

# M-real

## More Focused and Profitable Company

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European Credit Conference

November 25 2008



# Agenda

1. General
2. Successful strategic review
3. Graphic Papers divestment
4. Outlook
5. Financing
6. M-real in the future

# General



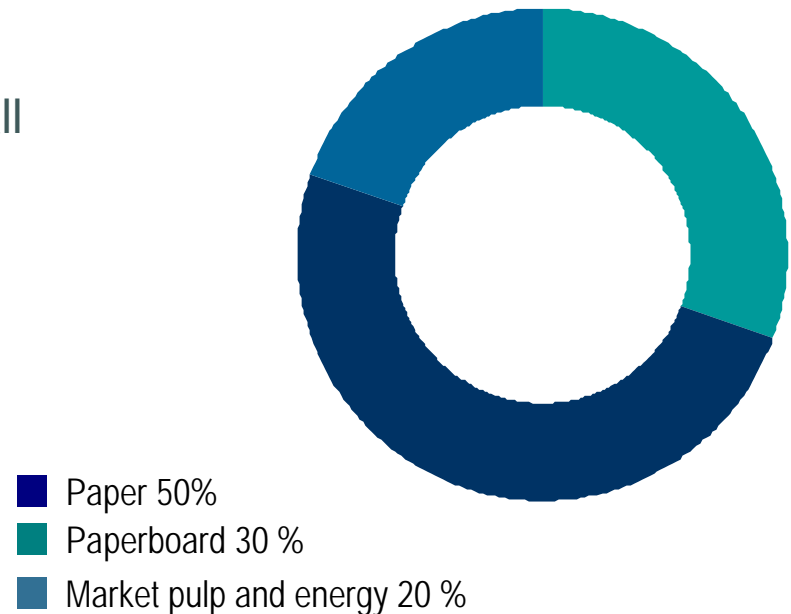
# M-real in a Nutshell

- Annual sales of about EUR 3.5 billion\*
- Pro forma personnel about 7,000\*
- Close to markets with a presence in over 70 countries
- Production units in 5 European countries\*
- ISO 14001 environmental certification for all production units
- Listed on Helsinki Stock Exchange
  - M-real is part of Metsäliitto Group

\* Includes impact of Graphic Papers transaction



Annual sales breakdown\*



# Successful Strategic Review



# Successful Strategic Review

**Step 6: Divestment of Graphic Papers,  
September 2008**

**Step 5: Self-sufficiency in pulp –  
Botnia Uruguay mill in full speed, 2Q 2008**

**Step 4: New profit improvement and complexity  
reduction programme, Nov 2007**

**Step 3: Divestment of Map Merchant Group,  
July 2007**

**Step 2: Extension of the October programme  
through Finnish restructuring, Feb 2007**

**Step 1: Extensive restructuring programme  
announced in Oct 2006**

# Implemented Profit Improvement Against Cost Inflation

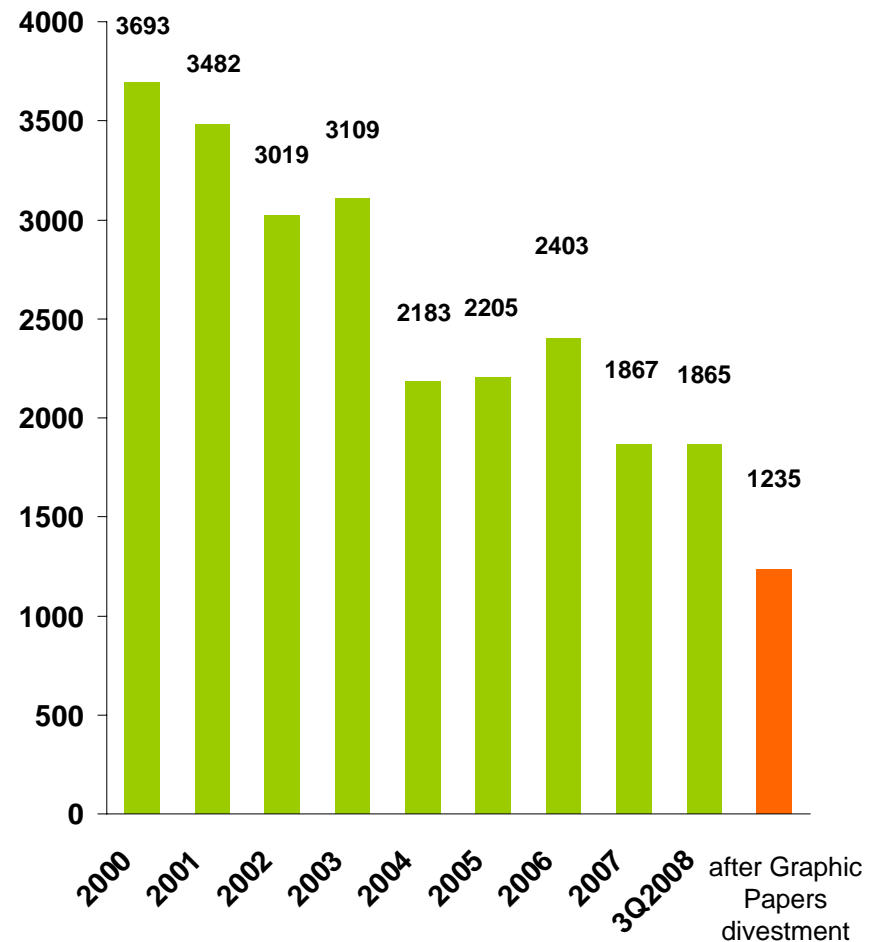
- Profit improvements during 2006-2008 (annualized)
  - 300 m€ cost savings
  - 130 m€ price increases
  - 430 m€ total
  
  - Additionally, 100 m€ ONWC reduction
- Severe cost inflation and unfavourable exchange rates 2006-2008 (annualized)
  - 370 m€ cost inflation
  - 80 m€ negative currency impact
  - 450 m€ total

## Divestments of About EUR 1,6 Billion Done in 2006-2008

# Thanks to Divestments Financing on Solid Ground in Difficult Circumstances

- Net debt halved since 2006
- No significant refinancing needs during next couple years
- Clear headroom to loan covenants

Net Debt, EUR million



# Graphic Papers Divestment



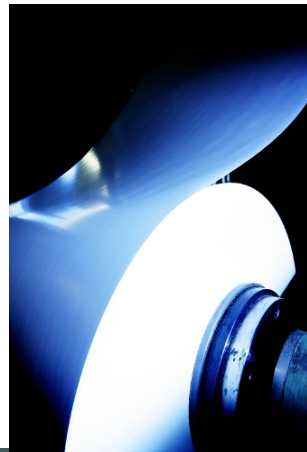
# M-real Divests Graphic Papers Business to Sappi

- Transaction includes Biberist, Kangas, Kirkniemi and Stockstadt mills
- Extensive long-term commercial agreements
  - Pulp and BCTMP supply
  - Sales contract for Husum PM8 and Äänekoski PM2 production
  - Number of other smaller service and supply agreements
- EV 750 m€
  - Cash and assumed debt 500 m€\*
  - Vendor loan note of 200 m€\*
  - Newly issued shares in Sappi worth 50 m€
- M-real shall benefit from synergies and improving operating environment of the industry
  - As a long-term shareholder in Sappi
  - Through the sale of Husum PM8 and Äänekoski capacity

\* Subject to minor changes due to adjustments of operating net working capital and net debt

# Current Status of the Transaction

1. Both EU and US competition authorities have accepted the deal
2. Sappi's EGM has accepted the transaction
3. Sappi's rights offering is being implemented currently
4. Fair chance to close the transaction by the end of the year
  - Closing anyway at the latest in 1Q 2009



# Main Annual Financial Impacts After the Transaction

## - Indicative annualized figures based on 1H 2008

Sales reduction	EUR 950 million
EBITDA reduction	EUR 15 million
EBIT improvement	EUR 65 million
<b>Profit before taxes improvement</b>	<b>EUR 120 million</b>
Reduction in Capex	EUR 50 million
<b>Net debt reduction</b>	<b>EUR 630 million</b>
Net gearing (3Q 08: 114%)	~80%
• Covenant gearing (3Q 08: 97%)	~65%
Equity ratio (3Q: 32.5%)	~38%
• Covenant equity ratio (3Q 08: 38 %)	~46%

# Future Plans for the Graphic Papers Mills Remaining with M-real

- Äänekoski and Husum PM8 continue current production that will be sold by Sappi
- Hallein and Gohrsmühle standard coated fine paper production planned to be discontinued based on earlier reviewed strategic options
- Gohrsmühle to be developed together with Reflex as the speciality paper unit
  - Gohrsmühle to expand the uncoated fine paper folio and reel production
- In Hallein M-real continues to investigate various business options with selected partners

# Outlook



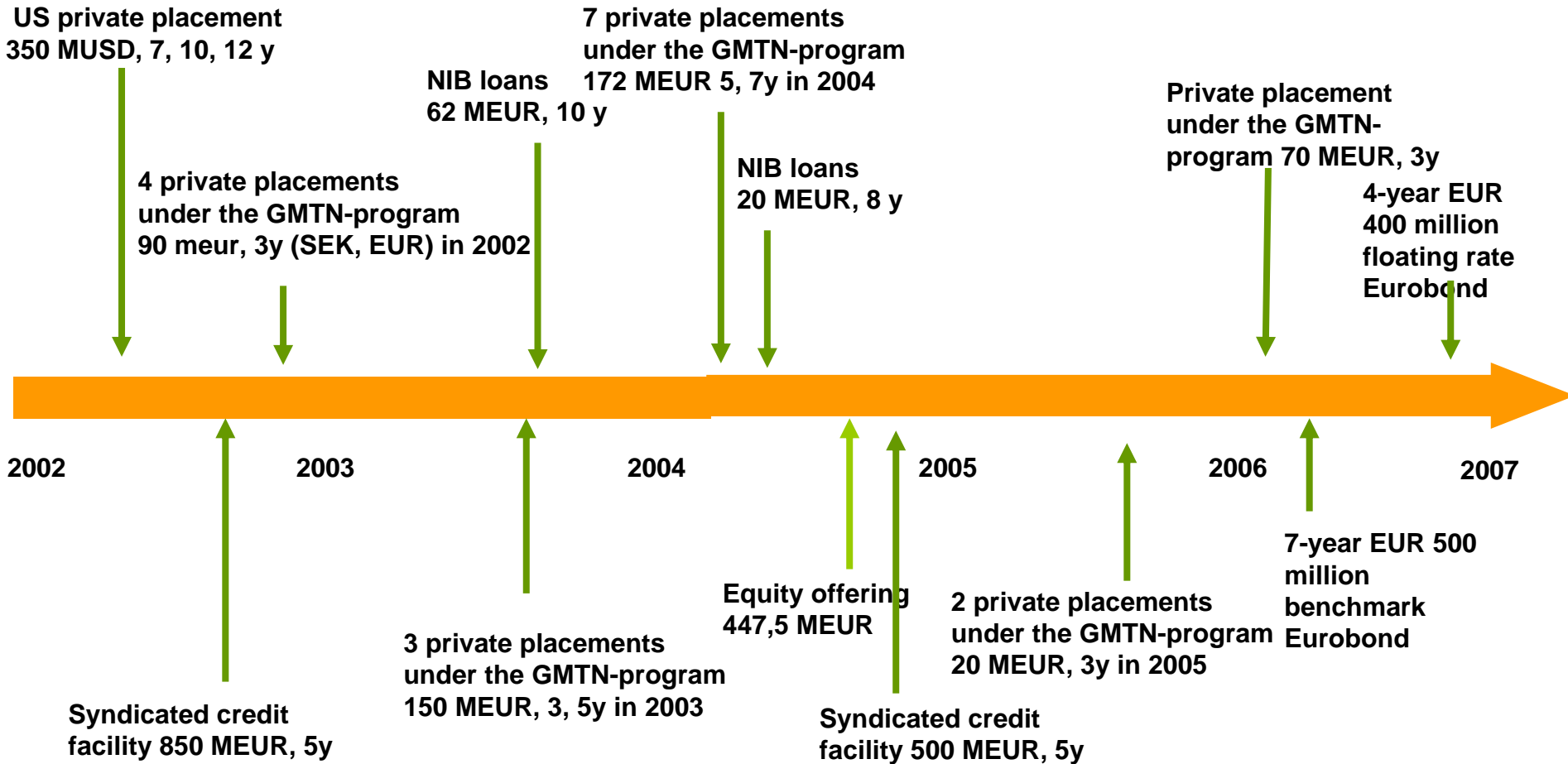
# Encouraging Outlook

- Divestment of Graphic Papers improves profitability
- Profit improvement and simplicity actions continue in remaining businesses
- Price increases in cartonboard and coated papers improve profitability
  - Some slowdown seen in the demand of certain grades recently
- Weakening euro improves future prospects
- Cost inflation does not continue as high as in last three years
- Anyhow, 4Q 2008 operating result excluding non-recurring items weakens seasonally from 3Q 2008

# Financing



# M-real Funding History

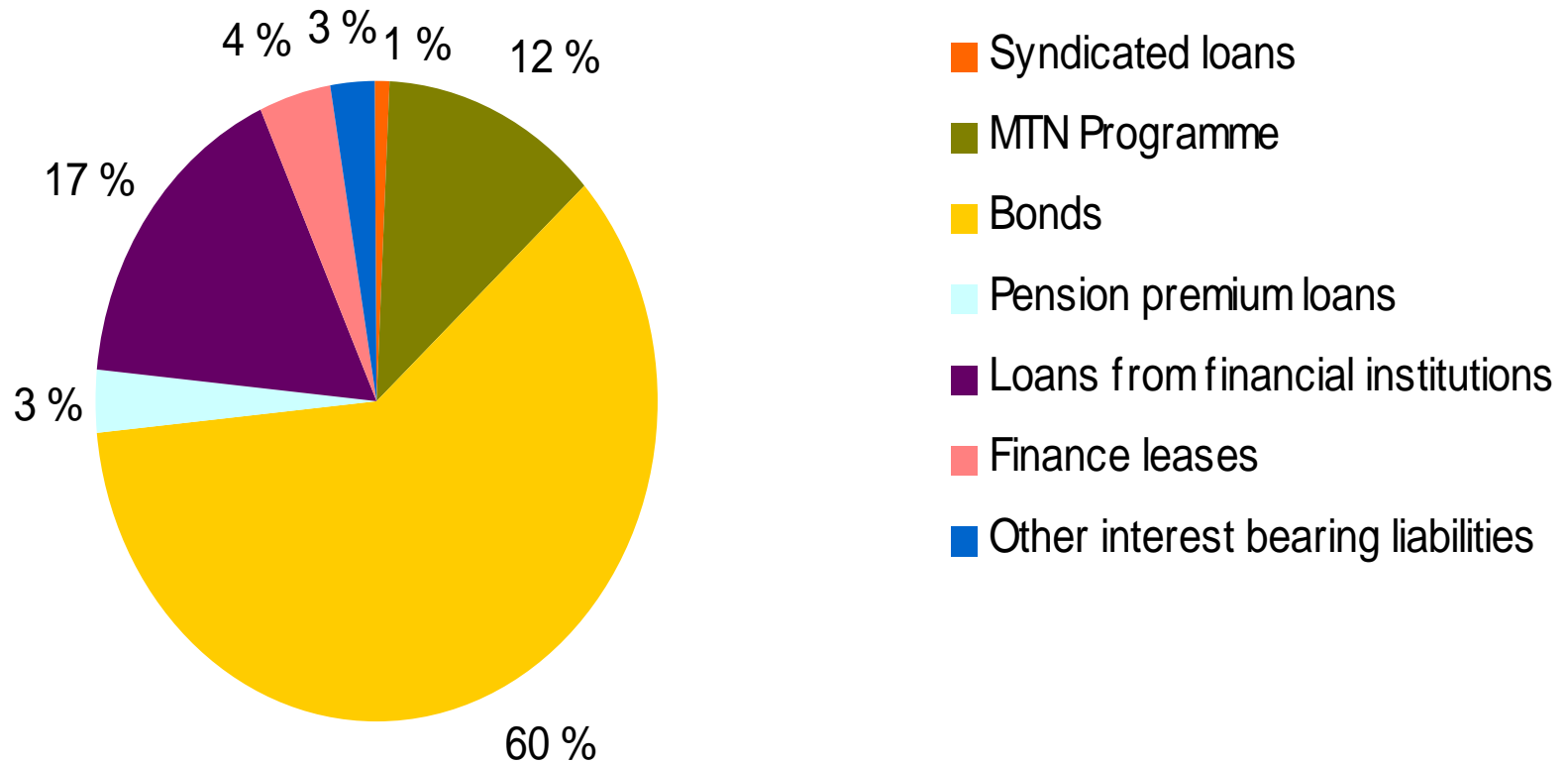


# Loans and Interest Rate

## At the end of 3Q 2008

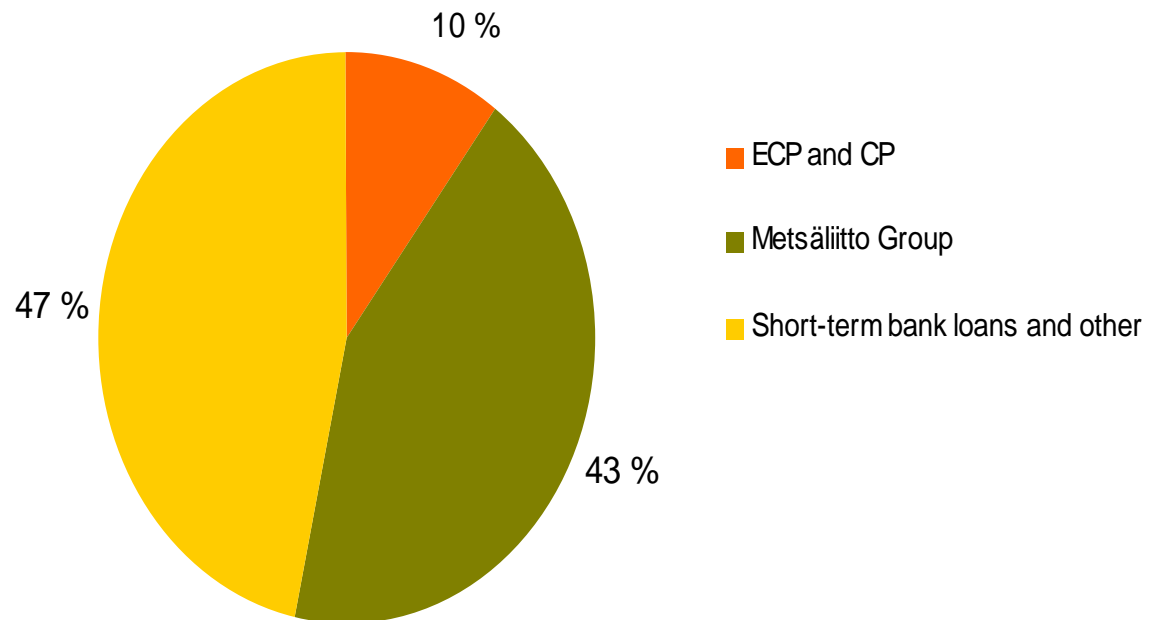
- Average maturity of long term loans 3,0 years
- Average interest rate of loans (including derivatives) 7,6 %
- Interest rate maturity of loans (including derivatives) 3,8 months
  
- Of the loans about 92 per cent was subject to variable interest rates and 8 per cent to fixed interest rates

# Long-term Interest Bearing Liabilities



**Total 2 008 m€ 30.9.2008**

# Short-term Interest Bearing Liabilities



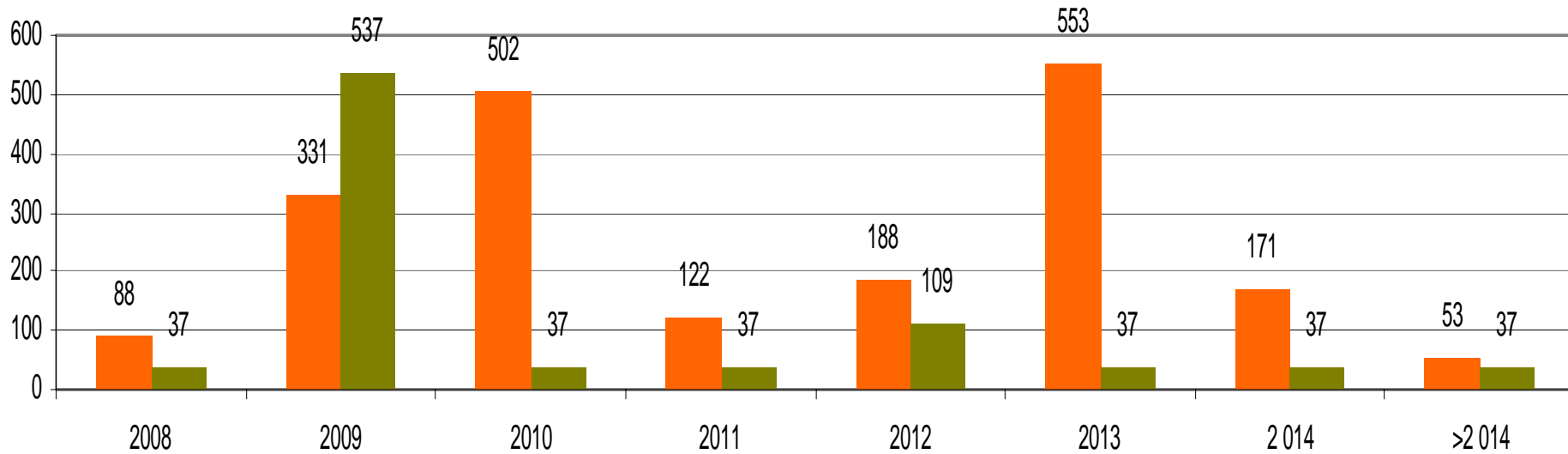
**Total 94 m€ 30.9.2008**

## Interest Bearing Net Liabilities 30.9.2008

• Long-term	2 008
• Short-term	94
• Total interest bearing liabilities	2102
• Liquidity and other interest bearing receivables	237
• Interest bearing net liabilities	1 865

# Maturity Profile 30.9.2008

m€

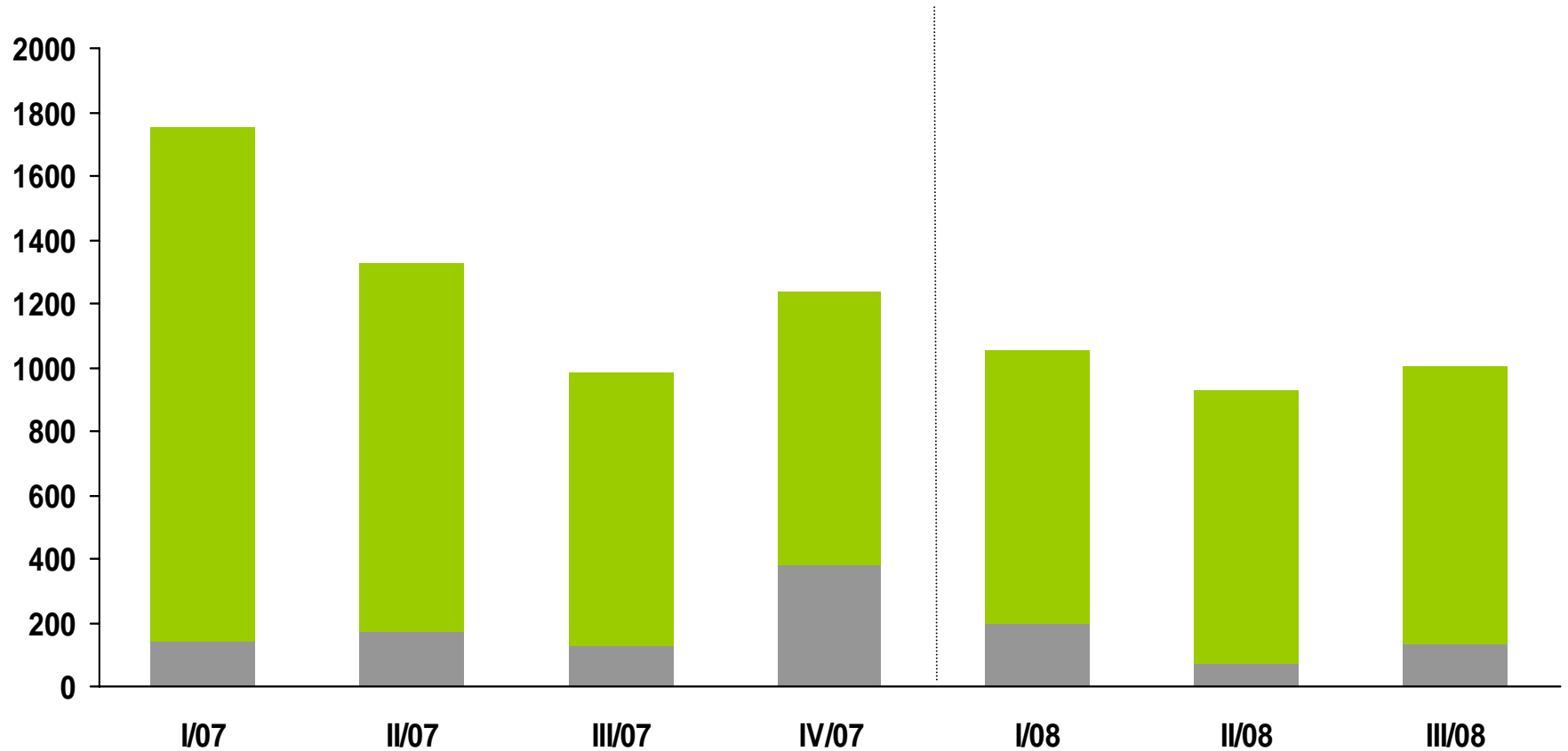


Long-term interest bearing liabilities    Committed undrawn credit facilities

# Liquidity

- Liquid funds
- Committed long term credit facilities

EUR, million

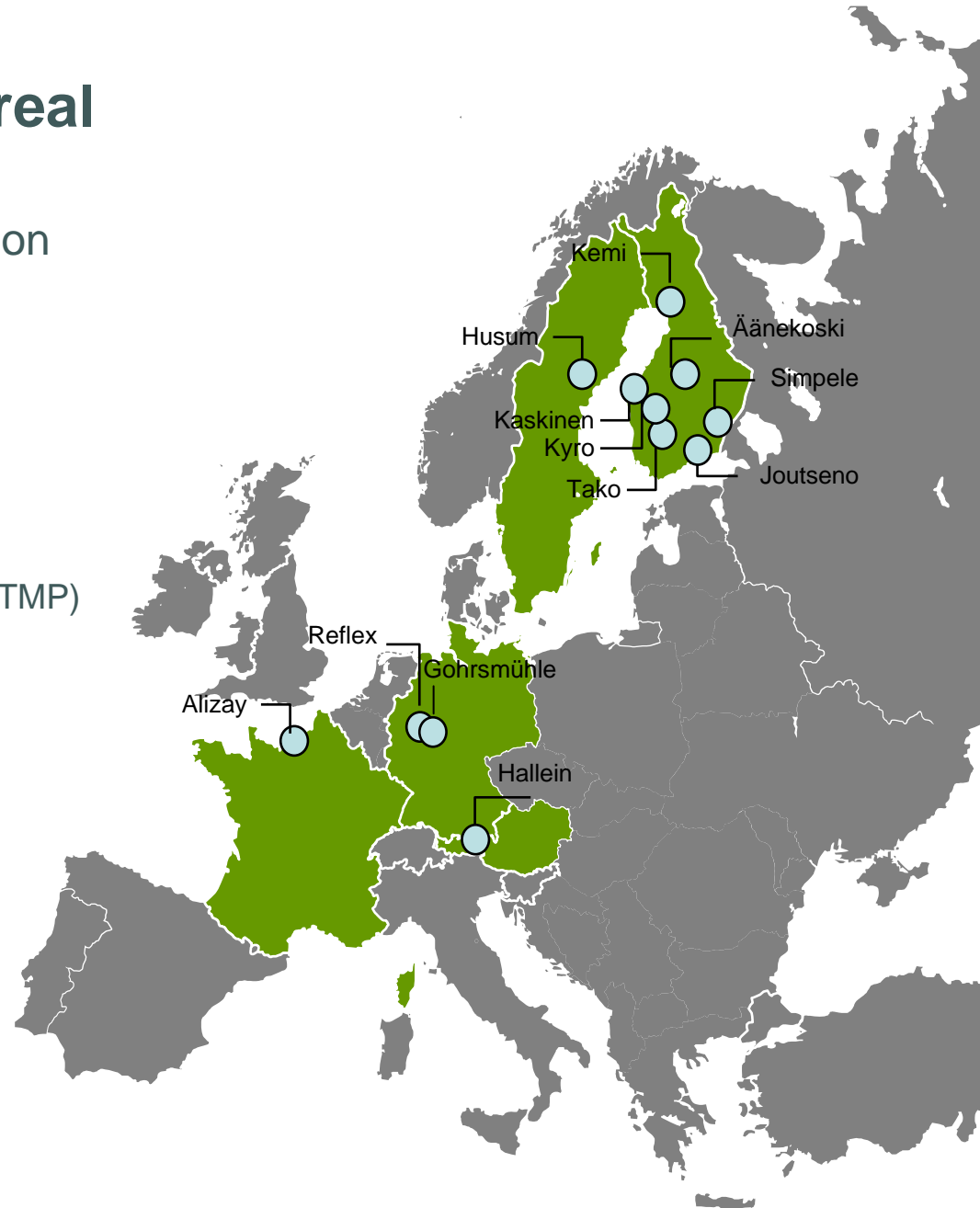


# M-real in the Future



# New Better Focused M-real

- Annual sales of about EUR 3.5 billion
- Production capacity
  - 1.2 million tons of board
  - 2.2 million tons of paper
  - 3.0 million tons of pulp  
(including 30% of Metsä-Botnia and BCTMP)
- Pro forma personnel about 7,000
- Further improved pulp and energy balance
  - Pulp to be sold to market as well
  - Valuable shareholdings in Metsä-Botnia (30%) and PVO (2,5 %)



# M-real Is the Strongest Cartonboard Producer in Europe

- Market leader with about 30 % of capacity
- Growth potential in Europe and especially overseas markets
- Profitability better than main competitors'
- Modern mills and favourable energy prices based on own energy assets
- Innovative lightweight and environment friendly products based on own high quality BCTMP pulp
- Significant profit improvements through
  - LITE4U simplicity programme
  - Restructuring of Finnish operations
- Good potential to achieve more price increases in 2009



# M-real's Vision Is to Produce Also Paper in the Future

- Husum PM8 and Äänekoski benefitting the improving market dynamics in *coated papers*
- M-real is a leading *speciality paper* producer in Europe
  - Speciality paper business profitability better than other paper grades'
- *Uncoated fine paper* market experiencing changes
  - A lot of capacity is being closed down
  - Some capacity additions as well
- Strategic review of the paper business continues
  - Still good opportunities for interesting deals



# Summary

- M-real is the strongest cartonboard producer in Europe
- M-real's profitability and financial situation improving significantly after closing the deal with Sappi
  - Additional improvement through new cost savings, complexity reduction measures and Hallein & Gohrsmühle development
- Encouraging outlook thanks to price increases, weaker euro, lower cost inflation and own profit improvement actions

A woman with short dark hair and blue eyes is holding a white sign with the word 'IMMAGINE' in large, bold, black letters. She is also holding a black and white patterned hat with a dog's head (possibly a dachshund) peeking out from under it. The background is a solid blue color.

**Thank You!**

**Q&A**

**m·real**