



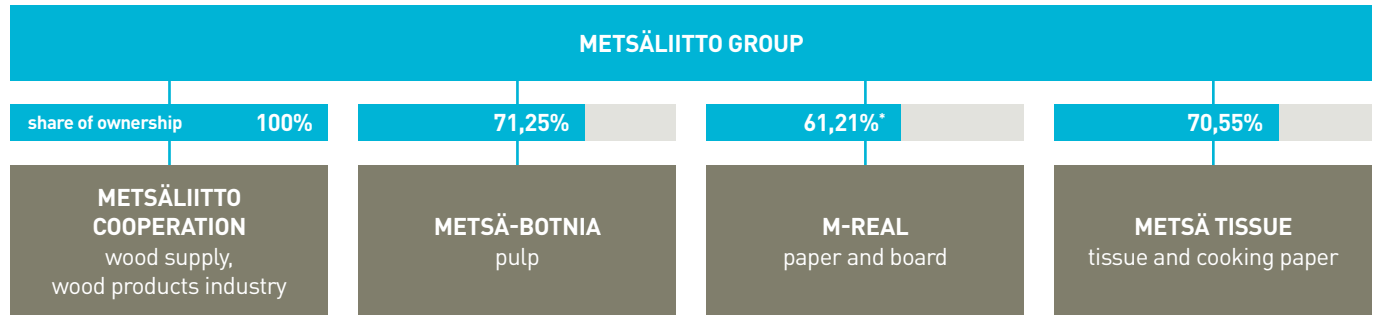
ANNUAL REPORT  
**2010**

**Metsäliitto Group**

Metsäliitto is an international forest industry group present in some 30 countries. Metsäliitto combines responsible forest economy and innovative technology to produce high-quality products and solutions from renewable Nordic wood in a sustainable way.

METSÄLIITTO'S STRATEGY .....	2
MOST IMPORTANT EVENTS IN 2010 .....	3
PRESIDENT AND CEO'S REVIEW .....	4
TOP PRODUCTS FROM THE FOREST .....	6
OUR ROOTS .....	8
FOREST – OUR LIVELIHOOD .....	10
WHAT COMES FROM ONE CUBIC METRE OF WOOD?.....	12
OUR PRODUCTS.....	14
WOOD SUPPLY.....	16
WOOD PRODUCTS INDUSTRY .....	18
PULP INDUSTRY .....	20
BOARD AND PAPER INDUSTRY .....	22
TISSUE AND COOKING PAPERS.....	24
OUR WAYS.....	26
SUSTAINABLE AND RESPONSIBLE BUSINESS PRACTICE.....	28
ENERGY EFFICIENCY.....	30
PERSONNEL .....	32
FINANCIAL STATEMENTS .....	34
CORPORATE GOVERNANCE STATEMENT .....	116
SALARY AND RENUMERATION REPORT .....	122
METSÄLIITTO COOPERATIVE'S REPRESENTATIVE COUNCIL AND SUPERVISORY BOARD .....	124
METSÄLIITTO GROUP'S BOARD OF DIRECTORS.....	126
METSÄLIITTO GROUP'S EXECUTIVE MANAGEMENT.....	128
CORPORATE RESPONSIBILITY KEY FIGURES .....	130

# Metsäliitto Group 2010



\* Holding by number of votes 61.21%, holding of shares 40.90%

## Key figures

Million euros

	2010	2009	2008
<b>Result (continuing operations)</b>			
Sales	5,377	4,837	6,434
Other operating income	142	353	239
Operating expenses	-4,686	-4,858	-6,189
Depreciation and impairment losses	-336	-501	-482
Operating result	497	-169	2
Share of results in associates	-15	-16	6
Net exchange gains/losses	-137	-144	-241
Result before income tax	345	-329	-233
Result from continuing operations	214	-318	-172
<b>Key figures (continuing operations)</b>			
Operating result, EUR million	497	-169	2
- "-, excluding non-recurring items	547	-75	45
Return on capital employed, %	11.8	-3.3	0.5
- "-, excluding non-recurring items	13.4	-1.4	1.3
Return on equity, %	13.9	-20.0	-8.4
- "-, excluding non-recurring items	18.2	-13.4	-6.4
Equity ratio, %	29.7	24.5	26.0
Net gearing ratio, %	116	157	149
Interest-bearing net liabilities	1,939	2,203	2,666
Gross capital expenditure	159	648	272
Personnel, average	13,168	14,534	17,538

## 2010 IN BRIEF

■ Wood was delivered to customers approximately at the budget level which improved the result compared to 2009.

■ The recovery of construction market especially in the Nordic countries boosted the demand for construction products and Kerto.

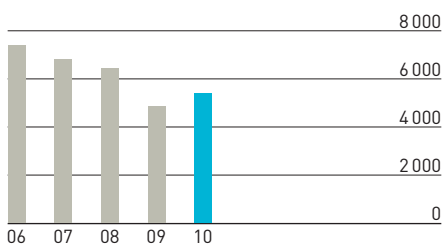
■ The prices of pulp grew strongly during the year. The supply and demand for pulp were in balance.

■ The demand of packaging boards remained strong. Company continues to increase product prices.

■ Sales of company's own tissue brands grew significantly compared to 2009.

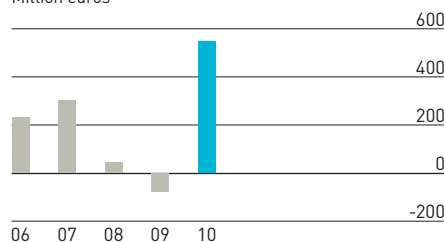
## Sales

Million euros



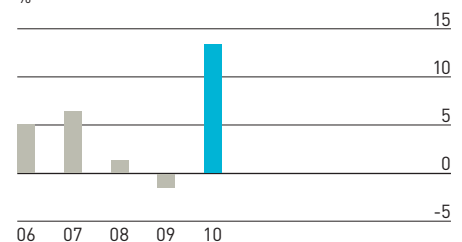
## Operating result excluding non-recurring items

Million euros

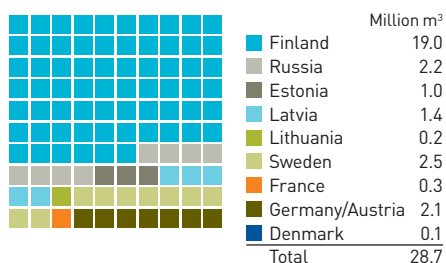


## Return on capital employed excluding non-recurring items

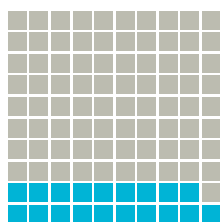
%



## DELIVERIES BY SOURCE COUNTRY/ SALES BY MARKET AREAS 2010



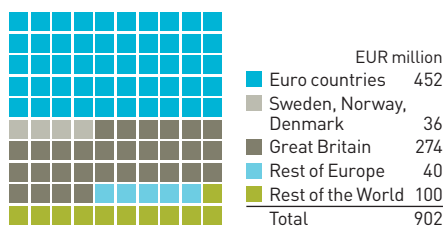
## SHARE OF GROUP'S SALES 2010\*



19%

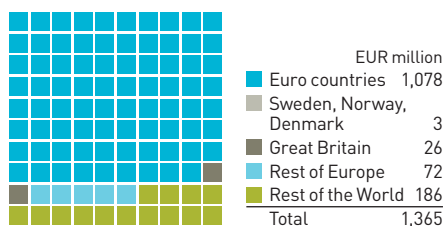
## KEY FIGURES

	2010	2009	2008
Sales	1,353	1,101	1,734
Operating result excluding non-recurring items	21	12	28
% of sales	1.6	1.1	1.6
Personnel at year end	1,078	945	1,140



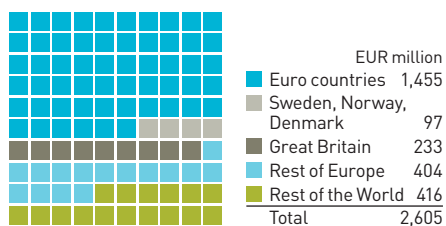
13%

	2010	2009	2008
Sales	902	806	1,162
Operating result excluding non-recurring items	28	-41	-53
% of sales	3.1	-5.1	-4.6
Personnel at year end	2,703	3,110	4,199



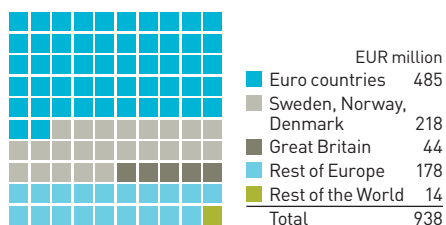
19%

	2010	2009	2008
Sales	1,365	1,195	1,591
Operating result excluding non-recurring items	379	-43	209
% of sales	27.8	-3.6	13.1
Personnel at year end	881	1,106	1,815



36%

	2010	2009	2008
Sales	2,605	2,432	3,236
Operating result excluding non-recurring items	173	-150	-35
% of sales	6.6	-6.2	-1.1
Personnel at year end	4,538	4,903	6,546



13%

	2010	2009	2008
Sales	938	890	930
Operating result excluding non-recurring items	59	93	42
% of sales	6.3	10.4	4.5
Personnel at year end	3,198	3,150	3,222

\* Including internal sales

# Metsäliitto's business areas

## BUSINESS AREAS



**Metsäliitto Wood Supply** is the market leader in wood supply from private forests in Finland. This business area provides the about 130,000 members of Metsäliitto Cooperative with services related to forest ownership, sustainable forest property management, wood trade, forest income investment and intergenerational transfer of forest property.



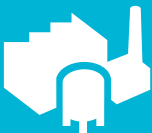
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**Metsäliitto Wood Products Industry**, Finnforest, delivers wood-based solutions for the needs of industrial construction, other industrial customers and home and living, in particular. The services of this business area cover the entire value chain, from a wide product range based on high-quality raw materials and an efficient supply chain, to local customer service.



18



**Metsäliitto's Pulp Industry** equates Metsä-Botnia which is one of Europe's biggest pulp producers and a world-leading supplier of market pulp. The company's mills are located in Joutseno, Kemi, Rauma and Äänekoski, and their aggregate production capacity amounts to almost 2.4 million tonnes.



20



**Metsäliitto's Board and Paper Industry** equates M-real. M-real is Europe's leading primary fibre board producer and a major paper supplier. M-real provides boards and papers for its customers in the consumer packaging, communications and advertising sectors. The company's sales network serves brand owners, carton printers, publishers, printing houses, merchants and office suppliers.



22



**Metsäliitto's Tissue and Cooking Papers** are produced by Metsä Tissue, a leading European supplier of tissue paper products to households and professional users. The company is also the world's leading producer of cooking papers. The company has production units in Finland, Poland, Sweden, Germany, Slovakia and Russia.



24

# Metsäliitto's strategy

The focus on the five core businesses and a shift from restructuring to building the future are among the cornerstones of Metsäliitto Group's strategy. We ensure that responsible operations in line with sustainable development and unique products remain and develop as the Group's success factors.

Metsäliitto's vision is to be a focused and profitable Finnish forest industry company that operates in the international market, and that integrates sustainable development, customer-orientation and innovations in its operations in a unique way.

Our vision reflects our belief in a future where success comes to responsible players who bring customer-oriented and novel product solutions to the market. Metsäliitto wants to be among these leading companies.

## PIONEERING USE OF FINNISH WOOD

Our basic task at Metsäliitto is to be a profitable and competitive forest industry group that uses wood grown by its owner members as its main raw material. At the same time, we enhance the value of the owner members' forest assets.

We support the success of our customers and improve the everyday life of people by means of innovative products and services. We make sure that our operations also promote the resolution of more far-reaching environmental challenges.

Metsäliitto's values – responsible profitability, reliability, cooperation and renewal – guide us in this work.

## FOCUS PROVIDES COMPETITIVE ADVANTAGE

Metsäliitto's strategy describes how we will reach our objectives. One of the cornerstones of our strategy is a focus on our strengths: wood products, pulp, packaging boards and soft tissues. We continuously improve our operations and ensure that we address our customers' changing needs, operate in a cost-effective manner and grow profitably. We invest in the long-term development of our current products and in the services we provide to forest owners. We also actively pursue new business opportunities by, among other things, strengthening our operations in the wood energy sector and wood construction, and by investigating the potential offered by the bioeconomy.

Our unique ownership structure – forest owner members – sets us apart from the competition and strengthens the long-term basis of our operations.

## SOLID FOUNDATION FOR THE FUTURE

In recent years, Metsäliitto has implemented a systematic restructuring programme, and the positive effects are already visible. The Group now has a solid foundation on which to build for the future. The choices have directed Metsäliitto on the correct path, and we are shifting our focus from restructuring to continuous improvement and profitable growth. The strategic review continues in paper businesses.

## Metsäliitto has implemented its strategy consistently since 2005





# Most important events in 2010

**04  
02** Metsä-Botnia announces a EUR 40 million investment to Kemi mill's new caustizing and water plants in Finland.

**09  
02** Metsäliitto Group signs the World Business Council for Sustainable Development (WBCSD) Manifesto on energy efficiency in buildings.

**08  
03** Wood Products Industry improves operations by consolidating its business lines and re-organising its sales.

**12  
03** Wood Products Industry closes the Kyröskoski sawmill in Finland as unprofitable.

**29  
03** M-real announces a EUR 6 million investment to Äänekoski paper mills' sheeting operations in Finland.

**18  
05** Metsä Tissue develops its Polish operations the objective being to enhance its product, brand and service offering.

**09  
07** Wood Products Industry sells the machinery and equipment of the Soinlahti sawmill in Finland to Anaika Wood Ltd Oy, and the buildings and soil included in the sawmill to Iisalmen Teollisuuskylä Oy.

**14  
07** M-real closes the Alizay pulp mill in France as unprofitable.

**04  
09** Luukku house is awarded with the Finnish Wood Award 2010. The house includes Finnforest products.

**05  
10** Metsä Tissue announces a EUR 7 million investment to Mänttä mill in Finland to strengthen the Katrin brand.

**11  
10** M-real announces a EUR 42 million investments to Simpele and Kemiart Liners mills in Finland.

**27  
10** M-real sells a part of its Düren mill in Germany to Metsä Tissue for EUR 10 million.

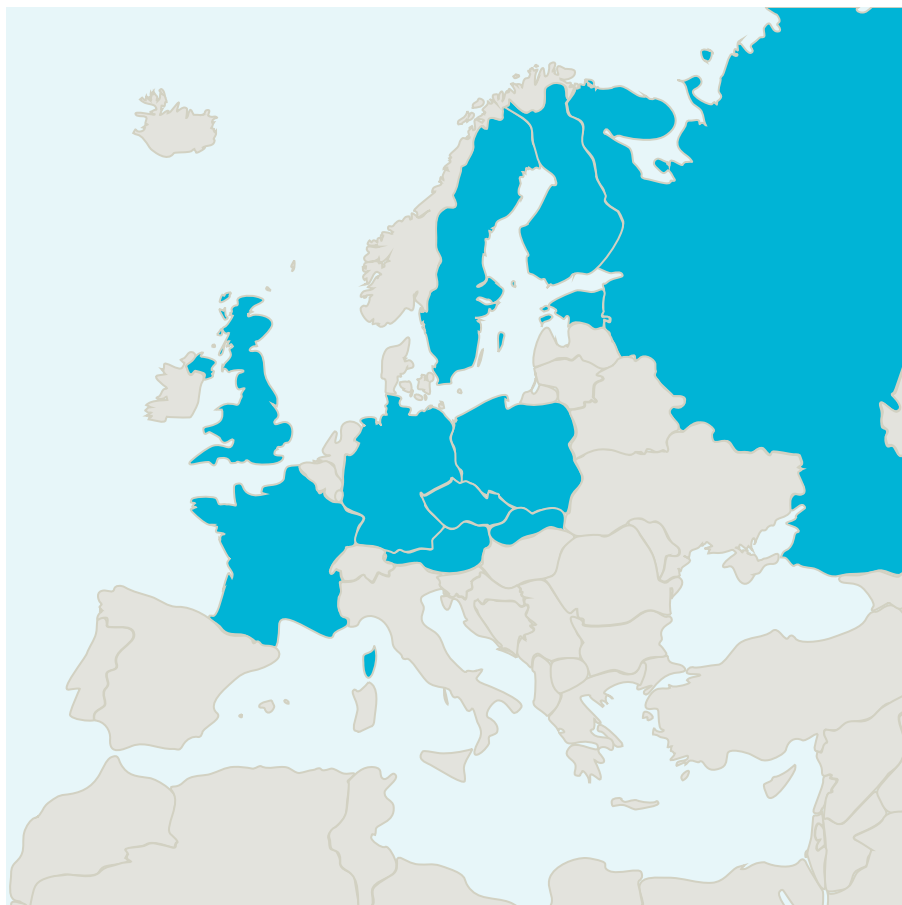
**03  
11** Metsä Tissue announces a EUR 30 million investment to Düren mill in Germany to strengthen the SAGA brand.

**10  
11** M-real centralises speciality paper production to the Gohrsmühle mill in Germany and closes the Simpele paper machine in Finland.

**18  
11** Metsäliitto Group donates EUR 1,250,000 to five Finnish universities.

## Metsäliitto's production

Metsäliitto Group has production in 11 countries and operations in some 30 countries. The Group's products are sold globally and our biggest market area is Europe.



# President and CEO's Review



Kari Jordan  
President and CEO  
Metsäliitto Group



Our result for 2010 was strong. We were able to take advantage of the improved market situation and succeeded in advancing our internal development programme systematically. The focus on our own strengths, initiated six years ago, has proven to be the right solution.

#### **SUCCESS STEMS FROM ACTIVE WOOD SALES**

The foundation of Metsäliitto's success is Nordic wood, primarily harvested from our owner-members' forests. Wood sales had been fluctuating for a long time and were slow at the beginning of the year, but started picking up in the summer. During the autumn, we met the volume targets set for wood sales. By cooperating with active owner members, we were able to safeguard the supply of wood to our production units.

#### **LEADING POSITION THROUGH SPECIALISATION**

Metsäliitto Group is more specialised and stronger than ever, ready to actively tap the opportunities provided by the changing operating environment. We are focused on manufacturing products that keep us among the leading companies and for which demand in the market is growing. We work to integrate sustainable development, our customers' needs as well as innovations in all our products and services. The essence of our business comprises pulp, wood products, packaging board, and tissue paper. We have confidence in the future prospects for these products.

#### **WOOD IS THE FUTURE**

Renewable and recyclable wood has unique opportunities as a raw material. The opportunities of wood in construction, energy production and various materials are closely tied to its ecological nature. Wood has a particularly important role in the prevention of climate change and in the development of comfortable housing and healthful living.

As future product development possibilities for wood are wide ranging, the wood industry needs people who are able to develop new, innovative products and introduce them to the market skilfully.

#### **COOPERATION IS POWER**

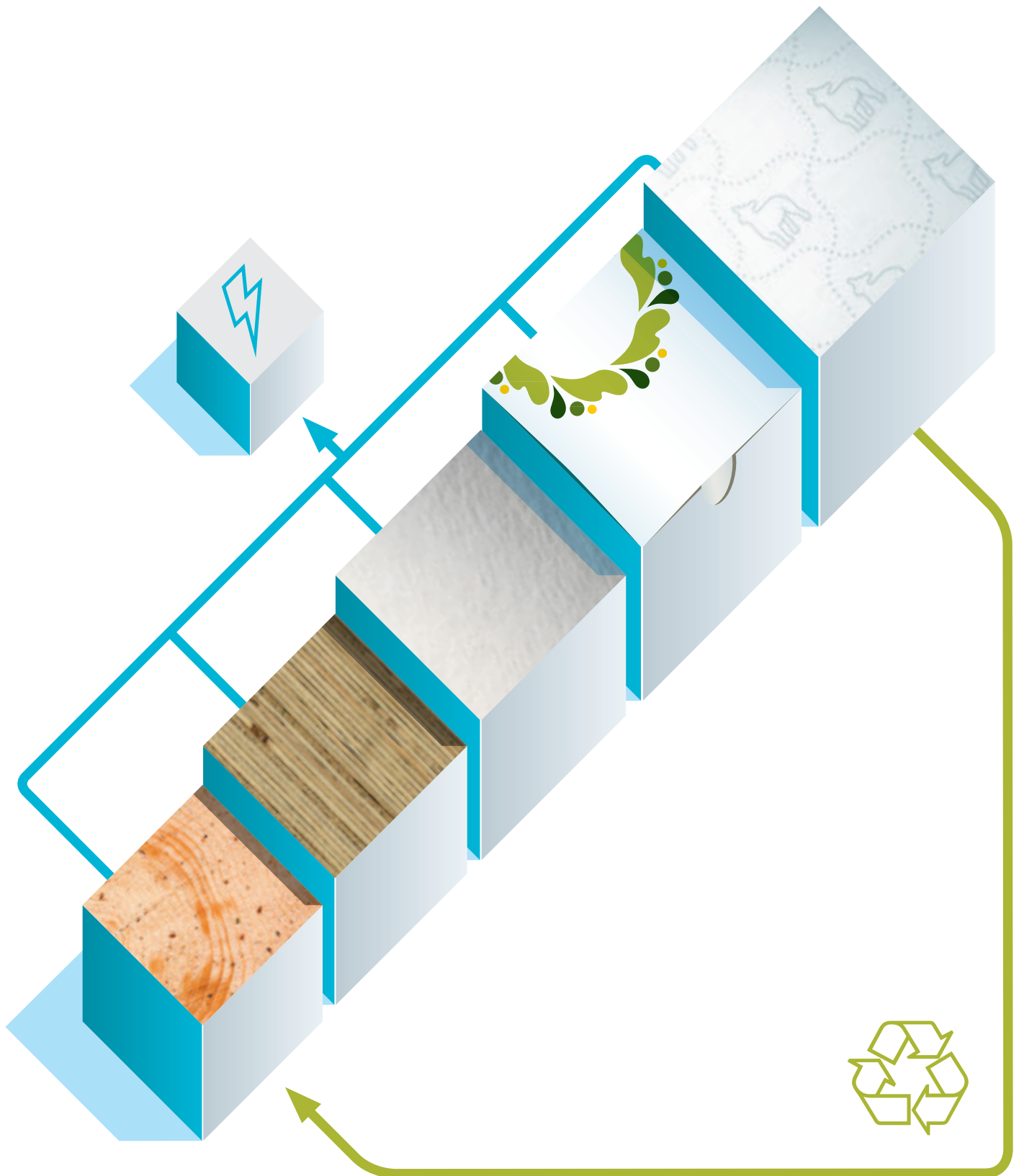
At Metsäliitto, our business operations are built on our strengths and we have assessed opportunities that will open up in the future. We will grow mainly organically – in other words, we will expand our operations by increasing our market share, and we will also potentially take other considered steps towards growth.

Owner collaboration – one aspect of well-functioning and competitive wood sales – is one of our key assets as the demand for wood fibre continues to increase due to new applications. Our dialogue with our owner members is active, and we offer them increasingly extensive and better services as well as opportunities to gain increased well-being from their forests, now and in the future.

I wish to thank every Metsäliitto employee of their committed and successful work in 2010.

Metsäliitto is more  
specialised and  
stronger than ever.

# Top products from the forest



Wood, our main raw material, is very versatile: It is used for top products in pulp, packaging, board and paper products, hygiene and cooking papers, and for wood construction. Products derived from wood can be burned and the resulting energy can be utilised. The production units also generate enough energy as a by-product to be fed into the main grid.

Our products represent sustainable development at its best. A renewable forest continuously generates new and pure raw material. In addition to forests, wood products store carbon and can also be recycled. For example, products made out of fibre can be recycled some five times.

Our passion is to continuously improve our operations, and this goal also applies to our environment and stakeholders. Since it is our personnel that produce our results, we invest in competence development and we believe that learning from one another helps us to improve our performance. We also improve our operations by listening to our stakeholders' needs and cooperating with them.

#### WOOD FROM SUSTAINABLY MANAGED FORESTS

Through our members, we have access to a considerable reserve of premium quality raw material – Finnish wood, which is the best material for all forest industry products. We have been working together with our members for more than 80 years, and today our collaboration with the 130,000 members continues to produce excellent results.

#### COMFORT FROM WOOD CONSTRUCTIONS

Wood is suitable for all construction. The Wood Products Industry materials allow for building a house, which stores carbon even after it is completed. Wood construction makes sensible use of Finland's most important natural resource and the related competence. Wood used in construction and interior decoration increases the comfort of living and the quality of life: wood stabilises humidity in the indoor air, improves air quality and provides excellent insulation.

#### PULP AND BIOENERGY

Without premium pulp manufactured from Finnish forests, there would be no high-quality fine or tissue paper or board. Metsä-Botnia's modern pulp mills produce 50 per cent more energy than they need, and they deliver the excess electricity and heat to other industrial plants or local residential communities. Thanks to the pulp industry, the share of bioenergy of the total energy supply in Finland is over 20 per cent, one of the highest ratios in the EU.

#### LIGHTER PRODUCTS FROM CARTONBOARD

Board and paper products use raw materials sparingly and with increasing efficiency, obtaining the same qualities as those of heavier products but with significantly smaller quantities of raw materials. Lighter products decrease the quantities to be transported and generate less waste. For example, if the weight of the material used for four million cookie boxes is reduced by ten per cent, the decrease in the carbon footprint equals the amount of carbon generated by a car trip of 40,000 kilometres, or once around the world.

#### HYGIENE AND WELL-BEING

With our tissue products, we want to build a world where health, hygiene and well-being are not just a luxury, but something that everyone can enjoy. Our products help homes, workplaces and public places to stay clean, safe and sanitary.

We also encourage consumers to recycle so that we can use the wood raw material as efficiently as possible.

Wood products store  
carbon dioxide  
throughout their  
whole life-cycle.

# OUR ROOTS

Our roots are in Finnish forests. The wood that comes from them is a sustainable raw material in many ways. The wood we use always comes from responsibly managed forests. We strive to promote sustainable forestry and forest certification.







# Forest – our livelihood

It is not just talk when we say our operations are responsible and sustainable. Metsäliitto Group works hard every day to make sure that forests do well and that our sustainably manufactured products meet the customers' needs. Our operations are guided by certificates and also a will to maintain the well-being and biodiversity of forests.



Finland – the land of “green gold”.

Forests are our national heritage and cover approximately 86 per cent of the area of Finland. The number of forest owners is approximately one million, which means that one in five Finns owns forest. Trees grow on 26 million hectares of forestland, which equals about five hectares per each inhabitant of Finland. Forests are still the life of Finland and a major source of livelihood and the foundation of vitality for many provinces.

For us in Metsäliitto, forests are extremely important. We are a cooperative owned and managed by 130,000 Finnish forest owners. Each of our members owns approximately 40 hectares of forest. The total forest area owned by our members amounts to about 50 per cent of all privately-owned forests in Finland.

Since forests are so important to our livelihood, we also want to take care of them.

## CERTIFICATES FOR TRACKING INTERNATIONAL SUSTAINABILITY

Metsäliitto is committed to promoting responsible and sustainable forestry: we want to maintain the well-being and preserve the biodiversity of forests while ensuring their growth, now and in the future.

Our wood procurement and forest management services are guided by the principles of certified forest, quality and environmental systems. Forest certification is a voluntary, market-based instrument which helps to demonstrate that the purchasing decisions support sustainable forestry. Certificates also supplement environmental and forest legislation – even helping to surpass them – and make it easier to review the criteria of sustainable forestry internationally.

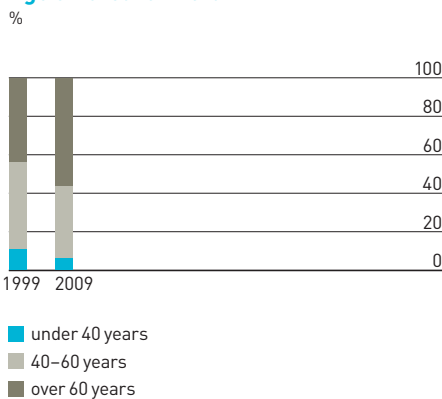
## OUR OPERATIONS ARE CERTIFIED

Some 95 per cent of Finland's forests are PEFC certified, whereas less than ten per cent of the world's forests have certification. Currently, approximately 80 per cent of the wood raw material purchased by the Group is certified, and we aim to further increase the share of certified wood raw material in our wood procurement.

The chains of custody of wood used by Metsäliitto are PEFC and FSC certified. Both certificates indicate that the products have been manufactured using wood raw material from sustainably managed forests. The Group supports forest certifications since they not only promote sustainable forestry but also show the



## Age of forest owners

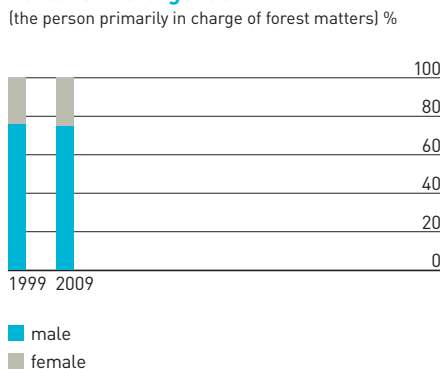


Source: Finnish Forest Research Institute  
2000 and 2010

### DID YOU KNOW?

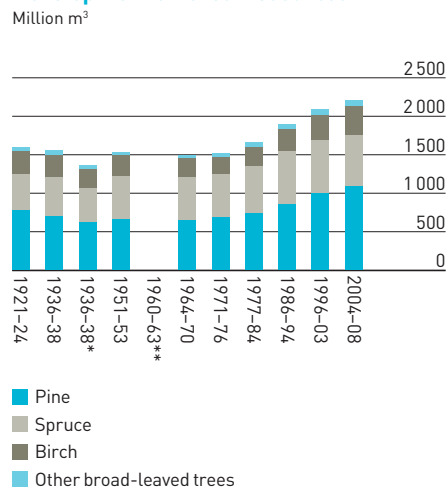
Out of one million Finnish forest owners, 45 per cent live in urban areas. Over 20 years ago the figure was 33 per cent.

## Forest owners' gender



Source: Finnish Forest Research Institute  
2000 and 2010

## Development of forest resources



\* Inventory results calculated based on the Finnish borders after the cession of territory in 1944.

\*\* Growing stock information is missing from the Statistical Yearbook of Forestry 2010.

customers that the products have been manufactured in a sustainable manner.

The operations of the Group's business areas are ISO 9001 and ISO 14001 certified. ISO 9001 is a quality certificate and ISO 14001 is an environmental certificate.

Metsäliitto is also committed to the principles of the UN Global Compact initiative. The initiative covers human rights, workplace rules, environmental protection and anti-corruption activities. By signing the initiative we show all stakeholders that we acknowledge its responsibilities regarding the environment, society and good governance, and manage the related risks.

## TRACEABILITY OF OUR PRODUCTION CHAIN STARTS IN THE FOREST

The verification of the origin of wood is made easier by certification; however, advanced technology with the latest information systems and digital maps used in the harvesting stage also plays a significant role. With the help of these systems, the wood transport chain can be traced from forest to mill. The processes are also documented clearly and in detail so that all stages can be viewed later. Finland is also a leader regarding harvesting technology. Harvesting machinery technology allows for cutting the tree trunk in the forest to fit its intended

purpose, making the use of wood more efficient and versatile. Planning also aims to ensure that the impact of harvesting on nature is as minimal as possible.

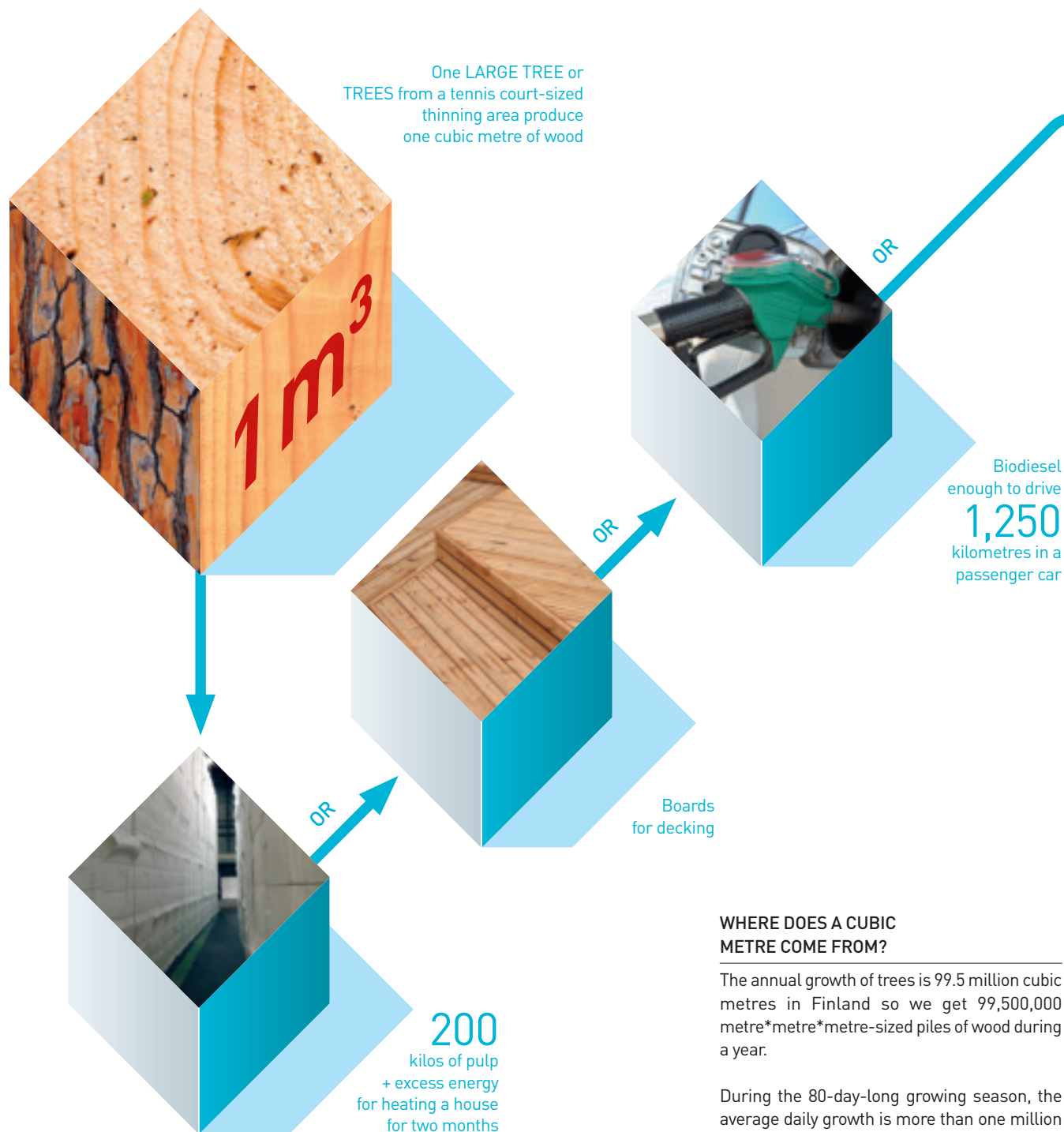
The preservation of the biodiversity of forests and endangered species is guided by specific legislation. We are also committed to the Southern Finland Forest Biodiversity Programme METSO. The purpose of this programme, coordinated by the Ministry of the Environment and the Ministry of Agriculture and Forestry, is to flexibly harmonise the different forms of forest use and the protection of forest assets supported by the government.

## SUSTAINABILITY, EFFICIENCY, DIVERSITY AND SAFETY

Metsäliitto and the forest owners have the same objectives with regard to forests: a sustainable forest economy ensures both the biodiversity of forests and a stable availability of wood raw material.

We have made a promise to always use wood efficiently. Our diverse product family also increases efficiency. We know that we can safely use our national heritage since by regenerating forests, new wood grows at a rate faster than it is harvested.

# What comes from one cubic metre of wood?

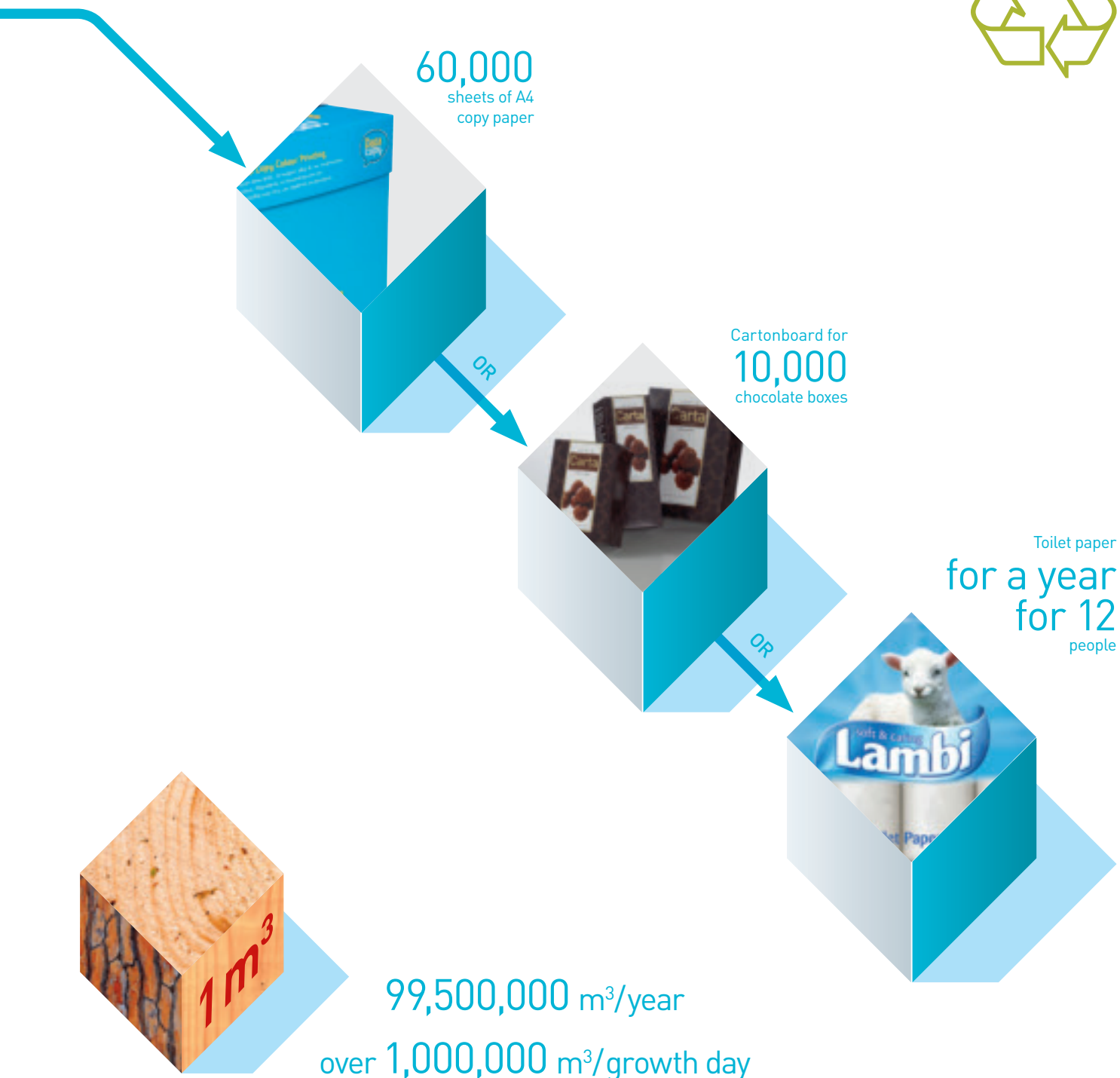


## WHERE DOES A CUBIC METRE COME FROM?

The annual growth of trees is 99.5 million cubic metres in Finland so we get 99,500,000 metre\*metre\*metre-sized piles of wood during a year.

During the 80-day-long growing season, the average daily growth is more than one million cubic metres. In other words, a plie of wood one metre high, one metre wide and one thousand kilometres long.

Wood is a renewable, recyclable and energy-efficient raw material which can be wholly utilised in the production processes of the Group's various products.







# OUR PRODUCTS

Our products are customer-driven and environmentally friendly. We manufacture excellent everyday innovations: first-class pulp; light and advanced packaging, cartonboard and paper products; high-quality hygiene and cooking papers as well as top products for wood construction.



# Wood Supply

Metsäliitto Wood Supply is the market leader in wood supply from private forests in Finland. This business area provides the about 130,000 members of Metsäliitto Cooperative with services related to forest ownership, sustainable forest property management, wood trade, forest income investment and intergenerational transfer of forest property. Metsäliitto Wood Supply's sales in 2010 totalled EUR 1.4 billion, and it has about 1,100 employees.



## < 2010

The year started slowly in terms of wood sales and only picked up closer to the summer. The several storms at the end of the summer gave the autumn wood sales a quick start. Metsäliitto Wood Supply purchased wood steadily until the end of the year.

## > 2011

Metsäliitto will continue to purchase wood steadily, paying close attention to the changes in the end-product markets. If the Russian timber duties are reduced or eliminated on certain types of timber, Metsäliitto will have an opportunity to increase the imports of softwood for which the supply in Finland is insufficient.

The amount of wood raw material delivered to customers was approximately at the budgeted level – some 29 million cubic metres. The operating result of Wood Supply excluding non-recurring items was EUR 21 million.

### MARKETS

In Finland, wood sales that had started slowly picked up in May. The rapid increase in the supply of wood caused by the storms at the end of the summer also boosted the sales elsewhere in Finland. At the end of the year, wood was mainly sold by those owners who wanted to take advantage of the 25 per cent tax benefit.

Metsäliitto purchased wood steadily throughout the year, and its market share increased thanks to the sales at year-end. The purchasing of storm-damaged wood started rapidly early in the autumn. Metsäliitto assigned employees and 60 forest harvesting chains to the areas damaged by the storms. Harvesting logs from the areas was completed before the snow fell and pulpwood was harvested before Christmas. Cultivation planning was started in the autumn with those forest owners whose forests had suffered in the storms.

The price level of wood which had risen at the beginning of the year stabilised towards year end. The quantity of wood purchased by Metsäliitto from privately owned forests totalled 14 million cubic metres.

Wood Supply implemented a new business line division at the beginning of the year: Wood Supply Finland, International Wood Supply, Wood Energy and Forestry Services. As a supplier of wood energy, Metsäliitto solidified its position. A total of 2.1 million cubic metres (3.7 TWh) of wood energy and by-products from the production units were delivered to its some 60 delivery destinations in the country.

The development of forest services continued strong. The sales of the forest management services carried out in privately-owned forests grew notably compared to 2009. The area covered by forestry agreements in hectares also grew significantly.

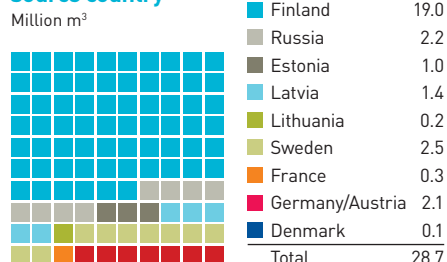
In the Baltic countries, the sales of wood from state-owned forests took off favourably. Although the sales of privately-owned forests also picked up towards the end of the year, the role of wood purchased from the state was still significant. The increase in the price of wood stabilised during the last months of the year.

In Russia, the favourable harvesting conditions facilitated bringing wood to the market. Metsäliitto mainly imported softwood and wood chips totalling 1.5 million cubic metres from Russia. The operative functions of the cutting right areas leased by Metsä-Botnia in Russia were transferred to Metsäliitto's International Wood Supply.

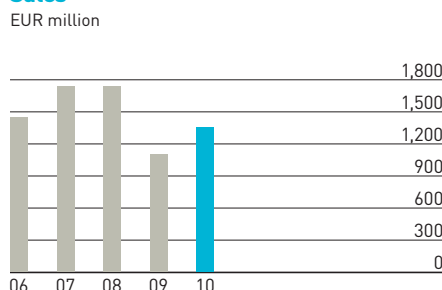
In Germany and Austria, wood sales were slow. Although the price level of wood remained



## Wood deliveries by source country



## Sales



## Key figures

EUR million

	2010	2009	2008
Sales	1,353	1,101	1,734
EBITDA	25	-5	35
Depreciation and impairment losses	-4	-4	-5
Operating result	21	-9	30
Non-recurring items	0	-21	2
Operating result excluding non-recurring items	21	12	28
ROOC excluding non-recurring items, %	15.9	9.2	15.7
Gross capital expenditure	3	2	4
Personnel at year-end	1,078	945	1,140

high throughout the year, the wood delivery situation was difficult. In Sweden, wood sales from privately-owned forests picked up at the end of the year. The price level of wood was on the increase throughout the year; measured in EUR, it increased even further by the strengthening of the SEK.

## MAJOR EVENTS

At the beginning of the year, the Metsäkori service concept was launched to offer Metsäliitto's services ranging from the early stages of forest ownership to the intergenerational transfer of ownership. The personal forest plan was an entirely new service that was introduced. A tax application and several information services were added to the electronic Metsäverkko service. A two-year development project was launched in the autumn. During this period, Metsäliitto's traditional purchasing operations were increasingly developed into a service business.

The operating organisation was streamlined and all Metsämannut Oy's forestry foremen and forest workers were transferred under the Supply district organisation at the beginning of 2011. Wood harvesting and deliveries were centralised to the same Supply function, and in the organisational change, the Lahti district was discontinued.

A city office was established in Oulu in January to serve the forest owners of the city and the near regions. The other city offices are located in Tampere and Espoo.

Wood Supply employees were actively involved in the implementation of the Group's capital programme. Owner members had the opportunity to subscribe to C additional shares in addition to the former A and B additional shares.

For several years, Metsäliitto has been developing combination harvesting, in which both pulpwood and energy wood is harvested from stands marked for first-time thinning. During the year, this harvesting method expanded to cover the entire country.

## MAJOR ENVIRONMENTAL IMPROVEMENTS

Labour and nature management training was organised for harvesting contractors and their machine operators. Training related to the Forest Biodiversity programme for Southern Finland (METSO) was organised for Wood Supply's own personnel. Employees and entrepreneurs received training in the new PEFC forest certification criteria implemented at the beginning of 2011.

In addition to the revised PEFC forest certification criteria, an agreement was reached on the FSC forest certification criteria. The Group continued the certification of leased forests in

## DID YOU KNOW?

Finland has the highest share of forested land area in Europe: 86 per cent or 26 million hectares of the country's surface area is forest. There are 4.7 hectares of forest for every inhabitant, while the European average is 1.3 hectares.

Russia and Metsäliitto Podporozhye received Russia's first PEFC forest certificate in March.

Metsäliitto regularly audits its wood suppliers as well as its own logging sites and those of its subcontractors. Auditing became more systematic and extensive. The information gained enables us to better protect valuable areas of nature. In Finland's National Forest Nature Management Assessment, over 90 per cent of Metsäliitto's assessed sites received an overall rating of excellent or good.

## NEAR-TERM OUTLOOK

Customers of Wood Supply have ordered the normal quantities of wood for 2011 and the reserves at the turn of the year were good. Metsäliitto will continue to purchase wood steadily, paying close attention to the changes in the end-product markets.

The development of services will continue with a focus on changing the operating method to better meet the service needs of the forest owners. Electronic services will also be developed.

# Wood Products Industry

Wood Products Industry, Finnforest, delivers wood-based solutions for the needs of industrial construction, other industrial customers and home and living, in particular. The services of this business area cover the entire value chain, from a wide product range based on high-quality raw materials and an efficient supply chain to local customer service. Wood Products Industry sales in 2010 totalled EUR 0.9 billion, and it has about 2,700 employees.



## < 2010

Demand in the first half of the year showed promising recovery, but the upward trend did not last through to the end of the year. Despite the gradually improved financial results over the course of the year, the weak demand in the market resulted in the curbing of all sawmill operations towards the end of the year.

## > 2011

The year is expected to be challenging due to the uncertainty in the demand of end products. No significant change is expected in the total demand. The operative result is expected to remain at the previous level.

The result of the Wood Products Industry excluding non-recurring items was EUR 28 million in 2010. The market situation improved at the beginning of the year, and internal streamlining efforts were completed, affecting the improved result development throughout the year. The harsh weather conditions in Europe at the beginning of the year restricted demand, and in some operations, capacity utilisation was low. With the exception of Finland, construction activities remained fairly low but the market picked up in the spring. Towards the end of the year, demand for sawn timber was uncertain, resulting in production adjustment measures.

### MARKETS

The operations started to pick up in the main market area of Europe after a difficult year even though the economy was uneven: consumer confidence was shaken by countries' debt issues and employment which was recovering slowly.

The construction market started recovering significantly after the cold and snowy winter in Europe. The market picked up in the Nordic countries and Germany in particular, which boosted the demand for Kerto and other construction products. Due to seasonal factors, demand slowed down towards the end of the year. The construction volumes in Central

Europe continued to be low, and in the UK in particular, the savings measures imposed by the government and the low construction level had a negative impact on demand. Wood construction was covered in discussions regarding the environment and energy and continued to be popular compared to other construction materials.

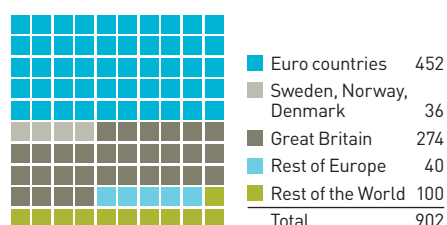
The sales and profitability of engineered wood products continued to improve. The prices of sawn timber products started to increase during the first months of the year, although demand remained relatively low throughout the year.

The overall demand in the industrial customers segment was stable although somewhat low throughout the year. In the transportation equipment industry, the market picked up in the third quarter, having a positive impact on the demand of birch plywood. Demand for joinery special products and customised components continued to be good.

In the consumer and retail segment, the total sales were slow in 2010 and only amounted to the previous year's level. Retail focused on safeguarding profitability instead of seeking growth. Of the market areas, sales in the UK in particular were weak. The development in the distribution segment continued to be moderate throughout the year.

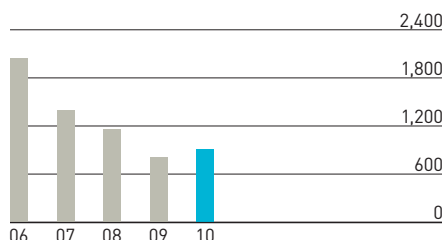
## Sales by market areas

EUR million



## Sales

EUR million



## Key figures

EUR million

	2010	2009	2008
Sales	902	806	1162
EBITDA	67	-2	-18
Depreciation and impairment losses	-45	-45	-56
Operating result	23	-47	-74
Non-recurring items	-5	-6	-21
Operating result excluding non-recurring items	28	-41	-53
ROOC excluding non-recurring items, %	7.0	-9.4	-9.5
Gross capital expenditure	16	10	36
Personnel at year-end	2,703	3,110	4,199

## MAJOR EVENTS

Metsäliitto Wood Products Industry improved its operations by concentrating on select operations. Due to the challenging market situation, temporary layoffs and other cost-saving measures were continued in order to improve profitability. Sales were also reorganised to provide more targeted services to select customer segments, and to offer them products and services that better suit their needs. The purpose of the reorganisation is also to increase the proportion of further processing in the sales. The six customer segments of products and services are: construction, transport, woodworking and planing industries, and retail and relationship merchants. Due to new logistics solutions it was possible to give up the Tilbury warehouse in Great Britain and deliver the same amount of stock from other units.

The new product launches during the year included the FormPLUS concrete shuttering panel for industrial customers and new products for the garden furnishing both domestic and international markets.

Wood Products Industry continued to invest significantly in the development and promotion of energy-efficient construction. One of the largest projects was the block of wooden multi-storey apartment buildings to be built in Helsinki. The Finnforest Multi-Storey System includes a Kerto frame with roof, external walls

and intermediate floors supplied as elements. Other examples of completed solutions include the historical bullfighting arena in Barcelona which was fitted with a timber-domed roof made of Finnforest Kerto and Glulam beams, as well as the Luukku House built as a cooperation project. The Luukku zero-energy house, designed and built by Aalto University, with its beautiful architecture was awarded first prize in the Solar Decathlon Europe 2010 contest in Madrid. The house also received the 2010 Wood Award.

## MAJOR ENVIRONMENTAL IMPROVEMENTS

During the year, a number of measures to reduce environmental impact were carried out at the Wood Product Industry's production units in Finland. The ISO 14001 environmental systems were certified at the Punkaharju Kerto and Plywood plant and at the Lohja Kerto plant in May, and at Kuningaspalkki in Hartola in October.

The Kolho processing plant implemented a more environmentally friendly saturation method. The energy efficiency systems at the Merikarvia and Lappeenranta sawmills were certified.

## DID YOU KNOW?

Carbon stored by one timber-framed single-family home offsets the emissions that are caused by making 15 return trips from Helsinki to New York.

## NEAR-TERM OUTLOOK

Wood Products Industry continues to implement its business strategy of continuously increasing added value and investing in the development of customer-oriented products and services. The near-term economic outlook is cautiously optimistic. Economic growth in the emerging countries, in particular, is expected to support the growth of total demand. The outlook will be positively affected by the changes in exchange rates and the availability of competitively-priced wood raw material.

# Pulp Industry

Metsä-Botnia is one of Europe's biggest pulp producers and a world-leading supplier of market pulp. The company's mills are located in Joutseno, Kemi, Rauma and Äänekoski, and their aggregate production capacity amounts to almost 2.4 million tonnes. Metsä-Botnia's sales in 2010 totalled EUR 1.4 billion, and it has about 900 employees.



## < 2010

The high level of pulp prices ensured Metsä-Botnia's positive financial results and sales. The price of pulp declined slightly towards the end of the year. The mills operated at capacity, and annual production records were broken at several mills. Brand new causticisation and water stations were built at the Kemi mill.

## > 2011

The price of pulp is forecasted to decline slightly. The market situation and demand for pulp are nevertheless expected to remain strong and Metsä-Botnia's profitability high. A new bark gasification plant will be built at the Joutseno mill, improving the efficiency of renewable energy usage. It is due for completion in 2012.

The strong growth in the price of pulp due to the recovered market situation significantly improved Metsä-Botnia's result and sales, compared to 2009. Supply and demand for pulp were in balance during the year under review, and the positive increase in prices continued throughout the year. The price of pulp was at its highest in the second quarter. Metsä-Botnia's sales excluding non-recurring items were EUR 379 million.

Metsä-Botnia was able to produce pulp at full capacity, and the Joutseno, Rauma and Äänekoski mills broke their annual production records. The total production volume of the mills was 2,173,000 tonnes.

Since December 2009, Metsäliitto Cooperative has owned approximately 53 per cent of Metsä-Botnia, after UPM-Kymmene reduced its ownership in the company with the sale of Metsä-Botnia's operations in Uruguay to UPM-Kymmene. UPM-Kymmene continues to own approximately 17 per cent of Metsä-Botnia, whereas ownership of M-real in the company is approximately 30 per cent. Metsä-Botnia is a sales channel for market pulp for M-real, UPM-Kymmene and Cenibra.

### MARKETS

During the first half of the year, the supply of pulp was restricted by the shortage of wood,

caused by heavy rains in Indonesia and in the southern states of the USA. The February earthquake in Chile almost completely halted the country's pulp industry for a couple of months.

The price of pulp was at its highest in June, with the price of softwood pulp at USD 980 per tonne and that of birch pulp at USD 920 per tonne. In the summer, a large pulp mill was commissioned in China, causing temporary over-supply in the Chinese market. The price of pulp declined slightly in the autumn but increased again towards the end of the year.

### MAJOR EVENTS

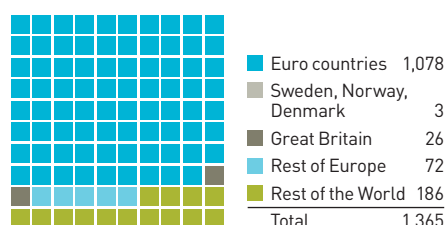
In February, Metsä-Botnia's Board of Directors decided on major investments at the Kemi mill. Brand new causticisation and water stations will be built in the mill area, which will improve the mill's operating reliability and decrease its environmental impact. The total value of the investment is approximately EUR 40 million. Construction began in October, and the new stations will go into operation at the end of 2011. Under a deal signed in June, Metsä-Botnia sold some of the old machinery from the Kaskinen pulp mill, which shut down in March 2009, to a buyer in Asia.

The company decided to implement an RFID system, developed for the wire and automatic remote identification of goods flows, in the



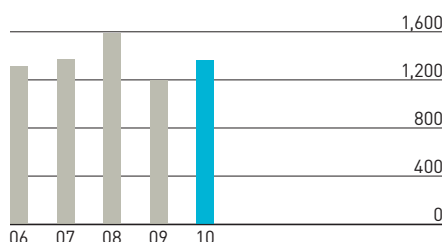
## Sales by market areas

EUR million



## Sales

EUR million



## Key figures

EUR million

	2010	2009	2008
Sales	1,365	1,195	1,591
EBITDA	444	366	347
Depreciation and impairment losses	-63	-173	-138
Operating result	381	193	209
Non-recurring items	2	236	0
Operating result excluding non-recurring items	379	-43	209
ROCE excluding non-recurring items, %	51.8	-2.2	10.6
Gross capital expenditure	14	53	99
Personnel at year-end	881	1,106	1,815

tracking of pulp deliveries. The intention is for all of the company's mills and key loading and unloading ports to implement the RFID system by the end of 2011. The system will improve the overall planning and routing of goods.

Metsä-Botnia was ranked among the top three companies in the Quality Award contest organised by Suomen Laatu keskus (Excellence Finland). The company received the five star Recognised for Excellence award, which means it surpassed the 500-point level in the quality award assessment. The company participated in the contest two years ago as well, receiving more than 400 points in the assessment.

In Joutseno and Äänekoski, common operations of the different business areas of the Metsäliitto Group were streamlined. In Äänekoski, a common steering model for service providers was implemented for Metsä-Botnia, M-real and Äänevoima in September.

The positive results of the customer satisfaction survey completed during the year under review indicate that the customer-oriented operating method the company has been investing in is paying off. The scores improved in all survey segments. Technical support in the customer's process and active communications improved in particular.

## MAJOR ENVIRONMENTAL IMPROVEMENTS

Metsä-Botnia's mills are world-leading in terms of environmental performance.

During the year under review, the Kemi mill improved the quality of black liquor, which has an impact on the availability of tall oil and the functioning of the recovery boiler.

Dust emissions at the Äänekoski mill declined due to the improved efficiency of the electric filter for purifying combustion gases.

The efficiency ratio of raw material was improved at the Joutseno mill. About 70 per cent of the wood chip sieving loss, which previously ended up at landfills, can now be returned to the production process. Furthermore, a new steam kiln has improved the combustibility of bark generated in the debarking plant. The noise level reduction efforts at the Joutseno mill were successful.

At the Rauma mill, management of organic burden caused by the mill's wastewaters was improved.

## NEAR-TERM OUTLOOK

At the beginning of 2011, supply and demand for pulp were well in balance, in particular in terms of softwood pulp. Manufacturers' pulp inventories were at a relatively normal level, and the customers' pulp inventory levels varied between normal and low.

## DID YOU KNOW?

A modern pulp mill produces more than 50 per cent of energy in excess of its own need. This excess energy is sold to the national grid as green electricity or used in the manufacture of paper and cardboard.

During 2011, some previously closed mills will reopen but no actual new market pulp capacity is on the horizon. The extreme weather conditions around the world create specific challenges to the availability of wood in the pulp industry.

# Board and Paper Industry

M-real is Europe's leading primary fibre board producer and a major paper supplier. M-real provides boards and papers for its customers in the consumer packaging, communications and advertising sectors. The company's sales network serves brand owners, carton printers, publishers, printing houses, merchants and office suppliers. M-real's sales in 2010 totalled EUR 2.6 billion, and it has about 4,500 employees.



## < 2010

The profitability of the Board and Paper industry improved significantly in 2010, reaching its best level since the beginning of the last decade. M-real's operating result was improved by increased delivery volumes, implemented price increases of board and paper cost savings as well as higher pulp prices.

## > 2011

Efforts to solve the problems of loss-making paper units are continued. Success in this area would clearly further improve M-real's profitability. The prices of cartonboard are higher than in 2010. The company responds to long delivery times and the production of folding boxboard operating at full capacity by increasing capacity.

M-real's operating result excluding non-recurring items was EUR 173 million, or EUR 323 million more than in the previous year. The result was mainly improved by increased delivery volumes, the implemented increases in the price of board and paper, cost savings and the higher selling price of pulp. The investment downtime at the Husum pulp mill, the stevedore strike in Finland, and the strengthening of the SEK against the EUR weakened profitability compared to the previous year.

The restructuring at M-real in recent years have produced excellent results. The productivity of the production units has improved by more than 50 per cent since 2006; costs have been cut significantly; capacity has been closed by about 2 million annual tonnes; and divestments of more than EUR 2 billion – primarily of unprofitable paper businesses – have been carried out. Net debt has declined to approximately one third on the 2006 level and profitability has improved to the level of the main competitors.

M-real's structural change from a paper company to more clearly a packaging board producer has progressed well. The focus has increasingly shifted from restructuring to development, as demonstrated by investments in 2011 and 2012 into the expansion of cartonboard production in Finland. The board business has excellent growth potential based on quality

leadership as well as excellent environmental and product safety features, in particular.

M-real's business segments are: Consumer Packaging, which produces primary fibre paperboard; Office Papers, which produces uncoated fine papers; Speciality Papers, which concentrates on speciality papers; and Market Pulp and Energy, which focuses mainly on pulp sales to external parties.

## MARKETS

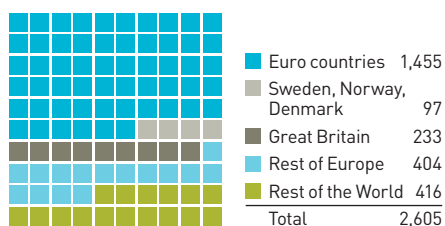
The demand for all main products improved clearly compared to 2009. The demand for cartonboard products was very strong throughout the year, in particular in food packaging. Supported by the strong demand outlook, M-real is in the process of increasing the production capacity of folding boxboard.

The price of folding boxboard was increased, and the price level of annual contracts signed at the end of the year was in excess of 10 per cent higher than that of the beginning of the year. The prices of office paper were increased by approximately 15 per cent and those of speciality papers by approximately 5 per cent on average. The market price of pulp increased notably during the year.



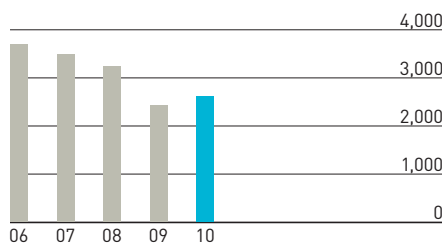
## Sales by market areas

EUR million



## Sales

EUR million



## Key figures

EUR million

	2010	2009	2008
Sales	2,605	2,432	3,236
EBITDA	312	88	376
Depreciation and impairment losses	-166	-356	-315
Operating result	146	-267	-61
Non-recurring items	-27	-117	-26
Operating result excluding non-recurring items	173	-150	-35
ROCE excluding non-recurring items, %	7.6	-4.5	-0.5
Gross capital expenditure	66	73	128
Personnel at year-end	4,538	4,903	6,546

## MAJOR EVENTS

M-real implemented a EUR 80 million profit improvement programme, in which the most significant measures included the permanent closure of the Alizay pulp mill in France; the closure of two speciality paper machines at the Reflex mill in Germany; the streamlining of the Zanders organizations; the energy efficiency investment at Husum mill; and the EUR 20 million internal continuous improvement programme covering all business areas.

The Reflex mill will be developed in accordance with the Paper Park concept, the target being to find industrial partners to the mill site. The first stage in the development was the partial sale of the mill to Metsä Tissue Corporation.

Speciality paper production in Simpele was discontinued at the end of the year. Production of the speciality papers earlier produced at Simpele is continued at the Gohrsmühle mill in Germany.

In 2011 M-real will invest EUR 26 million in the Simpele mill to increase its annual folding boxboard capacity by about 80,000 tonnes. M-real will also invest EUR 16 million in the modernisation of the coating section at the Kemiart Liners mill.

M-real is also planning to increase its Äänekoski and Kyröskoski mills annual folding boxboard capacity by total 70,000 tonnes.

## MAJOR ENVIRONMENTAL IMPROVEMENTS

Particulate emissions were reduced and the control of combustion air was improved at the Husum mill in Sweden by improving the functioning of the recovery boiler. In the Alizay mill in France, a system was implemented for directing a portion of the combustion gases from the bark-fired boiler to the pigment plant of the mill site. The plant produces calcium carbonate used in paper production from the carbon dioxide of the combustion gases.

The utilisation of heat energy in the Joutseno BCTMP mill was improved, leading to a reduction of more than 20 per cent in the emissions caused by the combustion of natural gas. Expansion of the mill landfill site began at the Simpele mill.

At the Äänekoski mills, an environmental noise review was updated, and noise in the vacuum blower of the board mill and in the wastewater treatment plant was reduced.

Äänekoski Paper and Hallein published the EMAS reviews on the mills' environmental matters.

## NEAR-TERM OUTLOOK

The market situation for board seems to continue extremely favourably. No significant near-term changes are on the horizon for the level of demand for paper. The pulp demand seems

## DID YOU KNOW?

Wood raw material required for a tonne of paper grows back in only one second in Finland. Finnish forests grow 90 million cubic meters in a year when the yearly felling is only 60 million cubic meters.

to continue to be strong. Opportunities to increase all product prices are actively utilised. M-real launched a new, EUR 70 million profit improvement programme for 2011. The total impact of it and the programme of previous years on the 2011 result is estimated to be approximately EUR 90 million, which is believed for the most part to cover the production cost of inflation.

Efforts to solve the problems of loss-making paper units continue. The consolidation of the European paper industry is likely to continue, which is desirable for the restoration of the market balance.

# Tissue and Cooking Papers

Metsä Tissue a leading European supplier of tissue paper products to households and professional users. The company is also the world's leading producer of cooking papers. The company has production units in Finland, Poland, Sweden, Germany, Slovakia and Russia. Metsä Tissue's sales in 2010 totalled EUR 0.9 billion, and it has about 3,200 employees.



## < 2010

The sales of Metsä Tissue's own brands increased by 9 per cent. Raw material prices increased significantly. During the year, Metsä Tissue launched extensive business development programmes. The company announced plans to move a portion of its baking and cooking paper manufacturing operations closer to the main markets, thus safeguarding the growth and competitiveness of its business operations.

## > 2011

The demand for tissue and cooking papers is expected to remain at a good level. The increased costs of raw materials, energy and logistics as well as the negative effects of different indirect taxes are still causing significant cost pressure. The strategic projects launched in previous years create a foundation for the business to grow. Metsä Tissue continues to invest in brands and product development.

Metsä Tissue's sales in 2010 totalled EUR 938 million and operating results excluding non-recurring items were EUR 59 million. The results were affected, among other things, by variable costs which increased significantly. Raw materials constituted the largest portion of these costs. The price of pulp was 40 per cent higher on average, and the price of recycled paper in central and eastern Europe as much as doubled compared to the previous year. The company succeeded in reducing the negative impact of raw material price increases by implementing hedges and increasing prices, as well as carrying out ongoing improvement projects.

Non-recurring items included EUR 7 million for write-downs and cost provisions related to the development project in Poland and EUR 2 million for non-recurring expenses from restructuring the Mänttä mill. Efforts to reduce the amount of tied-up working capital were successful.

### MARKETS

The past year was very challenging in terms of external factors. The impact of the earthquake in Chile on the pulp market, the weakened availability of recycled paper, the development of raw material prices, the exceptional weather conditions as well as the stevedore strike in Finland and the paper industry workers' strikes

in Sweden made business operations more difficult. Both the preparation measures and the response were successful. On-time deliveries and the good level of customer service were improved even further.

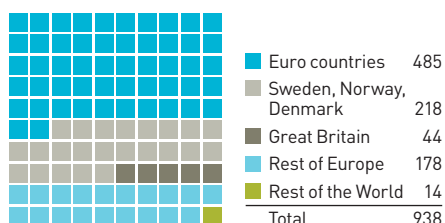
Increased demand for tissue and cooking papers is expected to remain steady. Consumers' increasing environmental awareness and sustainable consumption are permanent market trends. Also, the awareness of the importance of good hand hygiene in health has increased. Sales of the company's Lambi, Serla and Katrin brands grew by approximately 9 per cent over the course of the year.

### MAJOR EVENTS

Metsä Tissue released two strategic development programmes. The company bought paper machine 5 and the related assets from the M-real Düren mill in Germany. With manufacturing now closer to the main markets, the availability of products will improve and synergy benefits from the current mill and distribution network can be utilised. The deal also enables the development of new products and product groups. At the Mänttä mill in Finland, high-density paper machine 5, dating back to 1928, will be decommissioned by summer 2011. Due to the changes, the personnel at the mill will be reduced by 117.

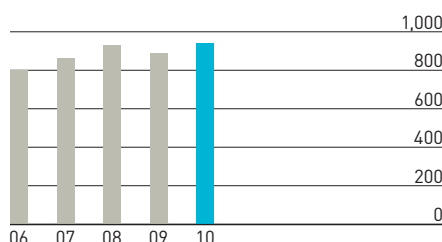
## Sales by market areas

EUR million



## Sales

EUR million



## Key figures

EUR million

	2010	2009	2008
Sales	938	890	930
EBITDA	94	135	98
Depreciation and impairment losses	-44	-42	-56
Operating result	50	93	42
Non-recurring items	-9	0	-1
Operating result excluding non-recurring items	59	93	43
ROCE excluding non-recurring items, %	9.1	14.4	6.6
Gross capital expenditure	49	35	33
Personnel at year-end	3,198	3,150	3,222

The other development programme relates to streamlining and strengthening operations to improve product quality and service offering in Poland. The company announced that it will strengthen its tissue paper manufacturing capacity at the Krapkowice mill and discontinue paper manufacturing at the Konstancin-Jeziorna mill by the end of 2012. The options for other Konstancin-Jeziorna operations are under review.

The rebuild of paper machine 10 at Mänttä mill was completed. In addition, the increase of Away-from-Home product converting capacity to support the growth of Katrin brand is expected to be completed in the first quarter of 2012. At Pauliström mill in Sweden two napkin lines were taken into use which, combined with the lines in Germany, will further increase delivery reliability.

The company invested in the renewal of ERP, enterprise resource planning and maintenance system as well as the related processes throughout the company. The company will gradually shift from using several ERP systems to using a common system and procedures. Reforms of the maintenance systems will also be implemented gradually.

The websites of Metsä Tissue and its brands were revamped. Lambi expanded its brand offering to napkins, and introduced the Lambi Kids concept directed at families with children.

For the second time, the brand was awarded the Superbrand recognition in Sweden for being one of the 300 strongest brands.

## MAJOR ENVIRONMENTAL IMPROVEMENTS

Over the year, the most important focus areas of Metsä Tissue's environmental performance were energy and material efficiency. The company aims to improve its energy efficiency by 20 per cent between 2008 and 2012 and to promote efficient use of materials by means of recycling, reusing waste and the recovery of energy. The measures launched in 2008 corresponded to 11 per cent of the company's energy consumption at the end of 2011.

Metsä Tissue acquired 50 per cent of the shares in Finncao Oy, which specialises in the utilisation of fibre clay and ashes. As a result of the acquisition, the company became wholly owned by Metsä Tissue. The utilisation of deinking sludge and power plant ashes is being developed further.

The fibre recovery and water usage by paper machine 10 at the Mänttä mill were improved when the machine was rebuilt. Water usage decreased by 5 per cent. In Poland, the Krapkowice mill succeeded in reducing water usage by approximately 20 per cent from the 2009 level.

## DID YOU KNOW?

Although recycling is important, primary fibre is also needed as it gives products their softness, whiteness and absorbency. In certain end uses such as health care, virgin fibre is also needed for hygienic reasons.

Energy consumption was reduced, for example, as a result of paper machine 5's heat recovery system at the Kreuzau mill and improved measurement and control automation at the Stotzheim mill in Germany.

## NEAR-TERM OUTLOOK

The demand for tissue and cooking papers as well as brand sales are expected to remain strong. The high price of pulp and recycled paper, increased energy costs and the impact of indirect taxes continue to further inflict cost pressure. Metsä Tissue will continue its efforts to improve procedures, processes and the systems. Growth is pursued by carrying out development projects and by diversifying marketing.





# OUR WAYS

Responsibility is the cornerstone of our way of working: we are a local company, a good corporate citizen and a good neighbour. We continuously seek ways to promote the well-being of both our environment and our personnel.



# Sustainable and responsible business practice

Metsäliitto Group conducts responsible business. We improve profitability and responsibility for the environment and key stakeholder groups. The operations are based on renewable wood raw material which is used for manufacturing sustainable products.



Responsible business is vital for Metsäliitto. We are committed to the principles of the UN Global Compact initiative: respect for human rights, workers' rights, environmental responsibility and anti-corruption. We are also an active member of the World Business Council for Sustainable Development (WBCSD).

Sustainable development and corporate affairs in Metsäliitto are governed by its Corporate Affairs Management Team, which reports to the Group's Executive Management Team. During the year under review, a personnel training programme was launched which covers the Code of Conduct, among other policies.

## PRODUCTS MADE FROM CERTIFIED RAW MATERIALS

The common raw material for Metsäliitto's companies is wood: it is a renewable, recyclable and energy-efficient raw material which originates from sustainably managed forests and is procured responsibly.

Metsäliitto's wood supply systems include a certified management system of wood origin, which enables the verification of the origin of the wood it purchases. The majority, or 80 per cent, of the wood raw material used in our products comes from certified forests. The Group companies are increasing the share of certified wood and products with a certification label.

Our products are tested in accordance with laws and recommendations. A database is maintained on the most important chemicals used in the production process, which contains environmental, health and safety information and, for example, information on the registration of substances in compliance with the

REACH chemical regulation. During the year under review, a chemicals registration in line with the REACH regulation was completed. The substances to be registered are typically by-products and intermediate products of the process.

Metsäliitto does not approve the use of GMO-based raw materials or nanotechnology-based new substances until sufficient information regarding their safety becomes available.

The climate impact of individual products is reported to customers through carbon footprint calculations. During the year under review, calculations were also launched on the Wood Product Industry's processed products. The Board and Paper Industry's product-specific environmental effects are reported in Paper Profile environmental product declarations.

## MINIMISING THE ENVIRONMENTAL IMPACT OF PRODUCTION

Among the key principles of Metsäliitto environmental policy are the minimisation of environmental impact and open communication.

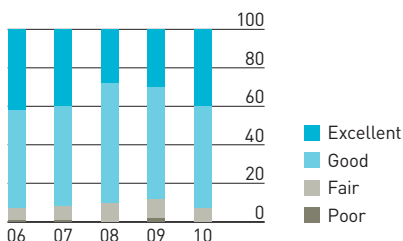
Production units implemented a number of improvements in 2010 to reduce their environmental loads and risks (p. 40) The production units have introduced a certified Energy Efficiency System (EES), which systematically manages the reduction of energy consumption and carbon dioxide emissions.

Industrial air, water and noise emissions have been significantly reduced by utilising Best Available Techniques (BAT). Metsäliitto has also introduced low-sulphur fuels and replaced fossil fuels with wood-based fuels, which has reduced emissions to air.

Metsäliitto Group reports on its environmental impact by product and by production unit, as well as at the business area and Group levels.



#### Evaluation of nature management in final cuttings harvested by Metsäliitto in Finland



The amount of landfill waste has decreased steadily as production processes have been streamlined and industrial by-products have been sorted for use as raw materials or energy. Nearly all by-products are reused: fibre and deinking sludge is used in landfill restoration in the building products industry and for energy production, and wood chips generated in saw-mill operations are used as raw material for pulp and chipboard. The by-products of pulp production are electricity and heat.

We report on our environmental impact by product and by production unit, as well as at the business area and Group levels. The environmental management systems, emissions and waste production levels of the Group's production units are presented on pages 130–133 of this Annual Report.

#### RESPONSIBLE USE OF WATER

Metsäliitto has systematically reduced the use of water in its production. Water is reused in the production processes and carefully treated before discharging it into waterways. The amounts of harmful substances in wastewater from board and paper production have been reduced by more effective treatment processes, reduced use of water and personnel training.

The water protection instructions are followed in wood procurement and forestry while logging and forest management sites are inspected regularly.

M-real has joined the UN Global Compact CEO Water Mandate initiative which strives to improve the efficiency of water usage and transparent reporting. Metsäliitto carefully monitors the development of international reporting standards on water usage.

#### DID YOU KNOW?

The use of water in the forest industry has decreased by 90 per cent since the 1970s.

#### IMPROVED REPORTING ON THE ENVIRONMENTAL PERFORMANCE OF TRANSPORTS

Environmental impact is reduced through more efficient logistics. Products are transported in as large units as possible with the transports loaded as full as possible. In warehousing, preference is given to storage along railway connections. The stevedore strike in March last year and recovery from it, however, caused exceptions to the established routes.

Transport and warehousing operations are mainly outsourced from collaboration partners. Valid environmental certifications and policies play a significant role in the selection of partners. Logistics indicators and reporting – particularly in terms of environmental performance – are continuously improved.

The environmental effects of the Board and Paper Industry's transports are reported in the Paper Profile environmental product declarations.

The International Maritime Organization (IMO) implemented the new, lower nitrogen oxide and sulphur oxide emission standards gradually; this presents challenges to sea transportation and fuels, particularly in the Baltic Sea region. The biggest change concerning sulphur emission standards is scheduled for 2015 with the reduction from the current level of 1.0 per cent to 0.1 per cent coming into force. According to estimates, the cost impact of this change on the forest industry will be considerable and higher in Finland than in other competing countries.

# Energy efficiency

Metsäliitto Group strives for continuous improvement of the efficiency of energy consumption and production, as well as increasing the already high proportion of wood-derived, carbon dioxide neutral energy in its energy acquisition.



The energy efficiency of Metsäliitto's operations improved significantly compared to the previous year, mainly due to the mills' higher utilisation rates. In addition, several energy efficiency improvement projects were carried out during the year. The annual energy-saving impact of the projects is approximately 270 GWh of heat and 85 GWh of electricity. The projects reduced carbon dioxide emissions by approximately 70,000 tonnes per year, which is about 5 per cent of the total emissions of the year.

New, small projects improving energy-efficiency are analysed and assessed on an on-going basis.

The energy efficiency is also improved as part of the daily improvement of production. This development work was continued in 2010 by utilising the energy efficiency system (EES) which is part of the Group's climate programme. New measurement and automation tools, among other things, were also built and implemented.

## USE OF BIOFUELS INCREASED

Metsäliitto Group's main source of energy is wood (64 per cent), the majority of which is a by-product of production. The goal is to increase the share of wood-derived fuels, resulting in reduced carbon dioxide emissions.

Water and nuclear energy as well as fuels are carbon dioxide neutral sources of energy and make up of 13 per cent of the Group's energy acquisition. The share of bio-derived and carbon dioxide neutral energy totalled 78 per cent of energy consumption in 2010.

## ENERGY PRODUCTION CAPACITY WAS IMPROVED

In 2010, Metsäliitto increased its ownership of the Kumpuniemen Voima power plant company at the Suolahti mill to 54 per cent. The Group now receives wood-derived renewable electricity in addition to the bio-derived heat it has previously used.

At the Metsä Tissue Mänttä mill, the peat/wood boiler was further adjusted to increase the use of wood fuel and a new oil backup boiler was installed. This investment replaces the old coal boiler and secures further use of the peat/wood boiler. At the M-real Husum mill in Sweden, the recovery boiler capacity was increased, resulting in increased bio-derived heat production and a significant decrease in the need for oil. In addition, a new steam turbine is being built in Husum. When the turbine is started in 2011, the mill's electrical self-sufficiency will increase from approximately 30 per cent to 50 per cent. The additional electricity is produced using wood-derived fuels.

New bioenergy projects continued during the year under review. A decision was made to build a biofuel power plant at the M-real Kyrökoski mill. The plant will replace the current natural gas power plant. The planned completion of the biofuel power plant is the end of 2012. The plant will reduce the mill's carbon dioxide emissions by about 100,000 tonnes per year.

Other projects are also underway with the aim to increase the use of biofuels in lieu of fossil fuels. Decisions on the potential implementation of the projects will be made as early as in 2011.

The Group has projects underway with the aim to increase the use of biofuels in lieu of fossil fuels. Decisions on the potential implementation of the projects will be made as early as in 2011.

## DID YOU KNOW?

Pulp and Wood Products Industry mills' excess amount of wood-derived by-products generated in processing can be used for producing energy above the mills' own need. This excess is sold to collaboration partners in nearby areas as carbon dioxide neutral wood based fuel, heat and electricity.

## FINLAND'S ENERGY POLICY

In 2010, the Finnish government decided to significantly increase the energy and waste taxes. This results in an estimated increase of EUR 15–20 million in taxes paid by Metsäliitto Group. The energy tax burden in Finland is among the highest in Europe. In Sweden, the already-low taxes have been reduced even further.

During the year under review, the government also imposed feed-in tariff subsidies on electricity produced with wood fuel. Concurrently, the use of peat for energy production became taxable. The combined effect of these measures means that it is now more profitable than before for energy producers to use wood as fuel. This may decrease the availability of wood raw material in the forest industry and weaken the competitiveness and viability of the export industry. The forest industry has suggested that a system be established for monitoring the effect of the feed-in tariff subsidy on the availability and price of wood raw material. Subsidies paid from the government tax revenue on the use of wood for energy should be reduced if they result in hardships for the export industry which operates without subsidies for industrial production.

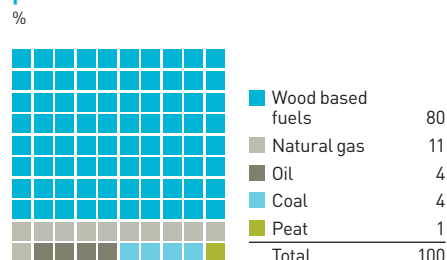
It is important that we in Finland take care of the sufficiency of basic energy solutions to ensure competitive electricity in the long run. The Finnish government made a decision in principle in July 2010 on two new nuclear power licences. One of the licences was granted to Teollisuuden Voima, which is the producer of electricity used by M-real and Metsä-Botnia among others. After these decisions in principle, the government started studies on a possible uranium tax to be levied from the producers of

nuclear power electricity. This would, naturally, bring additional costs to energy production.

## EMISSIONS TRADING

During the year under review, the European Commission elaborated on its proposal on the allocation of free emissions rights to the so-called carbon leakage industries for the period of 2013–2020. According to the Commission proposal, free emission rights are allocated on basis of the parties' energy efficiency. Less efficient parties will need to buy a larger share of their emission rights. According to a preliminary estimate, Metsäliitto Group will probably need to buy a portion of the emission rights it needs starting from 2013. The differences between mills in the need to buy are extensive and depend in particular on what fuel they use. The European Union will make final decisions on the allocation rules in 2011.

## Fuels used at Metsäliitto Group's production units in 2010



# Personnel

Metsäliitto Group's Business Areas invested in target-oriented personnel development and occupational well-being. In 2010, a new trainee programme was launched. Out of the 700 young people with a university degree who applied for the programme, 26 were selected.



On 31 December 2010, Metsäliitto Group had 2,820 employees (31 December 2009: 13,592). Of the personnel, 5,734 worked in Finland (2009: 5,575).

The Group's business areas launched measures in 2010 to ensure sufficient resources for the future, both by developing current personnel and preparing for future recruitment needs. The management's business competences and ability to implement strategy into practice are improved through management development programmes.

Metsäliitto uses unified processes for performance management and rewarding. Setting objectives and monitoring progress support systematic managerial work.

The Group-wide SAP HR system, implemented at the beginning of 2010, supports HR management by offering reliable and real-time basic information. HR reporting improves the quality of decision making in annual planning and facilitates better resource planning.

A "Managers' Self Service" tool was implemented for all supervisors, offering a unified management tool.

During the year under review, we invested in securing future key resources through an extensive trainee programme. The programme, launched in September, received applications from more than 700 young people with a university degree. The selected 26 future Metsäliitto employees participate in a one year training programme, after which they will be employed in various positions within Metsäliitto Group's business areas. The trainee programme contains four on-the-job training periods, during which the trainees acquaint themselves with different tasks, working environments, pro-

cesses and operations, financial planning, and management and supervisory responsibilities.

## TRAINING AT ALL LEVELS

The Challenger Management training programme was organised for the fourth time.

Separate international development programmes for business areas were designed and launched for middle management: the Simplifier at M-real and Metsä-Botnia, and the Avant at Wood Supply and Wood Products Industry. Management degree programmes (JET programmes) were also conducted throughout the Group in Finland. The goal of all development programmes is to develop business competence in line with the Group's values and objectives, as well as to apply the learning in practice.

Metsäliitto Wood Supply launched a business development project which aims at improving their service offering. The goal is to improve professional competences to provide a wide variety of services to forest owners.

Last autumn Wood Products Industry started a training programme focusing on the quality of supervisory work at all production units in Finland.

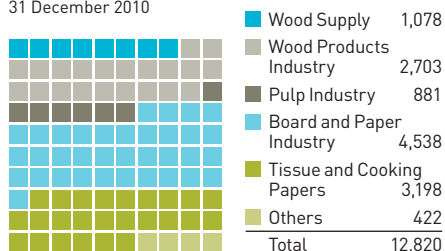
Internal efficiency and quality at Metsä-Botnia and M-real mills are developed through systematic and long-term training of the production personnel. The training focuses on a multi-skilled and flexible operating model.

Metsä-Botnia continued their key personnel programme, in which a more in-depth, long-term and personal development programme complements the annual performance management process for key personnel. The model is also partially applied in other business areas.

The goal of development programmes is to develop business competence in line with the Group's values and objectives, as well as to apply the learning in practice.

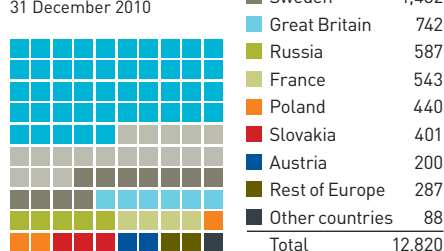
## Personnel by business area

31 December 2010



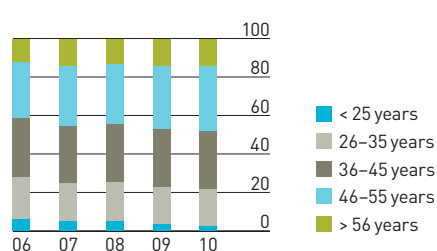
## Personnel by country

31 December 2010



## Age distribution

%



M-real and Metsä-Botnia implemented rolling retirement forecasts, updated every six months, to identify valuable experience and skills which need to be replaced. The information gained is consolidated with the results from the personnel competence analysis and based on the analysis, recruitment training is implemented for both production and white-collar positions.

Metsä Tissue focused on improving internal collaboration and on securing competences required for future growth.

A training registration system was implemented in the Group intranet for the employees.

## FUNCTIONING WORK COMMUNITIES

Metsäliitto carried out a Management Barometer survey for key personnel for the third time. Compared to the previous survey, the following aspects had developed positively: synergies created in the Group, collaboration between the business areas and Group services, internal collaboration and trust in the future. The identified development targets will be reviewed in each business area and the agreed actions will be included in the annual planning.

Various business areas have conducted Organisational functionality surveys. The Metsä-Botnia survey clearly indicates that the work communities are perceived to be functioning. The company has a positive outlook on the future; on the reliability of its operations; and on receiving feedback. Employees wanted more demanding tasks, more opportunities to influence their own work, and continuous improvement of operations. The usefulness of personal development discussions was also questioned

somewhat, and the survey results will be used to improve their quality.

During the review year, M-real launched an extensive personnel survey covering all units, with the exception of the Hallein, Gohrsmühle and Alizay mills. The survey results indicated the need to improve internal communications, make better use of internal development ideas and improve the efficiency of the personal development discussion practices. In 2011, the survey will cover all units.

Metsä Tissue has several ongoing development programmes involving the need of change management, strengthening of internal collaboration and securing of competences for future growth. Practical supervisory training was organised at all Metsä Tissue mills with the aim to support open conversation and supervisory role.

During the year, Metsä Tissue's Mänttä mill implemented a new organisational model, and to support this, the personnel were given multiple skills training.

## OCCUPATIONAL WELL-BEING

Occupational well-being and safety, promoted through proactive and systematic measures, are important success factors at Metsäliitto.

Metsäliitto complies with a policy for occupational safety and well-being at work and monitors the number of accidents, occupational illnesses and absences. Reporting provides us with valuable information which helps us to proactively improve the working capacity and occupational safety of employees, and to prevent absences.

Occupational health care has a significant role in ensuring occupational well-being. It was

developed further by ensuring unified, extensive and goal-oriented action plans for all units.

To extend working careers and minimise disability pensions, Metsäliitto Group implemented an early support model, in which the development discussion plays a significant role. If weakening of work capacity is noticed at an early stage, the work community together with occupational health care can look for solutions to help the individual cope in their job.

During the review year, absences and accident frequencies drew closer to the target level.





# FINANCIAL STATEMENTS

REPORT OF THE BOARD OF DIRECTORS 2010.....	36
PROPOSAL FOR THE DISTRIBUTION OF THE SURPLUS 2010.....	44
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME .....	45
CONSOLIDATED BALANCE SHEET .....	46
STATEMENT OF CHANGES IN MEMBERS' FUNDS .....	47
CONSOLIDATED CASH FLOW STATEMENT.....	48
NOTES TO THE ACCOUNTS .....	49
PARENT COMPANY ACCOUNTS – INCOME STATEMENT .....	100
PARENT COMPANY ACCOUNTS – BALANCE SHEET .....	101
PARENT COMPANY ACCOUNTS – CASH FLOW STATEMENT.....	102
PARENT COMPANY ACCOUNTING POLICIES .....	103
NOTES TO THE PARENT COMPANY'S ACCOUNTS.....	104
PARENT COMPANY SHARES 31 DECEMBER 2010.....	110
STATEMENT BY THE SUPERVISORY BOARD .....	112
AUDITOR'S REPORT .....	113
QUARTERLY DATA.....	114
FIVE YEARS IN FIGURES.....	115

# Report of the Board of Directors 2010

## Sales and result

Metsäliitto Group's sales for 2010 totalled EUR 5,377 million (09: 4,837 and 08: 6,434). The figures for the comparison period include, among others, Metsä-Botnia's business in Uruguay until 4 December 2009 and Metsäliitto's holding in Vapo Oy until 24 June 2009. Taking into account the divestments mentioned above and the change in the consolidation method of Metsä-Botnia effective from 8 December 2009, the growth in Metsäliitto Group's comparable sales was approximately 20 per cent.

The operating result excluding non-recurring items was EUR 547 million (09: -75 and 08: 45). Non-recurring items totalled EUR -50 million [-94] net, of which income accounted for EUR 58 million (203) and expenses for EUR 108 million (297).

The most significant items in the non-recurring income, totalling EUR 42 million, were associated with reversals of impairment of fixed assets and reductions of cost provisions. Non-recurring capital gains totalled EUR 14 million and other income EUR 2 million.

The most significant non-recurring expenses, totalling EUR 70 million, were associated with impairment and write-downs of fixed assets and goodwill. Cost provisions related to restructuring of operations amounted to EUR 33 million. Other non-recurring expenses totalled EUR 5 million.

Metsäliitto Group's operating result including non-recurring items was EUR 497 million (09: -169 and 08: 2).

Financial income amounted to EUR 5 million (26) and financial costs to EUR 135 million (173). Net exchange gains/losses recognised in financial items were EUR -7 million (2). The US dollar strengthened on average 5 per cent against the euro during the year, while the British pound strengthened by 4 per cent and the Swedish krona by 10 per cent year-over-year. The strengthening of the US dollar and British pound has improved the price level of forest industry products and the Group's competitive position.

The share of results in associated companies amounted to EUR -15 million (-16). The results include a EUR 16 million non-recurring impairment loss related to M-real's holding in Myllykoski Paper Oy. The figure for the comparison period includes a EUR 11 million non-recurring expense item related to the divestment of Myllykoski Paper's Sunila shares.

The result for the period before tax was EUR 345 million (09: -329 and 08: -233), while taxes, including changes in deferred tax liabilities, totalled EUR -131 million (09: 10 and 08: 60). The result for continuing operations was EUR 214 million (09: -318 and 08: -172), the result for discontinued operations was EUR 0 million (09: -23 and 08: -338) and the result for the financial period was EUR 214 million (09: -342 and 08: -511).

The Group's return on capital employed for continuing operations was 11.8 per cent (09: -3.3 and 08: 0.5), and the return on equity was 13.9 per cent (09: -20.0 and 08: -8.4). Excluding non-recurring items, the return on capital employed was 13.4 per cent (09: -1.4 and 08: 1.3) and return on equity was 18.2 per cent (09: -13.4 and 08: -6.4).

## Balance sheet and financing

Metsäliitto Group's total liquidity was EUR 1,054 million (09: 1,357 and 08: 1,808) at the end of December. Of this, EUR 440 million (09: 558

and 08: 619) was in liquid assets and investments, and EUR 614 million (09: 799 and 08: 1,189) was in off-balance-sheet binding credit facilities. In addition, the Group can satisfy short-term financial needs with non-binding commercial paper schemes in Finland and abroad, as well as with credit limits amounting to approximately EUR 0.5 billion.

In January 2010 M-real decided to exercise its right to early redeem part of its bond maturing on 15 December 2010. The outstanding nominal amount before the redemption was approximately EUR 340 million. The total par value of redemption was EUR 250 million.

Several financing arrangements were implemented in the summer and autumn. M-real drew pension loans worth EUR 135 million and redeemed the remaining EUR 90 million of the bond referred to above. In December, M-real drew more pension loans worth EUR 31 million. In the summer, Metsäliitto Cooperative drew pension loans (TyEL) worth EUR 65 million and redeemed its EUR 150 million bond. In September Metsäliitto also drew investment loans from pension companies worth EUR 175 million with five years' maturity. Metsä-Botnia amortised its loans with approximately EUR 160 million during the year.

Standard & Poor's upgraded M-real's credit rating in August and Moody's Investor Service in September. The upgrades have a total positive impact of approximately EUR 2 million on M-real's annual financing costs.

In December, Metsäliitto Cooperative signed a EUR 425 million term loan and revolving credit facility agreement with a syndicate of seven banks. The new facility matures in April 2014, and it replaces the EUR 560 million facility maturing in March 2011. The loan arrangement clearly extended the average maturity of the loans.

The Group's equity ratio was 29.7 per cent at year's end (09: 24.5 and 08: 26.0) and net gearing totalled 116 per cent (09: 157 and 08: 149). Interest-bearing net liabilities stood at EUR 1,939 million (09: 2,203 and 08: 2,666). The equity ratio of the parent company, Metsäliitto Cooperative, was 58.6 per cent at the end of December (09: 57.2 and 08: 54.6) and the net gearing ratio was 45 per cent (09: 50 and 08: 45).

Members' capital in Metsäliitto Cooperative increased by a total of EUR 51.9 million during the year. The actual members' capital increased by EUR 5.8 million and the additional capital A by EUR 8.2 million. The additional members' capital B increased by EUR 23.4 million and the additional members' capital C by EUR 14.5 million. According to the notifications received by the end of 2010, EUR 21.7 (10: 58.2 and 09: 102.6) million of the additional members' capital will fall due for refund on 1 July 2011. At the end of December, Metsäliitto Cooperative had 126,382 (09: 127,158 and 08: 129,267) members.

The change in the fair value of investments available for sale was approximately EUR 30 million (-103) in 2010 based mainly on the increase in the value of the Pohjolan Voima shares. The change in the fair value of the shares mainly relates to the change of the 12-month moving average value of Nord Pool electricity futures used in the valuation.

## Capital programme

Metsäliitto Cooperative announced in January that it will launch a capital programme with the purpose of strengthening its equity to correspond to the company's current and future business structure. The assets to be accrued will be mainly used for financing new business operations.

In the context of the programme, Metsäliitto issued in February a new additional members' capital C, which offers owners the opportunity to gain additional cash-settled return, in addition to getting interest on members' capital. The amount of additional return depends on the price development of M-real Corporation's B share on the Helsinki Stock Exchange.

The subscription period for additional members' capital C ended on 31 December 2010. Of the issued 30 million members' capital C shares approximately 14.5 million were subscribed.

## Personnel

The Group had an average of 13,168 employees (14,534) in 2010. At the end of December, the headcount was 12,820 (13,592). The parent company, Metsäliitto Cooperative, had 2,495 employees at the end of December (2,248).

From the beginning of 2010, the Group has been reporting the number of personnel as FTE (Full Time Equivalent). Previously, the NOE (Number of Employees) indicated the number of people employed by the Group, but FTE measures presence and indicates the number of personnel attending work. Reference figures have been converted to correspond to the new practice.

Salaries and fees paid to employees totalled EUR 509 million (523).

The Group-wide SAP HR system, implemented at the beginning of 2010, supports HR management by offering reliable and real-time basic information. A "Supervisor Desktop" was implemented for all supervisors, supporting supervisory work by offering a unified management tool.

During the year under review, a trainee programme was started. The programme received applications from more than 700 young people with a university degree. The selected 26 future Metsäliitto employees will participate in a one year training programme, after which they will be employed in various positions within the business areas of Metsäliitto Group.

The Challenger training programme for the management was organised for the fourth time. Separate international coaching programmes per business area were designed and launched for middle management: the Simplifier at M-real and Metsä-Botnia, and the Avant at Wood Supply and Wood Products Industry. Management degree programmes (JET programmes) were also conducted throughout the Group in Finland. The training for production personnel emphasised promoting multi-skilled operations-model.

The Group's business areas launched measures to ensure sufficient resources for the future, both by developing current personnel and preparing for future recruitment needs.

To extend working careers and minimise disability pensions, the Metsäliitto Group implemented an early support model in which the development discussion plays a significant role. If the weakening of an individual's working ability is noticed at an early stage, the working

community together with occupational health care can look for solutions to help the individual cope in their job.

In the whole Group, there were 17.3 accidents resulting in more than one day sick leave per one million working hours (15.7). Sick leave within the Group amounted to 4.2 per cent (4.3) of regular working time.

## Investments

Metsäliitto Group's capital expenditure totalled EUR 138 million (152) in 2010. Company and share acquisitions amounted to EUR 21 million (496).

In February 2010, Metsä-Botnia's Board of Directors decided on the construction of new causticisation and water stations at the Kemi mill. The total value of the investment is approximately EUR 40 million, and the new stations will come online at the end of the year.

The modernisation of Metsä Tissue's paper machine 10 at the Mänttä mill was completed in April. The investment, worth some EUR 6 million, is expected to improve product quality, reduce water consumption and decrease the need for energy.

In July, M-real exercised its option to purchase the former Kangas paper mill real estate and land area from Sappi for the price of EUR 13 million. The deal was part of an agreement with which M-real and Sappi settled the issues still open related to the sale of M-real's Graphic Papers business area in 2008. In September, the city of Jyväskylä decided to use its right of pre-emption based on law to purchase the Kangas mill real estate from M-real for an equivalent price of EUR 13 million.

In October, Metsä Tissue announced its decision to increase the Away-from-Home capacity at the Mänttä mill. The value of the investment is EUR 7 million and the project is scheduled for completion by the first quarter of 2012.

In October, M-real announced that it will invest EUR 26 million in the Simpele mill to increase its annual folding boxboard capacity by about 80,000 tonnes. The sheeting capacity will also be expanded at the same time. M-real also announced that it will invest in the modernisation of the coating section at the Kemiart Liners mill. The total value of the investment is approximately EUR 16 million. Both investments will be carried out during this year.

In October, M-real and Metsä Tissue signed an agreement on the partial divestment of M-real's Reflex mill to Metsä Tissue for approximately EUR 10 million. The agreement covered paper machine 5 and related real estate, as well as certain infrastructure assets. Metsä Tissue will convert the paper machine to produce cooking papers.

In November, Metsä Tissue announced that it will start an investment programme of almost EUR 30 million at the Düren mill in Germany. The mill specialises in producing SAGA-branded baking and cooking papers.

## Enhancing operations

Metsäliitto Wood Supply's new organisation was effective from the beginning of the year. Wood Supply is organised into four business lines: Wood Supply Finland, International Wood Supply, Wood Energy and Forestry Services.

The sale of Wood Product Industry's blockboard mill in Romania to the Romanian subsidiaries of Holzindustrie Schweighofer was completed in February.

Metsä Tissue announced a development plan for Polish operations in May. The plan aims to strengthen the company's position on the Polish market, increase production capacity, and to further enhance the product, brand and service offering. Polish paper production will be consolidated at the Krapkowice mill, and papermaking at the Konstancin-Jeziorna mill will be shut down by the end of 2012.

Under a deal signed in June, Metsä-Botnia sold some of the old machinery of the Kaskinen pulp mill, which was shut down in March 2009, to an Asian buyer. The dismantling of the machinery included in the deal was started in August.

In July, M-real announced the permanent closure of the Alizay pulp mill in France because it had not found the required economic prerequisites to continue operations.

In July, Metsäliitto's Wood Products Industry signed an agreement on the divestment of the machinery and equipment of the Soinlahti sawmill, located in Iisalmi, Finland, to Anaika Wood Ltd Oy. The agreement also included a long-term wood supply agreement between Metsäliitto Wood Supply and Anaika Wood. The buildings and land area belonging to the sawmill site were sold to Iisalmen Teollisuuskylä Oy. Metsäliitto shut down the sawmill at the beginning of 2009.

In September, M-real announced that in order to improve its profitability, the company was planning to transfer the Simpele speciality paper production to the Gohrsmühle mill in Germany and to close the Simpele paper machine. The paper machine was shut down at the end of 2010.

In August, Metsä Tissue announced that production on PM7 will continue at the Mänttä mill, but otherwise the entire production of Baking & Cooking products and all converting will be transferred to Germany. It was decided to shut down the Mänttä mill's older machine, PM5, by the summer 2011. The statutory labour negotiations resulted in a headcount reduction of 117 in Mänttä.

## Business areas

### Wood Supply

Wood Supply sales totalled EUR 1,353 million (1,101) in 2010 and operating result amounted to EUR 21 million (-9). Wood Supply Finland accounted for EUR 925 million (828) of the sales and EUR 10 million (-14) of the operating result. The operating result does not include material non-recurring items (-21). The most significant reason for the increase in sales and operating result compared to the previous year was the increase in delivery volumes.

Wood trade picked up in May after a slow start to the year. The rapid growth in wood supply caused by late-summer storms in Central and Eastern Finland resulted in trade also picking up in the rest of the country. Metsäliitto transferred a large share of its harvesting fleet to areas affected by storm damage. The majority of the sites acquired by Metsäliitto were harvested during the autumn. Towards the end of the year, especially those who were willing to take advantage of the 25 per cent tax relief that ended at the turn of the year offered wood for sale.

Metsäliitto Wood Supply supplied approximately 29 million cubic metres (24) of wood to its customers. Metsäliitto purchased more than 14 million cubic metres of wood (9) from Finnish private forests. Metsäliitto imported mainly deciduous pulpwood and wood chips from Russia, totalling 1.5 million cubic metres (1.1).

Metsäliitto Wood Supply's new organisation was effective from the beginning of the year: Wood Supply Finland, International Wood Supply, Wood Energy and Forestry Services. Metsäliitto established a solid position as a supplier of wood energy during the year under review with approximately 60 delivery destinations across Finland. A total of 2.1 million cubic metres of by-products from Metsäliitto Group's production plants and forest energy was delivered to them.

Metsäliitto developed its member services by introducing the Metsäkori (Forest Basket) service portfolio, offering all of Metsäliitto's services from the initial phases of forest ownership to generational change. An individual forest management plan was introduced as a completely new service.

### Wood Products Industry

Wood Products Industry's sales totalled EUR 902 million (806), and the operating result excluding non-recurring items was EUR 28 million (-41). Operating result including non-recurring items was EUR 23 million (-47).

Wood Products Industry's market situation improved during the year. The construction market picked up in the spring, especially in the Nordic countries and Germany, which boosted the demand for Kertopuu and other products for the construction customer segment. Due to seasonal factors, demand slowed down towards the end of the year. With the exception of Germany, construction volumes remained low in Central Europe, and in the United Kingdom in particular the government's cost-saving measures and the generally low level of construction activity had a negative impact on demand.

The price of sawn timber began to increase in the first half of the year, even though demand remained relatively low throughout the year. The demand for sawn timber began to level off towards the end of the year, and in November, Wood Products Industry announced that it will curtail its operations at all sawmills due to oversupply and slack demand.

The transport equipment industry market picked up during the third quarter, which had a positive impact on the demand for birch plywood. The demand for special products for the joinery industry and tailored components continued to be good.

In consumer and retail trade, overall sales remained at the same low level as in 2009. With regard to the market areas, sales were low in the United Kingdom in particular. Instead of seeking growth, retail trade focused on improving profitability.

The implemented internal streamlining measures contributed to the improved performance development of Wood Products Industry. Cost saving measures will also continue during 2011.

### Pulp

Metsä-Botnia's sales were EUR 1,365 million (886) and the operating result was EUR 382 million (-107). The operating result includes EUR 2 million (-77) of non-recurring income items. The considerable



improvement in sales and operating result compared with the previous year came about from the market picking up and the pulp price rising steeply.

Metsä-Botnia's pulp production volume was 2,173,000 tonnes (1,959,000) and total deliveries amounted to 2,176,000 tonnes (2,058,000).

Supply and demand were in balance in 2010. During the first two quarters, supply of pulp was restricted by a shortage of wood in Indonesia and the southern states of the United States. A fierce earthquake in Chile stopped Chile's pulp industry almost completely for a few months.

The pulp price reached a peak level in June, USD 980 per tonne for softwood pulp and USD 920 for hardwood pulp, while the respective prices were USD 860 and USD 760 at the beginning of the year. Prices decreased slightly during the autumn. In December, softwood pulp was selling for USD 950 and hardwood pulp for USD 850.

Pulp Industry (Metsä-Botnia) has been consolidated in the financial statements of Metsäliitto Group as a subsidiary from 8 December 2009 onwards. Before that, 53 per cent of Metsä-Botnia had been consolidated using the proportional consolidation method (M-real 30% and Metsäliitto 23%).

Metsä-Botnia has treated its business operations in Uruguay as discontinued operations in accordance with the IFRS 5 standard. Thus, the business operations in Uruguay are not included in the sales and result figures presented above.

### Board and Paper

The sales of Board and Paper totalled EUR 2,605 million (2,432), and the operating result excluding non-recurring items was EUR 173 million (-150). Comparable sales grew by approximately 19 per cent.

The net amount of non-recurring items recognised in the operating profit was EUR -27 million (-117). Impairment losses and various cost provisions recognised amounted to EUR 70 million and reversals of impairment of fixed assets and cost provisions as well as sales gains amounted to EUR 43 million.

The operating result was improved by price increases in board and paper, increase in delivery volumes, cost savings and the higher price of pulp. The strengthening of the Swedish krona against the euro, the investment shutdown at Husum and the stevedore strike in Finland weakened the result. The operating result includes a sales gain of EUR 8 million from the sale of the Sappi shares, which is recognised as other operating income.

Operating result including non-recurring items was EUR 146 million (-267). Net interest and other financial expenses totalled EUR 65 million (80), income from associated companies was EUR -24 million (-16) and net exchange gains and losses booked as financial items were EUR -9 million (5).

The share of results in associated companies include a EUR 16 million non-recurring impairment loss related to M-real's holding in Myllykoski Paper Oy. The figure for the comparison period includes a EUR 11 million non-recurring expense item related to the divestment of Myllykoski Paper's Sunila shares.

The result for the financial period before tax was EUR 48 million (-358), earnings per share from continuing operations were EUR 0.09

(-1.02) and return on capital employed was 5.7 per cent (-8.9). Excluding non-recurring items, the result before tax was EUR 92 million (-230), earnings per share were EUR 0.23 (-0.66) and the return on capital employed was 7.6 per cent (-4.5).

At the end of December, M-real's equity ratio was 32.1 per cent and net gearing amounted to 83 per cent (29.6 and 84, respectively). Some of M-real's loan agreements set a 120 per cent limit on the company's net gearing ratio and a 30 per cent limit on the equity ratio. At year end, net gearing calculated as defined in the loan agreements was approximately 64 per cent and the equity ratio was about 38 per cent.

### Tissue and Cooking Papers

Sales of Metsä Tissue, which produces tissue and cooking papers, totalled EUR 938 million (890), and its operating result was EUR 59 million (93). The operating result including non-recurring items was EUR 50 million (93). The increase in sales was attributable to increased sales volumes (+2%) as well as exchange rate fluctuations and price increases (+3%). Sales of Metsä Tissue's own brands increased by 9 per cent from the previous year, and in particular, the demand for Lambi, Katrin and Serla developed positively.

Steeply rising raw material costs, among others, had a negative impact on the operating result. Pulp prices were 40 per cent higher on average, and the price of recycled paper was up to double the level of the previous year in Central and Eastern Europe. In addition, the exceptional weather conditions and the stevedore strike in Finland and paper workers' strike in Sweden impeded operations.

Write-downs and cost provisions amounting to EUR 7 million relating to the development project in Poland and EUR 2 million relating to the restructuring at the Mänttä mill were recognised as non-recurring items.

During the year under review, Metsä Tissue announced two strategic development programmes. The company acquired paper machine 5 and related assets from M-real's Düren mill in Germany. With production and converting closer to the main markets, the availability of the products will improve and the synergy benefits of the existing mill and distribution network in Germany can be utilised. The deal also makes it possible to develop new products and product groups as well as grow in the baking and cooking paper business.

The second development programme relates to the streamlining and strengthening of the Polish operations. Metsä Tissue aims to improve the quality of the products and the offering of services in Poland.

Two napkin machines were introduced at the Paulström mill in Sweden, improving the reliability of deliveries with the lines located in Germany.

The rebuilding of paper machine 10 at the Mänttä mill was completed during the spring. The investment improved the quality of Lambi, Serla and Katrin products and increased the mill's energy efficiency. In addition, Metsä Tissue announced that it will increase the Away-from-Home capacity at the Mänttä mill to support the growth objectives of the Katrin brand. The project is scheduled for completion in early 2012.

## Research and development

Metsäliitto Group's research and development investments totalled EUR 21 million (09: 24 and 08: 25), or 0.4 per cent of sales (09: 0.5 and 08: 0.4).

The focus of Metsäliitto Group's own research and development activities in 2010 was on the development of new products and improvements in product features. Research activities offering longer-term benefits were carried out mainly in collaboration with external partners.

Among the business areas, Wood Supply carried out projects to increase harvesting productivity, improve the efficiency of biomass recovery and reduce harvesting expenses.

Wood Products Industry continued to invest in structural solutions in residential and commercial building construction with its Kerto and Ripa products, in ready-to-use patio and arbour systems in garden and yard furnishing as well as in interior lining products.

Metsä-Botnia's product development projects included managing end product quality and supporting customers in the utilisation of fibre mixes. Process development focused on improving the cost competitiveness of business operations by seeking ways to increase the efficiency of wood utilisation.

Research and development activities in the Board and Paper Industry focused on high-quality and light packaging boards. In the Paper Industry operations, the focus was on developing and introducing new products. For example, a lighter than normal new office paper named SAVE! is among the new products. In addition, several new double coated label paper types and flexible packaging papers were developed.

In Tissue and Cooking Papers, the Lambi brand offering was expanded to cover napkins, and a new Lambi Kids concept was introduced for families with children. Customer brands were developed in close collaboration with the customers at Metsä Tissue's research centre at the Raubach mill in Germany.

## The environment

The main principles of Metsäliitto Group's environmental policy are continuous development, minimisation of harmful environmental impact, responsible and efficient use of production resources, commitment to sustainable forest management, and open communication. In developing production processes and by investing in production units we apply production and cleaning methods which are as effective and advanced as possible and technically and financially feasible. Almost all of the Group's production units have a certified ISO 9001 quality system and ISO 14001 environmental system in place. Many of the Group's production units also have a certified occupational and product safety system.

The Metsäliitto Group works to continuously improve the efficiency of energy consumption and production in its operations, as well as to increase the already high proportion of wood-derived, carbon dioxide neutral energy in its energy acquisition. Metsäliitto continued its work to improve the efficiency of energy consumption and production, and to increase the share of bioenergy as part of the Group's climate programme.

The energy efficiency of Metsäliitto's operations improved significantly during the year under review, compared to the previous year. This was due to the mills' higher utilisation rates, in particular. In addition, several energy efficiency improvement projects were carried out during the year. The annual energy-saving impact of the projects is approximately 270,000 megawatt hours of heat and 85,000 megawatt hours of electricity. The projects reduced carbon dioxide emissions by approximately 70,000 tonnes per year, which is about 5 per cent of the total emissions for the year. New, small projects improving energy-efficiency are analysed and assessed on an ongoing basis. Energy efficiency is also improved as part of the daily improvement of production. This development work was continued in 2010 by utilising the energy efficiency system (EES) which is part of the Group's climate programme. During the year under review, new measurement and automation tools were built and implemented, among others.

Metsäliitto Group's main source of energy is wood (64%), the majority of which is a by-product of production. The goal is to increase the share of wood-derived fuels, resulting in reduced carbon dioxide emissions. Water and nuclear energy are carbon dioxide neutral sources of energy and make up 13 per cent of the Group's energy acquisition. The total share of bio-derived and carbon dioxide neutral energy was 78 per cent of energy consumption in 2010.

During the year under review, M-real again participated in the investor-driven Carbon Disclosure Project survey on greenhouse gas emissions and climate change. The information reported by M-real in the survey is public.

The volume of fuel used by the production units in the review period was 26.0 TWh (22.1). The amount of purchased energy was 2.5 TWh (2.5) and that of purchased heat was -0.3 TWh (0.2). These added up to a total energy consumption of 32.0 TWh (28.7). Wood accounted for 80 per cent (77) of the total fuel consumed at the production units.

Carbon footprint calculations indicating the volume of carbon dioxide emissions are available for several of the Group's products. The carbon footprint calculations adhere to CEPI's Carbon Footprint Framework for the paper and board industry.

In the year under review, the Group's atmospheric emissions were as follows: carbon dioxide (CO<sub>2</sub>) 1.31 million tonnes (1.29), sulphur dioxide (SO<sub>2</sub>) 2,475 tonnes (2,370) and nitrogen oxides (NO<sub>x</sub>) 7,708 tonnes (6,688). Emissions into water systems were: chemical oxygen demand (COD) 48,646 tonnes (37,314) and phosphorous 79 tonnes (74).

During the year under review, a chemicals registration in line with the EU's REACH regulation was completed. The substances to be registered are typically by-products and intermediate products of the process. The Group's products are tested in accordance with laws and recommendations. Metsäliitto does not approve the use of GMO-based raw materials or nanotechnology-based new substances until sufficient information regarding their safety becomes available.

No significant deviations resulting in considerable environmental effects occurred in the Metsäliitto Group's production units during the year under review. Some deviations from permit conditions were, however, recorded. Metsäliitto Group companies also remain subject to environmental liabilities related to former industrial activities at sites that have since been closed, sold or leased, and from decom-

missioned landfill sites. Metsäliitto's liabilities relating to its past activities have declined in recent years following the successful implementation of a series of land rehabilitation projects. The current, most significant known outstanding liabilities relate mainly to land decontamination at locations owned by M-real and Metsäliitto Wood Products Industry as well as procedures relating to the closure of Metsä-Botnia's Kaskinen mill. Financial provision for the cost of land rehabilitation work has been made in cases where it has been possible to measure Metsäliitto's liability for land contamination. In 2010, Metsäliitto Group's environmental costs totalled EUR 53 million [58].

Metsäliitto Group is committed to responsible procurement of wood raw material. Wood procured by Metsäliitto comes from sustainably managed forests, and wood procurement and forest management operations are carried out in strict compliance with local laws and government regulations. The majority of timber used by the Group's production units is sourced from the private forests of Metsäliitto Cooperative's members in Finland.

Metsäliitto requires the same responsibility commitment of its wood procurement contractual partners and provides them with regular training in these areas. Metsäliitto regularly audits its wood suppliers as well as its own logging sites and those of its subcontractors.

Metsäliitto Group is a promoter of independently verifiable forest certification. In the year under review, about 78 per cent of the wood procured by Metsäliitto came from certified forests. In 2010, the PEFC forest certification criteria were revised in Finland, and an agreement was reached on the FSC forest certification criteria, which makes it possible to certify forests in accordance with the FSC certification as well in the future. Metsäliitto continued the certification of the forests it leases in Russia. Metsäliitto Podporozhye received Russia's first PEFC forest certificate in March 2010.

Several of Metsäliitto Group's production units use a certified Chain of Custody system which makes it possible to reliably authenticate the proportion of certified wood in the products. The certified quality and environmental systems are integrated with a Chain of Custody system which enables Metsäliitto always to know and control the origin of the wood it uses.

### **Risk management and risk factors**

Metsäliitto Group assesses its strategic, operative, financial and insurable risks at a minimum of twice a year. These activities are regulated by the risk management policy confirmed by the Board of Directors.

Identified risks are prepared for to the best of the company's knowledge and as most appropriate for the company. Metsäliitto cooperates actively with insurance companies related to risk management, for example, by regularly executing risk evaluations on different business areas. Metsäliitto Group retains some of the risks and some of them are covered selectively by, for example, insurance and derivative contracts and by means of other agreement terms and conditions.

In 2010, the following risks and risk factors were identified which, if they are realised, may affect Metsäliitto Group's financial performance and capacity to act:

### **Uncertainty of the global economy**

In the main market areas, demand for wood products, pulp, paper and board follows the general economic development. There are still significant uncertainties in the development of the global economy. The unfavourable development of the economy has clear negative effects on the demand for products, profitability, and potentially the availability and cost of financing in Metsäliitto Group.

### **Competitive environment**

The balance between demand and supply affects the price level of the main products of the Metsäliitto Group. A possible decline in demand or an increase in supply may have unfavourable effects on this balance. The unfavourable business cycles, or, the capacity increases by competitors may decrease prices. On the other hand, potential capacity closures by competitors or strategic consolidations in the forest industry could lead to price increases. A stronger euro against the US dollar may cause an increase in imports to Europe which in turn would weaken the market balance in Europe. The price competitiveness of products manufactured in the euro area would, correspondingly, weaken in markets outside Europe.

### **Credit and other counterparty risks**

The management of the credit risks involved in commercial activities is the responsibility of the business areas and the centralised credit control. The credit control function together with the business areas defines the internal credit lines and the terms of payment for different customers. Some of the credit risks are covered with insurance agreements made with credit insurance companies. Metsäliitto Group's customer credit risk was at a regular level in 2010. The Group has worked to reduce its credit risk by intensifying its internal credit control procedures and processes.

The main principles of credit control are defined in the credit guidelines of the risk management policy confirmed by Metsäliitto's Board of Directors. Counterparty specific, approved maximum amounts are also applied to investments, derivatives and borrowing in order to ensure creditworthiness and to reduce risk concentrations.

### **Changes in consumer habits**

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

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

A radical and unforeseen rise in the price of production inputs important for operations, such as wood raw material, energy or chemicals, or problems with their availability may reduce profitability and threaten the continuity of operations. Metsäliitto attempts to hedge against this risk by entering into long-term supply agreements and derivative contracts for different time periods.

Potential changes in regulations and taxation regarding, among other things, carbon dioxide emissions and supporting renewable energy may increase Metsäliitto Group's expenses significantly. The

risk related to cost inflation has slightly increased from the previous year.

### **Liability risks**

Metsäliitto's business operations involve various types of liability risks, such as general operational liability risks, environmental risks and product liability risks. Attempts are made to manage these risks by improving business processes, practices, quality requirements and the transparency of operations. Some of the liability risks are covered with insurance agreements made with insurance companies.

### **Business interruption risks**

Catastrophes, major accidents, natural catastrophes, serious malfunctions in critical information systems, labour disputes and delivery problems of the most important raw material suppliers, for example, may interrupt business operations and, in extreme cases, cause loss of customers. Business areas, mills and Metsäliitto's service function have drawn up continuity and recovery plans for reducing these risks. The property and interruption risks of the mills are assessed regularly and the risks have mainly been covered with insurance agreements.

### **Safety risks**

Risks threatening corporate safety and security include shortcomings and failures in terms of occupational safety, information security, personal safety, corruption, external threats and lack of internal control. Corporate safety and security is continuously improved and developed by enhancing the efficiency of key operating procedures and by increasing the guidelines and training relating to major threats, and internal control.

### **Personnel**

Metsäliitto Group pays special attention to ensuring the availability and retention of competent personnel by means of various development programmes and special measures. Metsäliitto Group prepares for risks relating to generational shifts and other HR risks by means of measures ensuring working ability, career planning and work rotation of personnel.

### **Financial risks**

The main financial risks in the business operations relate mainly to currencies, interest rates, liquidity and counterparty risks, and the use of derivative instruments. Financial risks are managed in accordance with the financial policy confirmed by Metsäliitto's Board of Directors. The goal is to reduce uncertainty, improve predictability, balance cash flow and give the business units time to adjust their operations to match the changed circumstances.

### **Members' capital and additional members' capital**

Upon expiry of membership in Metsäliitto, the former member has the right to a refund of the amount paid for shares. Additional members' capital is also refunded based on written notifications. According to the rules of Metsäliitto Cooperative, the annual amount available for redemption of members' capital and additional members' capital corresponds to 1/3 of distributable surplus confirmed in the most

recent balance sheet. Higher than normal redemptions, may have a negative effect on Metsäliitto's financial position.

### **Management remuneration**

Members of the Metsäliitto Group's Executive Management Team established a company named Metsäliitto Management Oy in August. Through the company, the management invested EUR 3,850,000 of their own funds in M-real's B shares. In addition, some of the investments of the company in M-real's B shares were financed by a EUR 15,400,000 loan granted by Metsäliitto Cooperative. The management themselves shoulder the ownership risk for the investment they make in the system. The purpose of the system is to encourage members of the Executive Management Team to acquire and own M-real Corporation's B shares and, through this, to increase the shareholder value of Metsäliitto Group in the long term and support the achievement of the Group's strategic objectives.

The system will remain in force until the end of 2013, at which time the intention is to dismantle the system in a manner to be decided later. The system will be extended one year at a time if, in October–November 2013, 2014, 2015 or 2016, the stock exchange price of M-real's B share is lower than the average price at which Metsäliitto Management acquired M-real's B shares it owns. The loan granted by Metsäliitto will be repaid in its entirety by 31 March 2014. If the validity of the system is continued one year at a time in 2013, 2014, 2015 or 2016, the loan period will be extended correspondingly.

As of August 2010, the share ownership system replaces the previous share compensation system, under which the other management continues. Members of the Executive Management Team are not entitled to a potential share reward according to the old share compensation system for the financial period 2010. If a member of the Executive Management Team resigns before the dismantling of the system, he/she is repaid the funds invested, but not any potential increase in value. If the system shows a loss, a resigning member of the Executive Management Team only receives a calculated share of the capital.

A total of 6,790,887 M-real's B shares have been acquired through Metsäliitto Management, of which the President and CEO indirectly owns 1,763,867 shares and the other members of the Executive Management Team indirectly own 5,027,020 shares.

The Board of Directors of Metsäliitto Cooperative resolved on a new share-based incentive plan for the management in December. The aim of the plan is to combine the objectives of the shareholders and the executives in order to increase the value of the Metsäliitto Group, to commit the executives to perform the Group's mutual strategy, and to offer them a competitive reward plan based on share ownership.

The plan includes three three-year earning periods: calendar years 2011–2013, 2012–2014 and 2013–2015. The Board of Directors will decide on the earnings criteria and on targets to be established for them at the beginning of each earning period. The potential reward from the plan for the earning period 2011–2013 will be based on the Metsäliitto Group's (M-real's for persons working in M-real) equity ratio and the development of return on capital employed (ROCE) and operating result (EBIT). Each earning period is followed by a subse-



quent two-year restriction period during which the participant is not entitled to transfer or dispose of the shares.

The potential reward from the earning period 2011–2013 will be paid partly in M-real Corporation's series B shares and partly in cash in 2014. The proportion paid in cash will cover taxes and tax-related costs arising from the reward.

Initially, the system covers 52 persons, including the members of the Group's Executive Management Team. The rewards to be paid on the basis of the plan for the first earning period will correspond to the value of a maximum total of approximately 4.7 million M-real Corporation series B shares, also including the proportion to be paid in cash.

### Related party loans

Metsäliitto Cooperative has loaned EUR 15.4 million to Metsäliitto Management Oy, a related party of and controlled by the company, as part of Metsäliitto Group's rewarding system. The interest rate of the loan receivable is 3.0 per cent. The loan receivable falls due on 31 March 2014, and it can be extended until 31 March 2018 at a maximum. M-real's shares are used as the collateral of the loan receivable. The company is included in the consolidated financial statements and the mutual loan receivable and debt as well as interest recognitions in the consolidated financial statements have been eliminated. The loan is market-based.

### Events after the period

In January, M-real announced the launch of a new profit improvement programme for 2011. The programme focuses on improving the paper business profitability as well as decreasing variable costs of all businesses. The earlier announced profit improvement impact of Simpele and Kemi cartonboard investments and the closure of the speciality paper production at Simpele are included in the new profit improvement programme.

The planned measures are expected to improve M-real's annual operating result by EUR 70 million with full effect from 2012 onwards. The effect on the 2011 result is expected to be approximately EUR 30 million.

In February 2011 Metsä-Botnia decided to develop the energy production and build a bark gasification plant at its Joutseno mill. The total value of the investment is approximately EUR 20 million. The plant will compensate the mill's consumption of natural gas and the mill will be carbon neutral during normal operation.

M-real is investing EUR 30 million to increase the Äänekoski and Kyröskoski mills' annual folding boxboard capacity by a total of approximately 70,000 tonnes. After the investments, the annual production capacity will increase to 190,000 tonnes at Kyröskoski and 240,000 tonnes at Äänekoski. The Kyröskoski investment will be carried out at the end of 2011 and the Äänekoski investment during the spring of 2012.

### Near-term outlook

During 2011, use of wood at the Group's production units is estimated to be at a normal level. Metsäliitto buys all timber grades from logging sites marked for summer felling and as delivery sales when delivered to the roadside. In particular, there is demand for birch and pine pulp-

wood and birch logs. After the end of the tax reliefs, wood trade is likely to start quietly.

No significant change is expected in the overall demand for wood products during the year. The year will be challenging due to the decrease in the profitability of sawn timber, but financial performance is nevertheless expected to remain at the level of 2010.

At the beginning of 2011, pulp supply and demand are balanced. Producers' pulp stocks are at a normal level, and customers' pulp stocks vary between normal and low. Some previously-closed down pulp mills will reopen during the year, but no actual new market pulp capacity is expected.

The demand for tissue and cooking papers and brand sales are forecasted to remain solid. Consumers' increasing environmental awareness and responsible consumption are a permanent trend. Cost pressures are caused by high pulp and recycled paper prices, increased energy costs and increasing indirect taxes.

The demand for board is also expected to remain strong within the next few months. The prices of M-real's folding boxboard and liner in Europe are more than 10 per cent higher than at the beginning of the previous year, due to the implemented increases.

The demand for uncoated fine paper is expected to continue unchanged. M-real has announced in Europe that it will increase the prices of uncoated fine paper by 6–8 per cent as of March 2011. The demand for speciality papers is expected to remain stable with unchanged prices.

Signs of a recovery in the economy began to be seen during the third quarter of 2009, and the development continued during 2010. Metsäliitto Group's strongly positive operating result was attributable to rising prices of almost all products, higher utilisation rates of the mills due to improved demand and internal profit improvement measures.

Metsäliitto Group's operating result excluding non-recurring items in the first quarter of 2011 is expected to be approximately at the same level as in the previous quarter.

### Proposal for interest on members' capital

Metsäliitto Cooperative's Board of Directors has decided to propose to the Supervisory Board that, for 2010, interest of 5.5 per cent (5.5 for 2009) be paid for the statutory capital invested by its members. Interest of 5.0 per cent (5.0) is proposed for additional members' capital A, and interest of 4.5 (4.5) for additional members' capital B and C.

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



# Proposal for the distribution of the surplus 2010

## Metsäliitto Cooperartive

Euro		
At the disposal of the Representative Council		
surplus of the period		27,442,852.77
retained earnings from previous years		515,280,970.17
total		542,723,822.94
The Board of Directors proposes,		
under Section 13, a transfer to general reserve II of	1,372,142.64	
in additional	7.36	1,372,150.00
a dividend of		
5.5% be distributed on paid-in members' capital	10,536,093.70	
5.0% be distributed on paid-in additional members' capital A	22,799,663.30	
4.5% be distributed on paid-in additional members' capital B	1,545,966.46	
4.5% be distributed on paid-in additional members' capital C	468,582.08	35,350,305.54
to be retained on the surplus and deficit account		506,001,367.40
total		542,723,822.94
If the Representative Council approves the above proposal, the members' funds will be		
Members' capital		194,474,616.02
Additional members' capital A		463,211,238.05
Additional members' capital B		47,537,170.12
Additional members' capital C		14,456,086.93
General reserve I		3,939,904.28
General reserve II		52,851,840.00
Surplus and deficit account		506,001,367.40
Members' funds total		1,282,472,222.80

Espoo, 10 February 2011

Martti Asunta  
Chairman

Kari Jordan  
Vice Chairman  
President & CEO

Mikael Aminoff

Eino Halonen

Arto Hiltunen

Saini Jääskeläinen

Juha Parpala

Timo Saukkonen

Antti Tukeva

# Consolidated statement of comprehensive income

EUR million	note	1.1.-31.12.2010	1.1.-31.12.2009
<b>Continuing operations</b>			
<b>Sales</b>	4, 6	<b>5,377</b>	<b>4,837</b>
Change in stocks of finished goods and work in progress		38	-112
Other operating income	7	142	353
Materials and services	8	-3,599	-3,404
Employee costs	8	-745	-797
Depreciation, amortization and impairment charges	9	-336	-501
Other operating expenses	8	-379	-544
<b>Operating result</b>		<b>497</b>	<b>-169</b>
Share of profit from associated companies		-15	-16
Net exchange gains/losses	10	-7	2
Other financial income	10	5	26
Interest and other financial expenses	10	-135	-173
<b>Result from continuing operations before tax</b>		<b>345</b>	<b>-329</b>
Income taxes	11	-131	10
<b>Result for the period from continuing operations</b>		<b>214</b>	<b>-318</b>
<b>Discontinued operations</b>			
Result for the period from discontinued operations	5	0	-23
<b>Result for the period</b>		<b>214</b>	<b>-342</b>
<b>Other comprehensive income</b>	12		
Cash flow hedges		19	35
Available for sale investments		30	-103
Translation differences		25	-15
Other items		0	0
Income tax relating to components of other comprehensive income		-7	23
Other comprehensive income, net of tax		67	-60
<b>Total comprehensive income for the period</b>		<b>281</b>	<b>-402</b>
<b>Result attributable to:</b>			
Members of parent company		170	-116
Non-controlling interest		44	-226
		<b>214</b>	<b>-342</b>
<b>Total comprehensive income attributable to:</b>			
Members of parent company		204	-150
Non-controlling interest		77	-252
		<b>281</b>	<b>-402</b>

The notes are an integral part of these financial statements

# Consolidated balance sheet

EUR million	note	31.12.2010	31.12.2009
<b>ASSETS</b>			
<b>Non-current assets</b>			
Goodwill	13	503	493
Other intangible assets	13, 38	242	245
Tangible assets	13, 38	2,281	2,428
Biological assets	14	8	7
Investments in associated companies	15	80	98
Available for sale investments	16	338	356
Other non-current financial assets	17	14	11
Deferred tax receivables	18	63	58
Derivative financial instruments	30	4	2
		<b>3,534</b>	<b>3,697</b>
<b>Current assets</b>			
Inventories	19	798	669
Accounts receivables and other receivables	20	843	753
Current income tax receivables		39	42
Derivative financial instruments	30	11	2
Cash and cash equivalent	21	440	558
		<b>2,131</b>	<b>2,024</b>
Assets classified as held for sale	5	8	9
<b>Total assets</b>		<b>5,672</b>	<b>5,730</b>
<b>MEMBERS' FUNDS AND LIABILITIES</b>			
<b>Equity attributable to members of parent company</b>			
Members' capital	22	539	484
Share premium account	22	31	30
Translation differences	22	25	9
Fair value and other reserves	22	247	221
Retained earnings		312	184
		<b>1,154</b>	<b>927</b>
Non-controlling interest	23	524	471
<b>Total members' funds</b>		<b>1,678</b>	<b>1,399</b>
<b>Non-current liabilities</b>			
Deferred tax liabilities	18	409	382
Post employment benefit obligations	24	115	122
Provisions	25, 38	48	76
Borrowings	26	1,927	1,976
Other liabilities	27	18	115
Derivative financial instruments	30	18	19
		<b>2,534</b>	<b>2,689</b>
<b>Current liabilities</b>			
Provisions	25, 38	19	52
Current borrowings	26	471	798
Accounts payable and other liabilities	28	914	758
Current income tax liabilities		38	16
Derivative financial instruments	30	17	13
		<b>1,460</b>	<b>1,637</b>
Liabilities classified as held for sale	5	0	6
<b>Total liabilities</b>		<b>3,994</b>	<b>4,331</b>
<b>Total members' funds and liabilities</b>		<b>5,672</b>	<b>5,730</b>

The notes are an integral part of these financial statements

# Statement of changes in members' funds

EUR million	note	Equity attributable to members of parent company					Non-controlling interest	Total
		Members' capital	Share premium account	Translation differences	Fair value and other reserves	Retained earnings		
<b>Members' funds, 1 January 2009</b>		<b>585</b>	<b>30</b>	<b>-5</b>	<b>165</b>	<b>329</b>	<b>682</b>	<b>1,786</b>
Result for the period						-116	-226	-342
Other comprehensive income	12							
Cash flow hedges					17		18	35
Available for sale investments					-53		-50	-103
Translation differences				-10			-5	-15
Other items						0	0	0
Income tax relating to components of other comprehensive income				3	10		11	23
Other comprehensive income total				-7	-27	0	-26	-60
<b>Comprehensive income total</b>				<b>-7</b>	<b>-27</b>	<b>-116</b>	<b>-252</b>	<b>-402</b>
Related party transactions								
Interest on members' capital and dividends paid	22					-29	-1	-30
Change in members' capital	22	-101						-101
Change in share premium account	22							0
Change in fair value reserve	22							0
Transfer from unrestricted to restricted equity	22							0
Business arrangements	5			20	82		44	146
<b>Members' funds, 31 December 2009</b>		<b>484</b>	<b>30</b>	<b>9</b>	<b>221</b>	<b>184</b>	<b>471</b>	<b>1,399</b>
<b>Members' funds, 1 January 2010</b>		<b>484</b>	<b>30</b>	<b>9</b>	<b>221</b>	<b>184</b>	<b>471</b>	<b>1,399</b>
Result for the period						170	44	214
Other comprehensive income	12							
Cash flow hedges					11		8	19
Available for sale investments					12		18	30
Translation differences				14			10	25
Other items						0	0	0
Income tax relating to components of other comprehensive income				2	-6		-3	-7
Other comprehensive income total				16	18	0	33	67
<b>Comprehensive income total</b>				<b>16</b>	<b>18</b>	<b>170</b>	<b>77</b>	<b>281</b>
Related party transactions								
Interest on members' capital and dividends paid	22					-28	-4	-31
Change in members' capital	22	55						55
Change in share premium account	22		1					1
Change in fair value reserve	22							0
Transfer from unrestricted to restricted equity	22				9	-9		0
Business arrangements	5			1			1	2
Acquisitions of non-controlling interests	5					-6	-22	-28
<b>Members' funds, 31 December 2010</b>		<b>539</b>	<b>31</b>	<b>25</b>	<b>247</b>	<b>312</b>	<b>524</b>	<b>1,678</b>

The notes are an integral part of these financial statements

# Consolidated cash flow statement

EUR million	note	2010	2009
<b>Cash flow from operating activities</b>			
Result for the period		214	-342
Adjustments to the result	32	495	469
Interest received		7	20
Interest paid		-113	-172
Dividends received		2	4
Other financial items, net		-59	64
Income taxes paid		-100	0
Change in working capital	32	-136	231
<b>Net cash flow from operating activities</b>		<b>310</b>	<b>275</b>
<b>Cash flow arising from investing activities</b>			
Acquisition of shares in subsidiaries	5	0	-493
Acquisition of non-controlling interests	5	-21	0
Acquisition of shares in associated companies		0	0
Acquisition of other shares		0	-3
Investments in tangible and intangible assets		-138	-152
Proceeds from disposal of shares in subsidiaries and joint ventures	5	5	700
Proceeds from disposal of other shares		44	38
Proceeds from sale of tangible and intangible assets		39	16
Change in non-current receivables		1	186
<b>Net cash flow arising from investing activities</b>		<b>-70</b>	<b>291</b>
<b>Cash flow arising from financing activities</b>			
Change in members' capital		52	-57
Other change in members' funds, non-controlling interest		4	0
Increase in non-current liabilities		719	120
Decrease in non-current liabilities		-1,100	-654
Change in current liabilities, net		7	-17
Change in current interest-bearing receivables, net		-1	22
Interest on members' capital and dividends paid		-40	-40
<b>Net cash flow arising from financing activities</b>		<b>-360</b>	<b>-626</b>
<b>Change in cash and cash equivalents</b>		<b>-120</b>	<b>-60</b>
Cash and cash equivalents at beginning of period		558	619
Translation adjustments		3	-1
Change in cash and cash equivalents		-120	-60
Cash and cash equivalents in assets classified as held for sale		0	-1
<b>Cash and cash equivalents at end of period</b>	21	<b>440</b>	<b>558</b>

The notes are an integral part of these financial statements



# Notes to the accounts

## 1 Accounting policies

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

### Main operations

Metsäliitto Cooperative and its subsidiaries comprise a forest industry group, which operations are organised into five business segments: Wood Supply, Wood Products Industry, Pulp Industry, Board and Paper Industry and Tissue and Cooking Papers. The Group has manufacturing operations in 11 countries. Europe is the Metsäliitto Group's main market area.

The Metsäliitto Group's parent company is Metsäliitto Cooperative. The parent company is domiciled in Helsinki and the registered address is Revontulentie 6, 02100 Espoo Finland.

The copy of the annual report can be obtained in Metsäliitto's website [www.metsaliitto.com](http://www.metsaliitto.com) or parent company's head office Revontulentie 6, 02100 Espoo Finland.

The consolidated financial statements were authorised for issue by the Board of Directors on 10 February 2011. According to Finnish Cooperative Act the Representative Council has the possibility to accept or reject the financial statements in the Annual General Meeting after date of publication. The Annual General Meeting also has the possibility to decide to change the financial statements.

### Accounting policies and measurement bases

Metsäliitto Group's consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS), applying the IAS and IFRS standards and SIC and IFRIC interpretations that were effective and approved by the EU at the date of the financial statements 31 December 2010. International Financial Reporting Standards refer to the standards and their interpretations approved for use in the EU by the Finnish Accounting Act and the regulations set out pursuant to it in accordance with the procedure defined in the EU decree (EC) no. 1606/2002. The notes to the consolidated financial statements also comply with the requirements of Finnish accounting and Community legislation supplementing the IFRS regulations.

The consolidated financial statements are presented in millions of euros.

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

Management assesses that in foreseeable future group has enough resources to continue as a going concern. The group has prepared the financial statements on a going concern basis.

**In preparing these financial statements, the group has followed the same accounting policies as in the annual financial statements for 2009 except for the effect of changes required by the adoption of the following new standards, interpretations and amendments to existing standards and interpretations on 1 January 2010:**

**IFRS 3 (Revised) Business Combinations.** The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the income statement. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed. The revised standard has affected the accounting of all business combinations from 1 January 2010.

**IAS 27 (Revised) Consolidated and Separate Financial Statements.** The revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is remeasured to fair value, and a gain or loss is recognised in profit or loss. The group applies IAS 27 (revised) prospectively to transactions with non-controlling interests from 1 January 2010.

**IFRIC 16 Net Investment in a Foreign Operation.** IFRIC 16 clarifies the accounting for the hedge of a net investment in a foreign operation in an entity's consolidated financial statements. It eliminates the possibility of an entity applying hedge accounting for a hedge of the foreign exchange differences between the functional currency of a foreign operation and the presentation currency of the parent's consolidated financial statements. The requirements of IAS 21, 'The effects of changes in foreign exchange rates', do apply to the hedged item. The interpretation does not have an impact on the consolidated financial statements.

**IFRIC 17 Distribution of non-cash assets to owners.** This interpretation provides guidance on accounting for arrangements, whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends. IFRS 5 has also been amended to require that assets are classified as held for distribution only when they are available for distribution in their present condition and the distribution is highly probable. The interpretation does not have an impact on the consolidated financial statements.

**IFRS 2 (Amendment) Share-based Payment – Group Cash-settled Share-based Payment Transactions.** The amendment to IFRS 2 clarifies that an entity that receives goods or services from its suppliers must apply IFRS 2 even though the entity has no obligation to make the required share-based cash payments. The interpretation does not have an impact on the consolidated financial statements.

**IAS 39 (Amendment) Financial instruments: Recognition and measurement – Eligible Hedged Items.** The amendment prohibits designating inflation as a hedgeable component of a fixed rate debt. It also prohibits including time value in the one-sided hedged risk when

designating options as hedges. The amendment does not have a material impact on the consolidated financial statements.

**IFRIC 9 and IAS 39 (Amendment) Reassessment of embedded derivatives on reclassification.** The amendments clarify that on reclassification of a financial asset out of the 'at fair value through profit or loss' category all embedded derivatives have to be assessed and, if necessary, separately accounted for in financial statements. The amendments do not have an impact on the consolidated financial statements.

**IASB published changes to 12 standards or interpretations in April 2009 as part of the annual Improvements to IFRSs project, which were adopted by the group in 2010. The following presentation includes the most relevant changes to the group:**

**IFRS 5 (Amendment) Non-current Assets Held for Sale and Discontinued Operations.** The amendment clarifies that IFRS 5 specifies the disclosures required in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations. It also clarifies that the general requirements of IAS 1 still apply, particularly paragraph 15 (to achieve a fair presentation) and paragraph 125 (sources of estimation uncertainty) of IAS 1. The amendments do not have a material impact on the consolidated financial statements.

**IAS 1 (Amendment) Presentation of Financial Statements.** The amendment clarifies that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or non-current. By amending the definition of current liability, the amendment permits a liability to be classified as non-current (provided that the entity has an unconditional right to defer settlement by transfer of cash or other assets for at least 12 months after the accounting period) notwithstanding the fact that the entity could be required by the counterparty to settle in shares at any time. The amendments do not have a material impact on the consolidated financial statements.

**IAS 17 (Amendment) Leases.** The amendment deletes specific guidance regarding classification of leases of land, so as to eliminate inconsistency with the general guidance on lease classification. As a result, leases of land should be classified as either finance or operating using the general principles of IAS 17. The amendments do not have a material impact on the consolidated financial statements.

**IAS 36 (Amendment) Impairment of Assets.** The amendment clarifies that the largest cash-generating unit (or group of units) to which goodwill should be allocated for the purposes of impairment testing is an operating segment as defined in IFRS 8, 'Operating segments' (that is, before the aggregation of segments with similar economic characteristics permitted by IFRS 8). The amendments do not have a material impact on the consolidated financial statements.

**IFRIC 16 (Amendment) Hedges of a net investment in a foreign operation.** The amendment states that, in a hedge of a net investment in a foreign operation, qualifying hedging instruments may be held by

any entity or entities within the group, including the foreign operation itself, as long as the designation, documentation and effectiveness requirements of IAS 39 that relate to a net investment hedge are satisfied. Management is assessing the impact of these changes on the financial statements of the group.

## Principles of consolidation

### Subsidiaries

Subsidiaries include all companies (including units established for a specific purpose) in which the Group has the right to control the principles of finances and operations. This is usually based on holding shares conferring more than one half of the votes. When evaluating whether the Group has control over another company, the existence and impact of potential voting power that can be realised at the time of the review by exercising the right or performing an exchange. Subsidiaries are consolidated in the consolidated financial statements in their entirety starting on the day on which the Group obtains control in them. The consolidation stops when the control ceases.

Mergers of business operations are processed using the acquisition method. Consideration paid for the purchase of a subsidiary is determined as the fair value of paid assets, assumed liabilities and equity shares issued by the Group. The assigned consideration includes the fair value of an asset or liability arising as the result of a conditional consideration arrangement. Acquisition-related costs are recognised as expenses as they materialise. Identifiable assets obtained in a business merger and assumed liabilities and conditional liabilities are valued at fair value at the date of acquisition. The holding of non-controlling shareholders in the target of the acquisition is recognised on an acquisition-specific basis either at fair value or an amount corresponding to the proportion of the net assets of the target of the acquisition held by non-controlling shareholders.

The amount by which the sum of paid consideration, proportion of non-controlling shareholders in the target and previously owned proportion exceed the Group's proportion of the fair value of the acquired net assets is reported on the balance sheet as goodwill. If the total amount of consideration, proportion of non-controlling shareholders and previously owned portion is lower than the fair value of the net assets and the transaction is a beneficial one, the difference is recognised in the income statement.

Business transactions, receivables and liabilities between the Group companies and unrealised profits are eliminated. Unrealised losses are also eliminated. The accounting principles followed by subsidiaries have been amended to correspond to the principles followed by the Group as necessary.

### Special purpose entity

Metsäliitto Management Oy, established for the shareholding programme of the members of Metsäliitto Group's Executive Management, has been consolidated as a subsidiary in the Group's financial statements. According to the shareholders' and loan agreement Metsäliitto Cooperative has the controlling right in the company. The controlling right comes from the conditions in the agreement regarding the administration of the series B-shares in M-real, e.g. restrictions in

voting, disposals and deposits of shares. Without the permission of Metsäliitto, the company may not make such decisions which have nothing to do with the business of the company or with the execution of the arrangement. Metsäliitto Cooperative or companies controlled by Metsäliitto have no holdings in Metsäliitto Management Oy. The income statement and the balance sheet have been consolidated from the beginning of the arrangement. Metsäliitto Management's acquisitions of series B-shares in M-real have been dealt with as transactions with owners of non-controlling interest.

Metsäliitto Management Oy will be liquidated according to the shareholders' agreement after the publication of M-real's Q3 2013 interim report or at the latest by Q3 2017 if the arrangement is to be continued. When the arrangement is dismantled and Metsäliitto hands over the shares or cash to the owners of the company, the investments made by the executive managers will be dealt with as a financial liability and not as a non-controlling interest.

Additional information on share-based incentive schemes is presented in section Share based payment in these accounting policies.

#### Transactions with non-controlling shareholders

Business transactions with non-controlling shareholders are processed in the same way as those with Group shareholders. When shares are purchased from non-controlling shareholders, the difference between the consideration paid and the proportion of the net assets in the subsidiary purchased is recognised in equity. Also, profit or loss from sale of shares to non-controlling shareholders is recognised in equity.

#### Associated companies

Associated companies include all companies in which the Group has considerable influence but no control. Usually, significant influence is based on a shareholding conferring 20–50 per cent of the votes. Investments in associated companies are processed using the equity method, and they are initially entered at cost. The Group's shares in associated companies also include the goodwill measured at the time of acquisition less any impairment.

The Group's share of profits or losses of associated companies following the acquisition is recognised in the income statement, and its proportion of changes in equity after the acquisition is recognised in equity. The book value of the investment is adjusted for changes accumulated after the acquisition. If the Group's share of associated companies' losses is as large or larger than its share of the associated company including any other unsecured receivables, the Group will not recognise additional losses unless it has commitments concerning the associated companies and it has not made payments on behalf of it.

A proportion corresponding to the Group's shareholding is eliminated from unrealised profits between the Group and its associated companies. Unrealised losses are also eliminated unless the transaction indicates an impairment of the value of the asset. The accounting principles followed by associated companies have been amended to correspond to the principles followed by the Group as necessary. Profits or losses from investments in associated companies due to the dilution effect are recognised in the income statement.

#### Joint ventures

The Group's holdings in jointly controlled units are processed in the consolidated financial statements using proportional consolidation. The Group's proportion of the joint venture's individual income items, expenses, assets and liabilities and cash flows are consolidated in the corresponding items of the consolidated financial statements. For assets sold to a joint venture, the proportion of profits or losses belonging to third parties is recognised. The Group does not recognise its share of a joint venture's profits or losses arising from assets purchased from it by the Group before the assets have been sold further to an independent party. However, a loss incurred by business transactions will be recognised immediately if it indicates a decrease in the net realisation value or impairment of current assets.

Äänevoima Oy and Ääneverkko Oy have been consolidated on a proportionate basis line by line. After Metsä-Botnia transactions in December 2009 Metsä-Botnia is handled as a subsidiary from 8 December 2009 on.

The Group has a 48.98 per cent interest in Kiinteistö Oy Metsätaipola. The Group's proportion of the joint venture's income items, expenses, assets and liabilities are consolidated in the financial statements.

#### Transactions in foreign currency

The figures concerning the profit and financial position of Group units are presented in the currency that is used in the primary operating environment of the unit in question. The consolidated financial statements are presented in euros, which is the parent company's operating and reporting currency.

Business transactions denominated in foreign currencies are recognised in the operating currency using the rate of the transaction date. Monetary items denominated in foreign currencies are translated into the operating currency using the rate of the closing date. Non-monetary items in foreign currencies recognised at fair value have been translated into the operating currency using the rate of the date on which the value was determined. Otherwise, non-monetary items have been recognised using the rate of the transaction date.

Any gains or losses resulting from transactions in foreign currencies, and from the translation of monetary items, are recognised under financial income and expenses with the exception of liabilities classified as hedges for net investment in a foreign entity, for which the currency gains and losses are entered for the part of hedge proven effective in the translation differences in other comprehensive income.

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

## Financial assets

Financial assets have been classified according to the IAS standards as follows: 1) Financial assets at fair value through profit or loss, 2) Held-to-maturity investments, 3) Loans and other receivables and 4) Available-for-sale financial assets. Categorisation depends on the purpose for which the assets were acquired and is made at the time they were originally recorded. Financial assets are initially recognised at fair value. Transaction costs are included in the fair value unless the item is measured at fair value through profit and loss. Financial assets are derecognised when the Group has lost the contractual right to receive cash flows or it has transferred substantially risks and rewards of ownership to outside the Group. Financial asset purchases and sales are recorded at the settlement date.

Investments acquired for trading have been classified as financial assets at fair value through profit or loss. These are mainly stock exchange listed bonds. Financial assets held for trading have been recognised at fair value based on price quotations in the market. Unrealised and realised gains and losses due to changes in fair value are recognised immediately in the income statement during the financial period in which they are incurred. Derivatives not included in hedge accounting are also classified as financial assets held for trading. Their accounting principles and principles of determining their fair value are described below.

Held-to-maturity investments include those investments with a specific date of maturity which the Group has full intention and ability to retain until the date of their maturity. The Group has no held-to-maturity investments. Loans and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and other receivables comprise external loans and other receivables including accounts receivables. Financial assets designated in these categories are carried at amortised cost using the effective interest method.

Available-for-sale financial assets are publicly quoted and unquoted shares. They are valued at fair value, or if fair value cannot be reliably determined, at cost less impairment. The fair values of publicly quoted shares are based on the share price at the date of the financial statements. If there are no quoted prices for available-for-sale financial assets, the Group applies different types of valuation in their valuation, such as recent transactions and discounted cash flow. In this valuation, information received from the market is usually used, and factors specified by the Group itself are used as little as possible. Changes in fair value are recognised under other comprehensive income and presented in the fair value reserve, taking the tax effect into account. Accumulated changes in fair value are transferred from equity to profit and loss as a correction of classification when the investment is divested or its value has impaired so that an impairment loss is to be recognised for the investment.

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

The Group assesses at each balance sheet date whether there is objective evidence of impairment of a financial asset or group of financial assets. Objective evidence of impairment of available-for-sale

financial assets includes a significant or long-term decrease of the value of the investment under the acquisition cost. If the fair value of investments has substantially gone under acquisition cost and exceeded the period of time defined by the Group, it shall indicate that the value of the investment may be impaired. If there is evidence of impairment, the accumulated losses recognised in fair value reserve shall be transferred to profit and loss. Impairment losses of equity instruments classified as available for sale financial assets shall not be reversed through profit and loss.

The criteria for determining whether there is objective evidence of impairment of loans and other receivables include:

- significant financial problems of the issuer or debtor
- breach of contractual terms and conditions, such as defaults on interest or capital payments
- concessions given by the Group to the debtor due to its financial or legal reasons related to its financial problems that it would not otherwise contemplate giving
- probability of the debtor's bankruptcy
- the financial asset in question no longer having an active market due to financial problems.

Impairment testing of accounts receivables is described below in more detail with regard to the relevant accounting principles.

The amount of the impairment loss is determined as the difference between the carrying amount of the financial asset and the current value of the estimated cash flows of the financial asset discounted using the original effective interest rate (excluding any non-realised future credit losses). Impairment of financial assets has to be recorded if the carrying amount of the financial asset exceeds its recoverable amount. The carrying amount of the asset is decreased and the loss is entered in the consolidated income statement. If the amount of the impairment loss decreases during a subsequent period and the decrease can be objectively linked to an event realised after the recording of the impairment (such as the debtor's credit rating improving), the impairment loss is reversed in the income statement.

## Financial liabilities

The Group has classified all financial liabilities under "Other liabilities". When a financial liability is entered in the accounts, it is measured at cost, which is equal to the fair value of the consideration received for it. Transaction costs are included in the original carrying amount of all financial liabilities. Subsequently, all financial liabilities are measured at amortised cost using the effective interest method.

According to IAS 32 the Metsäliitto Group has a contractual obligation regarding the Metsä-Botnia shareholders' agreement to deliver cash to another entity against shares in Metsä-Botnia. This liability is valued at fair value as a financial liability with a demand feature according to IAS 39.

Financial assets and liabilities are classified according to IAS 39 and fair values are presented in the Note 29.

## Derivative financial instruments and hedge accounting

Derivative financial instruments are initially recognised in the balance sheet as fair value, which equals to its cost, and thereafter during their



term-to-maturity they are revalued at fair value. Gains and losses resulting from recognition at fair value are treated in accounting as required with regard to the intended use of the derivative in question. Derivatives are initially classified either as 1) Hedges of the exposure to changes in fair value of receivables, liabilities or firm commitments, 2) Hedges of the cash flow from a highly probable forecast transaction, 3) Hedges of a net investment in a foreign entity, 4) Derivatives to which it has been decided not to apply hedge accounting or 5) Derivatives used for trading. Derivatives that do not qualify for hedge accounting are classified as financial assets or financial liabilities at fair value through profit or loss. When applying hedge accounting at the inception of a hedging relationship, the Group has documented the relationship between the hedged item and the hedging instruments as well as the hedging strategy observed. To meet the requirements of hedge accounting, the Group has also continuously carried out effectiveness testing to verify that changes in the fair value of the hedging instrument for each hedging relationship cover effectively enough, with respect to the hedged risk, any changes in the fair value of the hedged item.

Changes in the fair value of derivatives that meet the criteria for fair value hedging are recognised through profit and loss. Changes in the fair value of a hedged asset or liability item are presented similarly in terms of the hedged risk. Changes in the fair value of the effective portion of derivative instruments that meet the criteria for cash flow hedging are recognised directly in a hedging reserve in equity. The gains and losses recognised in equity are transferred to the income statement in the period in which the hedged item is entered in the income statement. When the criteria for hedge accounting are no longer fulfilled, a hedging instrument matures or is sold or when the gain or loss accrued from hedging the cash flow remain in equity until the forecast transaction takes place. However, if the forecast hedged transaction is no longer expected to occur, the gain or loss accrued in equity is recognised immediately in the income statement.

The fair value of derivatives is disclosed in current non-interest-bearing receivables or liabilities. The fair values of derivatives classified in accordance with the applied accounting practice are presented in Notes to the accounts no. 30. The maturity analysis of cash flow hedge accounting is presented in Notes to the accounts no. 31.

### Currency hedging

To hedge its foreign currency exposure, the Group has partly applied hedge accounting in accordance with IAS 39 as so-called cash flow hedge. A separately defined portion of the highly probable forecasted cash flow from M-real's, Metsä Tissue's and Metsä-Botnia's sales in USD, GBP, SEK, NOK and DKK is the object of hedge accounting. A change in the fair value of a derivative hedge (currency forward contracts) proven effective is entered directly in shareholders' equity in the fair value reserve, and only after the realisation of the forecasted sales transaction it is entered in the income statement as an adjustment of the hedged sales. Changes in the fair value of other currency derivatives to hedge foreign currency exposure are recognised under financial items in the income statement. The fair values of forward foreign exchange contracts are based on forward prices prevailing at

the balance sheet date, and currency options are stated at market rates in accordance with the Black&Scholes model's fair value.

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

### Interest hedging

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

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

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

### Commodity risk hedging

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

Embedded derivatives are valued at fair value, and changes in fair value are entered under financial items in the income statement. The



amount of embedded derivatives in the Metsäliitto Group is insignificant.

### Segment reporting

The Group's operating segments are comprised of the Group's business areas. The business areas produce different products and services, and they are managed as separate units.

The operating segments are reported uniformly with internal reporting submitted to the chief operational decision-maker. The President and CEO has been appointed as the chief operational decision-maker in charge of allocating resources to the operating segments and evaluating their performance.

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

### Non-current assets held for sale and discontinued operations

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

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

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

### Recognition of income

Sales include income from the sale of products and services as well as raw materials and supplies corrected for indirect taxes, discounts and other sales adjustment items. Income from the sale of goods is recognised as income when the risks and benefits associated with the ownership of the product are transferred to the buyer and the Group no longer has rights of possession or control on the product. Usually, this refers to the moment on which the product has been delivered to the customer in accordance with the agreed terms of delivery.

The Group's terms of delivery are based on the Incoterms 2000 delivery terms, a compilation of definitions of delivery terms published by the International Chamber of Commerce. The Group's most common delivery terms concerning sales are:

- D terms, according to which the Group has to deliver the products to the agreed destination. The sale is concluded at the moment of delivery to the buyer at the agreed destination at the agreed time.
- C terms, according to which the seller arranges and pays for transport to the agreed destination and certain other expenses. However, the Group's responsibility for the products ends after the products have been handed over to the carrier in accordance with the term

used. The sale is concluded at the moment when the seller hands the goods over to the carrier for transport to the agreed destination.

- F terms, according to which the buyer arranges for the transport and is responsible for it. The sale is concluded when the products have been delivered to the buyer's carrier.

If local rules result in invoicing that deviates from the rules specified above, the impact of such income has been calculated and adjusted.

Revenue from the sale of services is recorded when the services have been rendered.

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

Dividend income is recognised when the right to receive a payment is established. Interest income is recognised by applying the effective interest rate method.

### Delivery and handling costs

Costs arising from the delivery and handling of goods are recorded in materials and services in the income statement.

### Research and development expenditure

Research and development expenditure is recognised as an expense at the time it is incurred. Development expenditure is capitalised if it is probable that a development project will generate future economic benefit and the costs can be measured reliably. Capitalised development costs are amortised over their expected useful future lives. To date, Metsäliitto has not capitalised any R&D expenditure.

### Borrowing costs

Borrowing costs are generally recognised as an expense in the period in which they are incurred. When an item of property, plant and equipment is involved in a major and long-term investment project, the borrowing costs directly due to the acquisition and construction of the asset are included in the asset's cost.

### Income taxes

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

Deferred taxes and tax assets are calculated on all the temporary differences between the accounting value and the tax base. Deferred tax liabilities are not recognised when the asset or liability in question is one that is originally entered at the carrying amount and does not

concern the merging of business operations, and the recognition of such an asset or liability does not have an impact on the accounting result or taxable income at the date of the transaction. No deferred taxes are recognised for non-deductible goodwill, and no deferred taxes are recognised for undistributed profits of subsidiaries to the extent that the difference will not likely realise in the predictable future.

The greatest temporary differences result from depreciation on property, plant and equipment, fair value of available-for-sale financial assets and derivative instruments, defined benefit plans, unused tax losses and measurement at fair value in connection with acquisitions.

Deferred taxes have been calculated by applying the tax rates in force by the balance sheet date.

Tax assets are recognised to the extent that it is probable that taxable profit will be available against which a deductible temporary difference can be utilised.

## Intangible assets

### Goodwill

Goodwill is the amount by which the cost exceeds the Group's share of the identifiable net assets of the acquired subsidiary at the date of acquisition. Goodwill arising from the acquisition of subsidiaries is included in intangible assets. Goodwill is tested annually for impairment and recognised on the balance sheet at cost less accumulated impairment losses. Impairment losses from goodwill are not cancelled. The book value of goodwill associated with a divested company influences the capital gain or loss.

Goodwill is allocated to cash-generating units for impairment testing. Goodwill is allocated to those units or groups of units which are expected to benefit from the merger of business operations where the goodwill has emerged, specified by reporting segments.

## Other intangible assets

### Computer software

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

### Emission rights

Allowances received by the governments free of charge have initially been recognised as intangible assets and the corresponding government grant as advance payment in liabilities based on fair value at the date of initial recognition. Allowances are measured at its cost or at their fair value if less. Allowances are not amortised. The emissions produced are recognised as cost and as liability together with the corresponding government grant as income both based on the value at

the date of initial recognition. Rights consumed that are within the original range have no positive or negative effect on profit for the period. The costs of purchasing additional rights to cover excess emissions or the sale of unused rights have effect on profit.

### Others

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

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

## Property, plant and equipment

Property, plant and equipment is measured at original cost. The property, plant and equipment of acquired subsidiaries is measured at fair value at the time of the purchase. Property, plant and equipment is presented in the balance sheet at cost less accumulated depreciation and impairment losses. For investments in property, plant and equipment requiring a long construction time, the interest incurred during construction is capitalised in the balance sheet as part of the asset for the time that is necessary for bringing the asset to working condition for its intended use.

Property, plant and equipment is depreciated on a straight-line basis over the following expected useful lives:

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

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

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

Subsequent costs of an item of property, plant and equipment shall be recognised as an asset if and only if it is probable that future economic benefits associated with the item will flow to the entity and the cost of the item can be measured reliably. The carrying amount of a component which has been replaced with new a component shall be derecognised. All other repair and maintenance expenditures are recognised in profit and loss as incurred.

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

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

### Government grants

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

### Leases

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

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

### Impairment of assets not included in financial assets

No depreciation is recognised for assets with an unlimited useful life, such as goodwill; they are annually tested for impairment. Depreciated assets are always tested for impairment when events or changes in conditions indicate that it is possible that the monetary amount corresponding to the book value of the assets might not be recoverable. The amount by which the book value of the asset exceeds the recoverable amount is recognised as an impairment loss. The recoverable amount is the higher of the fair value of the asset less expenses arising from its sale or its service value. Assets are classified for testing for impairment to the lowest levels at which the cash flows can be separately identified (cash-generating units). Assets not included in financial assets, apart from goodwill, for which impairment losses are recognised, are reviewed at the end of each financial period with regard to any reasons for cancelling the impairment.

### Biological assets

Biological assets (living trees) are measured at fair value less the estimated expenses of making a sale. The fair value of a stand of trees, excluding young seedlings, is based on the present value of expected cash flows (revenue and expenses). The calculations take into account

the future growth of the stand as well as the environmental protection-related limits on the forests. The calculation of income from fellings and silvicultural costs is based on the prevailing price level as well as the company's view of the future trend in prices and costs. Changes in the fair value of a stand of trees are included in operating profit during the financial period.

### Inventories

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

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

### Accounts receivables

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

### Equity

In IFRS reporting, financial instruments are classified either as financial liabilities or equity instruments. Under the IFRIC 2 interpretation "Members' Shares in Co-operative Entities and Similar Instruments", shares for which the Co-operative does not have an unconditional right to refuse redemption in accordance with the cooperative's rules are classified as financial liabilities. The rules of Metsäliitto Cooperative specify the maximum amount of members' capital that may be redeemed annually. The amount available for redemption of members' capital and additional members' capital corresponds to 1/3 of distributable surplus confirmed in the most recent balance sheet. This amount is recognised as an interest-bearing financial liability in the financial statements.

### Provisions

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

## Restructuring

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

## Environmental obligations

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

## Employee benefits

### Pension benefits

Pension plans are classified as either defined benefit or defined contribution plans. Under a defined contribution plan, the Group pays fixed contributions to a separate unit. The Group has no legal or constructive obligation to pay further contributions if the recipient of the payments is not able to pay the pension benefits in question. All plans that do not meet these requirements are considered defined contribution plans. Contributions paid to defined contribution pension plans are expensed in the period to which they relate.

The Group's obligations associated with defined benefit pension plans have been calculated separately for each plan using the Projected Unit Credit Method. Pension expenditure is expensed for the employees' period of service based on calculations made by authorised actuaries. In calculating the current value of the pension obligation, the market return of high-quality bonds issued by the company is used as the discount rate. The maturity of the bonds and treasury bills essentially corresponds to the maturity of the calculated pension obligation. The pension plan assets measured at fair value at the balance sheet date, unrecognised actuarial gains and losses and retroactive work performance are deducted from the present value of the pension obligation to be recognised in the balance sheet.

Actuarial gains and losses are recognised in the income statement over the expected average remaining working lives of the employees to the extent that such gains and losses exceed the greater of 10 per cent of the present value of the benefit obligation and 10 per cent of the fair value of any plan assets. Expenditure based on retroactive work performance is charged to the income statement in fixed instalments over the period during which they are paid-up. If the benefits are paid-up immediately, they are immediately charged to the income statement. Gains and losses resulting from the restriction of a defined benefit plan or performance of the obligation are recognised at the time of the restriction or fulfilment.

### Share based payment

A share-based incentive programme in which the payments are made either with equity instruments or cash has been established for the

company's top executives. The benefits issued in connection with the scheme are measured at fair value at the date of granting them and charged to the income statement evenly during the vesting period. In schemes where the payments are made in cash, the entered liability and change in its fair value is correspondingly scheduled as expenses. The effect of the schemes on profit is presented under employee costs.

Metsäliitto Management Oy has been established to manage Metsäliitto Group's share-based incentive scheme. The income statement and balance sheet of Metsäliitto Management Oy have been consolidated in the financial statements of the Group.

## Dividends payable and interest paid on members' capital

Dividends payable by the company are recorded as a decrease in equity in the period during which shareholders, in a general meeting, have approved the dividend for payment. Interest paid on members' capital is recorded as a decrease in equity in the period during which the representative council has approved the interest for payment. The share regarded as a financial liability of the interest on interest paid on members' capital has been recognised in interest expenses.

## Comparative figures

When necessary, comparative figures have been classified to conform to changes in presentation.

## New standards, interpretations and amendments to existing standards

**The following new standards, interpretations and amendments to existing standards and interpretations issued during the year 2010 will be adopted by the group in 2011:**

**IAS 24 (Revised) Related Party Disclosures.** The revised standard simplifies the disclosure requirements for government-related entities and clarifies the definition of a related party. The revised standard still requires disclosures that are important to users of financial statements but eliminates requirements to disclose information that is costly to gather and of less value to users. It achieves this balance by requiring disclosure about these transactions only if they are individually or collectively significant. The interpretation does not have an impact on the consolidated financial statements.

**IAS 32 (Amendment) Financial Instruments: Presentation – Classification of Rights Issues.** The amendment addresses the accounting for rights issues (rights, options or warrants) that are denominated in a currency other than the functional currency of the issuer. Previously such rights issues were accounted for as derivative liabilities. However, the amendment requires that, provided certain conditions are met, such rights issues are classified as equity regardless of the currency in which the exercise price is denominated. The amendment does not have an impact on the consolidated financial statements.

**IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments.** The interpretation clarifies the accounting when an entity renegotiates the terms of its debt with the result that the liability is extinguished

by the debtor issuing its own equity instruments to the creditor. IFRIC 19 requires a gain or loss to be recognised in profit or loss when a liability is settled through the issuance of the entity's own equity instruments. The amount of the gain or loss recognised in profit or loss will be the difference between the carrying value of the financial liability and the fair value of the equity instruments issued. The interpretation does not have an impact on the consolidated financial statements.

**IFRIC 14 (Amendment) Prepayments of a Minimum Funding Requirement.** The amendment is aimed at correcting an unintended consequence of IFRIC 14. As a result of the interpretation, entities are in some circumstances not permitted to recognise some prepayments for minimum funding contributions as an asset. The amendment remedies this unintended consequence by requiring prepayments in appropriate circumstances to be recognised as assets. The interpretation does not have an impact on the consolidated financial statements.

**IASB published changes to 7 standards or interpretations in July 2010 as part of the annual Improvements to IFRSs project, which will be adopted by the group in 2011. The following presentation includes the most relevant changes to the group. The changes are still subject to endorsement by the European Union.**

IFRS 3 (amendments) a) Transition requirements for contingent consideration from a business combination that occurred before the effective date of the revised IFRS b) Measurement of non-controlling interests c) Un-replaced and voluntarily replaced share-based payment awards. a) Clarifies that the amendments to IFRS 7, 'Financial instruments: Disclosures', IAS 32, 'Financial instruments: Presentation', and IAS 39, 'Financial instruments: Recognition and measurement', that eliminate the exemption for contingent consideration, do not apply to contingent consideration that arose from business combinations whose acquisition dates precede the application of IFRS 3. b) The choice of measuring non-controlling interests at fair value or at the proportionate share of the acquiree's net assets applies only to instruments that represent present ownership interests and entitle their holders to a proportionate share of the net assets in the event of liquidation. All other components of non-controlling interest are measured at fair value unless another measurement basis is required by IFRS. c) The application guidance in IFRS 3 applies to all share-based payment transactions that are part of a business combination, including unreplaced and voluntarily replaced share-based payment awards. The amendment does not have an impact on the consolidated financial statements.

**IFRS 7 (amendment) Financial instruments: Financial statement disclosures.** The amendment emphasises the interaction between quantitative and qualitative disclosures about the nature and extent of risks associated with financial instruments. Management is assessing the impact of these changes on the financial statements of the group.

**IAS 34 (amendment) Interim financial reporting.** The change provides guidance to illustrate how to apply disclosure principles in IAS 34 and add disclosure requirements around: The circumstances likely to affect fair values of financial instruments and their classification; Transfers of financial instruments between different levels of the fair value hierarchy; Changes in classification of financial assets; and Changes in contingent liabilities and assets. Management is assessing the impact of these changes on the financial statements of the group.

**The following standards, interpretations and amendments will be adopted in 2012 or later:**

**IFRS 9 Financial Assets – Classification and Measurement.** The standard represents the first milestone in the IASB's planned replacement of IAS 39. It addresses classification and measurement of financial assets. The next steps involve reconsideration and re-exposure of the classification and measurement requirements for financial liabilities, impairment testing methods for financial assets, and development of enhanced guidance on hedge accounting. The group will adopt the new standard in 2013 or later. The changes are still subject to endorsement by the European Union. Management is currently assessing the impact of the standard on the financial statements of the group.

**IFRS 9 Financial Liabilities – Classification and Measurement.** The second part of IFRS 9 was published in October 2010. It complements previously issued IFRS 9, 'Financial instruments' to include guidance on financial liabilities. The accounting and presentation for financial liabilities shall remain the same except for those financial liabilities for which fair value option is applied. The group will adopt the new standard in 2013 or later. The changes are still subject to endorsement by the European Union. Management is currently assessing the impact of the standard on the financial statements of the group.

**IFRS 7 (amendment) Disclosures – Transfers of financial assets.** The amendment adds disclosure requirements related to risk exposures derived from transferred assets. Additional disclosures, where financial assets have been derecognised but the entity is still exposed to certain risks and rewards associated with the transferred asset, are required. The amendment can increase the disclosures in the notes to financial statements in the future. The group will adopt the new standard in 2012. The changes are still subject to endorsement by the European Union. Management is currently assessing the impact of the standard on the financial statements of the group.



## 2 Key accounting estimates applied in the financial statements and discretion used in the accounting principles

Preparing IFRS-compliant financial statements requires the use of certain key accounting estimates. In addition, it requires the management to use its discretion in applying the accounting principles. The estimates made and discretion-based decisions are continuously evaluated, and they are based on prior experience and other factors, such as expectations concerning future events. The expectations are considered to be reasonable, taking the circumstances into account. The topics that are associated with key assumptions and estimates in terms of consolidated financial statements and areas that require significant discretion are described below.

### Key accounting estimates

#### Impairment testing

The Group annually tests the goodwill and intangible assets not yet ready for impairment. Testing for impairment is carried out for other long-term assets if there are indications that the value of the assets might be impaired. The recoverable amounts of cash-generating units are based on calculations of value in use. These calculations require that estimates are made. In 2010, goodwill impairment losses were recognised to an amount of EUR 5 million in Wood Products Industry. In addition, in M-real's Office Papers' Husum Papermill some EUR 9 million impairment loss made earlier was reversed and an impairment loss of EUR 28 million was recognised in M-real's Speciality Papers operating segment. A sensitivity analysis of the substantial assumptions used in the impairment testing and the impact of changes in them on the amount of impairment is presented in Note 9.

#### Pension plans

The current value of the pension obligations depends on various factors that are determined using various actuarial assumptions. The discount rate is also included in the assumptions used in determining the net expenditure (or income) arising from pension plans. Changes in these assumptions have an effect on the carrying amount of the pension obligations.

The appropriate discount rate is determined at the end of each year. This is a rate that should be used in determining the current value of the future cash flows estimated to be required to fulfil the pension obligations. In determining the appropriate discount rate, the interest rates of long-term treasury notes or similar instruments are taken into consideration. Other key assumptions concerning pension obligations are based on the current market conditions.

#### Share-based reward scheme

The share-based incentive arrangements granted to the Group's key employees are measured at fair value at the time of granting. The fair value is charged to the income statement over the vesting period during which all the requirements for the right to arise must be fulfilled. The expense measured at the time of granting the shares is based on an estimate of the number of shares to which a right is believed to

arise at the end of the vesting period. Changes in the estimates are recognised in the income statement. A total of EUR 1 million was recognised as an expense on the financial period ended 31 December 2010.

#### Financial instruments at fair value

A fair value is determined for financial instruments not traded on an open market using valuation methods. Discretion is used in selecting the various methods and making assumptions based primarily on the market conditions prevailing at the end date of each reporting period. The greatest item at fair value not traded on an open market is the investment in Pohjolan Voima shares, reported under available-for-sale financial assets. Their price is determined based on realised transactions and an analysis of discounted cash flows. The carrying amount of available-for-sale financial assets would be estimated to be EUR 9 million lower or EUR 11 million higher should the rate used for discounting the cash flows differ by 10 percentage units from the rate estimated by the management. The carrying amount of available-for-sale financial assets would be estimated to be EUR 39 million higher or EUR 39 million lower, if energy prices used for calculating the fair value differ by 10 percentage units from prices estimated by the management.

#### Provisions

A provision is recorded when the Group has a legal or constructive obligation as a result of a previous event and it is probable that the liability for payment will realise. The provisions are determined based on previous experience. A provision for restructuring is made when the Group has composed a detailed restructuring plan and communicated about the matter. A recorded provision illustrates the management's best estimate of the current value of future expenses, but actual expenditure may differ from the estimate. Provisions amounted to EUR 67 million on Metsäliitto Group's balance sheet at 31 December 2010.

#### Income taxes

The management's discretion is required for determining the taxes based on the result for the period, deferred tax assets and liabilities and the extent to which deferred tax assets are recorded. The Group's balance sheet at 31 December 2010 includes deferred tax assets of EUR 14 million recognised for confirmed losses. The Group is subject to income taxation in several countries. Estimating the total amount of income taxes at the level of the entire Group requires significant discretion. The final amount of tax is uncertain in terms of several business operations and calculations. The Group forecasts future tax audits and recognises liabilities based on estimates on whether further taxes will need to be paid. If the associated final tax differs from the originally recorded amounts, the difference has an effect on both the tax assets and liabilities based on the taxable income for the period and deferred tax assets and liabilities in the period during which they are observed.

## Key discretion-based decisions in applying the accounting policies

### Inventories

The Group regularly reviews its inventories for situations where the inventories exceed their real value, contain downgraded items or their market value falls below the acquisition cost, and records a deduction item that reduces the carrying amount of the inventories in the case of such deductions. The management must make estimates of the future demand for the products for the purpose of such review. Any changes in these estimates might lead to an adjustment in the carrying amount of the inventories in future periods. The Group's balance sheet included inventories amounting to EUR 798 million on 31 December 2010.

### Accounts receivables

Accounts receivables are recognised according to the original invoiced amount less impairment losses and refunds due to returns. Impairment losses are recognised on a case-by-case basis and based on previous experience when there is objective proof that the receivable cannot be collected in full. If the customers' financial position weakens so that it affects their solvency, further impairment losses might need to be recognised for future periods. The Group's balance sheet at 31 December 2010 included accounts receivables amounting to EUR 703 million and impairment losses recorded for accounts receivables amounting to EUR 1 million.

### Impairment of equity investments classified as available-for-sale financial assets

The question when the value of available-for-sale equity investments is impaired is solved according to the guidelines of IAS 39. This requires the use of significant discretion, e.g., in terms of for how long and to what extent the fair value of the investment has been lower than the acquisition cost. In addition, it is necessary to estimate the financial position of the investment object regarding the near-future outlook of the business operations, such as the profitability of the industry and sector, to find out whether there is objective proof of impairment. Should it be considered that the reduction of the fair value to below the acquisition cost is entirely or partially significant and prolonged, an additional after tax loss of EUR 222 million would be recognised in the financial statements for 2010 when the changes in fair value associated with impaired available-for-sale financial assets recognised under equity are charged to the income statement.

## 3 Management of financial risks

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

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

### Foreign currency risk

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

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

Hedge accounting in accordance with IAS 39 is applied partially to the hedging of the currency transaction exposure, which allows fair value changes of hedges designated to hedge accounting to be entered directly in shareholders' equity in fair value reserve. At the end of the reporting period, the foreign exchange flow position had been hedged 4.9 months on average (2009: 3.4). During the reporting period, the hedging level has varied between 3 and 5 months (3–4). The dollar's hedging level was 5.3 months (3.1), of which the portion of hedge accounting was 1.4 months (0.9). The Swedish krona's hedging level was 5.6 months (4.8), of which the portion of hedge accounting was 3.1 months (3.7). The pound's hedging level was 4.7 months (2.6), of which the portion of hedge accounting was 2.2 months (1.0). Hedges allocated to hedge accounting have been used to hedge the portion of highly probable forecast sales of the currency transaction exposure.

The translation risk of a net investment in a foreign entity is generated from the consolidation of the equity of subsidiaries and associated companies outside the euro area into euros in the consolidated financial statements. According to the updated financial policy, 0–100 per cent (50–100) of equity should be hedged. The translation risk of equity has been hedged through the use of forward transactions and foreign currency loans and major exposures have been mostly kept hedged. During the reporting period, on average 76 per cent (83) of the equity position was hedged and at the end of the reporting period 70 per cent (94). Hedge accounting in accordance with IAS is applied to the hedging of the equity exposure. This allows the exchange gains and losses of effective hedging to be entered into the equity offsetting translation differences.

The Group applies the Value-at-Risk method to assess the risk of its open foreign currency positions. The VaR is calculated on the deviation from the balance sheet exposure plus the quarter of annual foreign currency exposure hedge norm defined in the financial policy. A 99 per cent confidence level on one month period is applied to the VaR risk figure, i.e., the VaR indicates that with a 1 per cent probability the market value of the open foreign currency position depreciates more than the amount of the risk figure in a month. The risk mandates regarding hedging decisions have been defined by restricting the company management's powers by linking them to maximum currency-specific hedging level changes and to a VaR limit. Possible strategic decisions which exceed the policy risk limits are made by the Board of Directors. The total amount of limits set for the Group companies' foreign currency risk is EUR 19 million (37) and the sum of VaR figures of the Group companies is at the end of the reporting period EUR 3 million (11). Average during the period has been EUR 6 million (13). The Value-at-Risk method has also been used to assess the market risk of Metsä Finance's trading operations. Trading volume has been relatively low during the reporting year: Metsä Finance's average VaR (of one day at 99%) was only EUR 0.1 million in 2010 (0.3). The volumes and fair values of derivatives used in the management of foreign currency risks are presented in Notes no. 30.

#### Hedging of foreign exchange transaction exposure

	Exposure, net		Hedging, months	
	EUR	Hedging	31.12	Average
USD	486	-214	5.3	5.1
GBP	371	-145	4.7	4.4
SEK	-394	183	5.6	5.5
NOK	103	-23	2.7	3.4
DKK	69	-15	2.6	2.7
AUD	39	-14	4.2	4.1
Other long	81	-15	2.2	2.1
Other short	-87	52	7.2	6.3
Total 2010	1,631	-662	4.9	4.9
Total 2009	1,635	-461	3.4	3.5

#### Hedging of net investments in a foreign entity

	Equity exposure		Hedging, %	
	EUR	Hedging	31.12	Average
GBP	81	-71	88	97
SEK	510	-361	71	79
Others	59	-23	38	34
Total 2010	650	-454	70	76
Total 2009	529	-498	94	83

#### Interest rate risk

The interest rate risk is related mainly in the interest bearing receivables and loans and currency hedging. Interest bearing receivables and loans are presented in Notes no. 26. The most significant currencies in risk management are the euro, the US dollar, the British pound and the Swedish krona. The objective of the interest rate risk policy is to minimise the negative impact of interest rate changes on the result and the financial position, and to optimise financing costs within the framework of risk limits. The effect of interest rate changes on financial costs depends on the average interest fixing time of interest bearing assets and liabilities, which is measured in the Group by duration. As duration diminishes the rise of interest rates affects more quickly the interest expenses of financial liabilities. The maturity of the loan portfolio can be influenced, e.g., by adjusting between floating-rate and fixed-rate loans and by using interest rate derivatives. The Group uses in its interest rate risk management interest rate swaps, interest rate futures and interest rate options.

The average interest duration norm based on the Group's financial policy is 6 months. The duration can, however, deviate from the hedging policy norm so that the decision of a deviation exceeding four months has to be made by the Board of Directors. The average duration of loans was 12 months (8) at the end of the year. During the reporting period duration has varied between 8 and 12 months (4–8). At the end of 2010, an increase of one per cent in interest rates would increase interest rate costs of the next 12 months by EUR 8 million (12).

The Group is exposed to a risk of change in the value of derivatives due to a change in market prices when using interest rate derivatives, since according to IAS 39 derivatives must be valued to their fair value in the balance sheet. However, the partial application of hedge accounting will balance the effects of changes in the market value of derivatives on the financial result. The Group is applying fair value hedge accounting in accordance with IAS 39 to fixed-rate loans which have

been converted by interest rate and currency swaps to floating-rate financing. In addition, the Group is applying cash flow hedge accounting in accordance with IAS 39 to the major part of the interest rate swaps by which floating-rate financing has been converted to fixed-rate financing. The gross nominal volume of interest rate derivatives at the time of financial statements (including currency swap contracts) is EUR 1,059 million (883). Of the derivatives portfolio, EUR 862 million (664) is allocated to hedge accounting, and the portion of derivatives recognised in the balance sheet through profit or loss is EUR 197 million (219). The maturity of interest rate swap and currency swap contracts varies between 1–10 years (1–7).

Interest rate risk	2010	2009
Loan amount, EUR million	2,218	2,589
Duration, months	11.5	8.2
Average interest rate, %	4.7	4.9
Interest rate sensitivity, EUR million	8.2	11.5

Interest rate sensitivity is an estimate of the effect of an interest rate change of one per cent on net interest cost based on year-end exposure. Interest rate risk exposure does not include the part of Metsäliitto Cooperative subscribed capital that is booked as short-term interest-bearing liability.

#### Re-pricing structure of loans

EUR million	Total
1–4/2011	1,274
5–8/2011	261
9–12/2011	137
2012	44
2013	252
2014	146
>2014	104
Total	2,218

#### Commodity risk

In the hedging of commodity risks the Group applies risk management policies defined separately for each selected commodity. According to the policy, the management of commodity risks with regard to financial hedges is accomplished by Metsä Finance based on the strategy and risk management policy approved by Board of Directors of Metsäliitto Group companies. So far the commodity hedging policy has been applied to the management of the price risks of electricity and natural gas and also transactions related to Emission rights have been managed by Metsä Finance. The pulp price risk hedging policy has been adopted during 2010.

Group's target in managing the electricity price risk is to balance the effect of changes in the price of electricity on the Group's result and financial position. The main principle is to hedge the electricity purchase exposure, which consists of the difference of factory-specific electricity consumption estimates and power plant production shares in the possession of the Group. With regard to M-real and Metsä Tissue Finnish and Swedish electricity procurement, the hedge strategy is implemented in cooperation with Metsäliitto Energy service unit centralised through Metsä Finance. The hedges of electricity price risk in Central Europe are implemented according to instructions and by Metsäliitto Energy in co-operation with local production units either

by physical contracts or by financial contracts through Metsä Finance. M-real and Metsä Tissue hedge the electricity price risk actively by setting the hedging norm at 80, 40, 20 and 0 per cent (80, 50, 30 and 20) share of the estimated net position during the first, second, third and fourth successive 12-month periods. Hedge accounting in accordance with IAS 39 has been applied partially to electricity hedging. Consequently the fair value of hedges allocated to hedge accounting is entered in equity in fair value reserve and only after the realisation of electricity purchases in the income statement as an adjustment of the purchases. The management of electricity price risk of Metsäliitto Wood Products Industry has been handled until end 2010 by an external service provider, after which the management has been transferred to a joint operating model.

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

Approximately 70 per cent (70) of electricity hedges have been carried out by using physical supply contracts and 30 per cent (30) as so-called financial hedges by using electricity derivatives. At the end of the year about 90 per cent (90) of financial hedges have been designated to hedge accounting. All natural gas price risk hedges have so far been implemented by using physical supply contracts.

According to the pulp price risk hedging policy a Group company may selectively hedge its price risk either by financial hedges through Metsä Finance or fixed-price physical contracts. Hedge accounting in accordance with IAS is applied within the pulp price risk management. Out of Group companies Metsä Tissue has valid price risk hedges at the end of 2010. The volumes and fair values of derivatives used in the management of commodity risks are presented in Notes no. 30.

#### Hedging of electricity price risk, 31.12

GWh	2010	2009
Electricity exposure, net 2011	1,471	1,337
Electricity hedging 2011	1,611	1,847
Hedging, (%)	109	138

Electricity price risk is hedged based on defined risk management policy on a time horizon of four years either by physical contracts or by financial contracts. The table is applying only to the hedging of electricity price risk of the following year. The net electricity exposure has been calculated by taking into account the own and associated companies' electricity production.

#### Liquidity risk

Liquidity risk is defined as the risk that funds and available funding become insufficient to meet business needs, or that extra costs are



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

The cornerstone of liquidity risk management is to manage the Group's operative decisions in such a way that targets concerning indebtedness and sufficient liquidity reserve can be secured in all economic conditions. Liquidity risk is also managed by diversifying the use of capital and money markets to decrease dependency on any single financing source. The optimisation of the maturity structure of loans is also emphasised in financial decisions. During the last years liquidity and especially the capital structure of the Group has been strengthened through the change in the ownership structure of Metsä-Botnia and other divestments. The Group was also able to significantly stabilise the maturity structure of long-term loans by refinancing of Metsäliitto's syndicated revolving credit facility in December 2010 and by investment loans and pension loans given by pension companies during 2010.

Liquidity continues at a good level. The available liquidity was EUR 1,054 million (1,357) at the end of the reporting period, of which EUR 614 million (799) was committed credit facilities and EUR 440 million (558) liquid funds and investments. The Group had also at its disposal short-term, uncommitted commercial paper programmes and credit lines amounting to EUR 524 million (537). At the end of 2010, the liquidity reserve covers fully the forecasted financing need of 2011 and 2012. On the longer term the re-financing need is crucially affected by the cash flow development and possible future divestments. 10 per cent (18) of long-term loans and committed facilities fall due in a 12 month period and 19 per cent (19) have a maturity of over four years. The average maturity of long-term loans is 2.8 years (2.2). The share of short-term financing of the Group's interest bearing liabilities is 8 per cent (7).

### Counterparty risk

Financial instruments carry the risk that the Group may incur losses should the counterparty be unable to meet its commitments. Such risk is managed by entering into financial transactions only with most creditworthy counterparties and within pre-determined limits. During the reporting period, credit risks of financial instruments did not result in any losses. The financial counterparty risk is limited by the fact that the liquidity reserve is partially maintained in the form of committed credit facilities. Cash at bank and in hand, and other investments have been spread to several banks and commercial papers of several institutions. Counterparty limits have been revised during the year by

taking into account the needs of the company and the view on the financial position of the used counterparties. Derivatives trading is regulated by the standardised ISDA contracts made with the counterparties.

The Group's accounts receivables carry a counterparty risk that the Group may incur losses should the counterparty be unable to meet its commitments. Credit risk attached to accounts receivables is managed on the basis of the credit risk management policies approved by operative management. Credit quality of customers is assessed at regular intervals based on the customers' financial statements, payment behaviour, credit agencies and credit ratings agencies. Individual credit limits are reviewed at least annually. From time to time, as deemed necessary by management, Letters of Credits, bank and parent company guarantees and Credit insurance are used to mitigate credit risk. Credit limits are approved according to credit risk management policy with approval limits of varying values across the Group. Due to the ongoing challenging economic environment, credit limits have been reviewed on a more regular basis than in previous years. Customers have generally been cooperating by providing interim financial statements. Credit Control reviews and sets all major credit limits which are not supported by credit insurance and/or other security.

The portion of overdue client receivables of all accounts receivables of Metsäliitto Group is at the time of financial statements 8.8 per cent (8.7), of which 0.3 per cent (0.4) is overdue between 90–180 days and 0.6 per cent (0.4) over 180 days. Additionally Metsäliitto Group implements regular impairment tests for customer accounts receivables. Credit loss impairment is booked when a customer enters legal bankruptcy, or becomes past due for more than 6 months (180 days) without a valid payment plan or other valid reasons. The specification of doubtful receivables is in Notes no. 20.

The geographical structure of the accounts receivable is diversified and is reflecting the external sales structure presented in the Segment information. Largest sources of credit risk exist in Great Britain, Belgium, Germany, Italy and France. The share of largest individual customer (individual companies or groups of companies under common ownership) credit risk exposure of the Group at the end of 2010 remains about 10 per cent of total accounts receivables. About a fifth of accounts receivables was owed by ten largest customer groups (individual companies or groups of companies under common ownership).

The improvement in customer payment behaviour that begun in Q4 of 2009, continued in 2010 and was at an acceptable level throughout the year. The decline in credit insurance credit limits first reported in 2008 and which continued to worsen in 2009 was reversed from the second quarter of 2010 as the insurers recognised that many of their earlier assessments in forest products related manufacturing and distribution had been incorrect. At the end of 2010, the main part of trade receivables of Metsäliitto Group were again covered by insurance. Group's internal analysis of the real risk of customer solvency continued to support the reinstatement of credit insurance to allow sales while controlling credit risk where credit insurance was not granted.



## Managing the capital

Terms capital and capital structure are used to describe investments made in the company by its owners and retained earnings (together equity) and debt capital (liabilities) as well as the relation between them. In managing its capital structure, the Group aims at maintaining an efficient capital structure that ensures the Group's operational conditions in financial and capital markets in all circumstances despite the fluctuations typical to the sector. Certain central target values, which correspond to standard requirements set by financing and capital markets, have been defined for the capital structure. The Group's capital structure is regularly assessed by the Group's Board of Directors and its Audit Committee.

The Group monitors the development of its capital structure through key ratios that describe net gearing and equity ratio. The objective of the Group on long term basis is to maintain its net gearing ratio at the maximum level of 100 per cent and equity ratio at the minimum level of 40 per cent (temporary deviations allowed).

The key ratios describing the capital structure and the capital amounts were on 31.12.2010 and 31.12.2009 the following:

EUR million	2010	2009
Net gearing ratio, %	116	157
Equity ratio, %	30	24
Interest-bearing liabilities	2,398	2,778
- interest-bearing financial assets	459	575
Interest-bearing net liabilities	1,939	2,203
Members' funds	1,154	927
+ non-controlling interests	524	471
Total	1,678	1,399
Total assets	5,672	5,730
- advanced payments received	16	11
Total	5,656	5,719

The debt financing of Metsäliitto Group was at the end of 2010 arranged so that M-real, Metsä-Botnia and Metsä Tissue each had required loans to cover the financial needs of the sub-Groups formed by them and that the loans of the companies in question were independent of each other. Likewise Metsäliitto Cooperative had separately arranged financing to cover the financial needs of the parent company and Wood Supply and Wood Products Industry business areas. In certain financial contracts of these financial entities, a minimum limit has been set for the equity ratio and in case of certain contracts also a maximum limit for the net gearing ratio. The minimum limits of the equity ratio vary between 30 and 35 per cent depending on the financial entity and the maximum limits of the net gearing ratio correspondingly between 90 and 120 per cent. With regard to defining the equity, the calculation formula of key ratios as defined in the loan contracts deviates from the calculation formulas presented in the Annual Report. This is due to the fact that in loan contracts goodwill and deferred tax liabilities and also the members' capital taken fully into account as equity, are taken into account when calculating the key ratio. Also the formula for calculating net gearing in certain loan contracts of both Metsäliitto Cooperative and M-real deviates from the formula presented in the Annual report. This is caused by write-off exclusions included in financial contracts in the calculation of the key ratio. Other covenants in the Group's loan agreements are customary terms and conditions including for example a negative pledge, restrictions on major asset disposals, limitations on subsidiary indebtedness, restrictions on changes of business and mandatory prepayment obligations upon a change of control of the Group. All Group companies have been in compliance with its covenants during the accounting periods 2010 and 2009.

In case Metsäliitto Cooperative or any of its subsidiaries could not meet its obligations as defined by the above mentioned key ratios and in order to avoid a breach of contract that could have an adverse effect on the company's financial position, it would need to renegotiate its financial arrangements, payback its loans or get its debtors to give up their claims to meet these obligations.

**Market risk sensitivity 31.12.**

	Impact on equity exposure and annual transaction exposure									
	Impact on financial assets and liabilities		Impact on net equity of foreign entities		Impact on net equity of foreign entities incl. hedging		Impact on annual transaction exposure (cash flow)		Impact on annual transaction exposure (cash flow) incl. hedging	
EUR million	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
<b>Interest rate risk</b>										
<b>(100 bp rise in interest rates)</b>										
Effect on profit							-8	-12	-4	-4
Effect on other change in equity	2	3								
<b>Commodity risk</b>										
<b>(electricity price +20%)</b>										
Effect on profit	0	0					-5	0	8	12
Effect on other change in equity	12	12								
<b>FX risk (USD - 10%)</b>										
Effect on profit	-1	5					-49	-71	-27	-53
Effect on other change in equity	5	5	0	0	0	0				
<b>FX risk (GBP - 10%)</b>										
Effect on profit	2	-2					-37	-32	-23	-25
Effect on other change in equity	14	4	-8	-8	-1	0				
<b>FX risk (SEK - 10%)</b>										
Effect on profit	-3	3					39	35	21	21
Effect on other change in equity	26	36	-51	-40	-15	0				

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

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

IFRS 7 requires an entity to disclose a sensitivity analysis for each type of market risk to which the entity is exposed at the reporting date, showing how profit or loss and equity would have been affected by changes in the relevant risk variable that were reasonably possible at that date. The Group has recognised interest rates, electricity prices and foreign exchange rates as its key market risks and has set 1 per cent unit interest rate rise, 20 per cent rise in electricity price and 10 per cent weakening of USD, GBP and SEK as reasonably possible risk variables. These currencies represent about 80 per cent of Group's annual transaction exposure. The nature of the market price risk is relatively linear so that the size of effects of opposite market price changes does not essentially differ from the presented figures. The scenarios have been calculated by using regular principles of calculating market values of financial instruments described in the Group Accounting policies. Figures at the reporting date reflect quite well the average market risk conditions throughout the reporting period.

Additionally the Group is presenting figures describing the effects of the risk variables to its equity exposure and annual transaction

exposure (cash flow) to present a broader picture about market risks of interest rates, electricity prices and foreign exchange rates. Annual cash flows are based on estimates, but not existing commercial contracts. The impact on net equity has reduced due to the sale of Metsä-Botnia's operations in Uruguay. Including equity hedging the impact is minor. The weakening of USD and GBP has a negative impact on annual cash flow and the weakening of SEK has a positive impact. Hedges reduce this impact depending on hedging strategy. The rise of electricity price has a rather limited negative impact on cash flow, as Metsä-Botnia's electricity surplus is offsetting part of the effect. As according to hedging policy the electricity price risk of the nearest year has mostly been hedged, the impact including hedges remains limited. When the cash flow of the nearest year and all electricity hedges have been taken into account, the calculatory impact is slightly positive.

## 4 Segment information

The Group's operating segments are comprised of the Group's business areas. The business areas produce different products and services, and they are managed as separate units.

The operating segments are reported uniformly with internal reporting submitted to the chief operational decision-maker. The President and CEO has been appointed as the chief operational decision-maker in charge of allocating resources to the operating segments and evaluating their performance. The decisions are based on the operating result of the segments in evaluating their performance.

The accounting principles for the segment information are equal to those of the Group. All intra-segment sales are based on market prices and eliminated in consolidation.

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

### Reporting segments

**Wood Supply** business segment offers to owner members services related to forest ownership, forest property management, wood sales, forest income investment and intergenerational transfer of forest property. Most of the wood is procured from Finland, mainly from the forests of Metsäliitto's owner-members.

**Wood Products Industry** business segment produces and distributes sawn timber and plywood as well as panel and beam products. Systems products and services are offered to construction projects. Wood Products Industry delivers products and services especially for the industrial construction and transportation vehicle industry, joinery industry as well as the home and garden area.

**Pulp Industry** business segment's main products – bleached softwood and birch pulp – have been developed for the production of high-quality fine papers, magazine and tissue papers and folding boxboard. The broad production assortment consists of products from own factories as well as high quality market pulp from other producers.

**Board and Paper Industry** business segment is Europe's leading primary fibre paperboard producer and a major paper supplier. It offers premium solutions for consumer packaging and communications and advertising end-uses.

**Tissue and Cooking Papers** business segment is one of the leading suppliers of tissue paper products for both households and large scale consumers in Europe and the leading producer of cooking papers in the world. In addition to its own brands – Lambi, Serla, Mola, Tenta, Katrin and SAGA – the business segment develops and manufactures supplier label products for retailers.

**Other operations** include the Metsäliitto Group head quarter functions, the company Metsäliitto Management Oy and the holding function of Metsäliitto Cooperative as well as the share of Vapo (49.9%) until June 24, 2009.

The Group has not aggregated segments when identifying the reporting segments.

2010	Wood Supply	Wood Products Industry	Pulp Industry	Board and Paper Industry	Tissue and Cooking Papers	Other operations	Eliminations	Total
EUR million								
External sales	279	851	743	2,566	938	0	0	5,377
Internal sales	1,075	51	622	39	0	3	-1,789	0
Sales total	1,353	902	1,365	2,605	938	3	-1,789	5,377
Operating result	21	23	381	145	50	-9	-114	497
Share of results from associated companies								-15
Finance costs, net								-137
Income taxes								-131
Result for the period								214
Assets	267	452	853	2,589	842	138	-263	4,878
Investments in associated companies								80
Assets classified as held for sale			8					8
Unallocated assets								706
Total assets								5,672
Liabilities	246	120	138	589	228	22	-263	1,079
Unallocated liabilities								2,914
Total liabilities								3,994
Capital expenditure	3	16	14	66	49	22	-11	159
Depreciation	4	35	74	132	40	2	13	299
Impairment charges		9	-11	34	4			37
Personnel, average	1,053	2,743	1,006	4,772	3,178	416		13,168

The operating result of the segment Wood Products Industry includes a EUR 2 million cost provision due to the profit improvement programme and the operating result of the segment Pulp Industry a EUR 9 million provision for the rearrangement of Metsä-Botnia's pulp mill in Kaskinen.

The operating result of the segment Board and Paper Industry includes a EUR 8 million gain of disposal of M-real's Sappi Ltd's shares and a EUR 6 million gain from patents sold to Sappi Ltd as well as a EUR 7 million gain related to partial divestment of M-real Zanders' Reflex mill to Metsä Tissue and some EUR 7 million gain related to electricity certificates disposed by M-real Sverige. In addition, the operating result of the segment Board and Paper Industry includes a EUR 8 million cost provision connected with the restructuring of M-real Zanders and the partial divestment of the Reflex mill to Metsä Tissue,

an additional cost provision of EUR 4 million relating to the closure of M-real's Alizay pulp mill and a EUR 10 million gain related to a reversal of a cost provision in connection with M-real's IT arrangement.

The gain of EUR 7 million included in the operating result of the segment Board and Paper Industry related to the partial divestment of M-real Zanders' Reflex mill to Metsä Tissue is eliminated as an internal sales profit in the Metsäliitto Group accounts.

The segment Tissue and Cooking Papers' operating result includes a cost provision of EUR 4 million connected to the rearrangements in Poland, the partial transfer of the cooking papers production from Mänttä to Düren, Germany and the production improvement programme in Mänttä.

## 2009

EUR million	Wood Supply	Wood Products Industry	Pulp Industry	Board and Paper Industry	Tissue and Cooking Papers	Other operations	Eliminations	Total
External sales	422	762	766	2,410	890	165	-579	4,837
Internal sales	679	44	429	22	0	5	-1,179	0
Sales total	1,101	806	1,195	2,432	890	170	-1,758	4,837
Operating result	-9	-47	193	-267	93	59	-190	-169
Share of results from associated companies								-16
Finance costs, net								-144
Income taxes								10
Discontinued operations								-23
Result for the period								-342
Assets	198	439	852	2,494	812	63	-146	4,711
Investments in associated companies								98
Assets classified as held for sale		9						9
Unallocated assets								912
Total assets								5,730
Liabilities	165	105	105	635	213	15	-146	1,091
Liabilities classified as held for sale		6						6
Unallocated liabilities								3,234
Total liabilities								4,331
Capital expenditure	2	10	53	73	35	516	-41	648
Depreciation	4	39	117	199	42	11	-86	325
Impairment charges		6	56	157			-43	175
Personnel, average	1,001	3,190	1,678	5,913	3,213	767	-1,228	14,534

Segment's assets = intangible and tangible assets, inventories, accounts receivables and other non-interest-bearing receivables (excl. interest and tax items)

Segment's liabilities = accounts payable, advance payments and other non-interest-bearing liabilities (excl. interest and tax items)

The operating result of the segment Wood Supply includes an infringement fine of EUR 21 million imposed by the Market Court. Other operations' operating result includes capital gains of EUR 50 million from the sale of Vapo shares and the Botnia South America S.A. shares. The operating result of the Pulp Industry includes capital gains of EUR 313 million from the sale of its Uruguay business and Pohjola Voima shares. The Board and Paper Industry include 30 per cent of the capital gains of the Pulp Industry in their own operating result.

The segment Board and Paper Industry's operating result includes cost provisions of EUR 14 million connected to the plan to permanently close down M-real's Alizay pulp mill, EUR 9 million related to profit improvement measures at the M-real's Husum mill, EUR 8 million related to profit improvement programme at the M-real Zanders' Reflex mill and EUR 12 million associated with M-real's terminated IT contract.

### Geographical segments

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

EUR million	External sales		Non-current assets		Capital expenditure	
	2010	2009	2010	2009	2010	2009
Finland	903	976	2,624	2,721	81	555
Germany	832	763	169	212	27	15
Great Britain	576	553	30	27	5	2
France	329	308	24	29	4	11
Belgium	301	256	0	0	0	0
Italy	232	136	1	0	0	0
Sweden	191	204	407	379	29	27
Poland	120	97	19	25	3	2
Austria	113	71	69	91	5	5
Spain	111	75	0	0	0	0
The Netherlands	101	116	0	0	0	0
Denmark	64	69	0	0	0	0
Other EU countries	289	246	76	89	2	6
Switzerland	139	113	0	0	0	0
Russia	113	111	52	66	3	2
Norway	107	95	0	0	0	0
Other Europe	141	102	0	1	0	1
China	218	125	0	0	0	0
USA	124	109	0	0	0	0
Other countries	374	312	0	0	0	22
Total	5,377	4,837	3,471	3,640	159	648

Personnel at year end	2010	2009
Finland	5,734	5,575
Germany	2,366	2,463
Sweden	1,432	1,528
Great Britain	742	860
Russia	587	616
France	543	607
Poland	440	447
Slovakia	401	433
Austria	200	206
Baltic countries	121	132
The Netherlands	28	51
Romania	0	408
Other Europe	138	180
Other countries	88	86
Total	12,820	13,592

From the beginning of 2010, the Group has been reporting the number of personnel as FTE (Full Time Equivalent). Previously, the NOE (Number of Employees) indicated the number of people employed by the Group, but FTE measures presence and indicates the number of personnel attending work. Reference figures have been converted to correspond to the new practice.

### Information on most important customers

Group's income from one customer exceeded to some EUR 565 million or some 10.5 per cent of total sales (566 and 11.7). The sales are included in the segments of Wood Supply and Board and Paper Industry. In 2009, the sales were included in the segments Wood Supply, Pulp Industry and Board and Paper Industry.



## 5 Acquisitions, assets classified as held for sale, disposed and discontinued operations

### Acquisitions

#### Acquisitions in 2010

Wood Products Industry increased its ownership of Kumpuniemen Voima Oy on 31 November 2010 from 33.33 per cent to 53.97 per cent, gaining control of the company. Kumpuniemen Voima Oy produces electricity and heat from wood fuel to Wood Products Industry's Suolahti plywood mill and the municipality of Suolahti. The previously owned share has been measured at fair value of the purchasing time and the difference between the book value and fair value of EUR 0.4 million has been recognised in the profit and loss statement in other operating income. The shares of the owners with no controlling interest have been measured at a value which corresponds with the interest of the non-controlling owner's proportional share of the specifiable net assets of the acquisition.

The subsidiary of Oy Metsä-Botnia Ab acquired the operations of the Italian agent on 31 August 2010.

The management estimates that the affect of the operations of Kumpuniemen Voima Oy and the Italian agent on Metsäliitto Group's sales or operating result during 1 January–31 December 2010 would have been insignificant if the acquisitions would have been realised on 1 January 2010.

Acquisitions total		2010
EUR million	note	Booked values
Customer relationships (included in intangible assets)	13	0
Tangible assets		5
Accounts receivables and other receivables		1
Cash and cash equivalent		1
Total assets		7
Deferred tax liabilities	18	0
Financial liabilities		4
Accounts payable and other liabilities		1
Total liabilities		5
Net assets		2
Previously owned share on net assets at fair value		1
Non-controlling interests based on the proportional share attributable to net liabilities		1
Net assets acquired		1
Acquisition cost		1
Goodwill	13	0
Cash transaction		1
Liquid funds of subsidiary acquired		-1
Cash flow on acquisition		0

The fair value of customer relationships has been specified based on the estimated duration of the customer relationships and discounted net cash flows. The book values of other items substantially correspond to the fair value.

#### Acquisitions of non-controlling interest

The acquisitions of non-controlling interest in 2010 relates mainly to the company Metsäliitto Management Oy, which was established for the shareholding programme of the members of Metsäliitto Group's Executive Management. Metsäliitto Management Oy has acquired series B-shares in M-real for EUR 19

million. The acquisition stands for a 2.07 per cent holding in M-real and indirectly through M-real a 0.62 per cent holding in Metsä-Botnia. As the Board of Directors of Metsäliitto Cooperative has the controlling right in the company, Metsäliitto Management Oy has been consolidated in the Metsäliitto Group financial statements.

As a consequence of the acquisition Metsäliitto Group's non-controlling interest was reduced by EUR 22 million and retained earnings grew by EUR 2 million.

#### Acquisitions in 2009

Oy Metsä-Botnia Ab, a joint venture included in the Group's Pulp Industry segment, had a pulp mill and forest assets in Uruguay. Metsä-Botnia's shareholders M-real, UPM-Kymmene and Metsäliitto Cooperative signed an agreement on the sale of the business operations in Uruguay to UPM-Kymmene on 22 October 2009. The transaction was concluded on 8 December 2009. In connection with it, Metsäliitto Cooperative sold to UPM-Kymmene a holding of 5.5 per cent in Botnia South America S.A. (Note 5, Disposed operations).

At the same time, the shares of ownership in Metsä-Botnia were rearranged. Metsä-Botnia redeemed 9.2 per cent of its own shares, as a result of which Metsäliitto Cooperative's direct ownership increased from 23.0 per cent to 25.3 per cent and M-real's ownership from 30.0 per cent to 33.0 per cent. Metsäliitto Cooperative purchased a 24.7 per cent share in Metsä-Botnia from UPM-Kymmene. In addition, Metsäliitto Cooperative purchased a 3.0 per cent share in Metsä-Botnia from M-real in an intra-group acquisition. After the arrangements Metsäliitto Cooperative owns 53.01 per cent of Oy Metsä-Botnia Ab, M-real 30.03 per cent and UPM-Kymmene 16.96 per cent.

Metsä-Botnia's shareholders' agreement includes an obligation to redeem Metsä-Botnia shares, ending when UPM-Kymmene's holding has decreased below 11 per cent. The liability arising from the redemption obligation is measured at fair value. The corresponding increase in Metsäliitto Cooperative's holding by 5.96 per cent has been taken into account in the consolidated financial statements.

The acquisitions resulted in goodwill of EUR 359 million, including the following items: (i) Synergy benefits, 80 per cent of goodwill. The synergy benefits arise from the potential for cost savings and improvement of efficiency due to harmonisation, and benefits of using Metsä-Botnia's pulpwood in optimising Metsäliitto's Wood Supply and Wood Products Industry businesses. (ii) Personnel, 20 per cent of goodwill. The competence of the personnel concerning pulp production and end uses of fibre will benefit the other business functions of the Group in, e.g., the production of pulp, paper and board. The personnel's knowledge of the pulp market will aid the operation of other Group companies in the pulp market as buyers as well as sellers.

The other operating expenses of the Group include EUR 5 million of costs related to this reorganisation as a whole.

The result of the Metsä-Botnia group has been consolidated into Metsäliitto Group as a joint venture line by line until 7 December 2009 (Metsäliitto Cooperative's ownership 23% and M-real's 30%). As a result of the restructuring carried out at the end of 2009, Metsä-Botnia became a subsidiary of Metsäliitto Cooperative on 8 December 2009. The non-controlling interest is 29.43 per cent. The result for the financial period of the Metsä-Botnia group since 8 December 2009, EUR 3 million, is included in the Group result for 2009.

Metsäliitto Group's sales for 2009 would have amounted to EUR 4,644 million and the result for the period before non-controlling interest interest to EUR -609 million, had the acquisition of business operations carried out during the financial year been consolidated into the consolidated financial statements from the beginning of the financial year 2009, taking all the items related to this transaction as a whole into consideration. These figures have been calculated using the accounting policies applied by the Group and by adjusting the result of the subsidiary by taking into consideration additional depreciation that would have been made had the intangible and tangible assets been measured at fair cost as of 1 January 2009, and the tax effects of such depreciation.

There were no other significant acquisitions in 2009.

## Acquisitions in 2009

		2009	2009
EUR million	note	Fair value measured at consolidation	Book value before consolidation
Tangible and intangible assets	13	980	610
Biological assets	14	6	6
Long-term financial assets		22	22
Inventories		125	123
Accounts and other receivables		126	126
Cash and cash equivalents		9	9
Total assets		1,268	897
Non-controlling interest		0	0
Deferred tax liabilities	18	164	68
Retirement benefit obligations		3	3
Provisions	25	18	18
Financial liabilities		332	332
Accounts and other payables		87	87
Total liabilities		605	508
Net assets		663	388
Previously owned share of net assets		229	
Non-controlling interest's share of net assets		195	
Net assets acquired		239	
Acquisition cost		406	
Costs directly attributable to the acquisition		4	
Redemption of Oy Metsä-Botnia Ab shares		89	
Redemption obligation		99	
Acquisition cost total		598	
Goodwill	13	359	
Cash transaction		499	
Assets of subsidiary acquired		-6	
Cash flow on acquisition		-493	

## Assets classified as held for sale

Metsä-Botnia's Kaskinen pulp mill was shut down in 2009. In June 2010 tangible assets of EUR 11 million and inventories of EUR 2 million were classified as assets held for sale. In 2010, assets of EUR 5 million were sold. At the end of the year a total of EUR 8 million still remained of the assets.

Metsäliitto's Wood Products Industry divested in February 2010 its battenboard plant in Romania. The plant was classified as assets held for sale as per 31 December 2009.

## Assets classified as held for sale

EUR million	note	2010	2009
Other intangible assets	13	0	0
Tangible assets	13	6	3
Long-term financial assets		0	0
Inventories		2	3
Accounts and other receivables		0	1
Cash and cash equivalents		0	1
Total assets		8	9
Retirement benefit obligations		0	0
Financial liabilities		0	5
Accounts and other payables		0	1
Total liabilities		0	6

## Disposed operations

Metsäliitto's Wood Products Industry divested in February 2010 its battenboard plant in Romania.

## Battenboard plant in Romania

EUR million	note	2010
Other intangible assets	13	0
Tangible assets	13	3
Long-term financial assets		0
Inventories		3
Accounts and other receivables		2
Cash and cash equivalents		0
Total assets		9
Retirement benefit obligations		0
Financial liabilities		5
Accounts and other payables		1
Total liabilities		6
Net assets		4
Translation differences		1
Selling price		5
Profit on disposal		1
Cash and cash equivalents received		5
Cash and cash equivalents in subsidiaries		0
Net cash flow arising on disposal		5

## Battenboard plant in Romania

EUR million	1.1-31.01. 2010	1.1-31.12. 2009
Sales	2	17
Other operating income	0	0
Depreciation and impairment charges	0	0
Operating expenses	-1	-16
Operating result	0	1
Financial income and expenses	0	-1
Income taxes	0	0
Result from continuing operations	0	0

There were no other significant disposals in 2010

Metsäliitto Cooperative sold its entire holding (49.9%) in Vapo Oy on June 24, 2009. The total selling price was EUR 165 million. On the sale, the Metsäliitto Group recorded a capital gain of EUR 8 million. The Vapo Group was consolidated using the proportional method line by line. Vapo Group was a part of the segment Other operations.

Oy Metsä-Botnia Ab, a joint venture included in the Group's Pulp Industry segment, had a pulp mill and forest assets in Uruguay. Metsä-Botnia's shareholders M-real, UPM-Kymmene and Metsäliitto Cooperative signed an agreement on the sale of the business operations in Uruguay to UPM-Kymmene on 22 October 2009. The transaction was concluded on 8 December 2009. The selling price was EUR 999 million and Metsä-Botnia recorded a gain of EUR 253 million. The Metsäliitto Group owned 53 per cent of Metsä-Botnia and the share of the gain was EUR 134 million.

In connection with it, Metsäliitto Cooperative sold UPM-Kymmene a holding of 5.5 per cent in Botnia South America S.A. Metsäliitto Cooperative recorded a capital gain of EUR 23 million on the sale.

The Metsäliitto Group's share of the capital gain of the disposal of the Uruguay business totalled EUR 158 million.

#### Disposed operations total

EUR million	note	2010	2009
Tangible and intangible assets	13	3	676
Biological assets	14	0	91
Investments in associated companies		0	45
Long-term financial assets		0	15
Deferred tax receivables	18	0	1
Inventories		3	114
Accounts and other receivables		2	80
Cash and cash equivalents		1	62
Total assets		9	1,085
Non-controlling interest		0	91
Deferred tax liabilities	18	0	17
Retirement benefit obligations		0	1
Provisions	25	0	5
Financial liabilities		5	347
Accounts and other payables		1	79
Total liabilities		6	449
Net assets		4	546
Translation differences and other items		1	50
Selling price		5	762
Profit on disposal		1	166
Cash and cash equivalents received		5	762
Cash and cash equivalents in subsidiaries		-1	-62
Net cash flow arising on disposals		5	700

#### Discontinued operations

M-real disposed in December 2008 the Graphic Papers businesses for EUR 750 million to Sappi Ltd. Graphic Papers business has been accounted as a discontinued operation and its profit and loss on disposal have been recognised as a separate item after continuing operations. During 2010 the net costs in discontinued operations related to Graphic Papers-business were EUR 0 million, some EUR +2 million related to IT arrangements and some EUR -2 million related to logistics arrangements. In spring 2009 the adjustment on the selling price and other items had a negative effect of EUR 23 million on the result of discontinued operations in 2009.

#### Discontinued operations, result

EUR million	2010	2009
Graphic Papers	0	-23
Total	0	-23

## 6 Long-term projects

Only the Building Products business line in the Group's segment Wood Products Industry deals with long-term projects. Group sales include EUR 6 million (8) in income from long-term projects.

The income statement included EUR 20 million income from long-term projects in progress (8). The balance sheet included EUR 17 million in advance payments for long-term projects in progress (8).

## 7 Other operating income

EUR million	2010	2009
Gains on disposals	32	214
Rental income	6	6
Service revenue	33	40
Government grants	29	31
Other operating income	42	63
Total	142	353

In 2010 the most significant gains on disposals were the gain of EUR 8 million of shares in Sappi Ltd, some EUR 6 million gain related to patents sold to Sappi and some EUR 7 million related to electricity certificates sold by M-real Sverige.

In 2009 Metsäliitto Group's joint venture Oy Metsä-Botnia Ab disposed its Uruguay business. The share of the gain on sale was EUR 134 million. In addition Metsä-Botnia sold 77 per cent of its shares in Pohjolan Voima Oy. Metsäliitto Group recorded EUR 32 million of the gain.

In 2009 the gains on disposals also include the EUR 23 million capital gain on the Botnia South America S.A. shares (5.5%) and the gain of EUR 8 million on the Vapo shares sold.

Government grants concern the subsidies of training, healthcare and R&D expenses, energy subsidies as well as the carbon dioxide emission permits in accordance with the EU emission trading scheme.

## 8 Operating expenses

EUR million	2010	2009
Materials and services		
Materials, consumables and goods		
Purchases	2,675	2,440
Change in inventories	-39	52
External services		
Logistics expenses	616	556
Other external services	347	355
Materials and services, total	3,599	3,404
Employee costs		
Wages and salaries	509	523
Social security costs		
Pension costs		
Defined contribution plans	4	3
Defined benefit plans	61	58
Other employee costs	171	212
Total	236	274
Employee costs total	745	797
Other operating expenses		
Rents	39	43
Purchased services	105	113
Losses on fixed assets disposal	0	3
Other operating expenses	236	386
Other operating expenses total	379	544

External services include production related services and logistics expenses of sold products. In 2009 logistics expenses of sold products were partly showed in other operating expenses. Figures for 2009 have been restated to match new grouping. Other operating expenses include among others other than production related services, energy costs, real estate costs and administration costs.

In 2009 other operating expenses include Metsäliitto Cooperative's infringement fine of EUR 21 million imposed by the Market Court for breach of competition legislation.

The research and development costs in 2010 were EUR 21 million (24)

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

#### Remuneration paid to the members of the Supervisory Board

Euro	2010	2009
Järvinen Hannu, chairman	36,500	54,100
Paajanen Juha, vice chairman	9,300	7,200
Members total	90,500	57,500
Total	136,300	118,800

#### Former members of the Supervisory Board

Lillandt Runar	26,700	
Jaakkola Erkki	3,000	
Total	166,000	118,800

### Remuneration paid to the members of the Board of Directors

Euro	2010	2009
Asunta Martti, chairman	75,240	71,540
Jordan Kari, vice chairman	0	0
Aminoff Mikael	46,200	47,300
Halonen Eino	46,200	43,700
Hiltunen Arto	47,400	47,300
Jääskeläinen Saini	46,200	47,300
Parpala Juha	46,200	46,800
Saukkonen Timo	46,200	47,300
Tukeva Antti	46,200	46,200
Total	399,840	397,440

#### Former members of the Board of Directors

Asunmaa Heikki		500
Kotipalo Unto		500
Total	399,840	398,440

The total salary of the President and CEO Kari Jordan was EUR 1,394,288 (1,220,115) including fringe benefits and bonuses. In addition to this, he was paid bonuses in cash and M-real's shares of EUR 622,389 (684,926) according to the incentive programme.

Salaries and emoluments paid to the Executive Management totalled EUR 9 million (5) including fringe benefits and bonuses. In addition to this, the Executive Management was paid EUR 1 million (1) in bonuses in shares according to the incentive programme.

### The incentive programme

The pay scheme of the Group Executives is based on the following elements: base salary, merit pay (max 6 months) and a long-term share based incentive programme. 20 top executives of the Group companies are included in the programme. The incentive programme is in detail in Note 36.

### Pension commitments to management

The retirement age of the President and CEO is 60. Certain top executives of the Group have the right to retire with an extra pension at the age of 62. The expenses of the Executive Management defined pension plans were EUR 2 million (2) and the expenses of their defined contribution plans were EUR 2 million (1).

In the event that the President and CEO is dismissed, he has the right to receive compensation corresponding to 24 months' salary. The mutual period of notice is 6 months. In the event that other members of the Executive Management are dismissed, the period of notice is 6 months. They have the right to receive compensation corresponding to 6–18 months' salary.

The parent company has no commitments to present or former members of the Supervisory Board or the Board of Directors

### Main auditors fees

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

#### Main auditors fees

EUR million	2010	2009
Audit fees	2	3
Tax consultancy	0	1
Other fees	0	2
Total	3	5

## 9 Depreciation, amortization and impairment charges

### Continuing operations

EUR million	2010	2009
Depreciation		
Other intangible assets	17	17
Buildings	53	54
Machinery and equipment	224	246
Other tangible assets	5	8
Total	299	325
Impairment charges		
Goodwill	5	33
Other intangible assets	0	2
Land	1	0
Buildings	39	45
Machinery and equipment	1	94
Other tangible assets	-10	1
Total	37	175
Depreciation and impairment charges, total	336	501
Impairments by segment (goodwill)		
Wood Products Industry	5	0
Board and Paper Industry	0	33
Total	5	33
Impairments by segment		
Tangible and other intangible assets		
Wood Products Industry	4	6
Pulp Industry	-11	56
Board and Paper Industry	34	124
Tissue and Cooking Papers	4	0
Eliminations	0	-43
Total	31	142
Impairments total	37	175

In 2010 depreciation and impairment charges include a EUR 5 million impairment of goodwill in the Building Products business line based on impairment testing. Moreover, an impairment of EUR 4 million was booked in Wood Products Industry's Karihaara saw mill. Depreciation and impairment charges also include the partial cancellation of an impairment of EUR 11 million in connection with the closing of Metsä-Botnia's Kaskinen mill based on an agreed property sale.

Depreciation and impairment charges also include the partial cancellation of an impairment loss of EUR 8 million based on the agreed transaction of the paper machine booked in connection with the closing of M-real's Kangas mill's PM 2, and the previously booked M-real's Zanders' Reflex mill's machines' EUR 3 million cancellation of the impairment loss based on the mills partial sale to Metsä Tissue. Further, the depreciation and impairment charges include a EUR 9 million impairment cancellation in M-real's Office Paper business area and an impairment of EUR 28 million in M-real's Speciality Papers business area based on impairment testing. In addition, EUR 15 million impairment was booked in M-real's Market Pulp and Energy business area's Hallein mill as an additional depreciation in connection with buildings no longer used in production, and an impairment of EUR 11 million in M-real's Consumer Packaging business area in connection with the closing of Simpele's paper machine.

Depreciation and impairment charges also include depreciation of EUR 4 million connected with the rearrangements of Metsä Tissue's operations in Poland.

In 2009, an impairment of EUR 6 million was recognised in Wood Products Industry due to the close down of the sawmill Kyröskoski. An impairment of EUR 56 million due to the close down of Metsä-Botnia's Kaskinen pulp mill was also recognised.

In 2009, goodwill impairment losses were recognised to an amount of EUR 33 million in M-real Zanders and other impairment losses to an amount of EUR 80 million (M-real Zanders Papermill in Germany EUR 33 million and M-real Alizay Papermill in France EUR 47 million). In testing, the values were based on the cash flow against the cash generating units. In Alizay pulpmill an additional depreciation of EUR 28 million was recognised related to the planned permanent closure of the pulpmill. Based on its 30 per cent share in Metsä-Botnia, M-real recognised an impairment of EUR 16 million related to the closure of Metsä-Botnia's Kaskinen mill.

### Impairment of Assets

#### Testing principles

The accounting values of asset items or cash generating units (CGU) are evaluated for possible value depreciation. Cash generating units are reporting segments or smaller units to which a utility value can be defined to. If there are indications of value depreciation of an asset item or CGU, or if the unit's accounting value includes or it has been allocated goodwill, it is evaluated how much money the asset item or CGU can accumulate. The sum is the utility value based on the cash flow against the asset item or CGU, or its net sales price.

The goodwill impairment test results are evaluated by comparing the recoverable amount (V) with the carrying amount of the CGU (B) as follows:

Ratio			
V		<	B
V	0-5%	>	B
V	5-10%	>	B
V	10-15%	>	B
V	15-20%	>	B
V	20-50%	>	B
V	50%-	>	B

### Wood Products Industry

The Wood Products Industry's impairment tests were executed in November 2010.

In 2010 testing all accumulated utility values are based on the cash flow against the asset or CGU. The recoverable cash flows of the CGUs are based on five-year projections and on consequent cash flows growing at a fixed annual growth rate. With regard to Finnforest UK, testing has been simplified because the company's business value is significantly higher than the book value.

The principal input data required for the projections include the price forecasts for sawn timber and panel products, demand and delivery volume estimates for these products, the cost development of key raw materials and other factors of production, such as roundwood, glue and energy, as well as the development of personnel costs and other fixed costs. The projections are also affected by the implementation of the cost-cutting measures already decided, as well as current and planned investments.

The forecasts of selling prices and key factors of production are estimates made by the company's management based on currently available industry sources. The figures for 2011 are based on the preliminary budget at the time of testing.

In current and previous impairment tests the cash flows consequent to the five-year projected cash flows are based on a growth rate of 1-3 per cent. Furthermore, the management's estimate of likely changes in the factors underlying the key assumptions (price, volume, variable costs) during the projection period have been used as a starting point.

The discount rate used is the Wood Products Industry's latest determined equity and debt Weighted Average Cost of Capital. The WACC used in the test



performed as of the end of the year 2010 is 5.55 per cent (5.80% in 2009). The change in WACC derives from the general decrease in interest rates. Both the cash flows and the discount rate are calculated after tax.

The CGUs of Metsäliitto Wood Products Industry, the goodwill allocated to them and testing result as of 30 November 2010:

Cash Generating Unit	Goodwill, EUR mill.	Test result (V-B)/B
Glued balk	5	<0%, impairment
Finnforest Merk	0	over 50%
CEE sales companies	3	20–50%
Sawmill group	5	over 50%
Finnforest France	4	over 50%
Finnforest UK	1	over 50%

Sensitivity analysis of the CGUs regarding the changes in the key assumptions:

Cash Generating Unit (CGU)	V-B, EUR mill.	Key assumption	Required change in order for V to equal B
Glued balk	0	<ul style="list-style-type: none"> <li>– Increasing end product sales volumes on 5-year projection period (cumulative increase 8%)</li> <li>– WACC based on interest rates and risk premiums at the time of testing</li> </ul>	<ul style="list-style-type: none"> <li>– No change required</li> <li>– No change required</li> </ul>
Finnforest Merk	3	<ul style="list-style-type: none"> <li>– Increasing end product sales margin on 5-year projection period (cumulative increase 6%)</li> <li>– WACC based on interest rates and risk premiums at the time of testing</li> </ul>	<ul style="list-style-type: none"> <li>– Cumulative increase in sales margin 2.3%-units lower</li> <li>– WACC 1.3%-units higher</li> </ul>
CEE sales companies	3	<ul style="list-style-type: none"> <li>– Increasing end product average price on 5-year projection period (cumulative increase 8%)</li> <li>– WACC based on interest rates and risk premiums at the time of testing</li> </ul>	<ul style="list-style-type: none"> <li>– Cumulative increase in average price 2%-units lower</li> <li>– WACC 0.8%-units higher</li> </ul>
Sawmill group	30	<ul style="list-style-type: none"> <li>– Increasing end product average price on 5-year projection period (cumulative increase 6%)</li> <li>– WACC based on interest rates and risk premiums at the time of testing</li> </ul>	<ul style="list-style-type: none"> <li>– Cumulative increase in average price 3.5%-units lower</li> <li>– WACC 2.6%-units higher</li> </ul>
Finnforest France	21	<ul style="list-style-type: none"> <li>– Increasing end product average price on 5-year projection period (cumulative increase 8%)</li> <li>– WACC based on interest rates and risk premiums at the time of testing</li> </ul>	<ul style="list-style-type: none"> <li>– Cumulative increase in average price 5.4%-units lower</li> <li>– WACC 2.7%-units higher</li> </ul>

Assumptions to which the recoverable amount of the CGU is most sensitive are listed in the table. When considering the resulting effects of changes in other assumptions it was concluded that there are no correlations between assumptions that would materially change the result of the testing. The pricing of end products is mainly driven by the demand and supply balance, and that the cost based changes do not have any significant impact on product pricing.

## Pulp Industry

Metsäliitto carries out a full impairment test of Pulp Industry at least once a year, during the last quarter based on the situation of 30 September. In addition, a sensitivity analysis is made each quarter. Should the sensitivity analysis indicate impairment, a full test will be initiated. The Audit Committee reviews the result of the sensitivity analysis or impairment test.

Metsä-Botnia Group is the cash generating unit in the segment Pulp Industry, including goodwill and fair value allocations made by Metsäliitto Group. In 2010 testing all accumulated utility values are based on the cash flow against the asset or CGU. The recoverable cash flows of the CGUs are based on five-year projections and on consequent cash flows growing at a fixed annual growth rate.

The essential testing assumptions are Metsäliitto management's estimates and projections as well as market forecasts. The key factors affecting the projections are development of market pulp prices, exchange rates, delivery volumes and cost development of wood and energy. The cash flow against the asset or CGU is also substantially affected by the discount rate used.

For the situation on 30 September 2010 and for previous goodwill impairment tests the cash flows consequent to the 5-year projected cash flows are based on a 2 per cent fixed annual growth rate. Average values for the key assumptions (price, volume, variable costs) during the projection period have been used as initial point for the cash flows following the forecast period. The fixed costs are based on the projected costs for the fifth year.

The discount rate used is Metsäliitto's Weighted Average Cost of Capital (WACC). When calculating WACC the cost of debt has been adjusted for the market related debt risk premium increases. Both the cash flows and the discount rate are calculated after tax, which means that the established discounted cash flows and utility values are before tax as set out in IAS 36. For testing carried out on 30 September 2010, the WACC after taxes was 5.55 per cent.

The goodwill allocated to the CGU Pulp Industry as of 31 December 2010 and the testing result as of 30 September 2010:

Cash Generating Unit	Goodwill, EUR mill.	Test result (V-B)/B
Pulp Industry	359	over 50%

Changes in key assumptions should be very remarkable before the carrying amount would exceed the recoverable amount. The discount rate used should be 14.4 per cent after tax or the average pulp price about 16 per cent lower than the price estimated by an independent expert.

#### Board and Paper Industry / M-real

M-real carries out a full impairment test at least once a year, during the last quarter based on the situation of 30 September. In addition, a sensitivity analysis is made each quarter. Should the sensitivity analysis indicate impairment, a full test will be initiated. The Audit Committee reviews the sensitivity analysis or impairment testing results quarterly.

In 2010 the cash generating units are the same as in 2009 testing, except for Simpele Paper. The paper machine in Simpele was closed down in December 2010.

In 2010 testing all accumulated utility values are based on the cash flow against the asset or CGU, except for Myllykoski Paper, which is tested based on its net sales price. The cash flow that the CGUs under testing can accumulate is based on five-year forecasts and the evenly-growing cash flows that follows them.

The essential testing assumptions are M-real management's estimates and projections as well as 3rd party forecasts. The key factors affecting the projections are development of average paper and board prices, delivery volumes, foreign exchange rates, and capacity utilisation rates, the cost development of key raw materials such as wood, pulp, chemicals and energy, the development of personnel costs and other fixed costs as well as the discount rate. The key factors are similar to those used in 2009 testing. Furthermore the realisation of savings and efficiency improvement measures have a significant impact on projected cash flows.

M-real's share of the cash flow, accounting value and the goodwill recognised in "investments in associated companies" of Metsä-Botnia (EUR 32 million) is allocated to CGUs in proportion of their pulp purchases.

For the situation on 30 September 2010 and for previous goodwill impairment tests the cash flows consequent to the 5-year projected cash flows are based on a 2 per cent fixed annual growth rate. Average values for the key assumptions (price, volume, variable costs) during the projection period have been used as initial point for the cash flows following the forecast period. The fixed costs are based on the projected costs for the fifth year.

The discount rate used is M-real's Weighted Average Cost of Capital (WACC). When calculating WACC the cost of debt takes into account market based view on M-real's risk premium. Both the cash flows and the discount rate are calculated after tax, which means that the established discounted cash flows and utility values are before tax as set out in IAS 36. For testing carried out, the WACC after taxes was 6.25 per cent (7.83%) and for Metsä-Botnia 6.08 per cent (6.67%). Management's view is that the risk factors regarding future cash flows do not differ materially from one CGU to another.

The most important CGUs of M-real, the goodwill allocated to them as of 31 December 2010 as well as their testing result as of 30 September 2010:

Cash Generating Unit	Goodwill, EUR mill.	Test result (V-B)/B
Folding boxboard mills <sup>1)</sup>	15	over 50%
Kemiart Liners <sup>1)</sup>	11	over 50%
Kyro Paper <sup>1)</sup>	1	20-50%
Husum PM6 & PM7	8	over 50%
Alizay <sup>1)</sup>	1	0-5%
Husum PM8 & Äänekoski Paper <sup>1)</sup>	3	over 50%
Zanders	0	<0%, impairment
Market Pulp and Energy <sup>1)</sup>	6	over 50%
Myllykoski Paper Oy 35%	0	0-5%
M-real total	45	

1) The amount includes the goodwill from M-real's holding in Metsä-Botnia, which is shown in "Investments in associated companies" in the balance sheet

In the following CGUs a reasonably possible change in a key assumption results in a situation where the carrying amount of the CGU exceeds the recoverable amount. Assumptions to which the recoverable amount of the CGU is most sensitive are listed in the table. When considering the resulting effects of changes in other assumptions it was concluded that there are no correlations between assumptions that would materially change the result of the testing. The pricing of end products is mainly driven by the demand and supply balance, and that the cost based changes do not have any significant impact on product pricing.

Cash Generating Unit (CGU)	V-B, EUR mill.	Key assumption	Required change in order for V to equal B
Zanders	0	- Increasing end product average price on 5-year projection period (cumulative increase 2%) - WACC based on interest rates and risk premiums at the time of testing	- No change required - No change required
Alizay	0	- Increasing end product average price on 5-year projection period (cumulative increase 3%) - WACC based on interest rates and risk premiums at the time of testing	- No change required - No change required
Myllykoski Paper Oy, 35%	0	Net selling price	- No change required

### Tissue and Cooking Papers / Metsä Tissue

Metsä Tissue's goodwill has been tested as per 31 December, 2010. In testing, all accumulated utility values are based on the cash flow against the asset or CGU.

For the purpose of goodwill impairment testing at the Metsä Tissue Group, the geographical area is defined as a CGU. In calculating the utility values, extensive use has been made of management approved budgets and estimates for the next three years. The cash flows consequent to the three-year projected cash flows have been extrapolated based on the estimated average GDP growth rate in the Euro zone, which, in 2010, was 2 per cent. Both the future cash flows and the discount rate are calculated after taxes. The discount rate used in the calculations was 7.0 per cent which represents industry-specific risk.

Metsä Tissue's goodwill and the testing result as of December 31, 2010:

Cash Generating Unit	Goodwill, EUR mill.	Test result (V-B)/B
Metsä Tissue Group	143	over 50%

The testing includes the following geographical areas with a total goodwill of EUR 143 million: Finland, Sweden Germany, Poland and Slovakia.

Of the above mentioned geographical areas the test result is substantially (>50%) above in all areas.

Changes in key assumptions should be very remarkable before the carrying amount would exceed the recoverable amount. In the CGUs where a reasonably possible change in a key assumption may result in a situation where the carrying amount of the CGU exceeds the recoverable amount, the discount rate should be 21 per cent after tax in Poland, or the average product price during the projection period 1.8 per cent lower, and the discount rate in Slovakia should be 15 per cent after tax, or the average product price during the projection period 4 per cent lower.

## 10 Financial income and expenses

EUR million	2010	2009
Exchange differences		
Commercial items	6	4
Hedging / hedge accounting not applied	-11	0
The ineffectiveness from hedges of net investment in foreign operations	-3	0
Others	0	-1
Exchange differences total	-7	2
Other financial income		
Interest income	5	26
Dividend income	0	1
Other financial income total	5	26
Interest and other financial expenses		
Valuation of financial assets and liabilities		
Gains and losses on financial assets or liabilities at fair value through profit or loss (held for trading)	-1	1
Impairment charges from financial assets	0	-30
Impairment charges from financial liabilities	0	32
Gains / losses on derivatives (hedge accounting not applied)	-2	2
Gains / losses on hedging instrument in fair value hedges	6	12
Fair value adjustments of hedged item in fair value hedges	-5	-2
Total	-2	16
Interest expenses from financial liabilities carried at amortized cost using the effective interest method	-122	-178
Other financial expenses	-11	-10
Interest and other financial expenses total	-135	-173
Financial income and expenses total	-137	-144

M-real repurchased in 2009 from the market its own senior floating rate notes in the total par value of EUR 60 million. A gain of EUR 31 million was booked in interest and other financial expenses in 2009.

In connection with divestment of Graphic Papers in December 2008, M-real received EUR 220 million in interest-bearing vendor notes from Sappi Ltd. In August 2009 M-real agreed with Sappi that Sappi will repay the vendor notes at the price of 86.5 per cent of their nominal value. This early repayment resulted in an EUR 30 million loss that was booked in interest and other financial expenses in 2009.

## 11 Income taxes

EUR million	2010	2009
Income taxes for the financial period	-122	-17
Income taxes for previous periods	0	2
Change in deferred taxes	-8	27
Other	-1	-1
Total	-131	10

### Income tax reconciliation

EUR million	2010	2009
Result before taxes	345	-329
Computed tax at Finnish statutory rate of 26%	90	-85
Difference between Finnish and foreign rates	-1	0
Tax exempt income	-5	-44
Non-deductible expenses	17	18
Impairment of goodwill	1	9
Previous years tax losses used during the period	-12	-4
Tax losses with no tax benefit	31	90
Share of profit from associated companies	4	4
Income taxes for previous periods	0	-2
Other	6	5
Income tax expense	131	-10

Effective tax rate, %	37.95	3.16
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## 12 Other items of comprehensive income

2010 EUR million	Recorded in other items of comprehensive income	Reclas- sification	Total
Cash flow hedges			
Currency flow hedges			
recorded in equity	6		
transferred to sales		-6	
Interest flow hedges			
recorded in equity	0		
transferred to financial items		0	
Commodity hedges			
recorded in equity	20		
transferred to purchases		0	
Total	26	-6	19
Available for sale investments			
recorded in equity	37		
transferred to other operating income		-7	
Total	37	-7	30
Translation differences	47		
Net invest hedge	-22		
Total	25		25
Other items	0		0
Total	87	-13	74

### Income tax relating to components of other comprehensive income

2010 EUR million	Before taxes	Taxes	After taxes
Cash flow hedges	19	-5	14
Available for sale investments	30	-8	22
Translation differences	25	6	30
Other items	0	0	0
Total	74	-7	67

2009 EUR million	Recorded in other items of comprehensive income	Reclas- sification	Total
Cash flow hedges			
Currency flow hedges			
recorded in equity	9		
transferred to sales		15	
Interest flow hedges			
recorded in equity	-1		
transferred to financial items		0	
Commodity hedges			
recorded in equity	11		
transferred to purchases		1	
Total	19	16	35
Available for sale investments			
recorded in equity	-71		
transferred to other operating income		-32	
Total	-71	-32	-103
Translation differences	4		
Net invest hedge	-19		
Total	-15		-15
Other items	0		0
Total	-67	-16	-83

### Income tax relating to components of other comprehensive income

2009 EUR million	Before taxes	Taxes	After taxes
Cash flow hedges	35	-9	26
Available for sale investments	-103	27	-76
Translation differences	-15	5	-10
Other items	0	0	0
Total	-83	23	-60

## 13 Intangible and tangible assets

### Intangible assets 2010

EUR million	Goodwill	Other intangible assets	Construction in progress	Total
Acquisition cost, 1 Jan. 2010	493	473	3	969
Translation differences	17	1	0	18
Increase	0	20	10	30
Company acquisitions	0	0	0	1
Decrease	-2	-26	0	-28
Transfers between items	0	1	-2	-1
Acquisition cost, 31 Dec. 2010	508	470	11	989
Accumulated depreciation and impairment charges, 1 Jan. 2010	0	-231	0	-231
Translation differences	0	-1	0	-1
Accumulated depreciation on deduction and transfers	0	10	0	10
Depreciation for the period	0	-17	0	-17
Impairment charges	-5	0	0	-5
Accumulated depreciation and impairment charges, 31 Dec. 2010	-5	-238	0	-243
Book value, 1 Jan. 2010	493	242	3	738
Book value, 31 Dec. 2010	503	232	11	746

In 2010 depreciation and impairment charges include a EUR 5 million impairment of goodwill in the Building Products business line based on impairment testing.

### Intangible assets 2009

EUR million	Goodwill	Other intangible assets	Construction in progress	Total
Acquisition cost, 1 Jan. 2009	176	291	2	469
Translation differences	1	1	0	2
Increase	0	15	3	18
Company acquisitions	358	195	0	553
Decrease	-9	-30	-1	-41
Transfers between items	0	2	-1	1
Assets classified as held for sale	0	0	0	0
Acquisition cost, 31 Dec. 2009	526	473	3	1,002
Accumulated depreciation and impairment charges, 1 Jan. 2009	0	-217	0	-217
Translation differences	0	-7	0	-7
Accumulated depreciation on deduction and transfers	0	11	0	11
Assets classified as held for sale	0	0	0	0
Depreciation for the period	0	-17	0	-17
Impairment charges	-33	-2	0	-35
Accumulated depreciation and impairment charges, 31 Dec. 2009	-33	-231	0	-264
Book value, 1 Jan. 2009	176	86	2	264
Book value, 31 Dec. 2009	493	242	3	738

In 2009 goodwill in M-real Zanders was impaired by EUR 33 million. In addition, impairment charges of EUR 2 million were recognised in other intangible assets due to the shut down of Metsä-Botnia's Kaskinen mill.

Development expenditure has not been capitalized in the Metsäliitto Group.

The carrying value of emission rights included in intangible assets was on 31 December 2010 EUR 19 million (19) and the fair value EUR 19 million (19). In addition, intangible assets include among others computer software, patents, licenses and brands.

### Goodwill allocated to segments

EUR million	2010	2009
Wood Supply	2	2
Wood Products Industry	14	19
Pulp Industry	4	4
Board and Paper Industry	13	13
Tissue and Cooking Papers	143	126
Other operations	359	359
Eliminations	-32	-30
Total	503	493

Other operations include goodwill of EUR 359 million related to the Metsä-Botnia acquisition and EUR 1 million related to the acquisition of Metsä Tissue.



### Tangible assets 2010

EUR million	Land and water areas	Buildings	Machinery and equipment	Other tangible assets	Construction in progress	Total
Acquisition cost, 1 Jan. 2010	114	1,559	6,003	142	37	7,855
Translation differences	1	24	169	4	2	199
Increase	4	11	58	1	65	139
Company acquisitions	0	3	14	0	0	17
Decrease	-1	-35	-92	-1	2	-127
Transfers between items	3	6	24	0	-32	1
Acquisition cost, 31 Dec. 2010	121	1,568	6,176	145	73	8,083
Accumulated depreciation and impairment charges 1 Jan. 2010	-47	-878	-4,400	-102	0	-5,427
Translation differences	0	-18	-122	-2	0	-143
Accumulated depreciation on deduction and transfers	0	32	60	-4	0	88
Assets classified as held for sale	0	0	0	-6	0	-6
Depreciation for the period	0	-53	-224	-5	0	-283
Impairment charges	-1	-39	-1	10	0	-31
Accumulated depreciation and impairment charges 31 Dec. 2010	-48	-956	-4,688	-110	0	-5,802
Book value, 1 Jan. 2010	67	681	1,603	40	37	2,428
Book value, 31 Dec. 2010	73	612	1,488	35	73	2,281

In 2010 depreciation and impairment charges include an impairment of EUR 4 million in Wood Products Industry's Karihaara saw mill.

Depreciation and impairment charges also include the partial reversal of an impairment of EUR 11 million in connection with the closing of Metsä-Botnia's Kaskinen mill based on an agreed property sale.

Depreciation and impairment charges also include the partial reversal of an impairment loss of EUR 8 million based on the agreed transaction of the paper machine booked in connection with the closing of M-real's Kangas mill's PM 2, and the previously booked M-real's Zanders' Reflex mill's machines' EUR 3 million reversal of the impairment loss based on the mills partial sale to Metsä Tissue. Further, the depreciation and impairment charges include a EUR 9 million impairment reversal in M-real's Office Paper business area and an impairment of EUR 28 million in M-real's Speciality Papers business area based on impairment testing. In addition, EUR 15 million impairment was booked in M-real's Market Pulp and Energy business area's Hallein mill as an additional depreciation in connection with buildings no longer used in production, and an impairment of EUR 11 million in M-real's Consumer Packaging business area in connection with the closing of Simpele's paper machine.

Depreciation and impairment charges also include EUR 4 million connected with the rearrangements of Metsä Tissue's operations in Poland.

### Tangible assets 2009

EUR million	Land and water areas	Buildings	Machinery and equipment	Other tangible assets	Construction in progress	Total
Acquisition cost, 1 Jan. 2009	206	1,535	5,603	251	69	7,664
Translation differences	10	24	99	2	1	135
Increase	13	6	77	9	39	143
Company acquisitions	9	210	770	21	2	1,013
Decrease	-127	-225	-569	-144	-32	-1,097
Transfers between items	3	10	25	2	-41	-1
Assets classified as held for sale	-1	-2	0	0	0	-3
Acquisition cost, 31 Dec. 2009	114	1,559	6,003	142	37	7,855
Accumulated depreciation and impairment charges 1 Jan. 2009	-45	-841	-4,209	-151	0	-5,246
Translation differences	0	-9	-51	-1	0	-62
Accumulated depreciation on deduction and transfers	-2	71	201	60	0	329
Assets classified as held for sale					0	0
Depreciation for the period	0	-54	-246	-8	0	-308
Impairment charges	0	-45	-94	-1	0	-141
Accumulated depreciation and impairment charges 31 Dec. 2009	-47	-878	-4,400	-102	0	-5,427
Book value, 1 Jan. 2009	165	767	1,839	118	69	2,958
Book value, 31 Dec. 2009	67	681	1,603	40	37	2,428

In 2009, Wood Products Industry recognised an impairment charge of EUR 6 million due to the close down of Kyröskoski Sawmill. In addition, Metsä-Botnia recorded impairment charges of EUR 28 million due to the close down of the Kaskinen pulp mill.

In 2009, impairment charges of EUR 80 million were recognised, of which EUR 33 million in M-real Zanders papermill in Germany and EUR 47 million in M-real Alizay papermill in France. In testing all accumulated utility values are based on the cash flow against the asset or CGU. In Alizay pulpmill an additional depreciation of EUR 28 million was recognised related to the planned permanent closure of the mill.

Pledges and real estate mortgages for loans from financial institutions, pension loans and other liabilities amounted to EUR 293 million (264)

Tangible assets include assets acquired under finance lease agreements as follows:

EUR million	Land and water areas	Buildings	Machinery and equipment	Total
Acquisition cost 1 Jan. 2010	0	20	80	100
Accumulated depreciation	0	-6	-36	-42
Book value, 31 Dec. 2010	0	14	44	58

EUR million	Land and water areas	Buildings	Machinery and equipment	Total
Acquisition cost 1 Jan. 2009	0	20	93	113
Accumulated depreciation	0	-5	-34	-39
Book value, 31 Dec. 2009	0	15	59	75

Additions in tangible assets in 2010 include assets of EUR 5 million acquired under finance lease agreements (1).

Borrowing costs have not been capitalised in Metsäliitto Group in 2010 or 2009.

## 14 Biological assets

Biological assets, forest assets, have been recognised at fair value. The change in fair value will be recognised yearly as income/cost in the income statement. At the end of 2010 the Group had forest assets mainly in Finland. The forests in Uruguay were sold as a part of the Metsä-Botnia arrangement in 2009. Forest assets are included in land and water in non-current assets.

Metsäliitto Group has long-term forest lease agreements in Russia and Latvia. The agreements have not been recognised in the balance sheet, because their price or fixed price determination basis is not defined in the agreements. The price is determined by the government usually once a year or, in some cases, more frequently. In practice, the price follows the auction prices for short-term felling rights. Long-term felling rights are primarily used for ensuring the availability of wood.

EUR million	note	2010	2009
At 1 Jan		7	103
Purchases during the period		0	14
Sales during the period		0	-3
Harvested during the period		-1	-9
Gains and losses arising from changes in fair values		1	-2
Acquisitions	5	0	3
Disposals	5	0	-91
Translations differences		0	-7
At 31 Dec		8	7

## 15 Investments in associated companies

EUR million	2010	2009
At 1 Jan	98	139
Share of results	-15	-16
Dividends received	-2	-4
Increases	0	1
Decreases	-1	-22
Translations differences	1	-1
At 31 Dec	80	98

In 2010 share of results include an impairment charge of EUR 16 million from M-real's associated company Myllykoski Paper Oy.

In 2009 the share of results includes a non-recurring item of EUR -11 million from the Sunila pulp mill divested by M-real's associated company Myllykoski Paper.

Unamortised amount of goodwill for associated companies at 31 December 2010 include goodwill of EUR 0 million (17) from Myllykoski Paper Oy, EUR 2 million (2) from Thosca Holz GmbH and EUR 1 million (1) from ZAO HC Vologodskiy Lesopromyshlenniki.

### Biggest associated companies 2010

EUR million	Country	Assets	Liabilities	Sales	Result	Ownership, %
Finsilva Oyj	Finland	204	139	18	5	49.9
Katrinefors						
Kraftvärme Ab	Sweden	21	21	11	0	50.0
Myllykoski Paper Oy	Finland	137	141	275	-24	35.0
Mäntän Energia	Finland	9	8	12	0	45.0
Perkaus Oy	Finland	2	2	2	0	33.3
Plastiroll Oy	Finland	22	6	26	2	39.0
Suomen Metsäsijoitus Oy	Finland	17	0	1	0	25.0

None of the associated companies were listed.

### Transactions with associated companies

EUR million	2010	2009
Sales	10	8
Purchases	67	65
Interest income	0	0
Interest expenses	0	0
Receivables		
Non-current	1	1
Current	8	8
Liabilities		
Non-current	0	0
Current	7	6

## 16 Available for sale investments

EUR million	2010	2009
Available for sale financial assets		
Listed companies	0	39
Other companies	338	318
Total	338	356

### Fair value hierarchy of financial assets and liabilities

EUR million	2010	note	Level 1	Level 2	Level 3	Total
Available for sale financial assets		16	0		338	338
Financial assets at fair value through profit or loss, non-current		20		1		1
Derivative financial assets		30	12	4		15
Financial liabilities at fair value through profit or loss, non-current		28			99	99
Derivative financial liabilities		30	0	35		35

EUR million	2009	note	Level 1	Level 2	Level 3	Total
Available for sale financial assets		16	39		318	356
Financial assets at fair value through profit or loss, non-current		20		1		1
Derivative financial assets		30	2	2		4
Financial liabilities at fair value through profit or loss, non-current		27			99	99
Derivative financial liabilities		30	6	26		32

**Financial assets measured at fair value based on level 3**

EUR million	2010	2009
Opening balance	318	459
Total gains and losses in profit or loss	0	32
Total gains and losses in other comprehensive income	37	-118
Purchases	2	9
Settlements	0	-64
Transfers to shares in subsidiaries	-18	0
Closing balance	338	318

**Financial liabilities measured at fair value based on level 3**

EUR million	2010	2009
Opening balance	99	0
Total gains and losses in profit or loss		
Total gains and losses in other comprehensive income		
Purchases		99
Settlements		
Closing balance	99	99

Assets have been categorised according to IFRS 7 paragraph 27 A and 27 B.

- Level 1 assets are valued based on quoted prices in active markets  
Level 2 assets are valued based on inputs observable for the asset either directly or indirectly  
Level 3 assets are valued based on company estimates and not on market data

Financial assets at fair value through profit or loss are mainly bonds, classified entirely as held for trading.

Available for sale financial assets consist of listed companies and other companies. The fair value of listed companies are based on public quotation for shares at the balance sheet date. The most significant ownership of listed companies is some 2 per centage stake of South African company Sappi Limited, which M-real received as a part of the Graphic Papers business disposal in 2008. These shares were disposed in 2010. The realised fair value and capital gain was some EUR 8 million. The fair value of these shares in 2009 was EUR 38 million.

The most important shareholding of not quoted companies consists of 2.5 per centage stake in Finnish energy company Pohjolan Voima Oy. The company produces electricity and heat for its shareholders in Finland. Pohjolan Voima trades with its shareholders and the prices paid to Pohjolan Voima Oy for energy are based on production costs, which generally are lower than the market prices.

The Group has right for some 6.6 per centage proportion in Olkiluoto nuclear power plant (Pohjolan Voima's B-shares), some 6.6 per centage proportion in Meripori coal-fired power plant (C2-shares) and some two per centage proportion in new nuclear power plant under construction at Olkiluoto (B2-shares). The Group has also some 88 per cent right to use energy produced by Hämeenkyron Voima Oy (Pohjolan Voima's G10 shares).

The ownership in Pohjolan Voima Oy is measured at fair value quarterly by using the weighted average of discounted cash flow method and the valuation based on earlier transactions. The WACC used was 4.66 per cent (4.67). 12 months rolling averages have been used for the energy price estimates, which evens out the short-term energy price fluctuations. The changes in fair value less deferred tax calculated with Finnish tax rate are recorded in fair value reserve in equity. The acquisition value of shares in Pohjolan Voima Oy is EUR 29 million (28) and the fair value EUR 329 million (291). The fair value of nuclear power shares was some EUR 325 million (289), of which EUR 293 million (264) B-shares and EUR 32 million (25) B2-shares, coal-fired power shares (C2-shares) EUR -4 million (-4), hydroelectric power shares (A-shares) EUR 7 million (6) and G10-shares EUR 2 million (2).

The shareholder agreement prevents free selling of shares with others than shareholders.

Metsäliitto Group's joint venture Metsä-Botnia disposed in December 2009 77 per cent of its Pohjola Voima shares to UPM-Kymmene as part of restructuring of Metsä-Botnia. A realised fair value and gain from the sale of EUR 32 million was recorded (according to a 53% ownership).

Other unlisted shares, of which the fair value cannot be reliably measured, have been valued at acquisition cost less impairment charges.

According to IAS 32 the Metsäliitto Group has a contractual obligation regarding the Metsä-Botnia shareholders' agreement to deliver cash to another entity against shares in Metsä-Botnia. This liability is valued at fair value as a current financial liability (level 3) with a demand feature according to IAS 39.

**17 Other non-current financial assets**

EUR million	2010	2009
Interest-bearing receivables		
Loans from associated companies	1	1
Other loan receivables	7	6
Total	8	6

Non-interest-bearing receivables		
Defined benefit pension plans (note 24)	1	1
Loans from associated companies	1	0
Other loan receivables	4	3
Total	6	4
Other non-current financial assets, total	14	11

**18 Deferred taxes**

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax relates to the same taxation authority.

At 31 December 2010 the net operating loss carry-forwards amounted to EUR 55 million (105) for which EUR 15 million (27) tax assets have been recognised. The net operating loss carry-forwards derive mainly from Finland, France and Russia. The operating loss carry-forwards for which deferred tax assets have not been recognised due to uncertainty of the utilization of these loss carry-forwards amounted to EUR 1,127 million (1,106). The net operating loss carry-forwards derive mainly from Finland, France, Germany, Austria and Russia. The deferred tax assets for these non recognised loss carry-forwards amounted to EUR 318 million (309) at 31 December 2010.

The Group had loss carry-forwards of EUR 1,181 million at 31 December 2010. Of these EUR 1,072 million do not expire. Some EUR 13 million of the losses will expire in 2011-2015 and the rest later.

# Reconciliation of deferred tax assets and liabilities in 2010

EUR million	At 1 Jan. 2010	Charged in income statement	Charged in other items of comprehensive income	Translation differences	Acquisitions/ disposals	At 31 Dec. 2010
Deferred tax assets in balance sheet						
Pension obligations and other provisions	18	0		0		18
Intercompany margins	17	0				18
Unused tax losses and tax credit	27	-13		0	0	14
Other temporary differences	23	-4	9	0		28
Deferred tax assets total	85	-17	9	0	0	77
Netting against liabilities	-28	13				-15
Deferred tax assets in balance sheet	58	-4	9	0	0	63
Deferred tax liabilities in balance sheet						
Appropriations	198	-17		9	0	191
Acquired net assets and biological assets recorded at fair value	96	-4				93
Available for sale financial assets recorded at fair value	70		8			78
Equity hedging		8	-8		-1	0
Other temporary differences	44	3	17	-2		62
Deferred tax liabilities total	409	-9	17	7	0	423
Netting against assets	-28	13				-15
Deferred tax liabilities in balance sheet	382	4	17	7	0	409
Deferred tax liabilities, net	-324	-8	-8	-7	0	-346

# Reconciliation of deferred tax assets and liabilities in 2009

EUR million	At 1 Jan. 2009	Charged in income statement	Charged in other items of comprehensive income	Translation differences	Acquisitions/ disposals	At 31 Dec. 2009
Deferred tax assets in balance sheet						
Pension obligations and other provisions	15	2		0	1	18
Intercompany margins	22	-4			0	17
Unused tax losses and tax credit	27	0		0	0	27
Other temporary differences	31	-14	0	0	6	23
Deferred tax assets total	95	-17	0	0	7	85
Netting against liabilities	-34	8	6		-8	-28
Deferred tax assets in balance sheet	61	-9	6	0	-1	58
Deferred tax liabilities in balance sheet						
Appropriations	207	-36		3	24	198
Acquired net assets and biological assets recorded at fair value	6	-1			92	96
Available for sale financial assets recorded at fair value	104		-29		-5	70
Equity hedging		4	-4			0
Other temporary differences	45	-11	7	0	4	44
Deferred tax liabilities total	362	-43	-27	3	114	409
Netting against assets	-34	8	6		-8	-28
Deferred tax liabilities in balance sheet	328	-36	-20	3	107	382
Deferred tax liabilities, net	-267	27	27	-3	-108	-324



## 19 Inventories

EUR million	2010	2009
Inventories		
Raw materials and consumables	353	294
Work in progress	44	39
Finished goods and goods for sale	362	320
Advance payments	38	17
Total	798	669

The cost of inventories recognised as expense and included in materials and services was EUR 2 million (3).

## 20 Accounts receivables and other receivables

EUR million	2010	2009
Current financial assets at fair value through profit and loss		
At 1 Jan.	1	4
Increases	1	1
Decreases	-1	-4
Changes in fair value	0	0
At 31 Dec.	1	1
Interest-bearing loan receivables		
Loans from associated companies	8	7
Other loan receivables	2	2
Total	10	9
Accounts receivables and other non-interest-bearing receivables		
From associated companies		
Accounts receivables	2	1
Other receivables	0	0
Prepayment and accrued income	0	0
	2	1
From others		
Accounts receivables	701	604
Other receivables	95	101
Prepayment and accrued income	33	37
Total	829	742
Total	832	743
Accounts receivables and other receivables, total	843	753

Financial assets at fair value through profit or loss are mainly bonds, classified entirely as held for trading.

There are no loan receivables from the managing directors of Group companies, members of the Board of Directors or their deputies or persons belonging to similar bodies. Metsäliitto Management Oy has been established for the shareholding programme of the members of Metsäliitto Group's Executive Management (note 36).

## Doubtful accounts receivables

Accounts receivables are recorded net of the following allowances for doubtful accounts:

EUR million	2010	2009
At 1 Jan.	10	7
Increases	2	12
Decreases	-3	-9
At 31 Dec.	9	10

## Accounts receivables, overdue

EUR million	2010	2009
No overdue	640	552
Overdue		
less than 90 days	56	47
between 90–180 days	2	3
between 181–365 days	0	1
more than 365 days	4	2
At 31 Dec.	701	604

## Prepayment and accrued income

EUR million	2010	2009
Non-current		
Interest	0	0
Others	1	1
Total	1	1
Current		
Interest	3	2
Insurance	2	1
Accruals of sales	1	1
Others	28	32
Total	33	37
Prepayment and accrued income, total	34	38

## 21 Cash and cash equivalents

EUR million	2010	2009
Current investments	259	256
Cash at bank and in hand	181	302
Total	440	558

Current investments are certificates of deposits and time deposits with original maturities less than three months.

## 22 Members' capital

### Changes in members' capital

EUR million	Members' capital	Additional members' capital A	Additional members' capital B	Additional members' capital C	Total
Members' capital at 1 Jan. 2010	137	330	17	0	484
Paid-in members' capital	8	22	26	14	70
Transfers from interests to members' capital	2	19	0	0	21
Refund of members' capital	-4	-33	-2	0	-40
Change in transfers to current interest-bearing liabilities	3	9	-5	-4	3
Members' capital at 31 Dec. 2010	146	347	36	11	539
Members' capital at 1 Jan. 2009	154	414	18	0	585
Paid-in members' capital	2	6	5	0	13
Transfers from interests to members' capital	2	19	0	0	22
Refund of members' capital	-6	-83	-3	0	-92
Change in transfers to current interest-bearing liabilities	-15	-26	-2	0	-44
Members' capital at 31 Dec. 2009	137	330	17	0	484

### Transfers to current interest-bearing liabilities

EUR million	Members' capital	Additional members' capital A	Additional members' capital B	Additional members' capital C	Total
31.12.2010	49	116	12	4	180
Change	-3	-9	5	4	-3
31.12.2009	52	125	7	0	184
Change	15	26	2		44
31.12.2008	37	99	4	0	140

### Fair value and other reserves

EUR million	2010	2009
Fair value reserve	92	75
Revaluation reserve	1	1
Restatement reserve	95	95
General reserves	55	46
Reserves stipulated by the rules	3	3
Total	247	221

### Shares

The par value of a share is one euro. The number of shares that a member is obliged to take shall be determined according to the area of the forest land owned by the member and according to the municipality where it is located, provided however, that a member shall be obliged and entitled to take no more than 30,000 shares.

### Additional shares

There are three classes of additional shares: additional shares A, additional shares B and additional shares C. The par value of additional shares is one euro each. The amount paid for additional shares constitutes an additional share capital. Only a member whose shares have been paid in full may take additional shares. The interest payable on additional shares may differ from the interest payable on shares. Furthermore, other financial income might be attached to additional shares. The additional share capital may be reduced by amending the rules in such a way that payments for additional shares are refunded to members or to a third part, to whom the right of a member has been transferred.

An interest or surplus refund or other financial income may be paid to the members from the surplus of Metsäliitto Cooperative. Any amount to be distributed must not exceed the sum of distributable surplus shown on the balance sheet approved for the preceeding financial period considering the restrictions

mentioned in the Cooperatives Act Section 8 subsections 3–5. One third of the distributable surplus shown on the balance sheet confirmed for the preceeding financial period can be used for refunding of shares and additional shares.

The additional share C is attached with a right to an additional interest depending on the price of M-reals B-share. The additional interest is calculated as follows: if the weighted average price of M-real's B-share at NASDAQ OMX Helsinki Oy during five days before 15 February 2013 exceeds 2,50 euros, every C share will be granted an additional interest which is the difference between the price quoted and 2,50 euros. However, the maximum additional interest is 1 euro.

The right to an additional interest has been recognised as an embedded derivative according to IAS 39. The related liability recorded on 31 Dec 2010 was EUR 4 million.

### Share premium account

The amount exceeding the par value of shares received by the company in connection with share issues are recognised in share premium account.

### Translation differences

Translation differences include translation differences arising on translation of subsidiaries in other currencies than euro and gains and losses arising on hedging of net investments in these subsidiaries, when requirements of hedge accounting have been fulfilled.

### Fair value reserve

The reserve include the effective portion of fair value based on hedge accounting applied to interest, currency and commodity derivatives and the fair value change of available for sale financial assets less deferred tax.

### Revaluation reserve

Revaluation of land and bonds in non-current assets are recognised in the revaluation reserve.

### Revaluation surplus

The revaluation surplus include the fair value of the previous holdings in Metsä-Botnia which arised from the allocation of fair value of the acquired Metsä-Botnia shares.

### Legal reserve and reserves stipulated by the Articles of Association/Rules

Legal reserve and reserves stipulated by the Articles of Association have been created and accumulated as a result of resolution by the Annual General Meeting of shareholders/representatives.

### Dividends/Interest on members' capital

After Balance sheet day the Board of Directors has proposed that a dividend of EUR 35 million (36) be distributed on paid-in members' capital. Financial costs regarding the interest on members' capital was recognised to a sum of EUR 9 million (10).

## 23 Non-controlling interest

### Biggest non-controlling interests

EUR million	2010	2009
M-real Group	207	228
Metsä-Botnia Group	233	171
Metsä Tissue Group	75	64
Others	8	7
Total	524	471

## 24 Post employment benefits

The Group operates a number of defined benefit pension plans and defined contribution plans in different countries, which are arranged in accordance with local regulations and practices. Most of them are defined contribution plans.

The most significant pension plan in Finland is the statutory Finnish employee pension scheme (TyEL) according to which benefits are linked directly to the employee's earnings. In Finland there are pension schemes which are funded by contributors to insured schemes or to Metsäliitto Employees' Pension Foundation. The Metsäliitto Employees' Pension Foundation scheme is a defined benefit plan. There are other defined benefit plans in Finland, too.

Pension plans outside Finland are both defined benefit and defined contribution plans.

### Pensions and other post-employment benefit provisions

EUR million	2010	2009
Defined benefit pension plans	97	101
Defined contribution pension plans	17	20
Net liability	114	121
Over-funded plan shown as asset	1	1
Total liability	115	122

### Defined benefit pension plans

#### Amounts recognised in balance sheet

EUR million	2010	2009
Present value of funded obligations	105	91
Present value of unfunded obligations	92	94
	197	185
Fair value of plan assets	-97	-85
Unrecognised actuarial gains and losses	-3	1
Unrecognised prior service costs	0	0
Effect of curtailment	0	0
Net liability in balance sheet	97	101

#### Amounts recognised in income statement

EUR million	2010	2009
Current service cost	4	4
Interest cost	9	9
Expected return on plan assets	-5	-4
Actuarial gains and losses	-3	-7
Actuarial losses/gains recognised in year	0	0
Settlements	0	0
Profit/loss on curtailment	0	1
Total included in employee costs	4	3

The actual return on plan assets was EUR 9 million in 2010 (13).

### Changes in the present value of defined benefit obligations

EUR million	2010	2009
Defined benefit obligation as at 1 Jan.	185	177
Current service cost	4	4
Interest cost	9	9
Contribution by plan participations	1	0
Actuarial gains and losses	7	5
Actuarial losses/gains recognised in year	0	0
Curtailments and settlements	1	0
Profit/loss on curtailment	0	0
Benefits paid	-10	-12
Other adjustments	0	0
Translation differences	2	1
Defined benefit obligation as at 31 Dec.	197	185

### Changes in the fair value of plan assets

EUR million	2010	2009
Fair value of plan assets as at 1 Jan	85	69
Expected return on plan assets	5	4
Actuarial gains and losses	4	9
Contribution by plan participants	0	1
Contribution by the employer	3	3
Settlements	1	1
Benefits paid	-4	-3
Other adjustments	0	-1
Translation differences	2	3
Fair value of plan assets as at 31 Dec	97	85

Group expects to contribute EUR 5 million to its defined benefit pension plans in 2011.

**Major categories of plan assets as a per centage of total plan assets, %**

	2010	2009
Equity securities	33	32
Debt securities	38	38
Real estate	12	13
Bonds	5	6
Others	12	11
Total	100	100

**Amounts for the current and previous periods**

EUR million	2010	2009
Present value of defined benefit obligations	-197	-185
Fair value of plan assets	97	85
Funded status	-100	-100
Experience adjustments on plan liabilities	1	-1
Experience adjustments on plan assets	5	3

**Actuarial assumptions used:**

	2010	2009
<b>Finland</b>		
Discount rate, %	4.25–4.3	4.75–4.8
Expected return on plan assets, %	0–5.7	3.5–5.4
Future salary increases, %	0–1.58	0–1.0
Future pension increases, %	1.4–2.1	2.1
Expected average remaining working years of staff	0–5.3	5.1

**Great Britain**

Discount rate, %	5.4	5.7–5.8
Expected return on plan assets, %	6.55–6.84	6.8–6.9
Future salary increases, %	4.5	4.3–4.6
Future pension increases, %	3.5	3.3–3.6
Expected average remaining working years of staff	12	13–14

**Austria**

Discount rate, %	5.1	5.0
Expected return on plan assets, %	0	0
Future salary increases, %	2.02	0
Future pension increases, %	2.0	2.11
Expected average remaining working years of staff	19	19.6

**Norway**

Discount rate, %	3.2	4.3
Expected return on plan assets, %	4.6	6.3
Future salary increases, %	4.0	4.5
Future pension increases, %	3.75	2.0
Expected average remaining working years of staff	11.4	11.9

**Germany**

Discount rate, %	5.25–5.3	5.8
Expected return on plan assets, %	0–5.25	0–5.8
Future salary increases, %	2.5	2.5
Future pension increases, %	2.0	2.0
Expected average remaining working years of staff	10–12	9.2–10

	2010	2009
<b>Slovakia</b>		
Discount rate, %	1.0	2.2
Expected return on plan assets, %	0.0	0.0
Future salary increases, %	3.0	2.5
Future pension increases, %	3.0	2.5
Expected average remaining working years of staff	21	25

**Switzerland**

Discount rate, %	3.0	3.3
Expected return on plan assets, %	3.5	3.5
Future salary increases, %	1.5	1.5
Future pension increases, %	0.5	0.5
Expected average remaining working years of staff	6	7

**25 Provisions**

EUR million	Restructuring	Environmental obligations	Other provisions	Total
At 1 Jan 2010	97	9	22	128
Translation difference	2	0	1	3
Increases	37	2	1	40
Decreases	-79	0	-5	-85
Unused amounts reversed	-20	0	0	-20
Effect of discounting	1	0	0	1
At 31 Dec 2010	37	11	19	67

In December 2010 the segment Wood Products Industry booked a cost provision of EUR 2 million due to the profit improvement programme.

During 2010 Metsä-Botnia increased its restructuring provision by EUR 9 million due to the rearrangements of the Kaskinen pulp mill.

The most significant increase in provision was EUR 16 million cost provision in May in the Speciality Papers business area related to the planned closure of two machines at the Reflex mill and to the reorganisation of the Reflex and Gohrsmühle organisations. EUR 8 million release of the provision was recognised in September as a result of partial divestment of the Reflex mill to Metsä Tissue and lower reorganisation expenses at Gohrsmühle. EUR 12 million release of cost provision related to IT arrangements made earlier was recognised in March. EUR million additional cost provision in Market Pulp and Energy business area relating to the closure of the Alizay pulp mill was recognised in July.

Metsä Tissue's cost provisions of EUR 4 million are connected to the rearrangements of the paper production in Poland, the partial transfer of the cooking papers production from Mänttä to Düren, Germany and the production improvement programme in Mänttä.

Other provisions include provisions related to leases, taxes and legal action. Of the total provisions of EUR 67 million, the non-current portion was EUR 48 million and the current portion EUR 19 million. The non-current portion will mostly be paid during year 2012.

## 26 Borrowings

### Interest-bearing financial liabilities

EUR million	Book value 2010	Book value 2009
Non-current interest-bearing financial liabilities		
Bonds	713	755
Loans from financial institutions	748	946
Pension loans	353	151
Finance lease liabilities	48	57
Other liabilities	64	67
Total	1,927	1,976
Current interest-bearing financial liabilities		
Current portion of long-term debt	284	606
Short-term loans	2	1
Bill of exchange payable	2	2
Other liabilities	183	188
Total	471	798
Liabilities classified as held for sale, financial liabilities	0	5
Interest-bearing financial liabilities, total	2,398	2,778

### Interest-bearing financial assets

EUR million	Book value 2010	Book value 2009
Non-current interest-bearing financial assets		
Loan receivables	8	6
Current interest-bearing financial assets		
Financial assets at fair value through profit or loss	1	1
Loan receivables	10	9
Current investments at amortised cost	259	256
Cash at bank and in hand	181	302
Total	451	568
Assets classified as held for sale, financial assets	0	1
Interest-bearing financial assets, total	459	575
Interest-bearing net liabilities, total	1,939	2,203



**Maturity of repayment and interest payment of financial liabilities 31 Dec. 2010**

EUR million	Book value	2011	2012	2013	2014	2015	2016–
Bonds and debentures	766						
Repayment		-52	-103	-520	-90		
Interest payment		-63	-58	-33	-7		
Loans from financial institutions	927						
Repayment		-179	-68	-183	-311	-179	-8
Interest payment		-24	-22	-21	-11	-8	0
Pension loans	390						
Repayment		-37	-43	-118	-43	-33	-115
Interest payment		-20	-18	-14	-10	-8	-13
Finance lease liabilities	55						
Repayment		-7	-5	-3	-5	-3	-32
Interest payment		-1	-1	-1	-1	-1	-3
Other non-current interest-bearing liabilities	72						
Repayment		-9	-9	-53			-2
Interest payment		-1	-1	-1			
Non-current interest-bearing liabilities, total	2,210						
Repayments in 2011	-284						
In balance sheet, total	1,927						
Repayment		-284	-227	-878	-450	-216	-157
Interest payment		-109	-100	-69	-28	-16	-16
Current interest-bearing liabilities	188						
Repayment		-188					
Interest payment		-10					
Accounts payable and other liabilities	970						
Repayment		-952	-7	-6	-1	-1	-3
Total liabilities	3,367						
Repayment		-1,423	-234	-884	-451	-217	-159
Interest payment		-119	-100	-69	-28	-16	-16
Guarantees agreements	8	-6	0	0	0	0	-1
Derivative financial instrument liabilities							
Interest rate swaps		11	11	6	0	0	1
Currency derivatives		-1,611	-1				
Commodity derivatives			0				
Total	35	-1,600	10	6	0	0	1
Derivative financial instrument assets							
Interest rate swaps							
Currency derivatives		1,596	2				
Commodity derivatives		11	4	1	0		
Total	15	1,606	6	1	0	0	0
Derivative financial instrument net of cash		7	16	6	0	0	1

**Maturity of repayment and interest payment of financial liabilities 31 Dec. 2009**

EUR million	Book value	2010	2011	2012	2013	2014	2015–
Bonds and debentures	1,244						
Repayment		-489	-52	-101	-492	-110	
Interest payment		-80	-64	-60	-33	-6	
Loans from financial institutions	1,016						
Repayment		-71	-537	-208	-181	-11	-8
Interest payment		-21	-16	-7	-3	0	0
Pension loans	190						
Repayment		-39	-19	-34	-34	-24	-40
Interest payment		-11	-9	-8	-5	-3	-2
Finance lease liabilities	65						
Repayment		-8	-6	-5	-8	-4	-34
Interest payment		-3	-3	-2	-2	-1	-8
Other non-current interest-bearing liabilities	67						
Repayment				-5	-49		-13
Interest payment		-2	-1	-1	-1		
Non-current interest-bearing liabilities, total	2,582						
Repayments in 2010	-606						
In balance sheet, total	1,976						
Repayment		-606	-615	-353	-764	-149	-95
Interest payment		-117	-92	-77	-44	-11	-11
Current interest-bearing liabilities	191						
Repayment		-191					
Interest payment		-10					
Liabilities classified as held for sale	6						
Repayment		-6					
Interest payment		0					
Accounts payable and other liabilities	889						
Repayment		-774	-107	-3	-2	-1	-3
Total liabilities	3,668						
Repayment		-1,577	-721	-356	-766	-150	-98
Interest payment		-128	-92	-77	-44	-11	-11
Guarantees agreements	11	-8	0	0	0	0	-2
Derivative financial instrument liabilities							
Interest rate swaps		8	9	10	5	-1	-2
Currency derivatives		-1,607	-2	-1			
Commodity derivatives		-3	-4	0	0		
Total	32	-1,602	3	10	5	-1	-2
Derivative financial instrument assets							
Interest rate swaps		0	0	0	0	0	0
Currency derivatives		1,600	4	2			
Commodity derivatives		2	1	0	0		
Total	4	1,601	4	2	0	0	0
Derivative financial instrument net of cash		-1	7	12	5	-1	-2

Bonds	Interest, %	2010	2009
2002-2012	9.200	103	101
2002-2014	9.400	90	84
2004-2011	3.325	30	30
2004-2011	3.506	10	10
2004-2011	3.580	12	12
2004-2013	9.000	26	26
2006-2010	4.247	0	150
2006-2010	5.589	0	339
2006-2013	8.750	494	492
Total		766	1,244

#### Maturity of finance lease liabilities

EUR million	2010	2009
Minimum lease payments		
Not later than 1 year	8	11
1-2 years	6	9
2-3 years	4	7
3-4 years	6	9
4-5 years	4	6
Later than 5 years	35	43
Total	63	83
Future finance charges	8	19
Present value of minimum lease payments	55	65
Present value of minimum lease payments		
Not later than 1 year	7	8
1-2 years	5	6
2-3 years	3	5
3-4 years	5	8
4-5 years	3	4
Later than 5 years	32	34
Total	55	65

The most significant finance lease agreements are M-real's Äänevoima Oy's power plants. Äänevoima's contract periods vary between 10 and 15 years. All finance lease liabilities will be due in 2017 at the latest. These leases contain renewal and purchase options.

## 27 Other non-current liabilities

EUR million	2010	2009
Non-interest bearing non-current liabilities to others		
Accruals and deferred income	3	3
Other liabilities	15	113
Total	18	115

According to the shareholders' agreement other non-current liabilities include in 2009 the liability of EUR 99 million to redeem Metsä-Botnia shares.

## 28 Accounts payable and other liabilities

EUR million	2010	2009
Non-interest bearing current liabilities to associated companies		
Accounts payable	5	4
Other liabilities	0	0
Accruals and deferred income	1	1
Total	6	6

Non-interest bearing current liabilities to others		
Advance payments	16	11
Accounts payable	347	326
Other liabilities	213	117
Accruals and deferred income	331	298
Total	907	752
Accounts payable and other liabilities, total	914	758

According to the shareholders' agreement other current liabilities include in 2010 the liability of EUR 99 million to redeem Metsä-Botnia shares.

#### Accruals and deferred income

EUR million	2010	2009
Non-current		
Others	3	3
Total	3	3
Current		
Periodizations of employee costs	95	92
Interests	18	19
Accruals of purchases	84	62
Others	135	126
Total	332	300

## 29 Financial assets and liabilities classified according to IAS 39 and fair values

EUR million

	note	Fair value through profit & loss	Available for sale financial assets	Loans and receivables	Derivatives at hedge accounting	Amortised cost	Book value total	Fair value
<b>Financial assets 31 Dec. 2010</b>								
Non-current investments	16		338				338	338
Other non-current financial assets	17			14			14	14
Accounts receivables and other receivables	20	1		842			843	843
Cash and cash equivalent	21			440			440	440
Derivative financial instruments	30	1			14		15	15
<b>Total</b>		<b>2</b>	<b>338</b>	<b>1,296</b>	<b>14</b>	<b>0</b>	<b>1,650</b>	<b>1,650</b>

### Financial liabilities 31 Dec. 2010

Non-current int.-bearing financial liabilities	26					1,927	1,927	1,985
Other non-current financial liabilities	27					18	18	18
Current int.-bearing financial liabilities	26					471	471	473
Accounts payable and other financial liabilities	28	99				703	803	803
Derivative financial instruments	30	2			33		35	35
<b>Total</b>		<b>102</b>	<b>0</b>	<b>0</b>	<b>33</b>	<b>3,119</b>	<b>3,254</b>	<b>3,314</b>

	note	Fair value through profit & loss	Available for sale financial assets	Loans and receivables	Derivatives at hedge accounting	Amortised cost	Book value total	Fair value
<b>Financial assets 31 Dec. 2009</b>								
Non-current investments	16		356				356	356
Other non-current financial assets	17			10			10	10
Accounts receivables and other receivables	20	1		749			750	750
Cash and cash equivalent	21			558			558	558
Derivative financial instruments	30	2			2		4	4
Assets classified as held for sale, financial assets	5			9			9	9
<b>Total</b>		<b>3</b>	<b>356</b>	<b>1,325</b>	<b>2</b>	<b>0</b>	<b>1,686</b>	<b>1,686</b>

### Financial liabilities 31 Dec. 2009

Non-current int.-bearing financial liabilities	26					1,976	1,976	1,862
Other non-current financial liabilities	27	99				16	115	115
Current int.-bearing financial liabilities	26					798	798	780
Accounts payable and other financial liabilities	28					655	655	655
Derivative financial instruments	30	-1			33		32	32
Liabilities classified as held for sale, financial liabilities	5					6	6	6
<b>Total</b>		<b>98</b>	<b>0</b>	<b>0</b>	<b>33</b>	<b>3,450</b>	<b>3,582</b>	<b>3,450</b>

Accounts receivables and other receivables do not include advance payments, deferred taxes or periodizations of employee costs (note 20). Accounts payable and other financial liabilities do not include advance payments, deferred tax liabilities or periodizations of employee costs (note 28).

In Metsäliitto Group all interest-bearing liabilities are valued in the balance sheet at amortised cost based on effective interest method. Interest-bearing financial assets are classified according to IAS. Fair values are based on present

value of cash flow of each liability or assets calculated by market rate. The discount rates applied are between 0.8–6.6 per cent (0.4–21.2). Of interest-bearing liabilities 75 per cent (83) is subject to variable rates and the rest to fixed rates. The average interest rate of interest-bearing liabilities at the end of 2010 was 4.7 per cent (4.9). The fair value of accounts and other receivables and account payables and other liabilities are not essentially deviating from the carrying amounts in the balance sheet.

## 30 Derivatives

EUR million

	Nominal value	Assets	Liabilities	Fair value Total	Fair value hedges	Cash flow hedges	Equity hedges	Derivatives, hedge accounting not applied	Derivatives held for trading
<b>31 December 2010</b>									
Interest forward agreements	8		0	0				0	0
Interest rate options									
Interest rate swaps	995		9	-9	-5	-3		-1	0
Interest rate derivatives, total	1,003	0	9	-9	-5	-3	0	-1	0
Currency forward agreements	1,591	0	17	-17		5	-22	0	0
Currency option agreements	12		0	0				0	
Currency swap agreements	56		9	-9	-9				
Currency derivatives, total	1,660	0	26	-26	-9	5	-22	0	0
Electricity derivatives	97	12		12		11		1	
Pulp derivatives	23	3		3		3			
Other commodity derivatives	7	0	0	0				0	
Commodity derivatives, total	127	15	0	15	0	14	0	0	0
Derivatives total	2,790	15	35	-20	-14	17	-22	-1	0

Nominal value also includes closed contracts to a total amount of EUR 522 million.

	Nominal value	Assets	Liabilities	Fair value Total	Fair value hedges	Cash flow hedges	Equity hedges	Derivatives, hedge accounting not applied	Derivatives held for trading
<b>31 December 2009</b>									
Interest forward agreements	4		0	0				0	
Interest rate options									
Interest rate swaps	827	0	7	-7	-5	-3		1	0
Interest rate derivatives, total	831	0	7	-7	-5	-3	0	1	0
Currency forward agreements	1,595	0	9	-9		5	-15	1	0
Currency option agreements	118		0	0				0	0
Currency swap agreements	52		9	-9	-9				
Currency derivatives, total	1,766	0	19	-18	-9	5	-15	1	0
Electricity derivatives	203	2	6	-4		-6		2	0
Pulp derivatives	42	2		2		2			
Other commodity derivatives	8		0	0				0	
Commodity derivatives, total	254	3	6	-3	0	-5	0	2	0
Derivatives total	2,850	4	32	-28	-14	-2	-15	3	0

Nominal value also includes closed contracts to a total amount of EUR 537 million.

## 31 Maturity analysis of cash flow hedge accounting

Result of the hedging instrument is booked to the income statement at the realization of the cash flow. Contractual maturities of hedging instruments equals to the hedged cash flow.

### 31 December 2010

Periods when the forecasted cash flows are expected to occur	Highly probable foreign currency cash flows	Contractual interest cash flows	Highly probable commodity cash flows
Q1	112	-1	-11
Q2	79	-1	-11
Q3	36	0	-11
Q4		-1	-11
Total in 2011	228	-2	-46
2012		-2	-21
2013		-2	-5
2014			-2
2015			
Cash flows total	228	-7	-74
Total nominal values of derivatives directed to hedge accounting	228	130	74

### 31 December 2009

Periods when the forecasted cash flows are expected to occur	Highly probable foreign currency cash flows	Contractual interest cash flows	Highly probable commodity cash flows
Q1	79	-1	-12
Q2	62	-1	-16
Q3	27	0	-16
Q4	16	-2	-12
Total in 2010	184	-3	-56
2011		-2	-39
2012		-2	-13
2013		-1	-2
2014			
Cash flows total	184	-7	-110
Total nominal values of derivatives directed to hedge accounting	184	160	110

## 32 Notes to Consolidated cash flow statement

EUR million	2010	2009
Adjustments to the result		
Taxes	131	-10
Infringement fine imposed by the Market Court	-21	21
Depreciation, amortization and impairment charges	336	501
Biological assets	0	10
Share of profit from associated companies	15	16
Gains and losses on sale of non-current financial assets	-39	-217
Finance costs, net	137	144
Pension liabilities and provisions	-63	6
Total	495	469

EUR million	2010	2009
Change in working capital		
Change in inventories	-131	201
Change in accounts receivables and other receivables	-89	156
Change in accounts payable and other liabilities	84	-126
Total change	-136	231



### 33 Principal subsidiaries at 31 December 2010

#### Metsäliitto Cooperative

The parent company Metsäliitto Cooperative's shares are listed on pages 110–111.

Metsä-Botnia	Country	Number of shares	Group's holding, %
<b>In Finland</b>			
Metsä-Botnia Metsät Oy	Finland	100,000	100.00
Oy Silva Shipping Ab	Finland	400,000	100.00
<b>In other countries</b>			
Botnia Italia S.r.l.	Italy	1	100.00
Botnia Pulps GmbH	Germany	1,000	100.00
000 Suda Wood	Russia		100.00
000 Svir Timber	Russia	1	100.00

#### M-real

<b>In Finland</b>			
Alrec Boiler Oy *)	Finland	899	24.92
Oy Hangö Stevedoring Ab	Finland	150	100.00
Kemiart Liners Oy	Finland	2,000,000	100.00
Logisware Oy	Finland	4,500	100.00
M-real International Oy	Finland	10,000	100.00
Metsä Group Financial Services Oy	Finland	25,500	51.00
<b>In other countries</b>			
M-real Deutsche Holding GmbH	Germany		100.00
M-real Fine B.V.	The Netherlands	1,000	100.00
M-real Holding France SAS	France	520,000	100.00
M-real IBP Deals Americas Ltd	USA	50	100.00
M-real IBP Deals Europe S.A.	Belgium	1,000	100.00
M-real NL Holding B.V.	The Netherlands	15,350	100.00
M-real Reinsurance AG	Switzerland	19,997	100.00
M-real Sverige AB	Sweden	10,000,000	100.00
M-real UK Holdings Ltd	Great Britain	146,750,000	100.00

<sup>1)</sup> Consolidated as a subsidiary under shareholders' agreement

#### Metsä Tissue

<b>In Finland</b>			
Finncao Oy	Finland	945	100.00
<b>In other countries</b>			
Dambi AB	Sweden	4,501,000	100.00
Metsä Tissue AB	Sweden	2,000,000	100.00
Metsä Tissue A/S	Denmark	1,000	100.00
Metsä Tissue AS	Norway	6,020	100.00
Metsä Tissue GmbH	Germany	1	100.00
Halstrick Transport GmbH	Germany	1	100.00
Metsä Tissue Immobilienverwaltungs GmbH	Germany	1	100.00
Metsä Tissue Hungary Kft.	Hungary		100.00
Metsä Tissue Ltd	Great Britain	100	100.00
Metsä Tissue Poland Sp z o.o.	Poland	98,170	100.00
Metsä Tissue Romania s.r.l.	Romania	4,000	100.00
Metsä Tissue Slovakia s.r.o.	Slovakia		100.00
Metsä Tissue Ukraine LCC	Ukraine		100.00
000 Metsä Tissue	Russia	1	100.00

## 34 Joint ventures

Joint ventures have been consolidated using line-by-line method proportionate to the Group's holding. Group's consolidated income statement and balance sheet included assets, liabilities, income and costs as follows:

EUR million	2010	2009
Non-current assets	35	32
Current assets	7	6
Total assets	42	38
Non-current liabilities	28	34
Current liabilities	4	5
Total liabilities	32	39
Sales	15	781
Expenses	16	683
Result	-1	107

### Significant joint ventures:

Group's holding, %	2010	2009
Äänevoima Oy	56.25	56.25
Katrinefors Kraftvärme Ab		50.00
Kiinteistö Oy Metsätapiola	48.98	

Metsä-Botnia Group has been consolidated as a joint venture line-by-line until 7 December 2009 (Metsäliitto Cooperative 23% and M-real 30%). Due to the ownership arrangements in December 2009 Oy Metsä-Botnia Ab became a subsidiary of Metsäliitto Cooperation as per 8 December 2009.

Metsäliitto Cooperative sold its shares in Vapo Oy on 24 June 2009.

## 35 Contingent liabilities

Upon an action initiated by the Competition Authority, the Market Court imposed an infringement fine of EUR 21 million on Metsäliitto Cooperative for alleged breach of restrictions on competition in the raw timber purchasing market in 1997–2004. Metsäliitto Cooperative has decided not to appeal the ruling. Due to this ruling, Metsäliitto might face compensation claims for damages suffered because of the alleged breach of the competition legislation. Outcomes of such trials may have a negative impact on Metsäliitto's business activities, its business result and its financial position. On the signing date of the balance sheet, Metsäliitto has no knowledge of such legal actions.

During the past few years companies belonging to the Metsäliitto Group have acted as sellers in many share transactions giving normal seller's securities. It is not impossible that demands against these companies are made regarding the given securities and that these securities could result in extra costs for the companies.

EUR million	2010	2009
For own liabilities		
Liabilities secured by pledges		
Loans from financial institutions	265	200
Pension loans	100	
Pledges granted	316	102
Liabilities secured by mortgages		
Loans from financial institutions	37	98
Pension loans	196	145
Other liabilities	6	
Real-estate mortgages	286	257
Liabilities secured by chattel mortgages		
Loans from financial institutions	3	3
Other liabilities	3	2
Chattel mortgages	7	7
On behalf of Group companies		
Pledges	13	
Real estate mortgages		
Guarantee liabilities	12	24
On behalf of associated companies		
Pledges		
Real-estate mortgages		
Guarantee liabilities	4	6
On behalf of others		
Pledges		
Chattel mortgages	0	0
Guarantee liabilities	4	4
Other liabilities		
As security for own commitments	14	16
As security for other's commitments		
Pension liabilities	0	0
Total		
Pledges	329	102
Real estate mortgages	293	264
Guarantees	20	34
Other liabilities	14	16
Pension liabilities	0	0
Leasing liabilities	49	49
Total	706	466

Pledges granted are shares in subsidiaries.

### Other lease commitments

The Group leases various offices and warehouses under non-cancellable operating lease contracts. Some contracts are renewable at the end of the lease period.

**The future costs for non-cancellable operating lease contracts are as follows:**

EUR million	2010	2009
Payments due in following 12 months	15	18
Payments due in following 1–5 years	32	28
Payments due later than 5 years	3	4
Total	49	49

**Unconditional purchase agreements**

EUR million	2010	2009
Tangible assets, payments due in following 12 months	0	0
Tangible assets, payments due in subsequent years	1	1
Others, payments due in following 12 months	1	1
Others, payments due in subsequent years	0	0

**Joint ventures**

Metsä Tissue's mill in Mariestad Sweden has an agreement to buy process steam from the local energy company Katrinefors Kraftvärme Ab of which Metsä Tissue Ab owns 50 per cent. The agreement is valid until 2016.

## 36 Share based payment

The Group had one incentive schemes during the review period: share incentive scheme 2008–2010. Metsäliitto's Board of Directors decided to adopt the scheme on 16 January 2008 as a spurring and motivating arrangement for key personnel. The programme offers target groups the possibility to be awarded M-real's B-shares for achieving the goals set for three periods each of one calendar year. The Board of Directors decides yearly upon the group's financial key ratios which criterias to be used and which upper and lower limits (targets) should be implemented. The achievement of performance targets set determines how much of the maximum reward will be paid to key personnel. The bonus is paid by the end of April. In addition to shares, cash is paid to cover tax effects. The bonus is not paid if the person concerned ceases to be employed before the award is paid. The person concerned must also own the shares for at least two years after the date of the award payment.

The bonus payable under the share incentive scheme 2008–2010 is at a maximum 560,000 M-real's B-shares for the vesting period 2010. The maximum amount includes the cash paid to cover taxes and tax related costs at the day of transfer. The size of the bonus awarded for vesting period 2010 is linked to adjusted cash flow and operating result.

## Share incentive scheme 2008–2010

Issued by the Board's decision on 16 Jan. 2008

	2008 *	2009 *	2010 *	Total
<b>Basic information</b>				
Maximum number of shares **	1,080,349	325,000	280,000	1,685,349
Maximum number of shares in cash **	1,449,274	325,000	280,000	2,054,274
Exercise day(s)	16.1.2008	3./5.2.2009	1./3./4.2.2010	
Vesting period starts	1.1.2008	1.1.2009	1.1.2010	
Vesting period ends	31.12.2008	31.12.2009	31.12.2010	
Obligation to hold shares, years	2	2	2	
Conditions of vesting requirements	Obligation to work	Obligation to work	Obligation to work	
Criteria	EBIT, ROCE	Cash flow 2	EBIT, cash flow 2	
Date of vesting requirement	1.1.2011	1.1.2012	1.1.2013	
Maximum validity, years	3	3	3	
Payment	Shares and cash	Shares and cash	Shares and cash	
Binding time left, years	0	1	2	
Number of key personnel	2	28	20	
Realisation price, EUR	0	0	0	0
<b>Fair value measuring ***</b>				
Share price at grant date, EUR	2.54	0.52 / 0.45	1.62 / 1.78 / 1.80	
Fair value of share at grant date, EUR	2.42	0.52 / 0.45	1.62 / 1.78 / 1.80	
Assumed dividends, EUR	0.12	0	0	
Share price at settlement / at end of financial period, EUR	0.30 / 0.40	2.38	2.54	
Fair value at end of financial period, EUR	626,888	729,240	479,423	1,835,550
<b>Effect on result and financial position</b>				
Expense, share based payment, EUR	211,669	368,728	149,678	730,075
Expense, share based payment, settled as equity, EUR	0	9,967	16,163	26,130
Liabilities, share based payment, at the end of financial period, EUR	0	0	149,678	627,893
Amounts 1 Jan.				
Outstanding at the beginning of period	785,485	310,838	0	1,096,323
Changes during the period				
Shares granted	0	0	280,000	280,000
Shares forfeited	0	15,000	130,000	145,000
Shares exercised	0	170,086	0	170,086
Shares expired	785,485	155,752	0	941,237
Amounts 31 Dec.				
Outstanding at the end of period	0	170,086	150,000	320,086
Exercisable at the end of period	0	0	150,000	150,000

\*) The amounts in the table reflect the number of shares to be given on the base of share-based payment. Metsäliitto has also committed not to pay more than the value of shares in cash (tax-portion).

\*\*) The figures include UPM-Kymmene Corporation shares, which are part of Oy Metsä-Botnia Ab's equity-based reward scheme.

\*\*\*) The fair value of the share-settled part at exercise date was the market price of M-real's B-shares less any dividend paid before the payment of the reward. Correspondingly, the fair value of the cash-settled part is estimated on every balance sheet date until the end of incentive period. The fair value of share-based payment is recognised to the amount based on best possible estimate of the reward, which is believed to be granted.

On 16 December 2010 the Board of Directors of Metsäliitto Cooperative has resolved on a new share-based incentive plan directed to the Group's executives. The plan includes three 3-year earning periods, calendar years 2011–2013, 2012–2014 and 2013–2015. The Board of Directors will decide on the earning criterias and on targets to be established for them at the beginning of each earning period. The potential reward from the plan for the earning period 2011–2013 will be based on the Metsäliitto Group's (M-real's for persons working in M-real) equity ratio and the development of return on capital employed and operating result (EBIT). Each earning period is followed by subsequent 2-year restriction period during which the participant is not entitled to transfer or dispose of the shares. The potential reward from the earning period 2011–2013 will be paid partly in M-real's B-shares and partly in cash in

2014. The proportion to be paid in cash will cover taxes and tax-related costs arising from the reward.

In the starting point the plan concerns 52 people including the members of the Group's Executive Management. The rewards to be paid on the basis of the plan for the first earning period 2011–2013 are in total a maximum of approximately 4.7 million M-real B-shares including the part paid in cash.

### President and CEO's reward

For the earning period 2009 the President and CEO Kari Jordan was paid bonuses in cash and M-real's shares of EUR 622,389 (684,926) according to the incentive programme. The reward was based on established targets and earning criterias.

### 37 Metsäliitto Management Oy

During the accounting period a company named Metsäliitto Management Oy has been established for the shareholding programme of the members of Metsäliitto Group's Executive Management. The date of issue of the programme is 10 August 2010 and the M-real B-shares acquired for the programme amounts to 6.8 million. The acquisitions have been financed using capital inputs of a total of EUR 3,850,000, of which the capital input of Kari Jordan, President and CEO, is EUR 1 million, and a loan of EUR 15,400,000 granted by Metsäliitto Cooperative. Shares have been purchased for Kari Jordan for approximately EUR 5 million.

The loan granted by Metsäliitto Cooperative will be repaid in its entirety by 31 March 2014. If the validity of the arrangement is continued one year at a time in 2013, 2014, 2015 or 2016, the loan period will be extended correspondingly. Metsäliitto Management Oy has the right to repay the loan prematurely at any time. Metsäliitto Management Oy is obligated to repay the loan prematurely by selling the M-real B-shares it holds if the stock exchange price of the shares exceeds a certain level defined in the arrangement for an extended period of time.

The arrangement will remain in force until the end of 2013 and beginning of 2014, at which time the intention is to dismantle the arrangement in a manner to be decided later. The arrangement can be dismantled by merging the company with M-real or selling the M-real B-shares held by the company to Metsäliitto, a party designated by Metsäliitto or a third party and liquidating the company or by selling the shares of the company to Metsäliitto. The arrangement will be extended one year at a time if, in October-November 2013, 2014, 2015 or 2016, the stock exchange price of the M-real B-share is lower than the average price at which Metsäliitto Management acquired the M-real B-shares it owns.

The assignment of the M-real B-shares owned by Metsäliitto Management is restricted during the validity of the arrangement. As a rule, the ownership of members of the Executive Management in Metsäliitto Management Oy will remain in force until the dismantling of the arrangement.

In Metsäliitto Group, the arrangement is processed as a share incentive scheme. Valuation is performed at each reporting day based on the fair value of the M-real B-share.

In 2010, no expenses were recognised in the Group's income statement in connection with Metsäliitto Management Oy's share ownership programme.

### 37 Related party transactions

The sales of Metsäliitto Cooperative's wood deliveries to the Group subsidiaries were EUR 679 million (132). In 2010 there were no wood delivery sales to associated companies or joint ventures (413). Due to the ownership arrangements in the end of 2009 Oy Metsä-Botnia Ab became a subsidiary of Metsäliitto Cooperation on 8 December 2009.

Metsäliitto Group's forest holdings are centralised in Finsilva Corporation, which is an associated company of Metsäliitto Cooperative (49.9%). Finsilva sells wood to Metsäliitto Cooperative. The value of wood deliveries in 2010 was EUR 18 million (18).

Metsä Group Financial Services Oy owned by Metsäliitto Cooperative and M-real is the Group's internal bank. The interests are market based.

The compensations paid to management are presented in note 8 and note 36. The parent company has no commitments on behalf of management nor receivables from management.

Metsäliitto Management Oy, domiciled in Espoo, has only been established to administrate the shareholding programme of Metsäliitto Cooperative. Metsäliitto Cooperative or companies controlled by Metsäliitto have no holdings in Metsäliitto Management Oy. According to the shareholders' and loan agreement Metsäliitto Cooperative has the controlling right in the company.

Business transactions with associates are presented in note 15. A list of joint ventures is included in note 34.

### 38 Environmental affairs

#### Income statement (incl. discontinued operations)

EUR million	2010	2009
Materials and services	21	24
Employee costs		
Wages and fees	4	5
Other employee costs	2	2
Depreciation	17	17
Other operating expenses	9	10
Total	53	58

#### Balance sheet

EUR million	2010	2009
Intangible and tangible assets		
Acquisition costs, 1 Jan.	449	508
Increases	13	60
Decreases	-2	-119
Accumulated depreciation at 31 Dec.	-317	-293
Book value, 31 Dec	143	156
Provisions		
Environmental obligations	11	9

#### Notes

EUR million	2010	2009
Conditional environmental-related liabilities	2	2
Guarantees due to environmental programmes	5	5

#### CO<sub>2</sub> emission allowances, continuing operations

Possessions of emission allowances (1,000 tonnes)	1,164	1,007
Emission produced (1,000 tonnes)	1,194	1,136
Sales of emission allowances, EUR mill.	7.0	7.2

### 39 Events after the Balance sheet date

In January, M-real announced the launch of a new profit improvement programme for 2011. The programme focuses on improving the paper business profitability as well as decreasing variable costs of all businesses. The earlier announced profit improvement impact of Simpele and Kemi cartonboard investments and the closure of the speciality paper production at Simpele are included in the new profit improvement programme.

The planned measures are expected to improve M-real's annual operating result by EUR 70 million with full effect from 2012 onwards. The effect on the 2011 result is expected to be approximately EUR 30 million.

In February 2011 Metsä-Botnia decided to develop the energy production and build a bark gasification plant at its Joutseno mill. The total value of the investment is approximately EUR 20 million. The plant will compensate the mill's consumption of natural gas and the mill will be carbon neutral during normal operation.

M-real is investing EUR 30 million to increase the Äänekoski and Kyröskoski mills' annual folding boxboard capacity by a total of approximately 70,000 tonnes. After the investments, the annual production capacity will increase to 190,000 tonnes at Kyröskoski and 240,000 tonnes at Äänekoski. The Kyröskoski investment will be carried out at the end of 2011 and the Äänekoski investment during the spring of 2012.

# Parent company accounts (Finnish Accounting Standards, FAS)

## Income Statement

EUR million	note	1.1.-31.12.2010	1.1.-31.12.2009
<b>Sales</b>	1	<b>1,418.6</b>	<b>1,149.7</b>
Change in stocks of finished goods and work in progress		5.9	-15.3
Production for own use		0.3	0.2
Other operating income	2	77.2	101.5
<b>Materials and services</b>			
Raw materials and consumables			
Purchases during the financial period		-887.4	-713.8
Change in inventories		15.3	-8.9
External services		-354.9	-281.8
Employee costs	3	-145.2	-130.1
Depreciation and impairment charges	4	-34.5	-40.4
Other operating expenses	5	-65.9	-84.8
		-1,472.5	-1,259.8
<b>Operating result</b>		<b>29.5</b>	<b>-23.7</b>
<b>Financial income and expenses</b>	6		
Income from Group companies		26.2	10.0
Income from associated companies		1.3	182.8
Income from other financial investments		12.3	12.2
Other interest and similar income		0.8	2.4
Net exchange gains/losses	7	-3.8	1.5
Write-downs on non-current investments		-3.7	0.0
Interest and similar expenses		-29.7	-35.7
		3.5	173.2
<b>Result before extraordinary items</b>		<b>33.0</b>	<b>149.5</b>
<b>Extraordinary items</b>	8		
Extraordinary income		0.0	0.0
Extraordinary expenses		0.0	0.0
		0.0	0.0
<b>Result before appropriations and taxes</b>		<b>33.0</b>	<b>149.5</b>
<b>Appropriations</b>			
Change in depreciation reserve		-5.3	30.7
Income taxes	9	-0.3	-1.6
<b>Surplus for the financial period</b>		<b>27.4</b>	<b>178.6</b>



# Parent company accounts

## Balance Sheet

EUR million	note	31.12.2010	31.12.2009
<b>Assets</b>			
<b>Non-current assets</b>			
<b>Intangible assets</b>	10		
Intangible rights		6.0	6.8
Goodwill		0.0	0.7
Other capitalised expenditure		1.9	2.7
Advance payments and construction in progress		2.3	1.7
		10.2	11.9
<b>Tangible assets</b>	10		
Land and water areas		4.7	5.3
Buildings		42.3	47.9
Machinery and equipment		86.5	102.6
Other tangible assets		2.9	3.7
Advance payments and construction in progress		8.2	5.8
		144.5	165.4
<b>Investments</b>	11, 12		
Shares in Group companies		1,667.7	1,666.2
Receivables from Group companies		128.7	128.7
Investments in associated companies		30.3	30.5
Receivables from associated companies		0.0	0.2
Other shares and holdings		2.2	2.2
Other receivables		3.1	5.1
		1,831.9	1,832.8
<b>Non-current assets total</b>		<b>1,986.6</b>	<b>2,010.1</b>
<b>Current assets</b>			
<b>Inventories</b>			
Raw materials and consumables		96.4	80.9
Finished goods and work in progress		33.0	27.9
Other inventories		2.1	1.5
Advance payments		33.6	15.2
		165.0	125.5
<b>Non-current receivables</b>	13		
Receivables from Group companies		19.7	5.4
Receivables from associated companies		0.0	0.1
Loan receivables		2.4	2.8
Other receivables		2.2	0.0
		24.3	8.2
<b>Current receivables</b>	13		
Accounts receivables		67.5	51.7
Receivables from Group companies		72.2	65.4
Receivables from associated companies		0.1	0.2
Loan receivables		0.5	0.0
Other receivables		13.0	4.9
Prepayment and accrued income		8.4	3.8
		161.7	125.9
<b>Receivables total</b>		<b>186.1</b>	<b>134.2</b>
<b>Cash and cash equivalent</b>		<b>3.8</b>	<b>6.1</b>
<b>Current assets total</b>		<b>354.9</b>	<b>265.7</b>
<b>Assets total</b>		<b>2,341.6</b>	<b>2,275.8</b>

EUR million	note	31.12.2010	31.12.2009
<b>Members' funds and liabilities</b>			
<b>Members' funds</b>	14		
Members' capital		194.5	188.7
Additional members' capital A		463.2	455.0
Additional members' capital B		47.5	24.1
Additional members' capital C		14.5	0.0
Other reserves			
General reserve I		3.9	3.9
General reserve II		51.5	42.6
Retained earnings		515.3	381.2
Surplus for the financial period		27.4	178.6
		<b>1,317.8</b>	<b>1,274.0</b>
<b>Appropriations</b>			
Accumulated depreciation difference		15.4	10.1
<b>Provisions</b>	15	3.1	2.2
<b>Liabilities</b>	16, 17		
<b>Non-current liabilities</b>			
Loans from financial institutions		495.5	489.7
Pension premium loans		65.0	8.0
Advance payments		0.0	0.0
Loans from Group companies		52.0	52.0
Other liabilities		6.6	5.6
Accruals and deferred income		0.1	0.0
		619.3	555.3
<b>Current liabilities</b>	18		
Bonds and debentures		0.0	150.0
Loans from financial institutions		110.4	12.7
Pension premium loans		8.0	0.0
Advance payments		7.5	3.5
Accounts payable		57.7	89.8
Payables to Group companies		92.1	109.6
Payables to associated companies		2.5	1.2
Other liabilities		14.9	6.2
Accruals and deferred income	19	92.9	61.2
		386.0	434.2
<b>Liabilities total</b>		<b>1,005.3</b>	<b>989.5</b>
<b>Members' funds and liabilities total</b>		<b>2,341.6</b>	<b>2,275.8</b>

# Parent company accounts

## Cash Flow Statement

EUR million	2010	2009
<b>Cash flow from operating activities</b>		
Operating result	29.5	-23.7
Adjustments to operating result 1)	6.2	14.2
Interest received	13.1	15.1
Interest paid	-19.9	-35.6
Dividends received	27.5	192.7
Other financial items, net	-11.4	1.1
Taxes paid	-0.3	-1.6
Change in working capital 2)	-16.0	9.7
	28.9	172.0
<b>Cash flow arising from investing activities</b>		
Purchase of shares	-5.5	-461.0
Investments in fixed assets	-11.8	-9.6
Proceeds from disposal of shares	8.5	231.9
Refund of capital	0.0	69.6
Proceeds from sale of fixed assets	4.5	0.5
Proceeds from/increase in long-term receivables	-12.9	1.5
	-17.2	-167.1
<b>Cash flow before financing</b>	<b>11.8</b>	<b>4.9</b>
<b>Cash flow arising from financing activities</b>		
Increase in non-current liabilities	547.4	81.2
Decrease in non-current liabilities	-526.6	-204.1
Change in current liabilities, net	-51.1	70.7
Change in current interest-bearing receivables, net	-0.1	143.1
Interest paid on members' capital	-35.6	-37.4
Change in members' capital	51.9	-56.6
	-14.0	-3.2
<b>Change in cash and cash equivalents</b>	<b>-2.2</b>	<b>1.8</b>
Cash and cash equivalents at beginning of period	6.1	4.3
Change in cash and cash equivalents	-2.2	1.8
<b>Cash and cash equivalents at end of period</b>	<b>3.8</b>	<b>6.1</b>
1) Adjustments to operating result		
Infringement fine imposed by the Market Court	-21.0	21.0
Depreciation and impairment charges	34.5	40.4
Gains and losses on sale of fixed assets	-11.4	-46.9
Change in provisions	4.1	0.0
Profit on mergers	0.0	-0.3
Total	6.2	14.2
2) Change in working capital		
Inventories (increase-/decrease+)	-39.5	44.5
Current non-interest bearing receivables (increase-/decrease+)	-37.0	19.9
Current non-interest-bearing liabilities (increase+/decrease-)	60.5	-54.7
Total (increase-/decrease+)	-16.0	9.7

# Parent Company Accounting policies

Metsäliitto Cooperative's financial statements have been prepared in accordance with Finnish accounting standards (FAS).

## Sales

Sales are calculated after deduction of indirect sales taxes, trade discounts and other items adjusting sales.

## Exchange rate differences

Foreign exchange gains and losses have been booked to net exchange gains/losses under financial income and expense. Open and actual foreign exchange differences hedging sales are recorded immediately to financial income and expenses in the income statement.

## Transactions in foreign currency

Transactions in foreign currency have been booked at the exchange rate on the day of the transaction. At the balance sheet date, receivables and liabilities denominated in foreign currency have been translated into euros at the exchange rate quoted by the European Central Bank at the balance sheet date.

## Pensions and pension funding

Statutory pension security is handled by pension insurance companies outside Metsäliitto Group. In addition to statutory pension security, some salaried employees have supplementary pension arrangements which are either insured, arranged through the Metsäliitto Employees' Pension Foundation or are an unfunded liability of the company.

Pension insurance premiums have been periodised to correspond to the accrual-based wages and salaries given in the financial statements.

## Research and development expenditure

Research and development expenditure is recorded as an expense in the relevant financial period.

## Inventories

Inventories are measured at the lower of cost or net realizable value. In measuring inventories, the FIFO principle is observed or, alternatively, the weighted average price method.

## Property, plant and equipment and depreciation

The carrying values of property, plant and equipment are based on original acquisition costs less depreciation according to plan and impairment losses. Depreciation according to plan is based on the estimated useful life of the asset as follows:

Goodwill	5–10 years
Buildings	20–40 years
Machinery and equipment	3–15 years
Other items	5–10 years

Depreciation is not recorded on the purchase cost of land and water areas.

## Leasing

Lease payments are treated as rental expenses.

## Environmental expenditure

Environmental expenditure comprises the specifiable expenses of environmental protection measures aiming primarily at combating, remedying or alleviating environmental damage.

## Extraordinary income and expenses

Substantial income and expenses arising on transactions of an abnormal nature, such as the divestment of businesses, are presented in the income statement as extraordinary items. The tax effect of extraordinary items is presented in the notes to the financial statements.

## Appropriations

Finnish tax legislation offers the possibility to deduct expenses prematurely from the profit for the financial year and to transfer them to the balance sheet as provisions. The items are taken into account in tax filings only if they have been entered in the accounts. These items are presented in the appropriations in the income statement. The most substantial of these appropriations is the depreciation difference on fixed assets.

## Provisions

Future costs and losses to which the company is committed and which are likely to be realised are included in the income statement under the appropriate expense heading and in the balance sheet under provisions for future costs whenever the precise amount and the time of occurrence are not known and in other cases they are included in accrued liabilities. These can be, for example, the pension liability or costs of discontinued operations and restructuring costs.

# Notes to the parent company's accounts

EUR million

## 1. Sales by market area

	2010	2009
Finland	972.8	809.1
EU-countries	326.6	239.2
Rest of the world	119.3	101.4
Total	1,418.6	1,149.7

## 2. Other operating income

Rents	2.5	3.0
Gains on disposal of fixed assets	11.5	50.7
Service revenue	54.1	38.4
Others	9.2	9.3
Total	77.2	101.5

In 2010 gains on disposal of fixed assets include sales gains of EUR 5.2 million from the shares of Finnforest Baco Productions s.r.l. In 2009 gains on disposal of fixed assets include sales gains from Vapo-shares of EUR 27.3 million and from Botnia South America SA-shares of EUR 23.3 million.

## 3. Employee costs and average personnel

Wages	93.4	77.6
Fees	0.0	2.4
Pension costs	21.7	19.2
Other employee costs	30.0	30.8
Total	145.2	130.1

## Salaries and remunerations paid to management

President and CEO and his deputy	3.2	2.3
Members of the board and their deputies	0.4	0.4
Members of the supervisory board	0.2	0.1
Total	3.8	2.8

## Pension commitments

The CEO of the Group is entitled to retire on reaching the age of 60. Some Metsäliitto top executives have the right to an extra pension according to the pension rules when they retire at the age of 62.

## Average personnel

White collars	1,172	1,176
Blue collars	1,186	1,124
Total	2,358	2,300

## 4. Depreciation and impairment charges

Depreciations according to plan		
Intangible rights	2.5	2.9
Goodwill	0.7	0.7
Other capitalized expenditure	0.7	0.7
Land and water areas	0.6	0.0
Buildings	6.2	9.1
Machinery and equipment	22.7	25.9
Other tangible assets	1.0	1.0
Depreciations according to plan, total	34.5	40.4

## Change in accumulated depreciation difference

Difference between planned and book depreciation	-0.6	-32.7
Depreciation difference on fixed assets sold	5.9	2.0
Total change	5.3	-30.7

Total depreciation	39.8	9.6
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EUR million

## 5. Other operating expenses

<b>Main auditors fees</b>		
Audit fees	0.5	0.5
Tax consultancy	0.0	0.0
Other fees	0.1	0.1
Total	0.6	0.6

## Infringement fine imposed by the Market Court

In 2009 other operating expenses include an infringement fine imposed by the Market Court of EUR 21.0 million for breach of competition legislation in 1997–2004.

## 6. Financial income and expenses

Income from non-current investments		
Dividend income		
From Group companies	26.2	189.5
From associated companies	1.3	3.2
From others	0.0	0.0
Total	27.5	192.7

Interest income		
From Group companies	12.3	12.2
From others	0.0	0.0
Total	12.3	12.2

Income from non-current investments	39.9	204.9
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Other interest and financial income		
Interest income from Group companies	0.4	1.7
Interest income from associated companies	0.0	0.1
Other interest income	0.3	0.6
Total	0.8	2.4

Exchange differences	-3.8	1.5
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Write-downs of non-current investments	-3.7	0.0
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Interest and financial expenses		
Interest expenses paid to Group companies	-6.1	-2.2
Interest expenses paid to associated companies	0.0	-0.1
Other interest expenses	-16.0	-32.9
Other financial expenses	-7.6	-0.5
Total	-29.7	-35.7

Total financial income and expenses	3.5	173.2
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EUR million

#### 7. Net exchange gains/losses in income statement

	2010	2009
Gains/losses on sales	0.3	-0.6
Gains/losses on purchases	-0.1	0.0
Gains/losses on financing	-4.0	2.1
Total	-3.8	1.5

The presentation of net exchange gains/losses has changed. Figures for 2009 have been converted to correspond to the new practice.

#### 8. Extraordinary items

Extraordinary income	0.0	0.0
Extraordinary expenses	0.0	0.0
Total	0.0	0.0

#### 9. Income taxes

Taxes for the period	0.1	-1.6
Taxes for previous periods	-0.4	0.0
Total	-0.3	-1.6

Income taxes on ordinary operations	-0.3	-1.6
Income taxes on extraordinary items	0.0	0.0
Total	-0.3	-1.6

#### 10. Intangible and tangible assets

Intangible assets		
Acquisition cost, 1 Jan.	42.9	40.2
Increases	0.5	1.9
Decreases	-0.5	0.0
Transfers between items	1.2	0.8
Acquisition cost, 31 Dec.	44.1	42.9

Accumulated depreciation, 1 Jan.	-36.1	-33.2
Accumulated depreciation on decreases and transfers	0.5	0.0
Depreciation for the period	-2.5	-2.9
Accumulated depreciation, 31 Dec.	-38.2	-36.1
Book value, 31 Dec.	6.0	6.8

Accumulated depreciation difference	0.9	1.2
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#### Goodwill

Acquisition cost, 1 Jan.	7.3	7.3
Increases	0.0	0.0
Decreases	-7.3	0.0
Transfers between items	0.0	0.0
Acquisition cost, 31 Dec.	0.0	7.3

Accumulated depreciation, 1 Jan.	-6.6	-5.9
Accumulated depreciation on decreases and transfers	7.3	0.0
Depreciation for the period	-0.7	-0.7
Accumulated depreciation, 31 Dec.	0.0	-6.6
Book value, 31 Dec.	0.0	0.7

EUR million

#### Other capitalized expenditure

Acquisition cost, 1 Jan.	9.5	9.3
Increases	0.4	0.2
Decreases	-0.6	-0.2
Transfers between items	0.0	0.2
Acquisition cost, 31 Dec.	9.3	9.5

Accumulated depreciation, 1 Jan.	-6.8	-6.1
Accumulated depreciation on decreases and transfers	0.1	0.0
Depreciation for the period	-0.7	-0.7
Accumulated depreciation, 31 Dec.	-7.4	-6.8
Book value, 31 Dec.	1.9	2.7

Accumulated depreciation difference	0.4	0.4
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#### Construction in progress

Acquisition cost, 1 Jan.	1.7	1.1
Increases	1.9	1.4
Decreases	0.0	0.0
Transfers between items	-1.2	-0.8
Acquisition cost, 31 Dec.	2.3	1.7

#### Intangible assets total

Acquisition cost, 1 Jan.	61.4	57.8
Increases	2.8	3.5
Decreases	-8.5	-0.2
Transfers between items	0.0	0.2
Acquisition cost, 31 Dec.	55.8	61.4

Accumulated depreciation, 1 Jan.	-49.5	-45.2
Accumulated depreciation on decreases and transfers	7.9	0.0
Depreciation for the period	-3.9	-4.4
Accumulated depreciation, 31 Dec.	-45.5	-49.5
Book value, 31 Dec.	10.2	11.9

Accumulated depreciation difference	1.2	1.6
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#### Land and water areas

Acquisition cost, 1 Jan.	5.3	5.3
Increases	0.0	0.0
Decreases	0.0	0.0
Transfers between items	0.0	0.0
Acquisition cost, 31 Dec.	5.3	5.3

Accumulated depreciation, 1 Jan.	0.0	0.0
Accumulated depreciation on decreases and transfers	0.0	0.0
Depreciation for the period	-0.6	0.0
Accumulated depreciation, 31 Dec.	-0.6	0.0
Book value, 31 Dec.	4.7	5.3

EUR million	2010	2009
<b>Buildings</b>		
Acquisition cost, 1 Jan.	121.5	121.2
Increases	1.3	0.2
Decreases	-1.0	-0.9
Transfers between items	0.2	1.0
Acquisition cost, 31 Dec.	122.1	121.5
Accumulated depreciation, 1 Jan.	-73.6	-64.6
Accumulated depreciation on decreases and transfers	0.0	0.1
Depreciation for the period	-6.2	-9.1
Accumulated depreciation, 31 Dec.	-79.8	-73.6
Book value, 31 Dec.	42.3	47.9
Accumulated depreciation difference	-2.8	-5.0
<b>Machinery and equipment</b>		
Acquisition cost, 1 Jan.	395.2	388.3
Increases	3.8	2.9
Decreases	-2.5	-0.5
Transfers between items	3.4	4.4
Acquisition cost, 31 Dec.	400.0	395.2
Accumulated depreciation, 1 Jan.	-292.7	-267.1
Accumulated depreciation on decreases and transfers	1.9	0.3
Depreciation for the period	-22.7	-25.9
Accumulated depreciation, 31 Dec.	-313.5	-292.7
Book value, 31 Dec.	86.5	102.6
Accumulated depreciation difference	17.1	14.0
<b>Other tangible assets</b>		
Acquisition cost, 1 Jan.	17.9	17.8
Increases	0.1	0.1
Decreases	0.0	0.0
Transfers between items	0.0	0.0
Acquisition cost, 31 Dec.	18.0	17.9
Accumulated depreciation, 1 Jan.	-14.2	-13.2
Accumulated depreciation on decreases and transfers	0.0	0.0
Depreciation for the period	-1.0	-1.0
Accumulated depreciation, 31 Dec.	-15.2	-14.2
Book value, 31 Dec.	2.9	3.7
Accumulated depreciation difference	-0.2	-0.5
<b>Construction in progress</b>		
Acquisition cost, 1 Jan.	5.8	8.5
Increases	6.0	3.1
Decreases	0.0	0.0
Transfers between items	-3.6	-5.7
Acquisition cost, 31 Dec.	8.2	5.8

EUR million	2010	2009
<b>Tangible assets total</b>		
Acquisition cost, 1 Jan.	545.8	541.1
Increases	11.3	6.3
Decreases	-3.4	-1.4
Transfers between items	0.0	-0.2
Acquisition cost, 31 Dec.	553.6	545.8
Accumulated depreciation, 1 Jan.	-380.4	-344.8
Accumulated depreciation on decreases and transfers	1.9	0.4
Depreciation for the period	-30.6	-36.0
Accumulated depreciation, 31 Dec.	-409.1	-380.4
Book value, 31 Dec.	144.5	165.4
Accumulated depreciation difference	14.1	8.5

## 11. Investments, shares

### Shares in Group companies

Acquisition cost, 1 Jan.	1,666.2	846.7
Increases	5.4	460.6
Decreases	-4.1	-73.1
Transfers between items	0.2	432.0
Acquisition cost, 31 Dec.	1,667.7	1,666.2

### Shares in associated companies

Acquisition cost, 1 Jan.	30.5	643.4
Increases	0.0	0.4
Decreases	0.0	-181.3
Transfers between items	-0.2	-432.0
Acquisition cost, 31 Dec.	30.3	30.5

### Other shares and holdings

Acquisition cost, 1 Jan.	2.2	2.1
Increases	0.0	0.1
Decreases	-0.1	0.0
Transfers between items	0.0	0.0
Acquisition cost, 31 Dec.	2.2	2.2

### Investments, shares total

Acquisition cost, 1 Jan.	1,698.9	1,492.2
Increases	5.5	461.0
Decreases	-4.1	-254.4
Transfers between items	0.0	0.0
Acquisition cost, 31 Dec.	1,700.2	1,698.9

### Investments, receivables

#### Receivables from Group companies

Acquisition cost, 1 Jan.	128.7	129.6
Increases	0.0	0.0
Decreases	0.0	-1.0
Acquisition cost, 31 Dec.	128.7	128.7



EUR million	2010	2009
<b>Receivables from associated companies</b>		
Acquisition cost, 1 Jan.	0.2	0.2
Increases	0.0	0.0
Decreases	-0.2	0.0
Acquisition cost, 31 Dec.	0.0	0.2
<b>Other receivables</b>		
Acquisition cost, 1 Jan.	5.1	4.1
Increases	0.0	1.0
Decreases	-2.0	0.0
Acquisition cost, 31 Dec.	3.1	5.1
<b>Investments, receivables total</b>		
Acquisition cost, 1 Jan.	134.0	133.9
Increases	0.0	1.0
Decreases	-2.2	-1.0
Acquisition cost, 31 Dec.	131.7	134.0
<b>Investments, receivables</b>		
Other loan receivables	131.7	134.0
Total	131.7	134.0
<b>12. Fair values of financial investment in non-current assets</b>		
Stock exchange listed shares		
Book value	517.9	516.0
Fair value	331.7	204.5
Difference	186.2	311.6

Of the difference between the book value and the fair value, EUR 186.2 million derives from the M-real shares. The view of Metsäliitto is that the cash flow generated by the shares will exceed the book value of the shares in the future.

EUR million	2010	2009
<b>13. Receivables</b>		
<b>Non-current receivables</b>		
Loan receivables	22.1	8.2
Other receivables	2.2	0.0
Total	24.3	8.2
<b>Current receivables</b>		
Receivables from Group companies		
Accounts receivables	50.2	39.7
Loan receivables	8.7	10.3
Prepayment and accrued income	13.3	15.5
Total	72.2	65.4
Receivables from associated companies		
Accounts receivables	0.0	0.0
Loan receivables	0.1	0.2
Total	0.1	0.2
Receivables from others		
Accounts receivables	67.5	51.7
Loan receivables	0.5	0.0
Other receivables	13.0	4.9
Prepayment and accrued income	8.4	3.8
Total	89.5	60.3
Receivables total	186.1	134.2
<b>Prepayment and accrued income, current</b>		
Interest	0.0	0.0
Insurances	0.4	0.9
Others	8.0	2.9
Total	8.4	3.8

EUR million	2010	2009
<b>14. Members' funds</b>		
Members' capital, 1 Jan.	188.7	190.1
Participation shares	7.6	2.4
Transferred from interest	2.1	2.3
Refund of participation shares	-3.9	-6.1
*) Members capital, 31 Dec.	194.5	188.7
Additional members' capital A, 1 Jan.	455.0	512.3
Increase in additional members' capital	22.4	5.9
Transferred from interest	19.3	19.4
Refund of additional members' capital	-33.5	-82.6
**) Additional members' capital A, 31 Dec.	463.2	455.0
Additional members' capital B, 1 Jan.	24.1	21.9
Increase in additional members' capital	25.8	5.1
Refund of additional members' capital	-2.3	-2.9
Additional members' capital B, 31 Dec.	47.5	24.1
Additional members' capital C, 1 Jan.	0.0	0.0
Increase in additional members' capital	14.5	0.0
Additional members' capital C, 31 Dec.	14.5	0.0
General reserve I, 1 Jan.	3.9	3.9
General reserve I, 31 Dec.	3.9	3.9
General reserve II, 1 Jan.	42.5	42.5
Transferred from retained earnings	8.9	0.0
General reserve II, 31 Dec.	51.5	42.5
Retained earnings, 1 Jan.	559.8	418.5
Dividends paid	-35.6	-37.4
Transferred to general reserve II	-8.9	0.0
Surplus for the financial period	27.4	178.6
Retained earnings, 31 Dec.	542.7	559.8
Total members' funds	1,317.8	1,274.0
*) Unpaid participation shares		
Total called-up members' capital	256.3	246.8
Participation shares paid	-194.1	-188.0
Unpaid participation shares	62.3	58.8

\*\*) Of the additional members' capital EUR 21.7 million is due on 1 July 2011.

EUR million	2010	2009
<b>15. Provisions</b>		
<b>Pension liability</b>		
1 Jan.	0.3	0.0
Increases	0.0	0.3
Decreases	-0.3	0.0
31 Dec.	0.0	0.3
<b>Unemployment pension costs</b>		
1 Jan.	1.2	1.3
Increases	0.5	0.8
Decreases	-0.3	-0.9
31 Dec.	1.4	1.2
<b>Unfunded pension costs</b>		
1 Jan.	0.6	0.7
Increases	0.5	0.0
Decreases	0.0	-0.1
31 Dec.	1.1	0.6
<b>Other provisions</b>		
1 Jan.	0.1	0.1
Increases	0.5	0.0
Decreases	0.0	0.0
31 Dec.	0.6	0.1
<b>Provisions total</b>		
1 Jan.	2.2	2.2
Increases	1.5	1.0
Decreases	-0.6	-1.0
31 Dec.	3.1	2.2
<b>16. Liabilities</b>		
<b>Non-current</b>		
Non-interest bearing	6.5	3.3
Interest-bearing	612.8	552.0
Total	619.3	555.3
<b>Current</b>		
Non-interest bearing	237.6	195.8
Interest-bearing	148.4	238.4
Total	386.0	434.2

#### 17. Non-current debts with amortization plan

EUR million	Liabilities to Group companies	Bonds	Loans from financial institutions	Pension loans	Other liabilities	Total
2011	0.0	0.0	110.4	8.0	3.1	121.5
2012	0.0	0.0	6.4	0.0	3.1	9.5
2013	49.2	0.0	6.4	65.0	0.0	120.6
2014	0.0	0.0	306.8	0.0	0.0	306.8
2015	0.0	0.0	175.4	0.0	0.0	175.4
2016–	0.0	0.0	0.5	0.0	0.0	0.5
Total	49.2	0.0	605.9	73.0	6.1	734.3

EUR million	2010	2009
<b>18. Current liabilities</b>		
Bonds	0.0	150.0
Loans from financial institutions	110.4	12.7
Pension loans	8.0	0.0
Advance payments	7.5	3.5
Accounts payable	57.7	89.8
Liabilities to Group companies		
Advance payments	58.0	26.6
Accounts payable	7.2	6.5
Other liabilities	26.9	75.7
Accruals and deferred income	0.0	0.8
Liabilities to associated companies		
Accounts payable	2.0	0.9
Accruals and deferred income	0.5	0.4
Liabilities to others		
Other liabilities	14.9	6.2
Accruals and deferred income	92.9	61.2
Total current liabilities	386.0	434.2
<b>19. Accruals and deferred income</b>		
Current		
Interest	2.2	0.1
Pension insurance premium	3.2	1.5
Periodizations of employee costs	27.5	24.2
Periodizations of purchases	48.9	2.8
Infringement fine imposed by the Market Court	0.0	21.0
Others	11.1	11.6
Total	92.9	61.2
<b>20. Commitments and contingencies</b>		
For own liabilities		
Liabilities secured by pledges		
Loans from financial institutions	265.0	200.0
Pledges granted	264.2	102.3
For own commitments		
Pledges granted	0.0	0.0
On behalf of Group companies		
Pledges	13.4	0.0
Guarantee liabilities	13.5	15.6
On behalf of associated companies		
Guarantee liabilities	0.0	1.8
On behalf of others		
Guarantee liabilities	2.2	1.8
Other own liabilities		
Redemption liability (Metsä-Botnia shares)	99.3	99.3
Other liabilities	72.0	73.1
Leasing liabilities		
For the next 12 months	7.1	7.4
For subsequent years	29.9	28.4
Total		
Pledges	277.6	102.3
Guarantee liabilities	15.8	19.2
Other liabilities	171.3	172.3
Leasing liabilities	37.1	35.8
Total	501.7	329.7

EUR million			
<b>Liabilities due to open derivate contracts</b>			
	Gross amount	Going value	Gross amount
	2010		2009
Interest derivatives			
Interest rate swaps	145.0	-2.9	70.0
Currency derivatives			
Forward agreements	142.3	-0.1	175.6
Option agreements	3.1	0.0	0.0
Derivatives total	290.4	-3.0	245.6

Upon an action initiated by the Competition Authority, the Market Court imposed on 3, December 2009 an infringement fine of EUR 21 million on Metsäliitto Cooperative for alleged breach of restrictions on competition in the raw timber purchasing market in 1997–2004. Metsäliitto Cooperative has decided not to appeal the ruling. Due to this ruling, Metsäliitto might face compensation claims for damages suffered because of the alleged breach of the competition legislation. Outcomes of such trials may have a negative impact on Metsäliitto's business activities, its business result and its financial position. On the signing date of the balance sheet, Metsäliitto has no knowledge of such legal actions.

In the last 12 months, there has been no governmental, legal or arbitration proceedings that might have substantially influenced or would substantially influence Metsäliitto's financial position. Metsäliitto has no knowledge of any such pending proceedings or trials.

EUR million	2010	2009
<b>21. Environmental items</b>		
<b>Income statement</b>		
Employee costs		
Wages and fees	0.5	0.5
Other employee costs	0.3	0.3
Depreciation	0.5	0.3
Other operating expenses	0.9	1.0
Total	2.2	2.0
<b>Balance sheet</b>		
Tangible assets		
Acquisition costs 1 Jan.	5.0	4.6
Increases	0.1	0.4
Decreases	-0.1	0.0
Accumulated depreciation	-2.8	-2.0
Book value 31 Dec.	2.2	2.9
Provisions		
Environmental obligations	0.1	0.0
Conditional environmental-related liabilities	0.0	0.0
Guarantees due to environmental programmes	0.0	0.0

# Parent company shares at 31 December 2010

Subsidiaries	Country	Parent company's holding, %	Group's holding, %	Number of shares	Book value, 1,000 EUR
Biokraft Oy *	Finland	19.00		1,520	1,520
Burt Boulton and Haywood Ltd	Great Britain	100.00			12,280
Financière Finnforest S.A.S.	France	100.00		405,000	16,750
Finnforest CZ s.r.o.	Czech Republic	100.00			11,200
Finnforest Deutschland GmbH	Germany	100.00			35,821
Finnforest Eesti A.S.	Estonia	100.00		100,000	651
Finnforest Holdings Oy	Finland	100.00		1,000	9
Finnforest Iberica S.L.	Spain	50.00	100.00	250	446
Finnforest Italia S.r.l.	Italy	100.00		1	422
Finnforest Magyarország Faipari és Kereskedelmi Kft.	Hungary	100.00			6,406
Finnforest Polska Sp. z o.o.	Poland	100.00			589
Finnforest Slovensko s.r.o.	Slovakia	100.00			1,602
Finnforest Timber Holland B.V.	The Netherlands	100.00			1,443
Finnforest Trading (Shanghai) Co., Ltd	China	100.00			318
Finnforest UK Holdings Ltd	Great Britain	100.00		43,200,000	53,458
Finnforest Österreich GesmbH	Austria	100.00			5,842
Kiinteistö Oy Metsätapiola	Finland	48.98		30,432	16,373
Kirkniemen Kartano Oy	Finland	52.00	71.63	29,666	2,969
Kumpuniemen Voima Oy	Finland	53.97		34	462
McCausey Wood Products, Inc.	USA	100.00		500,000	316
Metsä Group Financial Services Oy	Finland	49.00	69.86	24,500	4,944
Metsä Group Schweiz AG	Switzerland	100.00		200	750
Metsä Tissue Corporation	Finland	70.55		6,433,164	139,818
Metsäliitto Eesti AS	Estonia	100.00		150,000	1,146
Metsäliitto France S.A.	France	100.00		100,000	100
Metsäliitto Latvia SIA	Latvia	100.00		670	3,259
Metsäliitto Sverige AB	Sweden	100.00		5,000	703
Metsämannut Oy	Finland	100.00		100	194
Mittaportti Oy	Finland	33.30	57.11	1,000	8
M-real Corporation **	Finland	38.83	40.90	126,729,592	517,882
OOO Finnforest Petersburg	Russia	100.00		3	744
OOO Metsäliitto Podporozhje	Russia	100.00			4,579
OOO Metsäliitto St. Petersburg	Russia	100.00		100	978
OOO Metsäliitto Svir	Russia	1.00	100.00		3
Oy Metsä-Botnia Ab	Finland	53.01	71.25	43,250	821,748
Äänevoima Oy	Finland	20.00	38.40	2,000,000	2,000
Shares in Group companies					1,667,733

\*) Consolidated as a subsidiary

\*\*) Holding 60.54 % by number of votes, Group's total holding 61.21 %

<b>Associated companies</b>	Country	Parent company's holding, %	Group's holding, %	Number of shares	Book value, 1,000 EUR
Finsilva Oyj	Finland	49.90		48,128,550	14,439
Hartolan Kuningaslämpö Oy	Finland	50.00		300	76
Metsäteho Oy	Finland	24.00		40	67
Perkaus Oy	Finland	33.33		2,500	6
Punkaharjun Lämpö Oy	Finland	20.00		6	10
Punkavoima Oy	Finland	34.67		9,292	929
Suomen Metsäsijoitus Oy	Finland	25.00		7,500	4,011
Thosca Holz GmbH	Germany	50.00		3	4,583
ZAO HC Vologodskiye Lesopromyshlenniki	Russia	44.00			6,164
Investments in associated companies					30,286

<b>Other shares and holdings</b>	Country	Parent company's holding, %	Group's holding, %	Number of shares	Book value, 1,000 EUR
Finnforest Nippon	Japan	10.00		20	120
Finnish Wood Research Oy	Finland	25.00		60	60
Metsäklusteri Oy	Finland	5.30		150	150
Misawa Homes of Finland	Finland	2.10		400	67
Real estate companies					1,450
Golf shares					194
Shares and holdings in telephone companies					55
Other shares and holdings					64
Other shares and holdings					2,160

# Statement by the Supervisory Board

The Supervisory Board has examined the financial statements of Metsäliitto Cooperative and the Metsäliitto Group consolidated financial statements for 2010 prepared in accordance with International Financial Reporting Standards, and has approved them for submission to the Auditors and to the Annual General Meeting. The Supervisory Board recommends that the surplus for the period be dealt with as proposed by the Board of Directors.

The terms of the following members are due to expire: Eero Ekman, Teuvo Hatva, Ville Hirvonen, Antti Isotalo, Antti Jaakkola, Risto Junttila, Airi Kulmala, Hans-Erik Lindqvist, Juha Paajanen and Martti Palojärvi.

According to the age rule of the rules, the seat of Pentti Airio is at the disposal of the Representative Council.

Espoo, 22 March 2011

On behalf of the Supervisory Board

Hannu Järvinen  
Chairman

Esa Kaikkonen  
Secretary



# Auditor's Report (Translation from the Finnish Original)

## To the members of Metsäliitto Cooperative

We have audited the accounting records, the financial statements, the report of the Board of Directors and the administration of Metsäliitto Cooperative for the year ended 31 December, 2010. The financial statements comprise the consolidated statement of financial position, statement of comprehensive income, statement of changes in equity and statement of cash flows, and notes to the consolidated financial statements, as well as the parent cooperative's balance sheet, income statement, cash flow statement and notes to the financial statements.

## Responsibility of the Board of Directors and the Managing Director

The Board of Directors and the Managing Director are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, as well as for the preparation of financial statements and the report of the Board of Directors that give a true and fair view in accordance with the laws and regulations governing the preparation of the financial statements and the report of the Board of Directors in Finland. The Board of Directors is responsible for the appropriate arrangement of the control of the cooperative's accounts and finances, and the Managing Director shall see to it that the accounts of the cooperative are in compliance with the law and that its financial affairs have been arranged in a reliable manner.

## Auditor's Responsibility

Our responsibility is to express an opinion on the financial statements, on the consolidated financial statements and on the report of the Board of Directors based on our audit. The Auditing Act requires that we comply with the requirements of professional ethics. We con-

ducted our audit in accordance with good auditing practice in Finland. Good auditing practice requires that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and the report of the Board of Directors are free from material misstatement, and whether the members of the Supervisory Board or of the Board of Directors of the parent cooperative or the Managing Director are guilty of an act or negligence which may result in liability in damages towards the cooperative or whether they have violated the Cooperative Act or the rules of the cooperative.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements and the report of the Board of Directors. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements and report of the Board of Directors that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the cooperative's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements and the report of the Board of Directors.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## Opinion on the Consolidated Financial Statements

In our opinion, the consolidated financial statements give a true and fair view of the financial position, financial performance, and

cash flows of the group in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.

## Opinion on the Cooperative's Financial Statements and the Report of the Board of Directors

In our opinion, the financial statements and the report of the Board of Directors give a true and fair view of both the consolidated and the parent cooperative's financial performance and financial position in accordance with the laws and regulations governing the preparation of the financial statements and the report of the Board of Directors in Finland. The information in the report of the Board of Directors is consistent with the information in the financial statements.

## Other Opinions

We support that the financial statements and the consolidated financial statements should be adopted. The proposal by the Board of Directors regarding the use of the surplus shown in the balance sheet is in compliance with the Cooperative Act. We support that the Members of the Supervisory Board and of the Board of Directors as well as the Managing Director of the parent cooperative should be discharged from liability for the financial period audited by us.

Espoo, 22 March 2011

**PricewaterhouseCoopers Oy**  
Authorised Public Accountants

Johan Kronberg  
Authorised Public Accountant

# Quarterly data

EUR million	Year		Quarterly							
<b>Income statement</b>	<b>2010</b>	<b>2009</b>	IV/2010	III/2010	II/2010	I/2010	IV/2009	III/2009	II/2009	I/2009
<b>Sales by segments</b>										
Wood Supply	1,353	1,101	365	318	337	333	292	232	251	327
Wood Products Industry	902	806	224	231	256	192	193	188	224	202
Pulp Industry	1,365	1,195	365	344	368	288	297	313	282	303
Board and Paper Industry	2,605	2,432	665	662	676	602	606	618	585	623
Tissue and Cooking Papers	938	890	246	236	231	225	229	226	217	218
Other operations	4	170	1	1	2	0	4	3	72	92
Eliminations	-1,790	-1,758	-475	-446	-454	-415	-431	-425	-418	-487
<b>Sales total</b>	<b>5,377</b>	<b>4,837</b>	1,391	1,345	1,416	1,224	1,190	1,155	1,213	1,278

## Operating result by segments

Wood Supply	21	-9	4	3	8	7	-17	-1	4	5
Wood Products Industry	23	-47	2	11	11	-2	-9	-3	-10	-25
Pulp Industry	381	193	98	114	112	57	355	2	-42	-122
Board and Paper Industry	146	-267	-4	66	35	49	-52	-24	-73	-117
Tissue and Cooking Papers	50	93	14	11	5	19	21	31	22	19
Other operations	-9	59	-1	-3	-2	-2	20	2	27	10
Eliminations	-114	-190	-30	-32	-29	-23	-300	0	16	94
<b>Operating result total</b>	<b>497</b>	<b>-169</b>	82	170	141	105	18	7	-56	-137
- "-, excluding non-recurring items	547	-75	142	155	154	96	44	9	-61	-67
- "-, % of sales	10.2	-1.6	10.2	11.5	10.9	7.8	3.7	0.8	-5.0	-5.2
Share of result in associated companies	-15	-16	-1	-1	-7	-6	-4	-1	-8	-2
Net exchange gains/losses	-7	2	-1	-6	2	-2	2	4	-1	-2
Financial income and expenses	-130	-147	-27	-35	-34	-34	-34	-63	-30	-20
<b>Result before tax</b>	<b>345</b>	<b>-329</b>	52	128	102	64	-18	-53	-95	-163
Income taxes	-131	10	-29	-39	-40	-24	-9	-6	7	19
<b>Result from continuing operations</b>	<b>214</b>	<b>-318</b>	23	89	62	40	-27	-59	-88	-144
Result from discontinued operations	0	-23	0	0	0	0	-9	-2	-3	-10
<b>Result for the period</b>	<b>214</b>	<b>-342</b>	23	89	62	40	-36	-61	-91	-153

## Operating result excluding non-recurring items

<b>non-recurring items</b>	<b>2010</b>	<b>2009</b>	IV/2010	III/2010	II/2010	I/2010	IV/2009	III/2009	II/2009	I/2009
Wood Supply	21	12	4	3	8	7	4	-1	4	5
Wood Products Industry	28	-41	12	5	11	0	-3	-3	-10	-25
Pulp Industry	379	-43	99	114	110	57	44	2	-42	-47
Board and Paper Industry	173	-150	37	54	43	39	7	-22	-70	-65
Tissue and Cooking Papers	59	93	14	13	12	19	21	31	22	19
Other operations	-7	11	-1	-3	-2	-2	-1	2	0	10
Eliminations	-107	45	-24	-32	-29	-22	-27	1	35	36
<b>Total</b>	<b>547</b>	<b>-75</b>	142	155	154	96	44	9	-61	-67

<b>Key ratios</b>	<b>2010</b>	<b>2009</b>	IV/2010	III/2010	II/2010	I/2010	IV/2009	III/2009	II/2009	I/2009
Equity ratio, %	29.7	24.5	29.7	28.1	27.6	27.1	24.5	23.9	25.6	24.8
Net gearing ratio, %	116	157	116	123	135	151	157	180	162	167
Interest-bearing net liabilities, EUR mill.	1,939	2,203	1,939	1,985	2,109	2,241	2,203	2,363	2,348	2,666
Return on capital employed, %	11.8	-3.3	8.0	16.6	13.4	10.0	1.2	1.3	-4.7	-10.1
- "-, excl. non-recurring items	13.4	-1.4	13.9	15.2	16.2	9.1	3.7	1.4	-5.1	-4.7
Return on equity, %	13.9	-20.0	5.7	22.4	16.3	11.0	-8.0	-17.2	-23.2	-34.0
- "-, excl. non-recurring items	18.2	-13.4	20.2	18.8	23.8	8.6	-0.3	-16.6	-21.5	-17.5

# Five years in figures

EUR million	2010	2009	2008	2007	2006
Sales	5,377	4,837	6,434	6,797	7,392
Operating result	497	-169	2	44	77
- "-", excluding non-recurring items	547	-75	45	301	233
Result before tax	345	-329	-233	-160	-94
Result for the period	214	-342	-511	-211	-259
Non-current assets	3,534	3,697	4,252	5,090	5,519
Inventories	798	669	943	1,132	1,095
Other current assets	1,340	1,364	1,704	1,813	2,111
Total assets	5,672	5,730	6,899	8,035	8,725
Members' funds	1,154	927	1,104	1,328	1,377
Non-controlling interests	524	471	682	978	1,194
Non-current liabilities	2,534	2,689	3,449	3,742	4,298
Current liabilities	1,460	1,643	1,664	1,987	1,856
Total members' funds and liabilities	5,672	5,730	6,899	8,035	8,725
Return on capital employed, %	11.8	-3.3	0.5	1.4	2.0
- " -, excluding non-recurring items	13.4	-1.4	1.3	6.4	5.0
Return on equity, %	13.9	-20.0	-8.4	-7.5	-4.8
- " -, excluding non-recurring items	18.2	-13.4	-6.4	2.7	1.0
Equity ratio, %	29.7	24.5	26.0	28.8	29.5
Net gearing ratio, %	116	157	149	142	137
Gearing ratio, %	143	199	198	163	155
Interest-bearing liabilities	2,398	2,778	3,545	3,758	3,974
Interest-bearing financial assets	459	575	879	487	450
Interest-bearing net liabilities	1,939	2,203	2,666	3,271	3,524
Gross capital expenditure	159	648	272	493	735
- " -, % of sales	3.0	13.4	4.2	7.3	9.9
Personnel, average *)	13,168	14,534	17,538	19,195	23,809
Personnel, at the end of year	12,820	13,592	16,729	17,838	20,196
- of whom in Finland	5,734	5,575	6,889	7,019	7,586

\*) The number of personnel is presented as FTE (Full Time Equivalent) in 2010 and 2009, and as NOE (Number of Employees) in 2006–2008.

## Calculation of key ratios

Return on capital employed (%) ROCE	=	$\frac{\text{Result from continuing operations before tax + interest expenses, net exchange gains/ losses and other financial expenses}}{\text{Balance total - non-interest-bearing liabilities (average)}}$
Return on operating capital (%) ROOC	=	$\frac{\text{Operating result excl. non-recurring items}}{\text{Non-current assets + Inventories + Accounts receivables - Accounts payable (average)}}$
Return on equity (%)	=	$\frac{\text{Result before tax - income taxes}}{\text{Members' funds + non-controlling interest (average)}}$
Equity ratio (%)	=	$\frac{\text{Members' funds + non-controlling interest}}{\text{Total assets - advance payments received}}$
Net gearing ratio (%)	=	$\frac{\text{Interest-bearing net liabilities}}{\text{Members' funds + non-controlling interest}}$
Gearing ratio (%)	=	$\frac{\text{Interest-bearing liabilities}}{\text{Members' funds + non-controlling interest}}$
Interest-bearing net liabilities	=	$\text{Interest-bearing liabilities - liquid funds - interest-bearing receivables}$

# Corporate governance statement

This statement about the Metsäliitto Group's Corporate Governance has been given as a separate report and it has been published simultaneously with Metsäliitto Group's Financial Statements and Report of the Board of Directors.

Metsäliitto Cooperative is a Finnish cooperative and parent company of the Metsäliitto Group. In this statement "Metsäliitto" refers to either Metsäliitto Cooperative or Metsäliitto Group depending on the context. Metsäliitto Cooperative's and its subsidiaries' decision-making and administration complies with the Cooperatives Act, the Limited Liability Companies Act, the Securities Markets Act, the cooperative rules, procedures approved by the administrative bodies and the policies and guidelines approved by the Metsäliitto Board of Directors and Executive Management Team. Metsäliitto's rules are available in full on the Metsäliitto's website under "Corporate Governance in Metsäliitto Cooperative."

The Securities Market Association issued a new recommendation on the corporate governance systems of listed companies ([www.cgfinland.fi](http://www.cgfinland.fi)) on 15 June 2010. This account of Metsäliitto's corporate governance system follows the said recommendation with regard to structure and content. However, Metsäliitto takes into account the special characteristics of the cooperative form of incorporation and states the deviations from the recommendation with rationale. In accordance with the opinion issued by the Central Chamber of Commerce in January 2006, communities with an extensive ownership base, extensive operations or which are regionally or nationally significant, should comply with the recommendation to the extent that it is possible, taking their special characteristics into consideration in accordance with the comply or explain principle.

Metsäliitto prepares its financial statements and interim reports in accordance with the International Financial Reporting Standards (IFRS). The financial statement documents are published in Finnish, Swedish and English.

Metsäliitto's head office is located in Espoo, Finland. Metsäliitto Cooperative's registered office is in Helsinki, Finland.

## Main administrative bodies

Metsäliitto Cooperative's administrative bodies are the Representative Council, Supervisory Board, Board of Directors and the CEO. The bodies separately specified below in this account assist the administrative bodies in their decision making and prepare their decisions. Currently, the CEO of Metsäliitto Cooperative acts as the President and CEO of the Metsäliitto Group. In this account, the CEO of Metsäliitto is referred to as the "President and CEO".

## Representative Council

The Representative Council uses the supreme decision-making power belonging to the members in Metsäliitto in the matters specified by law and regulations. The Representative Council substitutes the meeting of the cooperative in Metsäliitto. The meeting of the Representative Council processes the matters specified in the Cooperatives Act and the cooperative rules, and other matters mentioned in the summons to the meeting. The main tasks of the Representative Council are:

- to decide on adopting the financial statements,
- to decide on the distribution of profit to the members,
- to decide on discharging the Supervisory Board, Board of Directors and CEO/President and CEO from liability, and
- to elect the members of the Supervisory Board and the auditors and to decide on their fees.

A full member of Metsäliitto or his/her spouse may be elected to the Representative Council. The election of the Representative Council is carried out every fourth year by mail. Each member has one vote. The election is carried out by election districts so that as many representatives are selected from each district as the list of voters for the district in question includes Metsäliitto members entitled to vote on 1 January of the election year divided by 2,300 or part thereof. The election districts are confirmed by the Supervisory Board, and basically they are determined in accordance with Metsäliitto's district organisations. A member of the personnel of the Metsäliitto Group is not eligible according to the election system.

In accordance with the rules, the Representative Council convenes once a year in the spring. The Representative Council, Supervisory Board or the Board Directors may decide to arrange an extraordinary meeting. An extraordinary meeting shall also be arranged if demanded by at least one tenth of the members. The Representative Council is summoned by the Chairman of the Supervisory Board at the latest seven days before the meeting with a written notice of a meeting sent to every member of the Representative Council, which has to mention the issues processed in the meeting.

Each representative has one vote in the meeting. Amending Metsäliitto's rules requires the amendment proposal to be supported by a minimum of 2/3 of the members participating in the meeting. In addition to the meeting representatives, the Chairman of the Board of Directors and, as a general rule, the members of the Board of Directors and Supervisory Board, shall be present at meetings of the Representative Council. In addition to these, the auditors shall also be present at the annual meeting.

The composition of the Representative Council is presented on page 124 of the Annual Report.

## District Committees

In accordance with Metsäliitto's rules, there is a District Committee in each supply district. The District Committee comprises the members of the representative council, Supervisory Board and Board of Directors elected from the District's area and of the candidates not elected in the election of the representative council, twice the number of the representatives elected from the District's area, however, at least five, in the order of the personal number of votes. The guidelines approved by the Supervisory Board specify the tasks of the District Committee. According to the guidelines, the main task of the District Committee is to promote communication and interaction between the members and Metsäliitto's supply district in question with its operation.

## Supervisory Board

Metsäliitto's rules specify that the Supervisory Board is a part of Metsäliitto's administration

model. This aims to ensure the realisation of sufficient corporate governance and commitment of the members to Metsäliitto's decision-making. Strategic and other far-reaching decisions, however, belong to the powers of Metsäliitto's Board of Directors, and operational management to the acting management.

Metsäliitto's rules specify the tasks of the Supervisory Board. The main task of the Supervisory Board is to monitor to ensure that Metsäliitto is managed in accordance with the rules and the decisions of the Representative Council and the Supervisory Board. In addition to this, the Supervisory Board:

- elects and dismisses members of the Metsäliitto Board of Directors and decides on their fees,
- elects the CEO who also acts as the President and CEO of Metsäliitto Group unless otherwise decided by the Supervisory Board,
- gives the Board of Directors instructions in far-reaching matters and matters of importance in principle, and
- audits the financial statements and issues a proposal on the use of any surplus to the Representative Council.

The Supervisory Board elects a Chairman and Deputy Chairman from among its members for one year at a time and invites a secretary. The Supervisory Board convenes as summoned by the Chairman as often as necessary, or as proposed by the Board of Directors. The Supervisory Board is competent to make decisions when more than half the members are present. The opinion favoured by the majority shall be the decision. When the votes are even, the Chairman's vote decides, and in elections the lot.

The Supervisory Board comprises a minimum of twenty (20) and a maximum of thirty (30) members elected by the Representative Council from among the members of Metsäliitto. Metsäliitto's personnel may elect a maximum of five (5) members to the Supervisory Board. In addition, the Representative Council may at the proposal of the Supervisory Board elect a maximum of three (3) expert members to the Supervisory Board. The term of office of a member of the Supervisory Board begins at the closure of the annual meeting

that elected him/her and runs until the annual meeting of the Representative Council three (3) years later. The aim of the three-year term of office is to ensure the continuity of decision-making. Once a member of the Supervisory Board turns 65, his/her term of office, however, terminates at the annual meeting of the Representative Council the following year. When electing members to the Supervisory Board, the aim is to have nationwide representation that would cover all areas. A member of the Board of Directors may not be a member of the Supervisory Board.

The composition of the Supervisory Board is presented on page 125 of the Annual Report.

### **Nomination committee of the Supervisory Board**

A special nomination committee elected from among the members of the Supervisory Board prepares the election of the members of the Board of Directors in accordance with procedures approved for it. In addition, the nomination committee makes a proposal of the fees paid to the Board of Directors. The nomination committee comprises six (6) members of the Supervisory Board as well as the Chairman and the Deputy Chairman of the Supervisory Board. The Chairman of the Supervisory Board acts as the chairman of the nomination committee.

The Supervisory Board has elected the following persons to the nomination committee in its meeting on 5 May 2010: Ilkka Juusela, Hannu Lassila, Esko Kinnunen, Timo Kässi, Timo Nikula and Erkki Vainionpää. Chairman Hannu Järvinen and Deputy Chairman Juha Paajanen are members of the nomination committee on the basis of their position.

### **Information on the meetings of the Supervisory Board during the previous financial period**

In 2010, there were 34 members in the Supervisory Board, four (4) of them personnel representatives elected by different personnel groups of Metsäliitto. There were no expert members in the Supervisory Board in 2010. The Supervisory Board convened six (6) times, and the members' attendance rate was 94 per cent.

## **Board of Directors**

According to the Metsäliitto rules and legislation, the task of the Board of Directors is to ensure that Metsäliitto's operation and administration are appropriately arranged. The Board of Directors has composed a procedure for its operation that specifies the operating principles followed in the decision-making of the Board of Directors in more detail. The working order is available in full on Metsäliitto's website under "Corporate Governance in Metsäliitto Cooperative."

The tasks of the Board of Directors include:

- approving the tasks of the CEO/President and CEO and monitor to ensure that they take care of the cooperative's running administration in accordance with the instructions and orders of the Board of Directors
- appointing and dismissing the Directors immediately subordinate to the CEO and, if elected, the President and CEO
- deciding on how shares are collected and additional shares made and their terms and conditions
- approving the strategy and annual budget of the cooperative and the Group, and supervising compliance with them
- signing the financial statements and consolidated financial statements, and presenting them to the Supervisory Board for audit
- preparing the matters to be decided by the Supervisory Board
- deciding on the sale, purchase and discontinuation of business operations and starting of new operations and mergers
- deciding on the wages and salaries and other benefits of the CEO/President and CEO and other senior management on the Compensation Committee's proposal
- deciding on other matters that, taking into account the extent and quality of the operations of the cooperative, are unusual and far-reaching.

The Board of Directors elects a chairman from among its members for one year at a time. According to Metsäliitto Cooperative's rules, the President and CEO acts as the deputy chairman. According to the recommendation,



the CEO should not be elected the chairman of the Board of Directors. However, the deviation from the Recommendation can be justified with Metsäliitto's cooperative administrative model. The Board of Directors convenes as summoned by the chairman as often as necessary. The President and CEO prepares the Board's meetings. The Board of Directors is competent to make decisions when more than half the members of the Board are present. When the votes are equal, the chairman's vote decides. Minutes shall be composed of the meetings of the Board of Directors.

The Board of Directors regularly appraises its operation and procedures by conducting an annual self-assessment.

### **Composition and term of office of the Board of Directors**

The Supervisory Board elects Metsäliitto's Board of Directors. Thus, the election of Metsäliitto's Board of Directors deviates from the recommendation on the election of the Board of Directors. The deviating competence regulations secure the realisation of cooperative corporate governance and the members' extensive participation in Metsäliitto's decision-making.

The Board of Directors comprises a minimum of five (5) and a maximum of eight (8) members and the President and CEO. All Board members apart from the President and CEO are independent of Metsäliitto. A Board member's term of office commences at the beginning of the calendar year following the meeting of the Supervisory Board that elected him/her and runs for three (3) years at a time. The term of office of a member of the Board of Directors ends at the end of the calendar year during which he/she turns 65. The term of office of the members of the Board of Directors deviates from the one-year term of office of the recommendation. However, the owners of the cooperative have not considered it necessary to shorten the term of office, as the three-year term has been considered necessary to secure the continuity of decision-making. In the past few years, particular attention has been paid to the composition of the Board of Directors and the versatility of its members'

competence by the Supervisory Board's nomination committee.

In 2010, the Chairman of the Board of Directors was Martti Asunta, the Vice Chairman was Kari Jordan, and members were Mikael Aminoff, Eino Halonen, Arto Hiltunen, Saini Jääskeläinen, Juha Parpala, Timo Saukkonen and Antti Tukeva.

CVs of the members of the Board and their shareholdings in Metsäliitto Cooperative and M-real Corporation are presented on pages 126–127 of the Annual Report.

### **Board Committees**

In order to ensure that the Board of Directors' tasks are effectively managed, Metsäliitto's Board of Directors has an Audit Committee and a Compensation Committee. The Committees are not competent to make decisions independently; the Board of Directors makes the decisions on matters based on the preparation of the Committees. The Board of Directors elects the members of the Committee from among its members.

#### **Audit Committee**

The Audit Committee assists the Board of Directors in performing its monitoring task. In this task, the Committee assesses and supervises matters related to financial reporting, auditing, internal audit and risk management in accordance with procedures approved for it. The Audit Committee comprises a minimum of three (3) members who are independent of Metsäliitto elected by the Board of Directors from among its members. In addition, the President and CEO attends the meetings of the Audit Committee, except for the times when the Audit Committee wishes to convene without the presence of the acting management. The Audit Committee shall regularly report to the Board of Directors on its operations and observations. In 2010, the Chairman of the Audit Committee was Arto Hiltunen and members were Martti Asunta and Eino Halonen.

#### **Compensation Committee**

The purpose of the Compensation Committee is to assist the Board of Directors in ensuring that Metsäliitto has appropriate and competitive pay systems, and successor and devel-

opment planning in accordance with the procedure approved by the Board of Directors. In its task, the Committee presents, e.g., the terms of the employment relationship of the CEO and the President and CEO, pay systems of the top management and key principles in the top management's contracts to the Board of Directors to decide on. In addition, the Compensation Committee presents the annual targets for the top management to the Board of Directors and monitors their realisation. Furthermore, the committee reviews the matters related to the compensation systems of the top management and proposes them for the Board of Directors to decide on.

The Board of Directors elects three (3) members to the Compensation Committee from among its members. The majority of the members of the Compensation Committee must be independent of Metsäliitto, and a member of Metsäliitto's acting management may not be a member of the Committee. The Compensation Committee shall regularly report to the Board of Directors on its operations. In the financial period 2010, the Chairman of the Compensation Committee was Martti Asunta and members were Eino Halonen and Antti Tukeva (10/2010–).

### **Information on the meetings of the Board of Directors and its Committees during the previous financial period**

The Board of Directors convened 15 times during the financial period 2010 and the members' attendance rate was 94 per cent. The Audit Committee convened three (3) times, and the members' attendance rate was 100 per cent. The Compensation Committee convened six (6) times, and the members' attendance rate was 94 per cent.

### **President and CEO**

Metsäliitto has a CEO who also acts as the President and CEO unless otherwise decided by the Supervisory Board. The President and CEO manages the operation of the entire Metsäliitto Group. Currently, the President of Metsäliitto, Kari Jordan, also acts as the CEO of Metsäliitto Cooperative. Ole Salvén acts as a deputy to the CEO of Metsäliitto Cooperative.

The President and CEO's duty is to manage the operational actions of Metsäliitto in



accordance with the law, regulations, decisions and instructions of the administrative bodies. According to the regulations, the President and CEO is in charge of arranging the running administration of the cooperative and supervises financial administration.

The President and CEO is elected by the Supervisory Board, and the Board of Directors approves the contract of the President and CEO. The deviation from the Recommendation in the election of the President and CEO can be justified with Metsäliitto's cooperative administrative model. The term of notice of the President and CEO is six months, and his severance pay corresponds to 24 months' total salary.

The CV of the President and CEO and his shareholdings in Metsäliitto Cooperative and M-real Corporation are presented on pages 126 and 128 of the Annual Report.

### Executive Management Team

The Metsäliitto Group has an Executive Management Team with the Group's President and CEO as its chairman. The Executive Management Team assists the President and CEO in the planning and operational management of business operations and prepares proposals to the Board of Directors, such as business strategies, budgets and significant investments. The Executive Management Team has no authority based on laws or rules. The Executive Management Team comprises the Metsäliitto Group's President and CEO, CEOs of the subsidiaries, Directors of the Wood Products Industry and Wood Supply business areas and the Group's CFO, Strategy Officer and Legal Counsel.

The Executive Management Team convenes as summoned by the Chairman, primarily once a month, and additionally whenever necessary.

During the financial period 2010, the Executive Management Team comprised Kari Jordan, President and CEO, Ole Salvén (Group Executive Vice President, Wood Product Industry), Hannu Anttila (Executive Vice President, Strategy), Mikko Helander (CEO of M-real Corporation), Ilkka Hämälä (CEO of Oy Metsä-Botnia Ab), Hannu Kottonen (CEO of Metsä Tissue Corporation), Juha Mäntylä (Group Executive Vice President, Wood Supply), Esa

Kaikkonen (General Counsel) and Vesa-Pekka Takala (CFO).

CVs of the members of the Executive Management Team and their shareholdings in Metsäliitto Cooperative and M-real Corporation are presented on pages 128–129 of the Annual Report.

### Internal control, internal audit and risk management

Profitable business requires that operations are monitored continuously and with adequate efficiency. Metsäliitto's internal control covers the control of financial reporting, internal authorisation rights, investment follow-up and credit control. The functionality of internal control, on the other hand, is evaluated by Metsäliitto's internal audit. Internal control is carried out throughout the organisation. Internal control methods include internal guidelines and reporting systems that support control.

The principles, objectives and responsibilities of Metsäliitto's internal control and the principles of internal audit are described below. Metsäliitto's acting management, Risk Management Directors and internal audit are in charge of composing the principles mentioned above and the Board of Directors for ultimately ratifying them.

### Definition of internal control and its objectives

In Metsäliitto, internal control covers financial reporting and other monitoring. Internal control is implemented by the Board, audit committee and the acting management, as well as the entire personnel. Internal control refers to those management activities that seek to ensure:

- achievement of the goals and objectives set for Metsäliitto
- economical, appropriate and efficient use of resources
- management of operation-related risks
- reliable and correct financial and other management information
- adherence to external regulations and internal policies
- adherence to appropriate procedures related to customer relationships

- sufficient security of operations, information and property, and
- the arrangement of adequate and suitable manual and IT systems to support operations.

### Proactive control

Proactive control includes the specification of Metsäliitto's values, general operational and business principles as well as goals and strategy. Metsäliitto's corporate culture, governance and the approach to control together create the basis for the entire process of internal control.

### Daily control

Daily control refers to general control and follow-up, with operational systems and work guidelines, related to operational steering. Examples include the specification of personnel responsibilities and authority, identifying high-risk assignments, job descriptions, approval authority and deputy procedures.

### Subsequent control

Subsequent control refers to control and check-up measures, such as different management evaluations and inspections, comparisons and verifications, the aim of which is to ensure that the goals are met and that the agreed operational and control principles are followed.

### Internal monitoring of the financial reporting process, credit control and authorisation rights

The financial organisations of the business areas and the Group are responsible for financial reporting. The units and business areas report the financial figures each month. Business area controllers check the monthly performance of units from each business area and report them further to the Group financial administration. Business area profitability development and business risks and opportunities are discussed monthly by Metsäliitto Executive Management Team meetings attended by the senior management of Metsäliitto and of each business area, and by financial management team meetings attended by the Group CFO and Director of Finance and the CFO of each business area. The results

are reported to the Board of Directors of Metsäliitto Cooperative each month. The results of the business areas are additionally reported to the Boards of Directors of their parent companies each month. Metsäliitto's Controllers' Manual describes the reporting and control regulations and the reporting procedure in detail.

Credit control in Metsäliitto Group is carried out by each business area in accordance with the Group credit control policy and the business area-specific credit control policy based on it. Credit control is carried out by the Group's central credit control organisation in cooperation with the management of the business areas.

Authorisation rights concerning expenses, significant contracts and investments have been continuously specified for different organisation levels, according to the decision-making order confirmed by the Board and the authority separately granted by the President and CEO and other management personnel.

Investment follow-up is carried out by the Group's financial administration according to the investment policy confirmed by the Board. After pre-approval, investments are taken to the management teams of the business areas within the framework of the annual investment plan. Most significant investments are separately submitted for approval by the Executive Management Team and the Boards of the Group's parent company, and of the parent company of the business area.

### Internal audit

Metsäliitto's internal audit assists the Board of Directors in performing its supervisory task by assessing the level of internal audit maintained in order to attain the targets of Metsäliitto's operation. In addition, the department supports the organisation by assessing and ensuring the functioning of the business processes, risk management and management and administration systems.

The core task of the internal audit is to evaluate the efficiency and appropriateness of Group functions' and units' internal auditing. Internal audits assess compliance with operating principles, guidelines and reporting systems, protection of assets and the efficiency of resource usage.

The internal audit unit acts under the supervision of the Group's President and CEO and the Audit Committee. An internal audit action plan is prepared for one calendar year at a time. The audit focuses on areas that have particular significance for the risk assessed and the Group's objectives at the time. The action plan will be reviewed with the management semi-annually, with regard to how up-to-date and appropriate it is.

The extent and coordination of auditing will be ensured with regular contact and flow of information with other internal control functions and auditors. Internal audit uses, if necessary, external outsourced services for temporary additional resourcing or performing assessment tasks that require special expertise. In this case, the external service providers act under the supervision of the head of the internal audit.

A report is written for each audit and distributed to the Group's President and CEO, the senior management of the affiliated group being audited and the management of the audited function or unit. The audit reports are submitted to the auditors for information and to the parties that are considered relevant based on the content of the report. The internal audit department shall compose a semi-annual summary report to the Audit Committee on the audits carried out, the most significant observations and the agreed measures. In addition, the semi-annual report shall state the most significant changes in carrying out the audits compared to the action plan and other main duties performed by the internal audit department, as well as any changes in resources. An annual report of the activity of the internal audit shall be composed for the Board of Directors.

### Risk management

Risk management is an essential part of Metsäliitto's standard business planning and leadership. Risk management belongs to daily decision-making, operations follow-up and internal control, and it promotes and ensures that the objectives set by the company are met.

Linking business management efficiently with risk management is based on the operational principles confirmed by Metsäliitto's

Board of Directors; the aim of the principles is to maintain risk management as a process that is well defined, understandable and sufficiently practical. Risks and their development are reported on a regular basis to the Board's Audit Committee. Centralised risk management also takes care of the coordination and competitive bidding of Metsäliitto's insurance coverage

The most crucial objective of risk management is to identify and evaluate those risks, threats and opportunities which may have an impact on the implementation of the strategy and on how short-term and long-term objectives are met. A separate risk review is also included in the most significant investment proposals.

The business areas regularly evaluate and monitor the risk environment and related changes as part of their annual and strategic planning. The risks identified and their means of control are reported to the company's management, Audit Committee and the Board at least twice a year. Business risks also involve opportunities, and they can be utilised within the boundaries of the agreed risk limits. Conscious risk-taking decisions must always be based on an adequate evaluation of the risk-bearing capacity and the profit/loss potential, among other things.

### Risk management responsibilities

Risk management responsibilities in Metsäliitto are divided as follows:

- The Board is responsible for Metsäliitto's risk management and confirms the company's risk management policy.
- The Audit Committee evaluates the adequacy of Metsäliitto's risk management and the essential risk areas and provides the Board with related proposals.
- The President and CEO and the members of the Executive Management Team are responsible for the specification and adoption of the risk management principles. They are also responsible for ensuring that the risks are taken into account in the company's planning processes and that risk reporting is adequate and appropriate.
- The Group's Risk Management Director is in charge of the development and coordination of the risk management process, per-

formance of risk assessment and the essential insurance decisions.

- Business areas and services functions identify and evaluate the essential risks related to their own areas of responsibility in their planning processes, prepare for them, take necessary preventive action and report on the risks as agreed.

### Risk management process

The purpose of risk management is to:

- promote and ensure the achievement of the goals set for business operations
- ensure the safe and uninterrupted continuity of business operations in all circumstances, and
- optimise Metsäliitto's overall risk exposure.

Metsäliitto's essential risk management elements include implementing a comprehensive corporate risk management process that supports the entire business, protecting property and ensuring business continuity, corporate security and its continuous development, as well as crisis management and continuity and recovery plans. According to the risk management policy and principles, adequate risk management forms a necessary part of the preliminary review and implementation stages of projects which are financially or otherwise significant.

The tasks of risk management are to:

- ensure that all identified risks with an impact on personnel, customers, products, property, information assets, corporate image, corporate responsibility and operational capacity are controlled according to applicable laws and on the basis of best available information and financial aspects
- ensure that Metsäliitto's objectives are met
- fulfil the expectations of stakeholders
- protect property and ensure disruption-free business continuity
- optimise the profit/loss possibility ratio, and
- ensure the management of Metsäliitto's overall risk exposure and minimise the overall risks.

The most significant risks and uncertainties that Metsäliitto is aware of are described in the Board's annual report.

### Insider guidelines

In matters related to insiders, Metsäliitto complies with securities market legislation and the insider guidelines of the subsidiary M-real Corporation, composed in accordance with the standards of the Financial Supervisory Authority and the guidelines prepared by NASDAQ OMX Helsinki Ltd (Helsinki Stock Exchange). Metsäliitto requires every employee to follow the insider regulations. The secretary of the Board of Directors of each Group company is in charge of the maintenance and administration of Metsäliitto Group's statutory insider register. Metsäliitto only recommends long-term investments and the use of purchase programmes. M-real Corporation's public insider register comprises of the members of Metsäliitto Cooperative's Board of Directors, the President and CEO and the auditors. M-real's company-specific insiders include the members of the Group's Executive Management Team and persons appointed to legal, financial, communications and investor relations-related tasks of Metsäliitto Group and thus regularly have access to insider information on M-real.

### Audit

According to Metsäliitto's rules, Metsäliitto has one auditor who shall be an auditing firm authorised by the Central Chamber of Commerce of Finland. The representative council elects the auditor to review the accounts for the year underway, and their task ends at the closure of the next annual meeting of the representative council. The task of the auditors is to audit the financial statements and accounting of the Group and the parent company, and the administration of the parent company. The auditor provides a statutory auditor's report to the members of Metsäliitto in connection with the annual financial statements and regularly report on their observations to the Board of Directors and the management of Metsäliitto.

In accordance with the resolution of the representative council meeting in the spring of 2010, Metsäliitto Cooperative's auditor is

PricewaterhouseCoopers Oy firm of authorised public accountants, with Johan Kronberg, APA, as main responsible auditor. Companies that belong to Metsäliitto Group have paid a total of EUR 2,2 million in audit fees in 2010. A total of EUR 0,7 million was paid for services not related to the audit.

# Salary and remuneration report

This salary and remuneration report of Metsäliitto Group has been issued pursuant to Recommendation 47 of the Finnish Corporate Governance Code of 15 June 2010 and it has been published on the Company's website on 31 March 2011. In accordance with the Group's practice the salary and remuneration report is updated two times every calendar and always in March in connection with the Corporate Governance Statement.

## Fees of the Supervisory Board and the Board of Directors

### Metsäliitto Cooperative's Supervisory Board

Pursuant to a decision of the Representative Council, the Chairman and Deputy Chairman of the Supervisory Board are paid a fixed monthly remuneration and a meeting fee. The other members only receive a meeting fee. The members are entitled to travel compensation according to Metsäliitto's travel rules. In 2010, the monthly remuneration of the Chairman of the Supervisory Board was EUR 3,400 and the meeting fee EUR 500 per meeting (Runar Lilland was the Chairman until 5 May 2010 from which forward Hannu Järvinen). The Chairman was paid a total of EUR 63,200 in salaries and meeting fees. The monthly remuneration of the Deputy Chairman of the Supervisory Board was EUR 600 and the meeting fee EUR 500 per meeting in 2010 (Erkki Jaakkola was the Deputy Chairman until 5 May 2010 from which forward Juha Paajanen). The Deputy Chairman was paid a total of EUR 12,300 in salaries and meeting fees. The other members were paid EUR 500 per meeting, totalling EUR 90,500. Members of the Supervisory Board were paid a total of EUR 166,000 in salaries and fees for the financial period 2010.

### Metsäliitto Cooperative's Board of Directors

Pursuant to the Supervisory Board's decision, each member of the Board of Directors is paid a fixed monthly remuneration and a meeting fee. The meeting fee is also paid for committee meetings. The members are entitled to travel compensation according to Metsäliitto's travel rules.

In 2010, the monthly remuneration of the Chairman of the Board of Directors was EUR 5,000 and the meeting fee EUR 600 per meet-

ing. The Chairman was paid a total of 75,240 in salaries and meeting fees. The monthly remuneration of the other members was EUR 3,000 and the meeting fee EUR 600 per meeting in 2010. The other members were paid a total of EUR 324,600 in salaries and meeting fees. The President and CEO is not paid a salary or remuneration for acting in the Board of Directors. Members of the Board of Directors were paid a total of EUR 399,840 in salaries and fees for the financial period 2010. According to the decision of the Supervisory Board on 16 November 2010, the monthly remuneration in 2011 of the Chairman of the Board of Directors is EUR 5,800 and the remuneration of the other members is EUR 3,200. In addition, a meeting fee of EUR 600 is paid for the Board of Directors from each meeting.

## Rewarding of the acting management

The purpose of the reward system of Metsäliitto's acting management is to reward the management in a just and competitive manner for the performance of Metsäliitto Group and realising the strategy and development of the business operations. The Board of Directors of Metsäliitto Cooperative decides on the remuneration and other financial benefits of the Group President and CEO and members of the Group's Executive Management Team employed by Metsäliitto Cooperative, and the principles of the profit pay system based on the preparation of the Compensation Committee. All the Metsäliitto Group companies comply with the same reward principles, but the remuneration criteria are separately decided on by each subsidiary's Board of Directors.

The reward system comprises a fixed monthly salary, a bonus determined on the basis of the task's effect on earnings, the management's pension benefits and a share compensation system.

## Short-term incentives

### Salary and severance pay of the President and CEO

The CEO's monthly salary with fringe benefits is EUR 80,347.17. The monthly salary includes housing, car, chauffeur and other minor benefits.

Pursuant to the President and CEO's contract, the Board of Directors may decide that the President and CEO receives a bonus based

on the profit, cash flow and personal performance, corresponding to six months' salary.

The companies in the Metsäliitto Group paid the President and CEO a total of EUR 2,103,293.67 in salaries, fees and other benefits in 2010. The salary with fringe benefits paid by Metsäliitto Cooperative amounted to EUR 1,005,294.47, and the bonus and share reward to EUR 1,011,382.71. The other Group companies paid the President and CEO a total of EUR 86,616.49 in salaries, fees and other benefits.

The term of notice of the President and CEO is six (6) months. When the contract of the President and CEO is terminated by the Board, the President and CEO is entitled to a severance pay corresponding to 24 months' total salary. No severance compensation is paid if the contract is terminated by the President and CEO.

## Salaries and fees of other management

The maximum bonus paid to members of the Group Executive Management Team employed by Metsäliitto Cooperative can vary, according to the task's effect on earnings, between the amounts corresponding to the person's 0–6 months' wages. The criteria of the profit pay system are the earnings requirements of the Group level and of its own area of responsibility.

The companies in the Metsäliitto Group paid members of the Executive Management Team (excluding the President and CEO) a total of EUR 7,146,893.81 in salaries and fees in 2010.

## Long-term incentives

### Share ownership system for the Executive Management Team

Members of the Metsäliitto Group Executive Management Team have established a company named Metsäliitto Management Oy. Through the company, the management has invested EUR 3,850,000 of their own funds in M-real's B shares. In addition, some of the investments of the company in M-real's B shares have been financed by a loan granted by Metsäliitto Cooperative. The management themselves shoulder the ownership risk for the investment they make in the system. The purpose of the system is to encourage members of the Executive Management Team to acquire and own M-real Corporation's B



shares and, through this, to increase the shareholder value of Metsäliitto Group in the long term and support the achievement of the Group's strategic objectives.

The loan granted by Metsäliitto will be repaid in its entirety by 31 March 2014. If the validity of the system is continued one year at a time in 2013, 2014, 2015 or 2016, the loan period will be extended correspondingly. Metsäliitto Management has the right to repay the loan prematurely at any time. Metsäliitto Management is obligated to repay the loan prematurely by selling the M-real shares it holds if the stock exchange price of M-real Corporation's B share exceeds a certain level defined in the system for an extended period of time.

The system will remain in force until the end of 2013 and beginning of 2014, at which time the intention is to dismantle the system in a manner to be decided later. The system will be extended one year at a time if, in October–November 2013, 2014, 2015 or 2016, the stock exchange price of M-real's B share is lower than the average price at which Metsäliitto Management acquired M-real's B shares it owns. The assignment of M-real's B shares owned by Metsäliitto Management is restricted during the validity of the system. As a rule, the ownership of members of the Executive Management in Metsäliitto Management will remain in force until the dismantling of the system. If a member of the Executive Management Team resigns before the dismantling of the system, he/she is repaid the funds invested, but not any potential increase in value. If the system shows a loss, a resigning member of the Executive Management Team only receives a calculated share of the capital.

As of August 2010, the share ownership system has replaced the previous share-based incentive scheme for 2008–2010, under which the other management continues. Members of the Executive Management Team are not entitled to a potential share reward according to the old share-based incentive scheme for the financial period 2010.

A total of 6,790,887 M-real's B shares have been acquired through Metsäliitto Management, of which the President and CEO indirectly owns 1,763,867 shares and the other members of the Executive Management Team indirectly own 5,027,020 shares.

### **Share-based incentive scheme for executives**

#### *Share-based incentive scheme for 2011–2015:*

The Board of Directors has accepted a share-based incentive scheme for Metsäliitto Group's executives for the years 2011–2015. The first earning period which lasts three years is from 2011 to 2013. The Board of Directors of Metsäliitto Cooperative shall determine the executives who belong to the target group and their maximum rewards at the beginning of every three-year earning period. The maximum reward is expressed as a number of shares. Attaining the targets established for an earning period determines the proportion of the maximum reward that shall be paid to the executives. Any reward will be paid partially in M-real Corporation's shares and partially in cash. The amount paid in cash covers the taxes and tax-like charges resulting from the reward. The shares cannot be transferred during a commitment period of two (2) years. The reward will not be paid if the person's employment has terminated before the payment of the reward. In addition, any rewards that have been paid must be returned if the person's employment is terminated as a result of the person being dismissed or giving notice within two (2) years of the end of an earning period. The possible reward from the earning period of 2011–2013 is based on the development of Metsäliitto Group's equity ratio, return on capital employed (ROCE), and earnings before interest and taxes (EBIT). The reward from the earning period equates in value the maximum of altogether approximately 4.7 million in M-real Corporation's B shares including the share payable in cash (including the rewards of M-real's share-based incentive scheme).

#### *Share-based incentive scheme for 2008–2010:*

The previous share-based incentive scheme for 2008–2010 offers the target group an opportunity to receive M-real Corporation's B shares as a reward for the attainment of the objectives of three (3) earning periods each comprising one (1) calendar year. The amount of reward paid from the share-based incentive scheme is tied to Metsäliitto Group's performance development and on its ground the reward of the scheme in 2010 is in maximum 560 000 in M-real Corporation's B shares (including the rewards of M-real's share-based incentive scheme).

The members of Metsäliitto Group's Executive Management Team are not entitled to the rewards of the share-based incentive scheme for the financial period 2010. The share-based incentive scheme ended at the end of Financial year 2010 and rewards based on it are no longer paid.

Additional information on the share-based incentive scheme is given on item 36 on Notes to the accounts.

### **Management pension arrangements**

Members of the Group's Executive Management Team employed by Metsäliitto Cooperative fall within the scope of the Employees' Pensions Act. It provides pension security based on the period of service and earned income as provided in the Act. In the Finnish earnings-related pension system, basic salary, remuneration and taxable fringe benefits are included in earned income, but not income from options and management's share-based incentive systems.

### **Pension arrangements of the President and CEO**

The President and CEO has a separate pension agreement with a retirement age of sixty (60), as a rule. The President and CEO's maximum level of pension is 60 per cent of the total salary under the Employees' Pensions Act, calculated on the basis of the five-year period preceding retirement. In 2010, the annual contribution of the President and CEO's benefit-based pension scheme was 56 per cent of the total salary and remuneration paid by Metsäliitto Group to the President and CEO. If the contract of the President and CEO should terminate before retirement age, he/she is entitled to a paid-up policy.

### **Management pension arrangements**

The members of the Group's Executive Management Team employed by Metsäliitto Cooperative have a separate benefit-based pension agreement with a retirement age of sixty-two (62) years. The level of pension is 60 per cent of the total salary under the Employees' Pensions Act, calculated on the basis of the five-year period preceding retirement. If the employment relationship with Metsäliitto ends before retirement age, a member of the Executive Management Team is entitled to a paid-up policy.

# Metsäliitto Cooperative's Representative Council

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

Aalto Tero	Farmer	Kitee	Määttä Unto	Farmer	Suonnankylä
Aikkinen Ilmari	Farmer	Mynämäki	Nevavuori Jari	Farmer	Kalanti
Alatalo Matti	Farmer	Soini	Nieminen Pekka	Farmer	Tervola
Björkenheim Johan	Farmer	Isokyrö	Nylund Mats	Farmer	Pedersöre
Eskelinen Arto	Farmer	Hirvilahti	Ojanperä Juha	Farmer	Kärjenkoski
Haimi Hannu	Farmer	Anjalankoski	Ollikainen Raimo	Metsätalousneuvos (Finnish honorary title)	Leppävirta
Hatanpää Mikko	Farmer	Noormarkku	Penttilä Mauri	Farmer	Narva
Havanka Pentti	Logger	Visuvesi	Peuraniemi Kari	Farmer	Pintamo
Heikkinen Kari	Farmer	Nurmes	Pirttijärvi Tauno	Forestry entrepreneur	Vikajärvi
Hihnala Kauko	Farmer	Rautio	Pyykkönen Rauno	Forestry technician	Suomussalmi
Hopsu Juha	Forestry engineer	Tampere	Pölkki Veikko	Farmer	Äänekoivisto
Hytönen Jukka	Rural entrepreneur	Vesanto	Raitala Juha	Rural representative	Mellilä
Hyönen Timo	Farmer	Sotkamo	Ralli Kaisa	Agrologist	Kaartilankoski
Isomuotia Harri	Farmer	Vesajärvi	Rautiola Antti	Farmer	Matkaniva
Jokela Seppo	Farmer	Suomijärvi	Ryymin Jaakko	Farmer	Kurenpolvi
Kallio Maarit	Agrologist	Sammaljoki	Räsänen Tauno	Farmer	Kosula
Karjalainen Jouko	Farmer	Arkala	Saarenkivi Anne	Forestry technician	Hämeenlinna
Keskinen Sakari	Farmer	Mänttä	Saramäki Matti	M.Sc. (For.)	Paihola
Keskisarja Hannu	Farmer	Karvoskylä	Snellman Veli	M.Sc. (For.)	Helsinki
Kivenmäki Ari	Agrologist	Kuortane	Storsjö Bo	Farmer	Kristiinankaupunki
Kiviranta Esko	Agronomist	Sauvo	Suutari Kai	Agrologist	Laikko
Koistinen Pertti	Farmer	Ylämylly	Tienhaara Asko	Farmer	Kurejoki
Kontinen Kati	M.Sc. (For.)	Ristiina	Tuominen Pasi	Rural representative	Kiukainen
Korhonen Ari	Forestry entrepreneur	Kajaani	Turtiainen Matti	Agronomist	Kerimäki
Korpijaakko Hannu	Farmer	Lohja	Unnaslahti Seppo	Farmer	Kuhmoinen
Koskinen Jaakko	Farmer	Kannusjärvi	Uusitalo Hannu	Farmer	Kannus
Kukkonen Timo	Forestry engineer	Etelä-Petruma	Uusitalo Ilkka	Farmer	Kiikala
Laiho Tapio	M.Sc. (For.)	Jyväskylä	Uusitalo Jarmo	Audit Manager (KHT)	Helsinki
Lakkapää Sakari	Driver	Juoksenki	Wasström Anders	Farmer	Raasepori
Leppänen Johannes	Agrologist	Kannonkoski	Virnala Jukka	Forestry entrepreneur	Luopajarvi
Marken Martin	Farmer	Oravainen	Vuorikko Liisa	Forestry entrepreneur	Lahti
Mieskolainen Antti	Forestry technician	Kangasniemi	Ylä-Outinen Päivi	Farmer	Ylämaa
Mänttari Tuomo	Forestry entrepreneur	Parola			



# Metsäliitto Cooperative's Supervisory Board

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

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## Chairman:

Hannu Järvinen	Agronomist	Janakkala
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## Deputy Chairman:

Juha Paajanen	Farmer	Punkaharju
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## Members

Airio Pentti	Brigadier general	Helsinki	Kässi Timo	Agrologist	Uurainen
Ekman Eero	Rural secretary	Paimio	Lappalainen Jukka	Farmer	Pielavesi
Hatva Teuvo	Forestry entrepreneur	Vuolijoki	Lassila Hannu	Farmer	Räyriki
Hirvonen Ville	Agrologist	Rääkkylä	Lindqvist Hans-Erik	M.Sc. (For.)	Närpiö
Hongisto Arto	Farmer	Liminka	Linnaranta Jussi	Farmer	Hirvilahti
Isotalo Antti	Farmer	Voltti	Mikkola Antti-Jussi	Farmer	Pälkäne
Jaakkola Antti	Pitäjänneuvos (Finnish honorary title)	Vanhakylä	Nikula Timo	Agrologist	Laitila
Junttila Risto	Executive Manager	Kemijärvi	Palojärvi Martti	Farmer	Huhmari
Juusela Ilkka	Talousneuvos (Finnish honorary title)	Sastamala	Ruuth Mauri	Agrologist	Vanhamäki
Jääri Antti	Farmer	Simo	Siponen Ahti Tapani	Bank manager	Myllyniemi
Kinnunen Esko	Farmer	Siikamäki	Store Olav	Farmer	Kokkola
Kulmala Airi	Project coordinator	Nousiainen	Tolonen Mikko	Farmer	Ruhtinansalmi
Kuutti Petri	Farmer	Valkeala	Vainionpää Erkki	Farmer	Töysä
			Vanhatalo Jukka	Farmer	Sammi
			Äijö Matti	Forestry engineer	Kilvakkala

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## Personnel representatives:

Heinola Seija	Chief shop steward	Lohja
Keskinen Matti	Purchasing supervisor	Nastola
Koljonen Timo	System specialist	Espoo
Nurmi Mikko	Project engineer	Kyri

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# Metsäliitto Group's Board of Directors

## Martti Asunta

Born 1955  
M.Sc. (Forestry)

- Member of the Board since 2005,  
Chairman since 2008
- Federation of Forest Management Associations in Pohjois-Häme, Field Manager, Executive Manager (1982–1988)
  - Tampere Regional Savings Bank (SSP), Area Manager (1988–1993)
  - Union Bank of Finland, Bank Manager (1993–1995)
  - Huoneistokeskus real estate agency Branch Manager (2003–2005)
  - Municipality of Kuru, Project Manager (2001–2003)
  - Real estate office Martti Asunta LKV, entrepreneur (1995–)
  - Vice Chairman of the Board of M-real Corporation (2008–)
  - Member of the Board of Oy Metsä-Botnia Ab (2008–)
  - Member of the Board of Metsä Tissue Corporation (2008–)
  - Member of the Board of Pellervo Confederation of Finnish Cooperatives (2008–), Chairman of the Board (2010–)

Participations in Metsäliitto  
Cooperative: EUR 43,668  
Shares in M-real Corporation: 23,900  
(B shares)

## Kari Jordan

Born 1956  
M.Sc. (Econ.), Vuorineuvos  
(Finnish honorary title)

- Member and Vice Chairman of the Board since 2005
- President and CEO of Metsäliitto Group (2006–)
  - CEO of Metsäliitto Cooperative (2004–)
  - Chairman of the Board of M-real Corporation (2005–)
  - Chairman of the Board of Metsä Tissue Corporation (2004–)
  - Member of the Board of Oy Metsä-Botnia Ab (2004–), Chairman of the Board (2006–)
  - Member of the Board of the Confederation of Finnish Industries EK (2005–), Vice Chairman (2009–)
  - Chairman of the Board and Chairman of the Working Group of Finnish Forest Industries Federation (2009–), Vice Chairman of the Board of the Federation and member of the Federation's Working Group (2005–2009)
  - Several positions of trust in foundations and non-profit associations.

Participations in Metsäliitto  
Cooperative: EUR 520  
Shares in M-real Corporation: Directly 0,  
through Metsäliitto Management Oy  
1,763,867 (B shares), see Salary and  
remuneration report p. 122

## Mikael Aminoff

Born 1951  
M.Sc. (Forestry)

- Member of the Board since 2008
- Chairman of the Board of Eteläinen metsäreviiri (2000–2007)
  - Executive Manager of Länsi-Uudenmaan metsäreviiri (1980–1997)
  - Entrepreneur in farming and forestry (1992–)
  - Member of the Delegation of Pellervo Confederation of Finnish Cooperatives (2009–)
  - Vice Chairman of the Board of Coastal Forestry Centre (2010–)
- Participations in Metsäliitto  
Cooperative: EUR 42,191  
Shares in M-real Corporation: 22,095  
(B shares)

## Eino Halonen

Born 1949  
M.Sc. (Econ.)

- Member of the Board since 2006
- Managing Director of Suomi Mutual Life Assurance Company (2000–2007)
  - Managing Director of Pohjola Life Assurance Company Ltd (1998–1999)
  - Executive Vice President, Regional Bank Manager, Merita Nordbanken (1998)
  - Director and member of the Management Board, Merita Bank Ltd (1996–1997)
  - Kansallis-Osake-Pankki (1971–1995)
  - Vice Chairman of the Board of Cramo Oyj (2003–)
  - Member of the Board of YIT Corporation (2000–), Vice Chairman (2003–), Chairman of the Audit Committee (2004–2009) and member of the Nomination and Compensation Committee (2008–)

Participations in Metsäliitto  
Cooperative: EUR 2,738  
Shares in M-real Corporation: No ownership



Kari  
Jordan

Martti  
Asunta

Eino  
Halonen

Mikael  
Aminoff

**Arto Hiltunen***Born 1958**M.Sc. (Econ.)*

Member of the Board since 2007

- SOK Corporation, CEO and Chairman of the Board (2007–2009)
- Managing Director, Helsinki Cooperative Society Elanto, HOK-Elanto Liiketoiminta Oy (2004–2007), Chairman of the Board (2005–2007)
- Managing Director, Elanto Cooperative, following the merger decision (2003)
- Managing Director, Helsinki Cooperative Society Elanto, HOK Liiketoiminta Oy, Chairman of the Board (1998–2003)
- Member of the Board of Talent Partners Oy (2010–)
- Member of the Board of Metsä Tissue Corporation (2010–)
- Member of the Board of SRV-Yhtiöt Oy (2010–)
- Member of the Board of Itella Oy (2010–)
- Member of the Board of Jenny ja Antti Wihuri Foundation (2010–)

Participations in Metsäliitto

Cooperative: EUR 1,040

Shares in M-real Corporation: 400 (A shares)

**Saini Jääskeläinen***Born 1959**Entrepreneur in farming and forestry*

Member of the Board since 2005

- Central Hospital of Central Finland,
- Anaesthetic Nurse (1986–1988), Midwife (1989–1998)
- Member of the Supervisory Board of Korpilahti Cooperative Bank (2008), member of the Board (2009–)
- Member of the Board of Vapo Oy (2005–2009)

Participations in Metsäliitto

Cooperative: EUR 65,283

Shares in M-real Corporation: 2,678 (B shares)

**Juha Parpala***Born 1967**Agrologist*

Member of the Board since 2009

- Farmer (1994–)
- Oulainen 4H Association (1993–1994)
- Metsäliitto Cooperative, District Committee (1997–), Member of the Supervisory Board (2001–2008)

- Member of the Board of Osuuskunta Pohjolan Maito (2006–2007)
- Member of the Representative Council of Osuuskunta Lapin Maito (1998–2006)
- Vice Chairman of the Board of Simo Forest Management Association (1995–1996)
- Member of the Board of Länsi-Pohja Forest Management Association (1998–2004)

Participations in Metsäliitto

Cooperative: EUR 7,841

Shares in M-real Corporation: No ownership

**Timo Saukkonen***Born 1967**M.Sc. (Agriculture and Forestry)*

Member of the Board since 2007

- Farmer (1992–)
- Several positions of trust in Metsäliitto (1995–)
- Member of the Supervisory Board of Simpele Cooperative Bank (2000–)
- Member of the Delegation of Pellervo Confederation of Finnish Cooperatives (2008–)

Participations in Metsäliitto

Cooperative: EUR 52,010

Shares in M-real Corporation: 3,699 (B shares)

**Antti Tukeva***Born 1953**Agrologist*

Member of the Board since 2009

- CEO of Osuuskunta Maitosuomi (2007–)
- CEO of Osuuskunta Normilk (1994–)
- CEO of Osuuskunta Maitojaloste (1991–2006)
- Farming and forestry Kukkala farm (1985–)
- Positions of trust in agricultural and dairy organisations
- Vice Chairman of the Board of Lakeus Local Insurance Mutual Company (2006–)

Participations in Metsäliitto

Cooperative: EUR 12,002

Shares in M-real Corporation: 1,000 (B shares)



# Metsäliitto Group's Executive Management

## Kari Jordan

Born 1956

M.Sc. (Econ.), Vuorineuvos  
(Finnish honorary title)

President and CEO  
Member of the Executive Team since 2005

President and CEO of Metsäliitto Group  
(2006–)

CEO of Metsäliitto Cooperative since 2004

- Member of the Board and Vice Chairman of the Board of Metsäliitto Cooperative (2005–)
- Chairman of the Board of M-real Corporation (2005–)
- Chairman of the Board of Metsä Tissue Corporation (2004–)
- Member of the Board of Oy Metsä-Botnia Ab (2004–), Chairman of the Board (2006–)
- Member of the Board of the Confederation of Finnish Industries EK (2005–), Vice Chairman (2009–)
- Chairman of the Board and Chairman of the Working Group of Finnish Forest Industries Federation (2009–), Vice Chairman of the Board of the Federation and member of the Federation's Working Group (2005–2009)

- Several positions of trust in foundations and non-profit associations.
- Participations in Metsäliitto Cooperative: EUR 520  
Shares in M-real Corporation: Directly 0, through Metsäliitto Management Oy 1,763,867 (B shares), see Salary and remuneration report p. 122

## Ole Salvén

Born 1953  
LLM

Executive Vice President of Metsäliitto Wood Products Industry, deputy to the CEO

Member of the Executive Team since 2005

- Executive Vice President of Metsäliitto Wood Products Industry since 2005, deputy to the CEO since 2008
- CEO of Moelven Industrier ASA (2005)
- International management positions in Finnforest Corporation (1994–2004) as Chief Financial Officer, UK Managing Director and Regional Director of Continental Europe
- Employed by Bank of America (1981–1994) as Country Manager of Finland, Norway and Iceland, EMEA Chief Strategy Officer, in special tasks and as Regional Director of Northern Germany

Participations in Metsäliitto Cooperative: No ownership  
Shares in M-real Corporation: Directly 0, through Metsäliitto Management Oy 793,740 (B shares), see Salary and remuneration report p. 122

## Hannu Anttila

Born 1955  
M.Sc. (Econ.)

Executive Vice President, Strategy  
Member of the Executive Team since 2005

- Metsäliitto Group's Executive Vice President, Strategy since (2006–)
- CEO of M-real Corporation (2005–2006)
- Chief Financial Officer of Metsäliitto Group (2003–2004)
- CEO of Metsä Tissue Corporation (1998–2003)
- Executive Vice President of Oy Metsä-Botnia Ab (1997–1998)
- Chief Financial Officer of Metsä-Serla Oy (1992–1996)
- Member of Board of Metsä Tissue Corporation (2004–)
- Member of Board of Oy Metsä-Botnia Ab (2004–)

- Chairman of Board of Metsä Group Financial Services Corporation (2010–)
- Chairman of Board of the Supervisory Board of Tapiola Pension (2007–)
- Member of Board of Teollisuuden Voima Corporation (2007–)
- Member of Board of Pohjolan Voima Corporation (2009–)

Participations in Metsäliitto Cooperative: No ownership  
Shares in M-real Corporation: Directly 0, through Metsäliitto Management Oy 617,353 (B shares), see Salary and remuneration report p. 122

## Mikko Helander

Born 1960  
M.Sc. (Eng.)

CEO of M-real Corporation  
Member of the Executive Team since 2006

- CEO of M-real (2006–)
- Previously CEO of Metsä Tissue Corporation and various management positions in Valmet and Metso Groups.
- Member of Board of Oy Metsä-Botnia Ab (2009–)

Participations in Metsäliitto Cooperative: No ownership  
Shares in M-real Corporation: Directly 0, through Metsäliitto Management Oy 881,933 (B shares), see Salary and remuneration report p. 122





**Ilkka Hämälä***Born 1961**M.Sc. (Eng.)*

CEO of Oy Metsä-Botnia Ab

Member of the Executive Team since 2008

- CEO of Metsä-Botnia (2008–)
- Has previously held various management positions in Metsä-Botnia, last as Production Manager (2000–2008)
- Member of the Competitiveness Committee of the Finnish Forest Industries Federation (2009–)
- Member of the Delegation of Excellence Finland (September 2008–)
- Deputy member of the Board of Pohjolan Voima Oy (2009–)
- Member of Board of the Supervisory Board of Ilmarinen Pension (2009–)

Participations in Metsäliitto

Cooperative: No ownership  
 Shares in M-real Corporation: Directly 0, through Metsäliitto Management Oy 617,353 (B shares), see Salary and remuneration report p. 122

**Esa Kaikkonen***Born 1969**LLM*

General Counsel

Member of the Executive Management Team since 2008

- General Counsel of Metsäliitto Group (2003–)
- Legal counsel in Metsäliitto Group (2000–2003)

- Legal counsel in Metsä-Serla Corporation (1998–2000)
- Advocate (1995–1998)
- Member of the legal committee of the confederation of Finnish Industries EK (2007–)

Participations in Metsäliitto

Cooperative: No ownership  
 Shares in M-real Corporation: Directly 0, through Metsäliitto Management Oy 440,967 (B shares), see Salary and remuneration report p. 122

**Hannu Kottonen***Born 1957**M.Sc. (Econ.)*

CEO of Metsä Tissue Corporation

Member of the Executive Team since 2009

- CEO of Metsä Tissue (2006–)
- Previously Executive Vice President of M-real Corporation's Consumer Packaging business area
- Prior to joining M-real, held various management positions in the Huhtamäki Group, last as CFO
- Member of Board of The Finnish Orienteering Federation (2006–), Vice Chairman (2008–)
- Member of Delagation of Helsinki Region Chamber of Commerce (2011–), Member of District Board of Espoo (2009–)
- Chairman of the Paper, Cartonboard and Processed Products Committee of the

Finnish Forest Industries Federation (2011–)

- Member of the Board of European Tissue Symposium (ETS) (2007–)

Participations in Metsäliitto

Cooperative: No ownership  
 Shares in M-real Corporation: Directly 0, through Metsäliitto Management Oy 793,740 (B shares), see Salary and remuneration report p. 122

**Juha Mäntylä***Born 1961**M.Sc. (Agriculture and Forestry)*

Executive Vice President of Metsäliitto Wood Supply

Member of the Executive Management Team since 2008

- Executive Vice President of Metsäliitto Wood Supply (2008–)
- Various positions in Metsäliitto Cooperative since 1998, last as Forest Manager
- Various positions in Etelä-Pohjanmaa Forestry Centre and Enso Forest Development Ltd (1985–1998)
- Member of Board of Oy Metsä-Botnia Ab (2008–)
- Member of Board of Finsilva Oyj (2007–)
- Member of Board of Thosca Holz GmbH (2009–)
- Member of Board of Coastal Forestry Centre (2003–)

- Chairman of the Forest Committee of the Finnish Forest Industries Federation (2010–)

Participations in Metsäliitto

Cooperative: EUR 42,038.23  
 Shares in M-real Corporation: Directly 0, through Metsäliitto Management Oy 440,967 (B shares), see Salary and remuneration report p. 122

**Vesa-Pekka Takala***Born 1966**M.Sc. (Econ.)*

Metsäliitto Group's Chief Financial Officer

Member of the Executive Management Team since 2010

- Management positions in the financial administration of the Outokumpu Group (1990–2001)
  - Chief Financial Officer of the Outokumpu Group (2001–2006), member of the management team (2005)
  - Chief Financial Officer and Director of Finance of the Outotec Group (2006–2010), member of the management team, deputy to the CEO
- Participations in Metsäliitto  
 Cooperative: No ownership  
 Shares in M-real Corporation: Directly 0, through Metsäliitto Management Oy 440,967 (B shares), see Salary and remuneration report p. 122

Vesa-Pekka  
TakalaHannu  
KottonenJuha  
MäntyläIlkka  
Hämälä

# Sustainable development key figures

## Data per production unit

### Metsäliitto Wood Products Industry

	Personnel		Production 1,000 m³/a		Emissions to air t/a			
	31.12.2010	LTA FR		Wood products	Particulates	CO <sub>2</sub> fossil	Sulphur (as SO <sub>2</sub> )	NO <sub>x</sub> (as NO <sub>2</sub> )
Aichach, Germany	104	26.3	further processing	23	1.7	110	0.0065	1.9
Boston, Great Britain	342	23.1	further processing	154	1.8	0	0	1.8
Casteljaloux, FF France, France	46	106.3	further processing	36	6.3	0	0	6.3
Eskola, Finland	12	0.0	sawn timber	52	0	0	0	0
Finnforest France SAS, France	151	45.5	further processing	102	0	0	0	0
Grangemouth, Great Britain	121	21.5	further processing	55	0	0	0	0
Hartola, Finland	47	49.1	glulam	20	0.74	0	0	0.49
Karihaara, Finland **	4	0.0	sawn timber	-	-	-	-	-
Kaskinen TC and Thermowood, Finland	69	34.1	further processing	101	10	0	0	10
Kerto, Lohja, Finland	164	78.7	Kerto®	80	2.4	0	0	0
King's Lynn, Great Britain	35	45.3	further processing	119	0.027	199	0.015	0.27
Kolho, Finland ***			further processing	34	0.84	1,302	4.2	1.7
Kyrö, Finland	73	56.8	sawn timber	180	19	433	0.032	20
Lappeenranta, Finland	68	76.9	sawn timber	192	18	0	0	18
Merikarvia, Finland	72	57.4	sawn timber	176	18	406	0.030	19
Newport, Great Britain	29	30.3	further processing	18	0.094	699	0.051	0.94
Punkaharju, Finland	413	45.9	plywood and Kerto®	150	-	-	-	-
Renko, Finland	66	33.8	sawn timber	238	21	58	0.0043	21
Reopalu, Estonia	30	0.0	sawn timber	58	7.1	36	0.0026	7.1
Suolahti, Finland	395	37.0	plywood	175	-	-	-	-
Vilppula, Finland	130	49.6	sawn timber	365	47	200	0.64	47
Widnes, Great Britain	116	23.5	further processing	62	0	0	0	0

- Not reported

\*) ISO 14001 standard includes the Energy Efficiency System (EES).

\*\*) Operations at Karihaara saw mill have been suspended until further notice since 1 July 2009.

\*\*\*) Kolho's personnel figures are included in Kaskinen TC and Thermowood figures.

Wood Products Industry's emissions to the water occur only in plywood production processes.

St. Petersburg planing plant in Russia is not included in the figures above.

LTA FR (Lost time accident Frequency Rate): Accidents at work per million working hours.

### Metsä-Botnia

	Personnel		Production		Emissions to air t/a			
	31.12.2010	LTA FR	1,000 m³/a Sawn timber	1,000 t/a Pulp	Particulates	CO <sub>2</sub> fossil	Sulphur (as SO <sub>2</sub> )	NO <sub>x</sub> (as NO <sub>2</sub> )
Joutseno, Finland	145	24.2		595	194	80,000	176	1,128
Kemi, Finland	192	26.7		534	53	75,000	172	1,097
Rauma, Finland	121	0.0		544	141	65,000	152	981
Svir Timber, Russia	129	8.9	208		11	0	8.0	34
Äänekoski, Finland	156	11.8		502	544	21,000	460	801

\*) ISO 14001 standard includes the Energy Efficiency System (EES).

LTA FR (Lost time accident Frequency Rate): Accidents at work per million working hours.



Discharges to water t/a					Solid waste t/a		Management system					Chain of Custody	
COD	BOD	Phos-phorus	Nitrogen	Total suspended solids	Landfill waste (dry)	Hazardous waste	ISO 9001	ISO 14001*	EMAS	OHSAS	ISO 22000	PEFC	FSC
0	0	0	0	0	0	300						x	
0	0	0	0	0	181	5.5	x	x		x		x	x
0	0	0	0	0	50	25						x	
0	0	0	0	0	1.0	1.0		x				x	
0	0	0	0	0	0	1.0						x	
0	0	0	0	0	125	6.5	x	x		x		x	x
0	0	0	0	0	8.1	4.5	x	x				x	
-	-	-	-	-	-	-						x	
0	0	0	0	0	41	1.0	x	x		x		x	
2.8	1.3	0.011	0.016	0.25	131	7.2	x	x				x	
0	0	0	0	0	87	0	x	x		x		x	x
0	0	0	0	0	14	1.3	x	x		x		x	
0	0	0	0	0	476	2.7	x	x				x	
0	0	0	0	0	7.8	5.1	x	x				x	
0	0	0	0	0	7.4	1.0	x	x		x		x	
0	0	0	0	0	52	6.0	x						
50	27	0.010	0.080	1.2	4,327	105	x	x				x	
0	0	0	0	0	35	2.0	x	x		x		x	
0	0	0	0	0	0	7.0							x
11	14	0.25	0.33	7.0	19	116	x	x				x	
0	0	0	0	0	4,024	6.1	x	x		x		x	
0	0	0	0	0	109	0	x	x		x		x	x

Discharges to water t/a					Solid waste t/a		Management system					Chain of Custody	
COD	BOD	Phos-phorus	Nitrogen	Total suspended solids	Landfill waste (dry)	Hazardous waste	ISO 9001	ISO 14001*	EMAS	OHSAS	ISO 22000	PEFC	FSC
6,396	123	8.3	0.12	184	9,227	38	x	x		x	x	x	x
8,371	198	6.2	0.10	365	7,761	57	x	x		x	x	x	x
7,690	105	5.5	0.064	259	16,299	22	x	x		x	x	x	x
					5,625	12	x	x		x		x	x
6,331	217	9.7	0.081	833	12,531	91	x	x		x	x	x	x

## M-real

	Personnel		Production 1,000 t/a		Emissions to air t/a			
	31.12.2010	LTA FR	Pulp	Board and paper	Particulates	CO <sub>2</sub> fossil	Sulphur (as SO <sub>2</sub> )	NO <sub>x</sub> (as NO <sub>2</sub> )
Alizay, France	326	27.6		240	9.4	4,444	8.3	227
Gohrsmühle, Germany	688	5.5		185	6.1	260,181	541	430
Hallein, Austria	197	13.3	133		12	7,547	81	236
Husum, Sweden	864	16.8	655	670	244	69,669	355	1,334
Joutseno BCTMP, Finland	50	48.7	259		0	20,806	0	10
Kaskinen BCTMP, Finland	80	15.0	247		73	4,191	32	243
Kemiart Liners, Finland	98	12.9		353	0	1,339	0	0.59
Kyro, Finland	244	16.8		230	0	154,894	0.075	155
Reflex, Germany	319	8.1		84	0	63,872	0	74
Simpele, Finland	359	23.0		267	6.3	78,412	234	215
Tako Board, Finland	206	25.8		188	0	75,595	0.034	74
Äänekoski Board, Finland	167	14.5		206	1.1	3,501	8.2	46
Äänekoski Paper, Finland	248	33.3		175	1.2	4,853	11	52

\*) ISO 14001 standard includes the Energy Efficiency System (EES).

LTA FR (Lost time accident Frequency Rate): Accidents at work per million working hours.

## Metsä Tissue

	Personnel		Production 1,000 t/a	Emissions to air t/a			
	31.12.2010	LTA FR		Tissue and cooking papers	Particulates	CO <sub>2</sub> fossil	Sulphur (as SO <sub>2</sub> )
Katrinefors, Sweden	255	16.7	71	0	16,312	1.6	32
Krapkowice, Poland	222	16.8	30	0	0	0	0
Kreuzau, Germany	402	4.6	145	0.027	89,039	3.3	86
Mänttä, Finland **	463	30.1	125	0	13,625	0	6.0
Nyboholm, Sweden	186	17.9	24	7.0	7,369	2.4	17
Pauliström, Sweden ***			24	13	2,003	0.60	10
Raubach, Germany	230	2.5	49	0	32,320	0	35
Stotzheim, Germany	243	23.0	22	0	11,973	0.26	11
Varsova, Poland	108	10.1	18	33	30,039	77	36
Žilina, Slovakia	348	5.2	80	0	15,242	0	7.5

\*) ISO 14001 standard includes the Energy Efficiency System.

\*\*) Includes the Metsä Tissue and Baking & Cooking paper business areas.

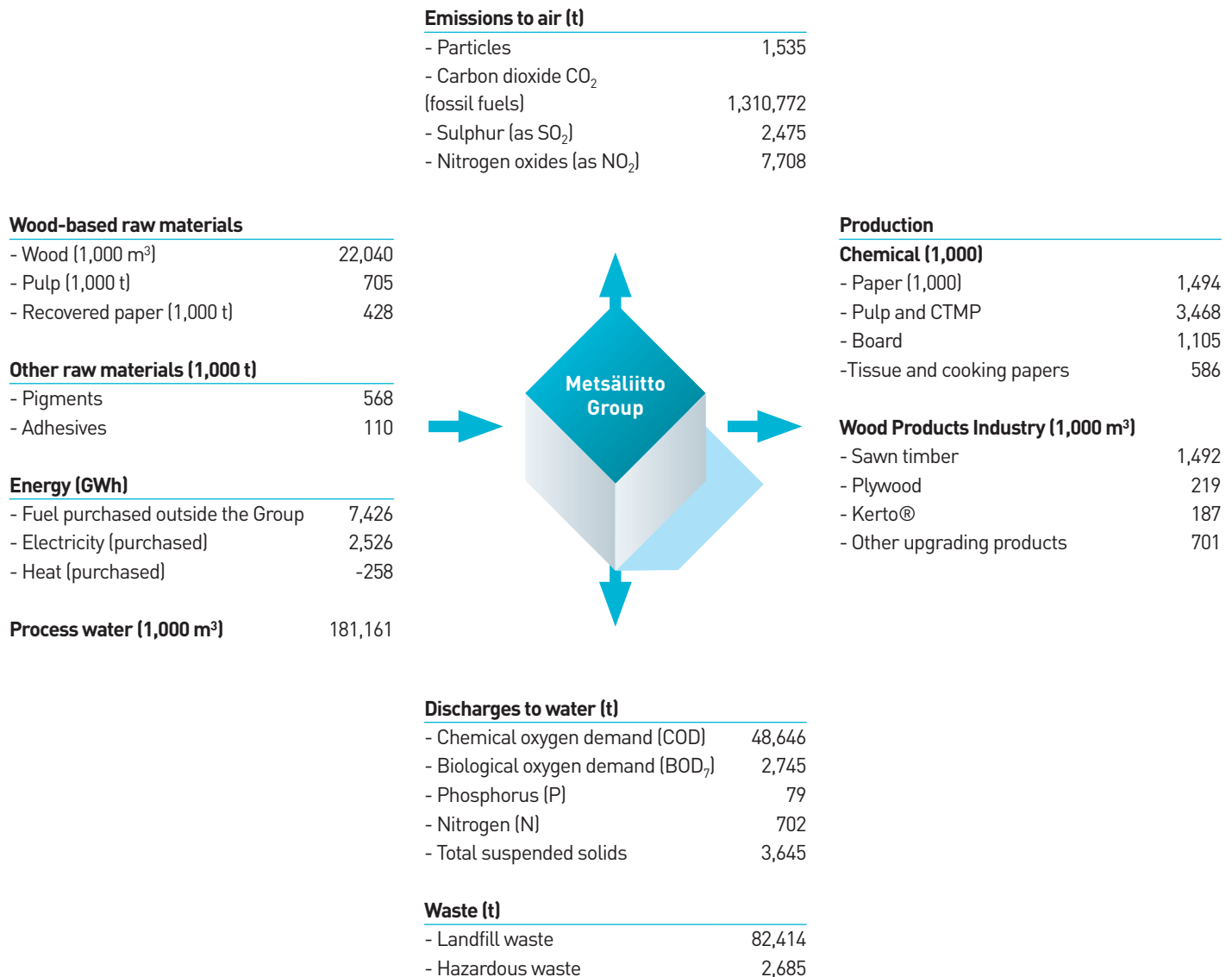
\*\*\*) Pauliström's personnel figures are included in Nyboholm figures.

LTA FR (Lost time accident Frequency Rate): Accidents at work per million working hours.

Discharges to water t/a					Solid waste t/a		Management system					Chain of Custody	
COD	BOD	Phos-phorus	Nitrogen	Total suspended solids	Landfill waste (dry)	Hazardous waste	ISO 9001	ISO 14001*	EMAS	OHSAS	ISO 22000	PEFC	FSC
158	16	2.8	32	59	1,396	74	x	x				x	x
156	52	1.9	6.2	53	77	90	x	x		x	x	x	x
4,519	580	6.4	17	458	626	9	x	x	x	x		x	
9,866	694	25	170	701	135	900	x	x				x	x
439	5.0	0.28	4.4	7.5	225	16	x	x			x	x	x
1,173	65	1.09	10.9	74	4,707	0	x	x		x		x	x
426	33	1.2	18	73	195	18	x	x		x	x	x	x
327	0.83	1.0	12	40	14	13	x	x		x	x	x	x
68	27	1.4	0	27	69	64	x	x		x		x	x
349	17	1.6	14	30	8,291	21	x	x		x	x	x	x
159	73	0.9	1.2	29	92	40	x	x		x	x	x	x
542	218	0.83	9.9	167	48	4.6	x	x		x	x	x	x
286	119	0.26	2.7	83	88	4.7	x	x	x	x		x	x

Discharges to water t/a					Solid waste t/a		Management system					Chain of Custody	
COD	BOD	Phos-phorus	Nitrogen	Total suspended solids	Landfill waste (dry)	Hazardous waste	ISO 9001	ISO 14001*	EMAS	OHSAS	ISO 22000	PEFC	FSC
310	52	0.50	13	11	151	19	x	x				x	x
28	2.6	0.74	6.4	2.1	1,610	0.48	x	x		x		x	x
367	0.016	0.00082	0	0.016	0	23	x	x		x		x	x
506	56	2.2	26	186	840	46	x	x		x	x	x	x
36	10	0.026	0.41	6.9	0	4.8	x	x				x	x
71	24	0.12	0.86	6.5	0	154	x	x				x	x
143	4.8	0.24	0	4.8	157	86	x	x		x		x	x
6.3	1.6	0.079	0	1.6	0	262	x	x		x		x	x
30	2.7	0.23	2.4	3.6	261	3.7	x	x		x			
174	12	0.60	0	12	2,280	7.2	x	x		x		x	x

# Material balance



# Energy usage

	Metsäliitto Group		Wood Products Industry		Metsä-Botnia		M-real		Metsä Tissue	
GWh/a	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
Use of wood-based fuels	20,646	17,000	421	415	12,706	17,864	6,924	11,216	197	183
Use of fossil fuels	5,305	5,096	13	14	1,075	1,459	3,152	3,702	883	842
Purchased electricity	2,526	2,546	208	198	-676 <sup>2)</sup>	-885 <sup>2)</sup>	2,284	1,841	751	778
Purchased heat	-258	163	355 <sup>3)</sup>	300 <sup>3)</sup>	-1,108 <sup>2)</sup>	-1,051 <sup>2)</sup>	412	54	426	436
Total energy <sup>1)</sup>	31,964	28,653	1,372	1,275	10,787	15,874	16,271	19,584	3,459	3,483

1) Total energy is shown in terms of fuel, i.e. the quantities of heat and electricity purchased have been converted to the corresponding amount of fuel that would be required to produce them.

2) A large part of the energy that Metsä-Botnia produces in excess of its own needs is sold. Metsä-Botnia is a net seller of heat and electricity, and also sells part of its bark.

3) Nearly all of the heat purchased by Metsäliitto Wood Products Industry is produced from the wood material by-products of its production plants.

# Environmental impacts and emissions

	2010	2009
<b>Metsäliitto Group total</b>	tonnes	tonnes
Greenhouse effect (CO <sub>2</sub> equiv.)	1,310,771	1,281,362
Acidification (SO <sub>2</sub> equiv.)	7,871	6,988
Eutrophication (P ekv.)	233	205
<b>Emissions</b>		
Particles	1,536	991
Carbon dioxide (CO <sub>2</sub> )	1,310,771	1,281,362
Sulphur (as SO <sub>2</sub> )	2,475	2,363
Nitrogen oxides (as NO <sub>2</sub> )	7,709	6,621
Chemical oxygen demand (COD)	48,646	37,071
Biological oxygen demand (BOD)	2,745	2,256
Phosphorus	79	74
Nitrogen	702	560
Total solids	3,645	3,070
Landfill waste	82,414	58,619
Hazardous waste	2,685	2,130

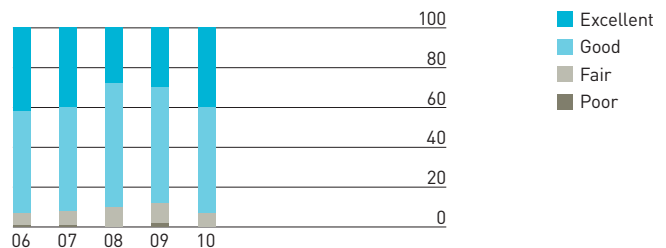
<b>Metsäliitto Cooperative Wood Products Industry</b>	<b>2010</b>	<b>2009</b>
<b>Environmental impacts</b>	tonnes	tonnes
Greenhouse effect (CO <sub>2</sub> equiv.)	3,443	3,902
Acidification (SO <sub>2</sub> equiv.)	114	120
Eutrophication (P equiv.)	7.1	7.04
<b>Emissions</b>		
Particles	155	173
Carbon dioxide (CO <sub>2</sub> )	3,443	3,902
Sulphur (as SO <sub>2</sub> )	4.97	6.2
Nitrogen oxides (as NO <sub>2</sub> )	156	163
Chemical oxygen demand (COD)	64	26
Biological oxygen demand (BOD)	42	16
Phosphorus	0.27	0.18
Nitrogen	0.43	0.30
Total solids	8.5	7.7
Landfill waste	9,695	6,598
Hazardous waste	604	424

<b>Metsä-Botnia</b>	<b>2010</b>	<b>2009</b>
<b>Environmental impacts</b>	tonnes	tonnes
Greenhouse effect (CO <sub>2</sub> equiv.)	241,000	325,000
Acidification (SO <sub>2</sub> equiv.)	3,797	4,945
Eutrophication (P equiv.)	104	120
<b>Emissions</b>		
Particles	943	697
Carbon dioxide (CO <sub>2</sub> )	241,000	325,000
Sulphur (as SO <sub>2</sub> )	968	1,189
Nitrogen oxides (as NO <sub>2</sub> )	4,041	5,366
Chemical oxygen demand (COD)	28,806	31,657
Biological oxygen demand (BOD)	649	937
Phosphorus	30	42
Nitrogen	367	340
Total solids	1,647	2,159
Landfill waste	51,443	62,299
Hazardous waste	220	307

<b>M-real</b>	<b>2010</b>	<b>2009</b>
<b>Environmental impacts</b>	tonnes	tonnes
Greenhouse effect (CO <sub>2</sub> equiv.)	789,347	952,462
Acidification (SO <sub>2</sub> equiv.)	3,468	5,002
Eutrophication (P equiv.)	113	150
<b>Emissions</b>		
Particles	353	635
Carbon dioxide (CO <sub>2</sub> )	789,347	952,462
Sulphur (as SO <sub>2</sub> )	1,271	1,807
Nitrogen oxides (as NO <sub>2</sub> )	3,138	4,564
Chemical oxygen demand (COD)	18,414	26,095
Biological oxygen demand (BOD)	1,889	1,830
Phosphorus	44	57
Nitrogen	286	419
Total solids	1,755	2,236
Landfill waste	15,964	25,433
Hazardous waste	1,255	993

<b>Metsä Tissue</b>	<b>2010</b>	<b>2009</b>
<b>Environmental impacts</b>	tonnes	tonnes
Greenhouse effect (CO <sub>2</sub> equiv.)	217,925	210,463
Acidification (SO <sub>2</sub> equiv.)	266	273
Eutrophication (P equiv.)	14	14
<b>Emissions</b>		
Particles	53	44
Carbon dioxide (CO <sub>2</sub> )	217,925	210,463
Sulphur (as SO <sub>2</sub> )	86	89
Nitrogen oxides (as NO <sub>2</sub> )	257	276
Chemical oxygen demand (COD)	1,362	2,263
Biological oxygen demand (BOD)	165	160
Phosphorus	4.7	5
Nitrogen	49	47
Total solids	235	213
Landfill waste	5,299	5,538
Hazardous waste	607	601

## Evaluation of nature management in cuttings harvested by Metsäliitto in Finland



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

## Deviations from environmental permit conditions

No significant deviations resulting in considerable environmental effects occurred in Metsäliitto Group's production units during the year under review. Some deviations from permit conditions were, however, recorded.

The wastewater phosphorus load at M-real's Kyro mill exceeded the permit limits. This was due to a momentary excessive dosing of supplements to the mill's wastewater treatment plant during production downtime. In addition, some single cases of exceeded hourly or daily limits in wastewater discharge and air emissions were recorded at M-real's Gohrsmühle, Hallein, and Alizay mills.

The wastewater load from Metsä-Botnia's Äänekoski mill exceeded the phosphorus permit limits in January and May. This was due to the high load and momentary problems with the supplement dosing of the wastewater treatment plant. At the Kemi mill, the target value of TRS compounds was

exceeded in two separate months, and at the Joutseno mill, the daily target value of COD load in wastewater was exceeded once.

The Punkaharju mill of Metsäliitto Wood Products Industry exceeded the wastewater permit limits in terms of organic oxygen-demanding load due to a malfunction in the treatment plant in the second quarter of the year.

Metsä Tissue's Mänttä mill exceeded the wastewater discharge permit limits several times during the year under review. During the first half of the year, the treatment plant's operations were hindered by the extremely low temperature of wastewater and interference caused by the treatment plant renovations. The situation improved towards the end of the year with only single cases of exceeded permit limits recorded.

### Environmental responsibilities for discontinued operations

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

The current, most significant known outstanding liabilities relate mainly to land decontamination at locations owned by M-real and Metsäliitto Wood Products Industry as well as procedures relating to the closure of Metsä-Botnia's Kaskinen mill. Financial provision for the cost of land rehabilitation work has been made in cases where it has been possible to measure Metsäliitto's liability for land contamination.

## Personnel key figures

### Personnel key figures by business area

	Average age of the personnel	Average years served	Permanent employments (%)	Men/women (%)	Employee turnover (%)
Metsäliitto Group *	43.5	15.2	94	81/19	6.9
Wood Supply	44.4	12.0	94	82/18	7.9
Wood Products Industry	42.3	12.8	97	79/21	8.6
Pulp Industry	44.2	17.1	95	80/20	8.6
Board and Paper Industry	44.5	16.8	93	84/16	7.3
Tissue and Cooking Papers	42.9	16.3	91	82/18	4.4

\*) The figures cover 99 per cent of the Metsäliitto Group's personnel

### Occupational safety and well-being at work

	Sickness absenteeism (%)**	Lost time accident frequency rate (per million worked hours)
Metsäliitto Group *	4.2	17.3
Wood Supply	2.2	1.8
Wood Products Industry	3.2	35.6
Pulp Industry	5.7	14.6
Board and Paper Industry	4.7	15.8
Tissue and Cooking Papers	5.1	9.4

\*) The figures cover 99 per cent of the Metsäliitto Group's personnel

\*\*\*) Percentages of regular working hours.



# Comparison of corporate responsibility indicators with the GRI guidelines

GRI indicator	Content	Page	Title / subtitle
Strategy and organizational profile	Overall context for understanding organizational performance (strategy, business areas, governance and parameters of the report)	1–21, 28–29, 116–121, 138	Business, Corporate governance statement, Reporting principles Responsible business practice
<b>Management approach and performance indicators:</b>			
EC1	Economic value generated and distributed	45, 49–99	Consolidated income statement, Notes to the accounts
EC2	Risks and opportunities due to climate change	30–31	Energy efficiency
EN 1	Materials used	134	Materials balance
EN 3, EN4, EN5, EN6	Direct energy consumption, Indirect energy consumption, Energy saved due to conservation and efficiency improvements, Renewable energy based products	30–31	Energy efficiency
EN 8	Water usage	134	Materials balance
EN12 ja EN14	Biodiversity	10–11, 16–17, 28–29	Forest – our livelihood, Wood Supply, Responsible business practice
EN 16	Greenhouse gas emissions	30–31, 130–133, 134, 135	Energy efficiency, Data per production unit, Materials balance, Environmental impacts and emissions
EN 18	Reduction of greenhouse gas emissions	30–31	Energy efficiency
EN 20	Nitrogen and sulphur emissions and other significant emissions to air	130–133, 134, 135	Data per production unit, Materials balance, Environmental impacts and emissions
EN 21	Discharges into water	130–133, 135	Data per production unit, Environmental impacts and emissions
EN 22, EN 24	Waste and hazardous waste	130–133, 135	Data per production unit, Environmental impacts and emissions
EN 23	Total number and volume of significant spills	136	Deviations from environmental permit conditions
EN 26	Initiatives to mitigate environmental impacts	28–29	Responsible business practice
EN 29	Environmental impacts of transportation	28–29	Responsible business practice
EN 30	Environmental protection expenditure and investments	99	Environmental expenses in the financial statements
LA1	Total workforce by employment contract and region	32–33, 136	Product safety
LA2	Personnel turnover	136	Personnel key figures
LA7	Rates of injury and absenteeism	32–33, 136	Product safety, Personnel key figures
LA 11	Programmes for skills management	32–33	Product safety
LA12	Per centage of employees receiving regular performance and career development reviews	32–33	Product safety
PR1	Product safety	28–29	Responsible business practice

# Reporting principles of corporate responsibility information

The information on sustainable development reported in Metsäliitto Group's Annual Report covers all business areas of the Group. The reporting of information on Metsäliitto Group's sustainable development is based on national and international reporting guidelines, stakeholder expectations, and the special characteristics of the industry. Metsäliitto follows the reporting guidelines of the Global Reporting Initiative (GRI) framework, where applicable, in reporting this information.

## **Scope and preparation of reports**

The presentation of information on sustainable development follows the consolidation principles applied to the Group's financial statements, unless otherwise stated. It covers all of the Group's business areas and business units, unless otherwise stated. Environmental and human resources indicators are reported in accordance with intra-Group instructions.

The environmental information covers all of the Group's production plants in accordance with the consolidation principles. Sales offices and head-office functions are not included in the reported environmental indicators. For calculation of the

Group-level materials balance, emissions and energy consumption, the Group has been defined as specified in the consolidation principles applied to the consolidated balance sheet. The environmental information is based on business-area-specific information collected from the production units, which is consolidated at the Group level. The human resources indicators cover Metsäliitto Group within the specified accounting limits. The information on human resources is based on business-area-specific information collected from the production units and other units (including sales office and head-office functions), which is consolidated at the Group level.

## **Assurance report**

The sustainable development indicators (environmental and human resources indicators) shown in the financial statements and in the Board of Directors' Report have been confirmed by the auditing firm PricewaterhouseCoopers Oy. The information is presented in accordance with the general instructions of the Finnish Accounting Board regarding the preparation of a Board of Directors' Report. The Assurance Statement is presented on the next page.

# Independent assurance report (Translation from the Finnish Original)

## To the management of Metsäliitto Group

We have been engaged by the Management of Metsäliitto Group to perform a limited assurance engagement on the following information on social and environmental responsibility disclosed in Metsäliitto Group's Annual Report 2010 for the reporting period of 1 January 2010 to 31 December 2010 (hereinafter "Sustainability information"):

- Headcount; Total wages paid; Total illness hours; Lost time accident frequency rate;
- Total consumption of energy; CO<sub>2</sub> emissions and reductions; SO<sub>2</sub> and NO<sub>x</sub>; Significant discharges to water (COD and nutrients); Permit compliance; Environmental expenditure; Forest certification percentage.

## Management's responsibility

The Management of Metsäliitto Group is responsible for preparing the Sustainability information according to the reporting criteria as set out in Metsäliitto Group's internal sustainability reporting guidelines and the Global Reporting Initiative's Sustainability Reporting Guidelines version G3.

## Practitioner's responsibility

It is our responsibility to present a conclusion on the Sustainability information based on our work performed. This assurance report has been prepared in accordance with the terms of our engagement. We do not accept, nor assume responsibility to anyone else, except to Metsäliitto Group for our work, for this report, or for the conclusions that we have reached.

We have conducted the assurance engagement in accordance with the International Standard on Assurance Engagements (ISAE) 3000 "Assurance engagements other than audits or reviews of historical financial information". The ISAE 3000-standard requires compliance with ethical principles as well as planning and performing the assurance engagement to obtain limited assurance on whether any matters have come to our attention that would cause us to believe that the Sustainability information has not been prepared, in all material respects, in accordance with the Reporting criteria.

In a limited assurance engagement the evidence-gathering procedures are more limited than in a reasonable assurance engagement, and therefore less assurance is obtained than in a reasonable assurance engagement. An assurance engagement involves performing procedures to obtain evidence about the amounts and other disclosures in the Sustainability information. The procedures selected depend on the practitioner's judgment, including an assessment of the risks of material misstatement of the Sustainability information.

Our work consisted of, amongst others, the following procedures:

- Conducting interviews with senior management of Metsäliitto Group to gain an understanding of Metsäliitto Group's targets for sustainability as part of the business strategy and operations.

- Visiting Metsäliitto Group's Head Office as well as four production units in Finland (Wood Products, Punkaharju; Metsä Tissue, Mänttä; M-real, Kemi and Metsä-Botnia, Kemi).
- Interviewing employees responsible for the collection and reporting of sustainability information at group and division, as well as site level at the production units where our visits took place.
- Inspection of relevant documents and systems for gathering, analysing and aggregating the Sustainability information as well as tests on a sample basis.
- Assessing the data consolidation process of the Sustainability information at Metsäliitto Group level.
- Assessing how Metsäliitto Group employees apply Metsäliitto Group's reporting guidelines and procedures.

## Conclusion

Based on the work done nothing has come to our attention that would cause us to believe that Metsäliitto Group's Sustainability information has not been prepared, in all material respects, in accordance with the Reporting criteria, or that the Sustainability information would not in all material respects be reliable based on the reporting criteria.

Our assurance report should be read in conjunction with the inherent limitations of accuracy and completeness for corporate social responsibility information. This independent assurance report should not be used on its own as a basis for interpreting Metsäliitto Group's performance in relation to its principles of sustainability.

## Practitioner's independence and qualifications

PricewaterhouseCoopers' own Global Independence Policy is applicable to PricewaterhouseCoopers Oy, its partners and professional staff, including all members of the assurance engagement team.

Our multi-disciplinary team of sustainability and assurance specialists possesses the requisite skills and experience within financial and non-financial assurance, sustainability strategy and management, social and environmental issues as well as knowledge of the forest industry to undertake this assurance engagement.

Helsinki, 23 March 2011

PricewaterhouseCoopers Oy

Johan Kronberg  
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Partner

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