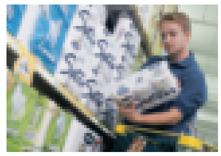
ANNUAL REPORT 2002

COMFORT FOR EVERY DAY



MetsäTissue

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Financial statements in separate enclosure

Metsä Tissue

Metsä Tissue is a dynamically developing European consumer goods company whose tissue products and baking and cooking papers are used by both households and large-scale consumers. Metsä Tissue's main market is Europe north of the Alps, where the company is the fourth biggest supplier of tissue and the market leader in baking and cooking papers. In the Nordic countries, Metsä Tissue is the market leader in tissue products. In 2002, the company had a turnover of EUR 650 million and employed 3,300 people. Metsä Tissue is part of M-real Corporation and the Metsäliitto Group.

Lambi SERLA Leni mola FASANA KATRIN SAGA

Information for shareholders

ANNUAL GENERAL MEETING

Metsä Tissue Corporation will hold its Annual General Meeting on Tuesday 18 March 2003 beginning at 1.00 pm in the auditorium at Metsä Tapiola, address Revontulentie 6, 02100 Espoo.

Shareholders wishing to attend the Annual General Meeting must be registered in the list of shareholders maintained by Finnish Central Securities Depository Ltd no later than 8 March 2003.

Shareholders wishing to attend the Annual General Meeting must inform the company on Friday 14 March 2002 by 4.00 pm at the latest either by phoning +358 10 469 5041, by e-mail to paivi.raitanen@metsatissue.com or by writing to Metsä Tissue Corp., Päivi Raitanen, Itälahdenkatu 15-17, 00210 Helsinki, Finland. Any letters of attorney must be submitted at the same time.

The invitation to the Annual General Meeting was published in Helsingin Sanomat on 27 February 2003.

DIVIDEND

At 31 December 2002, Metsä Tissue Corporation had unrestricted shareholders'equity of EUR 65.6 million. Distributable funds accounted for EUR 42.0 million. The parent company had distributable unrestricted equity of EUR 70.5 million.

The Board of Directors proposes to the Annual General Meeting that no dividend be distributed for the 2002 financial year.

FINANCIAL REPORTS

Apart from the financial statement bulletin and annual report for the year 2002, Metsä Tissue publishes interim reports in 2003 as follows:

January – March 2003	25 April
January – June 2003	25 July
January – September 2003	24 October

Metsä Tissue publishes financial reports in Finnish and English. Financial reports can be ordered from:

Metsä Tissue Corp, Communications
Itälahdenkatu 15-17
FIN-00210 Helsinki
Tel. +358 10 4616, Fax +358 10 469 4199
E-mail: info@metsatissue.com

Financial reports can also be found on the company's home pages on the Internet at: www.metsatissue.com

CHANGES OF NAME OR ADDRESS

We kindly request that shareholders notify their bank or book entry register of any changes of name or address.


Lambi
Satin
SERLA

Values

Creating added value
Trust
Continuous improvement
We do it

Vision

Metsä Tissue's aim is to become the leading European tissue company in selected markets in Europe north of the Alps.

Mission

Metsä Tissue brings comfort for every day.

Strategy and competitive advantages

Metsä Tissue's strategic objective is to achieve dynamic growth in selected markets in Europe north of the Alps. The company's main market area has over 200 million consumers. The profitability targets are to achieve an operating margin of over 10 per cent and a balance sheet structure that ensures a capital turnover of at least two.

In order to reach its strategic objectives, Metsä Tissue seeks to strengthen those areas where it has a competitive advantage in the face of increasing competition. The values defined by the company support implementation of the strategy.

To ensure success in the competitive market, Metsä Tissue works together with its customers. By offering a wide range of quality products, conducting innovative product development, understanding consumers' needs, keeping a close watch on the market and predicting changes, Metsä Tissue seeks to be the partner of choice for its customers. The aim is total profitability to the benefit of all parties concerned – Metsä Tissue, its customers and consumers.

Innovativeness is reflected in all the company's activities, not just in product development. Metsä Tissue actively develops new ideas and solutions that offer competitive advantages to customers. Metsä Tissue works together with the retail trade to develop ways to promote the sale of the category of tissue products. The company considers it important to be geographically close to its customers so that it can react swiftly to their changing needs. Delivery accuracy is another vital requirement for improving competitive position.

Efficient use of capital throughout the entire delivery chain ensures that Metsä Tissue will remain competitive in the future. Working closely with customers and maintaining a presence near customers means cost-effective logistics and stock management, which in turn means more efficient use of capital. Metsä Tissue develops solutions that can be applied in as many mills as possible. The company works in close consultation with its subcontractors to create genuine, long-term partnerships.

At Metsä Tissue, environmental friendliness means saving resources and working cleanly and safely. The company is strongly committed to occupational and product safety. Development projects are chosen with an eye to long-term sustainable development.

Metsä Tissue is a strong, highly focused company with a clearly defined area of business. The short decision-making chain allows the company to work efficiently and quickly. In the near future, the focus will be on making activities more efficient and on developing products and services that bring comfort for every day.

Business environment

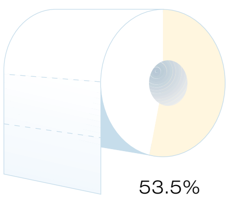
Metsä Tissue is a dynamically developing European consumer goods company engaged in the development, manufacture and marketing of tissue products and baking and cooking papers for both private households and large-scale consumers. The company's main market is Europe north of the Alps.

The prospects for growth in the retail trade changed considerably during the year under review. The biggest surprise was the slow-down in growth in the retail sector, particularly in the most important markets. In Germany, retail sales fell by almost four per cent in volume terms, and this was reflected in a decline in sales of products such as tissue handkerchiefs. Neither has the Polish economy developed quite as anticipated. At the same time, production capacity has been built well in excess of market growth.

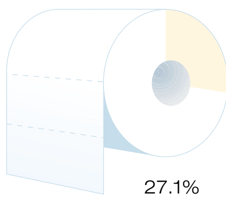
European retail chains are the main distributors of consumer goods. As expected, the retail business has become increasingly international. Consumer goods chains have started to spread rapidly throughout the continent, including the Nordic countries, and this trend is likely to continue. Consolidation among tissue manufacturers will also continue, partly as a result of the internationalization of the retail business.

In this situation product development plays a decisive role. Metsä Tissue believes that the company offering the most attractive products to increasingly discerning customers will be the one to succeed in the marketplace.

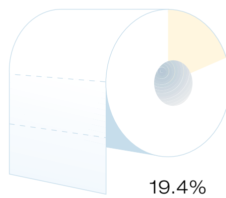
Business areas



53.5%



27.1%



19.4%

Percentage of turnover

CONSUMER

Turnover: EUR 350.0 million.
Customers: Private households, wholesalers and retailers.
Brands: Lambi, Serla, Leni and Mola.
Products: Bathroom tissue, household towels, tissue handkerchiefs and facial tissue.
Main markets: Nordic countries, continental Europe (Germany, Poland, Switzerland, France, Benelux countries and Austria), Great Britain and Ireland.

AWAY-FROM-HOME

Turnover: EUR 177.3 million.
Customers: Health care, industry, public services and other services.
Brands: Katrin and Saga.
Products: Bathroom tissue, paper towels, facial tissue, industrial wipes and dispensing systems.
Main markets: Nordic countries, continental Europe (Germany, Poland, Switzerland, France, Benelux countries and Austria), Great Britain and Ireland.

TABLE TOP

Customers: Private households and large-scale consumers in the services sector, such as restaurants. **Brand**: Fasana. **Products**: Napkins and tablecloths. **Main markets**: Continental Europe. **Mill**: Stotzheim (Germany).

BAKING & COOKING OTHER OPERATIONS

Customers: Retailers, specialist wholesalers, the food industry and independent converters.
Brands: Serla, Katrin and Gourmanda.
Products: Baking and cooking papers.
Main markets: Continental Europe (Germany, Poland, Switzerland, France, Benelux countries and Austria) and Nordic countries.
Mill: Mänttä (Finland).

OTHER OPERATIONS

Products: Tissue base paper and other products.

Approach to business

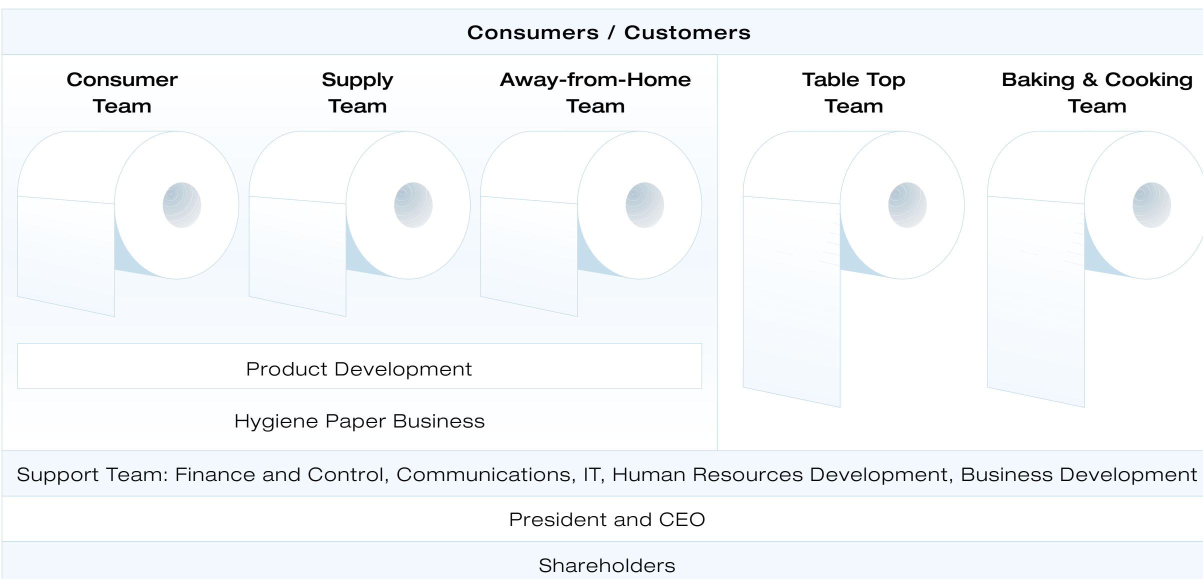
Metsä Tissue's business is based on the needs of customers. Metsä Tissue has launched several important market-oriented investment and development programmes designed to raise degree of converting and product quality, particularly of consumer products, and at the same time to substantially improve production efficiency.

Within the company there is a strong focus on developing common working practices. Best practices are born out of a common set of values and the commitment of the entire personnel to the company's strategy. The We Build Value process launched in spring 2001 supports these objectives and at the same time is helping to build a strong common identity. The entire organization is now working towards the same goals. By learning from each other and by seeking continuous improvements, Metsä Tissue is able to fulfil its promises to customers irrespective of country, team or workplace.

Metsä Tissue's values are reflected in the way the company operates. *Creating added value* means that we want to create value for our customers by bringing them the best solutions on a win-win basis. Professionalism and quality provide further value for the customer. *Trust* means we keep our promises, in other words, we are reliable. Through *Continuous improvement* we encourage new ideas, we are proactive and act fast to meet customers' needs. *We do it* means that we develop our operations according to the market, and we focus on continuity and long-term partnerships.

Metsä Tissue's business activities are handled by four business teams and a Supply Team. The Consumer Team is responsible for the sale and marketing of consumer products. The Away-from-Home Team handles the sale and marketing of products to large-scale consumers. The production, sale and marketing of napkins is handled by the Table Top Team. The Baking & Cooking Team is responsible for the production, sale and marketing of baking and cooking papers. The Supply Team is responsible for the production and product development for the hygiene paper businesses, and for purchasing and logistics for the group as a whole.

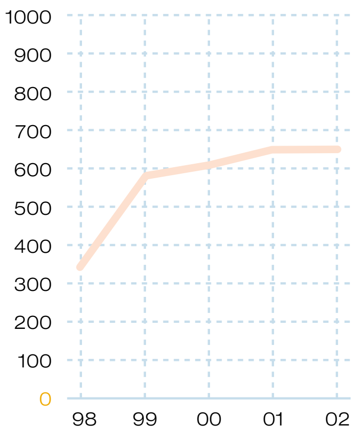
Organization



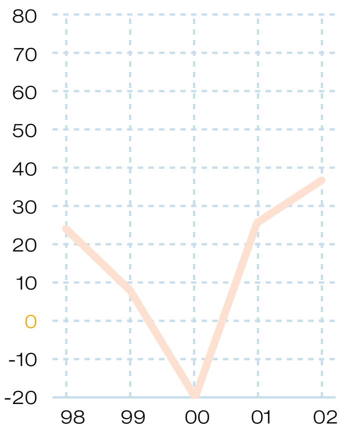
The year 2002 in brief

- The profit and cash flow targets set for 2002 were achieved. Profit improved thanks to greater cost-effectiveness, improvements made to the product range, and growth in sales volumes.
  - Turnover was 0.3 per cent down on the previous year at EUR 647. 8 million (649.6 million). The sales volume rose by about 3 per cent, but average sales prices were some 5 per cent lower than in 2001. Company acquisitions raised turnover by less than one per cent.
  - Profit before extraordinary items improved to EUR 37.1 million (27.1 million). Earnings per share were EUR 0.93 (0.80).
  - The cash flow remained good despite a substantial increase in investments. The cash flow after investments was EUR 53.7 million (65.5 million).
- Development programmes involving EUR 90 million in investments were started. The aims of the programmes are to raise the degree of converting of consumer products, to improve product quality, and to achieve a significant increase in production efficiency.
- The modernized Katrin product range, including dispensers, was brought onto the market.
- Business operations in Poland were expanded. A majority shareholding was acquired in the Polish tissue company Zaklady Papiernicze w Krapkowicach S.A. (ZPK).

Turnover
(MEUR)



Profit/loss before extraordinary items
(MEUR)



KEY FIGURES	**2002**	2001
Turnover, MEUR	647.8	649.6
Operating profit, MEUR	43.1	36.5
Operating profit, % of turnover	6.7	5.6
Profit before extraordinary items, MEUR	37.1	27.1
Profit for the period, MEUR	28.0	24.1
Return on equity (ROE), %	18.1	20.2
Return on capital employed (ROCE), %	13.2	10.3
Interest bearing net liabilities, MEUR	129.6	174.1
Equity ratio, %	37.4	31.5
Gearing, %	77.5	123.2
Gross capital expenditure, MEUR	47.1	21.1
Cash flow from operations after investments, MEUR	53.7	65.5
Earnings/share, EUR	0.93	0.80
Shareholders' equity/ share, EUR	5.52	4.70
Dividend/ share, EUR	-*)	0.10
Personnel at year-end	3 299	2 923

*) Board of Directors' proposal to the general meeting of shareholders

Review by the President and CEO

In my review last year, I said that in 2002 we would focus on improving our cost-competitiveness and boosting product development. The development programmes we launched towards the end of 2001, which were directed mainly at our Nordic business operations, have gone forward as planned. Development processes for our business in Germany and Poland got under way during late autumn 2002.

All the development programmes are now in full swing. They involve capital expenditure totalling around EUR 90 million, and will be largely completed by summer 2004. Their impact, both on the market and on costs, will start to be felt already during 2003.

The protracted acquisitions of Krapkowice and Krapex were finally brought to a successful conclusion during the 2002 financial year. The Krapex deal is still awaiting final approval, but we expect to have this during the spring. Following the two acquisitions, Metsä Tissue has the necessary foundations for developing its business in Poland. We can now concentrate on strengthening our market position and competitiveness.

In assessing the market a year ago we were very cautious as far as the growth of the market was concerned. Even so, the fact that growth ceased completely during 2002, most notably in Germany and Poland, and consumption of certain products actually fell, came as a surprise. At the same time, supply continued to rise, the result being extremely fierce competition for market shares. With the exception of tissue base paper, we managed to keep our sales prices almost unchanged and to increase our deliveries by some three per cent on 2001.

Although we did not reach our target with respect to turnover, I think we can be reasonably satisfied with the way our sales developed under difficult market conditions.

Profit for the period before extraordinary items was EUR 37.1 million, an improvement of roughly EUR 10 million on the year before. The result was somewhat better than the target we had set. The efficiency and cost-saving programmes currently under way had a small positive impact on the financial result. Also on a positive note, Metsä Tissue's indebtedness decreased considerably despite the investments made to develop our activities. Net interest-bearing liabilities fell by EUR 44.5 million, which brought the gearing ratio down from 123 per cent to 77 per cent.

One thing whose financial impact is difficult to measure has been the progress made with the We Build Value process. It is quite clear that, guided by our common values and by the goals set for our competitive advantages, we are all more unified and working together more effectively than before. In this ongoing process, the beneficiaries are our employees, our customers and our shareholders.

Our business plans for 2003 have been drawn up based on the expectation that market conditions will be similar to those in 2002. To improve our financial results and strengthen our market position we must offer more attractive products and improve our cost-competitiveness. Metsä Tissue has concrete plans for achieving these aims, backed up by skilled and highly motivated employees.

We have set ourselves the goal of raising both turnover and earnings this year. In the longer term, I believe Metsä Tissue has excellent prospects for continuing its steady progress towards becoming a strong European consumer products company whose job it is to provide customers and consumers alike with comfort for every day.

This spring I shall be taking up a new post with the Metsäliitto Group, and I want to take this opportunity to offer my sincere thanks to all Metsä Tissue's employees, customers and other partners for their excellent and constructive cooperation. I wish all the people and other bodies working within the company every success in the future.

Helsinki, February 2003

Hannu Anttila


BREAD
Lambi

Consumer Team

More comfort for every day

The Consumer Team markets tissue products intended for household use. The range offers consumers the right products for all their needs. In-depth knowledge of consumer habits and long-term collaboration with customers form the cornerstone of the strategy of the Consumer Team.

The range of products consists of bathroom tissue, household towels, tissue handkerchiefs and facial tissue. Consumers can choose between luxurious top-quality products and good quality mid-priced products. There are also products for environmentally conscious and price-conscious consumers.

The main markets are the Nordic countries, continental Europe, and Great Britain. Metsä Tissue's consumer product brands are Lambi, Serla, Leni and Mola. These brands account for about 80 per cent of sales in the Nordic countries and Poland. In continental Europe and Great Britain, customers' own brands hold very strong positions. Metsä Tissue is among those seeking to develop business in these markets, primarily through customers' own brands.

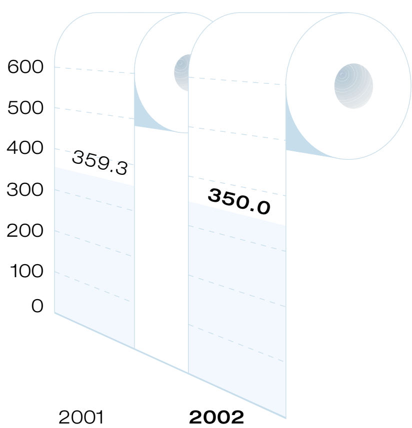
In every country, tissue products are the biggest group of non-food consumer products sold by retailers. By working together with the retail trade, the Consumer Team seeks to boost both sales and profitability of the product group. To this end, Metsä Tissue develops high-quality products designed to meet consumers' needs, carries out marketing measures in support of sales, and offers customers flexible and efficient deliveries.

The background information needed in product development and customer collaboration is acquired through regular comprehensive market and consumer surveys. Using this information the necessary development measures can be implemented to the benefit of all concerned.

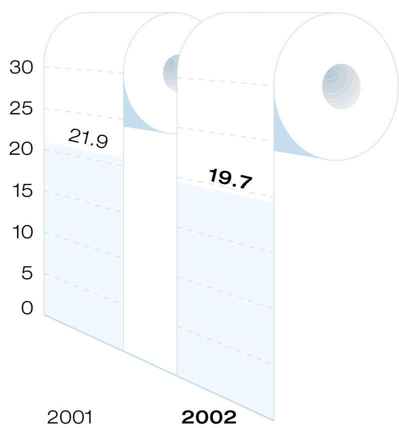
MARKET POSITION STRENGTHENED

Overall demand for consumer products in the Nordic countries remained unchanged during the year under review. In continental Europe, tissue consumption by households grew slowly as a result of the general economic

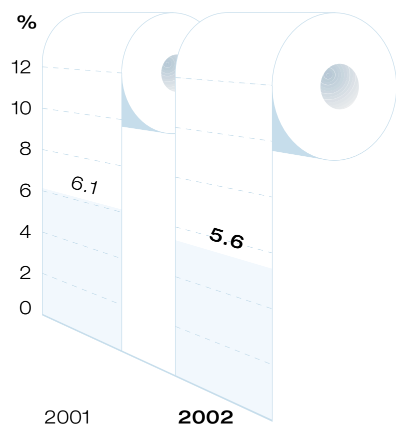
Turnover, MEUR



Operating profit, MEUR



Operating margin, %



decline. The situation was especially difficult in Germany and Poland.

Demand for high-quality products again rose faster than the average both in the Nordic countries and in continental Europe. In the Nordic countries, demand for good quality mid-priced products began to rise again at the expense of cheaper products. Retailers' own brands increased their share of the market in Germany, Sweden and Norway, but decreased a little in Finland and Denmark.

Metsä Tissue strengthened its position in continental Europe despite the weak trend in the market and intense competition. In Poland, the trend was extremely good, with sales of Mola brand well up on the year before. Following its acquisition there, Metsä Tissue is now Poland's biggest supplier of converted tissue products in terms of sales volume.

New customers were acquired in continental Europe, Great Britain and Norway. Because of the intense competition, average sales prices were somewhat lower than in 2001. In the Nordic countries, Metsä Tissue retained its position as the market leader, thanks particularly to highly successful brand names. The Consumer business area returned better financial results on the Nordic market.

SUCCESSFUL NEW PRODUCTS

Metsä Tissue's product development work focused mainly on consumer products such as bathroom tissue and household towels. A super-soft, lotionized tissue handkerchief was developed for the tissue handkerchief market in continental Europe. Investments, both those already made and those on the way, will enable a higher degree of converting and the efficient production of even higher quality products.

Lambi household towels, which are sold throughout the Nordic countries, were modified for the Finnish market by introducing the select-a-size concept , which allows the user to take from the roll just the right amount for each particular purpose. At the same time the towels were given a new printed pattern. Also, new packs were introduced for Lambi products. Serla products were modernized by changing the appearance of the packs. The new products and packs have been well received by consumers. The Serla and Lambi brand names have strengthened their position in all markets. The Leni brand has also established itself in the segment of top-quality products in Sweden and Norway.

Metsä Tissue's own brands were supported through advertising and sales promotion campaigns. Sales of Serla products were boosted by the highly successful Serla Summer 2002 promotion. The campaigns launched to encourage people to collect Serla squirrels and Lambi lambs have been extremely popular, and are helping to generate added value for both consumers and retailers.

CUSTOMER COLLABORATION COVERING THE ENTIRE VALUE CHAIN

The market for consumer products in 2003 is expected to show little change on 2002. European markets are over-supplied, and competition remains fierce.

Metsä Tissue's goals are to raise its sales volumes in continental Europe and Poland and to retain its share of the Nordic market. Household towels and tissue handkerchiefs are seen as having the greatest growth potential. Investments designed to raise production efficiency and product quality will improve the Consumer business area's profitability and competitiveness. Relations with key customers will continue to be developed in line with the "win-win-win" idea to the benefit of the entire value chain.


KATRIN

Away-from-Home Team

Less is more

The Away-from-Home Team markets hygiene systems for health care, industry, the service industry, the public sector, offices and other large-scale consumers. The marketing of away-from-home products is based on the concept that “Less is More”, which offers the greatest overall economy in hygiene solutions for all purposes.

A hygiene system comprises the tissue product itself together with a dispenser. Metsä Tissue’s product range comprises all products used in the away-from-home segment such as paper towels, industrial wipes, toilet tissue and a variety of hospital products. The main markets are the Nordic countries, continental Europe and Great Britain. Away-from-home brands are Katrin and Saga. The company also produces selected brand name products for its customers.

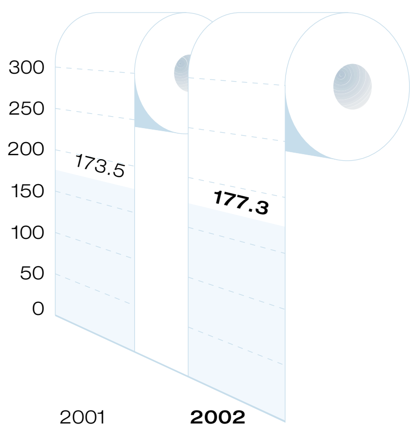
EFFICIENCY DRIVE BROUGHT RESULTS

Weakened economic conditions affected the away-from-home market. Market growth slowed down considerably. This was seen particularly clearly in Germany and Poland. Competition remained fierce everywhere. Italian tissue manufacturers marketed their products more aggressively in continental Europe, also in the away-from-home segment. SCA strengthened its position in Great Britain through acquisitions.

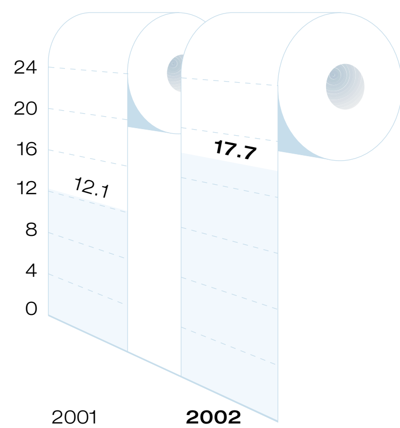
The Away-from-Home Team had a highly successful year despite the difficult market and intense competition. Deliveries, turnover and earnings were all better than the year before. Market leadership in the Nordic countries was retained. On the other main markets growth was in line with the targets. Metsä Tissue’s own brands increased their share and now account for over 70 per cent of sales.

The progress made is the sum of numerous factors. Production efficiency, which was reflected in earnings, improved thanks to successful cost-saving programmes and rationalization of the product range. The new quality monitoring system raised product quality, and this in turn reduced the number of product-related complaints. Refinements to the brand name and sales strategies had a positive impact on sales.

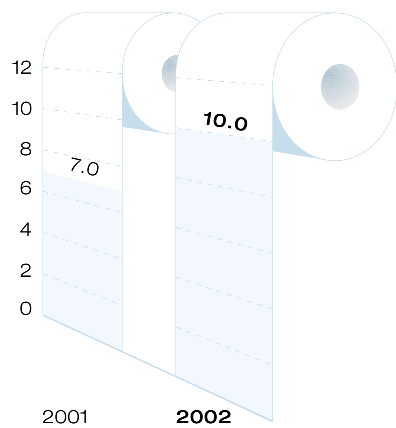
Turnover, MEUR



Operating profit, MEUR



Operating margin, %



BRAND STRATEGY REFINED

The brand strategy was sharpened by bringing the Katrin and Saga brands closer together in terms of both function and appearance. As a result, the main brand Katrin and its supporting brand Saga will work better together. Customer service was improved by the new colour coding system, which makes choosing products easier. This has also clarified the product range, which in turn means more efficient production and improved profitability.

The "Less is More" business concept is the basis of the Away-from-Home sales strategy. It expresses the core content of Metsä Tissue's hygiene systems and makes life easier both for retailers and for the people who use the products. The end-user is guided towards the right product for each particular purpose; this minimizes paper consumption and hygiene risks and results in savings. The "Less is More" concept was simplified to make the underlying message easier to understand. At the same time, customer segmentation was modified by defining more clearly the uses for away-from-home products, thus making it easier to choose the right product.

Dispensers are a key part of Metsä Tissue's away-from-home product range, and it is important that they are continuously developed. The dispensers forming part of the Katrin Ultimatic product family were given a more modern look during the year. The technical features appreciated by customers were retained. The range of papers used was also improved, thereby giving the Katrin Ultimatic product family an even stronger position as a hygiene system.

PRODUCT DEVELOPMENT AND CLOSER CUSTOMER COLLABORATION

Despite the temporary downturn, the away-from-home market is expected to grow more strongly than the market for consumer products over the next few years. The fastest growth will be in eastern Europe. Of the different product segments it will be the service segment that grows most rapidly. Competition will remain fierce, with Italy, among others, becoming a serious contender in continental Europe. There will be further consolidations in the wholesale business, but no pan-European conglomerates like those on consumer markets are expected to be formed.

The Away-from-Home Team's goal is to retain market leadership in the Nordic countries and to achieve growth in continental Europe, particularly in Poland. There will be a strong emphasis on product development in the next few years, and preparations have already begun at Metsä Tissue's Competence Center Tissue (CCT) in Germany.

In customer collaboration, there will be a changeover to a "teaming" model, which takes the entire value chain into account. This signifies long-term collaboration between mills, wholesalers and end-users aimed at common goals.

Table Top Team

Everyday practical beauty

The Table Top Team manufactures and markets uni-colour and decorated napkins for households and large-scale consumers. The aim is to make Metsä Tissue Europe's leading and most efficient producer of napkins.

The Table Top Team's main market is continental Europe, where Metsä Tissue's customers are most of the major retail chains. Products are also supplied to Great Britain and the Nordic countries. Napkins are marketed under Metsä Tissue's Fasana brand name and customers' own brand names. Fasana currently represents around 20 per cent of sales.

The products are manufactured at the Stotzheim mill in Germany.

NEW CUSTOMERS IN A DIFFICULT MARKET

The main markets were affected by economic decline during 2002. In Germany, for instance, retail sales fell for the first time in decades. Consumption of napkins in Germany fell by some ten per cent.

As over a half of deliveries are to customers in Germany, the Table Top business area did not meet the targets set for growth in sales. Price rises, which would have been justified by factors such as the higher costs of energy and transport, could not be introduced in the manner anticipated.

The customer base was expanded and the Fasana range renewed. Advertising and sales promotion campaigns were used to boost sales. The Table Top Team was represented at the main trade fairs in its field. Thanks to active marketing and the start of sales of coloured tissue base paper, total sales volumes were roughly the same as the year before despite the negative trend in the market.

MORE EFFICIENT PRODUCTION THROUGH INVESTMENTS

Under such difficult market conditions, raising efficiency became an even more important means of securing profitability. This approach helped the Table Top business area to achieve its targeted financial result, even though sales did not develop quite as planned.

A cost-saving programme affecting all operations was successfully implemented at the Stotzheim mill. The active participation of the mill's employees, coupled with good teamwork, provided vital support for the programme. The new training programme has created a basis for ensuring the preparedness needed to meet new challenges.

Production efficiency was improved through investments and arrangements relating to the production process. For instance, production of decorated napkins was rationalized by bringing all operations under one roof. Several new napkin production lines were started up at the mill during the year. The away-from-home products line replaced three old machines and at the same time doubled production capacity. The line producing decorated napkins, which started up at the end of the year, is one of the most efficient in the business. The mill's paper machine was partly rebuilt. All these measures are designed to help the Table Top Team to meet its efficiency targets – both now and in the years ahead.

CREATIVE PRODUCT DEVELOPMENT BRINGS NEW USERS

The Table Top Team's business strategy was reviewed in detail based on the results of extensive purchasing and consumer behaviour surveys.

Under the revised strategy, the operations of the Table Top Team are divided into three core areas. Consumer products are based around the Fasana Table Napkins concept. The aim here is to increase both consumption and sales by making table napkins part of everyday table settings rather than just for special occasions. Creative product development and efficient production are the cornerstones of this concept.

The Fasana Table Napkins concept is being put into practice by working together with the biggest consumer goods retailers. The aim is to improve the profitability of table top products in general and to raise income from shelf space devoted to napkins.

Developing the marketing of away-from-home products is the second core area. Success here will be achieved by improving both production efficiency and product quality. Sales will be channelled through selected wholesalers, with whom Metsä Tissue will work closely to achieve benefits for all concerned.

The third priority is to strengthen the Fasana brand name. This will be achieved by offering high-quality products that represent the latest trends and by making production more efficient.

The most important targets for 2003 are to increase sales and market share, to strengthen the position of the Fasana brand name, and to raise the proportion of total sales accounted for by Fasana products. Profitability will be improved by making production more efficient, raising converting volumes and implementing cost-saving programmes. Emphasis will also be given to the training of personnel.

Baking & Cooking Team

Happier baking and cooking

The Baking & Cooking Team is the European leader in the production and marketing of papers for baking and cooking. The products are used both by households and by large-scale consumers such as bakeries and the food industry.

The Baking & Cooking Team's customers are retailers, specialist wholesalers, industry and independent converters. Baking and cooking papers are marketed under Metsä Tissue's own brand names Serla, Gourmanda and Katrin. Customers' and retailers' own brands are also manufactured. The main markets are continental Europe and the Nordic countries, but products are also marketed in the United States and countries in the Far East.

Baking and cooking products are produced at the Mänttä mill in Finland.

MAKING COOKING MORE ENJOYABLE

The market for baking and cooking papers showed only marginal growth in 2002. Consumption varied greatly from country to country, as did the way the products are used. The merger of two competitors changed the competitive situation on the market. It also opened up new distribution channels, and Metsä Tissue made good use of the opportunities this afforded. The market continued to suffer from over-capacity and competition over prices remained fierce.

Metsä Tissue's sales and market share increased much faster than the average market growth. Profitability and financial results improved. Long-term collaboration with customers, more efficient logistics, and the consistently high quality of products were the keys to success. In marketing, the focus was on baking papers, which further increased their share of total sales. The Gourmanda consumer brand introduced on Scandinavian markets did not find its way onto retailers' shelves as extensively as had been hoped and did not meet its sales targets.

Sales of consumer products were boosted through the introduction of new transport and consumer packs and other measures to draw more attention to the products in shops. Tips on the use of products were provided to consumers to make everyday cooking easier. New product ideas, such as baking paper in sheets and specially designed lunch bags, are helping to make kitchen work more convenient.

FEWER BOTTLENECKS – MORE EFFICIENCY

The mill's capacity utilization rate was higher than the year before. In-house converting accounted for a higher proportion of production. On the production side the emphasis was on improving competitiveness through cost savings and on making production more efficient. Attention was given to the use of raw materials and to overcoming production bottlenecks in order to improve efficiency. Good results were achieved in both these areas.

In product development, efforts were made to improve the basic paper characteristics in order to secure consistently high quality. At the same time this laid the foundation for the planned product development projects.

TOWARDS NEW APPLICATIONS

The market for baking and cooking papers is expected to remain stable during 2003. Traditional uses such as baking are declining, but new uses are being introduced all the time. The rapidly growing popularity of semi-cooked foods is just one area offering new marketing opportunities. Baking and cooking papers meet the increasing demands for hygiene and convenience in homes and particularly in professional use.

The Baking & Cooking Team's goals are to increase sales and to improve profitability. Full use will be made of the new distribution channels acquired in 2002. On the production side, work to improve competitiveness is continuing.

Trends in consumption are being carefully monitored so that new applications can be exploited. Customer surveys will provide the basis for marketing and product development. The aim is to make baking and cooking papers a convenient necessity for everyday baking and cooking for young people, too. Metsä Tissue is also engaged, together with its customers, in a systematic search for new uses in the large-scale consumer sector. There will be a major product development drive.

Supply Team

Working together for excellence

The Supply Team is responsible for the manufacture and development of hygiene products, and for purchasing and logistics for all business areas. The team spearheads and coordinates the development of processes, ensuring that products are manufactured safely, with the emphasis on quality, environmental friendliness and cost-effectiveness. Through the Supply Team the knowhow and skills of the different mills are made available to all.

The Supply Team was formed at the end of 2001 and completed its first full year successfully. The team's management showed a strong commitment to the jointly agreed goals. Collaboration with the business areas was both constructive and fruitful.

The basic structure of activities, responsibilities and common guidelines were defined for the key areas. A uniform set of efficiency measurement tools was introduced at all mills and these are being used to monitor work safety, quality and the efficiency of production from different viewpoints. The new tools proved to be useful for both development and learning purposes. The information they provided led to greater efficiency in several areas.

The ambitious cost-saving programmes implemented at all mills yielded good results. Numerous points for development were identified during the year, and these are now being pursued. Attention was given to points such as the use of raw materials and energy and to making production processes more efficient. Having started as a project, cost-saving measures are developing into a continuous process that is called the Continuous Improvement Process (CIP).

Minimizing the environmental impact of Metsä Tissue's mills is a strategically important area for continuous improvement. Optimizing the consumption of raw materials and energy has a positive impact on the environment while at the same time improving the competitiveness of production. Work continued to reduce the amount of biological sludge taken for landfill. The use of deinking sludge as a fuel and in civil engineering work is a good example of how concern for the environment can be combined with the innovative use of industrial waste. The Mänttä and Katrinefors mills, among others, have achieved good results in this area.

HIGHER QUALITY PRODUCTS – EFFICIENTLY

During the year under review, major technology investments laid the foundation for innovative new products at the Supply Team's mills. The projects mainly concerned the consumer product lines. They will make it possible to manufacture higher quality consumer products efficiently.

The biggest investments in machinery and equipment were made at the Nordic mills. The converting facilities for consumer products at Mänttä and Paulisträm, for example, were modernized.

Competence Center Tissue (CCT), the product development unit that operates in conjunction with the Raubach mill in Germany, had a very productive year. CCT's development work yielded new grades of household towels and bathroom tissue as well as a super-soft, lotionized tissue handkerchief.

Besides product development work, CCT monitors product quality and carries out the benchmarking of competing products. A common quality measuring system was introduced at all mills during the year and this proved both necessary and useful within just a few months. High product quality stabilized and the number of product-related complaints fell.

BETTER CUSTOMER SERVICE AT LOWER COST

A project was launched to switch over from local purchasing to international purchasing. Not only will this strengthen Metsä Tissue's negotiating positions, it will also reduce the amount of work duplication at the mills. The first good results have already been achieved.

A review of logistics was conducted to determine the strengths and weaknesses of present arrangements.

Based on the findings, development work was started with the aim of providing a better customer service at lower cost. Delivery accuracy improved significantly in continental Europe, and is now in line with Metsä Tissue's targets. Feedback from customers was positive. In a survey of consumer goods suppliers conducted among retailers in Sweden, Metsä Tissue came out number one.

At the end of the year, the Supply Team was given the major challenge of integrating the Krapkowice mill in Poland into Metsä Tissue. Both Polish mills are to be modernized to the highest European standard in terms of product quality and efficiency. Development work is going ahead as rapidly as possible on all fronts: technology is being updated, production and working procedures are being made more efficient, new products developed and logistics streamlined.

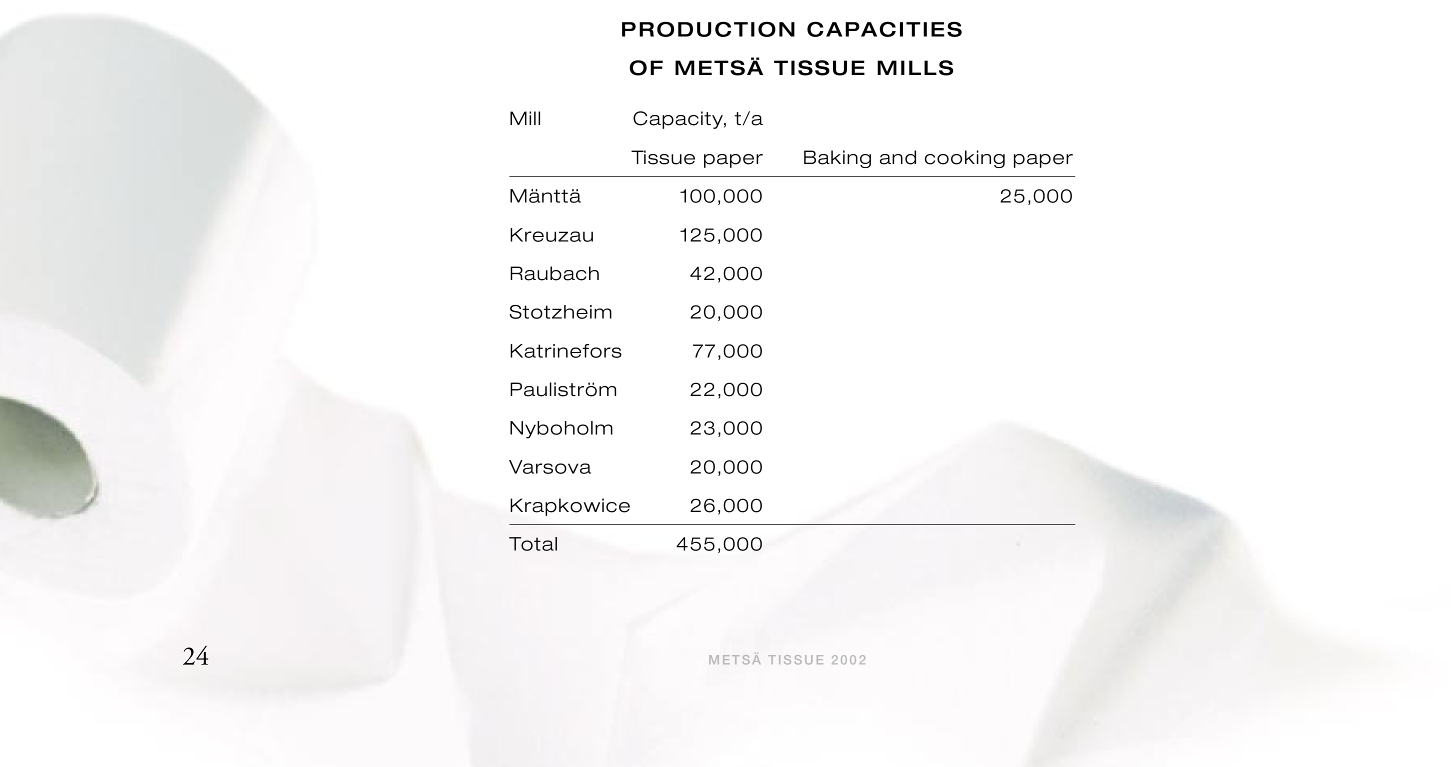
IN THE SPIRIT OF CONTINUOUS IMPROVEMENT

In 2003, the keyword in Supply Team is "implementation". Development and efficiency programmes introduced will continue at all mills. New points for improvement are being sought as part of the Continuous Improvement Process.

A major investment and development programme is also being carried out at the mills in Germany. The programme is designed to raise quality and the degree of converting, particularly of consumer products, and to improve productivity. Logistic arrangements will be rationalized, for example by building a rail link to the Kreuzau mill. Technology updates at the Nordic mills will be completed during 2003.

The focus of product development work in 2003 will be on making activities more efficient and on away-from-home products. CCT's new pilot line will greatly speed up and improve product development and trial runs. Internal quality control procedures will be fine-tuned and made more effective. A wide-ranging information technology project, MT-Infra, is currently under way with the aim of setting up a new common IT environment for Metsä Tissue.

In the area of human resources development, the emphasis will be on making full use of employees' skills and on promoting their well-being. The main focus will be on developing leadership and management systems and on taking more account of the individual.



PRODUCTION CAPACITIES OF METSÄ TISSUE MILLS

Mill	Capacity, t/a	
	Tissue paper	Baking and cooking paper
Mänttä	100,000	25,000
Kreuzau	125,000	
Raubach	42,000	
Stotzheim	20,000	
Katrinefors	77,000	
Paulistöm	22,000	
Nyboholm	23,000	
Varsova	20,000	
Krapkowice	26,000	
Total	455,000	

Responsibility for the environment

Metsä Tissue's environmental policy is an integral part of the company's business strategy. Customers increasingly prefer environmentally sound products and services.

The annual tissue production of Metsä Tissue's mills in Finland, Germany, Sweden and Poland totals 455,000 tonnes. All mills, except for the Polish mills, use quality and environmental management systems, fulfilling the requirements of ISO 9001 and ISO 14001 standards. The Polish mills have already launched a development project aimed at adopting the systems by the end of 2003.

Apart from the Polish mills, all other Metsä Tissue's mills meet the criteria set for the granting of the Nordic Swan ecolabel. According to one of these criteria, a minimum of 15 per cent of virgin fibre used for production must originate from forests managed on a sustainable basis. Virgin fibre used by Metsä Tissue's Nordic mills mainly comes from Finland and Sweden. A total of 95 per cent of Finnish forests have been certificated in accordance with the Pan-European Forest Certification Scheme (PEFC), while 60 per cent of Sweden's forest certification is based on either the PEFC scheme or the scheme approved by the Forest Stewardship Council (FSC).

Effluents and de-inking sludge, which is generated in the manufacture of recycled pulp, are among the direct environmental impacts in paper production. Indirect impacts include emissions into the air caused by the production of power and heat. Metsä Tissue reports on the volume of effluents and emissions discharged by its mills in the Environmental Report issued by M-real, the parent company.

Metsä Tissue primarily aims to reduce its energy and water consumption, and effluents, as well as to increase utilization of de-inking sludge.

In 2002, the most important environmental investment at the Mänttä mill involved the reuse of water needed in paper production, with a view to decreasing the total water consumption by 30 per cent from the 2001 level. In addition, the mill was successful in substantially reducing the amount of de-inking sludge destined for disposal in landfill sites.

The Kreuzau and Raubach mills adopted an energy management system aimed at reducing the consumption of electricity, steam, natural gas and water. The Kreuzau mill utilized de-inking sludge more efficiently by burning it at its power plant for energy production, reducing the amount of de-inking sludge for disposal in landfill sites and thereby also reducing the use of fossil fuels.

The Katrinefors mill increased the combustion of its de-inking and effluent treatment plant sludge at its new power plant, with the result that about 97 per cent of the sludge was burnt, while the remaining sludge was disposed in landfill sites. In addition, burning the sludge produced an annual saving of 5,000 cubic metres of fuel oil.

The Nyboholm and Pauliström mills either completed or launched several projects, with a view to improving the efficiency of the treatment and reuse of water needed in paper production. The aim is to reduce the consumption of process water by 10–15 per cent.

Responsibility for employees

Metsä Tissue assumes responsibility for the development of its employees' competencies and their well-being, while ensuring a good co-operation with employees.

HUMAN RESOURCES DEVELOPMENT

Metsä Tissue is determined to develop its personnel on a long-term basis, with a view to improving its competitiveness in the ever-toughening competition.

Metsä Tissue's management and leadership principles are based on values defined in its We Build Value process initiated in 2001. This value process is aimed at unifying the company, and making all personnel understand the company's strategy and the importance of values and competitive advantages both from the point of view of their own work and the company as a whole.

The main goal of the We Build Value process up and running in 2002 was to boost employees' motivation and enhance their understanding of the important role values and competitive advantages play in their work. The beginning of the year was dedicated to introducing the company's values and competitive advantages to all 3,000 Metsä Tissue employees. The employees had the opportunity to participate in value workshops to elaborate procedures through which common values can be mobilized to affect all operations and decision-making. The material produced by the local workshops was collected for further developing the company.

FEEDBACK ON THE EFFECTIVENESS OF THE VALUES

In the summer, Metsä Tissue analyzed the degree of job satisfaction and the effectiveness of the values by carrying out the We Build Value survey. The findings provided valuable information on how the values work within the organization, and local-level development measures were defined. The progress of local measures is monitored on a regular basis.

Planned and drawn up in co-operation with the business-area management and employee representatives, the survey is used as a human resources management tool by analyzing every year how the values have actually worked in practice. The next survey will be carried out in the spring of 2003.

FINDINGS FROM THE 2002 WE BUILD VALUE SURVEY AT METSÄ TISSUE*

Creating added value	53.6%
Trust	50.7%
Continuous improvement	48.9%
We do it	53.9%
Commitment	49.7%

*The share of those respondents who "Strongly agree" or "Agree" with statements on the effectiveness of each value in daily work and operations. The response rate was 47.1 per cent.

SUCCESS STEMS FROM COMPETENCE

The competencies, personal growth and development of every Metsä Tissue employee provide the basis for the company's successful performance.

The company's vision, strategy and competitive advantages form the basis of the development of leadership and other skills. Metsä Tissue analyzed its business-area competencies during July-December, on the basis of which it defined its needs for the development of competencies and drew up related long-term development plans. Competence analyses will continue in 2003.

In the summer of 2002, the company launched MT Unifier, an international leadership and management training programme for top and middle management, aimed at upgrading leadership and management skills based on the company's values and enhancing the

managers' self-knowledge needed in leadership and management roles.

In support of personal growth, Metsä Tissue provided employees with training aimed at upgrading their professional skills, and guidance on their psycho-physical well-being.

For the development of competence, it is also important for all of us to learn from each other and share experiences. Working together and sharing knowledge freely are the ways to work based on Metsä Tissue values.

CONSISTENT HUMAN RESOURCES MANAGEMENT PRACTICES

Metsä Tissue harmonized its human resource policy, recruitment processes and other practices in its day-to-day human resources management activities. This harmonization of human resources management practices and the human resources development, for their part, supported Metsä Tissue's company acquisition processes.

HEALTH AND SAFETY

In 2002, Metsä Tissue placed a special emphasis on improving work safety. Through the integration of occupational safety related issues into the Supply Team's internal reporting system, the company improved the consistency of its reporting practices.

The Mänttä mill's target for 2002 was zero occupational accident rates. Although it fell slightly below the target, the accident ratio (the ratio of lost hours caused by accidents to total working hours) dropped from 0.7 per cent (in 2001) to about 0.4 per cent thanks to training, special campaigns and the specification of the health and safety organization's role and the responsibilities. The importance of safety helmets, hearing protectors and safety footwear was emphasized.

The Swedish mills that have the lowest accident rates within Metsä Tissue, continued to reduce the incidence of occupational accidents. Safety issues were a topic on many occasions. The aim of the measures taken was to improve the employees' overall health and create team spirit.

In Germany, costs incurred due to occupational accidents are paid by a special co-operative that inspects all plants every year and proposes amendments to develop work safety.

In Poland, the sweeping operational restructuring also implied that occupational safety became a commonplace in daily activities. The report year saw no accident classified as severe by the Polish authorities. There is still room for improvement.

CO-OPERATION WITH EMPLOYEES

The European Work Council is convened annually and acts as a communication channel in conveying information from top management through personnel representatives to employees.

Co-operation between different personnel groups took various shapes. Trade unions played a key role in setting up teams especially when it became necessary to reduce staff. Union representatives were actively involved in a number of activities related to business development, such as quality issues, ISO 9001/14001/18001 certification and in-house training.

Metsä Tissue's internal communication supported the process of bringing greater unity within the company. During the report year, two new, company-wide communication channels, Intranet "TellUs" and the personnel magazine "Together" were introduced. There were three issues of the magazine in local languages and it was distributed, along with the mill magazines, to all personnel. A company-level network of communications responsibles, with the aim of developing internal flow of information was established.

AID FOR CHILDREN AND YOUNGSTERS

Metsä Tissue allocated financial support for local associations working for children and youngsters who have special problems, as well as projects related to health and exercise.

Quarterly development 2001-2002

TURNOVER			**2002**					2001		
MEUR	1-12	10-12	7-9	4-6	1-3	1-12	10-12	7-9	4-6	1-3
Consumer	350.0	92.8	86.2	83.8	87.3	359.3	91.6	91.1	89.0	87.5
Away-from-Home	177.3	43.7	45.9	43.6	44.2	173.5	42.7	42.2	44.4	44.1
Other operations	127.2	35.9	31.6	30.3	29.4	121.0	30.8	28.1	30.4	31.6
Internal sales	-6.8	-1.7	-1.4	-2.0	-1.7	-4.2	-1.9	-0.5	-0.8	-0.9
Total	647.8	170.7	162.3	155.7	159.2	649.6	163.3	161.0	163.0	162.3

OPERATING PROFIT			**2002**					2001		
MEUR	1-12	10-12	7-9	4-6	1-3	1-12	10-12	7-9	4-6	1-3
Consumer	19.7	2.3	7.9	3.9	5.6	21.9	8.4	6.8	4.5	2.3
Away-from-Home	17.7	2.7	6.4	4.0	4.7	12.1	4.0	4.1	2.5	1.6
Other operations	6.6	1.1	3.1	1.0	1.4	3.7	1.8	0.4	0.7	0.9
Other/eliminations	-0.9	-0.1	-0.2	-0.5	-0.1	-1.3	-0.3	-0.1	-0.4	-0.3
Total	43.1	5.9	17.2	8.4	11.6	36.5	13.8	11.1	7.2	4.4
Operating margin, %	6.7	3.5	10.6	5.4	7.3	5.6	8.4	6.9	4.4	2.7
Net exchange gains/ losses	-0.3	0.3	-0.2	-0.1	-0.4	1.0	0.5	-1.0	0.6	0.9
Other financial income and expenses	-5.6	-1.2	-1.5	-1.3	-1.6	-10.3	-1.8	-2.5	-2.9	-3.2
Profit before extraordinary items	37.1	5.0	15.5	7.0	9.6	27.1	12.5	7.6	4.9	2.1

Corporate governance

In accordance with the recommendations of the Helsinki Exchanges, Metsä Tissue Corporation follows the guidelines issued by the Central Chamber of Commerce and the Confederation of Finnish Industry and Employers relating to the governance of publicly quoted joint stock companies.

GENERAL MEETING OF SHAREHOLDERS

The general meeting of shareholders is the company's highest decision-making body. Its duties include adopting annually the company's profit and loss account and balance sheet, deciding on the payment of dividend, and electing the members of the Board of Directors. The Annual General Meeting must be held before the end of June each year. In practice, Annual General Meetings have been held in March.

BOARD OF DIRECTORS

Under the Articles of Association, Metsä Tissue Corporation's Board of Directors consists of at least four and at most eight members elected by a general meeting of shareholders. The term of office of a Board member begins at the end of the general meeting of shareholders at which he/she was elected and continues until the end of the next Annual General Meeting. The Board of Directors elects from among its number a Chairman and a Vice Chairman.

In accordance with the Companies Act, it is the duty of the Board of Directors to supervise the company's administration and the proper management of its operations. It is also the duty of the Board to make decisions that, in terms of the extent and nature of the company's activities, are of an unusual and far-reaching nature.

Other duties of the Board of Directors include deciding on the Group's strategy, approving and monitoring the budget, deciding on significant company acquisitions, investments and matters relating to financing, electing the President and CEO, approving the appointments of persons directly subordinate to the President and CEO and deciding the remunerations to be paid to the President and CEO and other members of the top management.

The Board of Directors normally meets once a month. In 2002, the Board held eight meetings.

PRESIDENT AND CEO

The company's President and CEO is elected by the Board of Directors. The duty of the CEO is to direct the business operations of the company in accordance with the instructions and directions of the Board of Directors.

SALARIES AND REMUNERATIONS OF BOARD MEMBERS AND THE PRESIDENT AND CEO

The remunerations paid to the Board of Directors are confirmed by the general meeting of shareholders for one year ahead. Fees and benefits in kind paid to the members of the Board of Directors in 2002 totalled EUR 121,413. Salaries, fees and benefits in kind paid to Hannu Anttila, the company's President and CEO, in 2002 totalled EUR 260,663.

BUSINESS ORGANIZATION

The Metsä Tissue Group comprises the parent company Metsä Tissue Corporation and subsidiaries in Denmark, France, Germany, Norway, Poland, Spain, Sweden and the UK. The Group's business operations are handled by four business teams and the Supply Team. The teams responsible for business operations are the Consumer Team, Away-from-Home Team, Table Top Team and Baking & Cooking Team. The Supply Team is responsible for production and product development of hygiene paper products and for purchasing and logistics for all teams.

Business management is the responsibility of the Group's President and CEO. Important issues are prepared for consideration by the President and CEO or the Board of Directors at meetings of the Corporate Management Team.

INSIDERS

Metsä Tissue Corporation's Board of Directors has ratified the company's insider regulations the contents of which correspond with "Guidelines for Insiders" issued by the Helsinki Exchanges. At the end of 2002 the company had 92 permanent insiders.

Board of Directors and Auditor

From left to right: Curt Lindbom, Arimo Uusitalo, Jouko M. Jaakkola. Jussi Länsiö, Ari Heiniö, Antti Oksanen.

INFORMATION ON MEMBERS OF THE BOARD OF DIRECTORS AND AUDITOR

Antti Oksanen, b. 1944
Chairman of the Board • Councellor of Mining • President of Metsäliitto Group • President and CEO, Metsäliitto Osuuskunta • Chairman of the Boards of M-real Corporation, Oy Metsä-Botnia Ab, Finnforest Corporation and several other Metsäliitto Group companies • Vice Chairman of the Board, Metsäliitto Osuuskunta • Member of the Board, Myllykoski Paper Oy • Vice Chairman of the Supervisory Board, Tapiola Mutual Pension Insurance Company

Arimo Uusitalo, b. 1942
Vice Chairman of the Board • Councellor of Agriculture • Farmer • Chairman of the Board, Metsäliitto Osuuskunta and Raisio Group • Vice Chairman of the Boards of Finnforest Corporation and M-real Corporation • Member of the Board, Oy Metsä-Botnia Ab

Ari Heiniö, b. 1945
Member of the Board • Chairman of the Board, Silta Oy and Fonecta Oy • Member of the Board, Bodim Port Oy, Finnair Oyj and Jamera Networks Oy, Kultajousi Oy, Polar Kiinteistöt Oyj, Solteq Oyj, Suomen Terveystalo Oy and Tiimari Oy

Jouko M. Jaakkola. b. 1944
Member of the Board • President and CEO of M-real Corporation • Member of the Board, Map Merchants Ltd, Oy Metsä-Botnia Ab, Myllykoski Paper Oy and Larox Corporation • Chairman of the Supervisory Board, Zanders Feinpapiere AG • Member of the Supervisory Board, Varma-Sampo

Curt Lindbom, b. 1942
Member of the Board • Senior Advisor, CapMan Capital Management Oyj • Chairman of the Board, Aurajoki Oy, Cumasa Oy, Finndomo Oy, Kultajousi Oy, Lohja Caravans Oy, Moilasen Leipomo Oy, Turo Tailor Oy, Tiimari Oy and Royal-Rest Oy • Member of the Board, Karelia Yhtymä Oyj, Finnforest Corporation and Junttan Oy

Jussi Länsiö, b. 1952
Member of the Board • Managing Director of Hartwall Plc • Chairman of the Board, Finnish Federation of the Brewing and Soft Drinks Industry • Vice Chairman of the Board, Finnish Food and Drink Industries' Federation and CBMC Confédération des Brasseurs du Marché Commun • Member of the Boards, Sonera Corporation, Baltic Beverages Holding AB and Jokerit HC Oy

Auditor
PricewaterhouseCoopers Oy, Authorized Public Accountants, responsible for the audit **Göran Lindell**, APA

Corporate Management Team

Hannu Anttila, b. 1955
President and CEO
• 75,000 Metsä Tissue Corporation 1998 share options

Per Hellström, b. 1950
Senior Vice President, Planning and Control, Supply Team • 50,000 Metsä Tissue Corporation 1998 share options

Paavo Liestalo, b. 1958
Senior Vice President, Consumer Nordic • 50,000 Metsä Tissue Corporation 1998 share options

Kari Muttilainen, b. 1955
Senior Vice President, Away-from-Home • 50,000 Metsä Tissue Corporation 1998 share options

Raija Mörö, b. 1958
Senior Vice President, Baking & Cooking; General Manager, Mänttä mill
• 50,000 Metsä Tissue Corporation 1998 share options

Antti Pokki, b. 1946
Senior Vice President, German Operations and Business Development
• 50,000 Metsä Tissue Corporation 1998 share options

Hubert Schönbein, b. 1953
Senior Vice President, Consumer Continental
• 50,000 Metsä Tissue Corporation 1998 share options

Anne Silfverberg, b. 1956
Senior Vice President, Human Resources Development

Timo Suuriniemi, b. 1970
Chief Financial Officer

Olli-Matti Tahvanainen, b. 1948
Senior Vice President, Table Top • 50,000 Metsä Tissue Corporation 1998 share options

Lars Warvne, b. 1955
Chief Operating Officer, Supply Team; Managing Director, Metsä Tissue AB
• 50,000 Metsä Tissue Corporation 1998 share options

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Krapkowice mill
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Contents: Metsä Tissue Communications, Fountain Park, Operatiivi. Graphic design: Kaisaniemen Dynamo.
Photographs: Timo Kirves, Timo Viljakainen, Metsä Tissue, arrangements Nina Kaukoranta. Printing: Erweko Painotuote Oy.
Paper: M-real, cover Galerie Art Silk 300 g/m^2, inside pages Galerie Art Silk 150 g/m^2, financial statements Galerie One 100 g/m^2.

Financial statements

1 January – 31 December 2002

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Report of the Board

For the financial period 1 January – 31 December 2002

GENERAL

Metsä Tissue is a European consumer goods company who develops, manufactures and markets tissue products and baking and cooking papers for both households and large institutional customers. The company's main market is Europe north of the Alps.

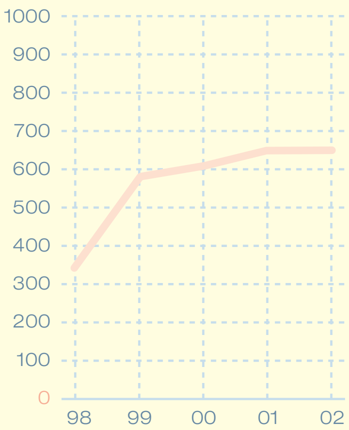
Metsä Tissue is the market leader for tissue products in the Nordic countries and Europe's fourth largest tissue supplier. The company's main products are bathroom tissue, household towels, handkerchiefs, napkins, paper towels and industrial towels. Metsä Tissue is also the European market leader in baking and cooking paper products.

Metsä Tissue's business operations are organized into four business areas and a Supply Team. The business areas are Consumer Team (consumer products), Away-from-Home Team (products for large institutional customers), Table Top Team (napkins) and Baking & Cooking Team (products for baking and cooking). The Supply Team is responsible for the manufacture and development of hygiene products and for purchasing and logistics for the group as a whole. For reporting purposes, the Table Top business area is included in the figures for the Consumer and Away-from-Home business areas, while Baking & Cooking business area is included in Other Operations.

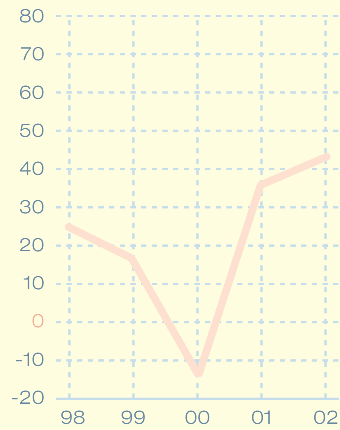
In the Nordic countries the market for consumer tissue products is dominated by branded products. Metsä Tissue's Lambi, Serla and Leni are the leading brand names in this market. In continental Europe, retailers' own brands hold a strong position in the market. Most of the tissue products supplied by Metsä Tissue for the consumer markets in the continental Europe carries the trade's own brand names.

For the away-from-home market, Metsä Tissue offers its range of high-quality Katrin products throughout Europe. The range also includes dispensers to make more effective use of the products. Katrin is the leading brand in the Nordic away-from-home market.

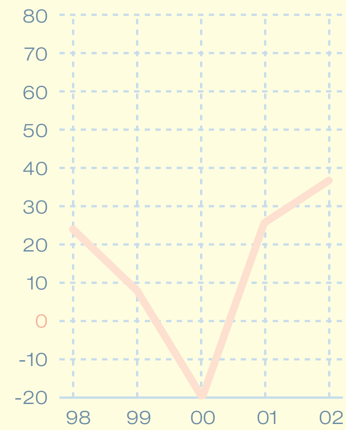
Turnover
(MEUR)



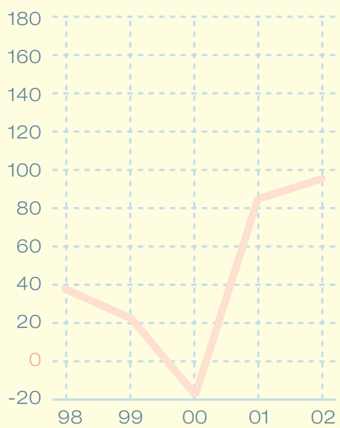
Operating profit/loss
(MEUR)



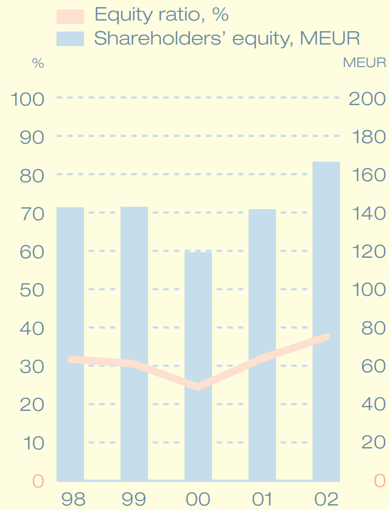
Profit/loss before extraordinary items
(MEUR)



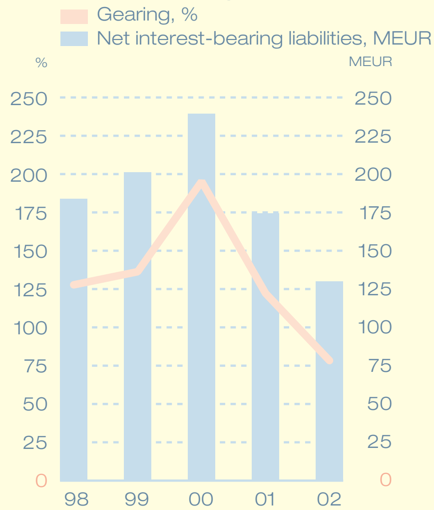
Cash flow from operations
(MEUR)



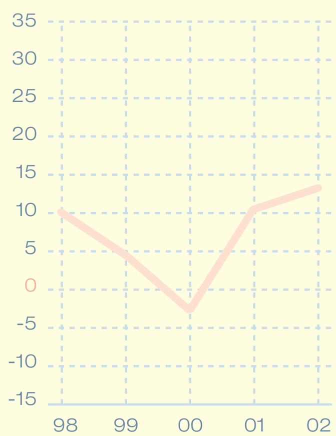
Equity ratio %



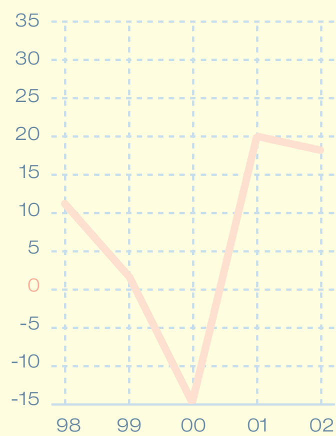
Gearing %



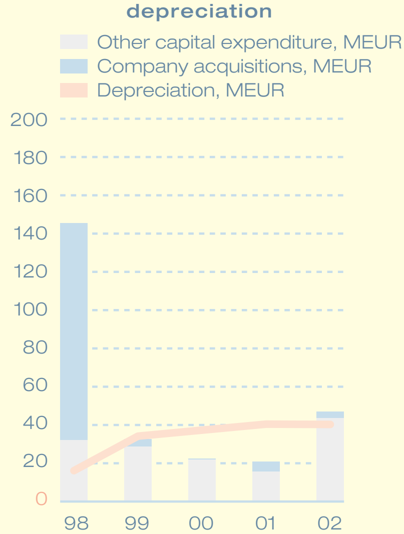
Return on capital employed
%



Return on equity
%



Capital expenditure and depreciation



RESULTS AND TURNOVER

Operating profit improved to EUR 43.1 million, 6.7 per cent of turnover (36.5 million and 5.6 per cent). The improved profit is due to greater cost-effectiveness, improvements made to the product range, and a growth in sales volumes. The profit for the review period includes provisions totalling EUR 3.7 million made for reorganization of operations, most of which concerns business operations in Germany.

Turnover was 0.3 per cent down on the previous year at EUR 647.8 million (649.6 million). Sales volumes, calculated to exclude the effect of acquisitions, rose overall by about 3 per cent, but average sales prices were some 5 per cent lower than in 2001. The fall in average sales prices was due to a substantial drop in market prices for some products, in particular for tissue base paper. Company acquisitions raised turnover by just under one per cent.

Depreciation was 39.2 million (40.1 million). Net financial expenses fell to EUR 6.0 million, 0.9 per cent of turnover (9.3 million and 1.4 per cent). The lower financial expenses are attributable mainly to the decrease in interest-bearing liabilities made possible by the good cash flow from operations.

Profit before extraordinary items was EUR 37.1 million, 5.7 per cent of turnover (27.1 million and 4.2 per cent). Profit was reduced by taxes for the period totalling EUR 9.2 million (0.7 million). A non-recurring increase of EUR 3.3 million in deferred tax receivables concerning the German subsidiaries was set against tax in the accounts. Profit after taxes and minority interests was EUR 28.0 million (24.1 million).

MAIN EVENTS DURING THE FINANCIAL PERIOD

Metsä Tissue is vigorously developing all areas of its operations. The company has launched several market-oriented investment and development programmes designed to raise product quality and degree of converting, particularly of consumer products, and at the same time to substantially improve production efficiency. These programmes will raise the degree of converting and improve product quality, thus making the products more competitive. The programmes will be largely completed during the period 2002–2004 and involve investments totalling around EUR 90 million.

The cost of the investment and development programmes being carried out in the Nordic countries is roughly EUR 30 million. The programmes will help to improve quality, particularly of brand name products, and will significantly improve cost-effectiveness. The programmes will be completed for the most part by the end of 2003.

In September, a development programme was decided on for operations in Poland. The aims of the programme are to raise converting capacity at the Krapkowice and Warsaw mills, to improve product quality, and to at least double productivity. Around EUR 15 million will be invested in developing business in Poland over the next 18 months.

In October, Metsä Tissue decided to launch a major investment and development programme for its operations in Germany. The aims of the programme are to improve product quality and raise the degree of converting, particularly of consumer products, and to raise productivity by more than a third. Logistics will also be rationalised, as part of which a rail link is to be built to serve the Kreuzau mill. The development programme involves investments totalling around EUR 45 million and will be largely complete by the end of 2004. The programme also involves considerable workforce reductions, and a provision for costs of EUR 3.0 million has been made for this purpose in the accounts for 2002.

Metsä Tissue acquired a controlling interest in the Polish tissue company Zaklady Papiernicze w Krapkowicach S.A. (ZPK). During the year Metsä Tissue increased its shareholding in ZPK by 64.7 per cent and at the end of the year its shareholding in the company stood at 89.4 per cent. The shares acquired cost a total of EUR 3.3 million, in addition to which Metsä Tissue took over from ZPK interest-bearing liabilities of EUR 5.1 million. ZPK was consolidated as a subsidiary in Metsä Tissue's consolidated financial statements from the beginning of October. The acquisition of ZPK raised Metsä Tissue's share of the Polish consumer products market to almost 20 per cent.

In December, Metsä Tissue signed an agreement to purchase 38 per cent of the shares of the Polish tissue products converter Krapex Sp.zoo. The price of the shares is EUR 0.8 million and is based on the (100%) debt-free value of the whole of Krapex, which is roughly EUR 3 million. The acquisition is subject to the results of a process of due diligence and requires approval by Poland's competition authority and Ministry of the Interior. Official approval could be obtained during the first half of 2003. If these conditions are met, Metsä Tissue's interest in Krapex will increase to 85 per cent of the shares and votes. The acquisition will also make Metsä Tissue Poland's biggest supplier of converted tissue products.

KEY FIGURES

Earnings per share for the financial period were EUR 0.93 (0.80) and equity per share at the end of the period was EUR 5.52 (4.70). Capital invested in business operations at the end of the period was EUR 325.5 million (342.3 million at 31 December 2001). The return on capital employed was 13.2 per cent (10.3) and the return on equity 18.1 per cent (20.2).

FINANCING

The cash flow from the group's business operations was good during the review period, and as a result there was a further fall in the gearing ratio. The cash flow from operations was EUR 97.3 million (85.7 million) before investments and EUR 53.7 million (65.5 million) after investments. It was possible to reduce net working capital considerably during the year. Net working capital at the end of the year was very low.

The gearing ratio at the end of the year was 77.5 per cent (123.2 per cent at 31 December 2001). The equity ratio improved to 37.4 per cent (31.5 per cent at 31 December 2001).

Interest-bearing liabilities at the end of the year were EUR 158.2 million (196.0 million). Liquidity was good throughout the year. Liquid funds at the end of the financial period were EUR 28.6 million (26.3 million at 31 December 2001). In addition, the group had EUR 104.6 million in unutilised credit facilities (74.8 million at 31 December 2001), of which EUR 100.2 million were committed and EUR 4.4 million uncommitted. Net interest-bearing liabilities fell during the year by EUR 44.5 million to EUR 129.6 million (174.1 million).

Of the group's interest-bearing liabilities, 92 per cent were tied to a maximum of 12-month variable market interest rates and the rest to fixed interest rates. The time to repricing of the group's liabilities has been extended through interest rate derivatives, and for this reason the time to repricing at the end of the financial period was 16.7 months. The average rate of interest on the group's interest-bearing liabilities was 4.0 per cent (3.8).

During the year Metsä Tissue signed important contracts to hedge the cost of its chemical pulp raw material. The contracts cover around 20 per cent of annual consumption up to mid-2005. Metsä Tissue also has currency derivative contracts to cover sales in Norwegian and Danish crowns should the exchange rates for these currencies vary against the Swedish crown. At the end of the review period, these sales were hedged up to the end of 2003.

THE MARKET

Tissue sales in Europe are currently rather more than 5 million tonnes a year. The tissue markets served by Metsä Tissue represent roughly 3.5 million tonnes. Metsä Tissue's share of these markets is about 10 per cent.

The general economic decline in Europe has affected demand for tissue products, which overall grew extremely slowly in 2002. In some markets, for example Germany, demand for certain tissue products has actually fallen slightly. At the same time new production capacity has come onto the market, and this has further intensified competition.

Historically, the European tissue market has been rather fragmented, with each country forming its own market. However, a process of harmonization is now under way. This was assisted during 2002 by internationalization and consolidation, particularly within the retail trade, and by the introduction of the euro.

Overall, prices for the group's main raw materials were somewhat lower than the year before. The average price in euros for chemical pulp, the most important raw material, was 16 per cent lower than in 2001, but prices for waste paper, energy and packaging materials were all up on the year before.

BUSINESS AREAS

Turnover for the Consumer business area fell by 2.6 per cent to EUR 350.0 million (359.3 million). Operating profit was EUR 19.7 million, 5.6 per cent of turnover (21.9 million and 6.1 per cent). Sales volumes in continental Europe were up slightly on the year before. Because of intense competition, average sales prices were somewhat lower than in 2001. In the Nordic countries, Metsä Tissue's own brands further strengthened their positions. Sales of Mola products in Poland were up by a quarter on the year before.

The Away-from-Home business area produced a turnover of EUR 177.3 million, up by 2.2 per cent on last year's figure of EUR 173.5 million. Operating profit improved to EUR 17.7 million, 10.0 per cent of turnover (12.1 million and 7.0 per cent). Sales volumes were somewhat higher than the year before, while average sales prices were almost the same. The improved financial result is attributable to lower costs and to improvements made to the product range. In the autumn, a new streamlined Katrin product range, including more modern dispenser systems, was brought onto the market.

Other operations produced a turnover of EUR 127.2 million (121.0 million). Operating profit was EUR 6.6 million, 5.2 per cent of turnover (3.7 million and 3.1 per cent). The Baking & Cooking business area recorded higher sales volumes than the previous year, with further converted products, in particular, showing better sales. Profitability also benefited from greater business efficiency and cost savings. Tissue base paper sales were about the same as the previous year in volume terms, but average sales prices were lower. Other operations also includes the packaging board business of the Krapkowice mill in Poland for the fourth quarter of the year.

The Table Top business area's sales volumes were almost the same as the previous year, but did not reach the targets. However, operating profit improved thanks to greater efficiency and lower costs.

INVESTMENTS

Investment during 2002 totalled EUR 47.1 million (21.1 million). A total of EUR 3.3 million was used for share purchases (5.1 million) and EUR 43.8 million was invested in fixed assets (16.0 million). Fixed asset sales during the period totalled EUR 3.5 million (0.9 million).

The most significant share purchase during the financial period was the acquisition of a controlling interest in the Polish tissue company Zaklady Papiernicze w Krapkowicach S.A. (ZPK). The cost of the shares concerned was EUR 3.3 million, in addition to which Metsä Tissue took over from ZPK interest-bearing liabilities of EUR 5.1 million. At the end of the year Metsä Tissue owned 89.4 per cent of ZPK's shares. An additional 20 per cent of the share capital of Mäntän Energia Oy was acquired during the year, bringing Metsä Tissue's interest in the company up to 45 per cent.

In line with the development programmes, investments in fixed assets were mainly directed at product development work and at raising the production efficiency of the converting lines. Investments were made at all the group's mills. The brand name Serla, including full rights, was acquired at the end of the financial period.

PERSONNEL

The Metsä Tissue Group had an average of 3,067 employees in 2002 (3,000). The number at the end of the year was 3,299 (2,923). Company acquisitions increased the number at the end of the year by altogether 409.

Personnel by country:

	31.12.01	31.12.02	2002 average
Finland	672	648	693
Other Nordic countries	685	675	689
Germany	1,280	1,237	1,270
Poland	253	707	382
Other countries	33	32	33
Total	2,923	3,299	3,067

SHARES AND SHAREHOLDERS

In 2002, the highest price quoted for Metsä Tissue Corporation's shares was EUR 11.00 and the lowest EUR 8.50. The average quotation was EUR 9.81. At the end of the year the shares were quoted at EUR 10.50.

Metsä Tissue shares to a total value of EUR 17.5 million were traded during the year, 5.9 per cent of the total number of shares. The company's market capitalization at the end of the year was EUR 315 million.

At the end of the year Metsä Tissue had 1,498 registered shareholders. M-real Corporation held 65.6 per cent of the shares and international investors 21.8 per cent. The Board of Directors has no current authorization to issue shares, convertible bonds or share options.

GENERAL MEETING OF SHAREHOLDERS, BOARD OF DIRECTORS AND AUDITORS

Metsä Tissue Corporation's Annual General Meeting was held on 19 March 2002. The following persons were elected members of the Board of Directors: Ari Heiniö, Jouko M. Jaakkola, Curt Lindbom, Jussi Länsiö, Antti Oksanen and Arimo Uusitalo. The term of office of the Board members extends until the end of the 2003 Annual General Meeting. The Board of Directors elected from among its number Antti Oksanen as chairman and Arimo Uusitalo as vice chairman.

PricewaterhouseCoopers Oy (authorised public accountants) were re-elected as the company's auditors, with Göran Lindell, APA, responsible for the audit.

Hannu Anttila has been President and CEO of the company since 1998. He will take up a new post as Senior Vice President, CFO, with the Metsäliitto Group in spring 2003, when a new President and CEO will be appointed.

EVENTS OCCURRING AFTER THE CLOSING OF ACCOUNTS

On 20 January 2003, Svenska Cellulosa Aktiebolaget SCA relinquished its shareholding in Metsä Tissue. At the same time, M-real Corporation's interest in Metsä Tissue Corporation increased to over 90 per cent, and M-real announced its intention to acquire all Metsä Tissue's shares. This means that Metsä Tissue's shares will no longer be listed on the Helsinki Exchanges.

In January Metsä Tissue Corporation increased its shareholding in the Polish tissue company Zaklady Papiernicze w Krapkowicach S.A. (ZPK) to 90.6 per cent.

OUTLOOK FOR 2003

Demand for tissue products is expected to remain fairly steady in the near future. No material growth is anticipated, and competition will therefore remain fierce. Raw material prices are expected to increase somewhat from their present levels during the latter part of the year.

Metsä Tissue will continue with its programmes aimed at product development and at making business more cost effective in all its business areas. Most of these programmes will be completed by summer 2004.

Both turnover and financial results are expected to show positive development in 2003.

Consolidated profit and loss account

1 000 EUR

	1 Jan.-31 Dec. 2002	1 Jan.-31 Dec. 2001
Turnover	647 779	649 635
Change in stocks of finished goods and work in progress +/-	-4 924	-7 767
Interest in associated companies(1)	-569	-1 226
Other operating income(2)	5 582	5 185
Materials and services		
Raw materials and consumables		
Purchased during the financial period	257 200	268 892
Change in stocks	4 588	2 980
External services	6 667	7 781
Employee cost(3)	140 852	135 954
Depreciation and value adjustments(4)	39 177	40 112
Other operating expenses	156 288	153 631
	604 772	609 349
Operating profit	43 096	36 479
Financial income and expenses(5)(6)		
Income from associated companies	17	14
Income from other investments held as non-current assets	15	63
Other interest and financial income	944	693
Net exchange gains and losses	-348	997
Value adjustments of financial investments	0	0
Interest and other financial expenses	-6 620	-11 113
	-5 992	-9 345
Profit before extraordinary items	37 104	27 113
Profit before taxes	37 104	27 113
Direct taxes(7)	-9 163	-668
Profit before minority interest	27 941	26 466
Minority interest	-46	2 394
Profit for the financial period	27 987	24 072

Consolidated balance sheet

1 000 EUR

	31 Dec. 2002	31 Dec. 2001
Assets		
Non-current assets		
Intangible assets (8)		
Intangible rights	4 259	1 464
Goodwill	9 393	10 966
Consolidated goodwill	3 712	5 867
Other capitalized expenditure	195	473
Advance payments and work in progress		
	17 559	18 771
Tangible assets (8)		
Land and water	9 445	8 675
Buildings and constructions	67 282	62 100
Machinery and equipment	142 682	149 111
Other tangible assets	412	343
Advance payments and work in progress	20 788	5 859
	240 609	226 087
Financial investments (9)(22)		
Shares in associated companies	1 559	4 979
Receivables from associated companies	2 776	
Other shares and participations	166	310
Other receivables	17	3
	4 518	5 292
Current assets		
Inventories		
Raw materials and consumables	18 029	22 160
Finished products/goods	42 897	46 892
	60 926	69 052
Receivables (10)(11)(12)		
Accounts receivable	80 706	86 744
Amounts owed by affiliated companies	3 967	7 100
Amounts owed by associated companies	322	542
Deferred tax receivable	6 767	5 849
Other receivables	3 625	4 645
Prepayments and accrued income	2 710	1 973
	98 097	106 854
Cash at bank and in hand	25 385	22 295
Assets, total	447 094	448 350

Consolidated balance sheet

1 000 EUR

	31 Dec. 2002	31 Dec. 2001
Shareholders' equity and liabilities		
Shareholders' equity(13)		
Share capital	51 000	51 000
Share premium account	48 898	48 898
Legal reserve	172	172
Retained earnings	37 614	16 822
Profit for the financial period	27 987	24 072
	165 671	140 964
Minority interest	1 549	348
Provisions for liabilities and charges(14)	15 561	13 382
Liabilities(15)(16)(17)(18)(19)(20)		
Long-term liabilities		
Loans from financial institutions	115 792	122 294
Pension premium loans	10 452	10 235
Accounts payable	1 857	
Amounts owed to associated companies	92	
Deferred tax liability	13 707	15 075
Other liabilities	21 019	21 659
Accruals and deferred income	983	
	163 902	169 262
Short-term liabilities		
Loans from financial institutions	3 105	2 716
Pension premium loans	552	574
Advance payments	647	762
Accounts payable	34 762	30 793
Bills of exchange payable	166	118
Amounts owed to affiliated companies	8 140	41 181
Amounts owed to associated companies	1 530	988
Other liabilities	21 405	19 345
Accruals and deferred income	30 104	27 917
	100 411	124 394
Liabilities, total	264 313	293 656
Shareholders' equity and liabilities, total	447 094	448 350

Consolidated cash flow statement

1 000 EUR

	1 Jan.-31 Dec. 2002	1 Jan.-31 Dec. 2001
Funds from operations		
Operating profit	43 096	36 479
Depreciation according to plan	39 177	40 112
Change in provisions for future costs	2 179	7 559
Net financial items	-5 992	-9 345
Direct taxes	-11 612	-9 731
	66 848	65 074
Change in working capital		
Inventories (- = increase, + = decrease)	9 745	11 453
Current receivables (- = increase, + = decrease)	11 844	10 834
Non-interest-bearing current liabilities (+ = increase, - = decrease)	8 836	-1 696
	30 425	20 591
Cash flow from operations	97 273	85 665
Changes in fixed assets		
Capital expenditure	-47 075	-21 057
Disposals and other changes in fixed assets	3 466	932
	-43 609	-20 125
Cash flow after capital expenditure	53 664	65 540
Financing		
Change in interest-bearing liabilities (+ = increase, - = decrease)	-47 849	-57 632
Change in interest-bearing receivables (- = increase, + = decrease)	-2 234	208
Dividend	-3 000	0
Other items, including translation differences	1 774	-671
	-51 309	-58 095
Change in liquid funds	2 355	7 445

Parent company profit and loss account

1 000 EUR

	1 Jan.-31 Dec. 2002	1 Jan.-31 Dec. 2001
Turnover[6]	200 767	194 372
Change in stocks of finished goods and work in progress +/-	-4 211	-2 360
Other operating income[2]	2 891	1 795
Raw materials and services		
Raw materials and consumables		
Purchased during the financial period	93 093	95 846
Change in stocks	-300	973
External services	9 798	10 463
Employee costs[3]	36 740	40 165
Depreciation and value adjustments[4]	10 264	10 055
Other operating expenses	32 970	29 480
	182 565	186 982
Operating profit	16 882	6 826
Financial income and expenses[5][6]		
Income from affiliated companies	21 825	23 929
Income from associated companies	101	14
Income from other investments held as non-current assets	41	6
Other interest and financial income	5 182	5 453
Net exchange gains and losses	-424	684
Value adjustments of financial investments	-2 622	-16 092
Interest and other financial expenses	-6 141	8 309
	17 962	5 686
Profit before extraordinary items	34 845	12 511
Profit before appropriations and taxes	34 845	12 511
Change in untaxed reserves	5 031	4 048
Direct taxes[7]		
For financial period	-4 977	-3 548
For previous periods	-300	-375
Profit for the financial period	34 599	12 636

Parent company balance sheet

1 000 EUR

	31 Dec. 2002	31 Dec. 2001
Assets		
Non-current assets		
Intangible assets[8]		
Intangible rights	2 840	459
Other capitalized expenditure	6	10
Advance payments and work in progress		
	2 846	469
Tangible assets[8]		
Land and water	696	259
Buildings and constructions	10 337	9 161
Machinery and equipment	33 164	40 857
Other tangible assets	35	38
Advance payments and work in progress	4 970	690
	49 201	51 005
Financial investments[9][22]		
Shares in affiliated companies	141 456	135 421
Receivables from affiliated companies	108 807	128 727
Shares in associated companies	261	3 981
Receivables from associated companies	2 257	0
Other shares and participations	151	300
	252 931	268 429
Current assets		
Inventories		
Raw materials and consumables	3 536	3 236
Finished products/goods	10 095	14 307
	13 632	17 542
Receivables[10][11][12]		
Accounts receivable	26 656	27 059
Amounts owed by affiliated companies	9 777	10 973
Amounts owed by associated companies	19	31
Other receivables	1 962	1 010
Prepayments and accrued income	1 907	689
	40 322	39 761
Cash at bank and in hand	3 962	3 538
Assets, total	362 893	380 744

Parent company balance sheet

1 000 EUR

	31 Dec. 2002	31 Dec. 2001
Shareholders' equity and liabilities		
Shareholders' equity(13)		
Share capital	51 000	51 000
Share premium account	48 898	48 898
Retained earnings	35 877	26 242
Profit for the period	34 599	12 636
	170 375	138 776
Untaxed reserves		
Accumulated depreciation difference	21 725	26 756
Provisions for liabilities and charges(14)	5 852	6 976
Liabilities(15)(16)(17)(18)(19)(20)		
Long-term liabilities		
Loans from financial institutions	114 380	121 987
Pension premium loans	4 559	5 112
	118 940	127 099
Short-term liabilities		
Loans from financial institutions	2 500	2 500
Pension premium loans	552	574
Advance payments	648	740
Accounts payable	8 128	7 300
Amounts owed to affiliated companies	19 932	59 150
Amounts owed to associated companies	1 373	987
Other liabilities	3 226	2 081
Accruals and deferred income	9 643	7 805
	46 002	81 137
Liabilities, total	164 942	208 236
Shareholders' equity and liabilities, total	362 893	380 744

Parent company cash flow statement

1 000 EUR

	1 Jan.-31 Dec. 2002	1 Jan.-31 Dec. 2001
Funds from operations		
Operating profit	16 882	6 826
Depreciation according to plan	10 264	10 055
Change in provisions for liabilities and charges	-1 125	4 175
Net financial items	17 962	5 686
Direct taxes	-5 277	-3 924
	38 707	22 818
Change in working capital		
Inventories (- = increase, + = decrease)	3 911	3 333
Current receivables (- = increase, + = decrease)	-560	600
Non-interest-bearing current liabilities (+ = increase, - = decrease)	2 752	2 706
	6 102	6 640
Cash flow from operations	44 809	29 458
Changes in fixed assets		
Capital expenditure	-18 301	-8 541
Disposals and other changes in fixed assets	5 299	1 210
	-13 002	-7 330
Cash flow after capital expenditure	31 807	22 128
Financing		
Change in interest-bearing liabilities (+ = increase, - = decrease)	-46 045	2 774
Change in interest-bearing receivables (- = increase, + = decrease)	17 663	-19 749
Dividend	-3 000	
	-31 383	-16 975
Change in liquid funds	424	5 153

Accounting principles

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of Metsä Tissue Corporation and all those subsidiaries in which the parent company controls, either directly or indirectly, over 50 per cent of the voting rights. The financial period for all such companies is the calendar year.

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

The purchase method of consolidation has been used in the elimination of intra-Group shareholdings. Goodwill, consisting of the excess of purchase consideration over the fair value of the net assets of acquired companies, is amortized on a straight-line basis, in most cases over a period of five years. Goodwill in respect of the substantial investments made in Germany is amortized over ten years. All intra-Group balances, transactions and unrealized profits have been eliminated.

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

Interests in associated companies with a material impact on the Group's profits and shareholders' equity are entered under "Interest in associated companies" in the consolidated income statement. The figures presented also include amortization of goodwill. Associated companies that are not material to the Group's profits and shareholders' equity have not been consolidated.

FOREIGN CURRENCIES

The profit and loss accounts of foreign subsidiaries have been translated into euros at the average exchange rate for the financial period. The balance sheets have been translated using the average of exchange rate at the end of period. Translation differences arising on consolidation are entered under unrestricted equity.

Transactions in foreign currencies are recorded using the exchange rates prevailing at the date of the transaction. For Group companies based in Finland, assets and liabilities in foreign currencies are translated into euros using the average exchange rate at the balance sheet date. Exchange rate differences arising on such translations are recorded in the profit and loss account either as adjustments to sales or purchases or as net exchange gains/losses under financial income and expenses.

Unrealized exchange differences arising from derivative agreements used to hedge sales in foreign currencies are recorded as adjustments to turnover based on accruel principles.

TURNOVER

Turnover is calculated after deduction of indirect sales taxes, trade discounts, bonuses, refunds and exchange differences on sales. Freight costs and other sales and delivery costs are recorded in the profit and loss account under operating expenses.

PENSIONS AND PENSION FUNDS

Statutory pension coverage for employees of the parent company and its subsidiaries in Finland is arranged through pension insurance companies. Foreign subsidiaries make their own pension arrangements in accordance with local practice.

RESEARCH AND DEVELOPMENT

Research and development costs are expensed as incurred.

LEASING

Payments made under leasing contracts are charged against profit as rental costs. Major assets held under financial leases are included in fixed assets and the capital element of the leasing commitments is included under liabilities in the balance sheet.

INVENTORIES

Inventories are valued at the lower of cost and net realizable value at the balance sheet date. Cost is determined on a weighted average cost basis. Cost is calculated to include the variable cost of manufacture and an appropriate proportion of the fixed costs of purchase and manufacture.

FIXED ASSETS AND DEPRECIATION

Fixed assets are stated at cost less accumulated depreciation according to plan. Depreciation charged in the profit and loss account is calculated on a straight-line basis so as to write off the cost of fixed assets over their expected useful lives.

The principal annual rates adopted are as follows:

Buildings and constructions	2.5 – 5%
Machinery and equipment	5 – 33%
Other items	10 – 33%
Goodwill on consolidation	10 – 20%

EXTRAORDINARY INCOME AND EXPENSES

Substantial income or expenses arising from transactions of an abnormal nature is presented in the profit and loss account as extraordinary items. Changes in accounting principles and practices are also included in extraordinary items.

APPROPRIATIONS

In the financial statements of the Group companies, appropriations to or from untaxed reserves and accumulated depreciation difference are recorded as an adjustment to profit before appropriations and taxes in the country in question in arriving at the profit for the financial period, and accumulated appropriations are shown as a separate reserve in the balance sheet without tax effect. On consolidation, these appropriations are tax effected in the profit and loss account and the accumulated tax effect is recorded as a deferred tax liability in the balance sheet with the after-tax balance of appropriations included as part of unrestricted shareholders' equity.

FUTURE COSTS AND LOSSES

Future costs and losses to which the Group is committed and which are likely to be realized are included in the profit and loss account under the appropriate expense heading and in the balance sheet under provisions for future costs whenever the exact amount or date of occurrence is not known, otherwise under accruals and deferred income.

DIRECT TAXES

The consolidated profit and loss account shows direct taxes for each period calculated according to the accruals convention on the basis of the financial results of Group companies for each such period and in accordance with local tax regulations, together with tax payable or refunded in respect of previous financial periods. Income taxes also include the charge or credit for each period in respect of deferred tax. Deferred tax liabilities are shown as required by the Finnish Accounting Act.

Notes to the accounts

1 000 EUR

1. Share of profits of associated companies

	Holding %	Share of profit for financial period	Goodwill amort-ization	Share of companies profit	Remaining goodwill
Mäntän Energia Oy	45.0	148		148	
Ultimatic Systems GmbH	46.7	-53	-99	-153	
Zaklady Papiernicze w Krapkowicach S.A.*	40.4	-581		-581	
Biokrap Sp. z.o.o	50.0	5		5	
Krapex Sp. z.o.o	47.0	11		11	
Almat Sp z.o.o	48.3	1		1	
		-469	-99	-569	

* Above mentioned company has been an associated company from 1st January until 30th September, after that it has been an affiliated company.

2. Other operating income

	Group 2002	Group 2001	Parent company 2002	Parent company 2001
Rental income	384	371	65	37
Gains on disposals of fixed assets	237	672	125	29
Service revenues	516	352	918	1 423
Other items	4 445	3 790	1 783	305
	5 582	5 185	2 891	1 795

3. Employee costs

	Group 2002	Group 2001	Parent company 2002	Parent company 2001
Wages and salaries	97 902	91 079	21 192	20 102
Pension expenses	9 476	15 488	5 055	10 223
Other social expenses	33 474	29 387	10 493	9 840
	140 852	135 954	36 740	40 165
Salaries and fees to members of Board of Directors and managing directors				
Managing director and his deputy	1 391	1 775	251	197
Members and deputy members of Board of Directors	169	138	121	138
	1 560	1 913	372	335

The President and CEO of the parent company has the right to retire at the age of 62.

4. Depreciation

	Group 2002	Group 2001	Parent company 2002	Parent company 2001
Depreciation according to plan				
Intangible rights	721	812	178	309
Purchased goodwill	880	1 557		
Consolidation goodwill	1 110	2 425		
Other capitalized expenditure	214	354	4	67
Buildings and constructions	6 221	5 286	946	879
Machinery and equipment	29 937	29 581	9 133	8 797
Other tangible assets	94	97	3	3
Total depreciation according to plan	39 177	40 112	10 264	10 055
Depreciation difference			-5 093	-4 073
Total depreciation	39 177	40 112	5 171	5 982
Depreciation difference at beginning of period			26 756	30 804
Depreciation difference			-5 093	-4 073
Depreciation difference on assets sold			62	25
Depreciation difference at period end			21 725	26 756

5. Financial income and expenses	Group		Parent company	
	2002	2001	**2002**	2001
Dividend income				
From affiliated companies			21 825	23 929
From associated companies	17	14	101	14
Other	15	63	41	6
Income from non-current financial assets	32	77	21 967	23 949
Other interest and financial income				
Other interest income from affiliated companies			5 076	5 363
Other interest income from others	944	693	106	90
Other financial income	892	1 326	879	1 006
	1 836	2 019	6 061	6 459
Income from non-current financial assets and other interest and financial income	1 868	2 096	28 028	30 408
Value adjustments of financial investments				
From Group companies			-2 622	-16 092
Interests and other financial expenses				
Interest expenses to affiliated companies	-887	-2 793	-1 209	-683
Interest expenses to others	-5 689	-8 290	-4 786	-7 476
Other financial expenses	-1 285	-358	-1 449	-471
	-7 861	-11 441	-7 444	-8 630
Financial income and expenses total	-5 993	-9 345	17 962	5 686

6. Exchange gains and losses in profit and loss account	Group 2002	Group 2001	Parent company 2002	Parent company 2001
Exchange differences on sales				
Exchange differences on derivatives	-3 539	482	282	-407
Other exchange differences	1 195	2 062	-893	273
	-2 344	2 544	-611	-134
Exchange differences on purchases				
Exchange differences on derivatives				
Other exchange differences	-242	-548	60	12
	-242	-548	60	12
Exchange differences on financing				
Exchange gains				
Realized	721	964	714	960
Unrealized	171	361	165	46
Exchange losses				
Realized	-741	-287	-727	-281
Unrealized	-500	-41	-576	-41
	-349	997	-424	684
Exchange gains and losses total	-2 935	2 993	-975	562

7. Direct taxes	Group 2002	Group 2001	Parent company 2002	Parent company 2001
Income taxes for the period	-11 523	-9 393	-4 977	-3 548
Income taxes for previous periods	-89	-338	-300	-375
Change in deferred taxes				
Change in deferred tax liability	1 531	82		
Change in deferred tax receivable	981	8 981		
	-9 163	-668	-5 277	-3 923

In relation to taxation for the companies in Germany and Poland, the deferred tax receivable on tax deductible losses has been included in the 2001 and 2002 accounts to the extent that such receivables are likely in the near future to give rise to taxable income against which deferred tax receivable can be set. In previous years, the deferred tax receivable has not been included in the accounts.

8. Intangible and tangible assets

	Intangible rights	Goodwill	Consolidated goodwill	Other capitalized expenditure	Land and water	Buildings and constructions	Machinery and equipment	Other tangible assets	Work in progress
Group									
Acquisition cost 1 Jan.	6 179	14 496	11 755	2 688	8 690	129 372	426 101	888	5 985
Increases and translation differences during the period	3 463			-126	777	76	16 024	109	18 628
Transfers between items						901	1 618		-2 519
Decreases during the period	-109		-1 027			-1 257	-10 970	-14	-1 306
Acquisition cost 31 Dec.	9 533	14 496	10 728	2 562	9 467	129 092	432 773	983	20 788
Accumulated depreciations 1 Jan.	-4 647	-4 223	-5 906	-2 153	-22	-55 890	-268 650	-491	
Accumulated depreciations on transfers and decreases	94					301	8 496	14	
Depreciation for the period	-721	-880	-1 110	-214		-6 221	-29 937	-94	
Accumulated depreciations 31 Dec.	-5 274	-5 103	-7 016	-2 367	-22	-61 810	-290 091	-571	
Book value 31 Dec. 2002	4 259	9 393	3 712	195	9 445	67 282	142 682	412	20 788
Book value 31 Dec. 2001	1 464	10 966	5 867	473	8 675	62 100	149 111	343	5 859

The acquisition cost of fixed assets of companies acquired by the group through share purchases is entered under the group's accumulated acquisition costs and accumulated depreciation under the group's accumulated depreciation. The machinery and equipment account includes EUR 137,723,000 for production machinery and equipment.

	Intangible rights	Goodwill	Consolidated goodwill	Other capitalized expenditure	Land and water	Buildings and constructions	Machinery and equipment	Other tangible assets	Work in progress
Parent company									
Acquisition cost 1 Jan.	3 133			1 722	259	16 292	97 364	69	690
Increases during the period	2 559				437	2 202	3 192		4 970
Transfers between items						875	-185		-690
Decreases during the period						-936	-2 622		
Acquisition cost 31 Dec.	5 692			1 722	696	18 433	97 749	69	4 970
Accumulated depreciations 1 Jan.	-2 674			-1 712		-7 131	-56 507	-31	
Accumulated depreciations on transfers and decreases						-19	1 055		
Depreciation for the period	-178			-4		-946	-9 133	-3	
Accumulated depreciations 31 Dec.	-2 852			-1 716		-8 096	-64 585	-34	
Book value 31 Dec. 2002	2 840			6	696	10 337	33 164	35	4 970
Book value 31 Dec. 2001	459			10	259	9 161	40 857	38	690

The machinery and equipment account includes EUR 32,903,000 for production machinery and equipment.

9. Financial investments

	Shares in affiliated companies	Shares in associated companies	Other shares and participations	Receivables from affiliated companies	Receivables from associated companies	Other receivables	Total
Group							
Acquisition cost 1 Jan.		5 381	310			3	5 694
Increases during the period			3		2 776	14	2 793
Decreases during the period		-3 822	-147				-3 969
Book value 31 Dec.		1 559	166		2 776	17	4 518
Parent company							
Acquisition cost 1 Jan.	135 421	3 981	300	128 727			268 429
Increases during the period	4 768	172		3 872	2 400		11 212
Transfers between items	1 981	-1 982	1				
Decreases during the period	-714	-1 910	-150	-23 792	-143		-26 709
Book value 31 Dec.	141 456	261	151	108 807	2 257		252 932

10. Receivables from the management

There are no loans receivable from the members of the Board of Directors and the managing director or their deputies.

11. Receivables

	Group 2002	Group 2001	Parent company 2002	Parent company 2001
Long-term receivables				
Deferred tax receivable	6 767	5 849		
Short-term receivables				
Receivables from others				
Accounts receivable	80 706	86 744	26 656	27 059
Loans receivable				
Other receivables	3 624	4 645	1 962	1 010
Prepayments and accrued income	2 710	1 973	1 907	689
Receivables from affiliated companies				
Accounts receivable	357	1 188	6 524	6 985
Loans receivable	3 253	3 988	3 253	3 988
Other receivables	357	1 924		
Receivables from associated companies				
Accounts receivable	322	31	19	31
Loans receivable		511		
	98 096	106 854	40 321	39 761

12. Prepayments and accrued income	Group 2002	Group 2001	Parent company 2002	Parent company 2001
Interests			24	
Taxes			5	
Insurance	18	135		111
Leasing	482	872		
Compensations			248	
Other	2 210	966	1 630	578
	2 710	1 973	1 907	689

13. Shareholders' equity	Group 2002	Group 2001	Parent company 2002	Parent company 2001
Share capital 1 Jan.	51 000	51 000	51 000	51 000
Share capital 31 Dec.	51 000	51 000	51 000	51 000
Share premium account 1 Jan.	48 898	48 898	48 898	48 898
Share premium account 31 Dec.	48 898	48 898	48 898	48 898
Legal reserve 1 Jan.	172	172		
Legal reserve 31 Dec.	172	172		
Other reserves and retained earnings 1 Jan.	40 894	18 404	38 878	26 242
Dividends	-3 000		-3 000	
Transfers to restricted equity				
Change in translation differences	-550	-1 354		
Other items	270	-228		
Profit for the financial period	27 987	24 072	34 599	12 636
Other reserves and retained earnings 31 Dec.	65 601	40 894	70 477	38 878
Shareholders' equity total	165 671	140 964	170 375	138 776
Distributable funds				
Retained earnings	65 602	40 894	70 477	38 878
Untaxed reserves in shareholders' equity	-23 590	-28 455		
Distributable funds	42 012	12 439	70 477	38 878
Untaxed reserves 31 Dec.	56 133	62 959	21 725	26 756
Deferred tax liability in untaxed reserves	-15 934	-17 896		
	40 199	45 063	21 725	26 756
Reserves at the date of acquisition	-16 608	-16 608		
Untaxed reserves in shareholders' equity 31 Dec.	23 591	28 455	21 725	26 756

14. Provisions for liabilities and charges

	1 Jan.	Increase	Decrease	31 Dec.
Group				
Reserve for unemployment costs and similar obligations	9 949	1 746	-3 391	8 304
Reserve for business termination and restructuring costs	245	3 000	-245	3 000
Other items	3 188	1 753	-684	4 257
	13 382	6 499	-4 320	15 561
Parent company				
Reserve for unemployment costs and similar obligations	6 976	1 176	-2 300	5 852
	6 976	1 176	-2 300	5 852

15. Liabilities

	Group		Parent company	
	2002	2001	**2002**	2001
Long-term				
Non-interest bearing	16 682	15 075		
Interest bearing	147 220	154 187	118 940	127 099
	163 902	169 262	118 940	127 099
Short-term				
Non-interest bearing	89 391	77 638	28 116	25 365
Interest bearing	11 019	46 756	17 886	55 772
	100 410	124 394	46 002	81 137

16. Long-term loans with amartization plan

	Loans from financial institutions	Pension loans	Other loans	Total
Group				
2003	2 604	552		3 156
2004	91 334	532		91 866
2005	10 442	512		10 954
2006	2 559	366		2 925
2007	2 529	220		2 749
2008-	8 928	8 822		17 750
	118 396	11 004		129 400

17. Deferred tax liabilities

	Group		Parent company	
	2002	2001	**2002**	2001
For untaxed reserves	15 934	17 896		
For provisions for liabilities and charges	-2 227	-2 821		
	13 707	15 075		

18. Long-term liabilities

	Group 2002	Group 2001	Parent company 2002	Parent company 2001
Liabilities to others				
Loans from financial institutions	115 792	122 294	114 380	121 987
Pension premium loans	10 452	10 235	4 560	5 112
Accounts payable	1 857			
Amounts owed to associated companies	92			
Deferred tax liabilities	13 707	15 075		
Other interest-bearing liabilities	20 976	21 659		
Other non-interest bearing liabilities	43			
Accruals and deferred income	983			
	163 902	169 262	118 940	127 099

19. Short-term liabilities

	Group 2002	Group 2001	Parent company 2002	Parent company 2001
Liabilities to others				
Loans from financial institutions	3 105	2 716	2 500	2 500
Pension premium loans	552	574	552	574
Advance payments	647	762	648	740
Accounts payable	34 762	30 793	8 128	7 300
Bills of exchange payable	166	118		
Accruals and deferred income	30 104	27 917	9 643	7 805
Other short-term interest-bearing liabilities	2 197	3 348		
Other short-term non-interest bearing liabilities	19 208	15 997	3 226	2 081
Liabilities to affiliated companies				
Accounts payable	1 302	1 134	5 099	6 452
Other short-term interest-bearing liabilities	5 000	40 000	14 833	52 698
Other short-term non-interest bearing liabilities	1 837	47		
Liabilities to associated companies				
Accounts payable	1 530	988	1 373	987
	100 410	124 394	46 002	81 137

20. Accruals and deferred income

	Group 2002	Group 2001	Parent company 2002	Parent company 2001
Accruals of wage, salary and staff costs	11 654	7 855	7 624	4 968
Interests	707	795	707	795
Accruals of purchases	5 083	6 563		
Insurances	691	814		814
Provisions for discounts	7 154	6 421	662	934
Others	4 815	5 469	650	294
	30 104	27 917	9 643	7 805

21. Contingent liabilities

	Group 2002	Group 2001	Parent company 2002	Parent company 2001
For own liabilities				
Liabilities secured by mortgages				
Loans from financial institutions				
Other loans	1 448	1 208		
Real estate mortgages				
Chattel mortgages	3 330	2 440		
On behalf of Group companies				
Guarantee liabilities	27	27	21 416	21 075
On behalf of others				
Guarantee liabilities				
Other liabilities				
As security for own commitments	118	102		
Leasing commitments*				
Payments due in next 12 months	2 417	2 693	379	720
Payments due in subsequent years	3 470	3 484	516	223
Total				
Real estate mortgages				
Chattel mortgages	3 330	2 440		
Guarantees	27	27	21 416	21 075
Other liabilities	118	102		
Leasing liabilities	5 887	6 177	895	943
	9 362	8 746	22 311	22 018

* Sum does not include the following leasing liabilities capitalized in the balance sheet

Group	Gross amount 2002	Market value	Unrecognized valuation difference	Gross amount 2001
Liabilities due to open derivative contracts				
Currency derivatives				
Forward agreements	75 428	-1 064	-1 035	70 842
Options				
Purchased				
Sold				
Interest rate derivatives				
Options				
Purchased	120 000	-147	-147	
Sold	120 000	-534	-522	
Commodity derivatives	63 259			26 103

	Group	
Financial leasing agreements	**2002**	2001
Value of assets in consolidated balance sheet		
Land and water	544	544
Machinery and equipment	853	2 583
Buildings	2 181	2 090
	3 578	5 217
Financial lease liabilities		
Short-term	1 390	3 124
Long-term	2 187	2 093
	3 577	5 217
Future leasing payments		
Payments due in next 12 months	957	1 746
Future leasing payments, total	4 882	6 439
	5 839	8 185

Other liabilities

Metsä Tissue's Mariestad mill in Sweden has made a 15-year commitment to purchase process steam from the local energy-generating plant Katrinefors Kraftvärme AB, of which Metsä Tissue owns 50 per cent.

Metsä Tissue Corporation is part of M-real Corporation, a member of the Metsäliitto Group. Metsä Tissue Corporation is the parent company of the Metsä Tissue Group. Annual reports for the Metsäliitto Group and M-real Corporation can be obtained from the companies' head office at Revontulentie 6, Espoo, Finland.

22. Shares and participations

	Domicile	Holdings %	Number of shares	Nominal value 1 000s	Book value 1 000s
Affiliated companies					
Owned by Metsä Tissue Corp.					
Metsä Tissue Holding GmbH	Germany	100.00		63 355 EUR	64 906 EUR
Metsä Tissue Ltd	UK	100.00	100		72 EUR
Metsä Tissue Holding Ab	Sweden	100.00	100 000	10 000 SEK	52 979 EUR
Metsä Tissue Sales S.A.	Poland	100.00	1 000	100 PLN	26 EUR
Metsä Tissue S.A.	Poland	100.00	1 615 000	7 090 PLN	16 873 EUR
Zaklady Papiernicze w Krapkowicach S.A.	Poland	89.45	1 665 517	18 620 PLN	5 992 EUR
Tissu Canarias S.A.	Spain	63.05	39 092	189 EUR	599 EUR
Owned by Metsä Tissue Holding AB					
Metsä Tissue AB	Sweden	100.00	2 000 000	200 000 SEK	576 450 SEK
Metsä Tissue A/S	Denmark	100.00	1 000	500 DKK	270 SEK
Metsä Tissue AS	Norway	100.00	6 020	602 NOK	482 SEK
Owned by Metsä Tissue Holding GmbH					
Metsä Tissue GmbH	Germany	100.00		11 535 EUR	52 440 EUR
Metsä Tissue Immobilienverwaltungs GmbH	Germany	100.00		50 EUR	53 EUR
Metsä Tissue S.A.R.L.	France	99.97	3 099	315 EUR	315 EUR
Owned by Metsä Tissue GmbH					
Halstrick Polska Sp. z.o.o	Poland	100.00		1 460 PLN	153 EUR
Halstrick Transportgesellschaft GmbH + Co. KG	Germany	100.00		97 EUR	327 EUR
Owned by Metsä Tissue S.A					
Metsä Service Sp. z.o.o	Poland	100.00	100	50 PLN	50 PLN
Owned by Zaklady Papiernicze					
w Krapkowicach S.A.	Poland	100.00	6 480	648 PLN	179 PLN
Transpap Sp. z.o.o	Poland	70.00	700	70 PLN	29 PLN
Remex Sp. z.o.o					
Associated companies					
Owned by Metsä Tissue Corp.					
Mäntän Energia Oy	Finland	45.00	1 800	153 EUR	256 EUR
Owned by Metsä Tissue AB					
Papperåtervinnings AB*	Sweden	33.00	333	33 SEK	75 SEK
Katrinefors Kraftvärme AB*	Sweden	50.00	250	250 SEK	250 SEK
Owned by Zaklady Papiernicze w Krapkowicach S.A.					
Biokrap Sp. z.o.o	Poland	50.00	14 806	1 481 PLN	1 481 PLN
Almat Sp. z.o.o	Poland	48.28	560	28 PLN	14 PLN
Krapex Sp. z.o.o	Poland	47.00	47	47 PLN	110 PLN
Other shares and holdings					
Owned by Metsä Tissue Corp.					
Housing companies					146 EUR
Other					17 EUR
Owned by affiliated companies					
Owned by Metsä Tissue AB					100 SEK
Owned by Metsä Tissue GmbH					102 EUR
Owned by Zaklady Papiernicze w Krapkowicach S.A.					11 PLN

* The companies are not included in the consolidation of associated companies.

Risk management

Metsä Tissue Corporation is part of the M-real Group and complies with the risk management policy approved by M-real's board of directors. The purpose of risk management is to identify the risks associated with business operations and to manage these risks according to agreed principles.

FINANCIAL RISKS

The purpose of financial risk management is to protect Metsä Tissue against unfavourable changes in financial markets and to reduce uncertainty regarding the company's future. Financial risks are managed by hedging foreign currency exposure and interest rate risks on a case-by-case basis using derivatives.

Foreign exchange risks

In managing foreign exchange risks the aim is to reduce the impact on the consolidated financial result and balance sheet of unfavourable fluctuations resulting from changes in exchange rates. Foreign exchange risks are divided into the risks associated with foreign currency flows and the risks attached to translation into euros of the equities of foreign subsidiaries.

Risks associated with foreign currency flows arise when sales revenues or purchasing costs are denominated in currencies other than those that apply to production costs. The introduction of the euro has reduced foreign currency exposure, but outside the euro zone the risks remain.

Metsä Tissue's main foreign currency exposure concerns the US dollar. Other major risks are posed by the pound sterling, the Swedish, Norwegian and Danish crowns, and the Polish zloty. A weakening of the US dollar, the Swedish crown and the Polish zloty has a positive impact on Metsä Tissue's financial results, while a strengthening of these currencies has a negative impact. The effects of changes in the other currencies mentioned are the reverse.

During 2002, Metsä Tissue signed foreign currency derivative agreements to hedge its sales in Norwegian and Danish crowns against any fluctuations in these currencies against the Swedish crown. At the end of the financial period, this exposure was hedged up to the end of 2003.

The risks to Metsä Tissue from the translation of foreign subsidiaries' equities arise from the equity investments made in Swedish crowns and Polish zlotys into these countries. At the balance sheet date these risks were not hedged.

Interest rate risks

Interest rate risks arise from fluctuations in interest rates, but also depend on whether interest-bearing debts are tied to fixed or variable rates of interest. At the end of the financial period 92 per cent of Metsä Tissue's interest-bearing debts were tied to a maximum of 12-month variable market interest rates and the rest to fixed interest rates. The time to re-pricing of these debts has been extended using interest rate derivatives, and for this reason the average time to re-pricing at the end of the financial period was 16.7 months.

Liquidity risk

Liquidity risk is defined as the risk that funds and borrowing facilities become insufficient to meet business needs, or that costs incurred in arranging the necessary financing become unreasonable. The risk is monitored by estimating the need for liquidity 12 months ahead and comparing this with the total liquidity available. At 31 December 2002, Metsä Tissue had liquid funds and credit facilities totalling EUR 133.2 million.

Counterparty risk

Financial instruments carry the risk that a counterparty may be unable to meet its commitments to Metsä Tissue. The risk is managed by entering into financial transactions only within limits specified for each counterparty and, if necessary, by taking out credit insurance. Metsä Tissue keeps close track of its receivables and actively pursues collection of outstanding debts.

COMMODITY RISKS

Metsä Tissue's business is susceptible to risks associated with commodity prices and availability. Fluctuations in prices for raw materials, such as chemical pulp, recycled paper, packaging materials and energy, affect the company's business results. Price-related risks can be reduced by signing long-term purchasing agreements and derivative agreements. In spring 2002, Metsä Tissue signed important contracts to hedge the cost of its pulp raw material. The contracts cover around 20 per cent of annual consumption up to mid-2005. In addition derivative agreements are used to reduce the effect of fluctuations in the price of electricity.

To secure supplies of raw materials in both long and short term, Metsä Tissue seeks to negotiate long-term contracts with its suppliers. In many cases, at least two suppliers are used to further reduce the risk associated with availability.

PROPERTY AND LOSS-OF-PROFIT RISKS

Metsä Tissue's property and loss-of-profit risks are insured as part of the Metsäliitto Group's international insurance programme. Surveys are carried out at all the main sites to assess the extent of risks and the level of risk management. Present comprehensive insurance programme covers property and loss-of-profit risks for 2002 and 2003.

TRANSPORT RISKS

Metsä Tissue's transport risks are insured through an international insurance programme covering the entire country. The insurance covers all the company's export, import and supply transports, as well as intermediate storage and cargo average world- wide.

Shares and shareholders

BREAKDOWN OF SHAREHOLDINGS AT 30 DECEMBER 2002

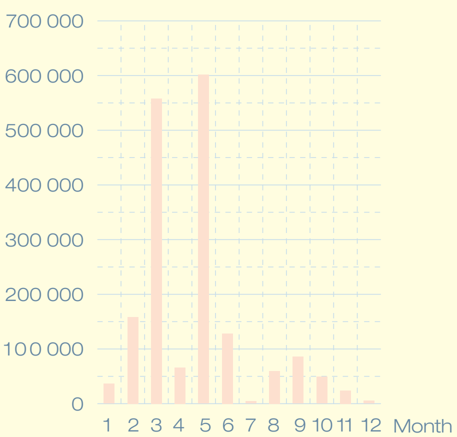
Shares	Number of shareholders	% of all shareholders	Number of shares owned	% of all shares and votes
1-100	470	31.38	39,518	0.13
101-1,000	889	59.35	364,995	1.22
1,001-10,000	98	6.54	234,769	0.78
10,001-100,000	27	1.80	825,318	2.75
Yli 100,000	14	0.93	28,535,400	95.12
Total	1,498	100.00	30,000,000	100.00

MAIN SHAREHOLDERS AT 30 DECEMBER 2002

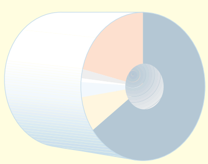
	Name	Number of shares	% of shares and votes
1.	M-real Corp.	19,675,000	65.58
2.	SCA Mölnlycke Holding BV	5,781,200	19.27
3.	Varma-Sampo Mutual Pension Insurance Company	724,400	2.41
4.	Nordea Life Insurance Finland Ltd	325,000	1.08
5.	Nordea Foresta	279,300	0.93
6.	OP-Pirkka Mutual Fund	182,600	0.61
7.	Metsäliitto Osuuskunta	161,100	0.54
8.	OP-Metsä Mutual Fund	157,200	0.52
9.	Aktia Capital Mutual Fund	135,600	0.45
10.	Special Mutual Fund Avenir	130,000	0.43

At 30 December 2002, foreign investors held 6,523,850 of the company's shares, representing 21.75 per cent of the shares and votes. After the review period M-real's interest in the company has increased to over 90 per cent.

VOLUMES TRADED 2002



SHAREHOLDERS BY GROUP AT 30 DECEMBER 2002



Percentage of shares

Companies	66.54%
Foreign investors*	21.75%
Financial institutions and insurance companies	7.89%
Public bodies	3.34%
Households	2.02%
Non-profit organizations	0.87%

* Also includes nominee-registered shares.

SHARES AND SHARE CAPITAL

At 31 December 2002, Metsä Tissue Corporation's fully paid-in share capital, as registered in the Trade Register, was EUR 51,000,000. The total number of shares is 30,000,000. Each share has a nominal value of EUR 1.70. Each share entitles the holder to one vote at a general meeting of shareholders, and all shares carry the same right to receive dividend.

The company's minimum share capital is EUR 50,456,378 and the maximum share capital is EUR 201,825,512. The share capital may be increased or decreased between these limits without amendment to the Articles of Association.

SHARE LISTING AND SHARE PERFORMANCE

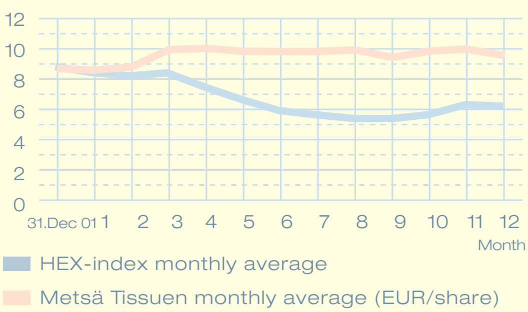
Metsä Tissue Corporation's shares are quoted on HEX Plc, Helsinki Exchanges under the heading Other industry. A total of 1,780,702 of the company's shares were traded during 2002. The year's highest quotation was EUR 11.00 and the lowest EUR 8.50. The average quotation was EUR 9.81. At the end of the year the shares were quoted at EUR 10.50, giving the company a market capitalization of EUR 315 million.

At the end of the year Metsä Tissue had 1,498 registered shareholders. M-real Corporation holds 65.58 per cent of the shares and foreign investors 21.75 per cent.

Volumes traded on HEX Plc, Helsinki Exchanges

	2002	2001
Number of shares	1,780,702	1,680,290
% of total shares	5.9	5.6
Number of shares at year-end	30,000,000	30,000,000
Market capitalization at year-end (TEUR)	315,000	263,100
Number of shareholders	1,498	1,505

Share performance in 2002



Trend in share price, EUR	2002	2001
Highest	11.00	12.00
Lowest	8.50	6.70
At end of period	10.50	8.77
Average share price	9.81	8.38

MANAGEMENT OPTIONS SCHEME

The Annual General Meeting of 20 March 1998 approved a proposal to issue 1,000,000 share options to key personnel within Metsä Tissue Corporation. The company will issue the maximum 1,000,000 options, of which 300,000 will bear the letter A, 300,000 the letter B and 400,000 the letter C. Each option entitles the holder to subscribe one Metsä Tissue Corporation share, nominal value EUR 1.70.

The subscription period under A options began on 1 April 2001 and under B options on 1 April 2002. The subscription period under C options begins on 1 April 2003. The subscription period under all options ends on 30 April 2004. The subscription price is EUR 12.61. Exercise of all options would increase the share capital by 1,000,000 new shares, i.e. by EUR 1,700,000. The shares offered for subscription under the options scheme represent 3.2 per cent of the company's shares and 3.2 per cent of the votes.

At 31 December 2002, a total of 31 people held directors' share options.

MANAGEMENT SHAREHOLDINGS

The members of the Board of Directors own 500 Metsä Tissue shares. President and CEO Hannu Anttila owns 75,000 of the company's 1998 share options. The members of the Board of Directors do not hold options. The members of the Corporate Management Team hold a total of 600 Metsä Tissue shares.

BOARD'S AUTHORITY TO RAISE THE SHARE CAPITAL

The Board of Directors has no current authorization to raise the company's share capital or to issue convertible bonds or bonds with equity warrants.

Calculation of key ratios

Return on equity, %	=	$\dfrac{\text{Profit before extraordinary items - direct taxes}}{\text{Shareholders' equity + minority interest (average)}}$
Return on capital employed, %	=	$\dfrac{\text{Profit before extraordinary items + interest expense, net exchange gains/losses and other financial expenses}}{\text{Total assets - interest-free liabilities (average)}}$
Equity ratio, %	=	$\dfrac{\text{Shareholders' equity + minority interest}}{\text{Total assets - advance payments received}}$
Gearing ratio, %	=	$\dfrac{\text{Interest-bearing liabilities - liquid assets}}{\text{Shareholders' equity + minority interests}}$
Earnings per share	=	$\dfrac{\text{Profit before extraordinary items - minority interest - direct taxes}}{\text{Adjusted number of shares (average)}}$
Shareholders' equity per share	=	$\dfrac{\text{Shareholders' equity}}{\text{Adjusted number of shares at 31 Dec.}}$
Dividend per share	=	$\dfrac{\text{Dividend}}{\text{Adjusted number of shares at 31 Dec.}}$
Dividend per profit, %	=	$\dfrac{\text{Dividend per share}}{\text{Earnings per share}}$
Dividend yield, %	=	$\dfrac{\text{Dividend per share}}{\text{Share price at 31 Dec.}}$
Price/earnings (P/E) ratio	=	$\dfrac{\text{Adjusted share price at 31 Dec.}}{\text{Earnings per share}}$
Adjusted average share price	=	$\dfrac{\text{Total traded volume of shares (EUR)}}{\text{Total adjusted traded volume of shares (units)}}$
Market capitalization	=	Number of shares x market price at 31 Dec.
Cash flow from operations	=	Cash flow from operations in cash flow statement

Five years in figures

Profit and loss account (MEUR)		**2002**	2001	2000	1999	1998
Turnover		647.8	649.6	609.2	585.7	342.7
Other operating income		5.6	5.2	5.5	4.0	2.6
Interests in associated companies		-0.6	-1.2	-1.0	-0.2	-0.1
Operating expenses		570.5	577.0	588.2	539.8	303.6
Depreciation according to plan		39.2	40.1	37.4	33.5	16.8
Operating profit/loss		43.1	36.5	-11.9	16.2	24.8
Interest and other financial expenses, net		-6.0	-9.3	-9.8	-7.1	-0.7
Profit/loss before extraordinary items		37.1	27.1	-21.7	9.1	24.1
Extraordinary items					-1.9	0.0
Profit/loss before taxes and minority interest		37.1	27.1	-21.7	7.2	24.1
Direct taxes		-9.2	-0.7	2.0	-6.5	-8.5
Profit/loss for the period before minority interest		27.9	26.5	-19.7	0.7	15.6
Minority interest		0.0	2.4	-0.4	-0.7	-1.8
Profit/loss for the period		28.0	24.1	-19.3	1.4	17.4
Balance sheet (MEUR)						
Total assets		447.1	448.4	483.0	473.5	462.3
Shareholders' equity		165.7	141.0	118.5	142.3	142.0
Minority interest		1.5	0.3	1.9	2.1	2.7
Interest-bearing liabilities,	short-term	11.0	46.8	74.2	32.2	87.5
	long-term	147.2	154.2	184.4	186.1	118.6
Interest-free liabilities,	short term	89.4	77.6	79.3	81.4	80.1
	long-term	16.7	15.1	18.9	19.9	23.0
Net interest-bearing liabilities						
Interest-bearing liabilities, total		158.2	200.9	258.6	218.3	206.1
Cash and equivalents		25.4	22.3	18.9	16.7	20.7
Other interest-bearing assets		3.3	4.5	0.5	9.7	1.8
Net interest-bearing liabilities, total		129.6	174.1	239.2	200.9	183.6
Return on capital employed and financial situation						
Return on equity, %		18.1	20.2	-14.9	1.8	10.8
Return on capital employed, %		13.2	10.3	-3.1	4.6	10.0
Operating profit/loss, % of turnover		6.7	5.6	-1.9	2.8	7.2
Cash flow from operations		97.3	85.7	-15.4	22.7	38.0
Gearing, %		77.5	123.2	198.8	139.1	126.8
Equity ratio, %		37.4	31.5	24.9	30.5	31.3
Other information						
Capital expenditure		47.1	21.1	22.7	32.8	145.2
Investments, % of turnover		7.3	3.2	3.7	5.6	42.4
Employees, average		3 067	3 000	3 205	3 459	2 580
Employees at 31 Dec.		3 299	2 923	3 048	3 355	3 687
Share-related indicators						
Earnings/loss per share, EUR		0.93	0.80	-0.64	0.11	0.58
Shareholders' equity per share, EUR		5.52	4.70	3.95	4.74	4.73
Adjusted no. of shares, average, 1 000		30 000	30 000	30 000	30 000	30 000
Dividend per share, EUR		- *	0.10	-	0.12	0.24
Dividend/profit, %		0.0	12.5	0.0	109.1	41.4
Dividend yield, %		0.00	1.14	0.00	0.94	2.98
Price/earnings (P/E) ratio		11.29	10.96	neg.	116.36	13.62

* Board of Directors' proposal to the Annual General Meeting.

Board of Directors’ proposal for the distribution of profits

The unrestricted shareholders’ equity of the Group at 31 December 2002 is EUR 65,602,000. Funds available for distribution as profit are EUR 42,012,000. The parent company’s distributable unrestricted shareholders’ equity is EUR 70,477,020.65. The Board of Directors proposes to the Annual General Meeting that no dividend be paid in respect of the 2002 financial period.

Espoo, 5 February 2003

Antti Oksanen	Arimo Uusitalo	Ari Heiniö
Jouko M. Jaakkola	Curt Lindbom	Jussi Länsiö

Hannu Anttila
President and Chief Executive Officer

Auditor's report

TO THE SHAREHOLDERS OF METSÄ TISSUE CORPORATION

We have audited the accounting, the financial statements and the corporate governance of Metsä Tissue Corporation for the period 1 January – 31 December 2002. The financial statements, which include the report of the Board of Directors, consolidated and parent company income statements, balance sheets and notes to the financial statements, have been prepared by the Board of Directors and the President and CEO. Based on our audit we express an opinion on these financial statements and on corporate governance.

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

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

Helsinki 12 February 2003

PricewaterhouseCoopers Oy
Authorised Public Accountants

Göran Lindell
Authorised Public Accountant

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