BOTNIA

Annual Report 2006

BOTNIA Annual Report 2006

Table of Contents

ANNUAL REPORT 2006

Oy Metsä-Botnia Ab Subsidiaries

OY METSÄ-BOTNIA AB

Oy Metsä-Botnia Ab (marketing name Botnia) produces high-quality long- and short-fibre pulp for customers who manufacture high-quality paper and packaging products.

Botnia's pulp mills are located in Joutseno, Kaskinen, Kemi, Rauma and Äänekoski. Their combined production capacity is 2.7 million tonnes of ECF and TCF bleached pulp a year. The company has 1,900 employees, but its impact on employment in the districts where it operates is many times greater.

Some 70 per cent of Botnia's production is sold to the paper mills of its owners, while the remaining 30 per cent is sold on the markets, mainly in Europe. Pulp marketing is handled by Botnia's own marketing organisation and by sales offices in Germany and France. Botnia's representative office in China supervises sales to China and countries in Southeast Asia.

Metsäliitto Cooperative is responsible for Botnia's wood procurement. When operating at full capacity, Botnia uses more than 13 million cubic metres of raw wood per year. In 2006, 84 per cent of the wood used was grown in Finland. Botnia owns approximately 35,000 hectares of forest in Finland.

Botnia is part of the Metsäliitto Group, whose core business focuses on the forest industry. Botnia is owned 53% by the Metsäliitto Group and 47% by UPM-Kymmene Corporation.

SUBSIDIARIES

Botnia has sales offices in Germany and France: Botnia Pulps GmbH in Wiesbaden and Botnia Pulps S.A., in Paris. Most of Botnia's and M-real's market pulp is sold through these two offices, which together employed 10 people at the end of 2006.

Oy Silva Shipping Ab, established in 1920, provides stevedoring, forwarding, warehousing and clearance services at the port of Kaskinen. The company is owned by Oy Metsä-Botnia Ab. In 2006, it had a turnover of EUR 5.4 million (EUR 4.4 million in 2005). The main products handled were 758,183 cubic metres of sawn timber (799,144), 245,235 tonnes of pulp (201,055), 208,944 tonnes of BCTMP and 29,212 tonnes of other products (25,379). The number of vessel clearances totalled 521 (433). The company has 35,000 square metres of covered warehousing space (28,000) and 21 cargo handling units. At the end of 2006, it had 41 employees.

Botnia's forestry operations in Uruguay have been consolidated in a single company, Forestal Oriental. Compañia Forestal Oriental S.A. (FOSA), which was established in 1990, and Tile Forestal have been merged into Forestal Oriental. The owners of Forestal Oriental are Oy Metsä-Botnia Ab (82.1%), UPM-Kymmene Corporation (12.4%) and Metsäliitto (5.5%). Forestal Oriental specializes in the cultivation of eucalyptus trees, and it owns around 160,000 hectares of land in western Uruguay, of which 60% is under cultivation. In 2006, the company had a turnover of EUR 39.6 million, and it employed 371 people at the end of the year.

Botnia S.A. is a company that was set up at the end of 2003 and registered in Uruguay to implement the pulp mill project launched in Uruguay in spring 2005, and to be responsible for the mill's operations after its start-up. When the project is complete, Botnia S.A. will produce one million tonnes a year of eucalyptus pulp made from Uruguayan raw material. The cost of the investment is approximately USD 1.1 billion. The owners of Botnia S.A. are Oy Metsä-Botnia Ab (82.1%), UPM-Kymmene (12.4%) and Metsäliitto (5.5%).

OOO Svir Timber is a sawmilling subsidiary in Russia that is wholly-owned by Oy Metsä-Botnia Ab. Botnia's Svir Timber sawmill was completed at the turn of the year 2005–2006, and it produced 164,537 cubic metres of sawn timber in its first year of operation. The cost of the investment was approximately EUR 55 million, and the mill employed 148 people at the end of 2006.

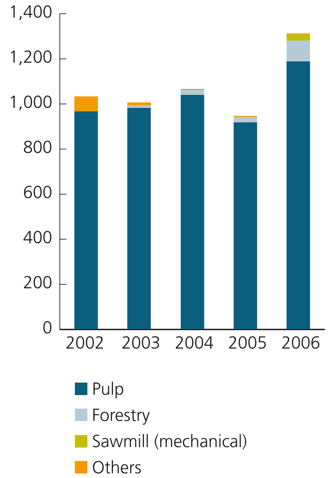
KEY FIGURES OF THE GROUP *

		2006	2005	2004	2003	2002
Sales	EUR M	1,311	947	1,066	1,006	1,034
Change	%	39	-11	6	-3	-11
Exports	%	42	37	40	37	38
EBITDA	EUR M	316	192	262	195	266
	%	24	20	25	19	26
Operating profit	EUR M	212	80	142	84	154
	%	16	8	13	8	15
Profit before extraordinary itmes	EUR M	202	80	135	79	151
Personnel at 31 Dec.		1,898	1,654	1,589	1,901	1,751
Investments	EUR M	570	289	88	85	58
Net liabilities / % of sales	%	20	8	-5	3	0
Equity ratio	%	66	72	73	70	70
Net gearing	%	20	6	-5	3	0
ROCE	%	14	6	11	7	12

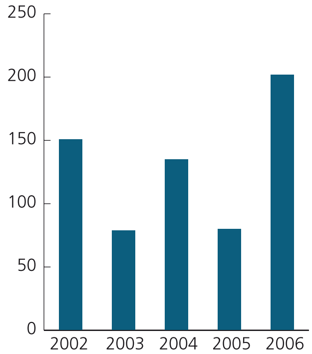
Breakdown of sales by market areas, EUR M

	2006	2005	Change %
Finland	754.9	598.4	26.2%
EU countries	286.2	230.3	24.3%
Rest of Europe	107.2	62.8	70.8%
Rest of the World	163.0	55.1	195.8%
Total	1,311.3	946.5	38.5%

Sales*
EUR M

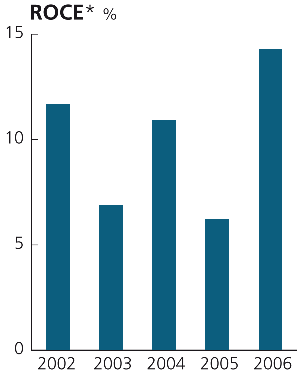


Profit before extraordinary items*
EUR M



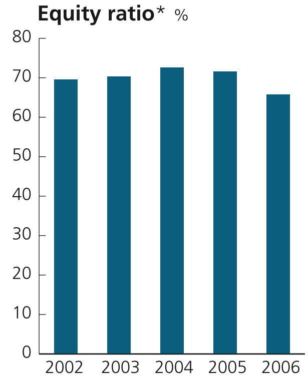
* The accounts for 2004–2006 have been drawn up in accordance with the IFRS principle and those for 2002–2003 in accordance with the Finnish Accounting System (FAS).

ROCE* %

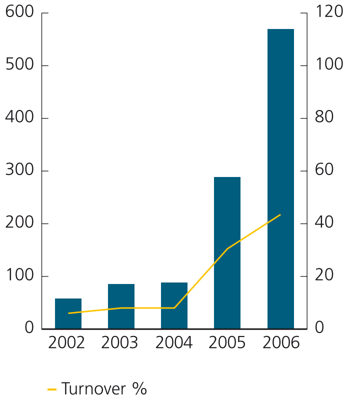


EUR M **Net gearing*** %

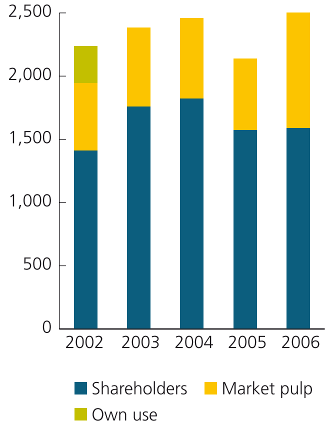
Equity ratio* %



Investments* EUR M

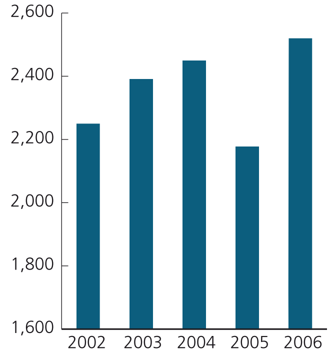


Pulp deliveries 1,000 tonnes

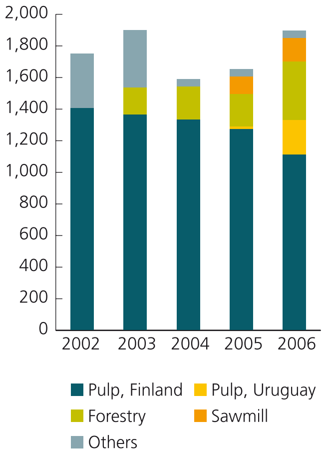


Deliveries to Kemiart moved to deliveries to shareholders in 2003. Botnia's deliveries increased by 17 per cent during 2006.

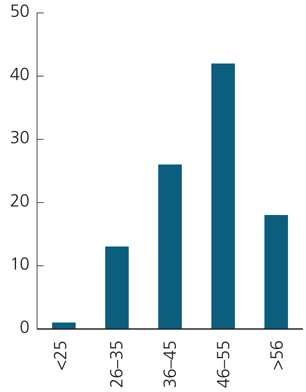
Pulp production 1,000 tonnes



Personnel

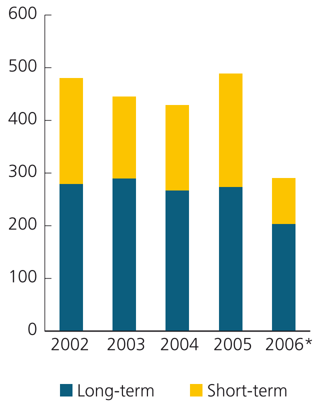


Age structure of employees* %



* Only permanent employees in Finland

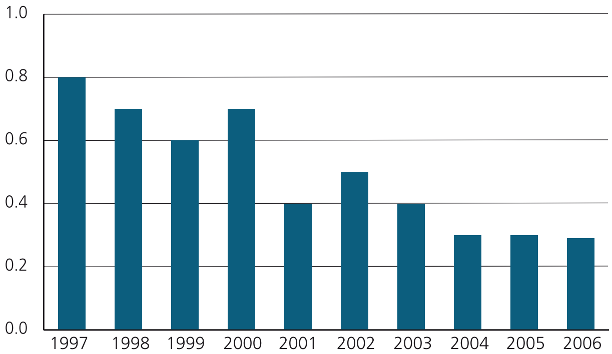
Trainees and summer workers



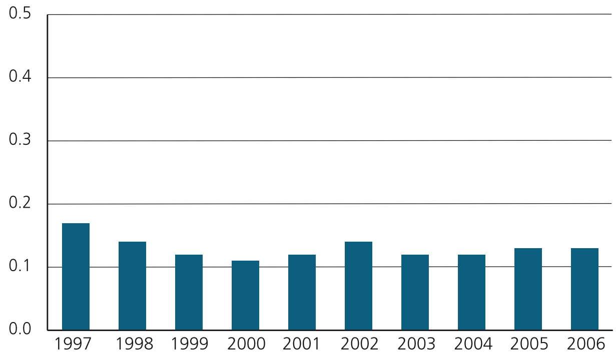
* Decrease in number is caused by the transfer of maintenance services to BMS.

TREND IN EMISSIONS AT BOTNIA'S MILLS IN 1997–2006

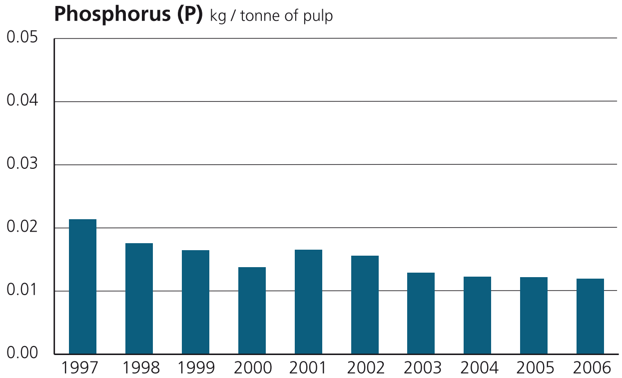
Biological oxygen demand (BOD_7) kg / tonne of pulp



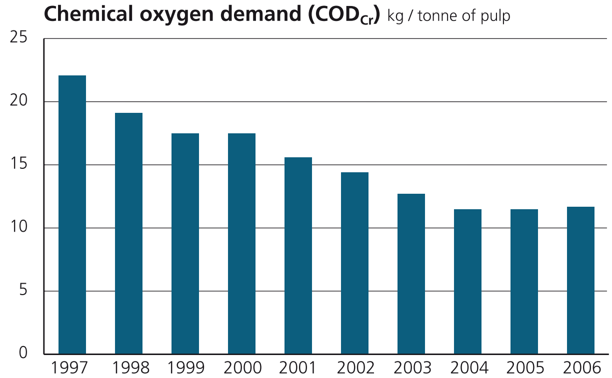
Chlorine and other halogens bound to organic material in effluent (AOX) kg / tonne of pulp



Phosphorus (P) kg / tonne of pulp



Chemical oxygen demand (COD_{Cr}) kg / tonne of pulp



The year 2006 in brief

- In January, Botnia's Uruguay-based forestry company Forestal Oriental S.A. (FOSA) purchased the remaining 50 per cent of the shares of Tile Forestal S.A. from the Otegui Group. The Otegui Group acquired a nine per cent share in Botnia S.A. During the year under review, Botnia's Uruguayan forestry operations were merged into a single company, Forestal Oriental.

- In February, Kari Jordan, President and CEO of the Metsäliitto Group, was elected Chairman of Botnia's Board of Directors. Martin Lillandt, Senior Executive Vice President of Metsäliitto Cooperative, and Heikki Malinen, Executive Vice President, Strategy, UPM, were appointed as new members of the Board of Directors.

- In March, a decision was made to develop the Rauma pulp mill's bleaching process and effluent treatment. The estimated cost of the investment is EUR 45 million.

- In April, finance group Nordea and French bank Calyon decided to act as the main arranging banks for the financing of the pulp mill project in Uruguay.

- In May, the Argentine government decided to take the dispute over Botnia's and Ence's pulp mill projects to the International Court of Justice in The Hague.

- In May, Botnia made an agreement with the World Bank's IFC (International Finance Corporation) for additional studies on the cumulative environmental impact of the pulp mills (Botnia and Ence) under construction in Fray Bentos.

- In June, Botnia's Svir Timber sawmill was inaugurated in Podporozhye, Russia.

- In June, Georgia-Pacific, one of the world's leading tissue products manufacturers, presented Botnia with its golden supplier award. (Botnia had won silver awards in 2004 and 2005).

- In July, the International Court of Justice in The Hague gave its verdict on Argentina's demands concerning the suspension of Botnia's and Ence's pulp mill projects in Uruguay. The court ruled that there were no grounds to order the projects to be suspended.

- In October, the World Bank's IFC published the final results of the Cumulative Impact Study. The study, which concerned the cumulative impact of the pulp mills under construction in Uruguay (those of Botnia and Ence), confirms that the mills do not pose a threat to the environment. The study also shows that the projects have considerable positive socio-economic and employment-enhancing effects in the region, and that they are of great significance for Uruguay's development.

- In October, a decision was made to commence a pre-feasibility study for a pulp mill in the Vologda region in Russia. It was also decided that the development of wood procurement and forest and industrial activities which had already started in the region would be continued.

- In November, the boards of directors of the World Bank's IFC and MIGA (Multilateral Investment Guarantee Agency) granted a USD 170 million loan and a guarantee of up to USD 350 million to Botnia's pulp mill project in Fray Bentos, Uruguay.

- In November, Botnia announced its willingness to treat the domestic sewage from the city of Fray Bentos in the effluent treatment plant of the pulp mill under construction in Uruguay. According to an expert report commissioned by the World Bank's IFC, treatment of the sewage from Fray Bentos in the mill's treatment plant would reduce biological oxygen consumption and coliform discharge in the river, thus improving the quality of the water.

- In November, Botnia proposed to the Latvian government that the jointly owned A/S Baltic Pulp company and the inactive pulp mill project be discontinued.

- In December, Helsinki University of Technology's Laboratory of Work Psychology and Leadership gave Botnia an award for its profit-sharing incentive scheme and the scheme's successful implementation.

- During the year under review, it was decided that the maintenance of all of Botnia's pulp mills in Finland would be transferred to Botnia Mill Service as of the beginning of 2007.

- The Rauma, Äänekoski and Joutseno mills were granted environmental permits under Finland's new Environmental Protection Act.

Strategy and management

International growth creates new opportunities for enhancing the competitive standing of Botnia and its customers. In Finland, renewal of our operating model and development of supportive expertise are designed to secure future competitiveness.

In the picture Ville Jaakonsalo, Senior Vice President, Finance and Milla Ruoho, Group Controller

REVIEW BY THE PRESIDENT AND CEO

We want to be competitive in everything we do

The past year was a good year for the pulp industry in terms of financial performance and production. Prices rose steadily, and demand was firm throughout the year in all our key markets. Production also went well, except for the short strike in the spring. Four of our five mills achieved production records. This was made possible in part by the new collective labour agreement that allows mills to operate during the traditional Christmas and Midsummer breaks.

Pulp demand was good globally, and demand and supply were in balance. Old, unprofitable pulp mills were closed down, but new mills, mostly producing eucalyptus pulp, were opened towards the end of the year. These new mills' capacity will have an impact on markets in 2007.

Asian economies continued to grow, and this affected pulp demand through the increased demand for paper products. In China for example, pulp demand grew steadily during the year.

A COMPETITIVE CONCEPT

With the construction of the Uruguay pulp mill, our company is an increasingly important player in the pulp industry. This will strengthen our competitiveness and overall position in the future.

Botnia's product portfolio is one of the most extensive in the pulp industry. We have both northern long-fibre pulp and southern short-fibre pulp, eucalyptus, at our disposal. Customers want to concentrate their pulp purchasing, and they are making bigger contracts than before. To meet this challenge, pulp producers need to have the broadest possible product portfolio.

We have systematically and determinedly developed our technical expertise in fibre development and the use of fibres, both long and short, in our customers' processes. We offer customers our own expertise to assist in their processes as part of our service package. The versatility of our service package and the breadth of our product portfolio are proof that we have made great progress in developing our business performance. We are in a strong position amongst the other players in the field.

FOCUS ON CORE COMPETENCES

We will continue to develop our extensive fibre expertise. Our new product, eucalyptus pulp, started to be produced at the Kaskinen mill during 2006. We aim to achieve the best possible understanding of how eucalyptus pulp performs in the customers' processes.

Profound fibre expertise is one of our long-term goals. By focusing on developing this core competence and improving our operations at the interface with the customers, we will strengthen our internal efficiency and thereby also our competitiveness.

We have outsourced many of our operations in order to focus on developing our core competences. A prime example of this is the outsourcing of maintenance operations. During 2006, it was decided that the maintenance of all of Botnia's five pulp mills in Finland would be transferred to Botnia Mill Service. Mill maintenance is crucial for meeting cost and quality targets. We believe that a specialist company can handle mill maintenance even more effectively than before.

At our mills we have adopted a flexible operating model based on multi-skilling, which offers each employee a broader range of responsibilities. Having a variety of professional skills helps motivate employees and improves production and cost efficiency.

AN INDUSTRY DEPENDENT ON RAW MATERIAL AVAILABILITY

Pulp production is highly dependent on the availability of raw material. In 2006, it became evident that there was a global raw material shortage, which grew worse at the end of the year. Warm weather in the northern hemisphere made it difficult to procure wood from the forests in Finland and Russia. The situation was not improved by the fact that official subsidies are used in Central Europe to divert pulpwood into bioenergy production. In North America, poor order books for sawmills have led to a raw material shortage. The availability of raw material will continue to be a limiting factor with regard to the long-term development of the pulp industry.

In Uruguay, we have improved our forestry operations by merging the operations of Botnia-owned companies into a single company, Forestal Oriental. This Botnia subsidiary is responsible for supplying the pulp mill with wood raw material, over 70 per cent of which comes from its own forests. The remainder comes from private forest owners and local companies on the basis of long-term agreements.

URUGUAY PULP MILL PROJECT ADVANCING ON SCHEDULE

Despite the public turbulence, the Uruguay pulp mill project is progressing according to plan. Upon completion the mill will be one of the world's most competitive pulp mills. Numerous studies of the mill and its operations show that the mill is one of the best in the world with regard to the environmental impact. One of our key aims for 2007 is to ensure the successful start-up of the mill. We are working on many matters to achieve this goal.

In Russia, the Svir Timber sawmill has got off to a good start after coming on stream at the beginning of 2006. The production targets for the first year have been met and even exceeded. We will continue to develop harvesting and forestry in Russia in cooperation with local companies.

NO MAJOR THREATS FACING THE PULP BUSINESS

We have set production targets for 2007 for all our mills based on full capacity utilisation. Pulp supply and demand continue to be fairly well balanced at the beginning of the year. The new capacity that came onto the market at the end of 2006 will have an impact on the markets during the first half of 2007, but there are no other major threats to the pulp industry in sight in the near future. The financial situation will continue to be good at least during the first six months of 2007.

Erkki Varis
President and CEO
Oy Metsä-Botnia Ab

STRATEGY

Customer-focused fibre expertise

We aim to be the world's best producer of fibre and fibre characteristics for our customers. We aim to achieve outstanding fibre expertise and a leading position as a supplier of fibre and fibre characteristics to customers producing high-quality paper and packaging products.

We provide our customers with competitive comprehensive services that include

- Specific fibres and fibre characteristics
- In-depth fibre expertise
- Full supporting services, including logistics and storage

In addition to our own products, we offer our customers other, complementary, fibre products which we procure through marketing cooperation and ownership-based agreements.

About 30 per cent of our own production is market pulp, sold to customers other than Botnia's owners. Botnia is a significant supplier of market pulp in selected markets. Long-term presence in the pulp markets enables us to maintain sustainable levels of quality and cost competitiveness.

STRATEGY IMPLEMENTATION AND MONITORING

Our core business processes guide our operative activities. We set annual strategy-guided targets for core processes, and monitor the progress being made in attaining them.

Implementation of strategy is backed by systematic training of key personnel. Our key employee programme helps Botnia secure top-level expertise and management resources. The tools designed to maintain competitiveness include a continuous mill-specific cost target programme from which concrete action plans are derived. By focusing our research and development resources on customer-oriented development activities we increase the depth and breadth of our fibre expertise. Research and development resources are being continuously developed and strengthened.

The emphasis in strategic development at present is on international growth. We shall start pulp production in Uruguay in 2007 as planned. In Russia, we have started up sawmilling operations and are actively involved in the development of forest management and wood harvesting. Our five pulp mills in Finland constitute a solid well-functioning core for our operations, and provide a firm foundation on which to build up new operations.

BOTNIA'S VALUES

The people working in Botnia have agreed on three basic values, which steer our business operations towards responsible profitability:

- Reliability
- Renewal
- Cooperation

International growth projects

STRATEGIC PROJECTS

URUGUAY PULP MILL PROJECT MOVING AHEAD AS PLANNED

The mill is due to start up in the third quarter of 2007, in accordance with the original schedule.

The dispute between the governments of Argentina and Uruguay over the mill's environmental effects has not hampered the progress of the project itself. The pulp mill project is strongly supported in Uruguay, and confirmation of its sustainability in all respects has been obtained at international levels.

In July 2006, the International Court of Justice in The Hague rejected Argentina's demands for the suspension of Botnia's and Ence's pulp mill projects in Uruguay. Later in the year, the World Bank made a positive decision with regard to the funding of Botnia's mill project after concluding, on the basis of additional studies and expert reports, that the mill will bring considerable economic benefits to Uruguay and will not harm the environment. The World Bank granted the project the USD 170 million of funding that had been applied for, and a guarantee of up to USD 350 million.

The Nordic finance group Nordea and the well-known French bank Calyon are acting as the main arranging banks for the financing of the Uruguay pulp mill project. The project is funded through capital investments and loans. Most of the financing, about 60 per cent, is in the form of capital invested by Botnia S.A.'s shareholders, the remaining approximately 40 per cent being through external loans.

Amongst Botnia's operational partners, chemicals supplier Kemira will build a chemical plant on the mill site. Andritz, the supplier of the main process equipment, will be in charge of the mill's maintenance, in accordance with a model that will be implemented in all the mills in Finland at the beginning of 2007.

Botnia has announced its willingness to treat domestic sewage from the city of Fray Bentos in the mill's effluent treatment plant, and to burn black liquor from the Pamer pulp mill, situated in the nearby city of Mercedes, in its recovery boiler. According to the World Bank's expert report, these measures will improve the water quality in the Uruguay River.

PRE-FEASIBILITY STUDY IN RUSSIA

In the second half of 2006, Botnia reached an agreement with the representatives of Russia's Vologda region on commencing a pre-feasibility study for a pulp mill. Vologda lies some 400 kilometres north of Moscow.

The pre-feasibility study will be supervised by a joint strategy committee. Botnia will continue to extend the development of sustainable forestry and wood procurement that has already been started in Vologda. Botnia aims to develop cooperation with other wood harvesting companies in Russia in order to safeguard the availability of raw material for the pulp mill now being considered.

LATVIAN MILL PROJECT DISCONTINUED

Towards the end of 2006, Botnia proposed to the Latvian government that the jointly owned A/S Baltic Pulp company and the inactive pulp mill project be discontinued. The original concept for the mill was designed years ago, and it no longer meets today's demands for competitiveness.

Customership

The main products of Botnia's upgraded portfolio are short-fibre eucalyptus and birch pulp, long-fibre reinforcement pulp and standard softwood pulp. Compared to competition, the product range is exceptionally broad, enabling us to competitively respond to the needs of customers producing various end products.

In the picture (from left) Ari Ahlfors, Controller (seen from the back), Ursula Metsärinta, Vice President, Key Accounts, Kirsi Hyvärinen, Delivery Planning Manager and Jari Muntila, Customer Service Technician

Unique product portfolio

Botnia's whole chain of operations – from product development, raw material procurement and production through to the delivery of the final product – is driven by the needs of its customers. Botnia's renewed product range responds to customers' changing needs in a globalising business environment.

One of Botnia's core business processes, the Customership process is responsible for customerships and the development of products and services together with customers to meet their specific needs. Botnia has consistently worked to improve its customer expertise, and this work will continue in the future.

Customer-specific responsibility chains are responsible for handling and further developing customerships. The chains comprise, in addition to those active at the customer interface, representatives of production, fibre-technology expertise and product deliveries. This way of working enables us to meet our customers' differing needs using our business capabilities and expertise to the full.

During 2006, work continued to develop uniform processes and consistent ways of working in customer responsibility chains.

BOTNIA IS A RELIABLE PARTNER

The success of Botnia's customer-focused way of working has been monitored through regular customer satisfaction surveys since the end of 2000. Feedback from the surveys is used in deciding which steps are to be taken, and which development projects need to be implemented together with customers.

The survey for 2006 confirmed that customers consider Botnia to be a very reliable partner. In the previous year's survey, the impact of labour disputes had affected the reliability ratings given by some customer groups. In the latest survey, the ratings given by all customer groups came back to the levels of 2004 or even exceeded them.

The overall rating given in 2006 was on the same level as in the previous year.

RENEWED AND EXTENDED PRODUCT PORTFOLIO

Botnia's product portfolio will significantly expand in 2007. The Fray Bentos mill in Uruguay will add a new product, eucalyptus pulp, to Botnia's range. In Finland, the process modification at the Rauma mill will substantially increase Botnia's capability to supply ECF bleached reinforcement pulp. In connection with this development, Botnia will take care of the needs of Rauma's TCF pulp customers by starting the production of replacement softwood pulp at the Kaskinen mill.

The product portfolio which Botnia is now creating is exceptionally comprehensive, serving the needs of all the customer groups targeted in the company strategy. Botnia's main products are long-fibre reinforcement pulp and short-fibre eucalyptus pulp. Eucalyptus pulp is manufactured from fast-growing plantation trees, and its competitiveness is based on its favourable production economics. Reinforcement pulp is a special product whose properties cannot be created using fast-growing plantation trees.

With regard to other products, Finnish birch pulp will be used in applications in which the special characteristics of birch fibre, or the logistical advantages of local deliveries in Finland, create added value for the customer. In the longer term, Botnia also intends to utilise the best properties of slow-growing northern fibres to develop special applications for the softwood pulps that compete in the global business environment with pulp produced from plantation-grown trees.

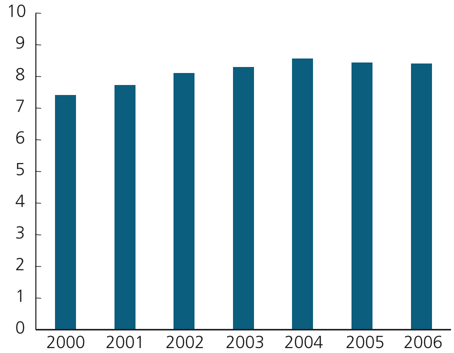
COLLABORATING WITH CUSTOMERS

Customers have been kept regularly informed about the progress of the Uruguay mill project. To prepare for the introduction of the new product, Botnia is offering customers the opportunity to test run eucalyptus pulp produced from Botnia's Uruguayan wood, simulating the pulp to be manufactured at the Fray Bentos mill. The Kaskinen mill has been producing eucalyptus pulp for test runs since August, and the aim is that all key customers will have been able to familiarise themselves with the new product even before the Uruguay mill starts up.

Test runs of the new softwood pulp for Rauma mill's TCF pulp customers began at Kaskinen at the end of 2006.

Trend in customer satisfaction

Overall score



Successful test run

M-real's Zanders Gohrsmühle mill in Germany conducted a test run on eucalyptus pulp produced at Botnia's Kaskinen mill in October. The raw material mix was the same as in the pulp to be produced in Fray Bentos.

Heikki Husso, Vice President and Mill Manager, says that the test runs carried out using pre-production pulp were successful. Botnia's pulp matched the good-quality eucalyptus pulps that had been used previously at Gohrsmühle.

"We didn't encounter any problems. We manufactured a few hundred tonnes of our ZANDERS Ikono paper, which is our flagship product and our most demanding art paper. If the pulp is suitable for producing this paper, it is suitable for all other grades as well."

The Gohrsmühle mill is going to be a major user of the pulp made in Fray Bentos. It produces 350,000 tonnes a year of high-quality wood-free coated printing papers.

"We have recently been testing new kinds of pulp almost every month, since our explicit goal is to start using our 'own' – in other words M-real's or Botnia's – pulp," explains Husso.

Preparations for a test run usually include increasing the content of the new raw material step by step over several hours. Abrupt changes are to be avoided.

"Samples are taken from the rolls coming from the paper machine every hour or so, and their properties are studied in a laboratory. We also obtain a lot of information from on-line measurements."

"Many things about pulp can be measured in advance, but you can only be sure that it works by conducting a test run," Husso sums up.

Customer-focused expertise

PRODUCT AND PROCESS DEVELOPMENT

Botnia's expertise in fibre technology focuses on the use of our products in the customers' manufacturing processes. Our pulp process expertise is oriented to leading and managing major development projects.

Botnia's international growth is based on the addition of eucalyptus fibre to its renewed product portfolio. A solid base of skills and expertise has been created for eucalyptus pulp production, covering the whole value chain from seedling cultivation to the customer's own products. With regard to softwood pulps, the strategic emphasis is on the development of reinforcement pulp, which will help to strengthen the long-term viability of Botnia's operations in Finland.

The majority of Botnia's fibre-technology development projects are carried out together with customers. Customer feedback confirms that increased familiarity with customers' processes and products through practical cooperation has generated new expertise, above all concerning the use of pulp in the customers' processes.

Another aim of Botnia's product development work is to turn know-how into service products. The scope of development work has advanced from the raw material towards the customer's processes. Service products that are available to customers include Botnia's refining know-how. A service package that is currently being developed will help the customer predictively to analyse the operation of the paper machine's wet end.

PREPARING FOR THE NEW PRODUCT

The main raw material for the eucalyptus pulp to be manufactured at Botnia's Uruguay mill starting in 2007 will be wood from trees grown from seedlings in Botnia's own nursery. Producing seedlings using traditional plant breeding methods results in genetically homogeneous raw material.

Know-how about the pulp's suitability for the customers' manufacturing processes has been acquired before production starts up. Test runs of eucalyptus pulp simulating the new product started in customers' mills during 2006.

OPTIMISING THE USE OF BIRCH FIBRE

Botnia's other short-fibre product is birch pulp, produced from trees growing in natural forests in northern Europe. Botnia has been exploring more competitive applications for birch pulp in customers' products in which the special characteristics of birch fibre create a competitive advantage for the customer. Birch fibre has proved to be an excellent raw material for board products, and development work continues to be carried out in this area in collaboration with customers.

Botnia is also exploring new uses and markets for birch fibre. The mixing of different types of fibres offers a great number of opportunities for product development. Many of Botnia's customers use a mixture of eucalyptus and birch pulps in their products. Botnia has adapted and enhanced a simulation program, previously developed by KCL, for use in calculating the profiles of fibre behaviour in different mixtures. On the basis of these calculations, Botnia provides its customers with recommendations concerning different alternatives.

EXPANDING REINFORCEMENT PULP CAPACITY

The main focus of development with regard to softwood pulps is on reinforcement pulp. This is a very important raw material for producers of wood-containing printing papers, with regard to both quality and cost-effectiveness. The key quality issues in the development of reinforcement pulp concern its runnability and functionality in customers' manufacturing processes.

The Rauma mill's new production process is scheduled to start up next summer, and it will substantially increase Botnia's reinforcement pulp capacity.

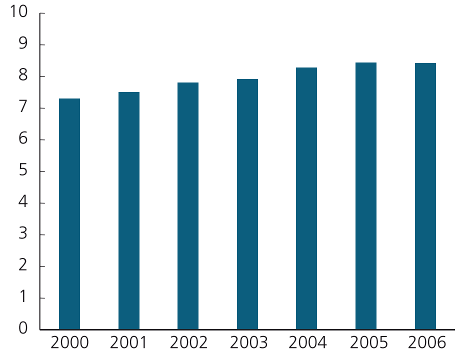
USING RESEARCH TO CREATE THE FUTURE

The European forest industry has set up a technology platform to coordinate research work in accordance with the EU's 7th Research and Development Framework Programme. Preparations are under way to establish a national centre of excellence in Finland to direct and finance the country's national research programme. Participants in the programme will include the forest industry, equipment manufacturers and chemical suppliers, as well as interest groups from other sectors.

Partnership is an essential component of Botnia's research activities. Botnia's primary role is to manage and lead projects by guiding its partners in the application of their core competences. Botnia is well placed to play this role in future collaborative projects.

Trend in customer satisfaction

Product quality and development



Strong paper cost-effectively

Janne Ussa, Director of UPM Rauma mill's LWC Production Unit, believes that the change-over to EFC bleaching at Botnia's Rauma pulp mill is a big, and very significant, step. UPM Rauma is the largest magazine paper mill in Europe. It manufactures coated and uncoated magazine papers and has a capacity of 1.26 million tonnes annually. UPM Rauma is also the closest and most important customer of Botnia's Rauma pulp mill. The mills are located on adjacent sites, and their operations are to a large extent integrated, so they collaborate closely with regard to such matters as raw material and steam supply.

The chemical pulp that Botnia produces is needed at the paper mill to give printing paper greater strength and improve its runnability. The Botnia mill was built in 1996 to replace a UPM pulp mill that was closed down at the beginning of the decade. Botnia's TCF bleached pulp proved unsuitable for UPM's PM4, which started up in 1998 and is one of the world's fastest LWC paper machines.

"We've had to transport the pulp needed for PM4 all the way from Botnia's Joutseno mill, even though pulp is produced right next door to us," Janne Ussa explains. He is very pleased with Botnia's investment decision, which means that in May 2007 Botnia Rauma will begin to produce the brighter and stronger ECF bleached reinforcement pulp.

"This will allow us to make full use of integrated production on all our paper machines. It will clearly improve our price competitiveness."

Furthermore, pulp transportation costs will be eliminated, and the Rauma mill can change over to using piped pulp, which is less expensive than dried pulp.

"We believe that stronger raw material will enable us to achieve the same paper strengths more cost-effectively."

In Ussa's view, Botnia has modified its production process to meet changed customer needs. Chlorine-free pulp is no longer as important as it was ten years ago. What matters now is pulp brightness, for example, since the proportion of white grades in printing paper production has increased.

Global structural change in the markets

SALES AND MARKETING

The pulp industry and pulp markets are going through a global change. Asia and, above all, China will continue to be responsible for most of the growth in demand for pulp in the future, too. New pulp capacity will come onto the markets from South America, while old capacity will be shut down in North America, and perhaps in Europe as well.

Pulp prices developed favourably throughout 2006. This was mainly due to good demand for paper and the closedown of outdated, unprofitable mills in North America, accounting for a total 1.6 million tonnes of pulp capacity.

Demand for pulp and paper is growing very slowly in Europe and North America. In China, paper consumption is expected to increase by about seven per cent in 2007, slightly slower than the national economy. For Botnia, China is a growing market in which it supplies pulp both to owners and to market customers.

Production capacity will increase mainly in South America. Pulp made from plantation wood is highly competitive in terms of quality and costs. However, the growth of capacity is restricted by the long development process required to secure sufficient volumes of cultivated raw material. The raw material supply for Botnia's Uruguay mill, scheduled for start-up in 2007, was secured early on, and most of the wood used by the mill will come from Botnia's own plantations.

The development of markets and prices in 2007 will depend on a number of factors. Two million tonnes of new capacity will come onto the market from South America, and an increase in supply normally creates pressure to reduce prices. If prices fall, shutdowns of unprofitable mills will continue. The biggest uncertainties concern the availability of raw material and the development of wood prices in certain markets.

PRICES AND DELIVERIES

Pulp was in good demand and prices were on the rise throughout 2006. Pulp stocks remained steady due to a good market situation. Softwood pulp was selling at USD 600 at the beginning of the year and USD 730 at the end of the year. For hardwood pulp, the corresponding figures were USD 590 and USD 670.

Following the nearly 13 per cent fall in pulp deliveries due to the previous year's labour disputes, Botnia's deliveries returned to a normal level. Pulp deliveries for the year totalled 2,503,568 tonnes (2,141,341 in 2005). Of this amount, 1,587,755 tonnes were sold to Botnia's owners and the rest on the market.

The amount of market pulp sold to third parties is expected to exceed one million tonnes in 2007, more than one-third of total sales.

STRUCTURAL CHANGE DRIVEN BY PROFITABILITY PRESSURE

The price of pulp has settled on a level at which mills that are relatively old and small are not profitable. Mills have mainly been closed down in North America, but small, ageing mills can also be found in Western and Central Europe. The expensive euro and the rising price of wood increase profitability pressures on old mills in Europe.

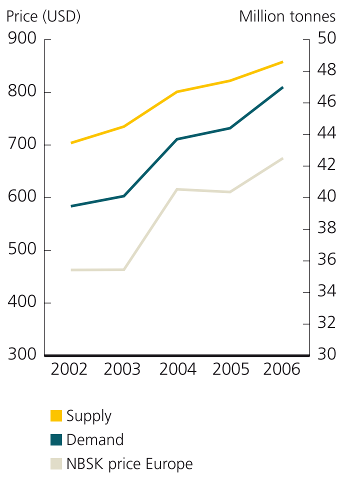
During 2006, capacity closures affected Canada in particular. The increase in the price of energy has strengthened the Canadian dollar against other currencies, reducing the competitiveness of Canadian producers. In the United States, the trend of exchange rates has been in the opposite direction.

COMPETITION FOR WOOD INCREASES PRICES

There were signs of an economic slowdown in the United States in 2006. Sawmills operated at under-capacity due to a decrease in house-building activity, reducing the supply of sawmill chips for the pulp industry. If pulp mills are forced to shut down because of a lack of raw material, this will naturally have an effect on the balance of supply and demand, and consequently on expectations regarding the price of pulp.

Another factor affecting market development is the rising price of wood. The marginal price of wood has risen in Canada and in some parts of the United States. Wood has also become more expensive in Western and Central Europe, as bioenergy subsidies have resulted in considerable volumes of wood being sold for energy use in many countries at a higher price than the forest industry is able to pay.

NBSK Pulp prices and supply-demand balance of bleached sulphate market pulp



Supply

In the picture Operators Ari Kärnä and Tuomo Aalto in the control room of the Joutseno mill

As Botnia prepares for international growth, it renews its domestic product portfolio to meet the changing needs of customers. The cornerstones of Botnia's competitiveness are sustainable raw material, effective production and optimized logistics.

A year of preparations

Of the core business processes, the Supply process is responsible for raw material procurement, production, and delivery of products to the customers. Careful preparations have been made for the approaching introduction of new products into the supply chain.

The Uruguay pulp mill will add a new product to Botnia's product offering and provide a considerable increase in total production capacity. The new product will also expand the customer base. During 2006, essential preparations for the mill's start-up included the building up of logistics chains to deliver products from South America to Asia and Europe.

To help customers start to make use of the new pulp in their production, Botnia offers them the possibility to test run eucalyptus pulp produced at the Kaskinen mill from the company's Uruguayan wood. The test-run pulp is manufactured from two types of eucalyptus, using the same mix that will be used at the Fray Bentos mill.

In Finland, the modification of the Rauma mill's production process to enable the production of ECF bleached pulp progressed according to plan. The Kaskinen mill prepared for the production of new softwood pulp to replace the TFC pulp manufactured in Rauma.

The Rauma mill's new production process will increase Botnia's reinforcement pulp capacity to a level that meets the needs of key customers. Botnia has another reinforcement pulp mill in Joutseno, and the two mills will collaborate closely to ensure the quality and reliable delivery of the product.

SUSTAINABLE RAW MATERIAL

The basis for Botnia's Uruguay mill project was consolidated by acquiring a majority share in the Uruguayan company Forestal Oriental, which had been working towards production of cultivated eucalyptus since the early 1990s. During 2006, Forestal Oriental became a wholly-owned Botnia subsidiary. It has substantially increased its seedling production capacity and acquired more land. As a result, most of the new mill's raw material can be supplied from Botnia's own forests.

The wood raw material used at Botnia's mills in Finland is supplied by Metsäliitto Cooperative. The majority of the wood comes from privately-owned forests in Finland. Finnish wood is supplemented as required with imported wood, which in recent years has accounted for around 16 per cent of total wood consumption. This wood is imported from Russia and the Baltic countries. Botnia also imports eucalyptus wood from Uruguay.

The sawmill of Svir Timber, Botnia's subsidiary in Russia, started up in early 2006. Svir Timber's operations support Botnia's raw material strategy, which aims at procuring wood in Russia based on its own harvesting rights. As a by-product, the sawmill produces good-quality spruce chips that are used as raw material at the Joutseno mill in Finland.

Botnia participates actively in the development of forestry and wood procurement infrastructure in Russia. This is a means of creating the basic sustainable raw material supply which is an essential precondition of any possible pulp investment.

Finland's latest National Forest Inventory located significant untapped reserves, particularly of pine pulpwood. Botnia works towards making these reserves available for utilization.

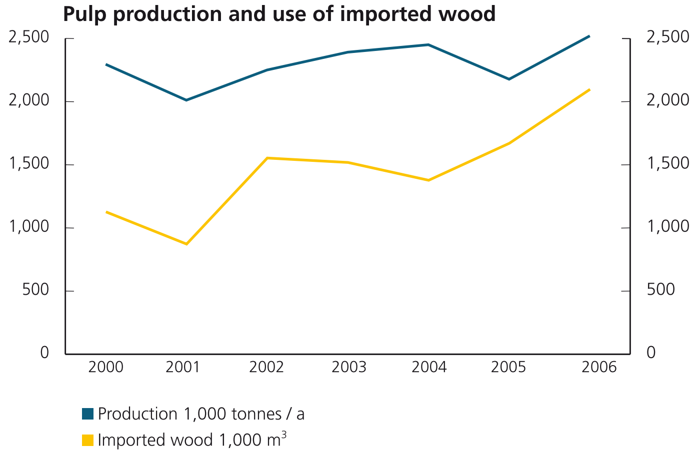
RELIABLE LOGISTICS SOLUTIONS

Pulp deliveries from Botnia's coastal mills in Finland have been safeguarded through ownership and cooperation arrangements with port operators. The inland mills use rail and road transports.

The new Uruguay mill will have its own port on the Uruguay River. Pulp will be transported by river barges to the deep-water port of Nueva Palmira, where it will be loaded into ocean-going vessels. Botnia is participating in the construction of the deep-water port as a shareholder.

Wood raw material is delivered to the Russian sawmill by rail, road and waterway. The mill's products are dispatched by road, and also by vessel except in the ice season.

Pulp production and use of imported wood



PRODUCTION

A new way of working

Botnia's business activities are based on the high-quality, cost-efficient production of pulp to satisfy customers' needs. A partnership agreement on mill maintenance and agreements based on multi-skilling as a way of working lay the groundwork for the continuous development of long-term competitiveness.

During 2006, Botnia made an agreement which transfers the maintenance activities of all its mills in Finland to a specialist company, Botnia Mill Service (BMS), in which YIT Corporation is the shareholder responsible for operations. From the beginning of 2007, BMS will be in charge of the more demanding maintenance tasks at all the mills. Botnia's maintenance personnel will become employees of BMS, and their maintenance expertise will thus be transferred to Botnia's partner.

As the production shifts no longer have a separate maintenance person, the possible impacts of breakdowns and other process disruptions are being minimised by developing the maintenance skills of process operators. The aim is for all mills to have a level of maintenance competence sufficient to ensure high-quality 24-hour production, tackle problems requiring immediate action, and carry out predefined preventive maintenance tasks.

The Rauma mill has used the concept of multi-skilling right from the start. The model will also be introduced at the new mill in Uruguay, where maintenance is the responsibility of Andritz, the supplier of the main production equipment. Other mills have agreed to multi-skilling, including the acquisition of maintenance skills as well as multiple process skills.

Multi-skilling in process work is being developed according to the principle that process operators learn all the tasks in their own department. Skills are maintained through task rotation.

The maintenance training programme drawn up by a training partner was well received, and more than one hundred operational personnel had started the programme by the end of the year.

IN THE TARGET AREA

Botnia fell short of its total pulp production target for 2006 by about three per cent. A short strike in May explains part of the production losses, while the rest were the result of technical problems. The mills' production totalled 2,519,956 tonnes (the corresponding figure for 2005, affected by labour disputes, was 2,177,429 tonnes). Of this amount, 69 per cent was softwood and 31 per cent hardwood. Capacity utilisation at the mills was 92 per cent (81). Market pulp accounted for 36 per cent of production.

Cost-effectiveness developed in the right direction, and the impact of inflation could be compensated for in fixed costs. Improvements in variable costs were seen particularly in chemical costs.

SVIR TIMBER MADE A GOOD START

At the beginning of 2006, Botnia's Russian subsidiary, Svir Timber, launched the commercial production of sawn timber in the town of Podporozhye, which lies some 300 kilometres northeast of St Petersburg on the banks of the Svir river. Production is based on the latest Finnish sawmilling technology and the mill got off to a good start, exceeding its production target for the year. In 2007, production is expected to exceed the mill's original design capacity.

INVESTMENTS IN FINLAND

The biggest investment in Finland during 2006 was the modification of the Rauma mill's production line to enable the production of ECF bleached pulp. The new production is due to start up in spring 2007, and the total cost of the investment is estimated at EUR 45 million. Botnia's mills in Finland are in good technical condition, and investment in coming years will be limited to maintenance and development.

As far as environmental impacts are concerned, Botnia's mills operate safely within the limits of their environmental permits. Botnia expects that the conditions of the new integrated environmental permits can be met by developing mill processes in the normal way.

PROBLEMS WITH EQUIPMENT IN JOUTSENO

The Joutseno mill fell short of its production target due to a lime kiln breakdown, problems with the drying machine and the strike in May. The targets for quality development were met, and cost trends were in the right direction.

Joutseno's main targets for 2007 focus on increasing annual production, implementing the multi-skilling project on schedule, and further developing pulp quality and consistency. The focus of occupational safety measures is on the prevention of accidents.

KASKINEN LEADS THE WAY

During 2007, the Kaskinen mill began to produce eucalyptus pulp that simulates the product soon to come from Botnia's new mill in Uruguay. The eucalyptus raw material comes from Forestal Oriental's plantations in Uruguay. The customers' response to the trial pulp was positive.

Trial production of the new softwood pulp started at the end of the year. Production of aspen pulp was discontinued. In 2007 the Kaskinen mill's product portfolio will comprise birch pulp and eucalyptus pulp as well as the new softwood pulp for tissue paper customers.

Pulp purity improved during the year, though the target that had been set was still not achieved. Because of some problems in equipment usability, the annual production record that had been aimed at was not achieved. Bleaching costs were successfully reduced.

In 2007 the mill will continue to work on improving operational reliability, pulp purity and cost effectiveness, as well as on the reduction of odour emissions.

A GOOD YEAR FOR PRODUCTION IN KEMI

The Kemi mill exceeded its target for average daily production. Annual production rose to 530,000 tonnes, which was distinctly higher than the previous record of 513,500 tonnes. Ending the production of sawdust pulp went smoothly, and the mill was able to increase the digesters' output considerably during the year. The recovery boiler bottom was replaced without problems.

Due to process disruptions and equipment failures, the mill fell short of its 98 per cent utilisation target. The proportion of premium quality increased as planned, but the target level of 98 per cent was not yet achieved.

Kemi's targets for 2007 focus on raising its annual production, increasing availibility and the proportion of premium quality pulp to 98 per cent, and efficiently implementing multiskilling in production processes.

SOME OPERATIONAL PROBLEMS IN RAUMA

In 2006, the Rauma mill suffered more than previously from unexpected equipment breakdowns. The mill achieved a new production record, but did not meet its target.

The modification of the mill's bleaching process began in early spring. Two new chlorine dioxide stages are being added to the process, and a chlorine dioxide production plant is being built at the mill. The biggest investment in the mill's 10-year-old history also involves improving the efficiency of effluent treatment.

The new production process will come on stream in May 2007. The aim is to improve the quality of pulp in accordance with developments in customer needs. Cost-efficiency will also improve, and annual production capacity will increase by about 45,000 tonnes. Process operators have played an active part in planning operating procedures for the new bleaching process.

ÄÄNEKOSKI ON TARGET

The Äänekoski mill achieved a new production record. Pulp quality was also improved, and the proportion of premium quality pulp rose close to the target set for it. The strength-related properties of softwood pulp were further developed in close collaboration with the customers.

Availibility increased to its target level, except in the second quarter when a strike reduced production. During 2007, production performance was enhanced by improving the lime kiln's availability and by building a green liquor clarifier.

Äänekoski's main targets for 2007 include increasing annual production and the proportion of premium quality, and developing the evenness of pulp quality as well as its runnability in customers' processes. Upgrading of the whole mill's automation system started in 2006, and will be completed in the autumn of 2008.

BOTNIA'S MILLS

Production 1,000 tonnes	2004	2005	**2006**	Capacity	Personnel*
Joutseno	553	503	571	630	181
Kaskinen	421	333	413	450	216
Kemi	505	463	533	540	222
Rauma	523	461	532	580	133
Äänekoski	447	417	471	500	226
Total	2,449	2,177	2,520	2,700	978
Capacity utilization, %	92	81	92		

* In addition, joint resources total 123 persons. Differences in personnel numbers between mills are due to differences in business models. All mills will adopt the same operating model at the beginning of 2007.

There will always be a need for birch

Birch pulp accounts for around one-third of Botnia's production capacity in Finland. Of the mills, Kaskinen, Kemi and Äänekoski use birch raw material. Kemi and Äänekoski sell most of their production to integrated paper-and-board manufacturers, Kemiart and M-real's Äänekoski mills respectively, while Kaskinen supplies pulp to a wider customer base in Finland and abroad.

"Birch pulp will be needed in the future as well", declares Development Engineer **Thomas Fant** from Botnia's Kaskinen mill.

The most important uses of birch pulp are in packaging and tissue products, but it is also used in fine paper. One of birch fibres' greatest assets is its strength. Birch fibre plays a key role in the production of board and certain special paper grades, such as filter paper and label base paper, in which strength is an important characteristic.

"Botnia's birch pulp is easy to refine and gives paper greater strength. The good stiffness of birch pulp is particularly important for producers of folding boxboard. And the fact that the TCF birch pulp manufactured at Kaskinen is chlorine-free is a key factor for many tissue producers," Fant explains.

Eucalyptus pulp is not a threat to birch pulp in these applications. Also, low transport costs and the benefits of integrated production often swing the balance in favour of using local short-fibre wood raw material.

Finnish forest owners do not have to worry about the future of birch in Finland. Botnia tries continuously to improve the functionality of birch pulp in the applications for which it is naturally suited. Development work focuses on such areas as ensuring the purity of pulp, control of extractives, and prevention of deposits.

"The practical runnability of birch pulp on the board machine has moved to the forefront, as machines are getting faster and fierce price competition is forcing board producers to look for better productivity. As machines become faster, better control of extractives in birch pulp is increasingly important. If they are not properly controlled, they can cause problems for the customers' operations."

A responsible forerunner

ENERGY AND THE ENVIRONMENT

Botnia's environment policy commits the company to being a forerunner in its field. Botnia has moved on from the traditional permit-centred approach and focuses its efforts on improving the total environmental performance of its mills relative to other players worldwide.

The environmental impacts of pulp mills are matters of interest to many different parties, not only to mill personnel but also to the mills' owners, customers, neighbours and local communities, as well as to official authorities and environmental organisations. Different stakeholders have different priorities. Botnia's first priority is that the quality of the mills' products is exactly as it should be. And this means that the raw materials used must fulfil the relevant quality and environmental requirements.

Botnia's environmental policy states that the company aims to be a recognised forerunner in its industry. This means that Botnia must develop its technologies, understand its environment, know about emissions and risks, and demand the same responsible approach from its partners. Botnia takes responsibility for the environment by preventing harmful environmental impacts, whether transient or chronic, both at the mills and outside the mills.

Frank and open communication with stakeholders in all operating environments is an essential part of our environmental policy. This includes actively listening to stakeholders in order to learn about their expectations and to be able to respond to them.

A YEAR OF CHANGE

The year 2006 was a year of change with regard to environmental issues in Botnia's operations. The mills had been waiting for some time for the new comprehensive environmental permits to be issued under Finland's new Environmental Protection Act. By the end of 2006, permits had been issued to the Joutseno, Rauma and Äänekoski mills, while the other mills were still waiting for their own permits. The new permit conditions are somewhat tighter than before, and requests for amendments have been submitted in the normal course of the application process.

Botnia has systematically invested in emissions-reducing technology, and mill emissions were, with one or two exceptions, well within the permit limits in 2006. With regard to emissions to air, total reduced sulphur (TRS) emissions from Joutseno mill's lime kiln and sulphur oxide emissions at Äänekoski came close to the limits. Effluent discharges were higher than last year due to disturbances in treatment plants. The Kemi mill's efforts to tighten the control of effluent emissions resulted in a clear improvement.

Botnia has taken part in its parent company's project to optimise energy efficiency, which has involved identifying mill-specific energy efficiency targets and the most critical factors for success in attaining them.

Environmental investments were considerably higher in 2006 than in previously reported years as a result of investments in the new mill in Uruguay. Environmental expenses have also increased because of the Uruguay project. The full environmental investment in the mill will be entered in the accounts for 2007, the year when the mill is taken into use.

The focus of Botnia's environmental experts' work has shifted from permit applications to the development and improvement of the mills' environmental performance. Reflecting this, the environmental team has returned to its organisational place in the Production Competence Centre.

INTERNATIONAL PROJECTS

In Russia, the Svir Timber sawmill started up at the beginning of 2006, and monitoring of its effluent emissions and emissions to air has begun.

As the construction of the mill in Uruguay proceeds, the environmental authorities have been monitoring the building work in accordance with the agreed environmental management plans. The environmental management plan for the mill's start-up is currently being drawn up.

To support its funding decision, the World Bank commissioned additional studies on the cumulative environmental impact of the mills planned for Fray Bentos by Botnia and the Spanish company Ence. According to the study and the experts' report, the mills would not damage the environment or threaten existing businesses, and pulp production in the region is in line with sustainable development.

FORESTAL ORIENTAL

In 2006, long-term hydrological research into the impact of tree plantations on local water resources was begun in cooperation with universities in Uruguay and South Africa. Forestal Oriental is already minimising impacts and protecting biodiversity by leaving an adequate number of unplanted areas. Unplanted areas comprise protected zones used for grazing and beekeeping, road areas, and conservation areas as such.

One notable development is a new 140-hectare conservation area which was created when dinosaur fossils were found there. Paleontological, geological and botanical research has started in the area. The Mafalda conservation area is part of a chain of conservation areas along the Uruguay river.

Operations in 2007 will continue according to FSC principles. All is in place to start the return of the pulp mill's organic solid wastes to the plantations when the mill starts up.

FORTHCOMING OBJECTIVES

Environmental activities in 2007 will focus on identifying and reducing odour emissions at all the mills, reviewing effluent treatment, improving environmental training, and further developing environment-related communications. To harmonize environmental reporting, environmental monitoring will be standardised at the mills. The same operating model for dealing with emissions to air will be adopted at all emission sources. The energy efficiency optimisation project will be continued.

The new bleaching process will start up at Botnia's Rauma mill in 2007. The effluent treatment plant that is jointly used by UPM's Rauma paper mill and the city of Rauma has been extended and will be taken into use at the beginning of 2007.

The main objective for 2007 will be the successful start-up of the Fray Bentos mill. Before start-up, the mill's personnel will be trained, machinery and equipment will be installed and inspected, and tests of the whole of the mill's operations will be conducted. The water plant will be started up for a trial run and steam will be produced in the odorous gas boilers. Deliveries of fuel oil, wood and chemicals to the mill will get under way. The surrounding community will be kept informed of these stages related to the mill start-up, which will become visible and audible in the mill area and its immediate vicinity long before the mill itself is fully operational.

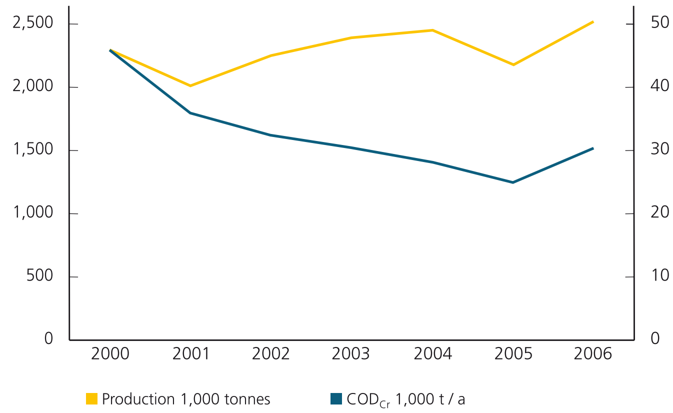
Potential environmental issues will be taken into account in all research and projects connected with production and quality development, and care will be taken that the targets for reducing environmental impacts are met.

ENVIRONMENTAL CERTIFICATION

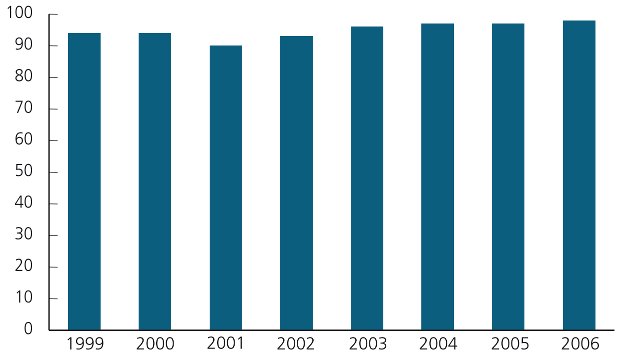
All Botnia's mills in Finland have the following certificates

- Quality Management System SFS-EN ISO 19001
- Environmental Management System SFS-EN ISO 14001
- Occupational Health and Safety Management System OHSAS 18001
- HACCP system DS 3027
- Chain-of-custody standard PEFC
- Renewable Energy Certificate System RECS

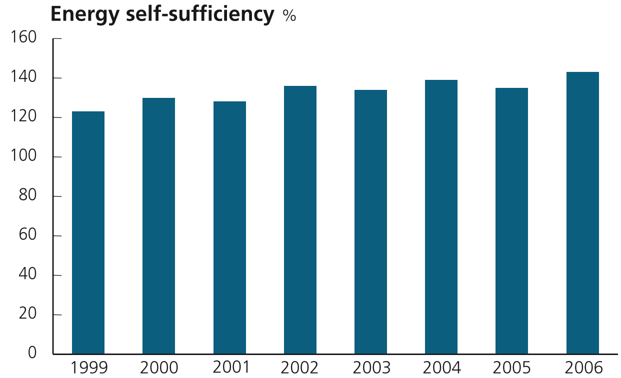
Pulp production and COD_{Cr} emissions



Biofuel % **of total fuel**



Energy self-sufficiency %



Sustainable raw material

WOOD PROCUREMENT

Botnia's mills use wood that has been grown and harvested in a sustainable manner and whose origin has been verified.

Botnia's mills in Finland use wood supplied by Metsäliitto Cooperative. In 2006, Finnish wood accounted for 83.8 per cent of total wood consumption (85% in 2005).

Wood consumption by Botnia's Finnish mills totalled 13.1 million cubic metres (11.3 million cubic metres in 2005, when production was reduced due to labour disputes). The wood raw material consists of pulpwood, sawmill chips and sawdust.

The majority of Finnish forests are certified according to the standard of the Finnish Forest Certification System (FFCS). During 2006, FFCS-certified wood represented 76.8 per cent of all wood used by Botnia (74.8%) The Finnish certification system has been endorsed by the international umbrella organisation PEFC (Programme for Endorsement of Forest Certification schemes). The forests and harvesting operations of Botnia's Uruguayan subsidiary Forestal Oriental are certified under the FSC (Forest Stewardship Council) scheme. In Finland, the Kaskinen mill has obtained FSC certification for its chain-of-custody system for Uruguayan eucalyptus wood.

Verifying the origin of imported wood used by Finnish mills is the responsibility of the wood supplier. More information about verification can be found on page 24 of this Annual Report and in Metsäliitto's Annual Report.

YEAR-END WEATHER CONDITIONS RESTRICTED SUPPLY

Two new raw materials were introduced during 2006. Following the start of sawing operations, the Svir Timber sawmill began deliveries of sawmill chips to Botnia's Joutseno pulp mill. The Kaskinen mill started to receive Uruguayan eucalyptus procured from Botnia's forests. The eucalyptus is used to produce pulp for test runs by future customers of the Uruguay mill.

Wood supply and demand were fairly well balanced until right at the end of the year when wood deliveries from forests to mills were hampered by exceptionally mild weather. Heavy rains and the runoff from melting snow made forest roads soft and unsuitable for driving. Birch wood, in particular, was in short supply, and Kaskinen had to restrict the production of birch pulp.

PROGRESS IN RUSSIA IN LINE WITH COMPANY STRATEGY

Most of the imported wood used by the Finnish mills comes from Russia, and softwood fibre is used at the Joutseno mill near the border. Hardwood is also imported from the Baltic countries. In June, an increase in the import duty on softwood affected the price of roundwood.

The Svir Timber sawmill gives Botnia an opportunity to play an active part in the development of forestry and wood procurement infrastructure in Russia. One of Botnia's long-term goals is to obtain its own harvesting rights in order to improve the availability and cost-management of imported wood at the mills in Finland. At the same time, the groundwork is being laid for long-term investment plans in Russia. The Svir Timber sawmill was one of the few sawmills in Russia to have sufficient wood throughout the year.

The new Russian Forest Code, effective as of 1 January 2007, will bring about considerable changes in wood procurement in Russia. Amongst other things, it involves replacing the current harvesting licence system with a forest-use declaration system, obliging wood traders to inform the authorities of harvesting operations and harvesting methods.

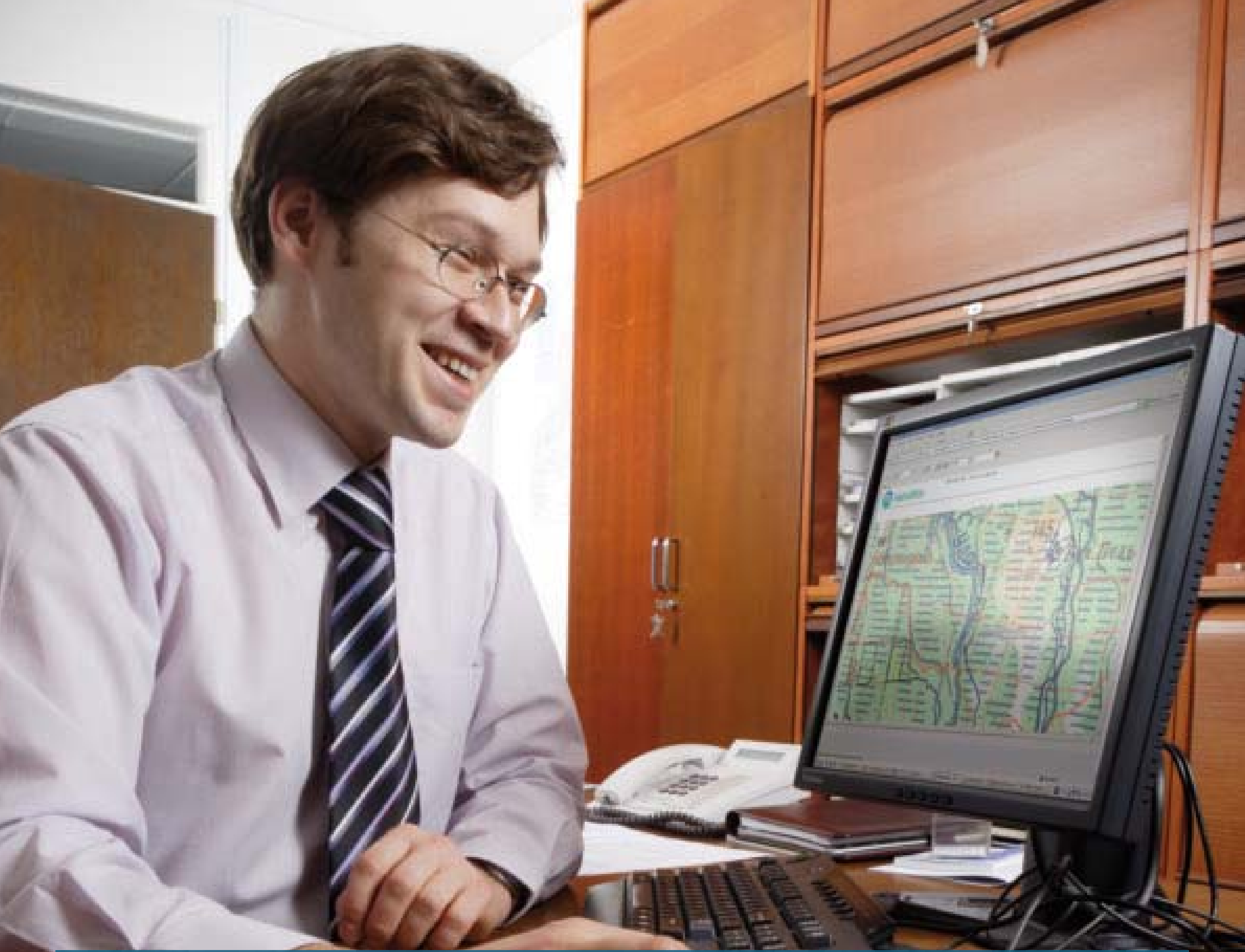
BOTNIA'S OWN WOODLANDS TO SUPPLY MOST OF WOOD IN URUGUAY

During 2006, wood procurement for the Uruguay pulp mill, due to start up in 2007, was strengthened by acquiring more land and continuing to conclude cooperation agreements with private forest owners and contract growers. Botnia also continued to develop wood harvesting logistics.

At the end of the year, the Uruguayan forestry operations were merged into a single company, Forestal Oriental. The company is responsible for supplying all wood raw material to the pulp mill, around 70 per cent of which should come from Botnia's own plantation forests, according to the original plans. Forestal Oriental owns approximately 160,000 hectares land either directly or through majority ownership. About 60 per cent of this is being cultivated. The company currently exports wood, and the aim is that the overall quantity of wood will be sufficient for exports to continue after the start-up of the pulp mill.

Raw material procurement from third parties has been secured through long-term contracts. The largest single contracting partner is the Otegui Group, one of the most important forest owners in Uruguay. Private contract growers will be growing trees from seedlings cultivated by Forestal Oriental, and Botnia is committed to purchasing this wood either at an agreed minimum price or at the market price.

Wood consumption at Botnia's Finnish mills 2006	million m³
Softwood pulpwood	7,008.3
Hardwood pulpwood	3,259.0
Sawmill chips	2,651.1
Sawdust	118.8
Total consumption	13,037.2
Imported wood	16.2%



Knowing where wood comes from

Metsäliitto supplies the imported wood that Botnia's mills use. Metsäliitto has a certified chain-of-custody system integrated into its quality management systems. It also has an FFCS (Finnish Forest Certification System) certificate for wood procurement from Russia. Environmental Expert **Mikhail Tarasov** says that in Russia, Metsäliitto purchases wood through its subsidiaries and outside subcontractors.

"We prefer to buy from suppliers who have long-term forest leases and their own forest teams, because this shows their commitment to sustainable forestry," Tarasov says.

When selecting partners, Metsäliitto uses a rating system based on the quality of operations and field inspections.

"Suppliers are only allowed to acquire wood from legitimate sources, and they must provide us with detailed information about the location of harvesting sites. The information is entered into our location database, which means that it can be viewed on digital maps. The maps also provide information about conservation areas, and they are of great help to us when planning inspections of harvesting sites."

Harvesting sites are inspected on a regular basis to ensure that information provided by subcontractors is accurate, and that harvesting is carried out in accordance with Metsäliitto's requirements and local legislation.

In 2006, inspections covered nearly two-thirds of all wood procurement activities.

"We check the validity of subcontractors' harvesting licences at the same time as we see that they are complying with the agreed terms and conditions. We also pay attention to the quality of environmental management and health-and-safety issues, such as the training and safety of employees."

Employees and subcontractors receive regular training in environmental matters and safety at work.

The definition of illegal harvesting actually covers a surprisingly wide range of offences in Russia.

"For example, leaving standing trees in a clear-cutting area, or damaging the soil by using outdated harvesting technology, is just as illegal as harvesting outside a designated area or outright theft of trees," Tarasov explains.

The present forest conservation system does not provide sufficient protection for key biotopes, which can cause problems with regard to compliance with certificate requirements. The new forest legislation, which takes effect at the beginning of 2007, will substantially change the rules in the forest sector and the regulation of forest conservation.

Comparison of Botnia's environmental reporting with Global Reporting Initiative recommendations

ENVIRONMENT

The GRI recommendations consist of core indicators and additional detailed indicators. This comparison focuses on the core indicators but does not include product indicators. Botnia's products are intermediate products, so indicators drawn up with a view to consumer products are not appropriate.

GRI Core indicators	Botnia monitoring and reporting
MATERIALS	
EN1. Materials used by weight or volume.	Volume of wood used is reported publicly. Volumes of chemicals and water used are reported to authorities
EN2. Percentage of materials used that are recycled input materials.	Reported to authorities
ENERGY	
EN3. Direct energy consumption by primary energy source.	Reported
EN4. Indirect energy consumption by primary energy source.	Reported
WATER	
EN8. Total water withdrawal by source.	Effluent flow is reported
BIODIVERSITY	
EN11. Location and size of land owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas.	Reported by Forestal Oriental, Botnia's forestry subsidiary in Uruguay
EN12. Description of significant impacts of activities, products, and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas.	Forestal Oriental reports according to the terms of its Environmental Impact Assessment
EMISSIONS, EFFLUENTS, AND WASTES	
EN16. Total direct and indirect greenhouse gas emissions by weight.	Reported
EN17. Other relevant indirect greenhouse gas emissions by weight.	Not significant compared to emissions from primary activities. Not reported
EN19. Emissions of ozone-depleting substances by weight	Not reported
EN20. NO_x, SO_x and other significant air emission by type and weight.	Reported, particularly TRS
EN21. Total water discharges by quality and destination.	Reported
EN22. Total weight of waste by type and disposal method.	Total volume of waste is reported publicly. Reports detailing waste by type are issued to authorities
EN23. Total number and volume of significant spills.	Reported
COMPLIANCE WITH LAWS AND REGULATIONS	
EN28. Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations.	Reported

Corporate social responsibility

In the picture Katri Gyursanszky, Manager, HRD, and Sandra de Leon, Manager, Human Resources, Forestal Oriental

Botnia fulfils its corporate social responsibility by taking care of its competitiveness, personnel and the environment. As a responsible corporate citizen, Botnia participates in various ways in the lives of the communities in which it operates, supporting causes that it finds important.

Sustainable and responsible business

Botnia's commitment to corporate social responsibility encompasses the economic, social and environmental aspects of its operations. The principles of corporate social responsibility apply to all of Botnia's activities and to everybody working in Botnia.

Botnia's commitment to corporate social responsibility (page 34) states Botnia's understanding of ethical business. The commitment is observed by Botnia and its employees all over the world.

The principal components of corporate social responsibility are inextricably linked. A company that operates on an economically sustainable basis is able to take care of personnel development and environmental matters. Conversely, a company that does not take care of its employees and the environment lacks the essential prerequisites for long-term economic success.

ECONOMIC RESPONSIBILITY

Business is responsible when it safeguards the company's sustainable, long-term profitability.

Botnia's principal owners are its largest customers, and Botnia is their most important pulp supplier. When this business arrangement functions successfully, Botnia's production capacity is utilised effectively and the company makes a profit that brings its owners a return on the capital they have invested in the company. Botnia's financial performance is reported in the financial statements section on pages 51–84.

In Finland, Botnia pays taxes on its profit, providing an important source of revenue for the communities in which its mills operate. Botnia's Uruguay mill has been granted free-trade-zone status, for which Botnia pays the Uruguayan authorities an agreed annual fee.

The biggest economic impact of pulp production stems from the fact that it employs people and boosts economic activity at the various stages of the production chain. The socio-economic study conducted on the Uruguay mill estimated that the mill would provide work for around 8,000 people, directly or indirectly, once production is started. The mill will have a significant positive impact on the region's economy as well as on the trade balance and national economy of the entire country.

SOCIAL RESPONSIBILITY

Botnia's social responsibility primarily concerns its own employees, suppliers and subcontractors, and the local communities around its mills.

Botnia pays a great deal of attention to developing its employees' skills and capabilities. The aims in this respect are closely linked to Botnia's corporate strategy, and the development of personnel strengths gives important support to the strategy's implementation. All Botnia employees are covered by a profit-sharing scheme designed to encourage productivity. There are mill-specific objectives for safety at work, and their realisation is monitored by means of a number of different indicators. Human resource aspects are reported in more detail on pages 31–35.

Botnia's mills play important roles in their local communities. Pulp production provides direct employment not only for the mills' own personnel but also for a much larger number of people in mill services and in the procurement and transport of wood and other raw materials. And it has a favourable indirect impact on employment, arising from the stimulating effect of the direct employment on the economy and the increase in demand for services. In Uruguay, the ways in which Botnia fulfils its social responsibility include, for example, handing over the housing built for construction workers and technicians to the town of Fray Bentos for social housing purposes once the project workers have left.

ENVIRONMENTAL RESPONSIBILITY

The principles of environmental responsibility require Botnia's employees to be aware of the environmental impacts of the company's activities, and to act proactively and show initiative in environmental issues. Botnia is committed to using and developing environment-friendly technologies, and procuring all wood raw material sustainably and from known sources.

In Uruguay, Botnia has pursued a proactive approach to environmental matters. The mill's environmental impacts have been studied carefully, and during 2006 Botnia announced its willingness to treat the domestic sewage from the town of Fray Bentos in the mill's effluent treatment plant, and to burn the black liquor from the Pamer pulp mill, situated in the nearby city of Mercedes, in its recovery boiler. According to the World Bank's expert report, these measures will improve the water quality in the Uruguay River.

Botnia's environmental activities are reported on pages 21–22, and matters related to wood raw material on page 23.

STAKEHOLDER RELATIONS

Responsible business involves the transparency of operations and willingness to cooperate with all parties affected by the company's activities. Botnia is committed to fostering an open dialogue with its stakeholders. At the national level, Botnia plays an active role in promoting the interests of the forest industry, for example with regard to environmental matters and the scope and content of legislation.

In the districts where its mills are located, Botnia collaborates with local decision makers and officials, business organisations, and educational and research institutions. Cooperation with schools makes the branch more widely known, encouraging youngsters to take up careers in the pulp and paper industry.

Botnia sponsors worthy causes, both locally and at corporate level. Support is mainly directed towards young people and youth activities. For example, Botnia has supported Finland's Jukola orienteering relay race for young orienteers. At corporate level, Botnia has sponsored a number of talented young people in areas of sports or culture compatible with its business operations.

The pulp mill project in Uruguay has been implemented in close cooperation with the Uruguayan government and local authorities. Botnia is not a party to the dispute between the Uruguayan and Argentine governments, but works in the background to help resolve the conflict as far as it can.

Fact-finding trips to Finland have been arranged for representatives of the Uruguayan government and the media, a key element of which have been visits to Botnia mills. During 2006, a group of media representatives from Argentina also visited Finland.

Botnia has decided to set up a fund in Uruguay to support projects that are thought to be important. A respected independent party will be chosen to administer the fund.

In Russia, the ways in which Botnia has participated in the life of the local community include, for example, donating a fire engine to the town of Podporozhye and providing computer equipment for local schools.

COMMUNICATIONS

Botnia provides information about its activities and goals openly and regularly. Botnia's customer magazine Botnia Echo is published twice a year in Finnish, English and German, and the Finnish-language employee magazine appears six times a year. The magazines have a wide stakeholder distribution.

Both magazines can be accessed on Botnia's website, www.botnia.com, which also contains all press releases. The website is kept up in Finnish, English, Spanish and Russian. The most important channel for internal communications is the company's intranet. The mills in Finland provide local information about matters affecting the community.

The provision of information about the Uruguay mill project was enhanced by establishing a special communications and public relations team. An English-language multimedia presentation was produced for the Botnia website to satisfy the international need for information about the project and about Botnia itself.

The mill project has been conspicuously opposed in Argentina, and protests and roadblocks have been organised on the border river. The region on the Argentinian side of the border has been considered a closely involved stakeholder group right from the start of the project, and despite the difficulties Botnia tries to get better information to the residents of the neighbouring regions in Argentina.

Botnia's Spanish-language website includes all Botnia's corporate-level bulletins as well as the public presentations of the project that have been given in Uruguay. More detailed information about the progress of the project is provided by Botnia's Spanish-language publication Espacio, which is distributed to all households in the Fray Bentos area as well as to the authorities, the media and other interest groups. At the end of 2006, a monthly Espacio TV programme was launched to back up the printed publication. The broadcast's reception area includes the Entre Rios province of Argentina.

The Svir Timber sawmill project's Russian-language website pages were transferred to Botnia's main website when the mill started up. The pages include basic information and current news about Botnia. Internal communications at Svir Timber followed Botnia's normal procedures from the beginning. Svir Timber publishes a staff-and-stakeholders magazine twice a year, and this is also distributed in the town of Podporozhye.

REPORTING

In its yearly reporting, Botnia adopts, where applicable, reporting practices that cover all aspects of corporate responsibility. Comprehensive corporate reporting is developed in the Global Reporting Initiative (GRI). A new version of the GRI guidelines was published in November 2006. Botnia's Annual Report contains two comparisons between GRI guidelines and Botnia's reporting. They concern environmental matters (p. 25) and human resources (p. 35).

Botnia's commitment to corporate responsibility and its corporate responsibility principles appear on page 34 of this Report; and Botnia's environmental policy on page 42.

The importance of energy is growing

Pertti Laine, Senior Vice President, Business Environment and Innovation, at the Finnish Forest Industries Federation, believes in the future of the Finnish forest industry. But there are two critical matters that it has to take care of. One of them is the level of costs.

"In Finland, we must be able to produce paper and pulp competitively. When the price of products is determined by the global markets, the forest industry's key cost items –raw material, energy, labour and logistics – particularly affect competitiveness. The greatest challenge we face in coming years is to manage these cost factors successfully. If we want to keep up with the competition and stay in the business, we must be able to produce products at a price that they can be sold at."

The other critical requirement for the future is the need to discover new products and processes that will provide new and increased business. It would appear that such products and processes can also be found in the pulp industry.

"The continued rise in energy costs strengthens the role of the pulp industry and increases its attractiveness, because pulp mills appear particularly suitable for the introduction of new biofuel applications and the production of processed bioproducts."

The energy self-sufficiency of pulp mills is becoming even more important as the cost of energy increases. And pulp mills have a key part to play in discussions about the sufficiency of wood supplies.

"The rise in energy prices and the increasing market share of renewable energy will boost bioenergy markets. People want to obtain more biomass from the forests, where it is now left as felling waste: stumps, branches, tree tops, and small-diametre wood."

"Burning pulpwood to obtain energy is not a good idea, as processing and using their fibre creates 15 times more employment than directly burning it. The forest industry is in any case the most natural party to improve the efficiency of forest harvesting, in the first place because it is easy to incorporate felling waste and small-diameter wood for further processing into a mill's wood transports."

Laine is confident about the future of paper. For centuries, paper has been constantly taking new forms which appeal to customers. In Europe growth in paper consumption is expected in Russia and East-Central Europe. As for products, packaging is one growing area.

"The growth in Eastern Europe is an opportunity for us, just like the increase in fibre-based packaging. To get sustainable benefits from the opportunities offered by renewable raw material, we must do everything we can to keep being competitive."

Fray Bentos is working again

Fray Bentos, the town where Botnia's Uruguay pulp mill is being built, is the capital of Uruguay's province of Rio Negro, and home to about half of the province's 54,000 inhabitants. The Governor of Rio Negro, **Omar Lafluf**, says that forestry activities started up in the province some 20 years ago. Today, the province has 750,000 hectares of plantation forest.

Fray Bentos grew up around the Anglo meat processing plant that was founded over 100 years ago. The plant supplied international markets and it was enormous even by present-day standards, so the town suffered considerable hardship when the plant ceased production in the 1970s. The town adapted and the workers changed to other ways of making a living, but unemployment in the region has been high in recent years. Botnia's decision to build a pulp mill has reinvigorated the whole province.

About half of the 4,000 people engaged in building the mill were local residents. Once the mill is completed, the number of workers will decline, but the mill's effect on employment is far greater than the number of people directly on Botnia's payroll at the mill.

"We estimate that for every employee working in the mill it indirectly creates employment for three other people. Improvements in people's everyday lives can be seen everywhere. Revitalized businesses, shops, markets, hotels and other services are creating new jobs, too."

Construction outside the mill site has been brisk, with 260 new buildings completed in 2006. The hotel that closed its doors at the turn of the century has reopened, and so have two other hotels.

"People were apprehensive at first when they heard about the Botnia and Ence pulp projects, but now everyone is eagerly waiting for the Botnia mill to be finished. People were really disappointed when Ence withdrew from its project."

The residents' calm is attributable to the open information and communication policy that has been followed.

"The local government, the central government and Botnia all wanted to provide people with all available information about the environmental issues involved in the mill project. When representatives of the World Bank, which is also funding the project, visited the region they met all the parties involved, including officials, trade unionists and business representatives, and everyone had the opportunity to express any possible reservations about the mills' environmental policy and environment-related technologies."

Renewal safeguards competitiveness

HUMAN RESOURCES

The development of human resources plays an essential part in putting Botnia's strategy, management models and corporate values into practise. It ensures the company sufficient and versatile expertise and safeguards future resources. Strategic indicators are used to monitor progress towards targets. These include the performance and management leadership indices of the annual personnel survey.

During 2006, the human resources focus was the Uruguay pulp mill project. This comprised support to the Finnish project group and the mill's permanent staff. In Finland, mill-specific agreement was reached on the introduction of multi-skilling in production work, with the aim of ensuring that the mills have the necessary prerequisites for long-term viability.

SUPPORTING INTERNATIONAL GROWTH

In 2006, the Uruguay project's Finnish project group moved to Fray Bentos as planned. Family homes were built for the group, and in the autumn a Finnish school was opened on the premises of Colegio Laureles, a local private school. Three Finnish teachers are responsible for teaching about thirty pupils.

During 2006, the human resources of the Uruguay mill were secured. Recruitment for supervisory positions was completed at the beginning of the year. Engineers were trained in Uruguay and in Finland, with theory and laboratory training being followed by a six-week training period at Botnia's mills. Training continued in Uruguay, with the emphasis on mill processes.

In the spring, the final group of Uruguayan engineers graduated from the Linkage training programme at Helsinki University of Technology. The Uruguayan engineers and supervisors will work in pairs with members of the Finnish project team during the installation and trial-run phase. As the mill comes on stream, responsibility will be gradually transferred to the Uruguayan mill team, with the Finns continuing as expert advisers and support personnel.

Recruitment of production personnel was completed, and their training began in October. Training sessions are held in the Colegio Laureles facilities, and instructors have been recruited from the Brazilian National Industrial Training Service (SENAI). The training programme includes English language and IT skills, and the mill's engineering staff will provide additional process training.

The operating model that is used in all Finnish mills will be adopted in Fray Bentos from the beginning. In accordance with this model, responsibility for maintenance has been assigned to a specialist partner company. The partner in Uruguay is Andritz, the supplier of the mill's main processing equipment.

Adoption of Botnia's operating policies was enhanced at Svir Timber as the Russian sawmill started production.

WORKING WITH MULTIPLE SKILLS

The transfer of responsibility for maintenance to specialised partners has been carefully prepared by developing a new operating model for production personnel. During 2006, agreement was reached on the transition to multi-skilling as a way of working in all mills in Finland. The aim is that production shift workers should have a broad range of process skills, and sufficient maintenance expertise to correct typical problems arising during production operations and carry out certain preventive maintenance tasks.

Mastery of multiple process tasks is developed through task rotation within mill departments. The development of maintenance skills is supported by a training programme. It is possible to complete selected parts of the programme, or all the modules needed for a vocational qualification. The training has been very well received, and about 100 process operators had started the programme by the end of the year. As about 150 process operators already have the required skills thanks to their basic training, nearly half of all process workers were within the scope of multi-skilling targets at the end of the year.

Natural reduction of the work force due to the age structure of Botnia's personnel means that transition to the new operating model is possible without redundancies.

TRAINING NEW WORKERS SECURES FUTURE RESOURCES

In view of the age structure of the workforce in Finland, Botnia has begun to safeguard its future skilled labour requirements in good time through a recruit training programme tailored to Botnia's needs. All new employees are recruited through M-Institute Silva's training programme, which was started four years ago. About eighty new pulp-makers have either completed the training or are still being trained.

In addition to making up for the anticipated personnel loss through retirement, the programme is designed to train new employees to become proficient in multi-skilling. The approach to selecting people to be trained has been based on the fact that the majority of the disturbances and breakdowns in mill processes are due to malfunctions in electronic automation systems. Since it is not feasible to provide in-depth training in this field for current production personnel, previous experience and competence in electronic automation is being emphasised in the choice of the trainees for recruitment, and this emphasis will continue in the future.

With the help of multi-skilling, it is possible to make up for the loss of personnel due to the employee age structure while at the same time continuing to reduce the total number of personnel in line with long-term objectives. The new operating model also safeguards the personal competitiveness of process workers by offering them the opportunity to develop in varied work assignments.

DEVELOPMENT SUPPORTS STRATEGY

The implementation of Botnia's strategy-based process management model has been supported by long-term supervisor and leadership training. The favourable trend of the index for management leadership in the annual personnel surveys confirms that this work has produced results.

The key personnel programme, which is open to all Botnia employees, supports the employee's autonomous career development. The programme comprises about 200 Botnia employees. They have the opportunity to participate in corporate-level training programmes and development projects, in which they gain a better understanding of different facets of business.

The employee self-assessment process based on the European Foundation for Quality Management' Excellence Award criteria is a central forum for developing activities and ways of working, and is also part of the key personnel programme.

SAFETY TREND IS MONITORED

Botnia mills have specified their safety-at-work objectives and monitor their attainment by means of several indicators. These indicators include the incidence of accidents at work resulting in more than three days of sick leave, the total number of accidents, and the total number of working days lost. A further target that has been set is that of better identifying dangerous and 'close-call' situations.

Safety trends are monitored at the mills, and deviations are analysed each month. Increased attention to occupational safety has produced good results in Russia, and there have been only a few work-related accidents. Further improvements in safety are being developed at the Uruguay mill's construction site.

The main priorities during 2006 included the further improvement of occupational safety in the individual mills, together with an internal safety assessment of all the mills. A report based on the assessment is available to all personnel on Botnia's intranet.

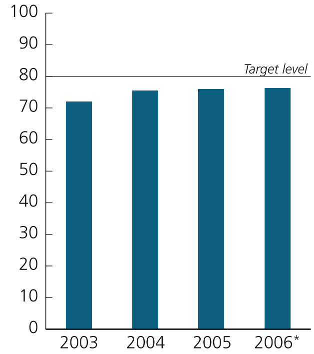
NEW NEEDS FOR SPECIAL SKILLS

The emphasis on internal efficiency, supervisory work and focusing on the customer will continue in the coming years. At the same time, it will be important to identify the new needs created by international growth, and respond to them. An international operating environment calls for expertise in international business and the ability to see large business contexts. To facilitate development in this respect, best practices are being sought from other business sectors.

Botnia's new operating model involves close cooperation with partners, for example in the handling of maintenance tasks. This in turn calls for improved performance management, enabling the partners' resources to be fully integrated into Botnia's operations.

The new competence needs will be fully integrated into personnel development targets and into the steps taken to attain them in coming years.

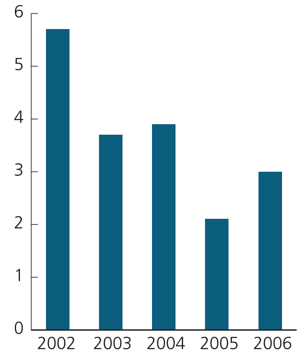
Personnel survey, overall index %



The personnel survey measures the standard of the work of superiors and the success of the working community

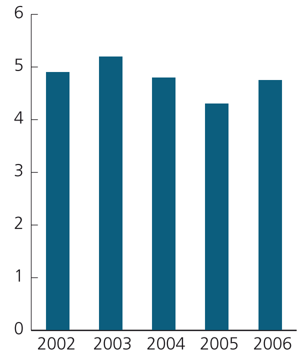
* The small decrease is partly caused by new, more challenging questions

Training days*



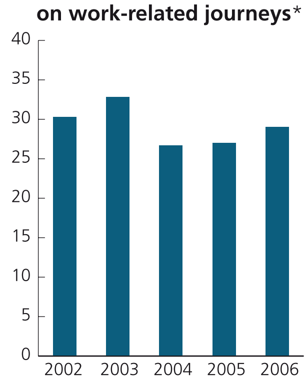
* Average number of training days per employee

Sickness leave* %



* Percentage of the theoretical regular working hours

No. of accidents at work/ on work-related journeys*



* Average, no./million work hours, includes also 0-work accidents

Breaking new ground with multi-skilling

In the spring of 2007, **Karita Autio** will graduate from M-Institute Silva in the City of Tampere as a professional in pulp production. She will go on to study for a paper industry vocational diploma while working. She is currently employed at the Botnia Äänekoski mill's drying plant as a baling line operator and forklift driver, going through her last period of learning on the job. She will continue as a fixed-term employee until completing her further vocational qualification. Only after that will she get a permanent job with Botnia.

Autio, aged 24, applied for the two-year Silva training programme after reading a newspaper advertisement. She is one of the two women on the course.

"After passing my matriculation examination, I first trained as an electronics technician, after which I studied automation technology at a university of applied sciences for over a year. If I hadn't been accepted for the Silva training programme, I would have carried on with my automation technology studies to the end," Autio says.

"I grew up in a paper-industry town, and I've always wanted to work 'across the river', where the mill was. I wanted to know what it's like working in the industry, what paper mills are really like."

The training programme as a whole has been very interesting, and it has provided Autio with much new information. In her own view, however, she is still a beginner. You can only learn the job by doing it.

"The training and periods of work experience connected with it provided a solid theoretical foundation for developing into a real professional. There was a great team spirit on the course, and we all helped each other with our studies."

The people on the course have been trained to perform minor maintenance and repair jobs. Autio feels that it is an advantage to acquire multiple skills, and for a female employee it also means breaking new ground.

"Before this programme, I hardly knew anything about tools, much less about pumps and bearings. Not that I am familiar with all the tools yet, of course. The boys are a bit better prepared to carry out repairs, since they've been fixing mopeds and other machines since they were quite small. When I was that age, I mostly brushed horses," Autio chuckles.

"I'm eager to learn new things. It's good to know what people are talking about and to understand something about how a machine works. It helps the maintenance engineer if I can explain where the malfunction is and suggest a reason for it."

OY METSÄ-BOTNIA AB'S COMMITMENT TO SOCIAL RESPONSIBILITY

Oy Metsä-Botnia Ab is committed to promoting sustainable development in its business operations, to the continuous improvement of its activities and to conducting business responsibly.

We take account of economic and social viewpoints as well as the environment. Our aims are to secure long-term business success for ourselves and our partners, to improve people's well-being through our products and our services, and to minimize the environmental impact of our activities.

We support the principles behind the UN's Global Compact* relating to human rights, labour, the environment and anti-corruption. We have undertaken to promote these principles within our own sphere of influence.

Botnia lays down specific concrete principles in support of its commitment to social responsibility and oversees their implementation.

** Global Compact is a joint initiative by the United Nations and business to encourage good corporate citizenship in support of ten universal principles in the areas of human rights, labour, the environment and anti-corruption.*

BOTNIA'S PRINCIPLES OF SOCIAL RESPONSIBILITY

Botnia's values – reliability, cooperation and renewal – are the cornerstones of the company's operations. Reliability stems from openness, from treating all parties equally, and from cooperation in which we respect each other. Renewal means the continuous development of activities.

Botnia has defined its social responsibilities based on the following principles, which are specified in more detail in the company's personnel, environment and communications policies. We require our partners to commit themselves to the same objectives as ourselves.

General business responsibility

- Our activities are based on a sense of responsibility and careful business planning designed to secure our long-term profitability.
- We provide information on our activities openly and regularly. We encourage open dialogue with our interest groups. We work together with different organizations in those communities where we operate.
- In our activities we comply with the prevailing legislation and decisions made by the authorities.
- Under no circumstances do we condone either bribery or corruption.

Principles of social responsibility

- We respect human rights as laid down in the UN's Universal Declaration of Human Rights.
- We secure the competence of our employees and we promote a safe and healthy working environment.
- We are opposed to discrimination, child labour and forced labour. We promote equality in our activities.
- Our employees have the right to form organizations, to join associations and to negotiate through their representatives.

Principles of environmental responsibility

- We understand the environmental impact of our activities over our products' entire life cycles.
- We act predictively and with initiative in matters relating to the environment.
- We use environment-friendly technology that saves raw materials, and we develop this technology together with others.
- We procure wood raw material in compliance with the principles of sustainable development.
- We know the origins of the wood we use.

OPERATIVE POLICES

The implementation of the principles is guided by operative polices that have been defined for different operation sectors. These polices include personnel, safety, environmental and communication polices. The environmental policy is printed on page 42.

Reporting of Botnia's Human Resources Management with regard to GRI recommendations

PERSONNEL

This review covers Social Performance Indicators, specifically the part ***Labour Practices and Decent Work****, and contains the core indicators of the latest GRI recommendations.*

Core indicators	Botnia Monitoring and Reporting
EMPLOYMENT	
LA1. Total workforce by employment type, employment contract and region.	Total work force and work force per site reported
LA2. Total number and rate of employee turnover by age group, gender and region.	The number and rate of turnover reported
LA3. Benefits provided to full-time employees that are not provided to temporary or part-time employees, by major operations.	Employees on short temporary contracts are not included in the bonus and incentive programmes. All permanent and part-time employees are included
LABOUR/MANAGEMENT RELATIONS	
LA4. Percentage of employees covered by collective bargaining agreements.	Nearly all employees belong to trade unions, and all employees are covered by a collective wage agreement. At the management level, employee contracts are negotiated individually
LA5. Minimum notice period(s) regarding significant operational changes, including whether it is specified in the collective agreements.	Laid down in the Act on Co-operation with Undertakings and specified in the collective agreements
OCCUPATIONAL HEALTH AND SAFETY	
LA7. Rate of injury, occupational diseases, lost days, and absenteeism, and total number of work-related fatalities by region.	Reported
LA8. Education, training, counseling, prevention, and risk-control programmes in place to assist workforce members, their families, or community members regarding serious diseases.	Programmes which apply to the workforce are reported
TRAINING AND EDUCATION	
LA10. Average hours of training per year employee by employee category.	Reported
DIVERSITY AND EQUAL OPPORTUNITY	
LA13 Composition of governance bodies and breakdown of employees per category according to gender, age group, minority group membership, and other indicators of diversity.	The Annual Report reports the composition of the Board of Directors and Management Group. The employees are also reported per category according to gender
LA14 Ratio basic salary of men to women by employee category.	Reporting under planning

Board of Directors and Management Group

BOARD OF DIRECTORS

Kari Jordan	Chairman, President and CEO of the Metsäliitto Group
Jussi Pesonen	Vice Chairman, President and CEO of UPM-Kymmene Corporation
Hannu Anttila	Member, Executive Vice President, Strategy, Metsäliitto Group
Pauli Hänninen	Member, Executive Vice President of UPM-Kymmene Corporation
Martin Lillandt	Member, Senior Executive Vice President of Metsäliitto Cooperative
Heikki Malinen	Member, Executive Vice President, Strategy, UPM-Kymmene Corporation
Arimo Uusitalo	Member, Metsäliitto Cooperative
Esa Kaikkonen	Secretary of the Board, Senior Vice President, Senior Counsel, Metsäliitto Group

MANAGEMENT GROUP

Erkki Varis	President and CEO
Maarit Herranen	Senior Vice President, Fibre Technology
Ilkka Hämälä	Senior Vice President, Production and Supply Chain
Ville Jaakonsalo	Senior Vice President, Finance
Anneli Karhula	Senior Vice President, Human Resources
Pekka Kauranen	Senior Vice President, Wood Procurement (Metsäliitto)
Timo Merikallio	Senior Vice President, Development of Products and Services
Timo Piilonen	Senior Vice President, Uruguay Project
Jyrki Yrjö-Koskinen	Senior Vice President, Sales and Marketing

AUDITORS

PriceWaterhouseCoopers Oy
Authorized Public Accountants
Ilkka Haarlaa
Authorized Public Accountant
Göran Lindell
Authorized Public Accountant

Corporate Governance

ANNUAL GENERAL MEETING

The Annual General Meeting is the company's highest decision-making body. Its duties include adopting the company's profit and loss account and balance sheet, deciding on the distribution of dividend and appointing the members of the Board of Directors and the company's auditors. The AGM must be held before the end of June each year.

BOARD OF DIRECTORS

The responsibilities of the Board of Directors, elected by the AGM for a year at a time, include the administration of the company and the proper organization of its activities. The term of office of a Board member begins at the end of the AGM at which he or she is elected and continues until the end of the next AGM. According to the company's Articles of Association, the Board of Directors of Oy Metsä-Botnia Ab shall have at least five and no more than eight members. The Board of Directors elects a chairman from among its members.

The duties of the Board of Directors include, in addition to those stipulated in the Companies Act and the Articles of Association, approving and monitoring compliance with the company's strategy and annual business plan, deciding on restructurings of business, substantial capital expenditure, investments and loans, appointing the company's President and CEO and deciding on his or her terms of employment, and approving the principles behind the company's employee profit-sharing scheme. In 2006, the Board of Directors met 16 times.

BOARD OF DIRECTORS WORKING GROUP

The Board of Directors has appointed from among its members a Working Group, whose task is to prepare matters for consideration by the Board of Directors and to look into other operational and administrative issues that are of key importance to the company's business and its development. In 2006, the Working Group comprised Board members Hannu Anttila, Pauli Hänninen, Heikki Malinen and Martin Lillandt, as well as Erkki Varis, President and CEO of the company.

The Board of Directors Working Group held five meetings in 2006.

PRESIDENT AND CEO

The Board of Directors appoints the company's President and CEO, whose main terms of employment are specified in writing in an employment contract. The President and CEO is responsible for attending to the day-to-day administration of the company in accordance with legislation and orders and instructions issued by the Board of Directors. Erkki Varis has been the company's President and CEO since 1997.

SALARIES AND FEES

Salaries, fees and emoluments in kind paid to the members of the Board of Directors and the President and CEO totalled EUR 511,000 in 2006.

MANAGEMENT GROUP

The Management Group is in charge of the day-to-day management of the company and prepares matters for consideration at the meetings of the Board of Directors and its Working Group. The Management Group is chaired by Erkki Varis and its members are Maarit Herranen, Ilkka Hämälä, Ville Jaakonsalo, Anneli Karhula, Pekka Kauranen (Metsäliitto), Timo Merikallio, Timo Piilonen and Jyrki Yrjö-Koskinen. Its secretary is Marko Kuoppa.

In 2006, the Management Group met 11 times.

INTERNAL AUDIT

The company's internal auditing is carried out by Metsäliitto Group's Internal Audit and PwC Services Oy as part of Metsä-Botnia's internal control system.

Oy Metsä-Botnia Ab's Board of Directors 2006

Kari Jordan, 50

Position
Chairman of the Board, member since 2004

Principal duty
President and CEO of Metsäliitto Group since 1 January 2006

Education and professional and other experience
M.Sc. (Econ). Executive Vice President of Nordea Bank AB 2000–2004.

Other duties
Vice Chairman of the Board of Metsäliitto Cooperative since 2006, Chairman of the Board of M-real Corporation since 2005, Chairman of the Board of Metsä Tissue Corporation since 2004, Vice Chairman and member of the executive committee of the Finnish Forest Industries Federation 2006, member of the Board and executive committee of the Confederation of Finnish Industries 2006, Vice Chairman of the Board of Directors of Finnair since 2003, member of the Board of Directors of Neste Oil Corporation since 2005. Member of the Board of the Finnish Cultural Foundation since 2004, member of the Board of the Foundation for Economic Education since 2001, member of the Board of the Mannerheim Foundation since 2003, Chairman of the Supervisory Board of the Foundation for Pediatric Research since 2003.

Jussi Pesonen, 46

Position
Vice Chairman of the Board, member since 2004

Principal duty
President and CEO of UPM-Kymmene Corporation

Education and professional and other experience
M.Sc. (Process Technology), several management posts in UPM-Kymmene Corporation, most recently Senior Executive Vice President 2001–2003.

Other duties
Member of the Board of Sampo Plc since 2006, member of the Board of the Confederation of Finnish Industries since 2005, member of the Finnish Forest Industries Federation since 2003 and Chairman of the Board since 2006. Member of the Board of the Confederation of European Paper Industries (CEPI) since 2004, and member of the Council of ICC Finland since 2006.

Hannu Anttila, 51

Position
Member of the Board since 2004

Principal duty
Executive Vice President, Strategy, for Metsäliitto Group

Education and professional and other experience
MSc (Econ.)
President and CEO of M-real Corporation 2005–2006, Metsäliitto Group Chief Financial Officer 2003–2004, CEO of Metsä Tissue 1998–2003, Executive Vice President of Oy Metsä-Botnia Ab 1997–1998, Metsä-Serla Oy Chief Financial Officer 1992–1996.

Other duties
Member of the Board of Metsä Tissue since 2004, member of the Board of Neomarkka Plc since 2003, and member of the Board of Myllykoski Paper Oy since 2004.

Pauli Hänninen, 58

Position
Member of the Board since 2004

Principal duty
UPM-Kymmene Corporation, Executive Vice President, Technology Development

Education and professional and other experience
Lic. Tech. Various production and line management positions with A. Ahlström Corporation 1974–1986, most recently as Vice President and General Manager of Kauttua paper mill 1986–1989. Director of Kaipola LWC mill 1989–1993. Vice President and General Manager of Kajaani paper mill 1993–2000. Vice President, Product Group Uncoated Papers 2001–2003. Senior Vice President, Fine Paper Operations 2001–2003. Executive Vice President, Business Development, 2003–2006.

Other duties
Vice-Chairman of the Board of KCL.

Martin Lillandt, 61

Position
Member of the Board
since 2006

Principal duty
Metsäliitto Cooperative, Senior Executive Vice President

Education and professional and other experience
M.Sc. (Forestry) Helsinki University 1969, Forest Manager, the Central Union of Agricultural Producers and Forest Owners (MTK) 1993–2002, Managing Director of the Trade Association of Finnish Forestry and Earth Moving Contractors 1979–1993, various positions in wood procurement and machine trade 1969–1979.

Other duties
Member of the Board of the Wood Products Industry since 2003, member and Vice Chairman of the Supervisory Board of Vapo Oy since 2007, Chairman of the Board of the Finnish 4H Federation since 2001, Chairman of the Board of the Finnish Forest Foundation since 2005, and Chairman of the Forestry Committee of TTS (Work Efficiency Institute) since 2005.

Heikki Malinen, 44

Position
Member of the Board
since 2005

Principal duty
UPM-Kymmene Corporation, Executive Vice President, Strategy

Education and professional and other experience
M.Sc.(Econ.), MBA (Harvard) Various positions in Finnpap 1988–1994, including Sales and Marketing Director. Executive Vice President, Business Development, United Paper Mills 1995–1996. International consulting firm McKinsey & Company 1997–1999. Leading partner in Jaakko Pöyry Consulting 2000–2001. Executive Vice President of North American sales for UPM-Kymmene Inc, and Executive Vice President of UPM North American operations 2004–2005.

Arimo Uusitalo, 64

Position
Member of the Board
since 1994

Principal duty
Farmer

Education and professional and other experience
MSc (Agriculture and Forestry), titular farming counsellor.

Other duties
Chairman of the Board of Metsäliitto Cooperative and member of the Board of M-real Corporation and Metsä Tissue Corporation.

Erkki Varis, 58

Position
Member of the Board
since 1997

Principal duty
President and CEO of Oy Metsä-Botnia Ab

Education and professional and other experience
M.Sc. (Eng.). Various management posts in Metsä-Botnia, most recently Managing Director of Oy Metsä-Rauma Ab.

Other duties
Member of the Board of Pohjolan Voima Oy since 2000, member of the Supervisory Board of Pension Insurance Company Ilmarinen Ltd since 1997, Chairman of the Supervisory Board of A/S Baltic Pulp since 2005, Chairman of the Board of Excellence Finland since 2003, Chairman of the Board of Compañia Forestal Oriental S.A. and Botnia S.A. since 2003, member of the Finnish Academies of Technology since 2003, member of the Competitiveness Committee of the Finnish Forest Industries Federation since 2007.

Environmental balance sheet

ENVIRONMENTAL POLICY OF BOTNIA

Continuous improvement to ensure the success of our business operations entails the following

- The high quality of our products, tailored to the needs of customers and produced cost-effectively, saves on the resources needed by our customers, supports the recyclability of the end products, and assists our customers to conduct environmentally responsible business.

- We expect our partners to follow a responsible environmental policy. Together with our wood suppliers we are committed to taking into consideration the economic, social and environmental aspects in forest management and procurement in accordance with the principles of sustainable development. We know the origin of the wood we use and we give priority to certified wood.

- In environmental matters, we are the forerunners in the pulp industry. We use the best available techniques at our mills. We take an active part in the development of technology and improve the environmental performance of our mills. We ensure the uninterrupted operation of our mills through a high standard of professional skills and the quality of preventive maintenance.

- We generate heat and electric power efficiently and use them sparingly. We are a net producer of bioenergy.

- The members of our working community know the environmental impacts associated with their work and recognize their own opportunities and obligations to influence matters.

- We minimize the environmental impacts of our operation and regularly monitor the environment. We assess the environmental risks of our operations on a regular basis and reduce them proactively.

- We work to achieve better management of disturbances with a view to improve the quality of life in our mill communities.

- We handle environmental issues openly in cooperation with our customers, the general public and the authorities. Transparent and straightforward environmental communication is part of this.

TAKING RESPONSIBILITY FOR THE ENVIRONMENT

Botnia is committed to responsible action in all environment-related matters in compliance with laws, regulations and permits, to open communication about its activities, and to promotion of dialogue with all parties concerned. The company's environmental policy and principles have been sharpened and are observed in all activities.

The environmental permits granted to the mills set limits for certain emissions and require the mills to monitor all emissions included in their permits and to report them to the relevant authority. If any value is likely to be exceeded, the authority is notified immediately and remedial measures are agreed.

FOCUS ON DEVELOPMENT AND IMPROVEMENT

During the year in review, new environmental permits were issued to the Joutseno, Rauma and Äänekoski mills, for which the usual amendment requests have been submitted. The permits for the Kaskinen and Kemi mills will be obtained in early 2007. At the same time, the focus of Botnia's environmental team has shifted from permit matters to the development and improvement of operations.

As a rule, production emissions have been below permit limits. In 2005, the prolonged interruption in production reduced production levels and total emissions below the previous years' level. During the year under review, production at the four mills was at a record level and accordingly total environmental emissions returned to their earlier level.

The Rauma pulp mill invested in renewal of its bleaching process and the expansion of effluent treatment. The new process will be started up in the spring of 2007. A new landfill was opened in Joutseno. New landfill sites at Kaskinen, Kemi and Äänekoski are being built, and they will be taken into use in 2007.

A fourth odour panel study was conducted at the Rauma pulp mill. The study evaluated the odours and odour emissions of Botnia's and Forchem's production plants. According to the study carried out by VTT Technical Research Centre of Finland, the prevalence of odours has either decreased or has stayed at almost the same level as in previous studies. The portion of local inhabitants who found pulp mill odours irritating had decreased from 18 per cent to 8 per cent. The former percentage is from the first odour study conducted in 1997.

The mills have participated in the Metsäliitto Group's energy optimization project by evaluating relevant sites and by implementing energy-saving projects. Lower energy consumption often reduces specific airborne emissions from production processes.

The internal auditing of environmental systems has been boosted by linking it to the benchmarking process.

The company has pursued to enhance communications and interaction with environmental organisations.

INTERNATIONAL PROJECTS

In the Uruguay project, the environmental focus has been on the construction of an effluent treatment plant and the implementation of other environmental processes, environmental monitoring and preparation of required detailed environmental management plans. The Cumulative Impact Study (CIS) commissioned by IFC for its investment decision was completed in October, enabling the organisation to make a favourable financing decision.

In Russia, the Svir Timber sawmill came on stream. Its first environmental emissions data are available in this report.

KEY EVENTS AND ACTIONS IN 2006

- New environmental permits (IPPC) were issued to the Joutseno, Rauma and Äänekoski mills, for which amendment requests have been submitted. The IPPC (Integrated Pollution Prevention and Control) permits for the Kaskinen and Kemi mills are pending.
- The modification project for the Rauma pulp mill's bleaching process was initiated. The project includes improving the washing process and expanding the effluent treatment plant.
- A landfill site that meets new waste treatment area regulations was opened in Joutseno.
- The optimization project for improved energy efficiency was launched.
- Production at the Russian sawmill was started with associated environmental monitoring.
- Construction and installation work on the Uruguay mill progressed. The quality of river water, groundwater and air was monitored. Environmental management plans prepared for the construction phase and their implementation subsequently monitored.

BOTNIA'S ENVIRONMENTAL TARGETS FOR 2007

- Production at the Uruguay pulp mill will be started and environmental emissions will be minimized.
- Odour emissions will be reduced at all Finnish mills.
- The Kaskinen mill will invest in the burning of biosludge in its recovery boiler.
- The bleaching modification at the Rauma pulp mill will be started up and environmental emissions will be minimized.
- New landfill sites will be built and taken into use at Kaskinen, Kemi and Äänekoski.
- The development and harmonization of environmental reporting, analyses and measurements will be continued.
- Environmental communications and training will be enhanced among own personnel and stakeholders.

BALANCE SHEET

		Joutseno	Kaskinen	Kemi	Rauma	Äänekoski	Total 2006	Total 2005	Change %	Svir Timber
Total production										
Pulp	t/a	571 143	412 770	533 294	531 645	471 105	2 519 957	2 177 431	16	
Sawn timber	m³									164 540
Wood consumption										
Total wood consumption	1,000 s-m³/a	3 226	1 846	2 741	3 004	2 284	13 102	11 307	16	359
Certified wood	%	62	54	86	84	91	76	75	1	
Emissions and discharge										
Process effluent										
Effluent flow	1,000 m³/a	25 023	18 338	28 257	13 027	14 537	99 181	81 947	21	249
Suspended solids	t/a	128	356	414	249	437	1 584	1 400	13	
COD_{Cr}	t/a	6 248	4 650	7 957	3 592	7 065	29 512	24 942	18	
BOD_7	t/a	101	109	158	198	148	714	689	4	
Tot.P	kg/a	3 541	5 344	6 917	5 579	8 725	30 107	26 509	14	
Tot.N	t/a	67	48	69	40	57	280	283	-1	
AOX	t/a	90	22	65	0	140	317	277	15	
Air										
Process*										
SO_2	t SO_2/a	138	310	67	113	381	1 009	1 084	-7	
TRS	t S/a	98	135	54	95	17	399	243	64	
NO_X	t NO_2/a	937	859	1 166	951	978	4 891	3 699	32	
CO_2 - fossil	1,000 t/a	79	56	60	63	13 [1)]	271	233	16	
- biofuel	1,000 t/a	1 236	746	1 280	1 257	796	5 315	4 499	18	
Particles	t/a	143	240	57	623	502	1 564	1 220	28	
Energy generation**										
SO_2	t SO_2/a	Bark sold	88	31	Bark sold	Bark sold	119	85	40	0,4
NO_X	t NO_2/a	7	260	479	0	0	746	582	28	29
CO_2 - fossil***	1,000 t/a	5	8	13	0	0	26	43	-40	0,4
- biofuel	1,000 t/a	0	215	227	0	0	442	391	13	22
Particles	t/a	0	70	7	0	0	77	45	71	68
Solid waste (dry tonnes)										
To landfill	t/a	12 860	10 277	5 938	10 461	4 812	44 348	33 619	32	1 600
Hazardous waste	t/a	79	245	15	13	21	373	85	339	0,2
Process fuels	fuel	natural gas	oil	oil	oil	oil				
Lime kiln and torch / malodorous gas boiler	GWh/a	288	158	195	192	152	984	830	19	
Energy										
Heat production	TJ/a	11 642	8 893	10 938	9 810	6 977	48 262	41 684	16	210
- black liquor	TJ/a	11 236	6 678	8 992	9 623	6 893	43 422	37 099	17	
- bark / malodorous gases	TJ/a		1 389	1 596	4	0	2 989	2 998	0	206
- bought fuel	TJ/a	406	827	350	183	85	1 851	1 588	17	4
Biofuels	TJ/a	11 236	8 637	10 751	9 708	6 908	47 240	40 509	17	206
Share of biofuel	%	97	97	98	99	99	98	97	1	98
Power production	GWh/a	664	400	558	514	340	2 476	2 076	19	
Power consumption	GWh/a	346	327	379	400	274	1 726	1 538	12	36
Net share of pulp mill	%	192	122	147	128	124	143	135	6	

* recovery boiler, lime kiln and other process emissions
** primary boilers
*** peat counted as fossil fuel

1) CO_2 is used to produce PCC

TREND IN EMISSIONS

In 2005, the prolonged interruption in production reduced production levels and total emissions were below the previous years' level. In 2006, production at four mills was at a record level and total environmental emissions returned to their earlier level.

During 2006, the effluent discharges of the Kemi mill were significantly reduced. Disturbances at other mills had an effect on the total effluent discharges per ton. Some measured effluent parameters were lower than in 2005 (notably biological oxygen demand, phosphorus, nitrogen, and AOX), while some were higher (suspended solids and chemical oxygen demand).

With regards to emissions into air, emissions of sulphur dioxide were curtailed, but increased production speed was reflected in an increase of nitrogen oxide emissions. More accurate estimation of fugitive emissions of reduced sulphur compounds was reflected in a significantly increase of the total amount of TRS emissions.

The increase in the volume of hazardous waste was due to the cleaning of the tall oil tank at Kaskinen and soil lightly polluted by spilled oil at Joutseno.

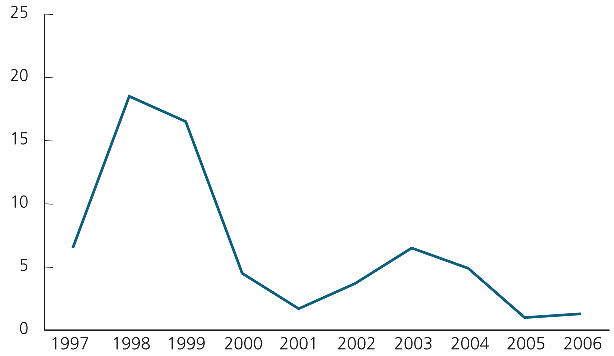
Increased output at the mills reduced energy consumption. Consequently, self-sufficency in energy rose to a new record.

ENVIRONMENTAL INVESTMENTS

The biggest environmental investments in Finland in 2006 were at the Rauma mill, where an improved washing process and an expanded effluent treatment plant were required for the new bleaching process. New landfills were constructed at Kaskinen, Kemi and Äänekoski and expansion of the Joutseno landfill began.

In Russia, an effluent treatment plant at Svir Timber sawmill began operation. The biggest environmental investments were associated with the construction of the mill in Uruguay. However, the figures show only about a million euros worth of environmental investments in 2006, as the full investment will be accounted in the financial statement of 2007, the year in which they will come into effect. The mill in Uruguay will continue to account for most of the environmental investments in 2007, too. In Finland, the renewal of the bleaching process at Rauma mill will proceed, as will the construction of new landfills. The Kaskinen mill will start burning bio sludge in its recovery boiler.

Environmental investments 1997–2006 EUR M



ENVIRONMENTAL PERMITS

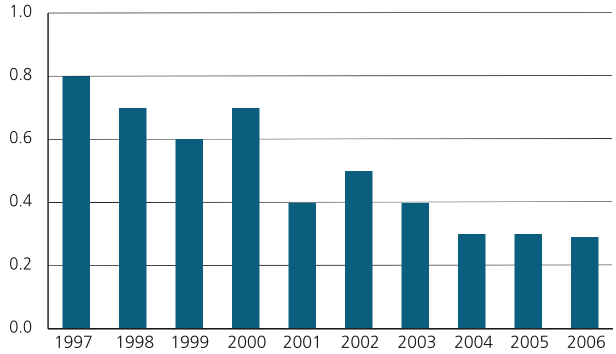
		Joutseno	Kaskinen	Kemi	Rauma	Äänekoski
Effluent	Current permit	The Supreme Administrative Court 20.5.2003	Vaasa Administrative Court 23.12.2004	Water Rights Appeal Court 30.6.1999	Vaasa Administrative Court 15.5.2001	Vaasa Administrative Court 9.5.2000
Air	Current permit	29.7.1994 /10.8.1998	22.12.1992 /16.5.1997	15.6.1999	2.6.1995 /25.1.2001	27.5.1992 /20.1.1998
Solid waste	Current permit	25.5.2000	12.3.1999	15.6.1999	1.6.1998	15.6.1998
IPPC permit status		Permit granted 20.12.2006. Permit going through complaint process	Awaiting permit	Awaiting permit	Permit granted, 31.10.2006. Permit going through complaint process	Permit granted, 7.11.2006. Permit going through complaint process

WASTE MANAGEMENT AND LANDFILLS

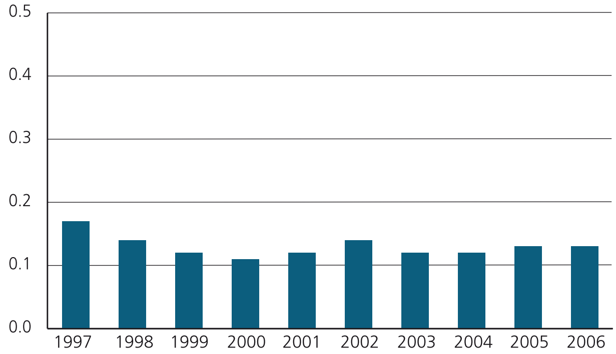
	Joutseno	Kaskinen	Kemi	Rauma	Äänekoski
Waste utilization	Sorting of waste: recyclable material sent for re-use. Primary sludge sold together with bark as fuel, biosludge burned in mill's recovery boiler. Lime dust from lime kiln sent for re-use.	Sorting of waste: recyclable material sent for re-use. Primary sludge sold together with bark as fuel, biosludge burned in mill's recovery boiler. Lime dust from lime kiln sent for re-use. Bark ash used as construction material on mill site. Lime dust from lime kiln sent for re-use.	Sorting of waste: recyclable material sent for re-use. Fibre and bark sludge burned in bark-fired boiler, biosludge in recovery boiler. Ash used for soil improvement.	Sorting of waste: recyclable material sent for re-use, combustible waste burned at UPM's Rauma mill. Bark sludge sent to Tmi Veikko Lavi for composting. Lime dust from lime kiln sent for re-use.	Sorting of waste: recyclable material sent for re-use. Primary and biosludge sold with bark for Äänevoima Oy's biofuel boiler. Lime dust from lime kiln sold for re-use.
Landfill and its estimated lifetime	Own site shared with Stora Enso Oyj and M-real's CTMP mill. Present area opened early in 2002. Lifetime 10 years.	The closing of the current own landfill will start in 2008. A new landfill is under construction and will be commissioned at the end of 2007.	The closing of the current own landfill will start in 2008. A new landfill is under construction and will be commissioned at the end of 2007.	The extension of UPM-Kymmene's landfill commissioned in 2003. Lifetime 10 years.	Ownership of the landfill for Äänekoski integrated mills was transferred to Botnia in 2006. Landfill commissioned in 1990. Remaining lifetime 13 years. A new landfill is under construction and will be commissioned at the end of 2007.
Household waste	Municipal waste taken to municipal landfill site.				
Treatment of leachates	Pulp mill's biological treatment plant. The forest industry´s effluent plant also treats Rauma city's muncipal effluents after they have been first treated by the city's own effluent plant.				
Hazardous waste	Sent to hazardous waste treatment plants.				
Closed landfills	Site used in 1992–2001 in Joutseno now being landscaped. M-real's old landfill at Äänekoski, used in the 40's and 50's, was closed and will be landscaped.				

TREND IN WASTEWATER DISCHARGES

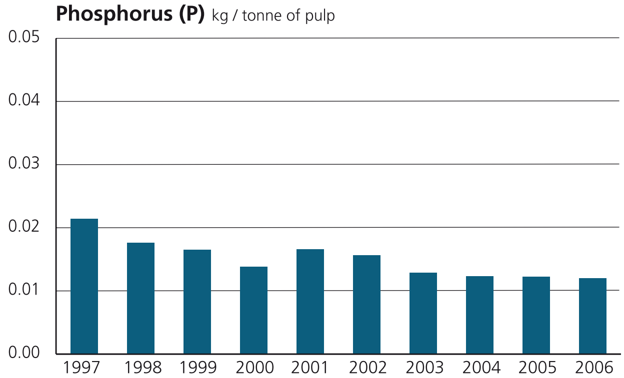
Biological oxygen demand (BOD_7) kg / tonne of pulp



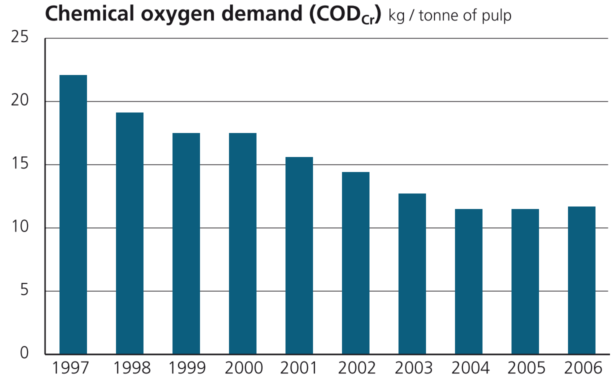
Chlorine and other halogens bound to organic material in effluent (AOX) kg / tonne of pulp



Phosphorus (P) kg / tonne of pulp



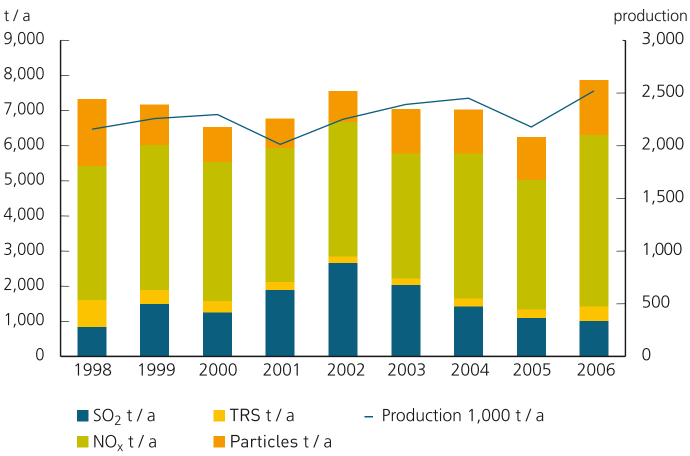
Chemical oxygen demand (COD_{Cr}) kg / tonne of pulp

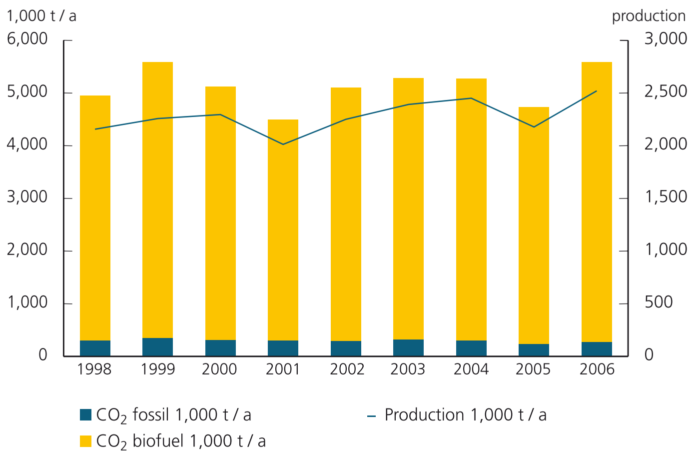


EMISSIONS TO AIR

Since 1998, Botnia has published public reports of the emissions to air from Botnia's pulp mill processes – from the recovery boilers, lime kilns and malodorous gas boilers and torches.

Over the years, the reporting principles have developed. Some results stem from biannual measurements, others from continuous monitoring. It is difficult to determine the fugitive emissions of reduced sulphur compounds, and the criteria were made more precise in 2006. Botnia has initiated research projects on the measurement of emissions to air, improvement of reporting, and the methods of reducing emissions of reduced sulphur compounds.





EMISSIONS TO WATER AND PERMIT LIMITS

			Joutseno				Kaskinen				Kemi				Rauma				Äänekoski			
			Permit limit mo. av.[1)]	Max mo. av. 2006	Annual av. 2006	Annual av. 2005	Permit limit mo. av.[2)]	Max mo. av. 2006	Annual av. 2006	Annual av. 2005	Permit limit mo. av.[3)]	Max mo. av. 2006	Annual av. 2006	Annual av. 2005	Permit limit 3 mo. av.[4)]	Max mo. av. 2006	Annual av. 2006	Annual av. 2005	Permit limit mo. av.[5)]	Max mo. av. 2006	Annual av. 2006	Annual av. 2005
Flow	1,000	m^3/d		74	69	45		54	50	44		91	77	76		38	36	28		52	40	31
Solid		t/d		0.5	0.4	0.3		2.0	1.0	0.7		1.6	1.1	1.6		1.2	0.7	0.5		2.6	1.2	1.0
BOD_7		t/d	3.5	0.4	0.3	0.3	1.9	0.5	0.3	0.3	4.0	0.6	0.4	0.7	3.3	0.9	0.5	0.4	4.0	1.5	0.4	0.3
COD_{Cr}		t/d	50	19	17	14	29	17	13	12	50	27	22	25	45	11	10	7	35	26	19	13
AOX		t/d	0.50	0.30	0.25	0.22	0.25	0.08	0.06	0.06	0.35	0.23	0.18	0.19	0.45	0.00	0.00	0.00	0.50	0.46	0.38	0.31
Tot.P		kg/d	50	30	10	8	50	31	15	14	70	28	19	24	70	21	15	12	40	36	24	18
Tot.N		kg/d		264	184	225	300	191	129	113	650	392	189	227		158	110	85		222	156	159

1) Permit limits together with M-real Corporation's BCTMP mill. Yearly average permit limits for Joutseno are BOD_7 2,5 t/d, COD_{Cr} 37 t/d, AOX 0,40 t/d sekä P 35 kg/d.
2) Permit limits together with M-real Corporation's BCTMP mill.
3) Permit limits together with Kemi pulp mill and Kemiart Liners.
4) Permit limits together with UPM-Kymmene's Rauma paper mill. The forest industry´s effluent plant also treats the city of Rauma´s effluents.
5) Permit limits together with M-real Corporation's paper and board mill, CP Kelco Oy and Speciality Minerals Nordic Oy Ab's PCC plant.

COMPENSATION CONDITIONS OF EFFLUENT PERMITS

	Joutseno	Kaskinen	Kemi*	Rauma **	Äänekoski ***
Compensation to owners of waters	Lump sum paid	Paid until 2005	Lump sum paid	EUR 9,980 (to be paid through fish planting)	Lump sum paid
Compensation to owners and leaseholders of waterfront	Lump sum paid	Paid until 2005	Lump sum paid	Lump sum paid	Lump sum paid
Compensation to commercial fishermen	Lump sum paid	Lump sum paid in 2005	Lump sum paid		
Water protection fees		EUR 20,520 /a	EUR 8,409 /a		EUR 20,780 /a
Fish planting		sea-trout 40 000 pcs/a whitefish 200 000 pcs/a	sea-trout 12 000 pcs/a value EUR 18 960		whitefish 155,000 pcs/a zander 20,000 pcs/a brown trout 15,000 pcs/a
Fishery fees	EUR 23,546 /a			EUR 14,735 /a	EUR 8,409 /a

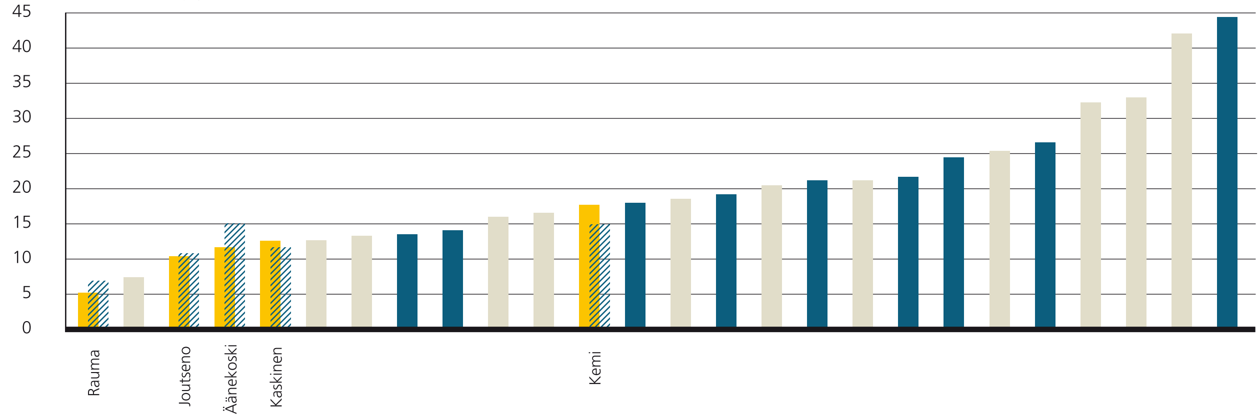
* Compensation paid together with Kemi integrated mills.
** Pulp mill's share of compensation obligations. Effluent permit held jointly with UPM-Kymmene's Rauma paper mill.
*** Joint water permit with Äänekoski's integrated mills.

SPECIFIC EMISSIONS FROM PULP MILLS IN FINLAND AND SWEDEN

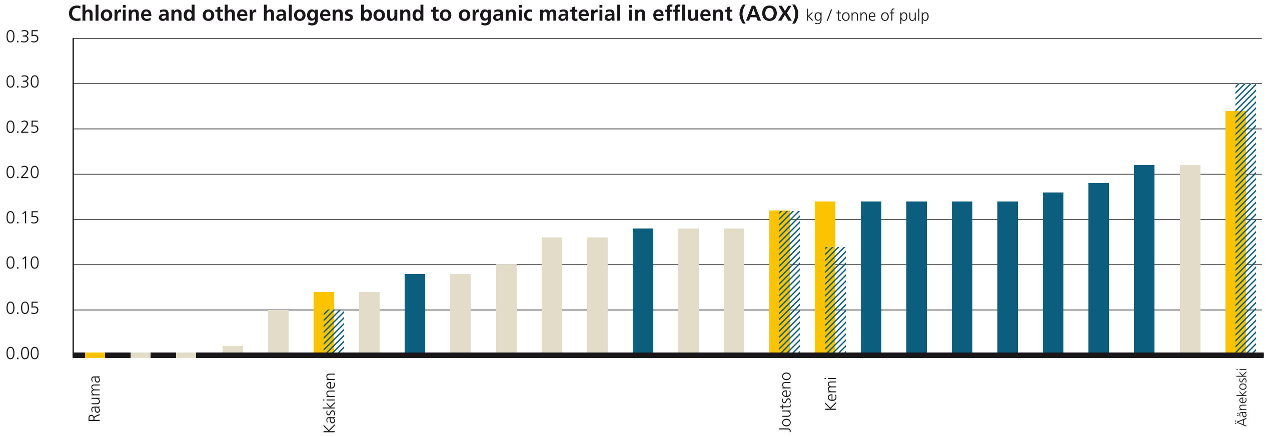
Specific emissions from Finnish and Swedish mills producing bleached sulphate pulp are compared below. The emissions for 2005 from Finnish mills were published by the Finnish Forest Industries Federation, and those for the Swedish mills by the Swedish Forest Industries Federation.

Botnia 2006 | Botnia 2005 | Other Finnish mills 2005 | Swedish mills 2005

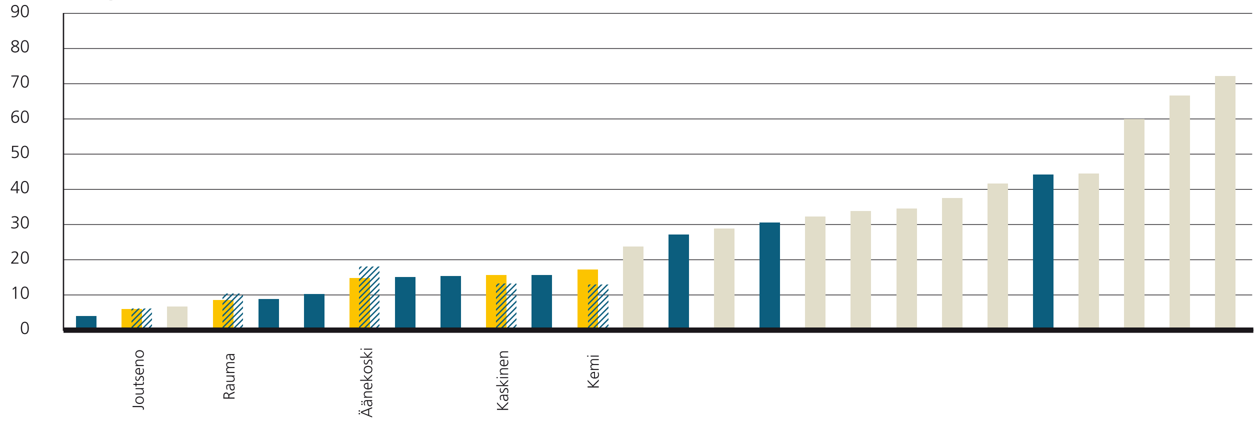
Chemical oxygen demand (COD_{Cr}) kg / tonne of pulp



Chlorine and other halogens bound to organic material in effluent (AOX) kg / tonne of pulp



Phosphorus (P) g / tonne of pulp



GLOSSARY

AOX (Adsorbable Organic Halogens). Measures the amount of total chlorine present in the organic compounds in effluents.

BOD_5, BOD_7 (Biological Oxygen Demand). Indicates how much oxygen is consumed by aquatic microorganisms in degrading the organic material present in a certain volume of effluent in five or seven days.

COD_{Cr} (Chemical Oxygen Demand). Measures the quantity of oxygen required to chemically break down effluents. Also describes the oxygen consumption that results from slow degrading organic compounds in effluents.

Carbon dioxide (CO_2). A gas produced by combustion. Elevated levels in the atmosphere have been shown to accelerate the greenhouse effect, which causes global warming. Derived from biofuel or fossil fuel.

Particles Airborne impurities, e.g., solids such as sodium sulphate, fired lime, lime mud and soot, contained in emissions.

Suspended matter Wood material present in water as a result of debarking and pulp production as well as impurities changed into solids during waste water treatment. Suspended matter can be removed from waste water through sedimentation or filtration.

N The chemical symbol for nitrogen. Nitrogen is the main component (79%) of the atmosphere. Also the cause of eutrophication of watercourses. Derived mainly from the air, wood raw material and various chemicals. Also added as nutrient for microorganisms if necessary.

NO_X Chemical symbol representing nitrogen oxides collectively. Nitrogen oxides are formed mainly by combustion of nitrogen in wood (and other fuel), but also by the reaction of nitrogen and oxygen in the air. Nitrogen oxides are present in flue and exhaust gases. They form compounds responsible for acidification and eutrophication.

P The chemical symbol for phosphorus. An element that causes eutrophication in water systems. Derived mainly from the wood used as raw material. Also added during biological wastewater treatment as nutrient for microorganisms.

Emissions allowance One emissions allowance entitles to emit one ton of fossil carbon dioxide (CO_2) into the atmosphere.

Sulphur dioxide (SO_2). A gas formed by combustion of sulphur-containing fuels. In the atmosphere, sulphur dioxide reacts with water and oxygen to form sulphuric and sulphurous acids, which subsequently form acid rain and hence soil acidification.

TRS (Total Reduced Sulphur). Sulphur-containing compounds, that escape into the air from the sulphate pulp mills and are malodorous even in minute quantities.

Financial review

Report of the board of directors 2006

SALES AND RESULT

The Botnia Group's sales for 2006 increased by 39 per cent year-on-year, amounting to EUR 1,311.3 million (946.5). Profit before extraordinary items was EUR 202.3 million, up 152 per cent on 2005 (80.4). Sales and result improved, in particular, due to the strong price development of pulp, while the clear weakening of the dollar against the euro was the most significant factor contributing to the opposite direction. Compared with the previous year, there were clear improvements in sales, result and production, even though it should be borne in mind that the labour disputes in early 2005 had an adverse effect on that year's operations and result.

Return on capital employed (ROCE) was 14.3 per cent in 2006 (6.2). The ROCE rate was reduced by the pulp mill investment currently under construction in Uruguay, the share of which in the balance sheet is considerable. The return on capital employed was 11.2 (5.2) per cent.

Pulp deliveries rose by 17 per cent on the year before, with pulp sales amounting to 2,503,568 tonnes (2,141,341). Of this amount, 1,587,755 tonnes (1,572,908) went to shareholders and 915,813 tonnes (568,433) to market customers. Softwood pulp accounted for 1,722,156 tonnes (1,462,841) and hardwood pulp for 781,412 tonnes (678,500).

In April, production was launched in Russia at the Svir Timber sawmill, built on the banks of the Svir River in the town of Podporozhye. The operations got off to a good start, and production targets for the first year were exceeded.

During 2006, pulp supply and demand were fairly balanced and manufacturers' pulp stocks remained on a normal level. In North America, unprofitable and outdated pulp mills were shut down, taking 1.6 million tonnes of pulp off the market. The reasons for the shutdowns included the small size of mills, the increased price of energy and, in Canada, the strong local currency. In late 2006, new mills were started up in Chile and Brazil, bringing up to two million tonnes of pulp to the market. Most of this pulp is made from eucalyptus. The impact of the mills will only be felt in the market during 2007.

The price of pulp rose steadily in 2006. In Europe, softwood pulp was selling at USD 600 in January and at USD 730 in December, while the corresponding figures for hardwood pulp were USD 590 and USD 670. The price difference between softwood and hardwood pulp was, on average, USD 38 in 2006 (USD 25 in 2005).

The average exchange rate of the euro against the dollar was roughly 1.26 in 2006 (1.24), slightly higher than the previous year.

FINANCING

Botnia's financial position and liquidity remained good during the review period. At 31 December 2006, the company had liquid reserves and unutilized credit facilities totalling EUR 433.6 million (303.8), approximately EUR 130 million more than at the beginning of the year. Despite the need for capital for the investment in Uruguay, liquidity improved due to loan arrangements made during the year.

The Group's equity ratio was 71.6 per cent at the beginning of the year and 65.8 per cent at the year-end. Net gearing rose to 20.4 per cent (6.3). Interest-bearing net liabilities stood at EUR 268.5 million at the end of the year (74.8).

Loan financing for the pulp mill investment in Uruguay moved ahead towards the year-end when the boards of directors of IFC and MIGA, the World Bank organizations financing private sector investments and offering political risk insurance, respectively, approved the proposed investment and guarantee package. The decision enables IFC and MIGA to participate in the project with a USD 170 million investment and a guarantee of up to USD 350 million. The parent company's liquidity has been sufficient to secure the cash flows required by the investment in spite of the delay in the decision.

CAPITAL EXPENDITURE

The Group's capital expenditure totalled EUR 569.8 million (288.8). The sales of fixed assets were EUR 18.9 million (16.0).

The Uruguay pulp mill investment progressed as planned, and the mill is scheduled to start up in the third quarter of 2007. At the year-end, there were 4,200 persons working in the project, and the total value of the project was approximately USD 1.1 billion.

The results of a study carried out by the World Bank on the project's environmental and socioeconomic impacts were published at the end of the year. The study confirmed the project's positive socioeconomic impact and the fact that the mill would not cause significant adverse effects on the environment or the commercial and industrial life in the area. Consequently, the investment and guarantee applied for from the World Bank's IFC and MIGA were approved in late November.

Forestal Oriental S.A. (FOSA), a subsidiary of Botnia, continued to expand its planting and harvesting capacity. FOSA currently owns a little under 160,000 hectares of land, 60 per cent of which is cultivated.

The sawmill built in the town of Podporozhye in the Leningrad region, Russia, was started up successfully at the beginning of the year, exceeding the production volume planned for 2006.

In the Vologda region, Russia, an agreement was reached with the local government on commencing a pre-feasibility study for a pulp mill as part of an assessment of Botnia's long-term development options.

In late 2006, Botnia proposed to the Latvian government that the jointly owned A/S Baltic Pulp and the inactive pulp mill project be discontinued.

The most significant domestic investment was the modification of the Rauma mill's bleaching process to allow the production of ECF-bleached pulp. The main aim is to improve pulp quality characteristics to better meet customer needs. The investment will raise the mill's production capacity by 45,000 tonnes a year. The total cost estimate for the project, to be implemented in 2006–2007, is EUR 45 million.

ORGANISATION AND PERSONNEL

The company has a management model under which responsibility for customer focus and business efficiency rests with the directors of core processes. The personnel is organised into competence centres. The primary aim of this process-based management is to create the best possible conditions for customer focus and to ensure the flexible and efficient use of skills and resources. In human resources development, the aim is to support the realization of the company's strategy by developing skills, ways of working and the functioning of the workplace systematically and over a long span of time. Benefits offered for personnel are described in the Accounting policies.

Key areas of focus in 2006 included securing resources for the Uruguay mill and implementing the personnel training plan, promoting the Botnia way of working, supporting acquisition of multiple skills, and further developing management practices and key resources.

Recruitment of local employees was continued in Uruguay, and the mill's future supervisors were trained in Finland. Recruitment and training of production process operatives began in late 2006. During the year under review, a total of 35 project team members moved from Finland to Fray Bentos with their families.

The Russian personnel of the Podporozhye sawmill was trained at Finnish sawmills in cooperation with Finnforest. Russian process workers took over the responsibility for the sawmill's operation during the spring, as planned.

The fourth round of recruitment training, for a group of 15 Botnia mill workers, began at M-Institute Silva. The training programme, organized by AEL (Center for Technical Training) to encourage employees to acquire multiple skills, was attended by 150 people.

In August, the company reached an agreement with Oy Botnia Mill Service Ab on transferring the maintenance of the Rauma and Äänekoski mills and some 100 persons to Botnia Mill Service, a joint venture of YIT and Botnia, as of the beginning of 2007. Botnia Mill Service is now responsible for the maintenance of all five mills in Finland.

The Group employed an average of 1,852 people (1,677) in 2006, the year-end figure being 1,898 (1,654). Labour costs totalled EUR 59.4 million (48.5).

DEVELOPMENT WORK

In accordance with the company's strategy, special emphasis in 2006 was given to the further development of fibre expertise to meet customer needs and also to product and process development. The work was conducted in line with the plan laid down for the development of products and production processes.

In product development, the main focus was on acquiring expertise in the functioning of eucalyptus products in customers' processes. Mill-scale simulations were conducted at the Kaskinen mill using the same mix of raw material and manufacturing process as at the Uruguay mill. The results and experiences of the product's quality and functionality on paper machines are promising. The quality is comparable to that of our current South American competitors, and everything is set for a successful launch of the product.

With respect to softwood pulp, the focus in the development of reinforcement pulp was on the pulp's runnability and functionality in customers' processes as well as uniformity of quality.

The renewed process of the Rauma mill is due to start up in the second quarter of 2007, increasing the production volume and qualitative performance of reinforcement pulps. During the past year, the company defined the technical concept of a future reinforcement pulp mill and the short-term goals of process development.

WOOD PROCUREMENT

Wood consumption by Botnia mills amounted to 13.1 million cubic metres (11.3). Softwood (including chips and sawdust) accounted for 9.8 million cubic metres (8.5) and hardwood for 3.3 million cubic metres (2.8). The Kaskinen mill used eucalyptus transported from Uruguay for the purposes of product development and technical marketing for the future Uruguayan pulp, and to replace more expensive wood imported from the Baltic Sea region.

Wood prices at the mills in Finland were fairly stable, whereas prices for imported wood rose considerably towards the year-end.

All of Botnia's current mills have the right to use the PEFC (Programme for the Endorsement of Forest Certification Schemes) label on their products. Wood procurement, pulp production and sales all comply with the demands of the certificate. In 2006, 77 per cent of Botnia's wood raw material came from forests carrying FFCS (Finnish Forest Certification System) certification. The forests of Botnia's Uruguayan subsidiary Forestal Oriental S.A. (FOSA) are certified under the FSC (Forest Stewardship Council) scheme.

PRODUCTION

Pulp production totalled 2,519,956 tonnes (2,177,429), which is a new production record for Botnia. The figure was still 80,000 tonnes below the target, 30,000 tonnes of which was due to the strike of the Finnish Paper Workers' Union in May. Softwood pulp accounted for 69 per cent of production (67 per cent).

THE ENVIRONMENT

New environmental permits were issued to the Joutseno, Rauma and Äänekoski mills, for which the usual amendment requests have been submitted. The permits of the Kaskinen and Kemi mills are pending. At the same time, the focus of Botnia's environmental team has shifted from permits to the improvement of operations.

Environmental load from the mills were below the limits set in the permits.

In the Uruguay project, the focus has been on the construction of a effluent treatment plant and the implementation of other environmental management processes, environmental monitoring and the drawing up of required detailed environmental management plans.

The Cumulative Impact Study (CIS) commissioned by IFC for its investment decision was completed in October, enabling the organization to make a positive financing decision.

Environmental auditing has been given a more prominent role in internal benchmarking of the mills. The company has also striven to enhance communications with environmental organizations.

BOARD OF DIRECTORS

Martin Lillandt, Senior Executive Vice President of Metsäliitto Cooperative, and Heikki Malinen, Executive Vice President, Strategy, UPM, joined the Board of Directors as new members on 1 January 2006. Kari Jordan (Chairman as of 1 January 2006), Arimo Uusitalo, Hannu Anttila, Jussi Pesonen and Pauli Hänninen continued as members of the Board.

CHANGES IN GROUP STRUCTURE

In January 2006, Botnia's Uruguay-based forestry company Forestal Oriental S.A. purchased the remaining 50 per cent of the shares of wood procurement and logistics company Tile Forestal S.A. from the Otegui Group, which in turn acquired 9 per cent of the shares of Botnia S.A., set up to implement the pulp mill project in Uruguay. On 1 November, the operations of Tile Forestal were merged with FOSA forming the new entity Forestal Oriental as of the same date.

Consequently, the ownership structure of the Uruguay investment is now as planned, with Botnia South America S.A. owning 91 per cent of Botnia S.A. and the Otegui Group the remaining 9 per cent. The ownership of Botnia South America S.A. is divided as follows: Botnia B.V. 82.1 per cent, UPM-Kymmene Corporation 12.4 per cent and Metsäliitto 5.5 per cent.

No longer necessary for the company's operations, holding companies Haukivaara Oy, Kaskisten Lämpö Oy, Joutsenon Pulp Oy and Pulpin Talot Oy were merged into Oy Metsä-Botnia Ab in December.

RISKS AND UNCERTAINTIES

The development of world market pulp prices and changes in the exchange rate for the dollar have a material impact on the result of Botnia's operations. The price development and sufficiency of roundwood present a risk for both our result and operations.

OUTLOOK

In 2007, particular attention will be given to starting up the Uruguay pulp mill in the third quarter of the year, as planned. In addition to getting the mill ready for production technically, we need to continue training the personnel and developing the operations further to bring them in line with the Botnia way of working. We also intend actively to contribute to solving political issues related to the mill and continue to provide the locals with information.

The outlook for the sawmill in Russia is good following the successful start-up.

In Finland, the company will continue to focus on continuous improvement of cost-effectiveness and quality, and on the further development of business processes and expertise. Other important goals are securing the supply of raw material for reinforcement pulp production and preparing the way for possible pulp production in Russia.

Supply and demand of pulp are fairly well balanced, and the mills' production targets are based on full capacity utilization. Apart from maintenance shutdowns, there are no major interruptions in sight, although the impact of weather conditions on wood harvesting and transport may result in exceptional arrangements in wood supply during the year.

In early 2007, the market will be affected by the new pulp mills started up at the end of last year and having a combined annual production capacity of two million tonnes, most of which is eucalyptus pulp. At the same time, certain regions are suffering from a shortage of wood. in North America, the poor order book situation of sawmills has led to a scarcity of sawmill chips, particularly in British Columbia, Canada. In the United States, wood is in short supply in the Southern states and on the West Coast. In Europe, the price of wood has risen clearly in Germany and France. In late 2007, new mills will be started up in Brazil and Uruguay, adding up to 2.3 million tonnes of eucalyptus pulp capacity. However, the effect of this will only be felt in the market in 2008.

Thanks to the long-term development of production efficiency and product quality, Botnia's competitiveness in the pulp market will remain good. The start-up of the Uruguay mill, scheduled for late 2007, will not have a significant effect on the company's result.

OTHER FACTORS

Information about the company's shares can be found in the Notes under section 17. The Board of Directors' proposal for the distribution of disposable funds is on page 84.

CONSOLIDATED INCOME STATEMENT

EUR 1,000	Note	1-12/2006	1-12/2005
Sales	3	**1 311 294**	**946 512**
Increase/decrease in finished goods		11 517	14 590
Other operating income	4	27 051	27 629
Materials and services			
Materials and supplies		669 318	558 617
External services		172 040	84 407
Personnel expenses	5	96 693	81 558
Depreciation, amortisation and impairment charges	6	103 764	112 207
Other operating expenses	5	95 549	72 187
Operating profit		**212 498**	**79 755**
Share of results in associated companies		-440	515
Exchange gains and losses	7	-250	3 849
Other financial income and expenses	7	-9 509	-3 711
Result from continuing business operations before taxes		**202 299**	**80 407**
Income taxes	8	-62 482	-21 029
Profit for the financial period		**139 817**	**59 377**
Distribution of profit			
To parent company shareholders		**147 998**	**58 223**
To minority interests		**-8 181**	**1 155**
		139 817	**59 377**

CONSOLIDATED CASH FLOW STATEMENT

EUR 1,000	**2006**	2005
Cash flow from operating activities		
Net profit for the period	147 998	58 223
Adjustments to net profit	170 785	124 630
Interest received	4 010	3 638
Interest paid	-9 247	-5 911
Dividends received	12	5
Other financial items, net	-3 249	1 992
Income taxes paid	-33 058	-21 016
Change in working capital	34 675	-50 764
Net cash provided by operating activities	**311 928**	**110 797**
Cash flow from investing activities		
Acquisition of subsidiary shares	-41 671	-2 045
Acquisition of shares in associated companies	-714	-2 209
Capital expenditure	-527 428	-254 408
Proceed from sales of fixed assets	24 342	16 149
Increase in long-term receivables, net	14 535	-15 303
Net cash flow from investing activities	**-530 936**	**-257 816**
Cash flow from financing activities		
Increase in long-term liabilities	137 268	0
Payment of long-term liabilities	0	-1 853
Proceed from short-term liabilities, net	22 822	-19 102
Change in short-term receivables, net	-41 390	225 742
Dividends paid	-31 980	-39 796
Other financing cash flow	79 111	40 434
Net cash flow from financing activities	**165 831**	**205 425**
Changes in cash and cash equivalents	**-53 177**	**58 405**
Cash and cash equivalents at beginning of period	71 259	11 998
Translation difference in cash and cash equivalents	-6 194	856
Changes in cash and cash equivalents	-53 177	58 405
Cash and cash equivalents at end of period	**11 888**	**71 259**
Notes to consolidated cash flow statement		
Adjustments to net profit		
Taxes	62 482	21 029
Depreciation, amortisation and impairment charges	103 764	112 207
Share of results in associated companies	440	-515
Profits and losses on sale of fixed assets	-5 477	-11 184
Finance costs, net	10 199	1 166
Change in provisions	-435	-93
Other adjustments	-189	2 020
	170 785	**124 630**
Change in working capital		
Inventories	9 591	-37 872
Current receivables	-218	-81 159
Current non-interest-bearing liabilities	25 302	68 267
	34 675	**-50 764**

CONSOLIDATED BALANCE SHEET

EUR 1,000	Note	**31.12.2006**	31.12.2005
ASSETS			
Non-current assets			
Goodwill	9	3 075	3 874
Other intangible assets	9	12 260	12 244
Property, plant and equipment	9	1 443 947	1 089 691
Biological assets	10	134 346	91 565
Investments in associated companies	11	3 475	7 310
Investments in other companies	11	7 580	7 649
Interest-bearing receivables	12	255	15 867
Other non-interest-bearing non current receivables	12	1 077	0
		1 606 014	**1 228 200**
Current assets			
Inventories	14	146 238	155 829
Interest-bearing receivables	15	65 811	24 422
Trade and other non-interest-bearing receivables	15	169 165	168 947
Cash and cash equivalents	16	11 888	71 259
		393 103	**420 457**
Total assets		**1 999 117**	**1 648 657**
EQUITY AND LIABILITIES			
Equity attributable to parent company shareholders			
Share capital	17	179 664	179 664
Share premium	17	233 771	233 771
Translation differences	17	-24 485	5 823
Other reserves	17	223 186	223 186
Retained earnings	17	585 307	469 289
		1 197 444	**1 111 734**
Minority interest	17	**117 884**	**69 242**
Total shareholders' equity		**1 315 328**	**1 180 976**
Non-current liabilities			
Deferred tax liabilities	13	106 437	112 360
Retirement benefit obligations	18	2 626	3 428
Provisions	19	1 726	1 359
Interest-bearing liabilities	20	285 612	148 344
Other non-interest-bearing liabilities	21	12 060	13 404
		408 462	**278 895**
Current liabilities			
Interest-bearing liabilities	20	60 832	38 010
Trade and other non-interest-bearing liabilities	22, 23	214 496	150 776
		275 327	**188 786**
Total liabilities		**683 789**	**467 681**
Total equity and liabilities		**1 999 117**	**1 648 657**

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

EUR 1,000	Share capital	Share premium reserve	Other reserves	Translation difference	Results from previous financial periods	Minority interest	Total
Balance at 1 January 2005	179 664	233 771	223 186	-2 792	450 856	30 023	1 114 709
Translation difference				8 615			8 615
Minority interest						39 219	39 219
Profit for the financial period					58 223		58 223
	179 664	233 771	223 186	5 823	509 079	69 242	1 220 766
Dividend paid					-39 795		-39 795
Balance at 31 December 2005	179 664	233 771	223 186	5 823	469 289	69 242	1 180 976
Balance at 1 January 2006	179 664	233 771	223 186	5 823	469 289	69 242	1 180 976
Translation difference				-30 308			-30 308
Minority interest						48 641	48 641
Profit for the financial period					147 998		147 998
	179 664	233 771	223 186	-24 485	617 287	117 884	1 347 308
Dividend paid					-31 980		-31 980
Balance at 31 December 2006	179 664	233 771	223 186	-24 485	585 307	117 884	1 315 328

ACCOUNTING POLICIES APPLIED TO CONSOLIDATED FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES

The following is a description of the principal accounting policies to be adopted in preparation of the consolidated financial statements.

PRINCIPAL ACTIVITIES

Oy Metsä-Botnia Ab is a Finnish joint stock company domiciled in Helsinki. Oy Metsä-Botnia Ab and its subsidiaries together form a forest industry group whose main products are softwood, birch and aspen pulps. The Metsä-Botnia Group is part of the Metsäliitto Group, whose parent company is Metsäliitto Cooperative.

BASIS OF PREPARATION AND VALUATION

Oy Metsä-Botnia Ab's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). The financial statements have been prepared under the historical cost convention as modified by the revaluation of biological assets and derivative agreements.

USE OF ESTIMATES IN THE FINANCIAL STATEMENTS

The preparation of financial statements under IFRS requires the use of estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the balance sheet date, and the reported amounts of revenues and expenses for the reporting period. While these estimates are based on the management's best knowledge at the date of closing the accounts, actual results may differ.

CONSOLIDATION PRINCIPLES

The consolidated financial statements include the financial statements of the parent company Oy Metsä-Botnia Ab and of all those subsidiaries in which the parent company controlled, either directly or indirectly, over 50 per cent of the voting rights at the end of the year or in which it otherwise had a controlling interest. Companies acquired during the financial period are consolidated from the date of their acquisition.

Where necessary, the financial statements of subsidiaries have been adjusted to ensure consistency with the Group's accounting policies.

Acquisitions of subsidiaries are accounted for using the purchase method of accounting. The excess cost of acquisition over the shareholders' equity of acquired subsidiaries is recorded in the balance sheet as goodwill.

In accordance with IFRS 3 "Business Combinations", which came into effect on 1 April 2004, no amortization of goodwill has been made in the financial statements.

All inter-company transactions, unrealized profits, receivables and liabilities, and intra-group profit distributions are eliminated.

Minority interests are disclosed separately from the consolidated financial result attributable to the parent company's shareholders and from shareholders' equity, and are recorded as a separate deduction under shareholders' equity.

Associated companies are those in which Oy Metsä-Botnia Ab holds, either directly or indirectly, 20–50 per cent of the voting rights, or over which the company has significant influence but not overall control. Interests in associated companies are calculated in the consolidated financial statements using the equity method of accounting and shown in the income statement under "Share of results of associated companies". The Group's interest in associated companies is shown in the balance sheet at an amount that reflects its share of the net assets together with goodwill on acquisition, as amortized up to 31 December 2003, under "Investments in associated companies".

FOREIGN CURRENCY TRANSACTIONS

Foreign currency transactions are translated into euros using the exchange rate at the date of the transaction. Receivables and liabilities in foreign currencies are translated into euros using the exchange rate prevailing at the balance sheet date. Foreign exchange gains and losses arising from such translations are disclosed in full under "Financial income and expenses".

The income statements of subsidiaries whose reporting currencies are other than euros are translated into euros using average exchange rates for the reporting period, and their balance sheets at the exchange rates prevailing at the balance sheet date. Translation differences arising on translation and on adoption of the purchase method of accounting are entered in shareholders' equity. In conjunction with the transition to IFRS, translation differences arising before 1 January 2004 are entered in retained earnings and are no longer shown in the income statement when the subsidiary is subsequently sold.

FINANCIAL ASSETS

The Group has complied with standards IAS 32 and IAS 39 since 1 January 2004. Previous to this, financial assets and liabilities were valued in accordance with Finnish accounting practice. From January 2004, financial assets have been categorized according to the standard as follows: 1) Financial assets recognized in the income statement at fair value, 2) Investments to be held to maturity, 3) Loans and other receivables, and 4) Financial assets available for sale. Categorization depends on the purpose for which the assets were acquired and is made at the time of the original entry in the accounts. Financial asset purchases and sales are recorded at the clearance date of the transaction.

The Group's financial assets are categorized primarily as "Investments to be held to maturity" or as "Loans and other receivables". Investments to be held to maturity include those investments which the Group fully intends to retain until the date of their maturity. Loans and other receivables comprises the Group's internal deposits. Financial assets in both categories are valued at amortized cost.

FINANCIAL LIABILITIES

All the Group's financial liabilities are included under "Other liabilities" and loans are not classed as "Financial liabilities to be entered in the income statement at fair value". Financial liabilities entered in the accounts are valued at cost equal to the fair value of the equivalent. Transaction costs are included in the original carrying value of all financial liabilities. All financial liabilities are later revalued at amortized cost using the effective interest method.

DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING

The Group processes derivative financial instruments according to the IAS 32 and IAS 39 standard. In accordance with standards IAS 32 and IAS 39, derivative financial instruments are initially recognized in the balance sheet at cost and thereafter are revalued at their fair value.

The Botnia Group has not yet begun to apply IFRS hedge accounting for derivative financial instruments. All derivative financial instruments are therefore stated at their fair value, and changes in fair value are recognized immediately under financial items in the income statement. Derivative instruments are valued according to accepted financial market practice. The fair values of forward foreign exchange contracts are based on forward prices prevailing at the balance sheet date.
Derivative financial instruments mature within one year and their fair value is therefore disclosed in current non-interest-bearing receivables or liabilities.

Hedge accounting has been applied to hedges for net investment in a foreign unit, and effectiveness testing required by hedge accounting has been performed to verify that changes in the fair value of the hedging instrument cover effectively enough, with respect to the hedged risk, any changes in the fair value of the hedged item. Changes in the fair value of a derivative hedge proven effective are recognized directly against the translation differences accumulated in shareholders' equity.

REVENUE RECOGNITION

Sales are shown net of indirect sales taxes, discounts and other sales adjustment items. Sales are recognized after transfer of the decisive risks and rewards connected with ownership of the goods sold to the buyer, and the seller has neither a continuing right to dispose of the goods nor effective control of the goods. Revenues from services are recorded when the service has been performed.

DELIVERY AND HANDLING COSTS

The costs of goods delivery and handling are included in the income statement under operating costs and expenses.

RESEARCH AND DEVELOPMENT

Research and development costs are expensed as they are incurred. There were no development costs capitalisable under IFRS.

INCOME TAXES

Income taxes shown in the income statement comprise tax on the Group's taxable result for the financial period and deferred tax. Income taxes are entered on an accrual basis based on the taxable result of each reporting unit at the income tax rate applicable in the country in question. Taxes are adjusted by any income taxes for previous periods.

Deferred tax assets and liabilities are calculated on all temporary differences between the tax bases and their carrying amounts in the financial statements. The main temporary differences are due to differences in the depreciation of fixed assets.

Deferred tax is calculated using the official tax rates prevailing at the balance sheet date. Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

LEASES

Leases of property, plant and equipment in which the Group bears a substantial portion of the risks and rewards of ownership are classed as finance leases. Finance leases are capitalized at the time of the lease at the lower of the fair value of the leased property or the present value of the minimum lease payments. The corresponding leasing obligations are included in other non-current interest-bearing liabilities. Property, plant and equipment acquired under finance leases are depreciated over the shorter of their useful lives or the term of the lease. Lease payments are apportioned between the liability and finance charges.

Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are not classed as finance leases. Payments made under such leases are charged to the income statement on a straight-line basis over the period of the lease.

INVENTORIES

Inventories are stated at the lower of cost or net realizable value. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct production costs and a portion of indirect production overheads. Indirect costs of manufacture are allocated to the different product units on the basis of normal operating capacity.

The cost of inventories is determined using either the first-in, first-out (FIFO) method or the weighted average price. Net realizable value is determined as the estimated selling price less completion costs and selling expenses.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment acquired by the Group is stated at historical cost. Assets of acquired subsidiaries are stated at the fair values at the date of acquisition. The carrying value of property, plant and equipment in the balance sheet represents the cost less accumulated depreciation and any impairment charges. Interest costs on borrowings to finance the construction of property, plant and equipment are capitalized as fixed assets during the period of time required to complete the asset for its intended use.

Depreciation of property, plant and equipment is made on a straight-line basis using the following expected useful lives:

Buildings and structures	20 – 40	years
Heavy machinery	15 – 20	years
Light machinery and equipment	5 – 10	years
Other tangible assets	10 – 20	years

Land and water areas are not depreciated. If significant portions of any property, plant or equipment have different useful lives, each portion is treated separately.

Expected useful lives are reviewed at each balance sheet date and, where these differ significantly from previous estimates, the depreciation periods are changed accordingly.

The cost of major renovations is included in the asset's carrying amount when it is probable that the economic benefits derived from the project will exceed the originally assessed standard of performance of the asset. Other repairs and maintenance costs are charged to the income statement during the financial period in which they are incurred.

Gains and losses on disposals are determined by comparing the disposal proceeds with the carrying amount and are included in operating profit.

BIOLOGICAL ASSETS

Biological assets (i.e. living trees) are measured at fair value less estimated point-of-sale costs. The fair value of biological assets other than young seedling stands is based on discounted cash flows. Felling revenues and maintenance costs are calculated on the basis of actual prices and the company's predicted future trend in costs and prices. Forests acquired from third parties are entered at cost. Changes in the fair value of forests are included in operating profit in the income statement.

INTANGIBLE ASSETS

Goodwill

Goodwill represents the excess of the cost of acquisition over the fair value of assets less liabilities of acquired subsidiaries at the date of acquisition. This IFRS 3 treatment of goodwill has been used by Metsä-Botnia for all acquisitions made since 1 January 2004. As provided for under IFRS 1, acquisitions made prior to this date have been accounted for in accordance with the previously adopted accounting principles and no retrospective adjustments have been made.

Instead of amortization, goodwill is evaluated annually and any impairment is charged to the income statement. Goodwill is stated at acquisition cost less amortization accumulated up to 31 December 2003.

Computer software

The costs of developing and producing major computer programs are recognized in the balance sheet under intangible assets and amortized on a straight-line basis over the useful lives of the assets concerned up to a maximum of five years. Direct costs include consultation and other fees paid to outside experts, software licences, personnel costs directly attributable to the project, and other direct costs. The costs associated with maintaining and using computer software are expensed during the reporting period in which they are incurred.

Other intangible assets

Expenditure on patents, licences and trademarks that have limited useful lives is capitalized under intangible assets and amortized on a straight-line basis over their useful lives.

EMISSION ALLOWANCES

Emission rights received from governments at no charge have been recognized as intangible assets and the corresponding government grant as prepayment in the balance sheet under liabilities at fair value at the date of acquisition. Emission rights are measured at initial cost or a lower fair value. Emission rights are not depreciated. Liabilities concerning actual emissions are recognized as expenses and liabilities, and the corresponding government grant as income at the same time as the actual emissions at initial cost. Therefore, the emission rights received in the initial allocation have no impact on profit and loss. Only purchases of additional rights or sale of surplus rights have an impact on profit and loss.

ACCOUNTS RECEIVABLE

Trade receivables are carried at their anticipated realizable value, which is the original invoice amount less an allowance for doubtful accounts. Such an allowance is made when there is justifiable reason to believe that the Group will not be able to collect the amount due under the original terms of the receivable.

PROVISIONS

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events and it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount can be made. If the obligation is expected to be met in full or in part by reimbursement from a third party, the reimbursement is recognized as a separate asset, but only in cases where the reimbursement is virtually certain.

ENVIRONMENTAL OBLIGATIONS

Expenditure resulting from remediation of existing conditions and that does not contribute to current or future revenues is expensed. Environmental obligations are recognized based on current environmental laws and regulations when it is likely that liability has arisen and the amount can be reasonably estimated.

COST OF LIABILITIES

The costs of liabilities are in most cases charged to the accounts during the financial period in which they are incurred. In the case of major long-term investments in tangible fixed assets, the cost of liabilities arising from the acquisition and construction of the asset is included directly in the acquisition cost of the asset in question. The direct transaction costs of loans are deducted from the original cost of the loan and allocated as interest expenditure using the effective interest method.

EMPLOYEE BENEFITS

Pension obligations

The Group operates pension schemes in several countries based on the regulations and practices in force in each country. Most of these are defined contribution schemes. In the case of defined benefit schemes, the employer is generally responsible for ensuring that past and present employees covered by such schemes receive the benefits to which they are entitled.

The liability in respect of defined benefit pension schemes is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, together with adjustments for actuarial gains and losses. The defined benefit obligation is calculated by independent actuaries. Pension obligations are shown in the balance sheet under liabilities as retirement benefit obligations.

In the case of defined contribution schemes, pension contributions are paid to pension insurance companies on the basis of earnings during their period of employment, after which the Group has no further payment obligations. Contributions to such schemes are charged to the income statement during the period to which they relate.

Share-based payments

A share-based incentive scheme has been established for top management. The potential compensation under the incentive scheme is based on Oy Metsä-Botnia AB's operating profit and return on capital employed and is paid partly in category B shares in M-real Corporation and shares in UPM-Kymmene Corporation, and partly in cash. The fair value of the share is its market value at the date of grant.

DIVIDENDS

Dividends are set against shareholders' equity in the period in which they are approved by the company's shareholders.

2. FINANCIAL RISK MANAGEMENT

The financial risks associated with business are managed in accordance with the financial policy endorsed by the Board of Directors and the company's senior management. The policy provides detailed instructions on the management of foreign currency exposure and interest rate and counterparty risks, and for employing derivative financial instruments. The purpose is to protect the Group against major financing-related risks, to achieve a balanced cash flow and to allow the business units time to adjust their operations to changing conditions.

FOREIGN CURRENCY EXPOSURE

Foreign currency exposure consists of the risks associated with foreign currency flows and balance sheet items denominated in foreign currencies. Most of the Group's costs are incurred in the euro-zone, but some sales are in dollars, while share sales are based on market prices quoted in dollars. Sales revenues therefore vary along with changes in the exchange rate for the dollar, while production costs remain unchanged. A strengthening of the dollar therefore has a positive impact on the consolidated financial result and a weakening of the dollar a negative impact.

Translation risk concerning equity denominated in foreign currency arises from the consolidation of the equity of subsidiaries and associated companies outside the euro area in euros in the financial statements. At the end of the period, 15.5 % of the USD-denominated equity position was hedged.

INTEREST RATE RISKS

Interest rate risks relate mainly to interest-bearing receivables and liabilities in the balance sheet. The main currencies in terms of interest rate risk management are the euro and the US dollar. The Group seeks to hedge selectively the biggest interest rate risks in accordance with the instructions contained in its financial policy. The Group has no interest rate derivative agreements open at the balance sheet date.

COMMODITY RISK

Commodity risk hedging may be applied selectively in the management of pulp price risks and electricity price risks. Management of pulp price risks is based on compliance with the pulp pricing policies, as contained in the shareholder agreement, in different commercial situations. The Group has no commodity derivative agreements open at the balance sheet date.

LIQUIDITY RISK

Liquidity risk is defined as the risk that funds become insufficient to meet business needs, or that extra costs are incurred in arranging the necessary financing. Liquidity risk is monitored by estimating the need for liquidity 12-24 months ahead and comparing this with the total liquidity available.

COUNTERPARTY RISK

Financial instruments carry the risk that the Group may incur losses should the counterparty be unable to meet its commitments. Such risk is managed by entering into financial transactions only with parties with good credit ratings and within pre-determined limits.
During the period, credit risks did not result in any losses.

NEW AND REVISED STANDARDS AND INTERPRETATIONS

The Group has not applied the standard Financial Instruments: Disclosures (IFRS 7). The standard includes new requirements concerning notes on financial instruments in financial statements and is applicable to periods beginning after 1 January 2007. The Group will apply the new standard to the period beginning on 1 January 2007. The Group estimates that the implementation of the standard will affect primarily the presentation of notes. The Group has not applied the standard Operating Segments (IFRS 8). Application of this standard will be enforced as of 1 January 2009. The Group estimates that the implementation of the standard will affect primarily the presentation of notes.

The Group has not applied the interpretations Reassessment of Embedded Derivatives (IFRIC 9) and Group and Treasury Share Transactions (IFRIC 11). The non-application has no material impact on the figures presented.

3. SEGMENT DATA

The accounting policies used for the segments are the same as those used for the Group. The data is presented in accordance with the geographical distribution of the Group's segments.

Geographical segment sales are presented in accordance with customers' locations, and assets and investments according to their location.

Geographical segments

	Sales according to customer location		Assets by country		Capital expenditure	
EUR 1,000	**2006**	2005	**2006**	2005	**2006**	2005
Finland	754 870	598 444	1 154 591	1 202 694	46 436	39 798
Other EU	286 261	230 216	1 089	662	0	0
Rest of Europe	107 212	62 775	77 831	74 952	9 881	50 454
Other countries	162 951	55 077	765 606	370 348	513 527	198 550
Total	1 311 294	946 512	1 999 117	1 648 657	569 845	288 802

Personnel at year-end

According to location

	2006	2005
Finland	1 150	1 312
Uruguay	590	222
Other countries	158	120
Total	1 898	1 654

4. OTHER OPERATING INCOME

EUR 1,000	2006	2005
Other operating income		
Gains on sale of fixed assets	5 477	7 413
Rents	1 027	950
Services sold	6 664	5 801
Government grants	1 991	1 774
Proceeds from emission allowances	6 235	5 936
Others	5 657	5 757
Total	27 051	27 629

Government grants relate to training, healthcare and R&D costs and to energy subsidies.

5. OPERATING COSTS AND EXPENSES

EUR 1,000	2006	2005
Increase/decrease in finished goods	-11 517	-14 590
Materials and services		
Materials and supplies	663 207	570 643
Increase/decrease in finished goods	6 111	-12 026
External services	172 040	84 407
	841 358	643 024
Personnel expenses		
Salaries and fees		
Board members' salaries and fees	219	227
Other salaries	59 215	48 305
	59 434	48 532
Other personnel expenses		
Pensions		
Defined contribution plans	10 841	10 376
Other personnel expenses	26 418	22 650
	37 259	33 027
Total personnel expenses	96 693	81 558
Operating expenses		
Rents and lease expenses	3 559	3 121
Other operating expenses	91 989	69 067
	95 549	72 187
Total	1 022 083	782 179

Other operating expenses include freight, energy, maintenance and administrative costs.

Research and development costs were EUR 9.6 million in 2006 and EUR 8.2 million in 2005.

6. DEPRECIATION, AMORTISATION AND IMPAIRMENT CHARGES

EUR 1,000	2006	2005
Scheduled depreciation and amortisation		
Intangible rights	1 794	1 905
Other capitalised expenditure	958	706
Buildings and structures	15 237	14 404
Machinery and equipment	79 868	86 402
Other tangible assets	1 895	3 135
Total	99 752	106 552
Impairment charges		
Goodwill	4 012	5 655
Total	4 012	5 655
Depreciation, amortization and impairment changes, total	103 764	112 207

7. FINANCIAL INCOME AND EXPENSES

EUR 1,000	2006	2005
Interest income	3 702	4 268
Interest expenses	-11 120	-5 811
Dividend income	12	5
Exchange gains and losses	-250	3 849
Other financial expenses	-2 544	-1 659
Total	-10 199	652

8. INCOME TAXES

EUR 1,000	2006	2005
Tax on taxable income for the financial period	67 600	22 172
Taxes for previous financial periods	341	246
Deferred taxes	-5 922	-1 709
Other taxes	463	320
Total	62 482	21 029

Reconciliation of income statement taxes with local tax rates

EUR 1,000	2006	2005
Result before taxes	202 299	80 407
Tax computed at Finnish statutory rate	52 598	20 906
Tax-free income and non-deductible expenses	6 435	-1 053
Subsidiary losses, with no recognition of deferred tax assets	3 449	1 876
Others		-699
Tax shown in consolidated income statement	62 482	21 029
Effective tax rate	30.9	26.2

9. INTANGIBLE ASSETS AND TANGIBLE FIXED ASSETS

Goodwill and other intangible assets

EUR 1,000	**Goodwill**	**Intangible rights**	**Other capitalised expenditure**	**Construction in progress**	**Total**
Acquisition cost at 1 Jan. 2006	21 583	19 008	13 062	65	53 719
Translation differences	-2 335	-1	0	0	-2 335
Increase	1 536	10 235	9	13	11 792
Decrease	0	-9 539	0	-3	-9 542
Transfers between items	0	1 961	91	0	2 052
Acquisition cost at 31 Dec. 2006	20 784	21 665	13 162	76	55 686
Accumulated amortization at 1 Jan. 2006	-17 709	-13 808	-6 083	0	-37 600
Amortization for the period	0	-1 794	-958	0	-2 752
Accumulated amortization at 31 Dec. 2006	-17 709	-15 601	-7 041	0	-40 351
Carrying value at 1 Jan. 2006	3 874	5 200	6 980	65	16 118
Carrying value at 31 Dec. 2006	3 075	6 063	6 122	76	15 335

EUR 1,000	**Goodwill**	**Intangible rights**	**Other capitalised expenditure**	**Construction in progress**	**Total**
Acquisition cost at 1 Jan. 2005	15 940	16 659	10 118	0	42 717
Increase	5 643	3 876	1 331	65	10 916
Decrease	0	-1 559	0	0	-1 559
Transfers between items	0	31	1 614	0	1 644
Acquisition cost at 31 Dec. 2005	21 583	19 008	13 062	65	53 719
Accumulated amortization at 1 Jan. 2005	-12 054	-11 903	-5 377	0	-29 334
Amortization for the period	0	-1 905	-706	0	-2 611
Impairment charges	-5 655	0	0	0	-5 655
Accumulated amortization at 31 Dec. 2005	-17 709	-13 808	-6 083	0	-37 600
Carrying value at 1 Jan. 2005	3 886	4 756	4 741	0	13 383
Carrying value at 31 Dec. 2005	3 874	5 200	6 980	65	16 118

R&D expenditure is not capitalized in the consoldiated financial statements.

Emission rights have been recognized in accordance with IFRIC 3, such that emission rights received are measured at cost in the balance sheet as intangible assets and as advances received that are recognized as revenue in accordance with the use of emission rights.

Intangible rights in 2006 included EUR 2.5 million in emission rights.

Tangible assets

EUR 1,000	Land and water	Buildings and structures	Machinery and equipment	Other tangible assets	Construction in progress	Total
Acquisition cost at 1 Jan. 2006	91 764	372 099	1 505 457	28 739	155 741	2 153 800
Translation differences	-10 778	-2 066	-1 335	-20	-27 632	-41 830
Increase	58 638	45 201	27 919	741	419 792	552 290
Decrease	-6 816	-171	-1 858	-43	-47 530	-56 419
Transfers between items	1 062	14 905	6 379	0	-25 740	-3 395
Acquisition cost at 31 Dec. 2006	133 869	429 968	1 536 561	29 417	474 631	2 604 446
Accumulated depreciation and impairment at 1 Jan. 2006	0	-136 085	-907 451	-20 678	0	-1 064 215
Accumulated depreciation on decrease and transfer	0	-393	565	106	0	277
Depreciation for the period	0	-15 237	-79 868	-1 895	0	-97 001
Translation differences	-217	156	494	4	0	438
Accumulated depreciation and impairment at 31 Dec. 2006	-217	-151 559	-986 260	-22 464	0	-1 160 500
Carrying value at 1 Jan. 2006	91 764	236 014	598 006	8 166	155 741	1 089 691
Carrying value at 31 Dec. 2006	133 652	278 409	550 301	6 953	474 631	1 443 947

EUR 1,000	Land and water	Buildings and structures	Machinery and equipment	Other tangible assets	Construction in progress	Total
Acquisition cost at 1 Jan. 2005	53 534	356 335	1 490 698	30 733	21 531	1 952 831
Translation differences	9 053	528	821	190	6 994	17 586
Increase	26 832	5 977	24 041	750	155 823	213 422
Decrease	-6	-269	-15 029	-2 933	-10 157	-28 395
Transfers between items	2 351	9 528	4 927	0	-18 451	-1 644
Acquisition cost at 31 Dec. 2005	91 764	372 099	1 505 457	28 739	155 741	2 153 800
Accumulated depreciation and impairment at 1 Jan. 2005	0	-121 694	-835 413	-17 542	0	-974 649
Accumulated depreciation on decrease and transfer	0	60	14 666	106	0	14 832
Depreciation for the period	0	-14 404	-86 402	-3 135	0	-103 941
Translation differences	0	-47	-303	-1	0	-351
Accumulated depreciation and impairment at 31 Dec. 2005	0	-136 085	-907 451	-20 573	0	-1 064 109
Carrying value at 1 Jan. 2005	53 534	234 641	655 285	13 191	21 531	978 182
Carrying value at 31 Dec. 2005	91 764	236 014	598 006	8 166	155 741	1 089 691

The acquisition cost of tangible fixed assets includes the following assets leased under finance lease arrangements:

	Machinery and equipment
Acquisition cost	4 786
Cumulative depreciation	-2 279
Carrying value	2 507

10. BIOLOGICAL ASSETS

Biological assets (living trees) were previously entered in the balance sheet at acquisition cost. Under IFRS accounting practice, they are shown at fair value. Changes in fair value are shown annually in the income statement. The valuation is based on the following assumptions: The Group owns forests in Finland and Uruguay. Forested land is included in land and water areas under fixed assets.

EUR 1,000	**2006**	2005
At 1 J an.	91 565	63 511
Purchases during the financial	52 821	11 120
Harvested during the period	-97 834	-24 028
Gains and losses arising from changes in fair values	96 919	31 376
Translation difference	-9 125	9 585
At 31 Dec.	134 346	91 565

11. INVESTMENTS IN ASSOCIATES

EUR 1,000	**2006**	2005
At 1 Jan.	7 310	4 218
Share of result for the period	-440	515
Dividends received	31	0
Increase	696	2 209
Decrease	-34	-92
Transfers between items	-3 780	0
Translation differences	-307	460
At 31 Dec.	3 475	7 310

Investments in associates includes goodwill with a carrying value of EUR 0.1 million at 31 Dec. 2006 (EUR 1.2 million at 31 Dec. 2005).

Principal associated companies

2006 EUR 1,000	**Domicile**	**Assets**	**Liabilities**	**Sales**	**Result**	**Group holding (%)**	**Value in balance sheet**
Oy Botnia Mill Service Ab	Finland	17 127	11 402	62 006	1 413	50.2%	595
Kemi Shipping Oy	Finland	21 314	19 538	15 766	-1 149	35.0%	194
Mittaportti Oy	Finland	1 830	1 485	11 369	45	33.4%	112
Ontur S.A.	Uruguay	9 445	3 151	0	-180	40.0%	2 574
Total		49 716	35 577	89 141	130		3 475

Business transactions with associates

EUR 1,000	**2006**	2005
Sales	1 708	942
Purchases	55 668	38 112
Interest income	13	12
Interest expenses	15	0
Receivables		
Current	1 408	6 389
Non-current	0	15 432
Liabilities		
Current	6 069	7 421

12. NON-CURRENT RECEIVABLES

EUR 1,000	**2006**	2005
Interest-bearing non-current receivables		
From associated companies	0	15 432
From others	255	434
	255	15 867
Non-interest-bearing non-current receivables		
Accrued income and prepayments	77	0
Other receivables	1 000	0
	1 077	0

13. DEFERRED TAXES

Reconciliation of deferred tax assets and liabilities in the balance sheet in 2006

EUR 1,000	**1.1.2006**	**In income-statement**	**Company acquisitions/ sales**	**Translation differences**	**Charged in shareholders' equity**	**31.12.2006**
Deferred tax assets in balance sheet						
Other temporary differences	-2 905	430	0	-1 816	0	-4 292
Deferred tax assets, total	-2 905	430	0	-1 816	0	-4 292
Offset against deferred tax liabilities	2 905	-430	0	1 816		4 292
Deferred tax assets in balance sheet	0	0	0	0	0	0
Deferred tax liabilities in balance sheet						
Book over tax deprecation	115 244	-4 514	0	0	0	110 730
Deferred tax liabilities, total	115 244	-4 514	0	0	0	110 730
Tax losses and other temporary differences	-2 905	430	0	-1 816	0	-4 292
Deferred tax liabilities in balance sheet	112 338	-4 084	0	-1 816	0	106 437
Deferred tax liabilities, net	112 338	-4 084	0	-1 816	0	106 437

Reconciliation of deferred tax assets and liabilities in the balance sheet in 2005

EUR 1,000	**1.1.2005**	**In income-statement**	**Company acquisitions/ sales**	**Translation differences**	**Entered in shareholders' equity**	**31.12.2005**
Deferred tax assets in balance sheet						
Other temporary differences	-3 015	121	-11	0	0	-2 905
Deferred tax assets, total	-3 015	121	-11	0	0	-2 905
Offset against deferred tax liabilities	3 015	-121	11	0	0	2 905
Deferred tax assets in balance sheet	0	0	0	0	0	0
Deferred tax liabilities in balance sheet						
Book over tax deprecation	117 073	-1 829	0	0	0	115 244
Deferred tax liabilities, total	117 073	-1 829	0	0	0	115 244
Tax losses and other temporary differences	-3 015	121	11	0	0	-2 905
Deferred tax liabilities in balance sheet	114 058	-1 709	11	0	0	112 360
Deferred tax liabilities, net	114 058	-1 709	11	0	0	112 360

14. INVENTORIES

EUR 1,000	**2006**	2005
Inventories		
Materials and consumables	54 971	59 286
Work in progress	4 334	3 315
Finished products	64 418	52 660
Advance payments	22 515	40 568
	146 238	155 829

The carrying value of inventories does not include entries in net realization value.

15. CURRENT RECEIVABLES

EUR 1,000	2006	2005
Current interest-bearing loan receivables		
From group companies	65 652	24 172
From others	159	250
	65 811	24 422
Trade and other non-interest-bearing receivables		
From group companies		
Accounts receivable	26 415	23 210
Accrued income and prepayments	632	34 824
	27 048	58 034
From associated companies		
Accounts receivable	1 408	6 389
	1 408	6 389
From others		
Accounts receivable	112 866	86 448
Other receivables	12 058	2 808
Accrued income and prepayments	15 785	15 268
	140 709	104 525
Total	234 976	193 369

There were no loans receivable from the managing directors of Group companies, their deputies, board members or members of corresponding bodies.

Principal items relating to prepayments and accrued income

EUR 1,000	2006	2005
Current		
Taxes	6 518	6 622
Insurances	1 606	3 062
Others	7 661	5 585
Total	15 785	15 268

16. CASH AND CASH EQUIVALENTS

EUR 1,000	2006	2005
Investments to be retained until maturity	1 382	12 293
Cash and bank	10 506	58 966
Total	11 888	71 259

17. SHAREHOLDERS' EQUITY

Changes in share capital

EUR 1,000	Number of shares	Share capital	Share premium	Other reserves	Total
At 1 Jan. 2005	89 832	179 664	233 771	223 186	636 622
Issue					
Acquisition of own shares					
At 31 Dec. 2005	89 832	179 664	233 771	223 186	636 622
Issue					
Acquisition of own shares					
At 31 Dec. 2006	89 832	179 664	233 771	223 186	636 622

Distributable funds at 31 Dec.	2006	2005
Retained earnings	109 340	77 891
Net profit for the period	147 998	58 223
Translation differences	-24 485	5 823
Distributable funds	232 854	141 936

18. RETIREMENT BENEFIT OBLIGATIONS

The principal pension plan in Finland is the statutory pension employment scheme (TEL), under which benefits are directly linked to the employee's earnings. Under the TEL scheme disability benefits are treated entirely on the basis of contributions.

Pensions and other post-employment benefit provisions

EUR 1,000	**2006**	2005
Defined benefit pension plans	897	1 027
Other long-term employee benefits	1 729	2 401
Total liability	2 626	3 428

DEFINED BENEFIT PLANS

Pension commitments in balance sheet

EUR 1,000	**2006**	2005
Present value of funded obligations	815	968
Unrecognized actuarial profits and losses	82	59
Total liability in balance sheet	897	1 027

Pension commitments in income statement

EUR 1,000	**2006**	2005
Current service cost	-100	-131
Interest	-30	49
Total is included in other operating costs	-130	-82

Balance sheet reconciliation

EUR 1,000	**2006**	2005
Net obligation at 1 Jan.	1 027	1 108
Net expenses recognized in income statement	-130	-82
Net liability at 31 Dec.	897	1 027

Actuarial assumptions used:

	2006	2005
Discount rate, %	4.25	4.5
Future salary increases, %	2.1	2.1

19. PROVISIONS

EUR 1,000	**Provisions for environmental liabilities**	**Provisions for pensions**	**Provisions in total**
1.1.2006	1 359	3 428	4 787
Additional provisions	367	144	511
Provisions used	0	946	946
31.12.2006	1 726	2 626	4 352

Environmental obligations includes landfill site costs EUR 1.7 million.

20. INTEREST-BEARING LIABILITIES

Interest-bearing liabilities	Value shown in balance sheet	Value shown in balance sheet
EUR 1,000	**2006**	2005
Non-current interest-bearing liabilities		
Loans from financial institutions	278 024	134 431
Finance lease liabilities	1 983	2 673
Other liabilities	5 606	11 240
Total	285 612	148 344
Current interest-bearing liabilities		
Current portion of long-term liabilities	21 661	3 881
Other liabilities	39 171	34 129
Total	60 832	38 010
Interest-bearing liabilities, total	**346 444**	**186 354**

Net interest-bearing liabilities	Value shown in balance sheet	Value shown in balance sheet
EUR 1,000	**2006**	2005
Non-current interest-bearing liabilities	285 612	148 344
Current interest-bearing liabilities	60 832	38 010
Cash, cash equivalents and interest-bearing receivables	77 954	111 547
Interest-bearing net liabilities, total	268 490	74 807

Maturation of long-term interest-bearing liabilities

	Loans from financial institutions	Finance lease liabilities	Other loans	Total
2007	18 167	690	2 803	21 661
2008	166 799	718	2 803	170 320
2009	17 502	747	2 803	21 051
2010	17 502	518	0	18 019
2011–	76 222	0	0	76 222
Total	296 191	2 673	8 409	307 273

Current portion of long-term liabilities	21 661
Non-current interest-bearing liabilities	285 612

Maturation of finance lease liabilities

EUR 1,000	**2006**	2005
Minimum lease payments		
Under 1 year	797	797
1–2 years	797	797
2–3 years	797	797
3–4 years	532	797
4–5 years	0	532
	2 924	3 721
Future finance charges	251	384
Finance lease liabilities present value	2 673	3 337
Present value of minimum		
Under 1 year	690	664
1–2 years	718	690
2–3 years	747	718
3–4 years	518	747
4–5 years	0	518
	2 673	3 337

Finlance leasing agreements relate to trucks sold and leased back by Oy Metsä-Botnia Ab. Repayment period originally 7 years.

21. OTHER NON-CURRENT NON-INTEREST-BEARING LIABILITIES

EUR 1,000	**2006**	2005
Payables to Group companies		
Other non-current non-interest-bearing liabilities	1 833	1 833
Other liabilities		
Other non-current non-interest-bearing liabilities	327	416
Accrued expenses and deferred income	9 900	11 154
	10 227	11 571
Other non-current non-interest-bearing liabilities, total	12 060	13 404

22. ACCOUNT PAYABLES AND OTHER NON-INTEREST-BEARING LIABILITIES

EUR 1,000	**2006**	2005
Payables to Group companies		
Accounts payable	14 093	19 617
Accrued expenses and deferred income	20 389	51 583
	34 482	71 200
Liabilities to associated companies		
Accounts payable	0	6 572
Other liabilities	5 539	226
Accrued expenses and deferred income	512	623
	6 051	7 421
Other liabilities		
Advance payments received	1 230	86
Accounts payable	95 781	31 594
Other liabilities	4 715	4 073
Accrued expenses and deferred income	72 237	36 402
	173 963	72 155
Current non-interest-bearing liabilities, total	214 496	150 776

23. ACCRUED EXPENSES AND DEFERRED INCOME

EUR 1,000	**2006**	2005
Current		
Salary and personnel expenses	22 188	15 781
Interest	2 146	273
Purchases	8 820	10 468
Taxes	34 147	1 909
Others	4 936	7 970
Total	72 237	36 402

24. DERIVATIVE INSTRUMENTS

EUR 1,000	Nominal value	Fair value				
2006		**Total**	**Fair value hedges**	**Cash flow hedges**	**Equity hedges**	**Derivative instruments hedge accounting not applied**
Forward foreign exchange contracts	37 967	-155				-155
Foreign exchange derivatives, total	37 967	-155	0	0	0	-155
Derivative instruments, total	37 967	-155	0	0	0	-155
Derivative financial instruments assets in balance sheet	0					
Derivative financial instruments liabilities in balance sheet	-155					

EUR 1,000	Nominal value	Fair value				
2005		**Total**	**Fair value hedges**	**Cash flow hedges**	**Equity hedges**	**Derivative instruments hedge accounting not applied**
Forward foreign exchange contracts	584 721	50				50
Foreign exchange derivatives, total	584 721	50	0	0	0	50
Forward pulp contracts	9 833	372				372
Commodity derivatives, total	9 833	372	0	0	0	372
Derivative instruments, total	594 554	422	0	0	0	422
Derivative financial instruments assets in balance sheet	422					
Derivative financial instruments liabilities in balance sheet	0					

25. SUBSIDIARITIES AND ASSOCIATED COMPANIES

	Country	Group holding, %	Number of shares
Subsidiary company shares			
Finnish			
Oy Silva Shipping Ab	Finland	100.0	400 000
Metsä-Botnia Metsät Oy	Finland	100.0	100 000
Asunto Oy Puistokatu 15	Finland	100.0	648
Foreign			
Botnia Pulps GmbH	Germany	100.0	1 000
Botnia Pulps SA	France	99.9	11 533
Botnia BV	The Netherlands	100.0	19
Forestal Oriental S.A.	Uruguay	82.1	6 054 587
Botnia S.A.	Uruguay	78.0	10 238 855 000
Botnia Fray Bentos S.A.	Uruguay	82.1	660 174 951
Botnia South America S.A.	Uruguay	82.1	14 901 269 300
Tile Forestal S.A.	Uruguay	82.1	172 449 492
Uruwood S.A.	Uruguay	65.7	2 800 526
Premeland S.A.	Uruguay	82.1	459 876 092
Teromill S.A.	Uruguay	82.1	155 044 116
Uninor S.A.	Uruguay	82.1	16 679
Valafir S.A.	Uruguay	82.1	1 237 430
OOO Svir Timber	Russia	100.0	1
Baltic Pulp AS	Latvia	67.0	132 579
Associated companies			
Oy Botnia Mill Service Ab	Finland	50.2	3 010
Kemi Shipping Oy	Finland	35.0	98 000
Mittaportti Oy	Finland	33.4	1 000
Ontur S.A.	Uruguay	40.0	52 332 680

Botnia South America S.A. has a conditional purchase option for all actual shares of Botnia S.A. (Put Optio).
Oy Metsä-Botnia Ab has proposed to the Latvian government that the jointly owned pulp mill project will be discontinued and the shares of Baltic Pulps AS owned by Oy Metsä-Botnia Ab are for sale.

26. COMMITMENTS AND CONTINGENCIES

EUR 1,000	2006	2005
For own liabilities		
Debts secured against property mortgages		
Loans from financial institutions	253 179	109 703
Other liabilities	9 909	12 293
Property mortgages	67 275	67 275
On behalf of Group companies		
Guarantee commitments	3 528	2 927
On behalf of associated companies		
Guarantee commitments	2 995	3 218
Other commitments		
Collateral for own commitments	224	126
Collateral for others' commitments	3	4
Leasing commitments		
Under 1 year	1 189	1 215
1–5 years	2 533	3 478
Total	3 723	4 693
Mortgages	67 275	67 275
Guarantees	6 523	6 145
Other commitments	227	130
Leasing commitments	3 723	4 693
Total	77 748	78 243

Purchase commitments

EUR 1,000	2006	2005
Purchase agreements, fixed assets, payments due in a year	353 172	496 108
Purchase agreements, fixed assets, due later	30 372	54 900
Purchase agreements, others, payments due in a year	5 581	0
Purchase agreements, others, fixed assets, due later	168 299	0

27. TRANSACTIONS WITH RELATED PARTIES

Metsä-Botnia is part of the Finnish Metsäliitto Group. Oy Metsä-Botnia Ab's owners are M-real Corporation (39%), Metsäliitto Cooperative (14%) and UPM-Kymmene Corporation (47%). Metsä-Botnia has sold 63% of its pulp to the companies of the M-real and UPM groups. Metsä-Botnia procures its wood raw material from Metsäliitto Cooperative, the Metsäliitto Group's parent company.

Transactions with the owners

EUR 1,000	2006	2005
Sales	776 210	663 828
Other operating income	8 411	6 409
Purchases	498 837	462 377
Interest income	1 340	3 158
Interest expenses	409	482
Receivables		
Current	108 603	92 269
Liabilities		
Non-current	9 090	13 073
Current	38 643	75 034

Receivables from Botnia's owners do not include doubtful receivables, and no credit losses have been booked in respect of these during the financial period.

No receivables are outstanding from the company's directors, and no commitments have been made on their behalf. For transactions with associated companies see Note 11.

28. COMPENSATION WITH SHARES

Oy Metsä-Botnia Ab has a share-based incentive system where the compensation is based on the value of the share. The system offers a possibility for the target group to receive a compensation which consists of Category B shares of M-real Corporation ja shares of UPM-Kymmene Corporation. The period consists of two one calendar year long earning periods, with the compensation coming into effect if pre-defined goals are met for each period. The earning periods are calendar years 2006 and 2007. After the earning period is over, the compensation is paid as a combination of shares and cash.

The Board of Directors decides annually who in the directors will be included in the target group and what their maximum compensation will be. The maximum compensation is expressed as number of shares. The success in meeting the goals during the earning period defines how large percentage of the maximum compensation is paid to the directors. The goals are set by the Board of Directors at the beginning of each earning period. The compensation is tied to the development of Botnia's operating profit (EBIT) and return on capital employed. The fair value of share compensations awarded during the reporting period was EUR 0.6 million. The effect on Botnia's result during the reporting period was EUR 0.1 million.

Date of issue	28.2.2006	
Instrument	**Share compensation system**	**2006**
Share price at the start of the compensation system, EUR		
M-real Corporation		4.21
UPM-Kymmene Corporation		17.80
Share price at the end of the earning period, EUR		
M-real Corporation		4.79
UPM-Kymmene Corporation		19.12
Earning period		1.1.–31.12.06
Criteria		
50% weight		EBIT
50% weight		ROCE
Realisation/realisation estimate		50%
Obligation to own shares, years		2
Release date of shares		1.1.2009
Remaining commitment time, years		2

The amounts of share compensations shown in the table describe the number of shares awarded by the share compensation system. In addition, the company has committed to pay at least 1,5 the value of the shares in cash (tax portion).

29. ENVIRONMENTAL ISSUES

Income statement

EUR 1,000	**2006**	2005
Other operating income	585	610
Materials and consumables	5 355	4 976
Personnel expenses		
Salaries and fees	773	571
Other personnel expenses	440	384
Depreciation	5 593	5 586
Other operating expenses	864	784
Total	12 439	11 690

Balance sheet

EUR 1,000	**2006**	2005
Tangible assets		
Acquisition cost at 1 Jan.	83 562	82 551
Increase (+)	1 597	1 010
Decrease (-)	0	0
Accumulated depreciation 31.12.(-)	-40 423	-34 836
Carrying value at 31 Dec.	44 736	48 726

EUR 1,000	**2006**	2005
Provisions		
Provisions for environmental liabilities	1 726	1 359

Emissions trading

	2006	2005
Emission rights (1,000 tons)	76	12
Actual emissions (1,000 tons)	304	281
Sales of emission rights (EUR 1,000)	2 214	3 707

PARENT COMPANY INCOME STATEMENT

EUR 1,000	1–12/2006	1–12/2005
Sales	**1 202 247**	**917 695**
Change in inventories of finished and semi-finished goods (+/-)	5 699	14 008
Other operating income	33 109	28 957
Materials and services		
Materials and supplies		
Purchases during the financial period	652 562	571 386
Change in inventories of materials and supplies (+/-)	6 871	-11 255
External services	88 220	73 507
Personnel expenses		
Salaries and fees	48 487	43 718
Other personnel expenses	35 379	32 015
Depreciation, amortisation and impairment	97 203	106 006
Other operating expenses	94 312	73 733
Total expenses	1 023 035	889 109
Operating profit	**218 021**	**71 550**
Financial income and expenses		
Income from equity interests in subsidiaries	0	606
Income from investments in other non-current assets	1 809	3 309
Other interest and financial income	1 963	3 462
Interest and other financial expenses	-10 227	-5 520
Foreign exchange differences (+/-)	4 835	3 351
Total financial income and expenses	-1 620	5 209
Profit before extraordinary items	**216 400**	**76 759**
Extraordinary items		
Group contribution (+/-)	300	200
Extraordinary income and expenses, total	300	200
Profit before appropriations and taxes	**216 700**	**76 959**
Change in accumulated difference between actual and scheluded depreciation and amortisation (+/-)	18 663	7 884
Direct taxes		
Taxes for the financial period	-66 698	-21 848
Taxes for previous financial periods	-98	-240
Profit for the financial period	**168 568**	**62 756**

PARENT COMPANYS CASH FLOW STATEMENT

EUR 1,000	2006	2005
Cash flow from operating activities		
Operating profit	218 021	71 550
Adjustments to operating profit	93 674	100 435
Interest received	3 583	5 862
Interest paid	-6 047	-4 141
Dividends received	43	642
Other financial items, net	2 596	1 718
Income taxes paid	-33 058	-20 284
Change in net working capital	7 680	-57 296
Net cash provided by operating activities	**286 493**	**98 486**
Cash flow from investing activities		
Acquisition of subsidiary shares	-217 422	-326 319
Acquisition of shares in associated companies	-714	-2 209
Capital expenditure	-45 437	-33 255
Proceeds from disposal of shares in subsidiary companies	0	96 042
Proceed from sales of fixed assets	3 383	7 564
Decrease of long-term receivables	0	24 745
Increase of long-term receivables	-28 776	0
Net cash flow from investing activities	**-288 967**	**-233 432**
Cash flow from financing activities		
Increase in long-term liabilities	123 556	0
Payment of long-term liabilities	0	-24 659
Proceed from short-term liabilities, net	-216	-307
Change in short-term receivables, net	-91 584	201 760
Dividends paid	-31 980	-39 796
Net cash flow from financing activities	**-223**	**136 999**
Changes in cash and cash equivalents	**-2 697**	**2 053**
Cash and cash equivalents at beginning of period	7 580	5 526
Changes in cash and cash equivalents	-2 697	2 053
Cash and cash equivalents at end of period	**4 883**	**7 580**
Adjustments to operating profit		
Depreciation	97 203	106 006
Profit on sale of fixed assets	-2 974	-5 529
Change in provisions	-555	-42
	93 674	100 435
Change in working capital		
Inventories	16 861	-35 759
Current receivables	-13 770	-37 123
Current non-interest-bearing liabilities	4 590	15 586
	7 680	-57 296

PARENT COMPANY BALANCE SHEET

ASSETS EUR 1,000	**31.12.2006**	**31.12.2005**
NON-CURRENT ASSETS		
Intangible assets		
Intangible rights	6 051	5 183
Purchased goodwill	420	2 102
Other capitalised expenditures	6 119	6 980
	12 590	14 265
Tangible assets		
Land and water	10 223	2 984
Buildings and structures	216 396	226 135
Machinery and equipment	528 685	597 400
Other tangible assets	6 305	8 005
Advance payments and construction in progress	33 615	11 107
	795 223	845 630
Long-term investments		
Equity in Group companies	488 294	270 871
Equity interests in Group companies	30 640	1 685
Investments in associates	3 573	2 894
Other shares and equity interests	7 352	7 411
Other receivables	252	378
	530 112	283 239
Total non-current assets	**1 337 925**	**1 143 134**
CURRENT ASSETS		
Inventories		
Materials and supplies	52 294	56 801
Finished products	53 601	47 902
Advance payments	22 515	40 568
	128 411	145 272
Non-current receivables		
Other receivables	3	56
Current receivables		
Accounts receivable	100 129	72 504
Receivables from Group companies, interest-bearing	140 007	48 282
Receivables from Group companies, non-interest-bearing	19 910	29 482
Receivables from associates, non-interest-bearing	1 408	5 285
Loans receivable	0	141
Other receivables	3 565	2 684
Accrued income and prepaid expenses	6 667	7 953
	271 684	166 331
Cash and cash equivalents	4 883	7 580
Total current assets	**404 981**	**319 238**
TOTAL ASSETS	**1 742 906**	**1 462 372**

LIABILITIES EUR 1,000	**31.12.2006**	31.12.2005
SHAREHOLDERS' EQUITY		
Share capital	179 664	179 664
Share premium	233 771	233 771
Legal reserve	223 186	223 186
Retained earnings	101 840	71 064
Profit for the financial period	168 568	62 756
Total shareholders' equity	**907 029**	**770 442**
ACCUMULATED APPROPRIATIONS		
Difference between actual and scheluded depreciation and amortisation	423 357	442 020
PROVISIONS	3 941	4 496
LIABILITIES		
Non-current		
Loans from financial institutions	235 012	105 822
Payables to Group companies, interest-bearing	5 606	11 240
Payables to Group companies, non-interest-bearing	1 833	1 833
Accrual expenses and deferred income	9 900	11 154
	252 351	130 049
Current		
Loans from financial institutions	18 167	3 881
Advances received	1 230	86
Accounts payable	18 066	12 778
Payables to Group companies, interest-bearing	4 303	18 803
Payables to Group companies, non-interest-bearing	35 290	37 112
Payables to associates, non-interest-bearing	6 051	5 822
Other debts, interest-bearing	18	20
Other debts, non-interest-bearing	4 068	3 878
Accrued liabilities	69 033	32 984
	156 227	115 365
Total liabilities	**408 578**	**245 414**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	**1 742 906**	**1 462 372**

NOTES TO THE PARENT COMPANY INCOME STATEMENT

EUR 1,000	2006	2005
1. Sales by business segment and market		
Sales by business segment		
Pulp	1 236 636	937 993
Less internal sales	-34 389	-20 299
	1 202 247	917 695
Sales by market		
Finland	726 165	588 329
EU countries	248 423	219 087
Rest of Europe	78 877	61 720
Rest of world	148 780	48 558
	1 202 247	917 695
2. Other operating income		
Rents	981	950
Gains on disposal of fixed assets	2 974	5 652
Services sold	6 660	5 801
Others	22 493	16 554
	33 109	28 957
3. Personnel expenses and average number of employees		
Personnel expenses		
Wages and fees	48 487	43 718
Pension expenses	10 185	10 130
Other personnel expenses	25 194	21 885
	83 866	75 733
Directors' salaries and fees		
The President and CEO and his deputy	374	482
Directors and deputy directors	137	137
	511	619
Pension arrangements for board members and Managing Director		
The president and CEO of the parent company is entitled to retire on reaching the age of 60.		
Parent company employees during period, average		
Management and administrative staff	347	375
Production workers	866	980
	1 213	1 355

EUR 1,000	2006	2005
4. Depreciation and amortisation		
Scheduled depreciation and amortisation		
Intangible rights	1 786	1 890
Purchased goodwill	1 682	1 682
Other capitalised expenditures	958	706
Buildings and structures	13 059	12 974
Machinery and equipment	77 945	85 651
Other tangible assets	1 774	3 103
Total scheduled depreciation and amortisation	97 203	106 006
Difference between actual and scheduled depreciation and amortisation	-18 663	-7 884
Total depreciation and amortisation	78 540	98 122
Difference between actual and scheduled depreciation and amortisation at the beginning of period	442 020	449 905
Depreciation difference	-18 741	-6 281
Depreciation difference on fixed assets sold	78	-1 604
Difference between actual and scheduled depreciation and amortisation at the end of period	423 357	442 020
5. Financial income and expenses		
Dividend income		
From group companies	0	606
From others	43	36
	43	642
Interest income from long-term investments		
From Group companies	1 766	3 274
	1 766	3 274
Other interest and financial income		
From Group companies	1 456	1 694
From others	507	1 768
	1 963	3 462
Total interest income from long-term investments and other interest and financial income	3 772	7 378
Interest expenditure and other financial expenses		
Paid to Group companies	519	628
Paid to others	9 707	4 892
	10 227	5 520
Foreign exchange differences		
Foreign exchange gains		
Realized	6 583	11 190
Unrealized	6 965	1 627
Foreign exchange losses		
Realized	-7 729	-9 439
Unrealized	-983	-26
	4 835	3 351
Total financial income and expenses	-1 620	5 209
6. Extraordinary items		
Extraordinary income		
Group constributions received	300	200
	300	200

PARENT COMPANY NOTES TO THE BALANCE SHEET

EUR 1,000	2006	2005
7. Intangible and tangible assets		
Intangible rights		
Cost at 1 Jan.	18 683	16 341
Increase 1 Jan. – 31 Dec.	10 232	3 870
Decrease 1 Jan. – 31 Dec.	-9 539	-1 559
Transfers between items	1 961	31
Cost at 31 Dec.	21 338	18 683
Accumulated amortisation at 1 Jan.	-13 501	-11 611
Amortisation for the period	-1 786	-1 890
Accumulated amortisation at 31 Dec.	-15 287	-13 501
Carrying value at 31 Dec.	6 051	5 183
Purchased goodwill		
Cost at 1 Jan.	16 819	16 819
Cost at 31 Dec.	16 819	16 819
Accumulated amortisation at 1 Jan.	-14 716	-13 035
Amortisation for the period	-1 628	-1 682
Accumulated amortisation at 31 Dec.	-16 398	-14 716
Carrying value at 31 Dec.	420	2 102
Other capitalised expenditure		
Cost at 1 Jan.	12 863	9 919
Increase 1 Jan. – 31 Dec.	6	2 944
Transfers between items	91	0
Cost at 31 Dec.	12 960	12 863
Accumulated amortisation at 1 Jan.	-5 883	-5 178
Amortisation for the period	-958	-706
Accumulated amortisation at 31 Dec.	-6 841	-5 883
Carrying value at 31 Dec.	6 119	6 980
Land and water		
Cost at 1 Jan.	2 984	2 987
Increase 1 Jan. – 31 Dec.	7 287	0
Decrease 1 Jan. – 31 Dec.	-48	-6
Transfers between items	0	2
Carrying value at 31 Dec.	10 223	2 984

EUR 1,000	2006	2005
Buildings and structures		
Cost at 1 Jan.	358 315	348 935
Increase 1 Jan. – 31 Dec.	396	4 862
Decrease 1 Jan. – 31 Dec.	0	-264
Transfers between items	2 924	4 781
Cost at 31 Dec.	361 635	358 315
Accumulated depreciation at 1 Jan.	-136 704	-123 788
Accumulated depreciation on decrease and transfers	0	58
Depreciation for the period	-13 059	-12 974
Accumulated depreciation at 31 Dec.	-149 763	-136 704
Revaluations	4 524	4 524
Carrying value at 31 Dec.	216 396	226 135
Machinery and equipment		
Cost at 1 Jan.	1 499 291	1 487 991
Increase 1 Jan. – 31 Dec.	5 449	20 969
Decrease 1 Jan. – 31 Dec.	-788	-14 595
Transfers between items	4 043	4 927
Cost at 31 Dec.	1 507 997	1 499 291
Accumulated depreciation at 1 Jan.	-901 892	-830 682
Accumulated depreciation on decrease and transfers	525	14 441
Depreciation for the period	-77 945	-85 651
Accumulated depreciation at 31 Dec.	-979 312	-901 892
Carrying value at 31 Dec.	528 685	597 400
Book value at 31 Dec. accounted for by machinery and equipment	525 061	592 734
Other tangible assets		
Cost at 1 Jan.	44 417	44 058
Increase 1 Jan. – 31 Dec.	74	557
Decrease 1 Jan. – 31 Dec.	0	-198
Cost at 31 Dec.	44 491	44 417
Accumulated depreciation at 1 Jan.	-36 412	-33 414
Accumulated depreciation on decrease and transfers	0	106
Depreciation for the period	-1 774	-3 103
Accumulated depreciation at 31 Dec.	-38 185	-36 412
Carrying value at 31 Dec.	6 305	8 005
Advance payments and construction in progress		
Cost at 1 Jan.	11 107	21 131
Increase 1 Jan. – 31 Dec.	31 528	1 331
Transfers between items	-9 020	-11 355
Carrying value at 31 Dec.	33 615	11 107
Undepreciated portion of capitalized interest expenses under ‘Other tangible assets’	0	604

EUR 1,000	2006	2005
8. Revaluations		
Buildings	4 524	4 524
Shares	8 907	8 907
	13 431	13 431

Revaluations are based on estimates by outside experts.
Revaluations have no effect on income taxation.

EUR 1,000	2006	2005
9. Investments		
Equity in Group companies		
Cost at 1 Jan.	266 892	36 616
Increase 1 Jan. – 31 Dec.	653 205	326 319
Decrease 1 Jan. – 31 Dec.	-435 783	-96 042
Cost at 31 Dec.	484 315	266 892
Revaluations	3 979	3 979
Carrying value at 31 Dec.	488 294	270 871
Investments in associates		
Cost at 1 Jan.	2 894	701
Increase 1 Jan. – 31 Dec.	714	2 209
Decrease 1 Jan. – 31 Dec.	-34	-17
Carrying value at 31 Dec.	3 573	2 894
Other shares and equity interests		
Cost at 1 Jan.	2 483	2 149
Increase 1 Jan. – 31 Dec.	4	336
Decrease 1 Jan. – 31 Dec.	-64	-1
Cost at 31 Dec.	2 424	2 483
Revaluations	4 928	4 928
Carrying value at 31 Dec.	7 352	7 411
Equity interests in Group companies		
Cost at 1 Jan.	1 685	26 301
Increase 1 Jan. – 31 Dec.	29 000	1 685
Decrease 1 Jan. – 31 Dec.	-44	-26 301
Carrying value at 31 Dec.	30 640	1 685
Other receivables		
Cost at 1 Jan.	378	505
Decrease 1 Jan. – 31 Dec.	-126	-126
Carrying value at 31 Dec.	252	378
Total investments		
Cost at 1 Jan.	274 332	66 271
Increase 1 Jan. – 31 Dec.	682 923	330 548
Decrease 1 Jan. – 31 Dec.	-436 051	-122 487
Cost at 31 Dec.	521 205	274 332
Revaluations	8 907	8 907
Carrying value at 31 Dec.	530 112	283 239

EUR 1,000	2006	2005
10. Current receivables		
Accounts receivable	100 129	72 504
Receivables from Group companies		
Accounts receivable	18 538	27 821
Loans receivable	140 007	48 282
Accrued income and prepaid expenses	1 372	1 660
	159 916	77 764
Receivables from associates		
Accounts receivable	1 408	5 285
Loans receivable	0	141
Other receivables	3 565	2 684
Accrued income and prepaid expenses	6 667	7 953
Total receivables	271 684	166 331
11. Shareholders' equity		
Share capital at 1 Jan.	179 664	179 664
Change 1 Jan. - 31 Dec.	0	0
Share capital at 31 Dec.	179 664	179 664
Share premium at 1 Jan.	233 771	233 771
Change 1 Jan.- 31 Dec.	0	0
Share premium at 31 Dec.	233 771	233 771
Legal reserve at 1 Jan.	223 186	223 186
Change 1 Jan. – 31 Dec.	0	0
Legal reserve at 31 Dec.	223 186	223 186
Retained earnings at 1 Jan.	133 820	110 859
Result for the period	168 568	62 756
Dividend distribution	-31 980	-39 796
Retained earnings at 31 Dec.	270 408	133 820
Shareholders' equity at 31 Dec.	907 029	770 442
Calculation of distributable funds at 31 Dec.		
Retained earnings at 1 Jan.	101 840	71 064
Profit for the period	168 568	62 756
Distributable funds at 31 December	270 408	133 820
12. Provisions		
Unemployment pension provisions	2 215	3 137
Other provisions	1 726	1 359
	3 941	4 496

EUR 1,000	2006	2005
13. Debts with maturities after more than five years		
Loans from financial institutions	28 571	42 857
14. Current liabilities		
Loans from financial institutions	18 167	3 881
Advanced payments received	1 230	86
Accounts payable	18 066	12 778
Payables to Group companies		
Accounts payable	14 941	19 848
Other payables	4 303	18 803
Accrual expenses and deferred income	20 349	17 264
	39 593	55 915
Payables to associates		
Accrual expenses and deferred income	512	623
Accounts payable	5 539	5 200
	6 051	5 822
Other debts	4 086	3 898
Accrued liabilities	69 033	32 984
Total current liabilities	156 227	115 365
15. Security interests and contingent liabilities		
For own liabilities		
Mortgages		
Amount of security interest	67 275	67 275
Debt secured		
Loans from financial institutions	253 179	109 703
Other liabilities	9 909	12 293
For Group companies		
Guarantees		
Amount guaranteed	60 488	38 483
For associates		
Guarantees		
Amount guaranteed	2 995	3 218
Other liabilities		
Other liabilities	227	130
Total		
Mortgages	67 275	67 275
Guarantees	63 483	41 701
Other liabilities	227	130
Leasing commitments		
Payments due over next 12 months	1 189	1 215
Payments due in subsequent years	2 533	3 478

EUR 1,000	2006	2005
16. Environmental items		
Environmental expenses		
Other operating income	585	610
Materials and services	5 355	4 976
Personnel expenses		
Salaries and fees	767	571
Other personnel expenses	440	384
Depreciation	5 587	5 586
Other operating expenses	800	784
Total	12 363	11 690
Tangible assets		
Cost at 1 Jan.	83 562	82 551
Increase 1 Jan. – 31 Dec.	932	1 010
Accumulated depreciation at 1 Jan.	-40 423	-34 836
Book value at 31 Dec.	44 070	48 726
Provisions		
Other provisions	1 726	1 359

Emissions trade

	2006	2005
Emission rights (1 000 tons)	76	12
Actual emissions (1 000 tons)	304	281
Sales of emission rights (1 000 eur)	2 214	3 707

SHARE BREAKDOWN 31 DECEMBER 2006

	Ownership %		No. of shares	Nominal value /1,000	Bookvalue EUR 1,000
Shares in subsidiaries					
Owned by parent company					
Botnia Pulps GmbH	100.0		1 000	52 EUR	52
Botnia Pulps SA	99.9		11 533	173 EUR	76
Oy Silva Shipping Ab	100.0		400 000	336 EUR	882
Botnia BV	100.0		19	19 EUR	454 723
Puistokatu 15 housing co.	100.0		648	14 EUR	130
Metsä-Botnia Metsät Oy	100.0		100 000	1 000 EUR	6 079
Baltic Pulp AS	67.0		132 579	133 LVL	3 893
OOO Svir Timber	100.0		1	10 070 RUR	22 458
Subsidiaries of Botnia BV					
Botnia South America S. A.	82.1		14 901 269 300	1 4901 269 UYU	412 745
Subsidiaries of Botnia South America					
Compania Forestal Oriental S.A.	82.1		6 054 587	6 055 UYU	217 061
Botnia S.A.	78.0		10 238 855 000	10 238 855 UYU	323 083
Botnia Fray Bentos S.A.	82.1		660 174 951	660 175 UYU	20 501
Subsidiaries of Tile Forestal S.A.					
Uninor S.A.	82.0		16 679	1 668 UYU	85
Subsidiaries of Compania Forestal Oriental S.A.					
Tile Forestal S.A.	82.1		172 449 492	172 449 UYU	5 099
Premeland S.A.	82.1		459 876 092	459 876 UYU	14 455
Teromill S.A.	82.1		155 044 116	155 044 UYU	4 871
Valafir S.A.	82.1		1 237 430	1 237 UYU	45
Subsidiaries of Premeland S.A.					
Uruwood S.A.	65.7		2 800 526	280 053 UYU	14 445
					1 500 684
Shares in associated companies					
Kemi Shipping Oy	35.0		98 000	165 EUR	57
Oy Botnia Mill Service Ab	50.2		3 010	506 EUR	506
Ontur International S.A.	40.0		52 332 680	52 333 UYU	2 923
Mittaportti Oy	33.4		1 000	8 EUR	8
Kullervokangas housing co.	16.0		95	2 EUR	78
					3 573
Other shares and holdings					
Owned by parent company					
Metsämannut Oy	10.0		10	2 EUR	2
Keskuslaboratorio Oy	5.2		277 980	47 EUR	81
Pohjolan Voima Oy					
- serie A		382 167			
- serie B		143 557			
- serie C		6 131			
- serie E		460			
- serie H		5 744			
- serie N		2 734			
- serie V		235	541 028		1 237
- revaluation					4 928
Powest Oy			4 709	11 EUR	43
Imatran Seudun kehitysyhtiö Oy	2.8		30	50 EUR	51
Rauman Kirstinranta housing co.	10.2		102		104
Rauman Sepänkallio housing co.	25.0		360	37 EUR	373
Konttisentörmä housing co.	5.0		1 132	19 EUR	22
Other shares and membership fees					511
Owned by subsidiaries:					
other shares and holdings					19
					7 371
Total					**1 511 629**
Subsidiary shares and holdings not eliminated in consolidated financial statements					130
Shares in participating interest companies transferred in consolidated financial statements					78

	Group ownership %	Group share of votes %	Group share of equity EUR 1,000	Result in latest accounts EUR 1,000	Dates of closing	Duration of financial period months
Group companies						
Botnia Pulps GmbH	100.0	100.0	340	96	31.12.2006	12
Botnia Pulps SA	99.9	99.9	375	315	31.12.2006	12
Oy Silva Shipping Ab	100.0	100.0	6 176	894	31.12.2006	12
Metsä-Botnia Metsät Oy	100.0	100.0	2 155	108	31.12.2006	12
OOO Svir Timber	100.0	100.0	19 889	-2 982	31.12.2006	12
Baltic Pulp AS	67.0	67.0	-1 813	55	31.12.2006	12
Botnia BV	100.0	100.0	454 704	-20	31.12.2006	12
Botnia S.A.	78.0	78.0	232 312	-2 629	31.12.2006	12
Botnia Fray Bentos S.A.	82.1	82.1	17 062	120	31.12.2006	12
Botnia South America S.A.	82.1	82.1	470 882	346	31.12.2006	12
Compania Forestal Oriental S.A.	82.1	82.1	163 166	-7 592	31.12.2006	6
Tile Forestal S.A.	82.1	82.1	4 836	830	31.12.2006	12
Uruwood S.A.	65.7	65.7	14 860	-281	30.06.2006	12
Premeland S.A.	82.1	82.1	11 834	-43	31.12.2006	12
Teromill S.A.	82.1	82.1	4 052	-8	30.06.2006	6
Uninor S.A.	82.1	82.1	80	17	30.04.2006	12
Valafir S.A.	82.1	82.1	47	6	30.09.2006	12
Associated companies						
Kemi Shipping Oy	35.0	35.0	196	-1 149	31.12.2006	12
Mittaportti Oy	33.4	33.4	114	45	31.12.2006	12
Ontur International S.A.	40.0	40.0	2 517	-180	31.12.2006	12
Oy Botnia Mill Service Ab	50.2	95.3	2 704	1 413	31.12.2006	12

Calculation of key ratios 2006

$$\text{Return on capital employed (\%) (ROCE)} = \frac{\text{Profit before extraordinary items + interest expenditure, net exchange gains/losses and other financial expenditure}}{\text{Assets total – non-interest bearing liabilities (average)}}$$

$$\text{Equity ratio (\%)} = \frac{\text{Shareholders' equity + minority interest}}{\text{Assets total – advance payment received}}$$

$$\text{Net gearing (\%)} = \frac{\text{Interest-bearing liabilities – liquid assets – interest-bearing receivables}}{\text{Shareholders' equity + minority interest}}$$

BOARD’S PROPOSAL TO THE ANNUAL GENERAL MEETING FOR THE DISTRIBUTION OF DISPOSABLE FUNDS

The disposable funds of the parent company in the financial statements are EUR 270,407,586.29, including profit for the period, EUR 168,567,940.00. The Board of Directors proposes to the Annual General Meeting that the disposable funds be used as follows:

- a dividend of EUR 509 per share be distributed, totalling	EUR 45,724,488.00
- the rest be left in non-restricted equity, totalling	EUR 224,683,098.29
	EUR 270,407,586.29

There have been no material changes in the financial position of the company after the end of the period. The company’s liquidity position is solid, and the proposed distribution of profit does not, in the opinion of the Board of Directors, endanger the company’s solvency.

SIGNATURES FOR THE FINANCIAL REVIEW AND REPORT OF THE BOARD OF DIRECTORS

Espoo, 8 February 2007

Kari Jordan	Pauli Hänninen	Heikki Malinen
Jussi Pesonen	Martin Lillandt	Erkki Varis
Hannu Anttila	Arimo Uusitalo	*President and CEO*

STATEMENT ON THE ACCOUNTS

The financial statements and report of the Board of Directors have been prepared in accordance with Finnish accounting principles. A report of the audit has been presented today.

Espoo, 8 February 2007

Pricewaterhouse Coopers Oy,
Authorized Public Accountants

Ilkka Haarlaa
Authorized Public Accountant

Göran Lindell
Authorized Public Accountant

AUDITOR’S REPORT

TO THE SHAREHOLDERS OF OY METSÄ-BOTNIA AB

We have audited the accounting records, the financial statements, the report of the Board of Directors and the administration of Oy Metsä-Botnia Ab for the period 1.1. – 31.12.2006. The Board of Directors and the Presi-dent and CEO have prepared the consolidated financial statements, prepared in accordance with International Financial Reporting Standards as adopted by the EU, as well as the report of the Board of Directors and the parent company’s financial statements, prepared in accordance with prevailing regulations in Finland, containing the parent company’s balance sheet, income statement, cash flow statement and notes to the financial statements. Based on our audit, we express an opinion on the consolidated financial statements, as well as on the report of the Board of Directors and the parent company’s financial statements and administration.

We conducted our audit in accordance with Finnish Standards on Auditing. Those standards require that we perform the audit to obtain reasonable assurance about whether the report of the Board of Directors and the financial statements are free of material misstatement. An audit includes examining on a test basis evidence supporting the amounts and disclosures in the report of the Board of Directors and in the financial statements, assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial statement presentation. The purpose of our audit of the administration is to examine whether the members of the Board of Directors and the President and CEO of the parent company have complied with the rules of the Companies’ Act.

Consolidated financial statements

In our opinion the consolidated financial statements, prepared in accordance with International Financial Reporting Standards as adopted by the EU, give a true and fair view, as defined in those standards and in the Finnish Accounting Act, of the consolidated results of operations as well as of the financial position.

Parent company’s financial statements, report of the Board of Directors and administration

In our opinion the parent company’s financial statements have been prepared in accordance with the Finnish Accounting Act and other applicable Finnish rules and regulations. The parent company’s financial statements give a true and fair view of the parent company’s result of operations and of the financial position.

In our opinion the report of the Board of Directors has been prepared in accordance with the Finnish Accounting Act and other applicable Finnish rules and regulations. The report of the Board of Directors is consistent with the consolidated financial statements and the parent company’s financial statements and gives a true and fair view, as defined in the Finnish Accounting Act, of the result of operations and of the financial position.

The consolidated financial statements and the parent company’s financial statements can be adopted and the members of the Board of Directors and the President and CEO of the parent company can be discharged from liability for the period audited by us. The proposal by the Board of Directors regarding the disposal of distributable funds is in compliance with the Companies’ Act.

Espoo, 8 February 2007

PricewaterhouseCoopers Oy
Authorized Public Accountants

Ilkka Haarlaa
Authorized Public Accountant

Göran Lindell
Authorized Public Accountant

ADDRESSES

Oy Metsä-Botnia Ab
P.O. Box 30
FI-02020 METSÄ
Revontulentie 6
FI-02100 Espoo
tel. +358 1046 12
fax +358 1046 94402

MILLS IN FINLAND

Oy Metsä-Botnia Ab
Joutseno Mill
FI-54120 PULP
tel. +358 104 665 499
fax +358 104 665 378

Oy Metsä-Botnia Ab
Kaskinen Mill
FI-64260 KASKINEN
tel. +358 104 669 999
fax +358 104 669 214

Oy Metsä-Botnia Ab
Kemi Mill
FI-94200 KEMI
tel. +358 104 661 999
fax +358 104 661 402

Oy Metsä-Botnia Ab
Rauma Mill
P.O. Box 165
FI-26101 RAUMA
tel. +358 104 668 999
fax +358 104 668 990

Oy Metsä-Botnia Ab
Äänekoski Mill
FI-44100 ÄÄNEKOSKI
tel. +358 104 662 999
fax +358 104 662 550

OFFICES ABROAD

Botnia Pulps GmbH
Wilhelmstrasse 16
D–65185 Wiesbaden
GERMANY
tel. +49 611 992 150
fax +49 611 992 1599

Botnia Pulps S.A
6, Rue Lauriston
FR–75116 Paris
FRANCE
tel. +33 1 53 64 1500
fax +33 1 53 64 1501

Botnia S.A.
Ituzaingó 1377 of. 101
CP 11.000 Montevideo
URUGUAY
tel. +598 2 915 8022
fax +598 2 915 8552

Svir Timber
187742, Leningradskaja oblast
Podporozhskij raion
Poselok gorodskogo tipa Vazhiny
ulitsa Karjernaja, No. 48
RUSSIA
tel. +7 812 380 5166
fax +7 812 380 5179

Botnia Pulps
Shanghai Representative Office
Rm 1204A-1, Jin Mao Tower
88 Century Boulevard
Pudong New Area
Shanghai 200121
CHINA
tel. +86 21 5047 0138
fax +86 21 5047 0459

Contents Oy Metsä-Botnia Ab and Alma Media Business Magazines Ltd

Graphic design and implementation Ezpa Oy

Photos by Pentti Hokkanen, Juha Rahkonen and Ilkka Ärrälä

Front cover: Ursula Metsärinta, Vice President, Key accounts, and process operators Janne Laine and Marko Räikkönen at Botnia's Rauma mill

Back cover: stock-preparation operator Erkki Sutelainen (left), Janne Ussa, Production Unit Director, LWC, UPM Rauma paper mill, and Ursula Metsärinta, Botnia, Vice President, Key accounts

Paper cover: Galerie Art Gloss 300 g, inside: Galerie Art Silk 130 g, enclosures: Galerie One Silk 90 g

Printed by Lönnberg Print 2007, Finland

Oy Metsä-Botnia Ab
Revontulentie 6
FI-02100 Espoo
P.O. Box 30
FI-02020 METSÄ
FINLAND

Tel. +358 1046 12
Fax +358 1046 94402
www.botnia.com