

The background is a 3D rendered scene of a blue-tinted ice cave. In the center, three white cubes are stacked vertically, each containing a different view of a fire. The top cube shows a close-up of flames, the middle one shows a wider view of a fire, and the bottom one shows a fire with a large, bright yellow and orange flame. The ice walls and floor are highly detailed with various textures and colors, ranging from light blue to dark blue.

# M-real

## Funding and Financial Update

Seppo Parvi  
CMD

May 22, 2008

# Agenda

1. MRP Programmes
2. Hedging
3. Liquidity and Financing

# **Make Real Profit - Profit Improvement Programmes**

# History of Make Real Profit Programmes

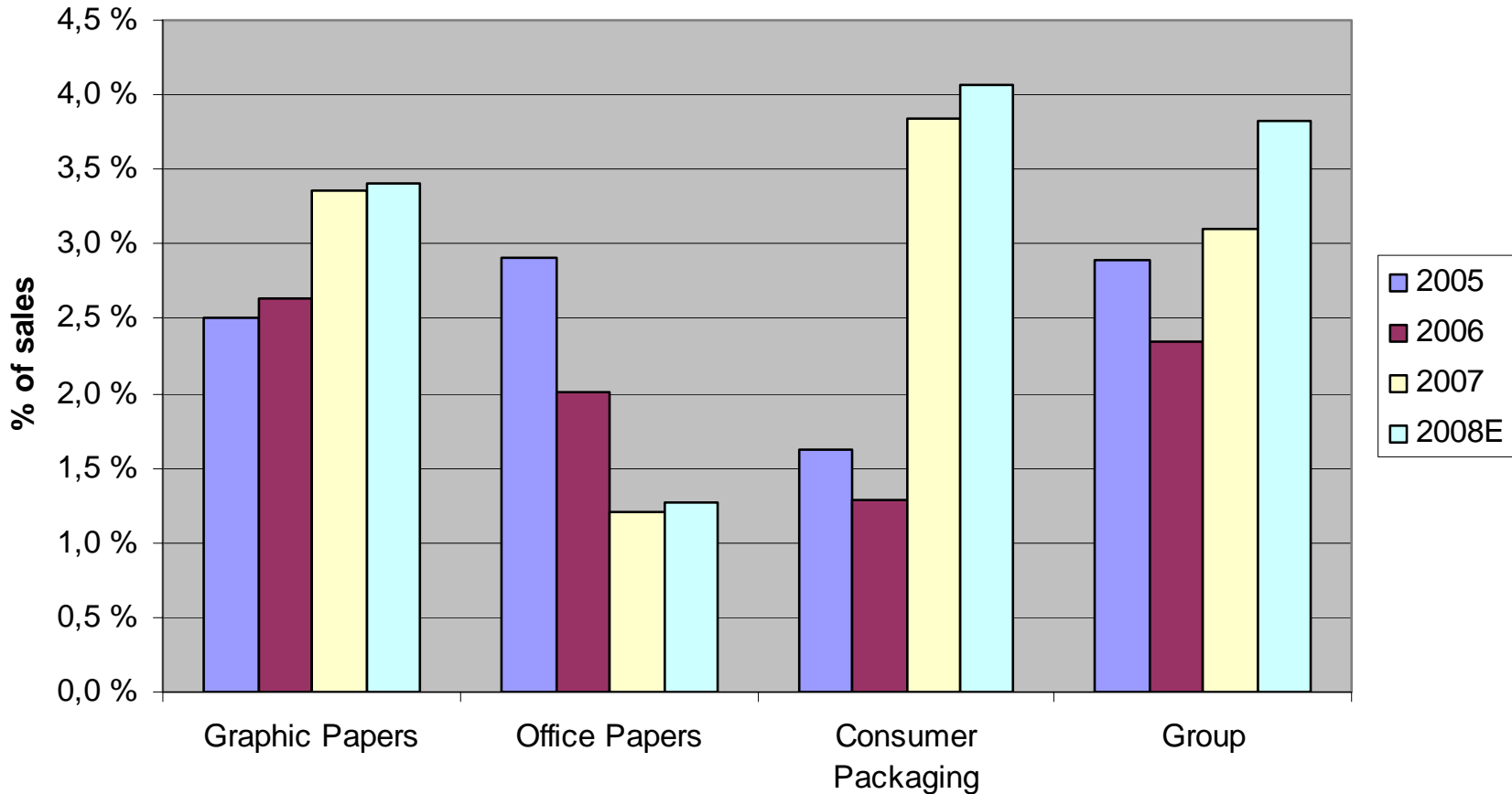
- Paper as well as other industries must continuously cut annually 2-3 % from cost base to fight against margin erosion
- First Make Real Profit programme was initiated in fall 2004 to accelerate the cost cutting actions
- MRP 2005 - 2006 : 230 MEUR program completed
- MRP 2007: 150 MEUR program completed
- MRP 2008: 150 MEUR program successfully launched

# Continuous Improvement Culture Deep-Rooted Everywhere in M-real

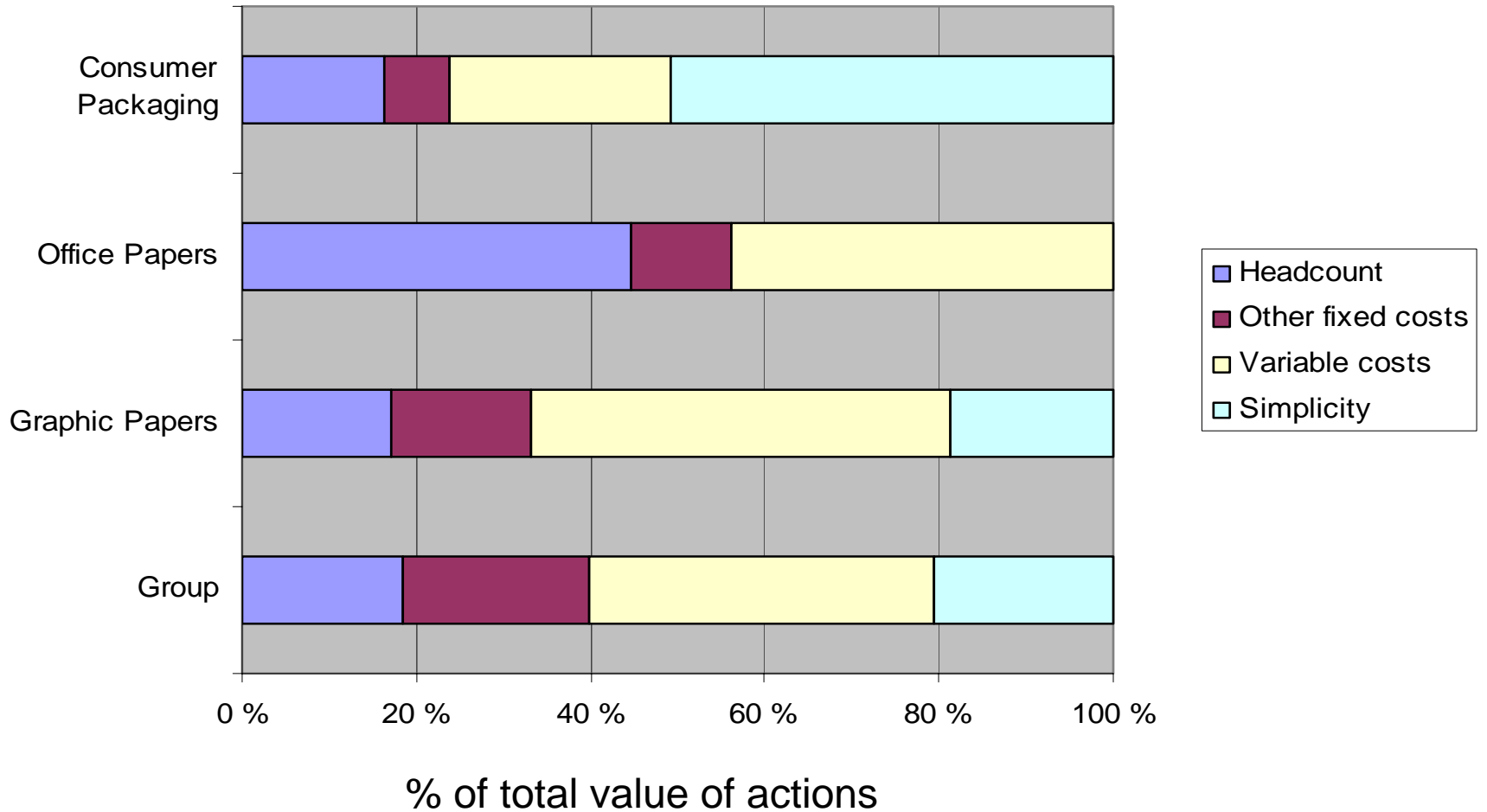
- Ideas continuously born and developed to actions in business areas and support functions forming the base for annual targets
- Tight monthly reporting managed by project office to the M-real Management Team and Board guarantees successful implementation
- Project office works for the CFO
- Focus on structural and sustainable saving targets
- M-real wide MRP meetings arranged by CEO and CFO to review status and actions by different BAs and functions

# MRP 2005-2008

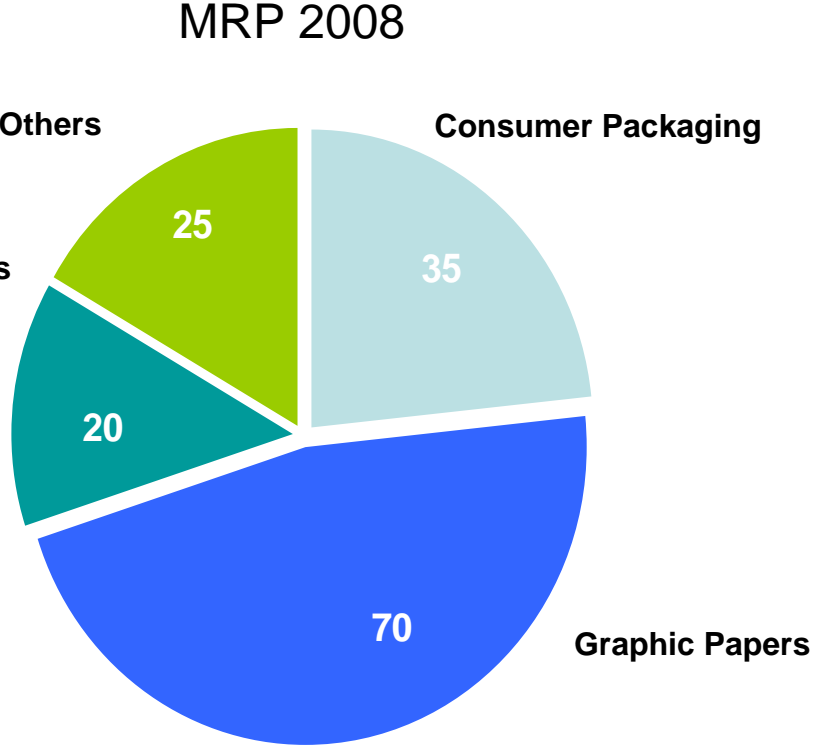
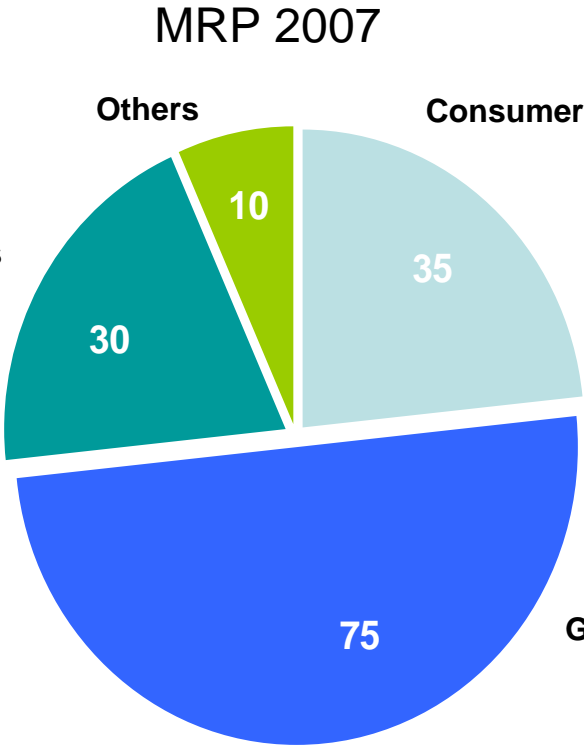
Annual value of completed saving actions vs. sales



# MRP 2008 – Saving Actions by Type



# MRP 2007 and 2008 – Savings Targets by BA



**In both programmes total amount of individual projects ~200**

## MRP 2008 Target Increased From 100 m€ to 150 m€

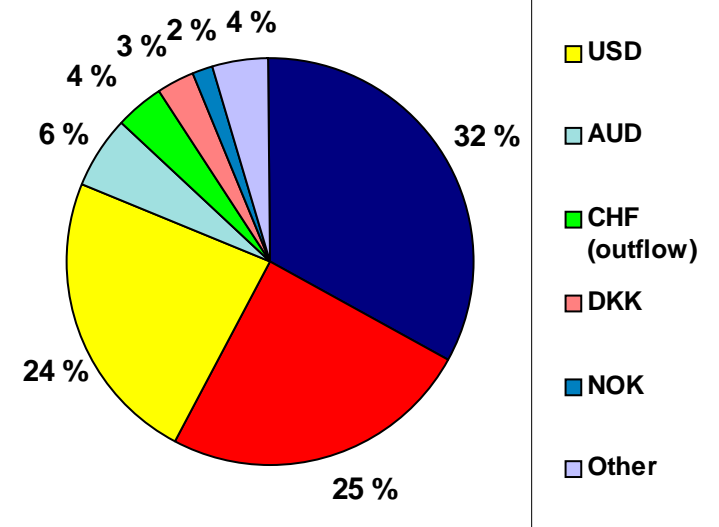
- Original target set in November 2007 100 m€ to be completed in 2008 and 2009. Full effect starting from 2010
- In May 2008 total value of profit improvement actions identified is 150 m€, including the impact of announced simplicity projects
- The estimated profit impact in 2008 is about 60 m€. Remaining part during 2009 and 2010
- More actions to be announced during 2008

# Hedging

# Active Currency Risk Management

## Net Position of FX Flows

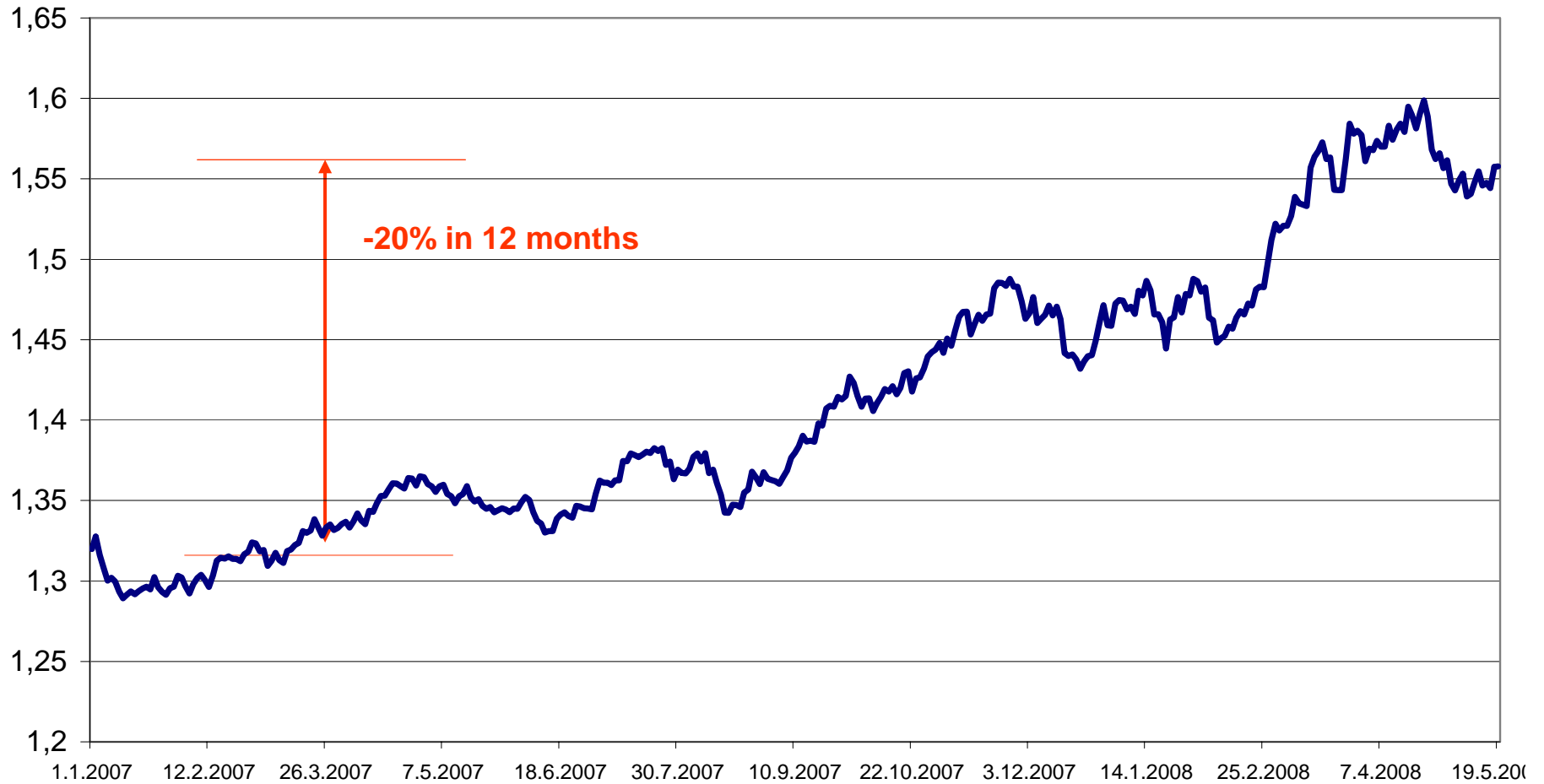
Currency	Flow (1 year)	Hedged
USD	286 MEUR	7 months
GBP	300 MEUR	5 months
SEK (outflow)	400 MEUR	6 months
Other	230 MEUR	3 months
Total net exposure	1216 MEUR	5,4 months



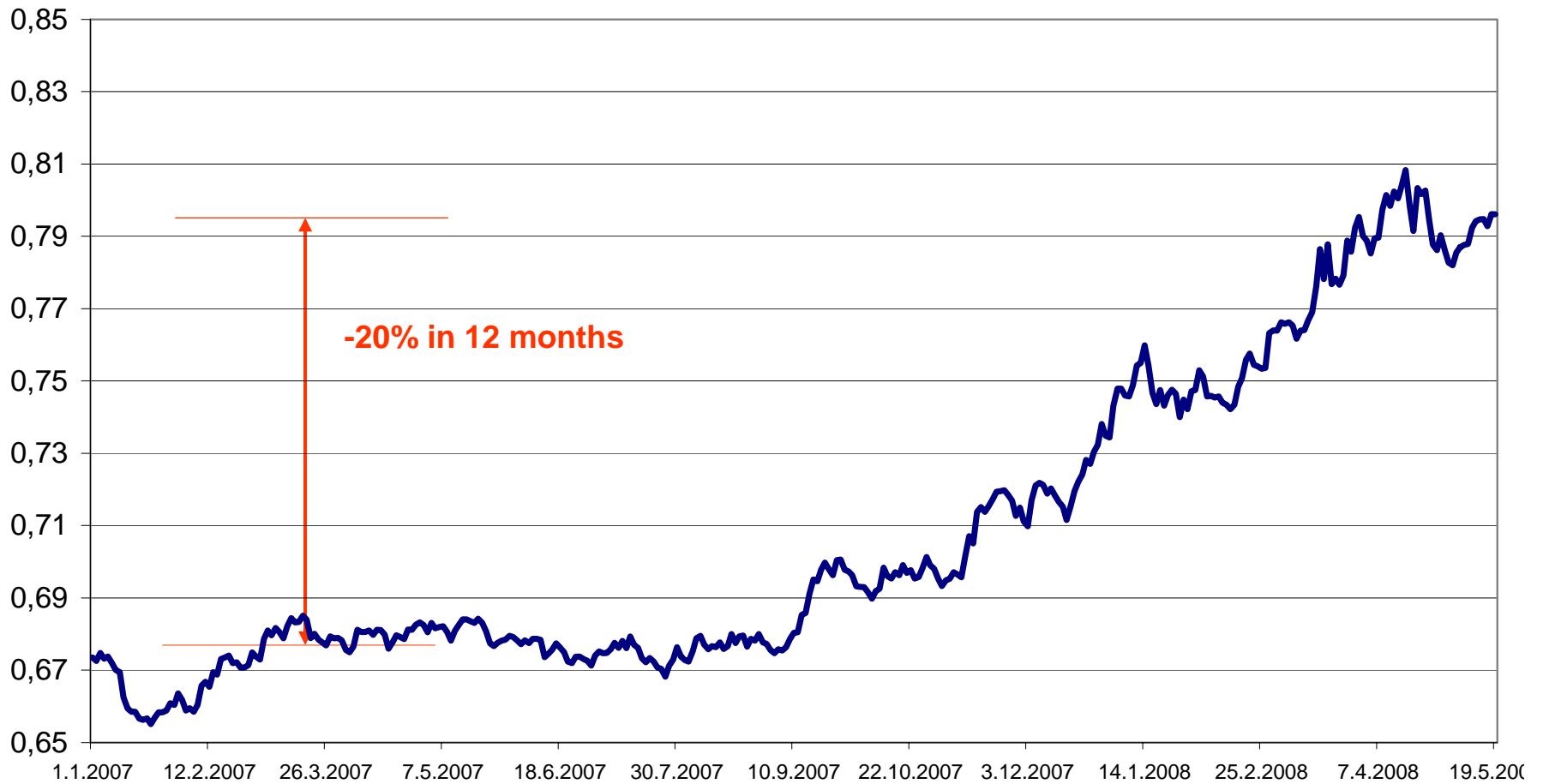
## FX exposure of the balance sheet items

In order to confine P&L effects arising from translation variance of the balance sheet items in foreign currencies, M-real has hedged the equity share of the operations nominated in foreign currencies

# USD has Weakened ~20% in 12 months



## GBP has Weakened ~20% in 12 months



# Interest Rates

- Net debt is around EUR 1,9bn
  - Average interest rate duration 4,5 months
  - Average maturity 3,3 years
- Interest rate SWAPs and option structures are used to hedge interest rate risk
  - About 90 % of the loans floating rate and 10 % fixed rate
- For majority of loans and derivatives hedge accounting is applied according to the IFRS standards

# Electricity Consumption 6,3 TWh/a, Self-Sufficiency ~60%

## Nordic Electricity

- Annual electricity consumption is approximately 4TWh and self-sufficiency increases when new nuclear power plant in Finland starts during 2011
- Hedging horizon is 36 months which is split to three 12 months periods
  - Benchmark hedging levels for each are 85%, 55% and 25%.
  - Current hedge ratios are approximately 95%, 66% and 32%, additionally 6% from 37-48m period is hedged

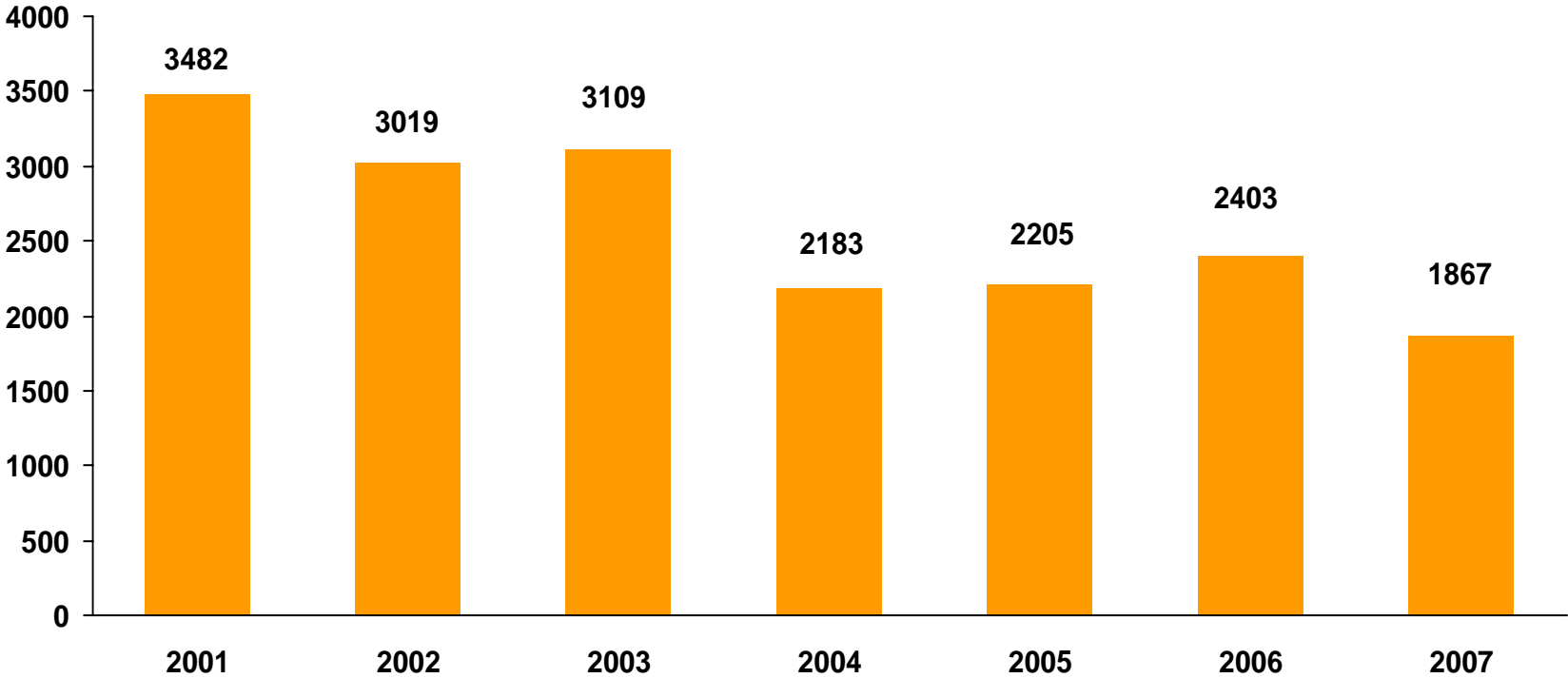
## Continental Europe Electricity

- Annual electricity consumption is approximately 1,6TWh
- Hedging horizon in Continental Europe is 36 months which is split to three 12 months periods
  - Benchmark hedging levels for each are 85%, 55% and 25%
  - Current hedge ratios are approximately 83%, 50% and 27%

# Liquidity and Financing

# Interest-Bearing Net Liabilities Coming Gradually Down

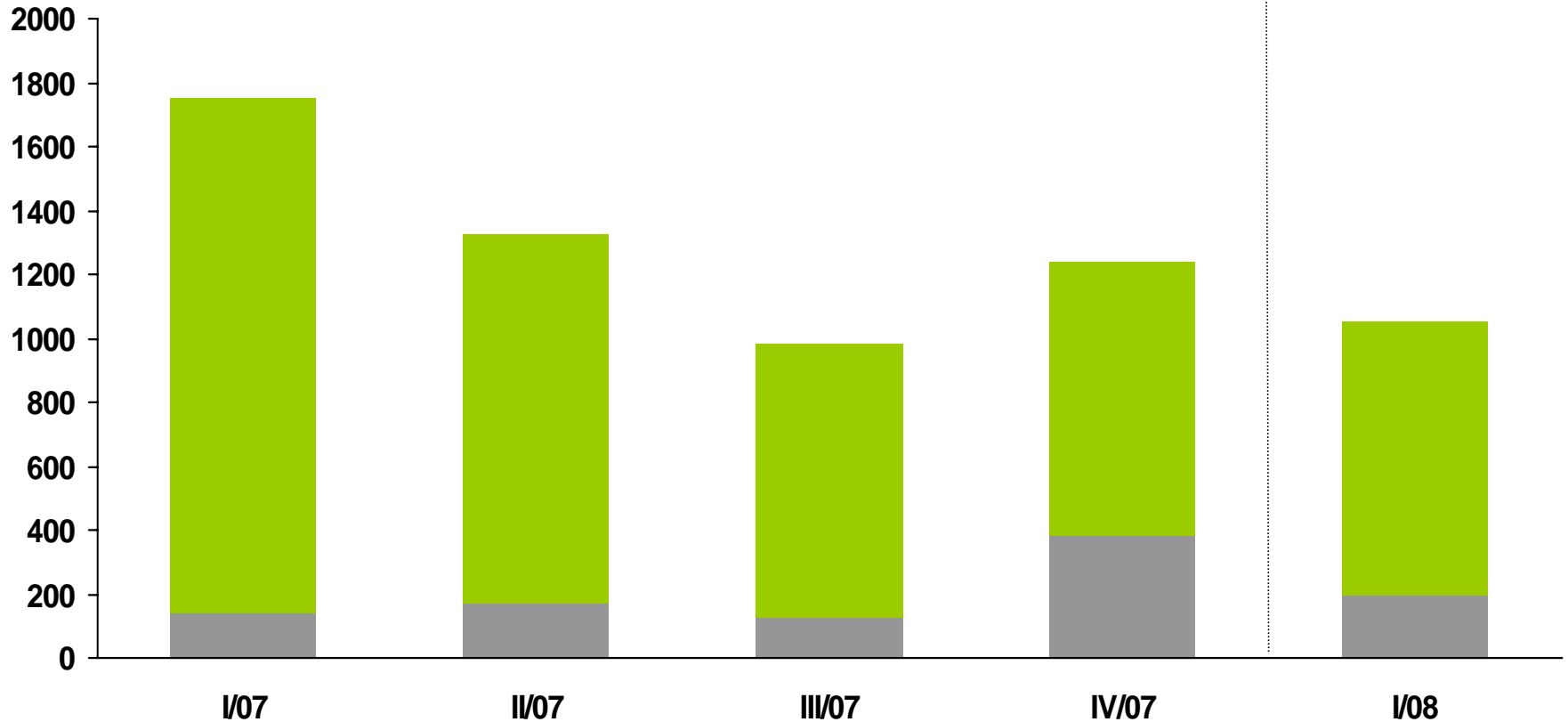
EUR, million



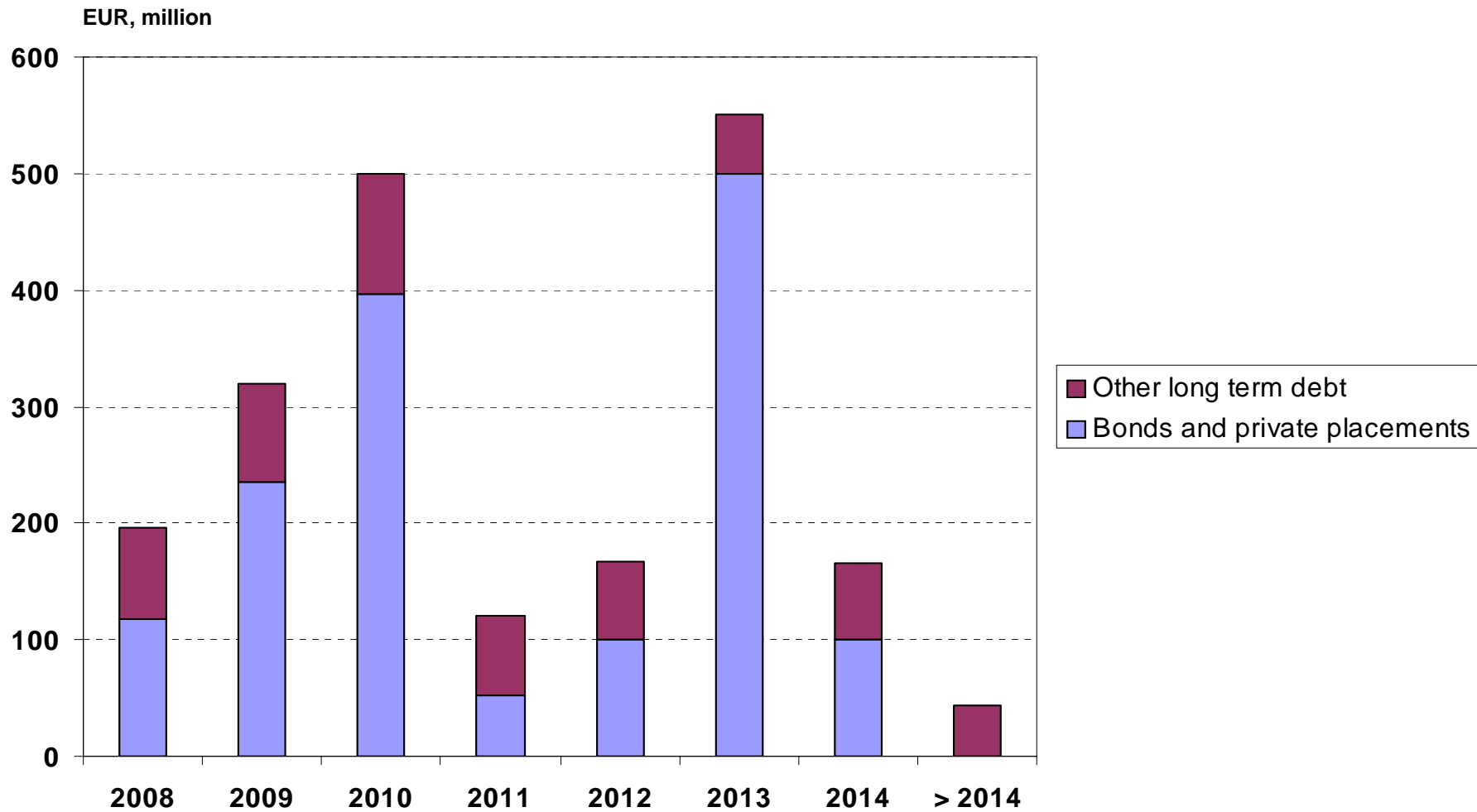
# Liquidity

- Liquid funds
- Committed long term credit facilities

EUR, million



# Maturity Profile 31.3.2008 by Debt Type



# Financing on Solid Base Mainly Thanks to Successful Divestments

- Debt repayments in 2008 and 2009 covered with proceeds from divestments
- Actions implemented to reduce refinancing needs
  - Assets worth min. 200 m€ targeted to be divested by end 1Q 2009
  - Reduction of 2008 investments to 150 m€
  - Further reduction in ONWC through complexity reduction
- Towards the end of 2008 to start the discussions with the core banks on replacing the 500 m€ credit facility maturing Dec. 2009 with a new smaller facility