M-REAL YEAR 2004

Annual financial report

m-real

Information to shareholders

M-real Corporation publishes the following financial reports in 2005

on Friday 4 February
Financial results for financial year 2004

on Thursday 28 April
Interim report for January–March

on Friday 29 July
Interim report for January–June

on Friday 28 October
Interim report for January–September

Annual General Meeting The Annual General Meeting of M-real Corporation will be held at the company's Head Office, Revontulentie 6, 02100 Espoo, on Monday, 14 March 2005, beginning at 2 p.m. Finnish time.

Shareholders wishing to take part in the Annual General Meeting and to exercise their right to vote must be registered in the list of shareholders kept by Finnish Central Securities Depository Ltd by 4 March 2005 at the latest and should announce their intention to attend the meeting before 4 p.m. Finnish time on 10 March 2005, either by telephoning Mrs Eija Niittynen on +358 10 469 4530, by sending a telefax to Mrs Eija Niittynen on +358 10 469 4529 or an e-mail message to eija.niittynen@m-real.com or by writing to M-real Corporation, Mrs Eija Niittynen, Revontulentie 6, 02100 Espoo, Finland. It is requested that any proxies be submitted during the advance registration.

The Board of Directors proposes that a dividend of euros 0.12 per share for the 2004 financial year be paid on 24 March 2005 to shareholders who are entered by 17 March 2005 at the latest in the list of shareholders kept by the Finnish Central Securities Depository Ltd.

Share register Shareholders are requested to inform the book-entry register which holds their book entry account of any changes in name, address or share ownership.

Additional information to shareholders and investors Additional information to shareholders and investors is available in the section Shares and shareholders on pages 56 through 61 and M-real's financial communication and investor relations on page 84.

Contents

M-real briefly

M-real is one of the leading producers of fine paper and paperboard in Europe. The company focuses on four core businesses: Consumer Packaging, Publishing, Commercial Printing and Office Papers. M-real's global clientele consists mainly of publishers, printers, paper merchants, offices and well-known consumer product manufacturers as well as carton printers.

M-real aims at enhancing its customers' businesses by providing excellent wood fibre based solutions for consumer packaging, communications and advertising purposes. Together with customers and partners, M-real develops new innovations for demanding applications, such as magazines, art books, brochures, direct mail and office papers, as well as cartons for beauty and health care products, cigarettes, branded food and consumer durables. M-real's brands include Galerie, Euro Art, Data Copy and Logic fine papers, and Carta and Avanta boards.

M-real has 26 production units in nine European countries; Austria, Belgium, Finland, France, Germany, Hungary, Sweden, Switzerland and the UK. Total annual production capacity amounts to about 4.7 million tonnes of paper and 1.0 million tonnes of paperboard.

M-real has an extensive sales network with offices and representatives in more than 70 countries and a merchanting arm, Map Merchant Group, with offices in 22 European countries. M-real's four technology centres in Finland, Germany and Sweden focus on the development of new products and services to meet customers' needs in specific areas.

M-real Corporation, which generated a turnover of 5.5 billion euros in 2004, employs nearly 16 000 people. Headquartered in Finland, M-real Corporation is listed on the Helsinki Stock Exchange.

Business areas

M-real renewed its organisation in August 2004 and also the new business areas were formed. They are introduced here. However, the financial statement information for 2004 is reported in accordance with the old business area structure. The old business areas are: Cartons, Graphics Products and Speciality Paper, Offices and Map Merchant Group.

Consumer Packaging The Consumer Packaging business area offers high performance paperboards, packaging solutions and related services to carton printers and brand owners in industries such as: beauty care, health care, foods, cigarettes and consumer durables. The product range also includes high quality graphic boards, wallpaper base and papers for flexible packaging, labelling and self-adhesive laminates.

Publishing The Publishing business area provides a coated paper range of Galerie Papers for demanding applications, such as magazines, product catalogues, direct mail and sales promotion materials. Galerie Papers have an excellent reproduction quality, even in very low weights, and are highly regarded by leading publishers, printers and brand owners around the world.

Commercial Printing The Commercial Printing business area produces added value fine papers for promotion and corporate communications. Art books, brochures, annual reports, direct mailings, flyers, inserts, leaflets are characteristic products made of this choice paper. The end users are primarily professionals working in marketing and corporate communications. The products are typically sold through merchant partners.

Office Papers The Office Papers business area focuses on high quality office papers used in the business environment. The product portfolio meets the needs of all types of users, from the smallest home offices through to large corporations and government institutions. The products are designed to provide the highest performance in various printing technologies applications.

Map Merchant Group Map Merchant Group is the third largest merchant group in Europe and is made up of 24 individual merchant companies, active in 22 countries with links across the globe. It serves some 50 000 customers, principally printers, publishers, advertising agencies, banks and retail chains throughout Europe. Map supplies both M-real's and other manufacturers' paper grades.

M-real's year 2004

In January 2004 ■ M-real finalised the divestment of Metsä Tissue.

In June ■ the Board of Directors of M-real Corporation appointed Hannu Anttila President and CEO as from 1 January, 2005.

In August ■ M-real became the sole owner of Kemiart Liners by acquiring 47 per cent ownership from UPM-Kymmene and 6 per cent from Metsäliitto Cooperative.

In August ■ M-real announced a revised strategy which focuses on the development of the company's core business areas: Consumer Packaging, Publishing, Commercial Printing and Office Papers. At the same time, M-real revamped its organisation to improve internal efficiency and profit responsibility.

In September ■ the Extraordinary General Meeting of M-real decided on an approximately euros 450 million Rights Offering to strengthen the company's Balance Sheet and reduce its indebtedness. The Offering was completed successfully in October.

In October ■ M-real's sale of the Price & Pierce Group to Gould Paper was finalised.

In December ■ the construction of M-real's new BCTMP in Kaskinen, Finland, reached eave height and the mill obtained its environmental permit. The plant will be taken into use in August, 2005.

In December ■ M-real sold the business operations of the Savon Sellu mill. The buyer is a company founded by Dr. Dermot F. Smurfit in his private capacity and a group of other international investors.

In December ■ M-real signed a Letter of Intent to sell its forest assets. The total transaction value is euros 172 million of which M-real's share is 95 per cent. The transaction was finalized in January 2005.

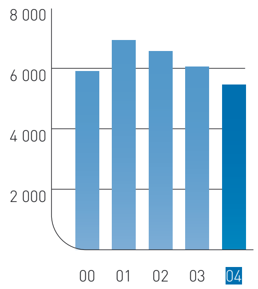
In December ■ M-real signed a euros 500 million syndicated revolving credit facility agreement. The facility replaces facility agreement of euros 700 million signed in 2000.

Key figures 2004

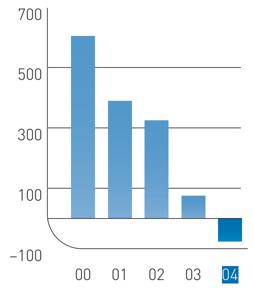
	2004	2003	Change
Turnover, euros million	5 460	6 044	–10%
Operating profit, euros million	–75	74	
– % turnover	–1.4	1.2	
Profit before extraordinary items, euros million	–209	–80	
– % turnover	–3.8	–1.3	
Return on capital employed, %	–1.0	1.6	
Return on equity, %	–7.7	–3.8	
Interest-bearing net liabilities, euros million	2 161	3 109	–30%
Gearing ratio, %	82	137	
Equity ratio, %	41.5	31.9	
Earnings per share, euros	–0.79	–0.43	
Equity per share, euros	8.00	10.56	–24%
Dividend per share, euros *	0.12	0.25	–52%
Market capitalization 31 Dec, euros million	1 542	1 286	20%
Gross capital expenditure, euros million **	259	397	–35%
Cash flow from operations, euros million	257	425	–40%
Personnel 31 Dec	15 960	19 636	–19%

* Board of Directors' proposal for 2004
** Includes the purchase price of shares in acquired companies but not debt

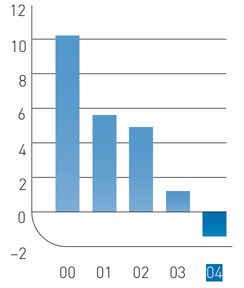
Turnover,
€ million



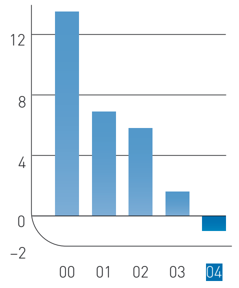
Operating profit,
€ million



Operating profit,
%



Return on capital employed, %



President's review

Dear Shareholder, M-real's financial year 2004 was remarkable for its exceptionally large number of major changes.

The European paper markets improved substantially during the second half of the year, following a prolonged period of sluggish demand. This positive change in the market situation made it possible for us to start implementing price increases during the last quarter, although in some sectors these were smaller than planned. Taking the steep decline of the US dollar into consideration, the average euro-equivalent price levels in some sectors even declined during the last few months of the year.

A fundamental change was carried out at the beginning of September when M-real reverted to a line organisation in which responsibilities of business areas are defined by customers.

The restructuring, along with a sharper delineation of areas of responsibility, has had a positive impact on customer orientation, operational efficienceies and even to some extent on financial results. I strongly believe that also our cost reduction and efficiency improvement programmes, in conjunction with our current operating model, will enable us to enhance our profitability and attain estimated savings of at least 200 million euros by 2007.

With regard to M-real's operational abilities and development, it was also of utmost importance that we reduced company indebtedness and strengthened our capital base. The divestments made so far and the rights offering of nearly 450 euros in the autumn enable us to continue to develop M-real into a more efficient and profitable company. We have a great deal of know-how and good market positions, and now we also have sufficient financial resources to make better use of our earnings potential.

Our objectives for the future are clear. Naturally, our main target must be to make M-real a profitable company again – as soon as possible. To accomplish this, resolute action will be needed, both to increase revenue and especially to improve cost efficiency. We will therefore continue to free up capital and invest in those areas of business that will provide a quick return. The size of these investments will be aimed at the further reduction of net debt.

I would like to thank our customers and business partners for the excellent cooperation in 2004. I would also like to thank our employees for their commitment to the implementation of these changes. Finally, I would like to express my thanks to my predecessor, Jouko M. Jaakkola, for his dedicated work and to wish him a happy retirement.

Hannu Anttila
President and CEO

Report of the Board of Directors

Market situation in 2004

Economic growth in Europe picked up in 2004 compared with 2003 for the first time since 2000. Growth is nevertheless expected to have been fairly moderate, at a level of about 2 per cent. Economic growth in North America improved further in 2004 compared with the growth rate of about three per cent in 2003. Asia's economic growth also improved from the 3 per cent growth registered a year ago. The amount of money spent on printed advertising, which moves fairly much in tandem with economic growth, headed upward in Western Europe. On the foreign exchange market, the United States dollar continued to slide and was on average at its weakest level since the introduction of the euro. The British pound was at the previous year's level.

Demand for folding boxboard in Western Europe was at the previous year's level. West European producers' deliveries to Eastern Europe and markets outside Europe increased substantially. There was no significant change in selling prices. The appreciation of the euro nevertheless lowered the selling prices in euro obtained for deliveries outside Europe and the price competitiveness of West European producers. Deliveries by producers of linerboard and fluting increased.

Despite the pick-up in demand, it was a difficult and dual-trend year in the paper markets. The favourable trend in the economy and in printed advertising lifted demand in the main market areas Western and Eastern Europe, North America and Asia. On the other hand, the market situation was still characterized by overcapacity and falling prices in the west European markets, along with increased deliveries to markets outside Europe as the euro edged higher, and by a rise in imports of uncoated fine paper to the west European market.

Deliveries by west European producers of coated fine paper increased by 11 per cent and deliveries by producers of uncoated fine paper by 5 per cent, with producers of coated magazine paper reporting an increase of 8 per cent. Selling prices of all papers, especially of uncoated fine paper, decreased.

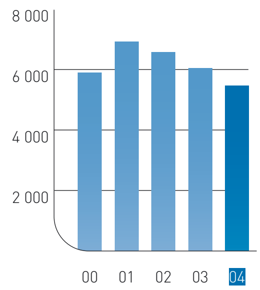
Result for the financial year

M-real's consolidated operating result in 2004 was a loss of euros 74.7 million (profit of 73.8 million in 2003). The operating result includes euros 72.7 million of non-recurring net expenses (14.7). Non-recurring income amounted to euros 26.9 million (15.8) and non-recurring expenses were euros 99.6 million (30.5).

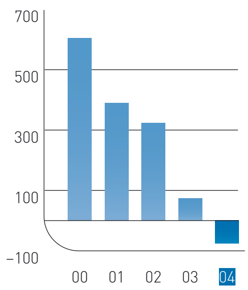
The biggest of the non-recurring income items were the recognition of negative goodwill of euros 14.3 million connected with the purchase of shares in Kemiart Liners Oy, which was booked in the third quarter, as well as the euros 8.4 million reversal of the write-down of Savon Sellu fluting mill's fixed assets in the fourth quarter owing to the divestment of the Savon Sellu business and the proceeds from the sale. The other non-recurring income amounting to a total of euros 4.2 million was booked to the last quarter.

The most important of the non-recurring expenses were the write-downs, booked in the third quarter, of fixed assets of the Savon Sellu fluting mill in Finland and the Zanders Reflex paper mill in Germany, to a total value of euros 53.5 million, the

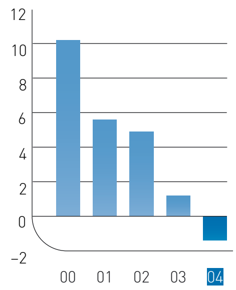
Turnover, € million



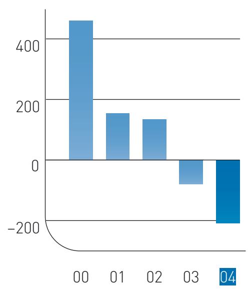
Operating profit, € million



Operating profit, %



Profit before extra-ordinary items € million



euros 24 million expense provision connected with the profitability improvement programme launched at Zanders' Gohrsmühle and Reflex mills and booked to the last quarter as well as the euros 5.3 million of expense provision for the restructuring of the operations of Modo Merchants Ltd and James McNaughton Paper Group Ltd, which was likewise booked to the last quarter. The other non-recurring expenses amounting to a total of euros 16.8 million were booked to the last quarter.

The operating result, excluding non-recurring items, was a loss of euros 2.0 million (a profit of 88.5 million). The main reasons for the drop in the operating result were the fall in the selling price of paper and the appreciation of the euro. The operating result was also reduced by the divestment of Metsä Tissue in January 2004.

Apart from Cartons and Map Merchants, all the businesses reported a weaker operating result, excluding non-recurring items.

Deliveries of paperboard to customers totalled 1 155 000 tonnes (1 007 000 tonnes). Production was curtailed by 82 000 tonnes in line with demand (163 000). The operating rate was 89 per cent (84). Kemiart Liners is included in its entirety in the second-half figures for 2004.

The total volume of paper deliveries was 4 129 000 tonnes (3 857 000). Production curtailments amounted to 351 000 tonnes (597 000). The operating rate of the paper mills was 88 per cent (83).

The effect of currency hedging on the operating result was euros 9.5 million positive (24.2). At the end of 2004 the exchange rate of the euro against the United States dollar was 7.8 per cent lower than at the end of 2003, and the exchange rate of the British pound was at the same level as at the end of 2003. On average, the dollar was down 9.9 per cent and the pound strengthened by 2.0 per cent.

Turnover was euros 5 460.3 million (6 044.1). Turnover was lowered by the same factors which impacted the operating result. Comparable turnover was up 1.2 per cent. Sales to Finland accounted for 6 per cent of turnover.

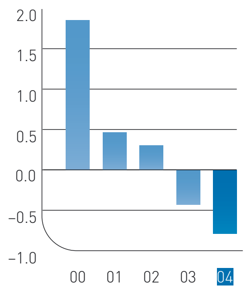
Net financial expenses were euros 134.3 million (154.0 million). These items included net interest and other financial expenses of euros 146.8 million (174.7) as well as foreign exchange gains on financial items of euros 12.5 million (20.7). Other financial expenses include a non-recurring entry in the last quarter of euros 17.2 million of expenses for the share offering carried out in September and October as well as an entry of euros 2.9 million of expenses connected with the new euros 500 million revolving credit facility.

Other operating income amounted to euros 86.3 million (73.8). The sum does not include non-recurring items.

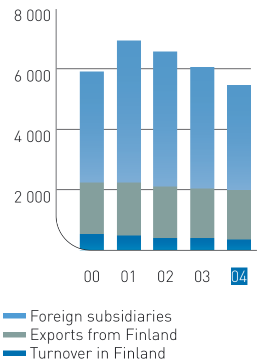
The consolidated result before extraordinary items was a loss of euros 209.0 million (a loss of 80.2 million). The result includes non-recurring net expenses of euros 89.9 million (42.7). The result before extraordinary items net of non-recurring items was a loss of euros 119.1 million (a loss of 37.5).

A capital gain of euros 194.0 million on the sale of Metsä Tissue was booked to extraordinary income as well as euros 4.2 million from discharging the unused portion of the expense provision for terminating the Price&Pierce trading business, which was entered in 2003.

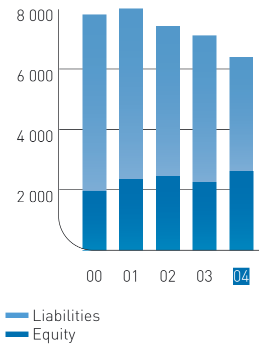
Earnings per share,
euros



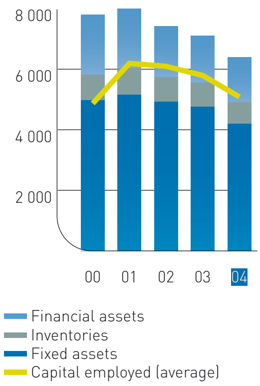
Turnover,
€ million



Financial structure,
€ million



Assets and capital employed (average), € million



The result for the financial year was a net loss of euros 15.3 million (a net loss of 95.0 million). Taxes, including the change in deferred tax liability, were euros 3.1 million (0.7). The deferred tax liability decreased by a total of euros 22.6 million owing to the lowering of Finland's corporate tax rate from 29 per cent to 26 per cent.

Earnings per share were euros 0.79 negative (0.43 negative).

The return on capital employed was 1.0 per cent negative (1.6 positive). The return on equity was 7.7 per cent negative (3.8 negative).

October–December earnings compared with the previous quarter

M-real's operating result was loss of euros 27.5 million (July–September/2004: a loss of euros 28.1 million). The operating result includes euros 33.5 million of non-recurring net expenses (39.2). The operating result excluding non-recurring items was a profit of euros 6.0 million (11.1 million), which is 0.4 per cent (0.8) of turnover. The operating result was weakened mainly by the costs of annual maintenance shutdowns, the appreciation of the euro as well as the rise in the costs of oil-based raw materials. The result was improved by the reversals of periodizations of expenses, made in January–September, to a total amount of euros 10 million.

The operating result of Map Merchants improved and the operating result of the other business areas, excluding non-recurring items, weakened.

Deliveries of paperboard to customers totalled 305 000 tonnes (310 000 tonnes). Because of the imbalance between supply and demand, production was curtailed by 17 000 tonnes (7 000) in line with demand. The operating rate at the mills was 85 per cent (96).

Paper deliveries from the mills totalled 1 070 000 tonnes (1 043 000). Production curtailments amounted to 52 000 tonnes (85 000). The operating rate at the mills was 90 per cent (89).

The effect of currency hedging on the operating result was a gain of euros 21.0 million (4.1). At the end of December, the exchange rate of the United States dollar against the euro was 9.8 per cent and the rate of the British pound against the euro 2.7 per cent lower than at the end of September. On average, the dollar was down 6.1 per cent and the pound fell by 3.4 per cent.

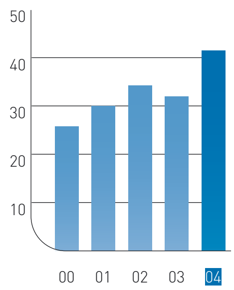
Turnover was euros 1 382.8 million (1 362.7). Comparable turnover was up 3.3 per cent.

Net financial expenses were euros 44.1 million (31.4 million). These items included net interest and other financial expenses of euros 52.2 million (31.4) as well as foreign exchange gains on financial items of euros 8.1 million (0.0). Other financial expenses include a non-recurring entry of euros 17.2 million of expenses for the rights issue as well as an entry of euros 2.9 million of expenses connected with the new euros 500 million revolving credit facility.

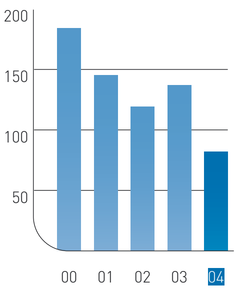
The result before extraordinary items was a loss of euros 71.6 million (loss of 59.5 million). The operating result includes euros 50.7 million of net non-recurring charges (39.2). The result, excluding non-recurring items, was a loss of euros 20.9 million (a loss of 20.3).

The result for the last quarter of the year was a loss of euros 64.1 million (a loss of 62.1 million).

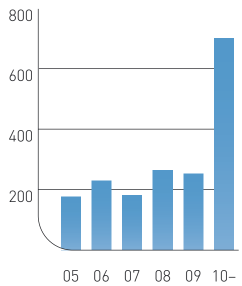
Equity ratio,
%



Gearing ratio,
%



Repayment of long-term loans,
€ million



Personnel

The number of personnel at the end of December was 15 960 employees (19 636 employees at 31 December 2003), of whom 4 912 employees worked in Finland (5 835). The net reduction in personnel was 3 676 employees. Acquisitions and divestments resulted in a net decrease of 3 260 employees in the reduced headcount.

The Group's personnel includes 47 per cent of Metsä-Botnia's employees.

Capital expenditures

Capital expenditures for fixed assets in 2004 totalled euros 239 million (2003: 232). In addition, euros 20 million was paid for the shares of companies that were acquired. In 2003, euros 165 million was paid for the shares of companies that were acquired.

The investment project in the new BCTMP mill in Kaskinen, which will have a total price tag of euros 180 million, is progressing according to plans. Installations of the main equipment are under way and training of the personnel has been started. The mill will have an annual capacity of 300 000 tonnes of bleached chemithermal mechanical pulp (BCTMP) and is set to come on stream in August 2005.

Acquisitions, divestments and restructuring

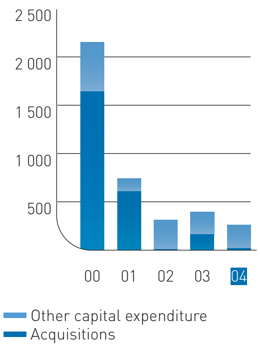
At the beginning of January, a 66 per cent stake in Metsä Tissue was sold to Metsäliitto Cooperative. In addition, 17 per cent was sold to the Tapiola Group. At the end of January, the remaining 17 per cent was sold to Varma Mutual Pension Insurance Company (9.86 per cent) and Sampo Life Insurance Company Limited (7.14 per cent). Each transaction was carried out on the same terms and conditions and were based on a debt-free value of euros 570 million. The after-tax capital gain on the disposals was about euros 173 million.

At the beginning of August, the company bought the holdings of Metsäliitto Cooperative and UPM-Kymmene in Kemiart Liners Oy, a total stake of 53 per cent. The purchase price of the shares was about 13 million euros, in addition to which the M-real Group's interest-bearing net liabilities increased by about 23 million euros. The negative goodwill of euros 14.3 million that arose as a consequence of the transaction was recognized as income in the third quarter.

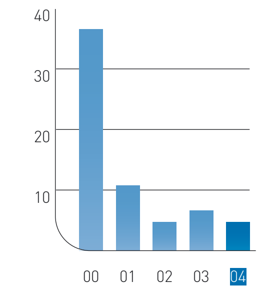
In a deal that entered into effect at the end of September, the Price & Pierce trading business was sold to Gould Paper Corporation. The transaction did not have a major economic impact on M-real.

At the end of December, an agreement was signed on sale of the Savon Sellu business to a company owned by Dr Dermot F. Smurfit as a private individual, and a group of other international investors. The purchase price was about euros 20 million, of which some euros 12 million was allocated to fixed assets. Savon Sellu has a production capacity of 245 000 tonnes a year and about 250 people are employed at the mill. The transaction entered into force on 1 January 2005. A write-down of euros 22.4 million was made on the fixed assets of Savon Sellu in the third quarter. On the basis of

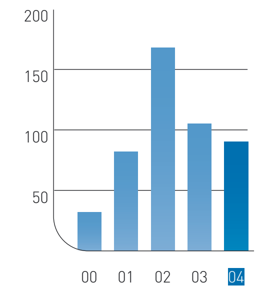
Gross capital expenditure,
€ million



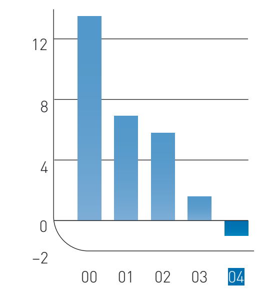
Gross capital expenditure,
% of turnover



Internal financing of capital expenditure, %



Return on capital employed, %



the disposal of the business and the proceeds from it, a euros 8.4 million reversal of the write down was made in the fourth quarter.

At the end of December, a Letter of Intent was signed on sale of forestland to a company to be founded, called Forestia Holding Oy, which is to be owned by Metsäliitto Cooperative, with a share of 49.9%, Suomi Mutual Life Assurance Company, with a share of 39.7% and the Central Union of Agricultural producers and Forest owners, with a share of 10.4%. The total purchase price according to the Letter of Intent was euros 172 million, of which M-real's share was 95 per cent. The transaction does not have a material impact on M-real's financial result.

Research and development

Research and development costs in 2004 were euros 28 million, or 0.7 per cent of turnover, excluding the Map Merchants paper merchanting business. The number of patents applied for grew by 50 per cent.

The research and development focus areas were the characteristics and behaviour of fibre in various production processes, process know-how as well as the development of the optical characteristics of paper and paperboard. In recent years M-real has strengthened its expertise in the area of chemithermal mechanical pulp (CTMP), thereby making possible the development of new and competitive grades of paper and paperboard.

At M-real's mills, efforts were made to improve production efficiency. Productivity improvements were achieved at nearly every production unit.

Environment

During 2004, preparations were made for the start of EU emissions trading in 2005. Furthermore, product-specific reporting of chain of origin information was started, old environmental liabilities were ascertained and soil investigations were launched at the mills in operation.

The guidelines for M-real's climate strategy were finalized in the spring 2004. An investment project aiming at increasing the use of biofuels was started at the Hallein mill and a similar project moved ahead at Biberist as well. The production units have obtained the emissions permits and allowances for start-up of EU emissions trading in accordance with the national legislation and regulations. Assessments of energy efficiency were continued with the aim of mapping out areas were energy can be saved. M-real's carbon dioxide emissions increased by approximately 1 per cent (the emissions of Metsä Tissue excluded) on the previous year.

All M-real's production plants have an environmental system that is certified under the ISO 14001 standard as well as objectives and programmes for improving operations. Total emissions increased by approximately 1 per cent (the emissions of Metsä Tissue excluded) compared with the previous year. The most important capital expenditure was the Husum waste water treatment plant, which went into operation in autumn 2004. The total capital expenditure was approximately euros 40 million. The extension to the waste water treatment plant at the Kyro paperboard mill reduced waste water effluents markedly below the terms and conditions set out in the mill's permit.

The provisions made for attending to M-real's environmental liabilities amounted to euros 7 million at the end of 2004. Clean-up of the soil at the Kolho impregnation plant located in Vilppula will be carried out in 2005. M-real's share of the costs is about euros 2 million. The production units in operation started soil investigations in their plant areas in order to map any polluted areas. The results will be ready in spring 2005.

M-real has committed to using wood raw material that comes from sustainably managed silvicultural forests and to promoting the certification of forests and the use of certified wood and fibre in its products. In 2004 reporting of the origin of wood used in the manufacture of M-real's products was started on the Annex pages to the Paper Profile environmental product declaration sheets. Thomesto Oy, which is responsible for M-real's wood procurement outside Finland, has increased inspections of logging areas in Russia and last year 62 per cent of the wood volume came from inspected sites.

M-real will publish a separate Social Responsibility Report for 2004, which will include sections dealing with environmental responsibility issues.

Financing

Interest-bearing net liabilities amounted to euros 2161 million at the end of December (Dec. 2003: 3109 million).

The equity ratio at the end of the period was 41.5 per cent (Dec. 2003: 31.9) and the gearing was 82 per cent (Dec. 2003: 137).

Liquidity is good. Liquidity at the end of December was euros 1798 million, of which 1556 million consisted of binding long-term credit commitments and 242 million was liquid funds and investments. In addition, to meet its short-term financing needs, the Group had at its disposal non-binding domestic and foreign commercial paper programmes and credit facilities amounting to about euros 600 million.

At the end the report period an average of 4 months of the net foreign currency exposure was hedged. The degree of hedging during the report period has varied between 4 and 5 months. At the end of the report period, about 98 per cent of the shareholders' equity not in euros was hedged. At the end of the period the Group's liabilities were tied to fixed interest rates for a period of 23 months. During the report period the interest rate maturity has varied from 18 to 25 months.

At the close of the year, 7 per cent of the Group's long-term loans were not denominated in euros. Of these loans, 32 per cent was subject to variable interest rates and the rest to fixed interest rates. The average interest rate on the loans was 4.2 per cent at the end of 2004 and the average maturity of long-term loans was 4.0 years.

In April, Standard&Poor's changed the outlook for M-real's long-term loans rating, BB+, from stable to negative.

In July Moody's Investors Services placed M-real on Credit Watch Negative for a possible lowering of the credit rating.

In November, Moody's Investors Services lowered M-real's credit rating from Ba1 to Ba2, with a stable outlook.

In December, M-real signed a euros 500 million syndicated revolving credit facility agreement. The facility will be used to refinance the euros 700 million credit agreement signed in 2000. The term of the facility is five years. A total of 21 banks participated in the arrangement.

During the year, seven bond issues to a total amount of about euros 172 million were implemented within the framework of an international bond programme.

Shares

The highest share issue-adjusted price of the M-real Series B share on the Helsinki Stock Exchange last year was euros 6.43, and the low was euros 4.18, with an average share price of euros 5.59. In 2003 the average price was euros 6.11. The price of the Series B share was euros 4.70 at the end of the report period on 31 December 2004.

Turnover of the Series B share was euros 1013 million, or 62 per cent of the total shares outstanding after the rights offering. The market value of the Series A and B shares at 31 December 2004 totalled euros 1542 million.

At 31 December 2004 Metsäliitto Osuuskunta owned 38.6 per cent of M-real Corporation's shares and the voting rights conferred by these shares was 60.5 per cent. International investors owned 38.3 per cent of the shares.

On 7 September 2004, the Board of Directors decided, on the basis of an authorization granted by the extraordinary meeting of shareholders on 6 September 2004, to arrange a rights offering to an amount of euros 447 498 561. The subscription period for the shares commenced on 15 September 2004 and ended on 1 October 2004. The subscription price was euros 3.00 per share. Each M-real shareholder was entitled to subscribe for five (5) new Series B shares for each six (6) Series A or B shares which the shareholder owned on the record date, 10 September 2004. The subscription warrants were traded publicly on the Helsinki Stock Exchange from 15 to 24 September 2004 and turnover in them amounted to euros 63 million, or 49 million warrants. The high for the subscription warrant was euros 1.60 and the low euros 1.11. According to the final outcome of the rights offering, 148 633 415 Series B shares were subscribed for on the basis of the subscription warrants in the primary offering, corresponding to 99.64 per cent of the total amount of offered shares. In addition, subscription commitments for 31 098 942 Series B shares were submitted in the secondary offering, exceeding the number of shares being offered (532 772 shares) nearly 60-fold.

The shares subscribed for in the primary offering were accepted for public trading on the Helsinki Stock Exchange as interim shares on 4 October 2004 ("M-real B new shares"). The corresponding increase in the share capital was entered in the Trade Register and the interim M-real B New Shares were combined with M-real's present Series B share class on 7 October 2004. The increase in share capital corresponding to the subscriptions accepted in the secondary offering was entered in the Trade Register on 13 October 2004.

Following the registration of the shares subscribed for in the secondary offering, M-real's share capital is euros 557 881 540.40 and consists of 328 165 612 shares, of which 36 340 550 are Series A shares and 291 825 062 are Series B shares.

The net increase in shareholders' equity after expenses resulting from the rights offering was euros 430 million. The share capital rose by euros 253.6 million to euros 557.9 million.

The proceeds of the rights offering have been used to pay down the company's debt.

The Board of Directors does not have current authorizations to carry out share issues or issues of convertible bonds or bonds with warrants.

Board of Directors and Auditors

The Annual General Meeting held on 15 March 2004 elected the following persons to seats on M-real's Board of Directors for a term extending up to the next Annual General Meeting: Antti Oksanen, President of Metsäliitto Group, Arimo Uusitalo, Titular Farming Counsellor, Kim Gran, President and CEO of Nokian Tyres plc, Timo Haapanen, Titular Farming Counsellor, Asmo Kalpala, President of the Tapiola Group, Erkki Karmila, Executive Vice President of Nordic Investment Bank, Runar Lillandt, Titular Farming Counsellor, and Antti Tanskanen, CEO of the OP Bank Group.

At its organization meeting, the Board of Directors elected Antti Oksanen as its Chairman and Arimo Uusitalo as its Vice Chairman.

Elected as auditors were Göran Lindell, Authorized Public Accountant, and PricewaterhouseCoopers Oy, Authorized Public Accountants firm, with Ilkka Haarlaa, M.Sc. (Econ.), Authorized Public Accountant, as responsible auditor and Björn Renlund, Authorized Public Accountant, and Jouko Malinen, Authorized Public Accountant, as the deputy auditors.

The term of office of the auditors and deputy auditors lasts until the end of the next Annual General Meeting.

Corporate Governance

In accordance with the new Helsinki Stock Exchange recommendation on the corporate governance of listed companies, M-real Corporation's Board of Directors decided at the beginning of April to set up an Audit Committee, a Compensation Committee and a Nomination Committee. Each committee assists the Board of Directors in preparing matters within its own area of responsibility. The Board has confirmed written rules of procedure for the committees.

The members of the Audit Committee are Asmo Kalpala (chairman), President of the Tapiola Group, Kim Gran, President and CEO of Nokian Tyres plc and Erkki Karmila, Executive Vice President of Nordic Investment Bank.

The members of the Compensation Committee are Antti Oksanen (chairman), President of Metsäliitto Group, Erkki Karmila, Executive Vice President of Nordic Investment Bank, and Arimo Uusitalo, Titular Farming Counsellor.

The members of the Nomination Committee are Arimo Uusitalo (chairman), Titular Farming Counsellor, Runar Lillandt, Titular Farming Counsellor, and Antti Tanskanen, CEO of the OP Bank Group.

New President and CEO

In June M-real's Board of Directors appointed Hannu Anttila, 49, M.Sc. (Econ.), as the company's new President and CEO. Mr Anttila took over as M-real's Senior Executive Vice President on 1 July 2004. He became Chief Operating Officer on 1 September 2004 and President and CEO on 1 January 2005, following the retirement of the former CEO, Jouko M. Jaakkola.

Revised strategy, new organization and corporate executive board

The revised business strategy and renewed business area and organizational structure were announced in August.

The core business areas are Consumer Packaging, Publishing, Commercial Printing and Office Papers. The development possibilities of the Map Merchant paper merchanting business and the related potential for carrying out ownership arrangements are being assessed.

The company's main objective over the next few years is to achieve a clear improvement in profitability and internal efficiency.

The financial targets set were an average return on capital employed of at least 10 per cent over the business cycle and a gearing ratio not to exceed 100 per cent. Total capital expenditures, including any acquisitions, will come to a maximum of about the amount of depreciation in 2005 and 2006.

According to the revised business area and organizational structure, the management of each business area has total responsibility for the operations of its own business area, including sales, marketing and production. In addition, the heads of the business areas are responsible for implementing each business area's strategy as well as for profitability and the return on capital employed.

Within the new organization, the heads of the business areas are members of the Corporate Executive Board. The tasks of the Corporate Executive Board are, among other things, to assess the strategy of each business area and strategic investments, taking into account the company's financial targets.

The new organization came into force on 1 September 2004.

Financial reporting in 2005

M-real's financial reporting will change in line with the business area structure as from the beginning of 2005. The comparative figures according to the new business area structure will be published in the first half of April 2005.

Adoption of international financial reporting standards (IFRS)

M-real adopted International Financial Reporting Standards (IFRS) as from 1 January 2005. In August the company published a preliminary estimate of the effects of the transition on the opening balance sheet prepared according to IFRS as of 1 January 2004. According to the estimate, the transition to IFRS will reduce the Group's shareholders' equity by euros 320 million. Of this amount, the effect of impairment charges for property, plant and equipment as well as goodwill is euros 110 million, the effect of defined benefit pension arrangements euros 141 million and the effects of other changes in accounting principles total euros 69 million. Total assets are estimated to increase by about euros 70 million and interest-bearing liabilities will grow by about euros 60 million.

The estimate of the decrease in shareholders' equity (euros 320 million) includes euros 40 million of the disability pension liability under the Finnish pension plan (TEL). After the preliminary estimate was made public, the Finnish authorities have approved changes in the principles applied in calculating disability pension contributions, which will come into force on 1 January 2006. As a consequence of the changes, and as a departure from the previous interpretation, the disability pension arrangement will be considered as a defined contribution plan. Accordingly, provisions will be entered in the opening IFRS balance sheet only up to an amount that is sufficient to cover disability pension contributions that are estimated to be paid during 2004 and 2005. This is estimated to be around 20 per cent of the original sum of euros 40 million.

In the first half of April 2005, M-real will publish a separate announcement setting out its accounting policies in accordance with IFRS, their principal effects as well as reconciliations between the IFRS figures and the financial statements prepared according to Finnish accounting practices for 2004.

Investigations by the EU Commission's competition authorities

On 25 May 2004 the EU Commission's competition authorities made a visit of inspection at M-real's offices. The visit was connected with the competition authorities' investigations into alleged cooperation with producers of fine paper in the fine paper segment.

M-real has commissioned Herbert Smith, an international law firm, to examine the documents that were handed over to the competition authorities during the visit of inspection and to carry out the internal investigations, which are continuing.

Class actions related to the matter have been brought against M-real in the United States.

Events after the close of the financial period

At the end of January the sale of forest assets to Forestia Holding Oy was completed in accordance with the Letter of Intent signed at the end of December. The total purchase price was euros 172 million, of which M-real's share was euros 163 million. The transaction does not have a material impact on M-real's result.

Outlook for the current year

European economic growth picked up in 2004 compared with 2003. The growth is estimated to have remained at a moderate level of about 2 per cent. Economic growth in North America and Asia also improved compared with the previous year. In 2005 economic growth is generally forecast to slow down in Europe and North America as well as in Asia. The amount of money spent on printed advertising, which moves fairly much in tandem with economic growth, is estimated to increase in Western Europe at last year's rate. A continued weakening of the United States dollar would have a negative impact on the price competitiveness of dollar-based exports by the west European forest industry.

Paper demand held up well in the last quarter of 2004. Apart from uncoated fine paper, M-real's paper deliveries to all the main markets grew. Production capacity was nevertheless still underutilized. M-real's deliveries of paperboard were at the previous quarter's good level. Demand for paper and paperboard is expected to remain good providing that the general economic trend and the growth in printed advertising remain favourable.

Average prices of coated fine paper, coated magazine paper and folding boxboard are forecast to be at a somewhat higher level at the close of the first quarter than they were in the last quarter of 2004.

M-real's first-quarter result before taxes and excluding non-recurring items is forecast to be slightly in the red.

Espoo, 4 February 2005

BOARD OF DIRECTORS

Euros million

Consolidated Profit and Loss Account

	Note	1 Jan–31 Dec 2004		%	1 Jan–31 Dec 2003		%
Turnover	1		5 460.3	100.0		6 044.1	100.0
Change in stocks of finished goods and in work in progress			5.2			–8.6	
Share of profit from associated companies	2		–7.4			–5.2	
Other operating income	3		86.3			73.8	
Materials and services							
Raw materials and consumables	27	3 158.0			3 286.1		
Costs of external services		224.8			278.0		
Employee costs	4, 27	917.3			1 044.3		
Depreciation	5, 27	461.5			481.0		
Other operating expenses	27	857.5	5 619.1		940.9	6 030.3	
Operating profit			–74.7	–1.4		73.8	1.2
Financial income and expense	6, 7						
Interest income from Group companies		0.8			0.2		
Income from other financial investments		2.0			1.9		
Other interest and similar income		15.5			15.9		
Net exchange gains/losses		12.5			20.7		
Interest expense and similar charges		–165.1	–134.3		–192.7	–154.0	
Profit before extraordinary items			–209.0	–3.8		–80.2	–1.3
Extraordinary items	8						
Extraordinary income		198.2			0.9		
Extraordinary expenses		0.0	198.2		–16.0	–15.1	
Profit before taxes			–10.8	–0.2		–95.3	–1.6
Tax expense	9		–3.1			–0.7	
Profit before minority interest			–13.9	–0.3		–96.0	–1.6
Minority interest			–1.4			1.0	
Profit for the financial period			–15.3	–0.3		–95.0	–1.6

Profit analysis

Turnover ■ Consolidated turnover was euros 5 460 million (6 044 million in 2003). Turnover generated by companies acquired in 2004 was euros 19 million whereas the turnover of companies divested was euros 665 million. Divestments affecting turnover were not made in 2003. Comparable turnover thus increased by about euros 60 million, or 1.2 per cent.

Operating result ■ M-real's consolidated operating result was down euros 149 million to operating loss euros 75 million. The operating result includes euros 73 million of non-recurring net expenses (15). Non-recurring income amounted to euros 27 million (16) and non-recurring expenses were euros 100 million (31). The operating result net of non-recurring items was a loss of euros 2 million (a profit of 89 million). The operating result was weakened by the fall in the price of paper and the appreciation of the euro. The operating result was also reduced by the divestment of Metsä Tissue in January 2004.

Apart from Cartons and Map Merchants, all the businesses reported a weaker operating result, excluding non-recurring items.

The improved profitability of the Cartons business and Map Merchants was attributable to the growth in delivery volumes as well as to the positive effects of the implemented cost savings and efficiency improvement measures.

The profitability of the Graphics products and speciality papers and Offices businesses' were weakened by the fall in the average selling price and the appreciation of the euro.

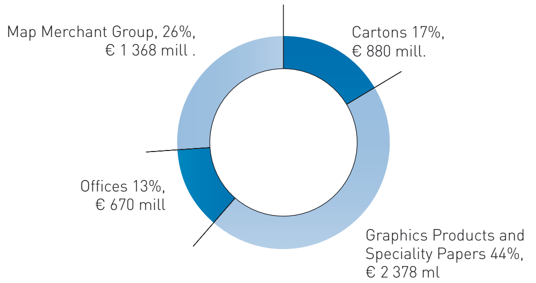
Result before extraordinary items ■ The result before extraordinary items was a loss of euros 209 million (a loss of 80 million). The result includes non-recurring net expenses of euros 90 million (43). Net financial expenses excluding foreign exchange gains as well as non-recurring items were euros 130 million (147). The interest expenses were reduced by the euros 948 million reduction in net interest bearing debt. The average interest rate was at the previous year's level. Foreign exchange gains on financial items were euros 12 million (21).

Extraordinary items ■ Extraordinary income include a capital gain of euros 194 million on the sale of Metsä Tissue as well as a euros 4.2 million gain from discharging the unused portion of the expense provision for terminating the Price & Pierce trading business, which was entered in 2003.

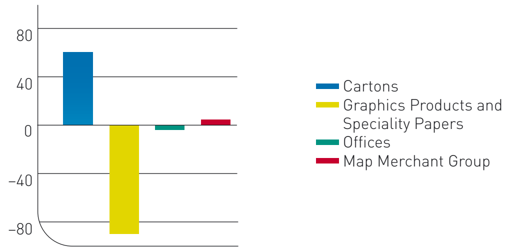
Taxation and minority interest

The Group's total direct taxes were euros 3 million (1), of which euros 55 million represented taxes payable for the financial year.

Turnover by business area, %/€ mill.



Operating result by business area, € mill.



Euros million

Consolidated Balance Sheet

Assets	Note		31 Dec 2004	%		31 Dec 2003	%
Fixed assets							
Intangible assets	10						
Intangible rights		66.9			63.7		
Purchased goodwill		7.8			15.7		
Goodwill arising on consolidation		579.3			690.9		
Other capitalized expenditure		11.9	665.9	10.4	18.5	788.8	11.1
Tangible assets	10, 12, 27						
Land		346.4			348.4		
Buildings		690.5			813.2		
Plant and equipment		2 130.0			2 453.7		
Other tangible assets		101.0			87.0		
Payments in advance and assets in the course of		101.2	3 369.1	52.7	72.3	3 774.6	53.1
Financial investments	11, 12						
Shares in Group companies		0.6			0.7		
Amounts owed by Group companies		17.6			17.6		
Investments in associated companies		69.4			86.4		
Amounts owed by associated companies		14.8			17.9		
Other investments		49.4			59.6		
Other receivables		11.9	163.7	2.6	23.1	205.3	2.9
Fixed assets, total			4 198.7	65.7		4 768.7	67.1
Current assets							
Inventories							
Raw materials and consumables		240.2			265.8		
Finished goods and goods for resale		465.2			495.5		
Advance payments		21.4	726.8	11.4	40.7	802.0	11.3
Receivables	14, 15, 17						
Accounts receivable		922.7			1 001.8		
Amounts owed by Group companies		40.6			72.0		
Amounts owed by associated companies		9.5			9.0		
Loan receivables		0.5			0.2		
Other receivables		138.3			152.1		
Prepayments and accrued income	16	115.7	1 227.3	19.1	116.8	1 351.9	19.0
Investments							
Current financial assets (other than securities)			127.9	2.0		55.4	0.8
Cash at bank and in hand			113.7	1.8		128.2	1.8
Current assets, total			2 195.7	34.3		2 337.5	32.9
Assets, total			6 394.4	100.0		7 106.2	100.0

Consolidated Balance Sheet

Shareholders' equity and liabilities	Note	31 Dec 2004		%	31 Dec 2003		%
Shareholders' equity	18						
Share capital		557.9			304.3		
Share premium account		666.8			472.9		
Revaluation reserve		104.6			104.6		
Other reserves		1.7			1.7		
Retained earnings		1311.1			1 456.8		
Profit for the financial period		–15.3	2 626.8	41.1	–95.0	2 245.3	31.6
Minority interest			23.9	0.4		18.9	0.3
Provisions for liabilities and charges	19, 27		58.1	0.9		77.4	1.1
Liabilities	20, 21						
Long-term liabilities	23						
Bonds and debentures		875.7			940.2		
Loans from financial institutions		482.0			1 310.7		
Pension premium loans		97.1			123.8		
Deferred tax liabilities	22	378.7			431.9		
Other liabilities		174.7			214.1		
Accruals and prepaid income	25	11.6	2 019.8	31.5	9.9	3 030.6	42.6
Short-term liabilities	24						
Bonds and debentures		132.5			10.0		
Loans from financial institutions		69.2			188.1		
Pension premium loans		15.9			16.4		
Advance payments		0.7			2.2		
Accounts payable		302.5			367.7		
Bills of exchange payable		14.3			13.0		
Amounts owed to Group companies		356.8			415.7		
Amounts owed to associated companies		86.0			84.3		
Other liabilities		343.5			270.5		
Accruals and prepaid income	25	344.4	1 665.8	26.1	366.1	1 734.0	24.4
Liabilities total			3 685.6	57.6		4 764.6	67.0
Shareholders' equity and liabilities, total			6 394.4	100.0		7 106.2	100.0

Balance sheet analysis

Assets and capital employed ■ The Group's total assets stood at euros 6 394 million, which is about 712 million euros lower than at the end of the previous year. The changes that took place in the Group's balance sheet structure were:

euros million	
Capital expenditure on fixed asset	239
Depreciation	–462
Fixed assets and consolidation goodwill of Metsä Tissue	–330
Fixes assets less negative goodwill of Kemiart Liners	+26
Shares in associated companies and other shares	–27
Inventories *	–75
Accounts receivable *	–79
Liquid funds	+58
Other items *	–62
Changes, total	**–712**

* includes the effects of acquired and divested companies

Total assets were increased mainly by capital expenditures on fixed assets as well as the purchase of the shares in Kemiart Liners Oy. By contrast, total assets were reduced by the sale of Metsä Tissue, depreciation that was greater than capital expenditures on fixed assets as well as by decreased inventories and accounts receivable. Accounts receivable were reduced by lower sales in euros. The Group's liquid funds amounted to euros 242 million (184). Capital expenditures during the financial year are discussed in the Report of the Board of Directors. At the end of the year, capital employed totalled euros 5 135 million. Its breakdown by business is shown in the table below.

Financing ■ Consolidated shareholders' equity net of minority interests was euros 2 627 million at the end of the year (2 245). Shareholders' equity was increased by the net funds of euros 430 million raised in the rights offering. Interest-bearing liabilities stood at euros 2 484 million, a decrease of euros 940 million compared with the figure a year earlier. The debt was paid down by the proceeds from the rights offering as well as from the sale of Metsä Tissue

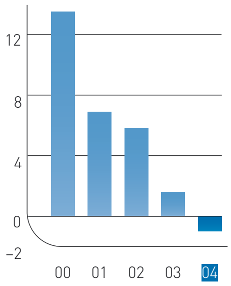
Interest-bearing net liabilities (= interest-bearing liabilities less liquid funds and other interest-bearing receivables) amounted to euros 2 161 million at the end of the financial year (3 109).

Key ratios ■ The return on capital employed fell as a consequence of weakened profitability and was –1.0 per cent (1.6). The equity ratio was 41.5 per cent (31.9) and the gearing ratio was 82 per cent (137).

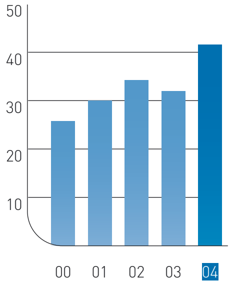
Return on capital employed

euros million	2004	2003	change
Cartons	913	882	+31
Graphics products and	2 592	2 850	–258
Offices	854	839	+15
Map Merchant Group	388	383	+5
Others	388	734	–346
Group total	5 135	5 688	–553

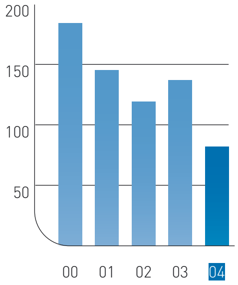
Return on capital employed, %



Equity ratio, %



Gearing ratio, %



Euros million

Cash flow statements

	Group		Parent company	
	2004	2003	2004	2003
Funds from operations				
Operating profit *	–67.3	78.9	–19.1	–26.2
Depreciation according to plan	461.5	481.0	119.1	119.2
Change in provisions for liabilities and charges	4.7	–4.9	–4.2	8.8
Net financial items *	–133.9	–117.8	194.5	241.5
Taxation *	–27.5	–19.9	–22.0	–5.1
Total	237.5	417.3	268.3	338.2
Change in working capital				
Inventories (increase –, decrease +)	24.2	14.4	8.1	0.9
Current receivables (increase –, decrease +)	–20.6	101.4	–42.6	–42.9
Non-interest-bearing current liabilities (increase +, decrease –)	16.0	–108.0	9.0	–7.3
Total	19.6	7.8	–25.5	–49.3
Cash flow from operations	257.1	425.1	242.8	288.9
Change in fixed assets				
Gross capital expenditures	–258.8	–396.7	–154.6	–61.0
Disposals and other changes in fixed assets	434.2	–2.5	–15.5	107.4
Cash flow after capital expenditures	432.5	25.9	72.7	335.3
Financing				
Share issue	447.5		447.5	
Change in interest-bearing liabilities (increase +, decrease –)	–940.1	62.7	–517.5	–412.6
Interest-bearing net liabilities of companies acquired and divested	121.5	–8.5		
Change in interest-bearing long-term receivables (increase –, decrease +)	50.2	11.0	–42.8	228.1
Dividend	–53.7	–107.4	–53.7	–107.4
Group contribution			100.1	11.7
Other changes			–4.2	–36.5
Change in liquid funds	57.9	–16.3	2.1	18.6

Group

	31 Dec 2004	Change	31 Dec 2003	Change
Interest-bearing net liabilities	2 484.1	–940.1	3 424.2	62.7
Interest-bearing receivables	–81.3	50.2	–131.5	11.0
Liquid funds	–241.5	–57.9	–183.6	16.3
Interest-bearing liabilities	2 161.3	–947.8	3 109.1	90.0

* For the Group stated after elimination of the effect of associated company accounting.

Cash flow analysis

Cash flow from operations ■ Cash flow from operations, net of the effect of acquisitions and divestments, fell clearly and was euros 257 million (425). Funds from operations decreased by 43 per cent to euros 238 million (417). The drop in funds from operations was attributable to the euros 166 million decrease in the operating margin (operating profit plus depreciation) adjusted for interests in associated companies, the euros 16 million increase in financial expenses as well as the euros 8 million increase in taxes. Against this, funds from operations were slightly increased by the euros 10 million more favourable change in the provisions for liabilities and charges.

Inventories decreased by euros 24 million, accounts receivable and other current receivables increased by euros 21 million and interest free liabilities increased by euros 16 million. As a consequence the reduction in working capital, excluding the effects of acquisitions and divestments, freed up cash flow of euros 20 million.

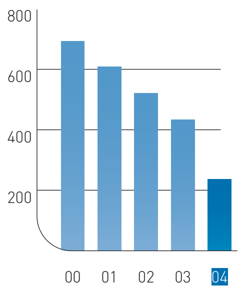
Capital expenditures and other changes in fixed assets ■ The Group's gross capital expenditures amounted to euros 259 million, of which euros 239 million went for fixed assets and euros 20 million represented the purchase price of shares in acquired companies.

Capital financing ■ The rights offering increased equity by euros 448 million. Interest-bearing liabilities were decreased by euros 940 million. The company paid a dividend of euros 0.25 per share, or euros 54 million.

Interest-bearing net liabilities ■ Despite the weak cash flow from operations the funds received from the sale of Metsä Tissue and the funds raised in the rights offering the interest bearing net liabilities decreased by euros 948 million and totalled euros 2 161 million at the end of the financial year.

	euros
Cash flow form operations	257
Divestments and other changes	434
Rights offering	448
	1 139
Capital expenditures on fixed assets	–239
Acquisitions and share purchases	–20
Dividend	–54
Interest bearing net liabilities of acquired and divested companies	122
Increase of interest bearing net liabilities	–948

Funds from operations,
€ million



Euros million

Parent Company Profit and Loss Account

	Note	1 Jan–31 Dec 2004		%	1 Jan–31 Dec 2003		%
Turnover			1 511.2	100.0		1 474.5	100.0
Change in stocks of finished goods and in work			2.0			–9.2	
Other operating income	3		73.2			41.5	
Materials and services							
Raw materials and consumables		819.9			767.9		
Costs of external services		129.0			125.6		
Employee costs	4	223.6			227.8		
Depreciation	5	119.1			119.2		
Other operating expenses		313.9	1 605.5		292.5	1 533.0	
Operating profit			–19.1	–1.3		–26.2	–1.8
Financial income and expense	6, 7						
Interest income from Group companies		244.0			219.9		
Income from other financial investments		89.7			130.2		
Other interest and similar income		13.2			22.0		
Net exchange gains/losses		3.7			54.1		
Interest expense and similar charges		–156.1	194.5		–184.7	241.5	
Profit before extraordinary items			175.4	11.6		215.3	14.6
Extraordinary items	8						
Extraordinary income		103.8			12.6		
Extraordinary expenses		–8.2	95.6		–40.4	–27.8	
Profit before appropriations and taxes			271.0	17.9		187.5	12.7
Appropriations							
Change in depreciation differencies			22.0			3.3	
Tax expense	9		–22.0			–5.1	
Profit for the financial period			271.0	17.9		185.7	12.6

Euros million

Parent Company Balance Sheet

Assets	Note	31 Dec 2004		%	31 Dec 2003		%
Fixed assets							
Intangible assets	10						
Intangible rights		18.2			21.5		
Purchased goodwill		4.0			5.8		
Other capitalized expenditure		3.0	25.2	0.4	3.9	31.2	0.6
Tangible assets	10, 12						
Land		23.0			22.8		
Buildings		199.9			211.7		
Plant and equipment		694.8			767.6		
Other tangible assets		6.8			7.4		
Payments in advance and assets in the course		57.4	981.9	17.8	11.1	1 020.6	18.9
Financial investments	11, 12						
Shares in Group companies		1 941.0			1 824.6		
Amounts owed by Group companies		996.9			994.6		
Investments in associated companies		405.6			415.1		
Amounts owed by associated companies		8.7			9.0		
Other investments		43.5			54.9		
Other receivables		1.6	3 397.3	61.5	2.0	3 300.2	61.2
Fixed assets, total			4 404.4	79.7		4 352.0	80.7
Current assets							
Inventories							
Raw materials and consumables		51.3			52.0		
Finished goods and goods for resale		124.0			121.9		
Advance payments		4.9	180.2	3.3	14.4	188.3	3.5
Receivables	14, 15, 17						
Accounts receivable		138.2			36.2		
Amounts owed by Group companies		614.9			631.4		
Amounts owed by associated companies		0.2			0.2		
Other receivables		28.4			28.8		
Prepayments and accrued income	16	55.6	837.3	15.2	56.9	753.5	14.0
Investments							
Current financial assets (other than securities)			0.0	0.0		0.9	0.0
Cash at bank and in hand			101.5	1.8		98.6	1.8
Current assets, total			1 119.0	20.3		1 041.3	19.3
Assets, total			5 523.4	100.0		5 393.3	100.0

Parent Company Balance Sheet

Shareholders' equity and liabilities	Note	31 Dec 2004		%	31 Dec 2003		%
Shareholders' equity	18						
Share capital		557.9			304.3		
Share premium account		663.8			469.9		
Revaluation reserve		81.7			81.7		
Retained earnings		963.7			831.8		
Profit for the financial period		271.0	2 538.1	45.9	185.7	1 873.4	34.7
Appropriations							
Accumulated depreciation difference			550.3	10.0		572.2	10.6
Provisions for liabilities and charges	19		20.3	0.4		24.6	0.5
Liabilities	20, 21						
Long-term liabilities	23						
Bonds and debentures		962.1			940.2		
Loans from financial institutions		404.9			1 197.5		
Pension premium loans		97.1			113.0		
Other liabilities		1.4	1 465.5	26.5	1.3	2 252.0	41.8
Short-term liabilities	24						
Bonds and debentures		142.5			10.0		
Loans from financial institutions		7.0			13.3		
Pension premium loans		15.9			15.9		
Advance payments		0.2			0.1		
Accounts payable		57.6			41.3		
Amounts owed to Group companies		607.4			446.2		
Amounts owed to associated companies		2.9			8.6		
Other liabilities		9.2			13.2		
Accruals and prepaid income	25	106.5	949.2	17.2	122.5	671.1	12.4
Liabilities, total			2 414.7	43.7		2 923.1	54.2
Shareholders' equity and liabilities, total			5 523.4	100.0		5 393.3	100.0

Accounting principles

■ The financial statements of M-real Corporation and the Group have been prepared in accordance with Finnish accounting practice. The figures are stated in euro.

Principles of consolidation

Companies belonging to the same group ■ The companies within the same group are, in addition to M-real Corporation and its subsidiaries, M-real Corporation's parent company, Metsäliitto Osuuskunta and its other subsidiaries.

Subsidiaries ■ The consolidated financial statements include the accounts of M-real Corporation and all those subsidiaries in which the parent company controlled, directly or indirectly, over 50 per cent of the voting rights at 31 December 2004, with the exception of housing and property companies. These companies do not have a material effect on the Group's result of operations and financial position as set forth by the financial statements.

The financial period of all companies ended on December 31, 2004.

Subsidiaries acquired or established during the financial period have been consolidated from the date of their acquisition. Companies in which a controlling interest has been given up during the financial year are included in the consolidated financial statements up to the time of relinquishing control.

The accounts of subsidiaries outside Finland have been consolidated using the unified accounting principles applied by the Group, which are based on Finnish accounting practice.

The purchase method of consolidation has been adopted. Goodwill, being the excess of purchase consideration over the net assets of an acquired company, is allocated to the fixed assets of the company in the cases where the fair value exceeds the carrying value of asset in question. This portion of goodwill is amortized in accordance with the depreciation principles of the assets in question. The unallocated portion of the goodwill is shown under intangible assets in the balance sheet. The goodwill arising from the purchase of production capacity or a significant market share is amortised on a straight-line basis over the estimated economic life not exceeding ten years, and other goodwill over five years and, in special situations, over maximum of 20 years.

All intra-Group transactions, unrealized margins on internal deliveries, internal receivables and liabilities as well as internal distribution of profits have been eliminated.

Minority interests have been disclosed separately from the Group's profit and shareholders' equity and stated as a separate item.

Resource companies ■ The profit and loss account and balance sheet items as well as the notes to the accounts of the resource company Oy Metsä-Botnia Ab and its subsidiaries along with Kemiart Liners Oy have been consolidated using the line-by-line method proportionate to the M-real Group's holding. Kemiartliners Oy has been consolidated as subsidiary from July 1 since it became a wholly owned subsidiary of M-real.

Associated companies ■ The main associated companies, in which M-real Corporation's holding and number of votes either directly or indirectly is 20–50 per cent, are consolidated according to the equity method. M-real's share of the results of associated companies is stated in the profit and loss account on the line "Share of Profits from Associated Companies."

Goodwill arising on investments in associated companies is amortized over five years or a longer estimated period of its useful life not exceeding ten years. Straight-line depreciation of goodwill is stated in the profit and loss account on the line "Share of Profits from Associated Companies."

A list of major associated companies is given in the share specification under "Shares and investments" on pages 42.

Turnover

Turnover is calculated after deduction of indirect sales taxes, trade discounts and refunds. Turnover also includes exchange differences arising on translation of trade receivables and derivative contracts relating to the hedging of sales revenues.

Depreciation is not recorded on the purchase cost of land and water areas and on revaluations.

Leasing

As a rule, leasing payments are treated as rental expenses. Major assets held under finance leases are included in fixed assets and the capital element of the leasing commitments is included under liabilities.

Environmental expenditure

Environmental expenditure comprises the specifiable expenses of environmental protection measures aiming primarily at combating, remedying or alleviating environmental damage.

Extraordinary income and expenses

Substantial income and expenses arising on transactions of an abnormal nature, such as the divestment of businesses, are presented in the profit and loss account as extraordinary items.

Appropriations

In Finland and certain other countries tax regulations allow a portion of profit before taxation to be transferred to untaxed reserves in the balance sheet. These appropriations are deductible for tax purposes only if they are recorded in the company's financial statements. The most substantial of these appropriations is the depreciation difference of fixed assets. These items are presented in the appropriations in the profit and loss account.

Changes in the appropriations included in the financial statements of group companies are divided into the change in deferred tax liability and the profit for the financial period in the consolidated profit and loss statement.

Accumulated appropriations in the consolidated balance sheet have been divided into deferred tax liabilities and shareholders' equity and the portion belonging to minority interest has been separated out.

Future costs and losses

Future costs and losses to which the Group is committed and which are likely to be realized are included in the profit and loss account under the appropriate expense heading and in the balance sheet under provisions whenever the precise amount and the time of occurrence is not known and in other cases they are included in accrued liabilities.

Income taxes

Taxes included in consolidated profit and loss account are based on the taxable profits of group companies for the financial period calculated in accordance with the local tax regulations. Taxes also include tax adjustments for previous periods and the change in deferred taxes.

The requirements of the Finnish Accounting Act have been observed in stating deferred taxes. Deferred tax liabilities and assets have been calculated on all the material timing differences and consolidation measures which reflect a difference between taxation and the financial statements and have an impact on earnings as well as from appropriations, applying the tax rate for subsequent years, which has been confirmed on the balance sheet date. The balance sheet includes deferred taxes in their entirety and deferred tax assets in the estimated probable amount of the future tax benefit.

Euros million

Notes to the Accounts

1. Breakdown of turnover

Turnover and Operating profit by business areas

	Turnover		Operating profit	
	Group		Group	
	2004	2003	**2004**	2003
Cartons	**879.7**	809.0	**60.3**	33.3
Graphics Products and Speciality Papers	**2 377.9**	2 348.0	**–90.0**	24.3
Offices	**670.0**	682.9	**–3.9**	48.2
Map Merchant Group	**1 368.4**	1 392.6	**4.7**	6.5
Internal sales and other operations	**164.3**	811.6	**–45.8**	–38.5
M-real Group	**5 460.3**	6 044.1	**–74.7**	73.8

Turnover by country

	Group	
	2004	2003
Great Britain	**1 055.4**	1 115.4
Germany	**797.1**	927.1
France	**378.0**	434.0
Finland	**345.2**	392.5
Italy	**223.0**	245.3
USA	**205.9**	188.2
Spain	**204.8**	207.9
The Netherlands	**201.4**	234.5
Sweden	**183.7**	270.1
Poland	**161.9**	175.7
Belgium	**132.8**	162.5
Switzerland	**122.7**	149.4
Austria	**102.0**	111.6
Russia	**94.6**	88.5
Denmark	**84.1**	133.3
Australia	**80.7**	76.1
China	**77.4**	84.3
Norway	**54.5**	112.4
Baltic countries	**49.2**	49.7
Canada	**49.1**	53.7
Hong Kong	**46.4**	37.6
Greece	**46.1**	37.9
Ireland	**44.1**	56.4
Japan	**35.4**	35.0
Portugal	**10.9**	11.0
India	**6.2**	8.5
Other Europe	**295.5**	258.1
Other Asia	**168.2**	148.9
Other countries	**204.0**	238.5
M-real Group	**5 460.3**	6 044.1

2. Share of results of associated companies

	Percentage holding %	Share of profit	Goodwill amor-tization	Share of profits of the companies	Goodwill remaining
Myllykoski Paper Oy	35.0	–0.6	–8.6	–9.2	19.5
Other associated companies		1.8		1.8	
		1.2	–8.6	–7.4	19.5

The unamortized amount of consolidated goodwill for associated companies at 31 Dec. 2003 was euros 19.5 million (2003: 28.2); none of the Group reserves was left uncredited to income (2003: EUR 0.0).

	Group		Parent Company	
	2004	2003	**2004**	2003
3. Other operating income				
Rental income	**3.4**	4.0	**2.6**	2.7
Gains on disposal of fixed assets	**14.3**	11.1	**4.4**	4.6
Service revenues	**12.3**	12.2	**55.9**	15.7
Other items	**56.3**	46.5	**10.3**	18.5
	86.3	73.8	**73.2**	41.5
4. Employee costs				
Wages and salaries for working hours	**629.9**	713.5	**128.6**	127.4
Pension expenses	**83.4**	82.5	**30.0**	36.7
Other employee expenses	**204.0**	248.3	**65.0**	63.7
	917.3	1 044.3	**223.6**	227.8
Salaries and emoluments paid to management				
Managing directors and their alternates	**10.6**	11.3	**0.4**	0.6
Members of the board and deputies	**0.5**	0.9	**0.4**	0.3
	11.1	12.2	**0.8**	0.9

Pension commitments to management

Management pension commitments exist only for the Group's German companies for which the items have been charged to earnings and entered as a liability in the balance sheet. The Group has no off balance-sheet pension liabilities on behalf of management.

The President of the parent company as well as certain other members of the Group's management have the right to retire on a pension at the age of 62 years.

The parent company has no commitments on behalf of persons belonging to the above-mentioned bodies or who have previously belonged to them.

Personnel by business area, average

	Group	
	2004	2003
Cartons	**2 842**	2 970
Graphics products and Speciality papers	**6 670**	6 957
Offices	**2 036**	2 107
Map Merchant Group	**2 528**	2 554
Other operations	**2 414**	5 784
M-real Group	**16 490**	20 372

Personnel at year end

	Group	
	2004	2003
Finland	**4 912**	5 835
Germany	**2 873**	4 148
Great Britain	**1 832**	1 875
Sweden	**1 691**	2 334
Austria	**872**	871
France	**824**	884
Switzerland	**570**	577
Hungary	**543**	575
Belgium	**392**	407
The Netherlands	**342**	361
Poland	**169**	795
Other countries	**940**	974
M-real Group	**15 960**	19 636

	Group 2004	Group 2003	Parent Company 2004	Parent Company 2003
5. Depreciation				
Depreciation according to plan				
Intangible rights	**22.1**	20.7	**5.1**	6.3
Purchased goodwill	**2.9**	4.9	**1.8**	1.8
Consolidation goodwill	**43.1**	65.1		
Recognition of Group reserve as income	**–14.4**	–4.0		
Other capitalized expenditure	**2.5**	2.6	**0.7**	0.8
Buildings and constructions	**53.1**	53.3	**13.5**	13.5
Machinery and equipment	**333.7**	328.6	**97.2**	96.0
Other tangible assets	**18.5**	9.8	**0.8**	0.8
Total depreciation according to plan	**461.5**	481.0	**119.1**	119.2
Depreciation difference			**–20.5**	–2.8
Total depreciation			**98.6**	116.4
6. Financial income and expenses				
Dividend income	**2.2**	1.8	**288.7**	292.9
Interest income from non-current investments	**0.7**	0.2	**45.0**	57.2
Other interest income	**15.4**	14.8	**13.2**	21.9
Other financial income	**0.1**	1.1		
Write-downs on non-current investments	**–0.1**	1.2		
Interest expenses	**–134.4**	–181.9	**–126.4**	–174.1
Share issue expenses	**–17.3**		**–17.3**	
Other financial expenses	**–13.4**	–11.9	**–12.4**	–10.5
	–146.8	–174.7	**190.8**	187.4
Exchange rate differences	**12.5**	20.7	**3.7**	54.1
Financial income and expenses, total	**–134.3**	–154.0	**194.5**	241.5
7. Exchange gains/losses in the profit and loss account				
Exchange differences on sales				
Exchange differences on derivatives	**–10.7**	25.4	**4.1**	5.5
Other exchange differences	**10.4**	–42.0	**–3.8**	–18.3
	–0.3	–16.6	**0.3**	–12.8
Exchange differences on purchases				
Exchange differences on derivatives	**–0.4**	–1.2		
Other exchange differences	**2.7**	9.9	**0.3**	0.6
	2.3	8.7	**0.3**	0.6
Exchange differences on financing				
Exchange gains				
Realized	**111.2**	228.1	**98.7**	235.1
Unrealized	**1.5**	1.8	**7.7**	20.3
Exchange losses				
Realized	**–99.8**	–187.4	**–102.5**	–183.0
Unrealized	**–0.4**	–21.8	**–0.2**	–18.3
	12.5	20.7	**3.7**	54.1
Exchange differences, total	**14.5**	12.8	**4.3**	41.9

	Group 2004	Group 2003	Parent Company 2004	Parent Company 2003
8. Extraordinary income and expenses				
Extraordinary income				
Capital gain on the divestment of Metsä-Tissue	194.0			
Reversal of provision for restructuring	4.2			
Capital gain on the sale of shares		0.9		0.9
Group contribution received			103.8	11.7
Extraordinary expenses				
Group contribution granted			–3.7	
Business reorganisation items		–16.0	–4.5	–40.4
Extraordinary income and expenses, total	198.2	–15.1	95.6	–27.8
9. Income taxes				
Income taxes for the financial period	–55.3	–31.2	–22.0	–5.3
Income taxes for previous periods	0.2	12.2		0.2
Change in deferred taxes	52.0	18.3		
Tax expense, total	–3.1	–0.7	–22.0	–5.1
Income taxes on ordinary operations	18.7	–24.3	–49.7	–13.4
Income taxes on extraordinary items	–22.0	11.4	27.7	8.1
	–3.3	–12.9	–22.0	–5.3
Change in deferred tax liabilities				
From appropriations and other periodization differences	64.3	–4.5		
Netting against assets	–12.3	1.9		
	52.0	–2.6		
Change in deferred tax assets				
For appropriations and other periodization differences	–14.6	13.6		
From consolidation	2.3	9.2		
Netting against liabilities	12.3	–1.9		
	0.0	20.9		

10. Intangible and tangible assets

	Intangible rights	Purchased goodwill	Con-solidation goodwill	Other capitalized expenditure	Land	Buildings	Plant and equipment	Other tangible assets	Construc-tion in progress
Group									
Acquisition costs, 1 Jan	135.2	40.7	956.4	59.6	220.2	1 412.3	5 960.3	170.3	72.3
Increases during the period	24.4	0.1	1.6	0.9	11.1	8.4	117.1	29.2	100.9
Transfers between items	3.7			–3.7	0.1	0.8	21.9	3.9	–26.7
Decreases during the period	–8.4	–12.9	–116.2	–5.0	–13.1	–153.7	–469.9	–5.0	–45.3
Acquisition costs, 31 Dec 2004	154.9	27.9	841.8	51.8	218.3	1 267.8	5 629.4	198.4	101.2
Accumulated depreciation 1 Jan	–71.5	–25.0	–265.5	–41.1	–1.9	–635.3	–3 506.6	–83.3	
Accumulated difference on deductions and transfers	5.6	7.8	31.7	3.7		75.4	340.9	4.4	
Depreciation for the period	–22.1	–2.9	–28.7	–2.5	–0.1	–53.0	–333.7	–18.5	
Accumulated depreciation 31 Dec 2004	–88.0	–20.1	–262.5	–39.9	–2.0	–612.9	–3 499.4	–97.4	
Revaluations, 1 Jan					130.1	36.2			
Reduction in revaluations						–0.5			
Revaluations, 31 Dec					130.1	35.7			
Book value, 31 Dec 2004	66.9	7.8	579.3	11.9	346.4	690.6	2 130.0	101.0	101.2
Book value, 31 Dec 2003	63.7	15.7	690.9	18.5	348.4	813.2	2 453.7	87.0	72.3

Increases/decreases include fixed assets of subsidiaries acquired/sold. Accumulated depreciation include accumulated depreciation of acquired subsidiaries. The "Plant and equipment" account includes euros 2 113 million for production machinery and equipment.

	Intangible rights	Purchased goodwill	Other capitalized expenditure	Land	Buildings	Plant and equipment	Other tangible assets	Construc-tion in progress
Parent Company								
Acquisition costs. 1 Jan.	51.6	20.0	36.0	22.8	314.5	1 499.7	14.0	11.1
Increases during the period	1.8			0.3	1.9	19.5	0.2	54.2
Transfers between items	0.8				–0.5	3.1		–4.5
Decreases during the period	–1.3		–1.1	–0.1	–1.0	–3.1		–3.4
Acquisition costs, 31 Dec 2004	52.9	20.0	34.9	23.0	314.9	1 519.2	14.2	57.4
Accumulated depreciation 1 Jan	–30.1	–14.2	–32.1		–102.9	–732.1	–6.6	
Accumulated difference on deductions and transfers	0.5		0.9		1.4	4.9		
Depreciation for the period	–5.1	–1.8	–0.7		–13.5	–97.2	–0.8	
Accumulated depreciation 31 Dec 2004	–34.7	–16.0	–31.9		–115.0	–824.4	–7.4	
Book value, 31 Dec 2004	18.2	4.0	3.0	23.0	199.9	694.8	6.8	57.4
Book value, 31 Dec 2003	21.5	5.8	3.9	22.8	211.7	767.6	7.4	11.1

The "Plant and equipment" account includes euros 662.9 million for production machinery and equipment.
The undepreciated portion of capitalized interest expenses for the Group and the parent company under the balance sheet item "Buildings and constructions" at 31 Dec. 2004 was euros 1.7 million (2003: 2.9) and under the balance sheet item "Plant and equipment" it was for the Group euros 2.1 million (2003: 3.2 million) and for the Parent company euros 2.1 million (2003: 3.2 million) and "Construction in Progress" both in the Group and the Parent Company it was euros 0.5 million (2003: 0.0). The capitalization of interest expenses during the 2004 financial year was euros 0.5 million (2003: 0.0).

11. Investments

	Shares in Group companies	Shares in associated companies	Other shares and partici-pations	Receiv-ables from Group companies	Receiv-ables from associated companies	Other non-current receiv-ables	Total
Group							
Acquisition costs. 1 Jan 2004	0.7	86.4	57.3	17.6	17.9	23.1	203.0
Increases during the period			1.2				1.2
Decreases during the period	–0.1	–17.0	–11.4		–3.1	–11.2	–42.8
Acquisition costs, 31 Dec 2004	0.6	69.4	47.1	17.6	14.8	11.9	161.4
Revaluations, 1 Jan 2004			2.3				2.3
Increases during the period							
Revaluations, 31 Dec 2004			2.3				2.3
Book value, 31 Dec 2004	0.6	69.4	49.4	17.6	14.8	11.9	163.7
Parent company							
Acquisition costs, 1 Jan 2004	1 689.5	413.4	55.0	994.6	9.0	2.0	3 163.5
Increases during the period	94.8	39.4	0.5	550.9			685.6
Decreases during the period	–0.9	–26.4	–12.0	–436.5	–0.3	–0.4	–476.5
Transfers between items	22.5	–22.5		–112.1			–112.1
Acquisition costs, 31 Dec 2004	1 805.9	403.9	43.5	996.9	8.7	1.6	3 260.5
Revaluations 1 Jan / 31 Dec	135.1	1.7					136.8
Book value, 31 Dec 2004	1 941.0	405.6	43.5	996.9	8.7	1.6	3 397.3

12. Revaluations

	1 Jan	Increases	Decreases	31 Dec
Group				
Land	130.1			130.1
Buildings	36.2		–0.5	35.7
Shares	2.3			2.3
	168.6		–0.5	168.1
Parent company				
Shares	136.8			136.8
	136.8			136.8

Revaluations are based on estimates by independent valuers of the current value of assets at the dates of valuation.

The deferred tax liability for revaluations was euros 44.0 million for the Group and euros 35.6 million for the parent company when calculated according to local tax bases.

13. Loan receivables from management

There are no loan receivables from the managing directors of Group companies. members of the Board of Directors and their deputies as well as persons belonging to similar bodies.

		Group		Parent company	
		2004	2003	**2004**	2003
14.	**Current assets / long-term receivables**				
	Receivables from Group companies	**0.0**	0.0		
	Amounts owed by others				
	Loan receivables	**0.3**	0.1		
	Other current receivables	**4.6**	4.6		
	Tax assets	**25.5**	22.1		
		30.4	26.8		
15.	**Current assets / short-term receivables**				
	Amounts owed by Group companies				
	Accounts receivable	**7.4**	1.6	**118.8**	174.7
	Loan receivables	**33.1**	69.8	**398.7**	301.5
	Other current receivables	**0.0**	0.6	**67.8**	116.9
	Prepayments and accrued income			**29.6**	38.3
	Amounts owed by associated companies				
	Accounts receivable	**2.3**	1.5		0.1
	Loan receivables	**7.1**	7.5	**0.2**	0.1
	Amounts owed by others				
	Accounts receivable	**922.7**	1 001.8	**138.2**	36.2
	Loan receivables	**0.2**	0.1		
	Other current receivables	**108.4**	125.4	**28.4**	28.8
	Prepayments and accrued income	**115.7**	116.8	**55.6**	56.9
		1 196.9	1 325.1	**837.3**	753.5
16.	**Prepayments and accrued income**				
	Interest	**24.3**	16.7		0.1
	Insurance	**3.7**	7.0	**1.9**	5.0
	Taxes	**53.4**	43.5	**43.8**	40.2
	Discounts	**2.2**	3.1		1.3
	Others	**32.1**	46.5	**9.9**	10.3
		115.7	116.8	**55.6**	56.9
17.	**Interest-bearing receivables**				
	Loan receivables and other non-current assets	**39.9**	53.7	**1007.2**	1005.6
	Liquid funds and other current assets	**282.9**	261.4	**559.0**	515.8
		322.8	315.1	**1 566.2**	1 521.4

	Group		Parent company	
	2004	2003	**2004**	2003
18. Shareholders' equity				
Share capital, 1 Jan				
Series A shares	**61.8**	61.8	**61.8**	61.8
Series B shares	**242.5**	242.5	**242.5**	242.5
Total	**304.3**	304.3	**304.3**	304.3
Increase in share capital				
Series B shares	**253.6**		**253.6**	
Total	**253.6**		**253.6**	
Share capital, 31 Dec				
Series A shares	**61.8**	61.8	**61.8**	61.8
Series B shares	**496.1**	242.5	**496.1**	242.5
Total	**557.9**	304.3	**557.9**	304.3
Share premium account, 1 Jan	**472.9**	472.9	**469.9**	469.9
Share issue	**193.9**		**193.9**	
Share premium account, 31 Dec	**666.8**	472.9	**663.8**	469.9
Revaluation reserve, 1 Jan / Dec 31	**104.6**	104.6	**81.7**	81.7
Reserve funds and reserves stipulated by the Articles of Association at 1 Jan	**1.7**	1.7	**0.0**	0.0
Retained earnings, 1 Jan	**1 361.8**	1 577.5	**1 017.5**	939.2
Dividends paid	**–53.7**	–107.4	**–53.7**	–107.4
Change in translation differences on consolidation	**3.2**	–13.5		
Other increase/decrease	**–0.2**	0.2		
Profit for the financial period	**–15.3**	–95.0	**271.0**	185.7
Other reserves and retained earnings, 31 Dec	**1 295.8**	1 361.8	**1 234.8**	1 017.5
Shareholders' equity, total	**2 626.8**	2 245.3	**2 538.1**	1 873.4
Distributable funds				
Retained earnings	**1 295.8**	1 361.8		
Untaxed reserves in shareholders' equity	**–550.7**	–587.9		
Other undistributable items	**–23.2**	–23.2		
Distributable funds, total	**721.9**	750.7		
Untaxed reserves, 31 Dec				
Accumulated depreciation difference	**954.7**	990.1		
Other reserves	**1.6**	41.5		
	956.3	1 031.6		
Deferred tax liability in untaxed reserves	**–261.3**	–306.9		
	695.0	724.7		
Minority interest in untaxed reserves	**–1.3**	–1.3		
	693.7	723.4		
Reserves at the date of acquisition	**–143.0**	–135.5		
Untaxed reserves in shareholders' equity, 31 Dec	**550.7**	587.9		

19. Provision for liabilities and charges

	1.1.	Increase	Decrease	31.12.
Group				
Pension liability reserve	8.6	2.4	–3.7	7.3
Provision for unemployment pension costs	17.4	2.3	–5.6	14.1
Provision for expenses on closure of businesses	29.4	12.6	–22.2	19.8
Provision for rental costs	2.1		–1.0	1.1
Other provisions	19.9	3.6	–7.7	15.8
	77.4	20.9	–40.2	58.1
Parent company				
Pension liability reserve	4.0	1.6	–1.9	3.7
Provision for unemployment pension costs	11.9	2.2	–4.5	9.6
Provision for rental costs	1.9		–1.0	0.9
Other provisions	6.8	0.3	–1.0	6.1
	24.6	4.1	–8.4	20.3

20. Liabilities

	Group		Parent company	
	2004	2003	**2004**	2003
Long-term				
Non-interest bearing	**391.0**	447.2		
Interest bearing	**1 628.8**	2 583.4	**1 465.5**	2 252.0
	2 019.8	3 030.6	**1 465.5**	2 252.0
Short-term				
Non-interest bearing	**810.5**	893.2	**226.9**	217.8
Interest bearing	**855.3**	840.8	**722.3**	453.3
	1 665.8	1 734.0	**949.2**	671.1

Note continued on next page

		Group		Parent company	
		2004	2003	**2004**	2003
Bonds	Interest-%				
1999–2004	2.76		10.0		10.0
1999–2006	4.88	**120.9**	199.8	**199.9**	199.8
2000–2005	2.68	**35.0**	35.0	**35.0**	35.0
2000–2005	2.91	**5.6**	10.0	**10.0**	10.0
2000–2005	2.86	**5.0**	5.0	**5.0**	5.0
2000–2007	3.03	**34.9**	34.9	**34.9**	34.9
2000–2008	3.00	**17.9**	17.9	**17.9**	17.9
2001-2006	4.00	**3.7**	5.4	**3.7**	5.4
2001–2006	3.74	**7.3**	7.9	**7.3**	7.9
2001–2006	3.85	**7.3**	7.9	**7.3**	7.9
2001–2006	3.54	**11.7**	10.0	**11.7**	10.0
2001–2006	3.87	**15.0**	15.0	**15.0**	15.0
2002–2005	6.29	**16.0**	16.0	**16.0**	16.0
2002–2005	3.75	**4.4**	10.0	**10.0**	10.0
2002–2005	7.25	**33.0**	33.0	**33.0**	33.0
2002–2005	7.21	**33.3**	33.0	**33.3**	33.0
2002–2009	8.89	**101.7**	107.5	**101.7**	107.5
2002–2012	9.20	**112.3**	112.3	**112.3**	112.3
2002–2014	9.40	**131.8**	131.9	**131.8**	131.9
2003–2006	5.24	**22.6**	30.0	**30.0**	30.0
2003–2008	4.31	**98.4**	98.0	**98.4**	98.0
2003–2008	4.08	**19.8**	19.7	**19.8**	19.7
2004–2008	4.32	**49.0**		**49.0**	
2004–2009	4.42	**29.5**		**29.5**	
2004–2009	5.91	**39.8**		**39.8**	
2004–2011	4.48	**29.9**		**29.9**	
2004–2011	4.65	**10.0**		**10.0**	
2004–2011	4.73	**12.4**		**12.4**	
Total		**1 008.2**	950.2	**1 104.6**	950.2

21. Long-term debts with amortization plan

	Bonds	Bank loans	Pension loans	Other loans	Total
2005	132.5	20.9	15.9	6.5	175.8
2006	188.2	18.9	15.9	6.3	229.3
2007	34.9	124.5	15.9	6.8	182.1
2008	185.1	56.5	15.9	6.1	263.6
2009	171.0	59.4	15.9	6.5	252.8
2010–	296.5	222.8	33.6	148.3	701.1
Total, at the end of the financial period	1 008.2	503.0	113.1	180.5	1 804.7

	Group		Parent company	
	2004	2003	**2004**	2003
22. Deferred taxes				
Deferred tax liability				
For periodization differences and appropriations	**395.8**	457.4		
For consolidation entries	**21.5**	21.1		
Netting against assets	**–38.6**	–46.6		
Total	**378.7**	431.9		
Tax assets				
For periodization differences and appropriations	**64.1**	68.7		
Netting against assets	**–38.6**	–46.6		
Total	**25.5**	22.1		

Untaxed reserves consist mainly of the accumulated difference between total depreciation made and depreciation according to plan for the Group´s domestic subsidiaries. Deferred tax on untaxed reserves is calculated in accordance with the rate of taxation in the country concerned (Finland 26%). Deferred tax resulting from other periodization differences primarily comprise provisions for future costs.

Deferred tax assets totalling euros 204 million have not been recorded in the balance sheet because there is uncertainty regarding the extent to which they can be used.

	Group 2004	Group 2003	Parent company 2004	Parent company 2003
23. Long-term liabilities				
Amounts owed to Group companies				
Other liabilities	2.0	2.1		
Amounts owed to associated companies				
Account payable		0.1		
Amounts owed to others				
Bonds and debentures	875.7	940.2	**962.1**	940.2
Loans from financial institutions	482.0	1 310.7	**404.9**	1 197.5
Pension premium loans	97.1	123.8	**97.1**	113.0
Deferred tax liabilities	378.7	431.9		
Account payable	0.0	1.2		
Other liabilities	172.7	210.9	**1.4**	1.3
Accruals and deferred income	11.6	9.9		
	2 019.8	3 030.6	**1 465.5**	2 252.0

	Group		Parent company	
	2004	2003	**2004**	2003
24. Short-term liabilities				
Amounts owed to Group companies				
Accounts payable	**24.1**	32.5	**28.2**	25.9
Other liabilities	**316.6**	378.7	**558.1**	401.4
Accruals and deferred income	**16.1**	4.5	**21.1**	18.9
Amounts owed to associated companies				
Accounts payable	**9.4**	17.3	**0.4**	0.7
Other liabilities	**76.6**	67.0	**2.5**	7.9
Amounts owed to others				
Bonds and debentures	**132.5**	10.0	**142.5**	10.0
Loans from financial institutions	**69.2**	188.1	**7.0**	13.3
Pension premium loans	**15.9**	16.4	**15.9**	15.9
Advance payments	**0.7**	2.2	**0.2**	0.1
Accounts payable	**302.5**	367.7	**57.6**	41.3
Bills of exchange. payable	**14.3**	13.0		
Other liabilities	**343.5**	270.5	**9.2**	13.2
Accruals and deferred income	**344.4**	366.1	**106.5**	122.5
	1 665.8	1 734.0	**949.2**	671.1

25. Accruals and deferred income				
Long-term				
Periodizations of personnel expenses	**8.6**	5.5		
Periodizations of waste paper payments	**1.0**	1.1		
Tax periodizations	**0.7**	0.8		
Compensation and contribution commitments	**1.2**	1.3		
Others	**0.1**	1.2		
	11.6	9.9		
Short-term				
Periodizations of insurance premiums	**4.3**	5.5	**2.5**	2.2
Accruals of wage. salary and staff costs	**95.7**	100.2	**35.9**	32.0
Tax periodization	**21.4**	29.7		
Interests	**45.7**	42.2	**18.7**	24.1
Accruals of purchases	**54.1**	51.3	**21.7**	12.1
Freight costs	**8.0**	14.6	**1.4**	2.7
Provisions for discounts	**53.9**	51.0	**20.2**	17.7
Others	**61.3**	71.6	**6.1**	31.7
	344.4	366.1	**106.5**	122.5

26. Contingent liabilities

	Group 2004	Group 2003	Parent company 2004	Parent company 2003
For own liabilities				
Liabilities secured by pledges				
Loans from financial institutions		6.7		
Other liabilities		39.5		39.5
Pledges granted	**1.4**	46.7		39.5
Liabilities secured by mortgages				
Loans from financial institutions	**131.8**	173.8	**60.2**	89.7
Other liabilities	**6.9**	8.5		
Real-estate mortgages	**140.4**	170.3	**60.2**	89.7
Liabilities secured by mortages on movable property				
Loans from financial institutions				
Other liabilities		1.3		
Mortgages on movable property		2.9		
On behalf of Group companies				
Real-estate mortgages	**3.7**	3.7	**3.7**	3.7
Guarantee liabilities	**1.1**	1.2	**1 833.2**	1 597.2
On behalf of associated companies				
Guarantee liabilities	**1.0**	0.7		
On behalf of others				
Guarantee liabilities	**10.1**	13.5	**8.2**	8.1
Other liabilities				
As security for own commitments		0.1		
As security for other commitments	**1.1**	1.2		
Leasing commitments				
Payments due in following year	**13.0**	18.2	**4.5**	4.5
Payments due in subsequent years	**37.3**	48.4	**14.1**	16.4
Total				
Real estate mortgages	**144.1**	174.0	**63.9**	93.4
Mortgages on movable property		2.9		
Pledges	**1.4**	46.7		39.5
Guarantees	**12.2**	15.4	**1 841.4**	1 605.3
Promissory notes	**0.4**	0.7		
Other liabilities	**1.1**	1.3		
Leasing liabilities *	**50.3**	66.6	**18.6**	20.9
	209.5	307.6	**1 923.9**	1 759.1

* Leasing liabilities do not include the financial lease liabilities itemized below

Note continued on next page

	Group 2004	Group 2003
Financial lease agreements		
Value of assets in the consolidated balance sheet		
Land	**0.3**	0.8
Buildings	**3.0**	4.9
Plant and equipment	**64.3**	71.4
	67.6	77.1
Financial lease liabilities		
Short-term	**4.1**	5.1
Long-term	**57.9**	63.6
	62.0	68.7
Future leasing payments		
Year 2004		5.1
Year 2005	**4.1**	4.7
Year 2006	**3.2**	3.7
Year 2007	**2.1**	2.6
Year 2008	**2.2**	2.7
Year 2009	**2.2**	2.7
Next years	**48.2**	49.5
Future leasing payments, total	**62.0**	71.0

Group	**2004**		2003	
Liabilities due to open derivative contracts	**Gross amount**	**Going value**	Gross amount	Going value
I Interest rate derivatives				
Forward agreements	**6 339.3**	**–0.1**	2 861.9	–0.1
Options				
Purchased	**2 190.0**	**–5.4**	3 800.0	–1.4
Sold	**3 230.0**	**4.0**	4 400.0	–4.7
Interest rate swap agreements	**3 505.4**	**–15.2**	1 955.1	–12.1
II Currency derivatives				
Forward agreements	**4 340.7**	**12.0**	2 129.5	11.8
Options				
Purchased	**898.3**	**13.7**	920.7	8.6
Sold	**1 181.3**	**–6.2**	1 316.3	–3.7
Currency swap agreements	**220.4**		234.8	
III Other derivatives				
Forward agreements	**8.7**	**–1.2**	0.0	0.0
Derivative contracts, total	**21 914.1**	**1.6**	17 618.3	–1.6

Also include other closed contracts to a total amount of euros 13 876.8 million

	Group		Parent company	
	2004	2003	**2004**	2004
27. Environmental affairs				
Profit and loss account				
Raw materials and consumables	**25.9**	27.3	**5.1**	5.9
Employee costs				
Wages and fees	**6.5**	7.4	**1.5**	1.6
Social expenses	**1.9**	2.6	**0.9**	1.1
Depreciation	**16.6**	16.7	**3.2**	2.7
Other operating expenses	**16.1**	24.1	**5.1**	5.9
	67.0	78.1	**15.8**	17.2
Balance sheet				
Tangible assets				
Acquistion costs, 1 Jan	**443.3**	435.0	**53.6**	52.5
Increases	**58.7**	8.6	**3.3**	1.0
Decreases	**–12.0**			
Depreciation	**–277.2**	–266.9	**–23.9**	–20.7
Book value, 31 Dec.	**212.8**	176.7	**33.0**	32.8
Obligatory provisions				
Other obligatory provisions	**6.9**	7.2	**6.1**	6.8
Conditional environmental-related liabilities	**0.7**	0.9		

28. Major Group companies and other shareholdings [1]

	Country	Number of shares	Parent company's holding, %	Group's holding, %	Currency	Nominal value of shares thousand	Currency	Book value thousand
Shares and participations owned by the same group								
Metsäliitto Osuuskunta	Finland	179 171			EUR	603	EUR	607
Shares in subsidiaries								
In Finland								
Alakoski Oy	Finland	5 278	52.78	52.78	EUR	1	EUR	27
Oy Board International Ab	Finland	796	100.00	100.00	EUR	13	EUR	115
Oy Hangö Stevedoring Ab	Finland	150	100.00	100.00	EUR	126	EUR	3 919
M-real International Oy	Finland	10 000	100.00	100.00	EUR	169	EUR	3 347
M-real Tissue Oy	Finland	100	100.00	100.00	EUR	8	EUR	10
Forestia Oy	Finland	1 500 000	94.51	94.51	EUR	15 000	EUR	164 740
Metsä Group Financial Services Oy	Finland	25 500	51.00	51.00	EUR	4 289	EUR	5 147
Kemiart Liners Oy	Finland	2 000 000	100.00	100.00	EUR	20 000	EUR	22 676
M-real Service Oyj	Finland	19 800 000	66.00	100.00	EUR	51 000	EUR	225 259
Takon Kotelotehdas Oy	Finland	330 001	100.00	100.00	EUR	5 550	EUR	6 352
Äänevoima Oy *	Finland	4 500 000	45.00	45.00	EUR	4 500	EUR	4 500
In other countries								
M-real Deutsche holding GmbH	Germany		100.00	100.00	EUR	26	EUR	375 620
M-real Fine B.V.	The Netherlands	1 000	100.00	100.00	EUR	454	EUR	3 047
M-real Holding France SAS	France	12 786 663	100.00	100.00	EUR	194 931	EUR	70 357
M-real IBP Deals Americas Ltd	USA	50	100.00	100.00	USD	0	EUR	0
M-real IBP Deals Europe S.A.	Belgium	999	99.90	100.00	EUR	3 000	EUR	3 692
M-real NL Holding B.V.	The Netherlands	15 350	100.00	100.00	EUR	6 054	EUR	4 493
M-real Petöfi Ltd	Hungary	1	100.00	100.00	HUF	1 707 142	EUR	47 253
Metsä Group Schweiz AG	Switzerland	188	100.00	100.00	CHF	94	EUR	24
M-real Sverige AB	Sweden	4 950 000	49.50	100.00	SEK	1 000 000	EUR	1 116 773
M-real ServiceS.p.Z.o.o	Poland	400	100.00	100.00	PLN	200	EUR	286
M-real UK Holdings Ltd	Great Britain	146 750 000	100.00	100.00	GBP	146 750	EUR	147 939
Map Merchant Holdings B.V.	The Netherlands	6 000	100.00	100.00	EUR	4 727	EUR	206 033
Associated companies								
Finncao Oy	Finland	798	28.00	28.00	EUR	16	EUR	72
Grovehurst Energy Ltd	Great Britain	50	0.00	50.00	GBP	50	GBP	-144
Kirkniemen Kartano Oy	Finland	27 408	48.00	48.00	EUR	27 408	EUR	2 714
Oy Metsä-Botnia Ab	Finland	42 222	47.00	47.00	EUR	84 442	EUR	277 135
Metsäliitto-Yhtymän Tehdasmittaus Oy	Finland	132	33.00	33.00	EUR	22	EUR	29
Metsämannut Oy	Finland	35	30.00	34.70	EUR	6	EUR	46
MMM Logisware Oy	Finland	2 250	50.00	50.00	EUR	378	EUR	2 358
More Pulp Tech AB	Sweden	24 000	40.00	40.00	SEK	2 400	SEK	1 009
Myllykoski Paper Oy	Finland	105 000	35.00	35.00	EUR	2 100	EUR	53 432
Plastiroll Oy	Finland	39	39.00	39.00	EUR	7	EUR	3 836

* A controlling interest of over 50% under the shareholders' agreement
[1] A list of all shares and participations is kept at the headquarters of M-real Corporation

	Country	Number of shares	Parent company's holding, %	Group's holding, %	Currency	Nominal value of shares thousand	Currency	Book value thousand
Subgroups in Finland								
M-real Service Oyj								
M-real Service GmbH	Germany		100.00	100.00	EUR	100	EUR	1 406
M-real Service AB	Sweden	100 000	100.00	100.00	SEK	10 000	EUR	52 979
M–real International Oy								
BFT-Baltic Forest Terminals Ltd	Poland	200	96.00	100.00	PLN	96	EUR	168
M-real Benelux B.V.	The Netherlands	400	100.00	100.00	EUR	18	EUR	20
M-real Benelux n.v./s.a	Belgium	2 921	100.00	100.00	EUR	142	EUR	140
M-real CZ, s.r.o.	Czech Republic		100.00	100.00	CZK	100	EUR	3
M-real Deutschland GmbH	Germany	1	100.00	100.00	EUR	55	EUR	425
M-real France S.A.	France	8 211	100.00	100.00	EUR	125	EUR	219
M-real Hellas Ltd	Greece	306	50.00	51.00	EUR	9	EUR	9
M-real Hong Kong Ltd	Hong Kong	100	99.00	100.00	HKD	10	EUR	1
M-real Shanghai Ltd	China		100.00	100.00	CNY	1 159	HKD	1 093
M-real Ibéria S.A.	Spain	147 772	99.00	100.00	EUR	148	EUR	156
M-real Ibèrica Lda	Portugal		80.00	100.00	EUR	5	EUR	5
M-real Ireland Ltd	Ireland	5 000	100.00	100.00	EUR	6	EUR	6
M-real Italia s.r.l.	Italy	100 000	100.00	100.00	EUR	52	EUR	51
Nihon M-real KK	Japan	200	100.00	100.00	JPY	10 000	EUR	74
M-real Kft	Hungary	30	90.00	100.00	HUF	3 000	EUR	14
M-real (Middle East & North Africa) Ltd	Cyprus	742 105	100.00	100.00	CYP	742	EUR	214
M-real Polska Sp. Z o.o.	Poland	232	100.00	100.00	PLN	116	EUR	55
M-real Nordic A/S	Denmark	36	100.00	100.00	DKK	715	EUR	64
M-real Nordic AB	Sweden	1 000	100.00	100.00	SEK	100	DKK	41
M-real Singapore Pte Ltd	Singapore	10 000	100.00	100.00	SGD	10	EUR	4
M-real Slovakia, S.r.o.	Slovakia		100.00	100.00	SKK	200	EUR	6
M-real UK Ltd	Great Britain	2 400	100.00	100.00	GBP	2	EUR	264
M-real USA Corporation	USA	180	100.00	100.00	USD	0.18	EUR	4
Subgroups in other countries								
M-real Sverige AB								
Örnsköldsviks Stuveri AB	Sweden	5 400	100.00	100.00	SEK	540	SEK	5 185
M-real Logistics GmbH	Germany		100.00	100.00	EUR	26	SEK	249
M-real Reinsurance AG	Switzerland	19 995	100.00	100.00	SEK	11 596	SEK	11 546
M-real Holding France SAS								
M-real Alizay SAS	France	5 015 710	100.00	100.00	EUR	80 251	EUR	167 692
M-real Alizay SNC	France	39 999 999	99.99	100.00	EUR	40 000	EUR	60 980
M-real PSM SA	France	1 502 495	99.99	100.00	EUR	22 537	EUR	40 750
M-real Deutsche Holding GmbH								
CN Papiervertriebs GmbH	Germany		85.00	85.00	EUR	320	EUR	1 538
M-real Sverige AB	Sweden	5 050 000	100.00	100.00	SEK	1 269 404	EUR	413 528
M-real Zanders GmbH	Germany	2 800 000	0.00	100.00	EUR	71 596	EUR	123 286
M-real New Jersey Service Co.	USA		100.00	100.00	USD	5 311	EUR	0
Zanders Italia S.r.l	Italy		100.00	100.00	EUR	208	EUR	212
Zanders Fine Papers Ltd	Great Britain		100.00	100.00	GBP	50	EUR	57
M-real Stockstadt GmbH	Germany	5	100.00	100.00	EUR	40 100	EUR	400 013
Chemische Werke Zell-Wildshausen GmbH	Germany		100.00	100.00	EUR	562	EUR	558
M-real Hallein AG	Austria	70	100.00	100.00	EUR	70	EUR	0

Subgroups in other countries. continued	Country	Number of shares	Parent company's holding.%	Group's holding.%	Currency	Nominal value of shares thousand	Currency	Book value thousand
Map Merchant Holdings BV								
Map Merchant Netherlands B.V.	The Netherlands	50 000 000	100.00	100.00	EUR	50 000	EUR	225 918
Amerpap Oy	Finland	5 600	100.00	100.00	EUR	4 709	EUR	25 000
Grafisch Papier B.V.	The Netherlands	570	100.00	100.00	EUR	129	EUR	29 600
Printec B.V.	The Netherlands	80	100.00	100.00	EUR	18	EUR	0
Uniepapier Flevoland B.V.	The Netherlands	400	51.00	51.00	EUR	18	EUR	0
Uniepapier Zwolle B.V.	The Netherlands	400	51.00	51.00	EUR	18	EUR	0
Uniepapier Randstad B.V.	The Netherlands	400	51.00	51.00	EUR	18	EUR	0
GPG Papier N.V.	Belgium	300 000	100.00	100.00	EUR	7 437	EUR	6 000
Map Merchant Group Ltd.	Great Britain	95 015 743	100.00	100.00	GBP	95 016	EUR	148 390
Hedsor Ltd.	Great Britain	495 000	100.00	100.00	GBP	495	GBP	5 527
James McNaughton Paper Group Ltd.	Great Britain	10 000 000	100.00	100.00	GBP	10 000	GPB	57 306
James McNaughton Paper Merchants Ltd.	Great Britain	75 000	100.00	100.00	GBP	75	GPB	67
James McNaughton Agencies Ltd.	Great Britain	40 000	100.00	100.00	GBP	10	GPB	10
McNaughton Publishing Papers Ltd.	Great Britain	100	100.00	100.00	GBP	0	GPB	0
McNaughton Paper Ireland Ltd.	Ireland	157 135	98.90	98.90	GBP	157	GPB	622
McNaughton Paper Ireland Manufacturing Ltd.	Ireland	1 000	98.90	98.90	GBP	1	GPB	0
McNaughton Paper N.I Ltd	Great Britain	1 060	98.80	98.80	GBP	0	GBP	132
Printall Display Ltd.	Great Britain	50 000	100.00	100.00	GBP	50	GPB	489
County Paper Company Ltd.	Great Britain	182	100.00	100.00	GBP	0	GPB	857
Carefree Paper Company Ltd.	Great Britain	100	100.00	100.00	GBP	0	GPB	29
Brian J . Small (Paper) Ltd..	Great Britain	52 185	100.00	100.00	GBP	52	GPB	0
Ingram Group Ltd.	Great Britain	50 000	100.00	100.00	GBP	50	GPB	0
Paper Management Services Ltd	Great Britain	2	100.00	100.00	GBP	0	GPB	855
OnForm Reels Ltd.	Great Britain	150 000	33.33	100.00	GBP	150	GBP	150
Modo Merchants Ltd	Great Britain	400 000	100.00	100.00	GBP	18 400	GBP	20 300
GM2 Logistics Ltd.	Great Britain	125 000	50.00	100.00	GBP	250	GBP	125
Talk Paper Ltd.	Great Britain	125 000	50.00	100.00	GBP	250	GBP	125
Premier Paper Group Ltd.	Great Britain	10 000 001	100.00	100.00	GBP	18 000	GBP	46 200
Map Merchant Holdings GmbH	Germany	40	100.00	100.00	EUR	16 873	EUR	36 800
PVV Deutschland GmbH	Germany	18 000	100.00	100.00	EUR	900	EUR	3 876
IT-Papier	Austria	32 200	100.00	100.00	EUR	1 610	EUR	3 705
ECCO-Papier Spolka z oo	Poland	17 524	100.00	100.00	PLN	8 762	EUR	13 627
Schramm/Papirgros A/S	Denmark	48 000	100.00	100.00	DKK	4 800	EUR	12 306
ECCO Hungaria Kft.	Hungary		100.00	100.00	HUF	187 500	EUR	1 279
Map Merchant Romania s.rl.	Romania	1 584	88.00	88.00	ROL	380 160	EUR	875
Interpapir d.o.o.	Slovenia		100.00	100.00	SIT	68 138	EUR	678
ECCO Paper CZ s.r.o.	Czech Republic		99.90	100.00	CZK	29 970	EUR	4 827
ECCO Paper Yugoslavia Export-Import DOO	Yugoslavia		100.00	100.00	EUR	17	EUR	0
ECCO Paper SK s.r.o. Ruzomberok / Slowakei	Slovakia		100.00	100.00	SKK	6 000	EUR	1 156
MODO PAPER d.o.o.	Croatia		100.00	100.00	KUNA	500	EUR	74
Map Merchant Sweden AB	Sweden	19 000	100.00	100.00	SEK	19 000	EUR	2 000
ZAO Modo Paper Moscow	Russia	500	100.00	100.00	RUR	256	SEK	0
Map Eesti AS	Estonia	8 491	100.00	100.00	EEK		SEK	5 003
Map Latvia AS	Latvia	2 101 605	90.70	100.00	LVL	3 418	SEK	25 582
Modo Paper Lietuva	Lithuania	36 980	18.49	100.00	LTL		SEK	0
Oy Map Merchant Ab	Finland	500	100.00	100.00	EUR	50	SEK	455
UAB Map Lietuva	Lithuania	20 000	100.00	100.00	LTL	3 257	SEK	0
Svenskt Papper AB	Sweden	400 000	100.00	100.00	SEK	40 000	SEK	474 000
Basberg Papir A/S	Norway	10 000	100.00	100.00	NOK	1 000	SEK	870
Modo Paper Distribucion S.A.	Spain	225 114	95.98	100.00	EUR	1 410	EUR	5 739

Subgroups in other countries. continued	Country	Number of shares	Parent company's holding.%	Group's holding.%	Currency	Nominal value of shares thousand	Currency	Book value thousand
Modo van Gelder BV	The Netherlands	40	100.00	100.00	EUR	18	EUR	33 000
Metsä Group Schweiz AG								
M-real Schweiz AG	Switzerland	100	100.00	100.00	CHF	1	CHF	100
M-real IBP Deals Europe S.A.								
M-real Meulemans S.A.	Belgium	1 599	99.94	100.00	EUR	1 489	EUR	22 486
M-real NL Holding B.V								
M-real IBP Deals (China) Ltd	China		100.00	100.00	CNY	1 655	EUR	227
M-real Biberist	Switzerland	10 000	100.00	100.00	CHF	10 000	EUR	6 065
M-real IBP HK Ltd	Hong Kong			99.00	HKD		EUR	0
M-real Winschoten B.V.	The Netherlands	3 000	100.00	100.00	EUR	1 361	EUR	1 958
M-real UK Holdings Ltd								
M-real New Thames Ltd	Great Britain	88 000 000	100.00	100.00	GBP	88 000	GBP	58 239
M-real Sittingbourne Ltd	Great Britain	90 800 001	100.00	100.00	GBP	90 800	GBP	6 000
Other shareholdings								
Expresso Paper Platform B.V	The Netherlands	119 290 938	13.73	19.73	EUR	1 193	EUR	4 175
Keräyskuitu Oy	Finland	4 378	14.60	14.60	EUR	736	EUR	771
Keskuslaboratorio Oy	Finland	1 134 776	18.70	21.13	EUR	191	EUR	326
Pohjolan Voima Oy	Finland	1 250 570	2.87	3.61	EUR	2 085	EUR	34 597
Sato-Yhtymä Oy	Finland	32 110			EUR	54	EUR	2 805
Oy Transfennica Ab	Finland	18 318	17.45	17.45	EUR	308	EUR	126

The book value of listed shares was euros 0.1 million and the market value was euros 0.3 million

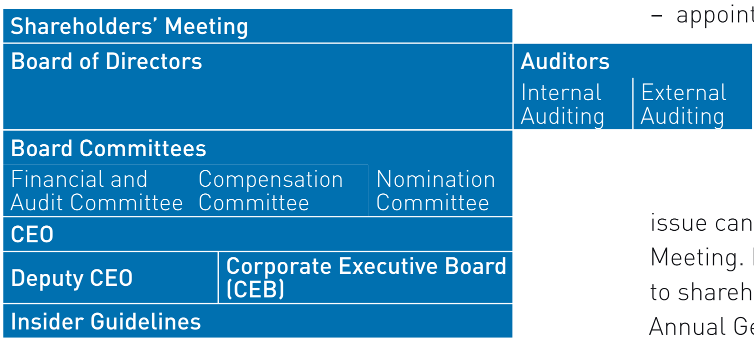
Corporate Governance General issues

The duties of the various corporate bodies within M-real Corporation (M-real or the Company) are determined based on Finnish Companies Act and Finnish Securities Market Act as well as other relevant laws of Finland. The Company applies the rules and recommendations of the Helsinki Stock Exchanges. This corporate governance policy is decided by the Board of directors (Board).

M-real has prepared its annual and interim financial accounts conforming Finnish Accounting Standards. The Company started to apply to International Financial Reporting Standards (IFRS) from the beginning of the year 2005. These Audit reports are published in Finnish and English.

The Company's head office is in Espoo, Finland.

Corporate Governance Bodies in M-real Corporation



The decision-making bodies with responsibility for managing the Company are the Board of Directors, CEO and Deputy CEO. The operations of the Company are co-ordinated through the Corporate Executive Board (CEB).

M-real's new organization became valid as of 1 September 2004. According to new organizational structure functions and responsibilities of each Business areas are defined more clearly and business areas are responsible for its sales as well as production. M-real has following Business areas: Consumer Packaging, Publishing, Commercial Printing (including Specialities) and Office papers. Day-to-day operational responsibility rests with the Business areas' management and operation teams supported by Corporate Strategy & Sales Services, Industrial Development and Resources and Map Merchant Group. Other supporting corporate-level functions are Finance, Control & Legal Affairs, Human Resources & Communications and Corporate Public Affairs.

Annual General Meeting

Annual General Meeting of the Shareholders is held each year on a day determined by the Board before end of June.

The Company's highest decision-making body is the Annual General Meeting of the shareholders. According to Finnish Companies Act the Annual General Meeting decides following issues among other things:

- possible changes to Company's Articles of Association
- accepts Company's profit and loss account and balance sheet
- decides on payable dividend
- elects the members of Board of Directors and decides remunerations for Board members and for members of Board Committees
- appoints auditors of the Company and decides their compensation

The Shareholder is entitled to get any issue on the agenda of Annual General Meeting provided that he requests that in writing so much advance that the issue can be disclosed to notice of Annual General Meeting. Each Shareholder which has registered to shareholders' registry at least 10 days before Annual General Meeting, has right to participate to the meeting.

M-real has appointed two regular auditors and two deputy auditors as appointed by the shareholders at the Annual General Meeting (AGM).

Board of Directors

M-real is managed under corporate governance recommendation given by Helsinki Stock Exchange.

According to the Company's Articles of Association, the Board consists of 5 to 8 ordinary members appointed by the shareholders at the Annual General Meeting (AGM) for a one-year period at the time. Currently, the Board has eight ordinary members.

All directors are required to act at arm's length basis with the Company and its subsidiaries and to disclose any circumstances that might be perceived as a conflict of interest.

The shareholders at the AGM decide regularly the remuneration of the Board members including the remuneration of the members of the Board committees.

The Board supervises the operations and management of M-real and decides on significant matters relating to strategy, investments, organisational structure and financing. The Board is responsible for overseeing management and for the proper organisation of the Company operations. It is likewise responsible for overseeing the proper supervision of accounting and control of financial matters.

The Board has defined a working order which is published on M-real's website (www.m-real.com).

Decisions in the matters, which are significant and unusual in the scope and nature of the Company's operations, belong to the Board of Directors. Such matters are for example:

- to elect a Managing Director for the Company and approve of the election of members to Corporate Management Board and to supervise that the Managing Director leads administration of the Company in compliance with instructions and orders given by the Board of Directors;
- to elect the members of the Audit Committee and to approve of the Charter of the Audit Committee;
- to elect the members of the Nomination Committee and to approve of the Charter of the Nomination Committee;
- to elect the members of the Compensation Committee and to approve of the Charter of the Compensation Committee;
- to consider and approve of the Company's strategy and its main principles;
- to approve of the annual business plan;
- to supervise a proper organisation of the Company's book-keeping, financial management and risk management;
- to decide on significant investments, acquisitions, divestitures of business operations;
- to decide on considerable investments and financing arrangements;
- to decide on assignment and pledging of significant fixed assets of the Company;
- to decide on granting of donations of money or authorize the Managing Director in regard to such;
- to grant and revoke the Company's proxy holders;
- to supervise compliance with the Company's Articles of Association, to convene the Annual General Meeting of Shareholders, and to supervise implementation of resolutions passed by the Annual General Meeting of shareholders;
- to sign and present the financial statements of approval by the Annual General Meeting of Shareholders and to present a proposal for dividend distribution;
- to approve of central manuals and instructions guiding the Company's business operations;
- to decide which persons are permanent insiders in the Company and to approve of the Company's insider rules;
- for the Stock Exchange's information, to publicize such circumstances that tend to affect the value of Company shares, or that must otherwise be publicized by the Company as provided by the Securities market Act.

The Board elects the Chairman and the Vice Chairman among the Board members and appoints the CEO, Deputy CEO and members of Corporate Executive Board. The Board approves the organisational structure of the Company.

The Board evaluates its performance annually. The Board also reviews the corporate governance policy annually and amends it when required.

The Board's work is supported through its committees the Audit Committee, the Nomination Committee and the Compensation Committee (formed on 8.4.2004). Each committee's chairman and members will be appointed by the Board annually.

The Board meets regularly during the year. The Board held 22 meetings out of which 5 was held as telephone conference during the year 2004. On average the members of Board attended 94 per cent of the meeting.

Board committees

Final decisions are made by Board of Directors based on preparatory work of Board Committees.

Audit Committee ■ The Board has formed an Audit Committee to support the Board in maintaining the integrity of the Company's financial reporting and the Board's control functions. Audit Committee regularly reviews the system of internal control, management and reporting of financial risk and the audit process in addition Audit Committee reviews assessment of the Company's risk management and central risk areas, and review assessment of the compliance with laws. It makes recommendations regarding on the appointment of external auditors for the Company. Audit Committee annually reviews annual plan of Internal Auditing as well as reviews material audit reports.

The Committee is comprised of three (3) independent, non-executive Members of the Board. The committee members must have a financial expertise and experience in accounting and accounting principles applicable to the Company. The Audit Committee meets regularly at least four times a year. The Committee members meet the auditors of the Company without the members of the management being present in connection with its meetings. The Chairman of the Committee presents a report based on each Audit Committee meeting to the Board. The tasks and responsibilities of the Audit Committee are defined in its charter, which is approved by the Board. The Audit Committee members may receive compensation solely based on their role as directors and the compensation is decided upon by the shareholders at AGM.

The Audit Committee is chaired by Asmo Kalpala (chairman), President of the Tapiola Group, and the members are Kim Gran, President and CEO of Nokia Tyres plc and Erkki Karmila, Executive Vice President of Nordic Investment Bank.

Present in the meetings of Audit Committee has also been Company's Auditor, CEO, CFO and other members of the management, when needed. Audit Committee had six meetings during the year 2004.

The Charter of Audit Committee can be seen on M-real's website (www.m-real.com).

Nomination Committee ■ The Board has a Nomination Committee that is responsible for giving a recommendation to the shareholders regarding the composition of the Board of Directors and remuneration of Board members. The Committee is comprised of three (3) Members of the Board. The Nomination Committee meets at least once a year. The Chairman of the Committee presents the proposals of the Nomination Committee to the Board. The task and responsibilities of the Nomination Committee are defined in its charter, which has been approved by the Board.

The Nomination Committee is chaired by Arimo Uusitalo (chairman), Titular Farming Counsellor, and the members are Runar Lillandt, Titular Farming Counseller, and Antti Tanskanen, CEO of the OP Bank Group.

The Charter of Nomination Committee can be seen on M-real's website (www.m-real.com)

Compensation Committee ■ The Board has a Compensation Committee that is responsible of evaluating and approving nomination and compensation executives of evaluating the performance and compensation of the CEO, and making recommendations to the Board relating to management compensation issues generally. The Board approves the compensation of the CEO. The Committee is comprised of three (3) Members of the Board. The Compensation Committee meets regularly at least once a year. The Chairman of the Committee presents a report on each Compensation Committee meeting to the Board. The tasks and responsibilities of the Compensation Committee are defined in its charter, which has been approved by the Board.

The Compensation Committee is chaired by Antti Oksanen (chairman), President of Metsäliitto Group, and the members are Erkki Karmila, Executive Vice President of Nordic Investment Bank, and Arimo Uusitalo, Titular Farming Counsellor. The Compensation Committee held one meeting during 2004.

The Charter of Compensation Committee can be seen on M-real's website (www.m-real.com).

Chief Executive Officer (CEO)

The CEO is in charge of the day-to-day management of the Company in accordance with instructions and orders issued by the Board. It is the duty of the CEO to ensure that the Company's accounting methods comply with the laws and that financial matters are handled in a reliable and professional manner.

Chief Operating Officer has a written Managing Directors Service Contract. The Board of Directors shall conduct an annual evaluation of performance and working methods of CEO.

The CEO is directly in charge of monitoring and coaching Consumer Packaging, Publishing, Commercial Printing and Officer Papers business areas, Corporate Strategy & Sales Services unit, Industrial Development & Resources unit and Map Merchant Group as well as the Corporate functions supporting business functions of the Company. The Corporate functions are Finance, Control & Legal Affairs, Human Resources & Communication, and Corporate Public Affairs. In addition, CEO supervises decisions regarding key personnel and other important operational matters.

Deputy Chief Executive Officer (Deputy CEO)

The Deputy CEO acts as deputy to the CEO. The Deputy CEO is the head of Publishing business area as well as Industrial Development & Resources.

Corporate Executive Board (CEB)

In managing M-real, the President and CEO is assisted by the Corporate Executive Board (CEB), which comprised Jouko M. Jaakkola (until 31.12.2004), Hannu Anttila and the executives reporting to Mr. Anttila: Aarre Metsävirta, Hannu Kottonen, Jarmo Salonen, Peter Sandberg, Seppo Puotinen, Ari Himma and Juhani Pöhö. The Chairman of the CEB was Hannu Anttila, Vice Chairman was Jouko M. Jaakkola (until 31.12.2004) and Matti Mörsky, Senior Vice President of Business Development, acted as secretary to the CEB.

The CEB's tasks and responsibilities are planning of investment and follow-up, preparation of strategic guidelines, allocation of resources, review of significant day-to-day operations and operational decisions, preparatory work with regard to Board meetings.

The CEB meets regularly, approximately every second month, and always when required.

Operational Committees

Investment Committee ■ The Investment Committee is chaired by the Deputy CEO and it has members of each Business Area as well as members of Company's Management. The Committee's members are appointed by the CEO.

The tasks and responsibilities of the Investment Committee are co-ordination of the investment planning and approval process, co-ordination of the investment completion audit and follow-up process, participation in the planning and execution of large investment projects in the Company's various geographical areas, and the drawing-up of recommendations on funds available for Investments.

The Investment Committee meets as required.

Risk Management Committee ■ Risk Management Committee is chaired by CFO. The members of the Committee are appointed by the CEO.

Risk Management Committee is responsible for continuous development of risk management process, defining operating principles and overall process. It evaluates findings and the result of executed risk surveys and risk reporting and prepares a summary of risk surveys based on its evaluation for the CEO.

Risk management Committee held five meetings during year 2004, and meets as required.

Research and Development (R&D) Committee ■ The R&D is chaired by the Deputy CEO. The Committee's members, representing the R&D organisation and the product areas, are appointed by the CEO.

The tasks of the R&D Committee are: to secure a group perspective on R&D in the Company with regard to the relevance of R&D and its quality and efficiency, to initiate R&D policy and strategy at Group level, to monitor group R&D and to supervise Company-financed R&D undertaken externally. In order to facilitate these tasks, the R&D Committee must monitor technology and future-oriented product development.

The R&D Committee meets regularly as required.

Salaries, fees and other benefits of the Board of Directors and Senior Management

In accordance with a decision made by year's 2004 Annual General Meeting, the Chairman of the Board of Directors received a fee of euros 61 200 per annum, the Vice Chairman euros 51 600, and the members euros 40 800. In addition, a meeting attendance fee of euros 450 was paid to those present at each meeting of the Board of Directors and its standing committees. The fees paid to the members of the Board of Directors in 2004 totalled euros 421 950. The annual salaries, emoluments in kind and fees paid to Jouko M. Jaakkola, President & CEO (until 31.12.2004) in 2004 totalled euros 456435. The annual salaries, emoluments in kind and fees paid to the other members of the Corporate Executive Board in 2004 totalled euros 1298748.

Hannu Anttila, the Company's President and CEO starting at 1.1.2005, receives a monthly salary of euros 32000, including benefits in kind in the form of a car and a telephone. Under the Company's profit-sharing and incentive scheme for top management, an amount equivalent of up to six months' salary may be paid to the President and CEO as profit-sharing based on his overall performance. The retirement age of the President and CEO, as stated in the Managing Directors Service Contract, is 62. In the event that the President and CEO is dismissed, or in situations where control of the Company changes, he has the right to receive compensation corresponding to 18 months' salary. The period of notice is 6 months.

The shares and options held by the members of the Board of Directors and the Corporate Executive Board are detailed on pages 52–55.

At 31 December 2004, the Company's President and CEO, the Deputy CEO or the members of the Board of Directors had no loans outstanding from the Company or its subsidiaries.

Auditors

The shareholders elect two auditors and two deputy auditors according to M-real's Article of Association at the AGM annually. The Audit Committee gives to the Board its recommendation as to who should serve as auditor and to the shareholders at the AGM. The auditor shall be an authorised public accounting firm or firms, which then appoints the auditors of Company.

During 2004 Company's Auditors were Göran Lindell, Authorized Public Accountant and PricewatehouseCoopers Oy represented by Ilkka Haarlaa, Authorized Public Auditor. The Company has paid audit fees to PricewaterhouseCoopers Oy euros 1942000 and other audit firms of the subsidiary companies euros 817000. Additionally the Company has paid fees for non-audit services to PricewaterhousCoopers euros 1633000.

Internal Auditing

The Internal Auditing in M-real is taken care by PwC internal auditing group. PwC internal auditing group monitors the adequacy and effectiveness of systems, internal controls and accounting of the Company. Annual plan of Internal Auditing is reviewed by Audit Committee.

The Internal Auditing Group of PricewaterhouseCoopers reports its findings to the management, the external auditors and the Audit Committee. Internal auditing reports to the CFO on a functional basis, CEO, and has direct access to the Chairman of the Audit Committee.

Risk Management

The risk management department is in charge of developing and executing the Company's risk management process as well as co-ordinating the risk management work within the Company.

The Corporate risk management department employs a comprehensive and holistic approach that is carried out as a continuous process. The objective of the risk management work is to identify measure and control risks, which if they materialise, can jeopardise the Company's operations and the achievement of the targets that have been set. The head of the Corporate Risk Management department reports to the CFO.

The risk management committee, which is chaired by the CFO, reports on a regular basis to the Audit Committee, the Corporate Executive Board and the Board of Directors.

Detailed information regarding M-real's risk management is recorded in the Company's Risk Management Policy and Manual.

More detailed description of risk management is on page 72.

Insider Guidelines

The Company complies with the insider guidelines of the Helsinki Exchanges.

The Company's internal insider guidelines are published and regularly distributed throughout the organisation. The Company expects all of its employees to act as required of an insider.

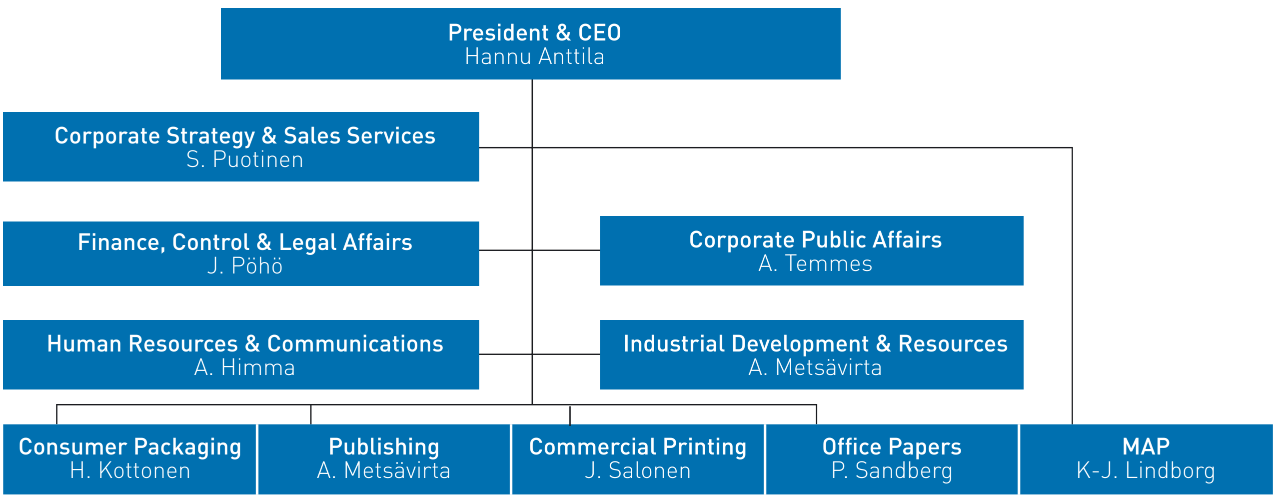
All information that relates to the Company's present and future business operations is expected to be kept strictly confidential. The Company's insider register is publicly available and is maintained by the Finnish Central Securities Depository.

Permanent insiders are members of the Board of Directors, the CEO and Deputy CEO, and the auditors. The CEO has decided that other permanent insiders shall be the members of Corporate Executive Board and nominated persons in legal, financial, accounting, R&D, communications and investor relations functions.

Persons, who participate in the development and preparation of a project, including mergers or acquisitions, are considered project-specific insiders. A separate project-specific insider register is maintained when considered necessary.

Each year the Company decides on so-called "Closed windows" i.e. specific periods of time then insiders are barred from trading in shares and options issued by the Company as well as warrants related to the Company. In 2004 the Closed Windows were 1 January to 5 February 2004 (relating to Annual Report of 2003) and 1 to 29 April 2004, 1 to 26 July 2004 and 1 to 29 October 2004 relating to 2004 Interim Reports.

M-real's organization 1 January 2005



Corporate Governance
M-real Board of Directors

Antti Oksanen,
(1944) ■ Chairman of the Board since 1995
Member of the Board since 1993
Master of Science in Forestry
Counsellor of Mining
President of Metsäliitto Group,
President & CEO of Metsäliitto Cooperative
Member of the Board of the Finnish Forest Industries Federation since 1995,
Member of the Council of the Confederation of Finnish Industry and Employers TT since 1996,
Member of the supervisory Board in Vapo Oy since 2002,
Member of the Council in Research Foundation of the University of Helsinki since 2002,
Vice Chairman of the Board of Metsäliitto Cooperative, Chairman of the Board of Finnforest Corporation and several other Metsäliitto Group companies,
Vice Chairman of the Supervisory Board of the Tapiola Mutual Pension Insurance Company
Shares owned in M-real Corporation: 130 B shares

Arimo Uusitalo,
(1942) ■ Vice Chairman of the Board since 1994
Member of the Board since 1994
Master of Science in Agriculture
Counsellor of Agriculture
Farmer
Chairman of the Board of Metsäliitto Cooperative,
Vice Chairman of the Board of Finnforest Corporation,
Member of the Board of Oy Metsä-Botnia Ab,
Chairman of the Board of Raisio Group since 2001,
Chairman of the Executive Board of Osuuspankki Kantrisalo 1977
Shares owned in M-real Corporation: 110 A shares and 2 710 B shares

Kim Gran,
(1954) ■ Member of the Board since 2004
Bachelor of Science in Economics
President and CEO of Nokian Tyres plc
Chairman of the Board of the Rubber Manufacturers' Association of Finland since 2001
Member of the Council of the Confederation of Finnish Industry and Employers TT since 2002
Member of the Board of Nokian Tyres plc since 2002
Member of the Board of Kuusakoski Oy and Kuusakoski Group Oy since 2004
Shares owned in M-real Corporation: no ownership

Timo Haapanen,
(1939) ■ Member of the Board since 2000
Agronomist
Counsellor of Agriculture
Farmer
Member of the Board of Metsäliitto Cooperative since 1995
Shares owned in M-real Corporation: 4 580 B shares

Asmo Kalpala,
(1950) ■ Member of the Board since 1990
Master of Science in Economics
Chairman of the Boards and President of the Tapiola Group
Member of the Board of the Federation of Finnish Insurance Companies since 1988,
Member of the Board of the Insurance Employers' Association since 1988
Member of the Board of YIT Corporation since 2000,
Member of the Board of LTT Research Ltd since 1998
Member of the Board of Finnish Cultural Foundation since 2001
Shares owned in M-real Corporation: no ownership

Erkki Karmila,
(1942) ■ Member of the Board since 1992
Master of Laws (trained on the bench)
Master of Laws 1968, Harvard University
Executive Vice President of the Nordic Investment Bank
Deputy Managing Director, Finnish Export Credit 1981–1982 and Managing Director 1982–1983
Executive Vice President of Kansallis-Osake-Pankki, 1983–1991,
Director of the Invest in Finland Bureau, 1992
Shares owned in M-real Corporation: no ownership

Runar Lillandt,
(1944) ■ Member of the Board since 1999
Agricultural school graduate
Counsellor of Agriculture
Farmer
Chairman of the Supervisory Board of Metsäliitto Cooperative since 1999,
Member of the Board of SLC since 1988,
Chairman of the Supervisory Board of Pohjanmaan Liha since 1994 and Chairman of the Board in 2002,
Member of the Board of A-tuottajat 2001,
Member of the Board of Suupohjan Osuuspankki since 1997,
Member of the Board of Atria Corporation since 2002,
Chairman of the Board of Moelven Industrier ASA since 2002
Shares owned in M-real Corporation: 7545 B shares

Antti Tanskanen,
(1946) ■ Member of the Board since 1992
Ph.D. in Economics
Chairman and CEO, OP Bank Group,
Chairman of the Executive Boards of OP Bank Group Central Cooperative and OKO Bank since 1997
Professor in Economics at Jyväskylä University 1979–1996 and Rector 1988–1991,
Chairman and President of the Academy of Finland 1992–1996
Member of the Unico Banking Group's Steering Committee since 1996,
Member of the Board of the Central Chamber of Commerce since 1999, chairman since 2004
Member of the Board of Employers' Confederation of Service Industries since 2003
Shares owned in M-real Corporation: no ownership

Corporate Governance
Corporate Executive Board

Hannu Anttila ■ President and CEO
Bachelor of Science in Economics, born in 1955

Hannu Anttila's career began in 1979, when he became an Internal Auditor at Oy Silja Line Ab. From 1980 to 1985, he worked for Oy Metsä-Botnia Ab, from 1980 to 1982 as the Assistant Controller at the Kaskinen Mill and then as the Director of Administration at Botnia's Äänekoski Mill. From 1985 to 1986, Mr Anttila was the SVP, Finance and Administration and Deputy CEO, of Suomen Kuitulevy Oy, which was at that time part of the Enso Group. Mr Anttila returned to Metsä-Botnia in 1987, assuming the position of Financial Director, and then, in 1990, transferred to Metsä-Serla Corporation (now M-real Corporation), where he became SVP, Financial Control. In 1992, he was appointed as Metsä-Serla's SVP, Finance and as a Member of the Corporate Executive Board and in 1996 as Financial Director. In 1997, Mr Anttila became the Senior Executive Vice President of Oy Metsä-Botnia Ab. In 1998, Mr Anttila assumed the position of Chief Executive Officer at Metsä Tissue Corporation, remaining in the position until spring 2003, when he was appointed as Metsäliitto Group's SVP and Chief Financial Officer. In 2004 Mr Anttila returned into M-real Corporation's employ: as he was appointed in June as M-real Corporation's Senior Executive Vice President effective 1 July, as Chief Operating Officer as from 1 September and as President and CEO as from 1 January 2005.

Shares owned in M-real Corporation: 12 690 B shares

Aarre Metsävirta ■ Senior Executive Vice President
Deputy CEO
Industrial Development & Resources
Publishing
Master of Science in Engineering, born in 1945

Aarre Metsävirta has made his entire business career in the forest industry. From 1972 on he held various positions in the pulp and paper industry of A. Ahlström Oy, his last position being Director of Research. In 1983 he joined Rauma-Repola Oy, where he was Technical Director and later Senior Vice President of the Paper Division. He left to become Executive Vice President of Tampella Ltd in 1988 and in 1991 President of Tampella Forest Inc. In 1994 Mr Metsävirta became Chairman of the Board of Veitsiluoto Oy. In 1996 Mr Metsävirta was appointed Executive Vice President of Metsä-Serla Corporation (now M-real Corporation), head of the Paper Group and member of the Corporate Executive Board. In the new organization of 2001 Mr Metsävirta was appointed head of Operations & Sourcing with responsibility for the production of the paper and board mills, Corporate Energy, Corporate Purchasing, Research & Development and Environment functions. In 2003 the name of his responsibility area was changed into Operations and it was added further by logistics and IT. Furthermore, Mr Metsävirta was appointed Senior Executive Vice President and Deputy CEO of M-real in 2003. In 2004 the name of Mr Metsävirta's responsibility area was changed into Industrial Development & Resources consisting of the following functions: Corporate Energy, Corporate Purchasing, Corporate R & D, Environmental Affairs, Technical Projects and Pulp. In addition, Mr Metsävirta was also appointed SEVP of the Publishing business area.

Shares owned in M-real Corporation: 1 000 A shares and 8 170 B shares

Juhani Pöhö ■ Executive Vice President & Chief Financial Officer (EVP&CFO)
Finance, Control & Legal Affairs
Bachelor of Science in Economics, born in 1951

Juhani Pöhö began his career as Assistant District Manager in Alko in the years from 1974 to 1976. He worked from 1976 to 1983 as Manager of Internal Auditing and Administrative Manager in Oy Sinebrychoff Ab, and in Wicanders Oy from 1983 to 1986 as Financial Manager. From 1986 to 1990 Mr Pöhö was Financial Director of Koskisen Oy. He left the company to join Tampella Group where his first position was Senior Vice President, Internal Auditing and thereafter from 1993 to 1996 Senior Vice President and Chief Financial Officer. Mr Pöhö joined Metsä-Serla Corporation (now M-real Corporation) in 1996 as Financial Director of the Kirkniemi mill. In addition, he was appointed Business Controller of Metsä-Serla's Publishing Business area in 1999. Mr Pöhö worked as Kirkniemi Mill manager from 2001 to 2004. In 2004 Mr Pöhö was appointed M-real's Senior Vice President and Chief Financial Officer. In the new organisation of August 2004, Mr Pöhö was appointed Executive Vice President and Chief Financial Officer and member of the Corporate Executive Board.

Shares owned in M-real Corporation: 1 835 B shares

Ari Himma ■ Senior Vice President (SVP)
Corporate Human Resources & Corporate Communications
Master of Science in Social Sciences, born in 1959

Ari Himma worked as Kone Corporation's Human Resources Development Manager from 1987 to 1994. He joined MacGregor Oy as Human Resources Director in 1994. From 1995 to 1999 he worked as Vice President, Human Resources, at Neles Controls Group, where he was a member of the Executive Board. In 1999 Mr Himma became Vice President, Human Resources, for Metso Automation Ltd. In 2001 Mr Himma was appointed Senior Vice President, Human Resources for the M-real Group. In 2003 he was appointed Senior Vice President, Corporate services. In 2004 Mr Himma was appointed Executive Vice President, Corporation Human Resources & Corporate Communications.

Shares owned in M-real Corporation: 2 500 B shares

Seppo Puotinen ■ Executive Vice President (EVP)
Corporate Strategy & Sales Services
Licentiate in Technology, born in 1955

Seppo Puotinen worked at University of Oulu from 1981–1985 as an Assistant in applied mechanics and as a researcher at the Finnish Pulp and Paper Research Institute during the years 1985 and 1986. Mr Puotinen joined Metsä-Serla Corporation (now M-real Corporation) in 1986 and worked in various positions with business development, marketing and operational responsibility for 13 years. He was appointed as Vice President, Cartons Division, Corrugated and Folding Carton operations in 1999. In 2000, Mr Puotinen joined SCA Packaging as Managing Director for Finland, Russia and the Baltic countries and was appointed as President of SCA's Containerboard Division located in Brussels in 2002. In September 2004, he was appointed Executive Vice President of Corporate Strategy & Sales Services of M-real and began in October 2004. Mr Puotinen holds a Master of Science degree in Engineering as well as a Licentiate of Engineering degree.

Shares owned in M-real Corporation: 1 000 A shares and 2 750 B shares

Hannu Kottonen ■ Executive Vice President (EVP),
Consumer Packaging
Master of Science in Economics, born in 1957

Hannu Kottonen worked as Controller of TSP Suunnittelu Oy from 1979 to 1983. In 1983, he joined Huhtamäki Group, where he worked in various positions relating to finance and control until 1995 and as the Chief Financial Officer from 1995 to 1998. From 1998 to 2003, Mr Kottonen held several manager and director positions in Huhtamäki Group's divisions for trade packaging, fresh foods and molded fiber before being appointed Chief Financial Officer of the Huhtamäki Group in 2003. In January 2004, he left Huhtamäki Group to join M-real Corporation and was appointed Senior Vice President and General Manager of the Cartons business. In the new organisation of August 2004, Mr Kottonen was appointed Executive Vice President of M-real's Consumer Packaging business area and member of the Corporate Executive Board.

Shares owned in M-real Corporation: 7 353 B shares

Jarmo Salonen ■ Executive Vice President (EVP)
Commercial Printing
Master of Science in Engineering, born in 1951

Jarmo Salonen worked as Technical advisor at Finnish Papermills Association from 1978 to 1982. In 1982, he transferred to Ahström Corporation Varkaus mills to serve as the Manager of technical customer service. From 1985 to 1987, Mr Salonen worked as the Mill manager of Varkaus fine paper mills of Ahström / Enso Corporations. From 1987 to 1993, he worked at Rettig Group Finland as the Managing Director of Bore Line Oy Ab. In 1993, he transferred to Metsä-Serla Corporation (now M-real Corporation) to serve as Mill manager of Äänekoski and Kangas paper mills. From 1999 to 2000, Mr Salonen worked as the Director of fine paper division and Managing Director of M-real's UK Paper in Kent, UK. In 2000, he was appointed Senior Vice President of Commercial Printing, located in Amsterdam. In 2002, he returned to Finland as he was appointed Senior Vice President of M-real's Corporate Purchasing. In 2003, he was appointed Senior Vice President of M-real's Production. In the new organisation of August 2004, Mr Salonen was appointed Executive Vice President of M-real's Commercial Printing business area and member of the Corporate Executive Board.

Shares owned in M-real Corporation: 3 677 B shares

Peter Sandberg ■ Executive Vice President (EVP)
Office Papers
Master of Science in Economics, born in 1967

From 1994–1996 Peter Sandberg worked in various management positions within the Modo Pulp Sales Organisation. In 1998 he was appointed Commercial Director for the Office Paper Division of Modo Paper. In 2000 Mr Sandberg was assigned Vice President Sales for the Metsä-Serla Corporation (now M-real Corporation) Home & Office business area, and in 2002 Senior Vice President, General Manager for the M-real Home & Office business area based in Amsterdam. In the new organisation of August 2004, Mr Sandberg was appointed Executive Vice President of M-real's Office Papers business area and member of the Corporate Executive Board.

Shares owned in M-real Corporation: no ownership

Shares and shareholders

Share capital and shares at 31 December 2004 ■ The company's paid-in share capital on the balance sheet date was euros 557 881 540.40 and consisted of 328 165 612 shares. The company has two series of shares, Series A shares and Series B shares. The number of Series A shares was 36 340 550 and the number of Series B shares 291 825 062.

All shares have a nominal value of euros 1.70. Each Series A Share entitles its holder to twenty (20) votes at a General Meeting of Shareholders, and each Series B Share entitles the holder to one (1) vote. All shares carry the same right to receive a dividend.

The company's issued share capital may not be less than euros 255 000 000.00 and not more than euros 1 020 000 000.00. The issued share capital may be increased or decreased within these limits without amendments to the Articles of Association.

Rights Offering ■ M-real raised new equity capital through an underwritten rights offering of euros 447 498 561. A total of 149 166 187 new series B shares were issued.

In the offering each shareholder was entitled to subscribe for five (5) new series B shares for every six (6) series A and/or B shares held on the record date, September 10, 2004.

The subscription period started 15 September 2004 and continued until 1 October 2004. The subscription price was euros 3.00 per share. The primary subscription rights were traded on the Helsinki Stock Exchange from 15 September 2004 through 24 September 2004.

The lowest price of the B share during the trading period was euros 4.42 and the highest price euros 4.79. The average price was euros 4.61. The trading volume was euros 201 496 882 or 43 699 468 shares. The shares traded represented 24 per cent of the outstanding shares before the new shares were issued.

The lowest price for the subscription right during the trading period was euros 1.11 and the highest euros 1.60. The average price was euros 1.30. A total of 48 514 485 rights were traded.

The most significant changes in the ownership structure prior and post of the issue were the increase in the non-Finnish ownership and the decrease in the households' ownership. The former increased from 36.7 per cent to 38.6 per cent and the latter decreased from 11.1 per cent to 9.6 per cent of the shares. The changes in the other ownership sectors were not significant. Metsäliitto exercised their rights in the offering and subscribed its pro rata share (38.5 per cent of shares).

Although some changes within the biggest shareholders took place, most of the 20 biggest shareholders remained as shareholders. However, as a result of the active trading of the subscription rights number of investors became M-real's shareholders.

Stock Exchange listings and share prices ■ M-real's Series A and Series B shares are listed on the Helsinki Stock Exchange.

The highest price of M-real's Series B on Helsinki Stock Exchange during the financial year was euros 6.43 and the lowest price euros 4.18. The average share price was euros 5.59. In 2003 the average share price was euros 6.11. The price of the Series B share was euros 4.70 at the end of the financial year on 31 December 2004.

Turnover of the series B share was euros 1 013 million, or 62 per cent of the shares outstanding. The market capitalization of the Series A and B shares at 31 December 2004 totalled euros 1 542 million.

At 31 December 2004 Metsäliitto Cooperative owned 38.6 per cent of M-real Corporation's shares and 60.5 per cent of the voting rights conferred by these shares. International investors owned 38.3 per cent of the shares.

Directors' interest ■ Shareholdings of the Board of directors and the management are presented on pages 52–55.

Board of Directors' authority to issue shares ■ The Board of Directors does not have valid authorizations to carry out a share issue or issues of convertible bonds or bonds with warrants.

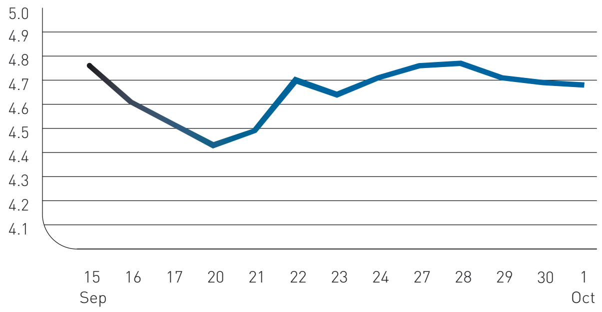
Dividend policy ■ M-real's dividend policy is stable and rewarding to shareholders, and aims at paying a dividend of at least 1/3 of the Company's earnings per share on average over the business cycle, nonetheless taking into account the Company's gearing target.

Changes in share capital and numbers of shares 1 January 2000–31 December 2004

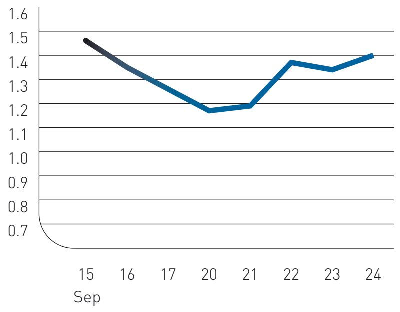
		Numbers of shares	Share Capital EUR million
1999	Share capital. 31 Dec 1999	138 999 425	233.8
2000	Change in nominal value 5 May 2000, from share premium funds		2.5
	Share capital, 31 Dec 2000	138 999 425	236.3
2001	Rights issue	35 000 000	59.5
	Rights issue	5 000 000	8.5
	Share capital, 31 Dec 2001	178 999 425	304.3
2002	No changes		
2003	No changes		
	Share capital, 31 Dec 2003	178 999 425	304.3
2004	Rights issue	148 633 415	252.7
	Rights issue	532 772	0.9
	Share capital, 31 Dec 2004	328 165 612	557.9

M-real series B share performance during the subscription period and the subscription right

M-real B share,
euros



Subscription right,
euros



Breakdown of shareholders 31 December 2004

M-real A share

Number of shares	Number of shareholders	%	Total number of shares	%	Number of votes	%
1–10	78	2.79	581	0.00	11 620	0.00
11–50	233	8.34	8 024	0.02	160 480	0.02
51–100	313	11.20	26 140	0.07	522 800	0.07
101–500	1 274	45.60	395 093	1.09	7 901 860	1.09
501–1 000	444	15.89	370 595	1.02	7 411 900	1.02
1 001–5 000	389	13.92	860 269	2.37	17 205 380	2.37
5 001–10 000	34	1.22	269 405	0.74	5 388 100	0.74
10 001–50 000	18	0.64	425 337	1.17	8 506 740	1.17
50 001–100 000	4	0.14	298 000	0.82	5 960 000	0.82
100 001–500 000	3	0.11	493 448	1.36	9 868 960	1.36
500 001–1 000 000	0	0.00	0	0.00	0	0.00
1 000 001–	4	0.14	33 193 658	91.34	663 873 160	91.34
Total number	2 794	100	36 340 550	100	726 811 000	100
On the waitinglist, total			0	0	0	0
Grand total account			0	0	0	0
Number issued			36 340 550	100	726 811 000	100

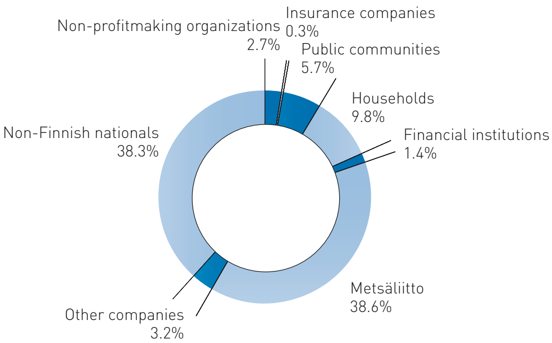
M-real B share

Number of shares	Number of shareholders	%	Total number of shares	%	Number of votes	%
1–10	2 774	6.76	23 356	0.01	23 356	0.01
11–50	8 016	19.52	242 853	0.08	242 853	0.08
51–100	5 776	14.07	431 040	0.15	431 040	0.15
101–500	12 416	30.24	3 218 393	1.10	3 218 393	1.10
501–1 000	5 040	12.28	4 043 318	1.39	4 043 318	1.39
1 001–5 000	5 598	13.63	12 756 850	4.37	12 756 850	4.37
5 001–10 000	822	2.00	5 743 485	1.97	5 743 485	1.97
10 001–50 000	495	1.21	9 663 616	3.31	9 663 616	3.31
50 001–100 000	51	0.12	3 534 295	1.21	3 534 295	1.21
100 001–500 000	56	0.14	11 571 066	3.97	11 571 066	3.97
500 001–1 000 000	4	0.01	2 509 364	0.86	2 509 364	0.86
1 000 001–	10	0.02	238 087 426	81.58	238 087 426	81.58
Total number	41 058	100	291 825 062	100	291 825 062	100
On the waitinglist, total			0	0	0	0
Grand total account			0	0	0	0
Number issued			291 825 062	100	291 825 062	100

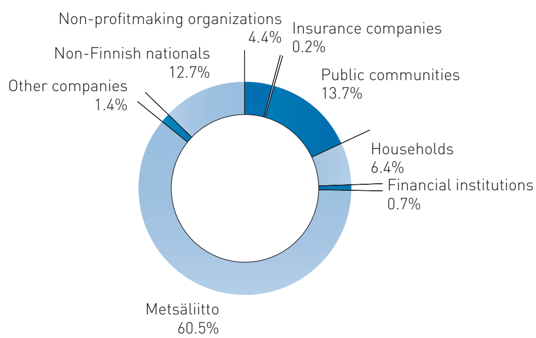
Biggest Shareholders

Share register 31 December 2004	A share	B share	Total	% of votes	% of shares
1 Metsäliitto Cooperative	25 751 535	100 978 057	126 729 592	60.5	38.6
2 Ilmarinen Mutual Pension Insurance Company	3 534 330	5 428 211	8 962 541	7.5	2.7
3 Varma Mutual Pension Insurance Company	2 203 544	1 341 113	3 544 657	4.5	1.1
4 Central Union of Agricultural Producers and Forest Owners	1 704 249	1 597 750	3 301 999	3.5	1.0
5 Etra-Invest Oy Ab		2 000 035	2 000 035	0.2	0.6
6 Etera Mutual Pension Insurance Company	120 000	1 286 080	1 406 080	0.4	0.4
7 Mutual Insurance Company Pension-Fennia		1 100 705	1 100 705	0.1	0.3
8 Insurance Fund, Turku City	145 678	627 049	772 727	0.3	0.2
9 Pohjola Finland Value Fund		770 000	770 000	0.1	0.2
10 Metsäliitto Employees' Pension Fund	16 070	577 900	593 970	0.1	0.2
11 Polaris Pension Fund	227 770	311 505	539 275	0.5	0.2
12 Pensionsförsäkringsaktiebolaget		534 415	534 415	0.1	0.2
13 HEX25 index share Special Mutual Fund		465 307	465 307	0.0	0.1
14 Veikko Laine Oy		453 000	453 000	0.0	0.1
15 Sampo Finnish Equity Fund		449 120	449 120	0.0	0.1
16 Alfred Berg Finland Mutual Fund		411 680	411 680	0.0	0.1
17 Insurance Group Pohjola	13 000	366 665	379 665	0.1	0.1
18 Avenir Special Mutual Fund		375 000	375 000	0.0	0.1
19 Elit Capital Oy	62 500	295 095	357 595	0.2	0.1
20 Rantanen Yrjö		350 871	350 871	0.0	0.1

Breakdown of M-real's shareholders
31 December 2004



Breakdown of M-real's voting rights
31 December 2004

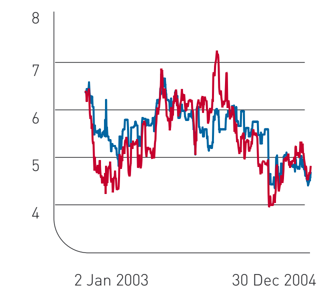


Share performance

		2004	2003	2002	2001	2000
Adjusted prices, euros						
A Shares	high	**6.20**	7.40	8.42	7.45	10.69
	low	**4.22**	5.22	5.05	4.13	5.50
	at year end	**4.68**	6.57	6.61	5.85	6.82
	average	**5.80**	6.43	7.12	6.03	6.83
B Shares	high	**6.43**	7.57	8.79	7.69	10.86
	low	**4.18**	5.23	4.95	4.08	5.32
	at year end	**4.70**	5.92	6.74	5.84	7.16
	average	**5.59**	6.11	6.97	5.86	7.28
Trading in shares, Units on Helsinki Exchanges						
A Shares		**633 215**	1 765 522	4 262 501	1 321 616	1 381 515
% of total no. of A shares		**1.7**	4.9	11.7	3.6	3.8
B Shares		**181 303 518**	80 581 564	103 484 655	69 504 014	50 478 814
% of average total no. of B shares		**62.1**	56.5	72.5	52.5	49.2
Number of shares at the year end						
A Shares		**36 340 550**	36 340 550	36 340 550	36 340 550	36 340 550
B Shares		**291 825 062**	142 658 875	142 658 875	142 658 875	102 658 875
Total		**328 165 612**	178 999 425	178 999 425	178 999 425	138 999 425
Adjusted number of shares at 31 Dec.		**328 165 612**	212 614 264	212 614 264	212 614 264	165 102 544
Market capitalization of shares at 31 Dec., euros million		**1541.7**	1 286.3	1 426.5	1 242.6	1 167.0
Number of shareholders *		**41 629**	43 584	40 672	40 384	38 149

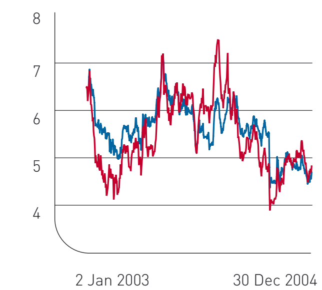
The change in the nominal value of the M-real share has been taken into account
* Shareholders in book entry system

M-real A, share price trend,
euros



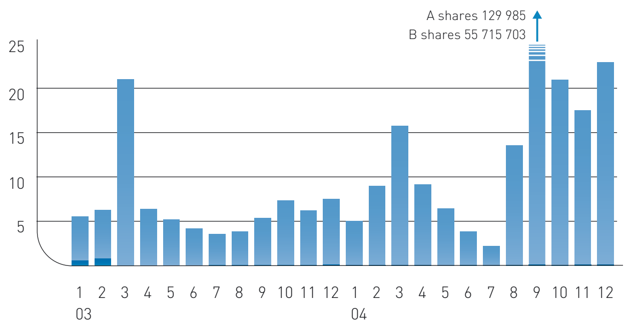
M-real A share
Hex-index relative to A share

M-real B, share price trend,
euros



M-real B share
Hex-index relative to B share

Traded volumes 2003–2004,
million shares



B share
A share

Figures per share

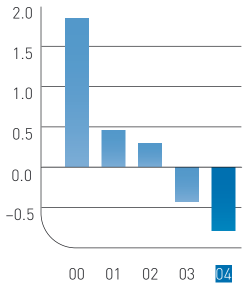
	2004	2003	2002	2001	2000
Calculation of earnings per share, euros million					
Profit before extraordinary items	**–209.0**	–80.2	134.3	154.0	458.5
– minority interest	**–1.4**	1.0	–10.1	–10.1	6.7
– taxes	**–3.1**	–0.7	–59.8	–115.1	–183.0
+ tax adjustment for extraordinary items	**22.0**	–11.4	0.4	63.6	16.4
+ other adjustments					6.6
= Earnings, euros million	**–191.5**	–91.3	64.8	92.4	305.2
– Adjusted number of shares (average)	**241 989 429**	212 614 264	212 614 264	200 297 013	165 102 544
= Earnings per share, euros	**–0.79**	–0.43	0.30	0.46	1.85
Shareholders' equity per share, euros	**8.00**	10.56	11.57	11.01	11.83
Dividend per share, euros	**0.12**[1]	0.25	0.51	0.51	0.51
Dividend per profit, %	**–15.2**	–58.8	166.7	109.1	27.3
Nominal value per share, euros	**1.70**	1.70	1.70	1.70	1.70
Dividend yield, %					
A Shares	**2.6**	3.8	7.6	8.6	7.4
B Shares	**2.6**	4.3	7.5	8.6	7.1
Price/equity ratio (P/E ratio)					
A Shares	**–5.9**	–15.3	21.7	12.7	3.7
B Shares	**–5.9**	–13.8	22.1	12.7	3.9
(P/BV), %					
A Shares	**58.5**	62.2	57.1	53.1	57.7
B Shares	**58.8**	56.1	58.2	53.1	60.5

[1] Board's proposal

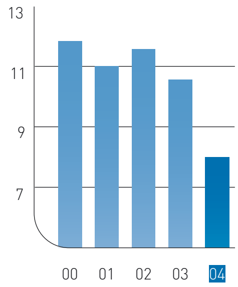
The previous years' number of shares, earnings per share, dividend per share and equity per share have been adjusted to comparable with the figures of 2004.

The calculation of key ratios is presented on page 63.

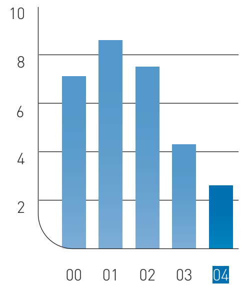
Earnings per share,
€



Shareholders' equity per share, €



Dividend yield,
%



Ten years in figures

	2004	2003	2002	2001	2000	1999	1998	1997	1996	1995
Profit and loss account, € mill.										
Turnover	**5 460**	6 044	6 564	6 923	5 898	4 044	3 320	3 014	2 313	2 240
– change%	**–9.7**	–7.9	–5.2	14.8	45.9	21.8	10.1	30.3	3.2	40.6
Exports from Finland	**1 642**	1 653	1 714	1 743	1 719	1 805	1 704	1 595	1 326	1 267
Exports and foreign subsidiaries	**5 145**	5 652	6 173	6 438	5 376	3 603	2 893	2 598	2 012	1 760
Operating profit	**–75**	74	324	389	604	352	340	283	143	401
– % of turnover	**–1.4**	1.2	4.9	5.6	10.2	8.7	10.2	9.4	6.2	17.9
Profit before extraordinary items	**–209**	–80	134	154	459	268	262	128	55	322
– % of turnover	**–3.8**	–1.3	2.0	2.2	7.8	6.6	7.9	4.3	2.4	14.4
Profit before taxes and minority interests	**–11**	–95	279	337	516	295	273	358	120	322
– % of turnover	**–0.2**	–1.6	4.2	4.9	8.7	7.3	8.2	11.9	10.4	14.4
Balance sheet, € mill.										
Balance sheet total	**6 394**	7 106	7 410	8 005	7 798	4 608	4 419	4 423	3 474	3 123
Shareholders' equity	**2 627**	2 245	2 461	2 341	1 953	1 711	1 555	1 427	1 195	1 147
Interest-bearing net liabilities	**2 161**	3 109	3 019	3 482	3 693	1 471	1 397	1 154	1 361	1 109
Dividens and figures per share *										
Dividens, € mill.	**39.4**[1]	53.7	107.4	107.4	83.4	63.1	60.8	42.1	23.4	32.7
Dividend per share, €	**0.12**[1]	0.25	0.51	0.51	0.51	0.38	0.37	0.26	0.14	0.20
Dividend/profit, %	**–15.2**[1]	–58.8	166.7	109.1	27.3	34.0	33.7	51.3	61.3	16.0
Earnings per share, €	**–0.79**	–0.43	0.30	0.46	1.85	1.13	1.09	0.50	0.23	1.24
Shareholders' equity per share, €	**8.00**	10.56	11.57	11.01[2]	11.83[2]	10.34[2]	9.20[2]	8.64[2]	7.24	6.94
Profitability										
Return on capital employed, %	**–1.0**	1.6	5.8	6.9	13.5	10.5	10.8	10.5	6.8	18.8
Return on equity, %	**–7.7**	–3.8	3.0	4.7[2]	15.5[2]	10.6[2]	11.3[2]	5.3[2]	2.9	22.0
Financial position										
Equity ratio, %	**41.5**	31.9	34.2	30.0[2]	25.7[2]	38.4[2]	36.9[2]	34.1[2]	35.0	42.4
Gearing ratio, %	**82**	137	119	145[2]	184[2]	83[2]	86[2]	77[2]	113	86
Funds from operations, € mill.	**238**	417	521	608	692	440	449	401	303	409
Internal financing on capital expenditure;%	**92**	105	168	82	32	112	130	122	38	82
Net interest expenses, € mill.	**118.4**	166.9	142.3	194.3	131.7	73.8	83.8	70.9	70.4	84.5
Interest cover	**3.0**	3.5	4.7	4.1	6.3	7.0	6.4	6.7	5.3	5.8
Other information										
Gross capital expenditure, € mill.	**259**	397	310	740	2 150	394	344	329	787	492
– % of turnover	**4.7**	6.6	4.7	10.7	36.5	9.7	10.4	10.9	34.0	21.9
R&D expenditure, € mill.	**28**	27	26	27	25	17	15	14	15	15
– % of turnover	**0.5**	0.4	0.4	0.4	0.4	0.4	0.5	0.4	0.7	0.7
Personnel, average	**16 490**	20 372	21 070	22 237	17 351	15 572	13 885	12 637	11 463	10 106
– which in Finland	**5 263**	6 178	6 328	6 406	6 584	6 966	7 208	7 248	7 006	7 162

[1] Board's proposal
[2] The convertible subordinated capital notes are included in liabilities
* The change in the nominal value of the M-real share, made on 11 April 1996, has been taken into account
The previous years' earnings per share, dividend per share and equity per share have been adjusted
to comparable with the figures of 2004.
The 1993-1995 figures for the resource companies Metsä Botnia and Metsä Rauma have not been adjusted for comparability according to the new consolidation policy. Deferred tax has not been included under provision since 1993.

Calculation of key ratios

$$\text{Return on equity (\%)} = \frac{\text{Profit before extraordinary items – direct taxes}}{\text{Shareholders's equity + minority interest (average)}}$$

$$\text{Return on capital employed (\%)} = \frac{\text{Profit before extraordinary items + interest expenses, net exchange gains/losses and other financial expenses}}{\text{Total assets – non-interest-bearing liabilities (average)}}$$

$$\text{Equity ratio (\%)} = \frac{\text{Shareholders's equity + minority interest}}{\text{Total assets – advance payments received}}$$

$$\text{Gearing ratio (\%)} = \frac{\text{Interest-bearing liabilities – liquid funds – interest-bearing receivables}}{\text{Shareholders's equity + minority interest}}$$

$$\text{Earnings per share} = \frac{\text{Profit before extraordinary items- minority interests- direct taxes}}{\text{Shareholders's equity + minority interest}}$$

$$\text{Shareholders' equity per share} = \frac{\text{Shareholders's equity}}{\text{Adjusted number of shares at 31 December}}$$

$$\text{Dividend per share} = \frac{\text{Dividends}}{\text{Adjusted number of shares at 31 December}}$$

$$\text{Dividend per profit (\%)} = \frac{\text{Dividend per share}}{\text{Earnings per share}}$$

$$\text{Dividend yield (\%)} = \frac{\text{Dividend per share}}{\text{Share price at 31 December}}$$

$$\text{Price/earnings ratio (P/E ratio) (\%)} = \frac{\text{Adjusted share price at 31 December}}{\text{Earnings per share}}$$

$$\text{P/BV (\%)} = \frac{\text{Adjusted share price at 31 December}}{\text{Shareholders' equity per share}}$$

$$\text{Adjusted average share price} = \frac{\text{Total traded volume per share (EUR)}}{\text{Average adjusted number of shares traded during the financial year}}$$

$$\text{Market capitalization} = \text{Number of shares x market price at 31 December}$$

$$\text{Internal financing of capital expenditure (\%)} = \frac{\text{Funds from operations}}{\text{Gross capital expenditure}}$$

$$\text{Interest cover} = \frac{\text{Funds from operations + net interest expenses}}{\text{Net interest expenses}}$$

$$\text{Funds from operations} = \text{Funds from operations in the cash flow}$$

Board's proposal for the distribution of profits

	euros
The Group's distributable funds according to the balance sheet at 31 December 2004	721 946 000.00
Non-restricted shareholders' equity in the parent company balance sheet at 31 December 2004	
Retained earnings	963 777 131.09
Net profit for 2004	270 959 835.88
Total	1 234 736 966.97
The Board of Directors proposes the following to the Annual General Meeting	
A dividend of euros 0.12 per share to be paid on the 328 165 612 A and B shares	39 379 873.44
To be transferred to the Retained earnings account	1 195 357 093.53
	1 234 736 966.97

Espoo 4 February 2005

Antti Oksanen
Arimo Uusitalo

Kim Gran
Timo Haapanen
Asmo Kalpala

Erkki Karmila
Runar Lillandt
Antti Tanskanen

Hannu Anttila
President & CEO

Auditor's report

To the shareholders of M-real Corporation

We have audited the accounting, the financial statements and the corporate governance of M-real Corporation for the period 1 January to 31 December 2004. The financial statements, which include the report of the Board of Directors, consolidated and parent company income statements, balance sheets and notes to the financial statements, have been prepared by the Board of Directors and the President and CEO. Based on our audit we express an opinion on these financial statements and on corporate governance of the parent company.

We have conducted the audit in accordance with Finnish Standards on Auditing. Those standards require that we perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining on a test basis evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by the management as well as evaluating the overall financial statement presentation. The purpose of our audit of corporate governance is to examine that the members of the Board of Directors and the President and CEO of the parent company have legally complied with the rules of the Companies' Act.

In our opinion the financial statements have been prepared in accordance with the Accounting Act and other rules and regulations governing the preparation of financial statements. The financial statements give a true and fair view, as defined in the Accounting Act, of both the consolidated and parent company's result of operations as well as of the financial position. The financial statements with the consolidated financial statements can be adopted and the members of the Board of Directors and the President and CEO of the parent company can be discharged from liability for the period audited by us. The proposal by the Board of Directors regarding the distribution of retained earnings is in compliance with the Companies' Act.

Espoo 17 February 2005

PricewaterhouseCoopers Oy
Authorised Public Accountants

Göran Lindell
Authorised Public Accountant

Ilkka Haarlaa
Authorised Public Accountant

Additional information

Strategy

M-real's objective is to strenghten its position as one of the leading producers and suppliers of paper, board and packaging solutions in Europe. In its core business areas M-real aims at being its customers' primary choice as a provider of high-quality products and solutions.

Focus on core business areas. M-real's confirmed core business areas are Consumer Packaging, Publishing, Commercial Printing and Office Papers. The group's most important growth areas are high-quality packaging and graphic products, into which M-real intends to prioritise its most substantial development investments.

Enhancement of the Office Papers business area will mainly take place on the basis of its present operational framework.

In the long run it is strategically important to maintain and develop good relationships with paper merchants because a substantial part of all fine paper sales in Europe is conducted through paper merchants.

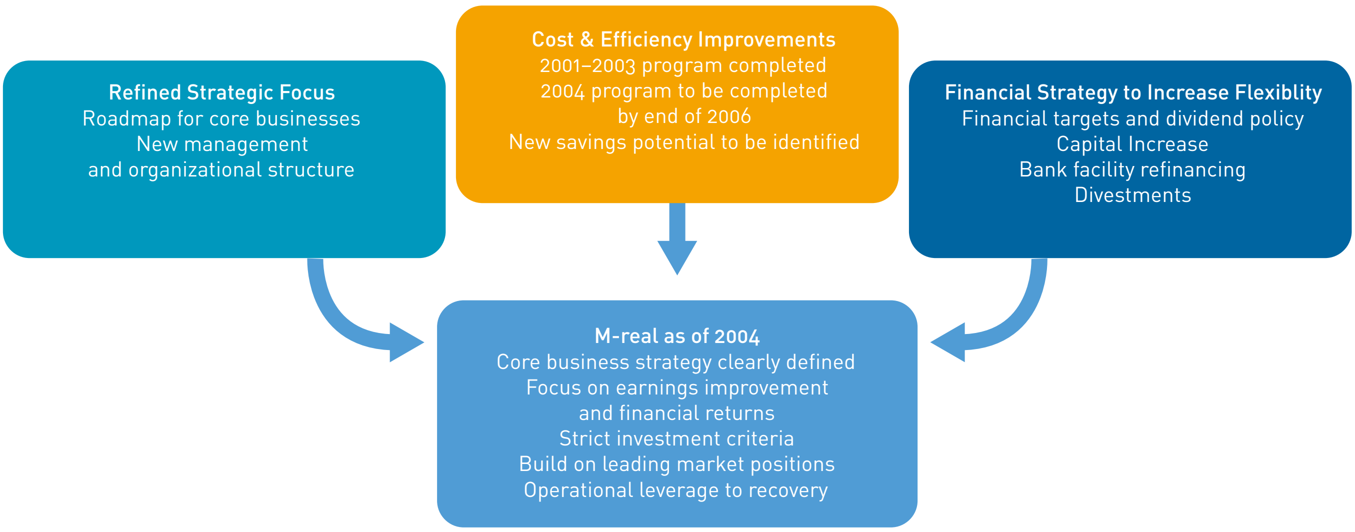
The development of Map Merchant Group is continued primarily as a part of M-real.

Organising the production, sales and marketing by core business area. The objective of the organisation and management structure, which came in force on 1 September 2004, is to improve internal efficiency and increase profit responsibility by organising the production, sales and marketing by core business area.

M-real continues to emphasize its customer-focused marketing approach by developing and improving its products and services in order to support its customers' business needs. In-depth understanding of customers' businesses provides the basis for further innovation and new product introductions, which also aims at promoting the profitability of our customers' business.

Directing investments in potential growth areas. The competitiveness of M-real's existing business operations is maintained and improved through investments with the aim to enhance product quality, production efficiency and cost competitiveness of the core business areas.

In the near-term, M-real intends to direct its development investments in Consumer Packaging, Publishing and Commercial Printing. Specific focus will be on investments that retain and improve the



competitiveness of M-real's assets and for which the expected payback time is short.

M-real is not planning to carry out any major corporate acquisitions in the near future. The market shares of selected business areas and other basic prerequisites for operations provide a good basis for more efficient utilisation of their profitability potential.

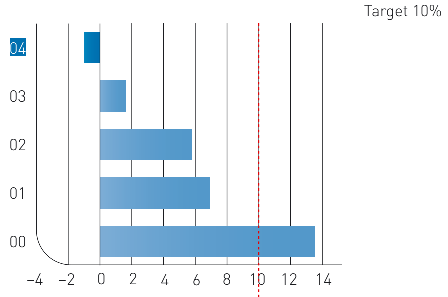
Divestments of selected non-core assets. During the past few years M-real has divested substantial assets to reduce its high indebtedness. The group has also identified other non-core assets which can be divested as and when appropriate. At the moment, strategic alternatives concerning three carton plants are being evaluated.

Cost savings and efficiency improvement In early 2004, M-real published a new cost savings programme, which aims at approx. euros 230 million annual cost savings and improvements in production efficiency. The intention is to complete the programme by the end of 2006. The impact of the programme on cash flow will be realised fully from early 2007.

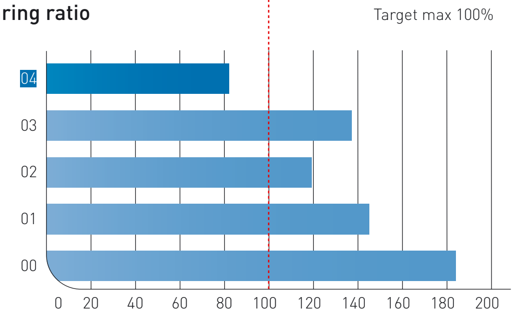
Financial targets

With regard to financial objectives,
- the group's minimum ROCE target through the business cycle is minimum 10 per cent on average while
- keeping the corporate net gearing below 100 per cent.

Return on capital employed



Gearing ratio



Operating environment

The paper and paperboard industry can be divided into two broad sectors: printing and writing papers, comprising fine papers, magazine papers and newsprint, and the packaging sector, which encompasses various types of paperboard and raw materials for corrugated board. M-real has focused on coated and uncoated fine papers and coated magazine papers as well as virgin fibre-based folding boxboard and raw materials for corrugated board.

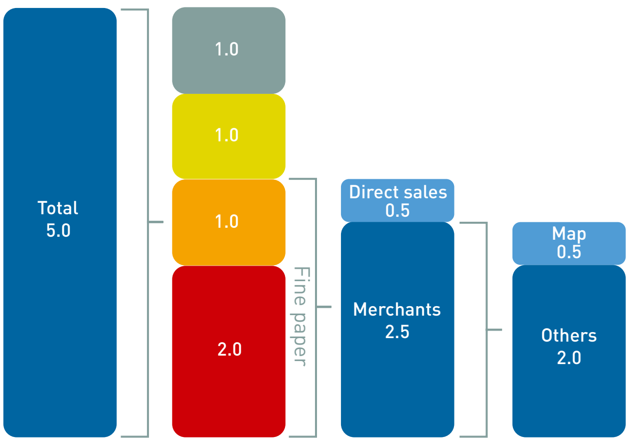
The industry is cyclical, global, capital-intensive, fiercely competitive and still quite fragmented.

Generally, paper and packaging products are sold directly to publishers, printers and manufacturers of packaging or to merchants. Paper merchants buy fairly large volumes of paper from paper producers, usually stock the paper and sell it in smaller lots, offering high-calibre local service and short delivery times. Because a large proportion of fine paper customers are small-sized companies – mainly printing houses, offices and households – paper merchants are an important sales channel for fine papers. In Europe almost 80 per cent of fine paper is sold through paper merchants. About half of M-real's paper and board production (a total of about 5.3 million tonnes in 2004) is sold via paper merchants.

The long-term growth in demand for paper and paperboard depend primarily on the growth of the world economy, demographic trends and technological development. In the years ahead, paper demand in Europe is forecasted to grow by about 2–3 per cent, depending on the grade, with demand for paperboard rising by about 1 per cent (Source: Jaakko Pöyry Consulting). The earnings trend in the industry is cyclical because business cycles have an impact on consumption and pricing and thereby affect the balance of supply and demand for individual products.

In terms of its capacity, M-real is Europe's second largest producer of coated and uncoated

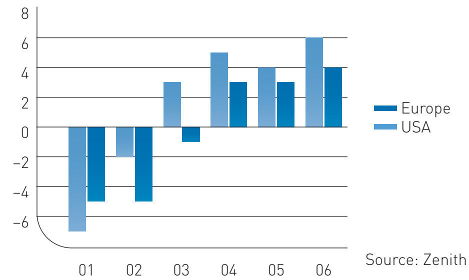
M-real paper and board deliveries



Million tonnes in average during past years

Consumer packaging materials
Coated magazine paper
Uncoated fine paper
Coated fine paper

Estimate of print advertising expenditure,
%-change in US dollars (current prices)



Source: Zenith

Paper market price in Europe indexed (Jan 2000 =100)

Uncoated fine paper
Coated fine paper
Coated magazine paper

Folding boxboard market price in Europe,
euros/tonne

Three months moving average

fine paper. In addition, M-real is Europe's second largest producer of folding boxboard and the fourth largest producer of coated magazine paper (LWC). In sales volumes, M-real is also Europe's third largest paper merchant.

M-real's main market area is Europe, where the company makes nearly 80 per cent of its paper and paperboard deliveries. The markets in Eastern Europe are growing gradually in importance. Demand for paper and paperboard improved during 2004, both in Europe and North America. The most important reason for the increase in paper demand has been the growth in printed advertising, which is generally forecasted to continue at least at the present pace in the near future. Despite the improved demand for paper and paperboard, Europe still has about 10–15 per cent of excess capacity, depending on the grade. With the prevailing overcapacity, the average price of paper in Europe has fallen during the previous four years.

M-real paper and board sales by market areas,
approx. 5.3 million tonnes, 2004

Africa, 3%
Americas, 8%
Western Europe, 68%
Asia ja Oceania, 12%
Eastern Europe, 9%

Production capacity 2004

Million tonnes	Europe	M-real	M-real's share
Coated magazine paper	11.3	1.3	12%
Coated fine paper	10.7	1.6	15%
Uncoated fine paper	9.9	1.5	15%
Folding boxboard	2.4	0.7	30%

Resources

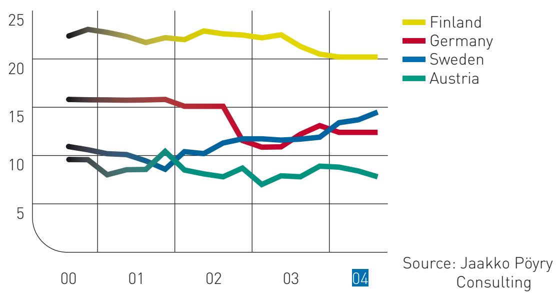
Procurement ■ The main raw materials M-real uses are wood, pulp, energy and chemicals. M-real's total consumption of roundwood last year was about 14 million cubic metres (m^3) (including the share of Metsä-Botnia's wood use) and pulp consumption amounted to 2.5 million tonnes. M-real's pulp procurement is based on its own production, pulp purchased from Metsä-Botnia and market pulp purchased from selected suppliers. M-real is nevertheless in practice self-sufficient in pulp, because the pulp resources it is able to deploy largely meet its pulp requirement. The pulp consumption chart below gives an overview of M-real's pulp procurement.

M-real uses both energy produced by its own mills and energy bought from outside suppliers. M-real's total energy consumption in 2004 was 35 000 GWh. Electricity consumption was 7 000 GWh, of which about 56 per cent came from M-real's own electricity generation, 16 per cent from Pohjolan Voima's generation plants and 28 per cent was purchased from external suppliers. Accordingly, M-real's degree of self-sufficiency in electricity was 52 per cent in Finland and 64 per cent outside Finland. Fuel use for heat production at the mills was 27 000 GWh in 2004, of which wood-based fuels accounted for 61 per cent.

The chemicals used by M-real are largely inorganic elements and compounds such as oxygen, ozone, hydrogen peroxide and chlorine dioxide, which are used in pulp bleaching, as well as calcium carbonate, latex, optical brighteners and starch, which are used in the paper production process.

Additional information on procurement is given in the M-real's Corporate responsibility report 2004.

Stumpage price of spruce pulpwood,
€/m³

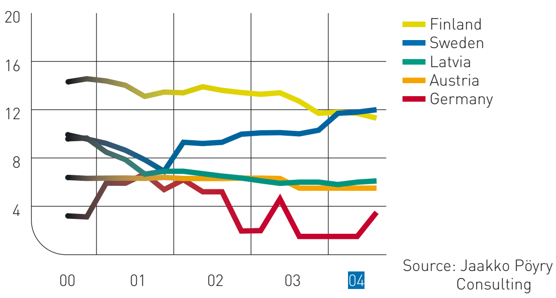


Source: Jaakko Pöyry Consulting

Wood in use 2004

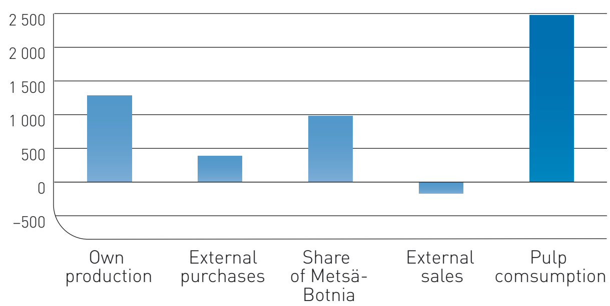
	million m³	%
Finland		
Direct	2.7	19
Share of wood use of Metsä-Botnia's pulp	5.9	41
Elsewhere in Europe	5.7	40
Total	14.3	

Stumpage price of hardwood pulpwood,
€/m³



Source: Jaakko Pöyry Consulting

Pulp consumption 2004,
tonnes



Electricity consumption and use of fuels

	Electricity consumption GWh/a	Change 03–04 %	Self-sufficiency in electricity, %	Use of fuels, GWh/a	Change 03–04 %	Proportion of biofuels, %
Finland	3 940	3	52	13 800	4	64
Other countries	3 020	6	64	13 500	–1	58
Total	**6 960**	**5**	**57**	**27 300**	**2**	**61**

Total energy, fuels used

	2004 GWh	2004 %	2003 %	2002 %	2001 %
Wood-based	**17 716**	**50**	48	46	45
Natural gas	**7 710**	**22**	22	22	21
Coal	**2 870**	**8**	9	9	10
Nuclear power	**2 775**	**8**	8	9	9
Hydropower	**2 056**	**6**	6	6	6
Peat	**939**	**3**	4	4	3
Oil	**1 179**	**3**	3	4	5
Total	**35 245**				

Personnel ■ At the end of 2004, M-real had a payroll of 15 960 employees, of whom about 31 per cent worked in Finland. M-real's personnel strategy centres on developing core competencies and management resources, strengthening the management system and building a unified corporate culture. The staff's development is monitored by means of regular PMD (Performance Makes the Difference) discussions between supervisors and their staff.

Additional information on the personnel is given in the Corporate responsibility report.

Personnel by country 31 December

	Group	
	2004	2003
Finland	**4 912**	5 835
Germany	**2 873**	4 148
Great Britain	**1 832**	1 875
Sweden	**1 691**	2 334
Austria	**872**	871
France	**824**	884
Switzerland	**570**	577
Hungary	**543**	575
Belgium	**392**	407
The Netherlands	**342**	361
Poland	**169**	795
Other countries	**940**	974
Total	**15 960**	19 636

Risk management

Principles and objectives of risk management ■ Risk management is part of M-real's strategic and operational planning, daily decision making and monitoring of operations. It is also part of the internal control system.

The aim of the risk management process is to identify and assess systematically and to manage through cost-effective measures risks that can have an impact on achievement of the company's objectives. A concurrent aim is to take into account risk-related opportunities and, after due appraisal, to exploit them.

M-real adheres to a policy of prudent risk-taking, and decisions must be based on an adequate assessment of factors such as the company's risk-bearing ability and the upside-downside ratio.

The main objective of risk management work is

- to ensure that all identified risks affecting personnel, customers, products, the public image, property, intellectual capital, social responsibility and the company's ability to operate are always attended to as prescribed by law and otherwise justifiably in the light of the best available knowledge and the prevailing economic conditions.
- to meet the expectations of different stakeholders
- to ensure the undisturbed continuity of business operations
- to optimize the upside-downside ratio
- to ensure management of the company's overall risk position and minimize overall risk.

The responsibilities connected with risk management and other more detailed operating principles are defined in the company's Risk Management Policy and Risk Management Principles.

Risk environment ■ Risks connected with M-real's operations are assessed and reported on regularly. The development of risks is monitored and various measures are undertaken to prepare for and come to grips with them. The following key risk areas were arrived at in the risk assessment that was carried out during 2004:

- strategic choices
- major global changes in demand
- competitiveness of production plants
- optimizing supply chain efficiency
- the customer management process
- price fluctuations in main products and commodities
- abrupt and unforeseeable changes in the financial markets
- threats to corporate security
- key employees and organizational efficiency
- proper functioning of key processes
- risks involving dependencies and the suspension of operations
- public image and reputation

Preparing for and transferring risks ■ Risks are met by applying the information and knowledge that are available to the company itself or to external experts and partners. In addition to risk assessments that are carried out at regular intervals in different subareas of operations, the company has formulated continuity and recovery plans connected especially with production, but also other business operations, in order to support the planning of crisis management at the company and unit-level.

Risks have been transferred, notably, by means of insurance agreements, derivatives contracts and otherwise through clauses written into general agreements.

The transfer of risks through insurance agreements is done as a rule by means of global insurance agreements covering the most common non-life risks. These agreements comprise

- a property and loss-of-profits insurance programme
- an operational and product liability insurance programme
- a liability insurance programme covering management and corporate governance bodies
- a transport insurance programme

During 2004 major instances of damage in excess of the relevant deductible did not occur within the above-mentioned insurance programmes.

Management of financial risks ■ The Group's financial position is discussed in the report of the Board of Directors.

Financing risks involved in business operations are managed in accordance with the financing

Key financial risks

	Exposure (mill. currency units)	Average hedging 2004	Hedging 31 Dec 2004
Annual total foreign exchange exposure	EUR 1 500	4.5 months	4.0 months
Annual USD exposure	USD 700	7.0 months	6.0 months
Annual GBP exposure	GBP 250	3.0 months	3.0 months
Annual SEK exposure	SEK –3 200	3.0 months	3.5 months
Total equity exposure	EUR 700	95%	98%
Interest rate maturity of loans (incl. derivatives)	EUR 2 400	21.4 months	23.1 months
Average interest rate (incl. derivatives)	EUR 2 400	4.3%	4.2%
Interest rate sensitivity *	EUR 0.6		

* M-real interest rate sensitivity is an estimate of the effect of an interest rate change of one per cent in one direction on net interest costs based on the exposure at the end of 2004.

Derivative agreements

The Group was engaged in following alternative agreements to hedge financing risk at the fiscal year-end.

	Maturity	Counter-value
Forward foreign exchange contracts	< 12 months	25.8
Foreign exchange options bought and sold	< 12 months	18.0
Forward interest rate agreements	< 11 years	3.0
Interest rate options bought and sold	< 11 years	14.2
Interest rate swaps	< 5 years	17.2
Currency swaps	< 10 years	9.0

At note 26 (Contingent liabilities) a schedule is given of the gross amount and fair values of derivative contracts on 31 Dec 2004.

policy confirmed by the Company's Board of Directors and management. This policy defines detailed operating instructions for the management of factors such as foreign exchange, interest rate, liquidity and counterparty risk as well as for the use of derivative instruments. The aim is to hedge against significant financing risks, to balance the cash flow and to give the business units time to adjust their operations to changed conditions.

Foreign exchange risks ■ The M-real Group's foreign exchange risk consists of the risk connected with foreign currency flows and the risk of converting foreign currency-denominated shareholders' equity amounts.

Most of the Group's costs are generated in the eurozone, but a large part of the sales income is obtained in non-domestic currencies. This means that due to changes in foreign exchange rates, trade receivables can fluctuate whilst production costs remain unchanged. Similarly, products are often priced in a non-domestic currency. This foreign currency exposure includes foreign currency-denominated accounts receivable, accounts payable, orders booked as well as a certain part of the budgeted net foreign currency cash flow.

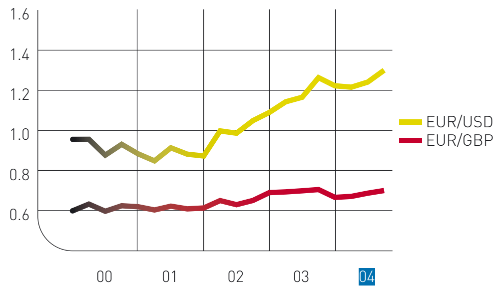
The main currencies for the Group's currency flow exposure are the United States dollar, the British pound and the Swedish krona. The appreciation in the dollar and pound has a positive effect on the Group's earnings and, correspondingly, their weakening has a negative impact. A depreciating Swedish krona has a positive effect on the Group's earnings.

The hedging policy is to hedge on average a three-month foreign exchange flow, but the

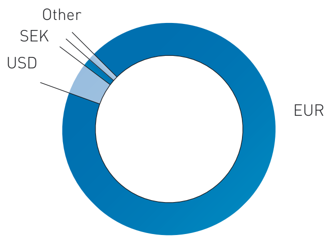
Exchange rates against euro at 31 December

	2004	2003	2002	2001	2000
GBP	0.7051	0.7048	0.6505	0.6085	0.6241
USD	1.3621	1.2630	1.0487	0.8813	0.9305
SEK	9.0206	9.0800	9.1528	9.3012	8.8313
NOK	8.2365	8.4141	7.2756	7.9515	8.2335
DKK	7.4388	7.4450	7.4288	7.4365	7.4631

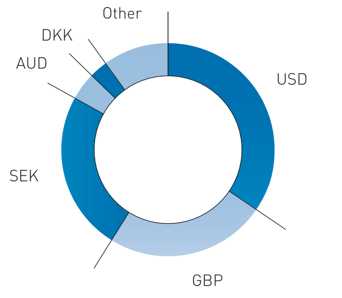
Exchange rate trends



Currency breakdown of loans



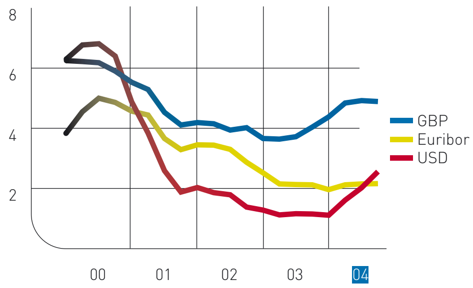
Foreign currency breakdown of currency exposure



hedging can vary currency by currency from 0 to 12 months. The amount of hedging for specific currencies can vary depending on the exchange rates and expectations prevailing at any given time, on interest differences among the currencies as well as on the impact on the Group's earnings of a change in foreign exchange rates.

The risk in translating foreign currency-denominated shareholders' equity arises when the shareholders' equity amounts of overseas subsidiaries and associated companies are consolidated and translated into euros in the annual accounts. According to Group Treasury policy a minimum of 50 per cent of the equity exposure subject to risk must be hedged if the hedging can in practice be carried out.

Interest rate trends,
3 months



Interest rate risk ■ Interest rate risk primarily pertains to interest-bearing receivables and liabilities in the balance sheet. The main foreign currencies involved in the management of interest rate risks are the euro, the United States dollar, the British pound and the Swedish krona.

M-real aims to hedge the most important interest rate risks. How fast a change in the level of interest rates is reflected in net financial expenses in the profit and loss account depends on the periods during which investments, loans and derivatives are tied to fixed interest rates, i.e. on how long the interest rate of a financial item is fixed. The policy is to maintain the average interest rate maturity at the 12-month level, but the maturity can vary based on interest rate expectations and the risk management objectives set.

Liquidity risks ■ Liquidity risk means that financial assets and borrowing facilities do not suffice to cover the financing need of operations or that funding becomes immoderately expensive. The risk is monitored by estimating the liquidity requirement for the next 12–24 months and ensuring that available liquidity covers the bulk of the 12–24 month requirement.

Counterparty risks ■ Financial instruments involve a risk that the Group will sustain losses because the counterparty is unable to meet its commitments. The Group manages this risk by entering into financial transactions only with the most creditworthy counterparties and within predetermined limits. Credit risks for financing did not result in losses during the financial year.

Business operations
Cartons

The operating environment of the Cartons business in 2004 was characterised by moderate growth in the European economy and a strengthening euro. All the main product groups enjoyed increasing demand. Demand grew in Eastern Europe, North America and Asia.

The business posted an operating profit in 2004 of euros 60.3 million (2003: 33.3). The operating profit includes non-recurring net expenses of euros 5.4 million (4.0), the largest of which were the euros 22.4 million write-down of Savon Sellu's fixed assets as well as the recognition of negative goodwill of euros 14.3 million connected with the purchase of shares in Kemiart Liners Oy. In the fourth quarter a euros 8.4 million reversal was made on the write-down of Savon Sellu's fixed assets owing to the disposal of the Savon Sellu business and the proceeds from the sale. The operating result, excluding non-recurring items, was euros 65.7 million (37.3). Profitability was improved mainly by the growth in delivery volumes in all product groups as well as by the cost savings that were realized. The strengthening of the euro depressed the selling price in euros within all product groups. The average operating rate of the paperboard machines was 89 per cent (84). The average order book at the end of December was about three weeks. Kemiart Liners is included in its entirety in the second-half figures.

Deliveries by west European folding boxboard producers were up 6 per cent compared with 2003. Deliveries by the producers to Western Europe were unchanged. M-real's deliveries of folding boxboard grew by 13 per cent. The biggest growth was seen in deliveries to Western and Eastern Europe as well as North America. The average selling price of folding boxboard fell, largely in the wake of a strengthening euro.

Delivery volumes of linerboard were up slightly, stripping out the growth in delivery volumes due to the acquisition of Kemiart Liners. The appreciation of the euro depressed selling prices.

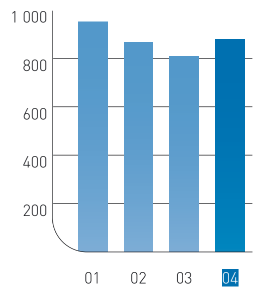
The volume of fluting deliveries increased. The company succeeded in raising the delivery volume and selling price, especially in the lower profitability markets outside Europe. The average selling price nevertheless fell in step with the strengthening euro.

Cartons

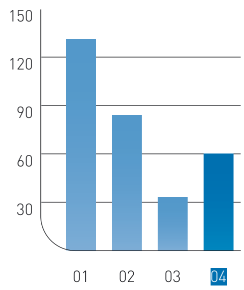
		2004	2003	Change
Turnover	€ million	**879.7**	809.0	9%
Internal sales, Group	€ million	**–15.5**	–17.0	
Turnover, external	€ million	**864.2**	792.0	9%
Operating profit	€ million	**60.3**	33.3	81%
Operating profit	%	**6.9**	4.1	
Capital employed (average)	€ million	**897.8**	901.9	–1%
Capital turnover rate		**1.0**	0.9	
Return on capital employed	%	**7.6**	3.9	
Personnel (average)		**2 842**	2 970	–4%
Investment in fixed assets	€ million	**18.3**	24.3	–25%
Mill deliveries	1 000 t	**1 155**	1 007	15%
Production	1 000 t	**1 111**	913	22%
Capacity operating rate of board mills	%	**89**	84	

Equals to M-real's ownership (47% in Kemiart Liners until QII 2004 and 100% as from QIII 2004)

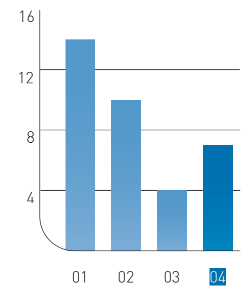
Turnover,
€ million



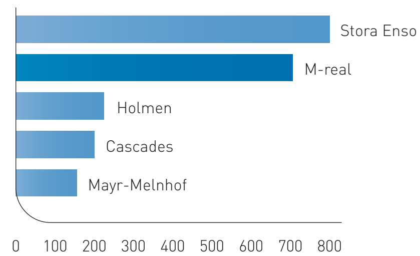
Operating profit,
€ million



Operating profit,
%



Largest producers of folding boxboard in Europe 2004



Capacity, 1000 t
Source: M-real

Business operations
Graphics Products and Speciality Papers

There was a dual trend market situation for the main product groups of the Graphics Products and Speciality Papers business in 2004. The positive trend in printed advertising lifted demand in the main market areas in Western and Eastern Europe, North America and Asia. By contrast, selling prices in Europe fell, and the appreciation of the euro lowered the selling price in euros received by west European producers for dollar-based exports.

The business' operating loss was euros 90.0 million (a profit of 24.3 million). The operating result includes euros 56.2 million of non-recurring net expenses (6.4), the biggest of which were the euros 31.0 million write-down of the fixed assets of the Zanders Reflex mill in Germany booked in the third quarter, as well as the euros 24 million expense provision connected with the profitability improvement programme launched at Zanders' Gohrsmühle and Reflex mills and booked in the fourth quarter. The operating result, excluding non-recurring net expenses, was a loss of euros 33.8 million (a loss of 30.7). Profitability was weakened mainly by the fall in the average selling price.

Deliveries by west European producers of coated fine paper rose by 11 per cent and deliveries by producers of coated magazine paper by 8 per cent. M-real's volume of coated fine paper delivered rose by 10 per cent and the volume of coated magazine paper fell by 5 per cent. M-real's delivery volume for speciality paper increased.

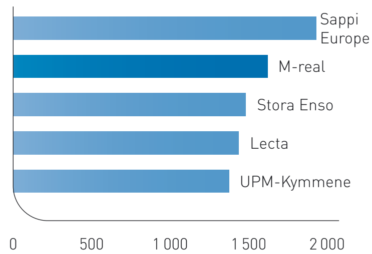
The operating rate of the paper machines was 88 per cent (84). The order book at the end of December was just over two weeks.

The average price of coated fine paper fell by 5 per cent and coated magazine paper was down 3 per cent. Prices of speciality paper declined slightly on average. The strengthening in the euro depressed the average selling price within all product groups.

Graphics Products and Speciality Papers

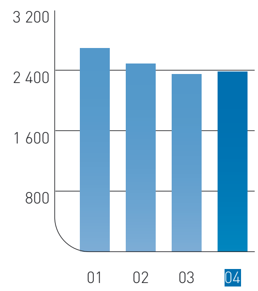
		2004	2003	Change
Turnover	€ million	**2 377.9**	2 348.0	1%
Internal sales, Group	€ million	**–236.3**	–228.8	
Turnover, external	€ million	**2 141.6**	2 119.2	1%
Operating profit	€ million	**–90.0**	24.3	
Operating profit	%	**–3.8**	1.0	
Capital employed (average)	€ million	**2 720.6**	2 871.4	–5%
Capital turnover rate		**0.9**	0.8	
Return on capital employed	%	**–3.4**	1.0	
Personnel (average)		**6 670**	6 957	–4%
Investment in fixed assets	€ million	**80.4**	86.2	–7%
Mill deliveries	1 000 t	**3 168**	2 965	7%
Production	1 000 t	**3 169**	2 912	9%
Capacity operating rate	%	**88**	84	

Largest producers of coated fine paper in Europe 2004

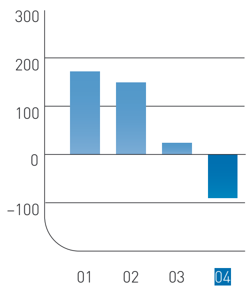


Capacity, 1000 t
Source: M-real

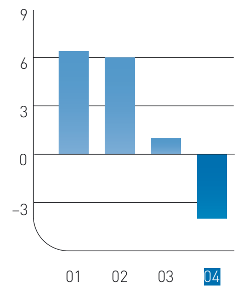
Turnover,
€ million



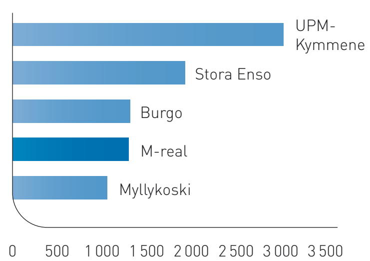
Operating profit,
€ million



Operating profit,
%



Largest producers of coated magazine in Europe 2004



Capacity, 1000 t
Source: M-real

Business operations
Offices

Despite the pick-up in demand, the market situation for the Offices business remained difficult in 2004. Imports of uncoated fine paper to the west European market, which increased as a result of the sinking dollar, coupled with an increase in production capacity kept the competition situation very tight all year long. This caused a sharp fall in the selling prices of uncoated fine paper. Deliveries by west European producers to the markets outside Europe were largely unchanged despite the weakening in the dollar.

The business reported an operating loss of euros 3.9 million (profit of 48.2 million). Profitability was weakened mainly by the fall in selling prices.

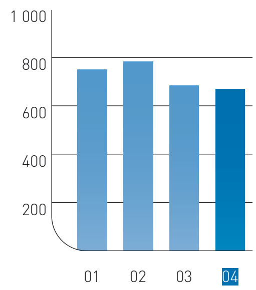
Deliveries by west European producers of uncoated fine paper rose by 5 per cent. The volume of products delivered by the Offices business area grew by 8 per cent. The operating rate of the paper machines was 89 per cent (82). The order book at the end of December was just over two weeks.

The average selling price fell by approximately 9 per cent.

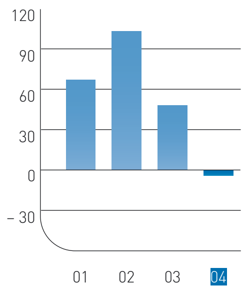
Offices

		2004	2003	Change
Turnover	€ million	**670.0**	682.9	–2%
Internal sales, Group	€ million	**–110.5**	–127.4	
Turnover, external	€ million	**559.5**	555.5	1%
Operating profit	€ million	**–3.9**	48.2	
Operating profit	%	**–0.6**	7.1	
Capital employed (average)	€ million	**846.7**	906.4	–7%
Capital turnover rate		**0.8**	0.8	
Return on capital employed	%	**–0.6**	5.4	
Personnel (average)		**2 036**	2 107	–3%
Investment in fixed assets	€ million	**31.2**	30.3	3%
Mill deliveries	1 000 t	**961**	892	8%
Production	1 000 t	**975**	873	12%
Capacity operating rate	%	**89**	82	

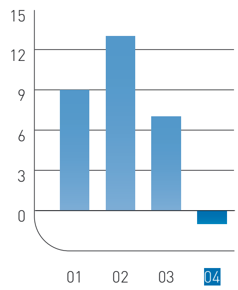
Turnover,
€ million



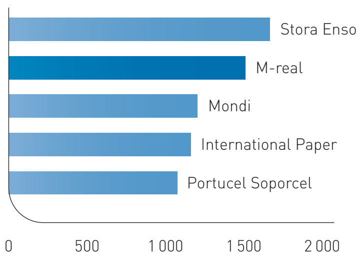
Operating profit,
€ million



Operating profit,
%



Largest producers of uncoated fine paper in Europe 2004



Capacity, 1000 t
Source: M-real

Business operations
Map Merchant Group

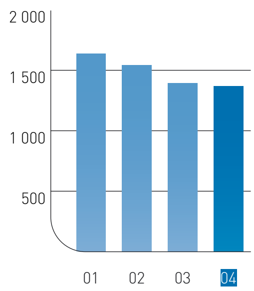
Demand for Map Merchant Group's products improved in 2004 despite the continued difficult market situation. Thanks to the improved demand and implemented efficiency improvement measures the financial performance improved in all major market areas. The integration and reorganisation of operations was continued during the year and a restructuring of the operations of Modo Merchants and James McNaughton in the UK was initiated.

Map Merchant posted an operating profit of euros 4.7 million (6.5). The profit includes non-recurring net expenses of euros 8.3 million of which the most important were the euros 5.3 million expense provision for the restructuring of Modo Merchants Ltd and James McNaughton Paper Group Ltd and the euros 2.4 million cost incurred by the termination of Modo Merchants' warehouse lease agreement. The operating profit excluding non-recurring items was euros 13.0 million (6.5). The improvement in profitability was attributable to the increased delivery volumes and the positive effects of the efficiency improvement measures.

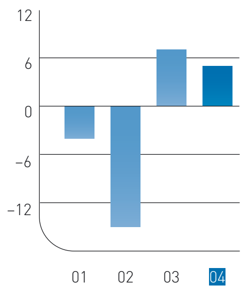
Map Merchant Group

		2004	2003	Change
Turnover	€ million	1 368.4	1 392.6	–2%
Internal sales, Group	€ million	–8.6	–6.0	
Turnover, external	€ million	1 359.8	1 386.6	–2%
Operating profit	€ million	4.7	6.5	–28%
Operating profit	%	0.3	0.5	
Capital employed (average)	€ million	385.5	396.8	–3%
Capital turnover rate		3.6	3.5	
Return on capital employed	%	1.5	2.0	
Personnel (average)		2 528	2 554	–1%
Investment in fixed assets	€ million	6.1	5.8	6%
Deliveries	1 000 t	1 308	1 283	2%

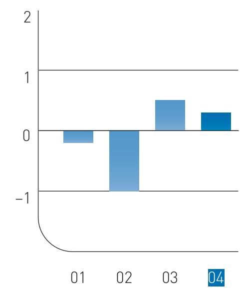
Operating profit,
€ million



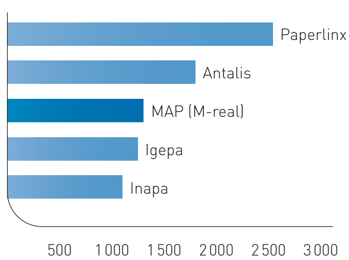
Operating profit,
€ million



Operating profit,
%



Sales volumes of paper merchants in Europe 2003



Sales, 1000 t
Source: M-real

Business operations
Quarterly data

Turnover	Full year		Quarterly							
	2004	2003	2004				2003			
€ million			IV	III	II	I	IV	III	II	I
Cartons [1]	879.7	809.0	227.9	237.6	210.1	204.1	196.2	200.3	196.9	215.6
Graphics Products and Speciality Papers	2 377.9	2 348.0	616.2	589.5	581.1	591.1	572.6	578.7	574.6	622.1
Offices	670.0	682.9	164.1	167.1	158.5	180.3	169.5	151.3	170.5	191.6
Map Merchant Group	1 368.4	1 392.6	342.8	332.4	339.2	354.0	347.6	332.5	345.0	367.5
Internal sales and other operations	164.3	811.6	31.8	36.1	44.4	52.0	188.3	204.4	220.8	198.1
Group total	5 460.3	6 044.1	1 382.8	1 362.7	1 333.3	1 381.5	1 474.2	1 467.2	1 507.8	1 594.9

Operating profit and result	Full year		Quarterly							
	2004	2003	2004				2003			
€ million			IV	III	II	I	IV	III	II	I
Cartons [1]	60.3	33.3	25.8	10.7	9.8	14.0	−2.3	15.1	2.5	18.1
Graphics Products and Speciality Papers	−90.0	24.3	−47.4	−33.2	−11.9	2.5	−12.8	10.0	−2.1	29.1
Offices	−3.9	48.2	−1.2	0.0	−6.2	3.5	8.6	3.9	13.9	21.8
Map Merchant Group	4.7	6.5	−2.9	0.9	3.0	3.8	0.4	−2.7	3.4	5.4
Other operations	−45.8	−38.5	−1.8	−6.5	−14.5	−23.0	−31.2	2.6	−2.9	−7.0
Operating profit	−74.7	73.8	−27.5	−28.1	−19.9	0.8	−37.3	28.9	14.8	67.4
% of turnover	−1.4	1.2	−2.0	−2.1	−1.5	0.1	−2.5	2.0	1.0	4.2
Net exchange gains/losses	12.5	20.7	8.1	0.0	−0.8	5.2	9.7	−0.5	5.3	6.2
Other financial income and expenses	−146.8	−174.7	−52.2	−31.4	−28.9	−34.3	−77.6	−32.3	−29.8	−35.0
Profit before extraordinary items	−209.0	−80.2	−71.6	−59.5	−49.6	−28.3	−105.2	−3.9	−9.7	38.6
% of turnover	−3.8	−1.3	−5.2	−4.4	−3.7	−2.1	−7.1	−0.3	−0.6	2.4

Operating profit and result	Full year		Quarterly							
	2004	2003	2004				2003			
%			IV	III	II	I	IV	III	II	I
Cartons [1]	6.9	4.1	11.3	4.5	4.7	6.9	−1.2	7.5	1.2	8.4
Graphics Products and Speciality Papers	−3.8	1.0	−7.7	−5.6	−2.1	0.4	−2.2	1.7	−0.4	4.7
Offices	−0.6	7.1	−0.7	0.0	−3.9	2.0	5.1	2.6	8.2	11.4
Map Merchant Group	0.3	0.5	−0.8	0.3	0.9	1.1	0.1	−0.8	1.0	1.5
Group total	−1.4	1.2	−2.0	−2.1	−1.5	0.1	−2.5	2.0	1.0	4.2

Deliveries	Full year 2004	Full year 2003	Quarterly 2004 IV	2004 III	2004 II	2004 I	2003 IV	2003 III	2003 II	2003 I
1 000 tonnia			IV	III	II	I	IV	III	II	I
Cartons [1]	1 155	1 007	305	310	275	265	250	246	246	265
Graphics Products and Speciality Papers	3 168	2 965	837	797	767	767	745	729	727	763
Offices	961	892	233	246	228	254	209	207	229	246
Paper businesses total	4 129	3 857	1 070	1 043	995	1 021	955	937	956	1 009
Map Merchant Group	1 308	1 283	330	321	319	338	327	312	317	328

Production	Full year 2004	Full year 2003	Quarterly 2004 IV	2004 III	2004 II	2004 I	2003 IV	2003 III	2003 II	2003 I
1 000 tonnes			IV	III	II	I	IV	III	II	I
Cartons [1]	1 111	913	294	322	242	253	217	238	208	250
Graphics Products and Speciality Papers	3 169	2 912	817	814	763	775	708	719	718	767
Offices	975	873	244	241	243	247	203	200	233	237
Paper mills total	4 144	3 785	1 061	1 055	1 006	1022	912	919	950	1 004
Metsä-Botnia's pulp [2]	1 151	1124	282	290	279	300	270	305	269	280
M-real's pulp	1 533	1439	399	384	369	381	368	350	355	366

Operating rates	Full year 2004	Full year 2003	Quarterly 2004 IV	2004 III	2004 II	2004 I	2003 IV	2003 III	2003 II	2003 I
%			IV	III	II	I	IV	III	II	I
Cartons [1]	89	84	85	96	86	89	79	87	78	94
Graphics Products and Speciality Papers	88	84	90	90	85	87	80	83	83	89
Offices	89	82	91	86	87	92	75	73	89	93
Paper mills total	88	83	90	89	86	88	79	80	84	90

[1] Equals to M-real's ownership (47% in Kemiart Liners until QII 2004 and 100% as from QIII 2004).

[2] Equals to M-real's ownership (47% in Metsä-Botnia).

Business operations
Production capacities

Paper mills

(1000 tonnes)

Location	Country	Machines	Coated magazine paper	Coated fine paper	Uncoated fine paper	Speciality paper	Total
Kirkniemi	Finland	3	730				730
Äänekoski	Finland	1		180			180
Kangas	Finland	2	320				320
Simpele	Finland	1				55	55
Kyröskoski	Finland	1				100	100
Stockstadt	Germany	2		215	210		425
Bergisch Gladbach	Germany	4		330			330
Düren	Germany	4				100	100
Husum	Sweden	3	250		415		665
Wifsta	Sweden	1			165		165
Alizay	France	1			300		300
Pont Sainte Maxence	France	2			120		120
Biberist	Switzerland	3		380	70		450
Sittingbourne	Great Britain	2		200			200
New Thames	Great Britain	1			230		230
Hallein	Austria	2		315			315
Total		33	1 300	1 620	1 510	255	4 685

Board mills

(1000 tonnes)

Mill	Country	Machines			Folding boxboard	Kraftliner	Total
Tampere	Finland	3			240		240
Kyröskoski	Finland	1			130		130
Äänekoski	Finland	1			165		165
Simpele	Finland	1			170		170
Kemi	Finland	1				340	340
Total		7			705	340	1 045

Carton plants

(1000 tonnes)

Plant	Country	Cartons	Total
Tampere	Finland	20	20
Petőfi	Hungary	30	30
Meulemans	Belgium	20	20
Total		70	70

Pulp mills

(1000 tonnes)

Mill	Country	Chemical pulp	BCTMP	CTMP	Total
Stockstadt	Germany	160			160
Husum	Sweden	700			700
Alizay	France	310			310
Hallein	Austria	160			160
Joutseno	Finland		260		260
Lielahti	Finland			110	110
Total		1 330	260	110	1 700

Metsä-Botnia*

(1000 tonnes)

Mill	Country	Chemical pulp	Total
Äänekoski	Finland	485	485
Kemi	Finland	560	560
Kaskinen	Finland	425	425
Rauma	Finland	570	570
Joutseno	Finland	600	600
Total		2 640	2 640

* M-real's share is 47% of the capacity

Other shareholdings

(1000 tonnes)

Softwood and hardwood pulp	340	Sunila Oy, (interest 17,5%), Finland
Coated magazine paper	180	Myllykoski Paper Oyj, (interest 35%), Finland
Uncoated magazine paper	380	Myllykoski Paper Oyj, (interest 35%), Finland

M-real's financial communications and investor relations

Shares The company has a total of 328 165 612 shares. All shares have a nominal value of EUR 1.70. Information on M-real Corporation's shares is given in the financial statements part of the Annual Report.

M-real's Series A and Series B shares are quoted on the Helsinki Stock Exchange. The trading codes of the shares are MRLAV and MRLBV, respectively.

Investor relations objectives M-real is committed to generating shareholder value. In line with its strategy, M-real is seeking to improve its market position, cost structure and profitability, whilst streamlining its functions and organization.

M-real endeavours to offer up-to-date and easily utilizable information on the company regularly and openly. The company aims to produce reliable and factual information concerning its operations and financial position as well as the near-term outlook.

Financial information Financial reports and surveys appear in Finnish and English. Annual Reports and other publications can be obtained from M-real Corporation, Corporate Communications, Revontulentie 6, 02100 Espoo, Finland, tel. +358 10 469 4552 and fax +358 10 469 4531 or by e-mail at: corporate.communications@m-real.com.

On M-real's mainly English-language Internet pages, material of most interest to investors is brought together under the heading Investor Relations. Stock exchange announcements, interim reports and financial information on these pages are updated in real time. The pages give a company presentation that is regularly updated when financial reports are published. Information on subjects such as the Group's products, customer cases, organization, sales network and environmental issues can also be found on the Internet pages. Also, Group publications can be ordered and feedback sent via the Internet.

The address of M-real's website is www.m-real.com and its general e-mail address is corporate.communications@m-real.com.

Financial reporting and Closed window periods in 2005 M-real does not comment on its financial performance or similar issues from the close of each reporting period up to the publication of the report for said period, except for information on a change in the market situation and the rectification of incorrect information.

M-real will publish its financial reports in 2005 as shown in the table below.

Closed window	Financial report	Publication date
1 January to 4 February	Financial Results for year 2004	Friday, 4 February
1 to 28 April	Interim Report January–March	Thursday, 28 April
1 to 29 July	Interim Report January–June	Friday, 29 July
1 to 28 October	Interim Report January–September	Friday, 28 October

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General questions and comments on investor relations can be sent to the address: **investor.relations@m-real.com**

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cover

Product	**Galerie Image 190 g/m²**
Mill	**Äänekoski Board, Finland**

Environmental management

Certified environmental management system (at the mill since)
ISO 14001 (2001)

Certified chain-of-custody (at the mill since)
SMS 1003-1 (2000) based on PEFC

Share of wood from certified forests 58%

Origin of wood

The figures include all wood used in product.

Countries of wood origin	Share of total wood supply (%)	Share of certified wood * (%)	Certification system
Finland	64	90	PEFC
Russia, European part	33		
Estonia	2		
Latvia	1		

* The figures indicate the average share of certified wood supplied with certified chain-of-custody.

More information www.m-real.com

inside pages

EMAS
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INFORMATION
FIN-000043

Product	**Galerie One Silk, 80 g/m²**
Mill	**Kangas, Finland**

Environmental management

Certified environmental management system (at the mill since)
ISO 14001 (1997) EMAS (2002)

Certified chain-of-custody (at the mill since)
SMS 1003-1 (2003) based on PEFC

Share of wood from certified forests 54%

Origin of wood

The figures include all wood used in product.

Countries of wood origin	Share of total wood supply (%)	Share of certified wood* (%)	Certification system
Finland	62.5	85.5	PEFC
Russia, European part	34.5		
Estonia	2		
Latvia	1		

* The figures indicate the average share of certified wood supplied with certified chain-of-custody.

More information www.m-real.com

The complete M-real annual reporting 2004 consists of three parts:

Annual review ■ available in English, Finnish, French, German and Swedish

Corporate responsibility report ■ available in English and Finnish

Annual financial report ■ available in English, Finnish and Swedish

Additional copies are available from:

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The publications are also available as pdf files on the website
www.m-real.com