

Metsäliitto Group | Annual Report 2004



The Metsäliitto Group seeks to serve the needs of its owner-members and at the same time to engage in profitable business operations. The parent company Metsäliitto Cooperative markets its members' wood and functions as a forest industry holding company.

Wood procurement for the Metsäliitto Group's mills in Finland is the responsibility of Metsäliitto Cooperative. Procurement of wood raw material for mills outside Finland is entrusted to Thomesto Ltd. In addition to these companies, Metsäliitto's core business operations include the wood products company Finnforest Corporation and the tissue manufacturer Metsä Tissue Corporation.

Metsäliitto's strategic investments include the paper and board manufacturer M-real Corporation and the chemical pulp producer Oy Metsä-Botnia Ab.

## Financial information

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# METSÄLIITTO OSUUSKUNTA 1934 | 2004

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## CONTENTS

Group presentation .....	2	M-real .....	30
President's Review, Metsäliitto Group .....	4	Botnia.....	34
President's Review, Metsäliitto Cooperative.....	5	Other subsidiaries.....	40
Metsäliitto 70 years old .....	6	Corporate responsibility.....	42
Board of Directors .....	8	Environment .....	44
Metsäliitto Group organization .....	9	Personnel .....	46
The year in brief .....	10	Metsäliitto's Supervisory Board.....	50
Ten years in figures.....	11	Metsäliitto's Representative Council .....	51
Metsäliitto Cooperative.....	14	Executive Board and Auditors .....	52
Thomesto .....	18	Production plants .....	53
Finnforest .....	20	Addresses .....	54
Metsä Tissue .....	24		

## Metsäliitto Group

In terms of turnover, the Metsäliitto Group is Europe's fourth biggest forest industry grouping. About 90 per cent of the Group's EUR 8.5 billion turnover derives from exports and foreign subsidiaries. The Group has some 29,000 employees, of whom 70 per cent work outside Finland.

**Metsäliitto Cooperative** is Finland's biggest wood procurement organization. It procures wood rawmaterial for the Metsäliitto Group's companies in Finland. Roughly 17 million cubic metres of wood were purchased in 2004. Wood is bought mainly from Metsäliitto's members, who number around 131,000.



Domestic  
wood procurement



International  
wood procurement

**Thomesto** is an international wood procurement expert that works together with Metsäliitto Cooperative to procure the wood needed by the Metsäliitto Group's production plants. Thomesto specializes in wood procurement outside Finland, notably in Russia and the Baltic countries. The company also operates in Sweden, France, Germany and Austria.

Wood products



**Finnforest** is one of Europe's biggest wood products groups. It offers wood-based products and services to customers in the construction, industrial, distribution and retail sectors. Operations in Scandinavia are handled by Finnforest's Norwegian subsidiary Moelven.

**M-real** is one of Europe's largest paper and board manufacturers. Its core activities concern the printing, packaging and paper merchanting businesses. M-real is Europe's biggest supplier of fine paper, second biggest producer of folding boxboard and third biggest paper merchant.

Paper and paperboard



**Botnia** is the second biggest pulp producer in Europe. Its pulps are designed for the production of high-quality printing and writing papers, packaging boards and tissue papers. About 80 per cent of production goes to the paper mills of Botnia's owners, while the rest is sold on the market, mainly in Europe.

Pulp



Tissue products

Consumer

**Metsä Tissue** is a European consumer goods company whose customers are users of tissue products and baking and cooking papers. The company's main market is Europe north of the Alps. In the Nordic countries, Metsä Tissue is the market leader in tissue products.

## Review by the President and CEO of Metsäliitto Group



“Loss  
obscured  
many  
pleasing  
points.”

Metsäliitto's 70th year of operations will go down in history as a loss-making year. Although improved demand for forest products had a positive impact on capacity utilization at the mills and boosted wood trading, it unfortunately did little to improve profitability.

The main reason for this was the fall in sales prices for paper, which continued well into the autumn. This was exacerbated by the fact that, at the same time, the dollar fell by some 10% against the euro. These negative developments obscured many pleasing points and profitability improvements in the Metsäliitto Group's subsidiaries.

In spring, Metsäliitto's Board of Directors drew up a programme of measures, one of the key goals of which was to bring about a controlled change of generation in the Group's senior management. In May, the Board of Directors appointed Kari Jordan as my successor. Mr Jordan took up the post of President and CEO of Metsäliitto Cooperative on 1 January 2005 and will take over as Group President and CEO at the start of 2006. In June, the Group's Chief Financial Officer, Hannu Anttila, was appointed President and CEO of M-real with effect from January 2005.

Soon after this, M-real floated a substantial EUR 470 million share issue to strengthen its equity. The issue was highly successful. It improved financial solidity and allowed M-real to re-negotiate its long-term loans. At the same time, indebtedness was reduced. M-real's organization was streamlined for greater operational efficiency and to reduce costs.

Cost-saving was also extended to other parts of the Group. Finnforest introduced fairly substantial rationalizations, and Metsäliitto's and Thomesto's wood procurement operations were reorganized.

Although market conditions were not particularly favourable, the trend in financial results for Metsäliitto Cooperative and its subsidiaries was satisfactory. This allowed the parent cooperative to make a substantial contribution to M-real's share issue, to increase its interest in Vapo Oy to 49.9 per cent by agreement with the Ministry of Trade and Industry, and to purchase a sizeable share of M-real's forest assets. The last two of these transactions were finalized in January 2005.

Restraint continued to be exercised in investments. Construction of M-real's chemi-thermo-mechanical pulp mill at Kaskinen progressed as planned, and Finnforest's Hartola building module factory was completed towards the end of the year. Good demand for Kerto LVL helped the decision to build a new Kerto production line at Finnforest's Punkaharju plant.

The biggest project concerned Botnia, whose plans to build a one million t/a eucalyptus pulp mill at Fray Bentos in Uruguay are ready for a final decision at the time of writing. Botnia is a virtually debt-free company that has again been highly successful despite the difficult market. Metsäliitto, too, is making a substantial contribution to this project.

Finally, I want to thank all the Metsäliitto Group's employees and business partners for their good work during 2004.

Antti Oksanen

President and CEO, Metsäliitto Group



## Review by the President and CEO of Metsäliitto Cooperative

The Finnish forest industry has started 2005 with an air of cautious optimism. Demand looks like remaining good, which would mean almost full capacity utilization at the mills and a busy year both in the forest and in wood trading.

One problem, however, is poor profitability. Metsäliitto is now back on a solid financial footing following the introduction of numerous necessary measures during 2004. M-real's share issue was a success, new loan arrangements were negotiated with financial institutions, and our organizations were streamlined.

It is now vital that we direct all our energy to improving efficiency. We must continue to cut costs drastically and we must make greater use within the Group of our joint resources. Ways must be found to turn both the financial result and the cash flow in a positive direction. It would be good if the market provided the impetus for this, but this is something we cannot count on. I expect everyone within the Metsäliitto Group to make a determined effort to improve our profitability.

I do not wish to look back or to find out where things may have gone wrong. All attention must now be focused on building the future. We have plenty of knowhow and industrious people within the Group. The foundations for a better future are in place. The challenges we face demand that we work extensively together throughout our entire organization.

Metsäliitto's members, the Representative Council and the Supervisory Board are strongly committed to their company. They have seen hard times before. Their support was well in evidence during the strategic reappraisal carried out in autumn. Metsäliitto's management and employees know exactly what is expected of them. It is now time to get down to work and to focus on the essential.

I am confident that Metsäliitto will succeed in achieving its goals.

Kari Jordan

President and CEO, Metsäliitto Cooperative



**“Greater  
cost-  
effectiveness  
by focusing  
on the  
essential.”**

## Metsäliitto 70 years old

Metsäliitto began life as a timber exporter back in 1934. Today, Metsäliitto and its subsidiaries form one of the world's largest forest industry groupings.

Metsäliitto  
has had  
a colourful  
history.

Metsäliitto was founded in 1934 as a joint stock company. Its founders were a group of forest owners from southwest Finland who wanted to sell their timber for a better price than Finnish industry was able to offer. By working collectively, these forest owners believed they would find foreign buyers who would provide a steady demand for wood at more stable prices. What they wanted to export was wood raw material.

Metsäliitto changed its form to a cooperative in 1947. Cooperatives had become increasingly popular in Finland since the early part of the century, especially in the food and agricultural sectors. In its first year, the cooperative attracted some 33,000 members. At the end of 2004, Metsäliitto's members numbered roughly 131,000.

Metsäliitto's industrial activities expanded in 1953, when it acquired Äänekoski pulp and paper mills from what was then Wärsilä. Then, as it was to do many times later, Metsäliitto raised the capital by arranging a membership campaign and by setting up a start-up company for this purpose.

Start-up companies have since seen the birth of mills such as Kirkniemi, Savon Sellu, Kaskinen and Metsä-Rauma. Without exception, these major projects have been accompanied by share issues, which is largely how M-real Corporation has acquired its present more than 30,000 small shareholders.

The Metsäliitto Group gradually began to form in the late 1970s and early 1980s. The parent Metsäliitto Cooperative has always formed the nucleus of the Group. Metsäliitto's industrial operations were listed on the Helsinki Stock Exchange in 1969 under a company called Metsäliiton Teollisuus Oy.

The group structure was disbanded in 1987, when Metsäliiton Teollisuus Oy and G.A. Serlachius Oy merged to form Metsä-Serla Oy (the present M-real Corporation), with Metsäliitto's stake falling below 50 per cent. This state of affairs continued until 1991, when Metsäliitto restored its majority interest through a Metsä-Serla Oy share issue.

Since 1995, the Group has undergone a radical restructuring. Following major company acquisitions, Metsäliitto's subsidiaries are now among Europe's leading forest industry companies.

Metsäliitto Cooperative and its most important subsidiaries are presented in this Annual Report, in which history is the theme.





*Metsäliitto became a major industrial player when it bought the Äänekoski mills from Wärtsilä-Selluloosa Oy on 31 July 1953.*

*At the signing ceremony (from right) forest counsellor Ilmari Kalkkinen, Wärtsilä's representative lawyer Helge Berghell, lawyers Heikki Borenius, Edvard Edelman and Torsten Murén, and M.Sc. (For.) Mauno Pakkanen.*

## Board of Directors 2005



Standing from left: Unto Kotipalo, Pekka Turtiainen, Heikki Asunmaa, Carl G. Björnberg, Arimo Uusitalo and Antti Oksanen. Sitting Martti Asunta, Saini Jääskeläinen and Kari Jordan.

**Arimo Uusitalo, 62**

Chairman,  
member since 1994

M.Sc. (Agr.)

**Antti Oksanen, 60**

Deputy Chairman,  
member since 1992

M.Sc. (For.)

President, Metsäliitto Group

**Kari Jordan, 49**

Member from 1.1.2005

M.Sc. (Econ.)

President, Metsäliitto Cooperative

**Heikki Asunmaa, 62**

Member since 2000

farmer

**Martti Asunta, 50**

Member from 1.1.2005

forester

**Carl G. Björnberg, 63**

Member since 1996

M.Sc. (Pol.)

President & CEO,  
Myllykoski Corporation

**Saini Jääskeläinen, 45**

Member from 1.1.2005

farmer

**Unto Kotipalo, 62**

Member since 2001

farmer

**Pekka Turtiainen, 62**

Member since 2004

farmer

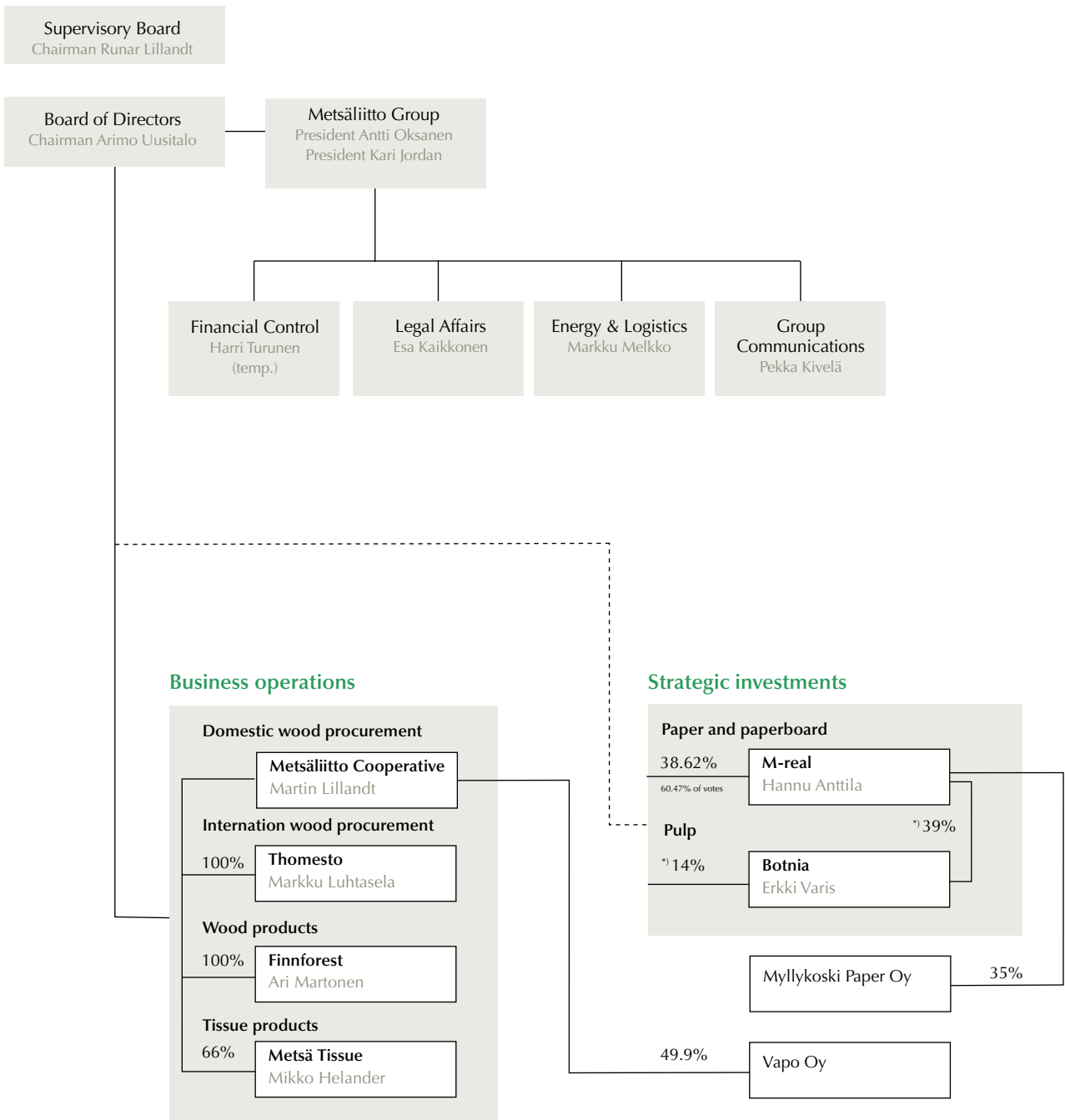
**Secretary of the Board of Directors**

**Esa Kaikkonen, 35**

General Council

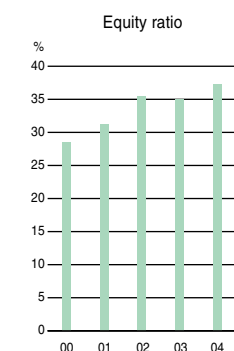
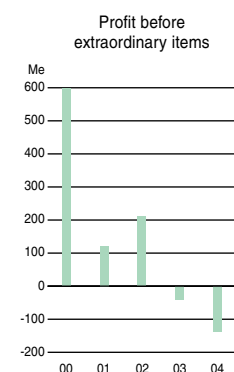
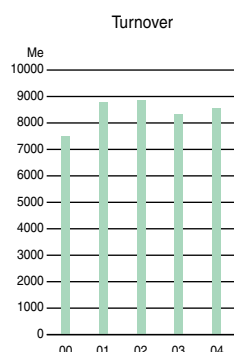
# Metsäliitto Group organization 1.1.2005

## Metsäliitto Cooperative



\*) Holdings in March 2005

## Events in 2004



### January

Metsäliitto Cooperative purchased 66 per cent, Tapiola Group 17 per cent, Varma Mutual Pension Insurance Company 9.86 per cent and Sampo Life Insurance Company Ltd 7.14 per cent of the tissue manufacturer Metsä Tissue.

### February

Finnforest acquired the German company Merk GmbH, one of Europe's leading suppliers to the wood construction sector.

### March

The Finnforest subsidiary Moelven bought the building modules manufacturer Mobilarum AB, which has two production plants in Sweden.

### April

Finnforest signed a partnership agreement with the Russian Kerto products manufacturer LVL-Ugra.

### May

Kari Jordan was appointed President and CEO of Metsäliitto Cooperative and deputy to the Group's President and CEO with effect from 1 January 2005. Mr Jordan will take over as Group President and CEO on 1 January 2006.

Finland's competition authority conducted inspections, without notice, at several of Metsäliitto Cooperative's premises. The European Commission's competition authority also conducted inspections at M-real's premises.

### June

Hannu Anttila was appointed President and CEO of M-real as of 1 January 2005.

Finnforest sold 9.9 per cent and Metsäliitto Cooperative 2.1 per cent of the shares of Moelven Industrier ASA. Following this, Finnforest owns 51.0 per cent of Moelven's shares and Metsäliitto 14.15 per cent.

### July

Metsäliitto introduced its new domestic wood procurement organization.

### August

M-real bought Metsäliitto's (6%) and UPM's (47%) shareholdings in Kemiart Liners Oy.

### September

M-real issued approximately 149 million new Series B shares at a subscription price of EUR 3 per share. Metsäliitto Cooperative subscribed shares for approximately EUR 173 million, i.e. in proportion to its existing shareholding.

### October

Metsäliitto Cooperative announced it was raising its shareholding in Vapo Oy to 49.9 per cent. At the same time, Finnforest sold its seven power plants to a newly formed company in which Vapo holds a substantial majority and Finnforest a minority. Metsäliitto sold its Biowatti Oy pellets business to Vapo and its wood-based fuels business to Biowatti's management. The deal was confirmed on 20 January 2005.

Finnforest sold its poles and Luxiwood business in Kolho.

### December

M-real signed an agreement to sell the business operations of Savon Sellu. The sale took effect at the beginning of 2005.

Under a letter of intent signed on 30 Dec. 2004, Metsäliitto Cooperative, the Central Union of Agricultural Producers and Forest Owners (MTK) and Suomi Mutual Life Assurance Company bought M-real's forest assets for EUR 172 million. The deal became effective in January 2005.

## Ten years in figures

### Metsäliitto Group

EUR million	2004	2003	2002	2001	2000	1999	1998	1997	1996	1995
Turnover	8 554	8 318	8 868	8 773	7 513	5 576	4 795	4 386	3 403	3 003
Operating profit	62	151	414	386	763	427	474	452	191	469
Profit before extraordinary items	-138	-40	210	122	597	323	375	266	82	372
Members' funds	1 585	1 555	1 531	1 374	1 317	1 045	879	732	480	449
Capital note loans	140	139	139	375	370	358	310	223		
Minority interests	1 559	1 408	1 602	1 537	1 180	1 078	1 266	1 263	1 064	1 016
Liabilities	5 167	5 406	5 604	6 089	5 923	3 104	3 097	3 174	2 743	2 188
Total	8 451	8 508	8 876	9 375	8 790	5 585	5 552	5 392	4 286	3 653
Return on capital employed, %	1.2	2.5	6.3	5.9	14.6	10.8	11.9	12.9	7.0	17.5
Return on equity, %	-4.5	-2.4	4.0	2.1	17.7	10.8	12.5	10.8	3.6	22.3
Equity ratio, %	37.3	35.0	35.4	31.2	28.5	38.1	38.8	37.1	36.5	41.1
Gearing ratio, %	100	117	113	135	156	85	80	74	99	84
Interest-bearing liabilities	3 133	3 469	3 543	3 929	3 894	1 799	1 712	1 473	1 527	1 236
Cash flow from operations	387	521	649	677	852	515	596	557	305	432
Capital investments	379	484	510	989	2 269	512	577	613	838	527
Capital investments as % of turnover	4.4	5.8	5.8	11.3	30.2	9.2	12.0	14.0	24.6	17.5
Personnel, at the end of year	28 783	29 173	30 247	31 491	25 007	19 936	19 927	18 717	16 455	15 403
Personnel, average	29 515	30 065	31 008	29 744	22 723	20 559	19 346	18 100	16 586	14 204
- of whom in Finland	9 694	10 038	10 279	10 365	10 333	10 654	11 567	11 537	10 967	10 682

Due to changes in accounting principles, figures for 1995–1998 are not fully comparable with those for 1999–2004.

### Metsäliitto Cooperative

EUR million	2004	2003	2002	2001	2000	1999	1998	1997	1996	1995
Turnover	1 155	1 154	1 096	1 034	1 083	1 071	1 039	917	703	682
Operating profit	25.4	25.5	25.8	21.8	21.1	21.1	23.1	28.8	20.8	20.7
Profit before extraordinary items	89.0	104.4	159.4	92.2	64.9	69.3	54.5	48.4	37.7	33.7
Members' capital	160	135	129	129	121	114	104	93	77	66
Additional members' capital	468	410	338	284	247	209	194	161	106	70
Members' other funds	401	371	343	275	268	241	210	189	159	162
Capital note loan	91	91	91	91	91	91	88			
Liabilities	685	492	428	441	273	283	284	255	233	207
Total	1 805	1 499	1 328	1 220	1 000	937	879	697	575	503
Return on capital employed, %	8.8	11.3	15.9	13.6	10.8	12.5	12.9	12.0	11.5	12.8
Return on equity, %	6.5	8.5	15.0	9.8	7.7	9.2	8.3	7.9	6.6	9.6
Equity ratio, %	59.8	67.0	66.5	63.5	72.2	68.4	66.2	73.7	70.9	71.9
Dividends paid, MEUR	34.2	29.2	28.5	25.8	22.7	18.4	17.3	14.5	11.4	8.8
On members' capital, %	*) 6.5	6.5	6.5	6.5	6.5	6.0	6.0	6.5	7.0	8.0
On additional members' capital A, %	*) 5.5	5.5	6.5	6.5	6.5	6.0	6.0	6.5	7.0	8.0
On additional members' capital B, %	*) 4.0									
Capital investments	283	7	147	168	95	33	98	43	30	90
Members at the end of year	130 869	131 213	129 708	128 522	127 371	125 372	122 582	119 787	117 783	116 665
Personnel, at the end of year	811	906	932	973	956	949	945	1 022	1 019	1 053

\*) Proposal

The calculation of key ratios is presented on page 2 in the enclosure.



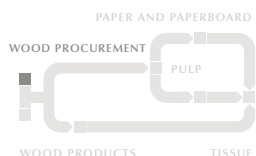






In the 1930s Finland's forest industry was still a rather modest player on the world stage. The degree of processing was low, with pulp and sawn timber the main export products. Many forest owners felt themselves at the mercy of swings in the business cycle: sometimes their wood was in demand and even fetched a reasonable price, though often the opposite was true. In 1934, forest owners in southwest Finland got together and formed Metsäliitto. The newly formed enterprise set about opening up timber exports direct to European buyers.

The idea of working collectively was a far-sighted one. The cooperative movement was spreading throughout Finland, and Metsäliitto's members were keen to join. Today, Metsäliitto has over 130,000 members, roughly half of all Finland's forest owners.



## Metsäliitto Cooperative

Metsäliitto Cooperative is Finland's biggest wood procurement organization. It is responsible for procuring wood raw material for Metsäliitto Group companies in Finland. This wood is purchased primarily from Metsäliitto's 131,000 members.

EUR million	2004	2003
Turnover	1 155	1 154
Operating profit	25.4	25.5
Profit before extraordinary items	89.0	104.4
Personnel, at the end of year	811	906

### Turnover and profits

Metsäliitto Cooperative produced a turnover in 2004 of EUR 1,155 million, similar to the figure for 2003. Operating profit was EUR 25.4 million (25.5), 2.2 per cent of turnover. Profit before extraordinary items was EUR 89.0 million (104.4). The decrease is due mainly to lower dividend income, which totalled EUR 62.8 million (81.9).

Profit before appropriations and taxes was EUR 84.0 million (79.4), and the surplus for the financial period was EUR 59.5 million (56.8). A Group contribution of EUR 5 million to Finnforest has been entered under extraordinary expenses (25).

Return on capital employed was 8.8 per cent (11.3) and return on equity 6.5 per cent (8.5).

### Financing

The equity ratio at the end of 2004 was 59.8 per cent (67.0) and the gearing ratio -8 per cent (-28). Liquidity was good throughout the year, and at the end of the year liquid assets stood at EUR 299 million (378).

Paid-in members' capital at the end of the year was EUR 628.1 million (544.6), including additional members' capital A of EUR 457.8 million (409.7) and additional members' capital B (introduced in January 2004) of EUR 10.4 million. Subscribed members' capital was EUR 248.1 million (246.7), of which EUR 159.9 million was paid in (134.7) and EUR 88.2 million was outstanding (112.0).

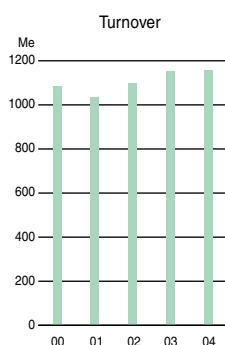
### Investments

At the beginning of January, Metsäliitto Cooperative acquired 66 per cent of Metsä Tissue's business operations from M-real.

In September, Metsäliitto Cooperative invested around EUR 173 million in M-real's share issue, raising its interest in M-real to 38.6 per cent of the shares and 60.5 per cent of the votes.

At the end of December, Metsäliitto Cooperative, the Central Union of Agricultural Producers and Forest Owners (MTK) and Suomi Mutual Life Assurance Company signed a letter of intent to purchase M-real's forest assets for EUR 172 million. The forest in question, totalling around 120,000 hectares, was owned by Forestia Oy, a company owned 95 per cent by M-real and 5 per cent by Metsäliitto. The forest will be transferred to a new company to be established for this purpose, in which Metsäliitto will hold 49.9 per cent of the shares, Suomi Mutual Life Assurance Company 39.7 per cent and MTK 10.4 per cent.

Turnover and operating profit same as previous year.





*Metsäliitto has members in every municipality in Finland. Pictured here are forest owner Voitto Eronen and family from Pyhäselkä, and Metsäliitto's purchasing foreman Keijo Asikainen.*

As part of the same transaction, the newly established company will purchase approximately 15,000 hectares of forest from Suomi Mutual Life Assurance Company for around EUR 21 million. The transaction was completed on 31 January 2005.

Capital expenditure in 2004 was EUR 283 million (7).

### Organization

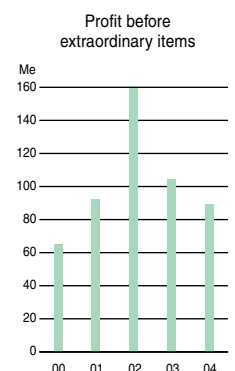
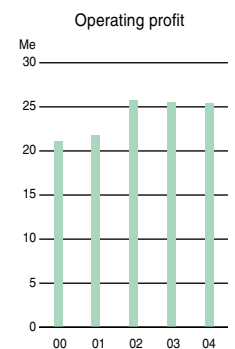
Metsäliitto introduced its new procurement organization for domestic wood on 1 July 2004. The new system is based on processes, the main ones being Member Services and Customer Deliveries. The Finance and Administration process and the Development and Resources process support these core processes. The aim is to allocate resources more effectively and to provide better services to members and customers.

The Member Services process comprises five procurement areas: Southern Finland, Western Finland, Southeastern Finland, Central Finland and Northern Finland. These procurement areas comprise 18 procurement districts and 54 profit groups. The Customer Deliveries process consists of five delivery units administered from the same premises as the procurement areas and covering the same geographical areas.

Discussions with employees relating to the reorganization started in February and were concluded in March. The reorganization necessitated a reduction of 53 in the Finnish wood procurement organization, for most of whom pension arrangements were made. The reduction took place largely by the end of 2004 and will be completed by summer 2005 at the latest.

### Wood purchasing and other services to members

Wood trading began the year in the normal way, and during the spring Metsäliitto purchased wood as planned. Purchasing in early autumn was well below the levels of previous years, and did not return to normal until the end of September. From October onwards purchasing went well.





Wood purchases in 2004 totalled 16.9 million cubic metres (16.0), around 95 per cent of the target. Log purchases were roughly in line with the target, but pine pulpwood and forest fuel wood purchases were well below target. Delivery contracts accounted for 21 per cent of all wood purchased (22). As in previous years, Metsäliitto's share of the market for wood from private forests was about one-third.

Pulpwood prices during the first half of the year were unchanged on the previous autumn, but rose slightly after the summer. Prices for spruce logs rose from May through to the year-end, because difficult harvesting conditions meant purchasing was directed at more readily accessible stands. Prices for pine and spruce logs also rose slightly late in the autumn.

Altogether around EUR 469 million was paid in stumpage rates to members (496).

### Harvesting, transport and deliveries

The situation regarding standing reserves was good during the first half of the year. The second half was affected by heavy rainfall, and this, combined with sluggish trading, pushed reserves and stocks down to exceptionally low levels. Special arrangements were made for several months during the autumn to supply customers needing fresh spruce pulpwood and spruce logs.

Sales on the stump totalled 12.9 million cubic metres during the year (13.0), of which 98 per cent was harvested by machine (98). A total of 165 forest workers (179), 421 harvesters (395) and 437 forwarders (395) were at work during the year. There were also 16 forest entrepreneurs on contract.

Roundwood deliveries to customers totalled 20.5 million cubic metres (20.2). In addition to the volume felled, the figure includes wood supplied by Metsähallitus as well as imported wood. Road transport accounted for 83% (87), rail transport for 15% (11) and water transport for 2% (2). At the end of the year 398 haulage vehicles were at work (385). Metsäliitto sold off its own seven haulage vehicles.

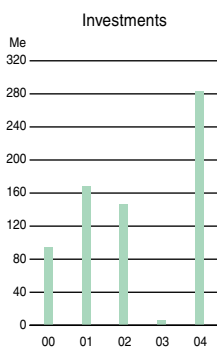
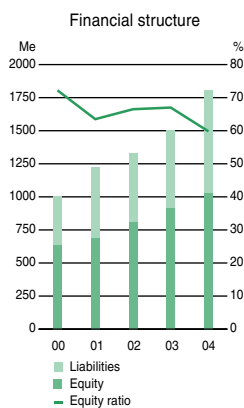
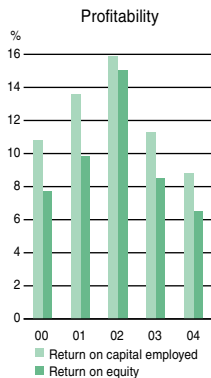
Wood deliveries to customers totalled 24.5 million cubic metres (24.3), including 4.0 million cubic metres of chips and sawdust (4.0). Deliveries of energy wood to customers were 0.8 million cubic metres.

### Development work

Development work concerning wood procurement centred on the introduction of the new operating model. As part of this, the existing domestic wood procurement model was revised to correspond with a process-based system.

A project began during the year to further emphasize customer focus in the planning of wood procurement and deliveries. Arrangements for financial planning will be revised at the same time.

Collaboration with Finnforest in log procurement continued. The pricing system based on processing value was further developed during the year, and the technical requirements were explored for the introduction of pricing of individual stem parts.



A group was formed during the autumn to coordinate the work of promoting development and initiatives. It comprises a number of experts to provide feedback on initiatives and ideas for development and, when appropriate, to take part in individual development projects.

Human resources development was carried out in accordance with the training programme. Particular emphasis was placed on leadership and the work of superiors. A programme was started for senior management designed for key personnel from all the Group's companies.

Training sessions were arranged for the Group's Executive Board and staff at regional head offices. The themes were promoting teamwork and leadership in the management of groups and individuals.

An appraisal of the TYKY work fitness programme began in the autumn. The aim is to expand the programme to provide more support for employee well-being by working more closely with occupational health care and by targeting measures more effectively.

## Personnel

Metsäliitto Cooperative had 811 employees at the end of the year (906). These comprised 134 workers (197) and 677 salaried staff (709). The average number of employees for the year was 819 (878), comprising 124 workers (165) and 695 salaried staff (713).

## Members

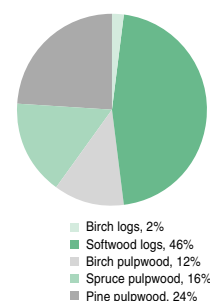
In 2004, Metsäliitto Cooperative acquired 4,023 new members (4,605), while 4,367 members resigned (3,227). The number of members at the end of the year was 130,869 (131,213). Metsäliitto's members together own approximately 5.2 million hectares of forest.

## Outlook

Further growth is anticipated in the forest products industry's wood requirement. Metsäliitto Cooperative has set a purchasing target for 2005 of 17.7 million cubic metres. With the transition period for taxation over, priority will now be given to purchasing wood from members who are subject to area-based taxation.

Storm damage to forests in Sweden and the Baltic states will affect wood trading throughout the Baltic Sea area for at least two years. In practice, this means that flows of wood raw material between countries in the region will change. As far as Finland is concerned, imported wood will be much more readily available.

Wood purchases by species

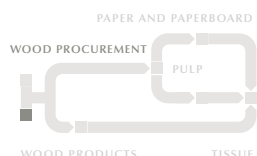


Wood deliveries by customer

Million m <sup>3</sup>	2004	2003
Botnia	11.5	11.2
Finnforest	6.5	6.6
M-real	2.7	2.6
Other Finnish companies	3.7	3.8
Export	0.1	0.1
Total	24.5	24.3

Wood purchases by procurement area

Million m <sup>3</sup>	2004	2003
Southern Finland	3.4	3.2
Western Finland	4.2	4.2
Southeastern Finland	3.1	3.0
Central Finland	3.7	3.3
Northern Finland	2.5	2.4
Total	16.9	16.1



## Thomesto

Thomesto is an international wood procurement specialist working together with Metsäliitto Co-operative to supply the wood raw material needed by the Metsäliitto Group's production plants. Thomesto specializes in procuring wood in Russia and the Baltic countries.

EUR million	2004	2003
Turnover	426	375
Operating profit	3.0	7.6
Personnel at the end of year	689	687

### Thomesto

Thomesto produced a turnover of EUR 426 million (375) and an operating profit of EUR 3.0 million (7.6). Sawmilling operations by the associated companies Toftan and Vika Wood were affected by the steep rise in sawlog prices in the Baltic countries. The two companies nevertheless made a profit.

Gross capital expenditure on fixed assets was EUR 11 million. This mainly concerned investments in strategic projects together with machinery and equipment replacements. In summer, Thomesto completed an important share deal by purchasing 44 per cent of Vologodskie Lesopromyshlenniki, a wood procurement company operating in the Vologda region of Russia.

Also during the summer, Thomesto's board of directors carried out a reorganization of the company in preparation for the introduction of a process-based operating model. At the end of 2004 Thomesto had 689 employees (687), of whom 652 worked outside Finland (648).

## Competition for wood intensified in the Baltic Sea area.

### The market

The market for wood raw material continued to be fiercely contested throughout the year in the countries surrounding the Baltic Sea. There was a continuous shortage of softwood logs, most notably in the Baltic countries, and imports to Estonia and Latvia continued to rise. The main reasons for the intensified competition were the start-up of Stendal pulp mill in the second half of the year and commencement of wood procurement for the CTMP mill being built at Kunda.

Harvesting and transport conditions were difficult. Despite this, Thomesto reached its budgeted delivery target of 10.6 million cubic metres.

### Procurement area: Russia / Europe

Competition for wood raw material has greatly intensified in Russia. This is attributable to the rise in wood consumption in the country, greater procurement for mills in Scandinavia, and exceptionally bad weather during the second half of the year.

Procurement in the European part of Russia produced 2.6 million cubic metres, of which around 79 per cent was exported to Finland. This wood originated largely from the Leningrad region, Karelia and the areas around Novgorod and Vologda. Most of this wood was supplied to the Metsäliitto Group's mills, and comprised 59 per cent pulpwood and 28 per cent spruce and pine logs.

### Procurement area: Russia / Asia

Supplies of wood from the Asian part of Russia – principally from the Irkutsk, Krasnojarska and Chita areas – remained steady throughout the year. Deliveries for the year totalled 280,000 cubic metres, of which 238,000 cubic metres was exported to Japan and South Korea and the rest to China.





*The business operations of Thomesto and its partners in Estonia and Latvia have progressed well.*

### Procurement area: Western Europe, Baltic countries and Belarus

Competition for wood in the countries of the Baltic rim has increased. Felling in Sweden has reached the permitted limit, and the situation is the same in Estonia and Latvia. The only felling reserves are now in Lithuania and Belarus.

The imbalance between supply and demand for wood has also caused prices to rise, especially in the Baltic countries, where the price of pulpwood has doubled over a period of 12-16 months. In the Baltic countries the state seems to have taken on a greater role in wood trading. This can be attributed to privatizations in the early 1990s and to the fact that prices for wood from state-owned forests have lagged behind other wood prices. Wood prices in Germany, Austria and France have been stable. The situation in mainland Europe has been affected most by Stendal's new pulp mill.

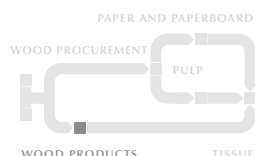
Wood to Metsäliitto Group companies in the region was supplied as planned.

### Quality and environment

Thomesto conducted audits on a total of around 270 stands, which was in line with the annual plan. Deliveries of wood from audited suppliers accounted for 62 per cent of the wood imported into Finland and Sweden. Consignments supplied by Thomesto have contained no illegally harvested wood in the last two years. Thomesto is particularly vigilant about the chain of custody of wood, thus ensuring that no illegally harvested wood enters its supply chain. For this purpose Thomesto employs a chain of custody monitoring system and mapping systems, and also conducts audits.

### Outlook

In 2005, Thomesto is aiming to increase its procurement volume to 11.1 million cubic metres. Deliveries to Finland and Sweden could rise to 7.2 million cubic metres. The outlook is dominated by the storm damage to forests in Sweden and the Baltic countries, which will cause a heavy over-supply of softwood – both logs and pulpwood – on the market for some time.



## Finnforest

In terms of turnover, Finnforest is one of Europe's biggest wood products groups. It is the European market leader in timber-based building systems. Finnforest is also Europe's second biggest producer of sawn timber, glulam products and plywood.

EUR million	2004	2003
Turnover	1 924	1 791
Operating profit	37.5	8.6
Profit before extraordinary items	3.5	-25.1
Personnel, at the end of year	7 998	7 610

### Turnover and profits

Turnover was around 7 per cent up on the previous year at EUR 1,924 million (1,791). Exports and foreign subsidiaries accounted for 87 per cent of turnover (86). Operating profit improved as a result of gains on the sale of fixed assets and was EUR 37.5 million (8.6). Other operating income totalled EUR 37.0 million (10.0).

Profit before extraordinary items was EUR 3.5 million (-25.1). Extraordinary income, which consists of a Group contribution from Metsäliitto Cooperative, was EUR 5.0 million (25.0). Pre-tax profit was EUR 8.5 million (-0.1).

Return on capital employed was 4.0 per cent (1.3) and return on equity -0.2 per cent (-5.6).

### Balance sheet and financing

Total assets at 31 December were EUR 1,251 million (1,196). Shareholders' equity, including capital loans and minority interests, accounted for EUR 496 million of this (470). The equity ratio at the end of the year was 39.7 per cent (39.3) and the gearing ratio 99 per cent (106).

Liquid assets and investments totalled EUR 25 million at the end of the year (20). In addition, Finnforest had committed credit facility agreements totalling around EUR 176 million at the balance sheet date. Finnforest's financial position and liquidity were satisfactory throughout the year.

### Investments

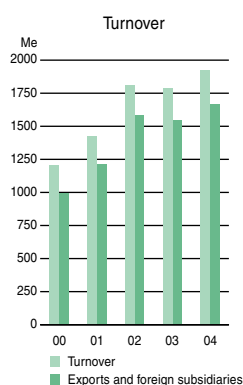
Gross investment in fixed assets was EUR 68 million (65). In Finland, investment totalled EUR 33 million, a high proportion of which concerned the start of production at the new Hartola building modules factory.

Investment in Scandinavia totalled EUR 22 million and in other countries EUR 13 million. The acquisitions of Are Gruppen, Mobilarum AB and Merk GmbH increased the value of fixed assets by EUR 38 million.

Are Gruppen became part of Moelven Timber Group at the beginning of 2004, raising further processing capacity by 240,000 cubic metres and sawmilling capacity by 350,000 cubic metres.

In January 2005, Finnforest's Board of Directors decided to expand the Kerto factory at Punkaharju, raising annual production capacity by 60,000 cubic metres to 130,000 cubic metres. The investment will cost around EUR 20 million and the work will be completed in February 2006.

The markets for plywood and Kerto products moved in a positive direction.





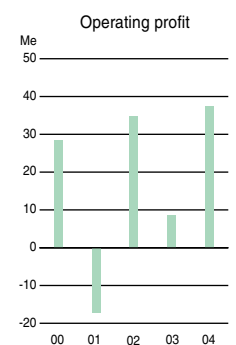
*Finnforest's subsidiary Moelven is one of Scandinavia's leading suppliers of wood products.*

## Acquisitions

In June, Finnforest and Metsäliitto Cooperative sold a part of their shares in Moelven. Moelven's new owners are the forest owners' associations Haldenvassdraget and Agder-Telemark. The forest owners' associations Mjøsen and Glommen raised their interests in the company. As a result, Finnforest now owns 51.0 per cent of Moelven's shares and Metsäliitto Cooperative 14.15 per cent.

In October, the Kolho poles and Luxiwood business was sold to Iivari Mononen Oy. The deal did not include Finnforest BBH Ltd's poles business in the UK or the timber impregnation business in Kolho.

Also in October, Finnforest sold its seven power plants, which generate process heat, district heat and electricity, to a new company in which Vapo Oy owns a clear majority and Finnforest less than one-fifth.



## Organization

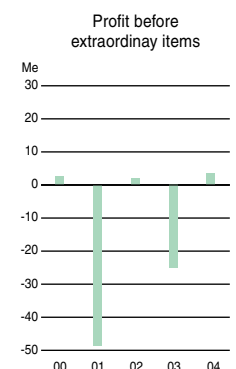
Finnforest restructured its organization during the year with the aim of clarifying and simplifying its business concept in order to improve both profitability and competitiveness. Under the new concept, operations are organized into four business areas: Wood Products, Distribution, Building & Construction, and Moelven.

## Business area: Wood Products

The business area comprises Finnforest's sawmilling operations (Solid Wood) and wood-based panels business (Panels).

Solid Wood is Europe's second largest producer of sawn timber. Each of its sawmills specializes in either redwood or whitewood goods. The main markets for these products are in Finland, Scandinavia, Western Europe and the Asia-Pacific region.

Demand for softwood timber remained normal all year. Supply and demand for whitewood timber were in balance, but the over-supply of redwood that began late in 2003 continued.



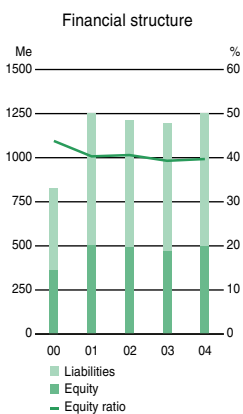
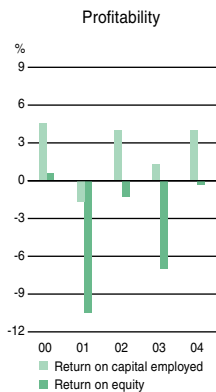
Output of sawn timber totalled 2,298,000 cubic metres (2,375,000), comprising 1,372,000 cubic metres of whitewood and 926,000 cubic metres of redwood. Whitewood prices were some two per cent lower than the previous year and redwood prices about six per cent lower.

The over-supply of sawn timber, combined with the unfavourable trend in prices, caused the sawmilling business to make a loss.

The Panels business consists of plywood production units at Punkaharju and Suolahti, the Tiwi particleboard factory, the BACO blockboard factory in Romania, and the blockboard coating unit at Schütte-Lanz in Germany. Finnforest is Europe's second biggest plywood producer.

The market for birch plywood remained stable all year and prices rose during the second half of the year. Demand for softwood plywood rose sharply thanks to brisker building activity in the United States. The rise in prices that began during the second quarter continued for the rest of the year.

Demand for plywood on the Finnish market improved early in the year but began to decline towards the year-end. Prices showed very little change during the year. Demand for blockboard remained reasonably good and production volumes rose. The main problems concerned the availability of wood raw material and its rapidly rising cost. Average prices for blockboard fell slightly.



### Business area: Distribution

Finnforest has operations in a total of 25 countries. This comprises production units and their direct sales in eight countries and distribution operations in 17 countries. The main markets are in the UK, Germany and France, and the most important customer segments are DIY chains and building and construction. In eastern parts of mainland Europe business focuses on wood products wholesaling.

Demand for panel products rose sharply in 2004 in response to growth in housing construction in the United States, increased demand on Chinese markets and livelier economic and building activity in Russia.

Sales made good progress in both the UK and France. Difficulties in the building industry in Germany persisted, and competition among panel products wholesalers remained fierce.

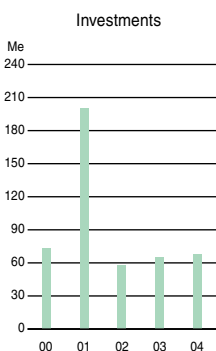
Sales in Eastern Europe continued to grow spurred on by greater economic and building activity. The units made good progress, particularly those in the Czech Republic and Romania.

### Business area: Building & Construction

Building & Construction comprises the Building Systems and Building Projects businesses. The business area includes Finnforest Merk GmbH, the panel and joist products manufacturer Kerto, the glulam producer Kuningaspalkki, the new modular production unit at Hartola, and HSL Elements (design and installation of partition wall systems) together with the related design software and direct sales.

Over 85 per cent of Finnforest's products and services are supplied to the building industry. Wood-based system products are becoming increasingly popular in housing, interiors and in large construction projects for public buildings, offices and industrial facilities.

Demand for Kerto was good throughout the year and prices were largely unchanged. Profitability showed a marked improvement primarily due to increased sales volumes in Finland, Denmark, France and the UK.



Production at the Hartola building modules factory started on schedule in September. In December, the Hartola unit signed a contract to supply 119 houses for delivery between March 2005 and March 2006.

HSL Elements, which manufactures partition wall systems, did not quite reach its target but returned a better financial result than the previous year. The unit's future prospects are good as demand for office construction is picking up in Finland.

### Business area: Moelven

Moelven Timber Group comprises businesses in the sawmilling, planing and glulam segments. Sawmilling suffered from the same difficulties as Finnforest's sawmilling business in Finland. The ratio between raw material costs and sales prices was unfavourable for redwood timber, while that for whitewood timber was normal. The availability of wood raw material also posed some problems. On the other hand, the planing and glulam businesses made good progress.

Moelven Building Group consists of the Modular Building unit, which supplies industrial space elements, and the Modular System Interiors unit, which manufactures partition wall systems for office buildings.

Construction of new public and office buildings was slack throughout the whole of Scandinavia. More attention was therefore given to housing construction, and Moelven supplied modules for multi-storey building and other projects.

Integration of the Swedish company Mobilarum AB, acquired last March, has progressed as planned. Moelven Building Group started up a new building module production line to serve the growing housing market in Sweden and Norway.

Deliveries of modules for special projects continued. These included the Norwegian Snöhvit gas field in the Arctic Ocean and the power plant being constructed on the Vatnajökull ice cap in Iceland.

### Use of wood raw material

Finnforest consumed 10.4 million cubic metres of wood raw material during the year under review (9.7). This comprised roughly 60 per cent spruce, 36 per cent pine and 4 per cent birch. Imported wood came mainly from Russia. Domestic wood accounted for 91 per cent of consumption at the Finnish units (89).

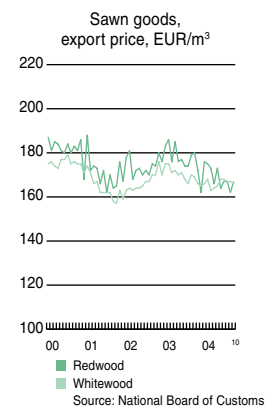
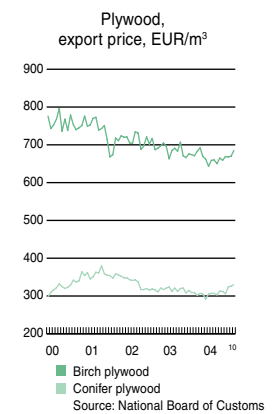
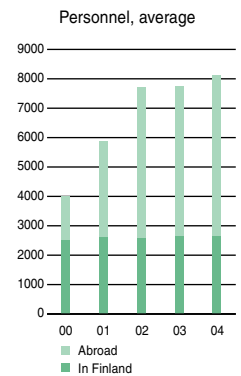
### Personnel

Finnforest had an average of 8,105 employees in 2004 (7,740). The number at the end of the year was 7,998 (7,610), of whom 2,522 worked in Finland (2,572) and 5,476 abroad (5,038).

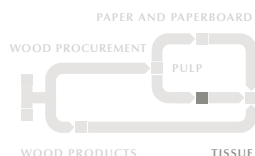
### Outlook

Demand for sawn softwood timber is forecast to remain normal. However, because of over-supply no significant change is anticipated in sales prices. The situation for redwood timber, in particular, will continue to be difficult. The market for plywood is likely to continue to be good.

The market for systems based on Kerto, I-joist and glulam products is forecast to remain good. Modular building is expected to increase its share of the market in Finland.







## Metsä Tissue

Metsä Tissue is a consumer goods company manufacturing tissue products and cooking papers. Lambi, Serla, Leni and Mola are leading consumer brand names in the Nordic countries and eastern parts of Europe. Katrin is the leading brand on the away-from-home markets in the Nordic countries and Poland.

EUR million	2004
Turnover	685
Operating profit	27.2
Personnel at the end of year	3 033

### The new Metsä Tissue

In connection with the sale by M-real of its 66 per cent interest in Metsä Tissue to Metsäliitto Cooperative on 2 January 2004, a new company with the name Metsä Tissue was formed.

The new Metsä Tissue is owned by Metsäliitto Cooperative, Tapiola Group, Varma Mutual Pension Insurance Company and Sampo Life Insurance Company Ltd. This restructuring of ownership was of vital importance to the company's future, as the new owners are committed to developing Metsä Tissue's business activities on a long-term basis.

### The market

Slow economic growth in Europe in 2004 meant that growth in demand for tissue products has also been slow. Market conditions have been made more difficult by over-capacity in Western Europe. At the same time there has been a rise in the cost of raw materials, in particular chemical pulp and recovered paper, and energy. Over-capacity prevented the increased cost of raw materials and energy from being passed on in full to sales prices.

### Turnover and profits

Metsä Tissue's turnover rose 2.3 per cent to EUR 685 million. Operating profit was EUR 27.2 million. Calculated on a comparative basis, operating profit fell by around EUR 6.5 million. The smaller operating profit is due to market conditions, which were more difficult than anticipated, and to costs arising from the delay in starting up the new production and converting lines in Poland.

All the company's business areas succeeded in increasing their sales volumes. Growth in sales of converted products clearly exceeded market growth. A significant proportion of this is attributable to increased sales of Metsä Tissue's own brands.

### Productivity

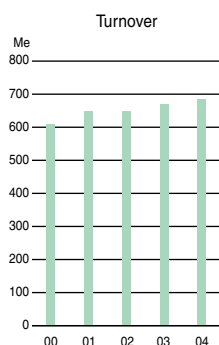
Metsä Tissue's mills improved their productivity by increasing their output of converted products and tissue base paper at lower cost and with a smaller workforce than the previous year.

Total production was roughly 480,000 tonnes, comprising 452,000 tonnes of tissue and 28,000 tonnes of baking and cooking papers. Growth on the previous year was 2.4 per cent. Production of converted products rose by almost seven per cent to about 402,000 tonnes.

### Investments and acquisitions

Capital expenditure was EUR 30 million. This was invested almost exclusively in fixed assets relating to product development and in improvements to the production efficiency of converting lines.

**Metsä Tissue is one of Europe's biggest tissue manufacturers.**







*Cleanliness and hygiene are two of Metsä Tissue's core values.*

Integration of the Polish converter Krapex Sp.zoo into Metsä Tissue was completed when the company's entire share capital was transferred to Metsä Tissue in autumn. At the same time, all operations in Poland were brought together under a single company (Metsä Tissue S.A.). This put Metsä Tissue into a better position to develop its operations in eastern parts of Europe.

In August 2004, Metsä Tissue opened a sales office in Moscow as part of its drive to become a leading tissue supplier to the markets of Eastern Europe.

### Business area: Consumer Hygiene

Consumer Hygiene sells tissue products to consumers through retailers. Business is based on knowledge of consumer habits and markets and on long-term partnerships with customers. By working together with retailers, Metsä Tissue seeks to increase both the sale and the profitability of bathroom tissue, household towels, handkerchiefs and facial wipes. High-quality products and innovative product development are particularly important.

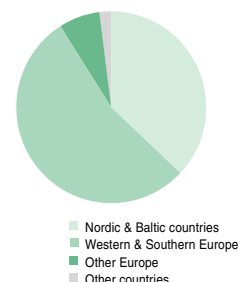
Business in the Nordic countries and Eastern Europe is based on the continuous development of the company's own strong brands. Metsä Tissue's products are marketed in these countries under the brand names Lambi, Serla, Leni and Mola. In Western and Central Europe, Metsä Tissue focuses on products sold under customers' own brand names.

Consumption of tissue products in Europe grew by around two per cent in 2004. Despite the difficult market caused by over-capacity, Consumer Hygiene succeeded in raising its sales volumes and in strengthening its positions in the Nordic, Western European and Polish markets. Sales of the company's own brands increased in the Nordic countries and Poland. In Poland, the Mola brand doubled its share of the market compared with the year before.

Customer-oriented product development work carried out during the year resulted in several new products being brought onto the market. The Lambi and Mola product ranges were both extended.

An Internet service was opened for the Lambi, Serla and Leni brands to provide consumers with information about the products and campaigns.

Turnover by market area



**Lambi**

### Business area: Away-from-Home Hygiene

Away-from-Home Hygiene sells hygiene systems for large-scale consumers through wholesalers. These consumers include health care, services, public bodies, offices and industry.

A hygiene system refers to the tissue product itself complete with a dispenser, which is designed to minimize both tissue consumption and hygiene risks. Lower tissue consumption means less work, saves money and is kinder to the environment. Lower hygiene risks improve health and reduce absenteeism. The sales concept behind this is, "Less is More".

The logo for KATRIN, featuring the word "KATRIN" in white, bold, sans-serif capital letters on a red rectangular background.

Metsä Tissue's products for the away-from home market are sold under the brand names Katrin and Saga. Together they account for almost 80 per cent of sales. Brand name products are also produced for customers.

Away-from-Home retained its position as the Nordic market leader and at the same time strengthened its leading position in the Polish market. This was helped by the integration into Metsä Tissue S.A. of Krapex's converting plant for Away-from-Home products. Sales volumes rose in Western and Eastern Europe.

EasyFlush, a new series of readily biodegradable products developed together with airline companies, was launched on the European market during the year under review. Away-from-Home and Table Top combined to introduce Fasana Professional brand napkins for service industry customers in the Nordic countries at the beginning of the year.

Spring saw the opening of the [www.katrin.com](http://www.katrin.com) -website, which provides Katrin users with an interactive product selector with which they can find the right products for their needs.

### Table Top

The Table Top business area sells napkins both for households and for hotels and restaurants. Napkins are marketed under Metsä Tissue's own Fasana and Fasana Professional brand names as well as customers' own brand names. Fasana products are intended for everyday use – not just for special occasions.

Competition intensified during the year. Demand stopped growing and even started to fall, especially in Germany. Despite this, Metsä Tissue succeeded in strengthening its position as the German market leader and increasing its sales in France, Britain and Poland.

At the beginning of the year Table Top introduced Fasana Professional napkins onto the Nordic and Baltic markets. Intended for the service industry, the range includes the stylish new DecoSoft napkins, which have a fabric feel and are easy to fold.

The range of Fasana napkin towels intended for households and packed in table dispensers was expanded and further developed.

### Business area: Baking & Cooking

Baking & Cooking is one of the world's leading manufacturers of baking and cooking papers. The products are used both by households and by large consumers such as bakeries and the food industry.

Baking and cooking papers are marketed in the Nordic and Baltic countries and in Russia under Metsä Tissue's own Serla, Gourmanda and Katrin brand names. In marketing, the focus is on products designed for different cultures and that promote hygiene and easy and healthy cooking. In Finland, a website on these subjects is available at [www.Serlaklubi.com](http://www.Serlaklubi.com).

An embossed paper was introduced onto the German and French markets in 2004. In Finland, a new-generation paper for baking and cooking was launched under the Serla Gourmanda brand name in January 2005.



Baking and cooking papers are produced at Metsä Tissue's Mänttä mill. In December 2004, the Finnish Standards Association SFS granted the mill a food safety certificate for its HACCP self-monitoring system. The certificate shows that the mill's products meet the safety requirements imposed on packaging materials for the food industry.

## Environment

Metsä Tissue is a leader in the tissue industry in developing production processes and working procedures that minimize impacts on the environment. Recovered paper currently represents around half of all fibre raw material used by Metsä Tissue. At the company's Polish mills, products are made entirely from recycled fibre.

Metsä Tissue is keen to ascertain the origins of the primary fibre it uses. The aim is to procure this raw material from forests that have been certified by a third party. Some of the company's mills employ a chain of custody system for fibre raw material, while the others will introduce one during 2005. All the mills employ quality and environmental management systems that comply with international ISO standards 9001 and 14001.

## Organization and personnel

At the beginning of 2004, Metsä Tissue introduced a more business-oriented organization in which the management and development of business operations is handled by four business areas. Supply Team is responsible for the development of production, purchasing, logistics, product development, quality and environmental processes. Support Services provides support for the business areas and is responsible for the development of financial, legal and environmental affairs, human resources and IT administration, and communications.

According to the principles of Metsä Tissue's human resources policy, employee competence and motivation, together with a management model based on the company's values, play a vital role in successful business. Innovation and the willingness to change and to make changes create a platform on which the company can respond to the rapidly changing business environment.

Continuous improvement of occupational health and safety is of primary importance in the development of activities at Metsä Tissue's mills. Legal requirements are supplemented by the company's own occupational health and safety rewards scheme.

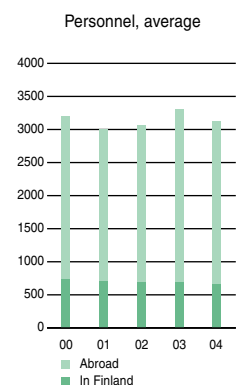
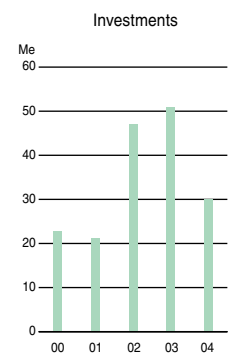
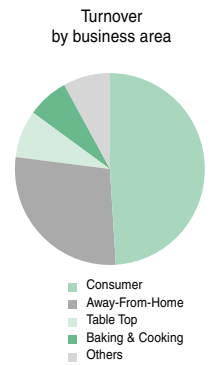
Metsä Tissue's key personnel attended an international training course during the year. The course is designed to promote the work of superiors in line with the company's values and to support the development and implementation of business strategies.

Metsä Tissue had an average of 3,117 employees in 2004 (3,309). The number at the end of the year was 3,033 (3,155), of whom 2,398 were located outside Finland (2,512).

## Outlook

Because of over-capacity and slow economic growth in Europe, the market will remain extremely challenging for at least the next two years. Higher raw material costs cannot be completely compensated for through prices rises, although it is intended to make operations more efficient.

Metsä Tissue is seeking to become an even stronger European company that offers its customers quality and cost-effectiveness.





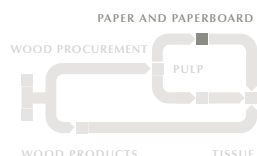




Metsäliitto needed not just customers for its timber but also the means to transport it, such as the vessel SILVA, which was a familiar sight at ports along Finland's west coast. Head of Metsäliitto at that time was Ilmari Kalkkinen, a charismatic and passionate man.

As time went by Metsäliitto became a major force on the Finnish market for wood raw material. It had many faithful members, a hard-working field organization and numerous loyal customers.

The idea of starting industrial operations began to form, but the first steps in this direction were not taken until after the Second World War.



## M-real

M-real is one of Europe's largest forest products groups. Its core businesses relate to printing, packaging and paper merchanting.

EUR million	2004	2003
Turnover	5 460	6 044
Operating profit	-74.7	73.8
Profit before extraordinary items	-209.0	-80.2
Personnel, at the end of year	15 960	19 636

### Turnover and profits

M-real produced a turnover of EUR 5,460 million (6,044) and a loss on operations of EUR 74.7 million (+73.8). The result includes net non-recurring items of EUR -72.7 million (-14.7). Non-recurring income was EUR 26.9 million (15.8) and expenses EUR 99.6 million (30.5).

The main non-recurring income items were a Group reserve of EUR 14.3 million recognized as income in connection with the purchase of Kemiart Liners Oy shares and a reversal of EUR 8.4 million on the write-down in value of Savon Sellu fluting mill's fixed assets.

The most notable non-recurring expense items were write-downs in the value of fixed assets of Savon Sellu and Zanders Reflex paper mill in Germany totalling EUR 53.5 million. A provision of EUR 24 million was made in respect of the profitability improvement programme introduced at the Zanders mill.

The main reasons for the loss were the fall in sales prices for paper and the strengthening of the euro. The sale of Metsä Tissue in January 2004 also weakened the financial result. The effect of currency hedging had a EUR 9.5 million impact on the result from operations (24.2). On average, the dollar was 9.9 per cent weaker against the euro while the pound sterling was 2.0 per cent stronger.

Financial expenses, net of income, were EUR 134.3 million (154.0). The figure includes net interest and other financial expenses totalling EUR 146.8 million (174.7) together with exchange rate gains of EUR 12.5 million (20.7). Non-recurring costs of EUR 17.2 million on the rights share issue in October, and costs of EUR 2.9 million relating to the EUR 500 million revolving credit facility have been entered under other financial expenses.

Before extraordinary items there was a loss of EUR 209.0 million (loss of EUR 80.2 million). The figure includes non-recurring items (net) of EUR -89.9 million (-42.7).

A capital gain of EUR 194 million from the sale of Metsä Tissue was booked to extraordinary income, together with EUR 4.2 million from discharging the unused portion of the provision made in 2003 for the cost of terminating the Price & Pierce trading business.

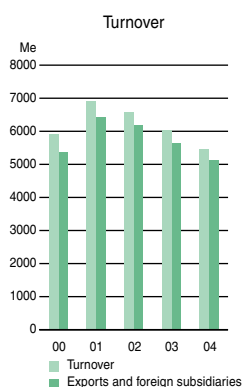
The result for the financial period was a loss of EUR 15.3 million (-95.0). Taxes, including the change in deferred tax liability, were EUR 3.1 million (0.7). Deferred tax liability was reduced by EUR 21.4 million due to the lowering of Finland's corporate tax rate from 29 to 26 per cent.

The return on capital employed was EUR -1.0 per cent (1.6) and the return on equity -7.7 per cent (-3.8). Earnings per share were EUR -0.79 (-0.43).

### Financing

The equity ratio was 41.5 per cent (31.9) and the gearing ratio 82 per cent (137). Interest-bearing net liabilities at the end of December were EUR 2,161 million (3,109).

**Demand for paper and board improved, but prices fell.**







*M-real has been producing its Galerie Art art printing paper for more than 15 years.*

Liquidity was good throughout the year. Liquidity at the end of December was EUR 1,798 million, comprising EUR 1,556 million in committed long-term credit facilities and EUR 242 million in liquid funds and investments. To cover its short-term financing needs, M-real also had at its disposal non-committed domestic and foreign commercial paper programmes and credit lines totalling around EUR 600 million.

In April, Standard&Poors changed the outlook for M-real's long-term loans (BB+) from stable to negative. In November, Moody's Investors Services lowered M-real's credit rating from Ba1 to Ba2, with a stable outlook. In July, Moody's Investors Services had placed M-real on credit watch negative for a possible lowering of its credit rating.

In December, M-real signed a EUR 500 million syndicated revolving credit facility agreement. The facility will be used to refinance the EUR 700 million credit agreement signed in 2000. The term of the facility is five years. A total of 21 banks participated.

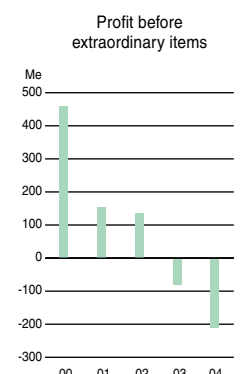
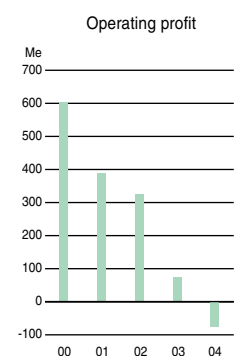
## Acquisitions

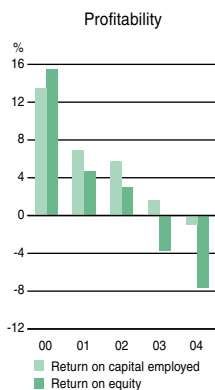
In accordance with a letter of intent, M-real sold 66 per cent of its shares in Metsä Tissue to Metsäliitto Cooperative at the beginning of January. A further 17 per cent was sold to Tapiola Group, 9.86 per cent to Varma Mutual Pension Insurance Company and 7.14 per cent to Sampo Life Insurance Company Ltd. The sales were based on a debt-free value of EUR 570 million. After tax, the sale produced a capital gain of roughly EUR 173 million.

In August, M-real bought the shares held by Metsäliitto Cooperative and UPM-Kymmene, totalling 53 per cent, in Kemiart Liners Oy. The purchase price of the shares was around EUR 13 million, in addition to which M-real's interest-bearing net liabilities increased by about EUR 23 million. Negative goodwill of EUR 14.3 million arising on the transaction was recognized as income.

M-real sold the Price & Pierce trading business to Gould Paper Corporation in a deal that took effect at the end of September. The sale had no material financial impact on M-real.

An agreement was signed at the end of December to sell the business operations of Savon Sellu to an international consortium of private investors led by Dr Dermot F. Smurfit. The price was around





EUR 20 million, including fixed assets worth some EUR 12 million. The deal came into effect in January 2005.

At the end of December, a letter of intent was signed to sell forest assets to a company to be formed under the ownership of Metsäliitto Cooperative (49.9%), Suomi Mutual Life Assurance Company (39.7%) and the Central Union of Agricultural Producers and Forest Owners (10.4%). The total price, as stated in the letter of intent, is EUR 172 million, of which M-real's share is 95 per cent. The deal was closed in January 2005.

### Investment in fixed assets

Investment in fixed assets totalled EUR 239 million (232). A further EUR 20 million was paid for shares in acquired companies (165).

The EUR 180 million investment in Kaskinen's new BCTMP mill is going according to plan. The main equipment is being installed and staff training has started. The mill will have a capacity of 300,000 t/a of bleached chemi-thermomechanical pulp, and start-up is planned for August 2005.

## BUSINESS OPERATIONS

### Cartons

The Cartons business produced a turnover of EUR 880 million (809) and an operating profit of EUR 60.3 million (33.3). The result includes non-recurring expenses, net of income, of EUR 5.4 million. Profit before non-recurring items was EUR 65.7 million (37.3).

The improvement in profitability is due mainly to higher delivery volumes and to cost-cutting. Folding boxboard deliveries were up by 13 per cent, but average sales prices fell along with the strengthening of the euro. The board machines operated at an average 89 per cent of capacity (84).

### Graphics products and Speciality papers

Turnover for Graphics products and Speciality papers was EUR 2,378 million (2,348). Operations showed a loss of EUR 90.0 million (+24.3). The figure includes non-recurring items (net) of EUR -56.2 million. Before non-recurring items, the loss on operations was EUR 33.8 million (+30.7).

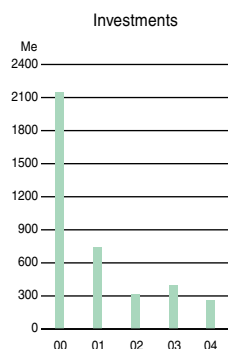
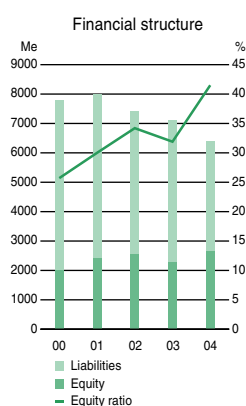
The market showed two distinct trends during the year. Growth in printed advertising boosted demand, while on the other hand sales prices fell. M-real's deliveries of coated fine paper were 10 per cent up on the year before, but coated magazine paper deliveries were 5 per cent down. Average prices for coated fine paper were 5 per cent lower and those for coated magazine paper 3 per cent lower. The paper machines operated at 88 per cent of capacity (84).

### Offices

The Offices business produced a turnover of EUR 670 million (683) and an operating loss of EUR 3.9 million (+48.2). Profitability suffered primarily from the fall in sales prices.

The market remained difficult despite an improvement in demand. The rise in imports of uncoated fine paper to Western European markets resulting from the weakening of the dollar, in conjunction with increased production capacity, meant that competition was extremely fierce all year. This resulted in a sharp drop in sales prices for uncoated fine paper.

Product deliveries by the Offices business rose by 8 per cent, but sales prices fell by an average of 9 per cent. The paper machines operated at 89 per cent of capacity (82).



## Map Merchant Group

Despite the difficult paper market, demand for Map Merchant Group's products rose during 2004. Turnover was EUR 1,368 million (1,393) and operating profit EUR 4.7 million (6.5). Profit includes non-recurring expenses, net of income, of EUR 8.3 million. Profit before non-recurring items was EUR 13.4 million (6.5). The financial result benefited from growth in delivery volumes and from the positive impact of measures to improve efficiency. Deliveries totalled 1,308,000 tonnes (1,283,000).

## Investigations by the competition authority

On 25 May 2004, the European Commission's competition authority conducted an inspection at M-real's premises. The inspection was in connection with the authority's investigation into alleged collaboration between fine paper manufacturers.

M-real has engaged the international law firm of Herbert Smith to examine the documents handed over to the authority and to conduct internal investigations, which are continuing.

Class actions relating to the allegation have been brought against M-real in the United States.

## New President and CEO

In June, M-real's Board of Directors appointed Hannu Anttila, 49, the company's new President and CEO. Mr Anttila was appointed Senior Executive Vice President of the company on 1 July 2004. He became Chief Operating Officer on 1 October 2004 and President and CEO on 1 January 2005, when the incumbent, Jouko M. Jaakkola, retired.

## Revised strategy and new organization

In August, M-real revised its business strategy and its business and organizational structure. Consumer Packaging, Publishing, Commercial Printing and Office Papers were introduced as the company's core business areas. The scope for developing the Map Merchant business and the possibility of a restructuring of its ownership are being assessed. The new business structure will be adopted in M-real's financial reporting from January 2005.

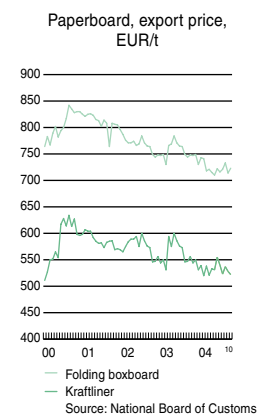
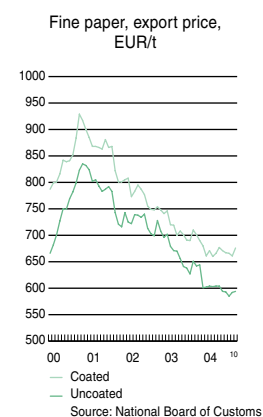
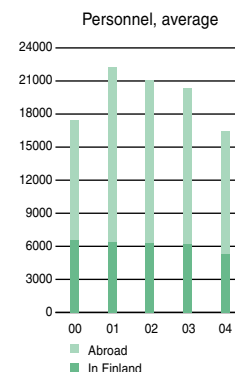
M-real has set a target of at least 10 per cent for return on capital employed averaged over the business cycle and a gearing ratio of no more than 100 per cent. Total capital expenditure, including any acquisitions, will at most be approximately equivalent to depreciation during 2005 and 2006.

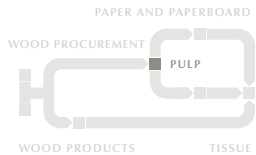
Under the revised business and organizational structure, the management of each business area carries total responsibility for the operations of its own business area, including sales, marketing and production. The business area heads are also responsible for strategy, profitability and return on capital employed.

## Outlook

Demand for paper remained good during the final quarter of 2004. With the exception of uncoated fine paper, M-real's deliveries to all the main markets showed growth on the previous year. However, production capacity was again under-utilized. The good demand for paper and board is expected to continue along with favourable economic development and growth in printed advertising.

Measures to improve cost-effectiveness are continuing. The aim is to return to profit during the second half of 2005. This requires that the planned cost reductions are achieved, that the price rises envisaged for the first half of the year are implemented, and that there is no further significant weakening of the US dollar.





## Botnia

Oy Metsä-Botnia Ab – marketing name Botnia – is Europe’s second-biggest producer of chemical pulps. Its products are bleached and unbleached softwood, birch and aspen pulps.

EUR million	2004	2003
Turnover	1 063	1 006
Operating profit	133.2	84.2
Profit before extraordinary items	128.7	78.9
Personnel, at the end of year	1 556	1 901

### Turnover and profits

Botnia’s turnover was up by 5.6 per cent on the previous year at EUR 1,063 million (1,006). Operating profit was EUR 133.2 million (84.2) and profit before extraordinary items was EUR 128.7 million (78.9). The improvement in profit is attributable to higher capacity utilization rates, an increase in sales volumes and higher market prices for pulp.

On the other hand, the strengthening of the euro had the opposite effect on profitability. The value of the euro averaged approximately 1.24 dollars in 2004 as against 1.13 dollars in 2003, i.e. the euro was on average 9.9 per cent stronger than the year before.

Return on capital employed in 2004 was 10.8 per cent (6.9).

### Chemical pulp

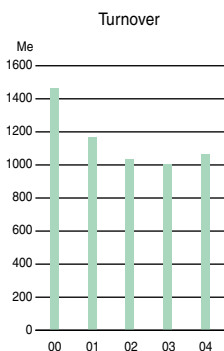
Pulp sales for the review period were 2,455,560 tonnes (2,382,514), of which 1,822,707 tonnes (1,755,500) was supplied to Botnia’s owners and 632,853 tonnes was sold to market customers (627,014). Softwood pulp accounted for 1,667,740 tonnes of the total (1,632,273) and hardwood pulp for 787,820 tonnes (750,241). The company’s mills operated at 92.4 per cent of capacity (91.9).

Pulp was in good demand in the first half of the year, and softwood pulp prices rose from USD 560/t in January to USD 660/t in June. In Europe, papermakers held their normal summer downtime, while pulp buyers in China limited their purchases because of rising stocks. Pulp producer stocks consequently rose and prices began to fall. Prices bottomed out in October, when the price of softwood pulp was USD 590/t. By the end of the year prices had reached USD 620/t.

The price of hardwood pulp started the year at USD 490, rose to USD 560 in June, then fell to USD 480 in October before ending the year at USD 520/t. In foreign currencies, market prices for softwood pulp were on average 17 per cent higher than the year before, with hardwood pulp prices 2 per cent higher.

New pulping capacity totalling 1,300,000 tonnes came on stream worldwide in 2004, of which 900,000 tonnes was softwood pulp. Over half a million tonnes of old pulping capacity was removed from the market towards the end of the year. A substantial amount of new hardwood pulping capacity is due for start-up in 2005. The effects of the 1 million t/a pulp mill that started up in China in November 2004 will be felt in the market in 2005, while a 900,000 t/a eucalyptus pulp mill is scheduled for start-up in Brazil in May.

Market conditions for the pulp business were good.





*Botnia continued its development work by tailor-making specific pulps for demanding customers.*

## Financing

Botnia's financial position and liquidity remained strong throughout the year. At 31 December 2004, the company had liquid reserves and unutilized credit facilities totalling EUR 542 million (364).

The equity ratio was 70.3 per cent at the beginning of the year and 72.4 per cent at the end. Net gearing fell to -5 per cent (+3). Interest-bearing net liabilities at the end of the year were EUR -59 million (+29). No major new financing agreements were signed during the year.

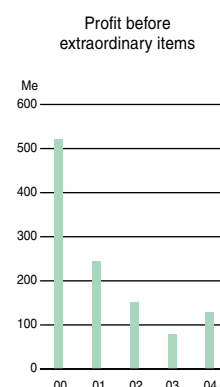
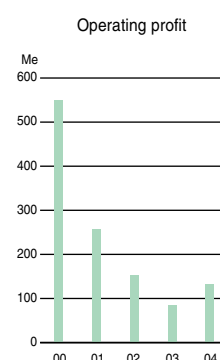
## Investment

Investment in fixed assets totalled EUR 88 million (85). The most notable investment completed during the year concerned basic repairs to the recovery boiler at Äänekoski pulp mill.

In autumn 2003, Botnia began investigating the possibility of starting pulp production in Uruguay. The first phase involved an environmental impact assessment and socio-economic survey. These were completed during the first half of 2004. In October, the Uruguay government granted the project free trade zone status, and an environmental permit was granted in February 2005. A decision to go ahead with the project was taken in March 2005.

Botnia's subsidiary Compania Forestal Oriental S.A. (FOSA) has invested in acquiring forest and land and in expanding its planting and harvesting capacity in Uruguay. FOSA owns roughly 54,500 hectares of forest suitable for planting.

Botnia is planning to build two mechanical wood-processing plants in Russia. Construction work on the first of these, a sawmill in the town of Podporodzhje in the Leningrad region, began early in the autumn. The second plant is planned for Suda in the Vologda region. The projects are aimed at securing supplies of raw material for production of high-quality reinforcement pulp and at paving the way for an investment in pulp production sometime in the future.





## Organization and personnel

Botnia's management model is based on processes, in which responsibility for customer focus and business efficiency rests with the directors of a number of core processes. The company employees are organized into competence centres. The primary goal of process-based management is to create the optimum conditions for customer focus in the company's activities and to free management resources for business development projects. The company's Management Group comprises the President and CEO together with the Senior Vice Presidents of the core processes and competence centres.

In human resources development, the emphasis in 2004 was on the work of superiors and professional competence. Almost all superiors attended a specially designed training course. An extensive programme for the exchange of experience, attended by 170 persons, was arranged to help promote professional expertise. M-Institute Silva accepted 17 out of 600 applicants for its chemical pulping course.

Botnia's key person programme was expanded to include self-assessment under the guidelines of EFQM (The European Foundation for Quality Management); over 50 employees took part in the programme. A one-year trainee programme for youngsters was started. Customer focus was promoted as part of personal development plans.

The average number of employees during the year under review was 1,644 (1,952). The number at the end of the year was 1,589 (1,901). As planned, all employees were covered by the profit-sharing scheme in 2004.

## Research and development

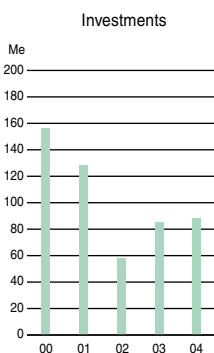
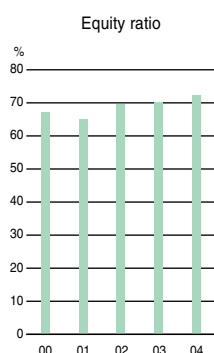
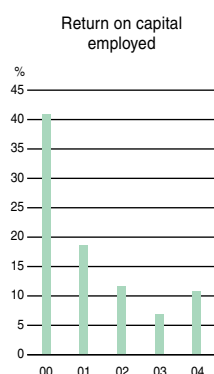
Special emphasis during the year under review was put on further developing fibre expertise to meet customers' needs and on product and process development.

The main thrust of product development work was on fibre refining. Botnia has collected its refining expertise into a service for studying and improving fibre refining in customers' production processes. In the future, expertise will be further widened to include management of fibre blending.

Paper machine runs have been conducted to study the behaviour of eucalyptus pulps in combination with various softwood pulps. The next step will be to determine customers' future pulp needs and to use this information in produce the most suitable raw material.

The main goal in process development was to minimize fibre consumption. Work on Joutseno's digester was continued by modelling the cooking process, studying strength yields and optimizing oxygen delignification. At Rauma, the new process control system has improved process performance and the quality consistency of the pulp. It is the first time this system has been applied in the process industry.

The areas of expertise offered by internationally oriented universities and research institutes were reviewed, the aim being to expand Botnia's networking with outside experts in specific areas of core expertise. The division of work between different universities and research institutes was also clarified.



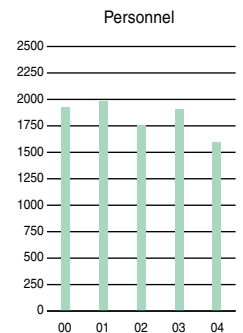
## Wood consumption

Botnia's wood consumption rose to 12.8 million cubic metres (12.3). This comprised 6.2 million cubic metres of softwood pulpwood (5.9), 3.1 million cubic metres of softwood chips (3.1) and 3.2 million cubic metres of hardwood (3.1). Wood consumption for the year was slightly higher than planned.

Ground conditions hindered wood transport in the autumn, but production did not have to be curtailed because of wood shortages. Domestic wood accounted for 89% of the total (88).

Severe storms in January 2005 brought down an estimated 80 million cubic metres of forest trees in southern Sweden and Latvia. The damage will have a major impact on wood trading in the entire Baltic region this year and next. To prevent insect damage, the fallen trees will have to be removed as swiftly as possible, which means a substantial increase in supplies of softwood during the spring and summer.

All Botnia's mills have the right to use the PEFC (Programme for the Endorsement of Forest Certification Schemes) label on their products. Wood procurement, pulp production and sales all comply with the demands of the certificate. In 2004, 76 per cent of Botnia's wood came from certified forests.

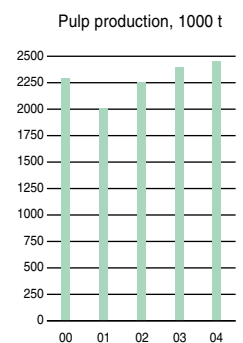


## Changes in Botnia's group structure

In spring, a subsidiary named Botnia Fray Bentos S.A. was set up in Uruguay to administer a free trade zone for a possible pulp mill project

The entire share capital of OOO SvirTimber was purchased from Thomesto in October to implement the sawmill project at Podporodzhje in Russia.

Oy Botnia Mill Service Ab, which previously had subsidiary status in the consolidated accounts, has been treated as an associated company in line with the change in accounting practice.

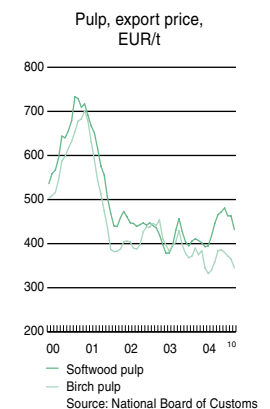


## Outlook

The outlook for 2005 is bright. Paper mill capacity utilization rates are high worldwide, and demand for pulp is expected to be good, at least during the first half of the year. Strong economic growth in China will continue in 2005, and this will sustain growth in demand for pulp. In fact, more than half of the growth in demand for pulp this year will come from China. In the short term, however, demand could fluctuate, and this could affect the trend in pulp prices.

Pulp prices are thought to be on the increase, but the trend in the exchange rate for the dollar will continue to pose a significant risk. Botnia expects its financial result for 2005 to be about the same as for 2004.

Botnia's main targets for 2005 are to implement the Uruguay pulp mill project in line with the investment decision and plans, to further improve cost-effectiveness with special emphasis on Finnish operations, to implement the sawmill project in Russia and pave the way for possible pulp production there, to secure supplies of raw material for reinforcement pulp production and further develop pulp quality, and to secure continuous development of the company's expertise and way of working.





It is often said within Metsäliitto that the purchase of the Äänekoski mills in 1953 marked the real beginning. Such a major, even reckless, acquisition as it was regarded at the time would not have been possible without frenzied buying – and revenues – that resulted from the Korean war. Through its astute timing of transactions, Metsäliitto was able to submit the best offer for Äänekoski's pulp and paper mills, not to mention considerable forest assets.

Since that time, the small town of Äänekoski in central Finland has been the hub of Metsäliitto's industrial operations and the focus of huge investment.







## Other subsidiaries

### Biowatti Oy

Biowatti is a supplier of wood-based fuels. The company markets forest raw material procured by Metsäliitto Cooperative and by-products from the Metsäliitto Group's wood-processing plants and from other sawmills and forest industry operations to power plants and heat-generating plants.

Finnforest's sawmills and Metsäliitto's wood procurement operations supply 57 per cent of Biowatti's raw material. The rest is purchased by Biowatti from private sawmills and other mechanical wood-processing plants and from the growing market for recycled wood.

In 2004, Biowatti produced a turnover of EUR 62 million (55) and an operating profit of EUR 0.4 million (4.8). Deliveries of wood-based fuels were equivalent to 4,400 GWh (3,940). The biggest growth in deliveries was in forest chips and pellets. Deliveries of forest chips were equivalent to 1,500 GWh and of pellets 500 GWh. Exports accounted for 16 per cent of sales. Deliveries of sawdust and chips to chemical pulp and wood-based panels producers totalled 0.7 million cubic metres (0.7). The company had 58 employees at the end of the year (64).

In October 2004, Metsäliitto Cooperative announced an intention to increase its shareholding in Vapo Oy and at the same time restructure the ownership of Biowatti. In January 2005, Biowatti's management bought the company's wood-based fuels business and Vapo bought its wood pellets business together with the related production facilities. The new wood-based fuels company is continuing under the business name Biowatti, and the company has signed long-term supply agreements with Metsäliitto Cooperative and its subsidiaries.

### Metsämannut Oy

Metsämannut manages Metsäliitto's land and forest as well as some of its buildings. The company also produces forest management and planning services for associations outside the Group and to Metsäliitto's members. Metsämannut manages 255,000 hectares of forest (242,500) for several different owners. Felling in these forests produced 487,000 cubic metres of wood during the year (458,000).

Turnover was EUR 7.2 million (7.1) and operating profit EUR 0.1 million (0.1). The company operates in 13 locations, and at the end of the year had a staff of 36 (39).

Weather-resistant field computers featuring satellite positioning and wireless data transmission were introduced during the year. This enables real-time links with the company's information systems as well as faster and more precise planning of forest resource utilization. The system allows the company to offer its customers a better, more comprehensive and more flexible service.

### Yhteismetsä Forestia

Yhteismetsä Forestia was set up under the revised Act on Jointly Owned Forests, primarily to serve private forest owners. The constitutional meeting was held on 26 January 2004 and the company was registered on 17 March that year. At the time of its formation, the company had 1,042 hectares of forest.

Yhteismetsä Forestia offers its shareholders a steady and easy source of income from their forests.



### Forestia Oy

Discussions regarding Forestia Oy's ownership were started during the year, with M-real seeking to sell its interest in the company. A letter of intent to this effect was signed on 30 December 2004 and the share transaction was completed in January 2005. Under the agreement, Metsäliitto Cooperative, the Central Union of Agricultural Producers and Forest Owners (MTK) and Suomi Mutual Life Assurance Company bought M-real's forest assets for EUR 172 million and the 122,000 hectares of forest in question were transferred to a newly established company owned 49.9 per cent by Metsäliitto, 39.7 per cent by Suomi Mutual Life Assurance Company and 10.4 per cent by MTK.

In 2004, Forestia had a turnover of EUR 7.1 million (7.5). Operating profit was EUR 6.5 million (7.8) including net capital gains of EUR 2.5 million.

### Metsäliitto-Yhtymän Tehdasmittaus Oy

Tehdasmittaus provides reception, measurement and handling services for wood and other raw materials and undertakes related contract work at customers' mills. The company is owned equally by Metsäliitto Cooperative, Finnforest and M-real. It has 15 measuring stations (16) and a head office. Activities at Kiihtelysvaara's sawmill and measuring station ceased in September 2004. The number of the company's employees at the end of the year was 57 (57).

During the year, reception of wood and chips totalled 8.5 million cubic metres (8.3). Turnover was EUR 6.0 million (6.1).

In R&D work, the main emphasis was on the development of the company's information systems. A project to develop log measurement, quality grading and sorting technology based on machine vision is being undertaken with Finnforest. Following a period of trials, a laser measurement system for pulpwood was introduced in production at M-real's Simpele mill during the year.

The company's quality management system, which is certified under ISO 9001:2000, was audited by Bureau Veritas International.

### Vapo Oy

In October 2004, Metsäliitto Cooperative announced it was raising its interest in Vapo Oy to 49.9 per cent by purchasing around 16.6 per cent of the company's shares. The remaining 50.1 per cent of the shares are owned by the Finnish state. The competition authority gave conditional approval for the deal at the beginning of January and the sale was confirmed on 20 January 2005.

The Vapo Group consists of the parent company Vapo Oy and its subsidiaries. Vapo Oy comprises the biofuels and environmental peat production businesses of Vapo Energia, the heat and electricity generation business of Vapo Voima and the environmental business of Vapo Biotech. The subsidiary Vapo Timber Oy processes timber and Kekkilä Oyj produces and markets growing media and plant nutrients.

In 2004, the Vapo Group had a turnover of EUR 528 million (472) and an operating profit of EUR 27.8 million (38.4). The average number of employees was 1,814 (1,744).

The Vapo Group will be consolidated into the Metsäliitto Group's accounts in accordance with the 49.9 per cent shareholding from the beginning of 2005.

## Corporate responsibility

The Metsäliitto Group is committed to promoting sustainable development through its business activities, to continuously improving its operations and to conducting its business in a responsible manner.

### Wood procurement

Wood procurement by Metsäliitto Cooperative and Thomesto is based on respect for local legislation, conditions and professional expertise. Collaboration with local contractors promotes employment and economic wellbeing.

In Finland, forestry is of major importance to rural economies. Metsäliitto is the leading buyer of wood from private forests. In 2004, Finnish forest owners were paid EUR 469 million for the wood sold to Metsäliitto. Forestry also generates significant indirect income. Metsäliitto paid its subcontractors around EUR 217 million for harvesting, wood transport and other work related to wood procurement.

A corporate responsibility study covering a number of Thomesto's Russian and Baltic subsidiaries and their subcontractors was started during the year. The study is focusing on occupational safety, workers' social benefits, employment contracts and working conditions. In Latvia, Metsäliitto took part in a project conducted by the World Business Council for Sustainable Development (WBCSD) and WWF to examine the best practices for verifying the legal origins of wood raw material.



### Forest certification

Forest certification is one way to promote economically, ecologically and socially sustainable forestry. Metsäliitto supports the development of reliable certification schemes that take account of local circumstances. The aim is to further increase the proportion of certified raw material in the Group's products.

In Finland, Metsäliitto is committed to the national Finnish Forest Certification System (FFCS). FFCS is endorsed by the international Programme for the Endorsement of Forest Certification Schemes (PEFC). Revised FFCS standards came into force in January 2005.

In October 2004, an extensive comparative assessment of forest certification schemes used in the Nordic countries was started in Finland, Norway and Sweden. The study is analysing how effectively the different schemes have promoted sustainable forest management in private forests. The study was commissioned by the Federation of Nordic Forest Owners' Associations (NSF), of which Metsäliitto Cooperative is a member. The study is being conducted by an independent consultant.

### Industry

M-real conducted an extensive internal appraisal of its corporate responsibility principles in 2004, and the Board of Directors approved the revised principles in January 2005. Corporate responsibility has been integrated into M-real's current activities, and it is coordinated by the head of public affairs.

A unit was formed to coordinate programmes to promote occupational health, safety and wellbeing throughout the M-real group. In environmental communications, information on the origins of wood raw material was included in the company's environmental product declaration for paper.



*The memory of Finland's Marshall C.G.E. Mannerheim is cherished by Metsäliitto at Kirkniemi manor. The manor is part of Metsäliitto's rich building heritage.*

Botnia has developed the work community on a long-term basis. A self-assessment of activities throughout the entire organization was conducted during the year. In human resources development, the quality of the work of superiors and resource allocation for strategic projects were two areas that received priority. A training scheme was drawn up that will cater for the entire workforce of the pulp mill to be built in Uruguay.

A socio-economic survey was conducted to determine the effects of the pulp mill on Uruguay. A project was also launched to develop road safety in the area. The programme includes training drivers of timber haulage vehicles in both driving and first aid. Botnia is working with the country's authorities in infrastructure planning, including the locations of roads, bridges and schools.

Finnforest published its first corporate responsibility report during the year. Corporate responsibility was further developed by a specially appointed working group. Those responsible for environmental affairs were given instruction on environmental legislation. In terms of social responsibility, the primary target group was Finnforest's own employees. Human resources management was further developed with the introduction of a People Management concept.

Metsä Tissue launched a communications programme focusing on environmental responsibility. The programme is concerned with the environmental aspects of product life cycles, which embrace fibre raw materials, product use, packaging and transport, energy consumption and waste disposal. Special attention was given to how use of Metsä Tissue's products promotes better hygiene.

More information on corporate responsibility can be obtained from the companies' own corporate responsibility reports, annual reports and internet websites.

The Metsäliitto Group's companies support the principles of the Global Compact, on human rights, labour, environmental protection and anti-corruption.

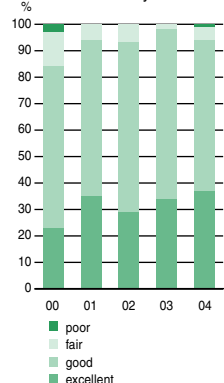
The Global Compact is a United Nations' initiative to advance responsible corporate citizenship.

The Metsäliitto Group is a member of the World Business Council for Sustainable Development, which works to promote economic growth, ecological balance and social progress.

## Environment

The cornerstone of Metsäliitto's and Thomesto's environment policy for wood procurement is continuous improvement in the handling of environmental affairs. Further developing the environment-related expertise of both employees and subcontractors was one of the main themes in 2004.

Evaluation of nature management in stands harvested by Metsäliitto



The following report concerns the environmental aspects of wood procurement by Metsäliitto Cooperative and its subsidiary Thomesto. Management of the environmental affairs of M-real, Finnforest, Botnia and Metsä Tissue is explained in these companies' annual reports and corporate responsibility reports and on their internet websites.

### Wood procurement in Finland

Metsäliitto's environment policy is put into practice through an environment programme. The programme is reviewed annually and compliance is closely monitored. The target of maintaining and further developing environment-related expertise was met with particular success in 2004.

The number of subcontractors and drivers taking and passing nature management courses was higher than the previous year. Instruction was provided for employees and contractors on how to preserve and safeguard the habitats of flying squirrels in accordance with the new guidelines issued by the Ministry and Agriculture and Forestry and the Ministry of the Environment. A field guide to this effect was issued. Feedback from audits of logging sites relating to forest certification was discussed during a training session arranged for employees and subcontractors. Instruction on forest and environment-related issues was also provided for those working in marketing.

In the environment programme, special attention was given to the preservation during logging of valuable habitats, as laid down in Finland's forest legislation, and to waterways and buffer zones around small watercourses. Compliance with the environment programme was monitored through both internal and external audits. Inspections by regional forestry centres showed that the standard of Metsäliitto's nature management in preserving important sites has continued to improve on previous years. The results for waterways and buffer zones around small watercourses were not quite as good. Differences were found between different areas, and it was decided to give priority to waterway protection in the 2005 environment programme.

A biological method was used to prevent the spread of root rot (*Heterobasidion annosum* and *heterobasidion parviporum*) during summer harvesting. This involved spraying stumps with a solution containing the fungus *Phlebiopsis gigante*, which is a natural enemy of root rot. Spraying was carried out over almost the whole of the area at risk.

### Forest biodiversity programme in southern Finland

The forest biodiversity programme in southern Finland (METSO) is looking into new, voluntary ways of increasing forest biodiversity. A number of Metsäliitto employees took part in training relating to the programme to learn how bird life can be better taken into account in forestry work. Some employees also attended briefings to learn about new ways in which the programme is implemented.





## Certified systems used by Metsäliitto and Thomesto

	Quality system	Environmental management system	Chain of custody system
Metsäliitto Cooperative	ISO 9001	ISO 14001	FFCS/PEFC
Thomesto	ISO 9001	ISO 14001	PEFC
– Austria			PEFC
– Latvia		Incl. in Thomesto's system	PEFC/FSC
– Lithuania		Incl. in Thomesto's system	
– France		Wood procurement incl. in Alizay's system	PEFC
– Sweden	ISO 9001	ISO 14001	PEFC
– Germany			PEFC
– Russia		Incl. in Thomesto's system	
– Estonia	ISO 9001	ISO 14001	PEFC

## International wood procurement

Thomesto's Swedish subsidiary Metsäliitto Sverige was awarded an ISO 9001:2000 quality management certificate. The Estonian subsidiary Mets&Puu set up both quality and environmental management systems. In February 2005, the company was granted ISO 9001:2000 and ISO 14001:1996 certificates, together with a PEFC chain of custody certificate for its wood procurement.

Thomesto further developed the auditing of its wood suppliers in Russia and the Baltic countries with the emphasis on social aspects such as worker training and occupational safety. Audits also included environment and quality training for wood suppliers.

Audits conducted in Russia covered 62 per cent of the wood imported into Finland and Sweden during the year (52% in 2003). The audits revealed a number of discrepancies, and measures were instigated to rectify these. One serious case led to supplies being cancelled.

Thomesto may refuse to accept deliveries of wood if the supplier breaks the terms of the contract. Thomesto's wood purchasing contract contains a clause under which the supplier undertakes to supply wood only from legal sources and to indicate the exact position of the logging area. Data on wood origins was entered into the geographical information system (GIS) introduced in 2003. Information stored in the system includes that on conservation areas, and the system issues a warning if conflicts or illegalities arise in information on wood origins. More effective use was made of the GIS system through employee training.

For those responsible for environmental issues Thomesto arranged its annual training days to discuss matters of current environmental importance and development of the auditing system.



## Environment policy steers wood procurement

Metsäliitto and Thomesto follow a joint environment policy with respect to wood procurement. The main points of this policy are sustainable forestry, managing the chain of custody for wood, supporting forest certification, compliance with legislation and the continuous improvement of activities.

Metsäliitto's and Thomesto's certified quality and environmental management systems and wood chain of custody systems ensure compliance with the environment policy in all felling. No wood is procured or accepted from conservation areas or from other areas where felling is prohibited.

## Personnel

Far-reaching reorganizations were carried out in the Group's companies in 2004 to clarify financial accountability, decision-making and business-related activities.

### Metsäliitto Cooperative

Personnel at the end of year

	2004	2003
Finland	9 197	9 676
Germany	4 220	4 308
Sweden	3 845	3 489
Great Britain	2 795	2 837
Norway	1 704	1 759
France	982	1 053
Austria	888	890
Romania	814	764
Poland	764	807
Switzerland	570	577
Hungary	560	583
Russia	498	430
Baltic countries	472	482
Belgium	392	407
The Netherlands	352	368
Other Europe	454	440
Other countries	276	303
Metsäliitto Group	28 783	29 173

### Process-based business concept

The main and supporting processes were extensively reorganized during the year with the aim of generating better services for both members and customers. As a result, the number of staff posts fell by about 50 and several job descriptions changed. Securing the working practices and level of preparedness required by the new organization was one of the tasks in human resources development.

### Development of expertise

Human resources development was promoted in accordance with the training programme. A programme was launched during the year for senior management from all the Group's companies.

Workshops in leadership were arranged for superiors. The aim was to develop the role of superiors so that they can provide as much support as possible to everyone involved in teamwork.

The procedure for surveying competences was brought into line with the requirements of the duties and demands of the new organization. Individual competences will be examined during development discussions. The competence gaps identified will in future be addressed through development programmes aimed both at individuals and at selected themes.

### Wellbeing at work

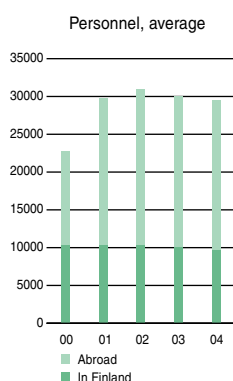
Metsäliitto revised its programme to promote wellbeing at work during the year. The idea of the programme is to maintain a good level of work fitness among employees. In seeking to achieve this, special attention is given to ensuring harmony in the workplace, to job contents, and to employees' health and duties. Making more extensive use of occupational health services has also been made part of the programme.

The annual employee questionnaire is also used to gauge progress in job satisfaction and work fitness. The results show that although the work has become more demanding, both the working atmosphere and the work fitness of Metsäliitto's employees have improved. The score for working atmosphere is well above the national average for staff employees in Finland. Development measures chosen and implemented by superiors and teams together have had a major impact.

### Finnforest

Finnforest introduced a People Management concept in 2004. Its two central features are content (including responsibilities and job descriptions) defined on the basis of business requirements, and the tools (such as development discussions and incentive schemes) needed to implement the concept. The aim is to ensure employee wellbeing and to widen each employee's range of competences.

More interaction and communication is being sought through the international European Works Council. The Timber Academy training concept is designed to increase the knowledge and skills of employees, customers and other stakeholders with regard to wood products and solutions.





Employees from Metsäliitto's head office enjoy keeping fit under instruction at Pohjola-stadium in Vantaa.

### Metsä Tissue

Metsä Tissue's key personnel underwent an international training programme. The programme is designed to develop the skills of superiors in line with the company's values and to support the development and implementation of business strategies. According to Metsä Tissue's human resources policy, employee competence and motivation, together with a management culture based on the company's values, play a vital role in successful business.

Continuous improvement of occupational health and safety is of primary importance in developing activities at the mills. Legal requirements are supplemented by the company's own occupational health and safety rewards scheme.

### M-real

M-real gave particular attention to developing core competence and management resources and to strengthening its management system. Some 80 per cent of the group's staff from around the world took part in Performance Makes the Difference (PMD) discussions with their superiors.

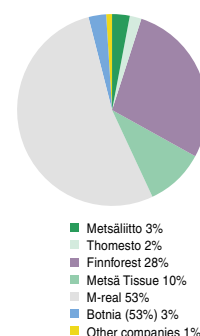
Around 60 members of M-real's top management took part in the M-real Executive Development programme at IMD, one of Europe's most respected business schools. Around 20 members of middle management and some 200 sales and marketing staff took part in the GRIP programme (M-academy, Growing in International Performance). An extensive training programme for superiors was arranged at the mills in Finland.

### Botnia

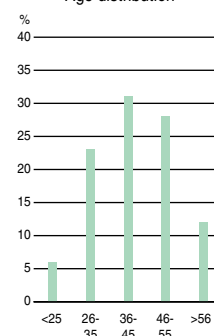
Botnia's employees are organized into competence centres. In 2004, the focus was on developing the work of superiors and the level of professional expertise. Almost all superiors attended a specially designed training course. An extensive programme for the exchange of experience, attended by 170 persons, was arranged to help promote professional expertise.

Botnia's key person programme was expanded to include self-assessment under the guidelines of EFQM (The European Foundation for Quality Management); over 50 employees took part in the programme. A one-year trainee programme for youngsters was started.

Personnel by companies



Age distribution









There have been several milestones along the way, but despite being comparatively young, Metsäliitto can be proud of the fact that it has operated under the same name for 71 years – longer than many other European companies.

The 1960s and 1970s were a time of major industrial investment. Capital was collected from house to house, whether it was the construction of Kirkniemi paper mill or Kaskinen pulp mill. By the 1980s Metsäliitto was ready to take the next major steps and to restructure itself through a merger, which in turn paved the way for vigorous international expansion in the 1990s. By the time 70 years had elapsed since its formation, Metsäliitto had become one of Europe's four biggest forest industry groupings.

## Supervisory Board

It is the duty of the Supervisory Board to ensure that Metsäliitto Cooperative is run in accordance with the by-laws and the decisions of the Supervisory Board, and in the interests of Metsäliitto. The Supervisory Board also ensures that the decisions of the Representative Council are put into effect, and elects the Board of Directors.

The members of the Supervisory Board are:

<b>Chairman:</b>	Runar Lillandt
<b>Deputy Chairman:</b>	Aarne Hedetniemi
<b>Members:</b>	Mikael Aminoff Martti Asunta (to 31.12.2004) Leo Autio Aimo Hyvärinen (to 7.4.2004) Antti Jaakkola  Erkki Jaakkola (from 7.4.2004) Matti Jaakkola Ilkka Juusela Hannu Järvinen Saini Jääskeläinen (to 31.12.2004)  Marja Kallioniemi (to 7.4.2004) Lauri Kananen Esko Kinnunen Albert Käiväräinen Ilkka Lehtinen  Jussi Linnaranta (from 7.4.2004) Teuvo Mankki Martti Niiranen Juhani Ollila Juha Parpala  Eero Peltö-Arvo Anna-Liisa Pyynönen Seppo Reijonen Timo Saukkonen (from 7.4.2004) Timo Sirviö  Olav Store Mikko Tolonen Erkki Vainionpää Axel Westerstråhle Ilkka Yliluoma
<b>Employee representatives:</b>	Tapio Europaeus Jari Hurskainen Hannu Leppäjärvi Pekka Peltola

## Metsäliitto's Representative Council

Every four years, Metsäliitto Cooperative's members elect from among their number a Representative Council by postal ballot. The Council has 69 members and is Metsäliitto Cooperative's highest decision-making body. The Council elects thirty members to the Supervisory Board and the employees elects four members.

The members of the Representative Council elected in 2003 are:

Aimo Alho	Paavo Lintula
John Berg	Päivi Luostarinen
Johan Björkenheim	Bengt Lövsund
Eero Ekman	Antti Mieskolainen
Stefan Enegren	Antti-Jussi Mikkola
Arto Eskelinen	Pentti Murto
Hannu Haimi	Timo Nikula
Jaakko Halkilahti	Raimo Ollikainen
Mikko Hatanpää	Juha Paajanen (from 7.4.2004)
Teuvo Hatva	Martti Palojärvi
	Kosti Parviainen
Pentti Havanka	Tauno Pirttijärvi
Erkki Helaakoski	Seppo Pohjala
Kauko Hihnala	Mauri Ruuth
Ville Hirvonen	Tauno Räsänen
Arto Hongisto	Anne Saarenkivi
Timo Hyvönen	Timo Saukkonen (to 7.4.2004)
Harri Isomuotia	Alpo Sievänen
Antti Isotalo	Veikko Kustaa Simola
Erkki Jaakkola (to 7.4.2004)	Heikki Sipilä
Seppo Jokela (from 7.4.2004)	Ahti Tapani Siponen
Risto Junttila	
Heikki Järvi-Laturi	Bo Storsjö
Antti Jääri	Asko Tienhaara
Matti Kainulainen	Kimmo Tiilikainen
Timo Kalli	Rauno Tuomaala
Jorma Kekkonen	Matti Turtiainen
Hannu Keskisarja	Seppo Unnaslahti
Ari Kivenmäki	Sauli Uusitalo
Juha Kuokka	Tuomo Uutela
Aulis Kurtti	Jukka-Pekka Vapaniemi
Timo Kässi	Jukka Virnala
Markku Laitinen	Anders Wasström
Jukka Lappalainen	Pauli Yliaska
Hannu Lassila	Matti Ylitalo
Johannes Leppänen	Matti Äijö
Pasi Levänen	

## Executive Board and Auditors

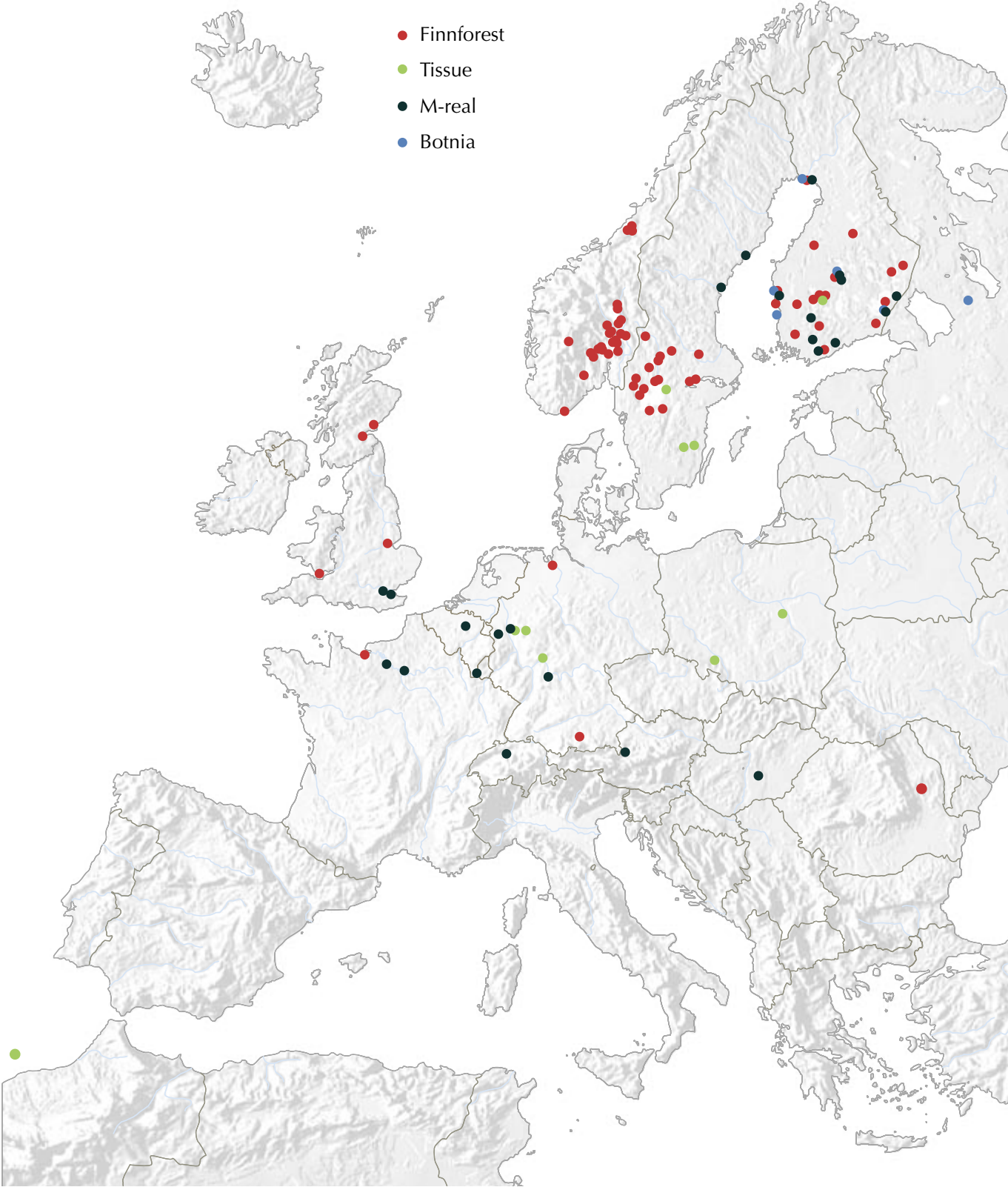
### Metsäliitto Group Executive Board

Chairman	Antti Oksanen, 60	M.Sc. (For.), President and CEO, Metsäliitto Group
Deputy Chairman	Arimo Uusitalo, 62	M.Sc. (Agr.), Chairman, Board of Directors
	Kari Jordan, 49	M.Sc. (Econ.), President and CEO, Metsäliitto Cooperative
	Martin Lillandt, 59	M.Sc. (For.), Senior Executive VP, Metsäliitto Cooperative
	Hannu Anttila, 49	M.Sc. (Econ.), President and CEO, M-real Corporation
	Ari Martonen, 49	M.Sc. (Econ.), President and CEO, Finforest Corporation
	Markku Melkko, 55	M.Sc. (For.), Senior VP, Energy & Logistics
	Erkki Varis, 56	M.Sc. (Eng.), President and CEO, Oy Metsä-Botnia Ab
	Esa Kaikkonen, 35	General Counsel, Secretary of the Board of Directors
Secretary		

### Auditors

Ilkka Haarlää, 60	M.Sc. (Econ.), APA
PricewaterhouseCoopers Oy Authorized Public Accountants Responsible auditor:	
Göran Lindell, 58	M.Sc. (Econ.), APA





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Senior VP, Energy and logistics,  
Markku Melkko

Senior VP, General Counsel, Esa Kaikkonen  
Senior VP, Information security, Ari Meldo  
Senior VP, Group communications and  
Public affairs, Pekka Kivelä  
International forest- and environmental affairs:  
VP, Terhi Koipijärvi (east)  
VP, Mikko Ohela (west)

## **METSÄLIITTO COOPERATIVE**

President and CEO, Kari Jordan

### **Finance and administration**

Senior VP, Harri Turunen  
Financial accounting, Mirja Karppinen  
Financial controller Sonja Hyväri  
Financial officer, Esko Okko  
Development, Katriina Korpi (ml.)  
Real estate service, Matti Knuutila  
Office Manager, Marita Frost

### **Service Centre**

VP, Jani Rissanen (temp.)  
Accounts - Leena Haapala  
Wages and salaries - Sirpa Luola  
Members - Arja Pallari  
E-Services - Juha Miettinen

### **Controllers**

Business controller Arto Kesseli  
Thomesto - Maria Rintala  
Sales - Markku Ekdahl  
Reporting - Timo Rantanen  
Development - Jani Rissanen

### **Data administration**

VP, Ismo Somero  
Solutions - Teemu Perälä  
Projects and architecture - Pekka Valtonen  
Services - Kari Lampinen  
Support - Seppo Kontteli

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Finance, Ari Tasa  
Quality and environment, Jussi Ripatti  
Russia/Europe, Timo Saarentaus  
Business development and Asia,  
Maikki Kropsu  
Western Europe, Baltic countries and Belarus,  
Eric Lagerwall

## **METSÄLIITTO WOOD PROCUREMENT, FINLAND**

Senior Executive VP, Martin Lillandt

### **Owner Relations**

Senior VP Jaakko Punkari

### **Wood deliveries to costumers**

Senior VP, Pekka Kauranen  
Pulp and paper costumers, Mika Nevalainen  
Mechanical wood costumers, Jani Riissanen  
Planning, Timo Roimela  
Operations, Juha Korhonen

### **Membership Service**

Senior VP, Juha Mäntylä  
Membership administration, Matti Arpiainen  
Communications, Ilari Pirttilä

### **Helsinki region Service Centre**

Marketing, Katri Kankaanpää

### **Development and resources**

Senior VP, development and resources,  
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Senior VP, personnel, Juhani Saari  
Personnel development, Jukka Salenius  
Language coordinator Howard McKee  
Procurement development, Risto Lilleberg

### **Environment and quality**

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Quality, Pekka Pakkala  
Quality Controller, Ari Korpi  
Procurement inspectors  
Southern Finland, Pekka Saarentola  
Western Finland, Jukka Mäkinen  
Southeastern Finland, Tauno Hyyryläinen  
Central Finland, Jukka Huttunen  
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