

m·real

Annual report 2002



M-real annual report 2002:

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M-real's vision and values

M-real's vision

M-real's objective is to enhance its customers' business by providing them with excellent fibre-based products and value-added services for their needs in consumer packaging, communications and advertising.

M-real's primary operating environment is Europe. In the coming years also the importance of Asia will increase. The company's long-term objective is to be the most profitable company in the industry.

M-real's stakeholder promise

M-real seeks to be

- the best alternative for its customers,
- a very profitable company that offers a good return to its shareholders,
- a long-term partner and
- a good corporate citizen.

M-real's values

We mean what we say, we do what we say.

We have no barriers.

We encourage people to reach their full potential.

We respect each other.

Information for shareholders

Annual General Meeting

The Annual General Meeting of M-real Corporation will be held at the company's Head Office, Revontulentie 6, 02100 Espoo, on Monday, 17 March 2003, beginning at 2 p.m. Finnish time. Shareholders wishing to take part in the Annual General Meeting and to exercise their right to vote must be registered in the list of shareholders kept by Finnish Central Securities Depository Ltd by 7 March 2003 at the latest and should announce their intention to attend the meeting before 4 p.m. Finnish time on 13 March 2003, either by telephoning Ms Eija Niittynen on +358 10 469 4530, by sending a telefax to Ms Eija Niittynen on +358 10 469 4529 or an e-mail message to eija.niittynen@m-real.com or by writing to M-real Corporation, Eija Niittynen, Revontulentie 6, 02100 Espoo, Finland. It is requested that any proxies should be submitted during the advance registration.

The Board of Directors proposes that a dividend of EUR 0.60 for the 2002 financial year will be paid on 27 March 2003 to shareholders who are entered by 20 March 2003 at the latest in the list of shareholders kept by Finnish Central Securities Depository Ltd.

Financial information

The financial reports are published in Finnish, Swedish, English, German, and French. Copies can be obtained from M-real Corporation, Corporate communications, Revontulentie 6, 02100 Espoo, tel. +358 10 469 4371 and fax +358 10 469 4531 or by e-mail at corporate.communications@m-real.com.

M-real publishes Insight, an investor magazine, which comes out four times a year in Finnish and in English.

On M-real's English-language Internet pages, material of most interest to investors can be found in the section on our Investor relations service. Stock exchange bulletins, interim reports and financial information on these pages are updated in real time. The pages give a company presentation that is regularly updated when financial reports are published. Information on subjects such as the Group's organization,

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

Shares

The company has a total of 178 999 425 shares. All shares have a nominal value of EUR 1.70. Information on M-real Corporation's shares is given on pages 76–81.

M-real's Series A and Series B shares are quoted on Helsinki Exchanges. Within the electronic HETI trading system the codes of the shares are MRLAV and MRLBV, respectively. M-real's Series B shares are also quoted on the London Stock Exchange and on the Bavarian Stock Exchange.

Share register

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

M-real Corporation will publish the following financial reports in 2003:

on Thursday, 6 February
Financial Results for financial year 2002

on Monday, 28 April
Interim Report for January-March

on Monday, 28 July
Interim Report for January-June

on Monday, 27 October
Interim Report for January-September

M-real will publish its Annual Report in week 9, 2003.

An electronic version of this annual report is available on the Web homepage <http://ar2002.m-real.com>



M-real's primary operating environment is Europe. Asia is growing in importance.



Main events in 2002

- M-real rebuilt the Kyro wallpaper baseboard machine and the Äänekoski board machine. The total cost of the capital expenditures was about EUR 110 million.
- In February M-real and Myllykoski Oyj agreed on terminating their joint sales and marketing alliance that has been operating since 1996. M-real's own sales network will be responsible for the sales and marketing of the company's products together with the business areas.
- M-real closed down the Silverdalen paper mill in Sweden at the end of March. Production will be continued at the company's other mills.
- M-real Corporation, UPM-Kymmene Corporation, Metsäliitto Osuuskunta and Oy Metsä-Botnia Ab carried out the spin-off of the Kemiart Liners business operations as from the beginning of April. The company's ownership structure is the same as that of Metsä-Botnia.
- In June, M-real sold its 50 per cent holding in Papierfabrik Albbbruck GmbH & Co. KG to Myllykoski Oyj. The selling price was 235 million euros and M-real realized a capital gain of about 156 million euros on the deal.
- In August M-real repaid the USD 350 million convertible subordinated capital notes that were issued in 1997.

Key figures 2002

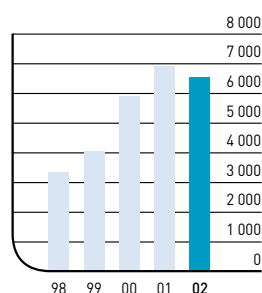
M-real Group	2002	2001	Change
Turnover, EUR million	6 564	6 923	-5%
Operating profit, EUR million	324	389	-17%
- % turnover	4.9	5.6	
Profit before extraordinary items, EUR million	134	154	-13%
- % turnover	2.0	2.2	
Return on capital employed, %	5.8	6.9	
Return on equity, %	3.0	4.7	
Interest-bearing net liabilities, EUR million	3 019	3 482 *)	-13%
Gearing ratio, %	119	145 *)	
Equity ratio, %	34.2	30 *)	
Earnings per share, EUR	0.36	0.55	-35%
Equity per share, EUR	13.75	13.08	5%
Dividend per share, EUR **)	0.60	0.60	0%
Market capitalization, 31 Dec., EUR million	1 427	1 243	15%
Gross capital expenditure, EUR million ***)	310	740	-58%
Cash flow from operations	666	696	-4%
Personnel at 31 December	20 323	21 515	-6%

*) the convertible subordinated capital notes are included in net liabilities

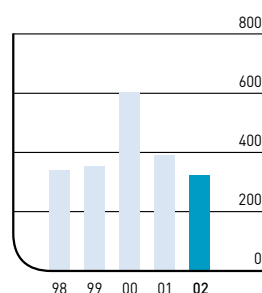
***) Board of Directors' proposal for 2002

***) includes the purchase price of shares in acquired companies but not debt

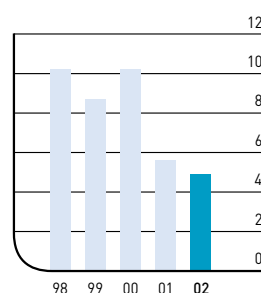
Turnover, EUR million



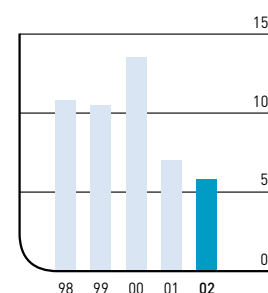
Operating profit, EUR million



Operating profit, %



Return on capital employed, %



President's review

Dear shareholder,

The varying degrees of downbeat sentiment continued to surround the world economy throughout 2002 and also showed up in the paper industry in many ways. Amidst an unfavourable market and a welter of changes, M-real succeeded in performing reasonably well, for which I warmly thank the company's employees and customers.

The most important end-use areas for M-real's products are consumer packaging, communications and advertising. Demand for the high-quality printing papers required for communications and advertising remained weak in 2002, leading to continued production curtailments. Demand for the folding boxboard used in consumer packaging as well as for other grades of board held up well.

During the year we specified M-real's strategy, and defined Consumer packaging as the primary growth and development area for the coming few years. Publishing business area is another growth and development priority. We shall naturally also attend to strengthening and increasing the efficiency of the other core business areas. Metsä Tissue's development will be continued with its own resources.

In M-real's strategy, Europe is the key geographical area for the company's marketing and production. We consider Asia a major growth area for operations in the coming years.

As a common element for all of the M-real businesses, our strategy includes an increased investment in marketing, based on a single and strong M-real corporate brand. Each M-real business area is responsible for its own marketing and sales. In accomplishing this, the industrial business areas are supported by M-real's corporate-level Strategic marketing, whereas practical sales work is handled by the company's own sales network. As part of our strategic focus on sales and marketing, we have disengaged ourselves - in a spirit of good understanding - from the long-standing sales cooperation with the Myllykoski Group.

To unify M-real's operations following a period of strong growth, we defined our core values jointly with



our multicultural employees. During autumn 2002 discussions on the importance of living the values in daily work, as well as on the guidelines for the future, were held in hundreds of small groups. The entire top management also took an active part in the discussions, which are continuing in 2003 and will ultimately cover the entire staff.

An important element in M-real's strategy is to raise internal efficiency. Realising this objective has meant efficiency-increasing investments, trimming down the product palette and reducing the amount of personnel, a necessity in order to reach the company's future targets. The measures have been carried out in good cooperation with the various personnel groups, local communities and the authorities. Improving internal efficiency involves continuous work at all phases of the business cycle.

The outlook for the paper industry is still very uncertain. It remains difficult to forecast when the upswing in business activity will get under way, but I believe that the bottom in paper demand has been reached. Regardless of the business cycle we are in, improving customer service, seeing to completion our present internal efficiency programmes, maintaining a moderate investment policy and reducing the level of debt are all on M-real's agenda for 2003.

Jouko M. Jaakkola
President and CEO

M-real's operating environment

Despite the consolidation that has taken place over the past years, the paper and board industry is still very fragmented. The five largest companies account for about 15 per cent of the world market, whereas in the automotive and aviation industry and the steel industry for example, the five largest players control 50-70 per cent of their world markets. Consolidation in the paper industry will move ahead and this is likely to lead to improved profitability for the industry as a whole.

Changes in the external operating environment pose challenges, but also offer opportunities. This is why M-real continually keeps abreast of developments that affect the market, such as cost factors, customer behaviour, environmental issues and demographic changes.

M-real's primary operating environment is Europe. Asia, and especially China, is growing in importance.

Size and trend of the European market

Of the European paper and board market some 37 million tonnes is printing and writing paper. Newsprint makes up about 11 million tonnes of this amount. The size of the paperboard market is about 7 million tonnes.

The European market currently has about 20 per cent overcapacity in coated paper, about 10 per cent in uncoated fine paper and 15 per cent in paperboard.

Were growth in consumption to continue and if no new capacity were built, supply and demand would come into balance in 2007.

End use in the Commercial printing business area is growing at an annual rate of about 4 per cent and the rate for the Home & Office as well as Publishing business areas is about 2 per cent. The fastest growing end use areas are speciality magazines, advertising printed products, printer and copy papers as well as direct mail products. Average growth of these areas is about 4-5 per cent a year.

The paperboard market is growing slowly in Western Europe, at about 1 per cent a year. In Eastern Europe the growth is faster - about 3.5 per cent a year - though it is small in volume terms.

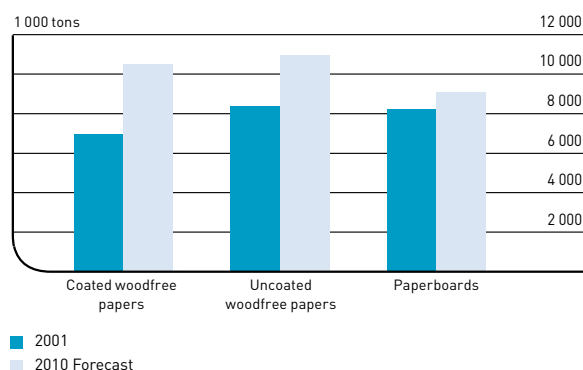
Size and trend of the Chinese market

China's printing and writing paper market amounts to about 14 million tonnes, 2 million tonnes of which is newsprint. The size of the paperboard market is about 5 million tonnes.

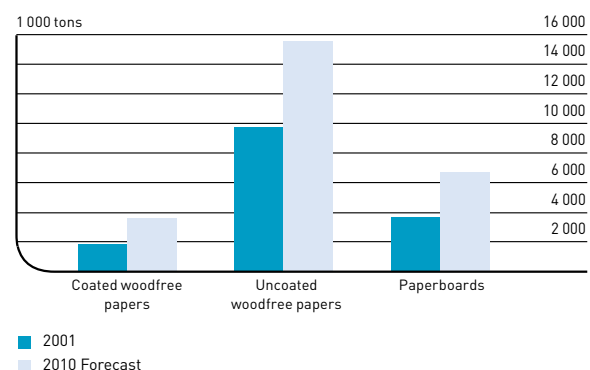
China's own production of printing and writing paper and paperboard is about 15 million tonnes, with imports amounting to roughly 2 million tonnes.

Demand for coated fine paper is growing at a rate of about 9 per cent a year and uncoated fine paper has a growth rate of some 6 per cent. Demand for paperboard is growing at about 5 per cent a year.

Fine Paper and Paperboard Demand in Western Europe in 2001 and 2010



Fine Paper and Paperboard Demand in China in 2001 and 2010



M-real's strategy

Managing the value chain

M-real's strategy is based on managing the business value chain. The aim is to understand customers' and end-users' business and to offer, within this value chain, product and service solutions that improve our customers' competitiveness.

Paper and packaging make up only 5-10 per cent of the final value of a printed and packaged consumer product. M-real is seeking to increase its share of this value creation in cooperation with its customers.

Specialisation

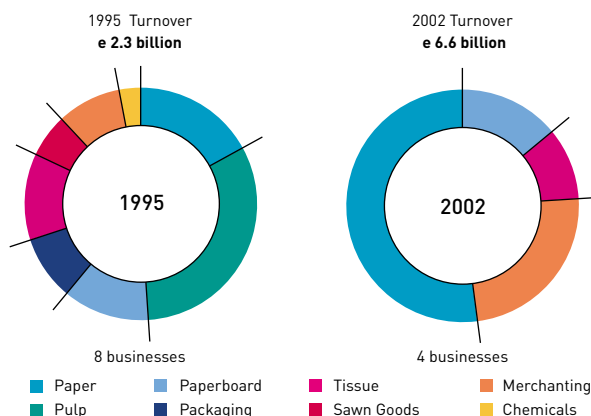
M-real focuses on high quality products and end use areas, such as advertising, communications, speciality magazines, sales promotion, direct mail campaigns and brand packaging.

The company also aims to specialise within the production. Each mill will be dedicated on its own end use area in order to improve quality and efficiency.

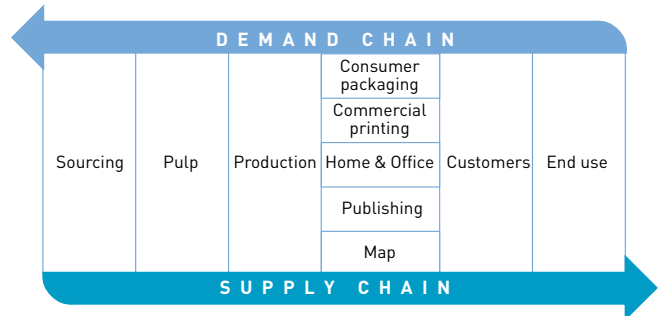
Cost-effectiveness

Consolidation in the industry and globalisation are forcing companies to continually improve their cost-effectiveness. M-real's objective is to develop and maintain its competitiveness through specialisation, precisely targeted investments and cost cutting.

Focus on core businesses

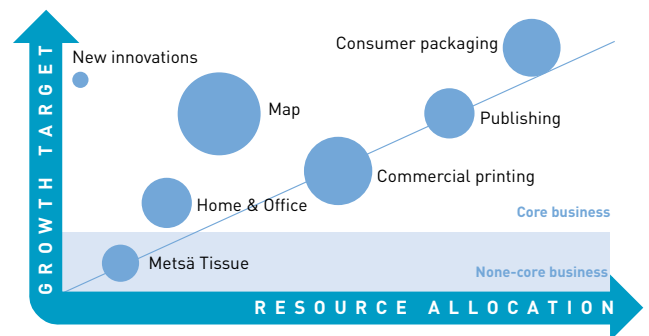


Commanding Value Chain



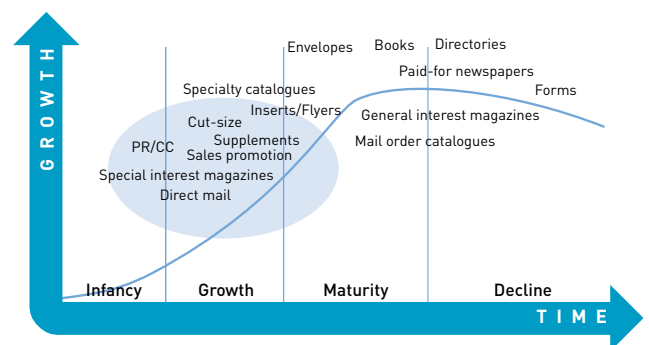
Value chain analysis improves the understanding of the changes in the end use segments as well as the development needs for service offerings. In parallel the changes are steered towards needs.

M-real's Portfolio



Circle size is relative to turnover

Lifecycle analysis of print media products



Large circulation, mass media end-uses will suffer, while specialized and highly targeted print media end-uses will prosper.

M-real's business areas

Consumer packaging

The Consumer packaging business area focuses on paperboard grades used in consumer packaging, for which the most important end use areas are packaging for cosmetics, pharmaceuticals, cigarettes, consumer electronics and branded food. Major customers are international brand manufacturers, to whom M-real offers integrated packaging solutions ranging from paperboard to the completed printed package in accordance with the Integrated Brand Packaging concept.

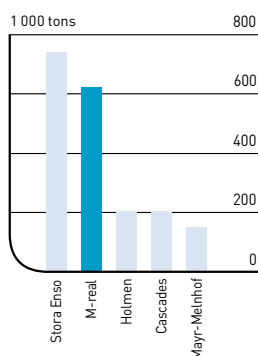
The largest market area is Western Europe, China being one of the most important markets outside Europe. In Europe, M-real is the second largest producer of folding boxboard, with an annual capacity of 0.7 million tonnes, corresponding to 28 per cent share of the European market. The business area's four folding boxboard mills (Kyröskoski, Simpele, Tampere and Äänekoski) as well as its liner and fluting mills (Kemi and Kuopio) are located in Finland. In addition, Consumer packaging has four carton mills that are located in Finland (Tampere), Hungary (Petöfi) and Belgium (Brussels and Arlon).

The business area had turnover in 2002 of EUR 921 million, representing 14 per cent of consolidated turnover. Consumer packaging has about 3 000 employees.

The business area's main success factors are:

- growth in order to bolster the unit's market position,
- a partnership network of printers,
- internal efficiency as well as
- innovative product development and new operational models.

Biggest folding boxboard producers in Europe



Commercial printing

The Commercial printing business area focuses on coated fine paper and serves the European graphical industry and its end-use areas by offering them innovative products and services. The end uses of Commercial printing business area's products include various sales promotion products, brochures and advertising materials, annual reports, a variety of printed art books as well as magazine supplements.

Commercial printing's main market area is Western Europe and the largest customer group is paper merchants, to whom most of the products are sold.

In Europe, M-real is the largest producer of coated fine paper, with an annual capacity of 2.5 million tonnes, corresponding to 23 per cent share of the European market. The business area's seven paper mills are located in Finland (Äänekoski and Simpele), Great Britain (Sittingbourne), Austria (Hallein), Switzerland (Biberist), Germany (Stockstadt) and France (Pont Sainte Maxence). The business area had turnover in 2002 of EUR 1 218 million, representing 19 per cent of consolidated turnover. The business area has about 3 400 employees.

The business area's main success factors are:

- flexible service thanks to the location of the mills and short response times,
- efficient supply chain management and concepts connected with it,
- long-term partnerships with selected paper merchants,
- differentiated products and product positioning,
- an understanding of customers' value chain and end uses,
- well known and respected brands as well as
- efficient production and logistics.

Commercial printing - Specialities

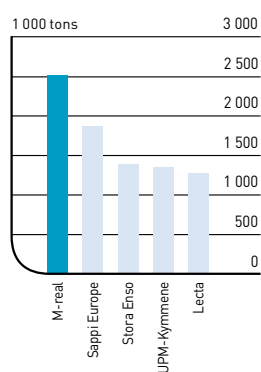
Commercial printing includes the separate Specialities business sector, whose end use areas are graphic speciality papers, forms, labels and digital imaging. The Specialities business sector is responsible for the products of the Zanders, Pont Sainte Maxence and Simpele mills in line with these end uses.

Specialities business sector includes Zanders Feinpapiere AG, which specialises in high-quality coated fine papers that have a variety of uses, such as in advertising materials, brochures, annual reports and printed art books.

Zanders' two mills are located in Germany (the Gohrsmühle mill in Bergisch Gladbach and the Reflex mill in Düren). Gohrsmühle has an annual capacity of 330 000 tonnes of coated fine paper and Reflex produces 100 000 tonnes of speciality paper a year.

Zanders had turnover in 2002 of EUR 459 million, representing 7 per cent of consolidated turnover. Zanders has about 2 200 employees.

Biggest coated fine paper producers in Europe



Home & Office

The Home & Office business area focuses on uncoated fine paper, which is used mainly as a copier and office paper. Home & Office's main market area is western Europe and its customers are paper merchants, the purchasing departments of large corporations, small companies and home users.

In Europe, M-real is the second largest producer of uncoated fine paper, with an annual capacity of 1.5 million tonnes, corresponding to 17 per cent share of the European market. The business area's four mills are located in Sweden (Husum PM6 and PM7 as well as Wifsta), Great Britain (New Thames) and France (Alizay).

The business area had turnover in 2002 of EUR 934 million, representing 14 per cent of consolidated turnover. Home & Office has about 2 100 employees.

The business area's main success factors are:

- comprehensive analysis of market information,
- a mastery of the supply chain as well as
- internal efficiency and the high quality of production and products.

Publishing

The Publishing business area focuses on coated magazine papers, which are used as the material for special periodicals, direct mail campaigns, various weekly magazines and special catalogues. The Publishing business area combines innovative paper products with value-added services for its customers, who are international magazine publishers, printers, design offices and direct marketing companies.

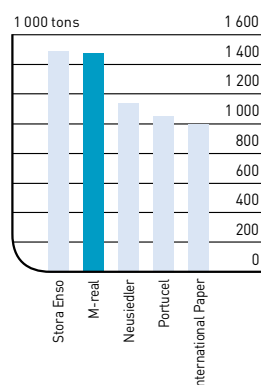
The main market area is western Europe and other important markets are the United States, Australia and Japan. M-real's production capacity for coated magazine paper is 0.4 million tonnes a year, which corresponds to 4 per cent of the European market. The business area's three paper mills are located in Finland (Kirkniemi and Kangas) and Sweden (Husum PM8).

The business area had turnover in 2002 of EUR 790 million, representing 12 per cent of consolidated turnover. The Publishing business area has about 1 600 employees.

The business area's main success factors are:

- a high-quality and competitive range of coated papers,
- a top-calibre palette of services spanning the entire value chain and
- efficient production.

Biggest uncoated fine paper producers in Europe



Map Merchant Group

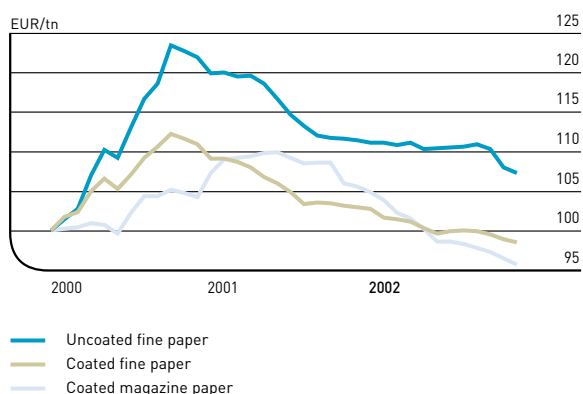
M-real's paper merchant Map covers 23 countries in Europe. The business area serves a total of about 50 000 customers, including publishers, printers, advertising agencies, banks and retail chains. Of the leading European paper and board manufacturers, M-real is the only one with a major share of the paper merchandising trade. Map paper merchants also sell the products of other manufacturers than M-real. A large part of especially sales of fine paper is handled through paper merchants.

M-real is the third-largest paper merchant in Europe, with an 11 per cent market share. The business area had turnover in 2002 of EUR 1 543 million, representing 24 per cent of consolidated turnover. Map Merchant has about 2 600 employees.

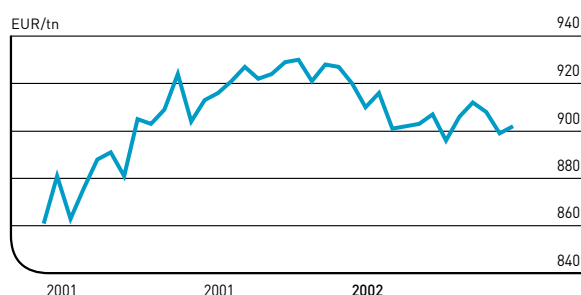
The business area's main success factors are:

- growth and profitability,
- a best supplier position,
- ability to pinpoint the industry's best ways of working as well as
- internal motivation, innovation and learning.

**Indexed paper market price
(Jan. 2000=100)**



Folding boxboard market price



M-real's success factors

Personnel

M-real's human resources strategy is based on four cornerstones. On the one hand the objective is to create a unified M-real identity and culture. The main thrust in accomplishing this has been the ViVa programme (Vision and Values) that was launched in 2002 and covers the entire personnel. The fundamental premise is each M-real employee's participation in to the process and his/her assimilation of the values as a factor guiding operations. By means of the values defined, the aim is to strengthen the personnel's commitment and shared objectives across all M-real units.

Secondly, M-real Group has directed its efforts towards developing a performance-oriented way of working. M-real intends to introduce goal assessment discussions between each supervisor and the people who report to the supervisor. In setting compensation, too, M-real aims for a stronger emphasis on profit criteria. The incentive system for top management and other key staff has been unified, and an incentive scheme covering the entire personnel will be placed in use stage by stage. The personnel in Finland are already covered by a performance bonus system.

A third area for human resources function has been the enhancement of management resources by

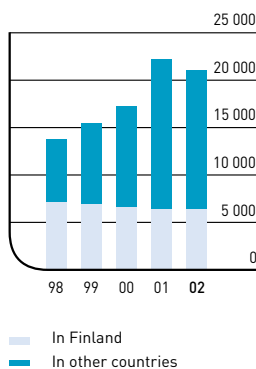
developing the management training system within the framework of the M-academy and by placing in use a system for planning competence requirements and career development.

A fourth human resources strategy area is competence development, embracing the development of technical and commercial fields in accordance with the process model.

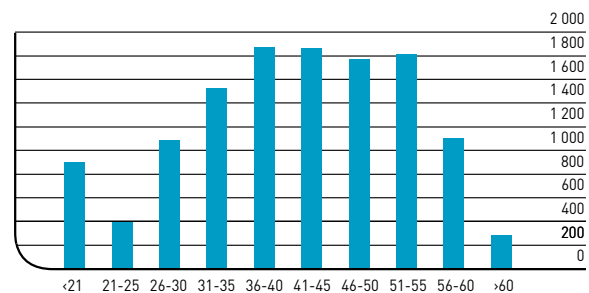
The average age of the parent company's personnel is 43.2 years and they have been with the company on average for about 16 years. As the employees' age structure evolves, steps are being taken to meet these needs by increasing the proportion of employees in younger age brackets and through Silva Institute's forward-looking training programmes. Most of M-real's employees work in Europe: in Finland, Germany, Sweden, United Kingdom, France and Austria. All in all, M-real has employees in about 40 different countries. Staff has been posted abroad in nearly 20 different countries.

Internal communications play a key role in building our corporate identity. The most important channels for the Group's personnel communications are the Make it magazine, which comes out in six languages, and the intranet.

Personnel, average



Age distribution Dec 31. 2002



M-real's personnel by country on 31 December

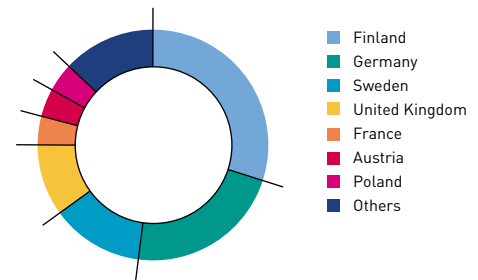
	2000	2001	2002
Finland	6 068	6 091	5 941
Germany	3 174	5 403	4 543
Sweden	3 003	2 752	2 518
United Kingdom	2 347	2 246	2 002
France	961	966	894
Austria	916	908	881
Poland	499	410	844
Switzerland	594	587	581
Hungary	599	566	573
Belgium	141	416	410
The Netherlands	405	464	353
Other Countries	825	707	783
Total	19 532	21 515	20 323

Turnover/employee	323 000 euro
Developing/Training days/employee	1.6
Developing/Training cost/employee (without salaries/wages)	440 euro

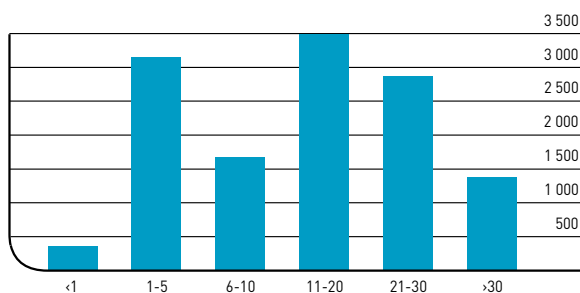
M-real's values

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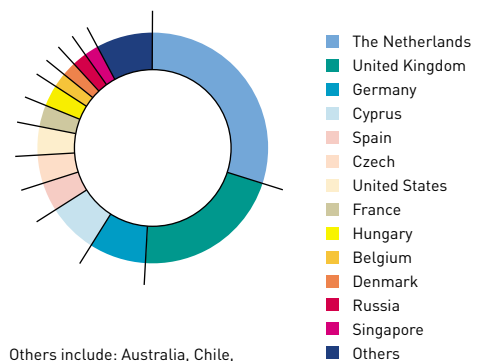
Personnel by country Dec 31. 2002



Served years distribution Dec 31. 2002



M-real's international postings by target country



Others include: Australia, Chile, Hong Kong, Mexico, Poland, Sweden (approx. 1%)

Purchasing

M-real is nearly self sufficient in pulp. The small dependency on the price of market pulp reduces the impact of business cycle fluctuations on profitability.

M-real's paper and board production capacity is 5.9 million tonnes a year, consisting of 4.5 million tonnes of paper and 1.4 million tonnes of paperboard. The consumption of pulp is about 2.6 million tonnes.

M-real's consumption of wood raw material is 13.7 million cubic metres (m³) annually, of which 2.7 million is consumed by the paper and board mills in Finland, 5.4 million m³ is M-real's share of Metsä-Botnia's pulp mills and 5.6 million is consumed by the pulp and paper mills elsewhere in Europe.

M-real's electricity consumption is about 7 500 GWh annually. Of this amount, about 35 per cent comes from M-real's own electricity production, 14 per cent is outsourced production, 14 per cent is produced by the associated company PVO and 37 per cent is purchased electricity.

Towards the end of 2002, a new biofuel power plant was completed in Äänekoski, enabling fuel oil to be replaced by biofuel.

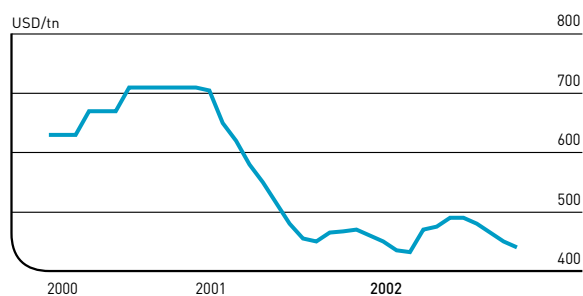
Wood use in 2002

	Cu.m.million	%
In Finland		
Direct	2.7	20
Share of wood use of Metsä-Botnia's pulp mills	5.4	39
Elsewhere in Europe	5.6	41
Total	13.7	

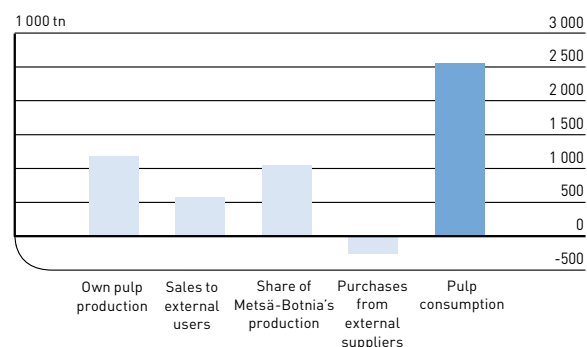
Electricity

	Electricity consumption GWh/a	Change, 01-02 %	Self-sufficiency in electricity, %	Use of fuels GWh/a	Change, 01-02 %	Proportion of biofuels, %
Finland	3 900	14%	58%	12 500	-0.9	62%
Other countries	3 600	5%	40%	13 900	0.2	54%
Total	7 500	10%	49%	26 400	-0.3	57%

NBSK market price (bleached softwood pulp)



Pulp balance



Brand strategy

M-real has created a unified brand strategy that covers all the business areas and forms a strong foundation for developing the M-real brand. The company's comparatively new name, M-real, reflects the company's desire to be a different kind of paper and board company. Differentiation from competitors is one of the central tenets of M-real's brand strategy.

M-real builds its brand for the long term, based on the company's achievements, business strategy and vision. To this end, the company wants to deploy the M-real brand to communicate the message that it is offering a new kind of added value to its customers through new service concepts. The brand message is reflected in the products and services which the business areas offer.

The shift in emphasis from products to services means that the personnel is in key role in brand building, and the implementation of the brand strategy starts precisely with our own people. Each employee needs to understand what communicating the brand message calls for in terms of personal job performance. In 2003 M-real puts its brand strategy into action. The preparatory work has been done and the company is fully prepared internally to communicate the M-real brand.

Research and development

M-real's research and development activities (R&D) are handled by the Corporate R&D function and by the five technology centres under its supervision. Located in Finland, Sweden and Germany, the technology centres concentrate on radical research activities as well as acting as project managers of corporate more exploratory R&D projects. M-real TC organisation supports the mills with knowledge and participates actively in demanding trouble-shooting cases. M-real has Corporate-wide rules covering the rights and use of employee-made inventions.

M-real invests about 0.6 per cent of its turnover in research and development. R&D expenditure in 2002 came to 26 million euros, with an emphasis on improving efficiency and cooperation with customers as well as on launching new products.

M-real pursues very close research and development cooperation with external research institutes and with its own customers. As a result of this activity, new products for high speed four-colour digital printing were brought out on the market in 2002. A completely new paper grade intended for publishing end use, Galerie Fine Gravure, was launched in 2002, and it is manufactured on Husum's rebuilt PM8.

The Consumer packaging business area brought out a new paperboard product designed specifically for the needs of the pharmaceutical industry. The product has excellent stiffness and brightness characteristics thanks to the BCTMP pulp that is used in manufacturing it. A new paperboard that has been developed for the needs of the cigarette industry is well suited to packaging that employs the gravure method of printing.

Environment

At M-real, environmental policy measures have been defined for the areas of management, our own functions, purchases and communications.

One of M-real's values, "We respect each other," expresses a responsible attitude towards our own staff and the society around us. The concept of environmental responsibility has expanded to embrace social responsibility, and M-real has given its commitment to carry out its social responsibility (good corporate citizenship).

M-real carries out its environmental responsibility through its operational organization, which is supported by the Corporate environmental function and the country-specific coordinators. Corporate management and the company's Board of Directors receive regular reports on environmental affairs.

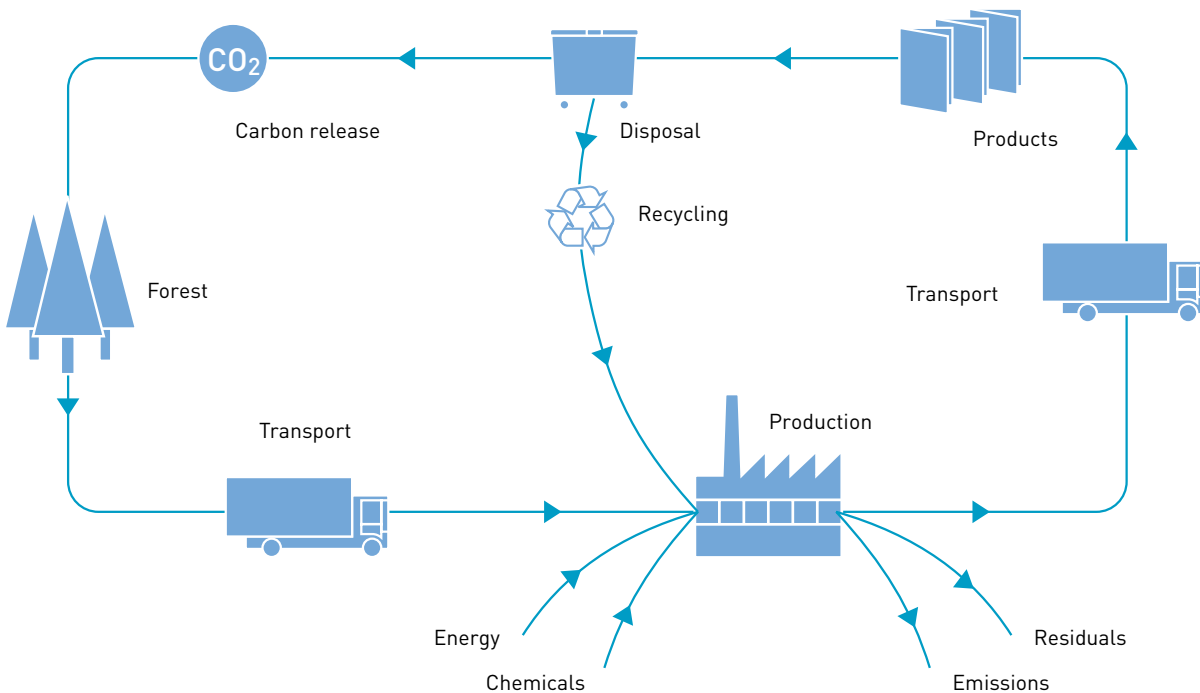
In accordance with M-real's environmental policy, all the production units will have a certified environmental system (ISO 14001 or EMAS) by the end of 2003. At the end of 2002 more than 90 per cent of the units had a system that was up and running.

M-real enforces accountability across the entire manufacturing chain by requiring all suppliers to be prepared to furnish relevant information on the environmental aspects of raw materials - such as their origin - and absolute observance of the legislation in effect. M-real favours suppliers who have a certified environmental system.

M-real publishes open environmental information on its products and operations in, among other sources, its annual environmental report and on its web site. M-real makes available product-specific information, for example, in its Paper Profile product description.

The Chain of Custody for wood procurement is one of the most central environmental considerations. At present, M-real already knows the origin of all its wood raw material, but the accuracy of the information and the speed of obtaining it are being developed further in all wood procurement areas. M-real furthermore specifies that its pulp suppliers provide information on the origin of the wood raw material used and on the proportion of certified wood.

Lifecycle



M-real supports forest certification and the development of reliable forest certification systems. M-real's wood suppliers have an environmental system in several areas and a system for tracing certified wood, and in other areas, systems of this kind are in preparation.

The effluents and emissions from M-real's production plants and, similarly, its energy consumption have remained at the level of 2001. Owing to quantitative fluctuations in production, specific emissions are a bit higher than in 2000. Renewable energy accounts for nearly 50 per cent of the entire use of energy.

M-real's environmental liabilities on closed-down and leased industrial plots are estimated to result in costs of about 5 million euros over the next 10 years. A fixed timetable and exact costs cannot yet be estimated, nor has M-real made provisions for this in its annual accounts.

The biggest challenges for M-real's business operations from the standpoint of environmental affairs relate to the acceptability of products on the market as well as to future capital expenditure and cost pressures.

Of prime importance for gaining customers' acceptance is to guarantee that wood raw material is obtained from sustainably managed forests. Accordingly, M-real and Metsäliitto are pushing ahead with measures to develop the Chain of Custody for wood procurement and to promote forest certification. The Paper Profile environmental product description reports on the proportion of certified wood within the wood raw material used for each product. In Russia and the Baltic countries internal inspections of the felling sites are being continued. The availability of certified wood has improved considerably in the Baltic countries.

M-real's most important environmental investment over the next few years will be the wastewater treatment plant at the Husum mill. The facility will start up in 2004. The construction project has already been started and the cost estimate for it is EUR 40 million.

International treaties and regulations connected with climate change are forecast to raise the price of energy. To prepare for this, M-real is continuing its efforts to improve energy efficiency, to reduce the emissions from its own power plants and to increase the proportion of bioenergy. The new wood-fired power plant at Äänekoski started up in 2002.

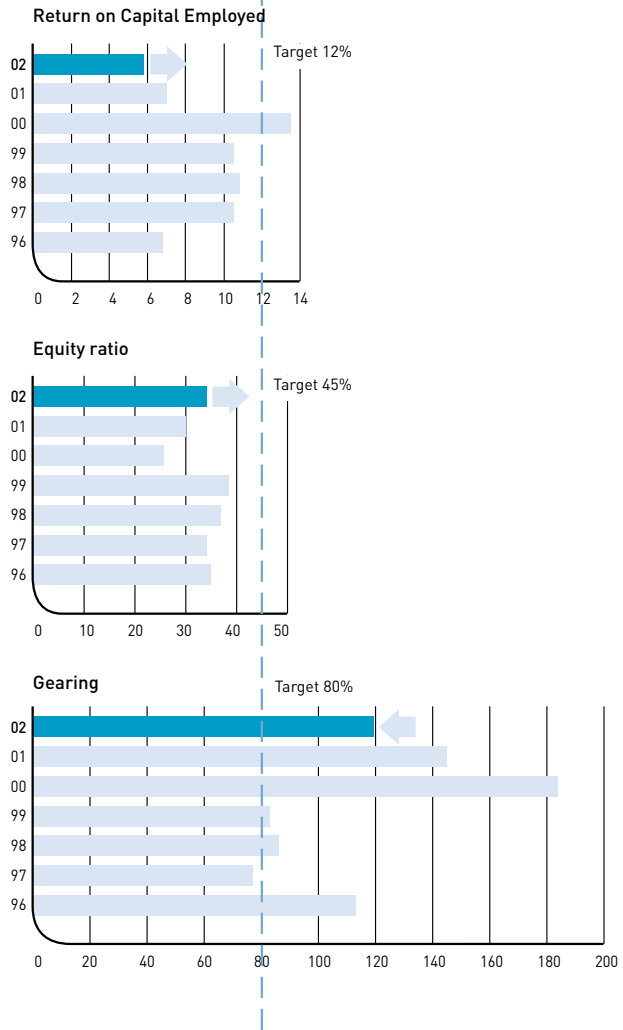
Financial resources and risk management

Financial resources

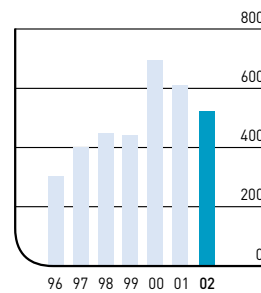
M-real's financial targets are a more than 12 per cent return on capital employed, an equity ratio of about 45 per cent and a gearing ratio that is under 80 per cent. The primary objective is to achieve a clear improvement in profitability. The financing of M-real's growth strategy is based on a strong cash flow from operations.

The equity ratio and gearing target must be achievable before undertaking major acquisitions. Equity financing can be employed if it does not dilute present shareholders' equity and if it improves earnings per share.

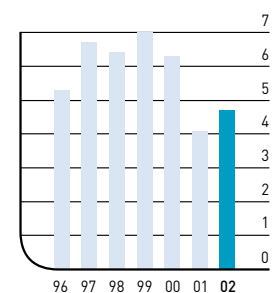
Financial Targets



Funds from operations, EUR million



Interest cover



Risk management

Risk management work has been developed purposefully in the direction of integrated risk management, and the guidelines for risk management have been updated accordingly.

By means of a systematic process, M-real has identified, evaluated and measured the Group's 20 most critical business risks, including their subrisks which, should they materialize, can have an impact on achieving the company's strategic objectives. These risks are strategic, operational, financial and traditional hazard risks. Decisions on follow-up measures and the extent of them will be taken in 2003.

Information security risks have also been identified and analysed. M-real makes use of a unified information security policy and guidelines.

To reduce occupational accidents and improve the general level of safety, an active training and development programme has been carried out at the units for a number of years now. During 2003 a project will be carried out which aims at uniform reporting everywhere in Europe so as to facilitate comparable monitoring of accident frequency and sickness absences at the different units.

Within programmes to promote the personnel's well-being at work, particular attention has been directed at developing new operational models. Changes in working life, globalisation and changes in operations at the units have brought new challenges. M-real has developed a new cooperation-oriented model for promoting well-being at work so that it meets the requirements of the units and the changes that are taking place in working life.

M-real has a crisis management plan that is supported by the contingency plans at the different units. The plan defines, at the Group level, the organization of crisis management work and practical principles to apply in the pre-crisis phase, in an acute crisis situation and in the post-crisis phase.

M-real has four international, Group-wide insurance programmes to manage hazard risks:

- a property damage and loss-of-profits insurance programme
- a general liability insurance programme, including product liability insurance
- an international transport insurance programme
- a liability insurance programme covering management and corporate governance bodies.

Managing financial risks

The Group's financial position is discussed in the report of the Board of Directors.

The primary objective of the M-real Group - apart from profitability - is to maintain a strong balance sheet structure that is in good equilibrium. Financing risks involved in business operations are managed in accordance with the financing policy confirmed by the company's Board of Directors and management. This policy defines detailed operating instructions for the management of factors such as foreign exchange, interest rate, liquidity and counterparty risk as well as for the use of derivative instruments. The aim is to hedge against significant financing risks, to balance the cash flow and to give the business units time to adjust their operations to changed conditions.

Foreign exchange risks

The M-real Group's foreign exchange risk consists of the risk connected with foreign currency flows and the risk of converting foreign currency-denominated shareholders' equity amounts.

Most of the Group's costs are generated in the eurozone, but a large part of the sales income is obtained in currencies other than the euro. This means that due to changes in foreign exchange rates, trade receivables can fluctuate whilst production costs remain unchanged. Similarly, products are often priced in a non-domestic currency. This foreign currency exposure includes foreign currency-denominated accounts receivable, accounts payable, orders booked as well as a certain part of the budgeted net foreign currency cash flow.

The main currencies for the Group's currency flow exposure are the United States dollar, the British pound and the Swedish krona. The appreciation in the dollar and pound has a positive effect on the Group's earnings and, correspondingly, their weakening has a negative impact. A depreciating Swedish krona has a positive effect on the Group's earnings.

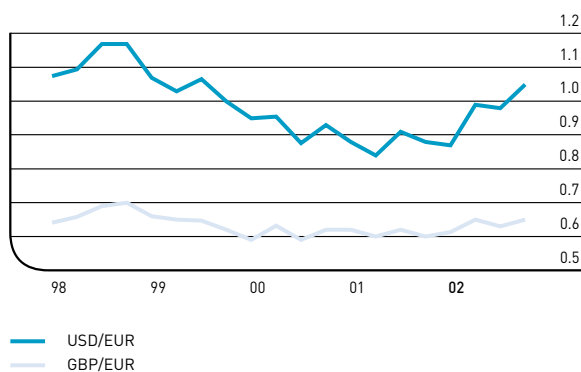
The hedging policy is to hedge on average a three-month foreign exchange flow, but the hedging can vary currency by currency from 0 to 12 months. The amount of hedging for specific currencies can vary depending on the exchange rates and expectations prevailing at any given time, on interest differences among the currencies as well as on the impact on the Group's earnings of a change in foreign exchange rates.

The risk in translating foreign currency-denominated shareholders' equity arises when the shareholders' equity amounts of overseas subsidiaries and associated companies are consolidated and translated into euros in the annual accounts. In line with M-real's financial policy, a minimum of 50 per cent of the equity exposure subject to risk must be hedged if the hedging can in practice be carried out.

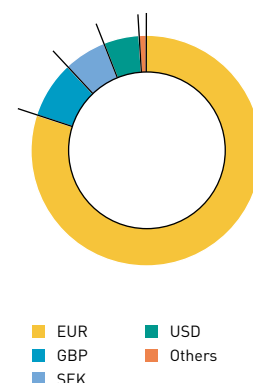
Exchange rates against euro on 31 December

	2002	2001	2000	1999	1998
GBP	0.6505	0.6085	0.6241	0.6217	0.7055
USD	1.0487	0.8813	0.9305	1.0046	1.1667
SEK	9.1528	9.3012	8.8313	8.5625	9.4874
NOK	7.2756	7.9515	8.2335	8.0765	8.8716
DKK	7.4288	7.4365	7.4631	7.4433	7.4489

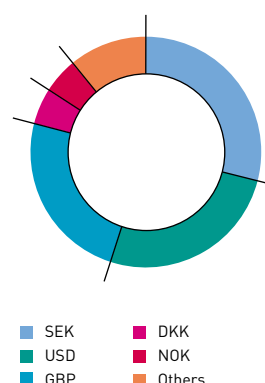
Exchange rate trends, EUR



Currency breakdown of loans



Foreign currency breakdown of currency exposure



Interest rate risk

The main foreign currencies involved in the management of interest rate risks are the euro, the United States dollar and the British pound.

M-real aims to hedge the most important interest rate risks. How fast a change in the interest rate level shows up in net financing expenses in the profit and loss account depends on the interest rate maturities of investments, loans and derivatives, i.e. on how long the interest rate on the financial item remains fixed. The policy is to maintain interest rate maturities on average at a 12 month level, with a permissible range of +/-6 months.

Liquidity risks

Liquidity risk means that financial assets and borrowing facilities do not suffice to cover the financing need of operations or that funding becomes immoderately expensive. The risk is tracked by estimating the 12-month liquidity requirement and comparing it with the available amount of liquidity.

Counterparty risks

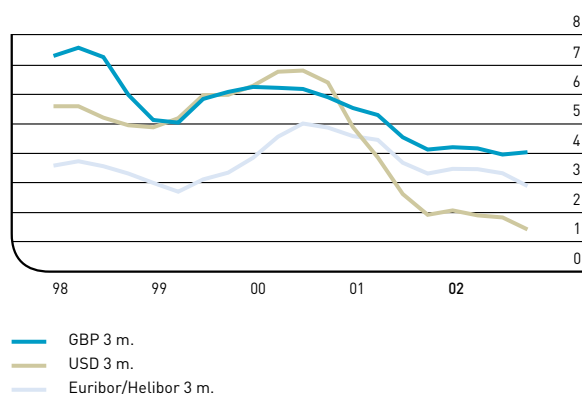
Financial instruments involve a risk that the Group will sustain losses because the counterparty is unable to meet its commitments. The Group manages this risk by entering into financial transactions only with the most creditworthy counterparties and within predetermined limits. Credit risks for financing did not result in losses during the financial year.

Key financial risk

	Exposure (mill. currency units)	Average hedging 2002	Hedging Dec 31. 2002
Annual total foreign exchange exposure	EUR 1.740	3.5 months	4.5 months
Annual USD exposure	USD 480	3.0 months	4.0 months
Annual GBP exposure	GBP 270	2.5 months	2.5 months
Annual SEK exposure	SEK -4.640	4.0 months	5.5 months
Total equity exposure	EUR 960	75 %	90 %
Interest rate maturity of loans (incl. derivatives)	EUR 3.200	12,4 months	14,7 months
Average interest rate (including derivatives)	EUR 3.200	4,7 %	4,7 %
Interest rate sensitivity *)	EUR 3,5		

*) M-real Group interest rate sensitivity is an estimate of the effect of an interest rate change of one per cent in one direction on net interest costs based on the exposure at the end of 2002.

Interest rate trends, 3 m



Derivative agreements

	Maturity Dec 31. 2002	Counter-values (EUR mill.)
Forward foreign exchange contracts	< 12 months	16.5
Foreign exchange options		
bought and sold	< 12 months	15.3
Forward interest rate agreements	< 12 months	0.1
Interest rate options bought and sold	< 2 years	13.6
Interest rate swaps	< 7 years	13.2
Currency swaps	< 29 years	27.8

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

At Note 26 (Contingent liabilities) a schedule is given of the gross amount and fair values of derivative contracts on 31 December 2002

Corporate governance

Annual General Meeting

The company's highest decision-making body is the general meeting of shareholders. Each year the Annual General Meeting approves the company's profit and loss account and balance sheet, and decides on the dividend and on the election of the members of the Board of Directors as well as the auditors.

Board of Directors

Under M-real's Articles of Association, the Board of Directors has a minimum of five and a maximum of eight members, whose term of office lasts up to the end of the Annual General Meeting following the close of the Annual General Meeting at which they were elected. The Board of Directors elects from amongst its number a chairman and a vice chairman. The present Board of Directors has eight members.

The task of the Board of Directors is to attend to the due organisation of the company's administration and operations as well as to decide on matters which, taking into account the extent and kind of the company's operations, are uncommon and of far-reaching import. In addition, the standing rules of the Board of Directors specify that the Board's tasks are, among other things, to take decisions on the company's strategy and merger and acquisition arrangements, to confirm and oversee the budget, to decide on major capital expenditures and important financial matters, to elect the president and to approve the appointments of the president's immediate subordinates, to decide on the salaries and other benefits of the president and other top management and to confirm the company's personnel policy.

Members of the Board of Directors/Shareholding	Total	
	MRLAV	MRLBV shares owned
Haapanen Timo	-	2 500
Kalpala Asmo	-	-
Karmila Erkki	-	-
Lillandt Runar	-	4 115
Niemi Matti	-	-
Oksanen Antti	-	70
Tanskanen Antti	-	-
Uusitalo Arimo	110	1 430

Salaries and emoluments paid, incl. fringe benefits

Board of Directors

Antti Oksanen	65 898
Arimo Uusitalo	57 017
Timo Haapanen	46 394
Asmo Kalpala	45 044
Erkki Karmila	45 103
Runar Lillandt	45 944
Matti Niemi	46 394
Antti Tanskanen	45 944

397 738

As a rule, the Board of Directors meets once a month. The Board of Directors met 14 times in 2002.

The Board of Directors has appointed from amongst its number a Compensation Committee comprising the chairman and vice chairman of the Board of Directors as well as one member of the Board. The Compensation Committee prepares and presents for decision by the Board of Directors matters connected with the salaries, fringe benefits and other conditions of employment of the president and the executive vice president as well as decides on the salaries, fringe benefits and other conditions of employment of officers who report directly to the president. It is furthermore the task of the Board's Compensation Committee generally to keep abreast of issues connected with the compensation, fringe benefits and other conditions of employment of management and persons working in key expert positions as well as to issue the related regulations, instructions and recommendations in order to ensure the Company's continuing competitiveness.

President

The task of the president is, in accordance with the instructions and regulations issued by the Board of Directors, to attend to the Company's running administration. The President and CEO is Jouko M. Jaakkola.

Salaries and emoluments paid, incl. fringe benefits

President & CEO

Jouko M. Jaakkola	369 352
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Corporate Executive Board

In managing the Group, the President and CEO is assisted by the Corporate Executive Board, whose members are the President and CEO Jouko M. Jaakkola as well as Executive Vice President Aarre Metsävirta (Operations & Sourcing), Executive Vice President Veli-Matti Mynttinen (Group Functions), Leif Backman (Strategic Marketing), Ari Himma (Human Resources), Matti Nenonen (Commercial printing), Peter Sandberg (Home & Office), John Clinton (Publishing), Juhani Saarela (Consumer packaging) and Karl-Johan Lindborg (Map). Matti Mörsky, Vice President, Business Development, acts as secretary to the Corporate Executive Board.

Management and directors' salary and emoluments, shareholdings and stock options

The Annual General Meeting confirms the emoluments of the members of the Board of Directors for the following year. Members of the Board of Directors were paid emoluments in 2002 totalling EUR 397 735 in accordance with the accompanying table. The President and CEO was paid salary and emoluments, including fringe benefits, totalling EUR 369 352. The shareholdings and stock options of members of the Board of Directors and company officers are also presented in the accompanying tables.

Shareholdings and options

CED	Number of			Options
	A Share	B Share	Shares total	
Jouko M. Jaakkola	-	2 000	2 000	-
Aarre Metsävirta	1 000	1 000	2 000	240 000
Veli-Matti Mynttinen	-	2 500	2 500	180 000
Matti Nenonen	-	-	-	40 000
Peter Sandberg	-	-	-	-
John Clinton	-	-	-	-
Leif Backman	-	-	-	-
Juhani Saarela *)	-	-	-	148 000
Karl-Johan Lindborg	-	-	-	-
Ari Himma	-	-	-	-

*) Juhani Saarela furthermore has 50 000 Metsä Tissue share options.

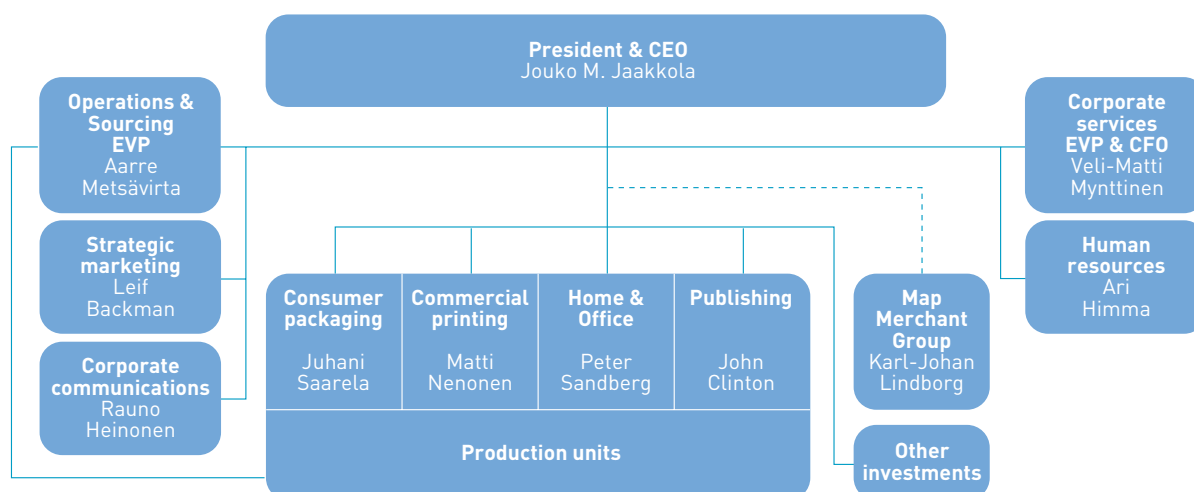
Operational organization

M-real Group has five profit-accountable business areas: Consumer packaging, Commercial printing, Home & Office, Publishing and Map Merchant Group. Sales by the company's industrial business areas are the responsibility of M-real's own sales network jointly with the business areas. As a result of share purchases carried out in January 2003, M-real owns more than 90 per cent of Metsä Tissue Corporation. In addition M-real owns 47 per cent of Oy Metsä-Botnia Ab.

Insiders

Under the Securities Market Act, M-real maintains insider register information on 30 insiders within the SIRE system operated by Finnish Central Securities Depository Ltd.

M-real organization







M-real focuses on high quality products and respective end-use areas.



Demand for the products of the Consumer packaging business area was good throughout the review period. Folding boxboard production capacity was in full use nearly all year long, with the exception of the rebuilt machine at Äänekoski. Demand for linerboard increased, whereas fluting faced weaker demand.

Consumer packaging

The business area's operating profit was EUR 83.4 million (2001:130.0). The weakening in profitability was due mainly to the shutdowns and start-up costs required for the investments at the Äänekoski and Kyro board mills and to the fall in the exchange rate of the US dollar. Operating profit was 9.1 per cent of turnover (13.7). Turnover fell by 3 per cent on the previous year. The capacity utilisation rate of the paperboard mills was 92 per cent (88).

Deliveries of folding boxboard in western Europe were up 3 per cent on the previous year. M-real's folding boxboard enjoyed brisk demand throughout the year, but delivery volumes remained at the level of 2001 due to the temporary decrease in production volumes caused by the machine rebuilds at Äänekoski and Kyro. Selling prices were at the level of 2001. In euro terms, the average selling price nevertheless declined somewhat owing to the effect of a lower US dollar.

Delivery volumes of linerboard grew by 7 per cent. The bulk of the growth came from the European market (11%). The average selling price in euros fell by 3 per cent owing to the weakening in the US dollar.

Demand for fluting fell somewhat and the delivery volume declined by 2 per cent from the record level reached in 2001. The average price in euros was down 5 per cent.

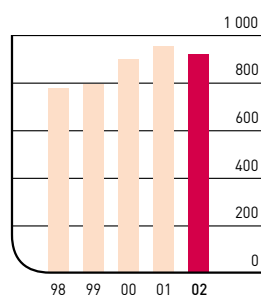
The weakening in worldwide demand for wallpaper base continued during the report period and the deliv-

ery volume was down 4 per cent compared with 2001. The average selling price in euros fell by 9 per cent.

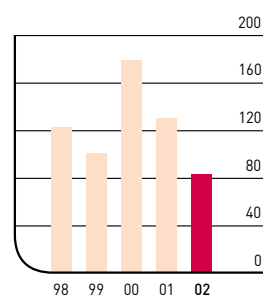
Fourth-quarter operating profit was down 67 per cent on the previous quarter. Profitability was lowered by the start-up expenses for the Äänekoski board machine, seasonal factors in December as well as the fall in the euro-denominated average selling price due to the depreciation of the US dollar. Folding boxboard deliveries were down 5 per cent. Delivery volumes of linerboard fell by 7 per cent. Fluting deliveries, however, were up 5 per cent.

Consumer packaging		2002	2001	Change
Turnover		921.1	951.3	-3%
Internal sales, Group		-9.4	-13.2	
Turnover, external	EUR million	911.7	938.1	-3%
Operating profit	EUR million	83.4	130.0	-36%
Operating profit	%	9.1	13.7	
Capital employed (average)	EUR million	924.5	880.6	5%
Capital turnover rate		1.0	1.1	
Return on capital employed	%	9.7	15.0	
Personnel (average)		3 151	3 089	2%
Investment in fixed assets	EUR million	100.0	57.4	74%
Mill deliveries, 1 000 tn		1 129	1 128	0%
Production, 1 000 tn		1 162	1 131	3%
Paperboard		679	665	2%
Fluting		224	228	-2%
Liner		151	132	14%
CTMP		108	106	2%
Capacity utilisation rate of board mill	%	92	88	

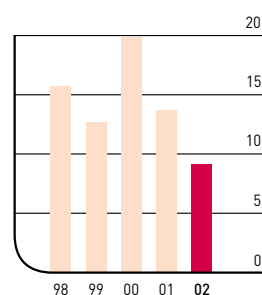
Turnover, EUR million



Operating profit, EUR million



Operating profit, % of turnover



The Commercial printing business area suffered all year long from the weak demand that set in during the first part of 2001, and capacity utilisation rates remained low. The weak demand also pushed prices down about 5 per cent. In addition, the weakening in the United States dollar together with increased deliveries to markets outside Europe depressed the average selling price in euros.



Commercial printing

The profitability during the report period improved on the previous year. Operating profit was EUR 97.0 million (79.6). Operating profit was lifted by an improvement in production efficiency, cost-cutting, lower raw material costs, the winding up of operations at the Silverdalen mill in March as well as a higher delivery volume. Operating profit was 8.0 per cent of turnover (6.2). Turnover fell by 6 per cent on the previous year.

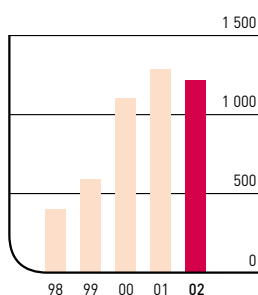
Deliveries by west European producers of coated fine paper rose by 6 per cent in 2002. The delivery volume of M-real's products rose by 1 per cent. The average running time of the paper machines was 7 days longer than in 2001 and the capacity utilisation rate was 83 per cent (82). The order book was a good week at the end of the year.

Fourth-quarter operating profit was on a par with the previous quarter. Selling prices declined somewhat and, additionally, the weakening in the dollar depressed the average selling price in euros. Delivery volumes rose.

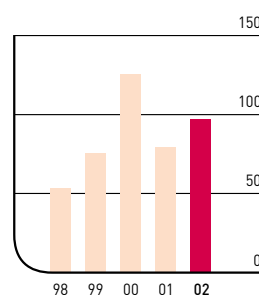
The Kangas paper mill was transferred to the Publishing business area as from the beginning of 2002. The figures for previous years have been adjusted accordingly

Commercial printing	2002	2001	Change
Turnover	1 218.1	1 289.4	-6%
Internal sales, Group	-237.5	-280.1	
Turnover, external EUR million	980.6	1 009.3	-3%
Operating profit EUR million	97.0	79.6	22%
Operating profit %	8.0	6.2	
Capital employed (average) EUR million	1 146.1	1 174.8	-2%
Capital turnover rate	1.1	1.1	
Return on capital employed %	8.8	6.9	
Personnel (average)	3 507	3 678	-5%
Investment in fixed assets EUR million	20.3	73.2	-72%
Mill deliveries, 1 000 tn	1 409	1 389	1%
Production, 1 000 tn	1 410	1 378	2%
Capacity utilisation rate %	83	82	

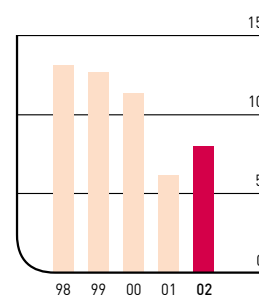
Turnover, EUR million



Operating profit, EUR million



Operating profit, % of turnover





The products of the Home & Office business area enjoyed very good demand in the first quarter and at the beginning of the second quarter. In May-June demand fell off sharply and remained at this lower level throughout the latter part of the year. Selling prices fell by about 3 per cent from the level in 2001.

Home & Office

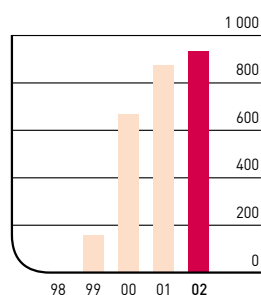
The business area posted operating profit of EUR 107.2 million (84.7). The improvement in profitability was due mainly to the increased delivery volumes, with a further boost from improved production efficiency. Operating profit was 11.5 per cent of turnover (9.7). Turnover rose by 7 per cent on the previous year.

Deliveries by west European producers of uncoated fine paper rose by 2 per cent in 2002. M-real's delivery volume rose by 8 per cent. The average running time of the paper machines was 2 days longer than in 2001 and the capacity utilization rate was 89 per cent (88). The order book at the end of the year was a bit over two weeks.

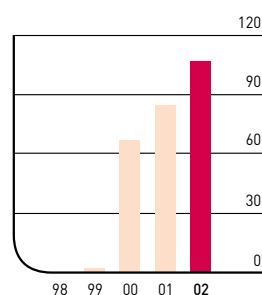
Operating profit in the fourth quarter fell by 39 per cent compared with the previous quarter. The fall in profitability was due largely to the lower delivery volume as well as to the seasonally related increase in expenses.

Home & Office	2002	2001	Change
Turnover	934.1	875.1	7%
Internal Sales, Group	-262.8	-263.1	
Turnover, external EUR million	671.3	612.0	10%
Operating profit EUR million	107.2	84.7	27%
Operating profit %	11.5	9.7	
Capital employed (average) EUR million	1 154.6	1 330.7	-13%
Capital turnover rate	0.8	0.7	
Return on capital employed %	9.6	6.6	
Personnel (average)	2 125	2 106	1%
Investment in fixed assets EUR million	17.8	58.5	-70%
Mill deliveries, 1 000 tn	902	832	8%
Production, 1 000 tn	915	873	5%
Capacity utilisation rate %	89	88	

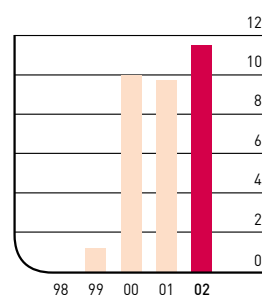
Turnover, EUR million



Operating profit, EUR million



Operating profit, % of turnover



The weak demand that beset the Publishing business area in the second quarter of 2001 continued in 2002, causing a marked decline in selling prices. In addition, the depreciation of the US dollar depressed the average euro-denominated selling price. The 50 per cent holding in the Albruck mill was divested in June.



Publishing

The business area reported operating profit of EUR 39.4 million (74.7). The weakening in profitability was due to selling prices that were about 8 per cent lower, the depreciation of the US dollar as well as to the fall in the delivery volume due to divesting MD Papier and Albruck. Operating profit was 5.0 per cent of turnover (8.1). Turnover fell by 15 per cent on the previous year. Comparable turnover was up 3 per cent.

Deliveries of coated magazine paper (LWC) in western Europe rose by 2 per cent. M-real's comparable delivery volume rose by 11 per cent. The divestment of MD Papier and Albruck caused a drop in the delivery volume. The average running time of the paper machines was 24 days longer than in 2001 and the capacity utilization rate was 84 per cent (79). The order book at the end of the year was slightly less than three weeks.

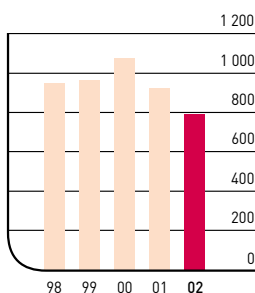
Operating profit in the fourth quarter fell by 35 per cent compared with the previous quarter. The fall in profitability was due to the seasonally weaker demand in December, shutdowns in Finland in accordance

with the collective labour agreement as well as lower selling prices. The weakening in the US dollar during the quarter also lowered the average selling price in euros.

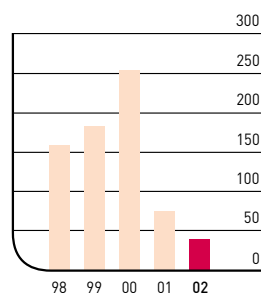
The Kangas paper mill was transferred to the Publishing business area as from the beginning of 2002. The figures for previous years have been adjusted accordingly.

Publishing	2002	2001	Change
Turnover	790.1	924.4	-15%
Internal sales, Group	-17.6	-6.1	
Turnover, external EUR million	772.5	918.3	-16%
Operating profit EUR million	39.4	74.7	-47%
Operating profit %	5.0	8.1	
Capital employed (average) EUR million	1 161.6	1 236.8	-6%
Capital turnover rate	0.7	0.8	
Return on capital employed %	3.5	6.0	
Personnel (average)	1 769	2 261	-22%
Investment in fixed assets EUR million	23.5	186.4	-87%
Mill deliveries, 1 000 tn	977	1 063	-8%
Production, 1 000 tn	991	1 073	-8%
Capacity utilisation rate %	84	79	

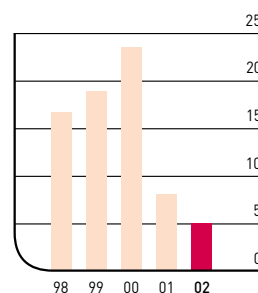
Turnover, EUR million



Operating profit, EUR million



Operating profit, % of turnover





The Map paper merchanting business area's financial year was also overshadowed by the continuing difficult market situation. Map moved ahead with its programme for integrating and restructuring operations.

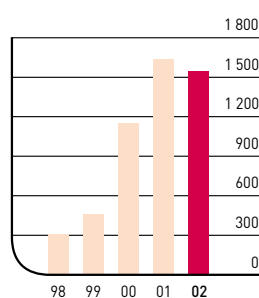
Map Merchant Group

The business area reported an operating loss of EUR 14.9 million (a loss of 3.6 million in 2001). Profitability was weakened by the fall in the delivery volume owing to slack demand. In addition, operating profit was burdened by a total of EUR 17.3 million of non-recurring reorganization expenses, credit losses and write-downs on asset items. Despite the price competition spurred by weak demand, the average selling price declined moderately. Turnover was down 6 per cent.

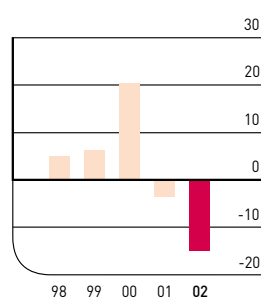
Delivery volumes during the report year totalled 1 270 000 tonnes, down 6 per cent on the delivery volumes in 2001. Delivery volumes remained at an evenly low level all year long.

Map Merchant Group	2002	2001	Change
Turnover,	1 542.8	1 635.6	-6%
Internal sales, Group	-5.7	-1.3	
Turnover, external	1 537.1	1 634.3	-6%
EUR million			
Operating profit	-14.9	-3.6	314%
EUR million			
Operating profit	-1.0	-0.2	
%			
Capital employed (average) EUR million	447.6	490.7	-9%
Capital turnover rate	3.5	3.3	
Return on capital employed	-3.0	-0.8	
%			
Personnel (average)	2 745	2 855	-4%
Investment in fixed assets EUR million	5.2	6.1	-15%
Delivery volumes, 1 000 tn	1 270	1 351	-6%

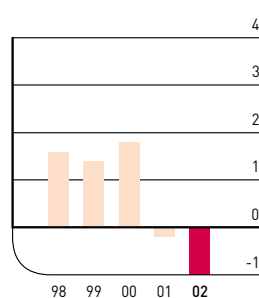
Turnover, EUR million



Operating profit, EUR million



Operating profit, % of turnover



The weak market situation also kept Zanders' deliveries and capacity utilisation rates at a low level. Selling prices fell slightly. In addition, the change in the product mix coupled with a cheaper dollar depressed the average selling price in euros. Integration of Zanders' operations into M-real was continued. About 60 per cent of the efficiency-boosting and investment programme had been carried out by the end of the year.



Zanders

Operating profit was EUR 2.4 million (0.2). The improvement in profitability was due to the fall in fixed costs resulting from the restructuring of operations as well as to lower raw material costs. Profitability was nevertheless weakened by the investment-caused disturbances in production in the latter part of the year. Turnover was down 10 per cent.

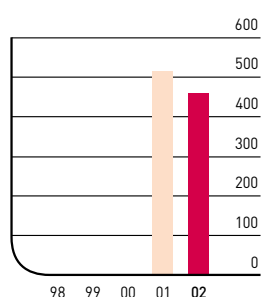
The average capacity utilization rate of the paper machines was 76 per cent (78).

In August M-real redeemed the Zanders Feinpapier AG shares of the company's private shareholders. Zanders thus became a wholly-owned subsidiary of M-real.

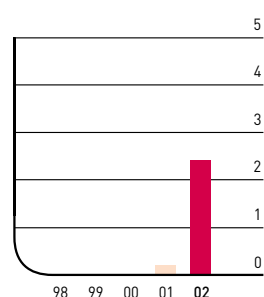
Operating profit in the fourth quarter fell compared with the previous quarter. Factors that cut into profitability were investment-caused disturbances in production, the fall in selling prices, the weakening in the US dollar as well as a somewhat lower delivery volume. In addition, operating profit was burdened by an EUR 2.4 million of non-recurring expenses for integrating Zanders' sales network into M-real's.

Zanders	2002	2001	Change
Turnover	459.4	512.9	-10%
Internal sales, Group	-6.9	-4.6	
Turnover, external EUR million	452.5	508.3	-11%
Operating profit EUR million	2.4	0.2	1100%
Operating profit %	0.5	0.0	
Capital employed (average) EUR million	332.8	357.5	-7%
Capital turnover rate	1.4	1.4	
Return on capital employed %	0.9	0.3	
Personnel (average)	2 324	2 724	-15%
Investment in fixed assets EUR million	35.0	15.5	126%
Mill deliveries, 1 000 tn	350	360	-3%
Production, 1 000 tn	348	357	-3%
Capacity utilisation rate %	76	78	

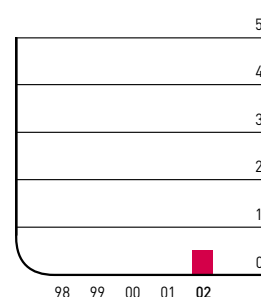
Turnover, EUR million



Operating profit, EUR million



Operating profit, % of turnover





Operating profit in 2002 was EUR 43.1 million (36.5). The higher profitability was due to a rise in cost-effectiveness, an improved product palette and a slight increase in deliveries. Operating profit was 6.7 per cent of turnover (5.6). Turnover was EUR 647.8 million (649.6).

Metsä Tissue Corporation

The growth in demand for tissue products has been very modest in Europe. At the same time, new capacity has entered the market, causing the competitive situation to tighten further.

Metsä Tissue's sales volume rose by about 3 per cent in comparable terms, but the euro-denominated average selling price was down 5 per cent compared with 2001. The fall in the average selling price was attributable above all to the lower market prices of raw paper.

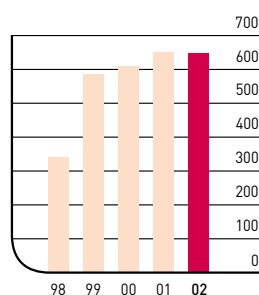
Fourth-quarter operating profit fell to EUR 5.9 million from EUR 17.2 million in the previous quarter. The drop in profitability was due to a weaker selling period compared with the previous quarter as well as to a total of EUR 3.7 million of non-recurring cost provisions for restructuring operations, which was charged to fourth-quarter earnings. The provisions were made mostly to cover the operations in Germany.

In 2002, Metsä Tissue Corporation's share price registered a high of EUR 11.00 and a low of EUR 8.50. At the end of the year the share price was EUR 10.50. Turnover of Metsä Tissue shares was EUR 17.5 million, representing 5.9 per cent of the total number of shares outstanding. The company's market capitalization at 31 December 2002 was EUR 315 million. At the end of the financial year M-real owned 65.6 per cent of Metsä Tissue's shares. Foreign investors held 21.8 per cent of the shares at the end of the report period.

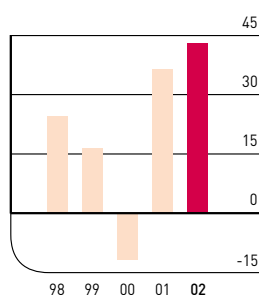
In October Metsä Tissue announced it had started up an investment and development programme encompassing its business functions in Germany. The aim of the programme is to improve quality and the degree of converting, especially within consumer products, whilst raising productivity. Capital expenditures under the programme total about EUR 45 million and it will for the most part be carried out by the end of 2004. Owing to the staff cuts that are part of the programme, the fourth-quarter result includes an expense provision of about EUR 3 million.

Metsä Tissue	2002	2001	Change
Turnover	647.8	649.6	0%
Internal sales, Group	-4.7	-3.7	
Turnover, external EUR million	643.1	645.9	0%
Operating profit EUR million	43.1	36.5	18%
Operating profit %	6.7	5.6	
Capital employed (average) EUR million	333.9	360.6	-7%
Capital turnover rate	1.9	1.8	
Return on capital employed %	13.2	10.3	
Personnel (average)	3 067	3 000	2%
Investment in fixed assets EUR million	43.6	16.0	173%
Mill deliveries, 1 000 tn	432	412	5%
Production, 1 000 tn	432	408	6%

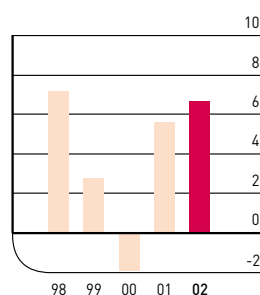
Turnover, EUR million



Operating profit, EUR million



Operating profit, % of turnover



M-real Group

Quarterly data

Turnover EUR Million	2002 I-IV	2001 I-IV	Quarterly							
			2002 IV 02	III 02	II 02	I 02	IV 01	III 01	II 01	2001 I 01
Consumer packaging	921.1	951.3	227.0	231.7	232.4	230.0	242.7	231.0	236.2	241.4
Commercial printing	1 218.1	1 289.4	293.1	291.0	300.1	333.9	325.2	303.6	305.7	354.9
Home & Office	934.1	875.1	221.5	222.2	234.6	255.8	223.7	185.6	220.7	245.1
Publishing	790.1	924.4	204.0	191.0	193.5	201.6	210.5	198.1	243.1	272.7
Map Merchant Group	1 542.8	1 635.6	375.0	371.7	387.1	409.0	389.3	387.0	416.9	442.4
Zanders	459.4	512.9	83.7	122.4	121.7	131.6	120.1	126.0	128.8	138.0
Tissue Group	647.8	649.6	170.7	162.2	155.7	159.2	163.2	161.1	163.0	162.3
Internal sales and other operations	50.8	85.0	12.3	12.0	11.6	15.0	27.0	8.6	41.2	8.2
Group total	6 564.2	6 923.3	1 587.3	1 604.1	1 636.7	1 736.1	1 701.7	1 601.0	1 755.6	1 865.0
Operating profit and result EUR Million	2002 I-IV	2001 I-IV	Quarterly							
			2002 IV 02	III 02	II 02	I 02	IV 01	III 01	II 01	2001 I 01
Consumer packaging	83.4	130.0	8.1	24.8	16.7	33.8	28.0	29.3	26.4	46.3
Commercial printing	97.0	79.6	19.8	19.9	25.0	32.3	34.1	19.0	3.0	23.5
Home & Office	107.2	84.7	19.9	32.8	24.6	29.9	10.3	4.3	22.4	47.7
Publishing	39.4	74.7	9.4	14.4	-0.7	16.3	8.3	6.9	21.6	37.9
Map Merchant Group	-14.9	-3.6	-9.3	-5.9	-0.9	1.2	-14.4	-3.6	4.8	9.6
Zanders	2.4	0.2	-4.1	-1.5	1.9	6.1	-2.0	4.1	-3.6	1.7
Tissue Group	43.1	36.5	5.9	17.2	8.4	11.6	13.8	11.2	7.1	4.4
Other operations	-33.3	-12.9	1.0	-4.6	-17.3	-12.4	-5.8	22.6	-33.9	4.2
Operating profit	324.3	389.2	50.7	97.1	57.7	118.8	72.3	93.8	47.8	175.3
% of turnover	4.9	5.6	3.2	6.1	3.5	6.8	4.3	5.9	2.7	9.4
Net exchange gains/losses	-30.5	-22.7	5.0	-16.8	0.2	-18.8	-19.9	-3.0	0.1	0.1
Other financial income and expenses	-159.5	-212.5	-45.6	-38.7	-37.2	-38.0	-46.8	-47.4	-62.1	-56.2
Profit before extraordinary items	134.3	154.0	10.1	41.5	20.7	62.0	5.6	43.4	-14.2	119.2
% of turnover	2.1	2.2	0.6	2.6	1.3	3.6	0.3	2.7	-0.8	6.4
Operating profit, %	2002 I-IV	2001 I-IV	Quarterly							
			2002 IV 02	III 02	II 02	I 02	IV 01	III 01	II 01	2001 I 01
Consumer packaging	9.1	13.7	3.6	10.7	7.2	14.7	11.5	12.7	11.2	19.2
Commercial printing	8.0	6.2	6.8	6.8	8.3	9.7	10.5	6.3	1.0	6.6
Home & Office	11.5	9.7	9.0	14.8	10.5	11.7	4.6	2.3	10.2	19.4
Publishing	5.0	8.1	4.6	7.5	-0.4	8.1	3.9	3.5	8.9	13.9
Map Merchant Group	-1.0	-0.2	-2.5	-1.6	-0.2	0.3	-3.7	-0.9	1.2	2.2
Zanders	0.5	0.0	-4.9	-1.2	1.6	4.6	-1.7	3.3	-2.8	1.2
Tissue Group	6.7	5.6	3.5	10.6	5.4	7.3	8.5	7.0	4.4	2.7
Group total	4.9	5.6	3.2	6.1	3.5	6.8	4.3	5.9	2.7	9.4
Production, 1 000 tons	2002 I-IV	2001 I-IV	Quarterly							
			2002 IV 02	III 02	II 02	I 02	IV 01	III 01	II 01	2001 I 01
Commercial printing	1 410	1 378	357	331	353	369	348	332	325	373
Home & Office	915	873	207	231	233	244	207	199	221	246
Publishing ¹⁾	990	1 073	256	244	235	255	242	246	272	313
Zanders	348	357	80	75	95	98	85	91	88	93
Paperboard	679	665	173	167	169	170	152	170	161	182
Fluting	224	228	57	64	49	54	60	57	54	57
Liner ²⁾	151	132	37	40	39	35	36	35	31	30
CTMP	280	136	76	79	63	62	49	34	25	28
Metsä Tissue	432	408	110	112	106	104	97	108	98	105
Metsä-Botnia's pulp ²⁾	1 057	946	249	294	250	264	234	258	209	245
M-real's pulp	1 191	1 074	308	290	304	289	264	251	261	298

¹⁾ includes 50 per cent of the production in MD Papier (until 30.6.2001) and Albrbruck (until 30.6.2002)

²⁾ equals to M-real's ownership (47%)



Specialisation,
precisely targeted
investments and
efficiency-improving
programmes
improve M-real's
competitiveness.



Report of the board of directors

The market

Demand for folding boxboard was good throughout 2002 and capacity was in nearly full use, except for the rebuilt board machine that started up at Äänekoski. Deliveries of linerboard increased and fluting deliveries were down on the previous year.

In western Europe demand for folding boxboard rose by 3 per cent. The selling price was at the level of 2001. The selling price of liner and fluting was down 1–2 per cent.

Demand for paper remained weak throughout the year. Demand for uncoated fine paper was nevertheless up on the previous year and better than for other grades, especially in the first quarter and at the beginning of the second quarter. Demand for coated fine paper was at a uniformly low level all year long,

save for seasonal changes in demand. Demand for coated magazine paper, however, picked up somewhat in the second quarter.

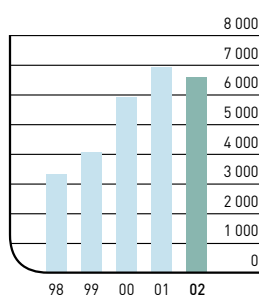
Deliveries by western European producers of coated magazine paper were up 2 per cent on the previous year. The selling price fell by about 8 per cent. Deliveries by producers of coated fine paper rose by 6 per cent and those of uncoated fine paper by 2 per cent. Despite the downward pressure due to the weak demand that set in a year earlier, the price declined moderately: the selling price of coated fine paper was 6 per cent lower than a year ago and that of uncoated fine paper 3 per cent lower.

Demand for magazine paper and coated fine paper in the last quarter of the year showed the normal seasonal growth. Deliveries of magazine paper increased

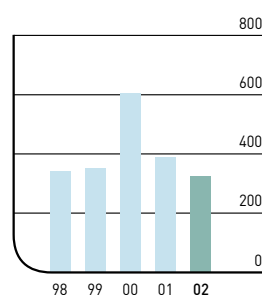
Key figures

	Turnover EUR million		Operating profit EUR million		Operating profit %		Capital employed, average EUR million		Return on capital employed, %		Personnel, average	
	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001
Consumer packaging	921.1	951.3	83.4	130.0	9.1	13.7	924.5	880.6	9.7	15.0	3 151	3 089
Commercial printing	1 218.1	1 289.4	97.0	79.6	8.0	6.2	1 146.1	1 174.8	8.8	6.9	3 507	3 678
Home & Office	934.1	875.1	107.2	84.7	11.5	9.7	1 154.6	1 330.7	9.6	6.6	2 125	2 106
Publishing	790.1	924.4	39.4	74.7	5.0	8.1	1 161.6	1 236.8	3.5	6.0	1 769	2 261
Map Merchant Group	1 542.8	1 635.6	-14.9	-3.6	-1.0	-0.2	447.6	490.7	-3.0	-0.8	2 745	2 855
Zanders	459.4	512.9	2.4	0.2	0.5	0.0	332.8	357.5	0.9	0.3	2 324	2 724
Metsä Tissue	647.8	649.6	43.1	36.5	6.7	5.6	333.9	360.6	13.2	10.3	3 067	3 000
Internal sales and other operations	50.8	85.0	-33.3	-12.9			594.3	556.6			2 382	2 524
Group total	6 564.2	6 923.3	324.3	389.2	4.9	5.6	6 095.4	6 388.3	5.8	6.9	21 070	22 237

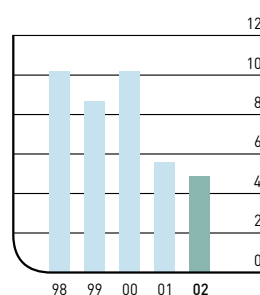
Turnover, EUR million



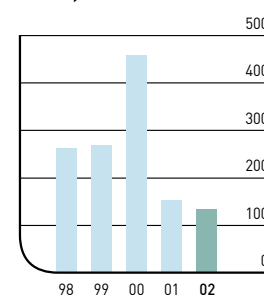
Operating profit, EUR million



Operating profit, %



Profit before extraordinary items, EUR million



by 9 per cent and those of coated fine paper by 2 per cent. Deliveries of uncoated fine paper, however, were down 3 per cent.

Demand for Metsä Tissue's tissue paper products remained stable throughout the year.

Profit for the financial year

M-real's operating profit in 2002 was EUR 324.3 million (389.2 million in 2001). Operating profit accounted for 4.9 per cent of turnover (5.6). The profitability of the Consumer packaging and Publishing business areas weakened. Home & Office and Commercial printing improved their profitability. Metsä Tissue's earnings also improved.

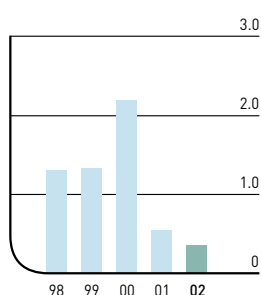
The main reasons for the weakening in profitability were the lower selling price of paper, particularly magazine paper, the investment-related shutdowns and start-up costs at the Äänekoski and Kyro board mills as well as the fall in the exchange rate of the United States dollar. In addition, operating profit for the financial year includes EUR 25 million of non-recurring income and EUR 37 million of non-recurring expenses. All of the non-recurring income and EUR 28 million of the non-recurring expenses were allocated to the last quarter. The most important of the non-recurring income items was a credit to income of EUR 17 million for the Group reserve connected with finalization of the purchase price for Zanders, whereby the amortization of goodwill has been extended. The most significant of the non-recur-

ring expenses were the reorganization costs for the Map merchandising business area and write-downs on

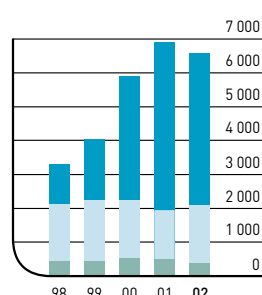
Turnover by countries

	2002 EUR million	2001 EUR million
Great Britain	1 292.8	1 344.3
Germany	1 011.2	1 322.7
France	450.7	457.0
Finland	390.9	485.6
Sweden	305.1	317.3
The Netherlands	268.2	286.6
Italy	243.7	237.6
USA	226.6	263.5
Spain	219.3	216.6
Belgium	191.6	182.2
Switzerland	165.7	164.8
Poland	148.8	155.4
Denmark	136.8	151.4
Norway	120.6	114.3
Austria	118.1	130.8
China	94.6	71.1
Australia	88.4	84.9
Russia	77.6	74.7
Ireland	61.8	58.8
Hong Kong	58.1	37.1
Baltic countries	54.4	45.2
Canada	54.4	56.8
Greece	33.3	27.7
Japan	30.4	27.2
Portugal	11.7	14.0
India	9.6	41.8
Other Europe	277.2	197.2
Other Asia	175.0	138.9
Other countries	247.6	217.8
	6 564.2	6 923.3

Earnings per share, EUR

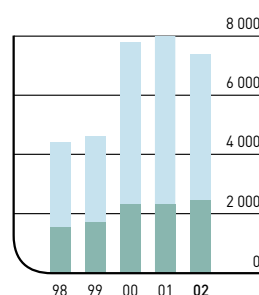


Turnover, EUR million



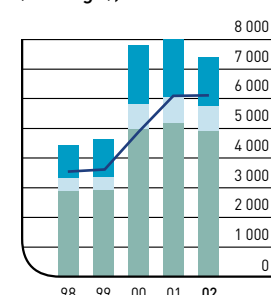
■ Turnover in Finland
■ Exports from Finland
■ Foreign subsidiaries

Financial structure, EUR million



■ Liabilities
■ Equity

Assets and capital employed (average), EUR million



■ Fixed assets
■ Inventories
■ Financial assets
— Capital employed (average)

asset items. These expenses came to a total of EUR 17 million.

M-real delivered 1 129 000 tonnes (1 128 000 tonnes) of paperboard to customers. The mills' production was curtailed by 41 000 tonnes in line with demand (122 000). The capacity utilization rate was 92 per cent (88).

Paper deliveries from the mills totalled 3 638 000 tonnes (3 643 000). The comparable delivery volume rose by 3 per cent on the previous year. The delivery volume of coated and uncoated fine paper rose by 4 per cent and the comparable delivery volume of magazine paper by 11 per cent. Owing to the imbalance in supply and demand, production had to be curtailed significantly, as it was a year ago. Production curtailments amounted to 605 000 tonnes (677 000 tonnes). The capacity utilization rate at the mills was 85 per cent (82).

The effect of the change in foreign exchange rates, including hedging income, on operating profit was EUR -29.9 million (18.6). By the end of 2002 the United States dollar weakened by 19 per cent and the British pound by 6.9 per cent compared with the previous turn of the year. On average, the euro exchange rate of the dollar was 5.5 per cent lower than in 2001 and the exchange rate of the British pound sterling 1.1 per cent lower.

Turnover was EUR 6 564.2 million (6 923.3). In comparable terms, turnover fell by 4 per cent. Sales to Finland accounted for 6 per cent of turnover (7).

Net financial expenses were EUR 190.0 million (235.2). Financial expenses include a foreign exchange loss of EUR 30.5 million on the company's convertible subordinated capital notes and on other financial items. Net interest and other financial expenses amounted to EUR 159.5 million (212.5).

Other operating income amounted to EUR 73.4 million (71.2). The sum does not include non-recurring items.

Profit before extraordinary items was EUR 134.3 million (154.0).

A capital gain of EUR 156 million on the sale of shares in Albbbruck was booked to extraordinary income along with EUR 12.8 million of tax-related expense items connected with the arrangement.

Profit for the financial period was EUR 208.9 million (212.2). Taxes, including the change in the imputed deferred tax liability, were EUR 59.8 million (115.0).

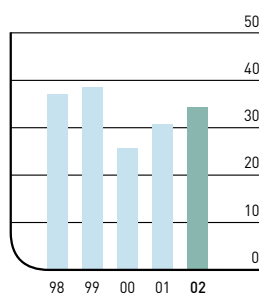
Earnings per share were EUR 0.36 (0.55).

The return on capital employed was 5.8 per cent (6.9). The return on equity was 3.0 per cent (4.7).

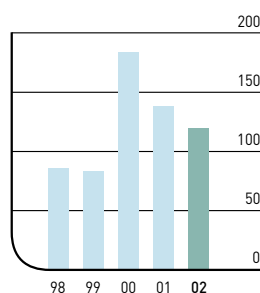
October–December earnings compared with the previous quarter

Operating profit was EUR 50.7 million (July–Sept. 2002: 97.1). Operating profit accounted for 3.2 per cent of turnover (6.1). The profitability of all the business areas weakened. Operating profit includes EUR 25 million of non-recurring income and EUR 28 million of non-recurring expenses.

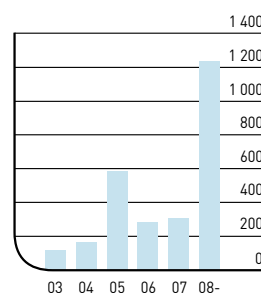
Equity ratio, %



Gearing ratio, %



Repayment of long-term loans, EUR million



The weakening in the profitability of the Consumer packaging business area was due mainly to the start-up costs of the Äänekoski board machine, the fall in the exchange rate of the US dollar as well as December shutdowns in accordance with the collective labour agreement. The selling price of paperboard grades was at the previous quarter's level. Paperboard deliveries amounted to 283 000 tonnes (284 000 tonnes). The capacity utilization rate was 92 per cent (95).

The paper business areas benefited from a seasonal improvement in demand in October–November compared with earlier months. The weakening in fourth-quarter profitability was attributable mainly

to the slightly lower selling prices of coated fine paper and magazine paper, the fall in the exchange rates of the United States dollar and British pound as well as the seasonal slowdown in sales at the end of December. The delivery volume of fine paper was at the previous quarter's levels, and the delivery volume of magazine paper rose by 9 per cent. The total volume of paper deliveries was 891 000 tonnes (870 000). Production curtailments amounted to 164 000 tonnes (198 000 tonnes). The capacity utilization rate of the paper mills was 83 per cent (83).

Consolidated turnover was EUR 1 587.3 million (1 604.1).

M-real's personnel by country on 31 December

	2001	2002
Finland	6 091	5 941
Germany	5 403	4 543
Sweden	2 752	2 518
United Kingdom	2 246	2 002
France	966	894
Austria	908	881
Poland	410	844
Switzerland	587	581
Hungary	566	573
Belgium	416	410
The Netherlands	464	353
Other Countries	707	783
Total	21 515	20 323

Personnel

The number of personnel at the end of December was 20 323 employees (21 515 employees at 31 December 2001), of which 5 941 employees worked in Finland (6 091). The net decrease in the personnel was 1 192 employees. Acquisitions and divestments caused a net decrease of 82 employees.

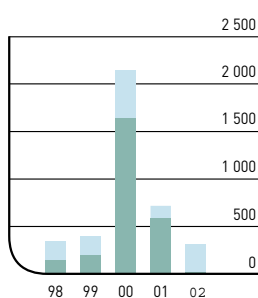
The Group's personnel includes 47 per cent of Metsä-Botnia's employees.

Capital expenditures on fixed assets

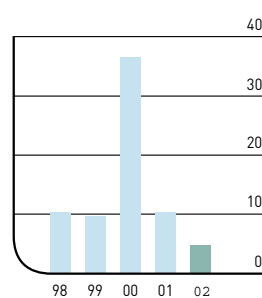
M-real's total capital expenditures during 2002 amounted to EUR 304 million.

The projects for rebuilding the Kyro wallpaper base machine and Äänekoski board machine were

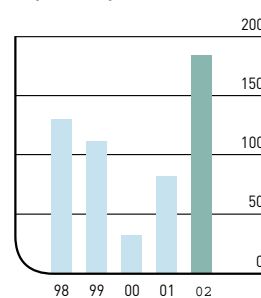
Gross capital expenditures, EUR million



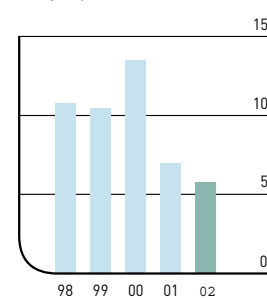
Gross capital expenditures, % of turnover



Internal financing of capital expenditures, %



Return on capital employed, %



■ Acquisitions
■ Other capital expenditures

completed. Kyro's modernized production line started up in the spring on schedule and the rebuilt board machine at Äänekoski came on stream in September. Bringing both machines up to full output has gone well. The Äänekoski board machine will concentrate on manufacturing a new type of paperboard that is used in packaging healthcare products. The aggregate cost of the capital expenditures at Kyro and Äänekoski was about EUR 110 million.

The investments for Zanders' development programme are progressing according to plans and will be completed during 2003. M-real's Board of Directors decided in December to modernise the waste water treatment plant at the Husum mill at an investment cost of about 42 million euros. Design of the plant is in progress and the construction will be started in March 2003. The new plant will become operational in December 2004.

M-real does not have other major investments that were in progress.

Metsä Tissue decided on an investment and development programme for its operations in Germany in October. Capital expenditures under the programme total about EUR 45 million and it will for the most part be carried out by the end of 2004.

The modernisation investment for the evaporator plant at Metsä-Botnia's Kemi pulp mill has moved ahead in line with plans and the new evaporation plan will go into operation in January 2003.

Acquisitions and divestments

In April, M-real acquired an 85 per cent holding in CN Papiervertriebs GmbH, a German paper and printing service company. In April, M-real sold the Winpac division, which is engaged in paper and board sheet-

ing operations, to the company's line management. In June, M-real sold the entire shares outstanding in Coupe Service SA, a French sheeting company, to Procop SA.

In June, M-real sold its 50 per cent holding in Papierfabrik Albbbruck GmbH & Co. KG to Myllykoski Oyj. The purchase price was 235 million euros and M-real realised a capital gain of about 156 million euros on the deal.

In July, M-real and the other shareholders in Transfennica Oy Ab sold 51 per cent of Transfennica's shares to the Dutch transport company Spliethoffs Bevrachtungskantoor B.V.

On October 3, Metsä Tissue received a permit from the Polish Ministry of the Interior to purchase a 9.9 per cent additional stake in the Polish tissue paper company Zakłady Papiernicze Krapkowicach SA. The shares were transferred to Metsä Tissue on 11 October, raising the company's holding in ZPK to 50.3 per cent and the company became a Metsä Tissue subsidiary. In December Metsä Tissue purchased additional ZPK shares, giving it a shareholding of 89.4 per cent.

In December Map Merchants signed an agreement on acquiring the Czech office paper merchant Narpex in order to strengthen its position in the Czech Republic. The debt-free purchase price of the acquired company was just over EUR 3 million. The deal has been approved by the authorities.

Other structural arrangements

In February M-real agreed with Myllykoski Oyj on terminating the sales and marketing co-operation that had been pursued under the M-real alliance name since 1996. Decoupling of the functions was completed during the autumn.

Operations of the Silverdalen paper mill in Sweden, were wound up at the end of March in accordance with the previously taken decision.

M-real Corporation, UPM-Kymmene Corporation, Metsäliitto Osuuskunta and Oy Metsä-Botnia Ab carried out the spin-off of the Kemiart Liners business as from the beginning of April. The decisions on the future strategy and ownership structure of the business will be taken by the end of 2004.

In August M-real redeemed private shareholders' shares in Zanders Feinpapiere AG. Zanders thus became a wholly-owned subsidiary of M-real.

Research and development

The total volume of research activities remained at the level of 2001. The efficiency, information flow and cooperation of the R&D units with the mills was stepped up.

The international networks of research bodies have been utilised to a growing extent in planning and developing research and development programmes.

Research has been geared primarily towards improving competitive quality factors that are connected with end use. Significantly, a major commercial breakthrough has been achieved in digital four-colour printing.

Another noteworthy research result was the significant improvement that has been made in the energy consumption efficiency of the pulping process thanks to long-term development cooperation. In connection with the rebuild of the Äänekoski board machine, a new improved board grade was developed. The Home & Office business area came out with new copy paper products based on proprietary technology.

In response to future challenges, M-real is studying ways to improve the usability and functional characteristics of consumer products by incorporating information technology into M-real's consumer products. Understanding visual quality and exploiting this commercially are also amongst the challenges of the future.

Environment

M-real conducted a review of its environmental policy. Areas that were redefined included management, the company's own processes, purchasing and communications.

M-real and its wood procurement partner Metsäliitto have given their commitment to using wood raw material that comes from sustainably managed forests. Accordingly, measures were continued to develop management of the Chain of Custody of wood procurement and to promote the certification of forests. In Russia and the Baltic countries internal inspections of the felling sites were continued. The requirements set for pulp suppliers were updated such that the level of demand is the same as for M-real's own wood procurement.

M-real's most important environmental investment over the next few years will be the waste water treatment plant at the Husum mill. The facility will start up in 2004.

M-real continued its efforts to improve energy efficiency, to reduce the emissions from its own power plants and to increase the proportion of bio-energy. The new wood-fired power plant at Äänekoski started up in the report year.

M-real will publish a separate Environmental Report for 2002.

Financing

Interest-bearing net liabilities amounted to EUR 3 019 million at the end of the financial year (Dec. 2001: 3 482).

The equity ratio at the end of the period was 34.2 per cent (Dec. 2001: 30.0) and the gearing ratio was 119 per cent (Dec. 2001: 145).

Liquidity is good. Liquidity at the end of the year was EUR 1 400 million, of which 1 200 million consisted of binding long-term credit facilities and 200 million was liquid funds and investments (273). In addition, the Group had at its disposal non-binding domestic and foreign commercial paper programmes and credit facilities amounting to EUR 800 million.

At the end of the financial year an average of 4 months of net foreign currency exposure was hedged. The degree of hedging during the report period has varied between 2 and 4 months. At the end of the report period, about 90 per cent of the shareholders' equity not in euros was hedged. At the end of the year the Group's liabilities were tied to fixed-interest rates for a period of 15 months. During the financial year the fixed-rate period has varied from 10 to 15 months.

At the close of the year, 22 per cent of the Group's long-term loans were denominated in foreign currencies. Of these loans, 56 per cent was subject to variable interest rates and the rest to fixed interest rates. The average interest rate on the loans was 4.7 per cent at the end of 2002 and their average maturity was 7.4 years.

In June M-real floated an issue of bonds to a total amount of 350 million United States dollars. The bonds have maturities of 7, 10 and 12 years.

In August M-real repaid prematurely the 350 million US dollar convertible subordinated capital notes that were issued in 1997. The total exchange rate loss on the notes amounted to EUR 63.9 million. A total of EUR 42.2 million of the foreign exchange loss was booked as a charge against earnings in the financial year and EUR 21.7 million against earnings for 2001.

In November an 850 million euro syndicated loan with a maturity of 5 years was signed. The loan was used to refinance the syndicated loans taken out in 1996 and 1997. A total of 22 banks took part in the arrangement.

At the end of June 2001 M-real and some of its subsidiaries agreed to sell their trade receivables to a third party under the terms of a continuing and irrevocable transaction (securitisation). The securitisation of trade receivables has been continued. The securitised trade receivables are included in the consolidated balance sheet. The balance sheet and key figures for the previous year have been adjusted to a comparable basis (in 2001 securitised trade receivables were not included in the consolidated balance sheet).

The company's credit ratings remained unchanged during the financial year. Standard and Poor's rating for M-real's long-term loans is BBB- and for short-term loans A3, with a neutral outlook. Moody's rating for long-term loans is Baa3 and for short term loans P3, with a negative outlook.

Board of Directors and auditors

The Annual General Meeting held on 13 March 2002 re-elected the following persons to seats on M-real's Board of Directors for a term extending up to the next Annual General Meeting: Timo Haapanen, Asmo Kalpala, Erkki Karmila, Runar Lillandt, Matti Niemi, Antti Oksanen (Chairman), Antti Tanskanen and Arimo Uusitalo (Vice Chairman).

The auditors elected were Göran Lindell, Authorised Public Accountant, and the independent public accountants PricewaterhouseCoopers Oy, with Ilkka Haarlaa, Authorised Public Accountant, acting as chief auditor and Björn Renlund, Authorised Public Accountant, and Jouko Malinen, Authorised Public Accountant, as deputy auditors.

Shares

The highest price of M-real's Series B share on Helsinki Exchanges during the financial year was EUR 10.44

and the lowest price was EUR 5.88. The average share price was EUR 8.28. In 2001 the average price was EUR 6.96. The price of the Series B share was EUR 8.00 at the end of the financial year, 31 December 2002.

Turnover of the Series B share was EUR 857 million, or 72.5 per cent of the shares outstanding. The market capitalisation of the Series A and B shares at 31 December 2002 totalled EUR 1,427 million.

At 31 December 2002, Metsäliitto Osuuskunta owned 38.5 per cent of M-real Corporation's shares and 64.2 per cent of the voting rights conferred by these shares. International investors owned 35.1 per cent of the shares.

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

IAS project

On 7 June 2002 the Commission of the European Union approved the proposed regulation according to which publicly listed companies that are registered in the EU area must prepare their consolidated annual accounts in accordance with IAS (International Accounting Standards) no later than for the 2005 financial year.

In autumn 2001 M-real initiated a project to put in place IAS capabilities. The project has moved ahead in accordance with plans and the company will prepare its consolidated annual accounts in accordance with IAS as from the beginning of 2005.

Events after the close of the financial period

On 20 January 2003 M-real purchased 5 781 200 shares of Metsä Tissue that were owned by SCA (Svenska Cellulosa Aktiebolaget). The purchase price was EUR 12.30 per share, or EUR 71.1 million in total. The shares represent 19.3 per cent of Metsä Tissue's total shares outstanding. Through the deal, the M-real Group's shareholding in Metsä Tissue rose to 84.85 per cent. Later the same day M-real purchased additional shares, bringing its holding to more than 90 per cent.

Thereby M-real became entitled under the Companies Act to redeem the remainder of the Metsä Tissue shares. M-real announced it was launching a redemption process in accordance with the Companies Act as soon as this is appropriate in practice.

Outlook for the current year

The slowdown in economic growth that got under way in 2000 continued in Europe. Economic growth in North America, however, is generally expected to have improved in 2002 compared with the nearly zero level of 2001. Asia's economic growth is estimated to have been somewhat better than it was in 2001. On the foreign exchange markets, the United States dollar and British pound weakened markedly against the euro in 2002.

The economic outlook for the current year is still uncertain in the main economic areas, though some individual signs of a turn for the better can be detected in the United States. The main financial indicators nevertheless do not give any clear guidance concerning the future trend.

The trend in the world economy will have a central impact on M-real's earnings in the current year. It is still difficult to forecast when the cyclical upswing in the paper and board industry will get under way. The slump in paper demand nevertheless has probably bottomed out by now. It is not expected that there will be an essential change in the demand for M-real's main products. Paper production will have to be curtailed in line with demand in the current year, as it was last year.

The current programme of efficiency-boosting measures will be seen to completion during 2003. The cost savings will be realised in full measure in the Group's profits as from the beginning of 2004.

Espoo, 6 February 2003

Board of Directors

Consolidated profit and loss account

	Jan 1 – Dec 31. 2002 EUR million		Jan 1 – Dec 31. 2001 EUR million	
		%		%
Turnover (1)	6 564.2	100.0	6 923.3	100.0
Change in stocks of finished goods and in work in progress	4.4		-25.4	
Share of profit from associated companies (2)	-4.9		4.5	
Other operating income (3)	73.4		71.2	
Materials and services				
Raw material and consumables	3 614.8		3 813.1	
Costs of external services	113.0		139.9	
Employee costs (4)	1 078.5		1 084.4	
Depreciation (5)	457.7		478.4	
Other operating expenses	1 048.8	6 312.8	1 068.6	6 584.4
Operating profit	324.3	4.9	389.2	5.6
Financial income and expenses (6) (7)				
Interest income from Group companies	0.1		0.1	
Income from other financial investments	2.7		4.0	
Other interest and similar income	28.7		32.4	
Net exchange gains/losses	-30.5		-22.7	
Interest expense and similar charges	-191.0	-190.0	-249.0	-235.2
Profit before extraordinary items	134.3	2.0	154.0	2.2
Extraordinary items (8)				
Extraordinary income	144.5		183.3	
Extraordinary expenses	0.0	144.5	0.0	183.3
Profite before tax	278.8	4.2	337.3	4.9
Taxation (9)	-59.8		-115.0	
Profit before minority interest	219.0	3.3	222.3	3.2
Minority interest	-10.1		-10.1	
Profit for the financial period	208.9	3.2	212.2	3.1

Consolidated profit and loss account

Profit analysis

Turnover

Consolidated turnover was EUR 6,564 million (6,923 million in 2001). Turnover fell by EUR 359 million, or 5.2 per cent, on the previous year. Acquisitions boosted turnover by EUR 41 million. Divestments in turn lowered turnover by EUR 43 million. The turnover of companies divested in 2001 amounted to EUR 104 million. Comparable turnover thus fell by about EUR 270 million, chiefly due to lower selling prices.

Operating profit

Consolidated operating profit was down EUR 65 million to EUR 324 million. Operating profit was weakened by the non-recurring expenses caused by the investment shutdowns at the Äänekoski and Kyro board mills as well as by the fall in the exchange rate of the US dollar. Operating profit furthermore includes EUR 25 million of non-recurring income and EUR 37 million of non-recurring expenses.

Operating profit weakened in the Publishing and Consumer packaging business areas. The weakening in the Publishing business area's profitability was due to selling prices that were about 8 per cent lower, the depreciation of the US dollar as well as to the fall in the delivery volume due to divesting MD Papier and Albbbruck. The profitability of the Consumer packaging business area was weakened by the shutdowns and start-up expenses required for the capital expenditure projects at the Äänekoski and Kyro board mills as well as by the fall in the exchange rate of the US dollar.

Home & Office and Commercial printing improved their profitability. The improvement in the Home & Office business area's operating profit was due mainly to increased delivery volumes as well as to better production efficiency. The Commercial printing business

area's operating profit was lifted by an improvement in production efficiency, cost-cutting, lower raw material costs, the winding up of operations at the Silverdalen mill in March as well as a higher delivery volume.

Metsä Tissue's profitability improved mainly thanks to a rise in cost-effectiveness, an enhanced product palette as well as a slight increase in delivery volumes. Other operating expenses increased from the previous year's EUR 12.9 million to EUR 33.3 million, primarily due to changes in currency rates.

Profit before extraordinary items

Profit before extraordinary items was EUR 134 million (154). Net financial expenses, totalled EUR 190.0 million (235.2). The decrease in financial expenses was due primarily to the lowering in short-term interest-bearing liabilities. The average interest rate was at the previous year's level. Financial expenses include a foreign exchange loss of EUR 30.5 million of the company's convertible subordinated capital notes and other financial items (22.7).

Extraordinary items

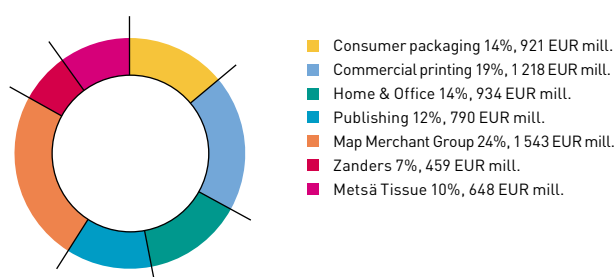
A capital gain of EUR 156 million on the sale of shares in Albbbruck was booked to extraordinary income along with EUR 12.8 million of tax-related expense items connected with the arrangement.

Taxation and minority interest

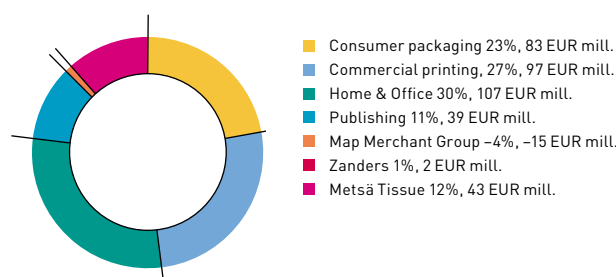
The Group's direct taxes totalled EUR 59.8 million (115.0), of which EUR 58.8 million represented taxes payable for the financial year.

The minority interest share of the net profit was EUR 10.1 million (10.1) and it consisted nearly entirely of the minority interest in Metsä Tissue Corporation.

Turnover by business area, %/EUR million



Operating profit by business area, %/EUR million



Consolidated balance sheet

Assets	Dec 31. 2002		%	Dec 31. 2001		%
	EUR million			EUR million		
Fixed assets						
Intangible assets (10)						
Intangible assets	63.8			31.5		
Purchased goodwill	18.2			22.2		
Goodwill arising on consolidation	674.9			751.5		
Other capitalised expenditure	17.1	774.0	10.4	39.8	845.0	10.5
Other capitalised expenditure (10) (12)						
Land	344.5			351.9		
Buildings	844.8			865.9		
Plant and equipment	2 617.0			2 709.3		
Other tangible assets	62.7			63.8		
Payments in advance and assets in the course of consolidation	80.9	3 949.9	53.3	99.1	4 090.0	51.1
Financial investments (11) (12)						
Shares in Group companies	0.7			0.7		
Amounts owed by Group companies	17.5			24.6		
Investments in associated companies	94.3			121.1		
Amounts owed by associated companies	21.3			17.7		
Other investment	55.4			53.4		
Other receivables	21.5	210.7	2.9	11.9	229.4	2.9
Fixed assets total		4 934.6	66.6		5 164.4	64.5
Current assets						
Inventories						
Raw materials and consumables	252.7			283.1		
Finished goods and goods for resale	524.8			555.7		
Advance payment	37.4	814.9	11.0	38.7	877.5	11.0
Receivables (14) (15) (17)						
Accounts receivable	1 084.7			1 317.0		
Amounts owed by Group companies	79.7			58.3		
Amounts owed by associate companies	11.6			41.4		
Loan receivables	0.3			0.5		
Other receivables	169.2			206.5		
Prepayments and accrued income(16)	115.4	1 460.9	19.7	65.6	1 689.3	21.1
Investments (Securities held as financial assets)						
Current financial assets (Other securities)		23.2	0.3		36.0	0.4
Cash at bank and in hand		176.7	2.4		237.4	3.0
Current assets total		2 475.6	33.4		2 840.2	35.5
Assets total		7 410.2	100.0		8 004.6	100.0

Consolidated balance sheet

	Dec 31. 2002		Dec 31. 2001	
	EUR million		EUR million	
		%		%
Shareholders' equity and liabilities				
Shareholders' equity (18)				
Share capital	304.3		304.3	
Share premium account	472.9		469.9	
Revaluation reserve	104.6		104.7	
Other reserves	1.7		1.7	
Retained earnings	1 368.6		1 248.0	
Profit for the financial period	208.9	2 461.0	212.2	2 340.8
		33.2		29.2
Convertible subordinated capital notes	0.0	0.0	310.4	3.9
Shareholders' equity total	2 461.0	33.2	2 651.2	33.1
Minority interest	74.6	1.0	59.6	0.7
Provisions (19)	66.3	0.9	113.9	1.4
Liabilities (20) (21)				
Long-term liabilities (23)				
Bonds and debentures	1 077.4		621.6	
Loans from financial institutions	1 101.5		1 446.4	
Pension premium loans	140.6		156.3	
Deferred tax liabilities (22)	432.0		432.2	
Other liabilities	265.7		233.9	
Accruals and prepaid income (25)	13.1	3 030.3	29.2	2 919.6
		40.9		36.6
Short-term liabilities (24)				
Bonds and debentures	0.0		178.0	
Loans from financial institutions	164.4		328.4	
Pension premium loans	16.4		1.8	
Advance payments	2.5		1.6	
Accounts payable	402.2		463.3	
Bills of exchange payable	11.6		11.6	
Amounts owed to Group companies	242.5		211.8	
Amounts owed to associated companies	64.0		62.5	
Other liabilities	452.3		532.2	
Accruals and prepaid income (25)	422.1	1 778.0	469.2	2 260.3
		24.0		28.2
Liabilities total	4 808.3	64.9	5 179.9	64.8
Shareholders' equity and liabilities total	7 410.2	100.0	8 004.6	100.0

Consolidated balance sheet

Balance sheet analysis

Assets and capital employed

The Group's total assets stood at EUR 7 410 million, which is about 600 million euros lower than at the end of the previous year. The changes that took place in the Group's balance sheet structure were:

	EUR million
Capital expenditures on fixed assets	304
Fixed assets of acquired companies	0
Fixed assets of divested companies	-50
Depreciation	-458
Inventories ¹⁾	-63
Accounts receivable ¹⁾	-232
Liquid funds	-73
Other items ¹⁾	-22
Changes, total	-595

¹⁾ includes the effects of acquired and divested companies

Total assets were increased mainly by capital expenditures on fixed assets. By contrast, total assets were reduced by the divestment of the 50 per cent holding in Albbbruck, depreciation that was greater than capital expenditures on fixed assets as well as a lowering in inventories, accounts receivable and liquid funds. Accounts receivable were reduced by lower euro-denominated sales. The Group's liquid funds amounted to EUR 200 million (273). Capital expenditures during the financial year are discussed in the Report of the Board of Directors. At the end of the year, capital employed totalled EUR 5 897 million. Its breakdown by business area is shown in the table below.

Financing

Consolidated shareholders' equity net of minority interests was EUR 2 461 million at the end of the year (2 341). Shareholders' equity was increased by the net profit for the financial year. The convertible subordinate capital notes were repaid in August. Interest-bearing liabilities stood at EUR 3 362 million, a decrease of EUR 532 million compared with the figure a year earlier.

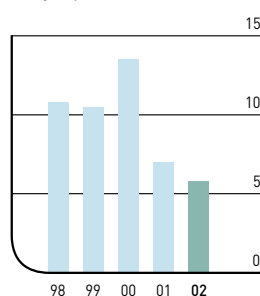
Interest-bearing net liabilities (= interest-bearing liabilities less liquid funds and other interest-bearing receivables) amounted to EUR 3 019 million at the end of the financial year (3 482). Debts have been paid down with cash flow from operations as well as the proceeds from the rights issue.

Key ratios

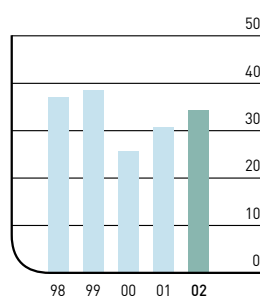
The return on capital employed fell as a consequence of weakened profitability and was 5.8 per cent (6.9). The equity ratio was 34.2 per cent (30.0) and the gearing ratio was 119 per cent (145). In calculating the key ratios, the convertible subordinated capital notes have been included in liabilities in 2001.

Capital employed 31 Dec.	2002	2001	change
Consumer packaging	944	905	39
Commercial printing	1 113	1 179	-66
Home & Office	1 130	1 179	-49
Publishing	1 104	1 219	-115
Map Merchant Group	410	485	-75
Zanders	342	324	18
Metsä Tissue	326	342	-16
Others	528	661	-133
Group total	5 897	6 294	-397

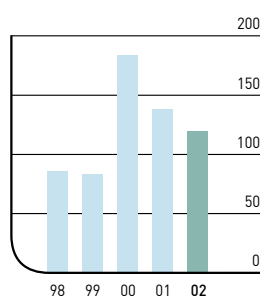
Return on capital employed, %



Equity ratio, %



Gearing ratio, %



Cash flow statements

	Group		Parent company	
	2002 EUR million	2001 EUR million	2002 EUR million	2001 EUR million
Funds from operations				
Operating profit	329.3 *	384.6 *	58.8	93.1
Depreciation according to plan	457.7	478.4	113.5	110.0
Change in provisions for liabilities and charges	-47.6	12.8	3.1	-1.7
Net financial items	-161.7 *	-222.8 *	425.6	13.6
Taxation	-56.7 *	-45.2 *	-13.2	-30.3
Total	521.0	607.8	587.8	184.7
Change in working capital				
Inventories (increase -, decrease +)	53.4	81.7	-17.3	6.5
Current receivables (increase -, decrease +)	211.6	154.5	28.5	55.3
Non-interest-bearing current liabilities (increase +, decrease -)	-119.6	-148.1	-195.6	139.6
Total	145.4	88.1	-184.4	201.4
Cash flow from operations	666.4	695.9	403.4	386.1
Changes in fixed assets				
Gross capital expenditures	-310.0	-740.0	-476.7	-225.8
Disposals and other changes in fixed assets	223.9	277.9	-9.8	661.7
Cash flow after capital expenditures	580.3	233.8	-83.1	822.0
Financing				
Increase in shareholders' equity		280.0		280.0
Change in interest-bearing liabilities (increase +, decrease -)	-531.8	-193.5	320.2	-510.5
Interest-bearing net debt of companies acquired and divested	-9.0	-219.2		
Change in interest-bearing long-term receivables (increase -, decrease +)	-4.6	-33.2	-94.5	-568.7
Dividend	-108.4	-83.4	-107.4	-83.4
Group contributions			12.1	17.8
Other changes			6.3	-0.3
Change in liquid funds	-73.5	-15.5	53.6	-43.1
Group	31 Dec. 2002 EUR million	Change EUR million	31 Dec. 2001 EUR million	Change EUR million
Interest-bearing liabilities	3 361.5	-531.8	3 893.4	-193.5
Interest-bearing receivables	-142.5	-4.6	-137.9	-33.2
Liquid funds	-199.9	73.5	-273.4	15.5
Interest-bearing liabilities	3 019.2	-462.9	3 482.1	-211.2

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

Consolidated cash flow statement

Cash flow analysis

Cash flow from operations

Cash flow from operations, net of the effect of acquisitions and divestments, fell slightly and was EUR 666 million (696). Funds from operations decreased by 14 per cent to EUR 521 million (608). The drop in funds from operations was attributable to the EUR 76 million decrease in the operating margin (operating profit plus depreciation) adjusted for interests in associated companies as well as the EUR 12 million increase in taxes. Against this, funds from operations were raised by the EUR 61 million drop in financial expenses.

The reduction in working capital, excluding the effect of acquisitions and divestments, freed up EUR 145 million of cash flow. Inventories were scaled down by lowering inventory volumes, but the value of product stocks also declined as a consequence of the lower price of pulp and the fall in the exchange rate of the US dollar. Accounts receivable and other current receivables diminished by EUR 212 million, mainly as a consequence of lower euro-denominated sales.

Capital expenditures and other changes in fixed assets

The Group's gross capital expenditures amounted to EUR 310 million, of which EUR 304 million went for fixed assets and EUR 6 million represented the purchase price of shares in acquired companies. The proceeds from the sales of Albbbruck shares yielded cash flow of EUR 235 million after taxes.

Capital financing

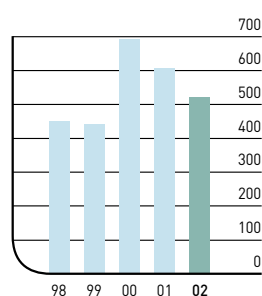
Interest-bearing liabilities were paid down to a net amount of EUR 532 million. The company paid a dividend of EUR 0.60 per share, or EUR 108.4 million.

Interest-bearing net liabilities

Thanks to good cash flow from operations as well as the proceeds from divestments, the Group's interest-bearing net liabilities diminished – despite capital expenditures – by EUR 463 million and totalled EUR 3 019 million at the end of the financial year.

	EUR million
Cash flow from operations	666
Divestments and other changes	215
	881
Capital expenditures on fixed assets	-304
Acquisitions	-6
Dividend	-108
Decrease in interest-bearing net liabilities	463

Funds from operations,
EUR million



Parent company profit and loss account

	Jan 1 – Dec 31. 2002		Jan 1 – Dec 31. 2001	
	EUR million	%	EUR million	%
Turnover	1 419.0	100.0	1 532.5	100.0
Change in stocks of finished goods and work in progress	16.0		-10.2	
Other operating income (3)	50.4		38.1	
Materials and services				
Raw materials and consumables	745.2		792.7	
Costs of external services	104.7		87.0	
Employee costs (4)	208.3		201.3	
Depreciation (5)	113.5		110.0	
Other operating expenses	254.9	1 426.6	276.3	1 467.3
Operating profit	58.8	4.1	93.1	6.1
Financial income and expense (6) (7)				
Interest income from Group companies	451.6		23.7	
Income from other financial investments	137.0		197.8	
Other interest and similar income	19.0		33.9	
Net exchange gains/losses	-23.0		-36.4	
Interest expense and similar charges	-159.0	425.6	-205.4	13.6
Profit before extraordinary items	484.4	34.1	106.7	7.0
Extraordinary items (8)				
Extraordinary income	20.7		49.1	
Extraordinary expenses	0.0	20.7	0.0	49.1
Profit before appropriations and taxes	505.1	35.6	155.8	10.2
Appropriations				
Change in depreciation differences	-23.1		-17.9	
Taxation (9)	-13.2		-30.3	
Profit for the financial period	468.8	33.0	107.6	7.0

Parent company balance sheet

Assets	Dec 31. 2002		%	Dec 31. 2001		%
	EUR million			EUR million		
Fixed assets						
Intangible assets (10)						
Intangible assets	22.8			21.4		
Purchased goodwill	7.6			9.5		
Other capitalised expenditure	4.5	34.9	0.6	4.5	35.4	0.7
Tangible assets (10) (12)						
Land	22.9			22.9		
Buildings	222.8			220.6		
Plant and equipment	838.7			787.2		
Other tangible assets	7.8			6.0		
Payments in advance and assets in the course of construction	9.3	1 101.5	19.2	51.4	1 088.1	21.0
Financial investments (11) (12)						
Shares in Group companies	1 916.5			1 549.6		
Amounts owed by Group companies	1 210.1			723.9		
Investments in associated companies	415.2			410.4		
Amounts owed by associated companies	9.3			5.6		
Other investments	46.9			43.8		
Other receivables	2.0	3 600.0	62.9	0.4	2 733.7	52.7
Fixed assets, total		4 736.4	82.7		3 857.2	74.4
Current assets						
Inventories						
Raw materials and consumables	45.9			40.6		
Finished goods and goods for resale	131.0			111.2		
Advance payments	12.3	189.2	3.3	11.1	162.9	3.2
Receivables (14) (15) (17)						
Accounts receivable	14.6			18,1		
Amounts owed by Group companies	657.7			1 084,6		
Amounts owed by associated companies	0.3			0,9		
Other receivables	19.5			19,2		
Prepayments and accrued income (16)	30.8	722.9	12.6	11,0	1 133,8	21,9
Investments (securities held as financial assets)						
Current financial assets (other securities)		0.9	0.0		0.8	0.0
Cash at bank and in hand		79.9	1.4		26.4	0.5
Current assets, total		992.9	17.3		1 323.9	25.6
Assets, total		5 729.3	100.0		5 181.1	100.0

Parent company balance sheet

	Dec 31. 2002 EUR million		%	Dec 31. 2001 EUR million		%
Shareholders' equity and liabilities						
Shareholders' equity (18)						
Share capital	304.3			304.3		
Share premium account	469.9			469.9		
Revaluation reserve	81.7			81.7		
Retained earnings	470.4			470.2		
Profit for the financial period	468.8	1 795.1	31.3	107.6	1 433.7	27.7
Convertible subordinated capital notes		0.0	0.0		310.4	6.0
Shareholders' equity, total		1 795.1	31.3		1 744.1	33.7
Appropriations						
Accumulated depreciation difference		575.4	10.0		542.8	10.5
Obligatory provisions (19)		15.8	0.3		12.7	0.2
Liabilities (20) (21)						
Long-term liabilities (23)						
Bonds and debentures	1 077.4			621.6		
Loans from financial institutions	865.5			1 105.6		
Pension premium loans	128.9			144.8		
Amounts owed to Group companies	4.6			4.4		
Other liabilities	56.2	2 132.6	37.2	58.0	1 934.4	37.3
Short-term liabilities (24)						
Bonds and debentures	0.0			178.0		
Loans from financial institutions	52.4			133.6		
Pension premium loans	15.9			1.2		
Advance payments	0.1			0.1		
Accounts payable	48.4			48.9		
Amounts owed to Group companies	843.3			448.3		
Amounts owed to associated companies	1.4			1.4		
Other liabilities	138.8			8.6		
Accruals and prepaid income (25)	110.1	1 210.4	21.2	127.0	947.1	18.3
Liabilities, total		3 343.0	58.4		2 881.5	55.6
Shareholders' equity and liabilities, total		5 729.3	100.0		5 181.1	100.0

Accounting principles

The financial statements of M-real Corporation and the Group as well as of companies belonging to the Group have been prepared in accordance with uniform accounting principles based on Finland's reformed accounting legislation (31 December 1997).

Currency used in the financial statements

The official financial statements of M-real Corporation and the M-real Group, which have been delivered to the Trade Register, have been prepared in euros.

Principles of consolidation

Companies belonging to the same group

The companies within the same group are, in addition to M-real Corporation and its subsidiaries, M-real Corporation's parent company, Metsäliitto Osuuskunta and its other subsidiaries.

Subsidiaries

The consolidated financial statements include the accounts of M-real Corporation and all those subsidiaries in which the parent company controlled, directly or indirectly, over 50 per cent of the voting rights at 31 December 2002, with the exception of housing and property companies. These companies do not have a material effect on the Group's result of operations and financial position as set forth by the financial statements.

The financial period of all companies ended on 31 December 2002.

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

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

The purchase method of consolidation has been adopted. Goodwill, being the excess of purchase consideration over the fair value of the net assets of acquired companies, is amortised on a straight-line basis. The unallocated portion is stated as goodwill on the assets side of the balance sheet. The goodwill arising from the purchase of production capacity or a significant market share is amortised on a straight-line basis over the estimated economic life not exceeding 10 years, and other such items over 5 years, and in special situations, over a maximum of 20 years.

All intra-Group transactions, unrealised margins on internal deliveries, internal receivables and liabilities as well as internal distribution of profits have been eliminated.

Minority interests have been disclosed separately from the Group's profit and shareholders' equity and stated as a separate item.

Resource companies

The profit and loss account and balance sheet items of the resource company Oy Metsä-Botnia Ab and its subsidiaries as well as the notes to their financial statements have been consolidated in accordance with the M-real Group's holding.

Associated companies

The main associated companies, in which M-real Corporation's holding and number of votes either directly or indirectly is 20–50 per cent, are consolidated according to the equity method. M-real's share of the results of associated companies is stated in the profit and loss account on the line "Share of Profits from Associated Companies."

Goodwill arising on investments in associated companies is amortised over five years or a longer estimated period of economic effect not exceeding ten years. Straight-line depreciation of goodwill is stated in the profit and loss account on the line "Share of Profits from Associated Companies."

Papierfabrik Albbbruck GmbH&Co was divested during the financial year. KG is included in the consolidated financial statements up to 30 June 2002. This 50 per cent-owned company has been included in the consolidated financial statements using the proportional method of consolidation, in which the appropriate lines in the profit and loss account, balance sheet and notes to the accounts have been entered in the consolidated figures to reflect the 50 per cent owner-

ship. The method of consolidation does not have an effect on shareholders' equity items.

A list of major associated companies is given on page 71.

Turnover

Turnover is calculated after deduction of indirect sales taxes, trade discounts, refunds and exchange differences on sales.

Transactions and balance sheet items in foreign currency

In translating items denominated in foreign currency, the European Central Bank middle rate has been applied.

The profit and loss accounts of subsidiaries outside the eurozone have been translated into Euro amounts at the middle rate during the financial year and the balance sheets at the rate on the closing date, according to the above-mentioned principle. Translation differences arising on the elimination of intra-Group shareholdings have been entered in shareholders' equity. The Group partially hedges the foreign currency-denominated shareholders' equity amounts of its subsidiaries outside the eurozone by means of loans taken out in foreign currency and forex derivatives.

Transactions in foreign currencies are recorded at the rates of exchange prevailing on the date of the transaction. For Group companies based in Finland, receivables and liabilities denominated in foreign currency have been translated, in accordance with the

above principle, into Euro amounts at the exchange rate on the balance sheet date.

Exchange rate differences arising from derivative contracts used to hedge sales or purchases have been entered as an adjustment to the corresponding item in the profit and loss account. Foreign exchange gains and losses on loans taken out in foreign currencies have been booked to net exchange gains/losses under financial income and expense. The net exchange gains and losses arising are periodized over the period to be hedged. The unrealised exchange rate differences of derivative contracts as well as loans that are classified as instruments hedging future cash flows and, from the beginning of 1999 also realized exchange rate differences, have been entered as credits or charges to income concurrently with the cash flow hedged in accordance with the principles of hedged accounting.

Pensions and pension funding

Statutory pension cover for employees of the parent company and its subsidiaries in Finland is provided by payments to insurance companies. In addition, some salaried employees have supplementary pension arrangements, which are either funded (by contributors to insured schemes or to the Metsäliitto Employees' Pension Foundation) or unfunded.

The Metsäliitto Employees' Pension Foundation is fully funded based on the current value of its assets.

Pension insurance premiums have been periodised to correspond to the accrual-based wages and salaries given in the financial statements. The uncovered pension liability which is the employee's own responsibility has been stated before 2000 in non-current assets in the balance sheet and the pension

liability under long-term liabilities. It has been booked as an expense in 2000.

Overseas subsidiaries make pension arrangements in accordance with local practice.

Establishment costs, research and development

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

Inventories

Inventories are valued at the acquisition cost, including for variable expenditures a capitalised portion for the procurement of goods and fixed costs of manufacture. The upper limit of the valuation of goods held in inventories is the probable acquisition cost or the net realisable value at the close of the financial year.

Tangible fixed assets and depreciation

Fixed assets are stated at cost less accumulated depreciation according to plan, except for certain land, shares and buildings, which are stated at revalued amounts. (In addition, the balance sheet value includes revaluations of land areas, shares and buildings.)

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 useful lives of fixed assets, broken down by the type of asset, are:

Buildings and constructions	20–40 years
Heavy machinery of power plants	20–40 years
Other heavy machinery	20 years
Light machinery and equipment	5–15 years
Other items	5–10 years

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

Leasing

As a rule, leasing payments are treated as rental expenses. Major assets held under financing leases are included in fixed assets and the capital element of the leasing commitments is included under liabilities. Material capital gains arising in sale and leaseback situations and the deferred tax receivable from them are periodised over the duration of the agreement.

Extraordinary income and expenses

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

Credits or charges to income arising from changes in accounting principles and current practices are also entered in extraordinary items.

Appropriations

In Finland and certain other countries, deductions which are taken into account in taxation can be applied to the result for the financial year, generally providing that the corresponding items have also been stated in the accounting records. These items are presented in the appropriations in the profit and loss account.

The voluntary provisions and changes in the depreciation difference, which are included in the appropriations in the financial statements of Group companies, are divided in the consolidated financial statements between the change in the deferred tax liability according to the tax base in force in the country in question and the profit for the financial year.

Accumulated appropriations in the consolidated balance sheet have been divided between deferred tax liabilities and shareholders' equity and the portion belonging to minority interest has been separated out.

Future costs and losses

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

Taxation

The consolidated profit and loss account includes taxation for the period calculated according to the accruals convention on the basis of the financial results of Group companies for the period and in accordance with local tax regulations, together with tax payable or refunded in respect of previous financial years. Income taxes also include the charge or credit for the period in respect of deferred tax.

The requirements of the Finnish Accounting Act have been observed in stating deferred taxes. Deferred tax liabilities and assets have been calculated since 1 January 1999 on all the material periodisation differences and consolidation measures which reflect a difference between taxation and the financial statements and have an impact on earnings as well as from appropriations, applying the tax base for subsequent years, which has been confirmed at the time of closing the books. The balance sheet includes deferred taxes in their entirety and deferred tax assets in the estimated probable amount of the tax benefit.

Notes to the accounts

Profit and loss account, EUR million

1. Breakdown of turnover

The breakdown of turnover by operating group and geographical market area is presented on pages 36 and 37.

2. Share of profit from associated companies

	Percentage holding %	Share of profit	Goodwill amortisation	Share of profits of the companies	Goodwill remaining
Myllykoski Paper Oy	35.0	0.9	-8.6	-7.7	36.8
Other associated companies		3.2	-0.4	2.8	0.2
		4.1	-9.0	-4.9	37.0

The unamortised amount of consolidated goodwill for associated companies at 31 Dec. 2002 was EUR 37.0 million (2001: EUR 46.3 million) none of the Group reserve was left uncredited to income (2001: EUR 0.0 million).

	Group		Parent company	
	2002	2001	2002	2001
3. Other operating income				
Rental income	4.1	5.0	3.8	3.3
Gains on disposal of fixed assets	13.8	11.3	16.1	2.5
Service revenues	17.3	19.1	15.3	18.7
Other items	38.2	35.8	15.2	13.6
	73.4	71.2	50.4	38.1
4. Employee costs				
Wages and fees	741.8	745.6	117.3	113.8
Pension expenses	85.6	89.7	30.3	29.0
Other social expenses	251.1	249.1	60.7	58.5
	1 078.5	1 084.4	208.3	201.3
Salaries and emoluments paid to management				
Managing directors and their alternates	11.6	13.4	0.4	0.9
Members of the Board and deputies	1.2	1.5	0.3	0.4
	12.8	14.9	0.7	1.3

Pension commitments to management

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

The President of the parent company as well as certain other members of the Group's management have the right to retire on a pension at the age of 62 years. The parent company has no commitments on behalf of persons belonging to the above-mentioned boards or who have previously belonged to them.

The average number of employees by operating group is presented on page 36.

Notes to the accounts

Profit and loss account

	Group		Parent company	
	2002	2001	2002	2001
5. Depreciation				
Depreciation according to plan				
Intangible rights	14.2	8.4	5.3	4.4
Purchased goodwill	3.0	4.4	1.8	1.8
Consolidation goodwill	56.6	61.9		
Recognition of Group reserve as income	-17.2			
Other capitalized expenditure	2.3	5.1	0.8	3.5
Buildings and constructions	53.8	50.3	12.9	11.7
Machinery and equipment	337.9	341.2	92.1	88.0
Other tangible assets	7.1	7.1	0.6	0.6
Total depreciation according to plan	457.7	478.4	113.5	110.0
Depreciation difference			25.1	17.8
Total depreciation			138.6	127.8
6. Financial income and expenses				
Dividend income	1.2	1.0	535.1	164.5
Interest income from non-current investments	1.6	3.1	53.4	57.0
Other interest income	28.0	31.7	19.0	33.8
Other financial income	0.7	0.6	0.1	0.1
Write-downs on non-current investments	0.2			0.5
Interest expenses	171.8	229.1	141.3	186.5
Other financial expenses	19.0	9.5	17.7	8.1
Share issue expenses		10.3		10.3
Exchange rate differences	-159.5	-212.5	448.6	50.0
	-30.5	-22.7	-23.0	-36.4
Financial income and expenses, total	-190.0	-235.2	425.6	13.6
7. Exchange gains/losses in the profit and loss account				
Exchange differences on sales				
Exchange differences on derivatives	11.0	9.4	-0.5	22.5
Other exchange differences	-39.4	10.2	-22.4	-1.4
	-28.4	19.6	-22.9	21.1
Exchange differences on purchases				
Exchange differences on derivatives	-2.8	-0.1		
Other exchange differences	1.0	-0.9	0.3	
	-1.8	-1.0	0.3	
Exchange differences on financing				
Exchange gains				
Realised	297.2	33.7	281.5	29.1
Unrealised	10.8	1.7	8.1	
Exchange losses				
Realised	-251.9	-46.7	-238.0	-45.2
Unrealised	86.6	-11.4	-74.6	-20.3
	-30.5	-22.7	-23.0	-36.4
Exchange differences, total	-60.7	-4.1	-45.6	-15.3

Notes to the accounts

Profit and loss account

	Group		Parent company	
	2002	2001	2002	2001
8. Extraordinary income and expenses				
Extraordinary income				
Capital gain on the divestment of Albbbruck	143.2			
Capital gain on the divestment of MD Papier		152.1		
Capital gain on the sale of shares	1.3	31.2	1.3	31.2
Gain on merger			7.3	
Group contributions received			12.1	17.9
	144.5	183.3	20.7	49.1
9. Direct taxes				
Income taxes for the financial period	-60.8	-110.2	-8.9	-34.0
Income taxes for previous periods	3.6	1.5	-4.3	3.7
Change in deferred taxes	-2.6	-6.3		
	-59.8	-115.0	-13.2	-30.3
Income taxes on ordinary operations	-63.1	-53.0	-5.0	-19.8
Income taxes on extraordinary items	-0.3	-63.5	-3.9	-14.2
	-63.4	-116.5	-8.9	-34.0
Change in deferred tax liabilities				
From appropriations and other periodization differences	-16.6	-26.9		
From consolidation	4.6	12.0		
Netting against assets				
	-12.0	-14.9		
Change in deferred tax assets				
From appropriations and other periodization differences	11.9	20.5		
From consolidation	2.1	0.1		
Netting against liabilities	-4.6	-12.0		
	9.4	8.6		

Notes to the accounts

Balance sheet

10. Intangible and tangible assets

	Intangible rights	Purchased goodwill	Consolidation goodwill	Other capitalised expenditure	Land	Buildings	Plant and equipment	Other tangible assets	Construction in progress
Group									
Acquisition costs, 1 Jan.	73.5	39.5	939.7	76.9	201.0	1 381.5	5 725.7	89.9	99.1
Increases during the period	40.9		2.5	2.8	15.1	45.7	283.0	2.6	95.5
Transfers between items	3.3			0.4		5.6	36.6	3.7	-49.6
Decreases during the period	-3.0	-1.2	-62.9	-24.0	-2.1	-36.6	-253.6	-4.6	-64.1
Acquisition costs, 31 Dec. 2002	114.7	38.3	879.3	56.1	214.0	1 396.2	5 791.7	91.6	80.9
Accumulated depreciation, 1 Jan.	-42.0	-17.3	-188.1	-37.0	-1.6	-553.7	-3 016.4	-26.1	
Accumulated depreciation on deductions and transfers	5.3	0.2	40.3	0.3		19.3	179.6	4.3	
Depreciation for the period	-14.2	-3.0	-56.6	-2.3	-0.2	-53.6	-337.9	-7.1	
Accumulated depreciation, 1 Jan. 2002	-50.9	-20.1	-204.4	-39.0	-1.8	-588.0	-3 174.7	-28.9	
Revaluations, 1 Jan.					152.5	38.1			
Reductions in revaluations					-20.2	-1.5			
Revaluations, 31 Dec.					132.3	36.6			
Book value, 31 Dec. 2002	63.8	18.2	674.9	17.1	344.5	844.8	2 617.0	62.7	80.9
Book value, 31 Dec. 2001	31.5	22.2	751.5	39.8	351.9	865.9	2 709.3	63.8	99.1

Increases/decreases include fixed assets of subsidiaries acquired/sold. Accumulated depreciation includes the accumulated depreciation of acquired subsidiaries. The "Plant and equipment" account includes EUR 2 520 million for production machinery and equipment.

	Intangible rights	Purchased goodwill	Other capitalised expenditure	Land	Buildings	Plant and equipment	Other tangible assets	Construction in progress
Parent company								
Acquisition costs, 1 Jan.		40.3	20.0	35.0	22.9	299.0	1 344.5	11.6
Increases during the period		3.5		0.4		14.2	118.0	2.4
Transfers between items		3.2		0.4		2.7	25.0	-0.1
Decreases during the period		-0.2				-2.7	-9.9	-19.9
Acquisition costs, 31 Dec. 2002		46.8	20.0	35.8	22.9	313.2	1 477.6	13.9
Accumulated depreciation, 1 Jan.		-18.9	-10.6	-30.5		-78.4	-557.3	-5.5
Accumulated depreciation on deductions and transfers		0.2				0.9	10.5	
Depreciation for the period		-5.3	-1.8	-0.8		-12.9	-92.1	-0.6
Accumulated depreciation, 31 Dec. 2002		-24.0	-12.4	-31.3		-90.4	-638.9	-6.1
Book value, 31 Dec. 2002		22.8	7.6	4.5	22.9	222.8	838.7	7.8
Book value, 31 Dec. 2001		21.4	9.5	4.5	22.9	220.6	787.2	6.0

The "Plant and equipment" account includes EUR 766.2 million for production machinery and equipment.

The undepreciated portion of capitalised interest expenses for the Group and the parent company under the balance sheet item "Buildings" at 31 Dec. 2002 was EUR 1.2 million (2001: EUR 1.5 million) and under the balance sheet item "Plant and equipment" it was EUR 4.3 million (2001: EUR 9.1 million), and EUR 4.3 million for the parent company (2001: EUR 5.4 million). In the 2002 financial year, interest expenses were not capitalised (2001: EUR 0.0 million).

Notes to the accounts

Balance sheet

11. Investments

	Shares in Group companies	Shares in associated companies	Other shares and participations	Receivables from Group companies	Receivables from associated companies	Other non-current receivables	Total
Group							
Acquisition costs, 1 Jan. 2002	0.7	121.1	51.2	24.6	17.7	11.9	227.2
Increases during the period		3.0	3.6		3.6	9.6	19.8
Decreases during the period		-29.8	-1.3	-7.1			-38.2
Acquisition costs, 31 Dec. 2002	0.7	94.3	53.5	17.5	21.3	21.5	208.8
Revaluations, 1 Jan. 2002			2.2				2.2
Reductions in revaluations			-0.3				-0.3
Revaluations, 31 Dec. 2002			1.9				1.9
Book value, 31 Dec. 2002	0.7	94.3	55.4	17.5	21.3	21.5	210.7

	Shares in Group companies	Shares in associated companies	Other shares and participations	Receivables from Group companies	Receivables from associated companies	Other non-current receivables	Total
Parent company							
Acquisition costs, 1 Jan. 2002	1 414.5	408.7	43.8	723.9	5.6	0.4	2 596.9
Increases during the period	580.9	12.3	1.8	1 583.1	8.2	1.6	2 187.9
Decreases during the period	-218.4	-1.5	-0.3	-1 259.7	-4.5		-1 484.4
Transfers between items	4.4	-6.0	1.6	162.8			162.8
Acquisition costs, 31 Dec. 2002	1 781.4	413.5	46.9	1 210.1	9.3	2.0	3 463.2
Revaluations, 1 Jan./31 Dec.	135.1	1.7					136.8
Book value, 31 Dec. 2002	1 916.5	415.2	46.9	1 210.1	9.3	2.0	3 600.0

12. Revaluations

	1 Jan.	Increases	Decreases	31 Dec.
Group				
Land	152.5		-20.2	132.3
Buildings	38.1		-1.5	36.6
Shares	2.2		-0.3	1.9
	192.8		-22.0	170.8
Parent company				
Shares	136.8			136.8
	136.8			136.8

Revaluations are based on estimates by independent valuers of the current value of assets at the dates of valuation. The deferred tax liability for revaluations was EUR 49.5 million for the Group and EUR 39.7 million for the parent company, when calculated according to a 29 per cent tax base.

Notes to the accounts

Balance sheet

13. Loan receivables from management

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

	Group		Parent company	
	2002	2001	2002	2001
14. Current assets/Long-term receivables				
Receivables from Group companies				
Amounts owed by others				
Loan receivables	0.1			
Other current receivables	0.2	0.1		
Tax assets	22.0	12.9		
	22.3	13.0		
15. Current assets/Short-term receivables				
Amounts owed by Group companies				
Accounts receivable	0.5	1.1	201.4	210.4
Loan receivables	77.5	55.4		
Other current receivables	0.6	0.4	440.5	847.6
Prepayments and accrued income	1.1	1.4	15.8	26.6
Amounts owed by associated companies				
Accounts receivable	2.8	4.9	0.1	0.1
Loan receivables	8.7	35.0		
Other current receivables		1.5	0.2	0.8
Amounts owed by others				
Accounts receivable	1 084.7	1 317.0	14.6	18.1
Loan receivables	0.3	0.5		
Other current receivables	147.0	193.6	19.5	19.2
Prepayments and accrued income	115.4	65.6	30.8	11.0
	1 438.6	1 676.3	722.9	1 133.8
16. Prepayments and accrued income				
Interest	28.5	14.3	0.2	
Insurance	3.7	2.9	2.1	1.1
Taxes	38.6	12.5	23.8	7.5
Discounts	1.6	2.0	0.6	0.7
Others	43.0	33.9	4.1	1.7
	115.4	65.6	30.8	11.0
17. Interest-bearing receivables				
Loan receivables and other non-current assets	142.5	137.9	1 221.4	729.7
Liquid funds and other current assets	199.9	273.4	509.4	853.0
	342.4	411.3	1 730.8	1 582.7

Notes to the accounts

Balance sheet

	Group		Parent company	
	2002	2001	2002	2001
18. Shareholders' equity				
Share capital, 1 Jan.				
Series A shares	61.8	61.8	61.8	61.8
Series B shares	242.5	174.5	242.5	174.5
Total	304.3	236.3	304.3	236.3
Increase in share capital				
Series B shares		68.0		68.0
Total		68.0		68.0
Share capital, 31 Dec.				
Series A shares	61.8	61.8	61.8	61.8
Series B shares	242.5	242.5	242.5	242.5
Total	304.3	304.3	304.3	304.3
Share premium account, 1 Jan.	469.9	257.9	469.9	257.9
Increase in share capital		212.0		212.0
Other changes	3.0			
Share premium account, 31 Dec.	472.9	469.9	469.9	469.9
Revaluation reserves, 1 Jan.	104.7	104.7	81.7	81.7
Increases/decreases during the period	-0.1			
Revaluation reserves, 31 Dec.	104.6	104.7	81.7	81.7
Reserve funds and reserves stipulated by the Articles of Association at 1 Jan.	1.7	1.7		
Increase/decrease				
Reserve funds and reserves stipulated by the Articles of Association at 31 Dec.	1.7	1.7		
Retained earnings, 1 Jan.	1 460.2	1 351.9	577.8	553.6
Dividends paid	-107.4	-83.4	-107.4	-83.4
Transfers to restricted equity				
Change in translation differences on consolidation	15.3	-19.9		
Other increases/decreases	0.5	-0.6		
Profit for the financial period	208.9	212.2	468.8	107.6
Other reserves and retained earnings, 31 Dec.	1 577.5	1 460.2	939.2	577.8
Convertible subordinated capital notes issued				
Convertible subordinated capital notes, 1 Jan.	310.4	310.4	310.4	310.4
Decrease	310.4		-310.4	
Convertible subordinated capital notes, 31 Dec.		310.4		310.4
Shareholders' equity	2 461.0	2 651.2	1 795.1	1 744.1

Notes to the accounts

Balance sheet

Convertible subordinated capital notes

The convertible subordinated notes are provided for under Section 5 of the Companies Act. The notes had a total value of USD 350 million, comprising 350 000 convertible notes, each with a nominal value of USD 1 000. The notes carried interest at 4.375 per cent and could be used to subscribe for the company's shares at a price of EUR 9.75 each. In conjunction with such conversion, the USD denominated notes could have been converted into euros using the exchange rate USD 1 = EUR 0.887. Conversion of all notes would have led to a maximum increase in the share capital of EUR 54 126 643. Holders of the convertible subordinated capital notes had the right to subscribe for the company's Series B shares during the period 15 January 1998 to 1 October 2002. The company had the right to redeem the notes if the conditions specified in the agreement were fulfilled, from 15 October 2000. USD 250 million of the issue was subscribed for by Finnish and foreign investors and USD 100 million by Metsäliitto Osuuskunta. The convertible subordinated capital notes were repaid in their entirety on 15 August 2002 and none of the notes have been converted into shareholders' equity.

	Group	
	2002	2001
Distributable funds		
Retained earnings	1 577.5	1 460.2
Untaxed reserves in shareholders' equity	-621.9	-562.8
Other non-distributable items	-23.2	-23.2
Distributable funds	932.4	874.2
Untaxed reserves, 31 Dec.		
Accumulated depreciation difference	1 081.6	1 023.9
Other reserves	1.4	3.6
Deferred tax liability in untaxed reserves	1 083.0	1 027.5
	-324.6	-309.9
Minority interest in untaxed reserves	758.4	717.6
	-12.5	-12.2
Reserves at the date of acquisition	745.9	705.4
	-124.0	-142.6
Untaxed reserves in shareholders' equity, 31 Dec.	621.9	562.8

19. Provisions for liabilities and charges

	1 Jan.	Increase	Decrease	31 Dec.
Group				
Pension liability reserve	14.4	2.1	-6.3	10.2
Provision for unemployment pension costs	8.8	8.3	-2.3	14.8
Provision for expenses on closure of businesses	43.7	3.2	-21.8	25.1
Provision for rental costs	2.6	1.3	-1.2	2.7
Other payments	44.4	9.0	-39.9	13.5
	113.9	23.9	-71.5	66.3
Parent company				
Pension liability reserve	5.1		-0.7	4.4
Provision for unemployment pension costs	4.3	7.6	-5.1	6.8
Provision for expenses on closure of businesses	0.8			0.8
Provision for rental costs	2.5	1.4	-1.2	2.7
Other payments		1.1		1.1
	12.7	10.1	-7.0	15.8

Notes to the accounts

Balance sheet

	Group		Parent company	
	2002	2001	2002	2001
20. Liabilities				
Long-term				
Non-interest bearing	514.4	577.9		
Interest bearing	2 582.2	2 455.6	2 132.6	1 934.4
	3 096.6	3 033.5	2 132.6	1 934.4
Short-term				
Non-interest bearing	998.6	1 132.9	225.2	394.3
Interest bearing	779.4	1 127.4	985.2	552.8
	1 778.0	2 260.3	1 210.4	947.1
Bonds				
1996-2002	Interest % 7.55	143.0		143.0
1999-2002	3.84	35.0		35.0
1999-2004	3.82	10.0	10.0	10.0
1999-2006	4.88	199.8	199.7	199.7
2000-2005	3.44	10.0	10.0	10.0
2000-2005	3.80	25.0	34.9	34.9
2000-2005	3.85	10.0		10.0
2000-2005	3.84	5.0	5.0	5.0
2000-2007	3.90	34.9	34.8	34.8
2000-2008	4.15	17.9	17.8	17.8
2001-2006	2.97	5.3	5.8	5.8
2001-2006	2.82	9.5	11.3	11.3
2001-2006	3.56	9.5	11.3	11.3
2001-2006	4.30	10.0	10.0	10.0
2001-2006	4.71	15.0	15.0	15.0
2001-2031	3.75	256.0	256.0	256.0
2002-2005	6.29	16.0		16.0
2002-2005	4.85	10.0		10.0
2002-2005	7.21	32.8		32.8
2002-2005	7.25	33.0		33.0
2002-2009	7.39	123.6		123.6
2002-2012	7.70	112.3		112.3
2002-2014	7.90	131.8		131.8
Total		1 077.4	799.6	1 077.4
Bonds with equity warrants 1997-2000 ¹⁾				799.6
		1 077.4	799.6	1 077.4

¹⁾ Bonds with equity warrants (1997-2000) had been issued to the Group's management. The loan period was three years and no interest was paid on the bonds. The issue consisted of 750 bonds with a nominal value of EUR 168.19 (FIM 1 000) each. Each bond carries 1 200 A warrants, 1 200 B warrants and 1 600 C warrants. The bonds were repaid at the end of 2000.

Each warrant issued entitles its holder to subscribe for one M-real Corporation Series B share. The subscription price of the share is EUR 8.75.

The share subscription periods began as follows:

- A warrants, 1 Dec. 1998
- B warrants, 1 Dec. 1999
- C warrants, 1 Dec. 2000

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

Notes to the accounts

Balance sheet

21. Long-term debts with amortization plan	Loans from financial institutions		Pension loans	Other loans	Total
	Bonds				
2003		95.5	16.4	7.8	119.7
2004	10.0	133.4	16.4	5.3	165.1
2005	141.5	419.9	16.4	5.3	583.1
2006	249.1	16.4	16.3	5.6	287.4
2007	35.0	251.9	16.1	6.7	309.7
2008–	641.8	279.9	75.4	239.8	1 236.8
Total, 31 Dec. 2002	1 077.4	1 196.9	157.0	270.5	2 701.8

	Group	
	2002	2001
22. Deferred taxes		
Deferred tax liability		
For periodisation differences and appropriations	467.4	468.6
For consolidation entries		
Netting against assets	-35.4	-36.4
Total	432.0	432.2
Tax assets		
For periodisation differences and appropriations	57.4	47.1
For consolidation entries		2.2
Netting against liabilities	-35.4	-36.4
Total	22.0	12.9

Untaxed reserves consist mainly of the accumulated difference between total depreciation made and depreciation according to plan for the Group's domestic subsidiaries. Deferred tax on untaxed reserves is calculated in accordance with the rate of taxation in the country concerned (Finland 29%). Deferred taxes resulting from other periodisation differences primarily comprise provisions for future costs.

Deferred tax assets totalling EUR 103 million have not been recorded in the balance sheet because there is uncertainty regarding the extent to which they can be used.

	Group		Parent company	
	2002	2001	2002	2001
23. Long-term liabilities				
Amounts owed to Group companies				
Other liabilities	2.1	0.1	4.6	4.4
Amounts owed to associated companies				
Other liabilities	0.3			
Amounts owed to others				
Bonds and debentures	1 077.4	621.6	1 077.4	621.6
Loans from financial institutions	1 101.5	1 446.4	865.5	1 105.6
Pension premium loans	140.6	156.3	128.9	144.8
Deferred tax liabilities	432.0	432.2		
Accounts payable	2.1	1.1		
Other liabilities	261.2	232.7	56.2	58.0
Accruals and deferred income	13.1	29.2		
	3 030.3	2 919.6	2 132.6	1 934.4

Notes to the accounts

Balance sheet

	Group		Parent company	
	2002	2001	2002	2001
24. Short-term liabilities				
Amounts owed to Group companies				
Accounts payable	18.5	9.7	20.6	15.6
Other liabilities	214.8	192.7	790.6	393.2
Accruals and deferred income	9.2	9.4	32.1	39.5
Amounts owed to associated companies				
Accounts payable	18.2	22.1	1.4	1.4
Other liabilities	45.8	40.4		
Amounts owed to others				
Bonds and debentures		178.0		178.0
Loans from financial institutions	164.4	328.4	52.4	133.6
Pension premium loans	16.4	1.8	15.9	1.2
Advance payments	2.5	1.6	0.1	0.1
Accounts payable	402.2	463.3	48.4	48.9
Bills of exchange, payable	11.6	11.6		
Other liabilities	452.3	532.1	138.8	8.6
Accruals and deferred income	422.1	469.2	110.1	127.0
	1 778.0	2 260.3	1 210.4	947.1
25. Accruals and deferred income				
Long-term				
Periodisations of personnel expenses	5.0	3.1		
Periodisations of waste water duty	4.1	7.0		
Tax periodisations	0.8	12.2		
Compensations and contribution commitments	1.4	4.0		
Others	1.8	2.9		
	13.1	29.2		
Short-term				
Periodisations of insurance premiums	5.1	2.3	2.1	0.4
Unrealised foreign exchange difference on the convertible subordinated capital notes		21.7		21.7
Other unrealised foreign exchange differences	6.5	3.1	5.6	2.7
Accruals of wage, salary and staff costs	95.1	115.0	31.0	27.1
Tax periodisation	83.3	67.1	2.9	0.1
Interests	41.0	41.5	19.7	31.3
Accruals of purchases	58.6	113.0	13.1	8.8
Freight costs	10.9	11.0	2.7	1.9
Provisions for discounts	52.4	27.5	15.4	10.9
Others	69.2	67.0	17.6	22.1
	422.1	469.2	110.1	127.0

Notes to the accounts

Balance sheet

	Group		Parent company	
	2002	2001	2002	2001
26. Contingent liabilities				
For own liabilities				
Liabilities secured by pledges				
Loans from financial institutions	9.5	1.8		
Other liabilities	197.2	178.3	196.2	
Pledges granted	206.6	255.2	196.2	
Liabilities secured by real-estate mortgages				
Loans from financial institutions	220.6	237.1	102.5	102.6
Other liabilities	22.4			
Real-estate mortgages	220.6	243.6	102.5	102.6
Liabilities secured by mortgages on movable property				
Loans from financial institutions	1.9			
Other liabilities	1.4	1.2		
Mortgages on movable property	1.4	2.4		
On behalf of Group property				
Pledges				
Real-estate mortgages	3.7	3.7	3.7	3.7
Guarantee liabilities	22.5	1.3	1 648.5	1 796.9
On behalf of associated companies				
Pledges		0.3		
Real-estate mortgages		0.3		0.3
Guarantee liabilities	0.2			
On behalf of others				
Pledges	0.1			
Guarantee liabilities	5.1	30.9	1.3	1.6
Other liabilities				
As security for own commitments	1.8	4.6		
Leasing commitments				
Payments due in following year	11.4	19.7	4.5	7.4
Payments due in subsequent years	43.8	55.9	22.0	30.0
Total				
Real-estate mortgages	224.3	247.6	106.2	106.6
Mortgages on movable property	1.4	2.4		
Pledges	206.7	255.6	196.2	
Guarantees	27.8	32.2	1 649.8	1 798.5
Promissory notes	0.6	0.3		
Other liabilities	1.8	4.6		
Leasing liabilities *	55.2	75.6	26.5	37.4
	517.8	618.3	1 978.7	1 942.5

* Leasing liabilities do not include the financial lease liabilities itemised below.

Notes to the accounts

Balance sheet

	Group	
	2002	2001
Financial lease agreements		
Value of assets in the consolidated balance sheet		
Land	0.8	0.8
Buildings	4.2	6.1
Plant and equipment	77.6	6.6
	82.6	13.5
Financial leasing payments		
Short-term	8.0	10.1
Long-term	66.3	5.4
	74.3	15.5
Future leasing payments		
Year 2002		4.4
Year 2003	8.0	2.9
Year 2004	4.7	1.8
Year 2005	4.6	1.7
Year 2006	4.1	1.2
Year 2007	2.9	1.0
Next years	50.0	2.5
Future leasing payments, total	74.3	15.5

Group	2002		2001	
	Gross amount	Going value	Gross amount	Going value
Liabilities due to open derivative contracts				
I Interest rate derivatives				
Forward agreements	2 220.0	-0.3	6 538.0	0.4
Options				
Purchased	3 220.0	-1.6	1 777.8	5.9
Sold	3 220.0	-8.6	1 777.8	-1.0
Interest rate swap agreements	1 337.6	-9.8	722.3	-5.3
II Currency derivatives				
Forward agreements	1 955.8	2.4	1 317.7	2.3
Options				
Purchased	765.1	6.7	636.7	-1.6
Sold	524.5	-4.0	1 096.6	-2.6
Currency swap agreements	586.9		316.6	0.4
Derivative contracts, total	14 829.9	-15.2	14 183.5	-1.6

Also includes closed contracts totalling EUR 8 205.2 million.

Litigation

An M-real subsidiary, Zanders Feinpapier AG, has pending court proceedings against a former salaried employee of the company and certain other parties concerning the misappropriation of the company's funds, 16 million euros, and their recovery. The salaried employee had exceeded his authority and invested company funds in pension insurance policies on behalf of unknown private individuals. The amount has been booked to expense in its entirety in the balance sheet that was the basis of the purchase price for Zanders and it has been taken into account in the final purchase price that was paid to International Paper for Zanders' shares.

Towards the end of 2001 the EU Commission issued a decision in a cartel case concerning carbonless copy papers and imposed a fine of EUR 29.76 million on Zanders Feinpapier AG for violation of European Union competition regulations during 1992-1995. The fine has been paid into an escrow account in March 2002. The company has appealed the Commission's decision.

27. Major group companies and other shareholdings ¹⁾

	Country	Number of shares	Parent company's holding, %	Group's holding, %	Currency	Nominal value of shares, thousand	Book value Currency thousand	
Shares and participations owned by the same group								
Biowatti Oy	Finland	5 128	5.00	6.39	EUR	43	EUR 43	
Metsäliitto Osuuskunta	Finland	179 171			EUR	603	EUR 607	
Shares in subsidiaries								
In Finland								
Alakoski Oy	Finland	5 278	52.78	52.78	EUR	1	EUR 27	
Oy Board International Ab	Finland	796	100.00	100.00	EUR	13	EUR 115	
Oy Hangö Stevedoring Ab	Finland	113	75.33	75.33	EUR	95	EUR 2 700	
M-real International Oy	Finland	10 000	100.00	100.00	EUR	320	EUR 3 347	
Forestia Oy	Finland	1 500 000	94.51	94.51	EUR	15 000	EUR 164 740	
Metsä Group								
Financial Services Oy	Finland	25 500	51.00	51.00	EUR	4 289	EUR 5 147	
Metsä Tissue Oyj	Finland	19 675 000	65.58	65.58	EUR	33 091	EUR 96 986	
Tako Carton Plant Ltd	Finland	330 001	100.00	100.00	EUR	5 550	EUR 6 352	
Äänevoima Oy *	Finland	4 500 000	45.00	45.00	EUR	4 500	EUR 4 500	
In other countries								
M-real Deutsche holding GmbH	Germany		100.00	100.00	EUR	26	EUR 401 619	
M-real Fine B.V.	The Netherlands	1 000	100.00	100.00	EUR	454	EUR 3 047	
M-real Holding Belgium S.A	Belgium	1 000	99.90	100.00	EUR	3 000	EUR 3 692	
M-real NL Holding B.V.	The Netherlands	15 350	100.00	100.00	EUR	6 054	EUR 4 493	
M-real Petöfi Ltd	Hungary	1	100.00	100.00	HUF	1 707 142	EUR 47 253	
M-real Schweiz AG	Switzerland	188	100.00	100.00	CHF	94	EUR 24	
M-real Sverige AB **	Sweden	63 470 200	49.50	100.00	SEK	1 269 404	EUR 1 116 773	
M-real UK Holdings Ltd	United Kingdom	146 750 000	100.00	100.00	GBP	146 750	EUR 210 308	
Map Merchant Holdings B.V.	The Netherlands	6 000	100.00	100.00	EUR	4 727	EUR 4 733	
Price & Pierce Holdings B.V.	The Netherlands	30	75.00	75.00	EUR	14	EUR 3 865	
Associated companies								
Finncao Oy	Finland	798	38.00	38.00	EUR	16	EUR 34	
Grovehurst Energy Ltd	United Kingdom	50	0.00	50.00	GBP	50	GBP -58	
Kirkniemen Kartano Oy	Finland	27 408	48.00	48.00	EUR	27 408	EUR 2 725	
Oy Metsä-Botnia Ab ***	Finland	42 222	47.00	47.00	EUR	84 442	EUR 277 135	
Metsäliitto-Yhtymän Tehdasmittaus Oy	Finland	132	33.00	33.00	EUR	22	EUR 25	
Metsämannut Oy	Finland	35	30.00	34.70	EUR	6	EUR 287	
MMM Logisware Oy	Finland	2 250	50.00	50.00	EUR	378	EUR 1 205	
Myllykoski Paper Oy	Finland	105 000	35.00	35.00	EUR	2 100	EUR 78 035	
Mäntän Energia Oy	Finland	1 180	0.00	29.50	EUR	153	EUR 256	
Paperinkeräys Oy	Finland	18 186	20.20	20.20	EUR	31	EUR 2 701	
Plastiroll Oy	Finland	39	39.00	39.00	EUR	7	EUR 3 217	
Varma Services Ltd	United Kingdom	2 809	0.00	28.10	GBP	3	EUR 10	
Kemiart Liners Oy	Finland	940 000	47.00	47.00	EUR	9 400	EUR 9 400	

* A controlling interest of over 50 per cent under the shareholders' agreement.

** Goodwill is amortised over twenty years.

*** Goodwill is amortised over ten years.

¹⁾ A list of all the shares and participations is kept at the headquarters of M-real Corporation.

	Country	Number of shares	Parent company's holding, %	Group's holding, %	Currency	Nominal value of shares, thousand	Book value Currency thousand
Subgroups in Finland							
Metsä Tissue Corporation							
- Metsä Tissue Holding GmbH	Germany		100.00	100.00	EUR	63 355	EUR 64 906
- Metsä Tissue GmbH	Germany		100.00	100.00	EUR	11 535	EUR 52 440
- Halstrick Polska Sp.z.o.o.	Poland		100.00	100.00	PLN	1 460	EUR 153
- Halstrick Transport-gesellschaft GmbH+Co.KG	Germany		100.00	100.00	EUR	97	EUR 327
- Metsä Tissue Immobilien-verwaltungs GmbH	Germany		100.00	100.00	EUR	50	EUR 53
- Metsä Tissue S.A.R.L.	France	3 099	99.97	99.97	EUR	315	EUR 315
- Metsä Tissue Ltd	United Kingdom	100	100.00	100.00	GBP	0	EUR 72
- Metsä Tissue Sales S.A.	Poland	1 000	100.00	100.00	PLN	100	EUR 26
- Tissu Canarias S.A.	Spain	39 092	63.05	63.05	EUR	189	EUR 599
- Metsä Tissue S.A.	Poland	1 615 000	100.00	100.00	PLN	7 090	EUR 16 873
- Metsa Service Sp. Z o.o.	Poland	100	100.00	100.00	PLN	50	PLN 50
- Metsä Tissue Holding AB	Sweden	100 000	100.00	100.00	SEK	10 000	EUR 52 979
- Metsä Tissue AB	Sweden	2 000 000	100.00	100.00	SEK	200 000	SEK 576 450
- Metsä Tissue A/S	Denmark	1 000	100.00	100.00	DKK	500	SEK 270
- Metsä Tissue AS	Norway	6 020	100.00	100.00	NOK	602	SEK 482
- Zakłady Papiernicze w Krapkowicach S.A.	Poland	1 665 517	89.45	89.45	PLN	18 620	EUR 5 992
- Transpap Sp. z.o.o.	Poland	6 480	100.00	100.00	PLN	648	PLN 179
- Remex Sp. z.o.o.	Poland	700	70.00	70.00	PLN	70	PLN 29
M-real International Oy							
- BFT-Baltic Forest Terminals Ltd	Poland	200	96.00	100.00	PLN	96	EUR 168
- BoMo Paper Ltd	Cyprus	2	50.00	100.00	CYP	10 000	EUR 74
- M-real Benelux n.v./s.a	Belgium	1 884	99.95	100.00	EUR	124	EUR 95
- M-real alliance CZ s.r.o.	Czech Republic		100.00	100.00	CZK	100	EUR 3
- M-real France SAS	France	8 211	100.00	100.00	EUR	125	EUR 219
- M-real Hong Kong Ltd	Hong Kong	100	99.00	100.00	HKD	10	EUR 1
- M-real alliance Magyarország Kft	Hungary	30	90.00	100.00	HUF	3 000	EUR 14
- M-real Ibèria S.A.	Spain	10 000	99.00	100.00	EUR	60	EUR 68
- M-real Ireland Ltd	Ireland	5 000	100.00	100.00	EUR	6	EUR 6
- M-real alliance Italia s.r.l.	Italy	100 000	100.00	100.00	EUR	52	EUR 51
- M-real (Middle East & Africa) Ltd	Cyprus	742 105	100.00	100.00	CYP	742	EUR 214
- M-real Benelux B.V.	The Netherlands	400	100.00	100.00	EUR	18	EUR 20
- M-real alliance Polska Sp. Z o.o.	Poland	232	100.00	100.00	PLN	116	EUR 55
- M-real Ibèrica Lda	Portugal		80.00	100.00	EUR	5	EUR 5
- M-real Nordic A/S	Denmark	36	100.00	100.00	DKK	715	EUR 64
- M-real alliance Scandinavia AB	Sweden	100	100.00	100.00	SEK	100	DKK 41
- M-real Singapore Pte Ltd	Singapore	10 000	100.00	100.00	SGD	10	EUR 4
- M-real alliance Slovakia S.r.o.	Slovakia		100.00	100.00	SKK	200	EUR 6
- M-real UK Ltd	United Kingdom	2 400	100.00	100.00	GBP	2	EUR 264
- M-real USA Corporation	USA	180	100.00	100.00	USD	0.18	EUR 4
- M-real Service GmbH	Germany		75.00	75.00	EUR	26	EUR 19

	Country	Number of shares	Parent company's holding, %	Group's holding, %	Currency	Nominal value of shares, thousand	Book value Currency thousand
Subgroups in other countries							
M-real Sverige AB							
- Örnsköldsviks Stuveri AB	Sweden	5 400	100.00	100.00	SEK	540	SEK 5 185
- Modo Paper Italia SRL	Italy	20 000	100.00	100.00	EUR	41	SEK 99
- M-real Logistics GmbH	Germany		100.00	100.00	EUR	26	SEK 249
- M-real Reinsurance AG	Switzerland	19 995	100.00	100.00	SEK	11 596	SEK 11 546
- M-real France SAS	France	12 786 663	100.00	100.00	EUR	194 931	SEK 1 681 327
- M-real Alizay SA	France	3 006 985	59.92	100.00	EUR	48 111	EUR 100 533
- M-real Alizay SNC	France	39 999 999	99.99	100.00	EUR	40 000	EUR 60 980
- M-real PSM SA	France	1 502 494	99.99	100.00	EUR	22 537	EUR 30 490
- M-real Logistics SA	France	1	0	0	EUR	0	EUR 0
- M-real Logistics SA	France	8 093	99.88	100.00	EUR	80	EUR 63 136
- M-real Alizay SA	France	2 008 725	40.05	40.05	EUR	102	EUR 66 972
- Modo Merchants Benelux BV	The Netherlands	4 831	100.00	100.00	EUR	2 192	SEK 9 592
- Modo Papier Belgium NV	Belgium	8 225	100.00	100.00	EUR	397	EUR 397
- Modo Paper Benelux BV	The Netherlands	175	100.00	100.00	EUR	79	EUR 79
- M-real Holdings Ltd	United Kingdom	1	100.00	100.00	GBP	1	SEK 14
- More Pulp Tech AB	Sweden	24 000	40.00	40.00			SEK 6 983
M-real Deutsche Holding GmbH							
- M-real Deutschland GmbH	Germany	2	100.00	100.00	EUR	51	EUR 179
- CN Papiervertriebs GmbH	Germany		85.00	85.00	EUR	272	EUR 1 538
- M-real svenskt holding AB *	Sweden	100	100.00	100.00	SEK	100	EUR 442 928
- M-real Sverige AB	Sweden	32 052 451	50.50	100.00	SEK	641 049	SEK 2 865 000
- Zanders Feinpapiere AG *	Germany	2 800 000	0.00	100.00	EUR	79 596	EUR 115 282
- M-real Service Corp.	USA		100.00	100.00	USD	5 311	EUR 0
- Zanders Italia S.r.l	Italy		100.00	100.00	EUR	207	EUR 212
- Zanders Fine Papers Ltd	United Kingdom		100.00	100.00	GBP	50	EUR 57
- Zanders Iberia S.L.	Spain		100.00	100.00	EUR	6	EUR 6
- M-real Papierprodukte Verwaltungs GmbH	Germany	3	100.00	100.00	EUR	153	EUR 1 389
- M-real Stockstadt GmbH	Germany	5	100.00	100.00	EUR	20 503	SEK 273 959
- Chemische Werke Zell-Wildshausen GmbH	Germany		100.00	100.00	EUR	562	EUR 557
- M-real Hallein AG	Austria		100.00	100.00	EUR	70	EUR 0
- Modo Paper Benelux SA/NV	Belgium		100.00	100.00	EUR	43	EUR 0
- Modo Paper B.V.	The Netherlands		100.00	100.00	EUR	45	EUR 0
Map Merchant Holdings BV							
- Map Merchant Netherlands B.V.	The Netherlands	50 000 000	100.00	100.00	EUR	50 000	EUR 204 418
- Amerpap Oy	Finland	5 600	100.00	100.00	EUR	4 709	EUR 4 719
- Buhomij B.V.	The Netherlands	570	100.00	100.00	EUR	129	EUR 27 718
- Grafisch Papier Nijmegen B.V.	The Netherlands	190	100.00	100.00	EUR	43	
- GP Mullaart B.V.	The Netherlands	42	100.00	100.00	EUR	10	
- Printec B.V.	The Netherlands	80	100.00	100.00	EUR	18	
- Papier Service B.V.	The Netherlands	20	100.00	100.00	EUR	5	
- Paper One B.V.	The Netherlands	50	100.00	100.00	EUR	11	
- Uniepapier Flevoland B.V.	The Netherlands	400	51.00	51.00	EUR	18	
- Uniepapier Zwolle B.V.	The Netherlands	400	51.00	51.00	EUR	18	
- Uniepapier Tilburg B.V.	The Netherlands	400	51.00	51.00	EUR	18	
- Uniepapier Randstad B.V.	The Netherlands	400	51.00	51.00	EUR	18	
- Uniepapier Groningen B.V.	The Netherlands	400	51.00	51.00	EUR	18	

* Goodwill is amortised over twenty years.

	Country	Number of shares	Parent company's holding, %	Group's holding, %	Currency	Nominal value of shares, thousand	Book value Currency thousand
- GPG Papier N.V.	Belgium	300 000	100.00	100.00	EUR	7 437	EUR 2 447
- Map Merchant Group Ltd.	United Kingdom	40 600 000	100.00	100.00	GBP	62 462	EUR 132 390
- Hedsor Ltd.	United Kingdom	495 000	100.00	100.00	GBP	495	GBP 5 527
- James McNaughton Paper Group Ltd.	United Kingdom	9 392 507	93.93	93.93	GBP	9 393	GPB 52 528
- James McNaughton Paper Merchants Ltd.	United Kingdom	75 000	100.00	100.00	GBP	75	GPB 67
- James McNaughton Agencies Ltd.	United Kingdom	40 000	100.00	100.00	GBP	10	GPB 10
- McNaughton Publishing Papers Ltd.	United Kingdom	100	100.00	100.00	GBP	0	GPB 0
- McNaughton Paper Ireland Ltd.	Ireland	157 135	93.20	93.20	GBP	157	GPB 622
- McNaughton Paper Ireland Manufacturing Ltd.	Ireland	1 000	100.00	100.00	GBP	1	GPB 0
- Printall Display Ltd.	United Kingdom	50 000	100.00	100.00	GBP	50	GPB 489
- County Paper Company Ltd.	United Kingdom	182	100.00	100.00	GBP	0	GPB 857
- Carefree Paper Company Ltd.	United Kingdom	100	100.00	100.00	GBP	0	GPB 29
- Brian J. Small (Paper) Ltd.	United Kingdom	52 185	100.00	100.00	GBP	52	GPB 0
- GM2 Logistics Ltd.	United Kingdom	125 000	50.00	100.00	GBP	250	GPB 125
- Ingram Group Ltd.	United Kingdom	50 000	100.00	100.00	GBP	50	GPB 0
- Paper Management Services Ltd.	United Kingdom	2	100.00	100.00	GBP	0	GPB 855
- Modo Merchants Ltd.	United Kingdom	400 000	100.00	100.00	GBP	400	GBP 800
- GM2 Logistics Ltd.	United Kingdom	125 000	50.00	100.00	GBP	250	GBP 125
- Premier Paper Group Ltd.	United Kingdom	10 000 001	100.00	100.00	GBP	10 000	GBP 38 198
- Map Merchant Holdings GmbH	Germany	40	100.00	100.00	EUR	17	EUR 0
- PVV Deutschland GmbH	Germany	18 000	100.00	100.00	EUR	900	EUR 3 876
- IT-Papier	Austria	22 081	74.50	74.50	EUR	1 195	EUR 1 205
- ECCO-Papier Spolka z oo	Poland		100.00	100.00	PLN	43 715	EUR 13 627
- Modo Paper Distribucion S.A.	Spain	9 886	4.02	100.00	EUR	57	EUR 161
- Schramm/Papirgros A/S	Denmark	48 000	69.27	69.27	DKK	3 325	EUR 2 532
- ECCO Hungaria Kft.	Hungary		100.00	100.00	HUF	187 500	EUR 1 279
- SCA Paper Trade s.r.l.	Romania	1 800	80.00	80.00	ROL	345 600	EUR 752
- Interpapir d.o.o.	Slovenia		100.00	100.00	SIT	167 545	EUR 678
- ECCO Paper CZ s.r.o.	Czech Republic		99.90	99.90	CZK	151 857	EUR 4 795
- ECCO Paper Yugoslavia Export-Import DOO	Yugoslavia		100.00	100.00	EUR	17	EUR 0
- ECCO Paper SK s.r.o.							
- Ruzomberok/Slowakei	Slovakia		100.00	100.00	SKK	48 780	EUR 1 156
- MODO-PAPER d.o.o.	Croatia		100.00	100.00	KUNA	500	EUR 74
- Ekova AS	Turkey		50.00	50.00	TRL	295 000 000	EUR 0
- Map Merchant Sweden AB	Sweden	19 000	100.00	100.00	SEK	19 000	EUR 1 918
- Modo Merchants AB	Sweden	1 000	100.00	100.00	SEK	100	SEK 10 120
- Modo Paper East AB	Sweden	12 000	100.00	100.00	SEK	12 000	SEK 10 000
- ZAO Modo Paper Moscow	Russia	500	100.00	100.00	RUR	256	SEK 0
- Map Eesti AS	Estonia		100.00	100.00	EEK		SEK 5 003
- Map Latvia AS	Latvia	2 101 605	100.00	100.00	LVL	3 418	SEK 25 582
- M.P. Lietuva	Lithuania	36 980	100.00	100.00			SEK 2 602
- Oy Map Merchant Ab	Finland	500	100.00	100.00	EUR	50.00	SEK 455
- UAB Map Lietuva	Lithuania	20 000	100.00	100.00	LTL	3 257	SEK 0
- Svenskt Papper AB	Sweden	400 000.00	100.00	100.00	SEK	40 000	SEK 474 000
- Basberg Papir	Norway	10 000	100.00	100.00	NOK	1 000	SEK 870
- Modo Paper Distribucion S.A.	Spain	225 114	95.98	100.00	EUR	1 410	EUR 5 739
- Modo van Gelder BV	The Netherlands	40	100.00	100.00	EUR	18	EUR 18

	Country	Number of shares	Parent company's holding, %	Group's holding, %	Currency	Nominal value of shares, thousand	Book value Currency thousand
M-real Holding Belgium SA							
– S.A Meulemans N.V. *	Belgium	1 000	0.00	100.00	EUR	1 240	EUR 21 108
– S.A Meulemans Luxemburg N.V. *	Belgium	1 000	0.00	100.00	EUR	248	EUR 1 392
M-real NL Holding B.V							
– IBP Deals China Ltd	China		100.00	100.00	CNY	1 655	EUR 227
– M-real Biberist	Switzerland	10 000	100.00	100.00	CHF	10 000	EUR 6 065
– M-real Winschoten B.V.	The Netherlands	3 000	100.00	100.00	EUR	1 361	EUR 1 958
M-real Schweiz AG							
– M-real alliance Schweizerland AG	Switzerland	100	100.00	100.00	CHF	1	CHF 100
M-real UK Holdings Ltd							
– M-real New Thames Ltd	United Kingdom	88 000 000	100.00	100.00	GBP	88 000	GBP 58 239
– M-real Sittingbourne Ltd	United Kingdom	72 800 001	100.00	100.00	GBP	72 800	GBP 14 028
– M-real UK Group Services Ltd	United Kingdom	26 314 842	100.00	100.00	GBP	26 315	GBP 5 662
Price & Pierce Holdings B.V.							
– Price & Pierce Finland	Finland		100.00	100.00	EUR	10	EUR 0
– Price & Pierce Inc	USA	375 000	100.00	100.00	USD		EUR 2 695
– Price & Pierce Europe Ltd	United Kingdom		100.00	100.00	GBP		EUR 340
– Price & Pierce (Asia Pacific) Pte Ltd	Singapore	500 000	100.00	100.00	SGD		EUR 2 995
– Price & Pierce (HK) Ltd	Hong Kong	99 999	100.00	100.00	HKD		EUR 299

Other shareholdings

Espresso Paper							
Platform B.V	The Netherlands	81 056 656	13.73	19.81	EUR	811	EUR 4 175
Gasum Oy	Finland	1 060 000	2.00	2.00	EUR	3 566	EUR 11 774
Keräyskuitu Oy	Finland	4 378	14.60	14.60	EUR	736	EUR 771
Keskuslaboratorio Oy	Finland	1 134 776	18.70	21.13	EUR	191	EUR 326
Pohjolan Voima Oy	Finland	1 094 164	2.49	3.29	EUR	1 841	EUR 26 179
Sato-Yhtymä Oy	Finland	32 110			EUR	54	EUR 2 805
Oy Transfennica Ab	Finland	18 318	17.45	17.45	EUR	308	EUR 126

* Goodwill is amortised over ten years.

The book value of listed shares was EUR 97.0 million and the market value was EUR 206.7 million.

Shares and shareholders

Share capital and shares at 31 December 2002

The company's paid-in share capital on the balance sheet date was EUR 304 299 022.50. The company has a total of 178 999 425 shares, which are divided into 36 340 550 Series A shares and 142 658 875 Series B shares. All shares have a nominal value of EUR 1.70. Each Series A Share entitles its holder to twenty (20) votes at a General Meeting of Shareholders, and each Series B Share entitles the holder to one (1) vote. All shares carry the same right to receive a dividend. The company's issued share capital may not be less than EUR 168 188 000.00 and not more than EUR 672 752 000.00. The issued share capital may be increased or decreased within these limits without amendments to the Articles of Association.

Stock exchange listings and share prices

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

The highest price of M-real's Series B share on Helsinki Exchanges during the financial year was EUR 10.44 and the lowest price was EUR 5.88. The average share price was EUR 8.28. In 2001 the average price was EUR 6.96. The price of the Series B share was EUR 8.00 at the end of the financial year, 31 December 2002.

Turnover of the Series B share was EUR 857 million, or 72.5 per cent of the shares outstanding. The

market capitalization of the Series A and B shares at 31 December 2002 totalled EUR 1 426 million.

At 31 December 2002, Metsäliitto Osuuskunta owned 38.5 per cent of M-real Corporation's shares and 64.2 per cent of the voting rights conferred by these shares. International investors owned 35.1 per cent of the shares.

Management's bond loan with warrants

Bond loan with equity warrants 1997

Bonds with equity warrants to a total value of FIM 750 000 were offered for subscription by the Group's key personnel in 1997. The loan was paid back in its entirety at the end of year 2000. The bonds matured in three years and carried no interest. The nominal value of the bond was FIM 1 000 (EUR 168.19). Each bond carries 1 200 A warrants, 1 200 B warrants and 1 600 C warrants. Each warrant entitles its holder to subscribe for one M-real Series B share at a price of EUR 8.75.

The share subscription periods for the 1997 bonds with warrants began for A warrants on 1 December 1998 and for B warrants on 1 December 1999. The subscription period for C warrants began on 1 December 2000. The subscription periods in respect of all warrants end on 31 October 2003.

As a consequence of subscriptions, M-real Oyj's number of shares can rise by a maximum of 2 782 000 Series B shares and the share capital by a maximum of EUR 4.73 million. This corresponds to 1.55 per cent of the company's share capital and 0.32 per cent of the voting rights.

Directors' interest

Management's shareholdings in M-real are presented on page 23.

Board of Directors' authority to issue shares

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

Dividend policy

M-real's dividend policy is stable and rewarding to shareholders, and aims at paying a dividend of at least 1/3 of the company's earnings per share or at least 20 per cent of the Company's nominal share capital on average across the business cycle, nevertheless taking into account the company's growth strategy.

M-real's main shareholders

Share register 30 December 2002	Series A	Series B	Total	% of votes	% of shares
1 Metsäliitto Osuuskunta	25 751 535	43 153 900	68 905 435	64.2	38.5
2 Ilmarinen Mutual Pension Insurance Company	2 962 830	1 339 000	4 301 830	7.0	2.4
3 Varma-Sampo Mutual Pension Insurance Company	2 203 544	2 633	2 206 177	5.1	1.2
4 Central Union of Agricultural Producers and Forest Owners	1 204 249	596 845	1 801 094	2.8	1
5 OP-Delta Investment Fund		1 119 500	1 119 500	0.1	0.6
6 Tapiola Mutual Life Assurance Company	356 000	402 300	758 300	0.9	0.4
7 Aurum Life Assurance Company		616 000	616 000	0.1	0.3
8 Metsäliitto Employees' Pension Foundation	16 070	577 900	593 970	0.1	0.3
9 Polaris Pension Fund	227 770	311 505	539 275	0.6	0.3
10 Mutual Insurance Company Pension-Fennia		512 500	512 500	0.1	0.3
11 Sampo Finnish Equity Fund		469 975	469 975	0.1	0.3
12 OP-Pirkka Fund		466 300	466 300	0.1	0.3
13 Nordea Fennia Fund		444 400	444 400	0.1	0.2
14 Keskinäinen Vakuutusyhtiö Fennia		387 800	387 800	0	0.2
15 Equity Fund Aktia Secura		360 000	360 000	0	0.2
16 Nordea Foresta Fund		340 000	340 000	0	0.2
17 Investment Fund Alfred Berg Finland		328 200	328 200	0	0.2
18 Evli-Select mutual fund		328 000	328 000	0	0.2
19 Aktia Capital mutual fund	197 000	95 000	292 000	0.5	0.2
20 Conventum Finland Value mutual fund		280 000	280 000	0	0.2

Shares and shareholders

Breakdown of Shareholders

M-real A

Number of shares	Number of shareholders	%	Total number of shares	%	Number of votes	%
1 – 10	81	2.98	583	0	11 660	0
11 – 50	238	8.76	8 158	0.02	163 160	0.02
51 – 100	315	11.6	26 230	0.07	524 600	0.07
101 – 500	1 243	45.77	375 348	1.03	7 506 960	1.03
501 – 1 000	389	14.32	319 990	0.88	6 399 800	0.88
1 001 – 5 000	380	13.99	844 560	2.32	16 891 200	2.32
5 001 – 10 000	33	1.22	238 545	0.66	4 770 900	0.66
10 001 – 50 000	20	0.74	510 250	1.4	10 205 000	1.4
50 001 – 100 000	5	0.18	343 312	0.94	6 866 240	0.94
100 001 – 500 000	8	0.29	1 551 416	4.27	31 028 320	4.27
500 001 – 1 000 000	0	0	0	0	0	0
1 000 001 –	4	0.15	32 122 158	88.39	642 443 160	88.39
Total number	2 716	100	36 340 550	100	726 811 000	100
On the waiting list, total						
Grand total account						
Number issued	2 716	100	36 340 550	100	726 811 000	100

M-real B

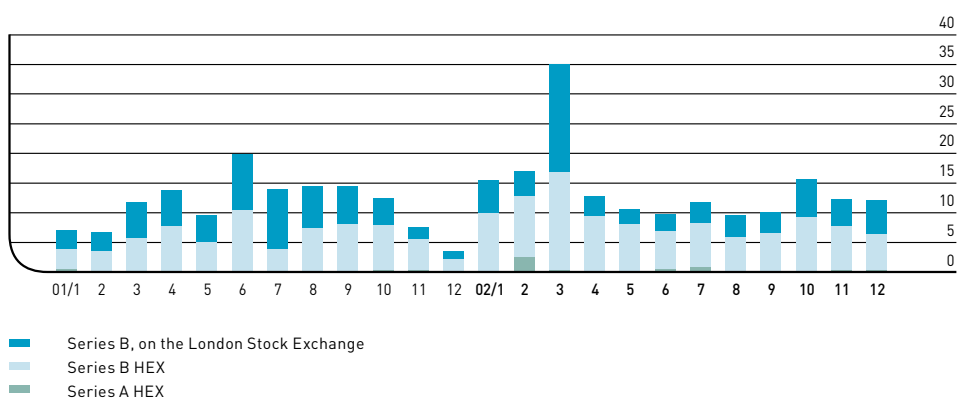
Number of shares	Number of shareholders	%	Total number of shares	%	Number of votes	%
1 – 10	4 362	11.09	36 751	0.03	36 751	0.03
11 – 50	9 946	25.3	299 717	0.21	299 717	0.21
51 – 100	6 343	16.13	478 167	0.34	478 167	0.34
101 – 500	11 684	29.72	3 196 459	2.24	3 196 459	2.24
501 – 1 000	3 175	8.08	2 591 300	1.82	2 591 300	1.82
1 001 – 5 000	3 113	7.92	6 791 497	4.76	6 791 497	4.76
5 001 – 10 000	364	0.93	2 661 918	1.87	2 661 918	1.87
10 001 – 50 000	237	0.6	4 709 436	3.3	4 709 436	3.3
50 001 – 100 000	37	0.09	2 527 842	1.77	2 527 842	1.77
100 001 – 500 000	46	0.12	9 909 146	6.95	9 909 146	6.95
500 001 – 1 000 000	4	0.01	2 303 245	1.61	2 303 245	1.61
1 000 001 –	5	0.01	107 153 397	75.11	107 153 397	75.11
Total number	39 316	100	142 658 875	100	142 658 875	100
On the waiting list, total						
Grand total account						
Number issued	39 316	100	142 658 875	100	142 658 875	100

Share issues 1992–2002

Type of issue	Subscription period	Ratio of issue or subscriber	Subscription price, EUR	New share	Date of payment	New share capital, EUR million	New share capital, EUR million
Rights issue	9.12.1991– 17.1.1992	1 new for 12 old	A:17.66	559 084	17.1.1992	4.7	171.6
			B:9.25	1 020 809		8.6	
Direct issue	29.6.1993		B:28.09	3 460 000	29.6.1993	29.1	200.7
Subscription through warrants (B)							
	1988		25.12	148		0.0	
	1989		25.12	1 272		0.0	
			24.05	1 844		0.0	
	1990		24.05	80		0.0	
	1991		24.05	–		0.0	
	1992		24.05	–		0.0	
	1993		24.05	3 185 492		26.8	
				3 188 836		26.8	227.5
Placement	18.11.1993		B:37.84	250 000	18.11.1993	2.1	229.6
Placement	30.6.1995	Oy Kyro Ab	B:35.34	500 000	30.6.1995	4.2	233.8
Change in nominal value, 5 May 2000, from share issue premium funds						2.5	236.3
Rights issue	15.3.–2.4.2001		B:7.00	35 000 000	5.4.2001	59.5	295.8
Rights issue	15.3.–2.4.2001		B:7.00	5 000 000	10.4.2001	8.5	304.3

The split of one share with a nominal value of 8.41 euros into five shares with a nominal value of 1.68 euros (11 April 1996) has not been taken into account in the table.

Traded volumes in 2001–2002

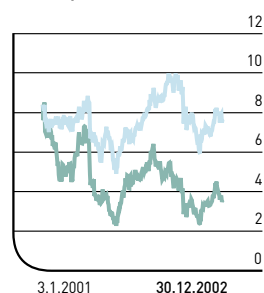


Shares and shareholders

Share performance	2002	2001	2000	1999	1998
Adjusted prices, EUR					
Series A highest	10.00	8.85	12.70	11.40	10.26
lowest	6.00	4.91	6.53	5.90	5.05
at year end	7.85	6.95	8.10	11.10	7.06
average price	8.46	7.16	8.11	8.14	7.72
Series B highest	10.44	9.13	12.90	11.70	10.60
lowest	5.88	4.85	6.32	5.85	4.96
at year end	8.00	6.94	8.50	11.55	6.98
average price	8.28	6.96	8.65	8.25	7.77
Trading in shares, units on Helsinki Exchanges					
Series A	4 262 501	1 321 616	1 381 515	1 220 478	4 074 089
% of total no. of Series A	11.7	3.6	3.8	3.4	11.2
Series B	103 484 655	69 504 014	50 478 814	51 827 710	68 834 117
% of total no. of Series B	72.5	52.5	49.2	50.5	67.1
On the London Stock Exchange					
Units	64 104 633	64 207 590	61 931 494	56 445 888	31 303 949
% of total no. of Series B	44.9	48.5	60.3	55.0	30.5
Number of shares at the end of year					
Series A	36 340 550	36 340 550	36 340 550	36 340 550	36 340 550
Series B	142 658 875	142 658 875	102 658 875	102 658 875	102 658 875
Total	178 999 425	178 999 425	138 999 425	138 999 425	138 999 425
Adjusted number of shares at 31 Dec.	178 999 425	178 999 425	138 999 425	138 999 425	138 999 425
Market capitalization of shares at 31 Dec., EUR million	1 426.5	1 242.6	1 167.0	1 589.1	973.3
Number of shareholders *	40 672	40 384	38 149	33 652	33 598
The change in the nominal value of the M-real share has been taken into account.					

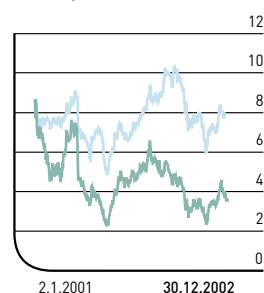
* Shareholders in book-entry system.

M-real A, share price trend, EUR



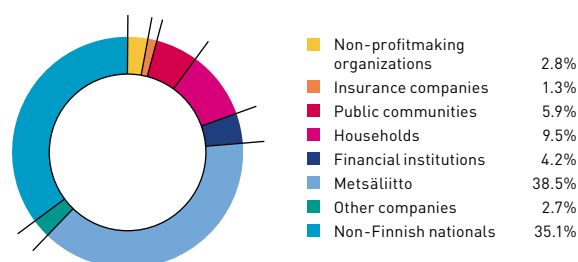
— M-real A series
— Hex index relative to Series A shares

M-real B, share price trend, EUR



— M-real B shares
— Hex index relative to Series B shares

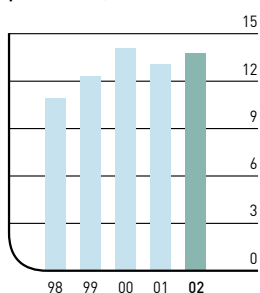
Breakdown of M-real's shareholders



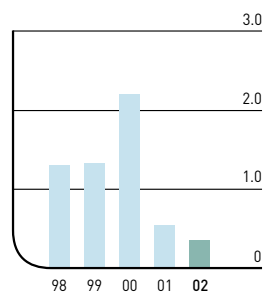
Figures per share	2002	2001	2000	1999	1998
Calculation of earnings per share, EUR million					
Profit before extraordinary items	134.3	154.0	458.5	268.1	261.7
- minority interest	-10.1	-10.1	6.7	-0.3	-3.8
- taxation	-59.8	-115.1	-183.0	-88.4	-88.8
+ tax adjustment for extraordinary items	0.4	63.6	16.4	0	4.6
+ other adjustments			6.6	6.6	6.6
= Earnings, EUR million	64.8	92.4	305.2	186.0	180.3
- Adjusted number of shares (average)	178 999 425	168 629 562	138 999 425	138 999 425	138 999 425
= Earnings per share, EUR (Diluted 2002: EUR 0.36)	0.36	0.55	2.20	1.34	1.30
Shareholders' equity per share, EUR					
Dividend per share, EUR	0.60 ¹⁾	0.60	0.60	0.45	0.44
Dividend per profit, %	165.8	109.5	27.3	33.6	33.7
Nominal value per share, EUR	1.70	1.70	1.70	1.68	1.68
Dividend yield, %					
Series A	7.6	8.6	7.4	4.1	6.2
Series B	7.5	8.6	7.1	3.9	6.3
Price/equity ratio (P/E ratio)					
Series A	21.7	12.7	3.7	8.3	5.4
Series B	22.1	12.7	3.9	8.6	5.4
P/BV, %					
Series A	57.1	53.1	57.7	90.4	64.6
Series B	58.2	53.1	60.5	94.1	63.8

¹⁾ Board's proposal

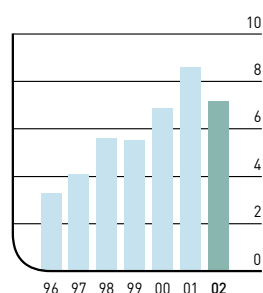
Shareholders' equity per share, EUR



Earnings per share, EUR



Dividend yield



Calculation of key ratios

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

Ten years in figures

	2002	2001	2000	1999	1998	1997	1996	1995	1994	1993
Profit and loss account, EUR million										
Turnover	6 564	6 923	5 898	4 044	3 320	3 014	2 313	2 240	1 599	1 542
– change %	–5.2	14.8	45.9	21.8	10.1	30.3	3.2	40.6	3.4	18.3
Exports from Finland	1 714	1 743	1 719	1 805	1 704	1 595	1 326	1 267	906	883
Exports and foreign subsidiaries	6 173	6 438	5 376	3 603	2 893	2 598	2 012	1 760	1 312	1 298
Operating profit	324	389	604	352	340	283	143	401	156	170
– % of turnover	4.9	5.6	10.2	8.7	10.2	9.4	6.2	17.9	9.8	11.0
Profit before extraordinary items	134	154	459	268	262	128	55	322	132	51
– % of turnover	2.0	2.2	7.8	6.6	7.9	4.3	2.4	14.4	8.3	3.3
Profit before taxes and minority interests	279	337	516	295	273	358	120	322	128	127
– % of turnover	4.2	4.9	8.7	7.3	8.2	11.9	10.4	14.4	8.0	8.2
Balance sheet, EUR million										
Balance sheet total	7 410	8 005	7 798	4 608	4 419	4 423	3 474	3 123	2 368	2 358
Shareholders' equity	2 461	2 341	1 953	1 711	1 555	1 427	1 195	1 147	967	892
Interest-bearing net liabilities	3 019	3 482	3 693	1 471	1 397	1 154	1 361	1 109	623	713
Dividends and figures per share *										
Dividends, EUR million	107.4 ¹⁾	107.4	83.4	63.1	60.8	42.1	23.4	32.7	23.0	9.2
Dividend per share, EUR	0.60 ¹⁾	0.60	0.60	0.45	0.44	0.30	0.17	0.24	0.17	0.07
Dividend/profit, %	166.7 ¹⁾	109.1	27.3	34.0	33.7	51.3	61.3	16.0	22.3	54.0
Earnings per share, EUR (diluted in 2002: EUR 0.36)	0.36	0.55	2.20	1.34	1.30	0.59	0.27	1.47	0.76	0.12
Shareholders' equity per share, EUR	13.75	13.08 ²⁾	14.05 ²⁾	12.28 ²⁾	10.93 ²⁾	10.26 ²⁾	8.59	8.24	7.10	6.53
Profitability										
Return on capital employed, %	5.8	6.9	13.5	10.5	10.8	10.5	6.8	18.8	10.8	10.1
Return on equity, %	3.0	4.7 ²⁾	15.5 ²⁾	10.6 ²⁾	11.3 ²⁾	5.3 ²⁾	2.9	22.0	10.5	5.3
Financial position										
Equity ratio, %	34.2	30.0 ²⁾	25.7 ²⁾	38.4 ²⁾	36.9 ²⁾	34.1 ²⁾	35	42.4	41.7	38.2
Gearing ratio, %	119	145 ²⁾	184 ²⁾	83 ²⁾	86 ²⁾	77 ²⁾	113	86	64	79
Funds from operations, EUR million	521	608	692	440	449	401	303	409	203	212
Internal financing on capital expenditures, %	168	82	32	112	130	122	38	82	167	189
Net interest expenses, EUR million	142.3	194.3	131.7	73.8	83.8	70.9	70.4	84.5	58.4	98.4
Interest cover	4.7	4.1	6.3	7.0	6.4	6.7	5.3	5.8	4.5	3.2
Other information										
Gross capital expenditure, EUR million	310	740	2 150	394	344	329	787	492	121	113
– % of turnover	4.7	10.7	36.5	9.7	10.4	10.9	34.0	21.9	7.6	7.3
R&D expenditure, EUR million	26	27	25	17	15	14	15	15	13	13
– % of turnover	0.4	0.4	0.4	0.4	0.5	0.4	0.7	0.7	0.8	0.8
Personnel, average	21 070	22 237	17 351	15 572	13 885	12 637	11 463	10 106	9 061	9 047
– of whom in Finland	6 328	6 406	6 584	6 966	7 208	7 248	7 006	7 162	6 385	6 425

¹⁾ Board's proposal.

²⁾ The convertible subordinated capital notes are included in liabilities.

* The change in the nominal value of the M-real share, made on 11 April 1996, has been taken into account.

The 1993–1995 figures for the resource companies Metsä Botnia and Metsä Rauma have not been adjusted for comparability according to the new consolidation policy.

Deferred tax has not been included under provisions since 1993. The calculation of key ratios is presented on page 82.

Board's proposal for the distribution of profits

EUR

The Group's distributable funds according to the balance sheet at 31 Dec. 2002:	932 367 000.00
Non-restricted shareholders' equity in the parent company balance sheet at 31 Dec. 2002:	
Retained earnings	470 366 008.72
Net profit for 2002	468 809 279.12
Total	939 175 287.84
The Board of Directors proposes the following to the Annual General Meeting	
A dividend of EUR 0.60 per share to be paid on the 178 999 425 Series A and B shares	107 399 655.00
To be transferred to the Retained earnings account	831 775 632.84
	939 175 287.84

Espoo, 6 February 2003

Antti Oksanen

Arimo Uusitalo

Timo Haapanen

Asmo Kalpala

Erkki Karmila

Runar Lillandt

Matti Niemi

Antti Tanskanen

Jouko M. Jaakkola
President & CEO

Auditor's report

To the shareholders of M-real Corporation

We have audited the accounting, the financial statements and the corporate governance of M-real Corporation for the period 1.1.–31.12.2002. 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 examine that the members of the Board of Directors, and the President and CEO have legally complied with the rules of the Companies' Act.

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

Espoo, 13 February 2003

PricewaterhouseCoopers Oy
Authorised Public Accountants

Göran Lindell
Authorised Public Accountants

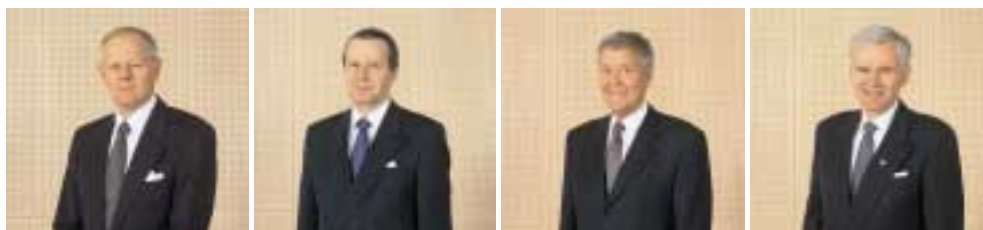
Ilkka Haarlaa
Authorised Public Accountants

M-real's brand
is built around
customer-focused
product and service
solutions.





Board of Directors



Antti Oksanen, (58)

Chairman of the Board since 1995

Member of the Board since 1993

Master of Science in Forestry

President of Metsäliitto Group, President & CEO of Metsäliitto Osuuskunta

Since 1995 Member of the Board and 1995-2002 Executive Committee of the Finnish Forest Industries Federation (since 1995), Member of the Board of the Confederation of Finnish Industry and Employers since 1995 and a Member of the Council since 1997

Vice Chairman of the Board of Metsäliitto Osuuskunta, Chairman of the Boards of Metsä Tissue Corporation, Finnforest Corporation and several other Metsäliitto Group companies.

Member of the Board of Myllykoski Paper Oy, Vice Chairman of the Supervisory Board of the Tapiola Mutual Pension Insurance Company

Arimo Uusitalo, (60)

Vice Chairman of the Board since 1994

Member of the Board since 1994

Master of Science in Agriculture Farmer

Chairman of the Board of Metsäliitto Osuuskunta, Vice Chairman of the Board of Finnforest Corporation, Vice Chairman of the Board of Metsä Tissue Corporation, Member of the Board of Oy Metsä-Botnia Ab, Chairman of the Board of Raisio Group since 2001, Chairman of the Supervisory Board of Osuuspankki Kantrisalo

Timo Haapanen, (63)

Member of the Board since 2000

Agronomist Farmer

Member of the Board of Metsäliitto Osuuskunta since 1995, Member of the Board of Tapio Pension Fund, Chairman of the Board of Private Forestry Employers' Federation

Asmo Kalpala, (52)

Member of the Board since 1990

Master of Science in Economics

Chairman of the Boards and President of the Tapiola Group

Member of the Board of the Federation of Finnish Insurance Companies since 1988, member of the Board of the Insurance Employers' Association since 1988

Vice Chairman of the Board of YIT Corporation since 2000, member of the Board of LTT Research Ltd since 1998

Board of Directors



Erkki Karmila, (61)

Member of the Board since 1992

Master of Laws (trained on the bench)
Master of Laws 1968, Harvard University

Executive Vice President of the Nordic Investment Bank

Deputy Managing Director, Finnish Export Credit 1981-1982 and Managing Director 1982-1983

Executive Vice President of Kansallis-Osake-Pankki, 1983-1991, Director of the Invest in Finland Bureau, 1992

Runar Lillandt, (58)

Member of the Board since 1999

Agriculture and forestry polytechnic graduate
Counsellor of Agriculture
Farmer

Chairman of the Supervisory Board of Metsäliitto Osuuskunta since 1999,
Member of the Board of SLC since 1988,
Chairman of the Supervisory Board of Pohjanmaan Liha 1994-2001 and Chairman of the Board since in 2002,
Member of the Board of A-tuottajat since 2001,
Member of the Supervisory Board of Suupohjan Osuuspankki since 1997,
Member of the Forestry Board of MTK (The Central Union of Agricultural Producers and Forest Owners) since 1988,
Chairman of the board of the Rannikko Forestry Centre since 1996
Chairman of the Board of Moelven Industrier ASA since 2002

Matti Niemi, (55)

Member of the Board since 1999

Master of Science in Economics

Executive Vice President of Varma-Sampo Mutual Pension Insurance Company, 1998-

Various management positions at Postipankki Oy, 1974-1995,
Executive Vice President of Pension Varma Mutual Insurance company, 1996-1998

Member of the Board of Uponor Oyj (formerly Asko Oyj) since 1994,
Member of the Board of Sampo Life Insurance Company Limited, 1997-2002,
Member of the Supervisory Board of Sampo Life Insurance Company Limited since 2002

Antti Tanskanen, (56)

Member of the Board since 1992

Ph.D. in Economics

Chairman and CEO, OKO Bank Group,
Chairman of the Executive Boards of OKO Bank Group Central Cooperative and OKO Bank since 1997

Professor in Economics at Jyväskylä University 1979-1996 and Rector 1988-1991,
Chairman and President of the Academy of Finland 1992-1996

Member of the Unico Banking Group's Steering Committee since 1996,
Member of the Board of the Central Chamber of Commerce since 1999
Member of the Board of Employers' Confederation of Service Industries since 2003,

Corporate Executive Board



Jouko M. Jaakkola

President and CEO (58)
Bachelor of Science (Econ.)

Jouko M. Jaakkola began his career at Rauma-Repola Ltd in 1968, working first as an MBA accountant and later as Chief Accountant all the way up to 1978, when he moved to Rauma-Repola's Mechanical Engineering Group, where he was CFO. In 1982 Mr Jaakkola was appointed Senior Vice President, Administration, with Sunila Oy, becoming its President in 1984. Mr Jaakkola was President of Tampella Papertech Oy from 1989 to 1992 and Executive Vice President of Tampella Corporation from 1990 to 1993. From 1993 to 1996 Mr Jaakkola was President of Myllykoski Paper Oy and in 1996 he was asked to take over as President and CEO of Tampella Corporation. The company's name was changed to Tamrock Corporation in 1997. When Sandvik AB acquired Tamrock, Mr Jaakkola also became head of Sandvik's Mining and Construction business area. Jaakkola joined Metsäliitto Group as its Senior Vice President, Strategic Development, in 1999. In autumn 2000 he was appointed Metsä-Serla's Senior Executive Vice President & Chief Operating Officer. Jouko M. Jaakkola was appointed President and CEO of M-real on 1 December 2001.

Aarre Metsävirta

Executive Vice President (58) Operations & Sourcing

Master of Science in Engineering

Aarre Metsävirta has spent his entire business career in the forest industry. From 1972 on he held various positions in the pulp and paper industry of A Ahlström Oy, his last position being Director of Research. In 1983 he joined Rauma-Repola Oy, where he was Technical Director and later Senior Vice President of the Paper Division. He left to become Executive Vice President of Tampella Ltd in 1988 before becoming President of Tampella Forest Inc. in 1991. Mr Metsävirta was appointed Chairman of the Board of Veitsiluoto Oy in 1994. In 1996 he became Executive Vice President of Metsä-Serla Corporation and head of its Paper Group. Since the end of 2001, Mr Metsävirta, Executive V.P., has been in charge of M-real's Operations & Sourcing with responsibility for the production of the paper and board mills, Corporate Energy, Corporate Purchasing, Research & Development and Environment functions.

Veli-Matti Mynttinen

Executive Vice President (47) Corporate services

Master of Science in Economics

Veli-Matti Mynttinen began his career as a controller at Wärtsilä Helsinki Shipyard from 1979 to 1981. He worked at the Outokumpu Head Office from 1981 to 1983 as Budgeting Manager. In 1983, he joined Rauma-Repola Oy as Group Controller in charge of financial planning and control. From 1986 to 1988 he was Chief Controller of the Engineering Division. He left to become Group Controller of Metsä-Serla Corporation in 1988. In 1990 he was appointed a member of the Executive Board of OKO Bank Osuuspankkien Keskuspankki Oy in charge of financial control, asset and liability management, real-estate and information technology. In 1996 he returned to Metsäliitto Group to set up the centralized financing function and he was appointed Managing Director of Metsä Group Financial Services Ltd. In 1999 Mr Mynttinen was appointed M-real's Executive Vice President, in charge of Finance, Treasury, Investor Relations, Information Technology, Risk Management, Business Development and Legal Affairs.

Matti Nenonen

Senior Vice President, General Manager (44) Commercial printing

M. Sc. (Eng.) (Helsinki University of Technology, Paper Technology) MBA (Helsinki University of Technology, EuroMBA programme)

Matti Nenonen worked in production development positions at Veitsiluoto Oy from 1985 to 1986. From the beginning of 1987 he took the position of Assistant Production Manager at Metsä-Serla Corporation's Kirkniemi paper mill. After working in various production positions, he was named Kirkniemi's Mill Director in 1995. In 2000 Matti Nenonen was appointed Vice President of the Publishing division (acting). From the beginning of 2002 he has been head of the Commercial printing business area.

John Clinton

Senior Vice President, General Manager (44) Publishing

From 1981 to 1996, John Clinton has worked in a number of positions at Finnppap's locations in Ireland and Finland. In 1988, he transferred to London as Director of Finnppap's Magazine Papers division. He was appointed Managing Director of Metsä-Serla's sales company in Great Britain in 1996 and became a member of UK Paper's Management Board in 1999. Since 2002 John Clinton has been Vice President of M-real's Publishing division.

Corporate Executive Board



Peter Sandberg,
Senior Vice President &
General Manager, (36)
Home & Office

Master of Science in
Economics

From 1994 - 1996 Peter Sandberg worked in various management positions within the Modo Pulp Sales Organisation. In 1998 he was appointed Commercial Director for the Office Paper Division of Modo Paper. In 2000 Mr Sandberg was assigned Vice President Sales for the M-real Home & Office business area.

Since 2002 Peter Sandberg has been Senior Vice President, General Manager for the M-real Home & Office business area based in Amsterdam.

Juhani Saarela
Senior Vice President,
General Manager (47)
Consumer packaging

Master of Science in
Economics, eMBA

Juhani Saarela joined Metsä-Serla in 1987, where he has occupied management positions since 1989. He was Managing Director of Metsä-Serla AB in Sweden from 1994 to 1996. In 1996 he was appointed CEO of Metsä Tissue Corporation. Since November 1998 Juhani Saarela has been head of M-real's Consumer packaging division.

Karl-Johan Lindborg
President and CEO (55)
Map Merchant Group

Master of Science in
Economics

Karl-Johan Lindborg worked in Finncell's sales organization from 1970 to 1985, when he was appointed Vice President of Rauma-Repola Corporation's pulp division. Subsequently he transferred to Tampella Forest as head of the Paper Division. From 1993 to 1996 he was Vice President, Sales and Marketing, with Enso. In 1996 he became president of Finncell. In 1999 he was appointed to the management of Forest House and he became Managing Director of Map Merchant Group in 2000.

Ari Himma
Senior Vice President,
Corporate Human
Resources (43)

Master of Science, Social
Sciences

Ari Himma worked as Kone Corporation's Human Resources Development Manager from 1987 to 1994. He joined MacGregor Oy as Human Resources Director in 1994. From 1995 to 1999 he worked as Vice President, Human Resources, at Neles Controls Group, where he was a member of the Executive Board. In 1999 Mr Himma became Vice President, Human Resources, for Metso Automation Ltd. In spring 2001 Ari Himma was appointed Senior Vice President, Human Resources for the M-real Group.

Leif Backman
Senior Vice President,
Strategic marketing (43)

Master of Science in
Economics

Leif Backman began his career at Finnapp's sales office in Paris, where he was later appointed head of the Speciality Paper Department. In 1994 he became Managing Director of Finnapp sales office in Buenos Aires, after which he returned to Europe as Director of UPM-Kymmene's newspaper publishing department in Madrid. In 1998 Mr Backman joined M-real, where he was named Managing Director of the Paris sales office. From the beginning of 2002 Leif Backman has been M-real's Senior Vice President, Strategic Marketing.

Production capacities (1 000 t)

PAPER MILLS

Location	Country	Machines	Coated Magazine Paper	Coated Fine Paper	Uncoated Fine Paper	Specialty Paper	Total
Kirkniemi	Finland	3	360	350			710
Äänekoski	Finland	1		180			180
Kangas	Finland	2		320			320
Simpele	Finland	1				50	50
Stockstadt	Germany	2		205	195		400
Bergisch Gladbach	Germany	4		330			330
Düren	Germany	4				100	100
Husum	Sweden	3		230	390		620
Wifsta	Sweden	1			155		155
Alizay	France	1			300		300
Pont Sainte Maxence	France	2			130		130
Biberist	Switzerland	3		380	70		450
Sittingbourne	UK	2		200			200
New Thames	UK	1			230		230
Hallein	Austria	2		315			315
Total		32	360	2510	1470	150	4490

BOARD MILLS

Location	Country	Machines	Folding Boxboard	Wallpaper Base	Kraftliner	SC-Fluting	Total
Tampere	Finland	3	240				240
Kyröskoski	Finland	2	130	100			230
Äänekoski	Finland	1	160				160
Simpele	Finland	1	165				165
Kemi *)	Finland	1			340		340
Kuopio	Finland	1				245	245
Total		9	695	100	340	245	1380

*) M-real share is 47 per cent of the capacity

CARTON PLANTS

Location	Country	Cartons	Total
Tampere	Finland	20	20
Petöfi	Hungary	30	30
Meulemans	Belgium	20	20
Total		70	70

PULP MILLS

Location	Country	Chemical Pulp	BCTMP	CTMP	Total
Stockstadt	Germany	160			160
Husum	Sweden	690			690
Alizay	France	310			310
Hallein	Austria	150			150
Joutseno	Finland		240		240
Lielahiti	Finland			110	110
Total		1310	240	110	1660

METSÄ-BOTNIA *)

Location	Country	Chemical Pulp	Total
Äänekoski	Finland	485	485
Kemi	Finland	560	560
Kaskinen	Finland	425	425
Rauma	Finland	570	570
Joutseno	Finland	600	600
Total		2640	2640

*) M-real share is 47 per cent of the capacity

METSÄ TISSUE

Location	Country	Machines	Tissue	HD Paper	Other	Total
Mänttä	Finland	5	100	25		125
Katrinefors	Sweden	2	77			77
Pauliström	Sweden	1	22			22
Nyboholm	Sweden	2	23			23
Raubach	Germany	2	42			42
Stotzheim	Germany	1	20			20
Kreuzau	Germany	4	125			125
Warsaw	Poland	1	20			20
Krapkowice	Poland	3	26		10	36
Total		21	455	25	10	490

OTHER SHAREHOLDINGS

Softwood and Hardwood pulp	340	Sunila Oy, (interest 17.5%), Finland
Coated magazine paper	165	Myllykoski Paper Oyj, (interest 35%), Finland
Uncoated magazine paper	365	Myllykoski Paper Oyj, (interest 35%), Finland

M-real Corporation

M-REAL CORPORATION

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M-real's global presence

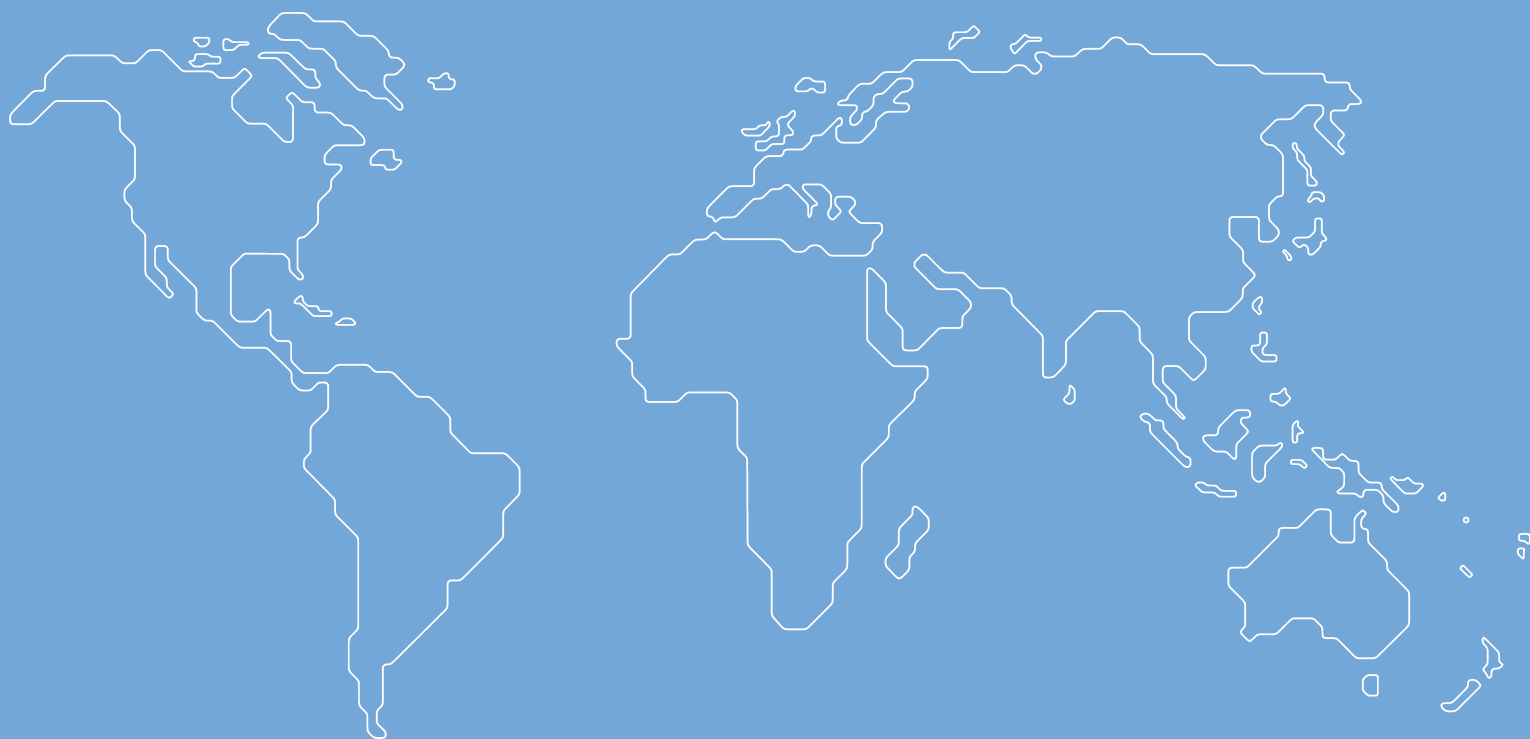
Algeria	Jordan
Argentina	Latvia
Australia	Lebanon
Austria	Lithuania
Bangladesh	Mexico
Belgium	Netherlands
Bolivia	New Zealand
Brazil	Norway
Canada	Pakistan
Chile	Paraguay
China	Peru
Columbia	Poland
Costa Rica	Portugal
Croatia	Romania
Cyprus	Russia
Czech Republic	Singapore
Denmark	Slovakia
Ecuador	Slovenia
Estonia	South Africa
Finland	South Korea
France	Spain
Germany	Sri Lanka
Greece	Sweden
Hong Kong	Switzerland
Hungary	Syria
Iceland	Taiwan
India	Turkey
Indonesia	Ukraine
Ireland	United Kingdom
Israel	United States
Italy	Uruguay
Japan	Venezuela

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