

26.04.2005

TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

Comparative IFRS figures with notes; year 2004 by quarter and opening IFRS balance sheet as of January 1, 2004 (both unaudited)

General

Finnforest changed its' financial reporting standards from Finnish Accounting Standards (FAS) to International Financial Reporting Standards (IFRS) from January 1, 2005. The transition date is January 1, 2004 and on that date Finnforest has prepared its opening IFRS balance sheet. The first interim report prepared in accordance with the accounting and valuation principles defined in IFRS will be released for the first quarter of 2005.

This release describes key changes in accounting principles and the effects of the adoption of IFRS on Finnforest's consolidated financial statements and opening IFRS balance sheet. Accounting principles under IFRS will be addressed in full in the company's annual report of 2005.

Finnforest has applied exemptions permitted by IFRS 1 "First time adoption of International Financial Reporting Standards" in the following areas:

- property, plant and equipment and intangible assets; valuation
- business combinations
- pension obligations
- financial instruments / derivative contracts
- cumulative translation differences

The transition from FAS to IFRS reporting will have an effect on the accounting treatment of such items as

- pension arrangements
- derivative contracts
- asset revaluations
- deferred taxes
- finance leases and other similar contracts
- business combinations

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Application of certain exemptions as permitted by IFRS 1 (First-time adoption of International Financial Reporting Standards)

1. Presentation of comparative data

Finnforest will prepare and release its first annual financial statements under IFRS for year ending December 31, 2005. As permitted by IFRS 1 the company shall present one year of comparative data (year 2004) for the income statement, balance sheet, cash flow statement and shareholders' equity, as well as for the notes to the financial statements.

2. Property, plant and equipment

In the opening IFRS balance sheet Finnforest has valued its property, plant and equipment at cost less accumulated depreciation and impairment, added with revaluations made under FAS as permitted under IFRS 1.

3. Intangible assets

Finnforest's intangible assets are included in its opening IFRS balance sheet at cost less accumulated amortisation and impairment.

4. Business combinations

Finnforest has applied an exemption permitted under IFRS 1 with respect to business combinations in preparing its opening IFRS balance sheet. The assets and liabilities of subsidiaries have not been restated retrospectively at their fair value but have been included in the opening IFRS balance sheet at their book value under previously applied accounting standards (FAS), less impairment losses recognised on the balance sheet date.

5. Pension obligations

Finnforest has elected an exemption to recognise all cumulative actuarial gains and losses relating to its defined benefit pension plans in the opening IFRS balance sheet. The 10 percent "corridor approach" as defined in IAS 19 is applied to actuarial gains and losses arising after the transition date.

6. Financial instruments/derivative contracts

Finnforest has applied an exemption allowed by IFRS 1, and has classified financial instruments in the opening IFRS balance sheet in accordance with the requirements under IAS 32 (Financial Instruments: Disclosure and Presentation) and IAS 39 (Financial Instruments: Recognition and Measurement). Gains and losses arising from the fair value measurement of

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derivative contracts established to hedge financial assets and liabilities and currency and interest rate exposures have thus been recognised in the shareholders' equity on the opening IFRS balance sheet.

7. Cumulative translation differences

Finnforest applies the transitional option of IFRS 1, and assumes that no cumulative translation differences exist on the transition date. This means that cumulative exchange differences arising from the translation of the financial statements of foreign subsidiaries into euro have been included in retained earnings at the date of transition.

Changes in accounting principles and their impacts

1. Employee benefits (IAS 19)

Under FAS pension expenses have been recognised on the consolidated financial statements in accordance with the local accounting practice in countries where Finnforest operates. IFRS requires that pension arrangements are classified as either defined contribution or defined benefit plans. In the case of latter the plan's assets and liabilities are calculated using actuarial methods and the difference between them is recognised as either an asset or liability on the balance sheet.

Under FAS, the Finnish employee pension plan (TEL) was regarded as a defined contribution plan. According to the original IFRS interpretation the disability element of TEL was considered as a defined contribution plan. In December 2004, Finnish authorities approved changes regarding the principles applied in calculating disability pension contributions that will take effect on January 1, 2006. As a consequence of the changes, the TEL pension arrangement as whole (incl. disability element) will be classified as defined contribution plan. Finnforest's opening IFRS balance sheet includes TEL disability pension liabilities for the years 2004 and 2005 in the amount of EUR 2.4 million (EUR 1.7 million after tax) and the balance sheet as of December 31, 2004 EUR 1.7 million for 2005 (EUR 1.3 million after tax).

A total of EUR 12.5 million of the pension liabilities of foreign subsidiaries have been recognised on the opening IFRS balance sheet. The negative impact of this on the shareholders' equity was EUR 9.4 million, net of taxes. A total of EUR 13.4 million of the pension liabilities have been recognised on the 31.12.2004 balance sheet (impact on equity EUR 9.7 million net of taxes).

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2. Business combinations (IFRS 3)

IFRS 3 requires that any goodwill arising from business acquisitions should be recorded at cost less accumulated impairment losses. Goodwill is not to be amortised after the adoption of IFRS, but instead must be tested for impairment on an annual basis. Since Finnforest has applied transitional option permitted by IFRS and thus has not restated the effects of business acquisitions retrospectively, goodwill has been recognised on the opening IFRS balance sheet at cost, net of accumulated amortizations up to the date of transition and impairment losses recognised on the date of transition.

Total goodwill included in the opening IFRS balance sheet was EUR 49.3 million, and EUR 46.4 million in the balance sheet as of December 31, 2004. The reduction is mainly due to the sale of the 9.8% holding in Moelven Industrier in summer 2004 as well as to goodwill impairment losses resulting from the Wood Products Industry business area. Goodwill amortisation made under FAS in 2004 totalled EUR 8.2 million. Goodwill has been allocated to business segments.

In the end of 2004, Finnforest sold seven power plants to Biokraft, an energy company that is jointly owned by Vapo (81%) and Finnforest (19%). A 10-year energy supply agreement for Finnforest's production plants has been signed.

In the IFRS balance sheet as of 31.12.2004, Finnforest included Biokraft as a 100 per cent-owned subsidiary. However, the equity share of the other main owner is recognised as interest-bearing liability. (Biokraft is treated as Special Purpose Entity). In the FAS reporting of December 31, 2004, Biokraft was treated as an extra-group company.

The negative impact that Biokraft's treatment had on the 2004 IFRS result amounted to EUR 16.7 million, after tax impact and minority interest. This increased the balance sheet total by EUR 18.1 million and interest-bearing liabilities by EUR 29.0 million.

3. Impairment of assets (IAS 36)

Finnforest tests the value of assets of its cash generating units for possible impairment using the discounted future cash flow method. Tests are performed annually or whenever there is an indication that the unit may be impaired, as required by IAS 36. Based on the tests the company has recognised impairment losses of EUR 0.6 million in the transition date balance sheet. The impairment is allocated to the Distribution business area's goodwill.

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The annual impairment tests performed for the cash generating units did not result in requirement for recognition of impairment losses in the financial statements of 2004.

The definition of cash-generating units employed in the impairment testing of assets is based on the business segmentation used as a basis for segment reporting.

4. Income taxes (IAS 12)

Under FAS it was permitted alternative approaches to the recognition of deferred tax liabilities and assets. Under the approach applied by Finnforest, deferred taxes have not been recognised on all taxable temporary differences between the financial statements and tax basis of assets and liabilities. IFRS requires the recognition of deferred tax liabilities for all temporary taxable differences. Divergences between Finnish and IFRS reporting practices for taxable temporary differences have given rise to a EUR 1.8 million deferred tax liability on the opening IFRS balance sheet. A deferred tax asset of EUR 6.6 million has been recorded, in turn, on the opening IFRS balance sheet for the IFRS adjustments with the negative impact on shareholders' equity.

5. Financial instruments (IAS 32, IAS 39)

In the transition IFRS balance sheet Finnforest has classified and valued its financial assets and liabilities as well as derivative contracts made to hedge currency and interest rate exposure according to the requirements under IAS 32 and IAS 39. Under FAS the company also has reported currency derivatives at their market value but recognised related hedging income or losses over the remaining hedging period. The company has decided to discontinue the application of hedge accounting (recognition of hedging profits and losses over the hedging period) in hedging its currency flow upon the adoption of IFRS. Finnforest will continue to enter into derivative contracts to hedge its cash flows, but will now recognise any income or losses relating to the measurement at fair value of such contracts directly on the income statement. However, hedge accounting will be applied to equity hedging and in selected cases in hedging of interest rate exposure related to financial liabilities.

Open interest rate derivative contracts have not been measured at fair value under FAS and are thus not recognised on the balance sheet.

The valuation at fair value of financial instruments resulted in a negative net effect of EUR 2.5 million on shareholders' equity on the opening IFRS balance sheet.

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Under FAS, where hedge accounting has been applied to currency derivatives, hedging income and losses have been recognised as adjustments to sales, cost of goods sold or financing expenses depending on the item hedged. As the company has discontinued the application of hedge accounting, all exchange rate differences have been recognised as financing items on the IFRS income statement.

6. Net sales

Reported net sales in 2004 were EUR 1.7 million lower under IFRS than under FAS. EUR 1.4 million of this amount is due to changes in the treatment of currency exchange differences, and EUR 0.3 million is due to the 100 per cent inclusion of Biokraft in the IFRS consolidated financial statements as of December 1, 2004.

7. Interest-bearing net liabilities

Some pension liabilities of foreign subsidiaries have been transferred from interest-bearing liabilities to pension liabilities on the opening IFRS balance sheet. Under FAS these liabilities were included in the interest-bearing liabilities but under IFRS they are considered as non-interest bearing obligations. The transferred amount totalled EUR 8.0 million on January 1, 2004 and EUR 9.2 million on December 31, 2004.

8. Cash flow statements

Finnforest has not prepared reconciliation of consolidated cash flow statement since the adoption of IFRS does not have material effect on that.

Reconciliation of shareholders' equity

EUR million	31 Dec 2004	1 Jan 2004
Shareholders' equity according to FAS	311.4	304.7
Effects of adopting IFRS		
Pension obligations	-15.4	-15.6
Impairment losses	-0.6	-0.6
Reversal of goodwill amortizations	8.0	0.0
Financial instruments	-8.7	-3.6
Biokraft Oy treated as subsidiary	-22.6	0.0
Deferred taxes on IFRS adjustments	11.1	3.7
Other	1.1	-0.1
Shareholders' equity according to IFRS	284.2	288.7
Difference	-27.1	-16.1

Reconciliation of net profit for the period

EUR million	Jan-Dec, 2004	Jan-Sep, 2004	Jan-Jun, 2004	Jan-Mar, 2004
Profit according to FAS	3.2	-10.8	-3.4	-5.2
Effects of adopting IFRS				
Pension obligations	0.2	0.3	0.1	0.0
Impairment losses	0.0	0.0	0.0	0.0
Reversal of goodwill amortizations	8.0	6.0	4.1	2.1
Financial instruments	-5.2	-3.4	-2.2	-8.0
Biokraft Oy treated as subsidiary	-22.6	0.0	0.0	0.0
Deferred taxes on IFRS adjustments	7.4	0.7	0.1	2.3
Other	0.7	0.6	0.6	-0.1
Profit according to IFRS	-8.4	-6.7	-0.7	-8.7

Consolidated income statement and balance sheet

CONSOLIDATED INCOME STATEMENT EUR Million	Jan-Dec, 2004			Jan-Sep, 2004		
	FAS	Effects of transition	IFRS	FAS	Effects of transition	IFRS
Net sales	1,924.3	-1.7	1,922.6	1,456.6	-0.1	1,456.5
Other operating income	37.0	-22.7	14.2	11.3	0.0	11.3
Operating expenses	-1,844.3	1.6	-1,842.7	-1,389.0	0.5	-1,388.4
Share of results in associated companies	-0.4	0.4	0.0	-0.3	0.3	0.0
Depreciation and impairment losses	-79.1	8.0	-71.1	-59.2	6.2	-53.0
Operating profit	37.5	-14.5	23.0	19.5	7.0	26.5
Share of results in associated companies	0.0	-0.4	-0.4	0.0	-0.3	-0.3
Net exchange gains and losses	0.2	-0.2	0.0	0.2	-2.2	-2.0
Other financial income and expenses, net	-34.2	-3.9	-38.1	-26.0	-1.1	-27.0
Group contribution	5.0	0.0	5.0	0.0	0.0	0.0
Profit before tax and minority interest	8.5	-19.0	-10.5	-6.3	3.4	-2.8
Income taxes	-5.9	7.3	1.4	-3.6	0.7	-2.9
Minority interest	0.5	0.2	0.7	-1.0	0.0	-0.9
Profit/loss for the period	3.2	-11.5	-8.4	-10.8	4.2	-6.7

CONSOLIDATED INCOME STATEMENT EUR Million	Jan-Jun, 2004			Jan-Mar, 2004		
	FAS	Effects of transition	IFRS	FAS	Effects of transition	IFRS
Net sales	999.0	0.0	999.0	470.6	-0.7	469.9
Other operating income	9.3	0.0	9.3	4.0	0.0	4.0
Operating expenses	-952.3	0.3	-952.0	-450.2	0.2	-450.0
Share of results in associated companies	-0.3	0.3	0.0	-0.2	0.2	0.0
Depreciation and impairment losses	-39.6	4.2	-35.4	-19.1	2.2	-17.0
Operating profit	16.0	4.8	20.8	5.0	1.9	6.9
Share of results in associated companies	0.0	-0.3	-0.3	0.0	-0.2	-0.2
Net exchange gains and losses	0.3	-3.7	-3.3	0.3	-3.5	-3.2
Other financial income and expenses, net	-17.6	1.5	-16.1	-9.1	-4.8	-13.9
Group contribution	0.0	0.0	0.0	0.0	0.0	0.0
Profit before tax and minority interest	-1.3	2.4	1.1	-3.8	-6.6	-10.4
Income taxes	-1.4	0.0	-1.4	-1.6	2.6	1.0
Minority interest	-0.7	0.3	-0.4	0.2	0.5	0.7
Profit/loss for the period	-3.4	2.7	-0.7	-5.2	-3.5	-8.7

31 Dec 2004			31 Dec 2003			1 Jan 2004
CONSOLIDATED BALANCE SHEET			Effects of transition to IFRS			Effects of transition to IFRS
EUR Million	FAS	IFRS	FAS	IFRS	IFRS	IFRS
ASSETS						
Non-current assets						
Intangible assets	48.5	7.6	56.1	60.6	-0.5	60.0
Tangible assets	475.6	17.1	492.7	468.6	-0.1	468.4
Financial assets						
Interest bearing	14.4	-7.8	6.6	10.6	-4.3	6.3
Deferred tax receivables	3.6	13.6	17.2	3.7	6.6	10.3
Other non-interest bearing	11.1	-1.1	10.0	9.5	0.3	9.8
	553.1	29.4	582.5	553.0	1.8	554.8
Current assets						
Inventories	326.6	0.0	326.6	322.0	0.0	321.9
Receivables						
Interest bearing	13.6	0.0	13.6	0.7	0.0	0.7
Non-interest bearing	333.5	-0.2	333.3	300.2	2.9	303.1
Cash and cash equivalents	24.5	0.0	24.5	19.7	0.0	19.7
	698.2	-0.2	698.0	642.6	2.9	645.4
Total assets	1,251.3	29.2	1,280.6	1,195.5	4.7	1,200.2
SHAREHOLDERS' EQUITY AND LIABILITIES						
Shareholders' equity						
Shareholders' equity	311.4	-27.1	284.2	304.7	-16.1	288.7
Minority interest	63.5	-2.9	60.6	44.1	-2.8	41.3
Total equity	374.9	-30.0	344.9	348.9	-18.9	330.0
Non-current liabilities						
Deferred tax liabilities	37.9	1.4	39.3	32.4	1.8	34.2
Pension obligations	2.4	24.3	26.7	2.4	22.9	25.3
Provisions	0.4	0.0	0.4	1.6	0.0	1.6
Interest bearing	519.2	23.3	542.5	502.4	-8.8	493.6
Other non-interest bearing	4.0	0.0	4.0	2.1	0.0	2.1
	563.9	49.0	612.9	540.9	15.8	556.8
Current liabilities						
Interest bearing	118.7	2.2	121.0	138.3	3.3	141.6
Non-interest bearing	193.8	8.0	201.8	167.5	4.5	171.9
	312.6	10.2	322.8	305.8	7.7	313.5
Total liabilities	876.4	59.3	935.7	846.7	23.6	870.3
Total shareholders' equity and liabilities	1,251.3	29.2	1,280.6	1,195.5	4.7	1,200.2

		31 Mar 2004	31 Dec 2003	1 Jan 2004	
EUR Million		FAS	IFRS	FAS	IFRS
CONSOLIDATED BALANCE SHEET					
ASSETS					
Non-current assets					
Intangible assets		59.0	60.6	60.6	60.0
Tangible assets		505.3	505.2	468.6	468.4
Financial assets					
Interest bearing		11.1	7.0	10.6	6.3
Deferred tax receivables		5.3	14.6	3.7	10.3
Other non-interest bearing		9.3	9.3	9.5	9.8
		590.1	596.7	553.0	554.8
Current assets					
Inventories		362.2	362.2	322.0	321.9
Receivables					
Interest bearing		0.8	0.8	0.7	0.7
Non-interest bearing		379.0	377.6	300.2	303.1
Cash and cash equivalents		23.0	23.0	19.7	19.7
		765.1	763.6	642.6	645.4
Total assets		1,355.1	1,360.3	1,195.5	1,200.2
SHAREHOLDERS' EQUITY AND LIABILITIES					
Shareholders' equity		303.2	284.9	304.7	288.7
Minority interest		48.6	45.3	44.1	41.3
Total equity		351.8	330.2	348.9	330.0
Non-current liabilities					
Deferred tax liabilities		33.0	34.7	32.4	34.2
Pension obligations		1.9	25.6	2.4	25.3
Provisions		0.6	0.6	1.6	1.6
Interest bearing		579.3	570.2	502.4	493.6
Other non-interest bearing		6.8	6.8	2.1	2.1
		621.6	637.9	540.9	556.8
Current liabilities					
Interest bearing		163.7	163.7	138.3	141.6
Non-interest bearing		218.0	228.5	167.5	171.9
		381.7	392.3	305.8	313.5
Total liabilities		1,003.3	1,030.1	846.7	870.3
Total shareholders' equity and liabilities		1,355.1	1,360.3	1,195.5	1,200.2

Jan-Dec, 2004 Jan-Sep, 2004 Jan-Jun, 2004 Jan-Mar, 2004

KEY FIGURES

Year 2004	FAS	IFRS	FAS	IFRS	FAS	IFRS	FAS	IFRS
Operating profit, EUR million	37.5	23.0	19.5	26.5	16.0	20.8	5.0	6.9
Profit/loss for the period, EUR million	3.2	-8.4	-10.8	-6.7	-3.4	-0.7	-5.2	-8.7
Equity attributable to shareholders of parent company at the end of the period, EUR million	311.4	284.2	298.4	287.7	306.2	294.9	303.2	284.9
Net interest bearing liabilities at the end of the period, EUR million	591.8	618.7	620.2	612.4	663.7	656.8	710.8	703.1
Total assets at the end of the period, EUR million	1,251.3	1,280.6	1,277.5	1,285.9	1,321.1	1,326.3	1,355.1	1,360.3
Return on capital employed, %	4.0	2.5	2.8	3.7	3.4	4.3	2.1	2.8
Equity ratio, %	30.0	27.0	28.5	27.2	28.0	26.8	26.0	24.3
Gearing, %	163.5	179.4	177.2	175.3	181.7	184.8	204.6	213.0

Opening balance sheet 1 Jan 2004	FAS	IFRS
Shareholders' equity, EUR million	304.7	288.7
Net interest bearing liabilities, EUR million	612.2	608.5
Total assets, EUR million	1,195.5	1,200.2
Equity ratio, %	29.2	27.5
Gearing, %	178.0	184.4

Computation of key figures

Return on capital employed, % = (Operating profit + share of results in associated companies + interest and other financial income / Capital employed (average)) x 100

Capital employed = Total assets - non interest bearing liabilities

Interest-bearing net liabilities = Interest-bearing liabilities - interest-bearing assets

Equity ratio, % = (Equity / Total assets - advance payment received) x 100

Gearing, % = (Interest-bearing net liabilities / Equity) x 100

Equity = Shareholders' equity + minority interest

Segment information

Jan-Dec, 2004		
Net sales by segments		
EUR million	FAS	IFRS
Wood Product Industry	1,044.8	1,038.6
Distribution	808.3	808.3
Building	321.5	321.3
Other	1.7	0.5
Eliminations	-252.0	-246.1
Total	1,924.3	1,922.6

Jan-Dec, 2004		
Operating profit by segments		
EUR million	FAS	IFRS
Wood Product Industry	1.3	4.1
Distribution	16.6	17.6
Building	9.6	11.1
Other	9.9	-9.8
Total	37.5	23.0

Jan-Dec, 2004		
Depreciation and impairment losses by segments		
EUR million	FAS	IFRS
Wood Product Industry	43.8	42.1
Distribution	15.9	13.8
Building	12.8	11.7
Other	6.6	3.5
Total	79.1	71.1

Quarterly information by segments

	Oct-Dec, 2004	Jul-Sep, 2004	Apr-Jun, 2004	Jan-Mar, 2004
CONSOLIDATED INCOME STATEMENT				
EUR million	IFRS	IFRS	IFRS	IFRS
Net sales by segments				
Wood Product Industry	252.9	229.6	287.2	268.1
Distribution	185.2	208.0	221.8	193.3
Building	86.3	75.5	87.3	72.2
Other	0.1	0.1	0.1	0.2
Eliminations	-58.4	-55.6	-67.4	-63.9
Total net sales	466.0	457.5	529.1	469.9
Operating profit by segments				
Wood Product Industry	-3.7	-1.9	4.9	4.9
Distribution	0.2	6.0	7.7	3.8
Building	1.9	4.2	3.0	2.1
Other	-1.8	-2.6	-1.6	-3.8
Total operating profit	-3.5	5.7	13.9	6.9
Share of results in associated companies	-0.2	0.0	-0.1	-0.2
Net exchange gains and losses	2.0	1.3	-0.1	-3.2
Other financial income and expenses, net	-11.1	-10.9	-2.2	-13.9
Group contribution	5.0	0.0	0.0	0.0
Profit before tax and minority interest	-7.7	-3.9	11.5	-10.4
Income taxes	4.3	-1.5	-2.3	1.0
Minority interest	1.7	-0.5	-1.1	0.7
Profit/loss for the period	-1.7	-6.0	8.0	-8.7

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