

Communications/ Annikki Rintala

5 February 2004

Weak dollar affected Botnia's result**PROFITABILITY REMAINED STILL GOOD IN VIEW OF BUSINESS CYCLE**

- **Turnover EUR 1, 006.4 million (1,033.5 million)**
- **Operating profit EUR 84.2 million (153.8 million)**
- **Profit before extraordinary items EUR 78.9 million (150.5 million)**
- **Capital expenditure 85.0 million (57.9 million)**
- **Return on capital employed 6.9% (11.7%)**
- **Equity ratio 70.3% (69.6%)**

All figures are unaudited.

The market

The market was fairly well balanced in 2003. Pulp supplies were affected by wood raw material shortages in the southern states of the US early in the year and by shut-downs at pulp mills for maintenance work in the autumn. The average capacity utilization rate in the Norscan countries (North America and the Nordic countries) reached 93 per cent (91).

Stocks held by Norscan pulp producers stood at 1.84 million tonnes (1.63 million) at the end of the year.

Market prices for softwood pulp rose during the first quarter of 2003, embarked on a gradual decline in the second quarter, and then began to rise again around the middle of the third quarter. Prices during the final quarter remained fairly steady. The market price of bleached softwood pulp was USD 440/tonne at the beginning of the year, USD 560 at the start of the second quarter, USD 530 at the end of the third quarter, and USD 560 at the end of the year. Denominated in foreign currencies, the market price of softwood pulp was 14 per cent up on the year before.

Short-fibre pulp started the year at EUR 435/tonne, rising to EUR 490 at the beginning of the second quarter, and falling to EUR 446 at the end of the second quarter. At the end of the third quarter the price was USD 510/tonne (EUR 454) and at the end of the year USD 500/tonne (EUR 407). The euro-denominated market price of hardwood pulp was 8 per cent lower compared with the previous year.

The average exchange rate for the dollar in 2003 was roughly USD 1.13 to the euro (0.95), which represents an average weakening of 19.7 per cent on the previous year.

Production, deliveries and wood consumption

Botnia's pulp production in 2003 was 2,391,394 tonnes, an increase of 6,3 per cent on the previous year's figure of 2,249,719.

Pulp sales totalled 2,382,514 tonnes (2,238,366). Of this amount, 1,755,500 tonnes were supplied to shareholders (1,703,029) and 627,014 tonnes were sold on the market (535,337). Pulp deliveries were up by 6.1 per cent on the previous year. Botnia's pulp stocks were at the normal level at the end of the year.

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Botnia's wood consumption in 2003 rose to 11.9 million cubic metres (11.6 million). This comprised 5.8 million cubic metres of softwood (5.6 million), 3.0 million cubic metres of softwood chips (2.7 million) and 3.1 million cubic metres of hardwood (3.0 million). Wood deliveries proceeded without problems during the year.

The increase in stumpage rates for softwood pulpwood introduced in 2002 was reflected in wood prices at the mills, which were 1.2 per cent up during the year under review. Stumpage rates fell towards the end of 2003, but the impact on prices at the mills will not be seen in full until 2004.

Trading in wood was brisk until the autumn, but the fall in prices around this time reduced supplies to the market from October onwards.

Domestic wood accounted for 87.5 per cent of all wood procured.

Investments

The investment project at Kemi pulp mill, the most important feature of which was construction of a new evaporation plant, came on stream in January 2003. The aims of the project – to improve reliability and cost-effectiveness and to reduce emissions – have been achieved. The total cost of the project was around EUR 40 million

No major new investments were started in Finland during the year under review.

In autumn 2003, Botnia began studying the possibility of starting pulp production in Uruguay. In the first phase, an environmental impact assessment for a possible pulp mill was performed, together with an evaluation of its socio-economic consequences. A decision on whether to go ahead with construction of a mill to produce around one million t/a of bleached eucalyptus pulp will be possible by the end of 2004 once all the necessary investigations are complete and the relevant permits granted. The schedule would also depend on Botnia's owners' fibre requirements and the general economic situation.

Botnia is also planning to build two sawmills in Russia. It is intended to build one of these in Podporozhje in the Leningrad region and the other at Suda in the Vologda region. The aim is to help secure the availability of raw material for production of high-quality reinforcement pulp and to pave the way for investments in pulp production in the future.

Outlook

Botnia's primary objectives in 2004 are to further improve customer satisfaction, to make the Deliveries process more efficient, to raise the company's overall profitability and to further improve the quality of the work of superiors. Special attention will also be given to the preparation of development projects in line with the company's strategy. Priority will be given to completion of the environmental impact assessment and socio-economic studies during the first half of the year and to implementation of the preplanning for the possible pulp mill project. The work of preparing for the sawmill projects will also continue according to plan.

The Group's future production volumes and financial results depend greatly on the trend in pulp and paper markets. Pulp production volumes are expected to develop favourably. How-

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ever, the early part of the year is overshadowed by pressure on prices, particularly those for short-fibre pulp.

Demand for pulp in 2004 is likely to remain fairly good in Asia and North America. Demand on European pulp markets has also picked up slightly recently, but uncertainty over the future of the European economy continues to pose a threat to the trend in the area's pulp markets.

The fall in the value of the US dollar has affected the price-competitiveness of European producers, and there is a clear risk that the dollar could continue to fall. Despite this uncertainty over exchange rates, the company's financial result for 2004 is forecast to remain satisfactory.

Financial figures

Turnover and profit both down

Turnover for the Metsä-Botnia Group was 2.6 per cent down on the previous year at EUR 1,006.4 million (1,033.5 million). The fall in turnover is due largely to the fact that the exchange rate for the US dollar, the invoicing currency for pulp, was lower than in 2002. Establishment of the company Kemiart Liners Oy at the beginning of the second quarter of 2002 also had a negative impact on turnover.

Profitability was weaker than the year before, but the financial result was nevertheless satisfactory. Profit before extraordinary items was EUR 78.9 million (150.5 million). The main factor adversely affecting profitability was the fall in the value of the US dollar. The impact of this on profit for the period was offset by higher capacity utilization rates at the mills, growth in sales volumes and higher market prices for softwood pulp.

The return on capital employed was 6.9 per cent (11.7).

Financial position remained good

The equity ratio was 69.6 per cent at the beginning of the year and 70.3 per cent at the end.

Net gearing rose to 2.8 per cent (0.0). Interest-bearing net liabilities at the end of the year were EUR 28.8 million (-0.1 million).

In September, the company signed a revolving credit agreement worth EUR 210 million. The loan will be used for general corporate purposes and has also been used for refinancing of existing loans.

The cash flow from sales in foreign currencies has not been hedged by means of foreign currency-denominated derivative agreements during the year under review. Earlier foreign currency-denominated loans have also been largely repaid.

Personnel

The Group had an average of 1,952 employees during the year (1,926). The number at the end of the year was 1,901 (1,751).

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As planned, all employees were covered by the profit-sharing scheme during the year.

Investments

Investments in fixed assets totalled EUR 85.0 million (57.9 million). Capital gains from the sale of fixed assets were EUR 2.8 million (0.9 million).

Change in the publication of financial information

Botnia has decided that it will no longer publish quarterly interim reports. Most unlisted forest products companies already follow the same practice. In future, results will be published once a year.

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PROFIT AND LOSS ACCOUNT (EUR million)	1-12/2003	%	1-12/02	%	Change	%	1-12/02	%
Turnover	1 006,4	100,0	1 033,5	100,0	-27,2	-2,6	1 033,5	100,0
Interest in associated companies	0,1		0,2		-0,1		0,2	
Other operating income	23,8		25,1		-1,3		25,1	
Operating expenses	835,1		793,2		-41,9		793,2	
Depreciation	110,8		111,7		0,9		111,7	
Operating profit	84,2	8,4	153,8	14,9	-69,6	-45,2	153,8	14,9
Net exchange gains/losses	0,4		2,2		-1,7		2,2	
Other financial income and expenses	-5,7	-0,5	-5,5	-0,3	-0,2	0,0	-5,5	-0,3
Profit before extraordinary items	78,9	7,8	150,5	14,6	-71,5	-47,5	150,5	14,6
Extraordinary items	0,0		0,0		0,0		0,0	
Profit before taxes and minority interest	78,9	7,8	150,5	14,6	-71,5	-47,5	150,5	14,6
Taxes	-23,3		-43,4		20,2		-43,4	
Minority interest	0,1		-0,8		1,0		-0,8	
Profit for the period	55,8	5,5	106,2	10,3	-50,4	-47,5	106,2	10,3

BALANCE SHEET (EUR million)	12/2003	%	12/2002	%	12/2002	%
Assets						
Fixed assets	1 174,0	78,8	1 190,4	76,9	1 190,4	76,9
Current assets						
Inventories	138,5	9,3	133,4	8,6	133,4	8,6
Other current assets	157,5	10,6	152,9	9,9	152,9	9,9
Liquid funds	19,1	1,3	71,8	4,6	71,8	4,6
Total	1 489,1	100,0	1 548,5	100,0	1 548,5	100,0
Liabilities						
Shareholders' equity	1 022,1	68,6	1 077,9	69,6	1 077,9	69,6
Minority interest	24,2	1,6	1,8	0,1	1,8	0,1
Provisions for liabilities and charges	4,4	0,3	5,6	0,4	5,6	0,4
Long-term liabilities	309,8	20,8	322,6	20,8	322,6	20,8
Short-term liabilities	128,6	8,6	140,6	9,1	140,6	9,1
Total	1 489,1	100,0	1 548,5	100,0	1 548,5	100,0

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KEY FIGURES		IVQ / 2003	IIIQ / 2003	IIQ / 2003	IQ / 2003	IVQ / 2002
TURNOVER	MEUR	247,7	263,7	252,4	242,6	250,9
OPERATING MARGIN	MEUR	38,4	54,2	59,2	43,3	45,5
OPERATING PROFIT	MEUR	10,4	26,5	31,9	15,4	18,3
PROFIT BEFORE EXTRAORDINARY ITEMS	MEUR	7,7	25,1	30,9	15,3	18,0
ROCE	%	3,6	8,7	10,4	5,3	6,0
EGUITY RATIO	%	70,3	70,5	68,9	67,9	69,6
NET GEARING	%	2,8	6,9	9,4	13,0	0,0
INVESTMENTS	MEUR	28,8	7,6	13,1	35,5	16,5