M-REAL YEAR 2005

Annual financial report

M-real in brief

M-real is one of the leading producers of paper and paperboard in Europe. The company focuses on four core businesses: Consumer Packaging, Publishing, Commercial Printing and Office Papers. The company's global customers include publishers, printers, carton printers, paper merchants, office suppliers and well-known consumer brand manufacturers.

M-real aims at enhancing its customers' businesses by providing high quality papers and paperboards for consumer packaging, communications and advertising purposes. Together with its customers and partners, M-real develops products and services for demanding applications, such as magazines, art books, brochures, direct mail and office papers. Packaging applications include cartons for health and beauty care products, cigarettes, branded food and consumer durables. M-real's brands include e.g. Galerie, EuroArt, Data Copy and Logic papers, and Carta and Avanta paperboards.

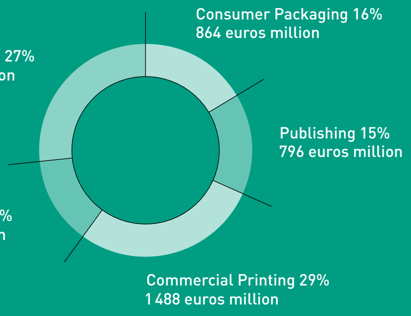
M-real has 26 production units in nine European countries: Austria, Belgium, Finland, France, Germany, Hungary, Sweden, Switzerland and the UK. Total annual production capacity amounts to approximately 4.8 million tonnes of paper and 1.1 million tonnes of paperboard.

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 23 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.

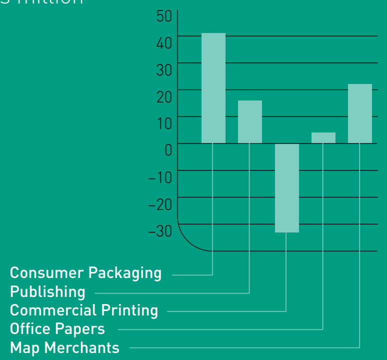
M-real Corporation generated sales of 5.2 billion euros in 2005 and employs nearly 15 200 people. M-real, which is part of the Metsäliitto Group, is listed on the OMX Helsinki Stock Exchange.

M-real sales by Business Area 2005
% / euros million



* about one third of Map's sales volume is M-real's products

Operating result by Business Area 2005*
euros million



* excl. non-recurring items

M-real's year 2005

January 2005 ■ M-real made the transition from Finnish Accounting Standards (FAS) to International Financial Reporting Standards (IFRS) from the beginning of 2005.

January 2005 ■ M-real sold its forestland to Forestia Holding for euros 162 million according to the previously agreed letter of intent.

February 2005 ■ M-real initiated a profitability improvement program at Wifsta and Husum mills in Sweden. The target is to reduce annual costs by at least Swedish kronas 200 million and reach a 15 per cent productivity increase by the end of the year 2006. An important element in the program is the planned integration of Wifsta mill into Husum organization.

March 2005 ■ M-real announced to invest euros 60 million at the Simpele board mill. The capacity of the board machine will increase by 45 000 t/a to 215 000 t/a, the investment will be ready by spring 2006.

March 2005 ■ Botnia, the resource company jointly owned by M-real, UPM-Kymmene and Metsäliitto, decided to invest in a new pulp mill in Uruguay. The mill's planned annual capacity is about a million tons of short-fiber pulp, and it will use cultivated eucalyptus as raw material. The total capital expenditure is about US dollars 1.1 billion and the mill is estimated to come on stream during the third quarter of 2007. At the same time M-real sold an 8 per cent holding in Botnia to Metsäliitto for a purchase price of euros 164 million. After the transaction, M-real's shareholding in Botnia is 39%.

May–June 2005 ■ Lockout declared by the Finnish Forest Industries Federation started on 18 May in all the M-real mills in Finland. The lockout ended not before the end of June when the new collective labour agreement with the Finnish Paperworkers' Union was concluded. In total the negative impact of the labour dispute to M-real's 2005 result was euros 85–90 million.

October 2005 ■ President of the Republic of Finland Tarja Halonen inaugurated M-real's new bleached chemi-thermomechanical (BCTMP) mill in Kaskinen. The annual production capacity of the mill is 300 000 tons. M-real is the world's largest manufacturer of high-quality BCTMP grades of pulp.

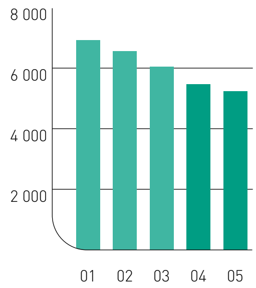
Key figures 2005

	2005	2004	Change
Sales, euros million	**5 241**	5 522	–5%
Operating profit, euros million	**36**	28	29%
– % of sales	**0.7**	0.5	
Profit from continuing operations before tax, euros million	**–114**	–108	–6%
– % of sales	**–2.2**	–2.0	
Return on capital employed, %	**1.2**	0.9	
Return on equity, %	**–3.4**	–5.7	
Interest-bearing net liabilities 31 Dec, euros million	**2 205**	2 183	1%
Gearing ratio, % 31 Dec	**95**	89	
Equity ratio, % 31 Dec	**36.6**	37.5	
Earings per share, euros	**–0.25**	0.19	
Equity per share, euros	**6.92**	7.29	–5%
Dividend per share, euros *)	**0.12**	0.12	0%
Market capitalization 31 Dec, euros million	**1 386**	1 542	–9%
Gross capital expenditure, euros million **)	**452**	245	84%
Cash flow arising from operating activities, euros million	**136**	217	–37%
Personnel 31 Dec	**15 154**	15 960	–5%

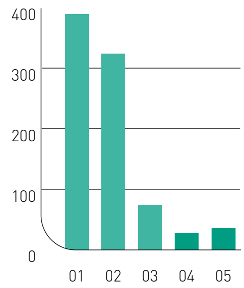
*) Board of Directors' proposal for 2005

**) includes the purchase price of shares in acquired companies but not debt

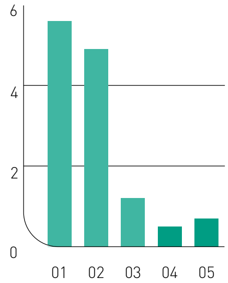
Sales,
euros million



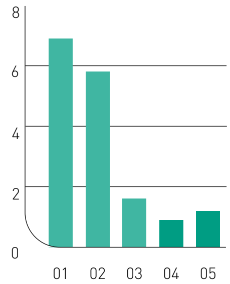
Operating profit,
euros million



Operating profit,
%



Return on capital employed, %



Data to graphs on this page: 2001–2003 FAS, 2004–2005 IFRS

Information to shareholders

- M-real will publish its financial reports in 2006 as follows:

  Wednesday 8.2.
  Financial results 2005

  Thursday 27.4.
  Interim report January–March

  Thursday 27.7.
  Interim report January–June

  Wednesday 25.10.
  Interim report January–September

Annual General Meeting

The Annual General Meeting of M-real Corporation will be held at Finlandia House, Mannerheimintie 13, Helsinki, on Monday, 13 March 2006, 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 3 March 2006 at the latest and should announce their intention to attend the meeting before 4 p.m. Finnish time on 9 March 2006, 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 2005 financial year be paid on 23 March 2006 to shareholders who are entered by 16 March 2006 at the latest in the list of shareholders kept by the Finnish Central Securities.

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 65 through 69 and M-real's financial communication and investor relations on page 96.

Contents

The graphs in this annual report are presented according to International Financial Reporting Standards (IFRS) for 2005 and 2004 and according to Finnish Accounting Standards (FAS) for 2001–2003.

References to "Metsä Finance" mean Metsä Group Financial Services Oy and to "Botnia" mean Oy Metsä Botnia Ab.

President's review

Dear shareholder

In 2004 we announced an action plan in which we set the objectives of streamlining of our operational model, increasing our financial flexibility and improving our cost-effectiveness. We immediately set about launching the streamlined operational model, which outlined changes in the management's line-up and organizational structure and involved a redefinition of our core businesses. We adopted a more clear-cut line organization in which the responsibilities of the business areas are defined according to customer relationships. This transformation to clearer responsibility areas improved our customer focus, operational efficiency and –through streamlined profit responsibility – our operational result as well.

After the share offering carried out in autumn 2004, we have increased M-real's financial flexibility through disposals of non-core assets: M-real's entire forest holdings, Savon Sellu, Price & Pierce and an eight per cent stake in Botnia. In addition, we renewed the syndicated loan facility agreement. We also studied alternatives for divesting a part of Map Merchant Group, but we reached the conclusion that the best way to go forward is to develop Map as part of the M-real Group.

As a consequence of the Modo Paper acquisition, M-real was for many years one of Europe's most indebted forest industry companies. From the beginning of 2004, we have lowered our debt by more than a billion euros. Thanks to our successful action plan, we have a gearing ratio that is nearly at the average level for the industry.

The emphasis in our three-pronged action plan is presently on improving our cost-effectiveness. The objective of the measures set out in the programme is to generate, by the end of the current year, at least 200 million euros of annual cost savings coupled with an increase in efficiency that adds euros 30 million to earnings. At the end of 2005, somewhat more than half of the programme's objectives had been achieved. I'm convinced that the programme will be implemented to the full extent by the end of 2006.

We've made – and are still making – major investments to improve our fibre supply. The new BCTMP mill with an annual production capacity of 300 000 tonnes came on stream in Kaskinen in September of last year. The new pulp will be used mainly at our fine paper mills in continental Europe.

At our previously completed Joutseno mill, we were the first in the world to introduce a new breed of BCTMP manufacturing methods on a production scale, and the completion of Kaskinen will increase our ability to improve our cost competitiveness and develop the quality of our products still further. During 2006 we will launch new coated fine paper products based on BCTMP pulp. These products also bring significant additional benefits to our customers.

The other of our major investments in securing an competitive fibre supply is Botnia's Uruguay-based pulp mill that uses eucalyptus wood as the raw material. M-real owns a 32 per cent stake in the mill. With a capacity of a million tonnes and scheduled to go into operation in autumn 2007, this will be one of the world's most cost-effective pulp mills. Going over to using our own eucalyptus pulp will be a big step on the way to improving the competitiveness of our fine paper mills.

Apart from boosting cost-effectiveness, our development investments are aimed at improving the quality of our products and our service level. At the end of last year we modernized the coating unit at the Kemiart Liners board mill in order to be able to offer our customers products of consistent quality that also have enhanced printing characteristics. The investment reinforced Kemiart's leading position as a supplier of coated linerboard grades.

The most important project in the current year is the rebuild of the Simpele paperboard machine, which also encompasses an increase in sheeting capacity. The production capacity will grow by 45 000 tonnes a year, lifting total capacity to 215 000 tonnes annually. The upgraded products will offer customers a better printing surface and more uniform quality. This spring the Alizay paper machine will be rebuilt to provide enhanced product quality. At the Kirkniemi mill, a number of measures will be introduced to improve the quality of magazine paper products, including refinements in the manufacture of mechanical pulp and a modernization of the PM3 former unit.

Our main market area is western Europe. We also have a strong presence in eastern Europe, where our paper merchant , Map Merchant Group, is one of the major players. Eastern Europe will gain steadily in importance in line with the robust growth in demand for paper and paperboard products.

Economic growth in western Europe in 2006 is generally estimated to be somewhat better than last year. Printed marketing communications, press advertising and other types of sales promotion are the most important background factor for paper demand. The decrease in the amount of money spent on advertising in the first half of the 2000 decade was a principal reason for the paper industry's low growth in volume and weak earnings. The advertising market nevertheless appears to be picking up, and the general growth forecasts for printed advertising during 2006 are somewhat better than the actual level in 2005.

The labour dispute at Finnish paper mills last summer had a big impact on the supply of paper and paperboard products in Europe. For example, nearly half of Europe's folding boxboard capacity and about a third of the coated magazine paper capacity was shut down for a total of about seven weeks. Under the terms of the agreement that was reached, Finnish mills will no longer have compulsory production shutdowns over the Christmas and Midsummer holidays, and they secured greater scope for outsourcing functions.

For M-real, the packaging business area suffered most from the industrial dispute because all our board mills operate in Finland. The recovery of our board mills back to their previous level has taken longer than expected. All in all, the labour dispute cut nearly a hundred million euros off of M-real's earnings last year.

M-real's financial targets are to achieve a 10 per cent return on capital employed across the business cycle and to maintain net gearing at under 100 per cent. In the financial statements for 2005, M-real's net gearing was 95 per cent. Despite the savings measures that have been carried out, low product prices and the high prices of various factors of production meant that our profitability was still unsatisfactory, and last year's result before taxes was in the red.

To a great extent, 2005 was a period devoted to improving our operating fundamentals. Now we'll concentrate on the effective execution of the development programmes that have been launched and on making the most of the competitive advantages that we have put in place. Our most important target for the current year is to achieve a clear turn in profitability and a positive pre tax result excluding non-recurring items.

Hannu Anttila
President and CEO

Introduction to M-real's operations

Business areas

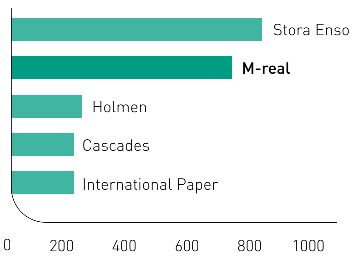
Consumer Packaging

Consumer Packaging

Euros million	2005	2004	Change
Sales	864	1 045	–17.3%
EBITDA *	125	180	–30.6%
EBITDA, %	14.5	17.2	
Operating profit *	41	93	–55.9%
Operating profit, %	4.7	8.9	
Return on capital employed, %	4.8	10.3	
Return on capital employed, excl. non-recurring items, %	4.8	10.0	
Mill deliveries, 1 000 t	1 006	1 374	–26.8%
Production, 1 000 t	985	1 330	–25.9%
Personnel, average	2 667	3 082	–13.5%

* Non-recurring items included, euros 0 mill. in 2005 and euros 3 mill. in 2004.

Largest producers of folding boxboard in Europe 2005



Capacity, 1000 t
Source: M-real

■ The Consumer Packaging business area offers paperboards, packaging solutions and related services to carton printers and brand owners in industries such as health- and beauty 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. Consumer Packaging's main market is Europe, although considerable volumes are also delivered to Asia and the USA. M-real is the second largest producer of folding boxboard in Europe.

Grades ■

Folding boxboard
White top kraftliner
Papers for flexible packaging and labels
Wallpaper base paper

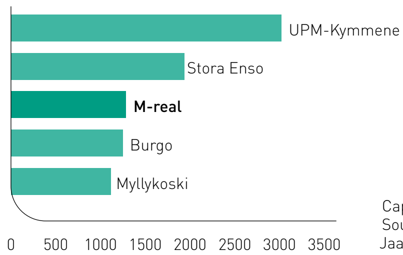
Publishing

Publishing

Euros million	2005	2004	Change
Sales	796	802	–0.7%
EBITDA *	98	101	–3.0%
EBITDA, %	12.3	12.6	
Operating profit *	14	12	16.7%
Operating profit, %	1.8	1.5	
Return on capital employed, %	1.3	1.2	
Return on capital employed, excl. non-recurring items, %	1.6	1.1	
Mill deliveries, 1 000 t	1 146	1 192	–3.9%
Production, 1 000 t	1 072	1 148	–6.6%
Personnel, average	1 486	1 526	–2.6%

* Non-recurring items included, euros –2 mill. in 2005 and euros 1 mill. in 2004.

Largest producers of coated magazine paper in Europe 2005



Capacity 1000 t
Source: M-real,
Jaakko Pöyry Consulting

■ The Publishing business area provides a range of coated Galerie Papers for magazines, product catalogues, direct mail and sales promotion materials. Galerie Papers offer an excellent reproduction quality, even in very low grammages. Customers include leading publishers, printers and brand owners around the world. Publishing's main market is Europe but considerable volumes are also delivered to the USA and Australia. M-real is the third largest producer of coated magazine paper in Europe.

Grades ■

Coated magazine paper

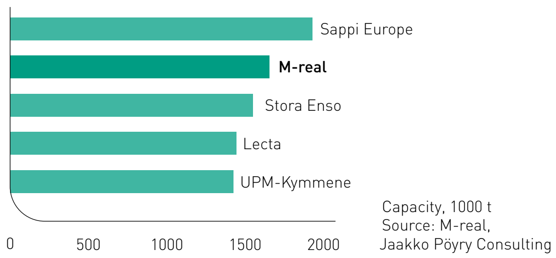
Commercial Printing

Commercial Printing

Euros million	2005	2004	Change
Sales	1 488	1 474	0.9%
EBITDA *	58	56	3.6%
EBITDA, %	3.9	3.8	
Operating profit *	–62	–49	
Operating profit, %	–4.2	–3.3	
Return on capital employed, %	–4.9	–3.7	
Return on capital employed, excl. non-recurring items, %	–2.6	–1.6	
Mill deliveries, 1 000 t	1 866	1 842	1.3%
Production, 1 000 t	1 880	1 885	–0.3%
Personnel, average	4 816	4 963	–3.0%

* Non-recurring items included, euros –29 mill. in 2005 and euros –27 mill. in 2004.

Largest producers of coated fine paper in Europe 2005



The Commercial Printing business area produces fine papers for promotional and corporate communications. Products typically produced from Commercial Printing grades include art books, brochures, annual reports, direct mailings, flyers, inserts and leaflets. Customers are primarily merchants, printers, brand owners and publishers. Commercial Printing's main market is Europe. M-real is the second largest European producer of both coated and uncoated fine papers and a major supplier of graphic papers to several European paper merchants.

Grades

Coated fine paper
Uncoated fine paper
Speciality white and tinted papers

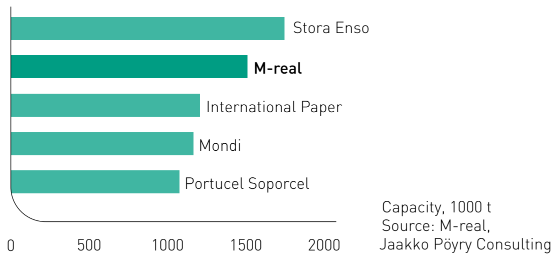
Office Papers

Office Papers

Euros million	2005	2004	Change
Sales	704	667	5.5%
EBITDA *	57	71	–19.7%
EBITDA, %	8.1	10.6	
Operating profit *	–5	10	
Operating profit, %	–0.7	1.5	
Return on capital employed, %	–0.5	1.3	
Return on capital employed, excl. non-recurring items, %	0.6	1.3	
Mill deliveries, 1 000 t	1 034	961	7.6%
Production, 1 000 t	1 034	975	6.1%
Personnel, average	1 948	2 036	–4.3%

* Non-recurring items included, euros –9 mill. in 2005 and euros 0 mill. in 2004.

Largest producers of uncoated fine paper in Europe 2005



The Office Papers business area focuses on 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 technology applications. Office Papers aims at meeting the growing need for paper used for communication, mainly in European offices and homes. M-real is the second largest European producer of uncoated fine papers and a major supplier to merchants, office product suppliers and equipment manufacturers, and to paper converters

Grades

Uncoated fine paper

Map Merchant Group

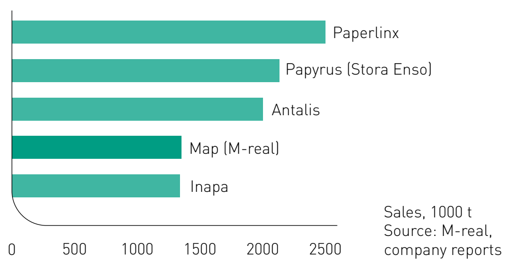
Map Merchant Group			
Euros million	2005	2004	Change
Sales	1 390	1 368	1.6%
EBITDA *	26	24	8.3%
EBITDA, %	1.9	1.8	
Operating profit *	18	17	5.9%
Operating profit, %	1.3	1.2	
Return on capital employed, %	6.0	5.6	
Return on capital employed, excl. non-recurring items, %	7.2	8.5	
Deliveries, 1 000 t	1 359	1 308	3.9%
Personnel, average	2 515	2 528	–0.5%

* Non-recurring items included, euros –4 mill. in 2005 and euros –8 mill. in 2004.

Map Merchant Group, the fourth largest merchant group in Europe, comprises 25 individual merchant companies active in 23 countries. The group serves some 50 000 customers throughout Europe, principally printers, publishers, advertising agencies, banks and retail chains. Map supplies M-real's own products as well as papers manufactured by other companies.

Map's own label products include tom&otto, Symbio and Dito.

Sales volumes of paper merchants in Europe



M-real's brands and mills by business area

	Business operations			
	Consumer Packaging	**Publishing**	**Commercial Printing**	**Office Papers**
Brands	Carta Integra	Galerie Art	Galerie Art	Data Copy
	Carta Solida	Galerie Fine	Euro Art	Logic
	Gala X	Galerie One	Nimrod	Evolve
	Nova X	Galerie Brite	ikono	Modo Papers
	Avanta	Galerie Lite	Chromolux	
	Tako			
	Simwhite			
	Simcote			
	Kemiart			
Mills	Äänekoski Board	Husum PM 8	Äänekoski	Alizay
	Kemiart Liners	Kangas	Gohrsmühle	Husum PM 6 and 7
	Kyro	Kirkniemi	Biberist	New Thames
	Simpele		Reflex	Wifsta
	Tako Board		Hallein	
			Pont Sainte Maxence	
			Sittingbourne	
			Stockstadt	

Strategy

M-real's objective is to strengthen its position as one of the leading producers and suppliers of paper and paperboard 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. Through its ongoing business development, cost saving and efficiency improvement programs M-real targets to reach the average profitability level of its peers from the beginning of 2007 onwards.

Focus on core business areas

M-real's 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 prioritize its most substantial development investments. Enhancement of the Office Papers business area will take place on the basis of its present operational framework. M-real is also active in paper and paperboard merchanting through its fully owned subsidiary Map Merchant Group. 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

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 and Publishing. 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 the business areas and other basic prerequisites for operations provide a good basis to reach the targeted profitability levels.

Pulp self-sufficiency and structural changes in pulp production

M-real's pulp supply is based on its own production, purchases from resource company and procurement of market pulp 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. In Kaskinen and Joutseno BCTMP mills M-real's is using one of the most modern pulp manufacturing methods improving the paper properties and lowering paper production costs. After the completion of Botnia's Uruguay eucalyptys pulp mill in autumn 2007 M-real utilizes one of the world's most cost-efficient chemical pulp capacity.

Cost savings and efficiency improvement

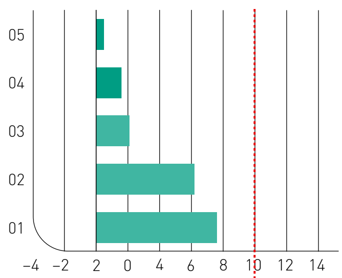
In early 2004, M-real published a new cost savings program, which aims at approx. euros 230 million annual cost savings and profitability improvements through better production efficiency. The program is proceeding according to plans and will be finalized by the end of 2006. The impact of the program on cash flow will be realized fully from 2007.

Financial targets

With regard to financial objectives,

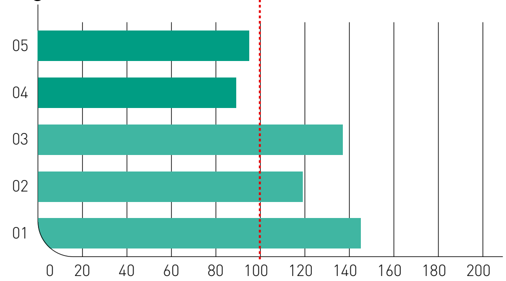
- Group's minimum ROCE target through the business cycle is minimum 10 per cent on average while
- keeping the corporate net gearing below 100 per cent.

Return on capital employed *



* Excluding non-recurring items

Gearing ratio, 31 Dec



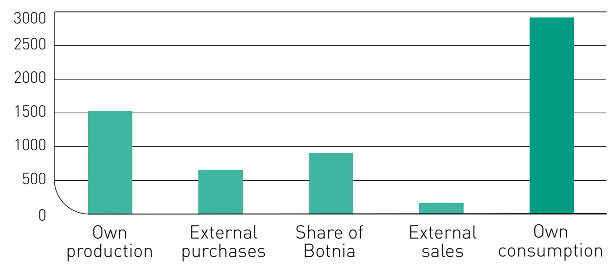
Resources

Fibres

M-real's total consumption of roundwood last year was about 12.7 million cubic metres (m^3) (including the share of Botnia's wood use) and chemical pulp and BCTMP consumption amounted to 2.9 million tons. The main owner of M-real, Metsäliitto Cooperative, takes care of the wood sourcing to M-real's mills. M-real's pulp procurement is based on its own production, pulp purchased from 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 chemical pulp and BCTMP consumption chart below describes M-real's pulp procurement in 2005 more in detail.

M-real's new BCTMP mill in Kaskinen started up in September 2005 (annual capacity 300 000 tons), that decreases the external purchases from 2006 onwards.

Chemical pulp and BCTMP consumption in 2005,
1000 tonnes



Wood in use 2005

	million m^3	%
Finland direct	2.0	16
Share of wood use of Botnia's pulp	5.0	39
Elsewhere in Europe	5.7	45
Total	12.7	

Data to graphs on this page: 2001–2003 FAS, 2004–2005 IFRS

Energy

M-real uses both energy produced by its own mills and electricity bought from outside suppliers. M-real's total fuels consumed for energy production (either process heat or electricity) in 2005 was 32 600 GWh of which the share of wood-based fuels was nearly half. The main fossil fuel was natural gas which accounted for 24 per cent of all the fuels. Electricity consumption was 6 400 GWh of which M-real's own outsourced production in the mill sites was 56 per cent. The table below gives on overview of the total fuels used in M-real's own energy production and to produce the electricity M-real purchased externally in 2005.

M-real's mills, excluding Biberist in Switzerland, are part of the European emissions trading scheme. Mainly due to the labour dispute in Finnish mills the actual emissions in total were less than total allowances in 2005. M-real has only limited requirements for external EU allowance trading during 2006–2007.

Chemicals

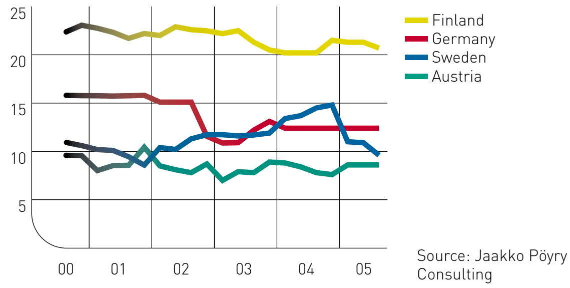
The chemicals used by M-real are largely inorganic elements and compounds such as oxygen, ozone, hydrogen peroxide and chlorine dioxide, which are used in pulp bleaching, as well as calcium carbonate, latex, optical brighteners and starch, which are used in the paper production process.

Personnel

At the end of 2005, M-real had a payroll of 15 154 employees, of whom about 30 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. The table below indicates the amount of personnel in different countries at the end on 2005.

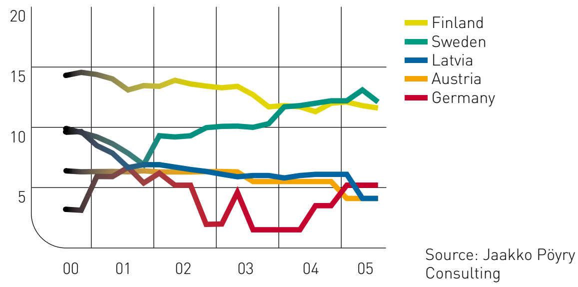
Additional information on resources is given in the M-real's Corporate responsibility report 2005.

Stumpage price of spruce pulpwood,
euros/m^3



Source: Jaakko Pöyry Consulting

Stumpage price of hardwood pulpwood,
euros/m^3



Source: Jaakko Pöyry Consulting

Total energy fuels used, 2001–2005

	2005 GWh	2005 %	2004 %	2003 %	2002 %	2001 %
Wood-based	14 732	45	50	48	46	45
Natural gas	7 950	24	22	22	22	21
Coal	3 840	12	8	9	9	10
Nuclear power	2 688	8	8	8	9	9
Hydropower	1 948	6	6	6	6	6
Oil	1 077	3	3	4	4	3
Peat	379	1	3	3	4	5
Total	32 615					

Personnel by country, 31 Dec	Group 2005	2004
Finland	4 488	4 912
Germany	2 667	2 873
United Kingdom	1 771	1 832
Sweden	1 600	1 691
Austria	864	872
France	796	824
Switzerland	555	570
Hungary	522	543
Belgium	396	392
Netherlands	327	342
Poland	180	169
Other countries	988	940
Total	15 154	15 960

Operating environment

M-real manufactures high value-added coated fine and magazine papers as well as uncoated office papers and packaging board. In addition, M-real operates a paper merchanting business in the European market. M-real's paper and paperboard are used for a variety of everyday consumer products such as magazines, brochures and packaging.

In the paper products business, the value chain begins in the forest and ends in consumer markets – in the form of a high-quality magazine or a box for chocolates, for example. In this value chain, many short and long-term trends, challenges and opportunities form M-real's business environment, in which the company operates today and in the future.

The outlook for advertising has a strong bearing on printing paper demand

Printed market communications, press advertising and other types of sales promotion are the most important background factor for paper demand. This means that the ups and downs in marketing communications make the paper industry cyclical. The decrease in the amount of money spent on advertising in the first half of the 2000 decade was one of the prime reasons for the weak earnings of the paper industry in recent years. To be sure, the advertising market is already recovering from the sharp downturn in 2000, and the overall growth forecasts for printed advertising in 2006 are better than the actual level in 2005.

In the years ahead, the evolution of electronic media and especially the technical advances in the Internet and various mobile devices will impact the amount of time and money that consumers devote to following the media. Likewise, a growing proportion of the money spent on advertising will find its way into electronic media. It appears that the ongoing changes in the way mass media are used will affect the growth outlook for some paper grades and end products.

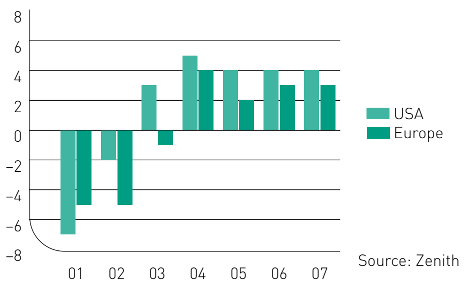
M-real's main market area is Europe, where the company makes nearly three fourths of its paper and paperboard deliveries. The market in eastern Europe is gaining in importance. Demand for printing papers and folding boxboard is generally forecast to grow at a rate of about 2–3 per cent in Europe over the next few years. In other words, demand for paper and paperboard is set to keep up with overall economic growth in the area and with the trend in industrial output. The countries of eastern Europe remain the relatively fastest-growing markets in Europe as a whole. The largest markets in volume terms are nevertheless in western Europe, Germany and Great Britain.

Above-average growth is expected for speciality magazines, sales promotion materials and office papers

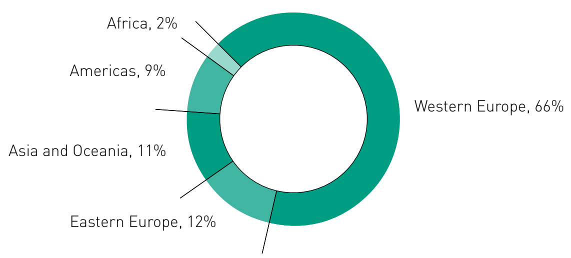
Forecasts point to relatively strong growth for many of the end use areas of products manufactured by M-real, such as speciality magazine papers and office papers (A4), compared with a number of other applications of printing papers.

The better growth of these products is explained in part by the fact that advertisers are seeking improved targetability for their messages. By better targeting of the advertising message at the desired group, a better yield can be obtained on the advertising outlay. One indication of this is that the fastest growth within magazines and sales catalogues has been chalked up by well-targeted special publications.

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



M-real paper and board sales by market areas,
approx. 5 million tonnes, 2005



Ongoing consolidation in M-real's customer industries

The largest customers of the paper industry are printing houses, publishers, manufacturers of consumer goods, paper merchants and office equipment manufacturers. All these sectors have pushed ahead with consolidation and have sought to establish an international presence for some time now, and this trend is likely to continue.

Paper merchants and office equipment manufacturers act as intermediaries in the market and sell paper in smaller lots either under their own brand or under M-real's brand. Paper is sold to publishers and printers mainly in rolls, whereas products sold to paper merchants and office machine manufacturers are generally sold in sheet form.

Production costs on the rise

The strong rise in the price of crude oil last year has had a particular impact on the costs industry must pay for energy, transports and chemicals. All in all, production costs are estimated to rise in 2006. On the other hand, so far paper and paperboard prices have been fairly stagnant. Putting through increases in the prices of paper and paperboard products to offset the cost increases in 2006 is important to the entire sector.

Growth in capacity has slowed down in M-real's main product areas

The biggest areas of paper consumption have traditionally been Europe and North America. The strongest growth trend in consumption over the past decade has been in Asia, especially in China. This region has also seen the strongest growth in new capacity.

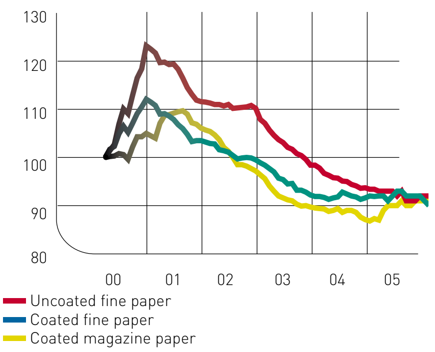
In M-real's main market areas and in its main production area – Europe – the growth in capacity has slowed down markedly and it is forecast to trail demand growth, thus leading to a slow improvement in the balance between supply and demand.

Production capacity 2005

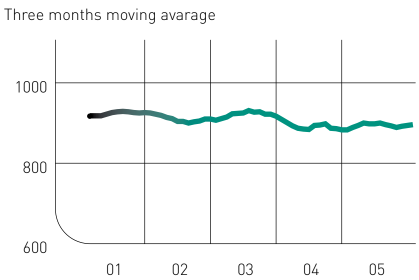
Million tonnes/year	Europe	M-real	M-real's share
Folding boxboard	2.6	0.7	28%
Coated magazine paper	11.5	1.3	12%
Coated fine paper	10.9	1.7	15%
Uncoated fine paper	11.1	1.6	14%

Source: M-real, Jaakko Pöyry Consulting

Paper market price in Europe indexed



Folding boxboard market price in Europe, euros/tonne



Risk management

Principles, responsibilities and objectives of risk management

Risk management work is part of the company's corporate governance system and thereby it also supports M-real's daily decision making, operations monitoring and internal control process. Risk management is an essential element in M-real's planning processes, and the aim of risk management work is to promote and safeguard achievement of the objectives which have been set for the company. M-real has allocated risk management responsibilities as follows:

M-real's Board of Directors is responsible for the Group's risk management and confirms the company's risk management policy.

The Audit Committee assesses the adequacy, appropriateness and key risk areas of the company's risk management.

The chief executive and the Corporate Executive Board are in charge of defining risk management principles and putting them in use and for seeing to it that risks are taken into account and reported in the manner specified within the company's planning processes.

The Risk Management Committee, chaired by the chief financial officer, evaluates the risk assessments that have been made and reports regularly on final results and the development of risk management to the company's Corporate Executive Board, Audit Committee and Board of Directors.

The Risk Management Department is responsible for developing the company's risk management process, coordinating the work, carrying out risk assessment and determining the main elements of insurance coverage.

The Vice President, Corporate Risk Management, who reports to the CFO, is in charge of the department's daily operations.

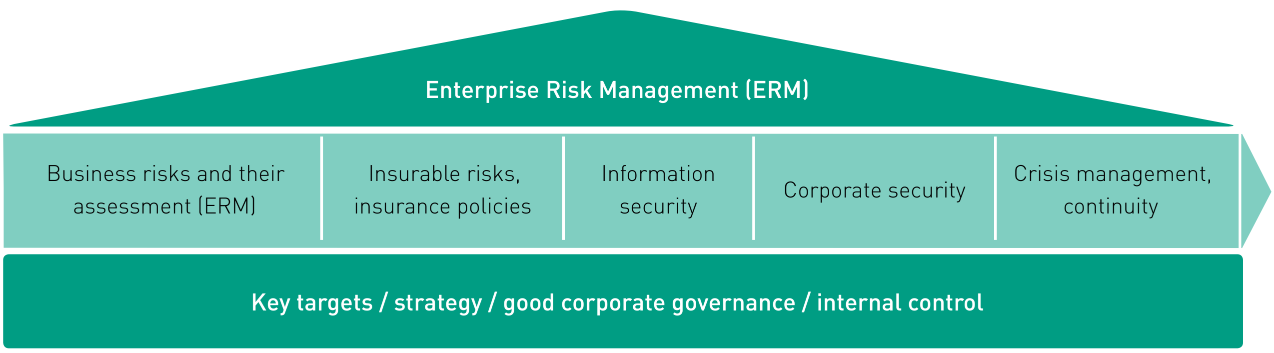
The business areas and corporate administration's support functions each identify and assess the key risks for their own planning processes in their individual area of responsibility, prepare to meet risks and undertake the necessary corrective actions, and report in the manner agreed.

The aim of the risk management process is to identify and assess systematically our company's risk environment, key risks and changes that have occurred in our business and risk environment. By means of appropriate and cost-effective measures, we seek to keep under control the risks that may affect M-real's operational ability and may be a factor in hindering achievement of the targets that have been set for the company.

M-real's risk environment and the changes that have taken place in it are assessed and monitored regularly. The risks identified and management of them are reported at least twice a year to the company's management, Audit Committee and Board of Directors. Certain business risks also embody opportunities, and the company seeks to exploit these – prudently – in accordance with its risk-tolerance.

Decisions involving deliberate risk-taking must be based on an adequate assessment of factors such as the risk-tolerance and the upside/downside ratio.

Basic elements of M-real's risk management



The central elements of M-real's risk management work are:

- carrying out the Enterprise Risk Management process as a means of supporting operations
- protecting assets and property, and the continuity of our operations
- corporate security and its continuous development
- crisis management and recovery plans

The purpose and objective of M-real's risk management work is:

- to ensure that all identified risks affecting personnel, customers, products, property, intellectual capital, the public image, 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 promote and ensure achievement of the targets set for the company
- to meet stakeholders' expectations
- to protect assets and property and ensure that operations continue without disturbance
- to optimize the upside/downside ratio
- to ensure management of the company's overall risk position and minimize overall risk.

Risk environment and risk factors

In risk assessments made during 2005, we have arrived at the following main risks that can have an impact on the company's financial performance and operational ability:

- threats to competitiveness
- changes in the business environment and strategic choices
- major global changes in consumer habits and demand
- managing customer relationships and the supply chain
- the negative price development of raw materials and energy
- abrupt and sharp changes in the financial markets
- corporate security
- counterparty risks
- availability of key persons
- contractual risks and corporate liability
- currency risks

Preparing for and transferring risks

Identified risks are met by applying the available information and knowledge to the company itself, to our partners or to external experts. Particular attention has been paid to ensuring that operations run without disturbance. This has been accomplished by drawing up continuity and recovery plans covering production, but also operations as a whole, with the aim of supporting crisis management plans at the company and unit level. Risks have been transferred selectively, notably, by means of insurance agreements, derivatives contracts and otherwise through clauses written into agreements.

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

- property and loss-of-profits insurance
- general and product liability insurance
- liability insurance covering management and corporate governance bodies
- customer credit insurance
- marine cargo insurance

During 2005 major instances of damage in excess of the relevant deductible did not occur within the above-mentioned insurance programmes.

Management of financial risks

Financial risks involved in business operations are managed in accordance with the financial policy confirmed by the Company's Board of Directors. 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 financial risks, to balance the cash flow and to give the business units time to adjust their operations to changed conditions.

The Group's financial risks and management of them are discussed in greater detail elsewhere in this Annual Report.

Financial statements

Report of the Board of Directors

Market situation in 2005

Economic growth in Europe declined slightly in 2005 compared with the previous year, coming in at a reasonable level of about 1.5 per cent. In North America and Asia, economic growth likewise fell slightly short of the four per cent rate registered in 2004. The growth in printed advertising spending in western Europe was only half of the previous year's 4 per cent level. The steep rise in the market price of crude oil lifted the transport costs as well as the costs of oil-based raw materials used by the forest industry. Furthermore, the price rises especially for natural gas and electricity increased industry costs in the second half of the year. In the foreign exchange markets, the depreciation of the United States dollar that has persisted for three years now bottomed out, and the average exchange rate during the year came in at nearly the level seen in 2004. The British pound was at the previous year's level.

Demand for folding boxboard in M-real's main market area in western Europe held up at the previous year's level. Deliveries by West European producers to eastern Europe increased sharply. Exports to markets outside Europe, however, fell sharply owing to the labour dispute in Finland. No major change took in place in the market prices of folding boxboard. Deliveries by producers of linerboard grew slightly. Market prices of linerboard declined somewhat.

In western Europe, the growth in paper demand slowed down and was on a par with the growth in general economy and printed advertising. Exports to markets outside Europe fell sharply owing to the labour dispute in Finland. Apart from the labour dispute, the market situation was still characterized by overcapacity in the West European market. Paper supply and demand were nevertheless in better balance as a consequence of the low growth in manufacturing capacity and the dispute in the Finnish paper industry.

Deliveries by West European producers of coated and uncoated fine paper were at the same level as in 2004, and deliveries by producers of coated magazine paper rose by one per cent. The price development in western Europe was most favourable for coated magazine paper, where average market prices rose by 2 per cent. Market prices of coated fine paper were unchanged, and prices of uncoated fine paper were down 3 per cent. The prolonged slide in the price of office paper came to a halt and prices, particularly at the lower end of the quality range, headed upwards.

Result for the financial year

M-real's consolidated sales in 2005 was euros 5 241 million (5 522 million in 2004). Comparable sales fell by 2.2 per cent.

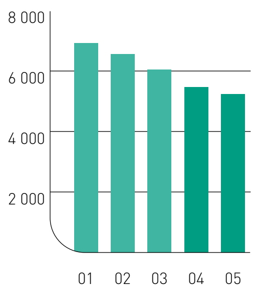
Operating profit was euros 36 million (28). The operating result includes euros 32 million of net non-recurring income (charges of 33 million). Non-recurring income amounted to euros 88 million (9) and non-recurring expenses were euros 56 million (42).

The most important of the non-recurring income items was the euros 81 million capital gain on the sale of an 8 per cent interest in Botnia, which was booked in the first quarter.

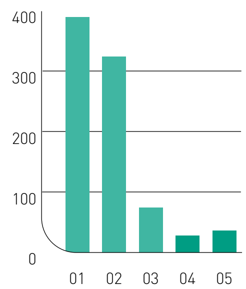
The most important of the non-recurring expenses were the write-downs of euros 20 million that was booked on property, plant and equipment at the Pont Sainte Maxence fine paper mill in France and an euros 4 million expense provision for the efficiency-boosting programme at the mill as well as an euros 15 million expense provision, booked in the second quarter, for the efficiency-boosting programme at the units in Sweden.

The operating result, excluding non-recurring items, was a profit of euros 4 million (61). Profitability was weakened above all by the lost delivery volumes for paperboard and coated magazine paper owing to the labour dispute in the Finnish paper industry as well as by Botnia's lower operating result, which likewise suffered from the labour dispute. The dispute cut

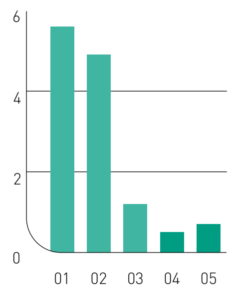
Sales, euros million



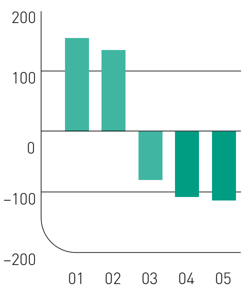
Operating profit, euros million



Operating profit, %



Profit before extraordinary items, euros million



Data to graphs on this page: 2001–2003 FAS, 2004–2005 IFRS

2001–2003 Profit before extraordinary items about euros 85–90 million off of the operating result. Other factors that cut into profitability were the fall in the price of uncoated fine paper, the rise in the costs of oil-based raw materials and higher transport and energy costs. By contrast, profitability was improved by the lower cost level resulting from the savings measures implemented and by the rise in the price of coated magazine paper.

Deliveries of paperboard to customers totalled 1 006 000 tonnes (1 374 000). Savon Sellu was included in the delivery volume for 2004. Deliveries by Kemiart Liners are accounted for to the full extent in both years. On a like-for-like basis, the delivery volume in the comparison period was 1 151 000 tonnes. Production was curtailed by 44 000 tonnes in line with demand (95 000). The lost production due to the labour dispute is not included in the amount of curtailed production.

Paper deliveries totalled 4 046 000 tonnes (3 995 000). Production curtailments amounted to 199 000 tonnes (335 000). The lost production due to the labour dispute is not included in the amount of curtailed production.

The profitability of the Consumer Packaging business area weakened by the losses resulting from the labour dispute. The Publishing business area's profitability was improved by the 3 per cent rise in the average selling price. On the other hand, profitability was weakened by the negative effect of the labour dispute, and the rise in oil-based raw material costs and energy costs. Commercial Printing business areas profitability was weakened by the fall in the average selling price, mainly the price of uncoated graphical products and speciality papers, as well as by the rise in oil-based raw material costs and energy costs. By contrast, profitability was lifted thanks to substantially lower fixed costs and an increase in the delivery volume. Office Papers saw its profitability decline, owing to the 2 per cent drop in average selling price. By contrast, the result was improved by the growth in delivery volumes and the fall in fixed costs. A lower gross margin weakened the profitability of the Map paper merchanting business. Profitability, in turn, was improved by the growth in delivery volumes as well as by lower fixed costs thanks to the efficiency-boosting measures that were carried out.

From the beginning of the second quarter, the operating result includes 39 per cent of Botnia's operating result, as against 47 per cent in the first quarter. The result for 2004 includes a 47 per cent share of Botnia's operating result.

The share of the results of associated companies amounted to a loss of euros 2 million (0).

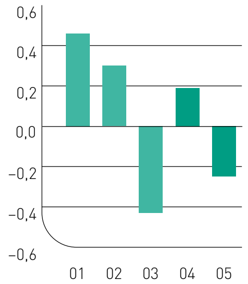
In total, financial income and expenses were euros 148 million negative (136 negative). Foreign exchange differences on trade receivables, trade payables, financial income and expense and the valuation of currency hedging items were euros 33 million negative (4 positive). Net interest and other financial expenses amounted to euros 115 million (140).

Other financial expenses include a valuation gain of euros 4 million on interest rate hedges as well as other write-downs of euros 4 million that were booked in the second quarter.

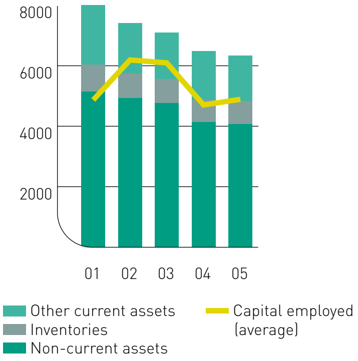
Currency and interest rate hedges are used to hedge future cash flows against fluctuations in foreign exchange and interest rates. The valuation gains and losses that were booked are attributable primarily to changes in the exchange rate of the United States dollar and in the general level of interest rates. Beginning in the third quarter, M-real has applied partial hedge accounting according to IAS 39 to hedge its dollar flow exposure, and from the last quarter, it has also hedged the cash flow exposure of the Swedish krona. The adoption of hedge accounting improves the result for 2005 by euros 3 million compared with the previous accounting policy.

At the end of December, the exchange rate of the United States dollar against the euro was 13.4 per cent

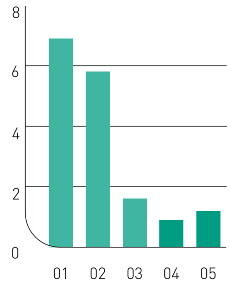
Earnings per share, euros



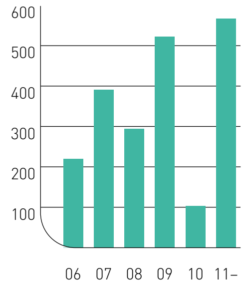
Assets and capital employed (average), euros million



Return on capital employed, %



Repayment of long-term loans, euros million



Data to graphs on this page: 2001–2003 FAS, 2004–2005 IFRS

and the rate of the British pound against the euro 2.8 per cent higher than at the end of 2004. On average, the dollar was at the 2004 level and the pound weakened by 0.8 per cent.

The result before taxes was a loss of euros 114 million (a loss of 108 million). The result before taxes net of non-recurring items was a loss of euros 142 million (a loss of 75 million).

M-real's result for the report period was a net loss of euros 80 million (a profit of 48 million). The result for 2004 included a capital gain of euros 176 million on the disposal of Metsä-Tissue as well as an euros 5 million charge to earnings in connection with the divestment of Forestia in January 2005. Income taxes, including the change in the deferred tax liability, added euros 34 million to earnings (17 million negative).

Earnings per share were euros 0.25 negative (0.19 positive). Excluding non-recurring items, earnings per share were 0.35 negative (0.28 positive).

The return on equity was 3.4 per cent negative (5.7 negative); excluding non-recurring items, 4.8 per cent negative (4.6 negative). The return on capital employed was 1.2 per cent (0.9) and net of non-recurring items, 0.5 per cent (1.6).

October–December earnings compared with the previous quarter

Fourth-quarter sales was euros 1369 million (July–Sept. 2005: 1269 million). Comparable sales was up 7.8 per cent.

The Group reported an operating loss of euros 27 million (a profit of 20 million). The operating result includes euros 38 million of net non-recurring expenses. Non-recurring income amounted to euros 3 million and non-recurring expenses were euros 41 million. In the previous quarter, the operating result did not include non-recurring items.

The operating result, excluding non-recurring items, was a profit of euros 11 million (20). The operating result was weakened mainly by seasonal factors, such as the low operating rate in December and the costs of maintenance measures as well as the rise in energy costs and the fall in fine paper deliveries. Factors that improved the result were the rise in the average price of office and coated magazine paper as well as the increase in Botnia's operating result.

Deliveries of paperboard to customers totalled 268 000 tonnes (226 000). Production was curtailed by 20 000 tonnes in line with demand (3 000). The lost production due to the labour dispute is not included in the amount of curtailed production in the third quarter.

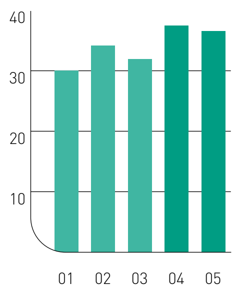
Paper deliveries from the mills totalled 1 037 000 tonnes (991 000). Production curtailments amounted to 38 000 tonnes (43 000). The lost production due to the labour dispute is not included in the amount of curtailed production in the third quarter.

The profitability of the Consumer Packaging business area improved mainly owing to the indirect impact of the increase in Botnia's operating result. The profitability of the Publishing business area weakened owing to the effect of higher maintenance costs, the rise in energy costs and, above all, extra personnel-related costs. The profitability of the Commercial Printing business area was weakened by the low operating rate in December, higher maintenance cost, the rise in energy costs and the fall in the delivery volume and stocks. The profitability of Office Papers was improved by the rise in the average selling price in line with the price increases that were put through at the lower end of the quality range. In addition, the third-quarter result was burdened by annual maintenance shutdowns. The result of the Map paper merchanting business was weakened by a lower sales margin.

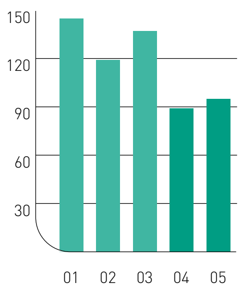
The share of the results of associated companies amounted to a profit of euros 1 million (0).

In total, financial income and expenses were euros 23 million negative (19 negative). Foreign exchange differences on trade receivables, trade payables, finan-

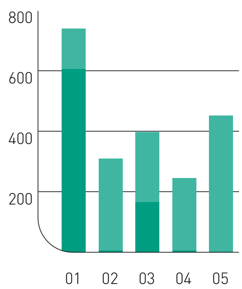
Equity ratio,
%



Gearing ratio,
%

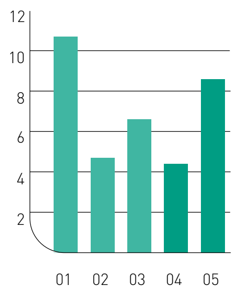


Gross capital expenditure,
euros million



Other capital expenditure
Acquisitions

Gross capital expenditure,
% of sales



Data to graphs on this page: 2001–2003 FAS, 2004–2005 IFRS

cial income and expense and the valuation of currency hedging items were euros 7 million negative (0). Net interest and other financial expenses amounted to euros 16 million (19).

Other financial expenses include euros 10 million of valuation gains on interest rate derivatives. In the previous quarter, a valuation gain of euros 11 million was booked on the corresponding instruments.

M-real has from the beginning of the third quarter applied partial hedge accounting according to IAS 39 to hedge its dollar flow exposure, and from the fourth quarter on, it has also hedged the cash flow exposure of the Swedish krona. The changeover to hedge accounting improved the third-quarter result compared with previous accounting policy by euros 1 million and the last quarter result by euros 2 million.

At the end of December, the exchange rate of the United States dollar against the euro was 2.0 per cent higher and the rate of the British pound against the euro 0.5 per cent lower than at the end of September. On average, the dollar strengthened by 2.5 per cent and sterling by 0.5 per cent compared with the previous quarter.

The result before taxes was a loss of euros 49 million (a profit of 1 million). Excluding non-recurring items, the result before taxes was a loss of euros 11 million (a profit of 1 million)

The result for the report period was a net loss of euros 38 million (a profit of 2 million). Income taxes, including the change in the deferred tax liability, added euros 11 million to earnings (2).

Earnings per share were euros 0.12 negative (0.01 negative) and net of non-recurring items, 0.01 negative (0.01).

The return on equity was 6.6 per cent negative (0.4); excluding non-recurring items, 0.5 per cent negative (0.4). The return on capital employed was 1.8 per cent negative (2.3); excluding non-recurring items, 1.4 per cent (2.3).

Personnel

M-real had an average payroll in 2005 of 15 578 employees (2004: 16 532), of whom 4 687 worked in Finland (5 263). The net decrease was 954 employees, of which the net reduction owing to acquisitions and divestments was 344 employees.

The number of personnel at the end of the year was 15 154 employees (15 960 employees at 31 December 2004), of whom 4 488 employees worked in Finland (4 912). The net reduction was 806 employees. The effect of acquisitions and divestments was a decrease of 374 employees.

As from 31 March 2005, the Group's personnel includes 39 per cent of Botnia's employees. Figures prior to this include 47 per cent of Botnia's employees.

Capital expenditures

Capital expenditures on property, plant and equipment totalled euros 452 million in 2005 (2004: euros 245 million), or 8.6 per cent of revenue (4.4).

The new mill that manufactures bleached chemithermomechanical pulp (BCTMP) came on stream at the end of August in Kaskinen and deliveries began in September. The mill has a production capacity of 300 000 tonnes a year, all of which will be used as raw material at the Group's own paper and board mills.

An investment of about euros 60 million at the Simpele mill was announced in March. The mill's board machine will be modernized, and the slitter-winder and the reel and sheet packaging equipment will be rebuilt. The sheeting capacity will also be increased. When the investment is completed, paperboard production capacity will rise to 215 000 tonnes a year. The investment will be completed stage by stage by summer 2006.

Acquisitions, divestments and restructuring

The sale of forest assets to Forestia Holding Oy was seen to completion in January. The total price of the forest assets was euros 172 million, of which M-real's share was euros 162 million.

In March a decision was taken on an investment by Botnia, the resource company jointly owned by M-real, UPM-Kymmene and Metsäliitto, in a new pulp mill in Uruguay. The total cost of the investment will be about US dollars 1.1 billion. The mill will produce eucalyptus pulp and it is estimated to start up during the third quarter of 2007. Concurrently, M-real announced it was selling an 8 per cent stake in Botnia to Metsäliitto Cooperative for euros 164 million. A capital gain of euros 81 million was booked on the deal. Following the transaction, the shareholdings in Botnia are M-real 39 per cent, Metsäliitto 14 per cent and UMP-Kymmene 47 per cent. The transaction was completed on 31 March.

In June a cooperation agreement was signed with YIT Construction Ltd on developing the Lielahti district of Tampere, Finland. The aim is to develop the area into a residential suburb in cooperation with the City of Tampere.

Euros 230 million savings and efficiency-boosting programme

The savings and efficiency-boosting programme that was launched in spring 2004 is progressing according to plans. In 2005, significant measures were set in motion within the framework of the programme:

In June, the negotiations in Sweden with employees concerning the integration of the Wifsta fine paper mill into the Husum pulp and paper mill were seen to completion. Staff cuts by the end of 2006 will amount to about 200 employees and the objective of the reorganization is to realize annual cost savings of at least 22 million euros. An expense provision charge of euros 15 million to the second quarter operating result was taken for the staff cuts.

In December, a decision was taken to reduce 60 employees at the Pont Sainte Maxence mill (PSM) in France. An expense provision of about euros 4 million has been recorded for this. In addition, the carrying amount of the mill's property, plant and equipment was written off entirely by making a one-off depreciation charge of euros 20 million.

In addition to the above-mentioned programmes, several other savings and efficiency-boosting programmes are underway that will concern all the business areas and support functions.

Research and development

Research and development costs in 2005 were euros 24 million, or 0.6 per cent of sales, excluding the Map Merchants paper merchanting business. During the year M-real made 13 patent applications.

The R&D priorities were the improvement of fibre properties and the behaviour of fibres in various production processes. M-real has made use of its chemithermomechanical pulp processing know-how at its new BCTMP unit in Kaskinen. Development work on new and competitive paper and paperboard grades has progressed to the application stage.

M-real has systematically increased its research and development cooperation with its main customers and developed new service products for them.

At M-real's mills, resources were channelled especially into boosting the efficiency of processes during 2005. This has resulted in productivity gains at nearly every production unit.

Environment

In 2005 the practical implementation of emissions trading in the EU started up, soil remediation measures were continued in old plant areas, soil investigations at plants that are currently in operation were seen to completion and a system for managing Chain of Custody for wood used at the mills was certified.

In accordance with the company's climate strategy, carbon dioxide emissions will be reduced through increased production and use of electricity and steam generated from biofuels and waste, by maximizing the production of combined heat and power (CHP) and by improving energy efficiency. In the summer the Biberist mill began to use steam generated by the municipal waste incineration plant. Pilot operation of the biopower plant at the Hallein mill got started in the autumn, and it will be in full operation by March 2006 at the latest. Furthermore, a programme aiming at improving the Group's energy efficiency was launched. M-real's carbon dioxide emissions decreased by approximately 7 per cent on the previous year, primarily owing to the change in the production structure and the work stoppages at the mills in Finland.

Emission trading is implemented centrally and the use of emission rights is optimized among the Group's mills. Emission rights sufficed in 2005, but this was due mainly to the long work stoppage at the mills in Finland in the summer.

All the production plants have an environmental system that is certified under the ISO 14001 standard. Furthermore, the plants formulate objectives and programmes for improving operations. Total emissions decreased by about 20 per cent on the previous year. The reduction in emissions and effluents was attributable to improved waste water treatment at Husum, the change in the production structure as well as the work stoppages at the mills in Finland. About euros 24 million of the investment in the chemithermomechanical pulp mill in Kaskinen will go towards environmental protection purposes. No further environmental investments were made.

Provisions made for dealing with environmental liabilities amounted to euros 5 million at the end of the year. Cleaning up of the soil in the Kolho impregnation plant in Vilppula was seen to completion. M-real's share of the clean-up costs in 2005 was about euros 2 million. Mills in operation continued and finalized the soil investigations. At four mill sites, contaminated soil has been found. Plans for follow-up measures have been drawn up or are in preparation. Of these, the clean-up operations in the mill area of PSM and Tako Lielahti are included in the provisions that have already been made.

M-real has given its commitment to use wood raw material that comes from well-managed silvicultural forests and to promote the certification of forests and the use of certified wood and fibre in its products. Nearly all the mills had a certified wood chain-of-custody management system at the end of 2005. Of the wood used at the mills, 63 per cent was delivered from certified forests.

M-real will publish a separate Corporate Responsibility Report for 2005, which will include sections dealing with environmental responsibility issues.

Financing

The equity ratio at the end of the year was 36.6 per cent (31 Dec. 2004: 37.5) and the gearing ratio was 95 per cent (89).

Interest-bearing net liabilities amounted to euros 2 205 million at the end of the year (2 183). At the close of the year, 6 per cent of the Group's long-term loans were denominated in foreign currencies. Of these loans, 61 per cent was subject to variable interest rates and the rest to fixed interest rates. The average interest rate on the loans was 4.3 per cent at the end of 2005 and the average maturity of long-term loans was 3.4 years. At the end of the year, liabilities were tied to fixed-interest rates for a period of 16 months. During the report period the interest rate maturity has varied from 15 to 27 months.

Cash flow from operations before investments and financing was euros 318 million (413). Working capital rose by euros 82 million (a decrease of 52 million).

At the end the report period an average of 9 months of the net foreign currency exposure was hedged. The degree of hedging during the report period has varied between 4 and 9 months. At the end of the report period about 87 per cent of the equity not in euros was hedged.

Liquidity is good. Liquidity at the end of the year was euros 1 246 million, of which euros 1 134 million consisted of binding long-term credit commitments and euros 112 million represented 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 700 million. Liquidity weakened by euros 258 million from the end of September, due mainly to payments for the investments at Kaskinen and to the cash flow effect of the labour dispute over the summer.

In March, Standard & Poors Ratings Services lowered the rating on M-real's long-term loans from BB+ to BB and changed the outlook for the rating from negative to stable.

On 19 October, Moody's Investors Services changed the outlook for M-real's Ba2 credit rating from stable to negative.

Risk management and major risks

M-real's risk environment and changes therein is monitored and evaluated regularly. The objective of risk management is to identify the key risks that can endanger reaching set targets and implementing strategy.

Identified main risks in the 2005 risk assessments are the threats to competitiveness, changes in the operating environment and strategic choices, significant global changes in consumer behaviour, management of customer relationships and supply chain, availability and significant increase in the cost of main raw materials and energy costs, sudden and significant changes in the financial markets, corporate security, counterparty risks, availability of personnel, contractual risks as well as corporate liability and currency risks.

A dispute has emerged between the Uruguay and Argentina on the environmental effects of the Metsä-Botnia Uruguay pulp mill. The mill is being built on the shore of Rio Uruguay, which is the border river between Uruguay and Argentina. The states have established an expert commission to handle the matter. The dispute has not impacted the progress of the mill project and the shareholders have committed to support Botnia in arranging required temporary financing, if needed.

M-real's risk management policy, risk management activities as well as main risks are also presented in the 2005 annual report.

Shares

The highest price of M-real's Series B share on the Helsinki Stock Exchange in 2005 was euros 4.93, the low euros 3.82 and the average price euros 4.36. The price of the Series B share was euros 4.22 at the end of the year. In 2004 the average price was euros 5.59. The share price at the end of 2004 was euros 4.70.

The trade volume of the Series B share was euros 1 161 million, or 91 per cent of the shares outstanding. The market value of the Series A and B shares at the end of the year totalled euros 1 386 million.

At the end of September Metsäliitto Cooperative 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 32.2 per cent of the shares.

On 14 March the Annual General Meeting approved the Board of Directors' proposal for amending the Articles of Association. An Article 16 concerning the conversion of shares has been added to the Articles of Association, its principal content being that an M-real Series A share can be converted into a Series B share upon the written demand of a shareholder or authorized agent for nominee-registered shares. No cash consideration is payable for carrying out a conversion. The amendment to the Articles of Association was entered in the Trade Register on 18 April. On 10 October, 1 000 M-real Series A shares were converted into Series B shares, and trading in the new shares began on 11 October 2005. The breakdown of the shares following the conversion is 36 339 550 Series A shares and 291 826 062 Series B shares.

In March, application was made to the Helsinki Stock Exchange for permission to reduce the company's round lot for traded shares from 500 to 200 shares. The change entered into effect on 14 March.

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 14 March elected the following persons to seats on M-real's Board of Directors for a term extending up to the next Annual General Meeting: Heikki Asunmaa, Titular Counsellor of Forest Economy; Kim Gran, President of Nokian Tyres plc; Kari Jordan, President & CEO of Metsäliitto Cooperative; Asmo Kalpala, CEO of Tapiola Group; Erkki Karmila, Executive Vice President of Nordic Investment Bank; Runar Lillandt, Titular Farming Counsellor; Antti Tanskanen, CEO of the OP Bank Group, and Arimo Uusitalo, Titular Farming Counsellor.

At its organization meeting, the Board of Directors elected Kari Jordan chairman and Arimo Uusitalo vice chairman.

The Annual General Meeting elected as M-real's auditors Göran Lindell, Authorized Public Accountant, and the firm of independent public accountants PriceWaterhouseCoopers Oy, with Jouko Malinen, Authorized Public Accountant, acting as Principal Auditor and Björn Renlund, Authorized Public Accountant, and Markku Marjomaa, Authorized Public Accountant, acting as deputy auditors.

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

Adoption of international financial reporting standards (IFRS)

M-real made the transition from Finnish Accounting Standards (FAS) to International Financial Reporting Standards (IFRS) from the beginning of 2005.

The transition date is 1 January 2004, and an opening balance sheet in accordance with IFRS accounting principles was prepared at that date. Certain exemptions permitted to first-time adopters of IFRS have been applied in preparing the opening balance sheet. More detailed information and itemizations of the effects of the transition on the company's balance sheet and profit and loss account as well as the changes in accounting policies have been given in the stock exchange release of 19 April 2005.

The first financial statements according to International Financial Reporting Standards will be published for the financial year 1 January–31 December.

Investigations by the competition authorities

On 25 May 2004 the competition authorities of the EU Commission made a visit of inspection at M-real's offices at the same time as they raided the offices of other Europe's largest paper and forest products companies. The visit is connected with the competition authorities' investigations into alleged prohibited cartel activities among paper producers. The EU Commission's investigations are ongoing.

After the EU Commission's surprise inspection, direct and indirect purchasers of magazine paper have brought a number of class actions in United States federal and state courts, in which M-real and other manufacturers of paper and forest products are named as the defendants. Hearings of the class actions in the United States are still in progress.

Outlook for the current year

In 2006 economic growth in western Europe is forecast to strengthen slightly, but it will probably remain at under 2 per cent. Printed advertising spending is forecast to increase somewhat faster than overall economic growth. The high market prices of crude oil will keep oil-based raw material prices high and raise transport costs. In addition, the rise energy prices, especially for natural gas and electricity, will raise production costs significantly compared with 2005.

In the last quarter, there was good demand for M-real's main products, and operating rates were high, except for the usual seasonal slowdown in demand in December. In the first quarter of 2006, demand for our main products is forecast to improve due to seasonal factors.

Average prices of office paper and coated magazine paper are forecast to be at a somewhat higher level in the first quarter than in the last quarter of 2005. Measures aiming to increase the prices of coated fine paper are continuing. Over the next few months the price of folding boxboard is expected to remain stable.

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

Espoo, 8 February 2006

Board of Directors

Consolidated income statement

Euros million	Note	1 Jan–31 Dec 2005	1 Jan–31 Dec 2004
CONTINUING OPERATIONS			
Sales	3, 4	5 241	5 522
Change in stocks of finished goods and work in progress		21	10
Other operating income	4, 5	206	86
Materials and services			
Purchases during the financial period		–3 069	–3 186
External services		–216	–232
Employee costs	7	–856	–906
Depreciation, amortization and impairment charges	8	–403	–392
Other operating expenses	6	–888	–874
Operating profit		**36**	**28**
Share of profit from associated companies	14	–2	0
Net exchangen gains/losses	9	–33	4
Other financial income and expenses, net	9	–115	–140
Profit from continuing operations before tax		**–114**	**–108**
Income taxes	4, 10	34	–17
Profit from continuing operations		**–80**	**–125**
Profit from discontinued operations	4	0	173
Profit/loss for the period		**–80**	**48**
Attributable to:			
Shareholders of parent company		–81	45
Minority interest		1	3
		–80	48
Earnings per share for profit attributable to the shareholders' of parent company, euros	11		
From continuing operations		–0.25	–0.53
From discontinued operations		0.00	0.72
Total		–0.25	0.19

Consolidated balance sheet

Euros million	Note	31 Dec 2005	31 Dec 2004
ASSETS			
Non-current assets			
Goodwill	12	568	569
Other intangible assets	12	86	74
Tangible assets	4, 12	3 178	3 256
Biological assets	4, 13	36	30
Investments in associated companies	14	72	77
Available for sale investments	15	18	18
Other shares and holdings	15	42	50
Interest bearing non-current receivables	16	28	25
Deferred tax receivable	17	33	39
Other non-interest bearing non-current receivables	16	23	9
		4 084	**4 147**
Current assets			
Inventories	18	749	726
Interest bearing current receivables	19	167	38
Accounts and other non-interest bearing receivables	19	1 215	1 167
Cash and cash equivalent	20	112	242
		2 243	**2 173**
Assets classified as held for sale	4		166
Total assets		**6 327**	**6 486**
SHAREHOLDERS' EQUITY AND LIABILITIES			
Equity attributable to shareholders of parent company	21		
Share capital		558	558
Share premium account		667	667
Translation differencies		6	6
Fair value and other reserves		0	2
Retained earnings		1 040	1 160
		2 271	**2 393**
Minority interest		45	37
Total shareholders' equity		**2 316**	**2 430**
Non-current liabilities			
Deferred tax liabilities	17	336	385
Post employment benefit obligations	22	211	216
Provisions	23	62	36
Interest bearing liabilities	24	1 877	1 640
Other non-interest bearing liabilities	25	60	15
		2 546	**2 292**
Current liabilities			
Interest bearing liabilities	24	652	866
Accounts payable and other non-interest bearing liabilities	4, 26, 27	813	861
		1 465	**1 727**
Liabilities classified as held for sale	4		37
Total liabilities		**4 011**	**4 056**
Total shareholders'equity and liabilities		**6 327**	**6 486**

Consolidated statement of changes in shareholders' equity

Euros million	Share capital	Share premium account	Translation differences	Fair value and other reserves	Retained earnings	Minority interest	Total
Shareholders' equity 31 Dec 2003, FAS	304	473	0	2	1 466	19	2 264
Effects of adopting IFRS					–285	10	–275
Shareholders' equity according to IFRS, 1 Jan 2004	**304**	**473**	**0**	**2**	**1 181**	**29**	**1 989**
Translation differences			6				6
Change in minority interest during the period						5	5
Profit for the period					45	3	48
Total recognised income for the period			6		45	8	59
Dividends paid					–54		–54
Share issue	254	194			–12		436
Shareholders' equity 31 Dec 2004, IFRS	**558**	**667**	**6**	**2**	**1 160**	**37**	**2 430**
Shareholders' equity 1 Jan 2005, IFRS	558	667	6	2	1 160	37	2 430
Translation differences							
Net expenses recognised directly in equity				–2			–2
Change in minority interest during the period						7	7
Profit for the period					–81	1	–80
Total recognised income for the period				–2	–81	8	–75
Dividends paid					–39		–39
Shareholders' equity 31 Dec 2005, IFRS	**558**	**667**	**6**	**0**	**1 040**	**45**	**2 316**

Consolidated cash flow statement

Euros million	2005	2004
Cash flow from operating activities		
Profit for the period	–80	48
Adjustments to the profit, total	480	313
Interest received	30	8
Interest paid	–132	–141
Dividends received	3	9
Other financial items, net	–37	–38
Income taxes paid	–46	–34
Change in working capital	–82	52
Net cash flow from operating activities	**136**	**217**
Cash flow arising from investing activities		
Acquisition of subsidiary shares, net of cash	0	–6
Acquisition of shares in associated companies	0	0
Acquisition of other shares	0	0
Capital expenditure	–452	–239
Proceeds from disposal of subsidiary shares, net of cash	127	439
Proceeds from disposal of shares in associated companies	163	0
Proceeds from disposal of other shares	8	1
Proceeds from sale of fixed assets	30	7
Proceeds from long-term receivables	0	15
Increase in long-term receivables	–16	
Net cash flow arising from investing activities	**–140**	**217**
Cash flow arising from financing activities		
Share issue	0	448
Share issue, minority interest	12	
Proceeds from non-current liabilities	469	0
Payment of non-current liabilities	–185	–786
Proceeds from current liabilities, net	–244	–21
Change in current interest bearing receivables, net	–140	36
Dividends paid	–39	–54
Net cash flow arising from financing activities	**–127**	**–377**
Change in cash and cash equivalents	**–131**	**57**
Cash and Cash Equivalents at beginning of period	242	185
Translation adjustments	1	0
Changes in Cash and Cash Equivalents	–131	57
Cash and Cash Equivalents at end of period	**112**	**242**

Euros million	2005	2004
Notes to the consolidated cash flow statement		
Adjustments to the profit		
Taxes	1	39
Depreciation, amortization and impairment charges	403	392
Share of results in associated companies	2	0
Gains and losses on sale of fixed assets	–89	–209
Finance costs, net	148	138
Provisions	20	–42
Other adjustments	–5	–5
	480	**313**
Change in working capital		
Inventories	–41	15
Current receivables	–61	–19
Current non-interest bearing liabilities	20	56
	–82	**52**

Notes to the Accounts

1. Accounting policies

Adoption of International Financial Reporting Standards

The financial statements for 2005 are the first set of financial statements prepared in accordance with IFRS. M-real has applied all the IFRS-standards and interpretations accepted for implementation within EU till the end of 2005.

Main operations

M-real Corporation is a Finnish public listed company that is domiciled in Helsinki. M-real Corporation and its subsidiaries comprise a forest industry group having manufacturing operations in nine countries in Europe. Europe is also the company's main market area, but its products are sold worldwide. M-real's main product areas are coated and uncoated fine papers, magazine papers and folding boxboard. The Group's operations are organized into five business segments: Consumer Packaging, Commercial Printing, Publishing, Office Papers and Map Merchants. The Group's other operations are the head office along with ancillary functions that support business operations.

Accounting policies and measurement bases

M-real Corporation's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). The financial statements have been prepared based on historical costs, except for biological assets, derivative contracts and certain other financial assets and liabilities that have been measured at fair value.

Use of estimates in the financial statements

The preparation of financial statements in accordance with IFRS calls for the use of estimates and assumptions. These estimates and assumptions affect the value of balance sheet items at the closing date, the disclosure of contingent assets and liabilities and the amounts of revenue and expenses during the reporting period. The estimates are based on management's best assessment at the balance sheet date, but actual amounts may differ from the estimates made.

Principles of consolidation

Subsidiaries

The consolidated financial statements include the accounts of the parent company M-real Corporation and all those subsidiaries in which the parent company controls at the end of the year, directly or indirectly, over 50 per cent of the voting rights or it otherwise exercises control of the company.

The financial period of all companies ended on 31 December 2005. 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 sale.

The financial statements of subsidiaries have been translated, as necessary, to be in line with the accounting policies applied in the Group's financial statements.

Intra-Group shareholdings have been eliminated using the purchase method. The acquisition cost in excess of a subsidiary's equity at the time of purchase is allocated to the subsidiary's property, plant and equipment if its carrying value is lower than the fair value. The portion allocated to property, plant and equipment is depreciated according to the plan for the category of property, plant and equipment in question. The unallocated portion is stated as goodwill on the assets side of the balance sheet.

In accordance with IFRS 3 (Business Combinations), which came into force on 1 April 2004, goodwill was not amortized in 2005. The comparative figures for 2004 have likewise been presented according to the same principle.

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 separated out from Group profit attributable to equityholders of the parent and from shareholders' equity and presented as a separate item under equity.

Associated companies

Associated companies are companies in which M-real Corporation, either directly or indirectly, has a 20–50 per cent holding of the voting rights or a significant influence but over which it does not have control. Associated companies are included in the consolidated financial statements using the equity method. M-real's share of the results of associated companies is stated in the income statement on the line "Share of Profits from Associated Companies." The Group's portion of the net assets of associates, together with the goodwill having arisen on the acquisition less accumulated depreciation by 31 December 2003, is presented in the balance sheet on the line "investments in associated companies".

Joint ventures

Joint ventures are entities in which a company enters into a contractual arrangement whereby it shares control over the finances and operations together with other parties. The Group's holdings in joint ventures are consolidated using the proportionate method line by line. Accordingly, M-real's consolidated financial statements include an amount of the joint ventures' assets, liabilities, revenue and expenses corresponding to the company's holding in them. Oy Metsä-Botnia Ab, Äänevoima Oy, Ääneverkko Oy and Grovehurst Energy Ltd have been consolidated on a proportionate basis line by line.

Transactions in foreign currency

Transactions denominated in foreign currency are translated to euros using the exchange rate on the transaction date. Receivables and liabilities in foreign currency amounts are translated to euros using the exchange rates at the balance sheet date. The exchange rate differences thus arising are recorded in their entirety in financial income and expenses.

The income statements of Group companies that use a currency other than the euro in their reporting are translated to euros using the average rates during the report period, and their balance sheets are translated by applying the rates at the balance sheet date. The translation differences arising from translating the income statements and balance sheets of subsidiaries at different rates and from applying the purchase method of consolidation are recorded in the Group's equity. When a subsidiary is disposed of either through a sale or dissolution, the translation differences that have accumulated by the date of disposal are recorded in the income statement as part of the gain or loss arising on the disposal. When making the transition to IFRS, translation differences that arose prior to 1 January 2004 were recorded in the Group's retained earnings, and they are no longer entered in the income statement if the subsidiary is disposed of subsequently.

Derivative contracts and hedge accounting

The Group has applied IAS 32 and IAS 39 to the treatment of its derivative contracts since 1 January 2004. Derivative contracts are recorded in the balance sheet at cost at the time of entering into the contract and subsequently they are measured at fair value at each balance sheet date. The gains and losses arising from the measurement at fair value are treated in accounting in a manner determined by the usage purpose of the derivative contract. Derivative contracts are classified at the time of taking out the contract either as 1) hedges of the exposure to changes in fair value of receivables, liabilities or firm commitments, 2) hedges of the cash flow from a highly probable forecast transaction, 3) hedges of a net investment in a foreign operation or, 4) derivative contracts for which it has been decided not to apply hedge accounting.

Fair value hedging has been applied to certain separately defined loans, and to the derivative contracts hedging them. At the inception of a hedging relationship, the Group has documented the relationship between the hedged item and the hedging instruments as well as the hedging strategy observed. To meet the requirements of hedge accounting, the Group has also continuously carried out effectiveness testing to ascertain that a change in the fair value of the hedging instrument for each hedging relationship corresponds, with a sufficient degree of effectiveness, to the change in the fair value of the hedged item in respect of the risk that is hedged. Changes in the fair value of derivative contracts that meet the criteria for effective hedge accounting have been recorded in financial income and expenses through profit and loss, as have changes in the fair value of a hedged financial liability in respect of interest rate risk (and also currency risk for currency swaps). In calculating the fair value of loans, changes in interest rates and exchange rates have thus been taken into account, but not any changes in the company's credit rating premium.

From the beginning of the third quarter of 2005, the Group has applied partial hedge accounting in line with IAS 39 to hedge the transaction exposure. In doing so, the change in the fair value of a derivative instrument that has proved an effective hedge is recorded in the fair value reserve under the Group's equity. The changes in the fair value are booked to the profit and loss account when the anticipated transaction is realized or when the hedging instrument is maturing, sold, hedging relationships is proven ineffective or when the hedging relationship is interrupted. Changes in the fair value of other currency derivatives taken out to hedge the currency exposure and in interest rate derivatives for hedging future interest payments have been booked directly to financial income and expenses in the income statement. Changes in the fair value of commodity derivatives have been recorded directly to the income statement item "Other income and expenses."

A hedge of a net investment in an independent foreign operation is treated in the accounts in the same manner as the hedging of a cash flow. A change in the fair value of a derivative hedge that has proved effective is recorded directly in the Group's equity against cumulative translation differences. The ineffective portion of the hedge as well as the effect of the interest rate element of a forward exchange contract are recorded in financial income and expenses in the income statement.

All derivative contracts for which it has been decided not to apply hedge accounting have been measured at fair value, and the changes in fair value have been recorded directly in financial income and expenses in the income statement. Available-for-trading derivative contracts as well as currency derivatives taken out to hedge currency exposure and grouped outside hedge accounting, interest rate derivatives for hedging future interest payments, commodity derivatives and embedded derivatives have been recognized through profit and loss.

Derivatives are measured in the balance sheet at fair value in accordance with established money market practices. The fair values of forward exchange contracts are based on forward prices at the balance sheet date and currency options are measured at market prices in accordance with established valuation models. The fair values of forward rate agreements, interest rate futures and options are based on quoted market rates at the balance sheet date. Interest rate swaps and currency swaps are measured at the estimated present value of future cash flows, and commodity derivatives at market prices at the balance sheet date.

The fair value of derivatives maturing in one year is stated in current non-interest-bearing receivables or liabilities. The fair value of derivatives maturing in more than one year is stated in long-term non-interest-bearing receivables or liabilities.

The fair values of derivatives are presented classified based on applied accounting practice in Notes to the Accounts no. 28.

Financial assets

The Group has applied IAS 32 and IAS 39 since 1 January 2004. Financial assets and liabilities prior to this date have been measured in accordance with Finnish Accounting Standards (FAS). From the beginning of 2004, the Group's financial assets have been classified in accordance with the above IAS standards in the following groups: 1) financial assets at fair value through profit or loss, 2) held-to-maturity investments, 3) loans and other receivables and 4) available-for-sale financial assets. The classification is made on the basis of the purpose for which the financial assets were acquired at the time they were originally recorded. Purchases and sales of financial assets are recorded on the settlement date.

Investments that are obtained and held for trading have been grouped in financial assets recognized at fair value through profit or loss. In addition, derivatives that do not fall within the scope of hedge accounting are placed in this group. Financial assets held for trading are measured at fair value on the basis of public price quotations in the markets. Realized and unrealized profits and losses due to a change in fair value are recognized immediately in the income statement in the period when they have arisen.

Classified within held-to-maturity investments are investments which the Group has a firm intention and ability to hold to maturity. Held-to-maturity financial assets are measured at amortized cost based on effective interest method.

Intra-Group loans are classified as loans and other receivables. Also all non-interest bearing receivables are classified to this group. This category includes investments that are measured at amortized cost based on effective interest method.

Available-for-sale financial assets include other investments that do not fall in one of the other groups. The category includes investments in equities and other holdings that are not connected with day-to-day cash management. Available-for-sale financial assets are measured at fair value, based on a public quotation of shares or some other best possible estimate. Only minor investments in real-estate management companies are measured at a value other than a market quotation. Changes in the fair value of available-for-sale financial assets are entered in the revaluation reserve under equity. Changes in fair value are transferred from equity to the income statement when the investment is sold or its value has been lowered such that an impairment loss must be booked on the investment.

The classification of liquid funds and other interest bearing receivables to various categories is presented in table "Counterparty risk of financial assets" on page 36. Cash and cash equivalents within Notes to the Accounts no. 20 include 6 million euros of money market investments maturing in less than three months time and 106 million euros of cash at bank.

Financial liabilities

The Group has classified all financial liabilities under "Other liabilities". When a financial liability is entered in the accounts, it is measured at cost, which is equal to the fair value of the consideration received for it. Transaction costs are included in the original carrying amount of all financial liabilities. Subsequently, all financial liabilities are measured at amortized cost using the effective interest method. Derivative contracts for which hedge accounting is not applied are classified as "Financial liabilities at fair value through profit or loss".

Recognition of income

Sales are calculated after deducting indirect sales taxes, trade discounts and other items adjusting sales. Revenue from the sale of goods is recognized as income when the significant risks and benefits associated with ownership of the products have passed to the purchaser and the seller no longer has an actual right of possession or control over the products. Revenue from the sale of services is recorded when the services have been rendered.

Delivery and handling costs

Costs arising from the delivery and handling of goods are recorded in operating expenses in the income statement.

Research and development expenditure

Research and development expenditure is recognized as an expense at the time it is incurred. Development expenditure is capitalized if it meets the criteria for capitalization. To date, M-real does not have capitalized R&D expenditure.

Income taxes

Tax expense in the income statement is comprised of the current tax and deferred taxes. Income taxes are recorded on an accrual basis for the taxable income of each reporting unit, applying the tax rate in force in each country at that time. Taxes are adjusted for any taxes for previous periods.

Deferred taxes and tax assets are calculated on all the temporary differences between the accounting value and the tax base. The largest temporary differences arise from depreciation on property, plant and equipment. The temporary differences arise also from measurement at fair value of the balance sheets of acquired companies at the time of purchase, measurement of derivative instruments at fair value, defined-benefit pension plans and unused tax losses.

Deferred taxes have been calculated by applying the tax rates in force by the balance sheet date. Tax assets are recognized to the extent that it is probable that taxable profit will be available against which a deductible temporary difference can be utilized.

Segment reporting

The Group's primary segment reporting is based on business segments and secondary segment reporting on geographical segments. Business segments are defined in accordance with the Group's management organization.

Transactions between segments are based on market prices. All sales and other transactions between segments are eliminated on consolidation. The same accounting policies are applied in segment reporting as for the Group as a whole.

The result reported for the segments is operating profit (profit before financial income and expenses). The assets of a segment include all the assets of the units belonging to the segment, except for assets related to financing and taxes. Goodwill arising on the acquisition of subsidiaries is allocated to the business segments in accordance with the matching principle. Segment liabilities include all the operating liabilities of the units belonging to the segment (all liabilities excluding liabilities relating to financing and taxes).

Leases

Leases on property, plant and equipment for which the Group assumes substantially all the risks and rewards incident to ownership of the asset are classified as finance lease agreements. A finance lease agreement is recognized in the balance sheet at an amount equal at the inception of the lease to the fair value of the leased property or, if lower, at the present value of the minimum lease payments. The corresponding lease payment liability is recorded in interest-bearing liabilities under other non-current liabilities. An asset obtained on a finance lease is depreciated over the useful life of the asset or, if shorter, the lease term. Lease payments are split between financial expenses and a reduction in the lease liabilities.

Lease agreements in which the risks and rewards incident to ownership remain with the lessor are treated as other lease agreements (operating leases). Lease payments under an operating lease are recognized as an expense in the income statement on a straight-line basis over the lease term.

Inventories

Inventories are measured at the lower of cost and net realizable value. The cost of finished and semi-finished products comprises raw materials, direct labour expenses, other direct expenses as well as an appropriate share of fixed and variable production overheads. The normal capacity of the production facilities is used as the divisor in allocating overheads to the different production units.

The value of inventories is determined using the FIFO (first-in, first-out) method or, alternatively, the weighted average cost method. Net realizable value is the estimated selling price that is obtainable less the costs of completion and the costs necessary to make the sale.

Government grants

Government grants received for the purpose of purchasing property, plant and equipment and similar are entered as deferred income in balance sheet liabilities and recognized in other operating income during the actual useful life of the asset. Other grants are recorded as other operating income in the income statement for the financial periods during which they are matched with the corresponding expenses.

Property, plant and equipment

Property, plant and equipment is measured at original cost. The property, plant and equipment of acquired subsidiaries is measured at fair value at the time of the purchase. Property, plant and equipment is presented in the balance sheet at cost less accumulated depreciation and impairment losses. For investments in property, plant and equipment requiring a long construction time, the interest incurred during construction is capitalized in the balance sheet as part of the asset for the time that is necessary for bringing the asset to working condition for its intended use.

Property, plant and equipment is depreciated on a straight-line basis over the following expected useful lives:

Buildings and constructions	20–40 years
Heavy power plant machinery	20–40 years
Other heavy machinery	15–20 years
Lightweight machinery and equipment	5–15 years

Land and water areas are not depreciated. If the significant parts of an item of property, plant and equipment have useful lives of differing length, each part is depreciated separately.

The estimated economic lives are reviewed at each balance sheet date and if they differ significantly from previous estimates, the depreciation periods are altered accordingly.

Expenditures arising from large-sized modernization and improvement projects are capitalized in the balance sheet if it is probable that the economic benefit resulting from the projects will exceed the estimated revenue originally obtainable from the asset item that is to be modernized. Other expenditure related to repair and maintenance is expensed in the period in which it is incurred.

Gains and losses arising on the sale and decommissioning of items of property, plant and equipment are calculated as the difference between the net revenue obtained and the carrying amount. Capital gains and losses are included in operating profit in the income statement.

When a non-current item of property, plant and equipment is classified as available-for-sale in accordance with IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations," the recording of depreciation on said asset is discontinued. A non-current asset held for sale is measured at the lower of the carrying amount or the fair value less the expenses necessary to make the sale.

Biological assets

Biological assets (living trees) are measured at fair value less the estimated expenses of making a sale. The fair value of a stand of trees, excluding young seedlings, is based on the present value of expected cash flows (revenue and expenses). The calculations take into account the future growth of the stand as well as the environmental protection-related limits on the forests. The calculation of income from fellings and silvicultural costs is based on the prevailing price level as well as the company's view of the future trend in prices and costs. Changes in the fair value of a stand of trees are included in operating profit during the financial period.

Intangible assets

Goodwill

Goodwill is the portion of the cost of an acquired subsidiary, associated company or joint venture which exceeds the fair value of its net assets at the time of purchase. M-real applies this requirement of IFRS 3 to acquisitions that have been made after 1 January 2004. Under the exemption provided by IFRS 1, acquisitions made prior to this have been measured in accordance with previous accounting policies and they have not been adjusted retroactively.

Goodwill is not amortized but is tested annually to determine any impairment. Goodwill is measured at the original cost less accumulated depreciation by 31 December 2003 as well as subsequently booked impairment losses. An impairment loss is recorded as an expense in the income statement in the reporting period during which the impairment has been determined.

EDP applications

Expenditure on developing and building significant new EDP applications is recognized in the balance sheet as an intangible asset and amortized over its useful life, which is not to exceed five years. Direct expenses to be capitalized include consultancy and expert advisory fees paid to outside parties, software licences obtained for the application, staff costs to the extent that they can be allocated directly to the project as well as other direct costs. Maintenance and operating expenditure related to computer software and EDP applications is recorded as an expense in the reporting period in which it has been incurred.

Other intangible assets

The cost of patents, licences and trademarks having a finite useful life is capitalized in the balance sheet under intangible assets and amortized on a straight-line basis over their useful lives in 5 –10 years.

Impairments

Asset carrying values are measured at the end of each reporting period to determine any impairment. To facilitate impairment testing, the Group's assets are divided into identifiable smaller units that are substantially independent of the cash flows generated by other units. The carrying values of these cash-generating identifiable assets are always tested when there are indications that the value of the asset has been impaired, and any impairments are recorded as an expense. Nonetheless, those cash-generating units to which goodwill has been allocated are subjected to an impairment test annually.

The recoverable amount of an asset is the higher of its net selling price or fair value. Value in use is determined by discounting estimated future net cash flows.

An impairment loss recognized on an item of property, plant and equipment in prior periods is reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. Following such a reversal, the value of the asset item must not exceed the carrying amount which it had, less depreciation, prior to the recording of the impairment loss.

An impairment loss recognized for goodwill is not reversed in subsequent periods.

Accounts receivables

Accounts receivables are measured at the expected net realizable value, which is the original invoicing value less estimated impairment provisions on the receivables. Provisions are set up case by case when there is a justifiable reason to assume that the Group will not receive payment for the invoiced amount according to the original terms.

Provisions

A provision is recognized in the balance sheet when the Group has a legal or constructive obligation as a result of a past event and it is probable that settlement of the obligation will require a financial payment or cause a financial loss, and a reliable estimate can be made of the amount of the obligation. If some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recorded in the balance sheet as a separate asset, but only if it is virtually certain that reimbursement will be received.

Restructuring

A restructuring provision is recorded for the financial period when the Group has incurred a legal or constructive obligation to make a payment. Termination payments are recorded when a detailed plan has been made of the restructuring and the main points of the plan have been communicated to the employees who are affected by the arrangement.

Environmental obligations

Costs arising from environmental remediation which do not increase present or future revenue are recorded as annual expenses. Environmental liabilities are recorded in accordance with present environmental protection laws and regulations when it is probable that the obligation which has arisen and its amount can be estimated reasonably.

Borrowing costs

Borrowing costs are generally recognized as an expense in the period in which they are incurred. When an item of property, plant and equipment is involved in a major and long-term investment project, the borrowing costs directly due to the acquisition and construction of the asset are included in the asset's cost. Transaction expenses directly due to obtaining loans are deducted from the original cost of said loan and periodized as interest expense using the effective interest rate method.

Discontinued operations

A discontinued operation is one which the Group has disposed of or which meets the criteria for being classified as held for sale. An asset item/operation is classified as held for sale when the amount corresponding to its carrying value will be generated primarily from sale of the asset item. Classification as held for sale calls for management's commitment to a plan setting out the sale and a programme of measures aiming at implementation of the plan launched by the Group.

Asset items classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Asset items classified as held for sale are not depreciated or amortized.

Employee benefits

Pension benefits

The Group has, in different countries, pension plans that comply with each country's local regulations and practices. Most of the pension plans are defined-contribution plans. The Group also has defined-benefit pension plans. They define pension security benefits, unemployment compensation and any post-employment benefits. The pension plans are funded by employer and employee contributions to pension insurance companies or a pension foundation on the basis of actuarial pension liability calculations. Under defined-benefit plans, the employer is generally responsible for ensuring that the former and present employees belonging to the plan receive the benefits defined in the plan's statutes.

In defined-benefit plans, the pension liability is stated as the present value of future pension contributions at the balance sheet date less the fair value of plan assets at the balance sheet date and adjusted for actuarial gains and losses as well as for past service costs. The pension liability is calculated by independent actuaries. Pension liabilities are recorded as pension obligations under balance sheet liabilities.

Pension expenditure is recorded in the income statement as an expense, periodizing it over employee's period of service. Actuarial gains and losses, to the extent they exceed the corridor set, are recorded for employees' remaining average period of service.

For defined-contribution pension plans, pension contributions are paid to insurance companies based on the work performed during the employee's period of service, after which the Group no longer has other pension obligations. The Group's payments into defined-contribution plans are recorded as an expense in the period during which the obligation was incurred.

Earnings per share

Undiluted earnings per share are calculated using the weighted average number of shares during the reporting period. In calculating earnings per share adjusted for the effect of dilution, the average number of shares is adjusted for the dilution effect of any equity instruments that have been issued. In calculating earnings per share, earnings are taken to be the reported earnings attributable to the parent company's shareholders. Earnings, both undiluted and adjusted for the effect of dilution, are calculated separately for continuing and discontinued operations.

Dividends payable

Dividends payable by the company are recorded as a decrease in equity in the period during which shareholders, in a general meeting, have approved the dividend for payment.

Management of financial risks

The Group's financial position is discussed in the report of the Board of Directors. Financial risks involved in business operations are managed in accordance with the financing 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 euro-zone, 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 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' searnings.

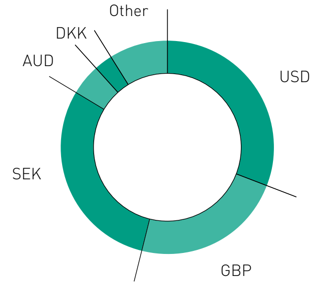
The hedging policy is to hedge on average a three-month foreign exchange flow, but the hedging can vary currency by currency from 0 to 12 months. The amount of hedging for specific currencies can vary depending on the exchange rates and expectations prevailing at any given time, on interest differences 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

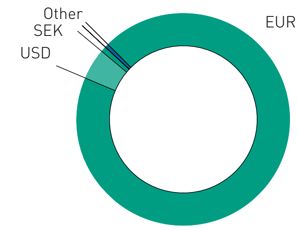
Hedging of foreign exchange transaction exposure

	USD	GBP	SEK	NOK	DKK	AUD	Other long	Other short	Total.
Transaction exposure, net (mill. currency units)	583	255	–4 452	248	329	127			
Transaction exposure, net (euros million)	494	372	–474	31	44	79	94	–14	1 600
Transaction exposure hedging (euros million)	–507	–130	496	–7	–14	–16	–15	6	–1 189
Hedging at the end of the year (months)	12.3	4.2	12.6	2.6	3.8	2.4	1.9	4.9	8.9
Average hedging in 2005 (months)	8.0	3.4	6.6	3.2	4.3	2.7	2.5	3.3	5.7

Foreign currency breakdown of currency exposure



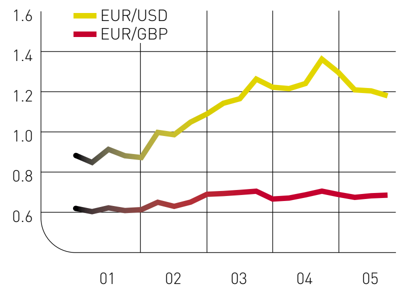
Currency breakdown of loans



Hedging of net investments in a foreign entity, 31 Dec 2005

	Equity exposure					
Euros million	USD	GBP	SEK	CHF	Other	Total.
Equity exposure (mill. currency units)	22	37	3 049	120		
Equity exposure (euros million)	18	53	324	77	65	537
Equity hedging (euros million)	–17	–54	–277	–76	–42	–466
Hedging at the end of the year (%)	92	101	85	99	65	87
Average hedging in 2005 (%)	100	102	91	97	71	92

Exchange rate trends

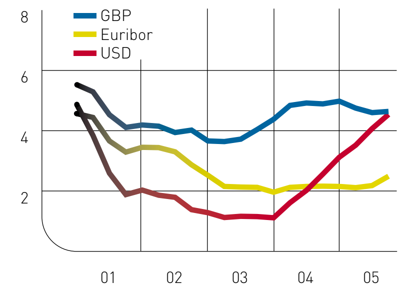


Treasure policy a minimum of 50 per cent of the equity exposure subject to risk must be hedged if the hedging can in practice be carried out.

Commodity risks

In hedging commodity risk M-real applies Group's Commodity risk policy. According to policy Metsä Finance concentratedly manages the transactions on the basis of strategy defined by the Group. So far commodity risk hedging applies mainly on electricity price risks and pulp price risks.

Interest rate trends, 3 months



Interest rate risk / duration and re-pricing structure of loans (incl. Interest rate derivatives), 31 Dec 2005

Loan amount	Duration	Average interest rate	Interest rate sensitivity *	Re-pricing structure of interest rates of loans						
euros million	(months)	%	euros million	1–4/2006	5–8/2006	9–12/2006	2007	2008	2009	2009–
2 529	15.8	4.3	10.3	1 492	–137	209	280	379	147	159

* Interest rate sensitivity is an estimate of the effect of an interest rate change of one percent in one direction on net interest cost based on year end exposure

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 the financing did not result in losses during the financial year.

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 rate is reflected in the 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.

New and changed standards and interpretations

M-real has not applied the following new and changed standards and interpretations: IFRS 1 (change), IFRS 4, IFRS 6, IFRS 7; IAS 19 (change), IAS 39 (change); IFRIC 4, IFRIC 5, IFRIC 6, IFRIC 7, IFRIC 8. This has no substantial effect on the presented figures.

Counterparty risk of financial assets

Euros million	Counter-value
Liquid funds and interest bearing receivables	
Finnforest subordinated loan	13.9
UPM-Kymmene bond	4.4
Financial assets at fair value through profit or loss	18.3
Available-for-sale financial assets	0.0
Metsäliitto Cooperative	138.6
Finnforest group	21.5
Other Metsäliitto Group companies	6.1
Loans and receivables	166.2
Other long term interest bearing receivables	26.4
Other short term interest bearing receivables	2.0
Money market investments	5.4
Other investments	0.0
Cash at bank and in hand	106.3
Held-to-maturity investments	140.1
Liquid funds and interest bearing receivables total	324.6

Derivatives *	
Forward interest rate agreements and futures	1.5
Interest rate options bought and sold	2.3
Interest rate swaps	13.3
Foreign exchange forward contracts	44.2
Foreign exchange options bought and sold	7.7
Currency swaps	10.2
Commodity forward contracts	0.6
Commodity options bought and sold	0.0
Counter-value of derivatives total	79.7

* Counter-values of derivatives are based on calculation methods commonly applied by financial institutions

2. Transition to IFRS reporting

M-real made the transition from Finnish Accounting Standards (FAS) to International Financial Reporting Standards (IFRS) from the beginning of 2005. Thereby these are the M-real Group's first financial statements that have been prepared according to IFRS. In April 2005 the company published a press release on the effects of the transition.

The adoption of IFRS has changed the reported financial statement formats and calculations, the notes to the financial statements as well as the accounting policies compared with previous financial statements. The accounting policies presented under the heading "Accounting policies applied in the financial statements" in the notes have been applied in preparing the financial statements for the financial year ended 31 December 2005, the comparative figures for the financial year ended 31 December 2004 and the opening balance sheet at 1 January 2004.

The reconciliation statements and explanations presented below set forth the differences of IFRS reporting compared with Finnish accounting practice for 2004 as well as from the date of adopting IFRS, 1 January 2004.

Reconciliation of the statement of equity, 1 Jan 2004 and 31 Dec 2004

Euros million		31 Dec 2004		31 Dec 2004	31 Dec 2003		1 Jan 2004
Balance sheet		FAS	Effect of transition to IFRS	IFRS	FAS	Effect of transition to IFRS	IFRS
ASSETS							
Non-current assets							
Goodwill	a, i	587	–18	569	707	–140	567
Other intangible assets	b, i	79	–5	74	82	–4	78
Tangible assets	c, i	3 182	74	3 256	3 588	–177	3 411
Biological assets	d	187	–157	30	186	6	192
Investments in associated companies	e	69	8	77	86	0	86
Available-for-sale investments		18	0	18	18	0	18
Interests in other companies	i	50	0	50	60	–2	58
Interest-bearing receivables	i	22	3	25	36	–1	35
Tax assets	h, i	26	13	39	22	9	31
Other non-interest-bearing receivables		9	0	9	10	2	12
		4 229	–82	4 147	4 795	–308	4 488
Current assets							
Inventories	i	727	–1	726	802	–59	743
Interest-bearing receivables		41	–3	38	78	–4	74
Trade receivables and other non-interest-bearing receivables	i	1 155	12	1 167	1 247	–94	1 153
Cash and cash equivalents	i	242	0	242	184	–18	166
		2 165	8	2 173	2 311	–175	2 136
Assets classified as held for sale	i		166	166	0	538	538
Assets, total		6 394	92	6 486	7 106	56	7 162

Euros million		31 Dec 2004		31 Dec 2004	31 Dec 2003		1 Jan 2004
		FAS	Effect of transition to IFRS	IFRS	FAS	Effect of transition to IFRS	IFRS
SHAREHOLDERS' EQUITY AND LIABILITIES							
Equity attributable to shareholders							
Share capital		558	0	**558**	304	0	**304**
Share premium fund		667	0	**667**	473	0	**473**
Translation difference		6	0	**6**	42	–42	**0**
Other funds		2	0	**2**	106	–104	**2**
Retained earnings		1 394	–234	**1 160**	1 320	–139	**1 181**
		2 627	–234	**2 393**	2 245	–285	**1 960**
Minority interest		0	37	**37**	0	29	**29**
Shareholders' equity, total	f	2 627	–197	**2 430**	2 245	–256	**1 989**
Minority interest	f	24	–24	**0**	19	–19	**0**
Non-current liabilities							
Deferred taxes	h, i	379	6	**385**	432	–9	**423**
Pension obligations	g, i, k	21	195	**216**	26	238	**264**
Provisions	i, j	37	–1	**36**	52	–22	**30**
Interest-bearing liabilities	c, i, k	1 629	11	**1 640**	2 583	–1	**2 582**
Other non-interest-bearing liabilities	i, k	12	3	**15**	15	27	**42**
		2 078	214	**2 292**	3 108	233	**3 341**
Current liabilities							
Interest-bearing liabilities	c, i, k	855	11	**866**	841	–105	**736**
Trade payables and other non-interest-bearing liabilities	i, k	810	51	**861**	893	–80	**813**
		1 665	62	**1 727**	1 734	–185	**1 549**
Liabilities classified as held for sale	i		37	**37**	0	283	**283**
Liabilities, total		3 743	313	**4 056**	4 842	331	**5 173**
Shareholders' equity and liabilities, total		6 394	92	**6 486**	7 106	56	**7 162**

Income statement reconciliation for the financial year 1 January to 31 December 2004

Euros million

Income statement		FAS	Effect of transition to IFRS	IFRS
Sales	i, l, m	5 460	62	**5 522**
Changes in inventories of finished goods and work in progress		5	5	**10**
Other operating income	i	86	0	**86**
Share of profit from associated companies		–7	7	**0**
Materials and services				
Raw materials and consumables	m	–3 158	–27	**–3 185**
Costs of external services		–225	–7	**–232**
Employee costs	g	–917	11	**–906**
Depreciation, amortization and impairment	a, c	–462	70	**–392**
Other operating expenses	i	–857	–17	**–874**
Operating profit/loss		–75	103	**28**
Share of profit from associated companies		0	0	**0**
Net exchange gains/losses		13	–9	**4**
Other financial expenses (net)	m, n	–147	7	**–140**
Extraordinary items	i	198	–198	**0**
Profit/loss from continuing operations before taxes		–11	–97	**–108**
Income taxes	h, n	–3	–14	**–17**
Profit from continuing operations		–14	–111	**–125**
Profit from discontinued operations	i	0	173	**173**
Profit for the period		–14	62	**48**
Attributable to:				
Shareholders of the parent		–15	60	**45**
Minority interest		1	2	**3**
		–14	62	**48**
Earnings per share calculated on the profit/loss attributable to shareholders of the parent, euros				
From continuing operations		–0.79		**–0.53**
From discontinued operations		0.73		**0.72**
Total		–0.06		**0.19**

Notes to the reconciliation statements concerning equity at 1 January 2004 and 31 December 2004 as well as profit for the financial year 1 January–31 December 2004

a ■ Goodwill

In accordance with Finnish Accounting Standards (FAS), Group goodwill is calculated as the difference between the purchase price and the subsidiary's equity at the time of purchase, and it is allocated to those asset items of the subsidiary to which the difference is considered to be attributable. In IFRS reporting, the assets and liabilities of an acquired company are measured at fair value at the time of the purchase.

In preparing its opening IFRS balance sheet, M-real has applied the exemption under IFRS 1 concerning business combinations. Accordingly, the assets and liabilities of subsidiaries have not been measured retrospectively at fair value, but they have been included in the balance sheet, at the date of transition, at the value according to the previous accounting standards, less impairment entries made for the asset items and goodwill on the date of drawing up the balance sheet. After the transition date, goodwill is no longer amortized, but it is tested annually to determine any impairment. According to the requirements of IFRS 1, the entire amount of goodwill is tested for impairment at the transition date. On the basis of these calculations, an euros 60 million impairment loss was recorded on the goodwill allocated to the paper merchanting business.

b ■ Other intangible assets

In its opening IFRS balance sheet, M-real has measured intangible assets at cost less amortization and impairment losses. There is no material difference in the opening IFRS balance sheet and the balance sheet in accordance with Finnish Accounting Standards.

c ■ Tangible assets

In its opening IFRS balance sheet, M-real has measured tangible assets at cost less depreciation and impairment losses, to which are added the revaluations made in accordance with the previous financial statement practice in the manner permitted under IFRS 1. An exception to this is forest holdings, which are measured at fair value in accordance with IAS 41 (Biological Assets) and stated as an individual group in the balance sheet according to IFRS.

M-real has certain agreements connected with energy and other plants as well as lease agreements for industrial equipment, which according to FAS are interpreted as being off-balance sheet lease and delivery agreements, but which according to IFRS are included in the balance sheet either as finance leases or as an SPE (Special Purpose Entity). The negative effect of these items on equity in the opening IFRS balance sheet was euros 8 million, and they increased total assets by euros 129 million and interest-bearing liabilities by euros 85 million. Accordingly, the asset items will be depreciated according to the depreciation plans for property, plant and equipment over the useful life of the assets.The company has a sale and leaseback agreement on the Tako carton mill property located in Tampere. Because the agreement includes a binding buyback obligation, at the end of the lease period, at the same price at which it was sold, the agreement is considered to be a financing arrangement. The agreement and the capital gain that was previously booked on it have been reversed in the opening IFRS balance sheet. This reduces equity and increases interest-bearing liabilities by euros 45 million.

Asset items have been tested for impairment at the transition date in accordance with the requirements of IFRS 1. On the basis of these calculations, an euros 62 million impairment loss was recorded on tangible assets, being split between the Consumer Packaging business (euros 26 million for Savon Sellu) and Commercial Printing (euros 36 million on the Zanders Reflex mill).

d ■ Biological assets

M-real's forest holdings have been measured, in accordance with FAS, at cost plus revaluations made over the years. In accordance with IAS 41, forest holdings have been grouped under biological assets in the opening IFRS balance sheet and measured at fair value. At the same time, the revaluations, to a total amount of euros 135 million, have been reversed.The value of M-real's forest holdings, including the land in the balance sheet according to Finnish Accounting Standards at 31 December 2003, was euros 168 million. Based on an estimate made by an external expert, this was judged to correspond roughly to the fair value.During 2004, M-real entered into a binding agreement on the sale of its forest holdings (shares in Forestia Oy). The transaction entered into force on 31 January 2005. A capital loss of euros 7 million arose on the transaction and was recorded in the income statement for 2004, which was prepared in accordance with IFRS. M-real's consolidated financial statements furthermore include a 47 per cent share of Botnia's forests in Finland and Uruguay. The fair value of M-real's portion of these was stated at euros 25 million in the opening balance sheet. The sum includes an increase in fair value of euros 5 million.

e Investments in associated companies

Associates are companies in which M-real Corporation holds, directly or indirectly, 20–50 per cent of the votes or has significant influence, but over which it does not have control. Associates are included in the consolidated financial statements using the equity method. The goodwill that has arisen on the acquisition of shares in an associate is no longer amortized, in line with IFRS, but the value of the associate is measured at the end of each reporting period to determine any impairment. Impairment losses have not been booked, but the non-recording of goodwill amortization increased the balance sheet value of associates by euros 8 million at the end of 2004.

f Equity and minority interests

The table below presents a summary of the effect of the transition to IFRS on the Group's retained earnings.

Euros million	31 Dec 2004	1 Jan 2004
Retained earnings according to FAS	1 394	1 320
Effects of the transition to IFRS		
Pension obligations	–98	–115
Other employee benefits	–2	–2
Finance leases	–58	–58
Impairment losses	–66	–127
Reversal of goodwill amortization	52	0
Adjustment for business combinations	1	14
Biological assets	–1	5
Transfer of revaluation fund to retained earnings	0	104
Cumulative translation differences in retained earnings	0	42
Inventory valuation	2	22
Measurement of financial instruments	–35	–30
Deferred taxes from IFRS adjustments	–27	10
Others	–2	–4
Retained earnings according to IFRS	1 160	1 181
Difference	–234	–139

The minority interest in equity has been transferred, in accordance with IAS 1, and stated as an individual item in equity, whereas according to Finnish Accounting Standards, it was stated separately from equity attributable to shareholders of the parent.

M-real has availed itself of a possibility permitted under IFRS 1 and recorded cumulative actuarial gains and losses on defined-benefit pension plans in the balance sheet at the date of transition to IFRS. The 10 per cent "corridor approach" according to IAS 19 is applied to subsequent actuarial gains and losses.M-real has applied the possibility provided under IFRS 1 and classified financial instruments in the manner prescribed under IAS 32 (Financial Instruments: Disclosure and Presentation) and IAS 39 (Financial Instruments: Recognition and Measurement) in the opening IFRS balance sheet. Gains and losses having arisen on the marking to market of derivative contracts taken out to hedge financial assets and liabilities as well as currency and interest rate risks have thus been recorded in equity in the opening IFRS balance sheet.

M-real has transferred the revaluation fund for biological assets to retained earnings in the transitional balance sheet. M-real applies the transitional provision of IFRS 1 and assumes that cumulative translation differences at the transition date are zero. This means that the translation differences having arisen on the translation into euros of the financial statements of foreign operations are included in retained earnings.

g Pension obligations

According to Finnish financial statement practice, pension expenses are included in the consolidated financial statements in accordance with the regulations of the country where each Group company is located. IFRS calls for dividing pension plans into defined-contribution and defined-benefit plans. Where the latter are involved, the assets and liabilities of the pension plan are calculated using actuarial calculation methods and their difference is recorded as an asset or liability in the balance sheet.

According to Finnish Accounting Standards, the Finnish Employment Pension System (TEL) is treated as a defined-contribution plan. According to the original IFRS interpretation, the portion of it relating to employment disability was considered to be a defined-benefit arrangement. In December 2004, the Finnish authorities approved changes to the principles of calculating disability pension contributions, and these came into force on 1 January 2006. As a consequence of the changes, the system is considered, in its entirety, as a defined-contribution plan. In M-real's opening IFRS balance sheet, there is a TEL disability pension liability of euros 7 million for the years 2004 and 2005 and euros 4 million in the balance sheet at 31 December 2004 for the year 2005.

The pension liabilities of Group companies operating outside Finland have been recorded as a liability of euros 108 million in the opening balance sheet at the transition date. This reduces the Group's equity by euros 108 million. Owing to the effect of the changes made to the pension arrangements during 2004 and to the sale of Metsä Tissue, the liability decreased to euros 95 million by the end of the year.

h ■ Income taxes

Finnish financial statement practice has permitted alternative procedures for recording Accounts deferred tax liabilities and assets. According to the procedure adopted by M-real, deferred taxes are not recorded on all temporary differences between the Group's accounting and taxation. IFRS requires the recording of deferred taxes on all temporary differences between the carrying amount and the tax base. The most significant difference between the procedure previously applied by M-real and IFRS is the increase in deferred taxes attributable to the difference between the carrying value of forest holdings and the tax base (acquisition cost). The tax liability and decrease in equity recorded for this in the opening balance sheet is euros 40 million. The other temporary differences between Finnish practice and IFRS have resulted in the recording of deferred taxes of euros 12 million. The entries reducing equity made in the opening IFRS balance sheet have in turn resulted in the booking of tax assets amounting to euros 38 million.

In addition, the effect of the change in the Finnish corporate tax rate, euros 24 million, has been recorded as a receivable and an increase in equity in the opening IFRS balance sheet. In reporting according to Finnish Accounting Standards, it was recorded in the second quarter of 2004. The tax rate decreased from 29 per cent to 26 per cent as from 1 January 2005. The positive effect that has arisen from the lowering of the tax rate was allocated nearly entirely to the cumulative depreciation difference between the carrying value and tax base.

i ■ Available-for-sale long-term assets

In August 2004, M-real announced it was selling its forest holdings in Finland (Forestia Oy shares, 94.5% holding). The sale was completed in January 2005. Foresta Oy is presented as a discontinued operation and the company's assets and liabilities have been classified as available-for-sale in the income statement and balance sheet for the comparative year 2004.

Forestia Oy

Euros million	31 Dec 2004
Net assets	
Property, plant and equipment	7
Biological assets	159
Current receivables	0
Cash and cash equivalents	0
Assets, total	**166**
Deferred tax liabilities	36
Accounts payables and other non-interest-bearing liabilities	1
Liabilities, total	37
Minority interests	–3
Net assets	**126**
Profit/loss	2004
Income	10
Expenses	–7
Profit before tax	3
Taxes	–1
Profit after taxes	**2**
Result of revaluation of asset items before taxes	–7
Taxes	0
Profit/loss after taxes	**–5**

At the beginning of 2004, M-real sold its tissue paper business to its parent company, Metsäliitto Osuuskunta. In accordance with IFRS 5, M-real has separated out, in the transitional balance sheet, the assets and liabilities of the divested business into individual separately stated assets and liabilities. The sale price was euros 453 million, the capital gain before taxes euros 197 million and the tax effect of the transition euros 22 million.

The assets and liabilities of the divested entity are shown in the table below.

Euros million	1 Jan 2004
Assets	
Goodwill	79
Other intangible assets	1
Property, plant and equipment	260
Interest-bearing receivables	3
Interests in other companies	1
Tax assets	8
Inventories	65
Accounts receivables and other non-interest-bearing receivables	102
Cash and cash equivalents	19
Assets, total	538

Euros million	1 Jan 2004
Liabilities	
Deferred taxes	17
Pension obligations	3
Provisions	8
Interest-bearing non-current liabilities	66
Other non-interest-bearing liabilities (non-current)	2
Interest-bearing current liabilities	103
Accounts payables and other non-interest-bearing current liabilities	84
Liabilities, total	283
Net assets	255

In the income statement according to FAS, the capital gain on the sale was stated in extraordinary income and the taxes payable on the capital gain were stated in taxes for the financial year. IFRS does not recognize a corresponding extraordinary items concept. In an income statement prepared in accordance with IFRS, the capital gain on an asset sale after taxes is presented on a line of its own after operating profit from continuing operations.

j ■ Provisions

Finnish financial statement practice has permitted the setting up of provisions to cover future expenses and losses in some cases earlier than IFRS. Cases of this kind are, for example, expense provisions set up to cover restructuring or reorganization.

In its opening IFRS balance sheet, M-real reversed euros 21 million of provisions that do not meet the IFRS criteria for being recorded. Of this amount, euros 16 million was for the divestment and winding up of the Price & Pierce trading business. The sale was made in 2004, whereby in the income statement according to IFRS a corresponding negative difference was recorded compared with the result according to FAS.

k ■ Interest-bearing liabilities and accounts payables and other non-interest-bearing liabilities

In the opening IFRS balance sheet, pension liabilities of foreign subsidiaries have been transferred from interest-bearing liabilities to pension obligations, which are non-interest-bearing liabilities. According to FAS, said liabilities were considered to be interest-bearing liabilities. The amount transferred was euros 122 million at 1 January 2004 and euros 96 million at 31 December 2004. The decrease in the pension obligation is mainly due to the divestment of Metsä Tissue.

l ■ Sales

In 2004 sales were euros 62 million greater in the income statement according to IFRS than in that according to FAS. This is due primarily to the inclusion of Kemiart Liners in the consolidated IFRS financial statements at 100 per cent beginning on 1 January 2004.

m ■ Financial instruments

In the IFRS opening balance sheet at 1 January 2004, M-real has grouped and measured financial assets and liabilities as well as derivative contracts taken out to hedge currency and interest rate risks in the manner required by IAS 32 and IAS 39. In its financial statements according to FAS, the company has also measured currency derivatives at market value, but periodized the resulting hedging results over the so-called hedging period. After adopting IFRS, the company decided to drop the application of hedge accounting (the periodization of hedging results) in hedging cash flow exposure. M-real still takes out derivative contracts to hedge the foreign exchange cash flow, but it records the results arising on marking the contracts to market on a one-off basis in the income statement. Hedge accounting is applied in the manner prescribed by IFRS in hedging equity as well as selectively in hedging the interest rate risk of financial liabilities.

In the financial statements according to FAS, open derivative contracts have not been marked to market and thus they have not been recorded in the balance sheet.

Because of marking financial instruments to market, the resultant negative net effect after taxes on equity in the opening IFRS balance sheet was euros 22 million.

In the financial statements according to Finnish practice, in which hedge accounting has been applied to currency derivatives, the hedging results have been recorded, according to the hedged item, either as adjustments to revenue, purchases or financial expenses. Because the company has discontinued hedge accounting, all the foreign exchange rate differences have been recorded in financial income and expenses in the income statement prepared according to IFRS.

n ■ Share issue expenses

According to Finnish Accounting Standards, expenses related to a share issue are recorded in the result for the financial period. According to IFRS, they are recorded directly in equity as a deduction from profits. The costs after taxes of M-real's share issue that was carried out in 2004 were euros 12 million (euros 17 million before taxes), for which amount the company's result for the financial year according to IFRS has been adjusted.

3. Segment information

The accounting principles for the segment information are equal to those of the Group. The segment information is presented based on business segments and geographical segments. The business segments form the Groups primary segments and the geographical segments the secondary segments. The business segments are based on the Group organisational structure. All inter-segment sales are based on market prices and eliminated in consolidation.

Segment assets and liabilities are capital items directly used by the segments in their business operations or items that on reasonable grounds can be allocated to the segments. Unallocated capital items consist of tax and financial items and other common group items. Investments consist of additions of tangible and intangible assets used over a longer period than one year.

Business segments

The business segments of M-real Corporation are:

- Consumer Packaging
- Publishing
- Commercial Printing
- Office Papers
- Map Merchant Group

- **The Consumer Packaging** business area offers paperboards, packaging solutions and related services to carton printers and brand owners in industries such as health- and beauty care, foods, cigarettes and consumer durables. The product range also includes graphic boards, wallpaper base and papers for flexible packaging, labelling and self-adhesive laminates. Consumer Packaging's main market is Europe, although considerable volumes are also delivered to Asia and the USA. M-real is the second largest producer of folding boxboard in Europe.

- **The Publishing** business area provides a range of coated Galerie Papers for magazines, product catalogues, direct mail and sales promotion materials. Galerie Papers offer an excellent reproduction quality, even in very low grammages. Customers include leading publishers, printers and brand owners around the world. Publishing's main market is Europe but considerable volumes are also delivered to the USA and Australia. M-real is the third largest producer of coated magazine paper in Europe.

- **The Commercial Printing** business area produces fine papers for promotional and corporate communications. Products typically produced from Commercial Printing grades include art books, brochures, annual reports, direct mailings, flyers, inserts and leaflets. Customers are primarily merchants, printers, brand owners and publishers. Commercial Printing's main market is Europe. M-real is the second largest European producer of both coated and uncoated fine papers and a major supplier of graphic papers to several European paper merchants.

- **The Office Papers** business area focuses on 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 technology applications. Office Papers aims at meeting the growing need for paper used for communication, mainly in European offices and homes. M-real is the second largest European producer of uncoated fine papers and a major supplier to merchants, office product suppliers and equipment manufacturers, and to paper converters.

- **Map Merchant Group**, the fourth largest merchant group in Europe, comprises 25 individual merchant companies active in 23 countries. The group serves some 50 000 customers throughout Europe, principally printers, publishers, advertising agencies, banks and retail chains. Map supplies M-real's own products as well as papers manufactured by other companies.

  Map's own label products include tom&otto, Symbio and Dito.

Sales by business segment

	2005			2004		
Euros million	External	Internal	Total	External	Internal	Total
Consumer Packaging	849	15	864	1 029	17	1 045
Publishing	773	23	796	781	21	802
Commercial Printing	1 249	239	1 488	1 241	233	1 474
Office Papers	574	130	704	556	111	667
Map Merchant Group	1 384	6	1 390	1 362	6	1 368
Other operations	412	320	732	553	361	914
Elimination		–733	–733		–749	–749
Group	5 241	0	5 241	5 522	0	5 522

Operating profit by business segment

	2005		2004	
Euros million	Operating profit	Return on capital employed, %	Operating profit	Return on capital employed,%
Consumer Packaging	41	4.8	93	10.3
Publishing	14	1.3	12	1.2
Commercial Printing	–62	–4.9	–49	–3.7
Office Papers	–5	–0.5	10	1.3
Map Merchant Group	18	6.0	17	5.6
Other operations	30		–55	
Group	36	1.2	28	0.9
Share of results of associated companies	–2		0	
Finance costs, net	–148		–136	
Income taxes	34		–17	
Profit from discontinued operations	0		173	
Profit for the period	–80		48	

Assets, liabilities and goodwill by business segment

	Assets		Liabilities		Goodwill	
Euros million	2005	2004	2005	2004	2005	2004
Consumer Packaging	1 025	1 091	147	148	46	46
Publishing	1 212	1 245	118	113	55	55
Commercial Printing	1 568	1 607	390	294	207	207
Office Papers	905	940	143	123	193	193
Map Merchant Group	541	545	216	244	67	68
Other operations	924	904	440	558		
Elimination	–320	–337	–320	–337		
Unallocated	472	490	2 877	2 914		
Group	6 327	6 486	4 011	4 057	568	569

Segment assets include goodwill, other intangible assets, tangible assets, biological assets, investments in associated companies, inventories, accounts receivables and prepayment and accrued income (excl. interest and tax items)

Segment liabilities include accounts payable and advance payment and accruals deferred income (excl. interest and tax items)

Capital employed is segment assets less segment liabilities

The formula for calculation of return on capital employed:

Segment: $\dfrac{\text{Operating profit}}{\text{Capital employed (average)}}$

Group: $\dfrac{\text{Profit from continuing operations before tax + interest expenses, net exchange gains/losses and other financial expenses}}{\text{Total assets – non-interest-bearing liabilities (average)}}$

Capital expenditure, depreciation and impairment charges by business segment

	Capital expenditure		Depreciation		Impairment charges	
Euros million	**2005**	2004	**2005**	2004	**2005**	2004
Consumer Packaging	**56**	36	**84**	87	**0**	
Publishing	**36**	30	**84**	89	**0**	
Commercial Printing	**74**	63	**100**	106	**20**	
Office Papers	**25**	35	**62**	62	**0**	
Map Merchant Group	**13**	9	**7**	7	**1**	
Other operations	**248**	72	**44**	40	**1**	1
Group	**452**	245	**381**	391	**22**	1

Geographical segments

The Geographical segments of M-real Corporation are:

Great Britain	Belgium
Germany	Switzerland
France	Austria
Finland	Russia
Italy	Other Europe
Spain	USA
The Netherlands	Asia
Poland	Other countries
Sweden	

Segment sales from external customers by geographical area are based on the geographical location of its customer and segment assets and capital expenditure by geographical location of the assets.

Geographical segments

	External sales by destination		Total external assets by country		Capital expenditure by country	
Euros million	**2005**	2004	**2005**	2004	**2005**	2004
Great Britain	**1 037**	1 080	**391**	431	**13**	6
Germany	**777**	809	**706**	730	**22**	15
France	**370**	386	**271**	309	**17**	8
Finland	**291**	340	**3 230**	3 394	**254**	118
USA	**216**	223	**7**	9	**0**	0
Spain	**193**	209	**32**	34	**0**	1
Italy	**187**	227	**1**	11	**0**	0
The Netherlands	**184**	201	**58**	67	**1**	6
Poland	**175**	163	**35**	33	**0**	1
Sweden	**173**	182	**718**	755	**15**	39
Russia	**129**	95	**82**	11	**21**	0
Belgium	**126**	133	**61**	66	**1**	1
Switzerland	**108**	123	**155**	146	**9**	12
Austria	**97**	104	**290**	286	**25**	19
Other Europe	**630**	601	**135**	137	**1**	2
Asia	**251**	325	**12**	9	**0**	0
Other countries	**297**	322	**144**	58	**73**	17
Total	**5 241**	5 522	**6 327**	6 486	**452**	245

Personnel, average

By business segment	2005	2004
Consumer Packaging	**2 667**	3 082
Publishing	**1 486**	1 526
Commercial Printing	**4 816**	4 963
Office Papers	**1 948**	2 036
Map Merchant Group	**2 515**	2 528
Other operations	**2 146**	2 397
Group	**15 578**	16 532

Personnel at year end

By country	2005	2004
Finland	**4 488**	4 912
Germany	**2 667**	2 873
Great Britain	**1 771**	1 832
Sweden	**1 600**	1 691
Austria	**864**	872
France	**796**	824
Switzerland	**555**	570
Hungary	**522**	543
Belgium	**396**	392
The Netherlands	**327**	342
Poland	**180**	169
Other countries	**988**	940
Group	**15 154**	15 960

4. Discontinued operations and assets classified as held for sale

M-real announced in August 2004 that Group will sell the forest assets in Finland (shares in Foresta Oy, 94.5%). The transaction entered into force in January 2005.

Foresta Oy has been accounted as a discontinued operation and all the assets and liabilities have been classified as held for sale in 2004's income statement and balance sheet.

Forestia Oy, net assets

Euros million	31 Dec 2004
Tangible assets	7
Biological assets	159
Current receivable	0
Liquid assets	0
Total assets	166
Accounts payable and other non-interest bearing liabilities	37
Total liabilities	37
Minority interest	–3
Net assets	126
Sale price	162
Gain on disposal	36

Euros million	2004
Forestia, profit for the period	1 Jan–31 Dec 2004
Income	10
Expenses	–7
Profit before tax	3
Income taxes	–1
Profit after tax	2
Valuation of assets before taxes	–7
Income taxes	0
Profit after tax	–5

Metsä Tissue group has tissue production capacity in Finland, Sweden, Poland and Germany.

M-real sold in January 2004 Tissue business to its parent company Metsäliitto. The sale price was euros 453 million and the after tax gain on disposal was euros 175 million.

Sold assets

Goodwill	79
Other intangible assets	1
Tangible assets	260
Interest bearing receivables	3
Other shares and holdings	1
Deferred tax receivables	8
Inventories	65
Accounts and other non-interest bearing receivables	102
Cash and cash equivalent	19
Total assets	538
Deferred tax liabilities	17
Post employment benefit obligations	3
Provisions	8
Interest bearing non-current liabilities	66
Other non-interest bearing non-current liabilities	2
Interest bearing current liabilities	103
Accounts payable and other non-interest bearing non-current liabilities	84
Total liabilities	283
Net assets	255
Sale price	453
Gain on disposal before tax	197
Taxes	–22
Gain on disposal after tax	175
Cash and cash equivalents received	453
Cash and cash equivalents in subsidiary	–19
Net cash flow arising on disposal	433

5. Other operating income

Euros million	2005	2004
Gains on disposal of fixed assets	103	10
Rental income	5	6
Service revenue	27	16
Government grants	17	4
Other allowances and subsidies	2	2
Other operating income	52	48
Total	206	86

Government grants concern the subsidies of training, healthcare and r&d expenses and energysubsidies.

6. Other operating charges

Euros million	2005	2004
Rents	44	42
Losses on fixed assets disposal	7	1
Other operating charges	837	831
Total	888	874

The research and development costs during the financial period 2005 were euros 24 million (2004: 28).

Main auditors fees	2005	2004
Audit fees	2	2
Tax consultancy	1	1
Other fees	0	1
Total	4	4

The fees paid to PricewaterhouseCoopers are shown in the table above. The audit fees are paid for the audit of the annual and quarterly financial statements for the group reporting purposes as well as the audit of the local statutory financial statements Tax consultancy fees are the fees paid for tax consultancy services and the like.

7. Employee costs

Employee costs	2005	2004
Wages and salaries	577	631
Pension costs	73	62
Other employee costs	206	213
Total	856	906

	2005	2004
Pension costs- defined benefit plans	16	7
Pension cost- defined contribution plans	57	55
Total	73	62

Salaries and emoluments paid to management	2005	2004
Managing directors and their alternates	10	11
Members of the board and deputies	1	0
Total	11	11

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 those who have previously belonged to them.

The management's performance-related and incentive pay scheme is explained in Corporate governance on page 86.

8. Depreciation, amortization and impairment charges

Euros million	2005	2004
Depreciation according to plan		
Intangible rights	29	22
Goodwill	1	0
Other capitalized expenditure	2	2
Land areas	0	0
Buildings	45	48
Machinery and equipment	292	305
Other tangible assets	12	14
Total	381	391
Impairment charges		
Goodwill	2	1
Land and water areas	1	0
Land areas	5	0
Buildings	14	0
Other tangible assets	0	0
Total	22	1

The impairment charges are the write downs of euros 20 million in Pont Sainte Maxence fine paper mill in France.

Euros million	2005	2004

Testing of goodwill for impairment

According to IFRS goodwill amortisation according to plan has been discontinued and replaced with impairment testing. Most recently goodwill has been tested for impairment as of 30 September 2005 during September-November. Previously goodwill was tested for impairment in the IFRS opening balance 1 January 2004 as well at the situation of 30 September 2004.

Testing principles

In accordance with IAS 36 Impairment of Assets, the carrying amount of asset items or so called cash generating units (CGUs) are evaluated for indications of impairment. If there are indications of impairment of an asset item or a CGU or if the carrying amount of a unit includes goodwill or has been allocated goodwill the recoverable amount of the asset item or CGU shall be estimated. The recoverable amount is the value in use based on estimated future cash flows or net selling price. The value in use approach has been adopted in M-real's impairment testing.

The recoverable cash flows of the CGUs are based on 5-year projections and on consequent cash flows growing at a fixed annual growth rate.

The key factors affecting the projections are the development of the average paper and board prices, delivery volumes and capacity utilisation rates, the cost development of key raw materials and other factors of production such as wood, pulp, chemicals and energy as well as the development of personnel costs and other fixed costs. Furthermore the realisation of initiated savings and efficiency boosting measures as well as decided renewal investments have a significant impact on projected cash flows. The most significant renewal investment included in the projected cash flows is the Botnia Uruguay pulp mill which will come on stream in 2007. M-real's 39 per cent share of Botnia's recoverable cash flows and carrying amount is allocated to the CGUs based on their pulp purchases from Botnia.

Of the key assumptions used in the projections the development of paper and board as well as pulp prices are M-real management estimates, which are based on general pulp and paper grade price estimates produced by Jaakko Pöyry Consulting. Euro rates of key currencies are equal to rates quoted at the time of testing. Estimates of other key assumptions are based on the management's assessment for future development.

In the testing as of 30 September 2005 as well as in previous goodwill impairment tests the cash flows consequent to the 5-year projected cash flows are based on a 2 per cent fixed annual growth rate, which corresponds to the realised long term growth of the CGUs and business areas in question. Furthermore, the average values for the key assumptions (price, volume, variable costs) during the projection period has been used as starting point. The starting point for fixed costs is the projected costs for the fifth year.

The discount rate used is M-real's latest determined equity and debt weighted average cost of capital (WACC). Both the future cash flows as well as the discount rate are calculated after tax e.g. the consequent discounted cash flows and values in use are before tax as required in IAS 36. The after tax WACC used in the 30 September 2005 testing is 6.74 per cent. If needed a WACC increased by an additional risk factor has been adopted for units outside Europe.

The goodwill impairment test results are evaluated by comparing the recoverable amount (V) with the carrying amount of the CGU (B) as follows:

Ratio			Estimate	
V	0%	<	B	Impairment
V	0–20%	>	B	Slightly above
V	20–50%	>	B	Clearly above
V	50–%	>	B	Substantially above

The most important CGUs of M-real Group, the goodwill allocated to them [1] as well as their testing result as of 30 September 2005 [2]:

	Goodwill	Test result
Folding boxboard mills	8	Clearly above
Kemiart Liners	3	Substantially above
Kyro Paper	0	Slightly above
Simpele Paper	0	Substantially above
Printers	35	Slightly above
Publishing business area	55	Slightly above
Commercial Printing business area	207	Slightly above
Office Papers business area	193	Clearly above
Map-merchant James McNaughton Ltd	34	Substantially above
Myllykoski Paper Oy 35 per cent holding	19	Substantially above
Other CGUs of Map Merchants	33	
M-real Group total	587[3]	

[1] Euros million
[2] CGUs with allocated goodwill exceeding euros 5 million or with carrying amounts exceeding euros 10 million are included in the table
[3] Includes the goodwill (euros 19 million) of the 35 per cent holding in Myllykoski Paper, which in M-real's consolidated balance sheet is included in "Investments in associated companies".

In the following CGUs a reasonably possible change in a key assumption results in a situation where the carrying amount of the CGU exceeds the recoverable amount. Assumptions to which the recoverable amount of the CGU is most sensitive are listed in the table. When assessing the magnitude of the required change in a key assumption, possible multiplicative effects on other assumptions affecting the recoverable amount or simultaneous changes in other assumptions have not been taken into account:

Cash Generating Unit (CGU)	(1) V – B[1]	(2) Key assumption	(3) Required change in order for V to equal B
Commercial Printing	0	Increasing average price during the 5-year projection period.	No change required.
		EUR 25 million variable and fixed cost savings during 2006–2007 at the Zanders Gohrsmühle mill.	No change required.
		EUR/USD equal to rates quoted at the time of testing.	No change required.
Publishing	60	Increasing average price during the 5-year projection period.	Cumulative increase in average price 2 percentage points lower.
		EUR/USD equal to rates quoted at the time of testing.	EUR/USD 1.33

[1] Euros million.

9. Net finance costs

Euros million	2005	2004
Exchange differences	–33	4
Interest income	24	16
Interest expenses	–123	–146
Dividend income	0	2
Fair value gains and losses on derivative financial instruments	–1	1
Write downs on non-current investments	–4	0
Other financial expenses	–12	–13
Other financial income and expenses	–115	–140
Financial income and expenses, net	–148	–136

10. Income taxes

Euros million	2005	2004
Income taxes for the financial period	30	28
Income taxes for previous periods	1	0
Change in deferred taxes	–65	–11
Other	0	0
Total	–34	17
Income tax reconciliation		
Profit before taxes	–114	–108
Computed tax at Finnish statutory rate of 26%/29%	–30	–31
Difference between Finnish and foreign rates	1	2
Tax exempt income	–29	–28
Non-deductible expenses	6	13
Previous years tax losses used during the period	–1	
Tax losses with no tax benefit	19	61
Other	0	0
Income tax expense	–34	17
Effective tax rate, %	30.0	–16.1

11. Earning per share

	2005	2004
Profit from continuing operations	–81	–128
Profit from discontinued operations	0	173
Distributable profit for the period	–81	45
Adjusted number of shares (average) in thousands	328 166	241 989
Earnings per share, euro		
From continuing operations	–0.25	–0.53
From discontinued operations	0.00	0.72
Total	–0.25	0.19

12. Intangible and tangible assets

Intangible assets,

Euros million 2005	Goodwill	Intangible rights	Other capitalized expenditure	Construction in progress	Total
Acquisition costs, 1 Jan 2005	868	155	38	1	1 062
Translation difference	0	0	0		0
Increase	2	32	12	0	46
Decrease	–1	–6	–3	0	–10
Transfers between items	0	2	1	–1	2
Acquisition costs, 31 Dec 2005	869	183	48	1	1 100
Accumulated depreciation, 1 Jan 2005	–299	–88	–32	0	–419
Translation difference	0	0	0		0
Accumulated depreciation on deduction and transfers	1	4	2		7
Depreciation for the period	–1	–29	–2		–32
Impairment charges	–2				–2
Accumulated depreciation, 31 Dec 2005	–301	–113	–32	0	–446
Book value, 1 Jan 2005	569	67	6	1	643
Book value, 31 Dec 2005	568	70	16	0	654
2004					
Acquisition costs, 1 Jan 2004	868	132	41	5	1 046
Translation difference	0	0	0	0	0
Increase	0	24	1	0	25
Decrease	0	–5	–4	0	–9
Transfers between items		4		–4	0
Acquisition costs, 31 Dec 2004	868	155	38	1	1 062
Accumulated depreciation, 1 Jan 2004	–301	–67	–32		–400
Translation difference	0	0	0		0
Accumulated depreciation on deduction and transfers	3	1	2		6
Depreciation for the period	0	–22	–2		–24
Impairment charges	–1				–1
Accumulated depreciation, 31 Dec 2004	–299	–88	–32	0	–419
Book value, 1 Jan 2004	567	65	9	5	646
Book value, 31 Dec 2004	569	67	6	1	643

The fair value of emission rights in intangible rights was on 31 December euros 37 million.

Tangible assets,
Euros million

2005	Land and water areas	Buildings	Machinery and equipment	Other tangible assets	Construction in progress	Total
Acquisition costs, 1 Jan 2005	186	1 307	5 710	178	102	7 483
Translation difference	4	–4	–33	–1	2	–32
Increase	15	20	251	5	103	394
Decrease	–4	–11	–192	–13	–11	–231
Transfers between items	1	30	56	1	–77	11
Acquisition costs, 31 Dec 2005	202	1 342	5 792	170	119	7 625
Accumulated depreciation, 1 Jan 2005	–4	–621	–3 502	–100	0	–4 227
Translation difference		3	16	0		19
Accumulated depreciation on deduction and transfers	0	13	105	11		129
Depreciation for the period	0	–45	–292	–12		–349
Impairment charges and reversed impairment charges	–1	–5	–14	0		–20
Accumulated depreciation and impairment charges, 31 Dec 2005	–5	–655	–3 686	–101	0	–4 447
Book value, 1 Jan 2005	182	686	2 208	78	102	3 256
Book value, 31 Dec 2005	197	687	2 106	69	119	3 178

The impairment charges are the write downs of euros 20 million in Pont Sainte Maxence fine paper mill in France.

Tangible assets include assets acquired under finance lease agreements

	Land areas	Buildings	Machinery and equipment	Total
Acquisition costs	0	4	173	177
Accumulated depreciation	0	–1	–79	–80
Book value, 31 Dec 2005	0	3	94	97
Book value, 31 Dec 2004	0	3	108	111

2004	Land and water areas	Buildings	Machinery and equipment	Other tangible assets	Construction in progress	Total
Acquisition costs, 1 Jan 2004	185	1 335	5 592	150	53	7 315
Translation difference	–2	1	9	0	0	8
Increase	12	10	121	31	100	273
Decrease	–9	–40	–35	–7	–10	–101
Transfers between items	0	1	23	4	–41	–13
Acquisition costs, 31 Dec 2004	186	1 307	5 710	178	102	7 483
Accumulated depreciation, 1 Jan 2004	–4	–589	–3 223	–87		–3 903
Translation difference	0	–1	–5	0		–6
Accumulated depreciation on deduction and transfers	0	17	31	1		49
Depreciation for the period	0	–48	–305	–14		–367
Impairment charges and reversed impairment charges						0
Accumulated depreciation and impairment charges, 31 Dec 2004	–4	–621	–3 502	–100		–4 227
Book value, 1 Jan 2004	181	746	2 369	63	53	3 411
Book value, 31 Dec 2004	182	686	2 208	78	102	3 256

The capitalization of interest expenses in 2005 was euros 3 million (2004 0.5). The average interest rate of 3.87% (2004: 3.1%) represents the costs of the loan used to finance the projects.

Euros million	2005	2004

13. Biological assets

Initially biological assets, forest assets, have been recognised at cost . According to IFRS the forest assets have been recognised at fair value. The change in fair value will be recognised yearly as income/cost in income statement. M-real has forest assets in Finland and in Uruguay.

At 1 Jan	30	192
Purchases during the period	4	4
Sales during the period	–5	0
Transfer of Forestia's assets to assets as held for sale	–	–159
Harvested during the period	–10	–16
Gains and losses arising from changes in fair values	13	11
Translation differences	4	–2
At 31 Dec	36	30

14. Investments in associated companies

At 1 Jan	77	86
Share of results in associated companies	–2	0
Dividend received	–3	–7
Increases	1	27
Decreases	–1	–29
Translation differences	0	0
At 31 Dec	72	77

Unamortized amount of goodwill for associated companies at 31 Dec 2005 was euros 26 million (2004: 26)

Biggest associated companies in 2005

Euros million	Country	Assets	Liabilities	Sales	Gain/loss	Group holding (%)
Kirkniemen Kartano	Finland	8	0	1	0	48
MMM Logisware Oy	Finland	1	1	0	0	50
Myllykoski Paper Oy	Finland	261	153	270	–8	35
Plastirol Oy	Finland	18	7	19	1	39
Other		6	2	12	1	
Total		294	163	302	–6	

None of the associated companies were listed.

Euros million	2005	2004
Transactions and balances with associated companies		
Sales	0	1
Purchases	260	268
Interest income	0	1
Interest expenses	1	2
Receivables		
Non-current	19	4
Current	31	15
Liabilities	53	86

Include also non-eliminated receivables and liabilities in joint ventures Botnia, Äänevoima and Grovehurst Energy.

15. Available for sale investments

At 1 Jan	18	17
Increases	0	0
Decreases	0	0
Changes in fair values	0	1
At 31 Dec	18	18
Shares in other companies	42	50
Total	60	68

Available for sale investments are mainly listed bonds recognised at fair value.

Shares in Pohjolan Voima Oy (euros 34 million) and shares in real estate and housing companies (euros 2 million) are the major investments in shares in other companies. These shares are carried at cost less any impairment losses.

16. Non-current receivables

Interest bearing non-current receivables		
Loans to Group companies	1	1
Loans to associated companies	19	15
Other loan receivables	8	9
	28	25
Other non-interest bearing non-current receivables		
Loans to Group companies	14	3
Loans to associated companies	0	0
Other loan receivables	9	6
	23	9

Loans to Group companies are loans granted to parent company Metsäliitto and to other subsidiaries of Metsäliitto.

17. Deferred taxes

Reconciliation of deferred tax assets and liabilities during the period in 2005

Euros million	As at 1 Jan 2005	Charged in income statement	Acquisition/ disposals	Translation differences	Charged to equity	As at 31 Dec 2005
Deferred tax assets						
Consolidation entries					1	1
Tax losses and other temporary differences	105	–5	–2	0		98
Deferred tax assets, total	105	–5	–2	0	1	99
Netting against liabilities	–66	1			–1	–66
Deferred tax assets in Balance sheet	39	–4	–2	0	0	33
Deferred tax liabilities						
Appropriations	321	–15	–10	–3		293
Consolidation entries	27	–1				26
Temporary differences	103	–54	31		3	83
Deferred tax liabilities, total	451	–70	21	–3	3	402
Netting against assets	–66	1			–1	–66
Deferred tax liabilities in Balance sheet	385	–69	21	–3	2	336
Deferred tax liabilities, net	–346	65	–23	3	–2	–303

Reconciliation of deferred tax assets and liabilities during the period in 2004

Euros million	As at 1 Jan 2004	Charged in income statement	Acquisition/ disposals	Transla- tions differences	Charged to equity	As at 31 Dec 2004
Deferred tax assets						
Consolidation entries						
Tax losses and other temporary differences	90	15	0	0		105
Deferred tax assets, total	90	15	0	0	0	105
Netting against liabilities	–52	–14		0		–66
Deferred tax assets in Balance sheet	38	1	0	0		39
Deferred tax liabilities						
Appropriations	353	–20	–12	0		321
Consolidation entries	28	–1				27
Temporary differences	111	20	–28	0		103
Deferred tax liabilities, total	492	–1	–40	0	0	451
Netting against assets	–52	–14				–66
Deferred tax liabilities in Balance sheet	440	–15	–40	0		385
Deferred tax liabilities, net	–402	16	40	0	0	–346

At 31 December 2005 the net operating loss carry-forwards mainly in Germany, France and The United Kingdom amounted to euros 978 million. The operating loss carry-forwards for which deferred tax assets have not been recognised due to uncertainty of the utilization of these loss carry-forwards amounted to euros 854 million. These loss carry-forwards do not expiry. The deferred tax assets for these non recognised loss carry-forwards amounted to euros 251 million.

18. Inventories

Euros million	2005	2004
Raw materials and consumables	242	240
Work in progress	50	52
Finished goods and goods for sale	428	413
Advance payments	29	21
Total	749	726

There are no substantial write-downs of inventories to net realisable value.

19. Current receivables

Euros million	2005	2004
Interest bearing current receivables		
Loans to Group companies	165	33
Loans to associated companies	2	4
Other loan receivables	0	1
	167	38
Accounts receivables and other non-interest bearing receivables		
From group companies		
Accounts receivables	2	7
Loan receivables	0	0
Other receivables	1	0
Prepayment and accrued income	13	7
	16	14
From associated companies		
Accounts receivables	22	3
Loan receivables	5	0
Other receivables	0	0
Prepayment and accrued income	2	0
	29	3
From others		
Accounts receivables	961	927
Loan receivables	0	0
Other receivables	99	107
Prepayment and accrued income	110	116
	1 170	1 150
Non-current non-interest-bearing receivables	1 215	1 166

Receivables from Group companies are receivables from parent company Metsäliitto and other subsidiaries of Metsäliitto. 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.

Doubtful accounts receivables

Accounts receivables are recorded net of the following allowances for doubtful accounts:

Euros million	2005	2004
At 1 Jan	13	17
Increases	5	2
Decreases	–3	–6
At 31 Dec	15	13

Prepayment and accrued income

Euros million	2005	2004
Non-current		
Interest	18	24
Insurance	6	4
Taxes	54	53
Others	32	35
Total	110	116

20. Cash and cash equivalents

Euros million	2005	2004
Current investments	6	128
Cash at bank and in hand	106	114
Total	112	242

Current investments are certificates of deposits and time deposits with original maturities less than three months.

21. Shareholder's equity

Changes in share capital,

euros million	Share capital Series A	Series B	Share premium account	Total
At 1 Jan 2004	62	242	473	777
Rights issue		254	194	448
At 31 Dec 2004	62	496	667	1 225
2005 no changes				
At 31 Dec 2005	62	496	667	1 225

Euros million	2005	2004

Number of shares

	Series A	Series B	Total
At 1 Jan 2004	36 340 550	142 658 875	178 999 425
Rights issue		149 166 187	149 166 187
At 31 Dec 2004	36 340 550	291 825 062	328 165 612
2005	–1 000	+1 000	
At 31 Dec 2005	36 339 550	291 826 062	328 165 612

The number of shares may not be more than 600 000 000 (2004: 600 000 000). All shares have a nominal value of euros 1.70. The company's issued share capital may not be more than euros 156 020 million (2004: 1 020). All shares are paid-in.

Fair value and other reserves		
Fair value reserve	–2	0
Legal reseve and reserves stipulated by the Articles of Association	2	2
Total	0	2

Distributable funds		
Reatined earnings	940	1 167
Untaxed reserves in shareholders' equity	–515	–551
Other undistributable items	–23	–23
Distributable funds	402	593

Untaxed reserves		
Accumulated depreciation difference	889	955
Deferred tax liability in untaxed reserves	–243	–261
	646	694
Minority interest in untaxed reserves	–3	0
	643	694
Reserves at the date of acquisition	–128	–143
Untaxed reserves in shareholders' equity	515	551

22. Post employment benefits

M-real operates a number of defined benefit pension plans and defined contribution plans.

The most significant pension plan in Finland is the statutory Finnish employee pension scheme (TEL) according to which benefits are linked directly to the employee's earnings. The disability pensions arranged with insurance companies has changed from defined benefit to a defined contribution plan beginning from 1 January 2006. In the opening balance 1 January 2004 part of the disability pension has been accounted as defined benefit plan. This portion has been cancelled during 2005.

In Finland there are pension schemes which are funded by contributors to insured schemes or to Metsäliitto Employees' Pension Foundation. The Metsäliitto Employees' Pension Foundation scheme is a defined benefit plan.

Pension plans outside Finland are both defined benefit and defined contribution plans.

Euros million	2005	2004
Pension and other post-employment benefits		
Defined benefit pension plans	188	192
Defined contribution pension plans	24	24
Overfunded plan shown as asset	–1	0
Toatl liability in balance sheet	211	216

Defined benefit pension plans

The amounts recognised in the balance sheet		
Present value of funded obligations	532	433
Present value of unfunded obligations	150	109
Fair value of plan assets	–471	–345
Unrecognised acturial gains and losses	–10	–5
Unrecognised prior service cost	0	
Effect of curtailment	–13	0
Total liability	188	192

The amount recognised in the income statement		
Current service cost	12	8
Interest cost	29	22
Expected return on plan assets	–22	–16
Net actuarial losses (gains) recognised in year	1	2
Settlements		0
Profit/loss curtailment	–4	–9
Total included in employee costs	16	7

Euros million	2005	2004
Balance sheet reconciliation		
Net liability at 1 Jan	192	204
Translation differences	2	0
Net expenses recognised in the income statement	16	7
Contribution paid	–22	–22
Settlements	–1	2
Net liability at 31 Dec	187	192

The principal actuarial assumptions used:	2005	2004
Finland		
Discount rate %	5.0	5.0
Expected return on plan assets %	5.0	5.0
Future salary increases %	2.0	3.5
Future pension increases %	1.8	2.3
Expected average remaining working years of staff	3	13
UK		
Discount rate %	4.75	5.4
Expected return on plan assets %	5.75	6.4
Future salary increases %	4.0	4.0
Future pension increases %	3.0	3.0
Expected average remaining working years of staff	16	
Germany		
Discount rate %	4.0	4.5
Expected return on plan assets %	n/a	n/a
Future salary increases %	3.0	2.5
Future pension increases %	2.0	2.5
Expected average remaining working years of staff	n/a	n/a
Switzerland		
Discount rate %	3.0	3.8
Expected return on plan assets %	4.25	4.8
Future salary increases %	1.5	2.0
Future pension increases %	0.5	1.0
Expected average remaining working years of staff	13.8	14
Austria		
Discount rate %	4.0	4.5
Expected return on plan assets %	n/a	n/a
Future salary increases %	2.5	2.5
Future pension increases %	n/a	n/a
Expected average remaining working years of staff	n/a	n/a

Euros million

23. Provisions

	Restructuring	Environmental obligations	Other provisions	Total
At 1 Jan 2005	20	7	9	36
Translation differences	0	0	0	0
Increases	25	0	16	41
Decreases	–6	–2	–4	–12
Unused amounts reversed	–3	0	0	–3
At 31 Dec 2005	36	5	21	62

The most significant restructuring was efficiency-boosting programme in Sweden, which increased the amount of provision by euros 15 million. There was restructuring in Zanders (9 million) and in Pont Sainte Maxence mill (4 million), too.

24. Interest-bearing liabilities

	2005 Book values	2005 Fair values	2004 Book values
Non-current interest-bearing liabilities			
Bonds	720	714	874
Loans from financial institutions	918	916	493
Pension loans	81	78	97
Finance lease liabilities	106	104	124
Other liabilities	52	52	52
Total	1 877	1 864	1 640
Current interest-bearing liabilities			
Current portion of long-term debt	220	220	187
Short-term loans	67	67	47
Bill of exchange payable	14	14	14
Other liabilities	351	351	618
Total	652	652	866

Fair values are based on present value of each loan's cash flow calculated by market rate. The discount rates applied are between 2.5–9.2%.

Of interest interest-bearing liabilities 61 per cent is subject to variable rates and the rest to fixed rates. The average interest rate of interest bearing liabilities at the end of 2005 is 4.3 per cent.

M-real has invested euros 104 million to its own bonds, which has been eliminated out of the Group's interest-bearing liabilities.

Euros million	2005	2004
Interest-bearing liabilities		
Non-current interest-bearing liabilities	1 877	1 640
Current interest-bearing liabilities	652	866
	2 529	2 506
Interest bearing non-current receivables	28	25
Available for sale investments	18	18
Interest bearing current receivables	167	38
Cash and cash equivalents	112	242
Interest bearing receivables, total	325	323
Interest-bearing net liabilities	2 205	2 183

Maturity of non-current interest-bearing liabilities

Euros million	Bonds	Loans form financial institutions	Pension loans	Finance lease liabilities	Other liabilities	Total
2006	172	14	16	16	2	220
2007	36	323	16	15	1	391
2008	206	56	16	15	1	294
2009	182	309	16	15	0	522
2010–	0	56	32	14	0	102
2011–	296	174	1	47	50	568
Total	892	932	97	122	54	2 097

Current portion of long-term debt	220
Non-current interest-bearing liabilities	1 877

Euros million		2005	2004
Bonds	Interest-%		
1999–2006	4.88	103	121
1999–2005	2.68		35
2000–2005	2.91		6
2000–2005	2.86		5
2000–2007	3.03	35	35
2000–2008	3.00	18	18
2001–2006	4.00	4	4
2001–2006	3.74	9	7
2001–2006	3.85	8	7
2001–2006	3.54	11	12
2001–2006	3.87	15	15
2002–2005	6.29		16
2002–2005	3.75		4
2002–2005	7.25		33
2002–2005	7.21		33
2002–2009	8.89	113	101
2002–2012	9.20	112	112
2002–2014	9.40	131	131
2003–2006	5.24	23	23
2003–2008	4.31	99	98
2003–2008	4.08	20	20
2004–2008	4.32	49	49
2004–2009	4.42	30	30
2004–2009	5.91	40	40
2004–2011	4.48	30	30
2004–2011	4.65	10	10
2004–2011	4.73	12	12
2005–2008	5.09	3	
2005–2008	5.60	17	
		892	1 007

Maturity of finance lease liabilities

	Minimum lease payments		The present value of minimum lease payment	
Euros million	2005	2004	2005	2004
Not later than 1 year	20	21	16	15
1–2 years	19	21	15	17
2–3 years	18	19	15	15
3–4 years	17	18	15	15
4–5 years	15	17	14	15
Later than 5 years	50	68	47	62
	139	164	122	139
Future finance charges	17	25		
The present value of minimum lease payments	122	139		

The most significant finance lease agreement are power plant in Kirkniemi mill and Äänevoima Oy's power plants. The contract period in Kirkniemi was initially 15 years and Äänevoima's contract periods vary between 10 and 15 years. All finance lease liabilities will be due in 2017 at the latest. These leases contain renewal and purchase options.

25. Other non-current non-interest bearing liabilities

Euros million	2005	2004
Liabilities to Group companies	1	0
Liabilities to associated companies	0	0
Liabilities to others		
Accruals and deferred income	16	10
Other liabilities	43	5
Other non-current liabilities, total	60	15

Liabilities to Group companies are liabilities to parent company Metsäliitto and other subsidiaries of Metsäliitto.

26. Accounts payable and other non-interest bearing current liabilities

Euros million	2005	2004
Liabilities to Group companies		
Advance payments	0	0
Accounts payable	9	24
Other current liabilities	19	17
Liabilities to associated companies		
Advance payments	0	0
Accounts payable	36	3
Other current liabilities	1	6
Liabilities to others		
Advance payments	4	1
Accounts payable	310	302
Other current liabilities	118	166
Accruals and deferred income	316	342
Non-interest bearing current liabilities, total	813	861

Liabilities to Group companies are liabilities to parent company Metsäliitto and other subsidiaries of Metsäliitto.

27. Accruals and deferred income

Euros million	2005	2004
Non-current		
Periodizations of employee costs	9	7
Accruals for compensation of rights to use	3	0
Periodizations of waste water expenses	4	1
Compensation and contribution commitments	0	1
Others	0	1
Total	16	10
Current		
Periodizations of employee costs	74	98
Interests	37	46
Accruals of purchases	68	61
Tax periodization	8	22
Others	129	115
Total	316	342

28. Derivatives

Euros million	Nominal value	Fair value				
		Total	Fair value hedges	Cash flow hedges	Equity hedges	Derivates/ hedge accouning not applied
2005						
Interest forward agreements	2 030	–1				–1
Interest rate options	2 140	0				–0
Interest rate swaps	3 246	–7	0	0		–7
Interest rate derivatives	**7 416**	**–8**	**0**	**0**	**0**	**–8**
Currency forward agreements	4 294	–7		–3	–5	1
Currency option agreements	854	0			0	0
Currency swap agreements	216	–25	–25			
Currency derivatives	**5 364**	**–32**	**–25**	**–3**	**–5**	**1**
Commodity forward agreements	54	2				2
Commodity options agreements	0	0				0
Commodity derivatives	**54**	**2**	**0**	**0**	**0**	**2**
Derivatives total	**12 834**	**–38**	**–25**	**–3**	**–5**	**–5**
2004						
Interest forward agreements	6 339	0				–0
Interest rate options	5 420	–1				–1
Interest rate swaps	3 505	–17	–1			–16
Interest rate derivatives	**15 264**	**–18**	**–1**	**0**	**0**	**–17**
Currency forward agreements	4 341	12			6	6
Currency option agreements	2 080	7			0	7
Currency swap agreements	220	–29	–29			
Currency derivatives	**6 641**	**–9**	**–29**	**0**	**6**	**13**
Commodity forward agreements	9	–1				–1
Commodity options agreements	0	0				0
Commodity derivatives	9	–1	0	0	0	–1
Derivatives total	**21 914**	**–29**	**–30**	**0**	**6**	**–5**

29. The principal subsidiaries 31 Dec. 2005

	Country	Group's holding, %	Number of shares
Shares and participations owned by the same group			
Metsäliitto Osuuskunta	Finland		179 171
Shares in subsidiaries			
In Finland			
Alakoski Oy	Finland	52.78	5 278
Oy Board International Ab	Finland	100.00	796
Oy Hangö Stevedoring Ab	Finland	100.00	150
M-real International Oy	Finland	100.00	10 000
M-real Tissue Oy	Finland	100.00	101
Metsä Group Financial Services Oy	Finland	51.00	25 500
Kemiartliners Oy	Finland	100.00	2 000 000
Takon Kotelotehdas Oy	Finland	100.00	330 001
In other countries			
M-real Deutsche holding GmbH	Germany	100.00	
M-real Fine B.V.	The Netherlands	100.00	1 000
M-real Holding France SAS	France	100.00	520 000
M-real IBP Deals Americas Ltd	USA	100.00	50
M-real IBP Deals Europe S.A.	Belgium	100.00	999
M-real NL Holding B.V.	The Netherlands	100.00	15 350
M-real Petöfi Ltd	Hungary	100.00	1
M-real Reinsurance AG	Switzerland	100.00	19 997
M-real Sverige AB	Sweden	100.00	10 000 000
M-real Service S.p. Z.o.o	Poland	100.00	400
M-real UK Holdings Ltd	Great Britain	100.00	146 750 000
M-real Meulemans S.A.	Belgium	100.00	1
Map Merchant Holdings B.V.	The Netherlands	100.00	6 000
Price & Pierce Holdings B.V.	The Netherlands	100.00	40

	Country	Group's holding, %	Number of shares
Subgroups in Finland			
M-real International Oy			
BFT-Baltic Forest Terminals Ltd	Poland	100.00	232
M-real Benelux B.V.	The Netherlands	100.00	2 000
M-real Benelux n.v./s.a	Belgium	100.00	2 921
M-real CZ, s.r.o.	Czech Republic	100.00	
M-real Deutschland GmbH	Germany	100.00	1
M-real France S.A.	France	100.00	8 211
M-real Hellas Ltd	Greece	51.00	306
M-real Hong Kong Ltd	Hong Kong	100.00	100
M-real Shanghai Ltd	China	100.00	
M-real Ibéria S.A.	Spain	100.00	147 871
M-real Ibèrica Lda	Portugal	100.00	5
M-real Ireland Ltd	Ireland	100.00	5 000
M-real Italia s.r.l.	Italy	100.00	100 000
Nihon M-real KK	Japan	100.00	200
M-real Kft	Hungary	100.00	30
M-real (Middle East & North Africa) Ltd	Cyprus	100.00	742 105
M-real Polska Sp. Z o.o.	Poland	100.00	232
M-real Nordic A/S	Denmark	100.00	36
M-real Nordic AB	Sweden	100.00	1 000
M-real Schweiz AG	Singapore	100.00	10 000
M-real Singapore Pte Ltd	Slovakia	100.00	
M-real Slovakia, S.r.o.	Switzerland	100.00	100
M-real UK Ltd	Great Britain	100.00	2 400
M-real USA Corporation	USA	100.00	180

	Country	Group's holding, %	Number of shares
Subgroups in other countries			
M-real Sverige AB			
Örnsköldsviks Stuveri AB	Sweden	100.00	5 400
M-real Logistics GmbH	Germany	100.00	
M-real Holding France SAS			
M-real Alizay SAS	France	100.00	5 015 710
M-real Alizay SNC	France	100.00	39 999 999
M-real PSM SA	France	100.00	1 502 495
M-real Deutsche Holding GmbH			
CN Papiervertriebs GmbH	Germany	85.00	
M-real Zanders GmbH	Germany	100.00	2 800 000
M-real New Jersey Service Co.	USA	100.00	
Zanders Fine Papers Ltd	Great Britain	100.00	
M-real Stockstadt GmbH	Germany	100.00	5
Chemische Werke Zell-Wildshausen GmbH	Germany	100.00	
M-real Hallein AG	Austria	100.00	70
Map Merchant Holdings BV			
Map Suomi Oy	Finland	100.00	5 600
Grafisch Papier B.V.	The Netherlands	100.00	570
Printec B.V.	The Netherlands	100.00	80
Uniepapier Flevoland B.V.	The Netherlands	51.00	400
Uniepapier Zwolle B.V.	The Netherlands	51.00	400
Uniepapier Randstad B.V.	The Netherlands	51.00	400
GPG Papier N.V.	Belgium	100.00	300 000
Map Merchant Group Ltd.	Great Britain	100.00	95 015 743
Hedsor Ltd.	Great Britain	100.00	495 000
James McNaughton Paper Group Ltd.	Great Britain	100.00	10 000 000
James McNaughton Paper Merchants Ltd.	Great Britain	100.00	75 000
James McNaughton Agencies Ltd.	Great Britain	100.00	40 000
McNaughton Publishing Papers Ltd.	Great Britain	100.00	100
McNaughton Paper Ireland Ltd.	Ireland	98.90	157 135
McNaughton Paper Ireland Manufacturing Ltd.	Ireland	98.90	1 000
McNaughton Paper N.I Ltd	Great Britain	98.80	1 060
Printall Display Ltd.	Great Britain	100.00	50 000
County Paper Company Ltd.	Great Britain	100.00	182
Carefree Paper Company Ltd.	Great Britain	100.00	100

	Country	Group's holding, %	Number of shares
Brian J. Small (Paper) Ltd.	Great Britain	100.00	52 185
Ingram Group Ltd.	Great Britain	100.00	50 000
Paper Management Services Ltd	Great Britain	100.00	2
OnForm Reels Ltd.	Great Britain	100.00	150 000
Premier Paper Group Ltd.	Great Britain	100.00	10 000 001
Map Merchant Holdings GmbH	Germany	100.00	40
Concord Papier EOOD	Bulgaria	55.00	11
PVV Deutschland GmbH	Germany	100.00	18 000
IT-Papier	Austria	100.00	32 200
ECCO-Papier Spolka z oo	Poland	100.00	17 524
Map Denmark A/S	Denmark	100.00	48 000
ECCO Hungaria Kft.	Hungary	100.00	
Map Merchant Romania s.rl.	Romania	88.00	1 584
Interpapir d.o.o.	Slovenia	100.00	
ECCO Paper CZ s.r.o.	Czech Republic	100.00	
ECCO Paper SK s.r.o. Ruzomberok / Slowakei	Slovakia	100.00	
MODO PAPER d.o.o.	Croatia	100.00	
Map Merchant Sweden Ab	Sweden	100.00	19 000
ZAO Modo Paper Moscow	Russia	100.00	500
Map Eesti AS	Estonia	100.00	8 491
Map Latvia AS	Latvia	100.00	2 101 605
Modo Paper Lietuva	Lithuania	100.00	36 980
Oy Map Merchant Ab	Finland	100.00	500
UAB Map Lietuva	Lithuania	100.00	20 000
Map Sverige AB	Ukraine	100.00	400 000 00
Map Norge AS	Sweden	100.00	10 000
Map Ukraine	Norway	100.00	
Modo Paper Distribucion S.A.	Spain	100.00	225 114
Modo van Gelder BV	The Netherlands	100.00	40
Metsä Group Schweiz AG			
M-real Schweiz AG	Switzerland	100.00	100
M-real IBP Deals Europe S.A.			
M-real Meulemans	Belgium	100.00	1 599
M-real NL Holding B.V			
M-real IBP Deals (China) Ltd	China	100.00	
M-real Biberist	Switzerland	100.00	10 000
M-real IBP HK Ltd	Hong Kong	99.00	
M-real Winschoten B.V.	The Netherlands	100.00	3 000
M-real UK Holdings Ltd			
M-real New Thames Ltd	Great Britain	100.00	88 000 000
M-real Sittingbourne Ltd	Great Britain	100.00	95 800 001

30. Joint ventures

Euros million	2005	2004

Joint ventures have been consolidated using line-by-line method proportionate to the M-real Group's holding. Group's consolidated Income statement and Balance sheet included assets, liabilities, income and costs as follows:

Non-current assets	517	541
Current assets	170	226
Assets total	687	767
Non-current liabilities	141	166
Current liabilities	85	75
Liabilities total	226	241
Sales	435	543
Expenses	399	476
The profit	22	50

Significant joint-ventures:	Group's holding, %	Group's holding, %
Oy Metsä Botnia Ab	39.0%	47.0%
Äänevoima Oy	56.25%	56.25%
Grovehurst Energy Ltd	50.0%	50.0%

31. Contingent liabilities

Euros million	2005	2004
For own liabilities		
Liabilities secured by pledges		
Loans from financial institutions	4	
Pledges granted	4	1
Liabilities secured by mortgages		
Loans from financial institutions	104	132
Other liabilities	5	7
Real-estate mortgages	87	140
On behalf of affiliated companies		
Real estate mortgages	4	4
Guarantee liabilities	1	1
On behalf of associated companies		
Guarantee liabilities	1	1
On behalf of others		
Guarantee liabilities	9	10
Other liabilities		
As security for own commitments		0
As security for other commitments	1	1
Pledges	4	1
Real estate mortgages	90	144
Guarantees	12	12
Promissory notes	0	
Other liabilities	1	2
Leasing liabilities	17	19
Total	124	178

Leasing liabilities

The future costs for contracts exceeding 12 months and for non-cancellable operating leasing contracts are as follows:

Payments due		
in following 12 months	6	8
in following 1–5 years	10	11
later than 5 years	1	0
	17	19

Operational lease charges were euros 23 million (2004: 27).

Unconditional purchase agreement		
Fixed assets		
Payments due		
in following 12 months	8	0
Payments due later	11	11
Other purchases		
Payments due		
in following 12 months	2	1
Payments due later	3	1

Joint ventures

Proportionate interest in Botnia's unconditional purchase agreement, fixed assets, was eur 0 million (2004: 2).

On May 25 2004, the EU Comission's competition authorities made a visit of inspection at M-real's offices. The visit was connected to the competition authorities' investigations into alleged cooperation with producers of fine paper in the fine paper segment. Class action related to the matter have been brought against M-real in The United States.

32. Related party transactions

M-real's ultimate parent company is Metsäliitto Cooperative. At 31 December 2005 Metsäliitto owned 38.6% of M-real's shares and 60.5% of the voting rights.

The significant other subsidiaries of Metsäliitto with whom M-real had business activities are as follows:

Finnforest Group
Metsä Tissue Group
Thomesto Group

Transactions with these companies are presented in the table below.

The principal subsidiaries of M-real are listed in the note 29.

M-real owns 39% and Metsäliitto 14% of the shares in Botnia. Botnia has been consolidated using line-by-line method proportionate to the M-real's and Metsäliitto's holding. Botnia purchases most of the wood used in production from Metsäliitto. The total wood purchases from Metsäliitto were Eur 266 million in 2005 (2004: 250). The price was market price.

Botnia sells pulp to Metsä Tissue, M-real's sister company, at market price. Metsä Finance Oy owned by M-real (51%) and Metsäliitto (49%) is group's internal bank. The interests are market based.

	Transactions with parent company		Transactions with sister companies	
Sales	1	8	19	31
Other operating income	1	1	1	3
Purchases	266	250	194	171
Interest income	3	0	7	7
Interest expenses	8	11	4	0
Receivables				
Non-current receivables	21	0	8	18
Current receivables	126	0	55	7
Liabilities				
Non-current liabilities	1	0	0	0
Current liabilities	231	328	28	28

Euros million	2005	2004

There are no doubtful receivables in the receivables from group companies. And no bad debt was recognised during the period. No security has been given for group liabilities.

The compensations paid to management are presented in the note 7.

The parent company has no commitments on behalf of management nor receivables from management.

Transactions with associated companies are presented in the note 14 Joint ventures are presented in the note 30.

33. Environmental affairs

	2005	2004
Income statement		
Materials and services	26	26
Employee costs		
Wages and fees	5	6
Other employee costs	2	2
Depreciation	17	17
Other operating expenses	11	16
	61	67
Balance sheet		
Tangible assets		
Acquistion costs, 1 Jan	490	443
Increases	37	59
Decreases	–26	–12
Depreciation	–284	–277
Book value, 31 Dec	217	213
Provisions		
Environmental obligations	5	7
Conditional environmental-related liabilities	0	1

Shares and shareholders

Share capital and shares at 31 December 2005

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. The number of Series A shares was 36 339 550 and the number of Series B shares 291 826 062. 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. M-real's A-shares can be converted to B-shares if shareholder or representative of the nominee registered shares makes a written request of the conversion to the company. The conversion does not include pecuniary consideration.

Stock Exchange listings and share price development

M-real's Series A and Series B shares are listed on the Helsinki Stock Exchange. The trading lot for both series is 200 shares. The highest price of M-real's Series B on Helsinki Stock Exchange during the financial year was euros 4.93 and the lowest price euros 3.82. The average share price was euros 4.36. In 2004 the average share price was euros 5.59. The price of the Series B share was euros 4.22 at the end of the financial year on 31 December 2005. Turnover of the series B share was euros 1161 million, or 91 per cent of the shares outstanding. The market capitalization of the Series A and B shares at 31 December 2005 totaled euros 1386 million.

At 31 December 2005 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 32.2 per cent of the shares.

Directors' interest

Shareholdings of the Board of directors are presented on pages 88–89 and the shareholdings of the management on pages 90–91.

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 to 31 December 2005

		Number of shares	Share capital, euros 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		
	Share capital, 31 Dec 2002	178 999 425	304.3
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
2005	No changes		
	Share capital, 31 Dec 2005	328 165 612	557.9

Breakdown of shareholders 31 December 2005

M-real A share

Number of shares	Number of shareholders	%	Total number of shares	%	Number of votes	%
1–10	83	2.84	603	0.00	12 060	0.00
11–50	236	8.09	8 136	0.02	162 720	0.02
51–100	334	11.45	28 036	0.08	560 720	0.08
101–500	1 319	45.20	401 129	1.10	8 022 580	1.10
501–1 000	472	16.18	392 858	1.08	7 857 160	1.08
1 001–5 000	411	14.09	914 568	2.52	18 291 360	2.52
5 001–10 000	33	1.13	244 745	0.67	4 894 900	0.67
10 001–50 000	20	0.69	493 208	1.36	9 864 160	1.36
50 001–100 000	4	0.14	314 839	0.87	6 296 780	0.87
100 001–500 000	2	0.07	347 770	0.96	6 955 400	0.96
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	2 918	100	36 339 550	100	726 791 000	100
On the waitinglist, total			0	0	0	0
In joint account			0	0	0	0
Number issued			36 339 550	100	726 791 000	100

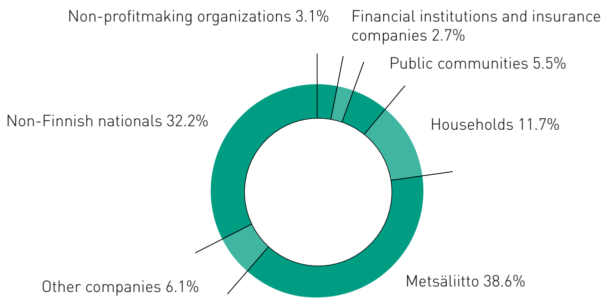
M-real B share

Number of shares	Number of shareholders	%	Total number of shares	%	Number of votes	%
1–10	2 646	6.22	22 239	0.01	22 239	0.01
11–50	7 747	18.22	235 346	0.08	235 346	0.08
51–100	5 681	13.36	426 019	0.15	426 019	0.15
101–500	12 778	30.05	3 320 919	1.14	3 320 919	1.14
501–1 000	5 673	13.34	4 572 091	1.57	4 572 091	1.57
1 001–5 000	6 332	14.89	14 609 169	5.01	14 609 169	5.01
5 001–10 000	938	2.21	6 678 057	2.29	6 678 057	2.29
10 001–50 000	594	1.40	11 574 571	3.97	11 574 571	3.97
50 001–100 000	54	0.13	3 898 929	1.34	3 898 929	1.34
100 001–500 000	64	0.15	13 737 741	4.71	13 737 741	4.71
500 001–1 000 000	8	0.02	5 342 608	1.83	5 342 608	1.83
1 000 001–	13	0.03	227 408 373	77.93	227 408 373	77.93
Total number	42 528	100	291 826 062	100	291 826 062	100
On the waitinglist, total			0	0	0	0
In joint account			0	0	0	0
Number issued			291 826 062	100	291 826 062	100

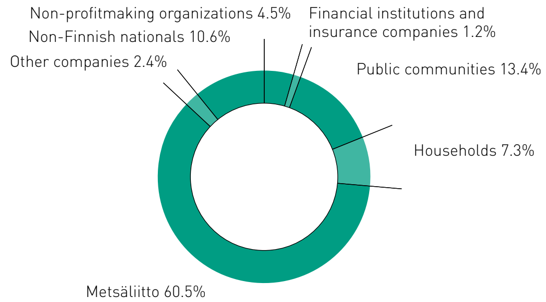
Biggest Shareholders

Share register 31 December 2005	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	5 028 211	8 562 541	7.4	2.6
3 Etra-Invest Oy Ab		7 000 400	7 000 400	0.7	2.1
4 Varma Mutual Pension Insurance Company	2 203 544	1 221 113	3 424 657	4.4	1.0
5 Central Union of Agricultural Producers and Forest Owners	1 704 249	1 597 750	3 301 999	3.5	1.0
6 Pohjola Finland Value Fund		1 913 940	1 913 940	0.2	0.6
7 MRLBV Incentive Ky		1 500 000	1 500 000	0.1	0.5
8 Mutual Insurance Company Pension-Fennia		1 430 200	1 430 200	0.1	0.4
9 Etera Mutual Pension Insurance Company	120 000	1 286 080	1 406 080	0.4	0.4
10 FIM Fenno Mutual Fund		1 224 000	1 224 000	0.1	0.4
11 FIM Forte Mutual Fund		779 600	779 600	0.1	0.2
12 Placeringsfonden Gyllenberg Finlandia		708 800	708 800	0.1	0.2
13 Pohjola Euro Value Mutual Fund		700 000	700 000	0.1	0.2
14 HEX25 index share Special Mutual Fund		672 448	672 448	0.1	0.2
15 Säästöpankki Kotimaa Mutual Fund		605 260	605 260	0.1	0.2
16 Metsäliiton Toimenhaltijain Eläkesäätiö	16 070	577 900	593 970	0.1	0.2
17 Insurance Fund, Turku City	79 978	487 949	567 927	0.2	0.2
18 Eläkesäätiö Polaris Pensionsstiftelse	227 770	311 505	539 275	0.5	0.2
19 Gyllenberg Small Firm Mutual Fund		530 600	530 600	0.1	0.2
20 OP-Suomi Kasvu Mutual Fund		425 000	425 000	0.0	0.1

Breakdown of M-real's shareholders 31 December 2005



Breakdown of M-real's voting rights 31 December 2005

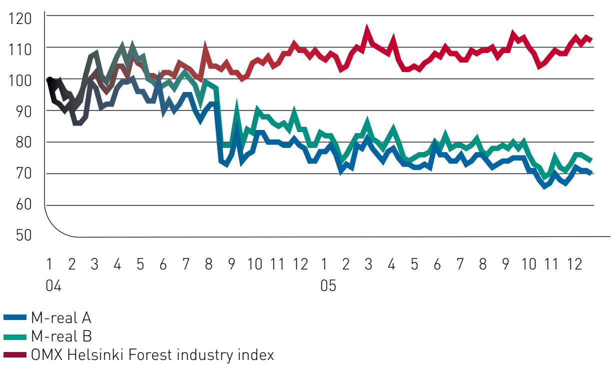


Share performance

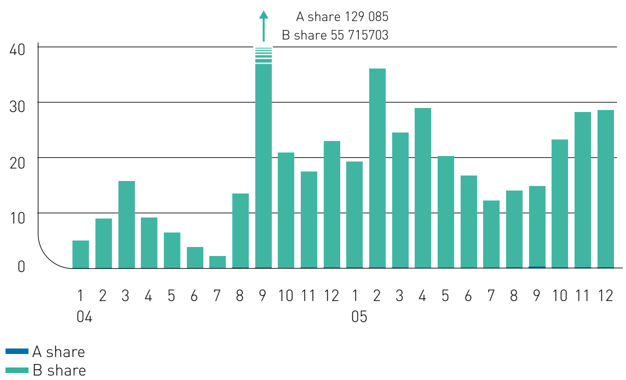
		2005	2004	2003	2002	2001
Adjusted prices, euros						
A Shares	high	5.00	6.20	7.40	8.42	7.45
	low	3.94	4.22	5.22	5.05	4.13
	at year end	4.24	4.68	6.57	6.61	5.85
	average	4.46	5.80	6.43	7.12	6.03
B Shares	high	4.93	6.43	7.57	8.79	7.69
	low	3.82	4.18	5.23	4.95	4.08
	at year end	4.22	4.70	5.92	6.74	5.84
	average	4.36	5.59	6.11	6.97	5.86
Trading in shares, units on Helsinki Exchanges						
A Shares		1 075 633	633 215	1 765 522	4 262 501	1 321 616
% of total no. of A shares		3.0	1.7	4.9	11.7	3.6
B Shares		265 967 644	181 303 518	80 581 564	103 484 655	69 504 014
% of total no. of B shares		91.1	62.1	56.5	72.5	52.5
Number of shares at the year end						
A Shares		36 339 550	36 340 550	36 340 550	36 340 550	36 340 550
B Shares		291 826 062	291 825 062	142 658 875	142 658 875	142 658 875
Total		328 165 612	328 165 612	178 999 425	178 999 425	178 999 425
Adjusted number of shares at 31 Dec		328 165 612	328 165 612	212 614 341	212 614 341	212 614 341
Market capitalization of shares at 31 Dec, euros million		1 385.6	1 541.7	1 286.3	1 426.5	1 242.6
Number of shareholders *		43 350	41 629	43 584	40 672	40 384

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

Share price trend, M-real A and M-real B,
Index (Jan 2004 = 100)



Traded volumes 2004–2005,
million shares

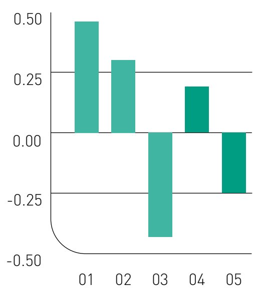


Figures per share [1]

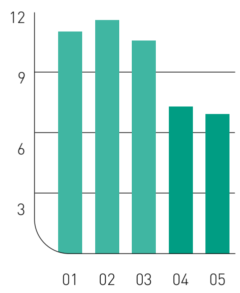
	2005	2004	2003	2002	2001
Calculation of earnings per share, euros million					
Profit from continuing operations before tax [2]	–114	–108	–80.2	134.3	154.0
– minority interest	–1	–3	1.0	–10.1	–10.1
– taxation	34	–17	–0.7	–59.8	–115.1
+ tax adjustment for extraordinary items			–11.4	0.4	63.6
+ profit from discontinued operations	0	173			
= Earnings, euros million	–81	45	–91.3	64.8	92.4
÷ Adjusted number of shares (average)	328 165 612	241 989 429	212 614 264	212 614 264	200 297 013
= Earnings per share, euros	–0.25	0.19	–0.43	0.30	0.46
Shareholders' equity per share, euros	6.92	7.29	10.56	11.57	11.01
Dividend per share, euros	0.12[3]	0.12	0.25	0.51	0.51
Dividend per profit, %	–48.0	63.2	–58.8	166.7	109.1
Nominal value per share, euros	1.70	1.70	1.70	1.70	1.70
Dividend yield, %					
Series A	2.8	2.6	3.8	7.6	8.6
Series B	2.8	2.6	4.3	7.5	8.6
Price/earnings ratio (P/E ratio) at 31 Dec, %					
Series A	–17.7	24.6	–15.3	21.7	12.7
Series B	–17.6	24.7	–13.8	22.1	12.7
P/BV at 31 Dec, %					
Series A	61.3	64.2	62.2	57.1	53.1
Series B	61.0	64.5	56.1	58.2	53.1

[1] The 2001–2003 figures are calculated according to Finnish Accounting Standards (FAS)
[2] The 2001–2003 figures profit before extraordinary items
[3] Boards proposal

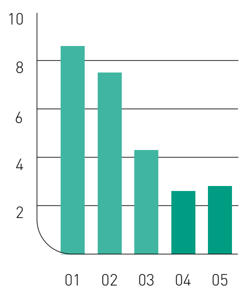
Earnings per share, euros



Shareholders' equity per share , euros



Dividend yield, %



Data to graphs on this page: 2001–2003 FAS, 2004–2005 IFRS

Ten years in figures*

	IFRS		FAS							
	2005	2004	2003	2002	2001	2000	1999	1998	1997	1996
Income statement, euros million										
Sales	**5 241**	5 522	6 044	6 564	6 923	5 898	4 044	3 320	3 014	2 313
– change %	**–5.1**	–8.6	–7.9	–5.2	14.8	45.9	21.8	10.1	30.3	3.2
Exports from Finland	**1 413**	1 696	1 653	1 714	1 743	1 719	1 805	1 704	1 595	1 326
Exports and foreign subsidiaries	**4 970**	5 182	5 652	6 173	6 438	5 376	3 603	2 893	2 598	2 012
Operating profit	**36**	28	74	324	389	604	352	340	283	143
– % of sales	**0.7**	0.5	1.2	4.9	5.6	10.2	8.7	10.2	9.4	6.2
Profit from continuing operations before tax [1)]	**–114**	–108	–80	134	154	459	268	262	128	55
– % of sales	**–2.2**	–2.0	–1.3	2.0	2.2	7.8	6.6	7.9	4.3	2.4
Profit/loss attributabe to shareholders of parent company [2)]	**–80**	48	–95	279	337	516	295	273	358	120
– % of sales	**–1.5**	0.8	–1.6	4.2	4.9	8.7	7.3	8.2	11.9	5.2
Balance sheet, euros million										
Balance sheet total	**6 327**	6 486	7 106	7 410	8 005	7 798	4 608	4 420	4 423	3 474
Shareholders' equity	**2 271**	2 393	2 245	2 461	2 341	1 953	1 711	1 555	1 427	1 195
Minority interest	**45**	37	19	75	60	52	56	76	82	10
Interest-bearing net liabilities	**2 205**	2 183	3 109	3 019	3 482	3 693	1 471	1 397	1 154	1 361
Dividends and figures per share *										
Dividends, euros million	**39.4**	39.4	53.7	107.4	107.4	83.4	63.1	60.8	42.1	23.4
Dividend per share, euros	**0.12** [3]	0.12	0.25	0.51	0.51	0.51	0.38	0.37	0.26	0.14
Dividend/profit, %	**–48.0** [3]	63.2	–58.8	166.7	109.1	27.3	34.0	33.7	51.3	61.3
Earnings per share, euros	**–0.25** [3]	0.19	–0.43	0.30	0.46	1.85	1.13	1.09	0.50	0.23
Shareholders' equity per share, euros	**6.92**	7.29	10.56	11.57	11.01 [4]	11.83 [4]	10.34 [4]	9.20 [4]	8.64 [4]	7.24
Profitability										
Return on capital employed, %	**1.2**	0.9	1.6	5.8	6.9	13.5	10.5	10.8	10.5	6.8
Return on equity, %	**–3.4**	–5.7	–3.8	3.0	4.7 [4]	15.5 [4]	10.6 [4]	11.3 [4]	5.3 [4]	2.9
Financial position										
Equity ratio, %	**36.6**	37.5	31.9	34.2	30.0 [4]	25.7 [4]	38.4 [4]	36.9 [4]	34.1 [4]	35.0
Gearing ratio, %	**95**	89	137	119	145 [4]	184 [4]	83 [4]	86 [4]	77 [4]	113
Net cash flow arising from operating activities, euros million	**136**	217	417	521	608	692	440	449	401	303
Internal financing on capital expenditure, %	**30**	89	105	168	82	32	112	130	122	39
Net interest expenses, euros million	**99.0**	130.0	166.9	142.3	194.3	131.7	73.8	83.8	70.9	70.4
Interest cover	**2.4**	2.7	3.5	4.7	4.1	6.3	7.0	6.4	6.7	5.3
Other information										
Gross capital expenditure, euros million	**452**	245	397	310	740	2 150	394	344	329	787
– % of sales	**8.6**	4.4	6.6	4.7	10.7	36.5	9.7	10.4	10.9	34.0
R&D expenditure, euros million	**24**	28	27	26	27	25	17	15	14	15
– % of sales	**0.5**	0.5	0.4	0.4	0.4	0.4	0.4	0.5	0.4	0.7
Personnel, average	**15 578**	16 532	20 372	21 070	22 237	17 351	15 572	13 885	12 637	11 463
– of whom in Finland	**4 687**	5 263	6 178	6 328	6 406	6 584	6 966	7 208	7 248	7 006

* The 2004 and 2005 figures are calculated according to International Financial Reporting Standards (IFRS) and 1996–2003 according to Finnish Accounting Standards (FAS)

1 The 1996–2003 figures profit before extraordinary items

2 The 1996–2003 figures profit before taxes and minority interest

3 Board's proposal

4 The convertible subordinated capital notes are included in liabilities

Calculation of key ratios

Return on equity (%)	=	Profit from continuing operations before tax [1] – direct taxes / Total equity (average)
Return on capital employed (%)	=	Profit from continuing operations before tax + interest expenses, net exchange gains/losses and other financial / Total assets – non-interest-bearing liabilities (average)
Equity ratio (%)	=	Total equity / Total assets – advance payments received
Gearing ratio (%)	=	Interest-bearing liabilities – liquid funds – interest-bearing receivables / Total equity
Earnings per share	=	Profit attributable to shareholders of parent company [2] / Adjusted number of shares (average)
Shareholders'equity per share	=	Equity attributable to shareholders of parent company / Adjusted number of shares at 31 December
Dividend per share	=	Dividends / Adjusted number of shares at 31 December
Dividend per profit (%)	=	Dividend per share / Earnings per share
Dividend yield (%)	=	Dividend per share / Share price at 31 December
Price/earnings ratio (P/E ratio) (%)	=	Adjusted share price at 31 December / Earnings per share
P/BV (%)	=	Adjusted share price at 31 December / Shareholders'equity per share
Adjusted average share price	=	Total traded volume per share (EUR) / Average adjusted number of shares traded during the financial year
Market capitalization	=	Number of shares x market price at 31 December
Internal financing of capital expenditure (%)	=	Net cash flow arising from operating activities [3] / Gross capital expenditure
Interest cover	=	Net cash flow arising from operating activities [3] + net interest expenses / Net interest expenses
Net cash flow arising from operating activities [3]	=	Net cash flow arising from operating activities in the cash flow statement

[1] In 2001–2003 profit before extraordinary items
[2] In 2001–2003 profit before extraordinary items – direct tax – minority interests
[3] In 2001–2003 Funds from operations in the cash flow statement

Exchange rates against euro at 31 December

	2005	2004	2003	2002	2001
GBP	**0.6853**	0.7051	0.7048	0.6505	0.6085
USD	**1.1797**	1.3621	1.2630	1.0487	0.8813
SEK	**9.3885**	9.0206	9.0800	9.1528	9.3012
NOK	**7.9850**	8.2365	8.4141	7.2756	7.9515

Parent company accounts (Finnish Accounting Standards, FAS)

Income statement

Euros million, 1 Jan–31 Dec	Note	2005	2004
Sales	1	1 317	1 511
Change in stocks of finished goods and in work		10	2
Other operating income	2	201	73
Materials and services			
Raw materials and consumables			
Purchases during the financial period		–750	–820
Change in inventories		–1	0
External services		–105	–129
		–856	–949
Employee costs	3		
Wages and salaries		–105	–129
Social security expenses			
Pension expenses		–30	–30
Other social security expenses		–61	–65
		–196	–224
Depreciation, amortisation and impairment charges	4		
Depreciation according to plan		–134	–119
Impairment charges			
		–134	–119
Other operating expenses		–296	–314
Operating profit		46	–20
Financial income and expenses	5, 6		
Interest income from non-current investments			
Income from Group companies		99	244
Income from associated companies		21	44
Other interest and similar income		0	46
Other interest and similar income		54	13
Net exchange gains/losses		–34	4
Write-downs on non-current investments		0	0
Other interest and similar expenses		–492	–156
		–352	195
Profit before extraordinary items		–306	175
Extraordinary income and expenses	7		
Extraordinary income		12	104
Extraordinary expenses		0	–8
		12	96
Profit before appropriations and taxes		–294	271
Appropriations			
Change in depreciation differences		6	22
Income taxes	8		–22
Profit for the financial period		–288	271

Balance sheet

Euros million, 31 Dec	Note	2005	2004
ASSETS			
Non-current assets			
Intangible assets	9		
Intangible rights		48	18
Goodwill		2	4
Other capitalized expenditure		11	3
Advance payment			
		61	25
Tangible assets	10		
Land and water areas		21	23
Buildings		244	200
Machinery and equipment		751	695
Other tangible assets		5	7
Advance payment and construction in progress		34	57
		1 055	982
Investments	11		
Shares in Group companies		1 907	1 941
Receivables from Group companies		367	997
Shares in associated companies		358	406
Receivables from associated companies		13	9
Other shares and holdings		36	43
Other receivables		2	2
		2 683	3 397
		3 799	4 404
Current assets			
Inventories			
Raw materials and consumables		51	51
Work in progress			
Finished goods and goods for resale		134	124
Advance payment		12	5
		197	180
Receivables	12, 13, 14, 15		
Current			
Accounts receivables		200	138
Receivables from Group companies		743	615
Receivables from associated companies		4	0
Other receivables		34	28
Prepayment and accrued income		50	56
		1 031	837
Cash and cash equivalents		41	102
Total assets		5 068	5 523

Balance sheet

Euros million, 31 Dec	Note	2005	2004
EQUITY AND LIABILITIES			
Shareholders'equity	16		
Share capital		558	558
Share premium account		664	664
Revaluation reserve		82	82
Retained earnings		1 195	963
Profit for the financial period		–288	271
		2 211	2 538
Approprations			
Accumulated depreciation difference		544	550
Provisions	17		
Provisions for pensions		15	13
Other provisions		9	7
		24	20
Liabilities			
Non-current	18, 19, 20		
Bond loans		721	962
Loans from financial isntitutions		848	405
Pension loans		81	97
Other liabilities		1	1
		1 651	1 466
Current	18, 19, 21, 22		
Bond loans		276	143
Loans from financial institutions		7	7
Pension loans		16	16
Advance payments		2	0
Accounts payable		63	58
Payables to Group companies		154	607
Payables to associated companies		0	3
Other liabilities		20	9
Accrual and deferred income		100	107
		638	949
		2 289	2 415
Total equity and liabilities		5 068	5 523

Cash flow statement

Euros million, 1 Jan–31 Dec	2005	2004
Cash flow from Operating Activities		
Operating profit	46	–19
Adjustments to operating profit a)	11	111
Change in net working capital b)	–33	–10
Interest	–61	–73
Dividends received	120	289
Other financial items	–44	–32
Taxes		–26
Net cash flow from operations	39	238
Investments		
Purchase of shares	–497	–108
Purchase of other fixed assets	–266	–73
Sale of shares	336	1
Sale of other fixed assets	46	11
Increase in other non-current investments	0	–2
Decrease in other non-current investments	626	
Total cash used in investments	245	–170
Cash flow before financing	**284**	**68**
Financing		
Increase in non-current liabilities	484	
Decrease in non-current laibilities	–166	–647
Increase (–) or decrease (+) in interest-bearing non-current receivables	–179	–43
Increase (–) or decrease (+) in interest-bearing current receivables	–457	129
Dividends paid	–39	–54
Group contribution	12	100
Share issue	0	448
Total financing	–345	–67
Change in liquid funds	–61	2
Liquid funds at 1 Jan	102	100
Liquid funds at 31 Dec	41	102
a) Adjustments to operating profit		
Depreciation	134	119
Gains (+) or losses (–) on sale of fixed assets	–127	–4
Change in provisions	4	–4
Write-downs on non-current investments		
Total	11	111
b) Change in net working capital		
Increase (–) or decrease (+) in stocks	–25	8
Increase (–) or decrease (+) in non-interest bearing receivables	–19	–39
Increase (+) or decrease (–) in non-interest bearing bearing current liabilities	11	21
Total	–33	–10

Notes to the Parent company Financial statements

Accounting policies

M-real Corporation's financial statements have been prepared in accordance with Finnish accounting standards (FAS).

Sales

Sales are calculated after deduction of indirect sales taxes, trade discounts and other items adjusting sales.

Exchange rate differences

Foreign exchange gains and losses have been booked to net exchange gains/losses under financial income and expense. Open and actual foreign exchange differences hedging sales are recorded immediately to financial income and expenses in the income statement.

Transactions in foreign currency

Transactions in foreign currency have been booked at the exchange rate on the day of the transaction.

At the balance sheet date, receivables and liabilities denominated in foreign currency have been translated into euros at the exchange rate quoted by the European Central Bank at the balance sheet date.

Pensions and pension funding

Statutory pension security is handled by pension insurance companies outside the Group. In addition to statutory pension security, some salaried employees have supplementary pension arrangements which are either insured, arranged through the Metsäliitto Employees' Pension Foundation or are an unfunded liability of the company. The Metsäliitto Employees' Pension Foundation is fully funded based on the current value of its assets.

Pension insurance premiums have been periodized to correspond to the accrual-based wages and salaries given in the financial statements.

Research and development expenditure

Research and development expenditure is recorded as an expense in the relevant financial period.

Inventories

Inventories are measured at the lower of cost or net realizable value. In measuring inventories, the FIFO principle is observed or, alternatively, the weighted average price method.

Property, plant and equipment and depreciation

The carrying values of property, plant and equipment are based on original acquisition costs less depreciation according to plan and impairment losses.

Straight-line depreciation according to plan is based on the estimated useful life of the asset as follows:

Buildings and constructions	20–40 years
Heavy power plant machinery	20–40 years
Other heavy machinery	20 years
Lightweight machinery and equipment	5–15 years
Other items	5–10 years

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

Leasing

Lease payments are treated as rental expenses.

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 income statement as extraordinary items. The tax effect of extraordinary items is presented in the notes to the financial statements.

Appropriations

Finnish tax legislation offers the possibility to deduct expenses prematurely from the profit for the financial year and to transfer them to the balance sheet as provisions. The items are taken into account in tax filings only if they have been entered in the accounts. These items are presented in the appropriations in the income statement. Among such items are depreciation on property, plant and equipment in excess of plan, which is stated as a depreciation difference in the balance sheet and as a change in the depreciation difference in the income statement.

Provisions for liabilities and charges

Future costs and losses to which the Group is committed and which are likely to be realized are included in the income statement under the appropriate expense heading and in the balance sheet under provisions for future costs whenever the precise amount and the time of occurrence are not known and in other cases they are included in accrued liabilities. These can be, for example, the pension liability or costs of discontinued operations and restructuring costs.

Euros million	2005	2004
1. Sales		
Owing to the Group structure, the sales of the parent company has not been broken down by segments and market		
2. Other operating charges		
Rental income	3	3
Gains on disposal of fixed assets	127	4
Service revenue	54	56
Other	17	10
	201	73
3. Empoyee costs		
Wages and salaries for working hours	105	129
Pension expenses	30	30
Other social security expenses	61	65
	196	224
Salaries and emoluments paid to management		
Managing director	0.5	0.4
Members of the Board and deputies	0.4	0.4
	1	1
4. Depreciation according to plan and impairment charges		
Depreciation according to plan		
Intangible rights	23	5
Goodwill	2	2
Other capitalized expenditure	1	1
Buildings and constructions	14	13
Machinery and equipment	92	97
Other tangible assets	2	1
Total depreciation according to plan	134	119
Depreciation difference	0	–20
Total depreciation	134	99
5. Financial income and expenses		
Dividend income	120	289
Interest income from non-current investments	38	45
Other interest income	17	13
Other financial income		
Write-downs on non-current investments	–369	
Interest expenses	–113	–127
Share issue expenses	0	–17
Other financial expenses	–11	–13
	–318	190
Net exchange differences	–34	4
Financial income and expenses, total	–352	194

Euros million	2005	2004
6. Exchange differences in Income statement		
Exchange differences on sales		
Exchange differences on derivatives	0	4
Other exchange differences	8	–4
	8	
Exchange differences on purchases		
Exchange differences on derivatives	–1	0
Other exchange differences	0	0
	–1	0
Exchange differences on financing		
Exchange gains		
Realized	194	99
Unrealized	96	8
Exchange losses		
Realized	–246	–103
Unrealized	–85	0
	–41	4
Exchange differences, total	–34	4
7. Extraordinary income and expenses		
Extraordinary income		
Capital gains on the sale of shares		
Group contribution received	12	104
Extraordinary expenses		
Group contribution		–4
Business reorganisation items	0	–4
	12	96
8. Income taxes		
Income taxes for the financial period	0	–22
Income taxes for previous periods		
	0	–22
Income taxes on ordinary operations	–3	–50
Income taxes on extraordinary items	3	28
	0	–22

9. Intangible and tangible assets

Euros million	2005	2004
Intangible assets		
Acquisition costs, 1 Jan	53	52
Increases	53	2
Transfers between items	2	1
Decreases	–3	–1
Acquisition costs, 31 Dec	105	53
Accumulated depreciation, 1 Jan	–35	–30
Accumulated depreciation on deduction and transfers	2	1
Depreciation for the period	–24	–5
Accumulated depreciation, 31 dec	–57	–35
Book value, 31 Dec	48	18
Goodwill		
Acquisition costs, 1 Jan	20	20
Increases		
Acquisition costs, 31 Dec	20	20
Accumulated depreciation, 1 Jan	–16	–14
Depreciation for the period	–2	–2
Accumulated depreciation, 31 dec	–18	–16
Book value, 31 Dec	2	4
Other capitalized expenditure		
Acquisition costs, 1 Jan	35	36
Increases	9	
Decreases	–2	–1
Acquisition costs, 31 Dec	42	35
Accumulated depreciation, 1 Jan	–32	–32
Accumulated depreciation on deduction and transfers	2	1
Depreciation for the period	–1	–1
Accumulated depreciation, 31 dec	–31	–32
Accumulated depreciation, 31 dec	–31	–32
Book value, 31 Dec	11	3

10. Intangible assets

Euros million	2005	2004
Land and water areas		
Acquisition costs, 1 Jan	23	23
Increases		
Decreases	–2	
Acquisition costs, 31 Dec	21	23
Accumulated depreciation, 1 Jan		
Depreciation for the period		
Accumulated depreciation, 31 dec		
Book value, 31 Dec	21	23
Buildings		
Acquisition costs, 1 Jan	315	315
Increases	38	2
Transfers between items	23	–1
Decreases	–4	–1
Acquisition costs, 31 Dec	372	315
Accumulated depreciation, 1 Jan	–115	–103
Accumulated depreciation on deduction and transfers	1	1
Depreciation for the period	–14	–14
Accumulated depreciation, 31 dec	–128	–115
Book value, 31 Dec	244	200
Machinery and equipment		
Acquisition costs, 1 Jan	1 519	1 500
Increases	134	19
Transfers between items	30	3
Decreases	–24	–3
Acquisition costs, 31 Dec	1 659	1 519
Accumulated depreciation, 1 Jan	–824	–732
Accumulated depreciation on deduction and transfers	8	5
Depreciation for the period	–92	–97
Accumulated depreciation, 31 dec	–908	–824
Book value, 31 Dec	751	695
Other tangible assets		
Acquisition costs, 1 Jan	14	14
Increases	1	0
Decreases	–3	
Acquisition costs, 31 Dec	12	14
Accumulated depreciation, 1 Jan	–7	–7
Accumulated depreciation on deduction and transfers	3	
Depreciation for the period	–3	
Accumulated depreciation, 31 Dec	–7	–7
Book value, 31 Dec	5	7
Construction in progress		
Acquisition costs, 1 Jan	57	11
Increases	32	54
Transfers between items	–55	–5
Decreases	0	–3
Acquisition costs, 31 Dec	34	57
Accumulated depreciation, 1 Jan		
Depreciation for the period		
Accumulated depreciation, 31 dec		
Book value, 31 Dec	34	57

The undepreciated portion of capitalized interest expenses under the balance sheet item "Buildings and constructions" at 31 Dec. 2005 was EUR 0.3 million (2004: EUR 0.6 million) and under the balance sheet item"Machinery and equipment" it was EUR 4.6 million (2004: EUR 2.1 million) and "Construction in Progress" EUR 0 million (2004 EUR 0.5 million). The capitalization of interest expenses during the 2005 financial year was euros 3.1 million (2004 EUR 0.5 million).

11. Investments

Euros million	2005	2004
Shares in Group companies		
Acquisition costs, 1 Jan	1 941	1 690
Increases	497	95
Decreases	–531	–1
Transfers between items		22
Acquisition costs, 31 Dec	1 907	1 806
Revaluations, 1 Jan	135	135
Decreases	–135	
Revaluations, 31 Dec	0	135
Book value, 31 Dec	1 907	1 941
Shares in associated companies		
Acquisition costs, 1 Jan	406	413
Increases	0	39
Decreases	–48	–26
Transfers between items	0	–22
Acquisition costs, 31 Dec	358	404
Revaluations, 1 Jan	2	2
Decreases	–2	
Revaluations, 31 Dec	0	2
Book value, 31 Dec	358	406
Other shares and holdings		
Acquisition costs, 1 Jan	43	55
Increases	1	
Decreases	–8	–12
Transfers between items		
Acquisition costs, 31 Dec	36	43
Revaluations, 1 Jan / 31 Dec		
Book value, 31 Dec	36	43
Receivables from Group companies		
Acquisition costs, 1 Jan	997	995
Increases	4	551
Decreases	–634	–437
Transfers between items	0	–112
Acquisition costs, 31 Dec	367	997
Revaluations, 1 Jan / 31 Dec		
Book value, 31 Dec	367	997
Receivables from associated companies		
Acquisition costs, 1 Jan	9	9
Increases	4	
Decreases		
Transfers between items		
Acquisition costs, 31 Dec	13	9
Revaluations, 1 Jan / 31 Dec		
Book value, 31 Dec	13	9

Euros million	2005	2004
Other receivables		
Acquisition costs, 1 Jan	2	2
Increases		
Decreases		
Transfers between items		
Acquisition costs, 31 Dec	2	2
Revaluations, 1 Jan / 31 Dec		
Book value, 31 Dec	2	2
Investment, total		
Acquisition costs, 1 Jan	3 397	3 164
Increases	506	686
Decreases	–1 221	–477
Transfers between items	–000	–112
Acquisition costs, 31 Dec	2 683	3 261
Revaluations, 1 Jan	137	137
Increases		
Decreases	–137	
Revaluations, 1 Jan / 31 Dec	–0	137
Book value, 31 Dec	2 683	3 397

12. Loan receivables from management

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

13. Current receivables

Euros million	2005	2004
Receivables from Group companies		
Accounts receivables	67	119
Loan receivables	572	399
Other receivables	94	68
Prepayment and accrued income	10	29
Receivables from associated companies		
Accounts receivables		
Loan receivables	2	0
Accrued income	2	
Other receivables		
Accounts receivables	200	138
Loan receivables		
Other receivables	34	28
Prepayment and accrued income	50	56
	1 031	837

14. Prepayment and accrued income

Euros million	2005	2004
Interest		
Insurance	3	2
Taxes	44	44
Discounts		
Others	3	10
	50	56

Euros million	2005	2004

15. Interest-bearing receivables

	2005	2004
Loan receivables and other non-current assets	378	1 007
Liquid funds and other current assets	677	559
	1 055	1 566

16. Shareholders' equity

	2005	2004
Share capital, 1 Jan		
Series A shares	62	62
Series B shares	496	243
Total	558	304
Share issue		
Series B shares		254
Total		254
Series A shares	62	62
Series B shares	496	496
Share capital, 31 Dec	558	558
Share premium account, 1 Jan	664	470
Share issue	0	194
Share premium account, 31 Dec	664	664
Revaluation reserve, 1 Jan / 31 Dec	82	82
Retained earnings, 1 Jan	1 234	1 018
Dividends paid	–39	–55
Profit for the period	–288	271
Retained earnings, 31 Dec	907	1 234
Shareholders' equity, total	2 211	2 538

17. Provisions

	1 Jan	Increase	Decrease	31 Dec
Provisions for pension	4	2		6
Provisions for unemployment pension costs	9	0	0	9
Provision for rental costs	1	3	–1	3
Other provisions	6	2	–2	6
	20	7	–3	24

Euros million	2005	2004

18. Liabilities

	2005	2004
Non-current		
Non-interest bearing	0	0
Interest bearing	1 651	1 466
	1 651	1 466
Current		
Non-interest bearing	239	227
Interest bearing	399	722
	638	949

Bonds	Interest-%	2005	2004
1999–2006	4.88	200	200
2000–2005	2.68		35
2000–2005	2.91		10
2000–2005	2.86		5
2000–2007	3.29	35	35
2000–2008	3.02	18	18
2001–2006	6.01	4	4
2001–2006	5.77	8	7
2001–2006	5.91	8	7
2001–2006	3.91	11	12
2001–2006	4.17	15	15
2002–2005	6.29		16
2002–2005	3.75		10
2002–2005	7.25		33
2002–2005	7.21		33
2002–2009	8.89	113	102
2002–2012	9.20	113	112
2002–2014	9.40	132	132
2003–2006	5.24	30	30
2003–2008	4.62	99	98
2003–2008	4.34	20	20
2004–2008	4.62	49	49
2004–2009	5.91	30	30
2004–2009	4.72	40	40
2004–2011	4.78	30	30
2004–2011	4.95	10	10
2004–2011	5.00	12	12
2005–2008	5.09	3	
2005–2008	5.60	17	
Total		997	1 105

19. Non-current debts with amortization plan

Euros million	2005
Bonds	
2006	276
2007	36
2008	206
2009	182
2010	0
2011	297
Total at the end of the financial period	997
Loans from financial institutions	
2006	7
2007	313
2008	46
2009	301
2010	48
2011	140
Total at the end of the financial period	855
Pension loans	
2006	16
2007	16
2008	16
2009	16
2010	32
2011	1
Total at the end of the financial period	97
Other loans	
2006	0
2007	1
2008	0
2009	0
2010	0
2011	0
Total at the end of the financial period	1
Total	
2006	299
2007	366
2008	268
2009	499
2010	80
2011	438
Total at the end of the financial period	1 950

20. Non-current liabilities

Euros million	2005	2004
Other liabilities		
Bonds	721	962
Loans from financial institutions	848	405
Pension loans	81	97
Other liabilties	1	2
	1 651	1 466

21. Current liabilties

Euros million	2005	2004
Liabilities from Group companies		
Account payable	35	28
Other liabilities	101	558
Accruals and deferred income	18	21
Liabilities from associated companies		
Account payable	0	0
Other liabilities	0	3
Other liabilities		
Bonds	276	143
Loans from financial institutions	7	7
Pension loans	16	16
Advance payment	2	0
Account payable	63	58
Other liabilities	20	9
Accruals and deferred income	100	106
	638	949

22. Accruals and deferred income

Euros million	2005	2004
Current		
Insurance	4	3
Personnel expenses	29	36
Income tax	0	0
Interests	15	19
Accruals of purchases	21	22
Freight costs	2	1
Discounts	18	20
Others	11	5
	100	106

23. Contingent liabilities

Euros million	2005	2004
For own liabilities		
Liabilities secured by mortages		
Loans from financial institutions	60	60
Other liabilities		
Real-estate mortages	60	60
On behalf of Group companies		
Real-estate mortages	4	4
Guarantees	1 913	1 833
On behalf of others		
Guarantees	8	8
Leasing commitments		
Payments due in following year	11	11
Payments due in subsequent years	55	64
Total		
Real-estate mortages	64	64
Guarantees	1 921	1 841
Other liabilities	0	0
Leasing liabilities	66	75
	2 051	1 980

24. Environmental items

Euros million	2005	2004
Income statement		
Materials and consumables	5	5
Employees costs		
Wages and salaries	1	2
Social security costs	1	1
Depreciation	4	3
Other operating charges	2	5
	13	16
Balance sheet		
Intangible and tangible assets		
Acquisition costs, 1 Jan	57	54
Increases	33	3
Decreases	–17	
Depreciation	–22	–24
Book value, 31 Dec	51	33
Provisions		
Other provisions	4	6

The Board's proposal for the distribution of profits

	euros
The Group's distributable funds according to the balance sheet at 31 December 2005	402 088 780.00
Non-restricted shareholders' equity in the parent company balance sheet at 31 December 2005 according to FAS	
Retained earnings	1 195 357 093.53
Net result for 2005	–287 764 854.97
Total	907 592 238.56
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	868 212 365.12
	907 592 238.56

Espoo, 8 February 2006

Kari Jordan

Arimo Uusitalo

Heikki Asunmaa

Kim Gran

Asmo Kalpala

Erkki Karmila

Runar Lillandt

Antti Tanskanen

Hannu Anttila
President and CEO

Auditor's report

To the shareholders of M-real Corporation

We have audited the accounting records, the financial statements and the administration of M-real Corporation for the period 1.1.–31.12.2005. The Board of Directors and the President and CEO have prepared the report of the Board of Directors and the consolidated financial statements prepared in accordance with International Financial Reporting Standards as adopted by the EU and the parent company's financial statements prepared in accordance with prevailing regulations in Finland, that include the parent company's balance sheet, income statement, cash flow statement and the notes to the financial statements. Based on our audit, we express an opinion on the consolidated financial statements, the parent company's financial statements and on the administration 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 administration is to examine that the members of the Board of Directors and the President and CEO of the parent company have complied with the rules of the Companies' Act.

Consolidated financial statements

In our opinion the consolidated financial statements give a true and fair view, as referred to in the International Financial Reporting Standards as adopted by the EU and defined in the Finnish Accounting Act, of the consolidated results of operations as well as of the financial position. The consolidated financial statements can be adopted.

Parent company's financial statements and administration

In our opinion the parent company's financial statements have been prepared in accordance with the Finnish Accounting Act and other rules and regulations governing the preparation of financial statements in Finland. The financial statements give a true and fair view, as defined in the Finnish Accounting Act, of the parent company's result of operations as well as of the financial position. The 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 distributable funds is in compliance with the Companies' Act.

Espoo, 27 February 2006

PricewaterhouseCoopers Oy
Authorised Public Accountants

Göran Lindell
Authorised Public Accountant

Jouko Malinen
Authorised Public Accountant

Corporate Governance

General issues

General

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 started to apply to International Financial Reporting Standards (IFRS) from the beginning of the year 2005. These Annual reports are published in Finnish and English.

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

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 current organization became valid as of 1 September 2004. According to the organizational structure functions and responsibilities of each business area 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 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:

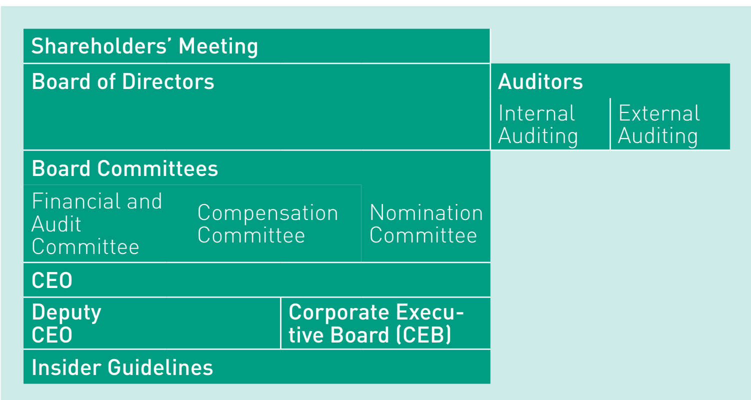
- possible changes to Company's Articles of Association
- accepts Company's profit and loss account and balance sheet
- decides on payable dividend
- elects the members of Board of Directors and decides remunerations for Board members and for members of Board Committees
- appoints auditors of the Company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

The Shareholder is entitled to get any issue on the agenda of the 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 in 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).

Corporate Governance Bodies in M-real Corporation



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.

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 Executive 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, the Compensation Committee and the Special Committee. Each committee's chairman and members will be appointed by the Board annually.

The Board meets regularly during the year. The Board held 20 meetings out of which 4 was held as telephone conference during the year 2005. On average the members of Board attended 96 per cent of the meeting.

The Board committees held meetings during the year 2005 as follows: Audit Committee 8 meetings, Nomination Committee 2 meetings, Compensation Committee 3 meetings and Special Committee 2 meetings. On average the members of Board committees attended 98 per cent of the meeting.

M-real Corporation complies with Corporate Governance Recommendation for Listed Companies. However, the Corporation announces that it deviates from Recommendations clause 17, in which has been stated that majority of all directors shall be independent.

In representation on the Board of Directors has been taken into consideration significant ownership of M-real by Metsäliitto Co-operative. Longstanding and responsible ownership provides stability and long-term commitments to working and decision making in the Board of Directors.

Board committees

Final decisions are made by the 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 Kim Gran (chairman), President of the Nokia Tyres plc, and the members are Asmo Kalpala, the President of the Tapiola Group 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 eight (8) meetings during the year 2005.

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 Nomination Committee had two meetings during the year 2005. 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 for 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 Kari Jordan (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 three meetings during 2005.

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

Special Committee

The Board has Special Committee that is responsible for evaluating competition law matters within the Company. The Chairman of the Special Committee is Erkki Karmila and the members are Kim Gran, Asmo Kalpala and Antti Tanskanen.

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 Office 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.

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 Hannu Anttila and the executives reporting to Mr. Anttila: Aarre Metsävirta, Hannu Kottonen, Jarmo Salonen, Peter Sandberg (until 10 October 2005) Seppo Puotinen, Ari Himma, Juhani Pöhö and Karl-Johan Lindborg (as of 14 September 2005). The Chairman of the CEB was Hannu Anttila and Matti Mörsky, Senior Vice President of Business Development, acted as secretary to the CEB.

The CEB's tasks and responsibilities are planning of investments 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 held nine meetings during year 2005.

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 three meetings during year 2005, 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 business 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 had three meetings in 2005.

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

In accordance with a decision made by year's 2005 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 2005 totalled euros 446 200. Hannu Anttila, the Company's President and CEO receives a monthly salary of euros 33 189.50, including benefits in kind in the form of a car and a telephone. The annual salaries, emoluments in kind and fees paid to the other members of the Corporate Executive Board in 2005 totalled euros 2 183 141.

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 88–91.

The Board of M-real has decided on 4 February 2005 on a new share based incentive program for the company's top executives. The possible reward of the incentive program from the year 2005 is based on M-real Corporation's operating profit (EBIT) and return on capital employed (ROCE). Reward will be paid in 2006 partly in M-real's B shares and partially in money. The maximum aggregate number of B shares to be earned based on 2005 results is 116 000. Any shares earned through the program must be held for minimum of two years after the reward period. Approximately 12 top executives are included in the program.

At 31 December 2005, 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 2005 Company's Auditors were Göran Lindell, Authorized Public Accountant and PricewaterhouseCoopers Oy. The Company has paid audit fees to the principal auditor PricewaterhouseCoopers euros 1 766 000 and other audit firms (of the subsidiary companies) euros 485 000. Additionally the Company has paid fees for non-audit services to PricewaterhouseCoopers euros 923 000.

Internal Auditing

The Internal Auditing in M-real 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 reports its findings to the management, the external auditors and the Audit Committee. On a functional basis, the Internal Auditing reports to the CEO.

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.

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 pages 14–15 and 34–36.

Insider Guidelines

The Company complies with the insider guidelines of the Helsinki Stock 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 on M-real's website.

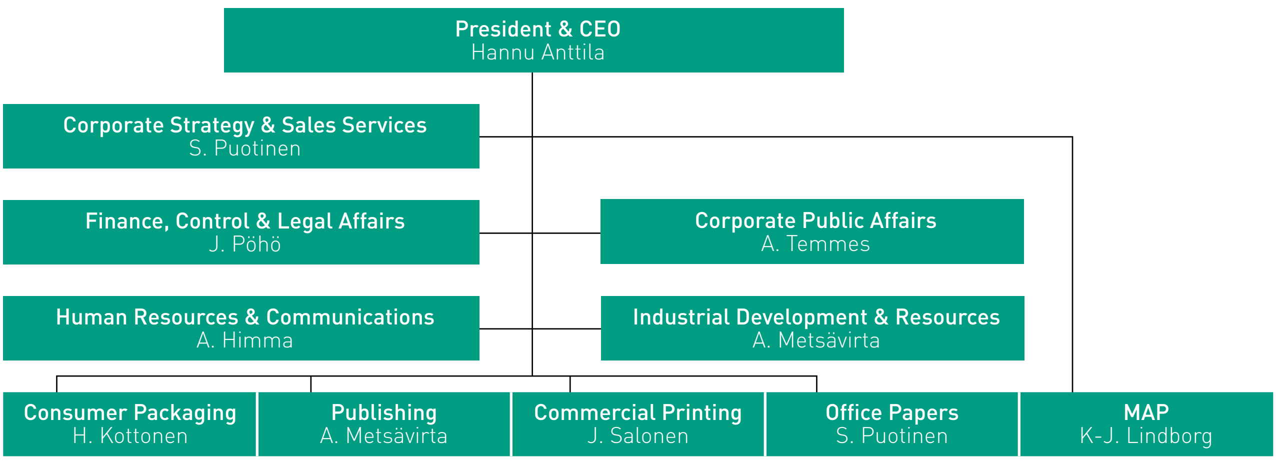
Permanent insiders are members of the Board of Directors, the CEO and Deputy CEO, and the auditors. The CEO has decided that other permanent insiders shall be the members of Corporate Executive Board and nominated persons in legal, financial, accounting, R&D, communications and investor relations functions.

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 2005 the Closed Windows were 1 January to 4 February 2005 (relating to Annual Report of 2004) and 1 to 28 April 2005, 1 to 29 July 2005 and 1 to 28 October 2005 relating to 2005 Interim Reports.

M-real's organisation



Board of Directors

Kari Jordan,
(1956) ■ Chairman of the Board since 2005
Bachelor of Science in Economics
President & CEO of Metsäliitto Cooperative since 2004
Member of the Board of Metsäliitto Cooperative since 2005
Member of the Board of Finnforest Corporation since 2004 and Chairman of the Board of Finnforest Corporation since 2005
Chairman of the Board of Metsä Tissue Corporation since 2004
Member of the Board of Oy Metsä-Botnia Ab since 2004
Vice Chairman of the Supervisory Board in Vapo Oy since 2004
Member of the Board of Finnair Corporation since 2003
Member of the Board of Neste Oil Oy since 2005
Member of the Board of Julius Tallberg-Kiinteistöt Oyj since 1998
Member of the Supervisory Board of Suomen Messut Cooperative since 2005
Member of the Supervisory Board of the Finnish Cultural Foundation since 2004
Member of the Board of the Mannerheim Foundation since 2003
Member of the Board of the Foundation for Economic Education since 2001
Chairman of the Supervisory Board of the Foundation for Pediatric Research since 2003
Chairman of the Board of Valamo Foundation since 2002
Shares owned in M-real Corporation: 35 000 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 since 1996
Vice Chairman of the Board of Finnforest Corporation
Member of the Board of Oy Metsä-Botnia Ab since 1996
Member of the Board of Moelven ASA since 2002
Member of the Board of Metsä Tissue Corporation since 1998
Chairman of the Board of Raisio Group since 2001,
Chairman of the Executive Board of Osuuspankki Kantrisalo 1998
Shares owned in M-real Corporation: 110 A shares and 2 710 B shares

Heikki Asunmaa
(1943) ■ Member of the Board since 2005
Agricultural school graduate
Counsellor of Agriculture
Farmer
Member of the Board of Metsäliitto Cooperative since 2000
Member of the Supervisory Board of Moelven ASA since 2001
Member of the Supervisory Board of Vapo Oy since 2005
Member of Pellervo Delegation since 2000
Chairman of the Supervisory Board of Alavus Region Co-operative Bank since 1993
Shares owned in M-real Corporation: 4 000 B shares

Kim Gran,
(1954) ■ Member of the Board since 2004
Independent Board member
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 Board of Nokian Tyres plc since 2002
Member of the Board of Kuusakoski Oy and Kuusakoski Group Oy since 2004
Member of the Board of Confederation of Finnish Industries since 2005
Shares owned in M-real Corporation: 4 000 B shares

Asmo Kalpala,
(1950) ■ Member of the Board since 1990
Independent Board member
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 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
Independent Board member
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,
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: 7 545 B Shares

Antti Tanskanen,
(1946 ■ Member of the Board since 1992
Independent Board member
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
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 the Confederation of Finnish Industries since 2005
Member of the Board of Ilmarinen Mutual Pension Insurance Company since 2006
Shares owned in M-real Corporation: no ownership

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 Offi cer 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 Offi cer 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: 1 900 A shares and 4 920 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: 1600 B shares

Seppo Puotinen ■ Executive Vice President (EVP) Corporate Strategy & Sales Services and Office Papers
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. In October 2005 Mr. Puotinen was appointed, along with his other responsibilities, Executive Vice President, Office Papers. Mr Puotinen holds a Master of Science degree in Engineering as well as a Licentiate of Engineering degree.

Shares owned in M-real Corporation: 1000 A shares and 2750 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: 7353 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 fi ne 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 fi ne 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: 3677 B shares

Karl-Johan Lindborg ■ President and CEO
Map Merchant Group
Master of Science in Economics, born in 1947

Karl-Johan Lindborg worked in Finncell's sales organization from 1970 to 1985, when he was appointed Vice President of Rauma-Repola Corporation's pulp division. Subsequently he transferred to Tampella Forest as head of the Paper Division. From 1993 to 1996 he was Vice President, Sales and Marketing, with Enso. In 1996 he became president of Finnforest. In 1999 he was appointed to the management of Forest House and he became Managing Director of Map Merchant Group in 2000.

Shares owned in M-real Corporation: no ownership

Quarterly data

Sales	Full year 2005	Full year 2004	2005 IV	2005 III	2005 II	2005 I	2004 IV	2004 III	2004 II	2004 I
Euros million			IV	III	II	I	IV	III	II	I
Consumer Packaging	**864**	1 045	**231**	**196**	**199**	**238**	256	264	267	258
Publishing	**796**	802	**230**	**181**	**177**	**208**	225	202	188	187
Commercial Printing	**1 488**	1 474	**376**	**381**	**368**	**363**	372	368	362	372
Office Papers	**704**	667	**167**	**174**	**187**	**176**	162	168	159	178
Map Merchant Group	**1 390**	1 368	**357**	**341**	**351**	**341**	343	332	339	353
Internal sales and other operations	**–1**	166	**8**	**–4**	**–23**	**18**	6	53	45	62
Group total	**5 241**	5 522	**1 369**	**1 269**	**1 259**	**1 344**	1 364	1 387	1 360	1 411

Operating profit and result	Full year 2005	Full year 2004	2005 IV	2005 III	2005 II	2005 I	2004 IV	2004 III	2004 II	2004 I
Euros million			IV	III	II	I	IV	III	II	I
Consumer Packaging	**41**	93	**16**	**14**	**–16**	**27**	30	25	18	20
Publishing	**14**	12	**13**	**14**	**–21**	**8**	4	9	–5	4
Commercial Printing	**–62**	–49	**–41**	**0**	**–17**	**–4**	–35	–7	–4	–4
Office Papers	**–5**	10	**3**	**–3**	**–10**	**5**	0	4	0	6
Map Merchant Group	**18**	17	**0**	**5**	**7**	**6**	0	4	7	6
Internal sales and other operations	**30**	–55	**–18**	**–10**	**–15**	**73**	–16	–18	–10	–10
Operating profit	**36**	28	**–27**	**20**	**–72**	**115**	–17	17	6	22
% of sales	**0.7**	0.5	**–2.0**	**1.6**	**–5.7**	**8.6**	–1.2	1.2	0.4	1.6
Share of associated companies' results	**–2**	0	**2**	**0**	**–4**	**1**	–1	1	0	0
Net exchange gains/losses	**–33**	4	**–7**	**0**	**–15**	**–11**	21	4	–3	–18
Other financial income and expenses	**–115**	–140	**–17**	**–19**	**–52**	**–28**	–42	–36	–13	–48
Profit before extraordinary items	**–114**	–108	**–49**	**1**	**–143**	**77**	–39	–15	–10	–44
% of sales	**–2.2**	–2.0	**–3.6**	**0.1**	**–11.4**	**5.7**	–2.9	–1.1	–0.7	–3.1

Operating profit and result	Full year 2005	Full year 2004	2005 IV	2005 III	2005 II	2005 I	2004 IV	2004 III	2004 II	2004 I
%			IV	III	II	I	IV	III	II	I
Consumer Packaging	**4.7**	8.9	**6.9**	**7.1**	**–8.0**	**11.3**	11.7	9.5	6.7	7.8
Publishing	**1.8**	1.5	**5.7**	**7.7**	**–11.9**	**3.8**	1.8	4.5	–2.7	2.1
Commercial Printing	**–4.2**	–3.3	**–10.9**	**0.0**	**–4.6**	**–1.1**	–9.4	–1.9	–1.1	–1.1
Office Papers	**–0.7**	1.5	**1.8**	**–1.7**	**–5.3**	**2.8**	0.0	2.4	0.0	3.4
Map Merchant Group	**1.3**	1.2	**0.0**	**1.5**	**2.0**	**1.8**	0.0	1.2	2.1	1.7
Group total	**0.7**	0.5	**–2.0**	**1.6**	**–5.7**	**8.6**	–1.2	1.2	0.4	1.6

Deliveries	Full year 2005	Full year 2004	Quarterly 2005 IV	2005 III	2005 II	2005 I	2004 IV	2004 III	2004 II	2004 I
1000 tonnes										
Consumer Packaging	1 006	1 374	268	226	231	281	340	345	349	341
Publishing	1 146	1 192	326	257	256	307	336	301	283	273
Commercial Printing	1 866	1 842	469	480	464	453	469	464	450	459
Office Papers	1 034	961	242	254	279	259	233	246	228	254
Total paper mill deliveries	4 046	3 995	1 037	991	999	1 019	1 038	1 011	961	986
Map Merchant Group	1 359	1 308	347	337	343	332	330	321	319	338

Production	Full year 2005	Full year 2004	Quarterly 2005 IV	2005 III	2005 II	2005 I	2004 IV	2004 III	2004 II	2004 I
1000 tonnes										
Consumer Packaging	985	1 330	272	292	128	293	326	355	319	331
Publishing	1 072	1 148	315	294	155	308	314	309	257	268
Commercial Printing	1 880	1 885	476	482	452	470	472	471	470	472
Office Papers	1 034	975	258	260	268	248	244	241	243	247
Paper mills total	3 985	4 008	1 048	1 036	875	1 026	1 030	1 021	969	987
Botnia's pulp [1]	901	1 151	252	234	108	307	283	290	279	300
M-real's pulp	1 533	1 533	421	379	350	383	399	384	369	381

[1] Equals to M-real's ownership (39% from Q2 2005, 47% until Q1 2005)

Production capacities

(1000 tonnes)

Paper mills

Location	Country	Machines	Coated Magazine Paper	Coated Fine Paper	Uncoated Fine Paper	Specialty Paper	Total
Kirkniemi	Finland	3	730				730
Äänekoski	Finland	1		185			185
Kangas	Finland	2	310				310
Simpele	Finland	1				55	55
Kyröskoski	Finland	1				100	100
Stockstadt	Germany	2		215	210		425
Bergisch Gladbach	Germany	4		370			370
Düren	Germany	4				100	100
Husum	Sweden	3	260		435		695
Wifsta	Sweden	1			175		175
Alizay	France	1			310		310
Pont Sainte Maxence	France	2			120		120
Biberist	Switzerland	3		385	70		455
Sittingbourne	UK	2		210			210
New Thames	UK	1			230		230
Hallein	Austria	2		310			310
Total		33	1 300	1 675	1 550	255	4 780

Board mills

Location	Country	Machines	Folding Boxboard	Liner	Total
Tampere	Finland	3	255		255
Kyröskoski	Finland	1	140		140
Äänekoski	Finland	1	170		170
Simpele	Finland	1	170		170
Kemi	Finland	1		360	360
Total		7	735	360	1 095

Carton plants

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

Pulp mills

Location	Country	Chemical pulp	BCTMP	CTMP	Total
Stockstadt	Germany	160			160
Husum	Sweden	700			700
Alizay	France	310			310
Hallein	Austria	160			160
Joutseno	Finland		270		270
Kaskinen	Finland		300		300
Lielahti	Finland			105	105
Total		1 330	570	105	2 005

Botnia*

Location	Country	Chemical pulp	Total
Äänekoski	Finland	500	500
Kemi	Finland	540	540
Kaskinen	Finland	450	450
Rauma	Finland	580	580
Joutseno	Finland	630	630
Total		2 700	2 700

* M-real share is 39% of the capacity

Other shareholdings

Softwood and hardwood pulp	340	Sunila Oy, (interest 17.5%), Finland
Coated magazine paper	180	Myllykoski Paper Oyj, (interest 35%), Finland
Uncoated magazine paper	390	Myllykoski Paper Oyj, (interest 35%), Finland

M-real's financial communication and investor relations

Financial reporting and closed window periods in 2006

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.

Closed window	Financial report	Publication date
1 Jan to 8 Feb 2006	Financial results 2005	Wednesday 8 Feb
1 to 27 Apr 2006	Interim report January–March	Thursday 27 Apr
1 to 27 Jul 2006	Interim report January–June	Thursday 27 Jul
1 to 25 Oct 2006	Interim report January–September	Wednesday 25 Oct

Financial information

Financial reports are published 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.

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 this report on pages 65–69. 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 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. All investors are treated equally.

Contact information

Equity investors			Debt investors and banker relationships
Juhani Pöhö	**Juha Laine**	**Thomas Ekström**	**Aapo Nikunen**
Tel +358 10 469 5283	Tel +358 10 469 4335	Tel +358 10 469 4962	Tel +358 10 469 4255
GSM +358 50 598 7607	GSM +358 50 346 0350	GSM +358 50 38 19751	
juhani.poho@m-real.com	juha.laine@m-real.com	thomas.ekstrom@m-real.com	aapo.nikunen@metsafinance.com

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

Corporate governance related issues	Corporate communication
Nina Kuulusa	**Jyrki Antikainen**
Tel +358 10 469 4322	Tel +358 10 469 4940
nina.kuulusa@m-real.com	jyrki.antikainen@m-real.com
	corporate.communications@m-real.com

www.m-real.com

Paper information

Project group
Jyrki Antikainen
Thomas Ekström
Vesa Junes
Nina Kuulusa
Juha Laine
Jukka Niemi
Risto Salonen
Jukka Tuloisela
Kenneth Bergenheim (Kreab)
Graphic design and layout
Kreab Oy
Perttu Eskelinen, responsible designer
Printer
Libris 2006

covers

Product:	**Carta Integra 210 g/m²**
Mill:	**M-real Äänekoski Board, Finland**

Environmental management

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

Certified chain-of-custody (at the mill since) SMS-013 (2005) based on PEFC

Share of wood from certified forests 70%

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	78	89	PEFC
Russia, European part	22		

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

More information www.m-real.com

inside pages

EMAS
VALIDATED INFORMATION
FIN-000043

Product:	**Galerie One Silk, 80 g/m²**
Mill:	**M-real Kangas, Finland**

Environmental management

Certified environmental management systems (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 57%

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	65	88	PEFC
Russia, European part	33		
Sweden	2	9	7 PEFC, 2 PSC
Canada	<1		
Estonia	<1		
Latvia	<1	26	FSC

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

More information www.m-real.com

finishing

Covers, outside and inside: dispersion varnish

The complete M-real annual reporting 2005 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 and Finnish

Additional copies are available from:

M-real Corporation
Corporate Communications
P.O. Box 20
FI-02020 METSÄ
Finland
Tel. +358 1046 94552
Fax +358 1046 94531
E-mail: corporate.communications@m-real.com

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

Make it real.

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Annual financial report ■ available in English and Finnish

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Corporate Communications
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FI-02020 METSÄ
Finland
Tel. +358 1046 94552
Fax +358 1046 94531
E-mail: corporate.communications@m-real.com

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