

# Corporate Governance statement

This statement describing the corporate governance of M-real Corporation (M-real or Company) has been issued as a separate statement pursuant to Section 6 of Chapter 2 of the Securities Markets Act and is published concurrently with the Company's financial statements and Report of the Board of Directors.

M-real is a Finnish public limited company whose A and B series shares are subject to public trading on the Mid Cap list of NASDAQ OMX Helsinki Ltd. (Helsinki Stock Exchange). M-real's administration is governed by Finnish laws and the regulations and rules set out pursuant to such laws. M-real also follows the rules and recommendations of the Helsinki Stock Exchange as applicable to listed companies.

M-real prepares its financial statements and interim reports according to the International Financial Reporting Standards (IFRS). The financial statement documents are prepared and published in Finnish and English.

M-real's headquarters are located in Espoo, Finland. The Company's registered domicile is Helsinki.

## M-real's administration and governance structure

The Company's statutory bodies include the General Meeting of Shareholders, the Board

of Directors, the CEO and the Deputy CEO. In addition, a Corporate Management Team assists the CEO in the operative management of the Company and coordinating its operations. The tasks and responsibilities of the different bodies are specified pursuant to the Finnish Companies Act.

In M-real's existing organisation, business areas are defined such that each business area is responsible for its own sales as well as production, and thus has a clear profit responsibility. M-real's business areas are Consumer Packaging, Office Papers, Speciality Papers, and Market Pulp and Energy.

## Application of the Finnish Corporate Governance Code

As a Finnish listed company, M-real applies the Finnish Corporate Governance Code ([www.cgfinland.fi](http://www.cgfinland.fi)). This statement is compliant with recommendation 51 of the code. M-real deviates from recommendation 26 of the code as follows: Erkki Varis, member of the Audit Committee, is the former Managing Director of the Company's associated company Oy Metsä-Botnia Ab (until 2008) and is thus not independent of the Company in terms of an overall evaluation. The Board of Directors considers it important for the Audit Committee to have specific know-how and competence in the Company's industry in the prevailing circumstances.

## General Meeting

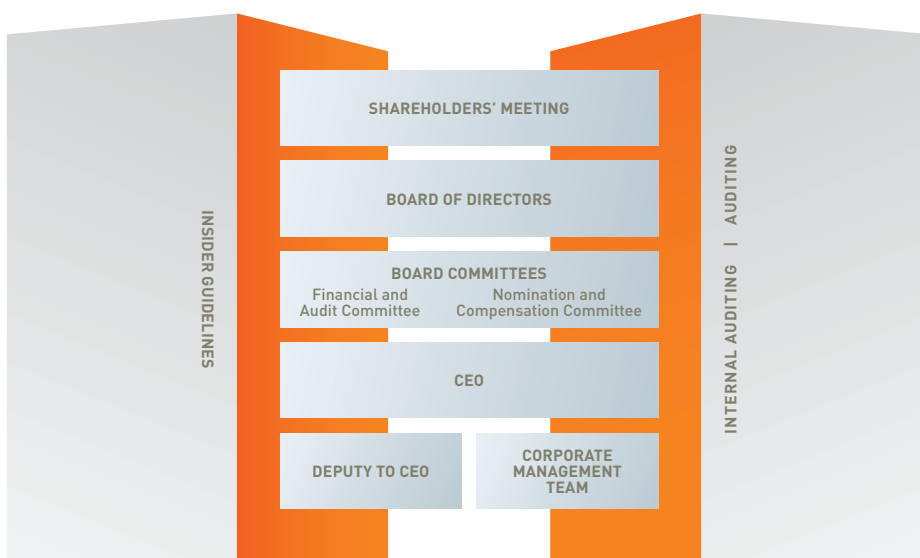
The General Meeting of Shareholders is the Company's highest decision-making body where shareholders use their decision-making power. Each shareholder is entitled to participate in a General Meeting by following the procedure described in the notice to the General Meeting.

According to the Finnish Companies Act, the General Meeting decides on the following matters, among others:

- amending the Articles of Association
- approving the financial statements
- profit distribution
- mergers and demergers
- acquisition and transfer of own shares
- appointing the members of the Board and specifying their compensation and the compensation for Board committee members
- appointing the auditor and specifying its compensation.

Shareholders are entitled to put forward a matter pertaining to the General Meeting to be addressed when the shareholder delivers a written request to this effect so well in advance that the matter can be included in the notice to the meeting. In addition, the shareholder has a right to present questions

## Corporate Governance in M-real



on the items on the agenda of the General Meeting.

A shareholder is entitled to participate in a General Meeting when he/she is included in the register of shareholders eight (8) working days before the General Meeting. An Annual General Meeting takes place each year in June at the latest.

An Extraordinary General Meeting will convene if the Board finds it necessary, or if the auditor or shareholders representing at least 10 per cent of all shares deliver a written request to this effect in order to process a specified matter.

### Board of Directors

The Board of Directors is responsible for the Company's administration and arranging the Company's operations properly according to applicable laws, the Articles of Association and good corporate governance. Taking into account the scope and quality of the Company's operations, the Board takes care of matters that are far-reaching and unusual, and do not belong to the Company's day-to-day business operations. The Board supervises M-real's operations and management and decides on the corporate strategy, major investments, the Company's organisation structure and significant financing matters. The Board supervises the proper arrangement of the Company's operations, and it ensures that accounting and asset management control, financial reporting and risk management have been organised in an appropriate manner.

For its operations, the Board of M-real has a written working order. In accordance with its working order, the Board's functions include:

- appointing the CEO and accepting the appointment of Corporate Management Team members, and ensuring that the CEO takes care of the company's day-to-day administration according to the regulations and guidelines given by the Board
- appointing members to the Audit, Nomination and Compensation Committees and accepting their working orders
- processing and accepting the corporate strategy and its main policies

- accepting the annual operational plan
- monitoring how company accounting, asset management and risk control are arranged
- deciding on significant investments, business acquisitions, divestments and closures of operations
- deciding on considerable investments and financing arrangements
- deciding on the transfer and pledging of the Company's significant real property
- deciding on the granting of donations, or on the CEO's authority concerning them
- granting and cancelling the right to represent the Company and the authority to sign on behalf of the Company
- monitoring that the company's Articles of Association are complied with; convening the General Meeting and monitoring that the decisions made by the General Meeting are implemented
- signing and presenting the annual financial statements to the Annual General Meeting for approval, and preparing a proposal for the use of profits
- approving the essential policies, regulations and guidelines governing the business operations
- deciding on who are permanent insiders in the company and accepting the Company's insider rules
- publishing or authorizing the CEO to publish all such information that is likely to have an impact on the Company's share value, or which otherwise has to be made public according to the Finnish Securities Markets Act.

The working order of the Board of Directors is presented in full on the M-real website ([www.m-real.com/Investor Relations/Corporate Governance](http://www.m-real.com/Investor%20Relations/Corporate%20Governance)). The Board can delegate matters in its general responsibility to the CEO and correspondingly take charge of decision-making regarding a task of the CEO.

On an annual basis, the Board assesses its own operations and the Company's administration principles and decides on necessary changes (if any).

The Board convenes on a regular basis. In the financial year 2010, the Board held a total of 15 meetings, four of which were

phone meetings. The attendance rate of the members was 93 per cent (97 in 2009).

### Composition and independence of the Board of Directors

The composition and number of members of the Board of Directors must facilitate effective fulfilment of the Board's tasks. The composition of the Board of Directors takes into account the development phase of the Company, the special requirements of the industry and the needs of the Company's operations. Both sexes are represented in the Board of Directors. A member of the Board must possess the competence required by the task and the opportunity to allocate sufficient time for the task.

According to the Articles of Association, a minimum of five and a maximum of ten regular members shall be appointed to the Board of Directors by the shareholders by the Annual General Meeting for a one-year period at a time. The number of consecutive terms is not limited. At present, the Board has nine regular members. The Board appoints a Chairman and a Vice Chairman from among its members. The Annual General Meeting of 2010 appointed the following persons as members of the Board of Directors:

Mr Kari Jordan, born 1956, Chairman, M.Sc. (Econ.)

Mr Martti Asunta, born 1955, Vice Chairman, M.Sc. (For.)

Mr Mikael Aminoff, born 1951, M.Sc. (For.)

Ms Kirsi Komi, born 1963, independent member, L.L.M.

Mr Kai Korhonen, born 1951, independent member, M.Sc. (Eng.)

Ms Liisa Leino, born 1960, independent member, M.Sc. (Nutrition)

Mr Juha Niemelä, born 1946, independent member, M.Sc. (Econ.)

Mr Antti Tanskanen, born 1946, independent member, Ph.D. (Econ.)

Mr Erkki Varis, born 1948, independent of significant shareholders, M.Sc. (Eng.)

The Nomination and Compensation Committee has proposed to the Annual General Meeting of 2011 that all current Board members be re-elected.

A majority of the members of the Board of Directors are independent of both the Company and its significant shareholders. Board member Antti Tanskanen has acted as member (independent of operative management) continuously for more than 12 years. Tanskanen is a known Board professional who enjoys a reputation of trust throughout the society and has several other positions of trust outside the Company. Therefore, the Board of Directors has deemed Tanskanen independent of the Company and its significant shareholders based on an overall evaluation.

To assess the independence and impartiality of the members of the Board of Directors, the members shall notify the Company of circumstances that may have an impact on the member's ability to act without conflict of interest. In situations where the Board of Directors processes a business or other contractual relationship or connection with Metsäliitto Cooperative or its other subsidiary, the Board of Directors acts, if necessary, without those of its members who are dependent of Metsäliitto Cooperative.

### Board committees

Board committees provide assistance to the Board of Directors, preparing matters for which the Board is responsible. The Board of Directors appoints an Audit Committee and a Nomination and Compensation Committee from among its members. Every year after the Annual General Meeting, the Board of Directors appoints each committee's chairman and members. The Board of Directors and its committees can also seek assistance from external advisors.

Final decisions concerning matters related to the tasks of the committees are made by the Board of Directors on the basis of committee proposals, excluding proposals made directly to the General Meeting by the Nomination and Compensation Committee.

### Audit Committee

The Audit Committee is responsible for assisting the Board of Directors in ensuring that the Company's financial reporting, calculation methods, annual financial statements and other financial information made public by the Company are correct, balanced, transparent and clear. On a regular basis,

the Audit Committee reviews the internal control and management systems and monitors the progress of financial risk reporting and the auditing of the accounts. The Audit Committee assesses the efficiency and scope of internal auditing, the company's risk management, key risk areas and compliance with applicable laws and regulations. The committee gives a recommendation to the Board concerning the appointment of auditors to the Company. The Audit Committee also processes the annual plan for internal auditing and the reports prepared on significant auditing.

The Audit Committee consists of four Board members of whom three are independent of the Company and its significant shareholders. Since the Annual General Meeting of 2010, Kai Korhonen has been chairman of the Audit Committee, with Kirsi Komi, Antti Tanskanen and Erkki Varis as members.

The committee members must have adequate expertise in accounting and financial statement policies. The Audit Committee convenes on a regular basis, at least four times a year, including a meeting with the Company's auditor. The committee chairman provides the Board with a report on every meeting of the Audit Committee. The tasks and responsibility areas have been specified in the committee's working order which the Board has approved.

When necessary, the following persons are also represented in the Audit Committee meetings as summoned by the Committee: the auditor, Chief Executive Officer and Chief Financial Officer as well as other management representatives and external advisors.

The Audit Committee convened five times during 2010 and the attendance rate of the members was on average 95 per cent (100 per cent in 2009).

### Nomination and Compensation Committee

The task of the Nomination and Compensation Committee is to assist the Board of Directors in matters related to the appointment and compensation of the Company's CEO, the Deputy CEO and the senior management and prepare matters related to the reward schemes for employees. In addition, the Committee prepares for the Annual Gen-

eral Meeting a proposal on the number of Board members, Board composition and Board member compensation. The Committee also recommends, prepares and proposes to the Board the CEO's (and the Deputy CEO's) nomination, salary and compensation, and further evaluates and provides the Board and the CEO with recommendations concerning management rewards and compensation systems.

The Committee consists of five Board members. It convenes on a regular basis at least once a year. The Committee chairman provides the Board with the proposals issued by the Committee. The tasks and responsibilities of the Nomination and Compensation committee have been specified in the committee's working order, which the Board approves.

Since the Annual General Meeting of 2010, Kari Jordan has been chairman of the Nomination and Compensation Committee, with Mikael Aminoff, Martti Asunta, Liisa Leino and Juha Niemelä as members.

The Nomination and Compensation Committee convened five times during 2010 and the attendance rate of the members was on average 83 per cent (90 per cent in 2009).

### CEO

CEO Mikko Helander, born 1960, M.Sc.(Eng.), is responsible for the daily management of the Company's administration according to the guidelines and instructions given by the Board. In addition, the CEO is responsible for ensuring that the Company's accounting has been carried out according to applicable laws and that asset management has been organised in a reliable manner. The CEO manages the Company's daily business and is responsible for controlling and steering the business areas.

The CEO has a written CEO contract approved by the Board. The Board monitors the CEO's performance and provides a performance evaluation once a year.

The contractual retirement age of the CEO is 62 years. The Company has commissioned an additional pension insurance policy for the CEO, covering the period between the contractual retirement and the statutory retirement age of 63 years and entitling the CEO to receive a pension compensation equal to 60 per cent of his salary at the time of

retirement. According to Finnish pension legislation, a person has the option to retire between the ages of 63 to 68.

The Board appoints and discharges the CEO. The Board can discharge the CEO without a specific reason. The CEO can also resign from his assignment. The mutual term of notice is six months. The Board may, however, decide to discharge the CEO without a period of notice.

When the service contract of the CEO is terminated by the Board, the CEO is entitled to receive discharge compensation equal to his 18-month salary. In addition, in case the Company is divested, the CEO is entitled to resign from his assignment against a discharge compensation equal to his 24-month salary.

### Deputy to the CEO

Mika Joukio, Executive Vice President of the Consumer Packaging business area, also acts as Deputy to the CEO. The Deputy to the CEO is responsible for carrying out the CEO's tasks when the CEO is unable to perform his duties.

### Corporate Management Team

In the operative management of M-real, the CEO is assisted by the Corporate Manage-

ment Team, which consists of Mikko Helander, CEO, together with business area executives Mika Joukio (Consumer Packaging), Seppo Puotinen (Office Papers), Heikki Husso (Specialty Papers) and Soili Hietanen (Market Pulp and Energy) who report to Helander. In addition, the Corporate Management Team includes Matti Mörsky, CFO, and Mika Paljakka, SVP, HR. Mikko Helander acts as Chairman to the Corporate Management Team. Ms Sari Pajari, M.Sc. (Eng.) has been appointed as member of the Corporate Management Team as of April 1, 2011 with responsibility for business development.

Each Corporate Management Team member has a written employment or service contract. With the exception of the CEO, members of the Corporate Management Team have no special pension arrangements which would deviate from applicable pension legislation. With the exception of the CEO, the term of notice of Corporate Management team members is six months.

The Corporate Management Team's tasks and responsibilities include planning investments, specifying and preparing the Company's strategic guidelines, allocating resources, controlling routine functions and preparing matters to be reviewed by the Board.

The Corporate Management Team convenes at the Chairman's invitation once a month, as a rule, and also otherwise when necessary.

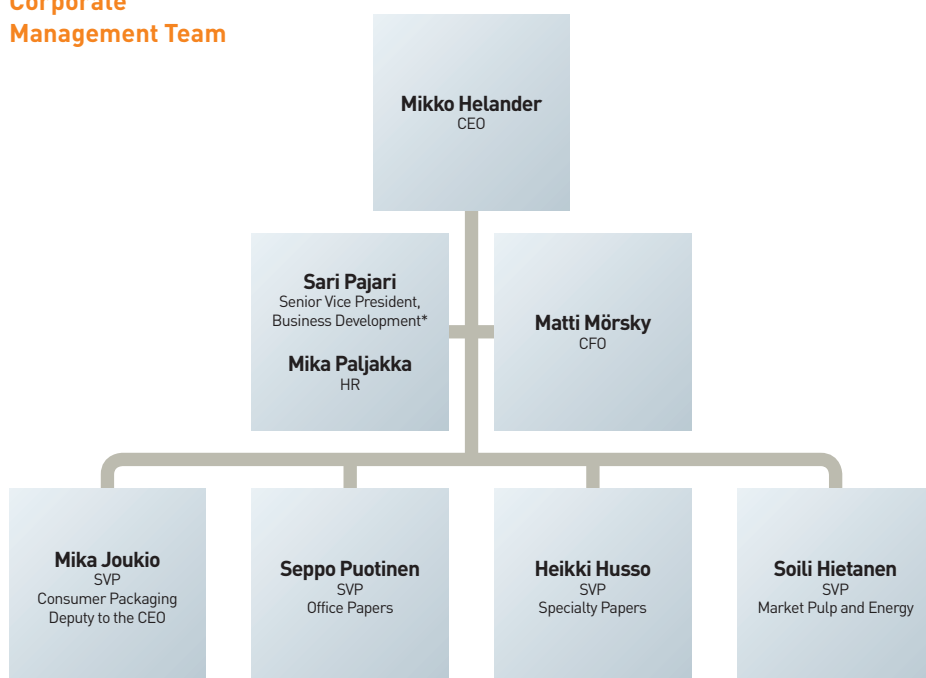
On 31 December 2010, neither Board members nor the CEO or the Deputy to the CEO had monetary loans from the Company or its subsidiaries, and no security arrangements existed between them.

### Internal control, internal auditing and risk management

Profitable business requires that operations are monitored continuously and with adequate efficiency. M-real's internal management and control procedure is based on the Finnish Companies Act, regulations and recommendations for listed companies, the Articles of Association and the company's own approved principles and policies. The functionality of the company's internal control is evaluated by the company's internal auditing. Internal control is carried out throughout the organisation. Internal control methods include internal guidelines and reporting systems.

The following describes the principles, objectives and responsibilities of M-real's internal control, risk management and internal auditing.

### Corporate Management Team



\*as of 1.4.2011

### Internal control

Being a listed company, M-real's internal control is steered by the Finnish Companies Act and Securities Market Act, other laws and regulations applicable to the operations and the rules and recommendations of the Helsinki Stock Exchange, including the Corporate Governance Code. External control is carried out by M-real's auditor and the authorities.

In M-real, internal control covers financial reporting and other monitoring. Internal control is implemented by the Board and operative management as well as the entire personnel. Internal control aims to ensure achieving the goals and objectives set for the company; economical, appropriate and efficient use of resources; correct and reliable financial information and other management information; adherence to external regulations and internal policies; security of operations, information and property in an adequate manner; and the arrangement of adequate and suitable manual and IT systems to support operations.

Internal control is divided into (i) proactive control, such as the specification of corporate values, general operational and business principles; (ii) daily control, such as operational systems and work instructions related to operational steering and monitoring; and (iii) subsequent control, such as management evaluations and inspections, comparisons and verifications with the aim of ensuring that the goals are met and that the agreed operational and control principles are followed. The corporate culture, governance and the approach to control together create the basis for the entire process of internal control.

### Monitoring of the financial reporting process, credit control and authorisation rights

The financial organisations of the business areas and the central administration are responsible for financial reporting. The units and business areas report the financial figures each month. The business areas' control functions check their units' monthly performance and report them further to central administration. Business area profitability development and business risks and opportunities are discussed in monthly meetings

attended by senior management of the Company and of the business area in question. The result will be reported to the Board and the Corporate Management Team each month. The Company's internal guidelines provide detailed descriptions on the reporting and control rules and the reporting procedure.

Credit control in M-real has been centralised under a Credit Committee, which convenes at least each quarter. The development of trade receivables is monitored in each sales company by credit controllers under the supervision of the Group VP of Credits. Counterparty-specific credit limits are set within the boundaries of the credit policy confirmed by the Board in cooperation with centralised credit control and business area management.

Authorisation rights concerning expenses, significant contracts and investments have been specified continuously for different organisation levels according to the decision-making authority policy confirmed by the Board and the authority separately granted by the 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 and the Corporate Management Team within the framework of the annual investment plan. Most significant investments are separately submitted for Board approval. Investment follow-up reports are compiled each quarter.

### Internal auditing

Internal auditing assists the Board and CEO with their control tasks by evaluating the quality of internal control maintained in order to achieve the Company's objectives. In addition, internal auditing supports the organisation by evaluating and ensuring the functionality of business processes, risk management and the management and administration systems.

The key task of internal auditing is to assess the efficiency and suitability of internal control concerning the company's functions and units. In its assignment, internal auditing evaluates how well the operational principles, guidelines and reporting systems

are adhered to, how property is protected and how efficiently resources are used. Internal auditing also acts as an expert in development projects related to its task area and prepares special reports at the request of the Audit Committee or operative management.

Internal auditing operates under the supervision of the Audit Committee and the CEO. Audit observations, recommendations and the progress of measures are reported to the management of the target audited, the company management and the auditor. Every six months, internal auditing reports its auditing measures, plans and operations to the Audit Committee.

The action plan of internal auditing is prepared for one calendar year at a time. The aim is to allocate the auditing to all functions and units at certain intervals. Auditing is annually allocated to areas that are in a key position regarding the evaluated risk and the company's objectives at the time. The topicality and appropriateness of the action plan are processed with the Company's management every six months.

The scope and coordination of the auditing operations are ensured through regular communication and information exchange with other internal assurance functions and the auditor. When necessary, internal auditing uses external service providers for temporary additional resourcing or special expertise for carrying out demanding evaluation tasks.

### Risk management

Risk management is an essential part of M-real'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 the Board; 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 M-real'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 normal operational planning. The risks identified and their control is 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 in M-real are divided among different functions. The Board is responsible for the Company's risk management and confirms the Company's risk management policy; the Audit Committee evaluates the adequacy of the Company's risk management and the essential risk areas and provides the Board with related proposals. The CEO and the 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 Vice President of Risk Management reports to the CFO and is responsible for the Company's risk management process development, coordination, the implementation of risk evaluation and the essential insurance decisions. Business areas and support 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.

M-real'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 M-real's 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 the company's objectives are met
- fulfil the expectations of stakeholders
- protect property and ensure disruption-free business continuity
- optimise the profit/loss possibility ratio
- ensure the management of the company's overall risk exposure and minimise the overall risks.

The most significant risks and uncertainties that the company is aware of are described in the Report of the Board of Directors.

### **Audit**

According to M-real's Articles of Association, the Company has one auditor who shall be an auditing firm authorised by the Central Chamber of Commerce of Finland. The General Meeting appoints the auditor each year. According to the decision made by the Annual General Meeting in spring 2009, the Company's auditor is PricewaterhouseCoopers Oy which appointed Johan Kronberg, APA, as the auditor with main responsibility. The Audit committee controls the appointment procedure of the auditors and provides the Board and the General Meeting with a recommendation for the appointment of the auditor.

In 2010, PricewaterhouseCoopers Oy received EUR 359,000 (EUR 279,000 in 2009) in auditing compensation, PricewaterhouseCoopers internationally altogether EUR 876,000 (EUR 1.1 million) and other auditing firms outside Finland were paid EUR 117,000

(EUR 46,000). In addition, PricewaterhouseCoopers has received EUR 350,000 (EUR 1.1 million) for services not related to the actual auditing of the accounts.