

28.10.2005 at 13.00

**INTERIM REPORT OF THE FINNFOREST CORPORATION 1-9/2005**  
(unaudited)

- Net sales €1,488.9 million (1,456.5)
- Operating profit €17.2 million (26.5)
- Profit before taxes €-9.8 million (-2.8)
- Return on capital employed 2.4% (3.7)
- Equity ratio 30.2% (27.2) and net gearing 145% (175)

€millions	1-9 /05	1-9 /04	1-12 /04
Net sales	1,488.9	1,456.5	1,922.6
Operating profit	17.2	26.5	23.0
%	1.2%	1.8%	1.2%
Profit before taxes	-9.8	-2.8	-10.5
Profit for financial period	-12.7	-6.7	-8.4
Return on capital employed, %	2.4	3.7	2.5
Equity ratio, %	30.2	27.2	27.0
Net gearing, %	145	175	179
Interest-bearing net liabilities	560	612	619
Gross investment	35	50	85
Personnel at end of period	8,036	8,072	7,998

**Transition to international financial reporting standards (IFRS)**

Finnforest Corporation has adopted the accounting principles of IFRS on the Corporation's financial reporting since the beginning of 2005. More information and detailed descriptions of the effects the transition had to the Corporation's balance sheet and consolidated financial statements can be read at [www.finnforest.com](http://www.finnforest.com) , "Financial Reporting".

**Finnforest's 1-9/2005 net sales, result and financial position compared with the corresponding period of 2004**

The Corporation's net sales increased by €32.4 million from the corresponding period of the previous year and were €1,488.9 million (1,456.5). A labour market dispute resulted in smaller delivery volumes and lower prices fetched for sawn timber, causing Wood Products Industry's net sales to fall from the previous year. Building & Construction's net sales increased by over 10% from the previous year following growth in building systems and projects sales volumes.

The operating profit was €17.2 million, which is €9.3 million less than in the corresponding period of 2004 (26.5). Profitability weakened significantly in Wood Products Industry, which, in addition to the falling

profitability of its sawmilling operations, suffered loss of revenue and extra costs to the tune of €5 million because of last summer's work stoppages. Distribution's profitability weakened slightly. Growth in the UK DIY segment halted and a slump in the German construction sector added to losses. Significant efficiency-enhancing measures in Sweden and Norway slowed down the deterioration in profitability, however. Building & Construction's operating profit improved by a third from the previous year; better profitability and higher production volumes of construction products were key factors behind this positive development.

Finnforest's January-September loss before taxes was €9.8 million. Compared with the corresponding period of 2004, the loss before taxes increased by €7.0 million.

The return on capital employed fell from the corresponding period of the previous year to 2.4% (3.7). The Corporation's liquid assets and investments totalled €22.6 million (23.9) at the close of the period.

At the end of the period under review, the equity ratio was 30.2% (27.2) and net gearing 145% (175).

## Personnel

Finnforest Corporation employed 8,036 (8,072) people at the end of September: 2,561 (2,579) in Finland, 1,689 (1,657) in Norway, 1,485 (1,533) in Sweden, 962 (957) in the UK and a total of 1,339 (1,346) in other countries.

## Business groups: developments and market situation

### Wood Products Industry

€millions	I-III / 05	I-III / 04	€millions	III/ 05	II/ 05	I/ 05	IV/ 04	III/ 04	II/ 04	I/ 04	I-IV/ 04
Net sales	772.7	784.9	Net sales	222.9	288.8	261.0	252.9	229.6	287.2	268.1	<b>1,037.8</b>
Operating profit	-7.1	7.8	Operating profit	-5.2	1.3	-3.3	-3.7	-1.9	4.9	4.8	<b>4.1</b>
%	-0.9	1.0	%	-2.3	0.4	-1.3	-1.5	-0.8	1.7	1.8	<b>0.4</b>
ROCE, %	-1.4	2.0	ROCE, %	-0.9	1.5	-2.1	-1.1	-1.5	0.0	3.5	<b>0.9</b>
Production, 1,000 m <sup>3</sup>	3,242.4	3,380.7	Production, 1,000 m <sup>3</sup>	895.7	1,187.1	1,159.7	1,172.2	1,095.2	1,072.1	1,213.3	<b>4,553.0</b>

Wood Products Industry's net sales did not reach the previous year's level. Due to last summer's labour dispute the sawmilling segment's June-July production volumes only reached half of the targeted level, in addition to which the sales prices of sawn timber were lower than in the previous year. The plywood production volumes remained normal.

Demand for northern softwood sawn timber remained normal in the main markets. Supply of spruce sawn timber exceeded demand. Demand for and supply of pine sawn timber moved towards equilibrium and prices began a slight rise. Demand for both birch and softwood plywood remained good and sales prices developed favourably during the period under review.

The business group's operating profit was significantly weaker than in the corresponding period of the previous year. The most central factor behind falling profitability was, in addition to the negative impact of last summer's production stoppages, the unfavourable ratio between raw materials costs and the prices fetched for both spruce and especially pine sawn timber. Successful efficiency-enhancing measures at sawmills in Sweden and Norway resulted in improved profitability compared with the corresponding period

of 2004. Plywood business performance improved, spurred on by the good profitability of softwood plywood.

### Distribution

€millions	I-III / 05	I-III / 04	€millions	III/ 05	II/ 05	I/ 05	IV/ 04	III/ 04	II/ 04	I/ 04	I-IV/ 04
Net sales	627.4	623.0	Net sales	213.0	229.3	185.1	185.2	208.0	221.8	193.3	<b>808.3</b>
Operating profit	16.6	17.4	Operating profit	5.2	8.9	2.5	0.2	6.0	7.7	3.8	<b>17.6</b>
%	2.6	2.8	%	2.4	3.9	1.4	0.1	2.9	3.5	2.0	<b>2.2</b>
ROCE, %	8.2	9.1	ROCE, %	-0.1	4.4	3.9	-2.2	0.5	3.1	5.5	<b>6.9</b>
Sales, 1,000 m <sup>3</sup>	2,135.0	2,037.7	Sales, 1,000 m <sup>3</sup>	765.0	773.5	596.5	435.9	702.3	685.5	649.9	<b>2,473.6</b>

The beginning of the year was weak for the construction sector, but later the European market became markedly livelier and demand remained good in the third quarter. Sales of DIY products in the UK started falling slightly during the period under review. Rising interest rates and deteriorating consumer confidence were factors behind this development. Sales across the entire sector are now expected to even out following many consecutive years of growth.

Sales developed favourably in France. Construction has not yet taken off as expected in Poland, but Finnforest has managed to significantly increase its market share from the corresponding period of the previous year. The Romanian operation continues to develop strongly. Finnforest is the market leader in the Czech Republic and the aim is to achieve this also in Slovakia. Tough competition in the Austrian panel products wholesaling business has been answered by shifting the emphasis of sales into industrial end-use as well as new products and systems for building.

Finnforest Deutschland continued to post a loss due to a sluggish construction market and weak consumer demand. The situation has developed favourably for the industrial end-use segment. Sales growth has continued as expected in China and elsewhere in East Asia and the Pacific region.

The business group's operating profit almost reached the previous year's level. Profitability weakened in the UK, but improved in eastern Central Europe and Scandinavia.

### Building & Construction

€millions	I-III / 05	I-III / 04	€millions	III/ 05	II/ 05	I/ 05	IV/ 04	III/ 04	II/ 04	I/ 04	I-IV/ 04
Net sales	266.5	235.0	Net sales	85.3	98.9	82.3	86.3	75.5	87.3	72.2	<b>321.3</b>
Operating profit	12.3	9.3	Operating profit	5.2	5.6	1.4	1.9	4.2	3.0	2.1	<b>11.1</b>
%	4.6	3.9	%	6.1	5.6	1.8	2.1	5.5	3.4	2.9	<b>3.5</b>
ROCE, %	10.3	8.5	ROCE, %	1.1	5.4	3.8	-0.8	1.4	1.2	6.0	<b>7.7</b>
Production, 1,000 m <sup>3</sup>	199.6	188.8	Production, 1,000 m <sup>3</sup>	68.7	68.2	62.8	64.7	60.8	61.6	66.4	<b>253.5</b>

Building & Construction's performance improved markedly from the previous year. Demand for building solutions based on Kerto LVL remained stable throughout the period under review and good profitability

development continued. Glulam is suffering from excess supply, especially in Central Europe and Japan. The building of new production capacity in Finland, Estonia and Japan will lower the prices of standard products.

In Finland, demand was good in the retail and distribution segments as well as in agricultural construction. Finnforest's project business increased its stock of orders in Germany, France, the UK and Finland, especially towards the end of the period under review. Profitability improved as well.

The main factors behind improved profits were good demand for building solutions, Kerto LVL and Moelven's systems. However, the posted result is hampered by the weak profitability development in the Hartola module business, which has not been able to meet expectations.

FMO Tapiola, the tallest wood-structured office building in Europe was inaugurated in August. The aim of the project is to promote products and solutions for building with wood. Finnforest was responsible for the design, implementation and management of the project, in addition to which the Corporation supplied and installed its wood components.

### **Use of wood raw material**

Finnforest Corporation used a total of 7.8 million cubic metres (7.8) of wood in January-September, 61% of which were spruce, 35% pine and 4% birch. Domestically sourced logs accounted for 89% of the Finnish units wood use. The majority of imports came from Russia.

### **Investment**

The Corporation's gross investment totalled €35 million (50).

Domestic investments came to a total of €20 million; investments in Scandinavia totalled €10 million and €5 million in other countries. The most significant investment decision was extending the Punkaharju Kerto LVL factory. Kerto LVL production capacity will increase from 70,000 to 130,000 cubic metres in early 2006.

### **Other events**

#### *Metsäliitto Group's structure being simplified*

The boards of directors of Metsäliitto Group, Finnforest Corporation and Metsäliitto-Yhtymän Tehdasmittaus Oy approved a plan on 27.9.2005 to merge Metsäliitto Cooperative's wholly-owned subsidiaries Finnforest Corporation and Metsäliitto-Yhtymän Tehdasmittaus Oy with the Cooperative. According to the plan, the two subsidiaries will be merged with Metsäliitto Cooperative as such and it will assume all of their assets and liabilities. The merger will have no immediate impact on the business operations or customers of the two companies or the Cooperative.

The aim of the merger is to simplify the structure of the Metsäliitto Group and the organisation of the Finnforest Corporation as well as to reduce costs.

Finnforest's President & CEO Ari Martonen resigned on 27.9. and was replaced by President & CEO of Moelven, Ole Salvén, who will also direct the Corporation's business at Metsäliitto. Timo Pekkola, who heads Wood Products Industry, was appointed Finnforest's Executive Vice President. In addition to his new duties, Ole Salvén is for the time being also President & CEO of Moelven.

Completion of the merger is estimated to take about six months; 31.3.2006 has been preliminarily set as the registering date for the merger.

*Finnforest begins statutory negotiations with personnel at the Soinlahti sawmill*

Finnforest made a proposal on 8.9 to begin statutory negotiations with the employees of the sawmill in Soinlahti. The negotiations affect all personnel groups at the production facility. The objective is to improve profitability and adjust operations to the new, more difficult conditions in the wood products market. The Soinlahti sawmill has been posting heavy losses.

**Prospects for the near future**

The prices of pine sawn timber may experience moderate growth during the last quarter of 2005 and the prices of spruce sawn timber will remain at their current level. Demand for plywood products is forecast to remain positive. The Nordic markets will remain on their current level and the situation in the German market will not improve during the end of this year. A significant improvement in profits is not expected in the near future and consequently the annual result of Finnforest Corporation will not reach last year's level.

Board of Directors  
Espoo, 28.10.2005

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APPENDICES                      Income statement and balance sheet  
Key figure charts

**Moelven ASA**

Moelven Industrier ASA, which takes care of Finnforest's Scandinavian operations, published its interim report on 28.10.2005. It is available at [www.moelven.com](http://www.moelven.com)

Find out more about our products, services and the company at [www.finnforest.fi](http://www.finnforest.fi), [www.finnforest.com](http://www.finnforest.com), [www.moelven.com](http://www.moelven.com) and [www.metsaliitto.fi](http://www.metsaliitto.fi)