analysis*

## TURNOVER

Consolidated turnover was FIM 20 948 million (19 182 in 1997). Turnover grew by FIM 1 766 million, or 9.2 per cent on the previous year. Higher delivery volumes and selling prices in Finnish markka terms increased turnover by 4 per cent, the remaining 5 per cent of the growth being attributable to the net effect of acquisitions and divestments of companies.

The exchange rates of the pound sterling and the US dollar – which are important currencies for the Group's sales activities – against the Finnish markka were on average slightly higher than they were a year ago, the pound being up 4 per cent and the dollar 3 per cent, but both currencies weakened towards the end of the year. Both currencies account for about 20 per cent of the Group's sales revenues. Exports from Finland and the turnover of subsidiaries abroad amounted to 85 per cent of total turnover (85%).

## OPERATING PROFIT

The Group's operating profit increased to FIM 2 299 million (2 016 in 1997) and was 11.0 per cent of turnover (10.5%). The biggest improvement in profitability was reported by the Paper Group, whose operating profit was up FIM 779 million to FIM 1 071 million. The Group's earnings were improved by higher selling prices in Finnish markka than in the previous year, by increased delivery volumes, the internal enhancement of operations as well as lower pulp prices than a year ago. The Packaging Group also reported improved operating profit thanks to the good earnings trend of the Paperboard Division. The division's profitability was improved above all by the good demand in the first part of the year. The Pulp Group's operating profit (net of sawn goods) fell by FIM 229 million and was FIM 489 million. Profitability was weakened mainly by the level of selling prices, which was lower than a year ago, and weaker demand. The Corrugated Board Division's operating profit was weakened by losses on foreign exchange incurred in the foreign currency-denominated balance sheet items of Russian subsidiaries following the collapse of the rouble.

Other operating income totalled FIM 196 million (337 million in 1997). The sum does not include major non-recurring items. In the previous year, non-recurring gains on the sale of assets amounted to about FIM 170 million.

The operating profit figure includes FIM 28 million of gains on foreign exchange arising from hedging of foreign currency exposure (a loss of FIM 67 million in 1997).

## PROFIT BEFORE EXTRAORDINARY ITEMS

Profit before extraordinary items grew to FIM 1 824 million (1 008 in 1997). Net financial expenses were FIM 525 million (627 million). The average rate of interest on loans remained at the previous year's level and was 5.4 per cent. Financial items include net foreign exchange gains of FIM 50 million on loans denominated in foreign currency and on other financial items, whereas in the previous year the corresponding figure was a loss of FIM 381 million.

## EXTRAORDINARY ITEMS

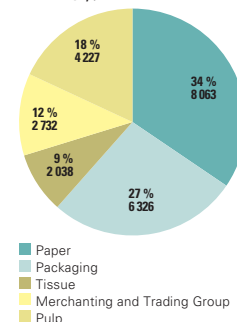
Extraordinary items include a capital gain of FIM 19 million on UPM-Kymmene Corporation shares as well as a capital gain of FIM 63 million on the sale of Oy Botnia Wood Ab shares and a FIM 17 million net gain on the sale of Starckjohann Oyj shares as well as a loan receivable from the company.

## TAXATION AND MINORITY INTEREST

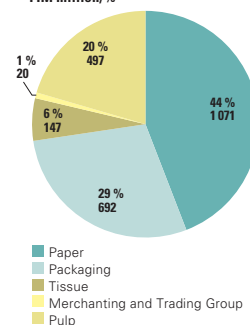
Direct taxes were FIM 606 million, of which FIM 318 million represented taxes payable for the financial year. The deferred tax liability increased by FIM 284 million.

Minority interest of FIM 232 million is due almost entirely to the minority holdings in Oy Metsä-Botnia Ab and Metsä Tissue Corporation. The minority interest in Metsä-Botnia is 47.7 per cent and in Metsä Tissue it is 43.1 per cent.

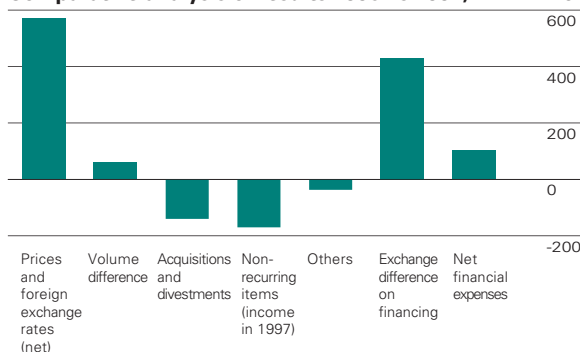
Turnover by business group, FIM million/%



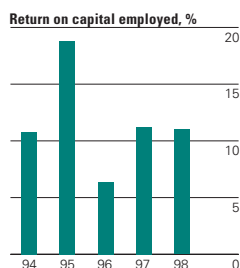
Operating profit by business group, FIM million/%



Comparative analysis of results 1998 vs 1997, FIM Million



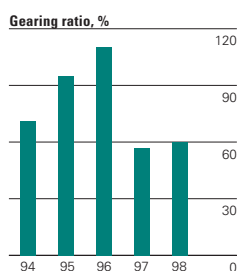
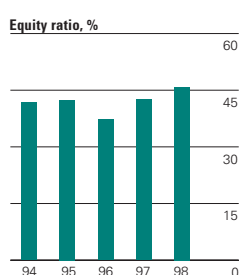
# Consolidated Balance Sheet, *Balance Sheet Analysis*



## ASSETS AND CAPITAL EMPLOYED

The Group's total assets remained at the previous year's level and stood at FIM 28 310 million (28 340 million at 31 December 1997). Although the total assets figure was virtually the same, the following changes took place in the structure of asset items during the year:

	FIM million
Capital expenditures on fixed assets	1 650
Fixed assets of acquired and divested companies	780
Depreciation	-1 460
Inventories	278
Accounts receivable	1 138
Liquid funds	-2 017
Other items	-399
<b>Total</b>	<b>-30</b>



The largest item within capital expenditures on fixed assets is the Joutseno pulp mill project, for which a large portion of the costs was incurred during the year under review. The effect on fixed assets of the German tissue paper manufacturers Halstrick and Strepp, which were acquired at the end of the year, was FIM 840 million.

Inventories grew mainly as a result of acquisitions. The winding up in September of the securitization of the accounts receivable of the paper and paperboard functions increased the amount of accounts receivable compared with the previous year by FIM 986 million. The remainder of the increase in accounts receivable is attributable mainly to acquisitions. The Group's cash funds were reduced according to plan, and liquid funds amounted to FIM 2 272 million at the end of the of the year (4 289 million in 1997).

Capital employed totalled FIM 23 029 million at the end of the year (23 207 million in 1997). The accompanying table shows the breakdown of capital employed by business group.

## Financing

Consolidated shareholders' equity net of minority interest stood at FIM 10 861 million at the end of the financial year (10 089 million in 1997). No major changes affected shareholders' equity apart from the net profit for the financial year and the dividend payout. Interest-bearing liabilities amounted to FIM 10 032 million, a decrease of FIM 1 105 million on the previous year.

Interest bearing net liabilities (= interest-bearing liabilities less liquid funds and other interest-bearing receivables) increased by FIM 1 044 million and amounted to FIM 7 333 million at the end of the year (6 289 million). Despite the good cash flow, FIM 3 061 million, net liabilities increased towards the end of the year, mainly as a consequence of the acquisitions that were carried out and the winding up of the securitization programme for accounts receivable.

## Key ratios

The return on capital employed remained at the previous year's level and was 11.0 per cent (11.2%). The equity ratio improved and was 45.9 per cent at the end of the year (42.6%). The gearing ratio, however, weakened slightly and was 60 per cent (57%).

### Capital employed 31 December

FIM million	1998	1997	Change
Paper Group	6 797	6 668	129
Packaging Group	4 707	4 852	-145
Tissue Group	2 086	1 003	1 083
Merchanting and Trading Group	595	348	247
Pulp Group	5 773	5 896	-123
<b>Total</b>	<b>19 958</b>	18 767	1 191
Other assets	3 071	4 440	-1 369
<b>Group total</b>	<b>23 029</b>	23 207	-178

# Cash Flow Statements

	Group		Parent company	
	1998 FIM million	1997 FIM million	1998 FIM million	1997 FIM million
<b>FUNDS FROM OPERATIONS</b>				
Operating profit	2 268.0 *	1 982.9 *	1 033.0	729.8
Depreciation according to plan	1 459.9	1 380.7	578.1	541.7
Change in provisions for liabilities and charges	11.7	-60.1	-6.7	31.5
Net financial items	-448.4 *	-983.9 *	-167.6	-581.4
Extraordinary items	97.3	993.8	74.5	2 401.4
Taxation	-327.5 *	-617.6 *	-152.5	-478.2
<b>Total</b>	<b>3 061.0</b>	<b>2 695.8</b>	<b>1 358.9</b>	<b>2 644.8</b>
<b>CHANGE IN WORKING CAPITAL</b>				
Inventories (increase-, decrease+)	-277.7	-324.5	-50.1	-113.1
Non-interest-bearing current receivables (increase-, decrease+)	-737.9	-900.5	1 465.5	-518.3
Non-interest-bearing current liabilities (increase+, decrease-)	48.0	1 094.5	-394.5	-212.8
<b>Total</b>	<b>-967.6</b>	<b>-130.5</b>	<b>1 021.0</b>	<b>-844.2</b>
<b>CASH FLOW FROM OPERATIONS</b>	<b>2 093.4</b>	<b>2 565.3</b>	<b>2 379.8</b>	<b>1 800.6</b>
<b>CHANGES IN FIXED ASSETS</b>				
Gross capital expenditures	-2 450.0	-3 160.0	-407.1	-2 036.5
Sales and other changes in fixed assets	12.5	132.1 *	0.2	924.1
<b>CASH FLOW AFTER CAPITAL EXPENDITURES</b>	<b>-344.1</b>	<b>-462.6</b>	<b>1 972.9</b>	<b>688.2</b>
<b>FINANCING</b>				
Change in interest-bearing liabilities (increase+, decrease-)	-1 504.4 **	1 553.7	-840.7	25.1
Change in interest-bearing long-term receivables (increase-, decrease+)	131.5	-208.8	-240.2	219.0
Dividend	-282.7	-139.0	-250.2	-139.0
Convertible subordinated capital notes	0.0	1 845.8	0.0	1 845.8
Metsä-Botnia's share issue	0.0	495.7		
Metsä Tissue's listing	0.0	481.7		
Other items	-17.5	-45.6		
<b>CHANGE IN LIQUID FUNDS</b>	<b>-2 017.2</b>	<b>3 520.9</b>	<b>641.8</b>	<b>2 639.1</b>
<b>GROUP</b>	<b>31.12.1998 FIM million</b>	<b>Change FIM million</b>	<b>31.12.1997 FIM million</b>	<b>Change FIM million</b>
<b>INTEREST-BEARING LIABILITIES</b>	10 032.3	-1 104.4	11 136.7	1 553.7
<b>INTEREST-BEARING RECEIVABLES</b>	-427.2	131.5	-558.7	-208.8
<b>LIQUID FUNDS</b>	-2 271.9	2 017.2	-4 289.1	-3 520.9
<b>INTEREST-BEARING NET LIABILITIES</b>	7 333.2	1 044.3	6 288.9	-2 176.0

\* Stated after elimination of the effect of associated company accounting.

\*\* The liabilities of the acquired companies have been subtracted from the figure.



# Parent Company Profit and Loss Account

	1.1.-31.12.1998		1.1.-31.12.1997	
	FIM million		FIM million	
		%		%
<b>Turnover</b>	8 469.6	100.0	7 832.2	100.0
<b>Change in stocks of finished goods and in work in progress</b>	18.9		76.7	
<b>Other operating income</b>	122.7		203.5	
Materials and services				
Raw materials and consumables	4 229.6		4 153.5	
Costs of external services	469.3		523.3	
Employee costs	1 035.9		977.6	
Depreciation	578.1		550.4	
Other operating expenses	1 265.3	7 578.2	1 146.9	7 351.7
<b>Operating profit</b>	1 033.0	12.2	760.7	9.7
<b>Financial income and expense</b>				
Interest income from Group companies	56.7		70.5	
Income from other financial investments	95.9		87.4	
Other interest and similar income	120.4		125.3	
Net exchange gains/losses	86.4		-302.4	
Interest expense and similar charges	-527.0	-167.6	-593.1	-612.3
<b>Profit before extraordinary items</b>	865.4	10.2	148.4	1.9
<b>Extraordinary items</b>				
Extraordinary income	101.6		2 410.0	
Extraordinary expenses	-27.1	74.5	-1.1	2 408.9
<b>Profit before tax</b>	939.9	11.1	2 557.3	32.7
<b>Appropriations</b>				
Change in depreciation difference	-394.6		-706.8	
Change in untaxed reserves			98.8	
<b>Taxation</b>	-152.5		-478.2	
<b>Profit for the financial period</b>	392.8	4.6	1 471.1	18.8

# Parent Company Balance Sheet

ASSETS	31.12.1998			31.12.1997		
	FIM million		%	FIM million		%
<b>FIXED ASSETS</b>						
<b>Intangible assets</b>						
Intangible assets	39.1			40.9		
Purchased goodwill	91.8			104.8		
Other capitalized expenditure	86.1	217.0	1.1	122.2	267.9	1.3
<b>Tangible assets</b>						
Land	1 019.9			1 018.0		
Buildings	1 146.3			1 177.1		
Plant and equipment	4 581.2			4 872.4		
Other tangible assets	37.7			39.6		
Payments in advance and assets in the course of construction	107.5	6 892.6	35.5	66.1	7 173.2	35.6
<b>Financial investments</b>						
Shares in Group companies	2 439.4			2 299.4		
Amounts owed from Group companies	1 827.1			1 451.4		
Investments in associated companies	872.7			871.6		
Amounts owed from associated companies	79.4			79.2		
Other investments	297.0			277.8		
Other receivables	32.8	5 548.4	28.5	168.5	5 147.9	25.6
<b>FIXED ASSETS TOTAL</b>		12 658.0	65.1		12 589.0	62.5
<b>CURRENT ASSETS</b>						
<b>Inventories</b>						
Raw materials and consumables	169.2			160.0		
Finished goods and goods for resale	607.1			588.2		
Advance payments	86.6	862.9	4.4	64.6	812.8	4.0
<b>Receivables</b>						
Accounts receivable	87.8			111.9		
Amounts owed from Group companies	4 418.6			5 853.8		
Amounts owed from associated companies	8.3			1.9		
Loan receivables				0.2		
Other receivables	124.4			127.1		
Prepayments and accrued income	44.8	4 683.9	24.1	54.5	6 149.4	30.6
<b>Investments</b>						
Current financial assets		1 146.4	5.9		303.9	1.5
Cash at bank and in hand		78.3	0.4		279.0	1.4
<b>CURRENT ASSETS TOTAL</b>		6 771.5	34.9		7 545.1	37.5
<b>ASSETS TOTAL</b>		19 429.5	100.0		20 134.1	100.0

*Parent Company Balance Sheet*

<b>SHAREHOLDERS' EQUITY AND LIABILITIES</b>	<b>31.12.1998</b>		<b>31.12.1997</b>	
	<b>FIM million</b>	<b>%</b>	<b>FIM million</b>	<b>%</b>
<b>SHAREHOLDERS' EQUITY</b>				
Share capital	1 390.0		1 390.0	
Share premium account	1 548.4		1 548.4	
Revaluation reserve	485.7		485.7	
Retained earnings	2 413.3		1 192.4	
Profit for the financial period	392.8	6 230.2	32.1	1 471.1
			6 087.6	30.2
Convertible subordinated capital notes		1 845.8	9.5	1 845.8
				9.2
<b>SHAREHOLDERS' EQUITY TOTAL</b>		8 076.0	41.6	7 933.4
				39.4
<b>PROVISIONS FOR LIABILITIES AND CHARGES</b>		2 998.1	15.4	2 603.5
				12.9
<b>LIABILITIES</b>		98.0	0.5	104.7
				0.5
<b>Long-term liabilities</b>				
Bonds and debentures	1 250.8		1 328.7	
Loans from financial institutions	4 226.3		4 156.5	
Pension premium loans	332.6		1 041.9	
Amounts owed to Group companies	23.0		43.1	
Other liabilities	13.9	5 846.6	30.1	64.8
			6 635.0	33.0
<b>Short-term liabilities</b>				
Bonds and debentures	77.9		461.5	
Loans from financial institutions	221.3		49.1	
Pension premium loans	557.8		84.3	
Advance payments	2.2		48.7	
Bills of exchange payable	184.6		291.8	
Amounts owed to Group companies	705.1		1 010.7	
Amounts owed to associated companies	15.3		11.6	
Other liabilities	156.6		507.2	
Accruals and deferred income	490.0	2 410.8	12.4	392.6
			2 857.5	14.2
<b>LIABILITIES TOTAL</b>		8 257.4	42.5	9 492.5
				47.2
<b>SHAREHOLDERS' EQUITY AND LIABILITIES TOTAL</b>		19 429.5	100.0	20 134.1
				100.0

# Accounting Principles

## PRINCIPLES OF CONSOLIDATION

### Subsidiaries

The consolidated financial statements include the accounts of Metsä-Serla Corporation and all those subsidiaries in which the parent company controlled, directly or indirectly, over 50% of the voting rights at 31 December 1998.

The financial period for all companies ended on 31 December 1998.

Subsidiaries acquired or established during the financial period have been consolidated from the date of their acquisition or formation. Companies in which a controlling interest has been given up during the financial year are included in the consolidated financial statements up to the time of relinquishing control.

Certain housing and property subsidiaries have been excluded from the consolidated financial statements; the companies not included in the financial statements do not have a material effect on the result of the Group's operations and its financial position as presented in the financial statements.

The accounts of overseas subsidiaries have been consolidated using uniform accounting principles conforming to Finnish accounting practice and unified accounting principles applied by the Group.

The purchase method of consolidation has been adopted. Goodwill, being the excess of purchase consideration over the fair value of net assets of acquired companies, is amortized on a straight-line basis. The goodwill arising from the purchase of production capacity or a significant market share is amortized on a straight-line basis over the estimated economic life not exceeding ten years and other such items over five years.

All intra-Group balances, transactions and unrealized profits have been eliminated.

Minority interest has been disclosed separately from the Group shareholders' equity in the consolidated balance sheet and has been recorded as a separate deduction in arriving at the profit for the period in the consolidated profit and loss account.

### Associated companies

Those companies in which Metsä-Serla Corporation controls, either directly or indirectly, 20-50% of the shares and voting rights are dealt with as associated companies. Associated companies are consolidated using the equity method. Metsä-Serla's share of the results of such companies is included in the profit and loss account under "Share of operating profit from associates".

Straight-line amortization of goodwill is charged under "Share of operating profit from associates".

Companies in which the Group has a 50% interest are 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% ownership. The method of consolidation does not have an effect on shareholders' equity items.

Goodwill arising on investments 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 using the equity method or at the date of acquisition, where this is later. Goodwill is amortized over five years or a longer estimated period of economic effect not exceeding ten years.

Investments in associated companies which are not material to consolidated profits or shareholders' equity are included in the consolidated balance sheet at cost. A list of associated companies is given under "Shares and investments" on pages 66-71.

### TURNOVER

Turnover is calculated after deduction of indirect sales taxes, trade discounts, refunds and exchange differences on sales. Freight costs and other sales and delivery costs as well as bad debts are dealt with in the profit and loss account as operating expenses.

### TRANSACTIONS AND BALANCE SHEET ITEMS IN FOREIGN CURRENCY

In translating items denominated in foreign currency into Finnish markka amounts,

the Bank of Finland middle rate has been applied to the national currencies outside the euro zone. Foreign currency-denominated items in the national currencies of states in the euro zone have been translated in accordance with the irrevocable conversion rates given by the European Central Bank.

The profit and loss accounts of overseas subsidiaries have been translated into Finnish markka at the Bank of Finland middle rate and the balance sheets, according to the above mentioned principle, on the balance sheet date. Translation differences arising in the elimination of intra-Group shareholdings have been entered in non-restricted shareholders' equity.

Transactions in foreign currencies are recorded at the rates of exchange prevailing at the date of the transaction. For Group companies based in Finland, receivables and liabilities denominated in foreign currency have been translated, in accordance with the above principle, into Finnish markka at the exchange rate on the balance sheet date. Exchange rate differences arising in connection with the introduction of the euro have been realized. Exchange rate differences are entered in the profit and loss account, in accordance with their nature, either as adjustments to sales or purchases or as net gains or losses under financial income and expenses.

The treatment of exchange rate differences related to foreign currency bank accounts has been changed as from the beginning of 1998 such that the exchange rate differences arising from the translation of said accounts into Finnish markka have been entered as an adjustment to turnover whereas previously they were included in net exchange gains or losses under financial income and expenses.

Realized exchange rate differences arising from derivative contracts used to hedge sales or purchases have been entered as an adjustment to the corresponding item in the profit and loss account. The unrealized exchange rate differences of derivative contracts as well as loans that are classified as instruments hedging future cash flows have been entered as credits or charges to income concurrently with the cash flow hedged in accordance with the principles of hedged accounting.

## 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 is fully funded 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 pensions liabilities are included in the balance sheet under long-term liabilities with a corresponding amount included as an other receivable in the balance sheet. The costs of unfunded pensions liabilities will be charged to income by the year 2000 at the latest.

Overseas subsidiaries make pension arrangements in accordance with local practice.

## ESTABLISHMENT COSTS, RESEARCH AND DEVELOPMENT

Establishment costs as well as research and development costs are expensed as incurred

## INVENTORIES

Inventories are valued at the lower of cost or 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 proportion of the fixed costs of acquisition and manufacture.

Inventories have been periodized to expense on either a FIFO basis or, in part, an average cost basis.

## TANGIBLE FIXED ASSETS AND DEPRECIATION

Fixed assets are stated at cost less accumulated depreciation according to plan except for certain land, buildings and investments, which are stated at revalued amounts.

Depreciation charged in the profit and loss account 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:

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

Depreciation is not recorded on the purchase cost of land and water areas and on revaluations.

## LEASING

Major assets held under finance leases are included in fixed assets and the capital element of the leasing commitments is included under liabilities. The capital element of lease payments is then applied to reduce the outstanding liability and the interest element is charged against profits. Payments made under other leases are charged against profits as rental costs. Material capital gains arising in sale and leaseback situations and the imputed tax receivable from them are periodized over the duration of the agreement.

## EXTRAORDINARY INCOME AND EXPENSES

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

Extraordinary items also include prior period adjustments arising from changes in accounting principles and practices.

## 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 effected 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 shareholders' equity.

In the consolidated balance sheet, accumulated appropriations are divided into an imputed deferred tax amount and a portion attributed to non-restricted shareholders' equity, and a separate share is allocated to minority interest.

## FUTURE COSTS AND LOSSES

Future costs and losses to which the Group is committed and which are likely to be realized are included in the profit and loss account under the appropriate expense heading and in the balance sheet under provisions for future costs whenever the precise amount and time of occurrence is not known and in other cases they are included in accrued liabilities.

## TAXATION

The consolidated profit and loss account includes taxation 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 taxes also includes the charge or credit for the period in respect of deferred tax. The requirements of the Accounting Act have been observed in stating imputed deferred taxes. The corporate tax credit arising on intra-Group dividends has been eliminated in the consolidated profit and loss account by deducting it from direct taxes for the period.

# Notes to the Accounts *(Profit and Loss Account)*

## 1. Share of operating profit from associates

	Percentage holding	Share of profit	Goodwill amortization	Share of profits of the companies	Goodwill remaining
Myllykoski Paper Oy	35.0	56.4	58.1	-1.7	344.2
Metsä-Rauma Oy	27.8	30.5		30.5	
Other associated companies		1.6	-0.2	1.8	2.9
		88.5	57.9	30.6	347.1

The unamortized amount of consolidated goodwill for associated companies was FIM 349.8 million at 31 Dec. 1998 (1997: FIM 393.4 million) and the amount of the Group reserve that was not credited to income was FIM 2.7 million (1997: FIM 3.6 million).

2. Other operating income	Group		Parent company	
	1998	1997	1998	1997
Rental income	34.2	30.9	25.7	27.3
Gains on disposal of fixed assets	62.6	166.6	45.1	128.4
Service revenues	38.8	38.6	32.0	27.7
Other items	60.2	100.4	19.8	20.1
	195.8	336.5	122.7	203.5

## 3. Employee costs

Wages for working hours and fees	2 122.8	2 017.7	587.8	545.6
Pension expenses	346.9	320.3	135.7	139.2
Other social expenses	873.2	804.7	312.4	292.8
	3 342.9	3 142.7	1 035.9	977.6

Salaries and fees paid to management

Managing directors	42.9	42.4		
Members of the board and deputies	2.8	1.5	1.2	1.2
Members belonging to comparable executives as above	2.4	0.6		
	48.1	44.5	1.2	1.2

### Pension commitments of the presidents, board members and their deputies as well as persons who belong or have previously belonged to comparable executives

Management pension commitments exist only for the Group's German companies, for which the items have been charged to earnings and entered as a liability in the balance sheet. The Group has no outside pension liabilities on behalf of management which it carries in the balance sheet.

The President of the parent company 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 commitments on behalf of persons belonging to the above-mentioned executives or who have previously belonged to them.

*Notes to the Accounts (Profit and Loss Account)*

4. Depreciation	Group		Parent company	
	1998	1997	1998	1997
Depreciation according to plan				
Intangible rights	20.1	19.7	11.6	10.1
Purchased goodwill	14.4	11.4	13.0	10.4
Consolidation goodwill	91.1	102.8		
Other capitalized expenditure	40.9	43.7	37.4	37.2
Land and water property	0.2	0.3	0.2	0.3
Buildings and constructions	151.1	136.8	57.7	56.5
Machinery and equipment	1 130.2	1 055.2	455.1	424.1
Other tangible assets	11.9	10.8	3.1	3.1
Total depreciation according to plan	1 459.9	1 380.7	578.1	541.7
Depreciation difference	400.7	831.9	397.3	808.2
Total depreciation	1 860.6	2 212.6	975.4	1 349.9
Depreciation difference, 1 Jan.			2 603.5	1 893.0
Depreciation difference			397.3	808.2
Depreciation difference on fixed assets sold during the period			-2.7	-97.7
Accumulated depreciation difference, 31 Dec.			2 998.1	2 603.5
<b>5. Financial income and expense</b>				
Dividend income				
From Group companies	4.5	3.7	56.7	70.5
From associated companies			20.8	22.8
From others	8.2	3.1	3.8	2.4
	12.7	6.8	81.3	95.7
Interest income from fixed assets				
From Group companies	0.6	3.0	62.5	58.3
From associated companies	7.1			
From others	3.3	5.2	8.8	3.9
	11.0	8.2	71.3	62.2
<b>Income from fixed assets, total</b>	23.7	15.0	152.6	157.9
Other interest and financial income				
Other interest income from Group companies	16.6	28.3	109.3	28.6
Other financial income from Group companies	-5.9			
Other interest income from others	188.1	232.6	9.2	31.6
Other financial income from others	23.4		1.9	65.1
	222.2	260.9	120.4	125.3
<b>Interest income from fixed assets and other interest and financial income, total</b>	245.9	275.9	273.0	283.2
Interest expenses and other financial expenses				
Interest expenses incurred for Group companies	29.6	16.5	63.9	49.9
Other interest expenses to others	702.2	717.5	453.0	450.2
Other financial expenses to others	39.3	169.0	10.1	93.0
	771.1	903.0	527.0	593.1
<b>Financial income and expense, total</b>	-525.2	-627.1	-254.0	-309.9

## Notes to the Accounts (Profit and Loss Account)

6. Exchange gains/losses in the profit and loss account	Group		Parent company	
	1998	1997	1998	1997
Exchange differences on sales				
Exchange differences on derivatives	33.4	-66.9	28.3	66.7
Other exchange differences	-85.0	150.5	-63.0	85.3
	-51.4	83.6	-34.7	152.0
Exchange differences on purchases				
Exchange differences on derivatives	-5.1	-0.2	0.8	
Other exchange differences	-1.1	1.2	0.9	-0.5
	-6.2	1.0	1.7	-0.5
Exchange differences on financing				
Exchange gains				
Realized	575.6	353.0	34.4	5.9
Unrealized	60.0	25.7	66.1	24.1
Exchange losses				
Realized	-572.1	-433.0	-4.7	-118.9
Unrealized	-13.2	-326.8	-9.4	-213.5
	50.3	-381.1	86.4	-302.4
<b>Exchange differences, total</b>	-7.3	-296.5	53.3	-150.9
<b>7. Extraordinary income and expenses</b>				
Extraordinary income				
Profit on sales of shares	62.9	341.2	27.7	340.1
UPM-Kymmene Corporation shares, price difference agreement	18.9	595.8	18.9	595.8
Group contributions received			55.0	1 416.0
Profit on company disposals		55.3		50.7
Other items	27.6	8.6		7.4
	109.4	1 000.9	101.6	2 410.0
Extraordinary expenses				
Group contributions, granted			16.0	
Other items	12.1	7.1	11.1	1.1
	12.1	7.1	27.1	1.1
<b>8. Taxation</b>				
Income taxes for the financial period	-317.7	-579.6	-152.0	-478.3
Income taxes for previous periods	-4.1	-31.1	-0.5	0.1
Change in deferred tax liability	-284.3	46.6		
	-606.1	-564.1	-152.5	-478.2
Income taxes on ordinary operations	-574.8	-272.6	-131.1	194.1
Income taxes on extraordinary items	-27.2	-260.4	-20.9	-672.4
	-602.0	-533.0	-151.9	-478.3



## 9. Intangible and tangible assets

	Intangible rights	Purchased goodwill	Consolidation goodwill	Other capitalized expenditure	Land	Buildings	Plant and equipment	Other tangible assets	Construction in progress
<b>Group</b>									
Acquisition costs 1 Jan.	185.3	133.3	1 024.3	262.1	476.6	4 217.3	16 743.5	188.5	406.5
Increase during the period	4.2	80.8	189.0	2.1	61.1	374.2	1 901.5	36.4	573.6
Transfers between items	5.8			-5.7		32.9	94.5	-1.4	-102.2
Decrease during the period	-7.9	0.0	-30.1	-2.9	-23.1	-131.3	-288.7	-11.2	-519.9
Acquisition costs 31 Dec.1998	187.4	214.1	1 183.2	255.7	514.6	4 493.0	18 450.6	212.3	357.9
Accumulated depreciation 1 Jan.	-95.1	-22.2	523.3	-135.7	-2.9	-1 032.9	-6 563.5	-96.5	
Accumulated depreciation on deductions and transfers	2.8		3.0	23.5		62.9	86.6	5.1	
Depreciation for the period	-20.1	-14.4	-91.1	-40.9	-0.2	-151.1	-1 130.2	-11.9	
Accumulated depreciation 31 Dec. 1998	-112.4	-36.6	-611.4	-153.1	-3.0	-1 121.1	-7 607.1	-103.2	
Revaluations					979.0	221.7			
Book value at 31 Dec. 1998	75.0	177.4	571.8	102.5	1 490.5	3 593.6	10 843.5	109.0	357.9
Book value at 31 Dec. 1997	90.2	111.0	603.3	126.4	1 452.8	3 200.7	10 257.7	92.0	406.4

Increases/decreases include fixed assets of subsidiaries acquired/sold.

The "Plant and equipment" account includes FIM 10 553.8 million for production machinery and equipment.

	Intangible rights	Purchased goodwill	Consolidation goodwill	Other capitalized expenditure	Land	Buildings	Plant and equipment	Other tangible assets	Construction in progress
<b>Parent company</b>									
Acquisition costs 1 Jan.		83.1	118.7	189.5	216.0	1 409.5	6 342.6	63.6	66.1
Increase during the period		9.6		2.0	18.7	17.7	153.7	1.2	131.7
Transfers between items		0.2				33.0	77.8		-34.3
Decrease during the period				-0.7	-16.6	-7.7	-16.3		-56.0
Acquisition costs 31 Dec. 1998		92.9	118.7	190.8	218.1	1 452.5	6 557.7	64.8	107.5
Accumulated depreciation 1 Jan.		-42.3	-13.9	-67.2	-1.3	-248.8	-1 528.3	-23.9	
Accumulated depreciation on deductions and transfers						0.2	7.0		
Depreciation for the period		-11.6	-13.0	-37.4	-0.2	-57.7	-455.1	-3.1	
Accumulated depreciation 31 Dec.1998			-53.8	-27.0	-104.6	-1.5	-306.3	-1 976.5	-27.0
Revaluations					803.3				
Book value at 31 Dec. 1998		39.1	91.8	86.1	1 019.9	1 146.3	4 581.2	37.7	107.5
Book value at 31 Dec. 1997		40.9	104.8	122.2	1 018.0	1 177.1	4 872.4	39.6	66.1

The "Plant and equipment" account includes FIM 4 513.2 million for production machinery and equipment.

The undepreciated portion of activated interest expenses for the Group and the parent company under the balance sheet item 'Buildings' at 31 Dec. 1998 was FIM 14.6 (1997: 16.4) and under the balance sheet item 'Plant and equipment' FIM 65.4 (1997: 77.6). There were no activated interest expenses during the 1998 financial year.

## Notes to the Accounts (Balance Sheet)

<b>10. Investments</b>	<b>Shares in Group companies</b>	<b>Shares in associated companies</b>	<b>Other shares and participations</b>	<b>Receivables from Group companies</b>	<b>Receivables from associated companies</b>	<b>Other current receivables</b>	<b>Total</b>
<b>Group</b>							
Acquisition costs 1 Jan. 1998	33.9	885.2	316.8	9.5	79.2	192.8	1 517.5
Increase during the period		8.1	26.7	75.4	3.8		113.9
Decrease during the period						-122.6	-122.6
Transfers between items		0.2	-0.3				-0.1
Acquisition costs 31 Dec. 1998	33.9	893.5	343.2	84.9	83.0	70.2	1 508.8
Revaluations			40.0				40.0
Book value at 31 Dec. 1998	33.9	893.5	383.2	84.9	83.0	70.2	1 548.8

	<b>Shares in Group companies</b>	<b>Shares in associated companies</b>	<b>Other shares and participations</b>	<b>Receivables from Group companies</b>	<b>Receivables from associated companies</b>	<b>Other current receivables</b>	<b>Total</b>
<b>Parent company</b>							
Acquisition costs 1 Jan. 1998	2 289.4	871.6	277.8	1 451.4	79.2	168.5	5 137.9
Increase during the period	150.5	3.0	51.5	608.4	0.2		813.7
Decrease during the period	-10.6	-2.1	-32.0	-232.7		-135.8	-413.2
Transfers between items	0.1	0.2	-0.3				
Acquisition costs 31 Dec. 1998	2 429.4	872.7	297.0	1 827.1	79.4	32.8	5 538.4
Revaluations	10.0						10.0
Book value at 31 Dec. 1998	2 439.4	872.7	297.0	1 827.1	79.4	32.8	5 548.4

<b>11. Revaluations</b>	<b>1.Jan.</b>	<b>Increases</b>	<b>Decreases</b>	<b>31.Dec.</b>
<b>Group</b>				
Land		979.0		979.0
Buildings		268.7	-47.0	221.7
Investments		40.0		40.0
		1 287.7	-47.0	1 240.7
<b>Parent company</b>				
Land		803.3		803.3
Investments		10.0		10.0
		813.3		813.3

Revaluations are based on estimates by independent valuers of the current value of assets at the dates of valuation. The revaluations do not have an effect on income tax because neither the Group nor the Parent company intends to sell the assets.

## 12. Loan receivables from management

There are no loan receivables from the managing directors of Group companies, members of the Board of Directors and their deputies as well as persons belonging to similar executives.

*Notes to the Accounts (Balance Sheet)*

13. Short-term receivables	Group		Parent company	
	1998	1997	1998	1997
Amounts owed from Group companies				
Accounts receivable	6.7	26.7	997.1	1 157.8
Loan receivables	229.4	325.2	21.7	197.8
Other current receivables	3.9		3 356.9	4 463.8
Prepayments and accrued income	1.9	12.3	42.9	34.4
Amounts owed from associated companies				
Accounts receivable	2.9	9.0	1.1	1.1
Loan receivables	4.7			
Other current receivables	0.1	0.8		0.8
Prepayments and accrued income	7.2		7.2	
Amounts owed from others				
Accounts receivable	3 487.7	2 349.8	87.8	111.9
Loan receivables	2.3	78.7		0.2
Other current receivables	507.9	608.0	124.4	127.1
Prepayments and accrued income	149.2	255.5	44.8	54.5
	4 403.9	3 666.0	4 683.9	6 149.4

**14. Prepayments and accrued income**

Interest	26.0		12.6	11.7
Insurance	27.4		8.5	19.4
Discounts	23.8		1.6	0.5
Others	72.0	255.6	22.1	22.9
	149.2	255.6	44.8	54.5

In respect of the grand total and the items specified, the data are comparable with the previous year.

**15. Shareholders' equity**

Share capital, 1 Jan.				
Series A	363.4	363.4	363.4	363.4
Series B	1 026.6	1 026.6	1 026.6	1 026.6
Total	1 390.0	1 390.0	1 390.0	1 390.0
Share issue				
Series A				
Series B				
Total				
Share capital, 31 Dec.				
Series A	363.4	363.4	363.4	363.4
Series B	1 026.6	1 026.6	1 026.6	1 026.6
Total	1 390.0	1 390.0	1 390.0	1 390.0
Share premium account 1 Jan.	1 548.4	1 550.6	1 548.4	1 548.4
Premium on share issue / other deduction		-2.2		
Share premium account at 31 Dec.	1 548.4	1 548.4	1 548.4	1 548.4
Revaluation reserve, 1 Jan.	627.2	635.5	485.7	485.7
Increases/decreases during the period	-4.5	-8.3		
Revaluation reserve, 31 Dec.	622.7	627.2	485.7	485.7

## Notes to the Accounts (Balance Sheet)

	Group		Parent company	
	1998	1997	1998	1997
Other reserves and retained earnings at 1 Jan.	4 678.1	3 522.0	2 663.5	1 331.4
Dividends paid	-250.2	-139.0	-250.2	-139.0
Transfers to restricted equity	-1.8	-0.3		
Change in translation differences on consolidation	-45.2	24.7		
Other increase/decrease	-9.6	-19.1		
Profit for the financial period	1 082.6	1 289.8	392.8	1 471.1
Other reserves and retained earnings at 31 Dec.	5 453.9	4 678.1	2 806.1	2 663.5
Convertible subordinated capital notes issued				
Convertible subordinated capital notes at 1 Jan.	1 845.8		1 845.8	
Increase/decrease		1 845.8		1 845.8
Convertible subordinated capital notes at 31 Dec.	1 845.8	1 845.8	1 845.8	1 845.8
SHAREHOLDERS' EQUITY TOTAL	10 860.7	10 089.5	8 076.0	7 933.4

### Convertible subordinated capital notes

The convertible subordinated notes is provided for under Section 5 of the Companies Act. The notes have a total value of USD 350 million, comprising 350 000 convertible notes, each with a nominal value of USD 1000. The notes carry interest at 4.375% and may be used to subscribe the company's shares at a price of FIM 57.9735 each. In conjunction with such conversion, the USD denominated notes will be converted into Finnish markka using the exchange rate USD 1 = FIM 5.2738. Conversion of all notes will lead to a maximum increase in the share capital of FIM 318 393 020. Holders of the convertible subordinated capital notes have the right to subscribe the company's Series B shares during the period 15 January 1998 to 1 October 2002. The company has the right to redeem the notes, should the conditions specified in the agreement be fulfilled, from 15 October 2000. USD 250 million of the issue was subscribed by Finnish and foreign investors and USD 100 million by Metsäliitto Osuuskunta.

	Group	
	1998	1997
Distributable funds		
Other reserves and retained earnings	5 453.8	4 678.1
Untaxed reserves in shareholders' equity	-2 803.3	-2 439.6
Distributable funds	2 650.5	2 238.5
Untaxed reserves, 31 Dec.		
Accumulated depreciation difference	5 187.1	4 243.4
Other reserves	9.9	82.5
	5 197.0	4 325.9
Deferred tax liability in untaxed reserves	-1 640.8	-1 411.3
	3 556.2	2 914.6
Minority interest in untaxed reserves	-415.9	-134.9
	3 140.3	2 779.7
Reserves at the date of acquisition	-336.9	-340.1
Untaxed reserves in shareholders' equity, 31 Dec.	2 803.3	2 439.6

*Notes to the Accounts (Balance Sheet)*

<b>16. Provision for liabilities and charges</b>	<b>1.Jan.</b>	<b>Increase</b>	<b>Decrease</b>	<b>31.Dec.</b>
Group				
Pension liability reserve	186.7	7.5		194.2
Provision for unemployment pension costs	48.0	2.6	-7.6	43.1
Provision for expenses on closure of businesses	22.2	29.8	-14.8	37.2
Provision for rental costs	31.9		-3.0	28.8
Other provisions	33.1	15.9	-18.7	30.3
	321.9	55.8	-44.1	333.6
Parent company				
Pension liability reserve	29.4	4.9		34.3
Provision for unemployment pension costs	38.4	2.4	-11.4	29.2
Provision for expenses on closure of businesses	5.5	0.3		5.8
Provision for rental costs	31.4		-2.8	28.6
	104.7	7.6	-14.2	98.0
<b>17. Liabilities</b>				
	<b>1998</b>	<b>1997</b>	<b>1998</b>	<b>1997</b>
Group			Parent company	
Long-term				
Non-interest bearing	1 554.8	1 253.4		
Interest bearing	8 399.0	9 058.7	5 846.5	6 635.0
	9 953.8	10 312.1	5 846.5	6 635.0
Short-term				
Non-interest bearing	3 393.9	3 721.0	969.6	1 364.1
Interest bearing	1 632.0	1 915.4	1 441.2	1 493.4
	5 025.9	5 636.4	2 410.8	2 857.5
Bonds				
		Interest %		
1991 - 1998		4.71	308.8	308.8
1993 - 1999	77.7	4.03	230.4	230.4
1994 - 2001	400.0	4.25	400.0	400.0
1996 -	850.0	7.55	850.0	850.0
Total	1 327.7		1 789.2	1 789.2
Bonds with equity warrants				
1994 - 1999 <sup>1)</sup>	0.2	5.0	0.3	0.3
1997 - 2000 <sup>2)</sup>	0.8		0.7	0.7
	1 328.7		1 790.2	1 790.2

## Notes to the Accounts (Balance Sheet)

1) Bonds with equity warrants (1994-1999) have been issued to the Group's Management. The bonds mature in five years and carry interest at 5%. The issue consists of 260 bonds, nominal value FIM 1 000 each. Each bond carries 200 I-equity warrants and 400 II-equity warrants.

Each I-equity warrant is exercisable into one Metsä-Serla Series B share, nominal value FIM 10, at a fixed subscription price of FIM 52. The subscription period is 3 May 1997 to 2 May 2001.

Each II-equity warrant is exercisable into one Metsä-Serla Series B share, nominal value FIM 10, at a fixed subscription price of FIM 56. The subscription period is 3 May 1998 to 2 May 2001.

2) Bonds with equity warrants (1997-2000) have been issued to the Group's Management. The bonds mature in three years and carry no interest. The issue consists of 750 bonds, nominal value FIM 1,000 each. Each bond carries 1 200 A equity warrants, 1 200 B equity warrants and 1 600 C equity warrants.

Each warrant is exercisable into one Metsä-Serla Series B share, nominal value FIM 10, at a fixed subscription price of FIM 52.

Share subscription periods begin as follows:

A warrants 1 Dec. 1998

B warrants 1 Dec. 1999

C warrants 1 Dec. 2000.

Subscription periods in respect of all warrants end on 31 October 2003.

### 18. Long-term debts with amortization plan

	<b>Bonds</b>	<b>Bank loans</b>	<b>Pension loans</b>	<b>Other loans</b>	<b>Total</b>
1999	77.9	551.5	581.1	83.6	1 294.1
2000	0.8	537.4	45.3	84.2	667.7
2001	400.0	651.9	42.6	85.8	1 180.3
2002	850.0	1 059.8	36.5	82.4	2 028.7
2003		2 654.7	34.2	83.8	2 772.7
2004-		802.1	494.2	310.9	1 607.3
Total at 31 Dec. 1998	1 328.7	6 257.4	1 233.8	730.8	9 550.7

<b>19. Deferred tax</b>	<b>Group</b>	
	<b>1998</b>	<b>1997</b>
Deferred tax liability relating to appropriations	1 640.8	1 411.3
Deferred tax receivables resulting from consolidation	-210.9	-205.2
Other deferred tax receivables	-3.3	
Other deferred tax liabilities	83.2	47.0
	1 509.8	1 253.1

Untaxed reserves consist mainly of the accumulated difference between total depreciation made and depreciation according to plan for the Group's domestic subsidiaries. Deferred tax on untaxed reserves is calculated in accordance with the rate of taxation in the country concerned (Finland 28 %).

Other deferred tax assets and liabilities are items that are included in the individual balance sheets of Group companies and they pertain to companies outside Finland.

*Notes to the Accounts (Balance Sheet)*

<b>20. Long-term liabilities</b>	<b>Group</b>		<b>Parent company</b>	
	<b>1998</b>	<b>1997</b>	<b>1998</b>	<b>1997</b>
Amounts owed to Group companies				
Bonds and debentures		6.5		
Other liabilities			23.0	43.1
Amounts owed to others				
Bonds and debentures	1 250.8	1 322.0	1 250.8	1 328.7
Loans from financial institutions	5 705.9	5 531.2	4 226.3	4 156.5
Pension premium loans	648.9	1 407.4	332.6	1 041.9
Deferred tax liabilities	1 509.8	1 253.1		
Other liabilities	828.4	790.0	13.9	64.8
Accruals and deferred income	10.0	1.9		
	<b>9 953.8</b>	<b>10 312.1</b>	<b>5 846.6</b>	<b>6 635.0</b>
<b>21. Short-term liabilities</b>				
Amounts owed to Group companies				
Accounts payable	75.4	96.5	85.9	116.9
Other liabilities	29.4	113.5	592.9	890.6
Accruals and deferred income	48.2	9.8	26.3	3.2
Amounts owed to associated companies				
Accounts payable	26.3	37.2	14.9	11.4
Accruals and deferred income	0.3	0.3	0.4	0.2
Amounts owed to others				
Bonds and debentures	77.9	461.5	77.9	461.5
Loans from financial institutions	830.3	893.6	221.3	49.1
Pension premium loans	584.9	113.9	557.8	84.3
Advance payments	4.8	5.0	2.2	48.7
Accounts payable	1 284.6	1 198.5	184.6	291.8
Bills of exchange, payable	1.0	1.0		
Other liabilities	960.0	1 637.6	156.6	507.2
Accruals and deferred income	1 102.8	1 067.5	490.0	392.6
	<b>5 025.9</b>	<b>5 635.9</b>	<b>2 410.8</b>	<b>2 857.5</b>
<b>22. Accruals and deferred income</b>				
Long-term				
Compensation and contribution commitments	9.5			
Others	0.5	1.9		
	<b>10.0</b>	<b>1.9</b>		
Short-term				
Accruals of wage, salary and staff costs	364.7		143.9	137.2
Interests	167.2	252.8	146.3	161.1
Accruals of purchases	113.3	107.1	65.3	
Provisions for discounts	84.4		59.0	
Others	373.2	707.8	75.6	94.4
	<b>1 102.8</b>	<b>1 067.5</b>	<b>490.0</b>	<b>392.6</b>

In respect of the grand total and the items specified, the data are comparable with the previous year.

## Notes to the Accounts

23. Contingent liabilities	Group		Parent company	
	1998	1997	1998	1997
<b>Group</b>				
For own liabilities				
Liabilities secured by pledges				
Loans from financial institutions	1.9			
Other liabilities	0.5			
Pledges granted	2.4	6.5		
Liabilities secured by mortgages				
Loans from financial institutions	1 986.2		1 031.9	
Pension loans	191.9			
Real-estate mortgages	2 303.9	2 672.2	1 031.9	1 322.6
On behalf of Group companies				
Pledges	11.0			
Real-estate mortgages	22.0	22.0	22.0	22.0
Guarantee liabilities	31.0	6.9	4 477.7	4 893.7
On behalf of associated companies				
Real-estate mortgages	1.5	1.5	1.5	1.5
Guarantee liabilities	86.6	93.4	81.0	86.9
On behalf of others				
Pledges	1.5	0.5		0.5
Real-estate mortgages	0.3	0.2		
Guarantee liabilities	14.4	18.5	3.6	4.0
Other liabilities				
As security for own commitments	62.7	67.6	56.9	50.0
Leasing commitments				
Payments due in following year	63.1	80.8	19.6	19.5
Payment due in subsequent years	244.0	235.3	179.5	194.0
Total				
Mortgages	2 327.6	2 695.9	1 055.4	1 346.1
Pledges	14.8	7.0		0.5
Guarantees	132.0	118.8	4 562.3	4 984.6
Promissory notes	1.3	3.3		
Other liabilities	62.7	1 053.6	56.9	50.0
Leasing liabilities*	307.1	316.1	199.1	213.5
	2 845.5	4 194.7	5 873.7	6 594.7

\* Leasing liabilities do not include financial lease liabilities.



Group	1998	of which converted contracts	Unrecognized valuation difference	1997
	Gross amount			Gross amount
<b>Liabilities due to open derivative contracts</b>				
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	3 364.4	1 000.0	-0.8	666.4
Currency derivatives				
Forward agreements	8 649.1	5 612.9	-10.3	7 937.8
Options				
Purchased	6 495.1	4 797.1	-65.7	4 655.9
Sold	7 395.3	4 797.1	33.1	7 930.1
Equity derivatives				
Equity swap agreements	59.6		-1.0	121.3

Under the terms of the syndicated loan raised by Metsä-Rauma, the shareholders have undertaken to ensure that certain conditions relating to assets and other matters are met, each shareholder's commitment being in proportion to its shareholding, subject to a maximum of FIM 500 million. Metsä-Serla owns 27.8% of Metsä-Rauma's shares.

Group	1998	1997
Financial lease agreements		
Value of assets in the consolidated balance sheet		
Land	3.2	
Plant and equipment	132.1	127.1
Buildings	22.5	
	157.8	127.1
Financial lease liabilities		
Short-term	13.6	8.7
Long-term	239.2	211.0
	252.8	219.7
Future leasing payments		
Year 1998		17.1
Year 1999	27.5	17.1
Year 2000	27.5	17.1
Year 2001	27.5	17.1
Year 2002	27.5	17.1
Year 2003	27.5	17.1
Next years	163.4	123.4
Future leasing payments, total	300.9	226.0

## 25. Litigation

In January 1999, the bankruptcy estate representing the selling shareholders (Alte PBU) of Papierfabrik Biberist AG have brought a legal action against Metsä-Serla Corporation (and Papierfabrik Biberist AG) claiming additional sale consideration on the grounds that the agreed purchase price was allegedly too low.

## Notes to the Accounts

26. Group shareholdings	Number of shares	Percentage holdings	Nominal value in thousands	Book value FIM 1 000
<b>Investments in affiliated companies</b>				
Biowatti Oy	4 000	5.00	200	200
Finnforest Oy	2 460 000	10.00	24 600	30 000
Metsäliitto Osuuskunta	179 171		3 583	3 608
<b>Subsidiaries owned by parent company</b>				
<b>In Finland</b>				
Alakoski Oy	5 278	52.78	5	158
Amerpap Oy	5 600	100.00	28 000	28 000
Oy Board International Ab	371	46.61 <sup>1</sup>	37	37
Eastpac Oy	30	100.00	15	15
Oy Hangö Stevedoring Ab	113	75.33	565	16 053
Kovetun Saha Oy	18 100	100.00	3 620	0
Oy Metsä-Botnia Ab *	10 083	14.95 <sup>2</sup>	100 830	260 893
Metsä Group Financial Services Oy	25 500	51.00	25 500	30 600
Metsä Tissue Oyj	17 075 000	56.92	170 750	384 628
Metsä-Sellu Oy	36 600	100.00	366 000	865 367
Metsä-Serla Sales Oy	8 997	89.97 <sup>3</sup>	900	19 189
Neopac Oy	22 000	100.00	11 000	33 519
Savon Sellu Oy	200 010	100.00	20 001	70 001
Takon Kotelotehdas Oy	330 101	100.00	33 010	37 769
Äänekoski Oy	250 000	100.00	2 500	2 500
Housing and property companies				12 588
<b>In other countries</b>				
AB Medienos Plausas	2 644 258	91.01	LTL 26 443	61 137
A/S Neopac Elkson	5 000	100.00	EEK 5 000	1 886
A/S Röntgaslill	3	100.00	EEK 10 000	3 748
Carl Jonsson Papper A/S	7 800	100.00	NOK 1 950	5 197
Grafiskt Papper Norden AB *	11 000	100.00	SEK 957	1 917
Forest House B.V.	400	100.00	NLG 40	84
Metsä-Serla A.G.	188	100.00	CHF 94	141
Metsä-Serla NL Holding B.V.	5 350	100.00	NLG 4 650	25 362
Metsä-Serla Holding GmbH		100.00	DEM 50	196 955
Metsä-Serla Papir A/S	50	100.00	NOK 50	32
Metsä-Serla Plc	14 750 000	100.00	GBP 14 750	170 008
Neopac A/S	189 000	100.00	DKK 18 900	66 558
OAO Komsomolets	290 013	92.24	MRUR 26 101	33 320
Price & Pierce Holdings B.V.	28	70.00	NLG 28	21 019
Silva International Paper Holdings B.V.	670	67.00	NLG 670	56 957
<b>Total investments</b>				<b>2 439 446</b>

\* Goodwill is amortized over ten years.

Metsä-Serla Group holdings

<sup>1</sup> 58.37 %

<sup>2</sup> 52.31 %

<sup>3</sup> 100.00 %

	Number of shares	Percentage holdings	Nominal value in thousands	Book value, FIM 1 000	
				Company	Group
<b>Investments in associated companies</b>					
<b>In Finland</b>					
As Oy Mäntän Lampilinna	3 405	28.83	681	681	681
As Oy Suorinne	672	25.00	67	420	420
As Oy Äänekosken Puutarhakatu 3	900	0.45	900	900	900
Kiinteistö Oy Jämkipohja	20	30.80	20	84	84
Kiinteistö Oy Vilpupohja	27	30.00	135	135	135
Metsämannut Oy	30	30.00 <sup>1</sup>	30	30	471
Metsä-Rauma Oy	2 665 920	27.77	133 296	133 296	157 041
MMM Logisware Oy	1 500	33.33	1 500	3 008	3 637
Myllykoski Paper Oy	105 000	35.00	105 000	726 439	664 712
Mäntän Energia Oy	1 000	25.00 <sup>2</sup>	500	500	1 675
Paperinkeräys Oy	18 186	20.20	182	182	8 478
Tehdasmittaus Oy	100	25.00	100	100	0
Oy Transfennica Ab	27 306	27.30 <sup>3</sup>	2 731	6 890	4 998
Metsä-Serla Group holdings					
<sup>1</sup> 35.23 %					
<sup>2</sup> 38.40 %					
<sup>3</sup> 29.81 %					
<b>OTHER INVESTMENTS</b>					
<b>Other investments</b>					
<b>In Finland</b>					
Alma Media Oyj	3 031	0.05	30	206	206
Hankoniemen kehitysytio Oy	160	2.00	160	160	160
Helsingin Puhelinyhdistys	100			328	328
Helsingin Puhelin Oyj	1 054		5	73	73
Inkoo Shipping Oy	250	5.00	250	250	250
Keräyskuitu Oy	4 378	14.60	4 378	4 586	4 586
Keski-Suomen Puhelin Oyj	924		9	85	85
Keskuslaboratorio Oy	1 004 125	18.53	1 004	1 710	1 710
Liikkeenjohdon koulutuskeskus Oy	4	2.60	200	200	200
Lohjan Puhelin Oy	670		67	171	171
Merita Pankki Oyj	168 199		1 682	3 326	3 326
Mikkelin Arkistotalo Oy	1		100	102	102
MSC Metsa Speciality Chemicals Oy	600 000	19.24	18 000	60 000	60 000
Pohjois-Hämeen Puhelin Oyj	4 785		96	177	177
Pohjolan Voima Oy	847 455	2.70	8 474	141 144	141 144
Rauma Oyj	944		9	102	102
Sato-Yhtymä Oy	32 110		321	16 677	16 677
Suomen Arvopaperikeskus Oy	15		15	1 050	1 050
Tahkoluodon Polttoöljy Oy	270	13.50	270	270	270
Tampereen Puhelin Oyj	63 000		630	217	217
UPM-Kymmene Oyj	399 176		3 992	50 885	50 885
Vierumäen Kuntorinne Oy	97	0.69	10	1 499	1 499
Other telephone shares				162	162
Other Finnish investments				737	737
Housing and property companies in Finland				12 710	12 710
<b>In other countries</b>					
Other companies				182	182
<b>Total investments, parent company</b>				1 169 674	1 140 241
<b>Unconsolidated housing and property companies, parent company</b>					12 588

## Notes to the Accounts

	Number of shares	Percentage holdings	Nominal value in thousands	Book value, FIM 1 000 Company	Group
SHARES OWNED BY SUBSIDIARIES					
<b>Investments in affiliated companies</b>					
Biowatti Oy	2 400	3.00 <sup>1</sup>	120	120	120
<b>Investments in subsidiaries</b>					
Oy Board International Ab	179	22.49 <sup>2</sup>	18	18	
Oy Metsä-Botnia Ab	25 203	37.36 <sup>3</sup>	252 030	1 207 037	
Metsä-Serla Sales Oy	1 003	10.03 <sup>4</sup>	1 003	714	
<b>Investments in associated companies</b>					
Fin-Trans A/S	267	26.70 <sup>5</sup>	DKK 134	306	1 219
Kemi Shipping Oy	140 000	50.00	1 400	483	4 263
Mittaportti Oy	800	26.67	40	40	176
Mäntän Energia Oy	1 000	25.00 <sup>6</sup>	500	500	1 744
Plastiroll Oy	39	39.00	39	500	11 549
Simon Turvejaloste Oy	10	33.33	100	101	174
Oy Transfennica Ab	4 800	4.80 <sup>7</sup>	480	1 211	1 037
Ultimatic Systems GmbH	70	46.67	CHF 70	11 344	9 165
Yhteistoiminta Oy	50	50.00	200	203	200
Varant N.V.	8 896	27.80 <sup>8</sup>	BEF 8 896	3 658	7 293
Varma Services Ltd	2 980	29.80 <sup>9</sup>	GBP 3	1 756	3 024
Warico GmbH	596	29.80 <sup>10</sup>	DEM 149	4 898	5 912
Other associated companies				4 294	4 500
<b>Other investments</b>					
Oy Holy Ab	4 482	29.85	45	192	192
Keskuslaboratorio Oy	277 980	7.70	278	482	482
Pohjolan Voima Oy	707 451	2.30	7 075	40 978	40 978
Teollisuuden Sähkömyynti Oy	280	10.00	280	280	280
Housing and real-estate corporations			41 932	13 636	13 636
Telephone shares and participations				354	354
Other shares and participations				17 662	17 662
<b>Total investments (Group)</b>				<b>1 276 789</b>	

The book value of listed shares was FIM 440.2 million and the market value was 814.3 million.

### Group's holding

<sup>1</sup>	6.57 %
<sup>2</sup>	58.37 %
<sup>3</sup>	52.31 %
<sup>4</sup>	100.00 %
<sup>5</sup>	24.12 %
<sup>6</sup>	39.23 %
<sup>7</sup>	29.81 %
<sup>8</sup>	26.61 %
<sup>9,10</sup>	28.27 %

Other investments	Number of shares	Percentage holdings	Nominal value in thousands		Book value in thousands	
SUBGROUPS IN FINLAND						
Amerpap Oy						
- Amerpap Eesti AS	500	100.00	EEK	500	FIM	4 168
- Amerpap East Ltd	19 600	100.00	RBL	490	FIM	0
- Amerpap Latvia SIA	4 000	100.00	LVL	400	FIM	3 652
- Amerpap Ltd Moscow	1 000	100.00	RBL	2 982	FIM	0
- Amerpap Poligrafija UAB	20 000	100.00	LTL	2 000	FIM	2 596
Oy Board International Ab						
- Board AG	500	100.00	CHF	50	FIM	77
Eastpac Oy						
- Metsä-Serla Kft	1	10.00	HUF	100	FIM	0
- Metsä-Serla Lda		5.00	PTE	20	FIM	0
- Metsä-Serla Ltd	1	1.00	HKD	0	FIM	0
- ZAO Neopac Kuban	505 210	100.00	RBL	50 521	FIM	45 520
Oy Metsä-Botnia Ab						
- Botnia Pulps GmbH	1 000	100.00			FIM	308
- Botnia Pulps Ltd	1 000	100.00			FIM	186
- Oy Botnia Mill Services Ab	3 600	60.00	FIM	3 600	FIM	3 600
- Kaskisten Lämpö Oy	400 000	70.00	FIM	2 000	FIM	352
- Oy Silva Shipping Ab	300 000	100.00	FIM	1 500	FIM	5 241
Metsä Tissue Oyj						
- Metsä Tissue GmbH		100.00	DEM	100	FIM	88 624
- Papierwerke Halstrick GmbH		100.00			DEM	49 109
- Metsä Tissue Immobilienverwaltungs GmbH		100.00			DEM	56
- Strepp GmbH & Co KG Papierfabrik Hochkoppelmühle		100.00				
- Strepp GmbH		100.00				
- Strepp France S.a.r.l.		100.00				
- Metsä Tissue Ltd	100	100.00	GBP	0	FIM	429
- Metsä Tissue Parkki Oy	10	100.00	FIM	50	FIM	50
- Metsä Tissue S.A.	1 000	100.00	PLN	100	FIM	155
- Metsä Tissue S.a.r.l.	100	100.00	FRF	50	FIM	324
- Tissue Canarias S.A	39 092	63.05	ESP	19 546	FIM	3 560
- Warszawskie Zakłady Papiernicze S.A.	1 280 438	58.95	PLN	5 621	FIM	69 974
- Metsä Tissue Holding AB	100 000	100.00	SEK	10 000	FIM	315 000
- Dambi AB	1 000	100.00	SEK	100	SEK	100
- Metsä Tissue AB	2 000 000	100.00	SEK	200 000	SEK	576 450
- Metsä Tissue A/S	1 000	100.00	DKK	500	SEK	270
- Metsä Tissue AS	6 020	100.00	NOK	602	SEK	482

## Notes to the Accounts

Other investments	Number of shares	Percentage holdings	Nominal value in thousands	Book value in thousands
Metsä-Serla Sales Oy				
- Baltic Forest Terminals Ltd	960	96.00	PLZ 96	FIM 995
- Forest Alliance Sourcing B.V.	400	100.00	NLG 40	FIM 108
- Metsä-Serla Direx Oy	3 000	100.00	FIM 3 000	FIM 3 001
- Metsä-Serla A/S	1 430	100.00	DKK 715	FIM 380
- Metsä-Serla Papper och Kartong AB	1 000	100.00	SEK 100	DKK 41
- Metsä-Serla B.V.	400	100.00	NLG 40	FIM 121
- N.V. Metsä-Serla S.A.	1	0.08	BEF 1	BEF 1
- Metsä-Serla Kft		90.00	HUF 900	FIM 32
- Metsä-Serla Lda		95.00	PTE 380	FIM 12
- Metsä-Serla Ltd	100	99	HKD 10	FIM 6
- Metsä-Serla Ltd	5 000	100.00	IEP 5	FIM 38
- Metsä-Serla Ltd	2 320	100.00	PLZ 116	FIM 324
- Baltic Forest Terminals Ltd	40	4.00	PLZ 4	PLZ 4
- Metsä-Serla Paperboard Corp.	180	100.00	USD 0	FIM 26
- Metsä-Serla Ltd	26 400	100.00	GBP 26	FIM 1 571
- Finnboard UK Ltd	2	100.00	GBP 0	GBP 0
- Metsä-Serla Paper Ltd	25 000	100.00	GBP 25	GBP 25
- Metsä-Serla Service Ltd	15 000	75.00	GBP 15	GBP 155
- Metsä-Serla Pte Ltd	10 000	100.00	SGD 10	FIM 24
- Metsä-Serla S.A.	10 000	100.00	ESP 10 000	FIM 399
- Metsä-Serla France S.A.	8 211	100.00	FRF 821	FIM 1 305
- Metsä-Serla S.r.l.	100 000	100.00	ITL 100 000	FIM 301
- Metsä-Serla s.r.o.		100.00	SKK 200	FIM 32
- Metsä-Serla s.r.o.		100.00	CZK 100	FIM 18
- N.V. Metsä-Serla S.A.	1 249	99.92	BEF 1 249	FIM 205
- Metsä-Serla Service GmbH		75.00	DEM 38	FIM 115
- Metsä-Serla Service N.V.	750	75.00	BEF 1 875	FIM 277

### SUBGROUPS IN OTHER COUNTRIES

Metsä-Serla Holding GmbH				
- Metsä-Serla Paperboard GmbH	1	100.00	DEM 50	DEM 200
- Metsä-Serla Papier Handelsgesellschaft mbH	1	100.00	DEM 200	DEM 150
- Metsä-Serla Papier GmbH	1	100.00	DEM 50	DEM 1 061
- Papierfabrik Albbbruck GmbH & Co.KG *		50.00		DEM 172 332
- Altpapieraufbereitungsanlage Neustadt GmbH		100.00	DEM 500	DEM 500
- MD Papier GmbH & Co.KG *		50.00		DEM 213 079
- MD Verwaltungs GmbH	1	50.00	DEM 25	DEM 29
- MD Lang Vertriebs GmbH	1	100.00	DEM 50	DEM 50
- Verwaltungsgesellschaft Papierfabrik Albbbruck GmbH	1	50.00	DEM 25	DEM 25
Metsä-Serla NL Holding B.V.				
- Finnforests Nederland B.V.	40	100.00	NLG 40	NLG 0
- Papierfabrik Biberist AG	10 000	100.00	CHF 10 000	NLG 13 365
- Winpac B.V.	3 000	100.00	NLG 3 000	NLG 11 169

\* Goodwill is amortized over ten years.

<b>Other investments</b>	<b>Number of shares</b>	<b>Percentage holdings</b>	<b>Nominal value in thousands</b>		<b>Book value in thousands</b>	
Metsä-Serla Plc						
- Alliance Paper Group Plc *	1 041 334	100.00	GBP	1 041	GBP	16 830
- Kilgallon Clegg Ltd	100 000	100.00	GBP	100	GBP	100
- Mailers Stationery Ltd	2	100.00	GBP	0	GBP	0
- Prestige Paper Ltd	2	100.00	GBP	0	GBP	0
- Sellens Paper (London) Ltd	1 000	100.00	GBP	1	GBP	1
- Sellens Storage Ltd	100	100.00	GBP	0	GBP	0
- T.H. Sellen Ltd	2 100	100.00	GBP	2	GBP	2
- Classic Papers Ltd	246 465	100.00	GBP	246	GBP	6 904
- Finnforests Ltd	25 000	100.00	GBP	25	GBP	0
- Hedsor Ltd *	495 000	100.00	GBP	495	GBP	5 527
- Metsä-Serla Softwood Ltd	100	100.00	GBP	0	GBP	0
- Metsä-Serla (UK) Ltd	20 000	100.00	GBP	20	GBP	0
Neopac A/S						
- Søren Berggreen & CO. A/S	300	100.00	DKK	3 000	DKK	50 463
Price & Pierce Holdings B.V.						
- Price & Pierce Inc	375 000	100.00	USD	0	NLG	5 940
- Price & Pierce Asia Services Inc		100.00				
- Price & Pierce Pacific Inc		100.00				
- Price & Pierce Marketing Services Pty Ltd	225 000	100.00	USD	450		
- PT Pramula Nusaprima	10	100.00	IDR	10 000		
- Price & Pierce Europe Ltd		100.00				
- Price & Pierce Speciality Papers Ltd		100.00				
- Price & Pierce Fine Papers Ltd	100	100.00	GBP	100	GBP	37
- Multinational Paper Agency Ltd	100	100.00				
- Price & Pierce Woodpulp Ltd		100.00				
- Price & Pierce (Far East) Ltd	99 100	100.00	TWD	168		
- Price & Pierce International Inc	1 000	100.00				
- Yanji Pty Ltd		100.00				
- Price & Pierce De Mexico S.A.	204	51.00	USD	36	USD	36
- Price & Pierce (Asia Pacific) Pte Ltd	500 000	100.00	SGD	0	NLG	6 600
- Spicers Trading (HK) Ltd	10 000	100.00	HKD	200		
- Price & Pierce (Thailand) Co Ltd	3 000	100.00	HKD	300	THB	215
- Price & Pierce Finland Oy	100	100.00	FIM	15	SGD	8
- Price & Pierce (Malaysia) Sdn Ltd	350 000	70.00	MYR	350	SGD	193
- Price & Pierce (HK) Ltd	99 999	100.00	HKD	0	NLG	660
Silva International Paper Holdings B.V.						
- Cartonpack S.A.	326 596	91.80	GRD	1 071 235	NLG	29 323
	28 998	8.20	USD	2 900		
- Cretan Paper Mill S.A.	597 630	100.00	GRD	597 630	GRD	579 876

\* Goodwill is amortized over ten years.

# Shares and Shareholders

## **SHARE CAPITAL AND SHARES AT 31 DECEMBER 1998**

The company's paid-in share capital at 31 December 1998 was FIM 1 389 994 250.

The company has a total of 138 999 425 shares, which are divided into 36 340 550 Series A shares and 102 658 875 Series B shares.

All shares have a nominal value of FIM 10. Each Series A share entitles the holder to 20 votes at a General Meeting of Shareholders, and each Series B share entitles the holder to one (1) vote. All shares carry the same right to receive a dividend.

The company's issued share capital may not be less than FIM 1 billion and not more than FIM 4 billion. The issued share capital may be increased or decreased within these limits without amendment to the Articles of Association.

## **STOCK EXCHANGE LISTINGS AND SHARE PRICES**

Metsä-Serla's Series A and Series B shares are listed on HEX Helsinki Exchanges. Series B shares are also traded on the London Stock Exchange as well as on the Bavarian Stock Exchange in Munich. On the Bavarian Stock Exchange, Metsä-Serla's Series B shares are on the Freiverkehr (Brokers') list.

During 1998, a total of 72.9 million Metsä-Serla shares were traded on the Helsinki Stock Exchange (60.5 million in 1996) and 62.6 million on the London Stock Exchange (54.8 million). At the end of the year, 37.0 per cent of the company's shares were owned by non-Finnish nationals (45.5 %). The quotation for Metsä-Serla's Series A shares rose by 2.4 per cent and for Series B shares fell by 2.4 per cent during 1998. The highest quotation for Series A shares was FIM 61.00 and for Series B shares FIM 63.00. The lowest quotations were FIM 30.00 for Series A shares and FIM 29.50 for Series B shares. The average share prices were FIM 45.91 (41.18) and FIM 46.18 (43.50), respectively. At the end of the year the company's market capitalization was FIM 5.8 billion (FIM 5.8 billion).

## **BOND LOANS WITH EQUITY WARRANTS; DIRECTORS' INTEREST**

### **Bond loan with equity warrants 1997**

An extraordinary general meeting of shareholders on 29 September 1997 approved a pro-

posal to offer bonds with equity warrants, with total value of FIM 750 000, for subscription by the Group's key personnel. The bonds mature in three years and carry no interest. Each bond has a nominal value of FIM 1 000 and carries 1 200 A warrants, 1 200 B warrants and 1 600 C warrants. Each warrant entitles the holder to subscribe one Metsä-Serla Series B share, with a nominal value of FIM 10, at a price of FIM 52.

The share subscription periods begin as follows: for A warrants on 1 December 1998, for B warrants on 1 December 1999 and for C warrants on 1 December 2000. The subscription periods in respect of all warrants end on 31 October 2003.

Exercise of all warrants would increase the number of Series B shares by 3 000 000 and the share capital by FIM 30 million. This represents 2.16 per cent of the company's share capital and 0.36 per cent of the total number of votes.

### **Bond loan with equity warrants 1994**

In 1994, the company issued bonds with equity warrants to a total value of FIM 260 000 for subscription by the company's management. The loan period is 2 May 1994 to 2 May 1999 and the interest is 5 per cent. Each FIM 1 000 bond carries 200 I warrants and 400 II warrants.

Each I warrant entitles the holder to subscribe five Metsä-Serla Series B shares, nominal value FIM 10 each, at a fixed price of FIM 52 during the period 3 May 1997 to 2 May 1999. Each II warrant entitles the holder to subscribe five Metsä-Serla Series B shares, with a nominal value of FIM 10 each, at a fixed price of FIM 56 during the period 3 May 1999 to 2 May 2001.

Exercise of all warrants pertaining to the issue will increase the number of Series B shares by 780 000 and the share capital by FIM 7.8 million. This represents 0.56 per cent of the company's present share capital and 0.09 per cent of the votes.

### **DIRECTORS' INTEREST**

The members of the Board of Directors and the Chief Executive Officer owned a total of 7 395 Metsä-Serla shares at 31 December 1998. This represents 0.00 per cent of the company's shares and 0.00 per cent of the voting rights carried by the shares. No director owns shares in any company belonging to the Metsä-Serla Group.

## **CONVERTIBLE SUBORDINATED CAPITAL NOTES**

An extraordinary general meeting of shareholders on 29 September 1997 authorized the company's Board of Directors to decide on the issue of convertible subordinated capital notes to a value of USD 250 million on the Finnish and foreign capital markets. The purpose of the loan is to improve the Group's equity ratio and financial position. To ensure that the issue was well subscribed, the notes were offered preferentially to Finnish and foreign institutional investors in disapplication of existing shareholders' rights.

The reasons for disapplying shareholders' rights were the exceptionally large size of the loan, the currency (US dollars) and the complicated terms and conditions. Also, offering the issue to the general public would have been more expensive.

Another extraordinary general meeting of shareholders on 23 October 1997 decided to offer a further USD 100 million in convertible subordinated capital notes for subscription by Metsäliitto Osuuskunta.

The notes carry interest at 4.375 per cent and the subscription price is FIM 57.9735 each. The price was decided on the basis of offers received from the international market.

Holders of the notes have the right to subscribe Metsä-Serla's Series B shares during the period 15 January 1998 to 1 January 2002. Exercise of all conversion rights would raise the total number of Series B shares by 31 839 202 and the share capital by FIM 318.4 million. This represents 22.9 per cent of the company's present share capital and 3.8 per cent of the voting rights.

## **BOARD OF DIRECTORS, AND BOARD'S AUTHORITY TO ISSUE SHARES**

The Board of Directors of Metsä-Serla Corporation is elected by the Annual General Meeting. The term of office of members begins at the end of the Annual General Meeting at which they are elected and continues until the end of the next Annual General Meeting. The President and CEO is elected by the Board of Directors.

The Board of Directors does not have a valid authority to carry out a share issue or issue of convertible bonds or bonds with equity warrants.



**METSÄ-SERLA 'S MAIN SHAREHOLDERS**

SHARE REGISTER AT 31 DECEMBER 1998	Series A	Series B	Total	% of votes	% of shares
1. Metsäliitto Osuuskunta	25 111 535	29 539 000	54 650 535	64.1	39.3
2. Eläke-Varma Mutual Insurance Company	2 802 475	0	2 802 475	6.8	2.0
3. Sampo Group	1 865 955	250 000	2 115 955	4.5	1.5
4. Ilmarinen Mutual Pension Insurance Company	1 023 325	445 500	1 468 825	2.5	1.1
5. Local Government Pensions Institution	240 000	1 191 100	1 431 100	0.7	1.0
6. Tapiola General Mutual Insurance Company	576 000	695 000	1 271 000	1.5	0.9
7. Central Union of Agricultural Producers and Forest Owners (MTK)	826 249	259 560	1 085 809	2.0	0.8
8. Tapiola Mutual Life Assurance Company	509 370	400 000	909 370	1.3	0.7
9. Keskinäinen eläkevakuutusyhtiö Tapiola	293 000	462 500	755 500	0.8	0.5
10. Polaris Pension Fund	227 770	421 505	649 275	0.6	0.5
11. Metsäliitto Employees' Pension Foundation	16 070	577 900	593 970	0.1	0.4
12. OP-Metsä Fund	227 500	84 900	312 400	0.6	0.2
13. Elit Capital Oy	107 500	180 300	287 800	0.3	0.2
14. Aurum-OKOBANK Life Insurance Company Ltd	0	270 000	270 000	0.0	0.2
15. Equity Fund Merita Foresta	104 000	156 500	260 500	0.3	0.2
16. The Valio Finnish Cooperative Dairies' Association	0	250 750	250 750	0.0	0.2
17. Co-operative Dairies Pension Fund	0	224 000	224 000	0.0	0.2
18. UPM-Kymmene Group	211 240	0	211 240	0.5	0.2
19. Finnish Cultural Foundation	0	208 500	208 500	0.0	0.2
20. OP-Delta Fund	19 500	169 500	189 000	0.1	0.1

At 31 December 1998, shares owned by non-Finnish nationals totalled 51 367 696 representing 6.4% of the voting rights and 37.0% of the shares. Shares registered in a nominee's name represented 6.2% of the voting rights and 36.8% of the shares.

**BREAKDOWN OF SHAREHOLDERS**

Shares	Number of shareholders	% of shareholders	Total shares	% of shares	Number of votes	% of all votes
<b>Series A</b>						
1 - 20	119	4.80	1 465	0.00	29 300	0.00
21 - 50	170	6.85	6 834	0.02	136 680	0.02
51 - 100	293	11.81	23 959	0.07	479 180	0.07
101 - 500	1 138	45.87	316 621	0.87	6 332 420	0.87
501 - 1 000	370	14.91	300 034	0.83	6 000 680	0.83
1 001 - 5 000	330	13.30	703 323	1.94	14 066 460	1.94
over 5 000	61	2.46	34 972 629	96.24	699 452 580	96.24
On the waiting list			500		10 000	
Grand total account			15 185	0.04	303 700	0.04
Number issued			36 340 550	100.00	726 811 000	100.00
<b>Series B</b>						
1 - 20	6 694	20.28	86 308	0.08	86 308	0.08
21 - 50	6 411	19.42	232 976	0.23	232 976	0.23
51 - 100	6 236	18.89	460 924	0.45	460 924	0.45
101 - 500	9 372	28.40	2 208 378	2.15	2 208 378	2.15
501 - 1 000	2 039	6.18	1 591 044	1.55	1 591 044	1.55
1 001 - 5 000	1 872	5.67	4 043 068	3.94	4 043 068	3.94
over 5 000	380	1.15	93 329 652	90.91	93 329 652	90.91
On the waiting list			5 590	0.01	5 590	0.01
Grand total account			700 935	0.68	700 935	0.68
Number issued			102 658 875	100.00	102 658 875	100.00

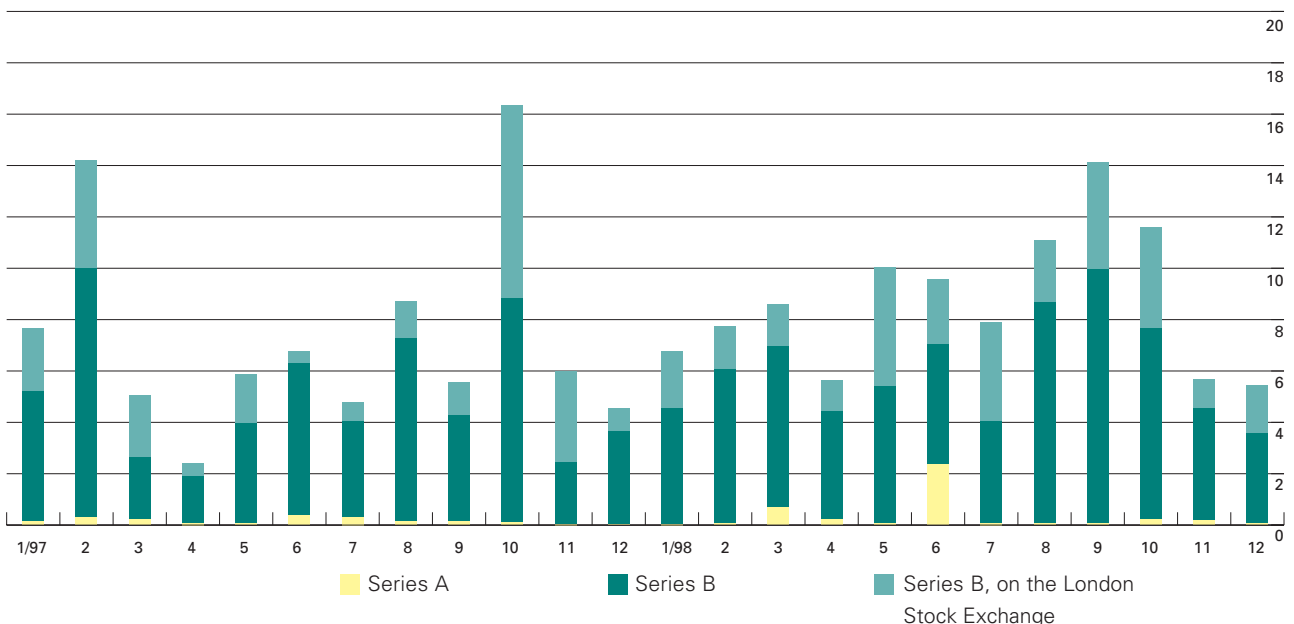
## Shares and Shareholders

### Share issues 1992-1998

Type of issue	Subscription period	Ratio of issue or subscriber	Subscription price, FIM	Number of new shares	Date of payment	Increase in share capital FIM mill.	New share capital FIM mill.
Rights of issue	9.12.1991-17.1.1992	1 new for 12 old	A:105	559 084	17.1.1992	28.0	1 020.2
			B:55	1 020 809		51.0	
Targeted issue	29.6.1993		B:167	3 460 000	29.6.1993	173.0	1 193.2
Subscription through warrants (B)	1988		149.37	148		0.0	
	1989		149.37	1272		0.1	
			143.01	1844		0.1	
	1990		143.01	80		0.0	
	1991		143.01	-		0.0	
	1992		143.01	-		0.0	
	1993		143.01	3 185 492		159.3	
				3 188 836		159.5	1 352.5
Placement	18.11.1993		B:225	250 000	18.11.1993	12.5	1 365.0
Placement	30.6.1995	Oy Kyro Ab	B:210,12	500 000	30.6.1995	25.0	1 390.0

\* The change in the nominal value of the company's shares from FIM 50 to FIM 10 (11 April 1996) has not been taken into account.

### Traded volumes in 1997 and 1998, Million units



	1998	1997	1996	1995	1994
<b>Traded volumes on the Helsinki Stock Exchange, units</b>					
Series A	4 074 089	1 982 720	1 698 835	2 525 125	4 213 110
% of total no. of Series A	11.2	5.5	4.7	6.9	11.6
Series B	68 834 117	58 556 696	48 018 128	41 389 460	69 719 420
% of total no. of Series B	67.1	57.0	46.8	40.3	69.6
<b>Trading in shares</b>					
On the London Stock Exchange <sup>1)</sup>	62 607 898	54 752 388	25 783 447	67 562 555	105 557 345
% of total no. of Series B <sup>1)</sup>	61.0	53.3	25.1	65.8	105.4
<b>Number of shares at end of year</b>					
Series A	36 340 550	36 340 550	36 340 550	36 340 550	36 340 550
Series B	102 658 875	102 658 875	102 658 875	102 658 875	100 158 875
Total	138 999 425	138 999 425	138 999 425	138 999 425	136 499 425
Adjusted number of shares at 31 Dec.	138 999 425	138 999 425	138 999 425	138 999 425	136 499 425
Market capitalization at 31 Dec., FIM million	5 787	5 853	4 800	3 732	5 657
Number of shareholders <sup>2)</sup>	35 485	33 598	35 302	35 371	35 412

Change in nominal value of shares taken into account

<sup>1)</sup> On the London Stock Exchange the purchase and sale of one lot of shares is recorded as two transactions.

<sup>2)</sup> Shareholders in book entry system.

### Share performance

	1998	1997	1996	1995	1994
Adjusted prices, FIM					
<b>Series A</b>					
highest	61.00	50.10	36.50	43.00	51.60
lowest	30.00	32.00	24.40	24.40	36.00
at the end of year	42.00	41.00	34.59	27.00	41.00
average price	45.91	41.18	30.54	36.08	47.20
<b>Series B</b>					
highest	63.00	52.80	37.00	43.20	52.00
lowest	29.50	34.00	24.60	23.60	35.20
at the end of year	41.50	42.50	34.51	26.80	41.60
average price	46.18	43.50	30.27	34.46	46.00

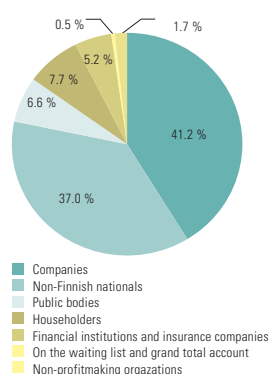
## Shares and Shareholders

### Figures per share

	1998	1997	1996	1995	1994
Calculation of earnings per share, FIM million					
Profit before extraordinary items	1823.7	1007.9	315.3	1 913.8	785.9
+ reversal of amortization on goodwill attributable to Metsä-Botnia	39.4	39.4	39.4	39.4	39.4
- minority interest	-232.3	-147.8	-4.0	-317.8	-14.6
- taxation	-606.1	-564.1	-224.1	-486.1	-197.9
+ tax adjustment for extraordinary items	27.2	262.4	102.1	54.6	-
= Earnings, FIM million	1 051.9	597.9	228.8	1 203.9	612.8
- Adjusted number of shares (average)	138 999 425	138 999 425	138 999 425	137 711 755	136 499 425
= Earnings per share, FIM (diluted 1998: 6.49 mk)	7.57	4.30	1.65	8.74	4.49
Shareholders' equity per share, FIM	65	59	51	49	42.0
Dividend per share, FIM	2.6 <sup>1)</sup>	1.8	1.00	1.40	1.00
Dividend per profit, %	34.4	41.9	60.6	16.0	22.3
Nominal value per share, FIM	10	10	10	10	10
Dividend yield, %					
Series A	6.2	4.4	2.9	5.2	2.4
Series B	6.3	4.2	2.9	5.2	2.4
Price/equity ratio (P/E ratio)					
Series A	5.5	9.5	21.0	3.1	9.1
Series B	5.5	9.9	21.0	3.1	9.3
P/BV, %					
Series A	64.6	69.5	67.7	55.0	97.2
Series B	63.8	72.0	67.6	54.6	98.6

<sup>1)</sup> Board's proposal

#### Shareholders as at 31 December 1998



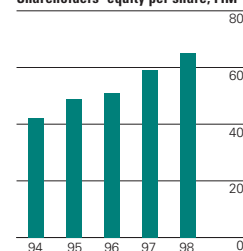
#### Series A shares, average monthly share price



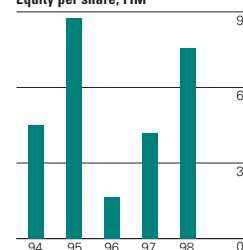
#### Series B shares, average monthly share price



#### Shareholders' equity per share, FIM



#### Equity per share, FIM



# Calculation of Key Ratios

Return on equity (%)	=	$\frac{\text{Profit after financial items - direct taxes}}{\text{Shareholders' equity + minority interest (average)}}$
Return on capital employed (%)	=	$\frac{\text{Profit before extraordinary items + interest expense, net exchange gains/losses and other financial expenses}}{\text{Total assets - non-interest-bearing liabilities (average)}}$
Equity ratio (%)	=	$\frac{\text{Shareholders' equity + minority interest}}{\text{Total assets - advance payments received}}$
Gearing ratio (%)	=	$\frac{\text{Interest-bearing liabilities - liquid assets}}{\text{Shareholders' equity + minority interest}}$
Earnings per share	=	$\frac{\text{Profit before extraordinary items - minority interest - direct taxes}}{\text{Adjusted number of shares (average)}}$
Shareholders' equity per share	=	$\frac{\text{Shareholders' equity}}{\text{Adjusted number of shares 31 December}}$
Dividend per share	=	$\frac{\text{Dividends}}{\text{Adjusted number of shares 31 December}}$
Dividend per profit (%)	=	$\frac{\text{Dividend per share}}{\text{Earnings per share}}$
Dividend yield (%)	=	$\frac{\text{Dividend per share}}{\text{Share price at 31 December}}$
Price/equity ratio (P/E ratio)	=	$\frac{\text{Adjusted share price at 31 December}}{\text{Earnings per share}}$
P/BV (%)	=	$\frac{\text{Adjusted share price at 31 December}}{\text{Shareholders' equity per share}}$
Adjusted average share price	=	$\frac{\text{Total traded volume per share (FIM)}}{\text{Total adjusted traded volume of the shares (units)}}$
Market capitalization	=	Number of shares x market price at 31 December
Internal financing of capital expenditure (%)	=	$\frac{\text{Funds from operations}}{\text{Gross capital expenditure}}$
Interest cover	=	$\frac{\text{Funds from operations + net interest expenses}}{\text{Net interest expenses}}$
Funds from operations	=	Funds from operations in the cash flow

The convertible subordinated capital note is included in the shareholders' equity.

# Ten Years in Figures (FIM)

	1998	1997	1996	1995	1994	1993	1992	1991	1990	1989
<b>Profit and loss account, FIM million</b>										
Turnover	20 948	19 182	14 930	13 321	9 477	9 169	7 752	7 737	8 737	8 679
- change, %	9.2	28.5	12.1	40.6	3.4	18.3	0.2	-11.4	0.7	14.2
Exports from Finland	10 825	10 280	8 575	7 532	5 385	5 248	4 002	3 786	4 520	4 752
Exports and foreign subsidiaries	17 897	16 243	12 654	10 464	7 799	7 720	6 397	6 066	6 177	5 931
Operating profit	2 299	2 016	902	2 387	926	1 011	718	391	461	793
- % of turnover	11.0	10.5	6.0	17.9	9.8	11.0	9.3	5.1	5.3	9.1
Profit before extraordinary items	1 824	1 008	315	1 914	786	302	-290	-635	-134	470
- % of turnover	8.7	5.3	2.1	14.4	8.3	3.3	-3.7	-8.2	-1.5	5.4
Profit before taxes and minority interests	1 921	2 002	700	1 913	759	755	90	-559	-41	565
- % of turnover	9.2	10.4	4.7	14.4	8.0	8.2	1.2	-7.2	-0.5	6.5
<b>Balance sheet, FIM million</b>										
Balance sheet total	28 310	28 340	21 713	18 566	14 078	14 023	13 183	13 355	14 227	13 463
Shareholders' equity	10 861	10 089	7 098	6 817	5 749	5 304	3 935	3 958	5 019	4 317
Interest-bearing net liabilities	7 333	6 289	8 465	6 595	3 706	4 241	6 760	6 923	6 675	4 643
<b>Dividends and figures per share*</b>										
Dividends, FIM million	361.4 <sup>1)</sup>	250.2	139.0	194.6	136.5	54.6	-	-	65.9	95.7
Dividend per share, FIM	2.60 <sup>1)</sup>	1.80	1.00	1.40	1.00	0.40	-	-	0.70	1.10
Dividend/profit, %	34.3 <sup>1)</sup>	41.9	60.6	16.0	22.3	54.0	-	-	-	19.3
Earnings per share, FIM (diluted 1998: FIM 6.49)	7.57	4.30	1.65	8.74	4.49	0.74	-6.98	-13.98	-0.08	5.71
Shareholders' equity per share, FIM	65	59	51	49	42	39	39	41	53	50
<b>Profitability</b>										
Return on capital employed, %	11.0	11.2	6.4	18.8	10.8	10.1	7.5	4.9	5.9	10.1
Return on equity, %	11.6 <sup>2)</sup>	7.8	2.5	22.0	10.5	5.3	neg	neg	neg.	11.5
<b>Financial position</b>										
Equity ratio, %	45.9	42.6	37.2	42.4	41.7	38.2	30.2	29.9	35.5	32.3
Equity ratio, %	39.4 <sup>2)</sup>	36.1								
Gearing ratio, %	60	57	110	95	71	81	178	181		
Gearing ratio, %	86 <sup>2)</sup>	85								
Funds from operations, FIM million	3 061	2 696	1 891	2 429	1 205	1 261	568	-82	1 126	1 387
Internal financing of capital expenditures, %	124.9	85.3	40.1	81.8	167.1	188.6	94.2	neg.	29.7	90.8
Net interest expenses, FIM million	516.1	593.5	471.1	502.7	347.1	584.9	731.5	654.7	637.3	336.2
Interest cover	6.9	5.5	5.0	5.8	4.5	3.2	1.8	0.9	2.8	5.1
<b>Other information</b>										
Gross capital expenditure, FIM million	2 450	3 160	4 711	2 923	721	669	603	548	3 790	1 528
- % of turnover	11.7	16.5	31.6	21.9	7.6	7.3	7.8	7.1	43.4	17.6
R&D expenditure, FIM million	90	85	90	90	76	75	65	61	55	50
- % of turnover	0.4	0.4	0.6	0.7	0.8	0.8	0.8	0.8	0.6	0.6
Personnel, average	14 611	13 458	11 947	10 106	9 061	9 047	9 384	10 522	13 049	12 994
- of whom in Finland	7 949	8 069	7 490	7 162	6 385	6 425	6 674	7 529	9 718	10 287

<sup>1)</sup> Board's proposal

<sup>2)</sup> The convertible subordinated capital notes have been added to liabilities.

\* Change in nominal value of shares taken into account

Due to changes in accounting legislation, the figures for 1993 and previous years are not fully comparable. Deferred tax has not been included under provisions since 1993. Calculation of key ratios is presented on page 77.

# Ten Years in Figures (EUR)

	1998	1997	1996	1995	1994	1993	1992	1991	1990	1989
<b>Profit and loss account, EUR million</b>										
Turnover	3 523	3 226	2 511	2 240	1 599	1 542	1 304	1 301	1 469	1 460
- change, %	9,2	28,5	12,1	40,6	3,4	18,3	0,2	-11,4	0,7	14,2
Exports from Finland	1 821	1 729	1 442	1 267	906	883	673	637	760	799
Exports and foreign subsidiaries	3 010	2 732	2 128	1 760	1 312	1 298	1 076	1 020	1 039	998
Operating profit	387	339	152	401	156	170	121	66	78	133
- % of turnover	11,0	10,5	6,0	17,9	9,8	11,0	9,3	5,1	5,3	9,1
Profit before extraordinary items	307	169	53	322	132	51	-49	-107	-23	79
- % of turnover	8,7	5,3	2,1	14,4	8,3	3,3	-3,7	-8,2	-1,5	5,4
Profit before taxes and minority interests	323	337	118	322	128	127	15	-94	-7	95
- % of turnover	9,2	10,4	4,7	14,4	8,0	8,2	1,2	-7,2	-0,5	6,5
<b>Balance sheet, EUR million</b>										
Balance sheet total	4 761	4 766	3 652	3 123	2 368	2 358	2 217	2 246	2 393	2 264
Shareholders' equity	1 827	1 697	1 194	1 147	967	892	662	666	844	726
Interest-bearing net liabilities	1 233	1 058	1 424	1 109	623	713	1 137	1 164	1 123	781
<b>Dividends and figures per share*</b>										
Dividends, EUR million	60,8 <sup>1)</sup>	42,1	23,4	32,7	23,0	9,2	-	-	11,1	16,1
Dividend per share, EUR	0,44 <sup>1)</sup>	0,30	0,17	0,24	0,17	0,07	-	-	0,12	0,19
Dividend/profit, %	34,3 <sup>1)</sup>	41,9	60,6	16,0	22,3	54,0	-	-	-	19,3
Earnings per share, EUR (diluted 1998: FIM 6.49)	1,27	0,72	0,28	1,47	0,76	0,12	-1,17	-2,35	-0,01	0,96
Shareholders' equity per share, EUR	11	10	9	8	7	7	7	7	9	8
<b>Profitability</b>										
Return on capital employed, %	11,0	11,2	6,4	18,8	10,8	10,1	7,5	4,9	5,9	10,1
Return on equity, %	11,6 <sup>2)</sup>	7,8	2,5	22,0	10,5	5,3	neg	neg	neg.	11,5
<b>Financial position</b>										
Equity ratio, %	45,9	42,6	37,2	42,4	41,7	38,2	30,2	29,9	35,5	32,3
Equity ratio, %	39,4 <sup>2)</sup>	36,1								
Gearing ratio, %	60	57	110	95	71	81	178	181		
Gearing ratio, %	86 <sup>2)</sup>	85								
Funds from operations, EUR million	515	453	318	409	203	212	96	-14	189	233
Internal financing of capital expenditures, %	124,9	85,3	40,1	81,8	167,1	188,6	94,2	neg.	29,7	90,8
Net interest expenses, EUR million	86,8	99,8	79,2	84,5	58,4	98,4	123,0	110,1	107,2	56,5
Interest cover	6,9	5,5	5,0	5,8	4,5	3,2	1,8	0,9	2,8	5,1
<b>Other information</b>										
Gross capital expenditure, EUR million	412	531	792	492	121	113	101	92	637	257
- % of turnover	11,7	16,5	31,6	21,9	7,6	7,3	7,8	7,1	43,4	17,6
R&D expenditure, EUR million	15	14	15	15	13	13	11	10	9	8
- % of turnover	0,4	0,4	0,6	0,7	0,8	0,8	0,8	0,8	0,6	0,6
Personnel, average	14 611	13 458	11 947	10 106	9 061	9 047	9 384	10 522	13 049	12 994
- of whom in Finland	7 949	8 069	7 490	7 162	6 385	6 425	6 674	7 529	9 718	10 287

<sup>1)</sup> Board's proposal

<sup>2)</sup> The convertible subordinated capital notes have been added to liabilities.

\* Change in nominal value of shares taken into account

Due to changes in accounting legislation, the figures for 1993 and previous years are not fully comparable. Deferred tax has not been included under provisions since 1993. Calculation of key ratios is presented on page 77.

# Board's Proposal for the Distribution of Profits

The Group's distributable funds according to the balance sheet at 31 Dec. 1998.	FIM	2 650 517 000.00
Nonrestricted shareholders' equity in the parent company balance sheet,		
Retained earnings	FIM	2 413 281 841.77
Net profit for 1998	FIM	392 785 679.78
Total	FIM	<u>2 806 067 521.55</u>

The Board of Directors proposes the following to the Annual General Meeting:

A dividend of FIM 2.60 per share be paid on 138,999,425 Series A and B shares	FIM	361 398 505.00
For use by the Board of Directors in the general interest	FIM	250 000.00
To be retained in "Retained earnings"	FIM	<u>2 444 419 016.55</u>
	FIM	<u>2 806 067 521.55</u>

Espoo, 4 February 1999

*Antti Oksanen*

*Arimo Uusitalo*

*Asmo Kalpala*

*Erkki Karmila*

*Curt Lindbom*

*Seppo T. Niemi*

*Eero Oittila*

*Antti Tanskanen*

*Jorma Vaajoki*  
President and CEO

## Auditor's Report

### TO THE SHAREHOLDERS OF METSÄ-SERLA CORPORATION

We have audited the accounting, the financial statements and the corporate governance of Metsä-Serla Corporation for the period 1 January to 31 December 1998. The financial statements, which include the report of the Board of Directors, consolidated and parent company income statements, balance sheets and notes to the financial statements, have been prepared by the Board of Directors and the President and CEO. Based on our audit we express an opinion on these financial statements and on corporate governance.

We have conducted the audit in accordance with Finnish Standards on Auditing. Those standards require that we perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining on a test basis evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by the management as well as evaluating the overall financial statements presentation. The purpose of our audit of corporate governance is to examine that the members of the Board of Directors and the President and CEO have legally complied with the rules of the Companies' Act.

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's result of operations as well as of the financial position. The financial statements with the consolidated financial statements can be adopted and the members of the Board of Directors and the President and CEO of the parent company can be discharged from liability for the period audited by us. The proposal by the Board of Directors regarding the distribution of retained earnings is in compliance with the Companies' Act.

We have reviewed the interim reports published during the financial year. In our view, these have been prepared in accordance with applicable regulations.

Espoo, 11 February 1999

SVH Pricewaterhouse Coopers Oy  
Authorised Public Accountants

Ilkka Haarlaa  
Authorised  
Public Accountant

Göran Lindell  
Authorised  
Public Accountant



# Corporate Governance

## ANNUAL GENERAL MEETING

The Annual General Meeting is the company's highest decision-making body. Its duties include confirming the company's annual profit and loss account and balance sheet, deciding on the payment of dividends and electing the members of the Board of Directors. The Annual General Meeting is to be held annually by the end of June. In practice, Annual General Meetings are held in March.

## BOARD OF DIRECTORS

According to the Articles of Association, the Board of Directors of Metsä-Serla Corporation comprises a minimum of five and a maximum of eight members, who are elected by the Annual General Meeting. The term of office of a member commences from the close of the Annual General Meeting which elected the member and continues up to the end of the next Annual General Meeting. The Board of Directors elect from amongst their number a chairman and a vice chairman.

Under the Companies Act, the task of the Board of Directors is to attend to the Company's administration and the due organization of its operations. The Board of Directors is also responsible for deciding on matters which, taking into account the extent and kind of the Company's operations, are out of the ordinary and of broad import. In order to fulfil these general statutory obligations, the rules of procedure specify that the task of the Company's Board of Directors includes, in addition to the tasks expressly provided for in the Companies Act, approval of officers reporting directly to the President, confirmation of the Company's strategy and budget as well as monitoring of its due implementation, decision on operational arrangements, major capital expenditures, investments and loans, and confirmation of the salaries and other benefits of senior management as well as personnel policy.

As a rule, the Board of Directors meets once a month. In 1998, the Board of Directors had 18 meetings, one of which was a teleconference.

The Board of Directors has a Compensation Committee composed of the chairman of the Board and the vice chairman as well as one member whom the Board elect from amongst their number. The chairman of the Compensation Committee has been Antti



Oksanen, with Arimo Uusitalo and Asmo Kalpala acting as its members.

The Compensation Committee prepares and presents for decision by the Board of Directors matters connected with the salaries, fringe benefits and other conditions of employment of the President as well as decides on the salaries, fringe benefits and other conditions of employment of officers who report directly to the President. It is also the task of the Board's Compensation Committee generally to keep abreast of issues connected with the compensation, fringe benefits and other conditions of employment of management and persons working in key expert positions as well as to issue the related regulations, instructions and recommendations in order to ensure the Company's continuing competitiveness.

## PRESIDENT

The Company's President is elected by the Board of Directors. The task of the President is, in accordance with the instructions and regulations issued by the Board of Directors, to attend to the Company's running administration. The President since 1996 has been Jorma Vaajoki.

## SALARIES AND REMUNERATION

The remuneration of the members of the Board of Directors is confirmed by the Annual General Meeting each year in advance. The remuneration paid to the members of the Board of Directors during 1998 are itemized in Note Personnel costs

to the annual accounts on page 54.

## OPERATIONAL ORGANIZATION

The Metsä-Serla Group comprises approximately 100 operating subsidiaries in 28 countries. The Group is organized operationally into four business groups: the Paper Group, Packaging and Consumer Products Group, Pulp Group and Merchenting and Trading Group (Forest House). The Packaging and Consumer Products Group also comprises the functions of Metsä Tissue Corporation, which is separately listed on the Helsinki Stock Exchange. The Forest House Group is in charge of Metsä-Serla's merchenting and trading functions. The marketing of Metsä-Serla's products is handled by a separate sales network, Forest Alliance, which is also responsible for marketing the products of Metsä-Serla's alliance partner, the Myllykoski Group, elsewhere than in the USA.

The Group's operational management is the responsibility of the president. The most important matters are prepared for decision by the President or the Board of Directors in meetings of the Executive Management Board whose members, in addition to President and CEO Jorma Vaajoki, are Aarre Metsävirta (Paper Group), Juhani Saarela (Packaging and Consumer Products Group), Erkki Varis (Pulp Group) and Veli-Matti Mynttinen (Finance and Treasury).

# Board of Directors, Auditors

## THE BOARD OF DIRECTORS: (from left to right)

Seppo T. Niemi, Curt Lindbom, Eero Oittila, Antti Tanskanen, Antti Oksanen, Chairman, Arimo Uusitalo, Vice Chairman, Erkki Karmila, Asmo Kalpala



### Antti Oksanen 54

Chairman of Board since 1995,  
Member of the Board since 1993

Master of Science in Forestry,  
Titular Mining Counsellor

Member of the Board and Executive  
Committee of the Finnish Forest Industries  
Federation since 1995, Member of the  
Board of the Confederation of Finnish  
Industry and Employers since 1995 and a  
Member of the Council since 1997

President of Metsäliitto Group, President  
& CEO of Metsäliitto Osuuskunta

Vice Chairman of the Board of Metsäliitto  
Osuuskunta, Chairman of the Boards of  
several Metsäliitto Group companies,  
Member of the Boards of Myllykoski  
Paper Oy, MD Papier GmpH & Co. KG.,  
Interpan Ltd., Member of the Board of  
Directors of Pohjolan Voima Oyj (PVO)

### Arimo Uusitalo 56

Vice Chairman of the Board since 1994,  
Member of the Board since 1994

Master of Science in Agriculture and  
Forestry, Titular Farming Counsellor

Farmer

Chairman of the Board of Metsäliitto  
Osuuskunta, Vice Chairman of the  
Board of Finnforest Oy, Vice Chairman  
of the Board of Metsä Tissue Corporation,  
Member of the Board of Metsä Timber  
Ltd, Member of the Board of  
the Raisio Group

### Asmo Kalpala 48

Member of the Board since 1990

Master of Science in Economics,  
Vice Chairman of the Board and Executive  
Committee of the Federation of Finnish  
Insurance Companies since 1997,  
Chairman of the Board of the Insurance  
Employers' Association since 1997

Chairman of the Boards and President  
of the Tapiola Insurance Group

Chairman of the Supervisory Board of  
YIT Group Ltd since 1990, Member of  
the Board of Tieto Corporation since  
1996, Chairman of the Board of LTT  
Research Ltd. in 1998

### Erkki Karmila 57

Member of the Board since 1992

Master of Law (trained on the bench)  
Master of Laws 1968 Harvard University,  
Deputy Managing Director, Finnish Export  
Credit 1981-82 and Managing Director  
1982-83, Vice President of Kansallis-  
Osake- Pankki, 1983-91, Director of the  
Invest in Finland Bureau, 1992

Deputy Managing Director of  
the Nordic Investment Bank

### Curt Lindbom 56

Member of the Board since 1992

Member of the Board of CapMan Capital  
Management Oy, Member of the Board  
of Metsä Tissue Corporation, also  
Chairman of the Board and Board  
Member in a number of companies

Chairman of the Board of Cumasa Oy

B.Sc. (Eng.), Honorary Consul General,  
President of Oy Hackman Ab 1983-96,  
Chairman of Central Chamber of  
Commerce 1991-95, numerous other  
elected positions in employer associa-  
tions and large companies

### Seppo T. Niemi 61

Member of the Board since 1996

Agricultural engineer

Farmer/forest owner

Member of the Board of Metsäliitto  
Osuuskunta since 1985, Member of the  
Board of Metsäliitto Employees' Pension  
Foundation, Member of the Board of  
Pellervo Society, Member of the  
Executive Board of Osuuspankki

### Eero Oittila 62

Member of the Board since 1996

Master of Science in Agriculture  
and Forestry

Chairman of the Supervisory Board of  
Metsäliitto Osuuskunta, Chairman of the  
Board of West Uusimaa Savings Bank

### Antti Tanskanen 52

Member of the Board since 1992

Ph.D. in Economics  
Professor of Economics at Jyväskylä  
University 1979-96 and Rector 1988-91,  
Chairman and President of the Academy  
of Finland 1992-96, Chairman of the  
Supervisory Board of the Central Association  
of the Finnish Cooperative Banks 1992-96,  
Chairman of the Executive Board of  
OKOBANK Osuuspankkien  
Keskuspankki Oyj 1993-96

Chairman and CEO, OKOBANK Group,  
Chairman of the Executive Boards of  
OKOBANK Group Central Cooperative  
and OKOBANK Osuuspankkien  
Keskuspankki Oyj since 1997

Chairman of the Supervisory Board of  
Osuuspankki Realum since 1996, Chairman  
of the Supervisory Board of OP-Kotipankki  
since 1997, Member of the Unico Banking  
Group Steering Committee since 1996,  
Vice Chairman of the Board of the Finnish  
Bankers' Association since 1997

### SECRETARY

**Olli Nuortila**, Master of Laws  
Secretary to the Board of Directors

### AUDITORS

**SVH Coopers & Lybrand Oy**  
(SVH Pricewaterhouse Coopers Oy as  
of 12 October 1998),  
Authorised Public Accountants

**Göran Lindell**,  
Authorized Public Accountant

**Ilkka Haarlaa**,  
Authorized Public Accountant

# Executive Management Board

**EXECUTIVE MANAGEMENT BOARD:** (from left to right)

Erkki Varis, Aarre Metsävirta, Jorma Vaajoki, Veli-Matti Mynttinen, Juhani Saarela



**Jorma Vaajoki** 49  
President and CEO (1996)

Mr. Vaajoki began his career in the American automotive industry, serving as a Project Engineer from 1977 to 1981 at Midland-Ross Corporation. From 1981 to 1984 he was Chief Engineer at Allied Signal (Bendix) Corporation. He joined Kone Oy, an elevator and escalator company in 1985 as a Group Director based in Finland. He joined Metsä-Serla in 1989 and became the head of the Panel Products Division before being appointed President and CEO of Finnforest Oy in 1990. He was appointed President and CEO to Metsä-Serla in 1996.

**Aarre Metsävirta** 53  
Executive Vice President,  
Paper Group (1996)

Mr. Metsävirta has spent his entire career in the forest industry beginning in 1972 at A. Ahlström Oy, Varkaus Paper Industry as an engineer and then as a Research Director. In 1983 he joined Rauma-Repola Oy, where he was Technical Director and later Senior Vice President of the Paper Division. He left to become the Executive Vice President of Tampella Ltd in 1998 before becoming the President of Tampella Forest Inc. in 1991. He was appointed Chairman of the Board of Veitsiluoto Oy in 1994, and joined Metsä-Serla in 1996, where he was appointed Executive Vice President and Group Executive of the Paper Group.

**Veli-Matti Mynttinen** 43  
Executive Vice President  
and CFO (1999)

Mr. Mynttinen began his career as a controller in Wärtsilä Helsinki Shipyard from 1979 to 1981. He worked at the Outokumpu Head Office from 1981 to 1983 as Budgeting Manager. In 1983, he joined Rauma-Repola Oy as Group Controller in charge of financial planning and control. From 1986 to 1988 he was Chief Controller of engineering division (today Rauma Corporation). He left to become the Group Controller of Metsä-Serla Oy in 1988. In 1990 he was appointed Member of the Executive Board of OKOBANK Osuuspankkien Keskuspankki Oyj in charge of financial control, asset and liability management, real-estate and information technology. In 1996 he returned to Metsäliitto Group to establish the centralized financing function and was appointed Managing Director of the company Metsä Group Financial Services Ltd. In February 1999 he joined Metsä-Serla Group where he was appointed Executive Vice President and CFO in charge of financial control and financing, investor relations and information technology.

**Juhani Saarela** 43  
Executive Vice President, Packaging  
and Consumer Products Group (1998).

Mr. Saarela began working for G. A. Serlachius in 1980. He joined Metsä-Serla in 1987 and has occupied senior management positions with Metsä-Serla since 1989. He was Managing Director of Metsä-Serla AB in Sweden from 1994 to 1996. In 1996 he was appointed CEO of Metsä Tissue Corporation. In November 1998 he was appointed Executive Vice President and Group Executive at the Packaging and Consumer Products Group.

**Erkki Varis** 50  
Senior Vice President, Pulp Group,  
Managing Director Metsä-Botnia (1997)

Mr. Varis entered the pulp industry in 1975 as a Development Manager at Metsäliiton Teollisuus Oy, continuing in this capacity at Metsä-Botnia's Äänekoski Mill in 1982. He took up the position of Mill Manager at Metsä-Botnia's Kaskinen Mill two years later. In 1990, he was appointed Deputy Managing Director of Metsä-Botnia. In 1994 he was appointed Managing Director of Metsä-Rauma and in 1997 Managing Director of Metsä-Botnia.

# Production Capacity 1999

## PAPER GROUP

Mill	Country	Machines	Coated	Coated	Uncoated	Specialty	Total
			Magazine Paper	Fine Paper	Fine Paper		
Kirkniemi	Finland	3	350	350			700
Äänekoski	Finland	1		180			180
Kangas	Finland	2		30	180	30	240
Simpele	Finland	1				50	50
Albbruck*	Germany	3	260				260
Dachau*	Germany	2	170			20	190
Plattling*	Germany	2	320				320
Biberist	Switzerland	3		330	65		395
Sittingbourne	UK	2		185			185
New Thames	UK	1			240		240
		20	1100	1075	485	100	2760

## PACKAGING AND CONSUMER PRODUCTS GROUP

Mill	Country	Machines	Folding	Wallpaper	Cartons	Kraftliner	SC-fluting	CTMP	Corrugated	Total
			Boxboard	Base					Packaging	
Tampere	Finland	3	220							220
Kyröskoski	Finland	2	120	90						210
Äänekoski	Finland	1	60	50						110
Simpele	Finland	1	160							160
Tampere	Finland				20					20
Simpele	Finland				10					10
Kemi	Finland	1				310				310
Kuopio	Finland	1					240			240
Lielahi	Finland							110		110
	Finland								60	60
	Denmark								65	65
	Estonia								10	10
	Lithuania								25	25
	Russia								55	55
	Greece								70	70
		9	560	140	30	310	240	110	285	1675

## METSÄ TISSUE

Mill	Country	Machines	Tissue	HD paper	Total
Mänttä	Finland	3	100	25	125
Katrinefors	Sweden	2	75		75
Småland	Sweden	4	45		45
Varsova	Poland	1	20		20
Halstrick	Germany	3	60		60
Strepp	Germany	4	110		110
		17	410		435

## PULP GROUP

Mill	Country	Pulp	Total
Äänekoski	Finland	470	470
Kemi	Finland	520	520
Kaskinen	Finland	420	420
Joutseno	Finland	410	410
		1820	1820

TOTAL

6690

\*) Metsä-Serla share is 50% of the capacity.

## MINORITY SHAREHOLDINGS

Softwood and hardwood pulp	550	Metsä-Rauma Oy (interest 28 %), Finland
	320	Sunila Oy (interest 17 %), Finland
Coated magazine paper	160	Myllykoski Paper Oy (interest 35%), Finland
Uncoated magazine paper	360	Myllykoski Paper Oy (interest 35%), Finland

# Metsä-Serla Worldwide

## SALES NETWORK / World Map

- Forest Alliance (Sales network, Paper & Board)
- Forest House (Merchanting and Trading)

## PRODUCTION UNITS / European Map

- Paper
- Packaging
- Tissue
- Pulp



# Addresses

## METSÄ-SERLA CORPORATION

Corporate Administration

Jorma Vaajoki, President & CEO  
Aarre Metsävirta, Executive Vice President,  
Group Executive, Paper Group  
Veli-Matti Mynttinen,  
Executive Vice President & CFO  
Juhani Saarela, Executive Vice President,  
Group Executive, Packaging and  
Consumer Products Group  
Erkki Varis, Senior Vice President,  
Managing Director, Oy Metsä-Botnia Ab  
Thomas Nystén, President & CEO,  
MD Papier Verwaltungs GmbH  
Antti O. Sojakka, President & CEO,  
Forest House B.V.  
Hannu Anttila, Chief Executive Officer,  
Metsä Tissue Corporation  
Claes Ehrnrooth, Managing Director,  
Forest Alliance Ltd.  
Olli Lehtinen, Senior Vice President,  
Human Resources  
Olli Nuortila, Senior Vice President,  
Administration and General Council  
Touko Antola, Vice President,  
Corporate Purchasing  
Markko Ihamuotila, Chief Business Analyst  
Tapani Kaila, Vice President,  
Business Development  
Marja-Liisa Kauppinen, Vice President,  
Group Controller  
Seppo Mäkinen, Vice President, Logistics Services  
Matti Mörsky, Vice President,  
Head of Business Development  
Reima Nyman, Vice President, Internal Audit  
Esko Partio, Vice President, Energy  
Kauko T. Pekkanen, Vice President & CIO,  
Business Development

### VISITING ADDRESS

Revontulentie 6  
FIN-02100 ESPOO  
FINLAND

### POSTAL ADDRESS

PO Box 20  
FIN-02020 METSÄ  
FINLAND  
Tel. +358 1046 11  
Fax (general) +358 1046 94353

### CORPORATE COMMUNICATIONS

Pekka Kivelä, Senior Vice President,  
Group Communications and Public Affairs  
(Metsäliitto Group)

### ENVIRONMENTAL PROTECTION

Armi Temmes, Environmental Manager

### RESEARCH AND DEVELOPMENT

Jyrki Kettunen, Vice President,  
Research and Development

METSÄ GROUP FINANCIAL SERVICES LTD  
Heikki Saarinen, Managing Director  
Revontulentie 6, FIN-02100 ESPOO, FINLAND  
Tel. +358 1046 11  
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## METSÄ-SERLA CORPORATION

### Metsä-Serla Corporation

#### Corporate Administration

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Revontulentie 6  
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FINLAND

### Metsä-Serla Corporation

#### Corporate Administration (Tampere Office)

PO Box 251 Tel. +358 1046 33999  
FIN-33101 TAMPERE  
FINLAND  
Kirkkokatu 10 A  
FIN-33200 TAMPERE  
FINLAND

### Metsä-Serla Corporation

#### Research and Development

PO Box 44 Tel. +358 1046 42999  
FIN-08701 VIRKKALA Fax +358 1046 42412  
Kievarintie 23  
FIN-08700 VIRKKALA  
FINLAND

### Metsä-Serla, Research and Development

#### Laboratory of Paper Chemistry and Physics

PO Box 600 Tel. +358 1046 43999  
FIN-44101 ÄÄNEKOSKI Fax +358 1046 43217  
FINLAND

## PAPER GROUP

### Management

### Metsä-Serla Corporation

#### Paper Group

PO Box 20 Tel. +358 1046 11  
FIN-02020 METSÄ Fax +358 1046 94393  
FINLAND  
Revontulentie 6  
FIN-02100 ESPOO  
FINLAND

### Marketing Support

### Metsä-Serla Corporation

#### Paper Group - Marketing Support

PO Box 25 Tel. +358 1046 11  
FIN-02020 METSÄ Fax +358 1046 94620  
FINLAND  
Revontulentie 8 C  
FIN-02100 ESPOO  
FINLAND

### Mills

### Metsä-Serla Corporation

#### Äänekoski Art Paper Mill

PO Box 300 Tel. +358 1046 43999  
FIN-44101 ÄÄNEKOSKI Fax +358 1046 43544  
FINLAND

## Metsä-Serla Corporation

### Kangas Paper Mill

PO Box 148 Tel. +358 1046 45999  
FIN-40351 JYVÄSKYLÄ Fax +358 1046 45310  
FINLAND  
Vapaaherrantie 13  
FIN-40320 JYVÄSKYLÄ  
FINLAND

## Metsä-Serla Corporation

### Kirkniemi Mills

FIN-08800 KIRKNIEMI Tel. +358 1046 42999  
FINLAND Fax +358 1046 42411

## Metsä-Serla Corporation

### Simpele Paper Mill

FIN-56800 SIMPELE Tel. +358 1046 48599  
FINLAND Fax +358 1046 48502

## New Thames Paper Company Limited

### New Thames Mill

Kemsley Tel. +44 1795 564444  
Sittingbourne Fax +44 1795 564555  
Kent ME10 2SG  
UNITED KINGDOM

## UK Paper (Graphic & Business Papers) Limited

### Sittingbourne Mill

Sittingbourne Tel. +44 1795 564000  
Kent ME10 3ET Fax +44 1795 564001  
UNITED KINGDOM

## Papierfabrik Biberist AG

Fabrikstrasse 4 Tel. +41 32 671 3434  
CH-4562 BIBERIST Fax +41 32 671 3230  
SWITZERLAND

The following mills and units are jointly  
owned by Metsä-Serla Corporation and  
Myllykoski Corporation:

## MD Papier Verwaltungs GmbH

### (Branch Office)

Ostenstrasse 5 Tel. +49 8131 727 253  
85221 DACHAU Fax +49 8131 727 255  
GERMANY

## MD Papier Verwaltungs GmbH

### (Head Office)

Alte Landstrasse 49 Tel. +49 7753 41 275  
79774 ALBBRUCK Fax +49 7753 41 279  
GERMANY

## MD Papierfabrik

### Albbruck GmbH & Co. KG

Alte Landstrasse 49 Tel. +49 7753 410  
79774 ALBBRUCK Fax +49 7753 41 220  
GERMANY

## MD Papier GmbH & Co. KG

### Werk Dachau

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85221 DACHAU Fax +49 8131 727 220  
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## MD Papier GmbH & Co. KG

### Werk Plattling

Nicolaustrasse 5 Tel. +49 9931 502 0  
85221 PLATTING Fax +49 9931 502 103  
GERMANY

**PACKAGING AND CONSUMER PRODUCTS GROUP**

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**Management**

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**Metsä-Serla Corporation**

**Packaging and Consumer Products Group**

PO Box 25 Tel. +358 1046 11  
FIN-02020 METSÄ Fax +358 1046 94902  
FINLAND

Revontulentie 8 C  
FIN-02100 ESPOO  
FINLAND

**PACKAGING**

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PAPERBOARD DIVISION

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**Management and Marketing**

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**Metsä-Serla Corporation**

**Paperboard Division**

PO Box 224 Tel. +358 1046 33999  
FIN-33101 TAMPERE Fax +358 1046 33158  
FINLAND

Keskustori 5 C  
FIN-33100 TAMPERE  
FINLAND

**Metsä-Serla Corporation**

**Paperboard Division**

PO Box 25 Tel. +358 1046 11  
FIN-02020 METSÄ Fax +358 1046 94905  
FINLAND

Revontulentie 8 C  
FIN-02100 ESPOO  
FINLAND

**Mills**

---

**Metsä-Serla Corporation**

**Äänekoski Board Mill**

PO Box 400 Tel. +358 1046 43999  
FIN-44101 ÄÄNEKOSKI Fax +358 1046 43444  
FINLAND

**Metsä-Serla Corporation**

**Kyro Board Mill**

FIN-39200 KYRÖSKOSKI Tel. +358 1046 34999  
FINLAND Fax +358 1046 34190

**Metsä-Serla Corporation**

**Simpele Board Mill**

FIN-56800 SIMPELE Tel. +358 1046 48599  
FINLAND Fax +358 1046 48511

**Metsä-Serla Corporation**

**Tako Board Mill**

PO Box 208 Tel. +358 1046 33999  
FIN-33101 TAMPERE Fax +358 1046 33186  
FINLAND

Hallituskatu 1  
FIN-33200 TAMPERE  
FINLAND

**Tako Carton Plant Ltd.**

**Tampere Plant**

PO Box 207 Tel. +358 1046 35399  
FIN-33101 TAMPERE Fax +358 1046 35375  
FINLAND

Lielahdenkatu 14  
FIN-33400 TAMPERE  
FINLAND

**Tako Carton Plant Ltd.**

**Järvenpää Plant**

PO Box 79 Tel. +358 1046 35299  
FIN-04401 JÄRVENPÄÄ Fax +358 1046 35250  
FINLAND

Neulakatu 4  
FIN-04400 JÄRVENPÄÄ  
FINLAND

**Tako Carton Plant Ltd.**

**Simpele Plant**

FIN-56800 SIMPELE Tel. +358 1046 35599  
FINLAND Fax +358 1046 35590

PACKAGING RAW MATERIALS DIVISION

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**Management and Marketing**

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**Metsä-Serla Corporation**

**Packaging Raw Materials Division**

PO Box 25 Tel. +358 1046 11  
FIN-02020 METSÄ Fax +358 1046 94356  
FINLAND

Revontulentie 8 C  
FIN-02100 ESPOO  
FINLAND

**Mills**

---

**Savon Sellu Oy (fluting)**

PO Box 57 Tel. +358 1046 46999  
FIN-70101 KUOPIO Fax +358 1046 46212  
FINLAND

Visiting address: Sorsasalo, Kuopio

**Oy Metsä-Botnia Ab,**

**Kemiart Liners (linerboard)**

See Oy Metsä-Botnia Ab

**Metsä-Serla Corporation**

**Lielähti CTMP Mill**

PO Box 436 Tel. +358 1046 32199  
FIN-33101 TAMPERE Fax +358 1046 32013  
FINLAND

Lielahdenkatu  
FIN-33400 TAMPERE  
FINLAND

CORRUGATED PACKAGING DIVISION

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**Management**

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**Metsä-Serla Corporation**

**Corrugated Packaging Division**

PO Box 223 Tel. +358 1046 32599  
FIN-33101 TAMPERE Fax +358 1046 32157  
FINLAND

Kirkkokatu 10  
FIN-33200 TAMPERE  
FINLAND

**Mills and Marketing**

---

FINLAND

**Neopac Oy**

**Management**

PO Box 426 Tel. +358 1046 32599  
FIN-33101 TAMPERE Fax +358 1046 32454  
FINLAND

Lielähti  
FIN-33400 Tampere  
FINLAND

**Neopac Oy**

**Tampere Plant**

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FINLAND

Lielähti  
FIN-33400 TAMPERE  
FINLAND

**Neopac Oy**

**Nokia Plant**

Rounionkatu 77 Tel. +358 1046 32999  
FIN-37150 NOKIA Fax +358 1046 32900  
FINLAND

**Neopac Oy**

**Nummela Plant**

PO Box 66 Tel. +358 1046 32699  
FIN-03101 NUMMELA Fax +358 1046 32698  
FINLAND

Hiidenmäki  
FIN-03100 NUMMELA  
FINLAND

**Neopac Oy**

**Tampere EPS Plant**

PO Box 426 Tel. +358 1046 32399  
FIN-33101 TAMPERE Fax +358 1046 32305  
FINLAND

Lielähti  
FIN-33400 TAMPERE  
FINLAND

DENMARK

**Neopac A/S**

PO Box 2010 Tel. +45 8710 4700  
DK-8900 RANDERS Fax +45 8710 4800  
DENMARK

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DK-8900 RANDERS  
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**Neopac A/S**

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DENMARK

**Søren Berggreen & Co. A/S**

Bødkervej 3 Tel. +45 75 85 96 00  
DK-7100 VEJLE Fax +45 75 85 92 20  
DENMARK

## LITHUANIA

**AB Medienos Plaušas**

Savanoriu pr. 183 Tel. +370 2 322026  
2600 VILNIUS Fax +370 2 230686  
LITHUANIA

## ESTONIA

**AS Neopac-Elkson**

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EE-0014 TALLINN Fax +372 613 8500  
ESTONIA

## RUSSIA

**OAo Komsomolets**

Ul. Sovetskaja, D 1 Tel. +7 812 460 1160  
188001 KOMMUNAR Fax +7 812 460 1553  
Leningradskaja obl. Gatshinskij rajon

## RUSSIA

Postal address:  
OAo Komsomolets  
c/o HH-Kuriiri Oy  
PO Box 92  
FIN-53501 Lappeenranta  
FINLAND

**ZAO Neopac Kuban**

2, Gibrnaya St. Tel. +7 095 960 2653  
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Krasnodar reg.  
RUSSIA 353760

## GREECE

**Cartonpack S.A.**

Industrial Zone of Thessaloniki  
PO Box 10 Tel. +30 31 798 013  
GR-57022 SINDOS Fax +30 31 798 091  
GREECE

**Cartonpack S.A.**

Valtos, Glyfada Tel. +30 741 81261  
GR-20007 ANCIENT Fax +30 741 24 529  
KORINTHOS  
GREECE

**Cretan Papermill S.A.**

PO Box 90 Tel. +30 842 93 280  
GR-72200 IERAPETRA, Fax +30 842 93 206  
KRITI  
GREECE

**Cartonpack S.A.**

234, Syngrou Ave Tel. +30 1 956 8191  
GR-17672 ATHENS Fax +30 1 956 8310  
GREECE

**METSÄ TISSUE CORPORATION****Management****Metsä Tissue Corporation**

Revontulentie 8 C Tel. +358 1046 16  
FIN-02100 ESPOO Fax +358 1046 94949  
FINLAND

**Mills**

## FINLAND

**Mänttä Mill**

PO Box 300 Tel. +358 1046 47999  
FIN-35801 MÄNTTÄ Fax +358 1046 47990  
FINLAND

## GERMANY

**Strepp Mill**

Hochkoppel 2-6 Tel. +49 24 225 60  
D-52372 KREUZAU Fax +49 24 224 940  
GERMANY

**Hedwigsthal Mill**

D-56316 RAUBACH Tel. +49 2684 6090  
GERMANY Fax +49 2684 609 400

**Halstrick Mill**

Adolf-Halstrick-Str. Tel. +49 22 51 8120  
D-53881 Fax +49 22 51 812 231  
EUSKIRCHEN -STOTZHEIM  
GERMANY

**Bartling Mill**

Bahnhofstr. 60 Tel. +49 25 92 660  
D-5379 SELM-BORK Fax +49 25 92 661 92  
GERMANY

## POLAND

**Warszawskie Zakłady Papiernicze S.A.**

ul. Mirkowska 45 Tel. +48 22 754 2827  
PL-05-520 Fax +48 22 754 2829  
Konstancin-Jeziorna  
POLAND

## SPAIN

**Tissu Canarias S.A.**

C/. Josefina Mayor, 5 Tel. +34 928 700200  
Poligono Industrial Fax +34 928 700077  
El Goro  
35.219 TELDE  
LAS PALMAS DE GRAN CANARIA  
SPAIN

## SWEDEN

**Katrinefors Mill**

Holländaregatan 4 Tel. +46 501 64 000  
S-542 88 MARIESTAD Fax +46 501 10 310  
SWEDEN

**Pauliström Mill**

S-570 19 PAULISTRÖM Tel. +46 383 734 000  
SWEDEN Fax +46 383 730 026

**Nyboholm Mill**

S-570 16 KVILLSFORS Tel. +46 383 734 100  
SWEDEN Fax +46 383 461 084

**PULP GROUP - OY METSÄ-BOTNIA AB****Management and Marketing****Oy Metsä-Botnia Ab**

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FIN-02100 ESPOO Fax +358 1046 94405  
FINLAND

**Mills****Oy Metsä-Botnia Ab**

**Joutseno Pulp**  
FIN-54120 PULP Tel. +350 1046 65499  
FINLAND Fax +358 1046 65378

**Oy Metsä-Botnia Ab****Kaskinen Mill**

FIN-64260 KASKINEN Tel. +358 1046 69999  
FINLAND Fax +358 1046 69214

**Oy Metsä-Botnia Ab****Kemi Pulp Mill**

FIN-94200 KEMI Tel. +358 1046 61999  
FINLAND Fax +358 1046 61216

**Oy Metsä-Botnia Ab****Kemiart Liners**

FIN-94200 KEMI Tel. +358 1046 61999  
FINLAND Fax +358 1046 61216

**Oy Metsä-Botnia Ab****Äänekoski Mill**

FIN-44100 ÄÄNEKOSKI Tel. +358 1046 62999  
FINLAND Fax +358 1046 62550

**FOREST HOUSE****(Merchanting and Trading Group)****Forest House B.V.**

De Lairessestraat 180 Tel. +31 20 572 70 60  
NL-1075 HM Fax +31 20 572 70 66  
Amsterdam  
THE NETHERLANDS

## FOREST HOUSE MERCHANTS

**Management**

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## FOREST HOUSE TRADING

**Price and Pierce (Asia-Pacific) Pte Ltd**

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SINGAPORE 088814 Fax +65 224 9718

**Price and Pierce Europe Limited**

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5-11 Lavington Street  
LONDON SE1 ONZ  
UNITED KINGDOM

**Price and Pierce International Inc.**

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Stamford, CT 06901 Fax +1 203 348 3242  
USA

**FOREST ALLIANCE (Sales Network)****Forest Alliance Ltd.**

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