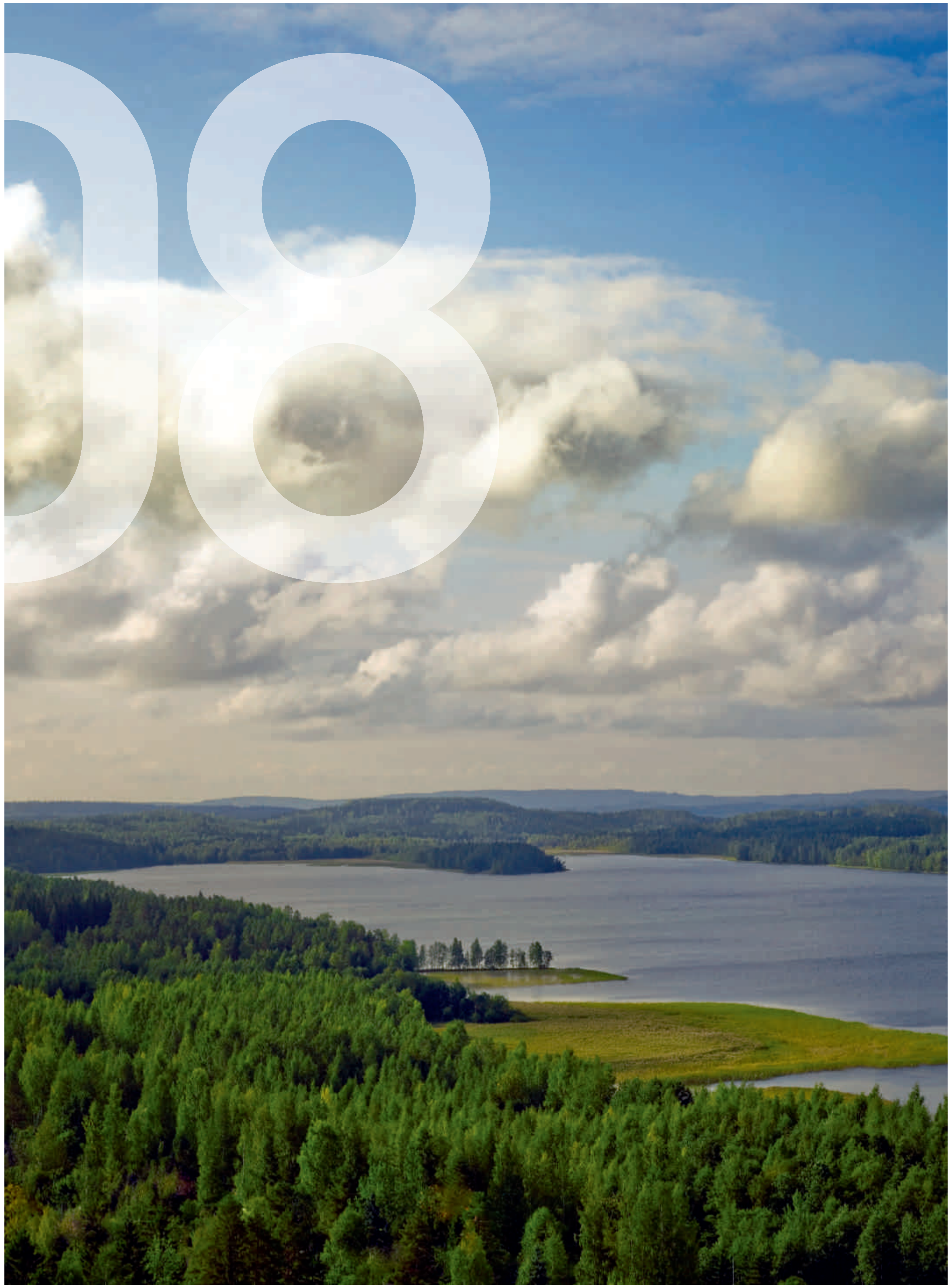
Annual Report



Metsäliitto Group

Metsäliitto is an international forest industry group with activities in some 30 countries. Our operations are based on a seamless combination of Finnish private forestry and innovative technology. We apply the principles of environmental sustainability to create high-end Finnish products from the finest Nordic wood raw material.

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Metsäliitto Group

Wood Supply

Wood Products Industry

Pulp Industry

Metsäliitto is one of the largest forest industry groups in the world. Its five business areas are responsible for wood supply and manufacturing innovative wood products, high-quality pulp, board and paper, as well as tissue and cooking papers. Metsäliitto Group's sales are EUR 6.5 billion and it has more than 16,000 employees. The Group has production facilities and sales offices in some 30 countries.

The 130,000 members of Metsäliitto Group's parent company, **Metsäliitto Cooperative**, own approximately half of the private forests in Finland. Wood trade is Metsäliitto's most important member service. In 2008, Metsäliitto provided its owner-members with an income of more than EUR 450 million. Metsäliitto is the market leader in wood supply from private forests in Finland.

Each year, Metsäliitto procures over 32 million cubic metres of wood, which is processed primarily at the Group's own production units. Most of the wood is procured from Finland, mainly from the forests of Metsäliitto's owner-members. Wood supply is controlled by Metsäliitto's environmental policy and the principles of corporate responsibility. **Metsäliitto Wood Supply's** sales in 2008 were EUR 1.7 billion and it has some 1,200 employees.

Metsäliitto Wood Products Industry delivers Finnforest products and solutions – developed in co-operation with its customers – that meet the needs of industrial construction, the transport industry, and home and housing. Wood Products Industry's sales in 2008 were EUR 1.2 billion and it has some 4,200 employees.

Metsä-Botnia is the second largest pulp manufacturer in Europe. Its main products – bleached softwood, birch and eucalyptus pulp – have been developed for the production of high-quality fine


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Board and Paper Industry


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Tissue and Cooking Papers


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Energy Industry

papers, magazine and tissue papers, and folding boxboard. Metsä-Botnia's sales in 2008 were EUR 1.6 billion and it has some 1,800 employees.

M-real, Europe's leading board supplier and a major paper producer, provides its customers with high-quality board and paper for consumer packaging and to meet the needs of communications and advertising. The company's global sales network serves brand owners, carton printers, publishers, printing houses, merchants, and office suppliers. M-real is listed on the NASDAQ OMX Helsinki Stock Exchange. The company's sales in 2008 were EUR 3.2 billion and it has some 6,500 employees.

Metsä Tissue, a leading producer of cooking paper and Europe's fourth largest supplier of tissue paper products, is known by its brands which include: Lambi, Serla, Mola, Tento, Katrin and Fasana. The company is engaged in the development, manufacturing and marketing of tissue and cooking paper products for both households and industrial, institutional and commercial consumers. The company's sales in 2008 were EUR 0.9 billion and it has some 3,200 employees.

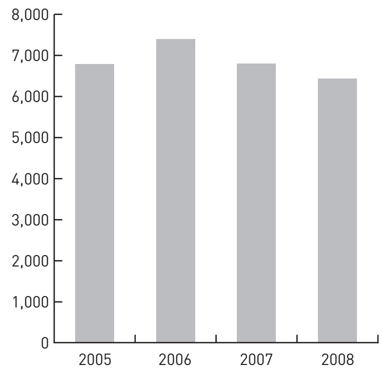
In addition to its five business areas, Metsäliitto Group includes the associated company **Vapo**. Vapo is the Baltic Sea region's leading supplier of local and renewable fuels, bioelectricity, bioheat, and environmental business solutions. Metsäliitto Cooperative owns 49.9 per cent of Vapo.

Key figures

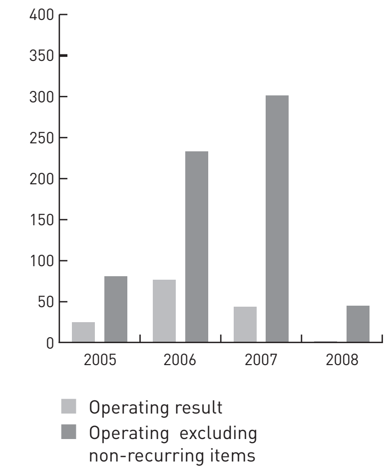
Result (Continuing operations)	**2008**	**2007**	**2006**
EUR million			
Sales	6,434	6,797	7,392
Other operating income	239	92	129
Operating expenses	-6,189	-6,256	-6,937
Depreciation and impairment losses	-482	-589	-507
Operating result	2	44	77
Share of results in associates	6	12	6
Net exchange gains / losses	19	5	9
Other financial income & expenses	-260	-220	-186
Result before tax	-233	-160	-94
Income tax	60	-24	-35
Result from continuing operations	-172	-183	-129

Key figures (Continuing operations)	**2008**	**2007**	**2006**
Operating result, EUR million	2	44	77
- ˝ -, excluding non-recurring items	45	301	233
Return on capital employed, %	0.5	1.4	2.0
- ˝ -, excluding non-recurring items	1.3	6.4	5.0
Return on equity, %	-8.4	-7.5	-4.8
- ˝ -, excluding non-recurring items	-6.4	2.7	1.0
Equity ratio, %	26.0	28.8	29.5
Net gearing ratio, %	149	142	137
Interest-bearing net liabilities, EUR mill.	2,666	3,271	3,524
Gross capital expenditure, EUR mill.	272	493	735
Personnel, average	17,538	19,195	23,809
- of whom in Finland	7,253	7,522	7,956

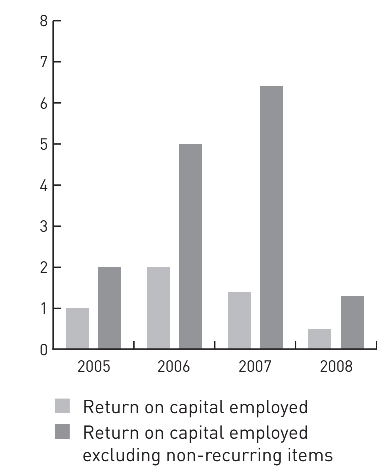
Sales
EUR million



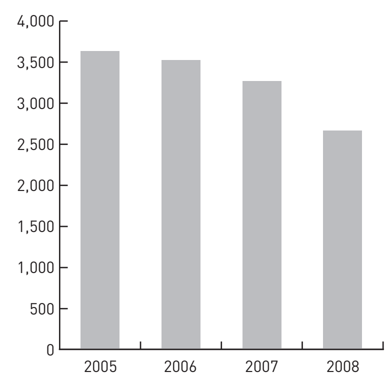
Operating result
EUR million



Return on capital employed
%



Interest-bearing net liabilities
EUR million



The year 2008 in brief

JANUARY | FEBRUARY | MARCH | APRIL | MAY | JUNE

14 Jan.
Metsäliitto Wood Products Industry acquired the iLevel European engineered wood products business from Weyerhaeuser Company. The business acquisition included iLevel European sales, distribution and technical support.

16 Jan.
In its subsequent constituent meeting, Metsäliitto Group Board of Directors elected **Martti Asunta** as new Chairman of the Board of Directors. Metsäliitto Group President and CEO **Kari Jordan** was elected as Deputy Chairman of the Board of Directors.

1 Feb.
M-real agreed to sell its New Thames office paper mill located in the UK, to DS Smith Plc. The debt-free price was approximately EUR 80 million. The deal became effective on 29 February.

6 Feb.
M-real announced an additional target of EUR 200 million from asset sales, which should be achieved by the end of the first quarter of 2009.

19 Feb.
As part of the profit improvement programme M-real announced in November 2007, the company shut down its BCTMP plant in Lielahti, Finland and PM2 producing coated magazine paper at the Kangas mill in Finland.

1 Apr.
Anne-Mari Achrén, Senior Vice President, Communications at M-real was appointed Group Senior Vice President, Communications of Metsäliitto Group.

21 Apr.
Metsäliitto started the national Summer Logging campaign to increase summer-time harvesting. The target was to increase the amount of thinning by a quarter from last year.

23 Apr.
Metsäliitto Cooperative's Representative Council decided to pay 6.5 per cent interest on the subscribed members' capital on the basis of the financial result for 2007; and 5.5 per cent on the additional A series capital and 4.0 per cent on the additional B series capital. Interest on member's capital increased by 0.5 per cent compared with last year.

28 Apr.
Metsäliitto Group launched its Climate Programme. The programme collects information on the climate impacts of the Group and its business areas, and defines the goals and the ways to reduce these impacts.

21 May
The aggregate annual target of the M-real's profit improvement programme started in November 2007, was raised from the original EUR 100 million to EUR 150 million. The full effect on earnings will be reached by the end of 2010.

27 May
M-real sold a total of 100,000 Pohjolan Voima Oy B2 shares to Kymppivoima Oy for EUR 80 million.

27 May
The new Metsäliitto Wood Product Industry's plywood upgrading mill was inaugurated in Suolahti, Finland. The mill manufactures more comprehensive and more tailored plywood products to for example the transportation and formwork industries.

27 May
Metsä Tissue started the converting of its products in Naro Fominsk, Russia. The unit produces Katrin Away-from-Home and Lambi and Mola consumer products.

JULY AUGUST SEPTEMBER OCTOBER NOVEMBER DECEMBER

21 Aug.

Metsäliitto launched direct wood fuel deliveries to power plants. The first contract was signed with Vaskiluodon Voima and covered the delivery of wood fuels to the Seinäjoki power plant. From 2009, Metsäliitto will be responsible for wood energy procurement and biofuel processing functions for the power plant.

27 Aug.

Metsäliitto boosted Finnish Wood Supply operations by simplifying operation control and by making reporting more effective.

31 Aug.

Erkki Varis, CEO of Metsä-Botnia retired.

1 Sept.

Ilkka Hämälä was appointed CEO of Metsä-Botnia.

29 Sept.

M-real announced the sale of its Graphic Papers business to the South African company Sappi Ltd for an enterprise value of EUR 750 million. The sale comprises the Kirkniemi and Kangas mills in Finland, the Stockstadt mill in Germany and the Biberist mill in Switzerland. As part of the transaction, a long-term agreements on the supply of pulp and BCTMP and other smaller services and supplies was signed. In addition, a long-term wood supply agreement was signed. M-real also announced that it plans to discontinue the production of standard coated fine paper in the Hallein and Gohrsmühle mills.

1 Oct.

Metsä Tissue signed a EUR 238 million syndicated loan agreement. The loan is a five-year credit facility financing the current facility, due to mature in June 2009.

27 Oct.

Metsäliitto announced the closing of the Soinlahti sawmill in Iisalmi, Finland at the turn of the year 2008–2009 due to long-term unprofitable operations.

5 Nov.

Metsä-Botnia announced that it is considering a temporary shutdown of production at the Kaskinen pulp mill in Finland or the closure of the mill during the first quarter of 2009.

25 Nov.

The Supervisory Board of Metsäliitto Cooperative elected **Juha Parpala**, farmer and agrologist, and **Antti Tukeva**, CEO of Osuuskunta Maitosuomi and Osuuskunta Normilk, and academic agronomist, to the Metsäliitto Group's Board of Directors. In addition, **Eino Halonen**, who was in turn to resign, was re-elected as Board Member. Under the rules of Metsäliitto Cooperative, **Heikki Asunmaa** and **Unto Kotipalo** will both leave the Board as they have reached the stipulated age of 65 years for Board members.

25 Nov.

Esa Kaikkonen, General Counsel, was appointed to the Group's Executive Management Team. As a member of the team, Kaikkonen's responsibilities include the Group's legal affairs, corporate security, business practices and corporate acquisition and divestment processes.

31 Nov.

Martin Lillandt, Senior Executive Vice President of Metsäliitto Cooperative, retired.

1 Dec.

Ole Salvén, Group Executive Vice President, Metsäliitto Wood Products Industry, was appointed Deputy to the CEO of Metsäliitto Cooperative. **Juha Mäntylä**, Forest Director, Metsäliitto Group, was appointed Group Executive Vice President, Metsäliitto Wood Supply. He also became a member of the Group's Executive Management Team.

8 Dec.

Metsäliitto announced the planned temporary suspension of the Kyröskoski sawmill operations and the laying off of its entire staff until further notice.

11 Dec.

Metsäliitto announced the closing of the Teuva sawmill in southern Osthrobothnia, Finland during January 2009. Additionally, Metsäliitto will boost the operations of the Kaskinen upgrading unit to meet the new production structure, and adjust the personnel resources included in operations shared by Teuva and Kaskinen to suit the new situation.

17 Dec.

Metsäliitto Group and M-real announced that their fourth quarter operating result, excluding non-recurring items, will be weaker than previously expected. In this situation, the operating result, excluding non-recurring items, for 2008 will also be clearly weaker than for 2007.

31 Dec.

The divestment of M-real's Graphic Papers business to the South Africa-based Sappi Ltd. was closed.

Towards a more compact entity

In many respects, last year was exceptional for the forest industry. The harsh operating environment accelerated the industry's structural change, which resulted in business restructuring and curtailments in production. The financial crisis that began in the United States quickly spread to the rest of the world's financial sector in the autumn to become a global economic crisis – a situation which was also felt in the real economy. Today's problems in the financial system are seriously affecting business operations – the slower or even discontinued growth is leading to a decline in demand.

Already before the onset of the financial crisis, changes to the business environment were challenging the profitability of the Finnish forest industry – production costs increased considerably, while the prices for end products remained at the level of the early 2000s. The costs for all significant production factors verged on the limits of the industry's tolerance.

In today's changing world, it is important to know which direction to take. Metsäliitto Group has chosen its path and is now well on its way towards building a more compact entity. As a result of the structural changes we have resolutely implemented, our Group can now focus on and thus strengthen our selected core areas. By doing this, we believe that we can best meet the expectations of our owners, customers, employees and other interest groups.

Three years ago, Metsäliitto Group had a very scattered structure. The new direction was to build an entity that would be more compact in all respects. We began this work by embarking on a considerable cost-saving programme and taking a number of comprehensive Group-wide efficiency measures. Steps to streamline the business

COST-CUTTING
2005
SITUATION ANALYSIS AND COST ELIMINATION

RATIONALISATION
2006
STREAMLINING AND CAPACITY REDUCTIONS

FOCUS ON CORE BUSINESS
2007
THE BUSINESS FOCUS PROCESS CONTINUES

2008
STRUCTURAL CHANGE STRENGTHENS

2009
STRUCTURAL CHANGE CONTINUES

were also taken – a prerequisite for the ongoing stage which will further strengthen our focus on the selected core areas.

For several years, Metsäliitto Group has had a well-defined view on the need for structural change in the forest industry. The measures we have implemented so far are taking us in the right direction. In this regard, the most significant event last year was the divestment of our subsidiary M-real's Graphic Papers business to the South Africa-based Sappi Ltd.

Our value of responsible profitability is also an objective that guides us as we continue to become a more compact entity in a continuously changing operating environment. We seek profitability and do it responsibly by taking into account financial, social and environmental aspects in all of the decisions we make. Our other values – reliability, cooperation and renewal – lay the foundation for business. These values help guide us our work in an operational environment where extremely challenging situations and difficult decisions have become more the rule than the exception.

It should be kept in mind, however, that we, Metsäliitto Group, have top-notch expertise and excellent products in the board, paper, pulp and wood products industry sectors. In addition, the incomparable environmental features of wood and wood-based products are an advantage. We also believe that in the future, we will find totally new, profitable uses for wood fibre. All these opportunities are based on our unique raw material – Finnish timber grown by our owner-members.

Kari Jordan


BUSINESS AREAS

Wood Supply

In 2008, Metsäliitto Wood Supply failed to meet the set volume targets mainly in Finland. Due to the weakening of the end product market, production plants curtailed their production volumes and the demand for wood decreased. Although log prices fell rapidly, the price level of pulpwood remained quite stable.

Metsäliitto Wood Supply delivered 32.6 million cubic metres of wood raw material to its customers, and its operating result, excluding non-recurring items, was EUR 28 million. In Finland, there was a shortage of pulpwood at the beginning of the year. In the latter part of the year, both the sawmill and the pulp industries reduced wood use due to production curtailments.

Metsäliitto's wood procurement in Russia was streamlined and curtailed. In the Baltic countries, the wood trade was quiet, particularly with regard to private forests. In the latter part of the year, imports from there to production plants in Finland and Sweden clearly decreased. In central Europe and Sweden, both the wood trade and supply were executed evenly throughout the year.

Markets

The winter of 2007–2008 was the second successive poor harvesting season in Finland, and a large number of winter thinning stands were left unfelled. Already at the end of the record year 2007, the wood trade slowed significantly and was quiet throughout the entire year under review. In Finland, total wood purchases were 20 per cent less than the average for the previous five years.

The tax reliefs proposed by the Finnish government for wood sales revenue allowed the wood trade to pick up only briefly. The tax exemption available for first-thinning stands from April to the end of August resulted in the year's busiest wood trade week in late August. In July, partial and fixed-term wood sales revenue tax reliefs were announced, which boosted the wood trade for some weeks.

Forestry Centres carried out active campaigns to increase thinning. The Central Union of Agricultural Producers and Forest Owners (MTK) and the Finnish Forest Industries Federation expedited sales in June through a shared advertising campaign.

In Finland, the wood supply business switched from heavy log stands to thinning forests and delivery sales. Log prices decreased at the beginning of the year, briefly levelled out but decreased sharply towards the end of the year. Sawn timber prices in the export markets decreased even more quickly. Although pulpwood prices were quite stable, they started to clearly fall at year-end.

The Finnish forest industry prepared for the introduction of Russian timber customs duties. Despite the Russian government announcing a postponement of the taxes until 2010 to give more time to adjust, import volumes from Russia will decrease.

Major events

Due to the second poor winter harvest season in a row, Metsäliitto Wood Supply's timber assortments' stock levels were very low during the beginning of the year, with difficulties in pulpwood deliveries in particular. The situation was remedied by purchasing harvest-compatible summer stands and roundwood. The wood supply situation continued to be challenging to year-end. There was a shortage throughout most of the year.

Metsäliitto purchased approximately 13 million cubic metres of timber from private forests, which was clearly below the average volume. Wood energy supply was impacted by the fact that clear cutting was less frequent than usual, and deliveries of industrial by-products were below average due to the production curtailments in the wood products industry. In spring, Metsäliitto signed some contracts on direct wood energy deliveries to power plants.

Under M-real's Graphic Papers business divestment to Sappi Limited, Metsäliitto signed a long-term contract on wood delivery to the Kirkniemi mill.

Active measures were taken to boost the wood trade. The 'Summer Logging' campaign, arranged for the second time, once again increased the amount of summer thinning by a third compared with the previous year. A 'Peat Soil' campaign aimed at finding new felling opportunities and methods for peat land harvesting, was launched. The results were already exploited during the year.

With regard to member services, the renewal of all Member Benefit Agreements, and the development of the wood trade bonus system were the main actions. The new system was introduced on 1 January 2009. In addition, the online Metsäverkko service for owner-members was expanded.

In Finland, the organisation was renewed to simplify the steering of operations and strengthen member service resources at the district level. The extensive training programme for purchasing managers also focused on improving member services.

Wood procurement in Russia prepared for the introduction of the timber customs duties. Wood Supply's corporate structure was streamlined, and wood procurement was curtailed. Although the Russian timber market was in a confused state during the latter part of the year, wood supply for Metsä-Botnia's Svir Timber could be secured throughout the year. A total of 3.2 million cubic metres of wood raw material was procured from Russia, of which 2.5 million cubic metres were imported to Finland and Sweden.

In the Baltic countries, wood sales from private forests were at a fairly low level while the trading of wood sourced from government-owned forests was almost normal. The very high prices for pulpwood dropped rapidly. Metsäliitto procured a total of 2.6 million cubic metres of timber for its customers in the Baltic countries and its own production units.

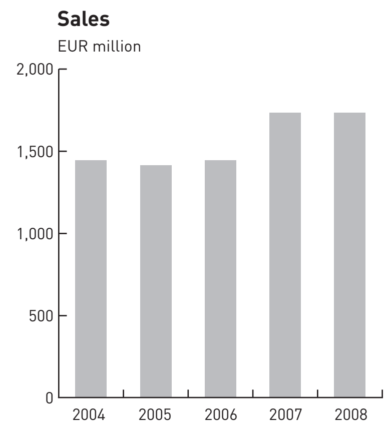
In central Europe and Sweden, the timber market was relatively stable. The shortage of pulpwood at the beginning of year turned to become an oversupply towards the end of the year as the forest industry curtailed production volumes. A total of 5.7 million cubic metres of timber was procured.

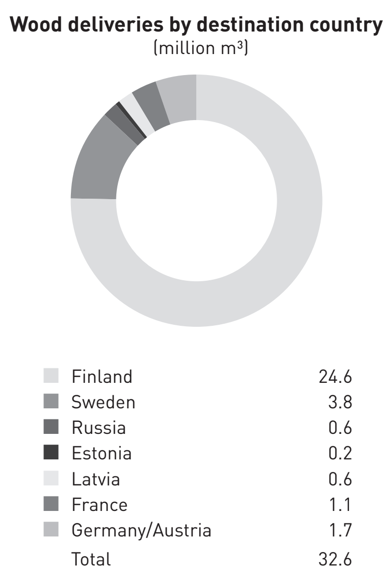
Outlook

Since autumn 2008, the global economy has been in turmoil. The forest industry also has its own challenges as it undergoes a structural change.

In 2009, Metsäliitto will increasingly centralise its wood procurement in Finland. This means that it will have good opportunities to allocate wood sourced from owner-members to the Group's production units and other customers. The purchasing target from private forests is similar to last year. However, the decisive factor is how the production volumes of sawn timber and pulp will progress. With regard to the wood trade, it is important that the 50 per cent tax incentive provided by the Finnish State is available during 2009.

For Russia and the Baltic countries, the development of the wood market will be closely monitored and operations adjusted as required.





Key figures

EUR million	2008	2007	2006
Sales	1,734	1,735	1,444
EBITDA	35	43	44
Depreciation and impairment losses	-5	-5	-6
Operating result	30	38	38
Non-recurring items	2	2	10
Operating result excluding non-recurring items	28	36	28
ROOC excluding non-recurring items, %	15.7	18.9	14.0
Gross capital expenditure	4	4	3
Personnel at year-end	1,140	1,429	1,702

Wood Products Industry

The intense weakening of the European economy slowed down construction, forcing Metsäliitto Wood Products Industry to adjust its production volumes to suit the market situation, particularly in the latter part of the year. Determined efforts to raise the degree of processing will, nevertheless, continue.

Metsäliitto Wood Products Industry's operating result, excluding non-recurring items, for 2008 showed a loss of EUR 53 million. The negative result was impacted by the relatively weaker competitiveness of the Finnish wood products industry in the export market mainly due to high logistics and wood raw material costs; exchange rate fluctuations in the British pound in particular; low product prices due to overcapacity in the European sawn timber market; and the non-recurring items as a result of the closures of the Soinlahti and Teuva sawmills.

Already in the autumn of 2007, Metsäliitto started to adjust its sawn timber production according to the weakened demand. To improve the profitability of Solid Wood, sawing was curtailed by 20 per cent during the year.

The Plywood, Building Solutions, and Upgrading and Distribution business lines achieved a positive result as the proportion of upgrading and services in their products is higher. However, their profitability weakened in the latter part of the year due to the market situation. Starting in autumn, the production of plywood, Kerto products, I-joist and glulam were also curtailed.

Markets

The economic downswing in the export market and eventually in the domestic market showed a considerable decline in new residential construction and, to some extent, in building renovation.

Throughout the year, the market environment of sawn timber products was extremely difficult. Since autumn, demand has continued to drop sharply. Moreover, the overcapacity in the European sawn timber market has led to a very active price competition.

The demand for industrial specialty plywood slowed down in the latter part of the year due to the weakened outlook for the transport industry in particular. The demand for softwood plywood also decreased as the stocks of distribution customers increased.

The demand for Building Solutions weakened mainly due to the decline in the housing market, particularly in the UK. However, the decline was not as rapid in products intended for renovation and interior design.

Major events

During the year, Wood Products Industry focused on adjusting expenses and working capital to suit the difficult market circumstances, and to minimise the losses caused by sawing in particular.

Solid Wood adjusted its operations according to the weakened demand by curtailing production at all sawmills in Finland. Decisions were made to permanently shut down the Soinlahti sawmill at the end of 2008 and the Teuva sawmill in January 2009. Operations at the Kyröskoski sawmill have been suspended until further notice.

To raise the degree of sawn timber processing, the Kaskinen mill deployed a new surface treatment line for the production of façade and exterior cladding products. In addition, garden products were further developed and the high-quality Finnforest Kesto Plus product range was introduced.

In 2008, the plywood business was guided by two main objectives: to develop solutions for demanding industrial end uses and to improve cost-efficiency through the automation of birch plywood production. The service concept was further developed by, for example, locating machining and distribution centres near customers.

Production at the new plywood upgrading mill in Suolahti was launched in the spring. The mill manufactures even more comprehensive and tailored products for the transport and concrete formwork industries. The mill upgrades 30 per cent of the production of the Suolahti birch plywood mill.

Metsäliitto Wood Products Industry and Puhos Board Oy, the leading chipboard manufacturer in Finland, agreed on the transfer of Puhos' domestic chipboard sales to Wood Products Industry from 2009.

Building Solutions increased its operations in the house building sector, as the US-based Weyerheuser's iLevel business in Europe was acquired in January. The deal included the sales, distribution and technical support for engineered wood products in Europe.

Building Solutions intensively boosted its office building operations by utilising the technical competitiveness of wood solutions compared with competing building materials, and by actively initiating discussion concerning the positive environmental impacts of wood. An environmental impact analysis concerning the roof of IKEA's Raisio-based store, carried out in cooperation with VTT Technical Research Centre of Finland, was used as an example.

An example of project expertise concerned the delivery and installation of ash-veneered birch plywood cladding to terminal 2E of Charles de Gaulle airport in Paris.

The Upgrading and Distribution business line continued developing its product range and extended it with upgraded products. The business line strengthened its position in France through the development of the upgrading and distribution centre acquired in 2007. In Boston in the UK, one of the largest processing lines in the field was installed, enabling the flexible production of planed sawn timber and packaging according to consumer needs.

Outlook

Wood Products Industry is committed to implementing its business strategy in order to increase added value, produce and develop even more customer-oriented Finnforest products, services and solutions, and decrease the proportion of standard products correspondingly. Its business will be developed to become more competitive according to the needs of selected customer segments. Basic production will be even more efficiently directed to upgrading.

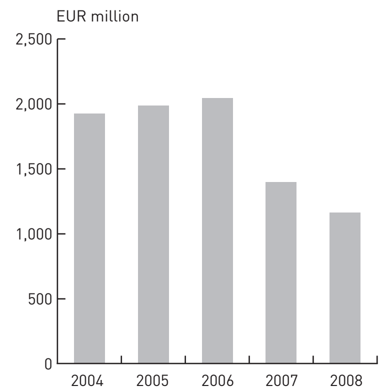
In Solid Wood, the overproduction of structural sawn timber is an ongoing trend. For this reason, Wood Products Industry will focus on exploiting the characteristics of Finnish raw material as well as on increasing the value of its end products.

Although the outlook for the transport industry seems to be poor, Plywood business line's industrial customers require even further upgraded coatings and more extensive building components. Wood Products Industry will continue this development work.

Building Solutions is a global forerunner in providing wooden structures. It develops its building systems to meet the tightening environmental and energy requirements in a market area that also provides extensive opportunities.

Wood Products Industry is the leading supplier of consumer products and their distribution in Finland, the UK and France. Although their demand in the near future will be weak, the development of interior decoration and garden range products and related services in the main markets will continue.

Sales



Sales by market areas
(EUR million)

Euro-countries	580	50%
Sweden, Norway, Denmark	52	5%
Great Britain	351	30%
Rest of Europe	62	5%
Rest of the World	118	10%
Total	1,162	

Key figures

EUR million	2008	2007	2006
Sales	1,162	1,399	2,045
EBITDA	-18	134	173
Depreciation and impairment losses	-56	-47	-66
Operating result	-74	87	107
Non-recurring items	-21	0	12
Operating result excluding non-recurring items	-53	87	95
ROOC excluding non-recurring items, %	-9.5	14.4	10.1
Gross capital expenditure	36	33	66
Personnel at year-end	4,199	4,471	4,511

Pulp Industry

Metsä-Botnia's most important goal for the year – deploying the Uruguay pulp mill to nominal production – was a great success. Despite the weakened market situation, the mill is making a good profit. At the Finnish mills, production had to be curtailed due to the challenging wood supply situation and a fall in demand.

For Pulp Industry, 2008 started off well even though prices decreased slightly throughout the year. Metsä-Botnia's operating result for 2008 was EUR 209 million. In the final quarter, the market situation rapidly deteriorated, the pulp stocks of customers were at a high level and the prices fell. Earnings were also weighted down by the production curtailments at Finnish mills and the high price for wood raw material.

Metsä-Botnia's five Finnish mills produced an annual total of 2.4 million tonnes of pulp. Production output fell short of targets primarily because almost all mills had to apply production limits due to the shortage of wood raw material coupled with the weakening pulp demand at year-end.

In its first year of operation, the Uruguay pulp mill exceeded its targets, producing 935,000 tonnes of pulp.

Markets

Pulp prices decreased throughout the year. At the beginning of the year, the price of softwood pulp in Europe was USD 880 and hardwood pulp USD 780. The corresponding figures at the end of December were USD 638 and USD 580 respectively. The US dollar strengthened approximately 7 per cent against the euro in the course of the year, thus making the increase in euro-denominated prices less significant.

Early in the year, the pulp market was quite stable. The demand for pulp was good and stocks across the entire production chain were normal. Early in the year, production curtailments, due to the shortage of wood raw material, increased the demand for pulp. Later, the market situation rapidly weakened, customer stocks were full and prices fell dramatically. Several pulp manufacturers announced mill closures and production curtailments with the aim of restoring a market balance.

A major restructuring process is currently underway in the industry. New capacity is being built primarily in South America, while existing capacity is being closed down in locations such as North America. Some two million tonnes of new capacity will enter the market which is, however, less than the amount of the capacity to be closed.

Major events

The most important goal for the year, the launch of the Uruguay pulp mill and its deployment to nominal production, was a great success. The mill set a new world record by achieving nominal production in 143 days. Also, the pulp quality met the set criteria right from the start and has had positive customer feedback. Regarding environmental values, the mill exceeded its targets with very low emission levels already at the start-up phase. Despite the weakened market situation, the mill is making a good profit.

In Finland, the poor availability of wood raw material coupled with high export prices for wood has resulted in production curtailments at all mills over the last two years. Pulp mills are at their most profitable and most efficient with regard to the environment and other aspects when they are running at full capasity. As unscheduled shutdowns and continuous production curtailments weaken a mill's profitability and product quality, it was decided that production curtailments would be centralised to one mill. The statutory labour negotiations initiated at Kaskinen mill in November to determine whether to stop mill operations temporarily or close it down permanently were concluded in January 2009. A decision was made in January to close the mill down during the first quarter of 2009. The purpose of the measure is to ensure that other company mills run evenly and that the company's long-term profitability is secured.

Other Finnish mills continued to make operations more efficient. The investments mainly focused on the improvement of the mills' production efficiency and environmental performance. The energy production of modern pulp mills is more than self-sufficient, which makes them significant producers of bioenergy. Metsä-Botnia has taken systematic action to decrease the mills' own energy consumption and increase energy production. In December 2008, Metsä-

Botnia was among the first Finnish companies to receive a certificate for its energy efficiency system.

The Russian-based Svir Timber sawmill suffered from the downswing in the sawmill industry. Its production only totalled 170,747 cubic metres, which clearly fell behind the target of 230,000 cubic metres.

Outlook

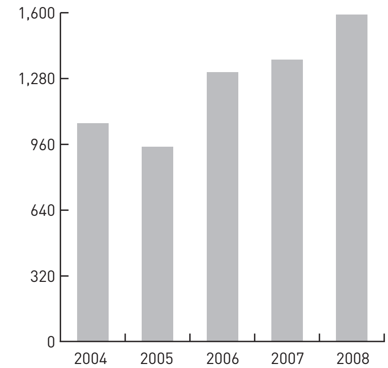
Due to the low capacity utilisation rates of paper mills and the unfavourable development of pulp price, the pulp industry's outlook is weak. This means that capacity has to be further adjusted to meet the lower demand.

To ensure and further improve cost efficiency, Metsä-Botnia will invest in improving the reliability of its mill operations, raising the proportion of prime quality in production, and enhancing the logistics chain. Particular attention will also be paid to more efficient use of chemicals and wood raw material.

In the tightened market situation, increased attention will be paid to developing operations based on customer needs. The significance of long-lasting customer relationships based on close cooperation will be further emphasised. In this respect, Metsä-Botnia is in a good position. According to a 2008 customer survey, customers appreciate Metsä-Botnia's reliability as a partner despite the difficult operating environment.

Sales

EUR million



Sales by market areas

(EUR million)

Euro-countries	1,104	69%
Sweden, Norway, Denmark	20	1%
Great Britain	104	7%
Rest of Europe	116	7%
Rest of the World	247	16%
Total	1,591	

Key figures

EUR million	2008	2007	2006
Sales	1,591	1,371	1,311
EBITDA	347	289	316
Depreciation and impairment losses	-138	-103	-104
Operating result	209	186	212
Non-recurring items	0	0	0
Operating result excluding non-recurring items	209	186	212
ROCE excluding non-recurring items, %	10.6	10.6	14.3
Gross capital expenditure	99	409	570
Personnel at year-end	1,815	1,862	1,898

Board and Paper Industry

In 2008, M-real took significant steps towards a more sound and profitable corporate structure. As a result of the changes, the company is now Europe's leading board supplier and a major paper producer.

The past year was challenging for the board and paper industry. M-real's operating result, excluding non-recurring items, for 2008 showed a loss of EUR 35 million. The result was primarily weakened by the clearly higher raw material and energy costs; the strengthening euro; production curtailments carried out at Metsä-Botnia's Finnish mills; and the weakened demand at year-end. The result was positively impacted by internal profit improvement measures, price increases and the Uruguay pulp mill. The most significant step of the year was the closing of the divestment of Graphic Papers.

Although the objectives of the internal profit improvement measures were exceeded, they did not fully cover the record-high cost inflation.

M-real's reporting structure was renewed at the beginning of 2009. The new business segments are the primary fibre cartonboard producer Consumer Packaging, the uncoated fine papers producer Office Papers and Other Papers, which concentrates on speciality papers. The reporting structure also includes the Market Pulp and Energy segment, which consists mainly of pulp sales to external parties.

Markets

The demand for board and coated paper was at quite a good level in the beginning of 2008. As the general economic situation weakened at year-end, order volumes decreased in the main markets in Europe more than the standard seasonal effect would have resulted in.

Active price increase measures were taken during the year. Prices for board and coated paper started to rise in the latter part of the year. No significant changes took place in office paper prices. The euro, which weakened towards the end of the year against the US dollar, improved the situation.

Industry restructuring and paper capacity closures seem to continue in both Europe and North America.

Major events

The profit improvement and business concept simplification programme M-real launched in November 2007 was implemented according to plan. As part of the programme, the Lielahti BCTMP mill and PM2 at Kangas, Finland, producing coated magazine paper were closed down in early 2008.

In February, an additional goal of at least EUR 200 million from asset sales was announced. The goal was clearly exceeded when the Graphic Papers business was sold at year-end. The programme also included the divestment of the UK-based New Thames mill and 100,000 B2 shares of Pohjolan Voima Oy. During the year, the total value of asset sales exceeded EUR 900 million.

The sale of M-real's Graphic Papers business to the South African company Sappi Ltd was closed in December. The value of the deal was EUR 750 million, and it included the Kirkniemi and Kangas mills in Finland, the Stockstadt mill in Germany and the Biberist mill in Switzerland. The combined capacity of the mills was 1.9 million tonnes. As part of the transaction, M-real and Sappi also entered into a long-term agreement on the supply of pulp and BCTMP and other smaller services and supplies. Graphic Papers mills in Hallein, Gohrsmühle, Reflex and Äänekoski, as well as Husum paper mill's PM8, remained in M-real's ownership. The Äänekoski paper mill and Husum's PM8 will continue production for Sappi under a long-term contract. The transaction reduced M-real's annual sales by approximately EUR 1 billion and considerably improved profitability and balance sheet structure.

According to previous strategic plans, the production of coated standard fine paper at the Hallein and Gohrsmühle mills will be closed down in April 2009, thereby decreasing the capacity of coated fine paper in Europe by some 0.6 million tonnes. In future, the Gohrsmühle and Reflex mills will be developed as one M-real speciality paper unit. The production of specialty papers, uncoated fine paper reels and folio sheets will be expanded at Gohrsmühle.

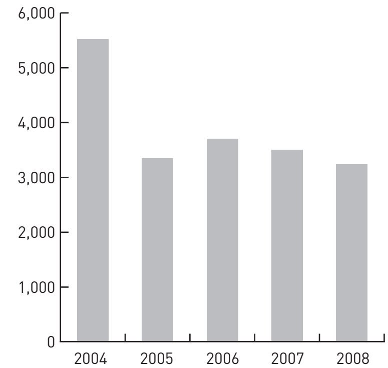
Outlook

It is expected that cost inflation will finally ease. It seems that the combined effect of M-real's new profit improvement programme and the earlier programmes will clearly exceed the cost inflation of 2009.

The weakening of the general economy in Europe will increase the risks concerning the demand development of board and paper. In Europe, so much capacity has been cut that price increases will be sought despite threatening demand-related scenarios. From the viewpoint of European producers, the weakening euro will improve the situation. The consolidation of the European paper industry is expected to continue. This is a desirable trend in order to achieve a better market balance. With regard to the paper business, M-real's strategy review will continue.

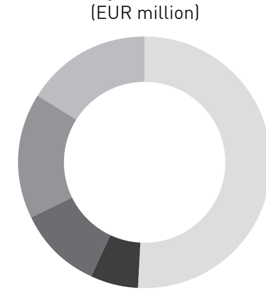
Sales

EUR million



Sales by market areas

(EUR million)



Euro-countries	1,636	51%
Sweden, Norway, Denmark	192	6%
Great Britain	372	11%
Rest of Europe	502	16%
Rest of the World	534	16%
Total	3,236	

Key figures

EUR million	2008	2007	2006
Sales	3,236	3,499	3,698
EBITDA	376	398	199
Depreciation and impairment losses	-315	-447	-371
Operating result	-61	-49	-172
Non-recurring items	-26	-124	-196
Operating result excluding non-recurring items	-35	75	24
ROCE excluding non-recurring items, %	-0.5	2.8	0.0
Gross capital expenditure	128	259	428
Personnel at year-end	6,546	7,241	9,314

Tissue and Cooking Papers

In 2008, Metsä Tissue continued investing in its own brands and strengthened its position in central Europe and Scandinavia. Local converting was launched in Russia.

The operating result of Tissue and Cooking Papers increased and was EUR 43 million, excluding non-recurring items. The increase was boosted by volume growth (+3 per cent), the increase in sales prices and the sales structure (a total of 5 per cent).

The sales of Metsä Tissue's own brands increased by 12 per cent compared with the previous year. Lambi's strong success continued with invoicing clearly exceeding EUR 100 million.

Exchange rate development, the weakened British pound and the US dollar in particular, had a negative impact on sales and operating result. Part of the negative effects caused by higher raw material, energy and transportation costs were successfully minimised by making operations more effective and by increasing sales prices. The closure and divestment expenses and financing arrangements of the warehouse in Bork, Germany, were written off in September.

Markets

The market situation for tissue and cooking papers is reasonable; in particular, the demand for branded products is expected to continue its growth.

Central and eastern Europe still remain growth areas for the tissue industry. In eastern Europe, growth is boosted by increased consumption and the development of consumption behaviour towards more high-quality products. However, the growth predictability for the eastern European market has weakened due to the economic downturn.

It is expected that structural changes in the industry will continue.

Major events

Investments, the boosting of operations and the launch of a converting unit in Russia strengthened Metsä Tissue's position in central Europe, Scandinavia and Russia. Corporate and environmental responsibility also played an essential role. The company is carrying out long-term work to save energy, decrease emissions and make transportation more effective.

Business development in Russia proceeded as intended. In May, local converting was launched in Naro Fominsk, near Moscow. The new converting unit manufactures Katrin Away-from-Home products as well as Lambi and Mola consumer products.

During the first stage of the Away-from-Home business development programme, a rewinder was transferred from the Swedish-based Mariestad mill to the Krapkowice mill in Poland, where production started during the summer.

The modernisation of PM36 at the Mariestad mill and investments in the Mänttä mill improved the product quality, efficiency of the production lines, and reduced energy consumption.

In September, the Swedish mills launched a maintenance project aiming for higher productivity. The best maintenance practices will be documented and deployed at all Metsä Tissue units.

In continental Europe, the operating model for supply chain was renewed. Metsä Tissue signed a cooperation contract that covers the construction of a new 36,000 square metre warehouse in Düren, Germany, near its Kreuzau mill. The warehouse was opened in December. Earlier in autumn, the warehouse in Bork, Germany, was closed down and sold. As a result of these measures, the number of storage locations decreased by five. The reforms will make the supply chain more effective and improve customer service.

The finished goods warehouse of the Slovakia-based Zilina mill burned down in March. Despite considerable damage, the impact to customers was successfully minimised. New warehouse facilities will be gradually completed during the first quarter of 2009.

In Finland, a new Serla cleaning paper was launched in autumn and received good feedback from consumers. The Serla toilet papers and tissues, and the look of the Serla and Mola brands were also renewed. In Germany, several seasonal product concepts were introduced, which combined coloured paper, topical patterns and fresh scents. In the Away-from-Home business, the Saga brand was integrated into the Katrin brand and, at the same time, the products were also grouped into three quality grades.

In September, Metsä Tissue signed a EUR 238 million syndicated loan. This five-year credit facility replaced the existing facility which was due to mature in June 2009.

Outlook

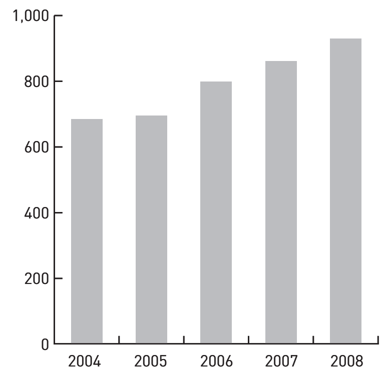
The general economic uncertainty is not expected to have a considerable impact on the demand for tissue and cooking papers. However, it is expected that the growth in emerging markets, in particular, will slow down. The credit risks will also increase. While demand for large-scale consumer products may weaken due to the decrease in travel and services purchasing, the same trend may increase the demand for consumer products.

It is expected that the raw material cost inflation will reverse itself. Energy expenses and the price of electricity, in particular, are likely to continue their increase and thus cause cost pressure.

Metsä Tissue will continue to invest in product development and its own product brands and boost their sales. Private label products are developed through innovative campaign products. Improving the efficiency of business and production will continue, as will the business development in eastern Europe. As Russia is one of the most rapidly growing tissue and cooking paper markets in Europe, Metsä Tissue aims to utilise the opportunities it offers.

Sales

EUR million



Sales by market areas

(EUR million)

Euro-countries	473	51%
Sweden, Norway, Denmark	201	22%
Great Britain	54	6%
Rest of Europe	188	20%
Rest of the World	14	1%
Total	930	

Key figures

EUR million	2008	2007	2006
Sales	930	861	799
EBITDA	98	84	70
Depreciation and impairment losses	-56	-49	-51
Operating result	42	35	19
Non-recurring items	-1	-2	0
Operating result excluding non-recurring items	43	37	19
ROOC excluding non-recurring items, %	5.6	4.8	2.6
Gross capital expenditure	33	26	103
Personnel at year-end	3,222	3,308	3,405

Energy Industry

Warm weather conditions and the more difficult market prospects for the sawmill industry decreased the profit of Vapo, an associated company of Metsäliitto Group. However, the emission objectives set by the EU are expected to increase future demand for biofuels.

Vapo's operating result for 2008, totalling EUR 9 million excluding non-recurring items, was lower than in the previous year. The demand for local fuels – peat, timber and energy crops – remained at a good level; however, weak peat production for the second year in a row decreased the quality and increased freight charges. The production deficit had to be compensated for by importing from the Baltic countries.

Pellet production was still at a loss, mainly due to the oversupply caused by the warm weather conditions. Pellet profitability was further weakened by the high raw material price and because a reduction in sawing made it more difficult to obtain raw material.

Vapo's own energy production and energy deliveries to customers were implemented normally, and the Heat and Power business area nearly achieved its profit objective. However, deliveries and growth were limited by the warm weather, the weakened profitability of electricity sales, and production curtailments.

The market outlook for the sawmill industry has significantly weakened. Vapo Timber Oy's profit remained considerably smaller in comparison to the previous year, due to the high log raw material price and the rapid decline in demand.

Despite the shortage of raw material, the Garden and Environment business achieved its objective.

Markets

The emission objectives set by the EU will increase the demand for biofuels. The demand for peat has remained at a good level, and new applications and accounts have been established despite the fact that the European Commission still classifies peat as a fossil fuel. Peat energy consumption is supported by the commercial input tariff and by the Act concerning the carryover stocking of peat.

Peat plays a key role in Finnish energy production, particularly with regard to maintenance support performance. However, peat production is very weather-dependent, and two summers of poor production have shown how vulnerable the production is. More production areas would be required to ensure adequate volumes. Unfortunately, the licensing of the production areas has slowed down, and it has not been possible to launch production in new areas according to the intended schedule.

The majority of pellets produced in Finland is still exported. In Sweden, for example, while pellets have an established position as a heating method for single family houses, the market development in Finland has not progressed as intended. Pellet heating plants are, however, becoming increasingly popular. The demand for energy crops is also good.

The weak market situation in the sawmill industry, and the decline in demand particularly in the main markets continue. Prices still remain low. High stock volumes caused by the market situation have been offset by production curtailments.

Major events

During the year, Vapo clarified and simplified its corporate structure. The objective is to have one company in each operating country. In Sweden, the subsidiaries will be merged into one company, Neova Ab. As Tootsi Turvas will continue to operate in Estonia, and Enpal Sp.z.o.o in Poland.

Company-level operations were also centralised. A financial administration service centre for the Baltic countries was opened in early 2009, and the planning process for a similar service centre in Sweden will begin during 2009. In the company headquarters in Jyväskylä, property management and office services were outsourced to ISS Palvelut Oy. The maintenance operations of Vapo Timber Oy's Kevätniemi sawmill were outsourced to Mainpartner Oy.

Vapo's position in the Swedish market strengthened when the 18 biofuel-operated heat generation plants, purchased from Vattenfall in 2007, were integrated as part of the company's business. The aim is to extend operations to other countries in the Baltic Sea region. In Finland, Vapo has a total of 21 heat generation plants under construction. Furthermore, new heat production contracts have already been signed or are being prepared.

Production at the Vilppula pellet mill was launched in autumn. The mill produces 100,000 tonnes of pellets annually and is the company's eighth pellet mill in Finland.

In addition, several organisational restructuring measures were taken during the year. Voimavasu Oy, a joint venture of Sucros Oy, Suomen Sokeri Oy and Vapo, was entirely transferred to the ownership of Vapo. Voimavasu's power plants in Säkylä and Kantvik were transferred to the ownership of Sucros and Suomen Sokeri. Voimavasu retained the ownership of the Salo power plant. Vapo and the Germany-based Klasmann-Deilmann GmbH established a joint venture, UAB Bioenergija Ltd, to market and sell local bioenergy and timber in Lithuania. Vapo also sold the entire share capital of the power network company Forssan Verkkopalvelut Oy.

Kekkilä, part of Vapo Group, strengthened its position in the Norwegian market. It became the market leader through the acquisition of two local flower soil packaging companies in the autumn.

Outlook

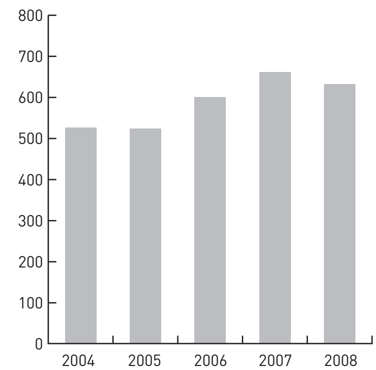
The climate policies of the EU will strengthen Vapo's position as a provider of biofuels, biofuel power and heat in the Baltic Sea region.

It is expected that the demand for biofuels will remain at a good level. The peat deficit can partially be compensated for by wood fuels and imports. An additional demand for pellets will be established through the replacement of other biofuels, and by balancing the quality of varying biofuel batches. As the sawmill industry cuts down production volumes, the adequacy of the raw material sets a challenge for pellet production. An upswing in the sawmill industry is not expected in the near future.

Vapo is taking active measures to secure the position of peat in the EU as a slowly renewing energy raw material, and to obtain more production areas to ensure that production volumes correspond to the demand.

Sales

EUR million



Sales by market areas

(EUR million)

Euro-countries	382	61%
Sweden, Norway, Denmark	142	22%
Great Britain	9	2%
Rest of Europe	45	7%
Rest of the World	53	8%
Total	632	

Key figures

EUR million	2008	2007	2006
Sales	632	661	601
EBITDA	60	93	90
Depreciation and impairment losses	-39	-37	-36
Operating result	21	56	54
Non-recurring items	12	0	0
Operating result excluding non-recurring items	9	56	54
ROCE excluding non-recurring items, %	1.8	9.9	10.8
Gross capital expenditure	85	112	69
Personnel at year-end	1,614	1,799	1,822


CORPORATE
RESPONSIBILITY

Major events in 2008

JANUARY FEBRUARY MARCH APRIL MAY JUNE

January

• A stakeholder group survey was conducted to clarify the expectations of the Group's key stakeholders regarding the management of corporate responsibility issues. Metsäliitto was generally considered as having succeeded well, particularly in the areas of wood origin control and environmental reporting. M-real's product-specific Paper Profile environmental declarations were also highly commended.

• The Group implemented a monitoring system for accidents, occupational diseases, and absences due to illness. The system is used for early identification of risks related to reduced work capacity and for ensuring that the workplace systematically begins to implement a return-to-work programme that supports the maintenance of work capacity.

• M-real announced the construction of a new process water evaporation plant sludge recovery facility at the Kaskinen BCTMP mill. The facility is the first of its kind in the world.

February

• The first trainee programme of Metsäliitto Wood Supply was launched. The programme is intended for recently graduated forestry engineers and foresters and its aim is to orientate trainees in all aspects of wood procurement, and to recruit skilled trainees to open positions within the organisation. Based on the positive results of the programme, a subsequent programme will be commenced in 2009.

March

• Metsäliitto Group's Climate Programme was launched, with the aim of disseminating information within the Group and seeking new methods of reducing the climate change impact of the Group's activities.

• Supervisors at numerous workplaces were provided with work capacity maintenance training based on the early support model. The training coached supervisors in interacting with and supporting employees who are experiencing difficulties coping with work tasks.

• A uniform Group-level human resources management task classification system was implemented. The Group's performance-related pay system was also standardised.

April

• The Group-level management training programme, Challenger, was commenced for the second year running.

• The Group carried out a Leadership Barometer survey aimed at providing feedback on essential operational conditions, internal cooperation, and the implementation of Group values. Action plans were prepared for identified development targets, and the implementation of the plans will be monitored as part of the annual plan.

• Metsäliitto participated in the EU Progress project by presenting a new corporate-strategy-based, proactive model of occupational wellbeing promotion. The aim of the EU project was to investigate and showcase fresh innovations and good practices for the promotion of wellbeing at work.

• Metsäliitto participated in a round table discussion between the Finnish forest industry and Russian non-governmental organisations in Moscow. The central themes were the further development of wood chain of custody systems, the promotion of forest certification in Russia, forest conservation expansion projects in the Karelia region, the new Russian Forest Act, and the elimination of illegal logging.

May

• At Metsä-Botnia's Rauma mill, particulate and malodorous gas air emissions were cut significantly by rechannelling the smelt dissolving tank discharge fumes from the flue gas scrubber to the recovery boiler for combustion.

• Piloting of the technical solutions and methods developed by Metsäliitto Wood Supply's peatland logging project was begun. The objective of the project, launched in 2007, is to facilitate logging of managed drained peatland stands and to reduce the site impact of harvesting operations. The results of the project can also be applied to logging on mineral soils.

June

• At M-real's Hallein mill, a new steam turbine was commissioned, boosting the electricity production capacity of the mill's power plant.

• Environmental training of purchasing and harvesting supervisors was commenced in Finland.

• A work community survey aimed at supporting the attainment of strategic work community targets was conducted within Metsäliitto Wood Products Industry and all Group-level support functions.

JULY AUGUST SEPTEMBER OCTOBER NOVEMBER DECEMBER

July

• The Group-wide Human Resource Information System was implemented for the first time in the Group's French units. The system will be introduced in all Group units by the end of 2009. The common system improves the efficiency of human resource reporting and the implementation of other human resource processes.

August

• A new reject recovery line was commissioned at M-real's Kyro mill, bringing a considerable reduction in wastewater solids levels. The mill's white water circulation capacity was also increased.

• Metsäliitto's Russian subsidiary Metsäliitto Podporozhye arranged a stakeholder hearing related to the forest certification pilot project launched by the company in 2007. The forests leased by Metsäliitto will be the first forest areas in Russia to be granted PEFC forest certification.

• Training and stakeholder meetings were also arranged as part of Metsäliitto Wood Supply's peatland project.

September

• A new bleaching chemicals production plant was commissioned at Metsä-Botnia's Äänekoski mill, cutting its AOX emissions by around a half.

• A new dust recovery unit was installed at Metsä Tissue's Kreuzau mill in Germany, reducing its outdoor air dust emissions by more than 80 per cent.

• Metsäliitto Wood Supply was granted Chain of Custody certificate and the Controlled Wood status in accordance with the FSC forest certification system.

• The broad-based Finnish PEFC Forest Certification Standard Setting Working Group, which comprises representatives from a range of NGOs and business organisations, started its work to draw up a proposal for the revision of Finland's national PEFC standard. Metsäliitto is a member of this working group.

• A new Group-wide Internet-based recruitment system was introduced. The system was first used at the end of the year for 2009 summer job recruitment.

October

• A new pulp washer was commissioned at Metsä-Botnia's Kemi mill, significantly cutting emissions to water of oxygen-demanding organic material (COD).

• A new evaporation plant gas scrubber brought on stream at M-real's Husum mill in Sweden has cut the mill's nitrogen oxide emissions by an estimated 200 tonnes per year.

• Metsäliitto Wood Products Industry's Suolahti plywood mill introduced a closed water circulation system for its log soaking vats. The modification enables improved control of the soaking vat water balance and reduces emissions to water.

• The guidelines for Group companies regarding REACH preregistration of raw materials and the training of responsible persons was completed.

November

• At M-real's Kaskinen BCTMP mill, the bringing on stream of a new washing liquid concentration and recovery system at the mill's process water evaporation plant boosted chemicals recovery and achieved a reduction in the organic loading of the mill's wastewater.

• The Group's performance and development discussions model was harmonised. Values implementation monitoring as an integral part of management practice was also emphasised more strongly in performance appraisals and development discussions. Realisation of the Group's core values – responsible profitability, cooperation, reliability and renewal – is the responsibility of each Metsäliitto employee.

• Metsäliitto participated in the Helsinki Forest Fair, which attracted numerous industry professionals, as well as students interested in career opportunities in the forest industry and with Metsäliitto.

• The review year was the second consecutive year when Metsä Tissue donated EUR 100,000 to the International Polar Year (IPY) campaign which researches the effects of climate change in the polar regions.

December

• Around 300 energy efficiency development projects were completed or started in Metsäliitto during the year under review, representing a reduction in CO_2 emissions of some 53,000 tonnes. A certified Energy Efficiency System (EES) will be introduced in all Group companies by the end of 2009.

• Metsäliitto Latvia's environmental system was granted ISO 14001 certification.

Management and stakeholders

The values of Metsäliitto Group – responsible profitability, reliability, cooperation and renewal – lay the foundation for the Group's operations. By acting responsibly, the Group can strengthen its long-term operating conditions.

The economic, social and environmental impacts of Metsäliitto Group's operations are routinely measured and the results regularly reported to its stakeholders, for example in Metsäliitto Group's Annual Report.

Metsäliitto Group's Code of Conduct is designed to ensure Group-wide adherence to approved practices and common ethical principles. The core premises of the code are compliance with the Group's corporate responsibility principles, application of best practices, anti-corruption, open communication, appropriate action in case of conflicting interests and fair competition.

International networks

Metsäliitto is committed to the principles of the UN Global Compact initiative regarding responsible business practice. In its Commitment to Corporate Responsibility statement, Metsäliitto has undertaken to promote sustainable development, to continuously improve its operations, and to act in a responsible manner. The statement also forms the basis of the Group's corporate responsibility principles regarding operational, economic, social and environmental responsibility.

Metsäliitto is a member of the World Business Council for Sustainable Development (WBCSD). Membership requires the fulfilment of certain responsible business practice criteria. In addition, the Group actively participates in the promotion of corporate responsibility in national and international organisations such as the Confederation of European Paper Industries (CEPI) and the Finnish Business and Society corporate responsibility network.

The Group adheres to the Global Reporting Initiative (GRI) guidelines in its reporting of corporate responsibility related information.

Environmental and corporate responsibility management

The Corporate Affairs Management Team (CAMT), which reports to the Group's Executive Management Team, ensures that issues related to environmental and corporate responsibility and international corporate affairs are handled in line with Metsäliitto Group's strategy. Group-level support functions co-ordinate environmental and corporate responsibility and human resource issues, supporting the business areas in managing these matters.

The management of environmental affairs is guided by Metsäliitto's environmental policy, which is based on the principle of continuous improvement. The Group's human resource policy is based on effective planning, enhancement of employee operating conditions and abilities, as well as proactive and target-oriented development of occupational well-being and safety.

Continuous improvement is supported by the implementation of management systems. Almost all of the Group's production units operate a certified ISO 9001 quality management system and an ISO 14001 environmental management system. In addition, a certified occupational and product safety management system is in place at most of the Group's production units.

Stakeholder expectations

At the start of the year under review, a survey was conducted to clarify the expectations of the Group's key stakeholders regarding the management of corporate responsibility issues. The principal expectations concerned the acceptability of wood raw material, wood origin management and forest certification, consideration of climate change related matters, and social responsibility.

The survey results showed that the overall sustainability of the value chain has gained in importance. In the view of Metsäliitto, overall sustainability is based fundamentally on the use of renewable and recyclable wood raw material sourced from sustainably managed forests.

Metsäliitto was generally considered to have succeeded well, particularly in the areas of wood origin control and environmental reporting. M-real's product-specific Paper Profile environmental product declarations were also highly commended. Development targets identified included the need for more active communication regarding the high level of Group operations with respect to corporate responsibility, improvement of internal communication concerning corporate responsibility matters, and providing more information on social responsibility alongside environmental responsibility.

Risk management and corporate security

Risk management is an integral element of Metsäliitto's business management, daily decision-making, operations monitoring, and internal control. Corporate security is targeted at identifying and preventing business security threats and minimising their impact.

Risk management

Metsäliitto's risk environment and the changes to this environment are regularly assessed and monitored as part of the Group's planning system and internal control process. Management of identified key risks is conducted using the most appropriate and cost-efficient measures available. The Group employs a comprehensive risk assessment method which is implemented as a continuous process. The aim is to identify, measure, and manage risks that could, if realised, threaten the company's operations and the achievement of its set targets. Metsäliitto's risk management operating approach is described in more detail in the Group's risk management principles.

In addition to regular technical risk assessments, additional special measures and assessments related to continuity and recovery planning were carried out at the Group's production units during the review year. The continuity and recovery planning measures will be applied to broader risk areas in 2009.

Corporate security

The Metsäliitto Group's corporate security measures are designed to protect personnel and other key stakeholders, as well as the Group's property, facilities, operating environment, information, operations and reputation. Corporate security efforts are targeted at preventing business security threats and minimising their impact.

Corporate security is an integral aspect of the Metsäliitto Group's operations. The overall corporate security objective is to ensure the uninterrupted continuity of business operations and to support performance objectives.

Ensuring uninterrupted operations

In 2007, the Metsäliitto Group launched a study on the impacts and requirements of international supply chain security programmes. The aim of the project is to develop uniform operations models for Metsäliitto's management personnel, to shorten delivery times, and to create harmonised practices for increased delivery chain reliability and security.

To support the goal of uninterrupted operations, indicators describing the status of the Group's security culture were developed during the review year. The indicators will be used to assess and improve outsourced security monitoring related services.

In addition, regularly updated Continuity Plans are also implemented within each of the Group's business areas.

Products

The main raw material of Metsäliitto's products is wood that has been sourced from sustainably managed forests.

Wood is a renewable, recyclable and totally waste-free raw material. Growing trees absorb considerable amounts of carbon dioxide from the atmosphere as they grow. At the end of their life cycles, wood-based products can be burned for energy recovery. Forestry and the forest industry also play a vital social and economic role in terms of employment and regional wealth creation.

Wood products

The most valuable part of wood raw material are logs, which Metsäliitto Wood Products Industry processes into products that meet the needs of industrial building and construction, the transport industry and the home and lifestyle sector.

Wood is lightweight and easy to work. It is a natural, breathing building material, an effective regulator of indoor humidity and a good insulator of heat and sound. Solid, large-diameter wooden building components and supporting structures, such as Finnforest Kerto® and glulam beams, are also highly effective fireproof materials. Used in interior decoration, wood creates a natural indoor environment that promotes well-being.

Pulp

Metsä-Botnia's main products – bleached softwood, birch and eucalyptus pulp – are used for the production of high-quality board, office paper, tissue paper and speciality papers. The company matches each specific fibre type with optimal end uses based on fibre-specific characteristics and product performance requirements, thus saving raw materials and energy and enhancing the properties of its products.

Board and paper

M-real paperboards derive their strength and stiffness from high-strength softwood pulp. The mechanical pulp and bleached chemi-thermomechanical pulp (BCTMP) used for the middle layer of folding boxboards give the products their characteristic thickness, which enhances their stiffness. These properties enable M-real to deliver the required packaging performance with products that are lighter than competing grades, thus reducing the amount of raw material consumed, the environmental impacts of production and transportation, and the amount of waste produced.

The performance attributes of Kemiart white-top kraftliners, used as the surface layer of corrugated board, are excellent, enabling sufficient strength to be achieved using comparatively lightweight board.

M-real's uniform, quality-consistent boards perform smoothly and reliably on printing and converting machines and packaging lines, thus reducing waste, both of the packaging material and the packaged product. M-real's primary fibre board grades also perform safely in demanding end uses such as food packaging.

M-real's uncoated office papers meet today's office needs: they are designed for two-sided copying and printing, which reduces paper consumption, and are precision-dimensioned and dust-free, thus reducing wear and extending the service life of copying and printing machines.

Different grades are produced either wholly from primary fibre, wholly from high-quality recycled fibre, or using a mix of both.

M-real also produces speciality papers using energy- and resource-saving methods and strives to continuously improve their properties in accordance with the company's guiding principles.

Tissue and cooking papers

Metsä Tissue's Lambi and Serla tissue brands and the Katrin product range have been awarded the Nordic Swan eco-label. The label is an indicator that the products meet strict environmental criteria.

Katrin tissue papers and paper dispensers are designed for the needs of large-scale customers in the commercial, public administration, service, industrial and health care sectors. The dispenser concepts are designed primarily for optimised paper consumption and minimum hygiene risk, while also serving as labour-, money- and environment-saving devices.

Metsä Tissue's cooking papers facilitate the preparation of tasty low-fat foods, thus supporting consumers in their healthy dietary routines.

Product and chemical safety

Metsäliitto actively follows the drafting of new legislation on product and chemical safety and strives to identify and take into account product and chemical safety risks at the product development stage.

Qualified experts ensure that the obligations of valid legislation such as the REACH regulation are uniformly met throughout Metsäliitto Group.

Wood products

Metsäliitto Wood Products Industry's products consist almost entirely of natural wood material, and contain only minimal levels of synthetic substances. The chemicals used in the production of plywood, Kerto® laminated veneer lumber (Kerto® LVL) and impregnated wood products are fully compliant with national chemicals regulations. Impregnated wood is manufactured in compliance with the EN 351-1 and EN 351-2 standards and in observance of the quality control and marking guidelines of the Nordic Wood Preservation Council (Nordiska Träskyddsrådet, NTR) and the Finnish Standards Association (SFS). Metsäliitto Wood Products Industry's impregnated wood products are licensed to bear the NTR quality mark and the SFS inspection mark.

Board and paper

M-real's product safety policy ensures that the packaging boards and papers it manufactures are safe for people and for the environment when used as intended.

The manufacturing of packaging materials is part of the food production chain. As such, all of M-real's board and packaging paper mills are certified in compliance with the international ISO 22000 food safety management standard. The mills only use raw materials approved by the relevant authorities for use in papers and boards which come into contact with foods. As a minimum requirement, all raw materials used are approved in accordance with the German Federal Institute for Risk Assessment (BfR) and the Code of Federal Regulations (U.S.) Title 21 - Food and Drug Administration (FDA). The conformity of M-real's finished products with regulations is tested by independent laboratories.

Tissue and cooking papers

Metsä Tissue's Mänttä mill specialises in the production of tissue, baking and cooking papers. The mill's "Right First Time" management system meets the SFS-EN ISO 9001, SFS-EN ISO 14001, SFS-EN ISO 22000 and PEFC CoC 2006 system requirements, and the SFS-EN ISO 22000 hygiene system employed at the mill ensures the regulatory compliance of Metsä Tissue's hygiene products and materials intended for direct food contact.

The raw materials used in the Mänttä mill's greaseproof paper products are approved for food use in accordance with both BfR and FDA regulations. The regulatory conformity of the products is also tested by an independent laboratory.

Raw material approval and GMO

When the new EU regulation regarding the registration, evaluation, authorisation and restriction of chemicals (REACH) came into force on 1st June 2007, the responsibility for chemical risk assessment was shifted from authorities to industry. Metsä-Botnia, M-real and Metsä Tissue have preregistered all of the substances that they manufacture for which REACH preregistration is required. These substances typically include the by-products and intermediate products, such as tall oil generated during pulp production and ash generated from the incineration of wastewater treatment plant sludge.

Metsäliitto Wood Products Industry, Metsä-Botnia, M-real and Metsä Tissue each hold regular discussions with their external material suppliers to verify the suppliers' REACH preregistration and registration status. A database is maintained on the most important chemicals used in the production process, their key environmental, health and safety information, and preregistration and registration status.

As a significant user of plant-based raw materials, Metsäliitto follows research on genetically modified organisms (GMOs) closely. Research within the field of nanomaterials is also followed. Metsäliitto does not approve the use of GMO-based raw materials or new nanotechnology-based materials until sufficiently documented experience of their use and reliable research data regarding their safety becomes available.

Research and development

Metsäliitto Group carries out long-term work in order to make its products even more competitive and profitable. In 2008, the Group's research and development costs totalled EUR 25 million, representing 0.4 per cent of sales.

Wood Supply

Metsäliitto Wood Supply invested in the development of a cost-efficient delivery chain based on new technology in order to fully exploit wood resources from thinning forests and peatlands.

Through Metsäteho Oy, Wood Supply was involved in projects that concerned the development of wood availability and the infrastructure of the supply of wood. In addition, computer vision-based measuring and grading technology was developed in cooperation with the Helsinki University of Technology and machine manufacturers. Cooperation with Metsäliitto Wood Products Industry involved measures to increase the added value of logs and to make the management of wood supply more effective.

Wood Products Industry

The R&D work of Metsäliitto Wood Products Industry's Solid Wood business line focused on the development and utilisation of measuring technologies based on X-ray and the three-dimensional measurement of logs. These measurement technologies will improve the yield and the forwarding of the log raw material.

The plywood product family became more comprehensive and the ability of the business to serve industrial end users improved as production at the Suolahti upgrading mill began in spring. Another key area of R&D was the delivery of demanding speciality products to the transport and concrete formwork industries.

Building Solutions focused on the development of Kerto® products' market area-specific applications. During the year, work to develop solutions supporting low-energy building was also started.

The Upgrading and Distribution business line continued to develop the delivery and upgrading chain, as well as woodworking techniques.

Pulp Industry

For the past few years, Metsä-Botnia's R&D efforts have focused on the use of eucalyptus as a raw material and on developing eucalyptus pulp. In Uruguay, R&D efforts have covered the entire chain from the seedling nursery to the pulp mill. The objective has been to make the processing chain more productive and to develop the fibre characteristics to meet customer needs.

Finnish mills continued to improve their production efficiency and environmental performance. A special area of development has been to improve the characteristics of reinforcement pulp based on customer needs, boosting the quality and strength of wood-containing printing papers. The bleaching process at the Rauma mill was changed from TCF to ECF. After the change, the delivery of pressed pulp to the adjacent paper mill was started directly, without drying and repulping at the paper machine's wet end, which improves cost-efficiency but does not compromise pulp quality.

Board and Paper Industry

M-real's R&D efforts focused on developing product concepts and improving efficiency.

The purpose of redefining product concepts is to offer customers an even more versatile product range, while at the same time also improving product availability and shortening delivery times. Product concept renewal during the review year gave rise to the LITE4U packaging board concept and the Galerie Customer Programme service package concept for the magazine paper market. Product development efforts were rewarded with the launch of the new board product Carta Elega as part of the LITE4U concept.

Efficiency improvement projects were implemented mainly as mill projects, the objective of which was to achieve efficiency benefits as well as direct cost savings, particularly in raw materials and energy.

Tissue and Cooking Papers

Metsä Tissue invested in its own brands by introducing new products and improvements. A new Serla cleaning paper was launched in the Finnish market, which is thicker and stronger than standard paper towels. Serla toilet papers and tissues were renewed. As a result of a new three-layer base paper, the tissue and toilet papers are thicker and softer than before.

The manufacturing of Lambi Classic products was launched in Slovakia and Russia. In the German market, several new seasonal product concepts were introduced, combining coloured paper, topical patterns and fresh scents. Katrin large-scale consumer products were grouped into three grades.

Metsä Tissue's product development centre further deepened its cooperation with the businesses and, in addition to hygiene products, invested in the product development of napkins, and baking and cooking papers. The optimisation of packaging and raw materials also played an essential role by finding the best materials with regard to the environment, quality and costs.

Wood supply

In accordance with its total commitment to promoting responsible forestry, Metsäliitto only uses wood legally sourced from sustainably managed forests. Certified wood accounts for more than 70 per cent of Metsäliitto's entire wood procurement.

Metsäliitto's wood procurement is guided by its environmental policy on wood supply and forest management as well as the Group's principles of corporate responsibility. These are implemented using certified quality and environmental management systems and an annually updated environmental programme. Metsäliitto conducts its wood procurement in full compliance with local laws and government regulations and requires the same commitment from its contractual partners. The Group's wood procurement operations are under continuous development and best practices are always applied.

During the year under review, Metsäliitto Wood Supply procured some 33 million cubic metres of wood raw material for the Group's production units and external customers. Around 80 per cent was sourced from Finland, the majority from the private forests of Metsäliitto Cooperative's owner-members. Wood was also purchased from Russia, Sweden, Germany, Austria, France, Estonia, Latvia and Lithuania.

Metsäliitto supports family forestry

Sustainable forest management benefits both Metsäliitto and the forest owner by guaranteeing the preservation of forest biodiversity, steady wood production and the acceptability of the wood raw material produced. In Finnish family forestry, forests are typically inherited, passing from one generation to the next within the same family. The forest is cared for and used responsibly, with a view to the needs of future generations. After logging, the regeneration of the forest is managed in a habitat-sensitive manner.

Metsäliitto serves the forest owner by providing comprehensive advice on forest management and forest use. Metsäliitto's subsidiary Metsämannut Oy offers forest owners the opportunity to set up a forest management agreement, whereby the company's forestry experts manage the forest on behalf of the owner in accordance with the owner's needs.

Forest owners interested in voluntary protection of their forests are encouraged to participate in the METSO II programme (METSO 2008–2016, the second term of the Forest Biodiversity Programme for Southern Finland) which commenced during the review year. The objective of the programme is the flexible harmonisation of different forms of forest use and voluntary, state-subsidised protection of forest resources.

Biodiversity-sensitive harvesting

The conservation of forest biodiversity and threatened species in Finnish forests is governed by forest legislation and practical guidelines issued by forest authorities. Conservation objectives are further supported by voluntary forest certification.

Valuable plant and animal habitats and other sites of importance with respect to forest biodiversity or landscape values are taken into consideration in the management of forest nature. Practical measures include, for example, the creation of ecological buffer zones; ensuring the number, quality and positioning of trees retained on forest regeneration sites is sufficient; increasing the amount of deadwood retained in the forest; and favouring a mixed forest structure.

Metsäliitto regularly audits its wood suppliers as well as its own logging sites and the logging sites of its subcontractors. The site audits assess whether harvesting has been carried out in line with best practices. Attention

Metsäliitto's certified quality and environmental management systems and C-o-C –certificates

	Quality Management System	Environmental Management System	C-o-C
Metsäliitto Cooperative	ISO 9001	ISO 14001	PEFC/FSC
Wood supply countries			
Austria			PEFC/FSC
Estonia	ISO 9001	ISO 14001	PEFC/FSC
Finland	ISO 9001	ISO 14001	PEFC/FSC
France		Covered by Alizay mill's system	PEFC/FSC
Germany			PEFC/FSC
Latvia		ISO 14001	PEFC/FSC
Russia		Covered by Metsäliitto's system	PEFC/FSC
-Metsäliitto Podporozhye		ISO 14001	
Sweden	ISO 9001	ISO 14001	PEFC/FSC

PEFC = Programme for the Endorsement of Forest Certification schemes
FSC = Forest Stewardship Council

Metsäliitto's wood supply by area

Mill. m^3	
Finland	20.7
Russia	3.2
The Baltic countries	2.6
Western Europe	6.1
Total	32.6

is also paid to the quality of nature management and social dimensions, such as training and safety at work.

In Finland, the quality of nature management is monitored by regional Forestry Centres. Independent third-party audits of Metsäliitto's logging sites are conducted annually in accordance with forest certification requirements. The audit results are taken into consideration when setting the objectives of the environmental programme of Metsäliitto Wood Supply for the following year.

During the year under review, the main focus of Metsäliitto's environmental programme was the protection of small water bodies. Other objectives included improving the number, quality and positioning of retained trees on logging sites in Finland, as well as the protection of valuable habitats and special ecological features in all logging areas.

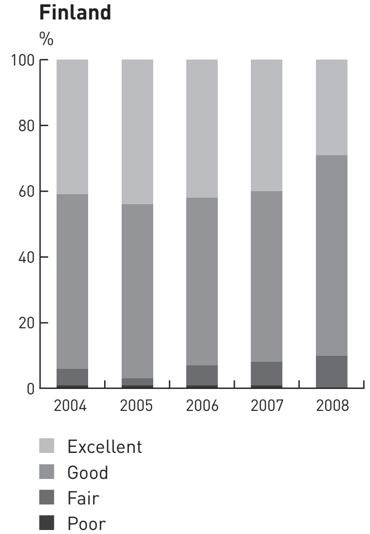
The quality of nature management at Metsäliitto's logging sites has continuously improved. The audit results for 2008 were close to the previous year's level, with the majority of sites classified as good or excellent. The number of poor results was fewer than the previous year, despite the continued challenging harvesting conditions.

On the basis of the audit follow-up, areas identified for improvement include the width of small water body buffer zones and the location of retention trees. In order to safeguard the continuous improvement of nature management, Metsäliitto will increase its support for the environmental training of its contractors' harvester operators.

In Russia, the supplier classification system developed by Metsäliitto is used to assist the selection of wood suppliers. In the selection, long-term partners that have long-term forest leases, carry out their own logging and whose activities meet the criteria of sustainable forest management (category A supplier) are favoured. If a supplier is found to have violated Metsäliitto's wood supply principles (category D supplier), cooperation with that supplier is terminated.

One agreement was terminated during the year under review. Improvement requests were lodged at 18 per cent of logging sites, primarily regarding waste management or stand damage. In the review year, wood suppliers covered by audits accounted for 62 per cent of Metsäliitto's total wood imports from Russia.

Evaluation of nature management in stands harvested by Metsäliitto in Finland



The evaluation of the quality of nature management includes the following aspects: conservation of valuable habitats, the quality and quantity of retention trees, protection of waterways, and the quality of soil preparation and landscape management.

Wood supply and climate change

Ensuring forest regeneration subsequent to logging is a legal requirement. Regeneration of the forest is also vital to the forest ecology, the climate and profitable forestry. Responsibility for forest regeneration at logging sites is agreed between Metsäliitto and the forest owner in connection with each timber sale. The aim is to ensure that a viable seedling stand is established on the cutting site within an acceptable time after logging.

After logging, carbon is released from the forest into the atmosphere due to the decomposition of logging residues. The decomposition has no climate change impact, however, if new forest is established as soon as possible after logging. The forest serves as a carbon sink if its growth exceeds the volume of wood harvested. In all of Metsäliitto's wood supply areas, forest growth exceeds loggings.

A record amount of energy wood, a total of 500,000 cubic metres, was harvested in the review year. Metsäliitto renewed its energy wood harvesting guidelines during the year in line with the prudence principle and best known practices.

Metsäliitto supports forest certification

Metsäliitto Group supports forest certification verified by credible, independent parties. The Group companies strive to increase the share of certified wood in their products and to launch more forest certification labelled products on the market.

The majority of wood procured by Metsäliitto is sourced from PEFC (Programme for the Endorsement of Forest

Certification schemes) certified forests. PEFC is the leading forest certification system in small, privately-owned forests. In 2008, about 70 per cent (76) of the wood supplied to the Group's production units by Metsäliitto Wood Supply originated from certified forests. Over 90 per cent of this figure was PEFC certified wood.

During the year under review, Metsäliitto participated in the revision of both the PEFC standard in Finland and in the preparation of an FSC standard. The work is conducted in cooperation with a broad-based panel of stakeholder representatives such as forest owners, NGOs, the Sami people and consumer organisations.

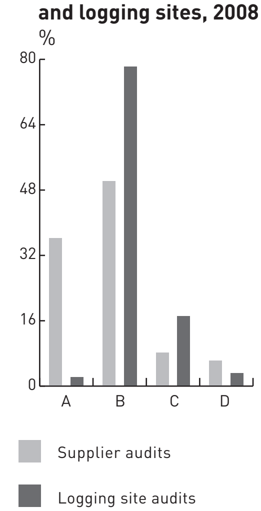
The certified quality and environmental management systems used by Metsäliitto Wood Supply include a wood origin management system. Thanks to this, Metsäliitto knows the origin of its wood, including wood that is not derived from certified forests.

Metsäliitto operates a certified Chain of Custody system in all of its wood supply countries, which enables official verification of the share of certified wood supplied. Many of the Group's production units have also implemented certified Chain of Custody systems. At the end of the year under review, almost all products of Metsäliitto Wood Products Industry and a number of the Group's board, paper and cooking papers bore a forest certification label.

Environmental training focused on Finland

Metsäliitto Wood Supply provides regular environmental training in all of its wood supply areas. During the review year, the environmental training was focused on Finland. The training events were aimed at bringing employee knowledge on topical environmental issues up to date.

Auditing results of Russian wood suppliers and logging sites, 2008



Metsäliitto Podporozhye to receive the first PEFC forest certificate in Russia

CASE

Podporozhye

Metsäliitto is committed to sustainable forest management and forest certification in every country in which it operates. An example of this commitment is the PEFC forest certification pilot project launched in 2007 by Metsäliitto Podporozhye, a Russian subsidiary of Metsäliitto. The goal of the project is to achieve Russia's very first PEFC forest certificate for the forest areas leased by Metsäliitto. The project promotes forest certification in Russia and provides more opportunities for Metsäliitto to increase its sales of certified products on the market.

Metsäliitto Podporozhye, which came under Metsäliitto ownership in 2002, has been systematically transformed into a modern and responsible harvesting company. The forest certification project has built on previous environmental and corporate responsibility developments, including environmental training, a corporate responsibility development project and the establishment of an ISO 14001 system.

Although the forest certification project's main focus is on forest areas of ecological value, historical and multiple-use values are also carefully considered. In 2007–2008, a team of experts comprising forest scientists and biologists conducted a survey of valuable habitats within the lease forests of Metsäliitto Podporozhye. The sites identified by the survey have been listed for exclusion from commercial use. The results of the habitat survey are also of considerable scientific value.

The biodiversity of managed forests is thus preserved through conservation of key habitats. In addition, historically important sites are surveyed and taken into account in forestry planning.

Stakeholder meetings were held during the project, and several development proposals raised at the meetings have already been put into practice. For example, the gathering of location data on grouse and capercaillie breeding grounds has been started in order for them to be taken into account in forest use planning. In addition, a proposal to establish a trade union sub-branch at Metsäliitto Podporozhye has been implemented.

Metsäliitto Podporozhye encourages other companies to adopt forest certification and is willing to demonstrate its own certification project as a working model.

Climate Programme and energy consumption

Metsäliitto contributes to achieving the European Union's new climate and energy targets by actively reducing the climate change impact of its activities.

The Metsäliitto Group's Climate Programme was launched at the start of the year. The programme is aimed at Group-wide harmonisation of climate change mitigation efforts, as well as the definition of common climate objectives and the measures needed to achieve these goals. The Climate Programme is co-ordinated by the Group's Environmental Affairs and Corporate Responsibility unit.

To implement the Climate Programme, four working groups have been assigned the task of disseminating existing information within the Group and seeking new ways of improving the Group's climate change mitigation efforts. The target areas examined by the teams are energy efficiency improvement, use of carbon footprint calculations, communications, and personnel commitment. Each team also produces concrete proposals for the inclusion of climate protection efforts in all spheres of Group operations.

Carbon footprint calculations have been drawn up for a large number of Metsäliitto Group's products. During the year under review, product-specific carbon footprint calculation was continued, and the calculation of company-specific carbon footprints was commenced, including estimation of the climatic impact of the transportation of the Group's raw materials and products.

The calculations provide interest groups with a clear picture of the climate change impact of Metsäliitto's products. The calculation adheres to the Carbon Footprint Framework for Paper and Board Products developed by the Confederation of European Paper Industries (CEPI).

Energy consumption

Energy efficiency improvement is the Group's single most effective means of mitigating climate change. Some 300 energy efficiency development projects were completed or started in Metsäliitto during the year under review, which will reduce annual heat consumption by 0.3 TWh and annual electricity consumption by 0.1 TWh, and will cut CO_2 emissions by some 53,000 tonnes. The measures constitute cost savings of around EUR 20 million per year for the Group. New rationalisation projects are being evaluated and implemented on a continuous basis.

Continuous development and optimisation of energy efficiency are increasingly integral and central aspects of the Group's operations. To support management in this area, a certified Energy Efficiency System (EES) is being established at all mills. Metsä-Botnia was granted EES certification in December 2008, and the system will be brought into use in the other Group companies by the end of 2009.

During the year under review, Metsäliitto Group's production units used a total of 25.8 TWh (24.2) of energy generated by fuels. Purchased electricity amounted to 3.2 TWh (3.7) and purchased heat to 0.5 TWh (0.8). These collectively amounted to a total energy consumption of 34.2 TWh (34.4). Wood accounted for 77 per cent (67) of total production unit fuel consumption.

Use of recycled fuels for energy production

Use of recycled fuel, comprising sorted non-recyclable retail and industrial waste, alongside wood and peat was begun at the Äänekoski mills' power plant. Preparations are underway for the introduction of a similar partially recycled fuel-based power production system at M-real's Simpele mill. Re-use of combustible waste in this way reduces the need for landfill disposal and fossil fuel consumption.

Metsäliitto is also assessing the possibility of building new waste-to-energy and biopower plants at other Group mills, and a decision on the matter is scheduled to be made in 2010.

Second term of emissions trading underway

The second trading period of the European Union's emission trading scheme began in December 2008. Of the Metsäliitto Group companies, the trading scheme covers M-real, Metsä-Botnia and Metsä Tissue.

As a result of the company's continuous development of energy efficiency and increased use of renewable fuels, the CO_2 emissions allowance granted to Metsäliitto adequately covered its operational requirements. The indirect and cost-raising effects of emission trading were nevertheless tangible during the first part of the year when the market price of electricity reached record levels. As a major buyer of electricity, Metsäliitto's energy costs are significantly impacted by rising energy prices.

Since 2008, EU regulations made it possible for companies to use certified emission reduction (CER) credits to meet the limits of their emissions allowance. The CER credits are earned for investing in greenhouse gas reduction projects in developing countries. One CER credit is equivalent to an emissions reduction of one tonne of CO_2.

Within the Metsäliitto Group, Metsä-Botnia has one mill entitled to sell CER credits. The company's Fray Bentos mill in Uruguay produces energy from biomass consisting of dissolved wood material derived from the pulp production process. The mill uses part of this energy to power its own processes. The mill's surplus energy production has been approved as being in accordance with the UN Framework Convention on Climate Change and as a project within the Clean Development Mechanism (CDM) under the Kyoto Protocol. The mill's surplus energy is sold to a Kemira Oyj chemical plant which is situated on the same industrial site, and to the national power grid of Uruguay.

In 2008, M-real took part for the second time in the investor-financed Carbon Disclosure Project which investigated the preparedness of major public companies for climate change and the financial threats climate change entails.

Utilising renewable energy sources

Metsäliitto contributes to achieving the European Union's new climate and energy targets by improving the energy efficiency of its production facilities, by rationalising and increasing the re-use of by-products, and by increasing the procurement and supply of forest energy to the Group's own production units and to external customers.

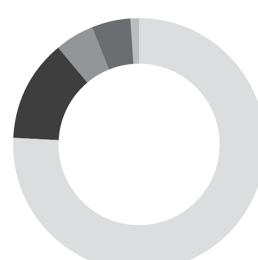
The Group utilises its wood raw material to the full. By-products of production, such as sawdust, bark and dry woodchips, are used as fuel by the Group's power plants. The surplus is sold to external customers for further processing or for energy production, and new forms of upgrading are continuously sought to increase their added value. To this end, for example, a pellet factory was built in connection with Metsäliitto Wood Products Industry's Vilppula sawmill in 2008. The pellet factory is operated by Metsäliitto's associated company Vapo, which processes the sawdust generated by the sawmill into biopellets.

Metsäliitto has been investing in the use of forest energy since the 1990's. Crown wood, stump wood, and currently non-industrial small-diameter wood generated at final felling sites comprise a significant energy resource and potential supplementary income for forest owners. Metsäliitto is developing procurement, harvesting and transportation technologies for these wood energy sources, as well as the logistic management of raw material flows.

During the year under review, Metsäliitto supplied some 500,000 m^3 (around 1.0 TWh) of crown biomass, stumps and small-diameter wood to the Group's external customers. Over the coming years Metsäliitto will invest significantly in rationalising biofuel procurement and supply and increasing output volumes.

Peat, reed canary-grass and wood fuels are the major energy resources for many solid fuel based power plants. The past two summers were problematic with respect to peat production, and outputs remained significantly below target, in some cases halved. At the same time, the forest products industry, and the mechanical forest sector in particular, has been forced to curtail production in response to the global market situation. The volume of combustible by-products on the market has consequently been reduced, and demand for biofuels is estimated to significantly outpace supply during winter 2008–2009.

Fuels used in Metsäliitto Groups production units in 2008



Wood-based fuels	77%
Natural gas	12%
Coal	5%
Oil	5%
Peat	1%

Metsälliito Group's energy usage 2007-2008

	Metsäliitto Group [4]		Wood Products Industry		Metsä-Botnia		M-real [5]		Metsä Tissue	
GWh/v	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
Use of wood-based fuels	19,867	18,407	403	684	20,914	17,611	14,098	12,886	138	167
Use of fossil fuels	5,884	5,801	20	10	1,663	1,394	4,510	4,489	870	812
Purchased electricity	3,164	3,692	299	305	-855 [2]	-611 [2]	2,283	2,760	792	810
Purchased heat	475	813	462 [3]	420 [3]	-1,298 [2]	-921 [2]	328	470	461	433
Total energy [1]	34,221	34,395	1,715	1,951	18,912	16,394	24,701	24,828	3,530	3,513

1) Total energy is shown in terms of fuel, i.e. the quantities of heat and electricity purchased have been converted to the corresponding amount of fuel that would be required to produce them.
2) A large part of the energy that Metsä-Botnia produces in excess of its own needs is sold. Metsä-Botnia is a net seller of heat and electricity, and also sells part of its bark.
3) Nearly all of the heat purchased by Metsäliitto Wood Products Industry is produced from the wood material by-products of its production plants.
4) Includes 53 per cent of Metsä-Botnia.
5) Includes 30 per cent of Metsä-Botnia.

Management of environmental impacts

Metsäliitto Group's environmental policy is based on the principle of continuous improvement and the minimisation of environmental impacts.

Virtually all of Metsäliitto's production units and the majority of its wood supply areas operate certified ISO 14001 and ISO 9001 environmental and quality management systems. The systems used by Metsäliitto Wood Supply also include a certified wood origin management system, and most of the Group's production units have a certified Chain of Custody system in place to enable them to accurately verify the proportion of certified wood contained in their products.

Emissions to air and water

Industrial air, water and noise emissions have fallen continuously due to consistent application of Best Available Techniques (BAT). Mill water cycles have been closed, cleaning methods intensified, and incidental emissions minimised.

Wastewater from pulp and paper production contains organic material dissolved from the wood raw material, as well as phosphorus and nitrogen, which cause eutrophication of natural water systems. Measures taken to reduce emissions include more effective effluent treatment processes, reduced water consumption, personnel training for improved management of process disturbances, and reduction of incidental discharges. Highly effective treatment processes have restricted the impact of wastewater emissions within a limited area at the immediate point of discharge.

The most significant atmospheric emissions include fuel-derived sulphur and nitrogen oxides, which can cause water and soil acidification; carbon dioxide, the main driver of climate change; and particle emissions, which deteriorate air quality. Metsäliitto has reduced its atmospheric emissions by introducing low-sulphur fuels and by replacing fossil fuels with wood-based fuels.

The water consumption of Metsäliitto's production processes has also been reduced continuously, and mill water system closure is being continued even though the majority of mills are located in areas of plentiful water supply.

Waste

Production unit waste levels have been significantly reduced through efficient re-use of by-products. In addition, on-site sorting of mill waste for use as raw material or for energy production has reduced the need for landfill disposal.

Packaging plastics, metals, paper and board are recycled. Process sludge and wood-based waste are used as fuels if they cannot be otherwise utilised. The fibre sludge generated during the recovered fibre deinking process is used in the building products industry and for energy production. Ash from mill power plants is used in earthworks construction as an alternative to gravel and other soil resources. Wood ash can also be used as a fertiliser.

The emissions and waste production levels of the Metsäliitto Group's production units are presented on pages 130–133.

Environmental impact reporting

The Metsäliitto Group reports openly on the environmental impact of its activities, for example in its Corporate Responsibility Report and in mill-specific EMAS (Eco-Management and Audit Scheme) reports. The climatic impact of Metsäliitto's individual products is reported in the Group's carbon footprint calculations, which have been conducted since 2007. Company-specific carbon footprint calculations are also currently being drawn up.

M-real has published Paper Profile environmental product declarations for all of its products on its website: www.m-real.com. Ecolabels, such as the Nordic Swan eco-label which many of Metsä Tissue's products carry, indicate to the consumer that the product meets fundamental environmental criteria.

Forest certification labels signify that a certain proportion of the product's wood is verifiably sourced from certified forest, and that all actors throughout the production chain operate a certified wood Chain of Custody system. The Chain of Custody systems enable reliable verification of the share of certified wood contained in each product. Virtually all of Metsäliitto Wood Products Industry's products and the majority of M-real's products carry a forest certification label. The common goal of all Group companies is to increase their share of forest certification labelled products.

Environmental improvements at the mills

The environmental load and environmental risk reduction improvements carried out at the Group's mills during the year under review were focused on rationalising consumption of raw materials, water and energy, and reducing emissions to air.

Raw material and water consumption

A new reject recovery line was commissioned at M-real's Kyro mill, bringing a considerable reduction in wastewater solids levels. In addition, the mill's white water circulation capacity was increased, thus cutting wastewater levels and improving the heat economy of the process.

At M-real's Kaskinen mill, chemical dosing improvements were made, reducing the quantity of hydrogen peroxide used in pulp bleaching by some 5 per cent. Further reductions are believed to be achievable. The use of other chemicals was also rationalised. The commissioning of a new washing liquid concentration and recovery system at the process water evaporation plant achieved a reduction in organic loading of the mill's wastewater.

A new pulp washer was commissioned at Metsä-Botnia's Kemi mill, significantly cutting emissions to water of oxygen-demanding organic material and reducing chemicals consumption.

Clean water consumption at Metsä Tissue's Zilina mill in Slovakia was reduced by more than 10 per cent by means of a series of process rationalisation measures.

Emissions to water and air

Metsäliitto Wood Products Industry's Suolahti plywood mill introduced a closed water circulation system for its log soaking vats, enabling improved vat water balance control and reducing emissions to water.

A new dust recovery unit was installed at Metsä Tissue's Kreuzau mill in Germany, reducing outdoor air dust emissions generated from tissue handling by more than 80 per cent.

A new evaporation plant gas scrubber brought on-stream at M-real's Husum mill in Sweden has cut the mill's nitrogen oxide emissions by an estimated 200 tonnes per year. In Austria, a new covered wood chip storage facility built for the Hallein mill has significantly reduced the spread of wood dust to nearby residential areas.

A new bleaching chemicals production plant was commissioned at Metsä-Botnia's Äänekoski mill in September, cutting its emissions of adsorbable organic halogen compounds (AOX) to water by around a half. At Metsä-Botnia's Rauma mill, smelt dissolving tank exhaust fumes were re-channelled from the flue gas scrubber to the recovery boiler for combustion, significantly cutting airborne particulate and malodorous gas emissions as a result.

Waste management

At Metsä Tissue's Mänttä mill, the cleaning of leachate and runoff from the mill's landfill site was improved with the commissioning of a new sedimentation basin.

The landfill site at Metsäliitto Wood Products Industry's Suolahti plywood mill was decommissioned. At the Karihaara sawmill, contaminated site soil was reconditioned in connection with the mill's drying plant expansion.

Energy efficiency improvements

At M-real's Äänekoski, Tako and Kyro mills and Metsä Tissue's Mänttä mill, considerable energy savings were achieved by replacing the old board and paper machine vacuum systems with new vacuum blowers.

Significant savings were also achieved through optimised pulp refining and refiner blade improvements at Metsä Tissue's Kreuzau mill, M-real's Kaskinen, Joutseno, Gohrsmühle and Tako mills, and at the Kemiart Liners board mill.

A series of successful process heat recovery improvements were implemented at M-real's Alizay and Husum and Metsä-Botnia's Äänekoski and Rauma pulp mills. At M-real's Hallein mill, a new steam turbine was commissioned, boosting the electricity production capacity of the mill's power plant.

An Energy Efficiency System (EES) will be implemented at all Metsäliitto Group production units by the end of 2009.

Environmental risk management

The management of environmental risks was improved at several Metsäliitto production units by training Group personnel and partner personnel to take environmental risks into closer consideration in their day-to-day operations.

At M-real's Reflex mill in Germany, improvements were made to the monitoring of forklift truck handling of chemicals. At Metsä Tissue's Stotzheim mill in Germany, new improved safety and protection procedures related to chemical and fuel handling were introduced. At M-real's Kaskinen mill, an environmental incident notification procedure was introduced among mill staff for improved monitoring and control of environmental risks and emissions.

At Metsäliitto Wood Products Industry's production units in Finland, environmental risks and environmental management performance were assessed. No significant shortcomings were found. The mill-specific assessment results have been discussed together with each unit, and any required development measures have been specified.

Wood-based raw materials	
- Wood (1,000 m^3)	21,892
- Pulp (1,000 t)	398
- Recovered paper (1000 t)	478

Other raw materials (1000 t)	
- Pigments	1,428
- Adhesives	213

Energy (GWh)	
- Fuel purchased outside the Group	7,504
- Electricity (purchased)	3,164
- Heat (purchased)	474

Process water (1,000 m^3) 196,482

Emissions to air (t)	
- Particles	1,119
- Carbon dioxide CO_2 (fossil fuels)	1,490.869
- Sulphur (as SO_2)	3,878
- Nitrogen oxides (as NO_2)	8,014

Production	
Chemical (1,000 t)	
- Paper	1,872
- Pulp and CTMP	3,234
- Paperboard	1,040
- Tissue and cooking papers	583
Wood Products Industry (1,000 m^3)	
- Sawn timber	1,938
- Plywood	293
- Kerto®	188
- Other upgrading products	501

Discharges to water systems (t)	
- Biological oxygen demand (BOD_7)	2,795
- Chemical oxygen demand (COD)	43,172
- Phosphorus (P)	106
- Nitrogen (N)	647
- Total suspended solids	3,980

Waste (t)	
- Landfill waste	116 ,992
- Hazardous waste	2,607

Non-compliance and liabilities

No significant deviations from environmental permit conditions occurred among the Metsäliitto Group's production units during the year under review. However, a small number of minor, short-term deviations were recorded.

Examples of permit deviations during the review year are presented below:

- M-real's Simpele mill exceeded its wastewater emissions limits in January due to difficulties in the board production process.
- M-real's Gorsmühle mill's no. 5 boiler exceeded its NO_x limit on one occasion, and the no. 3 boiler exceeded its CO limit on two occasions during start-up and shutdown of the paper machines.
- M-real Kyro's wastewater phosphorus emissions limit was exceeded in February and June. The incidents were caused by minor functional disorders of the wastewater purification plant.
- Metsäliitto Wood Products Industry's Punkaharju Kerto® and plywood production unit temporarily exceeded the permit levels for wastewater BOD and COD in the first and second quarters.

Metsäliitto Group companies also remain subject to environmental liabilities related to former industrial activities at sites that have since been closed, sold or leased, and from decommissioned landfill sites. Metsäliitto's liabilities relating to its past activities have declined in recent years following the successful implementation of a series of land rehabilitation projects.

The current, most significant known outstanding liabilities relate to land decontamination at M-real's Wifsta mill and at some other locations owned by M-real and Metsäliitto Wood Products Industry. Financial provision for the cost of land rehabilitation work has been made in cases where Metsäliitto's liability for land contamination has been verified.

M-real converts decommissioned mill site to serve residential use

CASE | Niemenranta

The Niemenranta site owned by M-real in Tampere, Finland, is a valuable industrial heritage environment. All industrial activity at the old pulp and sawmill site has now ceased, and in spring 2008 work got underway to make the mill site suitable for residential purposes.

The old dumping site of the former sawmill at Niemenranta is being totally removed and the site's contaminated soil cleaned. The dumping site material consists mostly of clean bark and sawdust. Clean and mildly contaminated material excavated from the site will be used in the decommissioning of the dumping and landfill sites of the nearby former chemi-thermomechanical pulp mill and as earthfill for the decommissioned wastewater reservoir. More heavily contaminated soil will be delivered to an appropriate treatment and disposal site.

More than 250,000 tonnes of soil material will be moved in connection with the project. The land rehabilitation work is being carried out in strict compliance with permit decisions issued by the environmental authorities. Before work commenced, the rare plant species that had become established on the site's calciferous soil were transferred from the site.

The fresh soil imported to the site will be landscaped to transform the former landfill site of the mill into a high-quality recreation area to serve future residential development in the area. The site's recreational use has been taken into account in the design of technical surface structures, the landscape design, and in the planning of roads and walkways. The site planning was carried out in collaboration with the City of Tampere.

The project is scheduled for completion by the end of 2010.

Metsäliitto Group total *)	2008	2007
tonnes		
Environmental impacts		
Greenhouse effect (CO_2 equiv.)	1,490,869	1,487,820
Acidification (SO_2 equiv.)	9,448	8,205
Eutrophication (P equiv.)	968	228
Emissions		
Particles	1,119	1,449
Carbon dioxide (CO_2)	1,490,869	1,487,820
Sulphur (as SO_2)	3,878	3,434
Nitrogen oxides (as NO_2)	8,014	6,827
Chemical oxygen demand (COD)	43,172	41,693
Biological oxygen demand (BOD)	2,795	2,870
Phosphorus	106	86
Nitrogen	647	593
Total solids	3,980	3,330
Landfill waste	116,992	97,590
Hazardous waste	2,607	1,976

*) includes 53 per cent of Metsä-Botnia

M-real *)	2008	2007
tonnes		
Environmental impacts		
Greenhouse effect (CO_2 equiv.)	1,160,651	1,172,986
Acidification (SO_2 equiv.)	7,225	6,414
Eutrophication (P equiv.)	210	185
Emissions		
Particles	664	933
Carbon dioxide (CO_2)	1,160,651	1,172,986
Sulphur (as SO_2)	3,189	2,860
Nitrogen oxides (as NO_2)	5,766	5,078
Chemical oxygen demand (COD)	35,042	34,694
Biological oxygen demand (BOD)	2,398	2,504
Phosphorus	93	74
Nitrogen	515	481
Total solids	3,392	2,943
Landfill waste	76,229	64,843
Hazardous waste	1,210	1,561

*) includes 30 per cent of Metsä-Botnia

Metsäliitto Cooperative, Wood Products Industry	2008	2007
tonnes		
Environmental impacts		
Greenhouse effect (CO_2 equiv.)	5,138	2,843
Acidification (SO_2 equiv.)	119	118
Eutrophication (P equiv.)	7.5	7.2
Emissions		
Particles	171	138
Carbon dioxide (CO_2)	5,138	2,843
Sulphur (as SO_2)	6.9	9.0
Nitrogen oxides (as NO_2)	160	156
Chemical oxygen demand (COD)	110	107
Biological oxygen demand (BOD)	74	65
Phosphorus	0.19	0.14
Nitrogen	0.52	0.40
Total solids	25	8.1
Landfill waste	8,379	8,095
Hazardous waste	823	230

Metsä Tissue	2008	2007
tonnes		
Environmental impacts		
Greenhouse effect (CO_2 equiv.)	218,653	204,145
Acidification (SO_2 equiv.)	344	382
Eutrophication (P equiv.)	14	16
Emissions		
Particles	41	46
Carbon dioxide (CO_2)	218,653	204,145
Sulphur (as SO_2)	141	153
Nitrogen oxides (as NO_2)	346	339
Chemical oxygen demand (COD)	1,217	938
Biological oxygen demand (BOD)	128	155
Phosphorus	4.1	5.3
Nitrogen	54	60
Total solids	149	122
Landfill waste	18,565	16,653
Hazardous waste	450	135

Metsä-Botnia	2008	2007
tonnes		
Environmental impacts		
Greenhouse effect (CO_2 equiv.)	392,000	285,000
Acidification (SO_2 equiv.)	6,865	5,103
Eutrophication (P equiv.)	132	99
Emissions		
Particles	979	1,343
Carbon dioxide (CO_2)	392,000	285,000
Sulphur (as SO_2)	1,901	1,443
Nitrogen oxides (as NO_2)	7,092	5,229
Chemical oxygen demand (COD)	35,406	31,186
Biological oxygen demand (BOD)	944	751
Phosphorus	41	31
Nitrogen	378	286
Total solids	2,173	1,575
Landfill waste	60,925	35,908
Hazardous waste	347	146

Logistics

Transportation volumes and distances within the forest industry are considerable, and require a versatile logistics service network.

As the operating environment continues to change, the need to develop and improve existing logistics systems becomes increasingly evident at both the national and global level. The most important improvements relate to environmental impact control and the maintenance and improvement of logistics capacity. With respect to business competitiveness, the importance of effective logistics, good partners and smooth transport connections is further increasing.

Transport emissions are harmful to the environment. Methods to minimise their impact include efficient route planning, shorter transport distances, optimal transport capacity utilisation, and improved operating models and instructions. Transportation fuel constitutes a major cost factor, and determined efforts are made to minimise fuel consumption. The review year's highly volatile oil price and acute oil price peak brought additional costs, but at the same time spurred the development of energy efficiency within the transport sector.

The International Maritime Organization's (IMO) decision to introduce phase by phase new, lower nitrogen oxide (NO_x) and sulphur oxide (SO_x) emission standards from the year 2010 brings new development challenges with respect to sea transportation and fuels, particularly in the Baltic Sea region. The Baltic Sea and the North Sea both belong within the Sulphur Oxide Emission Control Area (SECA).

Metsäliitto Wood Supply is responsible for wood procurement and transportation. The Procurement function is responsible for other raw material and production material purchases, while the Group's logistics organisation is in charge of product transport, storage and distribution.

Transports outsourced

The Metsäliitto Group outsources virtually all of its transportation to subcontractors. Besides cost efficiency, other important criteria in the selection of logistics solutions and partners include quality, safety and environmental aspects.

The Group uses road, rail and sea transportation. Wood represents the largest portion of all raw material deliveries. In the review year, the average roundwood transportation distance in Finland was 136 kilometres, with the majority of roundwood being transported to the mills by road. Rail transport accounted for 26 per cent. Other key product groups include the chemicals, fillers and pigments used in pulp and paper manufacture, as well as finished wood, board and paper products.

Metsä Tissue enhanced the storage and distribution of its products

During the year under review, Metsä Tissue streamlined and rationalised the storage and distribution of its products in Continental Europe.

A new, modern 36,000 square metre central storage depot was completed near the Kreuzau mill at Düren in Germany, enabling a portion of German road transportation to be transferred to rail, thus reducing emissions. In November, UK sea shipping was transferred from Felixstowe to the Port of Tilbury, thus reducing the need for road transport.

Environmental consideration in performance measurement

The Group's development targets during the year under review were the improvement of the procurement and logistics performance measurement system, indicators and reporting. A central aspect of these efforts was the development and harmonisation of environmental impact assessment practices with respect to transportation.

A uniform measurement system designed to collect, analyse and report transportation-related environmental data will be introduced within the Metsäliitto Group at the beginning of 2009. The system will be used to calculate, for example, transport volumes, and thus enable the environmental load of transportation to be measured. Development of environmental performance reporting will continue in the current year. Additionally, the requirements placed on purchasing and procurement suppliers, which also include quality, environmental and safety aspects, will be improved and harmonised within the Group.

Personnel

The continued structural change in the forest industry had a wide-reaching impact on the daily activities of Metsäliitto Group's employees. The increased requirements of internal efficiency, coupled with the decrease in the number of employees caused by the industry's market situation, emphasised the significance of the personnel's know-how and the ability to undergo a transformation. Investments in the development of employees and well-being at work in this challenging operating environment continued.

In 2008, the number of Metsäliitto Group employees decreased mainly due to cost improvement programmes and production unit divestments. The most extensive employee reductions were carried out in M-real (2,962 employees), where the impact of the Graphic Papers business divestment totalled near 2,300 employees. The number of Group personnel decreased by 124 in Finland and by 985 in units outside Finland. At the end of the year, the number of Group personnel was 16,729 (17,838) for continuing operations.

Metsä Tissue's converting unit near Moscow and Wood Products Industry's plywood upgrading mill in Suolahti were introduced in the financial year. Metsä-Botnia's Uruguay mill continued its good performance by using mainly local resources as the Finnish project team returned to Finland.

The development of human resources management continued

Metsäliitto Group's HR operations are steered by the Group's HR management team where all business areas are represented. The team is responsible for annual planning, implementing specified objectives and deploying agreed principles.

In 2008, HR management focused on the development of HR administration processes and specialist services, an HR system implementation project and a development programme for key personnel. The harmonisation and systematic development of HR management policies continued, and the cooperation between the Group's HR operations, business areas' HR management and business areas' management and supervisors deepened.

Best practices and policies were distributed to the business areas. A Group-level position evaluation system and a new Internet-based recruitment system were introduced. The bonus system was harmonised and the monitoring of HR key performance indicators was boosted. Uniform indicators concerning the impact of absences and accidents at work facilitated the monitoring of how the objectives are achieved.

The development of the HR data system supporting HR management and supervisory work progressed as planned. The project will progress step-by-step with its advantages seen by the end of 2010. The Group-level HR system will be used for storing, maintaining and reporting HR information, administering the Group's compensation management systems, and supervisory work.

Better operational preconditions through personnel surveys

Several Metsäliitto Group units both in and outside Finland conducted several corporate culture surveys to improve the functionality of work communities. The surveys were conducted in Wood Supply, Metsä-Botnia, Group support functions and, for the first time, at Metsä-Botnia's production units in Uruguay and Russia. On the basis of the results and the feedback, supervisory work and work community operations will be systematically developed and improved.

The Group also carried out a Leadership barometer survey intended for the management. The survey provided valuable feedback on essential operational preconditions, Group-internal cooperation and on the implementation of Group values. Action plans were prepared for areas of improvement and will be monitored as part of the annual plan during their implementation.

Skills are maintained on a continuous basis

The ability of the entire personnel to maintain their skill level and renew their operating methods is created by continuously improving competence and professional skills - a critical competitive factor in the increasingly challenging business environment. In addition, task management is the best way to maintain high motivation and job satisfaction.

Challenger, the first Group-level management development programme introduced in 2007 was continued with 23 participants from all business units. The one-year programme provides them with a comprehensive picture of the Group's business areas and strategy while improving their business management skills.

The Challenger programme was supplemented with individual programmes designed for middle management, as well as special professional degree programmes (JET) in management. Metsä Tissue's sixth Unifier development programme had 16 participants. M-real started planning its own Simplifier programme to be launched in 2009 as will Wood Products Industry's Avant development programme.

Wood Supply, Wood Products Industry, Metsä-Botnia and Group support functions arranged JET training for their employees.

Production personnel competence was developed by different multi-skill training and by encouraging employees to complete vocational degrees. Wood Supply's purchasing managers and Metsä Botnia's shift engineers were offered tailored training programmes. In addition, Metsä Tissue's personnel were given project management training, while Wood Products Industry had supervisor, finance, production and maintenance personnel training in and outside Finland.

Long-term personnel development was supported by regular development discussions in which approximately 87 per cent of the Group's office personnel in Finland and 75 per cent in other countries participated. The Group's development discussion model was revised and harmonised in November, and supervisors at Metsä Tissue's and Metsä Botnia's Finnish mills were given development discussion training.

Wood Supply's first trainee programme intended for recently graduated forestry engineers and foresters commenced in February.

Challenges brought about by the structural change

At many Metsäliitto Group production units in Finland, production volumes and the number of personnel were reduced as a response to the new market situation. The statutory labour negotiations were conducted in a constructive spirit; the personnel were offered training and employment contracts were terminated in a responsible manner.

Those employees made or at a risk of being made redundant were provided with change counselling and re-employment assistance. For example, employees made redundant from the Wood Products Industry's mills at Soinlahti and Teuva were encouraged to seek new employment by using the services provided by the employment authorities, and to begin entrepreneurship in cooperation with Employment and Economic Development Centres. Moreover, competence was improved during the lay offs through training.

The Group's Change Workshop method aims to help employees readjust to the challenging transformation situations by actively participating in the development of their work, and identifying and analysing those operating and

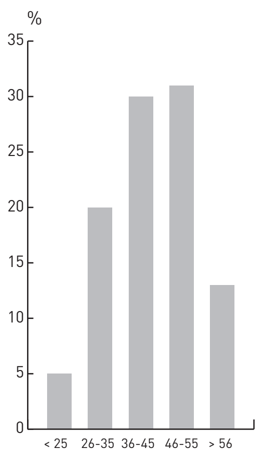
Personnel by business area 31 Dec. 2008

Wood Supply	1,140
Wood Products Industry	4,199
Pulp Industry (53 per cent of Metsä-Botnia)	962
Board and Paper Industry (M-real, excluding the company's share of Metsä-Botnia	6,002
Tissue and Cooking Papers	3,222
Others	1,204
Total	16,729

Personnel key figures by business area	Average age of the personnel	Average years served	Permanent employments (%)	Men/women (%)	Employee turnover (%)
Metsäliitto Group *)	43.7	16.1	96	79/21	7.7
Wood Supply	46.8	12.4	98	81/19	13.6
Wood Products Industry	42.4	12.7	96	79/21	12.0
Pulp Industry	43.1	16.3	95	79/21	8.3
Board and Paper Industry	44.5	18.4	95	81/19	6.0
Tissue and Cooking papers	42.5	16.7	95	78/22	3.2

*) The figures include 97 per cent of the Metsäliitto Group's personnel.

Age distribution
31 Dec. 2008



development needs required to meet the changes in the company's global competitive environment. Cooperative development of work is part of the Group's HR asset management. It creates preconditions for the personnel's well-being and work safety, and for the company's ability to renew and carry out successful operations.

Change Workshops have been arranged in the Group's Finnish production units since the early 2000s, and some 2,500 employees from all business areas (700 in 2008) have participated in them.

Shared well-being and safety principles as a guideline

In Metsäliitto Group, well-being at work is based on the company's strategy. Together with work safety, it is regarded as an important part of the profitable and successful operations of the organisation. Instead of corrective activ-ities, the emphasis is on the development and promotion of well-being, health and safety at work, and on the early addressing of issues that constitute a threat to work capacity and work safety. The objective is to ensure the personnel's well-being and safety through systematic, proactive action.

Group-level well-being and safety policies were announced, and a shared well-being at work programme was developed. Policies promoting well-being, safety and health at work were harmonised between business areas and production units in and outside Finland. At Metsä-Botnia's Finnish mills, the occupational health programme was harmonised. The programme will be introduced in units outside Finland during 2009.

At the beginning of 2008, the Group introduced a centralised follow-up system concerning accidents, industrial diseases and absence due to illness. The system is used for identifying risks related to a reduced work capacity, allocating measures to prevent them and for ensuring that the workplace systematically begins to implement a working capacity regeneration programme which supports the maintenance of work capacity.

With the follow-up system, several successful working capacity regeneration programmes were launched in the Finnish units of Wood Products Industry, Wood Supply, M-real and Metsä-Botnia. At many workplaces, supervisors were trained to interact with and support those employees who find it difficult to cope with work tasks. Systematic projects promoting well-being at work were carried out at several Group production units in Finland and other countries.

Personnel	31 Dec. 2008 *)
Finland	6,881
Germany	2,684
Sweden	1,705
Great Britain	984
France	674
Austria	650
Russia	598
Poland	513
Slovakia	460
Romania	456
Uruguay	290
Estonia	213
Latvia	162
Other countries	459
Total	**16,729**

*) The figures include 53 per cent of Metsä-Botnia's personnel.

Occupational safety and well-being at work	Sickness absenteeism (%) **)	Lost time accident frequency rate (per million worked hours)
Metäliitto Group *)	4.2	27.8
Wood Supply	1.3	4.2
Wood Products Industry	3.3	63.7
Pulp Industry	3.9	15.8
Board and Paper Industry	4.7	18.8
Tissue and Cooking papers	5.7	13.9

*) The figures include 97 per cent of the Metsäliitto Group's personnel.
**) Per cents of regular working hours.

Developing personal work and new policies in Change Workshops

CASE | Simpele

The structural change of the forest industry has had an extensive impact on Metsäliitto Group, particularly M-real. For example, the number of personnel at M-real's Simpele paper and board mill has decreased by approximately one hundred in four years.

In autumn 2007 at Simpele, the Change Workshop was used to review the work and policies of employees working with tasks related to customer service, maintenance, sheeting and the paper machine. Substantial changes had or were about to take place in the tasks and policies of these groups.

In training events arranged in the winter, almost 200 employees teamed up with supervisors to analyse the content of their personal tasks, work fluency, the needs for change and areas that should be developed. The expressed ideas for development were further processed in small groups in spring and implementation plans were prepared for the changes that were deemed necessary.

During 2008, the Simpele mill carried out 75 per cent of the personnel's development ideas and new policies. While many measures of change were minor and easy to implement, they have considerably improved the operation of work communities and the fluency and meaningfulness of everyday tasks. Work to implement the remaining development ideas and joint functions between departments still continues.

The Change Workshop methods improved work atmosphere and job satisfaction while increasing the dialogue and trust between supervisors and employees at the mill. The change is shown in the reduction of mill absences due to illness. The introduction of the method has also resulted in increased production volumes despite the decrease in the number of employees.

Simpele mill intends to analyse and develop the work and policies of the laboratory and the power plant communities through the Change Workshop. In 2009, it may also be extended both to other employee groups at the mill and the Joutseno BCTMP mill. During 2009, the method will also be used at Simpele for supervisory work training.

Comparison of reported corporate responsibility indicators with the GRI guidelines

The following table shows the GRI guideline indicators that are reported in the Metsäliitto Group Annual Report.

GRI indicator	Contents	Report Page	Title
Economic responsibility			
EC1	Economic added-value produced	69	Income statement
EC2	Risks and opportunities due to climate change	36–38	Climate Programme and energy consumption
EC9	Indirect economic impacts	32 33–35 35	Research and development Wood supply Case: Metsäliitto Podporozhye to receive the first PEFC forest certificate in Russia
Environmental responsibility			
EN 1	Use of raw materials	30 38–42	Products, Management of environmental impacts, Environmental improvements at the mills
EN 2	Recycled material	30 38–42	Products, Management of environmental impacts, Environmental improvements at the mills
EN 3	Direct energy consumption	36–38	Climate Programme and energy consumption
EN 4	Indirect energy consumption	36–38	Climate Programme and energy consumption
EN 5	Energy saved due to conservation and efficiency improvements	36–38 38–42	Climate Programme and energy consumption Environmental improvements at the mills
EN 6, EN7	Initiatives to provide energy-efficient or renewable energy based products, initiatives to reduce indirect energy consumption	36–38 38–42	Climate Programme and energy consumption Environmental improvements at the mills
EN 8	Water usage	38–42	Management of environmental impacts, Environmental improvements at the mills
EN 11, EN12 and EN14	Biodiversity	33–35	Wood supply
EN 16	Greenhouse gas emissions	38–42 130–133	Management of environmental impacts, Environmental improvements at the mills, Corporate responsibility data per production unit
EN 18	Reduction of greenhouse gas emissions	36–38	Climate Programme and energy consumption
EN 20	Other significant emissions to air	38–42 130–133	Management of environmental impacts, Environmental improvements at the mills, Corporate responsibility data per production unit
EN 21	Discharges into water	38–42 130–133	Management of environmental impacts, Environmental improvements at the mills, Corporate responsibility data per production unit
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Reporting principles

The Metsäliitto Group's Corporate Responsibility Report informs the Group's stakeholders of the economic, social and environmental impact of its activities. The report covers all of the Group's business areas and operations and forms part of the Metsäliitto Group Annual Report.

The reporting of the information presented in the Metsäliitto Group's Corporate Responsibility Report is based on national and international reporting guidelines, stakeholder expectations and the special characteristics of the industry. In its corporate responsibility reporting, Metsäliitto follows the reporting guidelines of the Global Reporting Initiative (GRI) framework where applicable.

Scope and preparation of reports

The presentation of corporate responsibility information follows the consolidation principles applied to the Group's financial statements, unless otherwise stated. The corporate responsibility information presented covers all of the Group's business areas and business units, unless otherwise stated. The reported corporate responsibility indicators do not include figures for units that belonged to M-real's former Graphic Papers business area, which was sold to Sappi Limited at the end of the review year, and those for the associated company Vapo Oy.

Environmental and human resources indicators have been reported in accordance with the Group's internal, uniform instructions.

The environmental information covers all of the Group's production units within the accounting limits specified above. Sales offices and head-office functions are not included in the figures. For calculation of the Group-level materials balance, emissions and energy consumption, the Group has been defined as specified in the consolidation principles applied to the Group balance sheet, which means the figures include 53 per cent of Metsä-Botnia. M-real's figures include 30 per cent of Metsä-Botnia. The environmental information is based on business-area-specific information collected from the production units, which is consolidated at the Group level.

The human resources indicators cover Metsäliitto Group within the specified accounting limits. The human resources information is based on business-area-specific information collected from the production units and other units, which is consolidated at the Group level.

The cash flow information for different stakeholders, previously separately reported in the economic responsibility section of the Group Corporate Responsibility Report, is now included in the Group's financial statements.

Corporate responsibility reporting in the Board of Directors' Report

Corporate responsibility information is also presented in part in the Metsäliitto Group's Board of Directors' Report in accordance with the general instructions of the Finnish Accounting Board regarding the preparation of the Board's report.

Corporate Governance

General

The responsibilities of the various organs of the Metsäliitto Group (Metsäliitto) are determined in accordance with Finland's Cooperatives Act and the by-laws of Metsäliitto.

Metsäliitto has prepared its financial statements for 2008 in accordance with the International Financial Reporting Standards (IFRS) and has published them in Finnish, Swedish and English.

The Metsäliitto Group comprises the parent company Metsäliitto Cooperative and its subsidiaries. The Group's head office is located in Espoo.

According to its by-laws, Metsäliitto Cooperative's governing bodies are the Representative Council, the Supervisory Board, the Board of Directors, the President & CEO, who also acts as the parent company's CEO, and the Deputy to the CEO. The President & CEO has the primary responsibility for managing the parent company and the Group. The Board of Directors makes strategic decisions, and decisions with an extensive and far-reaching impact on Metsäliitto. The role of the Supervisory Board is mainly to provide owner guidance and exercise oversight. The Representative Council is the highest decision-making body, comparable to the annual general meeting in an incorporated company. Both the day-to-day preparation related to matters that are submitted to the decision-making bodies and the decision-making related to matters concerning the entire Group are carried out by the Executive Management Team. Other day-to-day operative business and management is carried out in the subsidiaries. Business support functions in the Group have mainly been centralised in the parent company. In Finland, district committees serve as connecting links between the members and the wood supply organisation.

THE DUTIES AND COMPOSITIONS OF THE DECISION-MAKING BODIES

Members and the Representative Council

All private persons and entities owning at least three hectares of productive forest in Finland are eligible for membership in Metsäliitto Cooperative.

The owners' powers of decision in Metsäliitto Cooperative are exercised by the Representative Council, which is elected every four years by and from among the members of each electoral district. The Representative Council holds one Annual General Meeting a year, at which each representative has one vote. The Annual General Meeting confirms the financial statements and decides on the distribution of the surplus, and it also determines the remuneration of the chairperson, members and auditors of the Supervisory Board. In addition, it appoints the Supervisory Board and the auditors. The Representative Council has 66 members.

Supervisory Board

The Supervisory Board comprises at least 20, and no more than 30, members who are elected from among the members of the Cooperative by the Representative Council. Additionally, the personnel may appoint a maximum of five members, and the Representative Council no more than three expert members, to the Supervisory Board.

The Supervisory Board's task is to oversee that Metsäliitto business operations are conducted in compliance with the relevant by-laws, rules and decisions, and that the decisions of the Representative Council are duly implemented. The Nomination Committee, acting under the Supervisory Board, deals with the annual election of the Board of Directors and prepares the decisions of the Supervisory Board on the composition of the Board of Directors.

Members of the Supervisory Board are appointed for three-year terms. At present, this body has 30 members and four representatives of the personnel.

Board of Directors

According to the by-laws of Metsäliitto Cooperative, the Board of Directors comprises from five to eight members as well as Metsäliitto's President & CEO, and the President, if one has been separately appointed. The term of office of a member of the Board is three years.

The Board of Directors is responsible for the proper arrangement of administration and operations in compliance with the applicable legislation and the Board's rules of procedure. The responsibilities of the Board of Directors concern matters of far-reaching importance in view of the scope and nature of the Cooperative's operations, and strategic issues.

Currently the Board of Directors consists of eight members and the President & CEO. The Board of Directors elects a chairperson from among its members. All members of the Board of Directors, except for the President & CEO, are independent of the company. The Supervisory Board determines the remuneration for the members of the Board of Directors annually.

The Board of Directors appoints a Compensation Committee to assist it in evaluating matters related to the terms of employment and the income level of members of senior management, and to prepare compensation systems for the Board's consideration. The aim of the Compensation Committee is to make the executive compensation systems motivating so that they promote commitment and are in line with the appropriate practices in the industry, both domestically and internationally. It is also the Committee's duty to ensure that the company has an appropriate management succession and development plan. The Compensation Committee consists of three persons appointed to the position each year. The Compensation Committee has approved rules of procedure.

In addition, the Board of Directors appoints an Audit Committee from amongst the Board members, and the Committee shall assist the Board when it carries out its monitoring task, and in this task it shall, according to these procedures, evaluate and monitor matters related to financial reporting, the auditing of the accounts, internal auditing and risk management. The Audit Committee is not a decision-making or an executive body; rather, it prepares matters related to the Committee's area of responsibility, and the Board makes the decisions. The Committee consists of three Board members who are selected for the assignment on an annual basis.

President & CEO

The Metsäliitto Group's President & CEO is **Kari Jordan**. According to the by-laws, the President & CEO also acts as President of Metsäliitto Cooperative, since a President has not been separately appointed.

In addition to the responsibilities set forth in the applicable legislation, the President & CEO is responsible for steering the operations of the parent company and the Group, and for chairing the boards of directors of the most significant subsidiaries, as well as acting as chairperson of the Executive Management Team.

The President & CEO's terms of employment are specified in writing in an employment contract approved by the Board of Directors.

Deputy to the CEO

Ole Salvén started as the Deputy to the CEO of Metsäliitto Cooperative at the beginning of December 2008. Salvén is the Group Executive Vice President of Metsäliitto Wood Products Industry.

Executive Management Team

The Executive Management Team consists of the Metsäliitto Group President & CEO (Chairman of the Executive Management Team), the CEOs of the subsidiaries, the Group Executive Vice Presidents of Metsäliitto Wood Products Industry and Metsäliitto Wood Supply, the Group's CFO, Executive Vice President for Strategy, and the Group General Counsel. The task of the Executive Management Team is to aid the President & CEO in the operative management of the Group.

AUDITING

Auditors

The Representative Council has selected **Johan Kronberg**, APA, and the PricewaterhouseCoopers Oy firm of authorised public accountants as auditors, with **Jouko Malinen**, APA, as main responsible auditor.

Internal auditing

The internal auditing of Metsäliitto Group has been performed by the Group's own internal audit function. The core task of internal auditing is to evaluate the efficiency and functionality of Metsäliitto Group units' internal auditing. According to a plan prepared annually, the auditing focuses on areas that have particular significance for the risk assessed and the Group's objectives at the time. Every six months, internal auditing provides the Board's Audit Committee with a report on its inspections, plans and operations. The operating principles for internal auditing have been specified in the internal auditing guidelines.

Risk management

The financial administration is responsible for developing and implementing Metsäliitto's risk management procedures, as well as for coordinating risk management measures. Metsäliitto employs a comprehensive method of risk assessment, which is implemented as a continuous process. The aim of risk management is to identify, measure, and control risks that could, if realised, threaten the company's operations and the achievement of the targets set. Operating principles for risk management in the Metsäliitto Group are described in the section of the Annual Report concerning risk management policy and principles.

Metsäliitto Cooperative's Representative Council

Members of the Metsäliitto Cooperative elect a Representative Council from among the members every four years through mail elections. The Representative Council comprises 66 members and it is Metsäliitto's highest decision-making body.

Aikkinen Ilmari	Farmer	Mynämäki	Mieskolainen Antti	Forestry technician	Kangasniemi
Alatalo Matti	Farmer	Soini	Mänttäri Tuomo	Forestry entrepreneur	Hattula
Björkenheim Johan	Farmer	Isokyrö	Määttä Unto	Farmer	Posio
Eskelinen Arto	Farmer	Kuopio	Nylund Mats	Farmer	Pedersöre
Haimi Hannu	Farmer	Kouvola	Ojanperä Juha	Farmer	Isojoki
Hatanpää Mikko	Farmer	Noormarkku	Ollikainen Raimo	Farmer	Leppävirta
Havanka Pentti	Logger	Ruovesi	Peuraniemi Kari	Farmer	Pudasjärvi
Heikkinen Kari	Farmer	Nurmes	Pirttijärvi Tauno	Forestry entrepreneur	Rovaniemi
Hihnala Kauko	Farmer	Kalajoki	Pyykkönen Rauno	Forestry technician	Suomussalmi
Hirvonen Ville	Agrologist	Rääkkylä	Pölkki Veikko	Farmer	Äänekoski
Hopsu Juha	Forestry engineer	Tampere	Raitala Juha	Rural representative	Loimaa
Hytönen Jukka	Rural entrepreneur	Vesanto	Ralli Kaisa	Forestry technician	Sulkava
Hyvönen Timo	Farmer	Sotkamo	Rautiola Antti	Farmer	Oulainen
Isomuotia Harri	M.Sc. (For.)	Hämeenkyrö	Räsänen Tauno	Farmer	Tuusniemi
Jäärni Antti	Farmer	Simo	Saarenkivi Anne	Forestry technician	Hämeenlinna
Kallio Maarit	Agrologist	Sastamala	Saramäki Matti	M.Sc. (For.)	Kontiolahti
Karjalainen Jouko	Farmer	Oulu	Siponen Ahti	Bank Manager	Kiuruvesi
Keskinen Sakari	Farmer	Mänttä-Vilppula	Snellman Veli	M.Sc. (For.)	Helsinki
Keskisarja Hannu	Farmer	Nivala	Storsjö Bo	Farmer	Kristiinankaupunki
Kivenmäki Ari	Agrologist	Kuortane	Suutari Kai	Agrologist	Rautjärvi
Kiviranta Esko	Agronomist	Sauvo	Tienhaara Asko	Farmer	Alajärvi
Koistinen Pertti	Farmer	Liperi	Tuominen Pasi	Rural representative	Eura
Kontinen Kati	M.Sc. (For.)	Ristiina	Turtiainen Matti	Agronomist	Kerimäki
Korhonen Ari	Forestry entrepreneur	Kajaani	Unnaslahti Seppo	Farmer	Kuhmoinen
Korpijaakko Hannu	Farmer	Lohja	Uusitalo Hannu	Farmer	Kannus
Kukkonen Timo	Forestry engineer	Heinävesi	Uusitalo Ilkka	Farmer	Salo
Kulmala Airi	Project coordinator	Nousiainen	Vanhatalo Jukka	Farmer	Siikainen
Kuutti Petri	Farmer	Kouvola	Wasström Anders	Farmer	Raasepori
Laiho Tapio	M.Sc. (For.)	Jyväskylä	Virnala Jukka	Forestry entrepreneur	Jalasjärvi
Lakkapää Sakari	Farmer	Pello	Virrankoski Kirsti	M.Sc. (For.)	Vantaa
Leppänen Johannes	Agrologist	Kannonkoski	Vuorikko Liisa	Forestry entrepreneur	Lahti
Manngård Kurt	Farmer	Närpiö	Ylä-Outinen Päivi	Farmer	Ylämaa
Marken Martin	Farmer	Oravainen	Äijö Matti	Forestry engineer	Ikaalinen

Metsäliitto Cooperative's Supervisory Board

The Supervisory Board's duty is to supervise the appropriate management of the Metsäliitto Cooperative in compliance with the relevant regulations, the Supervisory Board's decisions, and in the interests of Metsäliitto. It also supervises the implementation of the Representative Council's decisions and elects Metsäliitto's Board of Directors.

Chairman:

Lillandt Runar	Councellor of Agriculture	Kristiinankaupunki

Deputy Chairman:

Jaakkola Erkki	Agronomist	Kankaanpää

Members:

Airio Pentti	Brigadier general	Helsinki
Autio Leo	Agronomist	Huittinen
Ekman Eero	Rural secretary	Paimio
Hongisto Arto	Farmer	Liminka
Isotalo Antti	Farmer	Kauhava
Jaakkola Antti	Pitäjänneuvos (Finnish honorary title)	Isojoki
Junttila Risto	Executive Manager	Kemijärvi
Juusela Ilkka	Talousneuvos (Finnish honorary title)	Sastamala
Järvinen Hannu	Agronomist	Janakkala
Kananen Lauri	Farmer	Viitasaari
Kinnunen Esko	Farmer	Pieksämäki
Kässi Timo	Agrologist	Uurainen
Lappalainen Jukka	Farmer	Pielavesi
Lassila Hannu	Farmer	Veteli
Lehtinen Ilkka	Forestry engineer	Kuhmalahti
Linnaranta Jussi	Agronomist	Kuopio
Mankki Teuvo	Metsätalousneuvos (Finnish honorary title)	Kouvola
Niiranen Martti	Farmer	Varpaisjärvi
Nikula Timo	Agrologist	Laitila
Ollila Juhani [1]	Farmer	Utajärvi
Paajanen Juha	Farmer	Punkaharju
Palojärvi Martti	Farmer	Vihti
Parpala Juha [2]	Farmer	Simo
Reijonen Seppo	Farmer	Polvijärvi
Ruuth Mauri	Agrologist	Mikkeli
Store Olav	Farmer	Kokkola
Tolonen Mikko	Farmer	Suomussalmi
Vainionpää Erkki	Farmer	Töysä

Personnel representatives:

Hämäläinen Jari	Supervisor	Kerimäki
Keskinen Matti	Purchasing supervisor	Nastola
Koljonen Timo	System specialist	Helsinki
Lyytinen Juha	Programmer	Iisalmi

[1] Died 15 December 2008.

[2] Elected to the Board of Directors as of 1 January 2009.

Metsäliitto Group's Board of Directors

Martti Asunta
Chairman of the Board
Member since 2005
M.Sc. (Forestry)

Kari Jordan
Vice Chairman of the Board
Member since 2005
M.Sc. (Econ.)
President and CEO, Metsäliitto Group

Mikael Aminoff
Member since 2008
M.Sc. (Forestry)

Eino Halonen
Member since 2006
Rahoitusneuvos (Finnish honorary title), M.Sc. (Econ.)

Arto Hiltunen
Member since 2007
M.Sc. (Econ.)
CEO, SOK

Saini Jääskeläinen
Member since 2005
Farmer, entrepreneur in farming and forestry

Juha Parpala
Member since 2009
Agrologist, farmer

Timo Saukkonen
Member since 2007
MSc (Agriculture and Forestry), farmer

Antti Tukeva
Member since 2009
Agronomist
CEO, Osuuskunta Maitosuomi and Osuuskunta Normilk

Esa Kaikkonen
Secretary of the Board of Directors
General Councel,
Executive Vice President,
Metsäliitto Group

Metsäliitto Group's Executive Management

Kari Jordan *
President and CEO

Anne-Mari Achrén
Senior Vice President, Communications

Hannu Anttila *
Executive Vice President, Strategy

Mikko Helander *
CEO, M-real

Ilkka Hämälä *
CEO, Metsä-Botnia

Esa Kaikkonen *
General Councel, Executive Vice President

Anneli Karhula
Senior Vice President, Human Resources

Hannu Kottonen *
CEO, Metsä Tissue

Juha Mäntylä *
Executive Vice President, Metsäliitto Wood Supply

Juha-Pekka Ollila
Senior Vice President, Internal Auditing

Ilkka Pitkänen *
Chief Financial Officer

Ole Salvén *
Executive Vice President, Metsäliitto Wood Products Industry

* Member of Executive Management Team

FINANCIAL STATEMENTS

Financial statements

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Report of the Board of Directors 2008

Sales and result

Metsäliitto Group's sales for 2008 were EUR 6,434 million (07: 6,797 and 06: 7,392). The sales decline is due to the weakening market situation and the stoppages and production curtailments it has caused.

Wood Supply's sales remained at the level of the year before, despite the fact that delivery volumes clearly decreased. Relatively, Metsäliitto Wood Products Industry's result weakened the most by the generally difficult market situation, as its sales decreased by almost 20 per cent year on year. The largest losses concerned Solid Wood. In Board and Paper Industry and Pulp Industry the weakening demand had a particularly extensive impact during the fourth quarter. Tissue and Cooking Paper continued its good profit development and both successfully increased its sales and improved its profitability year on year.

Due to the divestment of the Graphic Papers business, the figures for the comparison years have been adjusted in accordance with IFRS regulations. As a result of the divestment, Metsäliitto Group's sales in 2007 decreased by EUR 872 million, and in 2006 by EUR 858 million.

Metsäliitto Group's operating result excluding non-recurring items was EUR 45 million (07: 301 and 06: 233). Net non-recurring items totalled EUR -43 million (-257), of which EUR 23 million (-59) were recognised during the first quarter of the year, EUR 72 million (-8) during the second quarter of the year and EUR -8 million (5) during the third quarter of the year. During the fourth quarter, non-recurring items totalled EUR -130 million (-195).

In the first quarter, the sale of mill operations in the UK and pension liability arrangements generated a profit of EUR 24 million. In the second quarter, M-real sold a total of 100,000 Pohjolan Voima Oy B2 shares to Kymppivoima Oy for EUR 80 million, for which a sales gain and fair value of EUR 74 million was realised. The most significant non-recurring item in the third quarter was the EUR 13 million cost provision relating to the guarantee to the mill's energy supplier on behalf of the Pont Sainte Maxence (PSM) mill, sold in June 2006, and the write-down of receivables from PSM.

In the fourth quarter, Metsäliitto Wood Products Industry carried out solid wood related depreciation and cost provisions totalling EUR 21 million. In addition, M-real registered a total of EUR 86 million of losses caused by impairment testing, and a total of EUR 24 million of cost provisions and write-downs.

The operating result for 2008 including non-recurring items was EUR 2 million (07: 44 and 06: 77).

The Group's net financial expenses were 3.6 per cent of sales (3.0). Financial income was EUR 17 million (17), shares in associate companies were EUR 6 million (12) and financial expenses were EUR 277 million (238). Net exchange gains and losses recognised in financial items were EUR 19 million (5). During the year, against the euro, the US dollar weakened by an average of 7.3 per cent, the Swedish krona by 3.9 per cent and the British pound by 16.3 per cent. At year-end, the exchange rate of the US dollar against the euro was 5.5 per cent stronger than at the beginning of the year, whereas the Swedish krona was 15.1 per cent weaker and the British pound was as much as 29.9 per cent weaker.

The result before tax was EUR -233 million (07: -160 and 06: -94) and taxes, including changes in deferred tax liability, were EUR 60 million (07: -24 and 06: -35). The result for continuing operations was EUR -172 million (07: -183 and 06: -129), the result for discontinued operations was EUR -338 million (07: -27 and 06: -130) and the result for the financial period was EUR -511 million (07: -211 and 06: -259). The parent company shareholders' share of the result was EUR -213 million (07: -9 and 06: -25) and the minority share was EUR -297 million (07: -202 and 06: -234).

The Group's return on capital employed for continuing operations was 0.5 per cent (07: 1.4 and 06: 2.0) and the return on equity was -8.4 per cent (07: -7.5 and 06: -4.8). Excluding non-recurring items, the return on capital employed was 1.3 per cent (07: 6.4 and 06: 5.0) and the return on equity was -6.4 per cent (07: 2.7 and 06: 1.0).

Balance sheet and financing

Metsäliitto Group's total liquidity at year-end was EUR 1.8 billion (07: 1.6 and 06: 2.0). Of this, EUR 0.6 billion (07: 0.4 and 06: 0.2) was in terms of liquid assets and investments, and EUR 1.2 billion (07: 1.2 and 06: 1.8) was in binding credit facility agreements not included in the balance sheet. In addition, the Group can satisfy short-term financial needs with non-binding commercial paper schemes in Finland and abroad, as well as credit lines amounting to approximately EUR 0.6 billion.

In December, the Group's equity ratio was 26.0 per cent (07: 28.8 and 06: 29.5) and net gearing was 149 per cent (07: 142 and 06: 137). Interest-bearing net liabilities stood at 2,666 million (07: 3,271 and 06: 3,524). The equity ratio of the parent company, Metsäliitto Cooperative, was 54.6 per cent at year-end (07: 55.0 and 06: 51.7) and the net gearing ratio was 45 per cent (07: 37 and 06: 23).

Metsäliitto Cooperative's members' capital decreased by EUR 3.6 million net from January to December. The actual members' capital grew by EUR 3.4 million, the additional members' capital A decreased by EUR 4.8 million, and the additional members' capital B decreased by EUR 2.2 million. At year-end, Metsäliitto Cooperative had 129,267 members (07: 131,032 and 06: 131,139).

In September, Metsä Tissue signed a syndicated credit limit agreement of EUR 238 million. Its purpose is to refinance the current syndicated loan falling due in June 2009.

On 2 September 2008, Forest Oriental S.A., Metsä-Botnia's subsidiary in Uruguay which specialises in eucalyptus cultivation, received the approval of the Central Bank of Uruguay regarding registration of its program to issue a Corporate Bond for a nominal value of USD 100 million. The arranger issued the first series under the program with a nominal value of USD 35 million on 18 September 2008.

Personnel

The Group employed an average of 17,538 people in 2008 (07: 19,195 and 06: 23,809). At the end of December, the number of personnel totalled 16,729 (07: 17,838 and 06: 20,196). The parent company, Metsäliitto Cooperative, employed 3,217 people at the end of the year (07: 3,165 and 06: 3,158).

As of 1 December 2008, Ole Salvén, Group Executive Vice President, Woods Products Industry, was appointed Deputy to the CEO of Metsäliitto Cooperative, and Juha Mäntylä, Forest Director of Metsäliitto Group, was appointed Group Executive Vice President, Metsäliitto Wood Supply. Ilkka Hämälä assumed the position of President and CEO of Metsä-Botnia on 1 September 2008.

Salaries and fees paid to employees totalled 600 million (07: 675 and 06: 805). During the year, a Group-level position evaluation system was introduced and the bonus system harmonised.

In 2008, among other things, HR management focused on an HR data system implementation project supporting HR management and supervisory work. The project will progress step-by-step with its advantages seen by the end of 2010. The Group-level HR system will be used for storing, maintaining and reporting HR information, administering the Group's compensation management systems, and supervisory work.

Challenger, the first Group-level management development programme introduced in 2007 was continued. Challenger provides the participants with a comprehensive picture of the Group's business areas and strategy while improving their business management skills. The programme was supplemented with individual programmes designed for middle management, as well as special professional degree programmes (JET) in management. Production personnel competence was developed by different multi-skill training and by encouraging employees to complete vocational degrees.

Long-term personnel development was supported by regular development discussions in which 87 per cent of the Group's employees in Finland and 75 per cent in other countries participated. The Group's development discussion model was revised and harmonised in November.

At many Metsäliitto Group production units in Finland, production volumes and the number of personnel were reduced as a response to the new market situation. The statutory labour negotiations were conducted in a constructive spirit; the personnel were offered training and employment contracts were terminated in a responsible manner. Those employees made or at a risk of being made redundant were provided with change counselling and re-employment assistance. Moreover, competence was improved during the lay offs through training.

Metsäliitto Group is committed to promoting employees' occupational safety and well-being at work. Instead of corrective activities, the emphasis is on the development and promotion of well-being, health and safety at work, and on the early addressing of issues that constitute a threat to work capacity and work safety. In 2008, Group-level well-being and safety policies were announced, and a shared well-being at work programme was developed.

At the beginning of 2008, the Group introduced a centralised follow-up system concerning accidents, industrial diseases and absence due to illness. In the entire Group, there were 27.8 accidents resulting in more than one day sick leave per one million working hours (07: 22.5). Sick leave within the Group amounted to 4.2 per cent (07: 4.5) of regular work time.

Discontinued operations

The divestment of the Graphic Papers business was confirmed on 31 December 2008. In accordance with IFRS regulations, the result of the divested business is shown on the line "Result from discontinued operations" in the income statement after the result of Metsäliitto Group's continuing operations. The income statements of comparison years have been adjusted accordingly.

Investments, acquisitions and divestments

Metsäliitto Group's capital expenditure and corporate acquisitions totalled EUR 272 million (07: 493 and 06: 735). The figure includes the share of Metsä-Botnia's total investments corresponding to Metsäliitto's holding, EUR 52 million (07: 217 and 06: 302).

Investments in fixed assets

Operations at the Metsäliitto Wood Products Industry's new plywood upgrading mill in Suolahti began in the first half of the year.

The modernisation investment of Metsä-Botnia's Äänekoski mill's chlorine dioxide plant was introduced in the autumn. The investment reduces AOX (Adsorbable Organic Halogens) emission levels. Furthermore, the entire automation system of the Äänekoski mill was modernised.

In May, a second converting line was introduced at Metsä Tissue's Naro Fominsk distribution and converting unit in Russia. The line manufactures products under the Lambi, Mola and Katrin brands. In Krapkowice, Poland, Metsä Tissue started on the new hand towel rewinder production.

Acquisitions and divestments

In January, Metsäliitto Wood Products Industry strengthened its Building Solutions business by acquiring iLevel's European engineering wood operations from the Weyerhaeuser. The deal included the sales, distribution and technical support for iLevel's engineering wood products in Europe, and offers Wood Products Industry good conditions to expand and develop its operations in the UK, France and Germany in particular.

In February, M-real divested its New Thames paper mill in UK to DS Smith Plc. In September, M-real announced the sale of its Graphic Papers business to the South African company Sappi Limited. The sale was closed on 31 December 2008.

M-real's structural change in 2008

The profit improvement and business concept simplification programme M-real announced in November 2007 was implemented according to plan. As part of the programme, M-real shut down its BCTMP plant in Lielahti and paper machine 2 producing coated magazine paper at the Kangas mill. M-real's Publishing and Commercial Printing business areas were combined into the Graphic Papers business area, and a project to simplify the coated magazine paper operations and to lighten the sales and marketing organisation was initiated at the same time. The combined annual profit improvement objective of the programme, excluding the divested Graphic Papers business, totals EUR 105 million. The full effect on earnings will be reached by the end of 2010.

In February 2008, M-real announced an additional goal of reaching at least EUR 200 million from asset sales by the end of the first quarter of 2009. The goal was clearly exceeded when the Graphic Papers business was sold, and the value of the divestments amounted to over EUR 900 million in 2008.

The programme also included the divestment of the New Thames mill and 100,000 Pohjolan Voima B2 shares. Taking into account the pension commitments regarding the mill operations in the UK, the positive effect on cash flow by the divestment of the New Thames mill totalled approximately EUR 82 million, and a gain on sale of approximately EUR 24 million was booked for the deal. The positive effect on cash flow by the divestment of the Pohjolan Voima shares was EUR 80 million, and the non-recurring effect on earnings totalled EUR 74 million.

The sale of M-real's Graphic Papers business to Sappi Limited was closed in December 2008. The value of the transaction was EUR 750 million. The sales price consisted of EUR 480 million in cash and assumed debt, EUR 220 million in an interest-bearing vendor loan note (four years at maximum) from Sappi to M-real and EUR 50 million of newly issued shares in Sappi. The sale comprised the Kirkniemi and Kangas mills in Finland, the Stockstadt mill in Germany and the Biberist mill in Switzerland. The paper mills in Hallein, Gohrsmühle, Reflex and Äänekoski, as well as the Husum paper mill's paper machine 8, remained in M-real's ownership. After the closing of the transaction, Äänekoski and Husum will continue production for Sappi under a long-term contract. As part of the transaction, M-real and Sappi have also entered into a long-term agreement on the supply of pulp and BCTMP to Sappi, and other smaller services and supplies.

Business areas

Wood Supply

Wood Supply sales in 2008 were EUR 1,734 million (1,735) and operating profit amounted to EUR 30 million (38). The operating result includes approximately EUR 2 million (3) in non-recurring income. Wood Supply Finland accounted for EUR 1,188 million (1,196) of the sales and EUR 25 million (27) of the operating result.

The main reason for the operating result decline year on year was that the delivery volumes remained clearly below the level of 2007.

Metsäliitto supplied approximately 33 million cubic metres (36) of wood to its customers in 2008. Deliveries of wood, including in wood chips, to mills in Finland totalled 24.6 million cubic metres (27.9). Majority of it was acquired in Finland, mainly from members of Metsäliitto Cooperative. Wood imports amounted to 3.9 million cubic metres (3.6). Metsäliitto procured a total of 3.2 million cubic metres (2.8) of wood raw material from Russia.

In Finland, the wood trade was slow from the beginning of the year, due to which Metsäliitto Wood Supply failed to meet its quantity objectives. In the year under review, Metsäliitto purchased a total of 13 million cubic metres of wood (18) from Finnish private forests. Forest energy supply was impacted by the fact that final felling was less frequent than usual. In Finland, there was a shortage of pulpwood at the beginning of the year. Procurement was boosted by the Summer Logging 2008 campaign, which considerably increased the amount of summer thinning year on year.

Tax relief proposed by the Finnish government briefly allowed the wood trade to pick up in the summer and early autumn. In the latter part of the year, both the sawmill and the pulp industries reduced wood use due to production curtailments. During the entire year under review, pulpwood prices remained quite stable, but started a decline in the latter part of the year. Log prices decreased at the beginning of the year, became stable for a while and started a clear decline in the latter part of the year.

The organisation of Finnish Wood Supply was renewed with the aim of simplifying operational steering and of improving the services for owner-members. In connection with M-real's Graphic Papers business arrangements, Metsäliitto signed a long-term contract with Sappi Limited on wood delivery to the Kirkniemi mill.

Wood procurement in Russia prepared for the enactment of the timber customs duties. Wood Supply's corporate structure was streamlined, and wood procurement was curtailed. Wood supply for Metsä-Botnia's Svir Timber could be secured throughout the year despite the quite confused state of the Russian timber market, particularly in the latter part of the year.

In the Baltic countries, timber sales from private forests was at a low level, whereas the trading of timber sourced from government-owned forests was almost normal. The poor weather conditions reduced harvesting volumes. The high prices for pulpwood dropped rapidly during the year. For its customers in the Baltic countries and for its own production plants, Metsäliitto procured a total of 2.6 million cubic metres of timber (2.5).

In Central Europe and Sweden, the timber market was stable. The pulpwood shortage at the beginning of the year became an oversupply in the latter part of the year as a result of the production curtailments in the forest industry. All in all, a total of 5.7 million cubic metres of timber was procured (5.4).

Wood Products Industry

Wood Products Industry's sales totalled EUR 1,162 million (1,399), and the operating result excluding non-recurring items was EUR -53 million (87). Non-recurring items totalled EUR -21 million, and they were mainly related to cost provisions and write-downs at the Soinlahti, Teuva and Renko mills.

Throughout the entire year, the market environment of sawn timber products was extremely difficult, and starting in the autumn, the demand dropped more and more sharply. Moreover, the overcapacity in the European sawn timber market led to extremely intensive price competition. Metsäliitto Wood Products Industry's other business lines, where the proportion of upgrading and services is higher, achieved a positive result, but their profitability also weakened in the latter part of the year due to the market situation.

Solid Wood adjusted its operations according to the weakened demand by curtailing its production volumes by 20 per cent. Decisions were made to entirely close the Iisalmi-based Soinlahti sawmill at the end of 2008, and the Teuva sawmill, located in southern Osthrobothnia, in January 2009. Starting in the autumn, the production of plywood, Kerto products, I beams and glulam had to be curtailed as well.

The economic downturn showed as a considerable decline in new residential construction, and, to some extent, in building renovation. However, the decline was not as rapid in products intended for renovation and interior design.

To raise the degree of sawn timber processing, the Kaskinen mill deployed a new surface treatment line for the production of façade and exterior cladding products. In addition, yard and gardening products were further developed, and the Finnforest Kesto Plus product range was introduced.

The plywood business increased efficiency particularly by automating birch plywood production. The new plywood upgrading mill in Suolahti manufactures even more comprehensive and tailored products for the transportation and concrete mould industries, for example.

The Building Solutions business was reinforced in January as a result of the purchase of the US-based Weyerhauser's European iLevel business. The deal included the sales, distribution and technical support for engineering wood products in Europe.

The main reference in project expertise in 2008 was the delivery and installation of birch plywood lining to the 700-metre-long waiting hall of the 2E terminal of the Charles de Gaulle airport in Paris. The project strengthens the position of Metsäliitto Wood Products Industry as the leading provider of advanced wooden structures in Europe.

The range of the Upgrading and Distribution range was expanded to cover entirely ready products. The market position in France was reinforced by developing the distribution and delivery centre that was purchased in 2007. In the UK-based Boston unit, one of the largest processing lines in the field was installed, enabling flexible production and packaging of planed sawn timber products.

Wood Products Industry's investments during the year totalled EUR 36 million (32).

Pulp

Pulp Industry's sales stood at EUR 1,591 million (1,371), and operating result was EUR 209 million (186). Sales and result for the year under review were supported by the high price of pulp at the beginning of the year, and the US dollar which strengthened during the latter part of the year. The most significant factors weakening the result include the continuously high price of the wood raw material and the rapid decline in pulp prices and demand occurring in the latter part of the year. In November and December, production volumes were curtailed at all Metsä-Botnia mills.

At the beginning of the year, approximately 3 million metric tons of new hardwood pulp capacity was introduced to the pulp market. At year-end, almost two million metric tons of old pulp capacity was closed down in Canada and the Nordic countries due to poor timber availability and profitability. The impact of the pulp capacity shut down in the last quarter of 2008 and at the beginning of 2009 will not show until the latter part of 2009 after the producers' oversupply situation has ended.

The price for pulp decreased rapidly during the fourth quarter of the year under review. At the end of December, the price for softwood pulp was USD 638, and USD 580 for hardwood pulp, whereas the corresponding prices at the end of September were USD 850 and USD 800. On average, the foreign currency-denominated market prices for softwood pulp were 5 per cent higher and the prices for hardwood pulp were 10 per cent higher than in 2007. Conversely, the US dollar dropped approximately 7 per cent, so euro-denominated prices were at the level of the year 2007.

The overall production volume of Metsä-Botnia in 2008 was 3,298,000 metric tons (2,616,000). The first year of operation of the Uruguay mill was a great success. The mill achieved an annual production of 935,000 metric tons and met its tight quality and environmental objectives. However, the production volume of Finnish mills decreased by 6 per cent year on year, totalling 2,363,000 metric tons (2,517,000). During the year, the mills lost some of their price competitiveness due to the fact that their timber prices increase more quickly than those of foreign competitors and that the euro strengthened.

In November, the Kaskinen mill started statutory labour negotiations concerning a temporary discontinuance of operations, or closing down the mill. In January 2009, a decision was made to close down the mill during the first quarter of 2009.

Metsä-Botnia's investments in fixed assets totalled EUR 99 million (409). The most significant investments in Finland were the renewal of the automation system at the Äänekoski mill, pulp washing at the Kemi mill, and the reduction of emissions into the air at the Rauma mill.

M-real's result includes 30 per cent of Pulp Industry's operating result. In total, 53 per cent of the figures for the Pulp Industry are consolidated into Metsäliitto Group's financial statements.

Board and Paper

Board and Paper Industry's sales totalled EUR 3,236 million (3,499) for the continuing operations, and operating result excluding non-recurring items was EUR -35 million (75).

The result was weakened by the increased wood raw material and energy costs, the stronger euro against the US dollar and the British pound, and the rapid decline in the demand for products in the latter part of the year. The result was improved by the implemented cost savings measures and price increases, and the launch of the pulp mill in Uruguay in November 2007.

Net non-recurring items totalled EUR -26 million (-124) in January–December. In the first quarter of the year, M-real booked EUR 24 million as income. The income was related to the release of British pension liabilities as a result of the divestment of the New Thames mill operations, and from some other liabilities related to the shut-down of the Sittingbourne mill. Different cost provisions totalling EUR 1 million were booked as expenses. During the second quarter, M-real booked the EUR 74 million gain on the sale of Pohjolan Voima shares as income, and booked a EUR 2 million cost provision dealing with the sales network efficiency enhancement programme as an expense. The non-recurring items recognised in the operating result in July–September totalled EUR -11 million. They consisted of a EUR 13 million cost provision concerning the guarantee to the mill's energy supplier on behalf of the Pont Sainte Maxence (PSM) mill, sold in June 2006, the write-down of corresponding receivables from PSM and a EUR 2 million gain on the sale of land of mills sold at an earlier date.

In the fourth quarter of the year, M-real booked EUR 66 million in impairment loss for the Other Papers business area, EUR 16 million for Office Papers and EUR 4 million for Consumer Packaging. In addition, EUR 14 million were booked as cost provisions for boosting the structure as a result of the Sappi transaction, and EUR 10 million for closing down the New Thames sheeting line.

The operating result including non-recurring items was EUR -61 million (-49). Net interest and other financial expenses totalled EUR 155 million (141), income from associates was EUR -1 million (-3) and net exchange gains and losses booked as financial items were EUR 13 million (1).

The result for continuing operations before taxes was EUR -204 million (-192), earnings per share were EUR -0.55 (-0.51) and the return on capital employed was -1.3 per cent (-0.8). Excluding non-recurring items, the result before taxes was EUR -178 million (-68), earnings per share were EUR -0.48 (-0.17) and the return on capital employed was -0.5 per cent (2.8).

At the end of December, M-real's equity ratio was 30.8 per cent and net gearing was 90 per cent (31 December 2007: 34.4 and 99, respectively). In some of M-real's borrowing arrangements, a limit of 120 per cent has been set for net gearing and a limit of 30 per cent for the equity ratio. At the end of the year, net gearing calculated in the manner defined in the borrowing agreements was approximately 74 per cent (95) and the equity ratio about 36 per cent (36).

Tissue and Cooking Papers

Sales of Metsä Tissue, which produces tissue and cooking papers, stood at EUR 930 million (861), and its operating result was EUR 42 million (35). Sales increased by 8 per cent year on year. Growth was promoted by an increase in sales volumes (3%), increasing selling prices and changes in sales structure (5%). The sales of Metsä Tissue's own brands increased by 12 per cent in comparison with the previous year.

The steady development in Metsä Tissue's own brands and private label products contributed to the improvement in the result. The operating result includes approximately EUR 1 million in non-recurring expenses. The non-recurring items are caused by the closure of the Bork warehouse in Germany, and insurance indemnities concerning a warehouse fire in Zilina, Slovakia.

Regarding profitability, currency rate progress was unfavourable. However, negative effects caused by higher raw material, energy and transportation costs were successfully mitigated by making operations more effective and by increasing sales prices.

Business development in Russia developed as intended, and in May, local converting was launched in Naro Fominsk, located near Moscow. The new converting unit manufactures Katrin bulk consumer products and Lambi and Mola consumer products.

A roller towel line was transferred from the Swedish-based Mariestad mill to the Krapkowice mill in Poland, where production was launched during the summer. The Mariestad and Mänttä mills also carried out investments which improved product quality and production line efficiency.

A 36,000-square-metre warehouse building was completed in Düren, Germany, close to the company's Kreuzau mill, and opened in December. Earlier in the autumn, the warehouse in Bork, Germany, was closed and sold. The reforms will make the delivery chain more effective, and customer service will improve.

The ready-made product warehouse of the Slovakia-based Zilina mill burned down in March. Despite extensive damage, the impact on customers was minimised. New warehouse facilities will be completed during the first quarter of 2009.

In September, a new Serla cleaning paper was introduced to the Finnish market. The Serla toilet papers and tissues, and the look of the Serla and Mola brands, were renewed as well. In the large-scale consumer business, the Saga brand was integrated into the Katrin brand.

Metsä Tissue's investments during the year totalled EUR 33 million (25). The company will continue to invest in product development and its own brands.

Research and development

Metsäliitto Group carries out long-term work in order to make its products even more competitive and profitable. In 2008, the Group's research and development costs totalled EUR 25 million (07: 29 and 06: 32), representing 0.4 per cent of sales (07: 0.4 and 06: 0.4).

Metsäliitto Wood Supply invested in the development of a cost-efficient delivery chain based on new technology in order to fully exploit wood resources from thinning forests and peatlands. Through Metsäteho Oy, Wood Supply was involved in projects that concerned the development of wood availability and the infrastructure of the supply of wood.

The R&D work of Metsäliitto Wood Products Industry's Solid Wood business line focused on the development and utilisation of measuring technologies based on X-ray and the three-dimensional measurement of logs. These measurement technologies will improve the yield and the forwarding of the log raw material. The plywood product family became more comprehensive as production at the Suolahti upgrading mill began in spring 2008. Another key area of R&D was the delivery of demanding speciality products to the transport and concrete formwork industries.

For the past few years, Metsä-Botnia's R&D efforts have focused on the use of eucalyptus as a raw material and on developing eucalyptus pulp. In Uruguay, R&D efforts have covered the entire chain from the seedling nursery to the pulp mill. A special area of development at the Finnish mills has been to improve the characteristics of reinforcement pulp, boosting the quality and strength of wood-containing printing papers. The bleaching process at the Rauma mill was changed from TCF to ECF.

M-real's R&D efforts focused on developing product concepts and improving efficiency. Product concept renewal during the review year gave rise to the LITE4U packaging board concept and the Galerie Customer Programme service package concept for the magazine paper market. Product development efforts were rewarded with the launch of the new board product Carta Elega. Efficiency improvement projects were implemented mainly as mill projects.

Metsä Tissue launched a new Serla cleaning paper in the Finnish market, which is thicker and stronger than standard paper towels. Serla toilet papers and tissues were renewed. As a result of a new three-layer base paper, the tissue and toilet papers are thicker and softer than before. The manufacturing of Lambi Classic products was launched in Slovakia and Russia. In the German market, several new seasonal product concepts were introduced, combining coloured paper, topical patterns and fresh scents.

Environment

Metsäliitto Group's operations are based on the principle of continuous improvement and the minimisation of harmful impacts on the environment. Investments in new production facilities are carried out using Best Available Techniques (BAT). Nearly all of the Group's production units have implemented a certified ISO 9001 quality management system and an ISO 14001 environmental management system.

Metsäliitto Group's Climate Programme was launched at the beginning of the year. The programme will determine the objectives and measures to be taken in order to reduce the Group's impact on climate change. Some 300 energy efficiency development projects were started or completed during the year under review, resulting in a calculated reduction in CO_2 emissions by some 53,000 tonnes per year. The measures constitute cost savings of around EUR 20 million per year for the Group. New rationalisation projects are being evaluated and implemented on a continuous basis. A certified Energy Efficiency System (EES) will be implemented at all Metsäliitto Group production units by the end of 2009.

During the year under review, Metsäliitto Group's production units used a total of 25.8 TWh (24.2) of energy generated by fuels. Purchased electricity amounted to 3.2 TWh (3.7) and purchased heat 0.5 TWh (0.8). These collectively amounted to a total energy consumption of 34.2 TWh (34.4). Wood accounted for 77 per cent (67) of total production unit fuel consumption.

Carbon footprint calculations have been drawn up for a large number of Metsäliitto Group's products. The calculations provide interest groups with a clear picture of the climate change impact of Metsäliitto's products. The calculation adheres to the Carbon Footprint Framework for Paper and Board Products developed by the Confederation of European Paper Industries (CEPI). The calculation of company-specific carbon footprints was commenced during the year under review.

The Group's emissions into the atmosphere were as follows: carbon dioxide (CO_2) 1.5 million tonnes (1.5), sulphur (as SO_2) 3,878 tonnes (3,434) and nitrogen oxides (as NO_2) 8,014 tonnes (6,827). Discharges into water systems were: chemical oxygen demand (COD) 43,172 tonnes (41,693) and phosphorus 106 tonnes (86).

The environmental load and environmental risk reduction improvements carried out at the Group's mills during the year under review were focused on rationalising the consumption of raw materials, water and energy, and reducing emissions to air.

The guidelines for Group companies regarding REACH preregistration of raw materials and the training of responsible persons was completed. Metsä-Botnia, M-real and Metsä Tissue have pre-registered all of the substances that they manufacture for which REACH preregistration is required. These substances typically include the by-products and intermediate products of various processes, such as tall oil generated during pulp production and ash generated from the incineration of wastewater treatment plant sludge.

No significant deviations from environmental permit conditions occurred at the Group's production units, although a small number of minor, short-term deviations were recorded.

Metsäliitto's liabilities relating to its past activities have declined in recent years following the successful implementation of a series of land clean-up projects. Metsäliitto Group companies remain subject to environmental liabilities related to former industrial activities at sites that have since been closed, sold or leased, and from decommissioned landfill sites. Financial provision for the cost of land clean-up work has been made in cases where the Group's liability for land contamination has been defined.

Metsäliitto's environmental costs in 2008 amounted to EUR 81 million (86).

Metsäliitto is committed to responsible procurement of wood and wood fibre raw material. Wood supplied by Metsäliitto originates from sustainably managed forests and it is logged legally. The major part of the wood is sourced from Finland, mainly from the private forests of Metsäliitto's owner-members.

The certified quality and environmental management systems used by Metsäliitto Wood Supply include a wood origin management system. Thanks to this, Metsäliitto knows the origin of its wood, including wood that is not derived from certified forests. Many of the Group's production units have implemented certified Chain of Custody systems, enabling them to report the share of certified wood in their products.

Metsäliitto supports forest certification verified by credible, independent parties. During the year under review, 70 per cent (76) of the wood supplied to the Group mills originated from certified forests. The major part of this was PEFC certified. The common goal of the Group companies is to increase the share of certified wood in their products and to bring more forest certification labelled products to the market.

Metsäliitto Group's corporate responsibility affairs are discussed in greater detail in the Corporate Responsibility section of the annual report.

Risk management and risk factors

Metsäliitto Group assesses its strategic, operative, financial and liability risks regularly. The most significant risks and uncertainties involved in Metsäliitto's operations and how Metsäliitto has prepared for them are described below.

Global economic recession

In the main market areas, the demand for paper and board as well as wood products follows the general economic development. Due to the economic crisis resulting from financing markets, the demand for paper and board was rapidly decreased at the end of 2008. This affects Metsäliitto Group's profitability directly. The development of demand during the beginning of 2009 is highly uncertain.

Competitive environment

The balance between demand and supply affects the price level of products. During the past two years, the market balance has improved considerably thanks to capacity cuts, and several price increases have been implemented. The possible decline of demand may, if continued, have unfavourable affects on this balance. The unfavourable business cycles, or, the capacity increases by competitors may decrease prices. On the other hand, potential capacity closures by competitors could improve market dynamics.

Credit and other counterparty risks

The management of the credit risks involved in commercial activities is the responsibility of the business areas and the centralised credit control. The credit control defines the internal credit lines and the terms of payment for different customers together with the business areas. Part of the credit risks are transferred further to credit insurance companies by means of credit insurance contracts. The global financing crisis has also affected the financial standing of largest credit insurance companies and their risk tolerance. As a result from this, Metsäliitto Group's client credit risk has increased considerably during the past few months. The client credit risk is aimed to be reduced by improving and intensifying internal credit control and its processes.

The main principles for the company's credit control are defined in the credit policy approved by the Executive Management Team. Counterparty specific, approved maximum amounts are also applied to investments, derivatives and borrowing in order to ensure creditworthiness and to reduce risk concentrations.

Changes in consumer habits

In the future, changes in new communications technology, marketing channels and consumer habits may affect the demand for paper and board products.

The risks of increased costs in production and the availability of production inputs

A radical and unforeseen rise in the price of production inputs important for operations, such as wood raw material, energy or chemicals, or problems with their availability may reduce profitability. Metsäliitto attempts to hedge against this risk by entering into long-term supply agreements and derivative contracts for different time periods. The cost inflation risk in the current economic situation seems to be at a considerably lower level compared to previous years, at least temporarily.

Liability risks

Metsäliitto's business operations involve various types of liability risks, such as general operational liability risks, environmental risks and product liability risks. Attempts are made to manage these risks by improving business processes, practices, quality requirements and the transparency of operations. Part of the above mentioned risks have been transferred to insurance companies by means of insurance contracts.

Business interruption risks

Catastrophes, major accidents, natural catastrophes, serious malfunctions in critical information systems, labour disputes and delivery problems of the most important raw material suppliers, for example, may interrupt business operations and, in extreme cases, cause loss of customers. Business areas and mills have drawn up continuity and recovery plans for reducing these risks. In addition, some of the mill operation interruption risks have selectively been transferred to insurance companies.

Personnel

Metsäliitto Group has paid special attention to ensuring the availability and permanence of personnel by means of various development programmes and special measures. Metsäliitto attempts to prepare for a generational shift and other HR risks by means of career planning and work rotation of personnel.

Financial risks

The financial risks involved in business operations are managed in accordance with the financial policy approved by the Board of Directors. The policy defines detailed operating instructions for the management of the currency, interest rate, liquidity and counterparty risks and the use of derivative instruments, among other things. The aim is to hedge against significant financial risks, balance the cash flow and give the business units time to adjust their operations to changed conditions.

Events after the review period

At the beginning of the year, M-real announced a new management and reporting structure which includes the Consumer Packaging, Office Papers and Other Papers business segments and the Market Pulp and Energy reporting segment.

At the beginning of January, M-real announced that it would start statutory labour negotiations concerning Finnish mill operations. The negotiations cover approximately 1,500 employees. In January, statutory labour negotiations were also launched at M-real's Hallein mill in Austria. The negotiations concern about 480 employees, and the objective is to close down paper production by the end of April 2009. The strategic review for the Hallein pulp mill is in progress. The production of standard coated fine paper at M-real's Gohrsmühle mill in Germany will end in April, and related effects are being assessed. On the other hand, the mill will increase the production of specialty papers and uncoated fine paper rolls and folio sheets.

On 14 January, Metsä-Botnia announced the closure of the Kaskinen pulp mill during the first quarter of 2009. The closure will cause non-recurring costs totalling approximately EUR 75 million, of which EUR 20 million has an impact on cash flow. In January, Metsä-Botnia carried out statutory labour negotiations which also dealt with significant production curtailments at other Finnish mills during this year. At the first stage, the mills' production volumes will be continuously curtailed in order to reach a balance, and, if the market and stock situation so requires, production curtailment stoppages will be planned separately for each mill from now on.

In January, Metsäliitto Wood Products Industry announced that it would supply wooden structures for the Ideapark Commercial City, opened in 2011 in Kiiminki. With a floor area of over 100,000 square metres, the construction project, due to start in May 2009, will produce one of the biggest commercial buildings in Finland. On 27 January, Metsäliitto Wood Products Industry announced that it would suspend operations at the Kyröskoski sawmill until further notice due to heavily reduced demand and unprofitable sawmilling. If the overall prerequisites for profitable sawmilling return, the operations of the

Kyröskoski sawmill should resume after the summer – potentially with limited capacity.

On 5 February, M-real launched a new profit improvement programme with an annual target of EUR 80 million. The programme targets at savings in the business areas and streamlining the support functions to reflect the new company structure after the Sappi deal. The full impact on earnings will be reached from 2011. It is expected that the majority of the profit improvement measures regarding continuing business operations will be completed during the ongoing year. For 2009, the expected effect on earnings is approximately EUR 20–25 million. Non-recurring expenses related to the programme to be booked during 2009 are expected to be approximately EUR 18 million. At the same time, a separate programme was also launched with the aim of a EUR 60 million improvement in cash flow for 2009. The programme's measures include net working capital reduction and investment rationalisation.

Outlook

In 2009, Metsäliitto will increasingly centralise its wood procurement in Finland. The purchasing objective for private forests will be at the level of standard years, however, corresponding to the development of the production volumes of sawn timber and pulp. For timber trade, it is significant that the 50 per cent tax incentive provided by the Finnish State is valid during 2009. In 2010 the tax incentive is 25 per cent.

The wood products market situation continues to be difficult. Metsäliitto Wood Products Industry focuses its basic production and directs it better to upgrading, as well as develops its business more competitive according to the needs of the selected customer segments. Overcapacity in the sawn timber market continues, in particular for structural timber. The Solid Wood business line focuses on increasing the grade of processing. The demand for birch plywood continues to be weak. However, the Plywood business line continues to develop even more advanced solutions for its customers. The Building Solutions business line focuses on developing increasingly competitive products and systems that meet the continually tightening environmental and energy requirements. Although the demand for the wooden consumer products in the near future will be weak, the Upgrading and Distribution business line continues to develop its products and services within interior and exterior living in the main markets.

Due to the low capacity utilisation rates of paper mills, the pulp industry's outlook is weak. In fact, capacity has to be adjusted to meet demand, by carrying out substantial production curtailment. Cutting down the pulp production volumes at the Finnish mills will considerably reduce the need for the use of imported wood and will thus decrease the average wood cost.

The board price increases implemented by Board and Paper Industry at the end of last year will show in the early part of this year in the average prices for board. Folding boxboard prices are targeted to be increased later this year when market situation so enables. Despite the weakening demand for coated papers, the prices are targeted to be increased. For uncoated fine papers the need for price increases is great, however, due to the market situation their implementation is deferred to a later date. In the short term the aim is to maintain the current price level of uncoated fine papers. It is estimated that M-real's first-quarter operating result excluding non-recurring items is expected to improve seasonally from the fourth quarter of 2008 but to remain clearly negative.

The financial situation is not expected to have a considerable impact on the demand for tissue and cooking paper. However, it is expected that growth will slow down. The demand for large-scale consumer products may weaken due to the decrease in travel and services purchasing. On the other hand, the same trend may increase the demand for consumer products.

Metsäliitto Group's operating result excluding non-recurring items in the first quarter of 2009 is expected to be higher than in the previous quarter, but to remain weaker than in the first quarter last year. Due to the uncertain general financial situation, Metsäliitto will not provide an assessment for the entire year at this point.

Proposal for interest on members' capital

Metsäliitto Cooperative's Board of Directors has decided to propose to the Supervisory Board that, for 2008, interest of 5.5 per cent (6.5) be paid for the statutory capital invested by its members. Interest of 5.0 per cent (5.5) is proposed for additional members' capital A, and interest of 4.5 per cent (4.0) for additional members' capital B.

The proposal of the Board of Directors will be dealt with in March by Metsäliitto Cooperative's Supervisory Board, which, in turn, will make a proposal on the interest on members' capital to the Representative Council meeting in April.

Proposal for the distribution of the surplus 2008

Metsäliitto Cooperative

EUR		
Metsäliitto Group distributable funds at 31.12.2008		115,254,000.00
At the disposal of the Representative Council		
surplus of the period		-1,055,332.49
retained earnings from previous years		419,580,518.46
Total		418,525,185.97
The Board of Directors proposes,		
under Section 13, Subsection I,		
a transfer to general reserve II of		0.00
a dividend of		
5.5% be distributed on paid-in members' capital	10,427,008.66	
5.0% be distributed on paid-in additional members' capital A	25,894,670.09	
4.5% be distributed on paid-in additional members' capital B	1,034,175.40	37,355,854.15
to be retained on the surplus and deficit account		381,169,331.82
Total		418,525,185.97
If the Representative Council approves the above proposal,		
the members' funds will be		
Members' capital		190,138,684.84
Additional members' capital A		512,285,364.26
Additional members' capital B		21,940,896.10
General reserve I		3,939,904.28
General reserve II		42,549,940.00
Surplus and deficit account		381,169,331.82
Members' funds total		1,152,024,121.30

Espoo, 5 February 2009

Martti Asunta Chairman	Kari Jordan Vice Chairman President & CEO	Mikael Aminoff
Eino Halonen	Arto Hiltunen	Saini Jääskeläinen
Juha Parpala	Timo Saukkonen	Antti Tukeva

Consolidated income statement

EUR million	Note	1.1.-31.12.2008	1.1.-31.12.2007
Continuing operations			
Sales	3, 5	**6,434**	**6,797**
Change in stocks of finished goods and work in progress		-28	82
Other operating income	6	239	92
Materials and services	7	-4,345	-4,536
Employee costs	7	-893	-974
Depreciation, amortization and impairment charges	8	-482	-589
Other operating expenses	7	-923	-829
Operating result		**2**	**44**
Share of profit from associated companies		6	12
Net exchange gains/losses	9	19	5
Interest and other financial expenses, net	9	-260	-220
Result before tax		**-233**	**-160**
Income taxes	10	60	-24
Result from continuing operations		**-172**	**-183**
Discontinued operations			
Result from discontinued operations		-338	-27
Result for the period		**-511**	**-211**
Attributable to:			
Shareholders of parent company		-213	-9
Minority interest		-297	-202
		-511	**-211**

Consolidated balance sheet

EUR million	Note	31.12.2008	31.12.2007
ASSETS			
Non-current assets			
Goodwill	11	176	319
Other intangible assets	11	88	70
Tangible assets	11	2,958	4,021
Biological assets	12	103	83
Investments in associated companies	13	139	133
Available-for-sale investments	14	493	377
Non-current financial assets	15	234	40
Deferred tax receivables	16	61	46
		4,252	**5,090**
Current assets			
Inventories	17	943	1,132
Accounts receivables and other receivables	18	956	1,289
Current income tax receivables		52	47
Derivative finacial instruments	26	77	49
Cash and cash equivalent	19	619	428
		2,647	**2,945**
Total assets		**6,899**	**8,035**
MEMBERS' FUNDS AND LIABILITIES			
Equity attributable to holders of parent company			
Members' capital	20	585	574
Share premium account	20	30	30
Translation differences	20	-5	-7
Fair value and other reserves	20	165	148
Retained earnings	20	329	583
		1,104	1,328
Minority interest		682	978
Total members' funds		**1,786**	**2,306**
Non-current liabilities			
Deferred tax liabilities	16	328	404
Post employment benefit obligations	21	131	195
Provisions	22	111	83
Capital note loans	23	0	49
Borrowings	23	2,854	2,961
Other liabilities	24	26	50
		3,449	**3,742**
Current liabilities			
Capital note loans	23	50	91
Current borrowings	23	640	656
Accounts payable and other liabilities	25	918	1,173
Current income tax liabilities		12	47
Derivative financial instruments	26	44	19
		1,664	**1,987**
Total liabilities		**5,113**	**5,729**
Total members' funds and liabilities		**6,899**	**8,035**

Consolidated statement of changes in members' funds

	Equity attributable to members of parent company							
EUR million	Members' capital	Share premium account	Translation differences	Fair value and other reserves	Retained earnings	Total	Minority interest	Total
Members' funds 1 Jan. 2007	**577**	**30**	**6**	**136**	**628**	**1,377**	**1,194**	**2,571**
Currency flow hedges								
gains/losses recorded in equity				3		3	5	8
transferred to adjustments of sales				-9		-9	-14	-22
Interest flow hedges								
gains/losses recorded in equity				0		0	0	0
transferred to adjustments of financial items						0		0
Commodity hedges								
gains/losses recorded in equity				6		6	6	12
transferred to adjustments of purchases				4		4	6	9
Available-for-sale investments								
gains/losses arising from fair valuation				8		8	0	8
transferred to other operating income						0		0
Translation differences			-26			-26	-19	-45
Gains/losses on hedging net investments			17			17	16	33
Other items					-4	-4	-1	-5
Taxes on items recorded in or transferred from equity			-4	-3		-7	-5	-13
Income and expenses recognised directly in equity	0	0	-13	8	-4	-9	-5	-14
Net result for the period					-9	-9	-202	-211
Recognised income and expenses, total	**0**	**0**	**-13**	**8**	**-13**	**-18**	**-207**	**-225**
Dividends paid					-29	-29	-13	-42
Increase in members' capital/other increase	-2					-2		-2
Increase in share premium reserve						0		0
Increase in fair value reserve				0		0		0
Transfer from unrestricted to restricted equity				3	-3	0		0
Business combinations						0	4	4
	-2	0	0	3	-32	-31	-9	-40
Members' funds 31 Dec. 2007	**574**	**30**	**-7**	**148**	**583**	**1,328**	**978**	**2,306**
Members' funds 1 Jan. 2008	574	30	-7	148	583	1,328	978	2,306
Currency flow hedges								
gains/losses recorded in equity				-9		-9	-13	-23
transferred to adjustments of sales				1		1	2	3
Interest flow hedges								
gains/losses recorded in equity				-3		-3	-2	-5
transferred to adjustments of financial items				0		0	0	-1
Commodity hedges								
gains/losses recorded in equity				-16		-16	-14	-29
transferred to adjustments of purchases				0		0	0	0
Available-for-sale investments								
gains/losses arising from fair valuation				54		54	71	125
transferred to other operating income				-11		-11	-17	-28
Translation differences			-5			-5	-3	-8
Gains/losses on hedging net investments			10			10	11	21
Other items					-1	-1	0	-1
Taxes on items recorded in or transferred from equity			-2	-4		-6	-10	-16
Income and expenses recognised directly in equity	0	0	3	12	-1	14	25	39
Net result for the period					-213	-213	-297	-511
Recognised income and expenses, total	**0**	**0**	**3**	**12**	**-214**	**-199**	**-272**	**-472**
Dividends paid					-35	-35	-13	-48
Increase in members' capital/other increase	11					11		11
Increase in share premium reserve		0				0		0
Increase in fair value reserve						0		0
Transfer from unrestricted to restricted equity				6	-6	0		0
Business combinations						0	-10	-10
	11	0	0	6	-41	-24	-24	-48
Members' funds 31 Dec. 2008	**585**	**30**	**-5**	**165**	**329**	**1,104**	**682**	**1,786**

Consolidated cash flow statement

EUR million	2008	2007
Cash flow from operating activities		
Result for the period	-511	-211
Adjustments to the result [1)]	832	857
Interest received	21	15
Interest paid	-266	-261
Dividends received	3	4
Other financial items, net	3	-23
Income taxes paid	-58	-78
Change in working capital [2)]	88	-34
Net cash flow from operating activities	**113**	**270**
Cash flow arising from investing activities		
Acquisition of subsidiary shares, net of cash	-3	-40
Acquisition of shares in associated companies	0	-4
Acquisition of other shares	-1	-1
Capital expenditure	-268	-447
Proceeds from disposal of subsidiary shares, net of cash	396	360
Proceeds from disposal of shares in associated companies	0	0
Proceeds from disposal of other shares	82	12
Proceeds from sale of fixed assets	15	53
Proceeds from/increase in long-term receivables	18	22
Net cash flow arising from investing activities	**239**	**-45**
Cash flow arising from financing activities		
Proceeds from non-current liabilities	600	230
Payments of non-current liabilities	-773	-291
Proceeds from/payments of current liabilities, net	79	-76
Change in current interest-bearing receivables, net	-6	118
Dividends paid	-55	-51
Increase in members' funds	-1	29
Net cash flow arising from financing activities	**-157**	**-41**
Change in cash and cash equivalents	**195**	**184**
Cash and cash equivalents at beginning of period	428	246
Translation adjustments	-4	-3
Change in cash and cash equivalents	195	184
Cash and cash equivalents at end of period	**619**	**428**
Notes to the consolidated cash flow statement		
1) Adjustments to the result		
Taxes	-76	31
Depreciation, amortization and impairment charges	736	709
Biological assets	0	-2
Share of results in associated companies	-6	-12
Gains and losses on sale of fixed assets	-81	-103
Finance costs, net	254	243
Provisions	5	-9
Total	832	857
2) Change in working capital		
Inventories (increase-/decrease+)	55	-142
Accounts receivables and other receivables (increase-/decrease+)	22	-45
Accounts payable and other liabilities (increase+/decrease-)	11	152
Total (increase-/decrease+)	88	-34

Notes to the accounts

1. Accounting policies

The principal accounting policies to be adopted in the preparation of the consolidated financial statements are as follows.

Main operations

Metsäliitto Cooperative is a Finnish cooperative that is domiciled in Helsinki. The address is Revontulentie 6, 02100 Espoo.

Metsäliitto Cooperative and its subsidiaries form a corporation which focuses on wood supply, wood products, pulp industry, board and paper production and tissue paper production. The Metsäliitto Group is divided into four reporting segments: Consumer Packaging, Papers, Wood Products and Others. The segment Others include wood supply, tissue papers and other unallocated functions. The Group has production facilities in 13 different countries. The Group's core market area is Europe.

Accounting policies and measurement bases

The Metsäliitto Group's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). The financial statements were authorized for issue by the Board of Directors on 5 February, 2009.

The financial statements have been prepared based on historical costs, except for biological assets, derivative contracts and certain other financial assets and liabilities that have been measured at fair value.

Use of estimates in the financial statements

The preparation of financial statements in accordance with IFRS calls for the use of estimates and assumptions. These estimates and assumptions affect the value of balance sheet items at the closing date, the disclosure of contingent assets and liabilities and the amounts of revenue and expenses during the reporting period. The estimates are based on management's best assessment at the balance sheet date, but actual amounts may differ from the estimates made.

Impairment of non-current assets

The Group tests goodwill and intangible assets with indefinite useful lives at least once a year for impairment. Other non-current assets are tested when there are indications that the value has been impaired. The value in use approach has been adopted in impairment testing. The estimated discounted future cash flows can vary from actual cash flows due to long useful lives of assets, changes in estimated prices of product and product costs and changes in the discount rates. These could lead to significant impairment charges.

Employee benefits

The Group operates in different countries a mixture of both defined benefit and defined contribution plans. Several statistical and other actuarial assumptions are used in calculating the expense and liability related to the plans. Among these assumptions there is the discount rate, expected return on plan assets, changes in future compensation and withdrawal. Statistical information may differ materially from actual results due to changes in economic conditions and changes in service period of plan participants among others. Changes in actuarial assumptions may have significant effect on Group´s profit or loss, but the effect of these changes is not recorded immediately but for the employees´ remaining average period of service.

Environmental provisions

Group´s operations are mainly based on own pulp and paper production. Remarkable amount of wood, chemicals, water and energy is used in processes. Group´s objective is to operate in compliance with regulations related to environmental issues and to reduce among others emissions to air and to water. The goal for wood supply and wood harvesting is also to preserve the forest biodiversity. The Group has recorded provisions for normal environmental liabilities. Unexpected events which may happen during production processes and waste treatment may cause substantial losses and additional costs.

Income taxes

The Group reviews at the end of each reporting period whether it is probable that sufficient taxable profit will be available, against which a deductible temporary differences i.e. deferred tax receivables, can be utilized. The actual outcome may differ from the factors used in estimates. This can lead to significant recognition of tax receivables as tax expense in the income statement.

PRINCIPLES OF CONSOLIDATION

Subsidiaries

The consolidated financial statements include the accounts of the parent company Metsäliitto Cooperative and all those subsidiaries in which the parent company controls at the end of the year, directly or indirectly, over 50 per cent of the voting rights or it otherwise exercises control of the company.

The financial period of all companies ended on 31 December 2008. Subsidiaries acquired 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 sale.

The financial statements of subsidiaries have been translated, as necessary, to be in line with the accounting policies applied in the Group's financial statements. Intra-Group shareholdings have been eliminated using the purchase method. The acquisition cost in excess of a subsidiary's equity at the time of purchase is allocated to the subsidiary's property, plant and equipment if its carrying value is lower than the fair value. The portion allocated to property, plant and equipment is depreciated according to the plan for the category of property, plant and equipment in question. The unallocated portion is stated as goodwill on the assets side of the balance sheet. If the Group's portion of the aquired company's net assets to fair value exceeds the acquisition cost, the difference is recorded in the income statement.

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 separated out from Group profit attributable to shareholders of the parent and from shareholders' equity and presented as a separate item under equity.

Associated companies

Associated companies are companies in which Metsäliitto Cooperative, either directly or indirectly, has a 20-50 per cent holding of the voting rights or a significant influence but over which it does not have control. Associated companies are included in the consolidated financial statements using the equity method. Metsäliitto's share of the results of associated companies is stated in the income statement on the line "Share of profits from associated companies". The Group's portion of the net assets of associates, together with the goodwill having arisen on the acquisition (less accumulated impairment charges), is presented in the balance sheet on the line "Investments in associated companies". Equity accounting is discontinued when the carrying amount of the investment in associated company has decreased to zero, unless the Group has incurred or guaranteed obligations in respect of the associated company.

Joint ventures

Joint ventures are entities in which a company enters into a contractual arrangement whereby it shares control over the finances and operations together with other parties. The Group's holdings in joint ventures are consolidated using the proportionate method line by line. Accordingly, Metsäliitto's consolidated financial statements include an amount of the joint ventures' assets, liabilities, revenue and expenses corresponding to the company's holding in them. Oy Metsä-Botnia Ab, Äänevoima Oy, Ääneverkko Oy, Vapo Oy and Katrinefors Kraftvärme Ab have been consolidated on a proportionate basis line by line.

Transactions in foreign currency

The Metsäliitto Group's functional currency is the euro. Transactions denominated in foreign currency are translated into functional currency using the exchange rate on the transaction date. Receivables and liabilities in foreign currencies are translated into functional currency using the exchange rates prevailing at the balance sheet date. Exchange gains and losses arising from such translations are recorded under "Financial income and expenses" with the exception of liabilities classified as hedges for net investment in a foreign entity, for which the currency gains and losses are entered for the part of hedge proven effective in the translation differences in shareholders' equity.

The income statements of Group companies whose reporting currencies are other than euro are translated into euros using average exchange rates for the reporting period, and their balance sheets at the exchange rates prevailing at the balance sheet date. Translation differences arising on translation and on applying the purchase method of consolidation are entered in shareholders' equity. In conjunction with divestments of subsidiaries, either by selling or by dissolving, translation differences accumulated by the time of divestment are entered in the income statement as part of the gain or loss from the divestment.

Financial assets

Financial assets have been classified according to the IAS standards as follows: 1) Financial assets at fair value through profit or loss, 2) Held-to-maturity investments, 3) Loans and other receivables and 4) Available-for-sale financial assets. Categorisation depends on the purpose for which the assets were acquired and is made at the time they were originally recorded. Financial asset purchases and sales are recorded at the settlement date.

Investments acquired for trading have been classified as financial assets at fair value through profit or loss. These are mainly stock exchange listed bonds. Financial assets held for trading have been recognized at fair value based on price quotations in the market. Unrealised and realised gains and losses due to changes in fair value are recognized immediately in the income statement during the financial period in which they are incurred.

Held-to-maturity investments include those investments which the Group has full intention and ability to retain until the date of their maturity. Loans and other receivables comprise external loan receivables. Financial assets designated in these categories are carried at amortised cost using the effective interest method.

Available-for-sale financial assets consists of listed companies and other companies. The fair value of listed companies are based on public quotation for shares at the balance date. The most important shareholding of not quoted companies consists of 3 per cent stake in Finnish energy company Pohjolan Voima Oy. The ownership in Pohjolan Voima Oy is fair valued quarterly using discounted cash flow method. The changes in fair value are recorded in fair value reserve in equity and transferred from shareholders' equity to profit and loss account when the investment is sold or its value is impaired so that an impairment shall be charged for the investment. Other shares in not quoted companies, where the fair value cannot be measured reliably are carried at cost less any impairment losses.

An impairment of financial assets must be charged, if the book value of the financial asset exceeds the amount of money obtainable for it, the assessment of which is based on, for example, the debtor's financial difficulties, neglect of payment or disappearance of an active market for the item in question.

Cash and cash equivalents comprise cash in hand, deposits held at call with banks and other short-term highly liquid investments. Cash and cash equivalents includes items with original maturities of three months or less.

Financial liabilities

All the Group's financial liabilities are included under "Other liabilities" and loans are not classified as "Financial liabilities at fair value through profit or loss". Financial liabilities entered in the accounts are valued at cost equal to the fair value of the equivalent. Transaction costs are included in the original carrying value of all financial liabilities. All financial liabilities are later carried at amortized cost using the effective interest method.

Derivative financial instruments and hedge accounting

Derivative financial instruments are initially recognized in the balance sheet at cost and thereafter during their term-to-maturity are revalued at their fair value. Gains and losses resulting from recognition at fair value are treated in accounting as required with regard to the intended use of the derivative in question. Derivatives are initially classified either as 1) Hedges of the exposure to changes in fair value of receivables, liabilities or firm commitments, 2) Hedges of the cash flow from a highly probable forecast transaction, 3) Hedges of a net investment in a foreign entity, 4) Derivatives to which it has been decided not to apply hedge accounting or 5) Derivatives used for trading. Derivatives that do not qualify for hedge accounting are classified as financial assets or financial liabilities at fair value through profit or loss.

When applying hedge accounting, at the inception of a hedging relationship the Group has documented the relationship between the hedged item and the hedging instruments as well as the hedging strategy observed. To meet the requirements of hedge accounting, the Group has also continuously carried out effectiveness testing to verify that changes in the fair value of the hedging instrument for each hedging relationship cover effectively enough, with respect to the hedged risk, any changes in the fair value of the hedged item.

The fair value of derivatives is disclosed in current non-interest-bearing receivables or liabilities. The fair values of derivatives classified in accordance with the applied accounting practice are presented in Notes to the accounts no. 26. The maturity analysis of cash flow hedge accounting is presented in Notes to the accounts no. 27.

Currency hedging

To hedge its foreign currency exposure, the Group has partly applied hedge accounting in accordance with IAS 39 as so-called cash flow hedge. The forecast cash flow from M-real's and Metsä Tissue's sales in USD, GBP and SEK has been separately defined as the object of hedge accounting. A change in the fair value of a derivative hedge (currency forward contracts) proven effective is entered directly in shareholders' equity in the fair value reserve, and only after the realisation of the forecasted sales transaction it is entered in the income statement as an adjustment of the hedged transaction. Changes in the fair value of other currency derivatives to hedge foreign currency exposure are recognized immediately under financial items in the income statement. The fair values of forward foreign exchange contracts are based on forward prices prevailing at the balance sheet date, and currency options are stated at market rates in accordance with the Black&Scholes model.

The hedging of a net investment in a foreign entity is dealt with in the books like cash flow hedge. Changes in the fair value of a derivative and loan hedge proven effective are recognized directly against the translation differences accumulated in shareholders' equity. The ineffective portion of the hedge as well as the effect of the interest rate element of forward exchange contracts are recorded in financial income and expenses in the income statement.

Interest hedging

To hedge the fair value of separately defined loans with derivatives contracts (interest rate swaps and currency swaps), the Group has applied hedge accounting in accordance with IAS 39 as so-called fair value hedge. Changes in the fair value of both defined loans and derivative contracts that meet the criteria for effective hedge accounting are recognized in financial income and expenses through profit and loss. The fair value of loans is calculated in respect of interest rate risk and currency risk elements, but any changes in the company's credit risk premium have not been taken into account.

Moreover, to hedge its interest rate exposure, the Group has partly applied hedge accounting in accordance with IAS 39 to hedging of contractual cash flows of floating interest rates of loans as so-called cash flow hedge. A change in the fair value of derivative contracts (interest rate swaps) is entered directly in shareholders' equity in fair value reserve.

All other interest rate derivatives, to which hedge accounting is not applied, are stated at their fair value, and changes in fair value are recognized under financial items in the income statement. The fair values of forward rate agreements, interest rate futures and options are based on quoted market rates at the balance sheet date, and interest rate swaps and currency swaps are measured at the present value of future cash flows, with the calculation based on market interest rate yield curve.

Commodity risk hedging

To hedge its electricity price risk exposure, the Group has partly applied hedge accounting in accordance with IAS 39 as so-called cash flow hedge. A separately defined portion of the highly probable forecast cash flow of M-real's and Metsä Tissue's electricity purchases in Finland and Sweden is the object of hedge accounting. Hedge accounting is also applied in hedging Metsä Tissue's and Metsä-Botnia's pulp price risk as a so called cash flow hedge. A change in the fair value of a derivative hedge (forward electricity and pulp contracts) proven effective is entered directly in shareholders' equity in fair value reserve, and only after the realisation of the forecast electricity purchases it is entered in the income statement as an adjustment of the hedged purchases. The ineffective part of electricity and pulp derivatives classified to hedge accounting and other electricity, oil and pulp derivatives hedging commodity price risk are recognized at market rates at the balance sheet date, and changes in fair value are entered in the income statement under "Other income and expenses".

Embedded derivatives are valued at fair value, and changes in fair value are entered under financial items in the income statement. The Group's most significant embedded derivative has been the Metsäliitto Cooperative's capital note loan due in 2008. An annual interest and at maturity, an additional return per note was declared depending on the price of M-real Series B shares and the dividend paid.

Segment reporting

The Group's primary segment reporting is based on business segments and secondary segment reporting on geographical segments. Business segments are defined in accordance with the Group's management organization and internal reporting.

Transactions between segments are based on market prices. All sales and other transactions between segments are eliminated on consolidation. The same accounting policies are applied in segment reporting as for the Group as a whole.

The result reported for the segments is operating result (result before financial income and expenses). The assets of a segment include all the assets of the units belonging to the segment, except for assets related to financing and taxes. Goodwill arising on the acquisition of subsidiaries is allocated to the business segments in accordance with the matching principle. Segment liabilities include all the operating liabilities of the units belonging to the segment (all liabilities excluding liabilities relating to financing and taxes).

Non-current assets held for sale and discontinued operations

An asset item/operation is classified as held for sale when the amount corresponding to its carrying value will be generated primarily from sale of the asset item. Classification as held for sale calls for management's commitment to a plan setting out the sale and a programme of measures aiming at implementation of the plan launched by the Group.

Asset items classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Asset items classified as held for sale are not depreciated or amortized.

A discontinued operation is one which the Group has disposed of or that is classified as held for sale and represents a separate major line of business or geographical area of operations. The profit or loss from discontinued operations after tax is shown as a separate item in the consolidated income statement.

Recognition of income

Sales are calculated after deducting indirect sales taxes, trade discounts and other items adjusting sales. Revenue from the sale of goods is recognized as income when the significant risks and benefits associated with ownership of the products have passed to the purchaser and the seller no longer has an actual right of possession or control over the products. Revenue from the sale of services is recorded when the services have been rendered.

Income and expenses from long-term projects are recognized according to their degree of completion once the outcome of the project can be reliably estimated. The degree of a project's completion shall correspond to the share of its projected total cost represented by the work carried out up to the date of evaluation. Once it becomes probable that the total cost required to complete the project will exceed the total revenue gained from it, the expected loss is immediately recognized as an expense.

Delivery and handling costs

Costs arising from the delivery and handling of goods are recorded in operating expenses in the income statement.

Research and development expenditure

Research and development expenditure is recognized as an expense at the time it is incurred. Development expenditure is capitalized if it meets the criteria for capitalization. To date, Metsäliitto has not capitalized any R&D expenditure.

Borrowing costs

Borrowing costs are generally recognized as an expense in the period in which they are incurred. When an item of property, plant and equipment is involved in a major and long-term investment project, the borrowing costs directly due to the acquisition and construction of the asset are included in the asset's cost. Transaction expenses directly due to obtaining loans are deducted from the original cost of said loan and periodized as interest expense using the effective interest rate method and assets classified as held for sale.

Income taxes

Tax expense in the income statement is comprised of the current tax and deferred taxes. Income taxes are recorded on an accrual basis for the taxable income of each reporting unit, applying the tax rate in force in each country at that time. Taxes are adjusted for any taxes for previous periods.

Deferred taxes and tax receivables are calculated on all the temporary differences between the accounting value and the tax base. The largest temporary differences arise from depreciation on property plant and equipment. The temporary differences arise also from measurement at fair value of the balance sheets of acquired companies at the time of purchase, measurement of available-for-sale financial assets and derivative instruments at fair value, defined-benefit pension plans and unused tax losses.

Deferred taxes have been calculated by applying the tax rates in force by the balance sheet date. Tax receivables are recognized to the extent that it is probable that taxable profit will be available against which a deductible temporary difference can be utilized.

INTANGIBLE ASSETS

Goodwill

Goodwill is the portion of the cost of an acquired subsidiary, associated company or joint venture which exceeds the fair value of its net identifiable assets at the time of purchase.

Goodwill is not amortized but is tested at least annually to determine any impairment. Goodwill is measured at cost less accumulated impairment losses.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. An impairment loss is recognised when the recoverable amount of the cash-generating unit is less than the carrying amount of that unit. The impairment loss is allocated first to any goodwill allocated to that unit and then to the other assets of the unit on a pro-rata basis based on the carrying amount of each asset in the unit. An impairment loss is recorded as an expense in the income statement in the reporting period during which the impairment has been determined. An impairment loss recognised for goodwill is not reversed in subsequent periods.

The gain or loss on disposal of an entity includes the carrying amount of goodwill allocated to that entity.

Computer software

Expenditure on developing and building significant new computer software programs are recognized in the balance sheet as an intangible asset and amortized over its useful life, which is not to exceed seven years. Direct expenses to be capitalized include consultancy and expert advisory fees paid to outside parties, software licences obtained for the application, staff costs to the extent that they can be allocated directly to the project as well as other direct costs. Maintenance and operating expenditure related to computer software and EDP applications is recorded as an expense in the reporting period in which it has been incurred.

Other intangible assets

The cost of patents, licences and trademarks having a finite useful life is capitalized in the balance sheet under intangible assets and amortized on a straight-line basis over their useful lives in 5-20 years. Intangible assets having an infinite useful life are not amortized but tested yearly for impairment.

Emission rights

Allowances received by the governments free of charge have initially been recognised as intangible assets and the corresponding government grant as advance payment in liabilities based on fair value at the date of initial recognition. Allowances are measured at its cost or at their fair value if less. Allowances are not amortized. The emissions produced are recognised as cost and as liability together with the corresponding government grant as income both based on the value at the date of initial recognition. So rights consumed that are within the original range have no positive or negative effect on profit for the period. The costs of purchasing additional rights to cover only excess emissions or the sale of unused rights have effect on profit.

Property, plant and equipment

Property, plant and equipment is measured at original cost. The property, plant and equipment of acquired subsidiaries is measured at fair value at the time of the purchase. Property, plant and equipment is presented in the balance sheet at cost less accumulated depreciation and impairment losses. For investments in property, plant and equipment requiring a long construction time, the interest incurred during construction is capitalized in the balance sheet as part of the asset for the time that is necessary for bringing the asset to working condition for its intended use. Property, plant and equipment is depreciated on a straight-line basis over the following expected useful lives:

Buildings and constructions	20–40 years
Heavy power plant machinery	20–40 years
Other heavy machinery	15–20 years
Lightweight machinery and equipment	5–15 years
Other	3–10 years

Land and water areas are not depreciated. If the significant parts of an item of property, plant and equipment have useful lives of differing length, each part is depreciated separately.

The estimated economic lives are reviewed at each balance sheet date and if they differ significantly from previous estimates, the depreciation periods are altered accordingly.

Expenditures arising from large-sized modernization and improvement projects are capitalized in the balance sheet if it is probable that the economic benefit resulting from the projects will exceed the estimated revenue originally obtainable from the asset item that is to be modernized. Other expenditure related to repair and maintenance is expensed in the period in which it is incurred.

Gains and losses arising on the sale and decommissioning of items of property, plant and equipment are calculated as the difference between the net revenue obtained and the carrying amount. Capital gains and losses are included in operating result in the income statement.

When a non-current item of property, plant and equipment is classified as available-for-sale, the recording of depreciation on that asset is discontinued. A non-current asset held for sale is measured at the lower of the carrying amount or the fair value less the expenses necessary to make the sale.

Government grants

Government grants received for the purpose of purchasing property, plant and equipment and similar are entered as deferred income in balance sheet liabilities and recognized in other operating income during the actual useful life of the asset. Other grants are recorded as other operating income in the income statement for the financial periods during which they are matched with the corresponding expenses.

Leases

Leases on property, plant and equipment for which the Group assumes substantially all the risks and rewards incident to ownership of the asset are classified as finance lease agreements. A finance lease agreement is recognized in the balance sheet at an amount equal at the inception of the lease to the fair value of the leased property or, if lower, at the present value of the minimum lease payments. The corresponding lease payment liability is recorded in interest-bearing liabilities under other non-current liabilities. An asset obtained on a finance lease is depreciated over the useful life of the asset or, if shorter, the lease term. Lease payments are split between financial expenses and a reduction in the lease liabilities.

Lease agreements in which the risks and rewards incident to ownership remain with the lessor are treated as other lease agreements (operating leases). Lease payments under an operating lease are recognized as an expense in the income statement on a straightline basis over the lease term.

Impairments

Asset carrying values are measured at the end of each reporting period to determine any impairment. To facilitate impairment testing, the Group's assets are divided into identifiable smaller units that are substantially independent of the cash flows generated by other units. The carrying values of these cash-generating identifiable assets are always tested when there are indications that the value of the asset has been impaired, and any impairments are recorded as an expense. Nonetheless, those cash-generating units to which goodwill has been allocated are subjected to an impairment test annually.

The recoverable amount of an asset is the higher of its net selling price or fair value. Value in use is determined by discounting estimated future net cash flows.

An impairment loss recognized on an item of property, plant and equipment in prior periods is reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. Following such a reversal, the value of the asset item must not exceed the carrying amount which it had, less depreciation, prior to the recording of the impairment loss.

An impairment loss recognized for goodwill is not reversed in subsequent periods.

Biological assets

Biological assets (living trees) are measured at fair value less the estimated expenses of making a sale. The fair value of a stand of trees, excluding young seedlings, is based on the present value of expected cash flows (revenue and expenses). The calculations take into account the future growth of the stand as well as the environmental protection-related limits on the forests. The calculation of income from fellings and silvicultural costs is based on the prevailing price level as well as the company's view of the future trend in prices and costs. Changes in the fair value of a stand of trees are included in operating profit during the financial period.

Inventories

Inventories are measured at the lower of cost and net realizable value. The cost of finished and semi-finished products comprises raw materials, direct labour expenses, other direct expenses as well as an appropriate share of fixed and variable production overheads. The normal capacity of the production facilities is used as the divisor in allocating overheads to the different production units.

The value of inventories is determined using the FIFO (first-in, first-out) method or, alternatively, the weighted average cost method. Net realizable value is the estimated selling price that is obtainable less the costs of completion and the costs necessary to make the sale.

Accounts receivables

Accounts receivables are measured at the expected net realizable value, which is the original invoicing value less estimated impairment provisions on the receivables. Provisions are set up case by case when there is a justifiable reason to assume that the Group will not receive payment for the invoiced amount according to the original terms.

Equity

In the Finnish financial statements, the members' capital and the additional members' capital of the parent company Metsäliitto Cooperative are included in the equity in full. In IFRS reporting, financial instruments are classified either as financial liabilities or equity instruments. Under the IFRIC 2 interpretation "Members' Shares in Co-operative Entities and Similar Instruments", shares for which the members have an unconditional right to redemption in accordance with the cooperative's by-laws are classified as financial liabilities. The by-laws of Metsäliitto Cooperative specify the maximum amount of members' capital that may be redeemed annually. The amount available for redemption of members' capital and additional members' capital corresponds to 1/3 of distributable surplus confirmed in the most recent balance sheet. This amount is recognized as an interest-bearing financial liability in the financial statements.

Provisions

A provision is recognized in the balance sheet when the Group has a legal or constructive obligation as a result of a past event and it is probable that settlement of the obligation will require a financial payment or cause a financial loss, and a reliable estimate can be made of the amount of the obligation. If some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recorded in the balance sheet as a separate asset, but only if it is virtually certain that reimbursement will be received.

Restructuring

A restructuring provision is recorded for the financial period when the Group has incurred a legal or constructive obligation to make a payment. Termination payments are recorded when a detailed plan has been made of the restructuring and the main points of the plan have been communicated to the employees who are affected by the arrangement.

Environmental obligations

Costs arising from environmental remediation which do not increase present or future revenue are recorded as annual expenses. Environmental liabilities are recorded in accordance with present environmental protection laws and regulations when it is probable that the obligation which has arisen and its amount can be estimated reasonably.

EMPLOYEE BENEFITS

Pension benefits

The Group has, in different countries, pension plans that comply with each country's local regulations and practices. Most of the pension plans are defined-contribution plans. The Group also has defined-benefit pension plans. They define pension security benefits, unemployment compensation and any post-employment benefits. The pension plans are funded by employer and employee contributions to pension insurance companies or a pension foundation on the basis of actuarial pension liability calculations. Under defined-benefit plans, the employer is generally responsible for ensuring that the former and present employees belonging to the plan receive the benefits defined in the plan's statutes.

In defined-benefit plans, the pension liability is stated as the present value of future pension contributions at the balance sheet date less the fair value of plan assets at the balance sheet date and adjusted for actuarial gains and losses as well as for past service costs. The pension liability is calculated by independent actuaries. Pension liabilities are recorded as pension obligations under balance sheet liabilities.

Pension expenditure is recorded in the income statement as an expense, periodizing it over employee's period of service. Actuarial gains and losses, to the extent they exceed the corridor set, are recorded for employees' remaining average period of service.

For defined-contribution pension plans, pension contributions are paid to insurance companies based on the work performed during the employee's period of service, after which the Group no longer has other pension obligations. The Group's payments into defined-contribution plans are recorded as an expense in the period during which the obligation was incurred.

Share-based payment

A share based incentive program has been established for company´s top executives. This compensation plan is recognized as equity-settled or cash-settled share-based payment transactions depending on the settlement. The possible reward of the incentive program is based on Metsäliitto Group´s operating profit and return on capital employed and is paid partly in M-real´s B shares and partly in money. Shares are valued using market value on the grant date.

Dividends payable

Dividends payable by the company are recorded as a decrease in equity in the period during which shareholders, in a general meeting, have approved the dividend for payment.

Comparative figures

When necessary, comparative figures have been classified to conform to changes in presentation in the current year. In June 2008 M-real Group announced that the shares in Finnish energy company Pohjolan Voima Oy have been fair valued. Comparative information has been restated. In September 2008 M-real Group announced the sale of Graphic Papers business. Graphic Papers business has been classified as discontinued operation. The post-tax result and the loss on disposal have been shown as a separate item in the consolidated income statement after the result from continuing operations.

New and amended standards and interpretation that are effective in 2008, but not relevant to the group's financial statements

IAS 39 (Amendment) and IFRS 7 (Amendment), 'Reclassification of financial assets'. The amendment permits an entity to reclassify non-derivative financial assets out of the held for trading category and from the available-for-sale category in particular circumstances and with certain criteria. In case of reclassification additional disclosures are required. The amendment is effective from 1 July 2008. The group has not applied the treatment allowed by the amendment during the financial year.

Application of new and amended IFRS standards and IFRIC interpretations

The IASB has published the following standards and interpretations whose application will be mandatory in 2009 or later. The group has not early adopted these standards, but will adopt them in later periods.

The following standards and interpretations will be adopted by the group in 2009:

IAS 1 (Revised), 'Presentation of Financial Statements'. The revised standard is aimed at improving users' ability to analyse and compare the information given in financial statements by separating changes in equity of an entity arising from transactions with owners from other changes in equity. Non-owner changed in equity will be presented in the statement of comprehensive income. The group will in the future present both the income statement and statement of comprehensive income.

Amendment to IAS 23, 'Borrowing Costs'. The amended standard requires an entity to capitalise borrowing costs directly attributable to a qualifying asset as part of the cost of that asset. The option of immediately expensing those borrowing costs will be removed. The amendment does not change the accounting policy applied by the group and therefore, does not have any impact on the group's financial statements.

Amendments to IAS 32, 'Financial Instruments: Presentation' and IAS 1, 'Presentation of Financial Statements' - Puttable Financial Instruments and Obligations Arising on Liquidation. The amendments require some puttable financial instruments and some financial instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation to be classified as equity. The change in the standard may cause changes to the classification of the Group balance sheet under IFRS.*

Amendment to IFRS 2, 'Share-based payment', clarifies that only service conditions and performance conditions are vesting conditions. All other features need to be included in the grant date fair value and do not impact the number of awards expected to vest or the valuation subsequent to grant date. The amendment also specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The amendment is not expected to have an impact on the group's financial statements.

IFRS 8, 'Operating Segments'. The new standard replaces IAS 14. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. The segments reported by the group will in the future be consistent with the internal reporting.

IFRIC 11, 'IFRS 2 – Group and treasury share transactions'. The interpretation provides guidance on whether share-based transactions involving treasury shares or involving group entities should be accounted for as equity settled or cash-settled share-based payment transactions in the stand-alone accounts of the parent and group companies. The interpretation will not have a material impact on the group's financial statements.

IFRIC 14, 'IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction'. The interpretation is applied to post-employment defined benefit plans and other long-term defined benefit plans under IAS 19, if the plan includes minimum funding requirements. The interpretation also clarifies the criteria for recognition of an asset on future refunds or reductions in future contributions. The interpretation will not have a material impact on the group's financial statements.

IFRIC 16, 'Hedges of a Net Investment in a Foreign Operation'. IFRIC 16 clarifies the accounting treatment in respect of a hedge of a net investment in a foreign operation. This includes the fact that net investment hedging relates to differences in functional currency not presentation currency. In addition hedging instruments may be held anywhere in the group. The requirements of IAS 21, 'The effects of changes in foreign exchange rates', do apply to the hedged item. Management assesses that the interpretation will increase the group's possibilities to apply hedge accounting, but the impact on the group's financial statements will most likely not be material.*

The IASB published changes to 34 standards in May 2008 as part of the annual Improvements to IFRSs project. The following presentation includes those changes, that the group will adopt in 2009 and where the management assesses that the change may have an impact on the group's financial statements:

IAS 1 (Amendment), 'Presentation of financial statements'. The amendment clarifies that some rather than all financial assets classified as held for trading in accordance with IAS 39 are current assets. Management assesses that the amendment will not have a material impact on the financial statements of the group.*

IAS 19 (Amendment), 'Employee benefits'. The amendment clarifies among others things that a plan amendment that results in a change in the extent to which benefit promises are affected by future salary increases is a curtailment, while an amendment that changes benefits attributable to past service gives rise to a negative past service cost if it results in a reduction in the present value of the defined benefit obligation. Management assesses that the amendment will not have a material impact on the financial statements of the group.*

IAS 23 (Amendment), 'Borrowing costs'. The definition of borrowing costs has been amended so that interest expense is calculated using the effective interest method defined in IAS 39. Management assesses that the amendment will not have a material impact on the financial statements of the group.*

IAS 27 (Amendment), 'Consolidated and separate financial statements'. Where an investment in a subsidiary that is accounted for under IAS 39, 'Financial instruments: recognition and measurement', is classified as held for sale under IFRS 5, 'Non-current assets held-for-sale and discontinued operations', IAS 39 would continue to be applied. Management assesses that the amendment will not have a material impact on the financial statements of the group.*

IAS 28 (Amendment), 'Investments in associates' (and consequential amendments to IAS 32, 'Financial Instruments: Presentation', and IFRS 7, 'Financial instruments: Disclosures'). An investment in an associate is treated as a single asset for the purposes of impairment testing. Any impairment loss is not allocated to specific assets included within the investment, for example, goodwill. Reversals of impairment are recorded as an adjustment to the investment balance to the extent that the recoverable amount of the associate increases. Management assesses that the amendment will not have a material impact on the financial statements of the group.*

IAS 36 (Amendment), 'Impairment of assets'. Where fair value less costs to sell is calculated on the basis of discounted cash flows, disclosures equivalent to those for value-in-use calculation should be made. The change to the standard will increase the amount of information presented on impairment testing in the notes to the financial statements of the group.*

IAS 39 (Amendment), 'Financial instruments: Recognition and measurement'. The amendment clarifies among other things the classification of derivative instruments where there is a change in the hedge accounting, the definition of financial asset or financial liability at fair value through profit or loss and requires use of a revised effective interest rate to remeasure the carrying amount of a debt instrument on cessation of fair value hedge accounting. Management assesses that the amendment will not have a material impact on the financial statements of the group.*

IAS 41 (Amendment), 'Agriculture'. The amended standard requires the use of a market-based discount rate where fair value calculations are based on discounted cash flows and removes the prohibition on taking into account biological transformation when calculating fair value. Management assesses that the amendment will not have a material impact on the financial statements of the group.*

The following new standards and interpretations effective in 2009 are not relevant to the financial statements of the group:

IFRS 1 (Amendment) 'First time adoption of IFRS', and IAS 27 'Consolidated and separate financial statements'. The amended standard allows first-time adopters to use a deemed cost of either fair value or the carrying amount under previous accounting practice to measure the initial cost of investments in subsidiaries, jointly controlled entities and associates in the separate financial statements. The amendment also removes the definition of the cost method from IAS 27 and replaces it with a requirement to present dividends as income in the separate financial statements of the investor. The amendment does not have an impact on the group's financial statements, and the group companies are not applying IFRS in their stand alone financial statements.*

IFRIC 13, 'Customer Loyalty Programmes'. The interpretation clarifies that where goods or services are sold together with a customer loyalty incentive, the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement using fair values. IFRIC 13 will not have an effect on the group's financial statements as none of the group's companies operate loyalty programmes.

IFRIC 15, 'Agreements for the Construction of Real Estate'. The interpretation clarifies whether an agreement for the construction of real estate is within the scope of IAS 11, 'Construction Contracts', or IAS 18, 'Revenue', and when revenue from such construction projects can be recognised on a percentage of completion basis. This interpretation does not have an impact on the group's financial statements.*

The following standards and interpretations published by the IASB will be adopted by the group in 2010:

IFRS 3 (Revised), 'Business combinations'. The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with some contingent payments subsequently remeasured at fair value through income. Goodwill may be calculated based on the parent's share of net assets or it may include goodwill related to the minority interest. All transaction costs will be expensed. Management is assessing the impact of this revision on the financial statements of the group.*

IAS 27 (Revised), 'Consolidated and separate financial statements'. The revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control. They will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is remeasured to fair value and a gain or loss is recognised in profit or loss. Management is assessing the impact of this revision on the financial statements of the group.*

IAS 39 (Amendment), 'Financial instruments: Recognition and measurement – Eligible Hedged Items'. The amendment prohibits designating inflation as a hedgeable component of a fixed rate debt. It also prohibits including time value in the one-sided hedged risk when designating options as hedges. This amendment does not have an impact on the group's financial statements.*

IFRS 5 (Amendment), 'Non-current assets held-for-sale and discontinued operations' (and consequential amendment to IFRS 1, 'First-time adoption'). The amendment is part of the IASB's annual improvements project published in May 2008. The amendment clarifies that all of a subsidiary's assets and liabilities are classified as held for sale if a partial disposal sale plan results in loss of control. Relevant disclosure should be made for this subsidiary if the definition of a discontinued operation is met. A consequential amendment to IFRS 1 states that these amendments are applied prospectively from the date of transition to IFRSs. Management is assessing the impact of this revision on the financial statements of the group.*

IFRIC 17, 'Distributions of non-cash assets to owners'. The interpretation clarifies how an entity should measure distributions of assets other than cash made as a dividend to its owners. This amendment does not have an impact on the group's financial statements.*

The following new standards and interpretations effective in 2010 are not relevant to the financial statements of the group:

IFRIC 12, 'Service Concession Arrangements'. The interpretation applies to contractual arrangements whereby a private sector operator participates in the development, financing, operation and maintenance of infrastructure for public sector services.*

* The standard / interpretation is still subject to endorsement by the European Union.

2. Management of financial risks

The financial risks associated with business operations are managed in accordance with the financial policy endorsed by the Board of Directors and the senior management of the Group. The policy defines focal instructions on the management of foreign currency, interest rate, liquidity and counterparty risks, and for the use of derivative financial instruments. Correspondingly, commodity risks are managed according to the Group's commodity risk policy. The purpose is to protect the company against major financial and commodity risks, to balance the cash flow and to allow the business units time to adjust their operations to changing conditions.

Metsä Group Financial Services Oy (Metsä Finance) is specialized in finance and functions as the Group's internal bank. M-real's holding in Metsä Finance is 51per cent, and Metsäliitto Cooperative's holding is 49 per cent. Financial operations have been centralised to Metsä Finance, which is in charge of managing the Group companies' financial positions according to the strategy and financial policy, providing necessary financial services within the Metsäliitto Group and acting as an advisor in financial matters.

Foreign currency risk

The Group's foreign currency exposure consists of the risks associated with foreign currency flows, translation risk of net investments in foreign entities and economic currency exposure. Most of the Group's costs are incurred in the euro zone zone and to some extent in Sweden, but a significant part of the sales is in other currencies. Sales revenue may therefore vary because of changes in exchange rates, while production costs remain unchanged. Product prices are also often quoted in currencies other than the home currency. In the foreign currency transaction exposure, which consists of foreign currency denominated sales revenue and costs, are included foreign currency denominated sales receivables, accounts payable, received orders and a certain part of the forecast net currency cash flow.

The main currencies of the Group's foreign currency transaction exposure are the US dollar, the British pound and the Swedish krona. A strengthening of the dollar and the pound has a positive impact on the financial result and a weakening a negative impact. A weakening of the Swedish krona has a positive impact on the result. Other significant currencies are AUD, CAD, CHF, DKK and NOK. The hedging policy is to keep an amount corresponding to three months' cash flows of all contractual or estimated currency flows consistently hedged. The hedging level can, however vary between 0-12 months as the financial policy has defined separate risk mandates for deviating from the norm hedging. The Board of Directors of each Group company decides on significant changes in the hedging level if they see a reason to deviate from the norm set out in the financial policy. The amount of currency-specific hedging depends on current exchange rates and market expectations, on the interest rate differences between the currencies and the significance of the exchange rate risk for the financial result. The transaction exposure is mainly hedged by forward transactions but also by the use of foreign currency loans and currency options.

Hedge accounting in accordance with IAS 39 is applied partially to the hedging of the currency transaction exposure, which allows fair value changes of hedges designated to hedge accounting to be entered directly in shareholders' equity in fair value reserve. At the end of the reporting period, the foreign exchange flow position had been hedged 3.8 months on average. During the reporting period, the hedging level has varied between 3 and 5 months. The dollar's hedging level was 2.7 months, of which the portion of hedge accounting was 1.1 months. The Swedish krona's hedging level was 5.1 months, of which the portion of hedge accounting was 4.7 months. The pound's hedging level was 4.6 months, of which the portion of hedge accounting was 0.9 months. Hedges allocated to hedge accounting have been used to hedge the portion of highly probable forecast sales of the currency transaction exposure.

The translation risk of a net investment in a foreign entity is generated from the consolidation of the equity of subsidiaries and associated companies outside the euro area into euros in the consolidated financial statements. According to the financial policy, 50-100 per cent of equity should be hedged. The translation risk of equity has been hedged through the use of forward transactions and foreign currency loans and the position has been mostly kept hedged in all the main currencies. Hedge accounting in accordance with IAS is applied to the hedging of the equity exposure. This allows the exchange gains and losses of effective hedging to be entered into the equity offsetting translation differences. During the reporting period, on average 82 per cent of the equity position was hedged and at the end of the reporting period 78 per cent.

The Group applies the Value-at-Risk method to assess the risk of its open foreign currency positions. The VaR is calculated on the deviation from the three-month foreign currency exposure hedge norm defined in the financial policy. A 99 per cent confidence level on one month period is applied to the VaR risk figure, i.e., the VaR indicates that with a 1 per cent probability the market value of the open foreign currency position depreciates more than the amount of the risk figure in a month. The risk mandates regarding hedging decisions have been defined by restricting the company management's powers by linking them to maximum currency-specific hedging level changes and to a VaR limit. Possible strategic decisions which exceed the policy risk limits are made by the Board of Directors. The total amount of limits set for the Group companies´ foreign currency risk is EUR 25.0 million and the sum of VaR figures of the Group companies is at the end of the reporting period EUR 20.9 million. Average during the period has been EUR 14.8 million. The risk figure has been relatively high, as the hedging levels of the major currencies have from time to time been higher than the three-month hedging norm. The Value-at-Risk method is also used to assess the market risk of Metsä Finance's trading operations. Trading volume has been relatively low during the reporting year: Metsä Finance's average VaR (of one day at 99 per cent) was only EUR 0.18 million in 2008. The volumes and fair values of derivatives used in the management of foreign currency risks are presented in Notes no. 26.

Hedging of foreign exchange transaction exposure

	Exposure, net		Hedging, months	
	EUR	Hedging	31.12	Average
USD	549	-125	2.7	3.9
GBP	306	-118	4.6	4.6
SEK	-416	179	5.2	5.9
NOK	78	-15	2.3	2.9
DKK	73	-19	3.1	2.3
AUD	25	-7	3.3	3.3
Other long	78	-16	2.4	1.7
Other short	-106	39	4.4	4.5
Total 2008	1,631	-518	3.8	4.3
Total 2007	1,949	-746	4.6	5.1

Hedging of net investments in a foreign entity

	Equity exposure		Hedging, %	
	EUR	Hedging	31.12	Average
USD	395	-263	67	73
GBP	84	-84	100	100
SEK	450	-386	86	96
CHF	0	0	0	99
Others	99	-27	27	28
Total 2008	1,028	-760	74	78
Total 2007	1,122	-947	84	83

Interest rate risks

The interest rate risk is related mainly in the interest bearing receivables and loans and currency hedging. The most significant currencies in risk management are the euro, the US dollar, the British pound and the Swedish krona. The objective of the interest rate risk policy is to minimise the negative impact of interest rate changes on the result and the financial position, and to optimise financing costs within the framework of risk limits. The effect of interest rate changes on financial costs depends on the average interest fixing time of interest bearing assets and liabilities, which is measured in the Group by duration. As duration diminishes the rise of interest rates affects more quickly the interest expenses of financial liabilities. The maturity of the loan portfolio can be influenced, e.g., by adjusting between floating-rate and fixed-rate loans and by using interest rate derivatives. The Group uses in its interest rate risk management interest rate swaps, interest rate futures and interest rate options.

The average interest duration norm based on the Group's financial policy is 6 months. The duration can, however, deviate from the hedging policy norm so that the decision of a deviation exceeding four months has to be made by the Board of Directors. The average duration of loans was 5.3 months at the end of the year. During the reporting period duration has varied between 4 and 7 months. At the end of 2008, an increase of one per cent in interest rates would increase interest rate costs of the next 12 months by EUR 15.3 million.

The Group is exposed to a risk of change in the value of derivatives due to a change in market prices when using interest rate derivatives, since according to IAS 39 derivatives must be valued to their fair value in the balance sheet. However, the partial application of hedge accounting will balance the effects of changes in the market value of derivatives on the financial result. The Group is applying fair value hedge accounting in accordance with IAS 39 to fixed-rate loans which have been converted by interest rate and currency swaps to floating-rate financing. In addition, the Group is applying cash flow hedge accounting in accordance with IAS 39 to the major part of the interest rate swaps by which floating-rate financing has been converted to fixed-rate financing. The gross nominal volume of interest rate derivatives at the time of financial statements (including currency swap contracts) is EUR 1,284 million, of which the portion of reversed contracts is EUR 20 million. Of

Interest rate risk	**2008**	**2007**
Loan amount, EUR million	3,396	3,604
Duration, months	5.3	7.0
Average interest rate, %	6.6	6.9
Interest rate sensitivity, EUR million	15.3	15.3

Interest rate sensitivity is an estimate of the effect of aninterest rate change of one per cent on net interest cost based on year-end exposure.

the derivatives portfolio, EUR 859 million is allocated to hedge accounting, and the portion of derivatives recognized in the balance sheet through profit or loss is EUR 405 million. The maturity of interest rate swap contracts varies between 1–8 years, and the maturity of currency swap contracts between 1–6 years.

Re-pricing structure of loans

EUR million	Total
1–4/2009	2,239
5–8/2009	673
9–12/2009	193
2010	168
2011	25
2012	7
>2012	91
Total	3,396

Commodity risk

In the hedging of commodity risks the Group applies risk management policies defined separately for each selected commodity. According to the policy, the management of commodity risks with regard to derivatives is accomplished by Metsä Finance based on the strategy approved by Board of Directors of Metsäliitto Group companies. So far the commodity hedging policy is applied to the management of the price risks of electricity and natural gas. Also transactions related to Emission rights are managed by Metsä Finance.

Group's target in managing the electricity price risk is to balance the effect of changes in the price of electricity on the Group's result and financial position. The main principle is to hedge the electricity purchase exposure, which consists of the difference of factory-specific electricity consumption estimates and power plant production shares in the possession of the Group. With regard to M-real and Metsä Tissue Finnish and Swedish electricity procurement, the hedge strategy is implemented in cooperation with energy departments of the Group companies through Metsä Finance. The Central European energy unit will implement the hedging of Central Europe's electricity price risks according to instructions of energy departments of the Group companies either by physical contracts or by financial contracts through Metsä Finance. M-real and Metsä Tissue hedge the electricity price risk actively by setting the hedging norm at 85, 55 and 25 per cent share of the estimated net position during the first, second and third successive 12-month periods. Hedge accounting in accordance with IAS 39 has been applied partially to electricity hedging. Consequently the fair value of hedges allocated to hedge accounting is entered in equity in fair value reserve and only after the realisation of electricity purchases in the income statement as an adjustment of the purchases. The management of electricity price risk of Metsäliitto Wood Products Industry is handled by an external service provider.

Approximately a third of mills' use of fuel is based on natural gas. The hedging of natural gas price risks has been done with physical, fixed-price contracts. In Finland only the oil-related portion of the contract has been fixed. The prices of natural gas have typically been fixed to Fuel-Oil and/or Gas-Oil prices. In addition, the prices of gas supply to Finland have been fixed to the development of coal import price and the energy price index. The premise of natural gas price risk hedging is, however, to hedge only the oil-related part of the contract by using oil derivatives and fixed-priced physical supply contracts. The hedging strategy is based on a risk policy according to which energy departments of the Group companies make the hedging decisions, and the Board of Directors of Group companies make significant strategic decisions.

Approximately 70 per cent of electricity hedges have been carried out by using physical supply contracts and 30 per cent as so-called financial hedges by using electricity derivatives. At the end of the year about 88 per cent of financial hedges have been designated to hedge accounting. All natural gas price risk hedges have so far been implemented by using physical supply contracts.

The continuous hedging of the Group companies' pulp price risk has not been seen as justified in the framework of the current operative model. However, pulp derivatives are used selectively to hedge individual commercial positions generated in the Group companies. Hedge accounting in accordance with IAS is applied within the pulp price risk management.

The volumes and fair values of derivatives used in the management of commodity risks are presented in Notes no. 26.

Liquidity risk

Liquidity risk is defined as the risk that funds and available funding become insufficient to meet business needs, or that extra costs are incurred in arranging the necessary financing. Liquidity risk is monitored by estimating the need for liquidity needs 12-24 months ahead and ensuring that the total liquidity available will cover a main part of this need. According to the financial policy, the liquidity reserve must at all times cover 80-100 per cent of the Group´s liquidity requirement for the first 12 months and 50-100 per cent of the following 12-24 months liquidity requirement. The objective is that at the most 20 per cent of the Group's loans, including committed credit facilities, is allowed to mature within the next 12 months and at least 35 per cent of the total debt must have a maturity in excess of four years. Another target is to avoid keeping extra liquidity as liquid funds and instead maintain a liquidity reserve as committed credit facilities outside the balance sheet.

The cornerstone of liquidity risk management is to manage the Group's operative decisions in such a way that targets concerning indebtedness and sufficient liquidity reserve can be secured in all economic conditions. Liquidity risk is also managed by diversifying the use of capital and money markets to decrease dependency on any single financing source. The optimisation of the maturity structure of loans is also emphasized in financial decisions. The Group has been able to significantly stabilise the maturity structure of long-term loans by M-real Eurobond issues and Metsäliitto´s syndicated revolving credit facility and domestic bond issues in 2006, Metsä Tissue's syndicated loan facility in 2008 and divestments during the years 2006-2008.

Liquidity is on a good level. At the end of 2008 liquidity was improved by the sales of M-real's Graphic Papers business to Sappi Limited. The available liquidity was EUR 1,808 million at the end of the reporting period, of which EUR 1,189 million was committed credit facilities and 619 million liquid funds and investments. In addition the Group had other interest-bearing receivables EUR 260 million, of which 220 million notes issued by Sappi Limited are tradable at the secondary market. The Group had also at its disposal short-term, uncommitted commercial paper programmes and credit lines amounting to around EUR 600 million. At the end of 2008, the liquidity reserve covers fully the forecasted financing need of 2009 and also the major part of financing need of 2010. On the longer term the re-financing need is crucially affected by the cash flow development, possible future divestments and the repayment schedule of Sappi Limited loan receivable. 22 per cent of long-term loans and committed facilities fall due in a 12 month period and 31 percent have a maturity of over four years. The average maturity of long-term loans is 2.8 years. The share of short-term financing of the Group's interest bearing liabilities is 7 per cent.

Counterparty risk

Financial instruments carry the risk that the Group may incur losses should the counterparty be unable to meet its commitments. Such risk is managed by entering into financial transactions only with most creditworthy counterparties and within pre-determined limits. During the reporting period, credit risks of financial instruments did not result in any losses. The financial counterparty risk is limited by the fact that the liquidity reserve is partially maintained in the form of committed credit facilities. Cash at bank and in hand, and other investments have been spread to several banks and commercial papers of several institutions. Counterparty limits have been adjusted towards the end of the year 2008 by taking into account the influence of the finance crisis to the financial position of the used counterparties. Derivatives trading is regulated by the standardised ISDA contracts made with the counterparties.

The Group's sales receivables carry a counterparty risk that the Group may incur losses should the counterparty be unable to meet its commitments. Credit risk attached to sales receivables is managed on the basis of the credit risk management policies approved by operative management. Accounts receivable performance is followed monthly by Risk Management Team and/or Credit Control of each Group company. Credit quality of customers is assessed at regular intervals based on the customers' financial statements, payment behaviour, credit agencies and credit ratings agencies. Individual credit limits are reviewed at least annually. From time to time, as deemed necessary by management, Letters of Credits, bank and parent company guarantees and Credit insurance are used to mitigate credit risk. Credit limits are approved according to credit risk management policy with approval limits of varying values across the Group. Credit Control reviews and sets all major credit limits which are not supported by credit insurance and/or other security.

The portion of overdue client receivables of all sales receivables of Metsäliitto Group is at the time of financial statements 14.4 per cent, of which 0.6 per cent is overdue between 90-180 days and 0.8 per cent over 180 days. Additionally during 2007, M-real adopted a regular impairment tests for customer accounts receivable are carried out, with material credit loss impairment booked when a customer enters legal bankruptcy, or becomes past due for more than 6 months (180 days) without a valid payment plan or other valid reasons. The specification of doubtful receivables is in Notes no. 18.

The geographical structure of the accounts receivable is diversified and is reflecting the external sales structure presented in the Segment information. Largest sources of credit risk exist in Great Britain, Germany, Italy, France and Spain. The share of largest individual customer (individual companies or groups of companies under common ownership) credit risk exposure of the Group at the end of 2008 remains below 10 per cent of total accounts receivable. Below a fifth of accounts receivable was owed by ten customer groups (individual companies or groups of companies under common ownership).

The final weeks of the year saw a substantial increase in overdue payments. Despite heightened collection activity, it is expected that the percentage of late payments will continue at a higher level than in previous years due to the recessions affecting the majority of our markets and challenging corporate finance environment.

While it is group policy to purchase credit insurance for substantially all of our trade receivables, the credit insurance market has appetite for approving credit limits diminished substantially during the final quarter of the year. It is expected that the percentage of customers which cannot be covered with credit insurance will increase further in 2009. Group's internal analysis of customer credit risk is however well placed to manage those credit risks where insurance cover is not available.

Managing the capital structure

In managing the capital structure, the Group aims at maintaining an efficient capital structure that ensures the Group's operational conditions in financial and capital markets in all circumstances despite the fluctuations typical to the sector. In the Group's operative business, central target values, which correspond to standard requirements set by financing and capital markets, have been defined for the capital structure. The Group's capital structure is regularly assessed by the Group's Board of Directors and its Audit Committee (grounded in 2007). The Group monitors the development of its capital structure through a key ratio that describes net gearing. The calculation formula of the key ratio is presented in the Annual Report. The objective of the Group is to maintain the net gearing ratio at the maximum level of 100 per cent on average when counted over the trade cycle.

The key ratios describing the capital structure and the capital amounts used for the calculation of the key ratio were on 31.12.2008 and 31.12.2007 the following:

EUR million	2008	2007
Net gearing ratio, %	149	142
Interest-bearing liabilities	3,545	3,758
- Interest-bearing financial assets	879	487
Interest-bearing net liabilities	2,666	3,271
Equity attributable to shareholders of parent company	1,104	1,328
+ Minority interest	682	978
Total	1,786	2,306

In certain loan contracts of Metsäliitto Cooperative and its subsidiaries, a minimum limit has been set for the Group's equity ratio and a maximum limit for the Group's net gearing ratio. With regard to defining the equity, the calculation formula of key ratios as defined in the loan contracts deviates from the calculation formulas presented in the Annual Report. All Group companies were within the ratio limits set in the loan contracts during and at the end of the accounting period.

Market risk sensitivity 31. Dec.

			Impact on equity exposure and annual transaction exposure							
	Impact on financial assets and liabilities		Impact on net equity of foreign entities		Impact on net equity of foreign entities incl. hedging		Impact on annual transaction exposure (cash flow)		Impact on annual transaction exposure (cash flow) incl. hedging	
EUR million	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
Interest rate risk (100 bp rise in interest rates)										
Effect on profit	3	5					-15	-15	-11	-6
Effect on other change in equity	1	4								
Commodity risk (electricity price +20%)										
Effect on profit	-1	1					-12	-11	5	14
Effect on other change in equity	18	24								
FX risk (USD -10%)										
Effect on profit	-1	-1					-55	-49	-42	-27
Effect on other change in equity	32	33	-39	-29	-13	-7				
FX risk (GBP -10%)										
Effect on profit	5	7					-31	-49	-19	-35
Effect on other change in equity	11	14	-8	-14	0	0				
FX risk (SEK -10%)										
Effect on profit	4	-6					42	47	24	22
Effect on other change in equity	22	29	-45	-44	-6	-1				

Items with + sign = positive effect = increase of assets / decrease of liabilities / increase of cash flow
Items with - sign = negative effect = decrease of assets / increase of liabilities / decrease of cash flow

IFRS 7 requires an entity to disclose a sensitivity analysis for each type of market risk to which the entity is exposed at the reporting date, showing how profit or loss and equity would have been affected by changes in the relevant risk variable that were reasonably possible at that date. The Group has recognized interest rates, electricity prices and foreign exchange rates as its key market risks and has set 100 basis points (1%) interest rate rise, 20 per cent rise in electricity price and 10 per cent weakening of USD, GBP and SEK as reasonably possible risk variables. These currencies represent about 83 per cent of Group´s annual transaction exposure. The nature of the market price risk is relatively linear so that the size of effects of opposite market price changes do not essentially differ from the presented figures. The market risk scenarios has been calculated by using regular principles of calculating market values of financial instruments described in the Group Accounting policies. Figures at the reporting date reflect quite well the average market risk conditions throughout the reporting period. Additionally the Group is presenting figures describing the effects of the risk variables to its equity exposure and annual transaction exposure (cash flow) to present a broader picture about market risks of interest rates, electricity prices and foreign exchange rates. Annual cash flows are based on estimates, but not existing commercial contracts.

3. Segment information

The accounting principles for the segment information are equal to those of the Group. The segment information is presented based on business segments and geographical segments. The business segments form the Groups primary segments and the geographical segments the secondary segments. The business segments are based on the Group organisational structure. All inter-segment sales are based on market prices and eliminated in consolidation.

Segment assets and liabilities are capital items directly used by the segments in their business operations or items that based on reasonable ground can be allocated to the segments. Unallocated capital items consist of tax and fi nancial items and other common group items. Investments consist of additions of tangible and intangible assets used over a longer period than one year.

METSÄLIITTO GROUP'S BUSINESS SEGMENTS

Consumer Packaging business segment is Europe's leading producer of primary fibre paperboard. Additionally, the business area produces speciality papers, e.g. wallpaper base papers. It serves carton printers, converters, brand owners and merchants for end-uses such as beautycare, cigarettes, consumer durables, foods, healthcare, graphics and wallcoverings.

Papers business segment produces, markets and sells high quality uncoated fine papers for use in offices and homes. Products are used for printing and copying, as well as for forms, envelopes, manuals and various business communications. Papers business segment also produces speciality papers for labels, forms, graphical applications and communications and advertising end uses. The customers are printers, publishers, advertising agencies and paper merchants.

Wood Products business segment produces and distributes sawn timber and plywood as well as panel and joist products. Wood-based building systems products and services are offered to construction projects, which are carried out either independently or with partners.

Other businesses include wood supply, tissue paper production, a share of the operations of Vapo Oy (49.9%) and the headquarter functions of the Group companies, among others. The sales of other operations include only the sales outside the Group.

The sales of geographical segments are presented based on the location of the customers. Segment assets and investments are presented based on geographical location of the assets.

Segment information 2008

EUR million	Consumer Packaging	Papers	Wood Products	Other	Eliminations	Total
External sales	1,056	1,422	1,090	2,867		6,434
Internal sales	5	4	72		-82	0
Total sales	1,061	1,426	1,162	2,867	-82	6,434
Segment's operating result	51	-107	-74	132		2
Share of results from associated companies						6
Financial income and expenses, total						-241
Income taxes						60
Discontinued operations						-338
Result for the period						-511
Segment's assets	1,291	1,414	540	2,248	-169	5,324
Investments in associated companies						139
Unallocated assets						1,436
Total assets						6,899
Segment's liabilities	203	385	134	688	-169	1,241
Unallocated liabilities						3,872
Total liabilities						5,113
Capital expenditure	38	56	36	119		249
Capital expenditure of discontinued operations						23
Depreciation	98	114	50	130	-3	389
Impairment charges	4	82	6			92
Personnel average	1,664	3,577	4,436	7,861		17,538

Segment information 2007

EUR million	Consumer Packaging	Papers	Wood Products	Other	Elimin-ations	Total
External sales	1,056	1,528	1,329	2,884		6,797
Internal sales	13	17	70		-100	0
Total sales	1,069	1,545	1,399	2,884	-100	6,797
Segment's operating result	84	-227	87	100		44
Share of results from associated companies						12
Financial income and expenses, total						-216
Income taxes						-24
Discontinued operations						-27
Result for the period						-211
Segment's assets	1,291	1,690	663	2,349	-215	5,778
Assets of discontinued operations						1,210
Investments in associated companies						133
Unallocated assets						914
Total assets						8,035
Segment's liabilities	212	433	162	736	-215	1,328
Liabilities of discontinued operations						239
Unallocated liabilities						4,162
Total liabilities						5,729
Capital expenditure	91	53	33	265		442
Capital expenditure of discontinued operations						51
Depreciation	106	120	47	124	-2	395
Impairment charges	-4	182		16		194
Personnel average	1,902	4,091	4,582	8,620		19,195

Segment's assets = intangible and tangible assets, inventories, accounts receivables and other non-interest-bearing receivables.
Segment's liabilities = accounts payable, advance payments and other non-interest-bearing liabilities.

Geographical segments

	Sales		Assets		Capital expenditure	
EUR million	**2008**	**2007**	**2008**	**2007**	**2008**	**2007**
Finland	1,428	1,515	4,131	4,487	128	174
Germany	882	827	465	778	14	32
Great Britain	806	947	152	295	6	4
France	461	456	244	257	18	7
Sweden	322	308	736	872	36	53
Italy	212	231	1	1	0	0
Poland	162	172	26	31	2	4
Netherlands	117	147	8	6	0	0
Spain	111	160	2	3	0	0
Denmark	111	115	6	7	0	0
Belgium	100	104	2	1	0	1
Other EU countries	498	516	368	460	18	15
Russia	130	121	49	101	6	3
Other Europe	345	365	13	179	5	6
USA	164	212	5	10	0	0
China	98	94	0	0	0	0
Japan	42	48	0	0	0	0
Australia	40	41	0	0	0	0
Other countries	405	418	691	547	39	194
Total	6,434	6,797	6,899	8,035	272	493

Personnel at the end of year	2008	2007
Finland	6,881	7,019
Germany	2,684	2,719
Sweden	1,705	1,815
Great Britain	984	1,310
France	674	671
Austria	650	699
Russia	598	676
Poland	513	555
Slovakia	460	489
Romania	456	590
Baltic countries	375	501
Netherlands	67	55
Hungary	40	49
Belgium	35	27
Other Europe	187	204
Other countries	420	459
Total	16,729	17,838

4. Acquisitions and discontinued operations

Acquisitions
There were no significant acquisitions in 2008. In November 2007 Metsäliitto Cooperative acquired 14.45 per cent of Metsä Tissue's shares from the Tapiola Group. The acquisition increased Metsäliitto's holdings to 70.55 per cent. There were no other significant acquisitions in 2007.

EUR million	Fair value of assets acquired on consolidation 2008	Book value of assets before consolidation 2008	Fair value of assets acquired on consolidation 2007	Book value of assets before consolidation 2007
Tangible and intangible assets	4	4	1	1
Inventories	0	0	1	1
Accounts receivables and other receivables	1	1	0	0
Liquid assets	0	0	0	0
Total assets	6	6	3	3
Minority interest	0	0	0	0
Deferred tax liabilities	0	0	0	0
Borrowings	2	2	-37	-37
Accounts payable and other liabilities	0	0	0	0
Total liabilities	3	3	-37	-37
Net assets	3	3	39	39
Acquisition cost	4	4	40	40
Goodwill	1	1	1	1
Negative goodwill	0	0	0	0
Cash and cash equivalents paid	4	4	40	40
Cash and cash equivalents in subsidiaries	0	0	0	0
Net cash flow arising on acquisition	-3	-3	-40	-40

Discontinued operations

M-real disposed in February 2008 the New Thames's office paper mill located in Great Britain. In relation to the sale, a separate agreement was made on the UK industrial operation's pension liabilities. The combined positive result effect was some EUR 24 million.

M-real disposed Map Merchant operations in October 2007. The Map Merchant Group has been accounted as a discontinued operation and it's post-tax profit and profit on disposal have been recognised as a separate item after continuing operations. The profit on disposal was EUR 77 million before tax including currency differences as well as other items. In 2008 the adjustment on the sale price had a negative effect of EUR 26 million on the result of discontinued operations.

M-real announced in September 2008 the sale of the Graphic Papers business to Sappi Limited for 750 million euros. The deal was closed in December 2008. The disposed Graphic Papers had mills in Finland, Germany and Switzerland. Graphic Papers has been accounted as a discontinued operation and it's post-tax profit and profit on disposal have been recognised as a separate item after continued operations.

Graphic Papers business produced coated and uncoated graphic papers and related services for publishing, commercial printing and communication purposes. Customers included leading publishers, printers and advertising agencies around the world served either directly or via paper merchant partners.

Disposed assets, M-real's office paper mill in New Thames

EUR million	2008
Tangible assets	67
Non-current financial assets	7
Inventories	16
Accounts receivables and other receivables	39
Liquid assets	2
Total assets	131
Borrowings	8
Accounts payable and other liabilities	71
Total liabilities	79
Net assets	52
Selling price	76
Profit on disposal	24
Cash and cash equivalents received	57
Cash and cash equivalents in subsidiaries	-2
Net cash flow arising on disposal	55

EUR million	2007
Income	160
Expenses	-160
Result before tax	0
Income taxes	0
Result for the period	0

Disposed assets, M-real's Graphic Papers business

EUR million	2008
Other intangible assets	8
Tangible assets	612
Non-current financial assets	6
Inventories	119
Accounts receivables and other receivables	227
Cash and cash equivalent	5
Total assets	977
Minority interest	4
Deferred tax liabilities	23
Pension obligations and provisions	41
Borrowings	129
Accounts payable and other liabilities	180
Total liabilities	373
Net assets	600
Exchange differences and other items	-3
Selling price	671
Internal debt	-75
Debt free selling price	596
Loss on disposal before tax	-1
Income taxes	0
Loss on disposal after tax	-1
Impairment losses	
Goodwill	-101
Other intangible assets	-2
Tangible assets	-91
Total	-194
Selling price	671
of which	
Loan receivables	220
Shares in Sappi Limited	50
Cash and cash equivalents received	401
Cash and cash equivalents in subsidiaries	-5
Net cash flow arising on disposal	396

M-real's Graphic Papers business		
EUR million	2008	2007
Income	1,281	1,333
Expenses	-1,330	-1,415
Result before tax	-49	-82
Impairment losses	-194	0
Costs linked to disposal	-70	0
Income taxes	2	0
Result for the period	-311	-82
Loss on disposal	-1	0
Total	-312	-82
Cash flow arising from operating activities	-1	71
Cash flow arising from investing activities	-23	-48
Cash flow arising from financing activities	31	-46
Total cash flows	7	-23
Discontinued operations, result		
Map Merchant	-26	55
Graphic Papers	-313	-82
Total	-338	-27

Total divestments		
EUR million	2008	2007
Tangible and intangible assets	696	111
Non-current receivables	13	0
Inventories	135	136
Accounts receivables and other receivables	266	396
Liquid assets	8	57
Total assets	1,118	699
Minority interest	4	1
Deferred tax liabilities	24	2
Pension obligations and provisions	41	42
Financial liabilities	139	19
Accounts payable and other liabilities	251	256
Total liabilities	456	319
Net assets	658	379
Translation differences and other	1	-2
Selling price	740	450
of which		
Internal debt	-75	
Loan receivables	-220	
Shares	-50	
Profit on disposal	5	73
Cash and cash equivalents received	404	416
Cash and cash equivalents in subsidiaries	-8	-57
Cash and cash equivalents in subsidiaries	396	360

M-real sold the the carton plants located in Finland and Hungary in May-June 2007 and in Belgium in December 2007. A loss of EUR 3 million was recognised.

The Metsäliitto Group's divestments totalled EUR 740 million in 2008.

5. Long-term projects

Group sales included EUR 19.2 million (18.9) in income from long-term projects.

The income statement included EUR 3.8 million income from long-term projects in progress (10.1). The balance sheet included EUR 3.0 million in advance payments for long-term projects in progress (10.2).

6. Other operating income

EUR million	2008	2007
Gains on disposal of fixed assets	100	30
Rental income	5	5
Service revenue	35	5
Government grants	39	7
Other operating income	60	46
Total	239	92

Sale of Pohjolan Voima shares increased in 2008 gains on disposal by EUR 74 million. Government grants concern the subsidies of training, healthcare and R&D expenses, energy subsidies as well as the carbon dioxide emission permits in accordance with the EU emission trading scheme.

7. Operating expenses

EUR million	2008	2007
Materials and services		
Materials, consumables and goods		
Purchases	3,498	3,788
Change in inventories	-1	-60
External services	847	809
Materials and services, total	4,345	4,536
Employee costs		
Wages and salaries		
Salaries and emoluments paid to members of boards and to CEOs	14	15
Other wages and salaries	586	660
Total	600	675
Social security costs		
Pension costs		
Defined benefit plans	10	9
Defined contribution plans	76	68
Other employee costs	208	222
	293	299
Total employee costs	893	974
Other operating expenses		
Rents	64	55
Losses on fixed assets disposal	4	6
Other operating expenses	855	768
Total	923	829

The research and development costs were EUR 25.3 million (29.1) in 2008.

Remuneration paid to the members of the Supervisory Board, Board of Directors and the Executive Management

The monthly renumeration paid to the Chairman of the Supervisory Board was EUR 3,400 and to the Vice Chairman EUR 600. To the members of the Supervisory Board were paid a renumeration of 500 euros per meeting. The Supervisory Board held 4 meetings in 2008 (4).

The monthly renumeration paid to the Chairman of the Board of Directors was EUR 5,000 and to the Board members 2,500 euros. The renumeration per meeting was EUR 500. The Board of Directors held 20 meetings in 2008 (17).

The total salary of the President and CEO Kari Jordan was EUR 1,196,568 (1,191,305) including fringe benefits and bonuses. In addition to this, he was paid bonus in cash and M-real's shares EUR 267,525 (698,164) according to the incentive programme. In the event that the President and CEO is dismissed, he has the right to receive compensation corresponding to 24 months' salary. The mutual period of notice is 6 months.

Salaries and emoluments paid to the Executive Management totalled EUR 5.3 million (5.0) including fringe benefits and bonuses. In addition to this, the Executive Management was paid EUR 0.5 million (1.1) in bonuses in shares according to the incentive programme.

The incentive programme

The pay scheme of the Group Executives is based on the following elements: base salary, merit pay (max 6 months) and a long-term share based incentive programme. 35 top executives of the Group companies are included in the programme. The incentive programme is in detail in Note 31.

Pension commitments to management

The retirement age of the President and CEO is 60. Certain top executives of the Group have the right to retire with a pension based on the Pension Fund at the age of 62. The expenses of the Executive Management defined pension plans were EUR 2.8 million (2.1) and the expenses of their defined contribution plans were EUR 1.0 million (1.8).

The parent company has no commitments to the members of the Supervisory Board or the Board of Directors or people who have previously been members.

Audit fees

The fees paid to PricewaterhouseCoopers are shown in the table below. The audit fees are paid for the audit of the annual and quarterly financial statements for the group reporting purposes as well as the audit of the local statutory financial statements. Tax consultancy fees are the fees paid for tax consultancy services and the like. Disposal of Graphic Papers business increased audit and other fees in 2008.

Main auditors fees

EUR million	2008	2007
Audit fees	3	3
Tax consultancy	1	1
Other fees	2	1
Total	6	4

8. Depreciation, amortization and impairment charges

Continuing operations

EUR million	2008	2007
Depreciation		
Other intangible assets	21	23
Buildings	58	61
Machinery and equipment	298	299
Other tangible assets	13	11
Total	389	395
Impairment charges		
Goodwill	23	201
Other intangible assets	0	0
Land and water areas	33	0
Buildings	18	0
Machinery and equipment	18	-7
Other tangible assets	0	0
Total	92	194
Depreciation, amortization and impairment charges, total	482	589
Goodwill impairments by segment		
Consumer Packaging	4	0
Papers	16	185
Wood Products	3	0
Others	0	0
Assets classified as held for sale	0	16
Total	23	201
Other impairments by segment		
Consumer Packaging	0	-4
Papers	66	-3
Wood Products	3	0
Others	0	0
Total	69	-7
Total impairments	92	194

Discontinued operations

EUR million	2008	2007
Depreciation	61	120
Goodwill impairments	101	0
Other impairments	93	0
Total	255	120

In 2008 impairment charges were made at Hallein mill (EUR 9 million on goodwill and EUR 57 million other impairment) in Austria and at Husum mill in Sweden (7 and 9). An impairment of EUR 194 million was recognised in disposed Graphic Papers business, which has been classified as a discontinued operation. In Kyro Paper and in Sittingbourne mill the impairment charges made in 2006 were reversed in 2007.

Impairment of assets

The accounting values of asset items or so called cash generating units (CGUs) are evaluated for indications of impairment. If there are indications of impairment of an asset item or a CGU or if the accounting value of a unit includes goodwill or has been targeted by goodwill the recoverable amount of the asset item or CGU shall be estimated. The recoverable amount is the value in use based on estimated future cash flows or net selling price.

M-real

M-real carries out a full impairment test at least once a year, during the last quarter based on the situation of 30 September. In addition, a sensitivity analysis is made each quarter. Should the sensitivity analysis indicate impairment, a full test will be initiated. The Audit Committee reviews the sensitivity analyses or impairment testing results quarterly.

The testing of 2008 was carried out taking into account the impacts of Graphic Papers transaction.

The cash flow that the cash-generating units under testing can accumulate is based on five-year forecasts and the evenly-growing cash flow that follows them.

The key assumptions used in the projections are M-real management estimates and estimates from Pöyry Forest Industry Consulting Ltd. The key factors affecting the projections are the development of the average paper and board prices, delivery volumes, foreign exchange rates, and capacity utilisation rates, the cost development of key raw materials such as wood, pulp, chemicals and energy as well as the development of personnel costs and other fixed costs. Furthermore the realisation of savings and efficiency improvement measures have a significant impact on projected cash flows. M-real's share of Metsä-Botnia's recoverable cash flows and accounting value is allocated to the CGUs based on their pulp purchases from Metsä-Botnia.

In the testing as of 30 September 2008 as well as in previous goodwill impairment tests the cash flows consequent to the 5-year projected cash flows are based on a 2 per cent fixed annual growth rate, which corresponds to the realised long term growth of the CGUs and business areas in question. Furthermore, the average values for the key assumptions (price, volume, variable costs) during the projection period has been used as starting point. The starting point for fixed costs is the projected costs for the fifth year.

The discount rate used is M-real's latest determined equity and debt weighted average cost of capital (WACC). Both the future cash flows as well as the discount rate are calculated after tax e.g. the consequent discounted cash flows and values in use are before tax as required in IAS 36. The after tax WACC used in the 30 September 2008 testing is 8.10 per cent.

The goodwill impairment test results in M-real are evaluated by comparing the recoverable amount (V) with the carrying amount of the CGU (B) as follows:

	Ratio		Estimate
V		< B	Impairment
V	0–20%	> B	Slightly above
V	20–50%	> B	Clearly above
V	50% –	> B	Substantially above

The most important CGUs of M-real Group, the goodwill allocated to them as well as their testing result as of 30 September 2008:

Unit	Goodwill, EUR million	Test result
Folding boxboard mills	7	Substantially above
Kemiart Liners	3	Substantially above
Kyro Paper	0	Clearly above
Simpele Paper	0	Clearly above
Office Papers	8	Substantially above
Husum PM8 & Äänekoski Paper	0	Impairment
Zanders	33	Clearly above
Hallein	0	Impairment
Market Pulp and Energy	0	Substantially above
Myllykoski Paper Oy 35% *)	15	Clearly above
M-real Group total	66	

*) The goodwill is shown in "Investments in associated companies" in the balance sheet.

In the following CGUs a reasonably possible change in a key assumption results in a situation where the accounting value of the CGU exceeds the recoverable amount. Assumptions to which the recoverable amount of the CGU is most sensitive are listed in the table. When assessing the magnitude of the required change in a key assumption, possible multiplicative effects on other assumptions affecting the recoverable amount or simultaneous changes in other assumptions have not been taken into account:

Cash Generating Unit (CGU)	V - B EUR million	Key assumption	Required change in order for V to equal B
Hallein	0	Net selling price	No change required
Husum PK8 and Äänekoski Paper	0	-Increasing average price during the 5-year projection period	No change required
		-WACC based on interest rates at the time of testing	No change required
		-Completion of efficiency improvement programmes	No change required

Metsä Tissue

Metsä Tissue's goodwill has been tested as per 31 December 2008. For the purpose of goodwill impairment testing at the Metsä Tissue Group, management has defined the legal entity as a single CGU. In calculating the value in use, extensive use has been made of management approved budgets and estimates for the next three years. The cash flows consequent to the three-year projected cash flows have been extrapolatedbased on the estimated average GDP growth rate in the Euro zone, which, in 2008, was 2 per cent. Both the future cash flows and the discount rateare calculated after taxes. The discount rate used in the calculations was 7.0 per cent which represents industry-specific risk.

Metsä Tissue's goodwill and the testing result as of 31December 2008:

Unit	Goodwill, EUR million	Test result
Metsä Tissue Group	125	Substantially above

Wood Products Industry

The Wood Poducts Industry´s impairment tests were executed in November-December 2008.

The recoverable cash flows of the CGUs are based on five-year projections and on consequent cash flows growing at a fixed annual growth rate. With regard to Finnforest UK, testing has not been carried out because the company is highly profitable, its business value is only EUR 0.8 million, and the value of the company is significantly higher than the book value.

The principal input data required for the projections include the price forecasts for sawn timber and panel products, demand and delivery volume estimates for these products, the cost development of key raw materials and other factors of production, such as roundwood, glue and energy, as well as the development of personnel costs and other fixed costs. The projections are also affected by the implementation of the cost-cutting measures already decided, as well as current and planned investments.

The forecasts of selling prices and key factors of production are estimates made by the company's management based on currently available industry sources. The figures for 2009 are based on the preliminary budget at the time of testing.

In current and previous impairment tests the cash flows consequent to the five-year projected cash flows are not based on a growth rate. Furthermore, the management's estimate of likely changes in the factors underlying the key assumptions (price, volume, variable costs) during the projection period have been used as a starting point.

The discount rate used is the Wood Products Industry's latest determined equity and debt Weighted Average Cost of Capital. The WACC used in the test performed as of the end of the year 2008 is 6.98 per cent.

The CGUs of Metsäliitto Wood Products Industry the goodwill allocated to them and testing result as of 31 December 2008:

Unit	Goodwill, EUR million	Test result
Glued balk	5	Substantially above
BBH	3	Impairment
Finnforest Merk	0	Substantially above
CEE sales companies	3	Clearly above
Pine sawmills	5	Clearly above
Finnforest France	4	Substantially above
Finnforest UK	1	Substantially above

In addition, spruce sawmills have been tested. The calculation indicates a slight need for a write-down. As a result of this, the value of the Renko sawmill buildings has been written down by EUR 3.0 million.

Wood Products Industry has written down the Puhos Board Oy shares, the total value of which was EUR 2.1 million. This was based on the company's difficult financial position and low profitability. The owners aim to sell the company, and the target price of the shares is 30 to 40 per cent of the book value in the balance sheet of Wood Products Industry. It is very uncertain that a suitable purchaser candidate will be found and the sales carried out, and it is possible that the company will go into liquidation.

9. Financial income and expenses

EUR million	2008	2007
Exchange differences		
Commercial items	-4	-10
Hedging / hedge accounting not applied	31	19
The ineffectiveness from hedges of net investment in foreign operations	-1	2
Others	-7	-6
Total	19	5

Interest and other financial expenses, net		
Valuation of financial assets and liabilities		
Gains and losses on financial assets or liabilities at fair value through profit or loss	2	0
Impairment losses from financial assets	-4	0
Gains / losses on derivatives (no hedge accounting)	-11	1
Gains/losses on derivatives on hedging instruments in fair value hedges	72	8
Gains/losses on derivatives on hedged item in fair value hedges	-67	-3
Total	-8	7
Interest income	16	16
Interest expenses	-254	-231
Dividend income	1	1
Other financial expenses	-14	-13
Interest and other financial expenses, net	-260	-220

10. Income taxes

EUR million	2008	2007
Income taxes for the financial period	-19	-84
Income taxes for previous periods	-3	0
Change in deferred taxes	83	61
Other	-1	-1
Total	60	-24

Income tax reconciliation		
Profit before taxes	-233	-160
Tax computed at Finnish statutory rate of 26%	-61	-41
Difference between Finnish and foreign rates	-1	2
Non-deductible purchase price difference	5	52
Tax exempt income	-30	-9
Non-deductible expences	14	14
Previous years tax losses used during the period	-33	-6
Losses from subsidiaries for which deferred tax receivables not entered	49	13
Other	-4	-1
Income tax expense	-60	24
Effective tax rate, %	26.0	-0.2

11. Intangible and tangible assets

Intangible assets

EUR million	Goodwill	Other intangible assets	Construction in progress	Total
Acquisition cost, 1 Jan. 2008	319	306	3	629
Translation differences	-13	-1	0	-15
Increase	1	55	3	58
Company acquisitions	1	0	0	1
Decrease	-102	-82	0	-184
Transfers between items	-6	13	-4	3
Acquisition cost, 31 Dec. 2008	199	291	2	492
Accumulated depreciation and impairment, 1 Jan. 2008	0	-240	0	-240
Translation differences	0	1	0	1
Accumulated depreciation on decrease and transfers	0	55	0	55
Depreciation for the period	0	-21	0	-21
Impairment charges	-23	0	0	-23
Accumulated depreciation, 31 Dec. 2008	-23	-205	0	-228
Book value, 1 Jan. 2008	319	67	3	389
Book value, 31 Dec. 2008	176	86	2	264
Acquisition cost, 1 Jan. 2007	519	318	2	839
Translation differences	-4	0	0	-4
Increase	7	18	3	27
Company acquisitions	1	0	0	1
Decrease	-19	-31	0	-50
Transfers between items	0	2	-2	0
Acquisition cost, 31 Dec. 2007	504	306	3	814
Accumulated depreciation and impairment, 1 Jan. 2007	0	-222	0	-222
Translation differences	0	0	0	0
Accumulated depreciation on decrease and transfers	0	7	0	7
Depreciation for the period	0	-24	0	-24
Impairment charges	-185	0	0	-185
Accumulated depreciation, 31 Dec. 2007	-185	-240	0	-425
Book value, 1 Jan. 2007	519	96	2	617
Book value, 31 Dec. 2007	319	67	3	389

In addition, the goodwill included in assets classified as held for sale, was impaired by EUR 15.9 million in 2007. Development expenditure has not been capitalized in the Metsäliitto Group. The book value of emission rights included in intangible rights was on 31.12.2008 EUR 20.0 million (2.0) and the fair value EUR 20.0 million (0.2).

Allocation of goodwill to cash-generating units per segment

EUR million	Consumer Packaging	Papers	Wood Products	Others	Total
Goodwill at 31 Dec. 2008	10	41	19	106	176
Goodwill at 31 Dec. 2007	14	158	22	125	319

Tangible asset

EUR million	Land and water areas	Buildings and structures	Machinery and equipment	Other tangible assets	Construction in progress	Total
Acquisition cost, 1 Jan. 2008	266	1,763	6,917	337	446	9,730
Translation differences	2	-28	-172	-4	-1	-203
Increase	19	15	166	16	67	282
Company acquisitions	0	1	4	0	0	6
Decrease	-82	-318	-1,631	-101	-17	-2,148
Transfers between items	1	102	318	3	-427	-3
Acquisition cost, 31 Dec. 2008	206	1,535	5,603	251	69	7,664
Accumulated depreciation and impairment, 1 Jan. 2008	-9	-871	-4,637	-192	0	-5,709
Translation differences	0	24	133	3	0	159
Accumulated depreciation on decrease and transfers	1	155	1,056	69	0	1,281
Depreciation for the period	0	-58	-298	-13	0	-368
Impairment charges	-33	-18	-18	0	0	-69
Accumulated depreciation and impairment, 31 Dec. 2008	-41	-768	-3,763	-133	0	-4,706
Book value, 1 Jan. 2008	257	892	2,281	145	446	4,021
Book value, 31 Dec. 2008	165	767	1,839	118	69	2,958

In 2008 impairment charges were made at Hallein mill in Austria (EUR 57 million) and at Husum mill in Sweden (EUR 9 million).

EUR million	Land and water areas	Buildings and structures	Machinery and equipment	Other tangible assets	Construction in progress	Total
Acquisition cost, 1 Jan. 2007	283	1,771	7,055	331	319	9,759
Translation differences	-9	-13	-75	-1	-36	-134
Increase	13	24	142	13	259	451
Company acquisitions	0	0	1	0	0	1
Decrease	-20	-39	-258	-14	-16	-346
Transfers between items	0	21	52	8	-81	0
Acquisition cost, 31 Dec. 2007	266	1,763	6,917	337	446	9,730
Accumulated depreciation and impairment, 1 Jan. 2007	-14	-819	-4,542	-186	0	-5,562
Translation differences	0	7	51	1	0	59
Accumulated depreciation on decrease and transfers	5	18	242	9	0	274
Depreciation for the period	0	-77	-395	-15	0	-487
Impairment charges	0	0	7	0	0	7
Accumulated depreciation and impairment, 31 Dec. 2007	-9	-871	-4,637	-192	0	-5,709
Book value, 1 Jan. 2007	269	952	2,513	145	319	4,197
Book value, 31 Dec. 2007	257	892	2,281	145	446	4,021

In M-real Kyro Paper and in Sittingbourne mill the impairment charges of machinery and equipment made in 2006 were reversed in 2007.

Tangible assets include assets acquired under finance lease agreements as follows:

2008 EUR million	Land and water areas	Buildings	Machinery and equipment	Total
Acquisition cost 1 Jan. 2008	0	20	95	115
Accumulated depreciation	0	-4	-29	-33
Book value, 31 Dec. 2008	0	16	66	82

2007 EUR million	Land and water areas	Buildings	Machinery and equipment	Total
Acquisition cost 1 Jan. 2007	1	29	247	277
Accumulated depreciation	0	-7	-121	-129
Book value, 31 Dec. 2007	1	22	126	148

In 2008, increase in tangible assets include EUR 1.9 million (4.1) of assets acquired under finance lease agreements.

The capitalization of interest expenses in M-real and Metsä-Botnia in 2008 was EUR 4.6 million (7.3). The average interest rate of 6.23 per cent (6.23) represents the costs of the loan used to finance the projects. Borrowing costs have not been capitalized in other companies.

12. Biological assets

Biological assets, forest assets, have been recognised at fair value. The change in fair value will be recognised yearly as income/cost in the income statement. The Group has forest assets in Finland and in Uruguay. Forest assets are included in land and water in non-current assets.

Metsäliitto Group has long-term forest lease agreements in Russia and Latvia. The agreements have not been recognised in the balance sheet, because their price or fixed price determination basis is not defined in the agreements. The price is determined by the government usually once a year or, in some cases, more frequently. In practice, the price follows the auction prices for short-term felling rights. Long-term felling rights are primarily used for ensuring the availability of wood.

EUR million	2008	2007
At 1 Jan.	83	71
Purchases during the period	21	23
Sales during the period	0	0
Harvested during the period	-18	-7
Changes in fair values	11	3
Translations differences	5	-7
At 31 Dec.	103	83

13. Investments in associated companies

EUR million	2008	2007
At 1 Jan.	133	118
Share of result for the period	6	5
Dividends received	-2	-2
Increases	1	12
Decreases	0	0
Translations differences	0	0
At 31 Dec.	139	133

Unamortized amount of goodwill for associated companies at 31 December 2008 include goodwill of EUR 15.1 million (15.1) from Myllykoski Paper Oy and 1.6 million (1.6) from Thosca Holz GmbH.

Transactions and balances with associated companies

EUR million	2008	2007
Sales	58	57
Purchases	49	57
Interest income	1	2
Interest expenses	0	0
Receivables		
Non-current	1	1
Current	10	11
Liabilities		
Non-current	0	0
Current	6	12

Biggest associated companies

EUR million	Country	Assets	Liabilities	Sales	Result	Group holding, %
Finsilva Oyj	Finland	211	147	24	11	49.9
Mittaportti Oy	Finland	1	1	5	0	33.3
Myllykoski Paper Oy	Finland	218	150	326	-4	35.0
Mäntän Energia	Finland	6	4	10	0	67.5
Perkaus Oy	Finland	1	1	3	0	33.3
Plastiroll Oy	Finland	21	7	24	2	39.0
Suomen Metsäsijoitus Oy	Finland	17	0	1	0	25.0

None of the associated companies were listed.

14. Available-for-sale investments

EUR million	2008	2007
Financial assets at fair value through profit or loss (non-current)		
At 1 Jan.	4	4
Decreases	0	0
Changes in fair values	0	0
Transfers to current assets	-4	0
At 31 Dec.	0	4
Available-for-sale investments		
Listed companies	35	4
Other	459	369
Total	493	373
Total	493	377

Financial assets at fair value through profit or loss are mainly listed bonds, classified entirely as held for trading.

Available for sale financial assets consist of listed companies and other companies. The fair value of listed companies are based on public quotation for shares at the balance sheet date. The most significant ownership of listed companies is some 3 per cent stake of South African company Sappi Limited, which M-real received as a part of the Graphic Papers business disposal. The fair value of these shares at the balance sheet date was EUR 32.1 million.

The most important shareholding of not quoted companies consists of 3 per cent stake in Finnish energy company Pohjolan Voima Oy. The Group has right for some 12 per cent proportion in Olkiluoto nuclear power plant (Pohjolan Voima´s B-shares), some 12 per cent proportion in Meripori coal-fired power plant (C2-shares) and some 2 per cent proportion in PVO-Vesivoima Oy's hydroelectric power (A-shares). Group also has some 4 per cent proportion in new nuclear power plant under construction at Olkiluoto. Pohjolan Voima produces electricity and heat for its shareholders in Finland. Pohjolan Voima trades with its shareholders and the prices paid to Pohjolan Voima Oy for energy are based on production costs, which generally are lower than the market prices. The ownership in Pohjolan Voima Oy is fair valued quarterly using discounted cash flow method. The WACC used was 4.67 per cent. 12 months rolling averages have been used for the energy price estimates, which evens out the short-term energy price fluctuations. The changes in fair value less deferred tax calculated with Finnish tax rate are recorded in fair value reserve in equity. The acquisition value of shares in Pohjolan Voima Oy is EUR 29.4 million (35.0) and the fair value EUR 429.6 million (337.1). The fair value of nuclear power shares (B- and B2-shares) was some EUR 407.1 million, coal-fired power shares (C2-shares) some EUR -3.6 million and hydroelectric power shares (A-shares) some EUR 26.1 million.

The shareholder agreement prevents free selling of shares with others than shareholders. M-real disposed in June 2008 some 6.7 per cent of the Pohjolan Voima shares in new nuclear power plant under construction at Olkiluoto. A realised fair value and gain from the sale of EUR 74 million was recorded. The high energy prices have substantialy increased the fair value of Pohjolan Voima shares.

Other unlisted shares, of which the fair value cannot be reliably determined, have been valued at acquisition cost less impairment charges.

15. Non-current financial assets

EUR million	2008	2007
Interest-bearing receivables		
Loans from associated companies	1	2
Other loan receivables	228	26
Total	228	28
Non-interest-bearing receivables		
Defined benefit pension plans (note 21)	0	7
Loans from associated companies	0	1
Other loan receivables	5	5
Total	5	12
Non-current financial assets, total	234	40

The EUR 220.0 million vendor note from Sappi Limited in connection with the Graphic Papers divestment is included in other interest-bearing loan receivables at 31 December 2008.

16. Deferred taxes

Reconciliation in the balance sheet 2008

EUR million	1 Jan. 2008	Charged in income statement	Company acquisitions / disposal	Translation differences	Charged to equity	31 Dec. 2008
Deferred tax assets in balance sheet						
Consolidation entries	13	6	0	0	-7	12
Tax losses and other temporary differences	68	-14	-13	0	6	47
Other temporary differences	30	2	0	0	7	38
Total	110	-7	-13	0	6	96
Netting against liabilities	-64	15	13	0	0	-35
Deferred tax assets in balance sheet	46	8	0	0	7	61
Deferred tax liabilities in balance sheet						
Appropriations	272	-56	-1	-8	0	207
Consolidation entries	56	-11	-22	0	4	27
Available-for-sale financial assets recorded at fair value	79	0	0	0	26	104
Other temporary differences	61	-23	-14	0	-1	23
Total	467	-90	-36	-8	29	362
Netting against assets	-63	15	13	0	0	-34
Deferred tax liabilities in balance sheet	404	-75	-23	-8	29	328
Deferred tax liabilities, net	-358	83	23	8	-22	-267

Reconciliation in the balance sheet 2007

EUR million	1 Jan. 2007	Charged in income statement	Company acquisitions / disposal	Translation differences	Charged to equity	31 Dec. 2007
Deferred tax assets in balance sheet						
Consolidation entries	20	1	0	0	-8	13
Tax losses and other temporary differences	108	-22	-18	0	0	68
Other temporary differences	21	14	0	1	-7	30
Total	148	-7	-18	1	-15	110
Netting against liabilities	-71	6	3	-2	0	-64
Deferred tax assets in balance sheet	77	-1	-15	0	-15	46
Deferred tax liabilities in balance sheet						
Appropriations	327	-52	-1	-2	0	272
Consolidation entries	43	6	4	0	3	56
Available for sale financial assets recorded at fair value	76	0	0	0	2	79
Other temporary differences	85	-22	-2	-1	1	61
Total	531	-68	1	-3	6	467
Netting against assets		6	3	0	1	-63
Deferred tax liabilities in balance sheet	459	-62	4	-3	6	404
Deferred tax liabilities, net	-381	61	-19	3	-21	-358

At 31 December 2008 the net operating loss carry-forwards mainly in Finland, Germany, France and Russia amounted to EUR 1,013.9 million (1,195.9). The operating loss carry-forwards for which deferred tax assets have not been recognised due to uncertainty of the utilization of these loss carry-forwards amounted to EUR 895.9 million (962.2). The deferred tax assets for these non recognised loss carryforwards amounted to EUR 29.3 million (59.5) at 31 December 2008.

17. Inventories

EUR million	**2008**	**2007**
Raw materials and consumables	371	412
Work in progress	63	78
Finished goods and goods for sale	476	580
Advance payments	33	63
Total	943	1,132

18. Accounts receivables and other receivables

EUR million	**2008**	**2007**
Financial assets of fair value through profit and loss		
At 1 Jan.	0	0
Transfers from non-current assets	4	0
Changes in fair value	0	0
At 31 Dec.	4	0
Interest-bearing loan receivables		
Loans from associated companies	21	24
Other loan receivables	6	3
Total	28	27
Accounts receivables and other non-interest-bearing receivables		
From associated companies		
Accounts receivables	15	28
Other receivables	0	0
Prepayment and accrued income	1	0
Total	16	28
From others		
Accounts receivables	764	1,022
Loan receivables	0	0
Other receivables	110	187
Prepayment and accrued income	35	25
Total	909	1,234
Total	924	1,262
Accounts receivables and other receivables, total	956	1,289

There are no loan receivables from the managing directors of Group companies, members of the Board of Directors or their deputies or persons belonging to similar bodies.

Doubtful accounts receivables

Accounts receivables are recorded net of the following allowances for doubtful accounts:

EUR million	**2008**	**2007**
At 1 Jan.		16
Increase	0	23
Decrease	-5	-27
At 31 Dec.	7	12

Prepayment and accrued income		
Non-current		
Interest	0	0
Others	3	3
Total	3	3
Current		
Interest	1	4
Insurance	1	4
Accruals of sales	4	5
Others	30	13
Total	36	25
Prepayment and accrued income, total	39	28

19. Cash and cash equivalents

EUR million	**2008**	**2007**
Current investments		
At fair value	0	0
At amortised cost	405	324
Cash at bank and in hand	215	104
Total	619	428

Current investments are certificates of deposits and time deposits with original maturities less than three months.

20. Members' capital

Changes in members' capital

EUR million	Members' capital	Additional members' capital A	Additional members' capital B	Total
At 1 Jan. 2008, FAS	187	517	24	728
Transfers to interest-bearing liabilities	-39	-109	-5	-154
Members' capital at 1 Jan. 2008, IFRS	147	408	19	574
Dividends paid	5	12	0	17
Transfers from interests to members' capital	3	22	0	25
Refund of members' capital	-5	-38	-3	-46
	151	403	17	571
Refund of transfer to liabilities 1 Jan. 2008	39	109	5	154
Members' capital 31 Dec. 2008, FAS	190	512	22	724
Transfers to liabilities 31 Dec. 2008	-37	-99	-4	-139
At 31 Dec. 2008, IFRS	154	414	18	585
At 1 Jan. 2007, FAS	179	503	24	706
Transfers to interest-bearing liabilities	-33	-92	-4	-130
Members' capital at 1 Jan. 2007, IFRS	146	411	20	577
Dividends paid	7	23	2	31
Transfers from interests to members' capital	4	19	0	23
Refund of members' capital	-3	-28	-1	-33
	154	425	20	598
Refund of transfer to liabilities 1 Jan. 2007	33	92	4	130
Members' capital 31 Dec. 2007, FAS	187	517	24	728
Transfers to liabilities 31 Dec. 2007	-39	-109	-5	-154
At 31 Dec. 2007, IFRS	147	408	19	574

Fair value and other reserves

EUR million	2008	2007
Fair value reserve	114	102
Revaluation reserve	1	1
General reserve	46	41
Reserves stipulated by the Articles of Association	3	3
Total	165	148

Distributable funds

EUR million	2008
Distributable funds at 31 Dec.	
Non-restricted members' funds	324
Untaxed reserves in members' capital	-209
Distributable funds	115
Untaxed reserves	
Accumulated depreciation difference and other reserves	383
Deferred tax liability in untaxed reserves	-101
	282
Minority interest in untaxed reserves	0
	281
Reserves at the date of acquisition	-73
Untaxed reserves in members' capital	209

21. Post employment benefits

The Group operates a number of defined benefit pension plans and defined contribution plans. The most significant pension plan in Finland is the statutory Finnish employee pension scheme (TEL) according to which benefits are linked directly to the employee's earnings. In Finland there are pension schemes which are funded by contributors to insured schemes or to Metsäliitto Employees' Pension Foundation. The Metsäliitto Employees' Pension Foundation scheme is a defined benefit plan. There are other defined benefit plans in Finland, too. Pension plans outside Finland are both defined benefit and defined contribution plans.

Pensions and other post-employment benefit provisions

EUR million	2008	2007
Defined benefit pension plans	110	164
Defined contribution pension plans	21	23
Net liability	131	188
Over-funded plan shown as asset	0	7
Total liability	131	195

DEFINED BENEFIT PENSION PLANS

Amounts recognized in balance sheet

EUR million	2008	2007
Present value of funded obligations	84	451
Present value of unfunded obligations	94	134
	177	586
Fair value of plan assets	-69	-439
Unrecognized actuarial gains and losses	2	17
Unrecognized prior service costs	0	0
Effect of curtailment	0	0
Total liability in balance sheet	110	164

Amounts recognized in income statement

EUR million	2008	2007
Current service cost	5	8
Interest cost	9	28
Expected return on plan assets	-5	-24
Actuarial gains and losses	0	1
Post-service cost	0	0
Settlements	0	4
Profit/loss on curtailment	0	-5
Total included in employee costs	10	11

The actual return on plan assets was EUR -5.8 million in 2008 (23.3). Income statement items for 2007 include disposed Graphics Papers' figures too.

Changes in the present value of defined benefit obligations

EUR million	2008	2007
Defined benefit obligation as at 1 Jan.	586	844
Current service cost	5	8
Interest cost	9	28
Contribution by plan participations	-1	2
Actuarial gains and losses	-9	-19
Past service cost	1	0
Disposals	-403	-196
Settlements	0	-5
Profit/loss on curtailment	-1	-1
Benefits paid	-7	-30
Other adjustments	0	0
Translation differences	-2	-46
Defined benefit obligation as at 31 Dec.	177	586

Changes in the fair value of plan assets

EUR million	2008	2007
Fair value of plan assets as at 1 Jan.	439	583
Expected return on plan assets	5	24
Actuarial gains and losses	-11	-1
Contribution by plan participants	1	3
Contribution by the employer	1	33
Disposals	-367	-143
Settlements	0	-1
Benefits paid	-2	-22
Other adjustments	0	0
Translation differences	3	-37
Fair value of plan assets as at 31 Dec.	69	439

Group expects to contribute EUR 5.1 million to its defined benefit pension plans in 2009.

Major categories of plan assets as a percentage of total plan assets

Per cent	2008	2007
Equity securities	37	48
Debt securities	11	10
Real estate	10	7
Bonds	14	28
Others	28	7
Total	100	100

Amounts for the current and previous periods		
EUR million	**2008**	**2007**
Present value of defined benefit obligations	-177	-586
Fair value of plan assets	69	439
Funded status	-108	-147
Experience adjustments on plan liabilities	-6	1
Experience adjustments on plan assets	-9	3

Actuarial assumptions used		
	2008	**2007**
Finland		
Discount rate, %	3.75	5.0
Expected return on plan assets, %	5.4	5.8
Future salary increases, %	3.0	3.0
Future pension increases, %	2.1	2.1
Expected average remaining working years of staff	4-7.4	4-7.4
Great Britain		
Discount rate, %	6.0	5.6
Expected return on plan assets, %	6.4-6.75	6.5-6.8
Future salary increases, %	3.6	4.3
Future pension increases, %	2.6	3.3
Expected average remaining working years of staff	14-24	15-24
Austria		
Discount rate, %	5.0	5.0
Expected return on plan assets, %	n/a	n/a
Future salary increases, %	2.22	2.3
Future pension increases, %	2.22	2.3
Expected average remaining working years of staff	24.0	24.0
Norway		
Discount rate, %	4.3	4.7
Expected return on plan assets, %	6.3	5.8
Future salary increases, %	4.5	4.5
Future pension increases, %	4.3	4.3
Expected average remaining working years of staff	11.9	16.2
Germany		
Discount rate, %	6.0	5.5-5.6
Expected return on plan assets, %	6.0	5.6
Future salary increases, %	2.5	2.5
Future pension increases, %	2.0	2.0
Expected average remaining working years of staff	10-11	10
Slovakia		
Discount rate, %	5.0	
Expected return on plan assets, %	0.0	
Future salary increases, %	5.0	
Future pension increases, %	5.0	
Expected average remaining working years of staff	22	
Switzerland		
Discount rate, %		3.5
Expected return on plan assets, %		4.5
Future salary increases, %		1.5
Future pension increases, %		0.5
Expected average remaining working years of staff		13

22. Provisions

EUR million	Closure and restructuring	Environ-mental obligations	Other provisions	Total
At 1 Jan. 2008	40	12	31	83
Translation difference	-5	0	-2	-7
Increases	66	3	18	87
Decreases	-12	-3	-28	-43
Unused amounts reversed	-9	0	-1	-9
At 31 Dec. 2008	81	11	19	111

In 2008 the most significant restructuring action was the Graphic Papers divestment which increased provisions by EUR 62.6 million.

23. Capital note loans and borrowings

Capital note loans

Metsäliitto Cooperative's capital note loan

The loan in a capital note loan in compliance with Chapter 12 of the Companies Act. Notes can be issued to a maximum nominal value of EUR 150 million. The amount raised by the end of 2008 was EUR 62.8 million, of which subscribers outside the Metsäliitto Group accounted for EUR 50.5 million.

The notes carry a fixed 7.5 per cent coupon and mature on 8 December 2009, when the loan will be repaid to its full nominal value of EUR 63.3 million. The loan is unsecured.

In the event of the company being wound up or going into liquiditation, payment of the loan capital plus interest will be subordinated to settlement of all other debts. The loan carries priority equal at least to that of any other capital note loans or similar instruments the company may issue in the future.

Interest-bearing borrowings	**2008**		**2007**	
EUR million	Book values	Fair values	Book values	Fair values
Non-current interest-bearing borrowings				
Capital note loans	0	0	49	50
Bonds	1,344	864	1,560	1,480
Loans from financial institutions	1,324	1,319	1,152	1,153
Pension loans	51	53	66	67
Finance lease liabilities	67	66	121	119
Other borrowings	68	68	62	62
Total	2,854	2,370	3,011	2,932
Current interest-bearing borrowings				
Current portion of capital note loans	50	48	91	107
Current portion of long-term debt	402	393	389	387
Short-term borrowings	67	67	52	52
Bill of exchange payable	7	7	9	9
Other borrowings	165	165	207	207
Total	691	679	747	761
Interest-bearing borrowings, total	3,545	3,049	3,758	3,693

Interest-bearing financial assets	**2008**		**2007**	
EUR million	Book values	Fair values	Book values	Fair values
Financial assets at fair value through profit or loss (non-current)	0	0	4	4
Available-for-sale investments (non-current)	0	0	0	0
Loan receivables (non-current)	228	184	28	27
Financial assets at fair value through profit or loss (current)	4	4	0	0
Loan receivables (current)	28	28	27	27
Current investments at fair value	0	0	0	0
Current investments at amortized cost	405	405	324	324
Cash at bank and in hand	215	215	104	104
Interest-bearing financial assets, total	879	835	487	487
Interest-bearing net borrowings	2,666	2,214	3,271	3,206

In Metsäliitto Group all interest-bearing borrowings are valued in the balance sheet at amortized cost based on effective interest method. Interest bearing financial assets are classified according to the IAS standards. Fair values in the table are based on present value of cash flow of each liability or assets calculated by market rate. The discount rates applied are between 2.5–38.0 per cent (4.2–11.4). Of interest bearing borrowings 91per cent (89) is subject to variable rates and the rest to fixed rates. The average interest rate of interest-bearing borrowings at the end of 2008 was 6.6 per cent (6.9). The fair values of accounts and other receivables and accounts payables and other liabilities are not essentially deviating from the book value in the balance sheet.

Maturity of repayment and interest payment of financial liabilities 31 Dec. 2008							
EUR million	**Book value**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014-**
Capital note loans	50						
Repayment		-50	0	0	0	0	0
Interest payment		-4	0	0	0	0	0
Bonds and debentures	1,584						
Repayment		-240	-547	-52	-102	-494	-150
Interest payment		-115	-102	-64	-59	-33	-10
Loans from financial institutions	1,458						
Repayment		-135	-115	-669	-160	-265	-114
Interest payment		-68	-61	-41	-24	-18	-7
Pension loans	71						
Repayment		-20	-39	-1	0	0	-11
Interest payment		-4	-2	-1	-1	-1	0
Finance lease liabilities	73						
Repayment		-6	-9	-6	-5	-7	-39
Interest payment		-4	-4	-4	-3	-3	-13
Other non-current interest-bearing liabilities	68						
Repayment		0	0	0	-4	-49	-15
Interest payment		-4	-3	-3	-3	-3	0
Total	3,306						
Repayments in 2009	-452						
Non-current interest-bearing liabilities, total	2,854						
Repayment		-452	-711	-729	-271	-815	-328
Interest payment		-199	-172	-112	-89	-57	-31
Current interest-bearing liabilities	238						
Repayment		-238	0	0	0	0	0
Interest payment		-10	0	0	0	0	0
Accounts payable	407						
Repayment		-407	0	0	0	0	0
Other non-interest-bearing liabilities	548						
Repayment		-523	-9	-3	-3	-2	-8
Derivative financial instrument liabilities	44						
Interest rate swaps		-7	-8	-8	-8	-3	1
Currency derivatives		-2,224	-10	-10	-7	-5	-3
Commodity derivatives		-1	-6	-6	-1	0	0
Total liabilities	4,544						
Repayment		-1,620	-719	-732	-274	-817	-337
Interest payment		-2,441	-195	-135	-105	-66	-33
Derivative financial instrument assets	77						
Interest rate swaps		0	0	0	0	0	0
Currency derivatives		2,300	8	8	6	4	2
Commodity derivatives		0	0	0	0	0	0
Total	77	2,300	8	8	6	4	2

Maturity of repayment and interest payment of financial liabilities 31 Dec. 2007							
EUR million	**Book value**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013-**
Capital note loans	140						
Repayment		-91	-49	0	0	0	0
Interest payment		-10	-4	0	0	0	0
Bonds and debentures	1,813						
Repayment		-253	-235	-546	-52	-101	-627
Interest payment		-146	-122	-107	-62	-56	-37
Loans from financial institutions	1,249						
Repayment		-96	-290	-95	-444	-90	-233
Interest payment		-66	-59	-42	-25	-12	-15
Pension loans	84						
Repayment		-18	-18	-33	-1	0	-14
Interest payment		-4	-3	-2	-1	-1	-2
Finance lease liabilities	140						
Repayment		-19	-21	-20	-17	-13	-50
Interest payment		-6	-5	-4	-3	-3	-13
Other non-current interest-bearing liabilities	65						
Repayment		-2	-3	0	0	-3	-56
Interest payment		-3	-3	-3	-3	-3	-3
Total	3,490						
Repayments in 2008	-480						
Non-current interest-bearing liabilities, total	3,011						
Repayment		-480	-616	-694	-514	-207	-980
Interest payment		-235	-196	-159	-94	-74	-70
Current interest-bearing liabilities	267						
Repayment		-267	0	0	0	0	0
Interest payment		-9	0	0	0	0	0
Accounts payable	607						
Repayment		-607	0	0	0	0	0
Other non-interest-bearing liabilities	663						
Repayment		-614	-10	-12	-5	-4	-19
Derivative financial instrument liabilities	19						
Interest rate swaps		-7	-5	-6	-6	-6	-3
Currency derivatives		-2,957	-13	-12	-12	-9	-9
Commodity derivatives		0	0	0	0	0	0
Total liabilities	5,047						
Repayment		-1,968	-625	-705	-518	-212	-999
Interest payment		-3,208	-213	-176	-111	-89	-82
Derivative financial instrument assets	49						
Interest rate swaps		8	2	0	0	0	0
Currency derivatives		2,981	9	8	8	6	6
Commodity derivatives		9	8	3	0	0	0
Total	49	2,999	19	12	9	6	6

Bonds

EUR million	Interest, %	2008	2007
2000–2008	5.64	0	18
2002–2009	8.89	100	96
2002–2012	9.20	102	101
2002–2014	9.40	115	113
2003–2008	6.96	0	100
2003–2008	6.58	0	20
2004–2008	6.96	0	50
2004–2009	5.37	30	30
2004–2009	5.91	30	30
2004–2009	5.91	10	10
2004–2011	5.54	30	30
2004–2011	6.30	10	10
2004–2011	6.52	12	12
2004–2013	9.00	26	26
2005–2008	7.37	0	3
2005–2008	5.60	0	17
2006–2008	6.38	0	45
2006–2009	7.69	70	70
2006–2010	6.67	150	149
2006–2010	7.70	397	396
2006–2013	8.75	490	488
2008–2018	7.00	13	0
		1,584	1,813

Maturity of finance lease liabilities

EUR million	2008	2007
Minimum lease payments		
Not later than 1 year	10	25
1–2 years	13	26
2–3 years	10	25
3–4 years	8	20
4–5 years	10	16
Later than 5 years	52	63
Total	104	175
Future finance charges	31	35
Present value of minimum lease payments	73	140

Present value of minimum lease payments		
Not later than 1 year	6	19
1–2 years	9	21
2–3 years	6	20
3–4 years	5	17
4–5 years	7	13
Later than 5 years	39	50
Total	73	140

The most significant finance lease agreements are M-real's Äänevoima Oy's power plants. Äänevoima's contract periods vary between 10 and 15 years. All finance lease liabilities will be due in 2017 at the latest. These leases contain renewal and purchase options. Finance lease agreement of power plant in Kirkniemi included in 2007's figures. The lease agreement was disposed as part of Graphic Papers business.

24. Other non-current liabilities

EUR million	2008	2007
Liabilities to others		
Accruals and deferred income	3	14
Other liabilities	23	36
Total	26	50

25. Accounts payable and other liabilities

EUR million	2008	2007
Liabilities to associated companies		
Advance payments	18	15
Accounts payable	23	29
Other liabilities	0	1
Accruals and deferred income	1	1
Total	43	46
Liabilities to others		
Advance payments	22	16
Accounts payable	384	579
Other liabilities	135	141
Accruals and deferred income	335	392
Total	875	1,127
Accounts payable and other liabilities, total	918	1,173

Accruals and deferred income

EUR million	2008	2007
Non-current		
Compensation and contribution commitments	2	4
Others	1	10
Total	3	14
Current		
Periodizations of employee costs	98	117
Interests	29	36
Accruals of purchases	68	86
Others	141	153
Total	336	393

26. Derivatives

	Nominal value	Fair value					
EUR million		Total	Fair value hedges	Cash flow hedges	Equity hedges	Derivatives outside hedge accounting	Derivatives held for trading
2008							
Interest forward agreements	4	0				0	
Interest rate options	0	0					
Interest rate swaps	1,154	-18	-9	-2		-7	0
Interest rate derivatives, total	1,158	-18	-9	-2	0	-7	0
Currency forward agreements	2,214	77		-18	82	13	0
Currency option agreements	5	0				0	
Currency swap agreements	127	-12	-13			0	
Currency derivatives, total	2,346	64	-13	-18	82	13	0
Commodity forward agreements	232	-13		-17		4	0
Commodity option agreements	0	0					
Commodity derivatives, total	232	-13	0	-17	0	4	0
Derivatives total	3,735	33	-22	-37	82	10	-1

Fair value includes also closed agreements of a total value of EUR 786.8 million.

2007							
Interest forward agreements	4	0				0	
Interest rate options	156	0					0
Interest rate swaps	1,532	3	-4	4		4	0
Interest rate derivatives, total	1,693	4	-4	4	0	4	0
Currency forward agreements	2,943	28		1	13	13	
Currency option agreements	205	0				0	0
Currency swap agreements	120	-22	-22				
Currency derivatives, total	3,268	6	-22	1	13	13	0
Commodity forward agreements	160	20		13		7	0
Commodity option agreements	0	0					
Commodity derivatives, total	160	20	0	13	0	7	0
Derivatives total	5,121	29	-26	18	13	24	0

Derivatives, book values		
EUR million	**2008**	**2007**
Assets	77	49
Liabilities	44	19

27. Maturity analysis of cash flow hedge accounting

Result of the hedging instrument is booked to the income statement at the realization of the cash flow. Contractual maturities of hedging instruments equals to the hedged cash flow.

EUR million	31.12.2008			
Periods when the forecasted cash flows are expected to occur	Highly probable foreign currency cash flows	Contractual interest cash flows	Highly probable commodity cash flows	Highly probable commodity cash flows
Q 1	94	-1	2	-8
Q 2	65	-2	2	-8
Q 3	44	0	2	-8
Q 4	35	-2	2	-8
Total in 2009	239	-5	6	-31
2010	0	-4	0	-27
2011	0	-2	0	-19
2012	0	-1	0	-2
2013	0	0	0	0
Cash flows total	239	-12	6	-79
Total nominal values of derivatives directed to hedge accounting	239	130	6	79

EUR million	31.12.2007			
Periods when the forecasted cash flows are expected to occur	Highly probable foreign currency cash flows	Contractual interest cash flows	Highly probable commodity cash flows	Highly probable commodity cash flows
Q 1	149	-2	0	-10
Q 2	77	-5	0	-10
Q 3	45	-4	0	-10
Q 4	0	-5	0	-10
Total in 2008	271	-16	0	-38
2009	0	-3	0	-30
2010	0	-1	0	-16
2011	0	-1	0	-4
2012	0	0	0	0
Cash flows total	271	-22	0	-88
Total nominal values of derivatives directed to hedge accounting	271	335	0	88

28. Principal subsidiaries at 31 December 2008

Metsäliitto Cooperative
The parent company Metsäliitto Cooperative's shares are listed on pages 124–125.

M-real	Country	Number of shares	Group's holding, %
In Finland			
Metsäliitto Cooperative	Finland	179,171	
Alrec Boiler Oy [1]	Finland	899	25
Oy Hangö Stevedoring Ab	Finland	150	100
Kemiart Liners Oy	Finland	2,000,000	100
Logisware Oy	Finland	4,500	100
M-real International Oy	Finland	10,000	100
Metsä Group Financial Services Oy	Finland	25,500	51

[1] Consolidated as a subsidiary due to contractual arrangements.

In other countries			
M-real Deutsche Holding GmbH	Germany		100
M-real Fine B.V.	Netherlands	1,000	100
M-real Holding France SAS	France	520,000	100
M-real IBP Deals Americas Ltd	USA	50	100
M-real IBP Deals Europe S.A.	Belgium	1,000	100
M-real NL Holding B.V.	Netherlands	15,350	100
M-real Reinsurance AG	Switzerland	19,997	100
M-real Services S.p. Z.o.o	Poland	400	100
M-real Sverige Ab	Sweden	10,000,000	100
M-real UK Holdings Ltd	Great Britain	146,750,000	100

Metsä Tissue			
In Finland			
Finncao Oy	Finland	473	50
In other countries			
Dambi AB	Sweden	4,501,000	100
Metsä Tissue Ltd	Great Britain	100	100
Metsä Tissue OOO	Russia	1	100
Metsä Tissue S.A.	Poland	11,180,992	100
Subgroups in other countries			
Dambi AB			
Metsä Tissue AB	Sweden	2,000,000	100
Metsä Tissue A/S	Denmark	1,000	100
Metsä Tissue AS	Norway	6,020	100
Metsä Tissue GmbH	Germany	1	100
Halstrick Transport GmbH	Germany	1	100
Metsä Tissue Immobilienverwaltungs GmbH	Germany	1	100
Metsä Tissue a.s.	Slovakia	102	100
Tento Hungary Kft	Hungary		100

29. Joint ventures

Joint ventures have been consolidated using line-by-line method proportionate to the Group's holding. Group's consolidated income statement and balance sheet included assets, liabilities, income and cost as follows:

EUR million	**2008**	**2007**
Non-current assets	1,336	1,258
Current assets	459	365
Total assets	1,796	1,622
Non-current liabilities	557	451
Current liabilities	260	280
Total liabilities	817	730
Sales	1,214	1,111
Expenses	1,120	995
Result	74	85

Significant joint ventures:

Holding, %	**2008**	**2007**
Oy Metsä-Botnia Ab	53.0	53.0
Vapo Oy	49.9	49.9
Äänevoima Oy	56.3	56.3
Grovehurst Energy Ltd	0.0	50.0
Katrinefors Kraftvärme Ab	50.0	50.0

The Metsäliitto Group has a 53 per cent holding in Metsä-Botnia. Of this, Metsäliitto Cooperative owns 23 per cent and M-real 30 per cent.

30. Contingent liabilities

EUR million	**2008**	**2007**
For own liabilities		
Liabilities secured by pledges		
Loans from financial institutions	200	200
Other liabilities	0	
Pledges granted	103	103
Liabilities secured by mortgages		
Loans from financial institutions	68	69
Real-estate mortgages	71	71
Liabilities secured by non-real-estate mortgages		
Other liabilities	2	2
Non-real-estate mortgages	3	3
On behalf of Group companies		
Pledges	0	18
Real estate mortgages	5	5
Guarantee liabilities	23	17
On behalf of associated companies		
Guarantee liabilities	3	3
On behalf of others		
Pledges		2
Non-real-estate mortgages	0	0
Guarantee liabilities	4	2
Other liabilities		
As security for own commitments	16	22
Pension liabilities	0	0
Total		
Pledges	103	123
Real estate mortgages	80	79
Guarantees	29	23
Other liabilities	16	22
Pension liabilities	0	0
Leasing liabilities	97	107
Total	325	355

Leasing liabilities
The future costs for non-cancellable operating leasingcontracts are as follows:

EUR million	**2008**	**2007**
Payments due in following 12 months	24	23
Payments due in following 1–5 years	60	66
Payments due later than 5 years	13	18
Total	97	107

Operational lease charges in 2008 were EUR 23.8 million (18.0).

Unconditional purchase agreement

EUR million	**2008**	**2007**
Tangible assets, payments due in following 12 months	0	38
Tangible assets, payments due in subsequent years	1	7
Others, payments due in following 12 months	56	8
Others, payments due in subsequent years	8	33

Joint ventures
Proportionate interest in Metsä-Botnia's unconditional purchase agreement, fixed assets, was at the year end EUR 0.0 million (43.6). Metsä Tissue's mill in Mariestad Sweden has an agreement to buy process steam from the local energy company Katrinefors Kraftvärme Ab of which Metsä Tissue Ab owns 50 per cent. The agreement is valid until the year 2016.

31. Share based incentive programme

Share incentive programme 2005–2007
On February 4th 2005, Metsäliitto's Board of Directors decided to adopt a share incentive programme. The programme offers target groups the possibility to be awarded M-real Corporation B shares for achieving the goals set for three periods each of one calendar year. These periods during which the bonus can be earned have been the calendar years 2005, 2006 and 2007.

The size of the bonus awarded under the share incentive programme has been linked to each Group company's operating profit (a weighting of 50% by EBIT) and the return on capital employed (a weighting of 50% by ROCE). The respective bonus has been paid as M-real Corporation B shares and as UPM Kymmene Corporation shares (Metsä-Botnia). In addition, cash has been paid to cover tax effects. At a maximum the amount has been 1.5 times the value of the shares. The achievement of performance targets set has determined how much of the maximum reward has been paid to key personnel.

The bonus has not been paid if the person concerned has ceased to be employed before the award is paid. The person concerned must also own the shares for at least two years after the date of the award payment.

Share incentive programme 2008-2010
On January 16th 2008, Metsäliitto's Board of Directors decided to adopt a share incentive programme for 2008-2010. The programme offers target groups the possibility to be awarded M-real Corporation B shares for achieving the goals set for three periods each of one calendar year. These periods during which the bonus can be earned are the calendar years 2008, 2009 and 2010.

The size of the bonus awarded under the share incentive programme is linked to each Group company's operating profit (a weighting of 50% by EBIT) and the return on capital employed (a weighting of 50% by ROCE). The respective bonus is paid as M-real Corporation B shares and as UPM Kymmene Corporation shares (Metsä-Botnia). In addition, cash is paid to cover tax effects. At a maximum the amount is the same as the value of the shares. The achievement of performance targets set determines how much of the maximum reward will be paid to key personnel.

The bonus is not paid if the person concerned ceases to be employed before the award is paid. The person concerned must also own the shares for at least two years after the date of the award payment.

Share incentive programme

	2006	2007	2008	Total
Maximum number of shares *)	406,472	406,101	483,715	1,296,288
Share price at grant date, EUR	4.21	4.81	2.54	
Fair value of share at grant date, EUR **)	3.97	4.57	2.42	
Share price at the end of accounting period, EUR	5.82	2.10	0.69	
Vesting period begins, date	1.1.2006	1.1.2007	1.1.2008	
Vesting period ends, date	31.12.2006	31.12.2007	31.12.2008	
Criteria				
50%	EBIT	EBIT	EBIT	
50%	ROCE	ROCE	ROCE	
Exercise assumption, %	37	52	31	
Obligation to hold shares, years	2	2	2	
The release date of shares	1.1.2009	1.1.2010	1.1.2011	
Binding time left, years	0	1	2	
Number of key personnel (31 December)	15	27	35	
Amounts 1 January				
Shares granted *)	406,472	406,101	0	812,573
Shares forfeited	0	0	0	0
Shares exercised	152,057	0	0	152,057
Shares expired	254,415	0	0	254,415
Total	152,057	406,101	0	558,158
Changes during the period				
Shares granted *)	0	0	483,715	483,715
Shares forfeited	8,000	16,000	12,500	36,500
Shares exercised	0	200,015	0	200,015
Shares expired	8,000	206,086	12,500	226,586
Amounts 31 December				
Shares granted *)	406,472	406,101	483,715	1,296,288
Shares forfeited	8,000	16,000	12,500	36,500
Shares exercised	152,057	200,015	0	352,072
Shares expired	262,415	206,086	12,500	481,001
Total	144,057	200,015	471,215	815,287

The amounts in the table reflect the number of shares to be given on the base of share-based payment. Metsäliitto has also committed not to pay more than 1.5 times the value of shares in the 2006 and 2007 vesting periods and more than the value of shares in cash (tax-portion) in the 2008 vesting period.

*) The figures include UPM Kymmene Corporation shares, which are part of the Oy Metsä-Botnia Ab's equity-based reward scheme.

**) The share price has been reduced by the amount of the dividend to be paid (EUR 0.24 in the 2006 and 2007 vesting periods and EUR 0.12 in the 2008 vesting period), which will not be received by the persons.

Fair value measuring

Metsäliitto has used Alexander Corporate Finance Oy as an expert to measure the fair value of the reward in shares. Because Metsäliitto gives as a reward to employees of the parent company and other subsidiary Group companies shares of its subsidiary M-real Corporation and, in the case of Metsä-Botnia, shares of UPM Kymmene Corporation, the measurement of the fair value of the reward is divided into two parts pursuant to the IFRS 2 standard: the part settled in shares and the part settled in cash.

The part settled in shares is recognised in equity and the payment settled in cash is recognised in liabilities. The fair value of the sharebased payment on the date when the reward was granted was the market price of M-real's B series share minus the amount of dividends paid before the payment of the reward. Calculated in this manner, the fair value of the share was EUR 3.97 per share in the 2006 vesting period, EUR 4.57 per share in the 2007 vesting period and EUR 2.42 per share in the 2008 vesting period. Only rewards paid in shares of M-real to employees of M-real constitute payments settled in shares pursuant to the IFRS 2 standard. The fair value of the part of the payment settled in cash is re-estimated on each reporting date until the end of the vesting period. Therefore, the fair value of the liability changes according to the price of M real's B series share and partly also UPM Kymmene's share (Metsä-Botnia).

At the end of the accounting period, the fair value of the cash part in the 2006 vesting period was EUR 5.82 / EUR 19.07 per share (price of M-real's B series share / price of UPM Kymmene's share, which determined the taxation ratio of the reward in shares on 30 March 2007, the date of the transfer of the shares). In the 2007 vesting period, the fair value of the cash part was EUR 2.10 / EUR 11.60 per share (price of M-real's B series share / price of UPM Kymmene's share, which determined the taxation ratio of the reward in shares on 15 April 2008, the date of the transfer of the shares). In the 2008 vesting period, the fair value of the cash part was EUR 0.69 / EUR 9.0 per share (price of M-real's B series share / price of UPM Kymmene's share on 30 December 2008). The combined fair value of all rewards in shares granted during the period was EUR 0.3 million on 31 December 2008. In the 2008 accounting period, the effect of the rewards in shares on Metsäliitto Group's result was EUR 1.0 million (1.3).

Parameters used in fair value measuring

	2006	2007	2008	Total
Granted shares (M-real)	398,516	396,516	478,715	1,273,747
Granted shares (UPM)	7,956	9,585	5,000	22,541
Share price at grant date (M-real), EUR	4.21	4.81	2.54	
Share price at grant date (UPM), EUR	17.80	19.07	12.06	
Assumed dividends (M-real), EUR	0.24	0.24	0.12	
Share price at end of exercise period (M-real), EUR*)	3.97	4.57	2.42	
Share price at the end of financial period (M-real), EUR**)	5.82	2.10	0.69	
Share price at the end of financial period (UPM), EUR**)	19.07	11.60	9.00	
Assumed shares to be forfeited before allocation, %	3	4	3	
Assumed shares to be forfeited during binding time, %	6	0	1	
Exercise assumption of criteria, % ***)	37	47	32	
Shares exercised during vesting period (M-real) ***)	146,086	196,082	151,538	493,706
Shares exercised during vesting period (UPM) ***)	5,971	3,933	715	10,619
The fair value of reward at 31 Dec. 2008, EUR	1,999,616	1,004,470	270,711	3,274,797
Expense recognised 2008, EUR	705,067	177,604	84,204	966,875

*) Share price at the end of the exercise period deducted by expected dividend before the reward payment: EUR 0.12 (vesting periods 2006 and 2007) and EUR 0.06 (vesting period 2008).
**) Share prices in vesting periods 2006 and 2007 are the prices at the date of the payment. The shares were transferred on 20.3.2007 and 15.4.2008. Share price in vesting period 2008 is the price at the end of the financial period.
***) The amount of the fee earned for the vesting period is set on the basis of the achieved targets at the end of each period by the end of April. The scale is based on the best possible estimate on the number of shares on 31 December 2008, which will be transferred for the 2008 vesting period. In addition, the company will pay the amount in money, equivalent to the value of the transferred shares to cover taxes.

32. Related party transactions

The Metsäliitto Group has a 49.9 per cent holding in Vapo Group and a 23 per cent holding in Metsä-Botnia. M-real has a 30 per cent holding in Metsä-Botnia. In 2007, Metsäliitto Cooperative bought 9 per cent of Metsä-Botnia's shares from M-real. Metsä-Botnia and Vapo are considered as joint ventures. Metsä-Botnia and Vapo purchase a major part of their wood raw material at market price from Metsäliitto Cooperative, the parent company of the Metsäliitto Group. Metsä-Botnia sells pulp at market price to Metsäliitto's subsidiaries M-real and Metsä Tissue.

The sales consisting of Metsäliitto Cooperative's wood deliveries to the Group subsidiaries were EUR 108 million (153). The sales consisting of wood deliveries to associated companies and joint ventures totaled EUR 441 million (595).

Metsäliitto Group's forest holdings are centralized in Finsilva Corporation, which is an associated company of Metsäliitto Cooperative (49.9%). Finsilva sells wood to Metsäliitto Cooperative. The value of wood deliveries in 2007 was EUR 24 million (31).

Metsä Group Financial Services owned by Metsäliitto Cooperative and M-real is the Group's internal bank. The interests are market based. Business transactions with associates are presented in Notes 13. A list of joint ventures is included in Notes 29.

33. Environmental affairs

Income statement (incl. discontinued operations)		
EUR million	**2008**	**2007**
Materials and services	27	31
Employee costs		
Wages and fees	6	6
Other employee costs	2	2
Depreciation	25	22
Other operating expenses	21	24
Total	81	86

Balance sheet		
Tangible assets		
Acquisition costs, 1 Jan.	546	516
Increases	105	54
Decreases	-143	-24
Accumulated depreciation at 31 Dec.	-270	-348
Book value, 31 Dec.	237	198
Provisions		
Environmental obligations	11	12

Notes		
Conditional environmental-related liabilities	0	0
Guarantees due to environmental programmes	1	0
CO_2 emission allowances, continuing operations		
Possessions of emission allowances (1,000 tonnes)	1,543	2,365
Emission produced (1,000 tonnes)	1,472	2,488
Sales of emission allowances (EUR million)	3.5	0.7

34. Events after the balance sheet date

At the beginning of the year, M-real announced the new management and reporting structure which includes the Consumer Packaging, Office Papers and Other Papers business areas as well as the Market Pulp and Energy reporting segment.

M-real announced at the beginning of January the start of statutory negotiations concerning 1,500 people at mill operations in Finland.

Statutory labour negotiations were also started in January at the Hallein mill in Austria, concerning 480 people and of plans to discontinue paper production by the end of April. The future options for Hallein pulp mill are under consideration.

At Gohrsmühle, Germany, standard fine paper production will be discontinued during April and its impacts will be evaluated. Production of uncoated fine paper reels and folio sheets will, however, be expanded.

On 14 January, Metsä-Botnia announced the closing down of the Kaskinen mill during the first quarter of 2009. As a result of the closure, the company will book as one-time closure costs in aggregate approximately EUR 75 million, of which the cash impact will be approximately EUR 20 million.

In January, statutory labour negotiations were also conducted at Metsä-Botnia's other Finnish mills. Metsä-Botnia plans significant curtailments of production at the mills, which will be effected during 2009. Production will be curtailed in the first phase by continuous curtailing. In case further curtailments are necessary, production stops will be planned separately for each mill.

In January, Metsäliitto Wood Products Industry announced that it will supply wooden structures to the Ideapark Commercial City in Kiiminki, northern Finland. With a floor area of over 100,000 square metres, the construction project, due to start in May 2009, will produce one of the biggest commercial buildings in Finland. Ideapark Kiiminki is planned to be opened in 2011.

On 27 January, Metsäliitto Wood Products Industry announced that it will suspend the operations at its Kyröskoski sawmill until further notice due to heavily reduced demand and unprofitable sawmilling. Should the overall prerequisites for profitable sawmilling return, Metsäliitto Wood Products Industry will determine if the operations of the Kyröskoski sawmill can be resumed after the summer – potentially with limited capacity.

On 5 February 2009, M-real launched a new profit improvement programme with an annual target of EUR 80 million. The programme targets at savings in the business areas and streamlining the support functions to reflect the new company structure after the divestment of Graphic Papers. The full annual effect of the programme will be visible from 2011. The majority of the profit improvement measures are expected to be implemented in 2009, and the profit impact is estimated to be EUR 20–25 million in 2009. The related non-recurring costs booked during 2009 are expected to be about EUR 18 million. At the same time, M-real also implemented a separate EUR 60 million programme to boost the 2009 cash flow including e.g. the reduction of operating net working capital and cuts in investments.

Parent company accounts

(Finnish Accounting Standards, FAS)

Income statement

EUR million	Note	1.1.-31.12.2008	1.1.-31.12.2007
Sales	1	**1,660.3**	**1,762.9**
Change in stocks of finished goods			
and work in progress		-23.3	11.6
Production for own use		0.5	0.5
Other operating income	2	67.2	21.6
Materials and services			
Raw materials and consumables			
Purchases during the financial period		-1,068.7	-1,115.8
Change in stocks		-1.4	24.2
Costs of external services		-408.1	-377.6
Employee costs	3	-161.8	-151.7
Depreciation and impairment charges	4	-48.6	-41.5
Other operating expenses	5	-70,8	-39.6
		-1,759.4	-1,702.0
Operating result		**-54.7**	**94.5**
Financial income and expenses	6		
Interest income from Group companies		13.0	20.9
Interest income from associated companies		18.2	19.9
Income from other financial investments		12.4	13.4
Other interest and similar income		8.9	11.5
Net exchange gains/losses		17.7	17.3
Write-downs on non-current investments		-2.4	0.0
Interest and similar expenses		-54.0	-49.9
		13.8	33.0
Result before appropriations and taxes		**-40.9**	**127.5**
Extraordinary items	8		
Extraordinary income		0.9	0.0
Extraordinary expenses		0.0	0.0
		0.9	0.0
Result before appropriations and taxes		**-40.0**	**127.5**
Appropriations			
Change in depreciation reserve		39.3	11.4
Income taxes	9	-0.3	-25.7
Surplus / Deficit for the financial period		**-1.1**	**113.2**

Parent company accounts
Balance sheet

EUR million	Note	31.12.2008	31.12.2007
ASSETS			
Non-current assets			
Intangible assets	10		
Intangible rights		7.0	7.2
Goodwill		1.5	2.2
Other capitalized expenditure		3.2	3.1
Advance payments and construction in progress		1.1	2.3
		12.7	14.8
Tangible assets	10		
Land and water areas		5.3	5.3
Buildings		56.7	64.0
Plant and equipment		121.3	119.8
Other tangible assets		4.6	5.5
Advance payments and construction in progress		8.5	17.0
		196.3	211.6
Investments	11,12		
Shares in Group companies		846.7	847.1
Receivables from Group companies		129.6	129.6
Investments in associated companies		643.4	642.7
Receivables from associated companies		0.2	0.2
Other investments		2.1	4.3
Other receivables		4.1	19.6
		1,626.1	1,643.6
Non-current assets total		**1,835.1**	**1,870.0**
Current assets			
Inventories			
Raw materials and consumables		91.4	96.4
Finished goods and work in progress		41.0	61.3
Other stocks		2.0	1.4
Advance payments		35.4	63.8
		169.9	222.9
Non-current receivables	13		
Receivables from Group companies		4.5	16.9
Receivables from associated companies		0,1	2,0
Loan receivables		4.2	0.0
		8.8	18.9
Current receivables	13		
Accounts receivables		57.3	78.0
Receivables from Group companies		187.7	181.1
Receivables from associated companies		20.1	48.4
Loan receivables		5.4	1.6
Other receivables		15.3	12.9
Accrued income		3.4	7.3
		289.2	329.3
Receivables total		297.9	348.2
Cash and cash equivalent		4.3	3.0
Current assets total		**472.2**	**574.1**
Assets total		**2,307.2**	**2,444.1**

EUR million	Note	31.12.2008	31.12.2007
MEMBERS' FUNDS AND LIABILITIES			
Members' funds	14		
Members' capital		190.1	186.7
Additional members' capital A		512.3	517.1
Additional members' capital B		21.9	24.1
Other reserves			
General reserve I		3.9	3.9
General reserve II		42.6	36.9
Retained earnings		419.6	353.1
Surplus / Deficit for the financial period		-1.1	113.2
		1,189.4	**1,235.1**
Appropriations			
Depreciation reserve		**40.8**	**80.1**
Provisions	15	**2.2**	**3.6**
Liabilities	16,17		
Non-current liabilities			
Capital note loan		0.0	62.6
Bonds and debentures		150.0	150.0
Loans from financial institutions		600.1	410.6
Pension premium loans		6.3	4.8
Advance payments		0.0	0.0
Loans from Group companies		3.1	4.4
Other liabilities		4.8	3.2
		764.3	635.6
Current liabilities	18		
Capital note loan		63.0	90.7
Bonds and debentures		0.0	45.0
Loans from financial institutions		15.6	22.3
Advance payments		2.0	6.8
Accounts payable		104.1	142.0
Payables to Group companies		17.1	24.0
Payables to associated companies		44.6	42.2
Other liabilities		11.3	10.1
Accruals and deferred income	19	52.8	106.8
		310.5	489.7
Liabilities total		**1,074.9**	**1,125.3**
Members' funds and liabilities total		**2,307.2**	**2,444.1**

Parent company accounts
Cash flow statement

EUR million	2008	2007
Cash flow from operating activities		
Operating result	-54.7	94.5
Adjustments to operating result [1)]	47.9	35.9
Interest received	23.1	22.4
Interest paid	-59.7	-48.2
Dividends received	31.2	41.1
Other financial items, net	15.4	15.9
Taxes paid	-21.5	-8.9
Change in working capital [2)]	37.1	-29.4
	18.9	123.4
Cash flow arising from investing activities		
Acquisition of shares	-2.5	-310.6
Capital expenditure	-33.2	-33.2
Proceeds from disposal of shares	1.0	16.8
Proceeds from sale of fixed assets	1.8	3.0
Proceeds from/increase in long-term receivables	26.6	-4.2
	-6.2	-328.3
Cash flow before financing	**12.7**	**-204.9**
Cash flow arising from financing activities		
Proceeds from non-current liabilities	231.5	0.0
Payments of non-current liabilities	-176.4	-2.1
Proceeds from/payments of current liabilities, net	-9.2	-121.8
Change in current interest-bearing receivables, net	-12.6	340.5
Dividends paid	-41.1	-36.2
Increase in members' funds	-3.6	21.6
	-11.4	201.9
Change in cash and cash equivalents	**1.3**	**-3.0**
Cash and cash equivalents at beginning of period	3.0	6.0
Change in cash and cash equivalents	1.3	-3.0
Cash and cash equivalents at end of period	**4.3**	**3.0**

1) Adjustments to operating result		
Depreciation and impairment charges	48.6	41.5
Gains and losses on sale of fixed assets	0.3	-2.7
Change in provisions	-1.4	-2.9
Loss on mergers	0.4	0.0
Total	47.9	35.9
2) Change in working capital		
Inventories (increase-/decrease+)	53.0	-63.5
Current non-interest bearing receivables (increase-/decrease+)	52.5	-17.0
Current non-interest-bearing liabilities (increase+/decrease-)	-68.3	51.1
Total (increase-/decrease+)	37.1	-29.4

Parent Company Accounting policies

Metsäliitto Cooperative's financial statements have been prepared in accordance with Finnish accounting standards (FAS). Metsäliiton Palvelut Oy and Itä-Suomen Puutoimitus Oy were merged with the parent company Metsäliitto Cooperative on 31 August 2008.

Sales

Sales are calculated after deduction of indirect sales taxes, trade discounts and other items adjusting sales.

Exchange rate differences

Foreign exchange gains and losses have been booked to net exchange gains/losses under financial income and expense. Open and actual foreign exchange differences hedging sales are recorded immediately to financial income and expenses in the income statement.

Transactions in foreign currency

Transactions in foreign currency have been booked at the exchange rate on the day of the transaction. At the balance sheet date, receivables and liabilities denominated in foreign currency have been translated into euros at the exchange rate quoted by the European Central Bank at the balance sheet date.

Pensions and pension funding

Statutory pension security is handled by pension insurance companies outside Metsäliitto Cooperative. In addition to statutory pension security, some salaried employees have supplementary pension arrangements which are either insured, arranged through the Metsäliitto Employees' Pension Foundation or are an unfunded liability of the company.

Pension insurance premiums have been periodized to correspond to the accrual-based wages and salaries given in the financial statements.

Research and development expenditure

Research and development expenditure is recorded as an expense in the relevant financial period.

Inventories

Inventories are measured at the lower of cost or net realizable value. In measuring inventories, the FIFO principle is observed or, alternatively, the weighted average price method.

Property, plant and equipment and depreciation

The carrying values of property, plant and equipment are based on original acquisition costs less depreciation according to plan and impairment losses. Straightline depreciation according to plan is based on the estimated useful life of the asset as follows:

Goodwill	5–10 years
Buildings and structures	20–40 years
Machinery and equipment	3–15 years
Other items	3–10 years

Depreciation is not recorded on the purchase cost of land and water areas.

Leasing

Lease payments are treated as rental expenses.

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 income statement as extraordinary items. The tax effect of extraordinary items is presented in the notes to the financial statements.

Appropriations

Finnish tax legislation offers the possibility to deduct expenses prematurely from the profit for the financial year and to transfer them to the balance sheet as provisions. The items are taken into account in tax filings only if they have been entered in the accounts. These items are presented in the appropriations in the income statement. The most substantial of these appropriations is the depreciation difference on fixed assets.

Provisions

Future costs and losses to which the Group is committed and which are likely to be realized are included in the income statement under the appropriate expense heading and in the balance sheet under provisions for future costs whenever the precise amount and the time of occurrence are not known and in other cases they are included in accrued liabilities. These can be, for example, the pension liability or costs of discontinued operations and restructuring costs.

Notes to the parent company's accounts

EUR million	2008	2007
1. Sales by market area		
Finland	1,118.1	1,118.5
EU-countries	410.4	487.9
Rest of the world	131.7	156.5
Total	1,660.3	1,762.9
2. Other operating income		
Rents	1.9	2.9
Gains on disposal of current assets	0.3	3.4
Services sold	44.0	8.9
Others	21.1	6.4
Total	67.2	21.6
3. Employee costs and personnel average		
Wages	95.2	92.5
Fees	1.9	3.9
Pension costs	25.9	20.2
Other employee costs	38.9	35.1
Total	161.8	151.7
Salaries and remunerations paid to management		
President and CEO and his deputy	2.1	2.2
Members of the board and their deputies	0.3	0.4
Members of the supervisory board	0.1	0.2
Total	2.5	2.8

Pension commitments
The CEO of the Group is entitled to retire on reaching the age of 60. Certain Metsäliitto top executives have the right to retire with a pension based on the Pension Fund rules at the age of 62.

EUR million	2008	2007
Personnel average		
White collars	1,264	1,115
Blue collars	2,078	2,121
Total	3,342	3,236
4. Depreciation and impairment charges		
Depreciations according to plan		
Intangible rights	3.9	3.9
Goodwill	0.7	2.2
Other capitalized expenditure	0.7	0.8
Buildings	13.7	5.5
Machinery and equipment	28.4	27.9
Other tangible assets	1.3	1.2
Depreciations according to plan, total	48.6	41.5
Change in depreciation reserve		
Difference between planned and book depreciation	-37.8	-11.5
Depreciation difference on current assets sold	-1.5	0.1
Total change in depreciation reserve	-39.3	-11.4
Total depreciation	9.3	30.1

EUR million	2008	2007
5. Main auditors fees		
Audit fees	0.4	0.3
Tax consultancy	0.0	0.1
Other fees	0.1	0.0
Total	0.4	0.4
6. Financial income and expenses		
Income from non-current investments		
Dividend income		
From Group companies	13.0	20.9
From associated companies	18.2	19.9
From others	0.0	0.4
Total	31.2	41.1
Interest income		
From Group companies	12.2	10.1
From associated companies	0.0	2.3
From others	0.3	0.6
Total	12.4	13.0
Income from non-current investments	43.6	54.1
Other interest and financial income		
Interest income from Group companies	8.0	10.0
Interest income from associated companies	0.3	0.2
Other interest income	0.6	1.3
Other financial income	0.0	0.0
Total	8.9	11.5
Exchange differencies	17.7	17.3
Write-downs of non-current investments	-2.4	0.0
Interest and financial expenses		
Interest expenses paid to Group companies	-3.2	-0.7
Interest expenses paid to associated companies	-0.1	-0.3
Interest expenses paid to others	-48.4	-47.5
Financial expenses to others	-2.3	-1.4
Total	-54.0	-49.9
Total financial income and expenses	13.8	33.0
7. Exchange differencies in income statement		
Exchange differencies on financing		
Exchange gains		
Realized	35.6	25.2
Unrealized	9.8	14.2
Total	45.4	39.4
Exchange losses		
Realized	-21.8	-13.2
Unrealized	-5.9	-8.9
Total	-27.7	-22.1
Exchange differencies on financing, total	17.7	17.3

EUR million	2008	2007
8. Extraordinary items		
Extraordinary income		
Group contributions received	0.9	0.0
Total	0.9	0.0

EUR million	2008	2007
9. Income taxes		
Taxes for the period	-0.2	25.9
Taxes for previous periods	-0.2	-0.2
Total	-0.3	25.7
Income taxes on ordinary operations	-0.1	25.9
Income taxes on extraordinary items	-0.2	0.0
Total	-0.3	25.9

10. Intangible and tangible assets

EUR million	Intangible rights	Goodwill	Other capitalized expenditure	Construction in progress	Total
Intangible assets					
Acquisition cost, 1 Jan.	41.3	7.3	9.6	2.3	60.4
Increases	0.7	0.0	0.4	2.0	3.2
Decreases	-4.8	0.0	-1.0	0.0	-5.8
Transfers between items	3.0	0.0	0.3	-3.3	0.0
Acquisition cost, 31 Dec. 2008	40.2	7.3	9.3	1.1	57.8
Accumulated depreciation, 1 Jan.	-34.0	-5.1	-6.4	0.0	-45.6
Accumulated depreciation on decreases and transfers	4.7	0.0	1.0	0.0	5.7
Depreciation for the period	-3.9	-0.7	-0.7	0.0	-5.3
Accumulated depreciation, 31 Dec. 2008	-33.2	-5.9	-6.1	0.0	-45.2
Book value, 31 Dec. 2008	7.0	1.5	3.2	1.1	12.7
Book value, 31 Dec. 2007	7.2	2.2	3.2	2.3	14.8
Accumulated depreciation difference	0.9	0.0	0.4	0.0	1.3

EUR million	Land and water areas	Buildings	Machinery and equipment	Other tangible assets	Construction in progress	Total
Tangible assets						
Acquisition cost. 1 Jan.	5.3	131.8	406.3	19.5	17.0	579.9
Increases	0.0	1.7	18.7	0.2	8.8	29.4
Decreases	0.0	-18.0	-47.9	-2.2	0.0	-68.1
Transfers between items	0.0	5.8	11.2	0.3	-17.4	0.0
Acquisition cost, 31 Dec. 2008	5.3	121.2	388.3	17.8	8.5	541.1
Accumulated depreciation, 1 Jan.	0.0	-67.7	-286.5	-14.0	0.0	-368.2
Accumulated depreciation on decreases and transfers	0.0	16.8	47.8	2.1	0.0	66.7
Depreciation for the period	0.0	-13.6	-28.4	-1.3	0.0	-43.3
Accumulated depreciation, 31 Dec. 2008	0.0	-64.6	-267.1	-13.2	0.0	-344.8
Book value, 31 Dec. 2008	5.3	56.7	121.3	4.6	8.5	196.3
Book value, 31 Dec. 2007	5.3	64.1	119.8	5.5	17.0	211.6
Accumulated depreciation difference	0.0	-0.2	39.8	-0.1	0.0	39.5

11. Investments, shares

EUR million	Shares in Group companies	Shares in associated companies	Other shares and holdings	Total
Acquisition cost, 1 Jan.	847.1	642.7	4.3	1,494.1
Increases	0.0	2.5	0.0	2.5
Decreases	-2.0	-0.2	-2.2	-4.3
Transfers	1.5	-1.5	0.0	0.0
Acquisition cost, 31 Dec. 2008	846.7	643.4	2.1	1,492.2
Book value 31 Dec. 2007	847.1	642.7	4.3	1,494.1

Investments, receivables EUR million	Receivables from Group companies	Receivables from associated companies	Other receivables	Total
Acquisition cost, 1 Jan.	129.6	0.2	19.6	149.5
Increases	0.0	0.0	0.9	0.9
Decreases	0.0	0.0	-16.5	-16.5
Acquisition cost, 31 Dec. 2008	129.6	0.2	4.1	133.9
Book value 31 Dec. 2007	129.6	0.2	19.6	149.5

EUR million	2008	2007
Investments, loan receivables		
Capital note loans, granted	0.5	0.5
Other loan receivables	133.5	149.0
Total	133.9	149.5

12. Fair values of financial investment in non-current assets

EUR million	Book value	Fair value	Difference
Stock exchange listed shares	516.0	91.1	425.0

Of the difference between the book value and the fair value, EUR 425.0 million derives from the M-real shares. The view of Metsäliitto is that the earnings likely accumulated by the shares in the future do not require impairment charges, and the low market valuation of M-real shares that has been determined in this financial situation is not regarded as permanent.

EUR million	2008	2007
13. Receivables		
Non-current receivables		
Loan receivables	8.8	18.9
Total	8.8	18.9
Current receivables		
Receivables from Group companies		
Trade receivables	17.1	26.4
Loan receivables	148.0	138.9
Prepayment and accrued income	22.7	15.8
Total	187.7	181.1
Receivables from associated companies		
Trade receivables	19.9	48.0
Loan receivables	0.2	0.4
Total	20.1	48.4
Receivables from others		
Trade receivables	57.3	78.0
Loan receivables	5.4	1.6
Other receivables	15.2	12.9
Prepayment and accrued income	3.4	7.3
Total	81.3	99.7
Receivables total	297.9	348.2

EUR million	2008	2007
Prepayment and accrued income, current		
Interest	0.6	2.3
Others	2.8	4.9
Total	3.4	7.3

14. Members' funds

Members' capital, 1 Jan.	186.7	179.2
Participation shares	4.9	6.7
Transferred from interest	3.2	4.0
Refund of participation shares	-4.7	-3.2
*) Members' capital, 31 Dec.	190.1	186.7
Additional members' capital A, 1 Jan.	517.1	503.3
Increase in additional members' capital	11.5	23.0
Transferred from interest	21.9	18.9
Refund of additional members' capital	-38.3	-28.0
**) Additional members' capital A, 31 Dec.	512.3	517.1
Additional members' capital B, 1 Jan.	24.1	23.9
Increase in additional members' capital	0.3	1.6
Refund of additional members' capital	-2.5	-1.3
Additional members' capital B, 31 Dec.	21.9	24.1
General reserve I, 1 Jan.	3.9	3.9
Membership fees	0.0	0.0
General reserve I, 31 Dec.	3.9	3.9
General reserve II, 1 Jan.	36.9	33.4
Transferred from retained earnings	5.7	3.5
General reserve II, 31 Dec.	42.5	36.9
Retained earnings, 1 Jan.	466.4	392.8
Dividends paid	-41.1	-36.2
Transferred to general reserve II	-5.7	-3.5
Surplus / Deficit for the financial period	-1.1	113.2
Retained earnings, 31 Dec.	418.5	466.4
Total members´ funds	1,189.4	1,235.1
*) Unpaid participation shares		
Total called-up members' capital	250.8	253.5
Participation shares paid	-189.3	-186.4
Unpaid participation shares	61.6	67.1

**) Of the additional members' capital EUR 102.6 million is due on 1 July 2009.

15. Provisions

EUR million	1 Jan. 2008	Increase	Decrease	31 Dec. 2008
Pension liability	0.0	0.0	0.0	0.0
Unemployment pension costs	1.7	0.3	-0.6	1.4
Unfunded pension costs	1.7	0.0	-1.0	0.7
Other provisions	0.1	0.0	0.0	0.1
Total	3.6	0.3	-1.7	2.2

EUR million	**2008**	**2007**
16. Liabilities		
Non-current		
Non-interest bearing	3.8	4.4
Interest-bearing	760.5	631.1
Total	764.3	635.6
Current		
Non-interest bearing	229.9	327.2
Interest-bearing	80.7	162.6
Total	310.5	489.7

17. Non-current debts with amortization plan EUR million	Capital note loans	Bonds	Loans from financial institutions	Pension loans	Other liabilities	Total
2009	63.0	0.0	10.4	0.0	0.0	73.4
2010		150.0	10.4	6.3	0.0	166.7
2011		0.0	570.4	0.0	0.0	570.4
2012		0.0	6.4	0.0	4.1	10.5
2013		0.0	6.4	0.0	0.0	6.4
2014-		0.0	6.4	0.0	0.0	6.4
Total	63.0	150.0	610.6	6.3	4.1	833.9

EUR million	**2008**	**2007**
18. Current liabilities		
Capital note loans	63.0	90.7
Bonds	0.0	45.0
Loans from financial institutions	15.6	22.3
Advance payments	2.0	6.8
Account payables	104.1	142.0
Liabilities to Group companies		
Advance payments	12.4	11.7
Account payables	2.5	6.3
Other liabilities	2.1	4.6
Accruals and deferred income	0.2	1.4
Liabilities to associated companies		
Advance payments	39.1	32.6
Account payables	5.5	9.4
Accruals and deferred income	0.0	0.2
Liabilities to others		
Other liabilities	11.3	10.1
Accruals and deferred income	52.8	106.8
Total current liabilities	310.5	489.7

EUR million	**2008**	**2007**
19. Accruals and deferred income		
Current		
Premium and additional income on capital note loan	0.0	15.9
Interest	0.4	8.4
Pension insurance premium	4.0	2.2
Taxes	0.0	21.1
Work in progress	0.0	20.0
Periodizations of employee costs	24.9	26.6
Accruals of purchases	5.9	6.9
Others	17.5	5.7
Total	52.8	106.8

EUR million	2008	2007
20. Contingent liabilities		
For own liabilities		
Liabilities secured by pledges		
Loans from financial institutions	200.0	200.0
Pledges granted	102.3	102.3
For own commitments		
Pledges granted	0.0	16.5
On behalf of Group companies		
Guarantee liabilities	20.6	24.8
On behalf of associated companies		
Guarantee liabilities	1.8	1.8
On behalf of others		
Guarantee liabilities	1.8	0.1
Other own liabilities		
Other liabilities	14.0	20.6
Leasing liabilities		
For the next 12 months	7.6	7.6
For subsequent years	58.7	63.3
Total		
Pledges	102.3	118.8
Guarantee liabilities	24.2	26.7
Other liabilities	14.0	20.6
Leasing liabilities	66.3	70.9
Total	206.9	237.0

Liabilities due to open derivate contracts

EUR million	Gross amount 2008	Going value	Gross amount 2007
Interest derivatives			
Interest rate swaps	153.3	-7.0	333.3
Currency derivatives			
Forward agreements	216.5	14.5	215.4
Derivatives total	369.8	7.5	548.7

EUR million	2008	2007
21. Environmental items		
Income statement		
Employee costs		
Wages and fees	0.5	0.5
Other employee costs	0.3	0.3
Depreciation	0.6	0.6
Other operating expenses	1.0	0.7
Total	2.3	2.1
Balance sheet		
Environmental-protection equipment		
Acquisition costs 1 Jan.	3.4	3.7
Increases	0.1	0.2
Decreases	0.0	-0.1
Depreciation for the period	-0.6	-0.6
Book value 31 Dec.	2.8	3.4

Parent company shares 31 December 2008

Subsidiaries	Country	Parent company's holding, %	Group's holding, %	Number of shares	Book value, 1,000 EUR
Baillou Holzhandel Sp. z.o.o.	Poland	100.00			0
Biokraft Oy	Finland	19.00	59.42	1,520	1,520
Burt Boulton and Haywood Ltd	Great Britain	100.00			12,280
Financière Finnforest S.A.S.	France	100.00		405,000	16,750
Finnforest Baco Production s.r.l.	Romania	100.00			0
Finnforest Baco Vertriebs GesmbH	Austria	100.00			4,490
Finnforest CZ s.r.o.	Czech Republic	100.00			11,200
Finnforest Deutschland GmbH	Germany	100.00			35,821
Finnforest Eesti A.S.	Estonia	100.00		100,000	651
Finnforest Holdings Oy	Finland	100.00		1,000	9
Finnforest Iberica S.L.	Spain	50.00	100.00	250	46
Finnforest Italia S.r.l.	Italy	100.00		1	52
Finnforest Magyarország Faipari és Kereskedelmi Kft.	Hungary	100.00			5,441
Finnforest Polska Sp. z.o.o.	Poland	100.00			589
Finnforest Slovensko s.r.o.	Slovakia	100.00			1,602
Finnforest Timber Holland B.V.	Holland	100.00			893
Finnforest Trading (Shanghai) Co., Ltd	China	100.00			118
Finnforest UK Holdings Ltd	Great Britain	100.00		43,200,000	53,458
Finnforest Österreich GesmbH	Austria	100.00			5,492
Foresta Oy	Finland	100.00		900	12
Kiint. Oy Metsätapiola	Finland	60.90		37,826	17,747
Kirkniemen Kartano Oy	Finland	52.00	70.54	29,666	2,969
McCausey Wood Products, Inc.	USA	100.00		500,000	316
Metsä Group Financial Services Oy	Finland	49.00	68.69	24,500	4,944
Metsä Group Schweiz AG	Switzerland	100.00		200	750
Metsä Tissue Corporation	Finland	70.55		6,433,164	139,818
Metsäliitto Eesti AS	Estonia	100.00		150,000	1,145
Metsäliitto France S.A.	France	100.00		100,000	100
Metsäliitto Latvia SIA	Latvia	100.00		670	3,259
Metsäliitto Sverige AB	Sweden	100.00		5,000	703
Metsämannut Oy	Finland	60.00	75.04	60	10
M-real Corporation *)	Finland	60.47		126,729,592	516,014
OOO Finnforest Petersburg	Russia	100.00		3	744
OOO Metsäliitto Novgorod	Russia	100.00			163
OOO Metsäliitto Podporozhje	Russia	100.00			4,579
OOO Metsäliitto St. Petersburg	Russia	100.00		100	978
Äänevoima Oy	Finland	20.00	37.38	2,000,000	2,000
Total shares in subsidiaries					846,663

*) Holding 60.47 per cent by number of votes, holding 38.62 per cent by number of shares.

Associated companies	Country	Parent company's holding, %	Group's holding, %	Number of shares	Book value, 1,000 EUR
Botnia South America S.A.	Uruguay	5.50	33.89		43,620
Finsilva Oyj	Finland	49.90		48,128,550	14,439
Hartolan Kuningaslämpö Oy	Finland	50.00		300	76
Kumpuniemen Voima Oy	Finland	33.30		21	177
Metsäteho Oy	Finland	24.00		40	67
Mittaportti Oy	Finland	33.30	44.88	1,000	8
Oy Metsä-Botnia Ab	Finland	23.00	34.59	20,660	431,999
Perkaus Oy	Finland	33.33		2,500	6
Punkaharjun Lämpö Oy	Finland	20.00		6	10
Punkavoima Oy	Finland	34.67		9,292	929
Suomen Metsäsijoitus Oy	Finland	25.00		7,500	4,011
Thosca Holz GmbH	Germany	50.00		3	4,583
Vapo Oy	Finland	49.90		14,970	137,704
ZAO HC Vologodskiye Lesopromyshlenniki	Russia	44.00			5,791
Total shares in associated companies					643,421

Other investments	Country	Parent company's holding, %	Group's holding, %	Number of shares	Book value, 1,000 EUR
Finnforest Nippon	Japan	10.00		20	120
Metsäklusteri Oy	Finland			150	150
Misawa Homes of Finland	Finland	2.10		400	67
Suomen Puututkimus Oy	Finland	12.50			51
Housing and property companies					1,402
Golf shares					194
Shares and holdings in telephone companies					56
Other investments					64
Other investments, total					2,105

Statement by the Supervisory Board

The Supervisory Board has examined the financial statements of Metsäliitto Cooperative and consolidated financial statements for 2008 prepared in accordance with International Financial Reporting Standards, and has approved them for submission to the Auditors and to the Annual General Meeting. The Supervisory Board recommends that the surplus for the period be dealt with as proposed by the Board of Directors.

The terms of the following members are due to expire: Arto Hongisto, Hannu Järvinen, Esko Kinnunen, Hannu Lassila, Martti Niiranen, Timo Nikula, Seppo Reijonen, Mauri Ruuth, Olav Store and Erkki Vainionpää.

According to the age rule of the by-laws, the seat of Leo Autio is at the disposal of the Representative Council. At the disposal are also the seats of Juha Parpala and Juhani Ollila (deceased). Juha Parpala has become a member of the Board of Directors.

Espoo, 17 March 2009

On behalf of the Supervisory Board

Runar Lillandt Chairman	Esa Kaikkonen Secretary

Auditor's report

(Translation from the Finnish Original)

To the members of Metsäliitto Cooperative

We have audited the accounting records, the financial statements, the report of the Board of Directors and the administration of Metsäliitto Cooperative for the year ended on 31 December, 2008. The financial statements comprise the consolidated balance sheet, income statement, cash flow statement, statement of changes in equity and notes to the consolidated financial statements, as well as the parent cooperative's balance sheet, income statement, cash flow statement and notes to the financial statements.

Responsibility of the Board of Directors and the Managing Director

The Board of Directors and the Managing Director are responsible for the preparation of the financial statements and the report of the Board of Directors and for the fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, as well as for the fair presentation of the financial statements and the report of the Board of Directors in accordance with laws and regulations governing the preparation of the financial statements and the report of the Board of Directors in Finland. The Board of Directors is responsible for the appropriate arrangement of the control of the cooperative's accounts and finances, and the Managing Director shall see to it that the accounts of the cooperative are in compliance with the law and that its financial affairs have been arranged in a reliable manner.

Auditor's Responsibility

Our responsibility is to perform an audit in accordance with good auditing practice in Finland, and to express an opinion on the parent cooperative's financial statements, on the consolidated financial statements and on the report of the Board of Directors based on our audit. Good auditing practice requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements and the report of the Board of Directors are free from material misstatement and whether the members of the Supervisory Board as well as of the Board of Directors of the parent cooperative and the Managing Director have complied with the Cooperative Act.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements and the report of the Board of Directors. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements and the report of the Board of Directors.

The audit was performed in accordance with good auditing practice in Finland. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion on the Consolidated Financial Statements

In our opinion, the consolidated financial statements give a true and fair view of the financial position, financial performance, and cash flows of the group in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.

Opinion on the Company's Financial Statements and the Report of the Board of Directors

In our opinion, the financial statements and the report of the Board of Directors give a true and fair view of both the consolidated and the parent cooperative's financial performance and financial position in accordance with the laws and regulations governing the preparation of the financial statements and the report of the Board of Directors in Finland. The information in the report of the Board of Directors is consistent with the information in the financial statements.

We recommend that the financial statements and the consolidated financial statements should be adopted. The proposal by the Board of Directors regarding the use of the surplus shown at the balance sheet is in compliance with the Cooperative Act. We recommend that the Members of the Supervisory Board and the Board of Directors as well as the Managing Director should be discharged from liability for the financial period audited by us.

Espoo, 18 March 2009

PricewaterhouseCoopers Oy
Authorised Public Accountants

Johan Kronberg
Authorised Public
Accountant

Jouko Malinen
Authorised Public
Accountant

Quarterly data

EUR million	Full year		Quarterly							
Income statement	**2008**	**2007**	IV/2008	III/2008	II/2008	I/2008	IV/2007	III/2007	II/2007	I/2007
Sales by segments										
Consumer Packaging	1,062	1,069	248	274	274	266	258	268	275	268
Papers	1,426	1,545	321	356	362	387	374	374	380	417
Wood Products	1,162	1,399	239	279	329	315	321	339	385	354
Others	2,784	2,784	645	686	711	742	677	717	668	722
Sales	**6,434**	**6,797**	1,453	1,595	1,676	1,710	1,630	1,698	1,708	1,761
Operating result by segments										
Consumer Packaging	51	84	-14	30	8	27	3	38	12	31
Papers	-107	-227	-114	-7	-7	21	-190	11	-6	-42
Wood Products	-74	87	-55	-16	-1	-2	-1	20	41	27
Others	132	100	-23	12	105	38	34	23	28	15
Operating result	**2**	**44**	-206	19	105	84	-154	92	75	31
Share of result in associated companies	6	12	-5	7	2	2	7	2	1	2
Net exchange gains / losses	19	5	18	1	-2	2	8	1	0	-4
Financial income and expenses	-260	-220	-84	-63	-51	-62	-65	-58	-43	-55
Result before tax	**-233**	**-160**	-277	-36	54	26	-204	37	33	-26
Income taxes	60	-24	66	3	-1	-7	35	-16	-25	-18
Result from continuing operations	**-172**	**-183**	-212	-33	53	19	-169	21	8	-44
Result from discontinued operations	-338	-27	-62	-212	-45	-19	-4	-5	-13	-5
Result for the period	**-511**	**-211**	-274	-245	8	0	-173	16	-5	-49

Key ratios	**2008**	**2007**	IV/2008	III/2008	II/2008	I/2008	IV/2007	III/2007	II/2007	I/2007
Operating result excl. non-rec. items, EUR mill.	45	301	-75	27	33	60	42	88	82	89
Equity ratio, %	26.0	28.8	26.0	27.5	30.1	29.2	28.8	29.2	29.0	29.0
Net gearing ratio, %	149	142	149	162	147	142	142	147	149	145
Return on capital employed, %	0.5	1.4	-16.1	2.7	8.7	7.0	-11.2	7.5	6.6	3.0
- " -, excluding non-recurring items	1.3	6.4	-6.1	3.3	3.1	5.2	4.2	7.1	7.2	7.6
Return on equity, %	-8.4	-7.5	-43.6	-6.1	9.2	3.2	-28.2	3.8	1.1	-7.1
- " -, excluding non-recurring items	-6.4	2.7	-17.0	-4.7	-3.2	-0.8	3.4	2.9	2.3	2.2

Production (1,000 unit)	**2008**	**2007**	IV/2008	III/2008	II/2008	I/2008	IV/2007	III/2007	II/2007	I/2007
Paper, ton	1,611	1,962	337	396	431	447	461	470	507	524
Paperboard, ton	1,336	1,398	293	347	335	361	339	352	348	359
Sawn timber, m^3	1,498	1,837	333	291	471	403	404	387	533	513
Processed timber, m^3	494	580	96	106	141	151	111	134	169	166
Engineered Wood -products, m^3	723	849	115	182	206	220	197	212	217	223
Pulp & CTMP, ton (M-real)	1,486	1,536	303	377	391	415	369	417	360	390
Pulp, ton (Metsä-Botnia)	3,298	2,616	781	900	776	841	593	677	670	676
Sawn goods, m^3 (Metsä-Botnia)	171	188	55	34	48	34	32	41	64	51

Ten years in figures

EUR million	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999
Sales	6,434	6,797	7,392	6,786	8,598	8,318	8,868	8,773	7,513	5,576
Operating result	2	44	77	25	144	151	414	386	763	427
- "-, excluding non-recurring items	45	301	233	81						
Result before tax	-233	-160	-94	-162	-76	-55	354	306	657	364
Result for the period	-511	-211	-259	-144	-104	-75	265	176	453	258
Non-current assets	4,252	5,090	5,519	5,752	5,596	5,563	5,767	5,910	5,485	3,338
Inventories	943	1,132	1,095	1,293	1,172	1,155	1,178	1,216	1,087	668
Other current assets	1,704	1,813	2,111	1,912	1,883	1,790	1,931	2,249	2,218	1,579
Total assets	6,899	8,035	8,725	8,957	8,651	8,508	8,876	9,375	8,790	5,585
Members' funds	1,104	1,328	1,377	1,407	1,351	1,555	1,531	1,374	1,317	1,045
Minority interest	682	978	1,194	1,432	1,432	1,408	1,602	1,537	1,180	1,078
Non-current liabilities	3,449	3,742	4,298	3,856	3,805	3,831	3,755	3,948	3,724	2,212
Current liabilities	1,664	1,987	1,856	2,262	2,067	1,714	1,988	2,516	2,569	1,250
Total members' funds and liabilities	6,899	8,035	8,725	8,957	8,655	8,508	8,876	9,375	8,790	5,585
Return on capital employed, %	0.5	1.4	2.0	1.0	2.5	2.5	6.3	5.9	14.6	10.8
- " -, excluding non-recurring items	1.3	6.4	5.0	2.0						
Return on equity, %	-8.4	-7.5	-4.8	-6.9	-3.9	-2.4	4.0	2.1	17.7	10.8
- " -, excluding non-recurring items	-6.4	2.7	1.0	-4.8						
Equity ratio, %	26.0	28.8	29.5	31.7	32.1	35.0	35.4	31.2	28.5	38.1
Net gearing ratio, %	149	142	137	128	120	117	113	135	156	85
Gearing ratio, %	198	163	155	137						
Interest-bearing liabilities	3,545	3,758	3,974	3,902	3,714	3,767	3,874	4,328	4,319	2,237
Interest-bearing financial assets	879	487	450	269	378	298	331	399	425	438
Interest-bearing net liabilities	2,666	3,271	3,524	3,633	3,336	3,469	3,543	3,929	3,894	1,799
Capital expenditure	272	493	735	679	358	484	510	989	2,269	512
-"-, % of sales	4.2	7.3	9.9	10.0	4.2	5.8	5.8	11.3	30.2	9.2
Personnel, at the end of year	16,729	17,838	20,196	23,928	28,783	29,173	30,247	31,491	25,007	19,936
Personnel, average	17,538	19,195	23,809	24,721	29,557	30,065	31,008	29,744	22,723	20,559
- of whom in Finland	7,253	7,522	7,956	8,237	9,736	10,038	10,279	10,365	10,333	10,654

Figures for 2004–2008 are calculated according to International Financial Reporting Standards (IFRS) and the previous years' figures according to Finnish Accounting Standards (FAS). Figures for 1999–2004 have not been divided into continuing and discontinued operations.

Calculation of key ratios

Return on capital employed (%) ROCE

$$= \frac{\text{Operating result + financial income}}{\text{Total assets - non-interest-bearing liabilities (average)}}$$

Net gearing ratio (%)

$$= \frac{\text{Interest-bearing net liabilities}}{\text{Members' funds + minority interest}}$$

Return on operating capital (%) ROOC

$$= \frac{\text{Operating result excl. non-recurring items}}{\text{Fixed assets + Inventories + Accounts receivables - Accounts payable (average)}}$$

Gearing ratio (%)

$$= \frac{\text{Interest-bearing liabilities}}{\text{Members' funds + minority interest}}$$

Return on equity (%)

$$= \frac{\text{Result before tax - taxes *)}}{\text{Members' funds + minority interest (average)}}$$

Interest-bearing net liabilities = Interest-bearing liabilities - interest-bearing financial assets

Equity ratio (%)

$$= \frac{\text{Members' funds + minority interest}}{\text{Total assets - advance payments received}}$$

*) 1999-2003: Result before extraordinary items - taxes

Corporate responsibility data per production unit

Metsäliitto Wood Products Industry	Personnel		Production 1,000 t/a		Emissions to air t/a			
	31.12.2008	LTA FR	Wood products		Parti-culates	CO_2 fossil	Sulphur (as SO_2)	NO_x (as NO_2)
Aichach, Germany	104	55.7	further processing	19	1.2	43	0.0023	1.2
Boston, Great Britain	315	128.1	further processing	158	2.0	0	0	2.0
Bremen, Germany	51	-	further processing	7.0	0.059	0	0.032	0.59
Casteljaloux, FF France Gillet, France	50	305.6	further processing	30	17	0	0	10
Eskola, Finland	12	0.0	sawn timber	52	-	0	0	0
Finnforest France SAS, France	127	106.0	further processing	87	0	0	0	0
Finnforest Romania, Romania	457	-	blockboard	56	1.8	0	0	1,8
Grangemouth, Great Britain	126	89.3	further processing	46	-	0	0	0
Hartola, Finland	54	97.6	glulam	22	0.39	0	0	0.39
Karihaara, Finland	54	55.5	sawn timber	145	0	0	0	0
Kaskinen TC and Thermowood, Finland	80	107.2	further processing	139	3.7	0	0	3.7
Kerto, Lohja, Finland	203	73.3	Kerto®	85	3.3	0	0	0
King's Lynn, Great Britain	34	162.3	further processing	63	0.062	462	0.034	0.62
Kolho, Finland *)	-	-	further processing	41	0.85	1,310	4.2	1.7
Kyrö, Finland	83	36.2	sawn timber	183	18	631	0.046	18
Kyröskoski, Finland	67	64.5	sawn timber	159	-	0	0	0
Lappeenranta, Finland	82	23.7	sawn timber	195	24	222	0.016	20
Leven BBH, Great Britain **)	-	-	further processing	10	0.051	375	0	0.51
Merikarvia, Finland	74	65.2	sawn timber	182	19	551	0	20
Newport, Great Britain	33	-	further processing	24	0.068	503	0.32	0.68
Punkaharju, Finland	678	55.9	Kerto® and plywood	164	-	-	-	-
Renko, Finland	76	39.0	sawn timber	231	21	163	0.012	22
Reopalu, Estonia	34	-	sawn timber	46	3.0	0	0.13	1.3
Soinlahti, Finland ***)	59	11.9	sawn timber	72	7.7	262	0.019	8.0
Suolahti, Finland	626	167.9	plywood	232	-	-	-	-
Teuva, Finland ***)	33	59.5	sawn timber	75	9.0	0	0	9.0
Vilppula, Finland	169	51.3	sawn timber	335	38	614	2.0	38
Widnes, Great Britain	104	127.4	further processing	59	-	-	-	-

- Not reported
*) Kolho personnel figures are included in figures of Kaskinen TC and Thermowood.
**) Leven BBH's personnel figures are included in Newport figures.
***) Sawmill closed during the year 2008.
St Petersburg planing plant in Russia is not included in the figures above.
In the Wood Products Industry, emissions to water only occur in plywood production processes.
LTA FR (Lost time accident Frequency Rate): Accidents at work/million working hours.

Metsä-Botnia	Personnel		Production 1,000 t/a	Emissions to air t/a			
	31.12.2008	LTA FR	Pulp	Parti-culates	CO_2 fossil	Sulphur (as SO_2)	NO_x (as NO_2)
Fray Bentos, Uruguay	195	8.6	935	85	145,000	252	1,722
Joutseno, Finland	174	13.3	523	106	72,000	214	1,078
Kaskinen, Finland	191	36.9	400	221	58,000	248	1,498
Kemi, Finland	206	26.0	515	18	63,000	172	1,234
Rauma, Finland	121	9.5	493	184	36,000	434	854
Äänekoski, Finland	164	47.3	432	364	18,000	580	706

- Not reported
Svir Timber sawmill in Russia is not included in the figures above.
LTA FR (Lost time accident Frequency Rate): Accidents at work/million working hours.

Discharges to water t/a					Solid waste t/a		Management system					Chain of Custody	
COD	BOD	Phosphorus	Nitrogen	Total suspended solids	Landfill waste (dry)	Hazardous waste	ISO 9001	ISO 14001	EMAS	OHSAS	ISO 22000	PEFC	FSC
0	0	0	0	0	0	7.0						x	
0	0	0	0	0	397	39	x	x		x		x	x
0	0	0	0	0	57	281							
0	0	0	0	0	102	7.0						x	
0	0	0	0	0	6.6	2.0		x				x	
0	0	0	0	0	0	150						x	x
0	0	0	0	16	1,200	9.0							
0	0	0	0	0	156	18	x	x		x		x	x
0	0	0	0	0	9.0	10	x					x	
0	0	0	0	0	36	2.2						x	
0	0	0	0	0	375	10						x	
3.0	1.5	0.012	0.017	0.30	145	11	x					x	
0	0	0	0	0	127	10	x	x		x		x	x
0	0	0	0	0	71	5.5	x	x		x		x	
0	0	0	0	0	396	12	x	x				x	
0	0	0	0	0	13	3.5	x	x				x	
0	0	0	0	0	292	20.1	x	x				x	
0	0	0	0	0	85	2.0	x	x					
0	0	0	0	0	45	1.0	x	x				x	
0	0	0	0	0	216	31	x						
96	50	0	0.24	1.6	3,361	91	x					x	
0	0	0	0	0	50	9.2	x	x				x	
0	0	0	0	0	0	6.0							x
0	0	0	0	0	172	0.70	x	x				x	
12	23	0.14	0.27	7.4	121	70	x					x	
0	0	0	0	0	3.0	10						x	
0	0	0	0	0	855	4.9	x	x		x		x	
0	0	0	0	0	90	0	x	x		x		x	x

Discharges to water t/a					Solid waste t/a		Management system					Chain of Custody	
COD	BOD	Phosphorus	Nitrogen	Total suspended solids	Landfill waste (dry)	Hazardous waste	ISO 9001	ISO 14001	EMAS	OHSAS	ISO 22000	PEFC	FSC
5,623	235	12.8	63	441	17,164	54		x					x
5,432	96	4.0	96	117	6,569	43	x	x		x	x	x	x
6,335	127	7.8	72	511	14,230	45	x	x		x	x	x	x
6,484	157	5.8	66	431	5,163	102	x	x		x	x	x	x
5,518	187	3.2	25	157	11,383	14	x	x		x	x	x	x

M-real	Personnel		Production 1,000 t/a		Emissions to air t/a			
	31.12.2008	LTA FR	Pulp	Board and paper	Parti-culates	CO_2 fossil	Sulphur (as SO_2)	NO_x (as NO_2)
Alizay, France	397	31.0	239	243	100	40,764	836	711
Gohrsmühle, Germany	866	6.4		330	12	358,873	811	541
Hallein, Austria	642	15.5	150	276	15	70,133	118	308
Husum, Sweden	1,040	11.0	646	629	225	116,262	570	1,418
Joutseno BCTMP, Finland	50	47.3	224		28	25,924	2.9	53
Kaskinen BCTMP, Finland	50	12.8	227		10	4,199	22	46
Kemiart Liners, Finland	127	18.8		332	1.3	1,341	3.1	71
Kyro, Finland	255	13.6		206	0	144,421	0	115
Reflex, Germany	455	8.6		99	0	74,094	0	89
Simpele, Finland	374	27.9		240	0.38	108,425	243	271
Tako Board, Finland	212	21.7		199	0	77,154	0	47
Tako Board BCTMP, Finland *)	-	-		23	0	7,878	0	11
Äänekoski Board, Finland	162	29.3		186	4.7	1,091	6.0	64
Äänekoski Paper, Finland	251	47.2		173	5.5	1,363	7.4	72

- Not reported
*) Tako Board BCTMP closed 3/2008 (personnel figures included in figures of Tako Board).
LTA FR (Lost time accident Frequency Rate): Accidents at work/million working hours.

Metsä Tissue	Personnel		Production 1,000 t/a	Emissions to air t/a			
	31.12.2008	LTA FR	Tissue and cooking papers	Parti-culates	CO_2 fossil	Sulphur (as SO_2)	NO_x (as NO_2)
Katrinefors, Sweden	352	7.9	62	0.016	12,668	0.87	22
Krapkowice, Poland	244	34.6	32	0	0	0	0
Kreuzau, Germany	439	1.4	144	0.20	95,424	7.3	109
Mänttä, Finland *)	565	31.0	127	0	15,436	0	6.8
Nyboholm, Sweden	175	17.2	24	6.0	9,780	4.4	17
Paulström, Sweden **)	-	-	23	5.6	7,216	0.67	17
Raubach, Germany	287	8.5	48	0	24,826	0	65
Stotzheim, Germany	326	7.8	22	0	11,919	0.26	11
Warsaw, Poland	213	15.2	21	30	26,642	125	38
Žilina, Slovakia	453	9.1	80	0	14,741	0	7.3

- Not reported
*) Includes Tissue and Cooking papers.
**) Paulström´s personnel figures are included in Nyboholm figures.
LTA FR (Lost time accident Frequency Rate): Accidents at work/million working hours.

Discharges to water t/a					Solid waste t/a		Management system					Chain of Custody	
COD	BOD	Phos- phorus	Nitrogen	Total sus- pended solids	Landfill waste (dry)	Hazardous waste	ISO 9001	ISO 14001	EMAS	OHSAS	ISO 22000	PEFC	FSC
3,809	144	41	90	347	1,535	137	x	x				x	x
163	41	3.4	12	71	79	94	x	x		x		x	x
4,843	480	5.6	31	515	3,039	10	x	x	x	x		x	
10,533	860	21	190	982	42,940	600	x	x				x	x
459	3.8	0.13	3.4	4.5	14	10	x	x		x		x	
654	4.5	0.22	2.1	16	8.0	27	x	x		x		x	
246	28	1.2	13	77	266	5.8	x	x		x	x	x	
475	40	1.5	18	213	140	31	x	x				x	x
78	27	1.3	0	27	196	105	x	x		x		x	
465	27	1.8	14	69	8,994	11	x	x			x	x	
231	91	1.0	1.9	124	246	59	x	x		x	x	x	
186	24	0.20	3.9	7.8	35	41	x	x		x	x	x	
669	228	0.59	7.0	129	108	9.0	x	x			x	x	
269	95	0.33	5.8	72	138	11	x	x	x	x		x	

Discharges into water t/a					Solid waste t/a		Management system					Chain of Custody	
COD	BOD	Phos- phorus	Nitrogen	Total sus- pended solids	Landfill waste (dry)	Hazardous waste	ISO 9001	ISO 14001	EMAS	OHSAS	ISO 22000	PEFC	FSC
193	19	0.29	12	12	783	14	x	x		x			
8.0	2.6	0.33	5.0	4.0	606	3.2	x	x				x	x
80	6.0	0.24	6.0	5.0	0	11	x	x			x	x	
476	47	1.5	20	88	1,210	28	x	x				x	
32	6.7	0.024	0.56	6.5	0	1.1	x	x				x	
74	21	0.10	0.95	6.1	0	77	x	x				x	x
31	5.4	0.27	0	5.4	139	40	x	x				x	x
10	2,3	0.11	0	2.3	0	262	x	x		x			
84	7.0	0.71	10	8.9	9,508	1.1	x	x		x			
229	11	0.55	0	11	6,320	13							

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