M-real

Annual Report 2006

M-real Annual Report 2006

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The Annual Report is available in English and in Finnish.

M-real in brief

M-real is one of the leading producers of paper and paperboard in Europe. The company has five business areas: Consumer Packaging, Publishing, Commercial Printing, Office Papers and Map Merchant Group. The company's 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 beautycare products, cigarettes, branded food and consumer durables. M-real's brands include Galerie, EuroArt Plus, Data Copy and Logic fine papers, and Carta, Avanta, Simcote, Simwhite and Kemiart paperboards.

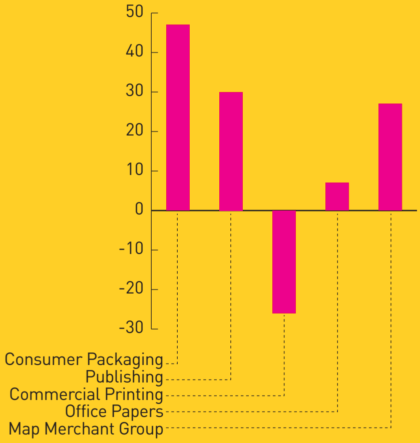
M-real has 25 production units in nine European countries: Austria, Belgium, Finland, France, Germany, Hungary, Sweden, Switzerland and the UK. Total annual production capacity amounts to approximately 4.4 million tonnes of paper and 1.1 million tonnes of paperboard.

M-real has an extensive sales network with offices and representatives in more than 70 countries and a merchanting network, Map Merchant Group, with offices in 23 European countries.

M-real's three technology centres in Finland, Germany and Sweden focus on the development of new products and services to meet customers' needs in specific areas.

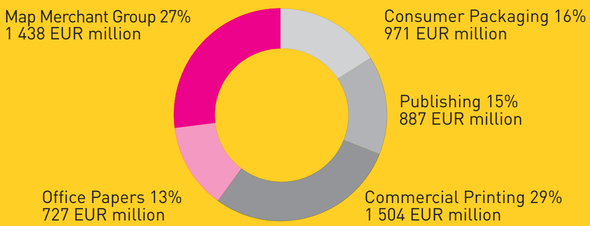
M-real's annual sales were EUR 5.6 billion in 2006 and it employs nearly 14,200 people. M-real, which is part of the Metsäliitto Group, is listed on the OMX Helsinki Stock Exchange.

Operating result by business area 2006 EUR million*



*) Excluding non-recurring items

Sales by business area 2006



Information to shareholders

M-real will publish its financial reports in 2007 as follows:

Tuesday, 6 February 2007
Financial results for 2006

Tuesday, 24 April 2007
Interim report for January–March

Thursday, 26 July 2007
Interim report for January–June

Thursday, 25 October 2007
Interim report for January–September

Annual General Meeting

The Annual General Meeting of M-real Corporation will be held at Finlandia Hall, Mannerheimintie 13, Helsinki, on Tuesday, 13 March 2007, beginning at 3 p.m. EET.

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 2 March 2007, at the latest, and should announce their intention to attend the meeting before 4 p.m. EET on 9 March 2007, either by telephoning Eija Niittynen on +358 10 469 4530, by sending a telefax to 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, Eija Niittynen, P.O. Box 20, 02020 METSÄ, Finland. It is requested that any proxies should be submitted during the advance registration. The Board of Directors proposes that a dividend of euros 0.06 per share for the 2006 financial year be paid on 23 March 2007 to shareholders who are entered by 16 March 2007 at the latest in the list of shareholders kept by the Finnish Central Securities Depository Ltd.

Share register

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

Additional information to shareholders and investors

Additional information to shareholders and investors is available in the section Shares and shareholders on pages 74 through 78 and M-real's financial communication and investor relations on page 108.

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2006

M-real's business is divided into four business areas, which are Consumer Packaging, Publishing, Commercial Printing and Office Papers. In addition, a major paper merchant, Map Merchant Group, is part of M-real. M-real's strategic growth area is Consumer Packaging, at which the most significant investments have been directed during the past few years.

In March 2006, the M-real Board of Directors began a strategic review of the company's business structure. The goal was to study the opportunities and the potential benefits of participating in the consolidation and restructuring of the European paper industry. As the first step of the strategic review, M-real announced an extensive restructuring programme in October 2006, including closures of production capacity, a new cost savings programme, a working capital reduction programme and divestments of assets. In February 2007, M-real announced a programme to improve profitability of operations in Finland aiming to achieve a full profit improvement of some EUR 40 million from the beginning of 2009.

The strategic review continues. M-real bears its share of responsibility for the market balance of the paper and paperboard industry and its profitable future. The next stages of the strategic review are being worked on. With the restructuring programme and the additional improvement measures, M-real's profitability will improve and its indebtedness will decrease significantly. In the future, M-real will invest particularly in its Consumer Packaging business area. Concerning the paper business areas and the merchant business, M-real will review all the strategic options and strengthen its operations in selected areas globally.

M-real's pulp supply is based on own production, pulp purchased from the strategic resource company Metsä-Botnia and market pulp purchased from selected suppliers. In the Kaskinen and Joutseno BCTMP mills, M-real uses one of the most modern pulp manufacturing technologies in the world, which improves the quality of the paper products and lowers the costs of paper production. Once Metsä-Botnia's Uruguay mill is completed in the autumn of 2007, M-real will be utilising one of the most cost-efficient chemical pulp production capacities in the world. When the mill has become operational, M-real will be self-sufficient in pulp in accordance with its strategy.

Dear reader,

A new era has begun for M-real. The European paper industry is going through big changes, restructuring continues and the paper merchant market is changing as well. The change in our operating environment is permanent.

In the spring of 2006, M-real's Board of Directors began a strategic review of our business structure. The goal was to study possibilities to participate in the consolidation and structural change of the European paper industry and paper merchants, and what the benefits might be. As a first step, we published an extensive restructuring programme in October 2006. During the course of the programme, M-real will develop into a stronger and more profitable company. The restructuring programme will be completed during 2007. I underline that the strategic review continues and new phases will be introduced.

As part of our restructuring programme, we have closed the Sittingbourne mill and two paper machines at Gohrsmühle and will close the unprofitable Wifsta mill. These closures improve the profitability of our remaining business and help to balance markets, which is crucial to the entire European paper industry. There is overcapacity in paper production in Europe, and it is necessary to remove the weakest part. Overcapacity has been the greatest single factor behind the weak development of paper prices. However, after the capacity reductions announced by both M-real and other producers, we are much more optimistic regarding future opportunities for price increases.

In order to improve our financial flexibility, we plan to sell approximately EUR 500 million worth of our property during 2007. The divestments of assets include the sale of 9 per cent of M-real's holdings in Metsä-Botnia to Metsäliitto on 30 January 2007 and the divestment of our three folding carton plants in Finland, Belgium and Hungary. We will specify the other divestment targets later.

We will continue to improve cost-effectiveness by carrying out a new programme in 2007 aiming at annual savings of EUR 100 million. The measures of the cost savings programme apply to all M-real units and operations. We will also improve cash flow with more effective working capital management. The measures improving the efficiency of the supply chain, the terms of payment and stock management aim at a minimum EUR 100 million impact on cash flow in 2007.

It should be noted that our restructuring programme is not sufficient; during 2007 we will also take several other measures to improve our profitability and efficiency. On 6 February 2007 we published a programme aiming at an approximately EUR 40 million improvement in results from the operations in Finland (full effect as of 2009). In addition, the sales, supply chain and management practices, for instance, will be simplified, which allows us to better concentrate on customer work.

We lay great emphasis on the improvement of our fibre supply. The Uruguay pulp mill investment carried out by Metsä-Botnia is progressing as planned. M-real has a 23 per cent holding in the mill. With a capacity of a million tonnes, the mill is one of the world's most cost-effective pulp mills. It is scheduled to start up in the end of September 2007. Our own eucalyptus pulp from Uruguay improves our competitiveness significantly, especially in the fine paper mills in Central Europe. Improving the profitability of these mills is one of our greatest challenges.

It is anticipated that economic growth will generally slow down slightly in the Western European key markets in 2007 but will remain at a reasonable level. The vigorous growth in Eastern Europe will continue. We expect the demand for paper to increase moderately in our key market areas in 2007 on a par with general economic growth.

With the restructuring programme and the additional measures, M-real's main objective for 2007 is to improve its balance sheet structure and profitability. Our result for 2007 will be burdened by increased production input costs, estimated at more than EUR 100 million. In order to achieve a positive result before taxes and non-recurring items in 2007, we must be able to raise paper prices. Closing down capacity in Europe is a significant step in the right direction, encouraging us to actively pursue higher product prices.

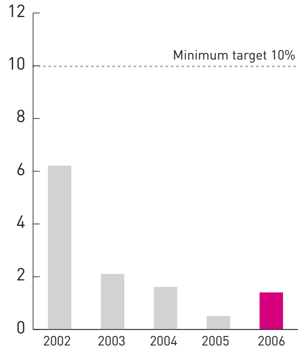
I wish to thank my predecessor Hannu Anttila for his contribution to M-real in this challenging operating environment. I also thank our customers and partners for the year 2006. In the future, M-real will not yearn for better days but lean on its own strengths, one of the most important of which is our competent personnel. I wish to thank our personnel for their hard work to improve our profitability. Together we will make M-real stronger.

Mikko Helander
CEO

Financial targets

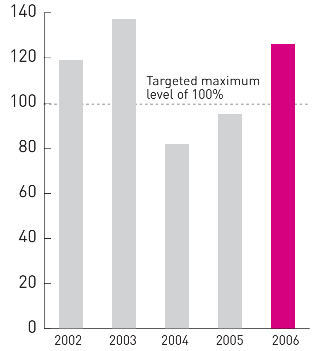
- M-real's minimum ROCE target through the business cycle is minimum of 10 per cent over the cycle while
- keeping the gearing below 100 per cent.

Return on capital employed, %*



*) Excluding non-recurring items

Gearing ratio, %



Data to graphs on this page: 2002–2003 FAS, 2004–2006 IFRS

March 2006 M-real's Board of Directors initiated a strategic review of M-real's current business portfolio, with a view to M-real exploring potential benefits of participation in the consolidation and restructuring of the European paper industry.

March 2006 M-real launched a 7-year EUR 500 million benchmark Eurobond.

May 2006 Efficiency improvement programmes were started at the Stockstadt and Hallein mills. Programmes will be implemented in stages during the period 2006–2008.

June 2006 Seppo Parvi was appointed CFO.

June 2006 M-real sold the Pont Sainte Maxence speciality paper mill in France to Arques Industries. As a result of the transaction M-real's annual sales decrease by about EUR 70 million.

June 2006 An efficiency improvement programme was started at the French Alizay paper mill, as a result of which the number of personnel at the mill will be reduced by about 100 persons.

August 2006 European Commission competition authorities closed their investigation in relation to fine paper. Investigation started in 2004.

September 2006 Simpele's renewed board line and Express Board sheeting service centre were inaugurated.

October 2006 M-real announced an extensive restructuring programme as a first step of the strategic review. The programme includes capacity closures, a new cost savings programme, a working capital reduction programme, potential divestments and an impairment charge. The programme took effect immediately with a planned completion by the end of 2007.

October 2006 Mikko Helander was appointed CEO.

November 2006 European Commission competition authorities closed their investigations in relation to magazine paper. Investigations started in 2004.

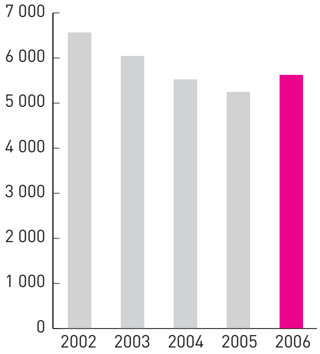
December 2006 M-real launched a 4-year EUR 400 million floating rate Eurobond.

Key figures 2006

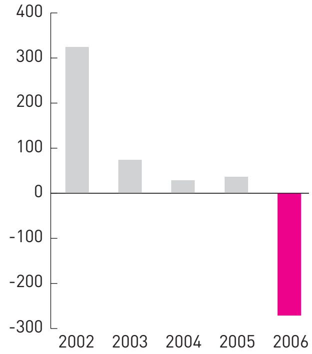
	2006	**2005**	**Change**
Sales, EUR million	5 624	5 241	7%
Operating result, EUR million	-271	36	
- % of sales	-4.8	0.7	
Operating result excluding non-recurring items, EUR million	45	4	
Result from continuing operations before tax, EUR million	-408	-114	-258%
- % of sales	-7.3	-2.2	
Result from continuing operations before tax, excluding non-recurring items, EUR million	-92	-142	
Return on capital employed, %	-5.2	1.2	
Return on capital employed, excluding non-recurring items, %	1.4	0.5	
Return on equity, %	-18.9	-3.4	
Interest-bearing net liabilities, EUR million	2 403	2 205	9%
Gearing ratio, %	126	95	
Equity ratio, %	30.9	36.6	
Earnings per share, EUR	-1.21	-0.25	
Equity per share, EUR	5.62	6.92	-19%
Dividend per share, EUR *	0.06	0.12	-50%
Market capitalization 31 Dec., EUR million	1 573	1 386	13%
Gross capital expenditure, EUR million **	428	452	-5%
Cash flow arising from operating activities, EUR million	222	136	63%
Personnel 31 Dec.	14 125	15 154	-7%

*) Board of Directors' proposal for 2006
**) includes the purchase price of shares in acquired companies but not debt

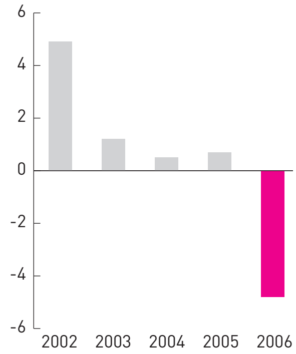
Sales, EUR million



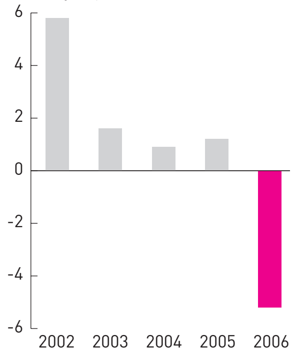
Operating result, EUR million



Operating result, %



Return on capital employed, %



Data to graphs on this page: 2002–2003 FAS, 2004–2006 IFRS

Simpele rebuild provided cost and environmental benefits

The investment carried out at the Simpele board mill in 2006 resulted in marked improvements to the Simcote and Simwhite folding boxboards, which, through light-weighting, will provide cost and environmental benefits for the whole supply chain. At the same time, M-real launched a new Express Board service for Simcote that offers faster, more flexible and reliable sheet deliveries throughout Europe.

These lightweight paperboards reduce the total weight needed to produce a given number of cartons. This results in considerable advantages for retailers at a time when they are under pressure to reduce the amount of total packaging they use and waste they generate. With the new Simcote, customers can expect to make savings of up to 44 per cent in weight over alternative cartonboards, combined with additional improvements in the boards' performance.

The investment has also resulted in an improved visual appearance and smoothness on both sides of the boards, providing an enhanced base for printing and lamination. Efficiency in use will be higher due to better runnability in converting and packing, and tighter tolerances in specification mean enhanced quality consistency.

PRODUCTS AND SERVICES

Cartonboards
Carta
Gala X
Nova X
Tako
Avanta
Simcote
Simwhite

Boards and papers for graphic applications
Carta Integra
Carta Solida
Galerie
Simwhite
Carta Book

White top and coated white top kraftliners
Kemiart

Papers for flexible packaging and labels
Simcastor

Wallpaper base
Cresta

Brand Protection products and services

M-real Consumer Packaging business area is an innovative supplier of high performance paperboards, packaging solutions and related services.

Consumer Packaging serves carton printers, converters, brand owners and merchants for end uses such as beautycare, cigarettes, consumer durables, foods, healthcare and graphics.

M-real Consumer Packaging's main markets are Europe, North America and Asia. It is the second largest producer of folding boxboard both in Europe and globally, and the global leader in coated white top kraftliner and wallpaper base.

M-real Consumer Packaging's product portfolio includes cartonboards for packaging and graphics applications, white top and coated white top kraftliners for corrugated packaging applications, ready-made cartons, wallpaper base, book paper and speciality papers for flexible packaging, labelling and self-adhesive laminates.

The total offering also includes services such as quick availability of sheeted board, technical services, seminars and training. The business area also provides carton design, packaging procurement and print management services.

In recent years, M-real has developed and started the business of new advanced technologies to help customers fight increased counterfeiting of branded goods. The brand protection offering consists of covert and overt technologies applied to folding cartons to match a broad range of product protection needs.

M-real's studies of consumer perceptions and preferences in magazines now also include packaging. Research findings of a study carried out in 2006 indicate that cartonboard packaging plays a positive role in shaping in-store purchasing decisions for luxury cosmetics brands.

Outlook

The global demand for cartonboards is expected to remain moderate. Growth is strongest in Eastern Europe, Asia and Latin America. The estimated market growth derives from trends such as population growth and ageing, longer life expectancies, increasing beauty and health consciousness, improved purchasing power and standards of living.

The demand for white top liners is expected to grow briskly in Europe and the USA, but moderate growth is expected in Asia. The demand for wallpaper base is generally on the decline due to competition from the paint industry, while in eastern Europe and Asia it is increasing. Market growth in paper for flexible packaging is likely to remain modest.

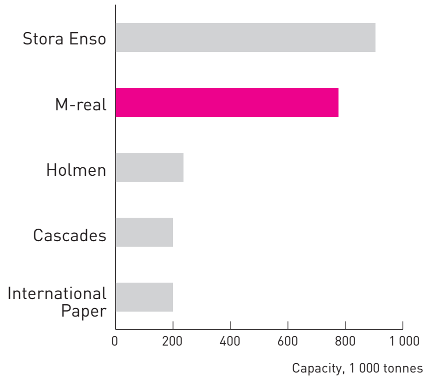
Developments in 2006

A EUR 60 million investment was carried out at M-real Simpele. The investment consisted of significant improvements to the board machine, new reeler, rewinder and reel packaging line as well as a new sheeting plant with a new sheet cutter, sheet packaging line and cutter reel stock. The capacity of the machine increased from 170,000 to 215,000 tonnes per year. The investment also enables the mill to offer an Express Board sheeting service.

M-real Kemiart Liners invested in Europe's first ValFormer forming section for boardmaking applications. This investment of about EUR 7 million resulted in improved product quality and will increase the mill's production capacity from 345,000 tonnes to 360,000 tonnes per year.

M-real Consumer Packaging continued to develop Express Board sheeting services, which provide customised sheet sizes with short lead times. Express Board service is now available in the Netherlands, Poland and Finland. The service will start at M-real Stockstadt in Germany in 2007.

Biggest folding boxboard producers in Europe



Key figures by Consumer Packaging

	2006	2005	Change
Sales, EUR million	971	864	12.4%
EBITDA, EUR million	131	125	
EBITDA, %	13.5	14.5	
EBITDA, excluding non-recurring items, EUR million	131	125	
Operating result, EUR million	43	41	
Operating result, %	4.4	4.7	
Operating result, excl. non-recurring items, EUR million	47	41	
Return on capital employed, %	5.1	4.8	
Return on capital employed, excl. non-recurring items, %	5.6	4.8	
Deliveries, 1000 t	1 161	1 006	15.4%
Paperboard production, 1000 t	1 121	985	13.8%
Personnel average	2 573	2 667	–3.5%

Vogue and Galerie Fine

Publisher Condé Nast has chosen Galerie Fine for Vogue magazine. M-real has supplied Galerie Fine for the European editions of Vogue for the third year running. In addition, in 2006, M-real was chosen by Condé Nast to provide the paper for the Mexican and Latin American editions of Vogue for the first time. Galerie Fine is supplied from the Kirkniemi and Husum mills.

Vogue was first published in the USA in 1892. It was Condé Nast's first title. It now has numerous international editions, including a Chinese edition, with India to follow shortly. The international editions all famously have their own editorial identity.

Galerie Fine is a coated fine paper with high brightness, opacity and a smooth surface that allows colours and fine details to come through accurately, giving excellent image reproduction quality. The pure white shade of the paper ensures natural colour reproduction, translating into a fresh look and lively images on the printed page. In 2006, M-real launched improved Galerie Fine into the demanding magazine market.

PRODUCTS

Galerie Papers	Galerie Lite Galerie Brite	Galerie One Galerie Fine	Galerie Art

M-real Publishing business area produces coated publishing papers at Kangas and Kirkniemi mills in Finland, and at Husum mill in Sweden.

Paper is delivered to more than 50 countries worldwide. Publishing's home market is in Europe, with most volumes sold to the UK, Germany, France, Spain, Italy, Finland and Poland. Galerie Papers are also highly regarded outside Europe, mainly in the USA and Australia.

M-real Publishing's customers include magazine publishers, heatset web offset printers, mail order companies, retailers and advertisers. Its publishing papers are used in high quality magazines, catalogues, direct marketing, advertising materials and brochures. The development target for M-real Publishing is to cooperate with printers and other partners to improve efficiency in print production. This is achieved by close collaboration with customers, well-targeted R&D, fine-tuning product characteristics and in-depth printing know-how.

M-real Publishing specialises in the high quality segment of the graphic paper market with its Galerie Papers range of coated papers. The development philosophy behind Galerie Papers is to combine high surface smoothness and brightness with higher than average bulk and opacity. This helps customers to achieve high-quality image reproduction even when using lower paper grammages. The customers benefit from the high yield properties of Galerie papers through cost savings in production, postage and logistics – a key advantage on today's competitive market. Galerie Papers range from ultra lightweight coated paper to triple-blade coated art paper.

The ongoing product development focuses on further improvement of printability and surface characteristics. As a pioneer in the field of consumer perception studies, M-real cooperates with the Department of Psychology at the University of Helsinki. The company receives valuable feedback on readers' actual perceptions of paper and print quality, and the results help M-real and its customers to optimise print quality and colour management procedures.

M-real offers a further advantage for its customers by closely collaborating throughout the print production process, helping customers further improve quality and production efficiency with Galerie Papers. M-real Publishing has acquired extensive know-how on colour management and print production workflows. For example, M-real has introduced Galerie ICC profiles to its Galerie Papers range.

Outlook

The market for publishing papers in 2006 remained stable, on the same level as in 2005. Emerging markets such as eastern Europe and Asia experienced a higher growth rate than western Europe. The market is expected to grow slightly in 2007.

Developments in 2006

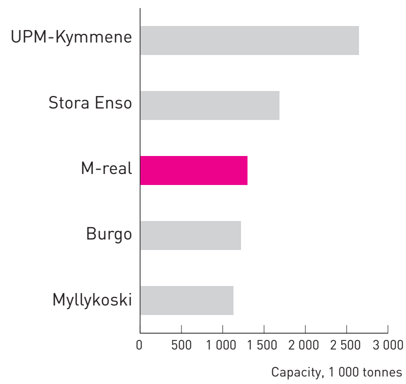
In order to maintain the highest quality standards, M-real has upgraded the base paper of Galerie Fine by using the latest production technology. The complete rebuild of the wire section on PM3 at Kirkniemi mill in August 2006 cost EUR 4 million. As a result, M-real was able to introduce even better quality for Galerie Fine. The biggest benefit is the evenness of printed images, especially in the light half-tones, as well as better quality consistency.

M-real continued its work to further improve quality consistency and delivery reliability at its paper mills. An extensive training programme, started in 1995, was continued at the mills to help employees constantly improve product quality and service performance.

In cooperation with its publisher and printer customers, M-real Publishing carried out a number of development projects in the fields of colour management, production efficiency and reader perception research.

M-real won the Magazine Paper Supplier of the Year award in the PPA (Periodical Publishers Association) Magazine Production Awards 2006, announced at the PPA's annual conference in London in November 2006. This is the second year running that M-real has received this accolade. According to the judging panel: "M-real was a clear winner in the category, because of its consistent support, depth of offering and environmental initiatives, endorsed wholeheartedly by its customers."

Biggest coated magazine paper producers in Europe



Key figures by Publishing

	2006	2005	Change
Sales, EUR million	887	796	11.4%
EBITDA, EUR million	114	98	
EBITDA, %	12.9	12.3	
EBITDA, excluding non-recurring items, EUR million	114	100	
Operating result, EUR million	30	14	
Operating result, %	3.4	1.8	
Operating result, excl, non-recurring items, EUR million	30	16	
Return on capital employed, %	3.0	1.3	
Return on capital employed, excl. non-recurring items, %	3.0	1.6	
Deliveries, 1 000 t	1 258	1 146	9.8%
Production, 1 000 t	1 167	1 072	8.9%
Personnel average	1 437	1 486	-3.3%

EuroArt Plus

In autumn 2006, M-real launched EuroArt Plus, a new generation coated fine paper. The idea of updating the well-established brand EuroArt came from the customers. In market studies and interviews with printers, designers and merchants it was found that they wanted to get a product with more bulk, higher opacity and better stiffness, all features which could be provided by M-real. In recent years the trend has been toward coated papers with a pleasant tactile feeling. M-real wanted to support that trend and create a paper that combines good bulk with good runnability.

As a result, EuroArt Plus was developed, a paper that offers a real advantage to printers, giving more value for money, reduced show through and faster printing. EuroArt Plus is the solution to tight paper and print budgets, as it allows the customer to produce their printed products more economically. In many cases it is possible to use a lower grammage, which means savings in paper and postage costs. At the same time the excellent quality of the original EuroArt was kept: the excellent printed image, high delta gloss and consistent reliable quality.

EuroArt Plus is PEFC certified.

Available in gloss and silk, EuroArt Plus is set to become a market leader in the production of illustrated books, calendars, company reports and many other applications.

PRODUCTS

Coated papers
Zanders ikono
Galerie Art
Mega
EuroArt Plus
EuroBulk
Allegro
Furioso
Era Silk

Uncoated papers
Tauro
Cento range

Specialities
Chromolux
Silverpapers
Zanders Autocopy
Zanders Trevi
Zanders Zeta
Zanders Gohrsmühle
Zanders Classic
Zanders Bankpost
Zanders Reflex Special
Zanders T 2000
Zanders Spectral
Zanders Medley
Zanders Elefantenhaut
Zanders Efalin
Zanders Estralin

M-real's Commercial Printing business area provides paper and services to the communications and sales promotion industry for advertising, corporate news and marketing materials.

The core business of Commercial Printing is coated graphic fine papers. For M-real, this business is mainly characterised by cost efficient delivery of innovative paper products and services.

M-real is one of the leading producers of coated and uncoated fine paper sheets in Europe. The company has particularly strong market positions in Central and Eastern Europe, in the Nordic countries and in the UK. Six paper mills in four countries provide the basis for excellent geographic coverage and delivery service.

Commercial Printing's sheet deliveries are distributed through merchants, while reels are mainly delivered directly to printers. The end-users are primarily professionals in marketing and corporate communications. Typical uses are annual reports, brochures, folders, inserts, flyers, leaflets, direct mail, catalogues, magazines, books and posters.

M-real offers both coated and uncoated fine papers as well as speciality papers. The range offers excellent surface properties and runnability and meets the most challenging demands of graphic applications. The product range includes several well established and strong brands. M-real Commercial Printing also offers technical support and arranges training and seminars for its customers.

The market situation for Commercial Printing has been very difficult during the past years. Due to the overcapacity in Europe, the fine paper prices have decreased year after year and the operating rates have suffered. In 2006 deliveries to the western European market grew by 1 per cent, to eastern Europe by 8 per cent and to North and Latin America by 30 per cent.

In July 2006, M-real sold its speciality paper mill Pont Sainte Maxence in France, and in October 2006 M-real announced a possible closure of the Sittingbourne mill as well as PM6 and PM7 in the Gohrsmühle. Following the completion of the local consultation process M-real has closed the Sittinbourne mill on 31 January 2007 and PM6 and PM7 in Gohrsmühle by the end of February. These actions help to gain a better supply-demand balance in Europe, but rapidly increasing capacity in South East Asia, especially in China, is limiting European mills' export to traditional markets in the Far East and North America.

Outlook

The order inflow to the industry is for the time being rather good; operating rates are over 90 per cent and the demand is expected to remain good. The first price increases in six years have taken place for uncoated folio sheets in Western Europe and for coated fine papers in the UK. The industry has also announced price increases for coated fine papers in Continental Europe effective from January 2007.

The new hardwood pulp capacity in South America is likely to put pressure on hardwood pulp prices during 2007, but in Europe, wood, energy and transport costs are expected to increase further. The paper industry recently announced several closures of mills and machines.

Developments in 2006

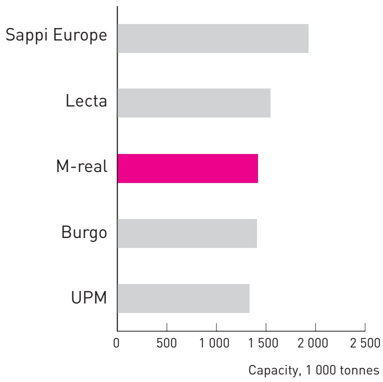
A new sheeter and a new reel packaging machine were installed in the finishing department at the Gohrsmühle mill in Germany, resulting in improved converting and delivery capacity of the two side coated qualities.

At the Gohrsmühle mill a new hood and steam box were installed on PM2 and a new steam box on PM3 in order to improve paper moisture profiles and reduce energy costs. As part of the restructuring programme separate lines for hardwood and softwood pulps were installed.

In early 2006, a new biomass boiler at the Hallein mill started up, resulting in reduced energy and waste treatment costs for the mill. This is the biggest investment within Commercial Printing in the last few years.

At the Stockstadt mill, a new ream wrapping machine was installed. At the same time, M-real's Consumer Packaging business area invested in a new board sheet cutter in order to better service their European customers. Commercial Printing together with Consumer Packaging also invested in a new packaging line. These investments are part of the mill's restructuring programme.

Biggest coated fine paper producers in Europe



Key Figures by Commercial Printing

	2006	2005	Change
Sales, EUR million	1 504	1 488	1.1%
EBITDA, EUR million	-21	58	
EBITDA, %	-1.4	3.9	
EBITDA, excl. non-recurring items, EUR million	74	67	
Operating result, EUR million	-242	-62	
Operating result, %	-16.1	-4.2	
Operating result, excl. non-recurring items, EUR million	-26	-33	
Return on capital employed, %	-21.7	-4.9	
Return on capital employed, excl. non-recurring items, %	-2.2	-2.6	
Deliveries, 1 000 t	1 895	1 866	1.6%
Production, 1 000 t	1 923	1 880	2.3%
Personnel average	4 425	4 816	-8.1%

Next generation packaging features for office papers

M-real Office Papers has decided to focus only on developing brand offers that are deeply rooted in consumer perception in order to gain the highest possible attention among those who choose and use. It was obvious that research and analysis of consumer behaviour was the key to success.

By listening to how consumers categorise and rationalise paper choices, a new quality segmentation logic was developed. Observing consumers handling the packaging and tracking their eye and body movements have led to the development of the next office paper packaging generation.

The first steps have already been taken to make the brands Data Copy and Logic easier to find, choose, carry and open. And it looks very promising: Consumers not only appreciate the developments, they also admit to being willing to pay more for packaging features that simplify their life in the office.

PRODUCTS

Data Copy range	More information is available on:
Evolve range	www.m-real.com
Logic range	www.datacopy.com
Modo Papers range	www.logic-papers.com
	www.evolve-papers.com

M-real's Office Papers business area produces, markets and sells a range of high quality uncoated fine papers to meet the continuing growth in paper usage in offices and homes.

This includes papers for printing and copying, as well as for forms, envelopes, manuals and business communication purposes.

M-real Office Papers is a leading supplier in Europe, both in terms of production volume and sales, and has a favourable brand position. The company is a major supplier of cut size papers in the European market, and it has also built a strong position in reels over the years, resulting in market-wide recognition and high customer loyalty in relevant business segments. The company's market position is further enhanced by its unique recycled products.

M-real's position on the market is strengthened by the convenient location of its production units in Sweden, the UK and France, combined with efficient logistics.

Cut size paper users range from home offices to large corporations and institutions. They make their purchases mainly through paper merchants, office equipment manufacturers and office products companies. For office products companies, including contract stationers, mail order companies and office supplies stores, paper is just one part of the product range, although an important one. The distribution of paper reels is less complex than that of cut size paper, and they are normally delivered directly to converters and printers.

M-real Office Papers is developing its commercial activities through all channels but has decided to focus on exploring potential business opportunities with large direct customers in the office products industry. In order to facilitate this, new marketing tools and services have been developed and successfully implemented to match the needs of category management on European level.

M-real's office papers range from specially engineered papers for colourful prints to cost-effective papers for large volume applications. The product portfolio includes the well-established brands Data Copy, Logic, Evolve and Modo Papers. The Evolve papers, which are based on 100 per cent recycled fibre, are produced in response to the demand for high quality recycled paper. Business papers supplied as reels under the Modo Papers brand include highly specialised papers for laser, preprint, inkjet, optical character recognition (OCR) and envelope converting. M-real is expecting strong growth in colour printing applications, which require special features from paper. The new Data Copy Colour Printing paper has been specifically developed to fulfil these requirements.

In the area of research and development, M-real Office Papers focuses on understanding customer behaviour, preferences and perceptions as well as continuous quality improvement and close cooperation with office equipment manufacturers. Research findings are implemented, for example, in developing different service offers, communication tools and innovative packaging solutions and functionality, making the products easier to carry, handle and use. There is also a strong focus on improved process control, quality assurance, paper surface structure and properties, and efficient utilisation of raw materials.

Outlook

Despite advances in electronic media and changes in information handling, which are often seen as a threat to paper, the European consumption of cut size paper is steadily increasing.

In the short term, M-real expects the cut size market to develop positively. In the long run, however, the performance of the business reels sector will be less favourable, mainly because of growing competition from cut size applications.

Developments in 2006

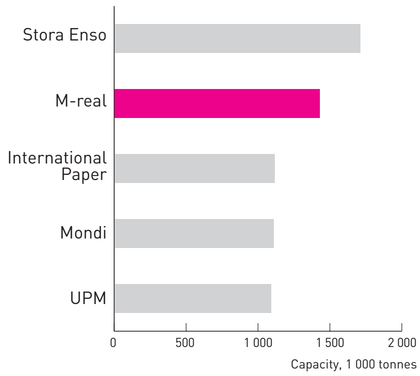
In April–May a EUR 8 million investment in the French Alizay mill was carried out, comprising rebuild of the wire section of the paper machine. With the investment, M-real strives for a clear increase in product quality to meet the increasing market demands. An efficiency programme was also started in 2006, and as a result the staff will be reduced by about 100 persons.

In October M-real announced a possible closure of the Wifsta mill in Sweden, as part of an extensive restructuring programme which includes plans for several capacity closures and asset sales. Following the completion of the local consultation process, M-real has decided to close the Wifsta mill by the end of June 2007.

Data Copy underwent a complete proactive makeover during 2006, in view of anticipated changes in the office paper market. In line with the new concept, Data Copy now has a simplified range of paper qualities, including a new paper grade which corresponds to the need for superior quality colour printing.

A new customer service and supply chain planning system, integrating systems from sales order processing through to despatch and invoicing, was implemented in the New Thames mill in November and will be rolled out to the other mills in 2007. This enables more efficient paper machine scheduling, automated enquiry handling and greater optimisation potential through sales and operations planning, giving the customer a more efficient and reliable service.

Biggest uncoated fine paper producers in Europe



Key figures by Office Papers

	2006	2005	Change
Sales, EUR million	727	704	3.3%
EBITDA, EUR million	59	57	
EBITDA, %	8.1	8.1	
EBITDA, excl. non-recurring items, EUR million	69	66	
Operating result, EUR million	-18	-5	
Operating result, %	-2.5	-0.7	
Operating result, excl. non-recurring items, EUR million	7	4	
Return on capital employed, %	-2.3	-0.5	
Return on capital employed, excl. non-recurring items, %	1.1	0.6	
Deliveries, 1 000 t	1 039	1 034	0.5%
Production, 1 000 t	1 028	1 034	-0.6%
Personnel average	1 822	1 948	-6.5%

MAP MERCHANT GROUP

Premier Snapshot

Vision in Print is a government sponsored organisation dedicated to improving the productivity and profitability of the UK print sector. Keen to differentiate itself from other merchants, Map's Premier Paper Group hit on the idea of working with Vision in Print, and introduced its Premier Snapshot programme. This diagnostic service helps printers apply best-practice to their businesses, and has led to over GBP 5.2 million worth of added value benefit to the UK print sector.

Premier Snapshot provides a short, sharp look at a printer's operations, giving rapid assessment of potential for improvement and readiness to move forward. Companies that have already completed the project report substantial improvements in productivity, improved team competencies, and first steps taken in introducing a culture of continuous improvement.

A second initiative, Premier Development, makes a training programme of structured and targeted courses available to companies who may not have sufficient in-house resources to develop their own staff's potential.

Recognising the success of these projects, the People in Print Awards made Premier its Supplier of the Year 2006, voted for by readers of Print & Paper Monthly together with industry associations BPIF, PICON and PIRA.

PRODUCTS

Coated papers	Uncoated papers	Office papers	Multi-purpose range
tom&otto	Dito	Symbio	Olin Concept
2U	Fashion	Image	
Claro		Fashion	

Map Merchant Group is one of the top four paper merchanting groups in Europe.

There is more than one way to market paper, and paper merchants play a vital role in reaching a huge variety of customers. Paper merchants provide many different added-value services, as well as supplying a wide range of products that can include sign and display materials in addition to coated and uncoated paperboard, packaging materials, digital papers, speciality grades and self-adhesives.

Map Merchant Group is the merchanting network of M-real, consisting of 25 individual companies operating across 23 European countries. Central and Eastern Europe are experiencing most growth, while the western European markets are more mature and competitive.

M-real is a strategic supplier of paper and paperboards to Map, but its merchants can also source brands from other paper companies in addition to products not manufactured by M-real mills. Map also markets a range of own-label papers, providing consistency of quality.

The group's strengths are strong leadership at both central and operating company level, combined with the sharing of best business practice between individual merchants. It is probable that more international teams will be formed, like the one established in 2006 for office papers, to sell to key multinational accounts in other sectors. Individual merchants will continue their focus on differentiation and development of close contacts to ensure customer satisfaction.

Outlook

Map aims to continue its growth. Operating in a highly competitive marketplace, Map is confident that a programme to reduce operating costs will help restore margins that have been eroded in recent years, and at the same time Map continues to look at new revenue streams.

Developments in 2006

Map continues to see its results improving year by year. Volumes increased during 2006, but margins remained under pressure.

During the year, more merchants changed their trading names to Map, including those in Austria, Czech Republic, Hungary, Poland, Slovakia, Slovenia and Spain. With the name and corporate identity now adopted by the majority of merchants in the group, significant efficiencies can be made in sharing marketing material and closer identification with Map's own brand products. An example of this was the launch of a new sample collection for the Nordic and Baltic countries, Russia and Ukraine.

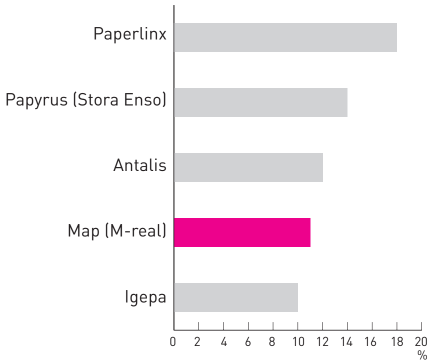
Another important move was the establishment of Map Across Europe, a team of Key Account Directors who are targeting international office papers business. Taking advantage of the growth potential in pan-European office business, the team targets specific prospects including large end-users, buying groups, office product dealers and major retailers.

Map launched several new own-label brands including Fashion, an exciting range of 36 cool and vibrant coloured papers, Image, a range of three high quality business and printing papers fine-tuned to meet today's patterns of usage, and Claro, a new coated brand with PEFC accreditation. Many promotions were held around the relaunch of Data Copy, M-real's office papers brand.

Notable initiatives pursued by individual merchants to meet the needs of their markets include e-ordering and e-invoicing modules, together with a web shop, launched by ModoVanGelder in the Netherlands. Premier Group in the UK won a Supplier of the Year award for its Premier Snapshot and Premier Development initiatives, designed to help printers become more profitable.

Map Ukraine opened a merchant stock holding for the first time, and the holding is growing. It also won a tender to supply security paper for the Ukrainian elections, and has become the leading supplier of metallised label paper holding a 70 per cent share of the market in Ukraine. A new distribution centre was opened in Vilnius, Lithuania, which will serve the Baltic countries as well as Ukraine and Russia.

Estimated paper merchant market shares in Europe



Key figures by Map Merchant Group

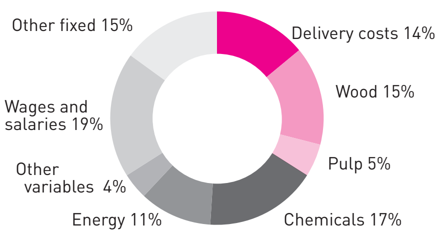
	2006	2005	Change
Sales, EUR million	1 438	1 390	3.5%
EBITDA, EUR million	27	26	
EBITDA, %	1.9	1.9	
EBITDA, excl. non-recurring items, EUR million	33	29	
Operating result, EUR million	-42	18	
Operating result, %	-2.9	1.3	
Operating result, excl. non-recurring items, EUR million	27	22	
Return on capital employed, %	-14.2	6.0	
Return on capital employed, excl. non-recurring items, %	9.4	7.2	
Deliveries, 1 000 t	1 431	1 359	5.3%
Personnel average	2 481	2 515	-1.4%

An essential feature of M-real Corporate Responsibility is that the whole chain, from procurement of raw materials and energy to product use and recycling, is under control.

Resources

The most relevant resources in M-real's cost structure are wood and fibres, chemicals, energy and personnel.

M-real cost structure 2006*



*) Total annual costs in industrial production roughly EUR 4 billion.

Wood supply

Wood supply to M-real's mills is coordinated by M-real's parent company Metsäliitto Cooperative. Metsäliitto supplied M-real mills with 13.9 million cubic metres of wood in 2006 (including 39 per cent of wood delivered to the Metsä-Botnia mills). The stumpage price of pulp wood in M-real's procurement countries was relatively stable. However, the price of hardwood pulpwood increased significantly in Central Europe.

M-real is committed to responsible sourcing of wood and fibre raw materials. Its raw material suppliers conform to local legislation in their operations.

In 2006, 70 per cent of wood consumed by M-real mills originated from certified forests. Certified chains-of-custodies have been established at all M-real mills. The majority of the certified wood used by M-real is procured from small, privately-owned forests, where PEFC is the predominant forest certification system. In 2006, M-real started deliveries of certified products to the markets. By the end of 2006 1.7 million tonnes of products provided with certification labels had been delivered.

Certified quality and environmental management systems in wood supply include a wood origin tracking system. Wood origin data is required from all suppliers. Purchasing contracts include detailed criteria on environmental issues, such as compliance with legal requirements and good forest management practices. Regular inspections are carried out at harvesting sites.

Metsäliitto provides its personnel and subcontractors with training on environmental issues and safety at work. In 2006, an extensive environmental training programme was carried out in Russia. The programme focused on, for example, sustainable forestry practices and wood origin tracking.

Wood supply to M-real mills by country*

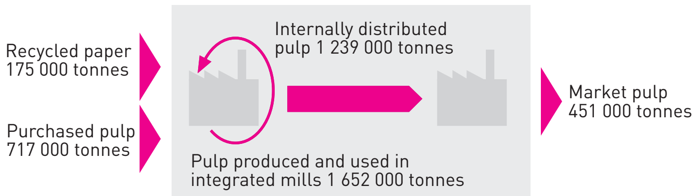
1 000m^3	**2006**	**2005**
Finland	6 119	5 607
Sweden	2 622	2 214
Russia	1 546	1 422
France	1 046	1 333
Austria	830	828
Germany	543	600
Latvia	440	655
Uruquay	406	89
Estonia	190	237
Lithuania	113	192
Total	**13 855**	**13 176**

*) including 39 per cent of wood delivered to Metsä-Botnia mills.

Deliveries of certified wood to M-real mills*

	2006		**2005**	
	Certified PEFC (%)	**Certified FSC (%)**	**Certified PEFC (%)**	**Certified FSC (%)**
Finland	72	2	72	0
Sweden	26	34	21	28
Germany	77	0	71	5
Austria	82	0	70	0
France	51	14	43	0

*) including 39 per cent of wood delivered to Metsä-Botnia mills.
The figures indicate the share of wood, including imports, supplied with certified Chain-of-Custody.



Pulps

In 2006 M-real used 3.6 million tonnes of different pulps, of which 2.1 million tonnes were produced at M-real's own mills and 1.1 million tonnes at the Metsä-Botnia mills. M-real requires of its pulp producers strict compliance with legislation and annual reporting of wood origin, forest certification and environmental information.

Energy

Wood-based by-products account for more than half of the fuels used in energy production at M-real mills. In addition, M-real procured 10.0 TWh fuels and heat, as well as 4.1 TWh electricity in 2006. Natural gas is the most important fossil fuel.

The cost of energy, especially natural gas and purchased electricity, which are the largest components in energy cost, has increased in 2005 and 2006. Furthermore the price of energy wood is increasing. The total electricity, heat and fuel procurement cost in 2006 was approximately EUR 370 million. M-real has secured 60 per cent of its electricity demand from on-site power plants and by shareholding in utility companies. The rest is purchased from the open market. M-real uses hedging to protect the company from the short term price volatility of electricity and natural gas markets. The hedging ratios are within the limits set by the respective hedging policies that have been approved by the Board of Directors of M-real.

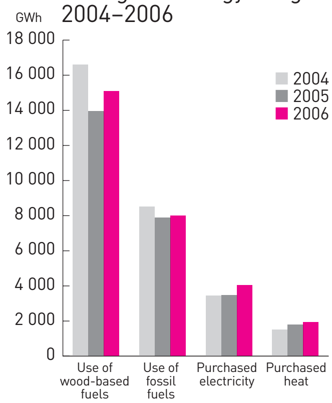
M-real continued to follow its approved climate strategy. Emissions trading is implemented centrally. In 2006 M-real had a sufficient amount of so-called free of charge allocated CO_2 (carbon dioxide) allowances and was therefore able to sell a small amount. In 2007 M-real does not expect to have a significant need to buy CO_2 allowances. The direct economic impact of emissions trading is marginal for M-real until the end of 2007. The allowance limits will be reduced from the year 2008 onwards, but simultaneously measures to reduce emissions continue in M-real. Therefore it is too early to estimate the direct economic impact of emissions trading to M-real after 2008. The indirect impact in the form of the increase in electricity, natural gas and biomass fuel prices is estimated as some tens of millions of euros annually compared to the price level before emission trading started in 2005.

Carbon dioxide emissions have been reduced and will be reduced through increased use of biofuels and reusable waste in electricity and steam sourcing and by improving energy efficiency. One important means to increase the efficiency of energy sourcing is the maximization of combined heat and power production.

The biopower plant, which uses biofuel at the M-real Hallein mill started in 2006. At M-real Kyro and M-real Kirkniemi preparations are made for the possibility of utilising energy based on waste incineration and to reduce the dependence on natural gas. The share of combined heat and power in M-real is relatively high – approximately 44 per cent of all electricity procurement. A company-wide programme to increase energy efficiency targets at least 1 per cent reduction in the specific energy consumption per annum both in 2006 and 2007. Actions, which have an effect of saving approximately EUR 10 million in energy costs, are in progress or completed. Further actions are in the planning stage.

The use of biomass is very natural in the pulp and paper industry due to the functional supply system and logistics of wood. However, the pulp and paper industry is concerned about the availability of wood as a raw material for its processes. There is a risk that excessive support for biomass energy in the European Union member states will make it more profitable to burn wood for energy than to use it for raw material.

Change in energy usage 2004–2006



Total energy, fuel used, 2004–2006*

	2006 GWh	2006 %	2005 %	2004 %
Wood-based	15 940	45	45	50
Natural gas	7 610	21	22	22
Coal	4 919	14	13	8
Nuclear power	3 311	9	9	8
Hydropower	2 162	6	6	6
Oil	1 182	3	4	3
Peat	420	1	1	3
Total	**35 543**			

*) Includes estimated energy sources of purchased electricity and heat.

Efficiency improvements

The effort to reduce raw material and energy cost continued in all M-real units. For R&D, the efforts focused on reducing the input of coating recipes. Progress was made also in the laboratory scale in projects seeking to reduce the cost of coating binder.

Joint work with M-real and Metso continued in mechanical pulp refining, identifying a new breakthrough with 25 per cent energy saving for reject refining. Earlier, more than 20 per cent savings in refining energy had been achieved through the refiner segment design.

Environment

M-real's environmental policy is based around the following main features: sharing responsibility across the whole organisation, continual improvement, responsible use of natural resources and production assets, and open communication.

Continual improvement is ensured by setting development targets and projects at both corporate and mill levels. Progress is monitored and reported regularly. The mills are responsible for setting their own numerical emission targets, which are dependent on local conditions and requirements. Emission and discharges are reported quaterly by production units. Relevant environmental incidents and the progress of investments and permit processes are reported monthly.

In comparison with the previous year, total emissions per tonne of production decreased by 2.1 per cent. Eutrofying discharges to water decreased significantly by 8.4 per cent, and specific emissions of greenhouse gases were also reduced by 4.8 per cent.

Major environmental investments were made at the Hallein and Stockstadt mills.

A new biomass combined heat and power plant of the Hallein mill utilising sludge, bark and logging residuals was taken into operation in spring 2006. Carbon dioxide emissions of the mill were reduced considerably, about 35 per cent. Stockstadt mill has improved the efficiency of its waste water treatment plant by starting up an anaerobic reactor prior to the aerobic treatment of the pulp mill effluents. Improvements in material efficiency were made at the Kirkniemi and Kyro mills. The Kyro mill has also completed an extensive noise reduction project.

M-real is prepared for the implementation of REACH, the new EU chemical regulation, which will come into force in June 2007. Among other actions, M-real has conducted risk assessments at all mills to find out if some important chemicals may disappear from the markets due to REACH. The results show minor risks of this happening based on the current information available.

M-real has been able to reduce its environmental liabilities during the past few years with remediation of contaminated sites. Liabilities of a few million euros still remain, mainly on the closing down of three old landfill sites. All M-real's current production units have carried out ground condition surveys in 2005-2006. The found contamination levels and remediation needs were mostly minor.

M-real's environmental product information packages Paper Profiles have become increasingly appreciated by M-real's customers. Paper Profiles are easily accessible at M-real's website. Paper Profiles give paper and paperboard users extensive information about the environmental aspects of production of paper, the pulps used and the origin of wood raw material. It is valuable proof of M-real's environmental transparency and efficent management of the wood and fibre supply chain.

Personnel

Skilled personnel who are committed to a culture of continuous improvement and innovation are the core success factor as M-real faces the challenges of global competition. During 2006 M-real's human resources strategy focused on

- developing M-real leaders to have better balance between managerial effectiveness and visible leadership
- creating components of high performance (performance management, rewarding & recognition and talent management)
- strengthening resources in the customer interface.

At the end of 2006, the total number of M-real's employees was 14,125. The average age was 44.2. On average, the employees have worked with the company for 16.2 years.

During 2006, M-real's sales and customer service were integrated to the respective business areas. At the same time, the administration was made more centralised. Many

Personnel country profiles

	Personnel Dec. 2006	Net employment creation 2006	Average age of employees 2006
Finland	4 220	-268	46.2
Germany	2 432	-235	45.4
United Kingdom	1 661	-110	43.9
Sweden	1 496	-104	46.4
Austria	794	-70	42.4
Switzerland	565	10	42.3
Hungary	491	-31	39.4
France	488	-308	41.1
Belgium	368	-28	39.7
The Netherlands	292	-35	44.3
Poland	193	13	37.1
Other Countries	1 125	137	38.6
Total	**14 125**	**-1 029**	**44.2**

Influence of acquisitions and divestments in 2006 is -169.
Personnel includes 39 per cent of Metsä-Botnia's employees.

Environmental indicators

			2006	2005
Emissions to air	Greenhouse effect	Tonnes CO_2 -eqv	2 013 938	1 969 216
	Acidification	Tonnes SO_2 -eqv	8 803	8 563
Discharges into water	COD	Tonnes	44 246	40 220
	Eutrophication	Tonnes P-eqv	243	246
Waste	Landfill waste	Tonnes	86 890	83 084

restructuring programmes were concluded especially at the mills, causing staff reductions mainly in Finland, Germany and Austria. Additionally M-real Pont Sainte Maxence mill in France was divested, and negotiations concerning the possible closure of M-real Sittingbourne in the UK, Wifsta in Sweden and Gohrsmühle PM6 and PM7 in Germany was started.

Changes in M-real's operations model and structures increased the training needs of the personnel. M-institute Silva, M-real's training centre has trained all levels of employees in order to increase flexible production and maintenance abilities. M-real continued to develop its understanding on financial indicators. In all, 147 managers and sales people participated in the M-real Financial Understanding training.

Occupational safety and well-being

The task of preventing accidents, which is based on the occupational safety and well-being policies, continues. Occupational accidents and near misses are identified and reported systematically. The impact of working conditions and work satisfaction on sickness absenteeism and the inability to work has been recognised, and consequent development actions have been started in the units.

The development is based on the persistent efforts of units' management and superiors. However, good safety practises in M-real have proved that safety is the responsibility of each individual employee. It is part of professional competence to know how to do your job safely.

As an encouragement to continued effort towards occupational safety and well-being, it was decided to establish a reward practise. The safety award is granted to a mill, whose occupational safety and well-being are the best of all M-real's mills. The 2006 award was granted to M-real Zanders Gohrsmühle. In addition, the mill which has also improved its results most compared to previous year is awarded with Make Safety Work acknowledgement. Year 2006 the acknowledgement was granted to M-real Biberist.

The criteria for measuring health and safety at work have been defined. The most important ones are the frequency of occupational accident leading to absences, frequency of disability days caused by occupational accidents, near miss incidents and absence due to illness.

Research and development

M-real continued internal R&D efforts underlining customer cooperation as a tool to improve the total competitiveness of the paper and paperboard-based value chains. M-real participated actively in completing the EU targeted Forest-Based Sector Technology Platform and the related national research agendas. In Finland, the national R&D organisation for the forest industry was analysed in 2006 and there is a strong will to further strengthen it in order to renew the industry. M-real's R&D input in 2006 was EUR 20.5 million.

Product innovations

The development project at the Simpele board mill was completed. The project accompanied with an extensive investment of EUR 60 million. The key element was a new innovation from Metso, a metal belt calender. The calender simplified the whole boardmaking process, and increased production by removing process speed limiting bottlenecks. In addition to increased production capacity, extremely high stiffness and bulk are achieved for the Simcote and Simwhite products. This enables more square meters of board per tonne, which improves competitiveness when compared to alternative board grades.

EuroArt Plus fine paper was launched. EuroArt Plus is a new generation, coated fine paper for sheet fed offset printing that offers more value for money through outstanding bulk and stiffness, reduced show-through and faster printing. The development combined in-house pulp know-how and coating structure engineering but did not require any major investments.

The Data Copy product family was renewed. There are now two Data Copy products: Data Copy Everyday Printing for a range of multipurpose uses and Data Copy Colour Printing, which is a response to the market demands for colour printing applications. In addition to the paper products, the work involved development of the product packages. The new boxes have the special tear strip for easy opening and all A4 boxes are available with the Grab-and-Go™ handle.

Customer cooperation

The effort to support M-real Publishing customers in optimising print quality and colour management procedures continued. The number of customer cases increased markedly, indicating a strong demand for this type of service.

Our continuing research programme into reader experience and response to magazines and advertisements was recognised as one of the criteria by the PPA (Periodical Publishers Association) for which M-real was awarded as Magazine Paper Supplier of the Year.

The development for the Stars security board was completed and the deliveries started. The Stars technology enables easy brand identification.

Occupational safety and well-being 2004–2006

	2006	2005	2004
Sickness absenteeism (%)	4.2	4.4	4.7
Work injury absenteeism (%)	0.2	0.2	0.3
Lost time accident frequency rate (per million worked hours)	18.6	15.5	18.9
Lost day frequency rate (per million hours)	263	245	303
Reported near misses (per 100 employees, production units only)	23.4	20.5	13

The paper and paperboard industry is generally divided into two sectors. The sectors are printing and writing paper, which includes fine paper, magazine paper and newsprint, and the packaging sector, which includes cartonboard and corrugated board materials.

The industry is cyclical and generally international, capital intensive and highly competitive with many participants. In Europe, the paper and paperboard industry is still rather fragmented and consolidation is expected to continue.

Generally, paper and packaging products are sold directly to publishers, printers and manufacturers of packaging or to merchants. Paper merchants buy large volumes of paper from paper producers, usually stock the paper and sell it in smaller lots, offering high-calibre local service and short delivery times.

Long-term demand growth for paper and paperboard is primarily driven by expansion of the world economy, demographic trends and technological developments. The profit cycles of the industry reflect the fact that consumption and pricing are influenced by the economic cycle and, within it, the balance between supply and demand for individual products.

In Europe, during the past few years, a situation of substantial surplus supply of various paper grades, caused by a period of industry-wide investment in new production capacity and significant cyclical contractions in demand due to weak economic conditions, has led to decreasing product prices. As a result, financial performance in the industry has deteriorated during this period of significant oversupply. For European producers, the challenging trading environment has been exacerbated in 2003 to 2006 by the significant weakening of the US dollar against the euro, which has affected negatively the competitiveness of the European paper and paperboard producers. In addition, paper and paperboard producers have been negatively affected by the impact of increased energy, raw material and transportation costs.

In general, paper product prices appear to have stabilised in 2005 and 2006, although there have been variations among the different grades. The prices in some grades, for example coated magazine paper and uncoated fine paper, have slightly increased during this period.

M-real and some of its competitors have indicated closures of European paper production capacities. Some of these closures have already been implemented. When fully implemented, these closures should lead to an improved supply-demand balance in Europe and thus make room for paper price increases.

M-real's main market area is Europe, where the company makes over three fourths of its paper and paperboard deliveries. General economic growth is expected to slow down slightly in 2007 compared with 2006. Paper demand is generally estimated to grow largely in line with the economic growth in Europe. The rapidly growing markets in Eastern Europe are gradually gaining in importance; however, the demand is growing from low levels.

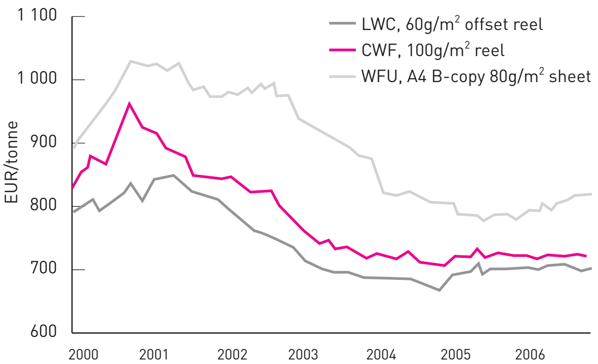
Production capacity in Europe

Million tonnes annually	Europe	M-real	M-real's share (%)
Folding boxboard	2.7	0.8	30
Coated magazine paper	11	1.3	12
Coated fine paper	11	1.4	13
Uncoated fine paper	11	1.4*	13

*M-real's Wifsta mill (capacity 175,000 tonnes annually) will be closed by the end of June 2007.

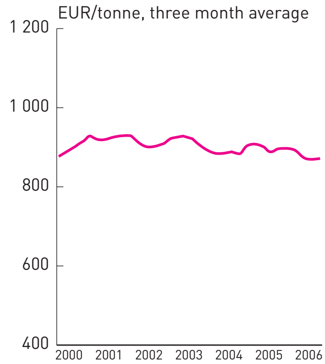
Source: M-real, Pöyry

Paper market prices in Europe

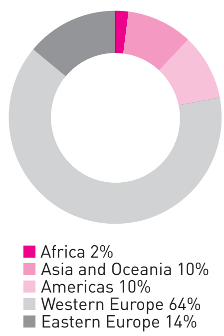


Folding boxboard market price in Europe

EUR/tonne, three month average



M-real paper and paperboard deliveries by market area



Source: Foex

Risk management is part of M-real's normal business operations and management.

It supports day-to-day decision-making, operations control and the internal control process. Risk management is integrated into the company's planning processes. The aim of continuous risk management is to promote and ensure the achievement of the goals set for the company. M-real's risk management process is described as follows

Risk management is the process and structure with which the key risks and threats but also inherent opportunities of M-real are identified, managed and reported.

Risk management supports the business operations to achieve set targets.

Risk management supports the safe undisturbed running of the operation in all circumstances, as well as the optimal management of the company's total risk exposure.

M-real has allocated risk management responsibilities as follows

M-real's Board of Directors is responsible for the company'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 CEO and the Management Team 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 CFO evaluates the risk assessments that have been made and regularly reports on the final results and the development of risk management to the company's Management Team, Audit Committee and Board of Directors.

The Risk Management Department is responsible for developing the company's risk management process, coordinating the work, and carrying out risk assessments and determing the main elements of insurance coverage. The Vice President, Group Risk Management reporting to the CFO is responsible for the daily operations of the department.

The business areas and the support functions identify and assess the essential risks for their own areas of responsibility in their own planning processes, prepare for the risks and take the necessary preventive actions and report as agreed.

M-real's risk environment and the changes to it are regularly assessed and monitored as part of the company's planning processes. The identified risks and their management are reported at least twice a year to the Management Team, the Audit Committee and the Board of Directors. Certain business risks also involve opportunities, and attempts are made to utilise them with discretion according to risk tolerance. Conscious risk-taking decisions must always be based on a sufficient assessment of risk tolerance and the ratio of loss and profit potential.

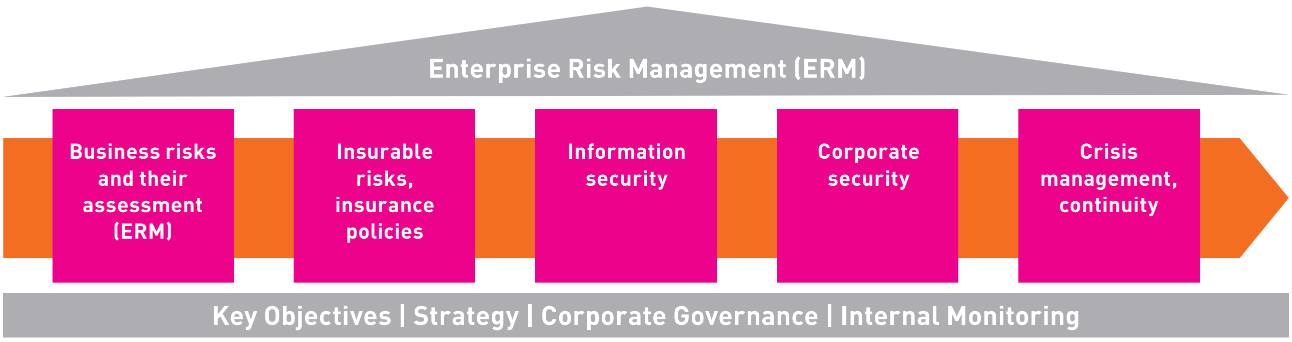
The central elements of M-real's risk management include

- implementing a comprehensive enterprise risk management process as a support to business operations
- protecting assets and property, ensuring the continuity of business operations
- corporate security and its continuous development
- crisis management and recovery plans.

The purpose and aim of M-real's risk management is to

- ensure that all identified risks affecting the employees, customers, products, property, information assets, company image, social responsibility and the company's capacity to act are always managed as required by the law and otherwise as justified taking into account the best available knowledge and prevailing economic conditions
- to promote and ensure the achievement of the goals set for the company
- fulfil the expectations of the stakeholder groups
- to protect assets and property and ensure the trouble-free continuity of business operations
- optimise the ratio of loss and profit potential
- ensure the management of the company's total risk exposure and minimisation of the total risk.

Basic elements of M-real's risk management process



SIGNIFICANT RISKS AND UNCERTAINTY FACTORS

In the regular risk assessments carried out in 2006 the following risks and uncertainty factors were identified, which, if they are realised, may affect M-real's financial performance and capacity to act:

Competition in the industry and economic fluctuations

The industry is highly competitive and there is an oversupply on the market in certain products. Continuance of unfavourable market conditions to M-real or their weakening further may increase risks affecting profitability. This requires sufficient preparatory measures.

Liability risks

M-real's business operations involve various types of liability risks, such as general operational liability risks, environmental risks, product liability risks, etc. Attempts are made to manage these risks by improving business processes, practices, quality requirements and the transparency of operations. Part of the above-mentioned risks have been transferred to insurance companies by means of different kinds of insurance contracts.

Changes in consumer habits

In the future, changes in the new electronic communications technology, marketing channels and consumer habits may negatively affect the demand for M-real's paper products.

Business interruption risks

Catastrophes and major accidents, natural catastrophes, serious malfunctions in critical information systems, labour disputes and delivery problems of the most important raw material suppliers, for example, may interrupt M-real's business operations and, in extreme cases, cause loss of customers. Continuity and recovery plans have been drawn up in the different business areas for reducing these risks. In addition, some of the mill operation interruption risks have selectively been transferred to insurance companies.

Price risks of commodities and raw materials

A radical and surprising rise in the price of commodities important for M-real's operations, such as energy, may reduce profitability and thus also the realisation of the savings objectives set. M-real attempts to hedge against this risk by entering into various derivative contracts for periods of different lengths.

Credit and other counterparty risks

The management of the credit risks involved in commercial activities is the responsibility of M-real's business areas and centralised credit control. M-real's business areas define the terms of payment for different customers, and credit control, in turn, defines the internal credit limits granted to different customers. Part of the credit risks are transferred further to credit insurance companies by means of credit insurance contracts.

The main principles for the company's credit control are defined in the credit policy approved by the company's management. Counterparty-specific, approved maximum amounts are also applied to investments, derivatives and borrowing in order to ensure creditworthiness and to reduce risk concentrations.

Personnel

M-real has paid special attention to ensuring the availability and stability of personnel by means of various development programmes and special measures. M-real attempts to prepare for a generational shift and other risks related to the stability of personnel by means of career planning and work rotation.

Political uncertainty factors and project risks

Political uncertainty has primarily arisen from the pulp mill project of M-real's associated company Metsä-Botnia on the border of Uruguay and Argentina.The World Bank has in November 2006 approved the financing and the guarantee for the Uruguay pulp mill. All impartial environmental investigations back the favourable views presented earlier about the environmental safety of the project.

Financial risks

The financial risks involved in business operations are managed in accordance with the financial policy approved by the company's Board of Directors. The policy defines detailed operating instructions for the management of the currency, interest rate, liquidity and counterparty risks and the use of derivative instruments, among other things. The aim is to hedge against significant financial risks, balance the cash flow and give the business units time to adjust their operations to changed conditions. M-real's financial risks and their management are described more on pages 45–48 in this annual report.

Preparing for and transferring risks

Identified risks are prepared for by means of the information and knowledge that the company itself, its partners or external experts have at their disposal.

Part of the risks are borne by the company itself and part of them are selectively transferred by means of, among other things, insurance contracts, derivative contracts and terms and conditions otherwise included in contracts, to be borne by insurance companies, banks and other counterparties.

Transfer of risks by means of insurance contracts takes primarily place by global insurance policies addressing the most common non-life risks, including

- property and business interruption insurance
- general and product liability insurance
- D&O liability insurance for the manage ment and administrative bodies
- credit insurance
- marine cargo insurance.

Except for few transport claims, no significant losses exceeding the deductible occurred in the above-mentioned insurance schemes in 2006.

Financial statements

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The graphs in this annual report are presented according to International Financial Reporting Standards (IFRS) for 2004–2006 and according to Finnish Accounting Standards (FAS) for 2002–2003

Market situation in 2006

Economic growth in Western Europe accelerated markedly in 2006 compared with the previous year. Growth also continued very strongly in North America and Asia. In 2007 economic growth is generally forecast to slow down somewhat in all of the above-mentioned areas. Production input costs increased further in 2006, creating profitability pressures in various industrial sectors. On the foreign exchange market, the average rates of the US dollar and the British pound remained approximately at the previous year's level.

In Europe, printed advertising spending - one of the most important indicators of trends in paper consumption - increased at the same pace as overall economic growth. The moderate growth rate is expected to continue also in 2007.

In 2006, European deliveries by western European coated and uncoated fine paper producers remained at somewhat higher levels compared with the previous year, while deliveries of coated magazine papers continued at the previous year's level. The deliveries of all the above-mentioned paper grades to eastern Europe grew significantly in 2006. Overcapacity on the European paper market continued in 2006. No significant changes took place in the average paper market prices in Europe. The price of uncoated fine paper was the only one to rise slightly.

Recent capacity closures by European paper producers and further closures scheduled for the second half of 2007 will help the market regain its balance. On the other hand, the weak exchange rate of the US dollar may cause many European paper producers to try to shift their export deliveries to Europe, which would partially offset the impact of capacity closures on the internal balance within the European market.

In folding boxboard, deliveries to Europe by western European producers increased slightly in 2006 compared with the previous year. Demand developed favourably in eastern Europe in particular. Comparability with the previous year is affected by the labour dispute in the Finnish paper industry. The market prices of folding boxboard remained unchanged.

Result for the period

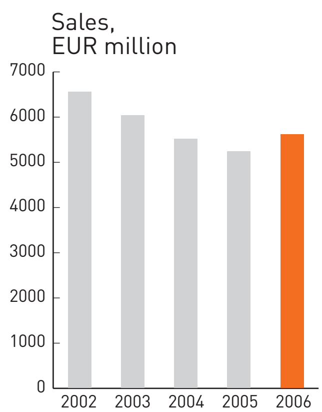
M-real's sales in 2006 totalled EUR 5,624 million (5,241 in 2005 and 5,522 in 2004). Comparable sales rose by 8.1 per cent.

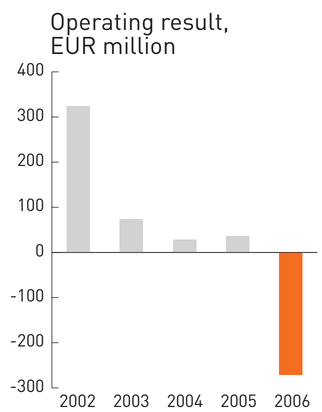
Operating result was EUR -271 million (36 in 2005 and 28 in 2004). Operating result was -4.8 per cent of the sales (0.7 per cent in 2005 and 0.5 per cent in 2004). The operating result includes a net of EUR -316 million (32) as non recurring items. Non-recurring income amounted to EUR 3 million (88) and non-recurring costs to EUR 319 million (56).

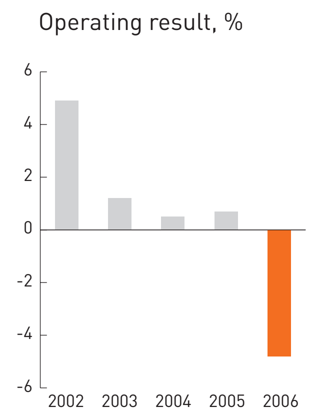
The most significant non-recurring costs in 2006 were:
- an impairment loss of EUR 176 million in the fourth quarter
- a write-down on fixed assets and cost provision for the closing of the Sittingbourne mill of EUR 60 million in the fourth quarter
- a write-down of EUR 15 million on the fixed assets of the Wifsta mill in the fourth quarter
- a sales loss of EUR 37 million for the Pont Sainte Maxence mill, of which EUR 35 million was in the second quarter and EUR 2 million in the third quarter
- costs related to personnel reductions at the Stockstadt, Hallein and Alizay mills totalled EUR 24 million, of which EUR 19 million was in the second quarter and EUR 5 million was in the fourth quarter
- an efficiency improvement programme in the Map Merchant Group business of EUR 6 million in the fourth quarter.

The most significant non-recurring income item in 2005 was the capital gain of EUR 81 million on the sale of Metsä-Botnia shares. The most significant non-recurring costs in 2005 were:
- a write-down and cost provision for the Pont Sainte Maxence mill, EUR 24 million
- a cost provision of EUR 15 million for the operational efficiency programme at the Swedish mills.

The operating result excluding non-recurring items amounted to EUR 45 million (4). The operating result improved on the previous year due to an increase in delivery volumes and moderate increases in the prices of uncoated fine paper and coated magazine paper. Personnel costs excluding non-recurring items were down both absolutely and especially in proportion to the business volume.







Data to graphs on this page: 2002–2003 FAS, 2004–2006 IFRS

The result was weakened by higher raw material prices and higher energy prices in particular, investment and maintenance shutdowns, slightly lower prices of folding boxboard and coated fine paper, and the strike of paper workers at the Finnish mills in May 2006. Higher raw material prices were offset by improved production efficiency.

In 2005 profitability weakened particularly due to the labour dispute in Finland which led to lower delivery volumes in paperboard and coated magazine paper, as well as Metsä-Botnia's lower operating result.

The total volume of paper deliveries was 4,192,000 tonnes (4,046,000). Production was curtailed by 238,000 tonnes in line with demand (199,000).

Deliveries of paperboard products totalled 1,161,000 tonnes (1,006,000). Production curtailments were 60,000 tonnes (44,000).

The operating result for 2006 includes 39 per cent of Metsä-Botnia's operating result. In the previous year the operating result included 47 per cent of Metsä-Botnia's operating result during January-March and 39 per cent during April-December.

The share of the results in associated companies amounted to EUR 0 million (-2).

Financial income and expenses totalled EUR -137 million (-148). Foreign exchange gains and losses from accounts receivable and payable, financial income and expenses and the valuations of currency hedging were EUR 0 million (-33). Net interest and other financial expenses amounted to EUR 137 million (115). Other financial expenses include EUR 6 million of valuation gains on interest rate hedges (4).

At the end of December the exchange rate of the US dollar against the euro was 11.6 per cent lower and the rate of the British pound against the euro 2.0 per cent higher than at the end of 2005. On average the dollar weakened by 0.9 per cent and the pound strengthened by 0.3 per cent.

The result before taxes was EUR -408 million (-114). The result before taxes excluding non-recurring items totalled EUR -92 million (-142).

The net result for the report period was EUR -399 million (-80). The positive impact of income taxes, including the change in deferred tax liability, was EUR 9 million (34).

Earnings per share were EUR -1.21 (-0.25). Earnings per share excluding non-recurring items were EUR -0.27 (-0.35).

The return on equity was -18.9 per cent (-3.4 in 2005 and -5.7 in 2004); excluding non-recurring items -4.4 per cent (-4.8). Return on capital employed was -5.2 per cent (1.2), excluding non-recurring items 1.4 per cent (0.5).

October–December compared with the previous quarter

In the fourth quarter of the year, sales amounted to EUR 1,438 million (7-9/2006: 1,367). Comparable sales were up 5.1 per cent.

The operating result was EUR -246 million (15). The operating result includes a net of EUR -260 million as non-recurring items. Non-recurring income amounted to EUR 3 million and non-recurring costs to EUR 263 million. The operating result for the previous quarter included EUR 2 million of non-recurring costs.

The most significant non-recurring costs in the fourth quarter were:
- an impairment loss of EUR 176 million
- a write-down on fixed assets and a cost provision for the closing of the Sittingbourne mill of EUR 60 million
- a write-down of EUR 15 million on the fixed assets of the Wifsta mill
- personnel reductions at the Hallein mill of EUR 5 million
- an efficiency improvement programme in Map Merchant Group of EUR 6 million.

The operating result excluding non-recurring items totalled EUR 14 million (17). The operating result was negatively impacted by a decrease in product inventories and positively impacted by higher selling prices of uncoated fine paper.

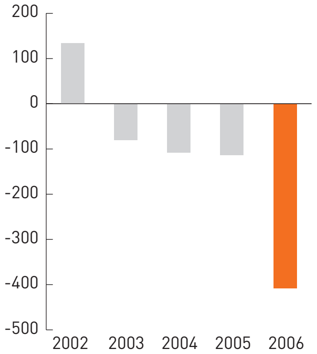
The deliveries of paper products totalled 1,041,000 tonnes (1,031,000). Production was curtailed by 87,000 tonnes in line with demand (52,000).

Deliveries of paperboard products totalled 288,000 tonnes (285,000). Production curtailments were 19,000 tonnes (10,000).

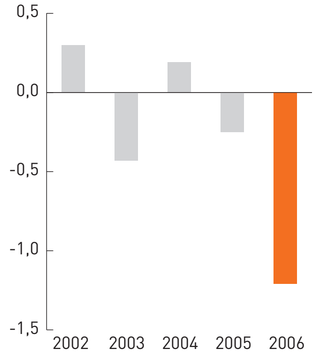
The share of the results in associated companies amounted to EUR 0 million (1).

Financial income and expenses totalled EUR -45 million (-38). Foreign exchange gains

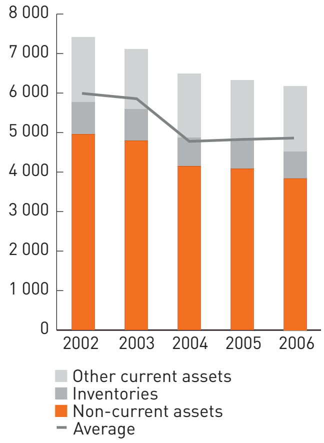
Result from continuing operations before tax, EUR million



Earnings per share, EUR



Assets and capital employed (average), EUR million



Data to graphs on this page: 2002–2003 FAS, 2004–2006 IFRS

and losses from accounts receivable, accounts payable, financial income and expenses and the valuation of currency hedging were EUR -4 million (-1). Net interest and other financial expenses amounted to EUR -41 million (-37). As in the previous quarter, other financial expenses do not include a valuation gain on interest rate derivatives.

At the end of December the exchange rate of the US dollar against the euro was 4.0 per cent lower and the rate of the British pound against the euro 0.9 per cent higher than at the end of September. On average, the US dollar weakened by 1.3 per cent and the pound strengthened by 1.0 per cent compared with the previous quarter.

The result before taxes excluding non-recurring items amounted to EUR -31 million (-20) and including non-recurring items to -291 million (-22).

The result for the fourth quarter was EUR -266 million (-33). The positive impact of income taxes, including the change in deferred tax liability, was EUR 25 million (-11).

Earnings per share were EUR -0.81 (-0.10); excluding non-recurring items, EUR -0.04 (-0.08).

The return on equity was -52.2 per cent (-6.1), excluding non-recurring items -2.6 per cent (-5.8). The return on capital employed was -20.3 per cent (1.8), excluding non-recurring items 1.5 per cent (2.0).

Impairment testing according to IAS 36

M-real announced an impairment charge of approximately EUR 200 million on 18 October 2006 in accordance with IAS 36 impairment testing. The final amount has been specified at EUR 176 million, which is divided as follows:

- Commercial Printing: EUR 108 million on goodwill
- Kyro Paper: EUR 4 million on other fixed assets. Kyro Paper is included in the Consumer Packaging business area.
- Map Merchant Group: EUR 63 million, of which EUR 49 million on goodwill and EUR 14 million on other fixed assets
- M-real's share of the results of Metsä-Botnia's impairment testing: EUR 1 million.

M-real expects the impairment charges to have a positive impact of approximately EUR 2 million on its operating result from 2007 onwards. The impairment charges reduced taxes in 2006 by approximately EUR 3 million.

Personnel

M-real employed an average of 14,884 people in 2006 (in 2005 15,578 and 2004 16,532), of whom 4,559 worked in Finland (4,687 and 5,263). The net reduction was 694 employees of which -71 resulted from acquisitions and divestments.

The number of personnel at the end of the year was 14,125 employees (15,154 employees at 31 December 2005 and 15,960 at 31 December 2004), of whom 4,220 worked in Finland (4,488 and 4,912). The net reduction was 1,029 employees of which -169 resulted from of acquisitions and divestments. Wages and salaries total were EUR 621 million in 2006 (577 in 2005 and 631 in 2004).

The Group's personnel include 39 per cent of Metsä-Botnia's personnel since 31 March 2005. Earlier numbers of personnel include 47 per cent of Metsä-Botnia's employees.

Investments

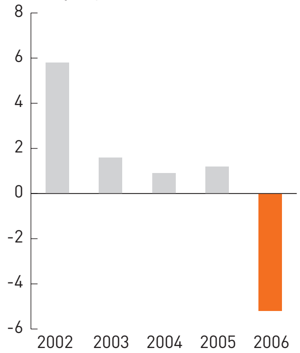
Gross investments in 2006 totalled EUR 428 million (452), which includes a EUR 222 million share of Metsä-Botnia's investments (115). This share includes EUR 17 million paid for the shares in Metsä-Botnia's subsidiaries and associated companies in Uruguay. Total investments in fixed assets amounted to EUR 411 million.

M-real's share of Metsä-Botnia's investments is based on a 39 per cent share of ownership. In 2005, M-real's share was 47 per cent in January–March and 39 per cent in April–December.

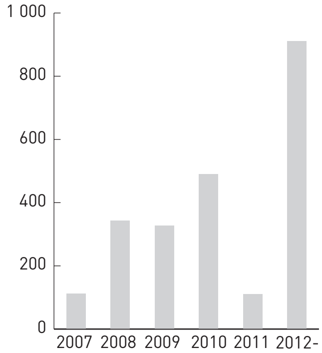
Work on Metsä-Botnia's pulp mill investment project in Uruguay has progressed as planned. The mill, which will produce one million tonnes of eucalyptus pulp, will start up in the third quarter of 2007. The total cost of the investment is approximately USD 1.1 billion.

In 2006, a EUR 60 million investment at Simpele mill was made to modernisation the

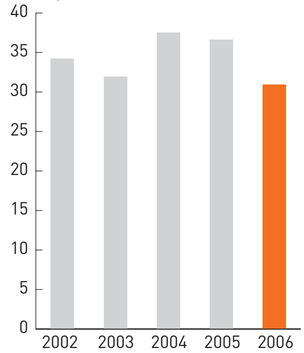
Return on capital employed, %



Repayment of long term loans, EUR million



Equity ratio, %



Data to graphs on this page: 2002–2003 FAS, 2004–2006 IFRS

board machine, replacement of the reeler and reel and sheet packaging unit, and increase in sheeting capacity. The investment increased the mill's annual production capacity to EUR 215,000 tonnes of folding boxboard.

Acquisitions, divestments, and restructuring

On 30 June 2006, M-real sold the Pont Sainte Maxence speciality paper mill in France to the German company Arques Industries. A loss of EUR 37 million for the sale of the mill was booked in 2006. The annual capacity of the Pont Sainte Maxence mill was 120,000 tonnes. The mill employed approximately 200 people.

On 29 September 2006, Kyro Corporation and M-real Corporation agreed on an arrangement which gives M-real the option to purchase the Kyröskoski natural gas powerplant from Kyro. The plant is owned by Kyro Power Oy, a subsidiary of Kyro Corporation. According to the agreement, M-real will be able to exercise its option to purchase in the summer of 2007 when the current energy supply agreement between M-real and Kyro expires.

Research and development expenditure

In 2006, research and development expenditure was approximately EUR 21 million, which is about half a per cent of turnover excluding Map Merchant Group (in 2005 EUR 24 million and 0.6 per cent, in 2004 EUR 28 million and 0.7 per cent). During the year, the number of patents applied for was eleven and there were two product trademarks.

A focus area in research and development was product innovation. The development project at Simpele's board mill, the launching of the new coated fine paper EuroArtPlus, and the renewal of the office paper product group Data Copy all achieved good results.

The other key area of focus was cooperation with customers, in which the Publishing business area in particular made progress and received highly positive customer response.

The third area of focus was improvement of operations, and very significant results have been achieved in energy-saving projects for mechanical pulp production and in cost reduction projects for raw materials.

R&D efficiency has been increased markedly in 2006, and this is evident in an improved input/output performance.

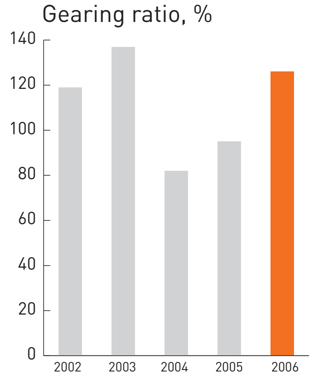
The Environment

M-real's revised environmental policy was approved at the end of the year. The policy will result in no major changes in M-real's environmental management and targets. All production units have environmental systems certified according to the ISO 14001 standard or the EU's EMAS system. M-real's total emissions increased about 5 per cent over the previous year, based on a 7 per cent increase in production. Total emissions per production tonne, on the other hand, decreased by 2 per cent. The eutrophication impact of wastewater emissions decreased, while air emissions that cause acidification and greenhouse gases increased about 2 per cent over the previous years. No major environmental investments were carried out. Environmental expenditure was EUR 65 million.

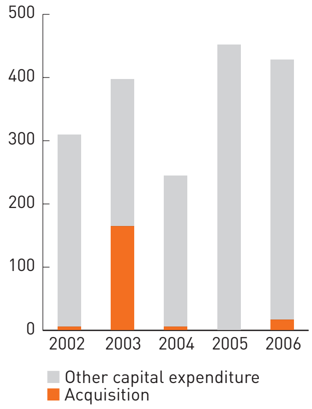
Carbon dioxide emissions will be reduced in line with the M-real's climate strategy by increasing the production and use of electricity and steam from biofuels and waste material, by maximising the production of combined heat and electricity (CHP) and by improving energy efficiency. The biopower plant at M-real Hallein came on stream in spring 2006 and M-real Kyro and Kirkniemi are looking into replacing natural gas with alternative energy sources such as waste material or biofuels. The target of the Metsäliitto Group's energy efficiency programme is an annual 1 per cent reduction in energy consumption. M-real clearly achieved this target. M-real's carbon dioxide emissions increased about 2 per cent over the previous year, largely because of increased production. Total carbon dioxide emissions per production tonne, on the other hand, decreased by 5 per cent. The mills posting the largest emission reduction were M-real Hallein, Reflex, and Biberist.

Emissions trading will be carried out according to a centralised model and emission allowances will be optimised between the Group's mills. An adequate number of emission allowances were obtained in 2006.

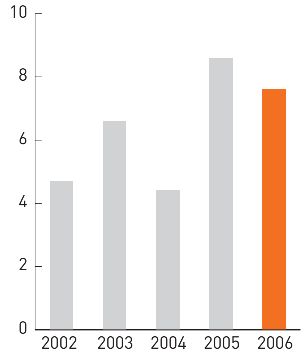
Gearing ratio, %



Gross capital expenditure, EUR million



Gross capital expenditure, % of sales



Data to graphs on this page: 2002–2003 FAS, 2004–2006 IFRS

The amount of old environmental liabilities has been reduced, thanks to the clean-up of contaminated land areas in recent years. At present, known liabilities focus on the closure and post-treatment of three landfills. An extensive survey of potentially contaminated land areas around at existing mill sites was carried out in 2005 and 2006. The study indicated that there was minimal soil contamination and need for clean-up measures were mostly minor.

Provisions for environmental management were about EUR 4 million at the end of the year.

M-real is committed to using wood raw material that comes from sustainably-managed commercial forests and to promoting forest certification and use of certified wood and fibre in its products. All M-real mills have a certified chain-of-custody system for wood procurement. In 2006, many products also received a certification label and about 1.7 million tons of certified products were sold.

M-real publishes its 2006 corporate responsibility figures on its website, www.m-real.com. It includes relevant information on the company's environmental performance.

Financing

At the end of the year, the equity ratio was 30.9 per cent (31 December 2005: 36.6 and 31 December 2004: 37.5) and the gearing ratio 126 per cent (95). Some of M-real's loan agreements specify a limit of 120 per cent for the company's gearing ratio and a limit of 30 per cent for the equity ratio. When calculating the gearing ratio, non-cash write-offs on fixed assets can be returned to shareholders' equity. The maximum amount of such returns is EUR 300 million out of which EUR 263 million have been utilised at the end of 2006. When calculating the equity ratio, deferred tax liability can be added to shareholders' equity. Calculated as specified in the agreements, M-real's gearing ratio at the end of 2006 was approximately 111 per cent and the equity ratio approximately 34 per cent.

Interest-bearing net liabilities amounted to EUR 2,403 million at the end of the year (2,205). Seven per cent of the Group's long-term loans were denominated in foreign currencies. Of these loans, 80 per cent was subject to variable interest rates and the rest to fixed interest rates. The average interest rate on the loans was 6.0 per cent and the average maturity of long-term loans was 4.1 years at the end of the year. The interest rate maturity was 7 months at the end of the year. During the report period the interest rate maturity has varied between 7 and 16 months.

Cash flow arising from operations amounted to EUR 367 million (318). Working capital was down EUR 65 million (up EUR 82 million).

At the end of the period under review, an average of 7 months of net foreign currency exposure was hedged. The degree of hedging during the period has varied between 7 and 9 months; approximately 97 per cent of the shareholders' equity denominated in currencies other than euro was hedged at the end of the report period.

Liquidity is good. Liquidity at the end of 2006 was EUR 1,779 million, of which EUR 1,597 million consisted of binding long-term credit commitments and EUR 182 million represented liquid funds and investments. In addition, to meet its short-term financing needs, M-real had at its disposal non-binding domestic and foreign commercial paper programmes and credit facilities amounting to about EUR 700 million.

In December, M-real issued a EUR 400 million 4-year floating rate Eurobond. The bond will mature on 15 December 2010 and its confirmed rate of interest is 3-month Euribor plus 3.625 per cent. The bond was issued for the purpose of refinancing the company's existing loans.

On 7 July 2006, Moody's Investors Services downgraded the rating on M-real's long-term credits from Ba3 to B2. The rating outlook remained negative.

On 4 August 2006, Standard & Poors Ratings Services downgraded the rating on M-real's long-term credits from BB- to B+. The rating outlook remained negative.

Risks

In the risk assessments implemented in 2006 the following risks and uncertainty factors were identified, which, if they are realised, may affect M-real's financial performance and capacity to act:

Competition in the field and economic fluctuations

The field is highly competitive and there is an oversupply situation on the market in certain products. Continuance of market conditions unfavourable to M-real or their weakening further may increase risks affecting profitability. This requires sufficient preparatory measures from M-real in the various areas of its operations.

Liability risks

M-real's business operations involve various types of liability risks, such as general operational liability risks, environmental risks, product liability risks, etc. Attempts are made to manage these risks by improving business processes, practices, quality requirements and the transparency of operations. Part of the above-mentioned risks have been transferred to insurance companies by means of different kinds of insurance contracts.

Changes in consumer habits

In the future, changes in the new electronic communications technology, marketing channels and consumer habits may negatively affect the demand for M-real's paper products.

Business interruption risks

Catastrophes and major accidents, natural catastrophes, serious malfunctions in critical information systems, labour disputes and delivery problems of the most important raw material suppliers, for example, may interrupt M-real's business operations and, in extreme cases, cause loss of customers. Continuity and recovery plans have been drawn up in the different business areas for reducing these risks. In addition, some of the mill operation interruption risks have selectively been transferred to insurance companies.

Price risks of commodities and raw materials

A radical and surprising rise in the price of commodities important for M-real's operations, such as energy, may reduce profitability and thus also the realisation of the savings objectives set. M-real attempts to hedge against this risk by entering into various derivative contracts for periods of different lengths.

Credit and other counterparty risks

The management of the credit risks involved in commercial activities is the responsibility of M-real's business areas and centralised credit control. M-real's business areas define the terms of payment for different customers, and credit control, in turn, defines the internal credit limits granted to different customers. Part of the credit risks are transferred further to credit insurance companies by means of credit insurance contracts.

The main principles for the company's credit control are defined in the credit policy approved by the company's management. Counterparty-specific, approved maximum amounts are also applied to investments, derivatives and borrowing in order to ensure creditworthiness and to reduce risk concentrations.

Personnel

M-real has paid special attention to ensuring the availability and stability of personnel by means of various development programmes and special measures. M-real attempts to prepare for a generational shift and other risks related to the availability of personnel by means of career planning and work rotation of personnel.

Political uncertainty factors and project risks

Political uncertainty has primarily arisen from the pulp mill project of M-real's associated company Metsä-Botnia on the border of Uruguay and Argentina. The World Bank has on 21 November 2006 approved the financing and the guarantee for the Uruguay pulp mill. All impartial environmental investigations back the favourable views presented earlier about the environmental safety of the project. The dispute has not had any significant effect on the progress of the mill project.

Financial risks

The financial risks involved in business operations are managed in accordance with the financial policy approved by the company's Board of Directors. The policy defines detailed operating instructions for the management of the currency, interest rate, liquidity and counterparty risks and the use of derivative instruments, among other things. The aim is to hedge against significant financial risks, balance the cash flow and give the business units time to adjust their operations to changed conditions.

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

Shares

The highest price of M-real's B share on the OMX Helsinki Stock Exchange in 2006 was EUR 5.62, the lowest EUR 3.26 and the average price EUR 4.41. At the end of the year, the price of the Series B share was EUR 4.79. The average price in 2005 was EUR 4.36. The last quotation of the share price at the end of 2005 was EUR 4.22.

The trading volume of the Series B share was EUR 2,322 million, or 179 per cent of the shares outstanding. The market value of the Series A and B shares at the end of the year totalled EUR 1,573 million.

On 31 December 2006, 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 36.2 per cent of the shares.

The Annual General Meeting on 13 March 2006 authorized the Board of Directors for one year from the date of the Annual General Meeting to decide on increasing the share capital through one or more rights issues and/or one or more issues of convertible bonds such that in the rights issue or issue of convertible bonds, a total maximum of 58,365,212 M-real Corporation Series B shares with a nominal value of EUR 1.70 can be subscribed for, and that the company's share capital can be increased by a total maximum of EUR 99,220,860.40. The authorization will confer the right to disapply shareholders' pre-emptive right to subscribe for new shares and/or issues of convertible bonds and to decide on the subscription prices and other terms and conditions. Shareholders' pre-emptive subscription rights can be disapplied providing that there is a significant financial reason for the company to do so, such as strengthening of the company's balance sheet, making possible business structuring arrangements or taking other measures for developing the company's business operations. The Board of Directors may not disapply the pre-emptive subscription rights on behalf of a related party.

Other information related to the shares and shareholders is presented on pages 74–78 of the Annual Report.

In accordance with Chapter 2 Paragraph 6b of the Finnish Securities Market Act, descriptions of factors which are likely to a have material impact on a public tender for the shares of M-real are included in the financial statements of the Company.

Board of Directors and Auditors

The Annual General Meeting elected the following persons to M-real's Board of Directors: Heikki Asunmaa, Titular Counsellor of Forest Economy; Kim Gran, President and CEO of Nokian Tyres plc; Kari Jordan, President and CEO of Metsäliitto Group; 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. The term of office of the Board members extends up to the end of the next Annual General Meeting.

At its organising meeting, the Board of Directors elected Kari Jordan as Chairman and Arimo Uusitalo as Vice Chairman.

The Annual General Meeting elected as M-real's auditors Göran Lindell, Authorized Public Accountant, and the Authorized 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.

Competition authority investigations

The European Commission closed the investigations into fine paper in August 2006 and into magazine paper in November 2006. No sanctions were imposed on M-real as a result of the investigations.

In connection with the European Commission investigations, purchasers of magazine paper filed several class action complaints in the United States, citing M-real as one of the defendants alongside other paper producers. In November 2006, the claimants for the most significant class action abandoned their action against M-real and a number of other defendants. M-real is still a defendant in two class actions, for which it is actively pursuing a resolution.

Strategy review and related measures

On 13 March 2006, M-real's Board of Directors initiated a strategic review of M-real's current business portfolio, with a view to M-real exploring the opportunities of participating in the consolidation and restructuring of the European paper industry and the potential benefits of participation. On 18 October 2006, M-real announced an extensive restructuring programme as a first step in its strategic review.

The programme includes capacity closures, a new EUR 100 million cost savings programme and potential divestments. The programme took effect immediately with a planned completion by the end of

2007. M-real also launched a programme to reduce working capital by EUR 100 million. M-real has defined and initiated most of the costs savings measures and working capital reductions. The sale process for the folding carton plants has begun and other eventual divestments will be announced later. More information about mill closures and the sale of the stake in Metsä-Botnia can be found under the heading Events After The Balance Sheet Date.

All measures required by the cost saving programme of EUR 230 million announced in 2004 were brought to completion in 2006. The programme was completed ahead of schedule.

M-real's Board of Directors appointed Mikko Helander as the new CEO for M-real as of 18 October 2006. His predecessor, Hannu Anttila, was appointed Executive Vice President, Strategy, for Metsäliitto Group.

Events after the balance sheet date

The Sittingbourne paper mill in the UK was closed at the end of January 2007. The fine paper machines (PM 6 and 7) at the Gohrsmühle mill in Germany will be closed by the end of February 2007 and the Wifsta fine paper mill in Sweden by the end of June. EUR 76 million relating to these closures were recognised as an expense in the annual accounts in 2006 and a cost provision of approximately EUR 50–60 million will be booked in the first quarter of 2007 to complete the closures. The cash impact of the closures is estimated at approximately EUR -80 million, of which just over half will be realised in 2007 and the rest in 2008–2010. The result and cash impacts will be defined as the closures are carried out. The planned closures did not have a significant cash impact in 2006.

M-real Corporation sold 9 per cent of Metsä-Botnia's shares to Metsäliitto Cooperative for EUR 240 million on 30 January 2007, booking a capital gain of approximately EUR 135 million.

Near term outlook

Economic growth in Europe is generally forecast to slow down somewhat in 2007 although continuing at a moderate rate. Printed advertising spending is forecast to grow somewhat faster than overall economic growth.

Production input costs will continue to grow. The price of wood in particular has recently increased markedly. This is attributable to the increased use of wood as an energy source and availability problems caused by the mild early winter in Northern Europe.

The demand for M-real's main products was very good in the last quarter of 2006. The demand for paperboard products was at a reasonable level, while the demand for coated magazine paper fell short of our expectations. Demand for M-real's main products is forecast to improve slightly in the first quarter of 2007 due to seasonal factors. In fine paper products, capacity utilisation rates are very high at the beginning of the year. We have initiated measures to increase the prices of fine paper products. As a result of the targeted increases, we are confident the prices of both uncoated and coated fine papers will rise slightly in the first quarter of 2007 compared with the last quarter of 2006. We will also continue to work actively towards raising the prices of fine paper products. The price increases for folding boxboard and coated magazine paper will be challenging in the short term.

We anticipate the market balance to improve for all of M-real's main paper grades due to capacity closures already implemented or planned for 2007. The need to increase product prices is pressing for all of our main paper grades.

Implementation of the restructuring programme, announced in October 2006 as the first step in M-real's strategic review, is progressing as planned. The strategic review continues. The first-quarter result before taxes and excluding non-recurring items in 2007 is expected to improve from the last quarter in 2006.

Espoo, 6 February 2007

THE BOARD OF DIRECTORS

EUR million	Note	31 Dec. 2006	31 Dec. 2005
Continuing operations			
Sales	3	**5 624**	**5 241**
Change in stocks of finished goods and work in progress	6	-19	21
Other operating income	5	116	206
Materials and services			
Purchases during the financial period	6	-3 332	-3 069
External services	6	-320	-216
Employee costs	6	-887	-856
Depreciation, amortization and impairment charges	3, 7	-570	-403
Other operating expenses	6	-883	-888
Operating result		**-271**	**36**
Share of profit from associated companies	13	0	-2
Net exchange gains/losses	8	0	-33
Other financial income	8	23	25
Other financial expenses	8	-160	-140
Financial income and expenses total	8	-137	-148
Loss from continuing operations before tax		**-408**	**-114**
Income taxes	9	9	34
Loss for the period from continuing operations		**-399**	**-80**
Loss for the period from discontinued operations	4	0	0
Loss for the period		**-399**	**-80**
Attributable to:			
Shareholders of parent company		**-396**	**-81**
Minority interest		-3	1
		-399	-80
Earnings per share for loss attributable to the shareholders of parent company, EUR	10		
From continuing operations		-1.21	-0.25
From discontinued operations		0.00	0.00
Total		-1.21	-0.25

CONSOLIDATED BALANCE SHEET

EUR million	Note	31 Dec. 2006	31 Dec. 2005
ASSETS			
Non-current assets			
Goodwill	11	376	568
Other intangible assets	11	62	86
Tangible assets	11, 34	3 156	3 178
Biological assets	12	52	36
Investments in associated companies	13	69	72
Available for sale investments	14	57	60
Non-current interest-bearing receivables	15	17	28
Deferred tax receivables	16	31	33
Non-current financial receivables	17	18	23
		3 838	**4 084**
Current assets			
Inventories	18	676	749
Interest-bearing receivables	19	163	167
Accounts and other non-interest-bearing receivables	19	1 135	1 149
Current income tax receivables		53	54
Derivative financial instruments	28	22	12
Cash and cash equivalent	20	182	112
		2 231	**2 243**
Assets classified as held for sale	4	**103**	
Total assets		**6 172**	**6 327**
SHAREHOLDERS' EQUITY AND LIABILITIES			
Equity attributable to shareholders of parent company	21		
Share capital		558	558
Share premium account		667	667
Translation differencies		3	6
Fair value and other reserves		10	0
Retained earnings		605	1 040
		1 843	2 271
Minority interest		63	45
Total shareholders' equity		**1 906**	**2 316**
Non-current liabilities			
Deferred tax liabilities	16	284	336
Post employment benefit obligations	22	199	211
Provisions	23, 34	79	62
Interest-bearing liabilities	24	2 182	1 877
Other non-interest-bearing liabilities	25, 27	28	60
		2 772	**2 546**
Current liabilities			
Interest-bearing liabilities	24	599	652
Accounts payable and other non-interest-bearing liabilities	26, 27	814	756
Current income tax liabilities		21	8
Derivative financial instruments	28	30	49
		1 464	**1 465**
Liabilities classified as held for sale	4	**30**	0
Total liabilities		**4 266**	**4 011**
Total shareholders' equity and liabilities		**6 172**	**6 327**

EUR million	Share capital	Share premium account	Translation differences	Fair value and other reserves	Retained earnings	Minority interest	Total
	Equity attributable to shareholders of parent company						
Shareholders' equity according to IFRS, 1 Jan. 2005	**558**	**667**	**6**	**2**	**1 160**	**37**	**2 430**
Net expenses recognised directly in equity							
Translation differences			-7				-7
Net investment hedge, net of tax			7				7
Currency flow hedges, net of tax				-2			-2
Changes in minority interest during the period							
The sale of Forestia Oy						-3	
The sale of Metsä-Botnia shares (8%)						-3	
Metsä-Botnia restructuring in Uruguay						14	
Other changes						-1	
Total						7	7
Result for the period					-81	1	-80
Total recognised income for the period			0	-2	-81	8	-75
Dividends paid					-39		-39
Shareholders' equity according to IFRS, 31 Dec. 2005	**558**	**667**	**6**	**0**	**1 040**	**45**	**2 316**
Shareholders' equity according to IFRS, 1 Jan. 2006	558	667	6	0	1 040	45	2 316
Net expenses recognised directly in equity							
Translation differences			-3				-3
Net investment hedge, net of tax							
Currency flow hedges							
transfered to income statement, net of tax				2			2
recorded in equity, net of tax				11			11
Interest flow hedges							
recorded in equity, net of tax				3			3
Commodity hedges							
recorded in equity, net of tax				-6			-6
Changes in minority interest during the period							
Metsä-Botnia restructuring in Uruguay						22	
Other changes						0	
Total						22	22
Result for the period					-396	-3	-399
Total recognised income for the period			-3	10	-396	19	-370
Dividends paid					-39	-1	-40
Shareholders' equity according to IFRS, 31 Dec. 2006	**558**	**667**	**3**	**10**	**605**	**63**	**1 906**

CONSOLIDATED CASH FLOW STATEMENT

EUR million	2006	2005
Cash flow from operating activities		
Result for the period	-399	-80
Adjustments to the result, total	701	480
Interest received	40	30
Interest paid	-140	-132
Dividends received	1	3
Other financial items, net	-14	-37
Income taxes paid	-32	-46
Change in working capital	65	-82
Net cash flow from operating activities	**222**	**136**
Cash flow arising from investing activities		
Acquisition of subsidiary shares, net of cash	-1	0
Acquisition of shares in associated companies	-17	0
Capital expenditure	-410	-452
Proceeds from disposal of subsidiary shares, net of cash	3	127
Proceeds from disposal of shares in associated companies	0	163
Proceeds from disposal of other shares	1	8
Proceeds from sale of fixed assets	13	30
Proceeds from long-term receivables	11	0
Increase in long-term receivables	0	-16
Net cash flow arising from investing activities	**-400**	**-140**
Cash flow arising from financing activities		
Share issue, minority interest	31	12
Proceeds from non-current liabilities	881	469
Payment of non-current liabilities	-681	-185
Proceeds from current liabilities, net	59	-244
Change in current interest-bearing receivables, net	0	-140
Dividends paid	-39	-39
Net cash flow arising from financing activities	**251**	**-127**
Change in cash and cash equivalents	**73**	**-131**
Cash and Cash Equivalents at beginning of period	112	242
Translation adjustments	-2	1
Changes in Cash and Cash Equivalents	73	-131
Assets held for sale, Cartons plants	-1	0
Cash and Cash Equivalents at end of period	**182**	**112**
Notes to the consolidated cash flow statement		
Adjustments to the result		
Taxes	-9	1
Depreciation, amortization and impairment charges	570	403
Share of results in associated companies	0	2
Gains and losses on sale of fixed assets	1	-89
Finance costs, net	137	148
Provisions	11	20
Commodity hedges	-8	0
Other adjustments	-1	-5
	701	480
Change in working capital		
Inventories	44	-41
Current receivables	-46	-61
Current non-interest-bearing liabilities	67	20
	65	-82

1. Accounting policies

The principal accounting policies to be adopted in the preparation of the consolidated financial statements are as follows.

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 Merchant Group. 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.

Impairment of non-current assets

The Group tests goodwill and intangible assets with indefinite useful lives at least once a year for impairment. Other non-current assets are tested when there are indications that the value has been impaired. The value in use approach has been adopted in impairment testing. The estimated discounted future cash flows can vary from actual cash flows due to long useful lives of assets, changes in estimated prices of product and product costs and changes in the discount rates. These could lead to significant impairment charges.

Employee benefits

The Group operates in different countries a mixture of both defined benefit and defined contribution plans. Several statistical and other actuarial assumptions are used in calculating the expense and liability related to the plans. Among these assumptions there is the discount rate, expected return on plan assets, changes in future compensation and withdrawal. Statistical information may differ materially from actual results due to changes in economic conditions and changes in service period of plan participants among others. Changes in actuarial assumptions may have significant effect on Group's profit or loss, but the effect of these changes is recorded for employees' remaining average period of service.

Environmental provisions

Group's operations are mainly based on own pulp and paper production. Remarkable amount of wood, chemicals, water and energy is used in processes.

Group's objective is to operate in compliance with regulations related to environmental issues and to reduce among others emissions to air and to water. The Group has recorded provisions for normal environmental liabilities. Unexpected events which may happen during production processes and waste treatment may cause substantial losses and additional costs.

Income taxes

The Group reviews at the end of each reporting period whether it is probable that sufficient taxable profit will be available against which a deductible temporary differences, deferred tax assets, can be utilized. The actual outcome may differ from the factors used in estimates. This can lead to significant recognition of tax assets as tax expense in the income statement.

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 2006. 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 from 1 January 2004.

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 shareholders 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

M-real's operating currency is the euro. Transactions denominated in foreign currency are translated into euros using the exchange rate on the transaction date. Receivables and liabilities in foreign currencies are translated into euros using the exchange rates prevailing at the balance sheet date. Exchange gains and losses arising from such translations are recorded under "Financial income and expenses" with the exception of liabilities classified as hedges for net investment in a foreign entity, for which the currency gains and losses are entered for the part of hedge proven effective in the translation differences in shareholders' equity.

The income statements of Group companies whose reporting currencies are other than euro are translated into euros using average exchange rates for the reporting period, and their balance sheets at the exchange rates prevailing at the balance sheet d ate. Translation differences arising on translation and on applying the purchase method of consolidation are entered in shareholders' equity. In conjunction with divestments of subsidiaries, either by selling or by dissolving, translation differences accumulated by the time of divestment are entered in the income statement as part of the gain or loss from the divestment. In conjunction with the transition to IFRS, translation differences arising prior to 1 January 2004 are entered in retained earnings and are no longer shown in the income statement when the subsidiary is subsequently sold.

Financial assets

Financial assets have been classified according to the IAS standards as follows: 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. Categorisation depends on the purpose for which the assets were acquired and is made at the time they were originally recorded. Financial asset purchases and sales are recorded at the settlement date.

Investments acquired for trading have been classified as financial assets at fair value through profit or loss. These may include, for example, short-term and long-term money market deposits, commercial papers and bonds. Financial assets held for trading have been recognized at fair value based on price quotations in the market. Unrealised and realised gains and losses due to changes in fair value are recognized immediately in the income statement during the financial period in which they are incurred.

Held-to-maturity investments include those investments which the Group has full intention and ability to retain until the date of their maturity. Loans and other receivables comprise external and Metsäliitto Group's internal loan receivables. Financial assets designated in these categories are carried at amortised cost using the effective interest method.

Available-for-sale financial assets include other investments that are not included in any other category. This category includes mainly investments in shares and other holdings not related to daily cash management. Financial assets available for sale are valued at fair value, which is principally based on public quotation for shares. The most important shareholding consists of the Pohjolan Voima Oy shares, which are carried at their cost less impairments, as fair value is not justifiable because the shareholder agreement prevents free selling of shares at fair value. Changes in the fair value of financial assets available for sale are included in shareholders' equity in fair value reserve and transferred from shareholders' equity to profit and loss account when the investment is sold or its value is impaired so that an impairment shall be charged for the investment.

An impairment of financial assets must be charged, if the book value of the financial asset exceeds the amount of money obtainable for it, the assessment of which is based on, for example, the debtor's financial difficulties, neglect of payment or disappearance of an active market for the item in question.

Cash and cash equivalents comprise cash in hand, deposits held at call with banks and other short-term highly liquid investments. Cash and cash equivalents includes items with original maturities of three months or less.

Financial liabilities

All the Group's financial liabilities are included under "Other liabilities" and loans are not classified as "Financial liabilities at fair value through profit or loss". Financial liabilities entered in the accounts are valued at cost equal to the fair value of the equivalent. Transaction costs are included in the original carrying value of all financial liabilities. All financial liabilities are later carried at amortized cost using the effective interest method.

Derivative financial instruments and hedge accounting

Derivative financial instruments are initially recognized in the balance sheet at cost and thereafter during their term-to-maturity are revalued at their fair value. Gains and losses resulting from recognition at fair value are treated in accounting as required with regard to the intended use of the derivative in question. Derivatives are initially classified 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 entity, 4) Derivatives to which it has been decided not to apply hedge accounting or 5) Derivatives used for trading. Derivatives that do not qualify for hedge accounting are classified as financial assets or financial liabilities at fair value through profit or loss.

When applying hedge accounting, 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 verify that changes in the fair value of the hedging instrument for each hedging relationship cover effectively enough, with respect to the hedged risk, any changes in the fair value of the hedged item.

The fair value of derivatives is disclosed in current non-interest-bearing receivables or liabilities. The fair values of derivatives classified in accordance with the applied accounting practice are presented in Notes to the accounts no. 28.

Currency hedging

To hedge its foreign currency exposure, the Group has partly applied hedge accounting in accordance with IAS 39 as so-called cash flow hedge. The forecast cash flow from sales in USD, GBP and SEK has been separately defined as the object of hedge accounting. A change in the fair value of a derivative hedge proven effective is entered directly in shareholders' equity in the fair value reserve, and only after the realisation of the forecasted sales transaction it is entered in the income statement as an adjustment of the hedged transaction. Changes in the fair value of other currency derivatives to hedge foreign currency exposure are recognized immediately under financial items in the income statement. The fair values of forward foreign exchange contracts are based on forward prices prevailing at the balance sheet date, and currency options are stated at market rates in accordance with the Black&Scholes model.

The hedging of a net investment in a foreign entity is dealt with in the books like cash flow hedge. Changes in the fair value of a derivative and loan hedge proven effective are recognized directly against the translation differences accumulated in shareholders' equity. The ineffective portion of the hedge as well as the effect of the interest rate element of forward exchange contracts are recorded in financial income and expenses in the income statement.

Interest hedging

So-called fair value hedge is applied to interest rate risk management with regard to certain separately defined loans, and the derivative contracts hedging them. Interest rate and currency swaps have been used as hedging derivative contracts. 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 currency risk. In calculating the fair value of loans, any changes in the company's credit risk premium have not been taken into account.

Moreover, the Group has partly applied hedge accounting in accordance with IAS 39 to hedging of cash flows of floating interest rates as so-called cash flow hedge, wherein changes in the fair value of derivative contracts are entered directly in shareholders' equity in fair value reserve. All other interest rate derivatives, to which hedge accounting is not applied, are stated at their fair value, and changes in fair value are recognized immediately under financial items in the income statement. The fair values of forward rate agreements, interest rate futures and options are based on quoted market rates at the balance sheet date, and interest rate swaps and currency swaps are measured at the present value of future cash flows, with the calculation based on market interest rate yield curve.

Commodity risk hedging

The Group has partly applied hedge accounting in accordance with IAS 39 to hedging against electricity price risks as so-called cash flow hedge as of the beginning of the second quarter of 2006. A separately defined portion of the forecast cash flow of electricity purchases in Finland and Sweden is the object of hedge accounting. A change in the fair value of a derivative hedge (forward electricity contracts) proven effective in this respect is entered directly in shareholders' equity in fair value reserve, and only after the realisation of the forecast electricity purchases it is entered in the income statement as an adjustment of the hedged purchases. Electricity derivatives classified to hedge accounting that have proven ineffective and other electricity, oil and pulp derivatives hedging commodity price risk are recognized at market rates at the balance sheet date, and changes in fair value are entered immediately in the income statement under "Other income and expenses".

Embedded derivatives are valued at fair value, and changes in fair value are entered under financial items in the income statement. The amount of embedded derivatives at the M-real Group is insignificant.

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 also.

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.

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 identifiable 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 at least annually to determine any impairment. Goodwill is measured at 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. Goodwill is allocated to cash-generating units for the purpose of impairment testing. An impairment loss is recognised when the recoverable amount of the cash-generating unit is less than the carrying amount of that unit. The impairment loss is allocated first to any goodwill allocated to that unit and then to the other assets of the unit on a pro-rata basis based on the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in subsequent periods.

The gain or loss on disposal of an entity includes the carrying amount of goodwill allocated to that entity.

Computer software

Expenditure on developing and building significant new computer software programs are 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.

Emission rights

Allowances received by the governments free of charge have initially been recognised as intangible assets and the corresponding government grant as advance payment in liabilities based on fair value at the date of initial recognition. Allowances are measured at its cost or at their fair value if less. Allowances are not amortized. The emissions produced are recognised as cost and as liability together with the corresponding government grant as income both based on the value at the date of initial recognition. So rights consumed that are within the original range have no positive or negative effect on profit for the period. The costs of purchasing additional rights to cover excess emissions or the sale of unused rights have effect on profit only.

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 and assets classified as held for sale
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 after classification.

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.

Share-based payment
A share based incentive programme has been established for company's top executives. This compensation plan is recognised as equity-settled or cash-settled share-based payment transactions depending on the settlement. The possible reward of the incentive program from the year 2006 is based on Group's cash flow and return on capital employed and is paid partly in M-real's B shares and partly in money. Shares are valued using market value on the grant date.

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.

New and changed standards and interpretations
The Group has not applied IFRS 7 Financial Instruments: Disclosures. Standard introduces new disclosures in the notes to the financial statements. Standard is effective from 1 January 2007. The Group will apply the standard from annual periods beginning 1 January 2007. Adoption of IFRS7 will only expand disclosures presented in the financial statement. The Group has not yet applied IFRS 8 Operating Segments. Presentation of IFRS8 is effective from 1 January 2009. Adoption of IFRS8 will only expand disclosures presented in the financial statement.

The Group has not applied the interpretation of IFRIC 9 Reassessment of Embedded Derivatives. This has no substantial effect on the presented financial statements

2. Management of financial risks

The financial risks associated with business operations are managed in accordance with the financial policy endorsed by the Board of Directors and the senior management of the company. The policy defines central instructions on the management of foreign currency, interest rate, liquidity and counterparty risks, and for the use of derivative financial instruments. Correspondingly, commodity risks are managed according to the company's commodity risk policy. The purpose is to protect the company against major financial and commodity risks, to balance the cash flow and to allow the business units time to adjust their operations to changing conditions.

Metsä Group Financial Services Oy (Metsä Finance) is specialized in finance and functions as the Group's internal bank. M-real's holding in Metsä Finance is 51 per cent, and Metsäliitto Cooperative's holding is 49 per cent. Financial operations have been centralised to Metsä Finance, which is in charge of managing the Group companies' financial positions according to the strategy and financial policy, providing necessary financial services within the Metsäliitto Group and acting as an advisor in financial matters.

Foreign currency risk

The Group's foreign currency exposure consists of the risks associated with foreign currency flows, translation risk of net investments in foreign entities and economic currency exposure. Most of the Group's costs are incurred in the euro zone, but a significant part of the sales is in other currencies. Sales revenue may therefore vary because of changes in exchange rates, while production costs remain unchanged. Product prices are also often quoted in currencies other than the home currency. In the foreign currency transaction exposure, which consists of foreign currency denominated sales revenue and costs, are included foreign currency denominated sales receivables, accounts payable, received orders and a certain part of the forecast net currency cash flow.

The main currencies of the Group's foreign currency transaction exposure are the US dollar, the British pound and the Swedish krona. A strengthening of the dollar and the pound has a positive impact on the financial result and a weakening a negative impact. A weakening of the Swedish krona has a positive impact on the result. Other significant currencies are AUD, CAD, CHF, DKK, HUF, JPY and NOK. The hedging policy is to keep an amount corresponding to three months' cash flows of all contractual or estimated currency flows consistently hedged. The hedging level can, however vary between 0 and 12 months as the financial policy has defined separate risk mandates for deviating from the norm hedging. The Board of Directors of M-real decides on significant changes in the hedging level if they see a reason to deviate from the norm set out in the financial policy. The amount of currency-specific hedging depends on current exchange rates and market expectations, on the interest rate differences between the currencies and the significance of the exchange rate risk for the financial result. The transaction exposure is mainly hedged by forward transactions but also by the use of foreign currency loans and currency options.

Hedge accounting in accordance with IAS 39 is applied partially to the hedging of the currency transaction exposure, which allows fair value changes of hedges designated to hedge accounting to be entered directly in shareholders' equity in fair value reserve. At the end of the reporting period, the foreign exchange transaction exposure had been hedged 6.6 months on average. During the reporting period, the hedging level has varied between 6 and 8 months. The dollar's hedging level was 9.6 months, of which the portion of hedge accounting was 5.3 months. The Swedish krona's hedging level was 6.6 months, of which the portion of hedge accounting was 3.4 months. The pound's hedging level was 4.2 months, of which the portion of hedge accounting was 0.8 months. Hedges allocated to hedge accounting have been used to hedge the portion of highly probable forecast sales of the currency transaction exposure.

The translation risk of a net investment in a foreign entity is generated from the consolidation of the equity of subsidiaries and associated companies outside the euro area into euros in the consolidated financial statements. According to the financial policy, 50-100 per cent of equity should be hedged. The translation risk of equity has been hedged through the use of forward transactions and foreign currency loans and the position has been kept hedged in all the main currencies. Hedge accounting in accordance with IAS is applied to the hedging of the equity exposure. This allows the exchange gains and losses of effective hedging to be entered into the equity offsetting translation differences. During the reporting period, on average 96 per cent of the equity position was hedged and at the end of the reporting period 97 per cent.

The Group applies the Value-at-Risk method to assess the risk of its open foreign currency positions. The VaR is calculated on the deviation from the three-month foreign currency exposure hedge norm defined in the financial policy. A 99 per cent confidence level on one month period is applied to the VaR risk figure, i.e., the VaR indicates that with a 1 per cent probability the market value of the open foreign currency position depreciates more than the amount of the risk figure in a month. The risk mandates regarding hedging decisions have been defined by restricting the company management's powers by linking them to maximum currency-specific hedging level changes and to a VaR limit. Possible strategic decisions which exceed the policy risk limits are made by the Board of Directors. The limit set for the M-real Group's foreign currency risk is EUR 25 million and the VaR is at the end of the reporting period EUR 14.0 million. Average during the period has been EUR 19.5 million. The risk figure has been relatively high due to the high hedging level of the dollar as the deviation from the three-month hedging norm has been substantial. The Value-at-Risk method is also used to assess the market risk of Metsä Finance's trading operations. Trading has been relatively limited during the reporting year: Metsä Finance's average VaR (of one day at 99 per cent) was only EUR 0.17 million in 2006. The volumes and fair values of derivatives used in the management of foreign currency risks are presented in Notes no. 28.

Interest rate risks

The interest rate risk is related mainly in the interest bearing receivables and loans. The most significant currencies in risk management are the euro, the US dollar, the British pound and the Swedish krona. The objective of the interest rate risk policy is to minimise the negative impact of interest rate changes on the result and the financial position, and to optimise financing costs within the framework of risk limits. The effect of interest rate changes on financial costs depends on the average interest fixing time of interest bearing assets and liabilities, which is measured in the Group by duration. As duration diminishes the rise of interest rates affects more quickly the interest expenses of financial liabilities. The maturity of the loan portfolio can be influenced, e.g., by adjusting between floating-rate and fixed-rate loans and by using interest rate derivatives. The Group uses in its interest rate risk management interest rate swaps, interest rate futures and interest rate options.

The average interest duration norm based on the Group's financial policy was shortened at the beginning of 2006 to 6 months from the previous 12 months. The duration can, however, deviate from the hedging policy norm so that the decision of a deviation exceeding four months has to be made by the Board of Directors. The average duration of loans was 7.4 months at the end of the year. During the reporting period duration has varied between 7 and 16 months. At the end of 2006, an increase of one per cent in interest rates would increase interest rate costs of the next 12 months by EUR 13.5 million.

The Group is exposed to a risk of change in the value of derivatives due to a change in market prices when using interest rate derivatives, since according to IAS 39 derivatives must be valued to their fair value in the balance sheet. However, the partial application of hedge accounting will balance the effects of changes in the market value of derivatives on the financial result. The Group is applying fair value hedge accounting in accordance with IAS 39 to fixed-rate loans which have been converted by interest rate and currency swaps to floating-rate financing. In addition, the Group is applying cash flow hedge accounting in accordance with IAS 39 to a part of the interest rate swaps by which floating-rate financing has been converted to fixed-rate financing. The gross nominal volume of interest rate derivatives at the time of financial statements (including currency swap contracts) is EUR 3,017 million, of which the portion of reversed contracts is EUR 1,189 million. Of the derivatives portfolio, EUR 960 million is allocated to hedge accounting, and the portion of derivatives recognized in the balance sheet through profit or loss is EUR 868 million. The maturity of interest rate swap contracts varies between 1–5 years, and the maturity of currency swap contracts between 3–7 years.

Commodity risk

In the hedging of commodity risks the Group applies risk management policies defined separately for each selected commodity. According to the policy, the management of commodity risks with regard to derivatives is done by Metsä Finance based on the strategy approved by Board of Directors of M-real. So far the commodity hedging policy is applied to the management of the price risks of electricity and natural gas.

M-real's target in managing the electricity price risk is to balance the effect of changes in the price of electricity on the Group's result and financial position. The main principle is to hedge the electricity purchase exposure, which consists of the difference of factory-specific electricity consumption estimates and power plant production shares in the possession of the Group. With regard to the Finnish and Swedish electricity supply, the hedge strategy is implemented in cooperation with M-real Energy through Metsä Finance. The Central European energy unit will implement the hedging of Central Europe's electricity price risks according to instructions of M-real Energy. M-real hedges the electricity price risk actively by setting the hedging norm at 85 per cent, 55 per cent and 25 per cent share of the estimated net position during the first, second and third successive 12-month periods. From the second quarter of 2006 onwards, hedge accounting in accordance with IAS 39 has been applied partially to electricity hedging. Consequently the fair value of hedges allocated to hedge accounting is entered in equity in fair value reserve and only after the realisation of electricity purchases in the income statement as an adjustment of the purchases.

Approximately a third of M-real's factories' energy supply is based on natural gas. The hedging of natural gas price risks has been started during 2006 with physical, fixed-price contracts. In Finland only the oil-related portion of the contract has been fixed. The prices of natural gas have typically been fixed to Fuel-Oil and/or Gas-Oil prices. In addition, the prices of gas supply to Finland have been fixed to the development of coal import price and the energy price index. The premise of natural gas price risk hedging is, however, to hedge only the oil-related part of the contract by using oil derivatives and fixed-priced physical supply contracts. The hedging strategy is based on a risk policy according to which M-real Energy makes the hedging decisions, and the Group Board of Directors makes significant strategic decisions. The hedging level has so far been kept relatively low as the price of oil started to fall strongly towards the end of the year.

Approximately 50 per cent of electricity hedges have been carried out by using physical supply contracts and 50 per cent as so-called financial hedges by using electricity derivatives. At the end of the year, 90 per cent of financial hedges have been designated to hedge accounting. All natural gas price risk hedges have so far been implemented by using physical supply contracts.

The continuous hedging of the Group companies' pulp price risk has not been seen as justified in the framework of the current operative model. However, pulp derivatives are used selectively to hedge individual commercial positions generated in the Group companies.
The volumes and fair values of derivatives used in the management of commodity risks are presented in Notes no. 28.

Liquidity risk

Liquidity risk is defined as the risk that funds and available funding become insufficient to meet business needs, or that extra costs are incurred in arranging the necessary financing. Liquidity risk is monitored by estimating the need for liquidity needs 12–24 months ahead and ensuring that the total liquidity available will cover a main part of this need. According to the financial policy, the liquidity reserve must at all times cover 80–100 per cent of the Group's liquidity requirement for the first 12 months and 50–100 per cent of the following 12–24 months liquidity requirement. The objective is that at the most 20 per cent of the Group's loans, including committed credit facilities, is allowed to mature within the next 12 months and at least 35 per cent of the total debt must have a maturity in excess of four years. Another target is to avoid keeping extra liquidity as liquid funds and instead maintain a liquidity reserve as committed credit facilities outside the balance sheet.

M-real's financial objective is to keep indebtedness (net gearing) below 100 per cent. The cornerstone of liquidity risk management is to manage the Group's operative decisions in such a way that targets concerning indebtedness and sufficient liquidity reserve can be secured in all economic conditions. Liquidity risk is also managed by diversifying the use of capital and money markets to decrease dependency on any single financing source. The optimisation of the maturity structure of loans is also emphasized in financial decisions. The Group has been able to significantly stabilise the maturity structure of long-term loans in 2006 by Eurobond issues EUR 500 million with seven years' maturity and EUR 400 million with four years' maturity.

Liquidity is on a good level. The available liquidity was EUR 1,780 million at the end of the reporting period, of which 1,597 million was committed credit facilities and 183 million liquid funds and investments. In addition, the Group had at its disposal short-term, uncommitted commercial paper programmes and credit lines amounting to around EUR 700 million. At the end of 2006, the liquidity reserve covers fully the financing need of the next 24 months. As a EUR 850 million syndicated loan falls due in November 2007, 25 per cent of long-term loans and committed facilities falls due in a 12-month period but only 5 per cent of the long-term loans in the balance sheet. 29 per cent of long-term loans and committed facilities have a maturity of over four years. The average maturity of long-term loans has risen to 4.1 years. The share of short-term financing of the Group's interest bearing liabilities has fallen to 18 per cent.

Counterparty risk

Financial instruments carry the risk that the Group may incur losses should the counterparty be unable to meet its commitments. Such risk is managed by entering into financial transactions only with most creditworthy counterparties and within pre-determined limits. During the reporting period, credit risks did not result in any losses. The financial counterparty risk is limited by the fact that the Group has no significant investment portfolio, instead, the liquidity reserve is maintained in the form of committed credit facilities. Cash at bank and in hand, and other investments have been spread to several banks. Derivatives trading is regulated by the standardised ISDA contracts made with the counterparties.

The Group's sales receivables carry a counterparty risk that the Group may incur losses should the counterparty be unable to meet its commitments. The credit risk attached to sales receivables is managed on the basis of the credit risk management policies approved by operative management. Credit limits are set for all customers and periodically reviewed. Credit and political risk insurance cover is purchased as deemed necessary by operative management. The portion of overdue client receivables of all sales receivables is at the time of financial statements 11.4 per cent, of which only 1.0 per cent reaches over 90 days. The specification of doubtful receivables is in Notes no. 19.

Hedging of foreign exchange transaction exposure

EUR million	31 Dec. 2006									
	Annual transaction exposure								2006	2005
	USD	GBP	SEK	NOK	DKK	AUD	Other long	Other short	Total	Total
Transaction exposure, net (mill. currency units)	698	236	-4 459	220	345	125				
Transaction exposure, net (EUR million)	530	352	-493	27	46	75	76	-40	1 640	1 600
Transaction exposure hedging (EUR million)	-426	-123	271	-7	-14	-18	-17	30	-905	-1 189
Hedging at the end of the year (months)	9.6	4.2	6.6	3.0	3.6	2.9	2.7	9.0	6.6	8.9
Average hedging in 2006 (months)	10.6	4.3	7.7	2.8	3.8	2.9	1.7	3.5	7.0	5.7

Hedging of net investments in a foreign entity

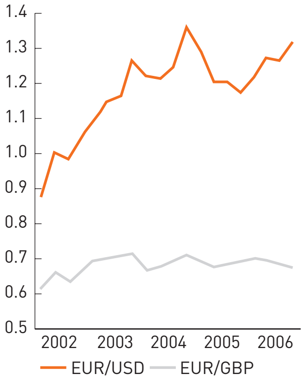
EUR million	31 Dec. 2006						
	Equity exposure					2006	2005
	USD	GBP	SEK	CHF	Others	Total	Total
Equity exposure (million currency units)	236	38	3 123	114			
Equity exposure (EUR million)	179	56	345	71	65	716	537
Equity hedging (EUR million)	-181	-57	-339	-71	-45	-694	-466
Hedging at the end of the year (%)	101	101	98	101	69	97	87
Average hedging in 2006 (%)	99	100	99	101	67	96	92

Interest rate risk / duration and re-pricing structure of loans (incl. interest rate derivatives)

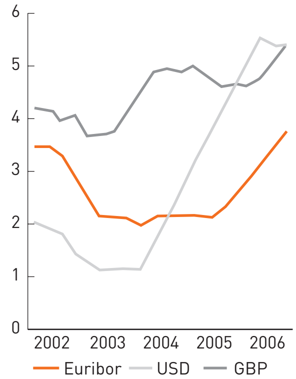
EUR million	31 Dec. 2006										31 Dec. 2005			
Loan amount (EUR million)	Duration (months)	Average interest rate (%)	Interest rate sensitivity * (EUR million)	Re-pricing structure of interest rates of loans 1–4/2007	5–8/2007	9–12/2007	2008	2009	2010	2010–	Loan amount (EUR million)	Duration (months)	Average interest rate (%)	Interest rate sensitivity * (EUR million)
2 788	7.4	6.0	13.5	1 876	178	179	281	189	40	45	2 529	15.8	4.3	10.3

* 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

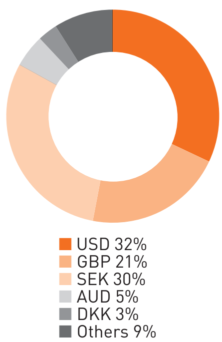
Exchange rate trends, EUR



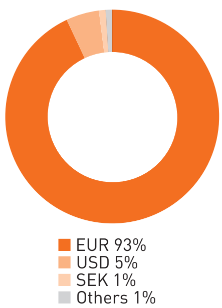
Interest rate trends, 3 months



Foreign currency breakdown of currency exposure



Currency breakdown of loans



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 based on reasonable ground 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	Geographical segments	
Consumer Packaging	Great Britain	Belgium
Publishing	Germany	Switzerland
Commercial Printing	France	Austria
Office Papers	Finland	Russia
Map Merchant Group	Italy	Uruguay
Other operations	Spain	Other Europe
	Netherlands	USA
	Sweden	Asia
	Poland	Other countries

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

Consumer Packaging business area offers paperboards, packaging solution and related services to carton printers and brand owners in industries such as health and beautycare, foods, cigarettes and consumer durarables. The product range also includes graphic boards, labelling and self-adhessive 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.

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.

Commercial Printing business area produces fine papers for promotional and corporate communications. Product 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 uncoated and third largest of coated fine papers.

Office Papers business area focuses on office papers used in the business environment. The product portfolio meets the need 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.

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.

Sales by business segment

		2006			2005	
EUR million	External	Internal	Total	External	Internal	Total
Consumer Packaging	954	17	971	849	15	864
Publishing	858	29	887	773	23	796
Commercial Printing	1 251	253	1 504	1 249	239	1 488
Office Papers	589	138	727	574	130	704
Map Merchant Group	1 432	6	1 438	1 384	6	1 390
Other operations	540	366	906	412	320	732
Elimination		-809	-809		-733	-733
Group	5 624	0	5 624	5 241	0	5 241

Operating result and return on capital employed by business segment

	2006		2005	
	Operating result, EUR million	Return on capital employed, %	Operating result, EUR million	Return on capital employed, %
Consumer Packaging	43	5.1	41	4.8
Publishing	30	3.0	14	1.3
Commercial Printing	-242	-21.7	-62	-4.9
Office Papers	-18	-2.3	-5	-0.5
Map Merchant Group	-42	-14.2	18	6.0
Other operations	-42		30	
Group	-271	-5.2	36	1.2
Share of results from associated companies	0		-2	
Finance costs, net	-137		-148	
Income taxes	9		34	
Result for the period	-399		-80	

Assets, liabilities and goodwill by business segment

	Assets		Liabilities		Goodwill	
EUR million	2006	2005	2006	2005	2006	2005
Consumer Packaging	963	1 025	154	147	11	46
Publishing	1 191	1 212	122	118	55	55
Commercial Printing	1 470	1 568	430	390	99	207
Office Papers	881	905	159	143	193	193
Map Merchant Group	486	541	229	216	18	67
Other operations	818	924	366	440		
Assets classified as held for sale	103		30		35	
Elimination	-289	-320	-289	-320		
Unallocated	549	472	3 095	2 877		
Group	6 172	6 327	4 296	4 011	411	568

Capital expenditure, depreciation and impairment charges by business segment

	Capital expenditure		Depreciation		Impairment charges	
	2006	2005	2006	2005	2006	2005
Consumer Packaging	94	56	84	84	4	0
Publishing	40	36	83	84	0	0
Commercial Printing	51	74	113	100	108	19
Office Papers	22	25	77	62	0	0
Map Merchant Group	9	13	6	7	63	1
Assets classified as held for sale						
Other operations	212	248	31	43	1	3
Group	428	452	394	380	176	23

Segment assets include goodwill, other intangible assets, tangible assets, biological assets, investments in associated companies, inventories, account receivables and prepayments and deferred income (excl. interest and income tax items). Segment liabilities include accounts payable, advance payments and accruals and deferred income (excl. interest and income tax items)

Capital employed is segment assets less segment liabilities

The formula for calculation of return on capital employed:

Segment: Operating profit/Capital employed (average) *100

Group: Profit from continuing operations before tax + interest expenses, net exchange gains/losses and other financial expenses/
Total assets ./. non-interest-bearing liabilities (average) *100

Geographical segments

	External sales by destination		Total external assets by country		Capital expenditure by country	
EUR million	2006	2005	2006	2005	2006	2005
Great Britain	1 032	1 037	381	391	10	13
Germany	781	777	573	706	25	22
France	381	370	241	271	11	17
Finland	321	291	3 108	3 230	145	254
USA	278	216	9	7	0	0
Italy	221	187	0	1	0	0
Poland	212	175	41	35	0	0
Spain	204	193	28	32	0	0
The Netherlands	194	184	47	58	1	1
Sweden	180	173	716	718	11	15
Russia	144	129	82	82	4	21
Austria	123	97	270	290	8	25
Belgium	119	126	54	61	0	1
Switzerland	117	108	153	155	8	9
Uruguay	2	1	315	144	200	73
Other Europe	700	630	150	135	4	1
Asia	419	251	4	12	0	0
Other countries	196	296	0	0	1	0
Total	5 624	5 241	6 172	6 327	428	452

Personnel by business segment, average

	2006	2005
Consumer Packaging	2 573	2 667
Publishing	1 437	1 486
Commercial Printing	4 425	4 816
Office Papers	1 822	1 948
Map Merchant Group	2 481	2 515
Other operations	2 146	2 146
Group	14 884	15 578

Personnel at year end by country

	2006	2005
Finland	4 220	4 488
Germany	2 432	2 667
Great Britain	1 661	1 771
Sweden	1 496	1 600
Austria	794	864
Switzerland	565	555
Hungary	491	522
France	488	796
Belgium	368	396
The Netherlands	292	327
Uruguay	230	87
Poland	193	180
Other countries	895	901
Group	14 125	15 154

4. Discontinued operations and assets classified as held for sale

M-real announced in October 2006 that Group considers to sell the carton plants located in Finland, Belgium and in Hungary. Also M-real published the programme, which include possible capacity closures of Wifsta mill in Sweden and Sittingbourne mill in England.

All the assets and liabilities in carton plants have been classified as held for sale in 2006's balance sheet.

Carton plants, net assets EUR million	**31 Dec. 2006**
Goodwill	35
Other intangible assets	1
Tangible assets	28
Inventories	13
Current interest-bearing receivables	5
Current non-interest-bearing receivables	20
Liquid assets	1
Total assets	103
Deferred tax liabilities	1
Provisions	1
Non-current interest-bearing liabilities	3
Current interest-bearing liabilities	4
Accounts payable and other non-interest-bearing liabilities	21
Total liabilities	30
Net assets	73

5. Other operating income

EUR million	2006	2005
Gains on disposal of fixed assets	11	103
Rental income	4	5
Service revenue	28	27
Government grants	24	17
Other allowances and subsidies	3	2
Other operating income	46	52
Total	116	206

Government grants concern the subsidies of training, healthcare and R&D expenses and energy subsidies and the carbon dioxide emissions permits in accordance with the EU emission trade scheme.

6. Operating expenses

	2006	2005
Change in stocks of finished goods and work in progress	19	-21
Materials and services		
Purchases during the financial period	3 334	3 031
Change in inventories	-2	38
External services	320	216
	3 652	3 285
Employee costs		
Wages and salaries		
Salaries of boards and managing directors	9	11
Other wages and salaries	612	566
	621	577
Social security costs		
Pension costs		
Defined contribution plans	13	16
Defined benefit plans	51	57
Other employee costs	202	206
	266	279
Employee costs, total	887	856
Other operating expenses		
Rents	40	41
Losses on fixed assets disposal	40	7
Other operating expenses	803	840
	883	888
Total	5 441	5 008

The research and development costs during the financial period 2006 were EUR 21 million (2005: 24).

The fees paid to PricewaterhouseCoopers are shown in the table below. 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.

The issue of two bonds and preparation for group restructuring increased among other things the amount of other fees in 2006.

Main auditors fees	2006	2005
Audit fees	2	2
Tax consultancy	0	1
Other fees	3	0
Total	5	3

Remuneration paid to the members of the board of Directors and the Corporate Executive Board

In 2006 the members of the parent company's Board of Directors were paid fees totalling EUR 480,350 (2005 EUR 446,200).

Salaries and emoluments paid to Corporate Executive Board were EUR 2,510,116.60 (2005 EUR 2,683,115). CEO Mikko Helander's salary including benefits from 18 October till yearend was EUR 64,000 and Hannu Anttila's salary from 1 January till 18 October was EUR 436,786.85 (2005 EUR 499,974.45).

According to the M-real's pay scheme, executives can be paid a performance-related reward amounting to not more than 6 months'salary. In addition to salaries and bonuses they are also entitled to participate in the company's share based incentive program. 11 top executive are included in the program. The expenses recognised for share based payments were EUR 0 million (Note 32).

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 CEO 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 cost of lowering the retirement age or supplementing statutory pension security are generally covered by voluntary pension insurance. The expenses of the Executive Board member's defined pension plans in 2006 were EUR 0.3 million (2005 EUR 0.3 million). and the expenses of their defined contribution plans were EUR 1.7 million (EUR 1.6 million).

In the event that the CEO is dismissed, or in situation where control of the Company changes, he has the right to receive compensation corresponding to 24 months'salary. The period of notice is 6 months.

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

At 31 December 2006, the Company's CEO, the Deputy CEO or the members of the Board had no loans outstanding from the Company or its subsidiares.

7. Depreciation, amortization and impairment charges

EUR million	2006	2005
Depreciation according to plan		
Other intangible assets	27	31
Land areas	0	0
Buildings	48	45
Machinery and equipment	309	292
Other tangible assets	10	12
Total	394	380
Impairment charges		
Goodwill	158	3
Land areas	2	1
Buildings	5	5
Machinery and equipment	11	14
Other tangible assets	0	0
Total	176	23
Goodwill impairment by segment		
Consumer Packaging	0	0
Publishing	0	0
Commercial Printing	108	0
Office Papers	0	0
Map Merchant Group	49	0
Other operations	1	3
Total	158	3
Other impairments by segment		
Consumer Packaging	4	0
Publishing	0	0
Commercial Printing	0	19
Office Papers	0	0
Map Merchant Group	14	1
Other operations	0	0
Total	18	20

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 2006 during October–November. Previously goodwill was tested for impairment in the IFRS opening balance 1 January 2004 as well at the situation of 30 September 2004 and 30 September 2005.

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 five-year projections and 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 Metsä-Botnia Uruguay pulp mill which will come on stream in 2007. Based on M-real's announcement of 18 October 2006 to sell at least 8 per cent of Metsä-Botnia's shares, the testing assumption has been 10 per cent sale and accordingly 29 per cent holding in Metsä-Botnia. M-real's share of Metsä-Botnia's recoverable cash flows and carrying amount is allocated to the CGUs based on their pulp purchases from Metsä-Botnia. Map Merchant Group's individual companies have been tested as separate CGUs but the result presented as one due to the large number of CGUs and their relatively low carrying amounts.

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 from Pöyry Forest Industry 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 2006 as well as in previous goodwill impairment tests the cash flows consequent to the five-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 have 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 2006 testing is 7.09 per cent. If needed a WACC increased by an additional risk premium has been used 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		←	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 2006 [2]

	Goodwill	Testing result
Folding boxboard mills	8	Substantially above
Kemiart Liners	3	Substantially above
Kyro Paper	0	Impairment
Simpele Paper	0	Clearly above
Folding carton plants [3]	35	Outside testing scope
Publishing business area	55	Slightly above
Commercial Printing business area	99	Impairment
Office Papers business area	193	Clearly above
CGUs of Map Merchants	18	Impairment
Myllykoski Paper Oy 35% [4]	15	Substantially above
M-real Group total [4]	426	

[1] EUR million.
[2] CGUs with allocated goodwill exceeding EUR 5 million or with carrying amounts exceeding EUR 10 million are included in the table. Result of Map Merchants as combined.
[3] The folding carton plants have been valuated according to IFRS 5.
[4] The amount includes the goodwill (EUR 15 million) from M-real's holding in Myllykoski Paper, which is shown in "Investments in associated companies" in the balance sheet.

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 assumtions have not been taken into account:

Cash Generating Unit (CGU)	**(1)**	**(2)**	**(3)**
	V - B [1]	**Key assumption**	**Required change in order for V to equal B**
Commercial Printing	0	- Increasing average price during the five-year projection period.	– No change required
		- Completion of Stockstadt's and Hallein's efficiency improvement programmes in 2007–2008	– No change required
		- EUR/USD equal to rates quoted at the time of testing	– No change required
Publishing	23	- Increasing average price during the five-year projection period.	– Cumulative increase in average price 2 per cent lower.
		- EUR/USD equal to rates quoted at the time of testing	–USD weakens 2.5% against EUR.

[1] EUR million

8. Financial income and expenses

EUR million	2006	2005
Exchange differences		
Commercial items	-15	22
Hedges	17	-57
Other items	-2	2
Total	0	-33
Interest income	23	25
Interest expenses	-146	-123
Dividend income	0	0
Fair value gains and losses on derivative financial instruments	-1	-1
Write downs on non-current investments	-1	-4
Other financial expenses	-12	-12
Other financial income and expenses	-137	-115
Financial income and expenses, net	-137	-148

9. Income taxes

	2006	2005
Income taxes for the financial period	44	30
Income taxes for previous periods	0	1
Change in deferred taxes	-53	-65
Other	0	0
Total	-9	-34

Income tax reconciliation

	2006	2005
Result before taxes	-408	-114
Computed tax at Finnish statutory rate of 26%	-106	-30
Difference between Finnish and foreign rates	-2	1
Tax exempt income	-9	-29
Non-deductible expenses	58	6
Previous years' tax losses used during the period	-1	-1
Tax losses with no tax benefit	51	19
Other	0	0
Income tax expense	-9	-34
Effective tax rate, %	2	30

10. Earnings per share

	2006	2005
Result for the period	-396	-81
Adjusted number of shares (average) in thousands	328 166	328 166
Earnings per share, EUR	-1.21	-0.25

11. Intangible and tangible assets

Intangible assets

EUR million	Goodwill	Other intangible assets	Construction in progress	Total assets
Acquisition costs, 1 Jan. 2006	568	231	0	799
Translation difference	0	0	0	0
Increase	9	28	1	38
Decrease	0	-34	0	-34
Assets classified as held for sale	-35	-3	0	-38
Transfers between items	-8	8	0	0
Acquisition costs, 31 Dec. 2006	534	230	1	765
Accumulated depreciation, 1 Jan. 2006	0	-145		-145
Translation difference	0	0		0
Accumulated depreciation on deduction and transfers	0	1		1
Assets classified as held for sale	0	2		2
Depreciation for the period	0	-27		-27
Impairment charges	-158	0		-158
Accumulated depreciation, 31 Dec. 2006	-158	-169		-327
Book value. 1 Jan. 2006	568	86	0	654
Book value. 31 Dec. 2006	376	61	1	438
Acquisition costs, 1 Jan. 2005	571	193	1	765
Translation difference	0	0	0	0
Increase	2	44	0	46
Decrease	-2	-9	0	-11
Transfers between items		3	-1	3
Acquisition costs, 31 Dec. 2005	571	231	0	802
Accumulated depreciation, 1 Jan. 2005	0	-120	0	-120
Translation difference	0	0		0
Accumulated depreciation on deduction and transfers	0	6		6
Depreciation for the period	0	-31		-31
Impairment charges	-3	0		-3
Accumulated depreciation, 31 Dec. 2005	-3	-145	0	-149
Book value, 1 Jan. 2005	569	73	1	643
Book value, 31 Dec. 2005	568	86	0	654

The carrying value of emission rights included in intangible assets was on 31 December EUR 13 million (23) and the fair value EUR 13 million (37).

Tangible assets

EUR million	Land and water areas	Buildings	Machinery and equipment	Other tangible assets	Construction in progress	Total
Acquisition costs, 1 Jan. 2006	202	1 342	5 792	170	119	7 625
Translation difference	-3	5	43	1	-11	35
Increase	23	39	181	4	209	456
Decrease	-13	-19	-102	-5	-33	-172
Assets classified as held for sale	-1	-23	-67	-2	0	-93
Transfers between items	0	12	36	1	-51	-2
Acquisition costs, 31 Dec. 2006	208	1 356	5 883	169	233	7 849
Accumulated depreciation, 1 Jan. 2006	-5	-655	-3 686	-101		-4 447
Translation difference	0	-3	-28	0		-31
Accumulated depreciation on deduction and transfers	2	12	87	4		105
Assets classified as held for sale	0	13	51	1		65
Depreciation for the period	0	-48	-309	-10		-367
Impairment charges and						0
reversed impairment charges	-2	-5	-11	0		-18
Accumulated depreciation and impairment charges, 31 Dec. 2006	-5	-686	-3 896	-106		-4 693
Book value, 1 Jan. 2006	197	687	2 107	69	119	3 178
Book value, 31 Dec. 2006	203	670	1 987	63	233	3 156

The impairment charges are mainly the write downs of intangible and tangible assets in Tako Carton and in Map Merchant Group.

Tangible assets include assets acquired under finance lease agreements as follows:

	Land areas	Buildings	Machinery and equipment	Total
Acquisition costs	0	0	201	201
Accumulated depreciation	0	0	-89	-89
Book value, 1 Jan. 2006	0	3	129	132
Book value, 31 Dec. 2006	0	0	112	112

EUR million	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. 2006	-4	-621	-3 501	-100		-4 226
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	-1	-5	-14	0		-20
Accumulated depreciation and impairment charges, 31 Dec. 2005	-5	-655	-3 686	-101		-4 447
Book value, 1 Jan. 2005	182	686	2 208	78	102	3 256
Book value, 31 Dec. 2005	197	687	2 107	69	119	3 178

The impairment charges are mainly the write downs in Pont Sainte Maxence fine paper mill in France.

The capitalization of interest expenses in 2006 was EUR 0.1 million (2005: 3). The average interest rates of 5.73 per cent and 2005 3.87 per cent represent the costs of the loan used to finance the projects.

12. 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.

	2006	**2005**
Cost at 1 Jan.	36	30
Purchases during the period	20	4
Sales during the period	0	-5
Harvested during the period	-38	-10
Gains and losses arising from changes in fair values	38	13
Translation differences	-4	4
Cost at 31 Dec.	52	36

13. Investments in associated companies

	2006	**2005**
At 1 Jan.	72	77
Share of results in associated companies	0	-2
Dividend received	-1	-3
Increases	0	1
Decreases	-2	-1
Translation differences	0	0
At 31 Dec.	69	72

Unamortized amount of goodwill for associated companies at 31 Dec. 2006 was EUR 25.6 million (2005: 26).

Biggest associated companies

EUR million	Country	Assets	Liabilities	Sales	Gain/loss	Ownership %
Kirkniemen Kartano Oy	Finland	8	0	0	0	48
Myllykoski Paper Oy	Finland	249	164	321	0	35
Plastirol Oy	Finland	18	7	19	2	39
Other		6	2	12	0	
Total		281	173	352	2	

None of the associated companies were listed.

Transaction and balances with associated companies

EUR million	2006	2005
Sales	0	0
Purchases	4	3
Interest income	0	0
Interest expenses	0	0
Receivables		
Non-current receivables	7	13
Current receivables	3	5
Liabilities		
Current liabilities	3	3

14. Available for sale investments

Financial assets at fair value through profit or loss (non-current)

	2006	2005
At 1 Jan.	18	18
Increases	0	0
Decreases	0	0
Changes in fair values	-1	0
At 31 Dec.	17	18
Shares in other companies	40	42
Total	57	60

Financial assets at fair value through profit or loss are mainly listed bonds.

Shares in Pohjolan Voima Oy (EUR 34 million) are the major investment in shares in other companies. These shares are carried at cost less any impairment losses.

15. Non-current receivables

Interest-bearing receivables

	2006	2005
Loans to Group companies	1	1
Loans to associated companies	11	19
Other loan receivables	5	8
	17	28

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

16. Deferred taxes

Reconciliation of deferred tax assets and liabilities during the period in 2006

EUR million	As at 1 Jan. 2006	Charged in income statement	Disposals/ assets held for sale	Translation differences	Charged to equity	As at 31 Dec. 2006
Deferred tax assets						
Consolidation entries	1				-1	0
Tax losses and other temporary differences	98	-4	0	0		94
Deferred tax assets, total	99	-4	0	0	-1	94
Netting against liabilities	-66	3				-63
Deferred tax assets in Balance sheet	33	-1	0	0	-1	31
Deferred tax liabilities						
Appropriations	293	-37	-5	3		254
Consolidation entries	26	0		0	0	26
Other temporary differences	83	-20		1	3	67
Deferred tax liabilities, total	402	-57	-5	4	3	347
Netting against assets	-66	3			0	-63
Deferred tax liabilities in Balance sheet	336	-54	-5	4	3	284
Deferred tax liabilities, net	-303	53	5	-4	-4	-253

Assets classified as held for sale include deferred tax receivables of EUR 0.2 million and deferred tax liabilities of EUR 1.2 million.

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

	As at 1 Jan 2005	Charged in income statement	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		0	-1	-66
Deferred tax assets in Balance sheet	39	-4	-2	0		33
Deferred tax liabilities						
Appropriations	321	-15	-10	-3		293
Consolidation entries	27	-1				26
Other 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		336
Deferred tax liabilities, net	-346	65	-23	3	-2	-303

At 31 December 2006 the net operating loss carry-forwards mainly in Germany, France and the United Kingdom amounted to EUR 1,015 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 EUR 790 million. These loss carry-forwards do not expire. The deferred tax assets for these non recognised loss carry-forwards amounted to EUR 225 million.

17. Non-current financial receivables

EUR million	2006	2005
Other non-interest-bearing receivables		
Loans to Group companies	7	14
Loans to associated companies	0	0
Other loan receivables	11	9
	18	23

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

18. Inventories

	2006	2005
Raw materials and consumables	215	242
Work in progress	52	50
Finished goods and goods for sale	387	428
Advance payments	22	29
	676	749

In 2006 there was EUR 5 million write-down of inventories to net realisable value in Sittingbourne Mill. In 2005 there were no substantial write-downs of inventories to net realisable value.

19. Current receivables

	2006	2005
Interest-bearing loan receivables		
Loans to Group companies	159	165
Loans to associated companies	4	2
Other loan receivables	0	0
	163	167
Accounts receivables and other non-interest-bearing receivables		
From group companies		
Accounts receivables	4	2
Other receivables	1	1
Prepayment and accrued income	6	4
	11	17
From associated companies		
Accounts receivables	3	22
Loan receivables	0	5
Other receivables	0	0
Prepayment and accrued income	0	2
	3	29
From others		
Accounts receivables	976	961
Loan receivables	0	0
Other receivables	123	98
Prepayment and accrued income	22	54
	1 121	1 113
Accounts receivables and other non-interest-bearing receivables	1 135	1 149

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:

	2006	2005
At 1 Jan.	15	13
Increases	12	5
Decreases	-11	-3
At 31 Dec.	16	15

	2006	2005
Prepayment and accrued income		
Non-current		
Interest	1	18
Insurance	2	6
Others	19	30
Total	22	54

20. Cash and cash equivalents

	2006	2005
Current investments	81	6
Cash at bank and in hand	101	106
Total	182	112

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

21. Shareholders' equity

Changes in share capital

EUR million	Share capital Series A	Series B	Share premium account	Total
At 1 Jan. 2005	62	496	667	1 225
2005 no changes				
At 31 Dec. 2005	62	496	667	1 225
2006 no changes				
At 31 Dec. 2006	62	496	667	1 225

Number of shares	Series A	Series B	Total
At 1 Jan. 2005	36 340 550	291 825 062	328 165 612
2005 changes	-1 000	1 000	
At 31 Dec. 2005	36 339 550	291 826 062	328 165 612
2006 no changes			
At 31 Dec. 2006	36 339 550	291 826 062	328 165 612

The number of shares may not be more than 600,000,000 (31.12.2005 600,000,000). All shares have a nominal value of EUR 1.70. The company's issued share capital may not be more than EUR 1,020 million (31.12.2005 1,020). All shares are paid-in.

Fair value and other reserves	**2006**	**2005**
Fair value reserve	8	0
Legal reseve and reserves stipulated by the Articles of Association	2	2
Total	10	2

Distributable funds	**2006**	**2005**
Retained earnings	1 001	1 121
Result for the period	-396	-81
Translation differences	3	6
Distributable funds	608	1 046

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. There are other defined benefit plans in Finland, too.

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

Pension and other post-employment benefits

EUR million	**2006**	**2005**
Defined benefit pension plans	180	186
Defined contribution pension plans	19	24
	199	210
Overfunded plan shown as asset	0	1
Total liability in balance sheet	199	211

DEFINED BENEFIT PENSION PLANS

The amounts recognised in the balance sheet

Present value of funded obligations	654	532
Present value of unfunded obligations	104	150
Fair value of plan assets	-531	-473
Unrecognised actuarial gains and losses	-18	-10
Unrecognised prior service cost	1	0
Effect of Curtailment	-30	-13
Total liability	180	186

The amounts recognised in the income statement

Current service cost	15	12
Interest cost	30	29
Expected return on plan assets	-26	-22
Net actuarial losses (gains) recognised in year	-6	1
Profit/loss curtailment	0	-4
Total included in employee costs	13	16

Balance sheet reconciliation

Net liability at 1 Jan.	186	191
Translation differences	1	2
Net expenses recognised in the income statement	13	16
Contribution paid	-19	-22
Settlements	-1	-1
Net liability at 31 Dec.	180	186

The principal actuarial assumptions used:

	2006	**2005**
Finland		
Discount rate %	4.5	5.0
Expected return on plan assets %	5.0	5.0
Future salary increases %	3.0	2.0
Future pension increases %	2.1	1.8
Expected average remaining working years of staff	7	3
UK		
Discount rate %	5.0	4.75
Expected return on plan assets %	6.86	5.75
Future salary increases %	4.0	4.0
Future pension increases %	3.0	3.0
Expected average remaining working years of staff	18	16
Germany		
Discount rate %	4.6	4.0
Expected return on plan assets %	n/a	n/a
Future salary increases %	2.5	3.0
Future pension increases %	1.75	2.0
Expected average remaining working years of staff	9	n/a
Switzerland		
Discount rate %	3.0	3.0
Expected return on plan assets %	4.25	4.25
Future salary increases %	1.5	1.5
Future pension increases %	0.5	0.5
Expected average remaining working years of staff	14	14
Austria		
Discount rate %	5.0	4.0
Expected return on plan assets %	n/a	n/a
Future salary increases %	2.21	2.5
Future pension increases %	0	n/a
Expected average remaining working years of staff	25	n/a

23. Provisions

EUR million	Restructuring	Environmental obligations	Other provisions	Total
At 1 Jan. 2006	36	5	21	62
Translation differences				0
Increases	60		1	61
Decreases	-26	-1	-6	-33
Unused amounts reversed	-7		-4	-11
At 31 Dec. 2006	63	4	12	79

The most significant restructuring was efficiency-boosting programme in France, which increased the amount of provision by EUR 13 million. There were resctructuring in Stockstadt (EUR 4 million) and closedown in Sittingbourne (EUR 42 million).

24. Interest-bearing liabilities

	2006		2005	
	Book values	Fair falues	Book values	Fair falues
Non-current interest-bearing liabilities				
Bonds	1 628	1 653	720	714
Loans from financial institutions	344	344	918	916
Pension loans	65	63	81	78
Finance lease liabilities	95	94	106	104
Other liabilities	50	50	52	52
Total	2 182	2 204	1 877	1 864
Current interest-bearing liabilities				
Current portion of long-term debt	112	112	220	220
Short-term loans	57	57	67	67
Bill of exchange payable	10	10	14	14
Other liabilities	420	419	351	351
Total	599	598	652	652

Fair values are based on present value of each loan's cash flow calculated by market rate. The discount rates applied are between 3.6–9.4 per cent (2005 2.5–9.2 per cent). Of interest-bearing liabilities 80 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 2006 was 6.0 per cent (31 Dec. 2005 4.3 per cent). M-real had invested EUR 104 million in 2005 to its own bonds, which had been eliminated out of the Group's interest-bearing liabilities.

Interest-bearing liabilities	**2006**	**2005**
Non-current interest-bearing liabilities	2 182	1 877
Current interest-bearing liabilities	599	652
Liabilities classified as held for sale, int. bearing	7	0
	2 788	2 529
Non-current interest-bearing receivables	17	18
Available for sale investments	17	28
Current interest-bearing receivables	163	167
Cash and cash equivalents	182	112
Assets classified as held for sale, int. bearing	6	0
Interest-bearing receivables, total	385	325
Interest-bearing net liabilities	2 403	2 205

Maturity of non-current interest-bearing liabilities

EUR million	Bonds	Loans from financial institutions	Pension loans	Finance lease liabilities	Other liabilities	Total
2007	35	43	18	14	2	112
2008	207	104	16	16	0	343
2009	244	51	16	16	0	327
2010	395	47	32	16	0	490
2011	52	46	1	12	0	111
2012 -	730	96	0	35	50	911
Total	1 663	387	83	109	52	2 294

Current portion of long-term debt	112
Non-current interest-bearing liabilities	2 182

Bonds	**Interest %**	**2006**	**2005**
1999–2006	4.88		103
2000–2007	4.46	35	35
2000–2008	4.26	18	18
2001–2006	4.00		4
2001–2006	3.74		9
2001–2006	3.85		8
2001–2006	3.54		11
2001–2006	3.87		15
2002–2009	8.89	104	113
2002–2012	9.20	112	112
2002–2014	9.40	132	131
2003–2006	5.24	0	23
2003–2008	5.52	20	20
2003–2008	5.79	99	99
2004–2008	5.79	50	49
2004–2009	5.91	30	30
2004–2009	5.91	10	40
2004–2009	5.94	30	0
2004–2011	5.98	30	30
2004–2011	6.12	10	10
2004–2011	6.17	12	12
2005–2008	6.32	3	3
2005–2008	5.60	17	17
2006–2009	6.10	70	0
2006–2010	7.28	395	0
2006–2013	8.00	486	0
		1 663	892

Maturity of finance lease liabilities

	Minimum lease payments		The present value of minimum lease payments	
	2006	**2005**	**2006**	**2005**
Not later than 1 year	18	20	14	16
1–2 years	19	19	16	15
2–3 years	19	18	16	15
3–4 years	17	17	16	15
4–5 years	13	15	12	14
Later than 5 years	40	50	35	47
	126	139	109	122
Future finance charges	17	17		
The present value of minimum lease payments	109	122		

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. Liabilities classified as held for sale include EUR 3 million finance lease liabilities.

25. Other non-current non-interest-bearing liabilities

	2006	**2005**
Liabilities to Group companies	1	1
Liabilities to others		
Accruals and deferred income	17	16
Other liabilities	10	43
Total	28	60

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

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

EUR million	**2006**	**2005**
Liabilities to Group companies		
Accounts payable	21	9
Other liabilities	9	19
Liabilities to associated companies		
Accounts payable	26	36
Other liabilities	4	1
Liabilities to others		
Advance payments	4	4
Accounts payable	329	310
Other liabilities	163	118
Accruals and deferred income	258	259
Total	814	756

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

27. Accruals and deferred income

Non-current	**2006**	**2005**
Periodizations of employee costs	8	9
Accruals for compensation of rights to use	3	3
Periodizations of waste water expenses	6	4
Compensation and contribution commitments	0	0
Others	0	0
Total	17	16

Current		
Periodizations of employee costs	87	74
Interests	24	37
Accruals of purchases	59	68
Others	88	80
Total	258	259

28. Derivatives

	Nominal value	**Fair value**					
		Total	Fair value hedges	Cash flow hedges	Equity hedges	Derivatives/ hedge accounting not applied	Derivatives held for trading
2006							
Interest forward agreements	16	0				0	
Interest rate options	200	0					0
Interest rate swaps	2 611	5	-1	3		4	-1
Interest rate derivatives	**2 827**	**5**	**-1**	**3**	**0**	**4**	**-1**
Currency forward agreements	4 466	17		16	3	-2	0
Currency option agreements	91	0				0	0
Currency swap agreements	190	-29	-29				
Currency derivatives	**4 747**	**-12**	**-29**	**16**	**3**	**-2**	**0**
Commodity forward agreements	153	-1		-8		7	0
Commodity options agreements	0	0					
Commodity derivatives	**153**	**-1**	**0**	**-8**	**0**	**7**	**0**
Derivatives total	**7 727**	**-8**	**-30**	**11**	**3**	**9**	**-1**

EUR million	Nominal value	Fair value Total	Fair value hedges	Cash flow hedges	Equity hedges	Derivatives/ hedge accounting not applied	Derivatives held for trading
2005							
Interest forward agreements	2 030	-1				0	-1
Interest rate options	2 140	0				0	0
Interest rate swaps	3 246	-7	0	0		-5	-2
Interest rate derivatives	**7 416**	**-8**	**0**	**0**	**0**	**-6**	**-2**
Currency forward agreements	4 294	-7		-3	-5	1	0
Currency option agreements	855	0			-0	0	0
Currency swap agreements	216	-25	-25				
Currency derivatives	**5 365**	**-32**	**-25**	**-3**	**-5**	**1**	**0**
Commodity forward agreements	54	2				2	
Commodity options agreements	0	0				0	
Commodity derivatives	**54**	**2**	**0**	**0**	**0**	**2**	**0**
Derivatives total	**12 834**	**-38**	**-25**	**-3**	**-5**	**-3**	**-2**

Derivatives, book values	**2006**		**2005**	
	Assets	Liabilities	Assets	Liabilities
	22	30	12	49

29. The principal subsidiaries 31 December 2006

	Country	Group's holding, %	Number of shares
Shares and participations owned by the Group			
Metsäliitto Osuuskunta	Finland		179 171
Shares in subsidiaries			
In Finland			
Oy Board International Ab	Finland	100.00	796
Oy Hangö Stevedoring Ab	Finland	100.00	150
Kemiart Liners Oy	Finland	100.00	2 000 000
Logisware Oy	Finland	100.00	4 500
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
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	1 000
M-real Meulemans S.A.	Belgium	100.00	1
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 Service S.p.Z.o.o	Poland	100.00	400
M-real Sverige Ab	Sweden	100.00	10 000 000
M-real UK Holdings Ltd.	Great Britain	100.00	146 750 000
Map Merchant Holdings B.V.	The Netherlands	100.00	6 000
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	10
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
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

	Country	Group's holding, %	Number of shares
M-real Nordic AB	Sweden	100.00	1 000
M-real Shanghai Ltd.	China	100.00	
M-real Singapore Pte Ltd.	Singapore	100.00	10 000
M-real Slovakia. S.r.o.	Slovakia	100.00	
M-real Schweiz AG	Switzerland	100.00	100
M-real UK Ltd.	Great Britain	100.00	2 400
M-real USA Corporation	USA	100.00	180
Subgroups in other countries			
M-real Sverige AB			
Örnsköldsviks Stuveri AB	Sweden	100.00	5 400
M-real Logistics GmbH	Germany	100.00	
ÖSAB Ships Agency AB	Sweden	100.00	1 000
M-real Holding France SAS			
M-real Alizay SAS	France	100.00	5 015 710
M-real Alizay SNC	France	100.00	40 000 000
M-real Deutsche Holding GmbH			
CN Papiervertriebs GmbH	Germany	100.00	
M-real Zanders GmbH	Germany	100.00	2 800 000
M-real New Jersey Service Co.	USA	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
Map Belux N.V.	Belgium	100.00	300 000
Map Austria GmbH	Austria	100.00	32 200
Map Denmark AS	Denmark	100.00	48 000
Map Merchant Group Ltd.	Great Britain	100.00	110 315 743
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	99.00	157 135
McNaughton Paper N.I Ltd.	Great Britain	99.00	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
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

	Country	Group's holding, %	Number of shares
Map Merchant Holdings GmbH	Germany	100.00	40
Concord Papier EOOD	Bulgaria	55.00	11
Map Deutchland GmbH	Germany	100.00	18 000
Map Polska Sp z.o.o.	Poland	100.00	17 524
Map Merchant Hungaria Kft	Hungary	100.00	
Map Merchant Romania s.rl.	Romania	88.00	1 584
Map d.o.o. Ljubljana	Slovenia	100.00	
Map Merchant Czech s.r.o.	Czech Republic	100.00	
Map Merchant Slovakia SK s.r.o.	Slovakia	100.00	
Map Merchant Zagreb D.o.o.	Croatia	100.00	
Map Merchant Sweden Ab	Sweden	100.00	19 000
OOO Map Merchant Russia	Russia	100.00	500
Map Eesti AS	Estonia	100.00	14 038
Map Latvia AS	Latvia	100.00	2 101 605
Oy Map Merchant Ab	Finland	100.00	500
UAB Map Lietuva	Lithuania	100.00	20 000
ZAO Map Ukraine	Ukraine	100.00	
Map Sverige AB	Sweden	100.00	400 000
Map Norge AS	Norway	100.00	10 000
Map Merchant Spain SA	Spain	100.00	234 541
Modo van Gelder BV	The Netherlands	100.00	40
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	100.00	7 009 900
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

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:

EUR million	2006	2005
Non-current assets	661	517
Current assets	164	170
Assets total	825	687
Non-current liabilities	190	141
Current liabilities	123	85
Liabilities total	313	226
Sales	563	435
Expenses	480	399
The profit	57	22

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

Leasing liabilities	**2006**	**2005**

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

Payments due in following 12 months	7	6
Payments due in following 1-5 years	11	10
Payments due later than 5 years	1	1
	19	17

Operational lease charges were EUR 22 million (2005: 23).

Unconditional purchase agreement	**2006**	**2005**
Fixed assets		
Payments due in following 12 months	146	8
Payments due later	16	11
Other purchases		
Payments due in following 12 months	2	2
Payments due later	66	3

Joint ventures

Proportionate interest in Metsä-Botnia's unconditional purchase agreement, fixed assets, was EUR 150 million (2005: 0).

31. Contingent liabilities

	2006	2005
For own liabilities		
Liabilities secured by pledges		
Loans from financial institutions	3	4
Pledges granted	4	4
Liabilities secured by mortgages		
Loans from financial institutions	126	104
Other liabilities	4	5
Real estate mortgages	53	87
On behalf of Group 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	3	9
Other liabilities		
As security for other commitments	1	1
Total		
Pledges	4	4
Real estate mortgages	57	90
Guarantees	5	12
Promissory notes	0	0
Other liabilities	1	1
Leasing liabilities	19	17
Total	86	124

32. Share based payment

M-real has a share based payment incentive program. Company's top management may be rewarded with M-real Oyj's B shares annually in the calendar years 2005, 2006 and 2007. The reward is tied to the achievement of set performance targets. The reward will be paid at the end of vesting period as a combination of shares and cash. The Board shall annually decide the personnel belonging to scheme and the maximum reward paid for them. The maximum reward is expressed as number of shares. The achievement of set performance targets determines how much of the maximum reward will be paid to top personnel. The Board decides the performance target set at the begin of each vesting period. The reward is based on the development of M-real's operating profit (EBIT) and return on capital employed (ROCE).

In case of termination of service contract before the payment due to other reason than death, legal retirement or retirement based on service contract, the option holder must offer the shares within transferlimitation free to M-real or to other parties determined by M-real.

The fair value of the rewards granted during the period was EUR 0 million (2005: 0).

The expense recognised for share based payment was EUR 0.1 million (2005: 0).

Changes in the numbers of shares granted during the financial period

	Equity-based rewards scheme 2005 *)		
M-real Corporation	Issued by the Board's decision		
Date of issue	4.2.2005		
Instrument	Equity-based reward scheme		
	2006	**2005**	**Total**
Maximum number of shares **)	108 000	108 000	216 000
Share price at grant date, EUR	4.21	4.32	
Fair value of share at grant date, EUR ***)	3.97	4.08	
Share price at end of exercise period, EUR	4.80	4.00	
Vesting period	1.1.-31.12.06	1.1.-31.12.05	
Criteria			
50%	EBIT	EBIT	
50%	ROCE	ROCE	
Exercise assumption	0%	0%	
Obligation to hold shares, years	2	2	
The release date of shares	1.1.2009	1.1.2008	
Binding time left, years	no rewards	no rewards	
Number of key personnel, 31 Dec.	11		

Amounts, 1 Jan.			
Shares granted	0	108 000	108 000
Shares forfeited	0	0	0
Shares exercised	0	0	0
Shares expired	0	0	0
Total	0	108 000	108 000
Changes during the period			
Shares granted **)	108 000	0	108 000
Shares forfeited	0	0	0
Shares exercised	0	0	0
Shares expired	108 000	108 000	216 000
Amounts, 31 Dec.			
Shares granted **)	108 000	108 000	216 000
Shares forfeited	0	0	0
Shares exercised	0	0	0
Shares expired	-108 000	-108 000	-216 000
Total	0	0	0

*) The amounts in the table reflect the numbers of shares to be given on the base of share-based payment.
M-real has also commited not to pay more than 1.5 times the value of shares in cash (tax-portion).
**) The figures exclude Metsä-Botnia's equity-based reward scheme.
***) The share price has been reduced by the amount of the dividend to be paid (EUR 0.24), which will not be received by the persons.

Fair value measuring

M-real has used Alexander Corporate Finance Oy as an expert to measure the fair value of the reward. Because the reward will be paid as a combination of shares and cash, the fair value measuring has been split according to IFRS2 into two parts: the share-settled part recognised in shareholders'equity and the cash-settled part in liabilities.

The fair value of the share-settled part at exercise date was the market price of M-real's B share less any dividend paid before the payment and it was EUR 4.21 per share.

The fair value of the cash-settled part is estimated on every balance sheet date till the end of vesting period, and thus the fair value of the liability will change according to M-real's B share.

The fair value of the cash-settled part was at the end of 2006 EUR 4.79 per share. In addition 39 per cent of Metsä-Botnia's costs arising from share based payment is included in M-real's cash-settled part.

The criteria was not achieved during 2006 and thus no cost was recognised in M-real Oyj. The expense recognised for Metsä-Botnia's share based payment was EUR 0.1 million (2005: 0).

33. Related party transactions

M-real's ultimate parent company is Finnish Metsäliitto Cooperative. At 31 December 2006 Metsäliitto owned 38.6 per cent of M-real's shares and 60.5 per cent of the voting rights.

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

Metsäliitto Sverige AB
Metsäliitto France
Metsä Tissue Group

Finnforest Oyj and Thomesto Oy were merged with Metsäliitto in March 2006. Related party transactions in 2005 with these companies are included in transaction with sister companies.

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

M-real owns 39 per cent and Metsäliitto 14 per cent of the shares in Metsä-Botnia. Metsä-Botnia has been consolidated using line-by-line method proportionate to the M-real's and Metsäliitto's holding. Metsä-Botnia purchases most of the wood used in production from Metsäliitto. The total wood purchases from Metsäliitto were EUR 296 million in 2006 (2005: 266). The price used was market price.

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

EUR million	Transactions with parent company 2006	2005	Transactions with sister companies 2006	2005
Sales	11	1	24	19
Other operating income	2	1	1	1
Purchases	296	266	195	194
Interest income	5	3	2	7
Interest expenses	13	8	0	4
Receivables				
Non-current receivables	16	21	5	8
Current receivables	130	126	53	55
Liabilities				
Non-current liabilities	1	2	0	0
Current liabilities	353	231	9	28

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 6.
The parent company has no commitments on behalf of management nor receivables from management.
Transactions with associated companies are presented in the Note 13.
Joint ventures are presented in the Note 30

34. Environmental affairs

	2006	2005
Income statement		
Materials and services	28	26
Employee costs		
Wages and fees	5	5
Other employee costs	2	2
Depreciation	22	17
Other operating expenses	8	11
	65	61
Balance sheet		
Tangible assets		
Acquisition costs, 1 Jan	501	490
Increases	4	37
Decreases	-9	-26
Depreciation	-301	-284
Book value, 31 Dec.	195	217
Provisions		
Environmental obligations	4	5

CO_2 emission allowances	2006	2005
Possession of emission allowances (thousand tonnes)	1 950	1 805
Emission produced (thousand tonnes)	1 903	1 768
The sales of emission allowances (EUR million)	2.6	3.2

35. Events after the Balance sheet date

The Sittingbourne paper mill in the UK was closed at the end of January 2007. The fine paper machines (PM 6 and 7) at the Gohrsmühle mill in Germany will be closed by the end of February 2007, and the Wifsta fine paper mill in Sweden by the end of June. EUR 76 million relating to these closures were recognised as an expense in the annual accounts in 2006, and a cost provision of approximately EUR 50–60 million will be booked in the first quarter of 2007 to complete the closures.

M-real Corporation sold 9 per cent of Metsä-Botnia's shares to Metsäliitto Cooperative for EUR 240 million on 30 January 2007, booking a capital gain of approximately EUR 135 million.

Share capital and shares at 31 December 2006

The company's paid-in share capital on the balance sheet date was EUR 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 EUR 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 EUR 255,000,000.00 and not more than EUR 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 OMX Helsinki Stock Exchange. The highest price of M-real's Series B on OMX Helsinki Stock Exchange during the financial year was EUR 5.62 and the lowest price EUR 3.26. The average share price was EUR 4.41. In 2005 the average share price was EUR 4.36. The price of the Series B share was EUR 4.79 at the end of the financial year on 31 December 2006. Turnover of the series B share was EUR 2 322 million, or 179 per cent of the shares outstanding. The market capitalization of the Series A and B shares at 31 December 2006 totaled EUR 1,573 million.

At 31 December 2006 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 36.2 per cent of the shares.

Impact of change in control

Many of M-real's financing agreements include a clause under which its loans will mature before their stated maturity if any new party will acquire control of M-real. In addition, shareholders agreements related to certain resource companies and other affiliates include a provision under which M-real must offer its shares in such companies for sale to the other shareholders in such companies in case of M-real's change of control. According to the shareholders agreement for Oy Metsä-Botnia Ab, the shareholders must offer their shares for sale to the other shareholders in case of their change of control. A possible decrease of the voting rights of Metsäliitto Cooperative in M-real below 50 per cent would not alone, however, obligate M-real to offer its shares in Oy Metsä-Botnia Ab.

Flaggings

According to the information received by M-real, the shareholding of Hermes Focus Asset Management Europe Ltd.increased to 5.10 percent of the share capital and to 2.25 percent of the voting rights on 23 August, 2006.

Directors' interest

Shareholdings of the Board of directors are presented on pages 98-99 and the shareholdings of the management on pages 100-101.

Board of Directors' authority to issue shares

The Annual General Meeting on 13 March 2006 authorized the Board of Directors for one year from the date of the Annual General Meeting to decide on increasing the share capital through one or more rights issues and/or one or more issues of convertible bonds such that in the rights issue or issue of convertible bonds, a total maximum of 58,365,212 M-real Corporation Series B shares with a nominal value of EUR 1.70 can be subscribed for, and that the company's share capital can be increased by a total maximum of EUR 99,220,860.40. The authorization will confer the right to disapply shareholders' pre-emptive right to subscribe for new shares and/or issues of convertible bonds and to decide on the subscription prices and other terms and conditions. Shareholders' pre-emptive subscription rights can be disapplied providing that there is a significant financial reason for the company to do so, such as strengthening of the company's balance sheet, making possible business structuring arrangements or taking other measures for developing the company's business operations. The Board of Directors may not disapply the pre-emptive subscription rights on behalf of a related party.

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 1.1.2002 - 31.12.2006

		Number of shares	Share capital EUR million
	Share capital, 1 Jan. 2002	178 999 425	304.3
2002-2003	No changes		
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
2006	No changes		
	Share capital, 31 Dec. 2006	328 165 612	557.9

Breakdown of shareholders 31 December 2006

M-real A share

December 31, 2006

Number of shares	Number of shareholders	%	Total number of shares	%	Number of votes	%
1–100	687	24.49	38 604	0.11	772 080	0.11
101–500	1 253	44.67	370 744	1.02	7 414 880	1.02
501–1 000	451	16.08	368 952	1.02	7 379 040	1.02
1 001–5 000	359	12.80	779 861	2.15	15 597 220	2.15
5 001–10 000	27	0.96	194 950	0.54	3 899 000	0.54
10 001–50 000	19	0.68	439 517	1.21	8 790 340	1.21
50 001–100 000	1	0.04	60 000	0.17	1 200 000	0.17
100 001–500 000	4	0.14	954 264	2.63	19 085 280	2.63
500 001–	4	0.14	33 132 658	91.17	662 653 160	91.17
Total number	2 805	100	36 339 550	100	726 791 000	100
On the waiting list, total			0	0	0	0
In joint accounts			0	0	0	0
Number issued			36 339 550	100	726 791 000	100

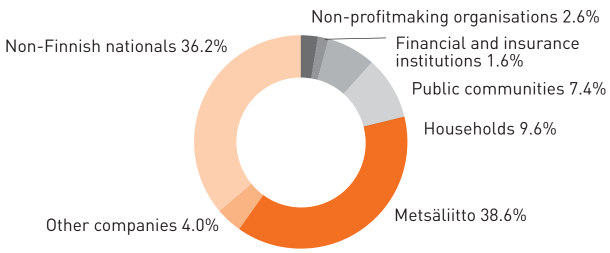
M-real B share

Number of shares	Number of shareholders	%	Total number of shares	%	Number of votes	%
1–100	15 463	39.57	661 253	0.23	661 253	0.23
101–500	12 176	31.16	3 112 094	1.07	3 112 094	1.07
501–1 000	4 817	12.33	3 816 033	1.31	3 816 033	1.31
1 001–5 000	5 331	13.64	12 191 687	4.18	12 191 687	4.18
5 001–10 000	736	1.88	5 242 635	1.80	5 242 635	1.80
10 001–50 000	455	1.16	8 672 808	2.97	8 672 808	2.97
50 001–100 000	36	0.09	2 436 549	0.84	2 436 549	0.84
100 001–500 000	48	0.12	9 748 448	3.34	9 748 448	3.34
500 001–	18	0.05	245 944 555	84.28	245 944 555	84.28
Total number	39 080	100	291 826 062	100	291 826 062	100
On the waiting list, total			0	0	0	0
In joint accounts			0	0	0	0
Number issued			291 826 062	100	291 826 062	100

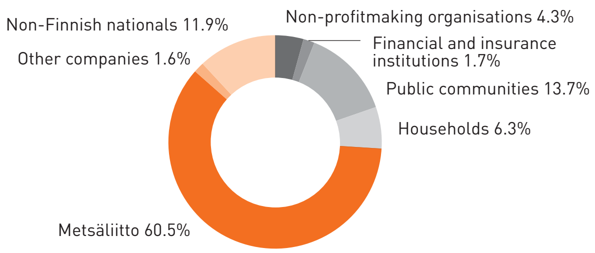
Biggest shareholders 31 December 2006

		A share	B share	Total	% of shares	% of votes
1	Metsäliitto Cooperative	25 751 535	100 978 057	126 729 592	38.6	60.5
2	Varma Mutual Pension Insurance Company	2 142 544	6 939 913	9 082 457	2.8	4.9
3	Ilmarinen Mutual Pension Insurance Company	3 534 330	5 026 350	8 560 680	2.6	7.4
4	Etra-Invest Oy		4 375 400	4 375 400	1.3	0.4
5	Central Union of Agricultural Producers and Forest Owners	1 704 249	1 597 230	3 301 479	1.0	3.5
6	Mutual Insurance Company Pension-Fennia		2 550 000	2 550 000	0.8	0.3
7	MRLBV Incentive Ky		1 386 635	1 386 635	0.4	0.1
8	Etera Mutual Pension Insurance Company	120 000	1 226 080	1 346 080	0.4	0.4
9	FIM Fenno Mutual Fund		1 275 000	1 275 000	0.4	0.1
10	Arvo Value Asset Management Ltd., Arvo Euro Value		881 384	881 384	0.3	0.1
11	FIM Forte Mutual Fund		729 600	729 600	0.2	0.1
12	OP Delta Mutual Fund		700 000	700 000	0.2	0.1
13	Evli Select Mutual Fund		600 000	600 000	0.2	0.1
14	Metsäliiton Toimenhaltijain Eläkesäätiö	16 070	577 900	593 970	0.2	0.1
15	Eläkesäätiö Polaris Pensionsstiftelse	227 770	311 505	539 275	0.2	0.5
16	OP Suomi Value Mutual Fund		505 340	505 340	0.2	0.1
17	Selective Investor Oy		500 000	500 000	0.2	0.1

M-real shareholders 31.12.2006



M-real voting rights 31.12.2006

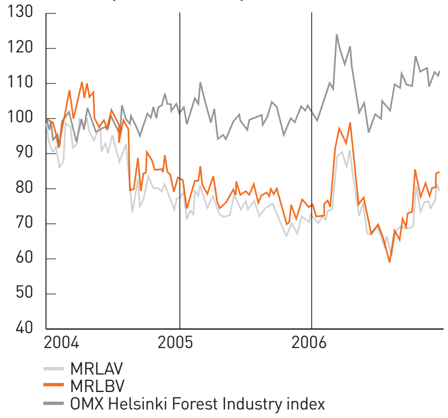


Share performance

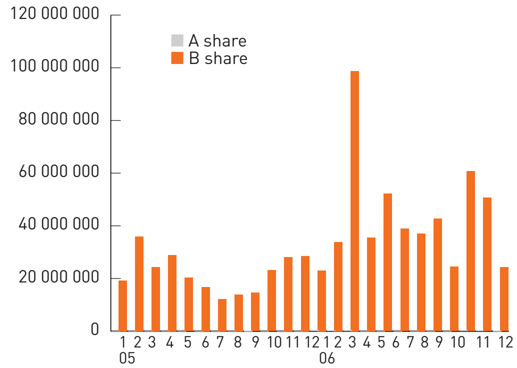
		2006	2005	2004	2003	2002
Adjusted prices, EUR						
A share	high	5.67	5.00	6.20	7.40	8.42
	low	3.66	3.94	4.22	5.22	5.05
	at year end	4.81	4.24	4.68	6.57	6.61
	average	4.61	4.46	5.80	6.43	7.12
B share	high	5.62	4.93	6.43	7.57	8.79
	low	3.26	3.82	4.18	5.23	4.95
	at year end	4.79	4.22	4.70	5.92	6.74
	average	4.41	4.36	5.59	6.11	6.97
Trading in shares, units of Helsinki Exchanges						
A share		1 910 151	1 075 633	633 215	1 765 522	4 262 501
% of total no. of A shares		5.3	3.0	1.7	4.9	11.7
B share		522 205 654	265 967 644	181 303 518	80 581 564	103 484 655
% of total no. of B shares		178.9	91.1	62.1	56.5	72.5
Number of shares at the year end						
A share		36 339 550	36 339 550	36 340 550	36 340 550	36 340 550
B share		291 826 062	291 826 062	291 825 062	142 658 875	142 658 875
Total		328 165 612	328 165 612	328 165 612	178 999 425	178 999 425
Adjusted number of shares at year end		328 165 612	328 165 612	328 165 612	212 614 341	212 614 341
Market capitalization of shares at year end, EUR million		1 572.6	1 385.6	1 541.7	1 286.3	1 426.5
Number of shareholders*		39 984	43 350	41 629	43 584	40 672

* Shareholders in the book entry system

Share price development



Traded volume 2005–2006

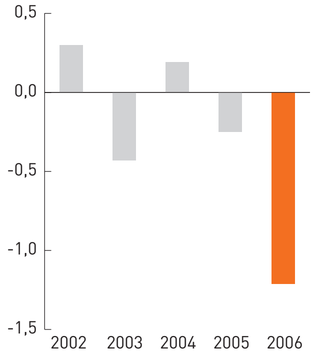


Figures per share

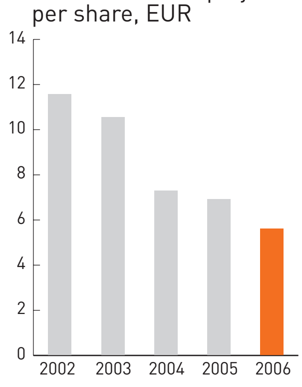
	2006	2005	2004	2003	2002
Calculation of earnings per share, EUR million [1]					
Profit from continuing operations before tax [2]	-408	-114	-108	-80.2	134.3
- minority interest	3	-1	-3	1.0	-10.1
- taxation	9	34	-17	-0.7	-59.8
+ tax adjustment for extraordinary items				-11.4	0.4
+ Profit from discontinued operations	0	0	173		
= Earnings, EUR million	-396	-81	45	-91,3	64,8
Adjusted number of shares (average)	328 165 612	328 165 612	241 989 429	212 614 264	212 614 264
= Earnings per share, EUR	-1.21	-0.25	0.19	-0.43	0.30
Shareholders' equity per share, EUR	5.62	6.92	7.29	10.56	11.57
Dividend per share, EUR[3]	0.06 [3]	0.12	0.12	0.25	0.51
Dividend per profit, %	-5.0	-48.0	63.2	-58.8	166.7
Nominal value per share, EUR	1.70	1.70	1.70	1.70	1.70
Dividend yield, %					
Series A	1.2	2.8	2.6	3.8	7.6
Series B	1.3	2.8	2.6	4.3	7.5
Price/earnings ratio (P/E ratio)					
Series A	-4.0	-17.0	24.6	-15.3	21.7
Series B	-4.0	-16.9	24.7	-13.8	22.1
P/BV , %					
Series A	85.6	61.3	64.2	62.2	57.1
Series B	85.2	61.0	64.5	56.1	58.2

1) The 2002–2003 figures are calculated according to Finnish Accounting Standards (FAS)
2) The 2002–2003 figures profit before extraordinary items
3) Board's proposal

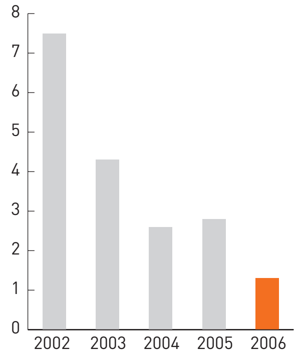
Earnings per share, EUR



Shareholders' equity per share, EUR



Dividend yield, % (Series B)



Data to graphs on this page: 2002–2003 FAS, 2004–2006 IFRS

	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
Income statement, EUR million										
Sales	5 624	5 241	5 522	6 044	6 564	6 923	5 898	4 044	3 320	3 014
- change %	7.3	-5.1	-8.6	-7.9	-5.2	14.8	45.9	21.8	10.1	30.3
Exports from Finland	1 683	1 413	1 696	1 653	1 714	1 743	1 719	1 805	1 704	1 595
Exports and foreign subsidiaries	5 335	4 970	5 182	5 652	6 173	6 438	5 376	3 603	2 893	2 598
Operating profit	-271	36	28	74	324	389	604	352	340	283
- % of sales	-4.8	0.7	0.5	1.2	4.9	5.6	10.2	8.7	10.2	9.4
Profit from continuing operations before tax[1]	-408	-114	-108	-80	134	154	459	268	262	128
- % of sales	-7.3	-2.2	-2.0	-1.3	2.0	2.2	7.8	6.6	7.9	4.3
Profit/loss for the period[2]	-399	-80	48	-95	279	337	516	295	273	358
- % of sales	-7.1	-1.5	0.9	-1.6	4.2	4.9	8.7	7.3	8.2	11.9
Balance sheet, EUR million										
Balance sheet total	6 172	6 327	6 486	7 106	7 410	8 005	7 798	4 608	4 421	4 423
Shareholders' equity	1 843	2 271	2 393	2 245	2 461	2 341	1 953	1 711	1 555	1 427
Minority interest	63	45	37	19	75	60	52	56	76	82
Interest-bearing net liabilities	2 403	2 205	2 183	3 109	3 019	3 482	3 693	1 471	1 397	1 154
Dividends and figures per share										
Dividends, EUR million	19.7 [3]	39.4	39.4	53.7	107.4	107.4	83.4	63.1	60.8	42.1
Dividend per share, EUR	0.06 [3]	0.12	0.12	0.25	0.51	0.51	0.51	0.38	0.37	0.26
Dividend/profit, %	-5.0 [3]	-48.0	63.2	-58.8	166.7	109.1	27.3	34.0	33.7	51.3
Earnings per share, EUR	-1.21	-0.25	0.19	-0.43	0.30	0.46	1.85	1.13	1.09	0.50
Shareholders' equity per share, EUR	5.62	6.92	7.29	10.56	11.57	11.01[4]	11.83[4]	10.34[4]	9.20[4]	8.64
Profitability										
Return on capital employed, %	-5.2	1.2	0.9	1.6	5.8	6.9	13.5	10.5	10.8	10.5
Return on equity, %	-18.9	-3.4	-5.7	-3.8	3.0	4.7[4]	15.5[4]	10.6[4]	11.3[4]	5.3
Financial position										
Equity ratio, %	30.9	36.6	37.5	31.9	34.2	30.0[4]	25.7[4]	38.4[4]	36.9[4]	34.1
Gearing ratio, %	126	95	89	137	119	145[4]	184[4]	83[4]	86[4]	77
Net cash flow arising from operating activities, EUR million	222	136	217	417	521	608	692	440	449	401
Internal financing on capital expenditure, %	52	30	89	105	168	82	32	112	130	122
Net interest expenses, EUR million	123	99	130	166.9	142.3	194.3	131.7	73.8	83.8	70.9
Interest cover	2.8	2.4	2.7	3.5	4.7	4.1	6.3	7.0	6.4	6.7
Other information										
Gross capital expenditure, EUR million	428	452	245	397	310	740	2,150	394	344	329
- % of sales	7.6	8.6	4.4	6.6	4.7	10.7	36.5	9.7	10.4	10.9
R&D expenditure, EUR million	21	24	28	27	26	27	25	17	15	14
- % of sales	0.4	0.5	0.5	0.4	0.4	0.4	0.4	0.4	0.5	0.4
Personnel, average	14 884	15 578	16 532	20 372	21 070	22 237	17 351	15 572	13 885	12 637
- of whom in Finland	4 559	4 687	5 263	6 178	6 328	6 406	6 584	6 966	7 208	7 248

The 2004, 2005 and 2006 figures are calculated according to International Financial Reporting Standards (IFRS) and 1997-2003 according to Finnish Accounting Standards (FAS).

[1] The 1997–2003 figures profit before extraordinary items
[2] The 1997–2003 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 is presented on page 80

Exchange rates against euro at 31.12.

	2006	2005	2004	2003	2002
GBP	0.6715	0.6853	0.7051	0.7048	0.6505
USD	1.3170	1.1797	1.3621	1.2630	1.0487
SEK	9.0404	9.3885	9.0206	9.0800	9.1528
NOK	8.2380	7.9850	8.2365	8.4141	7.2756

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 expenses	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 2002–2003 profit before extraordinary items
[2] In 2002–2003 profit before extraordinary items - direct tax - minority interests
[3] In 2002–2003 Funds from operations in the cash flow statement

INCOME STATEMENT

1.1 - 31.12. EUR million	Note	**2006**	**2005**
Sales	(1)	1 593	1 317
Change in stocks of finished goods and in work		-5	10
Other operating income	(2)	91	201
Materials and services			
Raw materials and consumables			
Purchases during the financial period		-946	-750
Change in inventories		0	-1
External services		-120	-105
		-1 066	-856
Employee costs	(3)		
Wages and salaries		-115	-105
Social security expenses			
Pension expenses		-34	-30
Other social security expenses		-63	-61
		-212	-196
Depreciation, amortisation and impairment charges	(4)		
Depreciation according to plan		-130	-134
Impairment charges		-4	0
		-134	-134
Other operating expenses		-304	-296
Operating profit		-37	46
Financial income and expenses	(5, 6)		
Interest income from non-current investments			
Income from Group companies		160	99
Income from associated companies		14	21
Other interest and similar income			
Other interest and similar income		48	54
Net exchange gains/losses		10	-34
Write-downs on non-current investments		-686	-369
Other interest and similar expenses		-146	-123
		-600	-352
Loss before extraordinary items		-637	-306
Extraordinary income and expenses	(7)		
Extraordinary income		2	12
		2	12
Loss before appropriations and taxes		-635	-294
Appropriations			
Change in depreciation differences		87	6
Income taxes	(8)	0	0
Loss for the financial period		-548	-288

BALANCE SHEETS

EUR million	Note	31 Dec. 2006	31 Dec. 2005
ASSETS			
Non-current assets			
Intangible assets	(9)		
Intangible rights		34	48
Goodwill		1	2
Other capitalized expenditure		9	11
Advance payment			
		44	61
Tangible assets	(10)		
Land and water areas		14	21
Buildings		251	244
Machinery and equipment		753	751
Other tangible assets		7	5
Advance payment and construction in progress		22	34
		1 047	1 055
Investments	(11)		
Shares in Group companies		1 440	1 907
Receivables from Group companies		338	367
Shares in associated companies		362	358
Receivables from associated companies		10	13
Other shares and holdings		34	36
Other receivables		0	2
		2 184	2 683
		3 275	3 799
Current assets			
Inventories			
Raw materials and consumables		51	51
Work in progress			
Finished goods and goods for resale		129	134
Advance payment		12	12
		192	197
Receivables	(12, 13, 14, 15)		
Current			
Accounts receivables		241	200
Receivables from Group companies		642	743
Receivables from associated companies		3	4
Other receivables		26	34
Prepayment and accrued income		48	50
		960	1 031
Cash and cash equivalents		50	41
Total assets		**4 477**	**5 068**

EUR million	Note	31 Dec. 2006	31 Dec. 2005
EQUITY AND LIABILITIES			
Shareholders'equity	(16)		
Share capital		558	558
Share premium account		664	664
Revaluation reserve		82	82
Retained earnings		868	1 195
Loss for the financial period		-548	-288
		1 624	2 211
Appropriations			
Accumulated depreciation difference		457	544
Provisions	(17)		
Provisions for pensions		14	15
Other provisions		7	9
		21	24
Liabilities			
Non-current	(18, 19, 20)		
Bond loans		1 641	721
Loans from financial institutions		221	848
Pension loans		66	81
Other liabilities		0	1
		1 928	1 651
Current	(18, 19, 21, 22)		
Bond loans		35	276
Loans from financial institutions		32	7
Pension loans		18	16
Advance payments		2	2
Accounts payable		74	63
Payables to Group companies		175	154
Payables to associated companies			
Other liabilities		17	20
Accruals and deferred income		94	100
		447	638
		2 375	2 289
Total equity and liabilities		**4 477**	**5 068**

EUR million	2006	2005
Cash flow from Operating Activities		
Operating profit	-38	46
Adjustments to operating profit a)	118	11
Change in net working capital b)	0	-33
Interest	-71	-61
Dividends received	174	120
Other financial items	-15	-44
Taxes		
Net cash flow from operations	168	39
Investments		
Purchase of shares	-123	-497
Purchase of other fixed assets	-117	-266
Sale of shares	5	336
Sale of other fixed assets	18	46
Increase in other non-current investments		
Decrease in other non-current investments	33	626
Total cash used in investments	-184	245
Cash flow before financing	-16	284
Financing		
Increase in non-current liabilities	900	484
Decrease in non-current laibilities	-837	-166
Increase (-) or decrease (+) in interest-bearing non-current receivables	-25	-179
Increase (-) or decrease (+) in interest-bearing current receivables	24	-457
Dividends paid	-39	-39
Group contribution	2	12
Total financing	25	-345
Change in liquid funds	9	-61
Liquid funds at 1 Jan	41	102
Liquid funds at 31 Dec.	50	41

a)	Adjustments to operating profit		
	Depreciation	134	134
	Gains (+) or losses (-) on sale of fixed assets	-13	-127
	Change in provisions	-3	4
	Total	118	11
b)	Change in net working capital		
	Increase (-) or decrease (+) in stocks	5	-25
	Increase (-) or decrease (+) in non-interest-bearing receivables	-3	-19
	Increase (+) or decrease (-) in non-interest-bearing current liabilities	-2	11
	Total	0	-33

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 item	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

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.

1. Sales

Owing to the Group structure, the sales of the parent company has not been broken down by segments and market.

EUR million	2006	2005
2. Other operating income		
Rental income	2	3
Gains on disposal of fixed assets	7	127
Service revenue	63	55
Other	19	16
	91	201
3. Employee costs		
Wages and salaries for working hours	115	105
Pension expenses	34	30
Other social security expenses	63	61
	212	196
Salaries and emoluments paid to management		
Managing directors and their alternates	1	1
Members of the Board	0	0
	1	1
4. Depreciation according to plan and impairment charges		
Depreciation according to plan		
Intangible rights	18	23
Goodwill	1	2
Other capitalized expenditure	2	1
Buildings and constructions	15	14
Machinery and equipment	97	92
Other tangible assets	1	2
Total depreciation according to plan	134	134
Depreciation difference	-87	
Total depreciation	47	134
5. Financial income and expenses		
Dividend income	174	120
Interest income from non-current investments	37	38
Other interest income	11	16
Other financial income		
Write-downs on non-current investments	-686	-369
Interest expences	-121	-112
Other financial expenses	-25	-11
	-610	-318
Net exchange differences	10	-34
Financial income and expenses, total	-600	-352

EUR million	2006	2005
6. Exchange differences in income statement		
Exchange differences on sales		
Exchange differences on derivatives		
Other exchange differences	-6	8
	-6	8
Exchange differences on purchases		
Exchange differences on derivatives		
Other exchange differences	0	-1
	0	-1
Exchange differences on financing		
Exchange gains		
Realized	127	194
Unrealized	41	96
Exchange losses		
Realized	-129	-246
Unrealized	-23	-85
	16	-41
Exchange differences, total	10	-34
7. Extraordinary income and expenses		
Extraordinary income		
Group contribution received	2	12
Total	2	12
8. Income taxes		
Income taxes for the financial period	0	0
Income taxes for previous periods	0	0
	0	0
Income taxes on ordinary operations	0	-3
Income taxes on extraordinary items	0	3

EUR million	2006	2005
9. Intangible assets		
Intangible rights		
Acquisition costs, 1 Jan.	105	53
Increases	7	53
Transfers between items		2
Decreases	-3	-3
Acquisition costs, 31 Dec.	109	105
Accumulated depreciation, 1 Jan.	-57	-35
Accumulated depreciation on deduction and transfers	0	2
Depreciation for the period	-18	-24
Accumulated depreciation, 31 Dec.	-75	-57
Book value, 31 Dec.	34	48
Goodwill		
Acquisition costs, 1 Jan.	20	20
Increases	0	0
Acquisition costs, 31 Dec.	20	20
Accumulated depreciation, 1 Jan.	-18	-16
Depreciation for the period	-1	-2
Accumulated depreciation, 31 Dec.	-19	-18
Book value, 31 Dec.	1	2
Other capitalized expenditure		
Acquisition costs, 1 Jan.	42	35
Increases	0	9
Decreases	-1	-2
Acquisition costs, 31 Dec.	41	42
Accumulated depreciation, 1 Jan.	-31	-32
Accumulated depreciation on deduction and transfers	1	2
Depreciation for the period	-2	-1
Accumulated depreciation, 31 Dec.	-32	-31
Book value, 31 Dec.	9	11
10. Tangible assets		
Land and water areas		
Acquisition costs, 1 Jan.	21	23
Increases		
Decreases	-7	-2
Acquisition costs, 31 Dec.	14	21
Book value, 31 Dec.	14	21

EUR million	2006	2005
Buildings		
Acquisition costs, 1 Jan.	372	315
Increases	16	38
Transfers between items	6	23
Decreases	-1	-4
Acquisition costs, 31 Dec.	393	372
Accumulated depreciation, 1 Jan.	-128	-115
Accumulated depreciation on deduction and transfers		1
Depreciation for the period	-14	-14
Accumulated depreciation, 31 Dec.	-142	-128
Book value, 31 Dec.	251	244
Machinery and equipment		
Acquisition costs, 1 Jan.	1 659	1 519
Increases	75	134
Transfers between items	25	30
Decreases	-4	-24
Acquisition costs, 31 Dec.	1 755	1 659
Accumulated depreciation, 1 Jan.	-908	-824
Accumulated depreciation on deduction and transfers	4	8
Depreciation for the period	-98	-92
Accumulated depreciation, 31 Dec.	-1 002	-908
Book value, 31 Dec.	753	751
Production machinery and equipment, 31 Dec.	737	732
Other tangible assets		
Acquisition costs, 1 Jan.	12	14
Increases	1	1
Decreases	1	-3
Acquisition costs, 31 Dec.	14	12
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.	7	5
Construction in progress		
Acquisition costs, 1 Jan.	34	57
Increases	20	32
Transfers between items	-32	-55
Decreases		0
Acquisition costs, 31 Dec.	22	34
Book value, 31 Dec.	22	34

The undepreciated portion of capitalized interest expenses under the balance sheet item "Buildings and constructions" at 31 Dec. 2006 was EUR 0 million (2005: 0.3) and under the balance sheet item "Machinery and equipment" it was EUR 3.1 million (2005: 4.6). There were no capitalized interest expenses in 2006 (2005: 3.1).

EUR million	2006	2005
11. Investments		
Shares in Group companies		
Acquisition costs, 1 Jan.	1 907	1 941
Increases	123	497
Decreases	0	-531
Write-down	-586	0
Transfers between items	-4	0
Acquisition costs, 31 Dec.	1 440	1 907
Revaluations, 1 Jan.	0	135
Decreases		-135
Revaluations, 31 Dec.	0	0
Book value, 31 Dec.	1 440	1 907
Shares in associated companies		
Acquisition costs, 1 Jan.	358	406
Increases	0	0
Decreases	0	-48
Transfers between items	4	0
Acquisition costs, 31 Dec.	362	358
Revaluations, 1 Jan.	0	2
Decreases		-2
Revaluations, 31 Dec.		0
Book value, 31 Dec.	362	358
Other shares and holdings		
Acquisition costs, 1 Jan.	36	43
Increases	0	1
Decreases	-1	-8
Write down	-1	0
Transfers between items	0	0
Acquisition costs, 31 Dec.	34	36
Book value, 31 Dec.	34	36
Receivables from group companies		
Acquisition costs, 1 Jan.	367	997
Increases	22	4
Decreases		-634
Write-down	-51	
Book value, 31 Dec.	338	367
Receivables from associated companies		
Acquisition costs, 1 Jan.	13	9
Increases		4
Decreases	-3	
Book value, 31 Dec.	10	13

EUR million	2006	2005
Other receivables		
Acquisition costs, 1 Jan.	2	2
Increases		
Decreases	-2	
Transfers between items		
Book value, 31 Dec.	0	2
Investment, total		
Acquisition costs, 1 Jan.	2 683	3 398
Increases	145	506
Decreases	-6	-1 221
Write-down	-638	
Acquisition costs, 31 Dec.	2 184	2 683
Revaluations, 1 Jan.	0	137
Decreases		-137
Revaluations, 31 Dec.		0
Book value, 31 Dec.	2 184	2 683

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	2006	2005
Receivables from Group companies		
Accounts receivables	31	67
Loan receivables	537	572
Other receivables	51	94
Prepayment and accrued income	23	10
Receivables from associated companies		
Loan receivables	2	2
Prepayment and accrued income	1	2
Other receivables		
Accounts receivables	241	200
Other receivables	26	34
Prepayment and accrued income	48	50
	960	1 031

14. Prepayment and accrued income	2006	2005
Insurance	0	3
Taxes	44	44
Discounts	0	0
Others	4	3
	48	50

EUR million	2006	2005
15. Interest-bearing receivables		
Loan receivables and other non-current assets	345	378
Liquid funds and other current assets	613	677
	958	1 055
16. Shareholders'equity		
Share capital, 1 Jan.		
Series A shares	62	62
Series B shares	496	496
Share capital, 31 Dec.	558	558
Share premium account, 1 Jan./31 Dec.	664	664
Revaluation reserve, 1 Jan./31 Dec.	82	82
Restricted equity, total	1 304	1 304
Retained earnings, 1 Jan.	907	1 234
Dividends paid	-39	-39
Loss for the period	-548	-288
Retained earnings, 31 Dec.	320	907
Unrestricted equity, total	320	907
Shareholders' equity, total	1 624	2 211

	1.1.	Increase	Decrease	31.12
17. Provisions				
Provisions for pension	6	2	-2	6
Provisions for unemployment pension costs	9	2	-3	8
Provision for rental costs	3			3
Other provisions	6		-2	4
	24	4	-7	21

18. Liabilities	2006	2005
Non-current		
Non-interest-bearing		
Interest-bearing	1 928	1 651
	1 928	1 651
Current		
Non-interest-bearing	238	239
Interest-bearing	209	399
	447	638

Bonds	Interest %	2006	2005
1999–2006	4.88		200
2000–2007	4.46	35	35
2000–2008	4.26	18	18
2001–2006	6.01		4
2001–2006	5.77		9
2001–2006	5.91		9
2001–2006	3.91		12
2001–2006	4.17		15
2002–2009	8.89	104	113
2002–2012	9.20	113	112
2002–2014	9.40	132	132
2003–2006	5.24		30
2003–2008	5.79	99	99
2003–2008	5.52	20	20
2004–2008	5.79	49	49
2004 –2009	5.94	30	30
2004–2009	5.91	40	40
2004–2011	5.98	30	30
2004–2011	6.12	10	10
2004–2011	6.17	12	12
2005–2008	6.32	3	3
2005–2008	5.60	17	17
2006–2009	6.1	70	
2006–2010	7.3	400	
2006–2013	8.0	494	
Total		1 676	997

EUR million	2006
19. Non-current debts with amortization plan	
Bonds	
2007	35
2008	207
2009	244
2010	400
2011	52
2012	738
Total, at the end of the financial period	1 676
Loans from financial institutions	
2007	32
2008	36
2009	40
2010	37
2011	37
2012	71
Total, at the end of the financial period	253
Pension loans	
2007	18
2008	16
2009	16
2010	33
2011	1
2012	0
Total, at the end of the financial period	84
Other loans	
2007	
2008	
2009	
2010	
2011	
2012	
Total, at the end of the financial period	0
Total	
2007	85
2008	259
2009	300
2010	470
2011	90
2012	809
Total, at the end of the financial period	2 013

EUR million	2006	2005
20. Non-current liabilities		
Bonds	1 641	721
Loans from financial institutions	221	848
Pension loans	66	81
Other liabilities	0	1
	1 928	1 651
21. Current liabilities		
Liabilities from Group companies		
Accounts payable	39	35
Other liabilities	124	101
Accruals and deferred income	12	18
Other liabilities		
Bonds	35	276
Loans from financial institutions	32	7
Pension loans	18	16
Advance payment	2	2
Accounts payable	74	63
Other liabilities	17	20
Accruals and deferred income	94	100
	447	638

EUR million	2006	2005
22. Accruals and deferred income		
Current		
Insurance	8	4
Personnel expenses	29	29
Income tax		
Interests	17	15
Accruals of purchases	16	21
Freight costs	2	2
Discounts	20	18
Others	2	11
	94	100

EUR million	2006	2005
23. Contingent liabilities		
For own liabilities		
Liabilities secured by mortgages		
Loans from financial institutions	27	60
Real estate mortgages	27	60
On behalf of Group companies		
Real estate mortgages	4	4
Guarantees	1 868	1 913
On behalf of others		
Guarantees	2	8
Leasing commitments		
Payments due in the following year	10	11
Payments due in subsequent years	48	55
Total		
Real estate mortgages	31	64
Guarantees	1 870	1 921
Leasing liabilities	58	66
	1 959	2 051

EUR million	2006	2005
24. Environmental items		
Income statement		
Materials and consumables	8	5
Employees costs		
Wages and salaries	1	1
Social security costs	1	1
Depreciation	3	4
Other operating charges	9	2
	22	13
Balance sheet		
Intangible and tangible assets		
Acquisition costs, 1 Jan.	72	57
Increases	1	33
Decreases		-17
Depreciation	-25	-22
Book value, 31 Dec.	48	51
Provisions		
Other provisions	4	4

	EUR
The Group's distributable funds according to the balance sheet at 31 December 2006	608 311 000.00
Non-restricted shareholders' equity in the parent company balance sheet at 31 December 2006 according to FAS	
Retained earnings	868 212 365.11
Net result for 2006	-548 142 503.86
Total	**320 069 861.25**

The Board of Directors proposes the following to the Annual General Meeting	
A dividend of euros 0.06 per share to be paid on the 328,165,612 A and B shares	19 689 936.72
To be transferred to the Retained earnings account	300 379 924.53
	320 069 861.25

Espoo, 6 February 2007

Kari Jordan

Arimo Uusitalo

Heikki Asunmaa

Kim Gran

Asmo Kalpala

Erkki Karmila

Runar Lillandt

Antti Tanskanen

Mikko Helander
CEO

To the shareholders of M-real Corporation

We have audited the accounting records, the financial statements, the report of the Board of Directors and the administration of M-real Corporation for the period 1.1. – 31.12.2006. The Board of Directors and the President and CEO have prepared the consolidated financial statements, prepared in accordance with International Financial Reporting Standards as adopted by the EU, as well as the report of the Board of Directors and the parent company's financial statements, prepared in accordance with prevailing regulations in Finland, containing the parent company's balance sheet, income statement, cash flow statement and notes to the financial statements. Based on our audit, we express an opinion on the consolidated financial statements, as well as on the report of the Board of Directors and the parent company's financial statements and administration.

We conducted our audit in accordance with Finnish Standards on Auditing. Those standards require that we perform the audit to obtain reasonable assurance about whether the report of the Board of Directors and the financial statements are free of material misstatement. An audit includes examining on a test basis evidence supporting the amounts and disclosures in the report of the Board of Directors and 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 the administration is to examine whether the members of the Board of Directors and the Presidents and CEO's of the parent company have complied with the rules of the Companies' Act.

Consolidated financial statements

In our opinion the consolidated financial statements, prepared in accordance with International Financial Reporting Standards as adopted by the EU, give a true and fair view, as defined in those standards and in the Finnish Accounting Act, of the consolidated results of operations as well as of the financial position.

Parent company's financial statements, report of the Board of Directors and administration

In our opinion the parent company's financial statements have been prepared in accordance with the Finnish Accounting Act and other applicable Finnish rules and regulations. The parent company's financial statements give a true and fair view of the parent company's result of operations and of the financial position.

In our opinion the report of the Board of Directors has been prepared in accordance with the Finnish Accounting Act and other applicable Finnish rules and regulations. The report of the Board of Directors is consistent with the consolidated financial statements and the parent company's financial statements and gives a true and fair view, as defined in the Finnish Accounting Act, of the result of operations and of the financial position.

The consolidated financial statements and the parent company's financial statements can be adopted and the members of the Board of Directors and the Presidents and CEO's of the parent company can be discharged from liability for the period audited by us. The proposal by the Board of Directors regarding the disposal of distributable funds is in compliance with the Companies' Act.

Espoo, 23 February 2007

PricewaterhouseCoopers Oy
Authorised Public Accountants

Göran Lindell
Authorised Public Accountant

Jouko Malinen
Authorised Public Accountant

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 OMX Helsinki Stock Exchange when applicable. The Company's Board of Directors is responsible for the compliance with the Corporate Governance principles.

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 to CEO. The operations of the Company are coordinated through the Management Team.

According to M-real's organisational structure, each business area is responsible for its sales as well as production and has clear profit responsibility. M-real has the following business areas: Consumer Packaging, Publishing, Commercial Printing, Office Papers and Map Merchant Group. Day-to-day operational responsibility rests with the business areas' management.

Annual General Meeting

Annual General Meeting of the Shareholders (AGM) is held each year on a day determined by the Board before the end of June. The Annual General Meeting of the shareholders is the Company's highest decision-making body. According to Finnish Companies Act, the Annual General Meeting decides on following issues, among other things:

- possible changes to the Company's Articles of Association
- acceptance of the Company's profit and loss account and balance sheet
- payable dividend
- election of the members of Board of Directors and remuneration of the Board members and the members of Board committees
- appointment of the auditors of the Company and their compensation.

A shareholder is entitled to have any issue on the agenda of Annual General Meeting provided that the request is made in writing and sufficiently in advance, so that the issue can be disclosed to notice of Annual General Meeting.

Each shareholder which has been registered to shareholders' register at least 10 days before Annual General Meeting, has a right to participate in the meeting. M-real has two ordinary auditors and two deputy auditors as appointed by the shareholders at the Annual General Meeting.

Board of Directors

M-real is managed in accordance with the Corporate Governance recommendation given by the OMX Helsinki Stock Exchange. According to the Company's Articles of Association, the Board comprises of five to eight ordinary members appointed by the shareholders at the AGM for a one-year period at a time. Currently, the Board has eight ordinary members.

The shareholders at the AGM decide every year on the remuneration of the Board members including the remuneration of the members of the Board committees.

The Board supervises the operations and the 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's operations. It is also responsible for overseeing the proper supervision of the accounting and the control of financial matters.

The Board has defined a working order which is published on M-real's website (www.m-real.com). Matters, which are significant and unusual taking into account the scope and nature of the Company's operations, belong to the Board of Directors. Such matters include, for example:

- election of the CEO for the Company and approval of the election of members to Management Team and supervising that the CEO

Corporate Governance in M-real

manages the administration of the Company in compliance with instructions and orders given by the Board of Directors

- election of the members of the Audit Committee and approval of the Charter of the Audit Committee
- election of the members of the Nomination Committee and approval of the Charter of the Nomination Committee
- election of the members of the Compensation Committee and to approve of the Charter of the Compensation Committee
- consideration and approval of the Company's strategy and its main principles
- approval of the annual business plan
- supervision of a proper organisation of the Company's accounting, financial management and risk management
- decisions on significant investments, acquisitions, divestitures of business operations
- decisions on considerable investments and financing arrangements
- decisions on assignment and pledging of significant fixed assets of the Company
- decisions on granting of donations of money or authorize the Managing Director in regard to such
- granting and revoking the Company's proxy holders
- supervision of compliance with the Company's Articles of Association, convening the Annual General Meeting of Shareholders, and supervision of the implementation of resolutions passed by the Annual General Meeting of shareholders
- signing and presenting the financial statements of approval by the Annual General Meeting of Shareholders and to present a proposal for dividend distribution
- approval of central manuals and instructions guiding the Company's business operations
- decision on which persons are permanent insiders in the Company and approval of the Company's insider rules
- for the OMX Helsinki Stock Exchange's information, disclosing such circumstances that tend to affect the value of Company's shares, or that must otherwise be disclosed by the Company under the Securities Market Act.

The Charter of the Board of Directors is published on M-real's website (www.m-real.com).

The Board elects its Chairman and the Vice Chairman from among the members of the Board.

The Board evaluates its performance annually. The Board also reviews the corporate governance policy annually and amends it when required. The Board is assisted by the Audit Committee, the Nomination Committee, the Compensation Committee and the Special Committees which prepare matters to be submitted to the Board. The chairman and members of each committee are appointed by the Board annually.

The Board meets regularly during the year. In 2006, the Board held 18 meetings out of which six were held as telephone conferences. On average, the members of Board attended 97 per cent of the meetings.

The Board committees held meetings in 2006 as follows:
Audit Committee five meetings, Nomination Committee one meeting, Compensation Committee five meetings and Special Committees one meeting. On average, the members of Board committees attended 95 per cent of the meetings.

M-real Corporation complies with the Corporate Governance recommendation of the OMX Helsinki Stock Exchange. However, the Company notes that it deviates from the clause 17 of the recommendations under which the majority of all the directors should be independent. The composition of the Board of Directors takes into consideration the significant ownership interest of Metsäliitto Cooperative in M-real. The longstanding and responsible ownership interest provides stability and long-term commitment to the work of the Board and steering by the owners.

BOARD COMMITTEES

The final decisions on the matters dealt by the Board committees are made by the Board of Directors of the Company based on preparatory work of the committees.

Audit Committee

The Board has an Audit Committee to assist the Board in ensuring the balance, transparency and accuracy of the Company's financial reporting and accounting methods as well as the financial statements and other financial information disclosed by the Company. The Audit Committee regularly reviews the systems of the internal control and management as well as the reporting of financial risk and the audit process. The Audit Committee assesses the internal audit's efficiency and scope, the Company's risk management, central risk areas and compliance with laws. It makes recommendations regarding on the appointment of the external auditors for the Company. The Audit Committee annually reviews the annual plan of internal auditing as well as the material audit reports.

The Committee is comprised of three independent, non-executive members of the Board. The Committee members must have a financial expertise and experience in accounting and applicable accounting principles. The Audit Committee meets regularly at least four times a year. In connection with its meetings, the Committee members meet the auditors of the Company without the members of the management being present. The Chairman of the Committee presents a report of each Audit Committee meeting to the Board. The tasks and responsibilities of the Audit Committee are defined in its Charter, which has been approved by the Board.

The Audit Committee is chaired by the Chairman Kim Gran and the other members are Asmo Kalpala and Erkki Karmila. The Company's auditor, CEO, CFO and other members of the management have been present at the meetings of the Audit Committee, when needed. The Audit Committee had five meetings during the year 2006.

The Charter of Audit Committee is published 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 Annual General Meeting regarding the composition of the Board of Directors and remuneration of the Board members. The Committee is comprised of three 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 the Chairman Arimo Uusitalo and the other members are Runar Lillandt and Antti Tanskanen. The Nomination Committee had one meeting during the year 2006.

The Charter of Nomination Committee is published 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 of the CEO and making recommendations to the Board relating to the compensation of the management.The Committee is comprised of three members of the Board. The Compensation Committee meets regularly, but 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 the Chairman Kari Jordan and the other members are Erkki Karmila, and Arimo Uusitalo. The Compensation Committee held five meetings during the year 2006.

The Charter of Compensation Committee is published on M-real's website (www.m-real.com).

Special Committees

The Board has Special Committee responsible for evaluating competition law matters. The Chairman of this Special Committee is Erkki Karmila and the members are Kim Gran, Asmo Kalpala and Antti Tanskanen. This Special Committee held one meeting during the year 2006.

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 regulations and that the financial matters are taken care in a reliable manner. The CEO has a managing director's service contract with the Company. The Board conducts an annual evaluation of the actions of the CEO.

The CEO is in charge of monitoring and steering of the Consumer Packaging, Publishing, Commercial Printing, Officer Papers and Map Merchant Group business areas.

DEPUTY TO THE CHIEF EXECUTIVE OFFICER (DEPUTY TO THE CEO)

The Deputy to the CEO acts as a deputy to the Chief Executive Officer.

MANAGEMENT TEAM

In managing M-real, the CEO is assisted by the Management Team which comprises of Mikko Helander and the executives reporting to him: Seppo Parvi, Gregory Gettinger, Mika Joukio, Karl-Johan Lindborg, Matti Mörsky, Seppo Puotinen and Jarmo Salonen. The Chairman of the Management Team is Mikko Helander. The Management Team's tasks and responsibilities are planning of investments, preparation of strategic guidelines, allocation of resources, control of day-to-day operations and preparation of issues submitted to the Board of Directors meetings. The Management Team meets on monthly basis.

SALARIES, FEES AND OTHER BENEFITS OF THE BOARD OF DIRECTORS AND SENIOR MANAGEMENT

In accordance with a decision made by year's 2006 Annual General Meeting, the Chairman of the Board of Directors received a fee of EUR 72,675 per annum, the Vice Chairman EUR 61,275 and the members EUR 48,000. In addition, the Company paid a meeting attendance fee of EUR 500 per meeting of the Board of Directors and its Committees. The fees paid to the members of the Board of Directors in 2006 totalled EUR 480,350.

Mikko Helander, the Company's CEO receives a monthly salary of EUR 32,000, including as fringe benefits a car and a telephone. According to the Company's incentive and incentive scheme for the top management, an amount equivalent of up to six months' salary may be paid to the CEO as profit-sharing based on his overall performance. The retirement age of the CEO is 62 under the managing director's service contract. The notice period is 6 months. In the event that the CEO is dismissed or in situations where the control of the Company changes, he has the right to receive a compensation corresponding to 24 months' salary. The total compensation of the other members of the Management Team was EUR 2,009,330 in 2006.

The Board of M-real has decided on 4 February 2005 on a share based incentive programme for the company's top executives. The possible reward of the incentive program from the year 2006 is based on M-real Corporation's operating profit (EBIT) and return on capital employed (ROCE). The reward will paid in 2007 partly in M-real's B shares and partly in cash. The maximum aggregate amount of shares which can be transferred based on the results in 2006 is 108,000. Any shares earned through the programme must be held for minimum of two years after the earning period. In total, 11 top executives are included in the programme.

The shares and options held by the members of the Board of Directors and the Management Team are specified on pages 98–101.

At 31 December 2006, the Company's CEO, the Deputy to the CEO or the members of the Board of Directors had no loans outstanding from the Company or its subsidiaries.

AUDITORS

The shareholders elect annually two auditors and two deputy auditors according to M-real's Articles of Association at the AGM. The Audit Committee oversees the election process of the auditors and gives to the Board its recommendation as to who should serve as the auditors. The auditor shall be an authorised public audit firm or firms, which then appoints the auditors of Company. In 2006, Company's auditors were Göran Lindell, Authorised Public Accountant and PricewaterhouseCoopers Oy. The Company has paid audit fees to Göran Lindell and PricewaterhouseCoopers Oy EUR 1,900,000 and other audit firms of the subsidiary companies EUR 439,000. Additionally the Company has paid fees for non-audit services to PricewaterhouseCoopers EUR 3,121,000.

INTERNAL AUDITING

The Internal Auditing function in M-real monitors the adequacy and effectiveness of the systems, internal controls and accounting of the Company. The annual auditing plan of Internal Auditing function is reviewed by the Audit Committee. The Internal Auditing reports its findings to the management, external auditors and Audit Committee. As an administrative function, the Internal Auditing reports to the CEO.

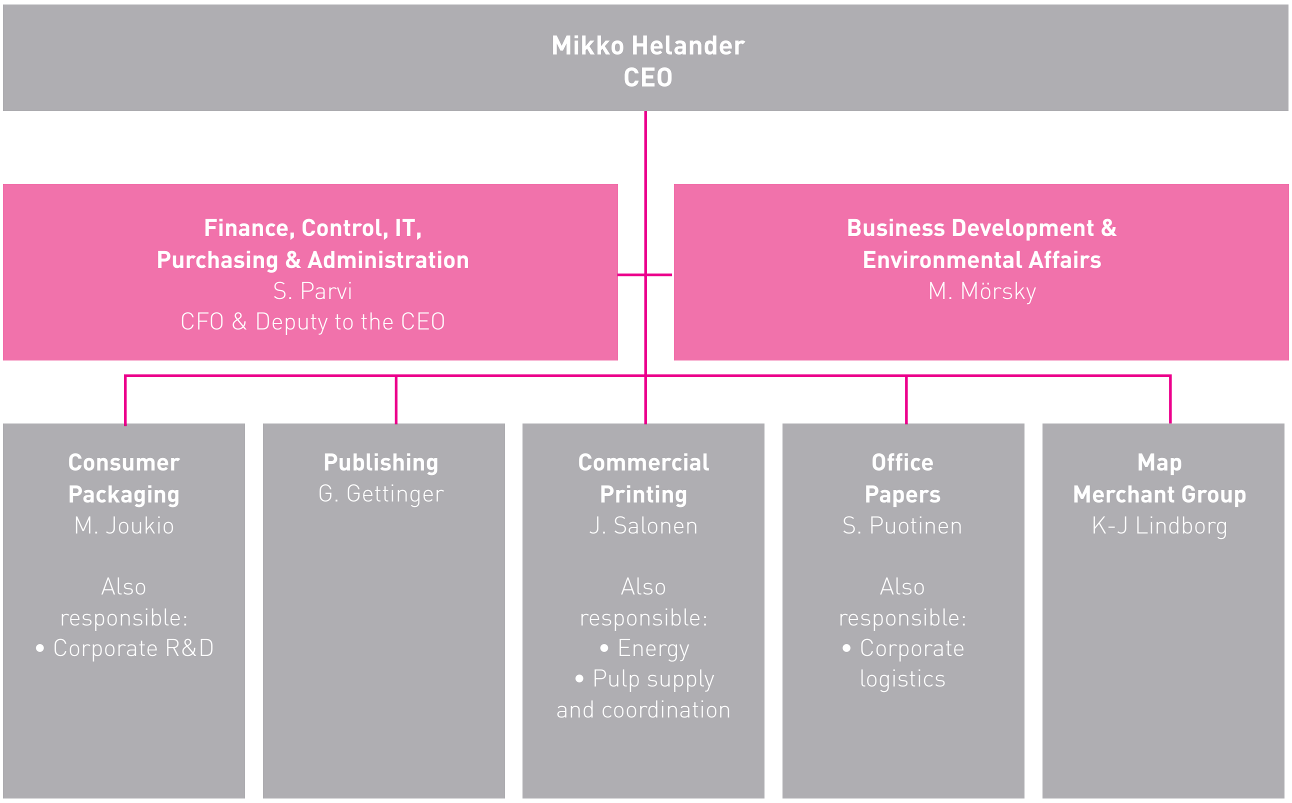
RISK MANAGEMENT

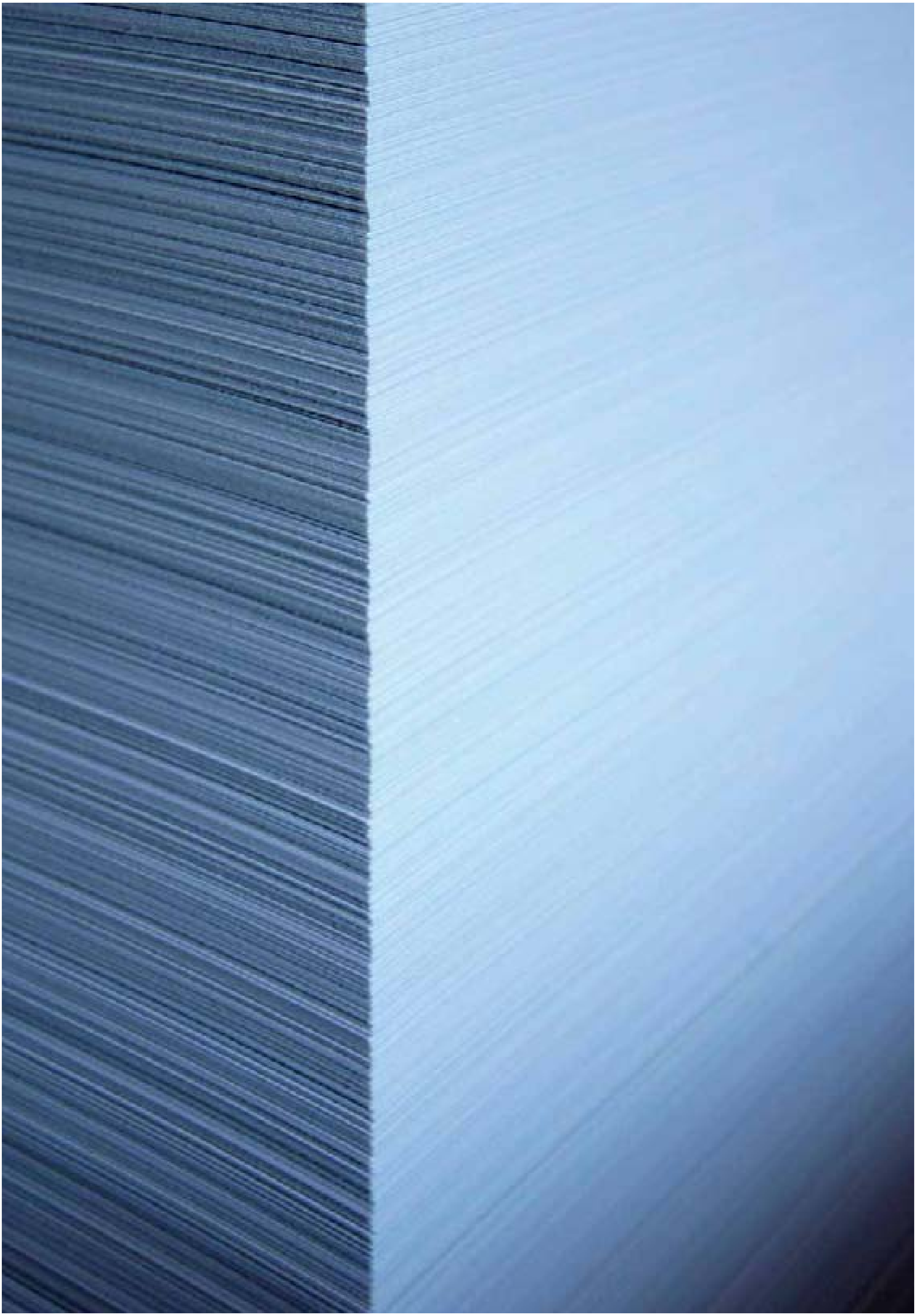
The risk management department is in charge of developing and implementation the Company's risk management process as well as co-ordinating the risk management work within the Company. The risk management department employs a comprehensive and holistic approach that is carried out as a continuous process. 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 risk management department reports to the CFO. The operational principles regarding M-real's risk management are recorded in the Risk Management Policy and Manual. The financial risk management is also described on pages 24–25 and 45–48.

INSIDER GUIDELINES

The company complies with the insider guidelines of the OMX Helsinki Stock Exchange. The company's internal insider guidelines are published on M-real's website and regularly distributed throughout the organisation. The company expects all of its employees to act in accordance with the regulations applicable to the insiders. All information that relates to the company's present and future business operations must to be kept strictly confidential. The company's insider register is publicly available on M-real's website. The permanent insiders include members of the Board of Directors, CEO and CFO and Deputy to the CEO as well as the auditors. The CEO has decided that other permanent insiders shall be the members of Management Team and persons nominated in legal, financial, accounting, R&D, communications and investor relations functions.

Separate project-specific insider registers for persons participating in the preparation of significant projects are maintained when considered necessary. Each year the company decides on so-called "closed windows" i.e., specific periods of time when the insiders are barred from trading shares and options issued by the company as well as warrants and other securities related to the company. In 2007 the closed windows will be 1 January to 6 February 2007, relating to the Annual Report of 2006 and 1 to 24 April 2007, 1 to 26 July 2007 and 1 to 25 October 2007 relating to 2007 Interim Reports.





Board of Directors of M-real Corporation

Kari Jordan
(1956)

Chairman of the Board since 2005
Master of Science in Economics
President and CEO of Metsäliitto Group since 2006
CEO of Metsäliitto Cooperative since 2004

Vice Chairman of the Board of Metsäliitto Cooperative since 2005
Chairman of the Board of Metsä Tissue Corporation since 2004
Member of the Board of Oy Metsä-Botnia Ab since 2004 and Chairman of the Board since 2006
Vice Chairman of the Supervisory Board in Vapo Oy 2005-2007 and Vice Chairman of the Board since 2007

Vice Chairman of the Board of Finnair Corporation since 2003
Member of the Board of Neste Oil Corporation since 2005
Member of the Board of Julius Tallberg-Kiinteistöt Oyj since 1998
Member of the Board of Confederation of Finnish Industries (EK) since 2005
Member of supervisory Board of Varma Mutual Pension Insurance Company since 2006
Vice Chairman of the Board of Finnish Forest Industries Federation and Member of Federation's Working Group since 2005

Holds positions of trust in several charity and national defence organisations

Shares owned in M-real Corporation: 80,346 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
Member of the Board of Oy Metsä-Botnia Ab since 1996
Member of the Board of Vapo Oy since 2005
Member of the Board of Metsä Tissue Corporation since 1998

Chairman of the Executive Board of Osuuspankki Kantrisalo since 1998

Shares owned in M-real Corporation: 110 A shares and 2,710 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 Supervisory Board of Ilmarinen Mutual Pension Insurance Company since 2006

Shares owned in M-real Corporation: 4,000 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 Vapo Oy since 2005
Member of Pellervo Delegation since 2000
Chairman of the Supervisory Board of Osuuspankki Alavus since 1993

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 Board 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 1993-2006
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

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 1997-2006
Chairman of the Executive Boards of OP Bank 1997-2006
Group Central Cooperative and OKO Bank 1997-2006

Shares owned in M-real Corporation: no ownership

Management Team of M-real Corporation

Mikko Helander
(1960)

Chief Executive Officer
Master of Science
in Engineering

Mikko Helander started his career in 1984 as a Project Engineer at Valmet Corporation (now Metso Corporation) serving in various managerial positions until 1990. From 1990 to 1993, Helander worked as a Managing Director for Kasten Hövik, a leading supplier of storing equipment in northern Europe. In 1993, Helander returned to Valmet Corporation as the Head of Projects, Coaters and Calanders. Between 1994 and 1997, he headed the Operations for Valmet Rotomec S.p.a. in Italy. In 1997 Helander became Valmet Corporation's Calander business area's Vice President and Chief Executive and, in 1999, President for the Valmet Converting Group headquartered in the United Kingdom. In 2003, Helander joined Metsä Tissue Corporation as a Chief Executive Officer. In October 2006, he was appointed Chief Executive Officer of M-real Corporation.

Shares owned in M-real Corporation:
no ownership

Seppo Parvi
(1964)

Chief Financial Officer
and Debuty to the CEO
Finance, Control, IT, Purchasing
& Administration
Master of Science in
Economics

Seppo Parvi began his career at Ahlstrom Group where he worked in various managerial positions from 1989 until 1993. From 1993 to 2006, Parvi worked for Huhtamäki Oyj starting as Manager of Corporate Finance after which he was appointed General Manager of Huhtamäki Finance Companies. Parvi worked in different positions in Finland, Poland and Turkey. He was responsible for the controller function of Polarcup & Leaf in central-eastern Europe from 1996 to 1998 after which he was responsible for the controller function of the Industrial Division in central-eastern Europe and for the integration of Guven Plastik in Turkey to Huhtamäki. In March 2000, Parvi returned to Finland to join Global Sourcing of Huhtamäki Oyj. In 2002, Parvi took charge of Huhtamäki's business activities in Turkey, until he was appointed Vice President of the Paper forming, Rigid packaging operations in Europe and General Manager of Operations business unit in Hämeenlinna in 2006. In August 2006, Parvi was appointed M-real's Executive Vice President and Chief Financial Officer. Parvi is in charge of finance, control, IT, purchasing and administration.

Shares owned in M-real Corporation:
2,600 B shares

Gregory Gettinger
(1963)

Executive Vice President (EVP)
Publishing
Doctor of Economic Sciences

Gregory Gettinger started his business career in 1987 as Franchise Manager at PepsiCo International in Vienna. In 1989, he joined the Frantschach group (now Mondi) in Vienna, where he started as Marketing Manager of Frantschach AG Holding and became Managing Director of Neusiedler Beschichtungs GmbH in 1990 and of Behn Verpackungsbedarf GmbH in 1991. From 1995 to 1999, Gettinger held various positions at Bertelsmann AG. He began at Donauland Buehclub in Vienna, was then appointed as Managing Director of Pay TV Club RTL in Cologne and then in 1996 became Director of Marketing and Sales of Premiere GmbH in Hamburg. In October 1999, Gettinger joined Metsä-Serla Corporation (now M-real Corporation). After serving as Managing Director of M-real Deutschland GmbH, he was appointed as Vice President Marketing for M-real Corporation in 2003. In 2004, he assumed the position of Regional Managing Director and was responsible for Sales and Marketing of Publishing in central Europe. From September 2006 and until the end of 2006, he has served as Senior Vice President, Development of Publishing business area. Gettinger was appointed Executive Vice President of Publishing business area and member of the Management Team effective 1 January 2007.

Shares owned in M-real Corporation:
no ownership

Mika Joukio
(1964)

Executive Vice President (EVP)
Consumer Packaging
Also responsible: Corporate
R&D
Master of Science in
Engineering, MBA

Mika Joukio has been involved in several management and development tasks within M-real. He started his career with Metsä-Serla Corporation (now M-real Corporation) in 1990 when he was appointed Assistant Production Manager for Tako Board Mill. He advanced to the position of Production Manager six years later holding this position until 2001. In 2001, Joukio was appointed Vice President and Mill Manager for Äänekoski Board Mill where he was responsible for the extensive board machine upgrade including capacity increase and development of new products. From 2004 to 2005, he worked in the headquarters of M-real in the position of Senior Vice President, Corporate Logistics and Supply Chain. In October 2005, Joukio was appointed Vice President and Mill Manager for M-real Kyro. In September 2006, he was appointed Vice President and Mill Manager of both M-real Kyro and M-real Tako Board. He worked to combine the organisation of the two mills. In November 2006, Joukio was appointed head of the Consumer Packaging business area and member of the M-real Management Team. In addition, Joukio is in charge of research and development.

Shares owned in M-real Corporation:
no ownership

Karl-Johan Lindborg
(1947)

CEO
Map Merchant Group
Master of Science
in Economics

Karl-Johan Lindborg worked in Finncell's sales organisation 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

Matti Mörsky
(1952)

Senior Vice President (SVP)
Business Development & Environmental Affairs
Master of Science in Engineering

Matti Mörsky worked in product development and sales positions in Oy Fiskars Ab's plastic industry from 1978 to 1980. Mörsky joined G.A. Serlachius Oy in 1981 with duties in corporate planning. From 1982 to 1986, Mörsky was the project manager of Stuart Edgar Ltd. and from 1986 to 1987 he worked as General Manager of T-Drill. In 1987, Mörsky was appointed as Vice President, Business Development in Metsä-Serla Corporation (now M-real Corporation) and since then he has worked in various positions in business development and in M&A projects, including as General Manager of Hygiene Division of Holmen Hygiene AB in 1989, of Kitchen Furniture Division of Metsä-Serla in 1992 and Rantasalmi Loghouses 1994. Since 1999, he has worked as Senior Vice President, Business Development. In 2006, Mörsky was appointed member of the M-real Management Team. In addition, Mörsky is in charge of environmental affairs.

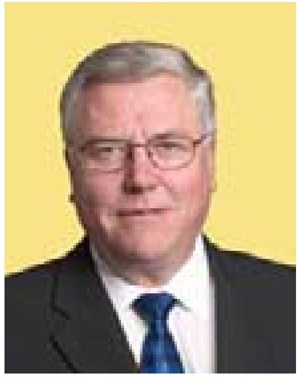
Shares owned in M-real Corporation: no ownership

Seppo Puotinen
(1955)

Executive Vice President (EVP)
Office Papers
Also responsible: Corporate Logistics
Licentiate in Technology

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. 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, 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 October 2004, he was appointed Executive Vice President of Corporate Strategy & Sales Services of M-real. In October 2005 Puotinen was appointed, along with his other responsibilities, Executive Vice President, Office Papers. Puotinen is also in charge of logistics.

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



Jarmo Salonen
(1951)

Executive Vice President (EVP)
Commercial Printing
Also responsible: Energy and Pulp supply and coordination
Master of Science in Engineering

Jarmo Salonen worked as Technical advisor at Finnish Papermills Association from 1978 to 1982. In 1982, he transferred to Ahlström Corporation Varkaus mills to serve as the Manager of technical customer service. From 1985 to 1987, Salonen worked as the Mill manager of Varkaus fine paper mills of Ahlström / 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, Salonen worked as the Director of fine paper division and Managing Director of M-real's UK Paper in Kent, UK. In 2000, he was appointed Senior Vice President of Commercial Printing, located in Amsterdam. In 2002, he returned to Finland as he was appointed Senior Vice President of M-real's Purchasing. In 2003, he was appointed Senior Vice President of M-real's Production. In the new organisation of August 2004, Salonen was appointed Executive Vice President of M-real's Commercial Printing business area and member of the Management Team. In addition, Salonen is in charge of energy supply and pulp production and coordination

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

Sales	Full year									Quarterly
EUR million	2006	2005	IV 06	III 06	II 06	I 06	IV 05	III 05	II 05	I 05
Consumer Packaging	971	864	241	236	237	257	231	196	199	238
Publishing	887	796	220	226	216	225	230	181	177	208
Commercial Printing	1 504	1 488	369	361	380	394	376	381	368	363
Office Papers	727	704	189	181	174	183	167	174	187	176
Map Merchant Group	1 438	1 390	377	342	354	365	357	341	351	341
Internal sales and other operations	97	-1	42	21	17	17	8	-4	-23	18
Total	5 624	5 241	1 438	1 367	1 378	1 441	1 369	1 269	1 259	1 344

Operating result and result before tax	Full year									Quarterly
EUR million	2006	2005	IV 06	III 06	II 06	I 06	IV 05	III 05	II 05	I 05
Consumer Packaging	43	41	0	17	2	24	16	14	-16	27
Publishing	30	14	3	14	2	11	13	14	-21	8
Commercial Printing	-242	-62	-179	-10	-51	-2	-41	0	-17	-4
Office Papers	-18	-5	-4	-1	-17	4	3	-3	-10	5
Map Merchant Group	-42	18	-59	3	7	7	0	5	7	6
Other operations	-42	30	-7	-8	-18	-9	-18	-10	-15	73
Operating result	-271	36	-246	15	-75	35	-27	20	-72	115
% of sales	-4.8	0.7	-17.1	1.1	-5.4	2.4	-2.0	1.6	-5.7	8.6
Share of associated companies' results	0	-2	0	1	0	-1	2	0	-4	1
Net exchange gains/losses	0	-33	-4	-1	-3	8	-7	0	-15	-11
Other financial income and expenses	-137	-115	-41	-37	-33	-26	-17	-19	-52	-28
Result before tax	-408	-114	-291	-22	-111	16	-49	1	-143	77

Operating result	Full year									Quarterly
%	2006	2005	IV 06	III 06	II 06	I 06	IV 05	III 05	II 05	I 05
Consumer Packaging	4.4	4.7	0	7.2	0.8	9.3	6.9	7.1	-8.0	11.3
Publishing	3.4	1.8	1.4	6.2	0.9	4.9	5.7	7.7	-11.9	3.8
Commercial Printing	-16.1	-4.2	-48.5	-2.8	-13.4	-0.5	-10.9	0.0	-4.6	-1.1
Office Papers	-2.5	-0.7	-2.1	-0.6	-9.8	2.2	1.8	-1.7	-5.3	2.8
Map Merchant Group	-2.9	1.3	-15.6	0.9	2	1.9	0.0	1.5	2.0	1.8
Group	-4.8	0.7	-17.1	1.1	-5.4	2.4	-2.0	1.6	-5.7	8.6

Deliveries	Full year									Quarterly
1 000 tonnes	2006	2005	IV 06	III 06	II 06	I 06	IV 05	III 05	II 05	I 05
Consumer Packaging	1 161	1 006	288	285	284	304	268	226	231	281
Publishing	1 258	1 146	313	320	307	318	326	257	256	307
Commercial Printing	1 895	1 866	464	453	481	497	469	480	464	453
Office Papers	1 039	1 034	264	258	251	266	242	254	279	259
Paper Businesses total	4 192	4 046	1 041	1 031	1 040	1 080	1 037	991	999	1 019
Map Merchant Group	1 431	1 359	367	347	354	363	347	337	343	332

Production	Full year									Quarterly
1 000 tonnes	2006	2005	IV 06	III 06	II 06	I 06	IV 05	III 05	II 05	I 05
Consumer Packaging	1 121	985	279	273	270	299	272	292	128	293
Publishing	1 167	1 072	283	307	270	307	315	294	155	308
Commercial Printing	1 923	1 880	464	456	494	509	476	482	452	470
Office Papers	1 028	1 034	253	259	252	264	258	260	268	248
Paper mills total	4 119	3 985	1 000	1 023	1 016	1 079	1 048	1 036	875	1 026
Metsä-Botnia's pulp [1)]	983	901	255	243	234	251	252	234	108	307
M-real's pulp	1 754	1 533	449	443	422	440	421	379	350	383

[1)] Equals to M-real's ownership (39 per cent from II/05, 47 per cent until I/05).

Pont Sainte Maxence is included in Commercial Printing's figures in all tables until II/06.

Production Capacities (1 000 tonnes)

PAPER MILLS

Location	Country	Machines	Coated Magazine Paper	Coated Fine Paper	Uncoated Fine Paper	Speciality 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		210	210		420
Bergisch Gladbach	Germany	2		310			310
Düren	Germany	4				100	100
Husum	Sweden	3	260		435		695
Wifsta*)	Sweden	1			175		175
Alizay	France	1			310		310
Biberist	Switzerland	3		400	70		470
New Thames	UK	1			230		230
Hallein	Austria	2		310			310
Total		27	1 300	1 415	1 430	255	4 400

BOARD MILLS

Location	Country	Machines	Folding Boxboard	Liner	Total
Tampere	Finland	3	260		260
Kyröskoski	Finland	1	140		140
Äänekoski	Finland	1	180		180
Simpele	Finland	1	195		195
Kemi	Finland	1		375	375
Total		7	775	375	1 150

* Wifsta mill will be closed by the end of June 2007.

PULP MILLS

Location	Country	Chemical Pulp	BCTMP	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	675	2 005

METSÄ-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's share is 30 per cent of the capacity.

OTHER SHAREHOLDINGS

Softwood and hardwood pulp	340	Sunila Oy, (interest 17.5 per cent), Finland
Coated magazine paper	210	Myllykoski Paper Oyj, (interest 35 per cent), Finland
Uncoated magazine paper	360	Myllykoski Paper Oyj, (interest 35 per cent), Finland

M-REAL CORPORATION HEADQUARTERS

P.O. Box 20
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Finland

Revontulentie 6
FI-02100 ESPOO
Finland
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Fax +358 1046 94355
www.m-real.com

BUSINESS AREAS

Consumer Packaging

Revontulentie 8 C
FI-02100 ESPOO
Finland
Tel. +358 1046 11
Fax +358 1046 94902

Mills:

Kemiart Liners (Finland)
Kyro (Finland)
Simpele (Finland)
Tako Board (Finland)
Äänekoski Board (Finland)

Carton plants:

Meulemans (Belgium)
Petöfi (Hungary)
Tako Carton (Finland)

Publishing

Revontulentie 8 C
FI-02100 ESPOO
Finland
Tel. +358 1046 11
Fax +358 1046 95178

Mills:

Husum PM8 (Sweden)
Kangas (Finland)
Kirkniemi (Finland)

Commercial Printing

Revontulentie 6
FI-02100 ESPOO
Finland
Tel. +358 1046 11
Fax +358 1046 94617

Mills:

Biberist (Switzerland)
Hallein, incl. pulp (Austria)
Stockstadt, incl. pulp (Germany)
Zanders Gohrsmühle (Germany)
Zanders Reflex (Germany)
Äänekoski Paper (Finland)

Office Papers

Van Boshuizenstraat 12
NL-1083 BA AMSTERDAM
The Netherlands
Tel. +31 20 572 7500
Fax +31 20 572 7570

Mills:

Alizay, incl. pulp (France)
Husum-Wifsta PM1, PM6, PM7, incl. pulp (Sweden)
New Thames (United Kingdom)

Map Merchant Group Ltd.

Tolworth Tower
Ewell Road
Surbiton
SURREY KT6 7EL
United Kingdom
Tel. +44 20 8437 8470
Fax +44 20 8437 8482
www.mapmerchant.com

To locate your local sales contact, please visit www.m-real.com

Production units

AUSTRIA
Hallein (Salzburg)

BELGIUM
Meulemans (Arlon)
Meulemans (Brussels)

FINLAND
Joutseno BCTMP
Kangas (Jyväskylä)
Kaskinen BCTMP
Kemiart Liners (Kemi)
Kirkniemi
Kyro (Kyröskoski)
Simpele
Tako Board (Tampere)
Tako Carton (Tampere)
Äänekoski Board
Äänekoski Paper

FRANCE
Alizay

GERMANY
Stockstadt
Zanders Gohrsmühle (Bergisch Gladbach)
Zanders Reflex (Düren)

HUNGARY
Petöfi (Kecskemét)

SWEDEN
Husum
Wifsta (Sundsvall)

SWITZERLAND
Biberist

UNITED KINGDOM
New Thames (Sittingbourne)

Sales operations

ARGENTINA
AUSTRALIA
AUSTRIA
BELGIUM
BRAZIL
BULGARIA
CANADA
CHILE
CHINA
CYPRUS
COLOMBIA
COSTA RICA
CZECH REPUBLIC
DENMARK
FINLAND
FRANCE
GERMANY
GREECE
HUNGARY
ICELAND
INDIA
IRELAND
ISRAEL
ITALY
JAPAN
JORDAN
LEBANON
MEXICO
NETHERLANDS
NORWAY
PERU
POLAND
PORTUGAL
RUSSIA
SINGAPORE
SLOVAKIA
SLOVENIA
SOUTH AFRICA
SPAIN
SWEDEN
SWITZERLAND
SYRIA
TURKEY
UKRAINE
UNITED KINGDOM
URUGUAY
USA

Production units
Sales operations
Map merchants
Main distribution ports
Technology centres
Administration

Map merchants

AUSTRIA
BELGIUM
BULGARIA
CZECH REPUBLIC
DENMARK
ESTONIA
FINLAND
GERMANY
HUNGARY
IRELAND
LATVIA
LITHUANIA
NETHERLANDS
NORWAY
POLAND
ROMANIA
RUSSIA
SLOVAKIA
SLOVENIA
SPAIN
SWEDEN
UKRAINE
UNITED KINGDOM

Main distribution ports

BELGIUM
Antwerp

ESTONIA
Paldiski

GERMANY
Lübeck

POLAND
Gdynia

SPAIN
Bilbao

UNITED KINGDOM
Hull
Tilbury

USA
Baltimore, MD

Technology centres

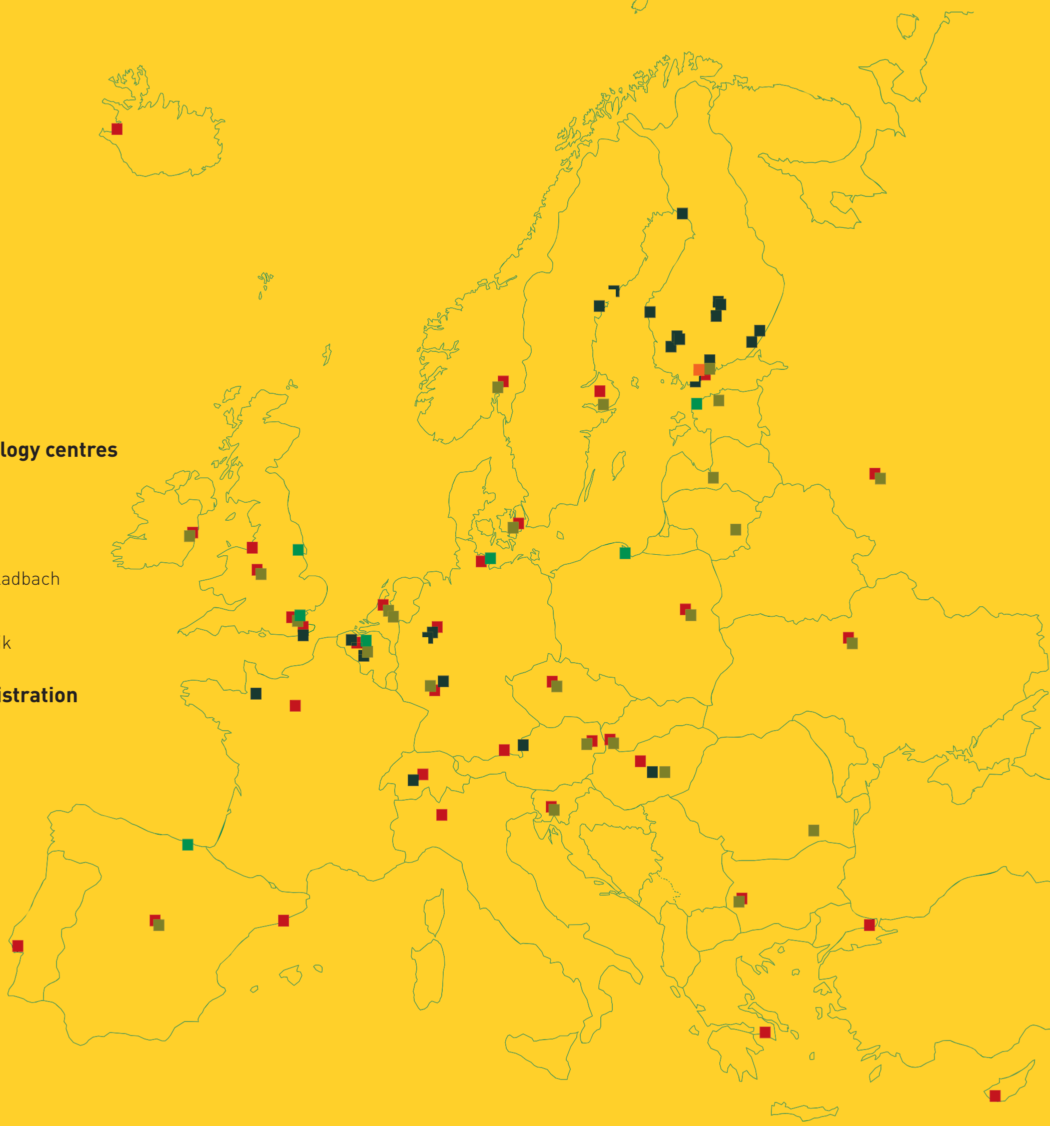
FINLAND
Kirkniemi

GERMANY
Bergisch Gladbach

SWEDEN
Örnsköldsvik

Administration

FINLAND
Espoo



M-REAL'S FINANCIAL COMMUNICATION AND INVESTOR RELATIONS

Financial reporting and closed window periods in 2007

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.

Financial information

Financial reports are published in Finnish and English. Annual Reports and other publications can be obtained from M-real Corporation, Communications, Revontulentie 6, 02100 Espoo, Finland, tel. +358 1046 94552 and fax +358 1046 94531 or by e-mail at: 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, organisation, 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 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 74–78. M-real's Series A and Series B shares are quoted on the OMX Helsinki Stock Exchange. The trading codes of the shares are MRLAV and MRLBV, respectively.

Investor relations

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 organisation. 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. M-real has described the general guidelines and defined the responsibilities with reference to handling material information and contacts with the financial market in an IR policy. The policy can be found in M-real's web pages under Investor Relations-/In brief-/IR policy.

Closed window	Financial report	Publication date
1 Jan. to 6 Feb. 2007	Financial results 2006	Tuesday 6 Feb.
1 to 24 Apr. 2007	Interim report January–March	Tuesday 24 Apr.
1 to 26 Jul. 2007	Interim report January–June	Thursday 26 Jul.
1 to 25 Oct. 2007	Interim report January–September	Thursday 25 Oct.

Contact information

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

Communications

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Paper information

Covers

Product: **Galerie Art Gloss 300 g/m²**
Mill: **M-real Äänekoski Paper, Finland**

EMAS Verified environmental management

PEFC 02-31-84

More information: www.m-real.com

Annual Review

Product: **Galerie Art Silk 130 g/m²**
Mill: **M-real Äänekoski Paper, Finland**

EMAS Verified environmental management

PEFC 02-31-84

More information: www.m-real.com

Financial Statement

Product: **Galerie One Silk 90 g/m²**
Mill: **M-real Kangas, Finland**

EMAS Verified environmental management

PEFC 02-31-83

More information: www.m-real.com

Finishing

Covers outside and inside: Drip-off UV varnish

Project Group
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Ritva Mönkäre
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Make it real.