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**M-REAL CORPORATION, HELSINKI, FINLAND**

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M-real Corporation is part of the Metsäliitto Group. The Metsäliitto Group's fundamental mission is to process the wood supplied by its 131,000 Finnish owners and to create added economic value. Operations are conducted in the five business areas: wood supply, wood products, pulp, paper and paperboard, and tissue and cooking papers. The goal is to be, on a basis of profitability, one of the world's leading corporations and the European market leader in selected product groups.

In terms of sales, Metsäliitto is the largest cooperative in Europe. Its 131,000 members together own 48% of the private forests in Finland. Individuals and private organisations owning at least three hectares of forest in Finland can join the Cooperative.

Metsäliitto Cooperative's aim is to increase the prosperity of its members. Metsäliitto procures about 33 million cubic metres of wood raw material each year.

Metsäliitto is the tenth biggest forest industry group in the world. Its five business areas include wood supply, wood products industry, pulp production and producing of paper and paperboard as well as tissue paper. Its sales are about 8.6 billion euro. With almost 30,000 employees, the Metsäliitto Group parent company Metsäliitto Cooperative and subsidiaries Metsä-Botnia, M-real and Metsä Tissue have own presence in nearly 30 countries.

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M-Real Corporation is one of Europe's leading suppliers of paper and paperboard. As M-Real has quadrupled its turnover in just over five years and has become (they claim) one of the most advanced companies in its industry. With its acquisitions of Modö Paper of Sweden and Zanders Feinpapier of Germany, M-Real ranks as Europe's largest producer of fine papers. M-Real is also Europe's third largest paper merchant.

M-Real has 26 production units in nine European countries: Austria, Belgium, Finland, France, Germany, Hungary, Sweden, Switzerland and the UK. Total annual production capacity amounts to approximately 4.8 million tons of paper and 1.1 million tons of paperboard.

M-real has an extensive sales network with offices and representatives in more than 70 countries and a merchanting arm, Map Merchant Group with offices in 23 European countries.

M-real's four technology centres in Finland, Germany and Sweden focus on the development of new products and services to meet customer's needs in specific areas.

Via its associated company Metsä-Botnia, M-Real has ensured a supply of pulp, its most important raw material. Metsä-Serla's main shareholder is Metsäliitto, a cooperative made up of Finnish forest owners.

Annual turnover for the group is approximately EUR 5.2 billion which is split up on business segments as follows: Commercial Printing (29%), Office Products (13%), Publishing (15%), Consumer Packaging 16% and Map Merchant Group (27%).

The company employs approximately 15,200 and is headquartered in Helsinki, Finland.

**RECENT HISTORY** – M-real started its track of recent expansions in 1986 with the merger between the previous Metsäliitto Yhtymä and **G.A. Serlachius Oy**. At the time of the merger the two companies' pulp and paper assets were of similar size. The company took on a new name – Metsä-Serla.

**Holmen Hygiene** - They later (1989) acquired Holmen Hygiene of Sweden and became a major force in the European tissue and hygiene products business.

**Oy Kyro Ab** - In June, 1995 Metsä-Serla purchased the forest industry operations of Oy Kyro Ab. Kyro was a relatively small pulp and paper with annual white board production capacity of 105.000 tons (current capacity is 130.000 tons). The acquisition placed Metsä-Serla as one of Europe's three largest producers of white board with annual capacity of 520.000 tons at the time.

Kyro's other machine, PM3, with capacity of 85.000 annual tons of wallpaper base made them a worldwide market leader in this segment. Kyro also produces a range of poster paper and paper for use in outdoor advertising and book paper.

**Myllykoski Paper Oy - Ownership Stake (35%)** - In 1996 Metsä-Serla purchased for FIM 1.25 billion a 35% interest in Myllykoski Paper Oy, a company formed from Myllykoski's Finnish mills. Myllykoski Paper's current capacity (see separate profile) is 570.000 tons of magazine papers, split up on 210.000 tons of coated magazine paper (LWC) and 360.000 tons of uncoated magazine paper (SC).

**Papierfabrik Albbbruck GmbH (now Myllykoski Group)** - As part of the aforesaid transaction with Myllykoski Oy they took over a 50% interest in Myllykoski's German subsidiary Papierfabrik Albbbruck GmbH. Albbbruck currently has the capacity to produce 305.000 tons of coated magazine papers. Myllykoski had the option to acquire 100% of the shareholding of Albbbruck by 2002 at earliest.

**MD Papier GmbH – (now Myllykoski Group)** - On 1 February 1996, Metsä-Serla purchased the entire share capital of the German paper manufacturer MD Papier GmbH (see separate profile). MD Papier is a leading European producer of magazine papers. The company operates two mills in Germany (Dachau and Plattling) with total current capacity of approximately 580.000 tons per annum. Following discussions, it was agreed that 50% of the shares was to be sold to Myllykoski Oy in spring 1996. In early 2001 M-Real and Myllykoski agreed to transfer the total shareholding to Myllykoski.

**Oy Metsä-Botnia Ab** - In March, 1995 Metsä-Serla sold its sawmilling business and acquired a controlling interest in Oy Metsä-Botnia Ab (see separate profile). Metsä-Serla owns 52.0% of the company's shares (direct ownership is 47%) and Metsä-Botnia Ab is consolidated into Metsä-Serla's financial statements as of 16 March 1995.

After a series of complicated transactions (reorganizing assets between Metsä-Serla and UPM-Kymmene Oy) Oy Metsä-Botnia today comprise 5 large pulp mills (Joutseno, Kaskinen, Kemi and Äänekoski) with a combined capacity of 2.7 million tons. Part of Metsä-Botnia is also the former **Metsä-Rauma Oy** - a new large pulpmill (580.000 tons of capacity) which came on line in 1996.

Oy Metsä Botnia AB is currently undertaking a major new project to start up a new 1 million tpy bleached eucalyptus pulp mill in Uruguay. Start-up is expected some time during 2007.

Oy Metsä-Botnia also has the capacity to produce 340.000 tons per year of kraft linerboard (Kemiart Liner) - mostly white-faced.

Today both Oy Metsä Botnia AB and Kemiart Liner operate as separate entities within the Metsäliitto Group.

**Simpele Board Mill** - In December, 1996, as part of the aforesaid transactions Metsä-Serla engaged to buy the Simpele board, paper and carton businesses owned by UPM-Kymmene.

Simpele board mill has one machine producing 215.000 tons per year of coated folding boxboard – following a recent (2006) upgrade.

**Sunila Oy** - Metsä-Botnia maintains a 17% interest in Sunila Oy, a producer of 340.000 tons of softwood and hardwood chemical pulp.

**Papierfabrik Biberist** - In December, 1996 Metsä-Serla further expanded its paper business by buying the Swiss company Papierfabrik Biberist (see European Report). The company had annual capacity of 270.000 tons of coated and 60.000 tons of uncoated fine papers. Current combined capacity is approximately 435.000 tons per annum of which 370.000 tons consists of coated and 65.000 tons of uncoated fine papers.

**UK Paper** - In November 1998, Metsä-Serla bought UK Paper of Britain from Fletcher Challenge of New Zealand. By way of the acquisition of UK Paper, Metsä-Serla expanded its fine paper production to Britain and became the market leader in Europe's largest fine paper market. UK Paper currently has the capacity to produce 430.000 tons annually of coated and uncoated woodfree papers at its Sittingbourne (200.000 tons of coated) and New Thames (230.000 tons of uncoated) paper mills.

The acquisition also included the paper merchant Guppy Ltd., an acquisition that enabled Metsä-Serla to strengthen its position as one of Great Britain's leading paper merchants.

**Halstrick and Strepp** - In December, 1998, Metsä-Serla's subsidiary Metsä Tissue acquired two German tissue paper manufacturers, Papierwerke Halstrick GmbH (20.000 tons of tissue paper) and Strepp GmbH & Co. KG (123.000 tons of tissue paper). The acquisition made Metsä Tissue the second largest producer in the German market.

Metsä Tissue is today organized as a separate entity within the Metsäliitto Group.

**Acquisition of Modo Paper** - Modo Paper came into being on 1 October 1999, when Holmen and SCA combined their fine paper and merchanting operations. At the end of May 2000 Metsä-Serla signed an agreement on the purchase of Modo Paper's remaining outstanding shares. The deal entered into force on 9 August 2000.

The acquisition of Modo Paper was to be funded through the sale of Metsä-Serla's corrugated board business and its stake in Metsä Tissue (to SCA) for a debt free value of approximately EUR 700 million. The transactions were subject to customary regulatory approvals the outcome of which was (among other) that the Metsä Tissue corporation remained within the Metsä-Serla Organization.

The Modo Paper acquisition added 1.8 million tons of fine paper capacity to M-real's product portfolio: Wifstavarf (Sweden) which at the time was capable of producing around 150.000 tons of woodfree printing and writing papers, cut-size sheet capacity of approximately 100.000 tons; Stockstadt (Germany) with 175.000 tons of uncoated and 195.000 tons of coated fine paper. Stockstadt is also producing 50.000 annual tons of market pulp; Hallein (Austria) - 265.000 tons of coated fine papers, 45.000 tons of market pulp; Husum (Sweden), one of the world's largest fine paper mills with annual capacity of approximately 525.000 tons. Husum operates 4 lines for copy paper with aggregate capacity of 175.000 tons; Silverdalen (Sweden – closed down 2002) 70.000 tons of coated papers. Papeteries Pont Sainte Maxence (France) 120.000 tons of uncoated woodfree papers; Alizay (France) with 300.000 tons of uncoated woodfree papers. A-4 production capacity was approximately 80.000 tons per year by end-1997.

**Zanders Feinpapiere AG** - In November 2000, agreement was signed on the purchase of a 72% shareholding in the German company Zanders Feinpapiere AG (see European Report). The deal came into force at the beginning of January 2001. The shareholding has later been

further increased. Zanders operate two mills in Germany at Düren and Bergisch Gladbach and added approximately 450.000 tons of high-quality coated papers to Metsä-Serla's product portfolio. Current capacity for the two mills is 470.000 tons per annum.

**Ownership:** Metsäliitto Cooperative, a forest owners' cooperative with more than 100.000 individual members, is (30 December, 2005) the main shareholder of Metsä-Serla with 38.6% of the shares (60.5% of the votes).

Other shareholders are Ilmarinen Mutual Pension Insurance Company 2.6% (7.4%), Varma-Sampo Mutual Insurance Company 1.0% (4.4%), Central Union of Agricultural Producers and Forest Owners 1.0% (3.5%), Etera Mutual Pension Insurance Company 2.1% (0.7%)

At the end of 2005 32.2% (38.1%) of the company's shares were owned by non-Finnish nationals.

### PRODUCT GROUPS

**PULP (not consolidated)** - During the first quarter of 1997 Oy Metsä-Botnia Ab and its shareholders Metsäliitto Osuuskunta, Metsä-Serla Oy and UPM-Kymmene Corporation finalized a deal whereby Metsä-Botnia engaged to buy Metsä-Serla's Äänekoski pulp mill and UPM-Kymmene's Joutseno Pulp mill. Later Metsä-Rauma (a previously associated company) has been included in Metsä-Botnia.

Pulp business now includes the activities of mills located at Kemi (540.000 tons), Kaskinen (450.000 tons), Äänekoski (500.000 tons), Joutseno (630.000 tons), Metsä-Rauma Ab (580.000 tons) and Lielähti (105.000 tons of CTMP). Lielähti market pulp operations ceased in 2004 and the output is now used entirely at their Tako Board mill in Tampere.

The group's production plants specialize in specific types of pulp raw material: the Rauma and Joutseno mills primarily make pulp for wood-containing printing papers, the Kaskinen and Äänekoski mills for fine papers and folding boxboard, and the Kemi mill for tissue and specialty papers and linerboard.

About 80% of the pulp group's production is sold to the paper and board mills of the owner companies. The rest is sold mainly on the European market. The marketing organization of Botnia Pulps is responsible for pulp marketing and sales.

**Metsä-Botnia - Softwood and Hardwood Pulp Capacities** (M-real owns 47% of the capacity).

Kaskinen, Finland	450.000 tons
Äänekoski, Finland	500.000 tons
Joutseno, Finland	630.000 tons
Rauma, Finland	580.000 tons
Kemi, Finland	540.000 tons
<b>METSÄ-BOTNIA TOTAL</b>	<b>2.700.000 tons</b>
<b>CTMP (fluff) - Lielähti</b>	105.000 tons
<b>BCTMP</b>	
Kaskinen, Finland	300.000 tons
Joutseno, Finland	270.000 tons
<b>BCTMP Total</b>	<b>570.000 tons</b>

**OTHER SHAREHOLDINGS**

Sunila Oy (17% - Kraft Pulp)	350.000 tons
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**INTEGRATED PULP**

Today, through the acquisition of Modö Paper, Metsä-Serla Paper Group is also a major pulp producer. Integrated pulp production for the paper mills is organized within four pulp mills that are located in Sweden, Germany, France and Austria. The production capacity for pulp is 1.3 million tons per year. The main products are bleached short- and long-fibered pulp.

Stockstadt, Germany	160.000 tons
Husum, Sweden	700.000 tons
Alizay, France	310.000 tons
Hallein, Austria	160.000 tons
<b>Total</b>	<b>1.330.000 tons</b>

In September 2003, M-real decided to build a new BCTMP mill at Kaskinen capable of producing 300.000 tons per annum. At a cost of EUR 180 million the new mill come on stream in autumn 2005.

**PAPER** - In Europe, M-Real claims (2006) to be the second largest producer of both **coated** (16% market share) and **uncoated fine papers** (15% market share). Due to the acquisition of Zanders Feinpapiere, the Paper Group's range of fine papers is claimed to be among the most comprehensive on the market. Metsä-Serla's current production capacity for fine papers is 4.0 million tons per year. The Paper Group's main market is Western Europe. Important markets outside Europe are the United States and Australia.

M-Real's Paper Group, together with Myllykoski claims rank as Europe's third largest producer of coated magazine paper with a 12% market share. Annual production capacity is approximately 1.2 million tons.

**Fine Papers:** - The company's fine paper mills are located at Kangas (Jyväskylä), Kirkniemi, Äänekoski and Simpele in Finland, Biberist in Switzerland and Sittingbourne and New Thames Mill in the UK. Products include coated and uncoated fine papers. The coated paper production at Silverdalen mill in Sweden was closed down during 2002.

Mills are located as follows:

**COATED FINE PAPER**

	<b>Machines</b>	<b>Capacity</b>
Äänekoski, Finland	1	185.000 tons
Biberist, Switzerland	2	385.000 tons
Sittingbourne, UK	2	210.000 tons
Stockstadt, Germany	1	215.000 tons
Bergisch Gladbach	4	370.000 tons
Hallein, Austria	2	310.000 tons
<b>Total</b>	<b>12</b>	<b>1.675.000 tons</b>

**UNCOATED FINE PAPER**

	<b>Machines</b>	<b>Capacity</b>
Stockstadt, Germany	1	210.000 tons
Husum, Sweden	2	435.000 tons
Wifsta, Sweden	1	175.000 tons
Alizay, France	1	310.000 tons
Pont Saint Maxence, France	2	120.000 tons
Biberist, Switzerland	1	70.000 tons
Kemsley, UK	1	230.000 tons
<b>Total</b>	<b>9</b>	<b>1.550.000 tons</b>

**Specialty Papers:** Specialty papers are being produced at Simpele and Kyröskoski (wallpaper base) in Finland and at Düren in Germany. The UK remains is mill's largest market; other major markets, in addition to Finland are West Germany, France and (traditionally) Russia.

**SPECIALTY PAPERS**

Simpele, Finland	1	55.000 tons
Kyröskoski, Finland	1	100.000 tons
Düren, Germany	4	100.000 tons
<b>Total</b>	<b>6</b>	<b>255.000 tons</b>

**COATED MAGAZINE PAPER** – Kirkniemi mill produces coated publication papers on 3 machines with a combined capacity of 730.000 tons. The start-up of Kirkniemi's most recent machine at cost of FIM 2.4 million, took place in August 1996. The mill has the capacity to produce 350.000 tons of double-coated publication papers each year. The chemical pulp needed in production is supplied by Metsä-Rauma's new pulp mill. This machine was M-real's biggest ever investment. The machine produces 8.36 meter-wide paper at a speed of 1500m/minute.

On another machine M-real produces approximately 180.000 tons of LWC, coated, mechanical printing paper. On a more recent machine (1981) they traditionally produced up to 190.000 tons of uncoated SC WSOP (web-sized offset paper). However, the machine started the production of a completely new type (at the time) of coated paper known as film-coated offset (FCO) at the beginning of 1994. The paper was developed at Kirkniemi, and its light weight and high opacity make it suitable for high-circulation advertising material and

Papers classified are also being produced at Kangas (310.000 tons) and Husum (260.000 tons).

M-Real and Myllykoski each had shares in the Albruck and MD Papier's Plattling and Dachau coated magazine paper mills, total combined capacity of almost 800.000 tons per annum in Germany. M-Real's 50% share in these operations was sold to Myllykoski Oyj as of June, 2002.

M-Real owns 35% of Myllykoski Paper Oy, a company which comprise Myllykoski's fine paper mill in Finland. The mill has a production capacity of 570.000 tons per year, 360.000 tons of which consists of uncoated and 210.000 tons is coated magazine paper.

**COATED MAGAZINE PAPERS**

<b>Machines</b>	<b>Capacity</b>	
Kirkniemi Mill, Finland	3	730.000 tons
Kangas Mill, Finland	2	310.000 tons
Husum Mill, Sweden	1	260.000 tons
<b>Total</b>	<b>6</b>	<b>1.300.000 tons</b>

**PACKAGING** – Packaging operations consist of five paperboard mills in Finland and additional carton mills in Finland and Hungary. The Board Division is responsible for the operations of the paperboard mills and the marketing of paperboard to carton and printing works. The Customer Division is in charge of producing and marketing cartons and packaging solutions. The group manufactures and markets folding boxboard, cartonboard and wallpaper base, corrugated raw materials, consumer and transport packaging made from corrugated board and paperboard as well as chemi-thermomechanical pulp (CTMP) for use in the production of hygiene products. Metsä-Serla currently claims to be Europe's second largest manufacturer of folding boxboard and the world leader in wallpaper base. They also claim leading positions as manufacturers of kraftliner (no. 4).

The Savon Sellu semichemical fluting mill (245.000 tons) was divested during 2004.

**FOLDING BOXBOARD**

Tampere, Finland	3	255.000 tons
Kyröskoski, Finland	1	140.000 tons
Simpele Board Mill	1	170.000 tons
Äänekoski Board Mill	1	170.000 tons
<b>Total</b>	<b>6</b>	<b>735.000 tons</b>

**CORRUGATING RAW MATERIALS**

Metsä-Botnia (Kemi - kraftliner)	1	360.000 tons
<b>Total</b>	<b>2</b>	<b>360.000 tons</b>

**PAPERBOARD TOTAL** **8** **1.095.000 tons**

**CARTONS**

Tampere, Simpele	20.000 tons
Petöfi, Hungary	30.000 tons
Meulemans, Belgium	20.000 tons
<b>Total</b>	<b>70.000 tons</b>

**METSÄ TISSUE CORPORATION** (see separate profile) Metsä Tissue is a leading tissue paper products supplier to households and large-scale consumers in Europe. They are also the world's leading supplier of cooking paper products. Our main brands are Lambi, Serla, Mola, Tenta and Katrin. We have ten mills located in Finland, Germany, Poland, Slovakia and Sweden, which employ some 3600 people. Our turnover is over EUR 800 million. Metsä Tissue is part of the Metsäliitto Group.

Metsä Tissue has ten mills: three in Germany, three in Sweden, two in Poland and one in Finland and one in Slovakia.

According to the company's website the capacity is currently at 610.000 tons, split up with 135.000 tons in Finland, 200.000 tons in Germany, 60.000 tons in Poland, 125.000 tons in Sweden and 90.000 tons in Slovakia.

#### **BUSINESS SEGMENTS**

M-Real was reorganized in 2001 into more focused customer driven operations. The company was organized into five business areas with profit accountability: Commercial printing; Home & Office, Publishing; Consumer Packaging and Map Merchant Group.

#### **COMMERCIAL PRINTING**

The Commercial Printing area focuses on coated fine papers. Among the most important end-use applications are printed art books, annual reports, brochures and advertising materials. The main market area is Western Europe. 65% of the products are sold to paper merchants. M-real claims to be Europe's second largest producer of coated fine paper.

The business area's seven paper mills are located in Finland (Äänekoski and Simpele), Great Britain (Sittingbourne), Austria (Hallein), Switzerland (Biberist), Germany (Stockstadt) and France (Pont Sainte Maxence). Both Stockstadt and Hallein also have an integrated pulp mill.

#### **OFFICE PAPERS**

The Home & Office business area produces uncoated fine paper, which is used mainly as copier and office paper. In Europe, M-real is also the largest producer of uncoated fine paper, with an annual capacity of 1.5 million tons, corresponding to a 17% slice of the European market.

The paper mills are located in Sweden (Husum and Wifsta), Great Britain (New Thames) and France (Alizay). Husum and Alizay each have an integrated pulp mill. Western Europe is Home & Office's main market area.

#### **PUBLISHING**

The Publishing business area focuses on coated magazine papers, which are used as a material for periodicals, various weekly magazines and high-quality advertising catalogues.

The main market area is Western Europe. Other important markets are the United States and Australia. The business area's main customers are printing houses and publishers.

The main market area is Western Europe and other important markets are the United States, Australia and Japan.

The business area includes the Kirkniemi and Kangas paper mills in Finland and Paper Machine 8 at the Husum paper mill in Sweden. In addition, M-real owns 35% of Myllykoski Paper Oy in Finland. Productive capacity (excluding Myllykoski Paper is 1.270.000 tons).

## CONSUMER PACKAGING

The consumer packaging business area centres mainly on paperboard grades used in commercial packaging. These include packaging for cosmetics, pharmaceuticals, cigarettes and foods among other things. M-real has a strong market position within packaging for internationally recognized brand products. M-real claims to be the second largest producer of folding boxboard with annual capacity of 0.7 million tons, corresponding to 28% market share.

M-real's four folding boxboard mills (Kyröskoski, Simpele, Tampere and Äänekoski) as well as its liner and fluting mills (Kemi and Kuopio) are located in Finland, in addition, the company has a total of four carton mills located in Finland (Tampere), Hungary (Petöfi) and Belgium (Brussels and Arlon).

About two thirds of the paperboard grades for consumer packaging is sold in Western Europe. Outside Europe, China is one of the most important markets.

## MAP MERCHANTING GROUP

The M-real's paper merchant Map covers 23 countries in Europe and serves some 50.000 customers, including printing houses, publishers, advertising agencies, banks and retail chains. The paper merchants offer their customers both M-real's own products and those of other manufacturers. M-real claims to be the third-largest paper merchant in Europe with an 11% market share. Of the leading European paper and board manufacturers, M-real is the only one with a significant share of the paper merchanting trade. Paper merchanting is strategically important for M-real because of a substantial part of fine paper sales is made via paper merchants.

The annual trading volume amounts to approximately 1.350.000 tons of paper and board.

**Raw Materials** – The main raw materials M-real uses are wood, pulp, energy and chemicals. M-real's total consumption of roundwood in 2005 was about 12.7 million m<sup>3</sup>, including the share of Botnia's wood use) and chemical pulp and BCTMP consumption amounted to 2.9 million tons.

The main owner of M-real, Metsäliitto Cooperative, takes care of the wood sourcing to M-real's mills. M-real's pulp procurement is based on its own production, pulp purchased from Botnia and market pulp purchased from selected suppliers. M-real is nevertheless in practice self-sufficient in pulp.

M-real's consumption of wood raw material is 12.7 million m<sup>3</sup> annually, of which 2.0 million m<sup>3</sup> is consumed by the paper and board mills in Finland, 5.0 million m<sup>3</sup> goes into producing M-real's share of Metsä-Botnia's pulp production and 5.7 million m<sup>3</sup> is consumed by the pulp and paper mills elsewhere in Europe.

M-real's electricity consumption is about 7.2 gigawatts annually. Of this amount, about 38% comes from M-real's own electric power generation, 17% is outsourced power generation, 15% is produced by the associated company PVO and 30% is purchased electricity.

**Research and Development** – M-real's research and development activities (R&D) are handled by the corporate R&D function and by the five technology centres under its supervision. Located in Finland, Sweden and Germany, the technology centres concentrate on radical research activities as well as acting as project managers of corporate more exploratory R&D projects.

M-real TC organization supports the mills with knowledge and participates actively in demanding trouble-shooting cases. M-real has corporate-wide rules concerning the rights and use of employee-made inventions.

M-real invests approximately 0.6% of its turnover in research and development. R&D expenditure in 2005 came to 24 million (EUR 28 million), with an emphasis on improving efficiency and cooperation with customers as well as on launching new products.

SALES AND EARNINGS (EUR millions)	2001	2002	2003	2004	2005
Net Sales	6923	6564	6044	5460	5241
Operating Margin	867	782	555	387	439
Depreciation	478	458	481	462	403
Net Operating Result	389	324	74	-75	36
Interest (Net)	216	162	172	163	
Result before Extra. Items	154	134	-80	-209	-114
Net Result	212	209	-95	-15	-81
Sales outside Finland (%)	93,0%	94,0%	93,5%	94,2%	94,8%
No. of Employees (Average)	22237	21070	20372	16490	15578

M-real's consolidated sales in 2005 was EUR 5241 million (EUR 5522 million in 2004)  
Comparable sales fell by 2.2%.

Operating profit in 2005 was EUR 36 million. The operating result included EUR 32 million of net non-recurring income (charges of 33 million).

The operating profit excluding non-recurring items was a profit of EUR 4 million (profit of EUR 61 million). Profitability was weakened above all by the lost delivery volumes for paperboard and coated magazine paper owing to the labour dispute in the Finnish paper industry as well as by Botnia's lower operating result. The dispute cut approximately EUR 85-90 million from the operating result.

BALANCE SHEET DATA (EUR millions)	2001	2002	2003	2004	2005
Current Assets	2663	2476	2338	2196	2243
Fixed Assets	5164	4935	4769	4199	4084
Interest-Bearing Net Liabilities	3305	3019	3019	2161	1877
Shareholders' Equity	2341	2461	2245	2627	2316
Total Assets	7827	7410	7106	6394	6327

PRODUCTION & DELIVERIES (1000 tons)			2003	2004	2005
Production					
Consumer Packaging				1330	985
Publishing				1148	1072
Commercial Printing				1885	1866
Office Papers				975	1034
Deliveries					
Consumer Packaging				1374	1006
Publishing				1192	1146
Commercial Printing				1842	1866
Office Papers				961	1034
Map Merchant Group			1283	1308	1359

PRODUCTION BY MILL (1000 tons)	2000	2002	2003	2004	2005
<b>Paper Segment</b>					
Kangas	207	143	232	258	234
Kirkniemi	656	584	639	657	589
Äänekoski	172	139	135	161	137
Biberist	403	360	399	401	418
Sittingbourne		134	147	154	162
Albbruck (50%)	137	117	-	-	-
Dachau (50%)	104	-	-	-	-
Plattling (50%)	171	-	-	-	-
Alizay (Pulp)		211	260	277	281
Alizay (Paper)		221	227	276	286
Hallein (Pulp)	418	132	143	154	153
Hallein (Paper)		249	262	289	283
Husum (Pulp)		591	678	695	683
Husum (Paper)		469	570	633	664
Pont Sainte Maxence	103	88	101	116	127
Silverdalen	70	49	-	-	-
Stockstadt (Pulp)		140	135	156	153
Stockstadt (Paper)		315	334	397	395
Wifsta	149	126	117	137	159
Gohrsmühle		297	288	282	300
Reflex		94	104	103	95
<b>Packaging Segment</b>					
Lielähti	106	107	105	96	89
Savon Sellu	244	227	186	223	-
Äänekoski	110	103	108	152	140
Kyro	190	188	194	213	185
Tako	220	214	217	226	212
Simpele	201	202	200	217	180
<b>Metsä Tissue</b>					
Mänttä	115	115	126	-	-
Katrinefors	74	70	71	-	-
Pauliström	19	18	20	-	-
Nyboholm	17	19	23	-	-
Kreuzau	113	118	125	-	-
Stotzheim	18	19	20	-	-
Raubach	40	42	42	-	-
Warsaw		19	20	-	-
Krapkowitz			25	-	-
<b>Metsä-Botnia</b>					
Kaskinen (47%)	187	173	185	198	138
Kemi (47%) - Pulp	395	208	230	237	192
Kemi (47%) - Paperboard		136	146	-	-
Rauma (47%)	247	221	247	246	191
Äänekoski (47%)	216	186	215	210	172
Joutseno (47%)	188	157	247	260	209

SALES & EBITDA BY SEGMENT		Sales 2005	Sales 2004	Ebitda 2005	Ebitda 2005
Consumer Packaging		864	1045	125	180
Publishing		796	802	98	101
Commercial Printing		1488	1474	58	56
Office Papers		704	667	57	71
Map Merchant Group		1390	1368	26	24

SALES BY MARKET (EUR millions)	2001	2002	2003	2004	2005
Great Britain	1344.2	1292.8	1115.4	1055.4	1037.0
Germany	1322.7	1011.2	927.1	797.1	777.0
Finland	485.6	390.9	392.5	345.2	291.0
France	457.0	450.7	434.0	378.0	370.0
Denmark	151.4	136.8	133.3	84.1	
Spain	216.6	219.3	207.9	204.8	
USA	263.5	226.6	188.2	205.9	216.0
Sweden	317.3	305.1	270.1	183.7	173.0
Italy	237.6	243.7	245.3	223.0	187.0
Switzerland	164.8	165.7	149.4	122.7	108.0
The Netherlands	286.6	268.6	234.5	201.4	184.0
Poland	155.4	148.8	175.7	161.9	175.0
Belgium	182.2	191.6	162.5	132.8	126.0
Norway	114.3	120.6	112.4	54.5	
Greece	27.7	33.3	37.9	46.1	
Australia	84.9	88.4	76.1	80.7	
China	71.1	94.6	84.3	77.4	
Russia	74.7	77.6	88.5	94.6	129.0
Hong Kong	37.1	58.1	37.6	46.4	
Austria	130.8	118.1	111.6	102.0	97.0
India	41.8	9.6	8.5	6.2	
Canada	56.8	54.4	53.7	49.1	
Baltic Countries	45.2	54.4	49.7	49.2	
Ireland	58.8	61.8	56.4	44.1	
Japan	27.2	30.4	35.0	35.4	
Portugal	14.0	11.7	11.0	10.9	
Other Europe	197.2	277.2	258.1	295.5	630.0
Other Asia	138.9	175.7	148.9	168.2	251.0
Other Countries	396.9	247.6	238.5	204.0	297.0

CAPITAL EXPENDITURES (EUR millions)	2001	2002	2003	2004	2005
	605	304	232	239	452

Capital expenditures on property, plant and equipment totalled EUR 452 million in 2005 (EUR 239 million) corresponding to 8.6% of total revenue.

Simple mill has completed the EUR 60 million rebuild of the board machine with a successful and in-time start-up on April 6 2006. The rebuild has already now resulted in considerable improvements in the quality of Simcote and Simwhite paperboards.

The significant investment, now completed, included major improvements to the board machine as well as to the finishing. All three headboxes, the surface sizer and the reeler were replaced and some major changes were also made in the drying section. The finishing

department was largely renewed with a new sheet cutter, rewinder, reel and sheet packaging equipment and new sheeting department and reel warehouse. Sheeting capacity will thus increase, resulting in better product availability. The total capacity of the board machine will increase from 170 000 tonnes to 215 000 tonnes per annum.

In October 2005 the president of Finland officially inaugurated the new bleached BCTMP mill in Kaskinen. With the addition to produce 300.000 tons additional annual tons M-real now claims to be the world's largest manufacturer of high-quality BCTMP grades of pulp. Decision to build this new mill was taken in September 2003 and the total costs were estimated at EUR 180 million.

In March 2005 Botnia, jointly owned by M-real, UPM-Kymmene and Metsäliitto decided to invest in a new pulpmill in Uruguay. The mill's planned annual capacity is approximately 1 million tons of short-fiber pulp, based on cultivated eucalyptus as raw material. Total expenditure for this project is estimated at approximately USD 1.1 billion. Start-up is set for the third quarter of 2007.

In March 2005 M-real announced to invest EUR 60 million at the Siompele board mill. The capacity of the board machine will increase by 45.000 tons per annum to a total of 215.000 tons per annum. Completion is set for spring 2006.

In February 2005 M-real initiated a profitability improvement program at Wifsta and Husum mills in Sweden. The target is to reduce annual costs by at least SEK 200 million and reach a 15% productivity increase by the end of year 2006. An important element in the program is the planned integration of Wifsta mill into Husum organization.

In December 2005 they also started the implementation of an improvement program at Their Pont Sainte Maxence mill in France.

In January 2005 M-real sold its forestland to Forestia Holding for EUR 162 million.

M-real Alizay PM 1 started up successfully after BelBaie V forming section upgrade

In early 2006 M-real Alizay PM 1 in France was successfully started up on 3 May after a forming section rebuild. The upgrade, which was targeted to improving fine paper quality and machine runnability, was carried out by Metso Paper

**2004** - At the beginning of January 2004, a 66% stake in Metsä Tissue was sold to Metsäliitto Cooperative. In addition, 17% was sold to the Tapiola Group. At the end of January, the remaining 17% was sold to Varma Mutual Pension Insurance Company and Sampo Life Insurance Company.

At the beginning of August, 2004 the company bought the holdings of Metsäliitto Cooperative and UPM-Kymmene in Kemiart Liners Oy, a total stake of 53%.

At the end of December 2004, an agreement was signed on sale of the Savon Sellu business to a company owned by Dr. Dermot F. Smurfit as a private individual, and a group of other international investors. The purchase price was approximately EUR 20 million. Savon Sellu has a production capacity of 245.000 tons of semichemical fluting per annum.

M-real Corporation will invest in its French office paper production facilities in Alizay, situated northwest of Paris. The 8 million euro investment schedule comprises rebuilding the forming part of the paper machine.

**2003** - In December, 2003 M-real decided to participate in the building of the new nuclear power plant by Teollisuuden Voima Oy in Olkiluoto, Finland. The plant will come on stream in the year of 2009.

**2002** - The projects for rebuilding the Kyro wallpaper base machine and Äänekoski board machine were completed. Äänekoski moved away from wallpaper production, whereby operations were centralized in Kyro. The Äänekoski board machine will specialize in board for pharmaceutical packaging. The annual capacity of the rebuild machine is stated at 160.000 tons of folding boxboard (instead of 65.000tons of folding boxboard and 50.000 tons of wallpaper base). The annual capacity of the rebuild machine is stated at 160.000 tons of folding boxboard (instead of 65.000tons of folding boxboard and 50.000 tons of wallpaper base). The aggregate cost of the capital expenditures at Kyro and Äänekoski was about EUR 110 million.

Investments for Zanders' development programme were progressing according to plans and expected to be completed during 2003. The program included a rebuild of PM2, located at Gohrsmühle. The aim of the rebuild was to further improve paper quality and extend the range of paper grades. At the end of 2001, Zanders shut down PM1 at Gohrsmühle in the course of capacity adaptation.

Decision was made in December 2002 to modernize the waste water treatment plant at the Husum mill at an investment cost of approximately EUR 42 million. The new plant was expected to become operational in December 2004.

Metsä Tissue decided on an investment and development programme for its operations in Germany in October 2002. Capital expenditures under the programme total approximately EUR 45 million and will for the most part be carried out by the end of 2004.

In June, 2002, M-real sold its 50% holding in Papierfabrik Albbruck GmbH & Co. KG to Myllykoski Oyj. The purchase price was EUR 235 million.

During the year Metsä Tissue increased its shareholding in Zakłady Papiernicze Krapkowice SA by 9.9% to 50.3%. In April 2003 they acquired 38% of the shares of the Polish tissue products converter Krapex Sp.zoo (Metsä-Tissue already owned 47% of the company). Krapex is situated in Krapkowice in southern Poland, immediately next to the Krapkowice production plant. Metsä-Tissue thereby claimed to be Poland's largest producer of tissue products for the away-from-home market and raises their share of the total Polish converted tissue market to approximately 20%.

**2001** expenditures were at EUR 605 million. In addition, the purchase price of shares in Zanders and other acquired companies included a payment of EUR 135 million.

Investment projects at the Kangas and Husum paper mills, where the production of one machine at both mills was converted to coated paper, was seen to completion during the first half of 2001. Joutseno's new chemi-thermomechanical pulp (CTMP) mill with an annual capacity of over 200.000 tons came on line in August 2001. The total price tag of the investments at Kangas and Joutseno was EUR 230 million and the outlay on Husum was EUR 290 million.

The new fiberline at Metsä-Botnia's Joutseno pulpmill started up in May 2001. The investment had a total cost of EUR 200 million. Capacity was increased by approximately 200.000 tons per annum.

The transaction between M-real and International Paper concerning 72% shareholding in Zanders Feinpapiere AG came into effect on 3 January 2001. M-Real's shareholding in Zanders was later in the year increased to approximately 99.3%. Total amount spent on shares amounted to EUR 112 million.

At the end of June 2001, M-real sold its 50% shareholding in MD Papier GmbH (Plattling and Dachau mills) to Myllykoski Oyj. The purchase price was EUR 300 million.

In November, it was decided to close the Silverdalen paper mill (120.000tpy) in Sweden due to lack of profitability. A paper machine was also phased out at Gohrsmühle, Germany (capacity of 25.000 tons).

**2000** - Metsä-Serla's capital expenditures on fixed assets in 2000 totaled EUR 510 million, including EUR 205 million of Modö Paper's capital expenditures for the period 1 July - 31 December 2000. The aggregate purchase price of the shares in acquired companies was EUR 1640 million, debt-free purchase price of EUR 2330 million.

A major development project, of EUR 285 million, at the Husum paper mill was reported to proceed well.

At the end of May 2000, Metsä-Serla signed agreement with Holmen AB and Svenska Cellulosa Aktiebolaget SCA concerning the purchase of the entire shares outstanding in Modö Paper AB for a purchase price of EUR 1560 million. Modö Paper's debt-free purchase price was EUR 2250 million. The deal came into force on 9 August 2000, following approval by the EU Commission.

In conjunction with the Modö Paper deal, Metsä-Serla sold its corrugated packaging business to SCA for a debt-free price of EUR 200 million.

In June 2000, Metsä-Serla sold to Frantschach AG of Austria its Cofinac's carton and label business in Hungary for EUR 43 million (debt free).

**1999** - Modernization of the pulp washing section of the Kemi pulp mill was completed mid-1998, and a project to increase the efficiency of oxygen bleaching reached completion late in 1998. As part of the development program at the mill, decision was taken to purchase a new lime kiln. The production capacity thereby increased by 60.000 tons per year (to 560.000 tons). The investments carried out at the Kemi mill will totaled some FIM 245 million. The lime kiln investment at the Kemi Pulp mill was completed in the summer of 1999 at a cost of EUR 13 million.

**Major Recent Investments** - Metsä-Serla's most important capital expenditure project during 1998 was the modernization of the chemicals recovery line and power plant at the Joutseno pulp mill of Oy Metsä-Botnia Ab. The capital project enabled the mill to raise its production capacity from 320.000 tons to 410.000 tons and to improve cost-effectiveness. The investment was completed at a cost of FIM 895 million.

An investment aiming at modernizing sheeting operations was carried out in 1998 at the Äänekoski Art Paper mill, increasing the sheeting capacity from 100.000 tons to 160.000 tons per annum. Also in progress at the mill is a series of investments aiming at increasing the efficiency of the paper machine. Total capacity at the mill will rise to 180.000 tons. The investments were carried out at a total cost of FIM 70 million.

The construction of Kirkniemi's new fine paper mill, which cost of FIM 2.4 million, started up in August 1996. The mill has the capacity to produce 350.000 tons of double-coated fine paper per year. The chemical pulp needed in production is supplied by Metsä-Rauma's new pulp mill. The fine paper mill is Metsä-Serla's biggest ever investment. The machine produces 8.36 meter-wide paper at a speed of 1500m/minute.

The new pulpmill operated by Metsä-Rauma Oy, in which Metsä-Serla has a 27.8% interest, was completed in March, 1996. The mill was started up ahead of schedule and below its original budget. The cost of the investment was around FIM 2.5 billion. The Metsä-Rauma

mill has a capacity of 500.000 tons per year, which can be raised to 600.000 tons per year when required. Metsä-Rauma is claimed to be the world's largest single-line softwood pulpmill. Wood supply is 80% pine and 20% spruce with sawmill chips accounting for around 20% of the raw material. Metsä-Rauma mill will have a market pulp capacity of 100.000 tpy even after the new LWC paper machine is started up at the UPM-Kymmene mill on the same site.

A development program at Kirkniemi magazine paper mill was completed early in 1994. The final stage involved modification of paper machine 1 to produce film-coated offset (FCO) paper. Project costs were in the range of FIM 300 million.