



Metsä Tissue Corp.

STOCK EXCHANGE RELEASE 1(8)
25 April 2003 at 2.00 pm

METSÄ TISSUE'S FIRST-QUARTER PROFIT SHOWS SLIGHT RISE

- **Profit before extraordinary items rose slightly to EUR 9.9 million (9.6 million in 2002).**
- **Turnover was up by 3.5 per cent at EUR 164.7 million (159.2 million).**
- **Earnings per share increased to EUR 0.23 (0.22).**
- **Return on capital employed was 14.5 per cent (14.0) and return on equity 16.3 per cent (18.4).**
- **Implementation of the investment and development programmes continues.**
- **Majority interest in the Polish company Krapex secured.**

Results and turnover

Operating profit was EUR 11.7 million, 7.1 per cent of turnover (11.6 million and 7.3 per cent). Profit benefited from a small growth in sales volumes and from improvements made to the product range, but was negatively influenced by costs related to product launchings.

Some additional production-related costs also adversely affected first-quarter profit.

Operating profit was up by EUR 5.8 million on the fourth quarter of last year. The increase is attributable to non-recurring costs set against profit in the previous quarter and also to better sales season.

Turnover was up 3.5 per cent on this period last year at EUR 164.7 million (159.2 million). Company acquisitions accounted for about 3 per cent of the rise in turnover. Growth of sales volumes was roughly 1 per cent on this period a year ago, but average sales prices were about one per cent lower.

Depreciation for the first quarter was EUR 10.3 million (9.7 million). Net financial expenses fell to 1.8 million, 1.1 per cent of turnover (2.0 million and 1.3 per cent).

Profit before extraordinary items rose to EUR 9.9 million, 6.0 per cent of turnover (9.6 million and 6.0 per cent). Profit for the period was reduced by taxes totalling EUR 2.9 million (3.0 million). After taxes and minority interest there was a profit of EUR 6.9 million (6.6 million).

Most important events

Metsä Tissue is vigorously developing all areas of its operations. The ongoing investment and development programmes will raise the degree of converting and improve product quality, thus making the company more competitive. The development programmes are being conducted largely during the period 2002-2004 and involve investments totalling some EUR 90 million, of which roughly EUR 45 million has been allocated for this year. Implementation of the programmes progressed according to plan during the review period. The first of the improved products have been introduced to the market during review period. Positive effects from them are expected during near future.

Hannu Anttila, who has been the company's President and CEO since 1998, took up a new post with the Metsäliitto Group on 19 March 2003. Mikko Helander was appointed Metsä Tissue's new President and CEO with effect from 1 August 2003. During the interim period 19 March to 31 July, the post of President and CEO will be filled by Lars Warvne, COO and head of Metsä Tissue's Supply Team.

In April 2003, Metsä Tissue acquired a 38 per cent shareholding in the Polish tissue products converter Krapex Sp.zoo, having first obtained the necessary approval of the Polish authorities. The cost of the shares was EUR 0.8 million, and was based on the (100%) debt-free value of the whole of Krapex, which is around EUR 3 million. Metsä Tissue already owned 47 per cent of the company, and the share acquisition has brought its interest in Krapex to 85 per cent. Krapex will be consolidated into Metsä Tissue's accounts with effect from 1 April 2003. Krapex has an annual turnover of around EUR 10 million and its operations are in profit.

Key figures

Earnings per share for the first quarter improved to EUR 0.23 (0.22). Equity per share at the end of the period was EUR 5.68 (4.86). Capital invested in business operations at the end of the period was EUR 323.3 million (325.5 million at 31 December 2002). The return on capital employed was 14.5 per cent (14.0) and the return on equity 16.3 per cent (18.4).

Financing

The cash flow from the group's business operations was negative during the first quarter. This is due to the fact that net working capital, which had been exceptionally low at the turn of the year, has returned to normal levels. The cash flow from operations was EUR - 4.0 million before investments (22.0 million) and EUR -10.0 million after investments (19.6 million).

The gearing ratio at the end of March was almost unchanged at 81.0 per cent (77.5 per cent at 31 December 2002). The equity ratio was 39.3 per cent (37.4 per cent at 31 December 2002).

Interest-bearing liabilities at the end of the review period were EUR 151.6 million (158.2 million). Liquidity was good throughout the period. Liquid funds at the end of March were EUR 12.5 million (28.6 million at 31 December 2002). In addition, the group had EUR 102.0 million in unutilized credit facilities (104.6 million at 31 December 2002), of which

EUR 97.7 million were committed and EUR 4.3 million uncommitted. Net interest-bearing liabilities were EUR 139.1 million (129.6 million).

Metsä Tissue has signed important contracts to hedge the cost of its chemical pulp raw material. These 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

The growth in demand for tissue products in Europe is extremely slow because of the general economic decline. At the same time, new production capacity has come onto the market, and as a result competition has remained fierce.

Prices for Metsä Tissue's main raw materials rose during the review period. At the end of the period, the price in euros of chemical pulp, the most important raw material, was over 14 per cent higher than at the turn of the year. Prices for waste paper, energy and packaging materials have also risen.

Business areas

Turnover for the **Consumer** business area was up 1.9 per cent at EUR 89.1 million (87.3 million). Operating profit was EUR 4.9 million, 5.5 per cent of turnover (5.6 million and 6.4 per cent). Sales volumes rose slightly in continental Europe but in the Nordic countries volumes did not reach the levels of last year. Sales prices were almost unchanged. Intensification of marketing efforts adversely affected the financial result for the period as the introduction of improved Lambi products on the Nordic and Polish markets began during the review period.

Turnover for the **Away-from-Home** business area was EUR 46.6 million (44.2 million), a growth of 5.4 per cent on the first quarter last year. Operating profit improved to EUR 5.0 million, 10.8 per cent of turnover (4.7 million and 10.7 per cent). Sales volumes were somewhat higher than the year before, while average sales prices were unchanged. The new Katrin product range launched last autumn has been well received by the market.

Other Operations produced a turnover of EUR 31.1 million (29.4 million). Operating profit rose to EUR 1.7 million, 5.4 per cent of turnover (1.4 million and 4.6 per cent). The **Baking & Cooking** business area recorded an increase in sales volumes on this period last year, but average sales prices were marginally lower. Profitability improved thanks to greater efficiencies. **Tissue base paper** sales and profitability were about the same as this period last year. Other Operations also includes the packaging board business of the Krapkowice mill in Poland as of autumn 2002.

The **Table Top** business area's sales volumes were somewhat higher than for this period a year ago. There were no material changes in sales prices. Converting operations were further developed and the trend in the financial result was positive.

Investments

First-quarter investment totalled EUR 6.0 million (2.4 million). A total of EUR 0.1 million was used for share purchases (0.0 million) and EUR 5.9 million was invested in fixed assets (2.4 million). There was no sale of fixed assets during the review period.

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. Share purchases during the period comprised an increase in Metsä Tissue's shareholding in Zakłady Papiernicze w Krapkowicach S.A (ZPK) by 2.2 percentage points to 91.6 per cent.

Personnel

The Metsä Tissue Group had an average of 3,250 employees during the review period (2,916). The number at the end of March was 3,203 (2,936). Company acquisitions increased the average number of employees by 374 compared with this period last year.

Shares and shareholders

Svenska Cellulosa Aktiebolaget SCA relinquished its shareholding in Metsä Tissue on 20 January 2003. On the same date, M-real Corporation's shareholding in Metsä Tissue Corporation rose to more than 90 per cent, and M-real announced its intention to acquire all remaining Metsä Tissue shares. On 3 March 2003, M-real instigated proceedings under Chapter 14, Section 19 of the Companies Act to redeem the outstanding Metsä Tissue shares. The listing for Metsä Tissue's shares on the Helsinki Exchanges will cease when M-real Corporation has acquired control of all Metsä Tissue's shares. At the end of the review period, M-real's shareholding in Metsä Tissue was 99.9 per cent.

The highest price quoted for Metsä Tissue Corporation's shares during the review period was EUR 12.37 and the lowest EUR 9.51. The average quotation was EUR 9.81. At the end of March, the shares were quoted at EUR 12.30. Metsä Tissue shares to a total value of EUR 127.8 million were traded during the period January – March, 34.7 per cent of the total number of shares. The company's market capitalization at the end of the review period was EUR 369 million.

At the end of March, Metsä Tissue had 156 registered shareholders. Non-Finnish shareholders accounted for 0.01 per cent.

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

Annual General Meeting

Metsä Tissue Corporation's Annual General Meeting was held on 18 March 2003. The meeting appointed the following persons 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 members of the Board of Directors extends to the end of the 2004 Annual General Meeting. The Board of Directors elected Antti Oksanen as its chairman and Arimo Uusitalo as its vice chairman.

The meeting re-appointed the authorized public accountants PricewaterhouseCoopers Oy to act as the company's auditors, with Göran Lindell, APA, responsible for the audit.

Outlook

Demand for tissue products is expected to remain fairly stable in the near future. No material acceleration of growth is envisaged, and competition will therefore remain fierce. Some increase in raw material prices is anticipated later in the year. To secure profitability, attempts will have to be made to raise sales prices for tissue products also.

Metsä Tissue will continue with its programmes aimed at product development and greater cost-effectiveness in all its business areas. These programmes will be largely completed by year 2004.

The figures presented in this report are unaudited.

Espoo, 25 April 2003

BOARD OF DIRECTORS

More information

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Enclosures

Profit and loss account and balance sheet
Cash flow statement and quarterly figures
Key figures

Metsä Tissue Corporation's Interim Report for January – June 2003 will be published on 25 July 2003.

Interim reports, annual reports, stock exchange bulletins and other financial information are also available on the Internet at www.metsatissue.com

METSÄ TISSUE GROUP

(unaudited)

| PROFIT AND LOSS ACCOUNT (EUR million) | Q1/03 | % | Q1/02 | % | Change | %Q1-4/02 | % |
|--|--------------|--------------|--------------|--------------|---------------|-----------------|--------------|
| Turnover | 164.7 | 100.0 | 159.2 | 100.0 | 5.5 | 3.5 | 100.0 |
| Other operating income | 1.1 | | 1.2 | | -0.1 | 5.6 | |
| Operating expenses | 143.9 | | 139.1 | | 4.8 | 571.1 | |
| Depreciation according to plan | 10.3 | | 9.7 | | 0.6 | 39.2 | |
| Operating profit | 11.7 | 7.1 | 11.6 | 7.3 | 0.1 | 0.7 | 6.7 |
| Net exchange gains/losses | -0.5 | | -0.4 | | -0.1 | -0.3 | |
| Other financial income/expenses | -1.3 | -1.1 | -1.6 | -1.3 | 0.3 | -5.6 | -0.9 |
| Profit before extraordinary items | 9.9 | 6.0 | 9.6 | 6.0 | 0.3 | 3.0 | 5.7 |
| 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 | 9.9 | 6.0 | 9.6 | 6.0 | 0.3 | 3.0 | 5.7 |
| Taxes | -2.9 | | -3.0 | | 0.1 | -9.2 | |
| Minority interest | 0.0 | | 0.0 | | 0.0 | 0.0 | |
| Profit for the period | 6.9 | 4.2 | 6.6 | 4.1 | 0.3 | 5.2 | 4.3 |

| BALANCE SHEET (EUR million) | Q1/03 | % | Q1/02 | % | Q4/02 | % |
|---|--------------|--------------|--------------|--------------|--------------|--------------|
| Assets | | | | | | |
| Fixed assets and other non-current assets | 255.1 | 58.4 | 244.3 | 54.8 | 262.7 | 58.8 |
| Inventories | 66.7 | 15.3 | 66.9 | 15.0 | 60.9 | 13.6 |
| Other current assets | 115.0 | 26.3 | 134.7 | 30.2 | 123.5 | 27.6 |
| Total | 436.8 | 100.0 | 445.9 | 100.0 | 447.1 | 100.0 |
| Liabilities | | | | | | |
| Shareholders' equity | | | | | | |
| Restricted equity | 100.1 | | 100.3 | | 100.1 | |
| Unrestricted equity | 70.5 | | 45.7 | | 65.6 | |
| Shareholders equity, total | 170.5 | 39.0 | 146.0 | 32.7 | 165.7 | 37.1 |
| Minority interest | 1.2 | 0.3 | 0.3 | 0.1 | 1.5 | 0.3 |
| Provisions for future costs | 15.7 | 3.6 | 13.0 | 2.9 | 15.6 | 3.5 |
| Liabilities | | | | | | |
| Long term liabilities | 162.2 | | 169.3 | | 163.9 | |
| Short term liabilities | 87.1 | | 117.4 | | 100.4 | |
| Liabilities, total | 249.4 | 57.1 | 286.7 | 64.3 | 264.3 | 59.1 |
| Total | 436.8 | 100.0 | 445.9 | 100.0 | 447.1 | 100.0 |

METSÄ TISSUE GROUP

(unaudited)

| CASH FLOW STATEMENT (EUR million) | Q1/2003 | Q1/2002 | Q1-4/2002 |
|---|----------------|----------------|------------------|
| Profit before extraordinary items | 9.9 | 9.6 | 37.1 |
| Depreciation according to plan | 10.3 | 9.7 | 39.2 |
| Direct taxes | -2.5 | -2.5 | -11.6 |
| Other changes | 0.2 | -0.4 | 2.2 |
| Funds from operations | 17.8 | 16.4 | 66.8 |
| Change in working capital | -21.8 | 5.6 | 30.4 |
| Cash flow from operations | -4.0 | 22.0 | 97.3 |
| Capital expenditure 1) | -6.0 | -2.4 | -47.1 |
| Disposals and other changes in fixed assets | | | 3.5 |
| Cash flow after capital expenditure | -10.0 | 19.6 | 53.7 |
| Dividends | 0.0 | 0.0 | -3.0 |
| Other items | 0.5 | 1.2 | 1.8 |
| Change in liquid funds | -9.5 | 20.8 | 52.5 |

1) Excluding interest-bearing liabilities of acquired companies

QUARTERLY DEVELOPMENT
2001 - 2003

| TURNOVER | 2003 | 2002 | | | | | 2001 | | | | |
|------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| EUR million | Q1 | Q1-4 | Q4 | Q3 | Q2 | Q1 | Q1-4 | Q4 | Q3 | Q2 | Q1 |
| Consumer | 89.1 | 350.0 | 92.8 | 86.2 | 83.8 | 87.3 | 359.3 | 91.6 | 91.1 | 89.0 | 87.5 |
| Away-from-Home | 46.6 | 177.3 | 43.7 | 45.9 | 43.6 | 44.2 | 173.5 | 42.7 | 42.2 | 44.4 | 44.1 |
| Other operations | 31.1 | 127.2 | 35.9 | 31.6 | 30.3 | 29.4 | 121.0 | 30.8 | 28.1 | 30.4 | 31.6 |
| Internal sales | -2.0 | -6.8 | -1.7 | -1.4 | -2.0 | -1.7 | -4.2 | -1.9 | -0.5 | -0.8 | -0.9 |
| Total | 164.7 | 647.8 | 170.7 | 162.3 | 155.7 | 159.2 | 649.6 | 163.3 | 161.0 | 163.0 | 162.3 |

| OPERATING PROFIT | 2003 | 2002 | | | | | 2001 | | | | |
|--|-------------|-------------|------------|-------------|------------|-------------|-------------|-------------|-------------|------------|------------|
| EUR million | Q1 | Q1-4 | Q4 | Q3 | Q2 | Q1 | Q1-4 | Q4 | Q3 | Q2 | Q1 |
| Consumer | 4.9 | 19.7 | 2.3 | 7.9 | 3.9 | 5.6 | 21.9 | 8.4 | 6.8 | 4.5 | 2.3 |
| Away-from-Home | 5.0 | 17.7 | 2.7 | 6.4 | 4.0 | 4.7 | 12.1 | 4.0 | 4.1 | 2.5 | 1.6 |
| Other operations | 1.7 | 6.6 | 1.1 | 3.1 | 1.0 | 1.4 | 3.7 | 1.8 | 0.4 | 0.7 | 0.9 |
| Group costs | 0.1 | -0.9 | -0.1 | -0.2 | -0.5 | -0.1 | -1.3 | -0.3 | -0.1 | -0.4 | -0.3 |
| Total | 11.7 | 43.1 | 5.9 | 17.2 | 8.4 | 11.6 | 36.5 | 13.8 | 11.1 | 7.2 | 4.4 |
| Operating margin, % | 7.1 | 6.7 | 3.5 | 10.6 | 5.4 | 7.3 | 5.6 | 8.4 | 6.9 | 4.4 | 2.7 |
| Net exchange gains/losses | -0.5 | -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 | -1.3 | -5.6 | -1.2 | -1.5 | -1.3 | -1.6 | -10.3 | -1.8 | -2.5 | -2.9 | -3.2 |
| Profit before extraordinary items | 9.9 | 37.1 | 5.0 | 15.5 | 7.0 | 9.6 | 27.1 | 12.5 | 7.6 | 4.9 | 2.1 |

METSÄ TISSUE GROUP

(unaudited)

| KEY FIGURES | Q1/2003 | Q1/2002 | Q1-4/2002 |
|--|---------|---------|-----------|
| Share related indicators, EUR | | | |
| Earnings per share | 0.23 | 0.22 | 0.93 |
| Shareholders' equity per share | 5.68 | 4.86 | 5.52 |
| Investments | | | |
| Gross investments, MEUR | 6.0 | 2.4 | 47.1 |
| Investments, % turnover | 3.6 | 1.5 | 7.3 |
| Net interest bearing liabilities, MEUR | 139.1 | 153.3 | 129.6 |
| Financial ratios | | | |
| Return on equity, % | 16.3 | 18.4 | 18.1 |
| Return on capital invested, % | 14.5 | 14.0 | 13.2 |
| Capital turnover | 2.03 | 1.90 | 1.94 |
| Gearing, % | 81.0 | 104.8 | 77.5 |
| Equity ratio, % | 39.3 | 32.8 | 37.4 |
| Personnel | | | |
| Personnel, average | 3 250 | 2 916 | 3 067 |
| Personnel, at the end of period | 3 203 | 2 936 | 3 299 |
| Leasing commitments, MEUR | | | |
| Payments due during next 12 months | 2.2 | 2.9 | 2.4 |
| Payments due in subsequent years | 3.4 | 3.8 | 3.5 |
| Derivatives, MEUR | | | |
| Currency derivatives | 53.3 | 60.9 | 75.4 |
| Interest rate derivatives | 240.0 | | 240.0 |
| Commodity derivatives | 55.0 | 74.7 | 63.3 |
| Mortgages, MEUR | | | |
| | 3.3 | 2.5 | 3.4 |
| Guarantees, MEUR | | | |
| | 0.0 | 0.1 | 0.0 |
| Other liabilities, MEUR | | | |
| | 0.1 | 0.0 | 0.1 |