



M-real

Graphic Papers-
Complexity Reduction

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Agenda

1. Graphic Papers in a nutshell
2. Operating environment
3. Simplicity and profit improvement actions
4. Outlook

Graphic Papers in a Nutshell

Graphic Papers Introduction

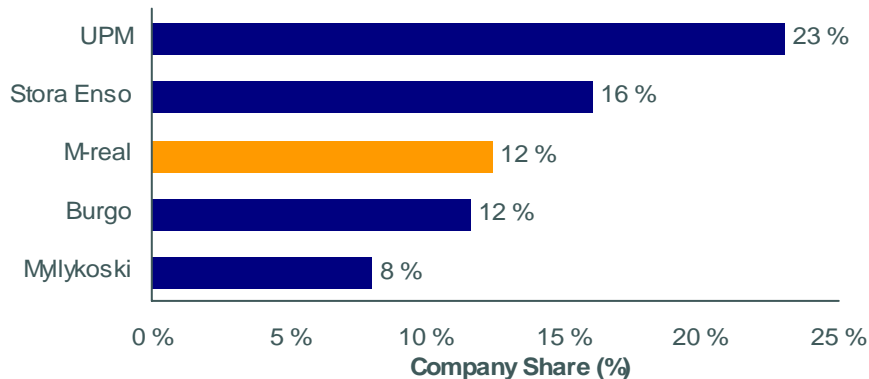
Coated Magazine Paper

- Innovative papers for magazines, supplements, directories and direct mail
- Sales mainly directly to publishers and printers

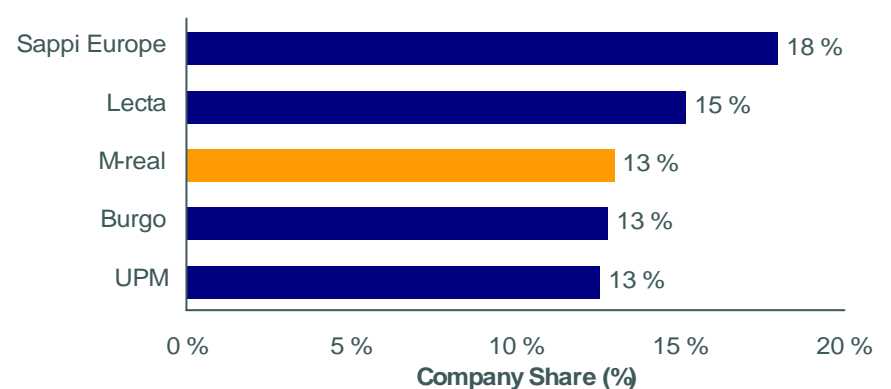
Commercial Printing Papers

- Coated and uncoated woodfree paper for a large variety of advertisement end uses
- Distribution mainly by merchants

No. 3 Coated Magazine Paper Capacity in Europe



No. 3 Coated Fine Paper Capacity in Europe



Graphic Papers' Mills

Total annual production capacity
of paper: ~3 million tons

● Coated Magazine papers:

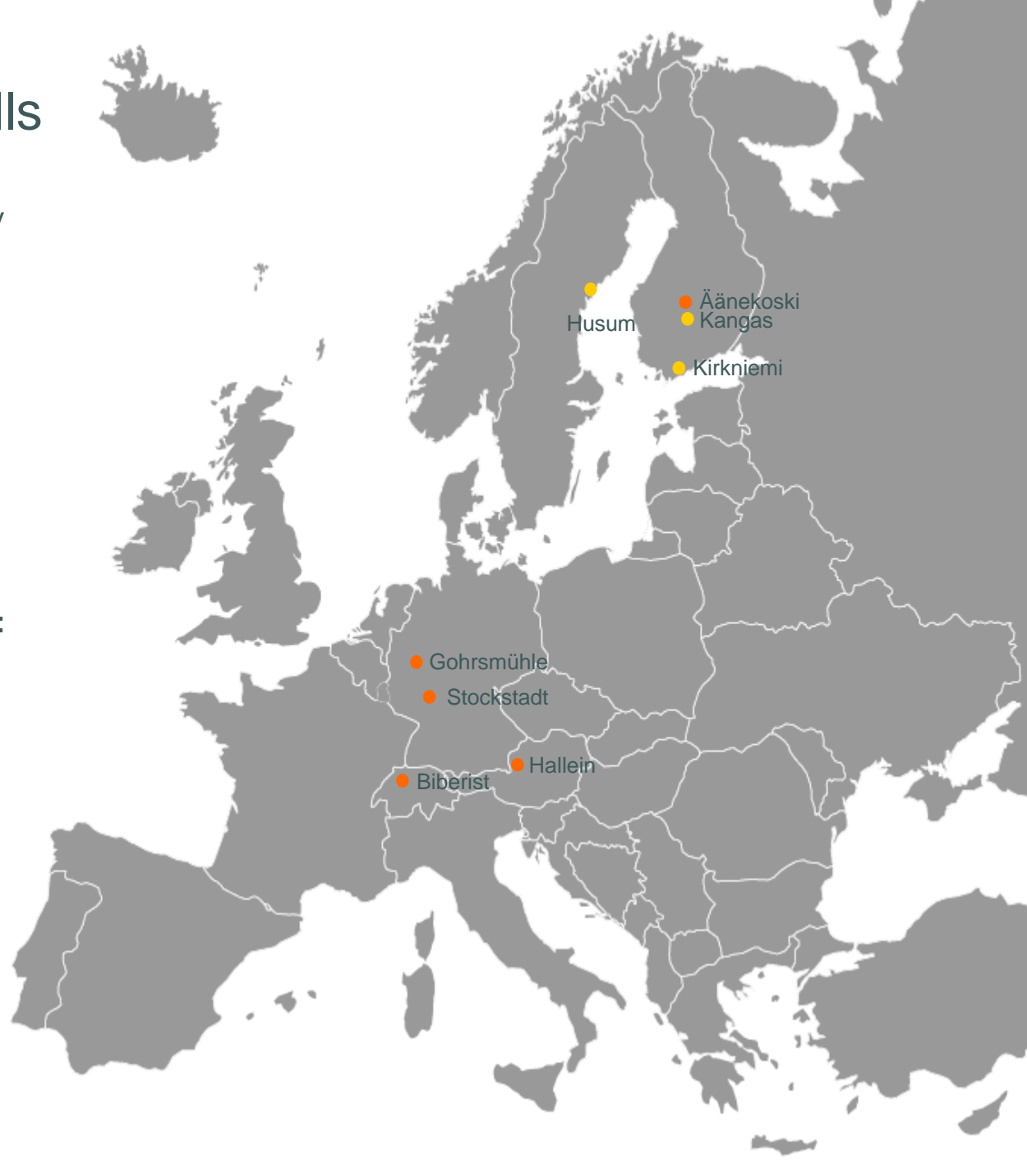
Kirkniemi, FI	820 ktn
Husum PM8, SE	270 ktn
Kangas, FI	210 ktn

Total 1,300ktn

● Coated & uncoated fine papers:

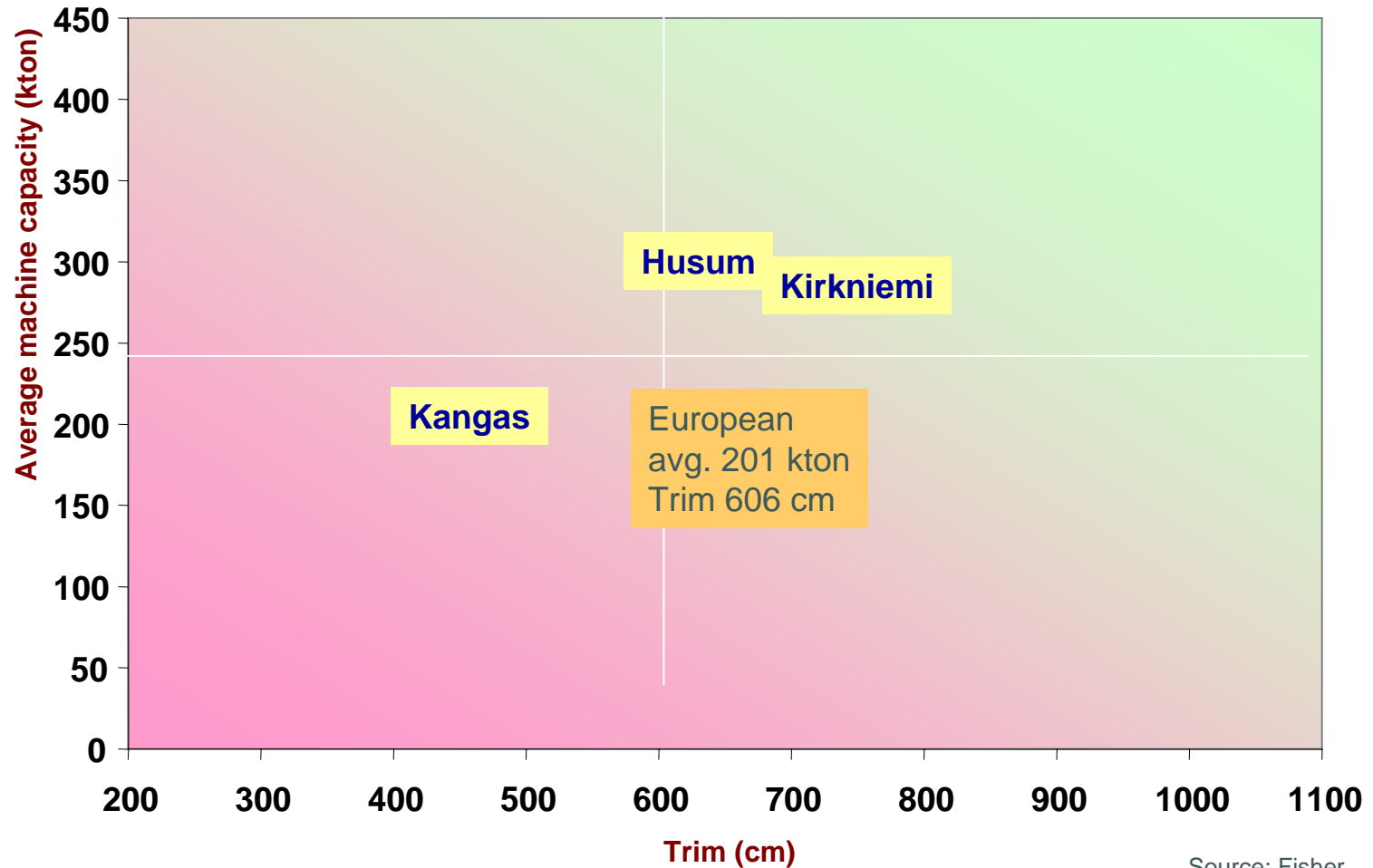
Biberist, CH	470 ktn
Äänekoski, FI	185 ktn
Hallein, AT	310 ktn
Stockstadt, DE	420 ktn
Gohrsmühle, DE	310 ktn

Total 1,695ktn



Asset Quality Benchmarking with Peers - CMR

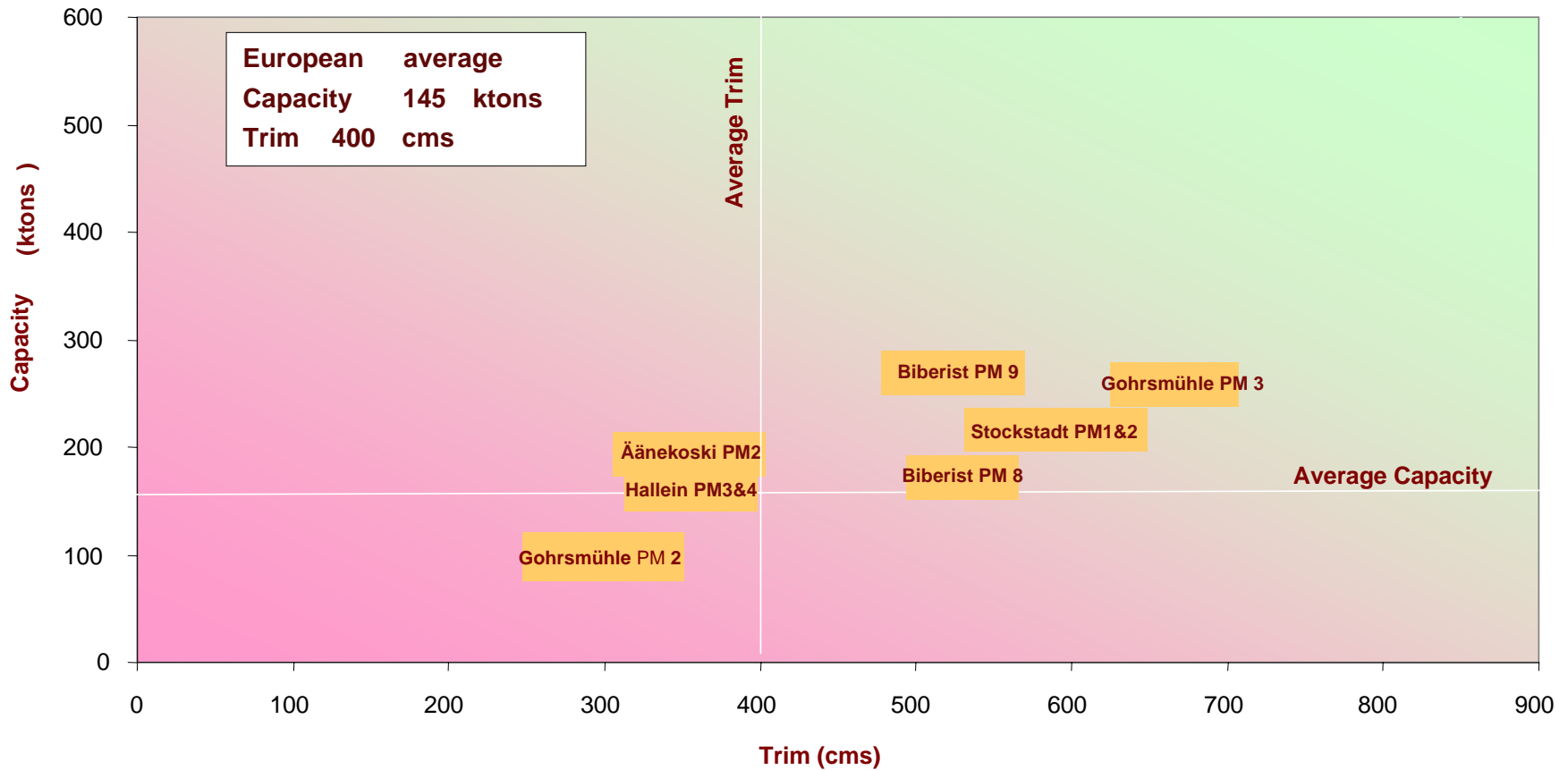
Assets are good European average



Source: Fisher

Asset Quality Benchmarking with Peers- WFC

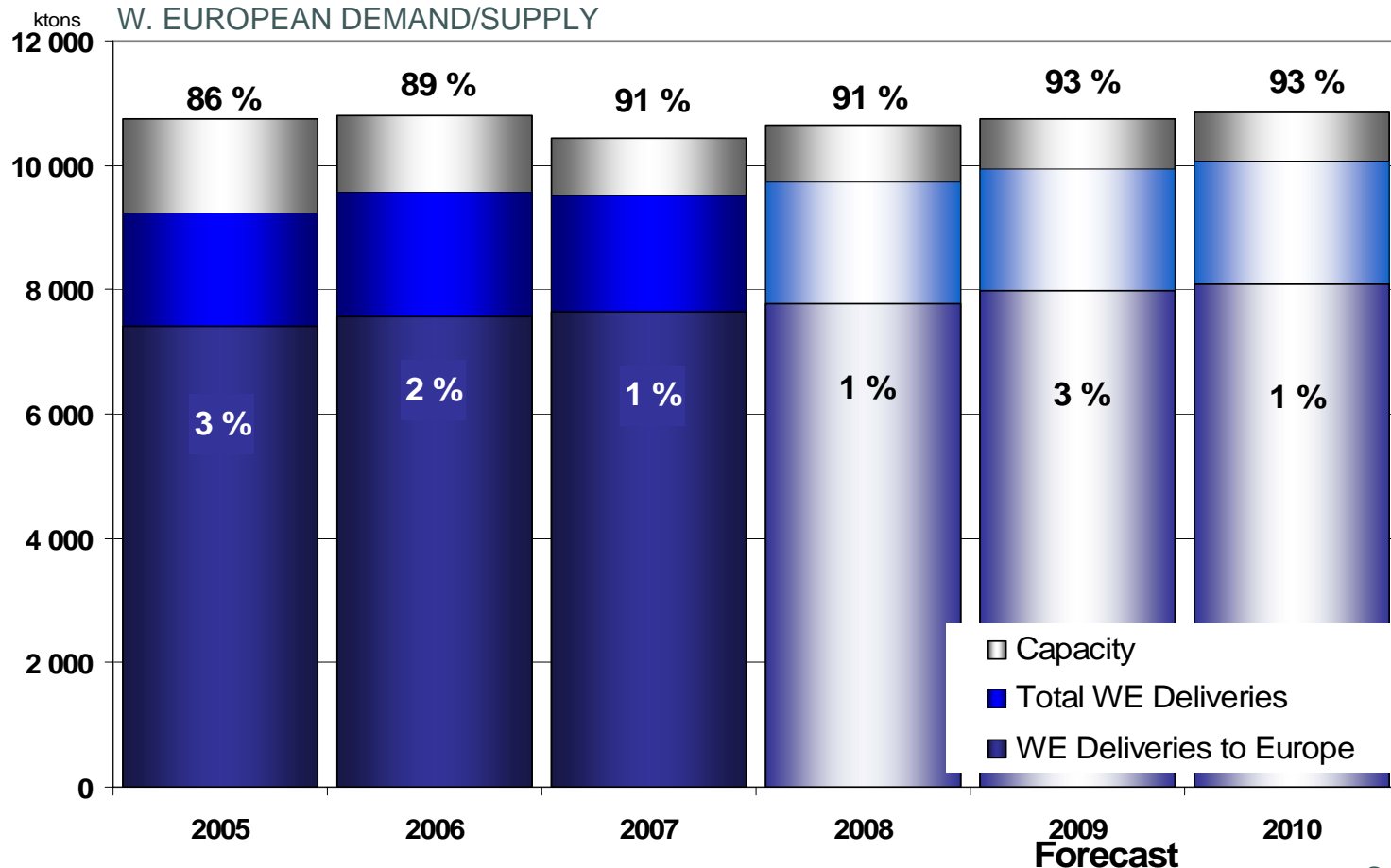
M-real WFC production lines 2007
compared to European WFC lines average



Operating Environment

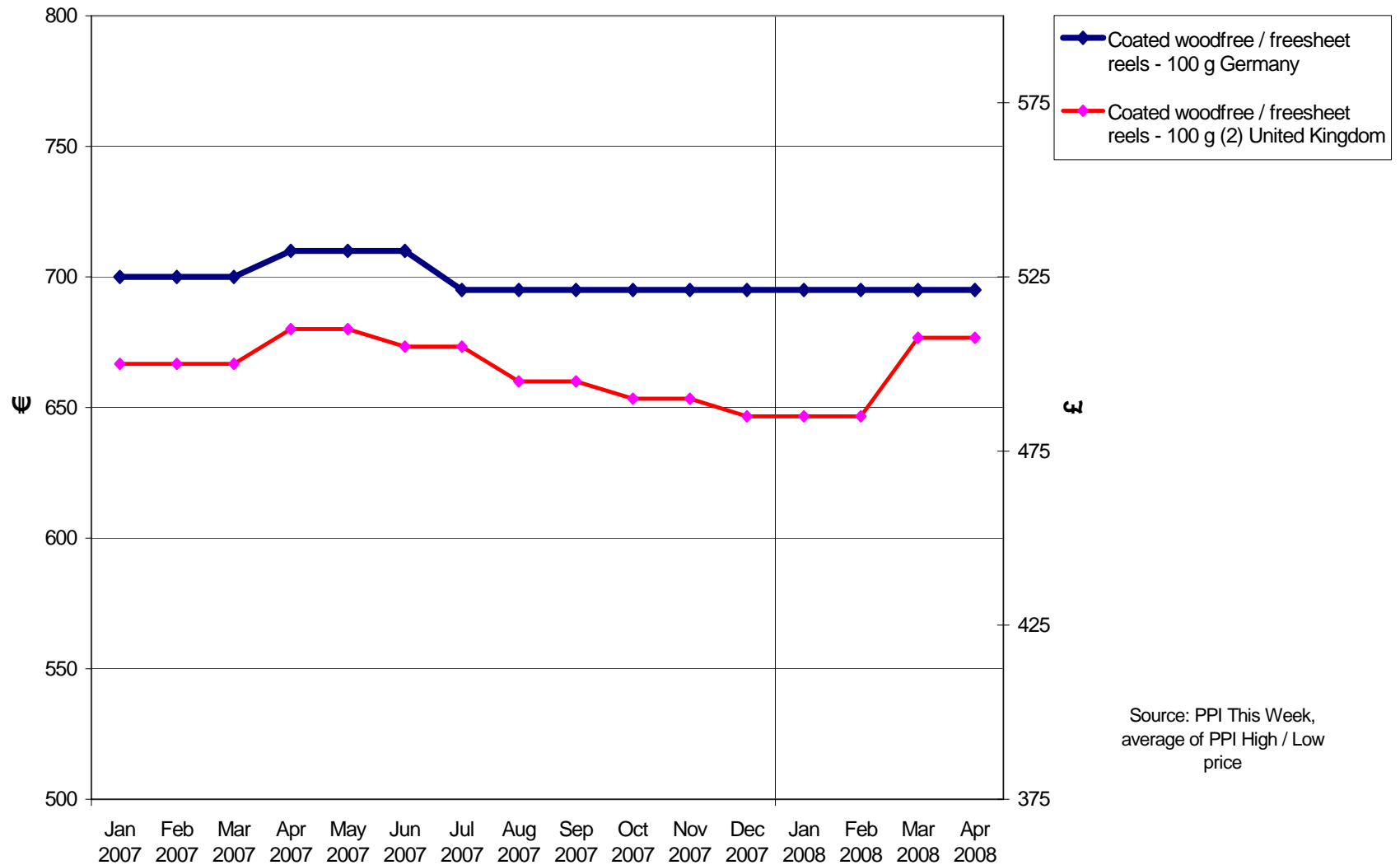
WFC Operating Rates Reasonable But Large Amount of Today's Exports Unprofitable Due to Currencies

Capacity closures, positive development in demand and grade switching will contribute positively to operating rates



Source: PPPC 3/2008

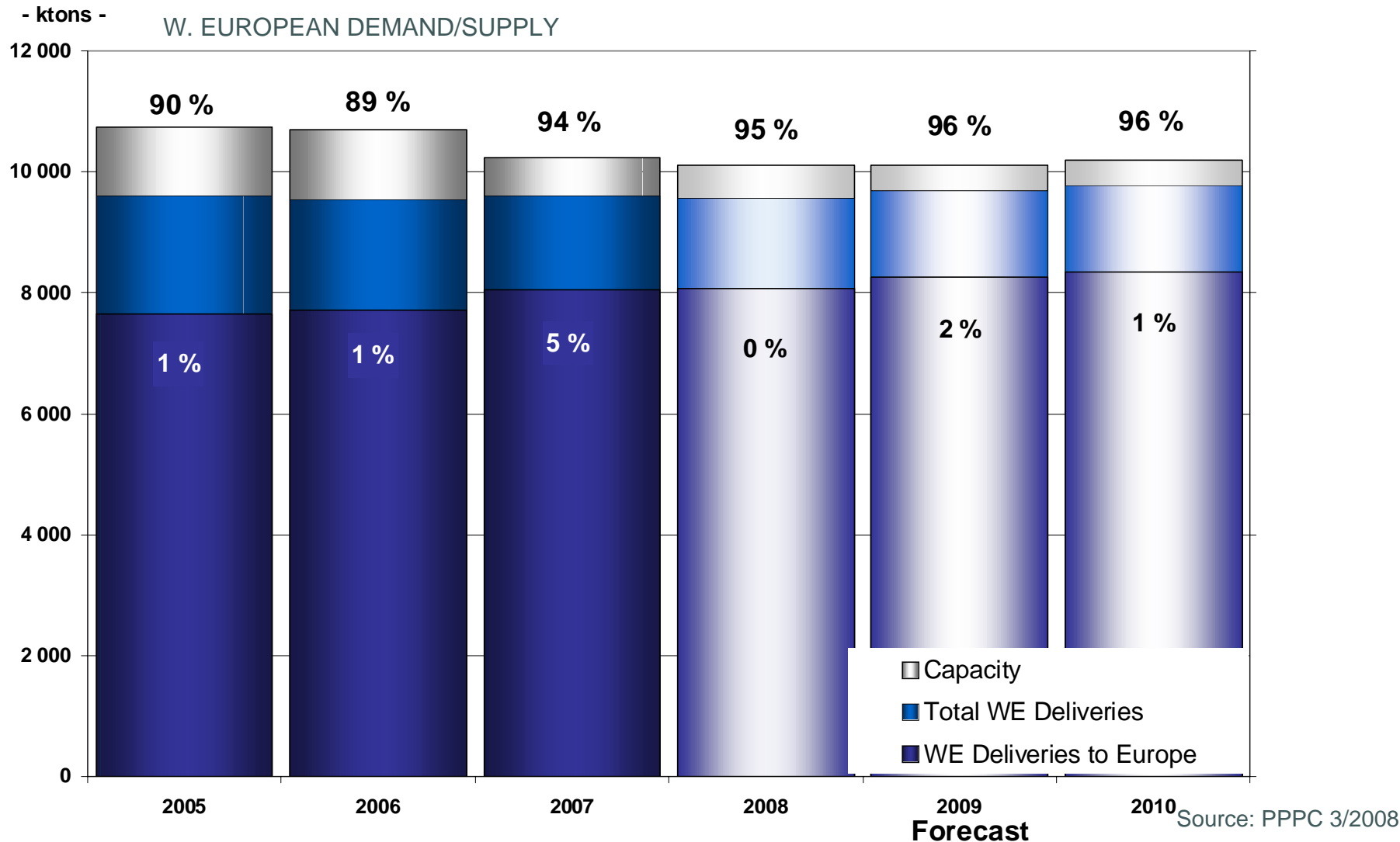
No Major Progress in WFC Price Increases in Europe So Far



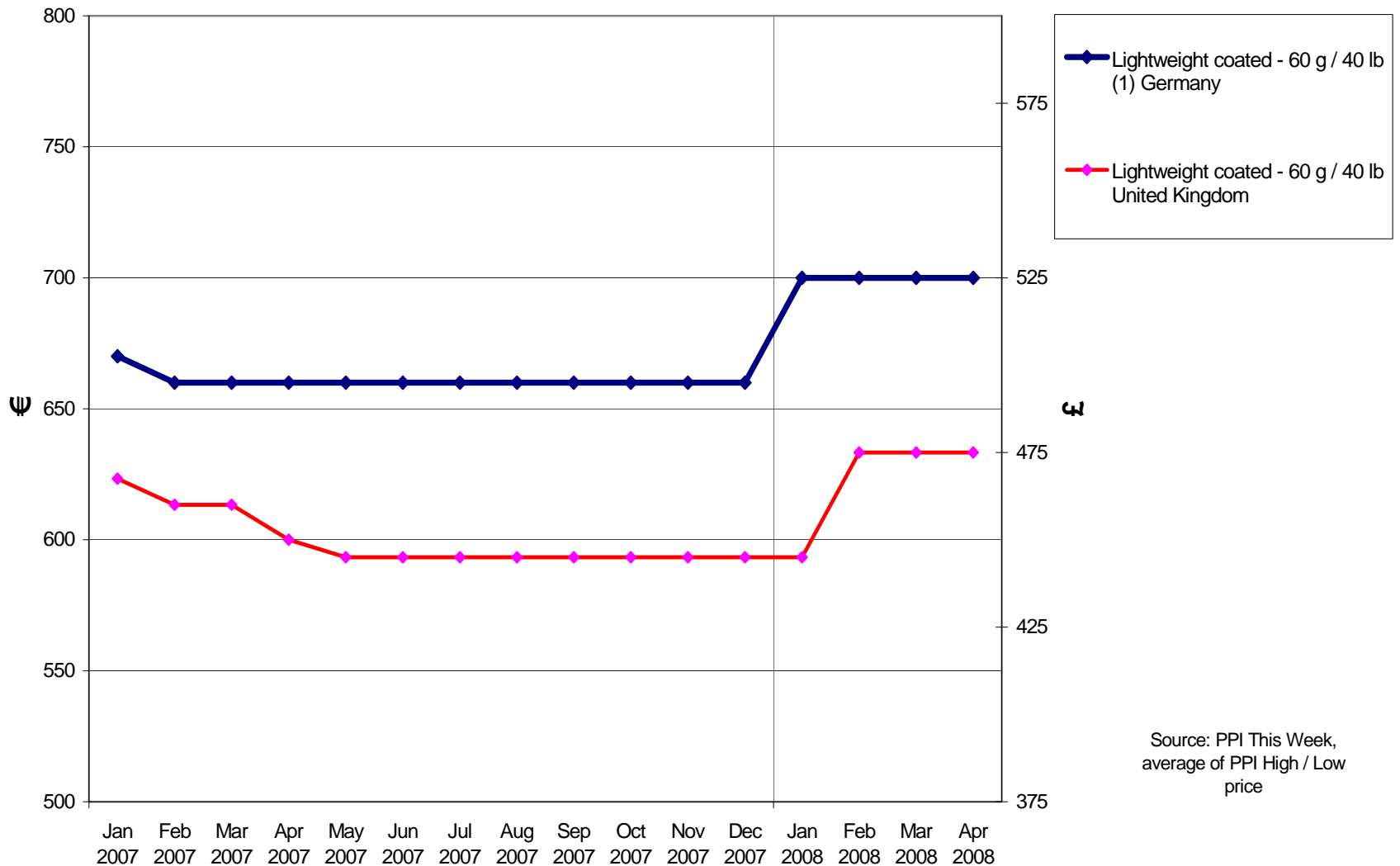
Source: PPI This Week, average of PPI High / Low price

CMR Supply/Demand Balanced

CMR operating rate expected to improve slightly due to recent capacity closures.



LWC Price Increases Implemented in Europe. Additional Increases in Process



Source: PPI This Week, average of PPI High / Low price

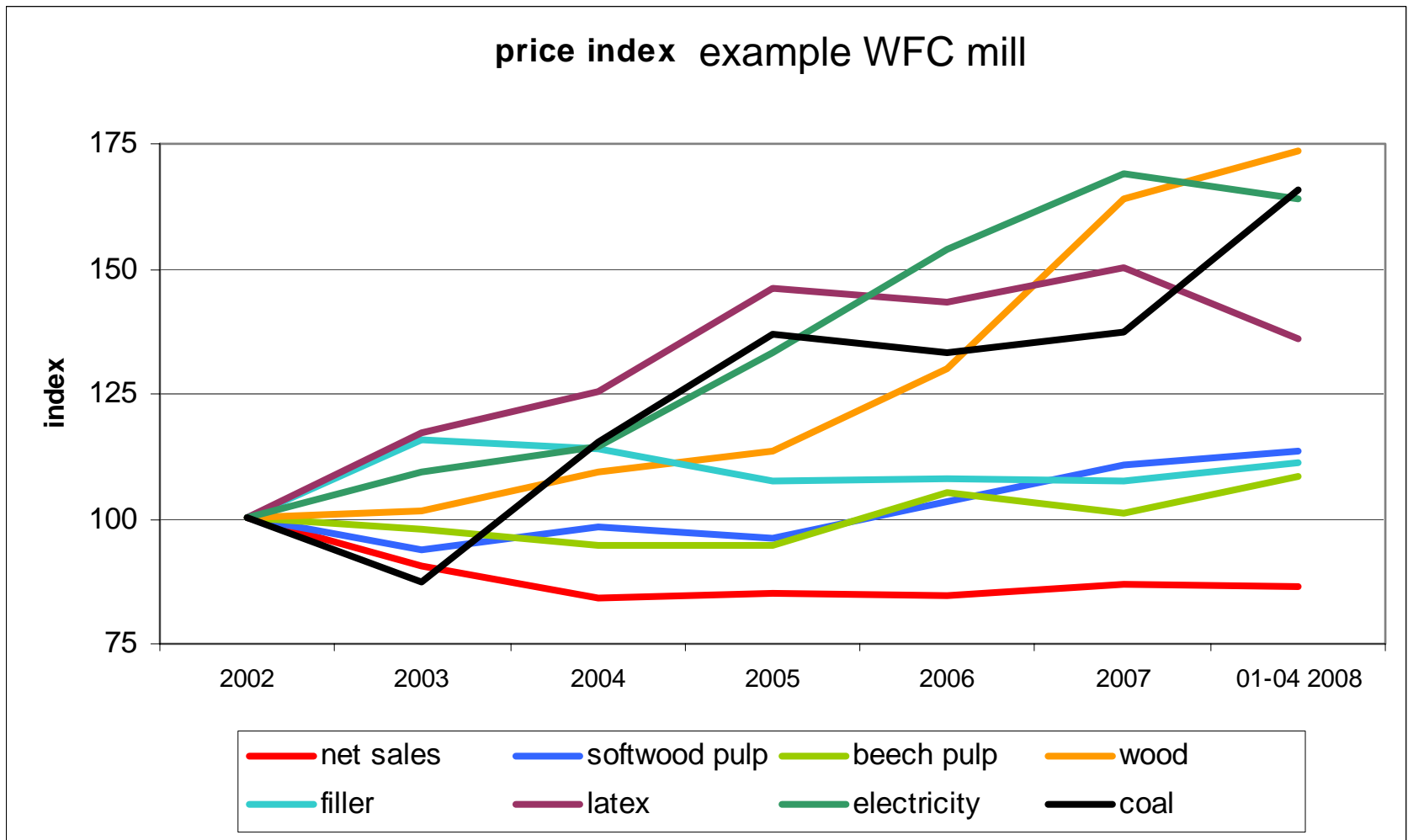
Heavy USD Drop Weakens Export Profitability



Heavy GBP Drop Weakens Profitability



Cost Inflation



Simplicity and Profit Improvement Actions

Graphic Papers Target State

**M-real to become
the most service-oriented supplier
of graphic papers in Europe**

- Most competitive service offering
- Streamlined product offering
- Competitive asset structure and production costs
- Sales concentrated around the mills

Simplicity Guidelines

- Standardize and simplify the **product range**
- Reduce **costs** through restructuring the product range and operating model
- Improve **quality consistency** by targeted investments and enhanced working practices
- Reduce **working capital** by shortening production cycles and aggressive inventory management
- Increase **sales** by creating a more effective offering to the market:
 - Better availability by improved leadtimes
 - Guaranteed service reliability
 - Guarantee of quality consistency
 - Cost pricing
 - Web enabled transactions and information
 - Easy to do business with
 - Additional services

Highlights of Magazine Paper Simplicity (Galerie Customer Program)

- Simplification of the product range (number of SKUs were reduced from 4600 to 1800)
- Shorter production cycles lead to higher product availability
- Streamlined production (one surface per machine only with limited grammage range), improved quality consistency and efficiencies
- Transfer of products successfully completed by end of March (every third ton had to be transferred to another machine)
- Successful introduction of a new paper grade – Galerie Silk from Kangas
 - Operating rate ahead of plan
 - Production efficiency on plan
 - Reduction of breakage on plan
 - Quality consistency targets on plan
 - Lower variable costs on plan

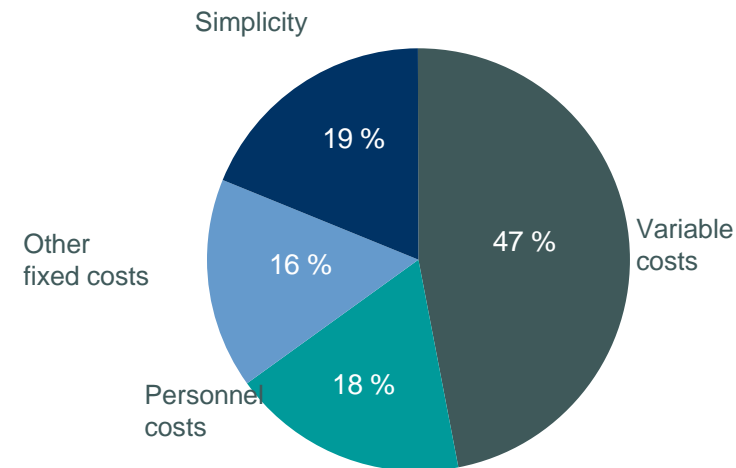
Graphic Papers Simplicity Actions Started- Great Profit Improvement Potential in Coming Years

- Complexity reduction in magazine papers in good speed through Galerie Customer Programme
 - More steps in magazine paper simplicity when Galerie Customer Programme completed
- In European coated fine paper industry and also in M-real there is even greater complexity than in magazine paper
- M-real is planning also coated fine paper complexity reduction actions
 - Overcapacity, low prices and weak profitability the driving forces
- In many cases capacity curtailments or closures are part of successful simplicity programmes

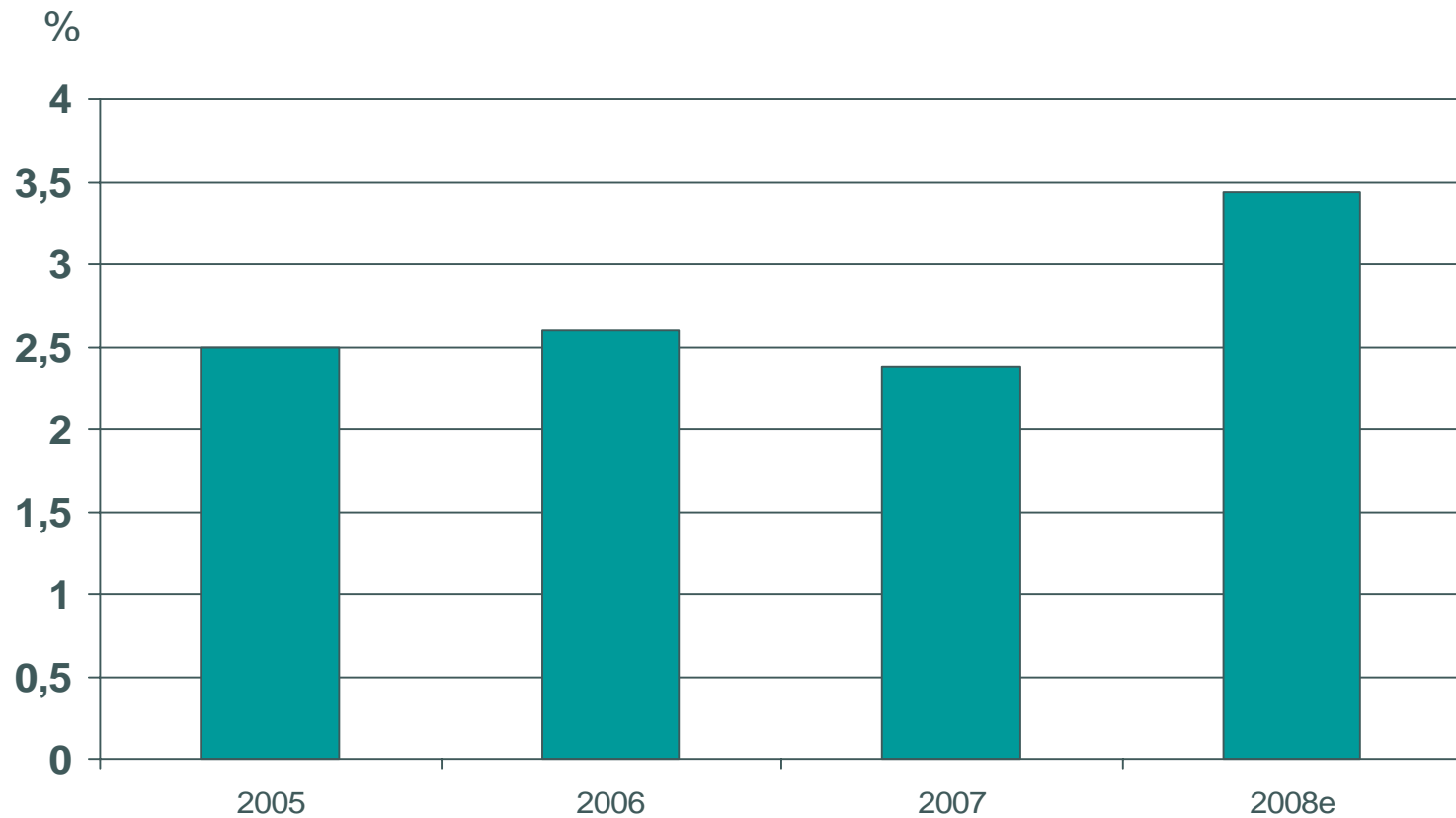
Profit Improvement Programme 2008

- Profit improvement actions in Graphic Papers
 - Galerie Customer Programme in Magazine Papers
 - Including Kangas PM2 closure
 - Complexity reduction in Fine Papers
 - Biggest variable cost savings through recipe optimisation enabled by product range rationalization
- Target to realize min. €70 million by end 2010
 - 40% P&L effect to be achieved already during 2008
- ONWC reduction mainly through smaller number of stock items
- Additional measures in planning

Savings Targets



Value of Profit Improvement Actions / Sales*



* Excludes impact of closures in 2005-2007

Outlook

Outlook

- M-real will actively continue pushing for paper price increases
- No major signs of demand softening in Europe so far, seasonally demand weakens
- Operating environment continues challenging
 - Wood and energy costs remain high
 - Weak USD and GBP
 - Overcapacity in WFC
- Uruguay pulp will significantly improve profitability
- Simplicity programmes offer great profit improvement potential
 - Graphic Papers is planning new measures
- There is a need for structural changes in European paper industry, especially in coated fine paper