

A photograph showing two hands exchanging a document. The document has a green logo with the letters 'CFO' and some abstract shapes. The background is a white wall with a round clock and a staircase railing.

# CFO's Notes

Matti Mörsky

Capital Market's Day  
8 September 2011

# Content

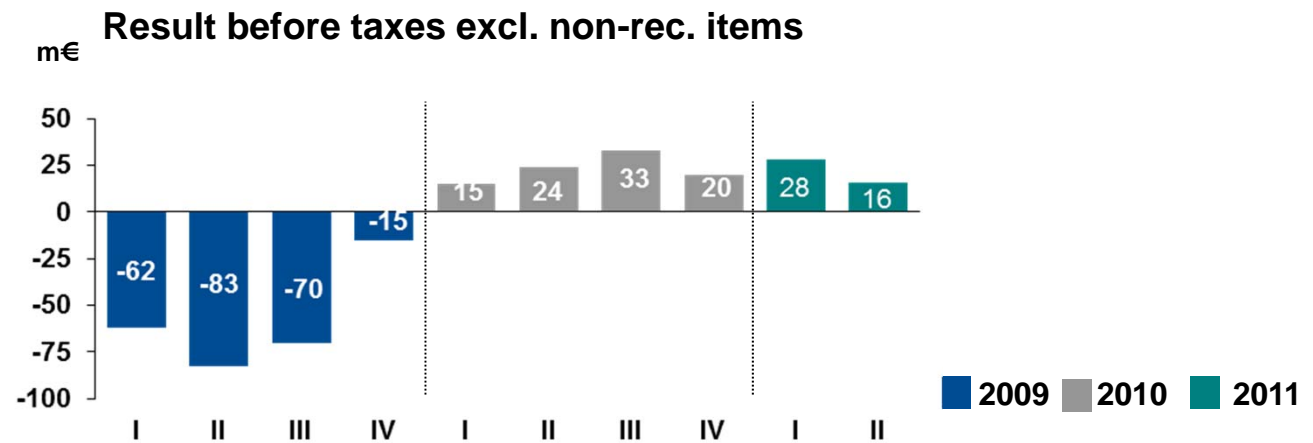
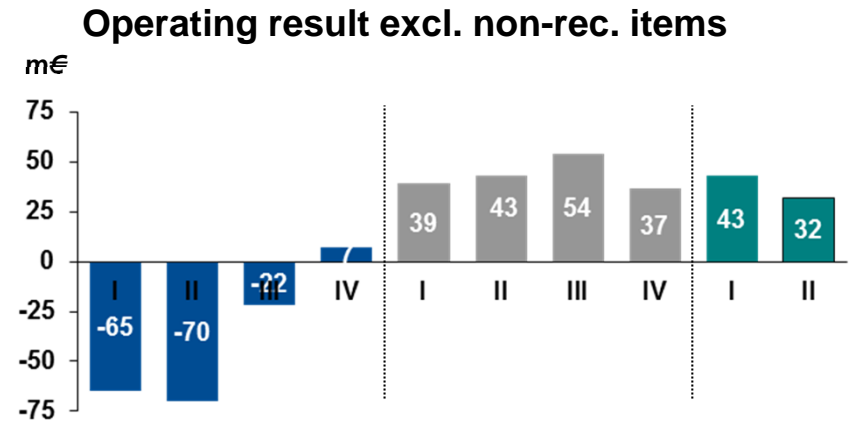
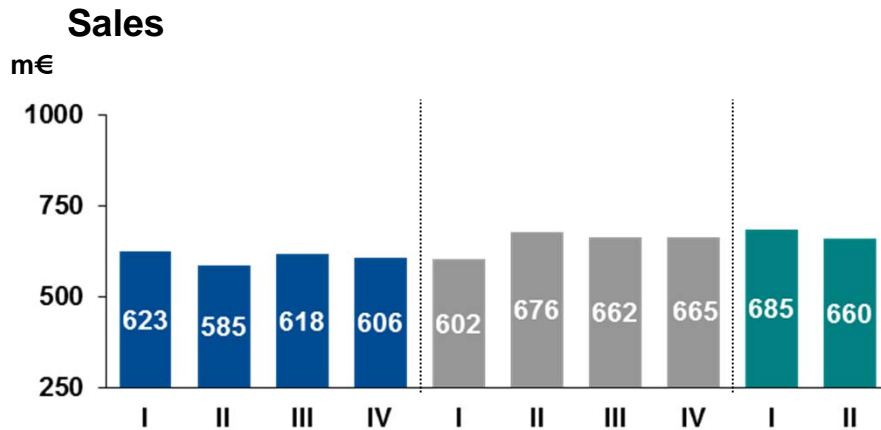
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1. Profitability Development
2. Cost Inflation and Profit Improvement Operations
3. Financing

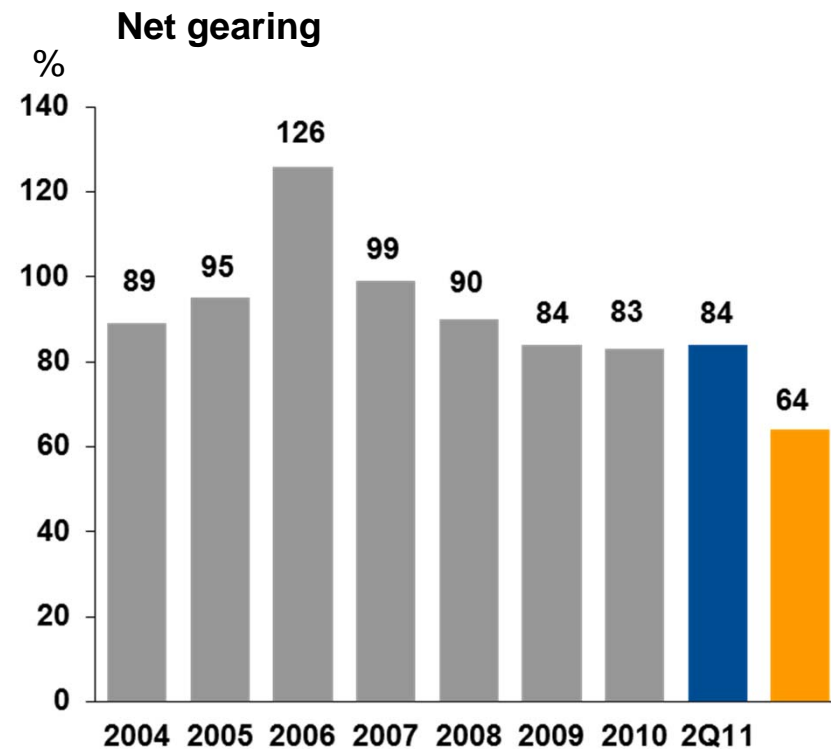
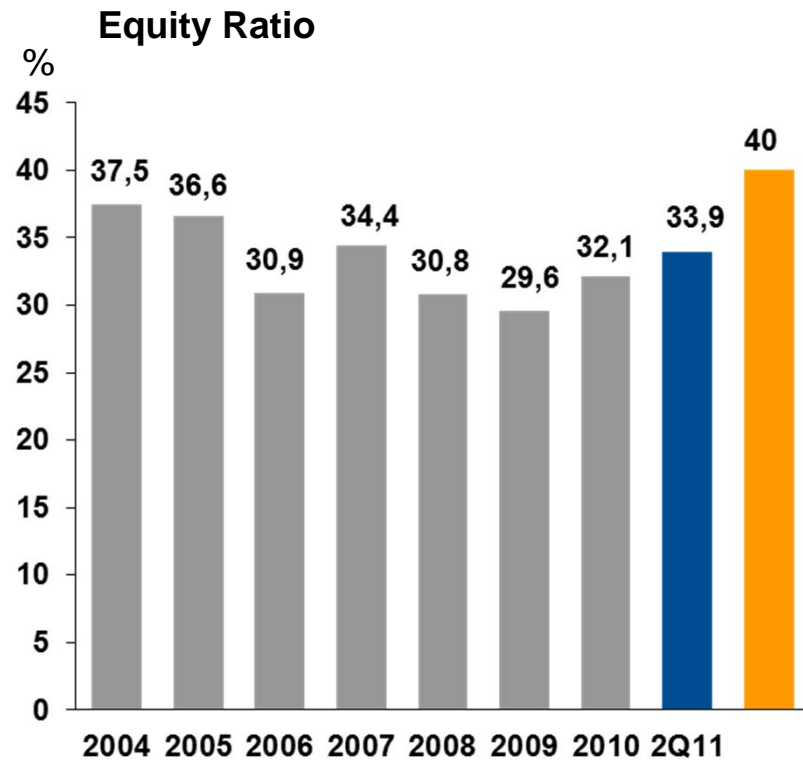


# Profitability Development

# Key Figures – Quarterly

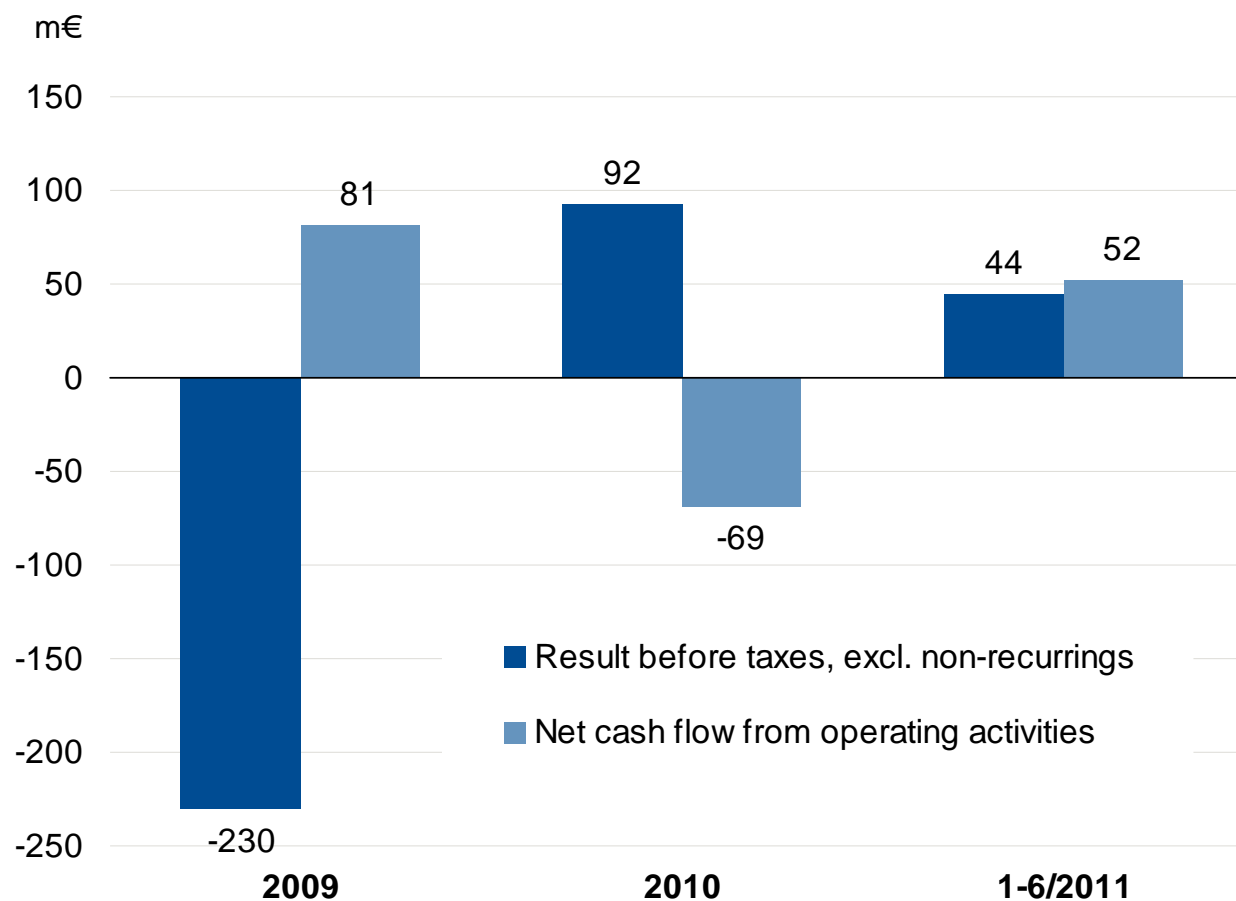


# Balance Sheet Ratios



■ 2Q11 calculated as defined in the loan agreements

# Cash Flow Improvement Behind the Profitability Turn-Around



# Reduction of the Share Premium Account

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- In August, M-real reduced the share premium account in operating capital by transferring all funds in the account, or EUR 663,812,052.56, to the company's non-restricted equity reserve
- M-real aims at paying a dividend of at least 1/3 of the EPS on average over the business cycle while taking into account the Company's gearing target



# Profitability Outlook

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M-real's 3Q 2011 operating result, excluding non-recurring items, is expected to weaken clearly from 2Q 2011

- Worsened paper and pulp market situation
- Planned measures at Alizay and Speciality Papers
- Investment and maintenance shutdowns at Botnia's pulp mills

Profitability of board production is expected to be good also in 3Q 2011





# Cost Inflation and Profit Improvement Operations

# Cost Inflation Requires Heavy Profit Improvement Actions

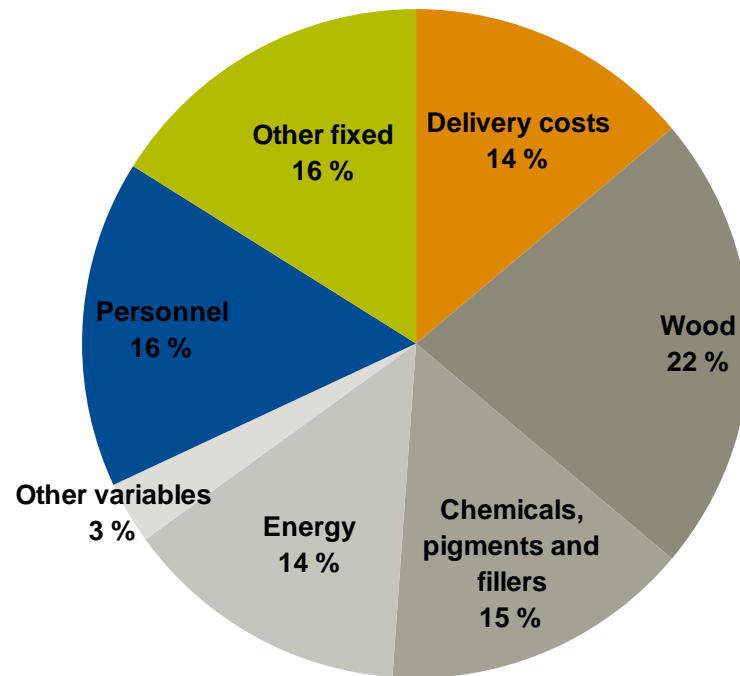
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- Cost inflation has accelerated and is now estimated to be about 5% in 2011
- M-real has in the pipeline several actions to mitigate impacts of the cost inflation and to enhance profitability
  - Savings in fixed and variable costs
  - Profit improvement from revenue increase
- Variable cost reduction offers significant potential also in the future
- M-real's own actions incl. impact of previous years' programmes are expected to mostly cover the cost inflation in 2011

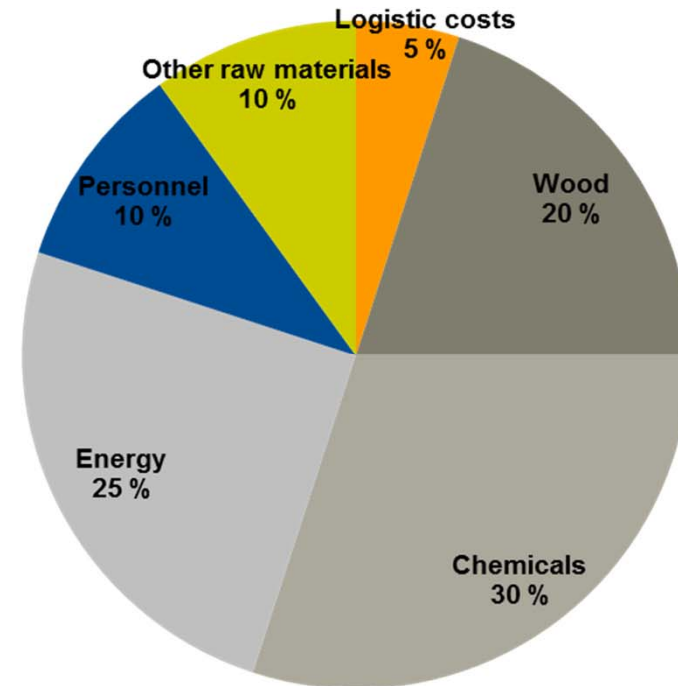


# Chemicals, Wood and Energy Driving Cost Inflation

**M-real Cost Structure 2010**



**2011 expected 5 % cost inflation distribution**



Total annual costs in industrial operations ~ EUR 2 Billion

## 2011 Result Expected to Be Boosted by 90 m€ vs. 2010 Due to Profit Improvement Programs

Profit impact vs. 2010, m€	total target	Cumulative	
		2011	2012
1 Profit improvement programme 2011	70	30	70
2 Rollover impact of 2010 profit improvement programme	40	40	40
3 Rollover impact of older programmes	20	20	20
<b>Total</b>	<b>130</b>	<b>90</b>	<b>130</b>

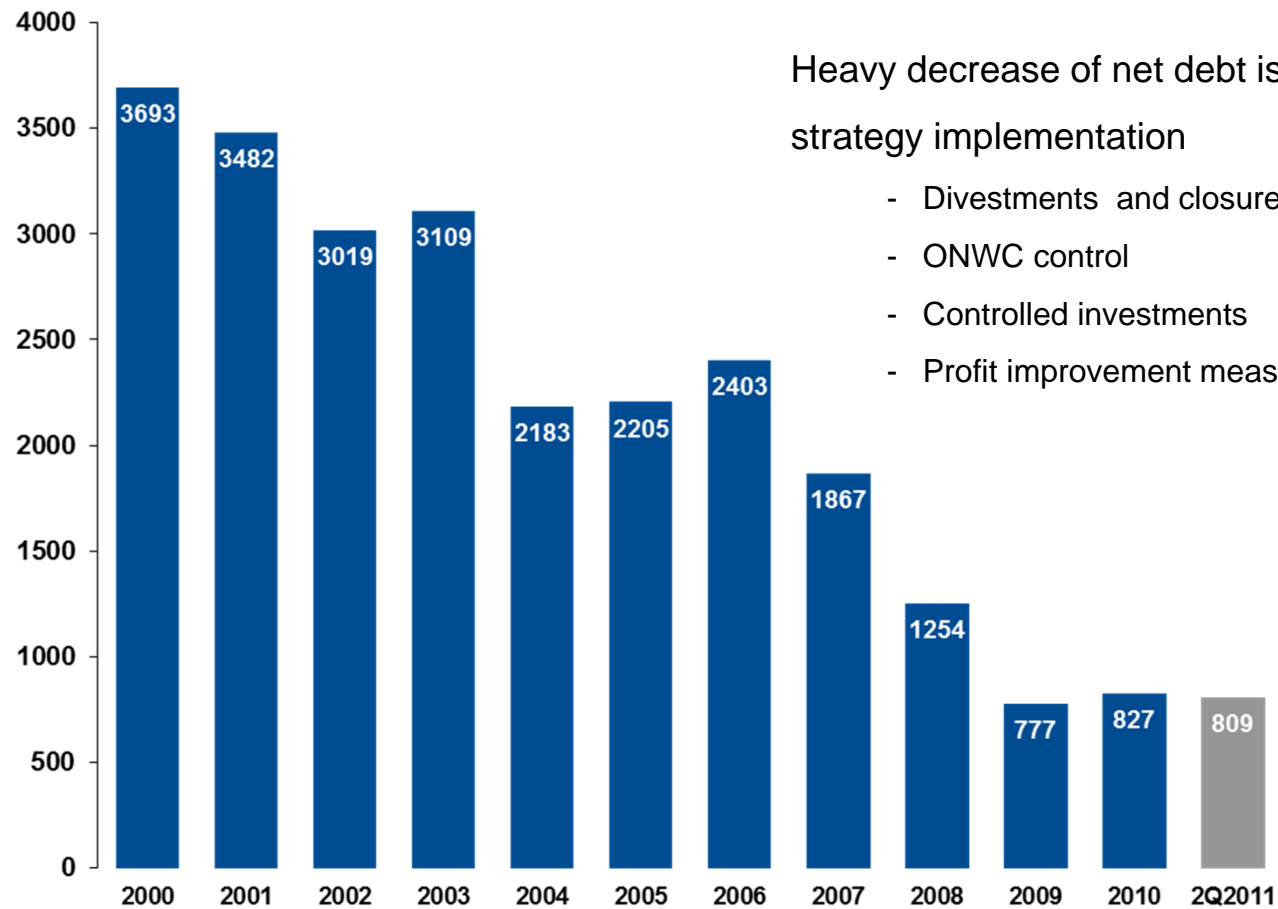
- In addition to above programmes, planned elimination on paper business losses and expansion of cartonboard capacity have significant profit improvement impact, starting in early 2012 the latest

Financing



m·real

# Interest-Bearing Net Debt Reducing



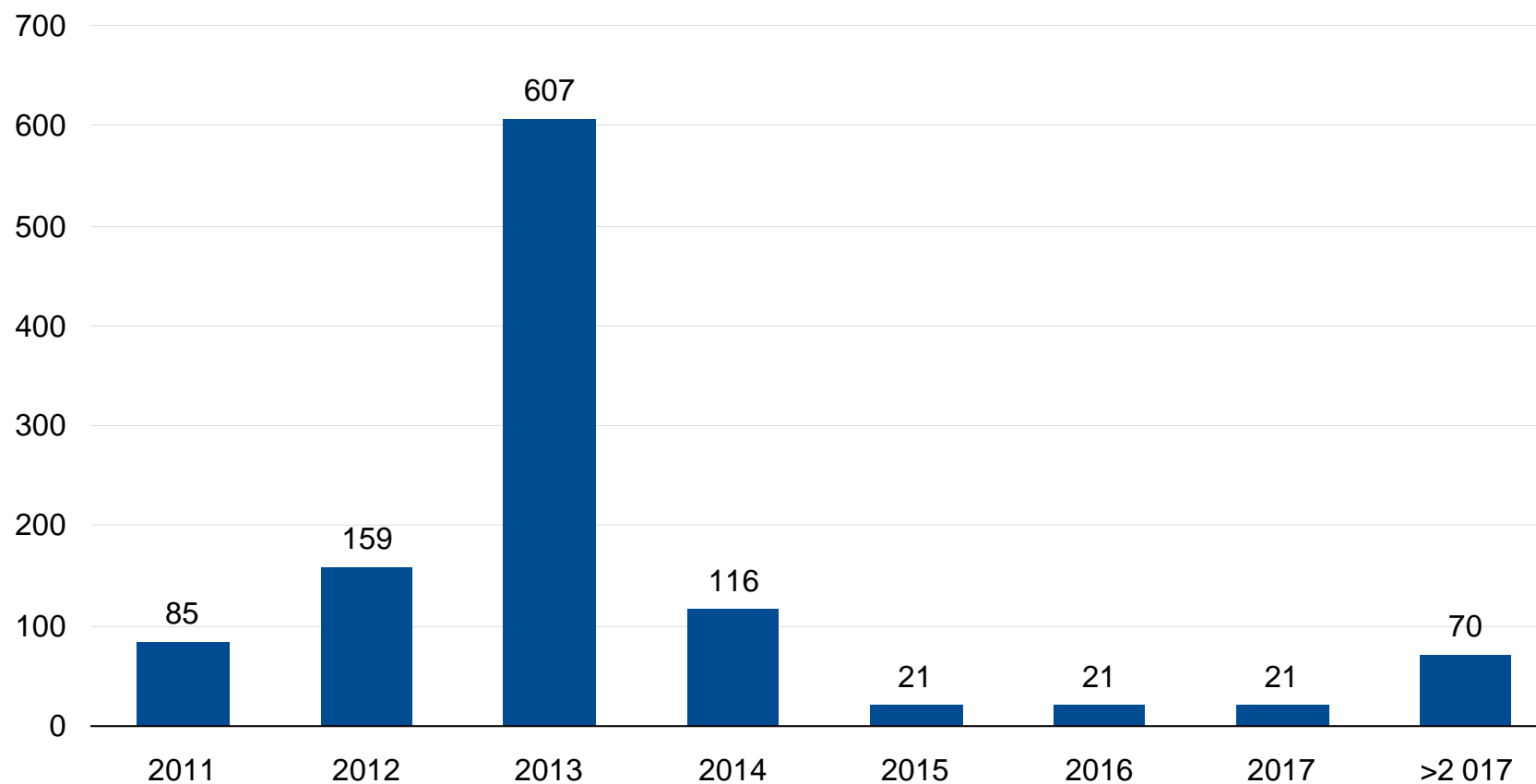
Heavy decrease of net debt is a result of successful strategy implementation

- Divestments and closures of unprofitable units
- ONWC control
- Controlled investments
- Profit improvement measures

# Maturity of Long-Term Interest Bearing Liabilities

## 30.6.2011

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# Interest Rates 30.6.2011

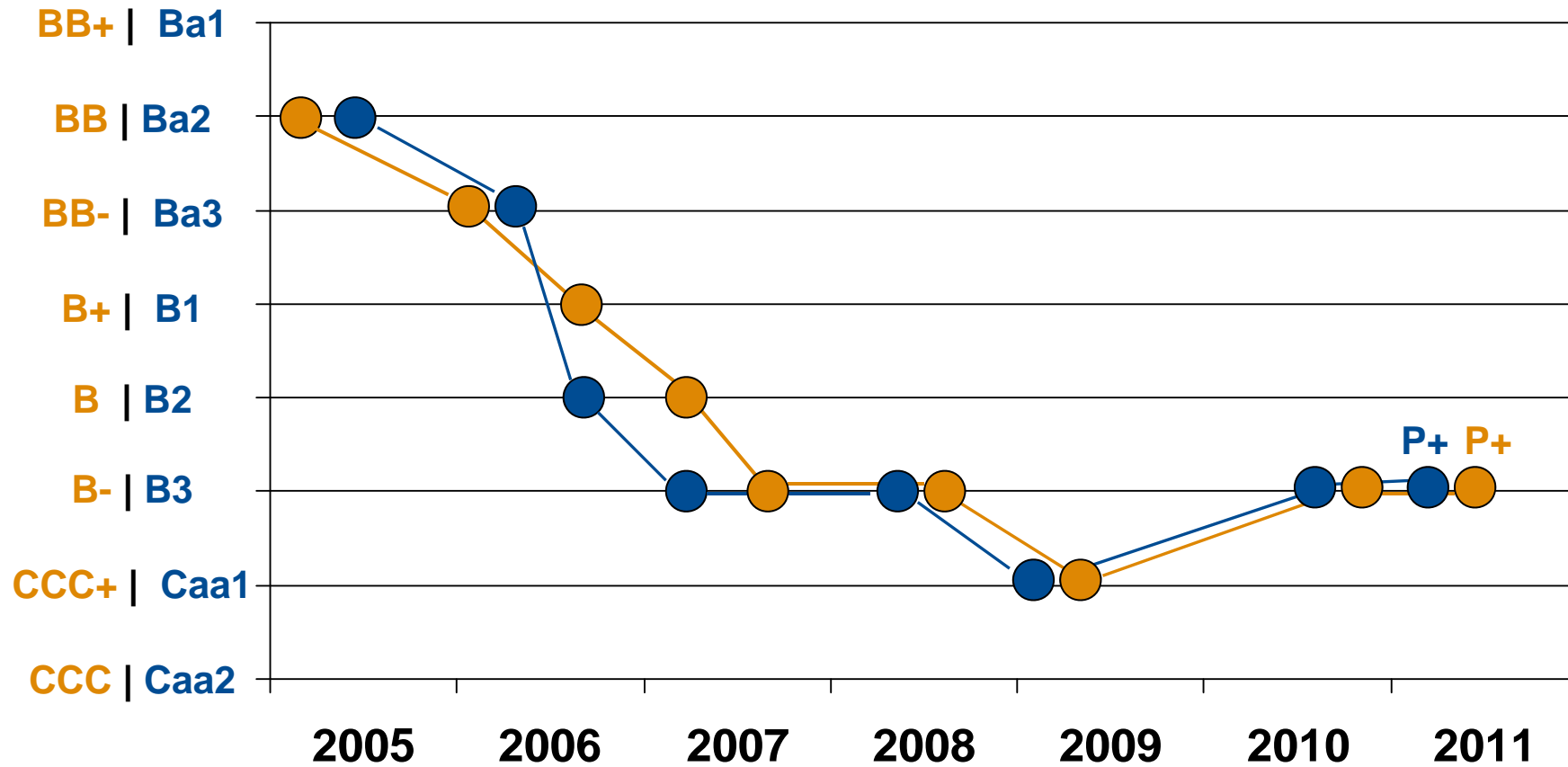
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- Net debt 809 m€
  - Average interest rate 5.9 %, duration 11.9 months and maturity 2.2 years
- Interest rate swaps and option structures are used to hedge interest rate risk
  - About 77 % of the loans floating rate and 23 % fixed rate
- For majority of loans and derivatives hedge accounting is applied according to the IFRS standards
  - Currency hedging is currently 4–6 months of annual exposure

# Rating Development

- Standard & Poor's
- Moody's



# Next Steps in Financing

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- Next major step will be the refinancing of the 500 m€ bond due in April 2013
  - Active process for refinancing has been started and negotiations with banks have been initiated
- Different financial instruments for bond refinancing are under intensive consideration
  - Timing of new arrangements will depend on market environment and suitability to M-real's overall situation
- Improved profitability and cash flow may have a positive impact to rating, nevertheless impact of global economy and own structuring process may delay positive rating development
- Generally, we are very confident on successful refinancing





Thank You!