



**111** METSÄLIITTO

Annual Report 2000

The **Metsäliitto Group** is one of Europe's largest forest industry groupings, and its products are sold worldwide.

To the members of its parent company Metsäliitto Osuuskunta, the Group provides a reliable outlet for all wood raw material at competitive prices. Members also benefit through the dividend distributed from the surplus. Growth in the value of the Group's industrial subsidiaries and associated companies also accrues to the advantage of members.

Finnforest, Metsä-Botnia and Metsä-Serla, the three industrial groups that make up Metsäliitto, are seeking to become European market leaders in their chosen business areas.

#### **Financial information**

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- 6 February Unaudited figures for 2000
- Week 12 Annual Report 2000
- 3 May Interim Report for January - March 2001
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	Contents	Page
	President's Review	2
	The year in brief	3
	Board of Directors, Strategy Forums and Auditors	4
	Five years in figures, €	6
	Quarterly data	7
	Metsäliitto Osuuskunta	8
	Finnforest	12
	Metsä-Serla	16
	Metsä-Botnia	20
	Other subsidiaries	24
	Personnel	25
	Financial administration and risk management	26
	The Environment	28
	Report of the Board of Directors	30
	Consolidated profit and loss account	35
	Consolidated balance sheet	36
	Cash flow statements	38
	Parent company profit and loss account	39
	Parent company balance sheet	40
	Accounting principles	42
	Notes to the accounts	44
	Parent company subsidiaries at 31 December 2000	57
	Other shares and investments	57
	Major shares and investments of sub-groups	58
	Proposal for the distribuion of the surplus	60
	Statement by the Supervisory Board and Auditor's Report	61
	Organization of Metsäliitto Group and Forest Business Area	62
	Production plants	63
	Five years in figures, FIM	64
	Calculation of key ratios	65
	Corporate Governance	66
	Metsäliitto's Representative Council	68
	Metsäliitto's Supervisory Board	69
	Addresses	70

## President's Review

During 2000, the Metsäliitto Group continued to work towards reaching the strategic and financial targets set in the mid-1990s. The past year can be described as a year of company acquisitions, investment and growth. The measures taken have further strengthened Metsäliitto in terms of both size and its position in European markets.

Metsäliitto's mission is to provide an outlet for all wood raw material supplied by its members and to increase its members' wealth through growth in the value of its subsidiaries. In addition to stumpage payments, Metsäliitto also pays its members a dividend based on its surplus. This dividend has more than doubled in amount since 1995. To be able to pay a dividend, Metsäliitto must make a healthy surplus. At present, one-third of Metsäliitto Osuuskunta's surplus derives from business relating to wood procurement, while two-thirds comes in the form of dividends received from its industrial subsidiaries.

The importance of dividends received in relation to the dividends distributed by Metsäliitto Osuuskunta has grown substantially over the past ten years, and this places considerable demands on the profitability of the Group's industrial business operations and the ability of the units concerned to pay a dividend. It is Metsäliitto's aim to distribute at least one-third of the surplus for the financial year to its members in the form of interest on members' capital.

In absolute terms, the financial result for 2000 was the best in the Group's history. Measured in terms of the return on capital employed, profitability was much better than in 1999. The businesses that influence financial results most are pulp, paper and packaging. Wood raw material purchases showed a marginal increase on the year before. The main factors adversely affecting financial results for the mechanical wood processing business were over-supply of sawn timber and the higher costs of raw material. Metsä Tissue, whose sale to SCA was prevented by the European Commission's ruling, returned a loss for the year, due mainly to the high cost of market pulp and the price war waged on the German market.

The present year has started well. However, the year as a whole is clouded by considerable uncertainty regarding economic growth and the trend in prices for pulp and paper products. It is difficult to say whether economic growth in the United States is embarking on a significant slowing down or whether it is just temporarily faltering. On a more positive note, growth in Europe looks set to remain good.

The Group's immediate objectives are to integrate the companies recently acquired and to benefit from synergies as quickly as possible. Another important objective is to improve the equity ratio, which has been affected by last year's high rate of investment and growth in the balance sheet, to a level that will allow continued growth and investment in the future.

The past year has been an extremely busy one for us all, and our personnel resources have been stretched to the limit. Nevertheless, we have successfully met the challenges, and for this I extend my thanks to each and every employee within the Metsäliitto Group.



A handwritten signature in black ink, appearing to be 'Esko Alonen', written in a cursive style.

## The year in brief

### Company acquisitions

Metsä-Serla signed an agreement with Holmen AB and Svenska Cellulosa Aktiebolaget SCA to purchase Modo Paper AB. In the same connection, Metsä-Serla announced it would sell to SCA both its corrugated board business and its interest in Metsä Tissue Corporation. The EU's competition authority did not approve the sale of Metsä Tissue, which therefore remains a Metsä-Serla company.

In autumn, Metsä-Serla announced it was in negotiation to buy the German company Zanders Feinpapiere AG. The resulting agreement came into effect in January 2001.

Metsä-Serla purchased the carton and labels business of the Hungarian company Cofinec in a deal that came into effect in September.

Finnforest signed an agreement to purchase Sibü, a company engaged in the further processing of sawn timber. Sibü is France's fourth largest supplier of planed timber and glulam products to the country's DIY and builders' supplies outlets.

In November, Metsäliitto Osuuskunta signed a preliminary agreement with the Ministry of Trade and Industry to purchase 33.3% of the shares of Vapo Oy. The deal got a conditional approval by the competition authority on 8 March 2001. Metsäliitto has also announced it would be prepared to increase its interest to 49.9%.

### Restructuring

Oy Metsä Timber Ltd. and Metsäliitto SW Ltd, two companies that had previously operated independently, were merged with Finnforest Corporation at the beginning of April, and Oy Metsä Prima Ltd at the end of December.

Oy Metsä-Rauma Ab was merged with Oy Metsä-Botnia Ab. As a result, the Metsäliitto Group's entire pulp operations are now handled by one company. Metsä-Botnia's share capital is owned by Metsä-Serla (47%), Metsäliitto Osuuskunta (6%) and UPM-Kymmene (47%).

### Wood procurement

Metsäliitto Osuuskunta's total deliveries of wood to industry were 23.2 million cubic metres, which is about the same as last year.

Demand was strong, especially for logs. Harvesting was hampered by heavy rain and warm weather at the end of the year. Pulpwood prices remained fairly steady all year, whereas log prices rose.

### Mechanical wood processing

In the panels industry, the year was very similar to previous years. Birch plywood prices continued to decline for the third year in succession, due partly to greater supplies coming onto the European market from the Baltic countries and Russia. The market for conifer plywood was stable.

There was an increase in deliveries of Kerto LVL to the market. In response to rising demand, it was decided to extend production of Kerto LVL to the Punkaharju mill.

The sawmilling industry began the year in a more positive climate than the year before. Strong demand for sawlogs forced raw material prices up and sawmilling profitability began to weaken in the autumn. Profitability at the end of the year was hit by a collapse in prices on the US timber market and by unscheduled downtime due to wood shortages.

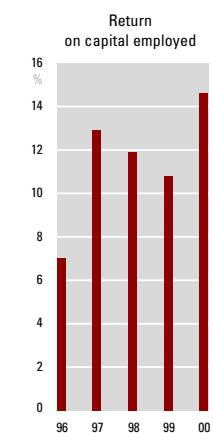
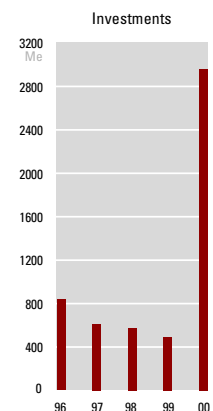
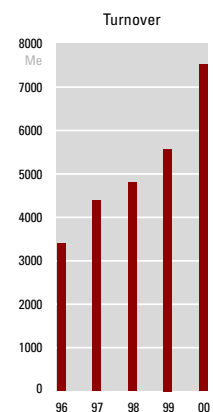
### Paper and board

Demand for Metsä-Serla's main products was good all year. Profitability was improved by greater delivery volumes and higher product prices and also by the weakening of the euro against the dollar and the pound. However, the paperworkers' strike in April resulted in ten days' lost production at the mills in Finland.

It was an unsatisfactory year for Metsä Tissue in terms of profits because of the sharp rise in raw material costs and the company's restructuring of its Polish and German operations. The higher costs could only be covered by raising product prices after a certain delay. Profitability took a turn for the better towards the end of the year.

### Pulp

It was an extremely good year for the pulp business. Metsä-Botnia's profitability was improved by high capacity utilization rates at the mills and by a substantial rise in sales prices on the previous year. The price of softwood pulp began the year at USD 630/t. By July, the price had reached USD 710, where it remained for the rest of the year. Prices for birch pulp rose even more strongly.



## Board of Directors



**Metsäliitto Osuuskunta's Board of Directors 2001**

**From left to right:**

Tapani Kantola, Kyösti Moilanen, Antti Oksanen, Unto Kotipalo, Heikki Asunmaa, Arimo Uusitalo, Timo Haapanen and Carl G. Björnberg.

## Board of Directors, Strategy Forums and Auditors

### Board of Directors

Chairman since 1994	Arimo Uusitalo, 58	M.Sc. (Agr.)
Deputy Chairman Member since 1992	Antti Oksanen, 56	M.Sc. (For.) President, Metsäliitto Group President and CEO, Metsäliitto Osuuskunta
Member since 2000	Heikki Asunmaa, 58	farmer
Member since 1996	Carl G. Björnberg, 59	M.Sc. (Pol.) President and CEO, Myllykoski Corp.
Member since 1995	Timo Haapanen, 62	M.Sc. (Agr.)
Member to 31 December 2000	Pentti Jormanainen, 62	journalist
Member since 1993	Tapani Kantola, 61	B.Sc. (Agr.)
Member to 31 December 2000	Kullervo Karjalainen, 54	forestry entrepreneur
Member from 1 January 2001	Kyösti Moilanen, 46	farmer
Member from 1 January 2001	Unto Kotipalo, 58	farmer
Secretary	Pertti Vuopala, 59	General Counsel

### Group Strategy Forum

	Antti Oksanen, 56	
	Arimo Uusitalo, 58	
	Kari Haavisto, 59	Lic.Sc. (Econ.), Senior VP
	Jouko M. Jaakkola, 56	M.Sc. (Econ.), Executive VP, Metsä-Serla Corp.
	Ari Martonen, 45	M.Sc. (Econ.) President and CEO, Finnforest Corp.
	Markku Melkko, 52	M.Sc. (For.) Senior VP, Forest Business Area
	Jorma Vaajoki, 51	M.Sc. (Eng.), M.Sc. (Econ.) President and CEO, Metsä-Serla Corp.
	Erkki Varis, 52	M.Sc. (Eng.), President and CEO, Oy Metsä-Botnia Ab
Secretary	Veli-Matti Mynttinen, 45	M.Sc. (Econ.), Executive VP, Metsä-Serla Corp.
	Harri Turunen, 51	M.Sc. (Econ.), Senior VP

### Parent Strategy Forum

Chairman	Antti Oksanen, 56	
	Arimo Uusitalo, 58	
	Kari Haavisto, 59	
	Markku Melkko, 52	
	Jaakko Punkari, 55	M.Sc. (For.), Senior VP
	Pertti Vuopala, 59	
Secretary	Harri Turunen, 51	

### Auditors

Ilkka Haarlaa, 56	M.Sc. (Econ.), APA
SVH Pricewaterhouse Coopers Oy Authorized Public Accountants Responsible auditor:	
Göran Lindell, 54	M.Sc. (Econ.), APA

## Five years in figures, €

### Metsäliitto Group

EUR million	2000	%	1999	%	1998	%	1997	%	1996	%
Turnover	7 513	100.0	5 576	100.0	4 795	100.0	4 386	100.0	3 403	100.0
- change %	34.7		16.3		9.3		28.9		13.3	
Exports from Finland	3 046		2 436		2 255		2 125		1 702	
Exports and foreign subsidiaries	6 398		4 688		3 855		3 522		2 798	
Operating profit	763	10.2	427	7.7	474	9.9	452	10.3	191	5.6
Profit before extraordinary items	597	7.9	323	5.8	375	7.8	266	6.1	82	2.4
Profit before tax and minority interest	657	8.8	364	6.5	391	8.2	425	9.7	144	4.2
Fixed assets	5 485	62.4	3 338	59.8	3 472	62.5	3 259	60.4	2 939	68.6
Current assets										
Inventories	1 087	12.4	668	12.0	667	12.0	613	11.4	522	12.2
Other current assets	1 874	21.3	1 171	20.9	871	15.7	716	13.3	538	12.5
Liquid funds	344	3.9	408	7.3	542	9.8	803	14.9	287	6.7
Total	8 790	100.0	5 585	100.0	5 552	100.0	5 392	100.0	4 286	100.0
Members' funds	1 318	15.0	1 045	18.7	879	15.8	732	13.6	480	11.2
Capital note loans	279	3.2	267	4.8	223	4.0	223	4.1		
Minority interests	1 179	13.4	1 078	19.3	1 266	22.8	1 263	23.4	1 064	24.8
Provisions for liabilities and charges	79	0.9	46	0.8	60	1.1	59	1.1	40	0.9
Liabilities	5 935	67.5	3 149	56.4	3 124	56.3	3 115	57.8	2 703	63.1
Total	8 790	100.0	5 585	100.0	5 552	100.0	5 392	100.0	4 286	100.0
Capital employed, average	5 588		4 230		4 378		3 864		3 167	
Return on capital employed, %	14.6		10.8		11.9		12.9		7.0	
Equity, average *)	2 310		2 018		2 070		1 769		1 504	
Return on equity, %	17.9		10.8		12.5		10.8		3.6	
Equity ratio, %	31.7		42.9		42.8		41.3		36.5	
Equity ratio, % *)	28.5		38.1		38.8		37.1			
Gearing ratio, %	130		64		63		56		99	
Gearing ratio, % *)	156		85		80		74			
Interest-bearing liabilities	4 039		1 970		2 065		2 105		1 861	
Interest-bearing financial assets	425		438		576		855		334	
Interest-bearing net liabilities	3 614		1 532		1 489		1 250		1 527	
Interest-bearing net liabilities as % of turnover	48.1		27.5		31.0		28.5		44.9	
Cash flow from operations	852		515		596		557		305	
Capital investments	2 959		489		577		613		838	
Capital investments as % of turnover	39.4		8.8		12.0		14.0		24.6	
R&D -expenditure	36		17		16		15		16	
Personnel, at end of year	25 007		19 936		19 927		18 717		16 455	
Personnel, average	22 723		20 559		19 346		18 100		16 586	
- of whom in Finland	10 333		10 654		11 567		11 537		10 967	

Due to changes in accounting principles, figures for 1996-1998 are not fully comparable with those for 1999-2000.

\*) Capital note loans included in liabilities.

Calculation of key ratios is presented on page 65.



## Quarterly data

Turnover	2000					1999				
	I-IV	IV	III	II	I	I-IV	IV	III	II	I
EUR million										
Wood procurement	1 082.7	267.9	258.9	255.8	300.1	1 070.6	281.3	254.0	256.3	279.0
Sawn goods	522.3	127.2	117.5	147.7	129.9	486.6	134.1	109.9	129.2	113.4
Plywood	162.1	43.5	36.9	42.7	39.0	150.5	39.1	34.8	37.0	39.6
Engineered Wood	360.7	84.7	93.1	97.8	85.1	295.6	72.5	77.0	76.3	69.8
Merchanting & Trading (mech.)	287.1	64.9	67.7	69.2	85.3	293.5	70.5	80.6	68.6	73.8
Paper	1 955.7	513.0	498.6	478.3	465.8	1 704.6	470.9	424.5	407.5	401.7
Packaging	899.5	239.4	127.4	265.9	266.8	792.0	209.8	100.1	246.2	235.9
Tissue	609.2	160.4	156.5	144.8	147.5	585.7	153.2	144.8	142.2	145.5
Merchanting & Trading (chem.)	814.7	195.2	212.3	210.7	196.5	678.7	176.8	163.5	170.7	167.7
Pulp	735.6	202.5	196.8	166.6	169.7	509.5	148.8	143.7	113.0	104.0
Modo Paper	1 333.0	654.0	679.0							
Others & internal sales	-1 249.7	-332.0	-214.5	-351.9	-351.3	-991.0	-246.2	-155.7	-282.5	-306.6
Turnover	7 512.9	2 220.7	2 230.2	1 527.6	1 534.4	5 576.3	1 510.8	1 377.2	1 364.5	1 323.8
<b>Operating profit</b>										
EUR million										
Wood procurement	21.1	3.4	8.6	2.3	6.8	21.1	6.3	7.3	2.2	5.3
Sawn goods	7.8	-3.1	-1.7	6.6	6.0	-1.7	3.2	-3.1	-0.9	-0.9
Plywood	23.0	6.4	4.4	6.5	5.7	23.8	6.4	4.9	6.4	6.1
Engineered Wood	16.5	-3.6	6.5	6.5	7.1	23.7	7.2	5.3	5.7	5.5
Merchanting & Trading (mech.)	1.5	0.4	-0.6	0.3	1.4	-0.2	-4.5	1.1	1.0	2.2
Paper	216.3	48.5	63.7	48.9	55.2	227.1	68.1	58.0	48.2	52.8
Packaging	97.6	23.0	26.9	18.6	29.1	83.6	19.0	15.6	21.9	27.1
Tissue	-11.9	0.3	0.9	-9.8	-3.3	16.2	-4.6	6.6	4.9	9.3
Merchanting & Trading (chem.)	9.9	-2.6	4.7	3.9	3.9	6.4	1.1	1.0	1.1	3.2
Pulp	294.6	82.9	89.2	62.9	59.6	73.9	36.7	30.4	5.4	1.4
Modo Paper	123.9	47.5	76.4							
Others	-37.6	-10.5	32.8	-36.8	-23.1	-47.3	-7.8	-13.5	-9.9	-16.1
Operating profit	762.7	192.6	311.8	109.9	148.4	426.6	131.1	113.6	86.0	95.9
% of turnover	10.2	8.7	14.0	7.2	9.7	7.7	8.7	8.2	6.3	7.2
Net exchange gains/losses	-7.3	-6.6	8.4	-5.0	-4.1	-9.4	-2.2	-0.6	-5.0	-1.6
Financial income and expenses	-158.2	-44.6	-63.5	-23.6	-26.5	-94.1	-25.4	-26.9	-22.8	-19.0
Profit before extraordinary items	597.2	141.4	256.7	81.3	117.8	323.1	103.5	86.1	58.2	75.3
% of turnover	8.0	6.4	11.5	5.3	7.7	5.8	6.9	6.3	4.3	5.7
<b>Production volumes</b>										
1 000 units										
Sawn goods, m <sup>3</sup>	2 277	576	469	626	606	2 284	633	508	578	565
Wood based boards, m <sup>3</sup>	485	127	115	123	120	464	122	111	116	115
Paper, t	3 131	1 011	1 005	543	572	2 145	557	543	515	530
Paperboard, t	672	174	179	149	170	639	158	169	157	155
Fluting and liner, t	413	102	112	90	109	392	104	103	83	102
Tissue, t	402	93	102	99	108	442	110	110	109	113
Pulp, t	1 820	901	334	267	318	1 183	289	326	280	288

# Metsäliitto Osuuskunta

EUR million	2000	1999
Turnover	1 083	1 071
Operating profit	21.1	21.1
Profit before extraordinary items	64.9	69.3
Personnel, at end of year	956	949



## Metsäliitto Osuuskunta

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

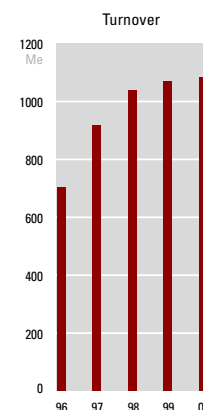
### Turnover and profits

Metsäliitto Osuuskunta's turnover for 2000 was EUR 1,083 million, one per cent up on the previous year's figure of EUR 1,071 million. Operating profit was EUR 21.1 million, 1.9 per cent of turnover (21.1 million and 2.0 per cent).

Profit before extraordinary items was EUR 64.9 million (69.3). The smaller profit is due to mainly to lower income from dividends. Dividend income totalled EUR 35.2 million, compared with EUR 41.5 million the year before.

Before appropriations and taxes there was a profit of EUR 63.6 million (68.2). The surplus for the financial period was EUR 45.4 million (49.7).

Return on capital employed was 10.8 per cent (12.5) and return on equity 7.7 per cent (9.2).



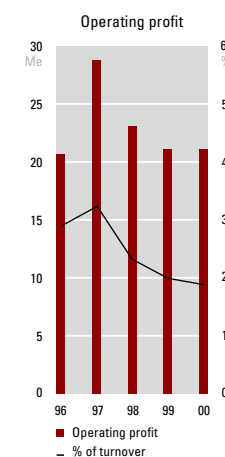
### Financing

The equity ratio at 31 December was 72.2 per cent (68.4) and the gearing ratio -34 per cent (-38). Liquidity was good throughout the year.

Paid-in members' capital at the end of the year totalled EUR 367.9 million (322.8), including additional members' capital of EUR 246.7 million (209.3). The increase in members' capital during the year was EUR 45.1 million (25.0), of which the increase in additional members' capital was EUR 37.4 million (15.6).

Subscribed members' capital at the end of the year was EUR 188.1 million (185.7). Of this, EUR 121.2 million was paid-in (113.5) and EUR 66.9 million was outstanding (72.2).

Meeting on 3 February 2000, Metsäliitto's Board of Directors decided to suspend the issue of index-linked capital notes in conjunction with wood purchases. The last date for subscriptions was 1 March 2000. Notes to a total value of EUR 90.7 million were issued.

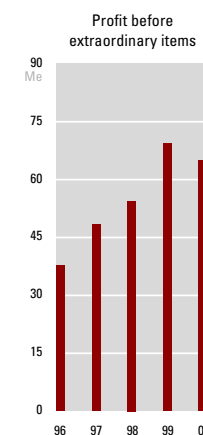


### Investment

Capital expenditure totalled EUR 95 million (33). Of this, EUR 3 million (2) was invested in tangible fixed assets, comprising mainly motor vehicles and wood harvesting machines. Investment in intangible assets totalled EUR 92 million (31).

The biggest investment was the EUR 56.5 million increase in Finnforest's share capital. In December, Metsäliitto purchased 3,256,900 Metsä-Serla series B shares for approximately EUR 26 million.

In November, Metsäliitto Osuuskunta signed a preliminary agreement with the Ministry of Trade and Industry to purchase a 33.3 per cent interest in the company Vapo Oy at a price of FIM 550 million. A conditional approval by the competition authority was announced on 8 March 2001. Metsäliitto is also interested in raising its stake up to 49.9 per cent should the Finnish state decide to reduce its interest to 50.1 per cent.



### Organization

The acquisition of Modo Paper and the decisions to build a CTMP mill for Joutseno and a Kerto LVL mill at Punkaharju necessitated a reorganization of Metsäliitto's wood importing and international wood procurement operations.

In the Forest Business Area, an imported wood department was opened to handle wood imports from Russia and the Baltic countries as well as exports to Sweden. The international wood procurement department is responsible for organizing wood procurement in Sweden and continental Europe and for coordinating international wood procurement in general. The department is also involved in international projects through Oy Metsäliitto International Ltd's foreign wood procurement subsidiaries.

### Wood procurement and marketing

Trading in wood raw material was brisk right from the start of the year. The trend in pulpwood prices was fairly modest all year, whereas prices for logs rose sharply in the spring due partly to heavy demand. Prices eased off during the summer, but rose again towards the end of the year, with spruce log prices peaking in November. The reasons were heavy demand and the extremely wet autumn, which led to intense competition for stands ready for immediate harvesting.

## Metsäliitto Osuuskunta

Wood purchases from private forests during the first half of the year totalled roughly 7.9 million cubic metres, 48 per cent of the total purchased for the year. Wood purchases for the year were 16.6 million cubic metres (15.9), about half of which was pulpwood. Delivery contracts accounted for 22 per cent of purchases (25). Including imported wood and by-products, the total volume purchased for the year was 23.7 million cubic metres (22.9 million).

A total of 7,400 purchases were made from customers under marketing agreements, the total volume of wood being 3.7 million cubic metres, more than 20 per cent higher than the previous year. Wood was purchased through 52,500 agreements (44,700), of which 29,700 were delivery contracts (23,200).

Deliveries of wood raw material to customers totalled 23.2 million cubic metres (23.5 million). This comprised 19.2 million cubic metres of roundwood (19.3), the rest being by-products from mechanical wood processing.

A total of EUR 524 million (517) was paid in stumpage rates to forest owners for wood purchased during the year. In December, customers with marketing agreements received an additional EUR 1.6 million for timber sold, mainly as a result of changes in prices for logs.

In January 2000, Metsäliitto introduced a bonus scheme for members who have faithfully sold wood to Metsäliitto. The bonus is based on sales volumes over the previous four years and is paid in conjunction with the next sale of wood. A total of EUR 1.3 million was paid out in bonuses during the year.

Following inspections carried out by the competition authority on 14 January 1998 at Metsäliitto's sites in northern Finland, Ostrobothnia and eastern Finland, Metsäliitto received a request, dated 24 June 1999, for a statement concerning alleged collaboration in wood purchasing contrary to the regulations. Similar requests for statements were sent to Stora Enso Oyj and UPM-Kymmene Corporation. Metsäliitto submitted its reply to the competition authority on 30 September 1999.

A decision issued by the competition authority on 23 November 2000 required Metsäliitto to pay, with immediate effect, a fine of FIM 10 million. Metsäliitto has appealed against the decision to the Supreme Administrative Court.

### Harvesting and transport

Deliveries of wood raw material to customers during the spring were handled well despite the strike by forest machine operators. In autumn, harvesting in southern Finland was hindered by the wet weather. This meant that deliveries, in particular of spruce logs, were well below target. A small quantity of spruce logs had to be sent to paper mills to keep them running. Difficulties with supplies to sawmills caused some shifts to be idle, while winter holidays and short working days had to be brought forward.

Sales on the stump during the year were 12.3 million cubic metres (12.5), 96 per cent of which was harvested by machine (96). A total of 167 forest workers (214), 356 harvesters (397) and 362 forwarders (393) were employed at the end of the year. Of these, Metsäliitto owned 1 harvester (2) and 1 forwarder (2).

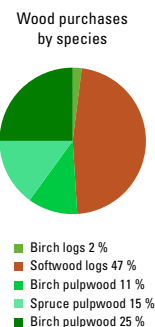
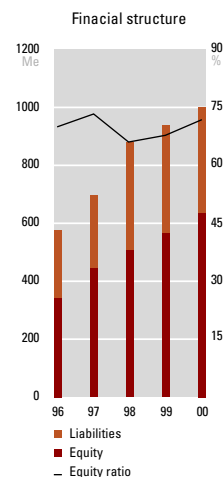
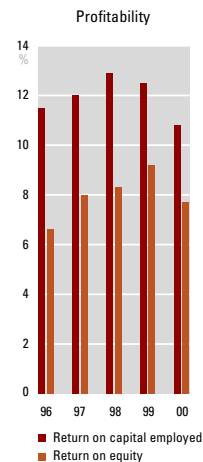
Roundwood deliveries to customers totalled 18.1 million cubic metres (18.0 million). Of this amount, 84 per cent was carried by road (85), 13 per cent by rail (12), 2 per cent by floating (2) and 1 per cent by ship (1). At the end of the year 379 haulage vehicles were at work (362), 8 of them owned by Metsäliitto (8).

### Development work

Based on studies conducted during 1999, a project was launched in February aimed at updating Metsäliitto's entire forest system. The estimated cost of the project is over EUR 10 million. The implementation stage will involve numerous staff from different levels of the Metsäliitto organization in addition to outside suppliers and consultants. The first stage will go into production at the beginning of April 2001.

Following trials in Ostrobothnia, it was decided to extend the development model for control and management to the entire country. The intention is to have target-setting and measurement of results, including an incentive scheme, in use in all districts by the beginning of 2002 at the latest.

The satisfaction survey conducted among wood sellers was continued. The feedback is being used to improve staff training and to expand Metsäliitto's range of services. A service point for forest owners was opened at the Group's head office in order to provide a better standard of service, especially for city-dwelling forest owners. A similar arrangement was started in the Tampere area during 1999.



## Metsäliitto Osuuskunta

### Personnel

Metsäliitto Osuuskunta had 956 employees at the end of the year (949). These comprised 234 workers and 722 salaried staff. The average number of employees for the year was 922 (895), comprising 205 workers (206) and 717 salaried staff (689).

Work on applying and further developing the profit-sharing scheme was continued. The extensive employee training programme launched in 1999 was completed.

A revised work fitness programme was introduced during the year. Work fitness indexes were determined for the entire personnel, and the role of occupational health care in the programme was unified.

### Members

During the year, Metsäliitto Osuuskunta acquired 4,959 new members (5,765), while 2,960 members resigned (2,975). The number of members at the end of the year was 127,371 (125,372). Metsäliitto members own a total of roughly 5.1 million hectares of forest.

The work of the district committees elected in 1999 began as planned. The committees meet an average of 2-3 times a year. The committees provide district management with feedback, while at the same time committee members acquire first-hand information about trends in wood procurement in their area.

### Outlook

The volumes of wood procured internationally will show a clear increase this year, and there will also be some increase in the amount of imported supplied to Joutseno. The amounts of wood purchased and delivered in Finland will also rise slightly.

Balancing the greater demand for logs against deliveries of softwood pulpwood to the mills will continue to be the biggest challenge. Manpower resources will also be required for introduction of the new forest system.

Metsäliitto's Osuuskunta's turnover is expected to grow by around 5 per cent, and the result from operations should be marginally better than in 2000.

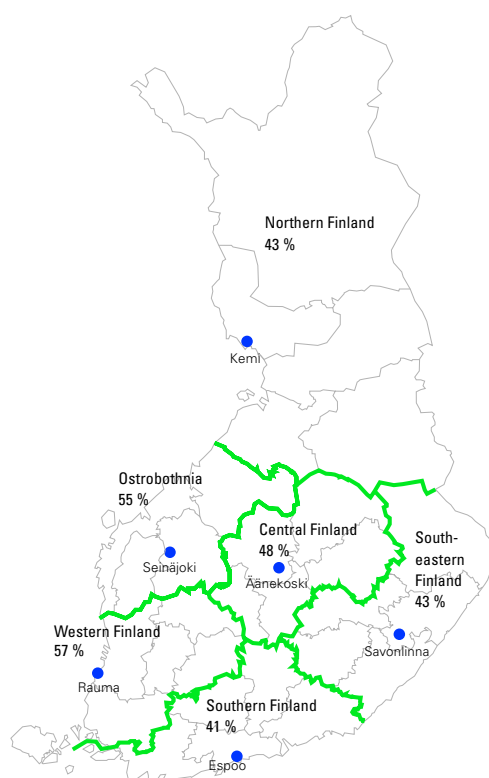
### Wood purchases by procurement area

Million m <sup>3</sup>	2000	1999
Southern Finland	2.8	2.2
Western Finland	2.9	2.8
Southeastern Finland	3.3	3.6
Ostrobothnia	2.5	2.4
Central Finland	3.0	3.0
Northern Finland	2.1	1.9
<b>Total</b>	<b>16.6</b>	<b>15.9</b>

### Wood deliveries by customer

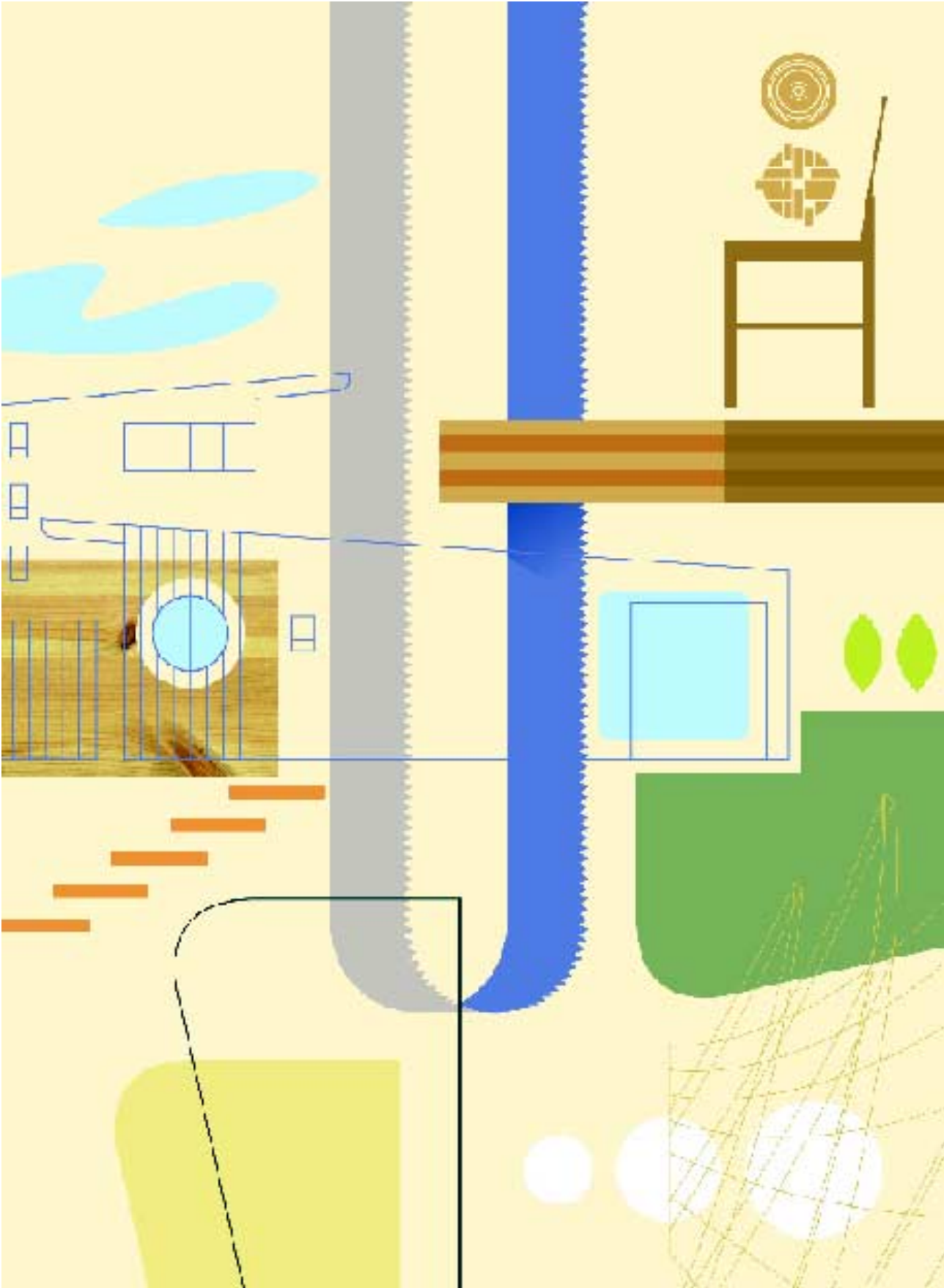
Million m <sup>3</sup>	2000	1999
Metsä-Botnia	10.8	10.8
Finnforest	6.3	6.4
Metsä-Serla	2.4	2.3
Other Finnish companies	3.5	3.8
Export	0.2	0.2
<b>Total</b>	<b>23.2</b>	<b>23.5</b>

### Area of members' forest in relation to total private forest



Finnforest

EUR million	2000	1999
Turnover	1 206	1 139
Operating profit	28.4	38.6
Profit before extraordinary items	2.6	15.7
Personnel, at end of year	4 084	3 741



# Finnforest

Finnforest is among the European leaders in the manufacture and marketing of plywood, sawn timber and other wood-based products. The biggest consumer of the company's products is the building industry. Other customers include transport vehicle manufacturers and the furniture industry. Most of the company's production plants are in Finland. Finnforest Corporation employs roughly 4,000 people, over a third of them outside Finland.

## The new Finnforest Corporation

In June 1999, Metsäliitto Osuuskunta's Board of Directors decided to combine the Metsäliitto Group's mechanical wood processing operations (sawmilling and panels production) with its timber impregnating business to form Finnforest Corporation. The previously independent companies Oy Metsä Timber Ltd. and Metsäliitto SW Ltd were merged with Finnforest Corporation at the beginning of April 2000, and Oy Metsä Prima Ltd at the end of December.

## Business environment

The market for birch plywood continued to be fiercely competed. Greater supplies from the Baltic countries and Russia intensified competition between Finnish manufacturers. The gradual decline in birch plywood prices continued for the third year running. The market for conifer plywood was stable. Growth in demand came largely from manufacturers of concrete shuttering board and transport vehicles.

Demand for whitewood was steady during the first three quarters, but towards the year-end the market was affected by over-supply. Adverse weather conditions caused a shortage of logs at the end of the year. Whitewood prices were about 4 per cent higher than in 1999. Demand for redwood remained steady all year and prices rose by about 5 per cent.

DIY products were in greater demand, and Finnforest strengthened its positions on the British and French markets. Prices were unchanged in Britain, while in Germany market conditions were difficult and prices were low.

The market for Kerto LVL remained stable helped by the economic upturn and growth in the building industry. Demand was good all year and prices strengthened towards the year-end. The trend in the exchange rate for the dollar boosted exports to the United States.

Demand for the wooden poles produced by the Kolho unit was weak all year both in Finland and on the company's main markets. Sales of impregnated timber products were up on the previous year.

Increased building activity meant that the Tiwi unit's particleboard was in good demand. Product prices were almost the same as in 1999.

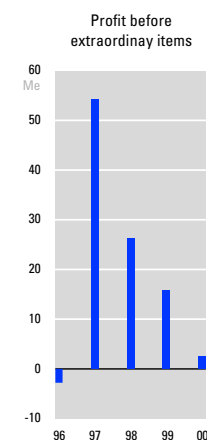
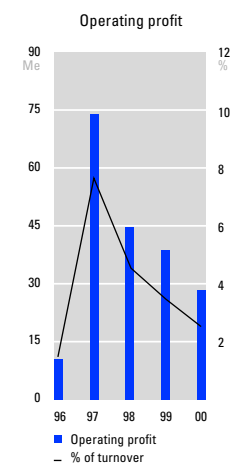
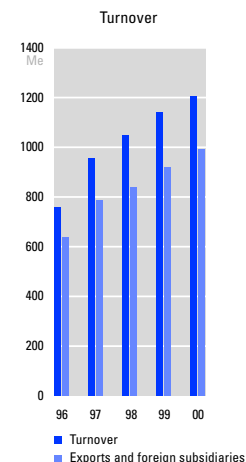
## Turnover and profits

Finnforest's pro forma turnover was 6 per cent up on the previous year at EUR 1,206 million (1,139). Exports from Finland and sales by foreign subsidiaries accounted for 82 per cent of turnover (81).

Operating profit was smaller than the previous year at EUR 28.4 million, 2.4 per cent of turnover (38.6 million and 3.4%). The decrease is due to non-recurrent write-downs and to a substantial rise in raw material costs during the second half of the year.

Profit before extraordinary items was EUR 2.6 million (15.7). Net financial expenses totalled EUR 25.8 million (23.0). The profit and loss account shows exchange losses of EUR 7.7 million (5.9), of which EUR 6.3 million is included under sales adjustment items and EUR 1.4 million under financial expenses.

The return on capital employed was 4.6 per cent (6.4) and the return on equity was 0.6 per cent (5.5).





**Financing**

At the end of the year, the equity ratio was 43.8 per cent (43.6) and the gearing ratio 93 per cent (86). As capital loans are regarded as liabilities in the balance sheet, the equity ratio was 35.4 per cent (28.5) and the gearing ratio 139 per cent (185).

In January, Finnforest signed a 5-year EUR 30 million credit line agreement with Svenska Handelsbanken, and in May a 5-year EUR 24 million credit line agreement with Landesbank Schleswig-Holstein.

**Investments and acquisitions**

In March, Finnforest purchased Sibü, a French company engaged in the further processing of sawn timber. The company is France’s fourth biggest supplier of planed timber and glulam products to the country’s DIY stores and builders’ merchants.

In May, an agreement was signed with Ikipuu Oy relating to an investment in the heat-treated wood business, in conjunction with which Finnforest bought 50 per cent of Ikipuu Oy’s shares.

A new company, Wood Extreme Oy, was set up in June to implement e-business solutions and develop new business opportunities. In August, the business operations of Ukkola sawmill were sold to Oy Ukkolan Saha – Ukkola Saw Ltd.

Capital expenditure was EUR 79 million. It was decided to invest roughly EUR 60 million in raising production capacity for Kerto LVL and plywood at the Punkaharju mill. This represents the biggest investment in the Finnish mechanical wood processing industry for two decades. It was also decided to invest EUR 18 million in modernizing Suolahti birch plywood mill, about EUR 15 million in Kaskinen Investment Center’s components line and production of heat-treated wood, and about EUR 5 million in building a plant to produce I-beams at Bremen in Germany.

On the sawmilling side, the biggest investments concerned modernization of Kemi’s sawing line, integrating dimension grading with the new stacking facilities at Kyrö sawmill, improvements to the saw feed line, debarking and sawing line at Renko sawmill, a new 9 MW biofuel-fired heat and power plant for Lappeenranta sawmill, improvements to sawing and trimming at Vilppula sawmill, and a new resaw for Kyröskoski.

**Personnel**

Finnforest Corporation has operations in 18 countries. The average number of employees during the year was 4,022 (3,692). The number at the end of the year was 4,084 (3,741), of whom 1,645 worked outside Finland (1,329).

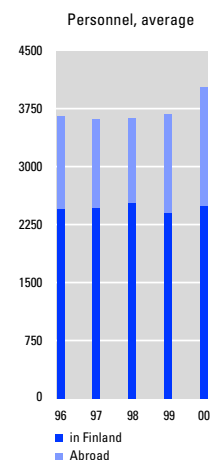
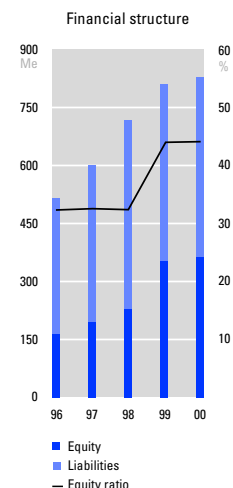
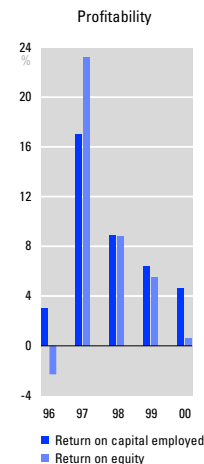
**Divisions**

**Plywood**

Finnforest is Europe’s second largest plywood producer. The company manufactures birch plywood at its Punkaharju and Suolahti mills. Conifer plywood is produced at Suolahti. The main uses for Finnforest’s plywood are in the building and transport vehicle industries.

The Plywood Division had a turnover of EUR 162 million (151) and an operating profit of EUR 23.0 million (23.8). The slight fall in operating profit is due a rise in production costs. Demand from the market was satisfactory, but prices failed to keep pace with costs.

Demand for plywood products in 2001 is expected to be about the same as during the year just ended. The market for birch plywood will remain highly contested as a result of additional supplies of Baltic and Russian plywood and the consequent price competition. The market for conifer plywood is forecast to remain balanced in Western Europe, the company’s main market.





# Finnforest

## Sawmills

Finnforest is Europe's second biggest producer of sawn timber. The company has 11 sawmills in Finland and one in Estonia. Together, they have an annual production capacity of around 2.5 million cubic metres. The sawmills specialize in producing either whitewood or redwood goods.

The Sawn Timber Division had a turnover of EUR 522 million (487) and an operating profit of EUR 7.8 million (loss of 1.7 million). Exports from Finland accounted for 68 per cent of turnover (70). Production was 2.3 million cubic metres, the same as the previous year.

Demand for timber on the main markets is expected to remain good during 2001. However, because of the risks relating to supply and to trends in exchange rates, the financial result for 2001 is expected to be much weaker.

## Engineered Wood

The Engineered Wood Division develops, manufactures and markets engineered wood products. The division comprises four business units. The DIY unit manufactures and distributes processed timber to DIY stores and wholesaler outlets in Europe. The Kerto unit produces laminated veneer lumber (Kerto LVL) at its factory in Lohja. Kerto LVL takes the form of solid beams and boards produced by gluing together rotary peeled softwood veneers. The products are used in building and in industry. The Tiwi unit manufactures melamine-surfaced particleboards and furniture components. The Kolho unit specializes in the production of wooden poles, impregnated timber and impregnated special products.

The Engineered Wood Division had a turnover in 2000 of EUR 361 million (296) and an operating profit of EUR 16.5 million (23.7).

## Merchandising

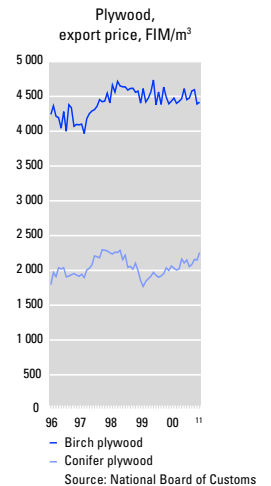
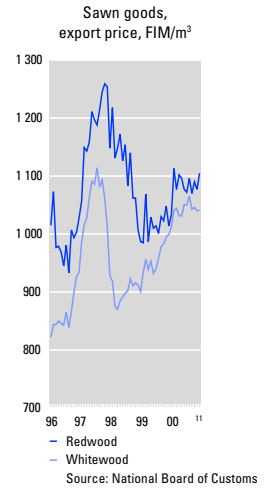
Finnforest is one of Europe's leading wholesalers and distributors of plywood and other wood-based panels. The company's merchandising business serves over 10,000 customers. Finnforest has distribution centres in 11 European countries.

The merchandising business produced a turnover of EUR 287 million (293) and an operating profit of EUR 1.5 million (loss of EUR 0.2 million).

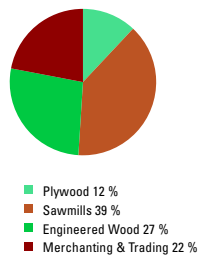
In January 2000, a country-by-country organization was introduced covering all the markets in which Finnforest does business. This allows customers to be served more punctually, efficiently and with a broader range of products.

## Outlook

Finnforest will focus much of its attention this year on Germany. Activities there will be reorganized to achieve a better market position and to step up product sales. Another important measure during 2001 will be to begin marketing the growing Kerto LVL production as well as new products such as heat-treated wood and I-beams.



Turnover by Divisions



EUR million	2000	1999
Turnover	5 898	4 044
Operating profit	604.0	351.6
Profit before extraordinary items	458.5	268.1
Personnel, at end of year	19 594	14 900



## Metsä-Serla

Metsä-Serla is one of Europe's biggest and fastest-growing forest industry groups. Metsä-Serla's strategy is to focus on the printing, packaging and paper merchandising businesses. The company strengthened its positions in these businesses during the year through important company acquisitions. The purchase of Modö Paper made Metsä-Serla Europe's largest supplier of fine papers and the continent's third biggest paper merchant. The acquisition of Zanders further strengthens the company's position as a supplier of high-quality coated fine papers.

### Turnover and profits

Turnover for 2000 was EUR 5,898 million (4,044). Of the increase in turnover, EUR 1,330 million is attributable to the acquisition of Modö Paper. On the other hand, turnover was reduced by the sale of the corrugated board business. On a comparative basis, turnover rose by 16 per cent. Exports from Finland and sales by foreign subsidiaries accounted for 91 per cent of turnover (89). Altogether 62 per cent of turnover was derived from operations outside Finland (44).

Operating profit improved by over 70 per cent to EUR 604.0 million, 10.2 per cent of turnover (351.6 million and 8.7%). The improvement is due to higher prices for all the company's products, stronger demand for magazine paper, the strength of the dollar and pound against the euro, and the inclusion of Modö Paper in the consolidated figures from 1 July 2000. Market pulp prices rose sharply during the year. This greatly improved the profitability of the Pulp Group but reduced profitability both for the fine paper business and for Metsä Tissue.

Net financial expenses were EUR 145.5 million (83.5). The increase is due to higher interest rates and to interest costs and the non-recurrent cost of arranging financing relating to the purchase of Modö Paper. Profit before extraordinary items was EUR 458.5 million (268.1).

Earnings per share were EUR 2.20 (1.34). Return on capital employed was 13.5 per cent (10.5) and return on equity 15.5 per cent (10.6).

### Financial position

Metsä-Serla's liquidity was good throughout the year. Liquid funds and investments totalled EUR 289 million at the end of the year (251). In addition to this, Metsä-Serla had about EUR 0.9 billion available in committed credit facilities at 31 December 2000. To cover its short-term financing needs, Metsä-Serla had at its disposal non-committed commercial paper programmes and credit lines totalling around EUR 0.7 billion.

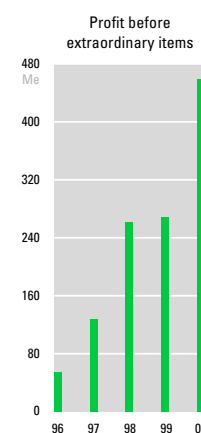
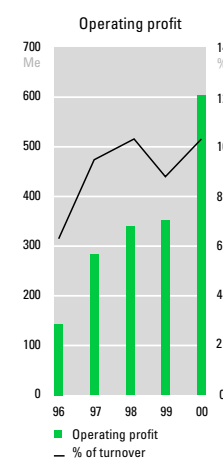
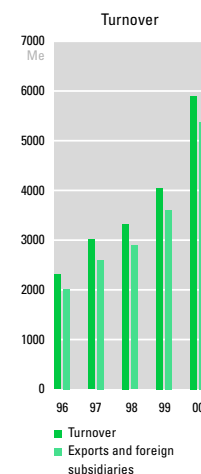
The equity ratio at 31 December was 29.7 per cent (45.1) and the gearing ratio 146 per cent (56). As capital loans are regarded as liabilities in the balance sheet, the equity ratio is 25.7 per cent (38.4) and the gearing ratio 184 per cent (83). Interest-bearing net liabilities at the end of the year were EUR 3,383 million (1,160).

At the end of the year, 19 per cent of Metsä-Serla's long-term loans were denominated in foreign currencies. 83 per cent of the loans were subject to variable rates of interest and the rest to fixed rates of interest. The average interest rate on Metsä-Serla's loans at 31 December was 5.5 per cent.

An EUR 1.7 billion syndicated loan agreement was signed with an international bank syndicate in July. The loan consists of two tranches, the first being an EUR 1.0 billion credit running for 364 days to finance the purchase of Modö Paper, and the second an EUR 700 million 5-year revolving credit facility to refinance Modö Paper's existing debts.

In November, Metsä-Serla signed 10-year credit agreements for a total of EUR 135 million with Finnish pension insurance companies, and in December a 12-year EUR 100 million credit agreement with the European Investment Bank.

In May, Standard & Poors revised the short-term credit ratings of both Metsä-Serla and Metsä Group Financial Services Ltd down from A2 to A3. The agency also placed Metsä-Serla's long-term credit rating (BBB) under review in November for a possible downward revision. Also in November, Moody's Investor Service changed Metsä-Serla's and Metsä Group Financial Services' long-term (Baa2) and short-term (P2) credit ratings from neutral to negative.



**Acquisitions and restructuring**

At the end of May, Metsä-Serla signed an agreement with Holmen AB and Svenska Cellulosa Aktiebolaget SCA regarding the purchase of Modo Paper AB's share capital for EUR 1,560 million. The debt-free price of Modo Paper was EUR 2,250 million. The acquisition became effective on 9 August 2000 after the European Commission had given its approval.

In the same connection, Metsä-Serla signed an agreement to sell its approximately 66 per cent interest in Metsä Tissue Corporation to SCA. On 26 September, the European Commission announced it had decided to defer the proposed sale of Metsä Tissue shares to SCA for further handling. A decision regarding the sale was received on 31 January 2001. The decision prevents the sale of a majority shareholding in Metsä Tissue to SCA under the terms of the agreement signed in May. The proposals submitted by Metsä-Serla and SCA for the deal to go ahead were not sufficient for the Commission.

Also in connection with the Modo Paper acquisition, Metsä-Serla sold its corrugated board business to SCA for a debt-free price of EUR 200 million. The deal became effective at the beginning of September.

As part of the European Commission's decision concerning Modo Paper, Metsä-Serla undertook to sell Grafiskt Papper AB, its paper merchant in Sweden. Accordingly, Metsä-Serla sold its shares in Grafiskt Papper AB to Buhmann International B.V. in November for SEK 45 million. The sale took effect in December.

In June, Metsä-Serla agreed with Frantschach AG to buy Cofinec's carton and label business in Hungary at a debt-free price of EUR 43 million. The sale became effective at the end of September.

In November, Metsä-Serla signed an agreement with International Paper to purchase approximately 72 per cent of the shares of Zanders Feinpapiere AG for EUR 86 million (EUR 43 per share). The company's debt-free value is around EUR 245 million. The deal was approved by the European Commission on 18 December 2000 and became effective on 3 January 2001. Metsä-Serla has also bought Zanders shares worth around EUR 29 million on the market (average of EUR 60 per share). As a result, Metsä-Serla owns altogether about 88 per cent of Zanders' shares.

In May, meetings of the shareholders of Oy Metsä-Botnia Ab and Oy Metsä-Rauma Ab decided that Metsä-Rauma would merge with Metsä-Botnia. The merger took effect on 31 December 2000, with the result that Metsä-Serla's interest in Metsä-Botnia fell to 46.4 per cent. Since the end of the year under review, Metsä-Serla has purchased 0.6 per cent of Metsä-Botnia's shares from Metsäliitto Osuuskunta.

In June, Metsä-Serla and Metsä-Botnia announced they had agreed to sell their shareholdings in Transfennica Ltd to Finnlines Plc, along with other Transfennica shareholders. The conditions imposed on the sale by the competition authority were not acceptable to Finnlines, and in December the parties announced the deal was off.

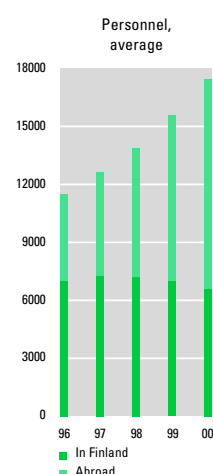
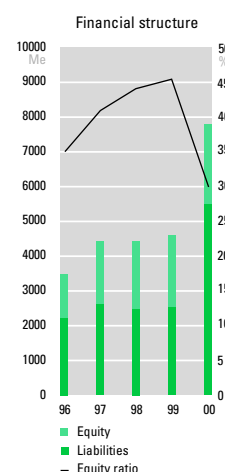
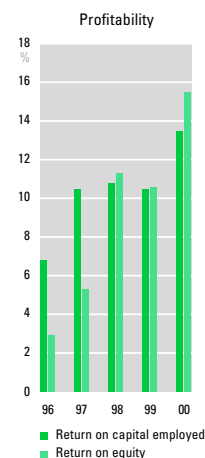
**Investment in fixed assets**

Investment in fixed assets totalled EUR 510 million. The figure includes Modo Paper's investments of EUR 205 million during the period 1 July to 31 December 2000. The total cost of companies and other shares acquired during the year was EUR 1,640 million, the debt-free price being EUR 2,330 million.

The coater investment at Kangas paper mill will be completed this March. Construction at Joutseno of the chemi-thermomechanical pulp mill, which forms part of the mill's development programme, will be completed towards the end of this year. The total cost of the programme is EUR 200 million.

The EUR 285 million development project at Husum paper mill is continuing as planned. It includes a coater and conversion of the mill's paper machine no. 8 to produce coated grades.

In December, Metsä-Serla's Board of Directors decided to invest a total of around EUR 100 million in rebuilding Kyro's wallpaper base machine and Äänekoski's folding boxboard machine. The decision means that Äänekoski will discontinue production of wallpaper base, which will now be produced exclusively at Kyro. Äänekoski's board machine will specialize in pharmaceutical packaging boards.



**Business groups**

Excluding Modö Paper, the Paper Group's turnover rose by 15 per cent to EUR 1,956 million (1,705). Operating profit was EUR 216.3 million (227.1). The profitability of fine papers weakened because sales prices could not be raised sufficiently to compensate fully for the sharp rise in market pulp prices. Operating profit for the magazine paper business was better than the previous year thanks to improved demand and growth in delivery volumes. The Paper Group's profitability was boosted by the weakening of the euro against the dollar and pound.

Turnover for the Packaging Group rose 14 per cent to reach EUR 900 million (792). Operating profit was EUR 97.6 million (83.6). Demand for folding boxboards picked up towards the end of 1999 and remained strong throughout the year under review; average sales prices were 8 per cent up on the previous year. Demand for wallpaper base was again weaker than the year before and delivery volumes fell 5 per cent.

Demand for both liner and fluting was extremely good during the period. Despite this, delivery volumes were only about the same as the previous year because of production lost during the strike in spring and occasional capacity shortfalls. The emphasis in liner deliveries was successfully switched from uncoated to coated products. This resulted in a 25 per cent increase in average sales prices compared with the year before. Average prices for fluting also rose 25 per cent.

Metsä Tissue recorded a turnover of EUR 609 million, 4 per cent higher than the year before (586). On a comparative basis, turnover rose by 8 per cent. There was a loss on operations of EUR 11.9 million (profit of 16.2 million). The main reason for the loss is that price rises and measures introduced to raise efficiency have not yet compensated for the substantially higher cost of the company's raw materials. Financial results were weakest during the first half of the year, with a turn for the better occurring during the third quarter.

Operating profit for the Merchating Group (excluding Modö Paper) was better than the previous year at EUR 9.9 million (6.4 million). Profitability nevertheless was again unsatisfactory. The final quarter was particularly weak profitability-wise due to losses made by the trading business. Turnover was 20 per cent higher at EUR 815 million (679).

Metsä-Serla and Modö Paper embarked on the integration of their merchating businesses during the second half of the year by combining operations in Norway and the Baltic countries. The process will continue for the rest of this year at least. Integration will bring synergy benefits in purchasing and logistics this year.

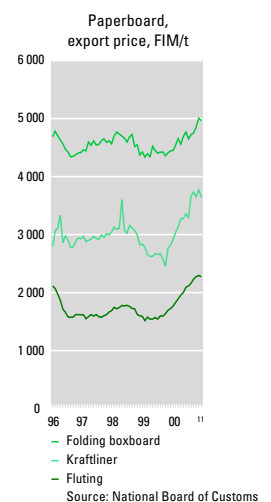
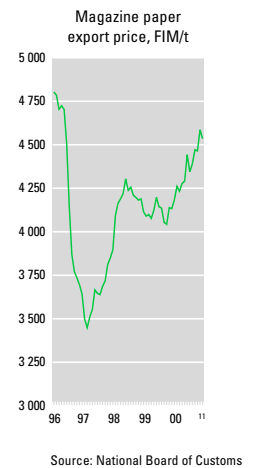
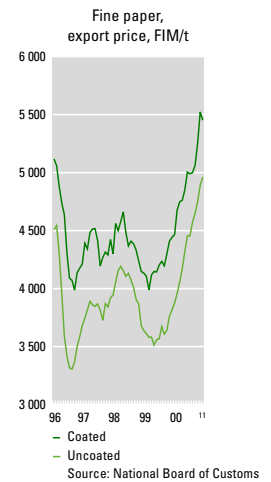
Profitability for the Pulp Group showed a clear improvement on the year before. Operating profit was EUR 258.6 million (65.9) and turnover EUR 657 million (458). The main factors behind the improved profitability were the rise in market pulp prices and the strength of the dollar against the euro. The market price of bleached softwood pulp was USD 630/t during the first quarter, after which it began to rise, ending the year at USD 710/t. Birch pulp began the year at EUR 580/t and closed the year at EUR 795/t.

**Outlook**

Economic growth in the industrial countries is expected to be slower this year than last. The slowing down is predicted to be less pronounced in the European Union than in North America. Economic growth in Asia is likely to continue at the same rate as in 2000.

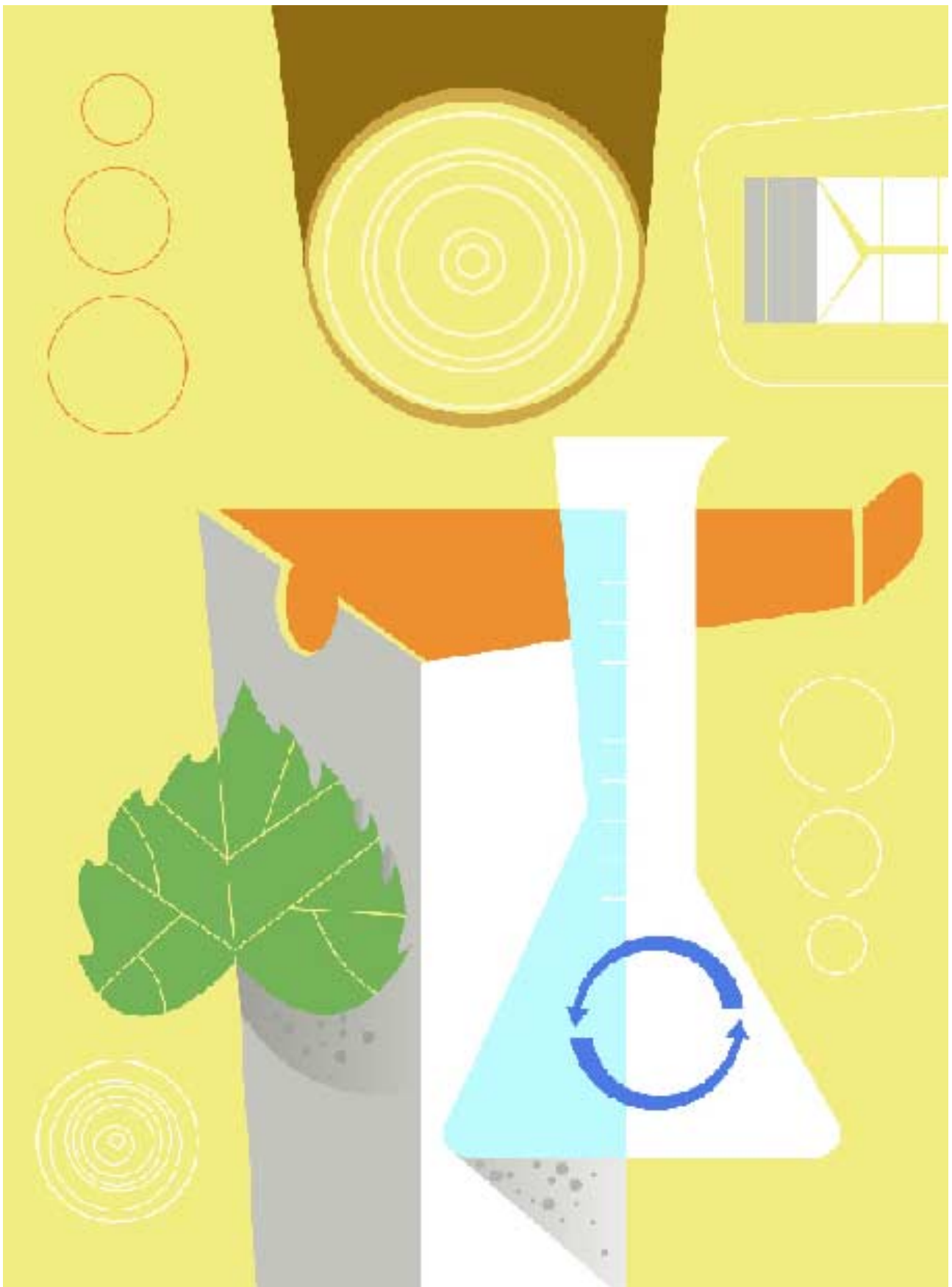
Despite anticipated slower growth, paper consumption in Western Europe is expected to rise. Demand for packaging boards is also good, and there are no signs of a downturn in the near future. Average prices in foreign currencies for all the main products are expected to be higher than last year.

Based on current expectations, Metsä-Serla's financial euroresult in 2001 will be at least as good as that for the year just ended.



# Metsä-Botnia

EUR million	2000	1999
Turnover	1 462	1 010
Operating profit	549.6	130.6
Profit before extraordinary items	520.2	93.9
Personnel, at end of year	1 921	1 882



## Metsä-Botnia

Oy Metsä-Botnia Ab is a strategic resource company owned by Metsäliitto Osuuskunta (6%), Metsä-Serla Corporation (47%) and UPM-Kymmene Corporation (47%). Its key function is to secure uninterrupted supplies of chemical pulp for its owners at competitive prices. Through their joint ownership, the three companies obtain their raw material at lower capital cost and also share the risks associated with major investments.

Metsä-Rauma was merged with Metsä-Botnia during the year under review.

Metsä-Botnia's mills are located at Joutseno, Kaskinen, Kemi, Rauma and Äänekoski. The mills have a total combined pulp production capacity of 2.5 million t/a, of which 80 per cent is supplied to the owners' paper and board mills. The remaining 20 per cent is sold on the market, most of it in Europe. Kemiart Liners in Kemi produces 340,000 t/a of coated and uncoated linerboards for the packaging industry.

Metsä-Botnia markets its pulp through Botnia Pulps, its own marketing organization. The company has introduced grade specialization at its mills: Rauma and Joutseno produce primarily chemical pulp for use in mechanical printing papers, Kaskinen and Äänekoski pulp for fine papers and folding boxboard manufacture, and Kemi pulp for tissue, special papers and linerboard.

### Turnover and profits

Turnover (pro forma) for the new Metsä-Botnia Group was 45 per cent up on the previous year at EUR 1,462 million (1,010 million). The pulp business produced a turnover of EUR 1,382 million (929) and the liner business a turnover of EUR 231 million (182).

Operating profit was EUR 549.6 million (130.6), and profit before extraordinary items was EUR 520.2 million (93.9). The factors responsible for the better profitability were the rise in world market pulp prices and the strengthening of the dollar against the euro. The financial result was adversely affected by the accelerated depreciation of EUR 21.6 million on the fibre line due to be withdrawn from production at Joutseno in spring 2001 and by exchange losses of EUR 32.0 million arising from the hedging of foreign currency receivables.

### Chemical pulp

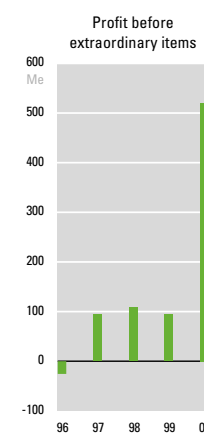
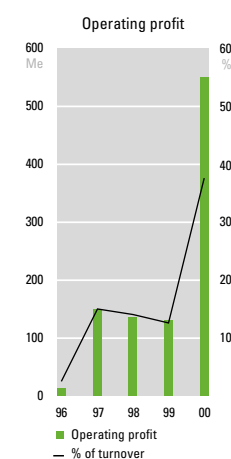
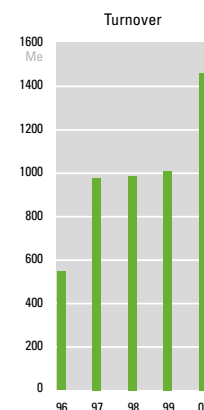
Demand for pulp was extremely good on all markets throughout the first half of the year, and capacity utilization rates at the mills were high. After the summer, demand slackened in Asia, and both Chinese and Korean paper manufacturers began to reduce their pulp stocks built up during the first half of the year. There were also signs of a slowing down in demand in Europe at the end of the year.

Metsä-Botnia's pulp deliveries were 1.6 per cent down on the previous year. This was due partly to strikes during the first half of the year and to curtailment of production during the second half.

Pulp sales totalled 2,256,773 tonnes (2,293,027). Of this, 1,607,364 tonnes (1,523,200) was sold to shareholders, 303,163 tonnes (273,690) to the Kemi linerboard profit centre, and 346,246 tonnes (496,137) was sold on the market. Softwood pulp made up 1,531,447 tonnes (1,596,247) and hardwood pulp 725,326 tonnes (696,780). Metsä-Botnia's pulp stocks were normal at the end of the year.

Foreign currency denominated market pulp prices were 31 per cent up on the previous year for softwood and 52 per cent higher for hardwood. The average exchange rate for the dollar during 2000 was EUR 0.92, representing a 16 per cent strengthening on the previous year (1.07).

Pulp stocks held by the Norscan countries (North America and Scandinavia) were low throughout the spring and early autumn. However, stocks rose rapidly during October – November, reaching 1.74 million tonnes at the end of the year.





## Linerboard

Demand for linerboard was strong, particularly during the first quarter. From July onwards demand slackened and prices no longer rose. Invoicing prices for linerboard in euros rose by an average of 19 per cent during the year.

Production capacity exceeded demand nearing the end of the year and production, especially that of uncoated linerboards, had to be curtailed.

Linerboard deliveries for the year totalled 306,981 tonnes (304,735). Sales of coated products rose by 17 per cent and accounted for 46 per cent of all invoicing. Exports represented 94 per cent of total deliveries.

Kemiart Liners is the world market leader in coated linerboards. The unit has around 23 per cent of the European market for uncoated white-top liners.

## Investment

The new fibre line at Joutseno pulp mill will start up in May 2001, raising the mill's production capacity by 200,000 t/a. The increase in production will be long-fibre reinforcement pulp, all of which will go to shareholders' paper mills. The new fibre line is the final stage in the Joutseno mill's development programme and gives the mill a production capacity of 600,000 t/a. The total cost is estimated to be around EUR 250 million.

At Kemi pulp mill, the second pulping line was fitted with a new chip feed system, and at Kaskinen the turbine was overhauled. Arrangements for handling dilute malodorous gases were made more efficient at both mills.

Investment in fixed assets totalled EUR 156 million (78 million).

## Financing

Metsä-Botnia's financial position and liquidity remained good throughout the year. At the end of the year the company had cash reserves and unutilized credit facilities totalling EUR 373 million.

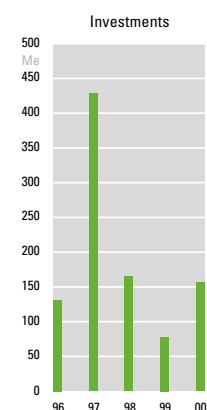
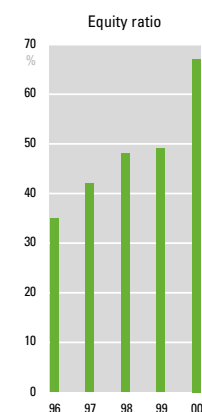
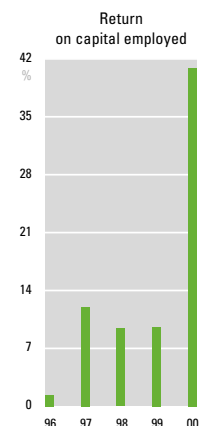
The equity ratio was 48.7 per cent at the start of the year and improved to 67.1 per cent by the year-end. The gearing ratio fell to 19 per cent (64). Interest-bearing net liabilities at the end of the year were 202 million (484). Loans from shareholders were repaid in full during the year.

## Development work

It is part of the company's strategy to strengthen its research and development work. Pulp R&D resources were accordingly organized into an R&D centre of expertise towards the end of the year, and activities were channelled towards improving customer focus.

Raising production of reinforcement pulp and the related quality development projects were the main points during the year. Special emphasis was given to the quality of the softwood pulp to be produced on Joutseno's new fibre line. Mill-scale trials with softwood pulp of corresponding quality have been conducted both at the mill and on the customer's paper machine. A new TCF pulp produced from selected raw materials and a new type of ECF softwood pulp for fine paper production have been developed.

The critical quality characteristics of tissue products were studied during the year. The findings have been used to determine optimum conditions for production of the necessary pulp and the exact demands placed on this raw material.





# Metsä-Botnia

## Wood procurement

Metsä-Botnia is Finland's biggest consumer of domestic pulpwood. Once Joutseno's new fibre line goes into production, domestic pulpwood consumption in eastern Finland will rise by around one million cubic metres a year. Operating at full capacity, Metsä-Botnia's pulp mills will require some 13.7 million cubic metres of wood raw material a year.

The volume of wood used during the year was about 11.9 million cubic metres (11.8). This comprised 5.7 million cubic metres of softwood (5.6), 3.2 million cubic metres of softwood chips (3.1) and 2.9 million cubic metres of hardwood (2.8). Wood prices at the mills were little changed on the previous year.

By the end of the year around 95 per cent of Finland's commercially utilized forests had received certification. Metsä-Botnia's Kaskinen, Rauma and Äänekoski mills were awarded chain of custody certificates in December 2000, and similar certificates were awarded to the Joutseno and Kemi mills in January 2001.

## Organization and personnel

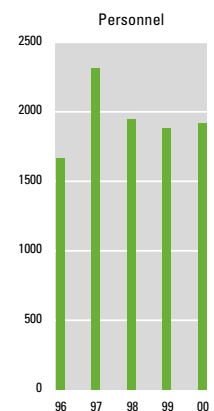
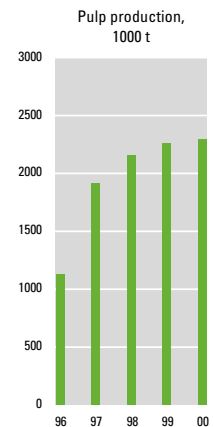
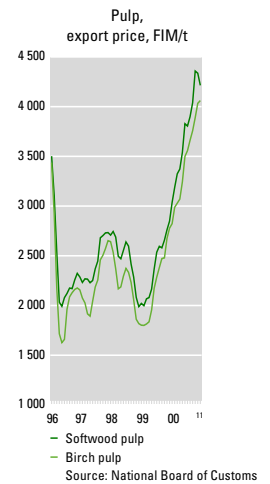
It was decided during the year to introduce a process-based management and business concept. Accordingly, Metsä-Botnia's activities have been organized into core processes and centres of expertise, and business is now managed through these. In revising its business concept, Metsä-Botnia is seeking to improve the basis for customer focus and to free management resources for development projects. This also meant a revision of the company's Management Group, which now consists of the directors of the core processes and centres of expertise.

The profit-sharing scheme was extended to cover all employees during the year. The Metsä-Botnia Group had an average of 1,997 employees during the year (2,027). The number at the end of the year was 1,921 (1,882).

## Outlook

Metsä-Botnia's primary objectives in 2001 are to establish its customer focus approach throughout the entire organization, to introduce the process-based management concept, and to get Joutseno's new fibre line into full production. Once the Joutseno investment is complete, all Metsä-Botnia's Finnish mills will be in good shape and there will be no need for further major investment.

The start of 2001 is overshadowed by a slight over-supply on pulp markets. Metsä-Botnia's operating profit is very much dependent on the market trend and on bringing production into line with global demand.



## Other subsidiaries

### Oy Metsäliitto International Ltd

Metsäliitto International's activities and organization changed considerably during the year. The transfer of project work to Finnforest at the beginning of May made it possible for Metsäliitto International to channel all its resources into international wood trading and into implementing individual projects relating to wood utilization.

It was decided in conjunction with the purchase of Modo Paper that Metsäliitto would also be responsible, under an agreed division of duties, for wood procurement for Metsäliitto's foreign units. To this end, Metsäliitto International acquired Modo's wood procurement subsidiaries in Latvia and Lithuania and Metsä-Serla's interest in the German company SCA Holz at the beginning of 2001.

Wood procurement subsidiaries were set up in Sweden and France. The new wood procurement arrangements will be completed early in 2001.

The Metsäliitto Group's mills abroad will require roughly 6 million cubic metres of wood raw material in 2001. The international wood procurement organization expects to purchase around 8 million cubic metres of wood.

The pulp mill project planned for the Baltic countries went ahead according to schedule. Investigations will continue with a view to paving the way for a provisional decision during 2001. Baltic Pulp has an office in the centre of Riga. The office at present has three full-time employees.

Turnover for the year was EUR 31.0 million (25.6) and operating profit was EUR 0.9 million (0.8). The number of employees at the end of the year was 35 (44).

The main areas of emphasis in 2001 will be integration of international procurement and creating a basis for wood procurement to serve expanding business operations. Turnover is expected to exceed EUR 150 million.

### Biowatti Oy

Biowatti is Finland's leading energy company specializing in wood-based fuels. Its main fuels are sawdust, bark and forest chips. The company's biggest customers are industrial and municipal power plants and local heat-generating plants. Biowatti is also responsible for supplying the Metsäliitto Group's mills with wood for energy production.

Turnover for the year was EUR 32.7 million (27.9) and operating profit was EUR 1.5 million (1.8). Deliveries of wood-based fuels during 2000 were the equivalent of 2,520 GWh (2,300). Biowatti also supplied 1.0 million cubic metres of sawdust and chips as industrial raw material (0.9). At the end of the year the company had 37 employees (32).

Half of all raw material procured came from Metsäliitto Group mills, principally from Finnforest's sawmills, and as logging waste. The other half was obtained from many other sources. The necessary chipping, crushing and other treatments are carried out by the company.

The main customers are municipal and industrial power plants and local heat-generating plants, which the company has been supplying with wood-based fuels on a long-term basis. The most important new delivery contracts during the year were those signed with Fortum, Turku Energia, Vattenfall and Kokkolan Voima.

Development work and investments during the year concerned mainly forest chips. Work carried out with other companies has resulted in the development of motorized chipper vehicles, and a series of five of these vehicles has been ordered for use by Biowatti's contractors. The aim is to use new technology to raise competitiveness and secure adequate chipping capacity, and also to improve contractors' scope for deliveries.

Deliveries to several new power plants will begin during 2001. Biowatti expects its turnover to increase by about a fifth, much of the increase coming towards the end of the year. Competition in energy markets remains fierce.

### Metsäliitto-Yhtymän Tehdasmittaus Oy

The company's sphere of operations covers reception, measurement and handling of wood and other raw materials together with contract work at customers' plants. The company is owned equally by Finnforest, Metsä-Serla and Metsäliitto. It has 15 measuring stations and the number of employees at the end of the year was 59 (61).

The volume of wood and chips received during the year was 8.0 million cubic metres (7.9). Turnover was EUR 4.6 million (4.3) and operating profit was EUR 0.1 million (0.1). The emphasis in R&D work was on harmonizing log measuring systems and bringing the new reception information system up to the production stage.

Harmonized log measuring and SAP R/3 systems were introduced during the first half of the year. A new reception information system was introduced at the sawmill measuring stations in August, and installation at the pulp mills began in December. Installation at the plywood mills will start in February 2001. Training in the use of the system began in summer 2000 and will be complete early in 2001.

## Personnel

Development of human resources and the recruitment of skilled employees is vital to maintaining and improving the Group's competitiveness. Alongside factors such as efficient production processes and raw material supplies, knowhow and human resources are becoming increasingly important in achieving good financial results and keeping up with the competition.

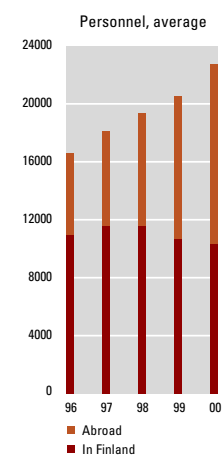
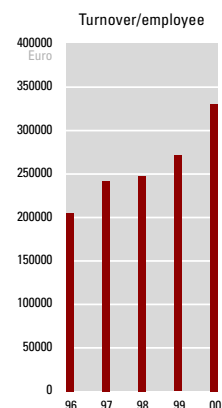
The key areas in the Group's personnel policy are training and on-the-job development, motivation, maintaining working capacity, and the recruitment of competent employees. Achieving these aims is posing ever greater challenges for the human resources function in a situation where more than half of the Group's employees work outside Finland. As in other areas of business, the human resources function is required to have a greater understanding of multicultural environments and local circumstances.

Work related to human resources development during the year included continued efforts in the area of working capacity and management training at Metsä-Serla Academy, where training is increasingly being extended to employees from other companies besides Metsä-Serla. Finforest has embarked on a wide-ranging training programme to introduce its new customer-focus business approach throughout the organization in all countries. During the year, Metsäliitto Osuuskunta implemented programmes covering almost its entire personnel aimed at developing management and other essential skills, and embarked on the changeover to an area-based teamwork approach.

The survey covering the entire Group begun in 1999 with the aim of finding out which areas of expertise will be of particular importance for the Group's future competitiveness (the CODE project) will be completed during 2001. The idea of the project is to make individual training and recruitment more systematic. Another important ongoing project is concerns information technology (the HUMA project). The project is designed to make use of modern information technology in human resources development and training, recruitment and performance assessment. Also due to come into effect this year is an incentive scheme for management and staff both in Finland and abroad. Rewards under the scheme will be based on each unit's financial results and on the performance of individual employees. One important goal of the new scheme is to encourage the units and their employees to work in a way that will help both the Group and its member companies to implement their strategies.

The Group's growth and the expansion of its business outside Finland mean more opportunities for employees to develop themselves. Job rotation both in Finland and internationally, together with career planning, will help to make more effective use of human resources potential in the Group's business operations. At the same time it offers employees a wider range of career and training opportunities.

In 2000, the Metsäliitto Group had an average of 22,723 employees. Of these, 10,333 worked in Finland and 12,390 abroad. The number of employees at the end of the year was 25,007, of whom 15,202 worked outside Finland. At the end of the year, 61 per cent of the Group's employees worked outside Finland, compared with 48 per cent in 1999 and 30 per cent in 1995.



### Personnel at the end of year

	2000	1999
Finland	9 806	10 199
Germany	3 590	2 593
Sweden	2 905	758
Great Britain	2 888	2 508
France	1 134	31
Austria	945	27
Switzerland	594	602
Belgium	293	13
The Netherlands	254	109
Other Europe	1 947	2 659
Other countries	651	437
<b>Metsäliitto Group</b>	<b>25 007</b>	<b>19 936</b>

## Financial administration and risk management

### Metsä Finance

The subsidiary Metsä Group Financial Services Ltd (Metsä Finance) operates as the Metsäliitto Group's internal bank, providing the Group with financial services. Its purpose is to manage the Group's financial risks, to optimize the financial net, to maintain adequate liquidity, to negotiate new financing and handle investor relations. The company employs a staff of 21.

### Financial markets in 2000

Financial markets began the new millennium with mixed expectations. Major fluctuations on both capital markets and interest rate and currency markets reflected nervousness in the world economy, a feeling that was further accentuated by uncertainty over the future of the US economy. The technology bubble burst early on in the year and disposals of technology shares, which began in the United States, spread to become a global phenomenon. Stock markets declined markedly during the year, with the HEX index down 15% and Nasdaq down 37%.

The restlessness that started with shares spread to borrowing, and credit margins on loans showed a slight upward trend all year. Large-scale borrowing for company acquisitions and UMTS permits and related lending arrangements in the telecommunications sector caused unrest in the markets. A weakening of the general economic situation and of corporate credit ratings made loans with the lowest credit ratings difficult to sell.

Although the volume of euro-denominated convertible bonds was greater than in 1999, the actual number of issues was well down on the previous year. Issues of the forest industry also suffered due to the industry's continued consolidation. Major company acquisitions financed largely with outside capital, made investors nervous, the result being a general increase in the cost of borrowing.

Raw material prices rose sharply early in the year, with crude oil up by as much as 50%. To combat inflationary pressure, central banks raised their steering interest rates: the European Central Bank by 1.75%, the US Federal Reserve Bank by 1.00% and the Swedish Central Bank by 0.75%. Towards the end of the year long-term interest rates began to fall and fears of inflation eased. There are expectations in the markets of a drop in key interest rates in the near future.

On currency markets, the exchange rate for the euro fell until autumn. This was due to currency flows arising from capital movements and to a lack of confidence in the single currency. Economic growth in the United States began to slacken during the final quarter. The euro strengthened to end the year only 6% weaker against the dollar than at the start. The euro strengthened by 1% against sterling and by 3.5% against the Swedish krona.

### Financial risk management

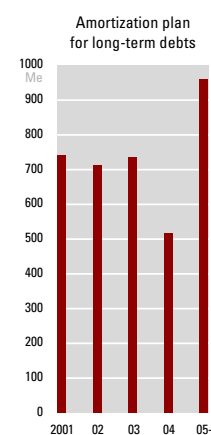
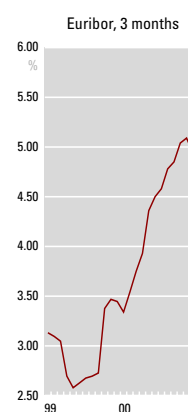
Aside from profitability, the Metsäliitto Group's primary objective is to secure a strong, well-structured balance sheet. The goal is to maintain an average equity ratio of 45 per cent and a gearing ratio of under 80 per cent.

The risks associated with financing are managed in accordance with the policy endorsed by the boards of directors and senior management of Group companies. The policy contains detailed instructions for managing foreign currency exposure and interest rate, liquidity and counterparty risks, and for employing derivative instruments. The purpose is to hedge against any major financing-related risks, achieve a balanced cash flow, and give the Group's business units time to adjust their operations to changing conditions.

### Foreign currency exposure

While the Metsäliitto Group's costs are incurred largely in euro-countries and Sweden, corresponding sales revenues are denominated in other currencies. Sales revenues can therefore vary with changes in exchange rates, even though production costs remain unchanged. Also, prices for products are often quoted in currencies other than euro. This foreign currency exposure comprises accounts receivable and payable, orders received, and a certain portion of the budgeted net foreign currency flows. The principal hedging instruments used are foreign currency denominated loans, forward foreign exchange contracts and options.

The Group's annual foreign cash flow is about EUR 1.7 billion, of which some against the euro or the Swedish krona. The main currencies are the US dollar and the pound sterling. A strengthening of the dollar and pound has a positive impact on the Group's financial results, while a weakening has an adverse effect, both after a certain delay. The Group's policy is to hedge its foreign currency exposure for an average of three months ahead. The extent of the exposure varies with the exchange rates and expectations prevailing at any given time, differences in interest rates



## Financial administration and risk management

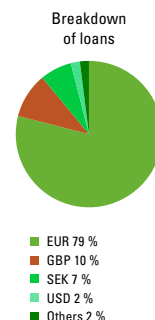
between currencies, and the impact on the Group's financial results of changes in a particular exchange rate.

At the end of the year, the foreign currency exposure was hedged for an average of 6 months ahead, having varied between 3 and 6 months during the year. Foreign currency exposures in dollars and pounds were hedged for averages of 3 and 6 months ahead.

In managing its foreign currency exposure, the Group uses value-at-risk analysis. The risk calculated in this way reflects the maximum exchange rate losses at a given probability over a specified period. The calculations employ historical volatilities and correlations for a period of one year, and are performed using Monte Carlo simulation.

A risk attached to the translation of assets denominated in foreign currencies arises on consolidation of shareholders' equity of foreign subsidiaries into euros in the Group's accounts. This risk is hedged through foreign currency denominated loans and derivatives. The Group's policy is to hedge at least 50 per cent of foreign equity exposure, provided this is possible in practice. At the end of 2000, 89 per cent of foreign equity was hedged.

Under the Metsäliitto Group's accounting practice, exchange differences arising from foreign exchange derivatives (forward contracts and options) used to hedge foreign currency exposure are entered as adjustments to turnover, while exchange differences on foreign currency denominated loans are entered under exchange gains/losses in financial items. The exchange differences arising are allocated over the hedging period.

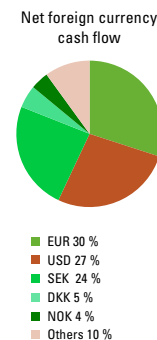


### Interest rate risks

Changes in interest rates pose risks to the Group in the form of price risks and reinvestment risks. Price risks relate to the change in the value of balance sheet items, and reinvestment risks relate to future changes in interest rates on receivables and debts. Interest rate risk mainly concerns interest-bearing receivables and debts.

The aim is to hedge the main interest rate risks. How quickly changes in interest rates are reflected in the net financial expenses item of the profit and loss account depends on the period for which investments, loans and derivatives are subject to fixed rates of interest before they are repriced. Interest rate risks are managed using forward interest rate agreements and futures, interest rate swaps and options.

Based on the Group's total net interest rate position, the time to repricing at the end of the year was 5 months and the average rate of interest 5.5 per cent. During the year, the time to repricing varied between 5 and 16 months. The estimated effect on the Group's net interest expenses of a one per cent change in interest rates during 2001 is around EUR 24 million based on the position at 31 December 2000.



### Liquidity risk

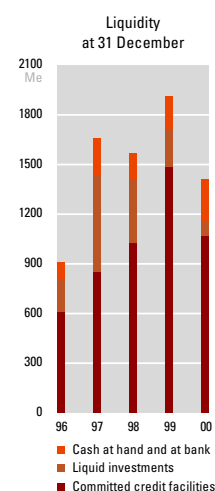
Liquidity risk is defined as the risk that the Group's funds and borrowing facilities become insufficient to meet the business needs, or that extra costs are incurred in arranging the necessary financing. The Group's liquidity risk is monitored by estimating the need for liquidity 12 months ahead and comparing this with the total liquidity available. The Group's liquid funds and investments totalled EUR 0.3 billion at the end of the year. In addition to this, the Group had at its disposal committed credit facilities of around EUR 1.1 billion.

To cover its short-term financing needs, the Group had available both domestic and foreign commercial paper programmes and non-committed forward credits totalling around EUR 0.7 billion. Interest-bearing liabilities at the balance sheet date were roughly EUR 4.0 billion.

### Investment policy and counterparty risk

Financial instruments carry the risk that the Group may incur losses should the counterparty be partially or completely unable to meet its commitments. Such counterparty risk is managed by entering into financial transactions only with parties with good credit ratings and within specified limits. No losses were incurred during the year due to financing-related credit risks.

Of the Group's total liquidity at the end of 2000, EUR 344 million was in the form of liquid funds. The secure and profitable investment of these funds is provided for in the Group's financial policy, which specifies the investment instruments and markets and the management of counterparty risk. Instruments and markets are chosen in such a way that, when necessary, investments can be converted into cash quickly and at low cost. As the Group has chosen as its counterparties only financial institutions with the highest credit ratings, no failure on the part of these institutions to meet their commitments is anticipated.



## The Environment

### Wood from certified forests

Most of the wood procured by Metsäliitto in Finland comes from certified forests. By the end of the year, 95 per cent (almost 22 million hectares) of Finland's forests had received certification. In May, Finland's national certification scheme received the recognition of the Pan-European Forest Certification (PEFC) scheme.

Finland's forest owners are largely private individuals. As forest holdings average under 30 hectares in size, group certification has become the adopted procedure. Forest owners are committed to certification through their membership of forest management associations, while non-members seek certification at their own initiative.

Metsäliitto Osuuskunta is a member of all 13 regional forest certification committees, and complies with the criteria for forest certification in its own wood procurement. Audits have frequently been conducted at logging sites where Metsäliitto is responsible for harvesting, and the results in most cases have been positive.

### Chain-of-custody management and product labelling

SFS-Sertifiointi Oy awarded Metsäliitto Osuuskunta a certificate for management of its chain of custody on 15 September 2000. The certificate covers wood procurement in Finland from the forest to the mill gates. This verifies that Metsäliitto knows the origins of its wood and that it can give a reliable report to the industry of the proportion of certified wood contained in deliveries. This has given the mills supplied with wood by Metsäliitto the opportunity to seek their own chain-of-custody certification and ultimately the right to use the PEFC label on their products.

On 12 October 2000, Metsäliitto Osuuskunta became one of the first companies in the world to be granted the right to use the PEFC label. It can use the label on piles of wood raw material, in its documents and in general brochures.

### Metsäliitto's environment programme

Metsäliitto's certified quality and environmental management system (ISO 9002/ISO 14001) includes Metsäliitto's own environment programme and a number of instruments for measuring the standard and development of work aimed at the environment. The results of assessments of the standard of nature management carried out by Finland's forestry centres have also shown an improvement in stands harvested by Metsäliitto.

According to forestry centre surveys, sites of natural importance had been better preserved in areas where Metsäliitto had handled harvesting than the average (Metsäliitto 93%, other operators 86%; graded good and excellent). In water pollution control, grades awarded for areas bordering on waterways were above average.

#### Metsäliitto Osuuskunta's environment policy for wood procurement

The basic objective behind Metsäliitto's environment policy is to continuously improve the standard of management of environmental affairs. Metsäliitto puts this into practice through its own environment programme and through its commitment to the criteria for forest certification. Metsäliitto complies with environment-related legislation and official requirements, and this compliance is monitored through both internal and external inspections. Metsäliitto's directors keep the environment policy up to date and approve an annual environment programme for its implementation.

#### The goals of Metsäliitto's environment policy are:

- To promote forest biodiversity in wood procurement with special attention to the particular features of family forestry
- To maintain and improve environment-related knowledge among its staff, sub-contractors and members.
- Actively to provide information on forestry, its environment programme and environmental management system
- To promote research and development work into wood procurement methods and machinery in order to reduce environmental impacts
- To work together with both the authorities and its partners to promote ecologically, economically and socially sustainable forestry
- To verify the origins of imported wood and to encourage sustainable forestry

## The Environment

Habitats of importance to forest biodiversity are taken into consideration when felling is being planned. For this purpose, the locations of the sites concerned are entered into Metsäliitto's digital mapping system. Over 800 new sites were entered during the year.

The numbers of trees left standing after harvesting exceeded the number required by the criteria for forest certification. Efforts to combat root rot, which affects spruce forests in southern Finland and also pine forests in the lake Saimaa area, were stepped up during summer harvesting. To combat root rot, a solution of a particular fungus is sprayed from a device attached to harvesters. The fungus (*Phlebiopsis gigante*) occurs naturally in Finnish forests and therefore poses no risk to the environment.

The number of journeys made empty by timber haulage vehicles between roadside stockpiles and mills was reduced by means of the transport optimization system.

Recovery of logging waste for energy production was stepped up in conjunction with the subsidiary Biowatti Oy. The biofuels supplied by Biowatti can be used to replace fossil fuels at power and heat generating plants.

Supplementary training relating to the requirements of forest certification was given to staff and to Metsäliitto's contractors. Over 20 per cent of Metsäliitto's field staff have now passed the nature management examination arranged by the Forestry Development Centre Tapio. The importance of environmental issues is also explained in publications designed for the Group's forest owners, employees and customers. Metsäliitto is a shareholder in Metsäteho, a company specializing in forest industry research and development work. Projects carried out have yielded useful information and working practices that can be applied in the Group's own work.

### International wood procurement

In wood procurement, Metsäliitto's aim is social, ecological and economic sustainability irrespective of the area or country concerned.

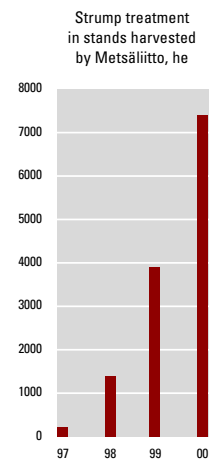
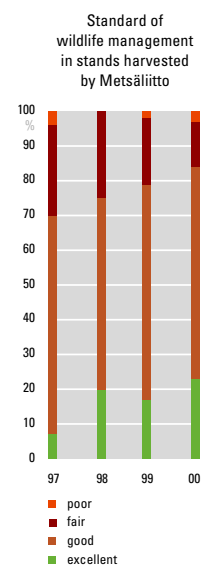
Wood procurement outside Finland was practised on only a small scale during 2000. Imported wood from the Baltic countries and Russia has been used to meet the needs of Finnish mills in situations where sufficient Finnish wood was not available. Following the acquisition of MoDo Paper, Metsäliitto is now also responsible for procuring wood for production units outside Finland. International wood procurement operations are now being further developed, and the post of Quality and Environment Manager for international wood procurement has been created.

Metsäliitto seeks to verify the origins of imported wood and of the wood raw material supplied by procurement organizations outside Finland. Under a plan drawn up each year, Metsäliitto inspectors visit sites from which imported wood is procured. The number of audits performed depends on the volumes procured by each wood supplier. Inspections are carried out by Metsäliitto's own staff in accordance with a single set of guidelines. Such inspections also provide a forum for an exchange of information on environmental questions between wood suppliers and Metsäliitto.

As Metsäliitto moves increasingly into international wood procurement, its knowledge and skills must be extended to cover conditions in different countries. Local professionals are the experts in their own country, which is why Metsäliitto engages the services of reliable local wood suppliers. These suppliers are required to comply with Metsäliitto's environmental goals and with forest and environment-related legislation in the country of origin.

Environmental expertise in the international arena requires not just knowledge of the environmental aspects of wood procurement but also language skills and an appreciation of different cultures. Metsäliitto regards personnel training and development as a major challenge in the implementation of its environment policy.

Finnforest, Metsä-Botnia and Metsä-Serla publish their own environmental reports describing the management of environment-related issues in the industry.



### Metsäliitto Osuuskunta's environment policy

- In both wood procurement and forest utilization and management, Metsäliitto is committed to sustainable development
- Sustainable development includes ecological, economic and social aspects
- Within its sphere of operations, Metsäliitto seeks to encourage the creation of a reliable certification system suitable for conditions in each particular country
- The long-term aim is mutual recognition among different certification systems

## Report of the Board of Directors

Turnover for the Metsäliitto Group has continued to grow strongly since 1995. Most of this growth has been achieved through company acquisitions. Last year, Metsä-Serla, one of the members of the Group, made its biggest-ever company acquisition when it bought the Swedish company Modo Paper. The agreement to acquire the German company Zanders Feinpapiere AG was confirmed at the end of the year.

### Business environment

#### Sawn timber and panels

Both demand and prices for sawn timber had improved over the previous 12 months. However, increasing production volumes and strong demand for logs forced wood raw material prices up after the summer. The final part of the year was very difficult due to wood shortages and a collapse in prices on US timber markets.

For the wood-based panels business there was little change on the previous year. Birch plywood prices continued to fall for the third year in a row, due partly to increasing deliveries from the Baltic countries and Russia to the European market. The market for softwood plywood was steady.

#### Printing papers

Volumes of coated magazine paper supplied by European manufacturers were 10 per cent up on the previous year. Magazine papers were in good demand all year and prices rose slowly up to the end of the summer. Sales prices averaged 3 per cent higher than the previous year.

Supplies of fine paper were up 5 per cent on the year before. Average sales prices were about 15 per cent up on 1999. Good demand and the sharp rise in market pulp prices supported an increase in paper prices.

#### Paperboards

Demand for folding boxboard remained strong throughout the year under review. In Europe, demand rose by 3 per cent over the year and sales prices for folding boxboard were 8 per cent up on 1999. Demand for wallpaper baseboard was weaker than the previous year and delivery volumes were 5 per cent down.

Demand for linerboard and fluting was extremely strong with the exception of the final few months. However, production losses due to the strike in spring and occasional capacity shortfalls meant that production volumes were about the same as in 1999.

#### Tissue

In terms of profits, it was an unsatisfactory year for Metsä Tissue due to the rise in raw material costs and reorganizations in Poland and Germany. Fierce competition made it impossible to raise product prices in line with rising costs.

#### Pulp

The profitability of chemical pulp production benefited from high capacity utilization rates and substantially higher sales prices than the year before. Norscan producer stocks, which reflect the market situation, remained below 1.5 million tonnes, a critical figure for sales prices, right up to the last few months of the year.

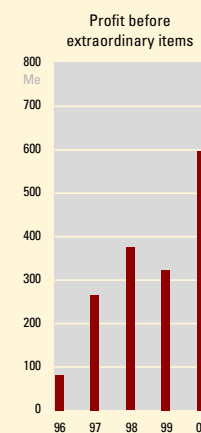
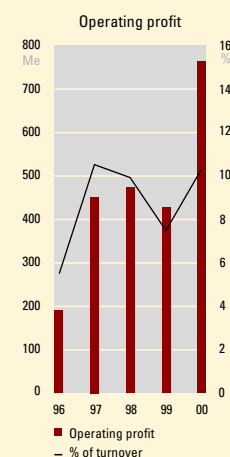
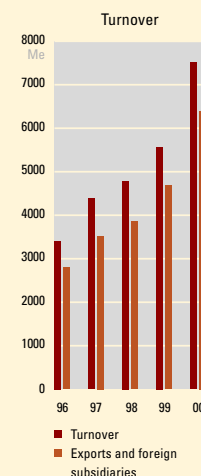
### Turnover

Metsäliitto Group turnover was EUR 7,513 million, up 35 per cent on the previous year's figure of EUR 5,576 million. The growth in turnover is due to company acquisitions, higher sales volumes and product prices, and the weakening of the euro against the dollar and pound.

The domestic contribution to turnover was EUR 1,115 million, or 15 per cent (888 million and 16%). Exports and foreign subsidiaries accounted for EUR 6,398 million (4,688). The EU countries together accounted for 77 per cent (78).

### Financial results

The Group's operating profit was EUR 762.7 million, 10.2 per cent of turnover (426.6 million and 7.7%). Operating profit includes other operating income of EUR 70.9 million (53.9), including gains of EUR 13.9 million from asset sales (17.2). The reserve included in the consolidation goodwill has been booked against depreciation to plan. The reserve from Metsä-Serla shares bought in 2000 has also been booked. These improved the operating profit by EUR 65 million. Net financial expenses were EUR 165.5 million, 2.2 per cent of turnover (103.5 million and 1.9%). Financial items include net exchange losses of EUR 7.2 million (9.4). Exchange differences arise largely from loans





## Report of the Board of Directors

in dollars and pounds taken to hedge the Group's foreign currency exposure. The exchange differences include also gains from sold debentures.

Profit before extraordinary items was EUR 597.2 million (323.1). Extraordinary income totalled EUR 67.0 million (43.8), including EUR 63.0 million net capital gains from the sale of the corrugated board business. Extraordinary expenses, which include pension liability from previous years entered as costs, were EUR 6.8 million (2.9).

Profit before taxes and minority interest was EUR 657.4 million (364.0). Taxes were EUR 204.0 million (105.7) and minority interest was EUR 197.2 million (120.1). Profit for the financial period was EUR 256.2 million (138.2).

The return on the Group's capital employed was 14.6 per cent (10.8) and the return on equity 17.9 per cent (10.8).

### Financing

The equity ratio was 31.7 per cent (42.9) and the gearing ratio 130 per cent (64). The equity ratio was affected by the high rate of investment and by big acquisitions. Capital expenditure for 2000 was 39 per cent of turnover and the balance sheet was 57 per cent greater than the previous year. Net interest-bearing liabilities at the end of the year were EUR 3,614 million (1,532 million at 31 December 1999).

The Group's liquidity was good throughout the year. In line with the financial strategy, the amount of liquid funds and investments was kept low and liquidity was maintained through the use of committed credit lines.

Total liquidity at the end of December was EUR 1.4 billion (1.9). The balance sheet shows liquid assets and investments totalling EUR 344 million (408). At the end of the year the Group also had committed credit facilities not shown in the balance sheet totalling EUR 1,065 million (1,483). The Group also has around EUR 0.7 billion available in non-committed domestic and foreign commercial paper programmes and forward credits.

Metsäliitto Osuuskunta's members' capital increased by EUR 45.1 million (25.0) to stand at EUR 367.9 million (322.8) at the end of the year. Additional members' capital represents EUR 246.7 million of members' capital.

### Main financial events

In January, Finnforest signed a 5-year EUR 30 million credit line agreement with Svenska Handelsbanken, and in May a 5-year EUR 24 million credit line agreement with Landesbank Schleswig-Holstein.

In February, Metsä Tissue signed a 12-year EUR 15 million credit agreement with the Nordic Investment Bank. In May, Metsä-Serla and Metsä Finance increased the amount of their Global Medium Term Note programme from EUR 1.0 billion to EUR 1.5 billion.

In July, Metsä-Serla signed a EUR 1.7 billion syndicated loan agreement with a number of international banks. The loan consists of two tranches, the first being a EUR 1.0 billion credit running for 364 days to finance the acquisition of Modo Paper, and the second a EUR 700 million 5-year revolving credit facility to refinance Modo Paper's existing debt.

In October, Metsä-Botnia signed a 12-year EUR 100 million credit agreement with the European Investment Bank. In November, Metsä-Serla signed 10-year credit agreements totalling around EUR 135 million with pension insurance companies and in December a 12-year EUR 100 million credit agreement with the European Investment Bank.

In May, Standard & Poors reduced Metsä-Serla's and Metsä Finance's short-term credit rating to A3. The agency also placed Metsä-Serla's long-term credit rating (BBB) under review in November for a possible downward revision. Also in November, Moody's Investor Service changed Metsä-Serla's and Metsä Finance's long-term (Baa2) and short-term (P2) credit ratings from neutral to negative.

	Turnover, Me		Operating profit, Me		Personnel, average	
	2000	1999	2000	1999	2000	1999
Wood procurement	1 082.7	1 070.6	21.1	21.1	922	895
Sawn goods	522.3	486.6	7.8	-1.7	1 222	1 174
Plywood	162.1	150.5	23.0	23.8	979	937
Engineered Wood	360.7	295.6	16.5	23.7	1 296	1 106
Merchanting & Trading (mech.)	287.1	293.5	1.5	-0.2	579	454
Paper	1 955.7	1 704.6	216.3	227.1	3 978	4 109
Packaging	899.5	792.0	97.6	83.6	2 597	2 520
Tissue	609.2	585.7	-11.9	16.2	3 205	3 459
Merchanting & Trading (chem.)	814.7	678.7	9.9	6.4	1 020	1 077
Pulp	735.6	509.5	294.6	73.9	833	855
MoDo Paper	1 333.0		123.9		3 513	
Others & internal sales	-1 249.7	-991.0	-37.6	-47.3	2 679	3 973
Metsäliitto Group	7 512.9	5 576.3	762.7	426.6	22 723	20 559

## Report of the Board of Directors

### Company acquisitions and investment

In May, Metsä-Serla signed an agreement with Holmen AB and Svenska Cellulosa Aktiebolaget SCA regarding the acquisition of Modo Paper AB for a debt-free price of EUR 2.25 billion. The purchase price of the shares was EUR 1.56 billion.

In the same connection, Metsä-Serla announced it would sell to SCA its roughly 66 per cent interest in Metsä Tissue Corporation for EUR 295 million (EUR 15 per share) and its corrugated packaging business for a debt-free price of EUR 200 million. The European Commission approved the purchase of Modo Paper AB's shares on 4 August 2000 and the sale of the corrugated packaging business on 25 August 2000, but deferred the proposed sale of Metsä Tissue for further handling. In January 2001 the EU Commission blocked the sale of Metsä Tissue shares to SCA.

Metsä-Serla's acquisition of Cofinec's carton business was approved by the Hungarian authorities in September. The debt-free price of the shares involved was EUR 43 million.

The investment programme to develop Kangas paper mill and change production to coated papers includes acquisition of a coater and construction of a CTMP mill, capacity over 200,000 t/a, at Joutseno. The coater will be completed in March 2001 and the rest of the investment towards the end of the year. The total cost will be EUR 200 million.

The EUR 250 million fibre line being built at Metsä-Botnia's Joutseno pulp mill will be completed in May 2001. The new line will raise production capacity by 200,000 t/a.

In spring, Modo Paper announced a EUR 285 million development programme for its Husum paper mill. The programme will be continued under Metsä-Serla's ownership.

Finnforest built a new blockboard mill in Rumania. Operating under the name Baco, the mill will produce veneer-faced blockboard for the furniture industry in Western Europe. In March, Finnforest signed an agreement to acquire Sibü, a French company engaged in the further processing of sawn timber.

Finnforest's EUR 10 million investment in its Kaskinen facility was completed. It has been decided to invest a further EUR 8.5 million in the manufacture of building system products at Kaskinen. The project will be completed in autumn 2001.

In August, Finnforest announced it was investing almost EUR 20 million in its Suolahti birch plywood mill. The necessary work will be carried out in the years 2000 – 2002. It had already been decided in the spring to expand production capacity for Kerto LVL and plywood at the Punkaharju mill. This project, costing about EUR 60 million, will be completed in autumn 2001.

In November, Metsäliitto Osuuskunta signed a preliminary agreement to acquire one-third of the share capital of the state-owned company Vapo Oy for FIM 550 million. The deal requires the approval of the Finnish competition authority. Metsäliitto has indicated it is prepared to raise its interest to 49.9 per cent.

In December, the Board of Directors of Metsä-Serla decided to invest around EUR 100 million in rebuilding Kyro's wallpaper baseboard machine and Äänekoski's folding boxboard machine.

At the end of the year, Metsäliitto Osuuskunta bought Metsä-Serla series B shares for approximately EUR 26 million, giving Metsäliitto 41.66 per cent of the shares and 65.05 per cent of the voting rights.

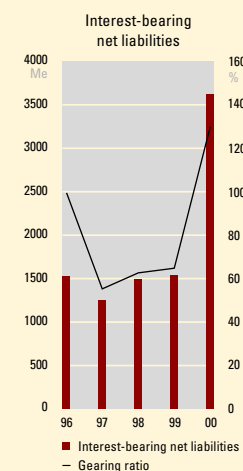
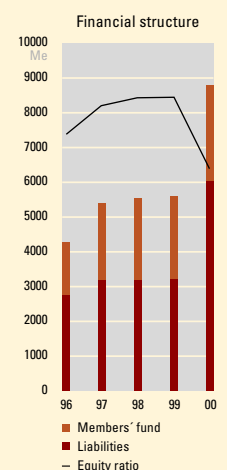
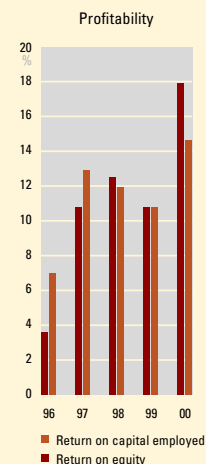
In 2000, the Metsäliitto Group spent a total of EUR 2,959 million on investments and company acquisitions, 39.4 per cent of turnover (489 million and 8.8%). The figure includes the debt-free prices of the acquisitions, EUR 690 million.

### Organization

Metsäliitto Osuuskunta's subsidiaries Oy Metsä Timber Ltd and Metsäliitto SW Ltd were merged at the beginning of April 2000 with Finnforest Corporation.

Oy Metsä-Rauma Ab was merged with Oy Metsä-Botnia Ab on 31 December 2000. The new Metsä-Botnia's share capital is now owned 47 per cent by Metsä-Serla, 6 per cent by Metsäliitto Osuuskunta, and 47 per cent by UPM-Kymmene. From the beginning of 2000, Metsä-Botnia and Metsä-Rauma have been dealt with in the accounts as joint venture companies and consolidated "line by line" in relation to Metsäliitto's interest in each. The figures for 1999 given for comparison have been adjusted to reflect the new practice.

Modo Paper has been included in the consolidated figures as of 1 July 2000. Metsä-Serla's corrugated packaging business is no longer included in the consolidated accounts from the same date.



## Report of the Board of Directors

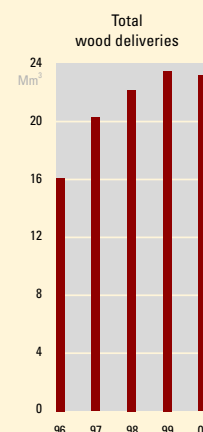
### Wood procurement and wood markets

Supplies flowed smoothly despite the forest machine operators' strike in spring. Wet weather in the autumn meant that deliveries, especially of spruce pulpwood, were below target.

Pulpwood prices followed a modest trend all year, but prices for logs rose sharply in the spring. Prices settled down during the summer, but nearing the year end spruce log prices rose to record levels due to continued strong demand and the weather, which made harvesting difficult. Difficulties with supplies of sawlogs forced sawmills to take unplanned downtime.

Metsäliitto purchased a total of 16.6 million cubic metres (15.9) of wood from private forests during the year. The target for this year is around 17 million cubic metres. Wood imports were 2.0 million cubic metres (1.5). Most of this was birch and aspen pulpwood from Russia and Estonia. Including imported wood and by-products, Metsäliitto's total purchases were 23.7 million cubic metres (22.9).

In November, the Finnish competition authority imposed fines on Metsäliitto Osuuskunta, UPM-Kymmene and Stora Enso for infringing competition legislation. Each was fined EUR 10 million. Metsäliitto has appealed against the ruling to the Supreme Administrative Court.

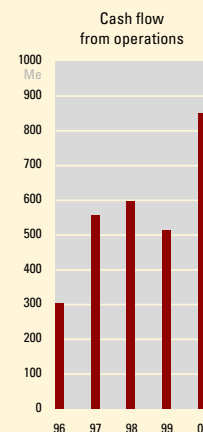


### The environment

At the end of the year, roughly 95 per cent of Finland's forest, a total of almost 22 million hectares, had received certification. Finland's national forest certification scheme was approved by the PEFC scheme in the spring. Metsäliitto is a member of all regional forest certification committees and complies with the forest certification criteria in its own wood procurement. On 12 October 2000, Metsäliitto Osuuskunta became one of the first companies in the world to be granted the right to use the PEFC label.

SFS-Sertifiointi Oy awarded Metsäliitto a chain-of-custody certificate on 15 September 2000. The certificate covers wood procurement in Finland from the forest to the mill gates. Metsäliitto also has a certified ISO 9002 / ISO 14001 quality and environmental management system for its wood procurement and marketing.

Metsä-Serla, Finnforest and Metsä-Botnia publish their own environmental reports.



### Research and development

Metsäliitto has developed ways to utilize the properties of aspen fibre in products requiring less than the normal amount of raw material.

As a continuation of the mechanical pulp production and utilization project, quality and process development work was carried out for Joutseno's new CTMP line. The change in production at Kangas paper mill to coated and calendered paper will give the product excellent printability combined with 20 per cent lower basis weight.

The Packaging Group has developed a new cigarette pack board. Projects are also in progress aimed at the rapidly growing micro-flute packagings segment.

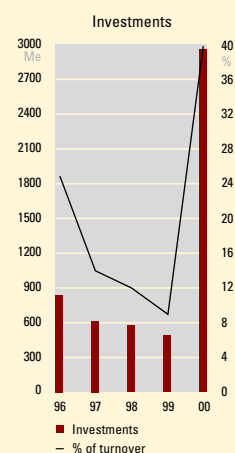
In chemical pulp R&D, the emphasis was on raising the output of reinforcement pulp and the related quality development. Development of softwood chemical pulp for production of a new type of fine paper is also under way. Spending on research and development was roughly EUR 36 million.

### Personnel

Metsäliitto and its subsidiaries had an average total of 22,723 employees in 2000 (20,559). Of these, 10,333 (10,654) worked in Finland and 12,390 (9,905) abroad. The number of employees at the end of the year was 25,007 (19,936), of whom 15,202 were located outside Finland (9,737). The parent company had an average of 922 employees (895).

### Parent company Metsäliitto Osuuskunta

Metsäliitto Osuuskunta's turnover was EUR 1,083 million (1,071). Operating profit was EUR 21.1 million, 1.9 per cent of turnover (21.1 million and 2.0%). Profit before extraordinary items was EUR 64.9 million (69.3). Financial items include EUR 35.2 million in dividends received (41.5). The return on capital employed was 10.8 per cent (12.5) and the equity ratio was 72.2 per cent (68.4).



## Report of the Board of Directors

### Finnforest Corporation

Finnforest Corporation had a pro forma turnover of EUR 1,206 million (1,139). Operating profit was EUR 28.4 million, 2.4 per cent of turnover (38.6 million and 3.4%). Profit before extraordinary items was EUR 2.6 million (15.7). The return on capital employed was 4.6 per cent (6.4) and the equity ratio 43.8 per cent (43.6).

### Metsä-Serla Corporation

Metsä-Serla had a turnover of EUR 5,898 million (4,044) and an operating profit of EUR 604.0 million (351.6). Operating profit was 10.2 per cent of turnover (8.7). Profit before extraordinary items was EUR 458.5 million (268.1). The return on capital employed was 13.4 per cent (10.5) and the equity ratio was 29.7 per cent (45.1).

### Metsä-Botnia Corporation

The new Metsä-Botnia Group had a pro forma turnover of EUR 1,462 million (1,010) and an operating profit of EUR 549.6 million (130.6). Operating profit was 37.6 per cent of turnover (12.9). Before extraordinary items there was a profit of EUR 520.2 million (93.9). The return on capital employed was 40.9 per cent (9.6) and the equity ratio at the end of the year 67.1 per cent (48.7).

### Events occurring after the closing of accounts

In August, Metsä-Serla announced it was negotiating, with sole rights, the purchase of a controlling interest in the German company Zanders Feinpapiere AG with the company's principal owner International Paper. Following approval by the EU in December 2000, the deal became effective as of the beginning of 2001, when Metsä-Serla had 87.4 per cent of Zanders' shares.

The decision of the EU Commission in relation to the sale of Metsä-Serla's majority shareholding of Metsä Tissue to SCA forms an obstacle to the closing of the deal announced with SCA in May 2000. The Commission did not regard the proposals made by Metsä-Serla and SCA to address the competition concerns sufficient.

### Outlook

Economic growth in the industrialized countries is forecast to be slower this year than last. This forecast is based on figures showing a decline in consumption in the USA and a strengthening of the euro against the dollar. Nevertheless, the pulp and paper industry can expect a fairly satisfactory year as average foreign currency prices for its main products are forecast to be higher than in 2000.

For the mechanical wood processing sector, the trend on sawn timber markets will be decisive. At present, demand for sawn timber is expected to show divergent trends for spruce and pine.

The volume of wood procured internationally by Metsäliitto will rise considerably following the acquisition of Modo Paper. In Finland, purchasing and delivery volumes are likely to show little change on last year.

Demand for coated magazine paper will grow by some 3 per cent this year, although capacity utilization rates are forecast to fall. This is due to the additional capacity introduced last year. Demand for coated fine paper is also forecast to grow and capacity utilization rates to fall. Three production lines in Europe will switch from uncoated to coated fine papers.

Folding boxboards are in good demand and there are no signs of demand slackening in the near future. In the case of packaging boards, supply and demand are well balanced and are expected to remain so in the near future.

The cost-effectiveness of tissue production has been improved through a number of projects. Higher efficiency levels are possible, notably in Germany, by reviewing the product range and overcoming production bottlenecks.

The profitability of chemical pulp production depends largely on the market trend and on adapting production worldwide to meet demand. The early part of 2001 will be affected by slight over-production.

The Metsäliitto Group's main targets for this year are to improve its balance sheet structure and to complete the integration of companies acquired during 2000. Following these acquisitions, consolidated turnover for 2001 is expected to reach around EUR 10 billion. Provided there are no major changes in market conditions, the result from operations is expected to be about the same as last year.

Espoo, March 2001

BOARD OF DIRECTORS

## Consolidated profit and loss account

	1.1.-31.12.2000		1.1.-31.12.1999		
	EUR mill.	%	EUR mill.	%	
<b>Turnover</b>	<b>7 512.9</b>	<b>100.0</b>	<b>5 576.3</b>	<b>100.0</b>	(1)
Change in stocks of finished goods and in work in progress	68.6		-47.2		
Share of profit from associates	10.3		1.0		(2)
Other operating income	70.9		53.9		(3)
Materials and services					
Raw materials and consumables					
Purchases during financial year	-4 232.3		-2 894.5		
Change in stocks	23.5		3.0		
Costs of external services	-357.1		-366.0		
Employee costs	-1 011.3		-828.1		(4)
Depreciation and reduction in value	-350.9		-293.8		(5)
Other operating expenses	-971.9		-778.1		
	-6 900.0		-5 157.4		
<b>Operating profit</b>	<b>762.7</b>	<b>10.2</b>	<b>426.6</b>	<b>7.7</b>	
Financial income and expenses					(6)
Income from other financial investments	10.3		3.1		
Other interest and similar income	40.4		28.6		
Net exchange gains/losses	-7.2		-9.4		(7)
Interest expense and similar charges	-209.0		-125.8		
	-165.5	-2.2	-103.5	-1.9	
<b>Profit before extraordinary items</b>	<b>597.2</b>	<b>8.0</b>	<b>323.1</b>	<b>5.8</b>	
Extraordinary items					(8)
Extraordinary income	67.0		43.7		
Extraordinary expenses	-6.8		-2.9		
	60.2		40.8		
<b>Profit before tax and minority interest</b>	<b>657.4</b>	<b>8.8</b>	<b>364.0</b>	<b>6.5</b>	
Taxation	-204.0		-105.7		(9)
<b>Profit before minority interest</b>	<b>453.4</b>		<b>258.3</b>		
Minority interest	-197.2		-120.1		
<b>Profit for the financial period</b>	<b>256.2</b>	<b>3.4</b>	<b>138.2</b>	<b>2.5</b>	

## Consolidated balance sheet

Assets	31.12.2000		31.12.1999		
	EUR mill.	%	EUR mill.	%	
<b>Fixed assets</b>					
<b>Intangible assets</b>					(10)
Intangible rights	34.0		34.0		
Purchased goodwill	36.7		35.8		
Consolidation goodwill	762.9		70.5		
Other capitalized expenditure	17.5		14.0		
Construction in progress	7.5		1.4		
	858.5	9.8	155.6	2.8	
<b>Tangible assets</b>					(10)
Land and waters	397.8		291.9		
Buildings	916.7		669.9		
Plant and equipment	2 604.6		1 824.2		
Other tangible assets	33.6		27.5		
Construction in progress	351.5		80.2		
	4 304.1	49.0	2 893.6	51.8	
<b>Financial investments</b>					(11) (13)
Investments in associated companies	128.7		116.9		
Amounts owed from associated companies	40.0		76.1		
Other investments	120.8		83.9		
Other receivables	32.4		11.9		
	321.9	3.7	288.8	5.2	
<b>Fixed assets total</b>	<b>5 484.5</b>	<b>62.4</b>	<b>3 338.0</b>	<b>59.8</b>	
<b>Current assets</b>					
<b>Inventories</b>					
Raw materials and consumables	356.8		254.2		
Finished goods and work in progress	687.0		377.0		
Advance payments	43.0		36.8		
	1 086.8	12.4	667.9	12.0	
<b>Long-term receivables</b>					(15)
Amounts owed from associated companies	2.3		2.4		
Loan receivables	1.3		1.5		
Deferred tax receivables	16.3		16.8		(23)
Accrued income	1.1		2.0		(16)
<b>Short-term receivables</b>					(15)
Accounts receivable	1 550.3		952.6		
Amounts owed from associated companies	45.3		42.8		
Loan receivables	1.0		1.1		
Other receivables	168.5		81.8		
Accrued income	88.5		69.9		(16)
	1 874.5	21.3	1 170.9	20.9	
<b>Current financial assets</b>					(18)
Cash at bank and in hand	255.2	2.9	199.8	3.6	
	88.8	1.0	208.5	3.7	
<b>Current assets total</b>	<b>3 305.3</b>	<b>37.6</b>	<b>2 247.2</b>	<b>40.2</b>	
<b>Assets total</b>	<b>8 789.8</b>	<b>100.0</b>	<b>5 585.2</b>	<b>100.0</b>	

## Consolidated balance sheet

Members' funds and liabilities	31.12.2000		31.12.1999		
	EUR mill.	%	EUR mill.	%	
<b>Members' funds</b>					(19)
Members' capital	121.2		113.5		
Additional members' capital	246.7		209.3		
Share premium account	28.9		27.8		
Revaluation reserve	1.2		1.2		
Other reserves	24.9		20.0		
Equity in previous years' untaxed reserves	177.2		182.7		
Contingency reserve	-18.4		-5.4		
Retained earnings	479.2		57.7		
Profit for the financial period	256.2		138.2		
	1 317.1	15.0	1 045.0	18.7	
<b>Capital note loans</b>	279.3	3.2	267.3	4.8	
<b>Members' funds total</b>	<b>1 596.5</b>	<b>18.2</b>	<b>1 312.3</b>	<b>23.5</b>	
<b>Minority interest</b>	1 179.4	13.4	1 077.8	19.3	
<b>Provisions for future costs</b>	78.6	0.9	45.6	0.8	(20)
<b>Liabilities</b>					(21)(22)
<b>Long-term liabilities</b>					(24)
Bonds and debentures	566.7		534.7		
Loans from financial institutions	2 025.3		980.1		
Pension premium loans	155.7		22.5		
Deferred tax liabilities	464.6		269.3		(23)
Other long-term liabilities	139.2		81.3		
Accruals and deferred income	14.5		11.1		(26)
	3 365.9	38.3	1 899.0	34.0	
<b>Short-term liabilities</b>					(25)
Bonds and debentures	114.8		0.0		
Loans from financial institutions	722.9		277.0		
Pension premium loans	1.5		3.0		
Advance payments	9.4		3.6		
Accounts payable	592.4		402.3		
Bills of exchange payable	17.1		0.3		
Amounts owed to associated companies	150.9		62.3		
Other short-term liabilities	465.5		155.4		
Accruals and deferred income	494.9		346.5		(26)
	2 569.4	29.2	1 250.4	22.4	
<b>Liabilities total</b>	<b>5 935.3</b>	<b>67.5</b>	<b>3 149.5</b>	<b>56.4</b>	
<b>Members' funds and liabilities total</b>	<b>8 789.8</b>	<b>100.0</b>	<b>5 585.2</b>	<b>100.0</b>	

## Cash flow statement

	Group		Parent	
	2000 EUR mill.	1999 EUR mill.	2000 EUR mill.	1999 EUR mill.
<b>Cash flow from operations</b>				
Operating profit	752.6	426.6	21.1	21.1
Depreciation	350.9	293.8	3.0	3.4
Change in provisions for future costs	33.0	-14.8	-0.1	-0.3
Financial income and expenses	-151.8	-103.5	43.8	48.2
Extraordinary items	60.2	4.4	0.0	5.9
Taxation	-192.6	-91.7	-8.9	-15.3
	852.3	514.8	58.9	62.9
<b>Change in working capital</b>				
Inventories (increase-/decrease+)	-113.4	34.8	-5.9	7.4
Current receivables (increase-/decrease+)	-275.5	-124.3	21.6	-23.6
Interest-free liabilities (increase+/decrease-)	130.0	-37.9	-5.2	-13.1
	-258.9	-127.4	10.5	-29.3
<b>Total cash flow from operations</b>	<b>593.4</b>	<b>387.4</b>	<b>69.4</b>	<b>33.6</b>
<b>Capital investments</b>				
Capital investments	-2 269.2	-511.7	-38.5	-32.6
Sale of fixed assets and other changes	173.7	22.7	1.2	7.6
	-2 095.5	-489.0	-37.3	-25.0
<b>Cash flow after capital investments</b>	<b>-1 502.1</b>	<b>-101.6</b>	<b>32.1</b>	<b>8.6</b>
<b>Financing</b>				
Interest-bearing liabilities (increase+/decrease-)	2 069.2	-85.4	-3.7	-0.9
Interest-bearing net debt in companies bought/sold	-635.9	0.0	0.0	0.0
Interest-bearing receivables (increase-/decrease+)	16.0	20.5	-140.5	-23.4
Dividends	-58.0	-57.3	-18.4	-17.3
Increase in members' funds	34.4	45.4	45.1	25.0
Capital note loan	12.1	44.5	-	-
	1 437.8	-32.3	-117.5	-16.6
<b>Change in liquid funds</b>	<b>-64.3</b>	<b>-133.9</b>	<b>-85.4</b>	<b>-8.0</b>
<b>Group</b>	<b>31.12.2000</b>	<b>Change</b>	<b>31.12.1999</b>	<b>Change</b>
Interest-bearing liabilities	4 039.5	2 069.2	1 970.3	6.1
Interest-bearing receivables	81.3	51.2	30.1	-3.9
Liquid funds	344.0	-64.3	408.3	-133.9
<b>Interest-bearing net liabilities</b>	<b>3 614.2</b>	<b>2 082.3</b>	<b>1 531.9</b>	<b>143.9</b>



## Parent company profit and loss account

	1.1.-31.12.2000		1.1.-31.12.1999	
	EUR mill.	%	EUR mill.	%
<b>Turnover</b>	<b>1 082.7</b>	<b>100.0</b>	<b>1 070.6</b>	<b>100.0</b>
Other operating income	3.4		2.9	(3)
Materials and services				
Raw materials and consumables				
Purchases during financial year	-792.8		-796.6	
Change in stocks	0.4		0.6	
Costs of external services	-202.2		-189.2	
Employee costs	-35.7		-33.9	(4)
Depreciation and reduction in value	-3.0		-3.4	(5)
Other operating expenses	-31.8		-29.9	
	-1 065.0		-1 052.4	
<b>Operating profit</b>	<b>21.1</b>	<b>1.9</b>	<b>21.1</b>	<b>2.0</b>
Financial income and expenses				(6)
Interest income from Group companies	34.9		39.8	
Interest income from associated companies	0.0		0.9	
Income from other financial investments	7.3		7.3	
Other interest and similar income	13.0		11.6	
Net exchange gains/losses	2.8		0.4	(7)
Interest expense and similar charges	-14.1		-11.9	
	43.8	4.0	48.2	4.5
<b>Profit before extraordinary items</b>	<b>64.9</b>	<b>6.0</b>	<b>69.3</b>	<b>6.5</b>
Extraordinary items				(8)
Extraordinary income	0.0		14.7	
Extraordinary expenses	-1.3		-15.8	
	-1.3		-1.1	
<b>Profit before appropriations and taxes</b>	<b>63.6</b>	<b>5.9</b>	<b>68.2</b>	<b>6.4</b>
Change in depreciation reserve	0.4		1.0	
Taxation	-18.5		-19.5	(9)
<b>Surplus for the financial period</b>	<b>45.4</b>	<b>4.2</b>	<b>49.7</b>	<b>4.6</b>

## Parent company balance sheet

Assets	31.12.2000		31.12.1999		
	EUR mill.	%	EUR mill.	%	
<b>Fixed assets</b>					
Intangible assets					(10)
Intangible rights	2.7		3.3		
Other capitalized expenditure	0.1		0.2		
Construction in progress	2.7		0.7		
	5.5	0.6	4.3	0.5	
Tangible assets					(10)
Land and waters	0.1		0.1		
Buildings	0.6		0.3		
Plant and equipment	4.6		4.4		
Other tangible assets	0.0		0.1		
	5.3	0.5	4.8	0.5	
Financial investments					(11) (13)
Shares in Group companies	478.8		389.8		
Amounts owed from Group companies	102.4		169.1		
Investments in associated companies	26.6		26.6		
Amounts owed from associated companies	2.9		12.9		
Other investments	13.4		13.4		
Other receivables	18.3		0.0		
	642.4	64.3	611.8	65.3	
<b>Fixed assets total</b>	<b>653.2</b>	<b>65.3</b>	<b>620.9</b>	<b>66.3</b>	
<b>Current assets</b>					
Inventories					
Raw materials and consumables	52.1		51.7		
Advance payments	39.8		34.3		
	91.9	9.2	86.0	9.2	
Long-term receivables					(15)
Loan receivables	0.4		0.6		
Deferred tax receivables	0.6		0.1		(23)
Accrued income	0.0		1.5		(16)
Short-term receivables					(15)
Accounts receivable	12.0		20.3		
Amounts owed from Group companies	175.7		40.0		
Amounts owed from associated companies	19.2		28.0		
Loan receivables	0.2		0.2		
Other receivables	0.1		0.1		
Accrued income	3.1		10.4		(16)
	211.3	21.1	101.3	10.8	
Current financial assets					(18)
Cash at bank and in hand	37.0	3.7	122.4	13.1	
	6.3	0.6	6.2	0.7	
<b>Current assets total</b>	<b>346.4</b>	<b>34.7</b>	<b>315.9</b>	<b>33.7</b>	
<b>Assets total</b>	<b>999.6</b>	<b>100.0</b>	<b>936.9</b>	<b>100.0</b>	

## Parent company balance sheet

Members' funds and liabilities	31.12.2000		31.12.1999		
	EUR mill.	%	EUR mill.	%	
<b>Members' funds</b>					(19)
Members' capital	121.2		113.5		
Additional members' capital	246.7		209.3		
Other reserves					
General reserve I	3.9		3.9		
General reserve II	17.5		15.0		
Retained surplus	199.2		170.4		
Surplus for the financial period	45.4		49.7		
<b>Members' funds total</b>	<b>634.0</b>	<b>63.4</b>	<b>561.8</b>	<b>60.0</b>	
<b>Appropriations</b>					
Depreciation reserve	1.5	0.1	1.9	0.2	
<b>Provisions for future costs</b>	<b>1.9</b>	<b>0.2</b>	<b>2.0</b>	<b>0.2</b>	(20)
<b>Liabilities</b>					(21)(22)
<b>Long-term liabilities</b>					(24)
Bonds and debentures	90.7		90.6		
Loans from financial institutions	3.0		5.0		
Pension premium loans	9.0		9.9		
Other long-term liabilities	0.0		0.0		
Accruals and deferred income	10.2		9.3		(26)
	112.9	11.3	114.8	12.3	
<b>Short-term liabilities</b>					(25)
Loans from financial institutions	1.9		2.1		
Pension premium loans	0.9		1.4		
Advance payments	5.8		1.9		
Accounts payable	86.1		84.9		
Amounts owed to Group companies	75.1		88.3		
Amounts owed to associated companies	51.1		51.3		
Other short-term liabilities	11.8		11.0		
Accruals and deferred income	16.7		15.6		(26)
	249.4	24.9	256.4	27.4	
<b>Liabilities total</b>	<b>362.2</b>	<b>36.2</b>	<b>371.2</b>	<b>39.6</b>	
<b>Members' funds and liabilities total</b>	<b>999.6</b>	<b>100.0</b>	<b>936.9</b>	<b>100.0</b>	

## Accounting principles

The Metsäliitto Group's consolidated financial statements have been prepared in accordance with the Finnish Accounting Act and other rules and regulations. The accounts have been prepared in Finnish markka. For the Annual Report the accounts have been translated into euros.

### Principles of consolidation

#### Subsidiaries

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

The accounts of foreign subsidiaries have been consolidated using uniform accounting principles in accordance with Finnish accounting practice.

The acquisition method of consolidation has been adopted in the elimination of intra-Group shareholdings. The amount of goodwill, being the excess of acquisition cost over the fair value of net assets of acquired companies, which can be considered to raise the value of fixed assets above the subsidiary's balance sheet value has been allocated to fixed assets and depreciated according to plan for the appropriate heading. The unallocated portion is stated as goodwill. Goodwill arising on the purchase of production capacity or significant market shares is amortized on a straight-line basis over a period not exceeding ten years; other goodwill is amortized over five years. During 2000 the period has been extended to a maximum of 20 years to be used only in special occasions. During 2000 the consolidation reserve from previous years has been entered as an income. It is the management's opinion that no weakening is to be expected in the value of the companies concerned in the near future.

All intra-group balances, transactions and unrealized profits have been eliminated. Minority interests are separated from the results and members' funds figure, and are presented as distinct items. Gains from the sale of fixed assets between subsidiaries prior to the formation of the Metsäliitto Group (in 1992) has not been eliminated.

#### Resource companies

From the beginning of 2000, the resource companies Oy Metsä-Botnia Ab and Oy Metsä-Rauma Ab have been dealt with in the consolidated accounts as joint venture companies. The companies are consolidated "line by line" in relation to Metsäliitto's interest in each. The change in consolidation practice has no material effect on members' funds.

#### Associated companies

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

Companies in which the parent company has a 50 per cent interest have been consolidated using the proportional method.

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

#### Foreign currencies

In translating items denominated in foreign currency into Finnish markka the rate of exchange quoted by the European Central Bank at the balance sheet date has been used. Balance sheets in the national currencies of the euro area have been translated using irrevocable conversion factors fixed by the ECB. The profit and loss accounts of foreign subsidiaries have been translated into Finnish markka at average rate of the financial period and the balance sheets at the exchange rate on the balance sheet date. Translation differences arising in the elimination of intra-Group shareholdings have been entered under unrestricted shareholders' equity.

Business transactions denominated in foreign currencies are entered using the exchange rate on the day of the transaction. For Group companies based in Finland, receivables and liabilities in foreign currencies have been translated into Finnish markka at the exchange rate on the balance sheet date.

Exchange differences arising from derivative agreements used in hedging foreign currency sales or purchases are recorded as adjustments to corresponding item. Exchange differences arising from loans and derivatives used to hedge the future cash flow are booked concurrently with the hedged cash flow according to the hedge accounting principal.

#### Pensions and pension funding

Statutory pension cover for employees in Finland is provided by payments to insurance companies. In addition, some salaried employees have supplementary pension arrangements, which are either funded (by contributions to insured schemes or to the Metsäliitto Employees' Pension Foundation) or unfunded. The Metsäliitto Employees' Pension Foundation has no unfunded shortfall based on the current value of its assets. Contributions to the funded schemes, which are based on wage and salary costs, are charged in the profit and loss account on an accrual basis.

## Accounting principles

Before year 2000 unfunded pension liabilities were included in the balance sheet under "Provisions for future costs", with a corresponding amount included in the fixed assets. The costs of unfunded pension liabilities have been charged to income in the year 2000.

Foreign subsidiaries make pension arrangements in accordance with local practice.

### Turnover

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

### Establishment costs and R&D expenses

Establishment costs and R&D costs are expensed as incurred.

### Inventories

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

### Fixed assets and depreciation

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

Buildings	20-40 years	Light machinery and equipment	4-15 years
Heavy machinery of power plants	20-40 years	Consolidation / Purchased goodwill	5-20 years
Other heavy machinery	20 years	Other assets	3-10 years

Land, buildings and investments also include revaluations. No depreciation is made from the purchase cost of land and water areas and revaluations.

### Leasing

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

### Extraordinary income and expenses

Substantial income and expenses arising on transactions of an abnormal nature, are presented in the profit and loss account as extraordinary items. Extraordinary items also include credits or charges to income arising from changes in accounting principles and current 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. In the financial statements these appropriations are recorded as an adjustment to profits before appropriations and taxes. Accumulated appropriations are shown as a separate reserve in the balance sheet without tax effect. On consolidation, these appropriations are tax affected in the profit and loss account and the accumulated tax effect is recorded as a deferred tax liability and as a part of unrestricted members' funds.

### Future costs and losses

Future costs and losses which are certain or likely to be incurred are entered in the profit and loss account as expenses under the appropriate heading. These expenses are included in the balance sheet under "Provisions for future costs" when they are not expected to be matched by any future income; otherwise they are entered as "Accruals and deferred income".

### Taxation

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

### Deferred taxes

Deferred tax liabilities and claims are calculated from all the material periodization differences and consolidation measures which reflect a difference between taxation and the financial statements and have an impact on earnings as well as from appropriations, applying the tax base for subsequent years, which has been confirmed at the time of closing the books. The balance sheet shows deferred tax liabilities in full and deferred tax claims only to the extent that these can be expected to be utilized in the near future.

## Notes to the accounts

### NOTES TO THE PROFIT AND LOSS ACCOUNT, EUR million

1. Turnover by countries	Group	
	2000	1999
Britain	1 535.6	1 263.9
Finland	1 114.9	888.4
Germany	1 053.4	780.8
France	537.6	348.1
Sweden	268.9	163.2
Spain	246.5	152.5
Italy	242.1	173.3
The Netherlands	232.6	142.8
Denmark	186.4	185.2
Belgium	136.1	90.4
Austria	111.1	56.2
Greece	57.6	70.3
Other EU countries	67.6	42.4
EU total	5 790.5	4 357.6
Other Europe	538.4	487.9
USA	233.9	190.2
Australia	78.7	56.0
Japan	72.2	55.2
China	61.5	55.7
Other countries	737.7	373.7
Metsäliitto Group	7 512.9	5 576.3

Turnover, operating profit and personnel by division is presented in the Report of the Board of Directors

2. Share of profit from associates	Percentage	Share	Goodwill	Share	Goodwill
	holdings				
	%				written off
Myllykoski Paper Oy	35.0	18.9	-8.6	10.3	54.1
Other associates		0.2	-0.2	0.0	-0.3
Total		19.1	-8.8	10.3	53.8

3. Other operating income	Group		Parent	
	2000	1999	2000	1999
Rental income	5.1	5.4	1.8	1.0
Gains on disposals of fixed assets	13.9	17.2	0.3	0.3
Service revenue	17.1	12.2	1.3	1.5
Other items	34.8	19.1	0.0	0.1
Total	70.9	53.9	3.4	2.9

4. Employee costs	Group		Parent	
Wages, salaries and fees for working hours	688.2	558.7	23.9	22.7
Pension expenses	97.0	75.3	3.9	3.3
Other social security expenses	226.1	194.1	7.9	7.9
Total	1 011.3	828.1	35.7	33.9

#### Salaries and fees to Group Management

Chief Executive Officers and their deputies	14.2	12.0	0.5	0.6
Board of Directors and their deputies	1.5	1.4	0.3	0.2
Members of other comparable bodies	0.1	0.1	0.1	0.1
Total	15.8	13.5	0.9	0.9

At the end of 1997 a bonus system was introduced to the Group's Top Management.

The system is comparable to the bonds with equity warrants issued to the Top Management of Metsä-Serla in 1997.

#### Pension agreements

The President as well as certain other members of the Group's Management have the right to retire on a pension at the age of 62 years. The parent company has no liabilities related to current or former members of other comparable bodies.

## Notes to the accounts

5. Depreciation	Group		Parent	
	2000	1999	2000	1999
Depreciation according to plan				
Intangible rights	9.7	8.3	1.0	0.9
Purchased goodwill	5.9	5.4	-	-
Consolidation goodwill	36.2	19.7	-	-
Consolidation reserve	-46.2	-7.5	-	-
Other capitalized expenditure	5.5	7.1	0.2	0.6
Buildings	46.5	37.2	0.0	0.1
Plant and equipment	288.9	219.4	1.6	1.7
Other tangible assets	4.3	4.2	0.1	0.1
<b>Total depreciation and reduction in value</b>	<b>350.9</b>	<b>293.8</b>	<b>3.0</b>	<b>3.4</b>
Depreciation difference	-	-	-0.6	-1.2
<b>Total depreciation</b>	<b>-</b>	<b>-</b>	<b>2.4</b>	<b>2.2</b>
<b>6. Financial income and expenses</b>				
Dividend income				
From Group companies	-	-	34.9	39.8
From associated companies	-	-	0.0	0.9
From others	2.0	1.0	0.3	0.8
<b>Total</b>	<b>2.0</b>	<b>1.0</b>	<b>35.2</b>	<b>41.5</b>
Interest income from fixed assets				
From Group companies	-	-	6.3	5.6
From associated companies	1.9	0.6	0.2	0.5
From others	6.4	1.4	0.5	0.4
<b>Total</b>	<b>8.3</b>	<b>2.1</b>	<b>7.0</b>	<b>6.5</b>
<b>Income from investments in fixed assets</b>	<b>10.3</b>	<b>3.1</b>	<b>42.2</b>	<b>48.0</b>
Other interest and similar income				
Interest income from Group companies	-	-	8.6	5.7
Financial income from Group companies	-	-	0.0	0.0
Interest income from other companies	37.5	26.0	2.8	4.7
Financial income from other companies	2.9	2.6	1.6	1.2
<b>Total</b>	<b>40.4</b>	<b>28.6</b>	<b>13.0</b>	<b>11.6</b>
<b>Net exchange gains/losses</b>	<b>-7.2</b>	<b>-9.4</b>	<b>2.8</b>	<b>0.4</b>
Interest expense and similar charges				
Interest expenses to Group companies	-	-	-3.9	-1.2
Financial expenses to Group companies	-	-	0.0	0.0
Interest expense to other companies	-197.6	-115.2	-8.9	-8.6
Financial expenses to other companies	-11.4	-10.6	-1.3	-2.1
<b>Total</b>	<b>-209.0</b>	<b>-125.8</b>	<b>-14.1</b>	<b>-11.9</b>
<b>Total financial income and expenses</b>	<b>-165.5</b>	<b>-103.5</b>	<b>43.8</b>	<b>48.2</b>

## Notes to the accounts

7. Net exchange gains/losses	Group		Parent	
	2000	1999	2000	1999
Exchange gains/losses on sales				
Exchange differences on derivatives	-28.5	-63.7	0.0	0.0
Other exchange differences	-4.5	36.2	0.0	0.1
<b>Total exchange gains/losses on sales</b>	<b>-33.0</b>	<b>-27.5</b>	<b>0.0</b>	<b>0.1</b>
Exchange gains/losses on purchases				
Exchange differences on derivatives	0.0	0.0	0.0	0.0
Other exchange differences	0.0	0.4	0.0	0.0
<b>Total exchange gains/losses on purchases</b>	<b>0.0</b>	<b>0.4</b>	<b>0.0</b>	<b>0.0</b>
Exchange gains/losses on financing				
Exchange gains				
Realized	36.5	6.3	3.0	0.5
Unrealized	-0.9	4.2	0.0	0.0
Exchange losses				
Realized	-30.9	-8.9	-0.2	-0.1
Unrealized	-11.9	-11.0	0.0	0.0
<b>Total exchange gains/losses on financing</b>	<b>-7.2</b>	<b>-9.4</b>	<b>2.8</b>	<b>0.4</b>
<b>8. Extraordinary items</b>				
Extraordinary income				
Corrugated board business sold	63.0	0.0	0.0	0.0
Gains from disposals of shares	0.0	4.5	0.0	5.3
Deferred taxes/change in accounting principles	0.0	39.2	0.0	0.2
Group contributions, received	-	-	0.0	9.2
Other items	4.0	0.0	0.0	0.0
<b>Total extraordinary income</b>	<b>67.0</b>	<b>43.7</b>	<b>0.0</b>	<b>14.7</b>
Extraordinary expenses				
Group contributions, paid	-	-	0.0	15.7
Losses from disposal of shares	0.0	0.4	0.0	0.1
Unfunded pension liabilities	6.8	0.0	1.3	0.0
Other items	0.0	2.5	0.0	0.0
<b>Total extraordinary expenses</b>	<b>6.8</b>	<b>2.9</b>	<b>1.3</b>	<b>15.8</b>
<b>9. Taxation</b>				
Income taxes for the year	197.9	91.1	19.0	19.3
Income taxes for previous years	-8.9	0.6	-0.1	0.1
Change in deferred tax liability	15.0	14.0	-0.4	0.1
<b>Total</b>	<b>204.0</b>	<b>105.7</b>	<b>18.5</b>	<b>19.5</b>
Taxes on ordinary operations	187.7	105.3	18.9	19.9
Taxes on extraordinary items	16.3	0.4	-0.4	-0.4
<b>Total</b>	<b>204.0</b>	<b>105.7</b>	<b>18.5</b>	<b>19.5</b>
Change in deferred tax liabilities				
From appropriations and other periodization differences	18.6	5.4	0.0	0.1
From consolidation	0.0	6.5	0.0	0.0
From translation differences	0.0	0.3	0.0	0.0
Netting against receivables	-5.2	6.5	0.0	0.0
<b>Total</b>	<b>13.4</b>	<b>18.7</b>	<b>0.0</b>	<b>0.1</b>
Change in deferred tax claims				
From appropriations and other periodization differences	-2.0	1.7	0.0	0.0
From consolidation	5.6	-3.5	0.0	0.0
Netting against liabilities	-5.2	6.5	0.0	0.0
<b>Total</b>	<b>-1.6</b>	<b>4.7</b>	<b>0.0</b>	<b>0.0</b>
<b>Change in deferred tax total</b>	<b>-15.0</b>	<b>-14.0</b>	<b>0.0</b>	<b>-0.1</b>

The accounting principles concerning deferred taxes have been unified as from the beginning of 1999. The accumulated effect as per 1 January 1999 was EUR 39.2 million / FIM 233.3 million. This amount has been entered under extraordinary income in the 1999 profit and loss account.



## Notes to the accounts

### NOTES TO THE BALANCE SHEET, EUR million

#### 10. Intangible and tangible assets

GROUP	Intangible rights	Purchased goodwill	Consolidation goodwill	Consolidation reserve	Other capitalized expenditure	Construction in progress	Total
<b>Intangible assets</b>							
Acquisition cost 1.1.	65.9	48.5	238.8	-84.0	47.5	1.4	318.1
Increase	11.7	7.3	681.8	0.0	9.8	12.5	723.1
Decrease	-2.0	-1.1	-21.2	0.0	-3.8	-5.8	-33.9
Transfers between items	1.0	-13.4	13.4	0.0	0.1	-0.6	0.5
Acquisition cost 31.12.	76.6	41.3	912.8	-84.0	53.6	7.5	1 007.8
Accumulated depreciation 1.1.	-35.2	-6.1	-121.9	37.8	-33.5	0.0	-158.9
Accumulated depreciation on decrease	2.3	7.5	8.2	0.0	2.8	0.0	20.8
Depreciation for the period	-9.7	-5.9	-36.2	46.2	-5.5	0.0	-11.1
Deduction in value	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Accumulated depreciation 31.12.	-42.6	-4.5	-149.9	84.0	-36.2	0.0	-149.2
Revaluation	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Book value 31.12.2000	34.0	36.7	762.9	0.0	17.4	7.5	858.5
Book value 31.12.1999	34.0	35.8	116.7	-46.2	14.0	1.3	155.6

GROUP	Land and waters	Buildings	Plant and equipments	Other tangible assets	Construction in progress	Total
<b>Tangible assets</b>						
Acquisition cost 1.1.	141.7	884.4	3 233.1	45.5	80.8	4 385.5
Increase	111.4	555.6	2 134.1	17.3	382.1	3 200.5
Decrease	-4.9	-56.6	-222.2	-2.8	-79.2	-365.7
Transfers between items	0.9	1.3	30.1	-0.1	-32.3	-0.1
Acquisition cost 31.12.	249.1	1 384.7	5 175.1	59.9	351.4	7 220.2
Accumulated depreciation 1.1.	-0.7	-464.9	-2 378.7	-22.4	0.0	-2 866.7
Accumulated depreciation on decrease	-0.6	9.1	97.2	0.3	0.0	106.0
Depreciation for the period	0.0	-46.5	-288.9	-4.3	0.0	-339.7
Deduction in value	0.6	0.4	0.0	0.0	0.0	1.0
Accumulated depreciation 31.12.	-0.7	-501.9	-2 570.4	-26.4	0.0	-3 099.4
Revaluation 1.1.	150.0	34.1	0.0	0.0	0.0	184.1
Increase	0.0	0.2	0.0	0.0	0.0	0.2
Decrease	-0.6	-0.4	0.0	0.0	0.0	-1.0
Revaluation 31.12.	149.4	33.9	0.0	0.0	0.0	183.3
Book value 31.12.2000	397.8	916.7	2 604.6	33.6	351.5	4 304.1
Book value 31.12.1999	291.9	669.9	1 824.2	27.5	80.2	2 893.6

The increase/decrease include the fixed assets of companies bought/sold. The accumulated depreciation include the accumulated depreciation of the acquired companies. Plant and equipment include production machinery of 2,361.2 MEUR / 14,039 MFIM.

Capitalized interest expenses not yet written off were EUR 1.8 million / FIM 10.9 million for "Buildings" (2.2 MEUR / 12.8 MFIM), EUR 6.5 million / FIM 38.8 million for "Plant and equipment" (9.0 MEUR / 53.4 MFIM) and EUR 5.1 million / FIM 30.1 million for "Other tangible assets" (11.5 MEUR / 68.2 MFIM). There are no corresponding figures for the parent company.

During 2000 interest expenses of EUR 1,4 million / FIM 8.3 million have been capitalized.

## Notes to the accounts

### 10. Intangible and tangible assets

PARENT	Intangible rights	Other capitalized expenditure	Construction in progress	Total
<b>Intangible assets</b>				
Acquisition cost 1.1.	8.1	2.9	0.7	11.7
Increase	0.3	0.1	2.5	2.9
Decrease	0.0	0.0	-0.5	-0.5
Acquisition cost 31.12.	8.4	3.0	2.7	14.1
<b>Accumulated depreciation 1.1.</b>				
Depreciation for the period	-1.0	-0.2	0.0	-1.2
Deduction in value	0.0	0.0	0.0	0.0
Accumulated depreciation 31.12.	-5.7	-2.9	0.0	-8.6
Revaluation	0.0	0.0	0.0	0.0
Book value 31.12.2000	2.7	0.1	2.7	5.5
Book value 31.12.1999	3.4	0.2	0.7	4.3

PARENT	Land and water	Buildings	Plant and equipment	Other tangible assets	Total
<b>Tangible assets</b>					
Acquisition cost 1.1.	0.1	0.6	17.1	0.7	18.5
Increase	0.0	0.3	2.5	0.0	2.8
Decrease	0.0	0.0	-2.0	0.0	-2.0
Acquisition cost 31.12.	0.1	0.9	17.6	0.7	19.3
<b>Accumulated depreciation 1.1.</b>					
Accumulated depreciation on decrease	0.0	0.0	1.4	0.0	1.4
Depreciation for the period	0.0	0.0	-1.6	-0.1	-1.7
Deduction in value	0.0	0.0	0.0	0.0	0.0
Accumulated depreciation 31.12.	0.0	-0.3	-13.0	-0.7	-14.0
<b>Revaluation 1.1.</b>					
Increase	0.0	0.0	0.0	0.0	0.0
Decrease	0.0	0.0	0.0	0.0	0.0
Revaluation 31.12.	0.0	0.0	0.0	0.0	0.0
Book value 31.12.2000	0.1	0.6	4.6	0.0	5.3
Book value 31.12.1999	0.1	0.3	4.3	0.1	4.8

### 11. Market value from financial investment in fixed assets

Stock exchange listed shares had a book value of EUR 373.4 million / FIM 2 220.1 million and a market value of EUR 736.9 million / FIM 4 381.5 million. The figures include Metsä-Serla Corporation shares, book value EUR 264.4 million / FIM 1 572.2 million and market value EUR 482.1 million / FIM 2 866.3 million. In addition, the book value of the shares of Metsä-Serla's subsidiary Metsä Tissue Corporation was EUR 98.0 million / FIM 582.9 million and market value EUR 249.0 million / FIM 1 480.4 million.

### 12. Loan receivables from management

Loan receivables from the managing directors of Group companies, members of the Board of Directors and their deputies were EUR 0.4 million / FIM 2.2 million (EUR 0.3 million / FIM 2.0 million).

## Notes to the accounts

### 13. Financial investments

GROUP	Invest- ments in associates	Other shares	Receivables from associates	Other receiv- ables	Total
<b>Financial investments</b>					
Acquisition cost 1.1.	116.9	83.9	76.1	11.9	288.8
Increase	13.7	36.7	-26.2	32.8	57.0
Decrease	-1.9	-2.4	-10.0	-12.3	-26.6
Transfers between items	0.0	0.0	0.1	0.0	0.1
Acquisition cost 31.12.2000	128.7	118.2	40.0	32.4	319.3
Revaluation/Deduction	0.0	2.6	0.0	0.0	2.6
Book value 31.12.2000	128.7	120.8	40.0	32.4	321.9

PARENT	Shares in Group companies	Invest- ments in associates	Other shares	Receivables from Group companies	Receivables from associates	Other receiv- ables	Total
<b>Financial investments</b>							
Acquisition cost 1.1.	389.8	26.6	13.4	169.1	12.9	0.0	611.8
Increase	89.1	0.0	0.1	0.2	0.0	18.7	108.1
Decrease	-0.1	0.0	0.0	-66.9	-10.0	-0.5	-77.5
Transfers between items	0.0	0.0	0.0	-0.1	0.1	0.0	0.0
Acquisition cost 31.12.2000	478.8	26.6	13.5	102.3	3.0	18.2	642.4
Revaluation/Deduction	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Book value 31.12.2000	478.8	26.6	13.5	102.3	3.0	18.2	642.4

### 14. Revaluations

Group	2000			2000 31.12.
	1.1.	Increase	Decrease	
Land	150.0	0.0	-0.6	149.4
Buildings	34.1	0.0	-0.2	33.9
Investments	2.6	0.0	-0.3	2.3
Total	186.7	0.0	-1.1	185.6

Revaluations are based on estimates by independent valuers of the current value of assets at the dates of valuation.

Deferred tax regarding revaluations was EUR 53.8 million / FIM 319.9 million.

The parent company has made no revaluations.

### 15. Long-term and short-term receivables

	Group		Parent	
	2000	1999	2000	1999
<b>Long-term receivables</b>				
Amounts owed from associated companies				
Loan receivables	1.9	2.4	0.0	0.0
Other receivables	0.1	0.0	0.0	0.0
Other receivables				
Loan receivables	1.6	2.0	0.4	0.6
Deferred tax claims	16.3	16.8	0.6	0.1
Other receivables	0.0	0.0	0.0	0.0
Accrued income	1.1	1.5	0.0	1.6
Total long-term receivables	21.0	22.7	1.0	2.3

## Notes to the accounts

### 15. Long-term and short-term receivables

	Group		Parent	
	2000	1999	2000	1999
<b>Short-term receivables</b>				
Amounts owed from Group companies				
Accounts receivable	-	-	11.4	11.6
Other receivables	-	-	159.0	18.6
Accrued income	-	-	5.3	2.2
Amounts owed from associated companies	-	-	0.0	7.6
Accounts receivable				
Loan receivables	29.5	28.0	19.2	26.8
Other receivables	9.9	7.3	0.0	0.0
Other receivables	5.8	7.2	0.0	0.0
Accrued income	0.0	0.3	0.0	1.2
Other receivables				
Accounts receivable	1 550.3	952.6	12.0	20.3
Loan receivables	1.0	1.1	0.2	0.2
Other receivables	168.5	81.8	0.1	0.1
Accrued income	88.5	69.9	3.1	10.4
<b>Total short-term receivables</b>	<b>1 853.5</b>	<b>1 148.2</b>	<b>210.3</b>	<b>99.0</b>

### 16. Accrued income

	Group		Parent	
	2000	1999	2000	1999
Long-term				
Unfunded pension obligation	0.0	1.5	0.0	1.5
Other	1.1	0.0	0.0	0.0
<b>Total</b>	<b>1.1</b>	<b>1.5</b>	<b>0.0</b>	<b>1.5</b>
Short-term				
Interest	15.2	13.1	1.8	1.9
Insurance	5.5	4.5	0.0	0.0
Tax	29.4	10.0	0.7	7.5
Other	38.4	42.3	0.6	1.0
<b>Total</b>	<b>88.5</b>	<b>69.9</b>	<b>3.1</b>	<b>10.4</b>

### 17. Interest-bearing financial assets

Loan receivables and other fixed assets	66.8	24.6	120.7	179.0
Cash and other current assets	358.5	413.8	205.3	148.3
<b>Total</b>	<b>425.3</b>	<b>438.4</b>	<b>326.0</b>	<b>327.3</b>

### 18. Current financial assets

Other investments				
Market value	88.9	210.1	37.1	124.0
Book value	88.8	208.5	37.0	122.4
Difference	0.1	1.6	0.1	1.6

## Notes to the accounts

	Group		Parent	
	2000	1999	2000	1999
<b>19. Members' funds</b>				
Members capital 1.1.	113.5	104.2	113.5	104.2
Participation shares	6.5	7.8	6.5	7.8
Transferred to participation shares from dividend on members' capital	2.6	2.8	2.6	2.8
Participation shares of ex-members	-1.4	-1.3	-1.4	-1.3
<b>*) Members' capital 31.12.</b>	<b>121.2</b>	<b>113.5</b>	<b>121.2</b>	<b>113.5</b>
Additional members' capital 1.1.	209.3	193.7	209.3	193.7
Increase in additional members' capital	37.4	15.6	37.4	15.6
<b>**) Additional members' capital 31.12.</b>	<b>246.7</b>	<b>209.3</b>	<b>246.7</b>	<b>209.3</b>
Share premium account 1.1.	27.8	26.7	-	-
Increase	1.1	1.1	-	-
<b>Share premium account 31.12.</b>	<b>28.9</b>	<b>27.8</b>	<b>-</b>	<b>-</b>
Revaluation reserve 1.1.	1.2	0.1	-	-
Increase/Decrease	0.0	1.1	-	-
<b>Revaluation reserve 31.12.</b>	<b>1.2</b>	<b>1.2</b>	<b>-</b>	<b>-</b>
General reserve I 1.1.	3.9	3.9	3.9	3.9
Membership fees	0.0	0.0	0.0	0.0
<b>General reserve I 31.12.</b>	<b>3.9</b>	<b>3.9</b>	<b>3.9</b>	<b>3.9</b>
General reserve II 1.1.	15.0	13.3	15.0	13.3
Transferred from retained earnings	2.5	1.7	2.5	1.7
<b>General reserve II 31.12.</b>	<b>17.5</b>	<b>15.0</b>	<b>17.5</b>	<b>15.0</b>
Other reserves 1.1.	1.0	0.1	-	-
Increase	2.4	0.9	-	-
<b>Other reserves 31.12.</b>	<b>3.4</b>	<b>1.0</b>	<b>-</b>	<b>-</b>
<b>Reserves total 31.12.</b>	<b>24.9</b>	<b>20.0</b>	<b>21.5</b>	<b>19.0</b>
Contingency reserve 1.1.	0.0	6.7	0.0	6.7
Transferred to retained earnings	0.0	-6.7	0.0	-6.7
<b>Contingency reserve 31.12.</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
Retained earnings 1.1.	673.3	541.9	220.1	182.7
Transferred from contingency reserve	0.0	6.7	0.0	6.7
Dividends paid	-18.4	-17.2	-18.4	-17.3
Transferred to general reserve II	-2.5	-1.7	-2.5	-1.7
Change in translation differences	-13.2	2.2	-	-
Other increase / decrease	-1.2	3.2	-	-
Profit for the financial period	256.2	138.2	45.4	49.7
<b>Retained earnings 31.12.</b>	<b>894.2</b>	<b>673.3</b>	<b>244.6</b>	<b>220.1</b>
Capital note loans				
Capital note loans 1.1.	267.3	222.8	-	-
Increase	12.0	44.5	-	-
<b>Capital note loans 31.12.</b>	<b>279.3</b>	<b>267.3</b>	<b>-</b>	<b>-</b>
<b>TOTAL MEMBERS' FUNDS</b>	<b>1 596.5</b>	<b>1 312.3</b>	<b>634.0</b>	<b>561.8</b>
<b>*) Unpaid participation shares</b>				
Total called-up members' capital	188.1	185.7	188.1	185.7
Participation shares paid	-121.2	-113.5	-121.2	-113.5
<b>Unpaid participation shares</b>	<b>66.9</b>	<b>72.2</b>	<b>66.9</b>	<b>72.2</b>

\*\*) Of the additional members' capital eur 14.9 million / FIM 88.6 million is due on 1 July 2001.

## Notes to the accounts

### Metsä-Serla Corporation's convertible subordinated capital note loan

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

Holders of the convertible notes have the right to subscribe Metsä-Serla Corporation's Serie B shares during the period 15 January 1998 to 1 October 2002. Provided that the terms specified in the agreement are met, Metsä-Serla Corporation has the right to redeem the loan as of 15 October 2000. USD 250 million of the convertible subordinated capital note loan was subscribed by Finnish and foreign investors and USD 100 million by Metsäliitto Osuuskunta. The total amount of the loan shown in Metsä-Serla Corporation's balance sheet is FIM 1,845.8 million, of which Metsäliitto Osuuskunta's share is FIM 469.1 million (FIM 521.2 million).

### Finnforest Corporation's capital note loan

The loan is a capital note loan in compliance with Chapter 5 of the Companies Act. Notes with a nominal value of EUR 3.3 million were issued during 2000. Notes will be issued to a maximum nominal value of EUR 150 million. The amount raised by the end of 2000 was FIM 414.1 million, of which subscribers outside the Metsäliitto Group accounted for FIM 284.9 million.

The notes carry a fixed 7.5% coupon and mature on 8 December 2009, when the loan will be rapid to its full nominal value of FIM 416.3 million. The loan is unsecured.

In the event of the company being wound up or going into liquidation, payment of the loan capital plus interest will be subordinate to settlement of all other debts. The loan carries priority equal at least to that of any other capital note loans or similar instruments the company may issue in the future.

## 20. Provisions for future costs

Group	2000			2000
	1.1.	Increase	Decrease	31.12.
Provision for unfunded pension obligations	1.5	0.0	-0.2	1.3
Provision for pension obligations	13.0	1.7	-3.0	11.7
Provision for taxes	0.9	2.1	-0.7	2.3
Provision for unemployment pension insurance	8.9	1.6	-3.9	6.6
Provision for reorganization of businesses	13.4	38.0	-7.2	44.2
Provision for rental costs	4.6	0.9	-0.4	5.1
Other provisions	3.3	7.3	-3.2	7.4
<b>Total</b>	<b>45.6</b>	<b>51.6</b>	<b>-18.6</b>	<b>78.6</b>
<b>Parent</b>				
Provision for unfunded pension obligations	1.5	0.0	-0.2	1.3
Provision for unemployment pension insurance	0.4	0.2	0.0	0.6
<b>Total</b>	<b>1.9</b>	<b>0.2</b>	<b>-0.2</b>	<b>1.9</b>

## Notes to the accounts

### 21. Liabilities

	Group		Parent	
	2000	1999	2000	1999
Long-term				
Non-interest bearing	484.1	282.9	10.2	9.3
Interest bearing	2 881.8	1 616.1	102.7	105.5
<b>Total</b>	<b>3 365.9</b>	<b>1 899.0</b>	<b>112.9</b>	<b>114.8</b>
Short-term				
Non-interest bearing	1 411.7	896.2	244.3	250.4
Interest bearing	1 157.7	354.2	5.1	6.0
<b>Total</b>	<b>2 569.4</b>	<b>1 250.4</b>	<b>249.4</b>	<b>256.4</b>

### Metsäliitto Osuuskunta's capital note loan

The notes are being issued continuously up to the maximum amount of FIM 1,000,000,000.

Applications to subscribe the notes are being accepted according to procedures and at time specified by Metsäliitto Osuuskunta.

The notes may also be offer for subscription as payment for wood raw material purchased by Metsäliitto Osuuskunta from forest owners.

The issue price is floating

The index-linked capital note loan issued in conjunction with wood purchases has been suspended.

The final date for subscriptions was 1 March 2000. In 2000 FIM 0.3 million was issued.

At the end of 2000 notes to a nominal value of FIM 539.1 million had been issued.

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

Holders of notes qualify for the following

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

Other bonds and debentures

Specified in Metsä-Serla's Annual Report

– Metsä-Serla

591.9            445.2

Bonds with equity warrants

Specified in Metsä-Serla's Annual Report

1997-2000

0.0            0.1

### 22. Long-term liabilities with amortization plan

	Bonds and debentures	Loans from financial institutions	Pension premium loans	Other loans	Total
2001	114.8	622.5	1.5	1.0	739.8
2002	176.8	533.5	1.0	0.3	711.6
2003	0.0	716.2	17.8	1.2	735.2
2004	10.0	487.6	17.7	0.2	515.5
2005	50.0	322.4	17.7	0.0	390.1
2006-	329.8	138.1	100.8	2.5	571.2
<b>Total at 31 December 2000</b>	<b>681.4</b>	<b>2 820.3</b>	<b>156.5</b>	<b>5.2</b>	<b>3 663.4</b>

## Notes to the accounts

### 23. Deferred tax liabilities and tax receivables

	Group		Parent	
	2000	1999	2000	1999
<b>Deferred tax liabilities</b>				
From appropriations and other periodization differences	488.5	301.4	0.0	0.0
From consolidation	24.6	6.6	0.0	0.0
Netting against tax receivables	-48.5	-38.6	0.0	0.0
<b>Total</b>	<b>464.6</b>	<b>269.4</b>	<b>0.0</b>	<b>0.0</b>
<b>Deferred tax receivables</b>				
From appropriations and other periodization differences	46.1	30.9	0.6	0.1
From consolidation	18.8	24.5	0.0	0.0
Netting against tax receivables	-48.6	-38.6	0.0	0.0
<b>Total</b>	<b>16.3</b>	<b>16.8</b>	<b>0.6</b>	<b>0.1</b>

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 29%). Deferred tax arising from other periodization differences relates mainly to provisions for future costs.

Deferred tax receivables totalling EUR 65.6 million / FIM 390.0 million are not shown in the balance sheet because it is uncertain whether or not they will be utilized.

### 24. Long-term liabilities

	Group		Parent	
	2000	1999	2000	1999
Amounts owed to Group companies				
Bonds and debentures	-	-	0.0	0.0
Other liabilities	-	-	0.0	0.0
Amounts owed to associated companies				
Other liabilities	1.3	3.8	0.0	0.0
Liabilities to others				
Bonds and debentures	566.6	534.7	90.7	90.6
Loans from financial institutions	2 025.3	980.1	3.0	5.0
Pension premium loans	155.7	22.5	9.0	9.9
Accounts payable	0.0	0.0	0.0	0.0
Deferred tax	464.6	269.3	0.0	0.0
Other long-term liabilities	137.9	77.5	0.0	0.0
Accruals	14.5	11.1	10.2	9.3
<b>Total long-term liabilities</b>	<b>3 365.9</b>	<b>1 899.0</b>	<b>112.9</b>	<b>114.8</b>

### 25. Short-term liabilities

Amounts owed to Group companies				
Advance payments	-	-	62.6	60.7
Accounts payable	-	-	10.4	9.9
Other short-term liabilities	-	-	2.0	1.9
Accruals	-	-	0.0	15.7
Amounts owed to associated companies				
Advance payments	25.0	56.9	50.6	50.5
Accounts payable	46.2	4.7	0.3	0.1
Other short-term liabilities	79.7	0.7	0.3	0.7
Accruals	0.0	0.0	0.0	0.0
Liabilities to others				
Bonds and debentures	114.8	0.0	0.0	0.0
Loans from financial institutions	722.9	277.0	1.9	2.1
Pension premium loans	1.5	3.0	0.9	1.4
Advance payments	9.4	3.6	5.8	1.9
Accounts payable	592.4	402.3	86.1	84.9
Bills of exchange payable	17.1	0.3	0.0	0.0
Other short-term liabilities	465.5	155.4	11.8	11.0
Accruals	494.9	346.5	16.7	15.6
<b>Total short-term liabilities</b>	<b>2 569.4</b>	<b>1 250.4</b>	<b>249.4</b>	<b>256.4</b>



## Notes to the accounts

### 26. Accruals and deferred income

	Group		Parent	
	2000	1999	2000	1999
<b>Long-term</b>				
Premium on capital note loan	5.4	6.1	5.4	6.1
Additional income on capital note loan	4.7	3.2	4.8	3.2
Commitments for compensation	1.7	1.6	0.0	0.0
Other	2.7	0.2	0.0	0.0
<b>Total</b>	<b>14.5</b>	<b>11.1</b>	<b>10.2</b>	<b>9.3</b>
<b>Short-term</b>				
Wages, salaries and social expenses	112.8	80.6	11.6	10.6
Interest expense	63.6	34.3	4.7	0.5
Purchases	121.4	47.2	0.0	0.0
Taxes	78.1	87.5	0.0	0.0
Other	119.0	96.9	0.4	4.5
<b>Total</b>	<b>494.9</b>	<b>346.5</b>	<b>16.7</b>	<b>15.6</b>

### 27. Securities and guarantees

<i>For own loans</i>				
Assets pledged as security for				
Loans from financial institutions	4.8	12.2	4.8	6.7
Pension premium loans	0.8	0.7	0.0	0.0
Assets pledged	15.6	7.0	2.0	1.5
Mortgages as securities for				
Loans from financial institutions	222.1	363.4	0.0	0.0
Other liabilities	0.0	1.5	0.0	0.0
Mortgages	294.0	366.1	0.0	0.0
<i>As security for own liabilities</i>				
Assets pledged	21.5	21.1	21.5	21.1
<i>For Group companies</i>				
Assets pledged	0.0	0.0	0.0	0.0
Guarantees	0.0	0.0	105.9	154.4
<i>For associated companies</i>				
Assets pledged	0.0	0.0	0.0	0.0
Mortgages	0.3	0.3	0.0	0.0
Guarantees	9.3	1.2	8.6	9.4
<i>For others</i>				
Assets pledged	0.0	0.1	0.0	0.0
Mortgages	0.0	0.0	0.0	0.0
Guarantees	194.0	29.2	0.0	0.0
<i>Other liabilities</i>				
Bills of exchange	1.1	1.9	0.0	0.0
Pension liabilities	0.1	0.1	0.0	0.0
Others	11.7	9.6	0.0	0.0
<i>Leasing commitments</i>				
Payments due in following year	15.0	14.2	0.1	0.1
Payments due in subsequent years	64.8	78.0	0.2	0.1
<b>Total</b>				
Mortgages	294.3	366.4	0.0	0.0
Assets pledged	37.1	28.2	23.5	22.6
Guarantees	203.3	30.4	114.5	163.8
Bills of exchange	1.1	1.9	0.0	0.0
Pension liabilities	0.1	0.1	0.0	0.0
Other liabilities	11.7	9.6	0.0	0.0
Leasing commitments*)	79.8	92.2	0.3	0.2
<b>Total</b>	<b>627.4</b>	<b>528.8</b>	<b>138.3</b>	<b>186.6</b>

\*) Leasing commitments don't include financial lease agreements.

## Notes to the accounts

### Financial lease agreements

	2000	1999
The values of the assets in Metsä-Serla's balance sheet		
Land	1.1	0.5
Plant and equipment	68.7	13.4
Buildings	5.8	3.4
	75.6	17.3
Liabilities from financial lease agreements		
Short-term	20.0	2.9
Long-term	33.9	22.8
	53.9	25.7
Corresponding payments		
Year 2000	0.0	3.3
Year 2001	19.4	3.3
Year 2002	8.5	3.3
Year 2003	7.4	3.1
Year 2004	6.4	2.6
Year 2005	5.7	2.6
payments due in subsequent years	14.4	12.2
	61.9	30.5

### Liabilities due to open derivative contracts

Group	2000	Current value	1999
	Gross amount	of open contracts	Gross amount
I Interest rate derivatives			
Forward agreements	100.0	-0.1	2 919.0
Options			
Purchased	483.2	-0.8	1 563.5
Sold	413.2	-1.2	1 531.4
Interest rate swap agreements	487.1	-9.4	464.0
II Currency derivatives			
Forward agreements	1 295.7	19.3	649.4
Options			
Purchased	507.0	6.6	417.9
Sold	497.3	1.9	460.9
Currency swap agreements	0.0	0.0	0.0
III Equity derivatives			
Equity swap agreements	0.0	0.0	0.0

## Parent company shares at 31 December 2000

### SUBSIDIARIES

	Number of shares	Parent company's holding	Group's holding	Nominal value in thousands	Book value FIM 1 000
<b>Subsidiaries</b>					
Biowatti Oy	72 000	90.0	94.7	FIM 3 600	3 600
Finnforest Corporation	63 600 000	100.0		EUR 107 000	1 086 856
Itä-Suomen Puutoimitus Oy	650	100.0		FIM 325	2 743
Kiinteistö Oy Metsätapiola	37 826	60.9		FIM 3 783	96 101
Kirkniemen Kartano Oy	14 846	26.0	72.0	EUR 1 485	8 827
Liettu Oy	15	30.0	42.5	FIM 15	15
Metsä Group Financial Services Ltd.	24 500	49.0	70.3	EUR 4 140	29 397
Metsämannut Oy	60	60.0	74.5	FIM 60	60
Metsä-Serla Corporation	57 907 435	65.1 *)		EUR 98 443	1 572 224
Oy Metsäliitto International Ltd	5 000	100.0		FIM 5 000	5 000
Metsäliitto-Yhtymän Tehdasmittaus Oy	136	34.0	80.8	EUR 23	136
Metsä Tissue Corporation	161 100	0.5	27.8	EUR 274	6 263
MMM Logisware Oy	1 500	33.3	47.2	FIM 150	2 266
Puukonttori Oy	10	100.0		FIM 1	1
Suomen Metsäosuus Oy	500 000	100.0		EUR 5 000	29 729
Vantaan Silva-Stadion Oy	337 000	50.0	100.0	FIM 16 850	2 004
Äänevoima Oy	233 400	20.0	38.8	EUR 233	1 388
Total shares in subsidiaries				FIM	2 846 610
				EUR	478 765

\*) Calculated from number of votes. Holding 41.7 % by number of shares.

### OTHER SHARES AND INVESTMENTS

	Number of shares	Parent company's holding	Group's holding	Nominal value in thousands	Book value FIM 1 000
<b>Associated companies</b>					
Oy Herttovuo Ltd	255	33.8		EUR 4	25
Laitaatsillan telakka Oy	600	33.3		EUR 60	1 010
Oy Metsä-Botnia Ab	5 920	6.6	20.0	FIM 59 200	149 252
Metsäteho Oy	40	24.0		FIM 200	400
Mittaportti Oy	1 000	33.3	41.1	FIM 50	50
Perkaus Oy	2 500	33.3		EUR 5	34
Sunilan Mittayhtiö Oy	8	33.3		EUR 8	48
Suomen Metsäsijoitus Oy	7 500	25.0		FIM 7 500	7 500
Vaakamitta Oy	50	50.0		FIM 50	50
Total shares in associated companies				FIM	158 369
				EUR	26 636

### Other investments

Golfsarfvik Oy	2	0.0		FIM 50	273
Neomarkka Oyj	1 205 305	19.9		EUR 4 821	64 323
Misawa Homes of Finland Oy	400	2.1		FIM 400	400
Uittokalusto Oy	53	15.9		FIM 53	1 940
Housing and property companies					11 848
Telephone shares					777
Other investments					246
Total shares in other investments				FIM	79 807
				EUR	13 423

## Major shares and investments of sub-groups

### METSÄ-SERLA CORPORATION

	Number of shares	Holding		Nominal value in thousands	Book value FIM 1 000
<b>Shares and participations in Metsäliitto Group</b>					
Biowatti Oy	5 114	6.6	FIM	256	256
Metsäliitto Osuuskunta	179 171		FIM	3 583	3 609
<b>Subsidiaries</b>					
<b>In Finland</b>					
Alakoski Oy	5 278	52.8	FIM	5	158
Amerpap Oy	5 600	100.0	FIM	28 000	28 056
Oy Board International Ab	796	100.0	FIM	80	685
Forest Alliance Oy	10 000	100.0	FIM	10 000	19 903
Oy Hangö Stevedoring Ab	113	75.3	FIM	565	16 053
Metsä Group Financial Services Ltd.	25 500	51.0	FIM	25 500	30 600
Metsä Tissue Corporation	17 075 000	65.6	FIM	196 750	576 654
Savon Sellu Oy	200 010	100.0	FIM	20 001	70 001
Takon Kotelotehdas Oy	330 101	100.0	FIM	33 010	37 769
<b>In other countries</b>					
Forest Alliance Scandinavia AS	50	100.0	NOK	50	32
Forest House B.V.	400	100.0	NLG	40	84
Metsä Petöfi Folding Carton Ltd	1	100.0	HUF	1 707 142	255 666
Metsä-Serla A.G.	188	100.0	CHF	94	141
Metsä-Serla Holding GmbH		100.0	DEM	50	4 879 964
Metsä-Serla Holdings Plc	146 750 000	100.0	GBP	146 750	1 250 435
Metsä-Serla NL Holding B.V.	5 350	100.0	NLG	4 650	25 362
Modo Paper AB **)	31 417 749	100.0	SEK	628 355	4 590 169
Price & Pierce Holdings B.V.	28	70.0	NLG	28	21 019
Silva International Paper Holdings B.V.	1 000	100.0	NLG	1 000	18 117
Zanders Feinpapiere AG ***)	442 965	15.7	DEM	22 148	29 051
<b>Associated companies</b>					
<b>In Finland</b>					
Fin-Trans A/S	238	23.8	DKK	120	184
Kemi Shipping Oy	69 974	23.2	FIM	650	226
Oy Metsä-Botnia Ab *)	41 690	46.4	FIM	416 900	1 601 227
Metsäliitto-Yhtymän Tehdasmittaus Oy	100	33.0	EUR	22	131
Metsämannut Oy	35	34.7	FIM	35	36
Mittaportti Oy	464	15.5	FIM	23	24
MMM Logisware Oy	1 500	33.3	FIM	2	3 008
Myllykoski Paper Oy	105 000	35.0	EUR	21 000	726 439
Mäntän Energia Oy	2 000	41.4	FIM	1 000	1 000
Paperinkeräys Oy	18 186	20.2	FIM	182	182
Plastiroll Oy	39	39.0	FIM	39	14 734
Simon Turvejaloste Oy	5	15.5	FIM	46	48
Oy Transfennica Ab	38 434	36.7	FIM	3 843	16 327
Yhteistoiminta Oy	23	23.2	FIM	93	95
<b>In other countries</b>					
Fin-Trans A/S	238	23.8	DKK	120	184
Ultimatic Systems GmbH	70	30.6	CHF	700	11 344
Varma Services Ltd	2 809	28.1	GBP	3	7 351 170
Zakłady Papiernicze w Krapkowicach S.A	461 506	16.2	PLN	4 616	17 778
<b>Other investments</b>					
Gasum Oy	1 060	2.0	FIM	21 200	70 005
Keräyskuitu Oy	4 378	14.6	FIM	4 378	4 586
Keskuslaboratorio Oy	1 133 136	21.0	FIM	1 133	1 932
Noviant Oy	600 000	19.2	FIM	18 000	60 000
Pohjolan Voima Oy	1 092 382	3.3	FIM	10 918	155 362
Sato-Yhtymä Oy	32 110		FIM	321	16 677

\*) Goodwill is amortized over 10 years.

\*\*) Goodwill is amortized over 20 years.

\*\*\*) Holding 87.4% at 3 January 2001.

## Major shares and investments of sub-groups

### FINNFOREST CORPORATION

	Number of shares	Holding		Nominal value in thousands	Book value FIM 1 000
<b>Subsidiaries</b>					
<b>In Finland</b>					
Ikipuu Oy	200	50.0	FIM	2 000	3 650
Wood eXtreme Oy		100.0	FIM	47	47
Vantaan Silva-Stadion Oy	337 000	50.0	FIM	337	2 004
<b>In other countries</b>					
Finnforest Deutschland GmbH		100.0	DEM	5 000	68 608
Finnforest Holding Ltd	43 200 000	100.0	GBP	43 200	314 728
McCausey Wood Products. Inc.	500 000	100.0	USD	500	1 879
Plyfa Holding AB	2 580	100.0	SEK	2 580	10 901
Finnforest GmbH		100.0	DEM	100	898
Interpan North-America Inc.		100.0	USD	100	543
Finnforest Eesti A.S.		100.0	EEK	10 000	3 777
Finnforest Financiere SA	4 000	100.0	FRF	400	22 438
Baillou Holzhandelsgesellschaft GmbH		100.0	ATS	500	24 893
Baillou Faipari Kereskedelmi Kft.		96.7	HUF	3 000	24 893
Baillou Holzhandel spol.s.r.o.		96.0	CZK	480	24 893
Woodward & Dickerson		100.0	USD	1 000	5 064
Finnforest Baco Vertribs GmbH		100.0	ATS	500	216
Finnforest BBH Ltd	8 000 000	100.0	GBP	8 000	73 016
Bligh Boards Ltd	1 000 000	100.0	GBP	1 000	78 146
Finnforest UK Ltd	30 000 000	100.0	GBP	30 000	285 900
Plyfa Göteborgs AB	2 500	100.0	SEK	250	16 832
Finnforest Danmark A/S	5 000	100.0	DKK	500	2 146
Finnforest Sverige AB	1 200	100.0	SEK	1 200	10 099
Plyfa Handel Sverige AB	30 000	100.0	SEK	3 000	10 166
GTF Sverige AB	50 000	100.0	SEK	5 000	16 832
Finnforest France SA	18 000	100.0	FRF	2 250	15 792
Baco Production s.r.l.		100.0	ROL	16 351	6
Finnforest Sibiu SAS		100.0	FRF	1 000	86 848
<b>Associated companies</b>					
Koski Timber Oy	2 450	49.0	FIM	9 800	9 800
Kumpuniemen Voima Oy	21	33.3	FIM	1 050	1 050
Metsäliitto-Yhtymän Tehdasmittaus Oy	132	33.0	EUR	22	132
Porin Pituuspaketointi Oy	890	29.6	FIM	890	1 109
Scantrepo Oy		33.0	FIM	137	139
<b>Other investments</b>					
Biowatti Oy	400	2.0	FIM	80	80
Sato-Yhtymä Oy	17 906		FIM	5 071	5 071
L.A.Lund A/S	250	5.0	NOK	250	3 452
Länsivoima Oy			FIM	375	375
Suomen Puututkimus Oy	6	12.5	FIM	302	302
Oy Mäntyluoto Transport Trading Ltd	600		FIM	60	362

### METSÄ-BOTNIA

Botnia Pulps GmbH	1 000	100.0			308
Botnia Pulps Ltd	1 000	100.0			186
Oy Botnia Mill Services Ab	3 600	60.0	EUR	605	3 600
Kaskisten Lämpö Oy	350	70.0	EUR	59	352
Oy Silva Shipping Ab	400 000	100.0	EUR	336	5 241

### INVESTMENTS OF OTHER SUBSIDIARIES

Ab Vörå Finncambi Oy	500	25.5	FIM	500	500
Metsäwatti Oy	50	100.0	FIM	50	50
AS Metsind	25 000	100.0	EEK	2 500	4 905
AS Metsaomanik	1 080	100.0	EEK	400	201
Metsä Holz GmbH	1 000	100.0	DEM	800	2 512
SIA Metsind	100	100.0			50
Metsäliitto Sverige AB	5 000	100.0	SEK	500	348
Metsäliitto France	100 000	100.0	EUR	1	595
Baltic Pulp	3 400	34.0	LVL	1	35

## Proposal for the distribution of the surplus

### Metsäliitto Osuuskunta

At the disposal of the Representative Council

surplus of the period		269 979 945.29
retained surplus from previous years		<u>1 184 225 621.09</u>
Total		<u>FIM 1 454 205 566.38</u>

The Board of Directors proposes,

under Section 11, Section 1, a transfer to general reserve II of in additional	13 498 997.26 <u>2.74</u>	13 499 000.00
a dividend of 6.5% be distributed on paid-in members' capital and on paid-in additional members' capital	45 877 215.09 <u>89 264 869.33</u>	135 142 084.42
to be retained on the surplus and deficit account		<u>1 305 564 481.96</u>
total		<u>FIM 1 454 205 566.38</u>

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

Members' capital	720 877 550.16
Additional members' capital	1 466 730 160.00
General reserve I	23 425 607.08
General reserve II	117 670 000.00
Contingency reserve	<u>1 305 564 481.96</u>
Total	<u>FIM 3 634 267 799.21</u>

Espoo, 7 March 2001

*Arimo Uusitalo*

*Antti Oksanen*  
President, CEO

*Heikki Asunmaa*

*Carl G. Björnberg*

*Timo Haapanen*

*Tapani Kantola*

*Unto Kotipalo*

*Kyösti Moilanen*

## Statement by the Supervisory Board and Auditor's Report

### Statement by the Supervisory Board

The Supervisory Board has examined the financial statements of Metsäliitto Osuuskunta and the consolidated financial statements for 2000, and has approved them for submission to the Auditors and to the Annual General Meeting. The Supervisory Board recommends that the surplus for the period be dealt with as proposed by the Board of Directors.

The terms of the following members are due to expire: Martti Asunta, Aimo Hyvärinen, Ilkka Juusela, Saini Jääskeläinen, Marja Kallioniemi, Ilkka Lehtinen, Henrik Långstedt, Teuvo Mankki and Mikko Tolonen.

At the disposal of the Representative Council are also the seats of Unto Kotipalo and Kyösti Moilanen who became members of the Board of Directors in the beginning of 2001.

Espoo, 7 March 2001

On behalf of the Supervisory Board

*Runar Lillandt*

Chairman

*Pertti Vuopala*

Secretary

### Auditor's Report

#### To the Annual General Meeting of Metsäliitto Osuuskunta

We have audited the accounting, the financial statements and the corporate governance of Metsäliitto Osuuskunta for the period 1.1.- 31.12.2000. 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. 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 from 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 Supervisory Board and Board of Directors and the President have legally complied with the rules of the Finnish legislation.

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

Espoo, 8 March 2001

SVH Pricewaterhouse Coopers Oy  
Authorised Public Accountants

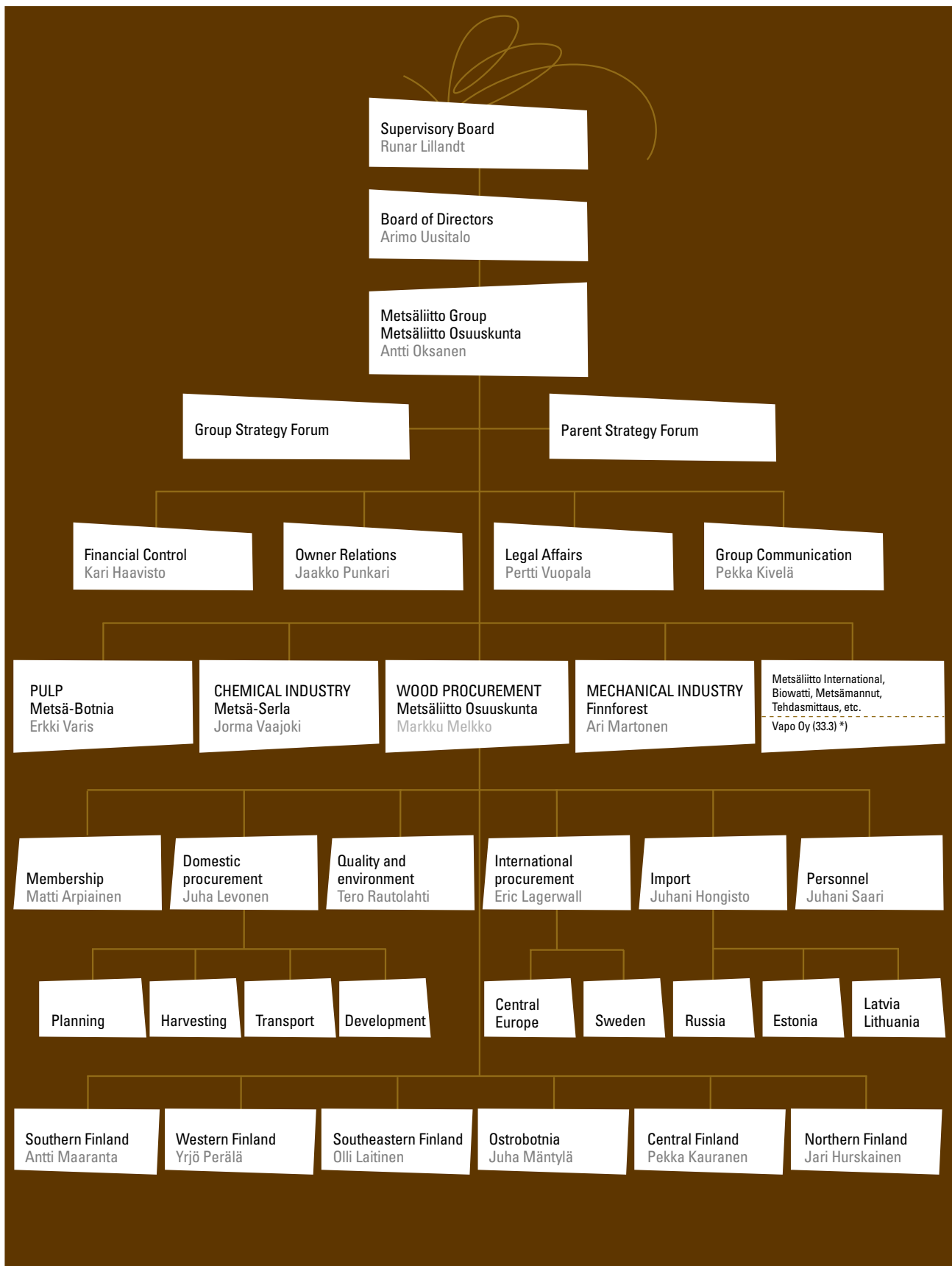
**Ilkka Haarlaa**

Authorised Public Accountant

**Göran Lindell**

Authorised Public Accountant

# Organization of Metsäliitto Group and Forest Business Area



\*) conditionally approved by Competition authority on 8 March 2001.



## Production plants



● **Metsä-Serla:**

Jyväskylä, Järvenpää, Kirkniemi, Kuopio, Kyröskoski, Simpele, Tampere, Äänekoski  
*Great Britain:* Kemsley, Sittingbourne  
*Austria:* Hallein  
*France:* Alizay, Pont-St-Maxence  
*Sweden:* Husum, Silverdalen, Wifsta  
*Germany:* Albruck, Dachau, Plattling, Stockstadt, Bergish Gladbach, Düren  
*Switzerland:* Biberist  
*Hungary:* Kecskemét

● **Finnforest:**

Iisalmi, Joensuu, Kaskinen, Kemi, Keuruu, Kiihtelysvaara, Kolho, Kyrö, Kyröskoski, Lappeenranta, Lohja, Merikarvia, Punkaharju, Renko, Suolahti, Teuva, Vilppula  
*Great Britain:* Boston, Leven, Grangemouth, Newport  
*France:* Bouleville  
*Romania:* Comănești  
*Germany:* Bremen  
*Estonia:* Paide

● **Metsä Tissue:**

Mänttä  
*Sweden:* Mariestad, Pauliström, Kvillsfors  
*Germany:* Kreuzau, Raubach, Stotzheim  
*Spain:* Gran Canaria  
*Poland:* Varsova

● **Metsä-Botnia:**

Joutseno, Kaskinen, Kemi, Rauma, Äänekoski

## Five years in figures, FIM million

Metsäliitto Group		2000		1999		1998		1997		1996	
FIM million			%		%		%		%		%
Turnover	44 670	100.0		33 155	100.0	28 509	100.0	26 075	100.0	20 232	100.0
- change, %	34.7			16.3		9.3		28.9		13.3	
Exports from Finland	18 110			14 483		13 409		12 633		10 119	
Exports and foreign subsidiaries	38 041			27 873		22 919		20 938		16 639	
Operating profit	4 535	10.2		2 537	7.7	2 818	9.9	2 690	10.3	1 133	5.6
Profit before extraordinary items	3 551	7.9		1 921	5.8	2 227	7.8	1 582	6.1	485	2.4
Profit before tax and minority interest	3 909	8.8		2 164	6.5	2 326	8.2	2 524	9.7	856	4.2
Fixed assets	32 609	62.4		19 847	59.8	20 644	62.5	19 379	60.4	17 477	68.6
Current assets											
Inventories	6 462	12.4		3 971	12.0	3 964	12.0	3 647	11.4	3 103	12.2
Other current assets	11 146	21.3		6 962	20.9	5 178	15.7	4 260	13.3	3 196	12.5
Liquid funds	2 045	3.9		2 428	7.3	3 224	9.8	4 776	14.9	1 709	6.7
Total	52 262	100.0		33 208	100.0	33 010	100.0	32 062	100.0	25 485	100.0
Members' funds	7 831	15.0		6 213	18.7	5 224	15.8	4 353	13.6	2 851	11.2
Capital note loans	1 661	3.2		1 589	4.8	1 325	4.0	1 325	4.1		
Minority interests	7 013	13.4		6 409	19.3	7 528	22.8	7 510	23.4	6 324	24.8
Provisions for future costs	467	0.9		271	0.8	359	1.1	353	1.1	236	0.9
Liabilities	35 290	67.5		18 726	56.4	18 574	56.3	18 521	57.8	16 074	63.1
Total	52 262	100.0		33 208	100.0	33 010	100.0	32 062	100.0	25 485	100.0
Capital employed, average	33 225			25 150		26 030		22 973		18 828	
Return on capital employed, %	14.6			10.8		11.9		12.9		7.0	
Equity, average *)	13 733			11 996		12 308		10 520		8 942	
Return on equity, %	17.9			10.8		12.5		10.8		3.6	
Equity ratio, %	31.7			42.9		42.8		41.3		36.5	
Equity ratio, % *)	28.5			38.1		38.8		37.1			
Gearing ratio, %	130			64		63		56		99	
Gearing ratio, % *)	156			85		80		74			
Interest-bearing liabilities	24 018			11 715		12 278		12 516		11 066	
Interest-bearing financial assets	2 529			2 607		3 426		5 082		1 986	
Interest-bearing net liabilities	21 489			9 108		8 852		7 434		9 080	
Interest-bearing net liabilities, % of turnover	48.1			27.5		31.0		28.5		44.9	
Cash flow from operations	5 068			3 061		3 541		3 311		1 815	
Capital investments	17 592			2 907		3 430		3 647		4 984	
Capital investments, % of turnover	39.4			8.8		12.0		14.0		24.6	
R&D -expenditure	212			102		95		90		97	
Personnel, at end of year	25 007			19 936		19 927		18 717		16 455	
Personnel, average	22 723			20 559		19 346		18 100		16 586	
- of whom in Finland	10 333			10 654		11 567		11 537		10 967	

Due to changes in accounting principles, figures for 1996-1998 are not fully comparable with those for 1999-2000.

\*) Capital note loans included in liabilities.

Calculation of key ratios is presented on page 65.

## Five years in figures, FIM million

Metsäliitto Osuuskunta		2000		1999		1998		1997		1996	
FIM million			%		%		%		%		%
Turnover		6 438	100.0	6 366	100.0	6 175	100.0	5 450	100.0	4 178	100.0
- change, %		1.1		3.1		13.3		30.5		3.0	
Operating profit		125	1.9	126	2.0	137	2.2	171	3.1	123	3.0
Profit before extraordinary items		386	6.0	412	6.5	324	5.2	288	5.3	224	5.4
Profit before appropriation and taxes		378	5.9	405	6.4	291	4.7	367	6.7	98	2.3
Fixed assets		3 884	65.3	3 692	66.3	3 171	60.7	2 625	63.3	1 869	54.6
Current assets											
Inventories		546	9.2	511	9.2	555	10.6	540	13.0	481	14.1
Other current assets		1 257	21.2	602	10.8	688	13.2	582	14.1	223	6.5
Liquid funds		257	4.3	765	13.7	813	15.5	399	9.6	847	24.8
Total		5 944	100.0	5 570	100.0	5 227	100.0	4 146	100.0	3 420	100.0
Members' capital and other members' funds		3 779	63.6	3 351	60.2	3 016	57.7	2 632	63.5	2 036	59.5
Provisions for future costs		11	0.2	12	0.2	14	0.3	23	0.5	4	0.1
Liabilities		2 154	36.2	2 207	39.6	2 197	42.0	1 491	36.0	1 380	40.4
Total		5 944	100.0	5 570	100.0	5 227	100.0	4 146	100.0	3 420	100.0
Dividends distributed, FIM million		135.1		109.6		102.6		86.1		67.5	
Interest rate paid, % *)		6.5		6.0		6.0		6.5		7.0	
Return on capital employed, %		10.8		12.5		12.9		12.0		11.5	
Return on equity, %		7.7		9.2		8.3		8.0		6.6	
Equity ratio, %		72.2		68.4		66.2		73.7		70.9	
Gearing ratio, %		-34		-38		-39		-43		-35	
Interest-bearing liabilities		641		663		669		290		333	
Interest-bearing financial asset		1 938		1 946		1 855		1 425		1 054	
Interest-bearing net liabilities		-1 297		-1 283		-1 186		-1 135		-721	
Capital investments		562		194		582		255		181	
Members		127 371		125 372		122 582		119 787		117 783	
Personnel, average		922		895		892		931		938	

\*) Board's proposal

### Calculation of key ratios

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

## Corporate Governance

### Membership and members

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

At the end of 2000, Metsäliitto had 127,371 members. Together they own about 5.1 million hectares of forest, which is almost half of all private forest in Finland.

### Representative Council

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

The General Meeting deals with the following matters:

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

The Representative Council currently has 69 members. A list of members appears on page 68.

### Supervisory Board

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

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

The duties of the Supervisory Board also include:

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

Members of the Supervisory Board are elected for a term of three years. The Supervisory Board currently has 30 forest owner members and four employee representatives. During 2000 the Supervisory Board met 7 times. The members of the Supervisory Board are shown on page 69.

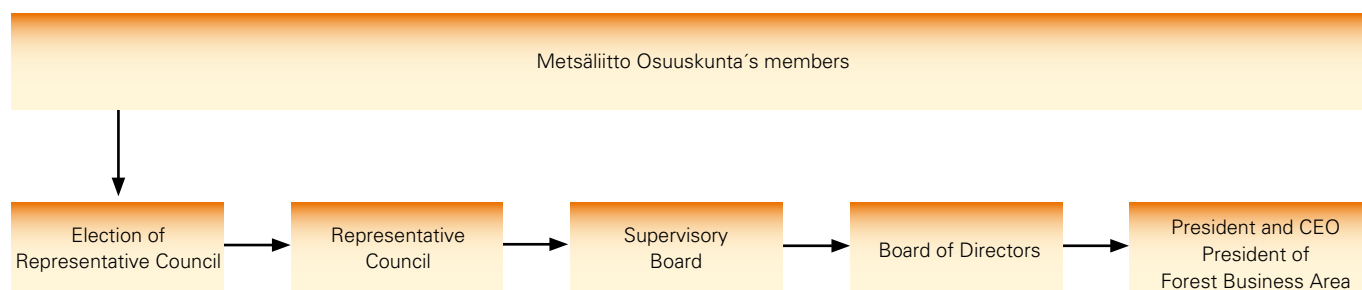
### Board of Directors

The Board of Directors comprises between five and eight members, together with the President & CEO. The term of office of a member of the Board of Directors is three years.

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

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

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



## Corporate Governance

### President & CEO

In accordance with a decision by the Supervisory Board, Metsäliitto Osuuskunta's President & CEO Antti Oksanen has also acted as President & CEO of the Metsäliitto Group since November 1995. In addition to what is stipulated by law, the duties of the President & CEO include:

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

### Organization of business operations

The Metsäliitto Group consists of the parent company Metsäliitto Osuuskunta and its subsidiaries. The parent company procures and markets its members' wood raw material, and at the same time acts as a forest industry holding company. Its goals are to increase the Group's shareholder value and to achieve a competitive return on capital employed.

The Group's paper and paperboard operations are handled by Metsä-Serla Corporation and the pulp production by Oy Metsä-Botnia Ab. Mechanical wood processing operations have been combined to form Finforest Corporation, which manufactures sawn timber and panels and markets wood-based panels. The procurement and marketing of wood raw material is the responsibility of Metsäliitto Osuuskunta's Forest Business Area.

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

The Group has a Strategy Forum, whose duty is to assist the President & CEO to manage strategic development and to prepare matters for consideration by the Board of Directors. Matters regarding parent company is handled by Parent Strategy Forum. The members of the Strategy Forums are shown on page 5.

### Accounts and financial reporting

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

Monthly reports are produced to monitor trends in the Group's business activities and earnings.

Information on the economic situation is freely available through the Group's financial review, Annual Report and interim reports (three per year). The publication dates are shown on the inside front cover.

### Financial Administration

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

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

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

### Salaries and fees

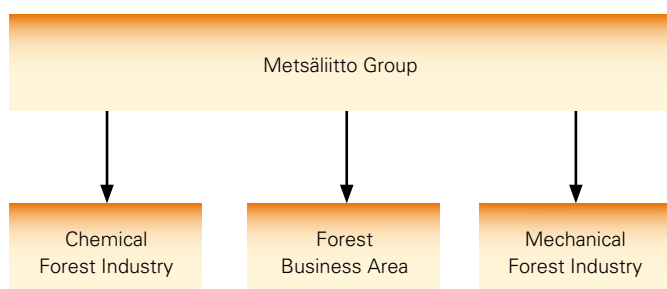
Salaries and fees paid to the President & CEOs, Vice Presidents, and members of the Supervisory Board and Board of Directors were EUR 15.8 million in 2000 (EUR 13.5 million in 1999).

Personnel costs are analysed on page 44.

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

### Auditors

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



## Metsäliitto's Representative Council

Every four years, Metsäliitto Osuuskunta's members elect from among their number a Representative Council by postal ballot.

The Council has 69 members and is Metsäliitto Osuuskunta's highest decision-making body.

The Council elects thirty members to the Supervisory Board and the employees elect four members.

The members of the Representative Council are:

Aimo Alho from 1 January 2001	Ari Majava from 1 January 2001
John Berg	Antti Malmberg
Johan Björkenheim	Antti Mieskolainen
Toivo J. Eeva from 6 April 2000	Lauri Nevalainen
Veijo Ekonoja	Timo Nikula from 6 April 2000
Stefan Enegren	Raimo Ollikainen
Arto Eskelinen	Martti Palojärvi
Paavo Haapamäki	Tuomas Piesanen
Raimo Hakkarainen	Seppo Pohjala
Jaakko Halkilahti	Ossi Pouta
Mikko Hatanpää	Voitto Purhonen
Erkki Helaakoski	Heikki Pylväs
Jouni Hirvikallio	Reijo Pyykkö
Osmo Hirvonen	Rauno Pyykkönen
Juha Hyvämäki	Veikko Pölkki
Antti Isotalo	Mauri Ruuth
Antti Jaakkola to 6 April 2000	Antti Salo
Erkki Jaakkola	Esa Silvennoinen
Seppo Jokela	Peter Simberg
Timo Junnila	Veikko Kustaa Simola
Hannu Järvinen to 31 December 2000	Timo Sirviö to 31 December 2000
Matti Kainulainen	Heikki Sipilä
Timo Kalli	Hannu Soikka
Jouko Karjalainen	Bo Storsjö
Ari Kivenmäki	Heikki Syväjärvi
Ari Korhonen	Kimmo Tiilikainen
Tapio Koskinen	Matti Tossavainen
Kari Kultalahti	Rauno Tuomaala
Juhani Kumpusalo	Pekka Turtiainen
Albert Käiväräinen to 6 April 2000	Tuomo Turunen
Tapio Körhämö from 6 April 2000	Seppo Unnaslahti
Markku Laitinen	Tuomo Uutela
Hannu Lassila	Arto Vesterinen
Ilkka Lehtinen to 6 April 2000	Pauli Yliaska
Aimo Lehtiniemi	Matti Ylitalo
Päivi Luostarinen	Kari Yläjärvi
Bengt Lövsund	Matti Äijö

## Metsäliitto's Supervisory Board

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

The members of the Supervisory Board are:

Chairman	Runar Lillandt	
Deputy Chairman	Aarne Hedetniemi	from 16 January 2001
Deputy Chairman	Kyösti Moilanen	to 31 December 2000
	Martti Asunta Leo Autio Aimo Hyvärinen Antti Jaakkola Matti Jaakkola	from 6 April 2000
	Ilkka Juusela Hannu Järvinen Saini Jääskeläinen Marja Kallioniemi Lauri Kananen	from 1 January 2001
	Esko Kinnunen Unto Kotipalo Albert Käiväräinen Juhani Laaksonen Ilkka Lehtinen	to 31 December 2000 from 6 April 2000 to 6 April 2000 from 6 April 2000
	Henrik Långstedt Teuvo Mankki Martti Niiranen Juhani Ollila Eero Pelto-Arvo	
	Tauno Pirttijärvi Anna-Liisa Pynnönen Teuvo Raivio Seppo Reijonen Timo Sirviö	to 31 December 2000 to 31 December 2000 from 1 January 2001
	Olav Store Mikko Tolonen Erkki Vainionpää Axel Westersträhle Ilkka Yliluoma	
Employee representatives	Tapio Europaeus Juhani Hongisto Hannu Leppäjärvi Pekka Peltola	

## Addresses

### METSÄLIITTO GROUP

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Tel. +358 1046 01  
Fax +358 1046 94400

### METSÄLIITTO OSUUSKUNTA

President and CEO, Antti Oksanen  
Senior VP, CFO, Kari Haavisto  
Senior VP, Group Treasurer, Heikki Saarinen  
Controller, Henrik Uggeldahl  
Senior VP, Inspection, Juhani Tevameri  
Senior VP, Owner Relations, Jaakko Punkari  
Senior VP, Information Security, Ari Meldo  
Senior VP, Group Communications and  
Public Affairs, Pekka Kivelä  
VP, Public Affairs, Mikko Ohela  
Senior VP, General Counsel, Pertti Vuopala  
Group Legal Counsel, Esa Kaikkonen  
Corporate Relations, Karin von Wendt

### Finance and Administration

Financial Director, Harri Turunen  
Financial Accounting, Mirja Karppinen  
Financing, Esko Okko  
Service Centre, Arto Kesseli  
Bokkeeping, Leena Haapala  
Management Accounting, Timo Rantanen  
Invoicing, Jouko Kallio  
Wages and salaries, Katriina Leinonen  
Members, Arja Pallari  
Information Systems, Keijo Asplund  
Real Estate Service, Matti Knuutila  
Materials, Kai Knappe  
Office Service, Marita Frost

### Forest Business Area

Forest Business Area Director, Markku Melkko  
Communications, Anne-Mari Achrén  
Quality and Environment, Tero Rautolahti  
Personnel, Juhani Saari  
Membership Affairs, Matti Arpiainen  
Forest system, Jukka Salenius  
Projects, Kari Peltonen  
Projects, Timo Saarentaus

### Domestic wood procurement

Procurement Director, Juha Levonen  
Planning, Juhani Lukkari  
Development, Teppo Oijala  
Harvesting, Risto Lilleberg  
Transport, Juha Korhonen

### International wood procurement

Procurement Director, Eric Lagerwall  
Quality and Environment, Terhi Koipijärvi  
Controller, Lena Sjöblom

### Import

Import Manager, Juhani Hongisto  
Wood Procurement, Hannu Alarautalahti  
Area Supervisor, Seppo Nurmimäki  
Sea transport, Timo Yli-Hukkala

### Southern Finland

Wood Procurement Area  
  
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PO Box 10, FIN-02020 METSÄ  
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Fax +358 1046 22090  
Area Manager, Antti Maaranta  
Quality, Pekka Saarentola  
Wood Procurement, Tapio Peltoniemi  
Transport, Mika Nevalainen  
Office, Sini Sivuranta  
Contacts, Taina Sairio

### HÄMEENLINNA DISTRICT OFFICE

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District Supervisor Matti Salo

### VÄÄKSY DISTRICT OFFICE

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FIN-17201 Vääksy  
Tel. +358 1046 22400  
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District Supervisor Pekka Niemi

### SALO DISTRICT OFFICE

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Fax +358 1046 22590  
District Supervisor Juha Hörkkö

### LOHJA DISTRICT OFFICE

Harjakatu 4, FIN-08100 Lohja  
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Fax +358 1046 22690  
District Supervisor Harri Hyppänen

### KOUVOLA DISTRICT OFFICE

Savonkatu 23, PO Box 146  
FIN-45101 Kouvola  
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District Supervisor Seppo Tuominen

### Western Finland

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FIN-26101 Rauma  
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