Annual report 2003

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M-real

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, 15 March 2004, 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 5 March 2004 at the latest and should announce their intention to attend the meeting before 4 p.m. Finnish time on 11 March 2004, 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 be submitted during the advance registration.

The Board of Directors proposes that a dividend of EUR 0.30 for the 2003 financial year be paid on 25 March 2004 to shareholders who are entered by 18 March 2004 at the latest in the list of shareholders kept by Finnish Central Securities Depository Ltd.

FINANCIAL INFORMATION

The financial reports are published in Finnish and English. The annual report is published in Finnish, English, Swedish, German and French. Publications can be obtained from M-real Corporation, Corporate communications, Revontulentie 6, 02100 Espoo, tel. +358 10 469 4552 and fax +358 10 469 4531 or by e-mail at corporate.communications@m-real.com.

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

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.

The address of M-real's website is www.m-real.com and its general e-mail address is corporate.communications@m-real.com

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 shares is given in the Financial statements part of this Annual report.

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.

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.

Contents

POWER

YOUR

IDEAS

Main events in 2003

KEY FIGURES 2003

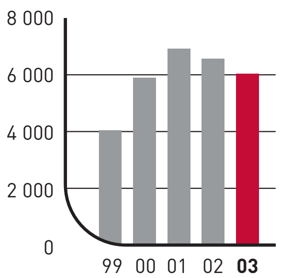
M-REAL GROUP	2003	2002	CHANGE
Turnover, EUR million	6 044	6 564	-8%
Operating profit, EUR million	74	324	-77%
- % turnover	1.2	4.9	
Profit before extraordinary items, EUR million	-80	134	-160%
- % turnover	-1.3	2.0	
Return on capital employed, %	1.6	5.8	
Return on equity, %	-3.8	3.0	
Interest-bearing net liabilities 31 Dec.,EUR million	3 109	3 019	3%
Gearing ratio 31 Dec., %	137	119	
Equity ratio 31 Dec., %	31.9	34.2	
Earings per share, EUR	-0.51	0.36	-242%
Equity per share, EUR	12.54	13.75	-9%
Dividend per share, EUR	0.30 *)	0.60	-50%
Market capitalization, 31 Dec., EUR million	1 286	1 427	-10%
Gross capital expenditure, EUR million **)	397	310	28%
Cash flow from operations	441	666	-34%
Personnel at 31 December	19 636	20 323	-3%

*) Board of Directors' proposal for 2003

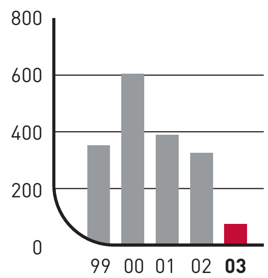
**) includes the purchase price of shares in acquired companies but not debt

- M-real continued to carry out its 295 million euro development programme. By the end of 2003, nearly all the measures aiming at cost savings and profitability improvement had been implemented. The new programmes aiming at achieving total savings of about 200 million euros by the end of 2006 are targeted at sales, marketing, logistics, purchasing and production.
- M-real revamped its organization in June. Changes were carried out to enhance the company's customer service and customer focus and to improve competitiveness. The new organization now comprises the Marketing & Sales and Operations organizations as well as the corporate functions supporting them.
- Metsä Tissue was divested in its entirety. M-real redeemed Metsä Tissue's minority owners' shares through purchases on the stock market in the early part of 2003 and sold Metsä Tissue to Metsäliitto Cooperative, the Tapiola Group, Varma Mutual Pension Insurance Company and Sampo Life Insurance Company Limited in January 2004.
- M-real outsourced most of its information technology services in June with the aim of boosting the efficiency of its IT function and reducing costs. M-real signed an agreement with IBM covering the development of M-real's business applications and basic information technology infrastructure services worldwide. The core information technology staff will remain in M-real's own employ (M-real Business Solutions).
- In September M-real decided to build in Kaskinen a mill that will manufacture 300,000 tonnes of bleached chemithermal mechanical pulp annually. The total expenditure for the investment will be about EUR 180 million. The mill will come on stream in autumn 2005.
- In June M-real made a bid to the Portuguese State for a 25 per cent minority stake in the Portuguese pulp and paper company Portucel. As part of the bid, M-real would have transferred its office paper business to Portucel. By combining the businesses, it would have been possible to form a new, strong player in the European office paper market. The negotiations did not lead to the result M-real was seeking.

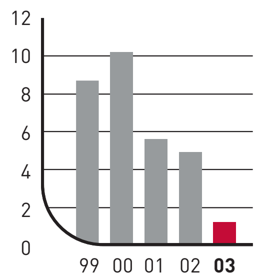
TURNOVER, EUR million



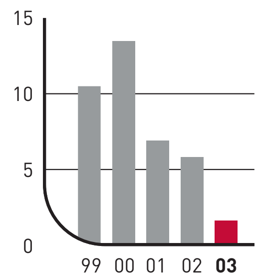
OPERATING PROFIT, EUR million



OPERATING PROFIT, %



RETURN ON CAPITAL EMPLOYED, %



President's review

DEAR SHAREHOLDER,
In 2003 M-real continued to focus on its core businesses, to improve profitability and to boost customer service. The organisation was revamped in the summer to reflect M-real's customer orientation and expectations, with the division of Marketing & Sales from Operations as its foundation. A development programme of nearly 300 million euros has been implemented, together with cost-cutting and efficiency-boosting measures at M-real units. We sold most of our shareholding in Metsä Tissue at the turn of the year. This freed up a significant amount of resources for developing our core businesses and reduced the company's debt.

Under our reorganisation, M-real's core businesses are now called Cartons, Graphics, Offices, Specialities – each serving their respective customers segments with M-real paper and paper board and related services – and paper merchanting. Our main market is Europe, but China's burgeoning market – especially in the Cartons business – stands out as an important focus of our attention. Our marketing programme is now based on a single and unified M-real identity supporting the many leading brands in our business areas.

In 2003 we took a major capital expenditure decision to build a chemi-thermo mechanical pulp mill with an annual output of 300,000 tonnes in Kaskinen, Finland. When completed in autumn 2005, the mill will produce pulp mainly for M-real's mills outside Finland, whereas the Joutseno chemi-thermo mechanical pulp mill will serve paper mills in Finland. When the Kaskinen investment comes on stream, M-real will benefit from the most modern pulp production technology in the world. This will not only improve paper quality, but lower costs as well.

For well over two years we have operated in the grip of a recession that has imposed the need for staff reductions, efficiency-boosting and cost savings – measures which are certain to have been felt in the daily life of our people. The dialogue with personnel has nevertheless been open and constructive, if not without criticism. We can now plainly see that M-real's core values, introduced last year, have played a part in encouraging employees to work towards our shared objectives.

The recession, particularly in Europe, and the weakening in the exchange rate of the US dollar pushed M-real's results into the red. Demand for our products has nevertheless been somewhat better than in the past few years. This tells not only of the competitiveness of our products but also of our customers' high regard for M-real. As a counterpoint to the unsatisfactory financial performance, we have achieved good results at an operational level, for which I warmly thank the company's customers and personnel.

Looking back on 2003, one can conclude that price levels in the paper industry have bottomed out. Likewise, general economic indicators are positive for the first time in a long while. But there is still cause for great caution in sizing up the outlook for 2004. Instead of waiting for an upturn in the business cycle, in 2004 we at M-real will continue to concentrate on improving our customer service, raising our operational efficiency and carrying out, in an uncompromising manner, our present and new development programmes.

Jouko M. Jaakkola
President and CEO

M-real’s operating environment

SIZE AND TREND OF THE WESTERN EUROPEAN PAPER AND BOARD MARKET

Production capacities of certain paper and board grades in 2003, as well as the estimated capacities of 2005, are shown in the table.

PRODUCTION CAPACITY/YEAR

Million tonnes	2003	M-real’s capacity	Share of European capacity 2003	2005 (E)
Coated fine paper	9.9	1.6	(16%)	10.5
Uncoated fine paper	8.9	1.5	(17%)	8.4
Coated magazine paper	10.7	1.3	(12%)	9.9
Folding boxboard	2.4	0.6	(25%)	2.5

Source: M-real

ESTIMATED DEMAND FOR PAPER AND BOARD GRADES

Demand/year, million tonnes	2005 (E)	2010 (E)	growth rate/ annum
Coated fine paper	9.3	10.5	+2.5%
Uncoated fine paper	9.9	10.9	+1.9%
Coated magazine paper	7.6	8.4	+2.1%
Folding boxboard	8.7	9.1	+0.8%

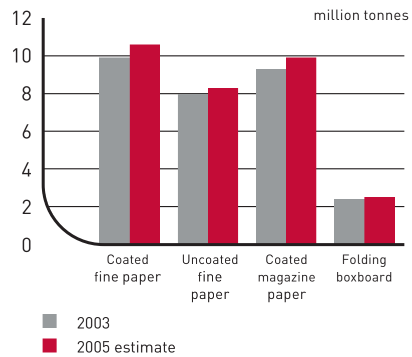
Source: Jaakko Pöyry Consulting

ESTIMATED DEMAND FOR PAPER AND BOARD GRADES IN CHINA

Demand/year, million tonnes	2005 (E)	2010 (E)	growth rate/ annum
Coated fine paper	2.7	3.6	+6.0%
Uncoated fine paper	12.3	15.6	+4.8%
Coated magazine paper	0.2	0.4	+13.7%
Folding boxboard	5.3	6.8	+4.9%

Source: Jaakko Pöyry Consulting

PAPER AND BOARD PRODUCTION CAPACITY IN WESTERN EUROPE



Source: M-real

STRATEGY

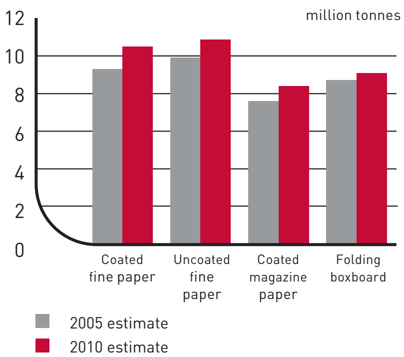
M-real is continuing to focus on its core businesses by providing excellent fibre-based solutions for consumer packaging, communications and advertising end-uses globally.

The primary target is to strengthen the balance sheet and improve profitability. Major investments and acquisitions would not be made until the company's equity ratio and gearing targets allow.

When possibilities for growth exist, the biggest inputs are directed at the Cartons business. Also the Graphics, Speciality papers and Offices businesses will be developed further.

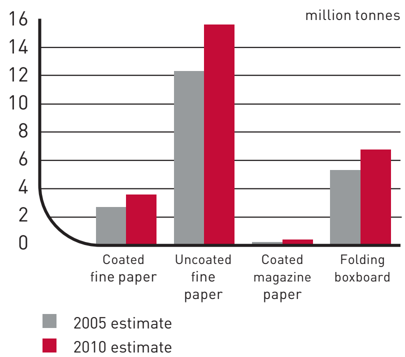
The geographically most important strategic market area is Europe. China, where the paper and board market is growing buoyantly, stands out as an important focus of attention. The start-up of production in China is a possibility, too. The current estimation is that this could happen in the years 2006-2008 at the earliest.

ESTIMATED DEMAND FOR PAPER AND BOARD GRADES IN WESTERN EUROPE



Source: Jaakko Pöyry Consulting

ESTIMATED DEMAND FOR PAPER AND BOARD GRADES IN CHINA



Source: Jaakko Pöyry Consulting

M-real's success factors

M-REAL VALUES

We have no barriers.

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

We encourage people to reach their full potential.

We respect each other.

M-real's success is based on skilled, globally deployed personnel and responsible business operations encompassing economic, social and environmental accountability. M-real invests in customer-oriented high-performance research and development. M-real has furthermore created a strong and unified brand strategy covering all its business areas.

RESPONSIBLE BUSINESS OPERATIONS

In 2003 M-real drafted a proposal for the company's commitment to responsible business operations and the principles for their practical implementation. The proposals are to be discussed by different stakeholder groups during 2004, for example, with employee organizations prior to their approval. Examples of the proposed principles are M-real's Group-wide commitment to preventing occupational accidents and occupational diseases, the undertaking to use only wood that comes from sustainably managed forests, a categorical rejection of corruption and bribery, honouring the principles of human rights and working life and conservation-minded use of natural resources.

PERSONNEL

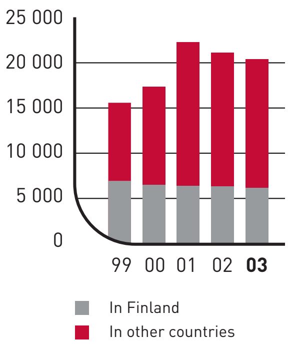
The cornerstone of M-real's human resources management is the P³ human resources vision. The letters stand for the words Partner, Performance and People. M-real's human resources strategy was overhauled in 2003, with an emphasis on developing core competencies and management resources and strengthening of the management system. An essential element of the human resources strategy is a unified corporate culture and development of an effective human resources function.

The quality of M-real's human resources work is being developed to meet even better the needs of management and personnel. Development of the quality of human resources work in

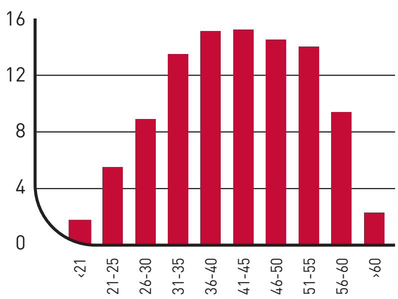
	2003	2002	
Turnover/employee	296 700	323 200	Eur
Training days / employee	2.5	1.6	
Training costs / employee *	476	440	Eur
Total illness hours / hours done (%)	5.0	5.4	
Total accident hours / hours done (%)	0.3	0.4	
Lost time accident rate **	18.7	-	

* Without salaries/wages
** Lost time accidents per million worked hours

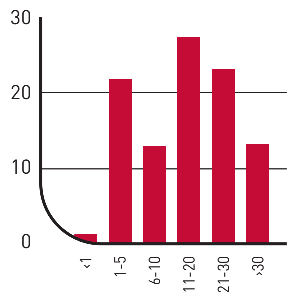
PERSONNEL, average



AGE DISTRIBUTION DEC 31. 2003, %



SERVED YEARS DISTRIBUTION DEC 31. 2003, %



M-REAL PERSONNEL BY COUNTRY ON 31 DECEMBER

	2003	2002	2001
Finland	5 835	5 941	6 091
Germany	4 148	4 543	5 403
Sweden	2 334	2 518	2 752
United Kingdom	1 875	2 002	2 246
France	884	894	966
Austria	871	881	908
Poland	795	844	410
Switzerland	577	581	587
Hungary	575	573	566
Belgium	407	410	416
The Netherlands	361	353	464
Other Countries	974	783	707
Total	19 636	20 323	21 515

the different corporate units is based on changing the company's ways of working - a change which the local human resources units will bring about in collaboration with top management.

The PMD (Performance Makes the Difference) discussion process is part of the guidance in individual job performance through interaction between supervisors and their staff. A Group-wide PMD training project was seen to completion in 2003. Middle and senior managers took part in the training, and salaried employees attended briefing sessions at which they went through the parts, tools and methodology of the PMD discussion process.

Competence development was emphasised in 2003. Senior management took part in leadership training that enhances their HR management capabilities. A new programme that will be started in 2004 was targeted at top management. M-real's business areas continued ahead with their training in sales and customer service, highlighting the importance of a deeper understanding of the customer's business and processes. In the area of technical training, staff took part in a joint European training programme aimed at engineers in the paper manufacturing business. An international general management programme for middle managers was continued. The personnel for demanding blue-collar jobs at the mills in Finland are recruited via the two-year training offered by M-institute Silva. There were more than a thousand applicants for admission to the training in 2003, more than ever before.

In HR reporting at the Group level, a set of benchmarks and a measuring system were developed in 2003.

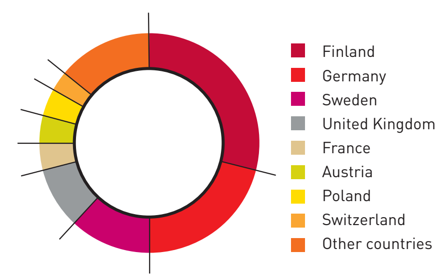
Introduction of the SAP R/3 information system for human resources management moved ahead in 2003. The system is now in use in Finland, Sweden, Great Britain, Switzerland, Austria and at all the sales offices in the sales network.

The ViVa programme (Vision and Values) that was started in 2002 and intended for the entire personnel came to a close in 2003, bringing good results. The corporate units continued working and adopting the values locally. Activities for improving the well-being of M-real's employees were continued in 2003.

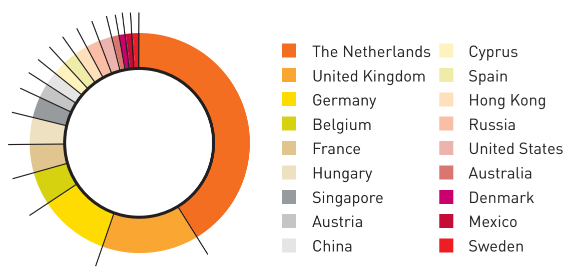
The activities of the European Works Council (EWC), a body consisting of personnel representatives and employers, became an established part of operations during the year. M-real also engaged in active discussions at meetings of the council's Working Committee.

M-real systematically developed the company's employer image during 2003. Survey results indicate that

PERSONNEL BY COUNTRY DEC 31. 2003



M-REAL'S INTERNATIONAL POSTINGS BY TARGET COUNTRY



ELECTRICITY

	Electricity consumption GWh/a	Change 02/03 %	Self-sufficiency in electricity, %	Use of fuels GWh/a	Change 02/03 %	Proportion of biofuels, %
Finland	3 940	1%	63%	13 500	7 %	61%
Other countries	3 210	-4%	44%	14 200	2 %	55%
Total	**7 150**	**-1%**	**55%**	**27 700**	**4 %**	**58%**

M-real's image has improved at the educational institutions that were the focus of the measures taken.

The average age of the parent company's personnel is 42.5 years and they have been with the company on average for 16.6 years. Most of M-real's employees work in Finland, Germany, Sweden, Great Britain, France and Austria. All in all, M-real has employees in about 40 countries. Staff have been posted abroad in 18 countries.

WOOD USE IN 2003

	million cubic meters	%
Finland		
Direct	2.6	18
Share of wood use of Botnia's pulp mills	5.8	41
Elsewhere in Europe	5.7	40
Total	**14.1**	

PURCHASING

M-real's paper and board production capacity is 5.9 million tonnes a year, consisting of 4.6 million tonnes of paper and 1.3 million tonnes of paperboard. Pulp consumption in 2003 was about 2.5 million tonnes.

M-real's consumption of wood raw material is 14 million cubic metres (m^3) annually, of which 2.6 million is consumed by the paper and board mills in Finland, 5.8 million tonnes goes into producing M-real's share of Metsä-Botnia's pulp production and 5.7 million tonnes is consumed by the pulp and paper mills elsewhere in Europe.

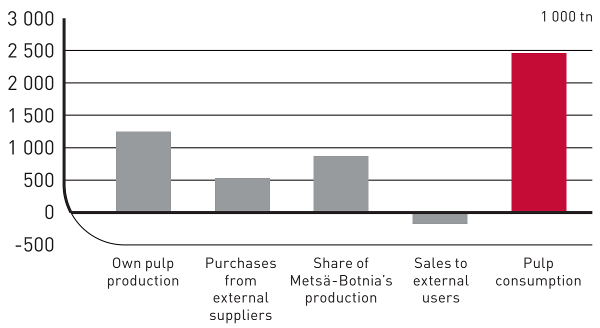
M-real's electricity consumption is about 7.2 gigawatts annually. Of this amount, about 38 per cent comes from M-real's own electric power generation, 17 per cent is outsourced power generation, 15 per cent is produced by the associated company PVO and 30 per cent is purchased electricity.

BRAND STRATEGY

The objective of M-real's brand strategy is to differentiate the M-real brand as being the most innovative paper and packaging company in the market. M-real builds its reputation by providing innovative solutions, which improve customers' competitiveness and profitability. M-real's well known products bring added value to its customers.

Consistent communications are of key importance in building the brand. In 2003 M-real created a detailed brand guideline and unified the appearance of the company brands.

PULP BALANCE



M-real's success factors

ENVIRONMENT

M-real carries out its environmental policy in four areas: management, operations, suppliers and communications. In these areas, responsibilities have been defined both in the line management and corporate functions. In 2003 customer communications on environmental affairs was enhanced, and M-real made an assessment of the company's existing environmental liabilities. In addition, the company defined in greater detail the level of environmental protection it requires of its suppliers. M-real tracks systematically all the company's materials flows. The objective is an increasingly efficient use of natural resources.

Major changes did not take place in M-real's emissions compared with 2002. All M-real's production facilities have an environmental system in accordance with the ISO 14001 standard.

Inputs into improving energy efficiency, reducing emissions at the company's own power plants and increasing the proportion of bioenergy were continued. M-real's carbon dioxide emissions per tonne of product manufactured fell by 3 per cent. M-real's energy consumption per tonne of production declined slightly, and wood-based fuels replaced a small amount of fossil fuels.

MATERIALS BALANCE

FIBRE RAW MATERIAL	• Wood (1 000 m^3)	13 347
	• Chemical pulp (1 000 t)	653
	• Recovered paper (1 000 t)	482
OTHER RAW MATERIALS	• Pigments (1 000 t)	1 633
	• Binders (1 000 t)	278
ENERGY	• Fuels, excluding wood-based fuels (GWh)	11 722
	• Electricity (GWh)	3 226
PROCESS WATER	(1 000 m^3)	191 176

EMISSIONS INTO AIR (t)

• Particulates	1 548
• Carbon dioxide (CO_2)	3 019 287
• Sulphur (as SO_2)	5 536
• Nitrogen oxides (as NO_2)	7 696

PRODUCTION (1 000 t)

• Chemical pulp and CTMP	2 669
• Paper	3 710
• Board	1 052
• Tissue paper	471
• Sales by merchants	1 283

DISCHARGES INTO WATER (t)

• Chemical oxygen demand (COD)	64 601
• Biological oxygen demand (BOD)	12 011
• Phosphorus	136
• Nitrogen	1 204
• Total suspended solids	5 850

WASTE (t)

• Landfill waste	184 002
• Hazardous waste	3 086

M-real's success factors

The proportion of purchased energy diminished thanks to improved energy efficiency.

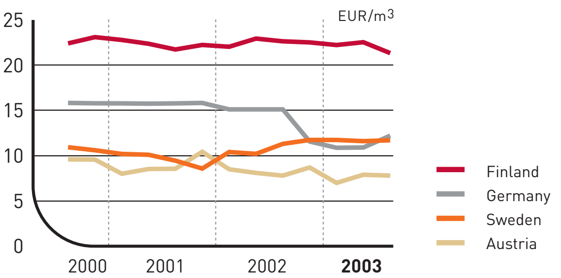
In line with its environmental policy, M-real accepts for use in its products only raw material that comes from well-managed forests. M-real's wood procurement is handled by Metsäliitto and its subsidiary Thomesto, whose environmental policy requires information on the origin of wood. The wood must come from legally approved sources and sustainably managed forests. M-real has set the same requirements for its external pulp suppliers.

M-real's objective is to increase the proportion of reliably certified wood in the raw material it uses. All wood procurements comply with a Chain of Custody for certified wood. M-real reports the proportion of certified wood in the Paper Profile environmental product declaration for its paper and paperboard products.

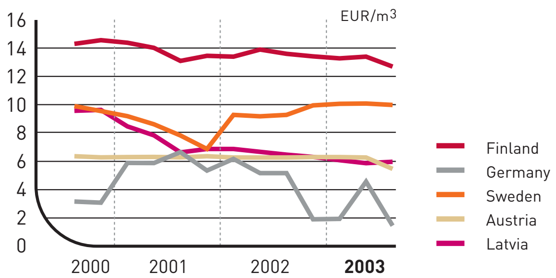
The main near-term environmental investments will be for a waste water treatment plant at Husum and an enlargement of the Kyro waste water treatment plant. The projects are in progress and will be completed in summer 2004. The chlorine dioxide plant at the Alizay mill will be modernized in 2004. The total price of these investments is about EUR 52 million.

International climate policy and the EU's emissions trading directive are not estimated to cause major investment needs at M-real's facilities. The need to purchase greenhouse gas emission "allowances" is not expected to be material in importance during 2005–2007. On the other hand, emissions trading is expected to put upward pressure on electricity and fuel prices.

STUMPAGE PRICE OF SPRUCE PULPWOOD



STUMPAGE PRICES OF HARDWOOD PULPWOOD



RESEARCH AND DEVELOPMENT

Research and development costs in 2003 amounted to EUR 27 million, representing 0.6 per cent ofturnover excluding the Map Merchants paper merchanting business. The R&D priorities were to improve the efficiency of production processes, develop new products and the processes connected with their manufacture as well as the technologies of the future. The number of patents that M-real applied for grew by 30 per cent. The number of ideas and invention reports also increased markedly during the year.

At M-real´s mills, inputs were made into boosting the efficiency of processes during 2003. Productivity gains were made at nearly every production unit. Substantial improvements were achieved at Alizay, Biberist, Husum and Kirkniemi.

M-real is participating in a number of cooperation projects. The objective of these efforts is to find new applications of paper involving innovative ways of integrating paper and ICT (Information and Communication Technology). M-real has made outlays and achieved good results in applications connected with process intelligence. This development area will be a development focus in coming years as well.

M-real's business areas

CARTONS

The Cartons business area focuses on paperboard grades used in consumer packaging, for which the most important end use areas are cosmetics, pharmaceuticals, cigarette, consumer electronics and food packaging. In addition, the product range includes grades of graphic paperboard.

The largest market area is western Europe. China and north America are the most important markets outside Europe. The biggest customers are international brand manufacturers and carton mills.

In Europe, M-real is the second largest producer of folding boxboard, with an annual capacity of 0.7 million tonnes, corresponding to a 28 per cent share of the European market. The business area's facilities comprise four folding boxboard mills in Finland (Kyröskoski, Simpele, Tampere and Äänekoski) as well as liner and fluting mills (Kemi and Kuopio). In addition, the business area operates four carton mills that are located in Finland (Tampere), Hungary (Petöfi) and Belgium (Brussels and Arlon).

GRAPHICS PRODUCTS AND SPECIALITY PAPERS

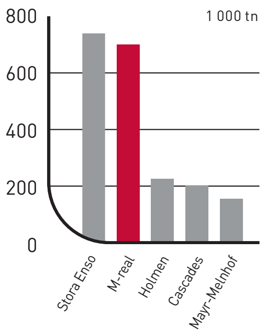
These businesses offer coated printing papers for the graphics industry. The main products are coated fine and magazine papers. The end-use areas of these products are brochures and advertising materials, annual reports, printed art books, special periodicals and weekly magazines, sales promotion products and direct mail products as well as high-quality speciality papers and wallpaper basepapers. The best-known brands are the Galerie product family, Nimrod, Euroart, Ikono and Chromolux.

Europe is the main market area for the business area's products. Other important markets are North America and Asia. Customers include printers, paper merchants, publishers of international periodicals, design offices and direct marketing companies.

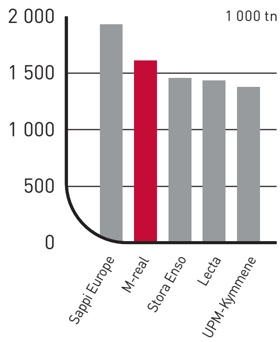
Within graphics papers, M-real has focused on printing papers having particularly high-quality printability properties. M-real has also brought out on the market many innovative paper grades for which the needs of the customer's business have furnished the product development impetus.

As a producer of coated fine paper, M-real is Europe's second largest company, with a 16 per cent share of the European capacity, and it ranks third as a producer of coated magazine paper, with a 12 per cent share. M-real's total production capacity for

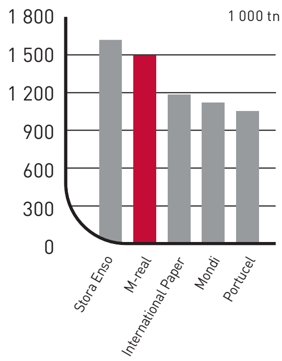
FOLDING BOXBOARD CAPACITIES IN EUROPE



COATED FINE PAPER CAPACITIES IN EUROPE



UNCOATED FINE PAPER CAPACITIES IN EUROPE



graphics and speciality papers is 3.5 million tonnes a year. The business area's 12 paper mills are located in Finland (Kirkniemi, Kangas, Äänekoski and Simpele), Sweden (Husum PM8), Great Britain (Sittingbourne), Austria (Hallein), Switzerland (Biberist), Germany (Stockstadt as well as the Gohrsmühle mill in Bergisch Gladbach and the Reflex mill in Düren) and France (Pont Sainte Maxence).

OFFICES

The Offices business area focuses on uncoated fine papers that are used mainly as printer and copier papers. The business area's main products are high-quality papers for office and home use.

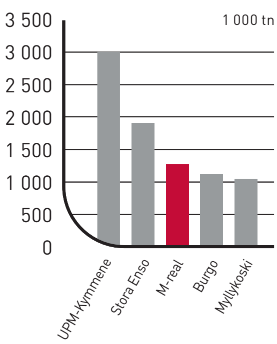
M-real's office paper brands Data Papers, Logic and Evolve are very well known and have a strong market position.

The business area's main market area is Europe and its customers are paper merchants, resellers, office equipment manufacturers, printers and home users.

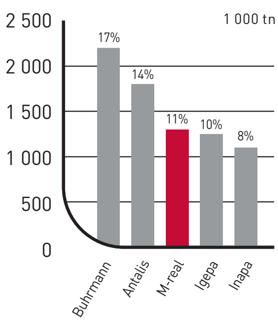
The business area's important distribution channels are paper merchants, office equipment manufacturers and resellers. M-real has created a range of value-added services for all the different channels.

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

COATED MAGAZINE PAPER CAPACITIES IN EUROPE



PAPER MERCHANT MARKET SHARES IN EUROPE



M-real's business areas

MAP MERCHANT GROUP

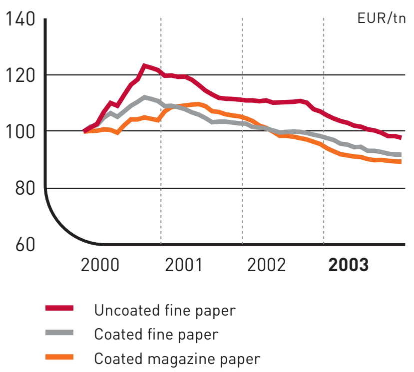
M-real's paper merchant Map covers 23 countries in Europe. Of Map's sales, one third consists of M-real's products and two thirds of the products of other paper producers. The bulk of the sales consists of fine paper, a trade that is based on short delivery times, high order volumes and small one-time delivery amounts. Paper merchants offer an efficient distribution channel for this trade.

Map serves a total of about 50,000 customers, including publishers, printers, advertising agencies, banks and retail chains.

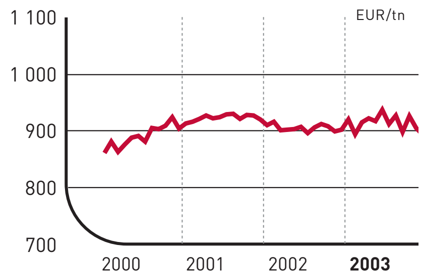
Of the leading European paper and board manufacturers, M-real is the only one with a major share of the paper merchanting trade. M-real is the third largest paper merchant in Europe, with an 11 per cent market share. Of the large markets, M-real has a particularly strong position in the Nordic countries, the British Isles and the Benelux countries, in all of which M-real had a market share of over 20 per cent in 2003.

The financial statement information for 2003 is reported in accordance with the old business area structure. The old business areas are: Consumer packaging, Commercial printing, Home & Office, Publishing, Map Merchant Group and Metsä Tissue.

INDEXED PAPER MARKET PRICE IN EUROPE (1/2000=100)



FOLDING BOXBOARD MARKET PRICE IN EUROPE



Financial resources and risk management

M-real's financial targets on average over the business cycle are:

- return on capital employed: 12 per cent
- equity ratio: about 45 per cent
- gearing: about 80 per cent

The company's 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 targets must be achievable before undertaking major investments or acquisitions.

RISK MANAGEMENT

In its risk management, M-real employs a comprehensive and more holistic approach that is carried on as a continuous process. Defining risk management process and the related practical measures and organization have continued during 2003. The objective is to identify, measure and control risks, which if they materialize, can jeopardize the company's operations and the achievement of the targets that have been set.

FINANCIAL TARGETS

Financial resources and risk management

In a preliminary assessment, the following key risks have been singled out:

- strategic risks
- risks connected with a change in the operating environment
- financial and commodity risks
- information security risks
- risks connected with managing investments
- risks connected with managing the corporate reputation and public image
- risks connected with customer relationship management
- environmental risks
- safety and security risks
- hazard and business continuity risks

The Risk Management Department is in charge of developing and coordinating risk management work. The Corporate Executive Board has appointed a Risk Management Committee for M-real, which is chaired by the CFO. The committee reports to the Corporate Executive Board and the Board of Directors.

SAFETY AND SECURITY

The Group has launched an examination of good practices at the units in different countries, at the same time also assessing the level of occupational safety at the major production units. In addition, a Group-wide study has been made of the key figures of M-real's occupational safety.

The assessment of information security risks has continued in accordance with the information security policy and guidelines approved by the Corporate Executive Board in 2002. The operational and safeguarding principles associated with outsourcing information technology have been updated to be in line with the new operating environment. The Information Security Board, appointed by the Corporate Executive Board, coordinates information security projects and operations.

A Crisis Management Group has been appointed in accordance with the company's crisis management plan. The units have their own crisis management and business continuity plans that support the Group-level plan.

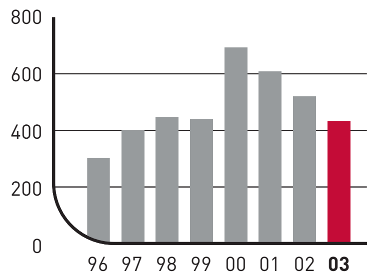
INSURANCE POLICIES

In addition to the statutory local insurance policies, the company has four international insurance programmes for managing hazard risks:

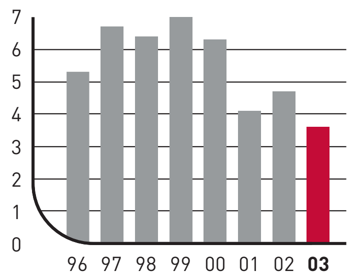
- a property and loss-of-profits insurance programme
- a general and product liability insurance programme
- a directors' and officers' liability insurance programme
- a transport insurance programme

The insurance programmes have been renewed, effective 1 January 2004. During 2003 not a single case of damage exceeding the deductible occurred within the above-mentioned insurance programmes taken out by the parent company.

FUNDS FROM OPERATIONS,
EUR million



INTEREST COVER



Managing financial risks

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

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.

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.

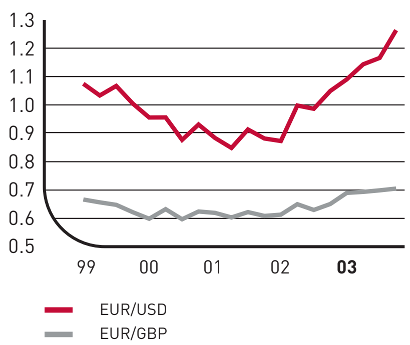
The main currencies for the Group's currency flow exposure are the United States dollar, the British pound and the Swedish krona. The appreciation in the dollar and pound has a positive effect on the Group's earnings and, correspondingly, their weakening has a negative impact. A depreciating Swedish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

In line with the company's financial policy M-real hedges 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.

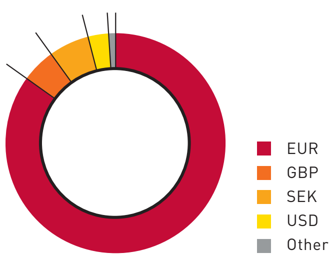
EXCHANGE RATES AGAINST EURO AT 31 DECEMBER

	2003	2002	2001	2000	1999
GBP	0.7048	0.6505	0.6085	0.6241	0.6217
USD	1.2630	1.0487	0.8813	0.9305	1.0046
SEK	9.0800	9.1528	9.3012	8.8313	8.5625
NOK	8.4141	7.2756	7.9515	8.2335	8.0765
DKK	7.4450	7.4288	7.4365	7.4631	7.4433

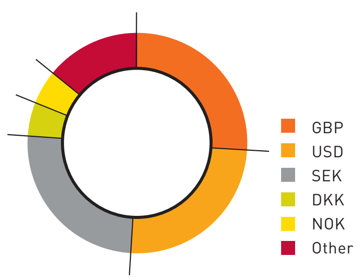
EXCHANGE RATE TRENDS, EUR



CURRENCY BREAKDOWN OF LOANS



FOREIGN CURRENCY BREAKDOWN OF CURRENCY EXPOSURE



Managing financial risks

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.

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.

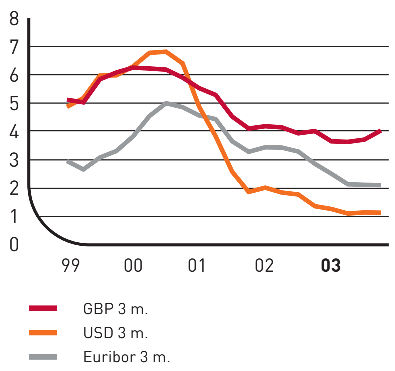
Liquidity risk means that financial assets and borrowing facilities do not suffice to cover the financing need of operations or that funding becomes immoderately expensive. The risk is tracked by estimating the 12-month liquidity requirement and comparing it with the available amount of liquidity.

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 2003	Hedging Dec 31. 2003
Annual total foreign exchange exposure	EUR 1.620	3.5 months	4.0 months
Annual USD exposure	USD 510	6.0 months	7.0 months
Annual GBP exposure	GBP 300	3.0 months	4.0 months
Annual SEK exposure	SEK -3.700	4.5 months	4.5 months
Total equity exposure	EUR 780	95 %	90 %
Interest rate maturity of loans (incl. derivatives)	EUR 3.300	14.8 months	17.6 months
Average interest rate (including derivatives)	EUR 3.300	4.6 %	4.6 %
Interest rate sensitivity *)	EUR 7.4		

*) 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 2003.

INTEREST RATE TRENDS, 3 m



DERIVATIVE AGREEMENTS	Maturity Dec 31. 2003	Counter-values Dec 31. 2003 (EUR mill.)
Forward foreign exchange contracts	‹ 12 months	20.1
Foreign exchange options bought and sold	‹ 12 months	18.4
Forward interest rate agreements	‹ 10 years	2.0
Interest rate options bought and sold	‹ 3 years	17.5
Interest rate swaps	‹ 6 years	10.9
Currency swaps	‹ 11 years	10.3

At Note 26 (Contingent liabilities) a schedule is given of the gross amount and fair values of derivative contracts on 31 December 2003

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.

As a rule, the Board of Directors meets once a month. The Board of Directors met 18 times in 2003.

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 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 AND CEO

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.

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 Senior Executive Vice President, Deputy CEO, Aarre Metsävirta (Operations); Executive Vice President Veli-Matti Mynttinen (Marketing & Sales); Senior Vice President, Chief Financial Officer, Heikki Saarinen (Finance & Control) and Senior Vice President Ari Himma (Corporate Services). Matti Mörsky, Vice President, Business Development, acts as secretary to the Corporate Executive Board.

Corporate governance

CORPORATE MANAGEMENT GROUP

With the aim of strengthening the company's corporate governance and ensuring information flow between top management and the support functions, in 2003 the Corporate Executive Board set up a Corporate Management Group.

In addition to the members of the Corporate Executive Board, the Corporate Management Group comprises Vice President, Corporate communications, Jyrki Antikainen; Senior Vice President, General Manager, John Clinton (Graphics); Senior Vice President, Research & Development, Lars Gädda; Senior Vice President, General Manager, Benno Hundgeburt (Specialities); Senior Vice President, General Manager, Hannu Kottonen (Cartons); Senior Vice President, General Manager, Karl-Johan Lindborg (Map Merchant Group); Senior Vice President Olavi Maanavilja (M-real Business Solutions); Vice President, Business Development, Matti Mörsky; Senior Vice President, Production, Jarmo Salonen as well as Senior Vice President, General Manager, Peter Sandberg (Offices).

CORPORATE EXECUTIVE BOARD/ SHAREHOLDING

	MRLAV	MRLBV	Shares total
Jaakkola Jouko M.	-	2 000	2 000
Metsävirta Aarre	1 000	1 000	2 000
Mynttinen Veli-Matti	-	2 500	2 500
Saarinen Heikki	-	-	-
Himma Ari	-	-	-

BOARD OF DIRECTORS/SHAREHOLDING

	MRLAV	MRLBV	Shares total
Haapanen Timo	-	2 500	2 500
Kalpala Asmo	-	-	-
Karmila Erkki	-	-	-
Lillandt Runar	-	4 115	4 115
Niemi Matti	-	-	-
Oksanen Antti	-	70	70
Tanskanen Antti	-	-	-
Uusitalo Arimo	110	1 430	1 540

MANAGEMENT'S AND DIRECTORS' SALARIES, EMOLUMENTS AND SHARE-HOLDINGS

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 2003 totalling EUR 412,500 in accordance with the accompanying table. The President and CEO was paid salary and remuneration, including fringe benefits, totalling EUR 588,312.

The subscription period for the stock option warrants which M-real Corporation issued in 1997 ended on 31 October 2003. Each warrant entitled its holder to subscribe for one M-real Series B share at a price of EUR 8.75. The holders of warrants did not subscribe for new Series B shares.

At present the company does not have an ongoing stock option scheme targeted at management. The shareholdings of the Board of Directors and management are shown in the accompanying tables.

SALARIES AND EMOLUMENTS PAID,

Board of Directors

Oksanen Antti	68 400
Uusitalo Arimo	58 800
Haapanen Timo	48 000
Kalpala Asmo	48 000
Niemi Matti	48 000
Lillandt Runar	47 550
Tanskanen Antti	47 100
Karmila Erkki	46 650
Total	412 500

President & CEO

Jaakkola Jouko M.	588 312

OPERATIONAL ORGANIZATION

M-real's organization that entered into force on 13 June 2003 comprises the Marketing & Sales organization, which covers the business areas, and the Operations organization as well as the corporate functions supporting them. In addition, Map Merchant Group reports directly to the CEO.

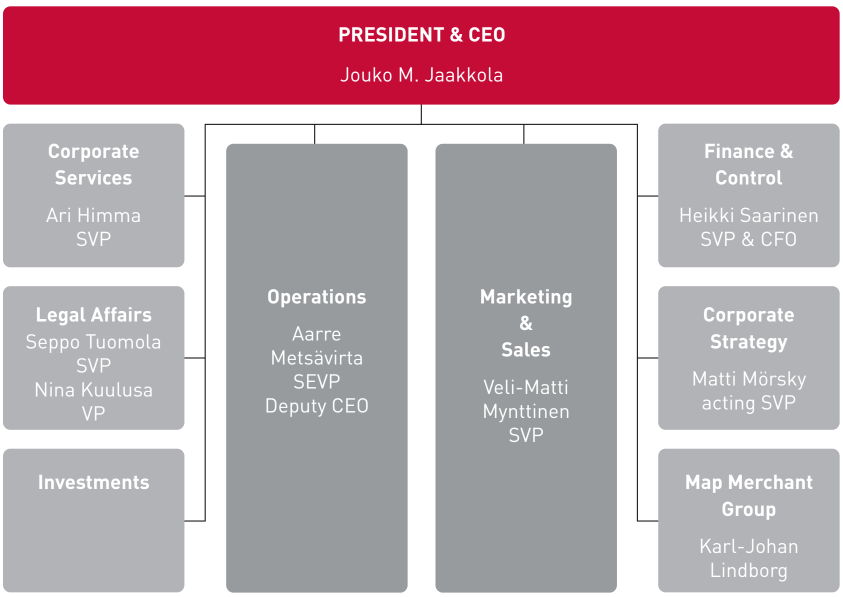
The corporate functions are Finance & Control, Corporate Strategy, Corporate Services and Legal Affairs.

INSIDERS

Under the Securities Market Act, M-real maintains insider register information on 29 insiders within the SIRE system operated by Finnish Central Securities Depository Ltd. The M-real Group's permanent insiders comprise, on the basis of their position, the members of the company's Board of Directors, the President and CEO and other management staff who regularly receive insider information as part of their job. In addition, as required, the company maintains project-specific insider registers.

The M-real Group adheres to the closed window principle. According to it, insiders must not sell or buy the company's shares from the close of a quarter until the result for that quarter has been published. During said period M-real does not comment on other matters connected with the company's financial performance than sudden changes in the market situation or incorrect information that requires a correction.

M-REAL ORGANIZATION



PICK THE RIGHT TONE

Consumer packaging

CONSUMER PACKAGING		2003	2002	Change
Turnover		867.9	921.1	-6%
Internal sales, Group		-17.0	-9.4	
Turnover, external	EUR million	850.9	911.7	-7%
Operating profit	EUR million	34.5	83.4	-59%
Operating profit	%	4.0	9.1	
Capital employed (average)	EUR million	968.0	962.5	1%
Capital turnover rate		0.9	1.0	
Return on capital employed	%	3.7	9.1	
Personnel (average)		3 051	3 151	-3%
Investment in fixed assets	EUR million	24.3	100.0	-76%
Mill deliveries, 1000 tn		1 082	1 129	-4%
Production, 1000 tn		1 094	1 162	-6%
Paperboard		659	679	-3%
Fluting		186	224	-17%
Liner		144	151	-5%
CTMP		105	108	-3%
Capacity utilisation rate of board mills	%	84	92	

The Consumer packaging business area faced a more challenging operating environment in 2003 than a year ago. The operating environment was characterized by economic and political uncertainty as well as the appreciation of the euro. The business area's deliveries to markets in western Europe declined. Deliveries to markets outside Europe, however, increased. The strengthening in the euro, especially against the dollar, as well as increased deliveries to markets outside Europe depressed the euro-denominated selling price of all product groups.

The business area's profitability weakened a great deal compared with the figure a year ago. The business area reported operating profit of EUR 34.5 million (83.4). The weakened profitability was attributable mainly to the strengthening of the euro and a fall in the delivery volume. In addition, profitability was weakened by the gradual winding up of the market pulp business at the Lielahti chemithermal mechanical pulp mill and the integration of the mill's operations as part of the Tako board mill's operations. Owing to the savings measures carried out during the year costs were lower than a year ago. The average capacity utilization rate of the paperboard machines was 84 per cent (92). The average order book at the end of the year was about two weeks.

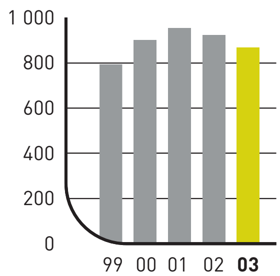
Overall demand for folding boxboard in western Europe was on a par with the previous year. M-real's deliveries of folding boxboard to the European market declined. The increase in the volumes delivered to Asia and especially to the United States meant that M-real's total deliveries nevertheless remained at the previous year's level. No major change took in place in the selling prices of folding boxboard. The strengthening in the euro nonetheless depressed the euro-denominated selling price. The average price of deliveries in Europe was slightly higher than a year ago.

The delivery volume of linerboard was down on the previous year, especially in Europe. Deliveries to the USA, however, increased. Demand for fluting remained weak all year long. Worldwide demand for wallpaper base continued to weaken and deliveries fell.

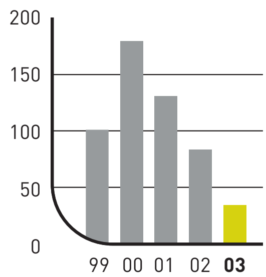
Operating result in the last quarter fell compared with the previous quarter and was a loss of EUR 1.3 million (profit of 15.2 million in July-Sept. 2003). Profitability was weakened by the fall in euro-denominated selling prices due to the stronger euro, the reduction of stocks and the costs of the maintenance shutdowns that were carried out in December.

Deliveries of folding boxboard rose slightly in the last quarter. The selling price in euros fell. The delivery volumes of linerboard fell, whereas fluting volumes rose. Deliveries of wallpaper base increased.

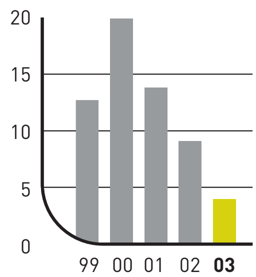
TURNOVER, EUR million



OPERATING PROFIT, EUR million



OPERATING PROFIT, %



Commercial printing

COMMERCIAL PRINTING		2003	2002	Change
Turnover		1 503.5	1 638.4	-8%
Internal sales, Group		-210.0	-238.4	
Turnover, external	EUR million	1 293.5	1 400.0	-8%
Operating profit	EUR million	10.6	106.7	-90%
Operating profit	%	0.7	6.5	
Capital employed (average)	EUR million	1 562.3	1 594.3	-2%
Capital turnover rate		1.0	1.0	
Return on capital employed	%	0.9	7.1	
Personnel (average)		5 283	5 831	-9%
Investment in fixed assets	EUR million	55.9	55.4	1%
Mill deliveries, 1000 tn		1 768	1 757	1%
Production, 1000 tn		1 772	1 757	1%
Capacity utilisation rate	%	83	81	

The weak market situation that started in the Commercial printing business area as early as 2001, continued on in 2003. Demand in the main markets of Western Europe remained at the previous year's level. Deliveries by the industry to markets outside Europe increased. M-real's deliveries to markets outside Europe were nevertheless on a par with the level a year ago. The average selling price of coated fine paper was about 9-10 per cent below the figures a year ago. The strengthening in the euro depressed the average euro-denominated selling price. In the last quarter M-real announced it was starting negotiations on 5-7 per cent price increases for reels of coated fine paper in Europe. The new prices are to come into effect on 1 April 2004.

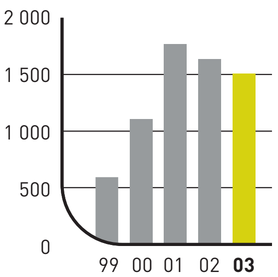
Profitability weakened considerably compared with 2002. Operating profit was EUR 10.6 million (106.7). Profitability was weakened above all by the fall in the average selling price and the strengthening in the euro.

Deliveries by west European producers of coated fine paper rose by 6 per cent in 2003. The delivery volume of the Commercial printing business area's products rose by just under one per cent. The average running time of the paper machines was 5 days shorter than in 2002 and the capacity utilization rate was 83 per cent (81). The order book at the end of the year was two weeks.

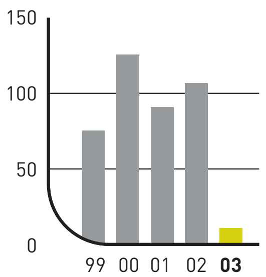
The operating result in the last quarter fell markedly compared with the previous quarter. Profitability was weakened by the fall in the average selling price and the appreciation of the euro.

Zanders was transferred to the Commercial printing business area as from the beginning of 2003. The figures for 2002 have been adjusted accordingly.

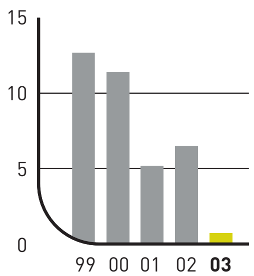
TURNOVER, EUR million



OPERATING PROFIT, EUR million



OPERATING PROFIT, %



Home & Office

HOME & OFFICE		2003	2002	Change
Turnover		682.9	782.7	-13%
Internal sales, Group		-235.0	-265.9	
Turnover, external	EUR million	447.9	516.8	-13%
Operating profit	EUR million	48.2	102.8	-53%
Operating profit	%	7.1	13.1	
Capital employed (average)	EUR million	906.4	996.1	-9%
Capital turnover rate		0.8	0.8	
Return on capital employed	%	5.4	11.0	
Personnel (average)		2 107	2 125	-1%
Investment in fixed assets	EUR million	37.8	17.8	112%
Mill deliveries, 1000 tn		892	902	-1%
Production, 1000 tn		873	915	-5%
Capacity utilisation rate	%	82	89	

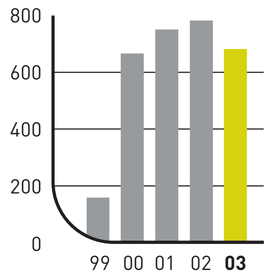
The Home & Office business area's operating environment remained challenging in 2003. Demand in the main markets was still weak and despite the fall in the dollar, deliveries by industry to markets outside Europe increased. The weaker dollar also increased imports of uncoated fine paper to the west European market. These factors, together with increased production capacity, led to tougher competition, particularly in the second half of the year. The average selling price of uncoated fine paper fell by about 9–10 per cent compared with the previous year.

The sector was significantly weaker than last year. Operating profit was EUR 48.2 million (102.8). Profitability was weakened mainly by the fall in the average selling price.

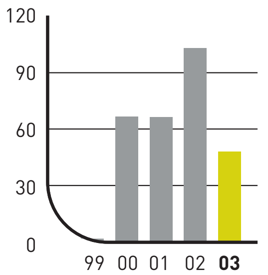
Deliveries by west European producers of uncoated fine paper fell by one per cent. The volume of products delivered by the Home & Office business area likewise fell by one per cent. The average running time of the paper machines was 23 days shorter than in 2002 and the capacity utilization rate was 82 per cent (89). The order book at the end of the year was slightly less than three weeks.

Profitability in the fourth quarter improved compared with the previous quarter. Operating profit was EUR 8.6 million (3.9). Profitability was boosted by lower costs and an improved product mix. The fall in the average selling price cut into earnings.

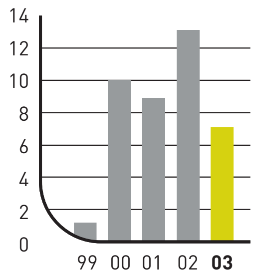
TURNOVER, EUR million



OPERATING PROFIT, EUR million



OPERATING PROFIT, %



Publishing

PUBLISHING		2003	2002	Change
Turnover		785.6	790.1	-1%
Internal sales, Group		-18.8	-14.5	
Turnover, external	EUR million	766.8	775.6	-1%
Operating profit	EUR million	12.5	43.1	-71%
Operating profit	%	1.6	5.5	
Capital employed (average)	EUR million	1 243.0	1 317.2	-6%
Capital turnover rate		0.6	0.6	
Return on capital employed	%	1.1	3.6	
Personnel (average)		1 593	1 769	-10%
Investment in fixed assets	EUR million	20.0	23.5	-15%
Mill deliveries, 1000 tn		1 064	977	9%
Production, 1000 tn		1 062	990	7%
Capacity utilisation rate	%	85	79	

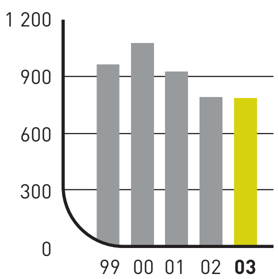
Demand for the Publishing business area's products grew slightly in western Europe in 2003. M-real increased its volume of deliveries to both the main market in Europe and to markets outside Europe. Average selling prices were down about 9–10 per cent. The strengthening in the euro depressed the average euro-denominated selling price. In the last quarter M-real announced it was starting negotiations on 5–7 per cent price increases for reels of coated magazine paper in Europe. The new prices are to come into effect on 1 April 2004.

The business area's profitability weakened markedly despite the increase in delivery volumes. Operating profit was EUR 12.5 million (43.1). Operating profit was burdened by a total of about EUR 6 million of non-recurring expenses that were booked in the fourth quarter in connection with the staff reduction programme at the Kirkniemi mill. Operating profit net of non-recurring items was 18.2 (43.1). Profitability was weakened by the fall in the average selling price and the appreciation of the euro. In addition, the figures for 2002 included 50 per cent of the Albbruck mill's earnings in accordance with M-real's holding. The shareholding was divested in June 2002.

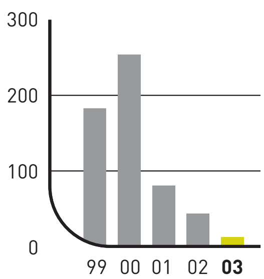
Deliveries of coated magazine paper (LWC) in western Europe rose by 8 per cent. The comparable delivery volume of the Publishing business area's products rose by 15 per cent. The average running time of the paper machines was 2 days shorter than in 2002 and the capacity utilization rate was 85 per cent (79). The order book at the end of the year was just over two weeks.

Fourth-quarter profitability weakened compared with the previous quarter, resulting in a loss of EUR 3.2 million (a profit of 12.1 million in July-Sept. 2003). Profitability was weakened by the fall in the euro-denominated average selling price owing to a stronger euro, the maintenance shutdowns in December and the costs arising from them as well as the previously mentioned non-recurring expenses.

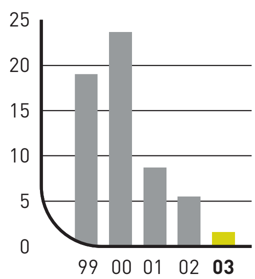
TURNOVER, EUR million



OPERATING PROFIT, EUR million



OPERATING PROFIT, %



Map Merchant Group

MAP MERCHANT GROUP		2003	2002	Change
Turnover		1 392.6	1 542.8	-10%
Internal sales, Group		-6.0	-5.7	
Turnover, external	EUR million	1 386.6	1 537.1	-10%
Operating profit	EUR million	6.5	-14.9	
Operating profit	%	0.5	-1.0	
Capital employed (average)	EUR million	396.8	447.6	-11%
Capital turnover rate		3.5	3.5	
Return on capital employed	%	2.0	-3.0	
Personnel (average)		2 554	2 745	-7%
Investment in fixed assets	EUR million	5.8	5.2	11%
Delivery volumes, 1000 tn		1 283	1 275	1%

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 reorganizing functions. The positive effects on earnings of these and other cost-saving measures began to show up. Performance improved in all the main areas of operations.

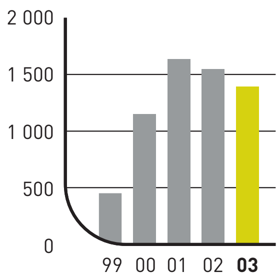
Operating profit was EUR 6.5 million (a loss of 14.9 million in 2002). Profitability was improved mainly by lower costs. In addition, the previous year's operating result was burdened by a total of EUR 17.3 million of non-recurring expenses.

Delivery volumes during the report year totalled 1,283,000 tonnes, up about one per cent on 2002.

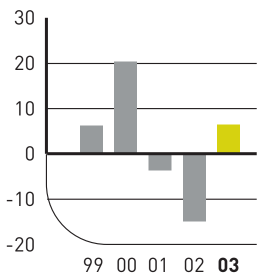
Fourth-quarter operating profit was EUR 0.4 million (a loss of 2.7 million in 2002). Profitability was improved by the 5 per cent growth in the delivery volumes.

Furthermore, the previous quarter's earnings were burdened by non-recurring expense entries totalling about EUR 2 million.

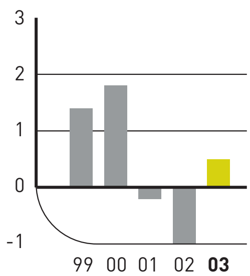
TURNOVER, EUR million



OPERATING PROFIT, EUR million



OPERATING PROFIT, %



Metsä Tissue

METSÄ TISSUE		2003	2002	Change
Turnover		669.2	647.8	3%
Internal sales, Group		-5.8	-4.7	
Turnover, external	EUR million	663.4	643.1	3%
Operating profit	EUR million	48.9	43.1	13%
Operating profit	%	7.3	6.7	
Capital employed (average)	EUR million	334.5	333.9	0%
Capital turnover rate		2.0	1.9	
Return on capital employed	%	14.8	13.2	
Personnel (average)		3 308	3 067	8%
Investment in fixed assets	EUR million	47.4	43.6	9%
Mill deliveries, 1000 tn		469	432	9%
Production, 1000 tn		478	432	11%

There was only small growth in the demand for tissue products in Europe in 2003. At the same time, new capacity entered the market, which has caused the competitive situation to tighten further.

Operating profit in 2003 was EUR 48.9 million (43.1). The improvement in profitability was due to the growth in the sales volume and to an improved product range. Operating profit also includes non-recurring income of about EUR 3 million.

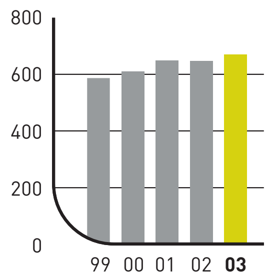
Metsä Tissue's sales volume rose by about 3 per cent in comparable terms, but the euro-denominated average selling price was down 5 per cent compared with the previous year. The fall in the average selling price was attributable especially to a lowering in the market price of raw paper, but also to the growth in deliveries from eastern Europe.

Fourth-quarter operating profit rose to EUR 15.1 million from EUR 13.8 million in the previous quarter. Operating profit was improved by the non-recurring income mentioned above.

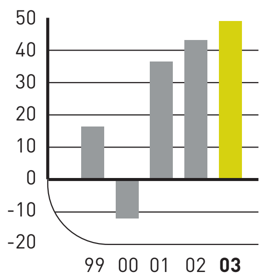
The investment and development programme covering the business operations in Germany, which was launched in October 2002, progressed according to plans. The aim of the programme is to improve quality and the degree of converting, especially within consumer products, whilst raising productivity. Capital expenditures under the programme total about EUR 45 million and it will for the most part be carried out by the end of 2004.

During January-June, M-real purchased all the Metsä Tissue Corporation shares owned by SCA and other shareholders. Metsä Tissue thereby became a wholly-owned subsidiary of M-real and Metsä Tissue was delisted from the Main List of Helsinki Exchanges on 19 June.

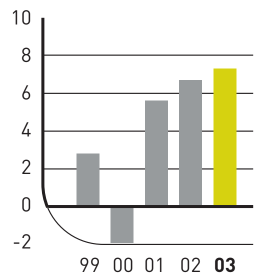
TURNOVER, EUR million



OPERATING PROFIT, EUR million



OPERATING PROFIT, %



M-real Group

Quarterly data

TURNOVER EUR Million	2003 I-IV	2002 I-IV	2003 IV 03	III 03	II 03	I 03	2002 IV 02	III 02	II 02	I 02
			Quarterly							
Consumer packaging	867.9	921.1	211.6	214.8	211.6	229.9	227.0	231.7	232.4	230.0
Commercial printing	1 503.5	1 638.4	362.2	364.9	372.8	403.6	368.1	403.6	412.5	454.2
Home & Office	682.9	782.7	169.5	151.3	170.5	191.6	200.8	183.4	183.7	214.8
Publishing	785.6	790.1	195.0	199.3	187.1	204.2	204.0	191.0	193.5	201.6
Map Merchant Group	1 392.6	1 542.8	347.6	332.5	345.0	367.5	375.0	371.7	387.1	409.0
Metsä Tissue	669.2	647.8	170.6	164.9	169.0	164.7	170.7	162.2	155.7	159.2
Internal sales and other operations	142.0	241.3	17.7	39.5	51.8	33.4	41.7	60.5	71.8	67.3
Group total	6 044.1	6 564.2	1 474.2	1 467.2	1 507.8	1 594.9	1 587.3	1 604.1	1 636.7	1 736.1

OPERATING PROFIT AND RESULT EUR Million	2003 I-IV	2002 I-IV	2003 IV 03	III 03	II 03	I 03	2002 IV 02	III 02	II 02	I 02
			Quarterly							
Consumer packaging	34.5	83.4	-1.3	15.2	2.0	18.6	7.0	25.3	17.3	33.8
Commercial printing	10.6	106.7	-10.6	-2.2	5.1	18.3	16.6	22.9	28.3	38.9
Home & Office	48.2	102.8	8.6	3.9	13.9	21.8	19.6	28.3	26.1	28.8
Publishing	12.5	43.1	-3.2	12.1	-6.7	10.3	8.8	16.5	0.9	17.0
Map Merchant Group	6.5	-14.9	0.4	-2.7	3.4	5.4	-9.3	-5.9	-0.9	1.2
Metsä Tissue	48.9	43.1	15.1	13.8	8.3	11.7	5.9	17.2	8.4	11.6
Other operations	-87.4	-40.0	-46.3	-11.2	-11.2	-18.7	2.1	-7.2	-22.4	-12.5
OPERATING PROFIT	73.8	324.3	-37.3	28.9	14.8	67.4	50.7	97.1	57.7	118.8
% of turnover	1.2	4.9	-2.5	2.0	1.0	4.2	3.2	6.1	3.5	6.8
Net exchange gains/losses	20.7	-30.5	9.7	-0.5	5.3	6.2	5.0	-16.9	0.2	-18.8
Other financial income and expenses	-174.7	-159.5	-77.6	-32.3	-29.8	-35.0	-45.6	-38.7	-37.2	-38.0
PROFIT BEFORE EXTRAORDINARY ITEMS	-80.2	134.3	-105.2	-3.9	-9.7	38.6	10.1	41.5	20.7	62.0
% of turnover	-1.3	2.1	-7.1	-0.3	-0.6	2.4	0.6	2.6	1.3	3.6

M-real Group

Quarterly data

OPERATING PROFIT %	2003 I-IV	2002 I-IV	2003 IV 03	2003 III 03	2003 II 03	2003 I 03	2002 IV 02	2002 III 02	2002 II 02	2002 I 02
Consumer packaging	4.0	9.1	-0.6	7.1	0.9	8.1	3.1	10.9	7.4	14.7
Commercial printing	0.7	6.5	-2.9	-0.6	1.4	4.5	4.5	5.7	6.9	8.6
Home & Office	7.1	13.1	5.1	2.6	8.2	11.4	9.8	15.4	14.2	13.4
Publishing	1.6	5.5	-1.6	6.1	-3.6	5.0	4.3	8.6	0.5	8.4
Map Merchant Group	0.5	-1.0	0.1	-0.8	1.0	1.5	-2.5	-1.6	-0.2	0.3
Metsä Tissue	7.3	6.7	8.9	8.4	4.9	7.1	3.5	10.6	5.4	7.3
Group total	1.2	4.9	-2.5	2.0	1.0	4.2	3.2	6.1	3.5	6.8

PRODUCTION 1 000 tons	2003 I-IV	2002 I-IV	2003 IV 03	2003 III 03	2003 II 03	2003 I 03	2002 IV 02	2002 III 02	2002 II 02	2002 I 02
Commercial printing	1 772	1 757	434	431	446	461	436	406	448	467
Home & Office	873	915	203	200	233	237	207	231	233	244
Publishing [1]	1 062	990	255	270	254	283	256	244	235	255
Paperboard	659	679	150	172	154	183	173	167	169	170
Fluting	186	224	50	50	38	48	57	64	49	54
Liner [2]	144	151	34	36	33	41	37	40	39	35
CTMP	328	280	81	88	77	82	76	79	63	62
Metsä-Botnia's pulp 2)	1 124	1 057	270	305	269	280	249	294	250	264
M-real's pulp	1 216	1 191	312	290	303	311	308	290	304	289

[1] includes 50% of the production of Albbruck until June 30, 2002

[2] equals to M-real's ownership (47%)

SEE

BEHIND

THE FIGURES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Report of the board of directors

MARKET SITUATION IN 2003

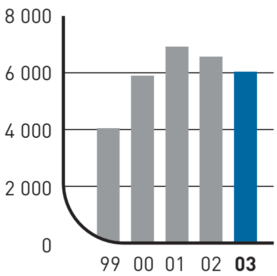
The slowdown in economic growth that got started in 2000 continued in Europe in 2003. Growth is forecast to come in at just under one per cent. Economic growth in North America, however, is generally expected to have improved further in 2003 compared with the growth of over two per cent in 2002. Asia's economic growth is also estimated to have improved from the over 2 per cent growth registered in 2002. The volume of advertising, which is closely in line with the trend in the economy, remained by and large at the previous year's level in Western Europe. On the foreign exchange markets, the United States dollar and British pound weakened markedly against the euro.

Demand for folding boxboard in western Europe was at the previous year's level in 2003 despite weak economic growth. West European producers' deliveries to markets outside Europe increased. There was no significant change in selling prices. The appreciation of the euro nevertheless weakened the euro-denominated average selling price and the price competitiveness of producers in the euro countries. Deliveries by producers of linerboard increased and fluting

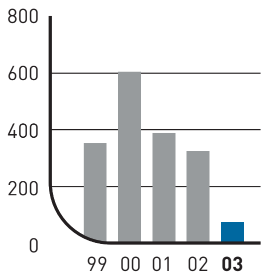
KEY FIGURES

	Turnover EUR million		Operating profit EUR million		Operating profit %		Capital employed average EUR million		Return on capital employed, %		Personnel, average	
	2003	2002	**2003**	2002	**2003**	2002	**2003**	2002	**2003**	2002	**2003**	2002
Consumer packaging	867.9	921.1	34.5	83.4	4.0	9.1	968.0	962.5	3.7	9.1	3 051	3 151
Commercial printing	1 503.5	1 638.4	10.6	106.7	0.7	6.5	1 562.3	1 594.3	0.9	7.1	5 283	5 831
Home & Office	682.9	782.7	48.2	102.8	7.1	13.1	906.4	996.1	5.4	11.0	2 107	2 125
Publishing	785.6	790.1	12.5	43.1	1.6	5.5	1 243.0	1 317.2	1.1	3.6	1 593	1 769
Map Merchant Group	1 392.6	1 542.8	6.5	–14.9	0.5	–1.0	396.8	447.6	2.0	–3.0	2 554	2 745
Metsä Tissue	669.2	647.8	48.9	43.1	7.3	6.7	334.5	333.9	14.8	13.2	3 308	3 067
Internal sales and other operations	142.4	241.3	–87.4	–40.0			381.8	443.9			2 476	2 382
Group total	6 044.1	6 564.2	73.8	324.3	1.2	4.9	5 792.8	6 095.5	1.6	5.8	20 372	21 070

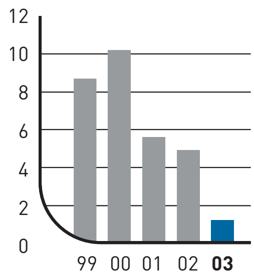
TURNOVER, EUR million



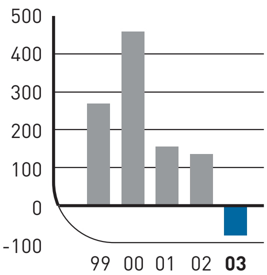
OPERATING PROFIT, EUR million



OPERATING PROFIT, %



PROFIT BEFORE EXTRAORDINARY ITEMS, EUR million



deliveries were at the previous year's level, mainly thanks to the growth in deliveries to eastern Europe.

The paper market faced a difficult year. Overall growth in demand remained low throughout the year. The west European market was characterized by overcapacity, a drop in selling prices, increased deliveries to markets outside Europe and a strengthening euro, which resulted in a fall of the selling price of exports in euros and an increase in imports of uncoated fine paper.

Deliveries by west European producers of coated fine paper grew by 6 per cent, mainly owing to increased exports. Deliveries by producers of uncoated fine paper fell by one per cent. Deliveries of coated magazine paper rose by 8 per cent. Exports grew more than deliveries to Europe. Selling prices in all the main product groups declined markedly.

Demand for tissue products in western Europe was on a par with last year. New capacity led to a tougher competitive situation.

M-REAL'S PROFIT FOR THE FINANCIAL YEAR

M-real's consolidated operating profit in 2003 was EUR 73.8 million (324.3 million in 2002). Operating profit includes non-recurring net expenses of EUR 14.7 million (12.0). Non-recurring income amounted to EUR 15.8 million (25) and non-recurring expenses were EUR 30.5 million (37).

The biggest of the non-recurring income items was a capital gain of EUR 7 million on the sale of the Logisware Oy business, which was booked in the third quarter. Other non-recurring items were booked to the last quarter.

The biggest non-recurring expense items were the larger-than-normal credit losses of EUR 12 million, agreed expense provisions for the personnel reductions at the Kirkniemi and Lielahti mills, totalling EUR 7 million and provisions booked for environmental liabilities, EUR 6 million.

Operating profit net of non-recurring items was EUR 88.5 million (336.3), representing 1.5 per cent of turnover. The main reasons for the fall in operating profit were the fall in the average selling price of paper, the strengthening in the euro as well as the lower delivery volumes of the Consumer packaging business area.

Apart from the Map Merchants paper merchanting business, the profitability of all the business areas weakened. Metsä Tissue's earnings improved slightly.

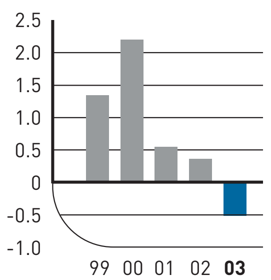
Deliveries of paperboard to customers totalled 1,082,000 tonnes (1,144,000 tonnes). The mills' production was curtailed by 177,000 tonnes (41,000) in line with demand. The capacity utilization rate was 84 per cent (92). With the coming on stream of the rebuilt board machine at Äänekoski, folding boxboard production capacity increased by about 45,000 tonnes in 2003.

Total deliveries of paper from the mills amounted to 3,724,000 tonnes (3,638,000). In comparable terms, the delivery volume rose by 4 per cent from the previous year. The volume of fine paper delivered was on a par with the previous year, and the comparable volume of coated magazine paper deliv-

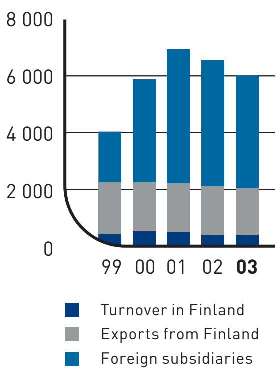
TURNOVER BY COUNTRY

	2003 EUR million	2002 EUR million
Great Britain	1 115.4	1 292.8
Germany	927.1	1 011.2
France	434.0	450.7
Finland	392.5	390.9
Sweden	270.1	305.1
Italy	245.3	243.7
The Netherlands	234.5	268.2
Spain	207.9	219.3
USA	188.2	226.6
Poland	175.7	148.8
Belgium	162.5	191.6
Switzerland	149.4	165.7
Denmark	133.3	136.8
Norway	112.4	120.6
Austria	111.6	118.1
Russia	88.5	77.6
China	84.3	94.6
Australia	76.1	88.4
Ireland	56.4	61.8
Canada	53.7	54.4
Baltic countries	49.7	54.4
Greece	37.9	33.3
Hong Kong	37.6	58.1
Japan	35.0	30.4
Portugal	11.0	11.7
India	8.5	9.6
Other Europe	258.1	277.2
Other Asia	148.9	175.0
Other countries	238.5	247.6
	6 044.1	6 564.2

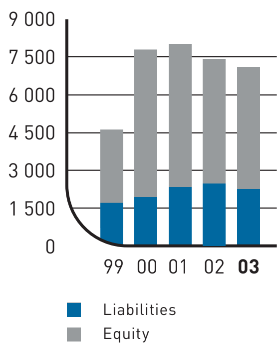
EARNINGS PER SHARE, EUR



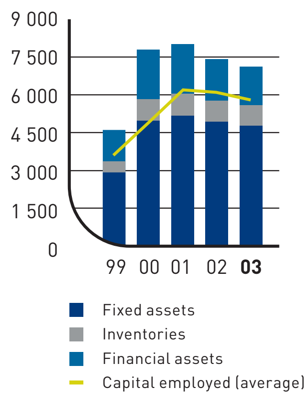
TURNOVER, EUR million



FINANCIAL STRUCTURE, EUR million



ASSETS AND CAPITAL EMPLOYED (AVERAGE), EUR million



ered rose by 15 per cent. Owing to the imbalance in supply and demand, production had to be curtailed substantially. Production curtailments amounted to 585,000 tonnes (605,000 tonnes). The capacity utilization rate at the mills was 83 per cent (85).

Hedging income from foreign exchange derivatives added EUR 24.2 million to operating profit (8.1). By the end of 2003 the United States dollar weakened by 20.4 per cent and the British pound by 8.3 per cent compared with the previous turn of the year. On average, the euro exchange rate of the dollar was 19.7 per cent lower than in 2002 and the exchange rate of the British pound 10 per cent lower.

Turnover was EUR 6,044.1 million (6,564.2). In comparable terms, turnover fell by 8 per cent. Sales to Finland accounted for 6 per cent of turnover (6).

Financial income and expenses were EUR 154.0 million negative (190.0 million negative). They include a net exchange rate gain of EUR 20.7 million on financial items (30.5 million negative) as well as net interest and other financial expenses of EUR 174.7 million (159.5).

Non-recurring net expenses of EUR 28 million connected with the restructuring of loans has been booked to other financial expenses. Non-recurring income amounted to EUR 14.1 million and non-recurring expenses were EUR 42.1 million. The non-recurring income has been booked to the second, third and last quarters and the expenses to the last quarter.

Other operating income amounted to EUR 73.8 million (73.4). The sum does not include non-recurring items.

The result before extraordinary items was a loss of EUR 80.2 million (profit of 134.3 million). The result before extraordinary items net of the above-mentioned non-recurring items was a loss of EUR 37,5 million (profit of 146.3).

Extraordinary expenses include write-downs on the asset items of certain businesses and winding up expenses to a total amount of EUR 16 million.

The result for the financial period was a loss of EUR 95.0 million (profit of 208.9 million in 2002). Taxes, including the change in the imputed deferred tax liability, were EUR 0.7 million negative (taxes of 59.8 million in 2002).

Earnings per share were EUR 0.51 negative (EPS of 0.36 in 2002).

The return on capital employed was 1.6 per cent (5.8). The return on equity was 3.8 per cent negative (3.0).

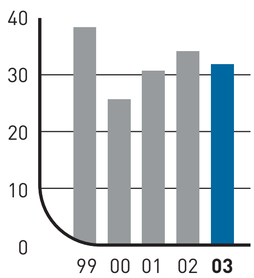
OCTOBER–DECEMBER EARNINGS COMPARED WITH THE PREVIOUS QUARTER

The operating result was a loss of EUR 37,3 million (July–Sept. 2003: 28.9). The operating profit includes non-recurring net expenses of EUR 18.9 million. The operating result net of non-recurring items was a loss of EUR 18.4 million (profit of 28.9 million), which is –1.2 per cent of turnover. The main reasons for the weakening in profitability were the lower selling prices of paper, the strengthening in the euro as well as the maintenance shutdowns in December and the costs resulting from them.

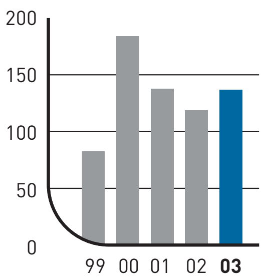
The profitability of the Home&Office business area, Map Merchant and Metsä Tissue improved.

The result before extraordinary

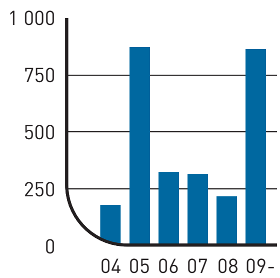
EQUITY RATIO, %



GEARING RATIO, %



REPAYMENT OF LONG-TERM LOANS, EUR million



Includes also Metsä Tissue loan portfolio, which will not be refunded by M-real items was a loss of EUR 105.2 million (a loss of 3.9 million). The result before extraordinary items net of non-recurring items was a loss of 47.2 (a loss of 6.8 million).

Deliveries of paperboard to customers totalled 269,000 tonnes (265,000 tonnes). The mills' production was curtailed by 56,000 tonnes in line with demand (43,000). The capacity utilization rate was 79 per cent (87).

The total volume of deliveries of paper from the mills was 917,000 tonnes (906,000). Production curtailments amounted to 170,000 tonnes (195,000 tonnes). The capacity utilization rate of the paper mills was 79 per cent (80).

Consolidated turnover was EUR 1,474.2 million (1,467.2).

M-REAL'S PERSONNEL BY COUNTRY ON 31 DECEMBER

	2003	2002
Finland	5 835	5 941
Germany	4 148	4 543
Sweden	2 334	2 518
United Kingdom	1 875	2 002
France	884	894
Austria	871	881
Poland	795	844
Switzerland	577	581
Hungary	575	573
Belgium	407	410
The Netherlands	361	353
Other Countries	974	783
Total	**19 636**	**20 323**

PERSONNEL

The number of personnel at the end of December was 19,636 employees (20,323 employees at 31 December 2002), of whom 5,835 employees worked in Finland (5,941). The net reduction in personnel was 687 employees. The net effect of acquisitions and divestments was a decrease in personnel of 49 employees.

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

CAPITAL EXPENDITURE ON FIXED ASSETS

Capital expenditure on fixed assets totalled EUR 232 million in 2003 (Jan.–Dec. 2002: 304). In addition, a total of EUR 165 million was paid for shares in acquired companies.

In September it was decided to build a BCTMP plant with an annual capacity of 300,000 tonnes in Kaskinen. The total expenditure for the investment will be about EUR 180 million. The pulp mill's entire production will be used as raw material for the Group's mills. The investment will contribute to improving the quality of paper grades and lowering costs. The mill will be completed in autumn 2005 and it will provide employment for about 65 people.

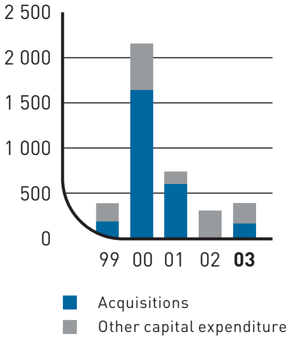
In December M-real decided to participate in the building of the new nuclear power plant by Teollisuuden Voima Oy in Olkiluoto, Finland. The plant will come on stream in the year 2009.

ACQUISITIONS AND DIVESTMENTS

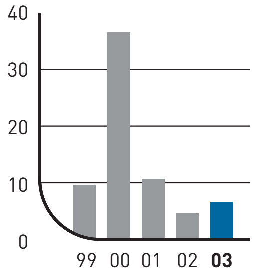
During January–June, M-real purchased all the Metsä Tissue Corporation shares owned by SCA and other shareholders. Metsä Tissue was delisted from the Main List of Helsinki Exchanges on 19 June. The total price of the shares and stock options purchased was about EUR 128 million.

In November a Letter of Intent was signed on selling a 66 per cent stake

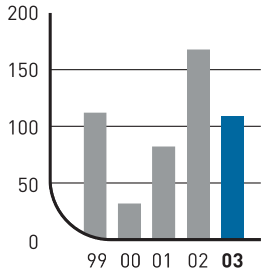
GROSS CAPITAL EXPENDITURE, EUR million



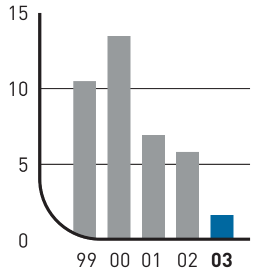
GROSS CAPITAL EXPENDITURE, % of turnover



INTERNAL FINANCING OF CAPITAL EXPENDITURE, %



RETURN ON CAPITAL EMPLOYED, %



in Metsä Tissue Corporation's business operations to Metsäliitto Osuuskunta.

The acquisition by Map Merchant Group of Narpex, a paper merchant in the Czech Republic, entered into force in January. In addition, in January, Map Merchants Group acquired the shares held by minority shareholders in its Danish subsidiary Schramm-Papirgros A/S.

In March M-real purchased 24.7 per cent of the shares in Oy Hangö Stevedoring Ab, whereby the company became a wholly-owned subsidiary of M-real.

In March Metsä-Botnia purchased 60 per cent of the shares in the Uruguayan company Compania Forestal Oriental S.A (FOSA) from Shell International Renewables BV.

OTHER STRUCTURAL ARRANGEMENTS

In June M-real announced an agreement with IBM Global Services concerning transfer of M-real's own information technology services and the entire operations of its associated company Logisware Oy to IBM's organization. The agreement came into force in September.

In October the company announced that it was discontinuing the present market pulp business at the Lielahti chemithermal mechanical pulp mill and that the mill's entire production would be used in the manufacture of M-real's own paperboard. The arrangement will be seen to completion by the end of 2004 and the estimated downsizing requirement is about 90 employees.

Codetermination negotiations with the personnel groups at the Kirkniemi mill were started in October. The negotiations were completed in November and in them it was agreed that the number of employees at the Kirkniemi mill would be reduced by 155 by the end of 2006.

RESEARCH AND DEVELOPMENT

Research and development costs in 2003 amounted to EUR 27 million, representing 0.6 per cent of turnover excluding the Map Merchants paper merchanting business. The R&D priorities were to improve the efficiency of production processes, develop new products and the processes connected with their manufacture as well as the technologies of the future. The number of patents that M-real applied for grew by 30 per cent. The number of ideas and invention reports also increased markedly during the year.

At M-real's mills, inputs were made into boosting the efficiency of processes during 2003. Productivity gains were made at nearly every production unit. Substantial improvements were achieved at Alizay, Biberist, Husum and Kirkniemi.

M-real is participating in a number of cooperation projects. The objective of these efforts is to find new applications of paper involving innovative ways of integrating paper and ICT (Information and Communication Technology). M-real has made outlays and achieved good results in applications connected with process intelligence. This development area will be a development focus in coming years as well.

ENVIRONMENT

During 2003 environmental information and bulletins to customers were developed, existing environmental liabilities were surveyed and the level of environmental protection which suppliers are required to meet was set out more specifically in purchasing agreements. At the end of the report year, all M-real's production facilities have an environmental system in accordance with the ISO 14001 standard.

M-real has given its commitment to using wood raw material that comes from sustainably managed forests. Accordingly, measures were continued to verify the Chain of Custody of roundwood and to promote the certification of forests. In Russia and the Baltic countries, inspections of the felling sites were increased.

The most important environmental investment will be the waste water treatment plant at the Husum mill. The facility will start up in 2004. The investment has a cost estimate of EUR 40 million.

During 2003 M-real made additional provisions for environmental liabilities of EUR 6 million. Together with previously made provisions, the final amount of environmental provisions at the end of 2003 was EUR 7 million.

Inputs continued to be made into improving energy-efficiency, reducing the emissions from our own power plants and increasing the share of bioenergy. M-real's carbon dioxide emissions per tonne of product produced diminished by 3 per cent compared with the previous year.

M-real will publish a separate Environmental Report for 2003.

FINANCING

Interest-bearing net liabilities amounted to EUR 3,109 million at the end of the financial year (Dec. 2002: 3,019).

The equity ratio at the end of the period was 31.9 per cent (Dec. 2002: 34.2) and the gearing ratio was 137 per cent (Dec. 2002: 119).

Liquidity is good. Liquidity at the end of the year was EUR 1,124 million, of which EUR 940 million consisted of committed long-term credit facilities and EUR 184 million represented liquid funds and investments (200). In addition, to meet its short-term financing needs the Group had at its disposal domestic and foreign commercial paper programmes and credit facilities amounting to about EUR 750 million.

At the end 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 3 and 5 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 18 months. During the period the fixed-rate period has varied from 12 to 18 months.

At the close of the year, 15 per cent of the Group's long-term loans were denominated in foreign currencies. Of these loans, 45 per cent was subject to floating interest rates and the rest to fixed interest rates. The average interest rate on the loans was 4.6 per cent at the end of 2003 and their average maturity was 3.6 years.

Because liquidity was good during the report period, there was no need for new major loan arrangements.

In September Metsä-Botnia signed an EUR 210 million syndicated loan that will be used as a revolving credit facility.

During the year, 3 bond issues to a total amount of about EUR 150 million were floated within the framework of an international bond programme.

In October Moody's Investor Service lowered the credit rating for long-term loans from Baa3 to Ba1 and for short-term loans from Prime 3 to Not-Prime, with a negative outlook.

In December Standard & Poor's Ratings Services lowered the company's credit for long-term loans from BBB- to BB+ and for short-term loans from A3 to B, with a stable outlook.

In December loans amounting to 34 billion yen (EUR 311 million) were repaid in connection with loan restructuring agreements.

BOARD OF DIRECTORS AND AUDITORS

The Annual General Meeting held on 17 March 2003 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, Antti Tanskanen and Arimo Uusitalo.

Elected as auditors were Göran Lindell, Authorized Public Accountant, and the firm of independent public accountants PriceWaterhouseCoopers Oy, with Ilkka Haarlaa, Authorized Public Accountant, acting as Chief Auditor. Björn Renlund, Authorized Public Accountant, and Jouko Malinen, Authorized Public Accountant, acted as the deputy auditors.

SHARES

The highest price of M-real's Series B share on Helsinki Exchanges during the financial year was EUR 8.99 and the lowest price was EUR 6.21. The average share price was EUR 7.26. In 2002 the average price was EUR 8.28. The price of the Series B share was EUR 7.03 at the end of the financial year on 31 December 2003.

Turnover of the Series B share was EUR 585 million, or 56 per cent of the shares outstanding. The market capitalization of the Series A and B shares at 31 December 2003 totalled EUR 1,286 million.

At 31 December 2003, 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 34.2 per cent of the 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.

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/IFRS (International Accounting Standards/International Financial Reporting 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.

The relevant measures carried out during 2003 included a study of the effect of IAS standards on the accounting policy applied to the consolidated financial statements, the arranging of comprehensive training for the Group's finance staff and preparations of the Group's IAS accounting guidelines.

The financial statement accounting

policies will change at least in the following subareas: the calculation of pension expenses and liabilities, the treatment of certain lease agreements and financing arrangements, the valuation of forest assets and the booking of financial instruments.

EVENTS AFTER THE CLOSE OF THE FINANCIAL PERIOD

At the beginning of January, a 66 per cent stake in Metsä Tissue was sold to Metsäliitto Osuuskunta in accordance with a Letter of Intent. In addition, 17 per cent was sold to the Tapiola Group. At the end of January, the remaining 17 per cent was sold to Varma Mutual Pension Insurance Company (9.86 per cent) and Sampo Life Insurance Company Limited (7.14 per cent). The transactions were carried out on the same terms and conditions and were based on a debt-free value of EUR 570 million. The after-tax capital gain on the disposals was about EUR 155 million.

The key figures for 2003 adjusted for the effects of the sale of Metsä Tissue were: Interest-bearing net liabilities: EUR 2,540 million; equity ratio: 36.7 per cent; gearing: 105 per cent.

FINANCIAL REPORTING IN 2004

M-real revamped its organization in June 2003. Operations were divided into four parts: Cartons, Graphics, Offices and Map Merchant Group. M-real's financial reporting will change in line with the new business area structure as from the beginning of 2004. Metsä Tissue will no longer be included in the reporting in 2004. The comparison figures according to the new business area structure will be released before publication of the first-quarter results.

The financial statement information for 2003 is reported in accordance with the old business area structure. The old business areas are: Consumer packaging, Commercial printing, Home & Office, Publishing, Map Merchant Group and Metsä Tissue.

OUTLOOK FOR THE CURRENT YEAR

In the current year the economic outlook in Europe is still uncertain. Some signs of improvement can nevertheless be seen. Economic growth in North America and Asia is generally expected to improve compared with 2003. Clear-cut signs of a significant revival in the demand for M-real's main products are nevertheless not yet on the horizon. M-real's paper markets in western Europe are still beset by oversupply, and the strengthening in the euro has led to an increase in imports of uncoated fine paper to western Europe. Paper production will have to still be curtailed in step with demand.

Price pressures on the selling price of paper have also continued after the turn of the year. The prices of paper are expected to rise when the demand recovers. Major changes are not expected to take place in the selling prices of folding boxboard. The strong euro will weaken the profitability of deliveries outside Europe. M-real's first-quarter result before extraordinary items is estimated to be negative.

Espoo, 5 February 2004

Board of Directors

Consolidated profit and loss account

	1 Jan. – 31 Dec. 2003 EUR million		%	1 Jan. – 31 Dec. 2002 EUR million		%
Turnover (1)		6 044.1	100.0		6 564.2	100.0
Change in stocks of finished goods and work in progress		–8.6			4.4	
Share of profit from associated companies (2)		–5.2			–4.9	
Other operating income (3)		73.8			73.4	
Materials and services						
Raw materials and consumables (27)	3 286.1			3 614.8		
Costs of external services (27)	278.0			261.5		
Employee costs (4) (27)	1 044.3			1 078.5		
Depreciation (5) (27)	481.0			457.7		
Other operating expenses (27)	940.9	6 030.3		900.3	6 312.8	
Operating profit		73.8	1.2		324.3	4.9
Financial income and expense (6) (7)						
Interest income from Group companies	0.2			0.1		
Income from other financial investments	1.9			2.7		
Other interest and similar income	15.9			28.7		
Net exchange gains/losses	20.7			–30.5		
Interest expense and similar charges	–192.7	–154.0		–191.0	–190.0	
Profit before extraordinary items		–80.2	–1.3		134.3	2.0
Extraordinary items (8)						
Extraordinary income	0.9			144.5		
Extraordinary expenses	–16.0	–15.1		0.0	144.5	
Profit before tax		–95.3	–1.6		278.8	4.2
Taxation (9)		–0.7			–59.8	
Profit before minority interest		–96.0	–1.6		219.0	3.3
Minority interest		1.0			–10.1	
Profit for the financial period		**–95.0**	–1.6		**208.9**	3.2

Consolidated profit and loss account

Profit analysis

TURNOVER

Consolidated turnover was EUR 6,044 million (6,564 million in 2000). Turnover generated by companies acquired in 2003 was EUR 6 million. Divestments affecting turnover were not made in 2003. Turnover generated by companies acquired in 2002 was EUR 24 million, whereas the divested companies had a turnover of EUR 43 million. Comparable turnover thus fell by about EUR 510 million, or 7.7 per cent, mainly due to lower selling prices and a stronger euro.

OPERATING PROFIT

Consolidated operating profit was down EUR 250 million to EUR 74 million. Operating profit includes non-recurring net expenses of EUR 15 million (12). Non-recurring income amounted to EUR 16 million (25) and non-recurring expenses were EUR 30 million (37). Operating profit net of non-recurring items was EUR 88 million (336) Operating profit was weakened by the fall in the price of paper, the appreciation of the euro and lower delivery volumes in the consumer packaging business area.

Apart from the Map Merchants paper merchanting business, the profitability of all the business areas weakened. The profitability of Metsä Tissue improved.

The Consumer packaging business area's weakened profitability was attributable to the strengthening in the euro and a fall in the delivery volume. In addition, profitability was weakened by the stage-by-stage winding up of the market pulp business at the Lielahti chemithermal mechanical pulp mill and the integration of the mill's operations as part of the Tako board mill's operations.

The profitability of the Commercial printing, Home & Office and Publishing business areas was weakened by the fall in the average selling price and the appreciation of the euro. In addition, the profitability of the Publishing business area was weakened by a total of about EUR 6 million of non-recurring expenses for the personnel downsizing programme at the Kirkniemi mill.

The improvement in Metsä Tissue's profitability was due to the growth in the sales volume and to an improved product range. Operating profit also includes non-recurring income of about EUR 3 million.

PROFIT BEFORE EXTRAORDINARY ITEMS

The result before extraordinary items was a loss of EUR 80 million (profit of 134 million). Net financial expenses, not including foreign exchange differences, totalled EUR 175 million (160 million in 2000). Non-recurring net expenses of EUR 28 million connected with the restructuring of loans has been booked to net financial expenses. The average interest rate was at the previous year's level. Financial income and expense furthermore includes a gain on foreign exchange of EUR 21 million (a loss of EUR 30 million in 2002).

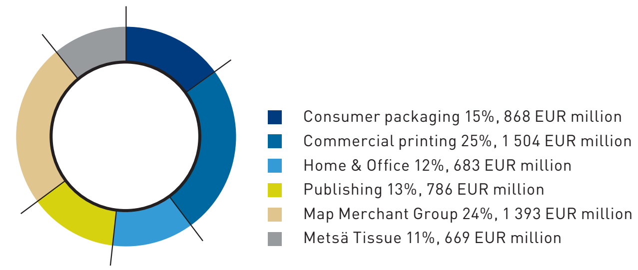
EXTRAORDINARY ITEMS

Extraordinary expenses include write-downs on the asset items of certain functions and winding up expenses to a total amount of EUR 16 million.

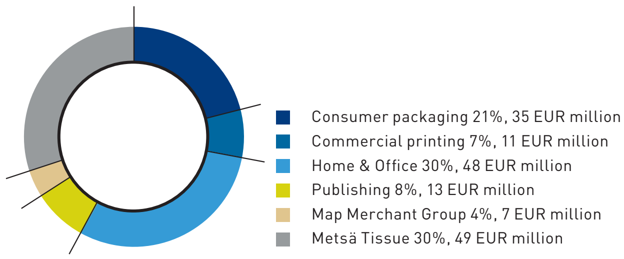
TAXATION AND MINORITY INTEREST

The Group's total direct taxes were EUR one million (60), of which EUR 33 million represented taxes payable for the financial year.

TURNOVER BY BUSINESS AREA,
%/EUR million



OPERATING PROFIT BY BUSINESS AREA,
%/EUR million



Consolidated balance sheet

ASSETS		31 Dec. 2003 EUR million	%		31 Dec. 2002 EUR million	%
Fixed assets						
Intangible assets (10)						
Intangible rights	63.7			63.8		
Purchased goodwill	15.7			18.2		
Goodwill arising on consolidation	690.9			674.9		
Other capitalized expenditure	18.5	788.8	11.1	17.1	774.0	10.4
Tangible assets (10) (12) (27)						
Land	348.4			344.5		
Buildings	813.2			844.8		
Plant and equipment	2 453.7			2 617.0		
Other tangible assets	87.0			62.7		
Payments in advance and assets in the course of construction	72.3	3 774.6	53.1	80.9	3 949.9	53.3
Financial investments (11) (12)						
Shares in Group companies	0.7			0.7		
Amounts owed by Group companies	17.6			17.5		
Investments in associated companies	86.4			94.3		
Amounts owed by associated companies	17.9			21.2		
Other investments	59.6			55.4		
Other receivables	23.1	205.3	2.9	21.5	210.6	2.9
Fixed assets, total		4 768.7	67.1		4 934.5	66.6
Current assets						
Inventories						
Raw materials and consumables	265.8			252.7		
Finished goods and goods for resale	495.5			524.8		
Advance payments	40.7	802.0	11.3	37.4	814.9	11.0
Receivables (14) (15) (17)						
Accounts receivable	1 001.8			1 084.7		
Amounts owed by Group companies	72.0			79.7		
Amounts owed by associated companies	9.0			11.6		
Loan receivables	0.2			0.3		
Other receivables	152.1			169.2		
Prepayments and accrued income (16)	116.8	1 351.9	19.0	115.4	1 460.9	19.7
Investments (securities held as financial assets)						
Current financial assets (other than securities)		55.4	0.8		23.2	0.3
Cash at bank and in hand		128.2	1.8		176.7	2.4
Current asset, total		2 337.5	32.9		2 475.7	33.4
Assets, total		**7 106.2**	100.0		**7 410.2**	100.0

Consolidated balance sheet

SHAREHOLDERS' EQUITY AND LIABILITIES		31 Dec. 2003 EUR million	%		31 Dec. 2002 EUR million	%
Shareholders' equity (18)						
Share capital	304.3			304.3		
Share premium account	472.9			472.9		
Revaluation reserve	104.6			104.6		
Other reserves	1.7			1.7		
Retained earnings	1 456.8			1 368.6		
Profit for the financial period	−95.0	2 245.3	31.6	208.9	2 461.0	33.2
Minority interest		18.9	0.3		74.6	1.0
Provisions (19) (27)		77.4	1.1		66.3	0.9
Liabilities (20) (21)						
Long-term liabilities (23)						
Bonds and debentures	940.2			1 077.4		
Loans from financial institutions	1 310.7			1 101.5		
Pension premium loans	123.8			140.6		
Deferred tax liabilities (22)	431.9			432.0		
Other liabilities	214.1			265.7		
Accruals and prepaid income (25)	9.9	3 030.6	42.6	13.1	3 030.3	40.9
Short-term liabilities (24)						
Bonds and debentures	10.0			0.0		
Loans from financial institutions	188.1			164.4		
Pension premium loans	16.4			16.4		
Advance payments	2.2			2.5		
Accounts payable	367.7			402.2		
Bills of exchange payable	13.0			11.6		
Amounts owed to Group companies	415.7			242.5		
Amounts owed to associated companies	84.3			64.0		
Other liabilities	270.5			452.3		
Accruals and prepaid income (25)	366.1	1 734.0	24.4	422.1	1 778.0	24.0
Liabilities, total		4 764.6	67.0		4 808.3	64.9
Shareholders' equity and liabilities, total		**7 106.2**	100.0		**7 410.2**	100.0

Consolidated balance sheet

Balance sheet analysis

ASSETS AND CAPITAL EMPLOYED

The Group's total assets stood at EUR 7 106 million, which is about 300 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 expenditure on fixed asset	232
Fixes assets and consolidation goodwill of acquired companies	112
Depreciation	–481
Inventories *	–13
Accounts receivable *	–83
Liquid funds	–16
Other items *	–55
Changes, total	–304

* includes the effects of acquired and divested companies

Total assets were increased mainly by capital expenditures on fixed assets as well as by fixed assets and consolidation goodwill of acquired companies. By contrast, total assets were reduced by depreciation that was greater than capital expenditures on fixed assets as well as by decreased inventories, accounts receivable and liquid funds. Accounts receivable were reduced by lower sales in euros. The Group's liquid funds amounted to EUR 184 million (200). 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 5 688 million. Its breakdown by business area is shown in the table below.

FINANCING

Consolidated shareholders' equity net of minority interests was EUR 2 245 million at the end of the year (2 461). Shareholders' equity was decreased by the net loss for the financial year 2003 and dividend paid for the financial year 2002. Interest-bearing liabilities stood at EUR 3 424 million, a decrease of EUR 63 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 3 109 million at the end of the financial year (3 019).

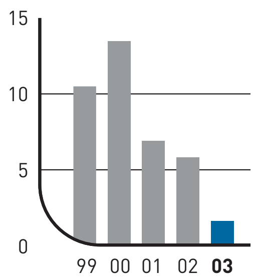
KEY RATIOS

The return on capital employed fell as a consequence of weakened profitability and was 1.6 per cent (5.8). The equity ratio was 31.9 per cent (34.2) and the gearing ratio was 137 per cent (119).

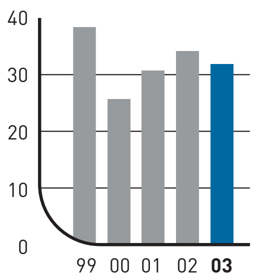
Capital employed 31 Dec.

EUR million	2003	2002	change
Consumer packaging	945	991	–46
Commercial printing	1 557	1 567	–10
Home & Office	839	974	–135
Publishing	1 230	1 256	–26
Map Merchant Group	383	410	–27
Metsä Tissue	344	326	+18
Others	391	373	+18
Group total	5 688	5 897	–209

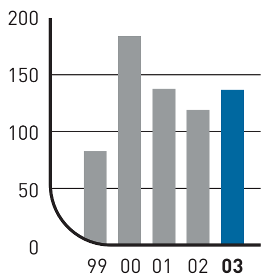
RETURN ON CAPITAL EMPLOYED, %



EQUITY RATIO, %



GEARING RATIO, %



Cash flow statement

	Group		Parent company	
	2003 EUR million	2002 EUR million	2003 EUR million	2002 EUR million
Funds from operations				
Operating profit	78.9 *	329.3 *	–26.2	58.8
Depreciation according to plan	481.0	457.7	119.2	113.5
Change in provisions for liabilities and charges	–4.9	–47.6	8.8	3.1
Net financial items	–117.8 *	–161.7 *	241.5	425.6
Taxation	–19.9 *	–56.7 *	–5.1	–13.2
Total	417.3	521.0	338.2	587.8
Change in working capital				
Inventories (increase –, decrease +)	14.4	53.4	0.9	–17.3
Current receivables (increase –, decrease +)	101.4	211.6	–42.9	28.5
Non-interest-bearing current liabilities (increase +, decrease –)	–108.0	–119.6	–7.3	–195.6
Total	7.8	145.4	–49.3	–184.4
Cash flow from operations	425.1	666.4	288.9	403.4
Changes in fixed assets				
Gross capital expenditures	–396.7	–310.0	–61.0	–476.7
Disposals and other changes in fixed assets	–2.5	223.9	107.4	–9.8
Cash flow after capital expenditures	25.9	580.3	335.3	–83.1
Financing				
Change in interest-bearing liabilities (increase +, decrease –)	62.7	–531.8	–412.6	320.2
Interest-bearing net debt of companies acquired and divested	–8.5	–9.0		
Change in interest-bearing long-term receivables (increase –, decrease +)	11.0	–4.6	228.1	–94.5
Dividend	–107.4	–108.4	–107.4	–107.4
Group contributions			11.7	12.1
Other changes			–36.5	6.3
Change in liquid funds	–16.3	-73.5	18.6	53.6

Group	31.12.2003 EUR million	Change EUR million	31.12.2002 EUR million	Change EUR million
Interest-bearing liabilities	3 424.2	62.7	3 361.5	–531.8
Interest-bearing receivables	–131.5	11.0	–142.5	–4.6
Liquid funds	–183.6	16.3	–199.9	73.5
Interest-bearing liabilities	3 109.1	90.0	3 019.2	–462.9

* 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 clearly and was EUR 425 million (666). Funds from operations decreased by 20 per cent to EUR 417 million (521). The drop in funds from operations was attributable to the EUR 227 million decrease in the operating margin (operating profit plus depreciation) adjusted for interests in associated companies. Against this, funds from operations were increased by the EUR 44 million drop in financial expenses, a EUR 43 million decrease in the change in provisions for liabilities and charges and a EUR 37 million drop in taxes.

Accounts receivable and other current receivables decreased by EUR 101 million mainly as a consequence of lower euro-dominated sales. Interest free liabilities decreased by EUR 108 million. As a consequence the reduction in working capital, excluding the effects of acquisitions and divestments, did not free up cash flow.

CAPITAL EXPENDITURES AND OTHER CHANGES IN FIXED ASSETS

The Group's gross capital expenditures amounted to EUR 397 million, of which EUR 232 million went for fixed assets and EUR 165 million represented the purchase price of shares in acquired companies.

CAPITAL FINANCING

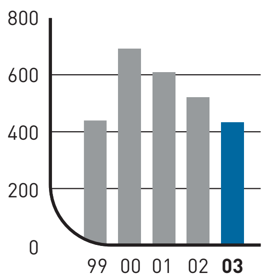
Interest-bearing liabilities were increased of EUR 63 million. The company paid a dividend of EUR 0.60 per share, or EUR 107 million.

INTEREST-BEARING NET LIABILITIES

Due to weak cash flow from operations and funds used for acquisitions and buying the shares of Metsä Tissue interest bearing net liabilities rose – despite low "inventories" – by EUR 90 million and totalled EUR 3 109 million at the end of the financial year.

EUR million	
Cash flow from operations	425
Divestments and other changes	–2
	423
Capital expenditure on fixed assets	–232
Acquisitions and share purchases	–165
Dividend	–107
Interest bearing net liabilities of acquired and divested companies	–9
Increase of interest bearing net liabilities	–90

FUNDS FROM OPERATIONS, EUR million



Parent company profit and loss account

	1 Jan. – 31 Dec. 2003 EUR million		%	1 Jan. – 31 Dec. 2002 EUR million		%
Turnover		1 474.5	100.0		1 419.0	100.0
Change in stocks of finished goods and work in progress		-9.2			16.0	
Other operating income (3)		41.5			50.4	
Materials and services						
Raw materials and consumables	767.9			745.2		
Costs of external services	125.6			104.7		
Employee costs (4)	227.8			208.3		
Depreciation (5)	119.2			113.5		
Other operating expenses	292.5	1 533.0		254.9	1 426.6	
Operating profit		–26.2	–1.8		58.8	4.1
Financial income and expense (6) (7)						
Interest income from Group companies	219.9			451.6		
Income from other financial investments	130.2			137.0		
Other interest and similar income	22.0			19.0		
Net exchange gains/losses	54.1			–23.0		
Interest expense and similar charges	–184.7	241.5		–159.0	425.6	
Profit before extraordinary items		215.3	14.6		484.4	34.1
Extraordinary items (8)						
Extraordinary income	12.6			20.7		
Extraordinary expenses	–40.4	–27.8		0.0	20.7	
Profit before appropriations and taxes		187.5	12.7		505.1	35.6
Appropriations						
Change in depreciation differences		3.3			–23.1	
Taxation (9)		–5.1			–13.2	
Profit for the financial period		**185.7**	12.6		**468.8**	33.0

Parent company balance sheet

ASSETS		31 Dec. 2003 EUR million	%		31 Dec. 2002 EUR million	%
Fixed assets						
Intangible assets (10)						
Intangible rights	21.5			22.8		
Purchased goodwill	5.8			7.6		
Other capitalized expenditure	3.9	31.2	0.6	4.5	34.9	0.6
Tangible assets (10) (12)						
Land	22.8			22.9		
Buildings	211.6			222.8		
Plant and equipment	767.6			838.7		
Other tangible assets	7.4			7.8		
Payments in advance and assets in the course of construction	11.1	1 020.5	18.9	9.3	1 101.5	19.2
Financial investments (11) (12)						
Shares in Group companies	1 824.6			1 916.5		
Amounts owed by Group companies	994.6			1 210.1		
Investments in associated companies	415.1			415.2		
Amounts owed by associated companies	9.0			9.3		
Other investments	54.9			46.9		
Other receivables	2.0	3 300.2	61.2	2.0	3 600.0	62.9
Fixed assets, total		4 351.9	80.7		4 736.4	82.7
Current assets						
Inventories						
Raw materials and consumables	52.0			45.9		
Finished goods and goods for resale	121.9			131.0		
Advance payments	14.4	188.3	3.5	12.3	189.2	3.3
Receivables (14) (15) (17)						
Accounts receivable	36.2			14.6		
Amounts owed by Group companies	631.4			657.7		
Amounts owed by associated companies	0.2			0.3		
Other receivables	28.8			19.5		
Prepayments and accrued income (16)	56.9	753.5	14.0	30.8	722.9	12.6
Investments (securities held as financial assets)						
Current financial assets (other than securities)		0.9	0.0		0.9	0.0
Cash at bank and in hand		98.6	1.8		79.9	1.4
Current assets, total		1 041.3	19.3		992.9	17.3
Assets, total		**5 393.2**	100.0		**5 729.3**	100.0

Parent company balance sheet

SHAREHOLDERS' EQUITY AND LIABILITIES	31 Dec. 2003 EUR million		%	31 Dec. 2002 EUR million		%
Shareholders' equity (18)						
Share capital	304.3			304.3		
Share premium account	469.9			469.9		
Revaluation reserve	81.7			81.7		
Retained earnings	831.8			470.4		
Profit for the financial period	185.7	1 873.4	34.7	468.8	1 795.1	31.3
Appropriations						
Accumulated depreciation difference		572.2	10.6		575.4	10.0
Obligatory provisions (19)		24.6	0.5		15.8	0.3
Liabilities (20) (21)						
Long-term liabilities (23)						
Bonds and debentures	940.2			1 077.4		
Loans from financial institutions	1 197.5			865.5		
Pension premium loans	113.0			128.9		
Amounts owed to Group companies				4.6		
Other liabilities	1.3	2 252.0	41.8	56.2	2 132.6	37.2
Short-term liabilities (24)						
Bonds and debentures	10.0			0.0		
Loans from financial institutions	13.3			52.4		
Pension premium loans	15.9			15.9		
Advance payments	0.1			0.1		
Accounts payable	41.3			48.4		
Amounts owed to Group companies	446.2			843.3		
Amounts owed to associated companies	8.6			1.4		
Other liabilities	13.2			138.8		
Accruals and prepaid income (25)	122.5	671.1	12.4	110.1	1 210.4	21.2
Liabilities, total		2 923.1	54.2		3 343.0	58.4
Shareholders' equity and liabilities, total		**5 393.2**	100.0		**5 729.3**	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 2003, 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 in the financial statements.

The financial period of all companies ended on 31 December 2003.

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 amortized 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, unrealized 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 as well as the notes to the accounts of the resource company Oy Metsä-Botnia Ab and its subsidiaries along with Kemiart Liners Oy 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 amortized 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".

A list of major associated companies is given in the share specification under "Shares and investments" on page 72.

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 hedge 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 periodized 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 capitalized 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 realizable 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 periodized over the duration of the agreement.

ENVIRONMENTAL EXPENDITURE

Environmental expenditure comprises the specifiable expenses of environmental protection measures aiming primarily at combating, remedying or alleviating environmental damage.

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 realized are included in the profit and loss account under the appropriate expense heading and in the balance sheet under provisions for future costs whenever the precise amount and 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, EUR million

Profit and loss account

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

2. Share of profit from associated companies

	Percentage holding %	Share of profit	Goodwill amortiz-ation	Share of profits of the companies	Goodwill remaining
Myllykoski Paper Oy	35.0	–4.4	–8.6	–13.0	28.2
Other associated companies		8.1	–0.3	7.8	
		3.7	–8.9	–5.2	28.2

The unamortized amount of consolidated goodwill for associated companies at 31 Dec. 2003 was EUR 28.2 million (2002: EUR 37.0 million); none of the Group reserve was left uncredited to income (2002: EUR 0.0 million).

	Group		Parent company	
	2003	2002	**2003**	2002
3. Other operating income				
Rental income	4.0	4.1	2.7	3.8
Gains on disposal of fixed assets	11.1	13.8	4.6	16.1
Service revenues	12.2	17.3	15.7	15.3
Other items	46.5	38.2	18.5	15.2
	73.8	73.4	41.5	50.4
4. Employee costs				
Wages and fees	713.5	741.8	127.4	117.3
Pension expenses	82.5	85.6	36.7	30.3
Other social expenses	248.3	251.1	63.7	60.7
	1 044.3	1 078.5	227.8	208.3
Salaries and emoluments paid to management				
Managing directors and their alternates	11.3	11.6	0.6	0.4
Members of the Board and deputies	0.9	1.2	0.3	0.3
	12.2	12.8	0.9	0.7

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 bodies 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	
	2003	2002	**2003**	2002
5. Depreciation				
Depreciation according to plan				
Intangible rights	20.7	14.2	6.3	5.3
Purchased goodwill	4.9	3.0	1.8	1.8
Consolidation goodwill	65.1	57.5		
Recognition of Group reserve as income	–4.0	–18.1		
Other capitalized expenditure	2.6	2.3	0.8	0.8
Buildings and constructions	53.3	53.8	13.5	12.9
Machinery and equipment	328.6	337.9	96.0	92.1
Other tangible assets	9.8	7.1	0.8	0.6
Total depreciation according to plan	481.0	457.7	119.2	113.5
Depreciation difference			–2.8	25.1
Total depreciation			116.4	138.6
6. Financial income and expenses				
Dividend income	1.8	1.2	292.9	535.1
Interest income from non-current investments	0.2	1.6	57.2	53.4
Other interest income	14.8	28.0	21.9	19.0
Other financial income	1.1	0.7		0.1
Write-downs on non-current investments	–1.2	0.2		
Interest expenses	181.9	171.8	174.1	141.3
Other financial expenses	11.9	19.0	10.5	17.7
	–174.7	–159.5	187.4	448.6
Exchange rate differences	20.7	–30.5	54.1	–23.0
Financial income and expenses, total	–154.0	–190.0	241.5	425.6
7. Exchange gains/losses in the profit and loss account				
Exchange differences on sales				
Exchange differences on derivatives	25.4	11.0	5.5	–0.5
Other exchange differences	–42.0	–39.4	–18.3	–22.4
	–16.6	–28.4	–12.8	–22.9
Exchange differences on purchases				
Exchange differences on derivatives	–1.2	–2.8		
Other exchange differences	9.9	1.0	0.6	0.3
	8.7	–1.8	0.6	0.3
Exchange differences on financing				
Exchange gains				
Realized	228.1	297.2	235.1	281.5
Unrealized	1.8	10.8	20.3	8.1
Exchange losses				
Realized	–187.4	–251.9	–183.0	–238.0
Unrealized	–21.8	–86.6	–18.3	–74.6
	20.7	–30.5	54.1	–23.0
Exchange differences, total	12.8	–60.7	41.9	–45.6

Notes to the accounts

Profit and loss account

	Group		Parent company	
	2003	2002	**2003**	2002
8. Extraordinary income and expenses				
Extraordinary income				
Capital gain on the divestment of Ahlbbruck		143.2		
Capital gain on the sale of shares	0.9	1.3	0.9	1.3
Gain on merger				7.3
Group contributions received			11.7	12.1
Extraordinary expenses				
Business reorganization items	–16.0		–40.4	
	–15.1	144.5	–27.8	20.7
9. Direct taxes				
Income taxes for the financial period	–31.2	–60.8	–5.3	–8.9
Income taxes for previous periods	12.2	3.6	0.2	–4.3
Change in deferred taxes	18.3	–2.6		
	–0.7	–59.8	–5.1	–13.2
Income taxes on ordinary operations	–24.3	–63.1	–13.4	–5.0
Income taxes on extraordinary items	11.4	–0.3	8.1	–3.9
	–12.9	–63.4	–5.3	–8.9
Change in deferred tax liabilities				
From appropriations and other periodization differences	–4.5	–16.6		
From consolidation				
Netting against assets	1.9	4.6		
	–2.6	–12.0		
Change in deferred tax assets				
From appropriations and other periodization differences	13.6	11.9		
From consolidation	9.2	2.1		
Netting against liabilities	–1.9	–4.6		
	20.9	9.4		

Notes to the accounts

Balance sheet

10. Intangible and tangible assets

	Intangible rights	Purchased goodwill	Con-solidation goodwill	Other capitalized expenditure	Land	Buildings	Plant and equipment	Other tangible assets	Construc-tion in progress
Group									
Acquisition costs, 1 Jan.	114.8	38.2	879.3	56.2	214.0	1 396.2	5 791.7	91.6	80.9
Increases during the period	18.1	2.5	77.1	5.1	7.9	14.4	209.5	33.9	78.7
Transfers between items	2.6			−1.1		10.8	0.2	45.9	−68.8
Decreases during the period	−0.3	0.0		−0.6	−1.7	−9.1	−41.1	−1.1	−18.5
Acquisition costs, 31 Dec. 2003	135.2	40.7	956.4	59.6	220.2	1 412.3	5 960.3	170.3	72.3
Accumulated depreciation, 1 Jan.	−50.9	−20.1	−204.4	−39.0	−1.8	−588.0	−3 174.7	−28.9	
Accumulated depreciation on deductions and transfers	0.1			0.5		5.9	−3.3	−44.6	
Depreciation for the period	−20.7	−4.9	−61.1	−2.6	−0.1	−53.2	−328.6	−9.8	
Accumulated depreciation, 1 Jan. 2003	−71.5	−25.0	−265.5	−41.1	−1.9	−635.3	−3 506.6	−83.3	
Revaluations, 1 Jan.					132.3	36.6			
Reductions in revaluations					−2.2	−0.4			
Revaluations, 31 Dec.					130.1	36.2			
Book value, 31 Dec. 2003	63.7	15.7	690.9	18.5	348.4	813.2	2 453.7	87.0	72.3
Book value, 31 Dec. 2002	63.8	18.2	674.9	17.1	344.5	844.8	2 617.0	62.7	80.9

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 2,295 million for production machinery and equipment.

	Intangible rights	Purchased goodwill	Other capitalized expenditure	Land	Buildings	Plant and equipment	Other tangible assets	Construc-tion in progress
Parent company								
Acquisition costs, 1 Jan.	46.8	20.0	35.8	22.9	313.2	1 477.6	13.9	9.3
Increases during the period	3.5		0.2	0.1	2.5	19.6	0.2	13.1
Transfers between items	1.6				1.4	5.1	0.3	−7.1
Decreases during the period	−0.3			−0.2	−2.6	−2.6	−0.4	−4.2
Acquisition costs, 31 Dec. 2003	51.6	20.0	36.0	22.8	314.5	1 499.7	14.0	11.1
Accumulated depreciation, 1 Jan.	−24.0	−12.4	−31.3		−90.4	−638.9	−6.1	
Accumulated depreciation on deductions and transfers	0.2				1.0	2.8	0.3	
Depreciation for the period	−6.3	−1.8	−0.8		−13.5	−96.0	−0.8	
Accumulated depreciation, 31 Dec. 2003	−30.1	−14.2	−32.1		−102.9	−732.1	−6.6	
Book value, 31 Dec. 2003	21.5	5.8	3.9	22.8	211.6	767.6	7.4	11.1
Book value, 31 Dec. 2002	22.8	7.6	4.5	22.9	222.8	838.7	7.8	9.3

The "Plant and equipment" account includes EUR 732.3 million for production machinery and equipment.

The undepreciated portion of capitalized interest expenses for the Group and the parent company under the balance sheet item "Buildings" at 31 Dec. 2003 was EUR 2.9 million (2002: EUR 4.1 million) and under the balance sheet item "Plant and equipment" it was EUR 3.2 million (2002: EUR 4.3 million), and EUR 3.2 million for the parent company (2002: EUR 4.3 million). In the 2003 financial year, interest expenses were not capitalized (2002: EUR 0.0 million).

Notes to the accounts

Balance sheet

11. Investments

	Shares in Group companies	Shares in associated companies	Other shares and partici-pations	Receiv-ables from Group companies	Receiv-ables from associated companies	Other non-current receivables	Total
Group							
Acquisition costs, 1 Jan. 2003	0.7	94.3	53.5	17.5	21.2	21.5	208.7
Increases during the period		2.5	9.0	0.1		1.6	13.2
Decreases during the period		−10.4	−5.2		−3.3		−18.9
Acquisition costs, 31 Dec. 2003	0.7	86.4	57.3	17.6	17.9	23.1	203.0
Revaluations, 1 Jan. 2003			1.9				1.9
Increases during the period			0.4				0.4
Reductions in revaluations							
Revaluations, 31 Dec. 2003			2.3				2.3
Book value, 31 Dec. 2003	0.7	86.4	59.6	17.6	17.9	23.1	205.3

	Shares in Group companies	Shares in associated companies	Other shares and partici-pations	Receiv-ables from Group companies	Receiv-ables from associated companies	Other non-current receivables	Total
Parent company							
Acquisition costs, 1 Jan. 2003	1 781.4	413.5	46.9	1 210.1	9.3	2.0	3 463.2
Increases during the period	375.3		8.1	689.0			1 072.4
Decreases during the period	−467.1	−0.1	−0.2	−914.7	−0.3		−1 382.4
Transfers between items	−0.1		0.1	10.2			10.2
Acquisition costs, 31 Dec. 2003	1 689.5	413.4	54.9	994.6	9.0	2.0	3 163.4
Revaluations, 1 Jan./31 Dec.	135.1	1.7					136.8
Book value, 31 Dec. 2003	1 824.6	415.1	54.9	994.6	9.0	2.0	3 300.2

12. Revaluations

	1 Jan.	Increases	Decreases	31 Dec.
Group				
Land	132.3		−2.2	130.1
Buildings	36.6		−0.4	36.2
Shares	1.9	0.4		2.3
	170.8	0.4	−2.6	168.6
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 48.9 million for the Group and EUR 39.7 million for the parent company, when calculated according to a 29% 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	
	2003	2002	**2003**	2002
14. Current assets/Long-term receivables				
Receivables from Group companies				
Amounts owed by others				
Loan receivables	0.1	0.1		
Other current receivables	4.6	0.2		
Tax assets	22.1	22.0		
	26.8	22.3		
15. Current assets/Short-term receivables				
Amounts owed by Group companies				
Accounts receivable	1.6	0.5	174.7	201.4
Loan receivables	69.8	77.5	301.5	347.3
Other current receivables	0.6	0.6	116.9	93.2
Prepayments and accrued income		1.1	38.3	15.8
Amounts owed by associated companies				
Accounts receivable	1.5	2.8	0.1	0.1
Loan receivables	7.5	8.7	0.1	0.1
Other current receivables				0.1
Amounts owed by others				
Accounts receivable	1 001.8	1 084.7	36.2	14.6
Loan receivables	0.1	0.3		
Other current receivables	125.4	147.0	28.8	19.5
Prepayments and accrued income	116.8	115.4	56.9	30.8
	1 325.1	1 438.6	753.5	722.9
16. Prepayments and accrued income				
Interest	16.7	28.5	0.1	0.2
Insurance	7.0	3.7	5.0	2.1
Taxes	43.5	38.6	40.2	23.8
Discounts	3.1	1.6	1.3	0.6
Others	46.5	43.0	10.3	4.1
	116.8	115.4	56.9	30.8
17. Interest-bearing recievables				
Loan receivables and other non-current assets	53.7	55.0	1005.6	1221.4
Liquid funds and other current assets	261.4	287.4	515.8	509.4
	315.1	342.4	1 521.4	1 730.8

Notes to the accounts

Balance sheet

	Group		Parent company	
	2003	2002	**2003**	2002
18. Shareholders' equity				
Share capital, 1 Jan.				
Series A shares	61.8	61.8	61.8	61.8
Series B shares	242.5	242.5	242.5	242.5
Share capital, 31 Dec.	304.3	304.3	304.3	304.3
Share premium account, 1 Jan.	472.9	469.9	469.9	469.9
Other changes		3.0		
Share premium account, 31 Dec.	472.9	472.9	469.9	469.9
Revaluation reserves, 1 Jan.	104.6	104.7	81.7	81.7
Increases/decreases during the period		–0.1		
Revaluation reserves, 31 Dec.	104.6	104.6	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.	1 577.5	1 460.2	939.2	577.8
Dividends paid	–107.4	–107.4	–107.4	–107.4
Transfers to restricted equity				
Change in translation differences on consolidation	–13.5	15.3		
Other increases	0.2	0.5		
Profit for the financial period	–95.0	208.9	185.7	468.8
Other reserves and retained earnings, 31 Dec.	1 361.8	1 577.5	1 017.5	939.2
Convertible subordinated capital notes issued				
Convertible subordinated capital notes, 1 Jan.		310.4		310.4
Decrease		–310.4		–310.4
Convertible subordinated capital notes, 31 Dec.				
Shareholders' equity	2 245.3	2 461.0	1 873.4	1 795.1

Notes to the accounts

Balance sheet

	Group 2003	Group 2002
Distributable funds		
Retained earnings	1 361.8	1 577.5
Untaxed reserves in shareholders' equity	–587.9	–621.9
Other non-distributable items	–23.2	–23.2
Distributable funds	750.7	932.4
Untaxed reserves, 31 Dec.		
Accumulated depreciation difference	990.1	1 081.6
Other reserves	41.5	1.4
	1 031.6	1 083.0
Deferred tax liability in untaxed reserves	–306.9	–324.6
	724.7	758.4
Minority interest in untaxed reserves	–1.3	–12.5
	723.4	745.9
Reserves at the date of acquisition	–135.5	–124.0
Untaxed reserves in shareholders' equity, 31 Dec.	587.9	621.9

19. Provisions for liabilities and charges

	1 Jan.	Increase	Decrease	31 Dec.
Group				
Pension liability reserve	10.2	0.4	–2.0	8.6
Provision for unemployment pension costs	14.8	7.5	–4.9	17.4
Provision for expenses on closure of businesses	25.1	17.4	–13.1	29.4
Provision for rental costs	2.7		–0.6	2.1
Other payments	13.5	8.7	–2.3	19.9
	66.3	34.0	–22.9	77.4
Parent company				
Pension liability reserve	4.4		–0.4	4.0
Provision for unemployment pension costs	6.8	7.5	–2.4	11.9
Provision for expenses on closure of businesses	0.8		–0.8	
Provision for rental costs	2.7		–0.8	1.9
Other payments	1.1	5.7		6.8
	15.8	13.2	–4.4	24.6

Notes to the accounts

Balance sheet

	Interest %	Group 2003	Group 2002	Parent company 2003	Parent company 2002
20. Liabilities					
Long-term					
Non-interest bearing		524.6	514.4	24.6	15.8
Interest bearing		2 583.4	2 582.2	2 252.0	2 132.6
		3 108.0	3 096.6	2 276.6	2 148.4
Short-term					
Non-interest bearing		893.2	998.6	217.8	225.2
Interest bearing		840.8	779.4	453.3	985.2
		1 734.0	1 778.0	671.1	1 210.4
Bonds	Interest %				
1999 – 2004	2.76	10.0	10.0	10.0	10.0
1999 – 2006	4.88	199.8	199.8	199.8	199.8
2000 – 2005	2.64	35.0	35.0	35.0	35.0
2000 – 2005	2.80	10.0	10.0	10.0	10.0
2000 – 2005	2.87	5.0	5.0	5.0	5.0
2000 – 2007	3.00	34.9	34.9	34.9	34.9
2000 – 2008	2.98	17.9	17.9	17.9	17.9
2001 – 2006	2.73	5.4	5.3	5.4	5.3
2001 – 2006	2.57	7.9	9.5	7.9	9.5
2001 – 2006	2.94	7.9	9.5	7.9	9.5
2001 – 2006	3.59	10.0	10.0	10.0	10.0
2001 – 2006	3.86	15.0	15.0	15.0	15.0
2001 – 2031	3.75		256.0		256.0
2002 – 2005	6.29	16.0	16.0	16.0	16.0
2002 – 2005	3.75	10.0	10.0	10.0	10.0
2002 – 2005	7.25	33.0	32.8	33.0	32.8
2002 – 2005	7.21	33.0	33.0	33.0	33.0
2002 – 2009	8.89	107.5	123.6	107.5	123.6
2002 – 2012	9.20	112.3	112.3	112.3	112.3
2002 – 2014	9.40	131.9	131.8	131.9	131.8
2003 – 2006	5.24	30.0		30.0	
2003 – 2008	4.31	98.0		98.0	
2003 – 2008	4.05	19.7		19.7	
Total		950.2	1 077.4	950.2	1 077.4
Bonds with equity warrants					
1997 – 2000 [1]					
		950.2	1 077.4	950.2	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 ended on 31 October 2003. No subscriptions were made.

Notes to the accounts

Balance sheet

21. Long-term debts with amortization plan	Loans from Bonds	Financial Institutions	Pension loans	Other loans	Total
2004	10.0	143.4	16.4	6.8	176.6
2005	142.0	705.7	16.4	8.3	872.4
2006	276.0	21.3	16.3	6.4	320.0
2007	34.9	256.9	16.1	6.8	314.7
2008	135.6	54.8	16.1	6.0	212.5
2009 –	351.7	272.0	58.9	181.3	863.9
Total at the end of the financial period	950.2	1 454.1	140.2	215.6	2 760.1

	Group	
	2003	2002
22. Deferred taxes		
Deferred tax liability		
For periodization differences and appropriations	457.4	445.2
For consolidation entries	21.1	22.2
Netting against assets	–46.6	–35.4
Total	431.9	432.0
Tax assets		
For periodization differences and appopriations	68.7	57.4
For consolidation entries		
Netting against liabilities	–46.6	–35.4
Total	22.1	22.0

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 periodization differences primarily comprise provisions for future costs.

Deferred tax assets totalling EUR 153 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	
	2003	2002	**2003**	2002
23. Long-term liabilities				
Amounts owed to Group companies				
Other liabilities	2.1	2.1		4.6
Amounts owed to associated companies				
Other liabilities		0.3		
Accounts payable	0.1			
Amounts owed to others				
Bonds and debentures	940.2	1 077.4	940.2	1 077.4
Loans from financial insitutions	1 310.7	1 101.5	1 197.5	865.5
Pension premium loans	123.8	140.6	113.0	128.9
Deferred tax liabilities	431.9	432.0		
Accounts payable	1.2	2.1		
Other liabilities	210.7	261.2	1.3	56.2
Accruals and deferred income	9.9	13.1		
	3 030.6	3 030.3	2 252.0	2 132.6

Notes to the accounts

Balance sheet

	Group 2003	Group 2002	Parent company 2003	Parent company 2002
24. Short-term liabilities				
Amounts owed to Group companies				
Accounts payable	32.5	18.5	25.9	20.6
Other liabilities	378.7	214.8	401.4	790.6
Accruals and deferred income	4.5	9.2	18.9	32.1
Amounts owed to associated companies				
Accounts payable	17.3	18.2	0.7	1.4
Other liabilities	67.0	45.8	7.9	
Amounts owed to others				
Bonds and debentures	10.0		10.0	
Loans from financial institutions	188.1	164.4	13.3	52.4
Pension premium loans	16.4	16.4	15.9	15.9
Advance payments	2.2	2.5	0.1	0.1
Accounts payable	367.7	402.2	41.3	48.4
Bills of exchange, payable	13.0	11.6		
Other liabilities	270.5	452.3	13.2	138.8
Accruals and deferred income	366.1	422.1	122.5	110.1
	1 734.0	1 778.0	671.1	1 210.4
25. Accruals and deferred income				
Long-term				
Periodizations of personnel expenses	5.5	5.0		
Periodizations of waste paper payments	1.1	4.1		
Tax periodizations	0.8	0.8		
Compensations and contribution commitments	1.3	1.4		
Others	1.2	1.8		
	9.9	13.1		
Short-term				
Periodizations of insurance premiums	5.5	5.1	2.2	2.1
Unrealized foreign exchange difference	5.5	6.5	5.4	5.6
Accruals of wage, salary and staff costs	100.2	95.1	32.0	31.0
Tax periodization	29.7	83.3		2.9
Interests	42.2	41.0	24.1	19.7
Accruals of purchases	51.3	58.6	12.1	13.1
Freight costs	14.6	10.9	2.7	2.7
Provisions for discounts	51.0	52.4	17.7	15.4
Others	66.1	69.2	26.3	17.6
	366.1	422.1	122.5	110.1

Notes to the accounts

Balance sheet

	Group		Parent company	
	2003	2002	**2003**	2002
26. Contingent liabilities				
For own liabilities				
Liabilities secured by pledges				
Loans from financial institutions	6.7	9.5		
Other liabilities	39.5	197.2	39.5	196.2
Pledges granted	46.7	206.6	39.5	196.2
Liabilities secured by real-estate mortgates				
Loans from financial institutions	173.8	220.6	89.7	102.5
Other liabilities	8.5	22.4		
Real-estate mortgages	170.3	220.6	89.7	102.5
Liabilities secured by mortgages on movable property				
Loans from financial institutions		1.9		
Other liabilities	1.3	1.4		
Mortgages on movable property	2.9	1.4		
On behalf of Group property				
Pledges				
Real-estate mortgages	3.7	3.7	3.7	3.7
Guarantee liabilities	1.2	22.5	1 597.2	1 648.5
On behalf of associated companies				
Pledges				
Real-estate mortgages				
Guarantee liabilities	0.7	0.2		
On behalf of others				
Pledges		0.1		
Guarantee liabilities	13.5	5.1	8.1	1.3
Other liabilities				
As security for own commitments	0,1	1,8		
As security for other commitments	1,2			
Leasing commitments				
Payments due in following year	18.2	11.4	6.8	4.5
Payments due in subsequent years	48.4	43.8	19.0	22.0
Total				
Real-estate mortgages	174.0	224.3	93.4	106.2
Mortgages on movable property	2.9	1.4		
Pledges	46.7	206.7	39.5	196.2
Guarantees	15.4	27.8	1 605.3	1 649.8
Promissory notes	0.7	0.6		
Other liabilities	1.3	1.8		
Leasing liabilities *	66.6	55.2	25.8	26.5
	307.6	517.8	1 764.0	1 978.7

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

Notes to the accounts

Balance sheet

	Group 2003	Group 2002
Financial lease agreements		
Value of assets in the consolidated balance sheet		
Land	0.8	0.8
Buildings	4.9	4.2
Plant and equipment	71.4	77.6
	77.1	82.6
Financial leasing payments		
Short-term	5.1	8.0
Long-term	63.6	66.3
	68.7	74.3
Future leasing payments		
Year 2003		8.0
Year 2004	5.1	4.7
Year 2005	4.7	4.6
Year 2006	3.7	4.1
Year 2007	2.6	2.9
Year 2008	2.7	2.1
Next years	52.2	47.9
Future leasing payments, total	71.0	74.3

Group	2003		2002	
Liabilities due to open derivative contracts	**Gross amount**	**Going value**	**Gross amount**	**Going value**
I Interest rate derivatives				
Forward agreements	2 861.9	–0.1	2 220.0	–0.3
Options				
Purchased	3 800.0	–1.4	3 220.0	–1.6
Sold	4 400.0	–4.7	3 220.0	–8.6
Interest rate swap agreements	1 955.1	–12.1	1 337.6	–9.8
II Currency derivatives				
Forward agreements	2 129.5	11.8	1 955.8	2.4
Options				
Purchased	920.7	8.6	765.1	6.7
Sold	1 316.3	-3.7	1 524.5	-4.0
Currency swap agreements	234.8		586.9	
Derivative contracts, total	17 618.3	–1.6	14 829.9	–15.2

Also includes other closed contracts to a total amount of EUR 9,665.1 million.

Notes to the accounts

Balance sheet

	Group 2003	Group 2002
27. Environmental affairs		
Profit and loss account		
Raw materials and consumables	27.3	26.1
Employee costs		
Wages and fees	7.4	7.1
Social expenses	2.6	1.6
Depreciation	23.1	19.9
Other operating expenses	23.5	27.5
	83.9	82.2
Balance sheet		
Tangible assets		
Acquisition costs, 1 Jan.	592.0	576.6
Increases	22.6	13.0
Depreciation	–380.3	–356.2
Book value, 31 Dec.	234.3	233.3
Obligatory provisions		
Other obligatory provisions	7.2	1.5
Conditional environmental-related liabilities	0.9	2.2

28. Major group companies and other shareholdings [1)]

	Country	Number of shares	Parent company's holding, %	Group's holding, %	Currency	Nominal value of shares thousand	Currency	Book value thousand
Shares and participations owned by the same group								
Biowatti Oy	Finland	5 128	5.00	6.41	EUR	57	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	150	100.00	100.00	EUR	126	EUR	3 919
M-real International Oy	Finland	10 000	100.00	100.00	EUR	169	EUR	3 347
M-real Tissue Oy	Finland	100	100.00	100.00	EUR	8	EUR	10
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	19 800 000	66.00	100.00	EUR	33 301	EUR	98 528
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	351 610
M-real Fine B.V.	The Netherlands	1 000	100.00	100.00	EUR	454	EUR	3 047
M-real IBP Deals Americas Ltd	USA	50	100.00	100.00	USD	0	EUR	0
M-real IBP Deals Europe S.A.	Belgium	999	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
Metsä Group Schweiz AG	Switzerland	188	100.00	100.00	CHF	94	EUR	24
M-real Sverige Ab **	Sweden	4 950 000	49.50	100.00	SEK	495 000	EUR	1 116 773
M-real ServiceS.p.Z.o.o	Poland	400	100.00	100.00	PLN	200	EUR	286
M-real UK Holdings Ltd	Great Britain	146 750 000	100.00	100.00	GBP	146 750	EUR	147 939
M-real Meulemans S.A.	Belgium	1	0.06	100.00	EUR	1	EUR	14
Map Merchant Holdings B.V.	The Netherlands	6 000	100.00	100.00	EUR	4 727	EUR	206 033
Price & Pierce Holdings B.V.	The Netherlands	30	75.00	75.00	EUR	14	EUR	0
Associated companies								
Finncao Oy	Finland	798	38.00	38.00	EUR	16	EUR	61
Grovehurst Energy Ltd	Great Britain	50	0.00	50.00	GBP	50	GBP	-255
Kirkniemen Kartano Oy	Finland	27 408	48.00	48.00	EUR	27 408	EUR	2 780
Metsä Acquisition Oy	Finland	34	34.00	34.00	EUR	3	EUR	3
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	37
Metsämannut Oy	Finland	35	30.00	34.70	EUR	6	EUR	332
MMM Logisware Oy	Finland	2 250	50.00	50.00	EUR	378	EUR	7 985
More Pulp Tech AB	Sweden	24 000	40.00	40.00	SEK	2 400	SEK	7 423
Myllykoski Paper Oy	Finland	105 000	35.00	35.00	EUR	2 100	EUR	62 698
Mäntän Energia Oy	Finland	1 180	0.00	29.50	EUR	153	EUR	405
Paperinkeräys Oy	Finland	18 186	16.10	20.20	EUR	31	EUR	2 610
Plastiroll Oy	Finland	39	39.00	39.00	EUR	7	EUR	3 478
Varma Services Ltd	Great Britain	2 809	0.00	28.10	GBP	3	EUR	12
Kemiart Liners Oy	Finland	940 000	47.00	47.00	EUR	9 400	EUR	9 400

* A controlling interest of over 50% under the shareholders' agreement.
** Goodwill is amortized over twenty years.
*** Goodwill is amortized 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	Currency	Book value 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	1	100.00	100.00	EUR	12 000	EUR	52 440
– Halstrick Polska Sp.z.o.o	Poland	1	100.00	100.00	PLN	500	PLN	12
– Transportdesellschaft Halstrick GmbH	Germany	1	100.00	100.00	EUR	97	EUR	327
– Metsä Tissue Immobilienverwaltungs GmbH	Germany	1	100.00	100.00	EUR	50	EUR	53
– Metsä Tissue S.A.R.L.	France	3 099	99.97	99.97	EUR	236	EUR	315
– Metsä Tissue Ltd	Great Britain	100	100.00	100.00	GBP	0	EUR	72
– Metsä Tissue S.A.	Poland	3 544 060	100.00	100.00	PLN	15 558	EUR	26 219
– Krapex Sp z.o.o	Poland	85	85.00	85.00	PLN	85	PLN	3 529
– Remex Sp. z.o.o	Poland	700	70.00	70.00	PLN	70	PLN	0
– Tissu Canarias S.A.	Spain	99 660	99.66	99.66	EUR	229	EUR	779
– 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
– Dambi AB	Sweden	1000	100.00	100.00	SEK	100	SEK	100
– Metsä Tissue Parkki Oy	Finland	10	100.00	100.00	EUR	8	EUR	8
M-real International Oy								
– BFT-Baltic Forest Terminals Ltd	Poland	200	96.00	100.00	PLN	96	EUR	168
– M-real Benelux B.V.	The Netherlands	400	100.00	100.00	EUR	18	EUR	20
– M-real Benelux n.v./s.a	Belgium	2 921	100.00	100.00	EUR	124	EUR	140
– M-real CZ, s.r.o.	Czech Republic		100.00	100.00	CZK	100	EUR	3
– M-real Deutschland GmbH	Germany	1	100.00	100.00	EUR	55	EUR	425
– M-real France S.A.	France	8 211	100.00	100.00	EUR	125	EUR	219
– M-real Hellas Ltd	Greece	306	50.00	51.00	EUR	9	EUR	9
– M-real Hong Kong Ltd	Hong Kong	100	99.00	100.00	HKD	10	EUR	1
– M-real Shanghai Ltd	China		100.00	100.00	CNY	1 159	HKD	1 093
– M-real Ibéria S.A.	Spain	147 772	99.00	100.00	EUR	148	EUR	156
– M-real Ibèrica Lda	Portugal		80.00	100.00	EUR	5	EUR	5
– M-real Ireland Ltd	Ireland	5 000	100.00	100.00	EUR	6	EUR	6
– M-real Italia s.r.l.	Italy	100 000	100.00	100.00	EUR	52	EUR	51
– Nihon M-real KK	Japan	200	100.00	100.00	JPY	10 000	EUR	74
– M-real Kft	Hungary	30	90.00	100.00	HUF	3 000	EUR	14
– M-real (Middle East & North Africa) Ltd	Cyprus	742 105	100.00	100.00	CYP	742	EUR	214
– M-real Polska Sp. Z o.o.	Poland	232	100.00	100.00	PLN	116	EUR	55
– M-real Nordic A/S	Denmark	36	100.00	100.00	DKK	715	EUR	64
– M-real Nordic 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 Slovakia, S.r.o.	Slovakia		100.00	100.00	SKK	200	EUR	6
– M-real UK Ltd	Great Britain	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

	Country	Number of shares	Parent company's holding, %	Group's holding, %	Currency	Nominal value of shares thousand	Currency	Book value thousand
Subgroups in other countries								
M-real Sverige AB								
– Örnsköldsviks Stuveri AB	Sweden	5 400	100.00	100.00	SEK	540	SEK	5 185
– 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 Holding France SAS	France	12 786 663	100.00	100.00	EUR	194 931	SEK	1 681 327
– M-real Alizay SAS	France	5 015 710	100.00	100.00	EUR	80 251	EUR	167 692
– M-real Alizay SNC	France	39 999 999	99.99	100.00	EUR	40 000	EUR	60 980
– M-real PSM SA	France	1 502 495	99.99	100.00	EUR	22 537	EUR	40 750
– Modo Merchants Benelux BV	The Netherlands	4 831	100.00	100.00	EUR	2 192	SEK	9 592
M-real Deutsche Holding GmbH								
– CN Papiervertriebs GmbH	Germany		85.00	85.00	EUR	272	EUR	1 538
– M-real Sverige Ab *	Sweden	5 050 000	50.50	100.00	SEK	505 000	EUR	472 228
– M-real Zanders GmbH *	Germany	2 800 000	100.00	100.00	EUR	79 596	EUR	122 952
– M-real Service Co.	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	Great Britain		100.00	100.00	GBP	50	EUR	57
– 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	400 013
– Chemische Werke Zell-Wildshausen GmbH	Germany		100.00	100.00	EUR	562	EUR	564
– 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
Map Merchant Holdings BV								
– Map Merchant Netherlands B.V.	The Netherlands	50 000 000	100.00	100.00	EUR	50 000	EUR	225 918
– Amerpap Oy	Finland	5 600	100.00	100.00	EUR	4 709	EUR	25 000
– Grafisch Papier B.V.	The Netherlands	570	100.00	100.00	EUR	129	EUR	29 600
– Printec B.V.	The Netherlands	80	100.00	100.00	EUR	18	EUR	0
– Uniepapier Flevoland B.V.	The Netherlands	400	51.00	51.00	EUR	18	EUR	0
– Uniepapier Zwolle B.V.	The Netherlands	400	51.00	51.00	EUR	18	EUR	0
– Uniepapier Randstad B.V.	The Netherlands	400	51.00	51.00	EUR	18	EUR	0
– GPG Papier N.V.	Belgium	300 000	100.00	100.00	EUR	7 437	EUR	6 000
– Map Merchant Group Ltd.	Great Britain	40 600 000	100.00	100.00	GBP	95 016	EUR	148 390
– Hedsor Ltd.	Great Britain	495 000	100.00	100.00	GBP	495	GBP	5 527
– James McNaughton Paper Group Ltd.	Great Britain	9 392 507	93.93	93.93	GBP	9 393	GPB	53 106
– James McNaughton Paper Merchants Ltd.	Great Britain	75 000	100.00	100.00	GBP	75	GPB	67
– James McNaughton Agencies Ltd.	Great Britain	40 000	100.00	100.00	GBP	10	GPB	10
– McNaughton Publishing Papers Ltd.	Great Britain	100	100.00	100.00	GBP	0	GPB	0
– McNaughton Paper Ireland Ltd.	Ireland	157 135	98.90	98.90	GBP	157	GPB	622
– McNaughton Paper Ireland Manufacturing Ltd.	Ireland	1 000	98.90	98.90	GBP	1	GPB	0
– McNaughton Paper N.I Ltd	Great Britain	1 060	98.80	98.80	GBP	0	GBP	132
– Printall Display Ltd.	Great Britain	50 000	100.00	100.00	GBP	50	GPB	489
– County Paper Company Ltd.	Great Britain	182	100.00	100.00	GBP	0	GPB	857
– Carefree Paper Company Ltd.	Great Britain	100	100.00	100.00	GBP	0	GPB	29
– Brian J. Small (Paper) Ltd.	Great Britain	52 185	100.00	100.00	GBP	52	GPB	0
– GM2 Logistics Ltd.	Great Britain	125 000	50.00	100.00	GBP	250	GPB	125
– Ingram Group Ltd.	Great Britain	50 000	100.00	100.00	GBP	50	GPB	0
– Paper Management Services Ltd	Great Britain	2	100.00	100.00	GBP	0	GPB	855
– Modo Merchants Ltd	Great Britain	400 000	100.00	100.00	GBP	18 400	GBP	18 800
– GM2 Logistics Ltd.	Great Britain	125 000	50.00	100.00	GBP	250	GBP	125
– Premier Paper Group Ltd.	Great Britain	10 000 001	100.00	100.00	GBP	18 000	GBP	46 198

* Goodwill is amortized over twenty years.

	Country	Number of shares	Parent company's holding, %	Group's holding, %	Currency	Nominal value of shares thousand	Book value Currency	Book value thousand
– Map Merchant Holdings GmbH	Germany	40	100.00	100.00	EUR	17	EUR	36 800
– 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	1 199	EUR	1 205
– ECCO-Papier Spolka z oo	Poland	17 524	100.00	100.00	PLN	8 762	EUR	13 627
– Modo Paper Distribuciòn SA	Spain	9 428	4.02	100.00	EUR	57	EUR	161
– Schramm/Papirgros A/S	Denmark	48 000	100.00	100.00	DKK	4 800	EUR	12 306
– ECCO Hungaria Kft.	Hungary		100.00	100.00	HUF	187 500	EUR	1 279
– SCA Paper Trade s.rl.	Romania	1 800	80.00	80.00	ROL	345 600	EUR	752
– Interpapir d.o.o.	Slovenia		100.00	100.00	SIT	68 138	EUR	678
– ECCO Paper CZ s.r.o.	Czech Republic		99.90	99.90	CZK	29 970	EUR	4 822
– 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	6 000	EUR	1 156
– MODO PAPER d.o.o.	Croatia		100.00	100.00	KUNA	500	EUR	74
– Map Merchant Sweden Ab	Sweden	19 000	100.00	100.00	SEK	19 000	EUR	2 000
– Modo Merchants AB	Sweden	1 000	100.00	100.00	SEK	100	SEK	139 500
– 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	90.70	90.70	LVL	3 418	SEK	25 582
– Modo Paper Lietuva	Lithuania	36 980	18.49	18.49			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	33 000
Metsä Group Schweiz AG								
– M-real Schweiz AG	Switzerland	100	100.00	100.00	CHF	1	CHF	100
M-real IBP Deals Europe S.A.								
– M-real Meulemans *	Belgium	1 599	99.94	100.00	EUR	1 489	EUR	22 486
M-real NL Holding B.V								
– M-real 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 IBP HK Ltd	Hong Kong		99.00	99.00	HKD	0	EUR	0
– M-real Winschoten B.V.	The Netherlands	3 000	100.00	100.00	EUR	1 361	EUR	1 958
M-real UK Holdings Ltd								
– M-real New Thames Ltd	Great Britain	88 000 000	100.00	100.00	GBP	88 000	GBP	58 239
– M-real Sittingbourne Ltd	Great Britain	80 800 001	100.00	100.00	GBP	80 800	GBP	22 028
Price & Pierce Holdings B.V.								
– Price & Pierce Finland	Finland		100.00	100.00	EUR	32	EUR	1 411
– Price & Pierce Inc	USA	375 000	100.00	100.00	USD	4 177	EUR	8 757
– Price & Pierce Europe Ltd	Great Britain		100.00	100.00	GBP	12 551	EUR	18 270
– Price & Pierce (Asia Pacific) Pte Ltd	Singapore	500 000	100.00	100.00	USD	10 092	EUR	12 107
– Price & Pierce (HK) Ltd	Hong Kong	100 000	100.00	100.00	HKD	100 000	EUR	299
Other shareholdings								
Expresso 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	1 240 039	2.89	3.69	EUR	2 085	EUR	34 020
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 amortized over ten years.

The book value of listed shares was EUR 0.1 million and the market value was EUR 0.2 million.

Shares and shareholders

SHARE CAPITAL AND SHARES AT 31 DECEMBER 2003

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 Stock Exchange.

The highest price of M-real's Series B share on Helsinki Exchanges during the financial year was EUR 8.99 and the lowest price was EUR 6.21. The average share price was EUR 7.26. In 2002 the average price was EUR 8.28. The price of the Series B share was EUR 7.03 at the end of the financial year on 31 December 2003.

Turnover of the Series B share was EUR 585 million, or 56 per cent of the shares outstanding. The market capitalization of the Series A and B shares at 31 December 2003 totalled EUR 1,286 million.

At 31 December 2003, Metsäliitto Cooperative 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 34.2 per cent of the shares.

DIRECTORS' INTEREST

Shareholdings of the Board of directors and the management are presented on page 22.

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 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 2003	Series A	Series B	Total	% of votes	% of shares
1	Metsäliitto Cooperative	25 751 535	43 153 900	68 905 435	64.2	38.5
2	Ilmarinen Mutual Pension Insurance Company	3 478 330	1 298 181	4 776 511	8.2	2.7
3	Varma 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	1 704 249	96 845	1 801 094	3.9	1.0
5	Etera Mutual Pension Insurance Company	117 500	561 900	679 400	0.3	0.4
6	OP-Delta Investment Fund		669 510	669 510	0.1	0.4
7	Metsäliitto Employees' Pension Fund	16 070	577 900	593 970	0.1	0.3
8	Polaris Pension Fund	227 770	311 505	539 275	0.6	0.3
9	OP Life Assurance Company Ltd		519 900	519 900	0.1	0.3
10	Sampo Finnish Equity Fund		514 975	514 975	0.1	0.3
11	Pohjola Finland Value Fund		420 000	420 000	0.1	0.2
12	Tapiola Mutual Life Assurance Company		402 300	402 300	0.1	0.2
13	Nordea Fennia Fund		380 200	380 200	0	0.2
14	Turun Kaupungin Vahinkorahasto	126 046	189 500	315 546	0.3	0.2
15	Placeringsfonden Aktia Secura		310 000	310 000	0	0.2
16	Sampo Finnish Equity Fund		292 025	292 025	0	0.2
17	Placeringsfonden Aktia Capital	122 000	170 000	292 000	0.3	0.2
18	Kirkon Keskusrahasto		277 249	277 249	0	0.2
19	Nordea Foresta Fund		258 500	258 500	0	0.1
20	Elit Capital	64 500	186 275	250 775	0.2	0.1

Shares and shareholders

BREAKDOWN OF SHAREHOLDERS

M-real A 31.12.2003

Number of shares	Number of shareholders	%	Total number of shares	%	Number of votes	%
1 – 10	81	2.86	600	0	12 000	0
11 – 50	245	8.66	8 390	0.02	167 800	0.02
51 – 100	317	11.21	26 621	0.07	532 420	0.07
101 – 500	1 299	45.93	401 591	1.11	8 031 820	1.11
501 – 1 000	429	15.17	356 718	0.98	7 134 360	0.98
1 001 – 5 000	395	13.97	882 905	2.43	17 658 100	2.43
5 001 – 10 000	34	1.2	252 545	0.69	5 050 900	0.69
10 001 – 50 000	17	0.6	432 645	1.19	8 652 900	1.19
50 001 – 100 000	2	0.07	135 500	0.37	2 710 000	0.37
100 001 – 500 000	5	0.18	705 377	1.94	14 107 540	1.94
500 001 – 1 000 000	0	0	0	0	0	0
1 000 001 –	4	0.14	33 137 658	91.19	662 753 160	91.19
Total number	**2 828**	**100**	**36 340 550**	**100**	**726 811 000**	**100**
On the waiting list, total			0	0	0	0
Grand total account			0	0	0	0
Number issued	**2 828**	**100**	**36 340 550**	**100**	**726 811 000**	**100**

M-real B 31.12.2003

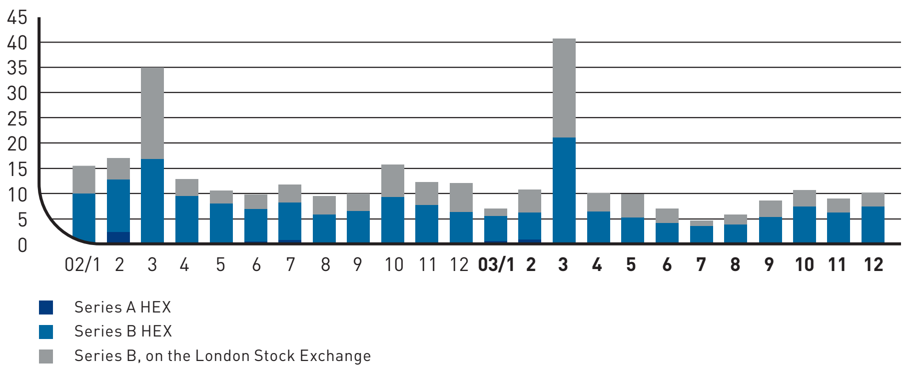
Number of shares	Number of shareholders	%	Total number of shares	%	Number of votes	%
1 – 10	4 240	10.44	35 738	0.03	35 738	0.03
11 – 50	9 814	24.16	295 994	0.21	295 994	0.21
51 – 100	6 274	15.45	473 796	0.33	473 796	0.33
101 – 500	12 161	29.94	3 434 990	2.41	3 434 990	2.41
501 – 1 000	3 630	8.94	3 019 290	2.12	3 019 290	2.12
1 001 – 5 000	3 700	9.11	8 174 597	5.73	8 174 597	5.73
5 001 – 10 000	443	1.09	3 210 083	2.25	3 210 083	2.25
10 001 – 50 000	269	0.66	5 449 116	3.82	5 449 116	3.82
50 001 – 100 000	38	0.09	2 654 334	1.86	2 654 334	1.86
100 001 – 500 000	41	0.1	8 389 211	5.88	8 389 211	5.88
500 001 – 1 000 000	5	0.01	2 844 185	1.99	2 844 185	1.99
1 000 001 –	5	0.01	104 677 541	73.38	104 677 541	73.38
Total number	**40 620**	**100**	**142 658 875**	**100**	**142 658 875**	**100**
On the waiting list, total			0	0	0	0
Grand total account			0	0	0	0
Number issued	**40 620**	**100**	**142 658 875**	**100**	**142 658 875**	**100**

SHARE ISSUES 1992–2003

Type of issue	Subscription period	Ratio of issue or subscriber	Subsciption 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 B: 9.25	559 084 1 020 809	17.1.1992	4.7 8.6	 171.6
Direct issue	29.6.1993		B: 28.09	3 460 000	29.6.1993	29.1	200.7
Subsciption 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 permiun 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 2002–2003, million shares



Shares and shareholders

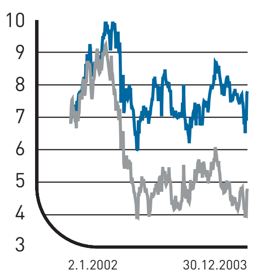
SHARE PERFORMANCE

		2003	2002	2001	2000	1999
Adjusted prices, EUR						
Series A	high	8.79	10.00	8.85	12.70	11.40
	low	6.20	6.00	4.91	6.53	5.90
	at year end	7.80	7.85	6.95	8.10	11.10
	average	7.64	8.46	7.16	8.11	8.14
Series B	high	8.99	10.44	9.13	12.90	11,70
	low	6.21	5.88	4.85	6.32	5,85
	at year end	7.03	8.00	6.94	8.50	11,55
	average	7.26	8.28	6.96	8.65	8,25
Trading in shares, Units on Helsinki Exchanges						
Series A		1 765 522	4 262 501	1 321 616	1 381 515	1 220 478
% of total no. of Series A		4.9	11.7	3.6	3.8	3.4
Series B		80 581 564	103 484 655	69 504 014	50 478 814	51 827 710
% of total no. of Series B		56.5	72.5	52.5	49.2	50.5
On the London Stock Exchange						
Units		52 170 465	64 104 633	64 207 590	61 931 494	56 445 888
% of total no. of Series B		36.6	44.9	48.5	60.3	55.0
Number of shares at the year end						
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	142 658 875	102 658 875	102 658 875
Total		178 999 425	178 999 425	178 999 425	138 999 425	138 999 425
Adjusted number of shares at 31 Dec.		178 999 425	178 999 425	178 999 425	138 999 425	138 999 425
Market capitalization of shares at 31 Dec., EUR million		1 286.3	1 426.5	1 242.6	1 167.0	1 589.1
Number of shareholders *		43 584	40 672	40 384	38 149	33 652

The change in the nominal value of the M-real share has been taken into account

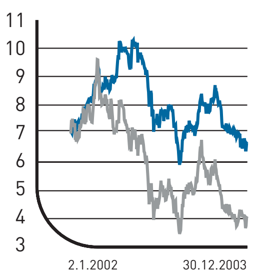
* Shareholders in book entry system.

M-REAL A, SHARE PRICE TREND, EUR



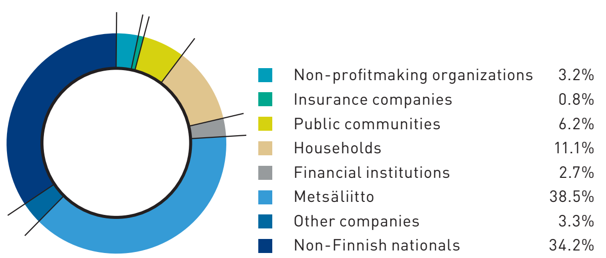
M-real A series
Hex index relative to Series A shares

M-REAL B, SHARE PRICE TREND, EUR



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

BREAKDOWN OF M-REAL'S SHAREHOLDERS

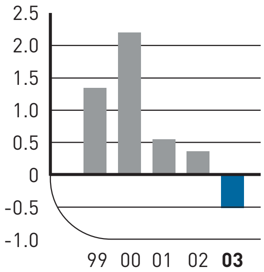


FIGURES PER SHARE

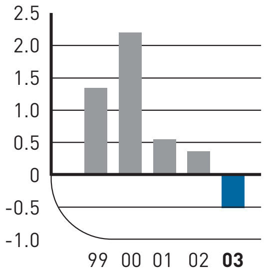
	2003	2002	2001	2000	1999
Calculation of earnings per share, EUR million					
Profit before extraordinary items	–80.2	134.3	154.0	458.5	268.1
– minority interest	1.0	–10.1	–10.1	6.7	–0.3
– taxation	–0.7	–59.8	–115.1	–183.0	–88.4
+ tax adjustment for extraordinary items	–11.4	0.4	63.6	16.4	0
+ other adjustments				6.6	6.6
= Earnings, EUR million	–91.3	64.8	92.4	305.2	186.0
– Adjusted number of shares (average)	178 999 425	178 999 425	168 629 562	138 999 425	138 999 425
= Earnings per share, EUR	–0.51	0.36	0.55	2.20	1.34
Shareholders' equity per share, EUR	12.54	13.75	13.08	14.05	12.28
Dividend per share, EUR	0.30 [1]	0.60	0.60	0.60	0.45
Dividend per profit, %	–58.8	165.8	109.5	27.3	33.6
Nominal value per share, EUR	1.70	1.70	1.70	1.70	1.68
Dividend yield, %					
Series A	3.8	7.6	8.6	7.4	4.1
Series B	4.3	7.5	8.6	7.1	3.9
Price/equity ratio (P/E ratio)					
Series A	–15.3	21.7	12.7	3.7	8.3
Series B	–13.8	22.1	12.7	3.9	8.6
P/BV, %					
Series A	62.2	57.1	53.1	57.7	90.4
Series B	56.1	58.2	53.1	60.5	94.1

[1] Board's proposal

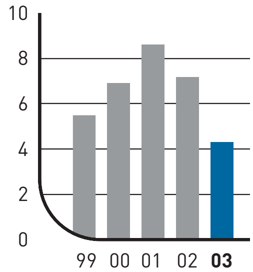
SHAREHOLDERS' EQUITY PER SHARE, EUR



EARNINGS PER SHARE, EUR



DIVIDEND YIELD, %



Calculation of key ratios

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

Ten years in figures

	2003	2002	2001	2000	1999	1998	1997	1996	1995	1994
Profit and loss account, EUR million										
Turnover	6 044	6 564	6 923	5 898	4 044	3 320	3 014	2 313	2 240	1 599
– change %	–7.9	–5.2	14.8	45.9	21.8	10.1	30.3	3.2	40.6	3.4
Exports from Finland	1 653	1 714	1 743	1 719	1 805	1 704	1 595	1 326	1 267	906
Exports and foreign subisidiaries	5 652	6 173	6 438	5 376	3 603	2 893	2 598	2 012	1 760	1 312
Operating profit	74	324	389	604	352	340	283	143	401	156
– % of turnover	1.2	4.9	5.6	10.2	8.7	10.2	9.4	6.2	17.9	9.8
Profit before extraordinary items	–80	134	154	459	268	262	128	55	322	132
– % of turnover	–1.3	2.0	2.2	7.8	6.6	7.9	4.3	2.4	14.4	8.3
Profit before taxes and minority interests	–95	279	337	516	295	273	358	120	322	128
– % of turnover	–1.6	4.2	4.9	8.7	7.3	8.2	11.9	10.4	14.4	8.0
Balance sheet, EUR million										
Balance sheet total	7 106	7 410	8 005	7 798	4 608	4 419	4 423	3 474	3 123	2 368
Shareholders' equity	2 245	2 461	2 341	1 953	1 711	1 555	1 427	1 195	1 147	967
Interest-bearing net liabilities	3 109	3 019	3 482	3 693	1 471	1 397	1 154	1 361	1 109	623
Dividends and figures per share *										
Dividends, EUR million	53.7 [1]	107.4	107.4	83.4	63.1	60.8	42.1	23.4	32.7	23.0
Dividend per share, EUR	0.30 [1]	0.60	0.60	0.60	0.45	0.44	0.30	0.17	0.24	0.17
Dividend/profit, %	–58.8 [1]	166.7	109.1	27.3	34.0	33.7	51.3	61.3	16.0	22.3
Earnings per share, EUR	–0.51	0.36	0.55	2.20	1.34	1.30	0.59	0.27	1.47	0.76
Shareholders' equity per share, EUR	12.54	13.75	13.08 [2]	14.05 [2]	12.28 [2]	10.93 [2]	10.26 [2]	8.59	8.24	7.10
Profitability										
Return on capital employed, %	1.6	5.8	6.9	13.5	10.5	10.8	10.5	6.8	18.8	10.8
Return on capital, %	–3.8	3.0	4.7 [2]	15.5 [2]	10.6 [2]	11.3 [2]	5.3 [2]	2.9	22.0	10.5
Financial position										
Equity ratio, %	31.9	34.2	30.0 [2]	25.7 [2]	38.4 [2]	36.9 [2]	34.1 [2]	35.0	42.4	41.7
Gearing ratio, %	137	119	145 [2]	184 [2]	83 [2]	86 [2]	77 [2]	113	86	64
Funds from operations, EUR million	417	521	608	692	440	449	401	303	409	203
Internal financing on capital expenditures, %	105	168	82	32	112	130	122	38	82	167
Net interest expenses, EUR million	166.9	142.3	194.3	131.7	73.8	83.8	70.9	70.4	84.5	58.4
Interest cover	3.5	4.7	4.1	6.3	7.0	6.4	6.7	5.3	5.8	4.5
Other information										
Gross capital expenditure, EUR million	397	310	740	2 150	394	344	329	787	492	121
– % of turnover	6.6	4.7	10.7	36.5	9.7	10.4	10.9	34.0	21.9	7.6
R&D expenditure, EUR million	27	26	27	25	17	15	14	15	15	13
– % of turnover	0.4	0.4	0.4	0.4	0.4	0.5	0.4	0.7	0.7	0.8
Personnel, average	20 372	21 070	22 237	17 351	15 572	13 885	12 637	11 463	10 106	9 061
– of whom in Finland	6 178	6 328	6 406	6 584	6 966	7 208	7 248	7 006	7 162	6 385

[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. 2003:	750 691 000.00
Non-restricted shareholders' equity in the parent company balance sheet at 31 Dec. 2003:	
Retained earnings	831 775 632.84
Net profit for 2003	185 701 325.75
Total	1 017 476 958.59
The Board of Directors proposes the following to the Annual General Meeting	
A dividend of EUR 0.30 per share to be paid on the 178 999 425 Series A and B shares	53 699 827.50
To be transferred to the Retained earnings account	963 777 131.09
	1 017 476 958.59

Espoo, 5 February 2004

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.–31.12.2003. 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 2004

PricewaterhouseCoopers Oy
Authorised Public Accountants

Göran Lindell
Authorised Public Accountants

Ilkka Haarlaa
Authorised Public Accountants

LEAD THE CHANGE

Board of Directors

ANTTI OKSANEN

ARIMO UUSITALO

TIMO HAAPANEN

ANTTI OKSANEN, (59)

Chairman of the Board since 1995

Member of the Board since 1993

Master of Science in Forestry
Counsellor of Mining

President of Metsäliitto Group, President & CEO of Metsäliitto Cooperative

Member of the Board of the Finnish Forest Industries Federation since 1995, Member of the Council of the Confederation of Finnish Industry and Employers since 1996 Member of the supervisory Board in Vapo Oy since 2002, Member of the Council in Research Foundation of the University of Helsinki since 2002

Vice Chairman of the Board of Metsäliitto Cooperative, Chairman of the Board of Finnforest Corporation and several other Metsäliitto Group companies.

Vice Chairman of the Supervisory Board of the Tapiola Mutual Pension Insurance Company

ARIMO UUSITALO, (61)

Vice Chairman of the Board since 1994

Member of the Board since 1994

Master of Science in Agriculture
Counsellor of Agriculture
Farmer

Chairman of the Board of Metsäliitto Cooperative, Vice Chairman of the Board of Finnforest Corporation, Member of the Board of Oy Metsä-Botnia Ab, Chairman of the Board of Raisio Group since 2001, Chairman of the Executive Board of Osuuspankki Kantrisalo 1977

TIMO HAAPANEN, (64)

Member of the Board since 2000

Agronomist
Counsellor of Agriculture
Farmer

Member of the Board of Metsäliitto Cooperative since 1995

ASMO KALPALA, (53)

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

Member of the Board of YIT Corporation since 2000, Member of the Board of LTT Research Ltd since 1998 Member of the Board of Finnish Cultural Foundation since 2001

ASMO KALPALA

ERKKI KARMILA

RUNAR LILLANDT

MATTI NIEMI

ANTTI TANSKANEN

ERKKI KARMILA, (62)

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, (59)

Member of the Board since 1999

Agricultural school graduate
Counsellor of Agriculture
Farmer

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

MATTI NIEMI, (56)

Member of the Board since 1999

Master of Science in Economics

Executive Vice President of Mutual Pension Insurance Company Varma-Sampo, 1998–30.4.2003

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
Member of the Board of Hollming Limited since 2003

ANTTI TANSKANEN, (57)

Member of the Board since 1992

Ph.D. in Economics

Chairman and CEO, OP Bank Group, Chairman of the Executive Boards of OP 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, chairman since 2004
Member of the Board of Employers' Confederation of Service Industries since 2003

Corporate Executive Board

JOUKO M. JAAKKOLA

President and CEO, (59)

Bachelor of Science in Economics

Jouko M. Jaakkola began his career at Rauma-Repola Ltd in 1968, working first as an MBA accountant and later as Financial Manager until 1978, when he was appointed CFO of Rauma-Repola's Mechanical Engineering Group. In 1982 Mr Jaakkola was appointed Senior Vice President, Administration, with Sunila Oy and President in 1984. Mr Jaakkola was President of Tampella Papertech Corp. from 1989 to 1992 and Executive Vice President of Tampella Group from 1990 to 1993. From 1993 to 1995 Mr Jaakkola was President of Myllykoski Paper Oy and in 1996 he was invited to become President and CEO of Tampella Corporation, later Tamrock Corporation. When Swedish Sandvik AB acquired Tamrock, Mr Jaakkola also became President of Sandvik's Mining and Construction business area. Jaakkola joined Metsäliitto Group in 1999. In autumn 2000 he was appointed Metsä-Serla's Senior Executive Vice President & Chief Operating Officer andPresident and CEO of M-real on 1 December 2001. Jaakkola was elected Chairman of the Finnish forest Industries Federation in autumn 2003.

AARRE METSÄVIRTA

Senior Executive Vice President, Deputy CEO, (59) Operations

Master of Science in Engineering

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 2001 Mr Metsävirta 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. In 2003 the name of his field of responsibilities was changed into Operations and it was added further by logistics and IT. Furthermore, Aarre Metsävirta was appointed M-real´s Senior Executive Vice President and Deputy CEO in 2003.

VELI-MATTI MYNTTINEN

Executive Vice President, (47) Marketing & Sales

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. In 2003 EVP Veli-Matti Mynttinen was appointed head of M-real´s Marketing & Sales.

From left: Jouko M. Jaakkola, Aarre Metsävirta, Veli-Matti Mynttinen, Heikki Saarinen, Ari Himma and Matti Mörsky

HEIKKI SAARINEN

Senior Vice President & Chief Financial Officer, (38) Finance & Control

Master of Science in Economics

Mr Saarinen began his career in the forest industry as dealer in Enso-Gutzeit in 1990. From 1991 to 1994 he worked as an Assistant Manager and Dealing Manager in Kemira Group. 1994 he left Kemira to become head of sales, fixed income and money market of Skandinaviska Enskilda Banken, Helsinki Branch. In 1996 he was appointed Director, Head of Sales, in Handelsbanken. Mr Saarinen joined Metsä Finance in 1997 as a Vice President, Head of Treasury Operations and was later appointed Senior Vice President. He became Managing Director of Metsä Finance in February 1999. In 2003 Heikki Saarinen was appointed M-real´s Senior Vice President and Chief Financial officer.

ARI HIMMA

Senior Vice President, (44) Corporate services

Master of Science in 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 2001 Ari Himma was appointed Senior Vice President, Human Resources for the M-real Group. In 2003 he was appointed Senior Vice President, Corporate services. Ari Himma is responsible of M-real Corporations human resources, corporate communications and affairs of corporate responsibility.

MATTI MÖRSKY

Senior Vice President, (51) Business Development

Master of Science in Engineering

Matti Mörsky worked in product development ans sales positions in Oy Fiskars Ab's plastic industry from 1978 to 1980. Mr Mörsky joined G.A. Serlachius Oy in 1981 with duties in corporate planning. From 1982 to 1986 Mr Mörsky was the project manager of Stuart Edgar Ltd and from 1986 to 1987 he worked as General Manager of T-Drill. In 1987 Mr Mörsky was appointed as Vice President, Business Development in Metsä-Serla Oy and since then he has worked in various positions in business development and in M&A projects. Mr. Mörsky has worked i.e. as General Manager for Hygiene Division of Holmen Hygiene AB in 1989 and as General Manager for Kitchen Furniture Division of Metsä-Serla Oy in 1992. In 1994 he worked as General Manager of Rantasalmi Loghouses. Since 1999 Matti Mörsky has been Senior Vice President, Business Development for M-real Group.

Production capacities (1 000 t)

PAPER MILLS

Location	Country	Machines	Coated Magazine Paper	Coated Fine Paper	Uncoated Fine Paper	Speciality Paper	Total
Kirkniemi	Finland	3	720				720
Äänekoski	Finland	1		180			180
Kangas	Finland	2	320				320
Simpele	Finland	1				55	55
Kyröskoski	Finland	1				100	100
Stockstadt	Germany	2		205	210		415
Bergisch Gladbach	Germany	4		330			330
Düren	Germany	4				100	100
Husum	Sweden	3	230		410		640
Wifsta	Sweden	1			155		155
Alizay	France	1			300		300
Pont Sainte Maxence	France	2			120		120
Biberist	Switzerland	3		380	70		450
Sittingbourne	UK	2		200			200
Kemsley	UK	1			230		230
Hallein	Austria	2		315			315
Total		**33**	**1 270**	**1 610**	**1 495**	**255**	**4 630**

BOARD MILLS

Board Mill	Country	Machines	Folding Boxboard	Kraftliner	SC-Fluting	Total
Tampere	Finland	3	240			240
Kyröskoski	Finland	1	130			130
Äänekoski	Finland	1	160			160
Simpele	Finland	1	170			170
Kemi *)	Finland	1		340		340
Kuopio	Finland	1			245	245
Total		**8**	**700**	**340**	**245**	**1 285**

*) M-real share is 47% of the capacity

CARTON PLANTS

Carton Plant	Country	Cartons	Total
Tampere	Finland	20	20
Petöfi	Hungary	30	30
Meulemans	Belgium	20	20
Total		**70**	**70**

PULP MILLS

Pulp Mill	Country	Chemical Pulp	BCTMP	CTMP	Total
Stockstadt	Germany	160			160
Husum	Sweden	690			690
Alizay	France	310			310
Hallein	Austria	150			150
Joutseno	Finland		250		250
Lielahti	Finland			110	110
Total		**1 310**	**250**	**110**	**1 670**

METSÄ-BOTNIA *)

Mill	Country	Chemical Pulp	Total
Äänekoski		485	485
Kemi		560	560
Kaskinen		425	425
Rauma		570	570
Joutseno		600	600
Total		**2 640**	**2 640**

*) M-real share is 47% of the capacity

OTHER SHAREHOLDINGS

Softwood and Hardwood pulp	340	Sunila Oy, (interest 17.5%), Finland
Coated magazine paper	180	Myllykoski Paper Oyj, (interest 35%), Finland
Uncoated magazine paper	380	Myllykoski Paper Oyj, (interest 35%), Finland

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