EPL OIL & GAS, INC.
Form 4
January 21, 2014

FORM 4

Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. *See* Instruction 1(b).

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

OMB APPROVAL

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(Print or Type Responses)

1. Name and Address of Reporting Person *
HANNA GARY C

(Last) (First) (Middle)

C/O EPL OIL & GAS, INC., 919 MILAM STREET, SUITE 1600

(Street)

HOUSTON, TX 77002

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
EPL OIL & GAS, INC. [EPL]

3. Date of Earliest Transaction (Month/Day/Year)
01/16/2014

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

__X__ Director _____ 10% Owner
__X__ Officer (give title below) _____ Other (specify below)
Chairman, President and CEO

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			
Common Stock (1)	01/16/2014		A		8,787	A	(2)	95,991	D	
Common Stock (3)	01/18/2014		F		2,052	D	$ 27.57	93,939	D	

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)		5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amount of Underlying Securities (Instr. 3 and 4)		8. Price of Derivative Security (Instr. 5)	9. Nu Deriv Secur Bene Own Follo Repo Trans (Instr
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares		

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
HANNA GARY C C/O EPL OIL & GAS, INC. 919 MILAM STREET, SUITE 1600 HOUSTON, TX 77002	X		Chairman, President and CEO	

Signatures

David Cedro, Attorney in Fact	01/21/2014
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) Shares of restricted stock granted on January 16, 2014 under the Issuer's 2009 Long Term Incentive Plan, as amended. The restricted shares are subject to customary transfer restrictions and risk of forfeiture provisions, which lapse in one-third increments on the first three anniversaries of the Date of Grant.

(2) Consistent with the provisions of the Issuer's 2009 Long Term Incentive Plan, the grantee did not pay any consideration to the Issuer for the restricted shares that were granted. By way of reference, the closing price per share of the Issuer's common stock on the New York Stock Exchange on January 16, 2014 was $27.74.

(3) Pursuant to the Reporting Person's Rule 10b5-1 plan, the Issuer withheld shares of Common Stock from the Reporting Person to pay the withholding tax obligations related to the lapse of transfer and forfeiture restrictions on restricted shares of Common Stock held by the Reporting Person.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
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Other non-interest-bearing liabilities

16,109

Repayment

1,281 4,667 3,116 2,396 4,649

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Maturity of repayment and interest payment of financial liabilities as of 31 December 2006:

	Book value	2007	2008	2009	2010	2011	2012 and thereafter
Loans from financial institutions	242						
Repayment		121	121				
Interest payment		7	3				
Finance lease liabilities	68,107						
Repayment		11,335	11,815	12,431	11,957	8,842	11,727
Interest payment		2,728	2,143	1,527	838	309	92
Borrowings from related parties							
Repayment	197,935		166,819	31,116			
Interest payment		1,033	1,033	416			
Borrowings, total	266,284						
Repayments in 2007	(11,456)						
Borrowings in the balance sheet	254,828						
Repayment		11,456	178,755	12,431	11,957	8,842	11,727
Interest payment		2,735	2,146	1,527	838	309	92
Current borrowings	24,444						
Repayment		24,444					
Interest payment		1,350					
Accounts payable and other non-interest bearing liabilities	141,211						
Repayment		141,211					
Other non-interest-bearing liabilities	14,140						
Repayment			7,698	1,492	1,492	1,738	1,720

Maturity of repayment and interest payment of financial liabilities as of 31 December 2005

	Book value	2006	2007	2008	2009	2010	2011 and thereafter
Loans from financial institutions	364						
Repayment		122	121	121			
Interest payment		12	7	3			
Finance lease liabilities	78,757						
Repayment		11,029	11,316	11,900	12,204	12,110	20,198
Interest payment		2,858	2,470	1,886	1,236	608	128
Borrowings from related parties							
Repayment	197,968			166,819	31,149		
Interest payment		4,781	4,781	4,781	305		
Borrowings, total	277,091						
Repayments in 2006	(11,151)						
Borrowings in the balance sheet	265,940						
Repayment		11,151	11,437	178,840	43,353	12,110	20,198
Interest payment		7,651	7,258	6,670	1,541	608	128
Current borrowings	26,249						
Repayment		26,249					
Interest payment		822					
Accounts payable and other non-interest bearing liabilities	135,873						
Repayment		135,873					
Other non-interest-bearing liabilities	12,445						
Repayment			4,222	1,460	1,492	1,492	3,779

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Note 21—Financial receivables and borrowings

The following is a summary of the Company's financial receivables and borrowings as of 31 December:

	2007		2006		2005	
	Book values	Fair values	Book values	Fair values	Book values	Fair values
Borrowings						
Non-current borrowings						
Loans from financial institutions (Note 24)	-	-	121	121	243	243
Finance lease liabilities (Note 19)	45,079	44,265	56,771	56,084	67,729	65,230
Interest bearing liabilities from related parties	55,661	55,661	197,935	197,935	197,968	197,968
Total non-current borrowings	100,740	99,926	254,827	254,140	265,940	263,441
Current borrowings						
Loans from financial institutions (Note 24)	121	121	122	122	126	126
Finance lease liabilities (Note 19)	11,925	11,632	11,335	11,215	11,029	10,645
Interest bearing liabilities from related parties	12,000	12,000	24,444	24,444	26,244	26,244
Total current borrowings	24,046	23,753	35,901	35,781	37,399	37,015
Borrowings, total	124,786	123,679	290,728	289,921	303,339	300,456
Financial receivables						
Total Interest-bearing receivables	2,100	2,100	-	-	-	-
Cash at bank and in hand (Note 16)	28,284	28,284	51,769	51,769	40,655	40,655
Total Interest-bearing receivables	30,384	30,384	51,769	51,769	40,655	40,655
Interest-bearing net liabilities	94,402	93,295	238,959	238,152	262,684	259,801

In the Company as part of M-real Group all interest-bearing liabilities are valued in the balance sheet at amortised cost based on effective interest method. Interest bearing receivables are classified according to the IAS standards. Fair values in the table are based on present value of cash flow of each liability or assets calculated by market rate.

The fair values of accounts and other non-interest- bearing receivables and accounts payables and other non-interest-bearing liabilities are not essentially deviating from the carrying amounts in the combined balance sheet.

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Note 22—Other non-current liabilities

The following is a summary of the Company's other non-current liabilities as of 31 December:

	2007	2006	2005
Non-current government grant	6,407	-	-
Employee costs	7,144	8,307	8,636
Accrued non-current purchases	1,440	-	-
Accruals for compensation of rights to use	-	-	207
Waste water expenses	1,118	5,833	3,602
	16,109	14,140	12,445

Note 23—Accounts payable and other current liabilities

The following is a summary of the Company's accounts payable and other current liabilities as of 31 December:

	2007	2006	2005
Accounts payable	86,389	65,996	57,132
Related parties payable	21,693	17,220	20,571
Taxes and contributions (payroll)	2,236	2,430	3,434
Vat payable	689	1,923	2,134
Accrued personnel costs	15,488	16,478	14,434
Accrued insurances	9	627	2,603
Accrued purchases	8,717	8,712	14,056
Accrued freight costs	525	415	771
Accrued interest expenses	303	106	71
Provision for discounts	26,391	22,995	14,828
Other items	2,773	4,249	5,825
	165,213	141,151	135,859

Note 24—Debt and interest expense

The Company had bank debt outstanding at 31 December 2007, 2006 and 2005 of EUR 121, EUR 242 and EUR 364, respectively. As discussed in Note 19, finance lease liabilities from parties other than banks amounted to EUR 57,003, EUR 67,107 and EUR 78,758 for the years ended 31 December 2007, 2006 and 2005, respectively. As described in Notes 2 and 3, M-real also uses a centralised approach to cash management and financing its operations. The Company has related party interest bearing liabilities due to M-real and Metsä Finance. Interest expense for the years ended 31 December 2007, 2006 and 2005 totaled EUR 5,054, EUR 9,867 and EUR 8,412, respectively, and has been reflected in the combined income statements as a component of other financial expense (see Note 9).

During the year ended 31 December 2007, M-real converted EUR 166,819 of the Company's related party interest bearing liabilities to invested equity. During the same period M-real contributed an additional EUR 15,000 and the Company paid a dividend to M-real in the amount of EUR 45,000.

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Explanation of Responses:

The net effect of the recapitalisation, all of which related to the Company's business in Finland, was a decrease in invested equity of EUR 136,819. For the years ended 31 December 2007, 2006 and 2005, the Company incurred interest expense on the related party interest bearing liabilities subject to the recapitalisation of EUR 1,893, EUR 7,342 and EUR 6,650, respectively.

Note 25—Commitments and contingencies

Commitments

Operating and finance lease commitments

The Company holds operating leases for certain vehicles and equipment. Leasing liabilities for contracts exceeding 12 months and for non-cancellable operating leasing contracts were EUR 1,839 for the year ended 31 December 2007, EUR 819 for the year ended 31 December 2006 and EUR 1,949 for the year ended 31 December 2005.

Non-cancellable purchase commitments

The Company has no non-cancellable purchase agreements as of 31 December 2007.

Guarantees and indemnifications

The Company has not entered into any agreements that would require it, as a guarantor, to recognise a liability for the fair value of obligations it has undertaken in issuing the guarantee. All assets of the Company have been pledged by the Parent.

Warranties

The Company does not make express warranties on its products other than that such products comply with the Company's specifications. Based on historical experience, product quality claims are not material, and are charged against net sales when incurred.

Contingent liabilities

Customer claims and other litigation

In addition to the environmental related matters discussed above, the Company may be subject to various product liabilities, commercial and employment litigation, and other legal matters that are considered to be in the ordinary course of business. The Company has no legal reserve as of 31 December 2007, pertaining to customer claims and other litigation. As of 31 December 2007, there are no open legal matters, and management of the Company cannot reasonably estimate the outcome of potential legal proceedings, claims, or litigation. Management believes that any such potential matters will not materially affect the Company's financial position, results of operations, or cash flows.

2. Interim Condensed Combined Financial Information for the six months ended 30 June 2008 and 2007

INTERIM CONDENSED COMBINED INCOME STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2008 AND 2007
(Amounts in thousands of Euros, unless otherwise stated)

	2008	2007
Sales		
3rd parties	629,005	614,302
Related party companies	2,234	45,185
Total sales	631,239	659,487
Change in finished goods inventories and work in progress	2,919	2,809
Other operating income	14,798	7,004
Materials and services		
Purchases	(451,693)	(451,157)
External services	(37,893)	(37,553)
Employee costs	(75,044)	(78,265)
Depreciation and amortisation	(37,811)	(27,299)
Other operating expenses	(84,566)	(84,386)
Operating result	(38,051)	(9,360)
Net exchange gains/losses	(2,307)	227
Other financial income	457	553
Other financial expenses	(3,775)	(4,810)
Financial items, total	(5,625)	(4,030)
Result before tax	(43,676)	(13,390)
Income taxes	5,835	2,613
Result attributable to the equity holders of the parent	(37,841)	(10,777)

The accompanying notes are an integral part of the interim condensed combined financial information.

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INTERIM CONDENSED COMBINED BALANCE SHEETS
AS OF 30 JUNE 2008 AND 31 DECEMBER 2007
(Amounts in thousands of Euros, unless otherwise stated)

ASSETS	30 June 2008	31 December 2007
Non-current assets		
Intangible assets	2,580	2,257
Property, plant and equipment	649,531	670,492
Financial receivables	2,100	2,100
Other non-current assets	1,238	1,203
Total non-current assets	655,449	676,052
Current assets		
Inventories	130,572	123,993
Financial receivables	1,991	
Accounts receivable and non-interest bearing receivables	237,252	247,660
Income tax receivables	128	124
Cash and cash equivalents	3,046	28,284
Total current assets	372,989	400,061
TOTAL ASSETS	1,028,438	1,076,113
LIABILITIES AND INVESTED EQUITY		
Invested equity	626,162	673,317
Non-current liabilities		
Deferred tax liabilities	44,664	50,652
Post employment benefit obligations	43,896	42,864
Provisions	1,810	3,051
Borrowings	95,231	100,740
Other non-current liabilities	16,443	16,109
Total non-current liabilities	202,044	213,416
Current liabilities		
Borrowings	45,037	24,046
Accounts payable and other non-interest bearing liabilities	155,117	165,213
Income tax liabilities	78	121
Total current liabilities	200,232	189,380
TOTAL LIABILITIES AND INVESTED EQUITY	1,028,438	1,076,113

The accompanying notes are an integral part of the interim condensed combined financial information.

INTERIM CONDENSED COMBINED CASH FLOW STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE, 2008 and 2007
(Amounts in thousands of Euros, unless otherwise stated)

	2008	2007
Result for period	(37,841)	(10,777)
Adjustments to results, total (a)	39,007	27,923
Interest received	426	543
Interest paid	(3,771)	(4,811)
Dividends received	31	10
Other financial items, net	(2,312)	226
Income taxes paid/received	(55)	(563)
Corporate overhead costs funded by Parent	4,000	4,800
Income taxes funded by Parent	215	339
Changes in working capital (b)	(26,191)	12,300
Net cash flow (used in) / arising from operating activities	(26,491)	29,990
Capital expenditure	(14,623)	(11,882)
Increase in long-term receivables	(35)	
Net cash flow used in investing activities	(14,658)	(11,882)
Financing with Parent, net (c)	20,793	(43,910)
Repayment of interest bearing liabilities	(5,311)	(5,486)
Net cash flow arising from / (used in) financing activities	15,482	(49,396)
Net change in cash and cash equivalents	(25,667)	(31,288)
Effect of exchange rate changes on cash	429	(200)
Decrease in cash and cash equivalents	(25,238)	(31,488)
Cash at beginning of year	28,284	51,769
Cash at end of year	3,046	20,281
Notes to the combined statements of cash flow		
(a) Adjustments to the results		
Depreciation and amortisation	37,811	27,299
Taxes	(6,050)	(2,952)
Finance costs, net	5,626	4,032
Provisions	(209)	1,994
Other adjustments	1,829	(2,450)
	39,007	27,923
(b) Changes in working capital		
Inventories	(6,579)	920
Current receivables	(7,189)	1,305
Current non-interest bearing liabilities	(12,423)	10,075
	(26,191)	12,300
Non-cash transactions		
(c) In 2007 the Parent converted EUR 166,819 of related party interest-bearing liabilities to invested equity.		

The accompanying notes are an integral part of the interim condensed combined financial information.

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INTERIM CONDENSED COMBINED CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 30 JUNE, 2008 and 2007
(Amounts in thousands of Euros, unless otherwise stated)

	SIX MONTHS ENDED 30 JUNE, 2007
Balance, 1 January 2007	460,381
Translation differences	(2,650)
Result for the period	(10,777)
Related party transactions	
Equity contribution by Parent	166,819
Corporate overhead costs funded by parent company	4,800
Income taxes funded by parent company	339
Other financing with Parent, net	(43,329)
Related party transactions, total	128,629
Balance, 30 June 2007	575,583

	SIX MONTHS ENDED 30 JUNE, 2008
Balance, 1 January 2008	673,317
Translation differences	2,262
Result for the period	(37,841)
Related party transactions	
Corporate overhead costs funded by parent company	4,000
Income taxes funded by parent company	215
Other financing with Parent, net	(15,791)
Related party transactions, total	(11,576)
Balance, 30 June 2008	626,162

The accompanying notes are an integral part of the interim condensed combined financial information.

NOTES TO THE INTERIM CONDENSED COMBINED FINANCIAL INFORMATION

(Monetary amounts in thousands of Euros, unless otherwise stated)

Note 1 - Background and basis of presentation

M-real Oyj and its subsidiaries ("M-real Group" or "M-real" or the "Parent") are one of Europe's leading producers of paperboard and paper. M-real Group offers premium solutions of consumer packaging, communications and advertising and has 17 production units in 6 European countries. M-real is present in over 70 countries thanks to its global sales network. M-real Oyj Headquarter is located in Espoo, Finland.

On 29 September 2008, M-real entered into a Master Business and Share Sale and Purchase Agreement ("SPA") with Sappi Limited, a South African company, regarding the sale of share holdings in four legal entities and two paper mills of M-real's Graphic Papers Business (the "Transaction"). The entities subject to the sale, all of which are 100% owned by M-real, are comprised of two separate paper mills in Finland (Kangas and Kirkniemi), Stockstadt GmbH ("Stockstadt") and its wholly owned subsidiary Chemische Werke Zell-Wildshausen GmbH ("CWZ"), CN-Papiervertrieb GmbH ("CN") in Germany and M-real Biberist AG ("Biberist") in Switzerland. Collectively these entities are referred to as the "Carve-out Graphic Papers Business " or the "Company." M-real has prepared the interim condensed combined financials information ("interim financial statements") of the Company in connection with the SPA.

The Company produces and provides coated fine and magazine paper and uncoated fine paper to publishing, advertising and communication end-users. Customers include printers, publishers, advertising agencies and corporations served both directly and through merchant partners. The manufacturing operations of the Company are located in Lohja and Jyväskylä, Finland, Stockstadt, Germany, and Biberist, Switzerland.

Basis of presentation

The interim financial statements have been prepared on a "carve-out" basis from M-real's consolidated financial statements using the historical results of operations, assets and liabilities attributable to the Company and include allocations of expenses and assets from M-real. The interim financial statements may not be indicative of the Company's future performance and do not necessarily reflect what its combined results of operations, financial position and cash flows would have been had the Company operated as an independent company during the periods presented. In addition to favorable industry and market conditions including raw material costs and paper prices, the Company's future profitability and cash flows depend on its ability to receive financing. Historically, financing has been made available to the Company by its Parent.

These interim financial statements include the assets, liabilities, sales, expenses and cash flows of the entities subject to the Transaction. Certain entities of M-real's Graphic Papers Business have been excluded from these interim condensed combined financial statements because they are not subject to the Transaction and there are no significant inter-business relationships, interdependencies or common facilities with the entities that are subject to the Transaction.

These interim financial statements include allocations for various expenses, including, among other things, corporate overheads and administration. These allocations are discussed in Note 5, Related party transactions. Company management considers that such allocations have been made on a reasonable basis, but are not necessarily indicative of the costs that would have been incurred if the Company were a stand-alone entity.

M-real uses a centralised approach via a cash pooling arrangement to manage cash and to finance its operations. Each of the Company entities historically maintained a separate balance sheet which included financing positions with M-real Group. Interest earned on deposits through the cash pooling arrangement and payable on related party interest bearing borrowings was historically settled through the cash pool arrangement. Invested equity of the Company represents M-real's residual claim on the Company entities and includes allocations from M-real, settlement of intercompany transactions with M-real, and the Company's cumulative operating results, including other income items recognised directly in equity. See Note 5, Related party transactions, for more information and transactions between the Parent and the Company.

These interim financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the International Accounting Standards Board (IASB). The interim financial statements are presented in thousands of Euros (EUR), unless otherwise stated. The interim condensed combined financial statements have been prepared on a historical cost basis, except for certain other financial assets and liabilities, which are measured at fair value.

The interim financial statements have also been prepared in accordance with International Accounting Standard ("IAS") 34, "Interim Financial Reporting" and the accounting policies presented in the Company's annual combined financial statements as of and for the years ended 31 December 2007, 2006 and 2005. The preparation of interim financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies, the reported amount of sales, expenses, assets and liabilities. Actual results may differ from management's estimates.

In the opinion of management, the interim financial statements reflect all adjustments necessary (consisting only of normal recurring adjustments) necessary for a fair presentation of the results of operations and the financial position of the Company. Operating results of the interim periods may not be indicative of the results that may be expected for any future period or for the full fiscal year.

Note 2 - Income taxes

During the periods presented, the Company did not file separate tax returns for the Finnish mills (Kangas and Kirkniemi) and Stockstadt and CWZ as these entities were included in the tax grouping of other M-real entities within the respective entities tax jurisdictions. Biberist and CN have historically not been part of any M-real tax grouping and have filed separate, respective local jurisdictional tax returns on an annual basis. The income tax provision included in these interim financial statements was calculated using a method consistent with a separate return basis, as if each of the Company's companies were a separate taxpayer in the jurisdiction of primary operation. Tax expense in the interim condensed combined income statement is comprised of the current tax and deferred taxes. Any current taxes are deemed settled through invested equity.

Income taxes for the six months ended 30 June 2008 and 2007 are as follows:

	2008	2007
Taxes for the current period	215	339
Taxes for the prior periods	(62)	-
Deferred taxes	(5,988)	(2,952)
Total income taxes	(5,835)	(2,613)

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Explanation of Responses:

A reconciliation of income tax expense (benefit) computed at the statutory rate applicable in Finland of 26% for the six months ended 30 June 2008 and 2007 to the Company's reported income tax benefit for each respective period is as follows:

	2008	2007
Income tax expense (benefit) computed at		
The Finland statutory rate	(11,356)	(3,480)
Taxes for the prior periods	(62)	-
Difference between Finnish and foreign rates	(759)	(480)
Tax losses with no tax benefit	6,415	1,555
Other adjustments	(73)	(208)
Tax expense in income statement	(5,835)	(2,613)

Note 3 - Changes in property, plant and equipment

The following shows the components of changes in property, plant and equipment for the six months ended 30 June, 2008 and 2007:

	2008	2007
Book value 1 January	670,492	565,750
Increases	14,604	56,187
Decreases	(177)	(6,206)
Depreciation and amortisation	(37,440)	(94,084)
Impairment charges and reversal of impairment charges	-	151,000
Translation differences	2,052	(2,155)
Book value at 30 June	649,531	670,492

In December 2007, primarily because of a significant increase in the estimated long term sales prices of wood free coated paper, uncoated paper and magazine paper, and partially resulting from a decrease in excess paper capacity during the year, the Company recognised a reversal of impairment losses previously recognised on long lived assets in the amount of EUR 151,000. The recoverable amount of the cash generating unit at 30 June 2008 has been calculated on a value in use basis.

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Note 4 - Provisions

The following is a summary of the Company's provisions made for the six months ended 30 June 2008 and 2007.

	Restructuring	Environmental obligations	Taxation	Other provisions	Total
At 1 January 2008	989	451	993	618	3,051
Increases	-	-	-	21	21
Utilised during the year	(129)	(4)	(993)	(136)	(1,262)
At 30 June 2008	860	447	-	503	1,810
At 1 January 2007	2,618	284	1,365	949	5,216
Increases	-	-	-	10	10
Utilised during the year	(456)	(162)	-	(123)	(741)
At 30 June 2007	2,162	122	1,365	836	4,485

Note 5 - Related party transactions

These interim financial statements include transactions with M-real, its subsidiaries and M-real's parent company Metsäliitto Cooperative and its other subsidiaries that are considered related parties in respect to the Carve-out Graphic Papers Business. The Company enters into a significant number of transactions with related parties for the purchases of inventory, sale of goods, as well as corporate services. Product and services transfers between the Company and the related parties have been made at arm's length prices.

Transactions between the Company and related parties for the six months ended 30 June are as follows:

	2008	2007
Sales	2,234	45,185
Other operating income	1,333	1,256
Purchases	234,100	227,248
Other operating expenses	24,574	26,530
Interest income from M-real recognised by the Company	348	533
Interest expenses from M-real recognised by the Company	2,186	3,150

Balances with the Company and related parties as of 30 June 2008 and 31 December 2007 are as follows

Receivables		
Current	16,717	33,267
Liabilities		
Non-current	55,585	55,661
Current	66,494	33,693

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Sales of goods to related parties decreased in six month period ended 30 June 2008 as compared to the prior period due to the Parent's divestment of its paper merchant Map Merchant Group in October 2007.

Other operating expenses include allocated corporate costs of EUR 4,000 and EUR 4,800 for the six months period ended 30 June 2008 and 2007, respectively and other operating expenses. These costs are primarily related to corporate level administrative services (executive personnel costs, human resources, legal services, IT services, insurance and other administrative services), and are generally allocated based on the ratio of the Company's annual net sales or other specific allocation keys, to the Parent's comparable amounts. Corporate expense allocations are in addition to business level expenses which are invoiced to the individual the Company businesses on at least a quarterly basis. Management considers that such allocations have been made on a reasonable basis, but may not necessarily be indicative of the costs incurred had the Company operated as a separate entity during the periods presented. Certain corporate costs incurred by M-real that did not directly or indirectly benefit the Company entities were not allocated to the interim financial statements as such expenses could not be reasonably allocated.

As of 30 June 2008 and 31 December 2007 cash and cash equivalents include receivables due from M-real from cash pooling amounting to EUR 1,058 and EUR 24,538, respectively. Interest income on these balances due from M-real has been recognised in other financial income.

As of 30 June 2008 and 31 December 2007, current accounts receivable and non-interest bearing receivables include amounts due from related parties in the amount of EUR 14,846 and EUR 33,267, respectively, and accounts payable and other non-interest bearing liabilities include amounts due to related parties in the amount of EUR 33,625 and EUR 21,693, respectively.

As of 30 June 2008 and 31 December 2007, non-current borrowings include non-current loans due to related parties in the amount of EUR 55,585 and EUR 55,661, respectively, and current borrowings include current loans due to related parties in the amount of EUR 32,869 and EUR 12,000, respectively. Interest expenses on these balances due to related parties have been recognised in other financial expenses.

During the six months ended 30 June 2007, M-real converted EUR 166,819 of the Company's related party interest bearing liabilities to invested equity. During the same period the Company paid a dividend to M-real in the amount of EUR 45,000. The net effect of the recapitalisation, all of which related to the Company's business in Finland, was a decrease in invested equity of EUR 121,819.

Stockstadt and CWZ participate in a profit and loss transfer arrangement ("PLTA") interim with its holding company M-real Deutsche Holding GmbH for all periods presented in the interim financial statements. Under the PLTA, Stockstadt and CWZ are obligated to transfer their entire profits, as determined under the German Commercial Code (HGB), to Deutsche Holding GmbH during the term of the agreement. Conversely, Deutsche Holding GmbH is obliged to compensate any net loss generated by Stockstadt and CWZ as determined under HGB. The Company recognised the right to be compensated for net loss generated by recognizing EUR 15,791 in current accounts receivable as of 31 December 2007 offset with a corresponding increase in invested equity. As both the right to transfer profits and the claim to be compensated for any net losses arises at the end of the financial year, the Company did not recognise a receivable for net loss, as determined under HGB, generated at Stockstadt and CWZ in the amount of EUR 19,639 as of 30 June 2008.

In the regular course of business, the Company is exposed to certain financial risks which are hedged by either the local business or by Metsä Finance on positions held by the Company. These risks are typically commodity (energy) prices, foreign currency exposure and translation risk of net investments in foreign entities. The Company has elected not to allocate hedging positions of the Company specific risk, held by Metsä Finance, to the interim financial statements.

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Explanation of Responses:

Note 6 - Commitments and contingencies

Commitments

Operating and finance lease commitments

The Company holds operating leases for certain vehicles and equipment. Leasing liabilities for contracts exceeding 12 months and for non-cancellable operating leasing contracts were EUR 1,879 for the six months ended 30 June 2008, EUR 1,657 and EUR 1,839 for the year ended 31 December 2007.

The Company recognised finance lease assets in the amount of EUR 51,600 and EUR 58,242 and corresponding obligations in the amount of EUR 51,754 and EUR 57,004 as of 30 June 2008 and 31 December 2007, respectively. Financial expenses recognised in relation to the finance lease arrangements amounted to EUR 1,555, EUR 1,706 and EUR 3,173 for the six months ended 30 June 2008 and 2007 and year ended 31 December 2007, respectively.

Non-cancellable purchase commitments

The Company has no non-cancellable purchase agreements as of 30 June 2008.

Guarantees and indemnifications

The Company has not entered into any agreements that would require it, as a guarantor, to recognise a liability for the fair value of obligations it has undertaken in issuing the guarantee. All assets of the Company have been pledged by the Parent.

Warranties

The Company does not make express warranties on its products other than that such products comply with the Company's specifications. Based on historical experience, product quality claims are not material, and are charged against net sales when incurred.

Contingent liabilities

Customer claims and other litigation

In addition to the environmental related matters discussed above, the Company may be subject to various product liabilities, commercial and employment litigation, and other legal matters that are considered to be in the ordinary course of business. The Company has no legal reserve as of 30 June 2008, pertaining to customer claims and other litigation. As of 30 June 2008, there are no open legal matters, and management of the Company cannot reasonably estimate the outcome of potential legal proceedings, claims, or litigation. Management believes that any such potential matters will not materially affect the Company's financial position, results of operations, or cash flows.

Note 7 - Material Changes in the Business

There have been no shares and convertible securities issued.

No material fact or circumstance has occurred between the end of the latest financial year of the Company and the date of the prospectus, in so far as not already dealt with in the interim financial statements included in the report of historical financial information.

3. Interim condensed combined financial information for the three months ended 31 December 2007 and 2006

INTERIM CONDENSED COMBINED INCOME STATEMENTS
FOR THE THREE MONTHS ENDED 31 DECEMBER 2007 AND 2006

(Amounts in thousands of Euros, unless otherwise stated)

	Three months ended		Year ended	
	31 December 2007	31 December 2006	31 December 2007	31 December 2006
Sales				
3rd parties	328,528	303,298	1,258,976	1,214,517
Related party	8,697	23,182	73,811	101,268
Total sales	337,225	326,480	1,332,787	1,315,785
Change in finished goods inventories and work in progress	(11,107)	(3,404)	(2,527)	(7,793)
Other operating income	5,355	(1,818)	15,452	17,112
Materials and services				
Purchases	(234,956)	(213,321)	(919,488)	(859,607)
External services	(20,217)	(19,306)	(76,123)	(76,493)
Employee costs	(32,750)	(35,808)	(145,579)	(155,628)
Depreciation and amortisation	(53,928)	(13,552)	(95,662)	(59,021)
Impairment and reversals of impairment charges	151,000	(20,000)	151,000	(20,000)
Other operating expenses	(42,963)	(41,476)	(169,023)	(169,473)
Operating result	97,659	(22,205)	90,837	(15,118)
Net exchange gains/losses	(2,435)	(525)	(4,110)	(3,314)
Other financial income	431	759	1,153	8,637
Other financial expenses	(2,319)	(3,360)	(8,687)	(13,479)
Financial items, total	(4,323)	(3,126)	(11,644)	(8,156)
Result before tax	93,336	(25,331)	79,193	(23,274)
Income taxes	(13,275)	3,787	(12,740)	3,069
Result for period	80,061	(21,544)	66,453	(20,205)

The accompanying notes are an integral part of the interim condensed combined financial information.

INTERIM CONDENSED COMBINED BALANCE SHEETS
AS OF 31 DECEMBER 2007 AND 2006
(Amounts in thousands of Euros, unless otherwise stated)

ASSETS	2007	2006
Non-current assets		
Intangible assets	2,257	5,433
Property, plant and equipment	670,492	565,750
Financial receivables	2,100	-
Other non-current assets	1,203	56
Total non-current assets	676,052	571,239
Current assets		
Inventories	123,993	134,382
Accounts receivable and non-interest bearing receivables	247,660	236,974
Income tax receivables	124	241
Cash and cash equivalents	28,284	51,769
Total current assets	400,061	423,366
TOTAL ASSETS	1,076,113	994,605
LIABILITIES AND INVESTED EQUITY		
Invested equity	673,317	460,381
Non-current liabilities		
Deferred tax liabilities	50,652	40,066
Post employment benefit obligations	42,864	42,863
Provisions	3,051	5,216
Borrowings	100,740	254,827
Other non-current liabilities	16,109	14,140
Total non-current liabilities	213,416	357,112
Current liabilities		
Borrowings	24,046	35,901
Accounts payable and other non-interest bearing liabilities	165,213	141,151
Income tax liabilities	121	60
Total current liabilities	189,380	177,112
TOTAL LIABILITIES AND INVESTED EQUITY	1,076,113	994,605

The accompanying notes are an integral part of the interim condensed combined financial information.

INTERIM CONDENSED COMBINED CASH FLOW STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2007 AND 2006
(Amounts in thousands of Euros, unless otherwise stated)

	2007	2006
Result for period	66,453	(20,205)
Adjustments to results, total (a)	(36,786)	74,342
Interest received	1,143	1,666
Interest paid	(8,681)	(13,479)
Dividends received	10	6,970
Other financial items, net	(4,117)	(3,315)
Income taxes paid/received	(154)	402
Corporate overhead costs funded by Parent	8,600	8,000
Income taxes funded by Parent	2,154	7,725
Other Parent funding items	-	-
Changes in working capital (b)	42,523	15,755
Net cash flow arising from operating activities	71,145	77,861
Capital expenditure	(45,228)	(53,742)
Proceeds from sale of property, plant and equipment	159	43
Increase in long-term receivables	(3,247)	-
Net cash flow used in investing activities	(48,316)	(53,699)
Financing with Parent, net (c)	(34,891)	-
Repayment of 3rd party borrowings	(11,224)	(12,611)
Net cash flow used in financing activities	(46,115)	(12,611)
Net change in cash and cash equivalents	(23,286)	11,551
Effect of exchange rate changes on cash	(199)	(437)
(Decrease) / increase in cash and cash equivalents	(23,485)	11,114
Cash at beginning of year	51,769	40,655
Cash at end of year	28,284	51,769
Notes to the combined statements of cash flow		
(a) Adjustments to the results		
Depreciation and amortisation	95,662	59,021
Impairment charges and reversal of impairment charges	(151,000)	20,000
Taxes	10,586	(10,794)
Finance costs, net	11,644	8,156
Provisions	(2,164)	285
Other adjustments	(1,514)	(2,326)
	(36,786)	74,342
(b) Changes in working capital		
Inventories	10,389	18,264
Current receivables	5,376	(8,915)
Current non-interest bearing liabilities	26,758	6,406
	42,523	15,755
Non-cash transactions		

(c) In 2007 the Parent converted EUR 166,819 thousand of Related party interest-bearing liabilities to invested equity

The accompanying notes are an integral part of the interim condensed combined financial information.

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INTERIM CONDENSED COMBINED CHANGES IN INVESTED EQUITY
FOR THE YEARS ENDED 31 DECEMBER 2007 AND 2006

(Amounts in thousands of Euros, unless otherwise stated)

	YEAR ENDED 2006
Balance, 1 January 2006	466,560
Translation differences	(2,729)
Result for the period	(20,205)
Related party transactions	
Corporate overhead costs funded by parent company	8,000
Income taxes funded by parent company	7,725
Other financing with Parent, net	1,030
Related party transactions, total	16,755
Balance, 31 December 2006	460,381
	YEAR ENDED 2007
Balance, 1 January 2007	460,381
Translation differences	(1,556)
Result for the period	66,453
Related party transactions	
Equity contribution by Parent	181,819
Corporate overhead costs funded by parent company	8,600
Income taxes funded by parent company	2,154
Other financing with Parent, net	(44,534)
Related party transactions, total	148,039
Balance, 31 December 2007	673,317

The accompanying notes are an integral part of the interim condensed combined financial information.

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NOTES TO THE INTERIM CONDENSED COMBINED FINANCIAL INFORMATION
(Monetary amounts in thousands of Euros, unless otherwise stated)

Note 1 - Background and basis of presentation

M-real Oyj and its subsidiaries ("M-real Group" or "M-real" or the "Parent") are one of Europe's leading producers of paperboard and paper. M-real Group offers premium solutions of consumer packaging, communications and advertising and has 17 production units in 6 European countries. M-real is present in over 70 countries thanks to its global sales network. M-real Oyj Headquarter is located in Espoo, Finland.

On 29 September 2008, M-real entered into a Master Business and Share Sale and Purchase Agreement ("SPA") with Sappi limited, a South African company, regarding the sale of share holdings in four legal entities and two paper mills of M-real's Graphic Papers Business (the "Transaction"). The entities subject to the sale, all of which are 100% owned by M-real, are comprised of two separate paper mills in Finland (Kangas and Kirkniemi), Stockstadt GmbH ("Stockstadt") and its wholly owned subsidiary Chemische Werke Zell-Wildshausen GmbH ("CWZ"), CN-Papiervertrieb GmbH ("CN") in Germany and M-real Biberist AG ("Biberist") in Switzerland. Collectively these entities are referred to as the "Carve-out Graphic Papers Business " or the "Company." M-real has prepared the interim condensed combined financial information ("interim financial statements") of the Company in connection with the SPA.

The Company produces and provides coated fine and magazine paper and uncoated fine paper to publishing, advertising and communication end-users. Customers include printers, publishers, advertising agencies and corporations served both directly and through merchant partners. The manufacturing operations of the Company are located in Lohja and Jyväskylä, Finland, Stockstadt, Germany, and Biberist, Switzerland.

Basis of presentation

The interim financial statements have been prepared on a "carve-out" basis from M-real's consolidated financial statements using the historical results of operations, assets and liabilities attributable to the Company and include allocations of expenses and assets from M-real. The interim financial statements may not be indicative of the Company's future performance and do not necessarily reflect what its combined results of operations, financial position and cash flows would have been had the Company operated as an independent company during the periods presented. In addition to favorable industry and market conditions including raw material costs and paper prices, the Company's future profitability and cash flows depend on its ability to receive financing. Historically, financing has been made available to the Company by its Parent.

These interim financial statements include the assets, liabilities, sales, expenses and cash flows of the entities subject to the Transaction. Certain entities of M-real's Graphic Papers Business have been excluded from these interim financial statements because they are not subject to the Transaction and there are no significant inter-business relationships, interdependencies or common facilities with the entities that are subject to the Transaction.

These interim financial statements include allocations for various expenses, including, among other things, corporate overheads and administration. These allocations are discussed in Note 4. Company management considers that such allocations have been made on a reasonable basis, but are not necessarily indicative of the costs that would have been incurred if the Company were a stand-alone entity.

M-real uses a centralised approach via a cash pooling arrangement to manage cash and to finance its operations. Each of the Company entities historically maintained a separate balance sheet which included financing positions with M-real Group. Interest earned on deposits through the cash pooling arrangement and payable on related party interest bearing borrowings was historically settled through the cash pool arrangement. Invested equity of the Company represents M-real's residual claim on the Company entities and includes allocations from M-real, settlement of intercompany transactions with M-real, and the Company's cumulative operating results, including other income items recognised directly in equity. See Note 4, Related party transactions, for more information and transactions between the Parent and the Company.

These interim financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the International Accounting Standards Board (IASB). The interim condensed combined financial statements are presented in thousands of Euros (EUR), unless otherwise stated. The interim financial statements have been prepared on a historical cost basis, except for certain other financial assets and liabilities, which are measured at fair value.

The interim financial statements have also been prepared in accordance with International Accounting Standard (IAS) 34, "Interim Financial Reporting" and the accounting policies presented in the Company's annual combined financial statements as of and for the years ended 31 December 2007 and 2006. The preparation of interim financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies, the reported amount of sales, expenses, assets and liabilities. Actual results may differ from management's estimates.

In the opinion of management, the interim financial statements reflect all adjustments necessary (consisting only of normal recurring adjustments) necessary for a fair presentation of the results of operations and the financial position of the Company. Operating results of the interim periods may not be indicative of the results that may be expected for any future period or for the full fiscal year.

Note 2 - Depreciation, amortisation and impairment charges

The following shows the split of the Company's depreciation, amortisation and impairment charges for three months ended 31 December 2007 and 2006 and the years ended 31 December 2007 and 2006.

	Three months ended 31 December		Year ended 31 December	
	2007	2006	2007	2006
Straight-line depreciation				
Other intangible assets	666	181	1,378	1,381
Buildings	9,084	1,039	11,661	4,882
Machinery and equipment	43,205	11,382	78,984	49,046
Other tangible assets	973	950	3,639	3,712
Total	53,928	13,552	95,662	59,021
Impairment charges and reversal of impairment charges				
Buildings	(30,955)	4,100	(30,955)	4,100
Machinery and equipment	(120,045)	15,900	(120,045)	15,900
Total	(151,000)	20,000	(151,000)	20,000
Straight-line depreciation, impairment charges and reversal of impairment charges, total	(97,072)	33,552	(55,338)	79,021

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Depreciation of buildings and machinery and equipment during the three months and year ended 31 December 2007 includes a write-down of EUR 39,163 due to closure of a paper machine at the Kangas mill.

In the three months and year ended 31 December 2006, mostly because of higher SW pulp price estimates and lower magazine paper price estimates for the next 5 years, an impairment charge of EUR 20,000 was recognised in the Company's combined income statement. In 2007, primarily because of a significant increase in the estimated long term sales prices of wood free coated paper, uncoated paper and magazine paper, partially resulting from a decrease in excess paper capacity during the year, the Company recognised reversal of impairment losses previously recognised on long lived assets other than goodwill in the amount of EUR 151,000.

Note 3 - Income taxes

During the periods presented, the Company did not file separate tax returns for the Finnish mills (Kangas and Kirkniemi) and Stockstadt and CWZ as these entities were included in the tax grouping of other M-real entities within the respective entities tax jurisdictions. Biberist and CN have historically not been part of any M-real tax grouping and have filed separate, respective local jurisdictional tax returns on an annual basis. The income tax provision included in these interim financial statements was calculated using a method consistent with a separate return basis, as if each of the Company's companies were a separate taxpayer in the jurisdiction of primary operation. Tax expense in the interim condensed combined income statement is comprised of the current tax and deferred taxes. Any current taxes are deemed settled through invested equity.

Income taxes for the three months ended 31 December 2007 and 2006 and for the years ended 31 December 2007 and 2006 are as follows:

	Three months ended 31 December		Year ended 31 December	
	2007	2006	2007	2006
Taxes for the current period	1,614	5,845	2,153	7,725
Deferred taxes	11,661	(9,632)	10,587	(10,794)
Total income taxes	13,275	(3,787)	12,740	(3,069)

A reconciliation of income tax expense (benefit) computed at the statutory rate applicable in Finland of 26% for the three months ended 31 December 2007 and 2006 and for the year ended 31 December 2007 to the Company's reported income tax expense (benefit) is as follows:

	Three months ended 31 December		Year ended 31 December	
	2007	2006	2007	2006
Income tax expense (benefit) computed at the Finland statutory rate	24,266	(6,586)	20,590	(6,051)
Difference between Finnish and foreign rates	5,132	(1,216)	3,604	(2,196)
Tax losses with no tax benefit	(16,312)	4,135	(11,277)	5,527
Other adjustments	189	(120)	(177)	(349)
Tax expense (benefit) in income statement	13,275	(3,787)	12,740	(3,069)

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Note 4 - Related party transactions

These interim financial statements include transactions with M-real, its subsidiaries and M-real's parent company Metsäliitto Cooperative and its other subsidiaries that are considered related parties in respect to the Carve-out Graphic Papers Business. The Company enters into a significant number of transactions with related parties for the purchases of inventory, sale of goods, as well as corporate services. Product and services transfers between the Company and the related parties have been made at arm's length prices.

Transactions between the Company and related parties for the three months ended 31 December 2007 and 2006 and for the year ended 31 December 2007 and 2006 are as follows:

	Three months ended 31 December		Years ended 31 December	
	2007	2006	2007	2006
Sales	8,697	23,182	73,811	101,268
Other operating income	1,044	890	2,557	2,333
Purchases	117,515	105,946	462,568	421,475
Other operating expenses	13,102	12,759	51,656	53,755
Interest income from M-real recognised by the Company	251	533	972	1,574
Interest expenses from M-real recognised by the Company	1,144	2,465	5,054	9,867
Receivables				
Current	33,267	40,706	33,267	40,706
Liabilities				
Non-current	55,661	197,935	55,661	197,935
Current	33,693	41,664	33,693	41,664

Sales of goods to related parties decreased in three month period ended 31 December 2007 as compared to the three month period ended 31 December 2006 due to the Parent's divestment of its paper merchant Map Merchant Group in October 2007.

Other operating expenses include allocated corporate costs of EUR 2,150, EUR 2,000, EUR 8,600 and EUR 8,000 for the three month periods ended 31 December 2007 and 2006 and for the years ended 31 December 2007 and 2006, respectively. These costs are primarily related to corporate level administrative services (executive personnel costs, human resources, legal services, IT services, insurance and other administrative services), and are generally allocated based on the ratio of the Company's annual net sales or other specific allocation keys, to the Parent's comparable amounts. Corporate expense allocations are in addition to business level expenses which are invoiced to the individual the Company businesses on at least a quarterly basis. Management considers that such allocations have been made on a reasonable basis, but may not necessarily be indicative of the costs incurred had the Company operated as a separate entity during the periods presented. Certain corporate costs incurred by M-real that did not directly or indirectly benefit the Company entities were not allocated to the interim financial statements as such expenses could not be reasonably allocated.

As of 31 December 2007 and 2006 cash and cash equivalents include receivables due from M-real from cash pooling amounting to EUR 24,538 and EUR 46,725, respectively. Interest income on these balances due from M-real has been recognised in other financial income.

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As of 31 December 2007 and 2006, current accounts receivable and non-interest bearing receivables include amounts due from M-real and its subsidiaries in the amount of EUR 33,267 and EUR 40,706, respectively, and accounts payable and other non-interest bearing liabilities include amounts due to M-real in the amount of EUR 21,693 and EUR 17,220, respectively.

As of 31 December 2007 and 2006 non-current borrowings include non-current loans due to M-real in the amount of EUR 55,661 and EUR 197,935, respectively, and current borrowings include current loans due to M-real in the amount of EUR 12,000 and EUR 24,444, respectively. Interest expenses on these balances due to M-real have been recognised in other financial expenses.

During the first half of the year ended 31 December 2007, M-real converted EUR 166,819 of the Company's related party interest bearing liabilities to invested equity. During the quarter ended 31 December 2007, M-real contributed an additional EUR 15,000 of the Company's related party interest bearing liabilities to invested equity.

Stockstadt and CWZ participate in a profit and loss transfer arrangement ("PLTA") with its holding company M-real Deutsche Holding GmbH for all periods presented in the interim financial statements. Under the PLTA, Stockstadt and CWZ are obligated to transfer their entire profits, as determined under the German Commercial Code (HGB), to Deutsche Holding GmbH during the term of the agreement. Conversely, Deutsche Holding GmbH is obliged to compensate any net loss generated by Stockstadt and CWZ as determined under HGB. The Company recognised the right to be compensated for net loss generated by recognizing EUR 15,791 in current accounts receivable as of 31 December 2007 offset with a corresponding increase in invested equity. The Company recognised its obligation to transfer profits under the PLTA by recognizing EUR 1,667 in current accounts payable as of 31 December 2006 offset with a corresponding reduction in invested equity.

In the regular course of business, the Company is exposed to certain financial risks which are hedged by either the local business or by Metsä Finance on positions held by the Company. These risks are typically commodity (energy) prices, foreign currency exposure and translation risk of net investments in foreign entities. The Company has elected not to allocate hedging positions of the Company specific risk, held by Metsä Finance, to the interim financial statements.

Note 5 - Commitments and contingencies

Commitments

Operating and finance lease commitments
The Company holds operating leases for certain vehicles and equipment. Leasing liabilities for contracts exceeding 12 months and for non-cancellable operating leasing contracts were EUR 1,839 and EUR 819 for the three months ended 31 December 2007 and 2006, respectively.

The Company recognised finance lease assets in the amount of EUR 58,242 and EUR 70,796 and corresponding obligations in the amount of EUR 57,004 and EUR 68,107 as of 31 December 2007 and 2006, respectively. Financial expenses recognised in relation to the finance lease arrangements amounted to EUR 707 and EUR 874 for the three months ended 31 December 2007 and 2006 and EUR 3,173 and EUR 3,475 in the years ended 31 December 2007 and 2006, respectively.

Non-cancellable purchase commitments
The Company has no non-cancellable purchase agreements as of 31 December 2007.

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Explanation of Responses:

Guarantees and indemnifications

The Company has not entered into any agreements that would require it, as a guarantor, to recognise a liability for the fair value of obligations it has undertaken in issuing the guarantee. All assets of the Company have been pledged by the Parent.

Warranties

The Company does not make express warranties on its products other than that such products comply with the Company's specifications. Based on historical experience, product quality claims are not material, and are charged against net sales when incurred.

Contingent liabilities

Customer claims and other litigation

The Company may be subject to various product liabilities, commercial and employment litigation, and other legal matters that are considered to be in the ordinary course of business. The Company has no legal reserve as of 31 December 2007 and 2006 pertaining to customer claims and other litigation. As of 31 December 2007 and 2006 there are no open legal matters, and management of the Company cannot reasonably estimate the outcome of potential legal proceedings, claims, or litigation. Management believes that any such potential matters will not materially affect the Company's financial position, results of operations, or cash flows.

ANNEXURE 2

INDEPENDENT REPORTING ACCOUNTANTS' REPORT ON THE
HISTORICAL FINANCIAL INFORMATION OF THE ACQUIRED BUSINESS

"The Directors
Sappi Limited
Sappi House
48 Ameshoff Street
Braamfontein
Johannesburg
2001

Dear Sirs

REPORT OF THE INDEPENDENT REPORTING ACCOUNTANTS ON THE HISTORICAL FINANCIAL INFORMATION OF THE CARVE-OUT GRAPHICS PAPER BUSINESS OF M-REAL OYJ

1. INTRODUCTION

Sappi Limited ("Sappi") is issuing a Circular to Shareholders in order to obtain shareholder approval for the proposed acquisition of the Carve-out Graphics Paper Business of M-real Oyj ("M-real") ("the Carve-out Graphics Business").

At your request, and for purposes of the Circular to Shareholders to be dated on or about 9 October 2008 ("the Circular"), we present our report on the historical financial information of the Carve-out Graphics Paper Business, presented in Sections 1, 2 and 3 of Annexure 1 to the Circular, in compliance with the Listings Requirements of the JSE Limited ("the JSE Listings Requirements").

The compilation, contents and presentation of the Circular, including the Report on the Historical Financial Information of the Carve-out Graphics Paper Business, are the responsibilities of the directors of Sappi.

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2. AUDIT OF THE COMBINED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

We have audited the combined financial statements of the Carve-out Graphics Paper Business, which comprise the combined balance sheet at 31 December 2007, and the combined income statement, the combined statement of changes in equity and the combined cash flow statement for the year ended 31 December 2007, and a summary of significant accounting policies and other explanatory notes as set out in Section 1 of Annexure 1 to the Circular.

Directors' responsibility for the combined financial statements

The directors of M-real are responsible for the preparation and fair presentation of the combined financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the combined financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Reporting accountant’s responsibility

Our responsibility is to express an opinion on the combined financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements, and plan and perform the audit to obtain reasonable assurance about whether the financial information is free from material misstatement.

Scope of audit

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial information, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and fair presentation of the financial information in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. An audit also includes evaluating the appropriateness of accounting policies used, and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial information.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the combined financial statements present fairly, in all material respects, and for purposes of the Circular, the financial position of the Carve-out Graphics Paper Business as of 31 December 2007, and its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Emphasis of matter

Without qualifying our opinion, we draw attention to the fact that, as described in note 1, the Carve-out Graphics Paper Business has not operated as a separate entity. The combined financial statements are therefore not indicative of the results of operations or financial position that would have occurred if the Carve-out Graphics Paper Business had been a separate stand-alone entity during the years presented or of the future results of the Carve-out Graphics Paper Business.

3. REVIEWS OF THE COMBINED FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2006 AND 2005

We have reviewed the combined financial statements of the Carve-out Graphics Paper Business, which comprise the combined balance sheets at 31 December 2006 and 2005, and the combined income statements, the combined statements of changes in equity and the combined cash flow statements for the years ended 31 December 2006 and 2005, and a summary of significant accounting policies and other explanatory notes as set out in Section 1 of Annexure 1 to the Circular. These combined financial statements are the responsibility of the directors of M-real. Our responsibility is to issue a report on the combined financial information based on our review.

Scope of reviews

We conducted our reviews in accordance with International Standard on Review Engagements 2400, "Engagements to Review Financial Statements". A review of financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusions

Based on our reviews, nothing has come to our attention that causes us to believe that the combined financial statements do not present fairly in all material respects the financial position of the Carve-out Graphics Paper Business as of 31 December 2006 and 2005, and its financial performance and its cash flows for the years then ended, for the purposes of the Circular, in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Emphasis of matter

Without qualifying our conclusions, we draw attention to the fact that, as described in note 1, the Carve-out Graphics Paper Business has not operated as a separate entity. The combined financial statements are therefore not indicative of the results of operations or financial position that would have occurred if the Carve-out Graphics Paper Business had been a separate stand-alone entity during the years presented or of the future results of the Carve-out Graphics Paper Business.

4. REVIEWS OF THE CONDENSED COMBINED FINANCIAL INFORMATION FOR THE SIX MONTHS ENDED 30 JUNE 2008 AND 2007, AND THE THREE MONTHS ENDED 31 DECEMBER 2007 AND 2006

We have reviewed the condensed combined financial information of the Carve-out Graphics Paper Business, which comprise the condensed combined balance sheet at 30 June 2008, and the condensed combined income statements, the condensed combined statements of changes in equity and the condensed combined cash flow statements for the six months ended 30 June 2008 and 2007, and explanatory notes as set out in Section 2 of Annexure 1 to the Circular. We have also reviewed the condensed combined financial information of the Carve-out Graphics Paper Business, which comprise the condensed combined balance sheets at 31 December 2007 and 2006, the condensed combined income statements for the three months ended 31 December 2007 and 2006, and the condensed combined statements of changes in equity and the condensed combined cash flow statements for the year ended 31 December 2007 and 2006, and explanatory notes as set out in Section 3 of Annexure 1 to the Circular. The condensed combined financial information is the responsibility of the directors of M-real. Our responsibility is to issue a report on the condensed combined financial information based on our review.

Scope of reviews

We conducted our reviews in accordance with International Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity”. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusions

Based on our reviews, nothing has come to our attention that causes us to believe that the condensed combined financial information for the six months ended 30 June 2008 and 2007, and the condensed combined financial information for the periods ended 31 December 2007 and 2006, have not been prepared, in all material respects, for the purposes of the Circular, in accordance with International Accounting Standard 34 “Interim Financial Reporting”.

Emphasis of matter

Without qualifying our conclusions, we draw attention to the fact that, as described in note 1, the Carve-out Graphics Paper Business has not operated as a separate entity. The condensed combined financial information is therefore not indicative of the results of operations or financial position that would have occurred if the Carve-out Graphics Paper Business had been a separate stand-alone entity during the periods presented or of the future results of the Carve-out Graphics Paper Business.

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Yours sincerely

PRICEWATERHOUSECOOPERS INC
DIRECTOR: B.J. OLIVIER
REGISTERED AUDITOR
SUNNINGHILL
6 October 2008”

ANNEXURE 3

PRO FORMA BALANCE SHEET AND INCOME STATEMENT OF THE SAPPI GROUP

Sappi has entered into agreements (which are subject to the fulfilment of the conditions precedent) to acquire the Acquired Business for a consideration of approximately EUR750 million (US$1,184 million), less the third party net debt and adjusted by the variation from the target net working capital of EUR235 million (US$371 million), as determined in accordance with the master sales agreement on the date of completion. As of 30 June 2008 the third party debt was EUR88 million (US$139 million) and the variation to the target net working capital was EUR13 million (US$21 million). In addition, total acquisition expenses directly attributable to the transaction are estimated to be EUR19 million (US$30 million).

In accordance with the agreements, the aggregated purchase price, if the transaction occurred on 30 June 2008, is calculated as follows:

	EUR'm	US$'m
Gross purchase price	750	1,184
Adjusted for:		
External third party debt	(88)	(139)
Acquisition costs	19	30
Working capital variation	13	21
	694	1,096
The purchase price will be funded as follows:		
Cash (obtained from the proceeds from the rights issue)	432	682
Newly issued Sappi shares	50	79
Interest bearing vendor loan due to M-real	212	335
	694	1,096

In connection with the Transaction, Sappi will also enter into long term supply agreements with M-real for energy, wood and pulp and transitional marketing agreements for the outputs of the Husum PM8 machine and the Äänekoski PM2 machine. Management believes these contracts are executed at a market rate and therefore have not been reflected as a pro forma adjustment.

The pro forma adjustments reflect the acquisition and related financing transactions. The unaudited pro forma condensed statements of operations for the year ended September 2007 and the period ended June 2008 give effect to the acquisition and related financing as if it occurred on 1 October 2006. The unaudited pro forma condensed balance sheet for the period ended June 2008 gives effect to the acquisition and related financing as if it occurred on that balance sheet date.

Historical financial information for the Acquired Business as at and for the year ended December 2007, and as at and for the six months ended June 2008, and for the three months ended December 2007 appears elsewhere in this Circular. Historical financial information for all periods presented has been prepared on a full carve-out basis in accordance with IFRS as issued by the IASB, and is presented in Euros. The condensed six months ended June 2008 and the condensed three months ended December 2007 have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting.

The unaudited pro forma condensed financial statements have been derived using:

for the year ended September 2007, Sappi's audited historical group income statement for the year ended September 2007, and the audited carve-out income statement of the Acquired Business for the year ended December 2007 appearing elsewhere in this Circular. The financial information for the Acquired Business has been converted from Euros into US dollars using the average exchange rate for the year ended December 2007 of EUR1 : US$1.3755;

for the nine months ended June 2008, Sappi's reviewed condensed interim group income statement for the nine months ended June 2008 and the reviewed condensed carve-out income statements of the Acquired Business for the six months ended June 2008, and the three months ended December 2007 appearing elsewhere in this Circular. Financial information for the Acquired Business for the six months ended June 2008 has been converted from Euros into US dollars using the average exchange rate for the six months ended June 2008 of EUR1 : US$1.5315, and for the three months ended December 2007, have been converted from Euros into US dollars using the average exchange rate for the three months ended December 2007 of EUR1 : US$1.4556;

as at June 2008, Sappi's reviewed condensed interim group balance sheet as at June 2008, and the reviewed condensed carve-out interim balance sheet of the Acquired Business as at June 2008 appearing elsewhere in this Circular. Financial information for the Acquired Business as at June 2008 has been converted from Euros into US dollars using Sappi's June 2008 closing rate of EUR1 : US$1.5795.

As noted above, the pro forma adjustments reflect the acquisition and associated financing transactions. The allocation of the purchase price reflected in the unaudited pro forma condensed financial statements is preliminary. It is based on estimated fair values and estimated purchase price and eventually will be adjusted based on a complete assessment of the fair value of the net assets acquired and final purchase price. The final purchase price allocation is dependent on, among other things, the finalization of asset and liability valuations. As at the date of this Circular, we have not completed the valuation studies necessary to finalize the fair values of the assets acquired and liabilities assumed and the related allocation of the purchase price. We have allocated the total estimated purchase price, calculated as described under ''Notes to Unaudited Pro forma Condensed Balance Sheet'', to the assets acquired and liabilities assumed based on preliminary estimates of their fair values. A final determination of these fair values will reflect, among other things, our consideration of a final valuation based on the actual net tangible and intangible assets, such as brands, order books, customer lists and intellectual property that exist as at the closing of the acquisition. Any final adjustment will change the allocation of the purchase price, which will affect the fair value assigned to the assets and liabilities and could result in a material change to the unaudited pro forma condensed financial statements, including a change to goodwill.

The unaudited pro forma adjustments give effect to events that are directly attributable to the acquisition and related financing, and are factually supportable. The unaudited pro forma condensed financial statements are presented for information purposes only, and do not purport to represent what our actual results of operations or financial condition would have been had the acquisition and financing occurred on the dates indicated, nor are they necessarily indicative of future results of operations or financial condition. In addition to the matters noted above, the unaudited condensed consolidated pro forma financial statements do not reflect the effect of:

anticipated synergies and efficiencies associated with combining the Sappi Group and the Acquired Business due to the adoption of best practices;

efficiencies in the permanent funding structure; and

movements in the US Dollar / Euro exchange rate.

The unaudited pro forma condensed financial statements should be read in conjunction with the information contained elsewhere in this Circular, Sappi's audited historical financial statements for the year ended September 2007 and the reviewed condensed interim financial statements for the period ended June 2008.

The directors of Sappi are responsible for the preparation of the unaudited pro forma balance sheet and income statements. The unaudited pro forma balance sheet and income statements as set out below should be read in conjunction with the report of the independent reporting accountants which is included as Annexure 4 to this Circular. The unaudited pro forma financial results have been prepared in accordance with IFRS as issued by the IASB.

The unaudited pro forma balance sheet of the Sappi Group as at June 2008 has been prepared on the assumption that the proposed transactions were effected on 30 June 2008.

US$ million	Sappi Group As at June 2008 (A)	Acquired Business As at June 2008 (B)	Pro forma adjustments	Notes	Pro forma
ASSETS					
Non-current assets	4,574	1,035	(85)		5,524
Property, plant and equipment	3,568	1,026	(294)	(1)	4,300
Plantations	556	-	-		556
Deferred taxation	56	-	83	(1)	139
Other non-current assets	394	9	126	(1)	529
Current assets	1,758	589	(16)		2,331
Inventories	789	206	-		995
Trade and other receivables	742	378	(11)	(1)	1,109
Cash and cash equivalents	227	5	(5)	(1)	227
TOTAL ASSETS	6,332	1,624	(101)		7,855

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US$ million	Sappi Group As at June 2008 (A)	Acquired Business As at June 2008 (B)	Pro forma adjustments	Notes	Pro forma
EQUITY AND LIABILITIES					
Shareholders' equity	1,669	989	(228)	(1),(2)	2,430
Non-current liabilities	2,629	319	135		3,083
Interest-bearing borrowings	1,882	150	198	(1),(3)	2,230
Deferred taxation	384	71	(51)	(1)	404
Other non-current liabilities	363	98	(12)	(1)	449
Current liabilities	2,034	316	(8)		2,342
Interest-bearing borrowings	990	71	-		1,061
Bank overdraft	22	-	-		22
Other current liabilities	946	245	(8)	(1)	1,183
Taxation payable	76	-	-		76
TOTAL EQUITY AND LIABILITIES	6,332	1,624	(101)		7,855
Number of shares in issue at balance sheet date (in millions)	229.1				302.1
Net asset value per share (US$)	7.29				8.04
Net tangible asset value per share (US$)	7.25				7.59

* The number of shares in issue at balance sheet date has been adjusted by 73 million shares representing the estimated number of shares to be issued as consideration for the Acquired Business of EUR 50 / US$ 79 million and the proposed rights offering of EUR 450 / US$711 million. The number of Settlement Shares will be determined by reference to the volume weighted average share price of Sappi on the JSE during the 30 trading days prior to the date of the announcement of this acquisition. The number of rights offering shares was calculated using the Sappi closing share price on 26 September 2008 of ZAR81.50. The actual number of shares will be based on the relevant variable components of the financing and of the relevant agreements and, accordingly, the number of shares will change.

(A) Financial information for the Sappi Group has been extracted without adjustment from Sappi's published condensed consolidated reviewed results as at June 2008.

(B) The Acquired Business financial information has been extracted from the Acquired Business's reviewed condensed Carve-out Financials as at June 2008. The Acquired Business's balance sheet was converted from Euros into US Dollars at Sappi's June 2008 closing rate of EUR1 : US$1.5795. Refer to note 1 in the notes to the balance sheet as at June 2008 for a reconciliation of the Acquired Business's balance sheet information as presented in the carve-out accounts as at June 2008 to Sappi's presentation format above.

Pro-forma notes

(1) The estimated price for the Acquired Businesses is EUR750 million (US$1,184 million), which is based on the enterprise value of the Acquired Business (as defined in the Master Agreement) less third party debt and adjusted by the variation from the target net working capital of EUR235 million (US$371 million). The net debt at 30 June 2008 was EUR88 million (US$139 million) and the variation to the target net working capital was EUR13 million (US$21 million). In addition, it is estimated that the costs incurred in connection with the acquisition will be approximately EUR19 million (US$30 million), resulting in an aggregated purchase price of EUR694 million (US$1,096 million) including fees. The actual cash and enterprise value of the Acquired Business will be determined at the Completion Date and accordingly will vary from that used in the preparation of the pro forma financials. Any variation could have a material impact on the cost of the Acquired Business and accordingly, the purchase price allocation.

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The preliminary allocation of the estimated aggregate purchase price to the fair value of the assets and liabilities acquired is summarised below:

	EUR'm	US$'m
Net assets of the Acquired Business as at June 2008	626	989
Cash and cash equivalents *	(3)	(5)
VAT receivables *	(7)	(11)
Other current liabilities *	5	8
Other non-current liabilities *	8	12
Deferred tax liability **	32	51
Intercompany debt ***	87	137
Adjusted net assets as at June 2008	748	1,181
Decrease in property, plant and equipment ****	(186)	(294)
Tax effect thereon	52	83
Net assets acquired	614	970
Goodwill	80	126
Aggregate purchase price	694	1,096

* These items were included in the Acquired Business condensed carve-out financials as at June 2008 but which are excluded from the Master Agreement.

** This relates to the Kirkniemi and Kangas mills. As these are asset purchases, Sappi will not be taking over the tax history of these mills and therefore has reduced the deferred tax liability balance by this amount.

*** The intercompany debt will be assumed by Sappi and settled as part of the Transaction Consideration.

**** Management has preliminarily determined the fair value of the mills acquired to be less than the reported book value in the Carve-Out Graphic Paper business reviewed interim condensed combined balance sheet as of 30 June 2008.

The aforementioned purchase price allocation is preliminary. It is based on estimated fair values and eventually may require adjustment based on a complete assessment of the fair value of the net assets acquired. Any adjustments made to fair values of assets and liabilities acquired will impact on the purchase price allocation and could result in a material change to goodwill.

(2) Adjustments to the equity balance consist of the following:

	EUR'm	US$'m
- Elimination of the Acquired Business historical equity	(626)	(989)
- Newly issued equity (a)	50	79
- Estimated additional equity in terms of the rights offering (b)	432	682
	(144)	(228)

(a) As described in the introduction, a portion of the consideration to purchase the Acquired Business will be funded through the issuance of shares valued at EUR50 million (US$79 million). The number of shares issued will vary based on the purchase agreement. The purchase agreement states that the price of each share issued for the portion paid in shares will be determined by reference to the volume weighted average share price of Sappi on the JSE during a period of 30 trading days prior to the announcement of the signing of the Master Agreement based on the average EUR / ZAR daily closing exchange rate for the same period and such price per share is adjusted for issuances of shares by Sappi at a discount to market value and other specified actions taken by Sappi in respect of its capital prior to the Completion Date. In accordance with International Financial Reporting Standards, in determining the cost of the Acquired Business, the cost of the Settlement Shares issued by Sappi will be measured at their fair value at the date of exchange, which may differ from the market price on such date due to, among other things, the Lock-Up Deed. To the extent that the price of the Settlement Shares as determined in accordance with the Master Agreement, differs from the fair value of the Settlement Shares on the date of the exchange, the cost of acquisition will vary. Any such difference could have a material impact on the cost of the Acquired Business. In the preparation of this pro forma financial information, Sappi have assumed that the fair value of the Settlement Shares equates to the market price, and that the date of exchange is 30 June 2008.

(b) The rights offering is for up to EUR450 million (US$711 million), and the estimated cost are expected to be EUR18 million (US$28million). This represents the net proceeds for the issuance of these shares. The number of shares will vary based on the offer price.

(3) This pro forma adjustment reflects the changes in the interest bearing borrowings. A reconciliation is as follows:

	EUR'm	US$'m
Interest bearing vendor loan note	250	395
Variation in respect of third party debt and working capital	(38)	(60)
	212	335
Less: Intercompany debt per note 1 above	(87)	(137)
Pro forma adjustment	125	198

A portion of the Transaction Consideration will be funded by the issue of a vendor note payable to M-real amounting to EUR250 million (US$395 million). The amount of this note will vary according to the variation from EUR50 million in respect of third party debt and EUR235 million in respect of the target working capital. At 30 June 2008 these variations amounted to EUR38 million (US$60 million). The loan has a 48 month term, repayable in tranches of EUR10 million, before expiry date and ranks pari passu with existing long term debt.

Notes to the unaudited pro-forma balance sheet as at June 2008

(1) The Acquired Business carve-out graphic paper business balance sheet presentation format differs in certain respects from that of Sappi. The table below conforms the Acquired Business carve-out graphic paper business information as at June 2008, appearing elsewhere in this document, into Sappi's reporting format.

	EUR'000 Acquired Business carve-out financial statements conformed As at June 2008 (i)	Abridging notes	US$'000 Conformed presentation format (ii)
ASSETS			
Non-current assets	655,449		1,035,281
Property, plant and equipment	649,531		1,025,934
Goodwill and intangibles	2,580		4,075
Other non-current assets	3,338	(iii)	5,272