

Communications

27 October 2003

Botnia's Interim Report for 1 January – 30 September 2003**PULP MARKETS PICKING UP SLIGHTLY**

- **Turnover EUR 758.7 million (782.6 million for January - September 2002)**
- **Operating profit EUR 73.8 million (135.5 million)**
- **Profit before extraordinary items EUR 71.3 million (132.5 million)**
- **Investments EUR 56.2 million (41.4 million)**
- **Return on capital employed 7.9% (13.5%)**
- **Equity ratio 70.5% (68.6%)**

Profit for January – September weaker than a year ago

The weakening of the US dollar reduced Botnia's profitability for the nine months January – September. Profit after financial items was EUR 71.3 million, down 46.2 per cent on this period last year. The exchange rate for the dollar was on average 20 per cent lower than for January – September 2002. Turnover was EUR 758.7 million, 3.1 per cent down on last year's corresponding figure of EUR 782.6 million. Turnover was also reduced by the sale of the linerboard business at the beginning of April 2002.

Pulp sales rose by 7.8 per cent, or 129,966 tonnes, to 1,802,336 tonnes (1,672,370). Foreign currency prices for softwood pulp averaged 12 per cent higher than for the same period a year ago. Euro-denominated hardwood pulp prices, on the other hand, were around 7 per cent lower. Pulp production for January – September totalled 1,816,585 tonnes (1,719,753).

Profit also down compared with previous quarter

Third-quarter profitability was weaker than for the second quarter, but was nevertheless much better than for the first quarter. Profit after financial items was down 18.8 per cent on the second quarter at EUR 25.1 million. Market prices for both softwood and hardwood pulps were 6 per cent lower than during the previous quarter. Sales volumes, on the other hand, were up 13.7 per cent on the previous quarter at 641,017 tonnes. The dollar was on average one percentage point stronger than in the second quarter.

Pulp prices showing slight rise

Wood shortages resulting from adverse weather conditions, mainly in the southern states of the USA, curtailed pulp production there during the period January – March, bringing supply and demand into balance on world pulp markets. Norscan pulp stocks (Scandinavia and North America) stood at 1.5 million tonnes during the first quarter but began to rise in April and reached 1.68 million tonnes by the end of September.

Pulp has been in good demand in Asia and North America this autumn. Demand has also picked up slightly in Europe. Supply is being curtailed by autumn shutdowns for maintenance work. The weakening of the US dollar has hit the price competitiveness of European producers.

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The price of softwood pulp rose from USD 440/tonne in January to USD 560 in April. Prices began to come under pressure in May, falling to USD 510 in August, since when they have started to rise. The September price was USD 530, and price rises to USD 545-560 have been announced for October. Hardwood pulp prices started the year at EUR 435/tonne, rose to EUR 490 in April and fell to EUR 440 in June. In September the price was USD 510.

Investment

Only small investments were made in Botnia's Finnish operations during the review period. The investment in unbleached pulp washing at the Kemi mill has improved pulp quality, cost effectiveness, bleached pulp capacity and the state of the local environment. Expansion of evaporation capacity at Kaskinen will improve cost effectiveness and protection of the environment.

Business structure

Botnia is planning to build two sawmills in Russia. It is intended to build one of these in Podporozhje in the Leningrad region, some 300 km northeast of St. Petersburg, 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.

The sawmill to be built at Podporozhje will be of medium size with an annual capacity of some 300,000 cubic metres. Construction will begin as soon as the investment decision has been made and the necessary contracts and permits with the local and regional authorities have been agreed. It is planned to start production at the sawmill during 2005. UPM-Kymmene and Metsäliitto will be jointly responsible for wood procurement. The products will be marketed by UPM-Kymmene and Metsäliitto.

In March, Botnia purchased a 60 per cent stake in the Uruguayan company Compañía Forestal Oriental S.A. (Fosa) from Shell International Renewables BV (Shell). The remaining Fosa shares are owned by UPM-Kymmene Corporation (38.38%) and Finnfund (1.62%).

Fosa owns around 50,000 hectares of land in the west of Uruguay, of which 32,000 hectares is good-quality eucalyptus forest planted on grassland. Fosa's harvesting volumes are growing, and by the end of this decade the company will be capable of producing around one million cubic metres of good-quality short-fibre raw material.

Botnia is to begin studying the possibility of starting pulp production in Uruguay, and has set up a company called Botnia S.A. for this purpose.

Botnia's first step will be to begin, in November, an environmental impact assessment for the pulp mill and to evaluate 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 when all the necessary investigations are complete and the relevant permits granted. In addition to these permits, the timetable depends on the owner companies' fibre needs and the general economic situation.

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

Outlook

There are positive signs on pulp markets, with both demand and shipments having risen in recent weeks. Wood raw material shortages in the southern states of the USA and Canada could reduce pulp supplies further during the final quarter. Pulp sales to Chinese buyers have been brisk during the third quarter but could tail off early in the final quarter and perhaps pick up again around the turn of the year.

Financial results for the second half of the year are likely to be about the same as for the first half. The result for the year as a whole is expected to be weaker than for 2002.

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PROFIT AND LOSS ACCOUNT (EUR million)	1-9/2003	%	1-9/02	%	Change	%	1-12/02	%
Turnover	758,7	100,0	782,6	100,0	-23,9	-3,1	1 033,5	100,0
Interest in associated companies	0,1		0,2		0,0		0,2	
Other operating income	17,5		20,1		-2,6		25,1	
Operating expenses	619,6		582,9		-36,7		793,2	
Depreciation	82,9		84,5		1,6		111,7	
Operating profit	73,8	9,7	135,5	17,3	-61,7	-45,6	153,8	14,9
Net exchange gains/losses	1,4		1,8		-0,4		2,2	
Other financial income and expenses	-3,9	-0,3	-4,9	-0,4	1,0	0,0	-5,5	-0,3
Profit before extraordinary items	71,3	9,4	132,5	16,9	-61,2	-46,2	150,5	14,6
Extraordinary items	0,0		0,0		0,0		0,0	
Profit before taxes and minority interest	71,3	9,4	132,5	16,9	-61,2	-46,2	150,5	14,6
Taxes	-21,0		-38,4		17,4		-43,4	
Minority interest	-0,1		-0,5		0,5		-0,8	
Profit for the period	50,3	6,6	93,6	12,0	-43,3	-46,3	106,2	10,3

BALANCE SHEET (EUR million)	9/2003	%	9/2002	%	12/2002	%
Assets						
Fixed assets	1 199,2	80,3	1 200,9	77,2	1 190,4	76,7
Current assets						
Inventories	128,5	8,6	117,8	7,6	133,4	8,6
Other current assets	149,8	10,0	169,8	10,9	157,3	10,1
Liquid funds	16,3	1,1	67,3	4,3	71,8	4,6
Total	1 493,8	100,0	1 555,9	100,0	1 552,9	100,0
Liabilities						
Shareholders' equity	1 024,1	68,6	1 065,2	68,5	1 077,9	69,4
Minority interest	26,4	1,8	1,5	0,1	1,8	0,1
Provisions for liabilities and charges	5,5	0,4	4,8	0,3	5,6	0,4
Long-term liabilities	319,9	21,4	346,7	22,3	327,0	21,1
Short-term liabilities	117,9	7,9	137,6	8,8	140,6	9,1
Total	1 493,8	100,0	1 555,9	100,0	1 552,9	100,0

QUARTAL NUMBERS		IIIQ / 2003	IIQ / 2003	IQ / 2003	IVQ / 2002	IIIQ / 2002
TURNOVER	MEUR	263,7	252,4	242,6	250,9	269,9
OPERATING MARGIN	MEUR	54,2	59,2	43,3	45,5	85,8
OPERATING PROFIT	MEUR	26,5	31,9	15,4	18,3	58,7
PROFIT BEFORE EXTRAORDINARY ITEMS	MEUR	25,1	30,9	15,3	18,0	58,2
ROCE	%	8,7	10,4	5,3	6,0	18,2
EGUITY RATIO	%	70,5	68,9	67,9	69,6	68,6
NET GEARING	%	6,9	9,4	13,0	0,0	3,1
INVESTMENTS	MEUR	7,6	13,1	35,5	16,5	25,4