



Metsä Tissue Corp.

INTERIM REPORT 1(8)

30 July 2002 at 3.00 pm

## **METSÄ TISSUE BOOKS PROFIT OF EUR 16.6 MILLION FOR FIRST HALF OF 2002**

- **The Metsä Tissue Group's profit before extraordinary items for the first half of the current year doubled to EUR 16.6 million (EUR 7.0 million for the first half of last year).**
- **First-half turnover fell by 3.2 per cent to EUR 314.9 million (325.3 million).**
- **Earnings per share were EUR 0.39 (0.14).**
- **Return on capital employed was 12.2 per cent, and return on equity 16.1 per cent.**
- **The cash flow after capital expenditure was EUR 18.0 million (27.5).**
- **The gearing ratio fell to 105.1 per cent (123.2 per cent at 31 December 2001).**
- **Metsä Tissue undertook to acquire a controlling interest in the Polish tissue manufacturer ZPK.**
- **The Group's target for the year as a whole is to return a better profit before extraordinary items than last year.**

### **Financial result and turnover**

First-half operating profit rose to EUR 20.0 million, 6.4 per cent of turnover (11.5 million and 3.5 per cent). The improved profit is the result of higher sales volumes, greater efficiency and lower costs. Operating profit for the second quarter was EUR 8.4 million, EUR 3.2 million less than for the first quarter. The main contributing factors were changes in exchange rates and the cost of hedging raw materials, total EUR 1.9 million, and seasonal business fluctuations.

Consolidated turnover for January to June was 3.2 per cent down at EUR 314.9 million (325.3 million). Sales volumes were up by a total of just under 3 per cent, but average sales prices were about 5 per cent lower than for this period last

year. This was mainly due to lower market prices for base papers and to a fall in sales prices for certain converted products.

The Group's net financial expenses fell to EUR 3.4 million, 1.1 per cent of turnover (4.6 million and 1.4 per cent). Profit for the period before extraordinary items improved to EUR 16.6 million (7.0 million). After taxes and minority interest there was a profit of EUR 11.7 million (4.3 million).

### **Main events during the review period**

In May, a contract was signed to purchase 25.5 per cent of the shares of the Polish tissue manufacturer Zakłady Papiernicze w Krapkowicach S.A. (ZPK). The first part of the share purchase took place on 8 May 2002, when Metsä Tissue acquired a further 15.6 per cent of ZPK's shares, bringing its interest in the company to 40.4 per cent. The remaining 9.9 per cent of the agreed share purchase will go ahead after consent has been given by Poland's Ministry of the Interior. The Ministry could give its approval before the end of this year. Following this, Metsä Tissue will own 50.3 per cent of ZPK, which will accordingly acquire subsidiary status. The total cost of the shares involved is around EUR 1.3 million and is based on the debt-free value of the whole of ZPK (100%), which is roughly EUR 10 million. Metsä Tissue's share of the Polish consumer market will rise to almost 20 per cent as a result of the share purchase. The transaction will have no material impact on earnings per share ratio for 2002.

In business operations, the emphasis was on implementing programmes to improve cost effectiveness at all the company's mills. During the review period, a programme was drawn up to bring substantial improvements to the quality and cost competitiveness of operations in Germany. The programme will be launched in the next few months and will take until autumn 2004 to complete. The necessary investments in Germany will cost around EUR 40 million.

There has been a distinct rise in raw material prices lately. This applies to recycled paper and packaging materials particularly, but to chemical pulp also.

### **Key figures**

Earnings per share for the first six months rose to EUR 0.39, compared with EUR 0.14 for this period last year. Capital invested in business operations at the end of the period was EUR 328.6 million (342.3 million at 31 December 2001). Return on capital employed for the period rose to 12.2 per cent (6.4 per cent) and return on equity was 16.1 per cent (7.0 per cent).

### **Financing**

The cash flow from operations was good during the review period, bringing a further improvement in the Group's financial solidity. The cash flow before capital expenditure was EUR 32.5 million (38.2 million). The gearing ratio at the

end of June was 105.1 per cent (123.2 per cent at 31 December 2001) and the equity ratio 34.0 per cent (31.5 per cent at 31 December 2001).

Interest-bearing net liabilities stood at EUR 179.7 million at the end of the review period (200.9 million). The Group's liquidity was good during the period. Liquid funds at 30 June 2002 were EUR 20.1 million (26.3 million at 31 December 2001). In addition, the Group had EUR 87.9 million in unutilized credit facilities (74.8 million), of which EUR 83.5 million was committed and EUR 4.4 million uncommitted.

In spring, Metsä Tissue signed contracts to hedge the cost of its chemical pulp raw material. The contracts cover around 20 per cent of the annual consumption for more than the next three years. The currency derivative contracts signed towards the end of last year provide cover for sales during the present year in Norwegian and Danish crowns should the exchange rates for these currencies vary against the Swedish crown.

### **Shares and shareholders**

During the review period, the highest quotation for Metsä Tissue Corporation's shares was EUR 10.80 and the lowest EUR 8.50. The average quotation was EUR 9.81. At the end of the period, the company's shares were quoted at EUR 10.00.

During the six months January – June, Metsä Tissue shares were traded to a total value of EUR 15.3 million, representing 5.2 per cent of the total number of the company's shares. The company's market capitalization at the end of the review period was EUR 300 million.

At 30 June 2002, Metsä Tissue had 1,504 registered shareholders. M-real Corporation holds 65.6 per cent of the company's share capital, and 22.0 per cent is owned by foreign investors.

The Board of Directors has no current authorization to issue shares, convertible bonds or share options.

### **Business area reviews**

Demand for tissue paper products has risen extremely slowly in Europe. At the same time, new production capacity has come onto the market, and this has kept competition extremely fierce.

The **Consumer** business area's turnover fell by 3.1 per cent to EUR 171.0 million (176.5 million). Operating profit was EUR 9.5 million, 5.5 per cent of turnover (6.7 million and 3.8 per cent). Sales volumes in continental Europe were somewhat higher. Because of intense competition, average sales prices were rather lower than for this period last year. Metsä Tissue's own brands strengthened their positions in the Nordic countries. In Poland, sales of Mola products were up by almost a third compared with this period last year, despite the weak overall economic trend in the country.

Turnover for the **Away-from-Home** business area was EUR 87.8 million (88.5 million). This represents a decrease of 0.8 per cent on this period last year. Operating profit improved to EUR 8.7 million, 9.9 per cent of turnover (4.1 million and 4.6 per cent). In terms of volumes, product sales were up on this period last year. Average sales prices were slightly lower than a year ago, mainly due to changes in the structure of sales. Cost reductions also contributed to the improvement in financial result.

Turnover for **Other operations** fell to EUR 59.7 million (62.1 million). Operating profit was EUR 2.4 million, 4.0 per cent of turnover (1.5 million and 2.4 per cent). In the **Baking & Cooking** business area there was a modest increase in sales volumes, with further converted products increasing their share of sales in line with the targets. Profitability improved thanks to greater business efficiency and lower costs. **Tissue base paper** sales were roughly the same as for this period last year in volume terms, but sales prices were considerably lower. Base paper prices will be raised during the summer to restore profitability to a satisfactory level.

The **Table Top** business area recorded a slightly higher sales volume compared with last year, but failed to reach its targets. The result was just in profit, thanks to improved cost effectiveness and lower costs.

## Investments

Total investments during the review period were EUR 14.5 million (10.7 million). A total of EUR 1.1 million (5.6 million) was spent on share purchases and EUR 13.4 million (5.1 million) on investments in tangible fixed assets. Share purchases include the acquisition of a further 15.6 per cent of the shares of ZPK and of an additional 20 per cent of the share capital of Mäntän Energia Oy, in which Metsä Tissue now has a 45 per cent stake.

Investments in fixed assets were directed mainly at product development work and improving the efficiency of the company's converting lines.

## Personnel

The Metsä Tissue Group had an average of 3,000 employees during the period January – June (3,000). The number at the end of June was 3,107 (3,162).

## Outlook

It is expected that demand for tissue products will remain relatively stable in the near future and that competition will continue to be fierce. Prices for the company's main raw materials are forecast to continue rising over the next few months. The fall in product prices has now halted, and it will be necessary to raise sales prices during the summer and autumn to ensure profitability.

Programmes aimed at making business more cost effective, at product development and at developing converting operations will continue at all Metsä

Tissue's mills. The Group's targets for the current year are to return a higher profit before extraordinary items than the previous year and to reduce the gearing ratio.

The figures presented in this report are unaudited.

Espoo, 30 July 2002

BOARD OF DIRECTORS

### **More information**

Hannu Anttila, President and Chief Executive Officer  
Tel. +358 10 469 4959, GSM +358 50 2398

Timo Suuriniemi, Chief Financial Officer  
Tel. +358 10 469 4580, GSM +358 50 560 8271

### **Enclosures**

Consolidated profit and loss account and balance sheet  
Key figures  
Quarterly figures

Metsä Tissue Corporation's Interim Report for January – September 2002 will be published on Tuesday 29 October 2002.

Interim reports, annual reports, the company's stock exchange bulletins and other financial information are also available on the Internet at *[www.metsatissue.com](http://www.metsatissue.com)*

**METSÄ TISSUE GROUP**  
(unaudited)

PROFIT AND LOSS ACCOUNT (EUR million)	Q1-2/02		% Q1-2/01		% Change		% Q1-4/01	%
Turnover	314.9	100.0	325.3	100.0	-10.4	-3.2	649.6	100.0
Other operating income	2.2		2.1		0.1		5.2	
Operating expenses	277.9		296.4		-18.5		578.2	
Depreciation according to plan	19.2		19.5		-0.3		40.1	
Operating profit	20.0	6.4	11.5	3.5	8.5		36.5	5.6
Net exchange gains/losses	-0.5		1.5		-2.0		1.0	
Other financial income/expenses	-2.9	-1.1	-6.1	-1.4	3.2		-10.3	-1.4
Profit before extraordinary items	16.6	5.3	7.0	2.2	9.7		27.1	4.2
Extraordinary income	0.0		0.0		0.0		0.0	
Extraordinary expenses	0.0		0.0		0.0		0.0	
Profit before taxes and minority interest	16.6	5.3	7.0	2.2	9.7		27.1	4.2
Taxes	-4.9		-2.8		-2.1		-0.7	
Minority interest	0.0		0.0		0.0		2.4	
Profit for the period	11.7	3.7	4.3	1.3	7.6		24.1	3.7

<b>BALANCE SHEET (EUR million)</b>	<b>Q2/02</b>	<b>%</b>	<b>Q2/01</b>	<b>%</b>	<b>Q4/01</b>	<b>%</b>
<b>Assets</b>						
Fixed assets and other non-current assets	247.7	56.5	264.7	57.2	250.1	55.8
Inventories	65.6	15.0	68.3	14.8	69.1	15.4
Other current assets	124.7	28.5	129.8	28.0	129.1	28.8
<b>Total</b>	<b>438.1</b>	<b>100.0</b>	<b>462.8</b>	<b>100.0</b>	<b>448.4</b>	<b>100.0</b>
<b>Liabilities</b>						
Shareholders' equity						
Restricted equity	100.1		100.1		100.1	
Unrestricted equity	48.5		21.7		40.9	
Shareholders equity, total	148.6	33.9	121.8	26.3	141.0	31.4
Minority interest	0.3	0.1	0.4	0.1	0.3	0.1
Provisions for future costs	12.4	2.8	6.3	1.4	13.4	3.0
Liabilities						
Long term liabilities	167.9		190.1		169.3	
Short term liabilities	108.8		144.2		124.4	
Liabilities, total	276.7	63.2	334.3	72.2	293.7	65.5
<b>Total</b>	<b>438.1</b>	<b>100.0</b>	<b>462.8</b>	<b>100.0</b>	<b>448.4</b>	<b>100.0</b>

**METSÄ TISSUE GROUP**  
(unaudited)

<b>KEY FIGURES</b>	<b>Q1-2/2002</b>	<b>Q1-2/2001</b>	<b>Q1-4/2001</b>
<b>Share related indicators, EUR</b>			
Earnings per share	0.39	0.14	0.80
Shareholders' equity per share	4.95	4.06	4.70
<b>Investments</b>			
Gross investments, MEUR	14.5	10.7	21.1
Investments, % turnover	4.6	3.3	3.2
Net interest bearing liabilities, MEUR	156.6	212.8	174.1
<b>Financial ratios</b>			
Return on equity, %	16.1	7.0	20.2
Return on capital employed, %	12.2	6.4	10.3
Gearing, %	105.1	174.1	123.2
Equity ratio, %	34.0	26.4	31.5
<b>Personnel</b>			
Personnel, average	3 000	3 000	3 000
Personnel, at the end of period	3 107	3 162	2 923
<b>Leasing commitments, MEUR</b>			
Payments due during next 12 months	2.5	3.2	2.7
Payments due in subsequent years	3.4	3.0	3.5
<b>Derivatives, MEUR</b>			
Currency derivatives	37.1	35.6	70.8
Commodity derivatives	79.0	0.0	26.1
<b>Mortgages, MEUR</b>	2.6	2.3	2.4
<b>Guarantees, MEUR</b>	0.1	0.5	0.1
<b>Other liabilities, MEUR</b>	0.0	0.0	0.0

**METSÄ TISSUE GROUP**  
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**QUARTERLY DEVELOPMENT 2001-2002**

<b>TURNOVER</b>	<b>2002</b>			<b>2001</b>					
EUR million	<b>Q1-2</b>	<b>Q2</b>	<b>Q1</b>	<b>Q1-2</b>	<b>Q1-4</b>	<b>Q4</b>	<b>Q3</b>	<b>Q2</b>	<b>Q1</b>
Consumer	171.0	83.8	87.3	176.5	359.3	91.6	91.1	89.0	87.5
Away-from-Home	87.8	43.6	44.2	88.5	173.5	42.7	42.2	44.4	44.1
Other operations	59.7	30.3	29.4	62.1	121.0	30.8	28.1	30.4	31.6
Internal sales	-3.7	-2.0	-1.7	-1.8	-4.2	-1.9	-0.5	-0.8	-0.9
<b>Total</b>	<b>314.9</b>	<b>155.7</b>	<b>159.2</b>	<b>325.3</b>	<b>649.6</b>	<b>163.3</b>	<b>161.0</b>	<b>163.0</b>	<b>162.3</b>

<b>OPERATING PROFIT</b>	<b>2002</b>			<b>2001</b>					
EUR million	<b>Q1-2</b>	<b>Q2</b>	<b>Q1</b>	<b>Q1-2</b>	<b>Q1-4</b>	<b>Q4</b>	<b>Q3</b>	<b>Q2</b>	<b>Q1</b>
Consumer	9.5	3.9	5.6	6.7	21.9	8.4	6.8	4.5	2.3
Away-from-Home	8.7	4.0	4.7	4.1	12.1	4.0	4.1	2.5	1.6
Other operations	2.4	1.0	1.4	1.5	3.7	1.8	0.4	0.7	0.9
Group costs	-0.6	-0.5	-0.1	-0.8	-1.3	-0.3	-0.1	-0.4	-0.3
<b>Total</b>	<b>20.0</b>	<b>8.4</b>	<b>11.6</b>	<b>11.5</b>	<b>36.5</b>	<b>13.8</b>	<b>11.1</b>	<b>7.2</b>	<b>4.4</b>
Operating margin, %	6.4	5.4	7.3	3.5	5.6	8.4	6.9	4.4	2.7
Net exchange gains/losses	-0.5	-0.1	-0.4	1.5	1.0	0.5	-1.0	0.6	0.9
Other financial income and expenses	-2.9	-1.3	-1.6	-6.1	-10.3	-1.8	-2.5	-2.9	-3.2
<b>Profit before extraordinary items</b>	<b>16.6</b>	<b>7.0</b>	<b>9.6</b>	<b>7.0</b>	<b>27.1</b>	<b>12.5</b>	<b>7.6</b>	<b>4.9</b>	<b>2.1</b>