



Metsä Tissue Corp.

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## FINANCIAL STATEMENT BULLETIN FOR 2002

### **METSÄ TISSUE ACHIEVED ITS TARGETED FINANCIAL RESULT FOR 2002 – PROFIT IMPROVED TO EUR 37.1 MILLION**

- Profit before extraordinary items improved to EUR 37.1 million (27.1 million in 2001).
- Turnover fell by 0.3 per cent to EUR 647.8 million (649.6 million).
- Earnings per share were EUR 0.93 (0.80).
- Return on capital employed was 13.2 per cent and return on equity 18.1 per cent.
- The gearing ratio fell to 77.5 per cent (123.2 per cent at 31 December 2001).
- EUR 90 million investments were launched as part of development programmes.
- Business operations in Poland were expanded.
- The profit and cash flow targets for 2002 were achieved.
- The Board of Directors proposes that no dividend be paid for the 2002 financial year.

#### **Results and turnover**

Operating profit improved to EUR 43.1 million, 6.7 per cent of turnover (36.5 million and 5.6 per cent). The improved profit is due to greater cost-effectiveness, improvements made to the product range, and a growth in sales volumes. Operating profit for the fourth quarter was EUR 5.9 million, down by EUR 11.2 million on the previous quarter. This is explained by the seasonally lower sales compared with the third quarter and by non-recurring costs. The profit for the fourth quarter includes provisions totalling EUR 3.7 million made for reorganization of operations, most of which concerns business operations in Germany.

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

products, in particular for tissue base paper. Company acquisitions raised turnover by just under one per cent.

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

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

### **Main events during the financial period**

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

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

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

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

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

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

### **Key figures**

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

### **Financing**

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

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

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

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

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

## The market

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

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

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

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

## Business areas

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

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

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

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

## Investments

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

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

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

## Personnel

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

Personnel by country:

	31.12.2001	31.12.2002	2002 average
Finland	672	648	693
Other Nordic countries	685	675	689
Germany	1,280	1,237	1,270
Poland	253	707	382
Other countries	33	32	33
<b>Total</b>	<b>2,923</b>	<b>3,299</b>	<b>3,067</b>

## Shares and shareholders

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

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

At the end of the year Metsä Tissue had 1,498 registered shareholders. M-real Corporation held 65.6 per cent of the shares and international investors 21.8 per cent.

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

## **General meeting of shareholders, Board of Directors and auditors**

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

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

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

## **Events occurring after the closing of accounts**

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

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

## **Outlook for 2003**

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

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

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

## **Distribution of profits**

At 31 December 2002, the Metsä Tissue Group had disposable funds of EUR 42,012,000. The company's Board of Directors will propose to the Annual General Meeting to be held on 18 March 2003 that no dividend be distributed for the financial period ending 31 December 2002.

The figures presented in this report are unaudited.

Espoo, 5 February 2003

## BOARD OF DIRECTORS

### **More information**

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### **Enclosures**

Consolidated profit and loss account and balance sheet  
Cash flow statement and quarterly figures  
Key figures

Metsä Tissue Corporation's Interim Report for January – March 2003 will be published on Friday, 25 April 2003.

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)

<b>PROFIT AND LOSS ACCOUNT</b> (EUR million)	<b>Q1-4/02</b>	<b>%</b>	<b>Q1-4/01</b>	<b>%</b>	<b>Change</b>	<b>%</b>
<b>Turnover</b>	<b>647.8</b>	<b>100.0</b>	<b>649.6</b>	<b>100.0</b>	<b>-1.8</b>	<b>-0.3</b>
Other operating income	5.6		5.2		0.4	
Operating expenses	571.1		578.2		-7.1	
Depreciation according to plan	39.2		40.1		-0.9	
<b>Operating profit</b>	<b>43.1</b>	<b>6.7</b>	<b>36.5</b>	<b>5.6</b>	<b>6.6</b>	
Net exchange gains/losses	-0.3		1.0		-1.3	
Other financial income/expenses	-5.6	-0.9	-10.3	-1.4	4.7	
<b>Profit before extraordinary items</b>	<b>37.1</b>	<b>5.7</b>	<b>27.1</b>	<b>4.2</b>	<b>9.9</b>	
Extraordinary income	0.0		0.0		0.0	
Extraordinary expenses	0.0		0.0		0.0	
<b>Profit before taxes and minority interest</b>	<b>37.1</b>	<b>5.7</b>	<b>27.1</b>	<b>4.2</b>	<b>9.9</b>	
Taxes	-9.2		-0.7		-8.5	
Minority interest	0.0		2.4		-2.4	
<b>Profit for the period</b>	<b>28.0</b>	<b>4.3</b>	<b>24.1</b>	<b>3.7</b>	<b>3.9</b>	

<b>BALANCE SHEET (EUR million)</b>	<b>Q4/02</b>	<b>%</b>	<b>Q4/01</b>	<b>%</b>
<b>Assets</b>				
Fixed assets and other non-current assets	262.7	58.8	250.1	55.8
Inventories	60.9	13.6	69.1	15.4
Other current assets	123.5	27.6	129.1	28.8
<b>Total</b>	<b>447.1</b>	<b>100.0</b>	<b>448.4</b>	<b>100.0</b>
<b>Liabilities</b>				
Shareholders' equity				
Restricted equity	100.1		100.1	
Unrestricted equity	65.6		40.9	
Shareholders equity, total	165.7	37.1	141.0	31.4
Minority interest	1.5	0.3	0.3	0.1
Provisions for future costs	15.6	3.5	13.4	3.0
Liabilities				
Long term liabilities	163.9		169.3	
Short term liabilities	100.4		124.4	
Liabilities, total	264.3	59.1	293.7	65.5
<b>Total</b>	<b>447.1</b>	<b>100.0</b>	<b>448.4</b>	<b>100.0</b>



**METSÄ TISSUE GROUP**

(unaudited)

<b>CASH FLOW STATEMENT (EUR million)</b>	<b>Q1-4/2002</b>	<b>Q1-4/2001</b>
<b>Profit before extraordinary items</b>	<b>37.1</b>	<b>27.1</b>
Depreciation according to plan	39.2	40.1
Direct taxes	-11.6	-9.7
Other changes	2.1	7.6
<b>Funds from operations</b>	<b>66.8</b>	<b>65.1</b>
Change in working capital	30.4	20.6
<b>Cash flow from operations</b>	<b>97.2</b>	<b>85.7</b>
Capital expenditure 1)	-47.1	-21.1
Disposals and other changes in fixed assets	3.6	0.9
<b>Cash flow after capital expenditure</b>	<b>53.7</b>	<b>65.5</b>
Change in interest-bearing loans	-47.8	-57.6
Change in interest-bearing receivables	-2.2	0.2
Dividends	-3.0	0.0
Other items	1.8	-0.7
<b>Change in liquid funds</b>	<b>2.4</b>	<b>7.4</b>

1) Excluding interest-bearing liabilities of acquired companies

**QUARTERLY DEVELOPMENT**
**2001 - 2002**

<b>TURNOVER</b>	<b>2002</b>					<b>2001</b>				
EUR million	<b>Q1-4</b>	<b>Q4</b>	<b>Q3</b>	<b>Q2</b>	<b>Q1</b>	<b>Q1-4</b>	<b>Q4</b>	<b>Q3</b>	<b>Q2</b>	<b>Q1</b>
Consumer	350.0	92.8	86.2	83.8	87.3	359.3	91.6	91.1	89.0	87.5
Away-from-Home	177.3	43.7	45.9	43.6	44.2	173.5	42.7	42.2	44.4	44.1
Other operations	127.2	35.9	31.6	30.3	29.4	121.0	30.8	28.1	30.4	31.6
Internal sales	-6.8	-1.7	-1.4	-2.0	-1.7	-4.3	-1.8	-0.4	-0.8	-0.9
<b>Total</b>	<b>647.8</b>	<b>170.7</b>	<b>162.3</b>	<b>155.7</b>	<b>159.2</b>	<b>649.6</b>	<b>163.2</b>	<b>161.0</b>	<b>163.0</b>	<b>162.2</b>

<b>OPERATING PROFIT</b>	<b>2002</b>					<b>2001</b>				
EUR million	<b>Q1-4</b>	<b>Q4</b>	<b>Q3</b>	<b>Q2</b>	<b>Q1</b>	<b>Q1-4</b>	<b>Q4</b>	<b>Q3</b>	<b>Q2</b>	<b>Q1</b>
Consumer	19.7	2.3	7.9	3.9	5.6	21.9	8.4	6.8	4.5	2.3
Away-from-Home	17.7	2.7	6.4	4.0	4.7	12.1	4.0	4.1	2.5	1.6
Other operations	6.6	1.1	3.1	1.0	1.4	3.7	1.8	0.4	0.7	0.9
Group costs	-0.9	-0.1	-0.2	-0.4	-0.1	-1.2	-0.3	-0.1	-0.4	-0.3
<b>Total</b>	<b>43.1</b>	<b>5.9</b>	<b>17.2</b>	<b>8.4</b>	<b>11.6</b>	<b>36.5</b>	<b>13.8</b>	<b>11.1</b>	<b>7.3</b>	<b>4.4</b>
Operating margin, %	6.7	3.5	10.6	5.4	7.3	5.7	8.5	6.9	4.5	2.6
Net exchange gains/losses	-0.3	0.3	-0.2	-0.1	-0.4	1.0	0.5	-1.0	0.6	0.9
Other financial income and expenses	-5.6	-1.2	-1.5	-1.3	-1.6	-10.3	-1.8	-2.5	-2.9	-3.2
<b>Profit before extraordinary items</b>	<b>37.1</b>	<b>5.0</b>	<b>15.5</b>	<b>7.0</b>	<b>9.6</b>	<b>27.1</b>	<b>12.5</b>	<b>7.6</b>	<b>5.0</b>	<b>2.1</b>

**METSÄ TISSUE GROUP**

(unaudited)

KEY FIGURES	Q1-4/2002	Q1-4/2001
<b>Share related indicators, EUR</b>		
Earnings per share	0.93	0.80
Shareholders' equity per share	5.52	4.70
<b>Investments</b>		
Gross investments, MEUR	47.1	21.1
Investments, % turnover	7.3	3.2
Net interest bearing liabilities, MEUR	129.6	174.1
<b>Financial ratios</b>		
Return on equity, %	18.1	20.2
Return on capital employed, %	13.2	10.3
Capital turnover	1.94	1.80
Gearing, %	77.5	123.2
Equity ratio, %	37.4	31.5
<b>Personnel</b>		
Personnel, average	3,067	3,000
Personnel, at the end of period	3,299	2,923
<b>Leasing commitments, MEUR</b>		
Payments due during next 12 months	2.4	2.7
Payments due in subsequent years	3.5	3.5
<b>Derivatives, MEUR</b>		
Currency derivatives	75.4	70.8
Interest rate derivatives	240.0	
Commodity derivatives	63.3	26.1
<b>Mortgages, MEUR</b>	3.4	2.4
<b>Guarantees, MEUR</b>	0.0	0.0
<b>Other liabilities, MEUR</b>	0.1	0.1