



Metsä Tissue Corp.

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METSÄ TISSUE'S FIRST HALF PROFIT ABOUT THE SAME AS LAST YEAR

- **Profit before extraordinary items was EUR 16.4 million (16.6 million for the first half of 2002).**
- **Turnover was up 6.0 per cent at EUR 333.8 million (314.9 million).**
- **Earnings per share were EUR 0.39 (0.39).**
- **Return on capital employed was 12.2 per cent (12.2), and return on equity 13.6 per cent (16.1).**
- **Implementation of the investment and development programmes is going according to plan.**
- **Metsä Tissue's shares have been delisted on the Helsinki Exchanges.**

Results and turnover

Operating profit was EUR 20.0 million, 6.0 per cent of turnover (20.0 million and 6.4 per cent). Profit was adversely affected by costs arising from start-up phases of new production lines, but was improved by slight growth in sales volumes and improvements made to the product range.

Second-quarter operating profit was down EUR 3.3 million on the first quarter. The reasons are the rise in raw material costs and the seasonally weaker sales period.

Turnover was up by 6.0 per cent on the first half of last year at EUR 333.8 million (314.9 million). Acquisitions accounted for about 4 per cent of the rise in turnover. Sales volumes were up by some 3 per cent, but average sales prices were somewhat lower than for this period last year.

Depreciation for the period was EUR 20.9 million (17.9 million). Net financial expenses were EUR 3.6 million, 1.1 per cent of turnover (3.4 million and 1.1 per cent).

Profit before extraordinary items was EUR 16.4 million, 4.9 per cent of turnover (16.6 million and 5.3 per cent). Profit for the period was reduced by taxes totalling EUR 4.7 million (4.9 million). Profit after taxes and minority interests was EUR 11.7 million (11.7 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 onto the market during the current year. The products have been well received and are expected to have a positive impact on financial results in the 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 is being 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 has been consolidated into Metsä Tissue's accounts as a subsidiary with effect from 1 April 2003.

Key figures

Earnings per share for the first half of the year were EUR 0.39 (0.39). Equity per share at the end of the period was EUR 5.82 (4.95). Capital invested in business operations at the end of the period was EUR 335.9 million (325.5 million at 31 December 2002). The return on capital employed was 12.2 per cent (12.2), and the return on equity fell to 13.6 per cent (16.1).

Financing

The cash flow was EUR 9.6 million before investments (35.5 million) and EUR -9.7 million after investments (21.0 million).

The gearing ratio at the end of June was 81.4 per cent (77.5 per cent at 31 December 2002). The equity ratio was 39.1 per cent (37.4 per cent at 31 December 2002).

Interest-bearing liabilities at the end of the period were EUR 160.4 million (158.2 million). Liquidity was good throughout the period. Liquid funds at the end of June were EUR 17.5 million (28.6 million at 31 December 2002). In addition, the group had EUR 85.7 million in unused credit facilities (104.6 million at 31 December 2002), of which EUR 81.3 million were committed and EUR 4.4 million uncommitted. Net interest-bearing liabilities were EUR 142.8 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 11 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 rose by 4.7 per cent to EUR 179.0 million (171.0 million). Operating profit was EUR 8.4 million, 4.7 per cent of turnover (9.5 million and 5.5 per cent). Sales volumes rose slightly in continental Europe, but in the Nordic countries were below last year's level. Sales prices were almost unchanged. Costs related to start-up phases of new production lines had negative effect to the result. The new Lambi products were launched on the Nordic and Polish markets, where they have been well received.

Turnover for the **Away-from-Home** business area was EUR 94.7 million, up 7.0 per cent on the corresponding figure last year (88.5 million). Operating profit improved to EUR 9.5 million, 9.5 per cent of turnover (8.7 million and 9.9 per cent). Sales volumes grew somewhat during the first six months. In addition, the acquisition of Krapex has resulted in a clear increase in sales to the Polish market. There were no major changes in average sales prices.

Other Operations produced a turnover of EUR 65.1 million (59.7 million). Operating profit was EUR 2.6 million, 4.1 per cent of turnover (2.4 million and 4.0 per cent). The **Baking & Cooking** business area increased its sales volumes compared with this period last year, but average sales prices were lower. Profitability showed a further improvement thanks to greater efficiency. **Tissue base paper** sales and profitability were about the same as for the first half of last year. Other Operations also included the packaging board business of the Krapkowice mill in Poland from autumn 2002 up until May 2003, when these operations were sold to a local company.

The **Table Top** business area's sales volumes were somewhat higher than for this period last year. Average sales prices were unchanged. Development of converting operations continued and the business area returned a slightly better financial result than last year.

Investments

Investment for the first half of the year totalled EUR 19.3 million (14.5 million). A total of EUR 2.1 million was invested in share purchases (1.1 million) and EUR 17.2 million was invested in fixed assets (13.4 million). No fixed assets were sold during the review period.

In line with the development programmes, investments in fixed assets were directed particularly 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) to 100.0 per cent, and a further 38 per cent of the shares of Krapex Sp.zoo.

Personnel

During the review period, the Metsä Tissue Group had an average of 3,334 employees (3,000). The number at the end of June was 3,478 (3,107). Company acquisitions increased the average number of employees by 354 compared with this period last year.

Shares and shareholders

On 20 January 2003, M-real Corporation bought all Metsä Tissue shares held by Svenska Cellulosa Aktiebolaget SCA. On the same date, M-real'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. On 10 June, an Arbitration Tribunal confirmed M-real's right to redeem the outstanding shares, and Metsä Tissue's shares were delisted on the Helsinki Exchanges on 19 June following M-real's acquisition of all Metsä Tissue shares.

During the review period the highest price quoted for Metsä Tissue Corporation's shares was EUR 12.37 and the lowest EUR 9.51. The average quotation was EUR 9.81 and the final quotation EUR 12.30. Metsä Tissue shares to a total value of EUR 127.7 million were traded during the period January – June, 34.7 per cent of the total number of shares. At the end of June, M-real owned 100 per cent of Metsä Tissue's shares.

Outlook

Demand for tissue products is expected to remain relatively stable in the near future. No material acceleration of growth is envisaged, and competition will therefore remain fierce. Raw material prices are expected to remain quite stable during the rest of the year.

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 the end of 2004.

The figures presented in this report are unaudited.

Espoo, 25 July 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

Further information on the company is available on the internet at www.metsatissue.com.

METSÄ TISSUE GROUP

(unaudited)

PROFIT AND LOSS ACCOUNT (EUR million)	Q1-2/03	%	Q1-2/02	%	Change	%	Q1-4/02	%
Turnover	333.8	100.0	314.9	100.0	5.5	3.5	647.8	100.0
Other operating income	2.7		2.2		-0.1		5.6	
Operating expenses	295.5		279.2		4.8		571.1	
Depreciation according to plan	20.9		17.9		0.6		39.2	
Operating profit	20.0	6.0	20.0	6.4	0.1	0.7	43.1	6.7
Net exchange gains/losses	-0.9		-0.5		-0.1		-0.3	
Other financial income/expenses	-2.6		-2.9	-1.1	0.3		-5.6	-0.9
Profit before extraordinary items	16.4	4.9	16.6	5.3	0.3	3.0	37.1	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	16.4	4.9	16.6	5.3	0.3	3.0	37.1	5.7
Taxes	-4.8		-4.9		0.1		-9.2	
Minority interest	0.0		0.0		0.0		0.0	
Profit for the period	11.7	3.5	11.7	3.7	0.3	5.2	28.0	4.3

BALANCE SHEET (EUR million)	Q2/03	%	Q2/02	%	Q4/02	%
Assets						
Fixed assets and other non-current assets	257.2	57.3	247.7	56.5	262.7	58.8
Inventories	64.5	14.4	65.6	15.0	60.9	13.6
Other current assets	127.2	28.3	124.7	28.5	123.5	27.6
Total	448.9	100.0	438.1	100.0	447.1	100.0
Liabilities						
Shareholders' equity						
Restricted equity	100.1		100.1		100.1	
Unrestricted equity	74.6		48.5		65.6	
Shareholders equity, total	174.7	38.9	148.6	33.9	165.7	37.1
Minority interest	0.8	0.2	0.3	0.1	1.5	0.3
Provisions for future costs	15.1	3.4	12.4	2.8	15.6	3.5
Liabilities						
Long term liabilities	155.2		167.9		163.9	
Short term liabilities	103.0		108.8		100.4	
Liabilities, total	258.2	57.5	276.7	63.2	264.3	59.1
Total	448.9	100.0	438.1	100.0	447.1	100.0

METSÄ TISSUE GROUP

(unaudited)

CASH FLOW STATEMENT (EUR million)	Q1-2/2003	Q1-2/2002	Q1-4/2002
Profit before extraordinary items	16.4	16.6	37.1
Depreciation according to plan	20.9	17.9	39.2
Direct taxes	-3.9	-4.1	-11.6
Other changes	-0.4	0.9	2.2
Funds from operations	33.0	31.3	66.8
Change in working capital	-23.4	4.2	30.4
Cash flow from operations	9.6	35.5	97.3
Capital expenditure 1)	-19.3	-14.5	-47.1
Disposals and other changes in fixed assets			3.5
Cash flow after capital expenditure	-9.7	21.0	53.7
Dividends	0.0	-3.0	-3.0
Other items	-1.5	-0.5	1.8
Change in liquid funds	-11.2	17.5	52.5

1) Excluding interest-bearing liabilities of acquired companies

QUARTERLY DEVELOPMENT
2001 - 2003

TURNOVER	2003			2002					2001				
EUR million	Q1-2	Q2	Q1	Q1-4	Q4	Q3	Q2	Q1	Q1-4	Q4	Q3	Q2	Q1
Consumer	179.0	89.9	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	94.7	48.1	46.6	177.3	43.7	45.9	43.6	44.2	173.5	42.7	42.2	44.4	44.1
Other operations	65.1	34.0	31.1	127.2	35.9	31.6	30.3	29.4	121.0	30.8	28.1	30.4	31.6
Internal sales	-5.0	-3.0	-2.0	-6.8	-1.7	-1.4	-2.0	-1.7	-4.2	-1.9	-0.5	-0.8	-0.9
Total	333.8	169.1	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	Q1-2	Q2	Q1	Q1-4	Q4	Q3	Q2	Q1	Q1-4	Q4	Q3	Q2	Q1
Consumer	8.4	3.4	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	9.0	4.0	5.0	17.7	2.7	6.4	4.0	4.7	12.1	4.0	4.1	2.5	1.6
Other operations	2.6	1.0	1.7	6.6	1.1	3.1	1.0	1.4	3.7	1.8	0.4	0.7	0.9
Group costs	0.0	-0.1	0.1	-0.9	-0.1	-0.2	-0.5	-0.1	-1.3	-0.3	-0.1	-0.4	-0.3
Total	20.0	8.3	11.7	43.1	5.9	17.2	8.4	11.6	36.5	13.8	11.1	7.2	4.4
Operating margin, %	6.0	4.9	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	-0.9	-0.4	-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	-2.6	-1.4	-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	16.4	6.5	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	Q1-2/2003	Q1-2/2002	Q1-4/2002
Share related indicators, EUR			
Earnings per share	0.39	0.39	0.93
Shareholders' equity per share	5.82	4.95	5.52
Investments			
Gross investments, MEUR	19.3	14.5	47.1
Investments, % turnover	6.4	4.6	7.3
Net interest bearing liabilities, MEUR	142.8	156.6	129.6
Financial ratios			
Return on equity, %	13.6	16.1	18.1
Return on capital invested, %	12.2	12.2	13.2
Capital turnover	2.02	1.88	1.94
Gearing, %	81.4	105.1	77.5
Equity ratio, %	39.1	34.0	37.4
Personnel			
Personnel, average	3 336	3 000	3 067
Personnel, at the end of period	3 478	3 107	3 299
Leasing commitments, MEUR			
Payments due during next 12 months	2.0	2.5	2.4
Payments due in subsequent years	3.2	3.4	3.5
Derivatives, MEUR			
Currency derivatives	34.4	37.1	75.4
Interest rate derivatives	240.0		240.0
Commodity derivatives	46.8	79.0	63.3
Mortgages, MEUR			
	3.2	2.6	3.4
Guarantees, MEUR			
	0.0	0.1	0.0
Other liabilities, MEUR			
	0.1	0.0	0.1